

**REPORT**

of the

**DEUTSCHE BUNDESBANK**

for the Year 1967



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# REPORT OF THE DEUTSCHE BUNDESBANK FOR THE YEAR 1967

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Part A

## General Part

### Economic Trends and Central Bank Policy

#### I. General Survey

The Deutsche Bundesbank in 1967 continued the credit relaxation which had already come under way during the second half of 1966 as a result of market trends. By a rapid succession of measures affecting liquidity and interest rates the level of these latter was brought down, and in the later course of the year was held, in the face of external influences tending to raise such rates, at the level so reached. The Deutsche Bundesbank's credit policy thereby materially contributed towards strengthening domestic demand and overcoming the recessive tendencies. It also had the effect that the greatly increasing surpluses on the current account of the balance of payments faced large exports of capital. The demands made on other countries' monetary reserves therefore remained quite small. The Bundesbank was the more readily able to continue the easing of credit because prices within the country remained largely stable throughout 1967. In addition, however, the danger of lasting gaps in the public budgets was reduced through the change-over to medium-term fiscal planning. The Bundesbank was therefore able, from the financial angle, to support the Federal Government's economic stimulation policy. The success of coordinated anticyclical fiscal and credit policy was shown by the rapid overcoming of recession and the starting of a period marked by satisfactory economic growth which is so far free from inflation. Subsequent sections describe the connection between the principal credit policy actions in 1967 and the overall economic trend.

#### 1. Counteracting the recession

##### *(a) Recessive tendencies at the beginning of 1967*

The recession, which had begun in the course of the preceding year, was most marked in the first months of 1967. That applies at all events to overall demand, which ultimately determines the course of economic activity, and to new orders reaching industry, which are a particularly good pointer to such demand and which in the first quarter of 1967 (after adjustment for the season) dropped 10 per cent below their earlier high. The reasons for the decrease of home-market demand have already been described in our Report for 1966, and will therefore not be now recapitulated in detail; they are especially to be seen in a natural reaction by entrepreneurs to the years of greatly boosted investment activity. Given the fact that credit had become dearer and scarcer, entrepreneurs now found themselves obliged to examine the prospects of the return on further capital expenditure, prospects which appeared to have been reduced through the danger of creating excess capacities as well as through the rise of production costs; finally, because prospects for the future in general were less favourable, entrepreneurs also tended not to enlarge their inventories any further but, on the contrary, rather to diminish them. Public authorities, being compelled to keep indebtedness within limits, also throttled down their capital expenditure during

The contractive  
swing...

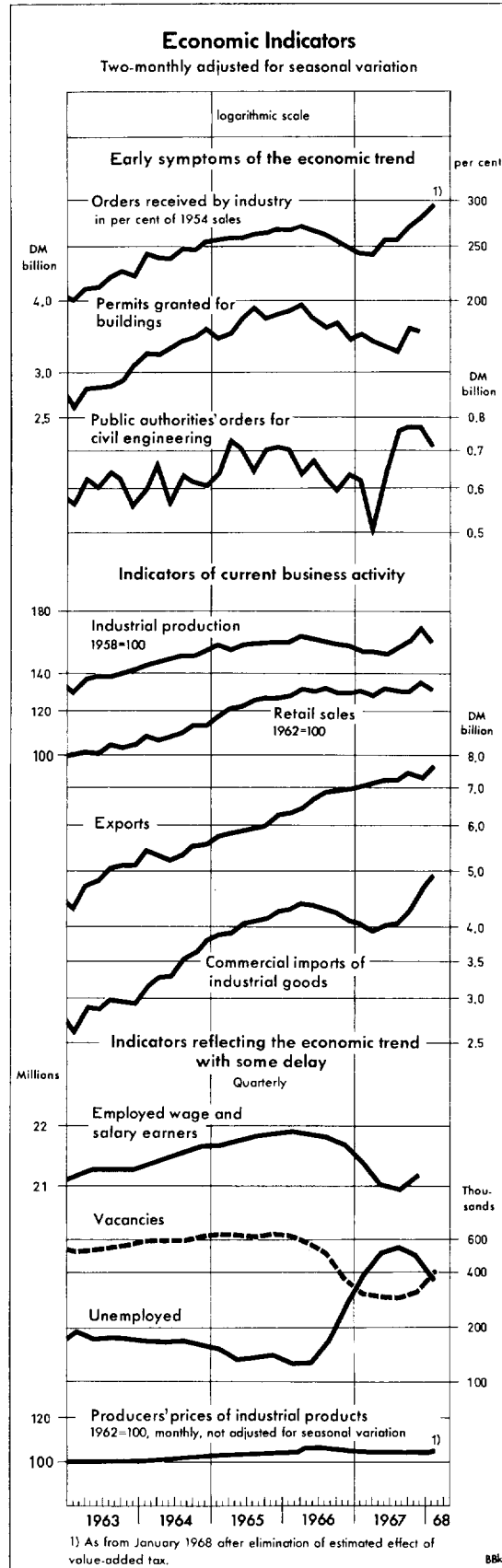
the second half of 1966. In accordance with the swing of cyclical movements, indeed, domestic demand as a whole was cut down by more than would have been desirable from the point of view of ensuring the steadiest possible economic growth. The contraction was hardly any greater, however, than the previous exaggerated expansion, which for its part had formed the more or less inevitable cause of the setback. This latter was probably regarded in many quarters as disquieting only because for the first time it was coupled with an actual decline of production and employment, whereas in earlier years, when there was a marked structural uptrend, slackening of economic activity had been reflected only in a reduction of growth rates. The attendant feeling of economic uncertainty was moreover aggravated through the pronounced deterioration of the public finances. One of the main objects pursued by the Federal Government, newly formed at the beginning of December 1966, was therefore necessarily to restore confidence in fiscal policy and at the same time to impart to economic activity new impulses such as would overcome the pessimism felt in business circles.

... was promptly checked

How soon the economy reacted favourably to the stimulative measures — which will be described later — in the field of fiscal and credit policy, and how shallow-rooted the recession was, can be seen from the fact that in March and April of 1967 domestic initiators of capital projects were already placing more orders with industry than before. As the further trend showed, this reversal in the planning of equipment investments turned out to be lasting. Eight months after their first rise, orders reaching the capital goods industries had already reattained the level ruling before the recession began. In the case of orders for building the reversal took some months longer. Civil engineering orders reached their cyclical low in the spring, and orders for buildings in the autumn; since then the amount of construction work planned has again been clearly increasing.

Production and employment down

With the usual technically and economically induced delay the increase of demand spread

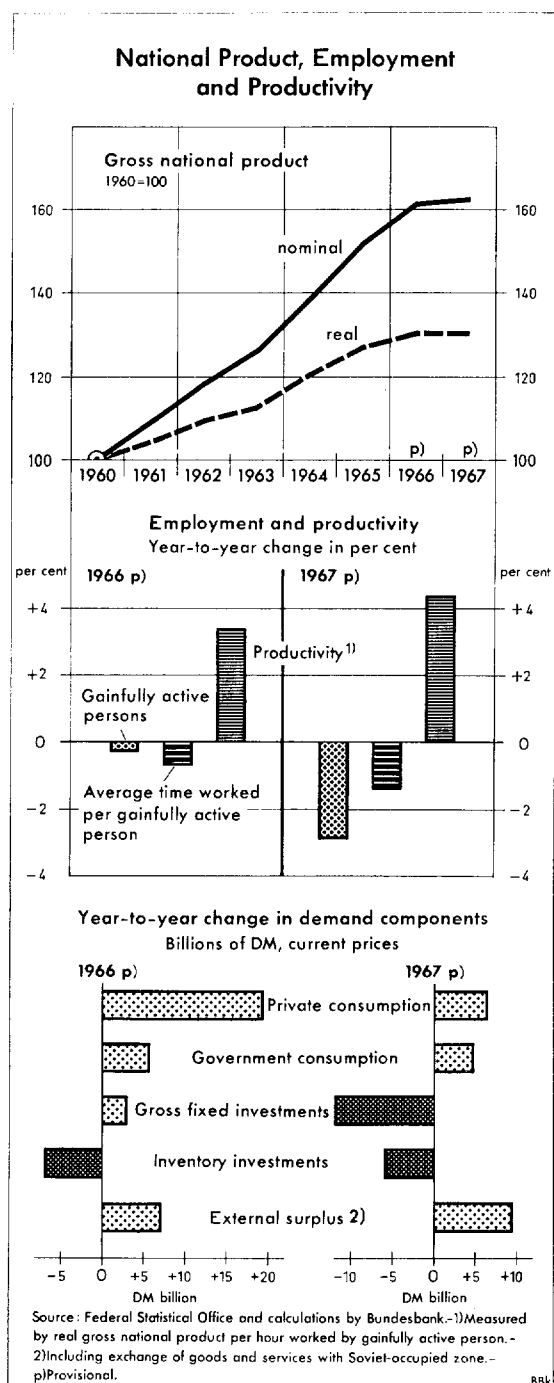


to production, and finally also to employment. In industry, where the fall in demand had been especially marked, production declined further throughout the first half of the year. In May and June, after seasonal adjustment, it was down to its lowest level; it was indeed lower by 7 per cent than the peak industrial output previously attained. The overall value added did not indeed fall nearly so much; the real gross national product was on the contrary smaller by only 1.5 per cent in the second quarter of 1967 than in the second quarter of 1966, when it had reached an all-time peak. The effects on employment, however, were relatively marked. Since enterprises tried to rationalise in all possible ways, although this is of course especially difficult when production is declining, overall employment was reduced by more than production. At the middle of

1967 the number of employed wage and salary earners was lower by 4 per cent than at the middle of 1966, and in addition the average number of hours worked was further reduced. In industry alone during the second quarter of 1967 the number of persons at work was lower by 7 per cent, and the total number of man-hours worked by fully 9 per cent, than a year before. Productivity, on the other hand, continued to increase even at that time. For the future, the adjustment of the numbers employed to the greater productiveness of plants has created a considerable margin for further advances in productivity; once the upswing began that margin was in fact used in great measure, although it has doubtless not yet been fully exhausted.

The recession reduced the demand for workers in the first half of 1967 by more than was essential for the easing of the labour market desirable for the sake of monetary stability, and therefore by more than was economically justifiable. It is true that unemployment, conforming to the seasonal tendency, decreased after the winter months, but it did so much less than could have been expected in the absence of the economic deterioration. At the end of September, the seasonal low in unemployment, about 340,000 persons, or 1.6 per cent of all wage and salary earners, were registered as out of work; after adjustment for the season, this was equal to an unemployment ratio of about 2.7 per cent. Part of the decrease in the numbers employed was moreover not reflected in the unemployment figures, since for one thing the number of foreign workers was reduced (by just on 300,000 between mid-1966 and mid-1967), and for another the number of gainfully employable people in the country decreased because of the population's unfavourable age

Unemployment greater than economically justifiable



structure. A further reason may have been that “marginal” labour (students, pensioners and housewives working part time), who for lack of regular workers had previously been engaged as stopgaps or even for longer periods, again disappeared from the labour process during this period; the question may be left open whether it was correct to include them in the statistics like fully employed persons at all. The increase of unemployment to an extent greater than that which is justifiable from the angle of economic policy, however that extent may be estimated, made measures to support the level of domestic activity seem necessary.

*(b) Anticyclical measures*

Credit policy in the recession

Continued easing of credit policy . . .

From the summer of 1966 onwards the credit markets had already begun to grow easier, because the Bundesbank deliberately tolerated the market-induced increase in the banking system's liquidity. Although that increase of liquidity had already made notable progress by the turn of the year 1966/67, the Bundesbank began in December 1966, and continued on a greater scale in the first months of 1967, to adopt active measures of relaxation designed to increase domestic demand and hence to stimulate economic activity. The public paid more attention to these measures, which consisted in repeated lowering of minimum reserves and of the central bank discount rate, than to the previous, so to speak noiseless, increase of liquidity; many observers indeed regard the abandonment of the restrictive policy as dating, despite the Bundesbank's actual attitude, only from the turn of the year. The chief reason why active measures were now required at all for further easing of markets was that the market-induced accruals of liquidity at the banks were gradually falling off. Whereas they had amounted to about DM 3 billion in the second half of 1966, mainly because of external transactions and of public authorities' payments, in the first quarter of 1967 they reached only about DM 800 million and in the second quarter they completely ceased. Continuance of the interest rate reduction which had already begun before that — in the second half of 1966, for example, the annual yield on securities had fallen from a level in some cases over 8½% to approximately 7½% — could now no longer be left to market forces alone.

. . . through lowering of minimum reserves . . .

From February 1967 onwards the Bundesbank increased the banks' free liquid reserves through successive lowerings of the minimum reserve ratios, a first reduction of these having already taken place in December 1966. First the legal maximum ratios applying to liabilities to non-residents were reduced to the lower rates for liabilities to residents, and in five further stages the minimum reserve ratios were lowered as a whole (see the chronological survey showing credit and fiscal policy measures). From February to September 1967, when the last reduction up till now came into force, almost DM 6 billion of minimum reserves were released. The lowering of the banks' minimum reserve obligations was designed to extend their lending power, while at the same time permitting further reductions of interest rates on the domestic money and capital market.

. . . and of the discount rate

Parallel with the expansion of bank liquidity and hence also of the banks' lending power the Bundesbank's discount rate, and its other rates of interest, were also brought down. The first discount rate reduction, from 5% to 4½% per annum, was resolved in January 1967. Measures affecting minimum reserves were at that time not required for assisting liquidity, because in that month the banks were especially liquid for seasonal reasons. On the contrary, it actually proved possible to terminate the “compensation privilege” (which had permitted offsetting of foreign assets against foreign liabilities when computing the minimum reserves to be held in respect of the latter) in order to curb money exports on a longer view, without the resultant increase of the required reserve impeding further relaxation of the domestic money market. Further reductions of the central bank discount rate, in each case by 0.5 percentage points, followed in February, April and May 1967. Since then the discount rate has been 3% per annum. The reduction from

*A Chronicle of Anticyclical Measures Taken in 1967*

Effective date	Monetary and credit policy	Date of resolution	Economic and fiscal policy
1967		1967	
1 Jan.	<i>Rescission of "compensation privilege" in respect of minimum reserve to be held against liabilities to non-residents; immobilisation of liquid funds outweighed by seasonal increase in liquidity.</i>	19 Jan.	Anticyclical measures resolved by the Federal Cabinet: (1) <i>Removal of gap in the 1967 Federal budget (DM 3.7 billion) in the "classical" way;</i> (2) <i>Financing of further "cyclical" deficits by borrowing;</i> (3) <i>Introduction of special depreciations on capital goods bought or ordered between 20 Jan. and 31 Oct.;</i> (4) <i>Drawing up of a "contingency budget" (DM 2.5 billion).</i>
6 Jan.	<i>Lowering of discount rate from 5 to 4½%, of advance rate from 6¼ to 5½%.</i>		
1 Feb.	<i>Lowering of reserve ratios for liabilities to non-residents to the level of those applying to domestic liabilities; release of liquid funds: DM 300 to 400 million.</i>	16 Feb.	Federal Cabinet resolves on <i>credit financing bill</i> (in effect from 11 April) – serves procurement of credit to finance "contingency budget" – and on first "immediate programme" of DM 850 million.
17 Feb.	<i>Lowering of discount rate from 4½ to 4%, of advance rate from 5½ to 5%.</i>	12 April	Federal Cabinet resolves: (1) to put into effect "contingency budget" with utmost urgency and to full extent (DM 2.5 billion) (latest date for placing of orders 31 May and 15 June, respectively); (2) to strengthen anticyclical effect in spending under regular budget; blocking to be cancelled; (3) to prepare further measures for stimulation of economic activity in second half-year.
1 March	<i>Lowering of reserve ratios for all liabilities by 10 per cent of their previous level; release of liquid funds: about DM 1,700 million.</i>	26 April	Bundestag passes <i>Law on Value-Added Tax</i> (in effect from 1 Jan. 1968).
1 April	<i>Repeal of Interest Rates Order.</i>	10 May	Bundestag passes <i>Law to Promote Economic Stability and Growth</i> (in effect from 14 June).
14 April	<i>Lowering of discount rate from 4 to 3½%, of advance rate from 5 to 4½%.</i>	6 July	Federal Cabinet passes fundamental resolution on <i>Federal Government's medium-term fiscal planning</i> (reduction of "structural excess of expenditure" by tax increases and expenditure cuts) and on <i>second economic stimulation programme</i> .
1 May	<i>Lowering of reserve ratios for all liabilities by about 6 per cent of their previous level; release of liquid funds: about DM 850 million.</i>	13 July	Constitution of <i>public authorities' Economic Council</i> : approval of second economic stimulation programme.
12 May	<i>Lowering of discount rate from 3½ to 3%, of advance rate from 4½ to 4%.</i>	10 Aug.	Federal Cabinet resolves on: (1) Bill on realisation of Federal Government's fiscal planning over several years, Part 1 ( <i>Second Tax Amendment Law 1967</i> ); (2) <i>Second economic stimulation programme</i> (DM 5.3 billion).
2 June	<i>Inclusion in money-market regulation of non-interest Treasury bonds of the Länder up to an amount of DM 1,200 million.</i>	6/8 Sep.	Bundestag approves in a <i>special session</i> second economic stimulation programme and principles of the Federal Government's medium-term fiscal planning 1967-71; Bundestag passes Law to Amend Law on Value-Added Tax ( <i>larger disencumbrance of old stocks</i> , increase of value-added tax rate from 10 to 11 p. c. from 1 July 1968).
1 July	<i>Lowering of reserve ratios for all liabilities by about 8 per cent of their previous level; release of liquid funds: about DM 1,200 million.</i>	13 Sep.	Federal Cabinet resolves on: (1) <i>1968 budget</i> (totalling DM 80.7 billion); (2) Bill on realisation of Federal Government's fiscal planning over several years, Part 2 ( <i>Fiscal Amendment Law 1967</i> ): amendment of former laws — specifically in the social sphere — to rehabilitate Federal finances.
1 Aug.	<i>Lowering of reserve ratios for all liabilities by about 6 per cent of their previous level; release of liquid funds: about DM 900 million.</i>	6 Dec.	Publication of the <i>1967/68 Annual Report of the Board of Experts for Assessment of Overall Economic Trends</i> . Additional anticyclical measures required in connection with a proposed general agreement.
11 Aug.	<i>Lowering of advance rate from 4 to 3½%; start of active open-market policy in respect of public authorities' loan issues.</i>	7/8 Dec.	Bundestag passes laws in connection with <i>medium-term fiscal planning</i> (Second Tax Amendment Law, Fiscal Amendment Law).
24 Aug.	<i>Inclusion in money-market regulation of Kassenobligationen (medium-term notes) of Federal Government, Federal Railways and Federal Postal Administration with a remaining life of 18 months and less.</i>		
1 Sep.	<i>Lowering of reserve ratios for savings desposits by about 11 per cent, of all other reserve ratios by about 2.5 per cent, of their previous level; release of liquid funds: about DM 900 million.</i>		
6 Oct.	<i>Inclusion in money-market regulation of Kassenobligationen (medium-term notes) of the Länder with a remaining life of 18 months and less.</i>		
30 Nov.	<i>Amendment of Bundesbank Law (raising of credit limits for Federal Government, Länder, Federal Railways and Federal Postal Administration).</i>		

5% to 3% per annum within little more than four months was the fastest which the Deutsche Bundesbank, and its predecessor the Bank deutscher Länder, had ever effected in the rates of interest charged by them. In 1960/61 for instance a reduction of the same size was spread over nearly six months, and in 1957/58, years which in terms of the economic trend are no doubt most readily comparable with the recent past, a like reduction took about a year and a half. A still faster lowering of the central bank discount rate would have conferred no advantage as regards the national interest-rate level. Even at the pace actually adopted a roughly parallel effect could be expected only on the money market. Not until after the latest lowering of the discount rate, that in May, had money market liquidity increased to such an extent that the rate for call money declined below the discount rate for longer than quite brief periods. The majority of other interest rates, especially those for lending to non-banks, rates which are of chief importance as regards their effect on economic activity, fell much more slowly. A good illustration may be the yield on fixed-interest securities; this declined between January and May merely from 7.4% to 6.8% per annum, that is by 0.6 points, as against a reduction in the central bank discount rate by 2 percentage points, as mentioned above. This sluggishness in interest rate movements largely reflects the fact that conditions on the markets for credit, just as on those for most commodities, cannot be fundamentally changed overnight but require some time for adaptation. Even faster changes of the discount rate could not have eliminated such inevitable delays.

The external barrier to further reduction of rates on the money market . . .

The crucial barrier to further reduction of interest rates during the first six months of 1967 resulted from the fact that, with every fall in interest rates on the domestic money market, the difference from the level on the international money market became greater. Whereas at the end of 1966 money-market rates, at least for a time, were higher in the Federal Republic of Germany than in the Euro-money market, the difference was soon reversed, so that for German banks employment of money abroad became more remunerative than employment on the home money market, even with due allowance for the increasing cost of forward exchange-rate fixing. No doubt during the first months of 1967 money outflows from Germany also somewhat depressed the interest rates on the Euro-money market, but they did so by much less than interest rates within this country fell during the same period. The reason was that the German banks' money exports, amounting to not quite DM 3 billion in the period from February to July 1967, of course proved only relatively weak a counteractant compared with the increasing demand for loans which other countries tried to satisfy on the international financial markets, quite apart from the fact that in view of the Euro-money market's great volume (it appears to have grown last year by the equivalent of DM 10 to 15 billion) exports of money from one single country can never do more than partially affect the market. A further point was that on some important national money markets the upsurge of interest rates accelerated as a result, *inter alia*, of restrictive measures in countries with persistent balance-of-payments deficits. From the summer of 1967 onwards, at all events, interest rates on the international money markets rose more rapidly. The interest differential against rates on the German money market thus became greater, and even after deduction of the simultaneously growing cost of forward exchange guarantee the export of money remained profitable for German banks, particularly since it was at times no longer possible to place any large amounts of free funds on the home market.

. . . and on the capital market

During the first half of 1967, however, the interest rate relationship also changed as between the capital markets at home and abroad. Whereas yields fell on the German bond market, they began to rise on some important foreign markets including in particular the Euro-capital market, so that the difference between rates there and in the Federal Republic of Germany was reduced. At the middle of 1967 Euro-dollar bonds yielded roughly as much as bonds in Germany. By way of addition to the already substantial money exports this also opened the doors to German capital exports through purchase of foreign fixed-interest securities by residents. These exports were additional to the forms of capital export previously usual (direct investments and long-term loans, especially development assistance loans), and moreover foreigners sold German securities on an

increased scale, the effect being likewise equivalent to an export of capital (in the form, so to speak, of repaying foreign debts before due date). The lowering of interest rates in Germany had thus reached a point at which credit policy measures afforded a prospect not of any further progress, but only of safeguarding that previously achieved.

The easing of domestic credit markets through appropriate policy about mid-1967 thus came up, earlier than was desirable on cyclical grounds, against limits which could not be extended any further if freedom of international capital movements was to be preserved. It was impossible, however, quite apart from the obligations within the E.E.C., to consider any limitation of free capital movements, if only because the outflows of German capital to foreign countries were the most important “automatic” factor tending to neutralise the large surpluses on current transactions with such countries. Nevertheless the banks’ lending power had in the meantime grown to an extent adequate to meet, without any rise of interest rates, the demands which a renewed cyclical upswing would make. As a result of the minimum reserve releases, plus expansion of the liquidity margin in other ways, the banks’ total free liquid reserves increased from DM 18 billion at the end of 1966 to DM 24 billion at the middle of 1967. How greatly this had enlarged the banks’ power to create credit was in the first place shown by the fact that after the complete decontrol of bank interest rates on 1 April 1967 the rates charged to borrowers slightly declined, contrary to what some observers had expected, even though competition for deposits frequently compelled banks to offer higher interest rates in order to procure money. During that period, it is true, total demand for credit was not yet increasing. During the first half of 1967, when entrepreneurs were spending much less on new capital investment than before and when they were moreover trying to run down inventories, their demand for credit remained, on the contrary, much smaller than before. The increase of public authorities’ demand for credit, great as it was in itself, offset this decrease only in part. This confirmed once again that, while credit terms can be relaxed relatively fast as a precondition for an economic upswing, enterprises understandably take only gradual advantage of the more favourable conditions for procuring finance. Rapidly operating impellers of economic activity could come, in this situation, only from the public finances.

The monetary conditions for upswing were created

#### Fiscal and external counteractants

Domestic demand during the first half of 1967 was indeed strongly supported by the fact that the public authorities deliberately acted on “anticyclical” lines by financing on credit the deficits which rose “automatically”, as it were, as spending policy remained unchanged. On the one hand the recession caused the receipts of Federal Government and *Länder* to stop rising, while seasonally adjusted tax revenue alone even slightly declined. The revenue of the other public authorities, that is of the local authorities and even of the social insurance institutions, also hardly grew any further. On the other hand the expenditure of all public authorities increased in undiminished degree, *viz.*, by 8 per cent compared with the same period of the preceding year. Expenditure on consumption rose at a faster rate, while capital expenditure was slightly down. The ensuing counterweight against the decrease in private demand can be measured by the size of public authorities’ cash deficits. These amounted in the first half of 1967 to DM 5 billion for all public authorities, whereas in the first half of 1966 expenditure and receipts had approximately balanced. In fact the total expenditure of all domestic sectors on goods and services in the first half of 1967 was smaller than in the first half of 1966 by only some DM 7 billion, or say 3 per cent, while in the absence of the public authorities’ deficit spending — that is if public expenditure had been fully adjusted to the receipts mentioned — such expenditure (quite apart from adverse secondary effects) would have turned out lower than in the corresponding period of the previous year by a further DM 5 billion, that is by a total of DM 12 billion or more than 5 per cent. The same conclusion is reached if the basis taken is the national account figures, which are for statistical purposes somewhat differently delimited, and which are contained in the above calculation. On that basis, too, the financial bal-

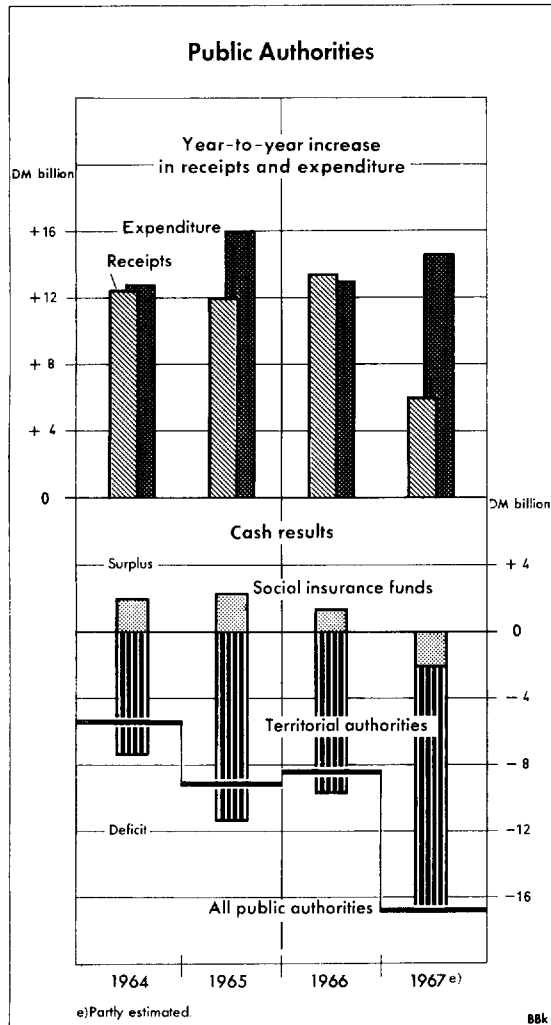
Effect of the built-in stabilisers

Receipts, Expenditure and Financial Balances of the Domestic Sectors in the First Half of 1967\*)

Transactions of the individual sectors	Receipts			Expenditure			Financial surplus (+) or deficit (-)	
	1966 1st half	1967	Year-to- year change in p.c.	1966 1st half	1967	Year-to- year change in p.c.	1966 1st half	1967
	DM bn			DM bn			DM bn	
(1) Households								
(a) Contribution to gross national product <sup>1)</sup>	<b>117.1</b>	<b>118.4</b>	+ 1.1	.	.	.	.	.
(b) Purchase of goods	.	.	.	<b>131.3</b>	<b>134.7</b>	+ 2.6	.	.
(c) Transfers from and to other sectors	61.8	65.6	+ 6.0	34.8	36.3	+ 4.3	.	.
Total	179.0	184.0	+ 2.8	166.2	171.0	+ 2.9	+12.8	+12.9
(2) Enterprises								
(a) Contribution to gross national product <sup>2)</sup>	<b>77.2</b>	<b>75.2</b>	- 2.6	.	.	.	.	.
(b) Purchase of goods	.	.	.	<b>53.6</b>	<b>40.5</b>	-24.4	.	.
(c) Transfers from and to other sectors	6.2	7.0	+12.7	47.1	46.6	- 1.0	.	.
Total	83.4	82.2	- 1.5	100.7	87.1	-13.5	-17.2	- 4.9
(3) Private domestic sectors (1 + 2)								
(a) Contribution to gross national product	<b>194.3</b>	<b>193.6</b>	- 0.4	.	.	.	.	.
(b) Purchase of goods	.	.	.	<b>184.9</b>	<b>175.2</b>	- 5.3	.	.
(c) Transfers from and to other sectors <sup>3)</sup>	35.9	39.2	+ 9.2	49.8	49.6	- 0.4	.	.
Total	230.2	232.8	+ 1.1	234.7	224.8	- 4.2	- 4.5	+ 8.0
(4) Government								
(a) Contribution to gross national product <sup>4)</sup>	35.7	36.2	+ 1.5	.	.	.	.	.
(b) Purchase of goods	.	.	.	<b>43.8</b>	<b>46.2</b>	+ 5.5	.	.
(c) Transfers from and to other sectors	48.2	48.2	- 0.1	37.5	40.8	+ 8.9	.	.
Total	83.9	84.4	+ 0.5	81.3	87.1	+ 7.1	+ 2.6	- 2.7
(5) Domestic sectors (3 + 4)								
(a) Contribution to gross national product	<b>230.0</b>	<b>229.8</b>	- 0.1	.	.	.	.	.
(b) Purchase of goods	.	.	.	<b>228.7</b>	<b>221.4</b>	- 3.2	.	.
(c) Transfers from and to foreign countries	0.1	0.2	+ 7.1	3.3	3.2	- 2.1	.	.
Total	230.1	230.0	- 0.1	232.0	224.6	- 3.2	- 1.9	+ 5.3
(6) Foreign countries								
(b) Purchase of goods								
External surplus	.	.	.	( 1.3)	( 8.4)	.	.	.
Exports / imports	47.6	45.7	- 4.0	48.8	54.1	+10.7	.	.
(c) Transfers from and to other sectors	3.3	3.2	- 2.1	0.1	0.2	+ 7.1	.	.
Total	50.9	48.9	- 3.9	49.0	54.2	+10.7	+ 1.9	- 5.3
Note:								
Gross national product <sup>5)</sup>	<b>230.0</b>	<b>229.8</b>	- 0.1	<b>230.0</b>	<b>229.8</b>	- 0.1	.	.

\*) Provisional figures; details may not add to totals because of rounding. — <sup>1)</sup> Measured by gross income from wages and salaries. — <sup>2)</sup> Measured by gross income of the private sector from entrepreneurial activity and property plus depreciations. — <sup>3)</sup> Except transfers between households and enterprises. — <sup>4)</sup> Measured by gross income of public authorities from entrepreneurial activity and property plus depreciations and indirect taxes, less subsidies and interest payable on public debt. — <sup>5)</sup> Sum total of all "Contributions to gross national product" shown under "Receipts" (boldface type) or all purchases of end products and services shown under "Expenditure" (boldface type).





ance changed by fully DM 5 billion, and to that extent contributed towards offsetting the shortfall of demand in the private sector of the economy<sup>1)</sup>.

It is worth pointing out in this connection that Germany's economic relations with foreign countries turned out to be an even stronger "automatic" stabiliser of economic activity, since imports of goods and services declined in greater proportion than domestic demand (so that the contribution made by domestic suppliers towards satisfaction of home-market demand increased) while on the other hand exports continued to grow. Instead of the German deficit of about DM 2 billion on current transactions with foreign countries recorded in the first half of 1966, there was in the first six months of 1967 a surplus amounting to nearly DM 5.5 billion. In other words, within twelve months the for the most part cyclically induced reversal in current transactions with foreign countries on balance provided the domestic economy with additional demand exceeding DM 7 billion; this sufficed to make good the decrease in home-market demand which still remained despite the additional demand of public authorities (and which, as already mentioned, likewise amounted to upwards of DM 7 billion). The domestic expenditure on purchase of end-products and services plus net foreign demand, that is to say

Anticyclical effects of foreign trade and payments as well

overall economic demand, was therefore just as great in the first half of 1967 as in the first half of 1966. The shortfall of demand due to the curbing of enterprises' capital expenditure was thus made good through "automatic reactions" in the sphere of public budgets and external transactions. The economy's great flexibility reflected therein was due not least to the fact that prices and wages within the country were relatively quick in reacting to the recessive tendencies. One indication of this was that during the first half of 1967 prices for capital goods, building work and exports fell, while consumer prices rose only slowly; another was that unit labour costs rose only a little during that period, although utilisation of capacities was on the decline. If the rise of prices and costs had not come to an end relatively soon, the radical and rapid reversal in transactions with foreign countries in particular would hardly have been possible.

At the depth of recession about the beginning of 1967 it was not of course immediately possible to see how effectively and reliably the "built-in stabilisers" would work, nor how great the business community's price and cost elasticity, which according to its degree can assist or hinder a cyclical process of adaptation, could be expected to be. But even apart from this it would not necessarily have been desirable to leave economic developments to the more or less automatically operating process of adjustment. It therefore was appropriate that the Federal Government drew up an economic stimulation programme designed to accelerate economic recovery and to keep as small

The Federal Government's programme to stimulate economic activity

<sup>1)</sup> The financial deficit amounted to about DM 2.5 billion in the first half of 1967, as against a financial surplus of about DM 2.5 billion in the first half of 1966. The chief reason why these net figures are somewhat smaller than the "cash balances" is that in the national accounts the granting of government loans to third parties is disregarded when ascertaining the financial balance.

as possible the adverse effects of the recession both on employment at home and on economic activity in the countries trading with Germany. The Bundesbank, which had already promised to keep the markets for credit sufficiently liquid for cyclically induced shortfalls in Federal tax revenue during 1967 to be financed through additional borrowing, also promised its cooperation and help for financing the stimulation programme adopted early in 1967. It was the more readily able to do so because this programme had been preceded by some important fiscal policy decisions through which the gap in the Federal Government's "regular budget" was limited perceptibly. (The principal decisions provided for some cuts regarded as indispensable in certain items of expenditure, mainly on consumption, and also for an increase — though non-recurrent in its effect — of tax revenue by bringing forward dates of payment.) The stimulation programme itself comprised, in the first place, the introducing of special depreciation allowances for capital projects which were effected in the period from 20 January to 31 October 1967, or for which orders were given within that period, and in the second place the drawing up of a DM 2.5 billion additional Federal capital expenditure budget initially conceived as a "contingency budget". After initial administrative difficulties had been overcome, the individual tranches of this programme were rapidly handled, at least as regards the placing of orders. The Bundesbank quickly gave the requested promise of indirect financial assistance both for the first tranche and for each of the two other tranches. The additional orders began to fill the gap in orders reaching the capital goods industries as well as the building trade, and thereby materially contributed towards the above-described improvement in the order book situation of the entire economy. No expenditure under the contingency budget was yet effected, however, in the first half of 1967; still less were any secondary effects already apparent during this first phase of anticyclical fiscal policy.

## 2. Recovery of economic activity

### *(a) Renewed expansion of domestic demand*

Order inflows increase  
from the early summer  
of 1967

In the summer of 1967 it became obvious that domestic demand, at least so far as it came from enterprises, was beginning to rise on a broad basis. In June for the first time a non-seasonal growth of orders from the home market was recorded by all industries, not only those producing capital goods, where the reversal had already begun earlier, but also the basic and consumer goods industries. The new upswing continued, although with slight fluctuations, until the first months of 1968 surveyable as this Report goes to press.

Reversal of the  
investment cycle

The impulsion initiating this upswing, like the one causing the preceding downswing, came from enterprises' planning of capital expenditure. At first orders given by the Federal Railways and Postal Administration on the basis of funds from the Federal Government's "contingency budget" played an important part, but soon the placing of orders in all capital goods industries increased. Here again official stimulants, especially the allowing of special depreciation facilities during a period ending in October 1967, doubtless produced a favourable effect. Independently of this, however, all the factors to be included in calculations for enterprises' new capital expenditure now appeared in a more favourable light. On the one hand the position of enterprises in regard to costs steadily improved, since wages rose only a little while productivity rapidly increased. In other words, the costs per unit of output declined. Since at the same time sales again grew, profits also rose after a relatively long period of falling, both because sales were greater and because rates of profit were higher. This is clearly apparent in the national account figures. These show that at DM 4.1 billion in the second half of 1967 undistributed profits were considerably greater than in the second half of 1966, whereas in the first half of 1967 they had dropped to the unusually low level of DM 3.0 billion. Even after this adjustment, however, the level reached by reinvested profits in earlier years was far from being reattained. On the other hand rates of interest had to some extent fallen, and it became increasingly clear that owing to the tightness of international credit markets no further decline could be expected. Thus,

rates of interest provided no further ground for any remaining wait-and-see attitude on the part of enterprises contemplating capital expenditure. In addition, however, there were reasons of other than purely economic character which encouraged entrepreneurs to engage in such expenditure. The change-over to an active anticyclical fiscal policy, as rendered obligatory by promulgation of the Law for Promoting Stability and Growth of the Economy, and the realisation of that Law's basic conceptions in the Federal Government's economic stimulation programmes, strengthened the optimism of entrepreneurs. The fact that the increase of enterprises' orders for capital goods was more than a mere flash in the pan became clear at the latest when, after the period set for special depreciation had expired at the end of October, and even after transition to the new turnover tax system at the turn of the year 1967/68 (which, many critics had feared, might cause a rise in prices for capital goods), the amount of orders placed in the capital goods industries continued to show a cyclically high level.

It would have accorded with the normal picture of a cyclical upswing if, together with the increase of demand for capital goods, the stocks held by enterprises had been replenished. In fact from the early summer of 1967 onwards there was no lack of signs pointing to a reversal of the previous tendencies towards reduction of inventories, but a major build-up of these did not immediately begin because at that time there was reason to fear that the impending change-over to the value-added tax would entail disadvantages in respect of "old stocks" on hand. Although the reluctance to build up inventories abated after the legislature had in the autumn of 1967 amended in enterprises' favour the provisions concerning tax relief on old stocks, it did not completely disappear until the new tax system had been introduced. How important the reversal of the stock cycle was — and may for some time remain — as a factor strengthening total demand can be shown in the light of figures from the National Accounts. These indicate that in the first half of 1967 stocks were reduced by more than DM 2 billion (as against a build-up by DM 4 billion in the corresponding period a year before). This reversal explains two-thirds of the total amount by which demand declined during that period in the private sector of the economy. In the second half of 1967, on the other hand, stocks were reduced by little more than had been the case in that half of many earlier years; total demand, in cyclical terms, was no longer appreciably constricted on that account. The prospect for 1968, however, is that stockbuilding will quite considerably strengthen total demand; in the case of some primary products it was already doing so during the last months of 1967.

In the sphere of government investments, so far as spending for that purpose is concerned, no increase was apparent during the second half of 1967; it would rather seem that in that period again capital expenditure on tangible assets did not exceed to any appreciable extent the level attained in the second half of 1966. The reason for this economically unsatisfactory result was the caution shown by *Länder* and local authorities (which account for roughly four-fifths of all public expenditure on such assets) in regard to their capital expenditure originally planned for 1967. Nor did the easing of tensions on the credit markets at first produce any change in that respect, this being mainly due to the reluctance of those public authorities to incur further debt. In that connection it is indeed undeniable that, in view of the heavy debt service which already has to be met and the small prospect of future accelerated growth in ordinary revenues, many local authorities are no longer able to continue increasing their indebtedness at the same rate as before. More balanced conditions in that respect can on a longer view be created only by allocating the local authorities larger revenues of their own as an element in the reform of public finances. But *Länder* too, including even some in a better financial position, at first refrained from stepping up their capital expenditure while economic activity was still slack. It is true that the cyclically induced shortfalls in their tax revenue compelled them somewhat to increase their indebtedness; but, as will be shown in Chapter III/3, this increase was mainly confined to borrowing at longer term. In June 1967 the Bundesbank offered to include non-interest Treasury bonds of *Länder*, up to specified amounts, in its operations for regulating the money market, and thereby to provide the *Länder*

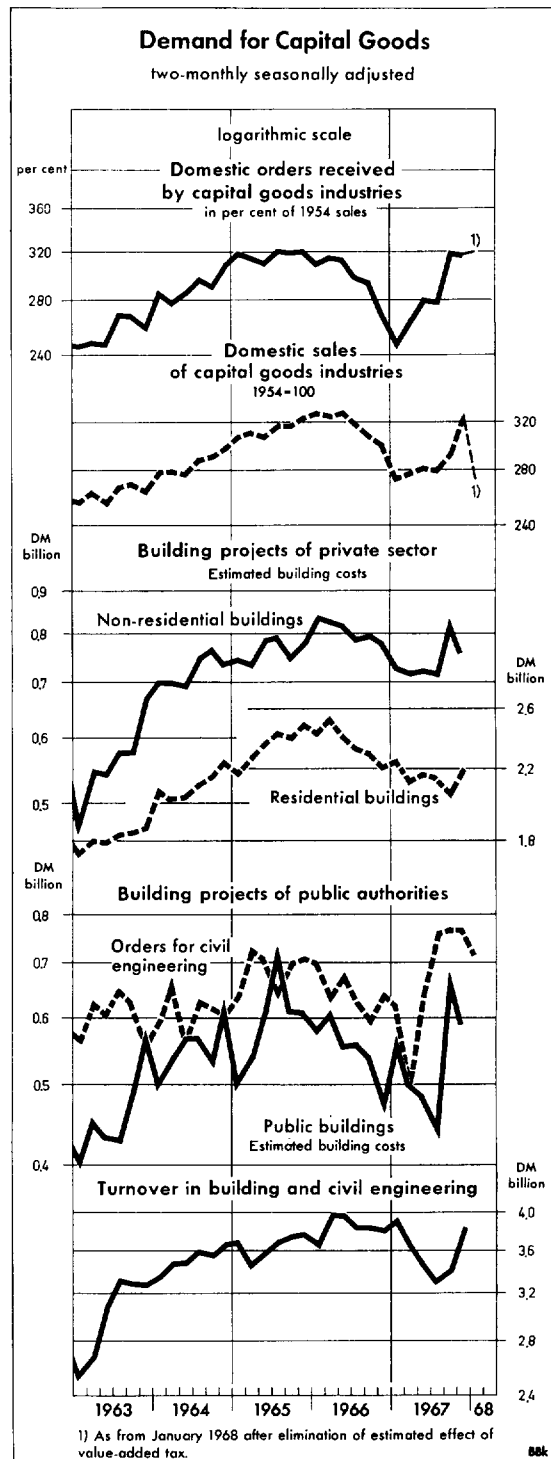
Delayed reversal  
of the stock cycle

Expansion in  
government capital  
expenditure lacking

with credit at particularly low rates of interest; but up till the end of the year, with one exception, no advantage was taken of this offer. This reveals afresh the dilemma resulting from the fact that the official capital projects important for stimulating economic activity are in the great majority of cases a matter for *Länder* and local authorities, whereas only the Federal Government can really be expected to incur, on a scale adequate for counteracting recession, new indebtedness consisting in short-term borrowings which can be most easily manipulated for purposes of credit policy. The practical point is that only the Federal Parliament can amend tax laws, as might in certain circumstances become necessary if the debts had to be reduced again so as to check excessive economic activity; the rest of the territorial authorities have far fewer opportunities for an autonomous increase of their revenues.

The Federal Cabinet's second economic stimulation programme

When drawing up the second economic stimulation programme in July, the Federal Cabinet made allowance for the difficulties which the constitutional structure places in the way of anticyclical capital expenditure by public authorities in the Federal Republic of Germany. According to that programme public authorities' capital expenditure exceeding DM 5 billion was to be brought forward to earlier dates or additionally effected. The emphasis was on local authorities, which are to spend about DM 2 billion of the total. The funds for the programme are on the other hand found in much the greater part (altogether DM 4.8 billion) by the Federal Government, the E.R.P. Special Fund and the *Länder*, while the proportion found by local authorities themselves is only relatively small at DM 500 million<sup>1)</sup>. The Federal Government made its financial assistance for investment projects dependent on the orders — mostly for building — being given promptly, which meant in general by 15 October. That time limit was largely observed, but actual expenditure under this programme can hardly have been yet effected in the second half of 1967. Nevertheless the public authorities' finances, even during that period, remained much more expansive than in the corresponding period of the previous year. The cash deficit totalled DM 12 billion, being thus greater by DM 3.5 billion than in the second half of 1966, but its growth was no longer so great as in the first half of 1967 (DM 5 billion). Private



<sup>1)</sup> For details see the Monthly Report of the Deutsche Bundesbank, Vol. 19, No. 8, August 1967, page 29.

Receipts, Expenditure and Financial Balances of the Domestic Sectors in the Second Half and the Entire Year 1967 \*)

Transactions of the individual sectors	Receipts						Expenditure						Financial surplus (+) or deficit (—)			
	1966	1967	Year-to-year change	1966	1967	Year-to-year change	1966	1967	Year-to-year change	1966	1967	Year-to-year change	1966	1967	1966	1967
	DM bn		in p.c.	DM bn		in p.c.	DM bn		in p.c.	DM bn		in p.c.	DM bn			
(1) Households																
(a) Contribution to gross national product <sup>1)</sup>	<b>243.0</b>	<b>243.5</b>	+ 0.2	<b>125.9</b>	<b>125.1</b>	— 0.7										
(b) Purchase of goods							<b>274.9</b>	<b>281.4</b>	+ 2.4	<b>143.6</b>	<b>146.7</b>	+ 2.2				
(c) Transfers from and to other sectors	139.4	146.8	+ 5.4	77.5	81.2	+ 4.8	76.0	78.5	+ 3.3	41.1	42.1	+ 2.4				
Total	<b>382.4</b>	<b>390.3</b>	+ 2.1	<b>203.4</b>	<b>206.3</b>	+ 1.4	<b>350.9</b>	<b>359.9</b>	+ 2.6	<b>184.7</b>	<b>188.8</b>	+ 2.2	+ 31.5	+ 30.4	+ 18.7	+ 17.5
(2) Enterprises																
(a) Contribution to gross national product <sup>2)</sup>	<b>165.8</b>	<b>165.9</b>	+ 0.1	<b>88.6</b>	<b>90.7</b>	+ 2.4										
(b) Purchase of goods							<b>103.1</b>	<b>86.1</b>	— 16.5	<b>49.6</b>	<b>45.7</b>	— 7.8				
(c) Transfers from and to other sectors	13.8	15.3	+ 10.7	7.6	8.3	+ 8.9	107.0	107.2	+ 0.2	59.9	60.5	+ 1.1				
Total	179.6	181.2	+ 0.9	96.2	99.0	+ 2.9	210.1	193.3	— 8.0	109.5	106.2	— 3.0	— 30.5	— 12.1	— 13.2	— 7.2
(3) Private domestic sectors (1 — 2)																
(a) Contribution to gross national product	<b>408.8</b>	<b>409.4</b>	+ 0.1	<b>214.5</b>	<b>215.8</b>	+ 0.6										
(b) Purchase of goods							<b>378.0</b>	<b>367.5</b>	— 2.8	<b>193.1</b>	<b>192.4</b>	— 0.4				
(c) Transfers from and to other sectors <sup>3)</sup>	74.0	81.4	+ 10.0	38.1	42.2	+ 10.7	103.8	104.9	+ 1.1	54.0	55.3	+ 2.4				
Total	<b>482.9</b>	<b>490.8</b>	+ 1.6	<b>252.6</b>	<b>258.0</b>	+ 2.1	<b>481.8</b>	<b>472.5</b>	— 1.9	<b>247.1</b>	<b>247.7</b>	+ 0.2	+ 1.0	+ 18.3	+ 5.5	+ 10.3
(4) Government																
(a) Contribution to gross national product <sup>4)</sup>	<b>71.9</b>	<b>74.2</b>	+ 3.2	<b>36.2</b>	<b>38.0</b>	+ 5.0										
(b) Purchase of goods							<b>96.2</b>	<b>100.1</b>	+ 4.0	<b>52.4</b>	<b>53.8</b>	+ 2.8				
(c) Transfers from and to other sectors	100.5	101.7	+ 1.3	52.2	53.6	+ 2.6	76.8	84.4	+ 9.9	39.3	43.6	+ 10.9				
Total	172.3	176.0	+ 2.1	88.4	91.6	+ 3.6	173.0	184.5	+ 6.6	91.7	97.4	+ 6.3	— 0.7	— 8.5	— 3.2	— 5.8
(5) Domestic sectors (3 — 4)																
(a) Contribution to gross national product	<b>480.7</b>	<b>483.6</b>	+ 0.6	<b>250.7</b>	<b>253.8</b>	+ 1.2										
(b) Purchase of goods							<b>474.2</b>	<b>467.6</b>	— 1.4	<b>245.5</b>	<b>246.2</b>	— 0.3				
(c) Transfers from and to foreign countries	0.3	0.3	+ 3.4	0.2	0.2	+ 0	6.4	6.5	+ 1.6	3.1	3.3	+ 5.4				
Total	<b>481.0</b>	<b>483.9</b>	+ 0.6	<b>250.9</b>	<b>254.0</b>	+ 1.2	<b>480.6</b>	<b>474.1</b>	— 1.4	<b>248.6</b>	<b>249.5</b>	+ 0.4	+ 0.4	+ 9.8	+ 2.2	+ 4.4
(6) Foreign countries																
(b) Purchase of goods																
External surplus							( 6.5)	(16.0)		( 5.2)	( 7.6)					
Exports / imports	96.5	94.7	— 1.9	48.9	49.0	+ 0.2	103.0	110.7	+ 7.5	54.2	56.6	+ 4.6				
(c) Transfers from and to other sectors	6.4	6.5	+ 1.6	3.1	3.3	+ 5.4	0.3	0.3	+ 3.4	0.2	0.2	+ 0				
Total	102.9	101.2	— 1.7	52.1	52.3	+ 0.5	103.3	111.0	+ 7.5	54.3	56.8	+ 4.5	— 0.4	— 9.8	2.2	— 4.4
Note:																
Gross national product <sup>5)</sup>	<b>480.7</b>	<b>483.6</b>	+ 0.6	<b>250.7</b>	<b>253.8</b>	+ 1.2	<b>480.7</b>	<b>483.6</b>	+ 0.6	<b>250.7</b>	<b>253.8</b>	+ 1.2				

\*) Provisional figures; details may not add to totals because of rounding. — <sup>1)</sup> Measured by gross income from wages and salaries. — <sup>2)</sup> Measured by gross income of the private sector from entrepreneurial activity and property plus depreciations. — <sup>3)</sup> Except transfers between households and enterprises. — <sup>4)</sup> Measured by gross income of public authorities from entrepreneurial activity and property plus depreciations and indirect taxes, less subsidies and interest payable on public debt. — <sup>5)</sup> Sum total of all "Contributions to gross national product" shown under "Receipts" (boldface type) or all purchases of end products and services shown under "Expenditure" (boldface type).

domestic demand on the other hand declined by much less than in the corresponding period a year earlier; the result was that in the second half of 1967 total domestic demand increased again, although only by DM 1 billion or about ½ per cent, whereas in the first half of that year it had declined by 3 per cent. If the continuing large surplus on current transactions with foreign countries is included, total demand rose in the second half of 1967 by DM 3 billion, or by more than 1 per cent. The stagnation recorded for the first half-year had thus been overcome, and this was done exclusively through the increase of domestic demand; the influence of foreign demand, as measured by net current transactions, still was greater than in the second half of 1966, it is true, but it was already down again in comparison with the first half of 1967. Accordingly this most important “stabiliser” of economic activity already indicated the improvement of the economic situation within the country.

*(b) Overcoming the drop in production*

Rapid rise of industrial production

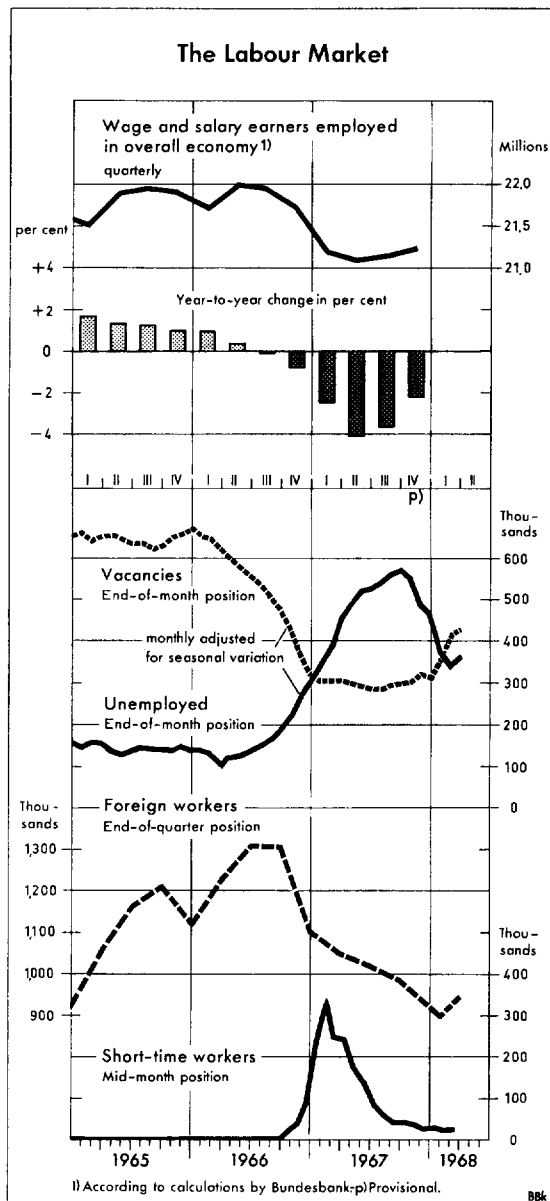
Production, under the influence of the increase in demand, rapidly rose during the second half of 1967. Especially industry, where the setback had been most marked, very greatly expanded its output from July onwards. By November, only five months after its lowest point, industrial production according to the seasonally adjusted figures was already back to the highest level ever attained. In December alone output rose sharply, because effects were produced in that month not only by the “normal” increase of economic activity but also by special factors, such as in particular anticipatory buying in view of the transition to the value-added tax as well as a large amount of orders resulting from the second economic stimulation programme. Although in the first two months of 1968 industrial production declined again from this briefly exaggerated size, there were further unmistakable rises of production as compared with the level reached in September and October 1967.

Renewed increase of the national product

The national product as a whole rose indeed less rapidly than industrial production alone, just as the national product had fallen less than such production in the preceding recession. But even so the overall value added, after seasonal adjustment, increased in the fourth quarter of 1967 by 4 per cent in terms of volume, so that the decrease of total production in the previous three quarters was not only made good but actually outweighed. This created a good starting basis for the further real growth of the national product in 1968. Whereas the Federal Government in its Annual Economic Report, published in January 1968, counts for this year on a rise of the national product by 4 per cent in real terms, it has meanwhile turned out that in the course of 1968 the real national product would already grow by more than 3 per cent if the level of output reached in the fourth quarter of 1967 were merely maintained. If however further growth is assumed to occur in the course of 1968, such growth being again probable after the first quarter although perhaps not in it, then an increase in the real national product by more than 4 per cent may be expected.

Favourable effects on the labour market

With the upswing in production the state of the labour market also improved. After seasonal adjustment the number of persons unemployed had reached its highest level in the late summer of 1967, since from March until September it had fallen much less than is usual for that season. From that time onwards, however, unemployment showed a greater than seasonal decline, and during the winter months it rose more slowly than would have accorded with the season. At the end of March 1968 the number of persons out of work was 460,000, which after seasonal adjustment means roughly 370,000, or 1.7 per cent of all employed wage and salary earners. Since the beginning of 1968 the number of vacancies has also risen again; adjusted for seasonal variation it was 430,000 at the end of March, being thus again greater than the number out of work. Purely in the light of the figures it would thus be permissible to conclude that in the spring of 1968 the labour market situation was already again as good as in the late autumn of 1966, that is at a time when the signs of overheating had just disappeared. In fact however, even if the demand for labour continues to increase, general tightness is for the time being unlikely to recur in the labour



market because the supply of labour is at present more elastic than in the first half of 1966, or in 1965.

Certain reserves of labour are at present available not only within the country but also in certain countries important as sources of labour for Germany. Unemployment can be further reduced in this country, and working hours could also be somewhat lengthened again in industries where they had been cut down solely on cyclical grounds. Some reserves, although probably not large, may moreover be presumed to exist among persons not now gainfully active. Finally however it is possible to recruit foreign workers again, partly perhaps by recourse to foreigners previously employed in the Federal Republic of Germany, although one limiting consideration is that the Federal Institution for Labour Exchanges and Unemployment Insurance will probably recruit foreign workers only in occupations where resident labour cannot be found. The bringing in of foreign labour would of course be likely to entail rising costs.

On the whole, however, the present labour reserves are by no means so great as might be suggested by the decrease in the total number of persons employed (by just on 2½ per cent, or about 500,000, between the end of 1966 and that of 1967), since on the one hand the employable population in the Federal Republic of Germany has decreased, while on the other hand, if growth free from inflation is to be ensured, it will not be possible to fall back again on "marginal" workers who had been employed only because demand was at the

Labour reserves . . .

. . . result from rationalisation

time inflated, but who were afterwards dismissed. To that extent the decrease in the number of persons employed, recorded when over-full employment ended, was a consequence of the altered demographic conditions in Germany. As already mentioned, the reduction in the numbers employed was accompanied in all cases by a great advance of productivity, especially apparent in the renewed rise of production. Thus during the second half of 1967 the output per man-hour was greater by over 6 per cent in the economy as a whole, and in industry by as much as 9 per cent, than a year before. The intervening investments for rationalisation purposes and the action (initiated under the pressure of recession) to organise enterprises more efficiently led for the first time in a long while, under the influence of the renewed rise in the extent to which capacities were employed, to an actual saving of unit labour costs. The production potential gained during the cooling of the economy was not yet fully exhausted by the end of 1967, so that considerable advances in productivity can be expected for a long time to come.

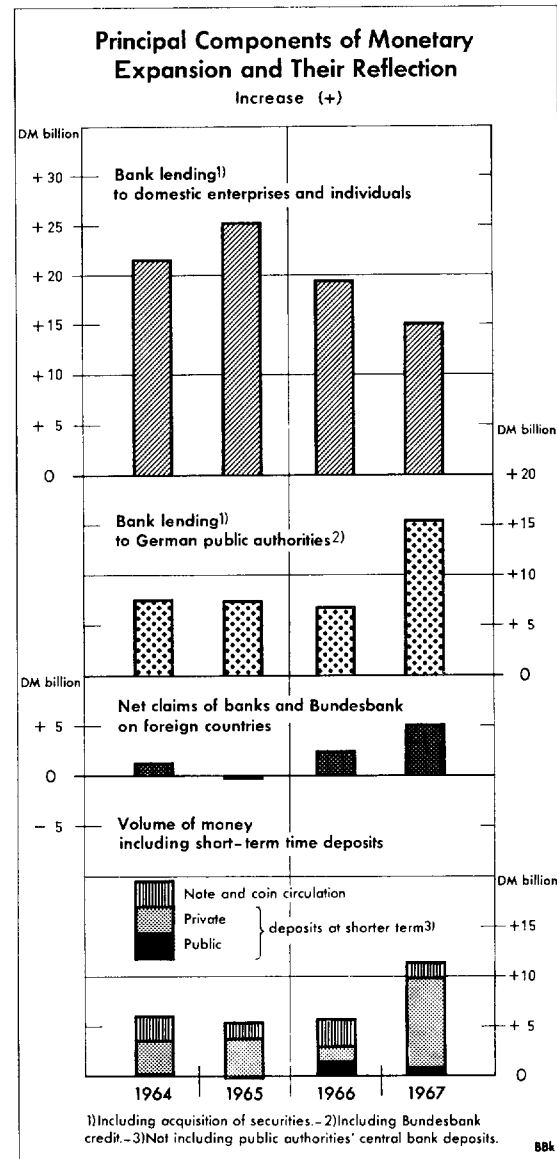
(c) Credit policy in the new upswing

The previous interest rate policy was continued...

During the period of economic recovery the Bundesbank continued its previous easy money policy. Its primary aim was through suitable measures to prevent the international interest rate upsurge from spreading to the domestic money and capital market. At the middle of 1967 therefore, when rates of interest began to rise on the Euro-capital market, in particular, and the level of interest rates also rose slightly on the German bond market, the Bundesbank adopted further measures to increase liquidity. In July, August and September, as already mentioned, it again released minimum reserves (totalling about DM 3 billion); it also facilitated the banks' recourse to central bank credit by the fact that in August it lowered its advance rate from 4% to 3½%, thereby reducing by half the "traditional" one percentage point margin between its rates for discount and for advances on securities. Quite short-term central bank accommodation, for which banks frequently resort to such advances, thus again became cheaper; a further result was that the upper limit for movements of the call money rate was lowered.

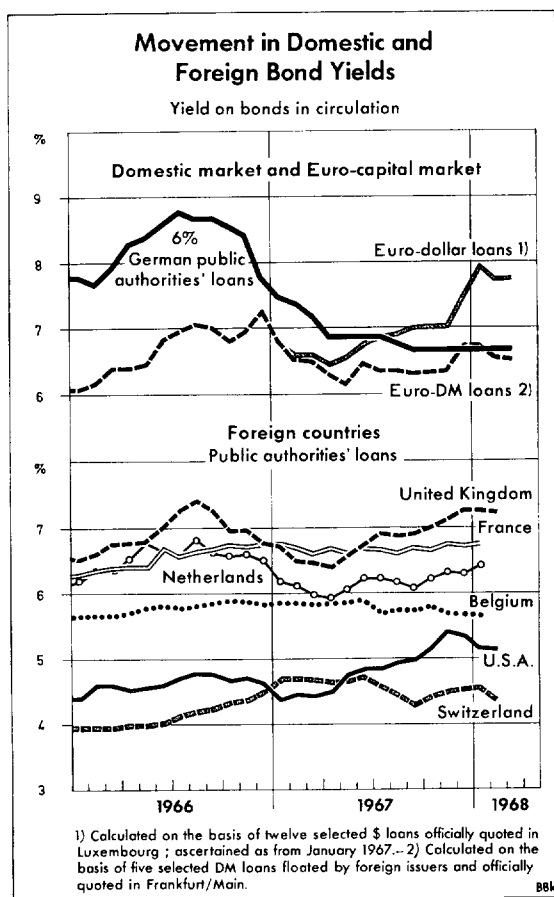
... and supported by open-market policy

A further general and substantial increase of bank liquidity now did no longer appear to be desirable at the previous rate, especially as funds released through minimum reserve reductions would have been employed by the banks principally on foreign money markets rather than on the domestic money market (where they would have tended to depress interest rates). Moreover, the favourable effect produced on the capital market up till then through the minimum reserve reductions, *inter alia* by reason of the fact that these caused credit institutions to buy a great deal of securities, seemed to be no longer equally ensured. In these circumstances the Bundesbank in August 1967 decided on additional easing of the money market through open-market purchases, for its own account, of bonds issued by the Federal Government and the Federal Special Funds. In this way it was able to confine the creation of liquidity to smaller amounts and at the same time to affect the level of interest rates in the bond market more directly than appeared to be possible — as matters then stood — by further reductions of minimum reserve ratios. Of course, in the case of creating liquidity through purchase of securities in the open market it was likewise to be expected at the outset that an increased interest rate differential would cause greater outflows of money and capital to foreign countries. After the start of open-market operations in long-term securities, yields for a time slightly declined only in the case of those public authorities' bonds which the Bundesbank included in its operations. This caused





understandable criticism by the issuers of other bonds which could likewise have been legally bought. Nevertheless the actual course of quotations fully justifies the Bundesbank's view that it is advisable to keep the range of paper included in open-market operations small, thereby keeping proper track of the operations themselves. In accordance with expectations indeed, as soon as this open-market policy had been initiated, the yields on other fixed-interest securities no longer continued to rise; and after some months (say from the middle of December 1967 onwards) they too declined, although only a little. Since then, it is true, there has been a difference of yield between the bonds of the Federal Government and the Federal Special Funds, on the one hand, and the rest of fixed-interest securities on the other. At the beginning of March the bonds in the former category yielded 6.6%, against 7.0% yielded by the rest. This difference between interest rates reflects the higher degree of liquidity which public authorities' bonds now enjoy, in comparison with other fixed-interest securities, as a result of the Bank of Issue's interventions. In other countries, too, there are as a rule similar differences between yields, although in many cases there may also be other reasons for such differences.



The Bundesbank's security purchases in the open market were mainly confined to the period from August to December; by the end of the year they had reached roughly DM 1.3 billion. In January and February 1968, on the other hand, relatively small amounts of securities at mostly quite short maturities were resold to the market at rising prices.

In order to safeguard the easy state of the domestic credit markets so far as possible against tightening foreign influences, but also in order to reduce the effect produced on international money markets by Germany's often only seasonal shortage of liquidity, in the later course of 1967 certain devices for precise control of credit policy were applied again, while others were applied for the first time. One was the influencing of forward exchange covering costs, either increasing them by widening the margin between the Bank's buying and selling rates on the spot foreign exchange market (and so reducing the incentive to export money), or decreasing them through the Bundesbank temporarily offering forward rate-fixing facilities at rates below the market rates, and so promoting exports of money. Secondly the Bundesbank at times enabled the banks to employ money

Refinement of individual credit policy instruments

for short periods in mobilisation paper, the object being to transfer liquidity from months with seasonally induced liquidity surpluses to months when liquidity was short (for details on this subject see Chapter III/1). Permits under Article 17 of the Bundesbank Law to employ public monies outside the Bundesbank were also at times granted somewhat more generously than before — although only for short periods — on grounds of liquidity policy. Such differentiated handling of individual instruments for affecting liquidity, in some cases with differing aims, will probably be unavoidable while the barrier which keeps liquidity inside the country and stops it from flowing out to foreign markets is so low as it has been during the last twelve months.

Liquidity supply further increased

Although from October onwards the minimum reserves were not reduced any further, during the second half of 1967 and also in the first few months of 1968 the banks' free liquid reserves grew, if anything, more markedly than before. With the inclusion of unused rediscount quotas they amounted at the end of February 1968 to about DM 36 billion, or almost 15 per cent of non-bank customers' deposits at credit institutions. In proportion to their liabilities, therefore, credit institutions are again almost as abundantly supplied with liquidity which is free — that is, not tied up in minimum reserves — as they were in 1962; the level at the beginning of 1964, before credit restriction began, has been reattained. Apart from the market-induced liquidity afflux, due towards the end of 1967 especially to the public authorities' cash transactions, and from the above-mentioned measures affecting liquidity, the banking system's liquid reserves rose mainly because the banks acquired on a greater scale public authorities' shorter-term paper included in the Bundesbank's operations for regulating the money market (especially Treasury bills, non-interest Treasury bonds, and recently also *Kassenobligationen* — medium-term notes — with a remaining life of up to eighteen months). By purchasing such paper the banks granted credit to public authorities; by the same act, however, their free liquid reserves increased, since the Bundesbank will at any time repurchase such paper.

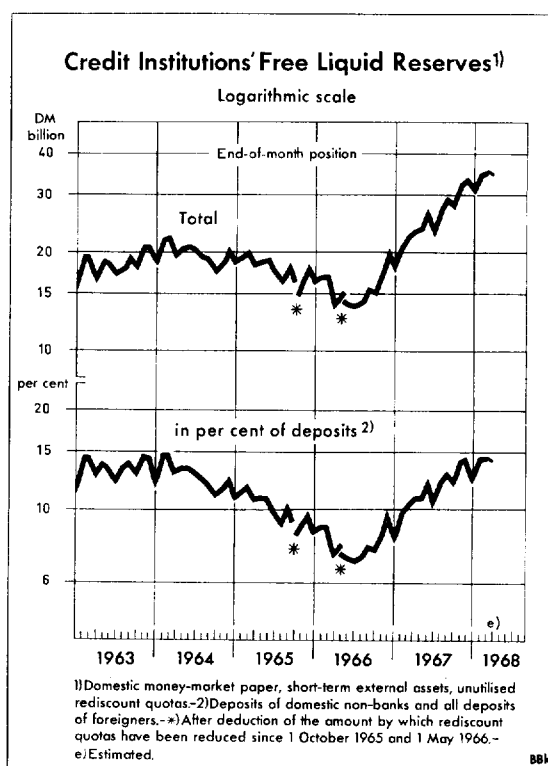
Faster credit expansion with stable interest rates

From the middle of 1967 onwards the banks' expansion of credit quickened. Towards the end of the year, indeed, with interest rates rather continuing to trend downwards, it accelerated vigorously; to the public authorities' large demand for credit there was added enterprises' increasing borrowing requirement for the purpose of financing their growing new investments and their stockbuilding. Evidently, however, a purely monetary component was also at work, since the business community's money holdings and also its other liquid assets grew much more until the end of 1967 than could be explained in the light of sales. This confirmed the lesson, taught by experience, that when the supply of credit becomes more abundant trade and industry's liquidity preference rises again, after having decreased in the preceding restrictive phase under the compulsion of circumstances. In other words, when money and credit become tighter and dearer, there is an increase of processes like the so-called industrial clearing, through which the available stocks of money are more fully used. The opposite process usually takes place when credit policy is relaxed. Not only the banks but also business enterprises began the year 1968 with liquidity cushions which were, in general, so great that further financing of the cyclical upswing is unlikely for the time being to present any special problems.

#### (d) Cooperation of credit policy and fiscal policy

Credit and fiscal policy in harmony

During the second half of 1967, as in the first, the Bundesbank's credit policy ensured smooth financing of the public deficits. For successfully counteracting recession there must be parallel fiscal and credit policy, since it is not certain that an easy money policy would by itself suffice to stimulate demand sufficiently, nor would deficit spending by public authorities be possible without



the appropriate credit policy. (When it comes to counteracting a boom, parallel action in the opposite direction should of course in principle apply. This will be important, in future, not least because the preceding policy of stimulating economic activity provided the banks with quite a substantial margin of liquidity.) During the second half of 1967 again, however, problems were raised by the fact that public authorities very strongly inclined to borrow at longer term, whereas credit policy can directly expand the supply of short-term credit only — unless indeed the Central Bank were itself to buy longer-term government securities, as it in fact did on a limited scale. Credit policy did indirectly help to meet public borrowers' need for longer-term funds by greatly expanding the liquidity of the credit institutions, so that the latter were able to buy large amounts of fixed-interest securities, not only those of official issuers but also those of issuing institutions which to a large extent used the proceeds for long-term lending to public authorities in the form of "communal loans". This direct and indirect transformation of maturities by dint of credit policy could of course be justified only in view of the need to stimulate economic activity. In the longer run official borrowers will again have to depend much more, if not exclusively, on the normal accrual of capital in the credit markets.

A further reason why the Bundesbank was able to support the public authorities' deficit policy in the above-described phases was, however, that the Federal Government had decided to conduct medium-term fiscal planning, which provides for deficits to be much smaller from 1969 onwards than in 1967 and 1968. When the Bundesbank promised its help for the purpose of financing the deficit on the "normal budget" for 1967 and those deficits which result from the two economic stimulation programmes, it assumed that the structural gap existing in the Federal budget at the beginning of 1967 would be closed and the revenue increases and expenditure cuts contemplated in the Federal Government's medium-term financial planning for the following years would in fact be realised. This appeared to ensure that deficits on the scale of 1967 and 1968, such as were necessary and justifiable for restimulating the economy, would not become permanent, but that considerable reduction of deficits could from the outset be expected in years of normal economic conditions. So far as can yet be foreseen, the public finances during 1968 are running approximately on the lines of the medium-term fiscal planning. At the moment it is, of course, impossible to say whether the deficit envisaged therein for 1968 (with expenditure commitments under the second economic stimulation programme included) will always be justifiable from the monetary angle also in the further course of this year, or whether the economic upswing will narrow the margin for budgetary deficits already in 1968; no indications pointing in the latter direction are so far apparent, however. For 1969, at any rate, the Federal Government's medium-term financial planning envisages a great reduction of the deficit on the Federal budget, although it is still uncertain whether the original aim of keeping new Federal indebtedness down at only DM 2 billion net will in fact be achieved.

Given the rapid overcoming of recession, and the charge imposed in advance on the 1968 budget by the expenditure to be effected this year for the second economic stimulation programme, further measures to promote economic activity would have necessarily given rise to objection. True, particularly the Board of Experts for the Assessment of Overall Economic Trends, in their Annual Report presented at the end of November 1967, declared that additional Government stimulative measures for 1968 and possibly even beyond that were "worth considering" as a component of a "general agreement for expansion and stability", and similar proposals have also been put forward in other quarters. From the package of possible assistance measures which the Board of Experts put forward for discussion, the proposal to suspend for a limited period the levying of the "investment tax" (that is, more accurately, the tax levied, as an element of the value-added tax, on enterprises' "own consumption" constituted by their use of fixed assets) has attracted special attention. The Board of Experts' view that such far-reaching additional assistance measures are desirable (suspension of the investment tax until mid-1969, as mentioned by them, would for example have entailed a revenue shortfall of about DM 7 billion) was no

Anticyclical fiscal policy against the background of medium-term financial planning

Objections to a third economic stimulation programme

Figures Illustrating Economic Trends

Monthly averages

Item	Basis or unit	1963	1964	1965	1966	1967	1967				1968
							1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	Jan./Feb.P)
<b>Production</b>											
Index of industrial net production Total *) 1) 2)	1958 = 100	137.5)	149.2	157.5)	160.0	157.0	148.6	157.5)	149.3	172.4	153.3 <sup>15)</sup>
Basic and producer goods industries		148.2	167.5	177.9	185.2	191.0	178.9	196.5)	189.1	199.6	186.1 <sup>15)</sup>
Capital goods industries		141.4	152.6	163.0	161.3	150.7	143.1	151.5)	137.0	172.0	146.9 <sup>15)</sup>
Consumer goods industries		136.0	144.9	155.0	158.8	151.8	148.1	148.2	141.7	169.7	154.9 <sup>15)</sup>
Output of selected products *)											
Rolled steel, per production day	'000 tons	71.9	85.0	84.9	81.8	85.1	81.0	88.5	84.4	86.6	90.3
Passenger cars (including station wagons)	'000	201	221	228	236	191	176	197	174	219 <sup>P)</sup>	252 <sup>15)</sup>
Television sets	'000	160	192	229	190	159	162	150	126	193	184 <sup>15)</sup>
Agricultural production 3)	1957/58—4)										
Food production (grain units)	1961/62=100	114	116	111	119	125 <sup>10)</sup>	.	.	.	.	.
Vegetable products		114	113	93	99	115 <sup>10)</sup>	.	.	.	.	.
Animal products		114	117	117	125	129 <sup>10)</sup>	.	.	.	.	.
<b>Labour market and employment</b>											
Registered unemployed x)	'000	186	169	147	161	459	590	483	369	396	590 <sup>13)</sup>
Vacancies x)	'000	555	609	649	540	302	269	306	338	294	365 <sup>13)</sup>
Foreign workers x)	'000	773	902	1,119	1,244	1,019	1,080	1,039	1,007	.	904 <sup>13)</sup>
Employed *)	'000	21,303	21,547	21,841	21,870	21,180	.	.	.	.	.
„ in industry (Industrial Report)	'000	8,256	8,295	8,457	8,397	7,860	8,013	7,845	7,796	7,788	.
Unemployment ratio x) 4)	per cent	0.8	0.7	0.7	0.7	2.1	2.7	2.2	1.7	1.8	2.8 <sup>13)</sup>
Recipients of bad weather allowance in building x) 6)	'000	493.7	252.3	286.9	186.5	159.8	.	.	.	.	210.9 <sup>13)</sup>
Weekly hours paid in industry *)	hours	44.7 <sup>2)</sup>	44.1	44.3	43.9	42.3	41.3 <sup>11)</sup>	42.2 <sup>11)</sup>	42.8 <sup>11)</sup>	43.0 <sup>11)</sup>	...
Weekly hours worked in industry *)	hours	40.2 <sup>2)</sup>	41.1	40.2	40.1	39.6	39.1 <sup>11)</sup>	42.9 <sup>11)</sup>	37.7 <sup>11)</sup>	41.3 <sup>11)</sup>	...
<b>Orders booked, and sales *) 2) 3)</b>											
Orders booked in industry 7)	1954 = 100										
in per cent of 1954 sales											
All industries		216	247	263	263	261	241	258	253	292	265
Basic and producer goods industries		193	223	230	236	239	228	239	241	246	245
Capital goods industries		269	310	336	332	326	294	316	315	381	340
Consumer goods industries		176	196	210	206	202	184	204	185	234	186
in per cent of current sales	per cent	100	103	101	97	100	99	102	99	101	112
Index of retail sales *)	1962 = 100	104.9	113.0	124.3	130.9	132.5	119.3	127.9	125.9	156.9	112.4
<b>Building industry *)</b>											
Output of building and civil engineering 1)	1958 = 100	141.4	157.6	161.2	166.3	146.5)	116.0	158.8	155.2	156.5)	70.1 <sup>13)</sup>
Estimated construction cost of approved buildings	DM mn	2,849.1	3,394.9	3,739.9	3,724.3	3,456.9	2,847.1	3,504.0	3,691.9	3,784.6	.
Carry-over of unfinished building projects at end of year											
Dwellings in residential buildings	'000	790.8	756.1	780.2	749.8	...	.	.	.	.	.
Non-residential buildings	mn cu. m.	215.4	231.2	243.0	242.3	...	.	.	.	.	.
Civil engineering orders	DM mn	596.0	603.8	698.2	640.4	693.9	398.5	679.1	950.6	747.3	414.0
Overall price index for residential buildings	1962 = 100	104.6 <sup>2)</sup>	108.6 <sup>2)</sup>	112.6 <sup>2)</sup>	116.1	113.8	115.1 <sup>13)</sup>	113.9 <sup>13)</sup>	113.4 <sup>13)</sup>	112.9 <sup>13)</sup>	...
<b>Prices and wages</b>											
Selling prices of export goods *)	1962 = 100	100.1	102.5	104.8	107.0	106.9	107.1	106.7	106.9	106.9	106.2
Purchase prices of foreign goods *)	1962 = 100	102.0	103.7	106.3	108.2	105.9	106.3	105.3	105.6	106.5	106.7
Index of producers' prices of industrial products sold on the home market *)	1962 = 100										
Total		100.5	101.6	104.0	105.8	104.9	105.5	104.7	104.6	104.7	109.1 <sup>11)</sup>
Basic and producer goods industries		99.3	100.1	102.2	103.3	100.7	102.1	99.4	100.4	100.9	106.2 <sup>11)</sup>
Capital goods industries		100.4	101.6	104.6	106.7	105.6	106.2	105.8	105.3	105.1	109.0 <sup>11)</sup>
Consumer goods industries		101.6	103.6	106.0	108.7	108.0	108.8	108.2	107.6	107.6	111.9 <sup>11)</sup>
Index of producers' prices of agricultural produce *)	1961/63=100 <sup>4)</sup>										
Total		103.5	107.2	114.1	109.3	...	109.3	106.2	103.1	101.7	103.5 <sup>11)</sup>
Vegetable products		88.6	98.7	108.5	98.7	...	101.3	104.0	90.7	81.2	89.5 <sup>11)</sup>
Animal products		108.5	110.1	115.9	112.8	...	111.9	106.9	107.2	108.6	108.1 <sup>11)</sup>
Cost-of-living index *)	1962 = 100										
Total *)		103.0	105.4	109.0	112.8	114.4	114.2	114.8	114.5	114.1	115.6
without food		102.8	105.3	108.2	112.7	115.6	115.0	115.4	115.9	116.2	118.3
Food *)		103.3	105.6	110.4	112.9	112.1	112.7	113.6	111.9	110.1	110.6
Industrial products *)		101.4	102.5	104.4	106.8	108.3	107.8	108.1	108.4	108.5	109.4
Services *)		104.9	108.5	112.2	118.4	121.8	121.2	121.4	122.0	122.6	127.1
Rent *)		105.6	112.0	118.4	129.5	137.9	135.5	137.5	138.9	139.9	143.1
Industrial workers' wages *)											
Hourly earnings	DM	3.55 <sup>2)</sup>	3.87	4.26	4.55	4.69	4.62 <sup>11)</sup>	4.66 <sup>11)</sup>	4.70 <sup>11)</sup>	4.72 <sup>11)</sup>	...
Weekly earnings	DM	158 <sup>2)</sup>	171	189	200	199	191 <sup>11)</sup>	197 <sup>11)</sup>	201 <sup>11)</sup>	203 <sup>11)</sup>	...
<b>Foreign trade *) 9)</b>											
Exports	DM mn	4,859	5,410	5,971	6,719	7,254	6,926	7,300	6,896	7,893	7,463
Imports	DM mn	4,356	4,903	5,871	6,056	5,849	5,482	5,820	5,631	6,461	6,182
Balance	DM mn	+ 503	+ 507	+ 100	+ 663	+ 1,405	+ 1,444	+ 1,480	+ 1,265	+ 1,432	- 1,281

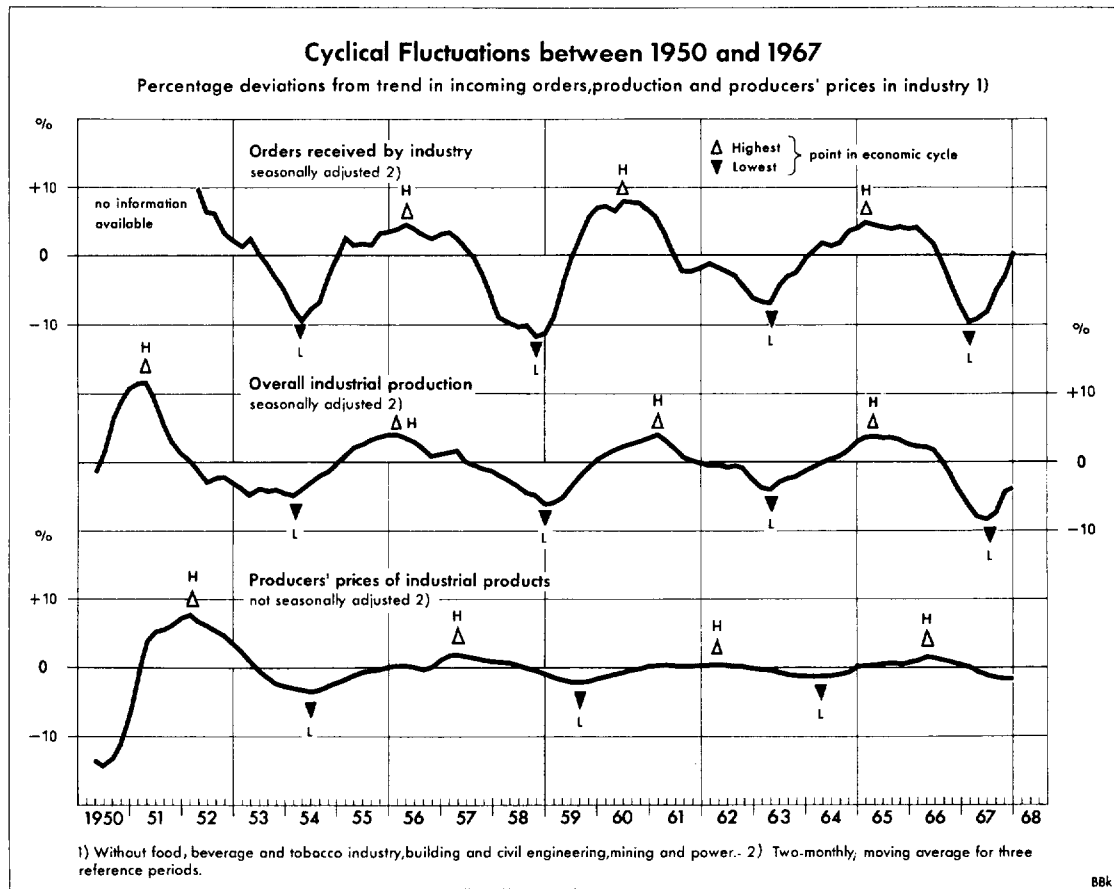
Sources: \*) Federal Statistical Office. — °) Report of the Federal Government on the Situation in Agriculture (Green Report 1967). — x) Federal Institution for Labour Exchanges and Unemployment Insurance. — 1) Adjusted for calendar irregularities. — 2) Not including Berlin. — 3) Not including Saarland. — 4) Farm years from 1 July of year under review to 30 June of following year. — 5) Proportion of unemployed to total of employed and unemployed wage and salary earners. — 6) On the average of the months January, February, March, November, December; Bundesbank's own calculation; acknowledged man-days lost divided by working days in industry. — 7) Values, per calendar month. All industries except mining, food, beverages and tobacco, building, civil engineering, and power. — 8) Four-member employed persons' households. — 9) Special trade. — 10) Estimated. — 11) Position at end of first month in the quarter. — 12) Mid-quarter position. — 13) End-February position. — 14) Gross, including value-added tax. — 15) January position. — 16) Provisional (final figures for labour market and employment as well as for foreign trade).

doubt largely due to their fear that the devaluation of sterling and other currencies in November 1967 might cause a major decrease of demand in the Federal Republic of Germany. In point of fact the Board expected that the currency devaluations would cause the German balance of payments on current account to deteriorate for the first half of 1968 alone by DM 1.9 billion, and later at an annual rate of more than DM 5 billion. Nothing so far suggests, however, that the devaluations might produce effects of anything approaching that magnitude on the German balance of payments; nor is there any reason to suppose that the measures announced in the United States, up till the time when this Report goes to press, for dealing with that country's balance of payments will produce any greater effect on Germany's balance of trade and services. Thus for example between December 1967 and February 1968, for which period of course no great reaction could yet be expected, the surplus on trade with the United Kingdom and the other devaluing countries decreased by DM 180 million (while the total German export surplus declined by about DM 700 million), which of course represents a decrease more than proportionate to the devaluing countries' share of about 10 per cent in the Federal Republic of Germany's total foreign trade. In addition the Board of Experts, like others, under-estimated the actual extent of economic recovery in the second half of 1967, and hence also the prospects of growth for 1968. Whereas for the second half of 1967 they assumed growth of the real gross national product by only 0.5 per cent as compared with a year before, an increase by 1.3 per cent was in fact achieved. The growth of the national product in the first half of 1968 also was not put very high by the Board of Experts, if no additional stimulating measures were adopted (at 4.0 per cent in comparison with the very low level reached in the first half of 1967, which in practice meant that the national product would remain at the level already attained in the fourth quarter of 1967). In its Annual Economic Report for 1968 the Federal Government did not adopt the Board of Experts' views on fiscal policy. Nor does the course of economic activity to date afford any reason for doubting that the upswing will continue. As already indicated, there are on the contrary pointers suggesting that even without further stimulative measures the real national product will increase during 1968 to an extent exceeding the 4 per cent rate projected by the Federal Government in its Annual Economic Report.

### 3. Losses in growth and gains in stability

In the previous section it has been shown that the decrease of production which marked the recession was already made good, and indeed slightly outweighed, within six months. The real national product was therefore as great in 1967 as in 1966. In view of this stagnation many critics have talked about a "loss in growth" which, they say, occurred in comparison with the output that could theoretically have been attained if old capacities, as well as the new ones currently created, had been as fully employed as before. Even during that period plants were in fact further extended, although a good deal less than previously. In 1967 the business community's net fixed capital formation, *i. e.* the net addition to fixed assets, amounted to roughly three-fifths of what it was in 1966. With production failing to grow, or at times declining, therefore, the extent to which capacities were employed decreased in 1967; but by January 1968, according to the Ifo-Institute for Economic Research, industry was already back to 82 per cent of normal full utilisation of capacities, this being only a little lower than the 85 per cent reached in January 1966, before recession began. The production factor "labour" was not fully employed during the recession either, since on the average for the year 1967 the unemployment ratio alone rose to 2.1 per cent, thus being doubtless greater than appears necessary for growth with stable prices, at least so long as recourse to foreign workers is possible. Hours of labour were also for a time reduced on cyclical grounds, and the number of foreign workers declined on the average for 1967 as compared with that for 1966 by some 220,000, or 1 per cent of all persons employed. If economic growth took place steadily, and with all production factors employed in roughly constant degree,

Losses in growth,  
provided growth is  
constant



it would in fact be justifiable to talk about “losses in growth” when — as happened in 1967 — the available production factors remained partly unused.

In conditions of cyclical growth, losses in growth can be ascertained only over a longer period

Economic growth, however, takes place not steadily but — at least up till now — in cycles. This statement does not mean that more even growth, that is growth without perceptible cyclical ups and downs, is undesirable. In fact however the German economy has grown since the currency reform in a regular alternation of cyclical “highs and lows”, although, because the very steep upward trend lasted so long, these appeared only as an alternation between periods of rapid and of less rapid growth. If this long-term upward trend is eliminated, it becomes clearly apparent that the recession in 1966/67 was little greater (although concentrated in a shorter period) than earlier recessions (see the graph). Within the framework of such cyclical movements the shortfalls of production during recession, at least so long as they remain within fairly narrow limits, are the doubtless unavoidable corollary to the exaggerations during the previous upswing (just as the growth during the upswing may be more marked if it was preceded by a pause in growth). If in the conditions of cyclical movements shortfalls of production during periods of recession are described as “losses of growth”, then it would be logical to regard above-average rises of production during the upswing as exceptional “gains of growth”. This is not being done, however, at all events not by those who calculate the “losses of growth”. So long as the economic process takes place in cycles with relatively mild movements it would appear consistent to say that there are “losses of growth” only when growth during an entire cycle is smaller than it might have been on the basis of the available production factors.

No medium-term loss of growth

Even if the year 1967 is included there cannot after all be said to have been any medium-term losses of growth in the Federal Republic of Germany (see the table). It is true that on the average of the years from 1963 to 1967 inclusive (that is from the start of the last cyclical upswing up to

*Average Annual Growth in National Product, Employment and Productivity*

— per cent —

Period	Real gross national product	Volume of work <sup>1)</sup>	Productivity <sup>2)</sup>	Average unemployment ratio <sup>3)</sup>	Average use of capacities in industry <sup>4)</sup>
1960 to 1964	+ 4.9	— 0.5	+ 5.4	0.9	87
1961 to 1965	+ 4.9	— 0.6	+ 5.5	0.7	87
1962 to 1966	+ 4.5	— 0.5	+ 5.1	0.7	87
1963 to 1967	+ 3.6	— 1.4	+ 5.0	1.0	85

<sup>1)</sup> Total number of man-hours worked. — <sup>2)</sup> Measured by the real gross national product per hour worked per gainfully active person. — <sup>3)</sup> In per cent of total of employed and unemployed wage and salary earners. — <sup>4)</sup> In per cent of full utilisation of capacity as normal for the enterprises concerned. (Computed on the basis of figures from Ifo trend check).

and including the year of setback and recovery) the real gross national product grew by 3.6 per cent, that is by somewhat less than in the preceding five-year periods (when it grew by 4.5 per cent between 1962 and 1966 or, for example, by 4.9 per cent between 1960 and 1964). But this decrease of medium-term growth is almost exclusively due to the fact that during recent years the volume of employment (that is the total number of hours worked by all gainfully active persons) declined by more than in earlier periods. The desire for more leisure, a desire inherent in a growing economy, led to further shortening of working hours during this period; in addition the number of gainfully active persons decreased owing to the unfavourable age structure of the population. The decline in the volume of employment was on the other hand not accompanied by any increase in unemployment, since at 1.0 per cent in the years 1963 to 1967 the average unemployment ratio was only a little higher than in earlier five-year periods (1960 to 1964, for example: 0.9 per cent). On the other hand, even if 1967 is included, productivity as the true source of economic progress increased hardly any less throughout the entire cycle than it did in previous five-year periods. The real national product per hour worked by each gainfully active person grew by an average of 5.0 per cent in the years from 1963 to 1967 as compared with 5.1 per cent from 1962 to 1966, or 5.4 per cent from 1960 to 1964. The slight slowing down in the rise of productivity during these years would seem in the main only to reflect the fact that real productiveness of the capital input decreases over a longer period, especially when (as has for some time been the case in this country) production capacities are improved and extended while the labour input remains on the whole stationary or even declines. In such altered real conditions of production, growth of productivity by an average of 5 per cent per annum must be regarded as quite high, and it is in fact rather above the multiyear average for the most important countries trading with the Federal Republic of Germany<sup>1)</sup>. The continuously rapid advance of productivity suggests that throughout each entire cycle production capacities can hardly have been less fully employed than before, since otherwise losses of productivity would no doubt have been unavoidable. The figures ascertained by the Ifo-Institute on the utilisation of capacities in industry do indicate for the five years 1963 to 1967, that is including the year when there was a pause in growth, a decrease by two points per cent (to 85 per cent of the normal full utilisation) in the degree to which capacities were employed as compared with earlier periods. The prospective upswing will correct this decline as well, however, and an advance of productivity greater if anything than before may be achieved. For the entire cycle there is at all events no evidence suggesting any serious longer-term loss of growth to have been caused by the 1966/67 recession and the consequent temporary under-employment of production factors.

<sup>1)</sup> No figures for the real increase of the gross national product per *gainfully active person's hour's work* can be given on an internationally comparable basis, but figures can be given for the increase of the real gross national product per *gainfully active person*. On the average for the years 1957 to 1966 that increase amounted, in per cent, to the following:

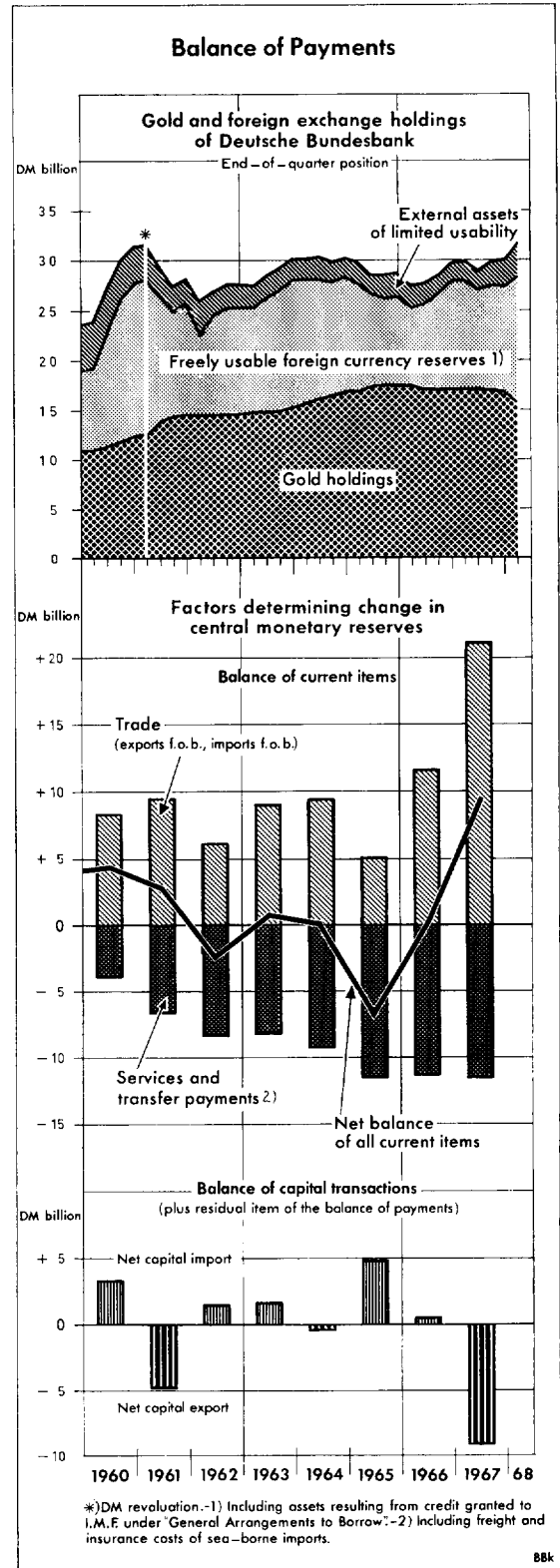
Japan	Italy	France	Federal Republic of Germany	Netherlands	Austria	Belgium	U.S.A.	United Kingdom
+ 8.4	+ 6.4	+ 4.8	+ 4.4	+ 3.5	+ 3.5	+ 3.4	+ 2.8	+ 2.5

Gain in stability  
at home...

The picture of the economic consequences of the recession and the preceding stabilisation policy would be incomplete if the attendant gains of internal and external stability were left unmentioned. Within the economy the restoration of price stability is of prime importance. Between the end of 1966 and that of 1967 the cost of living rose by only 0.4 per cent. For the first time since 1959 it was possible approximately to offset the structural rises in certain consumer prices, for instance rents and the cost of services, by reductions of other prices (especially for food). For the first time in eight years therefore the domestic value of money from the consumer's point of view did not fall over a somewhat lengthy period, and the prices significant for people engaging in capital development did appreciably decline. But this stability also means that holders of monetary wealth, who in the years before 1967 had had to stand considerable decreases in the real value of their savings, were spared such losses in the year under review. Consumer prices, which in many quarters are regarded as relatively the best although not an absolutely reliable yardstick for measuring the value of money, had previously risen by up to 4 per cent per annum. Households, which on an overall view always occupy a creditor position and therefore, as holders of wealth, invariably suffer from losses in the value of money, held monetary assets (at banks, insurance companies, building and loan associations, and in the form of securities) totalling about DM 265 billion at the end of 1966 and almost DM 300 billion at the end of 1967. Not only from the economic angle but also under sociopolitical aspects it therefore amounts to a great deal if it is found possible at least for one year to stop creeping erosion of the widely spread private monetary assets, thereby at the same time proving that depreciation of money is by no means inevitable.

... and in relation  
to the rest of the  
world

No less important were the results achieved, owing to the interval in growth, as regards external stabilisation. Whereas on current items there had been in 1965 a deficit of DM 6.5 billion, and in 1966 only a trifling surplus of half a billion DM, in 1967 a surplus amounting to DM 9.5 billion was achieved. This surplus was indeed greater than desirable for the economies of the





countries trading with Germany (although it was additionally expanded by the much stronger upward price tendencies in some important countries), but on a longer view the Federal Republic of Germany must have surpluses on current account if it is to fulfil its obligations as a highly developed industrial country, that is, if it is to export long-term capital on a certain scale. In point of fact, in 1967 the large surpluses on current account and the easing of domestic credit markets – two processes which were of course closely connected with each other – created the preconditions for substantial exports of capital at long term; such exports amounted, net, to DM 3.6 billion. In terms of absolute size Germany's capital exports were indeed the second largest in the world, being exceeded only by those from the United States; in the field of capital transactions Germany thus attained the same rank as it has already held for some time in that of world trade. In comparison with those from the United States themselves, it is true, the long-term net capital exports from Germany still look relatively modest; in 1967 they amounted to not quite 25 per cent of those from the United States, whereas Germany's exports of goods reached almost 70 per cent of the American.

Great importance also attached last year to the Federal Republic of Germany's short-term capital exports. The exports of money by German banks, and the repayment of foreign credits by German enterprises, materially contributed towards keeping within relatively narrow limits the tensions which might have been induced on the foreign exchange markets by the surpluses recorded by Germany and other countries on their "basic balance" (of current transactions and of long-term capital movements). To that extent the short-term capital exports represented quite adequate an equalising element for such part of the current account surpluses as was caused, in the main, by the merely temporary effects of domestic recession. What matters from the longer-term angle however is, as already mentioned, that a country exporting goods to such an extent as the Federal Republic of Germany should also export more long-term capital. The possibility of doing so cannot indeed be assessed in the light of the extremely large surpluses shown on current account in 1967, since the cyclical upswing will cause the surpluses to decline again, although it is of course not yet possible to say what their size will be on a longer view.

Exports of short-term capital no adequate substitute for long-term capital exports

#### 4. Credit policy and policy designed to affect economic activity

##### (a) *General importance of the Law for Promoting Stability and Growth of the Economy*

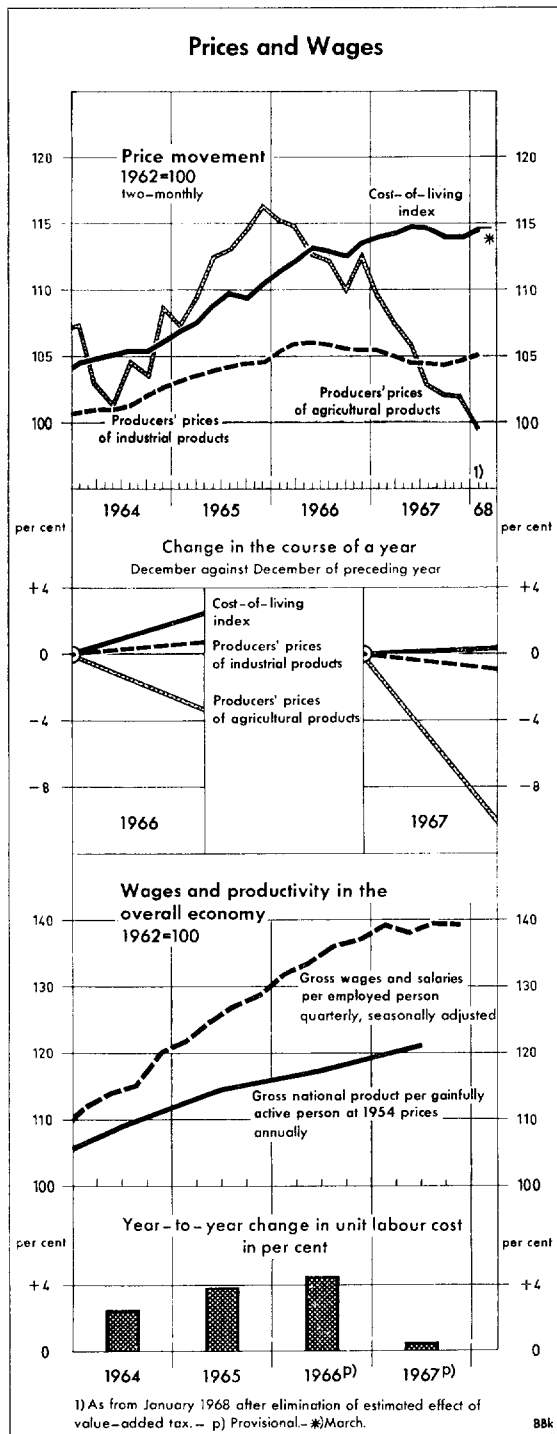
Fulfilment of the tasks assigned to credit policy ought in future to be facilitated by the Law (promulgated in June 1967) for Promoting Stability and Growth of the Economy. This Law in the first place requires the Federal Government and the *Länder*, as well as in principle the local authorities, to contribute by their financial policy towards ensuring overall economic equilibrium, that is to act in an "anticyclical" manner. The Law gives the Federal Government a number of powers enabling it, in the event of overheating, to achieve (and sterilise) a budget surplus which will throttle down total demand, or at least to reduce the deficits. In order to reinforce such action from the angle of financing, besides helping to avoid undesirable trends in the capital market, the Law gave authority to limit the quantity of public authorities' borrowing for a certain time. Consistently, the Law also confers power to adopt anticyclical measures if recession threatens. The object is to be able to increase the public authorities' deficits and, through special measures like the granting of investment premiums, to stimulate private demand. The new Law enables the executive, without great loss of time, both to adopt anticyclical policy measures and, in case of need, to cancel them quickly. Thus the authorities concerned with fiscal policy are at least legally able at short notice to affect economic activity, although the necessary regard for political considerations may not infrequently delay practical application of the instruments provided. The framers of credit policy can expect the implementing of this Law in future to afford some relief, whereas formerly the efforts of credit policy to keep the value of money stable were hindered by the

The public authorities' obligation to pursue anti-cyclical policy . . .

**National Product \*)**  
Federal area including Berlin (West)

Item	1962	1963	1964	1965	1966 P)	1967 P)	Year-to-year change				
							1963	1964	1965	1966 P)	1967 P)
Billions of DM							per cent				
<b>I. Origin of national product</b>											
(a) At current prices											
Contributions to gross domestic product											
Agriculture, forestry and fisheries	18.0	19.3	20.5	20.1	20.3	20.5	+ 7.3	+ 6.4	- 1.9	+ 0.7	+ 1.1
Producing industries <sup>1)</sup>	189.9	199.0	218.9	238.9	248.3	240.7	+ 4.8	+10.0	+ 9.1	+ 3.9	- 3.1
Trade and transport <sup>2)</sup>	69.7	73.9	80.6	88.4	93.9	94.8	+ 6.1	+ 9.1	+ 9.6	+ 6.3	+ 0.9
Services <sup>3)</sup>	77.3	85.8	94.6	106.5	119.0	128.5	+10.9	+10.3	+12.6	+11.8	+ 7.9
Gross domestic product	354.9	378.0	414.6	453.8	481.5	484.4	+ 6.5	+ 9.7	+ 9.5	+ 6.1	- 0.6
Net income payments to factors of production due from the rest of the world	- 0.4	- 0.4	- 0.8	- 1.1	- 0.8	- 0.8	.	.	.	.	.
Gross national product at market prices	354.5	377.6	413.8	452.7	480.7	483.6	+ 6.5	+ 9.6	+ 9.4	+ 6.2	+ 0.6
(b) At 1954 prices											
Gross national product at market prices id., per gainfully active person, in DM	279.6 (10,440)	289.3 (10,760)	308.5 (11,430)	325.7 (12,000)	333.3 (12,310)	333.0 (12,670)	+ 3.5	+ 6.6	+ 5.6	+ 2.3	- 0.1
							+ 3.1	+ 6.2	+ 4.9	+ 2.6	+ 2.9
<b>II. Distribution of national income and national product at current prices</b>											
(a) Before income re-distribution											
Compensation of employees <sup>4)</sup>	173.9	186.5	204.4	225.8	243.0	243.5	+ 7.3	+ 9.6	+10.5	+ 7.6	+ 0.2
Income from entrepreneurial activity and property of which:	98.0	102.5	112.1	119.6	121.5	118.2	+ 4.6	+ 9.4	+ 6.7	+ 1.6	- 2.7
Individuals' income	(93.5)	(97.5)	(106.8)	(113.9)	(116.0)	(113.3)	+ 4.3	+ 9.5	+ 6.7	+ 1.8	- 2.4
Government income <sup>5)</sup>	(4.6)	(5.0)	(5.4)	(5.7)	(5.5)	(4.9)	+ 9.6	+ 6.8	+ 6.0	- 4.0	- 9.9
Net national product at factor costs (national income) plus indirect taxes less subsidies	271.9 51.5 2.7	289.0 54.0 3.3	316.5 59.0 3.6	345.4 64.1 3.9	364.5 68.0 3.9	361.6 70.6 3.9	+ 6.3 + 5.0 +21.5	+ 9.5 + 9.1 +10.1	+ 9.1 + 8.7 + 7.5	+ 5.5 + 6.1 + 1.5	- 0.8 + 3.9 - 1.8
Net national product at market prices plus depreciation	320.7 33.8	339.8 37.8	371.8 42.0	405.6 47.1	428.5 52.2	428.4 55.2	+ 6.0 +11.7	+ 9.4 +11.0	+ 9.1 +12.2	+ 5.6 +10.9	- 0.0 + 5.7
Gross national product at market prices	354.5	377.6	413.8	452.7	480.7	483.6	+ 6.5	+ 9.6	+ 9.4	+ 6.2	+ 0.6
(b) After income re-distribution <sup>6)</sup>											
Net compensation of employees	128.9	137.7	150.9	168.0	178.0	177.3	+ 6.8	+ 9.6	+11.3	+ 6.0	- 0.4
Net income from social security pensions and benefits and from retirement pensions	43.7	46.6	51.2	57.4	62.8	69.2	+ 6.5	+10.1	+12.1	+ 9.3	+10.2
Net income of individuals from entrepreneurial activity and property	65.3	68.0	75.7	81.8	82.4	79.7	+ 4.1	+11.3	+ 8.1	+ 0.6	- 3.2
Net income of government	82.8	87.6	94.1	98.4	105.4	102.2	+ 5.8	+ 7.4	+ 4.6	+ 7.1	- 3.0
Net national product at market prices	320.7	339.8	371.8	405.6	428.5	428.4	+ 6.0	+ 9.4	+ 9.1	+ 5.6	- 0.0
<b>III. Appropriation of national product at current prices</b>											
Private consumption	204.0	215.9	232.9	255.7	274.9	281.4	+ 5.8	+ 7.9	+ 9.8	+ 7.5	+ 2.4
Government consumption	53.1	59.2	61.7	69.7	75.4	80.3	+11.5	+ 4.3	+12.8	+ 8.2	+ 6.5
Gross investment in fixed assets of which:	90.2	95.3	109.2	118.9	121.9	109.9	+ 5.7	+14.5	+ 9.0	+ 2.5	- 9.8
Building	(45.5)	(49.4)	(57.6)	(60.7)	(64.3)	(57.7)	+ 8.4	+16.6	+ 5.5	+ 5.9	-10.3
Equipment	(44.7)	(46.0)	(51.6)	(58.2)	(57.6)	(52.2)	+ 2.9	+12.2	+12.8	- 1.0	- 9.4
Inventory changes	+ 3.5	+ 2.1	+ 4.7	+ 9.0	+ 2.0	- 4.0	.	.	.	.	.
External surplus	+ 3.7	+ 5.0	+ 5.3	- 0.6	+ 6.5	+16.0	.	.	.	.	.
Exports	(69.0)	(75.0)	(83.5)	(91.4)	(103.0)	(110.7)	+ 8.8	+11.4	+ 9.4	+12.7	+ 7.5
Imports	(-65.3)	(-70.0)	(-78.2)	(-92.0)	(-96.5)	(-94.7)	+ 7.2	+11.8	+17.6	+ 4.9	- 1.9
Gross national product at market prices	354.5	377.6	413.8	452.7	480.7	483.6	+ 6.5	+ 9.6	+ 9.4	+ 6.2	+ 0.6
Proportions in per cent											
Private consumption	57.6	57.2	56.3	56.5	57.2	58.2	.	.	.	.	.
Government consumption	15.0	15.7	14.9	15.4	15.7	16.6	.	.	.	.	.
Gross investment in fixed assets of which:	25.4	25.2	26.4	26.3	25.4	22.7	.	.	.	.	.
Building	(12.8)	(13.1)	(13.9)	(13.4)	(13.4)	(11.9)	.	.	.	.	.
Equipment	(12.6)	(12.2)	(12.5)	(12.9)	(12.0)	(10.8)	.	.	.	.	.
Inventory changes	1.0	0.6	1.1	2.0	0.4	-0.8	.	.	.	.	.
External surplus	1.0	1.3	1.3	-0.1	1.4	3.3	.	.	.	.	.
Exports	(19.4)	(19.9)	(20.2)	(20.2)	(21.4)	(22.9)	.	.	.	.	.
Imports	(-18.4)	(-18.5)	(-18.9)	(-20.3)	(-20.1)	(-19.6)	.	.	.	.	.
Gross national product at market prices	100.0	100.0	100.0	100.0	100.0	100.0	.	.	.	.	.

Source: Federal Statistical Office, and calculations of Bundesbank. — \*) Details may not add to totals because of rounding. — <sup>1)</sup> Mining and power (including water supply), manufacturing, building. — <sup>2)</sup> Including telecommunications. — <sup>3)</sup> Credit institutions and insurance business, lease of dwellings, government, other services. — <sup>4)</sup> Gross wages and salaries including employers' contributions to social insurance funds. — <sup>5)</sup> After deduction of interest on public debt. — <sup>6)</sup> Before deduction of transfers to foreign countries. — P) Provisional.



public authorities' failure to behave anticyclically or at times (as for example in 1965) were actually thwarted by their procyclical actions.

In the long run it may prove to be not less important that the Federal Government and *Länder* have been required by the Stability and Growth Law to engage in five-year financial planning. This imposes on them the salutary obligation to examine all decisions concerning government expenditure or revenue in advance with regard to their long-term effects, and to make the public budgets conform more than hitherto to the financial capacity of the entire economy. Medium-term fiscal planning is designed, in disregard of possible cyclical fluctuations, so to harmonise receipts and expenditure, over each five-year period, that they do not endanger the stability of the economy. As the period becomes longer, of course, the forecasting of the trend becomes more uncertain, and there might be a growing temptation to regard financial planning as a fiscal instrument to ensure predetermined growth of the national product. Obviously this might in certain circumstances endanger currency stability in particular. The Law however does not provide for any rigid planning, but requires the financial plan to be adjusted each year to the actual course of events. It is of course desirable that medium-term fiscal planning should not be confined, as laid down in the Law, to the Federal Government and the *Länder* (a recently proposed "Fiscal Planning Council" is to coordinate the individual plans), but that such medium-term considerations shall at least indirectly include the local authorities, and further that the finances of the social insurance institutions, especially the pensions insurance funds, shall not be disregarded in the medium-term financial planning. Frequent attempts have

... and medium-term fiscal planning

been made to resolve difficulties in connection with the Federal finances by subjecting the social insurance institutions to burdens of various kinds without providing them at the same time with greater receipts. That, however, has merely shifted the problem into another sector of the public finances. The fact that such measures may possibly in turn affect the Federal finances, at least indirectly, has been proved in the case of the pension insurance institutions, which last year had to liquidate considerable security holdings and so indirectly placed an undesirable strain on the capital market.

Intended support  
through incomes  
policy

The Stability and Growth Law provides that, if economic equilibrium is endangered, “concerted action” between employers and employed, as well as between both and the territorial authorities, shall result in harmonised behaviour on the part of these groups. Both in 1967 and at the beginning of 1968 the Federal Government supplied the organisations of the workers and employers with “guidance data”, especially concerning the desired movement of incomes, which were supposed to lead to “harmonised behaviour”. Actual wages and salaries — not these collectively agreed — rose in 1967 somewhat less (namely by 3.3 per cent per person employed) than would have corresponded to the guidance data (which contemplated a rise in average actual earnings by 4.0 per cent). There will of course always be differences between target figures and reality because short-term movements dependent on the business cycle, including those in incomes, can be “projected” only within relatively wide margins of uncertainty. Nevertheless there is much to be said for the most important social groups exchanging ideas about the further economic trend and the related intentions in regard to incomes policy and for trying to coordinate them. At least this ought to prevent the employers and employed from misjudging the state of the market, especially of the labour market, and arriving in disregard of market facts at decisions which in this particular context might produce extremely painful consequences, such as under-employment or an increase of the inflationary upsurge. Even hitherto there has indeed already been evidence that employers and employed in their collective wage negotiations, at all events in the final result, conformed relatively fast to changes in the “market situation”, that is, in the ultimate analysis, to changes of the business cycle. This finding is not contradicted by the fact that the level of collectively agreed wages rose further in 1967 (by 4 per cent on an hourly basis, and by 3 per cent on a weekly basis), particularly since in many cases collective wage increases expressly served only to safeguard the actual earnings which had already been raised at an earlier date.

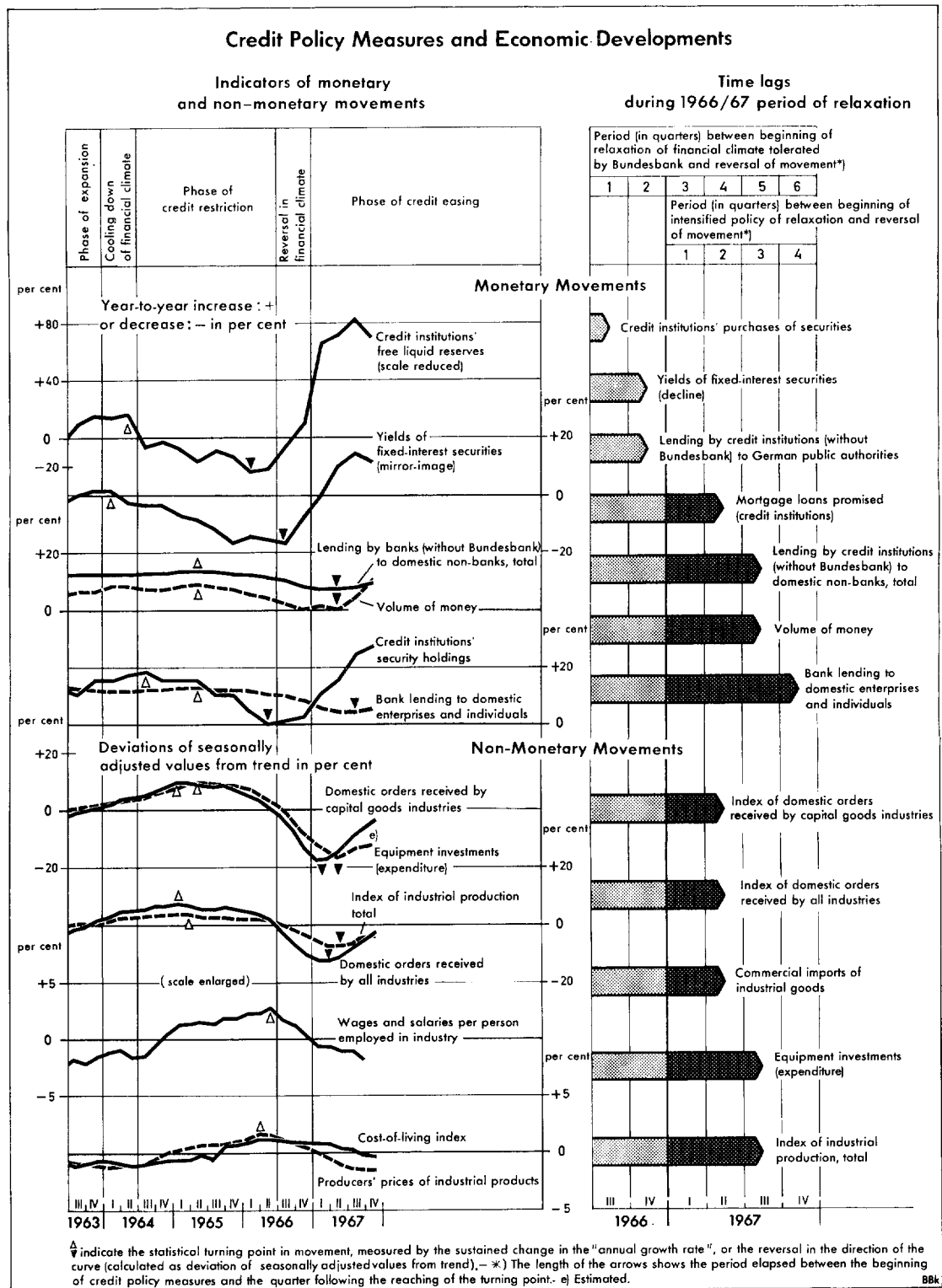
A period of restrained economic growth in general does not create any major problems for incomes policy; the test of “concerted action” comes when a cyclical upswing has lasted some time and the labour market becomes tighter. For such a phase the experience gained by all the countries which have tried to put an incomes policy into operation has so far not been encouraging, since “incomes policy”—for all practical purposes wages policy—amounts in such circumstances to nothing less than trying to induce the participants in the economic process, for the sake of the longer-term benefits conferred by steady growth free from inflation, to refrain from taking full advantage of the opportunities momentarily available to them in the market. But such behaviour can hardly be expected even in a society quite enlightened in economic matters, at all events not for long. The most important precondition for a growth of incomes as free from inflation as possible will therefore doubtless still be so to influence the crucial market data that the parties making up the market shall essentially act of their own accord in a manner conforming to the requirements of stability.

#### *(b) Credit policy and the Stability Law*

Aims of credit policy

If the Federal and *Länder* Governments make energetic use of the means for conducting anticyclical policy which the Stability and Growth Law has given them, then, if the economy is again overstrained, not only will this create good preconditions for incomes to move in conformity with the needs of stability, but at the same time it will be possible for credit policy to be conducted on less restrictive lines than in the past. The Bundesbank in particular has in the past again and again pointed out that credit and fiscal policy must be coordinated with a view to affecting the course of economic activity. In that connection the Bundesbank has of course always been aware that it has to support the Federal Government’s general economic policy, in so far as it can at the same time fulfil the task especially entrusted to it, namely that of safeguarding the currency (Bundesbank Law, Articles 12 and 3). On the other hand, however, the Stability and Growth Law also ranks monetary stability — here defined in its two aspects as “stability of the price level” and “external equilibrium” — equally with the other aims of economic policy (namely a high level of employment, and steady and adequate economic growth). The coordination of monetary and

economic policy is thus ensured in principle by the targets chosen. When the legislature nevertheless set the Bundesbank the special task of "safeguarding the currency" and equipped it for this task with autonomy (Bundesbank Law, Article 12, sentence 2), it thereby drew the conclusion from past experience that situations of conflict may arise between political aims and monetary



stability. "Safeguarding the currency" includes, as already indicated, not only safeguarding stability of the domestic price level but also external stability, which in a system of fixed exchange rates is identical with equilibrium in the balance of payments or — to use the language of the Stability and Growth Law — with external equilibrium. Danger to this external equilibrium can arise, as past experience shows, not only from the fact that rates of exchange are "wrong" (or have become wrong) but also, for example, from the fact that under-employment prevails within the country, or that the economy is growing either not at all or only insufficiently. The Bundesbank would be obliged in that case, also in discharge of the task directly conferred on it by the legislature of "safeguarding the currency", to promote employment and economic growth. Even before the Stability and Growth Law was promulgated the Bundesbank always tried to perform its task in the sense of a policy embracing all economic aims. The reason why in that connection it was frequently obliged (just as the Bank deutscher Länder formerly was) to accord priority to monetary stability, and special priority to domestic price stability, was that in the last fifteen years — with the exception of 1958 and 1967 — this objective was practically always in danger, while the other aims of economic policy were endangered only at times, and then only in lesser degree.

The independent role of credit policy

But even if fiscal and credit policy are "anticyclically" coordinated within the meaning of the Stability and Growth Law, the onus of taking the first step — be it in a restrictive or an expansive direction — will often fall on credit policy, because it acts relatively fast. Depending on the character of the situation, credit policy measures alone may often suffice, also in future, to affect the value of money, the level of economic activity and more particularly the balance of payments in the desired direction. The length of the delay in action which credit policy must in practice expect is, however, for the most part over-estimated precisely in the light of the experience gained during the last restrictive period, when fiscal and credit policy did after all in fact work for some considerable time against each other instead of being coordinated. Similarly, the failure which attended the restrictive credit policy in 1960 proves neither its basic inadequacy nor excessive delay in producing effect, since naturally a fundamental external disequilibrium due to under-valuation of the country's own currency, such as then existed, could not be corrected by restrictive credit policy (in point of fact, restrictive credit policy was discontinued and the rate of exchange was altered).

Credit policy measures quickly change the "financial climate"

The graph on page 29 shows the varying length of the periods required for credit policy measures to produce effect in connection both with the latest relaxation and with the preceding restriction of credit. For both periods it will be seen that fundamental changes of credit policy (that in 1966/67, or that in 1964/65) very quickly altered the total "financial climate", and hence the financial facts important for enterprises' planning of capital expenditure. It should be pointed out that in 1967 the change — which anticyclical fiscal policy helped to produce — in the planning of capital expenditure (as measured by orders reaching the capital goods industries) took place in the second quarter following the clearly noticeable reversal of credit policy. When the boom was counteracted in 1964/65 it took three quarters of a year before any cyclical change took effect in the orders placed for capital goods. Still, even then the time lag, compared with the reversal in the investment cycle which depends on other factors as well, was not nearly so great as might appear from the statistical reaction of the monetary series, especially those for bank lending or the volume of money. The reason is that, when these monetary series visibly change their previous trend, this results from the fact that the investors have already altered their actions in accordance with the anticyclical and credit policy measures. The effects on employment, prices and costs then more or less inevitably follow, some with lesser delay and some at a longer interval, as clearly appears from the graph.

*(c) Capital market problems arising in connection with anticyclical economic policy*

Better coordination and indeed synchronisation of fiscal and credit policy on anticyclical lines, as has been practised — in an expansive direction — since last year, might in future also contribute towards alleviating the sometimes drastic effects produced on the capital market by retarding

Flexible policy designed to affect economic activity versus steadiness of the capital market

measures of credit policy. It is true that, the faster and more widely they change the rates of interest for long-term capital as well, the more efficiently credit policy measures will operate. This is ensured in a high degree by the close connection between the money and capital markets in the Federal Republic of Germany, as was shown precisely by the last restrictive period as well as by the course of economic recovery. The drawback is, however, that falls in the prices of fixed-interest securities tend to alarm private savers and deter them from buying securities, even though such falls, reflecting unavoidable interest rate fluctuations, frequently are of a passing nature, and purchasers of bonds also can of course realise market profits. Despite a definite renewed rise of late that part of private saving which is invested in securities has so far not nearly reattained the 1964 level. On the contrary, the revival of the bond market in 1967 and the unprecedentedly large issues during the first months of 1968 were in the great majority of cases due to credit institutions' buying of fixed-interest securities. In 1967 acquisition by credit institutions (not including the Bundesbank) accounted for no less than 75 per cent of net total fixed-interest security sales, whereas the corresponding proportion in 1966 and 1965 on much smaller total sales had been, respectively, no more than 27 and 28 per cent. In 1964, the year when security issues reached their second largest total to date, credit institutions took 38 per cent of net placings.

By its large purchases of securities last year the banking system effected more "transformation of maturities" than usual, in the sense that it invested in securities funds which had at the most accrued to it at medium term (savings deposits can for instance be actually withdrawn on demand up to DM 1,000 per month), thus lending them out, at least indirectly, at long term. It invested for the most part in bank bonds, which in turn enabled the issuing institutions to grant long-term loans. The high proportion thus taken by credit institutions (principally savings banks) in the purchase of securities is frequently felt to threaten the market's foundation, and hence to create a special factor of uncertainty with regard to the future movement of quotations. In fact, however, there is little reason — at all events on an overall view — to expect that the credit institutions will suddenly try to resell even a relatively small part of their security holdings if they run short of liquid funds. Even during the period of severe credit restriction from mid-1964 to mid-1966 that did not happen. On the other hand it would of course suffice, for exerting a certain downward pressure on bond market prices, if so dominating a group of purchasers as the credit institutions have on the whole recently become were to restrict their buying heavily for a lengthy period. Fluctuations of liquidity might of course lead them to do so. On a longer view it is therefore doubtless necessary to bring back non-banks, not only institutional investors but also individuals, on a larger scale into the bond market.

The slight increase in the proportion borne by private savers' investment in securities to their total saving, an increase of late happily apparent, offers some prospect of regaining private investors, although that proportion is not likely to become very large until private incomes again rise more perceptibly. Fixed-interest securities would perhaps become more attractive in the eyes of private investors if the risk on price were reduced through a change-over to lives somewhat shorter than, for example, mortgage bonds now have. An interesting experiment is being carried out in that direction by the creation of medium-term savings bonds by some credit institutions; the Federal Government also now contemplates issuing such paper in the form of Federal savings bonds. Even if such experiments, and possibly indeed a general tendency to a certain shortening of periods to maturity, had the effect of again interesting more private investors in securities, another inherent weakness would of course still remain in the fact that the social pension insurance funds can in future hardly be expected to buy securities.

The stoppage of all capital formation by the social pension insurance institutions creates many problems the full importance of which is, for example, apparent in the bond market, since there is so far nothing in the whole economy to replace those institutions' formation of capital. Households are not now saving any more than when, on an overall view, they formed capital as persons insured by those institutions (which the body of insured persons as a whole are now no longer

Transformative function of credit institutions' bond purchases

Regaining private investors

Reduction of pension insurance funds' assets decreases total capital formation

doing). On the contrary governmental old age pension insurance, which covers increasing numbers of people, weakens one of the most important motives for private saving, namely the desire to provide for old age. The more comprehensive and above all the more “dynamic” the system of social old age insurance becomes, the smaller will at all events become not only the compulsion on individuals of their own accord to provide for their old age but also the financial margin for doing so. Without cogent personal objectives for saving it is difficult effectively to promote private capital formation, especially by people in the middle and lower income brackets, much though the Federal Government may have set itself that aim.

The promotion of wealth formation not only pursues sociopolitical aims; it is also required by important considerations of economic and fiscal policy. The proportion of the public budgets financed by borrowing has risen vigorously due to the cyclically induced revenue shortfalls and to last year’s economic stimulation programmes. It will in future have to be greatly reduced, as is indeed provided for in medium-term fiscal planning. Whether the proportion financed by borrowing must fall again to the relatively low level usual in years further back, or whether it can in the long run remain appreciably greater, will crucially depend on the course of saving by households. If such saving rises faster than the total funds required for private capital investment, the public authorities can finance a greater part of their expenditure by borrowing, without this causing inflation, than they could if households were saving less. It seems doubtful, however, whether the saving ratio can be appreciably raised by governmental savings promotion measures of the traditional kind, for example savings premiums, admission as special expenditure deductible for tax purposes, and “social discounts”, since the effectiveness of such measures rapidly declines unless they succeed in constantly attracting new categories of savers, who in the absence of such incentives would save either not at all or only a little. It would therefore be entirely desirable to promote capital formation by employed persons through agreements between employers and employed, as well as through firms’ own arrangements, as has been proposed in various quarters. It should also be worth considering, however, how one of the most primitive and most permanent motives for saving, the desire to provide for old age, might again be better exploited for sociopolitical purposes as well as for purposes of economic and financial policy. With that object in mind consideration should be given to the question as to whether any provision additional to a kind of “basic old-age provision” should be left to the insured persons themselves, or whether to that extent a capital cover procedure should be provided for governmental social insurance.

With a view to longer-term safeguarding of inflation-free economic growth it is essential to strengthen private capital formation, since the capital expenditure required for growth must in great part be financed out of saving by “non-entrepreneurs” if the formation of “compulsory savings” through a rise of prices, and consequently of entrepreneurs’ profits, is to be avoided. Through credit policy measures the supply of longer-term finance can to some extent be increased without inflation only as far and as long as the available production factors are no more than insufficiently employed. That was the situation last year, and in some measure it still is. But in the degree that the economy reattains the desired full employment it becomes less feasible to expand the supply of long-term finance through measures of credit policy. In other words, the more economic activity recovers, the more the business community and the public sector will again have to be content with the supply of capital corresponding to current saving. Quite apart from the sociopolitical aspects it is therefore also highly desirable on monetary grounds for individuals’ formation of monetary wealth to be increased as far as possible, whether it is effected on their own responsibility or within the framework of voluntary collective or even statutory pension institutions.



## II. International Monetary Developments and Monetary Policy

### 1. The international monetary crises and the present monetary system

Developments in international monetary affairs were unusually dramatic in the period under review. The first half of 1967 was still characterised by a slight easing of the tensions in the world payments situation. But in the middle of the year the British balance of payments began to deteriorate, the reversal starting with the Middle East conflict in June 1967 and developing into a crisis during the following months owing to a number of other unfavourable circumstances. The British payments difficulties, together with a sudden deterioration in the American balance of payments since the autumn of 1967, triggered a series of violent currency crises which culminated first in the devaluation of sterling in November 1967, and thereafter in the suspension of central bank intervention in the London gold market in March 1968.

There are great differences in the way in which the significance and the possible effects of these events have been evaluated in recent international discussions. This is true for instance with regard to the question whether the separation between the official gold price of \$ 35 per ounce and the freely floating gold price for non-monetary use of the metal is only a stop-gap measure or can be maintained for an extended period. Further comment upon this will be found later in the report. Moreover, the latest monetary events have widened the rift between those who *on principle are opposed to the present gold exchange standard* and those who support a *gradual evolutionary development and reform* of the present monetary system. Those opposed for various reasons to the gold exchange standard with the U.S. dollar acting as a reserve currency hold the view that the most recent monetary events have definitely demonstrated the untenability of this standard, and that therefore it should be replaced as soon as possible by a basically different monetary system.

Another, and probably more correct, interpretation of recent events would maintain that the main reasons for the currency crises have not been built-in flaws of the present monetary system but rather the inability shown up to now by the United States and the United Kingdom to solve quickly their balance-of-payments problems. Acute balance-of-payments difficulties of both these leading countries — difficulties which are by no means inherent in the system of the gold exchange standard — would inevitably also have posed critical problems for any other monetary system, including a pure gold standard. A mere change in the reserve system cannot eliminate these difficulties. According to this view, which is shared by the overwhelming majority of the leading countries, the main prerequisites for rehabilitating the international monetary system are determined economic policies on the part of the United States and the United Kingdom in order to correct their external imbalances. When these balance-of-payments difficulties are eventually overcome and the rules for balance-of-payments adjustment are better observed, there is no doubt about the present monetary system being able to function properly.

The most conspicuous effects of the recent crises, the adjustment of the sterling parity and the suspension of central bank intervention in the private gold market, cannot be regarded as indications of a collapse of the present monetary system, as is sometimes claimed by its critics. Rather, indefensible positions were abandoned in this process, and in the longer run this may well serve to relieve the monetary system from stresses and to re-establish more normal conditions. The recent monetary events also had beneficial effects in so far as they very much increased the pressure on the United States to assign higher priority to the correction of its external imbalance. If the corrective measures called forth by these events are successfully implemented, it should not be excluded that the world monetary system will emerge strengthened from the recent currency crises.

The latest monetary developments have, however, also demonstrated more clearly than before the disadvantages and the limitations of the present monetary system and have thus emphasised the need to press forward with efforts for its evolution and adaptation to changed circumstances.

The endeavours for a limited *reform* of the system, which had been carried on for some years mainly in the Group of Ten, have achieved their immediate aims in the period under review. A scheme for reserve-like “Special Drawing Rights” in the International Monetary Fund (I.M.F.) was approved in principle by the Annual Meeting of the Governors of the I.M.F. in Rio de Janeiro in September 1967. The necessary amendments to the Bretton Woods agreement on the I.M.F. — the first revision of this agreement since its negotiation in 1944 — were approved at a conference of the Group of Ten in Stockholm at the end of March 1968, and they have now been submitted to the Governors of the I.M.F. for approval. It must not be overlooked, however, that this reform is destined to have effects only in the longer run. Even after the amendments to the Articles of Agreement of the I.M.F. have been ratified by a sufficient number of countries, which may possibly not be before the middle of 1969, it may still take considerable time for the effects on the reserve system of the world to become significant.

Measured against the dramatic monetary events and developments over the period reviewed here, *world trade* has been affected to a surprisingly small extent. This is due not least to the efforts of the leading central banks to minimise disturbances in the foreign exchange markets by close cooperation and by extending short-term mutual assistance. The Bundesbank has actively participated in these endeavours. Moreover, monetary difficulties have so far not caused leading countries to resort to policy measures conducive to a contraction of international trade. It has also been of decisive importance for world trade and better international payments equilibrium that the British and American efforts to correct their balances of payments and the ensuing dampening effects on the world economy have been compensated by expansionary policies on the part of surplus countries. Thus world trade has up to now been unaffected by the monetary crises. While it had stagnated during the second and third quarter of 1967 shortly before the outbreak of the currency crises, it was paradoxically turning into a new upswing just at the beginning of the fourth quarter of 1967 when these crises were moving towards a climax. In 1968, according to all available indications and forecasts, world trade will expand at a faster pace than in the previous year. Thus it may be said that the repercussions of the most recent crises could so far be confined to the monetary area. This is also, in particular, true of the various crises in the gold market from November 1967 to March 1968, which found such a strong echo in the press and in other news media; while they did significantly affect the gold stocks of the central banks, they had no direct effect on world trade and the world economy.

## 2. Sterling devaluation and international credit assistance to the United Kingdom

Following temporary  
improvement...

The British balance-of-payments difficulties, which eventually led to the devaluation of sterling in November 1967, date back to 1964. In that year, the deficit of the “basic balance”, *viz.* the balance on current account and on long-term capital transactions, had reached a record figure of more than \$ 2 billion (see following table). It is true that corrective efforts undertaken in 1964 and 1965 brought about a decline of the deficits, but they failed to achieve a decisive improvement. An approximate but only temporary equilibrium was gained after the corrective measures of July 1966 had been taken; they did not however succeed in fully re-establishing the competitiveness of the British economy vis-à-vis foreign countries, which had been lost in the meantime.

In the spring of 1967 a distinct improvement could at first be recognised. Since the end of 1966 funds began to flow back to Great Britain, and this enabled the Bank of England to repay by the beginning of May 1967 all the swap credits previously extended by other central banks. A considerable part of a repurchase obligation on a previous I.M.F. drawing which was due in December 1967 could also be met prematurely. Early in the summer of 1967 British as well as O.E.C.D. experts still expected that the United Kingdom would achieve a slight balance-of-payments surplus for the year as a whole. This optimistic forecast did not materialise however.

*Balance-of-payments positions of the United States, United Kingdom and E.E.C. countries  
1953 to 1967 \*)*

Billions of U.S. dollars

Item	Annual average 1953 to 1956	Annual average 1958 to 1960	Annual average 1961 to 1964	1964	1965	1966	1967
<b>I. United States</b>							
(1) Current items (excluding military transactions) <sup>1)</sup>	+4.00	+4.26	+7.75	+9.68	+8.00	+6.94	+6.56
(2) Government transactions							
(a) Military transactions (net)	-2.59	-2.89	-2.35	-2.11	-2.08	-2.85	-3.05
(b) Foreign aid (less repayments)	-2.05	-2.45	-3.23	-3.56	-3.38	-3.45	-4.13
Total (1 plus 2)	-0.64	-1.08	+2.16	+4.01	+2.55	+0.65	-0.61
(3) Private capital <sup>2)</sup>	-0.82	-2.64	-5.12	-7.27	-4.08	-2.07	-3.42
(4) Overall balance of payments (liquidity basis) <sup>3)</sup>	-1.49	-3.71	-2.51	-2.80	-1.34	-1.36	-3.58
(4a) Balance of official reserve transactions	-0.8 <sup>4)</sup>	-2.8	-1.91	-1.55	-1.30	+0.23	-3.40
(4b) Change in net external position of the monetary authorities and the banking system	.	.	-1.84	-1.60	-1.75	-2.01	-4.01
<b>II. United Kingdom</b>							
(1) Current items	+0.22	+0.22	-0.11	-1.13	-0.31	-0.09	-1.39 <sup>5)</sup>
(2) Net long-term capital transactions	-0.49	-0.60	-0.39	-1.05	-0.65	-0.29	-0.07 <sup>5)</sup>
(3) Basic balance of payments (1 plus 2)	-0.27	-0.38	-0.50	-2.17	-0.96	-0.37	-1.46 <sup>5)</sup>
(4) Net overall balance of payments (= Balance of monetary movements)	-0.09	-0.07	-0.50	-2.05	-0.67	-0.41	-0.85 <sup>5)</sup>
<b>III. E.E.C. Countries</b>							
(1) Current items (including transfers)	+1.3	+2.70	+0.91	+0.42	+1.57	+2.12	+4.20
(2) Change in official gross monetary reserves (including I.M.F. reserve positions)	+1.16	+2.19	+1.51	+1.75	+1.32	+1.15	+1.07
<p><small>*) The 1957 figures have been omitted since they are distorted owing to the Suez crisis. — <sup>1)</sup> Including exports of goods financed by foreign aid. — <sup>2)</sup> Including errors and omissions. — <sup>3)</sup> Contains, apart from items (1), (2) and (3), the placing of non-convertible government bonds with foreign countries and international aid organisations, as well as advances received in respect of armament exports. — <sup>4)</sup> Annual average for the years 1954 to 1956. — <sup>5)</sup> Dollar equivalents partly estimated.</small></p>							

The Middle East conflict of June 1967 exposed the British balance of payments to special strains and triggered conversions of sterling balances into other currencies and into gold. Under the influence of the economic slowdown in a number of countries, especially in the United States and the Federal Republic of Germany, world trade began to stagnate in the spring of 1967. Moreover, the continuation of restrictive economic policies in Great Britain had to face ever-increasing economic and political resistance at home, which reached a climax with the dockers' strike lasting from September to November of 1967. Starting in August 1967 the United Kingdom had to have recourse to foreign credits in increasing amounts. The discussion about the British application for membership in the European Economic Community (E.E.C.) intensified rumours and apprehensions as to an impending adjustment in the exchange rate parity of sterling. When the dockers' strike eventually caused a shortfall of several hundred millions of pounds in British exports, when foreigners had lost all confidence in the existing exchange rate, and when the foreign credit facilities were exhausted, the parity of sterling could no longer be maintained. In the final stage of this process leading to the devaluation of sterling speculation against the pound had certainly considerable influence. The real causes, however, were the basic weaknesses in the competitiveness of British industry and in that country's balance of payments, both of which were not attacked in good time with vigorous measures and which were extraordinarily aggravated by a combination of unfavourable exogenous circumstances during the summer and autumn of 1967.

As was to be expected, the 14.3 per cent devaluation of sterling on November 18, 1967 has profoundly affected confidence in the existing exchange rate structure, and the international monetary system has not yet fully recovered from that shock. On the other hand this devaluation offers good prospects for a basic correction of the British balance of payments, provided enough productive resources are freed for increased exports and for import substitution by imposing

... renewed  
deterioration...

... made sterling  
devaluation unavoidable

sufficient restraint on domestic demand in the United Kingdom, and provided the unavoidable price rises for imported goods will not cause an excessive increase of domestic costs, and especially of wages. On these assumptions the chosen rate of devaluation, in the view of all international experts, is fully adequate to re-establish the competitiveness of the British economy and to bring about the desired improvement in the balance of payments.

Good prospects  
for success

Circumstances are favourable for such an achievement. In contrast to the sterling devaluation of 1949 — when half of the world followed fully or partly the British devaluation — this time no major industrial country followed the British step, thus leaving to Great Britain the competitive advantage gained by the devaluation to its full extent. For the first time in monetary history consultations among the most important industrial countries preceded the devaluation of sterling in order to forestall any chain reaction arising from that move. The E.E.C. countries, having committed themselves in 1964 to such consultations in case of parity changes by other important countries, played a leading role in this consultation process. Another favourable condition for the success of the British devaluation is the new upswing in international trade under way since the end of 1967. This upswing is supported mainly by the economic recovery in the E.E.C. countries and especially by the strong upsurge in German imports. Taking into account the various measures of the British stabilisation programme, including the budget proposals of March 19, 1968 and the simultaneously announced incomes policy, it can be said that the goal set by the British authorities for the British balance of payments should be attainable, *viz.*, approximate equilibrium in 1968 and substantial surpluses from 1969 onwards.

Improvement in the British balance of payments and especially restoration of confidence in sterling has been delayed by the protracted implementation of the various measures necessary after the devaluation of sterling to dampen domestic demand and to stabilise the level of production costs. But even without these delays some time would have had to elapse before a significant improvement in the British external accounts could be achieved. On one side some time was necessary in any case to restore shattered confidence. On the other side, however, devaluation unavoidably works in the beginning much faster in raising the costs of imports than in stimulating British exports.

Protection of the  
sterling devaluation by  
credit assistance...

In order to bridge this initial deficit phase after the devaluation of sterling but also to protect the new parity against renewed speculative attacks, substantial *international assistance* has been provided. Shortly before the sterling devaluation a group of central banks provided credits for the United Kingdom to the extent of \$ 250 million to enable that country to repay in December 1967 the balance outstanding from its I.M.F. drawing of December 1964. The share of the Bundesbank in this operation amounted to \$ 55 million. Following the sterling devaluation the I.M.F. granted a new stand-by facility of no less than \$ 1.4 billion after having examined Great Britain's proposed stabilisation programme. Other short-term credit lines totalling about \$ 1.5 billion were arranged by twelve central banks and the Bank for International Settlements (B.I.S.). When sterling again came under fire during the gold crisis of March 1968, the active members of the gold pool joined forces at a conference in Washington on March 16 and 17, 1968 to provide the United Kingdom with additional central bank credit lines of around \$ 1.2 billion. Thus Great Britain has altogether more than \$ 4 billion of foreign credits at its disposal for overcoming short-term difficulties. When this report went to press the I.M.F. stand-by facility had not been drawn upon by the United Kingdom.

... with active  
participation of the  
Bundesbank

The Bundesbank participated to a significant degree in the credit arrangements mentioned above. In the event of British drawings upon the I.M.F. stand-by, recourse will be taken to the "General Arrangements to Borrow with the I.M.F.". An amount of \$ 155 million will have to be provided by the Bundesbank should the stand-by be drawn upon in full. The Bundesbank's share in the \$ 2.5 billion total of the central bank credit lines made available after the sterling devaluation amounts to \$ 400 million. According to an understanding with the British Government \$ 50 million of the latter amount will be arranged as a German medium-term credit so as to contribute towards

the off-set of the foreign exchange costs arising out of the stationing of British troops in the Federal Republic of Germany. These loan arrangements are in addition to the \$ 200 million credit facilities made available by the Bundesbank already before the devaluation of sterling (for the repayment of British obligations towards the I.M.F. and within the framework of the "Group Arrangement" mentioned below).

Quite naturally the sterling devaluation of November 1967 has increased the vulnerability of the British *sterling liabilities vis-à-vis foreign countries*. In September 1967, *i. e.* shortly before the devaluation of sterling, these sterling balances still amounted to more than £ 4 billion, of which £ 1.7 billion were being held as official monetary reserves by sterling area countries. During the sterling crisis in the last four months of 1967 the sterling balances of non-sterling area countries declined significantly, but there were no panic withdrawals of genuine sterling reserves. Contrary to a widespread belief the role of sterling as a reserve and international trading currency is far from over. But it cannot be overlooked that the loss of confidence caused by the devaluation of sterling may in the future lead to more pronounced swings in the sterling holdings of other countries and may even bring about a gradual overall reduction.

Already in the middle of 1966 a group of central banks and the B.I.S. had put at the disposal of the Bank of England a system of short-term credit facilities to provide the possibility of partially offsetting short-term swings in these sterling balances. The Bank of France and the U.S. Federal Reserve System are associated to this "Group Arrangement" by special bilateral arrangements with the British central bank. The total amount of these offsetting foreign exchange stand-bys is \$ 1 billion. The share of the Bundesbank is \$ 145 million. This "Group Arrangement", which runs for a period of one year and can be drawn upon for short-term periods according to certain formulas, was extended for another year in March 1968. While it was only being used in part and for very short periods up to the sterling crisis of November 1967 it has since then, in consequence of the decrease in the foreign sterling balances, been called upon almost to its full extent. A new situation would present itself if the reduction in the foreign sterling balances should become a longer-term development. The question would then arise whether in the interest of the world economy as a whole the burden placed upon Great Britain by these withdrawals should not be spread over a longer period, and how the destruction of international liquidity resulting from a gradual reduction of the reserve function of sterling can be avoided or compensated by appropriate measures.

The reserve function of sterling and its problems

### **3. The crisis of the dollar and the American balance-of-payments programme**

#### *(a) The course of the crisis*

As in the British case, some improvement also took place in the American balance of payments during the first half of 1967, at least in the trade sector. The slowdown in American business activity at the beginning of 1967 led to a stagnation in imports while exports continued their moderate increase. The improvement in the trade balance was lost, however, in the fourth quarter of 1967 when imports started to rise rapidly. The balance of payments in 1967 was burdened also by increased foreign exchange outlays for the Vietnam war, for travel expenses abroad, and for private capital exports. Near the end of 1967 special factors such as dollar assistance to sterling and the strike in the copper mining industry exposed the American external accounts to additional strains. Thus the balance-of-payments deficit for the whole of 1967, which in the late autumn of 1967 had still been estimated to be only a little over 2 billion dollars, jumped to almost \$ 3.6 billion (after less than \$ 1.5 billion had been recorded in each of the preceding two years).

At the same time the dollar was exposed to pressure from another source. The devaluation of sterling had temporarily shaken confidence in the entire structure of exchange rates. After the fall of sterling it was almost inevitable that speculation concentrated on the other major reserve currency, which also happened to suffer from a chronically weak balance of payments. Distrust in the

Considerable deterioration in the American balance of payments...

... leads to gold crisis

dollar caused a temporary shift into other currencies. Its main effect, however, was felt in the gold market, as it coincided with and strengthened speculation on a higher gold price, which was fed from other sources. Thus the weakness of the dollar greatly contributed to the unusually high private purchases of gold in the London market immediately following the devaluation of sterling. As long as the gold pool of the central banks prevented by its gold sales the market price from rising beyond the \$ 35.20 per ounce limit set by the pool, the major part of the resulting gold losses had to be met out of the American gold stock, since the United States had to cover 59 per cent of the pool's gold losses after France's withdrawal from it.

Gold pool meeting  
in Frankfurt

One week after the sterling devaluation, on November 26, 1967, the central bank governors of the seven active gold pool countries — Belgium, Germany, Italy, the Netherlands, Switzerland, the United Kingdom and the United States (France, the eighth member, had already ceased in June 1967 to contribute gold) — met in Frankfurt, after the President of the United States had again reaffirmed the commitment of the United States to buy and sell gold at the existing price of \$ 35 per ounce. The meeting considered the policies of the pool in the future and “took decisions on specific measures to ensure by coordinated actions orderly conditions in the exchange markets and to support the present pattern of exchange rates based on the fixed price of \$ 35 per ounce of gold”. In consequence of this decision the Bundesbank started again to offer forward dollars at favourable swap rates to the commercial banks, a practice it had discontinued since 1965. From November 27, 1967 to the end of the year the Bundesbank entered into swap transactions of this nature with the commercial banks to the extent of \$ 860 million. In so doing it not only demonstrated its determination to maintain the existing exchange rate parity in relation to the dollar but it also contributed to a relaxation of tensions in the Euro-currency markets. In connection with the Frankfurt central bank meeting, forward transactions in gold and gold purchases on credit were banned in some countries.

However, the determination shown by the leading central banks at the Frankfurt conference to keep the gold price as well as the exchange rate parities unaltered led only temporarily to a calming down of gold speculation. In the middle of March 1968, following several other speculative waves, a central bank conference in Washington resolved to suspend the intervention of the gold pool in the London gold market.

*(b) Measures to correct the situation of the dollar*

Comprehensive  
balance-of-payments  
programme

Under the influence of the sudden deterioration in the American balance of payments towards the end of 1967 and the simultaneous eruption of a dollar and gold crisis, the President of the United States announced a new balance-of-payments programme on January 1, 1968. He urged the American Congress to consider as a matter of highest priority the enactment of the tax increase already requested by the administration some time before. The tax increase together with reductions in Government expenditures, an appropriate credit policy and more discipline with regard to wages and prices, were intended to diminish the inflationary pressures of domestic demand on the balance of payments. At the same time a number of other steps directly affecting the balance of payments in the short as well as in the longer run were either implemented or recommended to Congress for adoption. These steps include, among others, restraint in American direct investment abroad, especially in the countries of continental Europe; a tightening of the programme to restrain foreign lending by banks and other financial institutions; a reduction in military and other governmental spending abroad; stimulating exports; and attracting more foreign capital and more foreign visitors to the United States. It is the aim of the United States Government to improve the American balance of payments with this programme by about \$ 3 billion annually. If this target is reached and if deterioration does not take place in other sectors of the balance of payments, the 1967 deficit would be wiped out almost completely. Moreover, at the beginning of March 1968, Congress approved the removal of the gold cover requirement for currency in circulation, thus making the entire official American gold stock available for the defence of the dollar abroad.

The American balance-of-payments programme is designed to achieve the desired improvement mainly vis-à-vis the countries of continental Europe. In various international bodies the countries affected have stated that they are prepared to cooperate with the American authorities in the establishment of a better international equilibrium. In particular, they have declared their readiness to put up with the direct controls imposed on the export of American capital and their selective application according to area, on the understanding, however, that these measures will be adopted only temporarily and that the balance-of-payments programme will be accompanied by firm domestic policies to check demand and cost inflation in the United States. Moreover, these countries have made known their intention to alleviate or compensate the dampening effects of the American and British balance-of-payments measures by expansive economic policies as far as they are compatible with their own domestic stability. In particular they have declared themselves willing to prevent as far as possible any spreading of the tendencies towards higher interest rates from the international to their domestic money and capital markets. Statements to this effect were made by European representatives in various committees of the O.E.C.D., in meetings of the Ministers of Finance and Economics of the E.E.C. countries, and during the Washington conference of central bank governors on March 16 and 17, 1968.

Other countries  
prepared to cooperate

The policies of the Bundesbank have already been oriented towards similar goals for some time. In view of the key role of the Federal Republic as the most important surplus country, German monetary policies are of considerable importance for the achievement of international balance-of-payments equilibrium. At present the Federal Republic is contributing in two ways to the desired improvement in the international payments situation. First, German imports are rising significantly with the economic recovery now well under way. While in 1967 German imports from countries outside the E.E.C. decreased by 5 per cent compared with the previous year, an increase of about 10 per cent is expected for 1968. Second, the Bundesbank's policy of monetary ease, which was also directed against a rise in domestic interest rates, contributed decisively to the development of a high level of capital exports of a short- as well as a long-term nature. These capital exports served to compensate nearly entirely the substantial surplus achieved on current account in 1967. It will depend mainly on the policies pursued by the Bundesbank whether this development will also continue in the current year, and whether the shortfall in the flow of dollars for investment in the Federal Republic caused by the American balance-of-payments programme can be compensated by an increase in domestic loans.

The European countries' readiness to pursue economic and monetary policies supplementing and facilitating the American programme seems to give it a good start. If in the months immediately following the announcement of the new American programme the desired improvement in the U.S. balance of payments did not come about, this has mainly to be attributed to the delay of the American Congress in implementing its major item, viz., the reduction in the budget deficit. This entails the danger that the improvement to be achieved by the new measures in the field of capital transactions may be offset to some extent by a deterioration in the trade balance because of excessive domestic demand in the United States. There should be no doubt that, after the European countries have reacted in a positive way to the American measures, the main responsibility and the key for an improvement in the international payments situation rests now with the United States. This was acknowledged by the Secretary of the Treasury of the United States during the Ministerial Meeting of the Group of Ten held at the end of March 1968 in Stockholm.

*(c) Extension of central bank swap facilities*

The European industrial countries have made another contribution towards overcoming the present monetary unrest by participating with considerable amounts in an extension of the reciprocal credit lines arranged between the Federal Reserve System and a number of central banks. This extension was agreed upon when the central bank governors of the gold pool countries convened in Washington in the middle of March 1968. In a *communiqué* issued at the end of this conference

Increase in swap  
facilities to fight  
currency speculation

*Swap agreements of the Federal Reserve System with other central banks*

— Millions of U.S. \$ —

Central bank	End of period						
	1962	1963	1964	1965	1966	1967	from 18 March 1968
United Kingdom	50	500	750	750	1,350	1,500	2,000
Federal Republic of Germany	50	250	250	250	400	750	1,000
France	50	100	100	100	100	100	100
Italy	150	250	250	450	600	750	750
Netherlands	50	100	100	100	150	225	400
Belgium	50	50	100	100	150	225	225
Switzerland	100	150	150	150	200	400	600
Austria	50	50	50	50	100	100	100
Sweden	—	50	50	50	100	200	250
Norway	—	—	—	—	—	100	100
Denmark	—	—	—	—	—	100	100
Canada	250	250	250	250	500	750	1,000
Japan	—	150	150	250	450	750	1,000
Mexico	—	—	—	—	—	130	130
Bank for International Settlements	100 <sup>1)</sup>	150 <sup>1)</sup>	150 <sup>1)</sup>	300 <sup>1)</sup>	400 <sup>1)</sup>	1,000 <sup>2)</sup>	1,600 <sup>2)</sup>
<b>Total</b>	<b>900</b>	<b>2,050</b>	<b>2,350</b>	<b>2,800</b>	<b>4,500</b>	<b>7,080</b>	<b>9,355</b>

<sup>1)</sup> One half each in Swiss francs and in other European currencies. — <sup>2)</sup> End-1967 \$ 400 million, from 18 March 1968 \$ 600 million, disposable in Swiss francs, residual amount in other European currencies.

the central bank governors agreed “to cooperate fully to maintain the existing parities” and “to cooperate even more closely than in the past to minimise flows of funds contributing to instability in the exchange markets, and to offset as necessary any such flows that may arise”. To support this policy the volume of the reciprocal swap facilities agreed upon between the Federal Reserve System and foreign central banks was drastically increased on the same day from \$ 7 billion to \$ 9.35 billion. As can be seen from the table above, the swap line established between the Federal Reserve System and the Bundesbank was raised on this occasion from \$ 750 million to \$ 1 billion.

With its present volume of more than \$ 9 billion this network of central bank credits, the origin of which dates back to 1961, is a very impressive instrument for guarding the foreign exchange markets against short-term disturbances. Occasionally concern has been expressed that these large credit arrangements could serve to support the dollar to such an extent that balance-of-payments pressures on the United States were completely removed or at least considerably diminished. However, the following points must be kept in mind:

(i) The swap-credit lines are destined to compensate only short-term fluctuations in foreign exchange reserves. Their utilisation is normally limited to three months with the possibility of one prolongation. After this period has elapsed the amounts drawn must be repaid either with funds purchased in the foreign exchange market, or — if that is not possible — by an I.M.F. drawing on the part of the United States, or by providing gold. The reports published at regular intervals by the Federal Reserve System on the utilisation of these credit lines show that so far almost all the drawings have been of such a short-term nature.

(ii) Moreover, these swap arrangements do not only serve to support the dollar but also the other currencies involved, since they are agreements on a reciprocal basis. Indeed, on several occasions the partners of the Federal Reserve System have drawn on it, at present, for instance, the Bank of England and the Bank of Canada.

(iii) Finally, these swap arrangements provide surplus countries with strong currencies with a possibility to obtain forward cover for dollars accumulated in the wake of speculative movements. This side-effect is a definite advantage for the partners of the Federal Reserve System.

Nevertheless the fact remains that the recently increased volume of these reciprocal swap arrangements between the central banks has provided the world with a considerably enlarged amount of international liquidity, even if it is liquidity of a very short-term character only. The monetary



unrest during the period under review and the sudden movements of short-term funds induced by it have evoked a strong demand for international liquidity available at short notice. This demand has been met in a simple way by the system of central bank swap arrangements. However, the creation of international liquidity through support operations of the central banks by its very nature cannot satisfy the long-term requirements of the world for reserves.

#### 4. Gold speculation and the splitting of the gold price

##### *(a) The course of the crisis*

For the public at large, the most conspicuous expression of the monetary unrest caused by the devaluation of sterling has been the *gold speculation*. Private purchases of the precious metal had already started to rise with the beginning of the Middle East conflict in June 1967. Over the five months preceding the devaluation of sterling, the gold pool of the central banks thus had to supply increasing amounts of gold to the London market to keep the gold price stable. The devaluation of sterling was the starting point for a speculative buying wave in the gold market of an extent never experienced before. In several waves over the period from November 20, 1967 to March 15, 1968 — in the week immediately following the sterling devaluation, in the first half of December 1967, in January 1968, and finally in the first half of March 1968 — gold worth more than \$ 3 billion had to be supplied out of the official stocks of the gold pool members in order to keep the price for private buyers below the limit of \$ 35.20 per ounce.

The run on gold in the wake of the devaluation of sterling can be attributed to various reasons:

Manifold reasons for the gold crisis

(i) In some circles the opinion was held that the devaluation of the pound could not be isolated but would trigger other major parity adjustments. The next candidate for such speculative expectations was the U.S. dollar, the more so since sterling had already been mentioned for some time as the “first line of defence for the dollar”. The deterioration in the American balance of payments further increased the mistrust already existing and induced new doubts about the United States’ ability to maintain the gold convertibility of the dollar at the existing price of \$ 35 per ounce in the face of a prolonged crisis of confidence. Thus a flight developed from currencies considered unsafe into gold, the price of which, according to a widespread opinion, could only go up should it ever be changed at all.

(ii) But this movement was further reinforced by a specific gold speculation. The gold pool of the central banks had been incurring losses ever since 1966, although relatively small ones at first, because private demand for gold, swelled by demand for hoarding, could no longer be satisfied by the supply from private sources and newly mined gold. This had contributed to the notion that the gold price would eventually have to be raised, either on the private market alone or for transactions among monetary authorities as well. The withdrawal of the Bank of France from active participation in the gold pool in June 1967 (which was only made public after the sterling devaluation) and French statements with regard to the gold price question intensified these expectations.

(iii) This speculation had a self-reinforcing character. The higher the amounts of gold that were channelled by the central banks of the gold pool into the free market, the more the conviction gained ground that the United States, which had to cover the major part of the gold losses, could not withstand such speculative attacks indefinitely. These expectations were further enhanced by various statements and proposals from non-official, but nevertheless influential, American quarters, which pleaded for a modification in gold policy in order to gain more freedom of action for the United States. The fact that speculation on a rise in the price of gold did for all practical purposes not entail a great price risk on the basis of \$ 35.20 per ounce of gold attracted speculative funds from all parts of the world to the gold market.

The longer the gold speculation lasted the more it acquired a character of its own independently of any specific balance-of-payments situation. In its final stage it was not so much a flight from the

dollar as a shift from many currencies, including strong continental European ones, into gold because of the profit hoped for from an eventual increase in the gold price. Nevertheless even during this purely speculative phase American reassurances to keep the gold price for private buyers at its existing level would probably have been more effective if at the same time the American balance of payments had not shown substantial deficits.

Discontinuation of intervention in the gold market

When gold speculation did not quiet down in the opening months of this year but grew instead even more violent, it became obvious that the policy of intervening in the private gold market could only be maintained at the cost of excessive gold losses to the central banks of the gold pool. Therefore a conference of the central bank governors of the seven active gold pool members, meeting in Washington on March 16 and 17, 1968, decided to discontinue the stabilisation of the gold price in the free market. This decision brought about the separation of the free gold price from the official one.

The *communiqué* issued at the end of this conference included among other items the following important statements concerning the future gold and exchange rate policies:

(i) The U.S. Government assured that it “will continue to buy and sell gold at the existing price of \$ 35 an ounce in transactions with monetary authorities”. The central bank governors agreed to support this policy.

(ii) The central bank governors stated “that henceforth officially-held gold should be used only to effect transfers among monetary authorities” and therefore they decided “no longer to supply gold to the London gold market or any other gold market”.

(iii) The central bank governors agreed “that henceforth they will not sell gold to monetary authorities to replace gold sold in private markets”.

(iv) The central bank governors “no longer (felt) it necessary to buy gold from the market” and they held the opinion that “the existing stock of monetary gold is sufficient in view of the prospective establishment of the facility for Special Drawing Rights”.

(v) The central bank governors agreed “to cooperate fully to maintain the existing parities...”.

It is worth noting that this understanding among the most important countries does not only separate “monetary gold” entirely from “industrial gold” but also underlines again the participants’ refusal to look for a solution of the present balance-of-payments problems in an alteration of the existing exchange rates, especially vis-à-vis the dollar. As is well known from French statements, France, which was not represented in the Washington conference since it was no longer an active member of the gold pool, shares these views. France does not contemplate selling gold to private purchasers for the purpose of stabilising the free gold price and, contrary to occasional presumptions, it has up to now emphatically refused to consider any change in the exchange rate vis-à-vis the dollar.

*(b) Significance of the suspension of intervention in the gold market*

Origin and activities of the gold pool

The significance of the suspension of the intervention in the private gold market has almost everywhere been grossly overestimated. This measure is by no means a fundamental rearrangement of the present monetary system, but rather a return to a situation which existed until the autumn of 1960. During the first eight years after the end of World War II only free gold markets existed, in which the price of the metal fluctuated rather widely and occasionally price rises up to \$ 50 per ounce occurred. When the London gold market was reopened in 1954 after a fifteen year interruption, the British authorities expressly stated that this would be a purely private market and that the monetary authorities would assume no responsibility whatsoever as to the price of gold in this market. Only when the London gold price temporarily rose to more than \$ 40 per ounce during the gold crisis of October 1960 did the British and American monetary authorities agree to try to stabilise this price by joint intervention. In the course of 1961 this bilateral *ad hoc* agreement was eventually widened into the gold pool established for the stabilisation of the London gold market. It included the central banks of Belgium, France, Germany, Italy, the Netherlands and Switzerland

as well as those of the United Kingdom and the United States. The understanding of the gold pool central banks to join for intervention purchases and sales in the London gold market was never set down in a written agreement and notice to stop participation could be given by a member at any time. In spite of the gold pool understanding the London gold market never became an “official” gold market. The reasons for the setting up of the gold pool were the following: first, it was considered that larger fluctuations in the London gold price might evoke doubts about the stability of the major currencies. Second, it was desired, by establishing a syndicate for joint purchases and sales in the gold market, to avoid competition in the purchase of gold by the most important central banks, which might have pushed up the price. And finally it was hoped that confidence in the fixed gold price would be strengthened and speculative private purchases would be discouraged by minimising price fluctuations.

During the first years of the gold pool, when the supply usually far exceeded private demand, these expectations were fully met. To be sure, the gold pool occasionally had to supply gold in times of unrest but on balance it could acquire and distribute gold — from 1961 through 1965 an amount of roughly \$ 1.3 billion — to the participating central banks according to an agreed formula.

The entire situation changed in 1965. Russian gold sales, formerly of considerable volume, ceased entirely. Private demand rose not only for legitimate industrial but also for hoarding purposes, and that not least under the influence of the new French gold policy, which was widely publicised. The new relationship between supply and demand forced the gold pool to sell in the free market more and more often in order to prevent the price from rising beyond the limit fixed for intervention. The enormous gold losses suffered since November 1967 eventually brought about the suspension of these interventions.

Frequently the question has been raised in public whether the split of the gold price into an official one for central banks only and a free market price can be sustained in the longer run or whether this can be considered only as a temporary stop-gap measure. In this respect two considerations are relevant:

Two-tier price  
technically feasible...

(i) The industrial demand for gold, including a considerable demand for jewelry and the private minting of commemorative medals, is at present estimated to require annually an amount of gold between 650 and 750 million dollars. The annual gold production outside the communist countries, however, amounts to \$ 1.4 billion, calculated at \$ 35 per ounce. Even if a permanent private demand for hoarding in Asia and the Middle East of several hundred million dollars is added to normal industrial demand, a certain oversupply in the private market cannot be excluded, provided there is no demand for purely speculative hoarding. This estimate presupposes, however, that the South African gold production will not be purchased to any considerable extent by central banks but will be sold in full on the private market. This tentative calculation shows at any rate that there can be no question of a fundamental disequilibrium in the private gold market and that there is a good chance for a balance in the market not far from the official gold price of \$ 35 per ounce. Should the central banks completely abstain from any further net gold purchases, the private gold price might even temporarily drop below \$ 35. This possibility cannot be ruled out, especially as long as the \$ 3 billion worth of gold from recent speculative purchases are hanging over the market as a potential supply. In any case, the market situation for gold has changed decisively since the abolition of price-pegging has subjected purchases for hoarding to a real price risk.

(ii) But even if the free gold price should remain for a longer period above the official price of \$ 35 per ounce, this need not in itself threaten the maintenance of the dual price system. The majority of central banks which are not partners to the Washington agreement can be assumed not to sell monetary gold in the private market in order not to lose access to gold at the official price. Any minor leakages arising from evasions by smaller countries can hardly amount to a volume which could decisively affect the overall balance.

... and defensible from the viewpoint of monetary policy

Therefore there will be no need to adjust the official gold price to the private one even if the latter settles for an extended period above the \$ 35 per ounce mark. The price for industrial gold is influenced by factors not having any relationship to the monetary use of the metal, *e.g.* by changes in industrial utilisation and private consumption habits, new gold discoveries and exhaustion of gold mines, improvements in mining techniques, Russian gold sales, *etc.* Adjusting the official price of gold to the price of industrially used gold and thereby to accidental developments such as the ones mentioned would mean changing the value of the monetary gold stock of the world in a highly arbitrary way and without any relationship to the future need for reserves.

Gold price rise inopportune for reserve creation

Most probably an increase in the official gold price, should it ever happen, would have to be very substantial in order to be credible and to exclude any speculation on a new price adjustment shortly afterwards. Therefore a rise in the gold price as a method of artificially creating reserves would be dangerous because of its unavoidable exaggeration and the inflationary potential involved. Thus a price rise of 50 per cent would create with a stroke of the pen about \$ 20 billion of additional international liquidity without taking into account its probable effect on the liquidation of private gold hoards. This artificial creation of reserves would remain existent even if the book profits in national currencies arising out of the gold price increase were sterilised either by agreement or by appropriate policies of the monetary authorities. Moreover, the creation of liquidity by way of a gold price increase would be very inexpediently and inequitably distributed, since no less than about 85 per cent of the present monetary gold stock is held by the countries of the Group of Ten and Switzerland. Therefore such a method of liquidity creation would have significant disadvantages as compared to the allocation of reserve-like credit lines, which can be allocated according to a more equitable formula and can gradually be adjusted to the rising demand for reserves.

Key problem is U.S. balance of payments, not gold price

The main problem arising out of recent developments in the gold policy of leading countries, therefore, is not the price of gold and its possible alteration, for such an alteration would raise great problems and would not contribute to the solution of the existing ones. Of much greater importance is the question whether the United States will be capable of getting its balance of payments under control fast enough to maintain the gold convertibility of the dollar for foreign monetary authorities. Since the convertibility of the dollar into gold is the main link between all currencies and gold in our present monetary system, cutting this link would probably entail a demonetisation of gold which is highly undesirable, particularly from a European point of view. The evolution of the American balance of payments and not any manipulation with gold is therefore the key to the future development of the international monetary system.

### 5. Special Drawing Rights as a supplement to reserves

Inadequacies of the present reserve system

The recent monetary crises have shown that the present monetary system is anything but ideal as far as its reserve basis is concerned. The two main reserve pillars of this system are gold and the dollar in its capacity as a reserve currency. Confidence in a national currency serving as a reserve asset is dependent on confidence in the economic and balance-of-payments policies of the reserve country concerned. If a reserve currency is exposed to too severe strains, considerable fluctuations in the supply of the world economy with reserves may be the result, as the case of sterling has clearly demonstrated. Moreover, the experiences of the last six months have confirmed a judgement of the experts of the Group of Ten according to which in the interest of world stability "it would indeed be undesirable that the increase in the external short-term indebtedness of the United States should continue as in the past" (Report by the Group of Ten concerning the reform of the international monetary system of July 1966). But gold, too, has proven to be anything but an ideal reserve instrument. At least temporarily it was at the mercy of apprehensions and speculative forces which subjected the world supply of gold reserves to completely uncontrollable influences. In 1967 national gold reserves declined by about \$ 1.45 billion and in the first quarter of 1968 they

fell by at least another \$ 1 billion. Had not the foreign exchange reserves of the world increased over the same period by billions of dollars on account of temporary central bank assistance, international monetary liquidity would have decreased significantly in 1967.

After the central bank decisions taken in Washington at the middle of March 1968 a further run-down of the monetary gold stock need not be expected: but equally there is no likelihood of any increase in official gold reserves in the future. On the other hand, as already mentioned, any substantial addition to the world's dollar reserves is not at all desirable since it could endanger the stability of the international monetary system. The reserve needs of the world, which are bound to increase over the longer run, will therefore have to be met in another way.

For this purpose a system of *reserve-like Special Drawing Rights* is scheduled to be set up. After agreement has been reached on the last details of such a scheme, it will now be submitted to the Governors of the International Monetary Fund for a vote. After ratification of the agreement by the required minimum of participating countries has been secured, a new and separate decision will be necessary to decide if and to what extent the new system shall be "activated", *i.e.* Special Drawing Rights allocated. One of the prerequisites for such an activation will be a marked improvement in the balance of payments of the leading countries, especially of the United States.

The contemplated Special Drawing Rights to supplement existing monetary reserves shall be allocated according to the estimated global need for reserves on the basis of a joint decision by at least 85 per cent of the participating countries. Even if it will not be easy to estimate exactly how large the global need for reserves might be, the new method nevertheless will represent progress as compared to the very irrational and arbitrary ways in which the world economy was supplied up to now with gold and foreign exchange reserves.

While traditional foreign exchange reserves represent a claim on an individual country, the planned Special Drawing Rights are based on the obligation of *all* participating countries with strong currencies to accept and exchange these Rights into usable currencies. This gives the new Special Drawing Rights a number of advantages over traditional foreign exchange claims: they are not dependent upon confidence in the economic and monetary stability of a specific country. They do not carry the economic and political odium of providing an individual country with the privilege that it can itself create reserves for financing its balance-of-payments deficits. Their volume will not be dependent on accidental fluctuations in the external accounts of one country but will be fixed by collective decisions of a community of nations. The Special Drawing Rights will be tied to gold since they will carry an absolute gold guaranty. And finally the allocation of such reserve-like credit lines will have a smaller expansionary effect than the accumulation of gold and dollar reserves which are acquired by normally inflationary balance-of-payments surpluses. These characteristics of the Special Drawing Rights ought to be appreciated especially by those who are critical of the foreign exchange reserves under the present gold exchange standard. However, it will take some years until this new development will have significant effects. It is intended to be a reform for the longer run. In the interim period the task of alleviating any strains the international monetary system might become exposed to will mainly fall on international monetary cooperation.

Supplementing  
monetary reserves  
with Special Drawing  
Rights...

... warrants expectation  
of more stable supply of  
reserves

### III. Details of Monetary Developments

#### 1. Money and Credit

##### (a) Bank liquidity

Great expansion in banks' margins of liquidity

The liquidity of the banks increased more substantially in 1967 than in any other year since the Monetary Reform. The predominantly market factors of bank liquidity together with the influences exerted by credit policy resulted in an expansion in the banks' liquidity margins by more than DM 7 billion, compared with a slight decrease in 1966, when at first the factors of strain still preponderated. Indeed, the "free liquid reserves" of the banks, upon whose volume the "financial climate" of the economy is essentially dependent, grew much more strongly in 1967 than the above figure reveals. This was due principally to the fact that the large budgetary deficits of the public authorities, especially the Federal Government, were financed by the issue of Treasury bills and non-interest Treasury bonds and these securities were placed with banks. The credit institutions thus acquired short-term claims convertible at the Bundesbank into liquid funds at any time (albeit with a certain loss in interest), and which therefore — just like bills of exchange discountable within the rediscount quotas — count as readily usable assets. Thus the "free or easily mobilisable liquid reserves" of banks rose very substantially in 1967, by about DM 13 billion; from the middle of 1966 — when they touched their lowest point as a result of the restrictions — until the end of February 1968 they increased by as much as DM 21.9 billion. In relation to the volume of deposits the banks at the latter date thus had at their disposal a "liquidity ratio" (not counting minimum reserves) of 14.5 per cent as against 10.5 per cent a year before and 9.0 per cent at the end of February 1966. And so roughly the same relationship between free liquid reserves and deposits has been re-established as existed early in 1964, before the period of restriction started.

Foreign exchange transactions again the most important market factor tending to increase liquidity

Analysis of the individual determinants of bank liquidity reveals that, as already since mid-1966, the inflow of foreign exchange to Germany greatly predominated among the principally market-induced influences. As described in a subsequent section of this Report, the foreign exchange

##### "Liquidity Ratios" of the Credit Institutions

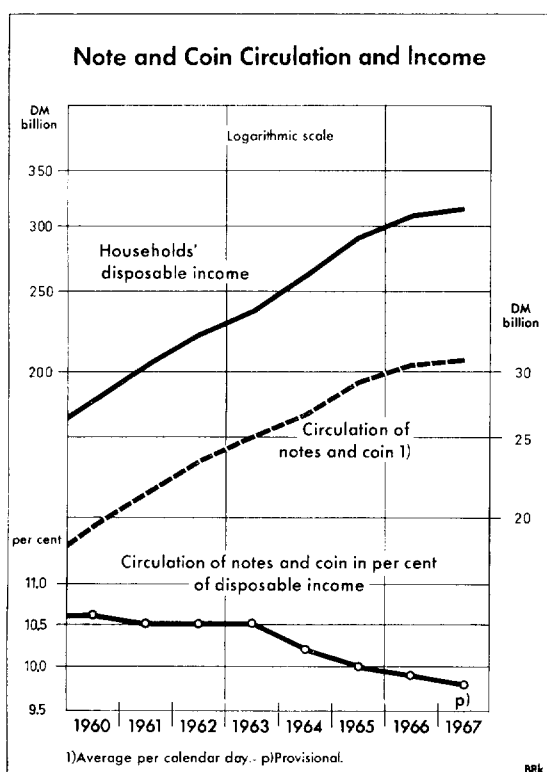
Position at end of year or month	Liquid reserves <sup>1)</sup> in per cent of		Liquid assets <sup>2)</sup> in per cent of	
	total deposits <sup>4)</sup>	not long-term <sup>3)</sup> deposits <sup>4)</sup>	total deposits <sup>4)</sup>	not long-term <sup>3)</sup> deposits <sup>4)</sup>
1963	12.5	19.7	5.5	8.7
1964	11.0	17.7	4.3	6.9
1965	8.7 <sup>5)</sup>	14.3 <sup>5)</sup>	3.6	5.9
1966				
March	7.5	12.5	3.6	6.0
June	7.1 <sup>6)</sup>	11.8 <sup>6)</sup>	3.3	5.5
September	7.7	12.9	3.4	5.7
December	8.6	14.3	3.5	5.9
1967				
February	10.5	17.7	5.3	9.0
March	11.0	18.6	5.7	9.6
June	10.8	18.2	6.0	10.1
September	12.5	21.0	7.1	11.9
December	12.8	21.2	7.3	12.0
1968				
February	14.5	24.3	8.7	14.6

<sup>1)</sup> Bank holdings of domestic Treasury bills, non-interest Treasury bonds (as far as included in the money-market regulation by the Deutsche Bundesbank), Storage Agency bills and prime bankers' acceptances, from end-December 1967 also including banks' holdings of public issuers' *Kassenobligationen* (medium-term notes) with a remaining life of up to 18 months, banks' short-term credit balances and money-market investments abroad, as well as unused rediscount quotas. — <sup>2)</sup> Liquid reserves less unused rediscount quotas. — <sup>3)</sup> Deposits not at long term within the meaning of Principle II are to be understood as comprising 40 per cent of the savings deposits and 90 per cent of the sight and time deposits. — <sup>4)</sup> Not including domestic interbank deposits. — <sup>5)</sup> Calculated with due allowance for the reduction of rediscount quotas with effect from 1 October 1965. — <sup>6)</sup> After reduction of rediscount quotas with effect from 1 May 1966.

reserves of the Bundesbank grew but slightly in 1967, it is true. On an overall view the banks did not, however, convert the inflows of foreign exchange into central bank assets, investing them rather abroad, *i. e.* exporting them. Altogether during 1967 foreign exchange transactions caused about DM 3.3 billion<sup>1)</sup> of liquid funds to accrue at the banks.

The cash dispositions of the central public authorities — Federal Government, *Länder*, Equalisation of Burdens Fund — also had an expansive effect on bank liquidity, although at not quite DM 1 billion in the whole year under report this effect was by no means as marked as that exerted by the inflow of foreign currency. (No account is here taken of the above-mentioned increase in the money-market paper issued by public authorities for financing their deficits and held among the banks' free liquid reserves.) In the course of the year, however, the movement in public cash transactions was quite varied. Thus, through the movements of money on the Bundesbank accounts of the authorities mentioned substantial amounts were withdrawn from the banks until the autumn of 1967 (almost DM 2.5 billion from January to September 1967), although in other years the seasonal rise in cash funds in the first quarter had often been reduced again in the second or third quarter. In 1967 public funds, on balance, did not flow into the money stream until the

Changing influence of public cash transactions



last quarter, although then the more freely (DM 3.4 billion). The principal reason for this movement, which at first counteracted the process of increasing liquidity, was that especially in the third quarter the expenditure of the central public authorities did not soon enough follow the procurement of funds by borrowing. The difficulties of starting an anti-cyclical fiscal policy, which thus also became marked in the field of liquidity policy, were accentuated in the third quarter of 1967 by individual *Länder* placing in their Bundesbank accounts the proceeds from loans and other borrowed funds they did not require immediately. The Bundesbank partly counteracted this immobilisation effect, undesirable as it was under the prevailing circumstances, by approving in special cases time-limited "deposit in any other manner" pursuant to Article 17 of the Bundesbank Law.

On the other hand bank liquidity was burdened in the year under report, as usual, by the increase in the circulation of notes and coin. Because of the relatively slight increase

Checked growth in note and coin circulation

in incomes, the public's additional demand for cash was but small, however, so that in 1967 the circulation of DM notes and coin increased by only some DM 1 billion as against DM 1.3 billion in 1966, when the growth in mass incomes had already begun to flatten out, and DM 1.6 to 1.9 billion from 1962 to 1965. In spite of the cyclical changes, in the year under report the circulation of notes and coin (calculated on the daily average) amounted to 'about one-tenth of the disposable income of households, as in the two preceding years. Thus experience has again shown that incomes and the demand for notes and coin move more or less parallel in the shorter run. In the longer run, however, evidently owing to the advance of wage payment on bank accounts, the quotient shows a steady slight decrease (see diagram).

<sup>1)</sup> In order to eliminate fortuitous fluctuations these and the following figures in the section on bank liquidity, unless otherwise stated, are based on the average figures of the four weekly bank-return dates of the months compared, in conformity with the detailed survey on page 50.

Freeing of liquidity through lowering of minimum reserves

Apart from the market tendencies towards increasing liquidity the repeated reductions in minimum reserve ratios were an important factor causing liquidity to grow in the year under report, as immobilised liquid resources were thus freed. In principle an easing effect was already to be expected from the abolition of the compensation privilege for the minimum reserve on external liabilities at the beginning of 1967, because this measure was calculated to direct more liquid funds into domestic money markets. It did not of course result in a release of minimum reserves, but on the contrary in additional immobilisation, which however occurred in a month with seasonally great loosening up of the money market, *viz.*, in January, and thus did not burden the market. In February the Bundesbank freed between DM 300 and 400 million of immobilised liquid funds by abolishing the special reserve ratios for liabilities to non-residents. Further minimum reserve reductions of a general nature followed — with effect from March, May, July, August and September 1967 — in the total amount of some DM 5.5 billion, due account being taken of the liquidity position as regards the extent and the time chosen for each of the steps. From February to September 1967 the Bundesbank thus released minimum reserves in the amount of almost DM 6 billion<sup>1)</sup>.

The overall minimum reserve required of the banks actually decreased by only about DM 3.5 billion in the calendar year 1967, however. This was in part due to the previously mentioned increase in the reserve requirement in connection with the abolition of the “compensation privilege” in January. The principal factor was, however, that through the growth in reserve-carrying liabilities the basis for calculating minimum reserves broadened continually. Sight deposits in particular, which are subject to the relatively highest ratios, showed accelerated growth from the spring of 1967 onwards and thus played an important part in the reductions in minimum reserve ratios being compensated to a marked extent by growth influences. In the last quarter of the year reviewed, when reserve ratios were not lowered any further, the minimum reserve was therefore again one of the factors contracting liquidity (by about DM 0.6 billion) after having contributed to the augmentation of free liquid reserves to the extent of DM 2.75 billion (net) in the third quarter.

Open-market policy instead of further minimum reserve relaxations — by including *Kassenobligationen* in money-market regulation...

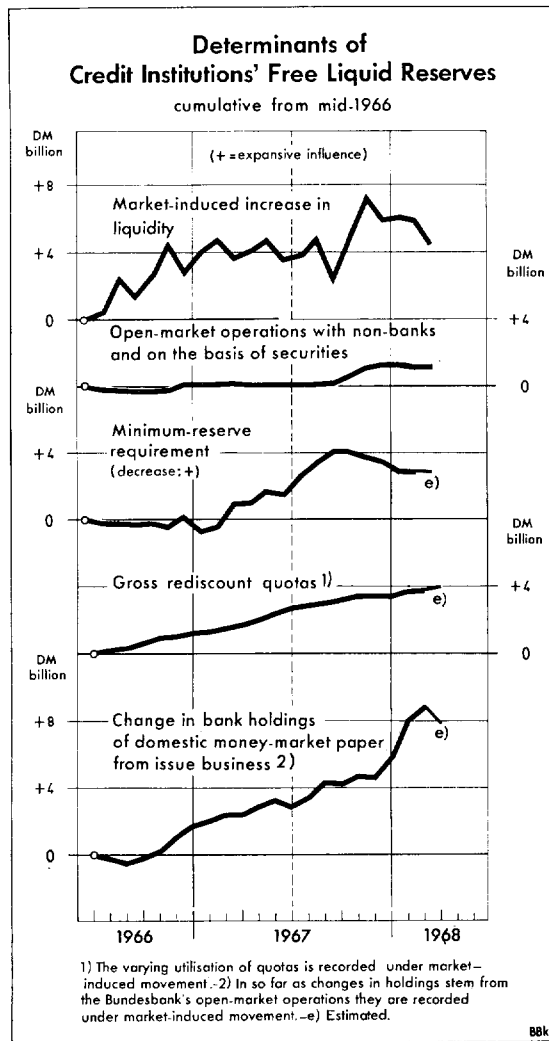
However, the money market was by no means left to its own devices in the last part of 1967. On the contrary, the Bundesbank continued its policy of relaxation in the autumn with measures of open-market policy. At the end of August the Bank had already declared its readiness to include *Kassenobligationen* (medium-term notes) of the Federal Government, Federal Railways and Federal Postal Administration with a residual period to maturity of 18 months and less in the “money-market regulation” procedure; in October this arrangement was extended to include *Kassenobligationen* of the *Länder*. This means that since then the Bundesbank has been prepared to purchase such paper in the same way as money-market paper with similar remaining maturities, so that the degree of liquidity of *Kassenobligationen* (and thereby their marketability) was substantially improved. As a result the banks’ liquid reserves rose at first by an estimated amount of DM 0.75 to 1 billion; but by the end of the year bank holdings of *Kassenobligationen* eligible for sale to the Bundesbank had dwindled to only DM 0.3 billion owing to repayments. Not until some little time has elapsed will greater amounts of such paper have reached a remaining period to maturity of 18 months again.

... by purchase of long-term securities...

From August, moreover, the Bundesbank for the first time channelled liquid funds into the market by purchasing long-term securities of the Federal Government and its Special Funds for its own account in order to continue the policy of greater liquidity on the money market, on the one hand, and on the other to obviate tendencies to hardening of the capital market and even to loosen up the market further if possible. However, larger purchases of long-term securities were not made until October 1967, *i. e.* immediately following the last month in which minimum reserve ratios were lowered. Altogether in the fourth quarter of 1967 liquidity in the amount of approximately DM 1.1 billion was newly created through security purchases by the Bundesbank.

<sup>1)</sup> The minimum reserves of the financial institutions of the Federal Postal Administration are included in this and the following figures, although not in the table.





Furthermore, as in former years, the Bundesbank contributed towards affording greater ease to the credit institutions in their short-term liquidity arrangements by selling or purchasing money-market paper, according to the requirements of the situation. However, the Bundesbank showed pronounced reserve in selling money-market paper to banks seeking to employ funds, as it did not wish to absorb liquidity again which it had itself made available in another way for the purpose of loosening up the money market; the release of funds was intended rather to take effect on the domestic money market to as great an extent as possible. Therefore from mid-February 1967 onwards the Bundesbank sold no more mobilisation paper to domestic banks for the time being; only the financial institutions of the Federal Postal Administration, which, pursuant to the directives laid down for their investments, are dependent on short-term money-market paper, continued to be supplied with mobilisation paper as far as absolutely necessary. While nevertheless, as shown in the following table (Item IV, 1), the overall short-term open-market transactions of the Bundesbank with credit institutions led to considerable amounts of liquid funds being absorbed at times, and also for the year as a whole (DM 2.1 billion), this was due not only to the above-mentioned sales of mobilisation

... by easing the short-term liquidity arrangements of the banks...

paper to the Federal Postal Administration, but principally to Bundesbank holdings of money-market paper from previous purchases reaching maturity. Their redemption by the issuers was bound to withdraw liquid funds from the banking system, in a similar way as when rediscounted bills of exchange held by the Bundesbank fall due and are honoured by the drawees. Other measures of credit policy more than offset this withdrawal of liquidity, however.

In the autumn of the year under review the Bundesbank revised its decision not to sell mobilisation paper, however, in order to cope with a threatening severe glut of money on the domestic market as far as necessary and to make the best possible use of the large liquidity surpluses for financing the end of the year. From 25 October onwards the Bundesbank generally resumed sales of mobilisation Treasury bills, but only with maturities until the year's end and at relatively low interest rates (at first 2%, later 1¾% and finally 1½%). In this way it was possible to "transpose" surplus liquid funds to December and thus at the same time keep them within the country. There would have been no point in leaving the banks' substantial funds available for investment entirely, or predominantly, to the "export of money", because it was clear from the outset that they would be needed again before the end of the year. The measure adopted by the Bundesbank, allowing more than DM 1 billion to be conserved for the purpose of easing the end-of-year situation, thus served at the same time to stabilise the short-term external assets of the banks, and especially to check repatriations of such funds before the year's end.

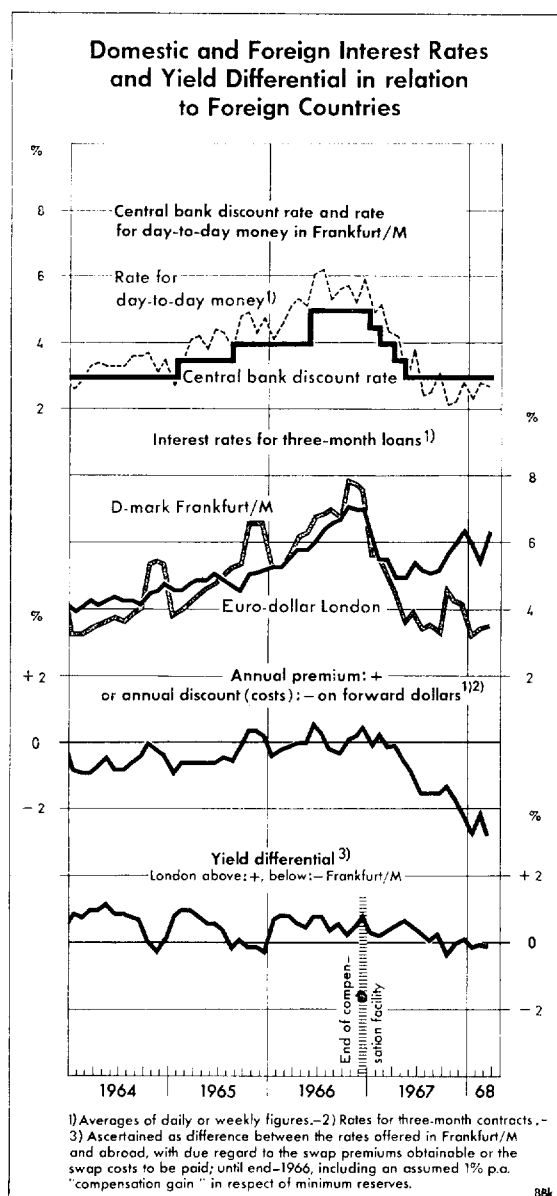
... and finally by "transposing" liquidity to periods of strain

## Bank Liquidity

Millions of DM

Item	1966	1967	1967			
			1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
I. Chiefly market-induced determinants						
Change during period, calculated from the averages of the four weekly bank-return dates of the months						
(1) Increase (—) or decrease (∓) in note and coin circulation <sup>1)</sup>	-1,277	-1,029	+1,377	- 326	- 382	-1,698
(2) Increase (—) or decrease (∓) in net balances of Federal Government, Länder and Equalisation of Burdens Fund with Bundesbank <sup>2)</sup>	+ 690	+ 980	-1,529	- 405	- 513	+ 3,427
(3) Increase (—) or decrease (∓) in net balances of other non-banks with Bundesbank <sup>3)</sup>	- 135	- 298	+ 11	- 17	- 251	- 41
(4) Increase (+) or decrease (—) in Bundesbank's net foreign exchange reserves <sup>4)</sup> and in credit institutions' short-term external assets <sup>5)</sup>	+ 2,782	+ 3,319	+ 819	+ 711	+ 452	+ 1,337
(5) Favourable (+) or unfavourable (—) movement of items in course of settlement in the Bundesbank's payment transactions	- 264	+ 407	- 29	+ 48	- 33	+ 421
(6) Other items	-1,010	- 305	+ 187	- 140	- 252	- 100
<b>Total (1 to 6)</b>	<b>+ 786</b>	<b>+ 3,074</b>	<b>+ 836</b>	<b>- 129</b>	<b>- 979</b>	<b>+ 3,346</b>
II. Changes in bank liquidity due to measures of credit policy						
(1) Minimum reserve policy						
Increase (—), decrease (∓) in minimum reserve required <sup>6)</sup>						
Increase (—) or decrease (+) in credit institutions' central bank balances largely determined thereby <sup>7)</sup>						
(2) Open-market operations with non-banks and on the basis of long-term securities, total of which						
Open-market purchases (+) or sales (—) of domestic long-term securities						
Sale (—) or repurchase (∓) of mobilisation paper by Bundesbank in open-market transactions with non-banks						
<b>Total (1 plus 2)</b>	<b>-1,028</b>	<b>+ 4,121</b>	<b>+ 1,570</b>	<b>+ 156</b>	<b>+ 2,951</b>	<b>- 556</b>
III. Rise (+) or decline (—) in credit institutions' freely available liquid funds due to the factors listed above (total I plus II)						
IV. Credit institutions' liquidity arrangements						
(1) Acquisition (—) or resale (+) of money-market paper under the Bundesbank's money-market regulation <sup>8)</sup>						
(2) Formation (—) or repatriation (+) of short-term external assets <sup>9)</sup> by credit institutions						
(3) Credit institutions' credit repayment to (—) or borrowing from (+) Bundesbank						
<b>Total (1 to 3; counteritem to III)</b>	<b>+ 242</b>	<b>- 7,195</b>	<b>- 2,406</b>	<b>- 27</b>	<b>- 1,972</b>	<b>- 2,790</b>
<i>Note:</i>						
Liquid assets of credit institutions			Position at end of period			
Holdings of money-market paper of domestic public issuers	3,413	9,448	5,724	5,734	7,396	9,448
Holdings of Storage Agency bills and prime bankers' acceptances <sup>10)</sup>	515	880	944	646	1,125	880
Short-term balances with foreign banks and investments in foreign money-market paper	3,517	7,483	5,492	6,848	7,475	7,483
<b>Total millions of DM <sup>11)</sup></b>	<b>7,445</b>	<b>17,811</b>	<b>12,160</b>	<b>13,228</b>	<b>15,996</b>	<b>17,811</b>
<b>per cent of total deposits <sup>12)</sup></b>	<b>3.5</b>	<b>7.3</b>	<b>5.7</b>	<b>6.0</b>	<b>7.1</b>	<b>7.3</b>

<sup>1)</sup> Including changes in credit institutions' cash holdings, which cannot be eliminated here. — <sup>2)</sup> In order to obtain the net position, only the cash advances taken in the form of book credits (but not the special credit according to Art. 20 par. 1 item 2 Bundesbank Law) have been deducted from the credit balances maintained with the Bundesbank by the authorities concerned. — <sup>3)</sup> Net balances of Federal Postal Administration, E.R.P. Special Fund, other public authorities, and private depositors. — <sup>4)</sup> After elimination of changes due to certain transactions of the Bundesbank on own account (e.g., foreign currency payments owing to DM drawings under agreements with the International Monetary Fund). — <sup>5)</sup> Balances with foreign banks and investments in foreign money-market paper (claims deriving from money exports). — <sup>6)</sup> Comparable with the other figures of the table only subject to qualification because of differences in the method of computation; cf. footnote <sup>7)</sup>. — <sup>7)</sup> The differences between changes in central bank balances and those in the required minimum reserve are mainly explained by the fact that banks are obliged to maintain the required minimum reserve only on the daily average for the month, whereas the central bank balances here recorded are calculated from averages of the four weekly bank-return dates of the months in accordance with the design of the table. The differences also reflect the tendency — almost exclusively due to technical reasons — for the banks' reserves to exceed the minimum required. — <sup>8)</sup> Only transactions concerning "mobilisation paper" and "other money-market paper" in so far as they affect the Bundesbank's holdings of such paper. — <sup>9)</sup> Excluding domestic interbank deposits. — <sup>10)</sup> Partly estimated.



As already mentioned, the banks invested abroad the bulk of their liquidity surpluses during the year under report. The credit balances at foreign banks and the foreign money-market paper held by the 90 credit institutions reporting weekly on their external position rose by DM 3.5 billion (on the average of the four weekly bank-return dates) in 1967. In spite of the abolition of the compensation privilege in respect of minimum reserves for external liabilities, already mentioned in another context, the export of money *pro rata temporis* was thus about twice as great as in the second half of 1966, when bank liquidity again began to increase. Interest rate considerations were mainly responsible for the preference given to the export of money in disposing of liquidity surpluses. Owing to the balance-of-payments surpluses and the economic setback, Germany found it easiest to pursue a policy of reducing interest rates, whereas other industrial countries were less able to carry out any loosening up or were even compelled to adopt the opposite course; it was therefore to be expected from the start that always part of the domestic surplus liquidity would go abroad, because more favourable conditions prevailed there than at home. In the course of the year the rates of interest on the Euro-dollar market especially tended more and more to exceed the comparable German rates. The advantage of external assets deriving purely from rates of interest was counterbalanced to a large extent by the simultaneous rise in the cost of forward exchange guarantee, it is true, so that the

Money-market investments abroad most advantageous, . . .

yield on such assets (after deduction of the guarantee cost) in most cases exceeded but slightly the domestic interest rate. Towards the end of the year the yield differential as against foreign countries disappeared or actually was negative at times. The fact that even in this situation the banks continued to export money was due on the one hand to the parties concerned frequently not considering the domestic money market to be sufficiently receptive. On the other hand importance attached to the Bundesbank several times offering forward exchange cover at more favourable rates than the market in order to counteract monetary unrest and, towards the end of the year, to prevent the banks' short-term external assets as far as possible from being repatriated. The object of these exchange guarantee transactions was not of course to encourage the export of money at any price. On the contrary, during the summer the Bundesbank had temporarily endeavoured to curb the export of money by increasing the margin between its buying and selling rates on the foreign exchange spot market, with the result that forward exchange cover for time deposits held abroad became more expensive. The Bundesbank proceeded on the principle that a too vigorous outflow of money to foreign countries would reduce the pressure on domestic

interest rates, desirable as that actually is, and thereby impede the necessary economic recovery.

... therefore only slow reduction in volume of rediscounts and advances

Through its policy of easy money the Bundesbank was at times the relatively cheapest source of funds, especially after it had lowered its advance rate independently with effect from 11 August 1967, bringing it to only  $\frac{1}{2}\%$  above the discount rate and thereby setting a narrower limit to upward fluctuations in the rate for day-to-day money. In these circumstances the banks husbanded their short-term external assets and when in temporary need of money resorted to Bundesbank credit fairly substantially (*e.g.*, most markedly in June 1967). In spite of the continued strong increase in liquidity within the banking system, the banks' liabilities deriving from Bundesbank credit assistance in 1967 thus decreased but moderately, *viz.*, by DM 1.6 billion, which was scarcely half as much as the simultaneous growth in short-term external assets. On the average of the four weekly bank-return dates in December 1967 the banks' indebtedness vis-à-vis the Bundesbank still amounted to DM 4.7 billion.

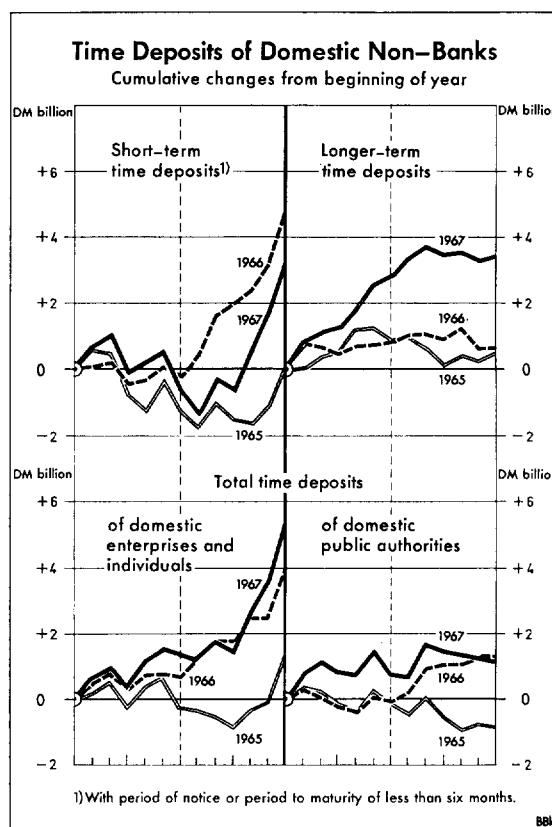
*(b) Monetary expansion under the influence of the policy of relaxation*

Re-acceleration of credit expansion

In 1967 there was a renewed marked acceleration in lending as the most important component of monetary expansion under the influence of the continued increase in the banking system's liquidity and of anticyclical fiscal policy. Including lending by the Bundesbank and loans granted to domestic non-banks in the form of purchasing securities, the overall volume of bank lending rose by DM 31 billion in 1967 as against DM 27.2 billion in 1966 and DM 32.2 billion in 1965, the boom year. It is characteristic of the special situation obtaining in the year under report through the combatting of recession by measures of fiscal policy that more credit was demanded only by public authorities, whereas private borrowing requirements were decidedly weak, at any rate in the first half of the year. The scissor movement discernible already in the last part of 1966 between the movement of bank lending to public authorities on the one hand and to enterprises and private individuals on the other thus continued in more marked form for some time in 1967, as the diagram on page 54 shows.

Borrowing requirements of enterprises partly superseded by increase in external liquidity

The further decline in the private demand for credit during the first half of the year under review may have been connected to a large extent with the slackening in economic activity, since not only investments in fixed assets, but more especially inventory investments, which require substantial credit, were to a particularly great extent restricted in view of the uncertainty concerning the effect of the transition to the value-added tax on existing stocks, and in many cases stocks were actually reduced. Furthermore, private demand for credit clearly remained slight also because in 1967 large amounts of liquid funds continued to flow in from abroad, replacing to some extent borrowing which would otherwise have been necessary. As will be explained elsewhere, the surplus on the balance of payments was only relatively small, it is true, as it was forced down to a few hundred million Deutsche Mark by the large export of capital (also by enterprises). If, however, the net export of money



*Movement and Determinants of the Volume of Money \*)*

Increase (+) or decrease (—) in millions of DM

I t e m	Year	Total	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	January and February of following year
I. Bank lending to domestic non-banks (including acquisition of securities), total	1967	+ 31,007	+ 2,967	+ 6,486	+ 7,597	+ 13,957	+ 3,777 P)
	1966	+ 27,207	+ 5,770	+ 8,095	+ 5,213	+ 8,129	+ 2,305
(1) Deutsche Bundesbank <sup>1)</sup>	1967	+ 568	— 1,633	— 172	— 248	+ 2,621	— 1,829
	1966	+ 1,030	— 1,106	+ 259	+ 14	+ 1,891	— 975
(2) Credit institutions (not including Bundesbank <sup>2)</sup> <sup>3)</sup>	1967	+ 30,439	+ 4,600	+ 6,658	+ 7,845	+ 11,336	+ 5,606 P)
	1966	+ 26,177	+ 6,876	+ 7,836	+ 5,227	+ 6,238	+ 3,280
Credit to domestic business enterprises and individuals	1967	+ 15,034	— 511	+ 4,588	+ 3,846	+ 7,111	+ 3 P)
	1966	+ 19,405	+ 5,157	+ 7,586	+ 3,616	+ 3,046	— 898
Credit to German public authorities	1967	+ 15,405	+ 5,111	+ 2,070	+ 3,999	+ 4,225	+ 5,603 P)
	1966	+ 6,772	+ 1,719	+ 250	+ 1,611	+ 3,192	+ 4,178
II. Formation of monetary capital at credit institutions from domestic sources, total <sup>4)</sup>	1967	+ 28,869	+ 6,431	+ 4,260	+ 4,532	+ 13,646	+ 9,780 P)
	1966	+ 28,593	+ 5,728	+ 5,248	+ 6,754	+ 10,863	+ 6,015
among which: Short-term time deposits <sup>5)</sup>	1967	+ 3,319	— 48	— 592	+ 92	+ 3,867	+ 233 P)
	1966	+ 4,755	— 438	+ 231	+ 2,213	+ 2,749	+ 1,052
III. Excess of lending or of monetary capital formation (I less II)	1967	+ 2,138	— 3,464	+ 2,226	+ 3,065	+ 311	— 6,003 P)
	1966	— 1,386	+ 42	+ 2,847	— 1,541	— 2,734	— 3,710
IV. Net claim of Bundesbank and other banks on foreign countries <sup>6)</sup>	1967	+ 5,224	+ 3,630	+ 470	+ 1,229	— 105	+ 3,354 P)
	1966	+ 2,518	+ 348	+ 423	+ 1,443	+ 304	+ 3,332
V. Other influences (not assignable to specific items)	1967	+ 966	— 3,103	— 29	— 1,825	+ 5,923	— 2,101 P)
	1966	— 111	— 2,225	— 734	— 1,863	+ 4,711	— 2,059
VI. Central bank deposits of German public authorities (decrease: +)	1967	— 5	— 897	+ 425	— 958	+ 1,425	— 1,704 P)
	1966	+ 55	— 2,396	+ 1,002	+ 1,050	+ 399	— 719
VII. Note and coin circulation <sup>7)</sup> and sight deposits of domestic non-banks except German public authorities' central bank deposits (III to VI, net)	1967	+ 8,323	— 3,834	+ 3,092	+ 1,511	+ 7,554	— 6,454 P)
	1966	+ 1,076	— 4,231	+ 3,538	— 911	+ 2,680	— 3,156
of which:							
Note and coin circulation <sup>7)</sup>	1967	+ 654	— 596	+ 699	+ 82	+ 469	— 864 P)
	1966	+ 1,202	+ 231	+ 680	+ 633	— 342	— 803
Sight deposits	1967	+ 7,669	— 3,238	+ 2,393	+ 1,429	+ 7,085	— 5,590 P)
	1966	— 126	— 4,462	+ 2,858	— 1,544	+ 3,022	— 2,353
Note:							
"Volume of money" including short-term time deposits <sup>8)</sup>	1967	+ 11,642	— 3,882	+ 2,500	+ 1,603	+ 11,421	— 6,221 P)
	1966	+ 5,831	— 4,669	+ 3,769	+ 1,302	+ 5,429	— 2,104

\*) The data in this survey are based on the "Consolidated Condition Statement for the Credit Institutions including the Deutsche Bundesbank"; statistical changes have been eliminated. — <sup>1)</sup> Including special credit to Federal Government for fulfilment of its obligations to international institutions, as well as claims on Federal Government arisen on the acquisition of claims in respect of post-war economic aid and of claims from B.I.S., and on the alteration of the exchange parity. — <sup>2)</sup> For further breakdown see Table "Lending by Credit Institutions (other than Bundesbank) to Non-Banks". — <sup>3)</sup> For first half of 1966, after elimination of the changes resulting from depreciation on bond holdings. — <sup>4)</sup> For further breakdown see Table "Liabilities of Credit Institutions (other than Bundesbank) to Non-Banks". — <sup>5)</sup> Time deposits with period of notice or period of maturity of less than 6 months. — <sup>6)</sup> Comprising short, medium and long-term items including I.B.R.D. bonds taken by Bundesbank. — <sup>7)</sup> Excluding credit institutions' cash holdings, but including DM notes and coin held abroad. — <sup>8)</sup> Provisional.

and capital by the banking system is eliminated from the overall export of capital, it is seen that some DM 4.0 billion net flowed in to the non-bank sector from abroad in the year under report as against DM 1.3 billion in 1966<sup>1)</sup>.

The formation of monetary capital at the banks from domestic sources, which counteracts the expansive influences on the volume of money described, at approximately DM 29 billion in 1967 was about as great as in 1966, but greater than in 1965 (DM 27.3 billion) and 1964 (DM 25.6 billion). Whereas in 1966, however, the formation of monetary capital was for a time greatly swollen by the

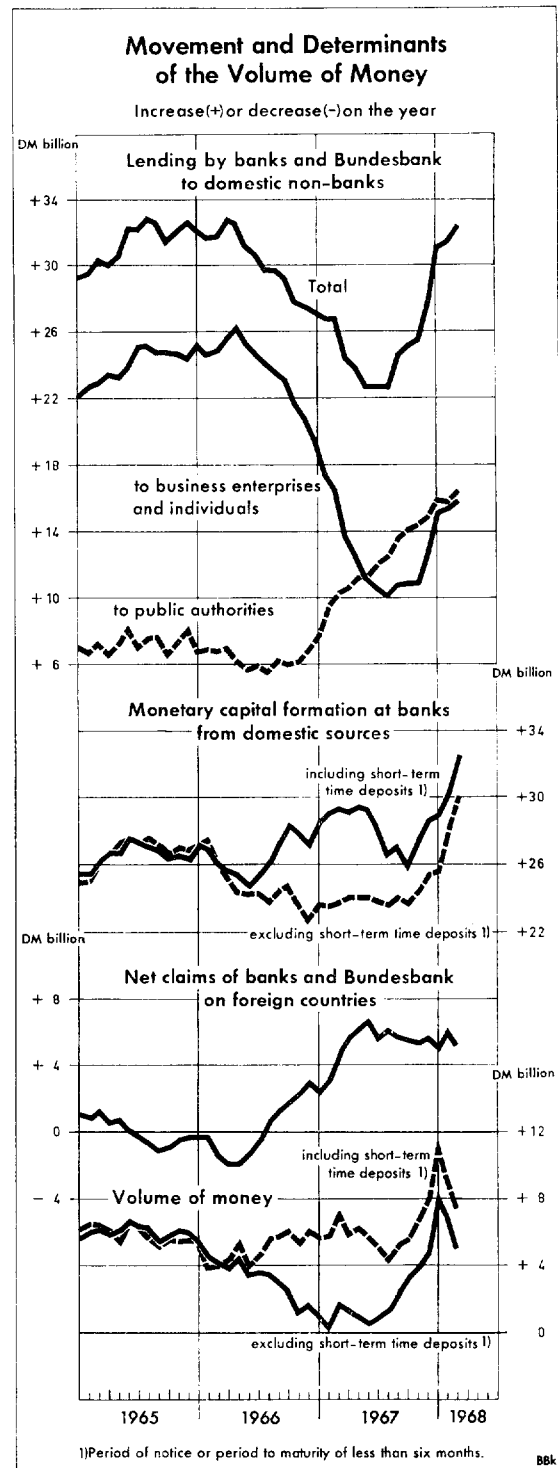
Continued large formation of monetary capital at banks

<sup>1)</sup> The "net claim of Bundesbank and other banks on foreign countries", shown as Item IV in the table on the Movement and Determinants of the Volume of Money, includes not only central foreign exchange reserves and the banks' net export of money, but also the long-term capital export of the credit institutions, especially the development aid loans of the Reconstruction Loan Corporation. The latter are not included in the above-mentioned figures, as they represent mere transmission of public funds, that is really an export of capital by non-banks.

transfer of sight deposits to short-term time accounts not subject to fixed rates of interest, special influences such as this clearly no longer were of significance in the year under report. While the overall figure was the same, the "quality", at least of the monetary capital accumulated in deposit accounts, was better than in 1966, which on the other hand of course also indicates more pronounced restraint in the arrangements of enterprises. This becomes clear if the accruals of short-term time deposits (up to less than six months) are included in the "volume of money" rather than in the formation of monetary capital, which seems all the more justifiable as nowadays still more than in former years these funds must be regarded as "quasi-money", which large depositors in particular keep in as remunerative a form as possible for the purpose of "economising" their overall cash holdings without any substantial relinquishment of liquidity. Without the short-term time deposits of domestic non-banks, the formation of monetary capital at banks from domestic sources amounted to DM 25.6 billion in 1967, thus being almost DM 2 billion greater than in 1966 (DM 23.8 billion), but smaller than the comparable figure for 1965 (DM 27.2 billion).

Vigorously growing financial reserves of enterprises; large net indebtedness of public authorities

Among the individual components of longer-term monetary capital formation, longer-term time deposits (*i.e.* those with a period of notice or maturity of six months and more) showed particularly vigorous growth, by DM 3.4 billion, which is between five and seven times as much as in each of the three preceding years. By far the greater part of this — almost DM 2.3 billion — flowed into the accounts of private enterprises (households maintain practically no such deposits). With short-term balances included, enterprises' time deposits grew by DM 5.5 billion. The formation of substantial reserves on time accounts with banks by private enterprises was thus an especially characteristic feature of deposit business in 1967. Since on the other hand, as has been shown, the private sector had less recourse to bank loans than in former years, the increase in the net indebtedness of domestic enterprises and private individuals towards the banking system was much less in the year under review than usual. Conversely, the financial reserves maintained on time accounts by public authorities increased comparatively moderately in 1967, whereas their indebtedness to banks rose sharply. That is the result of the financing of cyclical deficits in revenue and of additional capital ex-



penditure by public authorities which last year took over the expansive part normally played by enterprises.

The marked increase in the liquidity of trade and industry, to which attention has already been drawn, is all the more accentuated if the movement in actual money holdings is also taken into consideration. The volume of money<sup>1)</sup> rose by DM 8.3 billion in 1967, this rise being more vigorous than ever before (1966: + DM 1.1 billion; 1965: + DM 5.5 billion). Even the previous greatest increase of almost DM 7.5 billion, recorded in 1961, was thereby exceeded. Whereas the growth in the circulation of notes and coin was of conspicuously small importance (+ DM 650 million), there was an exceptionally vigorous rise of DM 6.75 billion in the sight deposits of enterprises and private individuals. Although the growth of sight deposits of enterprises and private individuals thus far exceeded the extent of former years, the rise in the private sector's sight and short-term time deposits together was still more striking. These increased by no less than DM 10.0 billion in the year under report compared with about DM 4.5 billion in 1961, the year in which they had hitherto shown the greatest growth. In this way a wide margin has been created for future financing of the business community which will make it independent of borrowing to a certain extent, at least for the time being.

Strong growth in the volume of money in spite of vigorously rising holdings of quasi-money

*(c) Special trends in lending business*

Loans of the Bundesbank to public authorities (including all claims from special transactions and from domestic securities) increased in the past year by only just on DM 0.6 billion after having grown by more than DM 1 billion in 1966. The slighter recourse of public authorities to central bank credit is explained principally by the fact that in 1967 the Federal Government among other things reduced its obligations towards the Bundesbank in respect of the latter's acquisition of claims arising from post-war economic aid by DM 530 million, as planned, whereas in 1966 these debts had on balance increased by approximately DM 260 million due to the Bundesbank taking over the residual claim of the U.S.A. on the Federal Government. On the other hand the Federal Government and *Länder* had greater recourse to cash advances of the Bundesbank. At the end of 1967 they had taken book credits at the Bundesbank in the amount of some DM 2.2 billion as against only half as much at the end of 1966 (on the year's average these credits were smaller however than in 1966). Only little use needed accordingly to be made of the substantially widened margin for such credits created with effect from 30 November 1967 by raising the credit ceiling for the Federal Government and the *Länder* to DM 8.4 billion (that of the Federal Government alone to DM 6 billion). Finally, from August 1967 onwards the Bundesbank, as already mentioned, purchased about DM 1.25 billion of long-term securities of the Federal Government, the Federal Railways and the Federal Postal Administration in the course of its open-market operations and thus indirectly granted credits to public authorities. On the other hand the Bundesbank's holdings of short-term open-market paper of official issuers, amounting to over DM 0.7 billion at the end of 1966, were reduced to zero as the liquidity of the banking system was increasing, so that the overall "credit effect" resulting from the open-market transactions was limited to about DM 0.5 billion.

Smaller increase in Bundesbank lending to public authorities ...

The new indebtedness of public authorities — budgets and, especially, the Federal Railways and the Federal Postal Administration — to the banks other than the Bundesbank was on the other hand all the greater, as already indicated. Lending by credit institutions to these authorities (including loans granted in the form of acquiring public authorities' securities) increased by DM 15.4 billion in 1967, or more than twice as much as in preceding years (DM 6.8 billion in 1966; DM 7.4 billion in 1965; DM 7.7 billion in 1964)<sup>2)</sup>. The greatest increase in absolute terms was in long-term loans (by DM 6.25 billion), which were granted partly from funds raised by the issuing institutions

... with public authorities' indebtedness to banks being all the greater

<sup>1)</sup> Circulation of notes and coin (excluding cash holdings of banks) and sight deposits of domestic non-banks excluding central bank balances of public authorities.

<sup>2)</sup> In the section of this Report dealing with public authorities, loans to the Federal Railways and the Federal Postal Administration are not counted as loans to public authorities, as they are here.

*Lending by Credit Institutions (other than Bundesbank) to Non-Banks*

Millions of DM

Item	Yearly figures			Quarterly figures					End-of-year position
	1965	1966	1967	Year	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	
Increase (+) or decrease (—)									
I. Lending (including acquisition of securities) to <i>domestic</i> non-banks, total	+32,682	+26,177	+30,439	1967 + 4,600 1966 + 6,876	+ 6,658 + 7,836	+ 7,845 + 5,227	+11,336 + 6,238	334,668 304,270	
(1) Short-term lending, total	+ 7,650	+ 6,037	+ 6,628	1967 — 515 1966 + 1,861	+ 2,164 + 2,929	+ 1,843 + 153	+ 3,136 + 1,094	81,904 75,303	
(a) to business enterprises and individuals	+ 7,327	+ 5,103	+ 1,948	1967 — 1,728 1966 + 1,703	+ 1,775 + 3,415	+ 452 — 57	+ 1,449 + 42	72,770 70,849	
(b) to public authorities	+ 323	+ 934	+ 4,680	1967 + 1,213 1966 + 158	+ 389 — 486	+ 1,391 + 210	+ 1,687 + 1,052	9,134 4,454	
among which: Holdings of domestic Treasury bills and non-interest Treasury bonds (without mobilisation paper)	+ 866	+ 867	+ 4,959	1967 + 1,389 1966 + 42	+ 394 — 481	+ 1,582 + 300	+ 1,594 + 1,006	8,348 3,389	
(2) Medium-term lending, total	+ 4,264	+ 5,296	+ 1,485	1967 + 62 1966 + 1,352	+ 701 + 1,609	— 240 + 1,285	+ 962 + 1,050	33,620 32,135	
(a) to business enterprises and individuals	+ 3,362	+ 3,716	+ 717	1967 — 448 1966 + 955	+ 464 + 1,441	+ 40 + 939	+ 661 + 381	28,993 28,316	
(b) to public authorities	+ 902	+ 1,580	+ 768	1967 + 510 1966 + 397	+ 237 + 168	— 280 + 346	+ 301 + 669	4,627 3,819	
(3) Long-term lending, total	+19,568	+14,127	+18,989	1967 — 3,828 1966 + 3,429	+ 3,153 + 3,099	+ 4,800 + 3,885	+ 7,208 + 3,714	201,137 182,148	
(a) to business enterprises and individuals	+13,960	+10,262	+12,741	1967 + 2,043 1966 + 2,531	+ 2,243 + 2,471	+ 3,394 + 2,846	+ 5,061 + 2,414	152,597 139,856	
(b) to public authorities	+ 5,608	+ 3,865	+ 6,248	1967 + 1,785 1966 + 898	+ 910 + 628	+ 1,406 + 1,039	+ 2,147 + 1,300	48,540 42,292	
(4) Covering claims	+ 199	+ 204	+ 173	1967 + 107 1966 + 98	+ 42 + 42	+ 27 + 52	— 3 + 12	2,986 2,813	
(5) Holdings of domestic securities and syndicate participations (except bank bonds) <sup>1)</sup>	+ 1,001	+ 513	+ 3,164	1967 + 1,118 1966 + 136	+ 598 + 157	+ 1,415 — 148	+ 33 + 368	15,021 11,871	
II. Lending (including acquisition of securities) to <i>foreign</i> non-banks, total	+ 1,517	+ 801	+ 3,390	1967 + 212 1966 + 21	+ 831 + 186	+ 498 + 352	+ 1,849 + 242	14,119 10,730	
(1) Short-term lending, total	+ 209	— 676	+ 1,680	1967 — 67 1966 — 409	+ 383 — 70	+ 234 + 44	+ 1,130 — 241	2,801 1,121	
among which: Money-market paper of foreign public authorities	— 41	— 586	+ 767	1967 + 16 1966 — 380	+ 231 — 56	— 88 + 107	+ 608 — 257	991 224	
(2) Medium and long-term lending	+ 1,205	+ 1,521	+ 1,470	1967 + 186 1966 + 375	+ 457 + 241	+ 256 + 389	+ 571 + 516	10,532 9,062	
among which: to foreign public authorities	+ 786	+ 964	+ 1,086	1967 + 169 1966 + 193	+ 273 + 209	+ 233 + 202	+ 411 + 360	7,165 6,079	
(3) Holdings of foreign securities and syndicate participations	+ 103	— 44	+ 240	1967 + 93 1966 + 55	— 9 + 15	+ 8 — 81	+ 148 — 33	786 547	
III. Lending (including acquisition of securities) to <i>domestic and foreign</i> non-banks, total (sum total of respective items under I and II)	+34,199	+26,978	+33,829	1967 + 4,812 1966 + 6,897	+ 7,489 + 8,022	+ 8,343 + 5,579	+13,185 + 6,480	348,787 315,000	
(1) Short-term lending	+ 7,859	+ 5,361	+ 8,308	1967 — 582 1966 + 1,452	+ 2,547 + 2,859	+ 2,077 + 197	+ 4,266 + 853	84,705 76,424	
(2) Medium and long-term lending	+25,037	+20,944	+21,944	1967 + 4,076 1966 + 5,156	+ 4,311 + 4,949	+ 4,816 + 5,559	+ 8,741 + 5,280	245,289 223,345	
(3) Covering claims	+ 199	+ 204	+ 173	1967 + 107 1966 + 98	+ 42 + 42	+ 27 + 52	— 3 + 12	2,986 2,813	
(4) Holdings of securities and syndicate participations (except domestic bank bonds) <sup>1)</sup>	+ 1,104	+ 469	+ 3,404	1967 + 1,211 1966 + 191	+ 589 + 172	+ 1,423 — 229	+ 181 + 335	15,807 12,418	

<sup>1)</sup> For December 1965 and first half of 1966 changes in holdings of domestic bonds after elimination of depreciation owing to loss in value during 1965.



through sale of communal bonds on the bond market. In the year under report the banks also increased their portfolio holdings of public loans and medium-term notes (*Kassenobligationen*) by DM 3.5 billion (after stagnation in such holdings during 1966) and, in particular, additionally acquired Treasury bills and non-interest Treasury bonds of domestic issuers for almost DM 5 billion (as against DM 870 million in each of the two preceding years).

The demand for credit by enterprises and private individuals, on the other hand, was extraordinarily weak in the first part of 1967; not until August did any revival set in. On an overall view, during the year under report bank lending to enterprises and individuals increased by DM 15.0 billion (including the acquisition of securities of private enterprises) compared with DM 19.4 billion in 1966 and DM 25.3 billion in the boom year 1965. At the same time the volume of credit increased by DM 8.7 billion less in the first half of 1967 than in the corresponding period of 1966, but by DM 4.3 billion more in the second half.

Private demand for credit intensified at first in the case of long-term loans. As early as May 1967 these loans again increased more strongly than in the same period of 1966. The rise for the year as a whole amounted to DM 12.75 billion, or DM 2.5 billion more than in the previous year. In the last eight months of 1967 alone the expansion was greater by as much as DM 3.25 billion than in the corresponding months of the year before. Borrowers obviously have expected no further lowering of interest rates since the early summer of 1967 and consequently abandoned their restraint towards taking long-term loans. In many cases enterprises evidently consolidated their short and medium-term indebtedness to banks by taking long-term loans. As revealed in detail by the table showing the movement in lending classified by borrowers or purposes, in the private sector of the economy during 1967 it was especially industries and handicrafts that took more long-term loans from banks than in the previous year. On the other hand fewer funds flowed out for housebuilding purposes than in former years. However, substantially more mortgages for housebuilding were promised by the issuing institutions and savings banks than in 1966 (for DM 9.8 billion as against DM 7.5 billion in 1966), so that loans for housebuilding will increase again in future.

Since the summer of 1967 short-term loans, too, were again rather more strongly demanded by enterprises and individuals than in the first part of the year, and in the last two months of 1967 recourse to banks was even extraordinarily great. Thus in the whole of 1967 such short-term credits increased by almost DM 2 billion (compared with over DM 5 billion in 1966, however, and DM 7.3 billion in 1965), although in the first half of the year there was scarcely any rise on balance. In the fourth quarter of 1967 alone they rose by over DM 1.4 billion. The revival may have been due partly to the cyclical recovery in the latter part of the year, but in a certain degree also to special factors. For technical reasons connected with bookkeeping and payments many enterprises seem to have insisted on reducing their receivables before introduction of the value-added tax, which was possible on a broad basis only with the aid of additional bank loans. Furthermore, in individual cases imports may have been advanced and exports postponed before the turn of the year in view of the transition to the value-added tax. If additional bank credits were required for this purpose too, then only temporarily. In fact the volume of short-term lending to enterprises and individuals decreased substantially in January 1968 as a reaction to these processes, but the rise in the preceding two months was only partly compensated by the fall in January; a cyclical increase in the demand for credit therefore still plainly operated.

Under the influence of the continued increase in the liquidity of the banking system and the "shortage of debtors", purchases of securities by the credit institutions attained an unprecedented level in the year under review. Total bank holdings of domestic and foreign securities and syndicate participations grew by DM 11.25 billion in 1967, which was more than twice as much as in former "peak years" of security acquisitions. The banks' large purchases of securities must be regarded in part as a "backlog process", however, following on the particularly small volume of investments in the year 1966 (+ DM 1.9 billion). As far as banks bought securities of official or private issuers

Demand for credit by enterprises and private individuals still very weak until the summer

Change occurs first in long-term lending to enterprises and private individuals

Noticeably accelerated growth also in short-term loans to enterprises and individuals towards end of year

Sharp increase in security investments by credit institutions

*Breakdown of Medium and Long-Term Lending by Borrowers or Purposes \*)*

Millions of DM

Year	Total lending to non-banks	Industries and handicrafts, total	among which:										Residential building	Public utilities	Trade	Agriculture, forestry, and water regulation and supply*)	Other public borrowers <sup>3)</sup>	Other branches of economic activity and other borrowers <sup>4)</sup>	Lending by instalment credit institutions <sup>5)</sup>
			Mining	Iron and metal producing industries and foundries	Steel construction, machine and vehicle building	Electrical engineering, precision instruments and optical goods	Chemical and pharmaceutical industries	Food, beverages and tobacco	Textiles, leather, footwear, and clothing	Industries working for building <sup>1)</sup>									
<b>Medium and long-term lending</b>																			
End-of-year figures																			
1966	219,656	36,145	2,277	3,463	6,063	2,584	3,011	3,132	2,440	3,389	84,068	6,000	8,391	18,241	36,593	26,783	3,435		
1967	241,349	38,484	2,404	3,765	5,871	2,350	3,642	3,396	2,536	3,559	90,756	6,694	9,156	19,255	43,392	30,066	3,546		
Increase (+), decrease (-), during year <sup>6)</sup>																			
1964	+ 22,968	+ 2,647	+ 108	+ 198	+ 107	- 39	+ 350	- 252	+ 296	- 422	+ 9,458	+ 756	+ 436	+ 1,847	- 4,792	- 2,829	- 203		
1965	- 24,711	+ 3,855	+ 113	+ 312	+ 988	+ 315	+ 157	- 312	+ 149	- 530	+ 8,596	+ 549	+ 1,104	+ 2,061	+ 5,221	+ 3,054	- 271		
1966	- 20,954	+ 3,785	+ 81	+ 257	+ 874	+ 414	+ 603	- 171	+ 137	- 309	+ 7,299	+ 395	+ 744	+ 1,447	+ 4,591	+ 2,489	- 204		
1967	- 21,693	+ 2,339	+ 127	+ 302	- 192	- 234	+ 631	- 264	+ 96	- 170	+ 6,688	+ 694	+ 765	+ 1,014	+ 6,799	+ 3,283	- 111		
<b>Medium-term lending</b>																			
End-of-year figures																			
1966	32,445	10,615	715	1,140	2,076	1,122	1,310	640	579	999	3,243	787	2,314	1,103	3,163	7,810	3,410		
1967	33,997	9,928	853	1,225	1,368	741	1,385	686	528	934	3,594	786	2,257	1,030	3,831	9,066	3,505		
Increase (+), decrease (-), during year <sup>6)</sup>																			
1964	+ 2,402	+ 250	+ 139	- 37	- 34	- 78	+ 135	+ 34	+ 61	+ 67	+ 444	+ 147	+ 72	+ 388	+ 159	+ 742	- 200		
1965	+ 4,121	+ 1,361	+ 103	+ 142	+ 477	+ 193	+ 117	+ 66	+ 16	+ 186	+ 225	+ 228	+ 335	+ 58	+ 708	+ 937	- 269		
1966	+ 5,229	+ 2,210	+ 37	+ 83	+ 583	+ 374	+ 433	+ 83	+ 126	+ 128	+ 329	+ 189	+ 171	+ 172	+ 1,200	+ 762	- 196		
1967	+ 1,552	- 687	+ 138	- 85	- 708	- 381	+ 75	+ 46	- 51	- 65	+ 351	- 1	- 57	- 73	+ 668	+ 1,256	+ 95		
<b>Long-term lending</b>																			
End-of-year figures																			
1966	187,211	25,530	1,562	2,323	3,987	1,462	1,701	2,492	1,861	2,390	80,825	5,213	6,077	17,138	33,430	18,973	25		
1967	207,352	28,556	1,551	2,540	4,503	1,609	2,257	2,710	2,008	2,625	87,162	5,908	6,899	18,225	39,561	21,000	41		
Increase (+), decrease (-), during year <sup>6)</sup>																			
1964	+ 20,566	+ 2,397	- 31	+ 235	+ 141	- 39	+ 215	+ 218	+ 235	+ 355	+ 9,014	+ 609	+ 364	+ 1,459	- 4,633	- 2,087	- 3		
1965	+ 20,590	+ 2,494	+ 10	- 170	+ 511	+ 122	+ 40	+ 246	+ 133	+ 344	+ 8,371	+ 321	+ 769	+ 2,003	+ 4,513	- 2,117	- 2		
1966	+ 15,725	+ 1,575	+ 44	- 174	+ 291	+ 40	+ 170	+ 88	+ 11	+ 181	+ 6,970	+ 206	+ 573	+ 1,275	+ 3,391	+ 1,727	- 8		
1967	+ 20,141	+ 3,026	- 11	+ 217	+ 516	- 147	+ 556	+ 218	+ 147	+ 235	+ 6,337	+ 695	+ 822	+ 1,087	+ 6,131	+ 2,027	- 16		

\*) Not including Saarland. — <sup>1)</sup> Stones and earths, flat glass, sawmills and woodworking, building and allied trades. — <sup>2)</sup> The credits granted by those credit cooperatives (Raiffeisen) which are not included in the banking statistics also probably represent to a relatively large extent credits to agriculture. — <sup>3)</sup> This includes all credits granted to public authorities in so far as they are not shown among the individual branches of economic activity or industries, as well as the credits granted for the building and maintenance of roads, road bridges, harbours and waterways. — <sup>4)</sup> Credits to enterprises engaged in transport and communications, to the hotel and tourist industry and to "other private borrowers". — <sup>5)</sup> Including credits granted to traders for financing their range of goods, and small amounts of "other credits". — <sup>6)</sup> Statistical changes have been eliminated.

of the non-bank sector, the lending involved is included in the above figures on the overall expansion of lending. As usual, the credit institutions purchased mostly bank bonds, however, thus enabling other banks for their part to grant long-term loans to non-banks. The different groups of institutions of course participated to greatly varying extents in the acquisition of securities by the banking system as a whole. In absolute terms it was the savings banks — for a long time the main purchasers of securities — which increased their holdings the most (by almost DM 4.7 billion or 30 per cent of the end-1966 position). In 1967 the commercial banks additionally took into their portfolios securities and syndicate participations in the amount of DM 2 billion, building up their holdings by 20 per cent. At the big banks alone the increase was relatively weak at DM 0.5 billion, or hardly 12 per cent, especially when compared with the growth rate of some 28 per cent for security holdings of all banks reporting monthly. Further details concerning the scope and economic importance of the purchase of securities by banks are given in the section dealing with the capital market.

*(d) Trends on the liabilities side*

The dominating part in credit institutions' business on the liabilities side was played again by the inflow of savings deposits, in spite of the unusually large growth in sight and time deposits already discussed. At DM 17.4 billion in the year under report it was more than DM 1 billion greater than in 1966, only the same amount of savings deposits having accrued in 1966 as in 1965. More than DM 5.5 billion of interest was credited to savings accounts in 1967 as compared with DM 5.1 billion in 1966. Thus interest credited contributed substantially to the increase in savings deposits in the year under review, but was not the decisive factor. The savings deposits of domestic enterprises and public authorities, in particular, rose relatively more vigorously than in previous years, although they still are of but little importance among overall accruals. Nevertheless, they grew by a total of DM 1.2 billion in 1967 (as against only roughly DM 0.5 billion in the previous year) to DM 11.6 billion. Thus they accounted for the greatest part of the increase in overall accruals of savings deposits, though their share in overall holdings is still modest. Domestic private individuals maintained savings deposits which were DM 16.2 billion greater at the end of 1967 than a year before, compared with an increase by DM 15.8 billion in 1966. Their savings deposits with the credit institutions reporting monthly attained the figure of DM 132 billion at the end of the year<sup>1)</sup>. The increase in saving on accounts in general was thus only moderate in 1967, which may be due mainly to the fact that the growth in incomes also was but slight, and furthermore relatively large sums were expended on consumer goods towards the end of the year (in expectation of price rises as a result of the impending introduction of the value-added tax). Savings deposits with benefit of premiums, which are included in the amounts mentioned, increased by DM 2.43 billion in the year under report. In absolute terms this was slightly more than in 1966 (+ DM 2.39 billion), although the growth rate of these tied deposits, at 19 per cent, again was rather smaller than in preceding years. The restriction on savings promotion at the end of 1966 (which in effect confronted savers with choosing the form in which they wished to continue state-privileged saving) seems so far to have had hardly any adverse effect on the amounts saved on deposits carrying the benefit of premiums, although the number of contracts newly concluded appears to have greatly declined in 1967.

Stronger growth in savings deposits

In the year reviewed, under the influence of more severe competition among the banks, efforts to stimulate savings activity were intensified through the development of new forms of saving and savings plans. Among these the most prominent place was taken by the offer of savings securities or savings bonds, especially on the part of the savings banks and the credit institutions of the cooperative sector, but also by other banks. These instruments generally take the form of non-negotiable registered bonds, in many cases issued at a discount, so that by the end of their periods to maturity of mostly between 4 and 10 years they would bring interest at the rate of 6% p. a. or more. According to the figures available, public interest in such securities was not very great in the past (although the savings bonds of one group of institutions have been on sale for some length of time), but just recently it seems to be reviving. At the end of December 1967 the banks' liabilities of this kind amounted to about DM 250 million (in the banking statistics they are not included in savings deposits but in the item "Medium and long-term monies and loans obtained from domestic non-banks"), and in addition there was a not precisely quantifiable amount of similar paper which according to its terms of issue is counted among bank bonds. It is typical of the expansion — obviously quite rapid of late — of this type of saving that at the end of January 1968 "total loans" of over DM 400 million were reported in respect of the issue of savings bonds. The Federal Government is considering offering similar bonds to the market in small denominations as "Federal savings bonds". The question as to "how this paper can be made attractive for the lower income brackets" is at present under consideration (Item 54 of the 1968 Annual Economic Report of the Federal Government).

Introduction of new forms of saving

<sup>1)</sup> Including the savings deposits held with those credit cooperatives (Raiffeisen) which are not required to submit returns, the total may have been some DM 142 billion.

*Liabilities of Credit Institutions (other than Bundesbank) to Non-Banks*

Millions of DM

Item	Yearly figures			Quarterly figures				End-of-year position	
	1965	1966	1967	Year	1st qtr.	2nd qtr.	3rd qtr.		4th qtr.
Increase (+) or decrease (—)									
<b>I. Liabilities to domestic non-banks</b>									
(1) Sight deposits, total	- 3,782	- 150	- 7,624	1967	- 3,212	+ 2,389	+ 1,398	+ 7,049	56,041
				1966	- 4,454	+ 2,813	- 1,491	+ 2,982	48,417
(a) of business enterprises and individuals	- 3,386	+ 132	+ 6,742	1967	- 2,624	+ 2,011	+ 1,416	+ 5,939	49,724
				1966	- 3,458	+ 2,167	- 997	+ 2,420	42,982
(b) of public authorities	+ 396	- 282	+ 882	1967	- 588	+ 378	- 18	+ 1,110	6,317
				1966	- 996	- 646	- 494	+ 562	5,435
(2) Time deposits, total	+ 579	+ 5,393	+ 6,734	1967	+ 1,249	+ 942	+ 764	+ 3,779	38,418
				1966	+ 58	+ 629	+ 2,222	+ 2,484	31,684
(a) of business enterprises and individuals	+ 1,376	+ 4,044	+ 5,511	1967	+ 324	+ 1,037	+ 138	+ 4,012	27,053
				1966	+ 270	+ 437	+ 1,078	+ 2,259	21,542
among which: Short-term time deposits <sup>1)</sup>	+ 514	+ 2,926	+ 3,236	1967	- 463	+ 102	- 388	+ 3,985	12,290
				1966	- 696	+ 86	+ 1,390	+ 2,146	9,054
(b) of public authorities	- 797	+ 1,349	+ 1,223	1967	+ 925	- 95	+ 626	- 233	11,365
				1966	- 212	+ 192	+ 1,144	+ 225	10,142
among which: Short-term time deposits <sup>1)</sup>	- 413	+ 1,829	- 83	1967	+ 415	- 694	+ 480	- 118	5,394
				1966	+ 258	+ 145	+ 823	+ 603	5,311
Note: Time deposits of institutional investors		+ 2,529	+ 530	1967	+ 740	- 385	- 185	+ 360	12,220
				1966	+ 506	- 73	+ 888	+ 1,208	11,690
(3) Savings deposits of residents, total	+ 16,257	+ 16,271	+ 17,399	1967	+ 4,188	+ 2,802	+ 2,766	+ 7,643	143,428
				1966	+ 3,693	+ 2,626	+ 2,907	+ 7,045	126,029
(a) of individuals	+ 15,604	+ 15,763	+ 16,189	1967	+ 4,077	+ 2,668	+ 2,537	+ 6,907	131,827
				1966	+ 3,485	+ 2,703	+ 2,847	+ 6,728	115,638
(b) of business enterprises	+ 260	+ 56	+ 306	1967	+ 65	+ 30	+ 63	- 148	2,754
				1966	+ 77	- 45	+ 74	- 50	2,448
(c) of public authorities	+ 393	+ 452	+ 904	1967	+ 46	+ 104	+ 166	+ 588	8,847
				1966	+ 131	- 32	- 14	+ 367	7,943
(4) Monies and loans obtained from domestic non-banks, total	+ 2,302	+ 2,225	+ 853	1967	- 255	- 464	+ 637	+ 935	56,221
				1966	+ 743	+ 778	+ 285	+ 419	55,368
among which: Medium and long-term monies and loans	+ 2,455	+ 2,035	+ 1,201	1967	- 88	- 311	+ 615	+ 985	56,106
				1966	+ 364	+ 837	+ 422	+ 412	54,905
<b>II. Liabilities to foreign non-banks</b>									
(1) Sight deposits	+ 188	- 117	+ 49	1967	- 271	+ 7	- 14	+ 299	1,516
				1966	- 390	+ 41	- 42	+ 274	1,467
(2) Time deposits	+ 41	- 91	+ 22	1967	- 23	+ 49	+ 28	- 32	238
				1966	- 30	- 40	- 24	+ 3	216
(3) Savings deposits	+ 209	+ 163	+ 161	1967	+ 18	+ 27	+ 35	+ 81	1,244
				1966	+ 23	+ 30	+ 40	+ 70	1,083
(4) Monies and loans obtained from foreign non-banks	- 156	- 190	+ 100	1967	- 27	+ 139	+ 2	- 14	851
				1966	+ 133	- 20	+ 21	+ 56	751
<b>III. Liabilities to domestic and foreign non-banks (sum total of respective items under I and II)</b>									
(1) Sight deposits	+ 3,970	- 267	+ 7,673	1967	- 3,483	+ 2,396	+ 1,412	+ 7,348	57,557
				1966	- 4,844	+ 2,854	- 1,533	+ 3,256	49,884
(2) Time deposits	+ 620	+ 5,302	+ 6,756	1967	+ 1,226	+ 991	+ 792	+ 3,747	38,656
				1966	+ 28	+ 589	+ 2,198	+ 2,487	31,900
(3) Savings deposits	+ 16,466	+ 16,434	+ 17,560	1967	+ 4,206	+ 2,829	+ 2,801	+ 7,724	144,672
				1966	+ 3,716	+ 2,656	+ 2,947	+ 7,115	127,112
(4) Monies and loans obtained from domestic and foreign non-banks	+ 2,146	+ 2,415	+ 953	1967	- 282	- 325	+ 639	+ 921	57,072
				1966	+ 876	+ 758	+ 306	+ 475	56,119
<b>IV. Bank bonds in circulation <sup>5)</sup>, total</b>	+ 8,720	+ 4,630	+ 9,547	1967	+ 2,151	+ 1,842	+ 2,279	+ 3,275	82,921
				1966	+ 1,513	+ 483	+ 1,239	- 1,395	73,374
among which: Circulation excluding domestic credit institutions' holdings <sup>3)</sup>	+ 5,952	+ 3,228	+ 1,711	1967	+ 427	+ 144	+ 224	+ 916	47,999
				1966	+ 1,007	+ 492	+ 995	+ 734	46,281
Note: Monetary capital formation <sup>4)</sup> , total	+ 27,297	+ 28,593	+ 28,869	1967	+ 6,431	+ 4,260	+ 4,532	+ 13,646	306,123
				1966	+ 5,728	+ 5,248	+ 6,754	+ 10,863	277,255
among which: Capital and reserves <sup>5)</sup>	+ 2,054	+ 1,666	- 1,824	1967	+ 655	+ 683	- 163	+ 323	20,172
				1966	+ 606	+ 664	- 208	+ 188	18,356

<sup>1)</sup> Time deposits with period of notice or period to maturity of less than 6 months. — <sup>2)</sup> Excluding bonds of own issues in the credit institutions' portfolios. — <sup>3)</sup> Separate recording of the circulation at home and abroad is not possible. — <sup>4)</sup> Comprising — apart from the item specified below — the items time and savings deposits, medium and long-term monies and loans obtained, and bank bonds in circulation except credit institutions' holdings. — <sup>5)</sup> Including capital and reserves of Bundesbank.

(e) Freeing and movement of interest rates

An important event drastically affecting the institutional framework of banking business was the abolition of interest-rate control with effect from 1 April 1967 after more than thirty years of official regulation of the credit institutions' debtor and creditor interest rates. This measure was preceded by some easing of interest-rate control which, although producing some undesirable side effects (especially a certain distortion of the maturity structure for customers' deposits), on the whole did show that complete liberalisation of interest rates, in particular if carried out at a time of great liquidity on the money markets, would not entail any sustained upward tendencies in interest rates. Indeed, the level of debtor interest rates has fallen rather since rates of interest were freed, because competition between banks considerably stiffened, as was expected. This is expressed clearly in the Bundesbank's interest rate surveys, the results of which are given in the following table. As the interest rate statistics include only the "bulk business" of the banks with adequate accuracy, however, they do not reflect the lowering of rates of interest to its full extent. The most severe competition would indeed seem to be encountered in business with big customers, to whom special conditions were of course always accorded but to whom still greater advantages than before were probably conceded in the course of last year.

Sharper competition in interest rates resulting from their liberalisation

According to the results of the interest rate survey, the majority of customers are at present charged about the same rate (7.5% p.a.) in current account business as would have been the maximum rate applicable if the Interest Rates Order had still been in force (see table). The rates for smaller discount credits, at present approximately 5.0 to 6.0 % p.a., are if anything somewhat lower than under the previous rules for calculation. All comparisons with former conditions are imperfect, however, if only because it is not easily possible to take adequate account of the inci-

Debtor interest rates generally under pressure

*Banks' Debtor and Creditor Interest Rates Before and After the Lifting of the Interest Rates Order*

(% per annum)

Reference data and time of applicability	Credits in current account of less than DM 1 mn	Discount credits (bills eligible for rediscount at Bundesbank)	Mortgage loans secured by residential real estate (effective interest rate)	Savings deposits		
				Deposits under DM 1 mn fixed for three months	with legal period of notice	with 12-month period of notice
(1) Official maximum rates before lifting of Interest Rates Order, with central bank discount rate at 4%	8.5	7		3 <sup>1)</sup>	4	5 <sup>2)</sup>
(2) Maximum debtor interest rates which would have been fixed, after lowering of central bank discount rate to 3% (from 12 May 1967), had the Interest Rates Order remained in force	(7.5)	(6)	free interest rate	not ascertainable		
(3) Non-obligatory recommendations of banking associations as regards deposit interest rates (from 1 June 1967)	no recommendations			2.5 <sup>1)</sup>	3.5	4.5
(4) Most frequent interest rates according to interest-rate surveys of Bundesbank (most frequent common rates) <sup>2)</sup>						
— Interest rates	7.5	5.0 to 6.0	7 to 7.5	2.5	3.5	4.5
— Proportion (p.c.) of institutions which on balance reported rates lower (—) or higher (+) than the "most frequent common rates"						
June	+36.5	—13.8	— 2.4	+39.7	+14.2	+17.8
September	+24.1	—24.4	—13.4	+35.8	+ 5.8	+12.7
December	+20.3	—26.4	—11.8	+42.8	+ 6.2	+12.2

<sup>1)</sup> Agreed period of notice or period to maturity of 3 to less than 6 months. — <sup>2)</sup> Period of notice of 12 to less than 30 months. — <sup>3)</sup> The rates shown are those applied most frequently by the majority of banks questioned in connection with the interest-rate survey. For further information regarding the statistical method applied, see Report of the Deutsche Bundesbank, Volume 19, No. 10, October 1967, p. 45 *et seq.*

dental expenses connected with credits. But there are sufficient signs to indicate that for the great majority of borrowers credit has not become more expensive since the freeing of interest rates, and for a number of firms of good standing it has even in some categories become substantially cheaper. The fact that in "bulk business", too, debtor interest rates have rather tended to continue downwards is demonstrated by the detailed figures of the Bundesbank's interest rate surveys. According to them the number of credit institutions quoting higher rates than the "most frequent common rates" in their reports decreased from June to December 1967, while the number of institutions with lower rates, on the other hand, has shown a relative increase, especially in current account advances (see table). Only the costs of mortgage loans would appear not to have decreased any further from September to December, probably as a result of the increased demand for long-term loans.

Greater variety of  
creditor interest rates  
agreed

The trend in creditor interest rates is still more difficult to judge than that in debtor interest, as the rates of interest agreed upon in the sphere of time deposits are still more varied than in credit transactions. At the end of 1967 about half the reporting banks paid interest on three months' fixed-term deposits of less than DM 1 million at the rate of  $2\frac{1}{2}\%$ ; the majority of the other reporting banks granted higher rates. Even had the Interest Rates Order continued in force, interest on these deposits would not have been substantially lower on the broad average than it is today, especially as in deposit business the previously prescribed maximum interest limits were frequently circumvented. Interest rates for savings deposits have remained stable by and large. For the greatest part savings deposits with legal period of notice bear interest at  $3\frac{1}{2}\%$ ; the rate is thus only slightly higher than that which had mostly applied from the beginning of 1961, with the exception of the period of restriction ( $3\frac{1}{4}\%$ ). In the case of savings deposited for fixed periods the share of those carrying interest above the "most frequent common rate" is rather larger, but has been declining since June 1967. Almost nine-tenths of the holders of savings deposits with periods of notice of twelve months or more receive  $4\frac{1}{2}\%$  at present. From these figures it can be generally assumed that the pressure upward on creditor interest rates was not as strong as that downward on debtor rates. The banks' interest margin has been narrowed by both tendencies.

## 2. Capital Market

### (a) Overall financial requirements and monetary capital formation

Reduced financial  
requirements of  
enterprises

A particularly significant element influencing domestic demand on the markets for longer-term funds — *i.e.* not only the demand for bank credits already dealt with but also for credits granted by other institutional investors and those raised on the security market — lies in the fact that in 1967 borrowing requirements of enterprises once again recorded a substantial shrinkage. The unprecedented reduction in the credit requirements of trade and industry was principally due to investment activity being slacker although there was no longer any appreciable deterioration in the earning situation. In 1967 enterprises (including housing) took up credits at financial institutions, in the securities market and in the form of direct lending on the part of the government and foreign countries in a total of DM 31 billion, compared with DM 40 billion in 1966 and DM 49.5 billion in 1965, the boom year. This decline was however largely, although not entirely, made up for by increased official borrowing. In 1967 public authorities' borrowing attained almost DM 14.5 billion net as against about DM 8.5 billion in 1966<sup>1)</sup>; shortfalls in receipts owing to the adverse economic trend and additional expenditure on the economic stimulation programmes consequently — in conformity with anticyclical economic policy — resulted in an expansion of official borrowing at the rate of roughly DM 6 billion over the 1966 level. Since, on the other hand, as already mentioned, the amount of credits taken by enterprises contracted by DM 9 billion, the domestic sectors' borrowing (allowing for insignificant growth of credits granted to households)

<sup>1)</sup> In contradistinction to the figures given in the section entitled "Cash Transactions of the Public Authorities", the present data do not cover, *i. a.*, the increase in territorial authorities' indebtedness to social insurance institutions.

in 1967 at DM 46.5 billion fell DM 2.5 billion short of the 1966 figure and was below the inflated 1965 level by as much as DM 12.5 billion, or over one-fifth.

In 1967 the situation on the German credit markets was moreover characterised by the fact that, in contrast to their borrowing, the domestic sectors' monetary wealth formation increased; this was mainly due, however, to a remarkably steep rise in money and quasi-money holdings, whereas the supply of longer-term funds in 1967 rose only slightly on the year. Overall monetary wealth formation by the domestic sectors reached about DM 56.5 billion in 1967; it thus surpassed the figure for the previous year by approximately DM 7 billion. Short-term monetary assets — especially cash, sight deposits and shorter-term time deposits — in the reporting period accounted for approximately DM 11.5 billion, or some DM 6 billion more than the year before. Disregarding these very liquid assets, "longer-term monetary wealth formation" in 1967 totalled about DM 44.5 billion. At that rate it exceeded the previous year's level by a mere DM 0.8 billion, as against the above-mentioned increase of quite DM 6 billion in the shorter-term sphere.

Rise in monetary wealth formation mainly in the short-term sphere

The more marked monetary wealth formation at very short term in 1967 was mainly due to the notable increase in liquidity recorded in the sphere of enterprises, which are in the habit of maintaining their reserves by preference in these forms. Enterprises' sight and short-term time deposits in 1967 rose by DM 8.5 billion, while their other financial assets also underwent a vigorous expansion. Overall monetary wealth formation of enterprises in 1967 amounted to more than DM 19 billion; this was approximately DM 9.5 billion above the 1966 level and indeed exceeded that attained in any other year since the Monetary Reform. The accumulation of financial reserves reflects the wait-and-see attitude vis-à-vis new investments, on which many entrepreneurs obviously cut down in a greater measure than would have been required by the earning situation. In certain cases investments would even seem to have fallen short of accrued depreciations. (Presumably in the majority of enterprises capital expenditure of course continued to exceed disposable own resources, as borne out by the reduced, although still considerable total of borrowing by enterprises in the same year.) The increase in enterprises' liquidity also in part induced a marked growth in their longer-term time deposits, which altogether in 1967 rose by DM 2 billion (as against DM 1 billion the year before).

Pronounced growth in enterprises' liquidity

It is partly due to this distinct preference accorded by enterprises to funds "on time" that a somewhat greater portion of the longer-term monetary assets formed in 1967 was placed with banks. Households, too, once again increasingly reverted to the more liquid forms of employing savings capital, which had the effect that in 1967 — with private saving altogether recording a slight reduction — savings deposits with banks went up at a greater rate than the year before. Including other funds placed with banks — which particularly as a result of withdrawals by social pension insurance institutions increased less than previously — the share of capital employed at banks in overall longer-term monetary wealth formation rose to 57 per cent as against 52 per cent in the previous year and 45 per cent in 1965.

Increase in funds placed with banks

By contrast, longer-term monetary wealth formation outside the banking system was — on an overall view — curtailed noticeably in 1967. Employment of funds at life insurance companies and pension funds, which will always play a comparatively important role in this context, was actually not affected by this development; indeed, in 1967 these forms of employment of funds recorded a rise by DM 7 billion (as against DM 6.5 billion in 1966), which is relatively higher than that in overall longer-term monetary wealth formation. The increase has however tapered off slightly by comparison with earlier years, the main reason for this being that in 1967 premium receipts of life insurance companies increased at a markedly lower rate than a year before. One factor may have been the announcement in the course of the year that from the beginning of 1968 all employed persons were to be subject to compulsory social pension insurance, which would seem to have induced a number of employees hitherto exempt from such insurance to cut down on their voluntary insurance. (In 1968 the business of life insurance companies will presumably again receive some impetus, however, from the conclusion of "exemption" contracts.)

Decline in employment of funds outside the banking system...

*Monetary Wealth Formation and Borrowing of Domestic Sectors<sup>1) \*)</sup>*

Item	1965	1966P)	1967P)	1965	1966P)	1967P)	1965	1966P)	1967P)
	Billions of DM			Year-to-year change in billions of DM			Proportion in per cent		
(1) Monetary wealth formation									
(a) Longer-term	48.6	43.8	44.6	+ 6.6	- 4.7	+ 0.8	100.0	100.0	100.0
of which:									
(aa) at banks	21.9	22.9	25.6	+ 2.7	+ 0.9	+ 2.7	45.2	52.1	57.4
Longer-term time deposits <sup>2)</sup>	(- 0.4)	( 0.4)	( 3.2)	(- 0.6)	(+ 0.8)	(+ 2.8)	(- 0.8)	( 0.9)	( 7.1)
Savings deposits	( 17.6)	(17.8)	(19.1)	(+ 3.8)	(+ 0.1)	(+ 1.4)	( 36.3)	(40.5)	(42.9)
Other investments	( 4.7)	( 4.7)	( 3.3)	(- 0.6)	(+ 0.0)	(- 1.4)	( 9.6)	(10.8)	( 7.4)
(ab) at insurance companies	5.8	6.5	7.1	+ 0.9	+ 0.7	+ 0.6	11.9	14.8	15.9
(ac) at building and loan associations	3.7	4.9	3.0	+ 1.2	+ 1.1	- 1.9	7.7	11.1	6.8
(ad) Acquisition of securities	11.3	5.7	5.3	+ 2.0	- 5.6	- 0.4	23.2	13.0	11.9
Bonds	( 7.4)	( 3.3)	( 2.0)	(- 0.3)	(- 4.0)	(- 1.3)	(15.1)	( 7.6)	( 4.5)
Shares	( 3.9)	( 2.4)	( 3.3)	(+ 2.3)	(- 1.5)	(+ 0.9)	( 8.0)	( 5.4)	( 7.4)
(ae) Direct loans to other sectors	5.8	3.9	3.6	- 0.2	- 1.9	- 0.3	12.0	8.9	8.1
(b) Short-term	3.3	5.5	11.7	- 3.8	+ 2.2	+ 6.2	100.0	100.0	100.0
among which:									
Notes and coin and sight deposits	4.4	0.8	8.0	- 0.0	- 3.6	+ 7.3	131.2	13.7	68.6
Short-term time deposits <sup>3)</sup>	0.0	4.7	3.0	- 0.5	+ 4.7	- 1.7	0.8	85.7	26.0
Monetary wealth formation, total	51.9	49.4	56.3	+ 2.8	- 2.6	+ 7.0	100.0	100.0	100.0
of which:									
Households	34.0	32.1	31.4	+ 6.1	- 1.8	- 0.8	65.4	65.1	55.7
Enterprises	11.3	9.5	19.1	+ 0.9	- 1.8	+ 9.6	21.8	19.2	34.0
Public authorities	6.6	7.7	5.8	- 4.2	+ 1.1	- 1.9	12.8	15.7	10.3
among which:									
Social insurance funds	( 3.8)	( 3.5)	(- 1.5)	(+ 0.2)	(- 0.3)	(- 5.0)	( 7.4)	( 7.1)	(- 2.7)
(2) Borrowing	58.9	49.0	46.5	+10.1	- 9.9	- 2.5	100.0	100.0	100.0
of which:									
Households	1.1	0.6	0.9	+ 0.0	- 0.5	+ 0.3	1.9	1.3	2.0
Enterprises	49.4	40.0	31.2	+ 8.0	- 9.4	- 8.7	83.8	81.6	67.1
Public authorities <sup>4)</sup>	8.4	8.4	14.3	+ 2.1	- 0.1	+ 6.0	14.3	17.1	30.8
(3) Financial surplus (+) or deficit (-) <sup>5)</sup> (1 less 2)	- 7.0	+ 0.4	+ 9.8	- 7.4	+ 7.4	+ 9.4	.	.	.
of which:									
Households	+32.9	+31.5	+30.4	+ 6.0	- 1.4	- 1.1	.	.	.
Enterprises	-38.1	-30.5	-12.1	- 7.1	+ 7.6	+18.4	.	.	.
Public authorities	- 1.8	- 0.7	- 8.5	- 6.3	+ 1.2	- 7.9	.	.	.

\*) Details may not add to totals because of rounding. — <sup>1)</sup> Households, enterprises (including housing, but excluding banks and other institutional investors), and public authorities. — <sup>2)</sup> For six months and longer. — <sup>3)</sup> For less than six months. — <sup>4)</sup> In contrast to the figures quoted in the section "Cash Transactions of the Public Authorities" these data do not include, *i. a.*, the rise in territorial authorities' indebtedness to social insurance funds. — <sup>5)</sup> Equal to change in net claim on foreign countries. — P) Provisional.

... especially with building and loan associations

On the other hand, the drop in monetary wealth formation with building and loan associations was very pronounced. In 1967 savings deposits at these institutions increased by no more than about DM 3 billion, or by over one-third less than in 1966 (DM 5 billion). In the previous year savings with building and loan associations had actually risen particularly heavily since, owing to the anticipated restriction on the promotion of such saving, not only a great number of new savings contracts with building and loan associations were entered into in advance with a view to securing the old privileged terms but also apparently greater in-payments were made under these contracts. The growth of savings deposited with these institutions however conveys a faulty impression of the volume of saving for building purposes in the last year. In-payments on such savings accounts (including interest and premiums credited) as well as amortisation payments — in other words, the overall accrual of savings at building and loan associations — in 1967 reached DM 11.8 billion, thus recording a drop on the year by no more than DM 100 million, or about 1 per cent. Since in 1967 out-payments of allocated savings balances with building and loan associations rose by approximately 25 per cent (to DM 6.6 billion), however, the net growth in savings deposits was much smaller than in the preceding year. In terms of savings accrued, therefore, saving at building and loan associations in 1967 declined at a slower rate than households'



overall saving. The restriction of savings promotion effected in December 1966 — which curtailed the possibility of resorting to governmental savings promotion funds simultaneously in the form of general savings premiums, in the form of premiums on saving for building purposes, or by deducting tax-privileged savings for building purposes from taxable income (“prohibition of cumulating”) — thus merely resulted in an interruption of the tendency, in evidence for years, in the direction of a growing share of saving through building and loan associations in overall private monetary wealth formation. In terms of contracts newly concluded with building and loan associations, however, the repercussions of the prohibition of cumulative recourse to savings privileges were greater, a fact that is underlined by the 1967 overall figure of only 0.8 million new contracts covering DM 19.1 billion, which amounts to a decline in new business by about 40 per cent on the previous year (1.3 million contracts with a contracted total of DM 31.4 billion). While it must be borne in mind that undoubtedly in 1966 quite a good many “anticipatory contracts” were concluded which otherwise probably would not have been entered into before 1967, the number of new contracts last year also fell considerably short of the figure for 1965, a year devoid of any special influences.

Purchases of securities by the domestic sectors (excluding banks and other institutional investors) in 1967 again fell slightly short of the previous year’s figure. In the period under review they accounted for DM 5.3 billion in bonds and shares as against DM 5.7 billion in 1966 — although quite DM 11 billion in 1965. Thus, in 1967 approximately 12 per cent of the overall accrual of longer-term funds flowed through the securities markets, this being slightly less than in 1966 (13 per cent) and much less than in 1965 (23 per cent). The following section provides an analysis of the consequences resulting for the credit markets in 1967 from the fact that non-banks, as already indicated, widely shrank from long-term investment, whereas borrowers — especially public authorities as the only sector where credit requirements still rose in the year under review — were particularly keen on obtaining long-term credits.

Low level of security purchases by non-financial sectors unaltered

### *(b) Security markets*

#### Placing of securities

While last year security purchases by public authorities, households and enterprises were again relatively meagre, in any case they stood for only a comparatively small portion of the entire accrual of funds in the security markets. The latter in fact provided financial resources many times greater than the portion of new net placements of securities (in each case bonds and shares overall) taken up by the aforementioned non-financial sectors, the reason being that credit institutions bought securities in an exceptional degree. Including net purchases of securities by banks, insurance companies and building and loan associations as well as by foreigners, altogether quite DM 18.8 billion, or more than twice the amount recorded for 1966, and DM 2.5 billion and DM 2.9 billion more than in 1965 and 1964, respectively, were negotiated on the securities markets<sup>1)</sup>. Fixed-interest securities were the only ones to record larger sales than in the year before; they sold in a net amount of nearly DM 15.5 billion, or almost three times as much as in 1966. Owing to the recession-induced low financial requirements of trade and industry, in 1967 share sales, on the other hand, at DM 3.4 billion fell slightly short of the 1966 level (DM 3.6 billion), although it is obvious that the favourable stock-market situation would have permitted larger share issues.

Recuperation of security markets thanks to heavier investments by financial institutions

The principal element determining the steep rise in bond sales was, as already mentioned, the exceptionally substantial security purchases by credit institutions. The banks’ portfolios of domestic and foreign bonds (excluding participations in syndicates) last year on balance increased by no less than DM 11.6 billion as against a mere DM 1.5 billion in the previous year. The former maximum rise (by well over DM 4.5 billion in 1964) was thus by far surpassed. The fact that credit

Sharp rise in banks’ bond purchases the determining factor

<sup>1)</sup> Net purchase of domestic and foreign securities by residents plus foreigners’ net purchase of German securities; calculated at market or transaction values and taking into account changes in issuers’ own holdings.

institutions — mainly, it is true, savings banks — purchased such a vast amount of securities would seem to be due on the one hand to the aforementioned reduction in private credit requirements and on the other hand to the increase in liquidity primarily induced by the Bundesbank's measures implementing credit policy. The growing demand for credit on the part of public authorities thus related not so much to ordinary bank credits as to funds obtained by way of floating loans and to long-term loans of real-estate credit institutions, which in turn obtain finance from sales of "communal bonds".

*Security Holdings and Syndicate Participations of  
Credit Institutions (other than Deutsche Bundesbank)*

Year or quarter	Total <sup>2)</sup>	Domestic securities and syndicate participations										Foreign securities and syndicate participations
		Total		Fixed-interest securities <sup>2)</sup>					Market-able equities <sup>3)</sup>	Other securities	Syndicate participations	
		in-cluding <sup>2)</sup>	ex-cluding <sup>1)</sup>	Bank bonds	Public issues		Industrial bonds and other interest-bearing debentures					
bank bonds	Total	among which: Medium-term notes (Kassen-obligationen)	Total	among which: Medium-term notes (Kassen-obligationen)								
End-of-year figures, millions of DM												
1962	25,617	25,264	8,477	16,787	986	4,617	658	957	2,233	127	543	353
1967	50,730	49,943	15,022	34,921	2,580	10,159	3,407	1,013	3,082	158	610	787
Increase (+) or decrease (—) <sup>1)</sup> , millions of DM												
1963	+ 3,811	+ 3,727	+ 627	+ 3,100	+ 315	+ 495	+ 110	— 44	+ 148	+ 93	— 65	+ 84
1964	+ 4,813	+ 4,762	+ 1,507	+ 3,255	+ 497	+ 1,207	+ 293	+ 6	+ 362	— 35	— 33	+ 51
1965	+ 3,742 <sup>2)</sup>	+ 3,639 <sup>2)</sup>	— 1,001	+ 2,697	+ 130	+ 265	— 137	+ 94	+ 274	+ 6	+ 303	+ 103
1966	+ 1,279 <sup>2)</sup>	+ 1,322 <sup>2)</sup>	— 515	+ 967	— 28	+ 46	+ 121	— 65	+ 200	+ 13	+ 161	— 43
1967	+ 11,240	+ 11,000	— 3,164	+ 7,836	+ 680	+ 3,536	+ 2,362	+ 70	— 129	— 14	— 299	+ 240
1966 1st qtr.	+ 143 <sup>2)</sup>	+ 88 <sup>2)</sup>	— 137	+ 103	+ 112	— 32	— 34	— 61	+ 23	+ 30	— 39	+ 55
2nd qtr.	+ 124 <sup>2)</sup>	+ 109 <sup>2)</sup>	— 157	— 40	— 174	— 109	— 17	— 9	+ 18	— 50	+ 299	+ 15
3rd qtr.	+ 15	+ 96	— 148	+ 244	+ 17	— 36	— 42	— 14	+ 15	+ 8	— 121	— 81
4th qtr.	+ 997	+ 1,029	— 369	+ 660	+ 17	+ 159	+ 214	+ 19	— 144	+ 25	+ 22	— 32
1967 1st qtr.	+ 2,935	+ 2,842	— 1,118	+ 1,724	+ 25	+ 1,496	+ 1,221	— 32	— 143	+ 13	— 216	+ 93
2nd qtr.	+ 2,287	+ 2,296	— 598	+ 1,698	+ 193	+ 492	+ 102	+ 146	— 49	+ 5	+ 4	— 9
3rd qtr.	+ 3,478	+ 3,470	+ 1,415	+ 2,055	+ 319	+ 1,455	— 643	+ 47	+ 38	— 9	— 116	+ 8
4th qtr.	+ 2,540	+ 2,392	+ 33	+ 2,359	+ 143	+ 93	— 396	— 91	— 25	— 23	+ 29	+ 148

<sup>1)</sup> Contribution to domestic credit expansion; depreciation owing to loss in value during 1965 has been eliminated from the figures showing changes for 1965 and 1st and 2nd quarters 1966. — <sup>2)</sup> Depreciation not eliminated as it is not known for all categories of securities. — <sup>3)</sup> Including investment fund certificates. — <sup>4)</sup> Statistical changes have been eliminated.

The replacement of demand for credit in the private sector by credits to public authorities granted largely in the form of securities or financed by security issues played a decisive part especially in the first three quarters of 1967. During that time the banks, with savings capital accruing at an almost unchanged rate, furnished about DM 3.4 billion less medium and long-term credits to the "business community" while granting about DM 1.1 billion more medium and long-term credits to public authorities. Moreover, they increased their holdings of public loans by some DM 3.4 billion, whereas they had reduced them by quite DM 100 million in the corresponding period of the previous year. In the first three quarters of 1967 the banks in addition acquired bank bonds (mainly mortgage bonds and communal bonds) for almost DM 5 billion more than over the same period a year ago. During the last quarter of 1967 the expansion of banks' direct lending was however once again in better proportion to the rise in security holdings. The year 1967 as a whole nevertheless recorded an over-proportionate increase in security holdings, which had, it is true, been preceded by disproportionately small security purchases by banks in 1966.

In point of fact, in 1967 by far the majority (about 84 per cent) of newly issued bank bonds was purchased by credit institutions. To that extent the expansion of bond circulation is in effect fundamentally a matter of interbank business, the significance of which under the economic angle derives primarily from the transformation of maturities. On the one hand, the interpolation

*Accrual of Longer-Term Funds at Credit Institutions and  
Employment of Funds in Lending Business*

Millions of DM

Item	1966			1967		
	Total	1st to 3rd qtrs.	4th qtr.	Total	1st to 3rd qtrs.	4th qtr.
(1) Monetary capital formation at banks from domestic sources, total <sup>1)</sup>	23,838	15,724	8,114	25,550	15,771	9,779
(2) Increase in medium and long-term credits to business enterprises and individuals	13,978	11,183	2,795	13,458	7,736	5,722
(3) Increase in medium and long-term credits to public authorities	5,445	3,476	1,969	7,016	4,568	2,448
(4) Net acquisition of fixed-interest securities (excluding bank bonds) <sup>2)</sup>	96	— 40	136	3,758	3,668	90
among which: public authorities' loans	( 46)	(— 113)	( 159)	( 3,536)	( 3,443)	( 93)
<i>Note:</i> Net acquisition of bank bonds <sup>2)</sup>	1,402	741	661	7,836	5,477	2,359

<sup>1)</sup> Excluding short-term time deposits; for more detailed definition cf. item IV of table: "Liabilities of Credit Institutions (other than Bundesbank) to Non-Banks". — <sup>2)</sup> Change in holdings in the first half of 1966 after elimination of depreciation due to loss in value in 1965.

of issuing institutions means that long-term credits can be granted to private and public borrowers; on the other hand the banks as the ultimate lenders (who take up the bonds) do not have to tie up large amounts of liquid funds (which occurs when they grant long-term direct credits), but by acquiring securities they form assets which — even though involving a price risk — can be regarded as readily disposable. Moreover, in accordance with the traditional conception (which in the case of savings banks is indeed laid down in the statutes), such investment in securities conforms better to the structure of their liabilities than excessive direct lending at long term. By themselves purchasing securities, the banks and savings banks, as it were, make amends for what savers shrink from in giving preference to bank deposits over purchases of securities. As a matter of fact the heavy purchase rate for securities in 1967 failed to bring about any extreme changes in the structure of assets on the banks' balance sheets, seeing that the share of securities in earning assets expanded to no more than 10.3 per cent, as against 9.7 per cent at end-1965 and 9.8 per cent at end-1964. It must of course always be borne in mind that these percentages represent overall figures covering the entire banking system; the figures relating to some banking groups rate below this average, while those of savings banks run far above it.

Against this, domestic non-banks on the whole continued to cut down on their purchases on the bond market in the last year; they spent no more than DM 3.4 billion on bonds, as compared to DM 4.2 billion in 1966, or DM 8.4 and 9.0 billion in the years 1965 and 1964, respectively. However, this decline stems solely from the fact that social insurance institutions (in particular workers' pension insurance and unemployment insurance) reduced their holdings of fixed-interest securities by approximately DM 1.5 billion so as to be able to meet their liabilities. This constituted a twofold burden for the bond market, since up till 1965 social insurance funds had ranked amongst the most important categories of buyers and thus supported the bond market, whereas subsequently they encumbered the market with sales. The remaining domestic "non-banks", on the other hand, in 1967 stepped up their bond purchases to DM 4.9 billion, against DM 4.7 billion in 1966. This group comprises, for one thing, private insurance enterprises, which acquired more fixed-interest securities last year; as far as discernible up till now, their security holdings would seem to have expanded by about DM 1.6 billion as compared with approximately DM 1.1 billion in the previous year. (At this rate the acquisition of securities by insurance companies again fell short of the loans they granted against borrowers' notes, which ran at DM 2.1 billion as compared

Social insurance funds  
sell securities ...

... but other domestic  
investors purchase  
more

*Sales and Placing of Securities \*)*

Billions of DM

Item	1964	1965	1966	1967	1967			
					1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
<b>A. Fixed-interest securities</b>								
Gross sales of domestic bonds (nominal value)	16.91	14.83	9.40	19.85	5.30	3.82	5.50	5.23
<b>I. Recourse to the market</b>								
(1) Net sales of domestic bonds (market value) <sup>1)</sup>	12.88	11.33	5.01	14.97	4.22	2.80	4.21	3.74
Bank bonds	9.66	8.14	4.38	9.21	2.02	1.80	2.23	3.17
Mortgage bonds	( 4.36)	( 3.75)	( 2.16)	( 3.23)	( 0.79)	( 0.71)	( 0.77)	( 0.96)
Communal bonds	( 2.93)	( 2.89)	( 2.04)	( 5.18)	( 1.25)	( 0.96)	( 1.51)	( 1.47)
Other bank bonds	( 2.36)	( 1.49)	( 0.18)	( 0.79)	(- 0.02)	( 0.12)	(- 0.05)	( 0.73)
Loan issues of public authorities <sup>2)</sup>	2.89	2.83	0.62	4.88	1.85	0.87	1.77	0.38
Industrial bonds	0.33	0.36	0.00	0.88	0.35	0.13	0.21	0.19
(2) Net acquisition or sale (-) of foreign bonds by residents <sup>3)</sup>	0.49	0.39	0.52	0.48	0.17	0.04	0.05	0.22
<b>Total recourse to the market (items I 1 plus 2)</b>	<b>13.37</b>	<b>11.72</b>	<b>5.53</b>	<b>15.45</b>	<b>4.39</b>	<b>2.84</b>	<b>4.26</b>	<b>3.96</b>
<b>II. Placing</b>								
(1) Net acquisition of fixed-interest securities by residents, total	13.51	11.65	5.66	16.29	4.45	3.06	4.48	4.30
Credit institutions <sup>4)</sup>	4.52	3.26	1.49	11.59	3.28	2.32	3.55	2.45
Bundesbank <sup>5)</sup>	—	—	—	1.26	—	—	0.21	1.05
Non-banks <sup>6)</sup>	8.99	8.39	4.17	3.44	1.17	0.74	0.72	0.80
Private insurance companies and building and loan associations	( 1.34)	( 1.26)	( 1.29)	( 1.60)	( 0.82)	—	( 0.78)	—
Social insurance institutions	( 1.44)	( 2.00)	(- 0.07)	(- 1.46)	(- 0.46)	—	(- 1.00)	—
Households	( 5.36)	( 4.51)	( 2.88)	( 2.55)	( 1.32)	—	( 1.23)	—
Territorial authorities	( 0.25)	(- 0.06)	( 0.13)	( 0.07)	(- 0.03)	—	( 0.10)	—
Enterprises	( 0.60)	( 0.90)	( 0.38)	( 0.86)	( 0.28)	—	( 0.58)	—
Differences in delimitation <sup>7)</sup>	( 0.00)	(- 0.22)	(- 0.44)	(- 0.18)	(- 0.02)	—	(- 0.17)	—
(2) Net acquisition or sale (-) of domestic bonds by foreigners <sup>8)</sup>	- 0.14 <sup>9)</sup>	0.07 <sup>9)</sup>	- 0.13	- 0.84	- 0.06	- 0.22	- 0.22	- 0.34
<b>Total placing (items II 1 plus 2)</b>	<b>13.37</b>	<b>11.72</b>	<b>5.53</b>	<b>15.45</b>	<b>4.39</b>	<b>2.84</b>	<b>4.26</b>	<b>3.96</b>
<b>B. Shares</b>								
<b>I. Recourse to the market</b>								
(1) Sales of domestic shares (market value)	2.24	3.96	2.71	1.91	0.60	0.34	0.42	0.55
(2) Net acquisition or sale (-) of foreign equities by residents <sup>3)</sup>	0.35	0.66	0.90	1.47	0.19	0.25	0.74	0.29
<b>Total recourse to the market (items I 1 plus 2)</b>	<b>2.59</b>	<b>4.62</b>	<b>3.61</b>	<b>3.38</b>	<b>0.79</b>	<b>0.59</b>	<b>1.16</b>	<b>0.84</b>
<b>II. Placing</b>								
(1) Net acquisition of equities by residents, total	2.06	3.96	2.73	2.75	0.72	0.45	0.86	0.72
Credit institutions <sup>4)</sup>	0.29	0.62	0.15 <sup>7)</sup>	- 0.13 <sup>9)</sup>	- 0.12 <sup>9)</sup>	- 0.03	- 0.07	0.09
Non-banks <sup>6)</sup>	1.77	3.34	2.58	2.88	0.84	0.48	0.93	0.63
(2) Net acquisition or sale (-) of domestic equities by foreigners <sup>8)</sup>	0.53 <sup>9)</sup>	0.66 <sup>9)</sup>	0.88	0.63 <sup>9)</sup>	0.07	0.14	0.30 <sup>9)</sup>	0.12
<b>Total placing (items II 1 plus 2)</b>	<b>2.59</b>	<b>4.62</b>	<b>3.61</b>	<b>3.38</b>	<b>0.79</b>	<b>0.59</b>	<b>1.16</b>	<b>0.84</b>
<i>Note:</i>								
Net security transactions with foreign countries								
(a) Capital export (-) or capital import (·) via bond market (items A I 2 plus A II 2)	- 0.63 <sup>9)</sup>	- 0.32 <sup>9)</sup>	- 0.65	- 1.32	- 0.23	- 0.26	- 0.27	- 0.56
(b) Capital export (-) or capital import (·) via share market (items B I 2 plus B II 2)	- 0.18 <sup>9)</sup>	- 0.00 <sup>9)</sup>	- 0.02	- 0.84 <sup>9)</sup>	- 0.12	- 0.11	- 0.44 <sup>9)</sup>	- 0.17
(c) Total capital export (-) or capital import (·) via security markets (a plus b)	- 0.45	- 0.32	- 0.67	- 2.16	- 0.35	- 0.37	- 0.71	- 0.73
<p>*) Details may not add to totals because of rounding. — <sup>1)</sup> Gross sales at market values less redemptions and repurchases, or plus re-placing, by issuers. — <sup>2)</sup> Including Federal Railways and Federal Postal Administration, but excluding bonds issued by the Equalisation of Burdens Bank on behalf of the Equalisation of Burdens Fund. — <sup>3)</sup> Transaction values. — <sup>4)</sup> Balance-sheet values. — <sup>5)</sup> After elimination of depreciations due to loss in value in 1965. — <sup>6)</sup> Since August 1967. — <sup>7)</sup> Ascertained as residue. — <sup>8)</sup> As against the data, taken from the financial accounts, concerning security purchases by the individual non-banking groups; the differences mainly result from the fact that in the national accounts computation is based on nominal values instead of market values. — <sup>9)</sup> Including direct investments and investment fund certificates. — <sup>9)</sup> Adjusted for statistical variation.</p>								

with DM 1.85 billion in 1966.) Furthermore, households in particular are contained in this group; in 1967 — when their overall savings dropped slightly — they acquired somewhat fewer fixed-interest securities than in 1966 (*viz.*, approximately DM 2.6 billion against about DM 2.9 billion). At present savers increasingly revert to employment of funds with banks, which is not subject to price fluctuations; to some extent they also show a liking for equities and for domestic and foreign investment fund certificates. In 1967 altogether investment fund certificates in a net amount of approximately DM 785 million were sold in Germany, which stands against no more than about DM 500 million in the year before. Out of the 1967 figure about DM 485 million fell to domestic and approximately DM 300 million to foreign investment fund certificates.

On the other hand, foreign investors last year sold German bonds in greater volume, *i.e.* on balance in the amount of DM 835 million, as against DM 130 million in 1966. The principal reason would seem to be the reversal in the interest differential as between domestic and foreign markets, in particular in relation to the Euro-capital market. While the average yield of German public loans, which foreign investors prefer to purchase, dropped from the peak attained in summer 1966 by about 1.9 percentage points to 6.7%, the yield in the Euro-capital market last year rose to 7% or 7.5%. In some national bond markets, too, the yield level in 1967 in part recorded a marked rise. Foreign holders of German bonds were thereby increasingly incited to exchange these bonds, burdened as they are with the 25 per cent withholding tax, for Euro-capital market bonds which are not subject to this tax and bear higher interest rates, or for “national” bonds of foreign issuers carrying higher interest; such action was all the more frequent since anticipation of capital gains on German bonds dwindled consistently in the course of the year.

Further decline  
in foreign holdings  
of bonds

#### Supply of securities

The overall supply of fixed-interest securities newly launched by domestic issuers, including acquisition of foreign bonds by residents, was considerably larger than the actual recourse to the market as analysed in the preceding section, in which allowance has already been made for the quite substantial redemption payments. In gross terms, *i.e.* prior to deduction of redemptions, the volume of issues (domestic and foreign together) on the bond market figured nominally at DM 20.3 billion in 1967, or just on DM 3 billion more than in 1964, hitherto the year of record sales. More than one-fifth of this amount, *viz.*, just over DM 4.5 billion, flowed back into the market by way of redemptions, meaning that issuers could not employ it for financing purposes. In earlier years redemption commitments were appreciably smaller at roughly DM 3.9 billion in 1966 and at no more than about DM 2.4 billion in 1965. The rise in redemption payments resulted in the main from a larger number of maturities in the sphere of shorter-term issues running for up to four years, which in 1967 at some DM 2.1 billion accounted for almost half of the total amount of redemptions. After deduction of redemptions and consideration of changes — which last year again were only minor — in issuers’ own bond holdings, net sales of domestic bonds in 1967, calculated at market values, ran at just on DM 15 billion, as against only DM 5 billion in 1966. As already observed, overall bond sales in 1967 amounted to about DM 15.5 billion, which also covers acquisition of foreign bonds by residents.

Still higher gross bond  
sales, with redemption  
burden rising

As usual, issuers of bank bonds recorded the highest share in overall net sales of domestic bonds (at market values). Last year they sold new bonds in the net amount of DM 9.2 billion. This was more than twice the amount attained in the previous year, although the figure did not quite reach that for 1964 (nearly DM 9.7 billion). As is normal, in overall sales of bank bonds the stress was on the mortgage bonds and communal bonds issued by real-estate credit institutions, which alone accounted for about DM 8.4 billion. Sales were highest in communal bonds, which last year sold at almost DM 5.2 billion net as against quite DM 2 billion the year before, while sales of mortgage bonds rose only by some DM 1 billion to DM 3.23 billion. The ratio of 3:2, which mortgage bonds and communal bonds had maintained in earlier years, last year accordingly read the other way round. Proceeds from sales of communal bonds would seem to have largely accrued

Banks, as normal,  
were principal issuers

to local authorities as “communal loans”, although other public authorities too — especially the *Länder* as well as the Federal Railways and the Federal Postal Administration — took up such long-term credits (misleadingly also referred to as “communal loans”) at real-estate credit institutions.

Public issuers partly switch to shorter-term securities

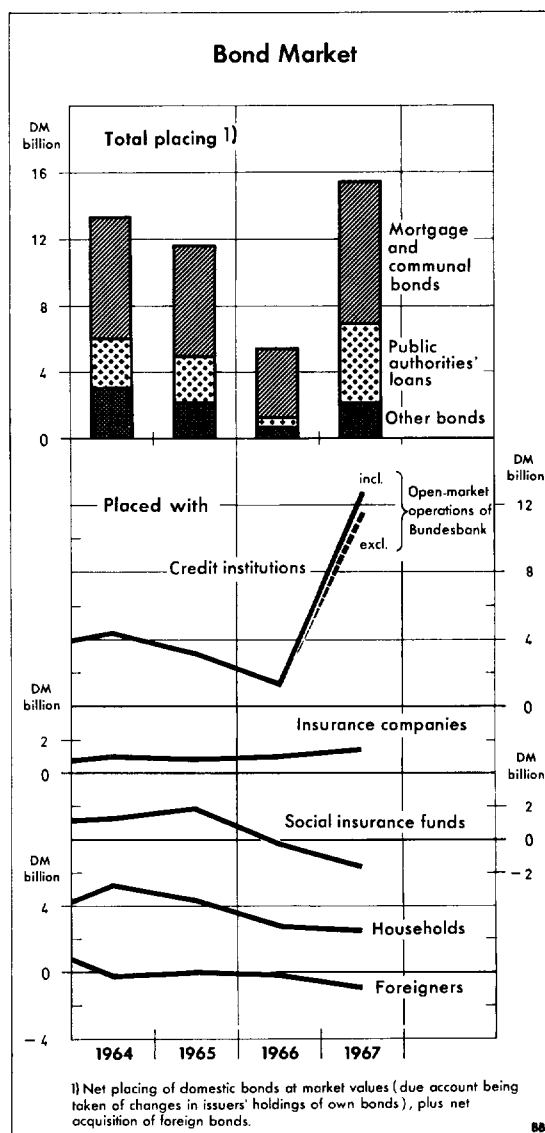
Last year public authorities resorted to the bond market directly, *i.e.* by issuing loans and medium-term notes (*Kassenobligationen*) of their own, to the extent of about DM 4.9 billion net. This was approximately DM 2 billion or two-thirds more than in 1964 and 1965, but eight times as much as in 1966. The proportion of medium-term paper gained considerably in volume; nearly one half of all issues of public loans placed related to securities with maturities of up to four years, as compared with about 20 per cent and 15 per cent in the years 1964 and 1965, respectively. The Federal Government alone in 1967 issued bonds in a net amount of approximately DM 2.1 billion; about two-thirds of this total fell to medium-term notes (*Kassenobligationen*). *Länder* sold approximately DM 1.8 billion worth of medium and long-term securities last year, with the accent on long-term loans at the rate of almost DM 1.4 billion. Among the other public issuers in 1967 the Federal Railways were alone in drawing upon the market for substantial amounts, placing additional bonds in the net amount of about DM 680 billion, approximately DM 490 billion of which were medium-term notes (*Kassenobligationen*).

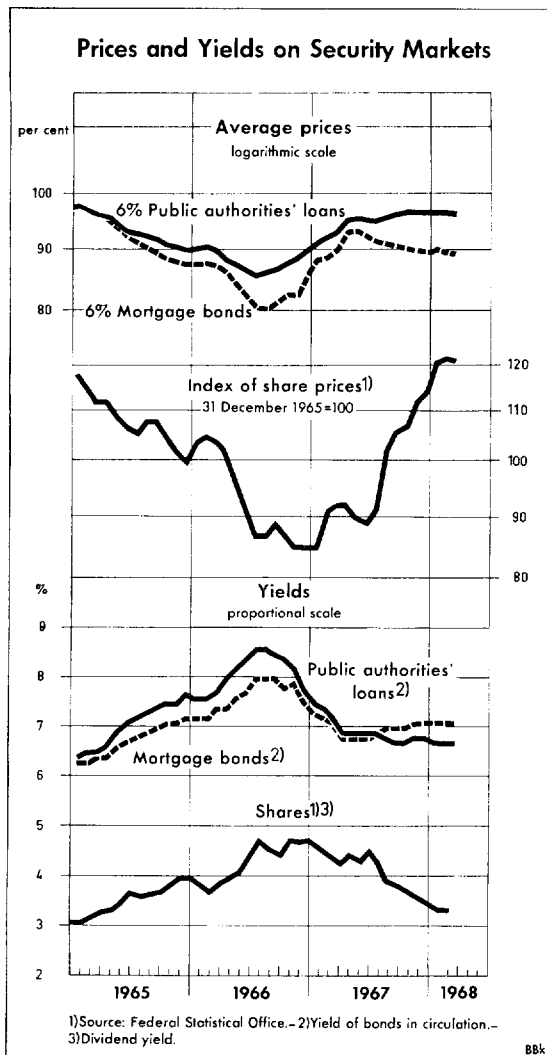
Private enterprises issue convertible bonds

For the first time in several years private business enterprises in 1967 again borrowed to a somewhat greater extent at longer term on the bond market. Altogether in the year under review net sales of industrial bonds at almost DM 900 million reached the highest amount ever placed on the bond market within any one year since 1958. About one-third of this amount related to convertible bonds, which — as potential share capital — can only with some reservation be included among bond market securities owing to the fact that such paper can as a rule only be acquired by shareholders of the issuing company.

High level of foreign issues ...

In 1967 the German bond market managed to regain greater importance as a place of issue for foreign loans and international loans. The issue of foreign loans (meaning such loans of foreign issuers as are floated exclusively in the Federal Republic of Germany) amounted to no more than about DM 170 million, it is true. In addition to this German bankers in their function as members of international underwriting syndicates participated in the placing of loans launched simultaneously in several countries (international loans) in the amount of about DM 700 million. Accordingly, in 1967 the overall volume of issues of foreign loans and of international loans reached nearly DM 870 million. In 1966 issues of such loans had in





fact been considerably larger, at a total of DM 1.38 billion, but more than half of this amount was accounted for by DM convertible bonds floated by foreign enterprises in exchange for shares of two German companies. Eliminating these transactions, since they did not require recourse to capital market funds, it is found that in 1967 the supply of foreign loans in the Federal Republic of Germany at nominally about DM 780 million was approximately DM 120 million above the level of the preceding year. Only a fraction of the aforementioned volume of issues – about a quarter – was purchased by German investors, and it seems likely that in the course of time even out of these holdings still further amounts will be sold to foreign buyers. Thus for the majority of foreign issues the German issue market served only as turntable for long-term international capital. While in 1967 the German capital market again assumed greater international importance this would seem to be due for one thing to the increasing attraction which the German interest level exercised on foreign debtors in the course of the last year and, for another, to the fact that bonds of foreign debtors issued in the Federal Republic of Germany are expressed throughout in DM (a DM option clause was in several cases affixed to foreign currency loans) and consequently in the view of some foreign

buyers hardly carry any foreign exchange risk.

Besides subscribing to about one-quarter of the DM issues launched by foreigners in Germany, domestic investors in 1967 also bought other foreign bonds. In these two ways together about DM 480 million was invested in 1967 in foreign fixed-interest paper, as against DM 520 million<sup>1)</sup> in the previous year. If the sales of German bonds out of foreign holdings mentioned above are included (DM 835 million), it follows that by transactions in bonds capital in a total of DM 1.32 billion (as against DM 650 million<sup>1)</sup> in 1966) was exported in the year under report.

Last year share issues were relatively small; calculated at issue value they totalled DM 1.9 billion, as against DM 2.7 and not quite 4 billion in the years 1966 and 1965, respectively. On the other hand a marked rise – partly due to intensified sales promotion carried out by foreign investment companies – was recorded in the net acquisition of foreign shares and investment fund certificates by residents (about DM 1.5 billion, against DM 900 million in 1966). In the year under consideration approximately one-fifth of the total, *i.e.* DM 300 million, fell to foreign investment fund certificates, which thus doubled their sales in the Federal Republic of Germany on the year. Buyers of shares and foreign investment fund certificates were – as usual – in the main domestic non-banks; in 1967 the latter acquired such paper in the net amount of almost DM 2.9 billion, which stands against not quite DM 2.6 billion in the year before. Approximately half the

... but on balance relatively few purchases of foreign bonds by residents

Persistent retrograde trend in share issues

<sup>1)</sup> Including the above-mentioned DM convertible bonds.

amount (DM 1.5 billion) would seem to relate to share purchases of households, which thus again noticeably surpassed the level of the preceding year (DM 765 million), which admittedly had been particularly low owing to special circumstances. Nevertheless they failed to reach the level of purchases in 1965 (DM 2.31 billion). Up to a certain degree the latterly reawakened interest of private investors in German investment fund certificates contributed indirectly – namely, by expansion of the funds' holdings – to a rise in households' share holdings. In 1967 banks, on the other hand, reduced their share portfolios by about DM 130 million, after having the year before acted in the opposite way by acquiring new shares in the net amount of approximately DM 150 million. During the reporting year foreign investors on balance bought German shares in the equivalent of DM 630 million, against DM 880 million in the previous year.

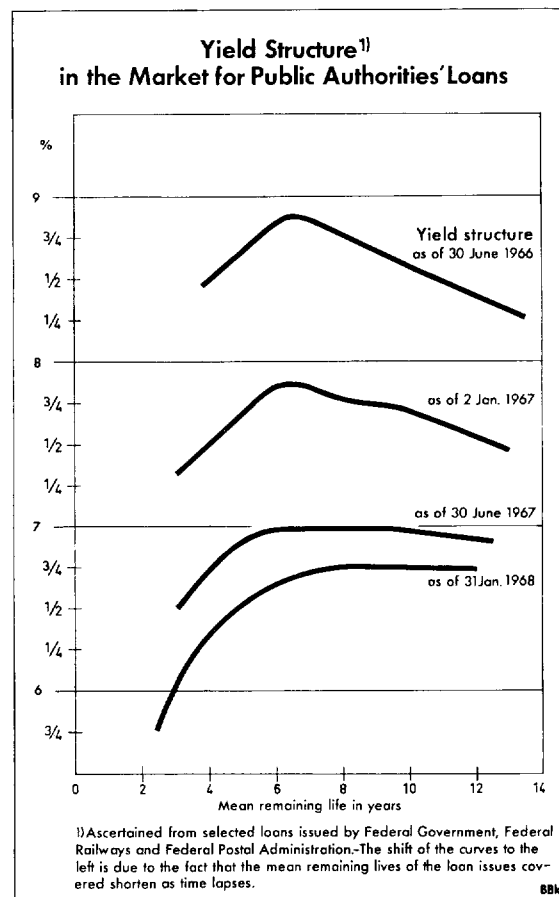
#### Movement in prices and yields

Temporarily further decline in the level of capital interest rates

The upward trend of bond prices, which in the summer of 1966 started in the field of public authorities' loans and industrial bonds, later on spreading to bank bonds, continued temporarily to advance at a rapid rate in the first four months of 1967. New bond issues floated during this time, which were mostly launched at a nominal interest of 7%, and at issue prices of 96 to 97.5 per cent, in March extensively reached or even exceeded par level, so that in April it became possible for the first time again to issue securities at 6.5%. Older issues officially quoted at the stock exchange had likewise by that time achieved an appreciable improvement in their price level. The level of interest rates on capital, which at the beginning of the year – measured by the average yield of bonds in circulation – had been in the neighbourhood of 7.4%, consequently declined further, reaching 6.8% in mid-April as against 7.5% a year before. Interest rates were thus back at the level maintained in mid-1965.

Tendencies to stiffen in summer and stress test in autumn

In the subsequent period, however, the decline in interest rates no longer kept up. In June interest rates rather had a slight tendency to rise. During this time the average yield of all bonds in circulation mounted to 6.9%, at which rate it stayed stationary until the beginning of April of this year; afterwards it was again on the decline. The yield of Federal bonds, on the other hand, fell off again as early as summer 1967 (by September to 6.6%), after the Bundesbank in August proceeded to extend its liquidity policy to the purchase of loans of the Federal Government and its Special Funds in the open market. In other sectors of the market, especially relating to the bank bonds issued by real-estate credit institutions, yields at first continued to rise, ultimately resulting in a yield differential between Federal bonds and bank bonds of approximately half a percentage point, which in the subsequent period no longer expanded, because the advent of interest arbitrage forestalled this. Indirectly, open-market operations of the Bundesbank thus also had a stabilising influence on the trend of interest rates in the other sectors of the market.





Whereas in the spring of 1968 the average yield of bonds was virtually on a level with that in the spring of 1967, the interest rate structure underwent considerable changes in terms of interest yields realised in the various maturity categories. The preceding graph illustrating the relation between maturities and interest yields of Federal loans demonstrates that the drop of security yields commencing late in summer 1966 initially made considerable progress especially in the field of securities at longer term (since here the chances of realising capital gains were deemed particularly good). Somewhat later, as from the middle of last year, the decline in interest rates centred on securities at shorter term, presumably mainly owing to uncertainty prevailing at that time as to the further capital market trend, with the consequence that for liquidity reasons preference was once again given to securities at shorter term. By the end of January 1968 (the latest date covered by our calculations, cf. graph) yield curves had changed in that proceeds showed a comparatively steady rise proportionate to maturities, in any case up to maturities of eight years. In the case of maturities exceeding this term, the yield is no longer in any considerable measure dependent on the maturity, which permits the conclusion that the general public did not anticipate a drop in interest rates for investments at long term. However, since the beginning of April the demand for paper at longer term has gained ground, following an apparently more optimistic evaluation of signs in the direction of a downward tendency of interest rates.

Changed term structure of interest rates

Already in the first quarter of 1967 signs of an improvement in the climate were in evidence as a consequence of the measures taken by the Federal Government in order to stimulate economic activity and of a more optimistic outlook on business in general. The share price index (31 December 1965 = 100) computed by the Federal Statistical Office climbed from the low point (82) reached in mid-January by 13 per cent to 93 at the end of March. After a temporary setback in the second quarter, share prices again started to move up in the middle of last year. The rise indeed took place at a speed which had not been in evidence since the bullish period in 1960. The price index, which at the end of June stood at 88, soared to 101 by the end of the first week in August, and until the end of the year it continued to rise by a further 15 points to 116. In 1968 prices continued their upward tendency (to 125 at 22 January); this level was also maintained, after some temporary weakening, when the present report went to press. As against the all-time low in mid-January 1967 the price level had risen by no less than 40 points, or about one-half. Thus, the price drops in 1965 and 1966 were more than made good – which clearly indicates that the stock exchange is again taking a much more favourable view of trade and industry's earning power (in terms of prices much as in the boom year 1964).

Pronounced price rise in the share market

### 3. Cash Transactions of the Public Authorities

#### *(a) Receipts and expenditure*

##### Basic tendencies

During 1967 the overall cash deficit of territorial authorities and social insurance institutions was substantially expanded by large shortfalls in receipts induced by the economic setback, with expenditure continuing to grow at a high rate. Altogether the deficit would seem to have amounted to approximately DM 17 billion compared with about DM 8 billion in 1966<sup>1)</sup>. The chief contributing factor was the movement in Federal finances, which was characterised by shortfalls in tax revenue due to the slackening of economic activity on the one hand and by additional expenditure for the purpose of economic stimulation on the other. The Federal Government's cash deficit rose to DM 8.3 billion during 1967; at that level it exceeded the 1966 figure by DM 5.8 billion. An important part was also played by the swing in the financial position of the social insurance funds whose expenditure continued to rise substantially whereas the increase in contribution in-

Vigorous rise in deficits

<sup>1)</sup> In conformity with the presentation usual in our Reports, borrowing, drawing on reserves and the clearing of previous years' surpluses have been eliminated from receipts while debt redemption, allocation to reserves and clearing of previous years' deficits have been deducted from the expenditure figures.

come was small. For this reason, the social insurance funds for the first time since the Monetary Reform showed a deficit, amounting to approximately DM 2 billion compared with a surplus of DM 1.4 billion in 1966. This deterioration by roughly DM 3.5 billion of course was not only due to cyclical reasons, but also contained a sizable “structural” component. The cash deficit of the *Länder*, and in particular that of the local authorities, on the other hand was smaller in 1967 than it had been in 1966 because expenditure was drastically cut down, especially in the field of capital investment.

Measured by the cash figures, it was thus only the Federal Government and the social insurance institutions that pursued an anticyclical policy in 1967; the Federal Government acted deliberately in that it did not absorb cyclical losses in tax receipts by cutting down expenditure, and moreover stepped up certain items of capital expenditure; the social insurance funds acted anticyclically by sheer necessity since their expenditure increased in conformity with legal provisions, whereas on the side of receipts the legislative bodies, in view of the economic situation, refrained from voting contribution increases which would have been advisable in “normal” circumstances. *Länder* and local authorities on the other hand more or less oriented their spending policy to their receipts; with differences in individual cases, the *Länder* showed little inclination to incur much greater indebtedness than before for the sake of stimulating economic activity, while local authorities actually reduced their borrowing. In the course of 1967 however the *Länder* likewise were prepared to act on anticyclical lines, although this had little affected cash figures by the end of the year.

#### Receipts

Although public authorities’ receipts continued to grow during 1967 the rise was much smaller than in 1966. Altogether the authorities received approximately DM 190 billion, that is only DM 6 billion or 3 per cent more than in 1966 when receipts had grown by 8 per cent. The fact that there was any growth in revenue at all despite the virtual stagnation in the gross national product was due largely to the increase in administrative receipts — which were higher by 10 per cent than a year before chiefly because local authorities’ charges and fees were raised — and to certain taxes and social insurance contributions yielding more than in the previous year as a result of amendments to legislation. At not quite DM 115 billion in 1967 the entire tax yield exceeded the previous year’s figure by only 1.9 per cent (1966: + 6.6 per cent). For the major part this rise was due to the reduction of tax privileges in the case of turnover tax (mainly abolition of the “mineral oil privilege”) and wages tax (cutting down of the “flat rate mileage allowance”), effective from the beginning of 1967, and to alterations in the taxation of consumption to the effect of raising the rates of mineral oil tax (from 1 January 1967) and tobacco tax (from 1 March 1967) and curbing periods of payment for a number of excise duties (as well as for import levies). Thus — with revenue from turnover tax being 1.8 per cent below the 1966 level and yields of wages tax and excise duties 2.6 per cent and 14.7 per cent respectively above that level — the accrual from the taxes mentioned developed much more favourably than would have been the case, under the influence of the economic slowdown, in the absence of amendments to tax legislation. As regards the other taxes, mention should be made of the fact that revenue from assessed income tax and corporation tax (which are due jointly to Federal Government and *Länder* in the same way as wages tax) was smaller by 3.9 per cent than in 1966. Property tax on the other hand registered a relatively marked rise, so that the aggregate total of all taxes due to the *Länder* alone was 8.6 per cent higher than in the preceding year. Owing to this fact and to the raising of the *Länder* share in income and corporation tax yield from 61 per cent to 63 per cent, total tax revenue of the *Länder* in 1967 rose by 3.8 per cent, or appreciably more than that of the Federal Government (+ 1.3 per cent), although only a small portion of the additional receipts resulting from the above-mentioned tax law amendments accrued to them. Revenue from local taxes hardly rose at all last year (by 0.2 per cent), as the trade tax, which is the most important tax accruing to local authorities,

Only slight increase  
in receipts from taxes ...

The Central Public Authorities' Finances on a Cash Basis

Millions of DM

Item	1964	1965	1966	1967 <sup>e)</sup>
I. (1) Balance of cash receipts and expenditure <sup>1)</sup>				
(a) Federal Government <sup>2)</sup> <sup>3)</sup>	— 666	—1,927	— 2,317	— 8,236
(b) Equalisation of Burdens Fund <sup>3)</sup>	— 296	+ 96	+ 323	+ 424
(c) E.R.P. Special Fund <sup>4)</sup>	— 109	— 241	— 38	+ 48
(d) <i>Länder</i>	—1,873	—4,279	—3,681	— 3,608
Total I (a to d)	—2,944	—6,351	—5,637	—11,372
(2) Special transactions <sup>5)</sup>	950	789	721	643
(3) Cash surplus (+) or deficit (—)	—3,894	—7,140	—6,358	—12,015
II. Financing				
Increase (+), decrease (—) in				
(1) Cash reserves				
(a) Federal Government	+ 199	— 246	+ 204	— 207
(b) Equalisation of Burdens Fund	— 110	— 0	— 2	+ 232
(c) E.R.P. Special Fund	— 117	— 243	+ 33	+ 193
(d) <i>Länder</i>	— 861	—1,174	— 728	+ 243
Total I (a to d)	— 889	—1,663	— 493	+ 461
(2) Indebtedness				
(a) Federal Government	+1,202	+1,704	+2,564	+ 7,887
(b) Equalisation of Burdens Fund	+ 687	+ 506	+ 204	+ 440
(c) E.R.P. Special Fund	— 8	— 2	— 5	+ 146
(d) <i>Länder</i>	+ 961	+3,111	+2,927	+ 3,851
Total 2 (a to d)	+2,842	+5,319	—5,690	—12,323
(3) Amounts credited to Federal Government in respect of coinage	163	158	176	153
(4) Total (1 less 2 less 3)	—3,894	—7,140	—6,358	—12,015

<sup>1)</sup> The cash surpluses or deficits of the Federal Government and the Equalisation of Burdens Fund were ascertained as balance of in-payments to, and out-payments from, the accounts kept by the said authorities with the Bundesbank. These surpluses and deficits deviate from the final results of the official financial statistics primarily because the underlying payments are not recorded at the time they are entered in the budgetary accounts but at the time of the actual receipt or out-payment, and because the incurring of debt was eliminated from the income, and the expenditure on debt redemption (including repurchase of bonds) from the outgo. The cash results of the E.R.P. Special Fund and the *Länder* were estimated, according to the same method, by using statistics on budgetary receipts and expenditure, indebtedness, money holdings and other liquid funds. — <sup>2)</sup> Except Federal Railways and Federal Postal Administration. — <sup>3)</sup> The cash surpluses or deficits of the Federal Government and the Equalisation of Burdens Fund do not in exact detail correspond to the changes in cash reserves and indebtedness, because there are certain items in course of settlement between these two authorities. — <sup>4)</sup> Including special fund for the promotion of professional skill. — <sup>5)</sup> Fulfilment of expenditure commitments by allocation of claims (including subsequent allocation of equalisation claims, but excluding Debt Register claims of pension insurance institutions). — <sup>e)</sup> Partly estimated. — Details may not add to totals because of rounding.

yielded 0.9 per cent less than in 1966. Receipts from Equalisation of Burdens levies in 1967 exceeded the previous year's figure by 2.2 per cent.

Similar to the movement in tax revenue, receipts from social insurance contributions also grew much less than a year before. Overall contribution income ran at approximately DM 47 billion, thus exceeding by little more than DM 1 billion or 3 per cent the figure for 1966, when the rise had amounted to about 11 per cent as a result of various amendments to legislation. The increase would have been still smaller, corresponding to the movement in total gross wages and salaries, had it not been for the extension of the income limit for calculating the contribution (from October 1966) and of the insurance liability (from January 1967) in the case of unemployment insurance. In addition, contribution rates in health insurance were further increased, and in accident insurance the rates were adapted to the increased expenditure requirements.

#### Expenditure

Public authorities' expenditure in 1967 amounted to quite DM 206 billion compared with DM 192 billion a year previously; at over 7 per cent the increase was about the same as in 1966. The expansion of public expenditure accordingly far exceeded that in all other items of

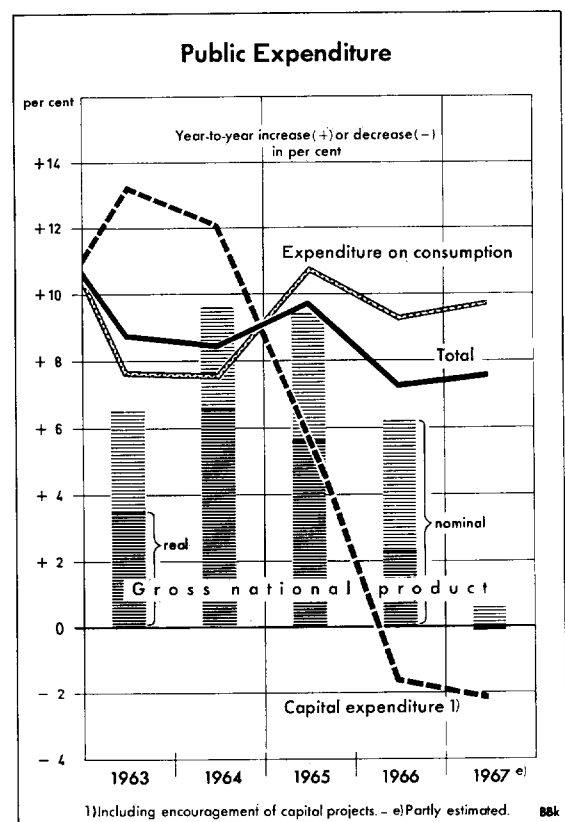
... and from social insurance contributions

Public expenditure supporting domestic demand

domestic expenditure; as a result, the proportion of government expenditure to the nominal gross national product rose from 40 per cent in 1966 to 43 per cent in 1967. This more than proportionate growth substantially contributed towards overcoming more rapidly the recessive tendencies in the economy which had become quite apparent early in 1967. It was only expenditure on consumption which increased, however, whereas public authorities' expenditure on investments of their own and on the promotion of third parties' investments was on the decline. In 1967, as in the two preceding years, the share taken by capital expenditure in the overall expenditure of public authorities thus dropped further, to not quite 17 per cent as against more than 18 per cent in 1966. The principal factor here was the reserve observed by *Länder*, and especially by local authorities, in their spending; their overall investments fell short by an estimated 6 per cent of the 1966 figure. As these territorial authorities pay for more than two-thirds of all direct and indirect investments of public authorities, no great importance attached to the fact that the Federal Government appreciably expanded its capital expenditure, raising it to almost one-third above the 1966 level. A significant factor in this connection was that the DM 2.5 billion of additional capital expenditure voted early in 1967 (for the time being as "contingency budget") was largely reflected in the cash figures by the end of the year, so that Federal expenditure on investment in material assets (especially construction projects for transportation purposes) and on the granting of loans (chiefly to Federal Railways and Federal Postal Administration) rose noticeably in contrast with the original estimates in the "regular budget" (*i.e.* the budget excluding the "contingency budget"). On the other hand, only small payments had been effected by the end of the year in respect of the "second programme for special stimulating and structural measures 1967/68" resolved by the Federal Cabinet in the summer of 1967. This programme, which the Federal Government — partly on the basis of authorisations contained in the "Law to Promote Economic Stability and Growth" coming into force on 14 June 1967 — initiated together with the *Länder* and local authorities, provided for public authorities' capital expenditure and assistance to capital projects in the total amount of DM 5.3 billion being advanced to an earlier date or executed additionally. The Federal Government participated in this programme to the extent of DM 2.3 billion, while the *Länder* accounted for DM 2.0 billion and E.R.P. Special Fund and local authorities for DM 0.5 billion each. The relative orders were mostly placed last year, although their execution, and in particular payment for them, predominantly falls in the year 1968. To that extent, therefore, the capital expenditure effected by public authorities in terms of cash does not reflect the influence which the programme exerted on economic activity in the last months of the past year.

Current expenditure continues to run at a high level

Among the other items of expenditure, spending on (civilian) personnel again rose vigorously in the past year. Although there was no general pay increase during 1967, expenditure including pension payments exceeded by almost 8 per cent that recorded for 1966. This substantial growth was due in part to the fact that the raising of collectively agreed remunerations effected in 1966 still made itself felt; in addition some part was again played



by the fact that the number of jobs was augmented and the structure of pay further improved. Expenditure for social purposes mounted even more markedly than expenditure on personnel — in fact by 11 per cent compared with 12 per cent in 1966 — mostly as a result of legal amendments. In the first place, as from 1 January 1967 pensions were raised in social pension insurance (by 8 per cent) and in accident insurance (by 9 per cent), while war victims' pensions likewise were improved. Next, with effect from 1 April 1967 benefit rates in unemployment insurance were increased, larger payments having already become effective in October 1966 in connection with the raising of the income limit for computing the contributions. Moreover, social expenditure also rose as a result of the steadily growing number of pensioners and of the increased number of unemployed and short-time workers. On the other hand, expenditure of the statutory health insurance rose much less than in the year before; following the substantial increase in 1965 and 1966, doctors' and dentists' compensation showed only moderate rise while cash payments (chiefly sickness benefit) actually were smaller than in 1966 owing to the decline in the number of sick persons. Furthermore, Federal expenditure on children's allowance (including educational assistance) was on the decline, in that as from 1 January 1967 educational assistance was only granted to a more limited number of persons, and from mid-1967 it was stopped entirely.

In contrast with expenditure on personnel and for social purposes, spending on defence and the other items of expenditure expanded at an even greater rate than in 1966. As regards defence, the determining factor was the commitments which the Federal Government had undertaken to fulfil in the first half of the year under the Foreign Exchange Offset Agreement with the United States of America expiring at end-June 1967; these commitments were particularly high because in 1965 and 1966 the Federal Government had paid less than would have been required had the payments been evenly spread over the two-year period covered by the agreement. Altogether expenditure on defence in 1967 exceeded by 9 per cent the figure for 1966, when it had grown by 4 per cent only. As regards the other items of expenditure (which rose by 11 per cent compared with 8 per cent in the previous year), besides the expansive trend of administrative expenditure on material and the manifold governmental promotion measures the principal factor was the substantial increase in the interest burden concomitant with the steep rise in indebtedness required for financing the deficit.

(b) *Indebtedness and reserves\**)

Indebtedness

The indebtedness of public authorities (excluding the only small debts of the social insurance institutions, but including the indebtedness of the territorial authorities and their special funds to the social insurance institutions<sup>1)</sup>) increased during the past year by DM 15.0 billion to more than DM 107 billion. It thus rose much more vigorously than in 1966 (DM 9.3 billion) and 1965 (DM 9.9 billion), when it already had grown much more markedly than in preceding years. The expansion of borrowing was concentrated chiefly on the Federal Government, whose indebtedness went up by DM 7.9 billion or more than three times as much as in 1966 (DM 2.6 billion). The Equalisation of Burdens Fund likewise made use of the opportunity of borrowing at an increased rate (+ DM 0.4 billion as against DM 0.2 billion a year before), and the indebtedness of the *Länder* mounted by almost DM 3.9 billion compared with DM 2.9 billion in 1966. The movement was in the opposite direction, however, in the case of the local authorities, which again substantially curbed their net borrowing, in fact to DM 2.6 billion as against DM 3.6 billion in 1966 and

Substantial increase

\*) As regards the method used, the following data are more narrowly delimited than those given for the public sector in the preceding section I on "Money and Credit". Whereas the latter data mostly concern all public entities comprising not only the public authorities in the narrower sense, but also the special funds Federal Railways and Federal Postal Administration, the public enterprises without own legal personality, and other domestic and foreign public authorities, this section concerns only public authorities in the narrower sense, i.e. the Federal Government, *Länder*, Equalisation of Burdens Fund, E.R.P. Special Fund, local authorities and social insurance institutions. This results in discrepancies between the two sections, especially in the data concerning public authorities' bank balances and the loans granted by credit institutions to public authorities and also in the figures on fixed-interest securities.

<sup>1)</sup> The territorial authorities' liabilities to the social insurance funds are counted among the latter's reserves (cf. the following subsection).

*Indebtedness of Territorial Authorities <sup>1)</sup>*

Millions of DM

Item	End-of-year position				Change during year		
	1964	1965	1966	1967 <sup>c)</sup>	1965	1966	1967 <sup>c)</sup>
<b>I. Borrowers</b>							
(1) Central authorities	51,843	57,162	62,852	75,175	+5,319	+5,690	+12,323
(a) Federal Government	31,338	33,042	35,606	43,493	+1,704	+2,564	+ 7,887
(b) Equalisation of Burdens Fund	5,648	6,154	6,358	6,798	+ 506	+ 204	+ 440
(c) E.R.P. Special Fund	567	565	560	706	— 2	— 5	+ 146
(d) <i>Länder</i>	14,290	17,401	20,328	24,178	+3,111	+2,927	+ 3,851
(2) Local authorities	21,264	25,844	29,465	32,100	+4,580	+3,621	+ 2,635
Total (1 plus 2)	73,107	83,006	92,317	107,275	+9,899	+9,311	+14,958
<b>II. Categories of debt</b>							
(1) Book credits of Bundesbank	1,212	1,408	1,164	2,220	+ 196	— 244	+ 1,056
(2) Special credit of Bundesbank to Fed. Govt. <sup>2)</sup>	3,008	2,340	2,530	1,603	— 668	+ 190	— 927
(3) Money-market paper <sup>3)</sup>	598	1,378	3,693	7,933	+ 780	+2,315	+ 4,240
(4) Medium-term notes ( <i>Kassenobligationen</i> )	1,088	1,168	1,259	3,189	+ 80	+ 91	+ 1,930
(5) Bonded loans <sup>4)</sup>	8,973	11,195	12,092	14,200	+2,222	+ 897	+ 2,109
(6) Direct lending by credit institutions	19,656	24,749	29,519	34,206	+5,093	+ 4,770	+ 4,687
(7) Social insurance institutions' claims on the Debt Register	3,543	4,209	4,829	6,102	+ 666	— 620	+ 1,273
(8) Loans granted by social insurance institutions	2,115	2,381	2,416	2,287	+ 266	— 35	— 129
(9) Other loans	5,121	6,339	7,868	8,700	—1,218	+1,529	+ 832
(10) Commutation and compensation debt	1,020	1,006	997	973	— 14	— 9	— 24
(11) Equalisation claims	20,550	20,489	20,336	20,175	— 61	— 153	— 162
(12) Covering claims <sup>5)</sup>	2,807	3,035	3,238	3,391	+ 228	+ 203	— 153
(13) External debt	3,416	3,300	2,376	2,296	— 107	— 933	— 80
Total (I to 13)	73,107	83,006	92,317	107,275	+9,899	+9,311	+14,958
<b>III. Creditors</b>							
(1) Banking system							
(a) Bundesbank	13,110	12,451	12,794	13,096	— 659	+ 343	+ 303
(b) Credit institutions	32,560	38,969	45,021	57,437	+6,409	+6,052	+12,416
(2) Domestic non-banks							
(a) Social insurance institutions	6,690	7,941	8,814	9,798	+1,251	+ 873	+ 984
(b) Other <sup>6)</sup>	17,247	20,035	22,511	24,506	+2,788	+2,476	+ 1,995
(3) Foreign countries <sup>c)</sup>	3,500	3,610	3,177	2,438	+ 110	— 433	— 739
Total (I to 3)	73,107	83,006	92,317	107,275	+9,899	+9,311	+14,958

<sup>1)</sup> Including Equalisation of Burdens Fund and E.R.P. Special Fund. — <sup>2)</sup> Acquisition of claims by Bundesbank in respect of post-war economic aid and from Bank for International Settlements, claim in respect of alteration of the exchange parity, and credits for payments into the World Bank and the European Fund; excluding credits for payments into the International Monetary Fund. — <sup>3)</sup> Excluding paper deriving from the conversion of equalisation claims (mobilisation paper). — <sup>4)</sup> Including interest-bearing Treasury bonds; without bonds in the issuers' own portfolios. — <sup>5)</sup> Covering claims on the Equalisation of Burdens Fund under the "Old Savings" Law and for the savings deposits arrangement, as well as claims of life assurance companies on the Debt Register. — <sup>6)</sup> Public and private creditors (ascertained as difference). — <sup>c)</sup> Partly estimated. — Details may not add to totals because of rounding.

DM 4.6 billion in 1965. The reason was that, with differences in individual cases, the local authorities under the impression of the already substantial burden of debt service and the hardly growing ordinary receipts have appreciably reduced the amount of expenditure financed by borrowing.

The various categories of debt

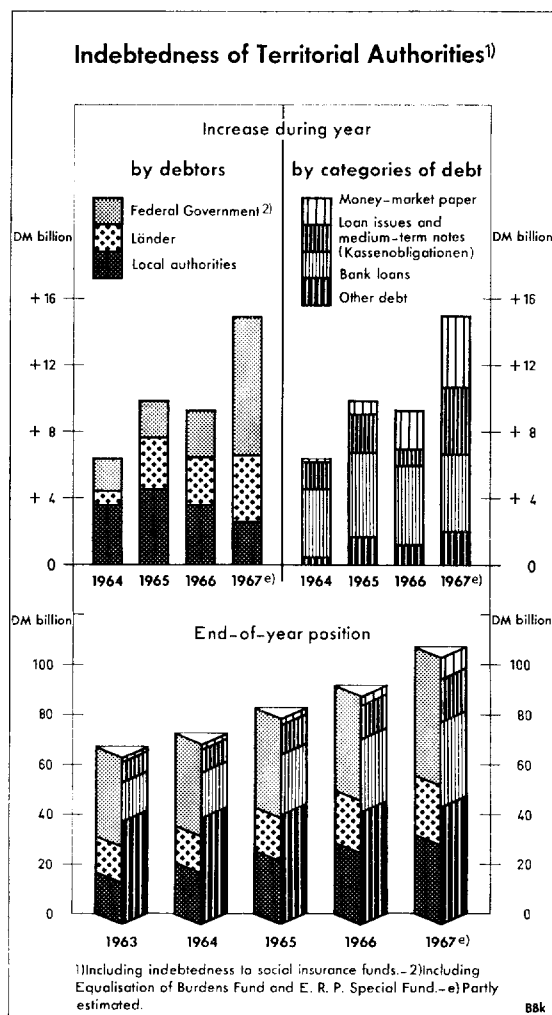
In line with the state of credit markets, public authorities met their borrowing requirements — greater by DM 5.6 billion than a year before — principally by taking loans running for up to four years. By issuing money-market paper and medium-term notes (*Kassenobligationen*) in particular, but also by resorting to the Bundesbank's book credits, shorter-term funds were raised in the amount of DM 7.2 billion or altogether about DM 5.1 billion more than in 1966. As to details, at the end of 1967 recourse to book credits from the Bundesbank was greater by almost DM 1.1 billion than at end-1966. Moreover, the circulation of money-market paper increased by DM 4.2 billion compared with DM 2.3 billion in 1966. While the amount of Treasury bills in circulation, which had slightly risen in 1966, was reduced by almost DM 1 billion, the circulation of non-interest Treasury bonds grew by approximately DM 5.2 billion (as against DM 1.6 billion in the previous year). This was almost exclusively a matter of Federal paper; the circulation of non-interest Treasury bonds issued by *Länder* remained insignificant up to the end of 1967, although

the Bundesbank as early as June 1967 had promised to include in its money-market regulation a certain amount of *Länder* paper so as to facilitate the issue of such paper in the same way as in the case of the Federal Government. The circulation of *Kassenobligationen* — likewise chiefly those issued by the Federal Government — expanded very substantially (by over DM 1.9 billion compared with only DM 0.1 billion in 1966). No doubt, sales in this case were facilitated by the fact that, as mentioned elsewhere, *Kassenobligationen* of the Federal Government and the *Länder* were included in the Bundesbank's money-market regulation scheme as from August and October 1967, respectively, for the last eighteen months of their lives.

The increased recourse to shorter-term funds was entirely in keeping with the requirements of the cyclical and capital-market situation; indeed it would have been desirable for short and medium-term indebtedness to be preferred even more. As a result of the banks' great liquidity, it would have been possible even in the case of greater demand to offer such credits at relatively low interest, whereas the increased demand for long-term loans operated in favour of the tendencies to rising interest rates (which however were subsequently inhibited by the open-market policy of the Bundesbank). Public authorities last year resorted to the bond market by issuing loans (offset against redemptions) in the amount of DM 2.1 billion, while in 1966, when market conditions had admittedly been much more difficult, only approximately DM 0.9 billion of loans had on balance been issued. The *Länder* participated to the extent of approximately DM 1.4 billion in the increase of the circulation of bonds during 1967, while the Federal Government accounted for only about

DM 0.6 billion. Indirectly however the Federal Government burdened the bond market to a greater extent than is reflected in these figures.

In point of fact, during 1967 it allocated to the social pension insurance funds almost twice as much in Debt Register claims as in the previous year, in lieu of the cash grants which otherwise would have been payable; its liabilities on such claims accordingly rose by DM 1.3 billion. In consequence thereof the social insurance institutions were compelled to sell securities out of their portfolios to a greater extent than would otherwise have been necessary, *viz.*, in a total amount of quite DM 0.9 billion, which of course encumbered the bond market in the same way as new issues. Direct banks loans — mostly at longer term — were taken during 1967 at a total of DM 4.7 billion or almost exactly as much as a year before (DM 4.8 billion). As against this, the "other" direct loans (especially from insurance companies and building and loan associations) rose by only about DM 0.8 billion or not quite half as much as in 1966; the reason is to be found in the reduced demand for credit on the part of local authorities which in 1966 had to a substantial extent procured funds from these sources. Allowance must however be made for the fact that according to the partial data to hand the average maturity of these loans has appreciably risen. Besides, it



may be stated that the Bundesbank's special credits and claims on the Federal Government declined by DM 0.9 billion as a result of redemptions made according to plan.

A glance at the figures on debt ownership of public indebtedness shows that last year, as already in 1966, the Bundesbank played a minor part as lender. True, at the end of 1967, as already mentioned, book credits were higher by almost DM 1.1 billion than a year before, and in the course of the open-market transactions in bonds initiated in August 1967 the Bank purchased almost DM 0.6 billion of Federal loans (excluding paper issued by the Federal Railways and the Federal Postal Administration) by the end of the year. On the other hand however it had by the end of 1967 completely run down the holdings of Federal money-market paper (DM 0.4 billion at the end of 1966), and moreover special credits and claims on the Federal Government were reduced, as has already been mentioned. Altogether the Bundesbank in 1967 placed only DM 0.3 billion at the disposal of the territorial authorities. Thus, the crucial assistance granted by the Bundesbank did not consist in direct lending to public authorities — to which limits are also set by the Bundesbank Law — but in several measures adopted in order to render the banking system more absorptive and more willing to take government certificates of indebtedness. In point of fact, as described in the section on "Money and Credit", the credit institutions used the increased liquidity in the first place towards intensifying their lending to the territorial authorities and their special funds (especially by acquiring public securities). Total credits placed at the disposal of public authorities by the banks amounted to DM 12.4 billion; at that rate they were more than twice as great as a year before. The proportion of public authorities' indebtedness to credit institutions at end-1967 accordingly amounted to 54 per cent of their overall indebtedness, as against 49 per cent at end-1966. On the other hand the importance of domestic non-banks as lenders to public authorities declined. Although the claims of the social insurance institutions increased by DM 1.0 billion (or by DM 0.1 billion more than a year before), this was due solely to the increased allocation of Debt Register claims to the pension insurance funds. The other domestic non-banks (chiefly building and loan associations and insurance companies) however placed at the disposal of public authorities only DM 2.0 billion net, *i.e.* DM 0.5 billion less than in 1966. Foreigners' claims, which had already been reduced by approximately DM 0.4 billion in 1966, further declined during 1967 by DM 0.7 billion as a result of the reduction of money-market and security investments.

#### Reserves

For the first time in a number of years the financial resources of the public authorities — in the form of bank balances and comparable assets as well as social insurance institutions' holdings of money-market paper, securities and Debt Register claims — declined in 1967. The decrease may be put at approximately DM 2 billion, whereas last year reserves had still grown by more than DM 1 billion. In contrast with preceding years the reserves of the territorial authorities hardly diminished any further during 1967 — if anything, they slightly increased — while those of the social insurance institutions fell quite substantially contrary to the tendency observed in all previous years. Details on territorial authorities are to hand only for the central authorities (*i.e.*, excluding local authorities). Their cash holdings rose by almost DM 0.5 billion in 1967 after having been reduced by just on DM 0.5 billion in 1966 and by DM 1.7 billion in 1965. This was due principally to the fact that both the Equalisation of Burdens Fund and the *Länder* — though with differences in individual cases — increased their liquid funds by altogether about half a billion DM, part of the rise no doubt representing the proceeds of borrowing which were not yet needed in full for covering expenditure. The cash reserves of the E.R.P. Special Fund also increased. By way of contrast the Federal Government, which at the end of 1966 had held about DM 250 million of liquid funds, virtually had no cash holdings at all at the end of 1967.

The reduction of the social insurance institutions' reserves, mentioned above, amounted to an estimated DM 2 billion in 1967. As the social pension insurance funds had to accept an additional



DM 1.3 billion of Debt Register claims of the Federal Government in spite of their difficulties over liquidity, the social insurance institutions were compelled actually to diminish by over DM 3.25 billion the reserves maintained in other forms. In this operation, bank deposits and un earmarked loans to banks were cut down by approximately DM 1.75 billion. Moreover, security holdings were reduced by over DM 1.5 billion, almost DM 1.2 billion of the total concerning the social pension insurance funds, which reinvested only a small part of the refluxes resulting from redemptions and in addition even sold securities in the amount of over DM 0.9 billion. The unemployment insurance fund, which showed a deficit, it is true, but had no difficulties over liquidity, also reduced its investments in fixed-interest securities by almost DM 0.5 billion; on the one hand it effected major new investments (*i.a.* in Federal *Kassenobligationen*), but on the other hand it dissolved assets to a considerable extent, especially those held in the form of shorter-term registered bonds.

### (c) Outlook

According to the present state of the territorial authorities' expenditure planning, and on the assumption that the nominal gross national product does not grow more than estimated by the Federal Cabinet in its target projection (6 per cent) and that moreover taxes on turnover yield neither more nor less than would have to be expected had the former turnover tax law remained in force, the public authorities have to expect for 1968 a cash deficit similar in size to that recorded for 1967. True, the growth in receipts will probably accelerate noticeably, since receipts from important taxes and social insurance contributions will increase as gross wages and salaries, value added and consumption expand. Furthermore, receipts will rise during 1968 at an increased rate also as a result of new amendments to tax legislation (introduction of a supplementary levy by the Federal Government in respect of income and corporation tax and cutting down of tax privileges for certain credit institutions as from January, as well as raising of value-added tax rates from July 1968) and in the field of pension insurance law (raising of the contribution rate from 14 per cent to 15 per cent, extension of insurance liability to all employees, introduction of a pensioner's contribution to health insurance and of employers' contributions for employed pensioners). The only factor tending to dampen the growth of receipts will be that the upward movement in enterprises' profits now becoming apparent will in the main not lead to larger tax payments until later years and that the additional receipts recorded by the Federal Government in 1967 owing to the shortening of payment periods for various excise duties and import levies do not recur in 1968. On the assumptions stated initially, however, the accelerated growth of receipts will not bring about any appreciable change in the overall deficit of public authorities, as expenditure in 1968 is likely to increase as much as last year — at any rate in absolute figures, although not in percentage terms. While important items of expenditure (*e.g.* spending on personnel) will probably rise comparatively slightly or in fact decline in comparison with 1967 (as for example defence expenditure), public authorities' capital expenditure on the other hand, which had dropped in 1967, will mount appreciably this year chiefly owing to the implementation, in terms of cash, of the second programme to stimulate economic activity, and social expenditure likewise will continue to grow at an above-average rate (in point of fact the pension insurance funds will also record large deficits in 1968).

For the first time, the Federal budget estimates for 1968 have been embedded in a medium-term fiscal planning scheme as adopted by the Federal Government in July last year — in compliance with the provisions of the Stability and Growth Law passed shortly before — for the period 1967 to 1971. The Government was faced with the task by combining expenditure cuts and boosting of ordinary receipts to remove the "structural excess of expenditure" resulting from comparison of the revenue possibly to be achieved with the expenditure liabilities under existing legal and contractual regulations as well as the programmes adopted and other resolutions passed by Parliament. Beyond that, medium-term fiscal planning aims at augmenting the proportion

Large deficits continuing

Medium-term fiscal planning

of Federal capital expenditure to total Federal expenditure. By the end of 1967 the legislative bodies had created essential preconditions permitting realisation of these aims of medium-term fiscal planning. On the one hand taxes and pension insurance contributions were raised, while on the other hand certain expenditure liabilities previously ordered by law were abolished. For the years as from 1969 the planning accordingly shows a substantial decline in the annual cash deficits of the Federal Government — these of course being inflated in the years 1967 and 1968 owing to the economic situation — so that net borrowing requirements are expected to decline year by year. Having amounted to as much as DM 7.9 billion in 1967 and probably being little smaller in 1968, such requirements are planned to amount to only DM 1.7 billion in 1969 and to fall back to DM 0.4 billion by 1971. It is not intended here to discuss the question as to whether these aims, which were established in the summer of 1967, ought already to be revised in the light of recent developments. When promising to support financing by borrowing in 1967, the Bundesbank at all events acted on the supposition that the Federal Government would achieve “structural” correction of the Federal budget in line with medium-term fiscal planning. Any changes in the fundamental tendencies of the Federal budget causing deficits to grow beyond the present targets would raise new problems.

#### 4. Balance of Payments

##### *(a) Overall survey*

Sizable surpluses on  
current account...

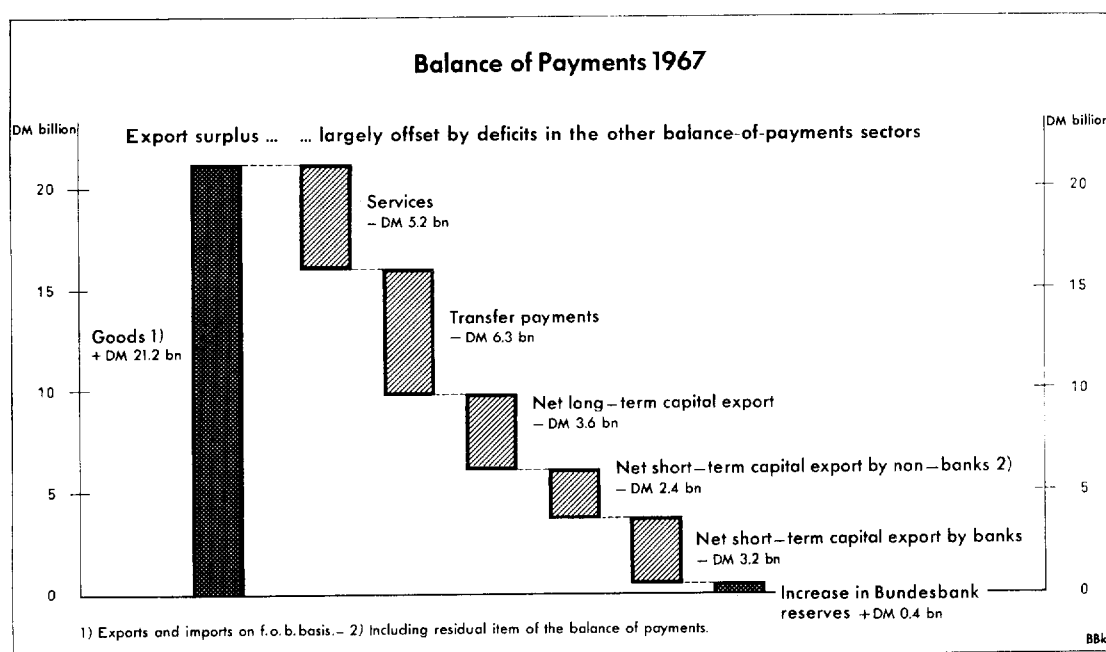
... compensated by  
capital exports

In 1967 the changed economic situation on the home market influenced the movement of the German balance of payments in considerable measure. The slackening of domestic demand resulted in a shrinkage of imports and the necessity to intensify export endeavours. The surplus in the balance of trade of the Federal Republic of Germany thus recorded a steep rise. Although deficits on services and transfers for a large part offset the trade surplus, the surplus on all current transactions increased from DM 0.4 billion in 1966 to DM 9.7 billion in 1967. Never before had within one year a similarly remarkable improvement been recorded in the current account of the German balance of payments. The pronounced growth of the surplus on current transactions however faced an even greater deficitary movement on capital account. Including the statistically unidentifiable transactions (the “residual item” of the balance of payments) capital transactions in 1967 resulted in net capital exports of quite DM 9.2 billion, as against net capital imports of DM 0.6 billion which, on the same definition, had still been recorded in 1966. Moreover, bearing in mind that in 1966 the capital account was burdened by special transactions (above all prepayment of debts) amounting to DM 1.4 billion, the “market-induced” reversal in the trend of capital transactions from 1966 to 1967 involved no less than DM 11 billion. This is primarily a consequence of greater ease in the domestic credit markets, which in turn mainly stemmed from the influx of liquidity accruing from current transactions with foreign countries as well as from measures in the field of liquidity policy put into effect by the Bundesbank in the way of repeated release of minimum reserves and open-market operations in long-term securities. The relaxation evident in the domestic credit markets, which was in conformity with balance-of-payments requirements, affected international capital movements all the more since it was accompanied by a rise in foreign interest rates. In the overall balance of payments, surpluses on current account and deficits on capital transactions — including those at short term — largely offset each other, so that the Bundesbank’s gold and foreign exchange holdings increased by no more than DM 400 million, as against DM 1 billion in 1966. Still, this approximate “equilibrium in the balance of foreign exchange” does not yet permit the conclusion that the balance of payments is in a state of stable equilibrium. This state will not be reattained until such time as imports of goods increase

at an accelerated rate, causing foreign exchange surpluses to shrink to a level where they no longer substantially exceed the structural deficits on services and transfers plus the long-term net capital exports normally to be expected — in other words: until the “basic balance” is approximately equilibrated. In 1967, however, the “basic balance” still showed a surplus of some DM 6 billion.

During the first months of 1968 signs pointing to a reduction in the surpluses of the basic balance increased in number. The rise in imports already under way last summer gained a stronger foothold. As early as the last quarter of 1967, seasonally adjusted imports went up by some 7 per cent. In the first two months of 1968 — more recent data not being available when this Report went to press — they recorded a further 7 per cent growth. In response to the rise in imports provoked by the trend in economic activity and the stock cycle, the surplus on current account in January and February together, at DM 1.5 billion, was no longer quite as high as in the comparable months of 1967 (DM 1.7 billion), in spite of constantly growing exports. Adjusted for seasonal variation, surpluses on current transactions on the average for the months of January and February 1968 at approximately DM 0.5 billion indeed fell considerably short of their all-time record attained in the third quarter of 1967 (DM 0.9 billion on the monthly average). As net long-term capital exports (just on DM 1 billion) during the first two months of 1968 were by far larger than for the corresponding months in the previous year (DM 235 million), the surplus on the “basic balance” was reduced also on the side of capital movements. Altogether, in January and February 1968 the surplus of the basic balance accordingly reached only DM 0.5 billion, as against DM 1.5 billion in the corresponding period last year.

Promise of better equilibrium in the balance of payments early in 1968



In the following text the principal trends in the individual components of the balance of payments for 1967 will be analysed. For further details please refer to the article “Principal Results of the Balance of Payments for the Year 1967” published in the Monthly Report of the Deutsche Bundesbank for February 1968.

*Principal Items of the Balance of Payments*

Millions of DM

Item	1962	1963	1964	1965	1966	1967	1966		1967	
							1st half	2nd half	1st half	2nd half
<b>I. Balance of current items</b>										
(1) Goods										
Exports f.o.b. <sup>1)</sup>	52,884	58,288	64,788	71,480	80,388	86,803	38,466	41,922	42,567	44,236
Imports f.o.b. <sup>1)</sup>	46,694	49,148	55,032	66,522	68,855	66,018	34,425	34,430	32,074	33,944
Merchanting trade (net)	- 19	- 20	- 212	+ 152	+ 200	+ 371	- 298	+ 498	- 71	+ 442
Net balance of trade	+ 6,171	+ 9,120	+ 9,544	+ 5,110	+ 11,733	+ 21,156	+ 3,743	+ 7,990	+ 10,422	+ 10,734
(2) Services	- 3,089	- 3,121	- 4,075	- 5,156	- 5,041	- 5,228	- 2,254	- 2,787	- 2,030	- 3,198
among which: Receipts from foreign troops	(- 4,300)	(- 4,289)	(- 4,224)	(- 4,170)	(- 4,961)	(- 5,260)	(- 2,259)	(- 2,702)	(- 2,506)	(- 2,754)
(3) Transfer payments <sup>2)</sup>										
Private	- 1,407	- 1,727	- 2,120	- 2,880	- 3,330	- 3,018	- 1,554	- 1,776	- 1,418	- 1,600
Official	- 3,817	- 3,359	- 3,123	- 3,501	- 2,934	- 3,254	- 1,691	- 1,243	- 1,799	- 1,455
Net transfer payments	- 5,224	- 5,086	- 5,243	- 6,381	- 6,264	- 6,272	- 3,245	- 3,019	- 3,217	- 3,055
Net balance of current items (1 + 2 + 3)	- 2,142	+ 913	+ 226	- 6,427	+ 428	+ 9,656	- 1,756	+ 2,184	+ 5,175	+ 4,481
<b>II. Capital transactions</b> (except special transactions)										
(1) Long-term capital <sup>2)</sup> <sup>3)</sup>										
Net German capital investments abroad (increase: -)										
Private	- 1,540	- 1,445	- 2,019	- 1,954	- 2,525	- 3,394	- 1,628	- 897	- 1,484	- 1,910
Direct investments	(- 934)	(- 670)	(- 793)	(- 968)	(- 1,169)	(- 1,365)	(- 574)	(- 595)	(- 468)	(- 897)
Credits and loans	(- 194)	(- 430)	(- 520)	(- 304)	(- 361)	(- 738)	(- 177)	(- 184)	(- 494)	(- 244)
Portfolio investments	(- 187)	(- 179)	(- 540)	(- 464)	(- 792)	(- 1,106)	(- 775)	(- 17)	(- 443)	(- 663)
Other	(- 225)	(- 166)	(- 166)	(- 218)	(- 203)	(- 185)	(- 102)	(- 101)	(- 79)	(- 106)
Official	- 1,084	- 1,120	- 1,161	- 1,214	- 1,313	- 1,350	- 592	- 721	- 511	- 839
Total	- 2,624	- 2,565	- 3,180	- 3,168	- 3,838	- 4,744	- 2,220	- 1,618	- 1,995	- 2,749
Net foreign capital investments in Germany (increase: +)										
Private	+ 2,439	+ 4,408	+ 2,388	+ 4,181	+ 4,213	+ 1,211	+ 2,728	+ 1,485	+ 640	+ 571
Direct investments	(+ 1,036)	(+ 1,524)	(+ 2,122)	(+ 3,276)	(+ 3,334)	(+ 2,448)	(+ 1,925)	(+ 1,409)	(+ 1,104)	(+ 1,344)
Credits and loans	(+ 264)	(+ 394)	(+ 346)	(+ 985)	(+ 1,335)	(- 386)	(+ 972)	(+ 363)	(- 77)	(- 309)
Portfolio investments	(+ 1,277)	(+ 2,593)	(+ 21)	(+ 40)	(- 336)	(- 723)	(- 93)	(- 243)	(- 332)	(- 391)
Other	(- 138)	(- 103)	(- 101)	(- 120)	(- 120)	(- 128)	(- 76)	(- 44)	(- 55)	(- 73)
Official	- 89	- 61	- 79	- 73	- 144	- 59	- 94	- 50	- 32	- 27
Total	+ 2,350	+ 4,347	+ 2,309	+ 4,108	+ 4,069	+ 1,152	+ 2,634	+ 1,435	+ 608	+ 544
Net long-term capital	- 274	+ 1,782	- 871	+ 940	+ 231	- 3,592	+ 414	- 183	- 1,387	- 2,205
<i>Note:</i> Basic balance (I + II, 1)	- 2,416	+ 2,695	- 645	- 5,487	+ 659	+ 6,064	- 1,342	+ 2,001	+ 3,788	+ 2,276
(2) Short-term capital <sup>2)</sup>										
Credit institutions	- 147	+ 704	+ 51	- 187	- 388	- 3,218	- 1,384	+ 996	- 4,258	+ 1,040
Enterprises <sup>4)</sup>	+ 505	+ 39	+ 225	+ 798	+ 1,708	- 1,566	+ 894	+ 814	+ 311	- 1,877
Public authorities <sup>5)</sup>	+ 425	- 346	- 1,427	+ 870	- 239	+ 192	+ 151	- 390	- 669	+ 861
Net short-term capital	+ 783	+ 397	- 1,151	+ 1,481	+ 1,081	- 4,592	- 339	+ 1,420	- 4,616	+ 24
(3) Special capital transactions (net) <sup>6)</sup>	-	-	-	-	- 1,378	-	- 594	- 784	-	-
Net balance of overall capital transactions	- 509	+ 2,179	- 2,022	+ 2,421	- 66	- 8,184	- 519	+ 453	- 6,003	- 2,181
Net balance of current items and capital transactions (I + II)	- 1,633	+ 3,092	- 1,796	- 4,006	+ 362	+ 1,472	- 2,275	+ 2,637	- 828	+ 2,300
<b>III. Residual item <sup>7)</sup></b>	+ 1,081	- 520	+ 1,808	+ 2,500	+ 668	- 1,059	+ 1,268	- 600	+ 44	- 1,103
<b>IV. Movement of gold and exchange <sup>8)</sup></b>	- 552	+ 2,572	+ 12	- 1,506	+ 1,030	+ 413	- 1,007	+ 2,037	- 784	+ 1,197

<sup>1)</sup> Special trade, including supplementary items. — <sup>2)</sup> Transactions are classified as "Private" or "Official" according to the sector to which the German party engaged in the transaction belongs. — <sup>3)</sup> Breakdown of long-term capital transactions by "Direct investments", "Credits and loans", "Portfolio investments", and "Other" is partly estimated. — <sup>4)</sup> Chiefly granting and use of financial credits. — <sup>5)</sup> Chiefly changes in claims of the Federal Government from prepayments on defence imports and in commitment to I.M.F. under the German quota (excluding increase of quota). — <sup>6)</sup> Prepayment of DM 156 million of liabilities to Bank for International Settlements, Basle; payments to International Monetary Fund (DM 429 million) and International Bank for Reconstruction and Development (DM 9 million) on the occasion of the raising of the German quotas in these institutions; and prepayment to the United States of America of DM 784 million of liabilities in respect of post-war economic aid. — <sup>7)</sup> Unidentified difference between movement of gold and exchange and net balance of current items and capital transactions. — <sup>8)</sup> Change in net monetary reserves of Deutsche Bundesbank; increase: +.

(b) Current items \*)

On the basis of f.o.b. figures for exports and imports Germany's foreign trade surplus mounted from DM 11.7 billion in 1966 to almost DM 21.2 billion in 1967. The slackening of domestic economic activity, which was the main reason for the strong increase in the trade surplus, affected particularly imports, which in 1967 at DM 66.0 billion fell short by DM 2.8 billion (or 4.1 per cent) of the previous year's figure. According to the data shown in the official foreign trade statistics, which must serve as a basis in this case since no f.o.b. values are available for the various groups of imported goods, commercial imports of industrial goods<sup>1)</sup>, which most clearly reflect Germany's import requirements determined by the trend of economic activity, contracted by 3 per cent in 1967. In the course of the year, however, a distinct change in tendency took place. Whereas in the first two quarters of 1967 commercial imports of industrial goods, in terms of seasonally adjusted figures, had still been on the decline (thus continuing a development in evidence since the spring of 1966), they rose by 2 per cent in the third quarter and by about 12 per cent in the fourth. This indicates that towards the end of 1967 the trend was already taking shape which is likely to be maintained in imports as a consequence of the incipient economic upswing (and which also largely determined developments in the first months of 1968). Nevertheless, 1967 as a whole spelled a decrease in the overall amount of imports. Besides cyclical reasons, contributory factors in this respect were the decline, by almost 5 per cent compared with 1966, in the demand for foreign agricultural products owing to rich domestic harvests, and the reduction by about 10 per cent in Federal Government imports of military equipment.

Declining imports cause rise in trade surplus

Against this stands the fact that in 1967 exports continued to grow, viz., by 8 per cent (to DM 86.8 billion), compared with an increase by as much as 12.5 per cent in the preceding year. The slight tapering off in the growth of exports arose primarily from the fact that in line with developments in this country a slowing down of economic activity also took place in countries whose purchases are of significance for German exports. This was apparent especially in export trade with E.E.C. countries and the United States, which in 1966 to a considerable extent had determined the expansion of German exports by their demand. In 1967 the member countries of the European Economic Community stepped up their imports from Germany altogether by no more than 9 per cent (as against 16 per cent in the preceding year), a fact which in the face of a hardly diminished growth in demand on the part of Italy (22 per cent) and the Netherlands (8 per cent) was mainly due to exports to Belgium-Luxembourg keeping at their former level and to a cut by half in the growth rate (9 compared with 18 per cent) of French imports from the Federal Republic (see table on page 86). German exports to the U.S.A., which in 1966 had still recorded a rise of 25 per cent, increased by a mere 9.5 per cent in 1967. The expansion of exports to countries of the European Free Trade Association (1.6 per cent against 5.0 per cent in 1966) and to developing countries (6 per cent against 12.5 per cent in the previous year) was likewise comparatively meagre. German exports to the Sino-Soviet area, however, recorded a distinctly above-average growth (32 per cent), so that the share of trade with Eastern-bloc countries in the entire volume of German exports mounted to 5 per cent, which is still relatively small by comparison with the close economic links that had obtained with these countries before the war.

Growing exports

In 1967, the deficit on service transactions with foreign countries (including freight and insurance costs of sea-borne imports) increased somewhat on the year, amounting to DM 5.2 billion. The fact that the balance of services, in contradistinction to the exchange of goods, thus did not respond to the slackening of domestic economic activity with a tendency to improve, but on the contrary continued to deteriorate, is in part the consequence of the Middle East conflict not only

Higher deficit on services

\*) The method used in delimiting the following data on foreign trade differs from that used in the official foreign trade statistics. In line with international practice in drawing up balances of payments, freight and insurance costs of sea-borne imports have in this section been eliminated from the official import figures and included in expenditure on service transactions. Imports and exports are thus recorded uniformly at their f.o.b. values. However, the overall figure for goods and services transactions (and hence also the balance of current transactions) are not affected by the regrouping of freight and insurance costs of sea-borne imports, which statistically results in a rise in the foreign trade surplus on the one hand and in the deficit on services on the other. Cf. introductory note to the article on the balance of payments published in the Monthly Report for February 1968.

<sup>1)</sup> Imports in this context do not include Federal Government imports of military equipment nor imports of foreign agricultural produce.

causing a temporary steep rise in freight rates, but also, owing to the blocking of the Suez Canal, often necessitating considerable detours. The deficit on transports consequently rose (by DM 300 million to DM 840 million), even though in 1967 Germany's sea-borne imports fell short of the 1966 total. Moreover, the deficit on investment income for 1967 grew by DM 400 million to DM 2 billion, mainly owing to greater interest payments on foreign credits and to larger profit distributions by domestic enterprises to their foreign shareholders (who by the way on a large scale re-invested such profits in the Federal Republic of Germany). As far as the transactions concerned took place between American parent companies and their German subsidiaries, it would seem that in anticipation of balance-of-payments measures on the part of the U.S. Government American companies sought to expand their subsidiaries' owned funds, primarily with a view to facilitating their access to extra-American money and capital markets in the future.

*Foreign Trade of the Federal Republic of Germany, by Groups of Countries<sup>1)</sup>*

Group of countries/country	1965	1966	1967			1966	1967		
			Total	1st half	2nd half		Total	1st half	2nd half
			Billions of DM				Change <sup>2)</sup> in per cent		
Exports (f.o.b.) <sup>3)</sup>									
E.E.C. countries	25.2	29.3	32.0	15.9	16.1	+16.1	+ 9.3	+11.5	+ 7.3
of which:									
Belgium-Luxembourg	5.5	6.4	6.4	3.1	3.3	+15.5	+ 0.3	+ 2.2	- 1.5
France	7.8	9.2	10.1	5.1	5.0	+18.3	+ 9.1	+12.2	+ 6.0
Italy	4.5	5.7	6.9	3.5	3.4	+25.8	+21.8	+31.4	+13.4
Netherlands	7.4	8.0	8.6	4.2	4.4	+ 8.4	+ 8.0	+ 4.6	+11.3
E.F.T.A. countries	19.4	20.3	20.6	10.2	10.4	+ 5.0	+ 1.6	+ 3.2	+ 0.0
among which:									
Austria	3.8	4.2	4.1	2.0	2.1	+11.1	- 2.9	- 1.8	- 3.9
Sweden	3.8	3.6	3.5	1.7	1.8	- 4.8	- 1.1	- 1.5	- 0.8
Switzerland	4.7	4.9	5.0	2.5	2.5	+ 4.8	+ 3.5	+ 7.1	+ 0.2
United Kingdom	2.8	3.1	3.5	1.7	1.8	+11.6	+11.0	+ 6.6	+15.5
United States of America	5.7	7.2	7.9	3.6	4.3	+25.0	+ 9.5	+11.6	+ 7.8
Other industrial countries	4.8	5.0	5.7	2.8	2.9	+ 3.5	+14.5	+18.3	+11.1
Developing countries	13.7	15.3	16.2	7.9	8.3	+12.5	+ 5.9	+ 8.1	+ 3.8
Sino-Soviet area	2.7	3.3	4.4	2.2	2.2	+23.6	+32.3	+53.3	+16.4
All countries <sup>5)</sup>	71.7	80.6	87.1	42.7	44.4	+12.5	+ 8.0	+10.6	+ 5.5
Imports (c.i.f.) <sup>4)</sup>									
E.E.C. countries	26.6	27.8	27.6	13.4	14.2	+ 4.2	- 0.5	- 4.0	+ 3.1
of which:									
Belgium-Luxembourg	5.4	5.6	5.4	2.6	2.8	+ 3.5	- 3.0	- 7.6	+ 1.7
France	7.8	8.6	8.5	4.2	4.3	+ 9.9	- 1.5	- 6.2	+ 3.6
Italy	6.6	6.7	6.4	3.1	3.3	+ 1.8	- 3.6	- 5.3	- 2.1
Netherlands	6.8	6.9	7.3	3.5	3.8	+ 0.6	+ 5.9	+ 3.0	+ 8.7
E.F.T.A. countries	12.2	11.9	11.0	5.3	5.7	- 1.5	- 8.0	-13.7	- 2.2
among which:									
Austria	1.7	1.7	1.5	0.7	0.8	- 1.0	-12.8	-21.0	- 4.3
Sweden	2.5	2.4	2.1	1.0	1.1	- 3.3	- 9.3	-15.9	- 2.6
Switzerland	2.3	2.3	2.1	1.0	1.1	+ 1.3	- 6.4	-11.3	- 1.5
United Kingdom	3.1	3.1	2.9	1.4	1.5	+ 0.4	- 7.1	-12.0	- 1.9
United States of America	9.2	9.2	8.6	4.4	4.2	- 0.2	- 6.8	- 3.3	-10.2
Other industrial countries	4.0	4.3	4.2	1.9	2.3	+ 6.8	- 1.4	- 8.5	+ 5.2
Developing countries	15.5	16.2	15.7	7.6	8.1	+ 5.1	- 3.4	- 7.3	+ 0.5
Sino-Soviet area	2.9	3.2	3.0	1.3	1.7	+ 8.0	- 4.3	- 8.7	- 0.4
All countries <sup>5)</sup>	70.5	72.7	70.2	33.9	36.3	+ 3.2	- 3.4	- 6.7	- 0.1

<sup>1)</sup> According to figures of the official foreign trade statistics. — <sup>2)</sup> Against corresponding period of previous year. — <sup>3)</sup> Ascertained according to consumer countries. — <sup>4)</sup> Ascertained according to producer countries. — <sup>5)</sup> Including ships' and aircraft's fuel and other supplies, etc.

In foreign travel, on the other hand, the slack growth in the income of households, which was in line with the trend of economic activity, resulted in a shortening of the deficit by DM 0.5 billion to DM 2.6 billion. Also, receipts from foreign troops — which prevent the structural deficits on commercial service transactions from being fully shown in the overall balance of services — expanded by DM 300 million to almost DM 5.3 billion in 1967. An amount of DM 3.6 billion out of this total related to expenditure of American troops (and dependents of American soldiers). Under the Foreign Exchange Offset Agreement with the United States, these receipts however faced German payments to the U.S. (recorded in other balance-of-payments items) in the amount of some DM 3 billion, DM 2.2 billion out of this total stemming from the Federal Government's payments for military purposes and DM 1 billion from the purchase of medium-term DM bonds of the U.S. Treasury by the Bundesbank.

In the balance of transfer payments (unilateral transfers) — besides the balances of trade and of services this constitutes the third big section of the current account in the balance of payments — the deficit in 1967, at DM 6.3 billion, kept approximately at the level recorded for the previous year. While private transfers contracted (from DM 3.3 billion to DM 3.0 billion) since, owing to the economic trend in the Federal Republic of Germany, the number of foreigners employed and consequently also the amount of remittances to their home countries diminished, transfer payments of public authorities moved up. The reason for the increase in official payments (by DM 300 million to DM 3.3 billion) must be seen in the first place in heavier payments to international organisations, especially to the Agricultural Guarantee and Guidance Fund and the Development Fund of the E.E.C.

Unchanged deficit on transfer payments

#### *(c) Long-term capital*

It is a remarkable fact that the Federal Republic of Germany, even on an international comparison, became an important capital exporting country in 1967. Long-term net capital exports amounted to as much as DM 3.6 billion, whereas in the previous year long-term capital had still been imported to the extent of DM 230 million net (disregarding special transactions). In 1967 the most important item among capital exports was private transactions, which on balance showed an efflux of DM 2.2 billion. As to details, private German capital investment abroad went up by DM 3.4 billion, as against DM 2.5 billion in 1966 and DM 2.0 billion in 1965. In particular, there was an increase in capital exports induced by interest considerations. Thus in 1967 German portfolio investments in foreign securities, at DM 1.1 billion, almost tripled over 1966, disregarding the fact that at the time the acquisition of securities was heavily inflated by the take-over of convertible bonds of the American Texaco combine, which issued these bonds in exchange for the majority interest in Deutsche Erdöl AG. Furthermore, in 1967 German banks and business enterprises granted long-term credits to foreigners in a total of approximately DM 740 million (or twice as much as in the preceding year). German direct investments in foreign countries also grew at a faster rate, however; participations in foreign companies, establishment of new enterprises abroad and the allocation of funds to foreign companies previously taken over led to capital exports of DM 1.4 billion in 1967, as against DM 1.2 billion in 1966. Since German direct investments abroad are not fully covered by the statistics (data about re-investments of profits in particular are not available), it is a safe assumption that earning assets of German companies abroad have increased more than can be concluded from the above-stated figures.

High rate of net long-term capital exports due to . . .

. . . increased German investments abroad . . .

On the other side, private foreign investments in the Federal Republic of Germany in 1967 increased by a mere DM 1.2 billion as against DM 4.2 billion in each of the two preceding years. The fact that they grew at all is exclusively due to foreigners' direct investments in the Federal Republic, which in 1967 worked out at DM 2.4 billion, compared with DM 3.3 billion in the year before (or DM 2.6 billion, if the take-over of Deutsche Erdöl AG by the Texaco combine is excluded because of its non-typical order of magnitude). Foreigners' capital investments in this country which were more strongly determined by interest considerations, however, declined even

. . . while foreign investments in Germany fell off

*Evaluation of the Gold and Foreign Exchange Movement*

Millions of DM

Item	1962	1963	1964	1965	1966	1967
<b>I. Monetary reserves of the Deutsche Bundesbank</b>						
Position at end of year +)						
Total holdings (net)	27,729	30,301	30,313	28,807	29,837	30,250
of which:						
(1) Gold holdings and freely usable external assets, total	25,786	28,409	27,879	25,410	27,085	27,399
of which: Gold	(14,716)	(15,374)	(16,992)	(17,639)	(17,167)	(16,910)
U.S. dollars	(10,785)	(11,668)	( 7,712)	( 5,167)	( 8,307)	( 8,507)
Other assets <sup>1)</sup>	( 285)	( 1,367)	( 3,175)	( 2,604)	( 1,611)	( 1,982)
(2) Credit granted to I.M.F. under the "General Arrangements to Borrow"	—	—	720	1,390	1,390	670
(3) External assets of limited usability	2,299	2,131	1,973	2,428	1,874	2,785
among which:						
Medium-term DM bonds of U.S. Treasury <sup>2)</sup>	( — )	( — )	( — )	( — )	( — )	( 1,000)
(4) External liabilities	356	239	259	421	512	604
<b>II. The Federal Republic of Germany's position in relation to the International Monetary Fund</b>						
Position at end of year						
(1) Quota	3,150	3,150	3,150	3,150	4,800	4,800
(2) In-payments actually made	2,069	2,208	2,930	2,915	3,638	3,537
(a) Gold <sup>3)</sup>	( 788)	( 788)	( 788)	( 788)	( 1,200)	( 1,200)
(b) DM drawings by I.M.F. (net)	( 1,281)	( 1,420)	( 2,142)	( 2,127)	( 2,438)	( 2,337)
(3) Present DM holdings of I.M.F.	1,081	942	220	235	1,162	1,263
DM holdings in per cent of quota	34	30	7	7	24	26
<i>Note:</i> Federal Republic of Germany's overall reserve position in I.M.F. <sup>4)</sup>	( 2,069)	( 2,208)	( 3,650)	( 4,305)	( 5,028)	( 4,207)
<b>III. Change in overall central monetary position</b>						
(1) Change in the Deutsche Bundesbank's monetary reserves (cf. I)						
Total holdings (net); (increase: +) <sup>5)</sup> <sup>6)</sup>	— 552	+ 2,572	+ 12	— 1,506	+ 1,047	+ 413
(a) Gold holdings and freely usable external assets	— 379	+ 2,623	— 530	— 2,469	+ 1,675	+ 314
of which: Gold	(+ 62)	(+ 658)	(+ 1,618)	(+ 647)	(+ 472)	(— 257)
U.S. dollars	(— 101)	(+ 883)	(— 3,956)	(— 2,545)	(+ 3,140)	(+ 200)
Other assets <sup>7)</sup>	(— 340)	(+ 1,082)	(+ 1,808)	(— 571)	(— 993)	(+ 371)
(b) Credit granted to I.M.F. under the "General Arrangements to Borrow"	—	—	+ 720	+ 670	—	— 720
(c) External assets of limited usability	— 154	— 168	— 158	+ 455	— 554	+ 911
among which: Medium-term DM bonds of U.S. Treasury <sup>8)</sup>	( — )	( — )	( — )	( — )	( — )	(+ 1,000)
(d) External liabilities (increase: —) <sup>9)</sup>	— 19	+ 117	— 20	— 162	— 74	— 92
(2) Change in quasi-automatic drawing rights in I.M.F. within German quota (cf. II 2); (increase: +)	— 480	+ 139	+ 722	— 15	+ 723	— 101
<i>Note:</i> Change in overall German reserve position in I.M.F. <sup>10)</sup>	(— 480)	(+ 139)	(+ 1,442)	(+ 655)	(+ 723)	(— 821)
(3) Change in the Deutsche Bundesbank's external assets not contained in the monetary reserves (increase: +) <sup>11)</sup>	— 12	+ 5	— 3	— 20	— 43	— 28
(4) Change in liabilities resulting from sale of German money-market paper to foreign monetary authorities (increase: —)	+ 140	+ 30	— 304	+ 245	— 322	+ 102
Overall central monetary position (increase in net assets: +)	— 904	+ 2,746	+ 427	— 1,296	+ 1,405	+ 386
<i>Note:</i> (1) Change in net foreign exchange position of credit institutions (not including Bundesbank) <sup>11)</sup>	(+ 147)	(— 704)	(— 51)	(+ 187)	(+ 388)	(+ 3,218)
(2) Change in overall central monetary position plus change in credit institutions' net foreign exchange position	(— 757)	(+ 2,042)	(+ 376)	(— 1,109)	(+ 1,793)	(+ 3,604)
<p>+ ) The figures are not fully identical with those shown in the Return of the Bundesbank. Gold holdings as well as foreign assets and liabilities are here converted at parity rate in accordance with the International Monetary Fund's instructions on the compilation of balance-of-payments statements, whereas in the Bundesbank Return they are valued for the end of the year according to the lowest value principle on the assets side, and according to the maximum value principle on the liabilities side. On this basis the holdings are ascertained for the current year by means of the changes calculated at the rate of the day. Moreover, in the case of liabilities there are some differences regarding the delimitation of the items to be taken into account. — <sup>1)</sup> Including shorter-term DM bonds of U.S. Treasury (Roosa Bonds). — <sup>2)</sup> These bonds were taken by the Bundesbank under the German-American agreements, concluded early in May 1967, on foreign exchange assistance to the United States. — <sup>3)</sup> Including repurchase of DM by the Federal Republic of Germany under the "repurchase obligation", which was counted towards the gold in-payment. — <sup>4)</sup> Corresponds to the actual in-payments under the quota (II 2) plus the Bundesbank's assets, contained in its monetary reserves, resulting from credit granted under the "General Arrangements to Borrow" (I 2). For this amount the Federal Republic of Germany has a quasi-automatic drawing right in the I.M.F. — <sup>5)</sup> Recorded as "Net movement of gold and exchange" in the balance-of-payments statements. — <sup>6)</sup> Disregarding the DM amount of 1 per cent of the quota increase (DM 17 million) paid into the I.M.F. account at the Bundesbank on the occasion of the quota increase in I.M.F. in May 1966; this transaction is taken account of here in item III 2 (Change in quasi-automatic drawing rights in I.M.F. within German quota). — <sup>7)</sup> Cf. footnote 1). — <sup>8)</sup> Cf. footnote 2). — <sup>9)</sup> Cf. footnote 4). — <sup>10)</sup> Chiefly I.B.R.D. bonds and claims arising from the credit line of some DM 1 billion opened to I.B.R.D. in August 1960. — <sup>11)</sup> Unlike the balance-of-payments statements, this table indicates improvement in the banks' position by + and deterioration by —.</p>						



in absolute amount. The reversal in the sphere of foreign credits was particularly striking: whereas in 1966 long-term borrowing abroad by domestic business enterprises and banks had attained DM 1.3 billion on balance, in 1967 credit repayments were higher by about DM 400 million than fresh borrowing. In addition, in the case of portfolio investments (*i. e.* the acquisition of securities without any intention of obtaining a majority interest in German companies) a considerable outflow was recorded, mainly because foreign investors, under the impact of declining (and from mid-1967 stable) interest rates in the Federal Republic of Germany and of rising yields in the Euro-capital market as well as in some national credit markets, proceeded to re-sell German fixed-interest securities in the amount of DM 835 million to the Federal Republic, causing foreign holdings of German bonds to shrink to an estimated DM 5.5 billion.

In 1967 long-term capital exports of public authorities reached about DM 1.4 billion. For the majority they related to financial aid to developing countries paid through the Reconstruction Loan Corporation. If, in accordance with the definition internationally applied, such aid is also taken to include expenditure on "technical aid", which is contained in other balance-of-payments items, as well as certain private capital exports (especially direct investments and long-term export credits), it is found that in 1967, according to provisional calculations, the overall official and private development aid of the Federal Republic of Germany amounted to DM 4.6 billion, or about DM 1.6 billion more than a year before. The share taken by development aid in national income went up from 0.8 per cent in 1966 to 1.3 per cent in 1967, thus exceeding the standard rate of 1 per cent of the national income, which has hitherto been widely accepted in international circles.

Official capital exports

#### *(d) Short-term capital*

In 1967 the main features in short-term capital transactions were exports of money by credit institutions and redemption of credits by business enterprises. Incited by the differential between relatively high interest rates in important foreign money markets and lower domestic rates, banks on balance invested abroad DM 3.2 billion of their liquid reserves (as against only DM 400 million in 1966). In 1967 business enterprises reduced the amount of financial credits taken abroad by DM 1.6 billion (net), a sum which ran almost at the level of their external indebtedness newly incurred in the previous year. If moreover allowance is made for the residual item of the balance of payments, whose fluctuations no doubt stem largely from changes in the granting of, and recourse to, credits in foreign trade, in 1967 net capital *exports* in the enterprises sphere rate no less than DM 2.6 billion, compared with net capital *imports* of DM 2.4 billion in 1966.

Considerable outflows in short-term capital transactions

#### *(e) Movement of gold and foreign exchange*

As observed above, in 1967 the Bundesbank's monetary reserves increased by no more than DM 400 million (as against DM 1 billion in 1966). Certain reserve categories, however, showed much greater changes. Thus, credits to the I.M.F. under the "General Arrangements to Borrow" diminished by DM 720 million in 1967, owing to the fact that in May 1967 Great Britain repaid to the I.M.F. credits in the equivalent of DM 1,620 million (U.S. \$ 405 million) which it had borrowed from that institution in December 1964; the Fund in turn transferred the above-mentioned DM 720 million to the Deutsche Bundesbank. A decline was likewise recorded in the gold holdings; after the devaluation of sterling in November last these decreased by DM 260 million as a result of transfers to the London gold pool. The dollar reserves of the Bundesbank on the other hand increased. Since in the German-American Agreement on the offset of the U.S. foreign exchange burden deriving from the stationing of troops in the Federal Republic of Germany, which was concluded at the beginning of May 1967, it had been stipulated that between 1 July 1967 and 30 June 1968 medium-term American debt certificates in the amount of \$ 500 million were to be purchased by the Bundesbank — at the beginning of July and at the beginning of October 1967 the first two tranches of \$ 125 million (DM 500) each were acquired — the Bundesbank's holdings of readily available dollar reserves on balance grew by only DM 200 million,

Small increase in central monetary reserves, but considerable shifts among the components

however. As the medium-term debt certificates of the U.S. Treasury cannot be freely disposed of — they are redeemable before maturity only in the case of a lasting reduction of the Bundesbank's reserves — these securities have been attributed to the Bundesbank's external assets of limited usability, which also include part of the Bundesbank's lending to the World Bank and the residual claims resulting from settlement of the European Payments Union. In 1967 the overall amount of monetary reserves with limited usability rose by more than DM 900 million to DM 2.8 billion owing to the acquisition of U.S. debt certificates with a currency of four and a half years; thus at the end of 1967 it represented quite 9 per cent of the total gross monetary reserves of the Bundesbank.

Taking all in all, in 1967 the freely available (or easily mobilisable) portion of the Bundesbank's monetary reserves decreased by over DM 400 million. This means that in 1967 the Federal Republic of Germany, in spite of substantial surpluses on its current account (goods, services and transfers), did not draw on the liquidity of other countries, but on the contrary, if anything, increased foreign monetary authorities' holdings of readily available international means of payment or reduced liabilities of these authorities due on demand to the Bundesbank.

## The Deutsche Bundesbank's Cooperation in Bank Supervision

The close and good cooperation between the Federal Banking Supervisory Office and the Deutsche Bundesbank continued during the year under review, the sixth year after the reorganisation of bank supervision.

Cooperation with the Federal Banking Supervisory Office

The slackening tendencies in economic activity observed until the autumn of last year did not cause any difficulties to the credit institutions. Isolated cases of insolvency in banking — affecting only institutions with insignificant volume of business — were due not so much to the recession as primarily to misdirected business policy being pursued by the institutions concerned. The Federal Banking Supervisory Office and the Deutsche Bundesbank, therefore, saw occasion further to intensify the supervision of credit institutions; special emphasis was attached to the observance of the provisions laid down in the Banking Law with regard to appropriate distribution of lending.

After intense preparatory work the Federal Minister of Justice on 20 December 1967 promulgated the

*Regulation on Forms for the Classification of Annual Statements of Credit Institutions*  
(Federal Law Gazette I, No. 74 of 23 December 1967, page 1300),

Regulation on forms for the breakdown of annual statements of credit institutions

which prescribes new forms for the annual balance sheet and the profit and loss account to be applied by credit institutions in the legal form of joint-stock companies, companies limited by shares, limited-liability companies, registered cooperative societies, sole proprietorships, general partnerships and limited partnerships. The promulgation of new provisions regarding the classification of the balance sheet and of the profit and loss account of mortgage banks and public-law credit institutions is to be expected shortly. These new provisions require revision by the Federal Banking Supervisory Office of the directives on the compilation of the annual balance sheet and profit and loss account of credit institutions and revision by the Bundesbank of the directives on credit institutions' reports for the monthly balance-sheet statistics; according to Article 25 of the Banking Law such reports are also deemed to be monthly returns for purposes of bank supervision.

After the above-mentioned Regulation on Forms for the Classification of Annual Statements of Credit Institutions had been promulgated by the Federal Minister of Justice, preparatory work has been started on the amendment, to be effected by the Federal Banking Supervisory Office in agreement with the Deutsche Bundesbank, of the Principles concerning the capital resources and liquidity of credit institutions according to Articles 10 and 11 of the Banking Law. For the time being the Principles as hitherto in force are still applying; the text is reproduced below:

Principles concerning capital resources and liquidity of credit institutions

**Notice No. 1/62**  
**of the Federal Banking Supervisory Office with regard to Principles Concerning**  
**the Capital Resources and Liquidity of Credit Institutions**

**dated 8 March 1962**

(Federal Advertiser No. 53 of 16 March 1962)

**amended according to Notice No. 1/64 of the Federal Banking Supervisory Office**  
**with regard to Amendment of the Principles Concerning the Capital Resources**  
**and Liquidity of Credit Institutions dated 25 August 1964**

(Federal Advertiser No. 161 of 1 September 1964)

The Federal Banking Supervisory Office hereby announces in pursuance of Article 10, paragraph 1, sentence 3, and Article 11, sentence 3, of the Banking Law of 10 July 1961 (Fed. Law Gazette I, page 881) the Principles, established in agreement with the Deutsche Bundesbank and after the associations representing the credit institutions have been heard, according to which it will judge, as a rule, whether the capital resources of a credit institution are adequate and whether the liquidity of a credit institution is sufficient (Article 10, paragraph 1, and Article 11, Banking Law).

If a credit institution exceeds not merely slightly the upper limits laid down in the Principles, or if it exceeds them repeatedly, there is as a rule ground for presuming that the said credit institution has not the necessary capital resources (Principles I and Ia) or that its liquidity is inadequate (Principles II and III). In connection with the assessment of the adequacy of a credit institution's capital resources and liquidity it shall be permissible to take into account special circumstances which justify smaller — or, according to the facts of the case, greater — requirements.

Only Principle I shall apply to public mortgage banks and to instalment credit institutions.

The Principles shall not apply to private mortgage banks which do not make use of the right to conduct extended business in accordance with Article 46, paragraph 1, of the Mortgage Bank Law, to ship mortgage banks, to central security depositories, to investment companies or to credit institutions which engage exclusively in banking transactions within the meaning of Article 1, paragraph 1, items 7 and 8, of the Banking Law.

The Principles as amended on 25 August 1964 shall be applied from 1 January 1965 onwards.

#### Principle I

A credit institution's lending to business enterprises, individuals and credit institutions, and its participations, less the global value adjustment, shall not exceed 18 times the liable funds.

Credits shall be deemed to comprise the credits at short, medium and long term. Long-term credits which serve as cover for bonds, or are granted against charges on real property in the course of real-property credit business within the meaning of Article 20, paragraph 2, items 1 and 4, of the Banking Law, or against corresponding charges on ships, or in respect of which domestic authorities or public-law institutions have assumed a full guarantee, shall be taken into account to the extent of only one-half.

#### Principle Ia

A credit institution's circulating own acceptances, promissory notes and bills drawn on debtors shall not exceed 1.5 times the liable funds.

#### Principle II

A credit institution's investments in long-term lending, in syndicate holdings, in participations, in securities not quoted on the stock exchange, and in land and buildings shall not exceed the long-term financial funds.

The following are to be regarded as long-term financial funds:

- the capital resources,
- the credit institution's own bonds in circulation,
- the bonds sold in advance,
- the loans taken at long term,
- 60 per cent of the savings deposits,
- 10 per cent of the sight and time deposits of non-banks.

In the case of central giro institutions and central institutions of credit cooperatives the following shall in addition be included:

- 20 per cent of the member credit institutions' time deposits subject to a period of notice, or running for an agreed period, of from six months to under four years,
- 50 per cent of the member credit institutions' time deposits subject to a period of notice, or running for an agreed period, of at least four years.

#### Principle III

A credit institution's debtors, its bills drawn on debtors, its dividend-bearing stock-exchange securities and its "Other assets" shall not exceed the total of the following financial funds:

- 60 per cent of the sight and time deposits of non-banks,
- 35 per cent of the sight and time deposits of credit institutions,
- 20 per cent of the savings deposits,
- 35 per cent of the monies taken for, or at notice of, periods of from one month to under four years, excluding customers' availments of credits opened at credit institutions abroad,
- 80 per cent of customers' availments of credits opened at credit institutions abroad,
- 80 per cent of the circulating own acceptances, promissory notes and own drawings credited to the borrowers,
- plus the surplus or less the deficit on financing as in Principle II.

In the case of credit institutions conducting business in goods, the stocks of goods comprised in the item "Other assets" shall be disregarded.

After the interest-rate liberalisation, which was explained in our Report for the Year 1966, the Federal Banking Supervisory Office on 23 November 1967 by the "Notice cancelling the regulations promulgated in connection with the Competition Agreement" (Federal Advertiser No. 225 of 1 December 1967) also cancelled the Competition Agreement and all regulations of the former bank supervisory authorities and requirements imposed by the Federal Banking Supervisory Office relating thereto. The same applies to the decisions passed under Article 36 of the 1939 Banking Law. Competition among credit institutions is now subject only to general competition legislation.

Liberalisation of competition in banking

In connection with the current supervision of credit institutions the Land Central Banks, using the network of branches of the Deutsche Bundesbank, processed about 32,000 individual reports pursuant to Article 13, paragraph 1, sentences 1 and 2, of the Banking Law, as well as about 41,000 reports on large credits contained in compilations pursuant to Article 13, paragraph 1, sentence 4, of the Banking Law, and about 47,000 monthly returns pursuant to Article 25 of the Banking Law. The further decline during 1967 in the number of reports processed pursuant to Article 13, paragraph 1, sentences 1 and 2, of the Banking Law, by about one-fifth as compared with the previous year, was probably due in part to the fact that borrowing by business enterprises and individuals stagnated for a considerable time during 1967. The increase by 3,600 in the number of large credits comprised in compilations pursuant to Article 13, paragraph 1, sentence 4, of the Banking Law is a result of the varying dates laid down for the submission of compilations of credit cooperatives. So far as the Federal Banking Supervisory Office did not waive their transmission, the reports and returns mentioned were transmitted to the Office, if necessary with the comments of the Land Central Banks. Moreover, the Land Central Banks processed roughly 4,400 reports of credit institutions pursuant to Article 24 of the Banking Law, by which changes in the management, participations in other credit institutions, changes in the legal form and in capital, opening of branches, *etc.*, must be notified. The number of annual statements dealt with amounted to 11,750.

Cooperation in the current supervision of banks

The recording centre for credits of DM 1 million or more, established at the Directorate of the Deutsche Bundesbank, during 1967 received 251,000 (1966: 240,000) reports pursuant to Article 14, paragraph 1, of the Banking Law. On the average for each of the six processing periods of the year under review about 880 credit institutions and 380 insurance enterprises (including the social insurance funds) submitted reports pursuant to Article 14 of the Banking Law. An average of 3,700 borrowers was ascertained who had taken from two or more lenders credits pursuant to Article 14 of the Banking Law. The lending credit institutions, insurance companies, social insurance institutions, and the Federal Institution for Labour Exchanges and Unemployment Insurance were informed by the Bundesbank about the amount of their borrowers' indebtedness as well as about the number of lenders.

# The Deutsche Bundesbank's Credit and Foreign Exchange Policy Regulations at Present in Force

## I. Credit Policy Regulations

### 1. Credit instruments eligible at the Bundesbank

#### *Discount business*

General Bills of exchange presented for purchase are to be backed by three parties known to be solvent. The bills must be payable within three months from the date of purchase. They should be good commercial bills (Article 19, paragraph 1, item 1 of the Law concerning the Deutsche Bundesbank — Bundesbank Law).

For judging a signature the Central Bank Council has laid down the following rules: Any person who is liable on a bill which has been presented to the Deutsche Bundesbank for purchase or as security for an advance, and who despite being invited to provide information as to his financial affairs gives no information or no sufficient information, and with regard to whom there are otherwise available or procurable no data permitting adequate judgment of his financial affairs, is not to be regarded as "party known to be solvent" within the meaning of Article 19, paragraph 1, item 1 of the Bundesbank Law. A bill may not be purchased, nor may an advance be made against it, if it is clear that the acceptor cannot be regarded as a "party known to be solvent" (decision of 20 February 1957).

The period to the maturity of bills must not exceed the time which is necessary for carrying out the underlying transaction in goods (decision of 10 May 1949).

In other respects, as regards the granting of discounts, the "Deutsche Bundesbank's General Business Conditions" (V. Purchase of domestic bills, XI. B. Purchase of foreign bills and foreign cheques) apply.

Instalment sale financing bills Domestic bills in instalment sale transactions drawn by the seller on the buyer in respect of the agreed instalments may be purchased provided they fall due within 90 days and are not — not even in part — prolonged, and provided they serve to finance the purchase of agricultural machinery, means of production or durable consumer goods to be used solely in trade and industry. Moreover, the buyer must have paid cash down for at least 40 per cent of the purchase price, and the entire period for which the credit runs must not exceed 24 months. In addition, instalment sale bills with a remaining life not exceeding 14 days may be purchased (decision of 1 February 1968).

Building bills and building-material bills Bills in respect of construction work and building material deliveries for projects involving trade and industry may be purchased provided they fall due within 90 days and are not — not even in part — prolonged. The bills must be issued by the creditor of the underlying transaction and have been accepted by the builder.

Bills in respect of building material deliveries issued to the trade, to the builder or building craftsman are likewise purchasable, not however prolongations thereof (decision of 1 February 1968).

Bank acceptances Bank acceptances are purchased only if they serve to finance at short term specific individual transactions (decisions of 10 May 1949 and 3 March 1966). The Land Central Banks may in cases

where they deem it appropriate waive the declaration as to the underlying transaction, which indicates the business financed by the bank acceptance (decision of 14 April 1954).

Since bank acceptances as a rule bear only two signatures when taken by the Land Central Bank, regard must be paid to the legal provision that the third signature may be dispensed with only if the security of the bill is guaranteed in some other way (Article 19, paragraph 1, item 1 of the Bundesbank Law).

Prime bankers' acceptances are bank acceptances of a special kind, *viz.*, DM acceptances of the accepting banks admitted to the prime acceptance market, which serve for the financing of import, export and merchanting transactions, of international commission processing, or of international transactions in goods between two countries not including Germany, and which on the upper margin of their face bear a reference to the transaction financed. The period still to run may only be 90 days or less, the amount involved must be at least DM 100,000 and should not exceed DM 1 million, while it should be divisible by 5,000. Prime bankers' acceptances are included in the Deutsche Bundesbank's regulation of the money market (decisions of 18 December 1958, 30 August 1962 and 6 May 1965; cf. page 97 "Money-market operations").

Prime  
bankers' acceptances

The guiding principles for the purchase of bank acceptances apply *mutatis mutandis* to the purchase of bills drawn by credit institutions on their debtors, subject to the proviso that the total amount of the bills drawn by a bank and relating to any one debtor should not exceed DM 20,000 (decision of 31 January 1951).

Bills drawn on debtors

By virtue of special decisions of the Central Bank Council promissory notes of the Import and Storage Agencies (Storage Agency bills) are declared purchasable, up to certain maximum amounts newly fixed from time to time, and are included in the regulation of the money market (latest decision of 16 November 1967; cf. page 97 "Money-market operations").

Promissory notes of the  
Import and Storage  
Agencies

Also rediscountable are the promissory notes of German exporters, bearing the endorsement of the exporter's bank and of the AKA Ausfuhrkredit-Gesellschaft mbH (Export Credit Company), and necessary prolongations of the said instruments, which have been issued for the purpose of financing medium and long-term deliveries and services rendered mainly to developing countries within the limits of a rediscount line accorded to the AKA Ausfuhrkredit-Gesellschaft mbH (decisions of 5/6 March 1952 and 5 May 1960). Since January 1968 the rediscount line, known as Limit B of the AKA Ausfuhrkredit-Gesellschaft mbH, has amounted to DM 2,500 million (decision of 4 January 1968).

Bills for financing  
export orders

The rediscount line may be used only for credits running for not less than one and not more than four years (decision of 6 February 1957). The exporter must as a rule himself participate to the extent of 30 per cent of the value of the order (decisions of 6 October 1954 and 14 July 1966). Only individual transactions may be financed. The financing assistance is intended in general to bridge over the interval between the time when production begins and that when the export proceeds are received. In the case of exports of mass-produced goods, which are produced within any manufacturer's normal production programme or are sold ex warehouse, the duration of production and of warehousing must not be included in the period for which the financing assistance runs. For export transactions of this kind, therefore, the Bundesbank's assistance is given only for the purpose of bridging over the period between dispatch of the goods and receipt of the export proceeds (decisions of 18 May 1956, 25 July 1956 and 6 February 1957). The rediscount line must not be used to provide funds for capital investment or working resources for general export purposes of the exporting firms.

Within the rediscount line (Limit II) accorded to the Gesellschaft zur Finanzierung von Industrieanlagen mbH (company for the financing of industrial plant) the promissory notes issued in accordance with the credit guidelines of this company for the financing of medium and long-term deliveries and services rendered to the currency area of the DM (East) may be purchased. The rediscount line amounts to DM 150 million (decision of 1 June 1967).

Bills for financing  
interzonal trade  
transactions

Under Article 19, paragraph 1, item 8 in conjunction with Article 22 of the Bundesbank Law, the Bundesbank is empowered to purchase from any person bills and cheques which are expressed in foreign currency. At present the Bank is making use of this power only in so far as it is prepared to purchase bills and cheques expressed in foreign currency not only from credit institutions but also from public departments (decisions of 16 October 1957 and 4 September 1958).

Foreign currency bills and cheques are purchased at the Deutsche Bundesbank's rate of discount (decisions of 18 May 1956 and 22 January 1958). The rates for purchase of foreign bills are laid down in conformity with the prevailing forward rates, and are regularly published in the Federal Advertiser (*Bundesanzeiger*) (decision of 21/22 August 1957).

#### *Advances on securities*

Advances on securities (interest-bearing loans, against collateral, for not more than three months) may be granted to credit institutions against pledging of the securities and Debt Register claims listed in Article 19, paragraph 1, item 3 of the Bundesbank Law. Detailed information regarding the assets eligible as security for advances, and the lending limits applicable thereto, is given in the "List of Securities Eligible at the Deutsche Bundesbank as Security for Advances" which is published in the Federal Advertiser and in the Bank's Notices.

The inclusion of a security in the above-mentioned list does not oblige the Bundesbank to grant advances, and does not limit the Bank's right to determine the cover to be provided by the borrower.

The question whether an advance against securities can be granted will be decided according to the general credit situation and the individual circumstances of the would-be borrower. In principle an advance against securities shall be granted only where the object is to cover for a short period a temporary need for liquidity, and where there are no objections to the purpose of the borrowing (decision of 17/18 December 1952).

Bills which cannot be purchased under the regulations in force are in principle also ineligible as security for advances (decision of 10 May 1949). There is an exception in the promissory notes issued within Limit A of the AKA Ausfuhrkredit-Gesellschaft mbH and Limit I of the Gesellschaft zur Finanzierung von Industrieanlagen mbH, which instruments may be taken as security for advances but may not be purchased (decisions of 5/6 December 1951, 1 June 1967 and 4 January 1968).

In other respects the "Deutsche Bundesbank's General Business Conditions" (VI. Advances) apply to the granting of advances on securities.

Notwithstanding the limitations under Article 19, paragraph 1, item 3 of the Bundesbank Law, the Bundesbank may grant loans to credit institutions, insurance companies and building and loan associations against the pledging of equalisation claims within the meaning of Article 1 of the Law on the Redemption of Equalisation Claims, dated 30 July 1965 (Federal Law Gazette I, page 650), in so far and so long as is necessary for maintaining the solvency of the pledger (Article 24, paragraph 1 of the Bundesbank Law).

## **2. Rediscount quotas for credit institutions**

The extent of recourse by credit institutions to the Deutsche Bundesbank by way of rediscounting bills of exchange and foreign cheques is limited — apart from other measures of Central Bank policy — through rediscount quotas. The Central Bank Council has laid down standard quotas based on the credit institutions' liable funds and differentiated according to categories of institutions (decisions of 17 April 1952, 7 March 1963 and 4 March 1965).

The rediscount quotas are fixed by the Boards of Management of the Land Central Banks for the credit institutions located in their area. The rediscount quota of any large bank with a branch



system, or of any other supra-regionally operating credit institution, is fixed by the Board of Management of the Land Central Bank in the area of which the head office of the institution in question is located (decision of 17/18 September 1952).

The rediscount quotas of the following credit institutions, which have central functions in the whole Federal area (Article 7, paragraph 1, item 2 of the Bundesbank Law) are laid down by the Directorate of the Deutsche Bundesbank (decisions of 27/28 March 1958 and 1 June 1967):

AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main,  
Deutsche Bau- und Bodenbank AG, Frankfurt am Main,  
Deutsche Genossenschaftskasse, Frankfurt am Main,  
Deutsche Girozentrale — Deutsche Kommunalbank, Frankfurt am Main,  
Deutsche Verkehrs-Kredit-Bank AG, Frankfurt am Main,  
Gesellschaft zur Finanzierung von Industrieanlagen mbH, Frankfurt am Main,  
Industriekreditbank AG, Düsseldorf,  
Kreditanstalt für Wiederaufbau, Frankfurt am Main,  
Landwirtschaftliche Rentenbank, Frankfurt am Main,  
Lastenausgleichsbank (Bank für Vertriebene und Geschädigte), Bad Godesberg,  
Privatdiskont-Aktiengesellschaft, Frankfurt am Main.

The rediscount quota of a credit institution is individually determined in accordance with the standard quota, due regard being given to whether the credit institution observes the Principles of the Federal Banking Supervisory Office in respect of the credit institutions' capital resources and liquidity. The method of fixing the quotas contains sufficiently elastic elements.

For the purpose of determining the extent to which any credit institution has used its rediscount quota the total amount of the bills which the credit institution has rediscounted and which are not yet due (except those mentioned in the following paragraph), and of the foreign cheques, is decisive.

Outside the fixed rediscount quota the following instruments may be purchased: promissory notes issued within the rediscount line (Limit B) opened by the Bundesbank for the AKA Ausfuhrkredit-Gesellschaft mbH or within the rediscount line (Limit II) accorded to the Gesellschaft zur Finanzierung von Industrieanlagen mbH (decisions of 17 April 1952 and 1 June 1967), and also prime bankers' acceptances which have passed through the money market and, at the time of their purchase, have not more than 29 days still to run (decisions of 18 December 1958 and 3 February 1966).

The fixed rediscount quota must never be exceeded, not even temporarily. A credit institution whose rediscount quota is exhausted may resort to advances against securities.

### **3. Money-market operations**

The Bundesbank arranges the placing of Treasury bills, non-interest Treasury bonds and *Kassenobligationen* (interest-bearing Treasury notes running for three to four years) which are issued by the Federal Government, its Special Funds and the *Länder*.

For the purpose of regulating the money market in pursuance of Article 21 of the Bundesbank Law (money-market regulation), the Bundesbank purchases and sells in the open market for its own account and at the rates fixed by it the Treasury bills and non-interest Treasury bonds issued through the Bank, and the *Kassenobligationen* of the Federal Government, the Federal Railways, the Federal Postal Administration and the *Länder* provided their remaining life does not exceed 18 months. Included in the money-market regulation are also Storage Agency bills and prime bankers' acceptances; in purchasing and selling prime bankers' acceptances in the money market, the Bundesbank contracts only with the Privatdiskont-Aktiengesellschaft.

With a view to increasing the Bundesbank's instruments in the field of open-market policy, in accordance with Articles 42 and 42 (a) of the Bundesbank Law, the Federal Government has to hand to the Bundesbank on request Treasury bills and non-interest Treasury bonds (mobilisation paper) up to the nominal amount of the equalisation claim on the Federal Government due to the Bank (about DM 8.1 billion) and — if such paper has been put into circulation to the full nominal amount of the equalisation claim — additional Treasury bills and non-interest Treasury bonds up to a maximum of DM 8 billion (liquidity paper). The Bundesbank has been authorised to sell liquidity paper by amendment of the Law concerning the Deutsche Bundesbank (Articles 42 and 42 (a)) through Article 29 of the Law to Promote Economic Stability and Growth, dated 8 June 1967 (Federal Law Gazette I, p. 582). The countervalue of the mobilisation and liquidity paper sold does not accrue to the Federal Government. The Bundesbank is required to redeem the paper on maturity.

#### 4. Provisions as to minimum reserves

During the period under review minimum reserve ratios were reduced several times. By decision of the Central Bank Council of 19 January 1967 the reserve ratios for liabilities to non-residents, to which the legally permissible maximum ratios pursuant to Article 16 of the Bundesbank Law had applied since April 1964 (sight liabilities: 30 per cent; time liabilities: 20 per cent; savings deposits: 10 per cent), were made to conform to the ratios for liabilities to residents with effect from 1 February 1967.

Thereafter, the Central Bank Council in five stages (in March, May, July, August and September 1967) lowered the reserve ratios for all liabilities, so that the average minimum reserve ratio (required reserve in per cent of liabilities subject to the reserve requirement) declined from 7.7 per cent in February to 5.3 per cent in September 1967, that is to say, by roughly 31 per cent.

Whereas in the first four instances lowering was effected on a "*pro rata*" basis (at equal percentage rates for all kinds of liabilities), in September the Bundesbank decided on greater reduction of the ratios for savings deposits. Since September 1967 the gradation of reserve ratios has again been in line with the relations last effective in November 1966. A table showing the movement in reserve ratios will be found on page 104 of this Report.

The Deutsche Bundesbank's Order on Minimum Reserves remained unchanged during the year under review. The version as at present in force is reproduced below.

#### The Deutsche Bundesbank's Order on Minimum Reserves

*of 3 September 1962*

*as amended on 6 December 1966*

In pursuance of Articles 6 and 16 of the Law concerning the Deutsche Bundesbank the Central Bank Council of the Deutsche Bundesbank has resolved on the following Order as to Minimum Reserves (MRO):

##### I. General provisions

###### Article 1

- (1) Credit institutions within the meaning of this Order comprise all enterprises (also branches of foreign banks) conducting bank business within the meaning of Article 1, paragraph 1 of the Banking Law of 10 July 1961 (Federal Law Gazette I, p. 881) within the scope there indicated.
- (2) Not subject to the reserve obligation are
  - (a) the enterprises mentioned in Article 2, paragraph 1, items 4 to 9 of the Banking Law, except those quoted in Article 2, paragraph 1, item 8 of the Banking Law which mainly conduct banking business;

- (b) the investment companies (Law dated 16 April 1957);
- (c) the security-clearing institutions (*Kassenvereine*);
- (d) credit institutions which are in liquidation, other credit institutions whose activity is confined to winding up, and dormant credit institutions;
- (e) for one calendar year on each occasion those credit institutions which practise long-term lending as a permanent branch of business, and with which, according to the returns for the monthly balance-sheet statistics, the owned resources and the funds placed at their disposal for long periods, including the long-term loans on a trust basis as well as the liabilities on bonds, at the twelve end-of-month dates from 31 October of the penultimate year to 30 September of the past year averaged at least 90 per cent of the volume of business reduced by the value adjustments<sup>1)</sup>;
- (f) enterprises in the case of which the Federal Banking Supervisory Office has determined, in accordance with Article 2, paragraph 4 of the Banking Law, that the provisions of the Banking Law mentioned in the said paragraph shall not apply.

## Article 2

- (1) Liabilities subject to the reserve requirement comprise all liabilities to
  - (a) non-banks,
  - (b) credit institutions not subject to the reserve requirement, and
  - (c) banks in foreign countries,
 arising from deposits and from loans taken, the latter with maturities of less than four years. In the case of a credit institution as defined in Article 53 of the Banking Law, a net liability on intercompany account is likewise deemed to be a liability in respect of deposits within the meaning of sentence 1. Loans taken also include liabilities in respect of registered bonds or, unless they are part of an aggregate issue, order instruments.
- (2) For the purpose of ascertaining the liabilities subject to the reserve requirement an account holder's deposits payable on demand may be reduced by the offsetting of claims on that account holder derived from credits in current account to the extent that in calculating the interest the claims are netted against such deposits. This does not apply to deposits in foreign currency.
- (3) Exempt from the reserve requirement are liabilities
  - (a) to the Bundesbank;
  - (b) in respect of earmarked monies taken as loans, so far as the said monies have already been passed on to the recipients or to an intermediary credit institution. Earmarked monies within the meaning of this provision are monies which according to directions laid down from the outset by the lender, in regard to the terms of lending in particular, are to be lent to borrowers designated by name by the lender or — where it is a case of a public or publicly assisted lending scheme — to borrowers who fulfil the requirements for taking part in the said lending scheme; the agreed maturity or period of notice of the earmarked monies as well as of the credits granted or to be granted out of this source must be not less than one year, unless a public or publicly assisted lending scheme is concerned;
  - (c) of private or public mortgage banks or ship mortgage banks in respect of monies which have been taken as global loans but have not yet been passed on to the borrowers, and for the purpose of securing which there has been transferred to the lender a registered mortgage bond that is covered not by mortgages but by substitute cover through use of the loan monies received;
  - (d) in respect of balances for covering letters of credit, and of other covering balances, in so far as the credit institution for its part maintains a corresponding covering balance at a bank within the country or abroad;
  - (e) of a credit institution in the legal form of a general partnership (OHG), limited partnership (KG), or company limited by shares (KGaA), to personally liable partners, provided the liabilities represent balances on accounts which are exclusively credited with dividends;
  - (f) in respect of customers' drawings on credits opened with third parties;

<sup>1)</sup> According to the decision of the Central Bank Council of 6 May 1965, any liabilities to the credit institutions no longer subject to the minimum reserve obligation which originated prior to 26 May 1965 and which do not mature, or cannot be made to mature, until after 1 July 1965, need not be included in the calculation of the minimum reserve requirement until the date of their maturity or the earliest date for which repayment can be called.

- (g) in respect of the receipt of amounts collected purely on a commission basis, so far as the said amounts are currently paid over to the beneficiaries. Amounts are to be regarded as “currently paid over” if they remain at the collecting institution for not longer than 14 days;
  - (h) in respect of compensation balances within the meaning of Article 4 of the Law on Currency Conversion Compensation for Expelled Persons’ Savings Balances, in so far as such balances have not yet been released (Article 11, paragraph 3 of the Law);
  - (i) in respect of savings deposits to the extent of the covering claims held under Article 19 of the Old Savings Law for amounts credited as compensation to deposit accounts;
  - (j) in respect of savings deposits to the extent of the covering claims held under Article 252, paragraph 4 of the Equalisation of Burdens Law;
  - (k) in respect of funds borrowed by a credit institution which apart from bank business also conducts business in goods or services and keeps separate accounts for its bank and its non-bank business, if such funds are intended exclusively for financing its own business in goods or services, provided this is shown by the books.
- (4) (deleted)<sup>1)</sup>
- (5) Branches of foreign banks (Article 53 of the Banking Law) may, for the purpose of calculating the minimum reserve, deduct from a net liability on intercompany account those liabilities in relation to their own enterprise which in the case of a juridically independent credit institution would constitute liabilities according to paragraph 3, items d, f, or g.

#### Article 3

- (1) Among the liabilities subject to the reserve requirement a distinction is made between:
- (a) sight liabilities,
  - (b) time liabilities, and
  - (c) savings deposits.
- (2) Sight liabilities are deemed to comprise liabilities due on demand, as well as liabilities in respect of which a period of notice of less than one month or a period to maturity of less than 30 days has been agreed, and, in the case of a credit institution as defined in Article 53 of the Banking Law, a net liability on intercompany account.
- (3) Time liabilities are deemed to comprise
- (a) liabilities in respect of which a fixed period to maturity of at least 30 days has been agreed;
  - (b) liabilities in respect of which a period of notice of at least one month has been agreed.
- (4) Savings deposits are deposits within the meaning of Articles 21 and 22 of the Banking Law.

#### Article 4

A “bank place” (*Bankplatz*) within the meaning of the provisions as to minimum reserves is any place at which the Deutsche Bundesbank maintains a branch establishment. In exceptional cases where due reason exists the appropriate Land Central Bank may declare localities within a “bank place” which are difficult of access, for example distant suburbs included within the municipal boundaries, to be “non-bank places”.

## II. Reserve Obligation

#### Article 5

- (1) Credit institutions subject to the reserve requirement (Article 1) are required to maintain minimum reserves at the Bundesbank as credit balances on giro account.
- (2) Agricultural credit cooperatives which are affiliated to a central institution and maintain no giro account at the Bundesbank are to keep the minimum reserves as balances payable on demand on a special account at their central institution; to the extent of the balances on such accounts the central institution is to maintain credit balances at the Bundesbank.

<sup>1)</sup> Article 2, paragraph 4 was deleted with effect from 31 December 1966. Credit institutions are, however, permitted beyond 31 December 1966, until maturity or release, to deduct from their reserve-carrying liabilities to non-residents credit balances held with banks abroad and foreign money-market investments that have been established or acquired prior to 2 December 1966 and that, under the arrangements then prevailing, fall due or become available only after 31 December 1966.

#### Article 6

The duty to maintain minimum reserves is fulfilled if a credit institution's actual reserve (Article 9) comes up to the required reserve (Article 7).

### III. Calculation of the Required and Actual Reserves

#### Article 7

- (1) The required reserve is found by applying the percentages fixed by the Bundesbank (reserve ratios) to the monthly average, ascertained in accordance with Article 8, of the liabilities subject to the reserve requirement (Article 2). In the case of credit institutions with more than one branch or office the monthly averages of the individual branches' or offices' liabilities subject to the reserve requirement will be reckoned together.
- (2) The required reserve of a central institution of agricultural credit cooperatives means the required reserve found according to paragraph 1 plus the total actual reserves of the cooperatives holding reserves with it.
- (3) If the reserve ratios are set at different levels according to the size of the institutions (reserve classes), then the ranking of a credit institution in one of the reserve classes is determined by the total of the monthly averages shown in the previous month's Reserve Statement (Article 11) for its liabilities subject to the reserve requirement.

#### Article 8

- (1) The monthly average of the liabilities subject to the reserve requirement is calculated from the totals at the close of the business and non-business days in the period from the 16th of the previous month to the 15th of the current month.
- (2) The monthly average can instead be calculated uniformly for all categories of liabilities subject to the reserve requirement (Article 3) from the total of these liabilities as they stand at the close of the following four days:
  - 23rd day of the previous month;
  - last day of the previous month;
  - 7th day of the current month;
  - 15th day of the current month.

This method may be excluded in individual cases where there is reason to assume that the credit institution has influenced the level of the reserve-carrying liabilities at the four fixed dates so as to depress it below the amount which would result from calculation according to Article 8, paragraph 1.

- (3) Agricultural credit cooperatives may use, in place of the monthly average, the total of the liabilities subject to the reserve requirement as they stood at the close of the last day of the previous month. In exceptional cases where due reason exists the appropriate Land Central Bank may permit other credit institutions to do the same.
- (4) If one of the days mentioned in paragraphs 1 to 3 falls on a non-business day, then for the total of the liabilities subject to the reserve requirement on that day the total at the close of the previous business day shall be taken.
- (5) In the case of agricultural credit cooperatives which maintain minimum reserves in accordance with Article 5, paragraph 2, the appropriate Land Central Bank may permit an ascertained monthly average to stand good for a further period of up to five months.

#### Article 9

- (1) The actual reserve means the monthly average of the credit balance maintained in accordance with Article 5. It is calculated from the totals at the close of all the days in the month — the total balance on any non-business day being deemed to be the balance ascertained at the close of the preceding business day — and notified to the credit institution at the close of the month by the Bundesbank (or the appropriate central institution in the case of agricultural credit cooperatives).

- (2) If a credit institution keeps a giro account at more than one office of the Bundesbank, the actual reserve is deemed to be the total of the monthly averages of the individual credit balances.

#### IV. Special Interest

##### Article 10

- (1) If in any month a credit institution's actual reserve falls short of its required reserve the said credit institution shall for 30 days pay on the deficiency, unless the Bundesbank grants a request for waiver of the interest payment, special interest at the rate from time to time ordered by the Bundesbank.
- (2) Deficiencies of agricultural credit cooperatives which maintain minimum reserves in accordance with Article 5, paragraph 2 may not be offset by the central institution against its own surplus reserve or the surplus reserve of another cooperative. In respect of deficiencies of cooperatives the central institution shall pay the special interest to the Bundesbank.

#### V. Reserve Statement

##### Article 11

- (1) Not later than the fifth business day in each month every credit institution subject to the reserve requirement is in respect of the past month, except as otherwise provided in paragraphs 2 and 3, to submit a reserve statement (Form 1500) to the account-keeping office of the Bundesbank. For each day (Article 8) this statement shall show — on a schedule in the case of liabilities the monthly average of which is calculated in accordance with Article 8, paragraph 1 — the liabilities subject to such requirement divided according to the different categories (Article 3), and the liabilities left out of account in accordance with Article 2, paragraphs 2 to 5 divided between liabilities in accordance with paragraph 2 and paragraphs 3 to 5 of that Article.
- (2) (a) In the case of credit institutions with several branches, each office or branch shall in principle submit a reserve statement (Form 1500 — cf. paragraph 1). A combined reserve statement (Form 1500) indicating the number of the offices or branches covered may however be submitted for two or more offices or branches at similar places in the area of one Land Central Bank, if the records of the institution at any time permit the liabilities to be broken down according to the individual offices or branches. At the request of the Land Central Bank such breakdown has to be made for the time fixed by it.
- (b) If a credit institution renders more than one reserve statement (Form 1500), the main office has moreover to submit a collective statement (Form 1500a) in which the monthly averages shown in the reserve statements (Form 1500) of the liabilities subject to the reserve requirement and of the Bundesbank giro balances of each office or branch, or of the offices or branches combined in one reserve statement (Form 1500), are to be shown. In this case the monthly averages of the reserve-carrying liabilities of offices or branches not having a Bundesbank giro account of their own may be shown in summary, with an indication of the number of such offices or branches, even if no use has been made of the possibility of submitting a combined statement — cf. (a).
- (c) The collective statement (Form 1500a) shall likewise be submitted together with the reserve statements (Form 1500) not later than the fifth business day in each month, in respect of the past month, to the Bundesbank's office keeping account for the main office of the credit institution; the appropriate Land Central Bank may permit submission to another office of the Bundesbank.
- (3) Agricultural credit cooperatives which maintain minimum reserves in accordance with Article 5, paragraph 2 are to give to their central institution the data required in Form 1500 for the calculation of the required reserve. For each cooperative maintaining a reserve with it the central institution shall state, in a schedule to its reserve statement, the monthly averages (Article 8) of the liabilities subject to the reserve requirement, the required reserve and the actual reserve.
- (4) The Bundesbank may cause the ascertainment of the liabilities subject to the reserve requirement to be explained to it in the reserve statement or in a schedule thereto. It reserves the right to assure itself that the said ascertainment is in order.

## VI. Coming into Force

### Article 12

The Order comes into force on 1 October 1962. At the same time the Deutsche Bundesbank's Order on Minimum Reserves of 16 April 1959, as amended on 9 July 1959, 17 March, 2 June, 18 August 1960, 20 April, 13 July, 12 October, 21 December 1961, 25 January and 22 February 1962, ceases to have effect.

Deutsche Bundesbank

*Blessing Dr. Wolf*

### 5. Interest rates and minimum reserve ratios of the Deutsche Bundesbank \*)

*(a) Rates for Discounts and Advances,  
and Special Rate of Interest Charged for Failure to Meet the Minimum Reserve Requirement*

Applicable from	Discount rate <sup>1)2)</sup>	Rate for advances on securities	Special rate of interest charged to credit institutions for failure to meet the minimum reserve requirement
	% per annum	% per annum	% p. a. over advance rate
1948 July 1	5	6	1
Dec. 1	5	6	3
1949 May 27	4 1/2	5 1/2	3
July 14	4	5	3
1950 Oct. 27	6	7	3
Nov. 1	6	7	1
1951 Jan. 1	6	7	3
1952 May 29	5	6	3
Aug. 21	4 1/2	5 1/2	3
1953 Jan. 8	4	5	3
June 11	3 1/2	4 1/2	3
1954 May 20	3	4	3
1955 Aug. 4	3 1/2	4 1/2	3
1956 March 8	4 1/2	5 1/2	3
May 19	5 1/2	6 1/2	3
Sep. 6	5	6	3
1957 Jan. 11	4 1/2	5 1/2	3
Sep. 19	4	5	3
1958 Jan. 17	3 1/2	4 1/2	3
June 27	3	4	3
1959 Jan. 10	2 3/4	3 3/4	3
Sep. 4	3	4	3
Oct. 23	4	5	3
1960 June 3	5	6	3
Nov. 11	4	5	3
1961 Jan. 20	3 1/2	4 1/2	3
May 5	3	4 <sup>3)</sup>	3
1965 Jan. 22	3 1/2	4 1/2	3
Aug. 13	4	5	3
1966 May 27	5	6 1/4	3
1967 Jan. 6	4 1/2	5 1/2	3
Feb. 17	4	5	3
April 14	3 1/2	4 1/2	3
May 12	3	4	3
Aug. 11	3	3 1/2	3

\*) Up to 31 July 1957 rates of Bank deutscher Länder and of Land Central Banks.  
<sup>1)</sup> This is also the rate for cash advances. — <sup>2)</sup> Until May 1956 lower rates as well applied to foreign bills and export drafts; fixed special rates were charged for certain credits which had been granted to the Reconstruction Loan Corporation and which ran out at the end of 1958 (for details see footnotes to the table published in the Report for the Year 1961, page 91). — <sup>3)</sup> An allowance of 3/4 % per annum was granted in respect of the advances on securities taken by credit institutions between 10 December 1964 and 31 December 1964.





## II. Foreign Exchange Policy Regulations

No new foreign exchange policy arrangements were made in 1967. The restrictions contained in Article 52 of the Foreign Trade and Payments Order concerning the sale of domestic money-market paper to non-residents and the use of domestic fixed-interest securities for the purpose of borrowing from non-residents by way of security transactions under repurchase agreement remained in force. The same applies to the regulation laid down in Article 53 of the Foreign Trade and Payments Order to the effect that the payment of interest on non-residents' credit balances other than balances on individuals' savings accounts requires a permit.

Foreign trade  
and payments

As before, no permits were granted for the above-mentioned security transactions. The payment of interest on balances held by non-resident customers as cover for letters of credit was still permitted. As before, the granting of *ad hoc* permits for the payment of interest on deposits of non-residents was reserved to special cases.

For the rest reference is made to the "Comparative Survey of the Progressive Liberalisation of Trade in Goods and the Main Items of Services and Capital Transactions with Foreign Countries", reprinted on the following pages.

In interzonal clearing transactions with the Deutsche Notenbank, Berlin, the total swing allowed was again DM 200 million. The splitting of this total into two swing amounts of DM 100 million each for sub-account 1 and sub-account 2 has been temporarily suspended until the end of 1969; the annual balancing of accounts provided for in the Interzonal Trade Agreement did not take place. The balance resulting from the settlement of interzonal clearing transactions as on 31 December 1967 and the annual turnovers in these transactions are indicated in Part B (Annual Statement — Assets — Other claims) (page 115).

Interzonal transactions

The Bundesbank's General Licence concerning trade between the Federal area and the currency area of the DM (East) was extended in various respects (Notice No. 6001/67).

*Comparative Survey of the Progressive Liberalisation of Trade in Goods and the*

	Position at end of 1949	Position at end of 1956	Position in July 1958	Position in April 1964 (since then unchanged)
<b>A. Trade in goods</b>				
Liberalisation of the import of goods				
I. from O.E.E.C. countries (in p.c. of 1949 imports)	47 per cent <sup>1)</sup>	92.4 per cent <sup>1)</sup>	94.0 per cent <sup>1)</sup>	<sup>2)</sup>
II. from dollar countries (in p.c. of 1953 imports)	—	92.9 per cent <sup>1)</sup>	95.0 per cent <sup>1)</sup>	
<b>B. Services</b>				
I. Transfer in respect of incidental expenses and services directly resulting from trade (e. g. freight and insurance)	transport costs free, otherwise Special Licence	free	free	free
II. Transfer in respect of incidental expenses and services indirectly resulting from trade				
(1) Commissions	Special Licence	free	free	free
(2) Expenses on commercial agency reports and publicity	free	free	free	free
(3) Licence fees (current and non-recurring)	Special Licence	free up to DM 50,000 per quarter, or DM 300,000 once	free	free
III. Insurance (for transport insurance see B. I)				
(1) Property insurance contracts	not permitted	free (with certain exceptions)	free (with certain exceptions)	free (with certain exceptions)
(2) Life assurance contracts				
(a) between residents and foreign life assurance companies	not permitted	not permitted	Special Licence	free
(b) between non-residents and German life assurance companies	not permitted	free on DM basis	free on DM basis	free
(c) between residents and German life assurance companies, in foreign currency	not permitted	not permitted	not permitted	free
(3) Active and passive reinsurance and further reinsurance – in any currency – conclusion and performance	Special Licence	free	free	free
IV. Transfer of employees' compensation (wages, salaries, social security and retirement pensions, fees)	Special Licence	free	free	free
V. Travel				
(1) Purchase and export of national and foreign payment media to be used abroad by residents of the Federal Republic of Germany	Special Licence, private journeys only in exceptional cases	free	free	free
(2) Export of national and foreign payment media by foreigners when leaving the country				
(a) national payment media	free up to DM 40	free	free	free
(b) foreign payment media	free up to amount of imported foreign payment media	free	free	free
(3) Import of foreign and national payment media				
(a) by residents (aa) national payment media (ab) foreign payment media	free up to DM 40 free	free free	free free	free free
(b) by foreigners (ba) national payment media (bb) foreign payment media	free up to DM 40 free	free free	free free	free free
VI. Miscellaneous payments to foreign countries				
(1) Inheritances	to Blocked DM Account	free in currency of limited convertibility; otherwise Special Licence	free	free
(2) Dowries	to Blocked DM Account under Special Licence	free in currency of limited convertibility up to DM 50,000; otherwise Special Licence	free	free
(3) Gifts and support payments to individuals	to Blocked DM Account under Special Licence	free up to DM 300 per month	free	free
(4) Legal and contractual maintenance payments	to Blocked DM Account under Special Licence	free up to DM 3,000 per month	free	free
(5) Loans to relatives abroad	not permitted	Special Licence	free	free
(6) Winnings from governmentally approved gaming (lotteries, totalisator, etc.)	to Blocked DM Account under Special Licence	free in currency of limited convertibility; otherwise Special Licence	free	free
(7) Prizes, e. g. art, literature or sport prizes and prizes in connection with public and other competitions	to Blocked DM Account under Special Licence	free up to DM 50,000	free	free
(8) Fines and penalties; compensation on the ground of tortious act, of average and on other non-contractual grounds of liability; unjustified enrichment	to Blocked DM Account under Special Licence	free	free	free
(9) Taxes and public imposts	to Blocked DM Account under Special Licence	Special Licence	free	free
(10) Individual indemnification	to Blocked DM Account	free in currency of limited convertibility; otherwise Special Licence	free	free

<sup>1)</sup> Excluding governmental imports. — <sup>2)</sup> The ratio of liberalisation is not calculated any longer.

*Main Items of Services and Capital Transactions with Foreign Countries*

	Position at end of 1949	Position at end of 1956	Position in July 1958	Position in April 1964 (since then unchanged)
<b>C. Capital transactions</b>				
I. Income from foreign-owned investments in the Federal Republic of Germany and proceeds of drawn bonds	to Blocked DM Account	free	free	free
<b>II. Repatriation of foreign-owned capital amounts or investments (including transfer of capital assets to emigrants)</b>				
(1) Proceeds of sale, redemption, repayments	to Blocked DM Account	free in currency of limited convertibility; otherwise Special Licence	free	free
(2) Balances on accounts at financial institutions	not permitted	free in currency of limited convertibility; otherwise Special Licence	free	free
(3) Acquisition of German securities and external bonds abroad by residents of the Federal Republic of Germany	not permitted	not permitted (free for German external bonds)	free	free
III. Interest and redemption payments under the London Debts Agreement	Agreement not yet concluded	full service according to Agreement	full service according to Agreement	full service according to Agreement
<b>IV. Fresh investments</b>				
(1) Foreign investments in the Federal Republic of Germany				
(a) German securities	not permitted, except in certain cases out of original Blocked DM Accounts	marketable securities free out of Liberalised Capital Accounts; otherwise Special Licence	free against freely convertible currency	free (except for bond transactions under repurchase agreement)
(b) German money-market paper	not permitted	not permitted	not permitted	not permitted at present
(c) DM loans running for not less than 5 years	not permitted	free out of Liberalised Capital Accounts, maximum interest rate 4 $\frac{1}{2}$ %; otherwise Special Licence	free against freely convertible currency; otherwise Special Licence	free
Loans in foreign currency running for not less than 5 years	not permitted	Special Licence	Special Licence	free
Loans running for less than 5 years	not permitted	Special Licence	Special Licence	free
(d) Participations	not permitted	free out of Liberalised Capital Accounts up to DM 500,000; otherwise Special Licence	free	free
(e) Real estate	not permitted	free out of Liberalised Capital Accounts	free	free
(2) German investments abroad				
(a) Enterprises, branch establishments and participations	not permitted	free up to DM 3 million for German enterprises	free	free
(b) Acquisition of foreign securities	not permitted	free (marketable securities only)	free (marketable securities only)	free
(c) Acquisition of real estate	not permitted	Special Licence	free	free
V. Import and export of foreign-owned securities	not permitted	free	free	free
VI. Import of gold coin and dealings therein in the Federal Republic of Germany	not permitted	free	free	free
<b>D. Special official deliveries and payments</b>				
(1) Israel Agreement	Agreement not yet concluded	deliveries and payments according to Agreement	deliveries and payments according to Agreement	deliveries and payments according to Agreement
(2) Federal Indemnification Law	Law not yet promulgated	free	free	free
(3) Federal Restitution Law	Law not yet promulgated	Law not yet promulgated	free	free
(4) War Consequences Law	Law not yet promulgated	Law not yet promulgated	free	free
<b>E. Keeping of accounts</b>				
I. For foreigners, at financial institutions in the Federal Republic of Germany				
Blocked DM Accounts only (interest-bearing)				
Accounts of limited and of free convertibility (non-interest-bearing)				
Accounts of limited and of free convertibility (non-interest-bearing)				
all accounts freely convertible (interest only on savings accounts of individuals and on cover for letters of credit)				
II. For residents, at foreign financial institutions				
(1) Financial institutions				
(2) Business enterprises	opening and operation restricted	opening free; operation restricted	opening free; operation restricted	opening and operation free
(3) Individuals	not permitted	opening and operation restricted	opening free; operation restricted	opening and operation free
III. Foreign currency accounts for residents, at financial institutions in the Federal Republic of Germany				
not permitted				
opening free; operation restricted				
opening free; operation restricted				
opening and operation free				

Part B

# Explanation of the Deutsche Bundesbank's Annual Statement for 1967

## Legal Bases, Classification and Valuation

Legal bases,  
accounting system  
and Annual Statement

The provisions regarding the Deutsche Bundesbank's accounting system and Annual Statement (Article 26 of the Law concerning the Deutsche Bundesbank of 26 July 1957 — Bundesbank Law — Federal Law Gazette I, page 745) remained the same as in the previous year.

Amendment of the Law  
concerning the  
Deutsche Bundesbank

Article 42 of the Law concerning the Deutsche Bundesbank of 26 July 1957 was amended, and Article 42 (a) newly added, through Article 29 of the Law to Promote Economic Stability and Growth of 8 June 1967 (Federal Law Gazette I, page 582). By revision of Article 42, paragraph 1, Bundesbank Law, the Federal Government undertakes to hand to the Bank on request Treasury bills or non-interest Treasury bonds in denominations and on terms of the Bank's choice (mobilisation paper) up to the nominal amount of the equalisation claim on the Federal Government due to the Bank in respect of its own Conversion Account. The limit of four billion DM as provided for in the previous version had been raised already in 1958 to the full amount of the equalisation claim entered in the Debt Register by way of an agreement between the Federal Government and the Bundesbank. Moreover, Article 42 (a), Bundesbank Law, enables the Bank to issue further Federal Treasury bills or non-interest Treasury bonds (liquidity paper) up to a maximum of eight billion DM in the case of mobilisation paper (Art. 42 Bundesbank Law) having been put into circulation up to the nominal amount of the equalisation claim.

In addition, the Law Amending the Law concerning the Deutsche Bundesbank of 23 November 1967 (Federal Law Gazette I, page 1157) provides for the raising of the limits up to which cash advances may be granted (Art. 20 Bundesbank Law) in the case of

- the Federal Government from DM 3 billion to DM 6 billion,
- the Federal Railways from DM 400 million to DM 600 million,
- the Federal Postal Administration from DM 200 million to DM 400 million,
- the *Länder* from DM 20 to DM 40 per inhabitant according to the latest official census; for the Land of Berlin and the Free and Hanseatic Cities of Bremen and Hamburg the relevant amount has been raised from DM 40 to DM 80.

Changes in con-  
nection with staff

On 2 November 1967, as a consequence of the First Law Amending Legislation on Civil Service Salaries of 6 July 1967 (Federal Law Gazette I, page 629), the Central Bank Council resolved new guidelines for the staffing of all civil service ranks with the Directorate, the Main Offices and the branch establishments. The Bank again concluded a number of collective agreements, through which the legal positions of its salaried employees and wage-earning workers were in each case assimilated to those of the Federal Government's salaried employees and wage-earning workers.

Form of the  
Annual Statement

In the same way as in previous years the classification of the Annual Balance Sheet, and the designation of the Balance Sheet items, were largely adapted to the arrangement in the Bank's weekly return. As in the return, the medium-term securities taken by the Bundesbank from the U.S. Treasury under the U.S.-German foreign exchange offset agreement are shown in the new Asset Item 3 "Other investments of money abroad and claims on foreign countries". The Asset Item 8 "Treasury bills and non-interest Treasury bonds" was supplemented as compared with the previous year by adding the sub-item "*Länder*". The reserve for note printing was dissolved during 1967 and the relevant sub-item to Liability Item 3 "Reserves for specific purposes" was deleted accordingly.

The classification of the Profit and Loss Account remained unchanged by comparison with 1966. The provisions of the Companies Act (*Aktiengesetz*) were taken into account *mutatis mutandis* in the valuation (Art. 26 Bundesbank Law).

Valuation

## Conversion Account

The Combined Conversion Account of the Institutions Amalgamated to Form the Deutsche Bundesbank is attached to this Report as Appendix 1.

Through the corrections of the Partial Conversion Accounts for the Bank deutscher Länder and the Land Central Banks, which now give the position shown by the books on 31 December 1967, the Bank's claim to allocation of equalisation claims rose by DM 66,399.98 to DM 8,103,493,735.31; the claim on the Federal Government arising from the non-interest-bearing debt certificate issued in connection with the currency conversion in Berlin remained unchanged at DM 547,168,481.20 during the year under review.

## Annual Statement

The Annual Statement for 1967, which is attached as Appendix 2, will be explained as usual in the order of the items in the Balance Sheet and Profit and Loss Account. At the same time a report is rendered on the Bank's activity during 1967.

### Balance Sheet Comparison of Balance Sheet Results Millions of DM

Assets	31 December			Liabilities	31 December		
	1965	1966	1967		1965	1966	1967
Gold	17,371.2	16,905.2	16,646.6	Capital	290.0	290.0	290.0
Balances at foreign banks and money-market investments abroad	8,110.9	9,775.4	10,352.7	Reserves	860.5	962.8	1,080.2
Other investments of money abroad and claims on foreign countries	—	—	1,000.0	Reserves for specific purposes	1,690.0	1,925.0	2,110.0
Foreign notes and coin, foreign bills and cheques	892.2	1,083.5	1,953.2	Bank notes in circulation	29,455.6	30,770.1	31,574.2
German divisional coin	129.6	166.3	200.3	Deposits of			
Postal cheque account balances	409.2	425.1	418.4	credit institutions	16,241.3	17,385.7	15,178.6
Domestic bills of exchange	4,650.1	5,031.0	2,922.5	Federal Government	46.6	39.5	43.4
Treasury bills and non-interest Treasury bonds	345.4	711.4	—	Federal Special Funds	964.6	1,521.2	1,528.0
Advances against securities	696.4	938.0	949.6	<i>Länder</i>	1,108.3	504.2	496.0
Cash advances	1,407.6	1,163.7	2,219.9	other public depositors	45.3	44.5	48.0
Other claims	99.7	236.7	226.6	other German depositors	265.1	289.3	333.6
Securities	1,150.8	1,095.3	2,316.9	Liabilities in respect of foreign business	451.5	551.8	643.5
Equalisation claims on public authorities and debt certificate in respect of Berlin	8,681.0	8,681.4	8,682.2	Items in course of settlement	—	26.7	—
less equalisation claims returned in exchange for money-market paper	1,064.4	877.8	2,244.5	Other liabilities	108.4	158.1	156.3
Credits to Federal Government for participation in international institutions	3,000.9	3,741.0	3,639.4	Net profit	366.5	534.6	497.2
Claims on Federal Government in respect of acquisition of claims resulting from post-war economic aid	1,507.7	1,770.1	1,238.3				
acquisition of claims from B.I.S.	—	125.0	93.7				
alteration of exchange parity	777.5	566.4	201.9				
Loans to international institutions and consolidation loans	3,344.3	3,255.9	2,448.2				
Items in course of settlement	180.9	—	388.4				
Other assets	202.7	209.9	324.7				
<b>Total</b>	<b>51,893.7</b>	<b>55,003.5</b>	<b>53,979.0</b>	<b>Total</b>	<b>51,893.7</b>	<b>55,003.5</b>	<b>53,979.0</b>

Balance Sheet total      The Balance Sheet total as at 31 December 1967 decreased by DM 1,024.5 million, as compared with the end of 1966, to DM 53,979.0 million.

*Assets*

**Gold**      The gold holding, at DM 16,646.6 million on 31 December 1967, is shown lower by DM 258.6 million than on 31 December 1966.

**Balances at foreign banks and money-market investments abroad**      The balances at foreign banks and the money-market investments abroad amounted to DM 10,352.7 million on 31 December 1967 (DM 9,775.4 million on 31 December 1966).

**Foreign exchange dealings**      The Bank's turnover in foreign exchange spot dealings (foreign currency against Deutsche Mark) amounted to DM 12,821.8 million in the year under review, against DM 12,446.8 million in 1966; the number of deals fell from 9,864 in the previous year to 8,874. They comprised

	1966		1967	
	Number	DM million	Number	DM million
Purchases	3,070	7,038.0	2,827	6,223.7
Sales	6,794	5,408.8	6,047	6,598.1
	<u>9,864</u>	<u>12,446.8</u>	<u>8,874</u>	<u>12,821.8</u>

The bulk of the turnover was once again in U.S. dollars.

In addition, during the year under review the Bank effected 714 cross deals (one foreign currency against another foreign currency) in the equivalent of DM 1,671.3 million, as against 572 deals in the equivalent of DM 1,838.1 million in the previous year; furthermore in the year under report 271 U.S. dollar inter-centre switch transactions amounting to U.S. \$ 44.9 million were concluded, as against 302 transactions amounting to U.S. \$ 38.6 million in the previous year.

U.S.\$ swap transactions with German credit institutions, amounting to U.S.\$ 861.3 million, were concluded in November and December 1967 specifically in order to counteract the uncertainty prevailing on foreign exchange markets. Since the end of 1965 no such transactions had been concluded.

Foreign payments      The payment orders to and from foreign countries processed by the Bank were as follows:

	1965	1966	1967
		Number	
Orders for payment to foreign countries			
in foreign currency	320,932	383,203	427,984
in DM	379,212	458,417	691,131
	<u>700,144</u>	<u>841,620</u>	<u>1,119,115</u>
Orders for payment from foreign countries			
in foreign currency	19,898	19,354	20,441
in DM	145,950	135,134	155,218
	<u>165,848</u>	<u>154,488</u>	<u>175,659</u>
Total processed orders for payment to and from foreign countries	865,992	996,108	1,294,774.
Of the orders for payment in foreign currency the amount executed to the debit of German credit institutions' U.S. dollar accounts kept at the Bank was	2,216	2,473	2,138
and to the credit of such accounts	730	499	442
	<u>2,946</u>	<u>2,972</u>	<u>2,580.</u>
The number of transfers between such accounts was	63,349	67,615	75,657.

This new item records the investment in medium-term U.S. securities expressed in DM. Should the monetary reserves undergo a sustained decrease, the bonds may be presented for redemption before due date.

At DM 4.4 million the holding of foreign notes and coin at the end of 1967 was DM 0.9 million smaller than on 31 December 1966. During the year under review the Bank effected 33,441 purchases of foreign notes and coin (1966: 32,855) and 13,768 sales of foreign notes and coin (1966: 13,438).

At the close of 1967 the holding of foreign bills arising from purchase within the country was DM 1,945.3 million as compared with 1,076.5 million on 31 December 1966.

**Other investments of money abroad and claims on foreign countries**

**Foreign notes and coin, foreign bills and cheques**  
Purchase and sale of foreign notes and coin

Purchase of foreign bills

*Purchase of Foreign Bills in the Land Central Bank Areas*

Land Central Bank	1966		1967	
	Number	DM mn	Number	DM mn
Baden-Württemberg	16,574	323.7	20,739	504.9
Bavaria	11,979	669.5	11,325	823.9
Berlin	1,386	132.9	1,495	255.6
Bremen	709	56.7	1,044	99.7
Hamburg	5,596	920.6	7,992	1,629.0
Hesse	12,990	947.5	12,823	1,546.9
Lower Saxony	4,717	143.5	5,862	282.5
North Rhine-Westphalia	34,075	1,464.6	32,870	2,074.6
Rhineland-Palatinate	2,897	78.8	3,808	196.4
Saarland	2,363	344.6	2,997	487.1
Schleswig-Holstein	302	26.7	464	167.5
Total	93,588	5,109.1	101,419	8,068.1

The proportion of DM acceptances to the total value of the foreign bills purchased averaged about 51 per cent for the year 1967 against about 54 per cent for the year 1966.

At the end of 1967 the holding of foreign cheques amounted to DM 3.5 million (end-1966: DM 1.7 million). During the year under review 146,718 foreign cheques worth DM 140.6 million were purchased, against 145,767 worth DM 127.4 million in the previous year. Altogether 11,241 (1966: 11,121) cheques on foreign countries were sold at the value of DM 57.1 million (1966: DM 37.6 million).

Purchase and sale of foreign cheques

The Bank took the following for realisation on a commission basis:

	1966	1967
	Number	
Foreign notes and coin	5,292	6,096
Bills, cheques, etc., on a commission basis	12,183	13,071
	17,475	19,167.

Foreign commission business

The Bank's holding of German divisional coin amounted to DM 200.3 million at the close of 1967 (end-1966: DM 166.3 million). In 1967 the Federal Government was credited with DM 153.9 million for coin taken over from the Mints, and debited with DM 0.8 million for coin called in or no longer fit for circulation. Altogether in the years 1948 to 1967 the Bank took over coin amounting to DM 2,603.3 million, and redeemed, to the debit of the Federal Government, DM 148.0 million of coins which were no longer fit to circulate or had been called in.

**German divisional coin**

With the inclusion of the deliveries of coin still outstanding at the end of December 1967 on minting orders given up till that time, namely DM 181.8 million of all denominations, the amount of coin per head of population works out at DM 44.03 on the basis of a population, on 30 September 1967, of 59.9 million in the Federal Republic of Germany including the Land of Berlin, the respective amount for 1966 being DM 40.62.

The postal cheque account balances, including the branches' transfers in progress to the postal cheque account of the Bank (Directorate) at Frankfurt am Main, totalled on 31 December 1967

**Balances on postal cheque account**

DM 418.4 million (1966: DM 425.1 million). Each day the Bank's credit balances on that account and on the postal cheque account of the Land Central Bank in Berlin, in amounts rounded off, are offset against the giro balances of the Central Cash Office of the Postal Administration and the Postal Cheque Office Berlin (West).

*Postal Cheque Transactions with Third Parties*

Area	1966				1967			
	Transfers received from third parties		Transfers made to third parties		Transfers received from third parties		Transfers made to third parties	
	Number	DM mn	Number	DM mn	Number	DM mn	Number	DM mn
Land Central Bank								
Baden-Württemberg	103,396	9,971.9	17,997	633.6	99,828	10,050.0	15,682	609.2
Bavaria	119,401	11,781.0	8,558	823.1	124,907	11,955.2	9,562	1,031.3
Berlin	24,751	2,309.9	3,716	415.2	30,878	2,581.8	3,346	433.7
Bremen	25,653	834.8	789	3.1	24,726	695.2	539	0.4
Hamburg	54,659	6,079.8	3,121	67.3	55,692	6,455.7	2,181	34.2
Hesse	63,412	6,673.0	4,530	631.1	66,636	7,202.5	3,970	585.0
Lower Saxony	117,422	6,160.0	3,072	125.3	116,183	6,432.2	3,297	154.3
North Rhine-Westphalia	196,337	13,293.9	13,292	1,644.8	196,437	13,730.9	11,286	1,941.5
Rhineland-Palatinate	55,930	2,498.5	4,542	19.0	55,082	2,538.5	4,698	36.9
Saarland	5,782	1,188.0	540	0.1	6,140	1,308.5	579	0.1
Schleswig-Holstein	8,855	239.7	1,921	8.5	8,811	254.7	1,922	16.7
Total	775,598	61,030.5	62,078	4,371.1	785,320	63,205.2	57,062	4,843.3
Bundesbank — Directorate —	10,481	1,505.9	14,293	8.8	11,800	1,503.8	11,993	7.7
Grand total	786,079	62,536.4	76,371	4,379.9	797,120	64,709.0	69,055	4,851.0

**Domestic bills of exchange**

The domestic bill holding comprised:	31 Dec. 1966	31 Dec. 1967
	Millions of DM	
Domestic bills		
purchased by way of discount	4,210.4	2,784.2
Import and Storage Agency bills taken in the course of open-market operations	103.6	65.6
Prime bankers' acceptances thus taken	717.0	72.7
	<u>5,031.0</u>	<u>2,922.5</u>

The average bill holding, as calculated from the figures on the return dates in the year under review, was DM 4,165.6 million (1966: DM 6,303.3 million).

*Purchase of Domestic Bills of Exchange in the Land Central Bank Areas*

Land Central Bank	1966		1967	
	'000	DM mn	'000	DM mn
Baden-Württemberg	332	4,287.3	216	3,121.3
Bavaria	188	3,565.9	78	1,838.3
Berlin	22	915.2	7	595.5
Bremen	52	1,054.5	45	827.4
Hamburg	149	4,627.0	103	3,633.4
Hesse	329	12,645.4	236	9,563.7
Lower Saxony	134	2,550.0	88	1,650.1
North Rhine-Westphalia	480	12,985.2	302	9,399.3
Rhineland-Palatinate	91	1,212.6	53	832.2
Saarland	20	818.9	17	736.0
Schleswig-Holstein	66	1,072.3	47	855.3
Total	1,863	45,734.3	1,192	33,052.5

At DM 27,724 the average amount of the bills purchased in 1967 was above the previous year's average (DM 24,549).



Of the purchased bills the following were returned and charged, in the absence of payment, to the parties presenting them for rediscount:

	1966		1967	
	Number	DM million	Number	DM million
	7,689	21.6	6,441	19.2
in per cent of the total purchased	0.41	0.05	0.54	0.06.

Domestic bills, cheques and the like were taken on a commission basis as follows:

Commission business

	Number	DM million
1966	200,823	1,365.4
1967	189,453	1,262.2.

The Bundesbank's discount rate for domestic and foreign bills and for foreign cheques was 5% until 5 January 1967, 4½% as from 6 January 1967, 4% as from 17 February 1967, 3½% as from 14 April 1967, and 3% as from 12 May 1967.

Discount rate

Storage Agency bills at a face value of DM 1,122.7 million (1966: DM 1,446.9 million) were purchased in the open market, and DM 704.4 million (1966: DM 1,009.1 million) of these were resold. Bills amounting to DM 456.3 million out of the Bank's holding were redeemed in 1967 (1966: DM 475.6 million). On 31 December 1967 the Bank's holding of Storage Agency bills amounted to DM 65.6 million (1966: DM 103.6 million).

Storage Agency bills

During the year under review the Bank had to afford liquidity assistance to the prime bankers' acceptance market only to a considerably smaller extent (cf. statement on "Money-market operations", page 97). Items amounting to DM 1,675.7 million (1966: DM 3,142.4 million) were purchased from the Privatdiskont-Aktiengesellschaft, Frankfurt am Main, which acts as broker; DM 1,492.1 million (1966: DM 1,051.0 million) were resold to the market. Prime bankers' acceptances amounting to DM 827.9 million remained in the Bank's hands until maturity. On 31 December 1967 DM 72.7 million (1966: DM 717.0 million) of prime bankers' acceptances were in the Bank's portfolio.

Prime bankers' acceptances

During the year under report the Bank's open-market business in money-market paper also included — besides Storage Agency bills, prime bankers' acceptances and the mobilisation paper (under Art. 42 Bundesbank Law) discussed below — Treasury bills of the Federal Government and of the German Federal Railways, as well as non-interest Treasury bonds of the Federal Government, the German Federal Railways and the German Federal Postal Administration, which were placed for account of the issuers.

Treasury bills and non-interest Treasury bonds

While Federal Treasury bills and non-interest Treasury bonds were issued in greatly increased measure, new issues of Federal Railways' Treasury bills remained within narrow limits. For the first time non-interest Treasury bonds of a *Land* were included in the money-market regulation, viz., those issued by the Rhineland-Palatinate.

*Money-Market Paper Issued for Account of Federal Government, Federal Special Funds and Länder*

Millions of DM

Category of paper	In circulation on 31 Dec. 1966	Issued in 1967		In circulation on 31 Dec. 1967
		Issued	Redeemed	
Treasury bills of the Federal Republic of Germany "B" <sup>1)</sup>	1,195.5	5,102.2	6,093.7	204.0
Non-interest Treasury bonds of the Federal Republic of Germany "B" <sup>1)</sup>	2,271.6	6,875.8	1,672.4	7,475.0
Treasury bills of the German Federal Railways	256.3	62.4	317.8	0.9
Non-interest Treasury bonds of the German Federal Railways	449.5	463.1	462.6	450.0
Non-interest Treasury bonds of the German Federal Postal Administration	288.0	300.1	288.1	300.0
Non-interest Treasury bonds of the Land of Rhineland-Palatinate	—	68.0	—	68.0

<sup>1)</sup> "B" has been added to distinguish these instruments of indebtedness from the mobilisation paper dealt with further below.

On 31 December 1967 no partial amounts of the items shown in the table were held by the Bank (1966: DM 711.4 million).

**Advances against securities**

The average extent of recourse to the Bank through taking advances against securities, as calculated from the amounts on return dates during the year under review, was DM 172.3 million (1966: DM 307.3 million). On 31 December 1967 such advances outstanding totalled DM 949.6 million as compared with DM 938.0 million at the end of 1966.

*Lending against Securities in the Land Central Bank Areas*

Land Central Bank	Advances granted against securities				Outstanding on	
	1966		1967		31 Dec. 1966	31 Dec. 1967
	Number	DM mn	Number	DM mn	DM mn	
Baden-Württemberg	1,143	1,034.7	798	647.7	19.4	22.9
Bavaria	894	657.1	654	329.3	89.7	75.2
Berlin	49	151.8	58	55.4	4.3	7.5
Bremen	89	241.7	74	213.0	—	0.2
Hamburg	702	2,037.7	719	1,035.6	71.4	51.4
Hesse	1,706	11,908.6	1,110	6,448.5	340.0	466.7
Lower Saxony	1,535	1,001.8	1,168	885.7	18.3	21.0
North Rhine-Westphalia	1,347	6,917.5	1,090	3,541.1	378.8	275.1
Rhineland-Palatinate	864	609.4	576	545.4	13.6	18.9
Saarland	125	247.2	132	203.4	1.1	9.3
Schleswig-Holstein	309	365.1	227	336.6	1.4	1.4
<b>Total</b>	<b>8,763</b>	<b>25,172.6</b>	<b>6,606</b>	<b>14,241.7</b>	<b>938.0</b>	<b>949.6</b>

**Advance rate**

The rate for advances against securities amounted to 6¼% until 5 January 1967, to 5½% as from 6 January 1967, to 5% as from 17 February 1967, to 4½% as from 14 April 1967, to 4% as from 12 May 1967, and to 3½% as from 11 August 1967.

**Cash advances**

Article 20, paragraph 1, item 1 of the Bundesbank Law, as amended during the year under review, lays down the following maximum credit limits:

	Millions of DM
for the Federal Government	6,000
for the Federal Railways	600
for the Federal Postal Administration	400
for the Equalisation of Burdens Fund	200
for the E.R.P. Special Fund	50
for the <i>Länder</i> DM 40 per inhabitant, except for Berlin, Bremen and Hamburg, where the limit is DM 80 per inhabitant.	

In addition to the book credits, Treasury bills which the Bank holds in its own portfolio or the purchase of which it has promised are to be counted towards the credit ceilings.

*Cash Advances*

Millions of DM

Borrower	31 December 1966			31 December 1967		
	Book credit	Treasury bills	Total	Book credit	Treasury bills	Total
Federal Government	667.3	1,195.5	1,862.8	2,061.8	204.0	2,265.8
Federal Special Funds						
Equalisation Fund	54.3		54.3			
Federal Railways		256.3	256.3		0.9	0.9
<i>Länder</i>						
Baden-Württemberg	59.8		59.8			
Bavaria	190.0		190.0			
Berlin	80.2		80.2	49.7		49.7
Hesse	24.9		24.9	78.2		78.2
Rhineland-Palatinate	60.4		60.4	30.2		30.2
Saarland	7.4		7.4			
Schleswig-Holstein	19.4		19.4			
<b>Total</b>	<b>1,163.7</b>	<b>1,451.8</b>	<b>2,615.5</b>	<b>2,219.9</b>	<b>204.9</b>	<b>2,424.8</b>

During the whole year the rate of interest on book credit was equal to the Bundesbank's discount rate. Interest rate

The "Other claims" of DM 226.6 million shown in Asset Item 11 (1966: DM 236.7 million) include, *inter alia*, the net balance (DM 142.2 million against DM 157.4 million in 1966) resulting from the settlement of interzonal payments. Other claims

Turnover on the relevant sub-accounts amounted to:

	1966	1967
	Millions of DM	
West/East deliveries and services	1,438.2	1,229.2
East/West deliveries and services	1,308.9	1,254.6
	2,747.1	2,483.8.

The holding of securities is shown at DM 2,316.9 million (1966: DM 1,095.3 million). The increase is due to open-market operations conducted by the Bank since August 1967 in respect of loans issued by the Federal Government, the German Federal Railways and the German Federal Postal Administration. Besides such securities, the holding includes bonds of the International Bank for Reconstruction and Development, other bonds and Bundesbank Enjoyment Right Certificates. Securities

In 1967 the Federal Loan Consortium, which is under the Bank's leadership, offered for public sale six loans totalling DM 1,190 million, compared with only one loan of DM 250 million in 1966. Bond issues

#### *Loans Issued through the Federal Loan Consortium in 1967*

Issuer	Amount DM mn	Interest rate %	Issue price %	Start of sales 1967/68
German Federal Postal Administration <sup>1)</sup>	100	7	96 ½	10 February
German Federal Railways	170	7	97 ½	28 March
Federal Republic of Germany	250	6 ½	97 ¼	25 April
Federal Republic of Germany 2nd Issue	300	6 ½	98 ½	13 July
German Federal Railways	170	6 ½	98 ½	12 September
German Federal Postal Administration <sup>1)</sup>	200	6 ½	98 ½	21 Dec./2 Jan.

<sup>1)</sup> In addition, DM 10 million was placed by the issuer direct.

In March 1967, through a consortium led by the Land Central Bank in Hesse, the Land of Hesse issued a DM 150 million 7% Loan of 1967 at the price of 97½%. Through a consortium led by the Land Central Bank in the Rhineland-Palatinate the Land of Rhineland-Palatinate issued in February 1967 a DM 100 million 7% Loan of 1967 at 97% and in August 1967 a DM 100 million 6½% Loan of 1967 at 98½%.

During 1967 DM 1,948.7 million of Treasury bonds (medium-term notes — *Kassenobligationen*) of the Federal Republic of Germany and of the German Federal Postal Administration were sold through the Bank (1966: DM 476.3 million). The issues as from July were sold by tender. Issue of *Kassenobligationen*

*Treasury Bonds sold through the Bundesbank in 1967*  
(*Kassenobligationen*)

Issuer	Amount DM mn	Interest rate %	Running for ... years	Minimum price %	Selling price %	Sales 1967
Federal Republic of Germany of 1966	33.7 47.5	7	3	—	98 1/2 99	January
Federal Republic of Germany of 1966, 2nd Issue	90.0 52.6	7	4	—	97 1/2 98	January
Federal Republic of Germany 1st Issue	56.3	7	3	—	99 3/4	January
Federal Republic of Germany 2nd Issue	163.0 80.7	7	4	—	99 99 1/4	Jan./Feb.
Federal Republic of Germany	32.7	6	3	—	98 1/4	February
Federal Republic of Germany	67.3	6 1/2	4	—	98 3/4	Feb./Mar.
Federal Republic of Germany	120.6	5 1/2	3	—	99	May
Federal Republic of Germany 2nd Issue	204.3	6	4	—	99 3/4	May
Federal Republic of Germany	100.0	5	3	98 5/8	98 5/8	July
Federal Republic of Germany 2nd Issue	200.0	5	4	97	97	July
Federal Republic of Germany 3rd Issue	30.0	5	3	98 5/8	98 3/4	August
Federal Republic of Germany 4th Issue	50.0	5	3 1/2	97 7/8	97 7/8	August
Federal Republic of Germany 5th Issue	120.0	5	4	97	97	August
German Federal Postal Administration	20.0	5	3	98 7/8	99	September
German Federal Postal Administration, 2nd Issue	80.0	5	4	97 1/8	97 1/8	September
Federal Republic of Germany 6th Issue	70.0	5	3	99	99 3/8	October
Federal Republic of Germany 7th Issue	130.0	5	4	97 1/8	97 1/8	October
Federal Republic of Germany 8th Issue	100.0	5	3	99 3/8	99 5/8	November
Federal Republic of Germany 9th Issue	100.0	5	4	97 3/8	97 1/2	November

The Treasury bonds (*Kassenobligationen*) of the Federal Government, the German Federal Railways, the German Federal Postal Administration and the *Länder* with a remaining life of up to 18 months were included in the money-market regulation during the year under review; so far transactions in these Treasury bonds have not occurred.

Admission to stock  
exchange dealings

Besides the loan issues mentioned, the 6% bearer bonds of the Equalisation of Burdens Fund of 1967, Issues I to IV, and the 7% Loan of 1966 of the Reconstruction Loan Corporation were introduced by the Bank for official dealings on the German stock exchanges. In addition, a number of series of *Kassenobligationen* of the Federal Government, the German Federal Railways, the German Federal Postal Administration, the Equalisation of Burdens Bank and the Reconstruction Loan Corporation were introduced for regulated unofficial dealings on the stock exchange at Frankfurt and, to some extent, on the stock exchange at Düsseldorf.

Price supporting  
actions

In the year under review again the Bank undertook price support for account of the issuers in respect of loans issued by the Federal Government and its Special Funds, of two *Länder* loans as well as of loans of the Reconstruction Loan Corporation and the Equalisation of Burdens Bank.

As paying agent specifically for bonds of the Federal Government and its Special Funds the Bank during 1967 paid or presented for redemption 9,323,129 interest coupons and matured bonds (1966: 9,078,216).

The Bank as paying agent for loans

In its capacity as paying agent for the external bonds of the Federal Republic of Germany the Bank in the course of the year under review paid 343,117 interest coupons and matured bonds (1966: 391,323); in 1967 740,628 interest coupons and matured bonds (1966: 773,297) were presented to foreign agents for redemption.

The Bank as conversion and paying agent for external loans

	31 Dec. 1966	31 Dec. 1967	
	Millions of DM		
Equalisation claims arising from own Conversion Account			<b>Equalisation claims on public authorities</b>
Bank deutscher Länder	5,504.3	5,504.3	
Land Central Banks	2,599.1	2,599.2	
	8,103.4	8,103.5	
Handed back in exchange for money-market paper	877.8	2,244.5	
	7,225.6	5,859.0	
Conversion of Berlin pre-capitulation balances	29.4	30.1	
Conversion of RM balances at credit institutions in the Soviet Sector of Berlin	1.5	1.5	
	7,256.5	5,890.6	

The slight increase of DM 66,400 in the equalisation claims arising from the Bank's own Conversion Account is explained in the Combined Conversion Account of the Institutions Amalgamated to Form the Deutsche Bundesbank as shown by the books on 31 December 1967, which account is attached to this Report as Appendix 1. The equalisation claims belonging to the Bank in respect of its own Conversion Account, of the conversion of Berlin pre-capitulation balances and of the conversion of RM balances with credit institutions in the Soviet Sector of Berlin, as shown by the books on 31 December 1966, are entered in the Federal Debt Register.

Turnover in Federal Government Treasury bills and non-interest Treasury bonds, which in accordance with Art. 42 Bundesbank Law are handed to the Bank in exchange for the equalisation claim that it holds on the Federal Government in respect of its own Conversion Account, and which it sells to the market as a measure of open-market policy (mobilisation paper), was subject to considerable fluctuations. A great increase was recorded in turnover of Treasury bills, a contributing factor being the issue, at low selling prices, of DM 1.8 billion of short-term paper for the purpose of easing liquidity arrangements in December and at the end of the year. New issues of non-interest Treasury bonds diminished from DM 1.9 billion in 1966 to DM 1.5 billion in 1967. The amount of mobilisation paper in circulation on 31 December 1967 was DM 2,244.5 million (end-1966: DM 877.8 million). During the year under review selling rates for mobilisation paper — just as those for other money-market paper — were reduced several times.

Mobilising of equalisation claims for the purpose of open-market policy

*Mobilisation Paper Sold and Redeemed*

Millions of DM

Category of paper	1965	1966		1967			
	in circulation on 31 Dec.	sold	redeemed	in circulation on 31 Dec.	sold	redeemed	in circulation on 31 Dec.
Treasury bills of the Federal Government (running for up to 90 days)	363.7	2,431.5	2,581.8	213.4	5,421.4	4,013.8	1,621.0
Non-interest Treasury bonds of the Federal Government (running for 6 to 24 months)	700.7	1,938.1	1,974.4	664.4	1,520.7	1,561.6	623.5
<b>Total</b>	<b>1,064.4</b>	<b>4,369.6</b>	<b>4,556.2</b>	<b>877.8</b>	<b>6,942.1</b>	<b>5,575.4</b>	<b>2,244.5</b>

**Debt Certificate in respect of Berlin**

During the year under review the Bank's claim on the Federal Government in respect of the currency conversion in Berlin remained unchanged at DM 547.2 million.

**Credits to Fed. Govt. for participation in international institutions**

Under Art. 20, paragraph 1, item 2 of the Bundesbank Law the Bank may grant credits to the Federal Government with a view to meeting the latter's commitments as a member of the following institutions to the extents indicated:

	Millions of DM
International Monetary Fund	4,870.0
European Fund	210.0
International Bank for Reconstruction and Development	35.0.

The credit granted to the Federal Government in respect of its participation in the International Monetary Fund decreased to DM 3,585.1 million. Against DM drawings by various countries totalling DM 359 million during the year under review there were DM 461 million of repayments. The credits granted to the Federal Government for the purpose of meeting payment liabilities to the I.B.R.D. and to the European Fund remained unchanged during the year under review. Under an agreement with the Federal Government the Federal Republic of Germany's financial participations in the International Monetary Fund, the European Fund and the International Bank for Reconstruction and Development belong for practical purposes wholly or proportionately to the Bank.

**Claims on Fed. Govt. in respect of (a) acquisition of claims resulting from post-war economic aid**

Through payment of scheduled instalments the claim on the Federal Government in respect of post-war economic aid, shown in this item, was reduced in the course of 1967 by DM 531.8 million to DM 1,238.3 million; the DM 14.7 million redemption instalment, due on 2 January 1968 and received on the same day, in respect of the residual claim acquired at the end of December 1966 is included in Asset Item 11 "Other claims".

In an agreement dated 29 November 1965 the Federal Republic of Germany undertook to pay DM 156.2 million to the Bank for International Settlements, Basle, in discharge of the latter's claims resulting from RM investments in Germany. After approval was given by legislation the Bank acquired the B.I.S. claim on 29 April 1966. Through payment of the redemption amount which had fallen due during the year under review, the claim diminished by DM 31.3 million, from DM 125.0 million at the end of 1966 to DM 93.7 million.

**Acquisition of claim from B.I.S.**

The claim which arose against the Federal Government on revaluation of the DM (on 6 March 1961) is redeemable, as agreed, by the amounts the Bank has to pay over to the Federal Government as share of profit (remaining balance) pursuant to Article 27 Bundesbank Law. During the year under review it declined by DM 364.5 million. The residual claim of DM 201.9 million recorded at the end of 1967 will be redeemed out of the profit share due to the Federal Government for 1967.

**(b) alteration of exchange parity**

At DM 2,448.2 million the loans to international institutions and consolidation loans are shown lower by DM 807.7 million than a year before. In detail the claims consisted of:

**Loans to international institutions and consolidation loans**

	31 Dec. 1966	31 Dec. 1967
	Millions of DM	
Loan to I.M.F.	1,390.0	670.0
Loans to I.B.R.D.	1,446.3	1,446.8
Loans arising from liquidation of E.P.U.	419.6	331.4
	3,255.9	2,448.2.

The loan granted to I.M.F. under the "General Arrangements to Borrow" of 24 October 1962 decreased during the year under review by DM 720 million to DM 670 million owing to a repayment by the United Kingdom.

**Loan to International Monetary Fund**

The claims arising from liquidation of E.P.U. amounted at the end of 1967 to DM 331.4 million, against DM 419.6 million at the end of 1966 and DM 4,185.8 million after the E.P.U. settlement in January 1959; thus approximately 92 per cent of these credits have been repaid.

**Liquidation of E.P.U.**

Material fixed assets were entered in the Balance Sheet by applying for the first time the stipulations of the Companies Act of 6 September 1965 (Federal Law Gazette I, page 1089). With additions of DM 34.1 million and depreciations of DM 9.8 million, land and buildings are shown at DM 106.3 million. Of the addition of DM 5.1 million to equipment, DM 2.5 million was written off during the year under review.

**Land and buildings**

**Equipment**

The Balance Sheet item "Items in course of settlement" mainly comprises the transfers to and from other places that were proceeding inside the Bank at the close of the year as well as the cheques and debit-entry notes in course of clearing. On 31 December 1967 there was a net asset of DM 388.4 million as against a net liability of DM 26.7 million at the end of 1966.

**Items in course of settlement**

Of the DM 183.9 million (end-1966: DM 95.2 million) shown in the item "Other assets" DM 125.2 million (end-1966: DM 80.6 million) represents interest which falls due in 1968, but is assignable to the Profit and Loss Account for the year under review, on monies employed abroad and on securities.

**Other assets**

In the same way as in previous years the transitory items on the assets side mainly comprise the proportion of interest relating to subsequent years on money-market paper issued in exchange for equalisation claims.

**Transitory items**

### *Liabilities*

**Capital** The capital of the Bank remained unchanged at DM 290 million (Art. 2 Bundesbank Law); it belongs to the Federal Government.

**Reserves** In pursuance of the Central Bank Council's decision of 13 April 1967, out of the net profit for 1966 DM 107.0 million was added to the legal reserve and DM 10.4 million to the other reserves; the reserves accordingly rose from DM 962.8 million at the end of 1966 to DM 1,080.2 million.

#### **Reserves for specific purposes**

#### *Position and Movement of Reserves for Specific Purposes*

Millions of DM

Reserves for specific purposes	Position on 31 Dec. 1966	Withdrawal 1967	Addition	Position on 31 Dec. 1967
For pension liabilities	800.0	42.1	102.1	860.0
For note printing	25.0	25.0	—	—
Other	1,100.0	23.8	173.8	1,250.0
<b>Total</b>	<b>1,925.0</b>	<b>90.9</b>	<b>275.9</b>	<b>2,110.0</b>

The reserve for pension liabilities to members of the Bank's organs and to the Bank's officials, as well as for covering pension payments to former Reichsbank staff, still falls short of the actuarially calculated requirement.

The reserve for note printing was dissolved during 1967 in favour of other receipts.

During the year under review the equivalent of the loss suffered in connection with the devaluation of the British pound and other currencies, amounting to DM 23.8 million, was taken from the other reserves for specific purposes. With a view to covering hazards inherent in the foreign and domestic business these reserves were increased by DM 173.8 million to DM 1,250.0 million.

#### **Bank notes in circulation**

The circulation of bank notes rose from DM 30,770.1 million at the end of 1966 to DM 31,574.2 million on 31 December 1967.

#### *Circulation of Notes and Coin*

Millions of DM

End of year	Bank notes	Federal coin	Circulation of notes and coin total
1962	24,146.6	1,613.2	25,759.8
1963	25,426.6	1,725.0	27,151.6
1964	27,691.7	1,852.9	29,544.6
1965	29,455.6	1,997.1	31,452.7
1966	30,770.1	2,135.9	32,906.0
1967	31,574.2	2,255.1	33,829.3

The denominations of the bank notes and Federal coin in circulation are shown in Appendix 4 to this Report.



In the year under review new Bundesbank notes of various denominations, totalling DM 7,226.3 million, were taken over by the Bank from the printing works and put into circulation or made ready for that purpose.

Details of bank notes (including small money tokens) which were destroyed, having been called in or being no longer fit for circulation, are:

	1962	1963	1964	1965	1966	1967
Millions	204.5	323.3	228.7	182.2	175.1	207.6
DM million	9,286.4	11,512.2	6,706.3	4,367.8	3,780.9	5,501.6.

The number and amount of faked German payment media detained in payment transactions in the course of 1967 increased in comparison with the preceding year.

*Counterfeits Discovered*

Year	Notes		Coins	
	Number	Thousands of DM	Number	Thousands of DM
1962	354	19.3	4,536	13.6
1963	413	25.8	5,502	11.2
1964	400	24.1	3,013	7.1
1965	797	15.4	2,671	5.8
1966	273	11.1	3,323	11.5
1967	679	31.8	7,126	26.0

The balances of German depositors comprise those of	31 Dec. 1966	31 Dec 1967	Deposits
	Millions of DM		
(a) Credit institutions (including Postal cheque and Postal savings bank offices)	17,385.7	15,178.6	
(b) Public depositors			
(ba) Federal Government	39.5	43.4	
(bb) Federal Special Funds	1,521.2	1,528.0	
(bc) <i>Länder</i>	504.2	496.0	
(bd) Other public depositors	44.5	48.0	2,115.4
(c) Other German depositors	289.3	333.6	
	19,784.4	17,627.6.	

The credit institutions' deposits mainly represent the minimum reserves which have to be maintained with the Bundesbank.

Giro transactions

Of the turnovers on giro accounts the following were settled without use of cash:

	Percentage of	
	number	amounts
in 1966	99.40	96.19
in 1967	99.40	96.40.

*Annual Turnover on Giro Accounts at the Deutsche Bundesbank*

	1966			1967		
	Number <sup>1)</sup>	Total amount	Average amount	Number <sup>1)</sup>	Total amount	Average amount
	'000	DM million	DM '000	'000	DM million	DM '000
(a) Credits						
of which:						
Cash in-payments	1,056	102,618	97.2	1,047	101,862	97.3
Settlements with account-holders	7,387	903,396	122.3	7,070	944,153	133.5
Local transfers	13,138	705,597	53.7	12,804	718,901	56.1
Transfers from other places	49,975	748,769	15.0	48,026	817,993	17.0
Cheque and debit-entry note collections (total lodged)	117,515	260,344	2.2	123,275	261,989	2.1
Total	189,071	2,720,724	—	192,222	2,844,898	—
(b) Debits						
of which:						
Cash out-payments	1,182	104,630	88.5	1,213	103,234	85.1
Settlements with account-holders	4,470	902,584	201.9	4,012	952,372	237.4
Local transfers	13,138	705,597	53.7	12,804	718,901	56.1
Transfers to other places	50,216	746,436	14.9	48,153	811,114	16.8
Cheque and debit-entry note collections (total paid)	116,510	260,382	2.2	121,078	261,517	2.2
Total	185,516	2,719,629	—	187,260	2,847,138	—
(c) In per cent of total turnover (credits and debits)		<i>per cent</i>			<i>per cent</i>	
Cash payments		3.81			3.60	
Settlements with account-holders		33.20			33.32	
Local transfers		25.94			25.26	
Transfers to and from other places		27.48			28.62	
Cheque and debit-entry note collections (total lodged and paid)		$\frac{9.57}{100.00}$			$\frac{9.20}{100.00}$	
<sup>1)</sup> Number of transactions.						

The liabilities in respect of foreign business comprised

Liabilities in respect of  
foreign business

	31 Dec. 1966		31 Dec. 1967	
	Millions of DM			
Deposits of non-residents				
Banks	402.8		408.0	
Others	90.8	493.6	98.1	506.1
Deposits of resident credit institutions on U.S. dollar accounts		21.5		15.4
Provision of cover for credits and guarantees by				
Non-residents	0.9		1.7	
Residents	12.7	13.6	11.6	13.3
Other liabilities		23.1		108.7
		551.8		643.5

The "Other liabilities" are shown on 31 December 1967 at DM 50.0 million as against DM 27.6 million at the end of 1966.

Other liabilities

In the same way as previously the transitory items on the liabilities side (DM 106.3 million for 1967, DM 130.5 million for 1966) mainly comprise interest which was received in the year under report, but relates to the next year, on foreign and domestic Treasury bills, bank acceptances and commercial bills.

Transitory items

The contingent liabilities and claims are shown on 31 December 1967 at DM 0.3 million against DM 0.6 million at the end of 1966.

Contingent liabilities  
and claims

### Profit and Loss Account

#### Comparison of Expenditure and Receipts

Millions of DM

Expenditure	1965	1966	1967	Receipts	1965	1966	1967
Interest on money-market paper issued in exchange for equalisation claims	78.8	56.7	85.1	Interest on monies employed abroad	425.9	462.3	560.8
Other interest	1.6	2.3	1.9	equalisation claims	244.0	244.1	244.1
	80.4	59.0	87.0	domestic bills of exchange, advances against securities and cash advances, as well as on other claims	236.2	362.6	213.0
Administrative costs				foreign bills of exchange bought in Germany	20.3	41.5	48.6
Personnel	184.8	201.4	211.3	securities, Treasury bills and Treasury bonds	63.4	67.4	75.5
Materials	30.8	34.4	35.9	Other interest	0.6	0.5	1.0
Note printing	25.4	23.9	27.1		990.4	1,178.4	1,143.0
Depreciation	32.2	32.3	12.3	Fees	3.4	3.6	3.1
Allocations to reserves for specific purposes	249.9	273.9	275.9	Other receipts	9.1	10.8	35.9
Pension payments in respect of Reichsbank	26.8	27.3	28.1				
Other expenditure	6.1	6.0	7.2				
Net profit	366.5	534.6	497.2				
Total	1,002.9	1,192.8	1,182.0	Total	1,002.9	1,192.8	1,182.0

*Receipts*

		1965	1966	1967
		Millions of DM		
<b>Interest</b>	The interest received amounted to	990.4	1,178.4	1,143.0.
	After deduction of the interest paid out, namely	80.4	59.0	87.0
	it is shown in the Profit and Loss Account at	910.0	1,119.4	1,056.0.

The interest on monies employed abroad increased by DM 98.5 million, as compared with the previous year's figure, to DM 560.8 million in 1967.

As in the year before, the amount of interest received on equalisation claims was DM 244.1 million; the interest paid on money-market paper issued in exchange for equalisation claims increased during the year under review by DM 28.4 million to DM 85.1 million. Interest receipts from the discounting of domestic bills and the granting of advances against securities and of cash advances, as well as from other claims, amounted to DM 213.0 million in 1967 as compared with DM 362.6 million in the preceding year. At DM 75.5 million the interest received on securities, Treasury bills and Treasury bonds was greater by DM 8.1 million than in the previous year (DM 67.4 million). DM 48.6 million of interest accrued from the discounting of foreign bills (1966: DM 41.5 million).

**Fees** DM 3.1 million of fees were received in the year under review (1966: DM 3.6 million).

**Other receipts** With the inclusion of the dissolved reserve for note printing of DM 25 million, "Other receipts" are shown at DM 35.9 million (1966: DM 10.8 million).

*Expenditure*

**Administrative costs**  
**(a) Personnel**

The administrative costs in respect of personnel rose in comparison with the previous year mainly owing to the statutorily imposed or collectively agreed pay increases of 1966 for officials, salaried employees and wage earners, which became fully effective in the year under review; they amounted to DM 211.3 million in 1967 (1966: DM 201.4 million). The Bank's staff increased in number by 181 during 1967.

*Number of Persons Employed in the Bundesbank*

	End of 1966					End of 1967				
	Direc- torate	Land Central Banks	Total	of whom:		Direc- torate	Land Central Banks	Total	of whom:	
				male	female				male	female
Officials	604	4,004	4,608	4,545	63	608	4,050	4,658	4,590	68
Salaried employees	1,234	4,899	6,133	2,649	3,484	1,301	4,961	6,262	2,672	3,590
Wage earners	145	839	984	178	806	147	839	986	166	820
<b>Total</b>	<b>1,983</b>	<b>9,742</b>	<b>11,725</b>	<b>7,372</b>	<b>4,353</b>	<b>2,056</b>	<b>9,850</b>	<b>11,906</b>	<b>7,428</b>	<b>4,478</b>

The total payments to serving and former members of the Directorate of the Deutsche Bundesbank, the Board of Directors and Board of Managers of the Bank deutscher Länder, and the Boards of Management of the Land Central Banks, including their surviving dependants, amounted to DM 5,187,869.52 in the year under review.

**(b) Materials** The administrative costs in respect of materials rose from DM 34.4 million in 1966 to DM 35.9 million.

The expenditure on note printing rose as compared with 1966 by DM 3.2 million to DM 27.1 million.

Note printing

The depreciation on land and buildings as well as on equipment has been discussed, like the allocations to the reserves for specific purposes, in connection with the respective Balance Sheet items.

Depreciation and allocations to reserves for specific purposes

The payments for members of the former Deutsche Reichsbank and other persons to whom the Law concerning Article 131 of the Basic Law applies, and for whom the Bank is required to provide in accordance with Art. 41 Bundesbank Law, amounted in the year under report to DM 31.9 million (1966: DM 31.1 million); of this amount DM 3.8 million was taken from the reserve for pension payments, in the same way as previously, so that DM 28.1 million is shown as pension payments in respect of the Reichsbank by comparison with DM 27.3 million in 1966.

Pension payments in respect of Reichsbank

<i>Net profit</i>		DM	
According to the Profit and Loss Account the net profit amounts to (1966: DM 534,618,157.51).		497,201,177.70	Proposed distribution of the profit
The Directorate proposes to the Central Bank Council			
that there be allocated	DM		
to the legal reserve	99,500,000.—		
that there be provided for dividends on Bundesbank			
Enjoyment Rights	2,300,000.—		
and that there be allocated			
to the Fund for the Purchase of Equalisation Claims	40,000,000.—	141,800,000.—	
Out of the balance of profit remaining to the Federal Government (Art. 27, item 4 Bundesbank Law), namely		355,401,177.70	
there has to be provided			
for allocation to the Fund for Redemption			
of Bundesbank Enjoyment Rights	10,000,000.—		
and			
under the agreement made with the			
Federal Government the sum of	201,855,428.77		
has to be applied to redemption of the claim on the			
Federal Government in respect of alteration of the			
exchange parity.			
Balance at the disposal of the Federal Government	143,545,748.93	355,401,177.70.	

Frankfurt am Main, April 1968

*Deutsche Bundesbank*  
*The Directorate*

*Karl Blessing Dr. Troeger*

*Dr. Benning Dr. Emminger Dr. Gocht Dr. Irmeler Lucht Tüngeler Dr. Zachau*

Part C

## Fund for the Purchase of Equalisation Claims and Fund for Redemption of Bundesbank Enjoyment Rights

**Fund for the Purchase of  
Equalisation Claims**

The Fund took over from 1966 liquid funds in the amount of DM 24 million; during 1967 it received DM 88.9 million of new funds, DM 40 million out of the Bank's net profit in 1966, DM 37.6 million by way of interest and redemption, and DM 11.3 million of special payments resulting from several settlements, connected with conversion accounts, between the Federal Government and *Länder* on the one hand and associations or institutions on the other.

In the 1967 accounting year DM 74.3 million was used for the purchase of equalisation claims and for satisfying creditors of equalisation claims. In accordance with Art. 9, paragraph 1 of the Law on the Redemption of Equalisation Claims, equalisation claims in the equivalent of DM 42.8 million were purchased, DM 32.4 million from liquidating credit institutions and insurance companies (chiefly pension funds), and DM 10.4 million from non-liquidating insurance companies and credit institutions. Moreover, pursuant to Art. 9, paragraph 2, item 1 of the Law, DM 1.1 million of equalisation claims were purchased from health-insurance enterprises, and small equalisation claims with a remaining capital of DM 0.4 million were acquired in accordance with Art. 9, paragraph 2, item 2 of the Law.

In accordance with Art. 9, paragraph 3 of the Law, DM 30 million was spent in the year under review on taking over a uniform percentage of equalisation claims from all creditors. In conclusion of the first such operation, 1 per cent of all equalisation claims entered in the Debt Registers of the *Länder* North Rhine-Westphalia, Rhineland-Palatinate and Schleswig-Holstein was transferred to the Purchase Fund on 30 June 1967. At the same time a second taking-over transaction was initiated by purchasing from the creditors a further 1 per cent of the equalisation claims entered in the Debt Registers of the *Länder* Schleswig-Holstein and Rhineland-Palatinate.

At the end of the year the Fund had at its disposal for 1968 DM 38.6 million of liquid funds, employed principally in Treasury bills and Treasury bonds of the Federal Government and the Federal Railways. Undertakings to purchase to the extent of DM 1.0 million still awaited fulfilment.

### *Movement in the Holding of Equalisation Claims*

Interest rate	DM initial capital			Holding on 31 Dec. 1967	DM remaining capital Holding on 31 Dec. 1967
	Holding on 31 Dec. 1966	Addition through purchase and linear taking over	Decrease through retrocessions		
%	DM				DM
0	77,004,933.59	600,871.77	48.—	77,605,757.36	40,354,993.83
3	335,591,046.44	26,394,234.56	—	361,985,281.—	310,160,715.60
3½	234,677,849.73	40,938,461.81	1,804.79	275,614,506.75	235,134,052.41
4½	136,268,569.44	18,616,112.77	34.04	154,884,648.17	130,593,002.02
Total	783,542,399.20	86,549,680.91	1,886.83	870,090,193.28	716,242,763.86

The report on the position of the Fund for the Purchase of Equalisation Claims as on 31 December 1967, intended for publication in the Federal Advertiser, is attached as Appendix 3.

Pursuant to the Notice of 9 March 1963 (Federal Advertiser No. 48) the Liquidator of the Deutsche Reichsbank had by the end of 1967 delivered altogether 1,499,709 Bundesbank Enjoyment Right Certificates, having a par value of DM 99,980,600, in discharge of Reichsbank Shares at a par value of RM 149,970,900; 291 such Certificates, at a par value of DM 19,400, were still held at his disposal on 31 December 1967.

Pursuant to Art. 7, paragraph 2 of the Law concerning Liquidation of the Deutsche Reichsbank and the Deutsche Golddiskontbank, of 2 August 1961 (Federal Law Gazette I, page 1165), group 8 of Bundesbank Enjoyment Right Certificates was drawn on 30 May 1967 for redemption on 30 September 1967 at 150 per cent of the par value (announcement of the Bank of 30 May 1967, published in Federal Advertiser Nos. 101 and 102 of 3 and 6 June 1967). For this purpose the Fund for Redemption of Bundesbank Enjoyment Rights had available out of the 1966 net profit DM 10 million, of which DM 9,996,000 was used to repay the Bundesbank Enjoyment Right Certificates which had been called. Of the Enjoyment Right Certificates held at the disposal of the Liquidator of the Deutsche Reichsbank, 118 have been drawn, having a redemption value of DM 11,800 (par value: DM 7,866 $\frac{2}{3}$ ) and including DM 7,800 from previous drawings.

Five groups of Bundesbank Enjoyment Right Certificates (Nos. 6, 9, 11, 12 and 14), amounting at par value to DM 33,333,333 $\frac{1}{3}$  (and at redemption value to DM 50 million), now remain to be redeemed.

**Fund for Redemption  
of Bundesbank  
Enjoyment Rights**

*Frankfurt am Main, April 1968*

*Deutsche Bundesbank  
The Directorate*

*Karl Blessing Dr. Troeger*

*Dr. Benning Dr. Emminger Dr. Gocht Dr. Irmeler Lucht Tüngeler Dr. Zachau*

## Report of the Central Bank Council

*The Annual Statement of the Deutsche Bundesbank for 1967, the Combined Conversion Account of the Institutions Amalgamated to Form the Deutsche Bundesbank, as shown by the books on 31 December 1967, and the Reports on the Fund for the Purchase of Equalisation Claims and the Fund for Redemption of Bundesbank Enjoyment Rights as at 31 December 1967, have been audited by the auditing companies Deutsche Revisions- und Treuhand-Aktiengesellschaft Treuarbeit of Frankfurt am Main and Dr. Wollert — Dr. Elmendorff KG of Düsseldorf, whom the Central Bank Council had appointed to be Auditors in accordance with Article 26 of the Bundesbank Law.*

*In their notes of certification the Auditors have unreservedly confirmed that the Annual Statement for 1967, the bookkeeping and the Conversion Account as shown by the books on 31 December 1967 are in accordance with the legal provisions and that the Funds for the Purchase of Equalisation Claims and for Redemption of Bundesbank Enjoyment Rights have been properly endowed and administered.*

*The Central Bank Council approved the Annual Statement for 1967 on 10 April 1968. At the same time it confirmed the Conversion Accounts for the Bank deutscher Länder and the Land Central Banks as well as the Combined Conversion Account of the Institutions Amalgamated to Form the Deutsche Bundesbank, as shown by the books on 31 December 1967, and approved the Reports on the Funds for the Purchase of Equalisation Claims and for Redemption of Bundesbank Enjoyment Rights as at 31 December 1967.*

*The Central Bank Council has assented to the Report for the Year 1967 and to the Directorate's proposal for appropriation of the profit. After making allocations to the Reserves and to the Fund for the Purchase of Equalisation Claims, and earmarking the amount required for the 1967 dividends on Bundesbank Enjoyment Rights, there is a residual profit of DM 355,401,177.70 due to the Federal Government; of this residual profit, DM 10 million shall be used for allocation to the Fund for Redemption of Bundesbank Enjoyment Rights and DM 201,855,428.77 for repayment of the residual claim on the Federal Government in respect of the alteration of the exchange parity. The remaining balance of DM 143,545,748.93 is held at the disposal of the Federal Government.*

*Since the publication of the Report for the Year 1966 the following changes have taken place in the organs of the Deutsche Bundesbank.*

### *Retired from service*

*as at the close of 5 July 1967*

*the Vice-President of the Land Central Bank in the Saarland  
Herr Reinhold Werner,*

*as at the close of 31 August 1967*

*the Vice-President of the Land Central Bank in North Rhine-Westphalia  
Herr Curt Heinritzi,*

*as at the close of 30 September 1967*

*the Vice-President of the Land Central Bank in Bavaria  
Dr. Friedrich Oechsner,*



*as at the close of 31 December 1967*  
*the Vice-President of the Land Central Bank in the Free and Hanseatic City of Hamburg*  
*Herr Konrad Ernst,*

*as at the close of 31 March 1968*  
*the Vice-President of the Land Central Bank in Baden-Württemberg*  
*Dr. Karl Frede.*

*Reappointed*

*with effect from 1 June 1967*  
*Professor Dr. Hans-Georg Dahlgrün*  
*President of the Land Central Bank in Rhineland-Palatinate,*

*with effect from 1 October 1967*  
*Dr. Franz Suchan*  
*President of the Land Central Bank in Berlin,*

*with effect from 1 January 1968*  
*Dr. h.c. Karl Blessing*  
*President of the Deutsche Bundesbank,*  
*Dr. Dr. h.c. Heinrich Troeger*  
*Vice-President of the Deutsche Bundesbank,*

*with effect from 1 March 1968*  
*Dr. Bernhard Benning*  
*Member of the Directorate of the Deutsche Bundesbank,*

*with effect from 1 April 1968*  
*Herr Otto Kähler*  
*President of the Land Central Bank in Schleswig-Holstein.*

*Newly appointed*

*with effect from 6 July 1967*  
*Herr Paul Paduch*  
*to be Vice-President of the Land Central Bank in the Saarland,*

*with effect from 1 September 1967*  
*Herr Josef Thoma,*  
*already Member of the Board of Management,*  
*to be Vice-President of the Land Central Bank in North Rhine-Westphalia,*  
*Dr. Clemens Heimann*  
*to be Member of the Board of Management of the Land Central Bank in North Rhine-Westphalia,*

*with effect from 1 October 1967*  
*Herr Erich Küspert,*  
*already Member of the Board of Management,*  
*to be Vice-President of the Land Central Bank in Bavaria,*  
*Herr Kurt Wießer*  
*to be Member of the Board of Management of the Land Central Bank in Bavaria,*

*with effect from 1 January 1968*

*Dr. Jürgen Mees*

*to be Vice-President of the Land Central Bank in the Free and Hanseatic City of Hamburg,*

*with effect from 1 April 1968*

*Dr. Volkhard Szagunn*

*already Member of the Board of Management,*

*to be Vice-President of the Land Central Bank in Baden-Württemberg,*

*Herr Walter Offner*

*to be Member of the Board of Management of the Land Central Bank in Baden-Württemberg.*

*The Central Bank Council, acting also on behalf of the Directorate and of the Boards of Management of the Land Central Banks, expresses to the officials, employees and workers of the Deutsche Bundesbank its thanks for their loyal and understanding cooperation during the year 1967. The Council likewise wishes to record its appreciation of the excellent collaboration with the staff representations.*

*Frankfurt am Main, April 1968*

*KARL BLESSING*

*President of the Deutsche Bundesbank*

# Appendices

to

Parts B and C

## Combined Conversion Account of the Institutions

Assets	as shown by the books		
	as shown by the books on 31 Dec. 1966 DM	Changes in 1967 DM	as shown by the books on 31 Dec. 1967 DM
1. Cash <sup>1)</sup> . . . . .	1,133,326.07	—	1,133,326.07
2. Bills of exchange . . . . .	211,524.63	—	211,524.63
3. Advances against securities . . . . .	103,240.—	—	103,240.—
4. Cash advances . . . . .	100.—	—	100.—
5. Other short-term credit extended to public authorities . . . . .	1,345,149.61	—	1,345,149.61
6. Land and buildings . . . . .	26,462,658.—	—	26,462,658.—
7. Equipment . . . . .	2,166,811.21	—	2,166,811.21
8. Other assets . . . . .	11,903,425.78	—	11,903,425.78
9. Transitory items . . . . .	938,761.74	—	938,761.74
10. Equalisation claims on public authorities . . . . .	8,103,427,335.33	66,399.98	8,103,493,735.31
11. Proceeds from realisation of DM (East) holdings . . . . .	41,334,713.71	—	41,334,713.71
12. Non-interest-bearing debt certificate in respect of Berlin . . . . .	547,168,481.20	—	547,168,481.20
	<u>8,736,195,527.28</u>	<u>66,399.98</u>	<u>8,736,261,927.26</u>
13. Contingent claims . . . . .	126,558.92	—	126,558.92

<sup>1)</sup> Relating to converted Small Money Tokens.

# Amalgamated to Form the Deutsche Bundesbank

on 31 December 1967

Liabilities

	as shown by the books on 31 Dec. 1966 DM	Changes in 1967 DM	as shown by the books on 31 Dec. 1967 DM
1. Capital . . . . .	270,000,000.—	—	270,000,000.—
2. Reserves for specific purposes:			
for pension liabilities . . . . .	126,968,586.60	—	126,968,586.60
others . . . . .	233,810.35	—	233,810.35
3. Notes and coin put into circulation			
(a) first instalment of per-capita quotas . . . . .	1,853,121,572.32	—	1,853,121,572.32
(b) second instalment of per-capita quotas, delayed cases, etc. . . . .	264,957,735.81	120.—	264,957,855.81
4. Deposits . . . . .	5,630,584,286.94	66,279.98	5,630,650,566.92
5. Other liabilities . . . . .	1,648,526.03	—	1,648,526.03
6. Transitory items . . . . .	177,814.32	—	177,814.32
7. Amounts paid or credited under par. 52a, b, d and e, Berlin Central Bank Ordinance, and par. 9, Implementing Reg. 2, Conversion Ordinance. . . . .	588,503,194.91	—	588,503,194.91
	8,736,195,527.28	66,399.98	8,736,261,927.26
8. Contingent liabilities. . . . .	126,558.92	—	126,558.92

## Deutsche Bundesbank The Directorate

Karl Blessing Dr. Troeger

Dr. Benning Dr. Emminger Dr. Gocht Dr. Irmeler Lucht Tüngeler Dr. Zachau

*Our audit, which was duly carried out, shows the bookkeeping and the Conversion Accounts for the Bank Deutscher Länder and the Land Central Banks, amended to conform with the revisions as of 31 December 1967 and provisionally closed, as well as the correspondingly amended Combined Conversion Account of the Institutions Amalgamated to Form the Deutsche Bundesbank, to be in accordance with the provisions of the law.*

Frankfurt am Main, 8 March 1968

Deutsche Revisions- und Treuhand-Aktiengesellschaft  
Treuarbeit

Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft

Dr. Merckens                  Dr. Meyer  
(Certified Auditor)      (Certified Auditor)

Dr. Wollert - Dr. Elmendorff K.G.  
Wirtschaftsprüfungsgesellschaft

Dr. Wollert                  Dr. Bargmann  
(Certified Auditor)      (Certified Auditor)

Assets	Balance Sheet of the Deutsche Bundesbank		
	DM	DM	DM
1. Gold . . . . .			16,646,546,782.72
2. Balances at foreign banks and money-market investments abroad . . . . .			10,352,674,517.50
3. Other investments of money abroad and claims on foreign countries . . . . .			1,000,000,000.—
4. Foreign notes and coin, foreign bills and cheques. . . . .			1,953,241,131.81
5. German divisional coin . . . . .			200,270,497.67
6. Balances on postal cheque account . . . . .			418,423,387.73
7. Domestic bills of exchange . . . . .			2,922,447,030.77
8. Treasury bills and non-interest Treasury bonds of (a) Federal Government and Federal Special Funds . . . . .		—	
(b) <i>Länder</i> . . . . .		—	—
9. Advances against securities . . . . .			949,644,700.—
10. Cash advances to (a) Federal Government and Federal Special Funds . . . . .		2,061,800,000.—	
(b) <i>Länder</i> . . . . .		158,100,000.—	2,219,900,000.—
11. Other claims . . . . .			226,611,291.78
12. Securities . . . . . among which: Bundesbank Enjoyment Right Certificates having a par value of DM 30,854,733 $\frac{1}{3}$			2,316,909,856.73
13. Equalisation claims on public authorities and debt certificate in respect of Berlin (a) Equalisation claims . . . . .	8,135,077,340.64		
less Equalisation claims returned in exchange for money-market paper . . . . .	2,244,510,000.—	5,890,567,340.64	
(b) Debt certificate . . . . .		547,168,481.20	6,437,735,821.84
14. Credits to Federal Government for participation in international institutions . . . . .			3,639,442,000.—
15. Claims on Federal Government in respect of (a) acquisition of claims resulting from post-war economic aid . . . . .		1,238,317,824.30	
from B.I.S. . . . .		93,744,000.—	
(b) alteration of exchange parity . . . . .		201,855,428.77	1,533,917,253.07
16. Loans to international institutions and consolidation loans . . . . .			2,448,206,175.—
among which: (a) to I.M.F. . . . .	DM 670,000,000.—		
(b) to I.B.R.D. . . . .	DM 1,446,770,000.—		
(c) arising from liqui- dation of E.P.U. . . . .	DM 331,436,175.—		
17. Land and buildings . . . . .			106,312,702.46
18. Equipment . . . . .			2,585,361.89
19. Items in course of settlement . . . . .			388,336,343.06
20. Other assets . . . . .			183,854,024.84
21. Transitory items . . . . .			31,943,438.85
<i>Right of recourse in respect of contingent liabilities</i> . . . . .		342,520.70	
			53,979,002,317.72

as on 31 December 1967

	Liabilities		
	DM	DM	DM
1. Capital . . . . .			290,000,000.—
2. Reserves			
(a) legal reserve . . . . .		790,200,000.—	
(b) other reserves . . . . .		290,000,000.—	1,080,200,000.—
3. Reserves for specific purposes			
(a) for pension liabilities . . . . .		860,000,000.—	
(b) for other purposes . . . . .		1,250,000,000.—	2,110,000,000.—
4. Bank notes in circulation . . . . .			31,574,227,560.—
5. Deposits of			
(a) credit institutions (including Postal cheque and Postal savings bank offices) . . . . .		15,178,562,848.62	
(b) public depositors			
(ba) Federal Government . . . . .	43,470,076.90		
(bb) Federal Special Funds . . . . .	1,528,008,790.18		
(bc) <i>Länder</i> . . . . .	495,988,191.89		
(bd) other public depositors . . . . .	47,988,769.27	2,115,455,828.24	
(c) other German depositors . . . . .		333,628,740.19	17,627,647,417.05
6. Liabilities in respect of foreign business			
(a) Deposits of foreign depositors . . . . .		506,110,729.92	
(b) others . . . . .		137,358,956.57	643,469,686.49
among which: provision of cover for letters of credit and guarantees by foreigners   DM 1,673,740.63 residents   DM 11,627,598.17			
7. Other liabilities . . . . .			50,001,545.22
8. Transitory items . . . . .			106,254,931.26
9. Net profit . . . . .			497,201,177.70
<i>Contingent liabilities</i> . . . . .		342,520.70	
			53,979,002,317.72

## Profit and Loss Account of the Deutsche Bundesbank for the Year 1967

	DM	DM
<b>Expenditure</b>		
1. Administrative costs		
(a) Personnel . . . . .	211,304,251.81	
(b) Materials . . . . .	35,886,033.65	247,190,285.46
2. Note printing . . . . .		27,093,872.67
3. Depreciation		
(a) on land and buildings . . . . .	9,810,314.06	
(b) on equipment . . . . .	2,535,525.42	12,345,839.48
4. Allocations to reserves for specific purposes		
(a) for pension liabilities . . . . .	102,050,167.45	
(b) others . . . . .	173,821,202.73	275,871,370.18
5. Pension payments in respect of Reichsbank . . . . .		28,099,093.93
6. Other expenditure . . . . .		7,157,554.49
7. Net profit . . . . .		497,201,177.70
		<u>1,094,959,193.91</u>
<hr style="border-top: 3px double #000;"/>		
<b>Receipts</b>		
1. Interest . . . . .		1,056,022,748.60
2. Fees . . . . .		3,096,661.40
3. Other receipts . . . . .		35,839,783.91
		<u>1,094,959,193.91</u>
<hr style="border-top: 3px double #000;"/>		

*Deutsche Bundesbank  
The Directorate*

*Karl Blessing Dr. Troeger*

*Dr. Benning Dr. Emminger Dr. Gocht Dr. Irmeler Lucht Tüngeler Dr. Zachau*

*Our audit, which was duly carried out, shows the bookkeeping and the Annual Statement to be in accordance with the law and the Bank's by-laws.*

*Frankfurt am Main, 8 March 1968*

*Deutsche Revisions- und Treuhand-Aktiengesellschaft  
Treuarbeit*

*Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft*

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Wirtschaftsprüfungsgesellschaft*

*Dr. Wollert Dr. Bargmann  
(Certified Auditor) (Certified Auditor)*



## Fund for the Purchase of Equalisation Claims

Position on 31 December 1967

	Equalisation claims (remaining capital)	Cash resources	Total assets of the Fund
	DM	DM	DM
Position on 31 December 1966 . . .	656,158,410.98	24,046,497.11	680,204,908.09
Allocation from the Deutsche Bundesbank's 1966 net profit . . .		40,000,000.—	40,000,000.—
Special inflows resulting from settlements on equalisation claims		11,249,171.13	11,249,171.13
Purchase and linear taking over of equalisation claims . . . . .	74,327,903.69	— 74,327,903.69	
Redemptions . . . . .	— 14,241,928.56	14,241,928.56	
Retrocessions . . . . .	— 1,622.25	1,622.25	
Interest			
on equalisation claims . . . . .		22,158,824.38	22,158,824.38
from temporary employment of the Fund's cash resources . . .		1,242,900.69	1,242,900.69
<b>Position on 31 December 1967 . . .</b>	<b>716,242,763.86</b>	<b>38,613,040.43</b>	<b>754,855,804.29</b>

*Deutsche Bundesbank*  
*The Directorate*

*Karl Blessing Dr. Troeger*

*Dr. Benning Dr. Emminger Dr. Gocht Dr. Irmeler Lucht Tüngeler Dr. Zachau*

## Appendix 4 to the Report of the Deutsche Bundesbank for the Year 1967

Returns of the

Millions

Date of return	Assets														
	Gold	Balances at foreign banks and money-market investments abroad	Other investments of money abroad and claims on foreign countries	Foreign notes and coin, foreign bills and cheques	German divisional coin	Balances on postal cheque account	Domestic bills of exchange	Treasury bills and non-interest Treasury bonds				Cash advances			Securities
								Total	(a) Federal Government and Federal Special Funds	(b) Länder	Ad- vances against se- curities	Total	to		
													(a) Federal Government and Federal Special Funds	(b) Länder	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
1967															
Jan. 7	16,896.8	8,913.3	—	1,051.1	191.5	151.9	5,070.0	668.8	668.8	—	212.5	1,061.0	778.6	282.4	1,094.8
15	16,896.8	8,628.5	—	1,026.8	208.5	230.4	5,188.6	658.8	658.8	—	143.0	560.2	540.0	20.2	1,094.5
23	16,897.2	8,530.0	—	1,012.2	225.7	153.5	4,996.0	715.6	715.6	—	165.9	20.2	1.3	18.9	1,092.7
31	16,897.2	8,668.7	—	1,051.1	217.6	349.0	5,340.1	491.8	491.8	—	89.8	144.1	17.0	127.1	1,091.4
Feb. 7	16,888.0	8,779.7	—	1,060.1	221.8	225.1	5,636.1	413.4	413.4	—	111.3	42.3	5.4	36.9	1,091.0
15	16,893.2	9,128.7	—	1,030.7	232.5	209.6	4,904.0	397.4	397.4	—	66.6	8.2	—	8.2	1,091.0
23	16,893.2	9,257.9	—	1,050.1	236.0	148.3	5,373.1	379.7	379.7	—	705.4	7.2	—	7.2	1,091.0
28	16,893.2	9,438.2	—	1,063.2	229.4	371.9	4,826.1	401.0	401.0	—	151.8	485.9	394.9	91.0	1,091.0
Mar. 7	16,913.7	9,532.2	—	1,149.7	234.8	236.4	5,851.4	384.4	384.4	—	26.0	588.4	588.4	—	1,091.0
15	16,913.7	9,611.7	—	1,165.4	237.9	221.5	4,533.0	294.5	294.5	—	37.1	—	—	—	1,091.2
23	16,913.7	9,559.0	—	1,197.2	225.5	133.1	4,732.6	235.7	235.7	—	687.6	—	—	—	1,091.1
31	16,913.7	9,715.4	—	1,204.5	218.3	337.8	4,459.6	220.9	220.9	—	105.1	13.5	—	13.5	1,091.1
Apr. 7	16,921.9	9,700.0	—	1,231.9	225.1	186.8	4,768.1	125.5	125.5	—	119.0	91.5	91.5	—	1,091.1
15	16,921.9	9,711.4	—	1,233.0	232.9	188.7	4,632.9	76.0	76.0	—	181.0	—	—	—	1,091.1
23	16,921.9	9,658.3	—	1,323.8	237.8	159.0	5,395.1	27.0	27.0	—	356.8	23.1	—	23.1	1,091.1
30	16,921.9	9,566.6	—	1,394.8	225.5	275.7	5,276.9	30.0	30.0	—	41.5	79.7	—	79.7	1,091.1
May 7	16,911.0	9,721.7	—	1,426.6	220.3	210.6	5,423.0	3.7	3.7	—	42.5	20.7	—	20.7	1,091.1
15	16,916.2	9,737.7	—	1,464.8	211.6	190.4	4,797.3	5.9	5.9	—	53.8	3.5	—	3.5	1,091.1
23	16,916.2	9,653.4	—	1,447.0	223.1	236.7	4,024.3	6.9	6.9	—	66.2	—	—	—	1,091.0
31	16,916.9	9,719.5	—	1,456.7	216.4	333.1	3,753.8	6.9	6.9	—	45.4	6.0	—	6.0	1,091.0
June 7	16,907.4	9,799.0	—	1,494.0	226.0	217.4	4,999.8	130.0	130.0	—	67.4	53.8	—	53.8	1,091.0
15	16,907.4	9,651.6	—	1,526.9	235.7	237.0	5,394.8	180.0	180.0	—	199.6	—	—	—	1,091.0
23	16,907.4	9,832.3	—	1,694.2	243.8	147.8	6,112.0	275.0	275.0	—	980.7	—	—	—	1,091.0
30	16,907.4	9,497.0	—	1,732.9	234.0	278.5	5,945.6	380.8	380.8	—	144.5	31.7	15.7	16.0	1,091.0
July 7	16,880.9	9,109.9	500.0	1,801.3	236.2	196.6	5,305.6	188.4	188.4	—	37.2	5.1	—	5.1	1,091.0
15	16,881.3	9,220.5	500.0	1,754.5	240.1	212.0	4,728.5	133.4	133.4	—	52.7	—	—	—	1,091.0
23	16,881.3	9,189.6	500.0	1,715.5	242.5	163.8	3,809.7	238.7	238.7	—	54.7	—	—	—	1,091.0
31	16,881.3	9,270.8	500.0	1,760.6	224.2	324.9	3,928.8	328.7	328.7	—	153.5	38.3	—	38.3	1,091.0
Aug. 7	16,869.9	9,280.5	500.0	1,696.3	221.4	190.6	4,249.3	163.5	163.5	—	130.5	44.2	—	44.2	1,091.0
15	16,872.4	9,386.9	500.0	1,652.7	231.4	184.5	3,837.9	51.8	51.8	—	35.7	32.7	—	32.7	1,091.7
23	16,872.4	9,428.7	500.0	1,670.0	239.8	206.1	3,157.1	111.8	111.8	—	59.4	22.7	—	22.7	1,100.0
31	16,872.4	9,485.4	500.0	1,627.4	223.5	326.5	2,914.5	105.9	105.9	—	25.5	81.5	—	81.5	1,113.2
Sep. 7	16,872.4	9,638.9	500.0	1,712.5	227.2	216.1	4,017.3	272.6	272.6	—	48.9	19.4	—	19.4	1,129.3
15	16,872.5	9,780.8	500.0	1,686.9	231.7	209.0	3,602.0	138.6	138.6	—	55.4	—	—	—	1,122.8
23	16,872.5	9,839.1	500.0	1,818.7	234.8	161.1	4,012.5	101.1	101.1	—	663.4	—	—	—	1,152.0
30	16,872.8	9,953.3	500.0	1,832.1	222.0	313.9	4,127.6	0.1	0.1	—	70.2	12.6	—	12.6	1,274.8
Oct. 7	16,860.3	9,551.1	1,000.0	1,828.9	222.7	197.8	3,797.5	—	—	—	78.7	7.6	—	7.6	1,335.9
15	16,860.3	9,635.6	1,000.0	1,773.9	222.2	185.5	3,409.7	—	—	—	71.0	—	—	—	1,379.5
23	16,860.3	9,620.4	1,000.0	1,731.3	229.2	142.2	2,680.6	0.1	0.1	—	92.6	—	—	—	1,485.0
31	16,860.3	9,684.4	1,000.0	1,668.9	220.6	321.4	2,270.2	—	—	—	39.2	525.2	479.8	45.4	1,889.7
Nov. 7	16,842.7	9,873.0	1,000.0	1,654.7	229.2	257.1	2,179.1	0.6	0.6	—	55.6	603.0	549.1	53.9	1,975.1
15	16,845.2	10,138.7	1,000.0	1,616.5	237.6	223.9	1,879.1	0.8	0.8	—	43.9	239.7	228.6	11.1	2,022.8
23	16,845.2	10,709.0	1,000.0	1,705.5	236.0	196.0	2,294.6	0.2	0.2	—	175.1	5.5	—	5.5	2,044.7
30	16,845.2	10,406.4	1,000.0	1,731.2	216.3	345.5	2,157.6	0.4	0.4	—	49.4	1,392.3	1,288.7	103.6	2,111.5
Dec. 7	16,646.5	9,894.7	1,000.0	1,839.7	202.1	199.5	2,447.8	135.1	135.1	—	137.7	1,869.5	1,758.1	111.4	2,146.7
15	16,646.5	10,106.3	1,000.0	1,923.5	194.8	236.2	2,484.8	—	—	—	191.2	425.6	424.5	1.1	2,209.5
23	16,646.5	10,562.5	1,000.0	1,926.5	181.6	606.7	2,299.3	0.0	0.0	—	200.5	3.7	—	3.7	2,287.3
31	16,646.5	10,352.7	1,000.0	1,953.2	200.3	418.4	2,922.5	—	—	—	949.6	2,219.9	2,061.8	158.1	2,316.9

1) Including equalisation claims resulting from conversion of Berlin pre-capitulation accounts (Supplementary Conversion Law) and from

Deutsche Bundesbank

of DM

Assets																Date of return
Equalisation claims and non-interest-bearing debt certificate					Credits to Federal Govt. for participation in international institutions	Claims on Federal Government in respect of			Loans to international institutions and consolidation loans				Other assets	Total		
Total	Equalisation claims					(a) acquisition of claims	(b) alteration of exchange parity	(c) from liquidation of E.P.U.	among which:							
	(a) Equalisation claims from conversion of own balance sheet 1)	(b) Equalisation claims purchased	less equalisation claims returned in exchange for money-market paper	Total					Total	(a) to I.M.F.	(b) to I.B.R.D.	(c) from liquidation of E.P.U.				
16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	
7,539.6	8,134.3	—	1,141.9	6,992.4	547.2	3,711.0	1,770.1	125.0	566.4	3,255.9	1,390.0	1,446.3	419.6	292.1	52,571.8	1967
7,168.4	8,134.3	—	1,513.1	6,621.2	547.2	3,718.9	1,770.1	125.0	566.4	3,255.9	1,390.0	1,446.3	419.6	304.7	51,545.5	15
6,836.8	8,134.3	—	1,844.7	6,289.6	547.2	3,808.9	1,770.1	125.0	566.4	3,255.9	1,390.0	1,446.3	419.6	305.1	50,477.2	23
6,923.2	8,134.3	—	1,758.3	6,376.0	547.2	3,791.4	1,770.1	125.0	566.4	3,255.9	1,390.0	1,446.3	419.6	759.4	51,532.2	31
6,920.6	8,134.3	—	1,760.9	6,373.4	547.2	3,771.4	1,770.1	125.0	566.4	3,256.1	1,390.0	1,446.5	419.6	295.6	51,174.0	Feb. 7
6,866.6	8,134.3	—	1,814.9	6,319.4	547.2	3,760.2	1,770.1	125.0	566.4	3,256.1	1,390.0	1,446.5	419.6	346.9	50,653.2	15
6,959.4	8,134.3	—	1,722.1	6,412.2	547.2	3,760.2	1,770.1	125.0	566.4	3,256.1	1,390.0	1,446.5	419.6	726.4	52,305.5	23
6,983.2	8,134.3	—	1,698.3	6,436.0	547.2	3,758.5	1,770.1	125.0	566.4	3,256.1	1,390.0	1,446.5	419.6	960.3	52,371.3	28
6,973.6	8,134.3	—	1,707.9	6,426.4	547.2	3,760.5	1,770.1	125.0	566.4	3,256.1	1,390.0	1,446.5	419.6	317.9	52,777.6	Mar. 7
6,844.5	8,134.3	—	1,837.0	6,297.3	547.2	3,760.5	1,770.1	125.0	566.4	3,256.1	1,390.0	1,446.5	419.6	316.7	50,745.3	15
6,825.5	8,134.3	—	1,856.0	6,278.3	547.2	3,760.5	1,770.1	125.0	566.4	3,256.1	1,390.0	1,446.5	419.6	688.4	51,767.5	23
6,912.3	8,134.3	—	1,769.2	6,365.1	547.2	3,753.3	1,770.1	125.0	566.4	3,256.1	1,390.0	1,446.5	419.6	384.4	51,047.5	31
6,913.5	8,134.3	—	1,768.0	6,366.3	547.2	3,748.9	1,770.1	93.7	566.4	3,256.1	1,390.0	1,446.5	419.6	300.8	51,110.4	Apr. 7
6,825.0	8,134.3	—	1,856.5	6,277.8	547.2	3,739.7	1,770.1	93.7	566.4	3,256.1	1,390.0	1,446.5	419.6	313.6	50,833.5	15
6,887.7	8,134.3	—	1,793.8	6,340.5	547.2	3,739.7	1,770.1	93.7	201.9	3,256.1	1,390.0	1,446.5	419.6	739.3	51,882.4	23
6,862.5	8,134.3	—	1,819.0	6,315.3	547.2	3,739.7	1,770.1	93.7	201.9	3,256.1	1,390.0	1,446.5	419.6	492.1	51,319.8	30
6,919.0	8,134.3	—	1,762.5	6,371.8	547.2	3,739.7	1,770.1	93.7	201.9	3,256.1	1,390.0	1,446.5	419.6	318.7	51,370.4	May 7
6,922.1	8,134.3	—	1,759.4	6,374.9	547.2	3,719.3	1,770.1	93.7	201.9	3,256.1	1,390.0	1,446.5	419.6	332.5	50,768.0	15
6,706.0	8,134.3	—	1,975.5	6,158.8	547.2	3,712.1	1,770.1	93.7	201.9	3,256.1	1,390.0	1,446.5	419.6	329.4	49,734.1	23
6,682.8	8,134.3	—	1,998.7	6,135.6	547.2	3,737.7	1,770.1	93.7	201.9	2,536.1	670.0	1,446.5	419.6	1,012.3	49,580.3	31
6,709.1	8,134.3	—	1,972.4	6,161.9	547.2	3,736.7	1,770.1	93.7	201.9	2,536.1	670.0	1,446.5	419.6	347.5	50,380.9	June 7
6,804.2	8,134.3	—	1,877.3	6,257.0	547.2	3,736.7	1,770.1	93.7	201.9	2,536.1	670.0	1,446.5	419.6	343.6	50,910.3	15
6,977.0	8,134.3	—	1,704.5	6,429.8	547.2	3,736.8	1,770.1	93.7	201.9	2,536.1	670.0	1,446.5	419.6	820.1	53,419.9	23
7,157.3	8,134.3	—	1,524.2	6,610.1	547.2	3,796.8	1,770.1	93.7	201.9	2,536.1	670.0	1,446.5	419.6	444.3	52,243.6	30
7,372.5	8,134.3	—	1,309.0	6,825.3	547.2	3,796.8	1,755.6	93.7	201.9	2,536.1	670.0	1,446.5	419.6	354.3	51,463.1	July 7
7,418.7	8,134.3	—	1,262.8	6,871.5	547.2	3,778.4	1,755.6	93.7	201.9	2,536.1	670.0	1,446.5	419.6	365.7	50,964.1	15
7,420.4	8,134.3	—	1,261.1	6,873.2	547.2	3,778.4	1,755.6	93.7	201.9	2,536.1	670.0	1,446.5	419.6	381.3	50,054.2	23
7,149.5	8,134.3	—	1,532.0	6,602.3	547.2	3,767.2	1,755.6	93.7	201.9	2,536.1	670.0	1,446.5	419.6	971.0	50,977.1	31
7,121.7	8,134.3	—	1,559.8	6,574.5	547.2	3,767.2	1,755.6	93.7	201.9	2,447.9	670.0	1,446.5	331.4	377.7	50,202.9	Aug. 7
7,085.7	8,134.3	—	1,595.8	6,538.5	547.2	3,767.2	1,755.6	93.7	201.9	2,447.9	670.0	1,446.5	331.4	376.1	49,605.8	15
7,145.4	8,134.3	—	1,536.1	6,598.2	547.2	3,761.5	1,755.6	93.7	201.9	2,447.9	670.0	1,446.5	331.4	386.4	49,160.4	23
6,819.7	8,134.3	—	1,861.8	6,272.5	547.2	3,755.1	1,755.6	93.7	201.9	2,447.9	670.0	1,446.5	331.4	528.9	48,878.6	31
6,785.5	8,134.3	—	1,896.0	6,238.3	547.2	3,775.1	1,755.6	93.7	201.9	2,447.9	670.0	1,446.5	331.4	402.0	50,116.3	Sep. 7
6,712.2	8,134.3	—	1,969.3	6,165.0	547.2	3,764.3	1,755.6	93.7	201.9	2,447.9	670.0	1,446.5	331.4	400.4	49,575.7	15
6,703.7	8,134.3	—	1,977.8	6,156.5	547.2	3,766.9	1,755.6	93.7	201.9	2,447.9	670.0	1,446.5	331.4	725.5	51,050.4	23
6,648.0	8,134.3	—	2,033.5	6,100.8	547.2	3,758.1	1,755.6	93.7	201.9	2,447.9	670.0	1,446.5	331.4	498.0	50,582.6	30
6,553.8	8,134.3	—	2,127.7	6,006.6	547.2	3,758.1	1,755.6	93.7	201.9	2,447.9	670.0	1,446.5	331.4	411.3	50,102.8	Oct. 7
6,093.2	8,134.3	—	2,588.3	5,546.0	547.2	3,758.1	1,755.6	93.7	201.9	2,447.9	670.0	1,446.5	331.4	496.1	49,384.2	15
6,229.5	8,134.3	—	2,452.0	5,682.3	547.2	3,758.2	1,755.6	93.7	201.9	2,447.9	670.0	1,446.5	331.4	405.0	48,733.5	23
5,503.3	8,134.3	—	3,178.2	4,956.1	547.2	3,758.2	1,755.6	93.7	201.9	2,447.9	670.0	1,446.5	331.4	668.2	48,908.7	31
5,217.6	8,134.3	—	3,463.9	4,670.4	547.2	3,758.2	1,755.6	93.7	201.9	2,447.9	670.0	1,446.5	331.4	432.3	48,577.3	Nov. 7
4,514.4	8,134.3	—	4,167.1	3,967.2	547.2	3,754.8	1,755.6	93.7	201.9	2,447.9	670.0	1,446.5	331.4	429.1	47,445.6	15
4,983.4	8,134.3	—	3,698.1	4,436.2	547.2	3,577.4	1,755.6	93.7	201.9	2,447.9	670.0	1,446.5	331.4	451.7	48,723.4	23
4,726.3	8,134.3	—	3,955.2	4,179.1	547.2	3,574.6	1,755.6	93.7	201.9	2,447.9	670.0	1,446.5	331.4	987.0	50,042.8	30
5,570.3	8,134.3	—	3,111.2	5,023.1	547.2	3,574.6	1,755.6	93.7	201.9	2,447.9	670.0	1,446.5	331.4	465.9	50,629.2	Dec. 7
5,925.9	8,134.3	—	2,755.6	5,378.7	547.2	3,602.0	1,755.6	93.7	201.9	2,447.9	670.0	1,446.5	331.4	513.2	49,958.6	15
6,343.9	8,134.3	—	2,337.6	5,796.7	547.2	3,599.4	1,755.6	93.7	201.9	2,447.9	670.0	1,446.5	331.4	1,957.0	52,114.0	23
6,437.8	8,135.1	—	2,244.5	5,890.6	547.2	3,639.5	1,238.3	93.7	201.9	2,448.2	670.0	1,446.8	331.4	830.1	53,869.5	31

conversion of pre-currency-reform accounts with credit institutions in the Soviet Sector of Berlin (Second Supplementary Conversion Law).

## Returns of the Deutsche

Millions

Date of return	Liabilities								
	Bank notes in circulation	Deposits							
		Total	(a) credit institutions (including Postal cheque and Postal savings bank offices)	(b) public depositors					(c) other German depositors
				Total	(ba) Federal Government	(bb) Federal Special Funds	(bc) Länder	(bd) other public depositors	
32	33	34	35	36	37	38	39	40	
1967									
Jan. 7	29,022.5	19,394.9	17,523.6	1,620.7	8.3	1,115.4	472.2	24.8	250.6
15	28,443.7	18,810.7	16,669.6	1,910.6	26.7	1,130.3	723.6	30.0	230.5
23	26,233.5	19,980.9	15,874.1	3,868.9	1,834.4	778.4	1,220.8	35.3	237.9
31	29,496.4	17,865.3	15,125.5	2,507.0	360.0	1,430.6	685.1	31.3	232.8
Feb. 7	27,865.1	19,035.2	17,300.2	1,493.5	25.1	726.3	715.9	26.2	241.5
15	27,320.1	19,160.6	16,204.5	2,717.7	464.6	981.8	1,220.8	50.5	238.4
23	26,687.6	21,423.7	15,760.3	5,445.9	872.9	3,342.8	1,200.4	29.8	217.5
28	30,161.8	18,022.6	14,947.5	2,829.4	21.3	2,089.6	677.5	41.0	245.7
Mar. 7	28,759.0	19,683.7	17,290.7	2,143.4	4.8	1,224.9	887.7	26.0	249.6
15	28,189.0	18,259.5	14,358.4	3,658.5	438.4	968.1	2,217.1	34.9	242.6
23	27,648.7	19,923.0	13,174.0	6,532.5	1,096.6	2,780.2	2,613.6	42.1	216.5
31	30,333.5	16,504.3	13,234.7	3,006.5	99.2	1,497.8	1,365.2	44.3	263.1
Apr. 7	28,791.8	18,046.4	15,325.9	2,494.4	15.7	1,279.0	1,176.9	22.8	226.1
15	28,530.1	18,086.8	14,773.4	3,086.5	567.9	1,040.4	1,454.0	24.2	226.9
23	27,146.8	20,920.3	14,588.2	6,073.0	1,490.5	2,745.3	1,808.9	28.3	259.1
30	31,003.2	16,506.7	14,155.9	2,116.4	52.6	1,189.4	847.8	26.6	234.4
May 7	30,006.6	17,482.3	15,053.9	2,190.1	310.0	985.5	871.3	23.3	238.3
15	29,406.2	17,400.3	14,823.2	2,351.3	168.5	1,084.9	1,063.1	34.8	225.8
23	26,628.7	19,160.6	13,797.0	5,115.7	2,084.4	1,241.6	1,749.0	40.7	247.9
31	30,443.2	15,292.7	12,117.4	2,928.4	120.0	2,031.4	737.0	40.0	246.9
June 7	28,826.4	17,602.6	15,348.9	2,012.2	35.9	1,175.7	772.2	28.4	241.5
15	28,614.7	18,293.1	13,843.9	4,195.5	1,183.8	1,136.3	1,841.4	34.0	253.7
23	27,463.7	22,059.2	13,973.0	7,850.4	2,456.5	3,016.5	2,353.4	24.0	235.8
30	31,198.5	17,019.5	14,170.6	2,582.0	48.0	1,346.2	1,126.7	61.1	266.9
July 7	29,771.7	17,517.5	14,886.2	2,387.2	105.1	1,364.8	894.5	22.8	244.1
15	29,629.7	17,213.5	13,366.0	3,603.2	1,121.0	1,235.3	1,222.1	24.8	244.3
23	28,362.0	17,526.5	11,954.2	5,332.7	2,246.4	1,453.5	1,600.6	32.2	239.6
31	31,593.6	15,234.5	11,916.9	3,065.9	356.1	1,769.0	893.7	47.1	251.7
Aug. 7	29,883.3	16,069.1	13,710.5	2,124.7	109.8	999.4	989.0	26.5	233.9
15	28,968.9	16,312.0	13,293.2	2,745.2	384.7	963.7	1,336.2	60.6	273.6
23	27,267.0	17,501.0	12,449.8	4,810.5	1,726.9	1,370.7	1,680.7	32.2	240.7
31	31,051.2	13,492.8	10,692.8	2,547.9	162.1	1,485.5	872.4	27.9	252.1
Sep. 7	29,516.2	16,219.6	13,497.0	2,466.9	224.0	1,213.4	1,007.0	22.5	255.7
15	29,079.0	16,177.5	10,747.4	5,159.9	1,611.0	1,185.2	2,330.7	33.0	270.2
23	27,694.3	19,109.1	10,318.0	8,528.9	2,528.1	3,033.0	2,933.6	34.2	262.2
30	31,179.8	15,130.3	11,292.3	3,540.0	368.7	1,466.7	1,667.0	37.6	298.0
Oct. 7	29,791.1	16,050.1	12,597.8	3,177.1	477.1	1,270.3	1,406.7	23.0	275.2
15	29,307.6	15,848.0	12,327.0	3,244.9	343.6	1,323.1	1,554.1	24.1	276.1
23	27,116.8	17,257.5	11,793.2	5,176.9	1,913.3	1,332.1	1,901.5	30.0	287.4
31	30,485.2	14,160.5	11,379.2	2,459.9	19.3	1,589.7	811.0	39.9	321.4
Nov. 7	28,632.7	15,497.8	12,910.5	2,313.8	8.8	1,268.3	1,012.1	24.6	273.5
15	28,341.0	14,775.5	11,946.1	2,512.9	21.6	1,114.8	1,321.1	55.4	316.5
23	27,267.9	17,097.6	12,722.2	4,108.2	1,177.8	1,367.3	1,511.4	51.7	267.2
30	32,001.5	13,576.7	11,087.8	2,184.8	16.0	1,737.3	392.2	39.3	304.1
Dec. 7	31,038.6	15,012.5	13,189.4	1,534.1	10.1	1,127.2	369.4	27.4	289.0
15	30,708.2	14,763.4	12,095.0	2,345.9	25.5	809.4	1,466.4	44.6	322.5
23	30,637.7	16,883.4	11,928.0	4,619.8	135.3	3,185.3	1,253.4	45.8	335.6
31	31,574.3	17,627.6	15,178.5	2,115.5	43.5	1,528.0	496.0	48.0	333.6

**Bundesbank (cont'd)**

of DM

Liabilities										Date of return
Liabilities in respect of foreign business					Reserves for specific purposes	Capital	Reserves	Other liabilities	Total	
Total	(a) Deposits of foreign depositors	(b) Others								
		Total	among which, provision of cover for letters of credit and guarantees by							
41	42	43	foreigners	residents	46	47	48	49	50	
396.4	351.3	45.1	0.9	11.2	1,690.0	290.0	962.8	815.2	52,571.8	1967
411.7	370.9	40.8	0.8	8.0	1,690.0	290.0	962.8	936.6	51,545.5	Jan. 7
340.2	308.2	32.0	0.8	14.6	1,690.0	290.0	962.8	979.8	50,477.2	15
430.6	379.8	50.8	0.8	13.0	1,690.0	290.0	962.8	797.1	51,532.2	23
345.5	314.2	31.3	0.8	12.0	1,690.0	290.0	962.8	985.4	51,174.0	31
357.4	296.7	60.7	0.9	7.6	1,690.0	290.0	962.8	872.3	50,653.2	Feb. 7
370.4	307.2	63.2	0.9	13.4	1,690.0	290.0	962.8	881.0	52,305.5	15
358.4	324.6	33.8	0.8	12.6	1,690.0	290.0	962.8	885.7	52,371.3	23
316.8	288.3	28.5	0.8	9.1	1,690.0	290.0	962.8	1,075.3	52,777.6	28
310.7	285.3	25.4	0.8	7.2	1,690.0	290.0	962.8	1,043.3	50,745.3	Mar. 7
341.2	287.2	54.0	0.9	14.8	1,690.0	290.0	962.8	911.8	51,767.5	15
343.6	291.5	52.1	0.9	11.4	1,690.0	290.0	962.8	923.3	51,047.5	23
305.0	278.6	26.4	0.9	7.8	1,690.0	290.0	962.8	1,024.4	51,110.4	31
300.5	266.7	33.8	0.9	6.1	1,690.0	290.0	962.8	973.3	50,833.5	Apr. 7
296.9	263.5	33.4	0.9	13.4	1,925.0	290.0	1,080.2	223.2	51,882.4	15
291.0	263.7	27.3	0.9	11.7	1,925.0	290.0	1,080.2	223.7	51,319.8	23
282.9	254.1	28.8	0.8	8.5	1,925.0	290.0	1,080.2	303.4	51,370.4	30
286.0	252.6	33.4	0.8	7.5	1,925.0	290.0	1,080.2	380.3	50,768.0	May 7
290.0	261.3	28.7	0.8	12.9	1,925.0	290.0	1,080.2	359.6	49,734.1	15
299.4	268.6	30.8	0.8	11.8	1,925.0	290.0	1,080.2	249.8	49,580.3	23
293.8	262.4	31.4	0.7	8.7	1,925.0	290.0	1,080.2	362.9	50,380.9	31
294.7	267.3	27.4	0.7	6.0	1,925.0	290.0	1,080.2	412.6	50,910.3	June 7
327.9	278.3	49.6	0.7	15.4	1,925.0	290.0	1,080.2	273.9	53,419.9	15
323.8	280.1	43.7	0.4	11.1	1,925.0	290.0	1,080.2	406.6	52,243.6	23
381.3	352.0	29.3	0.4	7.6	1,925.0	290.0	1,080.2	497.4	51,463.1	30
339.3	317.2	22.1	0.2	5.4	1,925.0	290.0	1,080.2	486.4	50,964.1	July 7
389.2	348.9	40.3	0.2	12.5	1,925.0	290.0	1,080.2	481.3	50,054.2	15
375.9	347.1	28.8	0.2	9.6	1,925.0	290.0	1,080.2	477.9	50,977.1	23
370.3	341.6	28.7	0.3	7.1	1,925.0	290.0	1,080.2	585.0	50,202.9	31
383.1	339.5	43.6	0.3	5.2	1,925.0	290.0	1,080.2	646.6	49,605.8	Aug. 7
427.0	385.5	41.5	0.3	12.4	1,925.0	290.0	1,080.2	670.2	49,160.4	15
496.2	464.9	31.3	0.3	11.0	1,925.0	290.0	1,080.2	543.2	48,878.6	23
377.1	344.5	32.6	0.3	8.0	1,925.0	290.0	1,080.2	708.2	50,116.3	31
358.1	332.0	26.1	0.4	4.3	1,925.0	290.0	1,080.2	665.9	49,575.7	Sep. 7
346.6	306.8	39.8	0.4	11.4	1,925.0	290.0	1,080.2	605.2	51,050.4	15
357.7	330.1	27.6	0.4	9.9	1,925.0	290.0	1,080.2	619.6	50,582.6	23
313.3	288.1	25.2	0.4	6.2	1,925.0	290.0	1,080.2	653.1	50,102.8	30
323.7	278.0	45.7	0.5	5.2	1,925.0	290.0	1,080.2	609.7	49,384.2	Oct. 7
323.9	288.4	35.5	0.5	12.5	1,925.0	290.0	1,080.2	740.1	48,733.5	15
309.7	275.8	33.9	0.6	10.3	1,925.0	290.0	1,080.2	658.1	48,908.7	23
338.6	297.2	41.4	0.4	7.5	1,925.0	290.0	1,080.2	813.0	48,577.3	31
324.9	284.1	40.8	0.5	7.5	1,925.0	290.0	1,080.2	709.0	47,445.6	Nov. 7
404.0	373.8	30.2	0.6	11.2	1,925.0	290.0	1,080.2	658.7	48,723.4	15
516.2	485.4	30.8	0.6	11.9	1,925.0	290.0	1,080.2	653.2	50,042.8	23
536.0	491.5	44.5	0.6	7.1	1,925.0	290.0	1,080.2	746.9	50,629.2	30
497.7	471.4	26.3	1.5	5.2	1,925.0	290.0	1,080.2	694.1	49,958.6	Dec. 7
605.8	553.3	52.5	1.7	14.4	1,925.0	290.0	1,080.2	691.9	52,114.0	15
643.5	506.1	137.4	1.7	11.6	1,925.0	290.0	1,080.2	728.9	53,869.5	23
										31

## Turnover on the Giro Accounts of the Deutsche Bundesbank

Area	Debits				Credits			
	1966		1967		1966		1967	
	'000 <sup>1)</sup>	DM million	'000 <sup>1)</sup>	DM million	'000 <sup>1)</sup>	DM million	'000 <sup>1)</sup>	DM million
Land Central Bank								
Baden-Württemberg	24,289	276,427	24,818	284,541	29,196	276,709	29,559	284,189
Bavaria	35,469	288,932	34,010	300,665	27,624	289,048	27,714	300,265
Berlin	2,293	61,579	2,280	66,306	2,913	61,616	2,751	66,299
Bremen	3,930	32,736	4,041	34,423	5,383	32,733	5,162	34,372
Hamburg	7,357	220,823	7,563	248,892	10,383	220,840	10,748	248,716
Hesse	18,961	388,156	19,954	423,647	19,335	388,543	20,334	423,825
Lower Saxony	19,691	161,763	20,244	162,596	18,892	161,870	19,688	162,437
North Rhine-Westphalia	54,774	835,792	54,946	843,529	57,092	835,492	57,287	842,402
Rhineland-Palatinate	10,505	92,986	10,772	95,256	10,791	92,986	11,280	95,145
Saarland	2,061	22,444	2,302	22,940	1,937	22,451	2,080	22,923
Schleswig-Holstein	5,675	45,800	5,818	47,683	5,021	45,817	5,102	47,647
Total	185,005	2,427,438	186,748	2,530,478	188,567	2,428,105	191,705	2,528,220
Bundesbank - Directorate -	511	292,191	512	316,660	504	292,619	517	316,678
Grand total	185,516	2,719,629	187,260	2,847,138	189,071	2,720,724	192,222	2,844,898

1) Number of transactions

## Simplified Collection of Cheques and Debit-Entry Notes

Area	Lodged				Paid			
	1966		1967		1966		1967	
	'000	DM million	'000	DM million	'000	DM million	'000	DM million
Land Central Bank								
Baden-Württemberg	17,704	36,356	18,355	36,189	16,141	35,583	16,787	35,497
Bavaria	16,603	31,987	17,024	31,777	16,723	35,156	17,173	34,655
Berlin	1,925	5,854	1,852	5,961	1,411	4,394	1,435	4,267
Bremen	4,003	4,830	3,853	5,089	2,451	4,901	2,560	5,209
Hamburg	6,105	16,010	6,528	16,832	4,087	15,926	4,153	16,862
Hesse	12,295	29,604	13,381	30,654	13,068	35,313	13,962	34,992
Lower Saxony	11,876	23,756	12,881	24,033	13,856	23,845	14,446	23,930
North Rhine-Westphalia	36,919	91,676	38,567	91,287	37,270	85,002	38,519	85,774
Rhineland-Palatinate	6,200	12,194	6,756	12,246	6,617	12,140	6,921	12,118
Saarland	1,178	2,830	1,258	2,659	1,323	2,594	1,426	2,630
Schleswig-Holstein	2,690	5,184	2,804	5,206	3,557	5,457	3,691	5,550
Total	117,498	260,281	123,259	261,933	116,504	260,311	121,073	261,484
Bundesbank - Directorate -	17	63	16	56	6	71	5	33
Grand total	117,515	260,344	123,275	261,989	116,510	260,382	121,078	261,517

Telegraphic Giro Transactions  
telegraphic giro transfers dispatched

Area	1966		1967	
	'000	DM mn	'000	DM mn
Land Central Bank				
Baden-Württemberg	31	44,556	34	52,214
Bavaria	31	45,672	33	49,858
Berlin	5	18,201	5	19,833
Bremen	3	3,210	3	3,585
Hamburg	14	28,896	14	31,612
Hesse	36	80,605	35	92,564
Lower Saxony	22	25,974	22	28,834
North Rhine-Westphalia	62	133,903	64	151,962
Rhineland-Palatinate	12	14,109	12	14,527
Saarland	2	3,125	2	3,774
Schleswig-Holstein	5	6,755	6	7,566
Total	223	405,006	230	456,329
Bundesbank - Directorate -	6	3,792	6	3,755
Grand total	229	408,798	236	460,084

## Certified Cheques

Land Central Bank	1966		1967	
	number	DM mn	number	DM mn
Baden-Württemberg	1,660	2,493	1,640	2,665
Bavaria	800	953	843	942
Berlin	90	5	98	10
Bremen	35	2	21	—
Hamburg	170	36	134	20
Hesse	1,394	1,595	1,584	1,812
Lower Saxony	241	448	333	368
North Rhine-Westphalia	9,827	17,853	9,239	17,491
Rhineland-Palatinate	359	255	311	144
Saarland	—	—	6	1
Schleswig-Holstein	201	111	219	122
Total	14,777	23,751	14,428	23,575

## Turnover in Clearing Transactions

Land Central Bank	1966						1967					
	Bills, cheques, etc., lodged		Local transfers lodged		Total		Bills, cheques, etc., lodged		Local transfers lodged		Total	
	'000	DM mn	'000	DM mn	'000	DM mn	'000	DM mn	'000	DM mn	'000	DM mn
Baden-Württemberg	21,061	59,428	8,269	13,721	29,330	73,149	22,025	58,239	9,291	16,095	31,316	74,334
Bavaria	22,209	62,856	13,554	15,062	35,763	77,918	22,831	61,259	15,209	16,837	38,040	78,096
Berlin	5,114	14,755	4,564	19,519	9,678	34,274	5,079	14,906	5,052	21,767	10,131	36,673
Bremen	4,047	9,856	5,270	9,867	9,317	19,723	4,191	10,141	5,556	10,648	9,747	20,789
Hamburg <sup>1)</sup>	7,457	29,683	27,901	195,417	35,358	225,100	8,188	30,981	29,698	224,803	37,886	255,784
Hesse	16,999	190,954	7,561	398,542	24,560	589,496	17,867	231,051	8,533	565,155	26,400	796,206
Lower Saxony	13,136	29,725	7,268	11,931	20,404	41,656	13,434	30,113	7,888	13,150	21,322	43,263
North Rhine-Westphalia	47,211	125,570	16,010	68,636	63,221	194,206	48,480	121,952	19,786	113,624	68,266	235,576
Rhineland-Palatinate	6,985	16,230	3,021	4,446	10,006	20,676	7,128	15,493	3,349	4,987	10,477	20,480
Saarland	1,498	5,112	1,792	5,726	3,290	10,838	1,943	4,908	2,027	6,153	3,970	11,061
Schleswig-Holstein	4,616	8,512	6,038	6,099	10,654	14,611	4,750	8,315	6,607	6,797	11,357	15,112
Total	150,333	552,681	101,248	748,966	251,581	1,301,647	155,916	587,358	112,996	1,000,016	268,912	1,587,374

<sup>1)</sup> For 1967 the Hamburg clearing transactions, to which special arrangements apply, include moreover 1,265,000 transfers to and from other places amounting to DM 3,468 million (1966: 1,138,000 amounting to DM 3,381 million)

## Bank Note Circulation

Position at end of year

Notes at DM	1964		1965		1966		1967	
	DM million	per cent	DM million	per cent	DM million	per cent	DM million	per cent
1,000	640.39	2.31	1,080.77	3.67	1,237.06	4.02	1,418.43	4.49
500	—	—	715.72	2.43	1,068.68	3.47	1,250.07	3.96
100	13,950.52	50.38	14,938.80	50.72	15,942.35	51.81	16,407.94	51.96
50	8,851.66	31.97	8,387.85	28.48	8,190.40	26.62	8,063.18	25.54
20	2,581.27	9.32	2,614.43	8.87	2,627.49	8.54	2,671.33	8.46
10	1,426.09	5.15	1,472.20	5.00	1,471.15	4.78	1,540.00	4.88
5	241.82	0.87	245.81	0.83	233.02	0.76	223.28	0.71
Total	27,691.75	100.00	29,455.58	100.00	30,770.15	100.00	31,574.23	100.00

## Coin in Circulation

Position at end of year

Coin at DM	1964		1965		1966		1967	
	DM million	per cent	DM million	per cent	DM million	per cent	DM million	per cent
5.—	543.33	29.32	599.30	30.01	660.80	30.94	722.04	32.02
2.—	284.47	15.35	310.47	15.55	335.26	15.70	359.28	15.93
1.—	517.29	27.92	543.41	27.21	565.19	26.46	584.92	25.94
—,50	222.09	11.99	239.18	11.98	253.71	11.88	266.41	11.81
—,10	183.30	9.89	194.78	9.75	203.16	9.51	200.64	8.90
—,05	56.70	3.06	60.48	3.03	64.50	3.02	64.55	2.86
—,02	13.53	0.73	15.49	0.77	17.48	0.82	19.58	0.87
—,01	32.15	1.74	34.02	1.70	35.77	1.67	37.63	1.67
Total	1,852.86	100.00	1,997.13	100.00	2,135.87	100.00	2,255.05	100.00

## Branch Establishments of the Deutsche Bundesbank

BW = Baden-Württemberg    HB = Bremen    N = Lower Saxony    S = Saarland  
 German Abbreviations: BY = Bavaria    HH = Hamburg    NW = North Rhine-Westphalia    SH = Schleswig-Holstein  
 B = Berlin    H = Hesse    R = Rhineland-Palatinate

Serial number	Bank place	Appropriate Main Branch	Land Central Bank	Serial number	Bank place	Appropriate Main Branch	Land Central Bank
39	51 Aachen	Aachen	NW	554	73 Esslingen	Stuttgart	BW
563	708 Aalen	Ulm	BW	397	535 Euskirchen	Bonn	NW
319	473 Ahlen <sup>2)</sup>	Hamm	NW				
282	322 Alfeld	Hildesheim	N	232	239 Flensburg	Flensburg	SH
431	632 Alsfeld <sup>1)</sup>	Fulda	H	4	6 Frankfurt	Frankfurt	H
415	599 Altena	Hagen	NW	57	78 Freiburg	Freiburg	BW
655	845 Amberg	Regensburg	BY	435	636 Friedberg	Gießen	H
447	547 Andernach	Koblenz	R	599	799 Friedrichshafen	Konstanz	BW
646	88 Ansbach	Nürnberg	BY	644	851 Fürth	Nürnberg	BY
416	577 Arnsberg	Lippstadt	NW	433	64 Fulda	Fulda	H
614	875 Aschaffenburg	Würzburg	BY				
68	89 Augsburg	Augsburg	BY	689	81 Garmisch-Partenkirchen	München	BY
536	757 Baden-Baden	Karlsruhe	BW				
429	643 Bad Hersfeld	Fulda	H	438	646 Gelnhausen	Fulda	H
469	655 Bad Kreuznach	Mainz	R	341	465 Gelsenkirchen	Gelsenkirchen	NW
699	823 Bad Reichenhall	München	BY	317	466 Gelsenkirchen-Buer	Gelsenkirchen	NW
62	86 Bamberg	Nürnberg	BY				
63	858 Bayreuth	Hof	BY	385	582 Gevelsberg	Hagen	NW
352	472 Beckum	Hamm	NW	43	63 Gießen	Gießen	H
496	614 Bensheim	Darmstadt	H	316	439 Gladbeck	Gelsenkirchen	NW
1	1 Berlin (West)	Berlin	B	323	418 Goch	Krefeld	NW
444	524 Betzdorf	Koblenz	R	565	732 Göppingen	Ulm	BW
597	795 Biberach	Ulm	BW	288	34 Göttingen	Göttingen	N
424	356 Biedenkopf	Gießen	H	296	338 Goslar	Braunschweig	N
26	48 Bielefeld	Bielefeld	NW	353	483 Gütersloh	Bielefeld	NW
481	653 Bingen	Mainz	R	441	527 Gummersbach	Bonn	NW
462	552 Bitburg	Trier	R				
313	429 Bocholt	Münster	NW	41	58 Hagen	Hagen	NW
346	463 Bochum	Bochum	NW	2	2 Hamburg	Hamburg	HH
603	703 Böblingen	Stuttgart	BW	22	2 Hamburg-Altona	Hamburg	HH
		considered as part of the bank place		226	21 Hamburg-Harburg	Hamburg	HH
		Sindelfingen		279	325 Hameln	Hannover	N
442	53 Bonn	Bonn	NW	35	47 Hamm	Hamm	NW
29	33 Braunschweig	Braunschweig	N	439	645 Hanau	Frankfurt	H
21	28 Bremen	Bremen	HB	27	3 Hannover	Hannover	N
215	285 Bremerhaven	Bremen	HB	381	432 Hattingen <sup>2)</sup>	Bochum	NW
531	752 Bruchsal	Karlsruhe	BW	236	224 Heide	Flensburg	SH
537	758 Bühl	Karlsruhe	BW	523	69 Heidelberg	Mannheim	BW
267	498 Bünde	Minden	NW	567	792 Heidenheim	Ulm	BW
				54	71 Heilbronn	Heilbronn	BW
272	31 Celle	Hannover	N	293	333 Helmstedt	Braunschweig	N
622	863 Coburg	Hof	BY	269	49 Herford	Bielefeld	NW
221	219 Cuxhaven	Lüneburg	N	343	469 Herne	Bochum	NW
				367	401 Hilden	Düsseldorf	NW
49	61 Darmstadt	Darmstadt	H	28	32 Hildesheim	Hildesheim	N
673	836 Deggendorf	Regensburg	BY	452	541 Höhr-Grenzhausen	Koblenz	R
278	493 Detmold	Bielefeld	NW				
451	634 Dillenburg	Gießen	H	633	867 Hof	Hof	BY
34	46 Dortmund	Dortmund	NW	284	345 Holzminden	Göttingen	N
395	516 Düren	Aachen	NW	231	225 Husum	Flensburg	SH
36	4 Düsseldorf	Düsseldorf	NW				
32	41 Duisburg	Duisburg	NW	474	658 Idar-Oberstein	Mainz	R
331	41 Duisburg-Hamborn	Duisburg	NW	66	807 Ingolstadt	München	BY
				411	586 Iserlohn	Dortmund	NW
329	41 Duisburg-Ruhrort <sup>2)</sup>	Duisburg	NW	222	221 Itzehoe	Kiel	SH
592	747 Ebingen	Reutlingen	BW	393	517 Jülich	Aachen	NW
235	233 Eckernförde	Kiel	SH				
224	22 Elmshorn	Lübeck	SH	513	675 Kaiserslautern	Kaiserslautern	R
212	297 Emden	Oldenburg	N	53	75 Karlsruhe	Karlsruhe	BW
322	424 Emmerich	Duisburg	NW	42	35 Kassel	Kassel	H
643	852 Erlangen	Nürnberg	BY	686	895 Kaufbeuren	Augsburg	BY
428	344 Eschwege	Kassel	H	685	896 Kempten	Augsburg	BY
394	518 Eschweiler <sup>1)</sup>	Aachen	NW	23	23 Kiel	Kiel	SH
33	43 Essen	Essen	NW	619	871 Kitzingen	Würzburg	BY
				321	419 Kleve	Krefeld	NW

<sup>1)</sup> The Branches at Alsfeld and Eschweiler were closed down on 30 November and 31 December 1967, respectively. — <sup>2)</sup> The Branches at Ahlen, Duisburg-Ruhrort and Hattingen will be closed down on 31 March 1968.



Appendix 5 (cont'd) to the Report of the Deutsche Bundesbank for the Year 1967

Serial number	Bank place	Appropriate Main Branch	Land Central Bank	Serial number	Bank place	Appropriate Main Branch	Land Central Bank
44	54 Koblenz	Koblenz	R	535	755 Rastatt	Karlsruhe	BW
3	5 Köln	Köln	NW	59	798 Ravensburg	Konstanz	BW
378	5 Köln-Mülheim	Köln	NW	318	435 Recklinghausen	Gelsenkirchen	NW
58	775 Konstanz	Konstanz	BW	65	84 Regensburg	Regensburg	BY
421	354 Korbach	Kassel	H	446	548 Remagen	Koblenz	R
363	415 Krefeld	Krefeld	NW	374	563 Remscheid	Remscheid	NW
634	865 Kulmbach	Hof	BY	389	563 Remscheid-Lennep <sup>2)</sup>	Remscheid	NW
571	763 Lahr	Freiburg	BW	237	237 Rendsburg	Kiel	SH
519	674 Landau	Ludwigshafen	R	55	741 Reutlingen	Reutlingen	BW
67	83 Landshut	Regensburg	BY	312	444 Rheine	Münster	NW
432	642 Lauterbach	Fulda	H	328	414 Rheinhausen <sup>2)</sup>	Duisburg	NW
216	295 Leer	Oldenburg	N	368	407 Rheydt	Mönchengladbach	NW
277	492 Lemgo	Bielefeld	NW	697	82 Rosenheim	München	BY
453	625 Limburg	Wiesbaden	H	591	721 Rottweil	Reutlingen	BW
688	899 Lindau	Augsburg	BY	457	622 Rüdesheim <sup>1)</sup>	Wiesbaden	H
262	445 Lingen	Osnabrück	N				
356	478 Lippstadt	Lippstadt	NW	47	66 Saarbrücken	Saarbrücken	S
577	785 Lörrach	Freiburg	BW	476	663 Saarlouis	Saarbrücken	S
548	714 Ludwigsburg	Stuttgart	BW	578	788 Säcking	Freiburg	BW
51	67 Ludwigshafen	Ludwigshafen	R	516	667 St. Ingbert	Saarbrücken	S
24	24 Lübeck	Lübeck	SH	234	238 Schleswig	Flensburg	SH
417	588 Lüdenscheid	Hagen	NW	647	854 Schwabach	Nürnberg	BY
227	314 Lüneburg	Lüneburg	N	562	707 Schwäbisch Gmünd	Stuttgart	BW
48	65 Mainz	Mainz	R	545	717 Schwäbisch Hall	Heilbronn	BW
52	68 Mannheim	Mannheim	BW	616	872 Schweinfurt	Würzburg	BY
425	355 Marburg	Gießen	H	384	583 Schwelm <sup>2)</sup>	Wuppertal-Elberfeld	NW
638	859 Marktredwitz	Hof	BY	593	722 Schwenningen	Freiburg	BW
449	544 Mayen	Koblenz	R	295	337 Seesen <sup>1)</sup>	Braunschweig	N
683	894 Memmingen	Augsburg	BY	443	52 Siegburg	Bonn	NW
412	575 Menden	Dortmund	NW	445	59 Siegen	Siegen	NW
617	876 Miltenberg	Würzburg	BY	603	7032 Sindelfingen	Stuttgart	BW
268	495 Minden	Minden	NW	584	77 Singen	Konstanz	BW
365	405 Mönchengladbach	Mönchengladbach	NW	355	477 Soest	Hamm	NW
325	413 Moers	Duisburg	NW	373	565 Solingen	Remscheid	NW
526	695 Mosbach	Heilbronn	BW	372	565 Solingen-Ohligs	Remscheid	NW
335	433 Mülheim	Essen	NW	515	672 Speyer	Ludwigshafen	R
6	8 München	München	BY	273	496 Stadthagen	Hannover	N
31	44 Münster	Münster	NW	396	519 Stolberg	Aachen	NW
				672	844 Straubing	Regensburg	BY
413	576 Neheim-Hüsten	Lippstadt	NW	5	7 Stuttgart	Stuttgart	BW
238	235 Neumünster	Kiel	SH				
478	668 Neunkirchen	Saarbrücken	S	465	558 Traben-Trarbach	Trier	R
366	404 Neuß	Köln	NW	46	55 Trier	Trier	R
239	243 Neustadt	Lübeck	SH	557	74 Tübingen	Reutlingen	BW
514	673 Neustadt	Ludwigshafen	R	594	72 Tuttlingen	Konstanz	BW
56	791 Neu-Ulm*)	Ulm					
	considered as part of the bank place Ulm			229	311 Uelzen	Lüneburg	N
				56	79 Ulm	Ulm	BW
				354	475 Unna	Hamm	NW
448	545 Neuwied	Koblenz	R				
271	307 Nienburg	Hannover	N	338	562 Velbert	Wuppertal-Elberfeld	NW
661	886 Nördlingen	Augsburg	BY	362	406 Viersen	Mönchengladbach	NW
211	298 Norden	Oldenburg	N	582	773 Villingen	Freiburg	BW
263	446 Nordhorn	Osnabrück	N				
286	341 Northeim	Göttingen	N	705	705 Waiblingen	Stuttgart	BW
64	85 Nürnberg	Nürnberg	BY	359	353 Warburg	Lippstadt	NW
				653	848 Weiden	Regensburg	BY
333	42 Oberhausen	Oberhausen	NW	521	694 Weinheim	Mannheim	BW
491	605 Offenbach	Frankfurt	H	528	698 Wertheim	Heilbronn	BW
539	76 Offenburg	Karlsruhe	BW	324	423 Wesel	Duisburg	NW
217	29 Oldenburg	Oldenburg	N	454	633 Wetzlar	Gießen	H
419	596 Olpe	Siegen	NW	45	62 Wiesbaden	Wiesbaden	H
376	567 Opladen	Remscheid	NW	213	294 Wilhelmshaven	Oldenburg	N
265	45 Osnabrück	Osnabrück	N	382	581 Witten	Dortmund	NW
298	336 Osterode	Göttingen	N	489	652 Worms	Mainz	R
				61	87 Würzburg	Würzburg	BY
357	479 Paderborn	Lippstadt	NW	38	56 Wuppertal-Barmen	Wuppertal-Elberfeld	NW
677	839 Passau	Regensburg	BY				
275	315 Peine	Hildesheim	N	37	56 Wuppertal-Elberfeld	Wuppertal-Elberfeld	NW
534	753 Pforzheim	Stuttgart	BW				
518	678 Pirmasens	Kaiserslautern	R				
418	597 Plettenberg	Hagen	NW	517	666 Zweibrücken	Kaiserslautern	R

<sup>1)</sup> The Branches at Rüdesheim and Seesen were closed down on 30 November 1967. — <sup>2)</sup> The Branches at Remscheid-Lennep, Rheinhausen and Schwelm will be closed down on 31 March 1968. — \*) Belonging to the area of the Land Central Bank in Bavaria.

