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1971 ANNUAL REPORT

INTERNATIONAL MONETARY FUND

ANNUAL REPORT
1971

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INTERNATIONAL MONETARY FUND

ANNUAL REPORT

OF THE EXECUTIVE DIRECTORS FOR THE FISCAL YEAR ENDED APRIL 30, 1971

WASHINGTON, D.C.

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The following symbols have been used throughout this Report:

(. . .) indicate that data are not available;

(—) indicates that the figure is zero or less than half the final digit shown, or that the item does not exist;

(–) is used between years or months (e.g., 1967–70 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

(/) is used between years (e.g., 1970/71) to indicate a fiscal year or a crop year;

"Billion" means a thousand million.

Minor discrepancies between constituent figures and totals are due to rounding.

The classification of countries employed in the Report may be found in footnote 2 on page 52.

INTERNATIONAL MONETARY FUND

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Managing Director and Chairman of the Executive Board

Frank A. Southard, Jr.

Deputy Managing Director

Executive Directors	Alternate Executive Directors
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Derek Mitchell	R. H. Gilchrist
Guenther Schleiminger	Lore Fuenfgelt
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Hideo Suzuki	Koichi Satow
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Lindsay B. Brand	R. van S. Smit
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Maurice P. Omwony	S. B. Nicol-Cole
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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 29, 1971

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

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LETTER OF TRANSMITTAL
TO THE BOARD OF GOVERNORS

July 29, 1971

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, 1971.

Yours sincerely,

/s/

PIERRE-PAUL SCHWEITZER

Chairman of the Executive Board

Chairman of the Board of Governors

International Monetary Fund

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Part I
THE WORLD ECONOMY AND THE FUND

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Chapter 1

General Economic Survey

THE performance of the world economy during 1970 and the first part of 1971 was less than satisfactory in certain major respects. Following are the main points to be noted about that performance, which was heavily dominated by developments in the larger industrial countries.

—The expansion of total world output proceeded at a slow and irregular pace, primarily because of the 1969–70 recession and ensuing moderate pickup of economic activity in the United States.

—Inflationary forces remained strong or intensified in the industrial countries, and price increases became larger in most parts of the nonindustrial world as well.

—Domestic price increases in the industrial countries spilled over much more strongly than in the past into foreign trade. Higher prices accounted for a substantial part of the further large expansion in value of world trade, although the increase in volume terms was still somewhat above the long-term average.

—The higher cost of imported goods adversely affected the terms of trade of primary producing countries and contributed to a substantial rise in their combined current account deficit. Nonetheless, because of a renewed surge of capital inflows, both the more developed and the less developed groups of primary producing countries realized substantial surpluses in their overall balances of payments in 1970.[1] Within these broad groups, the experience of individual countries varied widely.

—The marked easing of international financial markets that occurred during 1970 and early 1971 was due chiefly to huge flows of short-term capital from the United States. These flows took the form primarily of rapid reductions in Eurodollar liabilities of U. S. banks to their branches abroad; such liabilities had been built up to a total of some $15 billion during previous periods of credit stringency. Capital inflows created a serious problem for domestic monetary management on the continent of Europe, and particularly in Germany, where the authorities were attempting to maintain restrictive monetary policies in order to combat inflation. After these inflows had been swollen by speculative pressures, official exchange markets in a number of countries were closed early in May 1971.

—This action was followed shortly by the announcement of changes in exchange rate policy by Germany and the Netherlands, which floated their currencies; by Austria and Switzerland, which revalued their currencies by about 5 per cent and 7 per cent, respectively; and by Belgium, which altered the regulations concerning its free and official exchange markets so as to render the free market an instrument for discouraging unwanted capital inflows in the future.

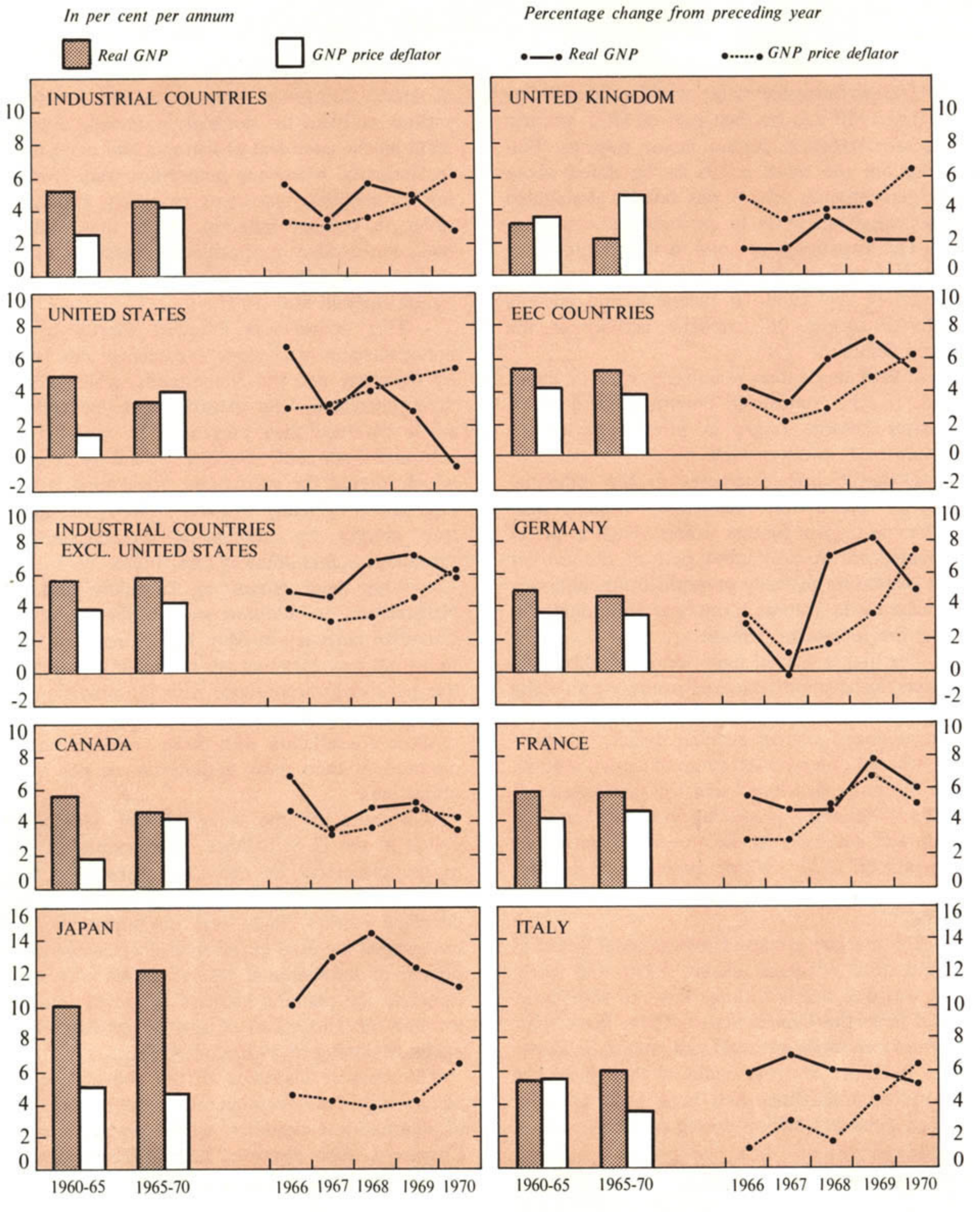
—With these moves by Germany and the Netherlands, in addition to the floating of the Canadian currency in May 1970, there are three industrial countries that are not maintaining effective parities in accordance with the provisions of the Articles of Agreement. The Fund has been in close consultation with these members on the question of their early resumption of par value obligations.

—Because of the huge official settlements deficit in the U. S. balance of payments, as well as the placement by other countries of a very large amount of official reserves in the Eurocurrency market, there was an unplanned and exceptional increase in the foreign exchange component of international reserves. This was additional to the planned increase in global reserves through the allocations of special drawing rights at the beginning of 1970 and 1971.

This chapter discusses all the above developments with the exception of those in the field of international liquidity, which are covered in Chapter 2. Also discussed here is the continuing close consideration which the Fund is giving to

[1] For the classification of countries used in this Report, see footnote 2, page 52.

CHART 1. CHANGES IN OUTPUT AND PRICES IN INDUSTRIAL COUNTRIES, 1960–70



a variety of measures that might make the international system less exposed to disturbances and help to promote smoother adjustment in international payments. The volatile flows of short-term capital that have been experienced in the recent past give particular emphasis to the need for progress in this area.

Output and Prices

The volume of total output on a world-wide basis increased by only about 3 per cent from 1969 to 1970—markedly below the average annual growth of 5 per cent during the decade of the 1960s. However, this result was attributable primarily to developments in the United States, where total output declined, though modestly (Chart 1). For the group of developed countries except the United States, as well as for the less developed countries, the expansion of real gross national product (GNP) from 1969 to 1970 slowed down somewhat but still amounted to 6 per cent; this compared with a trend growth of 5½ per cent over the 1960s for each of these groups of countries.

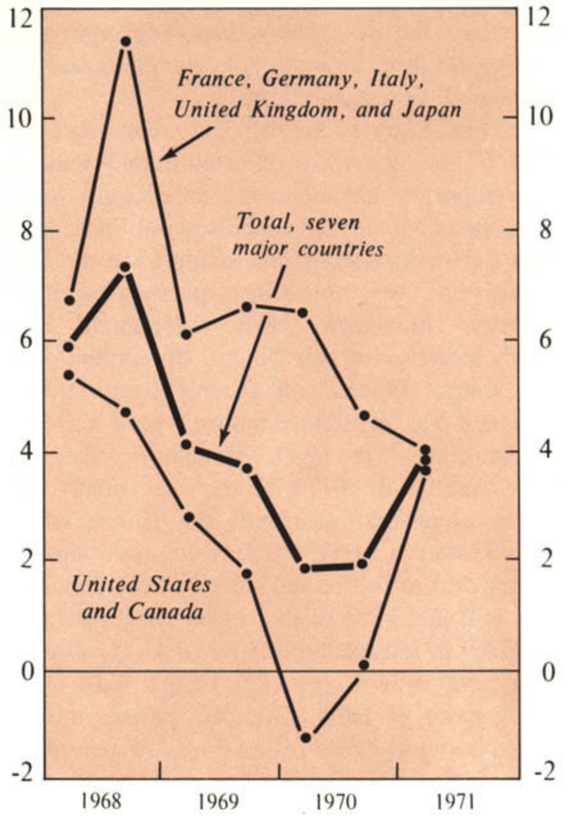
Percentage changes in world output in recent years were very similar to, and dominated by, the combined growth rate of the seven major industrial countries represented in Chart 2. As may be seen, this growth rate declined from 1968 to 1970 and then turned up in the first half of 1971 because of cyclical recovery in the United States and Canada.

Throughout most of the world, output changes in 1970 were accompanied by strong inflationary pressures. Price increases were larger in 1970 than in 1969 in almost all the industrial countries; taken together, these countries experienced an overall price rise [2] from 1969 to 1970 of 5¾ per cent, almost twice as high as the average annual rate for the past decade. Outside the industrial countries, the 1969–70 increases in consumer prices—averaging 6 per cent in the more developed primary producing countries and 9 per cent in the less developed countries—were markedly larger in most major areas than those of the previous year.

[2] As measured by the GNP deflator.

CHART 2. CHANGES IN OUTPUT OF SELECTED GROUPS OF INDUSTRIAL COUNTRIES, FIRST HALF 1968–FIRST HALF 1971

(Percentage changes in real GNP from preceding half year, seasonally adjusted at annual rates)



Inflation became a serious problem in the industrialized world during the latter part of the 1960s, a period also characterized by recurrent crises in foreign exchange markets stemming from the balance of payments disequilibria that arose from time to time in a number of the leading countries. As financial instabilities emerged, they were generally exacerbated by delays in the application of corrective policies, and in numerous instances the authorities were then impelled to adopt stabilization measures that had markedly adverse effects on employment and growth.[3] One very important result was the general slowing down of economic activity among industrial countries that occurred from about the middle of 1966 to the middle of 1967—a slowdown that had particularly severe effects in Europe, and

[3] Because of the widespread failure to make timely shifts in fiscal policy, these belated stabilization measures often took the form primarily of a more stringent monetary policy than would otherwise have been called for.

especially in Germany, where recessionary tendencies were strongest.

Both the timing and the impact of stabilization efforts in the late 1960s and in the opening of the current decade differed greatly among the industrial countries. The outstanding contrast in this respect was between the United States and continental European countries.

In the United States, the relatively mild 1966–67 slowdown was reflected in only a limited and temporary abatement of inflationary forces. After the economy had failed to cool off in 1968, despite the adoption of restraining fiscal measures at midyear, the authorities pursued a highly restrictive monetary policy throughout 1969. Mainly because of this policy, the expansion of U. S. output tapered off sharply from 1968 to 1969 and (as mentioned above) gave way to a modest decline in 1970. Monetary policy was relaxed early in 1970, and fiscal policy also became somewhat easier in the course of the year. However, private demand was slow to respond to the substantial easing on the monetary side, as it had been to the earlier fiscal restraints; real GNP in the second quarter of 1971, although rising, was only 1 per cent higher than in the third quarter of 1969. Over this period, the rate of unemployment rose from about 3½ per cent to 6 per cent, while costs and prices registered pronounced increases that showed only small response to the relatively high margin of unused resources in the economy.

On the continent of Europe, the cyclical upswing after the 1966–67 economic slowdown led to a gradual reduction of excess capacity, but not until late 1968 or early 1969 did renewed upward pressures on prices and costs become clearly apparent. Most industrial countries on the European continent tightened credit conditions and raised interest rates during 1969, first in defense against excessive capital outflows stimulated by the unusually tight U. S. monetary conditions and then, as Europe's own economic expansion gained momentum, increasingly to cope with domestic inflationary developments. However, these monetary actions, like the earlier ones in the United States, often came too late, or with too little support from fiscal policy, to contain quickly the demand pressures that had arisen. Moreover, in several of the European countries, notably Germany, the economic effects of the monetary restraints applied were partially frustrated or delayed by capital inflows, which during 1970 and early 1971 created major problems for maintenance of the desired degree of domestic credit stringency.[4] As a result of these influences, together with the rapid advance in wage rates, the rise of prices in the industrial countries of continental Europe continued strongly—and in most cases accelerated—in 1970, when the growth of output also remained relatively high.

In Canada, domestic economic developments during the past several years were broadly similar to those in the United States. However, one significant difference was the generally higher degree of economic slack experienced by Canada; another was the markedly lower rate of price increases that occurred in Canada beginning in early 1970. In Japan, the economic boom that commenced in late 1965 came to an end as the rate of output growth declined considerably after mid-1970 and apparently dropped further in the first half of 1971. This pronounced slowdown was induced by the restrictive monetary policy adopted by the authorities in the fall of 1969 in order to control the rapid rise in demand and check the accelerating price advances. In the United Kingdom, economic stabilization policy reduced the growth of total output well below that of capacity during 1969 and 1970, while increases in prices and wages accelerated strongly. In the 1971/72 budget announced at the end of March 1971, the authorities changed the emphasis of policy in order to counter unemployment, which had reached the highest level in many years; and in July 1971, when it became evident that the economy had been weaker than expected in the first half of the year, action to provide some additional stimulus to demand was taken through a further relaxation of fiscal policy.

At the present juncture, a rise in the rate of expansion of total output in the industrial countries seems to be developing. The combined real growth rate of these countries was limited to only

[4] The structure of international interest rate relationships prevailing in the latter part of 1969 was radically altered during the course of 1970. Whereas the 1969 pattern had tended to draw funds from Europe toward the United States, the pattern that developed in 1970 tended to reverse that flow of funds as U. S. monetary policy eased and European monetary policy tightened because of the emergent heavy pressures on resources.

2 per cent during 1970 because of the U. S. recession but, as noted earlier, it turned upward in the first half of 1971. (See Chart 2.) As it proceeds, cyclical recovery in the United States and Canada could be reinforced by a tendency toward faster output expansion in some other countries under the impact of easier demand-management policies. Pressures on resources, requiring the continuance of restrictive financial policies, are at present strongest in Germany and in the small industrial countries of Europe.

At the same time that the rate of output growth is tending to increase, inflation continues to be a serious problem throughout the industrialized world, and the determined efforts of national authorities will be required to bring it under effective control. Even with due allowance for the lagged effects on prices of the reduction in demand pressures already achieved by restrictive financial policies, it is clear that the overall price rise in the major industrial countries from 1970 to 1971 will be considerably higher than any rate that might be regarded as indicative of reasonable price stability.

A number of countries—particularly the United States, Canada, and the United Kingdom—face the difficult task of combating inflation while simultaneously bringing unemployment down to more tolerable levels. With wage increases substantially exceeding normal productivity growth, cost-push forces are still very strong in the industrial countries even though excess demand has now clearly been eliminated in all the larger ones except Germany. In such circumstances, there is a strong economic justification for the adoption of some form or another of what has come to be called incomes policy [5] to supplement the use of fiscal and monetary policies in the continuing fight against inflation, although it must also be observed that the question of the effectiveness and appropriateness of incomes policy is a controversial one in many countries.

The nature and role of incomes policy were discussed in the 1970 Annual Report (pages 13–14). Here, one general point may be recalled and emphasized. On the question of the form that 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 of 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.

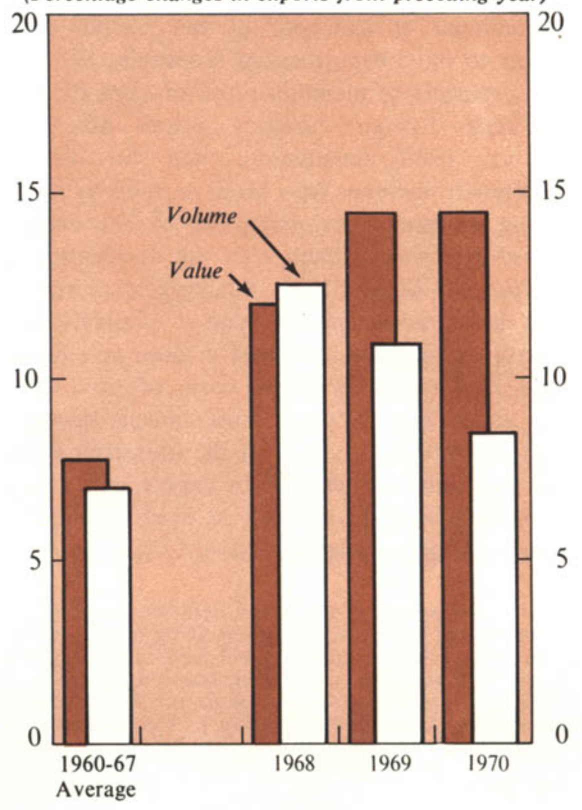
World Trade

The international spreading of inflation during recent years is clearly reflected in the statistics on world trade. In contrast to the tendency from the mid-1950s to 1968 for average prices of internationally traded goods to rise only slightly, if at all, they showed a marked upturn in 1969 and advanced quite sharply in 1970. The increases in these two years were of a size and generality not witnessed since the Korean War boom nearly two decades earlier.

Of the approximately 15 per cent expansion in value of world trade from 1969 to 1970, some 6

CHART 3. GROWTH OF WORLD TRADE, 1960–70

(Percentage changes in exports from preceding year)



[5] Including 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.

percentage points were attributable to the price component; this increase in the average unit value of traded goods was centered in manufactured products, for which price advances were especially marked in the first half of 1970. In volume, the 1970 trade expansion was not as large as that in either of the two preceding years but still exceeded the average annual rate of increase earlier in the decade of the 1960s. Chart 3 shows the decline in the rate of growth in volume from its 1968 peak, together with the role of prices in maintaining the exceptional rate of advance in the value of trade. During the latter part of 1970 and early 1971, some slowing down in the growth in value of world trade was indicated by import trends of the industrial countries.

The acceleration of foreign trade prices in recent years signified primarily the pervasiveness and intensity of inflationary forces in the main industrial countries. In the United States upward pressures on domestic prices have long tended to be accompanied by similar increases in export unit values,[6] and the acceleration of U. S. domestic price increases during 1969 and 1970 proved no exception, being quickly transmitted to U. S. export unit values. In the generally inflationary international environment of the period, there appear to have been marked tendencies for German exporters to maintain profit margins by raising their foreign currency prices after the October 1969 revaluation, and for French exporters to increase their profit margins by maintaining the foreign currency prices of their exports instead of lowering them after the devaluation of the franc in August 1969. Similarly, exporters in other industrial countries found it relatively easy to pass on to their customers a large part of the rapid increase in domestic costs of production then under way. It was a most unusual development in 1970 that nearly all the industrial countries experienced increases in export unit values (expressed in U. S. dollars) at least as large as those in domestic prices.

[6] Over the decade of the 1960s, domestic prices (GNP deflators) and export prices moved along nearly parallel paths in both the United States and the United Kingdom. In the EEC countries and Japan, however, increases in domestic prices were accompanied by small or negligible increases in export unit values. For a brief discussion of factors influencing the relationship between domestic prices and export prices, see *Annual Report, 1970*, pages 54–55.

Because these increases in export unit values were spread so widely, they did not in general greatly affect the terms of trade among the industrial countries. However, there was a marked deterioration from 1969 to 1970 in the terms of trade of the majority of primary producing countries, whose import prices were raised by the continuing price increases in the industrial countries at a time when their own export prices were generally not at all buoyant. After this deterioration, the collective terms of trade of the primary producing countries in 1970—for both the more developed and the less developed groups—were noticeably less favorable than those in the latter part of the 1950s.

The adverse shift in the terms of trade of the developing countries in 1970 curtailed the international purchasing power of their substantial expansion in export earnings. For these countries as a group, the effective purchasing power of such earnings rose by about 5 per cent from 1969 to 1970—a gain that was in line with the long-term trend but fell much below the exceptional increases of 10 per cent in both 1968 and 1969.

In early 1971 the picture with respect to primary product prices and export earnings was a very different one for oil producing countries than for most other groups of less developed countries. For the latter groups, developments during the first several months of 1971 did not suggest an early upturn in the broad indices of commodity prices, while the continuing inflation in industrial countries was still affecting import costs. For the oil producing countries, however, recently concluded negotiations with the international petroleum companies had resulted in new agreements greatly increasing the prices of most petroleum exports, as well as national revenues therefrom.

The large increase in the value of world trade from 1969 to 1970 was an extension of the cyclical upsurge that began in late 1967, after trade growth had been brought to a virtual standstill by the year-long economic slowdown in the industrial countries. In its earlier stage, through 1968, the upsurge in trade was dominated by a steep rise of imports into the United States; thereafter, the primary impetus to growth of world trade emanated from European and Japanese import demand. For the industrial world as a whole, the expansion of imports proceeded at a consistently high rate of some 15 per cent from the beginning of 1968 through mid-1970 and slackened only moderately in the second half of 1970. Throughout the 1968–70 period, rates of import growth in the industrial countries considerably exceeded the concurrent rates of growth in GNP —a development that apparently reflected a progressively higher degree of integration of world production and trade.

Shifts in trade balances have constituted a significant feature of world trade developments in recent years. As depicted in Chart 7, noteworthy changes from 1969 to 1970 included the substantial rise in the overall trade deficit of the more developed primary producing countries, whose imports soared while export growth was reduced; the marked deterioration in the trade balances of the smaller industrial countries in Europe, as imports advanced rapidly with the emergence of strains on resources; and the large increase in the combined export surplus of the seven largest industrial countries. This increase reflected chiefly a bulge in net exports from Canada, a shift from deficit into surplus on French trade transactions, and some rebound of the U. S. export surplus from its depressed 1968–69 level.

In a somewhat longer perspective, Chart 7 brings out the substantial swing from deficit into surplus of the combined trade balance of the less developed countries;[7] the pronounced increase in the trade surplus of Japan, whose strong export performance has been reflected in consistently large increases in export market shares (Table 16); the absence of marked change in the German trade surplus during recent years, after its rapid cyclical expansion to a historically high level; the recovery in the trade position of the United Kingdom since 1967; and, prior to its partial recovery in 1970, the sharp drop in the U. S. trade surplus after 1965 that was induced by domestic demand pressures and probably also by shifts in price differentials favorable to foreign suppliers (which shifts appear to have exerted continuing effects in 1970 and early 1971).

[7] This swing has been contrary to the tendency for the large deficit on services and private transfers to grow. In 1970, the less developed countries as a group had a trade surplus of well under $1 billion and an overall current account deficit of $8½ billion.

International Payments

Changes over the past year or so in trade balances of the major industrial countries were not generally of sufficient magnitude to figure prominently in the outbreak of disturbances on the European exchange markets in May 1971. Indeed, the same generalization is applicable more broadly to changes in "basic" balances, covering all current and long-term capital transactions. The focus, instead, must be on the persistence of imbalances in the basic accounts and the superimposition upon them of large short-term capital movements. Fundamentally, the recent dramatic events in the international payments situation can be traced directly to the economic developments and policies in the main industrial countries as sketched above, extending over a number of years. There was no single or simple cause of the latest international monetary crisis, the background of which contained several important elements.

(1) The cyclical positions of the United States and continental Europe differed substantially. This difference arose by reason of the fact that, in the strong economic expansion among industrial countries after 1967, inflationary pressures re-emerged more quickly in the United States and, therefore, a restrictive financial policy was applied there earlier. During 1970 and early 1971, the U. S. situation was characterized by sluggishness of the domestic economy, high unemployment, and a stimulative financial policy. But on the continent of Europe during that period, and particularly in Germany, pressures on resources were still relatively strong and policies in most countries had not yet shifted from a phase of restraint to one of stimulus. (Key features of the economic situation in the United States and in Germany are illustrated in Charts 15 and 16, respectively.)

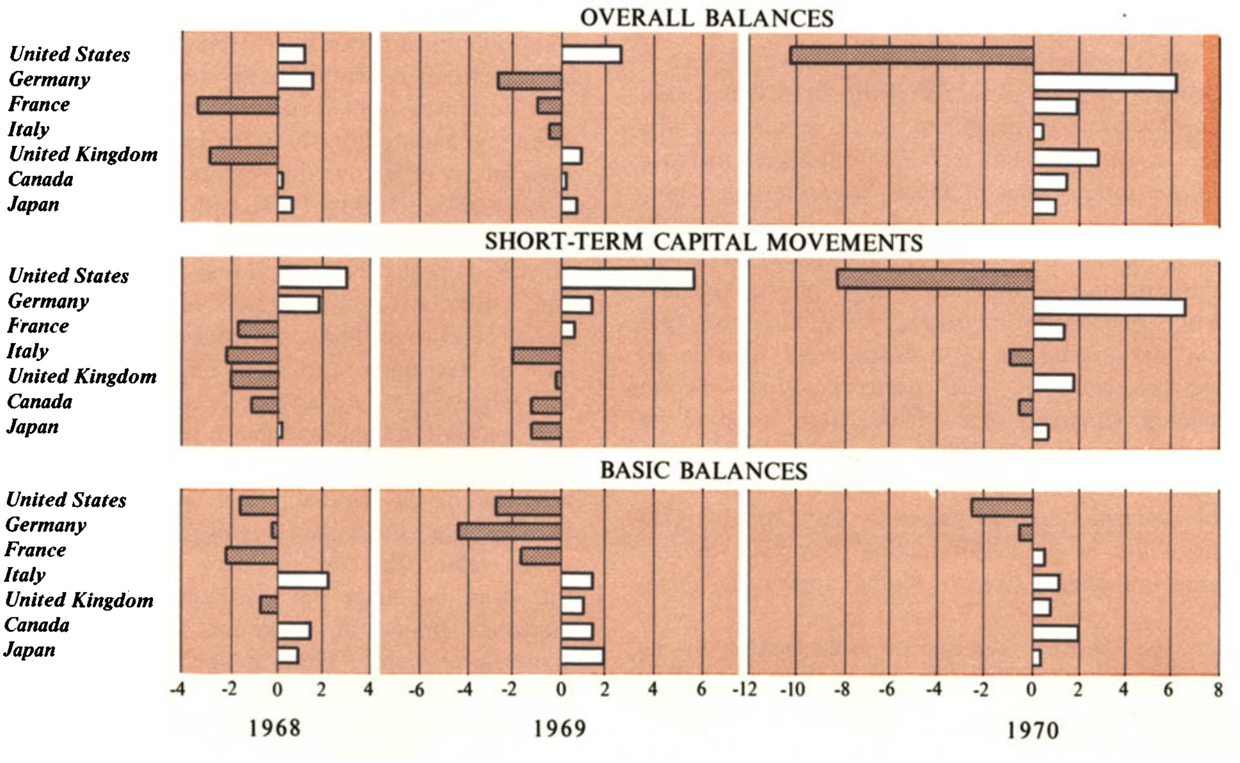
(2) Both the United States and continental European countries put particular emphasis on monetary policy in programs to regulate the domestic economy. Thus, in the absence of sufficient restraint on the fiscal side, monetary policy in the United States showed extreme tightness

during 1969, and the degree of easing adopted in 1970 was a reaction both to that tightness (as the monetary authorities considered it necessary to inject some liquidity into the economy when it slowed down more than was intended) and to the maintenance of a rather restrictive fiscal stance in the 1970/71 budget as originally planned. In continental Europe, partly because of underestimation of the cyclical strength of business and consumer spending during 1968 and 1969, the measures of fiscal restraint introduced in the course of 1969 were in most instances belated and relatively weak; and monetary policies, notably in Germany, then had to assume a disproportionate share of the ensuing task of combating inflation.

(3) The divergence in cyclical positions, coupled with the character of the fiscal-monetary policy mixes, led to unusually wide differences in credit conditions and interest rates between the United States and Europe. These differences, in turn, gave rise to sharp fluctuations in short-term capital flows and to extraordinarily wide swings in the balances of payments of individual industrial countries (Chart 4). The overall balance of the United States swung from an exceptional surplus in 1969 to a huge deficit in 1970, while the balances of all the other larger industrial countries moved sharply in the opposite direction, with the bulk of this counterpart movement concentrated in the German accounts. Flows of short-term capital in the early months of 1971 were even larger than they had been during most of 1970, and by April it became increasingly evident that the inflows into Germany and certain other countries were being motivated by considerations relating to possible changes in exchange rate relationships among major currencies. Consequently, the effects of a marked convergence of short-term interest rates in the principal financial markets during April, induced to a large extent by official monetary policy actions, were overriden by a surge of purely speculative pressures. The further rush of funds into European exchange markets in the early days of May was on a massive scale, causing the

Chart 4. Balances of Payments of Major Industrial Countries, 1968–70

(In billions of U. S. dollars)



authorities of Germany, the Netherlands, Belgium, Austria, and Switzerland to cease official intervention in support of their currency parities against the dollar and to close their official exchange markets pending decisions on measures for dealing with the situation.

(4) In addition to the unusual concurrence of cyclical and policy-mix factors that touched off large movements of yield-sensitive capital, the international monetary system was exposed to disturbances because of an underlying payments situation that was not satisfactory. Most important in this regard was the persistence of a U. S. external payments deficit in terms of the basic accounts; this imbalance has, over a long period, been accompanied by a deficit in the overall accounts except at times of exceptionally tight monetary conditions, such as 1966 and 1969. It may be recalled that the Fund's 1970 Annual Report, after noting the improvements that had occurred in the balance of payments situations of the United Kingdom, France, and Germany, stated that the need to rectify the U. S. payments position was "the most urgent remaining task in the field of international payments." That judgment is no less valid one year later.

The balance of payments problem of the United States may be viewed as centering in a current account surplus much too small to cover net outflows of private long-term capital and government expenditures abroad. Enlargement of this current surplus remains a key objective of economic policy and will depend fundamentally on the elimination of inflation and the avoidance of renewed strains on resources. In 1970 the surplus on current account was somewhat under $2½ billion, which was about $4 billion less than in 1965 and only $1 billion above the average of the 1968–69 cyclical lows. Further, the 1970 surplus benefited from the fact that the demand for imports was dampened by the prevailing substantial degree of underutilization of resources. This consideration, together with the continuation of official programs of restraint over exports of U. S. capital, is relevant to an interpretation of the U. S. deficit in the basic balance of payments, which amounted to about $2½ billion in both 1969 and 1970. The counterpart of this deficit is to be found in surpluses that are rather widely spread among other countries.

In view of the continuing underlying imbalance in the international payments situation, it is essential that the authorities of the United States and other leading countries pay particular attention to the implications of domestic monetary and fiscal policies for the level of short-term interest rates relative to those abroad. The need for joint responsibility and action is a practical lesson of developments culminating in the recent currency crisis. For deficit countries, balance of payments considerations clearly militate against undue reliance on monetary policy when it is appropriate to foster domestic economic expansion; this circumstance points to the desirability both of avoiding domestic liquidity creation beyond the immediate needs of a moderate economic upswing and of relying chiefly on fiscal policy for provision of the stimulus necessary to ensure that the economy moves on a suitable recovery path. Similarly, countries with a strong payments position that need to contain an inflationary boom should put main reliance on fiscal restraint rather than on extreme monetary tightness.

In Germany, the other country besides the United States that was primarily involved in the huge capital movements of 1970 and early 1971, the recent floating of the deutsche mark was accompanied by a number of policy measures aimed at stabilizing the domestic economy and warding off short-term capital inflows. (See page 98.) Such inflows, comprised mostly of borrowing abroad by German enterprises but also including accumulations of deutsche mark balances by foreign official institutions, had exceeded $6 billion in 1970 and $2 billion in the first quarter of 1971, with further substantial amounts accruing in April and the first days of May. The massive inflow of short-term funds was the dominating influence in the German balance of payments during 1970 and the first part of 1971 inasmuch as the basic accounts were approximately in balance. After the German authorities, in the face of this inflow, decided on May 9 not to maintain the exchange rates for the deutsche mark within the established margins, the exchange value of the currency appreciated;

during the month of June, it fluctuated within a relatively narrow range, about 4½ per cent above parity.

In addition to the sharp changes in the U. S. and German external positions, the continuation of large surpluses in Japan's balance of payments was a prominent feature of the recent international payments situation. During 1968 and 1969 the Japanese current account balance had strengthened, in contrast to the weakening that had occurred in past periods of rapid economic growth, and the overall balance of payments had recorded substantial surpluses. A somewhat larger surplus was realized in 1970, when the current account surplus again exceeded $2 billion and the net capital outflow declined. Further overall surpluses, on a much higher scale, accrued during the first six months of 1971, partly because of the sharp slowdown in import growth associated with the sluggishness of the domestic economy. At the end of June, official reserves amounted to $7.8 billion, compared with $2.0 billion at the end of 1967; in early June the Japanese Cabinet had formulated an eight-point program designed to broaden and intensify the Government's efforts to ensure better equilibrium both internally and externally. (See page 93.)

Among the other larger industrial countries, particularly noteworthy was the positive swing of nearly $6 billion in the French overall balance of payments from 1968 to 1970 (see Chart 4); this reflected the rapid improvement that followed the devaluation of the franc in August 1969 and the concurrent reinforcement of restrictive financial policies already in effect since late 1968. Equally striking was the improvement after 1968 in the external accounts of the United Kingdom—an improvement that extended into 1971 and enabled the authorities, as in the case of France, to repay very large amounts of international debt. In Italy, where the balance of payments structure had featured a large current account surplus and a large net capital outflow, the lira came under heavy pressure in the first months of 1970 as the outflow of capital accelerated; the authorities then took a number of successful measures to stem this outflow, and the reserve position strengthened greatly during the latter part of 1970 and early 1971. In Canada an outstanding development was the $2 billion shift in the current account balance from moderate deficit in 1969 to very strong surplus in 1970. The strength of the current account was one of the important factors underlying the decision of the Government in May 1970 to float the Canadian dollar and the subsequent appreciation of that currency; after holding at a level about 7 per cent above the par value during the first five months of 1971, the exchange rate for the Canadian dollar declined during the first ten days of June to about 5¾ per cent above par, where it remained for the rest of the month.

For the group of smaller industrial countries in Europe, balance of payments developments in 1970 were characterized by a marked deterioration in the current account position (because of the rapid increase in imports emanating from strains on resources)[8] and by a major swing in the capital account that led to a large overall surplus. In certain instances, the substantial amounts of liquidity injected by capital inflows counteracted monetary policy restraint in a situation of intense inflationary pressures. As noted earlier, four of the countries in this group—Austria, Belgium, the Netherlands, and Switzerland—were directly involved in the international monetary crisis of May 1971.

For all the industrial countries together, there was a balance of payments surplus of $6½ billion in 1970, compared with approximate balance in 1969. The 1970 figure includes allocations of special drawing rights totaling $2.3 billion, and also reflects various other asymmetries in the recording of balance of payments statistics. Although the records of the industrial countries might seem to suggest a sizable upward movement in their collective overall balance in transactions with primary producing countries, there was no corresponding deterioration in the reported overall balance of the latter countries.[9]

Actually, available data indicate a substantial 1969–70 increase in the aggregate payments surplus of primary producing countries, even apart from receipts of SDR allocations. The combined surplus of these countries (including SDR

[8] An exception to this generalization was afforded by Belgium, where the external current account in 1970 showed a very large surplus.

[9] For a discussion of this question of asymmetries and errors in the balance of payments statistics for 1970, see pages 81–82.

allocations totaling $1.2 billion) amounted to $4.2 billion in 1970, compared with $1.6 billion in 1969. This increase stemmed from a sharp rebound in the net capital inflow, the uptrend in which had been interrupted in 1969 by stringent conditions in international financial markets—conditions that for many primary producing countries had noticeable adverse effects in the form of very high interest rates and limited availability of external credit. Although balance of payments developments differed markedly among the primary producing countries individually, it is noteworthy that a substantial increase in the net capital inflow from 1969 to 1970 occurred in all of the broad primary producing areas. (See Table 24.)

The resurgence of net capital inflows in 1970 was particularly marked in Australia, South Africa, Finland, and Spain among the more developed primary producers. In the first three of these countries, such inflows had fallen off sharply in 1969; in Spain, adoption of measures of financial restraint to counter inflationary pressures and balance of payments weakness greatly strengthened the capital, as well as the current, account. The majority of the more developed primary producing countries experienced improvement in their overall payments positions from 1969 to 1970; deteriorations were largest in South Africa and Yugoslavia as strong domestic demands led to an accelerated expansion of imports and to much larger deficits on current account. Collectively, the more developed primary producing countries had a surplus of $1.2 billion (including SDR allocations of $0.3 billion) in 1970, after having fallen close to balance in 1969 from an exceptional surplus of $1½ billion in 1968.

For the less developed countries as a group, there was a further increase in the current account deficit from 1969 to 1970; however, the rise in the net capital inflow was much larger. The overall surplus of $3.0 billion in 1970—including $0.9 billion obtained through SDR allocations—was the highest on record. It followed surpluses of about $1 billion in 1968 and $1½ billion in 1969, and the strong growth of these countries' international reserves over the 1960s was thereby extended. (See Table 6 and Chart 6.)

The overall surpluses of less developed countries in recent years were disproportionately concentrated among certain major exporters of petroleum, metals, and manufactured products. The developing countries outside these three groups—that is, mainly countries exporting agricultural products—had surpluses that were proportionately much smaller than their share of the outstanding stock of reserves, which, in turn, was comparatively low in relation to imports. It may be noted that the allocations of special drawing rights to less developed countries in 1970 and 1971 went predominantly to this large group of agricultural exporters.

The balance of payments experiences of primary producing countries in 1970 and other recent years varied widely because of differences in such factors as commodity composition of exports, internal demand and supply conditions, and the nature and effectiveness of policy actions. The discussion in Chapter 5 illustrates the diversity of problems encountered by these countries in their efforts to maintain or achieve external payments equilibrium.

Issues in the International Adjustment Process

The recent disturbances in foreign exchange markets have posed broader issues relating to the international monetary system. For the purpose of indicating an appropriate background for consideration of these issues, several general principles may usefully be reaffirmed.

First, it remains the conviction of the Executive Directors, as stated last year in their report on *The Role of Exchange Rates in the Adjustment of International Payments*, that the basic principles of the Bretton Woods system are sound and should be maintained and strengthened—a judgment that was endorsed without reservation at the 1970 Governors' meeting in Copenhagen. The essence of this system is stability of exchange rates around par values agreed with the Fund, changeable on the basis of agreed principles and in accordance with agreed procedures.

Second, support of the Bretton Woods system on the part of member countries calls for them to pursue internal policies to keep aggregate demand within the bounds of available resources, inasmuch as inflationary pressures have been the most frequent source of exchange rate difficulties. Also called for is a willingness, in instances where exchange rate changes are appropriate to restore equilibrium, to make such changes at a time and in a manner most likely to enhance their effectiveness. This consideration is of particular importance because, in present conditions of international mobility of capital, expectations that parities may be changed can lead to large and disruptive movements of funds.

Third, it is clear that the international monetary system cannot function well unless countries generally—and above all the larger ones—play their full part in the international adjustment process. This implies that they should pay specific attention to measures needed to maintain or restore balance in their international payments, and also that they give full weight to the effects on other countries of any measures that they may take to improve their internal economic situation.

Questions concerning the effectiveness of the international adjustment process have often arisen in recent years in connection with the problem of managing short-term flows in a world of convertible currencies and integrated financial markets. Experience has amply demonstrated that sensitivity of capital movements to interest rates and to exchange rate expectations can generate huge flows of funds across national boundaries, with the mobility of capital being facilitated by the Euro-currency market. Such flows may make it difficult for countries to attain their domestic demand targets, to avoid large changes in national and world reserves, and to adhere to an orderly system of exchange rates and exchange rate adjustment.

Analysis of the problem of dealing with volatile capital flows leads to a variety of possible—and not mutually exclusive—approaches, including (a) better international coordination of monetary policies; (b) controls over, or other measures directly affecting, capital movements; (c) somewhat greater exchange rate flexibility; and (d) accommodation of the capital flows. All these matters are now under study in the Fund, drawing on the varied experience of member countries. Here, some preliminary, general views may be indicated with respect to each of the four approaches mentioned. These views are not prescriptions for individual countries; each country is likely to adopt a combination of measures for the purpose of influencing and mitigating disequilibrating short-term capital flows, with the particular combination varying in accordance with the preferences, situations, and capabilities of the country in question.

(a) On the basis of an analysis of the economic policies that have been pursued by the main industrial countries since the mid-1960s, it would be hard to make a case that the fiscal and monetary policies of those countries have been well balanced or that their monetary policies have been reconciled internationally. A fundamental requisite for improvement in this sphere is a strengthening of the role of fiscal policies, so that monetary policies might be geared relatively more to the external position than has proved feasible in the past. While the instruments of fiscal policy generally are subject to substantial inflexibility because of institutional and political factors, and an improvement of these instruments would be highly desirable, a more active and timely use of fiscal policies should be possible within the existing framework. Moreover, it should also be possible to deal more effectively with the problem of so-called fiscal slippage, which in many industrial (as well as other) countries has involved a tendency for actual government expenditures to exceed budget estimates by a considerable margin. Without progress in the fiscal field, an undue reliance will continue to be placed on monetary policy, with a consequential generation of capital movements that may be disequilibrating to the balance of payments and also limit the effectiveness of monetary policy for domestic purposes.

A point worth emphasizing is that strengthening of fiscal policy and improvement of the mix of fiscal and monetary policies in the industrial countries not only would be helpful from the standpoint of managing the balance of payments, but also would make for better demand management and better overall economic performance. The validity of this proposition stems from the fact that in most industrial countries, because of the comparative inflexibility of fiscal policy, monetary policy has often been used for domestic purposes much beyond the point of its greatest efficiency. Such intensive application of monetary policy has sometimes had untoward effects, within the countries concerned, on the general level of economic activity, on particular sectors of the economy, and on financial markets; and, in the case of the largest industrial countries, especially the United States, it has had well-known repercussions from time to time on the level of world interest rates, on the international adjustment process, and on the economies of many other individual countries.

Thus, there is clearly a considerable scope for better international coordination of policies; and the events of May 1971, which have shown that the lack of at least some degree of interest rate harmonization among the leading countries can be very costly, have provided a spur to more effective efforts in the future. At the same time, the substantive difficulties involved in policy coordination cannot be ignored. It would seem advisable, on balance, to keep searching out ways of achieving greater progress in this area, even though substantial results may not be forthcoming in the short run.

Such a conclusion, in and of itself, would entail the view that there will continue to be, from time to time, a tendency in today's highly integrated financial world for capital movements induced by interest rate differentials to be much larger than they were in the past. Yet it remains important that yield-induced flows of capital be held within reasonable limits, so as to minimize the resultant strains on domestic monetary management and on external reserves of the countries involved.

(b) Various types of techniques—such as regulatory measures or incentives in the banking field, selective fiscal measures, forward market intervention, and comprehensive or selective restrictions—may be used for the purpose of exerting an influence on capital movements so that countries can be better equipped to maintain independent monetary policies and divergent relative interest rates without evoking disequilibrating flows of capital. The Fund's Articles of Agreement authorize the exercise of controls on international capital movements, provided that these controls do not unduly delay or otherwise restrict payments for current transactions. In general, however, the risk of restricting or distorting trade and other current payments—given the increasing integration between the major economies—calls for selectivity in the application of restrictions to capital flows.

The views taken on the appropriate role of capital controls have been influenced by changing circumstances. The rapid growth in the size of international markets in short-term funds in the late 1960s, mainly in the form of Euro-markets in bank deposits denominated in foreign currency, induced a number of major countries to impose or extend regulatory measures to influence flows of short-term capital between these markets and their domestic credit markets. However, comprehensive controls on international capital movements were widely considered neither feasible nor, at least in their entirety, desirable.

The integration of the world economy and the rational allocation of resources throughout the world owe too much to wide opportunities for the movement of capital—and the efficacy of capital controls is too dependent on circumstances in individual countries—to justify a general recommendation that countries should have comprehensive exchange controls. At the same time, countries that want to be prepared to head off or moderate occasional large capital movements, and thereby to avoid excessive pressures on exchange rates, should consider developing, at least on a stand-by basis, a set of simple and flexible tools that could be quickly activated to contain disequilibrating movements through the most important channels. These would include regulations on the net positions of banks, on the banks' reserve requirements against foreign deposits, on foreign borrowing or lending by large domestic enterprises, etc.

In last year's Annual Report and in this one, attention has been drawn to the rapid growth of the Euro-currency market and to the impact of this on both the effectiveness and the independence of national monetary policies. During recent months a certain measure of agreement has been reached concerning restrictions on the depositing of reserve accruals by central banks in the market, and discussion has also focused on the possibility of additional coordinated efforts aimed at bringing about more orderly conditions in the market and attenuating its growth. Although progress in this general direction would be desirable, it would appear doubtful that regulation of the Euro-markets by itself would go very far toward a resolution of the problems discussed in this section—which would exist even in the absence of those markets.

(c) The Fund's current study of the possible need for additional exchange rate flexibility follows from the Executive Directors' 1970 report on the mechanism of exchange rate adjustment. According to the terms of this report, which rejected those exchange regimes that are inconsistent with the par value system (freely floating exchange rates, substantially wider margins, and automatic adjustment of parities), the possible need that is now being studied relates to a limited increase in the degree of exchange flexibility. This could be expected to have a helpful effect in the discouragement of disequilibrating capital flows, although other considerations would of course also be involved. The matters under review include the advisability of amending the Articles of Agreement to permit a slight widening of margins around par and temporary deviations from par value obligations.

(d) Although measures can and should be taken to damp down short-term capital movements, it is only reasonable to assume that, with increasing financial integration, there will be occasional large-scale movements. The main implications of such a prospect are twofold. (1) Countries should review their monetary techniques with a view to rendering them more capable of offsetting the effects of reserve changes on domestic monetary conditions. Few countries have developed or used to the full the monetary instruments required to achieve maximum results in this respect. (2) Such large movements of short-term capital as occur will be financed in some way or other. One way to do so, which has the advantage that it involves no changes in global reserves, is provided by official borrowing from, or repayments to, capital markets abroad; such financing deserves further attention. Whatever may prove practicable and desirable in terms of financing in this form, there will undoubtedly be occasions on which there will be resort, as in the past, to other forms of financing—use of reserves, fluctuations in the stock of reserve currencies, use of swaps, and Fund transactions—with the frequency and intensity of such resort depending on the extent to which measures against the capital movements themselves are adopted and prove effective.

This chapter has touched on a variety of areas in which the economic policies of the main industrial countries could be improved. A broadly similar survey in last year's Annual Report was prompted by the serious questions about the adequacy of those policies that had been raised by the heightening of inflationary pressures. Focus on the main industrial countries has been indicated by reason of the fact that it is these countries, because of their economic weight, whose policies primarily determine how effectively the whole international system operates and, at the same time, exert a heavy impact on the economies of the developing nations.

In a world-wide, 118-member organization such as the Fund, the desirability of restoration and maintenance of financial stability in the main industrial countries is seen not least from the standpoint of the benefits that developing nations throughout the world would derive from such an achievement. The record of the past half-dozen years or so clearly indicates a number of ways in which they would stand to gain from an improvement in the economic policies of industrial countries. Thus, the less developed nations have been affected by the higher cost and restricted availability of credit in international financial markets because of the undue emphasis by industrial countries on monetary policy in programs of financial restraint; by a less-than-satisfactory environment for development planning because of the alternating impact of overexpansion and contraction in those countries; and by a sluggishness in the flow of official capital and aid, perhaps in part because of the preoccupation of the industrial countries with their own problems of inflation, balance of payments difficulties, and budgetary pressures. Further, experience has shown that when periods of slack in the industrial countries follow excessive rates of resource utilization, the less developed countries tend to lose earlier gains in the volume and prices of their exports while they may sometimes feel a more lasting impact of cost escalation on prices of the manufactured products that predominate among their imports.

Against this background, the efforts now under way in other international organizations to assist the developing nations by untying aid and by granting preferential treatment to their exports of manufactured products are gratifying and deserve the widest possible support. At the same time, there remains an urgent need for major improvement in the volume and quality of development assistance as a whole. The flow of official capital and aid to the developing nations failed by a substantial margin, as is well known, to keep pace with the relative growth of income in the industrial countries over the 1960s, and in recent years the aid flow has probably declined somewhat in real terms. It is to be hoped that the industrial countries will endeavor to raise the level of development assistance according to their potential; this would be in accord with the interests of the international community as a whole, as well as responsive to the immense needs of the less developed countries.

Chapter 2

Developments in International Liquidity

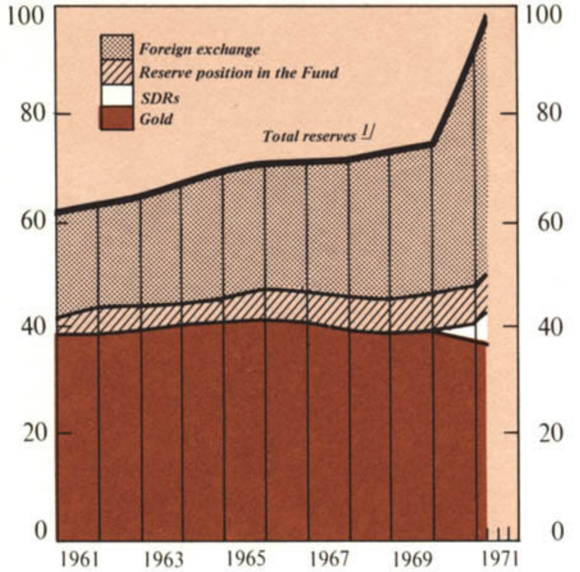
General Survey

SINCE the beginning of 1970, a number of important changes have influenced the development of international liquidity. These changes have affected the quantity, composition, and distribution of international reserves, as well as the availability of conditional liquidity and the use made of short-term credit facilities between national monetary authorities. The quantity of international reserves, after growing sluggishly in the second half of the 1960s, increased in 1970 by exceptional and disquieting proportions by some $16 billion, or 21.8 per cent (Table 1 and Chart 5).[1] This was by far the largest annual increase in the period since World War II. The rapid pace of increase continued in the first months of 1971; at the end of March 1971, global reserves were 24 per cent above their level a year earlier. This chapter reviews these developments and concludes with a discussion of some of the policy issues that they have raised.

The acceleration of reserve growth since the beginning of 1970 and the associated changes in the characteristics of reserve developments, which will be detailed below, have reflected in some part deliberate measures taken to strengthen the international reserve system. The establishment of the Special Drawing Account and its activation for the first basic period that began on January 1, 1970 were directed specifically to the expansion, in an appropriate amount, of the level of global reserves; the global reserve level has also been influenced by arrangements made in 1968–69 to strengthen the international reserve system in general and its gold and sterling components in particular.[2] The decision on allocation of special drawing rights was designed to restore a rate of growth in global reserves consistent with growth in the trend need for reserves, which was esti-

CHART 5. GROWTH AND COMPOSITION OF RESERVES, END OF PERIOD, 1960–FIRST QUARTER 1971

(In billions of U. S. dollars)



[1] Adjusted reserves; see Table 1.

[1] The measurement of reserves, as in the Fund's analyses of reserve developments in previous years, covers gold, special drawing rights, reserve positions in the Fund, and official holdings of foreign exchange excluding those of the United States. Since U. S. holdings of foreign exchange declined markedly in 1970 (see footnote 4, below), global reserves on an unadjusted basis showed slightly less expansion during the year, 18.3 per cent. Foreign exchange balances of nonofficial holders, including commercial banks, may sometimes be available to supplement reserves as defined above, but in other instances, by adding to the potential flow of funds between different currencies, such holdings may involve additional calls on reserves.

[2] The arrangements concerning gold involved the action taken by leading central banks in March 1968 to prevent depletions in gold reserves by no longer supplying gold from their reserves to the private market; this was followed by the agreement reached at the end of 1969 relating to the purchase of gold by the International Monetary Fund from South Africa. This agreement provided an established basis for accruals to global gold reserves. These developments were described in the *Annual Report, 1969,* page 127 and the *Annual Report, 1970,* pages 34–35. The arrangements concerning sterling provided for the maintenance of a minimum proportion of reserves of overseas sterling area countries in sterling, the agreement by the United Kingdom to maintain the value in U. S. dollars of eligible official sterling reserves of overseas sterling area countries, and provision by 12 industrial countries and the Bank for International Settlements of a supporting stand-by credit facility to the United Kingdom (*Annual Report, 1969,* page 64).

TABLE 1. RESERVES, CREDIT TRANCHE POSITIONS, AND OTHER UNUSED CREDIT FACILITIES, END OF YEARS, 1951–70
(*In billions of U. S. dollars*)

End of Year	Gold	SDRs	Reserve Positions in Fund	Foreign Exchange [1]	Total Reserves Adjusted [1]	Credit Tranche Positions in Fund	Other Unused Credit Facilities [2]
1951	33.9	—	1.7	15.1	50.7	6.5	—
1952	33.9	—	1.8	15.6	51.3	6.5	—
1953	34.3	—	1.9	16.9	53.1	7.1	—
1954	34.9	—	1.8	18.1	54.8	7.8	—
1955	35.4	—	1.9	18.4	55.7	7.9	—
1956	36.1	—	2.3	19.2	57.5	7.5	—
1957	37.3	—	2.3	18.4	58.0	7.2	—
1958	38.0	—	2.6	18.3	58.9	7.3	—
1959	37.9	—	3.2	17.9	59.0	12.9	—
1960	38.0	—	3.6	20.3	61.7	13.7	—
1961	38.9	—	4.2	20.8	63.8	12.8	1.7
1962	39.3	—	3.8	21.3	64.4	13.4	1.4
1963	40.2	—	3.9	23.6	67.7	13.5	2.0
1964	40.8	—	4.2	24.8	69.8	13.9	5.8
1965	41.9	—	5.4	24.2	71.4	12.5	3.8
1966	40.9	—	6.3	24.3	71.6	17.2	4.5
1967	39.5	—	5.7	26.5	71.8	18.2	5.3
1968	38.9	—	6.5	28.0	73.5	17.2	13.1
1969	39.1	—	6.7	29.1	75.0	17.0	14.3
1970	37.2	3.1	7.7	43.2 [3]	91.3	25.3	14.2
			Annual percentage changes				
1952	−0.1	—	3.7	3.5	1.1	0.3	—
1953	1.2	—	6.4	8.5	3.6	10.0	—
1954	1.8	—	−2.4	6.6	3.2	9.9	—
1955	1.3	—	1.9	1.9	1.5	0.4	—
1956	1.8	—	21.2	4.4	3.3	−4.3	—
1957	3.5	—	1.5	−4.1	0.9	−4.7	—
1958	2.0	—	10.6	−0.4	1.6	1.6	—
1959	−0.3	—	27.1	−2.5	0.2	76.9	—
1960	0.3	—	9.8	13.5	4.8	5.9	—
1961	2.2	—	16.5	2.6	3.2	−6.2	[4]
1962	1.1	—	−8.7	2.5	0.9	4.3	−16.2
1963	2.4	—	3.8	10.4	5.1	0.9	39.2
1964	1.5	—	5.5	5.2	3.1	2.9	193.4
1965	2.5	—	29.4	−2.4	2.4	−10.1	−35.3
1966	−2.3	—	17.7	0.6	0.2	38.2	18.4
1967	−3.4	—	−9.2	9.0	0.3	5.7	17.7
1968	−1.4	—	12.9	5.7	2.3	−5.5	149.3
1969	0.5	—	3.7	3.8	2.0	−1.2	9.3
1970	−5.0	[4]	14.4	48.6	21.8	48.9	−1.0
Annual average percentage change	0.5	[4]	8.7	6.2	3.2	9.1	[4]

Sources: *International Financial Statistics* and Table 8.
[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, as shown in Table 8.
[3] Partly estimated.
[4] A percentage change cannot be calculated, the base number being zero.

mated at the equivalent of 5½ to 6¾ per cent a year.[3]

The fact that global reserves since the beginning of 1970 have increased much more rapidly than allowed for in these estimates reflects an increase of almost 50 per cent in foreign exchange reserves, mainly in the form of claims denominated in U. S. dollars. It should be noted that increases in foreign exchange reserves have in certain important respects (discussed later in this chapter) different effects on national economies and economic policies than reserve increases in gold or SDRs. The increases in foreign exchange reserves in the recent period have resulted from a combination of three main influences: the different phasing of cyclical developments in the

[3] *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,* International Monetary Fund (Washington, 1969).

largest national economies and a current tendency among national authorities to place more weight on monetary policy than on fiscal policy for purposes of internal stabilization; the persisting maladjustment in balances of payments of certain major countries, including the United States; and growing proliferation of official foreign exchange holdings, involving increased holding of official balances both in the Euro-currency market and in currencies other than the U. S. dollar, tending in both instances to result in an expansion of total foreign exchange reserves.

The conjunctural developments in the world economy, which need to be considered against the background of persisting imbalances in world payments, have been reviewed in Chapter 1. Monetary policy in the United States shifted toward ease in 1970, while large European countries attempted to maintain a considerable degree of credit stringency. As a result, the attraction of short-term capital from other countries to the United States, which had resulted in a U. S. official settlements surplus in 1968 and 1969, gave way to a strong reflux of short-term funds from the United States to European and other countries in 1970. The funds were channeled into the Euro-dollar market, into other money markets outside the United States, and direct to commercial borrowers in Europe and elsewhere; ensuing conversions into non-dollar currencies added to accruals of dollars in official reserves.

The flows of short-term capital were motivated initially by differentials in interest rates and in money market conditions, but in some instances they subsequently gave rise to additional flows of a speculative character. In the 15-month period from the end of 1969 to the end of March 1971, short-term capital flows exceeding $8½ billion went to one country, Germany; as a result, Germany's reserves increased by virtually the same amount, accounting for three eighths of the increase in global reserves in this period, even though its surplus on current account was tending to decline from its earlier high level. These flows continued in April and in early May, when they were accompanied by heavy movements of funds into a number of other countries, notably Switzerland, the Netherlands, and Japan. Official foreign exchange holdings of Germany alone grew by an additional $3.2 billion in these five weeks. Following the exchange adjustments effected by a number of European countries in early May (see page 3), the movement of short-term funds to these countries was reversed. (See also page 27.)

Increases in official liabilities of the United States, in official claims held in Euro-markets, in sterling reserves held by countries of the overseas sterling area, and in official holdings of deutsche mark, combined to increase total foreign exchange reserves in 1970 by some $14 billion on the adjusted basis (i.e., excluding U. S. holdings of foreign exchange), despite a reduction of some $2 billion in foreign exchange claims as a result of repayments of swap credits granted by countries other than the United States.[4]

The recent large increases in foreign exchange holdings have reflected in part a reversal of the 1969 flows of funds to the United States, which involved a substantial flow of dollars out of official holdings and a net decline in reserves of industrial countries. (See Table 6.) The increase in global reserves in 1969 was limited to 2 per cent (Table 1). In 1969 and 1970 together, global reserves increased at an annual rate of $9 billion, or 11 to 12 per cent. This was still about twice as large as would be indicated by the estimates referred to above that had been made of annual reserve needs. This expansion was brought about in part by short-term capital flows, and might therefore be undone in the period ahead insofar as these movements are reversed. Nevertheless, the growth of reserves from the beginning of 1970 through the first quarter of 1971 was such, in pace and in composition, as to cause severe strains and to raise questions about the course of international reserves.

The developments in international reserves and, more generally, in the international monetary system since the beginning of 1970 have focused attention on a number of matters. These include the disturbances arising from persisting maladjustments in payments balances of major countries and

[4] Repayments of swap credits 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. Repayments of swap credits granted by the United States contributed to a reduction in U. S. holdings of foreign exchange by $2.2 billion in 1970, reducing their outstanding total to $0.6 billion.

from movements of short-term capital between international money markets; the effect of reserve flows between countries on the international transmission of inflationary influences; the influence of the Euro-currency markets on these processes and on reserve developments; the role played in the system by foreign exchange reserves held in various forms; and the possible desirability of developing closer international influence or control over the holding of reserves as a whole. In this chapter, aspects of these matters are reviewed in the light of the recent reserve developments, following a more detailed discussion of these developments in the next section.

Components of Reserve Growth

The components of reserve changes in the period 1961–70 are shown in detail in Table 2, which also indicates the sources of these reserve accruals.

The year 1970 showed a further small accrual ($0.3 billion) to official gold holdings,[5] following a slightly smaller net accrual in 1969 and the large depletions in official gold stocks in 1967 and 1968. At the same time, there was a substantial net flow of gold in 1970 from national holdings to international institutions, almost entirely on account of transactions between the Fund and its members. These resulted in a net flow of $2.0 billion of gold into the Fund. Gold subscriptions totaled $1.8 billion, mainly in respect of increases in quotas under the Fifth General Review; purchases of gold for currency totaled $0.6 billion, predominantly under the arrangements for the purchase of gold from South Africa; and the Fund liquidated $0.4 billion of its gold investments held in the United States. Together with gold acquired through charges and repurchases, these inflows exceeded by the indicated margin gold outflows from the Fund, predominantly through sales of $0.9 billion of gold for currency, which included substantial amounts in connection with the mitigation of the effect of gold subscriptions related to the quota increases. These transactions are described on a fiscal-year basis in Chapter 3 and Supplementary Note A. Thus, although the modest net global accrual to official gold holdings in 1970 was larger than for any year since 1964, gold held in national reserves fell by the record amount of $1.9 billion, to $37.2 billion. A further slight reduction in countries' gold reserves took place in the first quarter of 1971, to $36.9 billion; official gold holdings, including holdings of international agencies, showed little change during this quarter, at $41.3 billion.

Countries' holdings of special drawing rights at the end of 1970 totaled SDR 3.1 billion,[6] reflecting the allocation of SDR 3.4 billion at the beginning of the year, and the subsequent net transfer of SDR 0.3 billion to the General Account of the Fund.

Transactions through the General Account of the Fund in 1970, in their impact on global reserves, resulted in a net destruction of reserves. Use of Fund credit (the total of drawings outstanding in the Fund's credit tranches) was reduced by $0.8 billion. However, the effect of this contractionary influence on reserve positions in the Fund was more than offset by the transfer of gold and special drawing rights to the General Account, to a total of $1.9 billion excluding the realization of $0.4 billion of the Fund's gold investment, so that reserve positions in the Fund increased by $1.0 billion in 1970, to $7.7 billion (Table 2).

Reserves in foreign exchange in 1970 increased by $14.1 billion, or by almost 50 per cent, as indicated earlier. The major influences in this expansion were the U. S. deficit on official settlements transactions in 1970, and the increases in foreign exchange reserves other than claims on the United States, particularly in the form of official holdings of Euro-dollars (which, however, were in some part connected with the U. S. payments balance, as indicated later in this chapter).

The U. S. official settlements deficit amounted to $10.7 billion, without taking account of the allocation of special drawing rights to the United States (or to $9.8 billion after crediting this allocation). Of this deficit, a total of $1.2 billion was financed by a reduction of the U. S. gold stock and its gold tranche position in the Fund, and a further $2.2 billion by a reduction in its holdings of

[5] Throughout this Report, gold is valued at $35 a fine ounce.

[6] 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.

TABLE 2. SOURCES OF RESERVE GROWTH, 1961–70 [1]

(In billions of U. S. dollars)

Annual Changes in	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	Memo Item Outstanding Totals at the End of 1970
1. Gold Reserves											
Monetary gold	0.6	0.4	0.8	0.7	0.2	—	−1.6	−0.7	0.1	0.3	
Gold transactions by IMF and other international institutions (sales +)	0.2	—	0.1	−0.1	0.8	−0.9	0.2	0.1	0.1	−2.1	
Countries' gold reserves	0.8	0.4	0.9	0.6	1.0	−0.9	−1.4	−0.6	0.2	−1.9	37.2
2. Special Drawing Rights											
Allocation of SDRs	—	—	—	—	—	—	—	—	—	3.4	
IMF holdings of SDRs (increase −)	—	—	—	—	—	—	—	—	—	−0.3	
Countries' SDR holdings	—	—	—	—	—	—	—	—	—	3.1	3.1
3. Reserve Positions in IMF											
Use of IMF credit	1.0	−0.4	0.1	0.3	1.6	—	−0.5	1.2	0.3	−0.8	
IMF gold transactions (inflow +) [2]	−0.4	0.1	0.1	−0.1	−0.3	1.0	—	−0.4	—	1.6	
IMF transactions in SDRs (inflow +)	—	—	—	—	—	—	—	—	—	0.3	
IMF surplus (increase −)	−0.1	−0.1	−0.1	—	−0.1	−0.1	−0.1	−0.1	−0.1	−0.1	
Reserve positions in IMF	0.6	−0.4	0.1	0.2	1.2	1.0	−0.6	0.7	0.2	1.0	7.7
4. Foreign Exchange Holdings											
a. U. S. dollars											
U. S. deficit on official settlements [3]	1.3	2.7	2.0	1.6	1.3	−0.3	3.4	−1.6	−2.7	10.7 [4]	
U. S. reserve assets (including foreign exchange) used in transactions with countries	−0.6	−1.5	−0.4	−0.2	−1.2	−0.8	−0.1	0.9	1.2	−3.0	
(i) Official claims on United States [5]	0.7	1.2	1.6	1.4	0.1	−1.1	3.3	−0.7	−1.5	7.7 [6]	23.9
(ii) Identified official holdings of Euro-dollars [7]	...	...	...	...	0.1	0.7	0.3	1.2	−0.1	5.5	8.9
b. Official sterling holdings of overseas sterling area	0.2	−0.1	0.4	0.1	−0.1	−0.2	−1.0	−0.2	0.9	0.5	5.4
c. Official deutsche mark holdings [8]	...	...	...	...	...	...	...	...	0.3	0.9	1.5
d. Official French franc holdings [9]	—	−0.1	—	−0.1	—	0.1	—	−0.1	−0.1	0.1	0.4
e. Foreign exchange claims arising from swap credits and related assistance [10]	—	—	—	0.4	−0.3	0.7	0.9	1.2	−0.1	−2.2	0.7
f. Unidentified Euro-currencies and residual [11]	−0.4	−0.5	0.2	−0.6	−0.4	−0.1	−1.3	0.1	1.7	1.6	2.4
Countries' holdings of foreign exchange	0.5	0.5	2.2	1.2	−0.6	0.1	2.2	1.5	1.1	14.1	43.2
Total Reserve Growth	2.0	0.6	3.3	2.1	1.6	0.2	0.2	1.5	1.5	16.2	91.3

Sources: *International Financial Statistics;* Deutsche Bundesbank, *Monthly Bulletin;* and Fund staff information and estimates.

[1] Adjusted reserves. See footnote 1, page 18.

[2] Including gold subscriptions and effect of IMF gold deposits and gold investments.

[3] Unlike the other components of reserve growth listed above, the deficit is already in a flow dimension and therefore is not expressed as a change from the previous year.

[4] Before allocation of SDR 0.9 billion.

[5] Includes claims on the United States denominated in the claimant's own currency, i.e., Roosa bonds.

[6] Excludes $0.4 billion in respect of reduction in IMF gold investment.

[7] Fund staff estimates based on information supplied by 51 countries.

[8] Estimates of deutsche mark claims of monetary authorities on Deutsche Bundesbank and German commercial banks, derived from Deutsche Bundesbank, *Monthly Bulletin*, December 1970 and May 1971.

[9] Comprises foreign exchange holdings of the Malagasy Republic, Mali, and of common central banks of Equatorial Africa and West Africa, plus Fund staff estimates.

[10] See footnote 4 on page 20.

[11] Includes asymmetries arising from the fact that data on U. S. and U. K. currency liabilities are more comprehensive than data on official foreign exchange holdings shown in *International Financial Statistics*.

TABLE 3. U. S. BALANCE OF PAYMENTS AND ITS FINANCING, 1969–70
(In billions of U. S. dollars)

	1969	1970	1969–70 Total	1969–70 Annual rate
Balance on goods and services	1.9	3.7	5.6	2.8
Transfers and long-term capital	−4.8	−6.0	−10.8	−5.4
Basic balance	−2.9	−2.3	−5.3	−2.6
Short-term capital (including banking liabilities) [1]	5.6	−8.4	−2.7	−1.4
Official settlements balance	2.7	−10.7	−8.0	−4.0
Financed by				
Reserve liabilities (decrease −)	−1.5	7.3	5.8	2.9
Reserve assets (increase −)				
Gold	−1.0	0.8	−0.2	−0.1
IMF gold tranche	−1.0	0.4	−0.7	−0.3
Foreign exchange	0.8	2.2	3.0	1.5
Total reserve transactions	−1.2	3.4	2.1	1.1
Memorandum item: SDR allocation (−)	—	−0.9	−0.9	−0.4
Reserve change including SDR allocation (increase −)	−1.2	2.5	1.3	0.7

Source: U. S. Department of Commerce, *Survey of Current Business.*
[1] Official settlements balance less basic balance.

foreign exchange, leaving $7.3 billion to be financed by an increase in monetary liabilities to official institutions (Table 3). As there was a reduction of $0.4 billion in U. S. investment liabilities to the Fund as a result of the reduction of the Fund's gold investment, other official monetary claims on the United States increased by $7.7 billion. This increase was exceptionally large, but it nonetheless accounted for only just over one half of the total increase in world foreign exchange reserves (Table 2). Reserves held in sterling by countries in the overseas sterling area increased by $0.5 billion, following an increase of $0.9 billion in 1969; these increases were the combined result of a strong upward trend in the total reserves of the overseas sterling countries, of the provisions of the sterling area agreements of 1968, and of the marked improvement in confidence in sterling since 1969. A further increase of almost $1 billion in global foreign exchange reserves in 1970 reflected increased reserve holdings of deutsche mark held in Germany.

Role of the Euro-Currency Markets

These three components of foreign exchange reserves—reserve liabilities of the United States, the United Kingdom, and Germany—thus accounted for some $9 billion of reserve growth in 1970; whereas known holdings of foreign exchange increased by $14 billion. Since foreign exchange claims representing the extension of swaps and other short-term assistance between monetary authorities were reduced by over $2 billion in 1970, as a result of repayments by the United Kingdom and France, this leaves a residual source of some $7 billion of foreign exchange to be accounted for. The most important component of this residual undoubtedly comprised increases in official holdings invested directly or indirectly in Euro-currency markets, primarily but not exclusively in the form of Euro-dollars. A substantial portion of these official holdings in the Euro-dollar market is related to deposits held by central banks with the Bank for International Settlements (BIS). In 1970 such deposits increased substantially, and the BIS placed a larger portion of its dollar deposits with banks outside the United States.

On the basis of information provided to the Fund by 51 countries, it is estimated that official holdings by these countries in U. S. dollars outside the United States, other than in claims related to central bank assistance, increased in 1970 by about $5½ billion, to a total of about $9 billion. The remaining residual increase of about $1½ billion in unidentified foreign exchange holdings included official holdings of other currencies in Euro-markets, official holdings of Euro-dollars by nonreporting countries, and any change arising from asymmetries in the reporting of official liabilities and assets. The official holdings in the

TABLE 4. ESTIMATED OFFICIAL HOLDINGS OF EURO-CURRENCIES, 1964–70
(*In billions of U. S. dollars*)

	1964	1965	1966	1967	1968	1969	1970
Identified official holdings of Euro-dollars [1]							
Ten industrial countries [2]	0.4	0.5	1.0	0.9	1.7	1.0	4.1
Other industrial countries [3]	0.2	0.2	0.3	0.5	0.5	0.5	0.8
Total, industrial countries	0.7	0.8	1.3	1.4	2.1	1.5	4.9
More developed areas	0.2	0.2	0.3	0.3	0.4	0.4	1.3
Less developed areas	0.2	0.3	0.4	0.7	0.9	1.5	2.7
Total, primary producing countries	0.4	0.5	0.6	0.9	1.3	1.9	4.0
Total, 51 countries [1]	1.1	1.2	1.9	2.3	3.4	3.4	8.9
Unidentified official holdings of Euro-currencies and residual sources of reserves [4]	1.7	1.2	1.0	−0.4	−0.5	1.0	2.4

Sources: Fund staff information and estimates.
[1] Fund staff estimates based on information supplied by 51 countries.
[2] Belgium, Canada, France, Germany, Japan, Italy, the Netherlands, Sweden, Switzerland, and the United Kingdom.
[3] Austria, Denmark, and Norway.
[4] Includes asymmetries in data on reserves and liabilities: see footnote 11 of Table 2.

Euro-dollar market are fairly broadly spread among the main groups of countries, as shown in Table 4.

The large increase in official holdings of dollars in the United States and in Euro-markets in 1970 took place against a background of sharply falling interest rates in U. S. money markets. The marked easing of monetary conditions in the United States induced large repayments by head offices of U. S. banks of the borrowings they had made from their foreign branches during the preceding period of extreme tightness in the U. S. money market. Gross liabilities of U. S. banks to their foreign branches had risen from $6 billion at the end of 1968 to a peak of about $15 billion in October 1969. They subsequently fell to below $8 billion at the end of 1970 and to $1½ billion in June 1971. The turnaround in these borrowings was the major factor responsible for the swing in the U. S. official settlements balance from a surplus of $2.7 billion in 1969 to a deficit of $10.7 billion in 1970, and of about $5½ billion in the first quarter of 1971. In the early months of 1971, the U. S. authorities acted to offset part of the impact of these repatriations of banking funds by issuing securities of the Export-Import Bank of the United States and of the U. S. Treasury to a total of $3 billion to foreign branches of U. S. banks. With the repayment of all but a small portion of the outstanding liabilities of U. S. banks to their foreign branches, little scope remains for further outflows of dollars from the United States in this particular form through the banking system.

Placements by central banks of dollar holdings in the Euro-dollar market have the general effect of increasing the size of the Euro-markets and adding to the scope for credit expansion through those markets. To the extent that Euro-banks[7] or borrowers from Euro-banks convert these funds into domestic currency, there is a flow of dollars to the domestic central bank and, if the dollars are redeposited in the Euro-market, the expansion of Euro-dollar deposits is carried further; this may lead to a further expansion of official reserve holdings. At the same time, the effect of official placements of Euro-dollars in reducing interest rates in these markets will tend to promote outflows from these markets (or to deter inflows); to the extent that these flows are vis-à-vis accounts of U. S. residents in the United States, the effect will be to reduce the U. S. balance of payments deficit as calculated on the "liquidity" basis below what it would otherwise have been.

In 1970, as indicated above, official holdings in the Euro-dollar market increased very substantially; they accounted for perhaps the major portion of the growth in that market. (See page 103.) Total official holdings denominated in U. S. dollars in 1970—i.e., including both the claims on the United States and official dollar claims on Euro-banks—almost certainly increased by more than would have occurred if all dollars accruing in official hands had been held in the United States.

[7] A broad definition of a Euro-bank is a bank that accepts deposits denominated in a currency other than that of the country in which it is located.

At the same time, the increases in official claims on Euro-banks also tended to keep down the size of the U. S. official settlements deficit (since dollar claims held by central banks in the Euro-markets are not part of U. S. liabilities to official holders). The degree to which the Euro-dollar placements have increased total official dollar holdings, on the one hand, and reduced the U. S. official settlements deficit, on the other hand, cannot be estimated with any precision.

In an attempt to curb the expansionary influence resulting from the holding of official reserves in Euro-currency markets, central banks of major countries in the second quarter of 1971 decided for the time being not to place additional funds in Euro-currency markets and to withdraw funds when such action was prudent in the light of market conditions.

It may be noted that official Euro-dollar claims do not necessarily represent ultimate claims on the United States, any more than do other claims held in the Euro-dollar market. To the extent that Euro-banks were to reduce net claims held outside the United States, such a reduction of claims would be a charge on the dollar holdings of foreign central banks.

TABLE 5. SUMMARY OF SOURCES OF RESERVE GROWTH, END OF 1960–END OF 1970

(In billions of U. S. dollars)

	Annual Averages		
	End of 1960 to end of 1964	End of 1964 to end of 1968	End of 1968 to end of 1970
1. Gold: country holdings	0.7	−0.5	−0.9
2. SDRs: country holdings	—	—	1.6
3. Reserve positions in the Fund	0.1	0.6	0.6
4. Official claims on the United States	1.2	0.4	3.1
5. Official holdings of Euro-dollars	...	0.6	2.7
6. Official sterling holdings of overseas sterling area	0.1	−0.4	0.7
7. Foreign exchange claims arising from swap claims and related assistance	0.1	0.6	−1.2
8. Estimated official holdings of deutsche mark and French francs	−0.1	—	0.6
9. Residual	−0.1	−0.4	1.7
Total	2.0	0.9	8.9

Sources: Table 2, *International Financial Statistics*, and Fund staff information and estimates.

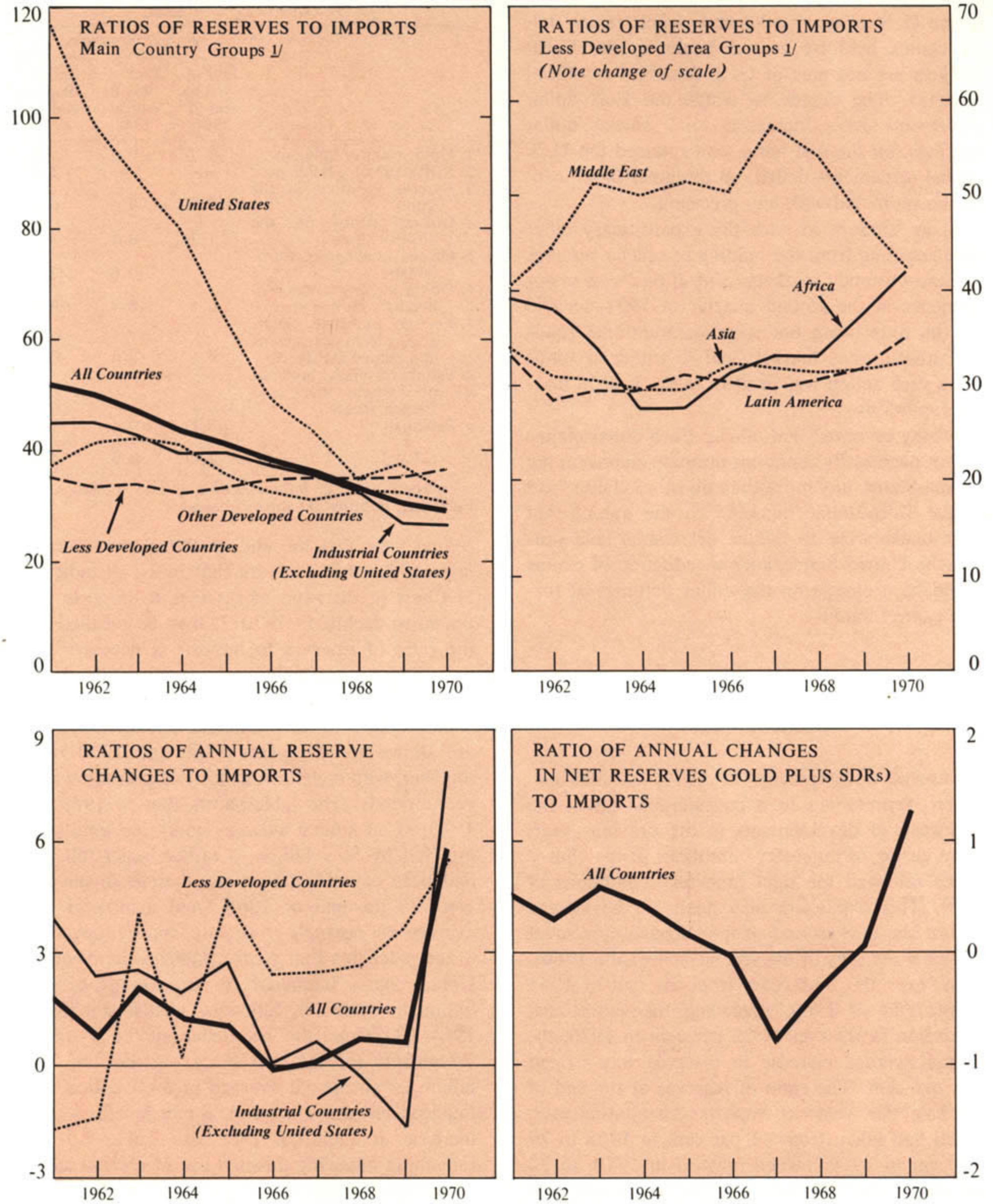
Background to Recent Reserve Developments

Reserve developments in 1970, as indicated earlier, represented to a considerable extent the backwash of developments in the previous year, as an easing of monetary conditions in the United States followed the tight monetary conditions of 1969. This expansion also needs to be viewed against the background of the sluggish movement of global reserves in the second half of the 1960s. Thus, over the four years from the end of 1965 to the end of 1969, preceding the exceptional expansion in reserves of 22 per cent in 1970, the annual average increase in reserves was around 1¼ per cent. The ratio of reserves at the end of the calendar year to imports during the year, which had fallen from 41 per cent in 1965 to 29 per cent in 1969, turned upward in 1970, to 32 per cent. An alternative basis of comparison, which has been used in previous analyses, is to relate an average of reserves at the end of the preceding year and the end of the current year to imports for that year; on that basis, as indicated in Chart 6, the ratio of reserves to imports continued to decline in 1970. It may be recalled that the ratio of reserves to imports is necessarily of only limited applicability as a yardstick of the degree of reserve ease.

In Table 5 reserve changes and their sources are shown for the years 1969 and 1970 taken together, with comparisons for two preceding four-year periods. The table shows that in 1969 and 1970, as an annual average, countries' gold holdings fell by $0.9 billion, a rather larger fall than had been experienced on the average in the four years to the end of 1968 (and compared with average net accruals of slightly smaller magnitude in the preceding four years). Official claims on the United States increased by an average of $3.1 billion in 1969–70, following virtual stability in 1964–68. Thus, the net deficit on U. S. official settlements for the two years together, of $8.0 billion or an annual average of $4.0 billion, was financed to the extent of three fourths by an increase in liabilities. (See also Table 3.) The remaining financing through use of reserve assets, over the two years taken together, reflected entirely a reduction of foreign exchange holdings, as a result of repayments by other countries of swap

CHART 6. RATIOS OF RESERVES AND RESERVE CHANGES TO IMPORTS, 1961–70

(In per cent)



[1] These groups correspond to those indicated in Table 6.

credits previously granted by the United States (the counterpart asset forming part of U. S. foreign exchange holdings as long as the credits were outstanding). The U. S. holdings of gold and its gold tranche position in the Fund increased on balance in 1969 and 1970 together; its holdings of special drawing rights at the end of 1970 were fractionally below its allocation for that year.

In the first six months of 1971, reductions in U. S. reserve assets associated with the financing of its deficit totaled $1.7 billion, comprising reductions of $0.6 billion in the gold stock, $0.5 billion in the U. S. gold tranche position, $0.3 billion in foreign exchange holdings, and $0.3 billion in transfers of special drawing rights.

The main influences affecting reserve developments in 1970 continued to operate through the first quarter of 1971. Large outflows of short-term capital from the United States continued, involving a further large deficit in U. S. official settlements transactions. Global holdings of foreign exchange increased by about $5 billion in the first quarter, to $48½ billion; countries' holdings of special drawing rights increased by the equivalent of $2.7 billion, reflecting the 1971 allocation of SDR 2.95 billion; but reserve positions in the Fund declined by $0.4 billion, reflecting a further reduction of $0.7 billion in use of Fund credit. In sum, total reserves in the first quarter of 1971 increased by some $7 billion, to $98½ billion (Table 6). In April and May 1971, under the influence of strong speculative flows, reserves of industrial countries rose by a further $4½ billion, entirely in the form of foreign exchange; part of this expansion was reversed by a reflux of speculative funds in June. Thus, reserves of industrial countries in the second quarter of 1971 increased by about $3 billion, compared with $5½ billion in the first quarter (of which $2 billion represented allocations of special drawing rights).

The very large expansion in holdings of foreign exchange in 1970 and in the first quarter of 1971 involved a sharp increase in the proportion of world reserves held in the form of foreign exchange, notwithstanding the introduction of special drawing rights. At the end of March 1971, foreign exchange holdings comprised almost one half of total reserves, compared with less than 40 per cent at the end of 1969 and less than 30 per cent at the end of 1951 (Table 7). Holdings of special drawing rights amounted to almost 6 per cent of the total; and countries' holdings of gold fell below two fifths of their total reserves, compared with more than one half at the end of 1969 and two thirds at the end of 1951.

Reserve gains in the 15 months to the end of March 1971 were spread over a large number of countries, partly as a result of allocations of special drawing rights. However, gains of exceptional size were heavily concentrated. Thus, the four countries showing the largest reserve increases in 1970—Germany, Canada, Japan, and France—accounted for 63 per cent of the global increase. (See Table 9.) Reserve increases among less developed countries were shared by all four geographical groups (Table 6). For three of the four groups of less developed countries, there was also an increase in the proportion of reserves to imports in 1970 (Chart 6).

Among 60 developed and less developed countries, 43 showed a net reserve gain in 1970. Apart from the United States, only 16 countries showed overall deficits (based on changes in reserves, after allowing for SDR allocations, changes in credit tranche positions in the Fund, and in other official monetary liabilities); and the sum of deficits of these 16 countries was about $1 billion, an exceptionally small amount. The sum of official surpluses in 1970 was close to $20 billion. The discrepancy between these amounts reflected the official settlements deficit of the United States, allocations of special drawing rights, and asymmetries of unusual size connected with official holdings of reserves in Euro-currency markets. (See pages 81–82.)

The reserve gains experienced by the great majority of countries in this period contributed to a large reduction in recourse to official credit. Use of Fund credit, as noted above, declined substantially in 1970, and the decline was still more marked in the early months of 1971. At the end of June 1971, use of Fund credit—i.e., drawings outstanding in the credit tranches—totaled $2.1 billion, compared with $4.0 billion at the end of 1969. About one half of this decline reflected repurchases by the United Kingdom, but the decline in use of Fund credit extended to all the main country groups. For the less developed areas as a whole, use of Fund credit declined from $1.2 billion at the end of 1969 to $0.7 billion at the end of 1970, with little change in the first six months of 1971.

TABLE 6. COUNTRIES' OFFICIAL RESERVES, ADJUSTED, 1960, 1964, AND 1968–FIRST QUARTER 1971 [1]

(In millions of U. S. dollars)

	Total at End of Period						Composition of Reserves at End of March 1971			
	1960	1964	1968	1969	1970	March 1971	Gold	SDRs	Reserve positions in the Fund	Foreign exchange
Industrial Countries										
United States	19,359	16,240	12,182	14,183	13,858	14,086	10,963	1,443	1,680	—
United Kingdom	5,094	3,691	2,422	2,527	2,827	3,317	1,123	482	—	1,711
Total	24,453	19,931	14,604	16,710	16,685	17,403	12,086	1,925	1,680	1,711
France	2,272	5,724	4,201	3,833	4,960	5,490	3,527	350	—	1,613
Germany [2]	7,033	7,882	9,948	7,129	13,610	15,802	3,977	450	984	10,391
Italy [3]	3,251	3,824	5,342	5,013	5,299	6,049	2,884	216	291	2,658
Belgium and Netherlands	3,369	4,571	4,650	4,917	6,081	6,614	3,278	618	1,002	1,716
Switzerland	2,324	3,120	3,932	3,995	4,701	3,942	2,806	—	—	1,136
Other industrial Europe [4]	1,845	3,323	3,486	3,401	3,832	4,138	1,007	235	362	2,534
Total, industrial Europe	20,094	28,444	31,559	28,288	38,483	42,035	17,479	1,869	2,639	20,048
Canada	1,991	2,890	3,046	3,106	4,679	4,845	791	300	586	3,168
Japan	1,949	2,019	2,906	3,654	4,839	5,898	539	276	798	4,285
Total, industrial countries	48,487	53,284	52,115	51,758	64,686	70,180	30,895	4,370	5,704	29,212
Primary Producing Countries										
More developed areas										
Other European countries [5]	2,358	3,909	4,260	4,869	5,691	6,136	1,816	183	232	3,906
Australia, New Zealand, and South Africa	1,312	2,686	2,990	2,771	2,829	3,194	874	212	333	1,774
Total, more developed areas	3,670	6,595	7,250	7,640	8,520	9,330	2,690	395	565	5,680
Less developed areas										
Western Hemisphere [6]	2,810	2,840	3,935	4,495	5,615	5,720	1,080	531	505	3,600
Middle East [7]	1,415	2,320	3,310	3,035	3,100	3,440	1,002	42	64	2,330
Asia [8]	3,090	3,095	4,215	4,815	5,140	5,285	678	274	267	4,065
Africa [9]	2,170	1,590	2,480	3,065	4,135	4,395	400	232	181	3,580
Total, less developed areas [10]	9,585	9,910	14,110	15,560	18,115	18,960	3,290	1,078	1,017	13,575
Memorandum item:										
of which selected oil producing countries [11]	1,414	2,178	3,090	3,467	4,190	4,434	949	103	174	3,206
Grand Total	61,743	69,789	73,475	74,958	91,321	98,470	36,870	5,842	7,286	48,464

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, 1971 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 including gold to be distributed by the Tripartite Commission for the Restitution of Monetary Gold.

[6] Argentina, Bolivia, Brazil, Central America, Chile, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Jamaica, Mexico, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, and Venezuela.

[7] Cyprus, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Saudi Arabia, the Syrian Arab Republic, the United Arab Republic, and the People's Democratic Republic of Yemen since 1970.

[8] Afghanistan, Burma, Ceylon, China, India, Indonesia, Korea, Malaysia, Nepal, Pakistan, the Philippines, Singapore, Thailand, and Viet-Nam and SDRs and reserve positions in the Fund only of Cambodia and Laos.

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

[10] Includes residual.

[11] Iran, Iraq, Kuwait, the Libyan Arab Republic, Saudi Arabia, Trinidad and Tobago, and Venezuela.

TABLE 7. PERCENTAGE COMPOSITION OF ADJUSTED GLOBAL RESERVES, END OF 1951, 1961, 1969, 1970, AND FIRST QUARTER 1971

	1951	1961	1969	1970	First Quarter 1971
Gold	66.9	60.9	52.2	40.7	37.4
SDRs	—	—	—	3.4	5.9
Reserve positions in the Fund	3.4	6.5	9.0	8.4	7.4
Foreign exchange	29.7	32.6	38.8	47.4	49.2
Total	100.0	100.0	100.0	100.0	100.0

Source: *International Financial Statistics.*

Since this net repayment of Fund credit has occurred at the same time as potential access to Fund credit has been increased by the substantial increase in Fund quotas (see pages 42–43), a particularly sharp expansion has taken place in the availability of conditional liquidity through credit tranche positions in the Fund. This availability rose from $17.0 billion at the end of 1969 to $25.3 billion at the end of 1970 (Table 1) and $26.5 billion at the end of June 1971. The tendency toward a reduced recourse to the Fund's conditional facilities is to be attributed essentially to the marked improvement in the overall payments positions of most countries, referred to above, which is to an important degree the counterpart of the deterioration of the official settlements balance of the United States and of the very large increase in global reserves.

Additions were also made to conditional credit available on a regional basis; mutual credit facilities arranged by members of the European Economic Community to a total of $1 billion for short-term monetary support (with a further $1 billion subject to negotiation) have been in existence since early 1970 although no drawings have yet been made on these facilities. A credit facility currently equivalent to $2 billion for medium-term assistance is to be made available from January 1972.

The availability and use made of bilateral credit facilities between monetary authorities in 1970 are indicated in Table 8. This shows a sharp reduction, from $19.7 billion to $16.0 billion, in total ceilings (i.e., used and unused availabilities) of swaps and related credit facilities. This reduction reflects mainly the substantial repayments made by the United Kingdom and France; by the end of March 1971, the United Kingdom had fully paid off its swap indebtedness, as France had done during 1970. The only significant drawings on swap facilities in 1970 were those of $0.5 billion made by the United States. Total outstanding swap indebtedness at the end of 1970 was reduced to $1.8 billion, compared with $5.3 billion at the end of 1969 and the peak of $6.8 billion at the end of 1968.

Reserve Growth and Short-Term Capital Movements

The extent to which the reserve increases in 1970 were associated with inflows of capital is indicated in Table 9; to a predominant extent, these net flows comprised movements of short-term capital. The table shows, for the ten countries having the largest increases in reserves in 1970, the extent to which these reserve gains were attributable to current transactions, capital flows, and SDR allocations. In the first months of 1971, the major reserve gains appear to have been associated still more strongly with capital movements.

The large flows of short-term capital experienced in recent years have for the most part comprised movements of funds to or from the United States or the Euro-dollar market. To the extent that such flows influence the holding of dollars in official reserves, a corresponding impact is exerted on the level of global reserves. Reserve increases stemming from such influences, which to a predominant degree have underlain the very large recent reserve growth, have certain distinctive characteristics. Besides being concentrated on the particular countries receiving the capital, they are accompanied by a corresponding increase in short-term external liabilities of banks and business corporations in these countries, involving a contingent charge on their official reserves against the event of a reflux of funds.

These considerations suggest that an increase in global reserves of this character does not involve the same addition to global reserve ease as, for example, a generalized increase in world reserves of corresponding amount through allocations of special drawing rights; and that increases associated with short-term capital flows may, at least in part, be of a temporary character. The extent to which the provision of additional means of financing for these capital flows would be warranted will

TABLE 8. SWAP FACILITIES AND RELATED CREDIT FACILITIES OF CENTRAL BANKS AND TREASURIES, 1961–70

(In millions of U. S. dollars)

	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	Total, 1961–70
I. Ceilings at the end of period [1]											
U.S. Treasury arrangements (1961) and Federal Reserve System swap network (1962–70)	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	5,400	3,100	
In support of the Canadian dollar		(500)						(900)			
In support of the Italian lira				925				90	125	(405)	
In support of the French franc								2,300	2,250		
In support of the Belgian franc									(100)		
In support of the Danish krone									(200)		
In support of the Spanish peseta									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 the Philippines	232	220	85	96	141	188	225	230	225	(150)	
Total	1,707	1,660	2,425	6,741	4,691	6,708	10,967	19,881	19,661	15,966	
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	1,195	8,205
Repayments by System		−190	−613	−564	−835	−565	−565	−2,551	−797	−715	−7,395
Drawings by United Kingdom			25	1,370	1,765	625	1,350	2,045	795	400	8,375
Repayments by United Kingdom			−25	−1,170	−1,490	−750	−650	−1,945	−1,295	−1,050	−8,375
Drawings by other countries		250	95	180		302	571	1,949	1,612	1,434	6,393
Repayments by other countries		−250	−45	−230		−102	−425	−1,777	−2,130	−1,434	−6,393
Total drawings		670	887	2,025	2,455	1,637	3,967	5,201	3,102	3,029	22,973
Total repayments		−440	−683	−1,964	−2,325	−1,417	−1,640	−6,273	−4,222	−3,199	−22,163
Net drawings		230	204	61	130	220	2,327	−1,072	−1,120	−170	810

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	−2,137	−8,463
Net drawings	—		—	405	−120	1,103	1,015	1,795	−1,104	−2,137	957
Facilities in support of Canadian dollar (1962), Italian lira (1964 and 1970), French franc (1968, 1969, and 1970), and Danish krone (1969) (all excluding regular swaps with FRS)											
Drawings		100		250				600	1,790	600	3,340
Repayments		−100		−250				−150	−1,135	−1,705	−3,340
Net drawings		—		—				450	655	−1,105	—
Other facilities[4]											
Drawings							126	3	335	—	464
Repayments							—	−126	−203	−135	−464
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	3,629	36,393
Repayments	−950	−690	−933	−2,714	−3,282	−1,747	−2,640	−7,264	−7,230	−7,176	−34,626
Net drawings	—	230	204	466	10	1,323	3,468	1,050	−1,437	−3,547	1,767
of which											
Drawings by United States	—	230	154	−89	−145	145	1,607	−1,470	−102	480	810
Drawings by United Kingdom	—	—	—	605	155	978	1,715	1,895	−1,604	−2,787	957
Drawings by other countries	—	—	50	−50	—	200	146	625	269	−1,240	—

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] Staff estimates compiled from data available in the sources indicated. Since the data 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.

Table 9. Major Reserve Changes, 1970: the Role of Capital Flows [1]

(In millions of U. S. dollars)

Countries	Reserve Gain	Current Surplus (Deficit −) [2]	Net Capital Inflow [3]	SDR Allocation on Jan. 1, 1970
Germany	6,481	666	5,613	202
Canada	1,573	1,255	194	124
Japan	1,185	1,970	−907	122
France	1,127	113	1,954 [4]	165
Switzerland	706	—	706	—
Netherlands	705	−474	1,092	87
Libyan Arab Republic	672	564	108	—
Spain	535	80	413	42
Brazil	530	−492	963	59
Belgium	459	744	−356	71
Total change				
Ten countries	13,973	4,426	9,780	872
All countries	16,363 [5]			3,414

Sources: *International Financial Statistics* and data reported to the International Monetary Fund.

[1] Reserves are measured gross; capital flows are measured as a residual, as indicated.

[2] Balance on goods, services, and public and private transfers; preliminary estimates.

[3] Residual of reserve gain less current surplus and SDR allocation (and, for France and Spain, reductions of official short-term liabilities). Includes increase in foreign official holdings of domestic currency.

[4] After allowing for repayments of central bank credits.

[5] Adjusted reserves.

depend, inter alia, on the views taken of the costs and benefits of curtailing volatile capital flows through a variety of measures. (See pages 13–16.)

Whereas reserve increases that are associated with increases in short-term monetary liabilities or repayment obligations have a weaker influence on global reserve ease than increases in equal magnitude through SDR allocations, their potential expansionary effect on domestic money and credit is notably larger. The great majority of participant countries in the SDR scheme have made arrangements to freeze the domestic currency counterpart of their SDR allocations. By contrast, other accruals of reserves, whether associated with current or capital transactions, in most countries add *pari passu,* in their immediate effect, to the monetary base of the recipient countries, while there may be no corresponding contractionary effect on the monetary base in other countries.

Reserves and Inflation

The process of reserve growth can, depending on the source and nature of the additional reserves, have an important impact in adding to expansionary monetary influences in domestic economies. It is with an inflationary impetus of this kind, which has been widely experienced in the recent period, that this section is primarily concerned. At the same time, it is widely agreed that the effect of a particular level of global reserves on the balance between inflationary and deflationary forces in the world economy is limited and indirect. It would appear that, in the past, the increased availability of reserves has not played a very important role in determining the degree of demand pressure prevailing in the major economies. Low levels of reserves in certain countries have indeed acted as a constraint on the pursuit of more expansionary demand policies and, in some cases, the need to protect the level of reserves has helped to mobilize the necessary public support for disinflationary financial policies. But in general, and over time, the degree of demand pressure prevailing in the major economies since World War II has been determined predominantly by domestic considerations. The degree of reserve stringency in particular countries has tended to have an important influence on the use made of exchange rate adjustment and payments restrictions. The removal of the constraint on policy imposed by a low level of reserves may therefore allow some countries to pursue more expansionary policies than they could in the past. However, a much more direct and more substantial inflationary effect may be expected from monetary effects of reserve increases, stemming from inflows of gold or foreign exchange.

In 1970 and the early months of 1971, a number of industrial countries, and also some primary producing countries, found their attempts to curb inflation complicated or hampered by the expansionary monetary impetus arising from an influx of reserves, typically taking the form of an inflow of capital. Where an inflow of foreign exchange is exerting undesired upward pressure on a country's monetary base, and where the country is not able or is not prepared to check the inflow through direct measures of capital control or through selective fiscal measures or exchange rate measures, the authorities have two broad alternatives open to them in their monetary policy. If an attempt is made to fend off the reserve inflow, this will usually necessitate some increase in domestic credit and a reduction in interest rates to a level below that appropriate for domestic stabilization. The resulting expansion in domestic credit and in money supply will then exceed what is desired and what would have occurred in the absence of the external inflow.

An alternative course of action, comprising an attempt to neutralize the domestic monetary impact of the inflow of capital, is to offset the primary expansion in the domestic monetary base resulting from the influx of reserves by exerting an equivalent contractionary impact through monetary policy, e.g., by open market sales of domestic securities or by increases in minimum reserve requirements. A policy of this kind, attempting to insulate domestic monetary conditions from external influences, may be subject to two limitations. The first limitation is that the array of instruments available for acting on the domestic monetary base may be limited, and use of such instruments beyond a certain point may in some instances have undesired structural effects. Second, such a policy of domestic insulation will necessarily involve large accruals of reserves, which must be expected to continue in some degree as long as interest rates and credit conditions remain out of line with those in other markets, and in some circumstances may accelerate to unmanageable proportions.

Where the differences in interest rates and availability of credit reflect differences in conjunctural conditions, the differential in monetary conditions will be a temporary phenomenon, although it may nonetheless cause severe strains. The addition to reserves resulting from a given interest differential may in some circumstances slacken over time, either because of the limited willingness of international investors to hold funds in a particular currency, at least without cover for the exchange risk, or because inflows are curtailed by official restrictions of a number of kinds. It may then be possible to neutralize or partly neutralize the domestic monetary impact of the capital inflow by means of domestic monetary policy. The experience of the United Kingdom in the recent period conforms in certain respects to this pattern.

In other circumstances, however, capital flows may progressively increase in dimension, and domestic neutralization through monetary measures may not be considered feasible on a sufficient scale. Thus, where the capital flows set off by interest rate considerations occur in a framework of latent expectations of changes in officially permitted exchange rates (i.e., whether in parities or in movements of rates beyond the prescribed margins), the initial flows of interest-motivated funds may themselves trigger these exchange rate expectations. Then, continuance of the interest differential, far from involving a gradual diminution of capital flows, will rather involve an acceleration of such flows, which will have an increasingly speculative and self-aggravating content; such flows may at some point become unsustainable. The large inflows of capital to Germany and the Netherlands experienced in 1970 and the early months of 1971 (see page 20) may be interpreted in this light. In these countries, defense of the existing parities involved a combination of undesired increases in official reserves and of external liabilities of commercial banks or firms, together with undesirably large increases in money supply. Somewhat similar influences were felt by Canada, prior to its action in May 1970 in ceasing to maintain its exchange rate within the established margins.

External monetary influences exacerbated the problems of countering inflation in a number of countries in 1970, although in other important countries, the contribution of domestic influences to inflationary pressures remained predominant. In Germany the increase in reserves in 1970, measured as the change in net foreign assets, was equivalent to 40 per cent of the stock of "base money" or reserve money (holdings of cash plus banks' deposits at the central bank) at the beginning of the year; the German authorities did not find it possible to neutralize, in full, expansionary forces of this scale. Other countries which experienced large increases in both money supply and in net foreign assets in 1970 included Canada, France, and the United Kingdom. In Italy and Japan, by contrast, the increase in net foreign assets was relatively small in relation to domestic monetary expansion.

Reserve Ease and the Adjustment Process

The inflationary developments in the world economy, which have been referred to above in certain aspects and discussed more fully in Chapter 1, must also be considered in the context of their implications for the size of global reserve needs. As concerns deliberate reserve creation through allocation of special drawing rights, the connection with the degree of world inflation, as pointed out earlier, is mostly indirect and diffuse. Generally, the prevalence of inflationary forces in the world economy calls for a greater degree of caution in deliberate reserve creation than would be appropriate in conditions of prevailing deflationary influences. In this context consideration has also to be given to the fact that, as a legacy of past inflation, the real value of a given stock of reserves has been reduced.

A sign of the pervasiveness of the recent inflationary pressures is that they extended the range of price inflation to internationally traded goods, which have shown substantial and general price increases for the first time since the boom of 1950–51 associated with the Korean War. From the mid-1950s to the end of 1968, there was no net change in world import prices. In 1969 a weighted average of world import prices showed an increase of 3 per cent; in 1970 the increase accelerated to 5 per cent. However, the upward movement of international prices appears to have slackened since the middle of 1970. Expansion in world import volume has declined somewhat from the exceptionally high increase of almost 13 per cent in 1968, to 10 per cent in 1969 and to 9 per cent in 1970. But, as a result of the increases in foreign trade prices, the increase in the value of world imports accelerated from 11½ per cent in 1968 to almost 14 per cent in 1969 and to 14½ per cent in 1970. Even so, as indicated earlier in this chapter, the exceptional increase in gross reserves in 1970 checked the earlier long decline in the proportion of reserves to imports (if reserves are expressed at year-end levels). A marked increase has also taken place in another measure of reserve ease, the ratio of annual changes in reserves to imports, on the basis of both gross reserves and net reserves. (See Chart 6.)

The effects on trade and payments policies that would be expected to result from an increase in global reserve ease would include the following: reduced reliance on trade and payments restrictions, an increase in the volume and a reduction in the tying of aid, a reduced propensity for countries to devalue their currencies and an increased willingness to undertake revaluations, and a reduced reliance on balance of payments credits. Not all these effects can necessarily be regarded as favorable: they are reviewed in this section as relevant indicators of an increase in reserve ease. The increases in net and gross reserves since the beginning of 1970 have been associated with a number of these developments, although the extent to which such developments can be precisely attributed to the increases in reserves is less clear; in particular, the impact of the large deficit in the U. S. balance of payments, and an equivalent overall surplus in the balance of payments of other countries, would tend to ease balance of payments constraints in countries other than the United States, aside from its impact on reserves. Together, these developments—the increase in global reserves and the large U.S. deficit—have undoubtedly had a considerable impact in easing balance of payments constraints on other countries, as regards policies resulting in payments outflows. The increased difficulties for domestic monetary management resulting from the large inflows of short-term capital were discussed in an earlier section.

No good measure exists of general tendencies in the prevalence of trade and payments restrictions. The best judgment that can be made is that changes in the restrictive system of member countries in 1969–70 "appear on balance to have resulted in a reduction in restrictions on current payments," and that these relaxations of restrictions were aided by the increases in international reserves in 1970. However, in the sphere of nontariff trade barriers the situation is less clear, and it is possible that on balance there was an increase in such restrictions.[8]

On a cautious assessment of these overall developments, it can be concluded that the earlier apparent tendency toward a possible increase in trade and payments restrictions, in particular in some large trading countries, has been checked, and that the increased availability of reserves has helped countries that had imposed restrictions on grounds of financial stringency, rather than of protectionist intent, to ease such restrictions. At

[8] See *Twenty-Second Annual Report on Exchange Restrictions* (Washington, 1971), page 1.

the same time, the easing of the reserve situation has not removed the danger of a recrudescence of trade restrictions on protectionist grounds.

The marked tendencies toward a reduction in reliance on balance of payments credits in 1970, resulting in large net repayments of central bank credits and in substantial net repurchases in the credit tranches of the Fund, have been referred to earlier and are detailed in Tables 2 and 8. These tendencies reflect, inter alia, the successful reversal of the earlier payments deficits of the United Kingdom and France. The expansion in global net reserves has allowed the needed surpluses to be acquired by these countries without reducing the reserves available to other countries. The additional accrual of reserves resulting from increased holdings of foreign exchange has not had an equivalent impact on global reserve ease. However, these increases, together with the increases in net global reserves, have in general reduced the pressure on countries to devalue their currencies and have provided an increased tendency toward currency appreciations. It may be noted that, since the devaluation of the French franc in August 1969, six upward changes in the external value of currencies of industrial countries have taken place as a result of official action (including three appreciations in parity and three cases in which currencies have been allowed to appreciate in the market above the intervention point based on parity). No downward changes among industrial countries have taken place in this period.

Issues for Reserve Policy

The indicators that have been reviewed above point to a significant increase in reserve ease since the end of 1969. In this Report, no judgment is attempted on the implications that this increase may have for policy with regard to international reserve creation. A number of elements in recent developments, including the role played by factors that may prove to be temporary, suggest that such a judgment can more suitably be made when these events can be seen in a somewhat longer perspective. A decision with respect to future allocations of special drawing rights will need to be made in 1972, the final year of the first basic period. Without in any way prejudging that decision, this concluding section reviews a number of general issues for reserve policy and international monetary management that have been raised by the reserve developments described earlier in this chapter.

These developments, it may be recalled, have included an expansion on an unprecedented scale of reserves in the form of foreign exchange, and a proliferation in the form and location of foreign exchange holdings. The inflow of reserves has contributed to the difficulties faced by a number of countries in their attempts to counter inflation. The growth of foreign exchange reserves has also had adverse effects on the working of the international adjustment process. These disturbing and unplanned developments have occurred at the same time as the initiation of deliberate management of international reserve creation through the allocation of special drawing rights.

Considered in itself, there is no doubt that the experience to date with the working of the SDR facility has been markedly encouraging. The allocation of special drawing rights has made additional reserves available to a wide range of countries, including many that have not shared in inflows of short-term funds. It has strengthened the reserve position of all countries taken together. It has helped to permit reduced reliance on payments restrictions and to avoid undue resort to balance of payments credits.

Assessing the SDR facility in the context of developments in the international reserve system as a whole, the situation may be described in the following terms.

Recent experience has demonstrated the ability of the international community to create an international reserve asset and to use that reserve asset smoothly and effectively in day-to-day operations. The experience has also emphasized that such action of itself is not sufficient to regulate the volume of aggregate international reserves, and that further problems remain to be tackled if the reserve system as a whole is to be made responsive to deliberate management. The immediate issues and problems concerned include the following.

1. The persisting maladjustment in the balances of payments of some of the major industrial countries, notwithstanding the successful

adjustment of earlier troublesome imbalances of other countries (see page 12), continues to have a serious impact on the development of the international reserve system. The adjustment problem has been complicated in the recent period by the divergence in business conditions in the United States and other industrial countries, and by the associated large flows of short-term capital stimulated by differential interest rates and monetary conditions. The evolution of the system of world reserves will be affected to an important extent by the pace at which the deficit in U. S. payments is reduced; progress in this respect will, of course, be dependent in part on developments and actions in surplus countries. Global reserve developments will also be importantly affected by the means by which remaining U. S. deficits are financed.

2. The fact that a substantial portion of reserve growth has taken the form of foreign exchange balances, held both in the main reserve centers and also outside them in Euro-currency markets or in domestic currency in national markets of other countries, points toward the need to consider the desirability of coordination of policies regarding the location and management of reserves. The holding of official balances in Euro-currency markets tends to promote the further expansion of these markets and may exacerbate the problems arising from the two-way flow of foreign exchange balances between private and official holdings. The development of the SDR facility has marked an important step in a gradual evolution in the direction of international understandings on the rate of growth in global reserves. An important issue that will deserve further attention for the longer run is whether, and if so by what means, this general principle should be extended in some measure to cover understandings with respect to other forms of reserves.

3. A third issue concerns the relation between international capital flows and the need for reserves and credit facilities. As indicated earlier in this chapter, the very large expansion of reserves that has taken place since the beginning of 1970 has been directly associated with short-term capital flows. Active consideration is now being given, in the Fund and elsewhere, to ways in which in the future the magnitude of such flows may be limited. This involves consideration of a broad range of measures in the fields of exchange rate policy, of fiscal and monetary policy, and of direct or indirect limitations on capital flows through administrative regulations and controls. The elements involved in this review have been discussed in Chapter 1. The future need for reserves and for international credit facilities will depend in part on the extent to which it will prove feasible and desirable to limit volatile flows of international funds by such means.

Chapter 3

Activities of the Fund

IN the period under review a substantial proportion of the Fund's activities were related to such operational matters as the use of its General Account resources, transactions and operations in special drawing rights, arrangements for quota increases, regular consultations with member countries, and technical assistance. At the same time, however, broader policy considerations continued to occupy much of the attention of the Executive Directors, management, and staff. Study is presently under way on a number of major issues, including questions related to exchange rate flexibility and short-term capital movements, considerations applied in the determination of quotas, the size and structure of the Executive Board and associated questions, and suggested modifications in the special drawing rights facility. Studies and discussions have also been initiated on proposals for the establishment of a link of some kind between the issuance of special drawing rights and the financing of economic development.

Exchange Rate Developments and Related Issues

In the fiscal year ended April 30, 1971 the Fund concurred in the proposed devaluation of the currencies of Ecuador, Turkey, and Yugoslavia, and in the proposed par value of the new currency unit of Malawi. In addition, China and the Democratic Republic of Congo established initial par values for their currencies by agreement with the Fund. Details are given in Supplementary Note A. As noted in last year's Annual Report, on May 31, 1970 the Canadian authorities notified the Fund that for the time being Canada would not maintain the exchange rate of the Canadian dollar within the prescribed limits of 1 per cent on either side of the established parity.[1]

Toward the end of the fiscal year, developments described elsewhere in this Report led to growing pressures in exchange markets. Early in May 1971, five of the Fund's members took action in the exchange field.

On May 9 the German authorities informed the Fund that in view of the recent situation in foreign exchange markets, including large capital movements, they would not for the time being maintain the exchange rates for the deutsche mark within the established margins. The Netherlands authorities informed the Fund that they had found it necessary to take similar action because of recent movements of foreign exchange and the action of the German authorities.

Noting the circumstances and considerations that had led the German authorities to take the action described, the Fund emphasized the undertaking of members to collaborate with it to promote exchange stability and to maintain orderly exchange arrangements with other members. The Fund welcomed, therefore, the intention of the German authorities to remain in close contact with it, to collaborate with it fully in accordance with the Articles of Agreement, and to resume the maintenance of the limits around par as soon as circumstances permitted. The Fund also stated that it, and in particular the Managing Director, would remain in close consultation with the authorities of the Federal Republic on their resumption of the maintenance of the limits around par, and that the Managing Director would take appropriate initiatives for those consultations. The Fund took a similar approach to the action by the Netherlands and welcomed the intention of the Netherlands authorities to resume the maintenance of the limits around par at the earliest possible moment.

Also on May 9, Austria proposed a change in the par value of the Austrian schilling from S 26 = US$1 to S 24.75 = US$1, an appreciation of 5.05 per cent. This change came under the provisions of Article IV, Section 5(*c*)(i), of the Fund Agreement under which the Fund shall not object to a proposed change that, together with all previous changes, whether increases or decreases,

[1] See *Annual Report, 1970,* page 117.

does not exceed 10 per cent of the initial par value. The Fund accordingly noted the new par value.

On the same date the Fund was informed that the regulations covering the dual foreign exchange market system in the Belgian-Luxembourg Economic Union had been modified. Previously, as a result of various links between the two markets, the Belgian and Luxembourg francs in the free market could stay at a discount, but not at a premium, in relation to the rate in the official market. The regulations thus had the aim of discouraging excessive outflows of capital, but not inflows. Effective May 11, practically all the previous connections between the two markets were severed. As a consequence, the free market rate was permitted to diverge from the rate in the official market in either direction, so that the free market could also be used to discourage excessive capital inflows.

Subsequently, consultations have proceeded along the lines set out on May 9. The Managing Director has remained in close contact with the authorities of Germany, the Netherlands, and Canada, and additional consultations on the basis of staff reports have been arranged. Consultations with Canada, on the basis of staff reports, have taken place on several occasions in 1970 and 1971.

On May 9 the Fund noted that it had given consideration to various ways of coping with the difficulties facing its members. In its consultations with members, and in its continuing work, it would seek to maintain and strengthen the basic principles of the Bretton Woods system. The recent disturbances had demonstrated the need to improve the international adjustment process and to bring about a better coordination among members with respect to their internal and external policies.

Special Drawing Account [2]

During the period January 1, 1970 to June 30, 1971, special drawing rights have become established as usable and acceptable reserve assets in transactions among participants and in transactions and operations between participants and the General Account; participants have been willing to hold and acquire them and have been able to use them readily to obtain needed foreign exchange.

In 1970, 5 more member countries became participants in the Special Drawing Account, bringing the total number of participants to 110 out of total Fund membership of 117. The combined quotas of the 7 members that are not participants [3] comprise only 1 per cent of total Fund quotas.

Allocations made on January 1, 1970 and 1971 were SDR 3,414 million and SDR 2,949 million, respectively, increasing official world reserves by 5 per cent in 1970 and by 3.6 per cent in 1971. Use of special drawing rights by participants in the period January 1, 1970 to April 30, 1971 totaled SDR 1,450 million. Of this use, SDR 808 million was transferred between participants, and SDR 641 million was transferred by participants to the General Account, mainly in repurchase of the participants' currencies and in payment of charges. SDR 152 million was transferred from the General Account to participants, largely to replenish the Fund's holdings of their currencies; this left a balance in the General Account of SDR 490 million on April 30, 1971. The total value of all transfers of special drawing rights thus amounted to SDR 1,601 million. Details of the various categories of transfers are shown in Table 56.

Some participants have been both users and receivers of special drawing rights; among them were the United States, the United Kingdom, India, and Italy. Total net use by all participants whose holdings on April 30, 1971 were below their cumulative allocations was SDR 1,111 million. At that date 81 participants had holdings of special drawing rights below their allocations, and 58 of these had used special drawing rights beyond the nominal amounts involved in paying their share of the annual assessments for the cost of operating the scheme. The remaining 28 participants [4] had holdings of special drawing rights in excess of net cumulative allocations totaling

[2] All operations and transactions involving special drawing rights are conducted through the Special Drawing Account. All other operations and transactions of the Fund are conducted through the General Account. Certain operations and transactions are conducted through both Accounts. (See Article XXII, Section 1, of the Fund Agreement.)

[3] Ethiopia, Kuwait, Lebanon, the Libyan Arab Republic, Portugal, Saudi Arabia, and Singapore.

[4] Excluding China, which had elected not to receive allocations.

SDR 621 million; these excess holdings, plus the General Account's holdings of SDR 490 million, were the counterpart of the net use by participants of SDR 1,111 million.

Transactions Between Participants

During the period under review participants used their special drawing rights through the process of designation in transfers to other participants for the purpose of obtaining currency and through bilateral arrangements to obtain balances of the user's own currency. These transactions have all been subject to the requirement of balance of payments need.[5] The most frequently used method has been the use of special drawing rights to obtain currency from other participants designated by the Fund. During the 16 months under review, 42 participants used a total of SDR 503 million in this way to obtain currency from 32 participants.

Participants also obtained balances of their own currencies by transferring special drawing rights to other participants willing to receive them. In these transactions the user was subject to the requirement of a balance of payments need, but the recipients of the special drawing rights were not subject to designation by the Fund. Individual transactions of this type have tended to be larger but have involved fewer participants; the United States used a total of SDR 286 million through April 30, 1971 to obtain equivalent amounts of its own currency, chiefly from Belgium and the Netherlands.[6] In addition, the United Kingdom transferred SDR 20 million to Germany, making a 16-month total of SDR 306 million for such transactions.

During 1970 and the first four months of 1971, there was a total of 79 transactions in special drawing rights between participants that were subject to the requirement of need. Examination of these transactions showed that for the overwhelming majority the use of special drawing rights had followed a period in which the users' gross reserves, excluding special drawing rights, had declined. In some instances there had been no decline, but reserves could be considered to be close to minimum working balances. In two instances, where the use appeared not to fulfill the requirement of need in the light of the development of their gross reserves, the participants, with the approval of the Executive Directors, subsequently reversed the use by acquiring special drawing rights from the General Account.

Participants designated by the Fund are obliged to accept special drawing rights, and, as noted, such transactions totaled SDR 503 million in the 16-month period under review. In contrast, special drawing rights may be accepted on a voluntary basis in agreement with other participants and in the transactions and operations with the General Account that are discussed below; these acceptances totaled SDR 456 million in the period.

Designation

The designation system has provided for transfers of special drawing rights from over 40 participants with balance of payments need to a wide range of participants with relatively strong balance of payments and reserve positions; 62 per cent of transfers between participants were transacted in this way.

Schedule F of the Fund Agreement sets out the present rules under which participants with sufficiently strong reserve and balance of payments positions are designated to provide currency to those that may need to use their special drawing rights. These rules aim at the harmonization of the ratios of designated participants' excess holdings of special drawing rights to their official holdings of gold and foreign exchange.

On April 30, 1971, 28 participants had excess holdings of special drawing rights. Of these, 24 were considered to have reserve and balance of payments positions strong enough to enable them to be designated, but 17 were actually included in the current designation plan. The principles and practices employed in designation excluded 3 participants—Belgium, Canada, and the Netherlands—because of their existing high excess holdings ratios and 4 other participants that would have been subject to designation for less than SDR 1 million. The excess holdings ratios of Belgium and the Netherlands had been raised primarily through the bilateral transactions with the United States. Canada's high ratio was due mainly to its exercise of the option to receive special drawing

[5] See Article XXV, Section 3, of the Fund Agreement and *Annual Report, 1970,* page 29.

[6] The United States used SDR 305 million in the same way in May and July 1971. The recipients were Belgium and the Netherlands.

rights instead of gold when the General Account replenished the Fund's holdings of Canadian dollars. Other excess holdings ranged from close to zero to 1.0 per cent of the gold and foreign exchange holdings and were thus closely harmonized. Three other participants were also subject to designation—Malta, Spain, and the United Kingdom, the last having previously made net use of special drawing rights. One of the aims of designation is to bring the holdings of net users of special drawing rights into line with those of other participants subject to designation, as the users' balance of payments and reserve positions strengthen. This has been made difficult in the period under review by marked variations from quarter to quarter in the volume of transactions with designation. In 1970 such transactions totaled SDR 291 million, of which some 85 per cent took place in the first six months of the year. In 1971 the transactions in the first quarter were SDR 207 million and in the second quarter SDR 10 million.

Since the first quarter of 1971 there has, however, been special emphasis on the designation of participants with holdings considerably below their cumulative allocations. The relatively low level of transactions, in conjunction with the restoration of the positions of a few participants, has meant that designation has not channeled special drawing rights proportionately to those participants whose reserves have shown the major increases in the 16-month period; for example, Germany and Japan were designated to receive only SDR 52 million and SDR 24 million, respectively, compared with SDR 90 million received by the United Kingdom and SDR 41 million by India. However, the excess holdings ratios of most participants that were involved in designation were within a close range.

Currencies and Conversions

The principal currency provided by the participants designated in the SDR 503 million of transactions with designation from January 1, 1970 to April 30, 1971 was the U. S. dollar, the equivalent of SDR 392 million being provided in that currency. The equivalents of SDR 26 million and SDR 80 million were provided in French francs and pounds sterling, respectively. The participants using special drawing rights in these transactions requested and obtained SDR 436 million in U. S. dollars, SDR 43 million in sterling, and SDR 19 million in French francs. Relatively small amounts of Belgian francs and Italian lire were also obtained. Since the amounts of U.S. dollars requested exceeded those provided, net conversions from sterling and French francs into U.S. dollars were necessary. It was also necessary, however, for U. S. dollars to be converted into French francs and sterling from time to time, and there were conversions between the last two currencies. Total conversions amounted to the equivalent of SDR 91 million. (See Table 58.)

The conversion procedures agreed with the issuers of the currencies functioned smoothly; provision of the required currency by the designated participants and any associated conversion was always arranged for the same value date. The exchange rates at which the conversions took place were the rates that the Fund had decided were representative of the market rate for the currency on the date of the Fund's designation instructions.

Transactions and Operations Between Participants and the General Account

By a decision of the Executive Directors, participants have been able to use their special drawing rights without limitation to make repurchases from and to pay charges to the General Account; this decision was reviewed in 1970 and is subject to further review. From January 1, 1970 to April 30, 1971, 44 participants transferred a total of SDR 635 million for these purposes. The United Kingdom transferred SDR 295 million and India SDR 118 million, together accounting for some 65 per cent of these transfers. The amount used in repurchases, SDR 540 million, was some 31 per cent of total repurchases other than those under Article V, Section 7(*b*), during the period. In payment of charges the Fund received SDR 95 million, about 53 per cent of total charges.

In contrast to the use of special drawing rights that has taken place between participants, transfers to the General Account are not subject to the requirement of need, and the special drawing rights are not exchanged into currency but serve directly as a means of payment. Both these aspects appear to have contributed to the fact that the transfer of special drawing rights to the General Account in repurchases and the payment of charges accounted for a considerable share of all uses by participants. The majority of participants engaging in these transactions had balance of payments problems, but several had rising reserves. Almost all participants that held special drawing rights at the time that a repurchase became due elected to make some use of them, and many used special drawing rights for this purpose only. For some of these participants the use of special drawing rights reflected their generally low holdings of reserves, while for others it seems clear that the relative interest yields of reserve assets have influenced their decisions.

As noted in Table 56, the Fund also received SDR 5 million interest on its General Account holdings of special drawing rights and SDR 2 million from assessments to cover the expenses of conducting the business of the Special Drawing Account. Total transfers from participants to the General Account in the 16-month period were thus SDR 641 million, 40 per cent of all transfers.

During the period January 1, 1970 to April 30, 1971, the Fund transferred some SDR 152 million to participants from the General Account holdings. With the exception of limited amounts transferred to certain participants that had a particular need to acquire special drawing rights, the greater part of these transfers were made to participants that exercised options to receive special drawing rights from the General Account in preference to other reserve assets. In September 1970 and April 1971, the Fund proposed to replenish its holdings of members' currencies by sales of gold totaling the equivalent of $645 million. Participants involved in these sales were given the option of receiving special drawing rights rather than gold; 4 participants exercised their options for amounts totaling SDR 123 million. In a similar manner the Fund also transferred some SDR 18 million to 15 participants in payment of remuneration on net creditor positions and SDR 9 million to 14 participants in a distribution of net income after the end of the fiscal year 1969/70.

Participants' Positions, April 30, 1971

Table 10 shows the positions of groups of participants in the Special Drawing Account on April 30, 1971. (Details for individual participants are given in Table 57.) Since the first allocation, 3 industrial countries, principally the United Kingdom and the United States, made net use of special drawing rights in the amount of SDR 378 million. Fifty-five primary producing countries, mainly in less developed areas, made net use of

TABLE 10. SUMMARY OF POSITIONS OF PARTICIPANTS IN THE SPECIAL DRAWING ACCOUNT, APRIL 30, 1971

(In millions of SDRs)

	Number of Participants (1)	Net Cumulative Allocations (2)	Holdings April 30, 1971 (3)	Col. 3 as Per Cent of Col. 2 (4)	Net Use (−) Net Receipt (+) (5)
Industrial countries					
Net users	3	2,349	1,970	83.87	−378
Net receivers	10	1,877	2,454	130.74	+576
Nonusers [1]	1	5	5	99.97	—
	14	4,231	4,429	104.68	+198
Primary producing countries					
More developed areas					
Net users	7	305	141	46.23	−164
Net receivers	3	223	236	105.83	+13
Nonusers [1]	1	3	3	99.97	—
	11	531	381	71.75	−151
Less developed areas					
Net users	48	869	300	34.52	−568
Net receivers	15	602	633	105.15	+32
Nonusers [1,2]	22	130	130	99.97	—
	85	1,601	1,063	66.40	−537
Total, all countries	110	6,363	5,873	92.30	−490 [3]

[1] Nonusers are defined as participants that have neither received nor used special drawing rights except in payment of their shares in the annual assessments.
[2] Includes one participant that elected not to receive allocations.
[3] Holdings of the General Account on April 30, 1971.

SDR 732 million. The counterpart of net use by these countries is found in the net receipts of SDR 576 million by 10 other industrial countries, SDR 490 million by the General Account of the Fund, and SDR 45 million by 18 other primary producing countries.

The limited volume of designated transactions has permitted less harmonization of excess holdings than might have otherwise occurred. However, the willingness of participants to hold special drawing rights has attested their acceptability as a reserve asset.

General Account [7]

Activities of the Fund's General Account continued at a high level in the period under review, but there was some change in the relative importance of different types of transactions. In the year ended April 30, 1971, creditor, or super gold tranche, positions in the Fund were reduced from the equivalent of $2.7 billion to $1.7 billion. In the same period outstanding Fund borrowing was reduced by the equivalent of $0.7 billion. In contrast to previous years when the financing of purchases (or drawings) was the major preoccupation, the Fund is now more concerned with the choice of currencies to be used in repurchase and the general harmonization of creditor positions.

During the fiscal year 1970/71 the resources of the General Account increased by $7.1 billion, largely as a result of the increase in quotas that was approved by the Board of Governors on February 9, 1970.

Aggregate purchases of currencies from the Fund declined from $3.0 billion in 1969/70 to $1.2 billion in 1970/71, while repurchases, at $1.7 billion, were about the same each year.[8] The fiscal year 1970/71 was the first since 1962/63 in which repurchases by members exceeded sales of currencies. The net contraction in the volume of the Fund's sales of currencies reflected, to a large extent, developments in the pattern of international payments and world liquidity. This was also reflected in a decline in both the number and total amount of stand-by arrangements approved. In contrast, the Fund conducted very large gold operations in 1970/71. Most of this volume resulted from transactions related to increases in quotas. In part, however, it followed upon the Executive Directors' decision of December 1969, concerning purchases of gold from South Africa, and on subsequent decisions to sell gold in replenishment of the Fund's holdings of currencies.

Quotas—Fifth General Review

The Board of Governors Resolution No. 25-3 on "Increases in Quotas of Members—Fifth General Review" provided that no increase in quota should become effective before October 30, 1970 and that members might consent to increases in their quotas up to the maximum amount listed in the Annex to the Resolution not later than November 15, 1971, unless the date was extended by the Executive Directors.[9]

Of the 116 members listed in the Annex to the Resolution, as amended, 107 consented to increases in their quotas between October 30, 1970 and April 30, 1971; all of these had paid their increased subscriptions to the Fund, so that their new quotas had become effective by the end of the fiscal year.[10] No change had been proposed in the quota for one member; the other 8 members—Austria, Korea, Lebanon, Luxembourg, Portugal, Singapore, South Africa, and Tunisia—had not consented to an increase in their quotas by the end of the fiscal year.[11] With the exception of Kuwait and the Libyan Arab Republic, which consented to increases of less than the maximum quotas listed in the Annex to the Resolution, all consents were for the maximum amounts. By December 31, 1970 quota increases had become effective for 105 members, of which 102 were

[7] See above, footnote 2.

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

[9] Resolution No. 25-3, adopted February 9, 1970, and a report of the Executive Directors to the Board of Governors on the increase in quotas were reproduced in the *Annual Report, 1970,* pages 177–84. This Resolution was amended by Resolution No. 25-4 which added Cambodia (now the Khmer Republic) and by Resolution No. 26-1 which added the Yemen Arab Republic to the list of members shown in the Annex to the Resolution.

[10] One member, Nepal, had paid one installment, so that its quota had increased by one fifth of the increase to which it had consented. All other increases were for the full amount.

[11] South Africa consented to the increase in its quota, from $200 million to $320 million, effective July 15, 1971. Portugal had consented to the increase in its quota, from $75 million to $117 million, but the increase had not become effective at the time of the completion of this Report.

participants in the Special Drawing Account and were thus able to receive allocations of special drawing rights on January 1, 1971 on the basis of their increased quotas. A list of changes in Fund quotas during the fiscal year is given in Table 44.

As a consequence of increases in quotas under Resolution No. 25-3 ($7,106 million), the completion of increases by installment under Resolution No. 20-6 on "Increases in Quotas of Members—Fourth Quinquennial Review"[12] ($2 million), and the membership of Barbados and the Yemen Arab Republic (with initial quotas of $13 million and $8 million, respectively), total Fund quotas increased by 33 per cent in the year ended April 30, 1971, from $21,349 million to $28,478 million.

Increased Gold Subscriptions

Members paid to the Fund the equivalent of $1,744 million in gold as a result of their increased subscriptions under the Fifth General Review; this was slightly less than the equivalent of 25 per cent of their aggregate increase in quotas. Provision was made in paragraph 5 of the Board of Governors Resolution No. 25-3, that "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." Twenty-two members made reduced gold payments in accordance with that provision. The total amount of gold that these members would have paid if there had been no reduction in gold payments would have amounted to the equivalent of $64 million. Instead, their increased gold subscriptions amounted to the equivalent of about $32 million. These members undertook to repurchase in five equal annual installments, unless the Fund's holdings of their currency are otherwise reduced, that portion of their local currency subscription which represents the difference between the actual amount of gold paid and 25 per cent of the increase in their quotas.

The Fund decided, in accordance with the Resolution and Article VII, Section 2(ii), that it would sell gold in replenishment of its currency holdings up to the equivalent of $700 million to mitigate the gold losses of those members that had sold gold to other members to enable the latter to pay their increased gold subscriptions.[13] By April 30, 1971, 75 members had bought gold from other members for the purpose of paying all or part of their increased gold subscriptions to the Fund. The equivalent of $548 million was bought by members from the United States, and the equivalent of $16 million from Austria; the Fund replenished its holdings of U. S. dollars and Austrian schillings by equivalent sales of gold. Very small amounts of gold, totaling the equivalent of $95,000, were bought from Italy and South Africa, for which no mitigation was sought by these members.

After taking into account these mitigation operations, the rise in the Fund's gold holdings resulting from the increased gold subscriptions under the Fifth General Review amounted to the equivalent of $1,180 million, an increase of 38 per cent above the Fund's gold holdings on October 29, 1970, the day before the first increases in quotas became effective. The rise in the Fund's currency holdings resulting from the increase in quotas and the associated replenishment operations amounted to the equivalent of $5,926 million, about 83 per cent of the overall increase in quotas.

Purchases

During the fiscal year 1970/71, 44 members purchased currencies from the Fund, amounting to $1,167 million, compared with $2,996 million in 1969/70, the largest amount in any fiscal year. The figure of $1,167 million includes gold tranche purchases of $810 million, or 69 per cent of the total, made by 24 members. Purchases by 4 members were in the super gold tranche and included two transactions by the United States totaling the equivalent of $400 million, the largest amount purchased by any member during the fiscal year. Purchases under stand-by arrangements were made by 18 members and amounted to $305 million,

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[12] *Annual Report, 1965,* pages 124–32.

[13] Executive Board Decision No. 3150-(70/93), adopted October 23, 1970 and reproduced in Appendix I.

substantially less than the $2,261 million purchased by 22 members under such arrangements in the previous year. One purchase of $2.5 million was made under the facility for the compensatory financing of export fluctuations. Other purchase transactions by 4 members amounted to $49 million. Three of these members made purchases within their first credit tranches, and the other within the second credit tranche. Details on purchases in the year ended April 30, 1971 are given in Table 45. In June 1971 the United States made a gold tranche purchase of the equivalent of $250 million.

As noted in last year's Annual Report, the service charge of ½ of 1 per cent on gold tranche purchases made after July 27, 1969 was abolished.[14] As stated above, 69 per cent of total purchases in 1970/71 was within gold tranches. Thus, the abolition of the service charge on gold tranche purchases, as well as the reduced volume of other purchases and the reduction in the amount outstanding, has had an impact on Fund income.

Buffer Stock Financing Facility

In November 1970 the Fund examined the first proposed use of its buffer stock financing facility, established in June 1969.[15] Having considered the text of the Fourth International Tin Agreement, the Executive Directors decided that member countries could use the facility in connection with the financing of contributions that they were required to make to the international tin buffer stock to be established under the new Agreement.[16]

On the basis of their examination, the Directors concluded that the terms of the Agreement, as negotiated in May 1970, were consistent with the requirements considered appropriate to international commodity agreements for which Fund assistance may be given. In particular, schemes suitable for Fund assistance are expected to take account of the effects of price stabilization on the stabilization of earnings and should aim at price stabilization around a medium-term trend, so that buffer stock transactions could be expected roughly to balance out in the medium term. The Fund considers that, when its financial assistance is sought in connection with buffer stock schemes, an appropriate part of the total resources required should be met from sources other than international financial institutions.

The special facility being made available, which is subject to the conditions set forth in the 1969 Annual Report, is in addition to the normal access by members to the Fund's resources under ordinary tranche policies in dealing with balance of payments difficulties. In July 1971 the first purchases under the facility were made in connection with initial buffer stock contributions under the International Tin Agreement.

Stand-By Arrangements

During the year ended April 30, 1971, the Fund approved 18 stand-by arrangements, all for primary producing countries, authorizing purchases up to $502 million. This was $1,880 million less than the total amount approved in the previous year. However, purchases authorized under stand-by arrangements for primary producing countries only amounted to $396 million in 1969/70, when $2,381 million in arrangements approved included $985 million for France and $1,000 million for the United Kingdom. A summary of the stand-by arrangements in effect during 1970/71 is shown in Table 48. Purchases under the arrangements amounted to $305 million during the fiscal year. This was 26 per cent of total purchases; in 1969/70 the comparable figure was 75 per cent.

Repurchases

During the past fiscal year, repurchases amounted to $1,657 million, compared with $1,671 million repurchased in 1969/70. Of the total amount repurchased during 1970/71, the equivalent of $685 million, or 41 per cent, was repurchased by the United Kingdom.

During the year several members repurchased amounts drawn under the Compensatory Financing Decision. Uruguay repurchased $33 million, of which $5 million was in this category. Iceland's repurchases, totaling $15 million, included $7.5 million in this respect. Of India's repurchases amounting to $135 million, the equivalent of $10 million completed repurchase of the compensatory

[14] *Annual Report, 1970,* pages 35 and 175–76.
[15] *Annual Report, 1969,* pages 38–40, and *1970,* page 175.
[16] Executive Board Decision No. 3179-(70/102), adopted November 25, 1970 and reproduced in Appendix I. The Agreement entered into force provisionally on July 1, 1971.

financing drawing made in December 1967. Guatemala, whose purchases under a stand-by arrangement were partially reclassified as having been effected under the Compensatory Financing Decision, completed repurchase of the amount that had been reclassified.

Of total repurchases during the fiscal year, 59 per cent was under schedules approved by the Fund; repurchases in accordance with Article V, Section 7(*b*), of the Fund Agreement accounted for 29 per cent; repurchases in respect of purchases under stand-by arrangements amounted to 8 per cent; and voluntary and other repurchases accounted for 3 per cent of the total. (See Table 50.)

Transactions and Operations in Gold

The Fund's transactions and operations in gold during the fiscal year 1970/71 were the largest in its history. During the year the Fund received gold in a gross amount equivalent to $2,684 million and disbursed gold to members in an amount equivalent to $1,109 million, of which a total amount equivalent to $1,086 million was sold in replenishment of its currency holdings. On April 30, 1971 the Fund's gold holdings were equivalent to $4,338 million, compared with $2,763 million at the end of the previous fiscal year. The details of the transactions and operations are presented in Supplementary Note A.

The relatively large-scale transactions in gold undertaken by the Fund during the year were, in large part, a consequence of the increased gold subscriptions paid by members in connection with their increases in quotas and of the associated mitigation operation in which the Fund sold gold in replenishment. The Fund received the equivalent of $1,808 million in new and increased subscriptions from members, of which, as noted above, $1,744 million was the result of increases in quotas under the Fifth General Review. The Fund sold the equivalent of $564 million in replenishment operations to mitigate the effects of these gold payments to the Fund.

Also important in contributing to the volume of transactions and operations were those under decisions adopted on December 30, 1969 relating to the purchase of gold from members.[17] During the fiscal year 1970/71, the Fund purchased the equivalent of $390 million of gold from South Africa, following the purchase of $283 million during the first four months of 1970. The details of the amounts purchased in accordance with various parts of the Fund decision to the end of April 1971 are given in Supplementary Note A. By early July 1971 further purchases had been made, totaling the equivalent of $105 million.

Partly as a consequence of these purchases of gold from South Africa, the Fund decided in September 1970 to sell $325 million of gold to 12 members in replenishment of its holdings of their currencies. The Fund, however, provided that each of these members, all of whom were participants in the Special Drawing Account, could elect to receive an equivalent amount in special drawing rights in place of gold to be sold. Three members exercised their options and SDR 67.5 million was transferred. In April 1971 the Fund decided to sell a further $320 million of gold to 14 members in replenishment, and again offered the option of special drawing rights in place of gold; SDR 56 million was transferred to 3 members. With these two operations the Fund sold in replenishment gold and special drawing rights equivalent to virtually all the gold it had acquired from members under Article V, Section 6(*a*), during 1970. The Fund purchased the equivalent of $138 million between January 1 and July 2, 1971 and on July 23 agreed to sell in replenishment gold equivalent to $135 million; members were again given the option to receive special drawing rights.

In September 1970 the Fund reacquired from the United States an amount of gold equivalent to $400 million after reducing its investments in short-term U.S. Treasury securities by a like amount. These investments, which had totaled $800 million, were made in 1956, 1959, and 1960 from the proceeds of sales of gold by the Fund to the United States in order to meet the past administrative deficits of the Fund and to provide a reserve toward meeting possible deficits in the future. The effect of this operation was to reduce the amount of investments under the general heading of Gold Account in the balance sheet of the Fund and to increase bar gold held with depositories.

In connection with its sales of gold in replenishment of its currency holdings during 1970 and in

[17] See *Annual Report, 1970,* page 34–35 and 184–89.

April 1971, the Fund transferred to its bar gold holdings gold from its general deposits with the Federal Reserve Bank of New York and the Bank of England. These general deposits had been established in 1965 in connection with the Fourth Quinquennial Review of Quotas as a means of alleviating gold losses of the United States and the United Kingdom arising from their sales of gold to other members to permit the latter to pay their increased gold subscriptions at that time. On the occasion of any use of gold, the Fund normally transfers gold from the general deposits to its bar gold holdings on a *pari passu* basis; that is, the amount of gold that would be transferred from the two general deposits would be based on the proportion that those deposits bear to the Fund's total gold holdings at the time of the sale of gold by the Fund. During 1970/71 these transfers amounted to the equivalent of $74 million, of which $63 million was transferred from the general deposits of gold with the Federal Reserve Bank of New York and $11 million from those with the Bank of England. At the end of April 1971, the equivalent of $175 million of gold was held on general deposit. A further reduction of $5 million was associated with the replenishment agreed on July 23.

In the past year the Executive Directors held extensive discussions on policies with respect to the replenishment of the Fund's currency holdings by sales of gold. In a decision adopted on March 22, 1971, the Directors agreed on guidelines for future gold sales, other than those sales designed to mitigate the effects of quota increases.[18] With respect to the gold acquired by the Fund under Article V, Section 6(*a*), the guidelines provided that, unless there was no case for replenishment, it should be presumed that sales of gold would be justified in amounts roughly corresponding to the amounts acquired under that section since the last preceding sale. Such sales should be considered at six-month intervals. The guidelines further provided that other sales of gold would be made at times and in amounts determined by the Fund's need for replenishment. In seeking to establish this need, account should be taken, inter alia, of the Fund's stock of currencies currently considered suitable for drawings, relative to the amount of potential drawings on the Fund's resources. Where appropriate and feasible, the Fund should combine with sales of gold replenishment through borrowing.

The Executive Directors agreed that, in accordance with the guidelines, sales of gold should be distributed among net creditor countries whose currencies were considered suitable for drawings at the time, in proportion to their average net creditor positions, provided that the Fund would not purchase any currency beyond the point where its holdings of that currency equaled 75 per cent of quota. The average net creditor position would be calculated on a period ending with the month preceding the proposed gold sale and beginning either six months before that date or at the end of the period on which the last preceding gold sale was based, whichever began earlier. Further, pending the elaboration of a general policy on replenishment with special drawing rights, the Fund should normally on the occasion of sales of gold give members the option of receiving special drawing rights in place of gold, provided that the holdings of special drawing rights in the General Account were considered adequate.

Borrowing

The General Arrangements to Borrow (GAB), which enable the Fund to supplement its General Account resources by borrowing up to $5.9 billion, were not activated in the period under review. Instead, the Fund, in accordance with the provisions of the Arrangements, reduced its GAB indebtedness during the period May 1, 1970 to May 31, 1971 by a total amount equivalent to $663 million. This reduction resulted from a repayment in July 1970 to Italy for balance of payments reasons and from repayments related to repurchases by France in February and May 1971 and by the United Kingdom in March 1971, which were in respect of previous purchases by these members that were partly financed through borrowings under the GAB. By May 31, 1971 the Fund's outstanding indebtedness under the GAB had been reduced to $152 million and the balance available for future calls amounted to about $5.75 billion.

In April 1971 the Fund repaid to Japan the equivalent of $125 million of the $250 million claim on the Fund under the bilateral arrange-

[18] Executive Board Decision No. 3294-(71/22), adopted March 22, 1971 and reproduced in Appendix I.

ment that Japan had acquired from Italy in 1970. This repayment was possible since the Fund's holdings of yen had risen as a result of repurchases in this currency by other members and as a result of the increase in Japan's quota. This repayment, together with those mentioned above, decreased the Fund's total indebtedness from borrowing to $277 million.

Payment of Remuneration and Net Income

The provisions of Article V, Section 9, of the Fund Agreement specify that the Fund 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 quota being excluded from the calculation). Remuneration is paid as of the end of the Fund's fiscal year in gold and the member's currency. However, participants in the Special Drawing Account have the option of receiving special drawing rights in place of gold or their own currencies, provided that the General Account's holdings of special drawing rights at the end of a fiscal year exceed the total amount of remuneration payable for that year.

For the past fiscal year, remuneration at 1½ per cent amounted to $37.4 million and was paid to 39 members in May 1971. Of this amount $14.7 million was paid in special drawing rights, $22.7 million in gold, and a very small amount in members' own currencies.

After payment of remuneration, the Fund's net income for the fiscal year amounted to $46.4 million.

Consultations, Technical Assistance, and Training

During 1970/71 the Fund completed 86 regular Article VIII and Article XIV consultations with member countries, a larger number than in any previous fiscal year. Through the consultation procedure the Fund has been able to develop close working relationships with its members, enabling it to be informed of current developments and to reach a decision promptly if a member proposes a change in the par value of its currency or in its exchange practices, or requests the use of Fund resources through a drawing or stand-by arrangement. Although the consultation procedure is basically concerned with the problems and policies of the consulting member country, the authorities of the member can raise with the Fund any special difficulties stemming from the actions or policies of other members, and the discussion of the Executive Directors that concludes each consultation places increasing emphasis on the international repercussions of domestic economic and financial policies. As an outgrowth of its consultation experience, the Fund is now devoting attention to a number of problems affecting different groups of member countries, such as aid and credit practices, debt problems, and commodity policies.

Among the important services that the Fund provides, particularly to developing countries, are its technical assistance and training. The Fund continues to be involved in filling requests for advice from members on various aspects of their fiscal, monetary, exchange, and general stabilization policies. As in the past, the more specialized technical assistance is provided through the Central Banking Service, the Fiscal Affairs Department, and the Bureau of Statistics. During the fiscal year 1970/71, technical assistance was provided to 40 countries through the Central Banking Service and to 22 countries (as well as a regional organization) through the Fiscal Affairs Department; the Bureau of Statistics assisted 15 members to establish or to improve central bank bulletins. The IMF Institute completed 2 training courses that had begun in the previous fiscal year and offered 5 new courses, which were attended by 125 officials from 75 member countries. Details on these activities are given in Supplementary Note A.

Payments Arrears and External Debt Management

In the fiscal year ended April 30, 1971, the Executive Directors reviewed the Fund's policy with respect to undue delays in making exchange available for the settlement of current international transactions that result from governmental limitations and give rise to payments arrears. The Executive Directors concluded that such undue delays are payments restrictions under Article VIII, Section 2(*a*), and Article XIV, Section 2, of the Fund Agreement, whether the limitation is formalized as with the imposition of compulsory waiting periods for exchange, or is informal, or ad hoc. They drew attention to the harm that these restrictions cause to a country's international financial relationships and provided general guidelines for their treatment by the Fund. These guidelines make provision for the possibility of Fund approval of the restriction involved, provided that the member presents a satisfactory program for its elimination. Similarly, when a member having payments arrears requests Fund financial assistance, such assistance may be granted if the member's financial program, inter alia, envisages a phasing out of the arrears.[19]

The Executive Directors also reviewed the Fund's experience in assisting member countries in the management of their external debts and in the avoidance of debt service problems. In view of the growing importance of debt service payments in the balance of payments of many developing countries, regular Article VIII and Article XIV consultations have included, where appropriate, a review of the external debt management policies of the members. In consultations with countries having potentially serious debt problems, the Fund has urged the authorities to exercise caution in incurring further net foreign indebtedness before the situation becomes critical. In this activity, the Fund has benefited from close contact with other international organizations concerned with problems of foreign indebtedness and with the flow of development aid.

In formulating policies to correct balance of payments difficulties, member countries have frequently found it useful to establish quantitative limits on foreign indebtedness. In this connection they have often requested the use of Fund resources in the form of stand-by arrangements, and limits on external indebtedness have been included as performance criteria. These limits have not only reduced strains on the external payments position deriving from debt servicing but have also supported measures to restrain domestic credit expansion and to improve public expenditure control. By contributing to the maintenance of confidence between creditor and debtor countries, they have supported the flows of capital from more developed to less developed members and thereby assisted in the latter's development efforts. Experience with debt regulations in stand-by arrangements now extends over a decade and practices have evolved as a growing number of members have adopted them. While these practices must take fully into consideration the situation of individual countries and be reviewed from time to time in order to avoid any untoward effects, the Executive Directors concluded that they should continue to be applied where appropriate.

[19] See Executive Board Decision No. 3153-(70/95), adopted October 26, 1970 and reproduced in Appendix I.

Part II

REVIEW OF THE YEAR

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Chapter 4

Developments in World Trade

General Review

THE value of world trade rose by almost 15 per cent from 1969 to 1970. In nominal terms, this increase matched that of the previous year, which had shown the largest annual increase in world trade since the Korean War. Increasingly after 1968, however, the buoyancy of trade values stemmed from rising prices for goods moving in international commerce, while the rate of expansion in trade volume tapered off in each of the past two years from a 1968 peak (Table 11).

The 1969–70 advance in world trade volume amounted to about 8½ per cent. Although this did not match the exceptional gains of 1968 and 1969 (12½ per cent and 11 per cent, respectively), it remained above the average annual increase of the past decade (8 per cent). Moreover, the 1970 figure represented an unusually strong rise in world trade volume for a year of relatively slow economic expansion in the industrial countries. This latter feature is explained in part by the maintenance of rather strong expansion in Europe, where external trade looms large in relation to

TABLE 11. GROWTH OF WORLD TRADE AND OUTPUT, 1960–70

(*In per cent*)

		Relative Magnitude[1]	Trend[2]	Change from Preceding Year		
			1960–70	1968	1969	1970
Exports						
World[3]	Value	100.0	9½	12	14½	14½
	Volume		8	12½	11	8½
United States and Canada[4]	Value	21.5	8½	12½	9½	15
	Volume		6½	10	5½	9
Japan	Value	6.6	17	24	23½	21
	Volume		16½	24	18	14½
EEC countries	Value	31.1	11½	14½	18½	16½
	Volume		10	16	13½	10
EFTA countries[5]	Value	14.5	8	8	15½	13
	Volume		6½	12	12	5½
Primary producing countries:						
More developed areas[6]	Value	6.5	9	4½	15½	12½
	Volume		8	9½	12½	9½
Less developed areas[6]	Value	19.8	7	9½	12½	10
	Volume		6	10½	8	7
GNP in Volume						
World[3]		100.0	5	5½	5½	3
Industrial and more developed primary producing countries		85.3	5	5½	5	2½
Excluding United States		43.6	5½	6½	7	6
Less developed primary producing countries		14.7	5½	6	6½	6

Sources: Trade data: *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 1969.

[2] Compound annual rate of change.

[3] All countries except the CMEA countries, mainland China, etc. See footnote 2, page 52.

[4] Data exclude U.S. Department of Defense grant-aid shipments.

[5] Not including Portugal, Finland, and Iceland.

[6] For country coverage, see footnote 2 on page 52. Figures for less developed primary producing countries in 1970 are partly estimated.

production, together with the centering of the economic slowdown chiefly in the United States, whose external trade is comparatively small in relation to output. For most of the industrial countries, including the United States, an increase in the ratio of imports to gross national product (GNP) contributed importantly to the overall rise in import volume.[1]

The average unit value of internationally traded goods rose by some 6 per cent from 1969 to 1970. This unusually sharp increase may be compared with 3 per cent in the previous year, with a small overall decline in 1968, and with an average annual increase of only about 1½ per cent over the decade ended in 1970. For 1970 as a whole, the increase was centered in manufactured products, for which price advances were especially marked in the first half of the year.

In the latter part of 1970 and particularly in the early part of 1971, there were indications that a further tapering off in the growth of world trade volume was being accompanied by some slowing of foreign trade price increases. However, the whole period around the turn of the year was one of distortions caused by special factors, such as strikes in several large countries, which have made clear interpretation of recent world trade trends very difficult.

The 1970 export gains were distributed fairly evenly among the groups of countries listed in Table 11.[2] In terms of export values, rates of increase for the countries of the European Economic Community and for Japan were well above the global average, while the rise in exports of the less developed countries was somewhat smaller than the average. The latter result was attributable mainly to the relatively flat movement of prices for exports of primary products, as the 1969–70 rise in export volume for the less developed countries as a group was only moderately below the global average.

The geographic pattern of export expansion in 1970 differed from that of the previous year, chiefly in that export gains of the United States and Canada paralleled those of the other industrial countries much more closely than they did in 1969. The year 1969 had been one of relatively weak export growth for the two North American countries.

Among developed countries, the increases in export unit values were quite pervasive in 1970, as they had been (on a smaller scale) in the previous year. The largest average increase in 1970, as well as the sharpest acceleration over the corresponding 1969 rate of advance in export prices, was that recorded for the European Free Trade Association, where export prices rose by 7 per cent in 1970, compared with 3 per cent in 1969. For the countries of the European Economic Community, as well as for Japan, the United States, and Canada, the increases in export unit values were around 6 per cent in 1970, compared with some 3 to 5 per cent in 1969. Among the industrial countries generally, but especially for the European countries and Japan, the increases recorded in both of those years were strikingly larger than the annual averages for the decade of the 1960s.

For the less developed countries, 1970 was the third consecutive year in which increases both in

[1] For countries in an expansionary phase of the business cycle, the rise in the import/GNP ratio was not surprising; however, it was unusual for the United States in a period of cyclical recession.

[2] 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 and Spain, have significant industrial capacity; and, in a few instances, some countries classified in less developed areas may have relatively high per capita incomes.

real output and in export volume appear to have exceeded the average rates of the past decade. With respect to export volume, the difference was moderate—7 per cent in 1970 versus an average of 6 per cent per annum from 1960 through 1969.

However, the international purchasing power of the 1970 increase in export volume for the less developed countries was curtailed by an adverse shift in their terms of trade. After a sharp upward spurt in 1969, the export prices of those countries rose less rapidly in 1970 (and were actually declining during the second half of that year), while their import prices were raised by the acceleration of inflation in the industrial countries. Although the available statistics on these relationships are not very precise, it would appear that the purchasing power of the export earnings of less developed countries rose by about 5 per cent in 1970. While that rate of increase did not compare unfavorably with the corresponding long-term average (also in the neighborhood of 5 per cent annually for the 1960–69 period), it represented a sharp reduction from the unusually large gains in the international purchasing power of these countries' export earnings in 1968 and 1969 (about 10 per cent in each year).

The recent export price experience of individual less developed countries, as well as that of more developed primary producing countries, has differed widely, of course, according to the composition of their exports. A relatively favorable overall movement of Latin American export prices, for example, reflected the sharp rise in coffee prices and the importance of coffee in the exports of several major Latin American countries. Conversely, the fall in prices of major grains, wool and certain other fibers, and rubber contributed to a weakness in export unit values for the more developed primary producing countries of the Southern Hemisphere and for some of the less developed countries of Asia. In a different category were the more developed primary producing countries of Europe, which shared in the general upsurge of export prices in intra-European trade.

Broadly speaking, developments during the first few months of 1971 did not suggest an early upturn in prices of primary products. However, as noted later in this chapter, negotiations between the international petroleum companies and the authorities of the exporting countries in late 1970 and early 1971 resulted in new agreements greatly increasing the unit values of most petroleum exports. These changes can be expected to have a major impact not only upon trade values and average export prices for the countries directly affected but also upon broader averages or aggregates for the whole group of less developed countries and upon the import expenditures of a number of industrial countries.

The course of world trade developments has continued to be governed in important respects by cyclical changes in aggregate demand and imports of the industrial countries. Following the 1966–67 recessions or slowdowns in a number of those countries, a generalized upswing in economic activity induced an unusually strong and sustained surge of import demand, both for industrial raw materials and for intermediate and finished manufactures traded mainly among the industrial countries themselves.

In its early stages, during 1968, this wave of import expansion reflected mainly the surge of demand in the United States. Subsequently, during 1969 and 1970, the primary impetus to growth of world trade emanated from European and Japanese import demand (Table 12). However, the rate of increase in U. S. imports, while tapering off considerably after 1968, remained quite high by historical standards through the second half of 1969. The result was an extended period of exceptionally high rates of import expansion for the whole industrial world, greatly outpacing the concurrent growth of output. From the beginning of 1968 through the middle of 1970, this expansion proceeded at a consistently high rate averaging some 15 per cent per annum, and the pace slackened only moderately in the second half of 1970. Throughout this three-year period, rates of increase in imports, both in Europe and in North America, were considerably above those prevailing in earlier periods of comparable capacity utilization.

Exports of the primary producing countries were broadly responsive to these changes in demand in the industrial centers. They began to rise strongly during 1968 and continued high through 1970, as already noted above. Imports of the primary producing countries also responded to the cyclical upsurge, although with some lag. The

TABLE 12. CYCLICAL PATTERN OF WORLD TRADE: CHANGES IN VALUE, 1966–FIRST QUARTER 1971

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

	Six Months Ended									
	Dec. 1966	June 1967	Dec. 1967	June 1968	Dec. 1968	June 1969	Dec. 1969	June 1970	Dec. 1970	Mar. 1971
World imports	9	5	4	13	15	12	16	15	10	...
Imports of industrial countries	8	4	5	14	17	13	16	15	11	9
Europe	4	3	4	8	19	17	15	18	12	10
Japan	20	24	16	8	13	8	32	23	19	4
United States and Canada	16	1	6	29	13	7	14	7	5	9
Exports of primary producing countries [1]	5	2	5	8	11	14	13	8	15	...
Imports of primary producing countries [1]	10	7	−5	10	11	10	15	14	8	...
Exports of industrial countries [2]	10	6	—	16	20	11	18	17	10	9

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 for changes during 1970 and 1971 are partly estimated by Fund staff.
[2] Excludes U.S. Department of Defense grant-aid shipments.

peak semiannual rate of increase in these imports was not reached until the second half of 1969, and they were still rising faster in the first half of 1970 than in any other half year from 1966 through mid-1969. Imports of the more developed primary producing countries were particularly buoyant in 1970, but the rise in imports of less developed countries in that year was also high in relation to the average rate of increase during the 1960s. It reflected the widespread continuation of relatively high levels of economic activity in the less developed countries themselves, as well as the general improvement of their export earnings and official reserve positions during earlier stages of the post-1967 boom in world output and trade.

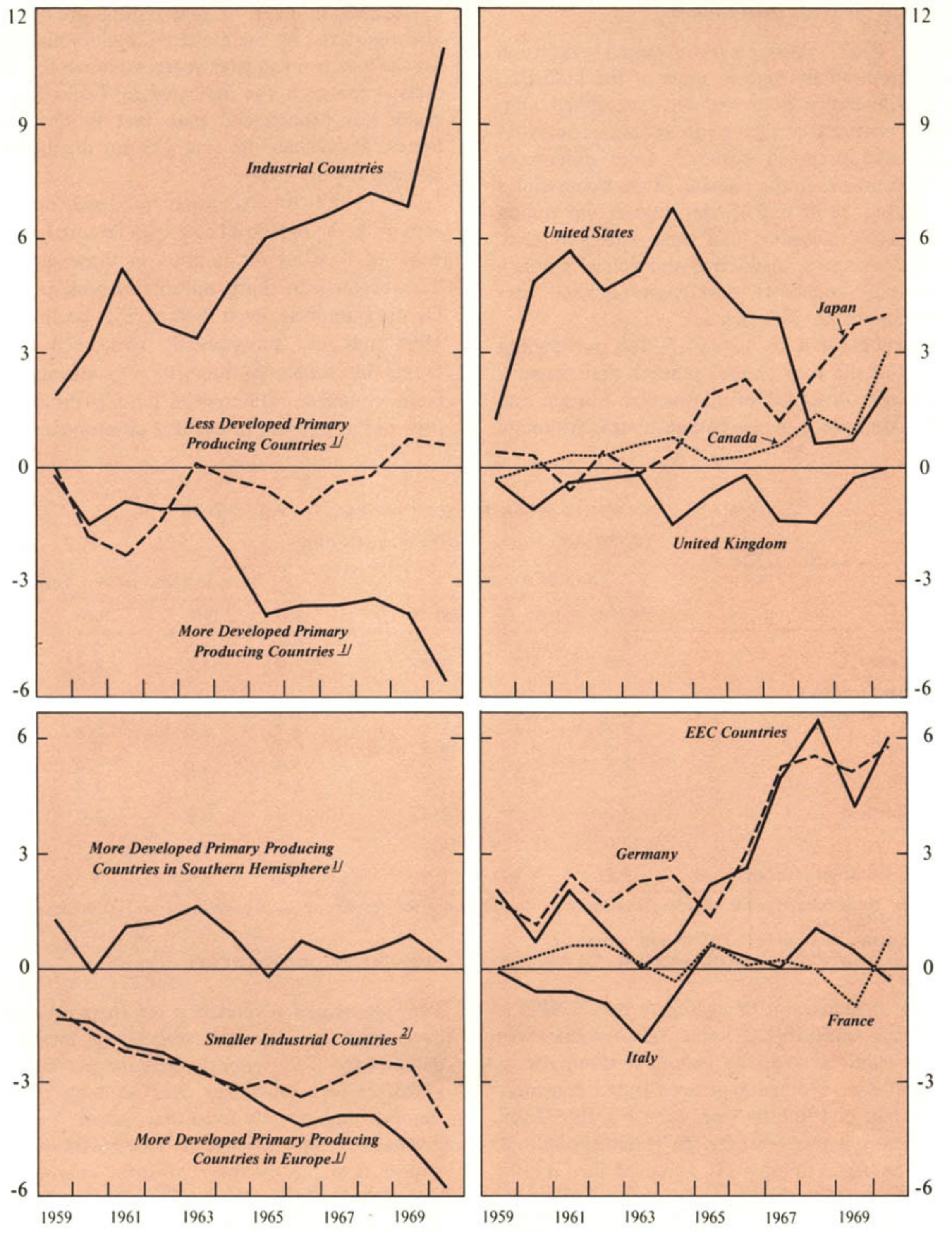
Notwithstanding the accelerated rise in their imports from 1969 to 1970, the less developed countries as a group maintained in 1970 a trade balance approximately equivalent to the one that had emerged in 1969. (See Table 23.) The more developed primary producing countries, however, showed a substantially larger collective deficit in their external trade accounts, as imports soared while export growth tapered off in some countries of this group. The negative shift was especially marked for the more developed primary producing countries of the Southern Hemisphere, where the slowdown in export growth was centered. For the European countries in the primary producing group, export growth remained quite high, but did not fully keep pace with import expansion from 1969 to 1970.

Sizable deteriorations also characterized the trade balances of the smaller industrial countries, where an accelerated average increase in imports contrasted with a declining (although still high) average rate of export expansion in 1970. For the larger industrial countries, in contrast, 1970 was a year of substantially increased export surpluses or reduced trade deficits. The combined export surplus for the seven largest industrial countries [3] approximated $15 billion, compared with $9½ billion in 1969. As noted below, this swing reflected chiefly a sharp bulge in net exports from Canada, some rebound of the U. S. export surplus from its depressed 1968–69 level, and a swing from deficit to surplus in the French trade account (Chart 7); smaller increases in the export surpluses of Germany and Japan, together with a moderate further improvement of the U. K. trade balance, were offset in considerable part by a shift of the Italian balance into deficit. In absolute terms, the largest trade surpluses in 1970 were those of Germany (almost $6 billion), Japan ($4 billion), Canada ($3 billion), and the United States ($2 billion).

[3] Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

CHART 7. TRADE BALANCES OF GROUPS OF COUNTRIES AND OF SELECTED INDUSTRIAL COUNTRIES, 1959–70

(In billions of U. S. dollars; on a balance of payments basis)



[1] The trade balances plotted here, being on a balance of payments basis, are not directly comparable to the data on a customs basis in Table 23.

[2] Austria, Belgium-Luxembourg, Denmark, the Netherlands, Norway, Sweden, and Switzerland.

Trade of Industrial Countries

Factors in the Growth of Imports

Since 1968, when rates of output expansion were exceptionally high in most of the industrial world, the major countries have exhibited contrasting patterns of change in economic activity. These have stemmed primarily from differences among countries in the phasing of the boom under way during 1968 and in the degree and timing of the policy restraints that were widely applied. In some instances, distinctive noncyclical features of national economic developments have also exerted important influences.

As brought out in Table 13, the outstanding contrast of the past several years is that between the changes observed in continental Europe and those taking place in the United States. Although the rate of expansion of aggregate real GNP for the continental European industrial economies was already relatively high by historical standards in 1968 (at 5½ per cent), it accelerated considerably further in 1969, to 7 per cent. For this group of countries, it was not until 1970 that the rate of expansion began to taper off, and even then it fully matched the 1960–70 average of about 5 per cent. In the United States, on the other hand, expansion of total output fell back to less than 3 per cent in 1969, after having approached 5 per cent in 1968; and a decline of about ½ per cent occurred in 1970.

Declines in rates of real output growth were also registered by the United Kingdom and Japan for the past two calendar years, although the deceleration for each (as indicated in Table 13) was much less pronounced than that in the United States. For Japan the rate did not dip below its average for the 1960s.

The 1967–70 expansion of total economic activity in the industrial countries featured a strong wave of demand for imports in those countries. This began with sharp upturns in both U. S. and German imports even before the beginning of 1968 and was subsequently reinforced or sustained by surges of imports into various other large countries. Differences among those countries in the phasing of cyclical developments after 1967 generated a tendency for them to succeed each other as principal sources of incremental demand for world exports, and the persistence of global import buoyancy over so long a period stemmed importantly from that factor.

The shifting origins of the most expansive import demands among industrial countries can be traced in Table 14. That table also indicates, both for individual countries and for the group of industrial countries as a whole, that the rise in imports in recent years generally outpaced the

TABLE 13. INDUSTRIAL COUNTRIES: GROWTH OF REAL OUTPUT, 1960–70

(Percentage changes in GNP,[1] at annual rates)

	Annual Averages			Change from Previous Year			
	1960–65	1965–70	1960–70	1967	1968	1969	1970
Canada	5.7	4.7	5.2	3.5	4.8	5.1	3.3
United States	4.8	3.2	4.0	2.6	4.7	2.5	−0.6
Continental European industrial countries	5.3	5.0	5.1	3.1	5.5	7.1	5.2
France	*5.8*	*5.8*	*5.8*	*4.7*	*4.6*	*7.9*	*6.0*
Germany	*5.0*	*4.5*	*4.8*	*−0.3*	*7.2*	*8.1*	*4.9*
Italy	*5.3*	*6.0*	*5.6*	*6.8*	*6.0*	*5.9*	*5.1*
Other [2]	*5.1*	*4.3*	*4.7*	*3.6*	*4.1*	*5.9*	*5.1*
United Kingdom	3.2	2.1	2.6	1.5	3.6	2.0	1.7
Japan	10.0	12.2	11.1	13.2	14.4	12.1	11.2
All industrial countries	5.2	4.5	4.8	3.5	5.7	4.8	2.5

Sources: National economic reports; secretariat of the Organization for Economic Cooperation and Development; and Fund staff estimates.

[1] Gross domestic product (GDP) in some instances.

[2] Austria, Belgium, Denmark, Luxembourg, the Netherlands, Norway, Sweden, and Switzerland.

TABLE 14. INDUSTRIAL COUNTRIES: GROWTH OF GROSS NATIONAL PRODUCT AND OF IMPORTS, 1960–70 [1]

(Percentage changes, except as noted)

	1960–70 [2]			1967–68			1968–69			1969–70		
	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]
Canada	8½	9¾	1.2	8½	13¾	1.6	10	14¼	1.4	7½	−1¼	−0.2
United States	6¾	10	1.5	9	23	2.5	7½	8½	1.1	4¾	11	2.3
Belgium-Luxembourg [4]	8¼	11	1.3	6	16	2.5	10¼	19¾	1.9	9¾	13¾	1.4
France	10¼	13	1.3	9¾	12½	1.3	15¼	30¾	2.0	11½	18	1.6
Germany	8½	10	1.2	9	16¼	1.8	12	20¾	1.7	12¾	12	1.0
Italy	10¼	12¼	1.2	7½	4¾	0.6	10¼	21	2.0	11¾	20	1.7
Netherlands	10¼	11	1.1	10	11½	1.2	11½	18¼	1.6	10¾	22	2.0
Austria	8½	9½	1.1	5¾	8	1.4	9½	13¼	1.4	11½	25½	2.2
Denmark	11¼	10¼	0.9	10	10½	1.1	13½	17¾	1.3	12¾	15½	1.2
Norway	9½	9¾	1.0	7¼	−1½	...	8½	8¾	1.0	15½	25½	1.7
Sweden	9¼	9¼	1.0	6½	9	1.4	8¾	15¼	1.7	10½	18½	1.8
Switzerland	9	11¼	1.3	7½	9¼	1.2	8¾	17	2.0	9	24	2.6
United Kingdom	7	7	1.0	7¼	22¾	3.1	7	5¼	0.8	9½	9	0.9
Japan	16½	15½	0.9	19	11½	0.6	16¾	15¾	0.9	18¼	25¾	1.4
Memorandum item: all industrial countries [5]												
In terms of value	8¾	10½	1.2	9¼	15½	1.7	10½	15¼	1.5	10	14½	1.4
In terms of volume	5	9	1.8	5¾	15	2.6 [6]	5½	11	2.0	4	10	2.4

Sources: Organization for Economic Cooperation and Development, *Main Economic Indicators*, and *National Accounts of OECD Countries, 1950–68*; national publications; and *International Financial Statistics*.

[1] GNP at current market prices and value of total imports on customs basis, both expressed in national currency values. Growth rates rounded to nearest quarter.

[2] Compound annual rates.

[3] Ratio of percentage change in imports to percentage change in GNP.

[4] GNP data cover only Belgium.

[5] The composite changes shown here represent averages of percentage changes for individual countries weighted by their respective total imports (valued in U.S. dollars).

[6] Excluding estimated U.S. imports of copper and steel associated with strikes or hedging against a possible strike, this ratio would be 2.4.

concurrent growth of domestic economic activity by a rather wide margin. Particularly in 1970, this was true for a number of countries whose imports increased during the 1960s no more than proportionately to the rise in national output. It was also emphatically true in 1970 for the United States, where the average annual rate of increase in the value of imports during the decade of the 1960s was already half again as high as that in the value of GNP.

The composite data at the bottom of Table 14 provide important clues to the reasons for the maintenance of a high rate of increase in the aggregate value of imports from 1968 to 1970, a period of sharply falling growth in total output of the industrial countries. In the first place, the movement of the U. S. economy into recession was much less important in a world import context than in the measurement of global output, owing to the relatively low ratio of U. S. imports to domestic production. This consideration is reflected in the contrast between (a) the series of import-weighted averages of increases in real GNP in the industrial countries given in the last line of Table 14 and (b) the series of increases in aggregate industrial country output given in Table 13. The former series shows a much smaller decline from 1968 to 1970 than does the latter.

The second principal clue lies in the behavior of import prices. These rose much faster in relation to GNP price movements in both 1969 and 1970 than in earlier years, thus sustaining the rate of increase in the total value of imports in the face of a decline in the rate of import expansion in volume terms after 1968. On either a volume basis or a value basis, however, the ratios of the latest annual changes in imports to those in output of the industrial countries remained quite high in historical perspective.[4]

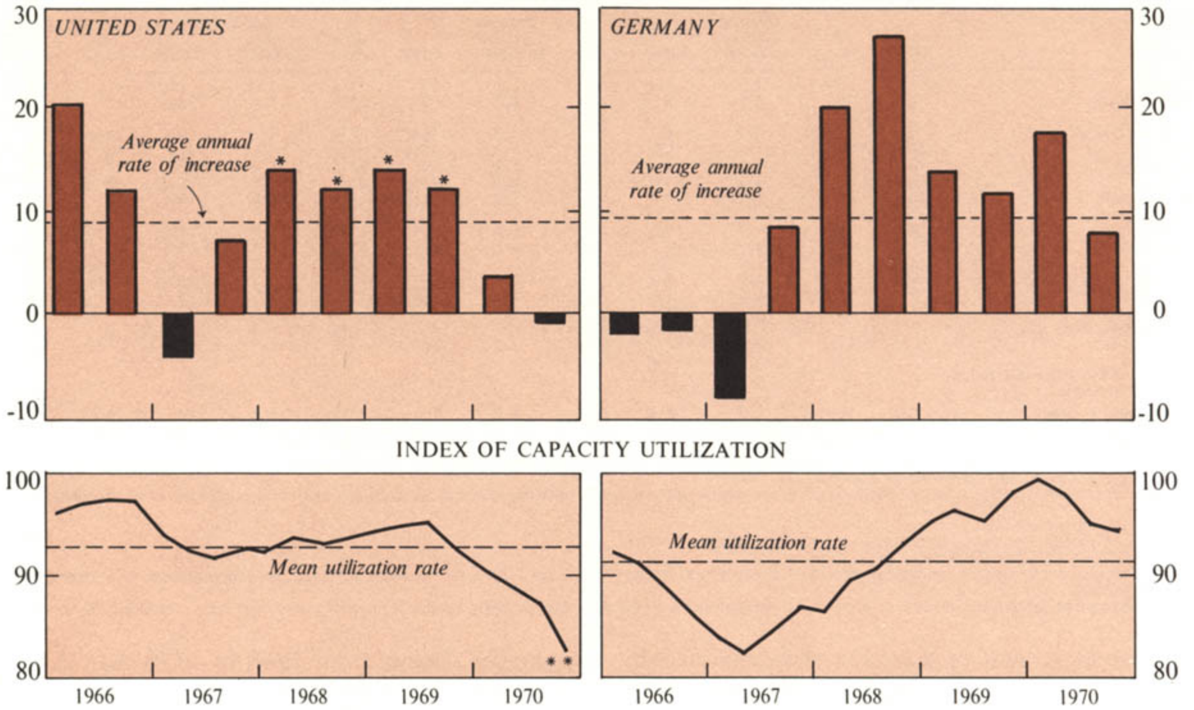
A particular factor underlying the high marginal ratio of import expansion to GNP growth in recent years has been the general prevalence of high capacity utilization rates in the European manufacturing sector since about mid-1968 and in the United States from late 1967 until the end of 1969. As measured by the Wharton indices (Chart 8 and Table 15), the composite utilization rate for six principal European countries approached 97 per cent in the first quarter of

[4] For a discussion of some of the factors underlying the high income elasticity of imports in recent years, see *Annual Report, 1970,* pages 44–45.

Chart 8. Selected Industrial Countries: Import Expansion and Capacity Utilization, 1966–70

PERCENTAGE CHANGES IN HALF-YEARLY IMPORT VOLUME

(Seasonally adjusted annual rates)



* Adjusted for distortions arising from strikes.
** Distorted by strikes.

1970, compared with an average of 92 per cent over the past five years. It had exceeded the five-year average throughout the second half of 1968 and all of 1969, following nearly two years of relatively slack utilization from late 1966 through mid-1968, and it remained above the five-year average through 1970, despite some decline after the first quarter.

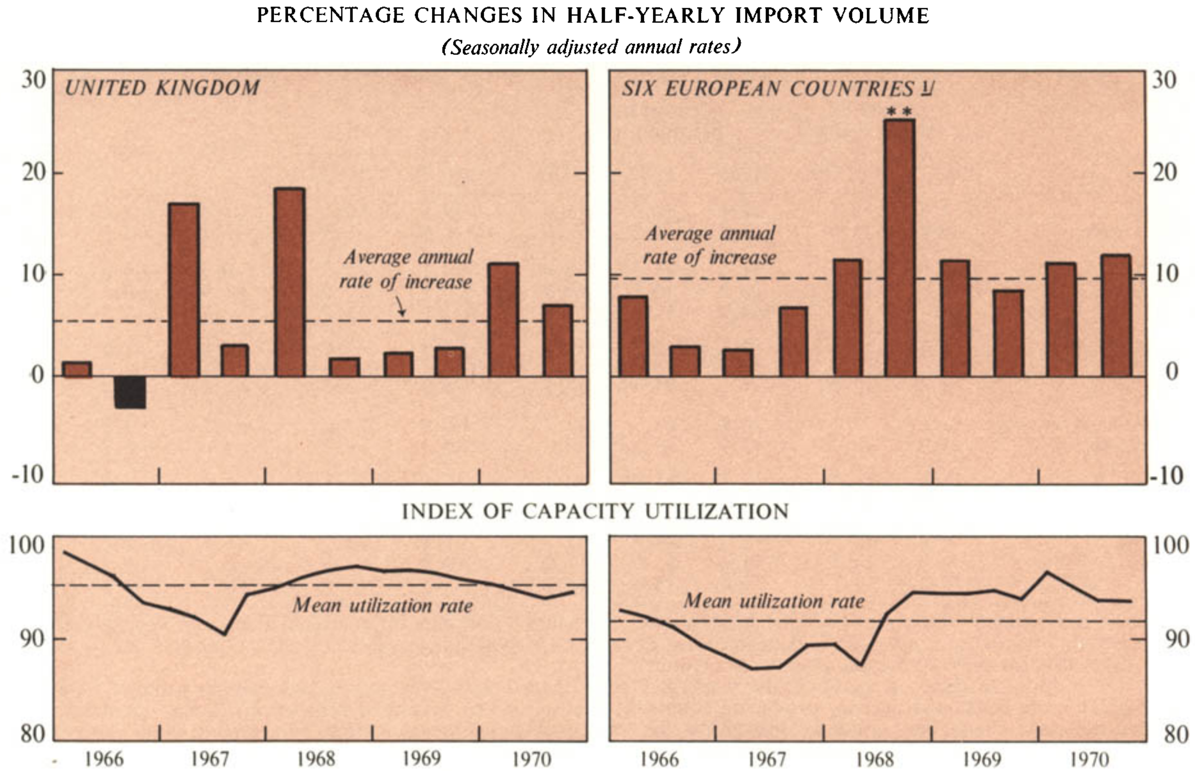
Plotted along with the indices of capacity utilization in Chart 8 are data on rates of change in the volume of imports of the same countries. The association of major changes in rates of European import expansion with major changes in the level of the composite capacity utilization index is unmistakable, despite the difficulties and uncertainties inherent in measurement of capacity utili-

Table 15. Wharton Indices of Capacity Utilization in Manufacturing Industries, Selected Time Periods

	Mean Utilization Rates, 1966–70	Utilization Rates 1970 1st Qtr.	Utilization Rates 1970 4th Qtr.	Highest Recent Peak	Highest Previous Peak
United Kingdom	95.2	95.7	94.6	96.9 (*4th Qtr. 1968*)	99.0
Belgium	92.1	92.4	93.8	95.3 (*3rd Qtr. 1969*)	98.8
France	91.5	98.3	95.9	98.3 (*1st Qtr. 1970*)	99.2
Germany	91.4	99.2	94.4	99.2 (*1st Qtr. 1970*)	97.8
Netherlands	91.0	97.0	94.5	97.0 (*1st Qtr. 1970*)	99.0
Italy	88.4	90.4	86.9	91.0 (*2nd Qtr. 1969*)	98.5
Average of six European countries	92.0	96.7	93.9	96.7 (*1st Qtr. 1970*)	96.5
United States	92.9	90.5	82.5	94.9 (*3rd Qtr. 1969*)	97.3

Sources: Wharton School of Finance and Commerce, *Wharton Quarterly* (Philadelphia), various issues.

CHART 8 *(concluded)*. SELECTED INDUSTRIAL COUNTRIES: IMPORT EXPANSION AND CAPACITY UTILIZATION, 1966–70



** Distorted by strikes.
[1] Includes Germany, the United Kingdom, Belgium-Luxembourg, France, Italy, and the Netherlands.

zation. As indicated by another panel of the same chart, this correspondence is especially marked for Germany, where swings in both capacity utilization and import growth over the past five years have been wider than the average for the European countries.

For the United States and the United Kingdom, the relationship between import volume growth and capacity utilization has been somewhat less distinct than for Germany. Nevertheless, the U. S. panel of Chart 8 shows a clear general tendency toward association of rapid U. S. import expansion with high rates of capacity utilization. For the United Kingdom, any such tendency is greatly blurred in the data under review by strikes and the effects of sterling devaluation in 1967.

Another feature of Chart 8 is the failure of the volume of U. S. imports to turn down as sharply in the 1969–70 recession as might have been expected on the basis of earlier relationships to declines in capacity utilization. There appears to have been a shift in recent years in U. S. import/GNP relationships, perhaps manifesting the growing competitive strength of foreign suppliers in the U. S. market.

At the same time, it must be remembered that the United States was by no means the only industrial country whose imports rose much faster than domestic output in 1970 and other recent years. On the contrary, marginal import/GNP ratios have been very high during this period in the great majority of the industrial countries, apparently reflecting a progressively higher degree of integration of world production and trade and possibly certain cyclical influences.

In view of the large proportion of world trade (about two thirds) that moves among industrial countries, high rates of import growth for those countries have assured high rates of expansion of their own export markets, in addition to providing generally buoyant markets for the primary producing countries. The former aspect of growth in world trade flows is discussed in the following subsection, while the discussion of trade flows

TABLE 16. INDUSTRIAL COUNTRIES: GROWTH OF EXPORT MARKETS AND RELATIVE EXPORT PERFORMANCE, 1960–70

(*Percentages; based on exports in U.S. dollars*)

	Growth of Export Markets [1]					Relative Export Performance [2]				
	Annual percentage change		Change from preceding year			Per cent per annum				
	1960–70	1967–70	1968	1969	1970	1960–70	1967–70	1968	1969	1970
Canada	11.3	15.1	21.4	11.1	13.0	−0.1	+0.1	−1.8	−1.6	+3.7
United States	9.3	13.0	11.4	14.1	13.6	−1.5	−1.8	−1.7	−3.8	+0.1
France	10.0	16.1	12.2	17.3	18.8	+0.1	+0.3	−0.7	+0.8	+0.7
Germany	10.8	15.2	12.2	16.7	16.7	+0.7	+1.0	+1.9	+0.2	+0.8
Italy	10.9	16.3	13.9	17.7	17.3	+2.5	−1.2	+2.7	−2.2	−4.2
United Kingdom	9.7	14.3	12.1	15.3	15.4	−3.2	−3.4	−4.8	−1.0	−4.3
Japan	9.4	13.0	14.6	11.7	12.7	+6.9	+8.8	+8.4	+10.4	+7.4
Belgium-Luxembourg	11.5	17.0	14.8	18.9	17.3	+0.3	+1.0	+1.1	+3.3	−1.3
Netherlands	11.0	16.9	13.4	19.2	18.3	+0.3	+0.3	+1.0	+0.2	−0.2
Austria	11.3	16.7	12.1	17.8	20.1	−1.3	−0.3	−1.9	+2.9	−1.4
Switzerland	11.0	15.7	12.9	16.9	17.4	−0.4	−1.7	+0.5	−0.2	−5.5
Denmark	9.8	14.2	11.0	13.8	17.7	−1.3	−3.9	−6.4	+0.5	−5.6
Norway	9.9	14.5	11.6	15.0	17.0	+0.8	−2.0	−0.1	−1.2	−4.8
Sweden	10.2	14.3	9.4	15.5	18.1	—	—	−0.3	−0.2	+0.7

Sources: *International Financial Statistics;* International Monetary Fund and International Bank for Reconstruction and Development, *Direction of Trade;* and Organization for Economic Cooperation and Development, *Overall Trade by Countries, Series A* (as basis for 1969–70 market growth calculations).

[1] For the purpose of these calculations, the world has been divided into 33 countries and country groups: 14 industrial countries; 11 more developed primary producing countries; 6 areas of less developed primary producing countries; CMEA countries, mainland China, etc.; and a residual group (for trade unallocated by destination). The growth of a country's export markets is taken to be equal to the growth rate that its total exports would have achieved if its share of industrial countries' exports to each of 32 markets (all the above-mentioned except the country itself) had been exactly maintained.

[2] The percentage by which actual exports of a country exceed (or fall short of) the value of exports implied by exact share maintenance as described in footnote 1.

involving primary producing countries is reserved for a subsequent section of this chapter.

Export Performance and Trade Balances

The industrial countries exhibited fairly wide variations in rates of export growth from 1969 to 1970, generally reflecting both shifts in relative export performance [5] and differential rates of export market growth.[5] The latter, of course, arose in considerable part from the marked differences within the industrial world in rates of domestic economic expansion. Also of importance in this connection were differences among the various industrial countries in the proportions of their exports going to the primary producing countries, where import growth in 1970 was appreciably less robust than in the industrial countries themselves.

However, the variations among industrial countries with respect to export market growth occurred in 1970, as in the two previous years, around an average rate of expansion much higher than that prevailing over most of the past decade. As shown in Table 16, the average since 1967 has been about 4 to 6 percentage points above that for the full decade 1960–70, and some of the 1970 rates exceeded the historical averages by wider margins. The recent high rates of growth in individual countries' export markets were the counterpart, of course, of the sustained intensity of total world import demand over the past three years.

Generally speaking, the markets that expanded most strongly from 1969 to 1970 were those of the European countries whose trade was most heavily concentrated in the relatively fast-growing continental European market. Rates of expansion in the respective export markets of these countries in 1970 ranged from a little under 17 per cent for Germany to 20 per cent for Austria. At the other

[5] The terms "relative export performance" and "export market growth" (or close synonyms) are used throughout this section in the context of the specific statistical measures presented in Table 16 and described in the footnotes to that table.

end of the spectrum, with market growth in the 12½ to 13½ per cent range, were the United States, Japan, and Canada, all of which sell relatively large proportions of their exports either in the North American market or in the markets of primary producing countries; in both of these market areas, import demands in 1970 were far less expansive than in continental Europe. Export markets of the United Kingdom showed a rate of expansion—15½ per cent—intermediate between the average for the continental European group and that for the other industrial countries.

For the whole period 1960 to 1970 the range of market growth rates was appreciably narrower, as well as lower. Rates for the United States, Japan, and the United Kingdom all averaged close to 9½ per cent; those for the Scandinavian countries and France approximated 10 per cent; and the averages for the other continental European countries were in the neighborhood of 11 per cent.

Countries' average gains or losses of export market shares, listed in the right-hand columns of Table 16 and explained in the footnotes to that table, showed much wider variations in 1970 than did the respective market growth rates. Some of the major changes in shares represented continuations of medium-term historical experience, while others departed sharply from such experience.

In the latter category was the large market share gain (3.7 per cent) for Canada in 1970. This spurt in Canadian export performance, coming in a year of no growth in the country's imports (because of slack domestic demand, especially for capital goods), resulted in an unprecedented enlargement of Canada's export surplus, from less than \$1 billion in 1969 to \$3 billion in 1970 (Table 17). The latter figure was out of line with longer-term historical experience, reflecting not only the cumulative improvement in Canada's international trade position over a number of years but also various special factors that combined to enlarge Canada's export surplus last year.

The other large export market share gain among the major industrial countries in 1970—that of Japan—was by no means out of line with experience of the past decade. Indeed, the 7 per cent average of increases in Japan's shares of individual markets, although not so large as the corresponding gain in 1968 or 1969, was about the same as the average annual increase from 1960 to 1970. Given the relatively slow growth

TABLE 17. INDUSTRIAL COUNTRIES: TRADE BALANCES, 1961–70 [1]

(In billions of U.S. dollars)

	Annual Averages		Calendar Years		
	1961–65	1966–70	1968	1969	1970
Belgium-Luxembourg	0.20	0.24	−0.02	0.18	0.76
France	0.33	−0.03	0.01	−1.22	0.70
Germany	2.01	4.97	5.68	5.16	5.80
Italy	−0.68	0.32	1.05	0.54	−0.34
Netherlands	−0.47	−0.56	−0.32	−0.42	−0.88
Total, EEC countries	1.39	5.14	6.40	4.23	6.04
Austria	−0.32	−0.49	−0.46	−0.33	−0.60
Denmark	−0.29	−0.55	−0.46	−0.63	−0.79
Norway	−0.65	−0.87	−0.71	−0.69	−1.19
Sweden	−0.21	−0.20	−0.17	−0.17	−0.21
Switzerland	−0.74	−0.66	−0.38	−0.51	−1.33
Total, other continental European countries	−2.21	−2.77	−2.18	−2.34	−4.12
Total, continental European countries	−0.82	2.17	4.22	1.89	1.92
United Kingdom	−0.61	−0.70	−1.54	−0.34	—
Japan	0.39	2.73	2.53	3.70	3.96
Canada	0.39	1.25	1.38	0.90	2.98
United States	5.43	2.24	0.62	0.66	2.11
Total, all industrial countries	4.78	7.69	7.21	6.81	10.98

Source: Data reported to the International Monetary Fund.

[1] The data in this table are on a balance of payments basis; they are thus comparable to (and implicit components of) the data in Tables 24 and 25, but are not directly comparable to the data for primary producing countries in Table 23.

of Japan's principal markets in 1970, together with the high rate of increase in Japanese imports, the large export share gain resulted in a moderate further increase in the large surplus in Japan's external trade account.

An unusual feature of the global pattern of changes in trade balances from 1969 to 1970 was the increase of $1½ billion in the U. S. trade balance during a period of rising export surpluses for both Canada and Japan. Because of the heavy weight of these two countries in U. S. foreign trade relationships, large changes in their combined balance have in the past been associated more often than not with opposite changes in the U. S. balance. In line with that pattern, the bilateral balance of the United States with Canada, which had already swung from surplus in the middle 1960s to sizable deficits in 1968 and 1969, showed a further negative shift of some $0.8 billion from 1969 to 1970.[6] In bilateral trade with Japan, the U. S. deficit declined slightly from 1969 to 1970 but remained considerably larger than in the mid-1960s. In U. S. trade with areas other than Canada and Japan there was a surplus of $5 billion in 1970, roughly the same as in the middle 1960s, but considerably above the comparable surplus of $2.8 billion in 1969. The 1969–70 increase in this surplus was concentrated in trade with Western Europe, where the proportion of imports supplied by the United States rose in 1970 (although not enough to compensate more than fractionally for large declines in other recent years).

Globally, the U. S. share of industrial countries' export markets was maintained in 1970. That export performance contrasted with the rather steady declines in U. S. market shares that had been occurring for a number of years and sufficed, in a period of fairly moderate import expansion in the United States, to permit the rise in the export surplus already noted. Data for the first four months of 1971 suggest, however, that even the modest 1970 export surplus may be difficult to maintain in a period of renewed domestic expansion and less buoyant demand conditions in the rest of the industrial world.

Other major industrial countries whose export growth in 1970 matched or exceeded the growth of their respective markets were Germany and France. In neither instance was there a very large increase in market share or one very different from the average experience of recent years.[7] However, these share gains were sufficient, given the rapid growth of both countries' export markets, to bring strong expansion of their exports.

For Germany that expansion sufficed, despite a large increase in imports, to raise the export surplus by $0.6 billion, to $5.8 billion. In France, however, 1970 import growth was considerably below the average rate for other continental European countries, so that a moderate trade surplus replaced the $1 billion deficit of 1969. Both the 1969 devaluation of the franc and the effects of the accompanying domestic stabilization program contributed to this recovery.

Countries whose exports did not keep pace with their markets in 1970 included the United Kingdom, Italy, and all of the smaller industrial countries except Sweden. For the United Kingdom and Italy, as well as Denmark, Norway, and Switzerland, the shortfalls were on the order of 4 to 5 per cent.

The slippage of the U. K. share represented a reversion, following a comparatively strong export performance in 1969, to an earlier pattern of persistent share losses over a long period. However, since the 1970 expansion of U. K. imports was also much smaller than that for most of the industrial countries, the U. K. trade balance showed a slight further improvement in the wake of the substantial one registered in 1969.

Italy's export market share loss in 1970 followed a smaller loss in 1969 but contrasted sharply with the perennial gains of earlier years. In both of the past two years, the country's export performance was adversely affected by the impact of strikes on supplies available for export. These disruptions of production, coming at a time of sharp wage increases and fairly strong consumer demand, also tended to induce increased flows of imports. Consequently, the Italian trade

[6] A substantial part of the 1969–70 rise in the U. S. deficit with Canada was attributable to the uneven effects of strikes on U. S. exports and imports.

[7] Germany's export market share was probably less well maintained on a volume basis than in terms of trade values; however, market-share calculations in terms of volume are not available.

TABLE 18. UNIT VALUES OF EXPORTS, 1956–70
(*Index, 1963 = 100; measured in terms of U.S. dollars* [1])

	Annual Averages		Calendar Years			
	1956–60	1961–65	1967	1968	1969	1970
Industrial countries	99	101	106	105	108	116
United States	97	101	110	111	115	122
United Kingdom	94	100	108	101	105	112
Continental Europe	101	101	104	102	105	114
Japan	107	100	101	102	105	111
Other developed areas	98	99	102	98	101	104
Less developed areas	106	101	103	103	107	110

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.

balance [8] swung from moderate surplus into moderate deficit.

In most of the smaller industrial countries, the shortfall of exports in relation to market growth in 1969 was accompanied by particularly high rates of increase in imports. The latter rose faster than in 1969, while the rate of export expansion subsided somewhat, bringing a substantial enlargement (from $2½ billion in 1969 to well over $4 billion in 1970) of the combined trade deficit for the seven smaller industrial countries. In several of these, including the Scandinavian countries, domestic demand pressures were mainly responsible for this rise in net imports.

The 1969–70 increase in the combined trade deficit of the smaller European industrial countries approximately offset the concurrent increase in the combined trade surplus of the large industrial countries outside North America. Given the sizable expansion of the Canadian and U. S. export surpluses, however, the whole group of industrial countries showed a substantial increase, from about $7 billion in 1969 to $11 billion in 1970, in its collective trade balance with other countries.[9]

International Price Movements

Prices of internationally traded goods, already rising briskly in 1969 after several years of little change, turned sharply upward in 1970. That year's increase in the average unit value of global exports, approximating 6 per cent (Table 18), was the largest annual increase in export prices in almost two decades.

The size of the 1969–70 increase reflected several interrelated factors. Predominant among them was the acceleration of domestic price inflation in the industrial countries, where the average rate of increase, as measured by GNP deflators, rose to more than 5½ per cent in 1970, compared with about 4½ per cent in 1969, 3½ per cent in 1968, and 2½ per cent in the early 1960s (Table 19).

Only in the United States and the United Kingdom, among the large industrial countries, have movements of export unit values tended over a considerable period to parallel movements of the respective GNP deflators. Elsewhere, and especially in the larger continental European countries, advances in average export prices prior to 1970 tended consistently to lag behind domestic price increases.[10] In 1970, however, the export unit value series for nearly all of the industrial countries (expressed in U. S. dollars) showed advances at least as large as the associated GNP price changes.

As noted in Chapter 1, this new relationship of foreign trade prices to domestic prices apparently stemmed in considerable part from pricing reactions of European producers to the German and French parity adjustments of 1969. Moreover, price increases in Europe were largely unchecked by any strong competitive influence of North American prices, since the latter were rising almost equally rapidly (after having risen more sharply than European export prices for several previous years).

[8] With both exports and imports valued f.o.b.

[9] Because of unidentified asymmetries in the reported trade statistics, this increase exceeds the concurrent increase in the collective trade deficits of the primary producing countries as measured by available data.

[10] For a partial explanation of this contrast among industrial countries with respect to price relationships, see *Annual Report, 1970,* pages 54–55.

For the more developed primary producing countries of Europe, the 1969–70 export price rise was also exceptionally large, reflecting the close linkage between many of these countries and neighboring industrial countries. This characterization, however, does not apply to the more developed countries of the Southern Hemisphere, whose export unit values were affected by adverse price trends for some of their agricultural products.

Prices for exports of the less developed countries, in contrast to those of the industrial countries, rose less in 1970 than in 1969. Indeed, the overall trend of developing countries' export prices was downward during the second half of 1970, as prices of metals and agricultural nonfood commodities weakened in the aftermath of their bulge during the 1968–69 surge of demand in the industrial countries.

Import prices paid by both the more developed and the less developed primary producing countries moved upward more sharply in 1970 than in 1969 or in any other recent year. Like the import prices of the industrial countries, the prices of primary producers' imports were adversely affected by the intensification of inflation in the industrial countries.

It should be noted, however, that the rise in foreign trade prices appeared to be tapering off in the second half of 1970 and the early part of 1971. Rates of increase reported for the latter period have been considerably lower than those recorded for the first half of 1970.

Changing Price Relationships Among Industrial Countries

Over the past several years, differences among industrial countries with respect to degrees or stages of inflation (discussed in Chapter 5) have clearly affected their competitive positions in international trade. Those positions have also been influenced by differences among countries in relationships of export price movements to domestic price movements, and recent shifts in such relationships may be modifying the impact of differential domestic price movements on international competitiveness. In addition, the exchange rate adjustments made by several large industrial countries in recent years have played—and continue to play—an important role in the realignment of international price relationships.

To some considerable extent, trade levels and patterns have already begun to reflect such a realignment. However, in view of the long lags often involved in adaptations to basic changes in market characteristics and competitive positions, it may be presumed that some of the adaptations likely to ensue from developments of the past year or two remain to be made gradually over a further extended period.

Relevant data on some of the key changes in

TABLE 19. INDUSTRIAL COUNTRIES: PRICE INCREASES, 1960–70
(Percentage changes in GNP deflators, at annual rates)

	Annual Averages			Change from Previous Year			
	1960–65	1965–70	1960–70	1967	1968	1969	1970
Canada	1.9	4.1	3.0	3.4	3.6	4.7	4.1
United States	1.4	4.0	2.7	3.2	4.0	4.8	5.5
Continental European industrial countries [1]	4.2	4.0	4.1	2.7	3.0	4.7	6.1
France	4.1	4.5	4.3	2.9	5.0	6.9	5.2
Germany	3.6	3.4	3.5	1.1	1.6	3.5	7.4
Italy	5.4	3.4	4.4	3.0	1.5	4.2	6.3
Other [1,2]	4.3	4.6	4.4	4.3	3.5	4.1	5.6
United Kingdom	3.4	4.8	4.1	3.2	3.9	5.1	7.4
Japan	5.0	4.5	4.8	4.2	3.7	4.1	6.2
Average, all industrial countries [1]	2.5	4.1	3.3	3.1	3.6	4.6	5.8

Sources: National economic and statistical reports; secretariat of the Organization for Economic Cooperation and Development; and Fund staff estimates.

[1] Weighted average of percentage changes for individual countries, with their respective gross national products, converted to U.S. dollars at current exchange rates, used as weights.

[2] Austria, Belgium, Denmark, Luxembourg, the Netherlands, Norway, Sweden, and Switzerland.

international price and cost relationships, focused specifically on comparative trends among competing countries, are depicted, in medium-term historical perspective, in Chart 9. One outstanding feature of that chart is the extent to which increases in manufacturers' unit costs in Germany, Italy, and Canada, expressed in U. S. dollars, have recently outrun the corresponding increases for their respective competitors. Italy was the only one of these countries whose trade balance declined in 1970. Nevertheless, it seems quite possible that the comparative cost shifts depicted in the chart may foreshadow a period of underlying downward pressure—except as it is offset by cyclical or other short-term influences—on the trade balances of the countries in question.

Of course, the underlying general trends in manufacturers' unit costs will not necessarily be reflected fully in export prices directly affecting these countries' international competitive positions. Indeed, the chart shows markedly more favorable comparative trends for the export unit values of all three countries than for their unit costs. Only for Germany, where the 1969 revaluation of the deutsche mark was a major factor in boosting dollar prices of exports, does the export unit value comparison indicate a shift in price relationships favorable to competitors in 1970.

Another feature of the same chart is the extent to which U. S. manufacturers regained during late 1969 and 1970 the ground lost with respect to their comparative cost position between the end of 1965 and mid-1969. Literally, the indices suggest that the comparative cost position of U. S. producers has recently become appreciably more favorable than it was in 1963 or 1964, when the U. S. trade balance was much larger than it has been in the past few years. Whether such a cost position will tend over time to restore a more favorable trade balance will depend not only on whether it is maintained or further improved but also on the degree to which it may eventually be reflected in comparative export prices. Through 1970, as indicated in the right-hand U. S. panel of Chart 9, only a small part of the earlier divergence between export price trends of the United States and of its competitors had been reversed; although the U. S. export price movement tended to flatten out during 1970, the export price indices of competitors advanced considerably less sharply than their indices of unit labor costs.

A country whose comparative cost-price position improved strikingly—with results readily visible in its external trade balance—is France. The 1969 devaluation, together with subsequent moderation of unit labor cost increases, opened a wide gap between the index for France (restored to its pre-1968 level, as expressed in terms of U. S. dollars) and that of its competitors, which soared throughout the second half of 1969 and the whole of 1970. Moreover, the relatively flat movement of French unit labor costs (in dollar equivalents) was strongly reflected, thanks to the 1969 devaluation, in a corresponding (though much less emphatic) contrast between the 1969–70 change in export unit values for France and the average change for its competitors.

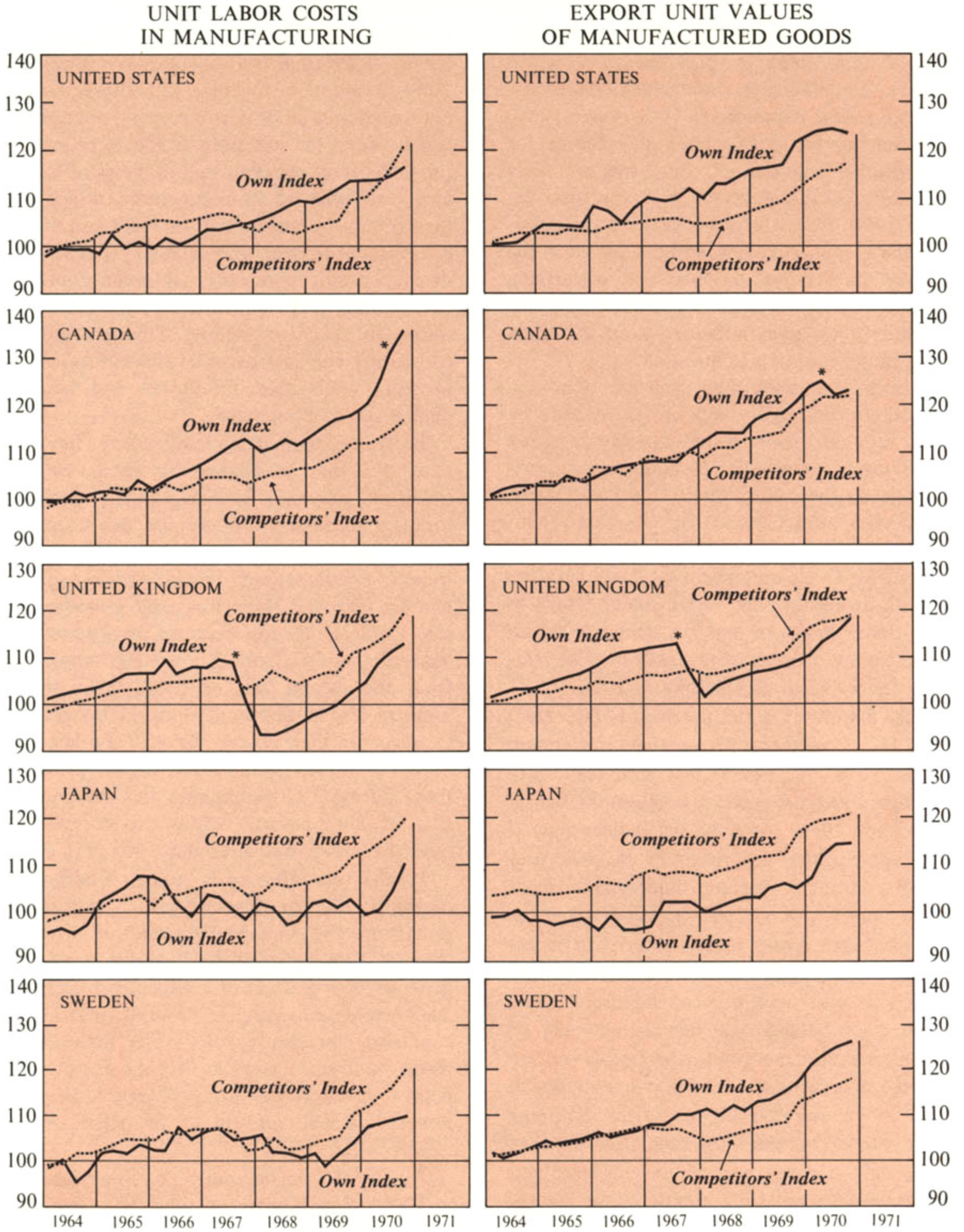
In the United Kingdom, where devaluation antedated that in France by about two years, much of the gain in competitive position was retained through 1970, despite the steep rise in British costs and export prices. The composite index of competitors' costs was rising almost equally fast, and there was only a moderate erosion of the U. K. cost position, as depicted by the data plotted in Chart 9, over the whole period from the second half of 1968, when the price adjustments to devaluation could be considered to have run their course, through the last quarter of 1970. However, the U. K. export price movement during 1970 compared less favorably with that of competitors, whose export unit values tended to level out after the early part of 1970.

Japan's unit labor costs increased fairly sharply during 1970, but this change did not close the significant gap that had opened up from 1966 through 1969 between the Japanese trend and the generally rising trend of competitors' costs. Japanese export prices, unlike those of most industrial countries, apparently rose faster than manufacturers' unit costs in 1970, but the Japanese competitive position was little affected, owing to the almost parallel movement of other countries' export prices.

Among the smaller industrial countries covered in Chart 9, the one displaying the most notable comparative cost-price gains from 1969 to 1970 was the Netherlands. Both in terms of unit labor costs and in terms of export unit values, less

CHART 9. SELECTED INDUSTRIAL COUNTRIES: COMPARATIVE COST-PRICE MOVEMENTS, 1964–70

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

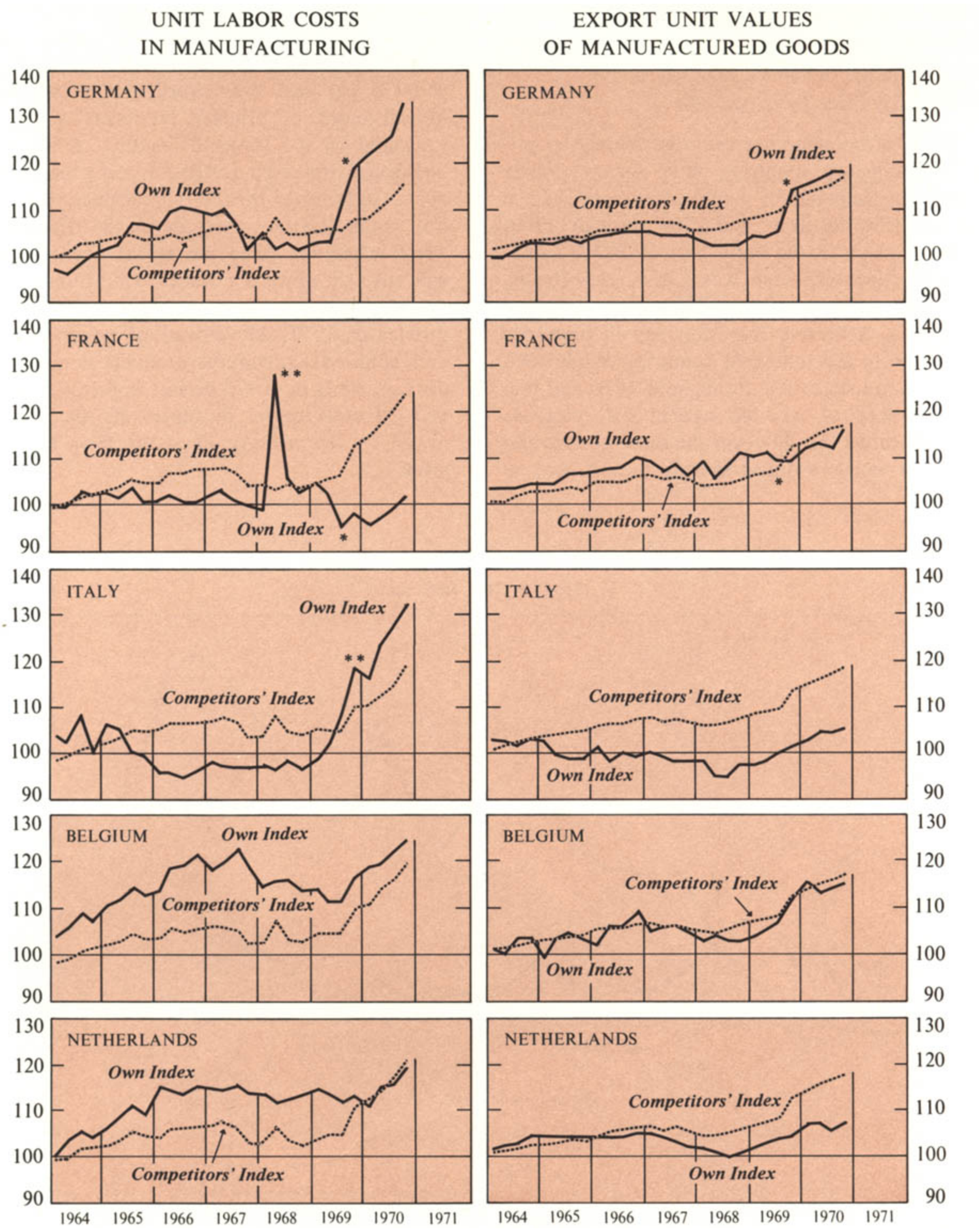


* Change in par value or floating of exchange rate.

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

CHART 9 *(concluded).* SELECTED INDUSTRIAL COUNTRIES: COMPARATIVE COST-PRICE MOVEMENTS, 1964–70

(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.

sizable year-to-year increases in that country than in competitor countries resulted in an apparently substantial improvement of the Dutch competitive position.

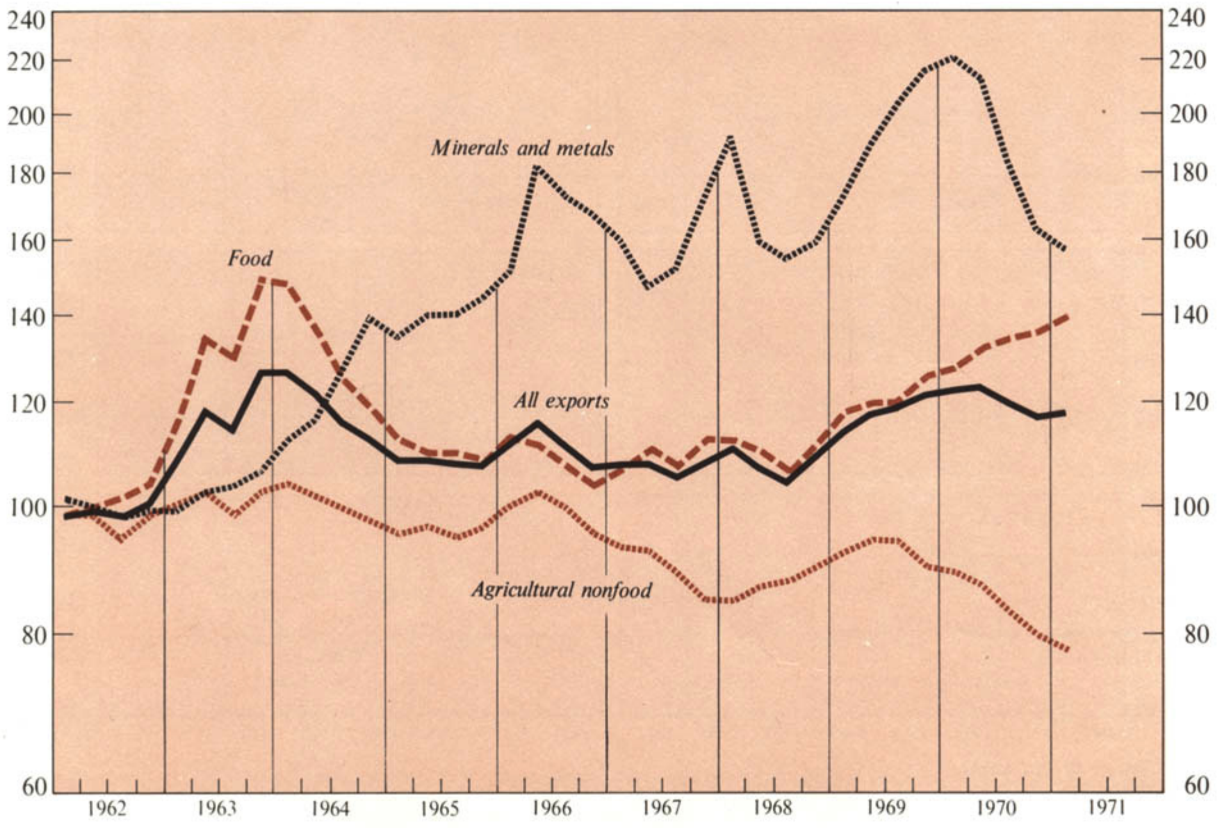
Commodity Price Developments

Prices of commodities exported mainly by primary producing countries, after rising strongly under the impetus of boom conditions in the industrial world from mid-1968 through 1969, remained high in the early part of 1970. Subsequently, however, there was a general softening of prices for commodities other than food and petroleum, reflecting the slowing of economic expansion in the industrial countries. While food prices continued to rise throughout 1970 and into 1971, prices of inedible agricultural materials declined rather steadily over the same period, and prices of metals dropped sharply from a peak in early 1970 through early 1971 (Chart 10). As noted below, these differential price movements gave rise to marked regional differences in overall movements of export prices and terms of trade.

Notwithstanding a downward movement of about 6 per cent from April to October in the overall index of primary producers' prices, as measured by the National Institute of Economic and Social Research (NIESR), the general average of such prices for the full calendar year 1970 was about 2½ per cent above the average for 1969, when the price movement over the year was strongly upward (Chart 10). Moreover, the decline appears to have been arrested in the first quarter of 1971. Movements of prices for food and nonfood agricultural products continued to diverge, while the 1970 decline in prices of metals and minerals began to taper off, leaving such prices on the average at about their late-1968 levels.

CHART 10. PRICES OF COMMODITIES EXPORTED BY PRIMARY PRODUCING COUNTRIES, 1962–FIRST QUARTER 1971

(1961 = 100; ratio scale)



The strength of most food prices during 1970 was associated with impaired crop prospects for certain important commodities, and especially for coffee, wheat, and vegetable oils. Under such supply conditions, export earnings of the countries concerned rose much less than prices of the affected commodities (Chart 11). Prices of certain foods, such as sugar, were also bolstered by new international agreements or arrangements affecting their marketing.

Relatively high volumes of trade helped to sustain export earnings from some agricultural raw materials, e.g., rubber, in the face of declining prices. However, stagnant or contracting markets exacerbated the effects of unfavorable price trends on other export proceeds. Wool, hard fibers, and jute were among the products in this category. The long-term weakness of their prices was probably in part a reflection of increasing competition from synthetic alternatives.

The decline in prices of metals during the latter part of 1970 followed spectacular increases during the previous period of strong world-wide industrial demand and tight supply conditions. It reflected the re-establishment of more normal demand and supply relationships, particularly for copper, rather than the collapse of a sustainable price level.

Several classes of commodities of large and growing importance to the primary producing countries are not covered in the NIESR index (Chart 10), or in the foregoing discussion. Foremost among these is petroleum. Although petroleum prices showed no marked change for 1970 as a whole, they have been greatly influenced by a succession of developments dating from the latter part of that year. Following certain relatively small upward adjustments of posted prices before the end of the year, major increases in oil prices were negotiated in the early months of 1971. These new arrangements between the international oil companies and the authorities of the important exporting countries, combined with increasing demand for petroleum, have assured a very sharp rise in prices and in total value of petroleum exported from primary producing countries.

The relative weakness of nonfood commodity prices in 1970, coupled with the sharp increase in prices of manufactured goods imported by the primary producing countries, resulted in some deterioration of the terms of trade for most groups of primary producing countries outside of Europe and the Western Hemisphere (Table 20). However, the export unit value index for primary producing countries of the Western Hemisphere rose sharply, and their combined terms-of-trade index also showed a marked increase, chiefly because of the strength of coffee prices during 1970. For different reasons, involving their sizable exports of manufactured goods, the primary producing countries of Northern Europe also represented an exception to the pattern of generally declining terms of trade for primary producing countries in 1970. Elsewhere, however, movements in the export prices of such countries were generally too weak to prevent some impairment of the terms of trade.

TABLE 20. PRIMARY PRODUCING COUNTRIES: UNIT VALUES OF EXPORTS AND TERMS OF TRADE, 1956–70

(Index, 1963 = 100)

	Unit Values of Exports						Terms of Trade					
	Annual averages						Annual averages					
	1956–60	1961–65	1967	1968	1969	1970	1956–60	1961–65	1967	1968	1969	1970
More developed areas	98	99	102	98	101	104	97	98	98	93	96	94
European countries	99	100	108	102	105	110	95	99	104	101	100	99
Australia, New Zealand, and South Africa	97	97	96	94	97	96	99	97	92	93	92	88
Less developed areas	106	101	103	103	107	110	104	100	100	102	103	102
Middle East	108	101	101	101	101	100	109	100	96	98	94	91
Asia	105	101	99	97	103	106	105	101	99	100	103	103
Africa	108	101	109	110	115	116	110	101	104	105	109	103
Western Hemisphere	103	101	106	107	110	120	102	99	102	102	104	108

Sources: United Nations, *Monthly Bulletin of Statistics*, January 1969 and July 1971.

CHART 11. MAJOR PRIMARY COMMODITIES: EXPORT EARNINGS AND PRICES FOR LESS DEVELOPED COUNTRIES, 1964–71

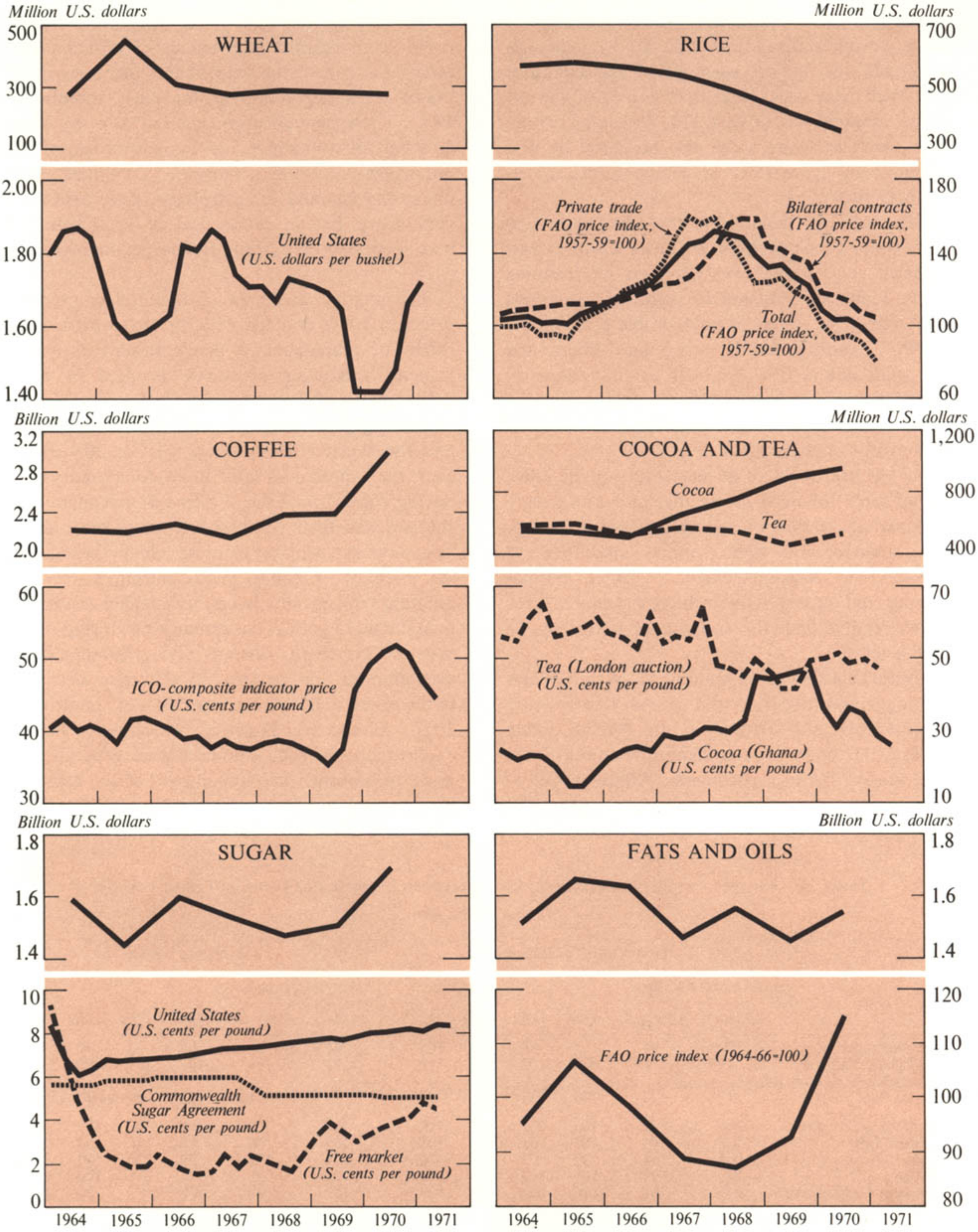
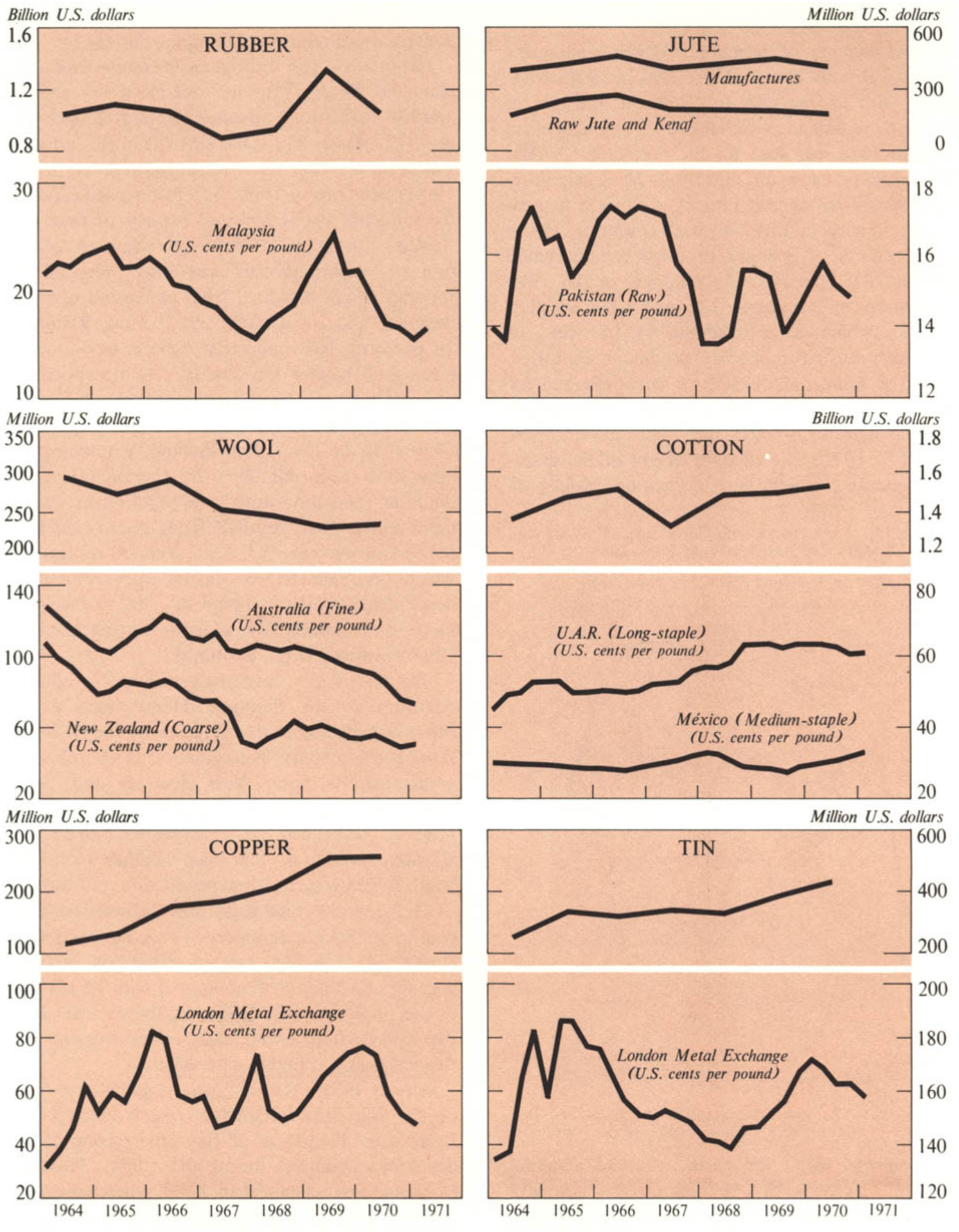


Chart 11 *(concluded)*. Major Primary Commodities: Export Earnings and Prices for Less Developed Countries, 1964–71



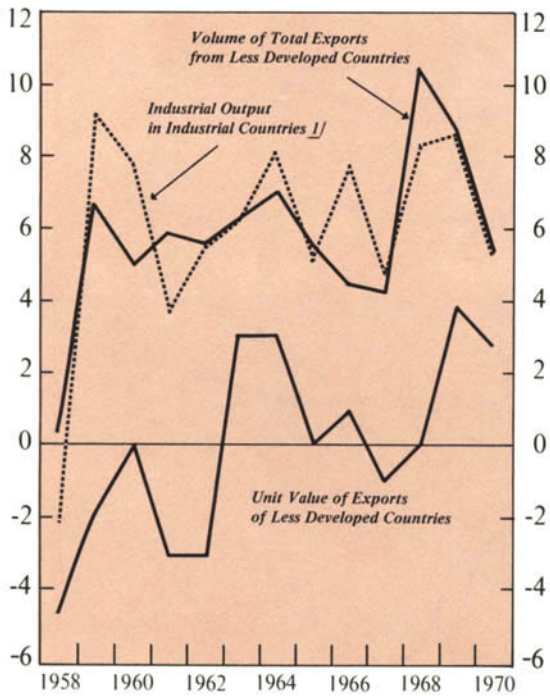
Trade of Primary Producing Countries

Export Expansion

Total exports of primary producing countries rose in value by about 11 per cent in 1970, compared with 13 per cent in 1969, but the rate of increase remained well above the longer-term average (7½ per cent for the period 1960–70). The primary cause of the 1969–70 deceleration was the slower overall rate of expansion in economic activity in the industrial countries, where most exports of primary products are marketed (Chart 12). However, the mildness of the 1970 slackening of economic expansion in Western Europe, which absorbs about 45 per cent of total exports of the primary producing countries, helped to temper the easing of world demand for such exports, as did the fact that U. S. import demand was much better sustained than domestic output in 1970. The relative weight of the European market, which was expanding rapidly in 1969, had also figured heavily in the acceleration of primary producing countries' exports in that year, when the post-1967 surge of U. S. economic activity was already beginning to subside.

CHART 12. LESS DEVELOPED COUNTRIES: VOLUME OF EXPORTS AND RELATED VARIABLES, 1958–70

(Per cent change from preceding year)



[1] Composite index for seven industrial countries (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States), weighted according to value of imports from less developed countries.

Exports of the European primary producing countries, contrary to the overall trend, showed another very strong advance of about 17 per cent in 1970 (Table 21). One element in this advance was a 26 per cent rise in Spanish exports, after a 19 per cent rise in 1969. The faster pace reflected the influence on agricultural exports of favorable weather during the 1970 crop season. Acceleration of export growth was also recorded for Ireland, which benefited from expansion of U. K. demand, and for Turkey and Iceland. Rising by 20 per cent, Irish industrial exports amounted to more than half of the country's total exports for the first time. In contrast, the exports of Finland and Yugoslavia rose somewhat less rapidly in 1970 than in 1969. For Finland, export growth may have been inhibited by the high level of domestic demand; otherwise, a stronger export trend might have resulted from improvement of the country's external cost competitiveness, in which a notable element was the apparently effective incomes policy adopted in 1969 to help preserve the comparative cost gains flowing from the 1967 devaluation of the markka.

For the more developed primary producing countries in the Southern Hemisphere, export expansion decelerated sharply in 1970. Although Australia's export performance was relatively good, exports from New Zealand and South Africa remained virtually unchanged. The falling price of wool was an unfavorable influence in all three countries, and bad weather hampered South Africa's agricultural production and exports.

The growth in total exports of the less developed countries also decelerated in 1970, but only moderately. The average rate of expansion in value was about 10 per cent, compared with 12 per cent in the previous year. However, the experience of the individual countries and regions entering into this average was highly diversified.

Among the outstanding export gains were those of the Far East countries, whose exports had risen faster than those of any other group of less developed countries during the 1960s. This performance was sustained in 1970, when exports of the Republic of China rose even more strongly

TABLE 21. PRIMARY PRODUCING COUNTRIES: CHANGES IN VALUE OF TOTAL EXPORTS, 1960–70 [1]

	1970 (*Billion U.S. dollars*)	Compound Percentage Annual Rates			Percentage Changes from Previous Year		
		1960–70	1960–65	1965–70	1968	1969	1970
MORE DEVELOPED AREAS							
Europe	**9.79**	**10.4**	**9.1**	**11.7**	**6.4**	**17.1**	**17.4**
Finland	*2.31*	*8.8*	*7.6*	*10.1*	*6.7*	*21.4*	*16.1*
Ireland	*1.04*	*9.2*	*7.5*	*11.0*	*1.8*	*11.7*	*16.2*
Portugal	*0.95*	*11.2*	*11.9*	*10.4*	*8.7*	*11.9*	*10.9*
Spain	*2.39*	*12.7*	*5.9*	*19.9*	*14.9*	*19.4*	*26.0*
Greece	*0.64*	*12.2*	*10.1*	*14.4*	*−5.5*	*18.2*	*16.1*
Turkey	*0.60*	*6.5*	*7.6*	*5.4*	*−5.2*	*8.3*	*12.5*
Yugoslavia	*1.68*	*11.5*	*14.0*	*9.0*	*1.0*	*16.7*	*13.8*
Southern Hemisphere	**8.17**	**7.2**	**6.3**	**8.1**	**4.2**	**14.0**	**7.1**
Australia	*4.77*	*9.3*	*8.7*	*9.9*	*1.4*	*19.7*	*13.0*
New Zealand	*1.23*	*3.8*	*3.6*	*4.0*	*1.6*	*19.9*	*1.2*
South Africa	*2.18*	*5.7*	*3.8*	*7.6*	*10.3*	*2.0*	*−1.1*
Total, more developed areas	**17.96**	**8.8**	**7.6**	**10.0**	**4.6**	**15.5**	**12.4**
LESS DEVELOPED AREAS							
Asia	**14.50**	**6.5**	**3.8**	**9.2**	**10.8**	**14.6**	**11.8**
Far East	4.78	18.4	14.8	22.0	20.6	28.3	24.1
Hong Kong	*2.51*	*13.8*	*10.7*	*17.1*	*14.2*	*24.9*	*15.4*
China, Republic of	*1.43*	*24.2*	*22.4*	*26.0*	*25.1*	*30.9*	*36.0*
Korea, Republic of	*0.84*	*38.2*	*39.6*	*36.7*	*42.2*	*36.7*	*34.2*
Southeast	6.60	3.6	0.8	6.5	8.0	14.5	6.8
Philippines	*1.07*	*6.6*	*6.5*	*6.8*	*3.3*	*0.7*	*24.9*
Thailand	*0.70*	*5.4*	*8.8*	*2.3*	*−3.4*	*7.6*	*−1.6*
Malaysia	*1.68*	*3.6*	*0.8*	*6.5*	*10.7*	*22.6*	*1.8*
Singapore	*1.55*	*3.2*	*−2.6*	*9.6*	*11.5*	*21.9*	*0.3*
Indonesia	*1.18*	*3.9*	*−3.0*	*7.6*	*13.2*	*14.0*	*18.7*
South	3.13	3.0	4.0	1.9	7.1	1.4	5.4
India	*1.96*	*3.9*	*4.9*	*3.0*	*8.7*	*4.6*	*6.8*
Pakistan	*0.72*	*6.3*	*6.1*	*6.5*	*11.6*	*−5.4*	*6.2*
Middle East	**10.91**	**8.5**	**8.0**	**9.0**	**9.4**	**9.1**	**7.5**
Oil exporters	8.71	9.0	8.6	9.4	9.2	7.2	8.5
Iran	*2.37*	*10.9*	*9.1*	*12.7*	*−2.6*	*11.7*	*13.1*
Kuwait	*1.58*	*5.1*	*5.3*	*4.9*	*5.9*	*6.1*	*7.1*
Saudi Arabia	*2.15*	*10.1*	*11.1*	*9.0*	*8.9*	*5.3*	*5.2*
Other Middle East	2.21	6.5	5.9	6.9	10.3	16.7	7.6
Israel	*0.78*	*13.7*	*14.7*	*12.7*	*15.3*	*13.9*	*7.1*
United Arab Republic	*0.76*	*3.0*	*1.3*	*4.7*	*9.9*	*19.8*	*2.3*
Africa	**11.95**	**9.7**	**8.3**	**11.2**	**16.1**	**16.4**	**11.4**
North Africa	4.33	13.5	12.2	14.7	29.0	15.4	8.2
Libyan Arab Republic	*2.37*	*72.0*	*135.0*	*24.3*	*58.5*	*16.1*	*9.1*
Algeria	*1.00*	*6.0*	*2.7*	*9.5*	*4.8*	*23.1*	*7.4*
Morocco	*0.49*	*3.3*	*4.0*	*2.7*	*6.1*	*7.8*	*1.4*
Other Africa	7.62	8.1	6.8	9.4	9.6	17.0	13.3
Zambia	*0.99*	...	...	*13.2*	*15.8*	*40.8*	*−7.7*
Kenya	*0.29*	*6.1*	*5.3*	*6.1*	*4.9*	*8.8*	*7.0*
Congo, Democratic Republic of	*0.75*	*4.5*	*−5.6*	*17.3*	*15.9*	*26.3*	*16.0*
Nigeria	*1.24*	*10.1*	*9.6*	*10.6*	*−13.6*	*51.7*	*39.4*
Ghana	*0.46*	*4.6*	*−0.2*	*9.6*	*16.1*	*18.1*	*17.6*
Ivory Coast	*0.47*	*11.6*	*12.0*	*11.1*	*30.8*	*8.5*	*1.7*
Western Hemisphere	**15.87**	**5.7**	**5.2**	**6.1**	**5.0**	**10.1**	**9.4**
Central America, Mexico, and Caribbean	5.05	5.9	5.9	5.9	7.5	7.9	5.2
Mexico	*1.40*	*6.2*	*7.9*	*4.5*	*10.4*	*14.0*	*−2.2*
Trinidad and Tobago	*0.48*	*5.3*	*7.0*	*3.6*	*7.3*	*0.2*	*1.9*
South America	10.82	5.6	4.9	6.2	3.7	11.2	11.4
Argentina	*1.76*	*5.0*	*6.7*	*3.4*	*−6.6*	*17.8*	*9.4*
Brazil	*2.74*	*8.0*	*4.7*	*11.4*	*13.7*	*22.9*	*18.5*
Chile	*1.18*	*9.2*	*7.0*	*11.4*	*3.0*	*23.9*	*1.3*
Peru	*1.04*	*9.3*	*9.1*	*9.4*	*8.0*	*−0.1*	*20.8*
Colombia	*0.75*	*4.8*	*2.9*	*6.8*	*9.4*	*11.6*	*19.7*
Venezuela	*2.64*	*0.8*	*0.4*	*1.2*	*0.3*	*−0.6*	*4.6*
Other Areas	**0.49**	**8.3**	**4.2**	**12.7**	**16.7**	**17.1**	**19.5**
Total, less developed areas	**53.73**	**7.2**	**5.9**	**8.6**	**9.8**	**12.5**	**10.2**
Total, primary producing countries	**71.69**	**7.6**	**6.3**	**8.9**	**8.7**	**13.2**	**10.7**

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

[1] Based on customs data, not adjusted to balance of payments concepts. Regional figures are comprehensive, including data for countries not listed separately.

than in 1969, while Hong Kong and the Republic of Korea recorded export increases almost equal to the large ones recorded for 1969. These gains were made despite the relatively large weight of the United States (whose imports, as noted above, rose less in both 1969 and 1970 than those of most other industrial countries) among the markets for Far East exports. It was the commodity composition—heavily centered in manufactured goods—and the price competitiveness of these exports that permitted their exceptionally rapid expansion.

In contrast, exports of the South and Southeast Asian countries grew only about half as much in 1970 as the average for all developing countries. In South Asia even that performance represented an improvement over the 1969 record, but the reverse was true for Southeast Asia, where most of the principal countries were adversely affected by a decline of about 15 per cent in the price of natural rubber.

Within the Southeast Asian group, only Indonesia and the Philippines experienced an acceleration of export growth in 1970. For the former, a 20 per cent rise in exports of petroleum (the largest single category) and a doubling of the value of exports of forest products outweighed the effect of the rubber price decline. The good export performance of the Philippines in 1970 was attributable in large part to higher copper and sugar prices, as well as to the fruition of recent investments in industries connected with those products. In contrast, the value of Thailand's exports was affected unfavorably not only by the rubber price decline but also by a drop in the price of rice, driven down mainly by the approach to self-sufficiency in major importing countries and by the supplying of rice on concessionary terms by the United States and Japan, mainly to countries in balance of payments difficulty. Singapore's exports, after a 22 per cent rise in 1969, ceased to expand in 1970, when exports of refined petroleum products to Viet-Nam were reduced and earnings on rubber exports—like those of Malaysia—were dampened by the price decline. Two war-ravaged countries of the region, Viet-Nam and the Khmer Republic, experienced drastic decreases—about 40 per cent each—in their exports.

Within the South Asian group of countries, the least satisfactory export results in 1970 were those reported for Burma. That country, like Thailand, was adversely affected by the difficulties mentioned above with respect to rice. Indeed, it was affected to a greater degree because of its heavier dependence upon rice for export earnings. Burma was also hurt by floods that reduced export shipments of teak, its second most important export. Pakistan's exports, consisting preponderantly of jute and raw cotton, barely regained their 1968 level in 1970. However, the total for the latter year may have been affected by delays in shipment and underinvoicing, stemming from speculation in the latter part of the year on changes in the foreign exchange system. The increase in India's exports from 1969 to 1970, amounting to about 7 per cent, was relatively small in relation to other countries' export performances, but compared favorably with India's own average annual export growth for the previous decade. Both India and Ceylon were helped by the increase in tea prices in 1970; also, the former, with its diversified export structure, now appears to be benefiting from export promotional measures undertaken in recent years.

In the Middle East both oil exporters and the other countries of the region increased their exports in 1970 at rates slightly below the average for all less developed countries. For the countries whose foreign exchange receipts are not dominated by oil, that rate represented a marked deceleration, centered in the United Arab Republic and attributable in considerable part to a leveling out of prices for raw cotton (which accounts for two fifths of U. A. R. export earnings) after their sharp rise in 1969. Among the oil exporters of the area, the export pace was led in 1970 by Iran, which obtained some 85 per cent of its current foreign exchange earnings from oil.

In Africa the average rate of export growth was somewhat lower in 1970 than in 1969 but continued to exceed the global average for less developed countries. For North African countries, increases in petroleum exports dominated the 1969–70 change, as Tunisian agricultural exports declined and those of Morocco failed to increase appreciably, for each country partly because of adverse weather conditions. In addition, North African exports of citrus products were dampened by intense competition from other Mediterranean countries.

In other parts of Africa, exports were influenced by a wide variety of factors. A continuation of impressive export growth for Nigeria was attributable largely to the petroleum sector, which now accounts for more than half of the country's export earnings. However, in two countries whose exports are dominated by copper—the Democratic Republic of Congo and Zambia—a deceleration of export growth reflected declines in copper prices and the flooding of a major mine in Zambia. For Uganda bumper harvests of cotton and coffee, together with increases in prices of these commodities, brought a large increase in export earnings. Dahomey benefited from the same price increases and, more importantly, from rising prices of palm products, which account for two fifths of its exports. Rwanda and Ivory Coast were among the other beneficiaries of rising coffee prices, and the latter country increased the volume of its exports of cocoa more than enough to offset the decline in cocoa prices. Ghana was able to bolster its 1970 export earnings considerably through the high cocoa prices of 1969, since a substantial proportion of its crop had been sold on a forward basis.

For the less developed countries of the Western Hemisphere as a group, the rate of growth in value of exports edged downward only slightly in 1970, to about 9 per cent. That average comprised, however, a much weaker performance for Mexico and several of the Caribbean countries, and little change in the performance for the South American countries as a group. In Mexico bad weather severely limited agricultural production for export, and shrinking acreage devoted to cotton production also contributed to a decline in total exports. In most of the Central American coffee-producing countries, total export earnings increased by sizable percentages. Some of the Caribbean countries also recorded large increases in traditional exports (e.g., sugar from the Dominican Republic and bauxite and alumina from Jamaica).

Among the South American countries, the largest absolute export gains from 1969 to 1970 were those of Peru, Brazil, and Colombia, each on the order of 20 per cent. Percentage increases in the 15–25 per cent range were also recorded for Ecuador, Uruguay, and Paraguay. Peru's good export performance stemmed from a rise in the price of fish products and a large volume of shipments of fish, mineral, and agricultural products. For Brazil and Colombia, where coffee still accounts for one third and three fifths, respectively, of total export earnings, the rise in coffee prices was an important factor. Although bad weather reduced Brazil's coffee crop, the volume of exports was maintained by drawing on accumulated stocks. In addition, the proportion of Brazil's export earnings coming from sales of manufactured goods rose to 13 per cent, compared with only 5 per cent as recently as 1964. Brazilian exports have apparently benefited generally from the exchange rate policy adopted in August 1968, under which frequent small adjustments of the rate have eliminated much of the uncertainty formerly overhanging foreign trade transactions.

Of the larger South American countries, the one whose exports rose least in 1970 was Chile, where the previous year's rise had been exceptionally large, reflecting the bulge in copper prices. In 1970 the decline in the unit value of copper exports tended to balance an increase in their volume, and the total value of Chilean exports showed little change.

Imports and Trade Balances

Imports of primary producing countries continued to surge upward in 1970, increasing in value at a rate of 13 per cent. That figure exceeded by 2 percentage points the previous year's rate, which itself was well above the trend rate for the past decade (Table 22).

To a considerable extent the rise in the value of merchandise imports of primary producing countries was attributable to the marked increase in import prices, which rose by 5 per cent in 1970, compared with 3 per cent in 1969. Both rates closely paralleled the concurrent increases in unit values of manufactured goods exported by industrial countries, reflecting the predominance of such goods among imports of primary producing countries. Nevertheless, the rise in these imports was also generally in line with changes in output and export growth in the primary producing countries themselves. Their aggregate export receipts, as noted previously, rose more rapidly in the past

TABLE 22. PRIMARY PRODUCING COUNTRIES: CHANGES IN VALUE OF TOTAL IMPORTS, 1960–70 [1]

	1970 (*Billion U.S. dollars*)	Compound Percentage Annual Rates			Percentage Changes from Previous Year		
		1960–70	1960–65	1965–70	1968	1969	1970
MORE DEVELOPED AREAS							
Europe	**16.60**	**12.4**	**13.9**	**11.0**	**4.6**	**17.2**	**21.2**
Finland	*2.64*	*9.5*	*9.1*	*9.9*	*−8.1*	*26.8*	*30.2*
Ireland	*1.62*	*9.9*	*10.5*	*9.3*	*10.4*	*18.8*	*14.6*
Greece	*1.96*	*10.8*	*10.1*	*11.5*	*17.5*	*14.4*	*22.7*
Portugal	*1.56*	*11.0*	*11.1*	*11.0*	*11.2*	*10.0*	*20.1*
Spain	*4.72*	*20.6*	*33.0*	*9.4*	*1.1*	*20.1*	*12.3*
Turkey	*0.92*	*7.0*	*4.3*	*9.8*	*11.6*	*−2.1*	*22.0*
Yugoslavia	*2.87*	*13.3*	*9.3*	*17.4*	*5.2*	*18.8*	*34.5*
Southern Hemisphere	**10.26**	**7.0**	**7.5**	**6.5**	**4.5**	**8.3**	**16.0**
Australia	*5.10*	*6.5*	*6.8*	*6.2*	*12.0*	*4.1*	*11.8*
New Zealand	*1.24*	*4.7*	*5.7*	*3.6*	*−6.3*	*12.1*	*23.9*
South Africa	*3.92*	*8.7*	*9.5*	*7.8*	*−1.9*	*13.5*	*19.5*
Total, more developed areas	**26.86**	**10.0**	**10.9**	**9.1**	**4.4**	**13.5**	**19.2**
LESS DEVELOPED AREAS							
Asia	**19.52**	**7.0**	**5.0**	**9.1**	**6.8**	**10.6**	**10.5**
Far East	6.41	14.4	9.2	19.9	22.1	24.2	16.7
Hong Kong	*2.91*	*11.0*	*8.9*	*13.1*	*13.1*	*19.4*	*18.2*
China, Republic of	*1.52*	*17.8*	*13.4*	*22.3*	*12.1*	*34.3*	*25.6*
Korea, Republic of	*1.98*	*19.1*	*6.1*	*33.8*	*46.9*	*24.7*	*8.7*
Southeast	9.26	6.9	4.1	9.7	7.2	12.3	10.7
Philippines	*1.21*	*6.3*	*6.2*	*6.3*	*9.2*	*−2.0*	*−3.5*
Thailand	*1.25*	*10.7*	*10.2*	*11.2*	*8.5*	*8.0*	*0.9*
Malaysia	*1.39*	*4.3*	*3.8*	*4.8*	*6.7*	*1.6*	*17.9*
Singapore	*2.46*	*6.3*	*−1.3*	*14.6*	*15.4*	*22.7*	*20.9*
Indonesia	*1.29*	*5.0*	*4.4*	*5.5*	*3.6*	*19.1*	*17.1*
South	3.85	0.5	4.0	−2.6	−6.4	−7.3	1.1
India	*2.13*	*−0.8*	*4.1*	*−4.6*	*−9.5*	*−12.3*	*−3.2*
Pakistan	*1.15*	*5.8*	*9.8*	*2.0*	*−6.9*	*−1.1*	*13.5*
Middle East	**8.26**	**7.8**	**8.2**	**7.5**	**12.2**	**11.2**	**7.1**
Oil exporters	4.39	9.6	9.3	9.9	12.4	8.2	6.4
Iran	*1.78*	*12.0*	*8.5*	*15.6*	*20.4*	*14.7*	*14.1*
Kuwait	*0.63*	*10.0*	*9.3*	*10.6*	*3.0*	*5.7*	*−3.3*
Saudi Arabia	*0.77*	*12.6*	*16.6*	*8.8*	*25.1*	*2.2*	*0.4*
Other Middle East	3.88	6.1	7.2	5.0	11.8	14.7	7.9
Israel	*1.44*	*11.1*	*10.6*	*11.6*	*43.9*	*18.3*	*9.0*
United Arab Republic	*0.87*	*2.7*	*6.9*	*−1.4*	*15.9*	*13.3*	*15.5*
Africa	**9.80**	**5.3**	**3.9**	**6.4**	**8.6**	**8.8**	**10.4**
North Africa	2.80	2.4	−2.8	8.1	17.0	11.3	1.2
Libyan Arab Republic	*0.55*	*12.6*	*13.6*	*11.6*	*35.5*	*4.8*	*−18.0*
Algeria	*1.02*	*−1.8*	*−8.0*	*8.6*	*27.6*	*23.8*	*0.8*
Morocco	*0.67*	*4.9*	*1.8*	*8.2*	*6.6*	*2.0*	*19.0*
Other Africa	7.00	6.8	7.3	5.8	5.4	7.7	14.6
Zambia	*0.49*	...	...	*8.2*	*6.2*	*−4.1*	—
Kenya	*0.42*	*6.8*	*4.9*	*8.2*	*6.0*	*1.4*	*15.8*
Congo, Democratic Republic of	*0.51*	*8.0*	*6.4*	*9.7*	*21.1*	*32.3*	*23.8*
Nigeria	*1.05*	*5.7*	*5.0*	*6.5*	*−13.6*	*27.7*	*52.4*
Ghana	*0.41*	*1.3*	*4.3*	*−1.5*	*−3.8*	*12.8*	*19.3*
Ivory Coast	*0.39*	*11.5*	*12.6*	*10.5*	*18.9*	*7.3*	*15.1*
Western Hemisphere	**17.22**	**6.0**	**4.9**	**8.8**	**9.7**	**8.6**	**12.0**
Central America, Mexico, and Caribbean	7.72	7.1	6.0	8.2	7.9	6.2	12.6
Mexico	*2.46*	*7.6*	*5.6*	*9.5*	*12.3*	*6.0*	*18.4*
Trinidad and Tobago	*0.54*	*6.3*	*10.2*	*2.6*	*2.4*	*12.6*	*12.5*
South America	9.50	5.1	4.1	9.3	11.4	10.7	11.6
Argentina	*1.68*	*3.0*	*−0.8*	*7.0*	*6.7*	*34.8*	*6.6*
Brazil	*2.76*	*6.6*	*−4.6*	*20.3*	*27.9*	*5.2*	*22.9*
Chile	*0.94*	*6.0*	*2.8*	*9.3*	*2.2*	*16.1*	*9.2*
Peru	*0.63*	*5.4*	*14.8*	*−2.9*	*−25.8*	*−2.0*	*4.5*
Colombia	*0.84*	*4.9*	*−2.4*	*13.1*	*29.5*	*6.7*	*22.0*
Venezuela	*1.94*	*4.7*	*4.1*	*5.1*	*16.3*	*2.9*	*6.6*
Other Areas	**0.62**	**6.5**	**8.7**	**4.4**	**14.0**	**−4.6**	—
Total, less developed areas	**55.42**	**6.4**	**4.7**	**8.2**	**8.9**	**9.5**	**10.3**
Total, primary producing countries	**82.28**	**7.5**	**6.5**	**8.5**	**7.5**	**10.7**	**13.1**

Sources: *International Financial Statistics* and Fund staff estimates.
[1] Based on customs data, not adjusted to balance of payments concepts. Regional figures are comprehensive, including data for countries not listed separately.

few years than during a number of preceding years, and this probably helped to stimulate the growth of their output.

For the two years 1969 and 1970, the expansion of aggregate real GNP is estimated to have averaged 6.5 per cent for the more developed primary producing countries and 6 per cent for the less developed group. Each of these rates was about 1 percentage point higher than the corresponding average rate for the 1960s.

This acceleration of growth in domestic output and demand was supported in turn by the rising imports of recent years. These were facilitated during 1970 by the allocation of special drawing rights and probably also by an enlarged flow of private capital to the primary producing countries, as well as by sustained growth in those countries' export receipts. Although the overall flow of official capital and aid to the less developed countries has increased only moderately in recent years (as noted in Chapter 5), it continued to provide financing for a substantial volume of imports into those countries.

The growth of imports in both 1969 and 1970 was much higher in the more developed group of primary producing countries than in the less developed group. In particular, the European countries in the former group increased their imports by 21 per cent in 1970, following a 17 per cent increase in 1969. A good deal of this increase in the value of imports was no doubt a reflection of the aforementioned upsurge in import unit values—a rise that was greater for this group of countries in 1970 than for any of the other major groups of primary producers. In addition, the pressure of domestic demand was clearly a major factor in Finland, Greece, Portugal, and Yugoslavia, all of whose imports increased by 20 to 35 per cent. In Finland the economy was working to full capacity after two consecutive years of strong growth under the stimulus of intensive private investment activity. In Yugoslavia strong upward trends in output, costs, and prices, already evident prior to 1970, accelerated during that year, when imports increased by 35 per cent. In contrast, import expansion was curtailed in Ireland and Spain, where earlier upsurges had resulted in deterioration of the trade balances in 1969. In Spain the value of imports increased by only 12 per cent in 1970, following the imposition of fiscal and monetary restraint in the second half of the previous year. The 1969 increase had amounted to 20 per cent. The U. S. dollar value of Turkey's imports rose by 22 per cent in 1970, despite a 40 per cent devaluation of the Turkish lira in August of that year. This sharp rise reflected mainly the clearance, after the devaluation, of a backlog of import applications accumulated in previous years because of lack of foreign exchange to warrant their approval. The growth of imports was also strong in Australia, New Zealand, and South Africa.

For the whole group of more developed primary producing countries, both in Europe and in the Southern Hemisphere, there was a substantial deterioration of trade balances in 1970, despite the continued strong showing of exports of the European group. The negative shifts were most notable in Finland, Greece, Yugoslavia, New Zealand, and South Africa. For Ireland, Spain, and Australia, there was practically no change in trade balances from 1969 to 1970 (Table 23).

For less developed countries as a group, the growth in value of imports in 1970 is estimated at more than 10 per cent, following an increase of about 9 per cent in each of the two preceding years. Since there was an estimated 5 per cent rise in import prices paid by countries in this group in 1970, the increase in the aggregate volume of imports into less developed areas was perhaps no higher in 1970 than in the previous year. Among the major less developed areas, Africa and the Western Hemisphere were the ones where growth in the value of imports was higher in 1970 than in 1969. For the Middle East the rate of import growth was lower in 1970 than in either of the two previous years.

Among the Asian primary producing countries, those in the Far East and in Southeast Asia maintained slightly less buoyant rates of import growth in 1970 than in 1969. The countries in South Asia, however, increased their aggregate imports by only 1 per cent in 1970, after three years of absolute decline. Except in Korea, whose imports in 1970 were dampened by the control of credit expansion and of short-term capital inflows in order to curb the rapid increase in the country's external debts, the growth of imports was sustained at very high levels in the Far East economies. Hong Kong and China showed particularly

TABLE 23. PRIMARY PRODUCING COUNTRIES: TRADE BALANCES, 1967–70[1]

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

	1967	1968	1969	1970
MORE DEVELOPED AREAS				
Europe	**−4,499**	**−4,560**	**−5,349**	**−6,806**
Finland	*−205*	*39*	*−39*	*−330*
Ireland	*−395*	*−401*	*−524*	*−587*
Greece	*−691*	*−925*	*−1,041*	*−1,314*
Portugal	*−358*	*−416*	*−443*	*−610*
Spain	*−2,076*	*−1,908*	*−2,300*	*−2,323*
Turkey	*−167*	*−274*	*−217*	*−316*
Yugoslavia	*−455*	*−533*	*−660*	*−1,193*
Southern Hemisphere	**−1,388**	**−1,474**	**−1,214**	**−2,490**
Australia	*−435*	*−854*	*−341*	*−330*
New Zealand	*40*	*115*	*208*	*−18*
South Africa	*−993*	*−735*	*−1,081*	*−1,747*
Total, more developed areas	**−5,887**	**−6,034**	**−6,563**	**−8,901**
LESS DEVELOPED AREAS				
Asia	**−4,745**	**−4,659**	**−4,695**	**−5,022**
Far East	−1,134	−1,423	−1,645	−1,636
Hong Kong	*−293*	*−314*	*−279*	*−391*
China, Republic of	*−165*	*−101*	*−163*	*−96*
Korea, Republic of	*−676*	*−1,008*	*−1,203*	*−1,149*
Southeast	−1,952	−2,055	−2,209	−2,664
Philippines	*−351*	*−432*	*−400*	*−143*
Thailand	*−379*	*−492*	*−534*	*−556*
Malaysia	*131*	*188*	*473*	*291*
Singapore	*−300*	*−390*	*−491*	*−910*
Indonesia	*−122*	*−52*	*−105*	*−107*
South	−1,659	−1,181	−841	−722
India	*−1,159*	*−756*	*−367*	*−173*
Pakistan	*−456*	*−305*	*−333*	*−428*
Middle East	**−2,318**	**2,367**	**2,437**	**2,662**
Oil exporters	3,467	3,677	3,904	4,320
Iran	*804*	*523*	*543*	*599*
Kuwait	*720*	*780*	*830*	*956*
Saudi Arabia	*1,212*	*1,227*	*1,281*	*1,384*
Other Middle East	−1,149	−1,310	−1,467	−1,658
Israel	*−220*	*−475*	*−590*	*−657*
United Arab Republic	*−226*	*−44*	*−10*	*−110*
Africa	**429**	**1,061**	**1,857**	**2,155**
North Africa	562	980	1,232	1,527
Libyan Arab Republic	*702*	*1,222*	*1,492*	*1,812*
Algeria	*85*	*−56*	*−75*	*−14*
Morocco	*−93*	*−101*	*−77*	*−177*
Other Africa	−133	81	625	628
Zambia	*175*	*249*	*581*	*498*
Kenya	*−96*	*−106*	*−89*	*−127*
Congo, Democratic Republic of	*180*	*200*	*234*	*239*
Nigeria	*54*	*48*	*200*	*189*
Ghana	*−34*	*24*	*44*	*46*
Ivory Coast	*61*	*111*	*124*	*81*
Western Hemisphere	**−339**	**−971**	**−860**	**−1,348**
Central America, Mexico, and Caribbean	−1,849	−2,008	−2,055	−2,669
Mexico	*−610*	*−706*	*−648*	*−1,063*
Trinidad and Tobago	*23*	*45*	*−8*	*−59*
South America	1,510	1,037	1,195	1,321
Argentina	*368*	*199*	*36*	*83*
Brazil	*−13*	*−251*	*46*	*−17*
Chile	*188*	*194*	*298*	*234*
Peru	*−27*	*251*	*262*	*415*
Colombia	*13*	*−85*	*−63*	*−91*
Venezuela	*1,011*	*771*	*706*	*701*
Other Areas	**−270**	**−300**	**−210**	**−130**
Total, less developed areas	**−2,607**	**−2,502**	**−1,471**	**−1,683**
Total, primary producing countries	**−8,494**	**−8,536**	**−8,034**	**−10,584**

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

[1] The data in this table are on a customs basis, not adjusted to balance of payments concepts, and therefore are not directly comparable with trade data on a balance of payments basis in some parts of this Report (e.g., Chart 7 or Table 17). Regional figures are comprehensive, including data for countries not listed separately.

large increases, broadly commensurate with the continued surge of earnings from their exports of manufactures.

In Indonesia, Malaysia, and Singapore, the growth of imports was also very sizable in 1970, despite a decline in rubber export earnings after the 1969 bulge. A revival of private investor confidence and activity, along with a substantial expansion of government expenditures, underlay the rise in Malaysian imports. In Indonesia the sustained growth of imports in 1970 was supported by increased export earnings from petroleum and other products, as well as a substantial increase in the inflow of official aid and private foreign investment. In contrast, imports into the Philippines and Thailand were depressed, in the former by the implementation of a stabilization program and in the latter by the slow growth of export earnings in recent years.

In India improvements in agricultural operations, particularly with respect to wheat production, have resulted in rising money demands in the economy and lower importation of foodgrains. Other categories of imports, therefore, were higher for the first time in two years. In Pakistan the economic situation deteriorated during 1970, particularly in the second half. The large 1969–70 increase in Pakistan's imports was associated with a widening budget deficit, an expansion of bank credit to the private sector, a rise in wages, and the disastrous cyclone damage in East Pakistan.

For Asia as a whole there was a rise in the region's trade deficit from 1969 to 1970. It was centered chiefly in Singapore, Malaysia, and Pakistan, as most of the other countries in the region either maintained their balances or showed small positive shifts. In Malaysia, one of the few countries in this group with a trade surplus, that surplus remained large by comparison with 1967 and 1968 levels, even after dropping sharply from the 1969 peak reached under the influence of that year's rubber price rise.

The pace of import growth was slower in most Middle East and North African countries in the year under review than in the preceding two years. Import declines or dampened import growth rates were evident particularly among the petroleum exporters, including the Libyan Arab Republic, Algeria, Kuwait, and Saudi Arabia. The rise in Iranian imports was kept in the 14 to 15 per cent range to mitigate the increase in the external deficit that resulted from a 20 per cent rise in imports in 1968. The main force tending to raise them has been the sharp growth in government expenditures. The new oil agreements negotiated in November 1970 and in February 1971 have significantly changed the short-term financial position of the Iranian Government and may lead to substantially higher imports in 1971.

Imports into the Libyan Arab Republic decreased sharply in 1970, when they were affected by the tapering off of major oil exploration and the repatriation of many Italian nationals formerly present in the country. In contrast, imports grew steeply in Morocco and the United Arab Republic. In the former, this reflected the import liberalization introduced early in 1970, while in the latter it stemmed from a more liberal application of trade and payments controls to facilitate the provision of imported inputs for the country's underused industrial capacity.

For the Middle East as a whole, the slowing of import expansion in 1970 resulted in an enlargement of the area's overall export surplus. This accrued to the oil exporting countries, whose exports were well maintained. Since the countries of the region not exporting oil reduced their import expansion by less than the decline in their combined export growth, the shift in the trade balance for this group was negative.

In many parts of Africa south of the Sahara, the tempo of import and output growth quickened in 1970. Among the most striking changes was the expansion of more than 50 per cent in the imports of Nigeria. This movement accompanied the recovery of that country's petroleum exports and the release of pent-up demands following an extended period of internal strife. Expansionary trends were evident also in Kenya, the Democratic Republic of Congo, Ghana, and Ivory Coast. A major exception was Zambia, whose imports showed little change in 1970, as the authorities pursued a restrictive budget policy to mitigate the expansionary pressures emanating from rising copper exports in the preceding years.

Despite the substantial expansion of African imports, no marked general deterioration of trade balances resulted. Indeed, because of the very large rise in the trade surplus of the Libyan Arab Republic, the total surplus for the whole region increased substantially from 1969 to 1970.

Among the primary producing countries of the Western Hemisphere, higher rates of import expansion in 1970 than in 1969 were recorded by Mexico, Panama, several Central American countries, the Dominican Republic, Brazil, Colombia, and Uruguay. The high rate of import expansion in Mexico was caused in part by the need to remedy special domestic supply problems in certain sectors. The large increases in imports of Brazil, Colombia, and several Central American countries apparently reflected primarily the acceleration of domestic economic activity. The Brazilian economy in 1970 was in its third consecutive year of rapid growth in output, and constraints on imports were relieved in large measure by the substantial growth of export receipts and capital inflows. The high level of coffee exports has also enabled the Colombian Government to implement a substantial import liberalization, and this contributed to an import expansion of 22 per cent in 1970. In contrast, the growth of Argentine imports was greatly reduced in 1970, after an unusually sharp rise in the previous year. Among the factors in this reduction were the tight monetary policies pursued by the authorities, a slowdown of economic activity, and the 12.5 per cent devaluation of the peso in June 1970. In Peru, too, imports rose only slowly in 1970, as a surge in internal demand associated with Peru's recovery from the preceding recession was met principally through increases in the utilization of existing domestic capacity.

As a group, the less developed countries of the Western Hemisphere incurred a substantially larger net deficit on external trade transactions in 1970 than in any other recent year. The dominant element in this change was the marked rise in Mexico's negative trade balance. In South America the large positive trade balance for countries in the region increased somewhat from 1969 to 1970.

Chapter 5

Economic Policies and Balance of Payments Adjustment

Introduction

THE financial policies of the industrial countries, which had been generally restrictive during 1969, became more restrictive in several countries during the first half of 1970. The latter period, however, was one of cautious policy relaxation in the countries where activity had been most severely retarded during 1969 or early 1970 in the effort to combat inflation. These countries included the United States, Canada, and the United Kingdom. In the two North American countries, where relatively high unemployment rates prevailed during 1970 and early 1971, economic policies shifted progressively away from restraint and toward revival of business expansion. This was particularly evident in the evolution of monetary policies but also characterized the shifts in fiscal positions.

On the continent of Europe most industrial countries were forced or induced to tighten credit conditions and raise interest rates during 1969, first in defense against the attraction of high U. S. interest rates for European funds (moving chiefly through the Euro-dollar market) and then, as Europe's own economic expansion gained momentum, increasingly in defense against domestic inflationary developments. Pressures on resources remained relatively strong in continental Europe during 1970 and early 1971, and most countries had not yet shifted out of a phase of policy restraint.

In the situation of a stringent U. S. monetary policy and of strong demands for funds on both sides of the Atlantic, there was a virtually universal escalation of interest rates during 1969. (See Charts 18 and 20.) The partial relaxation of U. S. monetary restraint shortly after the beginning of 1970 brought a somewhat irregular, but progressive, decline in U. S. money market rates and in Euro-dollar deposit rates. In the event, the whole structure of international interest rate relationships prevailing in the latter part of 1969 was radically altered during the course of 1970.

TABLE 24. BALANCE OF PAYMENTS SUMMARY, 1968–70 [1]

(In billions of U.S. dollars)

	Current Balance [2]			Capital Balance [3]			Overall Balance [4]		
	1968	1969	1970	1968	1969	1970	1968	1969	1970 [5]
Industrial countries	**8.8**	**8.4**	**10.2**	**−11.5**	**−8.1**	**−6.0**	**−2.7**	**0.3**	**6.5**
Primary producing countries	**−8.8**	**−9.0**	**−11.3**	**11.2**	**10.6**	**14.3**	**2.4**	**1.6**	**4.2**
More developed areas									
European countries	−0.8	−1.1	−1.1	1.5	1.4	2.0	0.7	0.3	1.1
Australia, New Zealand, and South Africa	−1.1	−1.1	−1.8	1.8	0.9	1.8	0.8	−0.2	0.1
Total, more developed areas	−1.8	−2.2	−2.9	3.3	2.3	3.8	1.5	0.1	1.2
Less developed areas									
Western Hemisphere	−2.4	−2.4	−2.8	2.8	3.0	3.8	0.4	0.6	1.3
Middle East	−0.9	−1.3	−1.4	1.0	1.0	1.4	0.1	−0.3	0.1
Asia	−3.2	−3.1	−3.8	3.3	3.7	4.1	0.1	0.7	0.6
Africa	−0.5	—	−0.4	0.8	0.6	1.3	0.3	0.6	1.1
Total, less developed areas	−7.0	−6.8	−8.4	7.9	8.3	10.5	0.9	1.5	3.0
Excess of surpluses	—	−0.6	−1.1	−0.3	2.5	8.3	−0.3	1.9	10.7
Change in monetary gold							−0.7	0.1	0.3
SDR allocations							—	—	3.4
Asymmetries and errors [6]							0.4	1.8	7.0

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

[1] For balance of payments details, see Supplementary Note B.

[2] Balances on goods, services, and private transfers; unrequited government transfers are included in the capital account.

[3] This balance is computed residually, as the difference between the overall balance (less SDR allocations) and the current balance; it includes unrequited official transfers and net errors and omissions, as well as recorded capital movements.

[4] Overall balances are measured here by changes in official gold holdings, in SDRs, in reserve positions in the Fund, in foreign exchange assets, in use of Fund credit, and, where data are available, in liabilities to foreign monetary authorities, including those arising from "swap" transactions. Advance debt repayments by governments are also treated as a financing item.

[5] Includes SDR allocations totaling $3.4 billion, which are not included in the components. Allocations, by groupings, were as follows: industrial countries, $2.3 billion; more developed primary producing countries, $0.3 billion; and less developed countries, $0.9 billion.

[6] Includes official reserves held in the Euro-currency market; see footnote 1, page 82.

Whereas the 1969 pattern had tended to draw funds toward the United States, the pattern that emerged in 1970 tended to reverse that flow of funds. In several of the European countries, and especially in Germany, the resultant short-term capital inflows created major problems for maintenance of the desired degree of domestic credit stringency, and the year was marked by a number of special monetary measures designed to achieve partial insulation of domestic liquidity and credit conditions against what would otherwise have been the impact of the capital inflows induced by international differences in the cost and availability of credit.

Global balance of payments developments in 1970, as summarized in Table 24,[1] featured some extraordinarily wide swings in overall balances of individual major countries (Table 25). By far the largest swing was that for the United States, which showed a deterioration of $13 billion, from a surplus of about $3 billion in 1969 to a deficit of $10 billion in 1970 (after allowance for the SDR allocation). The balances of all of the other larger industrial countries moved sharply in the opposite direction, but the bulk of this counterpart movement was concentrated in the German accounts, where the change was $9 billion, from a deficit of about $3 billion in 1969 to a surplus of $6 billion in 1970. (See Chart 13.)

[1] A significant statistical aspect of this table is the degree to which the sum of reported balance of payments surpluses in 1970 exceeded the sum of reported deficits. Of the $10.7 billion excess of surpluses in 1970, $3.4 billion can be accounted for by SDR allocations and $0.3 billion by additions to the global stock of monetary gold. The remaining $7.0 billion is attributed in Table 24 to "asymmetries and errors."

Although the available information on this residual item is naturally incomplete, the explanation for the bulk of the asymmetry in 1970 was a sizable increase in the volume of official foreign exchange reserves placed directly or indirectly (through the Bank for International Settlements) in the Euro-dollar market. According to the somewhat incomplete data compiled in Table 2, the identified amount of this increase was $5.5 billion. Still another factor in the asymmetry—presumably of relatively minor importance—may have been an increase in the current account balance of reporting countries in transactions with the CMEA countries, mainland China, and other areas not reporting balance of payments statistics to the Fund.

Placement of official reserves of a country in the Euro-dollar market tends to generate capital inflows and reserve gains in other countries—or capital inflows and reductions in liabilities to foreign official holders in the case of the United States—without the recording of either a capital outflow or a reserve loss by the placing country. Hence, net outflows of capital from the industrial countries are understated as a result of this process. Such an understatement, it is apparent, accounts for the large rise from 1969 to 1970 in the global "excess of surpluses" on capital account shown in Table 24. In light of these considerations, it seems probable that the level and movement of capital flows between the industrial countries and the primary producing countries in 1970 are indicated much more accurately by the records of the latter (as summarized in the second line of Table 24) than those of the former (summarized in the first line).

The swings in overall payments balances of most industrial countries from 1969 to 1970 stemmed primarily from huge movements of yield-sensitive capital—mainly short-term (Table 26)—and were generally coupled with much smaller changes in most of the other principal elements of the international payments structure. The trade and service accounts (Chart 14) of most of the major industrial countries were marked by an absence of dramatic changes, and movements of long-term capital (Table 27) proceeded, with some important exceptions, along paths generally not far out of line with medium-term historical experience. A feature of the historical experience that persisted in 1970 was a sizable U. S. deficit on basic transactions (Table 28); mainly because of the long-standing deficit for the United States, the underlying pattern of balances in the recent period was not a satisfactory one.

The general structure of the combined balance of payments transactions of the primary producing countries, comprising a large excess of current account deficits over surpluses and a still larger excess of net capital inflows over outflows, also remained essentially unchanged in 1970 (Table 24). Most of these countries were relatively little affected by the ebb and flow of short-term capital among industrial countries became markets.

In the early months of 1971, flows of short-term capital among industrial countries became even larger than they had been during most of 1970 and thus continued to dominate the pattern of changes in overall payments balances. Through March, the salient shifts of funds conformed essentially to the 1970 pattern. The outflow of short-term capital from the United States remained very large[2] and continued to take the form primarily of reductions in Euro-dollar liabilities of U. S. banks to their branches abroad,

[2] It was chiefly for that reason that the U. S. balance of payments deficit in the first quarter of 1971—at $5.5 billion (seasonally adjusted) on the official settlements basis—was exceptionally large, much larger than in any quarter of 1970.

TABLE 25. INDUSTRIAL COUNTRIES: BALANCE OF PAYMENTS SUMMARIES, 1968–70 [1]

(In billions of U.S. dollars)

	Current Balance			Capital Balance			Overall Balance		
	1968	1969	1970	1968	1969	1970	1968	1969	1970 [2]
Belgium-Luxembourg	0.1	0.2	0.9	−0.5	—	−0.5	−0.4	0.2	0.5
France	−0.8	−1.5	—	−2.9	0.4	1.9	−3.7	−1.1	2.0
Germany	3.8	2.7	1.7	−2.1	−5.7	4.3	1.7	−2.9	6.2
Italy	2.9	2.6	1.3	−3.0	−3.2	−1.0	−0.1	−0.6	0.4
Netherlands	0.1	—	−0.5	−0.3	0.1	1.1	−0.2	0.1	0.7
Total, EEC countries	6.1	4.1	3.3	−8.8	−8.4	5.9	−2.7	−4.4	9.8
Austria	−0.1	0.1	—	0.1	−0.1	0.2	—	—	0.2
Denmark	−0.2	−0.4	−0.5	0.1	0.4	0.6	−0.1	—	—
Norway	0.2	0.2	−0.1	−0.1	−0.2	0.2	—	—	0.1
Sweden	—	−0.1	−0.2	—	—	0.3	—	−0.1	0.1
Switzerland	0.6	0.6	0.1	−0.2	−0.4	0.6	0.4	0.1	0.7
Total, other continental European countries	0.4	0.3	−0.8	−0.1	−0.3	1.8	0.3	—	1.1
Total, continental European countries	6.5	4.5	2.4	−8.8	−8.7	7.8	−2.4	−4.4	10.8
United Kingdom	−0.3	1.5	1.9	−2.6	−0.5	0.7	−3.0	1.0	3.0
Japan	1.2	2.3	2.1	−0.3	−1.5	−1.2	0.9	0.8	1.1
Canada	—	−0.6	1.4	0.3	0.6	—	0.3	0.1	1.6
United States	1.4	0.8	2.3	—	2.1	−13.3	1.4	2.9	−10.1
Total, all industrial countries	8.8	8.4	10.2	−11.5	−8.1	−6.0	−2.7	0.3	6.5

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 "overall" balances, see notes to Table 24. Detailed balance of payments statements are given in Supplementary Note B.
[2] Includes SDR allocations totaling $2,276 million, which are not included in the components. Allocations, by country, were as follows: Belgium-Luxembourg, $74 million; France, $166 million; Germany, $202 million; Italy, $105 million; Netherlands, $87 million; Austria, $29 million; Denmark, $27 million; Norway, $25 million; Sweden, $38 million; United Kingdom, $410 million; Japan, $122 million; Canada, $124 million; and United States, $867 million.

while short-term external liabilities of German borrowers continued to mount.

Toward the end of the first quarter and increasingly during April 1971, it became evident that the inflows of short-term capital into Germany and certain other countries included a new component. Whereas the inflows throughout 1970 and into the opening months of 1971 appear to have been motivated largely by international differences in yields and availability of funds, the more recent flows tended to be induced to a progressively greater extent by expectations of changes in exchange rate relationships among major currencies. Consequently, the effects of a considerable degree of convergence of short-term interest rates in the principal international financial markets during April, induced to a large extent by official monetary policy actions, were overridden by a surge of purely speculative pressures. The result was a further rush of funds into Germany and several other countries in the first week of May, inducing national authorities to close some of the major official exchange markets in continental Europe pending decisions on measures for dealing with the situation.

On May 9 the German authorities informed the Fund that, in view of the recent situation in the foreign exchange markets, including large capital movements, Germany would not for the time being maintain the exchange rates for its currency within the established margins. On the same date, the Netherlands authorities took similar action, and the Austrian and Swiss Governments revalued their currencies by approximately 5 per cent and 7 per cent, respectively. Concurrently, the Government of Belgium modified the regulations concerning the free and the official exchange markets in that country in such fashion as to permit the value of the Belgian franc in the free market to appreciate above that in the official market and thus to discourage unwanted inflows of capital.

CHART 13. MAJOR INDUSTRIAL COUNTRIES: OVERALL AND BASIC PAYMENTS BALANCES, 1961–70

(In billions of U.S. dollars)

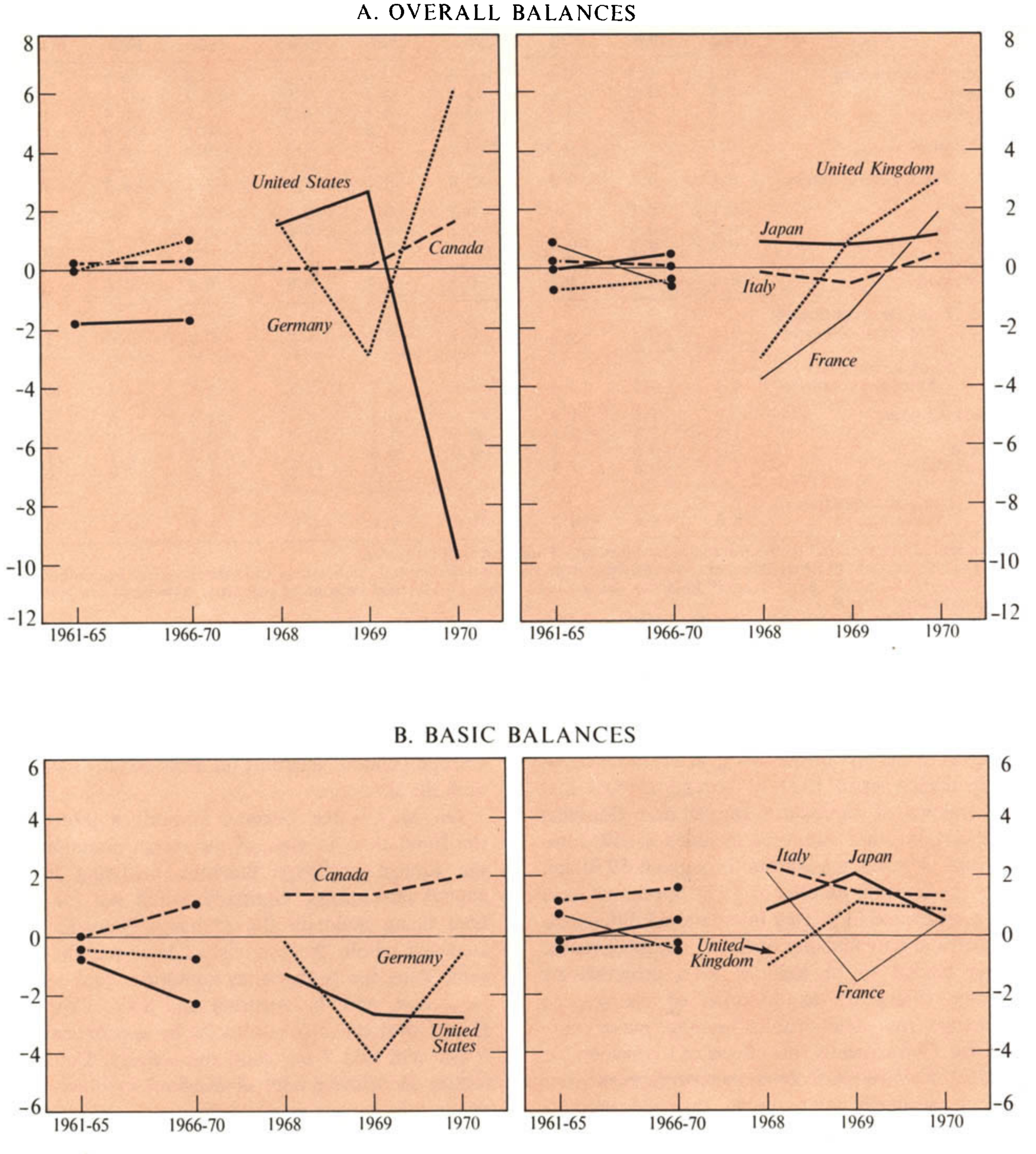


CHART 14. MAJOR INDUSTRIAL COUNTRIES: SELECTED COMPONENTS OF PAYMENTS BALANCES, 1961–70

(In billions of U.S. dollars)

A. CURRENT ACCOUNT BALANCES

B. NET CAPITAL MOVEMENTS AND OFFICIAL TRANSFERS

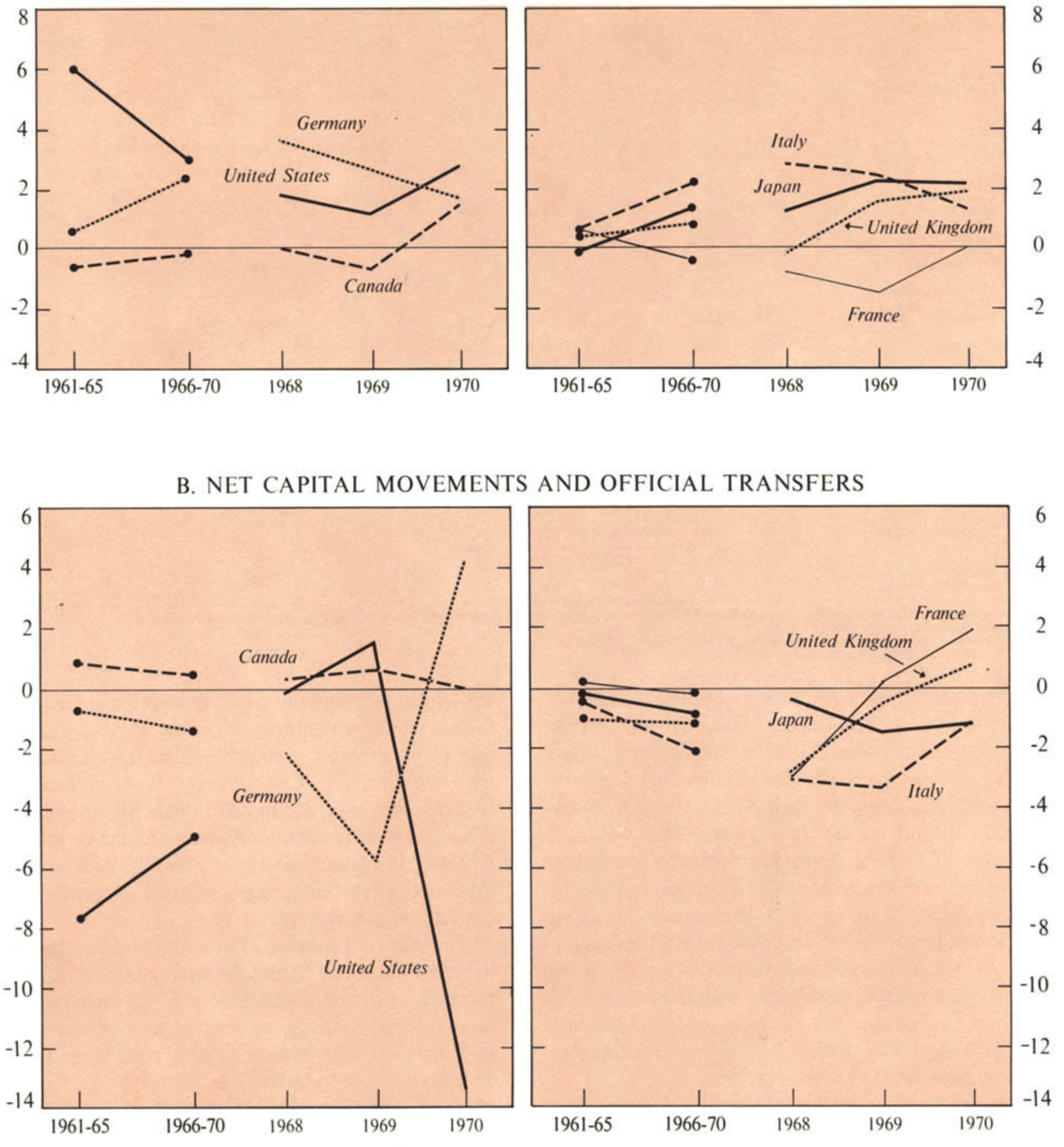


Table 26. Industrial Countries: Private Short-Term Capital Flows (Including Errors and Omissions), 1968–First Quarter 1971

(In billions of U.S. dollars)

	1968	1969	1970	1969	1970				1971
				Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter
France	−1.6	0.7	1.4	—	0.4	0.1	0.5	0.4	...
of which Commercial banks	*−0.6*	*0.5*	*0.5*	*−0.1*	*0.2*	*−0.3*	*0.3*	*0.4*	...
Germany [1]	1.9	1.5	6.5	−2.8	1.2	1.7	2.2	1.5	2.1
of which Commercial banks	*0.6*	*1.2*	*2.2*	*1.2*	*0.4*	*0.3*	*0.3*	*1.1*	*−1.2*
Italy	−2.4	−1.9	−1.0	−0.2	−0.2	−0.3	−0.6	0.1	0.2
of which Commercial banks	*−0.7*	*0.7*	—	*0.2*	*−0.1*	—	*−0.2*	*0.3*	*0.3*
Banknotes	*−1.1*	*−2.3*	*−1.0*	*−0.6*	*−0.4*	*−0.2*	*−0.1*	*−0.1*	*−0.2*
Switzerland	0.6	0.8	1.2	...	...	...	...	...	...
of which Commercial banks	*−0.7*	*−0.1*	*−0.5*	...	...	...	...	...	...
Other continental Europe	−0.6	0.2	0.7	0.5	−0.2	0.3	0.1	0.3	...
of which Commercial banks	*−0.5*	—	*0.1*	*0.3*	*−0.2*	*−0.1*	*−0.1*	*0.4*	...
United Kingdom [2]	−2.0	—	1.7	0.7	1.3	−0.1	−0.3	0.9	1.4
of which Commercial banks	*−0.9*	*−0.7*	*1.5*	*0.1*	*0.7*	*0.3*	*−0.2*	*0.7*	...
Japan	0.1	−1.2	0.6	−0.2	0.7	0.1	−0.4	0.3	0.5
of which Commercial banks	*−0.2*	*−1.5*	*−0.4*	*−0.3*	*0.3*	—	*−0.8*	*0.1*	*0.2*
Canada	−1.1	−1.3	−0.6	−0.2	−0.3	0.5	−0.4	−0.4	−0.4
of which Commercial banks	*−0.4*	*−0.5*	*0.1*	—	*0.2*	*0.2*	*−0.2*	*−0.3*	*0.7*
United States	3.0	5.6	−8.4	−0.7	−1.6	−1.6	−1.0	−4.2	−4.3
of which Commercial banks	*3.7*	*7.8*	*−7.3*	*−1.0*	*−1.4*	*−0.7*	*−0.9*	*−4.2*	*−2.7*
Total	−2.2	4.2	2.4	...	...	...	...	...	...
of which Commercial banks	*0.4*	*7.4*	*−4.4*	...	...	...	...	...	...

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

[1] Includes some official short-term capital flows.

[2] Includes exchange adjustments for 1968.

For the primary producing countries, available data indicate a substantial 1969–70 increase in the aggregate of payments balances, even apart from receipts of SDR allocations. This was true of both the more developed and the less developed countries as separate groups. The combined surplus of the less developed countries (including SDR allocations totaling \$0.9 billion) approximated \$3.0 billion in 1970, compared with about \$1½ billion in 1969 and less than \$1 billion in 1968. The corresponding surpluses for the more developed primary producing countries were \$1.2 billion (including SDR allocations of \$0.3 billion) in 1970 and \$0.1 billion in 1969, after an exceptional peak of \$1½ billion in 1968.

In 1970, as indicated above, the primary producing countries as a group continued to be large net importers of goods and services and even larger net recipients of capital and official transfers from the industrial countries. The combined current account deficit of the primary producing countries rose substantially as their imports increased faster, under conditions of rising import prices and of widespread strength in domestic demands, than their exports. Concurrently, flows of capital to those countries, facilitated in part by the prevalence of easier credit conditions in the major international financial centers, apparently rose more than enough to cover the enlarged aggregate of current account deficits.[3]

The distorted pattern of international payments balances during 1970 and the first quarter of 1971 resulted in an unprecedentedly large increase in total reserve holdings, as well as in a substantial shift in their distribution among countries. This development is reviewed in Chapter 2. Here, attention may be called to the record magnitude of the reserve gains of less developed countries in

[3] The size of the increase in capital inflows to primary producing countries in 1970 is a matter of some uncertainty statistically; and it is not possible to estimate at all reliably the breakdown of the increase into long-term and short-term forms. (See footnote 1, page 82.)

TABLE 27. INDUSTRIAL COUNTRIES: BALANCES ON LONG-TERM CAPITAL ACCOUNT, 1968–70

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

	Private			Official [1]			Total		
	1968	1969	1970	1968	1969	1970	1968	1969	1970
Belgium-Luxembourg	−0.1	0.3	−0.3	−0.2	−0.2	−0.2	−0.3	0.1	−0.5
France	−0.8	0.3	0.9	−0.5	−0.5	−0.4	−1.3	−0.2	0.5
Germany	−2.5	−5.5	−0.5	−1.4	−1.7	−1.7	−4.0	−7.1	−2.2
Italy	−0.1	−1.0	−0.2	−0.5	−0.3	0.2	−0.6	−1.3	—
Netherlands	−0.1	—	0.6	−0.1	—	—	−0.2	—	0.6
Total, EEC countries	−3.7	−5.8	0.4	−2.7	−2.7	−2.0	−6.3	−8.5	−1.6
Austria	0.1	—	—	0.2	—	—	0.2	—	—
Denmark	0.1	0.2	0.4	0.1	—	0.1	0.1	0.2	0.5
Norway	—	−0.1	0.1	—	−0.1	−0.1	—	−0.2	0.1
Sweden	0.1	—	0.2	−0.1	−0.2	−0.1	—	−0.1	0.1
Switzerland	−0.8	−1.2	−0.5	—	—	−0.1	−0.8	−1.2	−0.6
Total, other continental European countries	−0.5	−1.2	0.1	0.1	−0.2	−0.2	−0.4	−1.4	—
Total, continental European countries	−4.1	−7.0	0.6	−2.6	−2.9	−2.2	−6.7	−9.9	−1.6
United Kingdom	−0.3	0.2	−0.1	−0.4	−0.7	−0.9	−0.7	−0.5	−1.0
Japan	−0.1	0.3	−0.8	−0.3	−0.6	−1.0	−0.4	−0.3	−1.8
Canada	1.5	2.1	1.0	−0.1	−0.2	−0.4	1.4	2.0	0.6
United States	1.2	0.6	−1.4	−4.2	−4.0	−3.5	−3.0	−3.4	−4.9
Total, all industrial countries	−1.9	−3.8	−0.7	−7.5	−8.3	−7.9	−9.3	−12.1	−8.7

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

TABLE 28. INDUSTRIAL COUNTRIES: BASIC BALANCES, 1968–70 [1]

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

	1968	1969	1970
Belgium-Luxembourg	−0.1	0.3	0.4
France	−2.1	−1.6	0.5
Germany	−0.2	−4.4	−0.6
Italy	2.3	1.4	1.3
Netherlands	−0.1	—	0.1
Total, EEC countries	−0.2	−4.4	1.7
Austria	0.1	0.1	—
Denmark	−0.1	−0.2	−0.1
Norway	0.2	—	−0.1
Sweden	—	−0.2	−0.2
Switzerland	−0.2	−0.7	−0.6
Total, other continental European countries	—	−1.0	−0.9
Total, continental European countries	−0.2	−5.4	0.8
United Kingdom [2]	−1.0	1.0	0.9
Japan	0.8	2.0	0.4
Canada	1.4	1.4	2.0
United States	−1.6	−2.7	−2.6
Total, all industrial countries	−0.6	−3.7	1.5

Source: Data reported to the International Monetary Fund.
[1] The basic balance as shown here is the sum of the current balance (Table 25) and long-term capital flows (Table 27).
[2] Includes exchange adjustments for 1968.

1969 and 1970. (See Table 6.) The rate of increase in the combined reserves of this large group of countries during the past two years more than matched that in the value of their imports, despite the unusually rapid pace of the import expansion. The reserve gains were unevenly distributed, as indicated in the discussion of overall payments balances of the less developed countries later in this chapter; but it is encouraging that most developing countries have realized an increase in the ratio of reserves to imports since the early 1960s.

Developments in Industrial Countries

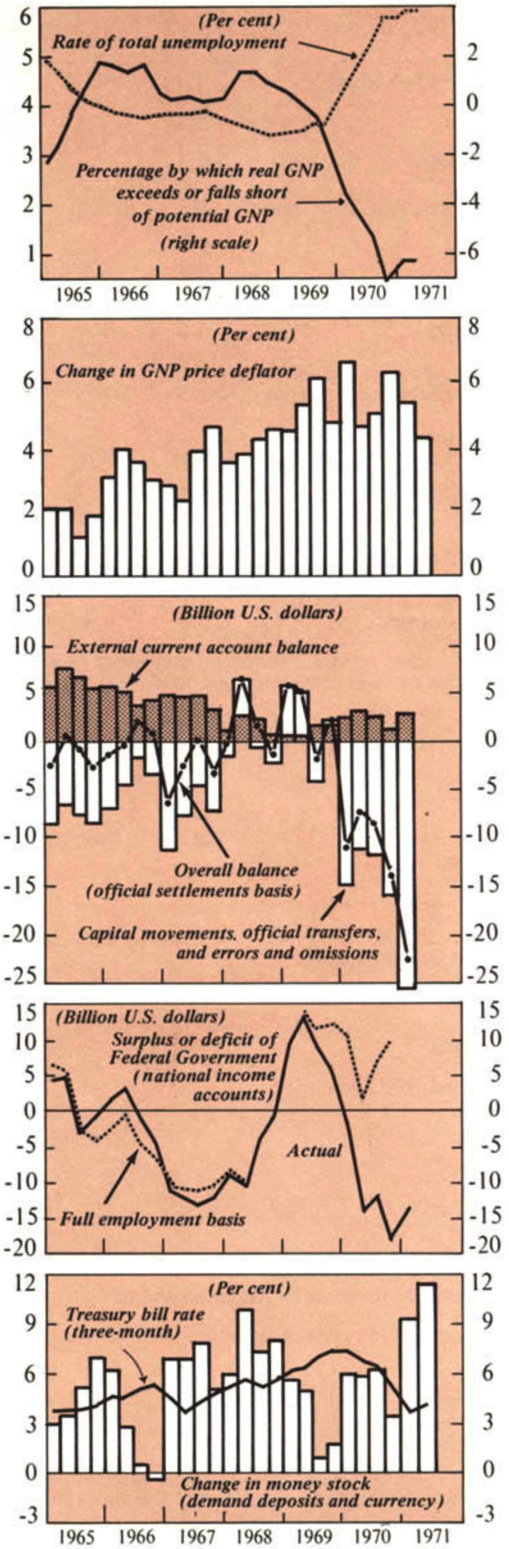
United States

Economic activity in the United States traced an irregular, though essentially sluggish, course from the latter part of 1969 to the early months of 1971. Total real gross national product (GNP) in the first quarter of 1971 was scarcely any higher than in the third quarter of 1969, and over this period the rate of unemployment rose from about 3½ per cent to 6 per cent (Chart 15).[4] Despite the progressive elimination of excess demand through fiscal and monetary restraints, the inflationary forces built up over several years continued to exert strong upward pressure on costs and prices.

In anticipation of the lag in response of private spending to shifts in demand management, monetary policy was relaxed early in 1970 and fiscal policy also became moderately easier in the course of the year. Thus, it was hoped to mitigate the economic decline that had begun late in 1969 and to generate a renewed growth of activity in the latter part of 1970. The substantial easing on the monetary side, to which private demand was slow to respond, resulted in a sharp reduction in the cost of funds in the U. S. domestic financial market, especially after midyear. The fall in U. S. interest rates, which persisted into 1971, led to

[4] The unemployment rate (total unemployment as a percentage of the civilian labor force) still averaged 6 per cent in the second quarter of 1971. An unemployment level of 4 per cent, or a little less, has for some years been regarded by U. S. officials as a feasible, noninflationary target of U. S. economic policy over the longer term.

CHART 15. UNITED STATES: ECONOMIC AND POLICY INDICATORS, 1965–FIRST HALF 1971
(Seasonally adjusted quarterly data at annual rates)



the release by U. S. banks of the Euro-dollar borrowings taken up in the earlier period of credit stringency. These outflows were a prime factor behind the turnaround of the balance of payments on an official settlements basis from the moderate surpluses registered in 1968 and 1969 to very large deficits in 1970 and early 1971.

After two consecutive quarters of modest gains, real GNP declined in the fourth quarter of 1970 because of a prolonged strike in the automotive industry and then rose substantially in the first quarter of 1971 largely in recovery from the strike. The distorting effects of the strike made it difficult to assess the economy's performance, but it was evident in the spring of 1971 that a recovery from the 1969–70 recession was under way.[5] It was still too early to form a reliable judgment concerning the pace or strength of this recovery, which, it was also evident, had not yet served to eliminate any of the economic slack that had developed during the period since late 1969.

Costs and prices registered pronounced increases in 1970 that showed at best only a moderate response to the rising margin of unused resources in the economy. While wage gains in the nonunionized sector of industry tended to slow in 1970, those in the unionized sector accelerated further. Price increases in industrial commodity markets showed only faint signs of easing from the high rates registered in the second half of 1969 and the early months of 1970. While productivity grew more than in 1969, this development was not sufficient to retard the pace of rise in the general price level; as measured by the GNP deflator, the rise in prices from 1969 to 1970 was 5½ per cent—the largest calendar-year advance in virtually two decades. In the first quarter of 1971, the annual rate of increase in the GNP deflator over the fourth quarter of 1970 was 5.3 per cent for total GNP (a figure inflated by a government pay raise) and 4.5 per cent for private GNP. In the second quarter the annual rate of increase in the deflator—both for total GNP and private GNP—declined to 4.2 per cent, although the rise in wholesale industrial prices continued to be comparatively rapid.

[5] According to preliminary data, real GNP rose by 3½ per cent (at an annual rate) from the first to the second quarter. Also to be noted, the index of industrial production increased in six of the seven months ended June 1971.

The authorities in 1970 declined to adopt comprehensive "incomes policy" measures, such as general wage and price guidelines, to combat cost and price increases. Nonetheless, direct action supplementary to fiscal and monetary policies was taken with a view both to improving the responsiveness of markets to the general demand situation, e.g., through a relaxation of restrictions on the importation and production of crude oil, and to help publicize the kinds of wage and price behavior that would be conducive to a moderation of inflation, through the release by the Council of Economic Advisers of a periodic "Inflation Alert."[6]

Although fiscal and monetary policies moved toward ease in 1970, the degree of relaxation of the fiscal stance was relatively modest. While the Federal Government's budget position shifted from a substantial surplus in 1969 to a large deficit in 1970, the major part of this change reflected the automatic response of revenue collections to the sluggishness of the economy when measured against the full-employment growth path. The overall fiscal position on a national accounts basis changed by $21 billion, moving from a surplus of $7½ billion in 1969 to a deficit of $13½ billion in 1970, but the corresponding balance on a full-employment basis is estimated to have declined by only some $5 billion from 1969 to 1970, and was still $7½ billion in surplus for 1970 as a whole.

The stance of monetary policy shifted from one of stringency in 1969 to promotion of financial ease in 1970. With the turnaround in policy dating from early in the year, in each of the first three quarters of 1970 the money stock rose at an annual rate of 6 per cent, compared with an expansion of only 3 per cent in the preceding calendar year. In the final quarter the growth of the money stock dipped somewhat, probably in association with the impact of the automotive strike on economic activity, but strong expansion (at an annual rate of 9 per cent) resumed in the first quarter of 1971. Acceleration in the growth of bank credit and total deposit liabilities of the

[6] These initiatives have continued to be pursued in 1971. In March potentially important measures were adopted with regard to the construction industry, the net result of which was the establishment of a review procedure for collective bargaining contracts in that industry.

commercial banks in 1970 was even more pronounced, largely reflecting the reflux of time deposit funds into the banks after midyear. This reflux stemmed initially from the suspension in June 1970 of the maximum interest rates payable by banks on certain classes of large-denomination time deposits.[7] Subsequently, however, money market rates eased to such a degree that the banks would have been competitive for such funds even without the June 1970 action.

In these changed conditions, U. S. banks were prompt to set about liquidating the large volume of Euro-dollar liabilities that they had acquired to support domestic lending during the previous period of credit stringency. Already in the first half of 1970, liquid liabilities of U. S. banks to commercial banks abroad were reduced by nearly $2 billion, and in the remainder of the year the rundown was more than $4½ billion. Moves by the monetary authorities in late November to raise the potential cost to banks—in terms of reserve requirements—of reductions in their Euro-dollar borrowings had no visible effect on the pace of decline.

Accordingly, just as the balance of payments outturn in 1969 on an official settlements basis had received a powerful boost from inflows of liquid banking funds, registering a surplus of $2.9 billion, the reverse outflow in 1970 was a major influence in the $10.1 billion overall deficit. In terms of the basic accounts, a moderate recovery in the current account surplus in 1970 was offset by increased outflows of U. S. private investment capital and a reduced inflow of foreign capital, and the persistent basic deficit was unchanged at a level of about $2½ billion (Table 28). This result, however, was swamped by the outflows of private foreign capital in liquid forms in response to the gap that was opening up between monetary conditions in the United States and in some other industrial countries, notably Germany.

With U. S. monetary conditions continuing to ease, and with U. S. banks running down their Euro-dollar liabilities at a still faster pace, the balance of payments recorded another large deficit—$5.5 billion, seasonally adjusted—in the first quarter of 1971. In January and February, and again in early April 1971, the U. S. authorities undertook special placements of short-term dollar securities with the foreign branches of U. S. banks in order to mitigate the impact of Euro-dollar flows on the U. S. payments position. By the middle of May liabilities of U. S. banks to their branches abroad had fallen back from the peak of $15 billion reached in the latter part of 1969 to only $1½ billion, about the same level as in early 1966; they remained at that level in June.

Monetary conditions in the second quarter of 1971 were marked by rapid expansion in the money supply (at an annual rate of 12 per cent), as well as by considerable increases in bond yields and interest rates. In mid-July the Federal Reserve discount rate, after having been lowered twice earlier in the year, was raised from 4¾ per cent to 5 per cent—an action which was intended to bring the discount rate into better alignment with short-term rates generally. The move also reflected the Federal Reserve Board's concern over the continuation of substantial cost-push inflation in the economy.

Canada

The year 1970 opened with a dramatic change in Canada's balance of payments position. The current account, which had been in sizable deficit throughout 1969, moved into heavy surplus (seasonally adjusted) in the first quarter of 1970 as merchandise exports rose sharply and imports declined. Added to the upsurge in the current account was a continued heavy inflow of long-term capital.

Since an important element in the export boom was a post-strike recovery in exports of mining products, there was reason to believe that the extraordinary strength shown by the export sector might be short lived. However, exports continued strong after the first three months of 1970, while imports remained weak and the rapid easing of financial conditions in the United States and in the Euro-dollar market began to manifest itself in a net inflow of short-term capital to Canada. Beginning in March, Canadian monetary policy became more expansive, and direct steps were also taken to encourage outflows of funds through the removal of the ceiling on the amounts that banks could receive in the form of swapped deposits. By May 1970 interest rates in Canada were generally well below those prevailing at the

[7] Under Federal Reserve Regulation Q.

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.

Nonetheless, the accumulation of foreign reserves continued at an accelerated pace. In the first four months of 1970, official reserves, including an allocation of SDR 124 million, had risen by more than US$700 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. In these circumstances the Canadian authorities decided, effective May 31, that they would not for the time being maintain the exchange rate of the Canadian dollar within the prescribed margins around the parity established with the Fund.

Despite the weakness in 1970 of the U. S. economy, the major external market for Canadian goods, and despite the appreciation of the Canadian dollar after May, Canada's exports continued at the high level attained in the spring of the year. Also, imports changed little. Consequently, the current account balance soared to a surplus of $1.4 billion in 1970, the largest on record and contrasting with a deficit of $0.6 billion in 1969. The inflow of long-term capital subsided markedly after the first quarter, reflecting improved conditions in the Canadian capital market and the effects of requests by the Canadian authorities, from mid-1970 onward, that Canadian borrowers explore fully the availability of funds in Canada before floating issues abroad. The short-term capital account again turned negative in the latter half of 1970 after a heavy inflow in the second quarter.

After the May 31 exchange rate decision, the value of the Canadian dollar in the exchange market immediately rose well above its established par value of US$0.925 = Can$1. However, after the first days of adjustment to the new market conditions, the external value of the Canadian dollar moved generally within a narrow range, although showing a tendency to drift somewhat irregularly upward. By the end of 1970, the exchange rate was touching US$0.99 = Can$1, compared with the US$0.96–0.97 range in which it had settled in the second half of the previous June. Through the first five months of 1971, the Canadian dollar generally remained a little above US$0.99 = Can$1, but its value declined in June and was just under US$0.98 at midyear.

While the easing of monetary policy early in 1970 was motivated in part by exchange market exigencies, the shift was also attributable to domestic considerations. The tight fiscal and monetary policies pursued since late 1968 had brought about a marked economic slowdown, which by the winter of 1969–70 was beginning to be reflected in rapidly rising unemployment. A pronounced shift in fiscal policy was signaled in March with the tabling of the federal budget for the 1970/71 fiscal year [8]—which contemplated an overall cash deficit (apart from foreign exchange operations) of $0.5 billion, compared with a surplus of $0.2 billion in fiscal 1969/70. Throughout the balance of 1970, fiscal and monetary policies continued on an expansionary path, largely in response to the mounting joblessness, which rose to 6.8 per cent of the labor force in September. Additions to federal spending introduced at various times throughout the year led to a realized overall cash deficit for fiscal 1970/71 of $1.2 billion. Aided by the reflow of term deposits, as rates paid by banks again became competitive in early 1970, the total of currency and private Canadian dollar deposits in banks rose at an annual rate of about 13 per cent in the last three quarters of 1970, compared with an annual rate of growth averaging less than 4 per cent over the preceding 15 months. Monetary expansion continued to be rapid in the first months of 1971.

Under the stimulus of rapidly rising government spending and monetary ease, domestic demand began gradually to pick up after the first quarter of 1970, thus replacing export demand as the major expansionary element. This sequence of foreign and domestic demand forces meant that, while the growth of real GNP in Canada did not begin to show any pronounced strength until the final quarter, the economy continued to expand moderately throughout the period. Thus, in 1970 real output averaged nearly 3½ per cent higher than in 1969.

The slowing of economic activity in 1970 was accompanied by a significant moderation of price

[8] Ended March 31, 1971.

increases. From the fourth quarter of 1969 to the fourth quarter of 1970, the consumer price index rose by only 2.1 per cent. The GNP deflator for the year rose by 4.1 per cent over 1969, compared with an increase of 4.7 per cent from 1968 to 1969. However, besides the impact on prices of the general easing of demand pressures, certain nonrecurrent factors contributed to the slowdown, namely, a favorable turn in food prices, the appreciation in the external value of the Canadian dollar, and the effect on domestic pricing decisions of the agreement of businessmen with the Prices and Incomes Commission to limit price increases in 1970 to less than would have been necessary to cover the full increase in costs. But while profits slumped in 1970, the size of negotiated wage settlements and the change in hourly earnings remained as high as in 1969.

With the commitment secured from business leaders, in June 1970 the Prices and Incomes Commission proposed a guideline of 6 per cent as a desirable upper limit for first-year increases in wages and salaries in the current circumstances. However, representatives of labor found such constraints unacceptable. In this situation, the Commission announced in December that it would not seek an extension of the pricing agreements with businessmen beyond the end of 1970.

The authorities characterized unemployment—still well over 6 per cent of the labor force—as the most serious of Canada's economic problems in the first part of 1971. The degree of slack in the economy was believed sufficient to permit pursuit of expansionary fiscal and monetary policies without too much risk of generating new inflationary pressures. Accordingly, the budget for the fiscal year 1971/72, presented in June 1971, was aimed at providing some additional stimulus to the economy, chiefly in the form of income and sales tax reductions, as insurance against the emergence of a pause in the economic expansion. Along with the 1971/72 budget, the Minister of Finance also presented basic tax reform proposals that would begin taking effect in 1972. These were intended to have the effect of redistributing the existing overall tax burden in such a way as to improve the equity of the system and to make it more neutral in its treatment of different kinds of income.

Japan

The Japanese economic boom that commenced in late 1965 continued into the first part of 1970. The rate of output growth declined markedly after midyear, and evidently dropped further in the first half of 1971. For 1970 as a whole, real GNP expanded by 11 per cent over 1969—a rate appreciably below the exceptionally rapid advances of 12 to 14 per cent in the previous three years.

The slowdown in economic activity was induced by the restrictive monetary policy adopted by the authorities in the fall of 1969. During the two years to mid-1969, Japanese economic expansion had preceded without endangering domestic stability, but 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. The impact of the restraining monetary measures introduced in September was reinforced by the downward pressure on private investment plans created by the rapidity of capacity growth in steel and some other key industries that became evident by mid-1970.

Besides restricting the growth of output, the official restraints and the spontaneous weakening in investment demand caused a near cessation of wholesale price increases after the spring of 1970. Increases in consumer prices, which (like those in wholesale prices) had accelerated during 1969 and early 1970, slowed down only briefly; by the end of 1970, consumer prices were 8½ per cent higher than a year earlier. The cyclical demand-supply development thus had little apparent effect in retarding the consumer price advance, which reflected the tendency for the distributive and service industries to raise their charges to consumers as wage increases outstripped productivity gains by a wide margin. In the innovating and high-investment manufacturing sector, increased wage costs were absorbed to a much greater extent by continuing advances in productivity, and partly for that reason the expansion of Japanese exports in 1970 was once again substantially larger than the growth in export markets. (See Table 16.)

For most of 1970 the Bank of Japan continued to pursue a cautious monetary policy and the Government maintained a neutral budgetary position for the fiscal year 1970/71.[9] However, the economic slowdown led the Bank of Japan to lower the official discount rate by 0.25 percentage point in October and to end its guidance over commercial bank lending in the last quarter of 1970; as the slowdown continued, further reductions of 0.25 percentage point in the discount rate were made in January, May, and July 1971, bringing the rate to 5.25 per cent. On the fiscal side, increases in expenditures were undertaken in the budget for the fiscal year 1971/72 in order to stimulate the economy.

With respect to the balance of payments, developments in 1970 were marked by another current account surplus of more than $2 billion and by a record overall surplus of $1.1 billion (including an SDR allocation of $122 million). The balance on long-term capital account moved to a large deficit in 1970 (Table 27), in part because of withdrawal of foreign portfolio investments, but the short-term capital balance swung sharply from deficit into surplus, despite official measures to replace foreign financing of imports with domestic financing.

The current account balance apparently became even stronger in the first quarter of 1971, when more of the effects of the economic slowdown may have been felt in the foreign trade sector through restraint of import demand and of export price increases. Along with this strengthening of the current account, there was a positive shift in the capital account as foreign purchases of Japanese securities were resumed and as lower interest rates abroad led to a large inflow of short-term capital. The resultant balance of payments surplus brought a further $1 billion increase in reserves, with additional increases occurring in April–June 1971. Total official reserves had expanded by the end of June to $7.8 billion (including two SDR allocations totaling $250 million), compared with $2.0 billion at the end of 1967 and $3.7 billion at the end of 1969.

Several special measures affecting the capital account were taken by the authorities in the first months of 1971 for the purpose of stemming the influx of reserves. In June, the Japanese Cabinet decided to broaden and intensify efforts to achieve a better external and internal equilibrium by means of an eight-point program that included tariff reductions, acceleration of import liberalization, gradual abolition of tax concessions to exporters, removal of the limit on outward direct investments, promotion of development aid, and the flexible operation of fiscal and monetary policies so as to remove the effects of slack domestic demand on the trade surplus.

[9] Beginning April 1, 1970.

United Kingdom

The striking recovery in the United Kingdom's external accounts that occurred in 1969 continued during the period under review. The overall balance registered a surplus of $3 billion in 1970, following a surplus of $1 billion in 1969 and a deficit of $3 billion in 1968.[10] Although the current account surplus increased, the further improvement of the payments position in 1970 was due chiefly to a large inflow of short-term capital. The overall surplus continued large in the first quarter of 1971, particularly because the relative decline in foreign interest rates diverted short-term capital to the United Kingdom. More recently, short-term inflows have declined, partly as a result of measures taken by the authorities, while the current account has continued in surplus. With the huge improvement in the balance of payments that began in 1969, the authorities were able to repay international debts in very large amounts; during the two and one-third years to the end of April 1971, short-term and medium-term obligations were reduced from more than $8 billion to $1.6 billion, the latter figure representing the outstanding balance of net drawings from the Fund.

The favorable development of the U. K. external accounts in the past year reflected a number of diverse factors. First, maintenance and enlargement of a substantial surplus on current account was mainly the result of a swing in the U. K. terms of trade, as U. K. exporters increased prices roughly in line with those of their competitors from 1969 to 1970 (Chart 9), while U. K. import prices showed almost no change. In volume terms, imports went up more than exports from 1969 to 1970. Second, continuation of tight financial policies in the recent period —although somewhat relaxed from those in 1969

[10] See footnote 4 to Table 24 for definition of this balance, which differs from that used in U. K. publications.

—clearly was beneficial to the balance of payments. These policies restrained the growth of domestic demand, thereby dampening the rise in imports, and they improved the capital balance in the external accounts by attracting the large inflows experienced in late 1970 and early 1971. In this connection, an important contributing factor was the heavy reflux of funds from the United States to the Euro-dollar market. Third, the potentially serious damage to the U. K. international competitive position that might have resulted from the rapid advances in domestic prices and costs was averted by continuing inflation in other industrial countries. Chart 9 indicates that, nonetheless, the United Kingdom experienced some loss of price and cost competitiveness during 1970, although the competitive position in the final quarter had not markedly deteriorated from that in the second half of 1968, when the effects of devaluation are thought to have worked fully through to prices.

While it was immediately favorable to the balance of payments, the weakness of demand and activity in the domestic economy[11] was accompanied by rising unemployment, which by the spring of 1971 had reached the highest level in many years. This situation led the authorities, in the budget presented in March, to propose measures aimed at achieving a moderate increase in activity.

During 1970 the U. K. budget had continued to reflect the general policy of restraint established earlier, although the realized surplus was not as large as planned. The impact of the further reduction of fiscal restraint adopted in the 1971/72 budget announced at the end of March 1971 was officially estimated to raise the growth of real GNP by 1 per cent in the course of the next year.

The monetary part of policy restraint in 1970 —including a guideline on the expansion of credit to the private sector and continuance of historically high interest rates in the face of declining rates abroad—may have been hampered to some extent by the inflows of short-term capital, particularly of Euro-dollar credits to domestic business. Total domestic credit, which had declined by 1 per cent in 1969, rose by nearly 6 per cent. Money supply increased by about 10 per cent during 1970—roughly in line with the growth of GNP in current prices. In early 1971 borrowing of foreign currencies for domestic use or to finance current payments to nonresidents at maturities of less than five years was prohibited, while the effects of capital inflows were counterbalanced by heavy sales of government securities to the nonbank public.

Some further easing of monetary policy, the 1971/72 budget indicated, would be undertaken to reinforce the measures of fiscal relaxation. The objective of monetary policy would be to keep demand at a level required to achieve a growth of output in line with the growth of productive potential, without imparting any further impetus to the rise in costs and prices. Accordingly, the official guideline on credit expansion would be raised so as to permit a 2½ per cent quarterly rate of growth in the restricted segment of bank lending in the earlier part of the year, while the money supply would be allowed to rise at a quarterly rate of about 3 per cent, although as the rise in costs and prices moderated the aim would be to slow down the rate of growth. The authorities considered these rates of expansion in the monetary aggregates to be consistent with the maintenance of a surplus in the balance of payments position.[12]

The Government's plan to pursue a more expansionary economic policy should be viewed in conjunction with the fact that the current account surplus was high in 1970 only because the decline in the trade balance in real terms was counteracted by an improvement in the U.K. terms of trade. Against this background, it is readily apparent that arresting the cost-price spiral is of crucial importance from the stand-

[11] Real GNP rose by less than 2 per cent in 1970, about the same as in 1969. Further, the performance of the economy in the first part of 1971 was much weaker than had been expected.

[12] Significant modification of the techniques of U. K. monetary management were announced in May 1971. These affect both the way in which the Bank of England exerts its influence on bank lending to the private sector and the role of official intervention in the government securities market. Instead of applying quantitative ceilings on bank lending, the Bank of England will in the course of the current fiscal year move to a system under which such lending will be influenced through a more flexible interest rate policy and through variations in reserve asset ratios applying uniformly to all banking institutions, rather than only to certain large ones as in the past. The new approach to the government securities market involves limiting the role of the Bank of England as a buyer of such securities.

point of the balance of payments as well as of the domestic economy. The problem is especially serious inasmuch as one cannot distinguish any pronounced effects of either financial restraint or economic slack on the level of wage settlements in the United Kingdom during the past few years.

France

Rapid and pronounced improvement in the French balance of payments followed the devaluation of the franc in August 1969 and the concurrent reinforcement of restrictive financial policies already in effect since late 1968. Largely as a result of the liquidation of speculative imports that had been accumulated in anticipation of the parity change, together with a new spurt in exports, the current account of the balance of payments recovered quickly and swung into surplus early in 1970.[13] The outflow of speculative short-term funds was interrupted shortly after the devaluation of the franc and was sharply reversed when the deutsche mark was revalued in October 1969. The overall payments balance moved into surplus in the fourth quarter of 1969 and continued to benefit from substantial capital inflows in the first half of 1970; by midyear the authorities had repaid all official short-term external debts (except for the outstanding balance of $985 million arising from drawings on the Fund), as well as the foreign exchange borrowed from the French commercial banks.

In the domestic field, a notable development after the devaluation was the prolonged sluggishness of consumer demand; this reflected both the impact of the policies of restraint and a natural subsiding of private expenditures after a period of high consumer spending induced by political and currency uncertainties. Domestic production, however, continued to expand rather vigorously through the first months of 1970 under the stimulus of a rapid increase in investment outlays, the continuing strong growth of exports, and the rebuilding of inventories at the production and distribution levels. Thus, while overall demand pressures tended to subside, pressures persisted in some important sectors of the economy, particularly in the capital-goods and export-oriented industries. Against this background, and in view of the continuing rapid advance of wages and prices, the attitude of the authorities toward relaxation of policies remained cautious in the early part of 1970 and only selective measures of relaxation were taken.

As the year progressed, the economic climate became more uncertain. With private consumption still sluggish, the growth of industrial production was interrupted in the spring of 1970 and unemployment began rising markedly. The expansionary impact of inventory demand gradually diminished as stocks were restored to normal levels. Imports picked up in the second quarter of 1970 and then continued to expand at a normal rate, while the growth of exports showed a clear tendency to decelerate after midyear as external demand weakened considerably. Thus, despite the early rapid improvement, the current account balance for 1970 as a whole was less satisfactory than anticipated at the time of the devaluation. The net inflow of capital continued in the second half of 1970, although on a much reduced scale in comparison with the last few months of 1969 and the first half of 1970. Gross outflows increased as a result of the gradual liberalization of restrictions on capital exports for direct investment abroad, while the imposition of restrictions on short-term foreign borrowing by French enterprises in the summer of 1970 limited the size of the net inflow of short-term capital. However, the overall balance of payments surplus for 1970 as a whole was sizable ($2.0 billion, in contrast to a deficit of $1.1 billion in 1969), and at the end of 1970 the net official reserve position was about three times as large as at the time of the devaluation.

When the signs of a slowdown in the domestic economy were confirmed, and with the balance of payments showing some strength, the French authorities began to take more decisive measures to stimulate activity and arrest the rise in unemployment. In July 1970 and again in January 1971, some funds were released from the Government's contracyclical fund, mainly for housing and education projects. Hire-purchase restrictions were substantially relaxed at the end of September 1970, and in October the system of direct credit controls was abolished. At the same time the

[13] Because restrictive policies had been in force for a number of months, the pressure of domestic demand had probably begun to subside by the time of the devaluation. This development thus created room for an early improvement in the external current account.

French authorities announced a new obligatory reserve requirement based on credits, complementing the existing ones based on the banks' liabilities; it was put into effect in March 1971. Finally, in line with developments in other countries, the discount rate was progressively reduced from 8 per cent during the first seven months of 1970 to 6.5 per cent in January 1971. The easier monetary conditions in 1970 were reflected in the rates of growth of money and of bank credit to the private sector, all of which expanded much more rapidly than in 1969.

Partly in response to such policy measures, consumer demand revived somewhat during the summer of 1970 and picked up markedly in the fourth quarter. While initially the recovery of consumption was met chiefly by the running down of stocks, which had increased to above-normal levels, industrial production resumed an upward trend around the end of the year and more recently unemployment tended to taper off. Toward mid-May 1971 the French monetary authorities announced increases in the discount rate and the obligatory reserve ratios. The modest rise in the discount rate, from 6.5 per cent to 6.75 per cent, was explained as part of an overall strategy aimed at checking inflationary pressures; the authorities stated that it was to be regarded mainly as an indication of the direction that they were planning to give to their policy.

The economic adjustments in the aftermath of the devaluation occurred without much apparent effect in terms of foregone output. Real GNP expanded by 8 per cent in 1969 (over 1968) and by 6 per cent in 1970, compared with an average annual rate of just under 6 per cent for the decade of the 1960s. The increase in the price level (as measured by the GNP deflator) accelerated to 7 per cent in 1969 but fell back to a little over 5 per cent in 1970—a figure that was half a percentage point below the average for all industrial countries and a full percentage point below the average for the countries of the European Economic Community.

In the field of prices, the French authorities maintained a system of surveillance under which, from the time of devaluation, enterprises wishing to raise prices had to submit new price lists one month before these were to become effective. In authorizing price increases, the authorities were prepared to make allowance for rising costs resulting from the devaluation but not, in principle, for cost increases deriving from unduly large wage settlements. This system probably had some effect in moderating the rise in prices.

Germany

The German economy embarked on a strong and prolonged boom after the sharp recession of 1966–67 (Chart 16). Real GNP expanded by 7 to 8 per cent in both 1968 and 1969 and by 5 per cent in 1970. Growth of output slowed to an annual rate of 3 per cent in the second half of 1970, but this slackening in the pace of real activity was less than had been anticipated by the Government. Moreover, the increase in prices during 1970 was much larger than expected. By the end of the year, labor market conditions had eased only slightly, the economy was still running at a high level of capacity, and inflationary pressures remained strong.

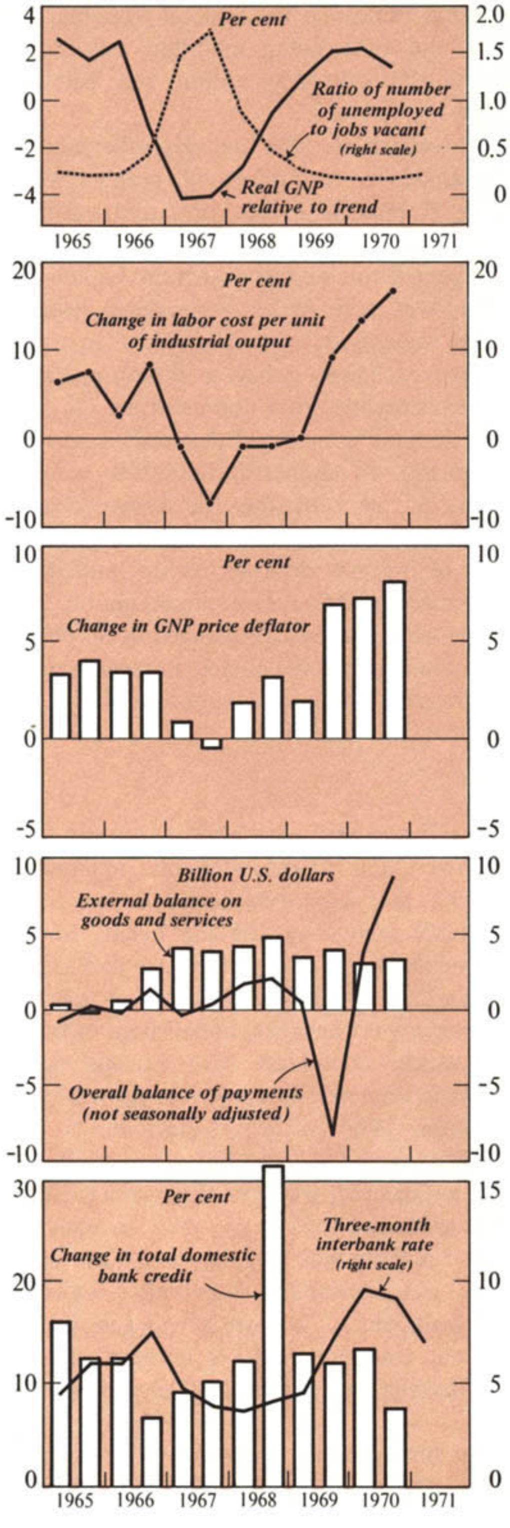
The upward movement of prices in Germany was sharper in 1970 than in any year since the Korean War period. The general price level as measured by the GNP deflator rose by 7½ per cent from 1969 to 1970, more than twice as much as the highest rate recorded in the boom of 1965–66. Consumer prices rose less than other prices—partly because of the favorable effect of the October 1969 revaluation on food prices—but showed an accelerated advance in late 1970 and early 1971. In the main, these inflationary trends are attributable to the continued rapid expansion of wages and salaries; unit labor costs in industry rose by 13 per cent from 1969 to 1970 (by more than 20 per cent in terms of U. S. dollars).[14]

To complement the price stabilization effects of the revaluation, the Government in January 1970 adopted new fiscal measures—including limitation or deferment of planned government outlays and accumulation of "business cycle equalization" deposits at the central bank—in order to reduce the overheating of the economy. These fiscal steps were followed in March by increases in the discount rate and related interest rates and in April by the reimposition of special

[14] There was, therefore, a significant deterioration in Germany's cost position compared with that of most other industrial countries.

CHART 16. FEDERAL REPUBLIC OF GERMANY: ECONOMIC AND POLICY INDICATORS, 1965–FIRST HALF 1971

(*Seasonally adjusted half-yearly data at annual rates*)



marginal reserve requirements on external liabilities of banks to discourage them from turning to foreign sources to replenish their liquidity. With effect from July, minimum reserve requirements were raised by 15 per cent. To dampen the still overheated economy, new restrictive tax measures were announced in early July; they included a temporary refundable surcharge on income and corporation taxes and a temporary suspension of the prevailing system of accelerated depreciation allowances.[15] In light of these measures, and partly also to reduce the incentive to borrow abroad, the Bundesbank cut its discount rate by 0.5 percentage point in July, in November, and again in December. However, these cuts were accompanied by measures designed for the double purpose of restraining the rise in bank liquidity caused by the large inflows of foreign funds and of demonstrating to the public that the change in the discount rate was not to be taken as an indication that monetary policy was to be relaxed or that the Bundesbank was giving up its fight against inflation.[16] In order to supplement the general fiscal and monetary restraints, the German authorities endeavored to counter the sharply rising wage claims by intensifying their efforts to define an acceptable framework for wage bargaining and price setting, chiefly through the "concerted action" programs involving representatives of the trade unions, the employers' associations, and the Government.

The overall balance of payments swung from a deficit of $3 billion in 1969 to a surplus of $6 billion in 1970. This movement was the net result of two developments: a decline in the surplus on current account and a huge inward swing in capital movements. (1) The impact on the balance of payments of a sharper rise in the volume of imports than of exports—attributable in part to the effects of the revaluation [17]—was

[15] This was a system of declining-balance depreciation allowances, involving high initial rates of amortization of most investments for tax purposes.

[16] Although there was a noticeable acceleration in the rate of increase in the money supply, from 6 per cent during 1969 to nearly 9 per cent during 1970, the rates of increase in money and quasi-money, taken together, were virtually the same (about 11 per cent) in these two years. During the first four months of 1971, the annual rate of increase in the money supply was almost 16 per cent.

[17] The revaluation thus helped in some measure to relieve demand pressures in Germany by reducing the export surplus when measured in real terms.

offset by an improvement in the terms of trade, and Germany continued to run a surplus of about $5½ billion on trade account in 1970. However, the revaluation also had a significant effect on the balance of services and transfers, in particular on tourist expenditures and workers' remittances, and the total current account surplus [18] fell from $2.7 billion in 1969 to $1.7 billion in 1970. (2) Because of much tighter liquidity conditions in Germany, there was an abrupt fall during 1970 in the purchases of foreign securities and lending abroad, particularly by German banks. In addition, long-term borrowing abroad increased. But most notably there were very large inflows of foreign funds, including more than $4 billion of short-term borrowing abroad by German enterprises and an increase of $2 billion in the liabilities of commercial banks. The net short-term capital inflow of banks and enterprises in 1970 more than accounted for the increase in official reserves, which rose by more than $6 billion.

In the first three months of 1971, Germany's external payments position was approximately in balance on the basic account, but the dominating influence was a massive influx of short-term funds. While the banks reduced their net short-term foreign liabilities quite substantially, this reduction was more than offset by continued heavy foreign borrowing by enterprises, amounting to over $3 billion. Official reserves in the first quarter of 1971 rose by $2.2 billion (including the second allocation of SDR 171 million). Official intervention in the forward exchange market, through both the Federal Reserve Bank of New York and the Bundesbank, attempted to stem the flow and, after persistent further inflows, the Bundesbank reduced its discount rate by a full percentage point to 5 per cent, effective April 1. Money market rates in Germany declined and moved much closer to those quoted in the Euro-dollar market; rates in that market had risen in the last days of March and increased further at the beginning of April. Despite the reduction in interest rates, some $3 billion (including official forward dollar purchases of $2.2 billion) flowed into Germany in April. Further substantial sums —reflecting a surge of speculative pressures— entered Germany in the first days of May, raising the official reserves to almost $19 billion by May 5, when the official exchange market was closed. On May 9 the German authorities informed the Fund that the Federal Republic would not for the time being maintain the exchange rates for its currency within the established margins.

This decision to float the deutsche mark was accompanied by a number of policy measures aimed at stabilizing the economy and warding off short-term capital inflows. Fiscal policy, which had been expected to be somewhat more expansionary in 1971, was now to be made more restrictive, and new regulations were introduced in the field of foreign exchange policy to discourage certain types of borrowing from nonresidents. On June 2 the Bundesbank announced that minimum reserve requirements on domestic liabilities would be raised by 15 per cent, that the reserve ratios for foreign liabilities would be raised to double the amount of the new domestic ratios, and that the existing marginal reserve requirements on foreign liabilities would remain unchanged at 30 per cent; it was estimated that the change in reserve requirements would immobilize approximately DM 5 billion.

Italy

After a wave of major labor disputes had seriously interrupted Italian economic expansion in late 1969, the short-term prospect was one of considerable buoyancy. In the event, however, developments in 1970 and the first part of 1971 were marked by the persistence of disruptive strikes, supply bottlenecks, impairment of business and consumer confidence, and various signs of weakness in domestic demand. The growth of total output from 1969 to 1970—estimated at 5 per cent—thus proved to be considerably smaller than had been expected, whereas the increase in GNP prices accelerated to 6½ per cent. In early 1971 economic activity was sluggish, while the upward pressure on prices continued unabated; the balance of payments was in substantial surplus, the large deficit that emerged in 1969 because of capital outflow having been eliminated in the course of 1970.

It was also evident by early 1971 that a considerable degree of slack had developed in the

[18] As defined in Table 24—i.e., the balance on goods, services, and private transfers.

Italian economy.[19] This, of course, created a potential for faster economic growth and for sizable productivity gains that might serve to alleviate cost pressures stemming from continued large increases in average wages. Realization of this potential would require a return to more normal working conditions.

The periodic work stoppages in 1970, as well as in the latter part of 1969, had a marked impact on Italy's external trade performance, as many domestic demands were met by drawing on foreign supplies and export capabilities were impaired. Contrary to the past tendency for Italy to acquire a substantially increasing share of the export trade of industrial countries, the rise in its exports from 1969 to 1970 fell considerably below the growth of its export markets (12½ per cent versus 17½ per cent) while imports expanded rapidly (20 per cent). The further decline of the trade balance in 1970 led to a deficit of $0.3 billion, in contrast to a surplus of $1.0 billion in 1968; the surplus on current account dropped from $2.9 billion in 1968 to $1.3 billion in 1970.

This change in the current account was more than counterbalanced by a sharp curtailment in the capital outflow and its replacement by an inflow during the course of 1970. The overall payments position was approximately in balance during 1968, but in the first half of 1969 the current account surplus was outweighed by exceptionally large outflows of nonbank capital; these reflected 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.[20] With the unprecedented 1969 upsurge of interest rates in the Euro-dollar market and elsewhere, the Italian monetary authorities adopted defensive measures beginning at midyear. These were not particularly effective in stemming the capital outflow but, when the lira again came under heavy pressure in the first months of 1970 and the outflow accelerated, the authorities took further measures that proved strikingly successful and led to a pronounced strengthening of the balance of payments. These measures included a sharp increase in interest rates to a level above those in international markets, the encouragement of government-controlled enterprises to meet their needs for long-term finance by borrowing abroad, and the tightening of capital controls. The gain in confidence resulting from the solution of a brief political crisis and the formation of a new Government in August 1970 was probably also helpful in this context. The degree to which the external payments position was strengthened is indicated by the fact that from the end of August 1970 to the end of April 1971 gross official reserves increased by more than $1.9 billion, including the second allocation of SDR 107 million in January 1971.

The Italian authorities began to ease monetary policy gradually in the summer of 1970. This shift was prompted by the leveling off in economic activity and was facilitated by a decline in interest rates abroad and the improvement in the balance of payments. As an indication of the stance of policy in April 1971, the announcement by the Governor of the Bank of Italy of a discount rate reduction made mention of the need to give "additional support to the revival of internal activity," as well as of the need to keep domestic interest rates in line with the evolution of rates in foreign markets.

In August 1970 the Government introduced a series of measures designed to achieve a shift in the utilization of resources from consumption to investment. These measures included increases in indirect taxes and social security contributions equivalent to more than 1 per cent of GNP on an annual basis, together with incentives for productive investment. While the tax increases became effective immediately, Parliament delayed enactment of the investment incentives until late December. Consequently, there are clear indications that fiscal policy had a restrictive impact on the economy in the second half of 1970. When account is taken of the slow impact of the measures to stimulate investment, fiscal policy may well have remained restrictive in early 1971.

[19] Real GNP in the fourth quarter of 1970 was at about the same level as in the first quarter, when losses of output in the strike-ridden second half of 1969 had been recouped only in part. Also noteworthy, the index of industrial production in the first quarter of 1971 was 2 per cent lower than in the corresponding period a year earlier.

[20] The financing of the nonbank capital outflow required, in addition to an officially requested liquidation of net foreign assets of the Italian banking system, a substantial drain on official reserves.

Other Industrial Countries

Developments during 1970 in the smaller industrial countries of Europe were characterized by an intensification of inflationary pressures, a marked deterioration in the current account position, and capital inflows that not only led to an improvement in the overall balance of payments but also, in certain instances, injected substantial amounts of liquidity that weakened domestic policy restraints. Most of these countries had suffered relatively large outflows of short-term capital during 1969 before the German revaluation in October, and all had reacted by tightening monetary conditions and raising interest rates. As noted earlier, four of the countries in this group—Austria, Belgium, the Netherlands, and Switzerland—were directly engulfed in the international monetary crisis of May 1971 and, as a result of the surge of speculative funds into European exchange markets, changed their exchange rate policies.

In general, the smaller industrial countries shared the experience of the seven major countries in 1970 of having larger increases in prices than in output. (See Tables 13 and 19.) Fast economic expansion in the major industrial countries after the 1966–67 slowdown had created strong and uninterrupted demands for the smaller countries' exports; in combination with burgeoning domestic demand, this led to the emergence of strains on resources during late 1969 and 1970 and to rapid increases in imports.[21] The lag in response of the smaller countries to external developments was apparent by early 1971 in one central fact: excess demand was still prevalent in those countries, whereas it clearly had been eliminated in nearly all the larger industrial countries.

In *Belgium* economic performance in 1970 included the continued expansion of real GNP at an above-trend rate (5½ per cent), the lowest increase in overall prices (somewhat more than 4 per cent) among industrial countries, and a very large surplus on the external current account. These results were all due in some measure to the fact that cyclical recovery from the 1966–67 recession had started rather late, with exports leading the upswing in overall demand. The Belgian economy was able to benefit from important gains in productivity in 1969, as well as in the first part of 1970, and to improve its relative cost position in both years. By early 1971, although demand pressures were easing, the rate of wage increases was accelerating and the Government also faced the problem of containing upward pressures on prices stemming from the introduction of a value-added tax at the beginning of January.

Economic policies in Belgium had remained strongly expansionary until early 1969, when monetary policy was tightened to help safeguard official reserves. Further restrictive actions, including a tightening of credit and rediscount ceilings, were taken in the last quarter of 1969 in order to dampen the expansion of aggregate demand. The central bank maintained these ceilings throughout 1970 and into 1971, and fiscal policy operated in a moderately countercyclical fashion. By the end of 1970 the influx of reserves was clearly counteracting monetary policy, and in May 1971 the Government acted, as indicated earlier, to modify its dual system of exchange markets so as to render the free market an instrument for containing capital inflows. In addition, the National Bank had advised the commercial banks in March 1971 not to increase further their net foreign indebtedness.

The economy of the *Netherlands,* which had been operating more or less continuously under boom conditions since the end of 1967, showed further strong expansion in 1970. Bottlenecks developed in some sectors, unemployment declined to very low levels, and unit labor costs increased substantially. The pace of wage and price increases accelerated during the course of 1970, and at the end of the year the Government established a six-month wage pause. Demand pressures were intense throughout the year, as the moderating influence of fiscal policy was limited by a greater-than-intended rise in government expenditures and as the effects of domestic monetary restraint were weakened by an expansion of liquidity deriving from the increase in foreign assets of the central bank.

Dutch imports expanded rapidly during 1970 in response to the very high domestic demand, and the terms of trade deteriorated by 3 per cent; mainly for these reasons, a current account deficit of unprecedented magnitude developed. However,

[21] Mainly because of higher imports, the external trade and current account positions of this group of countries deteriorated sharply from 1969 to 1970. In only Belgium-Luxembourg did the current account balance increase—and very substantially—from 1969 to 1970.

there was also a huge capital inflow and the overall balance of payments registered a very substantial surplus (Table 25). The exchange rate decision of the authorities in May 1971 was taken in the light of continuing large-scale inflows of capital and of the exchange action by Germany.

The economy of *Austria,* after a strong recovery in 1968, achieved high rates of growth in 1969 and 1970. Increased pressure on domestic resources began to develop in 1969, and the revaluation of the deutsche mark in October was expected to reinforce the tendencies toward faster price increases. The authorities then put into effect a program of anti-inflation measures that included reduction of import duties, abolition or reduction of import equalization taxes, and more liberal licensing of certain imports.

In spite of increasing strains on domestic resources, cost and price increases in Austria during recent years were less marked than in most other European countries and its underlying balance of payments position remained strong. The exchange rate action by the German authorities in May 1971 might—without any protective move on the part of Austria—have threatened price stability in Austria, strengthened its external position still further, and stimulated unwanted inflows of speculative capital. The decision by the Austrian authorities to revalue the schilling was taken in view of such considerations.

In *Switzerland,* which maintained a relatively high degree of price stability in 1969 despite the attainment of full-capacity utilization, inflationary pressures intensified during 1970. Foreign demand provided a strong stimulus to the Swiss economy, but delivery delays caused by boom conditions, together with a surge in imports, led to elimination of the surplus on current account. However, as in the Netherlands, a sharp swing in the capital account produced a large overall surplus in the balance of payments. According to the Swiss authorities, the revaluation of the franc in May 1971 was necessary to prevent a vast inflow of funds into Switzerland. The move, it was emphasized, would not be sufficient to combat domestic inflation, and it was planned to introduce an anti-inflation program in the near future.

Economic policy in *Denmark* during 1970 was greatly influenced by the aftermath of the foreign exchange crisis in May 1969, when interest rates were raised to exceptionally high levels following a sharp deterioration in the current account position and outflows of short-term capital for arbitrage or speculative reasons. However, late in 1969 it was evident that 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 government expenditures. A general price freeze was introduced in September 1970; the Government decided to pursue an incomes policy aimed at ensuring that wage rates would not rise more than 3½ to 4 per cent per annum after the expiration of wage agreements at the end of February 1971; and interest rates were continuously maintained at extraordinarily high levels. Despite the tightness of economic policy, the current account deficit increased again in 1970—to about $550 million, or some 3 per cent of GNP; this was offset by capital inflows, and the overall payments position was in approximate balance.

The year 1970 was one of unusually strong demand pressure in *Norway,* along with substantial increases in prices and costs. Introduction of a value-added tax in January 1970 [22] had a pronounced effect on the general price level, accounting for 6 percentage points of the 11½ per cent increase in the GNP deflator from 1969 to 1970. In spite of the need for restrictive economic policies in 1970, fiscal policy was more expansionary than in the previous year. Monetary policy in 1970 was aimed at neutralizing the increase in liquidity resulting from the tax reform and ensuring sufficient long-term credits for high-priority investments. Although the authorities successively tightened the rules on liquidity reserves held by the banks during 1970, the supply of bank credit was not kept within the limits originally envisaged. Toward the end of the year the authorities introduced a series of measures, including increases in some indirect taxes, postponement of public investments, and a price freeze, in order to ease demand pressures and check the rise in costs and prices.

[22] This replaced the sales tax, and was part of a tax reform that also included reduction of direct taxation.

Norway's reserve position remained strong in 1970 as a large increase in net imports of ships was more than offset by capital inflows.

In *Sweden* the economy passed through a strongly expansionary phase in 1969 to an overheated condition in 1970. This occurred despite a considerable tightening of monetary policy in 1969, in part to stem a drain on the official reserves, and the introduction in April 1970 of ceilings on commercial bank advances other than for housing. The pressure on resources was high throughout 1970, although it eased somewhat after the spring of the year. Wage increases in manufacturing accelerated, but productivity growth remained high and unit labor costs in Sweden went up somewhat less than those in competitor countries. Domestic prices increased at a considerably faster pace in 1970, with the GNP deflator rising by 5½ per cent, compared with 2½ to 3 per cent in the previous two years. In October 1970 the Government imposed a general freeze on prices of goods and services, and this was extended in March 1971 in view of the protracted wage negotiations.

Notwithstanding a strong export performance, Sweden's current account deficit increased appreciably in 1970. However, the deficit was considerably exceeded by a net capital inflow stemming from the continued tight credit policy and the fall in international interest rates. At the end of May 1971, official reserves of Sweden, at $933 million, were about $125 million lower than at their peak level in April 1965.

International Financial Markets

In the 1970 Annual Report,[23] attention was drawn to several key financial policy issues raised by the existence and rapid growth of the Euro-currency market and the international bond market. In particular, it was noted that the impact of these relatively new markets, and especially of the Euro-currency market, on the mobility of capital flows among countries had brought a high degree of integration to the international credit market as a whole, and that this had presented challenges to both the effectiveness and the independence of national monetary policies. With closer financial integration, the effects of changes in monetary policy by the larger industrial countries, and predominantly by the United States, are quickly transmitted to other industrial countries, with wide repercussions throughout the world. Difficulties can thus be created for countries whose own policy requirements are different from those of the main financial centers. These and related problems, as well as a number of possible measures for dealing with them, have been discussed in Chapter 1 (pages 14–16).

Policy problems arising from conflicting domestic and external pressures or objectives have presented themselves in a particularly acute form during recent years, as the severe tightening of U. S. monetary policy in 1969 and the veering of such policy toward ease in 1970 were quickly reflected in Euro-dollar interest rates. As last year's Annual Report observed, in 1969 many countries reacted partly by raising domestic interest rates and partly by resorting to special measures to restrict the outflows of capital. In the pages that follow, there is a brief description of how countries desiring to maintain a restrictive monetary policy for domestic purposes responded to the situation posed by declining Euro-dollar interest rates in 1970 and early 1971.

The international bond market, which grew principally as a result of U. S. restraints on capital outflows, contributed importantly to the integration of capital markets in Europe. Borrowers seeking long-term funds may float issues in individual countries outside their national boundaries or in several countries simultaneously. Although this has probably brought greater uniformity of long-term interest rates in the industrial countries, it has not created problems for national monetary policies on anything like the scale posed by the Euro-currency market.

In 1970, it may be noted, the Euro-currency and international bond markets were brought closer together by the phenomenal growth of medium-term bank lending by Euro-banks.[24] As Euro-dollar prime lending rates declined below the yields on Euro-bonds floated on European capital markets, it became advantageous for large corporations to borrow at medium term on the Euro-currency market. This development in effect meant that medium-term Euro-dollar loans and medium-

[23] Pages 90–92.

[24] For definition, see footnote 7 on page 24.

term Euro-bond issues had become very close substitutes. Another development in 1970 linking the two markets was the flotation of several bond issues at variable interest rates that were tied to rates in the Euro-dollar market.

The Euro-Currency Market

The main features of the Euro-currency market in 1970 were the somewhat slower rate of growth of the market (more particularly its Euro-dollar component) than in 1969, the drop in liabilities of U. S. banks to their foreign branches, the sharp fall in Euro-dollar interest rates, and the increased placements in the market by central banks (directly or through the Bank for International Settlements) of some of their reserve accruals. The fall in interest rates, almost exactly reversing their steep climb during 1969, created new and serious strains for industrial countries other than the United States and contributed to the dramatic reversal in the U. S. balance of payments from a surplus in 1969 to a massive deficit in 1970. Increased placements by central banks posed new questions concerning possibilities of reserve creation through the depositing of reserves in the Euro-dollar market. (See Chapter 2.)

After a growth of nearly 50 per cent during 1969, the Euro-currency market expanded by 30 per cent during 1970. As measured by total banking liabilities denominated in currency other than that of the country of residence of the banking institution, there was an increase from about $44 billion at the end of 1969 to about $57 billion at the end of 1970.[25] The Euro-dollar component of this total rose from $37.5 billion to $46 billion during 1970, while the non-dollar component (comprised mainly of deutsche mark and Swiss francs) rose from the equivalent of $6.5 billion to the equivalent of $11 billion; during 1969 the dollar component had grown by $12.5 billion and the non-dollar component by $1.5 billion. The growing importance of the non-dollar component, which in 1970 absorbed about one third of the growth of the market as a whole, was a noteworthy development in the recent period.

Whereas in 1969 the main factor behind the spectacular growth in the Euro-dollar market was the huge increase in borrowing by U. S. banks from their overseas branches, in 1970 the growth of the market was slowed by the repayment of most of this borrowing. Because of such repayment, there was a reduction during 1970 in the net indebtedness of the United States to the Euro-dollar market, but this was more than offset by increased Euro-dollar borrowing by Europe and by the rest of the world. Whereas U. S. indebtedness to the market fell by about $3.8 billion, outstanding borrowings by eight European countries as a group[26] increased by $5.8 billion, while borrowings by the rest of the world increased by $6.5 billion. Nearly all the additional funds supplied to the market came from outside the United States. An important development on the supply side was that at least $5.5 billion came from placements of official dollar reserves in the Euro-dollar market; more than three fifths of the increase in the Euro-dollar market during 1970 is thus attributable to such placements.

Short-term interest rates in the United States had risen sharply during 1969; in 1970, because of an expansionary monetary policy as well as some deceleration in the demand for funds, money market rates fell even more sharply and by the end of the year were substantially below their levels at the beginning of 1969. Euro-dollar rates followed the general pattern of U. S. rates fairly closely, with Euro-dollar rates consistently above their U. S. counterparts by a margin that fluctuated from month to month from very little to about 4 percentage points. (See Charts 17 and 18.)

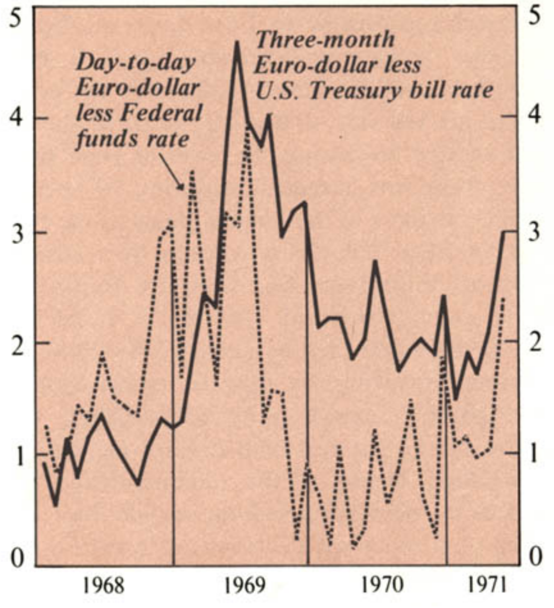
The parallel movements in U. S. and Euro-dollar rates over time can be explained in terms of the close links between the two markets. A major link is provided by the intimate working relationship between U. S. banks and their U. K. branches. U. S. banks determine their borrowings and repayments on the basis of availability of domestic funds and the relative effective costs of alternative sources, taking account of reserve requirements,

[25] Estimates of the net size of the Euro-currency market are taken from the Forty-First Annual Report of the Bank for International Settlements (BIS). They are based on data for eight European countries: Belgium-Luxembourg, France, Germany, Italy, the Netherlands, Sweden, Switzerland, and the United Kingdom. These estimates are net of inter-bank deposits to the extent that they are held by banks within the group of reporting countries.

[26] These are the countries reporting to the BIS. (See footnote 25, above.)

CHART 17. INTEREST DIFFERENTIALS, EURO-DOLLAR AND U.S. RATES, 1968–MAY 1971

(*In per cent per annum*)



assessments by the Federal Deposit Insurance Corporation, etc. Although Euro-dollar rates may, at least from month to month, move independently of U. S. rates, influences from the United States tend to be fairly dominant in the determination of interest rates in the Euro-dollar market, with pressures from Europe tending to be relatively less important and more transient.

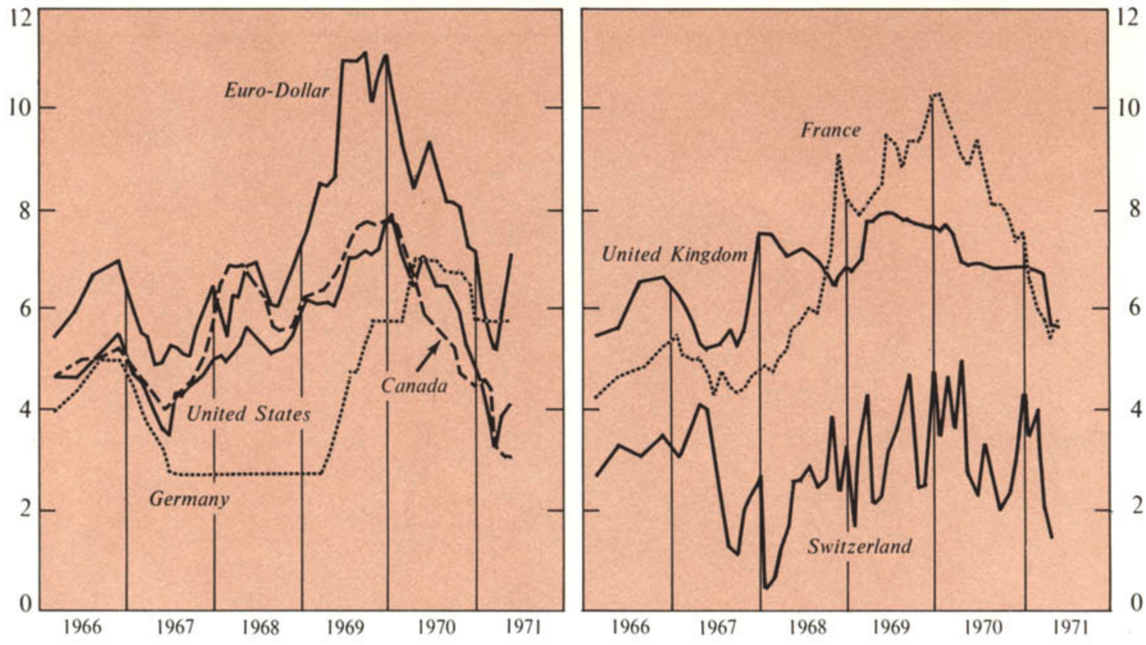
Fluctuations in the Euro-dollar rate during 1969 and 1970, following trends in the United States, created a number of difficult policy questions for other industrial countries with capital markets that are closely integrated with the Euro-dollar market. During 1969, when Euro-dollar rates rose very sharply (indeed in several months more sharply than corresponding rates in the United States), all these industrial countries allowed their interest rates to rise, primarily to fight domestic inflationary conditions but also, in a number of instances, to moderate the outflow of capital. In addition, in many of those countries, special measures were taken to discourage capital outflows. For example, central banks in Italy, France, the Netherlands, Denmark, and Belgium (through the controlled market) all directed their banks to reduce their net foreign asset positions, and in Italy enterprises were encouraged to borrow abroad.

During 1970 and the first several months of 1971, when Euro-dollar rates dropped sharply, discount rates in industrial countries outside the United States responded, but with varying lags. The United Kingdom (in March) and Canada (in May) were the first to lower their discount rates in 1970. Germany (in July), France (in August), and Belgium and Japan (in October) followed during the year. Others responded in 1971: Denmark (in January), Sweden (in March), and Italy and the Netherlands (in April). In several countries discount rates were lowered more than once from January 1970 to May 1971 (Denmark twice, Japan and the United Kingdom three times, France and Germany four times, and Canada six times). In some instances the reduction in discount rate was prompted at least in part by external considerations, but in others (notably in Canada, France, Italy, and the United Kingdom) domestic considerations were also clearly important. Only Germany, Italy, and Austria resisted the trends in interest rates in the Euro-dollar market in the early months of 1970 by actually raising their discount rates; Germany and Italy both raised them by as much as 1.5 percentage points during March.

Rates of interest in national short-term credit markets, which are more directly relevant than discount rates for capital movements, also followed the general trends in Euro-dollar rates—sometimes preceding, sometimes following, the changes in discount rates. In general, national market rates did not fall as sharply as Euro-dollar rates, with the result that the interest differentials between national and Euro-dollar rates shifted generally in favor of the former in the course of 1970 and early 1971. For nearly all industrial countries, the average yield spreads for those periods were noticeably more favorable (or less unfavorable) to placement (or retention) of funds in national markets than they had been in 1969. Table 29 documents this point. During 1969 the average interest rate in the Euro-dollar market exceeded rates on claims of comparable maturity in nearly all countries—in some of them (notably Belgium, Canada, Germany, Italy, and the Netherlands) by large margins. During 1970 the differential in favor of the Euro-dollar market fell sharply in Belgium and the Netherlands and was reversed in Denmark, France, Germany, Italy, and Japan.

CHART 18. SELECTED COUNTRIES: SHORT-TERM INTEREST RATES, 1966–MAY 1971 [1]

(In per cent per annum)



[1] Switzerland and France—call money rates; Canada, Germany, the United Kingdom, and the United States—treasury bill rates; Euro-dollar—three-month rate.

This trend, toward yield relationships more favorable (or less unfavorable) to domestic investments, continued into the early months of 1971.

Covered yield differentials—i.e., differences in relevant interest rates after adjustment for forward cover to hedge against exchange-rate changes—are also relevant to investment decisions. The behavior of these differentials in selected industrial countries (vis-à-vis the Euro-dollar market) is shown in Chart 19. The contrast between 1969 and 1970–71 is less striking than it is for the uncovered differentials; nevertheless, in most coun-

TABLE 29. SELECTED INDUSTRIAL COUNTRIES: SHORT-TERM INTEREST RATE DIFFERENTIALS, 1969–MARCH 1971

(Domestic rate less corresponding Euro-dollar rate, in per cent per annum)

	Uncovered Differentials (Mean)[1]				
	1969		1970		1971
	First half	Second half	First half	Second half	January–March
Belgium	−2.83	−2.45	−0.75	−0.10	+0.95
Canada	−2.23	−3.07	−2.17	−2.71	−1.67 [2]
Denmark	−0.18	+0.02	+1.62	+2.94	+4.60
France	−1.60	−1.09	+0.60	+0.83	+1.11
Germany	−4.51	−3.56	+0.32	+1.14	+1.89
Italy	−2.32	−3.00	−0.24	+2.29	+2.09
Japan	−1.64	−1.44	−0.85	+0.31	+1.73
Netherlands	−4.62	−4.06	−2.11	−1.03	−1.22
United Kingdom	−0.18	−1.37	−0.52	−0.42	+1.05 [2]

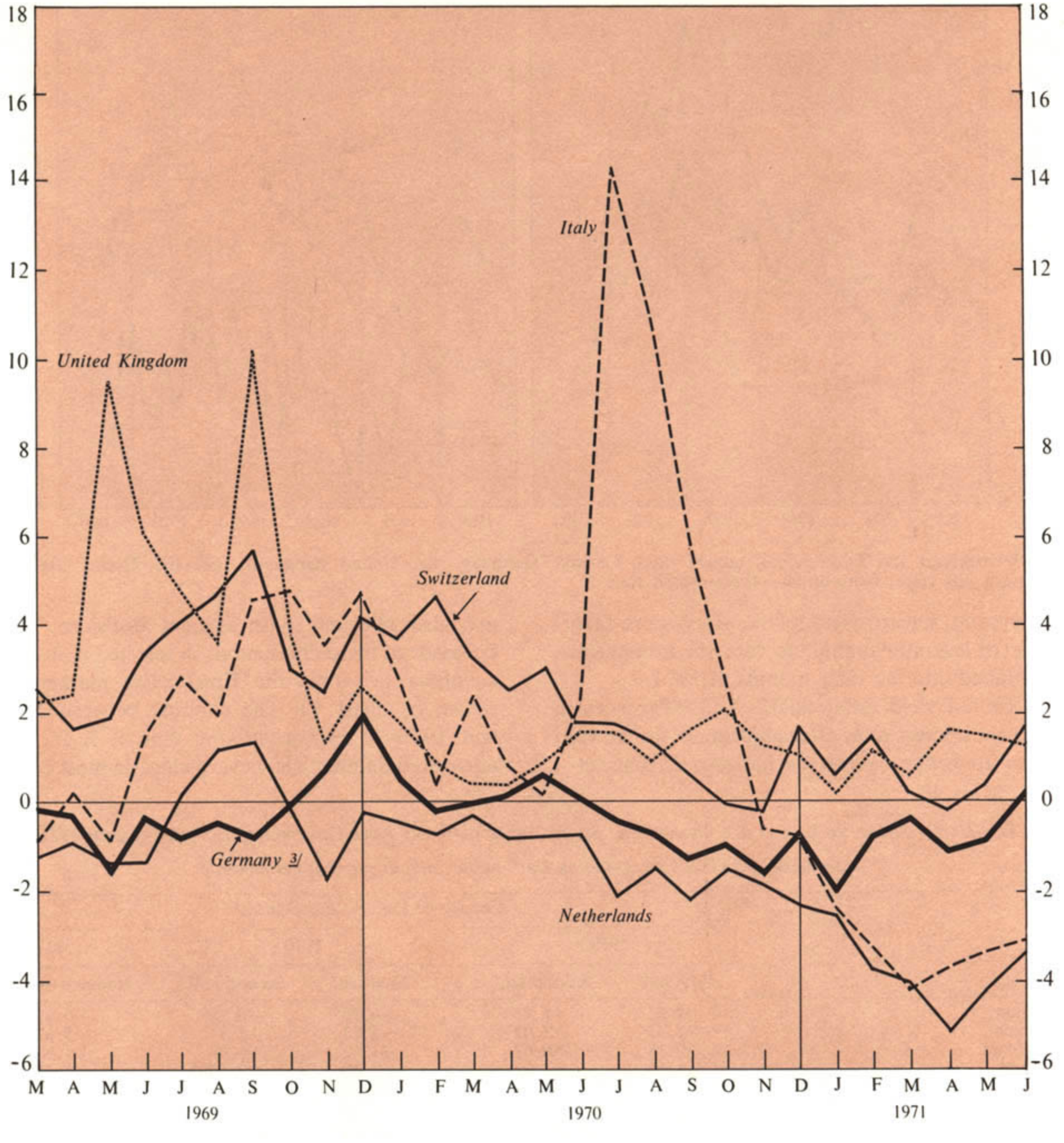
Sources: *International Financial Statistics* and national statistics. Belgium, four-month Fonds des Rentes certificates; Canada, three-month treasury bill rate; Denmark, commercial bank lending rates; France, call money rate; Germany, three-month interbank deposit rate; Italy, commercial bank lending rates; Japan, call money rate; Netherlands, call money rate; United Kingdom, three-month local authority deposit rate.

[1] Positive sign indicates a domestic rate higher, on average, than the corresponding Euro-dollar rate, while negative sign indicates the reverse.

[2] January–April.

CHART 19. COVERED INTEREST DIFFERENTIALS BETWEEN THREE-MONTH EURO-DOLLAR DEPOSITS AND LOCAL SHORT-TERM INVESTMENTS, MARCH 1969–JUNE 1971 [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.
All data refer to first week of month.

[2] Positive sign indicates excess of Euro-dollar rate over national market rate, while negative sign indicates the reverse.

[3] On official swap, September 2, 1969.

tries there is a distinct swing toward comparatively more favorable (or less unfavorable) rates on domestic investments. In Germany and the Netherlands, this swing brought a covered differential favoring those countries during most of 1970 and early 1971; in the United Kingdom and Switzerland, however, the covered differentials, while narrowing, continued in favor of the Euro-dollar market through the early months of 1971.

Of the larger industrial countries outside the United States, Germany, France, the United Kingdom, and Japan all took special measures to discourage capital inflows, in addition to allowing their interest rates to drop. Germany reinvoked a number of devices: special marginal reserve requirements were imposed on increases in foreign liabilities; spot rates were kept at or close to the upper intervention points; and there was some intervention in the forward market designed to increase the forward discount on the deutsche mark. In May 1971, when the Bundesbank ceased to maintain the exchange rates for the deutsche mark within the established margins, this action was supplemented by the prohibition of interest payments on deposits held by nonresidents (in excess of a specific amount) and by the placing of limitations on the sales of money market paper to nonresidents. In France the foreign currency position of the banks was made no longer subject to control in July 1970, and the banks were free to reduce their net liabilities abroad; in addition, some further controls were imposed on foreign borrowing by French enterprises. In the United Kingdom the authorities as of January 1971 restricted the borrowing of foreign currency for conversion into sterling for domestic use to medium- and longer-term finance taken for at least five years (but permission was given to complete borrowings already arranged); and the spot rate was allowed to move virtually to its upper intervention point. In Japan yen shift operations were resumed in June 1970, when the authorities started supplying yen funds to foreign exchange banks for import financing purposes at official discount and loan rates that were lower than the prevailing market rates.

Banks in the United Kingdom are the main intermediaries in the Euro-dollar market, accounting for about one half of all nondomestic assets and liabilities of banks in the European countries for which data are reported regularly to the Bank for International Settlements (BIS). Table 30 shows the geographic breakdown of external liabilities and claims, denominated in non-sterling currencies, of U. K. banks[27] for the period 1967–70. It provides a detailed, though limited, guide as to sources and uses of funds by individual countries through the intermediation of the U. K. banks.[28]

As Table 30 indicates, the United States was easily the major net borrower in the Euro-currency market during the years 1967–70, with Western Europe providing most of the funds. The last columns of the table, which record changes in the net asset positions of the various countries, reveal that the most dramatic change during 1970 occurred in the U. S. position, where an inflow through the U. K. banks of \$5.78 billion in 1969 was converted into an outflow of \$3.55 billion in 1970. This outflow was due to a large reduction in borrowings from the market by the United States (from about \$13.5 billion to about \$10 billion), with supplies from the United States increasing by only a negligible amount. Germany (\$1.64 billion) and the United Kingdom (\$1.13 billion) experienced the largest inflows during 1970. Developments in the United Kingdom are particularly interesting, in that the U. K. banks, which during the period 1967–69 had had a negligible net external position in foreign currencies, in 1970 built up a liability of over \$1 billion. This did not signify any change in the U. K. banks' role as intermediaries in this market but rather that they had lent a larger proportion of their foreign currency resources than usual to other U. K. residents (who either switched these funds into sterling for domestic use or kept them in foreign currency for overseas investment). Apart from Switzerland (data for which include the BIS position), the Western European industrial countries, taken together, had a net inflow of \$2.73 billion. Japan, too, experienced a substantial net inflow (\$0.72 billion),

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

[28] The table shows only immediate sources and uses of funds, not original sources or final users, and it represents only a partial picture, since a sizable part of the Euro-currency business is conducted outside the United Kingdom.

TABLE 30. GEOGRAPHIC BREAKDOWN OF EXTERNAL LIABILITIES AND CLAIMS, DENOMINATED IN NON-STERLING CURRENCIES, OF BANKS IN THE UNITED KINGDOM, 1967–70

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

	Liabilities				Assets				Net Position (Liability −)				Change in Net Position During Year[1]		
	1967	1968	1969	1970	1967	1968	1969	1970	1967	1968	1969	1970	1968	1969	1970
Western Europe															
Austria	0.38	0.34	0.34	0.58	0.16	0.22	0.18	0.27	−0.22	−0.12	−0.16	−0.31	0.10	−0.04	−0.15
Belgium-Luxembourg	0.34	0.73	1.40	1.43	0.34	0.49	1.02	1.53	...	−0.24	−0.38	0.10	−0.24	−0.14	0.48
France	0.74	1.06	1.77	1.92	0.33	0.58	1.35	1.84	−0.41	−0.48	−0.42	−0.08	−0.07	0.06	0.34
Germany	0.64	0.81	0.97	1.65	0.52	0.96	1.55	3.87	−0.12	0.15	0.58	2.22	0.27	0.43	1.64
Italy	0.77	1.59	2.37	3.19	0.46	0.69	1.48	2.91	−0.31	−0.90	−0.89	−0.28	−0.59	0.01	0.61
Netherlands	0.27	0.52	1.24	1.77	0.31	0.36	0.49	1.01	0.04	−0.16	−0.75	−0.76	−0.20	−0.59	−0.01
Switzerland (including BIS)	1.98	3.17	6.29	8.42	0.39	0.69	1.08	1.35	−1.59	−2.48	−5.21	−7.07	−0.89	−2.73	−1.86
Other	0.67	1.19	1.72	2.75	0.98	1.19	1.42	2.27	0.31	...	−0.30	−0.48	−0.31	−0.30	−0.18
Subtotal	5.79	9.41	16.10	21.71	3.49	5.18	8.57	15.05	−2.30	−4.23	−7.53	−6.66	−1.93	−3.30	0.87
United States	1.41	2.69	3.05	3.08	4.10	7.34	13.48	9.96	2.69	4.65	10.43	6.88	1.96	5.78	−3.55
Canada	0.78	1.21	2.61	3.04	0.35	0.48	0.64	0.90	−0.43	−0.73	−1.97	−2.14	−0.30	−1.24	−0.17
Japan	0.04	0.06	0.30	0.41	1.08	1.67	1.62	2.45	1.04	1.61	1.32	2.04	0.57	−0.29	0.72
Latin America	0.48	0.66	1.38	1.76	0.42	0.82	1.48	2.16	−0.06	0.16	0.10	0.40	0.22	−0.06	0.30
Middle East	0.55	0.56	0.69	1.10	0.21	0.30	0.31	0.51	−0.34	−0.26	−0.38	−0.59	0.08	−0.12	−0.21
Overseas sterling area	0.73	1.30	2.52	3.08	0.23	0.43	1.33	2.26	−0.50	−0.87	−1.19	−0.82	−0.37	−0.32	0.37
Other[2]	0.74	1.22	2.14	2.19	0.61	0.84	1.38	1.97	−0.13	−0.38	−0.76	−0.22	−0.25	−0.38	0.54
Total	10.52	17.11	28.79	36.37	10.49	17.06	28.81	35.26	−0.03	−0.05	0.02	−1.11	−0.02	0.07	−1.13
of which															
U.S. dollars	*9.69*	*15.36*	*25.75*	*31.41*	*9.21*	*14.98*	*25.23*	*29.25*	*−0.48*	*−0.38*	*−0.52*	*−2.16*	*0.10*	*−0.14*	*−1.64*
Other non-sterling (Euro-currencies)	*0.83*	*1.75*	*3.04*	*4.96*	*1.28*	*2.08*	*3.58*	*6.01*	*0.45*	*0.33*	*0.54*	*1.05*	*−0.12*	*0.21*	*0.51*

Source: Bank of England, *Quarterly Bulletin.*

[1] From the standpoint of countries or areas listed in the stubs, positive sign indicates net inflow from U.K. banks, while negative sign indicates outflow to them. For the United Kingdom, the signs have the opposite meanings.

[2] Other non-sterling countries, nonterritorial organizations, and unallocated.

while in Canada there was a small net outflow ($0.17 billion).

In 1969 nearly all the increase in the gross borrowings from the market by the United States ($6.1 billion) was absorbed by the increase in liabilities of U. S. banks to their foreign branches. In 1970 these liabilities fell by more than $5 billion, yet the decrease in the borrowings from the market by the United States was on the order of $3.5 billion. The discrepancy can probably be accounted for by increased borrowing from Euro-dollar sources by U. S. companies domiciled in the United States; something like $1.5 billion was absorbed through the intermediation of U. K. banks. One reason for the increase in borrowing by U.S. companies on the Euro-dollar market was the fact that they borrowed less in the Euro-bond market, interest rate differentials (for borrowers) between the two markets having swung sharply in favor of the Euro-dollar market in 1970.

In the United States during 1969, with rates on certificates of deposit held down by Regulation Q ceilings at the same time that market rates were advancing, the large city banks experienced a sharp fall in deposits. Given the strong demand for loans, the banks responded by seeking funds from nondepository sources, mainly the Euro-dollar market. To counteract the effects of these borrowings on Euro-dollar rates and on the outflows of short-term capital from Europe, the Federal Reserve Board introduced, with effect from September, a 10 per cent reserve requirement on U. S. bank liabilities to their foreign branches above the average outstanding in the four weeks ended May 28, 1969. This curtailed the growth of such liabilities, and late in the year they began to decline. After rising again in January 1970 to about $14 billion, the liabilities of U. S. banks to foreign branches fell by more than $2½ billion by late July (Table 31). During this period the banks relied increasingly on lower-cost sources of funds, primarily commercial paper and certificates of deposit, on which Regulation Q interest rate ceilings had been raised in January 1970.

In June 1970 the Federal Reserve Board suspended Regulation Q ceilings on certain 30-day to 89-day large certificates of deposit. As a result the banks were able to compete successfully for funds, especially in a market characterized by falling yields on short-term securities. In September bank-related commercial paper became subject to reserve requirements equal to those on deposits of the same maturity. The volume of this paper had reached a peak of some $7.8 billion in July, from what had been a negligible figure a year earlier, but after September the volume fell sharply and by the end of February 1971 was below $2 billion (Table 31). At the same time, after the suspension of Regulation Q, the volume of large certificates of deposit expanded rapidly—from $13 billion at the end of June 1970 to more than $27 billion at the end of January 1971. Some of the funds absorbed in this way were used to repay the higher-cost Euro-dollar borrowings. From about early October some of the large banks had found it profitable to go below their reserve-free base, which for the banks as a group was around $10 billion.

TABLE 31. SELECTED LIABILITIES OF LARGE U.S. BANKS, DECEMBER 1968–JUNE 1971

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

Years	Large Negotiable Time Certificates of Deposit	Liabilities to Foreign Branches	Bank-Related Commercial Paper
1968			
December 25	23,474	6,948	...
1969			
December 31	10,919	12,822	4,298
1970			
January 28	10,469	13,623	5,528
February 25	10,864	13,086	6,052
March 25	11,820	11,885	6,518
April 29	13,046	12,489	6,627
May 27	13,003	13,036	7,550
June 24	13,019	12,701	7,553
July 29	17,901	10,896	7,770
August 26	20,174	10,733	7,257
September 30	22,240	9,787	4,586
October 28	23,561	9,439	3,671
November 25	25,226	8,585	3,127
December 30	26,075	7,669	2,349
1971			
January 27	27,190	6,537	2,030
February 24	27,489	5,667	1,901
March 31	27,523	2,858	1,692
April 28	27,219	2,158	1,794
May 26	28,137	1,572	1,735
June 30	28,510	1,548	1,733

Source: U.S. Federal Reserve Board, *Federal Reserve Bulletin*.

Concerned over the continuing repayments of Euro-dollar borrowings and the effects of these on Euro-dollar rates and on capital outflows from the United States, the Federal Reserve Board took measures in November to moderate the pace of such repayments. With effect from January 1971, in respect to the four-week reserve period ended December 23, reserve requirements on Euro-dollar borrowings from branches, above a reserve-free base, were raised from 10 per cent to 20 per cent; at the same time, a new reserve-free base was established at the average level of Euro-dollar liabilities in the four-week period ended November 25 or at 3 per cent of a bank's total deposits, whichever was the higher. The objective was to raise the cost of future reborrowings over the reserve-free base, which automatically adjusted downward as the level of liabilities fell below the newly established base. Some incentive was also provided to certain banks to increase their use of the Euro-dollar market so as to acquire larger reserve-free quotas. But with the differential cost in favor of domestic funds and banks' excess liquidity both continuing high, the increase in reserve requirements proved ineffective and banks continued their repayments, again going below the new reserve-free base. Then, in January 1971, in a further step to check repayments of Euro-dollar borrowings, banks were permitted to include in their reserve-free base funds invested by their overseas branches in the securities of the Export-Import Bank; by early March that Bank had sold $1.5 billion of special securities to the branches. In March 1971 the U. S. banks were also permitted to include in their reserve-free base funds invested by their branches in U. S. Treasury securities; in April the Treasury announced a $1.5 billion offer to such branches of three-month certificates of indebtedness at 5⅜ per cent, which was the then prevailing rate for three-month Euro-dollar deposits. Repayment of U. S. banks' liabilities to their branches continued at a rapid rate in the first several months of 1971, and by the middle of May such liabilities were down to a figure of about $1½ billion.

By observation of the changes in assets and liabilities to nonresidents in foreign currency of the commercial banks in individual industrial countries, an estimate can be made of the extent to which, in a particular period, the banks were net borrowers or lenders in the Euro-currency market. During 1970 banks in a number of countries were net borrowers of Euro-dollars: in the United Kingdom, by about $1.6 billion; in Belgium, by nearly $0.7 billion; in Italy, by about $0.4 billion; in Germany, by something like $0.3 billion; and in France, by nearly $0.2 billion. In contrast, banks in Switzerland [29] were net lenders to the Euro-dollar market by about $3.6 billion; those in Japan, by about $0.5 billion; those in the Netherlands, by $0.3 billion; and those in Canada by $0.1 billion. While no comparable data are available for nonbanks by individual country, the BIS has estimated that for 1970 nonbanks as a group in the eight reporting countries were heavy net borrowers in the Euro-dollar market; [30] the swing in their position, from net assets of $4.2 billion to net liabilities of $0.4 billion, indicated a net inflow of $4.6 billion during the year. This was in sharp contrast to developments during 1969, when nonbanks increased their net asset position from $0.5 billion to $4.2 billion, thus experiencing a net outflow of $3.7 billion.

[29] Including BIS position.

The International Bond Market

New issues of international bonds [31] placed on all capital markets amounted to $6.0 billion during 1970 (Table 32). This total was slightly less than in 1969 and $1.7 billion less than in 1968. The cumulative volume of new issues over the past six years amounted to $32 billion. About two thirds of these issues were in Europe, and more than 70 per cent of the European issues were Euro-bonds.

Flotations of foreign bonds in the United States during 1970 amounted to $1.3 billion, about the same as in 1969. However, the geographical distribution of borrowers was different in 1970. International institutions, which did not borrow in the United States during 1969, reappeared in 1970 with issues amounting to $300 million. Flotations by the less developed countries declined by some $50 million and were just under $200 million in 1970. Canada's flotations fell from $1.1 billion in 1969 to $800 million in 1970. Canadian borrowing on the European markets also declined, to half of the preceding year's total. This drop in Canadian borrowings in the two areas reflected substantial improvement in domestic capital market conditions, as well as policies

[30] Bank for International Settlements, *Forty-First Annual Report* (Basle, 1971), Chapter 5.

[31] International bonds are bonds sold outside the country in which the borrower is domiciled; they consist of two main types: Euro-bonds and foreign bonds. Euro-bond issues are underwritten by an international syndicate and sold in a number of countries. Foreign bond issues are generally underwritten by a national banking syndicate outside the issuer's country and sold mainly in the country to which that syndicate belongs.

TABLE 32. NEW ISSUES OF INTERNATIONAL BONDS IN NORTH AMERICA AND EUROPE, 1963–FIRST HALF 1971 [1]

(In millions of U.S. dollars)

Borrower	1963	1964	1965	1966	1967	1968	1969	1970	1971 [2] First half
Issued in the United States	**1,392**	**1,310**	**1,689**	**1,654**	**2,170**	**2,014**	**1,336**	**1,293**	**809**
Canada	791	850	1,064	1,239	1,344	1,259	1,091	795	277
Other developed countries	536	101	203	36	42	60	10	—	—
Less developed countries	65	208	222	204	274	225	235	198	82
International institutions	—	150	200	175	510	470	—	300	450
Issued in Canada	**—**	**4**	**30**	**37**	**—**	**17**	**1**	**—**	**—**
Total issued in North America	**1,392**	**1,314**	**1,719**	**1,692**	**2,170**	**2,031**	**1,337**	**1,293**	**809**
Issued in Europe									
Developed countries	**477**	**831**	**1,077**	**1,332**	**1,886**	**4,274**	**3,759**	**3,409**	**2,490**
EEC	187	190	250	280	407	431	935	1,138	583
Belgium-Luxembourg	*54*	*82*	*68*	*52*	*74*	*31*	*190*	*19*	—
France	*33*	*20*	*42*	*27*	*157*	*124*	*186*	*267*	*225*
Germany	*49*	*37*	*33*	*79*	*58*	*9*	*229*	*127*	*64*
Italy	*40*	*50*	*80*	*60*	*73*	*84*	*119*	*433*	*136*
Netherlands	*11*	*6*	*28*	*62*	*44*	*184*	*210*	*292*	*158*
United Kingdom	16	15	48	52	74	149	284	258	266
Scandinavian countries	75	322	210	93	210	246	238	300	283
Canada	—	—	—	—	16	486	335	178	77
Japan	59	199	35	—	—	179	261	120	70
Other developed countries	118	85	168	215	456	316	429	308	481
Europe	*29*	*43*	*35*	*107*	*190*	*138*	*219*	*92*	*198*
Australia, New Zealand, and South Africa	*90*	*42*	*133*	*109*	*266*	*178*	*210*	*217*	*283*
U.S. companies	9	—	341	629	598	2,433	1,257	1,092	687
Multinational corporations [3]	13	22	24	62	125	34	20	15	43
Less developed countries	**24**	**16**	**15**	**74**	**173**	**307**	**154**	**144**	**—**
International institutions	**173**	**434**	**428**	**658**	**619**	**1,117**	**970**	**1,178**	**707**
International development institutions	100	223	312	372	345	908 [4]	865	962 [5]	462 [6]
Multilateral European institutions	72	210	116	285	274	209	105	216	245
Total issued in Europe	**675**	**1,280**	**1,519**	**2,064**	**2,678**	**5,698**	**4,883**	**4,731**	**3,197**
of which									
Foreign bonds	*269*	*600*	*640*	*627*	*539*	*1,763*	*1,601*	*1,011*	...
Euro-bonds	*405*	*680*	*879*	*1,436*	*2,138*	*3,935*	*3,272*	*3,720*	...
Grand Total	**2,067**	**2,594**	**3,238**	**3,755**	**4,848**	**7,729**	**6,220**	**6,024**	**4,006**

Source: International Bank for Reconstruction and Development.

[1] Includes issues both publicly offered and privately placed.

[2] Preliminary.

[3] Includes the following corporations: Acieries Réunies de Burbach-Eich-Dudelange, Ameribas Holding S.A., BEC Finance N.V., N.V. Rotterdam-Rijn Pijpleiding, Shell Finance Company N.V., Shell International Finance N.V., Société Financière Européene, and Transalpine Finance Holdings.

[4] Includes the following issues by the IBRD: one issue of KD 15.0 million publicly offered in Kuwait and two issues totaling $30.0 million privately placed in Saudi Arabia.

[5] Includes the following issues: one issue of LL 10.0 million privately placed in the Libyan Arab Republic by the IBRD, one issue of ¥ 6.0 billion publicly offered in Japan by the Asian Development Bank, and two issues totaling ¥ 72.0 billion privately placed in Japan by the IBRD.

[6] Includes the following issues by the IBRD: one issue of ¥ 11.0 billion publicly offered in Japan and three issues totaling ¥ 79.0 billion privately placed in Japan.

oriented toward discouraging capital inflows at a time when the balance of payments position was strong.

As in 1969, European companies and other European institutions were major borrowers on the international bond markets in Europe. Although total issues on these markets declined somewhat in 1970, borrowing by Europeans increased. By country, the most important European borrowers in 1970 were Italy, the Netherlands, France, the United Kingdom, and the Scandinavian countries as a group. Borrowing by U. S. corporations continued to decline from the peak reached in 1968; such borrowing fell from 42 per cent of total European issues in 1968 to 23 per cent in 1970 and continued to decline in the first half of 1971. In contrast, the percentage of European borrowing doubled from 1968 to 1970 and reached almost 50 per cent in the first half of 1971 (Table 33). It should be pointed out, however, that more than two thirds of the funds borrowed in the European capital markets by U. S. corporations were spent in Europe.

In the first half of 1970 the volume of new issues of international bonds was considerably lower than in the same period in 1968 and 1969. Revaluation of the deutsche mark in the fall of 1969 had re-established confidence in the structure of exchange rates and released sizable liquid funds held in Germany by foreign corporations,

TABLE 33. INTERNATIONAL BOND ISSUES IN EUROPE BY BORROWING REGION OR ENTITY, 1968–FIRST HALF 1971

(Per cent of borrowing)

Borrowers	1968	1969	1970	1971 [1] First half
Europe	21	36	42	49
United States	42	26	23	21
International development institutions	16	18	20	14
Others [2]	21	20	15	16

Source: Table 32.
[1] Preliminary.
[2] Including multinational corporations.

thus permitting some postponement of borrowing in the early part of 1970. Moreover, the spread between declining 12-month Euro-dollar rates and Euro-bond yields was still sufficiently in favor of the Euro-dollar market in early 1970 to divert some short-term lending to that market. In Germany the Central Capital Market Committee, concerned over the outflows of short-term and long-term capital in the first quarter of 1970, advised against new foreign deutsche mark issues in this period. In Switzerland, controls over the access of foreign borrowers to its bond market were made more restrictive in the first half of the year.

Toward the middle of 1970 conditions for the flotation of international bonds improved noticeably. In most industrial countries domestic long-term interest rates started declining in the summer of 1970. Improving conditions on stock exchanges also contributed to more buoyant activity in international issues. The fall in Euro-dollar rates below yields on Euro-bonds induced some switching of funds from Euro-dollar deposits to foreign and Euro-bond issues. After September, continued balance of payments surpluses in Germany led to a marked easing of the attitude of the Central Capital Market Committee toward new foreign bond issues. Thus, flotations of foreign bonds and Euro-bonds in Europe in the last four months of 1970 accounted for almost 50 per cent of the year's total. These flotations were larger than those during the corresponding periods of 1969 and 1968.

The resurgence of international bond market activity in the fall of 1970 continued into 1971. The volume of issues during the first half of this year even exceeded the volume in the first half of 1968. Flotations of international bonds were mainly concentrated in Europe. In the first six months of 1971 a total of $3.2 billion was floated; this amounted to 68 per cent of flotations in the area during all of 1970. However, the exchange rate crisis in the spring of 1971 reduced activity on the international bond markets. International bond issues in Europe in the second quarter amounted to only $1.1 billion, after exceeding $2 billion in the first quarter.

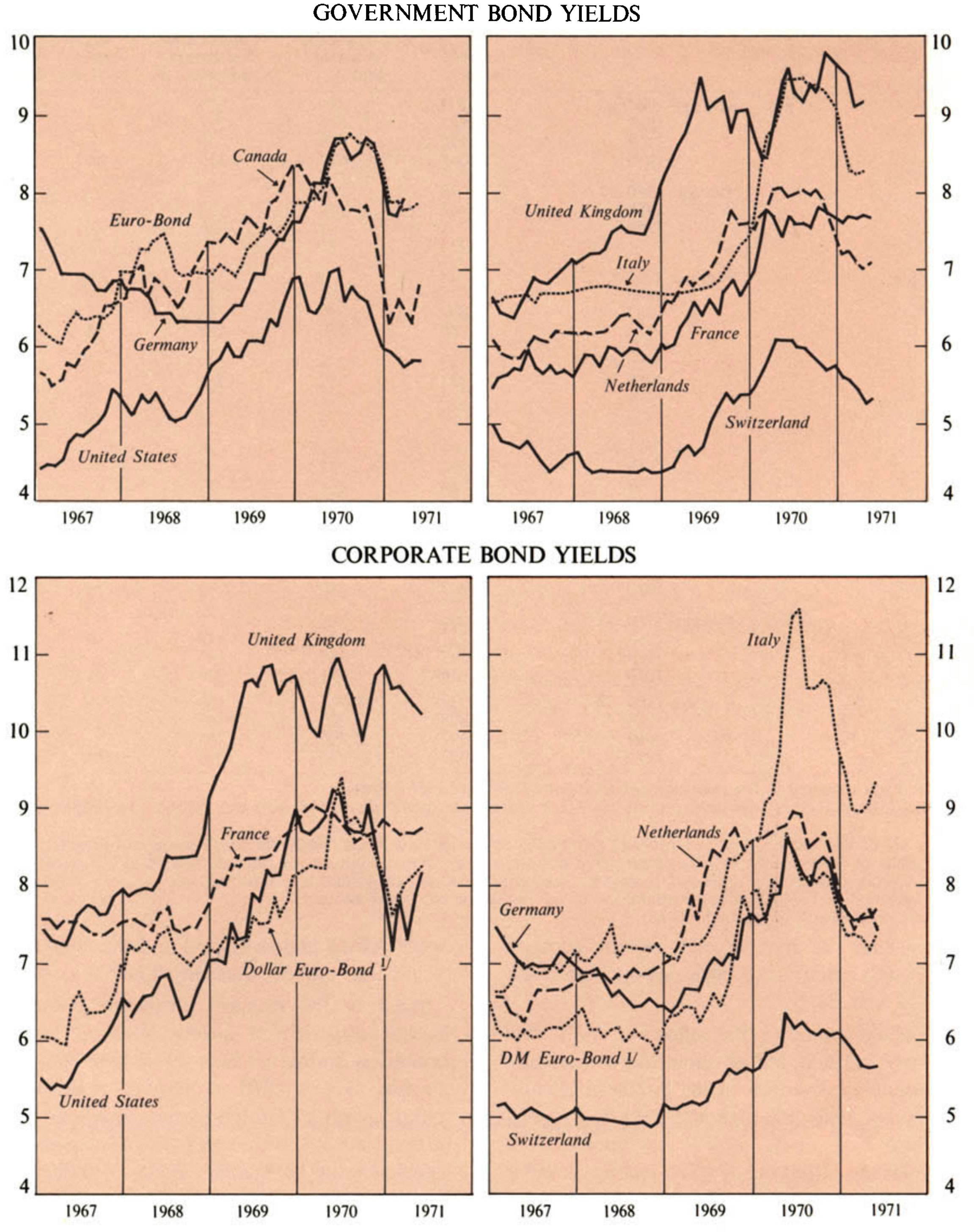
Yields on Euro-bonds were influenced in 1970 by the long-term interest rate developments in countries in whose currencies issues are denominated. Yields on Euro-bonds denominated in deutsche mark, floated by U. S. corporations, moved fairly closely with the yields of domestic corporate bonds in Germany (Chart 20). Similar movements can be observed in yields of dollar-denominated Euro-bonds and U. S. corporate bonds. A comparison of yields between Euro-bonds denominated in dollars and in deutsche mark shows that international competitive forces in the Euro-bond market tend to keep the movement of these yields together. However, during the period prior to the revaluation of the mark in October 1969 and again in the summer of 1970, a substantial spread developed between Euro-bonds denominated in these two currencies, a spread which probably reflected expectations of an adjustment in the German exchange rate. In periods of relative absence of speculative forces, such as in the first part of 1970 and during the last months of that year, this differential between the yields fell considerably. The spread reappeared again in the early months of 1971 so that in April and May the average yield of DM-denominated issues was about a full percentage point below that of the Euro-bonds denominated in dollars.

More Developed Primary Producing Countries

The aggregate overall payments surplus of the more developed primary producing countries rose considerably in 1970 after having fallen in 1969. One quarter of the 1969–70 rise was attributable to SDR allocations. Aside from that factor, it reflected an upward movement in the net capital inflow (both long-term and short-term) about

CHART 20. SELECTED COUNTRIES: LONG-TERM BOND YIELDS, 1967–MAY 1971

(*In per cent per annum*)



[1] Long-term bonds issued by U.S. companies.

TABLE 34. MORE DEVELOPED PRIMARY PRODUCING COUNTRIES: BALANCE OF PAYMENTS SUMMARIES, 1960–70

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

		Current Balance [1]	Long-Term Capital and Aid [2]	Short-Term Capital and Net Errors and Omissions	Allo-cation of SDRs	Overall Balance [3]
Australia	Average 1960–67	−505	440	111	—	44
	1968	−1,187	1,047	221	—	78
	1969	−756	615	−40	—	−181
	1970	−642	672	316	84	431
Finland	Average 1960–67	−118	60	39	—	−19
	1968	68	111	53	—	232
	1969	−1	44	−38	—	5
	1970	−221	17	304	21	121
South Africa	Average 1960–67	−15	22	32	—	39
	1968	56	583	54	—	693
	1969	−409	289	46	—	−74
	1970	−1,148	560	168	34	−386
Spain	Average 1960–67	−145	274	−17	—	112
	1968	−241	580	−289	—	50
	1969	−410	494	−311	—	−227
	1970	80	674	58	42	854
Turkey	Average 1960–67	−119	142	−24	—	−1
	1968	−187	222	−58	—	−23
	1969	−158	368	−77	—	133
	1970	−110	519	−278	18	149
Yugoslavia	Average 1960–67	−113	159 [4]	−52	—	−6
	1968	−106	243	−67	—	70
	1969	−65	345	−121	—	159
	1970	−347	262	2	25	−58
Other	Average 1960–67	−309	349	79	—	120
	1968	−231	436	149	—	354
	1969	−393	345	296	—	248
	1970	−535	371	220	61	117
Total	Average 1960–67	−1,324	1,446	168	—	289
	1968	−1,828	3,222	63	—	1,454
	1969	−2,192	2,500	−245	—	63
	1970	−2,923	3,075	790	285	1,228

Sources: 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] While all of the more developed primary producing countries have been consistent net importers of long-term capital for a number of years, some of them have been donors, rather than recipients, of official foreign aid. For these countries, the figures shown here represent long-term capital inflows, net of official aid outflows.

[3] See footnote 4 to Table 24 for an explanation of the derivation of overall balance.

[4] Includes short-term capital for 1960–65.

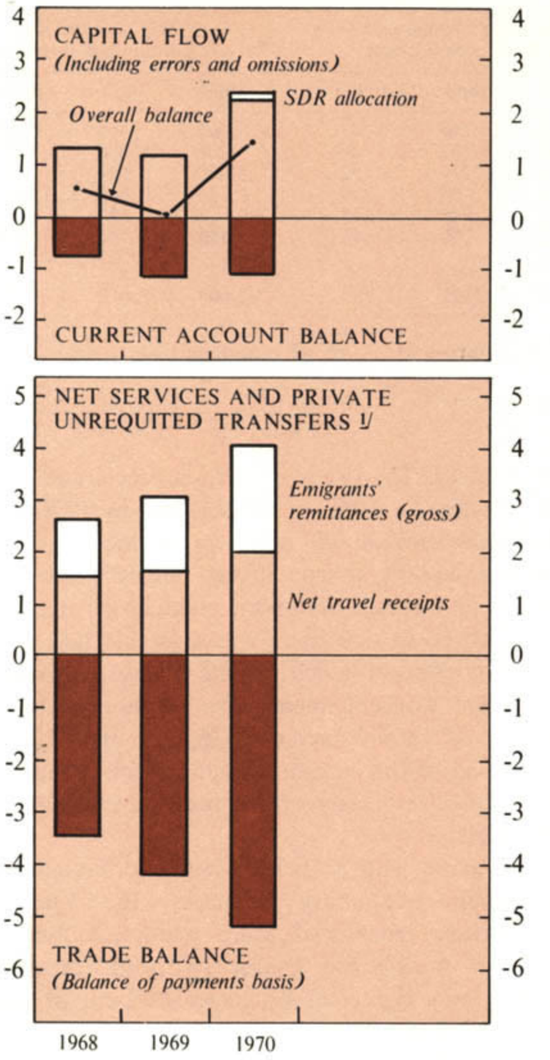
twice as large as that in the current account deficit for this group of countries as a whole. (See Tables 24 and 34.)

The resurgence of capital inflows in 1970 was particularly marked in the more developed primary producing countries in the Southern Hemisphere. Along with other capital-importing countries, they had easier access to international capital markets after the credit squeeze of 1969 had been relaxed. In the Southern Hemisphere group, Australia was the only country whose current account balance showed any improvement from 1969 to 1970. The current account deficit of South Africa almost tripled and the New Zealand balance on current account shifted into deficit.

Most of the primary producing countries in Europe experienced strong domestic economic expansion during much or all of 1969 and at least the first part of 1970. A number of them undertook to apply or tighten various measures of fiscal or monetary restraint, and some of them also made significant use of incomes policy. While some of these measures were effective in curbing the expansion of demand, especially in the second half of 1970, this generally did not occur in time to prevent another large increase in the value of

CHART 21. PRIMARY PRODUCING COUNTRIES IN EUROPE: SELECTED COMPONENTS OF BALANCE OF PAYMENTS, 1968–70

(In billions of U.S. dollars)



[1] Net balances on items not shown separately are close to zero in these years.

imports, which reflected the sharp rise in import prices, as well as expansion in volume terms. Consequently, most of the European primary producing countries were confronted with larger trade deficits in 1970 than in 1969.

For a number of these countries, however, the increase in the trade deficit was more or less fully offset by a rise in net receipts from travel expenditures, emigrants' remittances, or both (Chart 21 and Table 35). These receipts had begun to rise again in 1969 after two years of relatively sluggish movements associated with the 1967 slowdown in European economic activity, and the advance became quite rapid in 1970. This acceleration reflected not only the 1968–70 upsurge of European production and incomes but also the liberalization by France and the United Kingdom of travel allowances for their respective nationals.

Among the larger primary producing countries in Europe, several different combinations of domestic and external problems were confronted in 1970. In Finland, a strong expansion of the domestic economy was accompanied by strength in the external position, so that demand management policies equally suitable for both domestic and balance of payments stabilization were not easy to devise or apply. In Yugoslavia, however, a deterioration of the external position as demand pressures rose during 1970 made it appropriate for the authorities to attack both sets of problems through a comprehensive stabilization program. The Spanish situation also featured domestic demand pressures and a deteriorating external account during late 1969 and early 1970, but shifted thereafter, under the impact of fiscal and monetary restraints, toward a combination of domestic slack (but with unduly rapid price increases) and renewed strength in the balance of payments.

The Finnish economy was operating at full capacity throughout 1970, with shortages of skilled labor apparent in some sectors. In order to moderate the increase in domestic demand, central bank credit was made progressively tighter and hire-purchase regulations were also tightened. Fiscal policy, while somewhat restrictive in its net effect, was limited in scope by a government commitment not to increase taxes, which had been undertaken in connection with the comprehensive incomes policy adopted for 1969. This threw the major burden of active restraint on monetary policy, despite the inclusion in a second incomes policy agreement for 1970 of provisions for countercyclical deposits by both industries and the Government.

The incomes policy arrangements, comprising centralized wage agreements, price controls, and abolition of previous index linkages, as well as the commitment against tax increases, had been adopted originally in order to preserve the realignment of domestic and foreign price relationships

TABLE 35. EUROPEAN PRIMARY PRODUCING COUNTRIES: RECEIPTS FOR SERVICES AND PRIVATE TRANSFERS, 1968–70

(In millions of U.S. dollars)

	Net Travel Receipts			Receipts of Emigrants' Remittances (Gross)			Total Net Services and Private Unrequited Transfers [1]		
	1968	1969	1970	1968	1969	1970	1968	1969	1970
Greece	78	102	139	231	268	343	405	409	509
Ireland	94	97	115	51	52	56	206	200	222
Portugal [2]	144	101	134	178	274	332	450	514	655
Spain	1,110	1,195	1,469	324	403	490	1,333	1,461	1,960
Turkey	−9	−17	4	107	141	273	3	31	152
Yugoslavia	136	168	146	122	206	440	246	381	561
European primary producing countries [3]	1,564	1,668	2,067	1,046	1,391	1,985	2,664	3,010	4,128

Sources: *Balance of Payments Yearbook* and Fund staff estimates.
[1] Includes deduction for the freight component of imports for those countries which record imports in their balance of payments statistics on a c.i.f. basis. (See Table 75.)
[2] Escudo area.
[3] Includes data for Finland, Iceland, and Malta.

resulting from the October 1967 devaluation of the markka. Through 1970 the contribution of the incomes policy agreements toward that objective appeared to have been substantial. Partly because of the moderate size of the contractual wage increases (5 per cent) and partly because of the price controls, Finnish consumer prices rose at a rate of less than 3 per cent during both 1969 and 1970. Wholesale prices rose slightly faster, but unit labor costs in industry remained virtually unchanged in 1970, permitting an improvement in Finland's external cost competitiveness.

Despite that improvement, merchandise imports, under the impetus of strong domestic demand, rose almost twice as fast as exports in 1970. The resulting increase in the current account deficit, however, was more than offset by a substantial rise in foreign borrowing, induced by the stringency of domestic credit conditions. The inflow of foreign capital and the accompanying increase in official reserves tended, in turn, to undermine the maintenance of the desired degree of restrictiveness of monetary policy. With demand pressures mounting, the third set of Finnish incomes policy agreements, relating to 1971, was accepted only after difficult negotiations and prolonged strikes in the metal and construction industries. Under these agreements, contractual wages are to be increased by some 8 per cent in the current year.

In Yugoslavia real output of nonagricultural goods rose rapidly (by about 9 per cent) in 1970 but personal incomes of industrial employees rose considerably faster, pushing up unit labor costs and prices. The rise in unit costs accelerated from 8 per cent in 1969 to 12 per cent in 1970, and the acceleration of retail price increases was almost equally sharp. Strong domestic demands led to an increase in imports much larger than that in exports, so that there was a sizable rise in the current external deficit despite a large increase in emigrant workers' remittances. Although the net inflow of capital increased slightly in 1970, the widening of the current account deficit resulted in a drain on both convertible reserves and bilateral balances.

To cope with both the reserve drain and the domestic inflationary pressures, the Yugoslav authorities introduced more restrictive financial policies during the course of 1970. Monetary policy was tightened by increases both in compulsory reserve deposits and in the minimum free liquidity ratio that the banks were obliged to maintain. In addition, the overall rediscount ceiling of the National Bank was lowered and limits were placed on the expansion of short-term credit by the business banks. In the fiscal field, federal turnover taxes were raised in April 1970 and an import surcharge of 5 per cent was imposed in July.

When the foregoing measures proved inadequate, the authorities embarked on a more comprehensive stabilization program. This involved a freeze on all prices, together with tightened administration of the price control system, further shifts toward monetary restraint including another reduction of the rediscount ceiling and a cutback in consumer credit, and the institution of an import deposit scheme. In December 1970 still further measures of monetary and fiscal restraint were announced, along with a limitation of personal income payments in the first four months of 1971. These steps were followed by a 16.7 per cent devaluation of the dinar in January 1971, at which time the import deposit scheme was abolished and the import surcharge reduced to 2 per cent.

The Spanish economy underwent a somewhat analogous period of domestic inflationary pressures and balance of payments weakness during 1969. By the second quarter of 1970, however, the situation was changing markedly. The domestic economy was moving ahead at a more moderate pace, and a remarkable improvement in the balance of payments was in progress. Both these developments stemmed in large part from measures of fiscal and monetary restraint instituted in the second half of 1969 and the early months of 1970. These measures, including a 20 per cent import deposit requirement and increases in interest rates to bring them into better alignment with the high rates prevailing abroad, were instrumental in reversing earlier outflows of short-term capital and in raising the inflow of long-term capital. In combination with sharply rising receipts from tourism and emigrants' remittances, plus the balance of payments effects of strong foreign demand and good agricultural crops, these shifts in capital flows led to an unprecedented rise in Spain's official reserves during 1970.

By the spring of 1970, with manufacturers' order books shortened and capacity utilization falling, Spanish economic policy shifted progressively toward a supportive role rather than a restraining one. Previously frozen budget allocations were released in May 1970, and the rediscount ceilings for the banks were raised in July. Subsequently, with effect from the beginning of 1971, the import deposit requirement was made less stringent (and by midyear it had been phased out). However, part of the liquidity thus released was frozen by the imposition of a new minimum cash reserve requirement for the commercial banks.

Despite the shift toward more expansionary policies, the Spanish economy remained sluggish and the balance of payments position strong at the beginning of 1971. (The cumulative increase in Spain's net international reserves from the beginning of 1970 through mid-1971 was $1.5 billion.) Although the 1969–70 increase in real GNP had amounted to some 6 per cent, industrial output had increased little after the second quarter of 1970, and some sectors, including the steel and automobile industries, were experiencing serious difficulties. In these circumstances, even though a rapid rate of increase in prices had persisted, raising the January 1971 cost of living index 7 per cent above the January 1970 index, the Spanish authorities announced further measures designed to reactivate the economy. These included a discount rate reduction, removal of restrictions on installment credit imposed in December 1969, and other credit measures intended to stimulate investment and keep interest rates in line with the reduced rates prevailing abroad.

In Turkey also, the external balance on current account improved from 1969 to 1970 primarily because of nontrade receipts. A near doubling of emigrants' remittances to that country, mostly from Germany, was the main factor tending to produce this result in the face of an increase in the trade deficit. In addition, the overall payments balance was bolstered by capital inflows in the form of official loans arranged in support of the devaluation of the Turkish lira in August 1970.

Prior to the devaluation, relatively tight credit conditions and shortages of imports had hampered the expansion of industrial production, and agricultural output had been held down by unfavorable weather. Partly for these reasons, expansion of real GNP in Turkey was slightly smaller for the full year 1970 than for 1969. After the devaluation, there was a marked expansion in domestic liquidity because of the balance of payments surplus and the decline of import deposits. In addition, government expenditures for the fiscal year that began in March 1971 were raised sharply, chiefly to pay salary increases for government employees. Nevertheless, mainly because of noneconomic factors, industrial production remained weak through the early months of 1971, and the economy's response to more stimulative policies had not yet become evident.

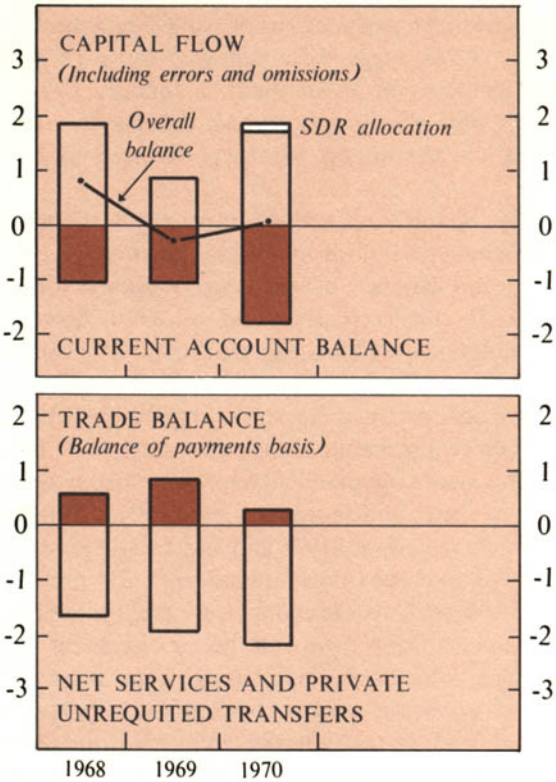
The balance of payments structures of the more developed primary producing countries outside Europe do not feature sizable receipts from such nontrade current account sources as tourism or emigrants' remittances. On the contrary, these countries tend to run substantial deficits on nontrade current account transactions (Chart 22), in considerable part because of the investment income payments arising from their heavy reliance on foreign capital to develop their economies. In 1970 their combined current account deficit deepened because of the sharp rise in imports and trade deficits of South Africa and New Zealand. Although capital inflows into both these countries also increased, their overall payments balances showed negative changes. However, there was a sizable swing from deficit to surplus in the overall balance of Australia, where larger capital inflows were associated with a reduced current account deficit.

For Australia 1970 was the fourth successive year of strong economic growth. Signs that demand was tending to outrun the supply of resources emerged during the year. The labor market was tight throughout the year and the rate of increase in wages was about the same as the rather high rate of 1969. The rate of increase in prices tended to accelerate. However, imports rose only moderately and exports again increased strongly. Capital inflows were significantly higher than in the previous year and the overall balance of payments showed a surplus that was large by historical standards.

Seeking to forestall an acceleration in the rate of price increases, the Australian authorities tightened financial conditions in March and April 1970. They avoided taking steps to alleviate the impact of a large government budget surplus, and a substantial contraction of liquidity occurred. Bank interest rates and government security yields rose quite sharply. Following these developments, the rate of increase in private investment slowed, labor market pressures eased, and the growth in private consumption steadied. The easing in domestic demand pressures did not, however, result in any deceleration of the rise in average earnings, and the rate of increase in prices flattened out only temporarily. By the end of 1970 there were some indications that strong demand pressures were re-emerging. Although monetary policy remained restrictive, public expenditures were rising more rapidly than had been anticipated, and an unusually (and unexpectedly) large

CHART 22. MORE DEVELOPED PRIMARY PRODUCING COUNTRIES OUTSIDE EUROPE: SELECTED COMPONENTS OF BALANCE OF PAYMENTS, 1968–70

(In billions of U. S. dollars)



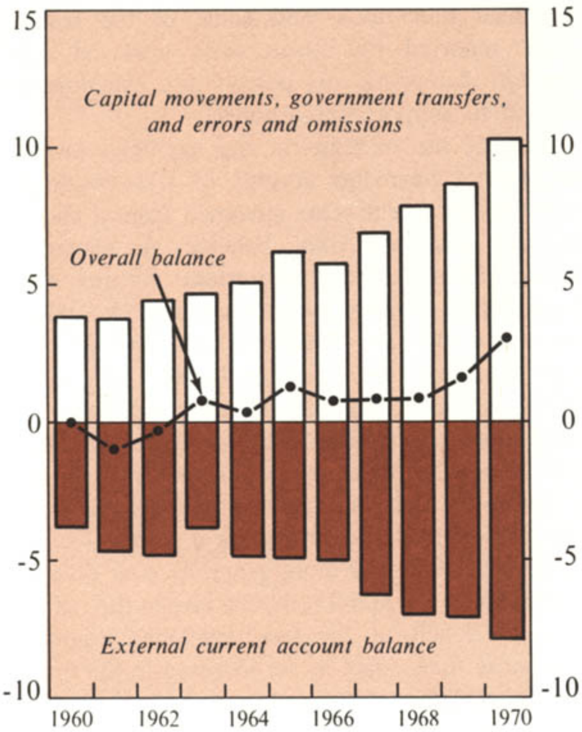
National Wage Award in December gave new upward momentum to wages and prices.

Early in 1971, the Government took steps to cut back the rate of increase in public expenditure and suspended the taxation allowance for new investment in manufacturing equipment. The stance of monetary policy remained restrictive. On external account, a large trade surplus was achieved in the first half of 1971 and this, combined with exceptionally large capital inflows, more than offset the traditional deficit on current invisibles, resulting in a steep rise in official international reserves to the highest levels ever recorded.

South Africa's overall payments situation, unlike that of Australia, worsened markedly in 1970, chiefly because of a sharp increase in imports resulting from the rapid expansion of domestic demand that began in 1969 and a considerable increase in inventories. Moreover, smaller export crops and depressed prices for some important export commodities led to an

CHART 23. LESS DEVELOPED COUNTRIES: BALANCE OF PAYMENTS SUMMARY, 1960–70

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



absolute decline in export receipts. In 1970 demand expansion far exceeded the 5 per cent growth of gross domestic product. It reflected a revival of private manufacturing investment after three years of decline, as well as sharp increases in private consumption and public investment expenditures. The intensified pressure on resources was manifested not only in the growth of imports but also in shortages of certain types of skilled labor, in the bottlenecks that developed in transportation and some lines of production, and in an accelerated rise in wages and prices.

During 1970 a number of tax and credit measures were taken to restrain the expansion of demand in South Africa, while the operation of the interest rate mechanism was improved to encourage savings and to adjust imbalances in the capital markets. In March 1971 the new budget for the fiscal year 1971/72 was aimed at further restraint of demand. Both direct and indirect taxes were increased and interest rates on new issues of government debt were allowed to rise to relatively high levels. The authorities anticipated that these measures would in due course cool off the economy, thus bringing about a lower level of imports and a better overall balance of payments.

Less Developed Primary Producing Countries

Overall Balance of Payments Developments

The general improvement in the balance of payments position of the less developed countries that had become apparent by 1969 was broadly sustained in 1970. The aggregate of overall balances of countries in this group rose in the latter year to $3.0 billion, including $0.9 billion obtained through allocations of special drawing rights. (See Table 24.) Even aside from the latter element, the collective overall surplus of these countries compared favorably with the $1.5 billion recorded for 1969, and more so with corresponding annual surpluses in the range of $0.7–0.9 billion in each of the three preceding years (Chart 23).

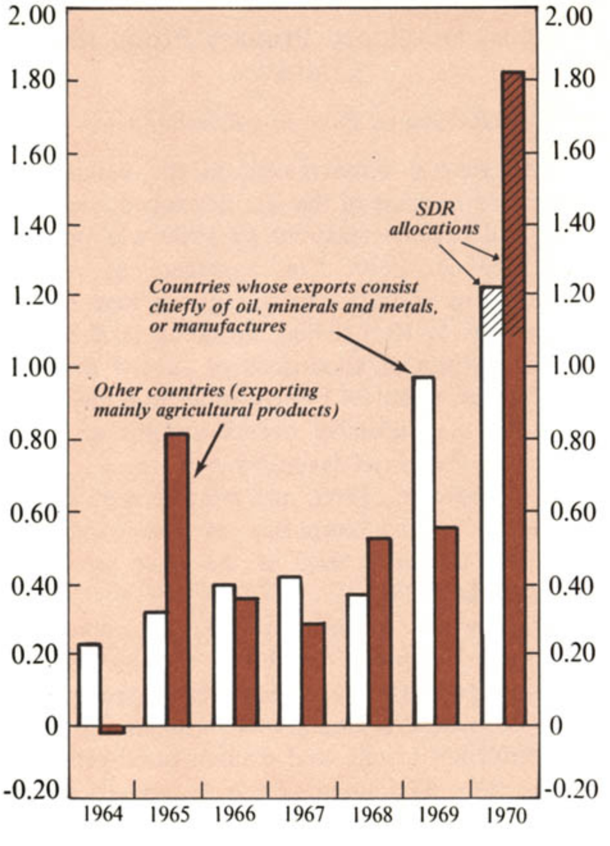
The overall surpluses of recent years have not been uniformly distributed among the less developed countries, but have been disproportionately concentrated among certain major exporters of petroleum, metals, and manufactured products (Chart 24). The three groups of countries primarily associated with each of those classes of exports [32] have together accounted in the past three years for about half of the aggregate surplus [33] for all less developed countries (Table 36). Consequently, their share of total reserve holdings of less developed countries rose to about 36 per cent at the end of 1970, compared with 32 per cent at the end of 1967.

Despite the unevenness of reserve gains in 1970, the combined net overall surplus for less developed countries outside the three groups mentioned—i.e., mainly for countries exporting principally agricultural products—was also high in historical perspective. In absolute terms, it exceeded $1 billion, even apart from some $0.7 billion of SDR allocations, and substantially exceeded the 1968 and 1969 reserve gains for this large group of countries. The 1968–69 figures

[32] The 14 countries in these three groups accounted in 1970 for 34 per cent of the total merchandise exports of less developed countries and 23 per cent of their total merchandise imports.
[33] Excluding SDR allocations in 1970.

CHART 24. SELECTED GROUPS OF LESS DEVELOPED COUNTRIES: COMBINED OVERALL BALANCES OF PAYMENTS, 1964–70

(In billions of U.S. dollars)



were themselves well above the annual average for the four preceding years. However, the reserve positions of many individual developing countries remained precarious, and some of the reserve gains reported by others were achieved only through foregoing or postponing expenditures needed to support development.

Part of the increase in the aggregate overall balance of payments surplus of less developed countries in recent years stemmed from a change in their combined trade balance. As shown in Table 23 on the basis of customs returns, their trade deficit dropped from more than $2.5 billion a year in 1967 and 1968 to $1.5 billion in 1969 and then rose only slightly, to $1.7 billion, in 1970. However, because of rising net payments for services, including interest on external debt, the last year was one of somewhat sharper increases in the total current account deficit of the less developed countries as a group.

Both in 1970 and more generally over a longer period since the mid-1960s, the rise in the current account deficit of the less developed countries was more than offset by an increase in the inflow of capital. Some of that inflow came in short-term forms, but the private long-term component is estimated to have risen by some $1½–2 billion from 1966 to 1970, sustaining an advance in the combined total of capital and aid flowing to the

TABLE 36. LESS DEVELOPED COUNTRIES: OVERALL BALANCES OF INTERNATIONAL PAYMENTS, BY REGIONS AND SELECTED GROUPS, 1964–70 [1]

(In billions of U.S. dollars)

	1964	1965	1966	1967	1968	1969	1970 [2]
Total, less developed countries	**0.21**	**1.12**	**0.75**	**0.69**	**0.90**	**1.53**	**3.04 (2.19)**
By regions							
Asia	0.04	0.22	0.36	0.03	0.09	0.66	0.56 (0.28)
Middle East	0.05	0.44	0.21	0.35	0.05	−0.28	0.07 (—)
Africa	−0.08	0.04	0.17	−0.02	0.33	0.59	1.13 (0.96)
Western Hemisphere	0.20	0.43	0.01	0.33	0.44	0.57	1.28 (0.95)
By groups of countries whose exports consist chiefly of							
Oil [3]	0.12	0.26	0.20	0.25	0.20	0.38	0.72 (0.65)
Metals and minerals [4]	0.03	0.05	0.06	−0.02	0.17	0.37	0.26 (0.21)
Manufactures [5]	0.08	0.01	0.14	0.19	—	0.22	0.24 (0.23)
Other products	−0.02	0.81	0.35	0.28	0.53	0.55	1.82 (1.09)

Source: Fund staff estimates based on data in *International Financial Statistics.*

[1] Overall balances are here equal to changes in gross reserves minus changes in use of Fund credit. Changes in central monetary authorities' other liabilities are not included.

[2] Parenthetical figures exclude the allocation of SDRs.

[3] Iran, Iraq, Kuwait, Saudi Arabia, Libyan Arab Republic, Venezuela, and Trinidad and Tobago.

[4] Bolivia, Chile, Democratic Republic of Congo, Sierra Leone, and, from 1966, Zambia.

[5] Republic of China and Republic of Korea only.

less developed countries during a period of only moderate increase in the flow of official loans and grants to those countries.

Within the rather slow-growing overall flow of official capital and aid in recent years, some significant shifts in composition have occurred. One feature, according to data compiled by the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development,[34] has been a rising trend of loans through multilateral agencies and of bilateral development loans at concessional terms, in contrast to declining annual flows of bilateral grants. In conjunction with the general rise in interest rates through 1969, the increase in the proportion of loans among the financial resources made available to less developed countries raised the cost to them of development financing.

Data on short-term capital flows into or out of less developed countries are highly uncertain and can scarcely be examined except in a mixture of statistical series also including residual errors and omissions in national balance of payments statistics. Among these, of course, unrecorded capital movements represent only one element. To the extent that such movements may have been the dominant element in recent annual changes, the 1969 and 1970 changes in the aggregate of short-term capital movements and unidentified items suggest that flows of funds from (or to) many less developed countries may have been responsive to high short-term yields in international money markets in 1969 and to the overall easing of international credit conditions in 1970.

Regionally, the net inflow of capital and aid into the less developed areas in recent years appears to have been concentrated in the Western Hemisphere and in the Far East and Southeast Asia. The aggregate amount of such resources received by countries in those areas was about three times as high during the period 1969–70 as it had been five years earlier, while capital and aid received by the countries in South Asia, the Middle East, and Africa fluctuated irregularly from year to year and showed no upward trend over the same period. The growth of capital and aid inflows into less developed areas of the Western Hemisphere and Southeast Asia took the form mainly of direct investments and other private long-term capital, but the flows into South Asia and the Middle East consisted chiefly of official capital and aid. For a number of years, both the Middle East and South Asia appear to have been persistent sources of net outflow of short-term capital.

A new factor affecting overall payments balances, reserve holdings, and imports of the less developed countries has been the allocation of special drawing rights. Within the group of less developed countries, almost seven eighths of the 1970 allocation accrued to countries whose main reliance for export earnings is on agricultural products and whose share of the total reserve gain, even inclusive of SDR allocations, was much lower in 1970 than their share of the outstanding stock of reserves. These are also countries whose reserves, on the average, are much lower in relation to imports than those of the less developed countries exporting chiefly petroleum, metals, or manufactures. Consequently, the 1970 SDR allocations proved a timely supplement to the reserves of a group of countries that might otherwise have found it more difficult to maintain their foreign purchases without sacrifice of their reserve positions. This was particularly true of the South Asian countries, whose overall balance of payments surplus in 1970 barely exceeded their receipts of SDR allocations.

External Adjustment and Stabilization Efforts

Underlying the overall payments developments summarized in the preceding paragraphs were wide variations in the experience of individual countries (Tables 37 and 76). These variations stemmed, of course, from differences in such factors as export commodity composition, internal demand and supply conditions, movements of short-term capital, and policy actions.

[34] These DAC statistics, having been compiled from sources other than national balance of payments statistics, may not be fully consistent with the combined balance of payments data underlying most of the present discussion of capital and aid flows to the less developed countries. However, with respect to official long-term capital and aid, the level and movement of the series reported by the DAC are broadly similar to those of the series compiled from balance of payments data reported to the Fund, warranting reliance on the DAC statistics for compositional details not available from the balance of payments reports.

TABLE 37. SELECTED LESS DEVELOPED COUNTRIES: BALANCE OF PAYMENTS SUMMARIES, 1968–70

(In millions of U.S. dollars)

		Current Balance [1]	Central Government Capital and Aid	Private Long-Term Capital [2]	Short-Term Capital and Net Errors and Omissions	Overall Balance [3]	Ratio of Year-End Reserves to Imports
Cases of improvement in both current balance and overall balance[4] from 1969 to 1970							
Argentina	1968	−17	−75	−20	145	33	65
	1969	−220	−18	58	−42	−222	34
	1970	−134	−52	97	164	134 (75)	40
Ceylon	1968	−64	43	−2	−10	−33	14
	1969	−142	128	−2	4	−12	9
	1970	−79	83	—	−1	16 (3)	11
Ghana	1968	−56	25	14	19	2	37
	1969	−50	45	10	−25	−20	25
	1970	−28	22	21	−25	2 (−10)	17
Peru	1968	−23	48	25	−68	−18	18
	1969	−5	77	29	−70	31	28
	1970	125	95	−78	28	184 (170)	48
Philippines	1968	−304	49	102	79	−74	13
	1969	−283	128	90	25	−40	10
	1970	−34	114	125	−107	116 (98)	21
Cases of improvement in overall balance[4] from 1969 to 1970 despite deterioration or lack of improvement in current account							
Brazil	1968	−520	14	205	371	70	12
	1969	−353	−32	557	227	399	29
	1970	−502	142	377	453	529 (470)	43
Indonesia	1968	−251	213	38	−15	−15	. . .
	1969	−361	236	43	34	−48	. . .
	1970	−401	305	56	17	12 (−23)	. . .
Mexico	1968	−738	120	441	248	71	34
	1969	−729	90	614	30	5	32
	1970	−1,035	232	454	386	82 (37)	30
Nigeria	1968	−274	43	163	71	3	23
	1969	−176	29	139	21	13	20
	1970	−179	56	187	5	86 (69)	21
Cases of deterioration or lack of substantial improvement in overall balance[4] from 1969 to 1970 despite current account improvement							
Iran	1968	−366	407	71	−125	−13	20
	1969	−540	515	102	−58	19	18
	1970	−376	425	111	−283	−102 (−123)	12
Uganda	1968	−8	17	−3	8	14	26
	1969	−9	21	−3	−6	3	27
	1970	10	22	. . .[5]	−33[5]	4 (−1)	31
Cases of deterioration or lack of improvement in both current balance and overall balance[4] from 1969 to 1970							
Colombia	1968	−188	113	88	56	69	27
	1969	−210	118	158	−12	54	32
	1970	−284	106	124	69	36 (15)	25
Congo, Democratic Republic of	1968	−38	82	7	19	70	38
	1969	−1	55	—	−15	39	42
	1970	−61	54	−17	−4	−13 (−28)	32
India	1968	−680	970	−17	−170	103	27
	1969	−287	736	−37	−36	376	45
	1970	−444	684	−23	−33	310 (184)	47

TABLE 37 (*concluded*). SELECTED LESS DEVELOPED COUNTRIES: BALANCE OF PAYMENTS SUMMARIES, 1968–70

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

		Current Balance [1]	Central Government Capital and Aid	Private Long-Term Capital [2]	Short-Term Capital and Net Errors and Omissions	Overall Balance [3]	Ratio of Year-End Reserves to Imports
Cases of deterioration or lack of improvement in both current balance and overall balance [4] from 1969 to 1970 (*concl.*)							
Malaysia	1968	10	16	82	−49	59	44
	1969	216	56	57	−162	167	58
	1970	65	21	67	−124	50 (29)	53
Pakistan	1968	−442	453	55	−11	57	25
	1969	−413	323	146	9	65	32
	1970	−698	321	199	40	−106 (−138)	17
Thailand	1968	−205	96	82	39	12	89
	1969	−275	66	105	68	−36	79
	1970	−319	45	105	100	−69 (−69)	73
United Arab Republic	1968	−245	270	−17	−34	−26	20
	1969	−296	246	−15	63	−2	15
	1970	−458	432	−10	3	−8 (−33)	12
Zambia	1968	−26	49	56	−60	19	39
	1969	321	18	...[5]	−170 [5]	169	75
	1970	155	−34	...[5]	16 [5]	145 (137)	105

Sources: *Balance of Payments Yearbook* and Fund staff estimates.
[1] Balance on goods, services, and private transfers.
[2] Capital transactions by local governments are included in private long-term capital to the extent identifiable.
[3] See footnote 4 to Table 24 for definition of overall balance. For 1970, numbers in parentheses exclude the SDR allocations.
[4] Exclusive of SDR allocations.
[5] Data on private long-term capital movements are not available; any such movements are therefore included in the residual figure shown in the fourth data column.

The elements of the external accounts that contributed most to recent changes in overall payments balances differed considerably from country to country. The improvement of trade and current account balances was an important factor in the overall surpluses of China, the Philippines, Ghana, the Libyan Arab Republic, Argentina, and Peru, either through expansion of exports (China and Ghana), slower growth of imports (Argentina and the Libyan Arab Republic), or a combination of both. In Korea, Iran, the Libyan Arab Republic, and various other countries having large foreign investments in their export sectors, the expansion of exports was accompanied by an increase in the outward payment of investment income earned by foreign companies operating in the country, so that the improvement in the whole current account balance was not as great as that in the trade balance. Instances of a converse character, however, can also be cited. In Chile and Malaysia, for example, deteriorations of trade balances caused by the downturns in copper and rubber export earnings were cushioned to some extent by declines in the outward payment of foreign investment income.

In a number of countries, including Brazil, Indonesia, Mexico, Nigeria, and Tunisia, the overall payments surpluses of 1970 stemmed from capital inflows large enough to offset stationary or even widening current account deficits. Sustained high levels of long-term private investment were important in several, and into some of them there were sizable flows of short-term capital, generally through the commercial banks, in contrast to the small or even negative movements of such capital in 1969. In addition, special factors accounted for enlarged inflows of private capital in a few instances. In Zambia, for example, such inflows in 1970 reflected the repatriation of export proceeds previously retained abroad by the copper companies. In Peru, compulsory repatriation of Peruvian private funds held abroad offset declines in both official foreign borrowing and the use of short-term trade credits.

Among the countries whose overall balances of payments deteriorated in 1970, the widening of current deficits dominated the changes in Pakistan and the United Arab Republic. Reductions in net inflows of capital, however, were important factors in India and Iran.

In a great many of the less developed countries, the occurrence of a payments surplus or deficit tends to generate a large expansion or contraction of domestic liquidity, along with serious problems in managing it, because of the relatively large size of external transactions in relation to domestic output and incomes. Examples of problems arising in this fashion have been furnished in recent years by two African countries—Zambia and the Democratic Republic of Congo.

For *Zambia,* where the copper industry accounts for about half of the country's gross domestic product (GDP) and most of its export earnings, the exceptionally high level of world market prices for copper in 1969 and the first five months of 1970, coupled with a sizable increase in domestic production, resulted in a rapid expansion of total output and export earnings. The resultant increase in domestic demand exerted considerable pressure on wages and prices, but the Government followed a restrictive budgetary policy, as well as policies of restraint with respect to wages and credit, in order to contain the growth of domestic demand. This containment contributed to the maintenance of a large surplus in the balance of payments, which was reinforced in the first half of 1970 by repatriation of liquid balances held abroad by the mining companies. Throughout the period of substantial external surplus, however, the authorities aimed at counteracting some of the expansionary effects of that surplus on private liquidity by accumulating large government deposits with the central bank and applying some restrictions on commercial bank credit to the private sector.

During the last seven months of 1970, Zambia's export earnings were substantially reduced by a sharp decline in copper export prices and a reduction of copper production resulting from the flooding of a major mine in September. Under the impact of the decline in copper export values, budgetary receipts also fell and the Government began to draw down its cash balances. Meanwhile, private sector credit was allowed to continue increasing during the last several months of 1970 at about the rate prevailing in previous months. The external balance remained generally satisfactory as further repatriation of balances held abroad by the mining companies cushioned the decline in export receipts.

A bulge in copper export earnings also had repercussions on financial conditions in the *Democratic Republic of Congo.* The rise in copper exports in 1969 had led to a 45 per cent increase in budget revenue, permitting the Government's expenditure to rise by nearly 30 per cent without straining its financial resources. At the beginning of 1970, however, the Government turned to more expansionary financial policies, and credit to the private sector was allowed to expand substantially during the first half of the year. Moreover, the expansion of private sector liquidity was facilitated by the abolition of an import prepayment requirement, resulting in the release of a substantial amount of blocked deposits. Underlying all these actions were expectations that both the balance of payments and fiscal operations would continue to be in surplus. During the second half of 1970, however, the downturn in copper export earnings slowed the growth of budgetary revenue while government expenditures were continuing to increase, and the Government's net borrowing from the banking system, which had declined during the first half of the year, rose substantially during the second half. The expansion of aggregate demand resulted in a rise of one fourth in import payments and an overall balance of payments deficit for the full year 1970. Consumer prices, however, remained stable through that year, partly because of the higher imports and partly because of rapid expansion in domestic production.

An example of compensatory changes in domestic demand that served to offset an unfavorable change in external markets is found in the economy of *Malaysia,* which during 1970 adjusted to a substantial decline in world rubber prices. The drop in Malaysia's rubber export earnings in 1970 was equivalent to about 2.6 per cent of GNP, but a substantial acceleration in government expenditures, together with a revival of private investment (which had been depressed since the political unrest of May 1969), provided an offsetting internal stimulus to the economy.

The increase in the budget deficit that resulted from the rise in government spending was financed partly by nonbank borrowing and partly by sales of government-held foreign assets to the banking system. Total domestic credit expanded sharply in 1970, and imports increased by about one fifth, sharply reducing the overall balance of payments surplus. Its decline was cushioned somewhat, however, by a substantial reduction in outward payments of profits to foreign investors in the rubber plantations. With a continued rise in quasi-money deposits financing much of the credit expansion and with increased imports helping to satisfy demand, consumer prices rose by only about 1 per cent in 1970.

In *Thailand* slow expansion of total exports was a feature of balance of payments developments in 1970. While the increase in imports was also small, the overall balance of payments deficit rose because of a decline in receipts from U. S. military expenditures in Thailand. Although official reserves remained relatively high through early 1971, the authorities were making efforts to reduce the balance of payments deficit by encouraging exports and moderating the level of imports. Subsidies and tax incentives were among the means used to foster increased production of exportable goods, while increases in customs duties and other taxes were employed in mid-1970 to restrict nonessential imports. In spite of the tax increases, there was a shift toward larger cash deficits in the government budget because of the rise in expenditures on national security and economic development. This shift appeared to pose a threat to the internal and external stability, with rising international reserves, which had helped the Thai economy to maintain a high rate of growth for a number of years through 1969.

In contrast to the diminished external stimulus under which the economies exporting rubber and rice operated in 1970, strong export markets dominated balance of payments developments in the coffee and cocoa exporting countries of the Western Hemisphere and Africa. For several major Latin American countries, the stimulative effects of export expansion were compounded by large capital inflows. These, while contributing to the financing of higher imports and domestic economic development, added complications to the demand management problems confronting the national authorities.

A notable example of such experience is that of *Colombia,* where real national output rose by about 7 per cent in 1970, as domestic demand was stimulated by the sharp increase in coffee sector incomes. While the increase in coffee exports lent considerable strength to the balance of payments, it was also responsible in part for a sharp slowdown in the growth and diversification of other exports, as rising domestic demand cut into the exportable surplus of products other than coffee.

The Colombian authorities took advantage of the high export earnings to carry out a significant relaxation of the restrictive system applicable to imports, and they continued the policy of frequent adjustments of the exchange rate. The easing of restrictions made possible a 22 per cent increase in imports in 1970. The rise in imports helped to slow the advance in domestic prices during a year of accelerated expansion of aggregate demand, and the short-term foreign borrowing, together with the authorities' continued success in obtaining a large inflow of long-term development assistance, kept the balance of payments in moderate overall surplus. Domestically, the Colombian authorities were able during most of 1970 to pursue a cautious credit policy, facilitated by the Central Government's avoidance of net recourse to central bank financing. In the last quarter, however, following an unforeseen downturn in world coffee prices, central bank credit expanded sharply to provide financing for the purchase by the National Coffee Growers' Federation of a large part of the domestic crop before the minimum support price was realigned with world prices in February 1971.

Brazil's balance of payments performance was unusually strong in 1969 and 1970, reflecting both rapid expansion of exports and massive inflows of foreign capital. The expansion of exports stemmed not only from the rise in coffee prices, but also from equally marked increases in exports of manufactured goods, partly in response to the application of fiscal incentives. These, featuring exemption of exports from certain indirect taxes and favorable financing for export production, were broadly similar to the export incentives used successfully during the 1960s by several developing countries of the Far East. Improvement of the trade balance was also fostered by the new exchange rate policy noted in Chapter 4.

The strengthening of Brazil's balance of payments was accompanied by a notable speeding up of growth in real output, which in 1970 was about 9 per cent. Preliminary figures indicate continuation of this strong performance in the first quarter of 1971. However, difficulties on the price front continued to characterize the Brazilian economy. Although inflation had been substantially reduced from about 85 per cent in 1964 to 25 per cent in 1967, subsequent progress was slow, and the first few months of 1971 showed some renewed, though moderate, acceleration of price increases. One obstacle to further slowing of inflation in the past few years was the high degree to which economic decisions and expectations were adjusted to accommodate the current rate of inflation. Periodic adjustments in wages, prices, rents, savings accounts, and credit instruments, as well as in the exchange rate, have apparently made inflation easier to endure but harder to bring down. Wage policy, which once played an important role in Brazil's fight against inflation, no longer constitutes a strong anti-inflationary force. However, the tight fiscal policy, which for several years carried the main thrust of the stabilization program, was continued in 1970, when the Government's small budget deficit was not a significant source of inflationary pressure and the overall balance of the public sector was in surplus. Maintenance of that fiscal policy was accompanied during the past two years by a moderate tightening of credit policy, partly through open market operations formally established in 1970 with the use of short-term government securities created especially for that purpose.

As in Brazil, large inflows of official and private capital were a feature of the external accounts of *Mexico* in recent years. Mexico's export performance, however, was less favorable. In 1970, with exports declining by 2 per cent and imports rising by 18 per cent, the large increase in capital inflows preserved an overall surplus in the balance of payments. The rise in imports occurred under demand conditions that remained strong despite maintenance of fiscal and monetary restraint. Public spending grew at a slower pace than in 1969, although still substantially faster than total domestic demand; and a tight rein was kept on the central bank's domestic credit expansion in 1970. However, domestic demands for financing were met partly from external sources, as reflected in the large inflow of private short-term capital, together with an increase in the outstanding balance of external public debt. Domestic costs were boosted by an increase in the minimum wage at the beginning of the year, by the introduction of a new Labor Code in May, and by a spillover via import prices of inflation elsewhere; but no signs of an autonomous wage-push problem emerged. Nevertheless, domestic prices rose at an accelerated rate in 1970, so that the year's increase in the GDP deflator (5½ per cent) was the largest recorded for a number of years.

In *Argentina*, after two years of rapid economic growth accompanied by relative price stability, economic activity during 1970 decelerated progressively, while the rate of inflation increased. Further price increases in the first quarter of 1971 brought the rise in consumer prices for the 12 months ended in March to about 30 per cent, compared with less than 7 per cent during the calendar year 1969.

Two major factors in the deterioration of the economic situation were the development of a crisis in the beef sector and the political and social instability reflected in recurring labor disturbances and frequent changes in the administration. Sharp increases in the price of beef early in 1970, in response to strong foreign demand, were followed late that year and in the first quarter of 1971 by a fall in beef exports. Meanwhile, the beef price rise had contributed both directly and through secondary effects on prices of competing foodstuffs to the rise in the cost of living. The social unrest contributed to a marked decline in business confidence and a slowdown in private investment during 1970. By late that year, the upsurge of inflation and labor disturbances had led to a loosening of wage policies and a renewal of cost pressures.

Through the first half of 1970, the major emphasis of economic policy had continued to be placed on financial stability. Later, however, as signs of an economic downturn emerged, policies shifted increasingly toward stimulation of lagging output. Monetary policies were progressively eased in the second half, after having been very tight in the first half, and business enterprises, particularly foreign companies, were encouraged to bring in capital from abroad, both through the provision of exchange guarantees by the central bank and by means of special restrictions on domestic borrowing.

The external accounts of Argentina, which had strengthened in early 1970, remained strong until the final quarter of the year. This reflected an improved current account and the large inflow of short-term capital induced during the first three quarters by tight monetary policies and a 12½ per cent depreciation of the peso in June. However, as economic and political uncertainties intensified in the first quarter of 1971, the balance of payments position deteriorated under the influence of low beef and grain shipments and a swing toward outflows of capital. In April the Government introduced, with an initial depreciation of 1 per cent, a new system of small periodic exchange rate adjustments. By the end of June, the cumulative total of four changes under this system amounted to about 9 per cent.

In a number of countries, the external accounts have recently been burdened by large foreign debts accumulated in the past. In such countries the expansion of effective import demand is often heavily conditioned by the scheduling of debt repayments, as well as by the growth of export earnings and the inflow of capital and aid. The capital inflow itself, of course, sometimes depends in considerable part on foreign investors' views regarding the management of outstanding debt. In several of the less developed countries, successful efforts to restructure external debt obligations were important factors in the balance of payments developments of 1970. Some of these efforts—e.g., by Indonesia and Ghana—involved formal multilateral agreements with official creditors abroad, while others, such as those of the Philippines, were less formalized. The rearrangements of debt burdens were generally accompanied by extensive stabilization programs designed to avoid recurrence of earlier difficulties in meeting repayment obligations.

In the *Philippines*, where interest payments on foreign debt amounted to almost $100 million in 1970, the burden of servicing such debt was exerting considerable pressure on the country's reserve position. Late in the year, however, a substantial amount of official short-term and medium-term liabilities was converted into longer-term debt. While the conversion did not greatly lighten the burden of debt payments for 1971, it did prevent that burden from becoming more acute.

The Philippine balance of payments, after two years of deficits, swung into overall surplus in 1970. This turnaround reflected a number of favorable factors, including the adoption of a comprehensive stabilization program in February 1970. In conjunction with that program, a fluctuating exchange rate for the Philippine peso was established, and the substantial depreciation of the peso that quickly occurred (from 3.9 pesos = US$1 to 6 pesos = US$1 within a week) was a significant influence in curbing the demand for imports. The lessening of demand for imports also stemmed in part from a marked slowdown in monetary expansion, which was greatly facilitated by a sharp improvement in the Government's fiscal position. A new export tax system was introduced and customs tariff rates were increased, while the rise in government spending was limited. The restraint of domestic demand resulted in a slowdown of economic growth to about 4½ per cent in 1970, compared with more than 6 per cent in 1969, and consumer prices rose sharply (25 per cent from February 1970 to February 1971) under the influence of both the depreciation of the currency and the severe typhoon damage in November 1970. The authorities, however, expect a tapering off of the price rise during 1971, along with an early recovery of the growth rate and its restoration to a level above 6 per cent in due course.

For *Indonesia* the conclusion of agreements on the long-term repayment of external debts incurred prior to July 1966 was an important feature of economic and financial developments during 1970. Such agreements—reached with Western creditor nations and Japan in April and with the U. S. S. R. in August—helped to secure an increase in receipts of official loans and grants, which rose from $315 million in 1969 to more than $400 million in 1971. Thanks to this large inflow and to the allocation of special drawing rights, a small overall surplus in the balance of payments was achieved in 1970. Reserves, however, remained quite low in relation to imports.

The achievement of a satisfactory balance of payments position, as well as the considerable progress recorded in many important sectors of the domestic economy during 1970, attest to the continuation of a generally successful implementation of the Government's stabilization program. A reform of the exchange and trade system in April 1970 seems to have been instrumental in promoting stability of the exchange rate and rapid growth of exports, and both fiscal and monetary policies were directed toward fostering better resource utilization and facilitating the growth of priority sectors without jeopardizing the degree of relative price stability attained in the previous year or placing undue pressures on the balance of payments. The marked reduction in the price rise (to an annual rate of about 10 per cent, as measured by the Djakarta consumer price index) enabled the authorities to shift the focus of policy increasingly to the development effort. A balanced overall budgetary position permitted a considerable proportion of local development expenditures to be financed from the surplus in the routine budget, and the combination of high interest rates on time deposits with increased public confidence in the rupiah induced a large increase in the volume of domestic saving. This permitted a sharp expansion of total bank credit, important to the rapid growth of the modern sector of the economy, without inflationary repercussions.

A new agreement between *Ghana* and its major creditors in mid-1970 resulted in an easing of that country's external debt burden through partial postponement of amounts due. For several previous years, the large foreign indebtedness accumulated during the early 1960s had constituted a serious problem in the management of Ghana's finances. Other economic problems of the years prior to 1970 included a slow rate of growth, budget deficits, price inflation, persistent balance of payments deficits, and shortages of essential supplies of both consumer goods and capital goods. In 1970, however, the Government introduced a number of major policy changes with a view to accelerating growth and curbing inflation. Apart from the external debt relief, these measures included (1) a liberalization of the import regime in March, through which the scope of open general licenses was expanded to cover some three fifths of imports; (2) the imposition of substantial import surcharges on more than half of total imports; (3) restraint on the growth of the Government's current expenditures, coupled with a sharp increase in its development outlays; (4) the initiation of an investment reserve fund into which part of the receipts from cocoa tax revenue, temporarily swollen as a result of the unusually high world prices for cocoa in late 1969, were to be deposited to insulate the fiscal position against possible shortfalls of such tax receipts in years of relatively low prices for cocoa; and (5) an increase, early in 1970, in the minimum cash ratio of the commercial banks, together with the setting of restrictive ceilings on expansion of bank credit to the private sector, and especially to nonpriority enterprises within it.

In the South Asian region, 1970 was a year of deteriorating balance of payments positions for India and Pakistan and of substantially reduced domestic economic expansion for Pakistan and Ceylon. In *India* the growth of national output was sustained in 1970 at a rate of about 5 per cent, considerably above the long-term average for that country (Table 38). The principal expansionary thrust behind this growth continued to come from the agricultural sector, which was given preferential treatment, along with small-scale industries, exporters, and certain cooperative credit societies, by new guidelines for allocation of bank credit that became fully operative during 1970. More generally, monetary policy shifted in the direction of restraint in 1970 after more than two years of selective liberalization of credit aimed chiefly at assisting industrial expansion. The more restrictive policy, inspired by growing concern with inflation, was continued throughout 1970 and into 1971 by such means as raising the bank rate and instituting successive increases in the minimum net liquidity ratio governing the structure of penal interest rates on borrowings from the central bank by commercial banks in excess of their eligibility for accommodation at the bank rate. On the external side, India's balance of payments surplus declined somewhat in 1970 after a bulge arising chiefly from reduced need for imports of foodgrains. The 1970 decline in India's overall surplus stemmed partly from a fall in the net inflow of capital and aid and partly from a deterioration in the current account.

In *Pakistan* a sharp deterioration of the economic situation marked the year 1970, particularly its second half. Economic activity slowed down in the latter period, while the budget deficit and expansion of credit to the private sector increased considerably. There were appreciable advances in wages and probably also in prices, although the available price indices do not fully reflect the upward movement believed to have occurred. A large balance of payments deficit was registered, and import restrictions were intensified in an effort to deal with it. This unfavorable combination of developments was due in part to the extensive physical destruction wrought in East Pakistan by a series of natural disasters culminating in the November tidal wave and flood. Other contributory causes included rising pressure on the Government to accelerate social welfare expenditures, as well as political uncertainties and capital flight.

The expansion of economic activity also slowed down in *Ceylon* in 1970, reflecting uncertainties with respect to the future course of government policy regarding private industries, as well as supply problems posed by reimposition of severe import restrictions aimed at arresting the previous year's deterioration of the external balance on current account. Partly because of the import restrictions and partly because of a temporary recovery in the prices received for tea in world markets, Ceylon's overall balance of payments swung into surplus in 1970. However, the year was one of unusual turbulence as far as fiscal and monetary developments were concerned. The budget deficit requiring bank financing in the fiscal year ended September 30, 1970 was the largest on record, as government expenditures were permitted to exceed the budgeted amounts despite shortfalls of actual receipts below those expected from both domestic resources and foreign assistance. Reflecting the expansionary pressure emanating from these fiscal developments, the money supply rose at an exceptionally rapid rate in the first three quarters of 1970. In the last quarter of the year, however, the money supply declined sharply as a result of an unusual operation conducted by the authorities in connection with the substitution of new currency notes for outstanding notes of certain high denominations. This operation involved compulsory retention in special deposits, pending tax clearance for the depositors, of cash balances arising from presentation of the old notes in exchange for the new ones. It was the most drastic of several resource mobilization measures introduced with the Government's budget for the fiscal year 1970/71.

A different form of compulsory mobilization of financial resources took place in *Peru*, where residents were required by a decree-law enacted in May 1970 to repatriate deposits held with foreign banks and to surrender all foreign currency assets held domestically. The forced repatriation resulting from this action brought a small increase in the total net capital inflow, despite declines in official foreign borrowing and in short-term trade credits from abroad. Together with a large increase in export earnings and a depressed level of imports, this development resulted in a sizable overall surplus in Peru's balance of payments. The favorable current account balance and the forced repatriation of short-term assets were also reflected in a sharp rise in private savings held domestically, both through the banking system and outside it. This considerably facilitated fiscal and monetary management, permitting the Government to finance a substantial increase in its investment expenditures through placement of treasury bonds with private nonbank lenders while the banks were using their increased depository resources to expand credit to the private sector. The existence of substantial excess capacity and unemployed labor facilitated the maintenance of relative price stability (with the cost of living index rising about 5 per cent), despite the Government's additional expenditures.

Strenuous actions to transfer resources to the public sector and to enlarge its scope were taken by the Government of *Uganda*. Its actions, initiated in May 1970, followed somewhat similar moves during recent years by other East African countries, including Tanzania and Zambia. The measures adopted in Uganda included nationaliza-

TABLE 38. SELECTED LESS DEVELOPED COUNTRIES:
GROWTH RATES OF GNP AT CONSTANT PRICES, 1960–70

	1965 (*Billion U.S. dollars* [1])	Annual Compound Rates (*Per cent*)			Changes From Previous Year (*Per cent*)		
		1960–70	1960–65	1965–70	1968	1969	1970 [2]
Far East and Southeast Asia	**36.7**						
China, Republic of	2.8	9.8	10.0	9.7	10.0	8.8	10.0
Korea, Republic of	3.0	9.3	6.5	12.1	13.3	15.9	9.7
Philippines	7.8	5.7	7.3	5.9	6.2	6.2	4.4
Thailand	3.6	8.1	5.6	8.8	9.1	9.4	7.9
Malaysia	2.9	6.3	5.8	6.9	4.9	10.2	5.2
Indonesia	8.9	3.3	2.0	4.7	6.6	6.5	6.5
South Asia	**66.5**						
India	50.2	3.8	3.3	4.4	3.1	5.3	4.9
Pakistan	11.1	5.6	5.9	5.2	3.8	5.3	4.0
Ceylon	1.7	4.7	3.8	5.6	6.3	6.5	4.3
Middle East	**25.2**						
Iran	6.2	7.9	6.7	9.2	7.9	11.4	8.8
Israel	3.6	8.9	10.0	7.5	15.4	10.9	9.5
United Arab Republic [3]	5.5	4.0	6.2	1.3	—	5.8	. . .
Africa	**31.9**						
Libyan Arab Republic	1.3	21.8	29.5	16.3	29.1	10.4	. . .
Morocco	2.6	4.1	3.7	4.6	11.6	1.5	4.7
Ethiopia	1.4	4.8	4.9	4.7	3.7	3.7	5.0
Kenya	1.0	. . .	. . .	8.0	8.3	6.0	7.5
Tanzania	0.8	. . .	. . .	5.7	6.9	3.5	5.9
Congo, Democratic Republic of	1.5	. . .	. . .	5.2	7.6	7.8	7.5
Zambia	0.8	7.5	7.9	8.4	4.1	10.3	. . .
Ghana	2.2	2.4	2.9	1.9	0.4	3.4	3.6
Central America, Mexico, and Caribbean	**31.5**						
Mexico	19.4	7.1	7.1	7.2	8.4	7.3	7.5
Central American Common Market	3.8	5.5	5.7	5.3	5.5	5.2	5.1
Dominican Republic	0.9	3.7	0.9	6.6	4.4	7.6	6.2
South America	**62.2**						
Argentina	19.0	3.8	3.7	3.8	4.6	6.7	5.7
Brazil	19.1	6.0	4.5	7.5	8.4	9.0	9.5
Chile	4.5	4.1	4.9	3.4	2.9	2.9	3.0
Colombia	5.2	5.1	4.5	5.7	5.9	6.5	6.9
Ecuador	1.1	5.1	4.2	6.1	5.1	5.5	9.0
Peru	3.0	4.7	6.6	2.9	0.7	1.4	5.0
Venezuela	7.6	5.9	7.7	4.2	5.1	3.8	5.0
Subtotal, selected countries [4]	204.9	5.3	4.9	5.8	6.2	6.5	6.2
Total, less developed areas	**255.0**	. . .	**4.6** [5]	. . .	**5.8** [5]	. . .	. . .

Sources: U.S. Agency for International Development, *Gross National Product* (1970); United Nations, *Yearbook of National Accounts Statistics* (1969), Vol. II; and national sources.

[1] Values in national currency units are converted into U.S. dollar equivalents by using par value or averages of fluctuating or multiple exchange rates.

[2] Estimated.

[3] Rates of change for the United Arab Republic are based on GDP at factor costs for fiscal years 1960/61–1968/69 inclusive.

[4] In addition to countries listed separately in the table, also includes Cyprus, Tunisia, Uganda, Panama, Paraguay, and Uruguay.

[5] Based on GDP at factor cost.

tion of all export and import trade, acquisition of majority public participation in a large number of private companies, both foreign-owned and domestic, and extension of exchange controls (on capital transactions) to cover transactions with Kenya and Tanzania, Uganda's partners in the East African Community. The uncertainties resulting from the nationalization measures had the effect of reducing capital inflows and stimulating capital flight. However, another effect was curtailment of imports as traders ran down their stocks. In addition, a large increase in the value of exports, plus receipt of the initial allocation of special drawing rights, helped to produce a small overall payments surplus in 1970. The central bank endeavored to moderate the rate of increase in domestic credit during the year, and expansion of credit to the private sector was virtually halted through the influence of the nationalization measures. Nevertheless, total domestic credit expansion considerably exceeded the average for several preceding years because of the rise in the Government's borrowing associated with its development expenditures.

Several less developed countries were seriously affected in recent years by military activities or national defense preparations. Two notable examples (outside Southeast Asia) are Nigeria and the United Arab Republic. In *Nigeria*, the formal ending of a 30-month civil war in January 1970 left the authorities confronted with great tasks of reconstruction. Among the critical problems faced were the need for restoration of facilities damaged by the war, high unemployment, especially in urban areas, inflationary pressures caused by disruption of normal production and deficit financing of government expenditures during the period of active hostilities, and a deteriorating foreign exchange position featuring relatively low official reserves and large arrears in current payments. These problems were attacked under a four-year national development plan inaugurated in 1970. In the application of coordinated fiscal, monetary, and balance of payments policies within the framework of that plan, the authorities were greatly assisted by the rapid resumption of oil production and a 40 per cent rise in export earnings in 1970, chiefly through oil exports. Together with a substantial increase in capital inflows, these permitted an increase of some 50 per cent in imports, which helped to relieve shortages and dampen the rise in prices after the middle of 1970.

The sharp rise in imports, which followed relaxation of severe trade and exchange controls, also boosted the Nigerian Government's receipts from tariffs and excise taxes, thus contributing importantly to improvement of the fiscal position in the 1970/71 budgetary year. Further liberalization of import and exchange controls took place in April 1971. Despite the steep rise in imports in 1970, the balance of payments remained in overall surplus. Indeed, the surplus was much larger in that year than in 1969. Total domestic credit increased by nearly 40 per cent during 1970, with the increase evenly divided between the government and the private sectors. The money supply expanded by more than 40 per cent during the year, but part of this rise served the essential purpose of remonetizing the formerly rebel-held areas.

In recent years, the authorities of the *United Arab Republic* undertook the difficult tasks of developing and stabilizing the economy while devoting a substantial part of the national budget to military expenditures. During most of this period, the economy was characterized by a relatively slow tempo of domestic productive activity, a low rate of investment, and a weak external position except in one year of particularly high cotton production and exportation. In general, balance of payments difficulties constituted a severe constraint on development, and official aid, including that from the Arab oil-exporting countries, played an important role in financing the persistently large current account deficit. At the beginning of the fiscal year 1970/71 (ended June 30), foreign obligations in the form of medium-term and long-term loans and suppliers' credits amounted to some $2 billion, and the authorities were also confronted with liabilities under bilateral payments arrangements and military credits, in addition to their outstanding use of Fund credit. Altogether, debt repayments scheduled for the fiscal year 1970/71 were equivalent to more than one third of estimated export earnings.

For several years through 1969, the United Arab Republic pursued basically noninflationary monetary policies. Toward the end of fiscal 1969/70, however, a temporary increase in defense spending raised the Government's recourse to the banking system, and with it the overall rate of credit expansion. This development extended into the first few months of the fiscal year 1970/71, but recently was succeeded by a slower monetary expansion. Measures aimed directly at improving the balance of payments situation have included a number of subsidies on nontraditional export commodities, as well as a more recent allowance of a uniform exchange premium on exports sold for convertible currencies.

A Middle Eastern economy presenting a sharp contrast with that of the United Arab Republic in recent years is that of *Iran.* The growth of the Iranian economy has been rapid, averaging 9 to 10 per cent per annum in real terms for several years through 1969 and apparently continuing at a similar rate in the fiscal year ended in March 1971. This high rate was sustained by rapidly increasing oil production and revenue. However, it was accompanied by a sharp rise in bank credit to both the private and the public sectors, and increasing inflationary pressures became apparent during 1970. These were reflected mainly in the re-emergence of a sizable overall balance of payments deficit (after a small surplus in 1969) and in a sharp rise in the external debt burden. The rate of increase in prices remained moderate, as a considerable part of the rising demand pressure was absorbed by the large increase in imports. Because of the sharp rise in oil earnings taking place under the new oil agreements of November 1970 and February 1971, the prospects for an Iranian balance of payments surplus in the current year seem unusually good.

Chapter 6

Foreign Exchange and Gold Markets

Foreign Exchange Markets

During 1970 and through most of the first half of 1971, short-term capital flowed virtually continuously and on a massive scale from the United States to Germany, Japan, the Netherlands, and the United Kingdom, and to a lesser extent to Belgium, France, Italy, and Switzerland. Relatively easy monetary conditions in the United States, compared with monetary conditions in other leading industrial countries, induced U. S. commercial banks to repay indebtedness to their overseas branches. Between November 1969 and early July 1971, U. S. commercial banks repaid over $13 billion of the total of $15 billion that had been borrowed from their overseas branches. This flow of funds was initially directed to the Euro-dollar market, and interest rates for three-month deposits in that market fell from about 10.5 per cent per annum in January 1970 to about 5 per cent per annum in March 1971. Interest rates in the Euro-dollar market, while higher than those in New York, were relatively low, compared with interest rates in some of the leading European countries and Japan. Short-term rates in the countries of the European Economic Community and the United Kingdom averaged from 8 per cent to 9 per cent in January 1970 and were between 1 and 1½ percentage points lower in March 1971.

In the light of the improvement in the U. K. balance of payments and following the changes in the parities of the French franc and the deutsche mark in 1969, the pattern of exchange rates was relatively stable. The foreign exchange markets were generally calm throughout 1970 and the early months of 1971, except for a few weeks in June, July, and September 1970. Capital flows between the major money markets during this period were largely in response to short-term interest rate differentials. The bulk of the funds returned to the Euro-dollar market were converted on an unprecedented scale from U. S. dollar assets into local European money market assets, largely on an uncovered basis.

Although the size of interest rate differentials had begun to narrow considerably by March 1971, and action already taken by monetary authorities had reduced the incentives for funds to be shifted between the major money markets, the flows of international short-term capital accelerated markedly on expectations of changes in exchange rates. The flows of funds to Germany and to a number of neighboring countries were particularly large during April and the first few days of May. The change in expectations regarding the stability of exchange rates was, in part, brought about by the continuing accumulation of U. S. dollars by some central banks and, in light of the accumulation of external reserves, by widespread comment with respect to the difficulties for monetary authorities in absorbing further amounts of foreign exchange. Discussion of measures to combat the inflow of funds, including well-publicized recommendations that exchange rates should be permitted to float outside established margins, further added to the speculative purchases of some currencies that began in March 1971 and intensified during April and the first few days of May.

Following the large-scale foreign exchange inflow in early May, the German authorities suspended official dealings in U. S. dollars and closed the official foreign exchange markets on May 5, 1971. Subsequently, the official exchange markets in Austria, Belgium, the Netherlands, Portugal, and Switzerland were closed. The monetary authorities of Finland, Greece, Norway, Singapore, and South Africa withdrew their support operations for the U. S. dollar and also suspended dealings in deutsche mark, Netherlands guilders, and Swiss francs. Other exchange markets, including those in Canada, France, Italy, Sweden, the United Kingdom, and the United States, remained open.

With the exception of Belgium, whose exchange markets were reopened on May 11, all other exchange markets were reopened or dealings resumed on May 10. Germany and the Netherlands decided that they would not, for the time being, maintain the exchange rates for their currencies within the established margins. Austria, after consultation with the Fund, changed the par value of the Austrian schilling, appreciating it by 5.05 per cent. Switzerland also changed the gold parity of the Swiss franc, an appreciation of 7.07 per cent. Belgium and Luxembourg modified the regulations concerning their free exchange market by prohibiting current payments to be made from free market accounts and requiring all capital payments to be transacted in the free market. In addition, advanced export payments were forbidden, and commercial banks were prohibited from accepting new time deposits remitted by nonresidents through the official market and from paying interest on similar sight deposits.

In response to the continued inflow of funds, the currencies of a number of European countries and of Japan had—for some time prior to the intensification of speculative activity—appreciated in the foreign exchange markets to near the normal upper intervention points. The only significant exceptions to the pattern of currencies being quoted through most of the latter part of 1970 at their upper intervention points were sterling, the Italian lira, and the Swedish krona.

The Canadian authorities at the end of May 1970 decided not to maintain for the time being the prescribed margins of 1 per cent either side of parity, and during the following year the exchange rate appreciated fairly steadily to a peak of Can$1 = US$0.9971½ (a premium of 7.80 per cent above parity) in early March 1971. After declining slightly in March, the rate for the Canadian dollar remained fairly stable until it began to weaken in late May and through the middle of June; at the end of June it was quoted at Can$1 = US$0.9775½ (a premium of 5.68 per cent above parity); it held steady at that rate through the first half of July.

As a means of reducing the rate of inflow of funds, the monetary authorities in Europe and Japan began to lower domestic interest rates in late 1970, while from about February 1971 interest rates in New York began to rise. However, earlier in 1970, a number of countries had introduced other measures to restrain the inflow of funds, especially those of a short-term nature. For example, the Japanese authorities from mid-1970 and through the first half of 1971 encouraged a shift in the financing of imports from U. S. dollars to yen. A number of countries, particularly Germany through the course of 1970 and in June 1971, and France in 1971, imposed reserve requirements on commercial bank foreign liabilities that were generally higher than those applied against domestic liabilities and thereby not only partly neutralized the inflow of funds but also effectively reduced the profitability of business financed by the acceptance of foreign deposits. Further, the payment of interest on deposits owned by nonresidents was restricted, for example, in Germany in May 1971. In the United Kingdom, exchange controls were tightened in the beginning of 1971 to restrict domestic borrowing of short-term funds from abroad. Other countries—for example, the Netherlands and Italy—require their commercial banks to maintain, or not exceed, a given net foreign liability/asset position.

In order to reduce the adverse impact of repayments of Euro-dollar borrowings on the U. S. balance of payments on the official settlements basis, the Federal Reserve Board in November 1970 and January 1971 amended its regulations regarding the maintenance of reserve requirements on Euro-dollar borrowing. It raised from 10 per cent to 20 per cent the reserve requirements against borrowings in excess of the amount allowed as a reserve-free base; this base was redefined as the average daily borrowings in the four weeks ended November 25, 1970. The Export-Import Bank and the U. S. Treasury each issued $1.5 billion of short-term certificates of indebtedness to the overseas branches of U. S. commercial banks during the first five months of 1971 as a means of mopping up funds in the Euro-dollar market. The Federal Reserve Board permitted U. S. commercial banks to include these securities in their reserve-free bases.

In addition, the authorities of some countries, for example, those of Germany and the Netherlands, intervened in their forward exchange markets; in these two countries intervention was aimed at preventing the premiums on their forward currency quotations from rising. The Bundesbank also intervened on occasion to widen the discount on the forward deutsche mark. Forward market intervention tended to increase the cost of swapping funds into local assets, which not only discouraged the inflow of funds on a covered basis but also tended to deflect demand from the spot to the forward currency market.

Spot Foreign Exchange Markets

As can be seen from Chart 25 the general pattern of spot quotations in terms of the U. S. dollar for a number of leading currencies quoted in the New York foreign exchange market, shown as percentage deviations from their respective parities, was one of firmness throughout most of 1970 and the first four months of 1971. Between March 1970 and April 1971, the spot quotations for the Belgian franc, the deutsche mark, the French franc, and the Japanese yen were generally at or only slightly below the normal upper intervention points maintained by the authorities in their local markets. For the Belgian and French francs and the Japanese yen, these upper intervention points are 0.75 per cent above parity; the upper intervention point for the deutsche mark, up to May 5, 1971, was 0.82 per cent above parity. From early July 1970 the spot rate for the Netherlands guilder was generally quoted at a premium that varied between 0.65 per cent and 0.75 per cent of parity. As noted above, the comparative strength of these currencies in the exchange markets reflected the substantial inflows of short-term capital, which were characteristic of foreign exchange market activity throughout 1970 and the first half of 1971.

Spot sterling was quoted at a discount during the second half of 1970 largely because of the exchange market policies of the authorities in absorbing large amounts of foreign exchange, which were used for the repayment of inter-central-bank and other debts. A considerable outflow of funds occurred during September 1970, and, as a means of mitigating that outflow, the authorities let the rate depreciate quite sharply. Between December 1970 and January 1971, however, the rate appreciated to near the upper intervention point and remained there through mid-July 1971 in response to the inflow of funds and to the strong overall balance of payments position.

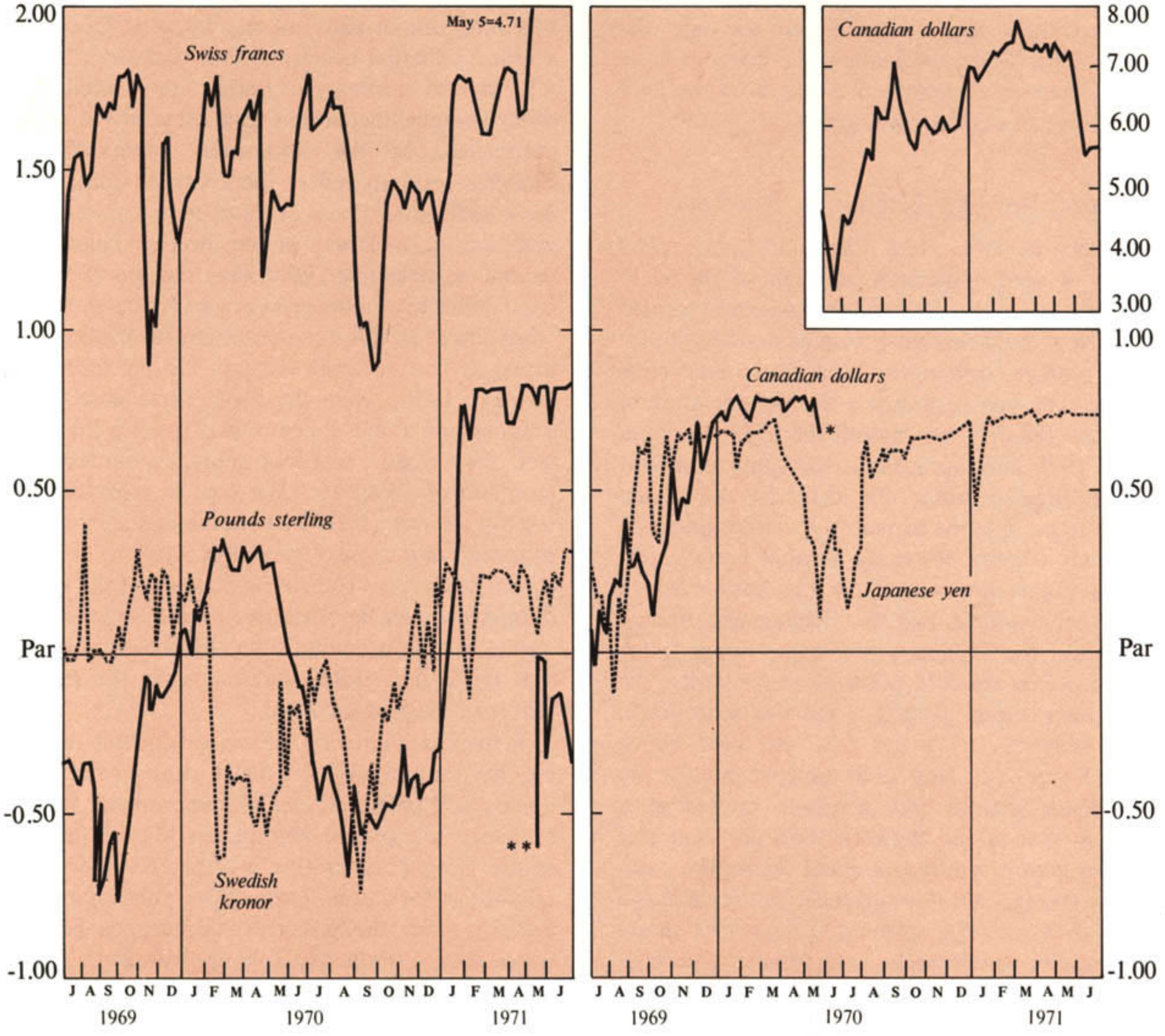
The intermittent weakness of the Italian lira was partly the result of a deterioration of the current account of the balance of payments but, more importantly, of the domestic labor and political situation which induced outflows of capital. As with sterling, the Italian lira showed relatively sharper fluctuations than most of the major currencies, as the authorities permitted the exchange rate to reflect the frequent changes in the direction of flows of short-term capital. The comparative weakness of the Swedish balance of payments, reflecting (inter alia) some outflows of capital that were influenced in part by the domestic labor situation, affected quotations for the Swedish krona at certain times. Except for the month of October 1970, when the Swiss franc eased to a premium of about 1 per cent of parity, that rate held very steady and was generally quoted at a premium of about 1.40 per cent of parity during the last quarter of 1970 and at about 1.60 per cent of parity until toward the end of April 1971 when it firmed sharply. The strong position of the Canadian dollar can be attributed to the large surplus on the current account of the balance of payments that more than offset the decline in the rate of inflow of long-term capital.

In the days following the announcements regarding the suspension of official dealings in U. S. dollars and of the closure of some official foreign exchange markets in Europe on May 5, trading in the New York market was based on nominal quotations for certain currencies—particularly the deutsche mark, the Netherlands guilder, the Belgian franc, the Austrian schilling, and the Swiss franc. Trading in these currencies was virtually at a standstill in London, Paris, Milan, and New York, even though these exchange markets were not closed on May 5. However, in New York the spot rate for the deutsche mark closed at $0.2802 (a premium of 2.55 per cent), compared with $0.2755 (a premium of 0.83 per cent) on May 4. The Belgian franc firmed to a premium of about 1.75 per cent, while the Swiss franc firmed appreciably to a premium of about 5.7 per cent above parity.

Following the reopening of exchange markets on May 10 and 11, 1971 the Austrian authorities decided to widen their intervention points from ±0.77 per cent of parity to ±0.97 per cent of the new parity. Following the revaluation of the Swiss franc the Swiss authorities widened slightly

Chart 25. Spot Exchange Rates: Selected Currencies Against U.S. Dollar, July 1969–June 1971[1]

(Spread from par in per cent)



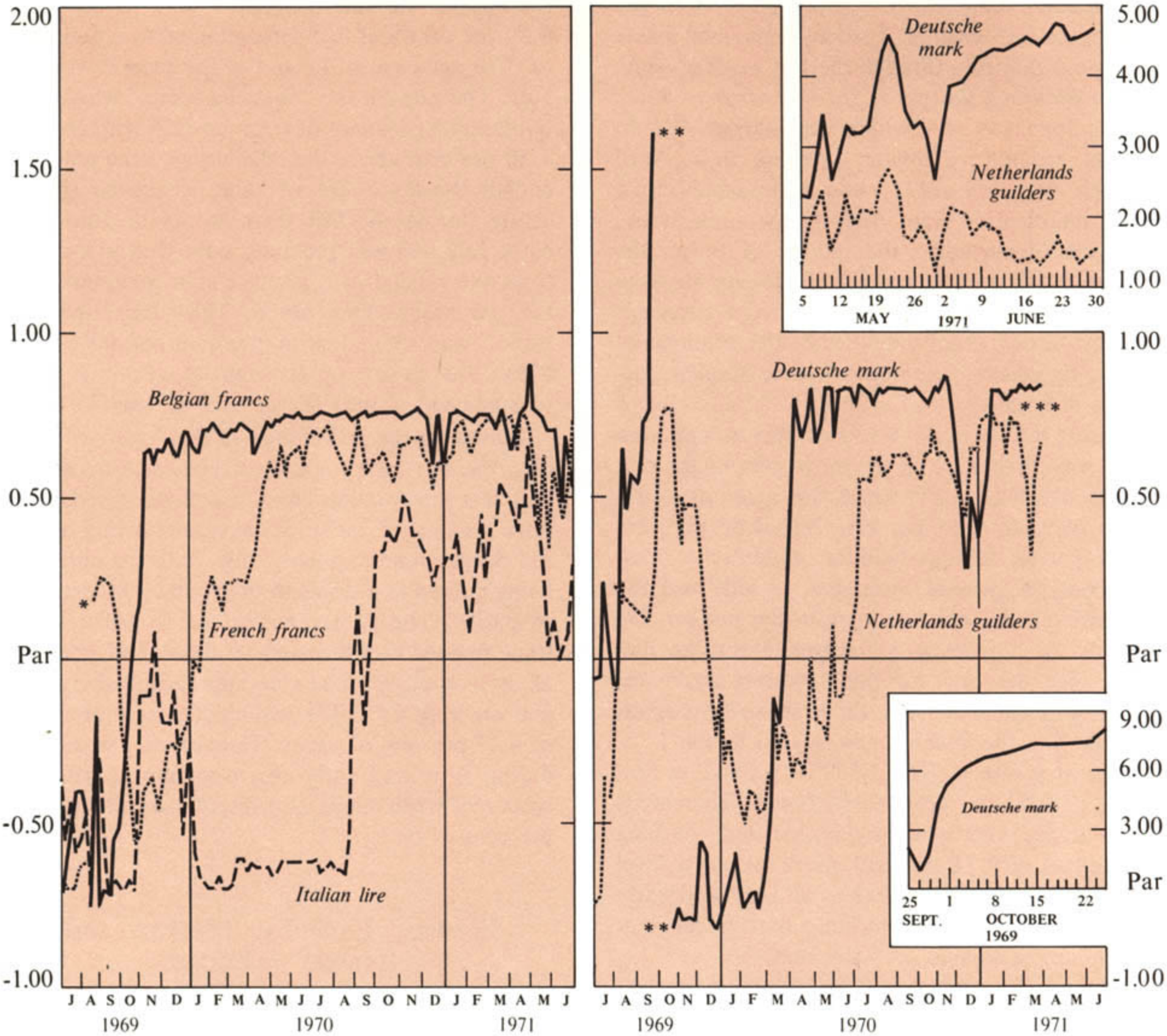
* Effective June 1, 1970 the Canadian authorities have not maintained the exchange rate for their currency within the established margins.
** Revaluation of the Swiss franc, effective May 10, 1971.
[1] Based on Wednesday noon quotations in New York.

their intervention points from +1.78 per cent and −1.76 per cent of parity to +1.82 per cent and −1.86 per cent of the new parity.

Conditions in the foreign exchange markets were comparatively calm following the reopening of the exchange markets. The flows of short-term funds between the leading markets were considerably reduced. With the exception of the Austrian schilling and, to a lesser extent, the Swiss franc, most currencies continued to be quoted above their par levels in terms of the U.S. dollar. Through the end of May 1971 there was little unwinding of the large foreign positions built up in deutsche mark, Belgian francs, and Netherlands guilders. In early June, however, there were comparatively large outflows of funds from Germany and the Netherlands; the outflows from Austria, Belgium, and Switzerland were, however, on a rather modest scale. Conditions in the Euro-dollar market were relatively easy, as the U.S. com-

CHART 25 *(concluded)*. SPOT EXCHANGE RATES: SELECTED CURRENCIES AGAINST U. S. DOLLAR, JULY 1969–JUNE 1971[1]

(Spread from par in per cent)



* Devaluation of the French franc, effective August 10, 1969.
** Revaluation of the deutsche mark, effective October 26, 1969.
*** Effective May 10, 1971 the German and the Netherlands authorities have not maintained the exchange rates for their currencies within the established margins.
[1] Based on Wednesday noon quotations in New York.

mercial banks continued to repay indebtedness to their overseas branches, although interest rates rose somewhat in May and then fell in June 1971.

As a result of continuing interest rate differentials, inflows of funds occurred, although on a diminished scale, to countries like the United Kingdom and France that had not experienced the heavy speculative pressures at the end of April and the beginning of May. Quotations for sterling and the French franc moved relatively little both during the period when some European exchange markets were closed and following the changes in exchange rates when the exchange markets were reopened on May 10 and 11. Throughout May and June they remained close to their upper intervention points. The Italian lira initially appreciated in terms of the U. S. dollar and then weakened through the remainder of May; in early June the rate was quoted at close to its parity level; it then strengthened during the latter part of June and early July. The Canadian dollar, which had risen to a premium of 7.80 per cent above parity in mid-March, weakened to a premium of 7.15 per cent in the last week of April and remained stable at around that rate through the last week of May, before declining sharply in the first week of June.

The Japanese yen, which was subject to substantial speculative buying pressure from April through mid-July 1971, was maintained at its upper intervention point virtually continuously. As a means of curtailing the inflows of funds, the Japanese authorities, apart from taking steps to prevent an increase, and even induce a decrease, in short-term foreign liabilities of the commercial banks, tightened their controls over foreign purchases of bonds.

During the last three weeks of May no apparent trend was discernible in the movement of the rate for the deutsche mark, which fluctuated at a premium between 2.25 per cent and 4.60 per cent above parity; foreign holders of deutsche mark were not, in general, prepared to sell, and the Bundesbank did not intervene in the market. On June 2 the Bundesbank intervened for the first time since the rate for the deutsche mark was permitted to float outside the established margins. On that day the Bundesbank offered to sell U. S. dollars at a rate of DM 3.5675 = US$1, a premium of 2.53 per cent above parity. Thereafter, the deutsche mark generally appreciated, reaching a premium of 4.72 per cent above its parity level on June 23. In the last week of June and early July, quotations moved within a narrow range at a premium of around 4.60 per cent.

Through the latter part of May and the first week of June, movements of the Netherlands guilder followed a similar pattern to those of the deutsche mark. The extent of the appreciation of the currency was, however, considerably less; the currency was quoted at a premium that varied between 1 per cent and 2.66 per cent above parity. From the end of the first week of June through early July, quotations for the guilder and deutsche mark have moved in different directions. While the deutsche mark, in general, appreciated, the guilder tended to weaken and moved within a range between 1.35 per cent and 1.57 per cent above parity.

The spot rate for the Belgian franc was quoted at its upper intervention point of 0.75 per cent above parity throughout the latter part of May and during the first week of June. In the following two weeks the rate weakened to a premium of 0.32 per cent and then strengthened to a premium of 0.76 per cent at the end of the second week of July. The rate for the "financial franc," which was quoted at a premium of between 1.25 per cent and 1.50 per cent above the official par value until the end of the first week of June, weakened significantly during the last three weeks of June and early July and was generally quoted at a discount from the official rate, though at a premium over the par value. On July 6, 1971 the "financial franc" was quoted at a premium of only 0.03 above the parity of the official rate and then strengthened slightly in the second week of July.

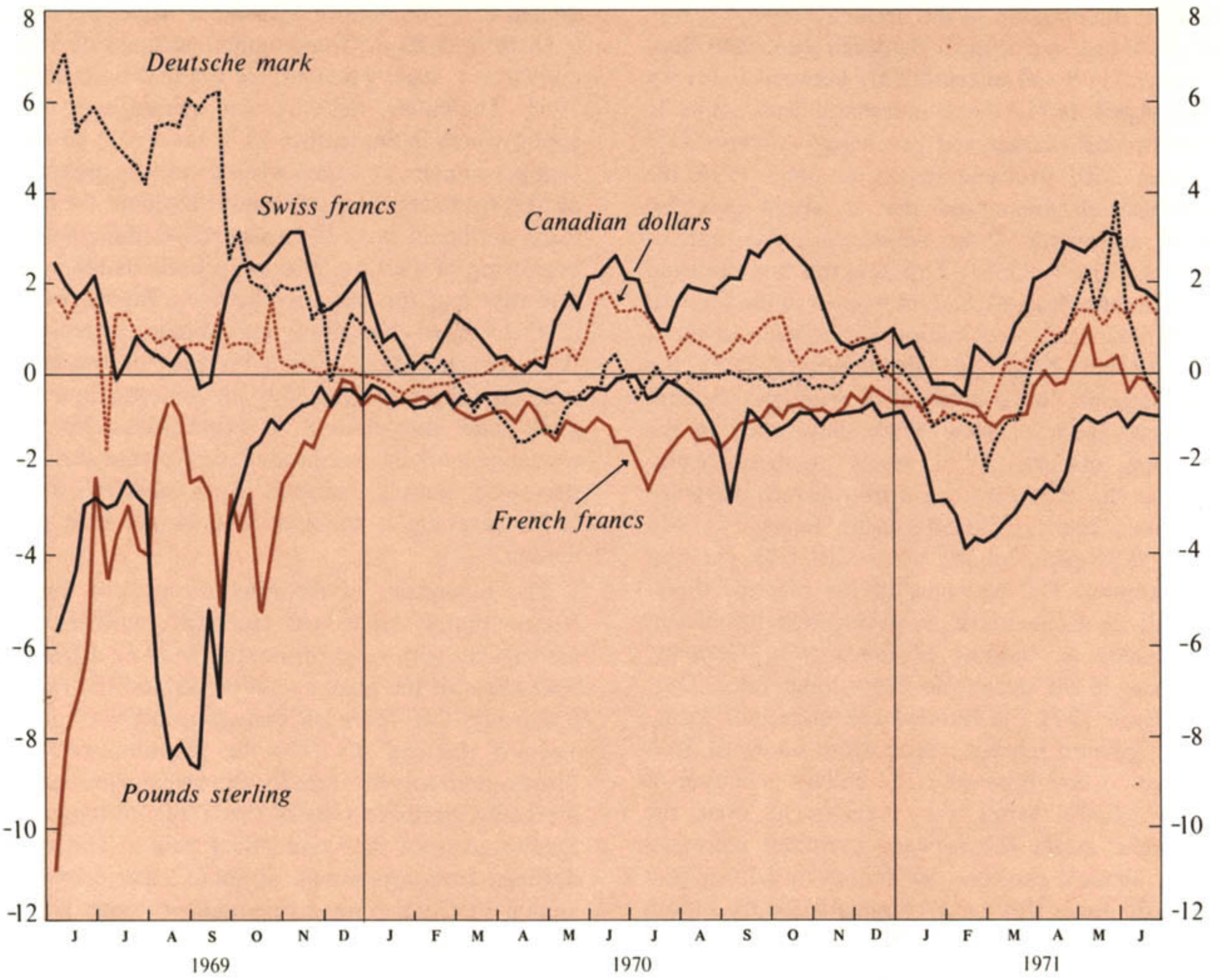
Following the revaluation of the Austrian schilling, the spot rate for the currency was quoted at its lower intervention point, which is a discount of 0.97 per cent of parity. Some strengthening occurred during June and early July, with the currency being quoted at a discount of around 0.80 per cent of parity. The spot rate for the revalued Swiss franc opened at a discount of about 0.47 per cent of its new parity. The rate appreciated thereafter and on May 21, 1971 was quoted at a premium of 0.27 per cent of parity. The currency weakened during June and early July and moved within a relatively small range at a discount of about 0.40 per cent of parity.

Forward Exchange Markets and Interest Arbitrage

Quotations on three-month contracts for some of the leading currencies, expressed as annual percentages of their respective spot quotations, are shown in Chart 26. Quotations for forward contracts, which normally are left to the free interplay of market forces, were relatively stable until about March 1971 and broadly reflected a comparative stability in the pattern of spot exchange rates, as well as stability in the pattern of interest rate differentials, between the major money markets. For most of 1970 forward margins were close to their interest parities. Although the narrow spread between discounts and premiums for forward contracts, which was characteristic of the first half of 1970, was not maintained during the latter part of

CHART 26. THREE-MONTH FORWARD EXCHANGE RATES: SPREAD OF SELECTED CURRENCIES AGAINST SPOT U. S. DOLLAR, JUNE 1969–JUNE 1971[1]

(In per cent per annum)



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

that year or the first half of 1971, there was not a great disparity between the premiums and discounts for various currencies in the year to June 1971. The widest spread occurred during the late summer of 1970, when interest rate differentials were at their largest and some uncertainty developed about sterling. With some narrowing of interest rate differentials between the leading international money markets toward the end of 1970, the spread of forward rates also narrowed.

A further factor that induced changes in forward rates during the second half of 1970 and early 1971 was the substantial official intervention, particularly in Frankfurt and Amsterdam. In general, official intervention was aimed at reducing the inflow of funds from abroad, by deflecting demand to the forward market and also by changing the relative profitability of shifting funds into local money markets on a covered basis. In this regard, the authorities were concerned to limit the rise in premiums or to maintain or widen discounts on forward contracts. On occasion, however, the fall in interest rates in the Euro-dollar market outweighed the effect of the reduction of the forward premium or the increase in the discount on forward quotations and encouraged inflows of funds on a large scale. Further, from about March 1971 a marked rise in forward quotations occurred, largely as a result of a change in expectations regarding the stability of exchange rate relationships but also, in part, because of a lessening of official intervention in the market.

At times, particularly between June and September 1970 and intermittently between February and April 1971, the Bundesbank was active in the forward market and purchased forward U. S. dollars with deutsche mark. In June 1970 the Bundesbank announced that it would purchase U. S. dollars for 90-day delivery at a fixed rate of DM 3.6330 = US$1. This was the first occasion that the Bundesbank had intervened in the forward market since the revaluation of the deutsche mark in October 1969. In late February 1971 the Bundesbank, in collaboration with the Federal Reserve Bank of New York, intervened in the forward market. As a result of these operations, the discount on three-month forward deutsche mark widened during February 1971 from 0.81 per cent per annum to 1.43 per cent per annum. The widening of the rate for three-month deutsche mark, however, was insufficient to induce an outflow of funds from Germany because of the decline in Euro-dollar rates. During April 1971 the Bundesbank undertook large-scale forward market intervention; on April 28 it ceased to buy forward U. S. dollars at a rate of DM 3.6300. After the decision to float the deutsche mark, the forward premium increased from about 2 per cent per annum to 4.1 per cent in early June. During the remainder of the month the rate for forward deutsche mark weakened and on June 23 fell to a discount, the first since early April 1971; at the end of June the forward currency was quoted at a discount of 0.45 per cent per annum, but it rose to a premium in the second week of July.

The Netherlands Bank intervened in the forward market by linking intervention on the spot foreign exchange market to that on the forward market. For example, in swap transactions with the commercial banks it would buy spot dollars at a rate of f. 3.5975 = US$1, a premium of 0.62 per cent of parity, in exchange for three-month dollars, which would be resold at varying rates below the purchase price. The Netherlands Bank also made spot purchases of dollars against forward sales at an agreed rate. Following the decision to float the guilder, the forward rate appreciated to a premium of 3.10 per cent per annum on June 2, 1971. Thereafter, the currency weakened in the forward markets; by mid-July it was quoted at a premium of 1.93 per cent per annum.

In June 1970 the three-month sterling rate was quoted at a slight premium for the first time since 1963. Thereafter, the rate was quoted at a discount, which in September 1970 reached 2.83 per cent per annum, at a time when there was pressure on the spot rate. The substantial discount on forward sterling in early 1971 also reflected increased borrowing of sterling on a swap basis as the spot rate rose and the disparity between interest rates in the United Kingdom and abroad increased. With the continued upward pressure on the spot rate, the slight relative fall in domestic interest rates, and the change in expectations in the exchange markets, the discount on forward sterling narrowed sharply between April and mid-July 1971, reaching a discount of 0.44 per cent per annum.

The movement of the rate for forward Swiss francs mainly reflected technical adjustments associated with end-of-month window-dressing operations of the commercial banks and the comparatively low level of domestic interest rates. Toward the end of 1970 the premium on the three-month forward rate for the Swiss franc eased markedly, partly in view of the increased liquidity requirements of the commercial banks. The rate declined from a premium of about 3 per cent per annum in October to a premium of about 1 per cent per annum in the middle of December 1970. Thereafter, the rate held comparatively steady until early March, when, as with other forward rates, it appreciated sharply. Following the revaluation of the Swiss franc effective May 10, 1971, when the spot rate was quoted at a substantial discount, the forward premium increased to 3.39 per cent per annum before declining to a premium of 2.13 per cent by mid-July 1971.

The rate for the forward French franc was comparatively stable at a small discount on its spot rate. Movements in the forward rate were caused mainly by changes in interest rate differentials. The forward Canadian dollar was consistently quoted at a premium in terms of its spot rate, except for the early months of 1971; it appreciated sharply in March and April 1971.

Covered interest arbitrage was less significant in determining the movements of funds in 1970 and early 1971 than in previous years. Further, the relatively sharp decline in Euro-dollar deposit rates relative to interest rates in domestic European money markets, as well as the small discounts or premiums on forward currencies, resulted in interest arbitrage investments being generally in favor of investments in the local money markets rather than in the Euro-dollar market, after taking into account the cost of forward cover. However, on the basis of covered interest, there was little incentive to invest either in Switzerland or in the United Kingdom. The largest fluctuation in the covered interest arbitrage schedule occurred in Italy, where, owing largely to the improvement in the forward rate for the Italian lira, the margin of profitability of placing funds in the Euro-dollar market over domestic investments was sharply reduced, until in October 1970 it became more profitable to invest in local money market instruments than in the Euro-dollar market.

Gold

The leading international gold markets were generally calmer during most of 1970 and the first four months of 1971 than at any time since the months preceding the devaluation of sterling in November 1967. However, at the end of April and beginning of May 1971, largely associated with developments in the foreign exchange markets, speculative activity in the gold markets increased, and prices rose to their highest levels since August 1969, reaching more than $41 a fine ounce in mid-May.

During the first eight months of 1970 the market price of gold in London was fairly steady at close to the official level of $35 a fine ounce; the highest price during this period was $36.24 an ounce at the beginning of May 1970. Prices began to rise in August 1970, mainly reflecting a relative increase in demand, as the sales of gold on the market by South Africa were substantially larger in the second half of 1970 than in the first half of the year. However, a short-lived burst of speculative activity between late September and October resulted in prices first rising then falling by about $2.50 a fine ounce. Thereafter, prices rose gradually until mid-January 1971. The relative calm in the international monetary situation was reflected in the price of gold in the private market, which averaged $35.96 an ounce in 1970 compared with $41.11 in 1969. Prior to the sharp rise in prices during late April and early May, when prices rose to $41.20 an ounce, the average price since the beginning of the year had been $38.60 an ounce. For the first six months of 1971, the average price of gold was $39.19 an ounce.

With the exception of a few weeks in April and early May and again in late September and in October 1970, speculative activity in the gold markets was relatively low; markets were, in general, orderly with supplies adequate for a modest demand. As can be seen from Table 41, industrial and artistic consumption of gold during 1970 has been estimated at about the equivalent of $975 million, compared with the equivalent of $915 million in 1969.[1] The rate of growth of demand for gold for industrial and artistic uses between 1969 and 1970 has been estimated at between 6 and 7 per cent, which is somewhat lower than the annual average over the past decade. To a considerable extent, the reduction in the rate of growth of demand, which was particularly marked during the first half of 1970, was accounted for by the slowdown in economic activity in some of the major industrial countries like the United Kingdom and, especially, the United States, where industrial consumption of gold was estimated to have declined by 20 per cent from the levels reached in 1969. In addition, industrial and artistic users tended to run down existing stocks in the earlier part of 1970 when prices were weak. Stocks were only partly rebuilt later in the year. However, the demand for gold from countries of the Far East and, to a lesser extent, from countries of the Middle East increased markedly during 1970. To some extent the increased demand was associated with an increase in the minting of gold coins and unsettled conditions in Southeast Asia.

[1] Throughout this chapter, in references to transactions in both the official market and the private market, gold has been valued at the official price of $35 a fine ounce.

With the relatively low level of speculative activity in the markets during 1970 and early 1971, the amount of gold estimated to have been absorbed in the form of hoarding declined sharply, compared with 1969 and earlier years. It is difficult to substantiate the likely causes of the decline in the demand for gold for hoarding purposes, but it would seem likely that the decline in speculative activity in the market can be attributed in part to a change in expectations regarding a possible increase in the official price of gold. The change in expectations was, to some extent, a consequence of the relative calm in the foreign exchange markets and also of the activation of the special drawing rights scheme in January 1970. In addition, the relatively high level of interest rates in the international money markets might also have induced a shift in investors' preferences in favor of interest yielding assets. The relatively high opportunity cost of holding gold is also likely to have encouraged dishoarding, particularly in view of the lower gold prices during 1970, compared with most of 1968 and 1969.

World gold production in 1970, excluding the output of CMEA countries, mainland China, etc.,[2] reached a new peak of 41.5 million ounces, the equivalent of $1,450 million valued at $35 a fine ounce; this represented an increase of 0.7 million ounces, or about 1.8 per cent, over 1969. The increase in gold output resulted mainly from a rise of 3.4 per cent in South African production. In 1970 South Africa accounted for about 78 per cent of world production. No sales of gold by the U. S. S. R. on the international gold markets were reported in 1970, and mainland China, which had bought relatively small amounts of gold in previous years, is believed not to have purchased any during the year. During the first quarter of 1971, the current production of gold is estimated at the equivalent of $355 million. It was also reported, but not officially confirmed, that the U. S. S. R. resumed its sales of gold on the private markets for a few months in early 1971, at a rate of about 10 tons a month, equivalent to $9.2 million.

The volume of newly mined gold sold on the private markets during 1970 is estimated at 33.6 million ounces, or the equivalent of $1,175 million at $35 a fine ounce; despite increased gold production, this was about $123 million or 10 per cent smaller than during 1969. South African sales on the market amounted to about $914 million, or over three fourths of total sales during 1970. Official gold stocks of national monetary authorities and international institutions increased by the equivalent of $275 million during 1970, compared with an increase of $110 million in 1969. However, the amount of gold being offered for sale on the private market during 1970 was larger than the sales of newly mined gold as a result of the running down of stocks held by industrial and artistic users, especially in the United States and some other industrial countries, and also by other holders who divested themselves of gold purchased mainly in late 1967 and early 1968. It is probable that the liquidation of this speculative overhang of gold that had been bought earlier from official stocks was virtually completed in the course of 1970 and early 1971. It is likely, therefore, that the amount of gold used during 1970 for industrial and artistic purposes was higher than the estimates shown in Table 41, because of the rundown in stocks; demand for gold by countries of the Middle and Far East might also have been met partly from a rundown in stocks. During the first quarter of 1971, about 10 million ounces of newly mined gold was sold on the private markets.

The rise in official gold holdings can be attributed largely to the sales of gold to the Fund by South Africa. The Fund purchased the equivalent of $640 million in gold from South Africa during 1970 in accordance with its decision of December 30, 1969[3] and purchased a further $138 million in the period January 1 to July 2, 1971. (See Chapter 3 and Supplementary Note A.)

Most countries' gold reserves fell during 1970, largely as a consequence of the payment to the Fund of increased gold subscriptions resulting from the increase in members' quotas. However, the fall of $450 million in South Africa's gold reserves was a result of its balance of payments deficit; South Africa's quota increase became effective in July 1971. Declines totaling $787 million occurred in official gold holdings of the United States, in large part as a result of transactions with the Fund, which also led to a reduction in the United States' gold liabilities. Spain's gold

[2] See footnote 2, page 52.

[3] See *Annual Report, 1970,* pages 34–35.

TABLE 39. GOLD: VALUE OF WORLD PRODUCTION, 1940, 1945, AND 1964–FIRST QUARTER 1971 [1]

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

	1940	1945	1964	1965	1966	1967	1968	1969	1970	First Quarter 1971 [2]
South Africa	492	428	1,019	1,069	1,081	1,062	1,088	1,091	1,128	275
Canada	186	95	133	126	115	104	94	89	82	21
United States	170	32	51	59	63	55	54	61	63	14
Ghana	31	19	30	27	24	27	25	25	25	6
Japan	30	3	16	18	19	24	22	24	25	7
Australia	57	23	32	31	32	28	28	24	22	5
Philippines	39	—	15	15	16	17	19	20	21	6
Rhodesia [3]	29	20	20	19	18	18	18	18	18	4
Colombia	22	18	13	11	10	9	8	8	7	1
Mexico	31	17	7	8	8	6	5	8	7	2
Congo, Dem. Rep. of	20	12	8	2	6	5	6	6	6	2
Others [3]	157	69	60	55	54	51	53	51	46	12
Total [3]	1,264	736	1,406	1,440	1,446	1,406	1,420	1,425	1,450	355

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

reserves fell by $286 million, largely as a result of a sale of gold to the Bank for International Settlements.

Only relatively few countries recorded increases in gold holdings during 1970; Japan, Switzerland, the Netherlands, Portugal, and Turkey showed the largest increases. The Fund's gold holdings (including its general deposits of gold) increased by $2,029 million during the year.

Gold Production

As noted above, gold production in 1970, excluding the output of CMEA countries, mainland China, etc., amounted to the equivalent of $1,450 million; the previous production peak was reached in 1966 when the equivalent of $1,446 million of gold was mined (Table 39).

Gold production in South Africa increased to 32.2 million ounces (equivalent to $1,128 million) in 1970, an increase of 3.4 per cent over 1969. The rate of increase of output was the highest since 1965 and resulted mainly from the resumption of working of the country's largest gold mine, West Driefontein, following its extensive flooding in 1968. Production at the new Kloof mine, which began operations in 1969, also increased substantially. Further, the shortage of labor, which had hampered production in 1968 and 1969, was alleviated during 1970 with a consequent increase in output. The increase in gold output in 1970 resulted almost entirely from the extraction of higher-grade ores, as the tonnage milled in 1970 was slightly smaller than in 1969.

The rise in the grade milled in 1970, to an average of 13.28 grams per ton milled from 11.91 grams per ton milled in 1969, was partly a consequence of the lower private market price of gold, compared with 1968 and 1969, and the smaller premiums paid to the mines. According to reports of the Chamber of Mines of South Africa, these premiums amounted to the equivalent of $37.1 million in 1970, or less than half of the amounts paid in 1969. The milling of higher-grade ores in 1970 partly compensated for the lower premiums paid to the mines. Working costs rose by 6.2 per cent from $23.03 a fine ounce in 1969 to $24.46 a fine ounce in 1970. The amount of gold produced at a loss increased to 8.7 per cent of total production in 1970, compared with 5.4 per cent in 1969 and 3.5 per cent in 1968. The combined working profits of the mines during 1970 amounted to the equivalent of $418 million, a decline of about 8 per cent from the 1969 level of $455 million.

Two mines were closed during 1970, and a number of other mines are likely to close in the near future. The ten largest producers experienced an above-average increase in profits during 1970. The output of these ten producers accounted for 49 per cent of total production in 1970, a slight increase from the previous year. The higher rate

TABLE 40. GOLD: MARKETED STOCKS AND DISTRIBUTION BY USE, 1967–FIRST QUARTER 1971

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

	1967	1968	1969	1970	First Quarter 1971
Production	1,406	1,420	1,425	1,450	355
Net sales or net purchases (−) by CMEA countries, mainland China, etc.	−5	−32	−17	—	25
Total new supplies	1,401	1,388	1,408	1,450	380
Changes in countries' official stocks of gold [1]	−1,400	−570	195	−1,950	−310
IMF gold transactions [2,3]	30	−394	22	2,029	65
BIS and EF gold transactions [2]	−209	263	−109	191	209
Total added to official stocks of gold (rounded) [1]	−1,580	−700	110	275	−35
Residual: supplies absorbed by industry, arts, and private hoarding	2,981	2,088	1,298	1,175	415

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 $278 million at the end of 1967, $272 million at the end of 1968, $259 million at the end of 1969, $196 million at the end of 1970, and $188 million at the end of March 1971.

of extraction in West Driefontein, Kloof, and Elsburg was particularly noteworthy. The ten largest gold mines also accounted for 65 per cent of the total profits of the members of the Chamber of Mines in 1970, compared with 61.5 per cent in 1969. At the same time, the average of working costs for these ten producers was $15.68 a fine ounce, compared with the average for all members of the Chamber of $24.46 a fine ounce.

With regard to the future trend of output in South Africa, it is difficult to assess the effects of an acceleration in production costs and the problems of mining lower-grade ores against the effects of private market prices on output and exploration. However, new mines, such as East Driefontein and Vaal Reef South are due to come into full production over the next few years; this should tend at least to maintain output. Further, increased demand for uranium, which is a by-product of gold production in South Africa, and new technological developments will help sustain profitability and output over the next few years.

In the United States gold production in 1970 increased by 3 per cent over 1969 to 1.79 million ounces ($63 million). The increase was attributed principally to the increased production of copper, of which a substantial part of the gold produced in the United States is a by-product.

Gold output in Canada and Australia continued to decline in 1970. Production in Canada, the second largest producer, was 2.34 million ounces ($82 million) in 1970, compared with 2.55 million ounces ($89 million) in 1969. After recording a postwar peak of the equivalent of $160 million in 1958, Canadian gold production has steadily decreased. In Australia gold production dropped by 12 per cent to the equivalent of $22 million in 1970 from $24 million in 1969, despite the continued subsidization of output. In the past two years the subsidy has been $1.8 million a year. Gold production in 1970 in most other countries was almost the same as in previous years (Table 39).

Gold Holdings

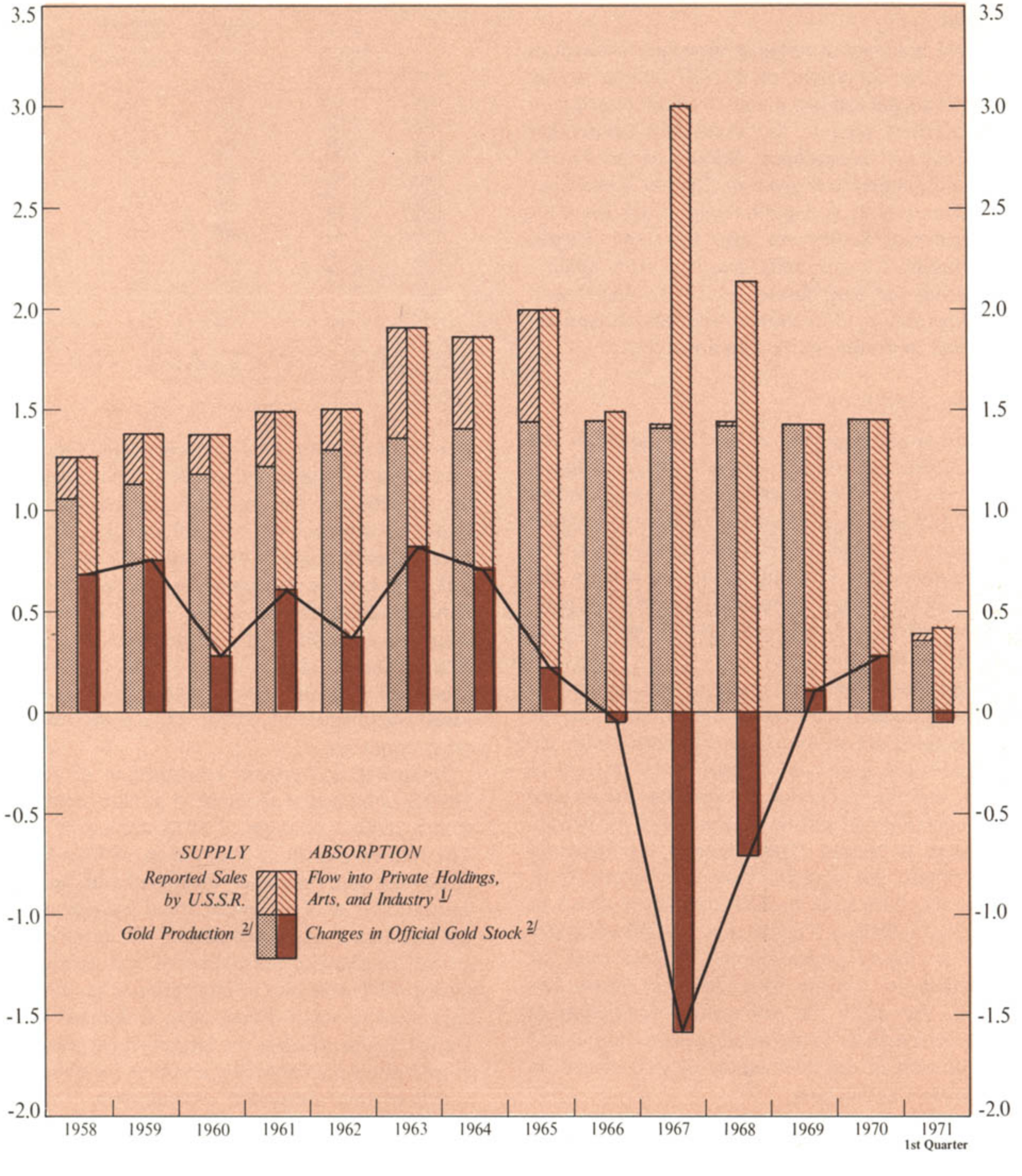
Official Holdings

The recorded gold holdings of national monetary authorities (excluding CMEA countries, mainland China, etc.) and international organizations increased by $275 million during 1970. This was the second successive year in which official gold holdings increased, and the increase contrasts with substantial falls in official gold holdings in 1966–68 (Table 40 and Chart 27).

The rise in official gold holdings largely reflected South Africa's transactions with the Fund, which, as noted earlier, purchased the equivalent of $640 million of gold from South Africa during 1970. The effects of these sales of gold to the Fund on

CHART 27. GOLD: ESTIMATED NEW SUPPLIES AND ABSORPTION, 1958–FIRST QUARTER 1971

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



[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.

the total of official gold holdings were, however, partly offset by the fall in South Africa's official holdings by an amount equivalent to almost $450 million.

Gold holdings of national monetary authorities fell by the equivalent of $1,950 million during 1970. This fall resulted mainly from increased gold subscriptions paid to the Fund and from other Fund-related transactions. Details of the Fund's gold transactions are given in Chapter 3 and Supplementary Note A. Gold holdings of the Bank for International Settlements also increased, largely as a result of a substantial purchase from Spain.

During the first quarter of 1971, official gold holdings fell by $35 million, due almost entirely to a fall in South Africa's gold reserves.

TABLE 41. GOLD: MARKETED STOCKS AND DISTRIBUTION BY USE, 1958–FIRST QUARTER 1971

(*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)
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	715	905
1966	1,371	−45	780	636
1967	1,401	−1,580	850	2,131
1968	1,388	−700	860	1,228
1969	1,408	110	915	383
1970	1,450	275	975	200
1971				
First Quarter	355	−35	290	100

[1] New production (excluding output of CMEA countries, mainland China, etc.) 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.

Private Absorption

Private net absorption of gold for industrial and artistic use and to meet hoarding demand during 1970 was, at 33.6 million ounces, the equivalent of $1,175 million at $35 a fine ounce, the smallest amount since 1964. In 1969 private net absorption was estimated at 37.6 million ounces, while in the two previous years of intense demand for gold, private net absorption of gold totaled 144.8 million ounces ($5,069 million).

Estimates have been made of the amount of gold absorbed for industrial and artistic use. As was pointed out in the *Annual Report, 1970,* the estimates are subject to a considerable margin of error, and the distinction between the use of gold for industrial and artistic purposes and for private hoarding is blurred. The estimates for industrial and artistic use of gold, shown in column C of Table 41, have been revised from those shown in last year's Annual Report. The revised estimates show a slightly larger amount of gold used for industrial and artistic uses than was shown formerly. For 1970 the estimated consumption of gold amounted to 67 per cent of world output and 83 per cent of the total supply of gold placed on the market in that year.

The revisions have been based on more detailed estimates for a larger number of countries submitted to the Fund. They cover 80 countries, of which 45 submitted information during 1970. When such information was not available to the Fund, the estimates were taken from the U. S. Bureau of the Mint series on private and industrial consumption of gold. Information is not available for all countries for the whole period; for those years for which data are lacking, the available data for each country were regressed on the statistics of real or money gross national product. Estimates have been made for almost all the large industrial countries, but little information is available for some of the larger primary producing countries. For the latter, estimates have been based on statistics of bullion exports recorded by other countries.

Industrial and artistic consumption of gold in 1970 is estimated at about $975 million, compared with a revised estimate of $915 million in 1969. The rate of growth of demand in 1970 is put at between 6 and 7 per cent, compared with an average annual rate of growth of about 9 per cent over the last decade. As noted earlier, the lower rate of growth of demand for industrial and artistic use during 1970 was due in large part to the decline, equivalent to about 20 per cent, in demand in the United States, which is the largest single consumer of gold and which normally accounts for about one fourth of total estimated consumption. The rate of growth of demand also fell in Switzerland and, to a lesser extent, the United Kingdom. However, demand for gold from the traditional hoarding countries of the Middle and Far East increased substantially. During the first quarter of 1971 the rate of growth of demand for gold for industrial and artistic use increased, particularly in North America where stocks were rebuilt.

The decline in gold consumption in some of the main industrial countries during 1970 can be attributed partly to the slowdown in their overall economic activity, particularly in the United States. In some countries the slowdown was associated with a decline in the aerospace and defense industries, which are substantial users of gold; further, the decrease in the rate of growth of real disposable income importantly affected the demand for gold jewelry in a number of countries. In a relatively large number of countries, especially in Western Europe, consumer demand for gold was satisfied by running down private stocks, which had been built up in previous years.

Other private holders of gold, particularly in Western Europe, tended to be net sellers during 1970, and it is likely that private stocks in the main industrial countries are now smaller than at any time since the gold crisis of late 1967 and early 1968. The speculative overhang of gold that was built up at that time, estimated at about the equivalent of $3 billion, would seem to have been largely worked off in meeting consumer demand and the demands of the traditional hoarding markets in the countries of the Middle and Far East.

While there was a slowdown in the rate of growth of demand for gold for industrial and artistic use during 1970, the decline in the total amount privately absorbed resulted from a continued fall in net hoarding demand, especially in the main industrial countries. In the estimates of private absorption shown in Table 41, private hoarding is a residual, calculated by deducting estimated industrial and artistic demand from the net supply of gold placed on the private markets. For 1970, hoarding demand is estimated at the equivalent of $200 million, compared with estimated new hoarding of $383 million in 1969. This was the smallest estimated volume of gold absorbed into private hoards since the mid-1950s. During the first quarter of 1971, however, estimated private hoarding demand increased relatively sharply.

Gold Movements

Official gold movements during 1970 were dominated by members' gold transactions with the Fund. In gross terms the Fund acquired the equivalent of $2,911 million of gold and disbursed to members the equivalent of $944 million. As has been noted elsewhere in this Report, the relatively large volume of gold transactions by the Fund resulted mainly from the payment of increased gold subscriptions and from purchases of gold from South Africa. Further, the Fund transferred the equivalent of $63 million from its general deposits to its bar gold holdings and reacquired the equivalent of $400 million of gold from the United States as a result of disinvestment of part of its investment in U. S. Government securities. The Fund used gold to replenish its holdings of currencies in a total amount equivalent to $920 million. At the end of 1970 the Fund's bar gold holdings amounted to the equivalent of $4,339 million, compared with bar gold holdings equivalent to $2,310 million a year earlier. In addition, the Fund held in its general deposits of gold the equivalent of $196 million, as well as the equivalent of $400 million of gold, which had been sold to the United States for investment in U. S. Government securities and which could be reacquired by the Fund.

Most countries experienced declines in their gold holdings during 1970 in an aggregate net amount equivalent to $1.9 billion; only ten countries showed increases in their holdings in amounts in excess of $1 million. The latter countries included Japan, Switzerland, the Netherlands, Portugal, and Turkey.

During the first quarter of 1971, the total of official gold holdings decreased by $35 million, while the Fund's bar gold holdings increased by $65 million. The official gold holdings of countries declined by $310 million during the first quarter, but increased during April 1971 as a result of the Fund's sale of the equivalent of $264 million in gold in replenishment of its currency holdings.

United States

The gold holdings of the United States declined by $787 million to $11,072 million during 1970 and by a further $565 million in the first six months of 1971. In 1969 the gold holdings of the United States increased by $968 million (Table 42).

TABLE 42. UNITED STATES: NET GOLD TRANSACTIONS, 1968–FIRST QUARTER 1971

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

	1968	1969	1970	First Quarter 1971
Purchases from				
Burma	—	—	20.7	21.0
France	600.0	325.0	—	—
Germany	—	500.0	—	—
Kuwait	—	—	24.9	—
Spain	—	—	50.8	—
Turkey	—	—	11.8	14.6
Other countries	61.9	134.7	11.9	—
International Monetary Fund	—	7.4	—	—
Bank for International Settlements	—	199.5	—	—
Domestic transactions	—	0.9	—	—
Total	661.9	1,167.5	120.1	35.6
Sales to [1]				
China	—	—	59.8	—
Italy	209.0	76.0	—	—
Netherlands	18.5	—	50.0	25.0
Switzerland	50.0	25.0	50.0	75.0
United Kingdom	834.6 [2]	—	—	—
Other countries	654.0	98.9	43.0	37.8
International Monetary Fund	17.0	—	704.0	6.9
Domestic transactions	52.3	—	—	—
Total	1,835.4	199.9	906.8	144.7
Net changes in stocks	−1,173.5	+967.6	−786.7	−109.1

Source: U.S. Treasury Department, *Foreign Gold Transactions*.

[1] Excluding sales of gold to Fund members for the purpose of enabling members to pay their increased gold subscriptions to the Fund and also excluding equivalent sales of gold by the Fund in replenishment, which mitigated the gold losses of the United States.

[2] This largely reflects the U.S. share in the then gold pool arrangements, for which the Bank of England acted as agent.

The decline in the U. S. gold stocks during 1970 was accounted for largely by transactions with the Fund. In total, the United States transferred the equivalent of $838 million to the Fund's bar gold holdings (including its increased gold subscription), while the Fund sold to the United States the equivalent of $134 million in replenishment of its holdings of U. S. dollars (excluding mitigation operations described below). U. S. transactions with the Fund thus accounted for the equivalent of a net amount of $704 million of the fall in U. S. gold reserves during 1970. However, the transfers from the general deposits of gold and the disinvestment and reacquisition of $400 million of gold correspondingly reduced the total U. S. gold liabilities to the Fund.

The United States also sold $548 million of gold to 72 countries in order to enable these countries to pay their increased gold subscriptions to the Fund. However, in mitigation of these gold sales by the United States, the Fund simultaneously sold an equivalent amount of gold to the United States in replenishment, so that there was no net change in U. S. gold stocks on this account.

Excluding these sales of gold to members for purposes of paying increased gold subscriptions to the Fund, U. S. gold transactions with national monetary authorities were substantially smaller in 1970 than those in the previous year. The United States purchased $120 million of gold from abroad, compared with purchases totaling the equivalent of $1,167 million in 1969. Of the $120 million, $51 million was bought from Spain, $25 million from Kuwait, $21 million from Burma, and $12 million from Turkey.

Sales of gold to national monetary authorities amounted to $203 million in 1970, which was slightly larger than sales of $200 million in 1969. The main recipients were China, which bought $60 million of gold to pay its original gold subscription to the Fund, the Netherlands ($50 million), and Switzerland ($50 million).

The amount of gold held under earmark by the Federal Reserve Banks for accounts of foreign governments, central banks, and international organizations increased in 1970 by $615 million, to $12,926 million.

United Kingdom

During 1970 the United Kingdom imported some 30.5 million ounces of gold bullion, equivalent to $1,066 million, compared with bullion imports amounting to 13.6 million ounces ($478 million) in 1969. More than 90 per cent of the imports in 1970, the equivalent of $967 million, came from South Africa, and these imports amounted to about 86 per cent of South Africa's total production. This was in contrast to 1969, when South Africa sold the bulk of its newly mined gold on the Zurich market and exported only $191 million to the United Kingdom. As in 1969, no imports of gold from the Soviet Union were reported by the United Kingdom in 1970.

Exports of gold from the United Kingdom in 1970 amounted to 18.5 million ounces, equivalent to $646 million, compared with total exports of 11.2 million ounces ($393 million) in 1969. The equivalent of $146 million was exported to Bahrain, Kuwait, Qatar, and the Trucial States; this reflected, in particular, the prosperous trade between Dubai and the gold markets of the Far East. The equivalent of $227 million was shipped to Europe, of which $102 million was exported to France and $76 million to Switzerland. Japan imported the equivalent of $80 million of gold to satisfy its domestic industrial and artistic demand for the metal. Singapore, the fifth largest importer of gold from the United Kingdom, imported the equivalent of $73 million in 1970 to facilitate a further expansion of operations on the free gold market in Singapore; in 1969 imports amounted to $7 million.

South Africa

South Africa sold the equivalent of $1,603 million of gold during 1970. Of this total, gold production accounted for the equivalent of $1,128 million, official gold holdings fell by $449 million, and stocks held by the gold mining industry fell by about $26 million. The distribution of sales was $914 million on private gold markets, $48.5 million to national monetary authorities, and $640 million to the Fund.

Gold Prices and Gold Markets

During most of 1970 and up to the end of April 1971, gold market activity was concerned mainly with meeting traditional consumer and hoarding demand; speculative activity was relatively light except for a few weeks in April and early May and in late September and in October 1970. In contrast to most of 1969 when they were generally falling, gold prices were relatively stable during the first eight months of 1970 and then rose through the early part of May 1971. In general, the increase in gold prices during the latter part of 1970 and the first four months of 1971 reflected the revival in the demand from the market, following the substantial rundown in stocks that was characteristic of the first eight months of 1970.

Conditions changed quite markedly as a result of uncertainties in the foreign exchange markets in April and early May 1971; the gold markets became unsettled, speculative activity increased, and prices rose to their highest levels since August 1969. As shown in Chart 28 the fixing price of gold in the London market fluctuated between a low point of $34.75 a fine ounce, fixed on January 16 and 19, 1970, and a high of $41.20 a fine ounce, fixed on May 14 and 18, 1971. The average fixing price in London for 1970, at $35.96, was $5.15 an ounce lower than the average for 1969. During the first six months of 1971, the average fixing price was $39.19.

London and Zurich Markets

With the exception of a small and partly seasonal rise between the end of March and mid-May 1970, the price of gold in London and Zurich was relatively stable, at close to $35 a fine ounce, until the last week of August 1970. On January 16 and 19, 1970 the price in London fell to $34.75 an ounce, the lowest price since the London market was reopened in March 1954. Prices remained stable within 1 per cent of the official price of $35 an ounce until mid-August 1970.

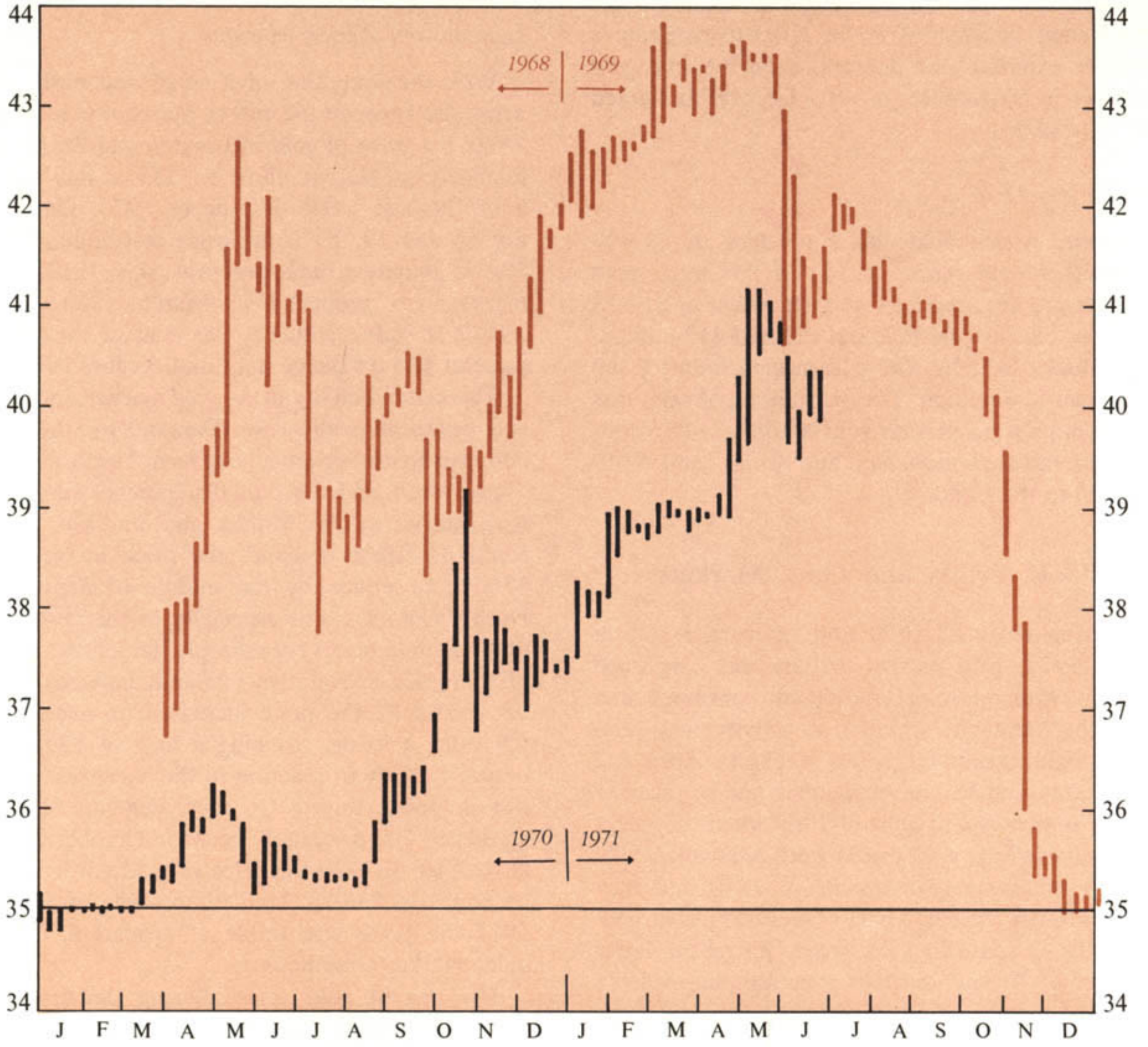
Thereafter, activity in the gold markets increased and prices generally rose. Demand for industrial and artistic use—particularly from North America—recovered, and substantial shipments were made to countries in the Middle and Far East. As a result of higher demand, the price increased to $36.35 an ounce by the middle of September. During October, and especially in the latter part of the month, prices rose sharply, largely as a result of increased speculative demand; between October 5 and 27 the price increased on average by 6.9 cents a fixing, reaching a high of $39.19 an ounce. Largely in reaction to the sharpness of the rise in prices during October, demand for gold slackened and prices fell; between October 27 and November 5, 1970 the price of gold fell by $2.30 an ounce to $36.75. Until the middle of January 1971 the price was stable at around $37.50 in quiet market conditions.

The rise in gold prices during the first four months of 1971 reflected moderately heavy demand for gold while supplies were limited largely to the sale of current new production. The uncertainty that characterized the foreign exchange markets during late April and early May 1971 led to heavy buying of gold, particularly in Western Europe, and prices rose by about $1.50 to $41.20 an ounce, the highest level in almost two years. Subsequently, prices fell slightly and at mid-July were fixed at just over $40 an ounce.

Paris Market

Since the reintroduction of exchange control in November 1968, private imports and exports of gold have been prohibited in France. However,

CHART 28. GOLD: PRICES IN LONDON, APRIL 1968–JUNE 1971
(*Weekly high and low quotations: U. S. dollars a fine ounce*)



the price of gold in the Paris market has generally moved in a similar fashion to the price in the London and Zurich markets. On occasion, for example in April 1970 and again in September–October 1970, the price for the 12.5-kilo standard gold bar has fallen below the price in London and Zurich. The price in Paris has, however, been generally above the comparable price in London and Zurich by 2 per cent on average, but the size of the premium in the latter part of 1970 and in early 1971 was considerably smaller than formerly.

Conditions in the Paris gold market were calmer in 1970 than in the previous year, following the comparative strength of the French franc on the foreign exchange markets and the improvement in the French balance of payments position. Up to the end of July 1970, fluctuations in the price of gold were influenced by the varying size of the discount on French banknotes quoted abroad. In early August 1970 the Bank of France announced that henceforward it would purchase French banknotes from foreign commercial banks, thereby diminishing the discount. As a result of this measure, the price of the 12.5-kilo bar fell sharply, and prices have been closely aligned with those in the other markets.

The price of the 1-kilo ingot has been quoted close to the price of the standard bar. Prices fluctuated between a low of $35.26 an ounce on March 12, 1970 and a high of $38.77 on October 27, 1970. During the previous year, prices had fluctuated within a range of $12.76 an ounce. Calmer trading conditions were also reflected in lower average turnover; during 1970 average daily turnover amounted to about 270 ingots, compared with 530 ingots in the second half of 1969.

Activity in gold coins was also relatively light during 1970. For example, the average daily turnover of the napoleon (F 20 piece) was about 4,950 in 1970, some three fourths of average daily turnover in 1969. The price of the napoleon during 1970 fluctuated between the equivalents of $51.10 an ounce and $63.10. During the first half of 1971, the average daily turnover increased to 5,200, and prices rose by about $5.19 an ounce from the end of 1970.

Other Markets

The New York gold market was relatively inactive until the third week of August 1970, conditions largely reflecting the sluggishness of domestic economic activity. The price of gold in New York has moved closely with the prices in London and Zurich, though at a premium of between 40 and 50 cents an ounce.

Gold bar prices in Beirut also moved closely with those in London and Zurich. The premium in Beirut, which reflected largely costs of transportation and insurance from London and Zurich, was generally between 10 and 30 cents on the London price. On occasion, however, the Beirut price fell below the London price.

In April 1969 a gold market in which nonsterling area residents could freely buy and sell gold was established in Singapore. By early 1971 this market had developed into the largest international gold market in the Far East. The import of gold into Singapore is subject to a levy of $0.98 an ounce, which is smaller than levies in other gold markets in the area, an important factor in the rapid growth of the market. Total imports of gold are estimated at about $150 million (valued at $35 an ounce) in 1970, compared with about $35 million in 1969. Imports from London account for about half of the total. Exports of gold from Singapore are largely directed to neighboring countries, especially Indonesia.

The price of gold in Singapore follows the trend of prices in London, with a local premium of usually less than 5 per cent. During 1970 prices fluctuated between $37.02 an ounce and $40.56. At the end of June 1971 the price was quoted at $41.45. The quoted price of gold in Singapore is slightly higher than gold prices in Hong Kong, but the difference narrowed considerably during 1970 and early 1971.

Rigid restrictions on both the import and export of gold have insulated the gold markets in India from other international gold markets, and the price in India has been subject to special local influences. The price of primary gold in Bombay, the country's biggest market, increased sharply after October 1970, reflecting a seasonally heavy demand and relative scarcity of supply. The rise in the price continued virtually throughout the latter part of 1970 and the first half of 1971, until the all-time high of the equivalent of $82.11 a fine ounce was reached on May 24, 1971, or over twice the price in the London market. At the end of June 1971 gold was quoted at the equivalent of $76.10 a fine ounce, a premium of $36.00 over London.

Gold Subsidy Programs

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

Australia consulted the Fund with regard to the extension for a period of three years of the Australian gold subsidy scheme under the Gold Mining Industry Assistance Act. Canada also consulted the Fund with respect to the extension of the application of its Emergency Gold Mining Assistance Act for a further period of two and a half years to June 30, 1973. The Fund has deemed these extensions to be not inconsistent with the objectives of the Fund statement on gold subsidies dated December 11, 1947.

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[4] See *Annual Report, 1969,* pages 135–36.

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SUPPLEMENTARY NOTES

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A. The Fund in 1970/71

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, 1971, the end of the Fund's fiscal year.

Membership in the Fund and Participation in the Special Drawing Account

Membership in the Fund rose from 115 to 117, and participation in the Special Drawing Account increased from 105 to 110 by the end of 1970/71. The 2 new members, which also became participants in the Special Drawing Account, were the Yemen Arab Republic, which joined the Fund on May 22, 1970 with a quota of $8 million, and Barbados, which joined on December 29, 1970 with a quota of $13 million. In 1970, 3 other members—Iraq, Nepal, and Thailand—that had not previously been participants in the Special Drawing Account, deposited their instruments of participation with the Fund in accordance with Article XXIII, Section 1, of the Articles of Agreement. Having become participants after the start of a basic period, these 5 countries requested that they be included in the next allocation of special drawing rights, and the Fund decided, pursuant to Article XXIV, Section 2(*d*), of the Articles, that they would start to receive special drawing rights beginning with the allocation on January 1, 1971. The 7 members of the Fund that have not deposited instruments of participation in the Special Drawing Account are Ethiopia, Kuwait, Lebanon, the Libyan Arab Republic, Portugal, Saudi Arabia, and Singapore.

The Board of Governors approved on April 1, 1971 terms and conditions for the admission of Fiji to membership.[1] An application for membership by Western Samoa was under consideration at the close of the fiscal year.

[1] Fiji joined the Fund, with a quota of $13 million, and became a participant in the Special Drawing Account on May 28, 1971.

The aggregate of quotas of Fund members on April 30, 1971, including quotas of the new members and reflecting the increases in quotas under Board of Governors Resolution No. 25-3 on "Increases in Quotas of Members—Fifth General Review," as amended, and other increases shown in Table 44, was $28,478 million, compared with $21,349 million a year earlier. The aggregate of quotas of participants in the Special Drawing Account at the close of 1970/71 was $28,114 million.

Executive Directors

A list of the Executive Directors and Alternate Executive Directors and their voting power on April 30, 1971 is given in Appendix II. Changes in the membership of the Executive Board during 1970/71 are shown in Appendix III.

Article VIII

Ecuador became the thirty-fifth member to accept the obligations of Article VIII, Sections 2, 3, and 4, of the Fund Agreement, effective August 31, 1970. The members that have rendered their currencies convertible under the Articles of Agreement are listed in Table 43.

Par Values

During the year ended April 30, 1971, the Fund concurred in proposals of three members for changes in the par values of their currencies and in the proposal of one member for the establishment of a par value for its new monetary unit. In addition, two members established initial par values for their currencies in agreement with the Fund.

On the proposal of the Government of Turkey, in which the Fund concurred, the par value of the Turkish lira was changed from LT 9 = US$1 to LT 15 = US$1, effective August 9, 1970; this

TABLE 43. COUNTRIES THAT HAVE ACCEPTED ARTICLE VIII, APRIL 30, 1971

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
Ecuador	August 31, 1970
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

represented a devaluation of the lira by 40 per cent. The Government of Ecuador received Fund concurrence in its proposal for a change in the par value of the sucre from S/ 18 = US$1 to S/ 25 = US$1, effective August 17, 1970—a devaluation by 28 per cent. The Fund also concurred in the proposal of the Government of Yugoslavia for a change in the par value of the Yugoslav dinar from Din 12.5 = US$1 to Din 15 = US$1, effective January 23, 1971—a devaluation by 16.7 per cent.

Initial par values were established by agreement between the Fund and the Government of the Democratic Republic of Congo for the zaïre at Z 0.50 = US$1, effective September 2, 1970, and by agreement between the Fund and the Government of the Republic of China for the new Taiwan dollar at NT$40 = US$1, effective September 4, 1970. Both par values were established at the existing rates of exchange.

The Government of Malawi introduced a new decimal unit, the kwacha, to replace the Malawi pound, effective February 15, 1971. A par value for the Malawi kwacha of MK 0.833333 = US$1 was established with the concurrence of the Fund, effective the same date. The change in the monetary unit of Malawi did not involve any appreciation or depreciation of its currency.

The Governments of Ireland and the United Kingdom notified the Fund of the adoption of a decimal system for the Irish pound and the pound sterling, respectively, effective February 15, 1971. These actions did not involve any change in par values.

Quotas

Increases in quotas became effective during 1970/71 for 107 members under Board of Governors Resolution No. 25-3, as amended, on "Increases in Quotas of Members—Fifth General Review,"[2] and for 3 members as a result of payment of the fifth and final installments of their quota increases under Board of Governors Resolution No. 20-6, "Increases in Quotas of Members—Fourth Quinquennial Review,"[3] completing the increases authorized under the previous general increase. Table 44 shows the details of these increases and the quotas in effect on April 30, 1971 for the members listed. With the two exceptions noted in the table, all consents for quota increases under the Fifth General Review were for the maximum amounts listed in the Annex to the Resolution. Further details on the quota increases are given in Chapter 3.

General Account

Purchases

Table 45 provides data on members' purchases of currencies from the Fund during 1970/71 by amount and type of purchase. It shows total purchases of $1,167 million, a reduction of $1,828 million, or 61 per cent, from the amount of $2,996 million purchased in 1969/70.[4]

[2] *Annual Report, 1970,* pages 177–84.
[3] *Annual Report, 1965,* pages 124–32.
[4] Data on transactions are expressed in terms of U. S. dollars, regardless of the currencies in which they took place.

TABLE 44. INCREASES IN QUOTAS UNDER BOARD OF GOVERNORS RESOLUTION NO. 25–3, AS AMENDED, FISCAL YEAR ENDED APRIL 30, 1971

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

Member	Quota on May 1, 1970	New Quota	Effective Date of Change	Member	Quota on May 1, 1970	New Quota	Effective Date of Change
Afghanistan	29.00	37.00	Dec. 24, 1970	Laos	10.00	13.00	Nov. 27, 1970
Algeria	75.00	130.00	Dec. 21, 1970	Lesotho	3.00	5.00	Nov. 10, 1970
Argentina	350.00	440.00	Dec. 29, 1970	Liberia	20.00	29.00	Dec. 18, 1970
Australia	500.00	665.00	Dec. 4, 1970	Libyan Arab Republic	19.00	24.00 [7]	Nov. 27, 1970
Belgium	422.00	650.00	Dec. 29, 1970	Malagasy Republic	19.00	26.00	Dec. 3, 1970
Bolivia	29.00	37.00	Nov. 27, 1970	Malawi	11.25	15.00	Nov. 24, 1970
Botswana	3.00	5.00	Dec. 16, 1970	Malaysia	125.00	186.00	Dec. 18, 1970
Brazil	350.00	440.00	Nov. 27, 1970	Mali	17.00	22.00	Dec. 28, 1970
Burma	48.00	60.00	Nov. 20, 1970	Malta	10.00	16.00	Nov. 27, 1970
Burundi	15.00	19.00	Nov. 27, 1970	Mauritania	10.00	13.00	Nov. 27, 1970
Cameroon	18.20 [1]	35.00	Dec. 23, 1970	Mauritius	16.00	22.00	Dec. 27, 1970
Canada	740.00	1,100.00	Dec. 29, 1970	Mexico	270.00	370.00	Dec. 23, 1970
Central African Republic	9.50 [2]	13.00	Dec. 30, 1970	Morocco	90.00	113.00	Dec. 30, 1970
Ceylon	78.00	98.00	Dec. 10, 1970	Nepal	10.00	10.80 [8]	Apr. 27, 1971
Chad	10.00	13.00 [3]	Nov. 27, 1970	Netherlands	520.00	700.00	Dec. 28, 1970
Chile	125.00	158.00	Dec. 31, 1970	New Zealand	157.00	202.00	Dec. 15, 1970
Colombia	125.00	157.00	Nov. 27, 1970	Nicaragua	19.00	27.00	Nov. 13, 1970
Congo, Democratic Rep. of	90.00	113.00	Nov. 12, 1970	Niger	10.00	13.00	Nov. 27, 1970
Congo, People's Rep. of the	10.00	13.00	Dec. 30, 1970	Nigeria	100.00	135.00	Dec. 8, 1970
Costa Rica	25.00	32.00 [3]	Nov. 30, 1970	Norway	150.00	240.00	Nov. 27, 1970
Cyprus	20.00	26.00	Dec. 4, 1970	Pakistan	188.00	235.00	Nov. 27, 1970
Dahomey	10.00	13.00	Dec. 18, 1970	Panama	28.00	36.00	Dec. 22, 1970
Denmark	163.00	260.00	Oct. 30, 1970	Paraguay	15.00	19.00	Dec. 23, 1970
Dominican Republic	32.00	43.00	Oct. 30, 1970	Peru	85.00	123.00	Nov. 27, 1970
Ecuador	25.00	33.00	Nov. 4, 1970	Philippines	110.00	155.00	Dec. 10, 1970
El Salvador	25.00	35.00	Dec. 1, 1970	Rwanda	15.00	19.00	Oct. 30, 1970
Equatorial Guinea	6.00	8.00	Dec. 23, 1970	Saudi Arabia	90.00	134.00	Apr. 15, 1971
Ethiopia	19.00	27.00	Oct. 30, 1970	Senegal	25.00	34.00	Dec. 17, 1970
Finland	125.00	190.00	Dec. 1, 1970	Sierra Leone	15.00	25.00	Dec. 4, 1970
France	985.00	1,500.00	Dec. 14, 1970	Somalia	15.00	19.00	Nov. 30, 1970
Gabon	9.50 [4]	15.00	Dec. 30, 1970	Spain	250.00	395.00	Dec. 24, 1970
Gambia, The	5.00	7.00	Dec. 28, 1970	Sudan	57.00	72.00	Dec. 16, 1970
Germany	1,200.00	1,600.00	Dec. 24, 1970	Swaziland	6.00	8.00	Dec. 7, 1970
Ghana	69.00	87.00	Dec. 23, 1970	Sweden	225.00	325.00	Dec. 15, 1970
Greece	100.00	138.00	Nov. 10, 1970	Syrian Arab Republic	38.00	50.00	Nov. 30, 1970
Guatemala	25.00	36.00	Oct. 30, 1970	Tanzania	32.00	42.00	Dec. 18, 1970
Guinea	19.00	24.00	Dec. 28, 1970	Thailand	95.00	134.00	Dec. 29, 1970
Guyana	15.00	20.00	Nov. 28, 1970	Togo	11.25	15.00	Dec. 26, 1970
Haiti	15.00	19.00	Dec. 3, 1970	Trinidad and Tobago	44.00	63.00	Nov. 4, 1970
Honduras	19.00	25.00	Nov. 27, 1970	Turkey	108.00	151.00	Dec. 23, 1970
Iceland	15.00	23.00	Nov. 4, 1970	Uganda	32.00	40.00	Dec. 29, 1970
India	750.00	940.00	Dec. 24, 1970	United Arab Republic	150.00	188.00	Dec. 29, 1970
Indonesia	207.00	260.00	Nov. 23, 1970	United Kingdom	2,440.00	2,800.00	Nov. 18, 1970
Iran	125.00	192.00	Nov. 12, 1970	United States	5,160.00	6,700.00	Dec. 31, 1970
Iraq	80.00	109.00	Nov. 23, 1970	Upper Volta	10.00	13.00	Dec. 16, 1970
Ireland	80.00	121.00	Nov. 30, 1970	Uruguay	55.00	69.00	Nov. 4, 1970
Israel	90.00	130.00	Nov. 6, 1970	Venezuela	250.00	330.00	Nov. 24, 1970
Italy	625.00	1,000.00	Dec. 21, 1970	Viet-Nam	39.00	62.00 [9]	Dec. 8, 1970
Ivory Coast	19.00	52.00	Nov. 27, 1970	Yemen Arab Republic	8.00 [10]	10.00 [11]	Dec. 24, 1970
Jamaica	38.00	53.00	Dec. 21, 1970	Yemen, People's Dem. Rep. of	22.00	29.00	Dec. 27, 1970
Japan	725.00	1,200.00	Oct. 30, 1970				
Jordan	16.00	23.00	Nov. 19, 1970	Yugoslavia	150.00	207.00	Dec. 16, 1970
Kenya	32.00	48.00	Dec. 4, 1970	Zambia	50.00	76.00	Dec. 23, 1970
Khmer Republic	19.00	25.00 [5]	Dec. 29, 1970				
Kuwait	50.00	65.00 [6]	Dec. 22, 1970				

[1] Increased to $19.00 million, effective May 4, 1970, by payment of the fifth and final installment under the Fourth Quinquennial Review.
[2] Increased to $10.00 million, effective May 25, 1970, by payment of the fifth and final installment under the Fourth Quinquennial Review.
[3] Initially consented to an increase by installments but paid all five installments at the same time.
[4] Increased to $10.00 million, effective May 19, 1970, by payment of the fifth and final installment under the Fourth Quinquennial Review.
[5] Increase under Board of Governors Resolution No. 25-3, as amended by Resolution No. 25-4, effective June 15, 1970.
[6] Kuwait consented to a quota of less than the maximum amount listed in the Annex to Resolution No. 25-3, which was $114.00 million.
[7] The Libyan Arab Republic consented to a quota of less than the maximum amount listed in the Annex to Resolution No. 25-3, which was $67.00 million.
[8] Nepal has consented to an increase in its quota to $14.00 million, to be paid in five installments. The increase to $10.80 million reflects payment of the first installment.
[9] Initially consented to an increase in five installments. The first installment was paid, and Viet-Nam's increase in quota to $43.60 million became effective on December 1, 1970. The four remaining installments were paid on December 8, 1970, at which time the full increase in quota to $62.00 million became effective.
[10] Quota on May 22, 1970 when the Yemen Arab Republic joined the Fund.
[11] Increase under Board of Governors Resolution No. 25-3, as amended by Resolution No. 26-1, effective December 8, 1970.

Purchases by industrial countries (3 members) amounted to $558 million, compared with $2,617 million (by 5 such members) in the previous year. However, purchases by primary producing countries were larger in 1970/71, amounting to $609 million, or 52 per cent of the total; this represented an increase of $231 million or 61 per cent from the corresponding amount in 1969/70. During the past year, 37 primary producing countries also used special drawing rights totaling SDR 288 million to obtain foreign exchange.

TABLE 45. PURCHASES OF CURRENCIES FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1971

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

Member Purchasing	Under Stand-By Arrangements	Within Gold Tranche	Under Decision on Compensatory Financing	Other Purchases	Total
Afghanistan	2.00	—	—	—	2.00
Burundi	1.50	—	2.50	—	4.00
Central African Republic	—	1.32 [1]	—	—	1.32
Ceylon	11.50	—	—	—	11.50
Colombia	23.00	—	—	—	23.00
Costa Rica	—	1.75	—	—	1.75
Denmark	—	25.00	—	—	25.00
Dominican Republic	—	—	—	7.50	7.50
Ecuador	10.00	—	—	—	10.00
El Salvador	9.00	—	—	—	9.00
Ghana	2.00	—	—	—	2.00
Guinea	—	—	—	4.20	4.20
Honduras	—	6.25	—	—	6.25
Indonesia	38.00	—	—	—	38.00
Iran	—	16.76	—	—	16.76
Iraq	—	27.26	—	—	27.26
Ireland	—	20.04	—	—	20.04
Israel	—	—	—	20.00	20.00
Italy	—	133.00	—	—	133.00
Jamaica	—	3.75	—	—	3.75
Laos	—	0.45 [1]	—	—	0.45
Lesotho	—	0.60	—	—	0.60
Liberia	1.00	—	—	—	1.00
Malawi	—	0.95	—	—	0.95
Mali	0.75	—	—	—	0.75
Mauritania	—	1.00 [1]	—	—	1.00
Morocco	10.00	—	—	—	10.00
Nicaragua	13.00	—	—	—	13.00
Nigeria	—	8 75	—	—	8.75
Panama	—	1.01	—	—	1.01
Peru	34.00	—	—	—	34.00
Philippines	29.50	—	—	—	29.50
South Africa	—	125.00	—	—	125.00
Swaziland	—	1.15	—	—	1.15
Syrian Arab Republic	—	3.00	—	—	3.00
Trinidad and Tobago	—	4.75	—	—	4.75
Tunisia	7.50	—	—	—	7.50
Turkey	75.00	—	—	—	75.00
United Arab Republic	—	—	—	17.50	17.50
United States	—	400.00	—	—	400.00
Upper Volta	—	0.75 [1]	—	—	0.75
Uruguay	27.50	12.87	—	—	40.37
Yemen Arab Republic	—	0.50 [1]	—	—	0.50
Yugoslavia	10.00	14.55	—	—	24.55
Total	305.25	810.46	2.50	49.20	1,167.41

[1] Transaction prior to the establishment of an initial par value in accordance with Executive Board Decision No. 1687-(64/22), adopted April 22, 1964. (See *Selected Decisions of the Executive Directors and Selected Documents* (Fourth Issue, Washington, 1970), page 55.)

Of the total amount purchased in 1970/71, $810 million consisted of gold tranche purchases.[5] Twenty-four members, including the 3 industrial countries, made purchases within their gold tranches. The larger part of these, $678 million or 84 per cent, fell within members' super

[5] The Articles of Agreement define a gold tranche purchase 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."

TABLE 46. CURRENCIES OBTAINED FROM THE FUND BY MEMBERS IN PURCHASES FOR THEIR OWN CURRENCIES AND FOR GOLD; CURRENCIES, GOLD, AND SPECIAL DRAWING RIGHTS USED BY MEMBERS IN REPURCHASES, FISCAL YEAR ENDED APRIL 30, 1971

(In millions of U.S. dollars)

	Currencies Obtained				Repurchases			
	Purchases		Acquisition by sales of gold			Other countries (not under Article V, Section 7(*b*))	Under Article V, Section 7(*b*)	
Medium	United States	Other countries		Total	United Kingdom			Total
SDRs	—	—	—	—	160.0	195.4	1.7[1]	357.1
Gold	—	—	—	—	—	—[2]	15.4	15.4
Argentine pesos	—	—	—	—	15.0	—	0.1	15.1
Australian dollars	—	5.0	—	5.0	30.0	15.6	—	45.6
Austrian schillings	—	7.0	10.0	17.0	25.0	—	—[2]	25.0
Belgian francs	215.0	18.0	10.0	243.0	50.0	15.4	—[2]	65.4
Brazilian cruzeiros	—	7.4	—	7.4	—	—	—	—
Canadian dollars	—	42.3	5.0	47.3	75.0	19.3	0.1	94.4
Deutsche mark	—	400.6	142.0	542.6	—	2.0	8.2	10.2
Finnish markkaa	—	10.4	—	10.4	—	—	—	—
Italian lire	—	30.5	27.5	58.0	—	12.3	0.4	12.7
Japanese yen	—	39.2	—	39.2	144.8	106.0	0.3	251.0
Kuwaiti dinars	—	—	5.0	5.0	—	—	—	—
Mexican pesos	—	14.0	—	14.0	10.0	8.8	1.5[1]	20.3
Netherlands guilders	185.0	15.0	—	200.0	110.0	58.5	3.1[1]	171.6
Norwegian kroner	—	5.0	5.0	10.0	15.0	2.7	—[2]	17.7
Pounds sterling	—	41.3	40.0	81.3	—	—	—	—
Spanish pesetas	—	5.0	5.0	10.0	—	—	—	—
Swedish kronor	—	—	—	—	30.0	—	—[2]	30.0
U.S. dollars	—	126.8	140.1	266.8	20.0	51.8	453.5[1]	525.3
Total	400.0	767.4	389.6	1,557.0	684.8	487.8	484.3[1]	1,656.9

[1] Total includes $13 million repurchased in respect of commitments that had the effect of discharging Article V, Section 7(*b*), obligations incurred as of April 30, 1970 but due in subsequent years as follows: $1.4 million in SDRs (subject to substitution of currency during the fiscal year 1971/72), $1.4 million in Mexican pesos, $3.0 million in Netherlands guilders, and $7.2 million in U.S. dollars.
[2] Less than $50,000.

gold tranches;[6] such purchases are not subject to any obligation to repurchase. The largest amount, equivalent to $400 million, was purchased by the United States in two transactions. Italy, South Africa, and Ireland made purchases of $133 million, $125 million, and $20 million, respectively, within their super gold tranches.

Eighteen countries purchased a total of $305 million under their stand-by arrangements. The corresponding purchases in the previous year amounted to $2,261 million, which included purchases by France and the United Kingdom equivalent to $1,985 million.

Nine members—the Central African Republic, Jamaica, Laos, Lesotho, Malawi, Mauritania, Swaziland, Upper Volta, and the Yemen Arab Republic—purchased for the first time in 1970/71. This brought to 79 the number of members that have acquired currencies from the Fund since the inception of operations in 1947.

Table 46 indicates the currencies obtained by members in purchases, together with members' sales of gold to the Fund for currency.

[6] A super gold tranche position is that part of a gold tranche position that 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.

Stand-By Arrangements

The Fund approved one-year stand-by arrangements that became effective during the past fiscal year for 18 countries in amounts totaling $502 million.[7] This was a significant decline from $2,381 million approved in 1969/70. A summary of stand-by arrangements that became effective during each fiscal year since 1952, when such arrangements were instituted, is shown in Table 47. By April 30, 1971, 306 arrangements had been approved for 58 members.

All stand-by arrangements approved during the year were for primary producing countries. Those for 15 countries—Brazil, Burundi, Ceylon, Colombia, Ecuador, El Salvador, Guatemala, Indonesia, Korea, Liberia, Morocco, Nicaragua, Panama, the Philippines, and Turkey—continued to provide financial assistance available from the Fund in the form of stand-by arrangements in the preceding year. Stand-by arrangements were also approved for 3 members that did not have such arrangements in the previous year, namely, Haiti, Uruguay, and Yugoslavia.

[7] In addition, on April 30, 1971 the Fund approved a one-year stand-by arrangement for Guyana in the amount of $4 million, effective May 3, 1971.

Table 47. Summary of Stand-By Arrangements That Became Effective During the Fiscal Years Ended April 30, 1953–71 [1]

(In millions of U.S. dollars)

	Number	Amount
1953	2	55.00
1954	2	62.50
1955	2	40.00
1956	2	47.50
1957	9	1,162.28
1958	11	1,043.78
1959	15	1,056.63
1960	14	363.88
1961	15	459.88
1962	24	1,633.13
1963	19	1,531.10
1964	19	2,159.85
1965	24	2,159.05
1966	24	575.35
1967	25	591.15
1968	32	2,352.36
1969	26	541.15
1970	23	2,381.28
1971	18	501.70
Total	306	18,717.57

[1] Includes renewals and extensions for one year or less, except the renewals each six months of the stand-by for Belgium granted in June 1952 until that member purchased the full amount of $50 million in April 1957.

A total of $305 million was purchased by 18 members under arrangements in effect during the fiscal year, of which $131 million was under arrangements approved in 1969/70 and $174 million under those approved in 1970/71. Data on these arrangements and their use are shown in Table 48.

Compensatory Financing of Export Fluctuations

In view of the continuing growth in exports from primary producing countries in 1969 and 1970, there was again little use of the compensatory financing facility during the fiscal year 1970/71. Only one member, Burundi, made use of it for an amount of $2.5 million.

Repurchases of drawings under the compensatory financing facility were made by ten members during the year in the amount of $42 million, reducing the amount outstanding on April 30, 1971 to $111 million, from $151 million at the end of the previous year (Table 49). Four members—El Salvador, Haiti, Iceland, and Uruguay—repurchased a total of $15 million, following recommendations made 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. Repurchases also included those by four members under repurchase schedules.

Further, Burma, Haiti, the Syrian Arab Republic, and Uruguay proposed the scheduling of repurchases falling due three years from the dates of purchases under this decision. These proposals were approved by the Executive Directors.

Repurchases

During the fiscal year 1970/71, repurchases amounting to $1,657 million were made by 48 members (Tables 46 and 50). This total was only marginally below that of the previous year. The repurchase of $685 million by the United Kingdom in March 1971 accounted for 41 per cent of the total.

Repurchases equivalent to $139 million, or 8 per cent of the total, were made by 14 members in respect of purchases under *stand-by arrangements* (excluding those repurchases under schedules approved by the Fund). Of this amount, the equivalent of $20 million was repurchased before the expiration of one year, the equivalent of $14 million before the expiration of two years, and the remainder, $105 million, before or at the expiration of three years from the date of purchase.

The sum of $983 million, or 59 per cent, was repurchased by 16 members in accordance with *schedules approved by the Fund,* which provided for repurchase within five years from the date of purchase. Of these members, 4 repurchased drawings under the compensatory financing facility. The largest repurchase in accordance with these schedules was that of $685 million by the United Kingdom, relating to its purchase of $1,400 million in June 1968. At the time of this repurchase, the Fund also completed repayment to its creditors under the General Arrangements to Borrow of the amounts borrowed from them in connection with the U.K. purchase in June 1968.

Repurchases also included a record $484 million, or 29 per cent of the total, in discharge of obligations incurred as of April 30, 1970 under *Article V, Section 7(b),* of the Fund Agreement. This Article provides that, subject to certain lim-

TABLE 48. FUND STAND-BY ARRANGEMENTS FOR MEMBERS, FISCAL YEAR ENDED APRIL 30, 1971

(In millions of U.S. dollars)

Member	Total Number of Stand-Bys Agreed for Member	Date of Inception	Date of Expiration	Amount Approved 1969/70	Amount Not Purchased at Expiration	Amount Approved 1970/71	Amount Not Purchased April 30, 1971
Afghanistan	4	Oct. 23, 1969	Oct. 22, 1970	12.00	2.00		
Brazil	9	Feb. 4, 1970	Feb. 3, 1971	50.00	50.00		
		Feb. 4, 1971	Feb. 3, 1972			50.00	50.00
Burma	1	Nov. 24, 1969	Nov. 23, 1970	12.00	0.01		
Burundi	6	June 8, 1970	June 7, 1971			1.50	—
Ceylon	5	Aug. 12, 1969	Aug. 11, 1970	19.50	—		
		Mar. 18, 1971	Mar. 17, 1972			24.50	17.50
Colombia	13	Apr. 21, 1970	Apr. 20, 1971	38.50	15.50		
		Apr. 21, 1971	Apr. 20, 1972			38.00	38.00
Ecuador	8	Sep. 14, 1970	Sep. 13, 1971			22.00	12.00
El Salvador	10	July 15, 1969	July 14, 1970	17.00	11.00		
		Dec. 22, 1970	Dec. 21, 1971			14.00	5.00
France	3	Sep. 19, 1969	Sep. 18, 1970	985.00	—		
Ghana	4	May 29, 1969	May 28, 1970	5.00	—		
Guatemala	7	Aug. 1, 1969	July 31, 1970	12.00	6.00		
		Dec. 28, 1970	Dec. 27, 1971			14.00	14.00
Guyana	4	Apr. 6, 1970	Apr. 5, 1971	3.00	3.00		
Haiti	10	June 29, 1970	June 28, 1971			2.20	2.20
Indonesia	6	Apr. 17, 1970	Apr. 16, 1971	46.30	8.30		
		Apr. 22, 1971	Apr. 21, 1972			50.00	50.00
Korea	7	Mar. 13, 1970	Dec. 31, 1970	25.00	25.00		
		Jan. 1, 1971	Dec. 31, 1971			25.00	25.00
Liberia	8	June 1, 1969	May 31, 1970	2.00	1.00		
		June 1, 1970	May 31, 1971			2.00	1.00
Mali	4	Oct. 23, 1969	Oct. 22, 1970	3.00	—		
Morocco	7	Dec. 15, 1969	Dec. 14, 1970	25.00	15.00		
		Mar. 18, 1971	Mar. 17, 1972			30.00	30.00
Nicaragua	9	May 26, 1969	May 25, 1970	15.00	1.00		
		Aug. 12, 1970	Aug. 11, 1971			14.00	1.00
Panama	5	Feb. 3, 1970	Feb. 2, 1971	10.00	10.00		
		Mar. 23, 1971	Mar. 22, 1972			14.00	14.00
Peru	16	Apr. 17, 1970	Apr. 16, 1971	35.00	1.00		
Philippines	9	Feb. 20, 1970	Feb. 19, 1971	27.50	—		
		Mar. 16, 1971	Mar. 15, 1972			45.00	25.00
Somalia	7	Jan. 20, 1970	Jan. 19, 1971	3.98	3.98		
Tunisia	6	Jan. 1, 1970	Dec. 31, 1970	7.50	—		
Turkey	10	July 1, 1969	June 30, 1970	27.00	17.00		
		Aug. 17, 1970	Aug. 16, 1971			90.00	15.00
United Kingdom	9	June 20, 1969	June 19, 1970	1,000.00	—		
Uruguay	5	May 28, 1970	May 27, 1971			13.75[1]	—
Yugoslavia	4	Feb. 22, 1971	Feb. 21, 1972			51.75	41.75
Total				2,381.28	169.79	501.70	341.45

[1] Stand-by, after being fully utilized, was augmented by $6.75 million because of repurchase on October 30, 1970 and by $7 million because of repurchase on November 2, 1970. The full amount of these augmentations was also utilized, and the stand-by was again augmented effective May 1, 1971 in respect of $6.5 million repurchased on April 30 and by $3 million on May 3, 1971. The reconstituted amount of $9.5 million was purchased on May 13, 1971.

itations, 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 one half of any increase, or minus one half of any decrease, in the member's monetary reserves during the same period, or, if the Fund's holdings of the member's currency have decreased, one half of any increase in the member's monetary reserves minus one half of the decrease in the Fund's holdings of the member's currency. While 19 members incurred obligations as of April 30, 1970 totaling the equivalent of $1,201 million, Article V, Section 7 (*c*)(iv), limited the amount to be discharged forthwith to $471 million.[8] Three members—Colombia, Guatemala, and Nicaragua—repurchased additional sums totaling the equivalent of $13 million, thereby reducing the balance payable in subsequent financial years to $717 million, of which $460 million was due to be paid as of April 30, 1971.[9]

Voluntary repurchases were made in accordance with Executive Board Decision No. 7-(648) by 4 members and amounted to $13 million.[10] Three of these members—Haiti, Iceland, and Uruguay—repurchased a total of $9 million drawn under the Compensatory Financing Decision. In

[8] This limitation and related aspects are discussed below.

[9] The total remaining payable was reduced to $332 million by repurchases in May 1971 by France and Colombia amounting to $375 million and $10 million, respectively.

[10] 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 Executive Board Decision No. 7-(648) of March 8, 1951—*Selected Decisions of the Executive Directors and Selected Documents* (Fourth Issue, Washington, 1970, pages 63–64).)

TABLE 49. PURCHASES AND REPURCHASES UNDER THE DECISIONS ON COMPENSATORY FINANCING OF EXPORT FLUCTUATIONS [1]

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

	Purchases		Related Repurchases		
Member	Date	Amount	Total	Under paragraph (7) of amended decision	Outstanding Balance April 30, 1971
Afghanistan	June 5, 1968	4.80	—	—	4.80
Brazil	June 7, 1963	60.00 [2]	60.00	—	—
Burma	Nov. 21, 1967	7.50	—	—	7.50
Burundi	June 9, 1970	2.50	—	—	2.50
Ceylon	Mar. 21, 1967	19.50	4.55	—	14.95
	Apr. 17, 1968	19.30	—	—	19.30
Colombia	Mar. 22, 1967	18.90	18.90	7.70	—
	Apr. 19, 1968 [3]	0.95 [3]	0.95	0.95	—
	Apr. 19, 1968 [3]	0.95 [3]	0.95	0.95	—
Dominican Republic	Dec. 6, 1966	6.60	4.95	1.65	1.65
Ecuador	Oct. 15, 1969 [3]	3.50 [3]	3.00	—	0.50
	Oct. 15, 1969 [3]	2.75 [3]	—	—	2.75
El Salvador	Dec. 16, 1969	6.25	2.30	2.30	3.95
Ghana	Dec. 20, 1966	17.25	0.75	0.75	16.50
Guatemala	Feb. 5, 1968 [3]	3.00 [3]	3.00	1.60	—
	Feb. 5, 1968 [3]	3.25 [3]	3.25	—	—
Haiti	Aug. 11, 1967	1.30	0.40	—	0.90
	Dec. 6, 1967	1.00	0.20	0.20	0.80
Iceland	Nov. 10, 1967	3.75	3.75	3.75	—
	Nov. 26, 1968	3.75	3.75	3.75	—
India	Dec. 28, 1967	90.00	90.00	80.00	—
Iraq	Nov. 8, 1967 [3]	17.50 [3]	17.50	—	—
New Zealand	May 10, 1967	29.20	29.20	—	—
Sudan	June 1, 1965	11.25 [2]	11.25	—	—
Syrian Arab Republic	Sep. 18, 1967	9.50	2.38	—	7.12
United Arab Republic	Oct. 15, 1963	16.00 [2]	16.00	—	—
	Mar. 18, 1968	23.00	—	—	23.00
Uruguay	Feb. 7, 1968	9.50	5.00	5.00	4.50
Total		392.75	282.03	108.60	110.72

[1] All items are under the decision as amended by Executive Board Decision No. 2192-(66/81), adopted September 20, 1966, except where noted.
[2] Under Executive Board Decision No. 1477-(63/8), adopted February 27, 1963.
[3] Date and amount of reclassification of previous purchases.

addition, Trinidad and Tobago completed repurchase of its gold tranche purchase made in June 1968.

Other repurchases amounted to $38 million and included repurchases by 8 members of amounts purchased in connection with increases in their quotas. Also included were repurchases by 4 members relating to purchases under the Compensatory Financing Decision. The equivalent of $7.5 million was repurchased by Iceland in respect of its purchase in March 1969.

The Executive Directors agreed to the requests of 13 members to schedule their repurchases for payment over periods up to five years from the date of purchase.

During the fiscal year 31 members elected to use special drawing rights equivalent to $357 million in repurchase transactions. Repurchases in gold, almost all of which were in discharge of obligations under Article V, Section 7(*b*), amounted to $15 million. Members discharged repurchases totaling the equivalent of $1,284 million by paying currencies acceptable to the Fund.

Monetary Reserves and Repurchase Obligations

On April 30, 1970 the Fund's holdings of the currencies of 63 member countries exceeded 75 per cent of their quotas. As noted above, repurchase obligations pursuant to Article V, Section 7(*b*), of the Fund Agreement were calculated for 19 of these members. The total amounted to the equivalent of $1,201 million, payable in gold, special drawing rights, and convertible currencies, as indicated in Table 51.

Article V, Section 7(*c*)(iv), limits the amount to be repurchased under Article V, Section 7(*b*),

TABLE 50. REPURCHASES OF CURRENCIES FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1971

(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	—	3.3	—	—	—	3.3
Bolivia	—	1.0	—	—	—	1.0
Brazil	—	—	75.2	—	—	75.2
Burundi	2.0	—	—	—	0.2	2.2
Ceylon	—	27.2	—	—	—	27.2
Chile	—	—	31.2	—	—	31.2
Colombia	—	—	35.6[1]	—	—	35.6
Costa Rica	2.8	—	—	—	0.3	3.0
Cyprus	—	—	0.8	—	—	0.8
Denmark	—	—	25.6	—	—	25.6
Dominican Republic	—	2.5	—	—	—	2.5
Ecuador	—	—	6.3	—	—	6.3
El Salvador	5.0	—	—	—	2.3	7.3
France	—	—	246.3	—	—	246.3
Ghana	8.0	21.0	—	—	—	29.0
Guatemala	—	—	7.7[1]	—	0.7	8.4
Guinea	—	0.5	—	—	—	0.5
Haiti	—	2.8	—	0.2	0.2	3.2
Iceland	—	—	—	3.8	11.3	15.0
India	—	117.5	—	—	17.5	135.0
Jamaica	—	—	0.1	—	—	0.1
Kenya	—	—	3.0	—	—	3.0
Korea	—	—	1.8	—	—	1.8
Liberia	4.1	—	—	—	—	4.1
Mali	3.0	—	—	—	—	3.0
Mauritius	—	—	4.0	—	—	4.0
Morocco	14.2	—	—	—	—	14.2
Nepal	—	—	—[2]	—	—	—[2]
New Zealand	39.2	—	—	—	—	39.2
Nicaragua	—	—	12.0[1]	—	—	12.0
Pakistan	—	9.0	—	—	1.9	10.9
Panama	—	—	—	—	1.4	1.4
Peru	—	—	21.3	—	—	21.3
Philippines	—	5.5	—	—	—	5.5
Rwanda	1.0	—	—	—	—	1.0
Sierra Leone	3.4	—	—[2]	—	—	3.4
Somalia	1.9	—	—	—	—	1.9
Spain	—	48.7	—	—	—	48.7
Sudan	—	8.5	—	—	0.6	9.1
Syrian Arab Republic	—	2.4	—	—	—	2.4
Trinidad and Tobago	—	—	—	3.8	—	3.8
Tunisia	12.5	—	—	—	0.4	12.9
Turkey	21.2	—	2.8	—	—	24.0
United Arab Republic	—	7.5	—	—	—	7.5
United Kingdom	—	684.8	—	—	—	684.8
Uruguay	20.3	—	8.2	4.8	—	33.3
Yugoslavia	—	41.3	—	—	1.5	42.8
Zambia	—	—	2.6	—	—	2.6
Total	138.5	983.4	484.3[1]	12.5	38.1	1,656.9

[1] Total includes $13 million repurchased in respect of commitments that had the effect of discharging Article V, Section 7(*b*), obligations incurred as of April 30, 1970 but due in subsequent years as follows: $4.4 million by Colombia, $1.4 million by Guatemala, and $7.2 million by Nicaragua.

[2] Less than $50,000.

TABLE 51. REPURCHASE OBLIGATIONS INCURRED BY MEMBERS, AS OF APRIL 30, 1970

(In millions of U.S. dollars)

Member	Total Repurchase Obligation	Amount Payable Forthwith				Amount Payable End of Subsequent Financial Year(s)			
		Gold	Special drawing rights	Convertible currencies	Total	Gold	Special drawing rights	Convertible currencies	Total
Brazil	75.2	—	—	75.2	75.2	—	—	—	—
Chile [1]	72.2	0.3	0.2	30.8	31.3	0.3	0.3	40.4	41.0
Colombia [1]	55.9	—	—	31.3	31.3	0.4	—	24.3	24.7
Cyprus	0.8	—[2]	—	0.7	0.8	—	—	—	—
Denmark	25.6	2.0	—	23.6	25.6	—	—	—	—
Ecuador [3]	8.2	1.0	—	5.2	6.3	0.3	—	1.6	1.9
France [1]	875.4	—	—	246.3	246.3	473.0	—	156.1	629.1
Guatemala [3]	7.7	—[2]	—	6.2	6.3	—	—	1.4	1.4
Jamaica	0.1	—	—	0.1	0.1	—	—	—	—
Kenya	3.0	—	—	3.0	3.0	—	—	—	—
Korea	1.8	—[2]	—[2]	1.7	1.8	—	—	—	—
Mauritius [1]	4.6	—	—	4.0	4.0	—	—	0.6	0.6
Nepal	—[2]	—	—	—[2]	—[2]	—	—	—	—
Nicaragua [3]	12.9	—[2]	—	4.7	4.8	—	—	8.1	8.1
Peru	43.9	3.2	—	18.0	21.3	3.4	—	19.2	22.6
Sierra Leone	—[2]	—	—	—[2]	—[2]	—	—	—	—
Turkey	2.8	0.9	—	1.8	2.8	—	—	—	—
Uruguay	8.2	8.0	—	0.2	8.2	—	—	—	—
Zambia	2.6	—	—[2]	2.6	2.6	—	—	—	—
Total	1,200.8	15.4	0.2	455.6	471.3	477.5	0.3	251.8	729.5

[1] Member has elected to pay in accordance with paragraph 2(c) of Executive Board Decision No. 3049-(70/44), adopted May 20, 1970.
[2] Less than $50,000.
[3] Member has elected to pay in accordance with paragraph 2(a) of Executive Board Decision No. 3049-(70/44), adopted May 20, 1970.

in any one year to 25 per cent of the quota of the member concerned. This limitation, which applied to the repurchase obligations of 8 members, reduced the total amount to be discharged as of April 30, 1970 to the equivalent of $471 million. Of this total, the equivalent of $15 million was payable in gold, $0.2 million in special drawing rights, and $456 million in convertible currencies. Of the amount payable in convertible currencies, the equivalent of $10 million was calculated in currencies that the Fund could not accept or could accept only up to a limited amount in repurchases as of April 30, 1970 because of the limitation imposed by Article V, Section 7(*c*) (iii), providing 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 currencies that the Fund could not accept or could accept only in limited amounts at that time were Danish kroner, deutsche mark, French francs, Nicaraguan córdobas, pounds sterling, and Swedish kronor. In accordance with Schedule B, paragraph 1(*d*), of the Fund Agreement and paragraph 1 of Executive Board Decision No. 3049-(70/44),[11] U. S. dollars and Japanese yen were selected in substitution for these currencies; U. S. dollars were thus used for amounts equivalent to $9.6 million and Japanese yen for amounts equivalent to $0.2 million.

On April 21, 1971 the Executive Directors decided to change the previously existing system under which (1) each member whose currency was held by the Fund on any April 30 in an amount in excess of 75 per cent of its quota was required to report provisional monetary reserves data to the Fund not later than the following May 31 and (2) all members had to provide final monetary reserves data by October 31. Rule I-6 of the Fund's Rules and Regulations was amended to provide that not later than June 30 of each year all members must furnish to the Fund the

[11] Decision adopted May 20, 1970 and reproduced in Appendix I.

TABLE 52. SUMMARY OF MEMBERS' PURCHASES AND REPURCHASES, FISCAL YEARS ENDED APRIL 30, 1948–71

(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
1971	1,167.41	1,656.86
Total	21,597.51 [1]	12,534.19 [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.

data necessary for the calculation of their monetary reserves as of the previous April 30. The requirement of reporting monetary reserves data on a provisional basis was abolished.[12]

Summary of Purchases and Repurchases, 1947–71

Table 52 lists by fiscal years the total purchases and repurchases by member countries since the Fund began exchange operations in 1947. Chart 29 shows the length of time that purchases above 75 per cent of quota have been outstanding at the end of each of the last ten fiscal years. Purchases outstanding on April 30, 1948–71 and amounts not drawn under stand-by arrangements in effect on the same dates are shown in Chart 30.

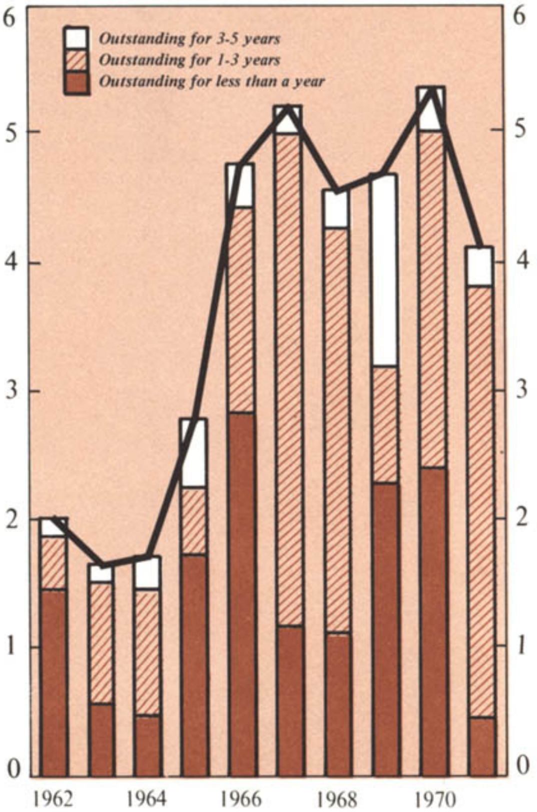
[12] Executive Board Decisions Nos. 3314-(71/33) and 3315-(71/33), adopted April 21, 1971 and reproduced in Appendix I.

Canadian Dollars in General Account Transactions

Subsequent to the announcement by the Canadian authorities on May 31, 1970 that the exchange value of the Canadian dollar would not be maintained within the prescribed margins from the established par value, the Fund decided to apply

CHART 29. LENGTH OF TIME FOR WHICH PURCHASES HAVE BEEN OUTSTANDING ON APRIL 30, 1962–71

(In billions of U.S. dollars)

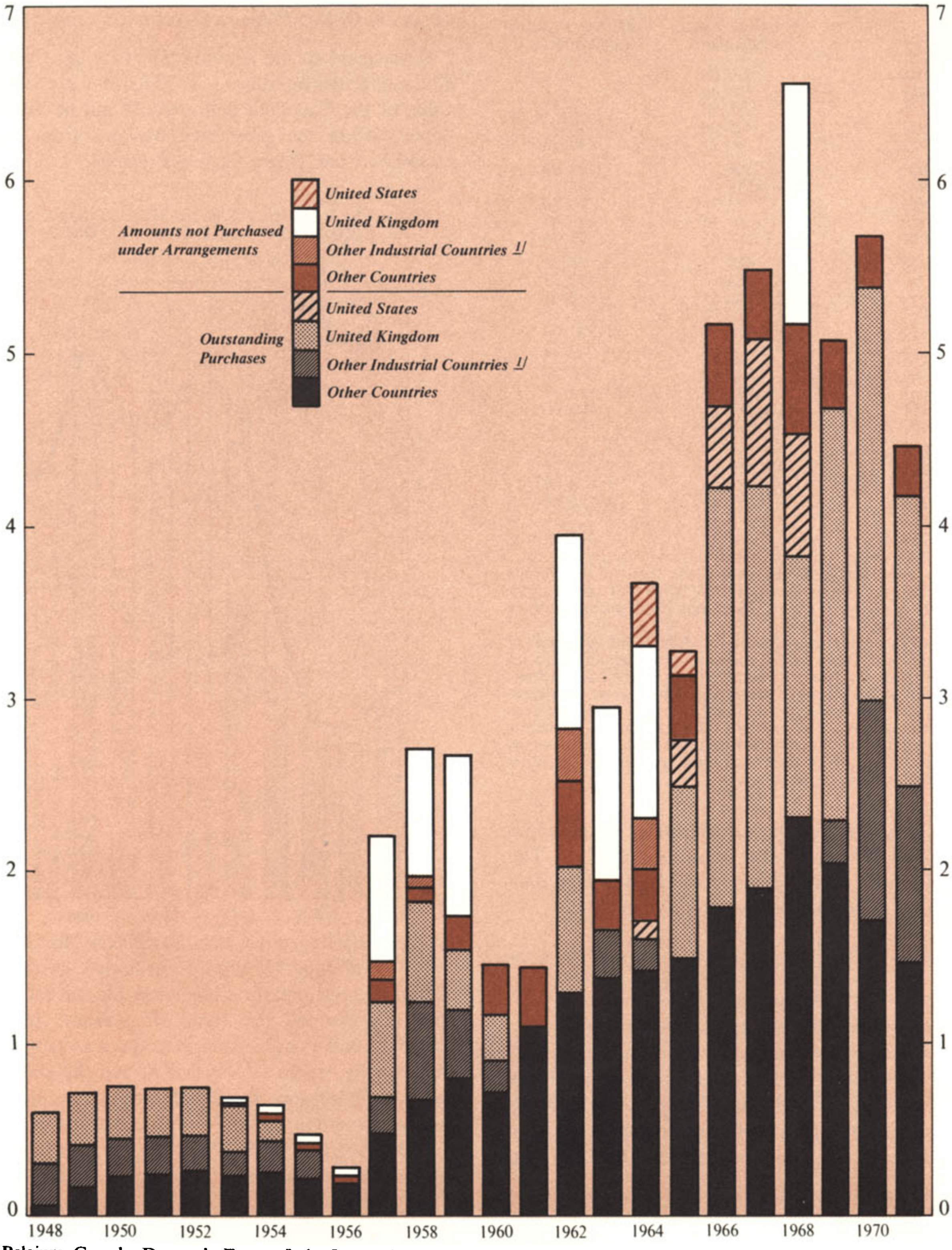


the rules of Executive Board Decision No. 321-(54/32), of June 15, 1954, as amended, to transactions and computations involving this currency.[13] This has enabled the Fund to continue using Canadian dollars in General Account transactions. Pursuant to Article IV, Section 8, and the above-mentioned decision, the Fund revalued its holdings of Canadian dollars on 12 occasions in the period ended April 30, 1971. Transactions in this currency since May 31, 1970 included two pur-

[13] Executive Board Decision No. 3087-(70/64), adopted July 14, 1970, and as amended.

CHART 30. OUTSTANDING PURCHASES FROM THE FUND AND AMOUNTS NOT PURCHASED UNDER EXISTING STAND-BY ARRANGEMENTS, ON APRIL 30, 1948–71

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



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

TABLE 53. FUND BORROWING AND REPAYMENT

(In millions of U.S. dollars)

	Under the General Arrangements to Borrow							Other		
	Borrowing	Repayment				Transfer of claims	Unutilized	Borrowing	Transfer of claim	Repayment
	Dec. 1964 to Feb. 1970	May 1967 to Dec. 1969	July 1970	March 1971	April 1971	June 1968 and Dec. 1969	Apr. 30, 1971	Aug. 1966	June–July 1970	April 1971
Belgium	137.5	147.5				+10.0	150.0	—		
Canada	140.0	50.0			61.0	+30.0	154.9[1]	—		
France	240.0	100.0				−140.0	488.9[2]	—		
Germany	897.5	767.5				−130.0	1,092.9[3]	—		
Italy	335.0	110.0	330.0			+105.0	550.0	250.0	−250.0	
Japan	150.0	45.0				+85.0	60.0	—	+250.0	125.0
Netherlands	177.5	87.5		40.0	65.0	+40.0	175.0	—		
Sweden	77.5	32.5		30.0	15.0		100.0	—		
United Kingdom	—	—					857.1[4]	—		
United States	—	—					2,000.0	—		
	2,155.0	1,340.0	330.0	70.0	141.0	—	5,628.8	250.0	—	125.0

[1] Since commitments to lend are expressed in national currency, the Canadian commitment rose from $200 million to $214.3 million, as a result of adjustments made under Decision No. 321–(54/32), adopted June 15, 1954, as amended, and Decision No. 3087–(70/64), adopted July 14, 1970, and as amended.
[2] The French commitment fell from $550 million to $488.9 million with the devaluation of the French franc in August 1969.
[3] The German commitment increased from $1,000 million to $1,092.9 million with the revaluation of the deutsche mark in October 1969.
[4] The U. K. commitment fell from $1,000 million to $857.1 million with the devaluation of sterling in November 1967.

chases by other members totaling the equivalent of US$12.5 million, and four repurchases, other than those under Article V, Section 7(*b*), amounting to the equivalent of US$90.3 million.[14]

Fund Borrowing

The General Arrangements to Borrow (GAB), which enable the Fund to supplement its resources in the General Account by borrowing up to $5.9 billion in currencies of ten industrial member countries, came into force on October 24, 1962 for an initial period of four years. After one renewal for an additional period of four years, the Arrangements were further renewed for five years, from October 24, 1970, without modification. Since they came into effect, the Arrangements have been activated seven times, and total borrowings have amounted to the equivalent of $2,155 million. Total repayments have amounted to the equivalent of $1,881 million, which reduced outstanding GAB borrowings to $274 million on April 30, 1971.[15]

During the fiscal year ended April 30, 1971, the Fund did not call upon participants to provide credit.

Repayments equivalent to $541 million in the fiscal year included $330 million paid to Italy in July 1970 in compliance with its request. Repayment was made in five currencies. In connection with the repurchase by the United Kingdom in March 1971, an amount equivalent to $70 million was repaid to two creditor members in their currencies. Further, in connection with the discharge by France of part of its repurchase obligation incurred on April 30, 1970 under Article V, Section 7(*b*), of the Fund Agreement, the Fund repaid in April 1971 a total equivalent to $141 million to three creditors with their currencies.

In August 1966 the Fund borrowed the equivalent of $250 million in lire from the Government of Italy in connection with a purchase of the same amount in Italian lire by the United States. The financial terms of the agreement between the Fund and the Government of Italy were similar to those of the GAB. In June 1970 the Fund consented to Italy's request for the transfer to Japan of Italy's claim. Amounts equivalent to $125 million each were transferred to Japan in June and in July 1970. In April 1971 the Fund repaid to Japan an amount of yen equivalent to $125 million.

Details of transactions under the GAB and the bilateral borrowing arrangements are shown in Table 53.

Gold

As can be seen from Table 54, the gold holdings of the Fund rose by the equivalent of $1,575

[14] A similar situation arose with respect to the deutsche mark and the guilder after the end of the fiscal year 1970/71, when on May 9, 1971 the German and Netherlands authorities informed the Fund that for the time being they would not maintain the exchange rates for their respective currencies within the established margins. Similar decisions were taken by the Fund, and these currencies have continued to be used in Fund transactions.

[15] Repayments in May 1971 further reduced outstanding borrowings to $152 million.

TABLE 54. GOLD TRANSACTIONS AND OPERATIONS BY THE FUND, FISCAL YEARS ENDED APRIL 30, 1969–71

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

	1969	1970	1971
Increases in gold holdings due to			
Subscriptions	22.2	25.3	1,807.8
Repurchases of currency by members	69.8	80.8	15.4
Charges paid by members	30.6	68.1	71.2
Reacquisition from United States	—	—	400.0
Purchases under Article V, Section 6(*a*)	—	289.0	389.6
of which purchases from South Africa	—	*282.8*	*389.6*
Total increase	122.6	463.2	2,684.0
Decreases in gold holdings due to			
Sales under Article VII, Section 2(ii)	547.0	250.0	1,085.8
of which sales in connection with Fifth General Review of Quotas	—	—	*564.1*
Interest on Fund borrowing	17.1	17.0	14.3
Reimbursement and payment of charges	3.7	2.4	—
Remuneration paid to members	—	—	8.8
Total decrease	567.7	269.4	1,108.9
Net increase or decrease (−)	−445.1	193.7	1,575.1

million in the fiscal year ended April 30, 1971, compared with an increase of $194 million in 1969/70 and a fall of $445 million in 1968/69. Most important in the increase in gold holdings during the fiscal year 1970/71 were gold subscription payments. Further, in September 1970 the Fund reacquired the equivalent of $400 million of gold from the United States, following the reduction in its investment in U. S. Government securities from $800 to $400 million.[16] The Fund also received the equivalent of $87 million from members that repurchased their currency from the Fund and from the payment of charges to the Fund. In addition, the Fund purchased the equivalent of $390 million of gold from South Africa under Article V, Section 6(*a*), and the Fund's Decision No. 2914-(69/127), adopted December 30, 1969. During the fiscal year the Fund sold $1,086 million of gold in replenishment of its currency holdings, paid $14 million of interest on its borrowings, and paid $9 million in gold as remuneration on creditor positions of members in the Fund.

Purchases of Gold from South Africa

As was noted in last year's Annual Report, the Executive Directors decided on December 30, 1969 that the Fund, as a matter of policy, would purchase gold from South Africa when it was offered under agreed circumstances. The text of the decision and the texts of letters in connection with the decision were reproduced in that Report.[17]

Between January 1, 1970 and April 30, 1971, the Fund purchased the equivalent of $672 million of gold from South Africa, of which $283 million was bought in the first four months of 1970 and the remainder, amounting to $390 million, was purchased in the fiscal year ended April 30, 1971.

In light of price developments in the private gold market and also the balance of payments

[16] See pages 182–83.

[17] *Annual Report, 1970,* pages 184–89. See also pages 34–35.

Paragraph 2 of the decision, to which reference is made below, is as follows:

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.

position of South Africa during 1970, the Fund purchased gold from South Africa under each of the main parts of the arrangements of December 1969 during the period to April 30, 1971.

In view of the fact that the price of gold in the London market was fixed at or below $35 a fine ounce for a considerable period during the first quarter of 1970, the Fund purchased the equivalent of $209 million under paragraph 2(a)(i) of the decision. Throughout the fiscal year 1970/71 the price of gold was above $35 a fine ounce, and South Africa sold the equivalent of $295 million of gold to the Fund under paragraph 2(a)(ii) of the decision to meet its current needs for foreign exchange in excess of the needs that it was able to satisfy by the sale of current gold production on the private market. Further, during the first quarter of 1970 South Africa was designated to provide currency convertible in fact to a user of special drawing rights and, for this purpose, sold $4 million of gold to the Fund under paragraph 2(b) of the decision. In addition, under paragraph 2(c) of the decision, South Africa sold the equivalent of $130 million of gold to the Fund during 1970 out of the stock of gold that it held on March 17, 1968—$35 million in the first four months of the year and $95 million in the remaining eight months. These sales, together with sales of gold to monetary authorities (including Fund-related transactions) in the period commencing March 17, 1968, exhausted by the end of 1970 the stock of gold held by South Africa on March 17, 1968, and no further sales can therefore be made under paragraph 2(c) of the decision. Finally, the figures for 1969/70 in Table 54 also include an amount equivalent to $35 million in respect of a request previously made by South Africa to obtain £14.5 million from the Fund's currency holdings.

Special Drawing Account

Allocations

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, provided for the allocation of approximately SDR 9.5 billion [18] over a basic period of three years from 1970 through 1972.[19] Allocations to individual participants are determined by the relative size of participants' quotas in the Fund on the day before the allocation. The first allocation, on January 1, 1970, was to 104 participants at a rate equal to 16.8 per cent of their quotas and amounted to SDR 3,414 million. The second allocation was made on January 1, 1971 to 109 participants at a rate of 10.7 per cent of their quotas and amounted to SDR 2,949 million.[20]

The amounts received by participants in each allocation are shown in Table 55.

Transactions and Operations

During the period January 1, 1970 to April 30, 1971, participants used special drawing rights (1) to obtain currency convertible in fact from other participants designated by the Fund; (2) in agreement with other participants, to obtain equivalent amounts of their own currencies held by those participants; and (3) to make repurchases from and pay charges and assessments to the General Account. Transactions between participants have all been subject to the requirement of balance of payments need.[21] The use of special drawing rights in the payment of charges to and repurchases from the General Account was authorized by a decision of the Executive Directors in December 1969,[22] which was reviewed in December 1970 and is subject to further review. Such transactions are not subject to the requirement of need.

The Articles provide that the Fund may use special drawing rights by agreement with a participant in any operation or transaction with that participant conducted through the General Account. In addition, a participant that is obligated to acquire special drawing rights for certain purposes may obtain them in a transaction with

[18] 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.

[19] *Summary Proceedings of the Twenty-Fourth Annual Meeting of the Board of Governors* (Washington, 1969), pages 326–27.

[20] See page 155 above. One participant, China, exercised its option not to receive its share in each allocation.

[21] See *Annual Report, 1970,* page 29.

[22] Executive Board Decision No. 2901-(69/122) G/S, adopted December 18, 1969. See *Annual Report, 1970,* pages 176–77.

Table 55. Allocations of Special Drawing Rights, January 1, 1970 and 1971

(In millions of SDRs)

Participant	Jan. 1, 1970	Jan. 1, 1971	Net Cumulative Allocation
Afghanistan	4.9	4.0	8.8
Algeria	12.6	13.9	26.5
Argentina	58.8	47.1	105.9
Australia	84.0	71.2	155.2
Austria	29.4	18.7	48.1
Barbados	—	1.4	1.4
Belgium	70.9	69.6	140.4
Bolivia	4.9	4.0	8.8
Botswana	0.5	0.5	1.0
Brazil	58.8	47.1	105.9
Burma	8.1	6.4	14.5
Burundi	2.5	2.0	4.6
Cameroon	3.1	3.7	6.8
Canada	124.3	117.7	242.0
Central African Rep.	1.6	1.4	3.0
Ceylon	13.1	10.5	23.6
Chad	1.7	1.4	3.1
Chile	21.0	16.9	37.9
Colombia	21.0	16.8	37.8
Congo, Dem. Rep. of	15.1	12.1	27.2
Congo, People's Rep. of the	1.7	1.4	3.1
Costa Rica	4.2	3.4	7.6
Cyprus	3.4	2.8	6.1
Dahomey	1.7	1.4	3.1
Denmark	27.4	27.8	55.2
Dominican Republic	5.4	4.6	10.0
Ecuador	4.2	3.5	7.7
El Salvador	4.2	3.7	7.9
Equatorial Guinea	1.0	0.9	1.9
Finland	21.0	20.3	41.3
France	165.5	160.5	326.0
Gabon	1.6	1.6	3.2
Gambia, The	0.8	0.7	1.6
Germany	201.6	171.2	372.8
Ghana	11.6	9.3	20.9
Greece	16.8	14.8	31.6
Guatemala	4.2	3.9	8.1
Guinea	3.2	2.6	5.8
Guyana	2.5	2.1	4.7
Haiti	2.5	2.0	4.6
Honduras	3.2	2.7	5.9
Iceland	2.5	2.5	5.0
India	126.0	100.6	226.6
Indonesia	34.8	27.8	62.6
Iran	21.0	20.5	41.5
Iraq	—	11.7	11.7
Ireland	13.4	12.9	26.4
Israel	15.1	13.9	29.0
Italy	105.0	107.0	212.0
Ivory Coast	3.2	5.6	8.8
Jamaica	6.4	5.7	12.1
Japan	121.8	128.4	250.2
Jordan	2.7	2.5	5.1
Kenya	5.4	5.1	10.5
Khmer Republic	3.2	2.7	5.9

Participant	Jan. 1, 1970	Jan. 1, 1971	Net Cumulative Allocation
Korea	8.4	5.4	13.8
Laos	1.7	1.4	3.1
Lesotho	0.5	0.5	1.0
Liberia	3.4	3.1	6.5
Luxembourg	3.2	2.0	5.2
Malagasy Republic	3.2	2.8	6.0
Malawi	1.9	1.6	3.5
Malaysia	21.0	19.9	40.9
Mali	2.9	2.4	5.2
Malta	1.7	1.7	3.4
Mauritania	1.7	1.4	3.1
Mauritius	2.7	2.4	5.0
Mexico	45.4	39.6	85.0
Morocco	15.1	12.1	27.2
Nepal	—	1.1	1.1
Netherlands	87.4	74.9	162.3
New Zealand	26.4	21.6	48.0
Nicaragua	3.2	2.9	6.1
Niger	1.7	1.4	3.1
Nigeria	16.8	14.4	31.2
Norway	25.2	25.7	50.9
Pakistan	31.6	25.1	56.7
Panama	4.7	3.9	8.6
Paraguay	2.5	2.0	4.6
Peru	14.3	13.2	27.4
Philippines	18.5	16.6	35.1
Rwanda	2.5	2.0	4.6
Senegal	4.2	3.6	7.8
Sierra Leone	2.5	2.7	5.2
Somalia	2.5	2.0	4.6
South Africa	33.6	21.4	55.0
Spain	42.0	42.3	84.3
Sudan	9.6	7.7	17.3
Swaziland	1.0	0.9	1.9
Sweden	37.8	34.8	72.6
Syrian Arab Republic	6.4	5.4	11.7
Tanzania	5.4	4.5	9.9
Thailand	—	14.3	14.3
Togo	1.9	1.6	3.5
Trinidad and Tobago	7.4	6.7	14.1
Tunisia	5.9	3.7	9.6
Turkey	18.1	16.2	34.3
Uganda	5.4	4.3	9.7
United Arab Republic	25.2	20.1	45.3
United Kingdom	409.9	299.6	709.5
United States	866.9	716.9	1,583.8
Upper Volta	1.7	1.4	3.1
Uruguay	9.2	7.4	16.6
Venezuela	42.0	35.3	77.3
Viet-Nam	6.6	6.6	13.2
Yemen Arab Republic	—	1.1	1.1
Yemen, People's Dem. Rep. of	3.7	3.1	6.8
Yugoslavia	25.2	22.1	47.3
Zambia	8.4	8.1	16.5
Total	3,414.0	2,949.2	6,363.3 [1]

[1] The precise amount of the two allocations is SDR 6,363,286,600.

TABLE 56. TRANSFERS OF SPECIAL DRAWING RIGHTS, JANUARY 1, 1970–APRIL 30, 1971

(In millions of SDRs)

	1970		1971				Total	Total	Cumulative Total
Particulars	Jan. 1–Apr. 30	May 1–Dec. 31	Jan.	Feb.	Mar.	Apr.	Jan. 1, 1971–Apr. 30, 1971	May 1, 1970–Apr. 30, 1971	Jan. 1, 1970–Apr. 30, 1971
Transfers between participants									
Transactions with designation	155.01	136.18	111.69	70.45	24.80	4.51	211.45	347.63	502.64
Transactions without designation (Article XXV, Section 2(*b*)(i))	20.00	160.50	100.00	—	25.00	—	125.00	285.50	305.50
	175.01	296.68	211.69	70.45	49.80	4.51	336.45	633.13	808.14
Transfers from participants to the General Account									
Repurchases	182.57	109.67	21.40	6.78	199.63	19.64	247.45	357.12	539.69
Charges	28.85	63.04	0.05	1.46	1.65	0.25	3.41	66.45	95.30
Assessments	0.89	—	—	—	—	0.89	0.89	0.89	1.78
Interest received on General Account holdings	0.41	—	—	—	—	4.26	4.26	4.26	4.67
	212.72	172.71	21.45	8.24	201.28	25.04	256.01	428.72	641.44
Transfers from the General Account to participants									
Replenishment of participants' currencies	—	67.51	—	—	—	55.70	55.70	123.21	123.21
Remuneration	—	18.40	—	—	—	—	—	18.40	18.40
Distribution of net income	—	9.11	—	—	—	—	—	9.11	9.11
Other [1]	0.25	—	—	—	—	0.61	0.61	0.61	0.86
	0.25	95.02	—	—	—	56.31	56.31	151.33	151.58
Total use and receipts	387.98	564.41	233.14	78.69	251.08	85.86	648.77	1,213.18	1,601.16
General Account holdings at end of period	212.47	290.16	311.61	319.85	521.13	489.85	489.85	489.85	489.85

[1] Transfer of special drawing rights under Article XXVI, Section 5.

the General Account. During the period under review special drawing rights held in the General Account were used in each of these ways.

Data on operations and transactions in special drawing rights for the period January 1, 1970 to April 30, 1971 are given in Tables 56 and 57. During the fiscal year 1970/71 there were 252 operations and transactions in the Special Drawing Account for a total value of SDR 1,213 million. Including the first four months of 1970 cumulative operations and transactions in special drawing rights have amounted to SDR 1,601 million.

Transactions with Designation

From January 1, 1970 to April 30, 1971 currency convertible in fact was acquired by 42 participants that used special drawing rights in transactions involving designation (Table 57).

Article XXV, Section 5, provides that the Fund shall ensure that participants can use their special drawing rights under Section 2(*a*) of that Article by the designation of other participants to provide currency for specified amounts of special drawing rights. This is done through quarterly "designation plans," which set the upper limits for the designation of individual participants in the ensuing months. During the period January 1, 1970 to April 30, 1971 there were, thus, six quarterly designation plans (and an interim amendment to the first plan for 1971 raising the amounts available under it). The number of participants subject to designation in the plans varied from 22 to 28; a total of 37 participants have been subject to designation. Thirty-two participants have been actually designated to provide currency; the total amounts of special drawing rights these participants obtained through designation during the period under review are shown in Table 57.

Currencies and Conversions

As shown in Table 58, participants that used special drawing rights in transactions with designation generally requested U. S. dollars. Requests for French francs and pounds sterling were made by participants with close economic relations with France and the United Kingdom. A request in 1970 for Belgian francs came from a participant that holds its reserves in that currency. Under similar circumstances, Italian lire were provided direct to a participant early in 1971.

Table 57. Summary of Transactions and Operations in Special Drawing Rights
January 1, 1970–April 30, 1971

(In thousands of SDRs)

Holders Participants	Net Cumulative Allocations	Transactions and Operations: Between participants: Received [1]	Between participants: Used [2]	Between participants and the General Account: Received	Between participants and the General Account: Used	Interest, Charges, and Assessments (Net)	Total Holdings on April 30, 1971: Total	Total Holdings on April 30, 1971: As a % of allocations
Afghanistan	8,831		1,500		1,464	−39	5,828	66.0
Algeria	26,510	1,500				+19	28,029	105.7
Argentina	105,880	1,000		541		−20	107,401	101.4
Australia	155,155	8,797				+57	164,008	105.7
Austria	48,125	8,760				+132	57,017	118.5
Barbados	1,391						1,391	100.0
Belgium	140,446	159,000				+951	300,397	213.9
Bolivia	8,831		2,000		1,205	−19	5,607	63.5
Botswana	1,039						1,039	100.0
Brazil	105,880	4,474				+17	110,370	104.2
Burma	14,484		9,251		214	−133	4,887	33.7
Burundi	4,553				2,586	−9	1,958	43.0
Cameroon	6,803					−2	6,801	100.0
Canada	242,020	19,400		86,771		+604	348,795	144.1
Central African Rep.	2,987		1,590			−10	1,387	46.4
Ceylon	23,590		11,000		12,273	−285	32	0.1
Chad	3,071		1,600		52	−19	1,400	45.6
Chile	37,906	1,000			186	+5	38,725	102.2
Colombia	37,799				20,995	−361	16,443	43.5
Congo, Dem. Rep. of	27,211	500				+1	27,712	101.8
Congo, People's Rep. of the	3,071		1,650			−11	1,410	45.9
Costa Rica	7,624		3,500		4,000	−61	63	0.8
Cyprus	6,142	1,500				+6	7,648	124.5
Dahomey	3,071					−1	3,070	100.0
Denmark	55,204		10,000			−132	45,072	81.6
Dominican Republic	9,977		7,450	77	2,475	−129	—	—
Ecuador	7,731		3,600		483	−55	3,593	46.5
El Salvador	7,945		4,190		2,300	−35	1,420	17.9
Equatorial Guinea	1,864					−1	1,863	100.0
Finland	41,330	1,000		3,333		+19	45,682	110.5
France	325,980	24,500				+16	350,496	107.5
Gabon	3,201					−1	3,200	100.0
Gambia, The	1,589						1,589	100.0
Germany	372,800	72,051		6,992		+759	452,602	121.4
Ghana	20,901				17,589	−90	3,222	15.4
Greece	31,566		26,800	67		−351	4,483	14.2
Guatemala	8,052				2,150	−30	5,872	72.9
Guinea	5,760		4,000		559	−46	1,155	20.0
Guyana	4,660		2,450			−34	2,176	46.7
Haiti	4,553		300		3,115	−42	1,096	24.1
Honduras	5,867		3,000			−17	2,850	48.6
Iceland	4,981				3,500	−20	1,461	29.3
India	226,580	40,800			118,416	−912	148,051	65.3
Indonesia	62,596		56,000		4,757	−750	1,089	1.7
Iran	41,544		40,000			−388	1,156	2.8
Iraq	11,663					−2	11,661	100.0
Ireland	26,387	3,000	2,997			+14	26,404	100.1
Israel	29,030		28,120	65	100	−325	550	1.9
Italy	212,000	50,889	50,000	7,984		−192	220,681	104.1
Ivory Coast	8,756	1,000				+1	9,757	111.4
Jamaica	12,055	975					13,030	108.1
Japan	250,200	24,366		1,610		+296	276,473	110.5
Jordan	5,149					−1	5,148	100.0
Kenya	10,512	1,450				+4	11,966	113.8
Khmer Republic	5,867		4,107			−31	1,730	29.5
Korea	13,750	4,000			157	+35	17,628	128.2
Laos	3,071		2,150			−25	897	29.2
Lesotho	1,039				500	−8	531	51.1
Liberia	6,463				2,879	−32	3,551	54.9
Luxembourg	5,225					−2	5,223	100.0

TABLE 57 (*concluded*). SUMMARY OF TRANSACTIONS AND OPERATIONS IN SPECIAL DRAWING RIGHTS
JANUARY 1, 1970–APRIL 30, 1971

(*In thousands of SDRs*)

Holders Participants	Net Cumulative Allocations	Transactions and Operations: Between participants		Transactions and Operations: Between participants and the General Account		Interest, Charges, and Assessments (Net)	Total Holdings on April 30, 1971	
		Received [1]	Used [2]	Received	Used		Total	As a % of allocations
Malagasy Republic	5,974					−2	5,972	100.0
Malawi	3,495					−1	3,494	100.0
Malaysia	40,902	2,300		87		+30	43,319	105.9
Mali	5,210		2,860		992	−53	1,305	25.0
Malta	3,392					−1	3,391	100.0
Mauritania	3,071		2,000			−7	1,064	34.6
Mauritius	5,042				58	−2	4,982	98.8
Mexico	84,950	2,000		474		+16	87,439	102.9
Morocco	27,211				15,077	−209	11,925	43.8
Nepal	1,070						1,070	100.0
Netherlands	162,260	152,984		3,708		+997	319,949	197.2
New Zealand	47,990				26,000	−257	21,733	45.3
Nicaragua	6,081		2,000		221	−19	3,841	63.2
Niger	3,071					−1	3,070	100.0
Nigeria	31,245					−9	31,236	100.0
Norway	50,880	4,000				+27	54,907	107.9
Pakistan	56,729		18,000		23,677	−427	14,625	25.8
Panama	8,556				2,898	−31	5,627	65.8
Paraguay	4,553					−1	4,552	100.0
Peru	27,441	1,000				−5	28,436	103.6
Philippines	35,065		35,065	447		−447	—	—
Rwanda	4,553	500	1,400		1,154	−34	2,465	54.1
Senegal	7,838		5,000			−52	2,786	35.5
Sierra Leone	5,195				2,030	−40	3,125	60.2
Somalia	4,553				1,910	−21	2,623	57.6
South Africa	55,000	5,500	35,000			−22	25,478	46.3
Spain	84,265	6,500			10,000	+1	80,766	95.8
Sudan	17,280		11,004	36	6,100	−212	—	—
Swaziland	1,864				1,000	−16	848	45.5
Sweden	72,575			50		−19	72,606	100.0
Syrian Arab Republic	11,734		9,359	137	2,375	−137	—	—
Tanzania	9,870		3,500			−41	6,329	64.1
Thailand	14,338					−2	14,336	100.0
Togo	3,495					−1	3,494	100.0
Trinidad and Tobago	14,133		3,100		3,750	−65	7,218	51.1
Tunisia	9,625		5,694	8	3,826	−111	1	—
Turkey	34,301		34,000	1		−302	—	—
Uganda	9,656					−3	9,653	100.0
United Arab Republic	45,316		33,500		2,500	−521	8,795	19.4
United Kingdom	709,520	90,251	20,000		295,074	−2,396	482,301	68.0
United States	1,583,780	105,140	285,500	39,177		+135	1,442,732	91.1
Upper Volta	3,071					−1	3,070	100.0
Uruguay	16,623		11,400	23	5,098	−148	—	—
Venezuela	77,310	5,500				+63	82,873	107.2
Viet-Nam	13,186					−4	13,182	100.0
Yemen Arab Republic	1,070						1,070	100.0
Yemen, People's Dem. Rep. of	6,799		2,000			−15	4,784	70.4
Yugoslavia	47,349		10,500		29,284	−404	7,162	15.1
Zambia	16,532	2,500			11	+8	19,029	115.1
Total Participants	6,363,287	808,135	808,135	151,589	634,990	−6,448	5,873,437	
General Account							489,849	
Total	6,363,287						6,363,287	

[1] For all but four participants the amounts shown were received in transactions with designation. However, Belgium, Germany, the Netherlands, and Rwanda also received amounts of SDR 145.0 million, SDR 20.0 million, SDR 140.0 million, and SDR 0.5 million, respectively, as a result of transactions under Article XXV, Section 2(*b*) (i).

[2] With the exception of the amounts for the United States and the United Kingdom, the uses shown for participants in this column were made in transactions to acquire currency through designation. The uses by the United States and the United Kingdom were to obtain balances of their own currency. The recipients of the amounts used are shown in footnote 1.

TABLE 58. CURRENCIES PROVIDED AND CONVERTED IN TRANSACTIONS WITH DESIGNATION, JANUARY 1, 1970–APRIL 30, 1971

(In millions of SDRs)

	Total May 1, 1970–April 30, 1971	Total January 1, 1970–April 30, 1971
Belgian francs		
Provided directly to participants	—	1.0
French francs		
Provided directly to participants	3.5	3.5
Converted to pounds sterling	8.0	8.0
Converted to U.S. dollars	14.0	14.0
	25.5	25.5
Italian lire		
Provided directly to participants	4.0	4.0
Pounds sterling		
Provided directly to participants	27.4	27.4
Converted to French francs	6.7	6.7
Converted to U.S. dollars	45.8	45.8
	80.0	80.0
U.S. dollars		
Provided directly to participants	227.1	376.0
Converted to French francs	3.6	8.7
Converted to pounds sterling	7.5	7.5
	238.2	392.2
Total	347.6	502.6

At the start of each plan period, participants subject to designation are asked, for reasons of operational convenience, which currency they will provide when designated. Most participants are able to indicate the currency, thus enabling the Fund to issue any necessary conversion instructions at the same time as the designation instructions.

Transactions by Agreement Between Participants

Under Article XXV, Section 2(*b*)(i), a participant may use its special drawing rights in agreement with another participant to obtain an equivalent amount of its own currency held by the other participant. During the year ended April 30, 1971, the only such agreements were those entered into by the United States with Belgium, the Netherlands, and Rwanda for a total of SDR 286 million. Footnotes 1 and 2 of Table 57 provide details of the amounts of special drawing rights used and acquired by participants in these transactions.

Transfers by Participants to the General Account

During the first four months of 1970 the General Account received SDR 211 million from participants in repurchases and in the payment of charges, and a further SDR 424 million was received in the first full fiscal year, May 1, 1970 to April 30, 1971. The amounts transferred by individual participants during the entire 16 months are shown in Table 57.

Transfers to Participants from the General Account

In the first four months of 1970 the only transfer of special drawing rights by the General Account was the sale of SDR 251,082 to five participants that needed to acquire them in order to meet charges and their share of the assessments payable in special drawing rights. These amounts are included in the first column of Table 59 together with a similar sale of SDR 610,506 made in April 1971.

During the fiscal year ended April 30, 1971, the Fund transferred to participants SDR 151 million in accordance with options exercised by participants to receive special drawing rights rather than other media of payment. Amounts transferred to individual participants are shown in Table 59.

Holdings in the General Account

On April 30, 1971 the Fund's holdings of special drawing rights in the General Account were SDR 489,849,181.

Consultations with Members

During the fiscal year 1970/71, 86 regular consultations were completed with 83 member countries, an increase from 80 consultations in 1969/70. In addition, at the end of the fiscal year consultation procedures were under way with a number of other members but had not yet been completed. These consultations are of two kinds. Member countries continuing to avail themselves of the transitional arrangements of Article XIV of the Fund Agreement are required to consult with the Fund annually on the retention of restrictions inconsistent with Article VIII, Sections 2, 3, or 4. Over the years the consultation procedure has come to involve full considera-

TABLE 59. USE OF SPECIAL DRAWING RIGHTS BY THE GENERAL ACCOUNT, JANUARY 1, 1970–APRIL 30, 1971

(*In thousands of SDRs*)

Participant	Transfers for Currency	Payment of Remuneration	Distribution of Net Income	Replenishment of Currencies
Argentina	—	332	209	—
Canada	—	2,001	—	84,770
Dominican Republic	77	—	—	—
Finland	—	114	78	3,140
Germany	—	3,053	3,939	—
Greece	67	—	—	—
Israel	65	—	—	—
Italy	—	1,542	1,142	5,300
Japan	—	—	1,610	—
Malaysia	—	50	37	—
Mexico	—	—	474	—
Netherlands	—	2,083	1,625	—
Philippines	447	—	—	—
Sudan	36	—	—	—
Sweden	—	50	—	—
Syrian Arab Republic	137	—	—	—
Tunisia	8	—	—	—
Turkey	1	—	—	—
United States	—	9,177	—	30,000
Uruguay	23	—	—	—
	862	18,403[1]	9,115[2]	123,210

[1] Includes amounts of less than SDR 500 each paid to an additional six participants.
[2] Includes amounts of less than SDR 500 each distributed to an additional six participants.

tion of all relevant aspects of the economic situation of the member. The number of Article XIV consultations held in 1970/71 was 61. During the same period the Fund also held 25 consultations with member countries that have accepted the obligations of Article VIII, Sections 2, 3, and 4. For these members, consultations are not mandatory, but they have been held regularly for a number of years, because both the Fund and the members concerned have found them useful.

Technical Assistance

Reviews of economic developments by the Fund staff and by the Executive Directors, as part of the regular consultations described above, provide opportunities for bringing an international range of experience to the analysis of a country's position, and these reviews are of value to any country considering alternative policies. In the course of these consultations, as attention is directed to specific problems, the Fund staff, sometimes drawing on the specialized technical assistance departments, is able to provide advice based on the experience of other countries facing similar problems.

The area departments and the Exchange and Trade Relations Department have other opportunities for providing technical assistance in addition to those mentioned in the preceding paragraph. During 1970/71 officers from these departments visited 4 countries in response to requests for advice on economic and financial problems; and in one country, Indonesia, the Fund has maintained a small staff of general financial advisors since 1967. At the end of April 1971 there were in addition Fund representatives on continuing assignment in 14 other countries. The primary responsibility of these staff members is usually related to the continuing consultations with officials of members implementing stabilization programs that are supported by the Fund's resources. Their presence in these countries has provided convenient opportunities for national officials to draw on the Fund's experience with a wide range of financial problems.

As in earlier years, however, the Fund's more specialized technical assistance was carried on largely through the Central Banking Service, the Fiscal Affairs Department, and the Bureau of Statistics. The Fund continued to draw on experts in monetary and fiscal management from outside its regular staff for this assistance. However, the Bureau of Statistics did not make use of outside experts, the Fiscal Affairs Department continued to rely heavily on the work of its own staff, and an increasing share of the Central Banking Service's work was undertaken by its staff.

During the fiscal year 1970/71, 40 countries received technical assistance from the Fund through the Central Banking Service. Nine of these countries received such assistance for the first time. A total of 82 executive and advisory posts, including 4 involving short-term appointments, were filled by persons drawn chiefly, though not solely, from other central banks.

The policy of supplying professional assistance to central banks continued along the lines established in earlier years, with assignments made to 34 countries and one regional organization during 1970/71. Since the inception of the Central Banking Service in 1963, 47 countries have received such assignments. Sixteen African countries continued to make that continent the most important recipient of this assistance, with 46 officials assigned during the year. Asia and the Western Hemisphere followed with 6 countries each, the Middle East with 5, and Europe with 2. The 82 assignments were undertaken by 79 individuals from 29 countries. Thirteen came from France, 13 from the United States, and 8 from the United Kingdom; 23 came from less developed countries, including 9 from India.

The gradual decline in demands for executive officers for central banks noted in previous Annual Reports continued during 1970/71, with the further replacement of outsiders by national executives. Almost half of the assignments begun in the past fiscal year could be classified under the broad heading of economic research and statistics; most of the remainder were in various specialized fields or focused on specific problem areas—accounting systems, bank inspection, collection of savings, and training programs for bank staff. The increasing demand for persons with special experience in establishing programs for staff training and development may be evidence of an underlying difficulty in reconciling the two objectives basic to the assignment of outside experts: the provision of direct assistance in helping the central bank to function effectively and the training of local officials to take over the work. Under certain circumstances the practical urgency of developing the central bank as a fully functioning institution and the day-to-day burdens of its operations may have to take priority over the more easily postponed—though no less important—task of developing local staff. This potential hazard has been met partly by urging advisors to give greater attention to the training of their successors, but it must be noted also that—possibly because of local circumstances—some recipient countries have occasionally been slow in making available local personnel as understudies.

Fourteen countries received advisory services from the staff of the Central Banking Service in 1970, 6 more than in 1969/70. As in the past, most of the requests for advisory services were related to banking legislation and the establishment of central banks, although advice was also sought on a variety of other matters ranging from the reorganization of the banking system and the review of problems of central bank operations to the establishment of a training institute and problems associated with the use of negotiable instruments. The area, legal, and Treasurer's staffs collaborated with the Central Banking Service in drafting revisions of banking statutes, in preparation of advisory reports, and in operational and accounting matters.

Efforts have continued to be made to preserve the purely technical character of these advisory services. Their purpose is to assist in the organization or reorganization of financial institutions or systems so that these can function more effectively in the national environment. The underlying aim is to help countries in their efforts to develop and implement sound monetary and financial policies by advising them on how to make their institutional framework more responsive to the long-term needs of their economies; the question of advising on the direction or strength of policy that would be appropriate at any time is therefore outside the scope of the advice provided by the Central Banking Service.

During the past year the Fund, through the Fiscal Affairs Department, provided technical assistance to 22 countries, 3 fewer than in 1969/70; assistance was also furnished for the first time to a regional organization. There were 41 assignments in 1970/71, almost equally divided between members of the staff and of the fiscal panel. Panel-member assignments, mostly of a long-term nature, accounted for about 80 per cent of the total time spent in the field and were mostly related to technical matters. Many of these assignments were extended beyond one year to ensure maximum long-term benefit to local officials. Most of the staff assignments were for periods up to six weeks, related to advice on policy questions, and usually involved a survey of tax systems.

In addition to participation in field technical assistance, staff members were also involved at headquarters in the support and supervision of the work of experts in the field. Review and revision of legislation by members of the staff of the Fiscal Affairs Department in collaboration with the Legal Department absorbed an increased amount of time. The system of monthly correspondence between the field advisor and Fund headquarters not only ensures compatibility in the advice offered on different subjects but also makes available to the man in the field the wide experience of the Fund as a whole. Supplementary visits by senior staff members, mainly to countries where the advisors have been serving on a long-term basis, provide an opportunity to discuss technical issues in detail, to consult with the country authorities on the development of the assignments, and to confirm progress toward self-sufficiency in the particular area.

A wide range of fiscal advice continued to be sought from the Fund, and many countries received assistance on more than one subject. While the year's activity again emphasized the need for overall review of tax systems, there was a further increase in requests for advice on administering existing taxes and on training tax officials. Work in the budget area was also varied, with a number of countries receiving assistance on budget preparation, expenditure control, accounting, and general financial policy.

Since 1964, when the Fiscal Affairs Department was formed, assistance in this area has been provided to 46 countries, of which about half are African countries. The Fund has drawn on 20 countries to provide fiscal experts for the panel. While the rate of improvement has varied, benefits are visible in a number of countries in the form of better financial laws and administration.

Most of the technical assistance work of the Bureau of Statistics is directed toward the establishment or improvement of central bank bulletins. The Bureau's activities are based on the premises (1) that there is a body of interrelated statistics that are useful for the formulation of financial and monetary policies, including data on international reserves, money and banking, government finance, balances of trade and payments, prices, production, and the national accounts; and (2) that their assembly and publication in one place are useful for the authorities, the Fund, and others interested in monetary and payments problems. The development and improvement of data contained in these bulletins make it possible to direct technical assistance activities toward specific objectives and to assess progress in quantitative terms.

The Bureau's project for the establishment or improvement of central bank bulletins, now in its third year, had, through the end of April 1971, provided assistance to 33 countries. During 1970/71, 15 member countries were assisted. There were six new or substantially revised bulletins, published or well along toward publication; two of these bulletins were completely new, three were substantially revised, and one—which had been an internal bulletin—was both substantially improved and published for general circulation.

As in the first year of the project, staff visits to the countries have continued to follow a plan of four two-week visits during a 12-month period rather than long-term residence. This plan permits the use of Bureau staff rather than the employment of outside experts. The intervals between staff visits are intended to allow time for implementation by local technicians of work agreed on between the Bureau staff and the central bank and to increase the opportunities for training staffs of the central banks. In 1971/72 the Bureau expects to assist 20 member countries, of which 15 are participating in the project for the first time and the remainder continuing the work commenced in 1970/71.

The Bureau also provided technical assistance to member countries outside the central bank bulletin project through participation in Fund missions to seven countries in 1970/71. In six of these countries, there was a resulting improvement in the definition of monetary and fiscal statistics. In the other country, the basic balance sheets from which monetary statistics can be compiled were prepared from the central bank's books, and bank staff was trained to carry on this work.

The IMF Institute

During the past fiscal year, the IMF Institute completed two training courses (one on financial analysis and policy conducted in English and one on balance of payments methodology also conducted in English), which had begun in 1969/70. In addition, the Institute offered five new courses, which were attended by 125 officials from 75 member countries. For most of the year, two courses were conducted concurrently.

As in previous years, the main task of the Institute was 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 August 31, 1970, was presented in English, and was attended by 27 participants from 27 member countries. The second course, presented in Spanish, began on October 5, 1970; it was attended by 20 participants coming from 13 countries in Latin America. The third course, conducted in French, began on February 1, 1971, and was attended by 20 officials, most of them from French-speaking African countries.

The courses on financial analysis and policy, which were given for the first time in the spring of 1965, have as their main objectives to consider the modern tools of economic analysis and their application, to present a survey of the instruments of monetary and fiscal policy and a discussion of their effectiveness under different conditions and policy objectives, and to set forth the Fund's policies and the instruments that are at its disposal for their implementation. These courses 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. No course ever repeats the preceding one, and continuous efforts are undertaken to improve the content and the presentation of the courses. During the past fiscal year, further progress was made in integrating more closely the policy and the theoretical parts of the course. The number of sessions dealing with applied statistics was increased. More seminars and practical exercises, requiring active involvement by the participants, were included in the program. Recourse was made to the Joint Fund-Bank Computer Center, and a medium-sized macroeconomic model designed essentially as a teaching tool was simulated several times during the courses to illustrate the consequences of fiscal and monetary policy actions. The number of lectures dealing with the Fund was expanded to cover recent developments, especially with regard to special drawing rights. The enlargement of the professional staff of the Institute also permitted it to maintain closer contacts with the participants through tutorial or counseling sessions.

From May 25 to July 31, 1970, the Institute presented its third course on public finance to a group of 28 participants from 17 countries. This course, which was given in English in collaboration with the Fiscal Affairs Department, consisted of a survey of the field of public finance, with emphasis on the problems of developing countries.

An eight-week course on balance of payments methodology, given in English, ended on April 30, 1971. It was attended by 30 participants from 28 member countries. In describing the principles and methods of collecting and presenting balance of payments statistics, this course, conducted in collaboration with the Balance of Payments Division, took as basic material the fourth edition of the Fund's *Balance of Payments Manual* then in preparation.

In addition to organizing its regular courses, the Institute staff again provided lecturers 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.

At the beginning of the fiscal year 1971/72, the Institute's course on public finance was being presented in French, for the first time, to 21 officials from 16 member countries. The program of the Institute for the period August 1971 to July 1972 consists of seven courses: three on financial analysis and policy (in English, French, and Spanish), three on balance of payments methodology (in English, French, and Spanish), and one on public finance (in English).

Relations with Other International Organizations

The maintenance of close cooperation with other international and regional organizations in the economic and financial field is a continuing responsibility that results in Fund staff attendance at meetings of those organizations at various levels—from plenary session to working group—and attendance by the other organizations at the Annual Meetings of the Boards of Governors of the Fund and the World Bank Group, as well as recurring staff contacts and the exchange of pertinent documents and information on matters of mutual concern.

As in past years, Fund staff attended meetings of organs of the United Nations in the area of the Fund's interests—the General Assembly; the Economic and Social Council (ECOSOC) and its Committee for Development Planning; the Governing Council of the United Nations Development Program; the United Nations Conference on Trade and Development (UNCTAD) Trade and Development Board, its Committee on Invisibles and Financing Related to Trade, Special Committee on Preferences, and other subsidiary bodies; and the regional Economic Commissions for Africa (ECA), Asia and the Far East (ECAFE), Europe (ECE), and Latin America (ECLA). The Managing Director took part, with the heads of other UN bodies, in meetings of the UN Administrative Committee on Coordination (ACC), including its Joint Meeting with the Committee for Program and Coordination in Geneva; the Deputy Managing Director attended an ACC meeting in New York; and staff members represented the Fund in preliminary meetings and subcommittee activities. The Deputy Managing Director represented the Fund at the anniversary meeting of the United Nations in New York on October 24, 1970. The Managing Director also attended the Forty-Ninth Session of the ECOSOC in Geneva and, as customary, addressed that body on the occasion of his presentation of the Fund's Annual Report at the resumed Forty-Ninth Session in New York.

Among the special meetings held by UN organs during the year, Fund representatives participated in the ECLA Extraordinary Meetings of the Committee of the Whole in New York: the first to review the work of the Commission, and the second to review the situation in Peru following the earthquake disaster; the ECAFE Meeting of Government and Central Bank Officials on Regional Trade and Monetary Cooperation in Bangkok; the ECE Ad Hoc Meeting on Methods for International Trade Projections in Geneva; the UNCTAD Intergovernmental Group on Trade Expansion, Economic Cooperation, and Regional Integration Among Developing Countries and the Inter-Regional Seminar on the Planning of the Foreign Trade Sector, both in Geneva; and the Fourth Session of the UN Commission on International Trade Law, also in Geneva. Fund observers attended the 54th Session of the International Labor Conference and the 182nd Session of the Governing Body of the International Labor Office. The Managing Director took part in the second meeting of the Consultative Committee of the International Chamber of Commerce and the heads of UN economic agencies and the GATT, held in Paris.

Other organizations with which the Fund has active working relations are the International Bank for Reconstruction and Development (IBRD), 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. The Managing Director attended a meeting of the OECD Council at the Ministerial Level, and staff representatives attended meetings of the Economic Development and Review Committee, the Economic Policy Committee and its Working Parties 3 and 4, the Board of Management of the European Monetary Agreement, the Development Assistance Committee (including the Ninth Annual High Level Meeting in Tokyo and various working party meetings), the Committee for Invisible Transactions and its Ad Hoc Group on Financial Statistics, the Group of Governmental Experts on Financial Markets, and the Working Group on Short-Term Economic Prospects. Staff observers attended the annual and other regular meetings of the BIS, and maintained liaison with the European Economic Community in Brussels. The Fund was represented at the annual meetings of the Boards of Governors of the African Development Bank in Fort-Lamy, the Asian Development Bank in Singapore, the Caribbean Development Bank in Antigua, and the Inter-American Development Bank in Lima.

As part of its continuing cooperation with the GATT concerning common members, Fund representatives participated in consultations held by the Committee on Balance of Payments Restrictions on import restrictions, import deposit requirements, and import surcharges imposed for balance of payments reasons; they also attended meetings of the Council of Representatives, the Committees on Trade in Industrial Products and Agriculture, and the Working Party on Border Tax Adjustments.

International efforts for the coordination of aid and for debt renegotiation arrangements for members of the Fund are of special interest. In this connection, the Fund participated in meetings of the OECD-sponsored Turkey Consortium and in meetings sponsored by the IBRD and held in Paris of the Ceylon Aid Group; the newly established Consultative Group for the Philippines; the Consultative Groups for Colombia, Ghana, Morocco, Thailand, and Tunisia; and the India and Pakistan Consortia. The Fund continued its participation in meetings of the Inter-Governmental Group on Indonesia for aid coordination convened by the Netherlands Government and the Debt Conference on Ghana convened by the Government of the United Kingdom. Reflecting its interest in commercial credits, Fund representatives attended the annual meeting and an extraordinary general meeting of the Union d'Assureurs des Credits Internationaux (Berne Union).

The Fund's concern with developments in the commodity area involved staff attendance at the Seventeenth Session of the International Coffee Council in London; the Twenty-Ninth Plenary Meeting of the International Cotton Advisory Committee in Washington; meetings of several bodies of the Food and Agriculture Organization of the United Nations—Committee on Commodity Problems (CCP), Consultative Committee on Tea, Study Group on Rice, Consultative Committee of the CCP Study Group on Jute, Kenaf, and Allied Fibres; the United Nations Wheat Conference 1971, held to negotiate a new International Wheat Agreement to replace the International Grains Agreement 1967, due to expire on June 30, 1971; the UNCTAD Committee on Commodities meetings and the UNCTAD consultations on a draft International Cocoa Agreement; and the International Tin Council's Interim Committee meeting concerning the transition to the Fourth International Tin Agreement.

In addition, the Managing Director attended a special meeting in Buenos Aires of the Board of Governors of the Inter-American Development Bank (IDB) on the occasion of the installation of the new President of the Bank. Fund staff participated in a meeting in Paris on Latin American external debt arranged by the Atlantic Institute, in cooperation with OAS, IBRD, and IDB, and in a Panel on Foreign Investment in Latin America, convened in Medellín, by the UN secretariat. The Fund was also represented at the First Subregional (Andean Area) Meeting of the Latin American Association of Development Financing Institutions held in Lima, the First Meeting of Central Banks of Signatory States of the Andean Subregional Integration Agreement in Quito, and the Second Meeting of National Accounts Experts for Central America in San José. At the request of the Central American Monetary Council, staff members were sent to San José to review work on the Council's progress report on economic integration within the Central American Common Market. Fund staff continued to participate in meetings of the OAS, particularly the Inter-American Committee on the Alliance for Progress in connection with its annual country reviews and on other matters of mutual interest.

Staff

During the year there were 192 appointments to the Fund's regular staff and 81 separations. As of April 30, 1971 the staff numbered 1,106 and was drawn from 82 countries. These figures do not include Assistants to Executive Directors.

Income, Expenditures, and Reserves

Income and Expenditures

Except for income from investment, which is credited direct to the Special Reserve, the income of the Fund is almost entirely 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, the stand-by charges, and the charges in connection with purchases of gold. 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.

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 a member's own currency, if that member's monetary reserves equal less than one half of its quota.

The rate of charges levied on the Fund's holdings of members' currencies in excess of their quotas is based on the extent 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 60, has been in effect since May 1, 1963. An annual review of this schedule took place in April 1971, 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 on amounts purchased from the Fund. However, no service charge is payable in respect of gold tranche purchases. There is also a stand-by charge equivalent to ¼ of 1 per cent per annum on the amount of a stand-by arrangement. 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, 1971, 32 members were subject to such charges, compared with 39 members on April 30, 1970. Aggregate payments of these charges during the

TABLE 60. 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.

fiscal year 1970/71 amounted to $128 million, of which $82 million was paid in gold, $41 million in special drawing rights, and $5 million by members in their own currencies in accordance with provisions of Article V, Section 8(*f*). During the preceding fiscal year, similar charges amounted to $125 million, of which $64 million was paid in gold, $56 million in special drawing rights, and $5 million in members' own currencies (after adjustment). Since the beginning of Fund operations, 60 members have been subject to such charges.

The remainder of the Fund's income stems mainly from interest payments received on holdings of special drawing rights by the General Account and from service charges on purchases from the Fund. Interest payments on holdings of special drawing rights amounted to $0.4 million from January 1, 1970, the date of the first allocation, to April 30, 1970; for 1970/71, the first full fiscal year of operations of the Special Drawing Account, a total of $4 million was received. Service charges on purchases from the Fund amounted to $2 million for 1970/71, compared with $12 million for the previous fiscal year. This decrease reflects not only the decline in the total amount of purchases but also the fact that most of these were gold tranche purchases, in respect of which no charges are levied. Assessments to cover the expenses of the Special Drawing Account amounted to SDR 0.9 million.

TABLE 61. INCOME AND EXPENDITURE, FISCAL YEARS ENDED APRIL 30, 1962–71

(In millions of U.S. dollars)

	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
Income [1]										
Operational—service and stand-by charges, etc.	11.7	6.6	4.9	11.8	15.6	7.1	7.4	14.6	13.4	7.5
On balances in excess of quotas	21.4	24.4	31.5	35.9	65.7	82.5	82.0	107.5	124.7	128.1
Total	33.1	31.0	36.4	47.7	81.3	89.6	89.4	122.1	138.1	135.6
Expenditure										
Administrative (and property)	8.2	9.6	13.1	17.6	20.7	21.4	21.8	28.9	34.3 [2]	39.9 [2]
Operational										
Remuneration	—	—	—	—	—	—	—	—	27.2	37.4
Other	—	—	—	4.6	16.1	17.8	11.9	22.3	19.1	11.8
Total	8.2	9.6	13.1	22.2	36.8	39.2	33.7	51.3	80.6	89.2
Net Income [3]	25.0	21.5	23.2	25.5	44.5	50.4	55.7	70.8	57.6	46.4

[1] Excludes income from investments transferred to the Special Reserve.

[2] Net of assessments of $0.9 million in both 1970 and 1971 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, $70.8 million, and $57.6 million net income in 1968, 1969, and 1970, respectively, $18.3 million, $38.9 million, and $40.0 million were transferred to General Reserve and $37.5 million, $31.9 million, and $17.6 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 and in amounts which raised the total return from remuneration and distribution of net income to 2 per cent for 1970. Pending action by the Board of Governors, the net income for the fiscal year ended April 30, 1971 has been provisionally transferred to the General Reserve.

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, since 1966, in respect of a bilateral borrowing from Italy. In June and July 1970 Italy's claim on the Fund under the bilateral arrangement was transferred to Japan in two installments and, in April 1971, $125 million of this claim was repaid to Japan. Interest payments in gold in accordance with paragraph 9(b) of the GAB and paragraph 3(b) of the bilateral borrowing arrangement amounted to a total of $12 million, compared with $17 million for the preceding year. Total expenditure in 1970/71, however, increased somewhat as a result of the payment of $37 million remuneration to all creditor members of the Fund, against $27 million in 1969/70. Article V, Section 9, of the Fund Agreement provides 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 or the member's currency. In an Executive Board decision adopted on April 29, 1970, members were given 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 61.

Reserves

With the exception of the fiscal year 1947/48, the Fund operated with annual losses from the beginning of activity in 1946 through the year ended April 30, 1956. 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 could be reacquired upon termination of the investment.

On November 27, 1957 the Executive Directors decided 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. The Executive Directors decided on November 30, 1960 to increase this investment to $800 million, at which level it remained until its reduction by $400 million was approved in September 1970.[23] The income from investments during the year ended

[23] Executive Board Decision No. 3132-(70/87), adopted September 11, 1970 and reproduced in Appendix I.

April 30, 1971 amounted to $40 million, compared with $57 million during the previous year. The income for 1970/71 was added to the Special Reserve, increasing the balance to $406 million.

The Fund has had a surplus of income over expenditure in every year beginning with 1956/57. 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.

At the end of April 1970 the General Reserve amounted to $350 million. The Executive Directors recommended to the Board of Governors in September 1970 that $18 million be distributed to members in such amount that the total of remuneration and net income received by each member would be equivalent to 2 per cent on the amount by which 75 per cent of a member's quota exceeded the average of the Fund's holdings of its currency during the fiscal year ended April 30, 1970, and that $40 million, the remainder of the net income for the fiscal year, be allocated to the General Reserve. On September 25, 1970 the Board of Governors approved this recommendation. Payments were made to 20 members in the member's own currency in accordance with the provisions of Article XII, Section 6(*b*), and to 14 members in special drawing rights in accordance with an option granted in September 1970.[24]

For the fiscal year 1970/71 the Fund's operating income was $136 million and total expenditure was $89 million. The income of $46 million was provisionally transferred to the General Reserve pending action by the Board of Governors. The balance in that account was $378 million on April 30, 1971.

Administrative Budget and Audit

The administrative budget approved by the Executive Directors for the period May 1, 1971 to April 30, 1972 is presented in Appendix IV. Comparative income and expenditure figures for the fiscal years ended April 30, 1969, 1970, and 1971 are given in Appendix V.

[24] Executive Board Decision No. 3130-(70/87), adopted September 11, 1970 and reproduced in Appendix I.

The Executive Directors requested the Governments of Ireland, Japan, and Sierra Leone to nominate members of the Audit Committee for 1971. The following nominations were made and confirmed: Mr. Seán Mac Gearailt, Secretary and Director of Audit, Office of Comptroller and Auditor General of Ireland; Mr. Masao Fujioka, Deputy Director-General, International Finance Bureau, Ministry of Finance, Japan; Mr. A. S. C. Johnson, Deputy Governor, Bank 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, 1971, the Statement of Income and Expenditure, the Statement of Reserves, the Statement of Source and Use of Special Drawing Rights, and the audited Balance Sheet of the Staff Retirement Fund as at April 30, 1971.

Publications

Publications of the Fund during the fiscal year included a two-part report by Executive Directors on the mechanism of exchange rate adjustment, several new books, an addition to the Pamphlet Series, and the Fund's usual publications, including those issued annually or at other regular intervals.

The Role of Exchange Rates in the Adjustment of International Payments: A Report by the Executive Directors was published in English, French, and Spanish in September 1970 and was considered by the Fund's Governors at their Annual Meeting held later that month in Copenhagen. Other official publications included the *Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1970* (English, French, and Spanish editions and a shorter German edition) and the *Twenty-First Annual Report on Exchange Restrictions.* Publications relating to official activities included *Summary Proceedings of the Twenty-Fifth Annual Meeting of the Board of Governors, Schedule of Par Values* (49th, 50th, and 51st issues), and the fourth issue of *Selected Decisions of the Executive Directors and Selected Documents* (in English, with French and Spanish versions to follow shortly).

New books published during the year included the first comprehensive study of the form and content of stand-by arrangements, *The Stand-By Arrangements of the International Monetary Fund*, by Joseph Gold, the General Counsel of the Fund and the Director of its Legal Department, and *International Reserves: Needs and Availability*, containing the papers and proceedings of a seminar held at the Fund in June 1970, in which 22 scholars from various countries and Fund staff members participated. During the year the Fund extended its series on African countries, *Surveys of African Economies*, with the publication in English of Volume 3, covering the seven members of the West African Monetary Union (Dahomey, Ivory Coast, Mauritania, Niger, Senegal, Togo, and Upper Volta) and with the French version of Volume 2 in the series. At the end of the fiscal year the preparation of Volume 4, on the Democratic Republic of Congo, the Malagasy Republic, Malawi, Mauritius, and Zambia, as well as the French version of Volume 3, were well under way.

In the Pamphlet Series, there was a second edition of No. 13, *Special Drawing Rights*, and a new pamphlet, No. 14, *The Fund's Concepts of Convertibility*. All the pamphlets in this series are being issued in French and Spanish as well as in English. Other publications in preparation at the end of the fiscal year included a second edition of Pamphlet No. 6, *Maintenance of the Gold Value of the Fund's Assets*, and a *Catalogue of Fund Publications, 1946–70*.

In addition to those noted above, regular publications issued during the fiscal year were as follows:

Balance of Payments Yearbook, Volume 22, 1965–69 (monthly, looseleaf, also available in a hardbound edition).

Direction of Trade, monthly, issued jointly with the International Bank for Reconstruction and Development.

Finance and Development, quarterly, issued jointly with the International Bank for Reconstruction and Development (English, French, and Spanish editions and an annual Portuguese language edition issued in Brazil; a new German edition, published in Germany, was inaugurated in September 1970).

International Financial News Survey, weekly.

International Financial Statistics, monthly (in an English edition and a combined English, French, and Spanish edition).

Staff Papers, Volume XVII, Nos. 2 and 3, and Volume XVIII, No. 1.

The Fund has continued its policy of supplying 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*. These publications are also available to university libraries, faculty members, and students at a 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 these four periodicals available on a subscription basis and books, all the publications mentioned above are available free of charge.

B. Balance of Payments Statements

THE following Tables 62–74 present balance of payments statements, for 1969, 1970, and, where data are available, for the first quarter of 1971, 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 1969 and 1970 are presented in Tables 75 and 76 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 62. AUSTRIA: BALANCE OF PAYMENTS SUMMARY, 1969–FIRST QUARTER 1971 [1]

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

	1969	1970 [2]	1970 [2] First quarter	1970 [2] Second quarter	1970 [2] Third quarter	1970 [2] Fourth quarter	1971 [2] First quarter
A. Goods, Services, and Unrequited Transfers							
Exports f.o.b.	2,401	2,850	648	702	724	776	710
Imports f.o.b.	−2,735	−3,446	−778	−846	−879	−943	−928
Trade balance	−334	−596	−130	−144	−155	−167	−218
Travel	489	676	132	135	320	89	150
Other services and unrequited transfers (net)	−57	−88	−2	−15	−16	−55	−8
Total	98	−8	—	−24	149	−133	−76
Memorandum item: Goods, Services, and Private Unrequited Transfers	*100*	*−6*	*1*	*−24*	*149*	*−132*	*−75*
B. Long-Term Capital, n.i.e.							
Private	−26	27	13	−12	1	25	−23
Official	18	14	—	−15	53	−24	−12
Total	−8	41	13	−27	54	1	−35
C. Total (A plus B)	90	33	13	−51	203	−132	−111
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Private nonmonetary	−19	−36	−10	1	−46	19	17
Net errors and omissions	53	94	−18	45	52	15	84
Total	34	58	−28	46	6	34	101
E. Commercial Bank Capital							
Liabilities	125	443	57	51	−69	404	−37
Assets (increase −)	−213	−353	−99	−6	−16	−232	42
Total	−88	90	−42	45	−85	172	5
F. Total (C through E)	36	181	−57	40	124	74	−5
G. Allocation of SDRs	—	29	29	—	—	—	19
H. Total (F plus G)	36	210	−28	40	124	74	14
I. Official Monetary Movements							
Gold (increase −)	—	1	1	—	—	—	—
SDRs (increase −)	—	−38	−34	−4	—	—	−19
Reserve position in the Fund (increase −)	−7	9	−5	—	13	1	23
Foreign exchange	−19	−193	75	−36	−145	−87	−29
Other short-term assets (increase −)	−11	11	−9	—	8	12	11
Short-term liabilities	1	—	—	—	—	—	—
Total	−36	−210	28	−40	−124	−74	−14

Source: Austrian National Bank.
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.

TABLE 63. BELGIUM-LUXEMBOURG: BALANCE OF PAYMENTS SUMMARY, 1969–FIRST QUARTER 1971 [1]

(In millions of U.S. dollars)

	1969	1970 [2]	1970 [2] First quarter	1970 [2] Second quarter	1970 [2] Third quarter	1970 [2] Fourth quarter	1971 [2] First quarter
A. Goods, Services, and Unrequited Transfers							
Exports [3]	8,096	9,690	2,246	2,426	2,412	2,606	2,472
Imports [3]	−7,920	−8,928	−2,018	−2,318	−2,172	−2,420	−2,310
Trade balance	176	762	228	108	240	186	162
Services (net)	24	118	40	—	14	64	52
Unrequited transfers (net)	−116	−136	−24	−6	−20	−86	−58
Total	84	744	244	102	234	164	156
Memorandum item: Goods, Services, and Private Unrequited Transfers	*210*	*892*	*270*	*116*	*260*	*246*	*218*
B. Long-Term Capital							
Private [4]	228	−352	−88	−20	−164	−80	−58
Official	−38	−54	−12	−16	−22	−4	−16
Total	190	−406	−100	−36	−186	−84	−74
C. Total (A plus B)	274	338	144	66	48	80	82
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Official	81	212	109	−36	166	−27	21
Net errors and omissions	33	−60	−82	26	22	−26	30
Total	114	152	27	−10	188	−53	51
E. Commercial Bank Capital	−194	−102	−100	12	−44	30	22
F. Total (C through E)	194	388	71	68	192	57	155
G. Allocation of SDRs	—	71	71	—	—	—	70
H. Total (F plus G)	194	459	142	68	192	57	225
I. Official Monetary Movements							
Gold (increase −)	4	50	—	—	−10	60	4
SDRs (increase −)	—	−205	−80	−14	—	−111	−94
Reserve position in the Fund (increase −)	144	−236	−44	−108	−28	−56	−71
Foreign exchange (increase −)	−342	−68	−18	54	−154	50	−64
Total	−194	−459	−142	−68	−192	−57	−225

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.

TABLE 64. CANADA: BALANCE OF PAYMENTS SUMMARY, 1969–FIRST QUARTER 1971 [1]

(In millions of U.S. dollars)

	1969	1970 [2]	1970 [2] First quarter	1970 [2] Second quarter	1970 [2] Third quarter	1970 [2] Fourth quarter	1971 [2] First quarter
A. Goods, Services, and Unrequited Transfers							
Exports f.o.b.	13,758	16,135	3,669	4,261	3,956	4,249	4,065
Imports f.o.b	−12,963	−13,250	−3,081	−3,649	−3,242	−3,278	−3,371
Nonmonetary gold	100	91	23	25	22	21	22
Trade balance	895	2,976	611	637	736	992	716
Investment income (net)	−861	−970	−258	−218	−225	−269	−233
Other services (net)	−678	−646	−282	−169	−8	−187	−326
Unrequited transfers (net)	−53	−105	−21	−13	−37	−34	−16
Total	−697	1,255	50	237	466	502	141
Memorandum item: Goods, Services, and Private Unrequited Transfers	*−564*	*1,449*	*79*	*277*	*543*	*550*	*179*
B. Long-Term Capital							
Private							
Direct Investment	371	525	46	127	127	225	139
Other	1,748	446	570	−84	118	−158	171
Official	−32	−201	−15	−84	−99	−3	−43
Total	2,087	770	601	−41	146	64	267
C. Total (A plus B)	1,390	2,025	651	196	612	566	408
D. Short-Term Capital (including net errors and omissions)	−1,330	−575	−283	539	−391	−440	−360
E. Total (C plus D)	60	1,450	368	735	221	126	48
F. Allocation of SDRs	—	124	124	—	—	—	118
G. Total (E plus F)	60	1,574	492	735	221	126	166
H. Official Monetary Movements							
Gold (increase −)	−9	81	−7	−1	—	89	—
SDRs (increase −)	—	−182	−133	−10	−38	−1	−118
Reserve position in the Fund (increase −)	−272	−192	−37	−8	−51	−96	84
Foreign exchange (increase −)	221	−1,281	−315	−716	−132	−118	−132
Total	−60	−1,574	−492	−735	−221	−126	−166

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

TABLE 65. DENMARK: BALANCE OF PAYMENTS SUMMARY, 1969 AND 1970 [1]

(In millions of U.S. dollars)

	1969	1970 [2]	1970 [2] First quarter	1970 [2] Second quarter	1970 [2] Third quarter	1970 [2] Fourth quarter
A. Goods, Services, and Unrequited Transfers						
Exports f.o.b.	2,982	3,320	763	835	807	915
Imports f.o.b.	−3,612	−4,106	−963	−1,093	−955	−1,095
Trade balance	−630	−786	−200	−258	−148	−180
Services and unrequited transfers (net)	220	247	59	45	95	48
Total	−410	−539	−141	−213	−53	−132
Memorandum item: Goods, Services, and Private Unrequited Transfers	*−385*	...	...	...	...	...
B. Capital Movements (excluding Group D) and Net Errors and Omissions						
Private capital	230	420	103	84	84	149
Official capital	50	43	10	−3	19	17
Net errors and omissions	56	65	11	20	14	20
Total	336	528	124	101	117	186
C. Total (A plus B)	−74	−11	−17	−112	64	54
D. Commercial Bank Capital						
Liabilities	−12	26	−9	48	−13	—
Assets (increase −)	86	−4	2	−43	2	35
Total	74	22	−7	5	−11	35
E. Total (C plus D)	—	11	−24	−107	53	89
F. Allocation of SDRs	—	27	27	—	—	—
G. Total (E plus F)	—	38	3	−107	53	89
H. Official Monetary Movements						
Gold (increase −)	25	24	—	—	—	24
SDRs (increase −)	—	−17	−27	—	10	—
Reserve position in the Fund (increase −)	84	−25	—	—	−1	−24
Foreign exchange assets (net)	−109	−20	24	107	−62	−89
Total	—	−38	−3	107	−53	−89

Source: Danish Government Statistical Office.
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.

TABLE 66. FRANCE: BALANCE OF PAYMENTS SUMMARY, 1969 AND 1970 [1]

(In millions of U.S. dollars)

	1969	1970 [2]	1970 [2] First quarter	1970 [2] Second quarter	1970 [2] Third quarter	1970 [2] Fourth quarter
A. Goods, Services, and Unrequited Transfers						
Exports f.o.b.	14,877	18,086	4,254	4,603	4,560	4,669
Imports f.o.b.	−16,100	−17,384	−4,075	−4,412	−4,248	−4,649
Trade balance	−1,223	702	179	191	312	20
Services (net)	253	251	68	190	−60	53
Unrequited transfers (net)	−1,058	−840	−168	−149	−278	−245
Total	−2,028	113	79	232	−26	−172
Memorandum item: Goods, Services, and Private Unrequited Transfers	*−1,683*	*308*	*127*	*207*	*81*	*−107*
B. Long-Term Capital						
Private						
Direct investment	103	213	42	91	30	50
Other	213	255	127	109	−61	80
Official	−124	−176	−66	−37	−47	−26
Total	192	292	103	163	−78	104
C. Total (A plus B)	−1,836	405	182	395	−104	−68
D. Short-Term Capital, n.i.e. (including net errors and omissions)						
Nonmonetary sectors	51	186	88	235	30	−167
Net errors and omissions	288	690	115	209	227	139
Total	339	876	203	444	257	−28
E. Commercial Bank Capital						
Liabilities	2,613	1,975	−75	52	434	1,564
Assets	−2,141	−1,477	225	−380	−153	−1,169
Total	472	498	150	−328	281	395
F. Total (C through E)	−1,025	1,779	535	511	434	299
G. Allocation of SDRs	—	165	165	—	—	—
H. Total (F plus G)	−1,025	1,944	700	511	434	299
I. Official Monetary Movements						
Gold (increase −)	330	15	3	1	6	5
SDRs (increase −)	—	−171	−165	—	−2	−4
Reserve position in the Fund (increase −)	1	—	—	—	—	—
Foreign exchange (increase −)	37	−971	−131	−322	−300	−218
Use of Fund credit	499	110	485	—	−246	−129
Other short-term liabilities (net)	158	−927	−892	−190	108	47
Total	1,025	−1,944	−700	−511	−434	−299

Sources: Data provided by the French authorities.

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

[2] Preliminary.

TABLE 67. FEDERAL REPUBLIC OF GERMANY: BALANCE OF PAYMENTS SUMMARY, 1969–FIRST QUARTER 1971 [1]

(In millions of U.S. dollars)

			1970				1971
	1969	1970	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services, and Unrequited Transfers							
Exports f.o.b.	29,053	34,192	7,830	8,512	8,417	9,433	9,044
Imports c.i.f.	−24,928	−29,817	−7,000	−7,571	−7,234	−8,012	−8,023
Other merchandise	−223	−352	−84	−96	−135	−37	−110
Trade balance[2]	3,902	4,023	746	845	1,048	1,384	911
Paid services to foreign troops	1,420	1,572	344	404	420	404	426
Other services (net)[3]	−1,542	−2,384	−533	−467	−914	−470	−545
Unrequited transfers (net)	−2,171	−2,545	−548	−601	−642	−754	−736
Total	1,609	666	9	181	−88	564	56
Memorandum item: Goods, Services, and Private Unrequited Transfers	*2,731*	*1,658*	*234*	*398*	*122*	*904*	*345*
B. Long-Term Capital							
Foreign investment in Germany	347	281	−54	39	125	171	122
German investment abroad (increase −)	−545	−686	−198	−124	−173	−191	−236
Other private liabilities	−182	1,333	15	171	516	631	372
Other private assets (increase −)	−5,091	−1,472	−765	−151	−182	−374	−191
Government long-term capital	−535	−688	−94	−234	−190	−170	−156
Total	−6,006	−1,232	−1,096	−299	96	67	−89
C. Total (A plus B)	−4,397	−566	−1,087	−118	8	631	−33
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Government short-term capital	−10	−117	26	−134	47	−56	173
Other short-term capital	−187	1,762	211	541	791	219	903
Net errors and omissions	473	2,720	599	875	1,038	208	2,276
Total	276	4,365	836	1,282	1,876	371	3,352
E. Commercial Bank Short-Term Capital							
Liabilities	1,836	2,139	434	−26	763	968	−570
Assets (increase −) [4]	−651	28	−16	346	−414	112	−655
Total	1,185	2,167	418	320	349	1,080	−1,225
F. Total (C through E)	−2,936	5,966	167	1,484	2,233	2,082	2,094
G. Allocation of SDRs	—	202	202	—	—	—	171
H. Total (F plus G)	−2,936	6,168	369	1,484	2,233	2,082	2,265
I. Official Monetary Movements							
Gold (increase −)	460	99	—	−1	−2	102	2
SDRs (increase −)	—	−258	−222	−26	−6	−4	−192
Reserve position in the Fund (increase −)	1,213	−615	—	−71	−306	−238	−67
Foreign exchange [4] (increase −)							
Bundesbank investment in U.S. and U.K. Treasury paper [5]	−125	546	546	—	—	—	—
Other	1,366	−6,255	−562	−1,352	−2,172	−2,169	−1,936
Miscellaneous claims (net) [6]	22	315	−131	−34	253	227	−72
Total	2,936	−6,168	−369	−1,484	−2,233	−2,082	−2,265

Sources: Deutsche Bundesbank, *Monthly Report*, June 1971, and reports to the Fund.

[1] Preliminary. Positive figures are credits; negative figures are debits. For 1969, the entries in Groups A through F have been converted from figures expressed in deutsche mark by applying the par value rate of US$1 = DM 4 to the data for the first three quarters of the year and the par value rate of US$1 = DM 3.66 to those for the final quarter. The conversions for 1970 and the first quarter of 1971 have been made at the latter rate. 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 par value rates without adjustments.

[2] These figures differ from those in Table 17, where the trade balance is derived from imports valued on an f.o.b. basis. German import data are not available quarterly on a c.i.f. basis throughout the reporting period.

[3] This item does not include freight and insurance on imports; see footnote 2 above.

[4] 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.

[5] Made in accordance with the U.S.-German and the U.K.-German agreements on offsetting the foreign exchange cost of U.S. and U.K. troops in Germany.

[6] Mainly covers 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 68. ITALY: BALANCE OF PAYMENTS SUMMARY, 1969–FIRST QUARTER 1971 [1]

(In millions of U.S. dollars)

			1970 [2]				1971 [2]
	1969	1970 [2]	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services (net), and Unrequited Transfers (net)							
Exports f.o.b.	11,642	13,106	2,961	3,373	3,314	3,458	3,425
Imports f.o.b.	−11,100	−13,446	−3,129	−3,483	−3,301	−3,533	−3,630
Trade balance	542	−340	−168	−110	13	−75	−205
Travel	1,140	912	123	215	385	189	81
Other services	331	146	12	42	124	−32	−95
Unrequited transfers	327	96	−63	12	69	78	70
Total	2,340	814	−96	159	591	160	−149
Memorandum item: Goods, Services, and Private Unrequited Transfers	*2,613*	*1,325*	*95*	*305*	*690*	*235*	*−104*
B. Capital Movements (excluding Groups D and H) and Net Errors and Omissions							
Loans received by private sector	123	862	255	179	41	387	386
Loans extended by private sector	−467	−195	−32	−64	−52	−47	−20
Trade credits	−662	−655	−265	−237	−70	−83	50
Other private investment in Italy	416	630	108	89	248	185	99
Other private investment abroad	−746	−635	−270	−183	−107	−75	−88
Miscellaneous government capital	−33	719	103	420	127	69	210
Repatriation of Italian banknotes [3]	−2,256	−951	−436	−228	−148	−139	−154
Other net errors and omissions [4]	85	−217	−114	46	−286	137	−37
Total	−3,540	−442	−651	22	−247	434	446
C. Total (A plus B)	−1,200	372	−747	181	344	594	297
D. Commercial Bank Capital							
Liabilities	2,766	2,897	−705	371	528	2,703	−415
Assets (increase −)	−2,080	−2,878	574	−327	−697	−2,428	682
Total	686	19	−131	44	−169	275	267
E. Total (C plus D)	−514	391	−878	225	175	869	564
F. Allocation of SDRs	—	105	105	—	—	—	107
G. Total (E plus F)	−514	496	−773	225	175	869	671
H. Official Monetary Movements							
Gold (increase −)	−33	69	−22	−4	−1	96	3
SDRs (increase −)	—	−77	−120	44	—	−1	−139
Reserve position in the Fund (increase −)	32	587	−22	139	589	−119	−15
Foreign exchange (increase −)	337	−865	97	220	−426	−756	−599
Other claims (increase −)	24	−65	−1	−14	−6	−44	70
Short-term liabilities	154	−145	841	−610	−331	−45	9
Total	514	−496	773	−225	−175	−869	−671

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 69. JAPAN: BALANCE OF PAYMENTS SUMMARY, 1969–FIRST QUARTER 1971 [1]

(In millions of U.S. dollars)

			1970				1971 [2]
	1969	1970	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services, and Unrequited Transfers							
Exports f.o.b.	15,679	18,969	4,036	4,586	4,939	5,408	4,945
Imports f.o.b.	−11,980	−15,006	−3,457	−3,741	−3,834	−3,974	−3,860
Trade balance	3,699	3,963	579	845	1,105	1,434	1,085
Services (net)	−1,399	−1,785	−465	−422	−458	−440	−516
Unrequited transfers (net)	−181	−208	−59	−50	−48	−51	−81
Total	2,119	1,970	55	373	599	943	488
Memorandum item: Goods, Services, and Private Unrequited Transfers	*2,277*	*2,146*	*81*	*425*	*647*	*993*	*527*
B. Long-Term Capital							
Direct investment	−134	−261	−52	−80	−62	−67	−74
Trade credits and loans extended	−1,010	−1,415	−508	−315	−277	−315	−510
Other	989	85	122	−68	24	7	393
Total	−155	−1,591	−438	−463	−315	−375	−191
C. Total (A plus B)	1,964	379	−383	−90	284	568	297
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Nonmonetary sectors' capital	178	724	185	149	244	146	116
Net errors and omissions	141	271	182	−36	122	3	196
Total	319	995	367	113	366	149	312
E. Commercial Bank Capital							
Liabilities	−88	1,009	107	232	−69	739	−125
Assets (increase −)	−1,395	−1,375	192	−256	−697	−614	319
Total	−1,483	−366	299	−24	−766	125	194
F. Total (C through E)	800	1,008	283	−1	−116	842	803
G. Allocation of SDRs	—	122	122	—	—	—	128
H. Total (F plus G)	800	1,130	405	−1	−116	842	931
I. Official Monetary Movements							
Gold (increase −)	−57	−119	−56	−3	−58	−2	−7
SDRs (increase −)	—	−146	−132	−8	−4	−2	−130
Reserve position in the Fund (increase −)	−338	−347	−57	−150	−66	−74	175
Foreign exchange (increase −)	−353	−574	−159	135	215	−765	−1,097
Other assets (net)	−52	56	−1	27	29	1	128
Total	−800	−1,130	−405	1	116	−842	−931

Source: Bank of Japan, *Balance of Payments Monthly.*
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.

TABLE 70. NETHERLANDS: BALANCE OF PAYMENTS SUMMARY, 1969–FIRST QUARTER 1971 [1]

(In millions of U.S. dollars)

			1970 [2]				1971 [2]
	1969	1970 [2]	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services, and Unrequited Transfers							
Exports f.o.b.[3]	9,312	10,980	2,584	2,736	2,704	2,956	2,977
Imports f.o.b.	−9,736	−11,864	−2,733	−3,012	−2,879	−3,240	−3,218
Trade balance	−424	−884	−149	−276	−175	−284	−241
Services (net)	458	440	78	76	196	90	40
Unrequited transfers (net)	−47	−30	9	24	−39	−24	40
Total	−13	−474	−62	−176	−18	−218	−161
Memorandum item: Goods, Services, and Private Unrequited Transfers	*−2*	*−518*	*−83*	*−225*	*3*	*−213*	*−217*
B. Long-Term Capital, n.i.e.							
Private	26	691	72	267	125	227	272
Official	−32	−28	−5	−15	−6	−2	−6
Total	−6	663	67	252	119	225	266
C. Total (A plus B)	−19	189	5	76	101	7	105
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Private nonmonetary sectors' capital	−60	−2	−31	−71	147	−47	35
Net errors and omissions	230	378	111	81	94	92	34
Total	170	376	80	10	241	45	69
E. Commercial Bank Capital							
Liabilities	1,311	1,797	256	709	403	429	473
Assets (increase −)	−1,398	−1,742	−291	−781	−438	−232	−415
Total	−87	55	−35	−72	−35	197	58
F. Total (C through E)	64	620	50	14	307	249	232
G. Allocation of SDRs	—	87	87	—	—	—	75
H. Total (F plus G)	64	707	137	14	307	249	307
I. Official Monetary Movements							
Gold (increase −)	−23	−66	−9	—	−71	14	−26
SDRs (increase −)	—	−144	−95	−17	−2	−30	−175
Reserve position in the Fund (increase −)	57	−100	−26	−67	16	−23	1
Other short-term assets (increase −)	−98	−399	−9	71	−251	−210	−108
Short-term liabilities	—	2	2	−1	1	—	1
Total	−64	−707	−137	−14	−307	−249	−307

Source: Netherlands Bank.
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.
[3] Including the balance of merchandise transactions abroad.

TABLE 71. NORWAY: BALANCE OF PAYMENTS SUMMARY, 1969–FIRST QUARTER 1971 [1]

(In millions of U.S. dollars)

	1969	1970 [2]	1970 [2] First quarter	1970 [2] Second quarter	1970 [2] Third quarter	1970 [2] Fourth quarter	1971 [2] First quarter
A. Goods, Services, and Unrequited Transfers							
Exports f.o.b.	2,215	2,468	583	635	589	661	625
Imports f.o.b.	−2,910	−3,661	−796	−924	−809	−1,132	−910
Trade balance	−695	−1,193	−213	−289	−220	−471	−285
Services and unrequited transfers (net)	829	1,011	206	241	283	281	251
Total	134	−182	−7	−48	63	−190	−34
Memorandum item: Goods, Services, and Private Unrequited Transfers	*168*	*−148*	*3*	*−40*	*70*	*−181*	*−23*
B. Long-Term Capital, n.i.e.							
Private	−128	111	1	34	−39	115	38
Official	−20	−16	−4	−4	−3	−5	−5
Total	−148	95	−3	30	−42	110	33
C. Total (A plus B)	−14	−87	−10	−18	21	−80	−1
D. Short-Term Capital, n.i.e. (including net errors and omissions)							
Nonmonetary sectors' capital	−71	46	−4	−13	−8	71	50
Net errors and omissions	17	148	15	71	−10	72	−15
Total	−54	194	11	58	−18	143	35
E. Commercial Bank Capital							
Liabilities	105	−29	−98	−17	24	62	−18
Assets (increase −)	−47	−1	42	−33	16	−26	31
Total	58	−30	−56	−50	40	36	13
F. Total (C through E)	−10	77	−55	−10	43	99	47
G. Allocation of SDRs	—	25	25	—	—	—	26
H. Total (F plus G)	−10	102	−30	−10	43	99	73
I. Official Monetary Movements							
Gold (increase −)	−2	2	−1	−1	−6	10	—
SDRs (increase −)	—	−27	−27	—	—	—	−28
Reserve position in the Fund (increase −)	−15	−32	−5	—	−4	−23	18
Other short-term assets (increase −)	19	−42	63	20	−36	−89	−51
Short-term liabilities	8	−3	—	−9	3	3	−12
Total	10	−102	30	10	−43	−99	−73

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

TABLE 72. SWEDEN: BALANCE OF PAYMENTS SUMMARY, 1969 AND 1970 [1]

(In millions of U.S. dollars)

	1969	1970 [2]	1970 [2] First quarter	Second quarter	Third quarter	Fourth quarter
A. Goods, Services, and Unrequited Transfers						
Exports f.o.b.	5,662	6,732	1,479	1,711	1,620	1,922
Imports f.o.b.	−5,835	−6,945	−1,686	−1,788	−1,612	−1,859
Trade balance	−173	−213	−207	−77	8	63
Services and unrequited transfers (net)	−46	−110	−31	−15	−24	−40
Total	−219	−323	−238	−92	−16	23
Memorandum item: Goods, Services, and Private Unrequited Transfers	*−109*	*−225*	*−226*	*−78*	*8*	*71*
B. Long-Term Capital, n.i.e.						
Private						
Direct investment	−82	−87	−5	−45	−14	−23
Other	105	277	57	31	72	117
Official	−48	−29	−1	−5	−5	−18
Total	−25	161	51	−19	53	76
C. Total (A plus B)	−244	−162	−187	−111	37	99
D. Short-Term Capital, n.i.e. (including net errors and omissions)						
Private nonmonetary	−4	78	20	43	7	8
Official	2	−10	—	−1	−1	−8
Net errors and omissions	−80	175	90	109	−45	21
Total	−82	243	110	151	−39	21
E. Commercial Bank Capital						
Liabilities	171	54	76	135	12	−169
Assets (increase −)	14	−132	−76	−183	10	117
Total	185	−78	—	−48	22	−52
F. Total (C through E)	−141	3	−77	−8	20	68
G. Allocation of SDRs	—	38	38	—	—	—
H. Total (F plus G)	−141	41	−39	−8	20	68
I. Official Monetary Movements						
Gold (increase −)	−1	26	1	—	—	25
SDRs (increase −)	—	−38	−38	—	—	—
Reserve position in the Fund (increase −)	63	−25	—	—	—	−25
Other short-term assets (increase −)	57	−28	76	9	−23	−90
Short-term liabilities	22	24	—	−1	3	22
Total	141	−41	39	8	−20	−68

Source: Sveriges Riksbank.
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.

TABLE 73. UNITED KINGDOM: BALANCE OF PAYMENTS SUMMARY, 1969–FIRST QUARTER 1971 [1]

(In millions of U.S. dollars)

	1969	1970 [2]	1970 [2] First quarter	1970 [2] Second quarter	1970 [2] Third quarter	1970 [2] Fourth quarter	1971 [2] First quarter
A. Goods, Services, and Unrequited Transfers (seasonally adjusted)							
Exports f.o.b.	16,946	18,924	4,622	4,709	4,488	5,105	4,774
Imports f.o.b. (excluding U.S. military aircraft)	−17,138	−18,894	−4,481	−4,798	−4,647	−4,968	−4,937
Payments for U.S. military aircraft	−146	−23	−2	—	−14	−7	−12
Trade balance	−338	7	139	−89	−173	130	−175
Investment income	1,109	1,234	271	343	315	305	365
Services and unrequited transfers (net)	278	250	113	99	43	−5	−5
Total	1,049	1,491	523	353	185	430	185
Seasonal influence	—	—	−2	36	−84	50	−96
Unadjusted total	1,049	1,491	521	389	101	480	89
Memorandum item: Goods, Services, and Private Unrequited Transfers, Seasonally Adjusted	*1,471*	*1,897*	*629*	*435*	*288*	*545*	*286*
B. Long-Term Capital, n.i.e.							
Official	−235	−492	−115	−91	−48	−238	−96
Private investment (net)							
Abroad (increase −)	−1,601	−1,682	−461	−290	−494	−437	−545
In United Kingdom	1,778	1,551	543	389	254	365	955
Total	−58	−623	−33	8	−288	−310	314
C. Total (A plus B), unadjusted	991	868	488	397	−187	170	403
D. Net Errors and Omissions	809	312	593	−334	−209	262	919
E. Short-Term Capital Movements, n.i.e.							
Trade credit	−408	−703	−134	−130	−86	−353	−142
U.K. banks' net liabilities in foreign currencies							
Euro-dollar financing of new private investment abroad	173	442	29	77	156	180	96
Other	−259	708	307	211	−204	394	149
Sterling liabilities other than to central monetary institutions, BIS, and IMF							
Sterling area countries	−298	372	89	204	41	38	194
Other	−10	223	185	−29	−58	125	34
Other	−43	374	212	−65	28	199	191
Total	−845	1,416	688	268	−123	583	522
F. Total (C through E)	955	2,596	1,769	331	−519	1,015	1,844
G. Allocation of SDRs	—	410	410	—	—	—	300
H. Total (F plus G)	955	3,006	2,179	331	−519	1,015	2,144
I. Official Monetary Movements							
Gold (increase −)	3	122	2	—	15	105	226
SDRs (increase −)	—	−266	−305	20	16	3	−216
Convertible currency reserves (increase −)	−108	−156	120	−101	94	−269	−499
Other claims (increase −)	—	—	—	—	—	—	−500
Use of Fund credit, including gold deposit liability	−36	−421	−251	−20	−21	−129	−690
Official liabilities in foreign currency	−146	−360	−360	—	—	—	...
Sterling counterpart of official borrowing	−1,458	−2,427	−1,815	−444	377	−545	−957
Other sterling liabilities to central monetary institutions							
Sterling area countries	900	492	377	226	55	−166	466
Other countries	−110	10	53	−12	−17	−14	26
Total	−955	−3,006	−2,179	−331	519	−1,015	−2,144

Source: U. K. Central Statistical Office, *Economic Trends*, June 1971, which gives these statistics in pounds sterling.
[1] Positive figures are credits; negative figures are debits.
[2] Preliminary.

TABLE 74. UNITED STATES: BALANCE OF PAYMENTS SUMMARY, SEASONALLY ADJUSTED, 1969–FIRST QUARTER 1971 [1]

(In millions of U.S. dollars)

			1970				1971 [2]
	1969	1970	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
A. Goods, Services, and Unrequited Transfers (excluding aid)							
Exports f.o.b.	36,490	41,980	10,241	10,582	10,696	10,461	11,032
Imports f.o.b.	−35,830	−39,870	−9,728	−9,831	−9,992	−10,319	−10,760
Trade balance	660	2,110	513	751	704	142	272
Investment income	4,394	4,473	1,151	1,003	1,133	1,188	1,282
Military expenditures	−3,341	−3,371	−908	−808	−884	−770	−677
Other services, remittances, and pensions (excluding aid and military transfers)	−968	−1,030	−213	−263	−317	−241	−177
Total	745	2,182	543	683	636	319	700
B. Official Aid and Nonmonetary Sectors' Selected Capital							
Advance repayments on U.S. Government loans and other special financial transactions	−87	244	88	114	2	40	4
Other government capital and grants	−3,750	−3,576	−929	−871	−840	−935	−1,035
Direct investment abroad	−3,254	−4,445	−1,358	−1,257	−897	−934	−1,357
Portfolio investment abroad	−1,601	−1,336	−567	129	−595	−303	−335
Foreign direct and portfolio investment in United States	4,805	4,328	956	856	1,272	1,244	695
Total	−3,887	−4,785	−1,810	−1,029	−1,058	−888	−2,028
C. Total (A plus B)	−3,142	−2,603	−1,267	−346	−422	−569	−1,328
D. Net Errors and Omissions	−2,603	−1,132	−62	−430	−433	−207	−1,268
E. Short-Term Capital, n.i.e.							
Foreign nonliquid capital	354	394	133	−73	206	129	−88
Foreign liquid capital	−504	265	−9	65	−68	277	338
U.S. private assets (increase −)	−569	−1,105	−13	−396	−260	−436	−332
Total	−719	−446	111	−404	−122	−30	−82
F. Liquid Liabilities to Foreign Commercial Banks	9,166	−6,507	−1,863	−441	−1,315	−2,888	−3,025
G. Total (D through F)	5,844	−8,085	−1,814	−1,275	−1,870	−3,125	−4,375
H. Total (C plus G)	2,702	−10,688	−3,081	−1,621	−2,292	−3,694	−5,703
I. Allocation of SDRs	—	867	217	217	217	216	180
J. Total (H plus I)	2,702	−9,821	−2,865	−1,402	−2,077	−3,476	−5,523
K. "Official Settlements" [3]							
Gold (increase −)	−967	787	−44	14	395	422	109
SDRs (increase −)	—	−851	−270	−254	−251	−76	−55
Reserve position in the Fund (increase −)	−1,034	389	−253	227	406	9	255
U.S. convertible currency holdings (increase −)	814	2,152	831	818	34	469	373
Liabilities to foreign official agencies							
Nonliquid liabilities	−998	−275	−420	500	−245	−111	−224
Liquid liabilities	−517	7,619	3,021	97	1,738	2,763	5,065
Total	−2,702	9,821	2,865	1,402	2,077	3,476	5,523
Memorandum item: Change (increase −) in monetary reserve assets net of liquid liabilities [4]							
Including SDR allocations	6,958	3,854	1,413	526	939	976	3,060
Excluding SDR allocations	6,958	4,721	1,630	743	1,156	1,192	3,240

Source: U.S. Department of Commerce, *Survey of Current Business*, June 1971.

[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 75. PRIMARY PRODUCING COUNTRIES—MORE DEVELOPED AREAS: BALANCE OF PAYMENTS SUMMARIES, 1969 AND 1970[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[4] (6)	Private Long-Term Capital (7)	Basic Balance (Cols. 5 through 7) (8)	Other Short-Term Capital and Net Errors and Omissions (9)	Total[5] (Cols. 8 + 9) (10)
Australia	1969	4,030	−3,750	280	−1,036	−756	−261	876	−141	−40	−181
	1970	4,616	−4,099	517	−1,159	−642	−358	1,030	30	316	431
Finland	1969	1,976	−2,028[6]	−52	51	−1	14	30	43	−51	−8
	1970	2,294	−2,644[6]	−350	129	−221	−75	92	−204	301	118
Greece	1969	530	−1,434[6]	−904	552	−352	72	182	−98	93	−5
	1970	612	−1,705[6]	−1,093	679	−414	5	279	−130	106	−7
Iceland	1969	107	−107	—	4	4	8	6	18	−12	6
	1970	146	−143	3	5	8	5	−2	11	9	22
Ireland	1969	950	−1,454[6]	−504	316	−188	22	46	−120	267	147
	1970	1,104	−1,603[6]	−499	350	−149	26	...	−123	115[7]	5
Malta	1969	34	−132	−98	81	−17	13	−11	−15	3	−12
	1970	34	−145	−111	79	−32	7	17	−8	17	11
New Zealand	1969	1,194	−858	336	−231	105	−25	−5	75	−18	57
	1970	1,250	−1,022	228	−259	−31	1	15	−15	2	13
Portugal	1969	923	−1,428	−505	560	55	4	33	92	−42	50
	1970	1,056	−1,683	−627	710	83	−29	47	101	−42	59
South Africa	1969	3,391	−3,009	382	−791	−409	2	287	−120	38	−82
	1970	3,150	−3,609	−459	−689	−1,148	202	358	−588	168	−386
Spain	1969	1,994	−3,865	−1,871	1,461	−410	14	480	84	−336	−252
	1970	2,457	−4,337	−1,880	1,960	80	−22	696	754	58	854
Turkey	1969	537	−726	−189	31	−158	341	27	210	−106	104
	1970	588	−850	−262	152	−110	451	68	409	−124	303
Yugoslavia	1969	1,474	−2,134[6]	−660	595	−65	345	—	280	−125	155
	1970	1,681	−2,876[6]	−1,195	848	−347	262	—	−85	−53	−112
Total	1969	17,140	−20,925	−3,785	1,593	−2,192	549	1,951	308	−329	−21
	1970	18,988	−24,716	−5,728	2,805	−2,923	475	2,600	152	873	1,311

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

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

[2] Data for 1970 are preliminary and include Fund staff estimates.

[3] F.o.b. unless otherwise noted.

[4] Includes net aid given or net aid received.

[5] Reflects net official reserve movements, i.e., changes in foreign liabilities of countries' central monetary institutions in addition to changes in their official holdings of gold, SDRs, and foreign exchange and changes in their net Fund positions. The 1970 totals include SDR allocations, totaling $285 million, which are not included in the components. Allocations, by country, are given in Table 55 on page 170.

[6] C.i.f.

[7] Including private long-term capital.

TABLE 76. PRIMARY PRODUCING COUNTRIES—LESS DEVELOPED AREAS: BALANCE OF PAYMENTS SUMMARIES, 1969 AND 1970 [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 Govern-ment Capital and Aid [4] (6)	Private Long-Term Capital (7)	Basic Balance (Cols. 5 through 7) (8)	Other Short-Term Capital and Net Errors and Omissions (9)	Total [5] (Cols. 8 + 9) (10)
Western Hemisphere										
Argentina	1,612	−1,576 [6]	36	−256	−220	−18	58	−180	−52	−232
Bolivia	178	−173	5	−56	−51	115	−60	4	−4	—
Brazil	2,311	−1,993	318	−671	−353	−32	557	172	294	466
Chile	1,173	−927 [6]	246	−252	−6	417	−185	226	−56	170
Colombia	672	−648	24	−234	−210	118	158	66	−11	55
Costa Rica	190	−222	−32	−24	−56	3	28	−25	43	18
Dominican Republic	184	−210	−26	−51	−77	12	45	−20	19	−1
Ecuador	188	−220	−31	−70	−102	15	62	−25	28	3
El Salvador	202	−193	9	−32	−23	13	13	3	−3	—
Guatemala	263	−241	22	−36	−14	7	40	33	−25	8
Guyana	128	−118 [6]	10	−27	−17	11	6	—	−3	−3
Haiti	38	−42	−4	1	−3	5	3	5	−4	1
Honduras	171	−170	1	−35	−34	24	9	−1	−1	−2
Jamaica	257	−381	−124	4	−120	11	104	−5	3	−2
Mexico	1,429	−2,091 [6]	−662	−67	−729	90	614	−25	48	23
Nicaragua	157	−158	−1	−39	−40	10	21	−9	5	−4
Panama	131	−285	−154	108	−46	145	22	121	−28	93
Paraguay	55	−81	−26	−9	−35	11	23	−1	−1	−2
Peru	881	−674	207	−212	−5	77	29	101	−68	33
Trinidad and Tobago	500	−481 [6]	19	−58	−39	−6	47	2	−9	−7
Uruguay	200	−197	3	−2	1	11	13	25	−8	17
Venezuela	2,523	−1,629	894	−1,147	−253	101	91	−61	72	11
Subtotal, Western Hemisphere	13,443	−12,710	733	−3,166	−2,433	1,140	1,699	406	240	646
Asia										
Burma	126	−142	−16	−31	−47	—	—	−47	3	−44
Ceylon	321	−446 [6]	−125	−17	−142	128	−2	−16	3	−13
China, Republic of	1,081	−1,100	−19	−17	−36	−13	168	119	−24	95
Fiji	55	−73 [6]	−18	—	−18	−2	1	−19	21	2
India	1,864	−2,084 [6]	−220	−67	−287	736	−37	412	−43	369
Indonesia	995	−993	2	−363	−361	236	43	−82	34	−48
Khmer Republic	66	−99	−33	6	−27	12	—	−15	7	−8
Korea	658	−1,650	−992	338	−654	293	401	40	79	119
Malaysia	1,629	−1,150	479	−263	216	56	57	329	−197	132
Pakistan	644	−967	−323	−90	−413	323	146	56	−20	36
Philippines	874	−1,132	−258	−25	−283	128	90	−65	24	−41
Singapore	1,461	−1,916	−455	223	−232	13	47	−172	268	96
Thailand	686	−1,229 [6]	−543	268	−275	66	105	−104	68	−36
Viet-Nam	33	−853 [6]	−820	282	−538	473	—	−65	5	−60
Subtotal, Asia	10,493	−13,834	−3,341	244	−3,097	2,449	1,019	371	228	599
Middle East										
Cyprus	95	−181	−86	71	−15	−1	21	5	16	21
Iran	2,144	−1,734 [6]	410	−950	−540	515	102	77	−55	22
Iraq	1,045	−443 [6]	602	−450	152	−35	26	143	−125	18
Israel	747	−1,152	−405	−8	−413	147	59	−207	−166	−373
Jordan	41	−189 [6]	−148	−26	−174	141	2	−31	6	−25
Saudi Arabia	1,785	−776	1,009	−945	64	−87	−39	−62	−59	−121
Syrian Arab Republic	201	−354 [6]	−153	106	−47	6	—	−41	25	−16
United Arab Republic	735	−962 [6]	−227	−69	−296	246	−15	−65	30	−35
Yemen, People's Democratic Republic of	155	−207 [6]	−52	51	−1	8	—	7	−10	−3
Subtotal, Middle East	6,948	−5,998	950	−2,220	−1,270	940	156	−174	−338	−512
Africa										
Algeria	902	−953	−51	−177	−228	65	30	−133	50	−83
Congo, Democratic Republic of	684	−406	278	−279	−1	55	...	54	7 [7]	61
Ethiopia	119	−130	−11	−12	−23	23	10	10	−6	4
Gabon	165	−96	69	−90	−21	13	12	4	−7	−3
Ghana	348	−290	58	−108	−50	45	10	5	1	6
Ivory Coast	480	−369 [6]	111	−111	—	47	7	54	−57	−3
Kenya	250	−338 [6]	−88	57	−31	38	43	50	10	60
Libyan Arab Republic	2,168	−680 [6]	1,488	−1,040	448	−136	138	450	−74	376
Malawi	52	−73	−21	−26	−47	32	13	−2	—	−2
Mali	23	−38	−15	−16	−31	22	—	−9	−6	−15
Mauritius	66	−59	7	−2	5	6	2	13	−2	11
Morocco	484	−522	−38	13	−25	71	7	53	−29	24
Nigeria	874	−641 [6]	233	−409	−176	29	139	−8	21	13
Rwanda	15	−21	−6	—	−6	3	1	−2	1	−1
Sierra Leone	105	−98	7	−20	−13	5	17	9	1	10
Somalia	34	−56 [6]	−22	−2	−24	27	2	5	1	6
Sudan	260	−258 [6]	2	−31	−29	35	−1	5	−12	−7
Tanzania	249	−249 [6]	—	25	25	12	−21	16	−15	1
Tunisia	166	−257	−91	11	−80	74	14	8	−4	4
Uganda	220	−199 [6]	21	−30	−9	21	−3	9	−7	2
Zambia	1,067	−439	628	−307	321	18	...	339	−162 [7]	177
Subtotal, Africa	8,731	−6,172	2,559	−2,554	5	505	420	930	−289	641
Total	39,615	−38,714	901	−7,696	−6,795	5,034	3,294	1,533	−159	1,374

TABLE 76 (*concluded*). PRIMARY PRODUCING COUNTRIES—LESS DEVELOPED AREAS: BALANCE OF PAYMENTS SUMMARIES, 1969 AND 1970 [1, 2]

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

	1970									
	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 [4] (6)	Private Long-Term Capital (7)	Basic Balance (Cols. 5 through 7) (8)	Other Short-Term Capital and Net Errors and Omissions (9)	Total [5] (Cols. 8 + 9) (10)
Western Hemisphere										
Argentina	1,770	−1,680 [6]	90	−224	−134	−52	97	−89	194	163
Bolivia	197	−169	28	−60	−32	20	22	10	−9	6
Brazil	2,739	−2,450	289	−791	−502	142	377	17	458	534
Chile	1,130	−1,020 [6]	110	−165	−54	400	. . .	346	−244 [7]	123
Colombia	799	−821	−22	−262	−284	106	124	−54	72	39
Costa Rica	229	−287	−58	−32	−90	10	35	−45	28	−12
Dominican Republic	213	−267	−54	−60	−114	16	79	−19	14	—
Ecuador	238	−272	−34	−95	−129	28	117	16	−20	1
El Salvador	229	−216	13	−14	−1	−1	8	6	−4	6
Guatemala	298	−267	31	−32	−1	14	42	55	−42	17
Guyana	134	−134 [6]	—	−20	−20	10	9	−1	−5	−3
Haiti	39	−48	−9	5	−4	7	3	6	−5	3
Honduras	175	−224 [6]	−49	−19	−68	27	19	−22	5	−14
Jamaica	299	−439	−140	4	−136	−2	152	14	1	22
Mexico	1,399	−2,478 [6]	−1,079	44	−1,035	232	454	−349	379	75
Nicaragua	178	−178	—	−41	−41	19	32	10	−2	11
Panama	130	−332	−202	118	−84	225	−20	121	—	125
Paraguay	65	−76	−11	−8	−19	9	7	−3	8	8
Peru	1,032	−695	337	−212	125	95	−78	142	28	184
Trinidad and Tobago	502	−541 [6]	−39	−50	−89	13	75	−1	8	14
Uruguay	224	−197	27	−71	−44	9	. . .	−35	−1 [7]	−26
Venezuela	2,642	−1,789	853	−994	−141	128	46	33	12	87
Subtotal, Western Hemisphere	14,662	−14,580	82	−2,979	−2,897	1,455	1,600	158	875	1,363
Asia										
Burma	122	−153	−31	−38	−69	7	—	−62	−3	−56
Ceylon	338	−393 [6]	−55	−24	−79	83	—	4	−1	16
China, Republic of	1,465	−1,374	91	−80	11	−8	122	125	73	198
Fiji	55	−75 [6]	−20	−1	−21	12	7	−2	4	2
India	1,896	−2,237 [6]	−341	−103	−444	684	−23	217	−32	311
Indonesia	1,181	−1,139	42	−443	−401	305	56	−40	43	37
Khmer Republic	40	−48	−8	2	−6	8	—	2	—	2
Korea	882	−1,761	−879	195	−684	202	326	−156	216	68
Malaysia	1,662	−1,328	334	−269	65	21	67	153	−139	35
Pakistan	672	−1,207	−535	−163	−698	321	199	−178	52	−94
Philippines	1,082	−1,090	−8	−26	−34	114	125	205	−107	116
Singapore	1,446	−2,302	−856	221	−635	39	119	−477	661	184
Thailand	688	−1,267 [6]	−579	260	−319	45	105	−169	100	−69
Viet-Nam	13	−850 [6]	−837	325	−512	478	−1	−35	2	−26
Subtotal, Asia	11,542	−15,224	−3,682	−144	−3,826	2,311	1,102	−413	869	724
Middle East										
Cyprus	104	−206	−102	79	−23	5	23	5	24	32
Iran	2,425	−1,771 [6]	654	−1,030	−376	425	111	160	−278	−97
Iraq	1,102	−481 [6]	621	−510	111	−26	47	132	−108	24
Israel	792	−1,281	−489	−97	−586	579	98	91	−89	17
Jordan	35	−180 [6]	−145	16	−129	108	−4	−25	15	−7
Saudi Arabia	2,090	−785	1,305	−1,159	146	−84	104	166	−79	87
Syrian Arab Republic	197	−347 [6]	−150	90	−60	12	1	−47	1	−39
United Arab Republic	817	−1,191 [6]	−374	−84	−458	432	−10	−36	19	8
Yemen, People's Democratic Republic of	170	−208 [6]	−38	41	3	13	. . .	16	−16 [7]	4
Subtotal, Middle East	7,732	−6,450	1,282	−2,654	−1,372	1,464	370	462	−511	29
Africa										
Algeria	910	−1,044	−134	−116	−250	72	. . .	−178	62 [7]	−103
Congo, Democratic Republic of	798	−617 [6]	181	−242	−61	54	−17	−24	−4	−13
Ethiopia	123	−144	−21	−21	−42	17	5	−20	19	−1
Gabon	174	−100	74	−88	−14	19	−1	4	1	6
Ghana	424	−337	87	−115	−28	22	21	15	7	33
Ivory Coast	496	−431	65	−108	−43	43	20	20	8	31
Kenya	278	−417 [6]	−139	77	−62	38	57	33	4	42
Libyan Arab Republic	2,366	−567 [6]	1,799	−1,235	564	−111	147	600	59	659
Malawi	58	−82 [6]	−24	−22	−46	48	1	3	3	7
Mali	30	−39	−9	−20	−29	11	. . .	−18	9 [7]	−6
Mauritius	68	−65	3	1	4	3	1	8	6	16
Morocco	492	−602	−110	8	−102	57	14	−31	48	32
Nigeria	1,205	−1,005 [6]	200	−379	−179	56	187	64	8	88
Rwanda	25	−26 [6]	−1	—	−1	6	—	5	—	8
Sierra Leone	101	−103	−2	−19	−21	6	20	5	—	7
Somalia	37	−51	−14	−3	−17	22	. . .	5	3 [7]	10
Sudan	287	−301 [6]	−14	−29	−43	30	—	−13	−1	−4
Tanzania	257	−330 [6]	−73	20	−53	34	. . .	−19	−2 [7]	−15
Tunisia	179	−286 [6]	−107	−14	−121	83	49	11	6	23
Uganda	261	−205 [6]	56	−46	10	22	. . .	32	−33 [7]	4
Zambia	984	−440 [6]	544	−389	155	−34	. . .	121	16 [7]	145
Subtotal, Africa	9,553	−7,192	2,361	−2,740	−379	498	504	623	219	969
Total	43,489	−43,446	43	−8,517	−8,474	5,728	3,576	830	1,452	3,085

Source: International Monetary Fund, *Balance of Payments Yearbook*.
For footnotes, see Table 75.

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APPENDICES

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A. Effects of Amended Articles on Calculation of Monetary Reserves and Repurchase Obligations Pursuant to Article V, Section 7(*b*)

1. If the repurchase which a member is required to make under Article V, Section 7(*b*), would exceed the limit specified in Article V, Section 7(*c*)(iii), the member may use any convertible currency in making the repurchase pursuant to Schedule B, Paragraph 1(*d*), provided that at the time of discharge the repurchase will not increase the Fund's holdings of any member's currency beyond 75 per cent of that member's quota, and provided further that the member making the repurchase has consulted the Managing Director on the currencies, and the amount of each, to be used in the repurchase. The consultations by the Managing Director and the currency composition of repurchases shall be used on the statement entitled "Currencies to be Drawn and to be Used in Repurchases" (approved by Executive Board Decision No. 1371-(62/36), adopted July 20, 1962[1]).

2. If a repurchase required under Article V, Section 7(*b*), would exceed the limit specified in Article V, Section 7(*c*)(iv), the portion of the repurchase obligation which is to be paid forthwith and the portion which is to be repurchased at the end of the subsequent financial year or years in accordance with Paragraph 1(*e*) of Schedule B, shall be determined as follows:

(a) If the member's monetary reserves have not increased (i) the excess amount shall be distributed proportionately among the types of monetary reserve (gold, special drawing rights, and convertible currencies taken as a whole) in which the repurchase obligation has been calculated, and (ii) the currencies and amount of each to be paid forthwith shall be determined by the Fund in the light of the principles of Section II of the statement entitled "Currencies to be Drawn and to be Used in Repurchases" (approved by Executive Board Decision No. 1371-(62/36), adopted July 20, 1962), taking into account also the operational convenience of the member and of the Fund;

(b) If the member's monetary reserves have increased the member may, at its option, elect to pay the amount payable forthwith either in accordance with the principles set forth in (a) above or in accordance with (c) below;

(c) If the member's monetary reserves have increased during the year (i) the amount to be paid forthwith shall be distributed proportionately among the media which have increased, up to one half of the increase in monetary reserves, (ii) any remainder of the amount to be paid forthwith shall be distributed among the member's remaining holdings of monetary reserves, and (iii) the balance of the repurchase obligation shall be discharged at the end of the subsequent financial year or years in the types of monetary reserve determined in accordance with the provisions of Schedule B.

3. In the calculations of monetary reserves and repurchase obligations under Article V, Section 7(*b*), and Schedule B, Article V, Section 7(*c*)(iv), and Schedule B, Paragraph 1(*e*), shall be applied before Article V, Section 7(*c*)(iii), and Schedule B, Paragraph 1(*d*).

[1] *Annual Report, 1962,* page 245.

4. Rule I-6[2] shall be amended to read as follows:

(c) When a repurchase obligation has thus been computed for a member, the Managing Director, after consultation with the Executive Director appointed or elected by the member, shall notify the member by letter containing all the necessary details of the computation, including the distribution of the amount payable among the types of reserves and any amount to be postponed.

(d) If the member is in agreement with the aforesaid computation, the member shall so advise the Fund within thirty days from the day on which the member receives notice thereof. The Managing Director shall then send to the member a formal request for payment, and shall at the same time notify the Board of such request. The member shall discharge the amount due within thirty days from the day on which the member receives the formal request for payment.

(f) After agreement with the member if reached under (e) above, or after a decision by the Executive Board determining the member's repurchase obligation, the Managing Director shall send to the member a formal request for payment, and shall at the same time notify the Board of such request. The member shall discharge the amount due within thirty days from the day on which the member receives the formal request for payment or within such other period as may be decided by the Executive Board.

5. Paragraph 2 of Executive Board Decision No. 1813-(65/4), adopted January 18, 1965,[3] as amended by Executive Board Decision No. 2499-(68/77), adopted April 19, 1968,[4] shall be amended to read as follows:

2. The Fund will make a provisional calculation of the amount and distribution of the repurchase obligations of such members and will inform them of the results of the calculation not later than June 15. Members shall discharge any repurchase obligations as thus provisionally calculated and agreed with the member within thirty days from the date of agreement, subject to the limit specified in Article V, Section 7(*c*) (iv), and to Paragraph 1(*e*) of Schedule B.

Decision No. 3049-(70/44)
May 20, 1970

B. Use of Special Drawing Rights in Distribution of Net Income

Pursuant to Article XXV, Section 7(*f*), the Fund shall pay, at the option of a participant, an equivalent amount of special drawing rights in substitution for the amount of currency payable to it as a distribution of net income for the financial year ended

[2] *By-Laws, Rules and Regulations* (Twenty-Ninth Issue, Washington, November 1970), pages 37–38.
[3] *Annual Report, 1965,* page 123.
[4] *Annual Report, 1968,* page 127.

April 30, 1970, provided that the General Account's holdings of special drawing rights at the time of payment exceed the amount of distribution to which all such participants may be entitled.

Decision No. 3130-(70/87)
September 11, 1970

C. Disinvestment of $400 Million in U.S. Government Securities

The Managing Director shall arrange to reacquire gold in an amount equivalent to not more than US$400 million from the United States on or before September 30, 1970, pursuant to Executive Board Decision No. 488-(56/5), adopted January 25, 1956 (as amended by Executive Board Decision No. 2844-(69/90), adopted September 19, 1969 [5]), Executive Board Decision No. 708-(57/57), adopted November 27, 1957,[6] Executive Board Decision No. 905-(59/32), adopted July 24, 1959,[7] and Executive Board Decision No. 1107-(60/50), adopted November 30, 1960.[8] The gold shall be reacquired with the U.S. dollar proceeds, excluding those proceeds credited to the Special Reserve as income, received on the maturity or by the sale of U.S. Government securities held for investment.

Decision No. 3132-(70/87)
September 11, 1970

D. Sales of Gold by the Fund Under Article VII, Section 2(ii), in Accordance with Board of Governors Resolution: Increases in Quotas of Members—Fifth General Review [9]

1. Pursuant to paragraph 7 of Board of Governors Resolution No. 25–3,[9] the Managing Director shall arrange for sales of gold not exceeding the equivalent of US$700

[5] *Selected Decisions of the Executive Director and Selected Documents* (Fourth Issue, Washington, April 1970), pages 138–40.
[6] *Ibid.*, pages 140–41.
[7] *Ibid.*, page 141.
[8] *Ibid.*, pages 141–42.
[9] *Annual Report, 1970,* pages 181–84.

million pursuant to Article VII, Section 2(ii), for the replenishment of the Fund's holdings of the currencies of members which sell gold to other members in connection with the payment of increases in their quotas under Resolution No. 25-3, provided that the amount of gold sold by the Fund to a member shall not exceed the amount of gold sold by the member to other members for that purpose, and provided further that a replenishment shall not increase the Fund's holdings of the currency being replenished above 75 per cent of that member's quota. The arrangements shall be in accordance with paragraphs 17 and 18 of the Report of the Executive Directors to the Board of Governors entitled *Increases in Quotas of Members—Fifth General Review.*

2. These sales of gold to members and any purchases of excess amounts of gold paid by members up to one standard gold bar shall be made without payment of charges and shall be at the parity price as determined by the par value of the member's currency or the applicable rate of exchange pursuant to Article IV, Section 8.

3. In connection with sales of gold by the Fund, under paragraph 1 of this decision, there shall be transferred to the Fund's gold bar holdings from the general deposits of gold with the Bank of England the Federal Reserve Bank of New York an amount of gold calculated on each occasion of sales of gold by the Fund on the basis of the proportions which each of those deposits bear to the Fund's total gold holdings. The transfer of gold from the general deposits to the Fund's gold bar holdings shall take place either on the occasion of the sale of gold or shortly after the sales of gold have taken place or when the amount of gold sold by the Fund in replenishment reaches an amount equivalent to $100 million.

Decision No. 3150-(70/93)
October 23, 1970

E. Payments Arrears in Current International Transactions

The Executive Board has reviewed the Fund's policy with respect to payments arrears. The Fund shall be guided by the approach in the conclusion set forth [below].

Decision No. 3153-(70/95)
October 26, 1970

Conclusions

1. Undue delays in the availability or use of exchange for current international transactions that result from a governmental limitation give rise to payments arrears and are payments restrictions under Article VIII, Section 2(*a*), and Article XIV, Section 2. The

limitation may be formalized, as for instance compulsory waiting periods for exchange, or informal or ad hoc.

2. The need for the Fund to define its policy on payments arrears is emphasized by the fact that restrictions resulting in payments arrears arising from informal or ad hoc measures do particular harm to a country's international financial relationships because of the uncertainty they generate. This uncertainty is particularly harmful to the smooth functioning of the international payments system and has pronounced adverse effects on the creditworthiness of the debtor country which may extend beyond the period of the existence of the restrictions.

3. In the light of these considerations it is believed that the Fund should aim in consultation reports at a more systematic treatment of restrictions on payments and transfers for current international transactions that produce payments arrears. In all cases where payments arrears arise from a governmental limitation on, or interference with, the availability of foreign exchange at the time a payment for a current international transaction falls due, or with the timely transfer of the proceeds of such transactions, the payments arrears should be treated in the consultation papers as evidence of a payments restriction requiring approval in Article VIII or Article XIV consultation decisions. The staff, in the consultation discussions, will have to establish whether payments arrears exist by ascertaining whether there has been a substantial delay beyond that usually required for ascertaining the bona fides of exchange applications or the time that can be regarded as normally required for the administrative processing of applications for exchange. If payments arrears exist and approval of the restriction giving rise to them is requested by the member, the member should be expected to submit a satisfactory program for their elimination. Approval if given should be only for a temporary period and generally with a fixed terminal date. Because of the difficulty in surveillance, approval should be wherever feasible in terms of the level of arrears outstanding. The program for the elimination of the payments arrears should provide for a maximum permissible delay to which a payment or transfer could be subjected, together with a phased reduction in the outstanding level.

4. Fund financial assistance to members having payments arrears should be granted on the basis of performance criteria or policies with respect to the treatment of arrears similar to the criteria or policies described in the preceding paragraph for the approval of the payments restrictions. In general, the understandings should provide for the elimination of the payments arrears within the period of the stand-by arrangement. Such understandings should be based on the concept of a given level of payments arrears and should be reflected in the performance criteria included in stand-by arrangements in the higher credit tranches. To support the policies designed to deal with arrears the letter of intent should include a statement that there would be no imposition of new restrictions or increase in the level of delayed payments. Where Fund financial assistance is being provided, but only through the first credit tranche, the adoption of a viable program directed toward the elimination of the payments arrears should be an important factor in considering whether the country was making reasonable efforts to redress its international financial situation.

F. Fourth International Tin Agreement: Buffer Stock Financing Facility

(i) The Fund, having considered the text of the Fourth International Tin Agreement, as adopted by the UN Tin Conference on May 15, 1970, finds that the terms of this Agreement relating to the international tin buffer stock to be established under the Agreement are consistent with the principles referred to in Executive Board Decision No. 2772-(69/47) of June 25, 1969.[10] The Fund expects that an amount equal to not less than one third of the compulsory contributions due on entry into force of the Agreement under Article 21(a)(ii) of the Agreement will be met from financing other than the use of the Fund's resources under Executive Board Decision No. 2772-(69/47).

(ii) In view of (i) above, the Fund will meet, subject to the provisions of Executive Board Decision No. 2772-(69/47), a member's requests for purchases in connection with the financing by the member of that part of its compulsory contribution to the buffer stock established under the Fourth International Tin Agreement which the member has been called upon to make under Article 21 of the Agreement and which is in excess of one third of the member's compulsory contribution due under Article 21(a)(ii) of the Agreement.

(iii) The staff will keep the Executive Directors informed on the operation of the buffer stock and other developments in connection with the Fourth International Tin Agreement by reports that will be made at least once a year, and the Fund may make such review of this Decision as is appropriate in the light of these reports.

Decision No. 3179-(70/102)
November 25, 1970

G. Replenishment of Currency Holdings by Sales of Gold

The Executive Directors agreed that the Fund would be guided by the revised conclusions regarding the replenishment of currency holdings by sales of gold as set forth [below].

Decision No. 3294-(71/22)
March 22, 1971

Conclusions

The following policy is suggested for gold sales other than those designed to mitigate the effects of quota increases:

[10] *Annual Report, 1970,* page 175.

A. With respect to sales of gold acquired under Article V, Section 6(*a*):
   (1) such sales should be considered regularly at six-monthly intervals;
   (2) unless there is no case for replenishment, it should be presumed that sales of gold would be justified in amounts roughly corresponding to the amounts acquired under that provision since the last preceding sale.

B. With respect to general sales of gold other than under A:
   (1) such sales should be made at times and in amounts determined by the Fund's need for replenishment;
   (2) in seeking to establish this need account should be taken inter alia of the Fund's stock of currencies that are currently considered suitable for drawings, relative to the amount of potential drawings on the Fund's resources;
   (3) where appropriate and feasible, the Fund should combine with sales of gold replenishment through borrowing.

C. With respect to the currency distribution of gold sales:
   (1) sales under both A and B should be distributed among net creditor countries whose currencies are currently considered suitable for drawings, in proportion to their average net creditor position, provided that the Fund would not purchase any currency beyond the point where its holdings of that currency equaled 75 per cent of quota;
   (2) for this purpose these averages would be calculated over a period ending at the end of the month preceding the date of the proposal, and beginning either six months before that date, or at the end of the period on which the distribution of gold sales was based on the occasion of the last preceding gold sale, whichever was the earlier;
   (3) from the amount of gold that would be sold to a member in a gold sale under A according to the calculation under this paragraph, there should be deducted the amount of any gold sold by the Fund to acquire that member's currency in preceding replenishment transactions not made under A or B.

D. Pending the elaboration of a general policy on replenishment with SDRs, the Fund should normally on the occasion of each gold sale under A or B give members the option to have their currencies replenished with SDRs rather than with gold, provided the Fund's holdings of SDRs were considered adequate at the time of such sale.

E. These policies should be reviewed not later than two years after their adoption, without prejudice to earlier reconsideration if that were requested.

H. Monetary Reserves: Abolition of Provisional Reporting, Speeding Up of Final Reporting, and Simplification of Report Forms and Calculations

a. Calculation of Repurchase Obligations

(1) Rule I-6 of the Fund's Rules and Regulations is amended to read as follows:
   (a) Each member shall furnish the data necessary for the calculation of its mone-

tary reserves and its repurchase obligation, if any, within two months after the end of each financial year of the Fund, subject to (h) below. All data shall be supplied to the Fund in the monetary reserve report forms sent to members by the Fund.

(h) Notwithstanding (a) above, a member which is unable to report within two months after the end of a financial year of the Fund the necessary data with respect to holdings of its other official institutions and the other banks within its territories and the amounts of currency due to official institutions and banks in the territories of members or nonmembers specified by the Fund shall furnish these data not later than six months after the end of the financial year of the Fund. On the basis of these data and Article XIX(*c*) the Fund may decide to recalculate the member's monetary reserves and repurchase obligation calculated in accordance with (b) above. Paragraphs (c) through (g) above shall apply to the recalculated repurchase obligation.

(2) This Decision supersedes Executive Board Decision No. 1510-(63/23), adopted May 3, 1963,[11] as amended by Executive Board Decision No. 1813-(65/4), adopted January 18, 1965[12] and Executive Board Decision No. 3049-(70/44), adopted May 20, 1970.[13]

Decision No. 3314-(71/33)
April 21, 1971

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

Executive Board Decision No. 2499-(68/77), adopted April 19, 1968[14] is abrogated.

Decision No. 3315-(71/33)
April 21, 1971

I. Exclusion of Special Drawing Rights in Certain Calculations of Monetary Reserves for the Fund's Financial Years Ending April 30, 1971 and 1972

Executive Board Decision No. 3034-(70/38) adopted April 29, 1970[15] 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 each of the Fund's financial years ending

[11] *Annual Report, 1963,* page 195.
[12] *Annual Report, 1965,* page 123.
[13] See pages 205–206.
[14] *Annual Report, 1968,* page 127.
[15] *Annual Report, 1970,* page 190.

April 30, 1971 and 1972, (1) a use of special drawing rights by a participant in the period January 1 to April 30 shall be considered first to constitute a use *pro tanto* of the special drawing rights held by the participant immediately before the latest allocation, and (2) if the participant's use exceeds the amount of special drawing rights held at the time of the allocation, the lowest amount of special drawing rights held by the participant in the period January 1 to April 30 shall be excluded from the calculation.

Decision No. 3320-(71/34) G/S
April 21, 1971

Appendix II. Executive Directors and Voting Power on April 30, 1971

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 *Charles R. Harley*	United States	67,250	67,250	21.94	67,250	22.29
Derek Mitchell *R. H. Gilchrist*	United Kingdom	28,250	28,250	9.21	28,250	9.36
Guenther Schleiminger *Lore Fuenfgelt*	Germany	16,250	16,250	5.30	16,250	5.39
Marc Viénot *Claude Beaurain*	France	15,250	15,250	4.97	15,250	5.05
Hideo Suzuki *Koichi Satow*	Japan [2]	12,250	12,250	4.00	12,250	4.06
B. K. Madan *S. S. Marathe*	India	9,650	9,650	3.15	9,650	3.20
ELECTED						
Francesco Palamenghi-Crispi (Italy)	Italy	10,250				
Carlos Bustelo (Spain)	Malta	410				
	*Portugal	1,000				
	Spain	4,200	15,860	5.17	14,860	4.92
Nazih Deif (United Arab Republic)	Afghanistan	620				
Muhammad Al-Atrash (Syrian Arab Republic)	Iran	2,170				
	Iraq	1,340				
	Jordan	480				
	*Kuwait	900				
	*Lebanon	340				
	Pakistan	2,600				
	*Saudi Arabia	1,590				
	Somalia	440				
	Syrian Arab Rep.	750				
	United Arab Rep.	2,130				
	Yemen Arab Rep.	350				
	Yemen, People's Dem. Rep.	540	14,250	4.65	11,420	3.78
Robert Johnstone (Canada)	Canada	11,250				
Donald Owen Mills (Jamaica)	Ireland	1,460				
	Jamaica	780	13,490	4.40	13,490	4.47
Lindsay B. Brand (Australia)	Australia	6,900				
G. P. C. de Kock (South Africa)	Lesotho	300				
	New Zealand	2,270				
	South Africa	2,250				
	Swaziland	330	12,050	3.93	12,050	3.99
Erik Brofoss (Norway)	Denmark	2,850				
Sigurgeir Jónsson (Iceland)	Finland	2,150				
	Iceland	480				
	Norway	2,650				
	Sweden	3,500	11,630	3.79	11,630	3.85

Appendix II (*continued*). EXECUTIVE DIRECTORS AND VOTING POWER on April 30, 1971

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)						
Pieter Lieftinck (Netherlands)	Cyprus	510				
Tom de Vries (Netherlands)	Israel	1,550				
	Netherlands	7,250				
	Yugoslavia	2,320	11,630	3.79	11,630	3.85
André van Campenhout (Belgium)	Austria	2,000				
Heinrich G. Schneider (Austria)	Belgium	6,750				
	Luxembourg	440				
	Turkey	1,760	10,950	3.57	10,950	3.63
Luis Ugueto (Venezuela)	Costa Rica	570				
Guillermo González (Costa Rica)	El Salvador	600				
	Guatemala	610				
	Honduras	500				
	Mexico	3,950				
	Nicaragua	520				
	Venezuela	3,550	10,300	3.36	10,300	3.41
Alexandre Kafka (Brazil)	Brazil	4,650				
Eduardo da S. Gomes, Jr. (Brazil)	Colombia	1,820				
	Dominican Republic	680				
	Guyana	450				
	Haiti	440				
	Panama	610				
	Peru	1,480	10,130	3.30	10,130	3.36
Byanti Kharmawan (Indonesia)	Algeria	1,550				
Costa P. Caranicas (Greece)	Ghana	1,120				
	Greece	1,630				
	Indonesia	2,850				
	Khmer Republic	500				
	*Libyan Arab Rep.	490				
	Morocco	1,380				
	Tunisia	600	10,120	3.30	9,630	3.19
Maurice P. Omwony (Kenya)	Botswana	300				
S. B. Nicol-Cole (Sierra Leone)	Burundi	440				
	*Ethiopia	520				
	Gambia, The	320				
	Guinea	490				
	Kenya	730				
	Liberia	540				
	Malawi	400				
	Nigeria	1,600				
	Sierra Leone	500				
	Sudan	970				
	Tanzania	670				
	Trinidad and Tobago	880				
	Uganda	650				
	Zambia	1,010	10,020	3.27	9,500	3.15

Appendix II (*concluded*). EXECUTIVE DIRECTORS AND VOTING POWER on April 30, 1971

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)						
Peh Yuan Hsu (China)	China	5,750				
Nguyên Huu Hanh (Viet-Nam)	Korea	750				
	Philippines	1,800				
	Viet-Nam	870	9,170	2.99	9,170	3.04
Carlos Massad A. (Chile)	Argentina	4,650				
Ricardo H. Arriazu (Argentina)	Bolivia	620				
	Chile	1,830				
	Ecuador	580				
	Paraguay	440				
	Uruguay	940	9,060	2.96	9,060	3.00
Antoine W. Yaméogo (Upper Volta)	Cameroon	600				
Léon M. Rajaobelina (Malagasy Republic)	Central African Rep.	380				
	Chad	380				
	Congo, Dem. Rep.	1,380				
	Congo, People's Rep.	380				
	Dahomey	380				
	Equatorial Guinea	330				
	Gabon	400				
	Ivory Coast	770				
	Malagasy Republic	510				
	Mali	470				
	Mauritania	380				
	Mauritius	470				
	Niger	380				
	Rwanda	440				
	Senegal	590				
	Togo	400				
	Upper Volta	380	9,020	2.94	9,020	2.99
			306,580[2]	100.00	301,740[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 Burma, Ceylon, Laos, Malaysia, Nepal, *Singapore, and Thailand, whose votes were not cast for any of the Executive Directors elected in the 1970 Regular Election of Executive Directors. These members have designated the Executive Director appointed by Japan to look after their interests in the Fund. The votes of Barbados, which joined the Fund after the 1970 Regular Election of Executive Directors, are also not included.

Changes in the membership of the Executive Board between May 1, 1970 and April 30, 1971 were as follows:

Seitaro Hattori (Japan) resigned as Alternate Executive Director to Hideo Suzuki (Japan), effective June 15, 1970.

Koichi Satow (Japan) was appointed Alternate Executive Director to Hideo Suzuki (Japan), effective June 16, 1970, and was reappointed November 1, 1970.

Guy Huntrods (United Kingdom) resigned as Alternate Executive Director to Derek Mitchell (United Kingdom), effective July 19, 1970.

R. H. Gilchrist (United Kingdom) was appointed Alternate Executive Director to Derek Mitchell (United Kingdom), effective July 20, 1970.

Charles R. Harley (United States) was appointed Alternate Executive Director to William B. Dale (United States), effective September 14, 1970.

Eero Asp (Finland) completed his term of service as Executive Director for Denmark, Finland, Iceland, Norway, and Sweden, October 31, 1970.

Luis Escobar (Chile) completed his term of service as Executive Director for Argentina, Bolivia, Chile, Ecuador, Paraguay, and Uruguay, October 31, 1970.

Malek Ali Merican (Malaysia) completed his term of service as Alternate Executive Director to Byanti Kharmawan (Indonesia), October 31, 1970.

Alfredo Phillips O. (Mexico) completed his term of service as Executive Director for Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Venezuela, October 31, 1970.

Marcos A. Sandoval (Venezuela) completed his term of service as Alternate Executive Director to Alfredo Phillips O. (Mexico), October 31, 1970.

Georges Plescoff (France) resigned as Executive Director for France, effective October 31, 1970.

Ahmed Zaki Saad (United Arab Republic) completed his term of service as Executive Director for Afghanistan, Ethiopia, Iran, Iraq, Jordan, Kuwait, Lebanon, Pakistan, the Philippines, Saudi Arabia, Somalia, the Syrian Arab Republic, and the United Arab Republic, October 31, 1970.

Albert Mansour (United Arab Republic) completed his term of service as Alternate Executive Director to Ahmed Zaki Saad (United Arab Republic), October 31, 1970.

Beue Tann (China) completed his term of service as Executive Director for China, Korea, and Viet-Nam, October 31, 1970.

Leonard A. Williams (Trinidad and Tobago) completed his term of service as Executive Director for Botswana, Burundi, The Gambia, Guinea, Kenya, Liberia, Malawi, Mali, Nigeria, Sierra Leone, the Sudan, Tanzania, Trinidad and Tobago, Uganda, and Zambia, October 31, 1970.

Erik Brofoss (Norway) was elected Executive Director by Denmark, Finland, Iceland, Norway, and Sweden, effective November 1, 1970.

Sigurgeir Jónsson (Iceland), formerly Alternate Executive Director to Eero Asp (Finland), was appointed Alternate Executive Director to Erik Brofoss (Norway), effective November 1, 1970.

Nazih Deif (United Arab Republic) was elected Executive Director by Afghanistan, Iran, Iraq, Jordan, Kuwait, Lebanon, Pakistan, Saudi Arabia, Somalia, the Syrian Arab Republic, the United Arab Republic, the Yemen Arab Republic, and the People's Democratic Republic of Yemen, effective November 1, 1970.

P. Y. Hsu (China) was elected Executive Director by China, Korea, the Philippines, and Viet-Nam, effective November 1, 1970.

Nguyên Huu Hanh (Viet-Nam), formerly Alternate Executive Director to Beue Tann (China), was appointed Alternate Executive Director to P. Y. Hsu (China), effective November 1, 1970.

Robert Johnstone (Canada), formerly Executive Director for Canada, Guyana, Ireland, and Jamaica, was elected Executive Director by Canada, Ireland, and Jamaica, effective November 1, 1970.

Maurice Horgan (Ireland) was reappointed Alternate Executive Director to Robert Johnstone (Canada), effective November 1, 1970. He resigned, effective December 31, 1970.

Alexandre Kafka (Brazil), formerly Executive Director for Brazil, Colombia, the Dominican Republic, Haiti, Panama, and Peru, was elected Executive Director by Brazil, Colombia, the Dominican Republic, Guyana, Haiti, Panama, and Peru, effective November 1, 1970.

Eduardo da S. Gomes, Jr. (Brazil) was reappointed Alternate Executive Director to Alexandre Kafka (Brazil), effective November 1, 1970.

Byanti Kharmawan (Indonesia), formerly Executive Director for Algeria, Ghana, Indonesia, Laos, the Libyan Arab Republic, Malaysia, Morocco, Singapore, and Tunisia, was elected Executive Director by Algeria, Ghana, Greece, Indonesia, the Khmer Republic, the Libyan Arab Republic, Morocco, and Tunisia, effective November 1, 1970.

Costa P. Caranicas (Greece) was appointed Alternate Executive Director to Byanti Kharmawan (Indonesia), effective November 1, 1970.

Pieter Lieftinck (Netherlands) was re-elected Executive Director by Cyprus, Israel, the Netherlands, and Yugoslavia, effective November 1, 1970.

Tom de Vries (Netherlands) was reappointed Alternate Executive Director to Pieter Lieftinck (Netherlands), effective November 1, 1970.

Carlos Massad A. (Chile) was elected Executive Director by Argentina, Bolivia, Chile, Ecuador, Paraguay, and Uruguay, effective November 1, 1970.

Ricardo H. Arriazu (Argentina), formerly Alternate Executive Director to Luis Escobar (Chile), was appointed Alternate Executive Director to Carlos Massad A. (Chile), effective November 1, 1970.

Maurice P. Omwony (Kenya), formerly Alternate Executive Director to Leonard A. Williams (Trinidad and Tobago), was elected Executive Director by Botswana, Burundi, Ethiopia, The Gambia, Guinea, Kenya, Liberia, Malawi, Nigeria, Sierra Leone, the Sudan, Tanzania, Trinidad and Tobago, Uganda, and Zambia, effective November 1, 1970.

S. B. Nicol-Cole (Sierra Leone) was appointed Alternate Executive Director to Maurice P. Omwony (Kenya), effective November 1, 1970.

Francesco Palamenghi-Crispi (Italy), formerly Executive Director appointed by Italy, was elected Executive Director by Italy, Malta, Portugal, and Spain, effective November 1, 1970.

J. O. Stone (Australia), formerly Executive Director for Australia, Lesotho, New Zealand, and South Africa, was elected Executive Director by Australia, Lesotho, New Zealand, South Africa, and Swaziland, effective November 1, 1970. He resigned, effective December 23, 1970.

G. P. C. de Kock (South Africa) was reappointed Alternate Executive Director to J. O. Stone (Australia), effective November 1, 1970. He was appointed Alternate Executive Director to Lindsay B. Brand (Australia), effective December 24, 1970.

Hideo Suzuki (Japan), formerly Executive Director for Burma, Ceylon, Japan, Nepal, and Thailand, was appointed Executive Director by Japan, effective November 1, 1970.

Luis Ugueto (Venezuela), was elected Executive Director by Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Venezuela, effective November 1, 1970.

André van Campenhout (Belgium) was re-elected Executive Director by Austria, Belgium, Luxembourg, and Turkey, effective November 1, 1970.

Jacques Roelandts (Belgium) was reappointed Alternate Executive Director to André van Campenhout (Belgium), effective November 1, 1970. He resigned, effective November 30, 1970.

Marc Viénot (France) was appointed Executive Director by France, effective November 1, 1970.

Bruno de Maulde (France), formerly Alternate Executive Director to Georges Plescoff (France), was appointed Alternate Executive Director to Marc Viénot (France), effective November 1, 1970. He resigned, effective December 31, 1970.

Antoine W. Yaméogo (Upper Volta), formerly Executive Director for Cameroon, the Central African Republic, Chad, the Democratic Republic of Congo, the People's Republic of the Congo, Dahomey, Gabon, Ivory Coast, the Malagasy Republic, Mauritania, Mauritius, Niger, Rwanda, Senegal, Togo, and Upper Volta, was elected Executive Director by Cameroon, the Central African Republic, Chad, the Democratic Republic of Congo, the People's Republic of the Congo, Dahomey, Equatorial Guinea, Gabon, Ivory Coast, the Malagasy Republic, Mali, Mauritania, Mauritius, Niger, Rwanda, Senegal, Togo, and Upper Volta, effective November 1, 1970.

Léon M. Rajaobelina (Malagasy Republic) was reappointed Alternate Executive Director to Antoine W. Yaméogo (Upper Volta), effective November 1, 1970.

Guillermo González (Costa Rica) was appointed Alternate Executive Director to Luis Ugueto (Venezuela), effective November 25, 1970.

Muhammad Al-Atrash (Syrian Arab Republic) was appointed Alternate Executive Director to Nazih Deif (United Arab Republic), effective December 1, 1970.

Heinrich G. Schneider (Austria) was appointed Alternate Executive Director to André van Campenhout (Belgium), effective December 1, 1970.

Lindsay B. Brand (Australia) was elected Executive Director by Australia, Lesotho, New Zealand, South Africa, and Swaziland, effective December 24, 1970.

Claude Beaurain (France) was appointed Alternate Executive Director to Marc Viénot (France), effective January 1, 1971.

Donald Owen Mills (Jamaica) was appointed Alternate Executive Director to Robert Johnstone (Canada), effective January 1, 1971.

The following served at certain times during 1970/71 as Temporary Alternate Executive Directors to the Executive Directors indicated:

Temporary Alternate Executive Director	Executive Director for whom Temporary Alternate Served
S. Osman Ali (Pakistan)	Ahmed Zaki Saad (United Arab Republic)
Vittorio Barattieri (Italy)	Francesco Palamenghi-Crispi (Italy)
Jean P. Carrière (France)	Georges Plescoff (France)
J. M. Chona (India)	B. K. Madan (India)
Bulcha Demeksa (Ethiopia)	Maurice P. Omwony (Kenya)
Charles R. Harley (United States)	William B. Dale (United States)
Peter C. Hayward (United Kingdom)	Derek Mitchell (United Kingdom)
Heinrich A. Hoffman (Austria)	André van Campenhout (Belgium)
Brian Jensen (Peru)	Alexandre Kafka (Brazil)
Kaj Kjaer (Denmark)	Eric Brofoss (Norway)
John L. Muchinga (Zambia)	Maurice P. Omwony (Kenya)
Carlos G. Muñiz (Nicaragua)	Alfredo Phillips O. (Mexico)
Adelio Pipino (Chile)	Luis Escobar (Chile) Carlos Massad A. (Chile)
Hartmut Rudloff (Germany)	Guenther Schleiminger (Germany)
Arturo Seminario Dapello (Peru)	Alexandre Kafka (Brazil)
M. R. Shroff (India)	B. K. Madan (India)
Johan Skutle (Norway)	Eero Asp (Finland)
J. A. Sogo (Nigeria)	Leonard A. Williams (Trinidad and Tobago)
G. F. Taylor (Australia)	J. O. Stone (Australia)
Jean R. Vallet (France)	Georges Plescoff (France) Marc Viénot (France)
John C. C. Yuan (China)	Beue Tann (China)

Letter of Transmittal

July 29, 1971

My dear Mr. Chairman:

The administrative budget of the Fund approved by the Executive Board for the Fiscal Year ending April 30, 1972 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, 1972 COMPARED WITH ACTUAL EXPENDITURES FOR THE FISCAL YEARS ENDED APRIL 30, 1970 AND 1971

	Fiscal Year Ending Apr. 30, 1972	Fiscal Year Ended Apr. 30, 1971		Fiscal Year Ended Apr. 30, 1970
Category of Expenditure	Budget	Revised Budget [1]	Actual Expenditures	Actual Expenditures
I. BOARD OF GOVERNORS	$ 760,000	$ 935,000	$ 897,940	$ 659,828
II. EXECUTIVE DIRECTORS				
Salaries	$ 2,022,000	$ 1,895,000	$ 1,883,749	$ 1,704,610
Other compensations and benefits	564,000	580,000	537,189	460,102
Travel	435,000	480,000	448,478	308,712
Total	$ 3,021,000	$ 2,955,000	$ 2,869,416	$ 2,473,424
III. STAFF				
Salaries	$16,444,000	$14,120,000	$14,029,376	$11,858,137
Other compensations and benefits	6,523,000	5,667,000	5,565,504	4,708,909
Travel	3,830,000	3,475,000	3,185,885	3,086,714
Total	$26,797,000	$23,262,000	$22,780,765	$19,653,760
IV. SPECIAL SERVICES TO MEMBER COUNTRIES	$ 2,991,000	$ 2,579,000	$ 2,465,737	$ 2,175,493
V. OTHER ADMINISTRATIVE EXPENSES				
Communications	$ 949,000	$ 899,000	$ 810,135	$ 797,915
Office occupancy expenses	1,109,000	1,012,000	961,458	741,181
Books and printing	730,000	675,000	623,345	636,996
Supplies and equipment	719,000	707,000	682,784	542,085
Data processing services	650,000	545,000	481,668	310,759
Miscellaneous	774,000	681,000	676,771	641,155
Total	$ 4,931,000	$ 4,519,000	$ 4,236,161	$ 3,670,091
TOTAL [2]	$38,500,000	$34,250,000	$33,250,019	$28,632,596

[1] Includes supplementary appropriations of $550,000 approved by the Executive Directors on February 26, 1971.

[2] Net administrative expenditures for fiscal year ending April 30, 1971 totaled $32,359,166 after deduction of $890,853 reimbursed to the General Account by assessments levied on the net cumulative allocations of participants in the Special Drawing Account. The comparable figures for fiscal year ended April 30, 1970 were $27,744,940 and $887,656, respectively.

Appendix V. Comparative Statement of Income and Expenditure

	Fiscal Year Ended		
	Apr. 30, 1969	Apr. 30, 1970	Apr. 30, 1971
Income [1]			
Service charges			
Received in gold	$ 7,031,923	$ 8,458,427	$ 1,265,000
Received in special drawing rights	—	822,427	481,078
Received in members' currencies	7,162,331	2,583,470	38,672
Total	$ 14,194,254	$ 11,864,324	$ 1,784,750
Charges on Fund's holdings of members' currencies and securities in excess of quotas			
Received in gold	$ 23,732,642	$ 64,097,739	$ 82,362,753
Received in special drawing rights	—	55,739,247	40,732,966
Received in members' currencies	83,719,504	4,891,406	5,043,954
Total	$107,452,146	$124,728,392	$128,139,673
Other operational income	$ 432,853	$ 1,520,608	$ 5,641,895
Miscellaneous income	11,267	13,661	27,366
Total Income	$122,090,520	$138,126,935	$135,593,684
Expenditure			
Administrative	$ 24,384,516	$ 27,744,940 [2]	$ 32,359,166 [2]
Operational	22,335,693	46,310,902 [3]	49,265,010 [3]
Fixed property	4,532,489	6,518,615	7,547,370
Total Expenditure	$ 51,252,698	$ 80,574,457	$ 89,171,546
Net Income	$ 70,837,822	$ 57,552,478	$ 46,422,138

[1] Excludes income from investments transferred to Special Reserve for the fiscal years ended April 30, 1969 $46,589,710; 1970 $56,741,734; and 1971 $40,145,807.

[2] After deduction of $887,656 for fiscal year 1970 and $890,853 for fiscal year 1971 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, and $37,442,803 for the fiscal year ended April 30, 1971.

Appendix VI. Financial Statements of the General Account, Special Drawing Account, and Staff Retirement Fund

Letter of Transmittal

July 29, 1971

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, the Special Drawing Account, and the Staff Retirement Fund for the year ended April 30, 1971, 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, Ireland, Japan and Sierra Leone nominated auditors to serve on this Committee. They respectively nominated Mr. Seán Mac Gearailt, Secretary and Director of Audit, Office of Comptroller and Auditor General of Ireland; Mr. Masao Fujioka, Deputy Director-General, International Finance Bureau, Ministry of Finance, Japan; and Mr. A. S. C. Johnson, Deputy Governor, Bank 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 $135,593,684, and expenditure amounted to $89,171,546 (including $37,442,803 in remuneration on members' net creditor positions pursuant to Article V, Section 9, of the Articles of Agreement), resulting in a net income of $46,422,138, which has been transferred provisionally to General Reserve pending action by the Board of Governors. In addition, income of $40,145,807 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 25, 1971

To the Managing Director
and the Executive Directors
International Monetary Fund

The report of the Audit Committee, dated June 25, 1971, 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, 1971, 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, 1971, 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, 1971, the statement of Source and Use, and the schedules related thereto. 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, 1971, and the results of the operations and transactions in the General Account and the Special Drawing Account 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/ A.S.C. Johnson, Chairman (Sierra Leone)

/s/ Seán Mac Gearailt (Ireland)

/s/ Masao Fujioka (Japan)

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)			
(123,952,738.548 fine ounces at $35 per ounce)			
Bars	$4,163,590,384		
General deposits	174,755,465	$4,338,345,849	
Investments (See Note 2)			
U.S. Government securities maturing within 12 months at cost (*face value $415,790,000*)	$399,955,610		
Funds awaiting investment	35,913	399,991,523	$ 4,738,337,372
SPECIAL DRAWING RIGHTS (See Note 3) *(489,849,181 units)*			489,849,181
CURRENCIES AND SECURITIES (See Note 4)			
With depositories			
Currencies	$ 6,510,789,997		
Securities *(nonnegotiable, noninterest-bearing demand obligations, payable at face value by members in their currencies)*	17,729,606,466	$24,240,396,463	
Deduct:			
Currency adjustment payable (in accordance with Article IV, Section 8)		7,487,284	24,232,909,179
SUBSCRIPTIONS TO CAPITAL—RECEIVABLE			
Balances of initial quotas—not due		$204,265,019	
Balance of an increase in quota—not due (Contra)		3,200,000	207,465,019
OTHER ASSETS (See Note 5)			38,852,779
TOTAL ASSETS			$29,707,413,530

NOTES:

1. Excludes 15,130.023 fine ounces held under earmark for members.
2. Made with the proceeds of the sale of 11,428,329,237 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 purchases of members amount to $4,117 million. Currency holdings in excess of members' quotas subject to Fund charges amount to $2,555 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, 1971

basis of established parities or provisional rates—
to 0.888671 gram of fine gold

CAPITAL, RESERVES, AND LIABILITIES

CAPITAL		
Subscriptions of members		$28,477,800,000
RESERVES (Exhibit C)		
Special reserve	$406,369,808	
General reserve	378,060,637	784,430,445
SUBSCRIPTION IN RESPECT OF AN INCREASE IN QUOTA CONSENTED TO BUT NOT YET EFFECTIVE		
Balance not due (Contra)		3,200,000
INDEBTEDNESS (See Note 6)		
To Participants Under General Arrangements to Borrow	$274,370,000	
Other	125,000,000	399,370,000
PROVISION FOR POTENTIAL REFUNDS OF STAND-BY CHARGES (See Note 7)		853,625
OTHER LIABILITIES (See Note 5)		41,759,460
TOTAL CAPITAL, RESERVES, AND LIABILITIES		$29,707,413,530

/s/ W. O. HABERMEIER
Treasurer

/s/ P.-P. SCHWEITZER
Managing Director

General Account

Statement of Income and Expenditure

for the year ended April 30, 1971

Income

Operational charges		$ 3,170,947	
Charges on balances in excess of quotas		128,139,673	
Interest on holdings of special drawing rights		4,255,698	
Other		27,366	
Total Income (See Note 1)			$135,593,684

Expenditure

Administrative expenditure			
Board of Governors		$ 897,940	
Executive Directors			
Salaries	$1,883,749		
Other compensations and benefits	537,189		
Travel	448,478	2,869,416	
Staff			
Salaries	$14,029,376		
Other compensations and benefits	5,565,504		
Travel	3,185,885	22,780,765	
Special services to member countries		2,465,737	
Other administrative expenses			
Communications	$ 810,135		
Office occupancy expenses	961,458		
Books and printing (See Note 2)	623,345		
Supplies and equipment	682,784		
Miscellaneous (See Note 3)	1,158,439	4,236,161	
Total administrative expenditure		$33,250,019	
Deduct: Estimated expenses of operating the Special Drawing Account		890,853	
Net administrative expenditure		$32,359,166	
Operational expenditure			
Remuneration	$37,442,803		
Interest on indebtedness			
Under General Arrangements to Borrow	8,173,903		
Other	3,635,417		
Gold handling and sundry other costs (net)	12,887		
Total operational expenditure		49,265,010	
Fixed property expenditure		7,547,370	
Total Expenditure			89,171,546
Net Income (Transferred provisionally to General Reserve pending action by Board of Governors) (Exhibit C).			$ 46,422,138

Notes:

1. Excludes income from investments amounting to $40,145,807 transferred to Special Reserve (Exhibit C).
2. After deduction of $98,467 for sales of Fund publications.
3. After deduction of $322,818 for food service sales.

General Account

Statement of Reserves

for the year ended April 30, 1971

Special Reserve (See Note 1)		
Balance, April 30, 1970	$366,224,001	
Add		
Income from investments in U.S. Government securities	40,145,807	
Balance, April 30, 1971		$406,369,808
General Reserve		
Balance, April 30, 1970 (See Note 2)	$350,303,618	
Deduct		
Distribution of net income for fiscal year 1970 in accordance with Board of Governors' Resolution No. 25–7	17,532,119	
	$332,771,499	
Transfer to Staff Retirement Fund to cover unfunded past service cost resulting from amendments to the Plan effective April 1, 1971	1,133,000	
	$331,638,499	
Add		
Net income (Exhibit B), transferred provisionally pending action by Board of Governors	46,422,138	
Balance, April 30, 1971		378,060,637
Total Reserves (per Balance Sheet)		$784,430,445

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 $57,552,478 for fiscal year ended April 30, 1970 transferred provisionally to the General Reserve pending action by the Board of Governors. In accordance with Board of Governors' Resolution No. 25-7, $40,020,359 was allocated to the General Reserve and $17,532,119 was distributed to members pursuant to Article XII, Section 6 (*b*).

Special Drawing Account

Balance Sheet

as at April 30, 1971

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 6,363,286,600
Holdings			
Holdings of special drawing rights (See Note 2) (Exhibit B)			
Participants			
Holdings above allocations			
Allocations	SDR 2,701,895,000		
Received (net)	621,483,667	SDR 3,323,378,667	
Holdings below allocations			
Allocations	SDR 3,661,391,600		
Used (net)	1,111,332,848	2,550,058,752	SDR 5,873,437,419
General Account			489,849,181
			SDR 6,363,286,600

Notes:

1. Under Articles XXX and XXXI of the Fund Agreement which cover termination of participation in and the liquidation of the Special Drawing Account, respectively, a 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 the special drawing rights in accordance with these Articles.
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/ W. O. Habermeier
Treasurer

/s/ P.-P. Schweitzer
Managing Director

Special Drawing Account
Source and Use of Special Drawing Rights

for the year ended April 30, 1971

(expressed in units of special drawing rights)

	Participants	General Account	Total
Total holdings as at April 30, 1970	SDR 3,201,573,179	SDR 212,472,421	SDR 3,414,045,600
Source of special drawing rights received			
Allocation	SDR 2,949,241,000		SDR 2,949,241,000
Transactions with designation (Article XXV, Section 2(*a*))	347,625,106		347,625,106
Transactions without designation (Article XXV, Section 2(*b*) (i))	285,500,000		285,500,000
Net interest	4,845,221	SDR 4,255,698	9,100,919
Payments between participants and the General Account			
Repurchases	3,194,237	360,320,296	363,514,533
Distribution of net income settlements	9,115,297		9,115,297
Charges	142,675	66,585,626	66,728,301
Reimbursement of Special Drawing Account expenses		890,853	890,853
Remuneration	18,402,998		18,402,998
Replenishment (Articles VII, Section 2(ii), and XXV, Section 7(*f*))	123,210,000		123,210,000
Other	610,506		610,506
	SDR 3,741,887,040	SDR 432,052,473	SDR 4,173,939,513
Use of special drawing rights			
Transactions with designation (Article XXV, Section 2(*a*))	SDR 347,625,106		SDR 347,625,106
Transactions without designation (Article XXV, Section 2(*b*) (i))	285,500,000		285,500,000
Net charges	9,100,919		9,100,919
Payments between participants and the General Account			
Repurchases	360,320,296	SDR 3,194,237	363,514,533
Distribution of net income settlements		9,115,297	9,115,297
Charges	66,585,626	142,675	66,728,301
Reimbursement of Special Drawing Account expenses	890,853		890,853
Remuneration		18,402,998	18,402,998
Replenishment (Articles VII, Section 2(ii), and XXV, Section 7(*f*))		123,210,000	123,210,000
Other		610,506	610,506
	SDR 1,070,022,800	SDR 154,675,713	SDR 1,224,698,513
Total holdings as at April 30, 1971 (per Balance Sheet)	SDR 5,873,437,419	SDR 489,849,181	SDR 6,363,286,600

Staff Retirement Fund

Memorandum by the Audit Committee

June 25, 1971

To the Managing Director
and the Executive Directors
International Monetary Fund

The report of the Audit Committee, dated June 25, 1971, 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, 1971, 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, 1971. 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, 1971, 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/ A.S.C. Johnson, Chairman (Sierra Leone)

/s/ Seán Mac Gearailt (Ireland)

/s/ Masao Fujioka (Japan)

STAFF RETIREMENT FUND

BALANCE SHEET

as at April 30, 1971

ASSETS

CASH AT BANKS			$ 34,160
INVESTMENTS			
Bonds, at amortized cost			
United States Government (including *de facto* guaranteed notes) (*market value, $6,773,557*)	$7,321,964		
International Bank for Reconstruction and Development and Inter-American Development Bank (See Note) (*market value, $4,607,500*)	5,433,376		
Corporate (*market value, $4,863,601*)	5,950,245		
Corporate Convertible (*market value $33,750*)	30,000	$18,735,585	
Stocks, at cost			
Preferred Convertible (*market value, $379,665*)	$ 95,811		
Common (*market value $22,455,218*)	18,938,736	19,034,547	37,770,132
ACCRUED INTEREST ON BONDS AND CONTRIBUTIONS FROM PARTICIPANTS AND EMPLOYER			363,809
TOTAL ASSETS			$38,168,101

LIABILITIES AND RESERVES

PARTICIPANTS' ACCOUNT	$ 7,641,578
ACCUMULATION ACCOUNT	23,999,135
RETIREMENT RESERVE ACCOUNT	5,386,596
RESERVE AGAINST INVESTMENTS	864,686
ACCOUNTS PAYABLE	276,106
TOTAL LIABILITIES AND RESERVES	$38,168,101

NOTE: A commitment has been made for the purchase of $750,000 face amount of International Bank for Reconstruction and Development 8 5/8 per cent bonds due August 1, 1995 at par in installments of $250,000 each on August 4, 1971, February 2, 1972, and August 2, 1972.

/s/ W. O. HABERMEIER
Treasurer

/s/ P.-P. SCHWEITZER
Managing Director

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INDEXES

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Index A. International Monetary Fund

References to individual countries, other organizations, and subjects may be found in Index B

An asterisk (*) denotes a table, a dagger (†) denotes a chart

Index B. Countries, Organizations, and Subjects

An asterisk (*) denotes a table, a dagger (†) denotes a chart