

REPORT

of the

DEUTSCHE BUNDESBANK

for the Year 1966

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REPORT OF THE DEUTSCHE BUNDESBANK FOR THE YEAR 1966

Contents

Part A

General Part

Economic Trends and Central Bank Policy	1
I. General Survey	1
1. Economic and financial trends during the period of credit restriction	1
2. Easing of credit markets through the balance of payments	4
3. Strengthening of domestic demand	9
4. Safeguarding stability as a long-term task	18
II. International Monetary Trends and Monetary Policy	24
1. The equilibrating function of external economic relations	24
2. Germany's surplus position in the world payments situation	26
3. The reserve policy of the Deutsche Bundesbank	27
4. International monetary policy and balance of payments developments of reserve currency countries	29
5. Movement of world monetary reserves	33
III. Money and Credit	35
1. Bank liquidity	35
2. Extent and causes of monetary expansion	40
3. Special trends in lending business	43
4. Special trends in the credit institutions' business on the liabilities side	48
5. Capital market	51
IV. Cash Transactions of the Public Authorities	60
1. Receipts and expenditure	60
2. Indebtedness and reserves	64
3. Outlook	68
V. Economic Activity	69
1. Demand	70
2. Supply	77
3. Prices and wages	82
VI. Balance of Payments	85
1. Overall survey	85
2. Current items	87
3. Capital	91
4. Movement of gold and foreign exchange	95
The Deutsche Bundesbank's Cooperation in Bank Supervision	98
The Deutsche Bundesbank's Credit and Foreign Exchange Policy Regulations at Present in Force	102
I. Credit Policy Regulations	102
1. Credit instruments eligible at the Bundesbank	102
2. Rediscount quotas for credit institutions	104
3. Money-market regulation and money-market policy	105
4. Provisions as to minimum reserves The Deutsche Bundesbank's Order on Minimum Reserves	106
5. Interest rates and minimum reserve ratios of the Deutsche Bundesbank	111
II. Foreign Exchange Policy Regulations	113

Part B

Explanation of the Deutsche Bundesbank's Annual Statement for 1966

Legal Bases, Classification and Valuation	116
Conversion Account	116
Annual Statement	117

Part C

Fund for the Purchase of Equalisation Claims and Fund for the Redemption of Bundesbank Enjoyment Rights	133
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Report of the Central Bank Council	135
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Appendices to Parts B and C

1. Combined Conversion Account of the Institutions Amalgamated to Form the Deutsche Bundesbank as shown by the books on 31 December 1966	138
2. Annual Statement of the Deutsche Bundesbank as on 31 December 1966 Balance Sheet as on 31 December 1966	140
Profit and Loss Account for the Year 1966	142
3. Fund for the Purchase of Equalisation Claims (Position on 31 December 1966)	143
4. Statements of Operations Returns of the Deutsche Bundesbank	144
Turnover on the Giro Accounts of the Deutsche Bundesbank	148
Simplified Collection of Cheques and Debit-Entry Notes	148
Telegraphic Giro Transactions	148
Certified Cheques	148
Turnover in Clearing Transactions	149
Bank Note Circulation	149
Coin in Circulation	149
5. Branch Establishments of the Deutsche Bundesbank	150

Annex

Statistics on Money and Credit and the Balance of Payments	153
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Part A

General Part

Economic Trends and Central Bank Policy

I. General Survey

The economic situation in the Federal Republic of Germany distinctly changed during 1966. At the beginning of the year the business cycle had still been in a markedly upward phase, in which industry's order books were full, the labour market was overstrained, production costs rose and the price upsurge reached its highest level since the Korean war; the end of the year was on the other hand marked by definite slackening of economic activity but also, at the same time, by material successes on the way towards regaining financial stability. The reversal of the cyclical trend was indeed by no means abrupt. In the particularly sensitive sectors, above all in the investment activity of trade and industry and the public authorities, it loomed on the horizon quite early and also led relatively soon to a renewed surplus on the balance of payments. But by far the greater part of the year elapsed before the altered cyclical situation produced any clear effect on prices, the labour market and wages.

In its credit policy during this phase of cyclical adjustment the Bundesbank was obliged, as had frequently happened before, to keep several aims in view at the same time. On the one hand it had to aim at price stability within the country, and at restoring the external equilibrium lost in 1965. On the other hand the pressure on domestic demand could not be allowed to go so far as to create the danger of a deflationary circle, with all the consequent adverse effects on employment, production and the international payment streams. According to what importance was assigned to monetary stability in comparison with other economic objectives there was variation in the public's judgment concerning the credit policy of the Bundesbank, whose restrictive attitude some groups felt to be too severe and too long maintained, while others criticised the Bank's measures of relaxation, at first gradual and then stronger, as premature or as going too far. The object of the following paragraphs is to explain, in connection with the overall economic trends, the credit policy pursued by the Bundesbank last year and during the first months of 1967.

1. Economic and financial trends during the period of credit restriction

(a) Reduction of excess demand

Since the spring of 1964 the Bundesbank had sought to counteract the demand-induced strain on the domestic economy through gradual tightening of credit policy. The Report for the Year 1965 described the extent to which the effect of credit policy in that year was reduced by reason of the fact that the public authorities behaved not in anticyclical but in procyclical fashion by spending their inflated tax revenues in full and by borrowing a good deal as well. At the beginning of 1966 in wide areas there was therefore, not least for this reason, an inflationary excess demand reflected *inter alia* in relatively large uncompleted orders, in the persistent tension on the labour market and in considerably rising costs. In addition the public authorities' budgeting

The situation left
by years of excess
demand

of receipts and expenditure, the trade unions' wage demands and also many employers' expectations were at that time based in substantial degree on the assumption that the inflationary component, which was one factor determining the relatively rapid growth of receipts and expenditure, incomes and turnovers, would also operate in future. While anticipation of such inflationary tendencies at that time already may have been in a certain way unrealistic because the forces inherent in the course of the business cycle were on their own acting to weaken demand, it was fated to prove all the more incorrect inasmuch as the credit brakes — applied with the declared object of checking the inflationary tendencies — now began to bite harder. In that connection it was of course from the outset foreseeable that the economy's financial equilibrium could certainly not be restored without friction, and that the public's resistance to this course of credit policy would increase as credit policy came nearer to attaining its goal. In business planning there had evidently in many cases been excessive assurance that there was no cure for the continuance of creeping inflation and that, in particular, credit policy was condemned to remain ineffective.

Slackening begins
with investments

The slackening of domestic demand, still excessive at the start of the year, began in the field of investment. After a renewed slight rise in the first months of the year, new orders for capital goods were the first to flatten off; then, like the plans for building, they declined gradually, and finally at a faster rate. The capital goods industries' actual deliveries and the builders' output at first remained as great as ever, it is true; but orders on hand decreased. By degrees the slackening spread. Enterprises' stockbuilding became more cautious, since stocks could be kept smaller than before in view of suppliers' growing ability to deliver, sales prospects were assessed more pessimistically, and moreover the level of interest rates for borrowing forced enterprises to limit stocks to the essential minimum. The public authorities also found themselves confronted with growing difficulties as regards the financing of capital expenditure. After years of apparent immunity to the scarcity and rising cost of loans they were now forced increasingly to restrain their ordering of capital goods, and more particularly of construction work.

Decline in investments
due to monetary
causes ...

The change of trend in private investment activity was due to a number of causes. One of course was that credit was especially dear and scarce in the spring of 1966. While indeed on the one hand the demand for capital was still continuing to rise in the first months of 1966 because at least the projects which had been started were to be completed, on the other hand the supply of capital was decreasing. Under the influence of the balance-of-payments deficit, which still continued during the first half-year, the banks' liquidity declined so much that they were forced to cut down their lending. In addition during the spring and early summer credit institutions reduced their security purchases practically to nil, and for a time actually on balance sold securities from their holdings. At the same time the fall in bond prices also caused the public and the institutional investors to show increasing restraint, so that finally the rates of interest on the capital market reached a peak in the summer of 1966. Enterprises and also public authorities therefore had to review once again their further plans for investment, and to postpone projects which were relatively unprofitable or less urgent. The major public authorities were moreover forced, by the obligations which they had assumed in the course of the Round Table talks about the capital market, to cut down their borrowing requirements and hence their capital projects. It is true that the agreements reached at the Round Table applied only to bond issues, which for a time completely ceased from the spring of 1966 onwards, but the strain on the capital market prevented the public authorities from fully offsetting this deficiency by borrowing in any other form.

... and other reasons

Besides monetary causes non-monetary factors likewise did much, during the first half of 1966, to reduce the private sector's propensity to invest. Many enterprises must have realised at this time that, after more than two years of very intensive investment activity, their capacity had become too great in view of the existing opportunities for sale and of similar increases in their competitors' capacities. Further plans for investment also had to be judged by stricter criteria inasmuch as the earning power of enterprises steadily deteriorated, so that it became increasingly

doubtful whether the new projects would earn enough to pay the heavy charge for interest on borrowing. In 1966 enterprises' profits, especially those not distributed, declined to a new low point — at all events if they are related to current sales or to the greatly enlarged input of capital. This reflected in particular the continuous rise of production costs, among which wages and salaries were the most important in the economy as a whole. There was the further fact that structural problems of long standing, especially in coal mining, in the steel industry and in some other industries, had a distinctly paralysing effect on capital investment in these fields.

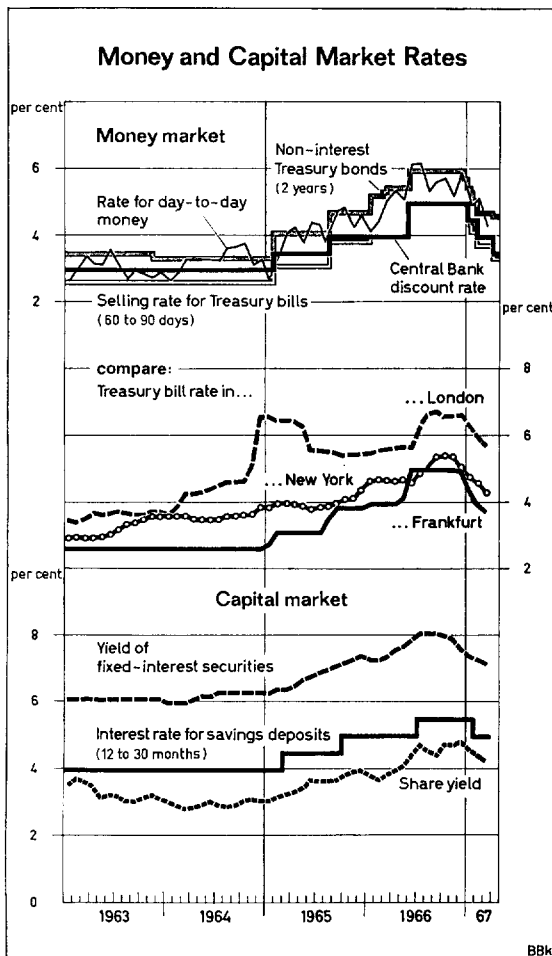
Apart from investment, economic activity in the first half of 1966 still showed no appreciable tendencies to slacken. Private consumption continued to grow at a practically undiminished pace, although partly at the expense of savings formation. The public authorities expanded their current expenditure as fast as previously, and, in particular, prices and costs also rose as strongly as ever. Partly because the supply of agricultural products was for a time insufficient as a result of the moderate crop in 1965, domestic prices rose rather faster than before. At all events in April 1966 the rise in the cost-of-living index, at 4.5 per cent on the year, was the greatest since the Korean war. The rise in production costs was hardly less marked. Thus the reduction of excess demand, no doubt at that time already proceeding in certain fields, was as yet producing no effect on prices or costs.

Continuing expansion in the other sectors

(b) Credit policy quickens the stabilisation process

The Bundesbank therefore continued its restrictive credit policy in the first half of 1966 with the object of also restoring price and cost trends to normal as soon as possible. For this purpose

Credit policy in the first half of 1966



it fully exposed the banks to the loss of liquidity entailed by the deficit on the balance of payments, by the increase produced in the note and coin circulation through the rise of mass incomes, and by the growth-induced addition to minimum reserves. From May 1966 onwards, moreover, the second half of a previously ordered cut in the banks' rediscount quotas at the Bundesbank came into effect; it had originally been intended for October 1965, but had then been postponed. Consequently the credit institutions' free liquid reserves dropped in the summer of 1966 to a level lower than for a long time past, and the money market was correspondingly strained. The Bundesbank's discount rate, which since 13 August 1965 had been kept at 4% per annum and had thus become increasingly out of line with money-market rates, was raised with effect from 27 May 1966 to 5% per annum, so that — at all events after a certain transitory period — it again accorded better with the interest rates formed in the free credit markets. Since moreover the raising of the discount rate led to a rise in the banks' debtor and creditor interest rates subject to regulation, the interest rate structure (much altered through the marked rise which had occurred in bond market yields while the reg-

ulated rates of interest for deposits and bank loans remained unchanged) again approximated more closely, although at a higher level, the relationships which had prevailed in past years. True, the raising of the central bank discount rate contributed towards some further growth in the yield on securities, but this effect was much smaller than would have corresponded to the increase in the official discount rate and in the banks' "controlled" loan and deposit rates. The daily calculated average yield on some important fixed-interest securities, 7.9% on the day before the central bank discount rate was raised, reached its peak at 8.4% at the beginning of July.

Inflationary tendencies tapering off

While therefore the discount rate increase in May 1966 did not further tighten the markets for credit to any appreciable extent, but in the main did no more than reflect in terms of interest the previous deliberately permitted tightening (and to that extent "recorded" the market situation), the overall financial temperature had by now so far cooled that the inflationary tendencies could continue to produce effect only in those branches of activity where competition was largely eliminated, and declines in sales rather than price reductions were accepted. In any case the great bulk of industrial prices, which most readily react to changes in the business cycle, have practically ceased to rise since May 1966 and actually declined slightly in the subsequent course of that year. The rise in other prices has since then also been only slight — though admittedly with the help of a good harvest.

Dangers of cost inflation

It is true that for a time wage costs, unlike prices, proved largely resistant to the damping down of overall demand; indeed, as already mentioned, they actually continued their vigorous rise. It is also true that in the first half of 1966 the labour market already began to some extent to loosen up, but the only immediate result was that actual earnings no longer rose much more than standard earnings; in other words the wage drift, that is the extent to which actual wage increases exceed those collectively agreed, became smaller. Up till mid-1966 however the wage and salary scales still showed rates of increase which, at between 6 and 7 per cent, were about twice as great as that in productivity. This process, which began to exhibit the features of cost inflation, that is of a rise in costs resulting no longer from general excess demand but from autonomous wage-policy decisions no longer justified by the market, caused the Bundesbank serious anxiety. The process raised the question whether, despite the increasingly numerous signs of relaxation in many fields, credit policy would have to remain restrictive even after the summer of 1966 so that, through still greater damping down of private investment and through perceptible cuts in public expenditure, the temperature could also be changed in the labour market, employers and employed thus being finally rendered unable to pursue a cost-raising incomes policy. Unalleviated continuance of restriction would however have entailed material risks for the whole economy, as experience in many foreign countries shows that a persistently steep rise of costs, with simultaneous curbing of demand, can induce lengthy stagnation or even crises. Since in the present pluralistic society a rise which has once taken place in the level of costs can neither be reversed, nor can the rise in costs be fully passed on in prices if demand continues to be depressed, profits will inevitably fall and investment will therefore decline all the more the longer this state of affairs persists.

In view of these risks the Bundesbank during the summer of 1966 thought it appropriate by degrees to change the course of credit policy. It could safely assume that, just as the time required for the credit brakes to take effect had been relatively long, recovery would now also take some time, especially since (as has in the meantime become clear) the rise of costs had already inhibited growth to such an extent that sooner or later it was also bound to affect the wage policy of employers and employed. For the moment indeed it seemed not yet appropriate to give the gradual turn in credit policy the character of a green light through spectacular action.

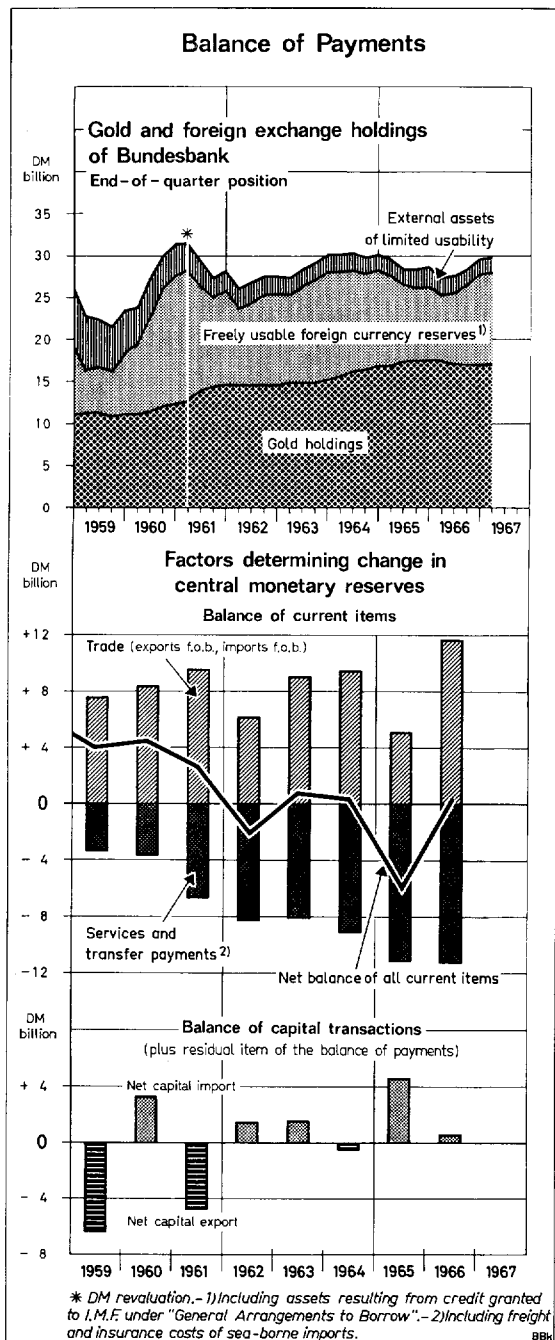
2. Easing of credit markets through the balance of payments

(a) Restoration of external equilibrium

Surplus on current account

The relaxation of credit policy began through the Bundesbank deliberately allowing the liquidity afflux (which resulted from the reversal in the balance of payments after about mid-1966) to

produce its effect instead of neutralising it, as would have been possible, through raising the minimum reserves or through open-market policy directed towards restricting liquidity. The Bundesbank was able to decide on this course the more readily because the reversal in the balance of payments showed that, at least in the external field, the aims of the existing credit policy were gradually being attained. In fact the German economy in its foreign trade and payments relations reacted with astonishingly little delay, and with surprising force, to the slowing down of home-market demand. Whereas in 1965 the total proceeds of exports (including services) had fallen short by more than DM 6 billion of the current payments due for imports of goods and services as well as for unilateral transfers, and again in the first half of 1966 the balance of payments had still shown a deficit of DM 1.5 billion on current account, in the third quarter of 1966 a slight surplus was already achieved, and in the fourth quarter (like the first two months of 1967) current items already showed a substantial surplus (totalling DM 3.4 billion for these five months). The rapid improvement in the balance of payments was indeed due primarily to the ending of the excessive demand for imports caused by the boom conditions, but also (though to a smaller extent in terms of quantity) to increased efforts to export, assisted by favourable cyclical conditions in the main customer countries.



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The improvement in trade and in total current transactions with foreign countries at the same time reduced the inclination to raise capital abroad. Whereas in 1965 net imports of capital into the Federal Republic of Germany had been quite large, in 1966 (if special transactions with foreign countries are eliminated) they declined to less than half the 1965 amount; admittedly this was partly because, as exports grew, export credits had to be granted on a rising scale while import credits were less needed. On the other hand, however, the domestic demand for credit began to diminish on cyclical grounds; the more the foreign exchange inflows eased the credit markets, moreover, the more easily could that demand be met from domestic sources. Another reason was that towards the end of 1966 the Federal Government exported short-term capital on a large scale in order to comply with its obligations under the Foreign Currency Offset Agreement with the United States of America.

Whereas the Federal Republic of Germany had still shown net foreign exchange deficits in the first half of 1966, it achieved rising surpluses from the summer of 1966 onwards. This induced the crucial change on domestic credit

Complementary movements on capital account

Foreign exchange surpluses ease credit markets

Figures Illustrating Economic Trends

Monthly averages

Item	Basis or unit	1961	1962	1963	1964	1965	1966	1966				1967
								1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	Jan. / Feb.P)
Production												
Index of industrial production ^{1) 4) 5)}	1958 = 100	126.8	132.4	137.5	149.2	157.5	160.0	156.3	168.0	152.1	163.8	146.8
Total	1958 = 100	126.8	132.4	137.5	149.2	157.5	160.0	156.3	168.0	152.1	163.8	146.8
Basic and producer goods industries	1958 = 100	135.2	141.2	148.2	167.5	177.9	185.2	178.3	195.0	185.2	182.7	176.0
Capital goods industries	1958 = 100	134.5	138.2	141.4	152.6	163.0	161.3	161.1	173.5	146.2	165.9	142.1
Consumer goods industries	1958 = 100	124.3	132.3	136.0	144.9	155.0	158.8	160.1	166.6	146.8	162.2	145.9
Output of selected products												
Power production ⁶⁾	mn kw-hrs	10,219 ⁶⁾	11,135 ⁶⁾	12,370	13,496	14,132	...	15,326	13,426	13,513	...	...
Rolled steel, per production day ¹⁾	'000 tons	72.4	73.7	71.9	85.0	84.9	81.8	83.9	88.3	82.5	73.0	79.4
Passenger cars ¹⁾	'000	159	176	201	221	228	236	253	252	205	234	180
Motor trucks ¹⁾	'000	20	21	21	22	20	18	20	20	16	17	15
Television sets ¹⁾	'000	144	142	160	192	231	190 P)	213	206	156	184	...
Farm products ⁷⁾	1957/58—											
Food production (annual figures) ⁸⁾	1961/62 = 100	107	114	124	128	132	134 P)	.	.	.	.	.
of which:												
Vegetable products	1957/58—	97	111	113	118	112	112 P)	.	.	.	.	.
Animal products	1961/62 = 100	111	115	128	132	139	142 P)	.	.	.	.	.
Labour Market and Employment												
Registered unemployed ⁹⁾	'000	181	155	186	169	147	161	141 ¹⁸⁾	101 ¹⁸⁾	113 ¹⁸⁾	372 ¹⁸⁾	674 ¹⁸⁾
Employed ^{1) 9)}	'000	20,730	21,053	21,303	21,547	21,842	21,870	8,421	8,459	8,414	8,245	...
among whom, in industry ¹⁾	'000	8,316	8,340	8,264	8,301	8,460	8,385	0.6 ¹⁸⁾	0.4 ¹⁸⁾	0.5 ¹⁸⁾	1.6 ¹⁸⁾	3.1 ¹⁸⁾
Unemployment ratio ^{9) 10)}	per cent	0.5 ¹⁷⁾	0.4 ¹⁷⁾	0.5 ¹⁷⁾	0.4 ¹⁷⁾	0.4 ¹⁷⁾	0.5 ¹⁷⁾	0.5 ¹⁷⁾	0.4 ¹⁸⁾	0.5 ¹⁸⁾	1.6 ¹⁸⁾	3.1 ¹⁸⁾
Total man-days lost ^{9) 11)}	millions	31.2	60.7	37.5	32.5	30.2	16.1	21.2 ¹⁸⁾	43.7 ¹⁸⁾	44.3 ¹⁸⁾	3.8 ¹⁸⁾	11.1 ¹⁸⁾
Weekly hours paid in industry ¹⁾	hours	45.5 ⁶⁾	44.9 ⁶⁾	44.7 ⁶⁾	44.1	44.3	44.0	43.7 ¹⁸⁾	43.9 ¹⁸⁾	44.3 ¹⁸⁾	43.9 ¹⁸⁾	...
Weekly hours worked in industry ¹⁾	hours	40.8 ⁶⁾	40.8 ⁶⁾	40.2 ⁶⁾	41.1	40.2	40.1	41.2 ¹⁸⁾	38.9 ¹⁸⁾	38.4 ¹⁸⁾	41.9 ¹⁸⁾	...
Orders Booked, and Sales ^{1) 6) 7)}												
Orders booked in industry (Values, per calendar month) in per cent of 1954 sales												
Total	1954 = 100	201	207	216	247	263	263	268	271	254	257	230
Basic industries	1954 = 100	179	188	193	223	230	236	233	243	238	230	220
Capital goods industries	1954 = 100	254	253	269	310	336	332	343	340	320	323	283
Consumer goods industries	1954 = 100	160	170	176	196	210	206	214	218	187	207	171
in per cent of current sales												
Total	per cent	101	98	100	103	101	97	101	100	94	94	97
Retail sales at current prices												
Total	1962 = 100	.	100	104.9	113.0	124.3	130.9	116.7	128.5	125.4	152.8	112.2
Building Industry ¹⁾												
Output of building and civil engineering ⁹⁾	1958 = 100	127.5	137.3	141.4	157.6	160.1	166.3	126.3	195.9	176.1	169.0	105.9
Estimated expenditure on approved buildings, total	DM million	2,640.4	2,889.6	2,849.1	3,394.9	3,739.9	3,724.3	3,305.4	3,876.6	4,071.3	3,644.1	2,717.1
Carry-over of unfinished building projects at end of year												
Dwellings in residential buildings	'000	730.0	794.5	790.8	756.1	780.2	...	.	.	.	.	.
Non-residential buildings	mn cu.m.	190.9	210.7	215.4	231.2	243.0	...	.	.	.	.	.
Price index for residential buildings (Construction work)	1962 = 100	92.3 ^{4) 7)}	100 ⁴⁾	105.2 ⁴⁾	110.0 ⁴⁾	115.1	118.5	116.9 ¹⁸⁾	119.1 ¹⁸⁾	119.2 ¹⁸⁾	118.6 ¹⁸⁾	...
Prices and Wages ¹⁾												
Prices of basic materials (of domestic and foreign origin) ¹²⁾												
Total	1962 = 100	100.1	100	101.0	103.3	106.1	107.7	108.5	108.0	107.3	106.8	106.3
of which:												
Farm, forest and plantation products	1962 = 100	99.6	100	103.0	105.9	109.5	111.0	112.3	110.4	111.0	110.1	108.8
Industrial products	1962 = 100	100.3	100	99.6	101.5	103.7	105.3	105.8	106.2	104.8	104.6	104.6
Purchase prices for foreign goods ¹²⁾												
Total	1962 = 100	101.0	100	102.4	104.5	107.1	109.5	109.5	111.5	108.7	108.3	107.6
Selling prices for export goods ¹²⁾												
Total	1962 = 100	99.8	100	100.1	103.7	106.2	108.3	107.4	108.7	108.5	108.6	108.7
Producers' prices of domestic industrial goods												
Total	1962 = 100	98.9	100	100.5	101.6	104.0	105.8	105.6	106.2	105.9	105.7	105.5
among which:												
Capital goods industries	1962 = 100	97.2	100	100.4	101.6	104.6	106.7	105.7	107.1	107.2	106.6	106.2
Consumer goods industries	1962 = 100	99.1	100	101.6	103.6	106.0	108.7	108.0	108.7	109.1	109.0	108.8
Cost-of-living index ¹³⁾												
Total	1962 = 100	97.1 ⁴⁾	100	103.0	105.4	109.0	112.8	111.8	113.1	112.9	113.4	114.2
of which:												
excluding food, beverages and tobacco	1962 = 100	97.4 ⁴⁾	100	103.1	105.7	108.9	113.4	111.9	113.1	113.9	114.7	115.7
Food, beverages and tobacco	1962 = 100	96.8 ⁴⁾	100	102.9	105.0	109.0	112.0	111.7	113.2	111.6	111.6	112.1
Industrial workers' wages												
Hourly earnings	DM	2.96 ⁴⁾	3.30 ⁴⁾	3.55 ⁴⁾	3.87	4.26	4.52	4.35 ¹⁸⁾	4.53 ¹⁸⁾	4.59 ¹⁸⁾	4.60 ¹⁸⁾	...
Weekly earnings	DM	134 ⁴⁾	148 ⁴⁾	158 ⁴⁾	171	189	199	190 ¹⁸⁾	199 ¹⁸⁾	203 ¹⁸⁾	202 ¹⁸⁾	...
Foreign Trade ^{1) 14)}												
Imports	DM million	3,697	4,125	4,356	4,903	5,871	6,056	6,037	6,083	5,877	6,226	5,337
Exports	DM million	4,248	4,415	4,859	5,410	5,971	6,719	6,319	6,541	6,630	7,385	6,757
Balance	DM million	+ 551	+ 290	+ 503	+ 507	+ 100	+ 663	+ 282	+ 458	+ 753	+ 1,159	+ 1,420

Sources: ¹⁾ Federal Statistical Office. — ²⁾ Report on the Situation in Agriculture (Green Report). — ³⁾ Federal Institution for Labour Exchanges and Unemployment Insurance. — ⁴⁾ Federal Ministry of Economics. — ⁵⁾ Adjusted for calendar irregularities. — ⁶⁾ Not including Berlin. — ⁷⁾ Not including Saarland. — ⁸⁾ Farm years from 1 July of the year under review to 30 June of following year. — ⁹⁾ Estimated annual averages. — ¹⁰⁾ Proportion of unemployed to total of employed and unemployed wage and salary earners. — ¹¹⁾ In building, during the bad weather period between 1 November of the year under review and 31 March of following year. — ¹²⁾ Re-calculated from original basis 1958 = 100. — ¹³⁾ Four-member employed persons' households in towns, with the sole earner in medium income group. — ¹⁴⁾ Special trade according to the official foreign trade statistics; imports c.i.f., exports f.o.b. — ¹⁵⁾ Position at end of first month in the quarter. — ¹⁶⁾ Mid-quarter position. — ¹⁷⁾ Position at end of third quarter. — ¹⁸⁾ Position at end of quarter. — ¹⁹⁾ Position at end of February. — P) Provisional.

markets. Now, as contrasted with the time up to mid-1966, external transactions constantly gave the banks liquid funds at a rate which from June 1966 onwards averaged about DM 600 million per month. With the increase in the credit institutions' unused rediscount quotas at the Bundesbank included, at DM 20.3 billion at the end of November 1966 the banks' free liquid reserves were greater than six months previously by DM 6.4 billion (or almost one-half), even though the Bundesbank had up till then taken no action to increase their liquidity. Minimum reserve ratios remained unaltered at this time, and open-market transactions with non-banks were effected on only a small scale. Toleration of the building up of liquid reserves — like the previous practice of allowing liquidity outflows consequent on balance-of-payments deficits to produce their effect — does not of course mean that the Bundesbank leaves the supply of liquidity for the banks and for trade and industry exclusively to “chance” external influences; there is on the contrary a close intrinsic connection between the changes in the net external movements and the requirements of credit policy. Nowadays, much as under the rules of the automatic gold standard, a balance-of-payments surplus (especially one resulting from goods and service transactions) indicates, if coupled with relative price stability, that the domestic situation permits a certain increase of demand; the longer it lasts, indeed, the more it actually requires such an increase.

(b) *Automatic monetary relaxation*

According to all experience there was no ground to expect that changes in the banks' liquidity would necessarily alter the degree of credit expansion. In the preceding phase of credit restriction the banks' liquid reserves were eroded for practically two years, but not until the latter part of this period — in the second quarter of 1966 — did credit expansion perceptibly slow down. Whereas a considerable cushion of excess liquidity had first to be worked off before the credit brakes could bite at all, now the reserves of liquidity had to be somewhat built up again before any fresh quickening of credit expansion could be expected. Moreover, the precondition for a change in that direction was a fall in the level of interest rates.

Liquidity increase
and credit expansion

The first clear reactions to the incipient easing of credit markets were seen, apart from short-term fluctuations, not on the market for money but on that for securities. The yield on fixed-interest securities had reached its peak early in July. From this peak (*viz.*, 8.4% on 5 July 1966) the daily calculated average yield on some important fixed-interest securities declined, at first only with hesitation but then more rapidly in accordance with the rise of quotations, to 7.5% at the end of 1966. In August 1966 the banks again began to buy securities, and in the further course of the year they stepped up their purchases practically month by month, although for the time being they preferred relatively short-term notes (*Kassenobligationen*). Thus the bond market again evinced its great dependence on the banking system's liquidity, but this time in a favourable sense, as contrasted with the throttling down of security purchasing by the banks in the period of credit restriction.

First reactions
on the bond markets

The public at first remained cautious in their attitude to the relaxation on the bond market. As quotations rose, they too showed increasing readiness to buy, although at least up till the end of 1966 non-banks bought securities only on a relatively moderate scale. The progressive easing of the bond market cannot be explained, however, solely by the increase in the amount of capital ready for investment; this increase remained within narrow limits at least up till December 1966. The easing was likewise assisted by relative restraint in security issuing. More particularly the public authorities, as agreed at the Round Table, took advantage only to some extent of the gradually widening scope for security issues, their object being not to stifle in its initial stages the tendency for interest rates to fall. Even the “regular” issuers, that is for the most part the real-estate credit institutions, did not resort excessively to the market; one reason was that for the time being the Federal Ministry of Economics still exercised restraint in permitting issues, another — probably more important one — was that with interest rates still high the demand for loans, especially to finance building for the private sector, remained relatively weak.

Bond market also
eased by decrease
in demand for capital

Increased sensitivity
to changes in
interest rates

On the whole the banks' lending to non-banks in the second half of the year still showed no reaction to the continuing increase of their lending capacity; it was indeed smaller than before. In the fourth quarter of 1966 as a whole, for example, the credit institutions' short and longer-term loans to domestic non-bank customers increased by almost one-third less than in the corresponding period a year before. It was evident that at the existing high level of interest rates the readiness of enterprises to incur debt had greatly declined, particularly since less capital expenditure now needed to be financed than during the first half of the year, when far more already initiated capital projects had to be completed. The public authorities also in general continued for the present to show restraint in borrowing from banks; towards the end of the year, however, the Federal Government began to take the opportunity of procuring funds through the issue of money-market paper and of medium-term notes. But as soon as interest rates on the bond market had fallen, and with them no doubt the cost of loans granted by issuing institutions, other public authorities also again borrowed more. The easing of the terms for credit soon induced the expected reaction and thus no doubt also led, other things being equal, to a greater demand for goods and services. The private sector on the other hand continued to exert only relatively little demand for credit, which suggests that in this sector the downswing has roots too deep for it to be quickly removed by mere enlargement and cheapening of the credit supply. As recently as January and February this year (no later figures for the movement in credit were available as this Report went to press) there was a pronounced scissor movement as between the growth of lending to the public authorities, on the one hand, and the considerable decrease on the year in private sector borrowing on the other.

Foreign trade surpluses
and domestic demand

While there has so far been no repetition of the pattern seen in earlier business cycles, when – as for instance in 1959 – the substantial improvement in the balance of trade relatively soon led to an increase of domestic demand, one reason is no doubt that the latest rise in the trade surplus was determined more by the movement in imports than by that in exports, *i. e.* more by the decrease of demand at home than by the increase of demand abroad. Since moreover – partly as a result of rising costs at home, partly because of the decreasing inflationary tendencies in important customer countries and the consequent frequent need to grant concessions on prices – exports would seem no longer to have yielded profits equal to those achieved in earlier years, the increase of foreign demand gave the exporting industries much less inducement to start new capital projects than it had done in earlier periods, when such investments had represented the means by which the growth in demand abroad had spread to demand at home. In many cases the growth in exports was not even enough to make good the decrease in home-market sales, so that with few exceptions the extent to which capacities were employed declined even in the case of typical export firms, and accordingly the burden of fixed costs became heavier.

Although the prospects for exporting remain thoroughly good (since there are no major critical points in world economy, world trade is rising, and the Federal Republic of Germany's exports actually have a somewhat more than proportionate share in that rise), in the existing circumstances the level of German domestic economic activity could not be left solely to the impulses emanating from the balance-of-payments surpluses, even though there is reason to expect that these impulses will prove considerably greater in 1967 than in 1966. The recovery in economic activity would thus be delayed a good deal longer or, in other words, domestic demand would remain damped down for a longer period and more heavily than would have been required in order to achieve the aim of price and cost stability, jeopardising of which had been the reason for the restrictive credit policy. A further fact to be borne in mind was that too long a period of large surpluses on the German balance of payments would severely strain the international monetary structure. It was therefore natural again to stimulate domestic economic activity through credit and fiscal policy, once the price and cost upsurge could be regarded as having been largely stopped.

3. Strengthening of domestic demand

(a) Recessive domestic tendencies

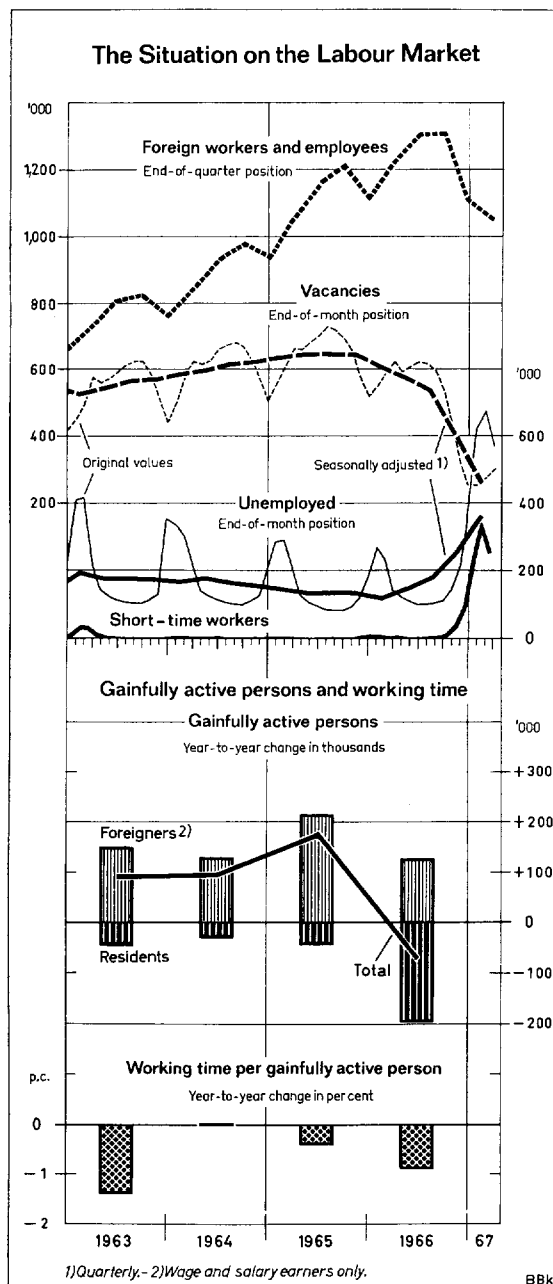
It had in fact become clear about the turn of the year 1966/67 that domestic demand had so greatly slowed down in some sectors of the economy, chiefly industry and building, as to induce a perceptible decline in production and employment. In the autumn of 1966 the industrial production index was no longer quite up to the level of a year earlier, and in the first two months of 1967 it was below its level of January and February 1966 by about 4½ per cent. In that connection however it is remarkable that, if the usual seasonal fluctuations are eliminated, total industrial output did not continue to fall in February as compared with January. Only the capital goods industries still showed a clear decline. In the motor vehicle industry, which in the Federal Republic as much as elsewhere has become more and more a key industry, sales and incoming orders showed

Adaptation of production and employment

a somewhat greater than seasonal rise in February 1967 as compared with their very low January level, although they did not nearly reattain the level of a year before.

The number of persons employed and average working time declined in industry and the building trade, although unemployment did not increase to an equal extent. For one thing, the German labour force decreased because the population's age structure remains unfavourable; for another, the number of foreign workers declined somewhat. At 1,055,000 in March 1967 the latter were fewer by about 180,000 than in March 1966. The total number of persons registered at labour exchanges as unemployed reached its seasonal peak of 674,000 at the end of February 1967, but by the end of March it had fallen to 576,000, no doubt merely for seasonal reasons. At the end of March, too, some part of unemployment was still due to the fact that the weather and other seasonal factors were adversely affecting business. Seasonally adjusted unemployment can be put for the end of March at about 400,000, or not quite 2 per cent of all wage and salary earners.

Cyclical unemployment remains limited



persons who are suitable for further employment only in very limited degree, so that from this point of view the real labour reserve adjusted for seasonal variations would have to be put lower than would correspond to the seasonally adjusted unemployment figure mentioned above. On the other hand it must be borne in mind that the real cyclical decrease of employment is greater than appears from the statistics because, as already mentioned, the number of foreign workers also decreased on cyclical grounds. If these movements are weighed against each other, it would seem fair to conclude that the decline in the number of employed due to cyclical factors can be put at almost 500,000. It is also necessary to take into account the fact that at mid-March 1967 the employment exchanges had on their registers some 250,000 short-time workers, which roughly corresponds to 50,000 full-time workers being unemployed. It is known that there are also short-time workers whose working hours have been reduced by less than one-sixth of the normal working time, which means that they do not appear in the official statistics as working short time; no figures concerning them are available, however.

More efficient
use and ...

In order to assess correctly the significance attaching to the number of persons unemployed, it must of course be borne in mind that its increase partly results from more efficient use of labour. Many enterprises which at the beginning of 1966 were still employing more workers than they needed for production, reduced their number of employees to that required for operation because, as time went on, they felt increasingly certain that any newly emergent demand for labour could be satisfied more easily than in the past. It was due, not least, to the end of labour hoarding that productivity still rose by a relatively large margin in the second half of 1966; this rise conflicted with the theory, put forward in many quarters, that slower growth of output was bound correspondingly to decrease productivity. But, in the altered market circumstances, the behaviour of the workers themselves also changed from what it had been. Apart from many imponderable changes in employees' attitude towards their work the decrease of absenteeism, in particular, would seem to have raised the efficiency of labour. In this context it is noteworthy that, for instance, the average illness frequency rate among obligatorily insured members of local sickness insurance funds amounted between January and March 1967 to only 5.3 per cent, against 6.4 per cent in the corresponding period a year before; it is of course not possible to determine the extent to which, for example, weather and the like may have contributed to the decrease in the frequency of illness. On a purely arithmetical calculation a fall in the proportion of absenteeism by 1 per cent of the total number employed already reduces the economy's demand for labour by about 220,000. It is of course open to doubt whether so great a fall in the sickness ratio would be in the longer run possible, or justifiable from the point of view of maintaining health; but the process must definitely be kept in mind if the increase of the unemployment figure is to be correctly judged.

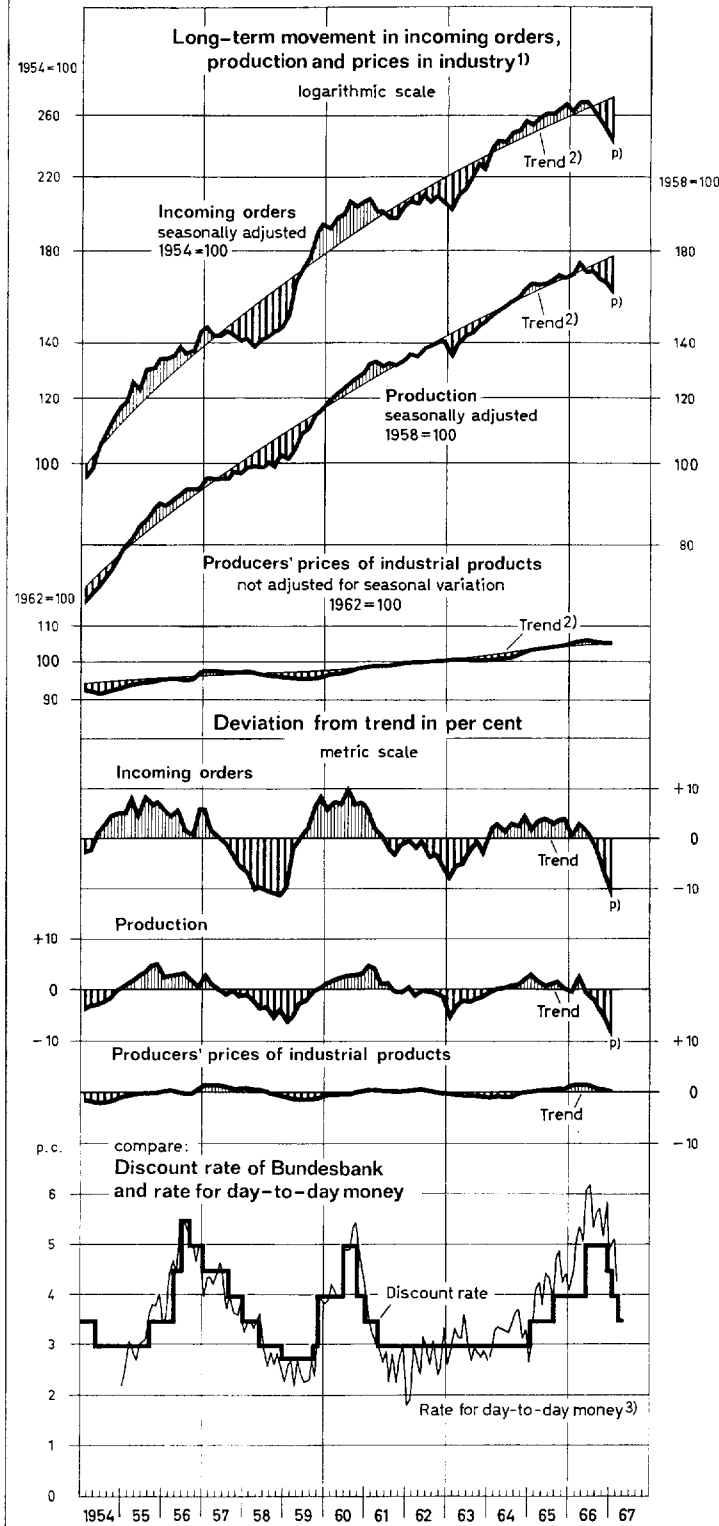
... greater mobility
of labour

New jobs have so far in general been found relatively soon for the unemployed, so that the duration of unemployment, painful though it may be in each individual case, has normally been kept within limits for those concerned. This may also be expected to remain largely the case in future, since there are still a number of sectors which have an appreciable unmet demand for labour and which have until very recently been increasing the number of persons employed. To that extent the present labour market situation permits the switching of labour, which is indispensable, if only on grounds of the change in the structure of the economy, and which in many cases failed to take place during the period of overemployment. In view of the situation at the coal mines, which will in future doubtless have to face a further reduction of their output, the consequent need to employ released miners elsewhere (although not in every case at the same town or village) points at the same time to the political importance of adequate economic growth.

Misinvestments revealed

Outside the labour market, too, the present processes of cyclical adjustment are in many respects producing favourable effects. Together with the decrease in demand there has been an increase of competition between enterprises, which not only was reflected in more finely calculated prices and in narrower profit margins, but also revealed cases of overinvestment and misinvestment. Especially in industries which during the past had derived very great advantage from the boom a certain

Economic Situation in the Federal Republic of Germany



*Two-monthly, excluding food, beverage and tobacco industry, building, mining and power.
2) Ascertained by means of regressions calculated for moving periods. - 3) Average of all days of the month. - p) Provisional.*

BBK

process of selection has begun; this process however, like most of the other corrective processes due to the slackening of economic activity, will if anything strengthen the bases for future growth of the economy. On the other hand it is obvious that such corrective adjustments are justifiable only within relatively narrow limits, and that they must not cause paralysing pessimism to spread throughout the economy.

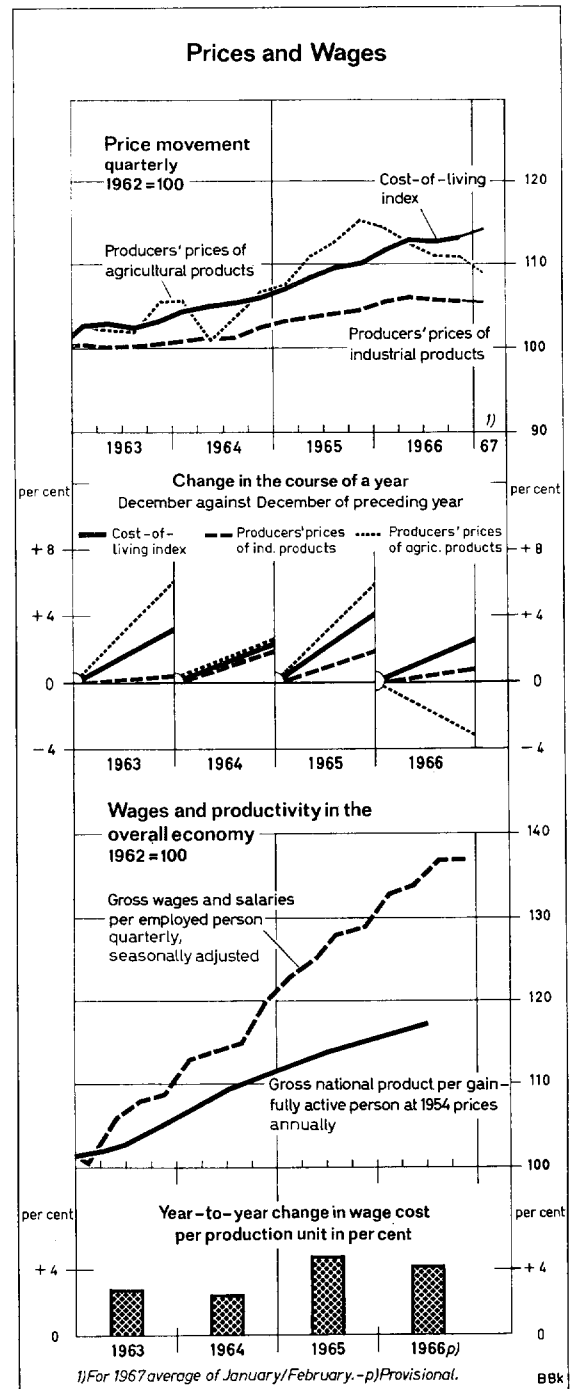
Spreading pessimism

Such a danger arose towards the end of 1966, the more so since symptoms of recession coincided with a Government crisis which seemed to imply additional risks as regards the further course of the business cycle. During this phase, when enterprises were confronted for the first time since the currency reform with the fact of a cyclical downswing, they inclined to assess the situation as more unfavourable than the objective data showed it to be. Evidently in the years of rapid upswing during the reconstruction phase, and in the subsequent period of over-full employment, the impression had been created that cyclical fluctuations could no longer be significant. In reality during those years the strong upward trend simply shrouded the existing cyclical fluctuations in order inflows, production and sales, making them more difficult to discern. There have always been cyclical fluctuations, but during those years they were reflected merely in periods of rapid economic growth alternating with others of slower expansion. Now that the growth trend has slackened

off owing to structural changes — like the decrease in the gainfully active population, repeated cuts in working hours and so forth — cyclical downturns, even if as such they are no greater than before, cause absolute declines in production and sales.

An economic setback like the one in evidence since the last months of 1966 naturally calls for anticyclical measures in the fields not only of money and credit but also of fiscal policy, while the same applies (or at least ought to apply) in reverse to a boom. Cyclical fluctuations need to be ironed out as far as possible, but it would be wishful thinking to suppose that they can be entirely eliminated even by the modern means of influencing the economic trend. More especially, however, it is unsafe to assume that it might be feasible, after a period of heavy inflation of demand and after a rapid rise of real growth such as is possible only for a limited period, to guide the economy on to the supposed “path of growth” without the pendulum swinging back for a time in the other direction. The fact that extensions of capacity have been overdone during the boom — as they were in 1964 and 1965 — and that costs have been raised too much inevitably plants the seeds of a downswing, like that which is now apparent. Economic policy can merely try to mitigate the fluctuations. The problem is misconceived if a temporary lag of production and employment as compared with the long-term growth trend is already described as “loss of growth”, thereby supporting the idea that economic growth can continue for a long while at the same pace as during the boom years. Losses of growth can only be said to be taking place when decreases of output are no longer solely the result of normal cyclical adjusting processes or, in other words, when the setbacks are more than just the largely inevitable consequence of overstraining the economy for years during which the growth rates exceeded the extent that is in the longer run possible and were, moreover, accompanied by substantial deterioration of the value of money.

The new Federal Government, which took office at the beginning of December 1966, announced at the outset some measures designed to achieve “controlled expansion”. The Deutsche Bundesbank at the same time decided on the relaxations of credit policy substantiated below, thereby basically supporting the Government’s economic projects, which could hardly have been undertaken without appropriate further easing of the markets for credit.



(b) *Relaxations of credit policy*

The Bundesbank was the more easily able at the end of 1966 to decide on strengthening domestic demand through credit policy measures having the effect of a green light because during the second half of 1966, after external equilibrium had already been achieved about the middle of the year, the domestic target of restrictive policy in the shape of price and cost stabilisation had also been nearly attained. In particular the flood of price increases had to a large extent ebbed, although among consumer prices there were at that time still rises, which of course in many cases — like that of rents — amounted to a process of catching up. At all events since the summer of 1966 the index of producers' prices for industrial products has no longer risen in any month, but has fallen in many: in February 1967 it was lower by 0.2 per cent than in the corresponding month a year before. On the other hand, it is true, the index for producers' prices of farm products does show seasonal fluctuations; but the great price rise due to the poor harvest in 1965 has been largely cancelled out, so that in February 1967 the index was below its level of a year previously by 4.6 per cent. Only the cost-of-living index — that is the level of prices at the consumer stage — has continued to rise during recent months, although to an extent very much smaller than before. Reckoned without foodstuffs, the formation of prices for which is subject to seasonal influences, it rose between mid-1966 and February 1967 by 2.2 per cent; with foodstuffs included it rose by only 0.8 per cent. The year-to-year rise had declined in February 1967 to 2.2 per cent (with foodstuffs excluded to 3.4 per cent, and with rents also excluded to 2.6 per cent). In the spring of 1966 the annual rate of increase in prices, as measured by the overall cost-of-living index, had amounted to no less than 4.5 per cent.

Stability targets
largely attained

Wage costs too have been gradually steadying down. It is true that at the end of 1966 wages were still increasing by more than productivity did in the same period, but the growth of productivity had been slowed down at that time on cyclical grounds. At all events, measured by the advance in productivity to be expected over a relatively long period the rises in wages were only slightly excessive. It is true that in January and February 1967 the level of collectively agreed wages and salaries on an hourly basis still was higher than a year previously by 5.9 and 5.8 per cent, respectively, but this rise was mainly due to wage increases already agreed in months lying further back. The wage increases newly agreed quite recently were smaller, amounting in January and February to only a little more than 4 per cent. Early in 1967 moreover, after the new Federal Government had been formed, the balancing of the 1967 Federal budget (until then completely uncertain) became a firmer prospect. The main targets of stabilisation policy could thus be regarded as having been in some cases fully, in others approximately attained.

The Bundesbank's first liquidity-raising measure took effect in December 1966, when — at first for that month only — the minimum reserve ratios in respect of domestic liabilities (other than savings deposits) were lowered by more than 9 per cent, so that over DM 0.8 billion of central bank money was released. Then the previous additional incentive to export money, as embodied in the "compensation privilege", *i. e.* the concession by which the banks could offset short-term external assets against non-residents' deposits, was terminated. It is true that this measure, in itself, caused a rise in the minimum reserve requirement; but this rise was outweighed by the fact that the December reduction of minimum reserves, originally limited in point of time, was now allowed to remain in force without time limit. For some while however the trend of interest rates abroad, especially in the Euro-money market, thwarted the intention to ease the domestic money market because, even though interest rates were falling both at home and abroad, the interest rate differential continued to cause large exports of money. Thus at DM 1.45 billion the sum exported by the banks in January 1967 was almost the same as that which they had repatriated in December for the usual window-dressing. In February the banks again employed nearly half a billion DM of liquid reserves abroad; in March and in the first week of

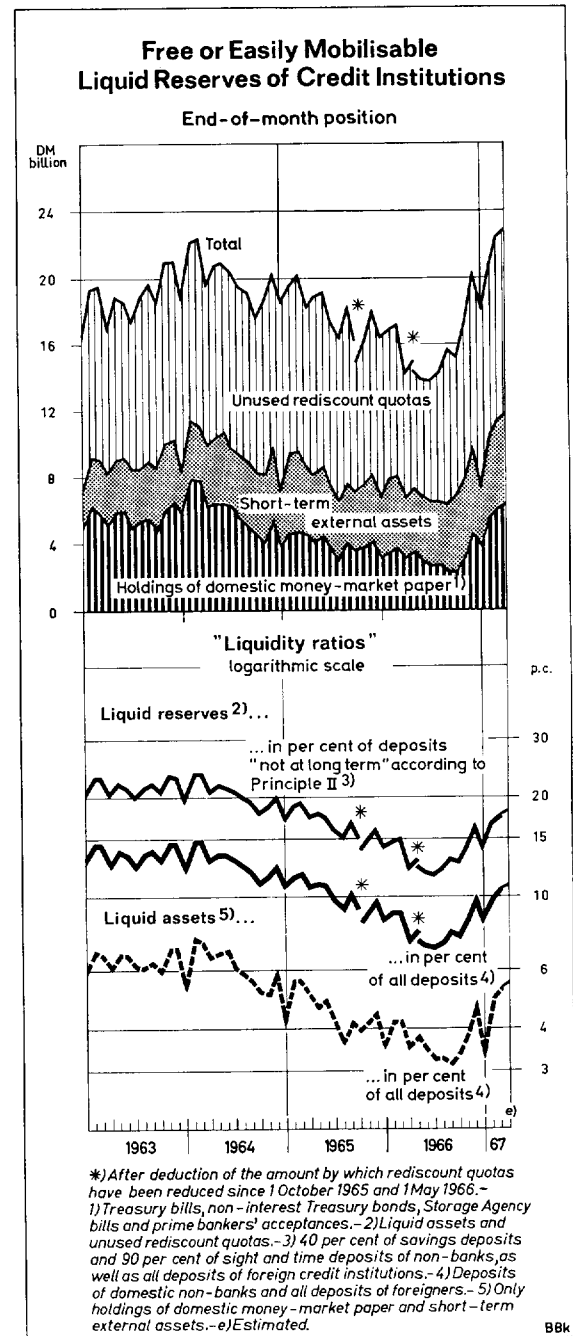
Relaxations of liquidity

April their export of money amounted to DM 0.2 billion. In these circumstances it was not surprising that throughout the first quarter of 1967, apart from brief interruptions, the rate for call money in the German money market was continuously above the official discount rate by a greater or lesser margin.

From February onwards the Bundesbank again released between DM 0.3 and 0.4 billion of central bank money by reducing the reserve ratios for liabilities to non-residents from the legally permissible maxima previously in force to the lower ratios for those to residents, and in March it lowered the minimum reserve ratios for all liabilities by 10 per cent all round, which meant a further decrease of the banks' minimum reserve obligation by DM 1.7 billion. Since during the first months of 1967 the market-induced accruals of liquidity to the banks had at the same time continued, their free liquid reserves in March 1967 reached the level of roughly DM 23 billion as compared with only some DM 14 billion nine months before. This takes no account of the fact that in July 1966 and again in January and February 1967 the Export Credit Company's rediscount facility at the Bundesbank was increased by altogether DM 1,500 million (to DM 1,800 million) through an addition to "Limit B".

Measures affecting interest rates

Decisions concerning interest rates accompanied the enlargement of the banks' liquidity potential. With effect from 6 January 1967 the Bundesbank had lowered its discount rate from 5% to 4½% per annum. This was followed by a further reduction to 4% per annum on 17 February 1967, and by yet another to 3½% on 14 April 1967. During that period the Bundesbank has repeatedly lowered its selling rates for money-market paper (for three-months Treasury bills from 5% on 29 December 1966 to 3⅜% on 14 April 1967, for two-year non-interest Treasury bonds from 6% to 4⅝%) and so tried, by market action, to prevent mobilisation paper from passing into the market in addition to Federal money-market paper sold on commission, since this would naturally have conflicted with the Bundesbank's liquidity policy. The interest rates charged for lending to non-banks, which are of primary significance for economic policy, also declined during this phase. The legally permissible maximum rates for bank credit dropped, on the official discount rate reductions in January and February, by 1% per annum. The rates of interest paid on non-banks' deposits, so far as they were still subject to the Interest Rates Order, were generally reduced by ½% per annum after the central bank discount rate reduction in January. Since the freeing of bank



interest rates was under consideration, no similar step was of course taken after the central bank discount rate was lowered in February.

In fact the Federal Banking Supervisory Office, at the suggestion of the Federal Ministry of Economics, in agreement with the Bundesbank and after the banking associations' views had been heard, revoked with effect from 1 April 1967 the Interest Rates Order, in which the maximum rates chargeable for shorter-term bank loans and those payable on a large part of the deposits at banks had been laid down. One important reason for the complete liberalising of bank interest rates, after more than 35 years' official regulation, was that even after the various partial liberalisations the observance of the Interest Rates Order could be verified only with difficulty, and could not be enforced at all. At all events numerous "legal" subterfuges enabled the larger and more adroit employers of money to obtain higher rates of interest, although often only at the cost of accepting complicated technical forms like transactions under repurchase agreement and other devices. The official fixing of interest rates also became increasingly questionable the more the course of the "free" rates made it obvious that the hard-and-fast interest rate structure needed major alterations (for instance through wider spreading of interest rates according to maturities), although without the authorities' having any firm guidance as to how great these alterations were to be. Finally however it was to be expected that "genuine" interest rates, fully conforming to the market, would guide the markets for credit with more efficiency than governmentally regulated rates, the justification for which lay, at least partly, in the fact that they often diverged from the "equilibrium rate" for the various kinds of deposits. The freeing of interest rates took place at a time when bank liquidity was relatively high, and the private demand for credit small; this in itself justified the expectation that, with bank liquidity continuing to increase, even after their release interest rates will not rise but rather decline further. Even if individual credit institutions or entire groups of banks were prepared to raise deposit rates on the basis of good earnings, a limit to such raising would soon be set by the income from lending business, since continuous enlargement of the banks' lending capacity through accruals of liquidity should tend to bring rates of interest on bank loans down. For a time, of course, the banks' profit margin might absorb any divergence between the movements of debtor and creditor rates.

Termination of the Interest Rates Order has removed the previous largely automatic linking of important debtor and creditor interest rates to the central bank discount rate. The view, often put forward by banks in particular, that this might render credit policy less effective, would however presumably be correct only if the Bundesbank might in principle use its discount rate as a credit policy instrument in isolation, that is not in conjunction with measures designed to alter the banks' liquidity. During the past there have indeed sometimes been periods of such ambivalent policy, when for example interest rates were left constant but bank liquidity was constricted. Such periods were exceptional, however, and never lasted long. Liquidity policy and interest-rate policy must in reality be seen as an entity. Not only through its minimum reserve and open-market policy but also, as is frequently overlooked, through the extent of the rediscount and advance facilities which it grants to the banks, as well as through the interest rate for central bank credits, the Bundesbank determines the banking system's liquidity. With this object it either actively adopts measures to affect liquidity, or it simply lets the market forces work themselves out, if these forces are already of themselves tending in the direction which it desires. According to what the situation may be, therefore, discount rate policy ranks either as a determinant or as recording the facts within the framework of general liquidity policy. Bank rate changes then at all events always indicate changes in the state of the credit market, and these no doubt at least tend to coincide with the movement in the free rates of interest for bank lending and deposits. Apart from this there is reason to expect that in many cases the banks will of their own volition retain in their credit contracts the discount rate clause, which gives them the right to alter interest charges in conformity with the central bank discount rate. Experience will show whether measures of liquidity policy need in future to be applied more strongly in order to guide the level

Release of
bank interest rates

Freeing of
interest rates
and credit policy

of interest rates in the direction desired on grounds of credit policy or whether, on the contrary, the range of interest rates will react more sensitively to changes in liquidity.

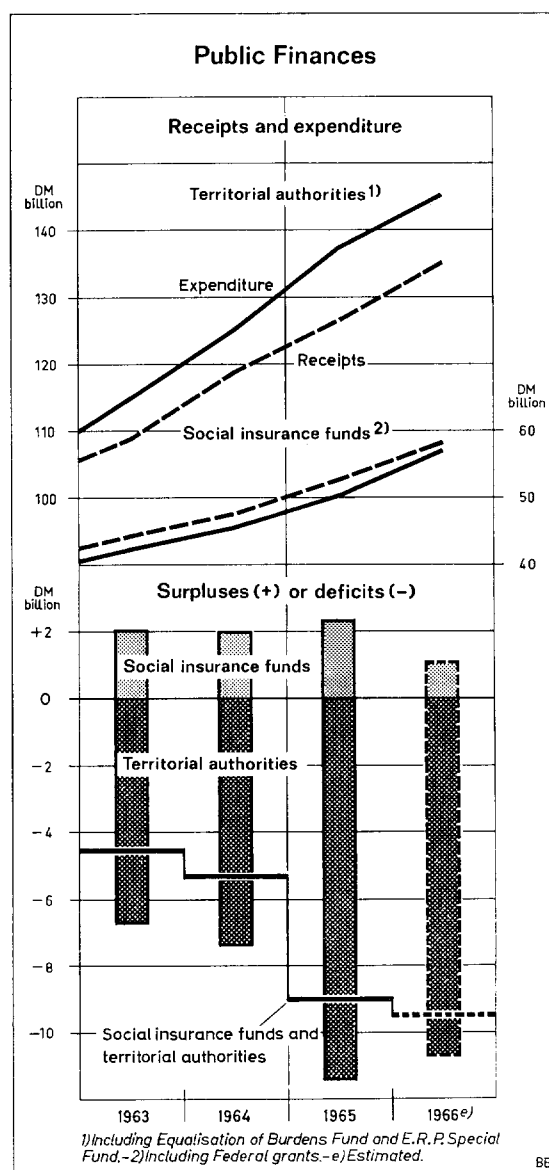
(c) Anticyclical fiscal policy

A good starting point to support domestic demand

It is in the nature of credit policy that it can stimulate economic activity only indirectly, through enlarging and cheapening the supply of credit. Enterprises and parties ordering building remain free to decide how far they will take advantage of the financial facilities offered to them. Direct action against any further weakening of domestic demand can however be taken, with a prospect of more rapid effect, in the sphere of the public finances. Expenditure financed through money creation directly increases total demand and total incomes in the economy, and, as the recipients of the additional incomes spend these, there is moreover likely to be an increase of demand far exceeding the original amount. The multiplier effect which is entailed, other things being equal, by governmental deficit spending (as indeed by every expenditure increase financed through money creation) of course makes it at the same time desirable to apply any such pump priming only with great caution, to apply it more particularly in the correct amount and only for projects which are both productive and rapidly realisable. Experience teaches that otherwise the main effect might only too easily occur at times when stimulation of economic activity has already become superfluous, or is even shown by the facts to be harmful.

Conflict between aims of anticyclical and structural policy

Not only for these reasons is it understandable that the public have received with considerable reserve the Federal Government's plans for anticyclically conceived deficit financing. There have also been fears that the permitting of new budget deficits, until recently inadvisable on grounds of stability, might reduce the compulsion to apply expenditure cuts which for structural reasons cannot be postponed. Since the first planning for the 1967 Federal budget it has in fact been clear that not only with a view to this year but also in the longer run the expenditure on consumption, greatly distended in previous years, would at least have to be slowed down in its further rise if the budget deficit — or the tax burden — is to be prevented in future from attaining a size which can no longer be justified. The new Federal Government largely adopted these objections, and decided to keep within narrow limits borrowing for its normal (or "regular") budget for 1967 by cutting down expenditure and by increasing receipts (on this subject see what is stated in Chapter IV of Part A), but at the same time to draw up an additional investment budget amounting to DM 2.5 billion, which is to be financed exclusively by borrowing (to the full extent, however, only if urgently needed on cyclical grounds).



The non-recurring character of the additional investment budget precludes the danger that any further expenditure, which may become necessary in 1967 on cyclical grounds, may lead to the Federal Government incurring similar obligations to spend in the succeeding years.

At the beginning of 1967 the Bundesbank declared itself prepared to ensure financing on credit, according to the monetary possibilities, of the additional investment budget amounting at the maximum to DM 2.5 billion. In that connection it had in mind further encouragement of the tendencies to relaxation in the credit markets so as to permit the placing, in limited amounts, of relatively short-term Federal debt instruments such as medium-term notes (*Kassenobligationen*) and also non-interest Treasury bonds. As early as the turn of the year 1966/67 the Federal Government had borrowed more in the increasingly liquid domestic money market in order to be able to meet its accrued obligations under the Foreign Exchange Offset Agreement with the United States of America¹⁾. But the assurance given by the Bundesbank also relates to the Federal Government's regular budget. It is to the effect that the contemplated 1967 expenditure totalling about DM 74 billion can be financed on credit in so far as revenues fall short of the estimates, which are based on a 5 per cent rise in the nominal gross national product. The reason is that borrowing to cover the revenue shortfalls, which are in the main cyclically induced and are at present estimated to reach about DM 2 billion, seems necessary in order to prevent the depressing of overall demand through tax increases which would otherwise prove necessary or through further curbing of expenditure. The financial assistance also relates to the loss of tax revenue which the Federal Government will suffer by reason of the fact that enterprises take advantage of the facility which allows them to apply special depreciation in respect of capital projects carried out, or initiated through placing of orders, between 20 January 1967 and 31 October 1967. The Bundesbank considers it desirable that the Federal Government shall as soon as possible take advantage of the considerable easing which has been taking place during recent months on the credit markets, and shall quickly give the additional orders to industry. It might produce unfortunate cyclical effects if the new growth impellents which emanate from this deficit spending became effective too late.

While the Bundesbank's direct support of anticyclical measures is confined to the Federal Government, this does not of course mean that the other territorial authorities failed also to benefit from the relaxation of credit markets in such a way that they could likewise behave as required by the business cycle. It is indeed already apparent that both *Länder* and local authorities are making much use of the wider scope for bank lending; some *Länder* are doing so through the issue of relatively short-term securities (*Kassenobligationen*). Still, it seems advisable that the *Länder* and local authorities should not borrow too much at short term, since otherwise too great a charge would be imposed in advance on their finances in the coming years. In this respect the Federal Government may have more room for action inasmuch as it is able by law to change its receipts and its expenditure obligations more rapidly than the other territorial authorities. Moreover, the Federal Government bears more responsibility than the other public authorities for proper control of the business cycle.

The fiscal measures directed to increasing economic activity — through the Federal Government's additional investment budget and the introducing of special facilities for depreciation — take some time to produce effect, although this time should be shorter than that required by credit policy measures. Even if the inevitable administrative delays and hindrances can be rapidly overcome (which at present appears by no means certain), additional appropriations for capital expenditure can in many cases only after some months lead to the giving of more orders and to the stimulating of production. The Bundesbank would therefore regard it as at least inexpedient and psychologically harmful if, at a time when the stimulative measures so far ordered have been initiated only in minor part and, if only for that reason, have as yet not been able to induce any significant effect at all, new large-scale stimulating measures like a second Federal contingency

Bundesbank assistance
for the Federal budget

The position
of the other
territorial authorities

Time-lag in pump
priming

¹⁾ It is true that this Federal expenditure produced no direct effects on domestic demand, but there is an unmistakable indirect connection between it and the further taking, by foreign forces stationed in the Federal Republic of Germany, of parts of the latter's national product.

budget running into billions, let alone tax reductions, were already being seriously considered. The by no means universal pessimism — which is rather to be regarded as a wait-and-see attitude — might be quite needlessly increased if the economic situation were painted in gloomy colours, and all the measures hitherto planned for stimulating economic activity were considered insufficient because their mere announcement has not already changed the economic situation. The Bundesbank feels there is reason to expect that the measures which have hitherto been adopted with a view to stimulating economic activity, and which together with the equally stimulating deficits of the social insurance funds (to be described later) and the balance-of-payments surplus amount to something over DM 10 billion, should in all likelihood suffice to raise the economy up again out of the phase of contraction. It must be expected from the outset, however, that because of the inevitable time-lags at least some months will elapse before the effect of the measures intended to increase demand and liquidity becomes everywhere perceptible and, in particular, before it is reflected in the statistics. If, however, a serious depression should unexpectedly develop, a new situation would arise.

4. Safeguarding stability as a long-term task

(a) Non-monetary aspects

Reduced bases
for growth

Any assessment of the present economic situation in the Federal Republic of Germany, and in particular of the financial possibilities, must — as already mentioned — not disregard the fact that the real economic bases at the present time (and the same will apply for years to come) no longer favour economic growth so much as in the past. The objects of economic and social policy must therefore be adjusted to the changing circumstances and to the resulting problems. Last year already it would have been undoubtedly easier to resolve many difficulties if understanding of the narrower limits set to the real possibilities had become more widespread. In fact however the demands on the national product have hitherto been based on the assumption of a growth-rate which, at all events in terms of real value, cannot be achieved in the longer run.

Decline in number of
gainfully active persons

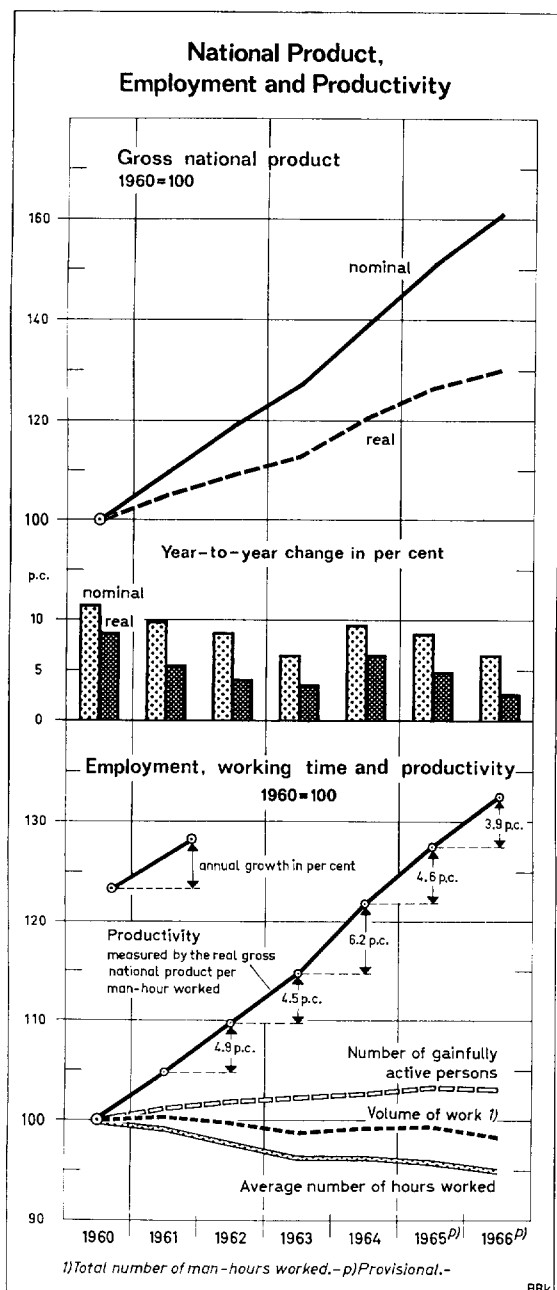
Scope for the whole economy's growth in the years ahead will be narrowly limited, in the first place, by the supply of German labour. Forecasts indicate that in the years between now and 1970, just as already happened in 1966, the domestic labour force will decrease owing to the disproportion between the numbers reaching retirement age and the young people newly entering the labour process, and that in future — unlike former times — the proportion of persons gainfully active to those in employable age groups will also decline, mainly because the period of school education is longer. The estimates suggest that in 1970 the Federal Republic's domestic labour force will be smaller than in 1966 by 300,000, or over 1 per cent, while on the other hand the prospect is that the total population (excluding any increment due to migration) will increase by 1.3 million, or more than 2 per cent. Whereas 457 out of every 1,000 inhabitants were still gainfully active in 1966, according to these estimates the number four years later will be only 442 (see the table).

*Labour Force and Resident Population 1966 to 1970*¹⁾

Estimated annual averages

Item	Unit	1966	1970	Change 1970 against 1966
Labour force ²⁾	1,000	27,250	26,950	— 300 ³⁾
Resident population	1,000	59,650	60,950	+ 1,300
"Gainful activity ratio" ⁴⁾	per mil	457	442	— 15

Source: Federal Statistical Office (1966) and Bundesbank estimate (1970).
¹⁾ Disregarding migration. — ²⁾ Gainfully active persons and unemployed. — ³⁾ Change owing to natural movement of population and to alteration in proportion of persons gainfully active. — ⁴⁾ Labour force in per mil of resident population.



Moreover, working hours will possibly be further reduced in the coming years, so that the total number of man-hours worked will decline on two grounds. This decline might, it is true, be partly counteracted through additional employment of foreign workers, but this in general means substitution only in terms of quantity and not of quality, since foreigners generally cannot replace German labour on skilled work, or in any case can do so only at the cost of serious initial difficulties. In addition foreign workers are almost always dearer, because extra costs are incurred; even in the past they have therefore been recruited on a major scale only when the labour market was overstrained.

In contrast with the production factor "labour", the production factor "capital" will continue to grow during the next few years as a result of new investments, but will probably be less productive than before. This inevitably results from the mere fact that in future it will for the most part no longer be possible to combine new investments with additional labour supplies. In order to achieve the same increase of output as before, greater capital expenditure will be needed, since only total capital can be increased further, but not the number of persons employed. In other words, the real return from the additional capital input, and hence presumably also the rise in output per person employed, will be less in future than it still was a few years ago. This is probable, in particular, because it must be expected that in the next few years no longer so large a part of total investments as previously will consist of investments in trade and industry, *i. e.* investments quickly leading to measurable advances in productiv-

Productivity and the pattern of investment

ity. The gap between the private sector's investments, on the one hand, and the public sector's infrastructure investments on the other is at present too wide to permit further postponement of an increase in the proportion of public-sector to total investments. It is true that infrastructure investments are also indispensable for further growth of the producing economy, but their longer-term contribution to growth of the national product is frequently not measurable, and is therefore often not reflected directly — and in certain circumstances not even indirectly — in an increase of the national product figures, which serve as criterion for the assessment of economic growth.

The slowing down of economic growth which is to be expected on the grounds both of labour supply and of productivity could be to some extent prevented only if it proved possible to raise the overall investment ratio still further, or in other words to restrict the share of consumption in

Raising the investment ratio as remedy

the national product. It will be shown later that there is little prospect of this, more especially because of the longer-term trends which are evident in the public finances, and which in the sphere of social insurance themselves result from the decrease in the proportion of gainfully active persons to the total population and from the consequently heavier burden of income redistribution. On a somewhat longer view the prospect is therefore not that the investment ratio will increase, but rather that it will decline. It is true that a certain switching within total investment through limitation of that in house-building would be possible, and also justifiable, but this would widen the scope for directly productive investment only to a moderate extent¹⁾.

(b) Longer-term fiscal policy

Effects produced on social insurance funds by decline in "gainful activity ratio"

Changes in the population structure will significantly affect, above all, the finances of the social insurance institutions. For a long time now it has been foreseeable that, for example, in social pension insurance at least up till 1970 the number of persons obligatorily insured will no longer grow but will, if anything, slightly decline unless the range of those subject to obligatory insurance is materially widened. But the number of persons receiving workers' and employees' pensions will continue to increase year by year, and by 1970 it will be greater than in 1966 by almost 800,000, or one-tenth. The divergence between receipts and expenditure would thus steadily widen unless the contributions were increased. In 1967 for instance there is already likely to be a deficit of at least DM 1.5 billion, as compared with a surplus of DM 1.25 billion in 1966, since the necessary increase of contributions was postponed on cyclical grounds. If contribution rates were left unaltered, but pensions were nevertheless adjusted each year in the same way as hitherto to the "general basis for determination" (which means in practice to the growth of average earnings), the deficit on pension insurance would grow to almost DM 8 billion in 1970 even if average earnings rose by 4 per cent each year. In order to prevent this deficit it would be necessary to raise contribution rates from the present 14 per cent of the gross wage or salary income to about 18 per cent by 1970. If the forecast is based on the mere assumption that wages rise each year by 6 per cent, the gap would be somewhat smaller, it is true; but on the other hand the rise in the real value of the pensions would also turn out smaller, since an annual 6 per cent increase of wages for more than four years on end could hardly be realised without substantial price rises.

Adverse effects on capital formation

If the present procedure for determination of new social insurance pensions and for the annual increase of those already existing is retained, then (as described above) the contributions would have to be considerably raised in order to avoid a reduction in the total capital funds of the pension insurance institutions. However, from the latest developments it is apparent that political pressure will operate very strongly in the direction of consuming capital. In a period which on economic grounds would actually require an increase in the rate of capital formation, not only would a previously quite significant source of capital formation be lost (DM 1.25 billion was formed in 1966, while capital funds at the end of that year totalled about DM 27 billion); in addition a dissaving process would start which were bound adversely to affect the size of overall capital formation because, other things being equal, it could not be accompanied by a corresponding rise of the private saving ratio. The remedy would lie either in a raising of contributions to the extent necessary for financing the deficit, or in an alteration of the existing system of current pension increases — perhaps by linking pensions to net instead of gross earnings. On the other hand any lightening of the load on pension insurance through Federal budget aid, over and above the existing arrangement for Federal grants, could hardly be considered owing to the state of the Federal finances, which will be discussed below.

Prospects for the 1967 and future Federal budgets

Although it was found possible, as described above, to close the original gap in the Federal Government's regular budget for 1967, the cyclically induced shortfall in tax revenue will never-

¹⁾ On this subject see also "Die Perspektiven der wirtschaftlichen Entwicklung in der EWG bis 1970", Reports of the Experts' Group, published by the E.E.C. Commission in April 1966, Annex I, pages 6 to 46.

theless cause the 1967 regular budget to show a deficit, which can at present be put at some DM 2 billion. In addition there is the borrowing requirement to cover the additional investment budget, amounting at the maximum to DM 2.5 billion. Since moreover the 1967 Federal budget was approximately balanced only through special legally authorised cuts in expenditure, some of which apply only to the year 1967, these items of expenditure, initially reduced only for a time, would have to be finally cut out if the years from 1968 onwards are not to be saddled with a correspondingly increased burden. As early as November 1966 the Federal Finance Ministry had tried to estimate the size of future gaps in the light of the existing expenditure commitments and the expected receipts. The forecast showed gaps rising year by year from DM 3.7 billion in 1968 to DM 6.2 billion in 1970. Actually the gaps will be considerably wider, however, because important intervening changes of the financial facts could not yet be taken into account in the forecast mentioned, for example the reduction of the Federal share in the proceeds of income taxes, the increases of taxation which were included in the forecast although not put into effect, and finally the correcting of exaggerated expectations in regard to growth. The gap for 1968 alone as now computed is more than twice as great as that calculated in November 1966.

Federal expenditure increases to be expected, as the law now stands, lie for the greater part in the sphere of expenditure on personnel and of income redistribution. Already in 1966 the increase in the Federal Government's expenditure on personnel and social services (including expenditure on personnel in the defence budget) consumed more than 80 per cent of that year's total growth in ordinary revenues. In view of the fact that independently of this the income transfers will continue to grow larger in the other public budgets too, especially in the social insurance funds, it would appear extremely urgent that all items of expenditure serving merely to redistribute income should be cut down so far as can be justified from the angle of social policy. This applies especially to those income transfers which are chiefly based on economic policy motives, but whose real economic usefulness would often not appear adequately to justify the public expenditure which they involve; that for example would seem to be true of many concessions connected with individual wealth formation, as well as of grants, premiums and so forth paid to structurally prejudiced industries, enterprises or the like. It can indeed be objected that those items of government expenditure which serve only to redistribute income but not to pay for government consumption (or government investment) do not take any of the national product for the government, because it is not the government but the recipients of those transfers that ultimately derive claims from them. This however in no way alters the fact that such transfers do impose a charge on the income of gainfully active persons. Together with the apparently inevitable additional burdens in respect of pension insurance this may well entail lasting impairment of economic energy, although just in the next few years, for the reasons stated, the opposite ought to be the aim.

Scaling down of income redistribution

Hence the longer-term prospects for the public finances make it in any event desirable at the present time not to take any fiscal policy decisions which are intended to be permanent, and which would necessarily make it still more difficult to balance the public budgets in the coming years. If inflationary financing of the gaps is to be avoided, it is necessary, on the contrary, to close these gaps. This does not of course mean that the anticyclical measures, adopted in the special conditions of 1967, may not be useful and indeed necessary for the purpose of again raising the national product (and, with it, tax revenues) as soon as possible so far as appears practicable without renewed danger to monetary stability. It will be essential, however, to confine such cyclically motivated fiscal measures from the outset to the period of downswing.

(c) The longer-term capital market problem

Since it is desirable to expand investment, and since the prospects of providing funds for longer-term financing out of "genuine" savings are not at all favourable, maximum importance attaches (and will also attach in future) to cultivation of the capital market as the main source of non-inflationary investment financing. In the past three years the capital market has at times suffered

The capital market as a source of non-inflationary investment financing

setbacks. The Bundesbank's earlier Reports have shown in detail that such setbacks had to be accepted because of the then acute danger to the currency and of the need to check inflationary tendencies, and that they turned out to be so severe mainly because excessive demand was combated by credit policy measures alone and not, as would have been necessary, by fiscal action as well. The total amount of funds available for longer-term financing did not rise any further in 1966. In that year the total monetary wealth formation by residents (not including the great increase in time deposits) amounted to only DM 39 billion, against DM 43 billion in 1965. The short-falls mostly affected the security market, since the greatly reduced net placing of domestic issuers' securities accounted in 1966 for only 15 per cent of the said monetary wealth formation, as compared with 26 per cent in the two preceding years. The tendency to invest monies in the less "transparent" part of the capital market, and above all in easily remonetisable form, has thus increased. The future task of capital market policy will accordingly be to enlarge total capital formation, and moreover to channel the formed capital once again to a greater extent into the security market, which ensures the least inflationary kind of investment financing and which, moreover, alone is capable of providing equity capital in organised form. As the above-described developments during the first months of 1967 show, a change has already begun in this respect inasmuch as the banks again appeared as buyers in the security market on a greater scale, and the renewed rise of quotations began more and more to attract the general public as well, inducing them to invest in securities at least some part of the savings which they had kept in liquid form during the past years of falling security prices.

Collective provision
for old age impairs
total capital formation

The prospects for an increase of "institutional saving", for instance through institutions like life assurance companies or works pension funds, which could be important as investors in securities, can indeed hardly be put very high in the Federal Republic of Germany; the reason is that, owing to the high degree of security afforded by government old-age insurance, the bulk of the population are in great measure relieved of the need to provide for their old age to any major extent by themselves saving at such institutions. It is true that the individual insured person may value his claim on the social pension insurance fund as an asset; but the pension insurance institutions themselves form no wealth, having practically changed over to the adjustable-contribution procedure, while of late they have actually been consuming reserves. From the economic point of view this reveals the great difference from an old-age pension scheme conducted on a private-enterprise basis; in connection with such a scheme, not only do individual claims arise, but such claims are guaranteed under "capital cover procedure", so that in the conditions of a growing economy the capital of insurance companies and pension funds steadily grows, even though individual out-payments of capital are made on occurrence of the events insured against. In most industrial countries, since collective social provision for old age does not go so far as it does in the Federal Republic of Germany, the incentive to provide for old age through actual savings formation is greater than here; this gives rise to a broad and fairly steady flow of capital which is available for long periods, and of which a large part can be invested by the savings institutions (that is, the life assurance companies and pension funds) at long term, chiefly in securities.

Government promotes
saving with decreasing
efficiency ...

It is true that by international standards the private savings formation in Germany is nevertheless high. In the past, governmental promotion of private capital formation through premiums and tax privileges may to some extent have contributed to the increase, which continued until recently, of the private saving ratio — quite apart from the fact that people naturally desired to rebuild monetary wealth which was completely lacking immediately after the monetary reform. It is however obvious that, as the total monetary wealth in the hands of households has grown (it can be estimated to have reached about DM 270 billion at the end of 1966, against DM 100 billion in 1959 and DM 20 billion in 1949), there are increasing opportunities to take advantage, by merely switching or revolving assets (*i. e.*, without any additional saving), of government measures designed to encourage certain investments. The financial burden imposed on the public finances through saving promotion constantly increases, yet there is little certainty that such promotion will in

future achieve the desired success, even though the above-mentioned opportunities for “asset-switching” do not of course exist to the same degree in all forms of savings.

Governmental promotion of saving has moreover another disadvantage inasmuch as, with the legislation on the subject (Savings Premiums Law and Income Tax Law) in its present state, a substantial flow of the private savings which enjoy government support goes not to increase the general supply of capital, but is from the outset channelled into some earmarked use. This at all events applies to the greater part of households’ savings formation at building and loan associations, since, with few exceptions of no great importance, the savings channelled through these institutional investors — as far as they are made with the advantage of governmental promotion — are allowed to be applied only to the financing of house-building (or, more correctly, for housing purposes). During 1966 at all events, of households’ total savings, amounting to DM 35 billion or 11.4 per cent of their disposable income, saving through building and loan associations accounted for about 30 per cent. Only the remaining 70 per cent of the saving is less closely tied as regards its use, being thus available to cover the longer-term financial needs of trade and industry, of public authorities and also of house-builders (as a rule on first mortgages). During the past decade and a half house-building was certainly the most urgent task. But there is reason to ask whether the scale of economic priorities has not by degrees so shifted that governmental encouragement of capital formation — so far as it is permanently retained at all — ought to be so rearranged that the resources formed shall stand available, so far as possible, to meet all needs for investment.

... and too much
“channelling” of
capital formation

In the current discussion of capital market problems the proposal is often put forward that, in certain circumstances, the supply of capital might be expanded by purely monetary methods, *inter alia* through the Bundesbank directly intervening on the capital market by way of open-market operations in longer-term securities. In this connection it must be observed that the Bundesbank’s facilities for intervening in the money market fully suffice, together with the other instruments of credit policy, to produce a lasting effect on the overall financial climate. On monetary grounds therefore, apart from exceptional situations, no direct Bundesbank commitment in long-term securities can be considered. The bond market would in that event become, even more, an extended arm of the money market. But the principal task in that field is precisely to reduce the bond market’s dependence on the money market, and on the Bundesbank’s measures affecting liquidity, especially by broadening the range of investors outside the banking system.

No monetary substitute
for capital formation

(d) *Safeguarding the value of money as a long-term task*

The narrowing of the scope for growth, which is to be expected in the longer run, requires reduction of demands in all fields of public finance. The revision of the medium-term financial forecast prepared by the Federal Government will reveal this no less clearly than the medium-term plans which *Land* Governments are to draw up, if the “Bill to Promote Stability and Growth”, now under discussion, comes into force in the form at present intended. If it did not prove possible to limit public expenditure largely to the size which can be covered by current receipts, if in other words the tendency already discernible for deficits to grow year by year proved impossible to check, then sooner or later the inflationary tendencies would revive and would continue to become stronger. An inflationary environment may for a time even quicken real economic growth; but it would make no difference to the above-described longer-term flattening off of the real growth trend. New inflationary tendencies would of course assist sham solutions. It would however be unfortunate if, on the grounds that the revenues of territorial authorities and social insurance institutions did not appear to be growing enough, economic and social policy were deliberately directed to speeding up the economy’s growth in purely nominal terms. With inflationary expansion of revenues, it is true, expenditure can be financed without major difficulties, and budgets may even appear to be formally balanced; but the real equilibrium as between the insufficiently reduced public demands and the no more than slowly growing national product is then achieved through price rises, which are undoubtedly the most antisocial solution of all.

Narrowing of the scope
for growth ...

... calls for reduction
of demands

Safeguarding the value of money also for the sake of growth

Monetary policy must of course be directed not only to keeping the value of money stable but also to a number of other economic objectives. It cannot be a matter of indifference whether, for example, external equilibrium has been disturbed, whether unemployment is spreading or whether the economy shows signs of recession. If stability in the value of money nevertheless merits priority, the reason is that in the long run it affords the best basis for attaining full employment and growth, and not infrequently also for attaining external equilibrium. In particular capital formation, which is indispensable for economic growth, will be most readily ensured, as regards both its extent and its distribution, if there is confidence in the value of money. It would be a mistake to treat lightly the fact that in past years, under the influence of continuous large price rises, there were pressing demands in various quarters for abandonment of the principle that money values must be reckoned in terms of the currency unit. The Bundesbank does not take the view that any greater admission of so-called stable-value clauses in business dealings would be desirable; it would, on the contrary, regard any such step as in the highest degree objectionable. The fact must not however be overlooked that such demands, although at the present time they appear to have receded somewhat into the background under the impact of largely successful stabilisation, would again be raised with emphasis if the newly restored confidence in the value of money were again gambled away, or if the Government in its economic and financial planning and targets included any currency erosion rate in its calculations. Obviously abandonment of reckoning in terms of fixed money values would create almost infinite uncertainties for economic growth, so that such growth would probably be much impaired.

Shielding stabilisation from external influences

The constantly renewed task of stabilisation includes the provision of safeguards against inflationary tendencies resulting from the economic links with the rest of the world. At present, it is true, there is no occasion to see the beginnings of any new fundamental disequilibrium in the recent surplus on the balance of payments, since that surplus is in essence merely the result of slackening domestic demand, and will therefore decline again when that demand rises. Nor do world economic trends yet create the impression that they are likely in the near future to produce stronger inflationary impulses. It is however obvious that future trends are much harder to forecast in the world-wide than in the national framework. At all events it is a welcome fact that the Federal Government, as appears from its declarations, is aware of the need for safeguarding successful internal stabilisation against external disturbance, that therefore it intends to support international monetary cooperation and means to aim at hardening of the international monetary system in a manner calculated to reduce the danger that inflation might be again imported.

II. International Monetary Trends and Monetary Policy

1. The equilibrating function of external economic relations

As already mentioned in the first chapter of this Report, the dampening of domestic demand brought about a reversal in the German balance of trade within a surprisingly short time. At least in part, the German business community made up for declining domestic demand by stepping up foreign sales and by competing more actively with foreign goods in the domestic market. The influx of liquidity stemming from the balance-of-payments surplus also had a desirable anticyclical effect.

Developments in world economy help to stabilise business cycle

As already during the preceding period of cyclical overheating, this equilibrating function of foreign trade relations was greatly facilitated by international economic developments. In 1965 the German demand for goods met cheap and readily available supplies, especially on the part of France and Italy which at that time were still going through a period of slack following stabilisation, but also on the part of a number of other important trading partners of the Federal Republic

of Germany. In 1966, in turn, German industry in its quest for outlets found favourable markets in the booming economies of the United States, France and Italy, not to mention numerous overseas countries which had benefited from the boom in primary products. World trade, which already in 1965 had expanded at a growth rate of 8.5 per cent, in 1966 under the impulse of high demand emanating from the United States and a number of other countries increased by as much as 9.5 per cent; both these growth rates were appreciably higher than the annual average for the preceding decade, which had been 7 per cent. In any case, the marked expansion in world trade over the period under review provided a most welcome cyclical support for the Federal Republic in view of the weakening of the domestic economy which became more and more apparent in the latter half of 1966. Conversely, the cyclical ups and downs in the Federal Republic acted in a supporting and equilibrating manner on economic activity in a number of important partner countries.

From the point of view of external monetary policy the extremely high German foreign trade surpluses of recent months gave rise to two questions: the first question is whether they should not — as on various occasions in the past — be regarded as ushering in a new danger for the stability of German domestic economy by “imported inflation”, thus creating the problem of shielding internal equilibrium from external influences; the second question is whether the re-emergence of high German balance-of-payments surpluses might not disturb international payments relations.

The first question can essentially be answered by stating that the present high German trade surpluses are hardly the consequence of any inflationary pull from the outside. Rather, their main cause is the falling-off in German imports induced by the cyclical downturn. While it is true to say that a strong development of German exports was a contributory element, this development must, on a more general view, be ascribed far more to the sales pressure of German industries, at present not working to capacity, than to a specific demand pull emanating from foreign countries; accordingly, the increase in German exports is taking place since mid-1966 at almost stable rather than at rising prices. Likewise, as already mentioned, the liquidity inflows *via* the balance of payments must in the present cyclical situation be looked upon not so much as endangering but rather as supporting internal equilibrium. Any apprehensions as to dangers for internal equilibrium in Germany by “imported inflation” are all the less justified as all indications suggest that at the present time the world economy is moving into a *phase of cyclical easing and stabilisation*. Contributing to this are the slight cooling off in the American economy on the one hand and the endeavours to achieve stabilisation by the United Kingdom and by the Federal Republic of Germany itself on the other hand. The concurrent slackening of business activity in the three most important countries of the world economy has in fact induced some pessimistic forecasts to the effect that the danger of a world-wide deflationary crisis similar to the one experienced in the thirties was looming on the horizon. This goes to show how much the world-wide economic expansion throughout the post-war period and the accompanying creeping inflation have distorted the standards of measurement. The fact is that the United States, following a period of excessive demand and inflationary price rises, has at present not yet even fully attained a state of normalisation and stabilisation. It looks as if the United Kingdom has already passed the bottom of the cyclical trough while Germany has almost reached that point, without full employment having been seriously affected in the two countries. Moreover, the economic expansion still persisting in a number of other industrial countries, especially France, Italy and Japan, provides a counterweight against an excessive spreading of the recessionary tendencies apparent in the Federal Republic and the United Kingdom. The present cooling-off in economic activity throughout the world is the inevitable price to be paid for the “hardening” of the international monetary system which has so often been demanded. In the last analysis this hardening consists in a maximum of leading members of the system successfully pursuing a stability-conscious policy. Transition from the overheated cyclical situation and price inflation to stabilisation cannot normally be effected without a temporary slackening in economic activity. The examples of Italy and France show that a successful stabilisation programme is also capable of establishing a more stable basis for the subsequent upswing. The fact

At present no import of inflation

Prospects for “hardening” of the international monetary system

that countries such as the United Kingdom and the Federal Republic — although under very different external circumstances — are now endeavouring to build the foundations for lasting stability can certainly be expected to have a favourable effect in the direction of a further “hardening” of the world economic system. The course of the economy and of foreign trade in the Federal Republic has great influence on developments in a number of other countries on the European continent. Provided West Germany succeeds in bringing about a cautious revival of economic activity on a stable basis — in the sense of “expansion-cum-stability” — it seems likely that this would exercise further stabilising effects at least with regard to the rest of Europe, if not beyond it. To that extent permanent stabilisation in Germany is an important means of calming down the business and price climate in the rest of Europe as well, thereby contributing to the “hardening” of the entire international monetary system. At least for the immediate future this should prove a more promising method than all efforts to arrive at complicated international agreements on the improvement of balance-of-payments discipline, such as were tabled, among others, in the latest report of the Committee of Experts called upon to appraise the economic situation in the Federal Republic of Germany. This does not however mean that the usefulness of an international agreement on rules for a better balance-of-payments policy is questioned in any way. The report on rules for the “Adjustment Process” published in the summer of 1966 by O.E.C.D. Working Party 3 points out the practical possibilities for such an agreement among the member countries of the “Group of Ten”, and it might in the longer run serve as a platform for practical progress in this field.

2. Germany's surplus position in the world payments situation

Foreign apprehension
with regard to
German surpluses

Foreign observers often pose with some concern the second of the two aforementioned questions, *i. e.* whether the re-emergence of German surpluses might not, over and above the desired stabilising effect it exercises, become a disturbing factor in international balance-of-payments relations, and thus prove a nuisance. Recollection of the chronic German balance-of-payments surpluses during the years before 1961 have in the eyes of its partner countries branded the Federal Republic as the potential surplus country *par excellence*. As a matter of fact, however, the situation since then has undergone a considerable change. Whereas before 1961 the German balance of current transactions, and also the “basic balance”, meaning the balance of current items and of long-term capital transactions (excluding special transactions), persistently ran surpluses even in years of heavy domestic demand, since 1962 major surpluses were recorded only in years with low domestic demand. Taking the five years from 1962 to 1966 as a whole, these surpluses are more than offset by the balance-of-payments deficits which the Federal Republic recorded in boom years. It is thus a case of normal “breathing” of the balance of payments in tune with the up and down of the demand differential vis-à-vis foreign countries. When the five-year period from 1957 to 1961 is compared with the subsequent period from 1962 to 1966, the balance of current items in the first period shows an average surplus of DM 4.8 billion, whereas in the second period an average deficit on current account of DM 1.25 billion is recorded. A similar picture presents itself when long-term capital movements are included. If this calculation of the averages is extended to cover the year 1967 with an estimated surplus on current account of DM 5 billion (or slightly more), the current items of the German balance of payments would still roughly be in equilibrium over the six years between 1962 and 1967.

Moreover, in considering the world-wide economic effects of the present German balance-of-payments surplus, the following points should not be overlooked:

No major international
disturbances anticipated
for the present

First, the German surplus has to an appreciable extent merely taken the place of the earlier Italian and French surpluses. Whereas Italy and France taken together in 1965 still recorded current account surpluses of \$ 2.2 billion, and overall balance-of-payments surpluses of as much as \$ 2.7 billion, the two countries have since the autumn of 1966 been experiencing quite substantial foreign exchange outflows. Taking the group of E.E.C. countries together, the balance-of-payments

surplus towards the rest of the world to be expected for 1967 is unlikely to be very much higher than in the two previous years.

Secondly, not only the experiences made in the Federal Republic of Germany in the years 1964/65 but in particular those gathered in France and Italy in the years 1965/66 show how rapidly even extremely high surplus positions can dwindle once a revival of economic activity within the country stimulates imports and lessens the need to export.

Thirdly, the relaxation of German monetary policy accompanying the slowdown in economic activity will not only distinctly reduce the hitherto comparatively high capital imports of the Federal Republic, but will possibly result in net capital exports. The very considerable net capital exports by banks ever since the beginning of the year 1967 amount to an indication in this direction. The relaxation and cheapening of credit in the Federal Republic will probably also significantly lessen the hitherto appreciable inducement for German firms, including German subsidiaries of foreign corporations, to borrow abroad. By switching from the position of net capital importer to that of net capital exporter the Federal Republic would be following in the footsteps of Italy and Japan, two countries which in the years 1965/66 employed their high surpluses on current account mainly towards improving their capital balance vis-à-vis foreign countries, either by repaying large amounts of foreign debts previously incurred, or by increasing their own capital exports.

Fourthly, the effect which considerable German foreign exchange surpluses might have on the international payments structure also greatly depends upon the manner in which the Bundesbank employs, or invests, such temporarily possible surpluses. It is appropriate to take a look at the reserve policy of the Bundesbank in this connection.

3. The reserve policy of the Deutsche Bundesbank

As already set forth in its two preceding Annual Reports, the Bundesbank does not, as regards the composition of its reserves, seek to establish a rigid ratio between gold and foreign exchange assets, whereas it does insist upon a sound distribution of risks with due regard to the principle of international solidarity. In recent years the Bundesbank has therefore deliberately refrained from converting in any significant volume dollar amounts accruing to it into gold from the U.S. Treasury to the debit of the American gold reserves. As can be seen from the table below, throughout the five years from 1962 to 1966 only on one occasion, in 1964, was a total amount of \$ 225 million converted into gold from the U.S. Treasury. Of this total, \$ 200 million stemmed from a sale of gold on the part of Italy which was at that time in balance-of-payments difficulties; this gold, transferred from the deficit country Italy to Germany as the then principal surplus country, was for technical reasons channelled through the U.S. Treasury, so that in the latter's statistics it figures as gold inflow and simultaneous gold outflow, *i. e.* as a transitory item. Apart from this instance, throughout the last five years the Bundesbank has thus converted into gold from the U.S. Treasury no more than \$ 25 million. The major portion of the Bundesbank's present gold

Reserve policy and international monetary co-operation

Table 1: Inflows and Outflows of Gold at the Deutsche Bundesbank 1962 to 1966

Millions of dollars

Item	1962	1963	1964	1965	1966	1962 to 1966
Sale of gold by U.S. Treasury	—	—	+ 225*)	—	—	+ 225
Sale of gold by I.M.F.	—	—	+ 93	+ 132	—	+ 225
German gold subscription to I.M.F.	—	—	—	—	—103	—103
Gold transactions in respect of E.P.U. liquidation and with E.M.A.	+ 2	+ 2	+ 2	+ 2	+ 0	+ 8
Transactions with London gold pool and other agencies	+ 13	+ 162	+ 85	+ 28	— 15	+ 273
Overall change (net)	+ 15	+ 164	+ 405	+ 162	— 118	+ 628

*) Including \$ 200 million resulting from a triangular gold transaction between Italy, the U.S.A. and the Federal Republic of Germany.

reserves in the amount of approximately \$ 4.3 billion originates in the settlement of the persistent German surplus position in the European Payments Union (E.P.U.) from 1951 to 1959 (in which context the choice between repayment in gold or in U.S. dollars rested with the debtor rather than with the creditor). In recent years the major part of gold accruals to the Bundesbank's reserves derived from transactions with other central banks in the London gold pool and from gold supplied by the International Monetary Fund (I.M.F.) to finance part of the heavy British I.M.F. drawings in 1964 and 1965; in both cases they thus resulted from the Bundesbank's participation in multilateral support operations for the benefit of reserve currencies.

Causes of changes in
gold share of reserves

Since the gross monetary reserves of the Bundesbank failed to increase, and indeed even fell off, in the years 1964 and 1965 while simultaneously the Bundesbank's gold holdings were built up out of these multilateral operations, there was an increase in the gold share in overall reserves. Measured in relation to the Bundesbank's gross monetary reserves the gold share rose from 50.3 per cent at the end of 1963 to 60.3 per cent at the end of 1965. Foreign comments on this increase in the gold share have occasionally described it as being a basic change in the Bundesbank's reserve policy¹). In so doing the fact has been overlooked that this rise resulted as it were automatically from the fact that on the one hand the Federal Republic's foreign exchange deficits had to be met on the market by sales of dollars out of the Bundesbank's reserves, while on the other hand accruals of gold, which likewise had to be financed by selling dollars, were a consequence not of autonomous transactions on the part of the Bundesbank but of multilateral institutions and decisions. It is true that at the time the Bundesbank welcomed the increase in the gold share of the German reserves resulting from these movements, seeing that thereby such share had been brought closer to the average gold share in the reserves of other industrial countries.

In 1966 the trend was reversed. On the one hand the Bundesbank's overall holdings of monetary reserves increased by approximately DM 1 billion, while on the other hand the Bundesbank's gold holdings diminished by the gold subscription to the increase in the German I.M.F. quota from \$ 787.5 to 1,200 million effected in May 1966, as well as by minor gold losses within the framework of the London gold pool (cf. Table 1). Accordingly the gold share in the Bundesbank's gross monetary reserves at the end of the year 1966 again receded to 56 per cent. In conformity with its general reserve policy, which has been constant for a number of years, the Bundesbank has not felt impelled to counteract this decline in the gold share by deliberate conversions.

Foreign exchange offset
payments and reserve
policy

The Bundesbank's reserve policy has recently acquired particular significance in connection with the *foreign exchange offset payments* for DM expenditures of U.S. armed forces in Germany. In the period covered by the Foreign Exchange Offset Agreement, the stationing of American troops in the Federal Republic was expected to give rise to expenditures on German goods and services in the amount of approximately DM 2.7 billion annually. These expenditures in foreign currency burden the American balance of payments in exactly the same way as, for example, the money spent by American tourists in foreign countries. In view of the still precarious state of the American balance of payments it is quite understandable that the American authorities accord particular attention to this foreign exchange burden.

In past years it proved possible in the main to compensate this foreign exchange burden by correspondingly heavy German purchases of American defence equipment. For some time now compensation in this form has, for a variety of reasons, been practicable only on a partial scale. This does not however mean that the amount not compensated by German purchases of such equipment must inevitably result in net accruals to the monetary reserves of the Deutsche Bundesbank. Net increases of monetary reserves with the Bundesbank in fact represent the final balance comprising all parts of the balance of payments vis-à-vis all other countries. In the bilateral German-American balance of payments, too, the DM expenditures of U.S. armed forces in Germany and the German armaments purchases in the United States form only partial factors; until quite recently, despite

¹) Cf., for instance, "New Approach to US International Economic Policy" (Hearing before the Subcommittee on International Exchange and Payments of the Joint Economic Committee, Congress of the United States, 89th Congress, September 9, 1966) Appendix p. 37/38

the high DM expenditures of the U.S. forces, the Federal Republic of Germany was running a deficit in the current items of the bilateral German-American balance of payments.

In order nevertheless to allay the fears of the U.S. authorities arising from the fact that the DM expenditures of U.S. forces in the Federal Republic are not fully offset, negotiations took place in the spring of 1967 between the American monetary authorities and the Deutsche Bundesbank. These negotiations, which at the time when this Report went to press were not yet finalised, are designed to make sure, by way of an appropriate reserve policy on the part of the Deutsche Bundesbank, that the foreign exchange expenditures of American troops in Germany cannot, even to the extent that they are not completely offset by German armaments purchases, become a disturbing factor for the American payments and reserve position.

Bundesbank prepared to take special reserve policy measures

4. International monetary policy and balance of payments developments of reserve currency countries

During the period under report international monetary policy continued, as in past years, to be overhung by the difficulties to which the two big reserve currency countries, the U.S.A. and the United Kingdom, found themselves exposed in their balance-of-payments situation. The consolidated balance-of-payments position of the E.E.C. countries, on the other hand, continued to be quite strong (cf. Table 2). The overseas primary producing countries were also, as a group, able to add to their reserves.

Balance-of-payments difficulties of reserve currency countries have continued

It must however be observed that the difficulties the two reserve currencies encountered in 1966 differed considerably in nature. *Sterling* time and again faced violent attacks on the foreign exchange markets from the early spring to the late summer of the year under report, even though

Table 2: Balance of Payments Position of the United States, United Kingdom and E.E.C. Countries 1953 to 1966 *)

Billions of U.S. dollars

Item	Annual average 1953 to 1956	Annual average 1958 to 1960	1961	1962	1963	1964	1965	1966
I. United States								
(1) Current items (excluding military transactions) ¹⁾	+4.00	+4.27	+7.47	+6.80	+7.31	+9.70	+8.00	+7.05
(2) Government transactions								
(a) Military transactions (net)	-2.59	-2.89	-2.58	-2.43	-2.28	-2.09	-2.04	-2.74
(b) Foreign aid (less repayments)	-2.05	-2.45	-2.78	-3.01	-3.58	-3.56	-3.38	-3.40
Total (1 plus 2)	-0.64	-1.07	+2.11	+1.36	+1.45	+4.05	+2.59	+0.91
(3) Private capital ²⁾	-0.82	-2.65	-4.56	-4.43	-4.51	-7.31	-4.12	-2.34
(4) Overall balance of payments (liquidity basis) ³⁾	-1.49	-3.71	-2.37	-2.20	-2.67	-2.80	-1.34	-1.42
(4a) Balance of official reserve transactions	-0.8 ⁴⁾	-2.8	-1.35	-2.71	-2.04	-1.55	-1.31	+0.27
(4b) Change in net external position of the monetary authorities and the banking system	.	.	-1.31	-2.59	-1.84	-1.60	-1.75	-2.04
II. United Kingdom								
(1) Current items	+0.23	+0.18	-0.01	+0.28	+0.30	-1.10	-0.31	-0.17
(2) Net long-term capital transactions	-0.49	-0.59	+0.19	-0.27	-0.48	-1.03	-0.67	-0.36
(3) Basic balance of payments (1 plus 2)	-0.26	-0.41	+0.18	+0.01	-0.18	-2.13	-0.97	-0.53
(4) Net overall balance of payments (= Balance of monetary movements)	-0.09	-0.07	+0.11	+0.25	-0.32	-2.06	-0.69	-0.50
III. E.E.C. Countries								
(1) Current items (including transfers)	+1.05	+2.72	+2.27	+0.80	-0.11	+0.43	+0.76	+1.40
(2) Change in official gross monetary reserves (including I.M.F. reserve positions)	+1.16	+2.19	+2.17	+0.42	+1.48	+1.97	+0.94	+1.19
<p>*) The 1957 figures have been omitted since they are distorted owing to the Suez crisis. — ¹⁾ Including exports of goods financed by foreign aid. — ²⁾ Including errors and omissions. — ³⁾ 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. — ⁴⁾ Annual average for the years 1954 to 1956.</p>								

the basic balance of payments of the United Kingdom improved appreciably by comparison with the previous year. The *U.S. dollar* on the other hand enjoyed almost throughout the year great firmness in the foreign exchange markets, although the American basic balance, as measured by current items and long-term capital transactions, deteriorated again.

(a) *United Kingdom*

Drastic measures effect
improvement of British
balance of payments

In actual fact the British balance of payments during the past year succeeded in making a big step forward in the direction of equilibrium. The turning-point was not reached, however, until the British Government in the summer of last year, under the impact of the new severe foreign exchange crisis, decided to take drastic action, involving in particular a temporary absolute wage-stop and a novel "selective employment tax". Under the influence of these measures the basic balance of payments, meaning the balance of current items and of long-term capital transactions, improved so considerably during the second half of the year that the import surcharge of 10 per cent (originally 15 per cent) imposed during the sterling crisis in the autumn of 1964 was lifted on 1 December 1966 without bringing about a noticeable setback in the balance of payments. The improvement obtained in the meantime becomes apparent from the following figures: in the critical year 1964 the deficit in the basic balance amounted to no less than \$ 2.1 billion, while in 1965 it had diminished to just under \$ 1 billion and in 1966 to \$ 530 million (cf. Table 2). The present tendencies seem to indicate that for the current year 1967 equilibrium, or even a surplus, will be achieved.

It is true that in 1966 the actual British foreign exchange losses were twice as high as the deficit in the basic balance, due partly to the foreign exchange crisis in the summer which led to shifts in the leads and lags and to various hedging operations, for another part however also to the shifting of short-term funds to the United States as a result of the tight money situation in that country. In the summer months of last year the British foreign exchange losses reached such a volume that concerted support operations by central banks became necessary, in which the Bundesbank also participated.

International protection
for sterling as a trading
and reserve currency

In this context a distinction must be made between two support measures of a basically different nature. The first measure was taken in June 1966. It replaced the swap credit lines which a number of central banks and the Bank for International Settlements (B.I.S.) had granted the Bank of England in September 1965 and which had lapsed in June 1966 after having been extended once. The new operation is, however, of a different and rather more permanent nature. A number of European central banks together with the B.I.S. concluded a Group Arrangement with the Bank of England for a term of nine months; in this they undertook to make available to the Bank of England swap credits destined to afford compensation for part of the foreign exchange losses which the Bank of England suffers by fluctuations in the sterling balances of other countries. This facility is thus not intended to be used to provide temporary cover for deficits in the British national balance of payments but is to take care of strains which may arise for the British currency out of its function as a transaction currency for a considerable part of world trade and as a reserve currency for the countries of the sterling block. By granting credit lines for this purpose the British reserves, which by comparison with the world-wide commitments of sterling have for a long time been insufficient, have, as it were, been re-stocked even though merely by temporarily utilisable credit facilities. The Federal Reserve System of the United States and the Bank of France have become associated to this Group Arrangement by bilateral swap credit lines. The total amount of the credit lines granted under these arrangements is \$ 1 billion. So far the Group Arrangement dating from June 1966 has functioned smoothly; since the fluctuations of sterling balances in London have hitherto been quite moderate, the various central banks have not yet had to be approached directly at all, operations of the B.I.S. alone having proved sufficient to meet any financing obligations under the Arrangement. In mid-March 1967 the Group Arrangement was extended for another year.

The heavy foreign exchange losses suffered by the Bank of England in the summer of 1966 could not however be balanced by applying this Group Arrangement, since they were largely caused by movements other than fluctuations in sterling balances. When they reached their climax early in September 1966 it was in fact found necessary to launch another support operation by the Basle group of central banks providing the Bank of England with short-term standby aid for general foreign exchange purposes. The main contribution to this new support operation for the pound was supplied by the American Federal Reserve System, which raised the already existing bilateral standby facility with the Bank of England from \$ 750 to 1,350 million. As a year earlier, the conclusion of the new joint support operation of the central banks once again instantaneously managed to quell speculative unrest and caused withdrawals of foreign exchange to drop. The standby aid temporarily used by the Bank of England under this arrangement was repaid in full by the spring of 1967. Thanks to the stabilisation measures taken by the British Government last summer, which have now become effective, the position of sterling within a few months consolidated to such a point that at the end of the year 1966 the British Government was able to resume paying instalments on American and Canadian post-war loans (with annual redemptions amounting to \$ 174 million), which had been suspended during the previous two years. The relaxation in the American money market situation and other international tendencies towards the easing of credit since the turn of the year 1966/67 subsequently led to large-scale backflows into the United Kingdom. This fact and the general improvement in the British balance-of-payments position enabled the Bank of England in the meantime to repay all support loans and, in addition, to build up its reserves. Encouraged by the improvement in its foreign exchange position the British Government during the spring of 1967 declared its firm determination to effect on maturity, or even before, the repayment due in December 1967 on the \$ 1 billion I.M.F. support loan of December 1964, which by that time had declined to \$ 820 million owing to other countries' drawings of sterling from the I.M.F.

Additional standby aid resorted to only on a temporary basis

(b) United States

In contrast to the British balance of payments, the American one, as already mentioned, deteriorated in its basic tendencies rather than improved during the period under review. This is true in particular of the trade balance, which in 1966 as a result of the domestic boom and of supply bottlenecks in American industry (partly due, in turn, to the war in Vietnam) was by over \$ 1 billion less favourable than in the previous year and as much as \$ 3 billion short of the figure for the record surplus year 1964. In addition, direct foreign exchange expenditures for the purpose of the war in Vietnam became considerably inflated. The fact that nevertheless in 1966 the deficit of the overall balance of payments, calculated on a "liquidity basis", at the rate of \$ 1.4 billion only negligibly exceeded that for the previous year and was considerably lower than those recorded for the years before 1965 was due principally to the balance of capital transactions having been greatly unburdened by premature debt repayments on the part of several European countries (among them the Federal Republic of Germany by an interim financing operation carried out by the Bundesbank in an amount of \$ 197 million), by particularly abundant Euro-issues of American enterprises in 1966, and by a number of other transactions providing long-term capital from foreign sources. In the "balance of official reserve transactions" even a surplus of almost \$ 300 million was recorded in 1966, in contrast to a deficit on the same basis of \$ 1.3 billion for the year 1965. The favourable official reserve balance for the year 1966 is explained mainly by the fact that the deficit of \$ 1.4 billion in the liquidity balance was more than offset by borrowing short-term private funds in foreign countries; in actual fact the American banks in 1966 obtained such funds, mainly through their foreign branches, to the tune of more than \$ 2.5 billion in order to evade the severe tightening of bank liquidity in the United States during the latter half of 1966. In this manner the balance-of-payments deficit (on liquidity basis) was more than covered and the official reserve position correspondingly improved.

Money inflows veil persistent balance-of-payments deficit

Possible reversal of money flows as an additional burden on the American balance of payments

Undoubtedly the form of covering the deficit resorted to in 1966 under the influence of the restrictive monetary policy of the Federal Reserve System carries also an element of weakness for the future. It is unlikely that short-term bank funds will continue to flow into the United States. As a result it seems probable that in 1967 the full balance-of-payments deficit of the United States (calculated on the conventional liquidity basis) will have to be covered by official reserve transactions. Moreover, it is quite probable that part of the short-term funds which flowed into the United States during the past year will flow back this year. While this does not entail a burden for the American liquidity balance, it may well be that it will lead to a strain on the official reserves of the United States coming on top of the normal balance-of-payments deficit. In actual fact, already during the first months of the current year, when the American money-market situation inevitably relaxed as the economic situation of the country proceeded to cool off, large amounts of short-term bank funds returned to Europe, especially to the United Kingdom. It is true that the American monetary authorities can, in order to provide cover for these money movements, in 1967 draw in considerable measure upon official reserve balances mainly acquired in earlier support operations, so that this additional strain for the reserves need not necessarily involve recourse to the American gold stock. Thus since the beginning of 1967 the United Kingdom has employed a large portion of the money flowing back from the United States to meet its obligations towards that country from earlier support operations. This development has already resulted in a process of mutual debt redemption taking place between the two reserve currency countries on quite an appreciable scale.

Compensating central bank transactions as a useful equilibrating instrument

This experience proved once again how useful it can be to neutralise by countercurrent central bank transactions short-term money movements between the more important industrial countries, which resulted from unavoidable discrepancies in the development of interest rates and bank liquidity, thus forestalling threatening disturbances. Such *equilibrating central bank transactions* were carried out during the period under report partly in the form of recourse to the existing swap arrangements among the central banks of the leading countries, and partly, especially for the purpose of overcoming seasonal short-term tensions at the end of the year 1966, by *ad hoc* measures adopted by a number of central banks and the B.I.S.

"Cushioning reserves" expanded

In the early autumn of 1966, when in connection with the sterling difficulties experienced at that time the risk of such disturbing money movements appeared particularly serious, the short-term support operations in favour of sterling, which have already been described, were supplemented (in September) by a considerable increase in the volume of the reciprocal credit lines agreed upon between the U.S. Federal Reserve System and a number of central banks and the B.I.S. The total of these short-term reciprocal credit arrangements was raised from \$ 2.8 to 4.5 billion. The credit line of \$ 250 million existing between the Federal Reserve System and the Bundesbank was extended by an additional line of \$ 150 million to a total of \$ 400 million. In December 1966 the Federal Reserve System availed itself of this credit line at the rate of \$ 140 million in order to repurchase with the proceeds dollar balances which had accrued to the Bundesbank. Two months later it was found possible to repay this swap credit. At the time of conclusion of this Report the entire network of reciprocal credit lines in the amount of \$ 4.5 billion built up by the Federal Reserve System had not been drawn upon for any sum either by the American central bank or by any of the other central banks. Since at the same time the Bank of England has also repaid all swap credits with other central banks drawn upon during the previous year, *there are at present no drawings at all outstanding under the numerous swap credit agreements existing among the leading central banks; the arrangements, therefore, are available to their full extent for possible subsequent short-term compensation requirements.*

5. Movement of world monetary reserves

As already set forth in the Annual Report for 1965 (page 37), the American balance-of-payments deficit in 1965 for the first time in many years no longer appreciably contributed to the expansion of "international liquidity" in a global sense. The deficit existing at that time was no longer financed by building up the dollar reserves of other countries, but in full by gold sales and I.M.F. drawings on the part of the United States. In 1966 there was no deficit at all in the American balance of official reserve transactions, calculated from changes in official reserves (including the I.M.F. reserve position) and changes in liabilities to foreign official agencies. The fact that the United States nevertheless had to have recourse to the extent of approximately \$ 1 billion to its official reserve holdings – partly by selling gold, partly by drawing on the I.M.F. – was the result of dollar reserves held abroad by official agencies being reduced by that amount. During the year under report the official reserve transactions of the United States thus even led to a reduction of world monetary reserves (including the American ones).

New phase in international reserve movements

Table 3: Movements in World Monetary Reserves *)

(Gold, foreign exchange, I.M.F. reserve position)

Period	All countries Change in		Group of Ten (plus Switzerland) Change in		E.E.C. countries Change in	
	Million \$	per cent	Million \$	per cent	Million \$	per cent
1950	+ 3,200	+ 7.0	+ 1,055	+ 3.1	+ 189	+ 6.8
1951	+ 645	+ 1.3	+ 287	+ 0.8	+ 529	+ 17.8
1952	+ 560	+ 1.1	+ 1,007	+ 2.9	+ 910	+ 25.9
1953	+ 1,860	+ 3.7	+ 693	+ 1.9	+ 1,327	+ 30.0
1954	+ 1,690	+ 3.3	+ 1,503	+ 4.1	+ 1,400	+ 24.4
1955	+ 835	+ 1.6	+ 777	+ 2.0	+ 1,509	+ 21.1
1956	+ 1,845	+ 3.4	+ 1,465	+ 3.7	+ 420	+ 4.9
1957	+ 495	+ 0.9	+ 973	+ 2.4	+ 278	+ 3.1
1958	+ 925	+ 1.6	+ 1,817	+ 4.4	+ 2,852	+ 30.5
1959 ¹⁾	— 245	— 0.4	— 877	— 2.0	+ 125	+ 1.0
Annual average increase during the decade from end-1949 to end-1959	+ 1,181	+ 2.3 ²⁾	+ 870	+ 2.3 ²⁾	+ 954	+ 16.0 ²⁾
1960	+ 2,925	+ 5.1	+ 3,140	+ 7.4	+ 3,594	+ 29.1
1961	+ 2,035	+ 3.4	+ 1,813	+ 4.0	+ 2,174	+ 13.7
1962	+ 310	+ 0.5	— 314	— 0.7	+ 424	+ 2.3
1963	+ 3,395	+ 5.4	+ 1,198	+ 2.5	+ 1,484	+ 8.0
1964	+ 2,455	+ 3.7	+ 1,454	+ 3.0	+ 1,965	+ 9.8
1965	+ 1,355	+ 2.0	+ 813	+ 1.6	+ 936	+ 4.3
1966	+ 1,250 ³⁾	+ 1.8 ²⁾	+ 483	+ 1.0	+ 1,188	+ 5.2
Annual average increase during the seven years from end-1959 to end-1966	+ 1,961	+ 3.1 ²⁾	+ 1,227	+ 2.7 ²⁾	+ 1,681	+ 10.0 ²⁾

*) Source: I.F.S. — ¹⁾ Since the beginning of 1959 non-convertible currencies, claims arising under payment agreements, and bilateral claims resulting from the liquidation of E.P.U. are *not* contained any longer in the monetary reserves. — ²⁾ Provisional. — ³⁾ Cumulative.

It looks as if the movement of world monetary reserves has entered upon a *new phase* since 1965. The principal contributory factors are as follows:

(1) New *gold* entering the market has ever since the beginning of 1965 been absorbed almost entirely by private demand. In 1965, of the record gold supply of almost \$ 2 billion coming from new production and Russian gold sales, only approximately \$ 250 million was left over for the re-stocking of monetary reserves in the western world. In 1966 for the first time in recent years the monetary gold holdings in the western world actually fell off by an estimated \$ 100 million. This trend, which elicited considerable comment, was not however caused by any special increase in private gold hoarding over the period under review; in 1966 this was even slightly lower than in the preceding year. Owing to the complete absence of Russian gold sales the supply of gold

Monetary gold holdings declining for the first time

to the markets in 1966 lagged considerably behind the quantity offered during the previous year. Since at the same time hardly any South African gold was offered to the London gold market because South Africa had a balance-of-payments surplus, as a result of which the South African Central Bank was able to build up its own gold holdings by approximately \$ 200 million, the gold pool of the leading central banks in 1966 had, with the aim of maintaining orderly gold markets, to put up with appreciable gold losses. This together with gold payments of almost \$ 800 million in connection with the general quota increase in the I.M.F. — which has already been mentioned — made the national gold reserves shown by the member countries of the Fund decline by almost \$ 1 billion in 1966. Since 1965 gold has practically ceased to be a source of new monetary reserves, whereas in the six years before 1965 it had on an average still contributed \$ 600 million per year to new reserves.

Dollar reserves
likewise declining

(2) By the same token, the other traditional source of reserves, *i. e.* the *dollar*, since 1965 has likewise no longer contributed to the global reserve supply. In 1966 the official dollar reserves, including claims against the United States in the form of quasi-reserves (such as Roosa Bonds), were in fact reduced by approximately \$ 1 billion. *The result is that since 1965 the two traditional reserve sources of our present monetary system have dried up.*

Reserve creation by
support operations ...

(3) The fact that the statistically shown world monetary reserves nevertheless continued to expand over these two years — admittedly at a slower rate than in most earlier years since 1960 — can be ascribed to special and non-recurring causes. For one thing, the high British drawings on the I.M.F. and, though to a considerably lower degree, also I.M.F. drawings by the United States and other countries, contributed to an increase in the claims of countries with strong currencies against the I.M.F. These “*reserve positions in the I.M.F.*” have for a number of years now customarily been looked upon as the third main element of world monetary reserves, next to gold and claims in reserve currencies. In 1966 these “*reserve positions in the I.M.F.*” increased, not only as a consequence of support loans granted to deficit countries, but also as a result of the aforementioned gold payments made in connection with the quota increases in the Fund. The second source of reserve increases over the past two years were the *claims of central banks acquired by support operations* in favour of sterling. Thus it would seem, for instance, that the increase in American foreign exchange reserves by \$ 540 million in 1966 principally reflects the support for the pound afforded by the American monetary authorities. Another non-recurrent factor in the year under review was the addition of \$ 885 million to the published British foreign exchange reserves in February 1966 from the proceeds of American securities sold by the British Government. Disregarding this entirely unique factor, the statistically shown increase in world monetary reserves in 1965 and 1966 derived solely from *special credit operations in connection with the bridging of balance-of-payments deficits*, in which context the financing of the British deficit both *via* the I.M.F. and *via* central bank credits played the major role. These credits however will have to be repaid, which means that they will then at least in part lead to the elimination of reserve assets.

... objectionable as
a permanent solution

Credit operations of the I.M.F. and the central banks are, by their very nature, geared to the temporary bridging of balance-of-payments deficits rather than to the longer-term reserve requirements of the world. While such assistance transactions result in near-reserve assets accruing to the lender, this is not their object but merely a by-product. From the outset, therefore, such credit operations should not be regarded as a permanent basis for supplying the world economy with reserves. This would also be contrary to a principle upon which all members of the Group of Ten have become agreed in their studies on possible improvements of the world monetary system¹⁾, namely, that the supply of reserves for the world must not originate in the financing of individual balance-of-payments deficits but must be geared to the global reserve requirements of the world. The present reserve system has come in for a certain amount of legitimate criticism for the fact that a large volume of reserves was created by other countries financing the American deficit. This

¹⁾ Cf. Group of Ten, Communiqué of the Ministers and Governors, and Deputies' Report, July 1966.

criticism of the creation of reserves by means of financing individual deficits must also be directed at the reserve sources responsible for the supply of reserves to the world economy in the years 1965 and 1966.

The developments in international monetary reserves in the past two years cannot in themselves be considered indicative of a shortage of international liquidity threatening world economy. They do however emphasise the need for a thorough overhaul of the present reserve system in the sense of a "contingency planning". Despite increasingly obvious deficiencies of the present system it has not yet however been found possible to arrive at full-scale agreement among the leading countries on a contingency plan for the future. The reason for this must probably not be sought primarily in differences of opinion regarding technical details. The main problem would seem to be connected with the fact that there are marked differences in views as to the *urgency* of the creation of additional reserves among the principal countries forming the Group of Ten. A glance at the preceding table outlining the developments in world monetary reserves will reveal a significant reason for this. Over the seven years between 1960 and 1966 the E.E.C. countries were able to raise their monetary reserves by no less than \$ 11.8 billion, or 10 per cent on an annual average; over the same period the two reserve currency countries lost more than \$ 6 billion in gross monetary reserves, while their net reserve position deteriorated by as much as \$ 14.5 billion. These divergent experiences in the movement of reserves inevitably influence the views held in each group on the question of shortage or surplus of reserves in the world. It is hardly surprising that countries to which for years more reserves have been accruing out of existing balance-of-payments disequilibria than are commensurate with their own requirements do not look upon the creation of reserves as a very urgent matter. The sustained balance-of-payments disequilibria between the reserve currency countries on the one hand and the principal European countries on the other, which in other respects too cast dark shadows on the world economy, have hitherto made it difficult to reach agreement on the reform of the world monetary system.

Reform of reserve system ...

... still delayed by differences of opinion as to urgency

III. Money and Credit

1. Bank liquidity

In 1966 the changes in the banks' liquidity position determined overall monetary developments to a greater extent than previously. This applies, first, to the persistent tightening of bank liquidity in the first half of 1966, which was particularly important because the free liquid reserves of the banks had declined ever since the middle of 1964, so that banks were now compelled to observe great restraint in lending, especially in the acquisition of securities. Secondly, however, the change in the financial climate as from mid-1966 was not less marked, when liquid funds again flowed to the banks, mainly from the balance-of-payments surpluses. If the average figures of the four bank-return dates of the month are taken as basis, it will be found that market factors (such as the movement in the balance of payments, changes in note and coin circulation, *etc.*) reduced bank liquidity by altogether DM 2.4 billion in the first half of the year, but expanded it by DM 3.2 billion in the latter half. This tendency to increasing liquidity has continued in the course of 1967 so far. Since the Bundesbank deliberately tolerated the growing liquidity of the banking system from mid-1966, as explained in the General Survey, the tensions on the domestic money market gradually abated and in the further course of the year the credit market as a whole was also stimulated.

Inflows of liquid funds since mid-1966 change the financial climate

The importance of foreign exchange transactions as a cause of the reversal in the trend of liquidity is shown by the fact that in the latter half of 1966 the banks received more than DM 3.6 billion of new funds from abroad, whereas in the first six months bank liquidity had been reduced

Foreign exchange transactions the principal determinant

to the extent of DM 0.9 billion, and in the year 1965 in the amount of DM 1.25 billion, by outflows of foreign exchange. The influx to the banks resulting from regular external transactions was even larger in the second half of 1966, the special payments of the Federal Government under the Foreign Exchange Offset Agreement with the United States of America having already been deducted from the amount mentioned (DM 3.6 billion)¹). Apart from foreign exchange movements, the cash transactions of the central public authorities again caused liquid funds to flow into banks during the year under review, although merely to the extent of DM 0.7 billion (against quite DM 1.1 billion in 1965). In this case again the expansive effect was concentrated in the second half of the year (DM 1.8 billion), whereas in the first six months of 1966 the cash transactions of public authorities still had resulted in outflows of liquid funds (mainly for seasonal reasons). Another factor tending to increase bank liquidity was that during 1966, no doubt chiefly because of the smaller rise in incomes, the note and coin circulation rose less than in most preceding years, in fact by DM 1.3 billion compared with DM 1.9 billion in 1965. There was no appreciable change in the proportion of note and coin circulation to households' disposable income. Calculated on a daily average, the circulation of notes and coin in 1966, just as in the previous year, amounted to about 10 per cent of disposable income.

Natural growth of minimum reserve requirement ...

As against the market-induced inflow of liquid funds to the banks in the course of 1966 there were greater minimum reserve requirements because the basis underlying the computation of the required reserve — *viz.*, the liabilities subject to the reserve obligation — continued to rise. In December 1966 the minimum reserve required of the banks (excluding the credit institutions of the Postal Administration) at DM 15.5 billion was greater by over DM 1.2 billion than a year before²). The rise accordingly was greater than in 1965 (+ DM 0.9 billion); comparison with the year 1965 is possible only subject to qualification, however, because in December 1965 the banks for the first time had been accorded temporary relief in respect of minimum reserves before the end of the year. Repetition of that measure in December 1966 did not result in any additional relief for the year considered as a whole. If the change in the minimum reserve requirement between November 1965 and November 1966 is computed, so as to eliminate the different influences emanating from the "end-of-year measures", it is found that in the year under review the growth in the requirement due to the increase in liabilities subject to the reserve obligation was only DM 1.2 billion, or DM 450 million less than in the period from November 1964 to November 1965. In part the difference results from the fact that — as will be explained below — in the second half of the year under review, for considerations of the interest obtainable, sight deposits of non-banks were to some extent transferred to time deposit accounts in respect of which the minimum reserves to be kept are not so large as for sight liabilities.

... outweighed by lowering of minimum reserves on grounds of credit policy

While the above-mentioned reduction of minimum reserve ratios for sight and time liabilities to residents by about 9 per cent in December had the same direct object as a year before, *viz.*, to avoid the temporary tightening of bank liquidity before the end of the year (with its undesirable repercussions on the external assets of credit institutions), it was of greater importance inasmuch as this relaxation was granted in a period of substantial inflows of liquidity emanating from the market, whereas at the end of 1965 bank liquidity had been much more strained. With effect from 1 January 1967, however, the lowering of reserve ratios was prolonged for an unlimited period. The fact that in January 1967 the minimum reserve requirement nevertheless increased by almost DM 0.9 billion was due to abolition of the compensation privilege in respect of minimum reserves on external liabilities, that privilege having permitted offsetting of external liabilities — in themselves liable to the maximum reserve rates fixed by law — against certain short-term external assets prior to application of the reserve ratios. In view of the credit institutions' increasing propensity to reinvest at short term on foreign money markets part of their liquidity inflows

¹) For particulars the reader may refer to the Monthly Report of the Deutsche Bundesbank for January 1967, p. 10 *et seq.*

²) With the credit institutions of the Postal Administration included, the minimum reserve requirement amounted to DM 16.3 billion at the end of 1966; in this analysis, however, the reserve required to be held by the credit institutions of the Postal Administration is left out of account for statistical reasons.

Bank Liquidity

Millions of DM

Item	1965	1966	1966			
			1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Change during period, calculated from the averages of the four weekly bank-return dates in the last month of the year or quarter						
I. Determining factors						
(1) Increase (—) or decrease (+) in note and coin circulation ¹⁾	—1,922	—1,277	+ 974	— 870	— 494	— 887
(2) Increase (—) or decrease (+) in net balances of Federal Government, <i>Länder</i> and Equalisation of Burdens Fund with Bundesbank ²⁾	+1,125	+ 690	—1,884	+ 797	+ 927	+ 850
(3) Increase (—) or decrease (+) in net balances of other non-banks with Bundesbank ²⁾	+ 127	— 135	+ 219	— 27	— 450	+ 123
(4) Increase (+) or decrease (—) in Bundesbank's net foreign exchange reserves ³⁾ and in credit institutions' short-term foreign assets ⁴⁾ among which: Bundesbank's net foreign exchange reserves ⁴⁾	—1,251	+2,782	—1,009	+ 149	+1,836	+1,806
(5) Sale (—) or repurchase (+) of mobilisation paper by Bundesbank in open-market transactions with non-banks	— 87	+ 10	+ 52	— 254	— 188	+ 400
(6) Favourable (+) or unfavourable (—) movement of items in course of settlement in the Bundesbank's payment transactions	+ 107	— 264	— 115	+ 136	— 166	— 119
(7) Other items	— 830	—1,010	— 661	+ 88	— 170	— 267
Increase (+) or decrease (—) in bank liquidity due to the above factors	—2,731	+ 796	—2,424	+ 19	+1,295	+1,906
II. Change in credit institutions' reserve balances (determined over longer periods by the minimum reserve requirement⁵⁾; increase: +, decrease: —)						
	+ 934	+1,038	+ 223	+ 464	— 150	+ 501
<i>Note:</i> Change in minimum reserve required (increase: +, decrease: —)	(+ 873)	(+1,223)	(+1,117)	(+ 397)	(+ 225)	(— 516)
III. Rise (+) or decline (—) in credit institutions' freely available liquid funds due to the factors listed above (balance of I less II)						
	—3,665	— 242	—2,647	— 445	+1,445	+1,405
IV. Credit institutions' liquidity arrangements						
(1) Acquisition (—) or resale (+) of money-market paper in open-market transactions with Bundesbank ⁷⁾	+1,870	+ 358	+ 308	+ 134	+ 130	— 214
(2) Formation (—) or repatriation (+) of short-term foreign assets ⁸⁾ by credit institutions	+ 153	— 876	— 16	+ 57	— 426	— 491
(3) Credit institutions' credit repayment to (—) or borrowing from (+) Bundesbank	+1,642	+ 760	+2,355	+ 254	—1,149	— 700
Total (1 to 3; counteritem to III)	+3,665	+ 242	+2,647	+ 445	—1,445	—1,405
<i>Note:</i>						
Liquid assets of credit institutions			Position at end of period			
Holdings of open-market paper issued by domestic public authorities	2,566	3,413	2,835	2,215	1,893	3,413
Holdings of Storage Agency bills and prime bankers' acceptances ⁹⁾	648	515	242	410	438	515
Short-term balances with foreign banks and investments in foreign money-market paper	3,634	3,517	3,725	3,867	4,443	3,517
Total millions of DM⁹⁾	6,848	7,445	6,802	6,492	6,774	7,445
per cent of total deposits⁹⁾	3.6	3.5	3.6	3.3	3.4	3.5

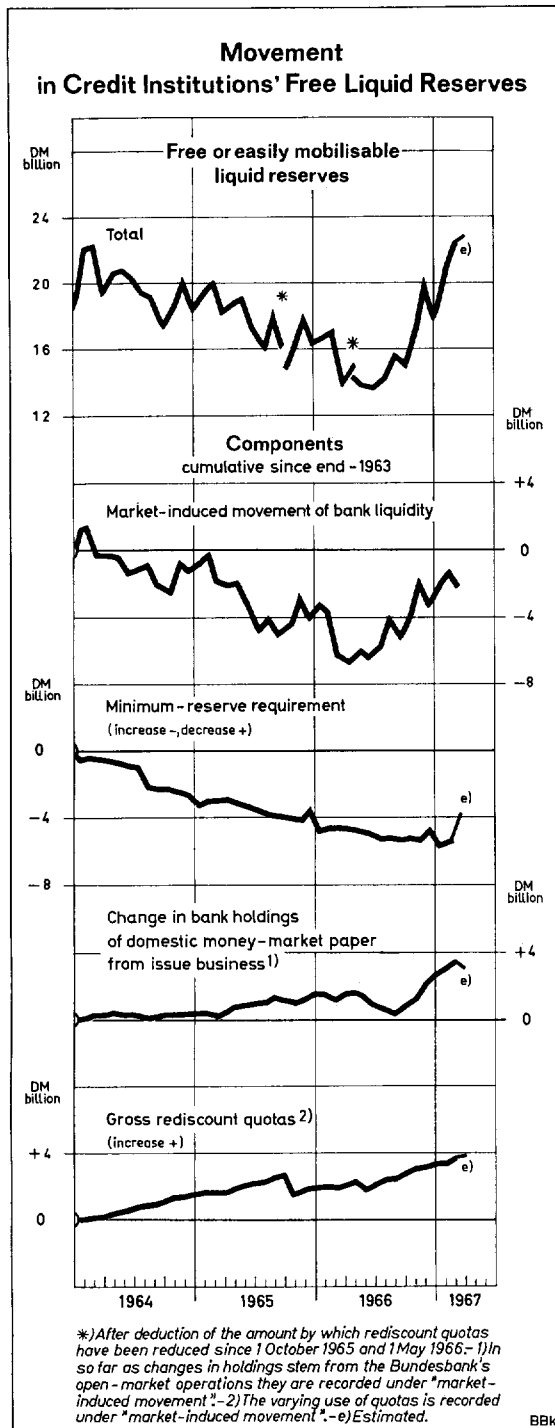
¹⁾ Including changes in credit institutions' cash holdings, which cannot be eliminated here. — ²⁾ In order to obtain the net position, only the cash advances taken in the form of book credits (but not the special credit according to Art. 20, par. 1, item 2 Bundesbank Law) have been deducted from the credit balances maintained with the Bundesbank by the authorities concerned. — ³⁾ Net balances of Federal Postal Administration, E.R.P. Special Fund, other public authorities and private depositors. — ⁴⁾ 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). — ⁵⁾ Balances with foreign banks and investments in foreign money-market paper (claims deriving from money exports). — ⁶⁾ The differences between changes in the required minimum reserve and changes in Central Bank balances 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 on the basis of the four weekly bank-return dates in accordance with the design of the table. The differences also reflect the tendency — almost exclusively due to technical reasons — of the banks' reserves to exceed the minimum required. — ⁷⁾ Only transactions concerning "mobilisation paper" and "other money-market paper" in so far as they affect the Bundesbank's holdings of such paper. — ⁸⁾ Excluding domestic interbank deposits. — ⁹⁾ Partly estimated.

for reasons of the greater interest yield obtainable, it was no longer appropriate to give money exports an additional support such as had so far been provided by the compensation privilege. For the months of February and March 1967 the Bundesbank decided on further substantial reduction of minimum reserve requirements. With effect from February the maximum rates for external liabilities in force up to that time were reduced to the much lower level of the rates applying to domestic liabilities. After cancellation of the compensation privilege there was all the less reason for maintaining the maximum rates since the increasing liquidity of the domestic banking system did not give any cause to fear that monies would now be taken up abroad to a greater extent than before. As shown by the final figures now to hand, thanks to this arrangement the minimum reserve requirement has been lowered by between DM 300 and 400 million. Finally, all minimum reserve ratios were reduced by another 10 per cent with effect from March. This brought down the minimum reserve requirement by a further DM 1.6 billion (excluding the credit institutions of the Postal Administration, for which the decline probably amounted to almost DM 100 million). The overall effect of the changes in the minimum reserve since November 1966 (computed on the assumption of liabilities remaining the same) can be estimated at DM 2.2 or 2.3 billion.

In the first six months of the year, the immobilisation of funds by larger minimum reserves had intensified the restrictive effect of the market-induced liquidity drains, causing the aggregate amount of freely available liquid funds of the credit institutions to decline by well over DM 3 billion (assuming the changes in the minimum reserve requirement to be identical with those in the central bank balances of banks on the average of the four bank-return dates in the month). In the second half of 1966 the minimum reserve requirement (again measured by the credit institutions' central bank balances) hardly rose any further, so that the influx of liquidity benefited the free liquid reserves almost in full, *viz.*, to the extent of DM 2.8 billion. In the first three months of 1967 the increase in liquidity due to market developments and to the release of minimum reserves replenished the disposable funds of banks by another DM 2.4 billion.

As usual, the trend in liquidity during the year under review was paralleled by the credit institutions' recourse to the Bundesbank. Total liabilities on rediscounts and advances against securities increased by DM 2.6 billion in the first half of the year, only to decline by DM 1.8 billion in the second. Whereas recourse to central bank credit in the first six months of 1966 was largely in line with the overall tightening of liquidity, the reduction in the latter half of the year was far from reaching the extent of the liquidity increase in that period. This divergence is explained by the fact that the banks in the first half of 1966 largely spared their balances with foreign banks and their investments in foreign money-market paper, whereas in the following phase of increasing liquidity they were inclined further to build up their external assets even though in doing so they had to accept continuance of relatively large indebtedness to the Bundesbank. In the latter half of the year, the short-term external assets of the 90 institutions reporting weekly on their foreign exchange position rose by over DM 900 million computed on the average of the weekly bank-return dates. The great interest in "money exports" evident from this movement was due in the first place to the saving of minimum reserves which it was possible to attain, until the end of 1966, by keeping short-term external assets. In many cases the overall return on monetary assets abroad, consisting of the interest yield, the saving of minimum reserves and the cost (discount) or earnings (premium) under forward contracts, was much greater during this period than the earnings from comparable investments at home or the decline in expenditure resulting from reduction of domestic central bank borrowing. However, the tendency towards "exporting money" continued in undiminished strength when, as from 1 January 1967, the compensation facility in respect of minimum reserves for external liabilities was cancelled, since the lowering of money-market rates at home expanded the yield differential in relation to foreign countries. At the end of March 1967, at the above-mentioned representative institutions the assets in respect of money exports exceeded by approximately DM 300 million their level at end-November last year. They were thus greater by DM 1.7 billion than a year before.

Reduction of total recourse to Bundesbank in the second half of 1966 falling short of the formation of new external assets



In the first months of 1966 the credit institutions also procured additional liquid funds through open-market transactions with the Bundesbank, chiefly by selling prime bankers' acceptances (through the Privatdiskont-AG) to the Bundesbank. The Bundesbank therefore saw fit to limit the amount of such paper it was prepared to take as from the beginning of May 1966 in order to prevent indirect evasion, in this way, of the restriction of central bank credit established through the rediscount quotas. On the whole however procurement of funds through open-market operations during the first half of 1966 remained small, compared with the rise in rediscounts and advances on securities granted by the Bundesbank. Between February and April 1966 credit institutions on balance acquired mobilisation paper, so that the expansive effect of open-market transactions in "other" money-market paper (chiefly prime bankers' acceptances and Storage Agency bills) was in part offset. In the further course of 1966 the Bundesbank's open-market operations in the main contributed towards evening out the monthly fluctuations in liquidity, without any significant effect in the direction of increasing or immobilising liquidity resulting therefrom. Although at times — especially in the first months of 1967 — the demand for money-market paper was substantial, the Bundesbank by repeatedly lowering its selling rates (on 30 December, on 6, 17, and 20 January and 17 February, and again on 14 April), and by temporarily discontinuing the sale of mobilisation paper, endeavoured to prevent the effect on the domestic money market of the inflows of liquid funds to the banks from being neutralised through open-market operations.

Open-market transactions chiefly compensated short-term market fluctuations

Whereas in the first six months of 1966 the banks' free liquid reserves not only declined as a result of the market-induced changes in liquidity and the increase in the minimum

Free liquid reserves of banks greatly increased since mid-1966

reserve but in addition were reduced by the fact that as from 1 May 1966 rediscount facilities were diminished by the curbing of the standard rediscount quotas, as from the middle of 1966 they increased more rapidly than would have been in line with the current inflow of liquid funds and the release of minimum reserves. That is because in the latter months the banks in large amount purchased newly issued Treasury bills and non-interest Treasury bonds of the Federal Government and its special funds, thereby acquiring additional easily mobilisable assets because such paper is included in the money-market regulation by the Bundesbank. The free liquid reserves of the banks

“Liquidity Ratios” of the Credit Institutions

Position at end of year or month	Liquid reserves ¹⁾ in per cent of		Liquid assets ²⁾ in per cent of	
	total	not long-term ³⁾	total	not long-term ³⁾
	deposits ⁴⁾		deposits ⁴⁾	
1963	12.5	19.7	5.5	8.7
1964	11.0	17.7	4.3	6.9
1965				
March	10.8	17.7	5.1	8.3
June	9.9	16.2	4.3	7.1
September	8.4 ⁵⁾	13.9 ⁵⁾	4.0	6.6
December	8.7	14.3	3.6	5.9
1966				
February	9.0	15.1	4.2	7.0
March	7.5	12.5	3.6	6.0
June	7.1 ⁶⁾	11.8 ⁶⁾	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

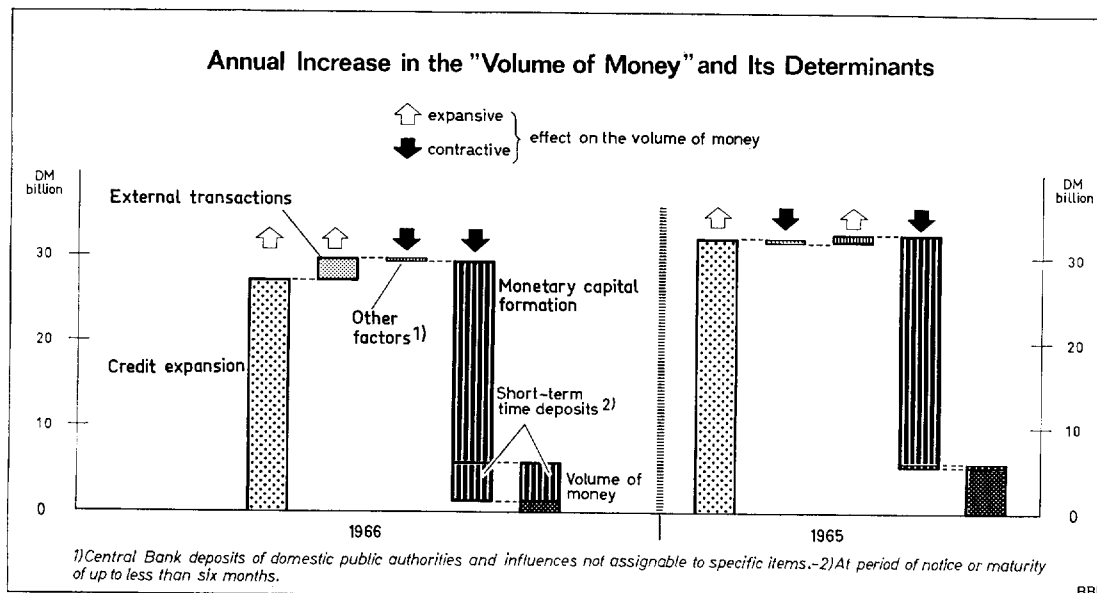
¹⁾ Bank holdings of domestic Treasury bills, non-interest Treasury bonds (as far as included in the money-market regulation by the Deutsche Bundesbank), Storage Agency bills and prime bankers' acceptances, banks' short-term credit balances and money-market investments abroad, as well as unused rediscount quotas. — ²⁾ Liquid reserves less unused rediscount quotas. — ³⁾ 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. — ⁴⁾ Not including domestic interbank deposits. — ⁵⁾ Calculated with due allowance for the reduction of rediscount quotas with effect from 1 October 1965. — ⁶⁾ After reduction of rediscount quotas with effect from 1 May 1966.

accordingly rose over their low point, reached at the end of June 1966, by no less than DM 4.5 billion by end-December 1966 and by as much as approximately DM 9 billion by the end of March 1967. Thus they already exceeded their all-time peak attained before introduction of the restrictive policy in the first half of 1964. Even taking account of the fact that the liabilities of banks have since grown substantially, there still remains an appreciable increase in the liquidity ratios. At the end of February 1967 the free liquid reserves, compared with total deposits, again were as large as in the summer of 1965.

2. Extent and causes of monetary expansion

Slower
credit expansion ...

It is typical of the time-lag, observed in every phase of the business cycle, between the change in the liquidity position of the banks and hence their credit creation potential, on the one hand, and the actual use of this potential on the other, that credit expansion in the domestic banking system was smaller in 1966 than in the preceding year. Not until the end of 1966 was there any reaction — especially as regards acquisition of securities — to the increase in bank liquidity since mid-1966. Over the year as a whole, lending by the credit institutions and the Bundesbank to domestic non-banks increased by a total of DM 27.2 billion, or about DM 5.0 billion less than in 1965. At the same time the granting of loans by the credit institutions excluding the Bundesbank — and such lending alone can be related to the movement in bank liquidity — was even more on the decline. At not quite DM 26.2 billion, the expansion of such lending in the year under review was smaller by DM 6.5 billion than in 1965. At the end of 1966 the banks' total lending exceeded the corresponding figure for the previous year by over 9 per cent compared with quite 13 per cent a year before; in order to prevent any misunderstanding it should however be mentioned that the figures include credits of all maturities, also mortgage loans and other long-term loans. The slowing down of the credit expansion was connected in many ways with the cyclical relaxation. On the one hand, the course of economic activity in 1966, on its part, was determined to a great extent by the monetary tendencies. As described in the chapter on Economic Activity, in 1966 investments by enterprises and public authorities were curtailed — not infrequently, especially in the government sector, because of credit having become scarce and expensive. Inventory investments likewise were considerably restricted on an overall view, partly owing



no doubt to the endeavours made towards reducing expenditure on borrowing. On the other hand the slowing down in credit expansion already reflected the cyclical decline being under way, which reduced the borrowing requirements after investment planning had already been revised downwards in previous periods.

The connection between the weakening of credit expansion and the domestic trend of economic activity is particularly evident as regards the change which showed up in external relations and which by itself had substantial repercussions on overall monetary developments. In fact, whereas the cyclical decline led to considerable improvement in foreign trade and finally in all current transactions with foreign countries, the balance-of-payments surplus thus achieved contributed to renewed "substitution of sources of money": in contrast with the movement in 1965, creation of money within the country now again took place also *via* balance-of payments surpluses, *i. e.*, by acquisition of claims on foreign countries on the part of the banks and the Bundesbank. The "net claim of the Bundesbank and the other banks on foreign countries"¹⁾ increased by approximately DM 1.75 billion in the latter half of the year, after having indicated a much smaller inflow (+ DM 0.8 billion) of funds from abroad for the first six months of 1966, and an outflow of roughly DM 2.2 billion for the last three quarters of 1965²⁾. Accordingly, the credit expansion at banks and the net effect of external transactions taken together caused the domestic volume of money to expand by DM 28.7 billion during the year under review, compared with almost DM 32.5 billion in 1965. The braking effect of monetary policy through restricting domestic lending has thus been mitigated, although by no means compensated, by the improvement of the balance of payments.

... not fully offset by balance-of-payments surpluses

The decline in the expansion of credit was all the more significant as monetary capital formation with banks, which constitutes the most important counterbalance to the expansive effects of lending, at DM 28.6 billion in the past year was slightly greater than in 1965 (DM 27.3 billion). However, as will be shown in detail below, this is primarily due to the accelerated growth of short-term time deposits, which was greatly stimulated by the freeing of creditor interest rates for large time deposits with maturities of three months and more and in part was achieved at the expense

Increased formation of monetary capital with banks

¹⁾ This balance comprises all net claims of the banks and the Bundesbank on foreign countries; it differs from the foreign exchange position of the banks and the Bundesbank chiefly by the fact that it also includes the medium and long-term external items, such as for example the development aid loans extended by the Reconstruction Loan Corporation.

²⁾ As against this, the "extended balance of foreign exchange", in which the changes in the Bundesbank's monetary reserves, in the credit institutions' net foreign exchange position, in the reserve position with I.M.F. and in some other transactions are combined (cf. the tabulation on p. 96 of this Report), improved by DM 1.8 billion in 1966 following deterioration by DM 1.1 billion in 1965 and a comparatively small surplus (+ 376 million) in 1964.

*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, total	1966	+27,215	+ 5,772	+ 8,095	+ 5,215	+ 8,133	± 2,314 p)
	1965	+32,233	+ 5,134	+10,224	+ 6,708	+10,167	± 2,623
(1) Deutsche Bundesbank ¹⁾	1966	+ 1,038	— 1,104	+ 259	— 12	+ 1,895	— 970 p)
	1965	— 449	— 1,647	+ 478	— 307	+ 1,027	— 770
(2) Credit institutions (not including Bundesbank) ^{2) 3)}	1966	+26,177	+ 6,876	+ 7,836	+ 5,227	+ 6,238	± 3,284 p)
	1965	+32,682	+ 6,781	+ 9,746	+ 7,015	+ 9,140	± 3,393
Credit to domestic business enterprises and individuals	1966	+19,081	+ 5,189	+ 7,327	+ 3,728	+ 2,837	— 609 p)
	1965	+24,649	+ 4,487	+ 7,731	+ 5,970	+ 6,461	± 1,926
Credit to German public authorities	1966	+ 6,583	+ 1,551	+ 352	+ 1,647	+ 3,033	± 2,871 p)
	1965	+ 7,032	± 1,697	+ 1,033	+ 1,924	+ 2,378	± 1,447
Domestic securities (except bank bonds) and syndicate participations ³⁾	1966	+ 513	+ 136	+ 157	— 148	+ 368	± 1,022 p)
	1965	+ 1,001	+ 597	+ 982	— 879	+ 301	+ 20
II. Formation of monetary capital at credit institutions from domestic sources, total ^{4) 5)}	1966	+28,593	+ 5,728	+ 5,248	+ 6,754	+10,863	± 6,008 p)
	1965	+27,297	+ 7,324	+ 5,438	+ 3,760	+10,775	± 5,165
among which: Short-term time deposits ⁵⁾	1966	+ 4,755	— 438	+ 231	+ 2,213	+ 2,749	± 1,052 p)
	1965	+ 101	— 778	— 471	— 287	+ 1,637	± 231
III. Excess of lending or of monetary capital formation (I less II)	1966	— 1,378	+ 44	+ 2,847	— 1,539	— 2,730	— 3,694 p)
	1965	+ 4,936	— 2,190	+ 4,786	+ 2,948	— 608	— 2,542
IV. Net claim of Bundesbank and other banks on foreign countries ⁶⁾	1966	+ 2,518	+ 348	+ 423	+ 1,443	+ 304	+ 3,332 p)
	1965	— 195	+ 1,997	— 1,051	— 797	— 344	± 1,046
V. Other influences (not assignable to specific items)	1966	— 119	— 2,227	— 734	— 1,865	+ 4,707	— 2,071 p)
	1965	— 243	— 1,828	— 163	— 1,219	+ 2,967	— 1,488
VI. Central Bank deposits of German public authorities (decrease: +)	1966	+ 55	— 2,396	+ 1,002	+ 1,050	+ 399	— 719 p)
	1965	+ 1,049	— 682	+ 304	— 719	+ 2,146	— 860
VII. Note and coin circulation ⁷⁾ and sight deposits of domestic non-banks except German public authorities' Central Bank deposits (III to VI, net) of which:	1966	+ 1,076	— 4,231	+ 3,538	— 911	+ 2,680	— 3,152 p)
	1965	+ 5,547	— 2,703	+ 3,876	+ 213	+ 4,161	— 3,844
Note and coin circulation ⁷⁾	1966	+ 1,202	+ 231	+ 680	+ 633	— 342	— 803 p)
	1965	+ 1,752	+ 440	+ 877	+ 332	+ 103	— 38
Sight deposits	1966	— 126	— 4,462	+ 2,858	— 1,544	+ 3,022	— 2,349 p)
	1965	+ 3,795	— 3,143	+ 2,999	— 119	+ 4,058	— 3,806
Note:							
	“Volume of money” including short-term time deposits ⁵⁾	1966	+ 5,831	— 4,669	+ 3,769	+ 1,302	+ 5,429	— 2,100 p)
	1965	+ 5,648	— 3,481	+ 3,405	— 74	+ 5,798	— 3,613

*) The data in this survey are based on the “Consolidated Condition Statement for the Credit Institutions including the Deutsche Bundesbank” (cf. Table I 1 in the Statistical Annex); statistical changes have been eliminated. — ¹⁾ 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. — ²⁾ For further breakdown see Table “Lending of the Monthly Reporting Credit Institutions to Non-Banks”. — ³⁾ For December 1965 and first half of 1966, after elimination of the changes resulting from depreciation on bond holdings. — ⁴⁾ For further breakdown see Table “Liabilities of the Monthly Reporting Credit Institutions to Non-Banks”. — ⁵⁾ Time deposits with period of notice or period to maturity of less than 6 months. — ⁶⁾ Comprising short, medium and long-term items including I.B.R.D. bonds taken by Bundesbank. — ⁷⁾ Excluding credit institutions' cash holdings, but including DM notes and coin held abroad. — p) Provisional.

of sight deposits (that is, components of the “volume of money”). Because of their “near-money” character, short-term time deposits can be counted as items of monetary capital formation only subject to qualification; indeed, quite generally the delimitation of monetary capital formation against the “volume of money” is very difficult and not satisfactory in the last analysis. If short-term time deposits were left out of account — and this would certainly be more correct in analysing the movement in the period under review, although it would involve a certain exaggeration in the opposite direction — the formation of monetary capital in the year under report would work out at only DM 23.8 billion compared with DM 27.2 billion in 1965.

These difficulties of definition suggest that, in contrast with general practice¹⁾, short-term time deposits should be added to the “volume of money”, at least in the form of an alternative calculation — firstly because of the above-mentioned quasi-money nature of these funds, secondly, in

¹⁾ Normally the “volume of money” is considered to include only the note and coin circulation outside banks and the sight deposits of domestic non-banks excluding central bank deposits of public authorities.

Growth rate of the “volume of money” slowing down

order to eliminate as far as possible the exceptional shifts from sight deposits to time deposits which occurred in the latter half of 1966 owing to institutional changes. In the more comprehensive definition (that is to say, including short-term time deposits with periods to maturity or periods of notice of less than six months) the "volume of money" in the year under review increased by DM 5.8 billion and hence, in absolute terms, somewhat more than in 1965 (+ DM 5.6 billion). In percentage terms, however, at the end of December 1966 it exceeded the corresponding level for the previous year by only 6.6 per cent compared with 6.9 per cent a year earlier. But this certainly appears to put the growth of actual money holdings somewhat too high, since an unknown part of the short-term time deposits probably is rather in the nature of savings. On the other hand, without the short-term time deposits the "volume of money" would be shown even less correctly. If these funds were left out of account, the growth of the "volume of money" in 1966 would amount to only just over DM 1 billion or 1.4 per cent; this would give a very exaggerated reflection of the damping of monetary expansion in the year under review. Accordingly, the figures stated for the two definitions can indicate only the upper and lower limits of the expansion in non-banks' liquidity, although in any case they show a slackening of monetary expansion.

In the first two months of 1967, on the other hand, the monetary expansion clearly gained momentum. The inflow of money from abroad (again measured by the improvement in the "net claim of the Bundesbank and the other banks on foreign countries") in January and February 1967, at altogether DM 3.3 billion, exceeded the corresponding figure for the previous year by more than twice the initial amount, and credit expansion at banks (likewise at about DM 3.3 billion) approximately reattained the corresponding level a year before, whereas in the preceding months it had mostly been much smaller. On the other hand, it is true, monetary capital formation at banks and other contractive factors influencing the "volume of money" were also particularly large for seasonal reasons, so that the expansive factors mentioned were still outweighed for the time being. The resulting temporary decline in money holdings was relatively slight, however. Without short-term time deposits the "volume of money" between end-December last year and end-February this year declined by only just on DM 3.2 billion net, compared with over DM 3.8 billion in the same period a year before; and with those "quasi-money holdings" included it actually declined by only DM 2.1 billion as against DM 3.6 billion in the comparable period of the previous year. As a result, the "volume of money" in the narrower sense of the term at the end of February 1967 already exceeded by 2.4 per cent the previous year's comparable level (as against 1.4 per cent at the end of December 1966, as mentioned before), and with short-term time deposits included it was greater than the comparable figure a year before by as much as 8.7 per cent at the end of February 1967 (compared with 6.6 per cent at the end of December 1966).

Marked tendencies to relaxation in monetary movements since the beginning of 1967

3. Special trends in lending business

In the year here considered, credits granted by the Bundesbank to public authorities (including all claims in respect of special transactions) increased by over DM 1 billion, whereas in 1965 they had been reduced by almost half a billion DM. The main reason for the vigorous rise of Bundesbank credits during 1966 was that more funds were placed at the disposal of the Federal Government for its participation in international institutions (+ DM 740 million). The Bundesbank moreover acquired DM 156 million of claims of the Bank for International Settlements on the Federal Government (reduced by the end of the year to DM 125 million by a redemption payment, it is true) as well as the remaining claims of the U.S.A. on the Federal Government resulting from post-war economic aid and amounting to approximately DM 0.8 billion. On the other hand the Federal Government made the redemptions falling due on previous acquisitions of such claims and on the Bank's claims in respect of alteration of the exchange parity (the funds needed for the latter purpose being made available from the Bundesbank's profits), so that on balance such credits increased by only DM 176 million. The cash advances granted by the Bundesbank to public

Relatively large credits granted by Bundesbank to public authorities

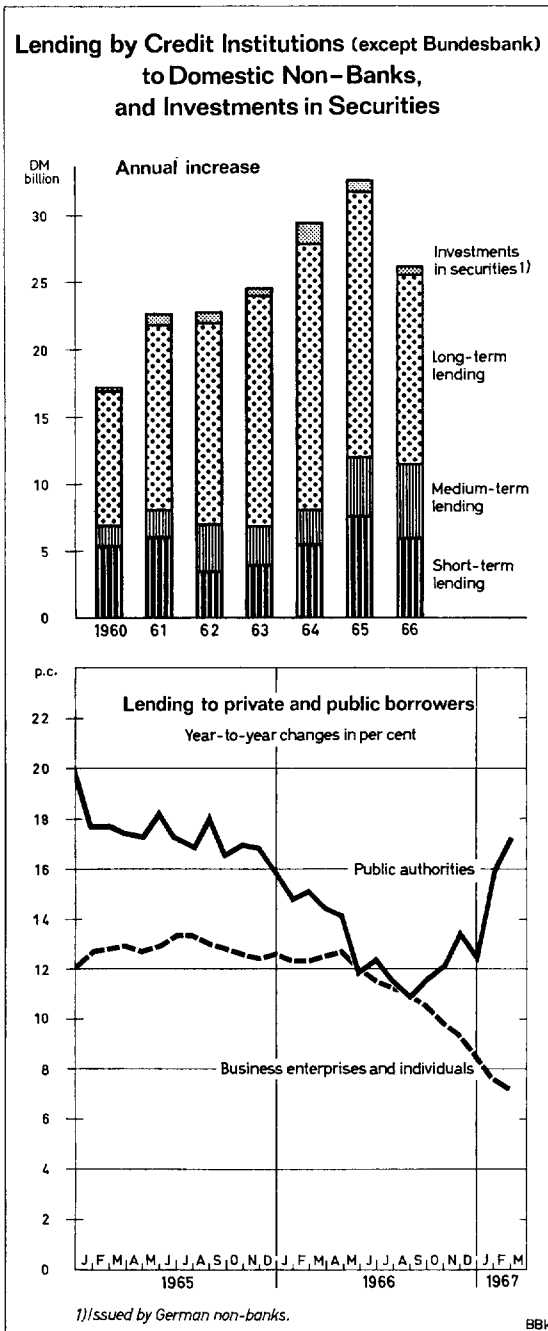
authorities in the form of book credit actually were lower by some DM 240 million at the end of 1966 than a year previously (although on the average of the year they were used to a great extent), the reason being that towards the end of the year the Federal Government procured substantial money-market funds and accordingly at end-1966 needed less book credit than a year before. On the other hand the *Länder*, on account of the progressing exhaustion of their cash reserves, had increased recourse to Bundesbank credit.

Two tendencies were especially characteristic in 1966 of the movement in the overall lending of the monthly reporting credit institutions to domestic non-banks (including the credit granted indirectly by acquisition of securities): firstly, the continuing slackening of growth as from the second quarter, and secondly the pronounced scissor movement apparent towards the end of the year between the particularly small lending to the private sector of the economy, on the one hand, and the obvious revival of public authorities' demand for credit on the other; this tendency continued in even more pointed form in the first months of 1967. Lending to domestic enterprises and individuals (including acquisition of securities issued by enterprises) rose by DM 19.4 billion in the year under review against DM 25.3 billion in 1965. Whereas in the first quarter of 1966 it had still increased at a greater rate than in the same period of the previous year, in the subsequent quarters the growth fell increasingly short of the previous year's figures; in the fourth quarter of 1966 it amounted to only just on DM 3.1 billion, thus being not even half as much as a year before (DM 6.8 billion). In January and February 1967, too, the banks' credit business with "private" customers was exceptionally weak. This development was in line with the reduction of investments in the private sector of the economy, and also — as mentioned before — with rising external surpluses, which to some extent enabled enterprises to do without additional borrowing.

Trade and industry's demand for short-term bank credit, in particular, appears to have declined in the course of the year; in fact, short-term bank lending to enterprises and individuals practically stagnated since mid-1966, whereas in the latter half of 1965 it had increased by quite DM 2.3 billion. In the first half of 1966, too, it had still grown by DM 5.1 billion, which is rather slightly more than usual for the season. In the further course of 1966 and in the first few months of 1967 (when short-term lending to enterprises and individuals showed more than seasonal decline) one important factor appears to have been that in this period inventory investments no doubt further decreased

Considerable weakening of enterprises' and individuals' demand for credit ...

... in particular, small demand for short-term credit



for cyclical reasons; in many fields there would in fact seem to have been reduction of stocks. The slowing down in the growth of medium and long-term loans to enterprises and individuals also was very marked, however. These loans (running for six months and more) in 1966 increased by only just on DM 14.0 billion compared with DM 17.3 billion in 1965. Here again the weakening first appeared in the second quarter of 1966 when the cost of credit had once more greatly risen in

Lending and Security Holdings¹⁾ at Banking Groups
Millions of DM

Banking group	Increase (+), decrease (—) during year						Amount outstanding at end of 1966
	1964		1965		1966		
	DM mn	p.c.*)	DM mn	p.c.*)	DM mn	p.c.*)	
Commercial banks	+ 6,310	+ 11.1	+ 7,103	+ 11.2	+ 5,746	+ 8.2	76,115
Big banks	(+ 2,410)	(+ 10.1)	(+ 2,385)	(+ 9.1)	(+ 2,842)	(+ 10.0)	(31,392)
State, regional and local banks	(+ 3,117)	(+ 12.3)	(+ 3,466)	(+ 12.2)	(+ 2,211)	(+ 6.9)	(34,148)
Private bankers	(+ 428)	(+ 7.4)	(+ 733)	(+ 11.9)	(+ 447)	(+ 6.5)	(7,359)
Specialised commercial banks	(+ 355)	(+ 16.7)	(+ 519)	(+ 20.9)	(+ 246)	(+ 8.3)	(3,216)
Savings bank sector	+11,588	+ 14.5	+14,080	+ 15.4	+10,978	+ 10.4	116,516
Central giro institutions	(+ 3,944)	(+ 13.9)	(+ 5,165)	(+ 16.0)	(+ 3,466)	(+ 9.2)	(40,978)
Savings banks	(+ 7,644)	(+ 14.9)	(+ 8,915)	(+ 15.1)	(+ 7,512)	(+ 11.0)	(75,538)
Credit cooperative sector (Schulze-Delitzsch)	+ 1,377	+ 15.0	+ 1,863	+ 17.7	+ 1,521	+ 12.3	13,914
Central institutions of credit cooperatives (Schulze-Delitzsch)	(+ 54)	(+ 27.7)	(+ 29)	(+ 11.6)	(+ 85)	(+ 30.6)	(363)
Credit cooperatives (Schulze-Delitzsch)	(+ 1,323)	(+ 14.8)	(+ 1,834)	(+ 17.8)	(+ 1,436)	(+ 11.9)	(13,551)
Credit cooperative sector (Raiffeisen)	+ 1,176	+ 16.1	+ 1,427	+ 16.8	+ 1,291	+ 13.0	11,206
Central institutions of credit cooperatives (Raiffeisen)	(+ 122)	(+ 8.3)	(+ 98)	(+ 6.2)	(+ 192)	(+ 11.4)	(1,880)
Credit cooperatives (Raiffeisen)	(+ 1,054)	(+ 18.0)	(+ 1,329)	(+ 19.3)	(+ 1,099)	(+ 13.4)	(9,326)
Private and public mortgage banks	+ 6,845	+ 16.8	+ 5,979	+ 12.6	+ 4,311	+ 8.1	55,379
Private mortgage banks	(+ 4,025)	(+ 20.1)	(+ 3,194)	(+ 13.3)	(+ 2,478)	(+ 9.1)	(29,891)
Public mortgage banks	(+ 2,820)	(+ 13.6)	(+ 2,785)	(+ 11.9)	(+ 1,833)	(+ 7.0)	(25,488)
Credit institutions with special functions	+ 2,457	+ 14.2	+ 1,898	+ 9.6	+ 2,587	+ 12.0	26,823
Instalment credit institutions	+ 243	+ 5.0	+ 292	+ 5.8	+ 250	+ 4.7	5,611
Postal Cheque and Postal Savings Bank offices	+ 488	+ 13.7	+ 1,241	+ 30.6	+ 562	+ 10.6	5,853
All banking groups	+30,484	+ 13.9	+33,883	+ 13.5	+27,246	+ 9.6	311,417

*) Increase in per cent of total amount at end of preceding year. — ¹⁾ Short, medium and long-term credits to domestic and foreign business enterprises, individuals and public authorities (including holdings of domestic Treasury bills and non-interest Treasury bonds, but excluding mobilisation paper); holdings of domestic securities and syndicate participations except bank bonds.

connection with the raising of the central bank discount rate, the considerable tightening of liquidity and the unproductiveness of the bond market. The demand for private housing loans in particular appears to have declined very much in these circumstances, as in housing the burden of interest cost is particularly heavy and moreover government loans at reduced rates of interest, as well as official interest and redemption subsidies, were restricted substantially.

As indicated, the movement in banks' lending to public authorities took a different course. Admittedly, in 1966 these loans (also those granted by acquiring securities) as a whole rose less than in the previous year, in fact by DM 6.6 billion compared with DM 7.1 billion in 1965. The slackening in public authorities' demand for credit was much smaller in percentage terms than that in the demand of private borrowers, however; moreover, it was confined to the first three quarters of 1966. In the last quarter of 1966 total bank lending to public authorities, at about DM 3.2 billion, increased roughly twice as much as in the third quarter of 1966 and by over DM 0.8 billion or one-third more than in the same period of the previous year. In January and February 1967 the increase in these loans continued to intensify appreciably; it was three times as much as the comparable amount for the previous year.

In this context a dominant role was played by the placing of Treasury bills and non-interest Treasury bonds and — in January 1967 — of public authorities' medium-term notes (*Kassenobligationen*) in the banking system, that is to say the placing of shorter-term instruments of

Gradual increase in public authorities' borrowing ...

... at first chiefly by placing shorter-term paper with banks ...

Lending of the Monthly Reporting Credit Institutions to Non-Banks

Millions of DM

Item	Yearly figures				Quarterly figures				
	1963	1964	1965	1966	Year	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Increase (+) or decrease (—)									
I. Lending (including acquisition of securities) to domestic non-banks, total	+24,603	+29,394	+32,682	+26,177	1966 1965	+6,876 +6,781	+7,836 +9,746	+5,227 +7,015	+6,238 +9,140
(1) Short-term lending, total	+ 3,989	+ 5,616	+ 7,650	+ 6,037	1966 1965	+1,861 +1,667	+2,929 +3,379	+ 153 + 651	+1,094 +1,953
(a) to business enterprises and individuals	+ 3,533	+ 4,956	+ 7,327	+ 5,103	1966 1965	+1,703 +1,530	+3,415 +3,456	— 57 + 556	+ 42 +1,785
(b) to public authorities	+ 456	+ 660	+ 323	+ 934	1966 1965	+ 158 + 137	— 486 — 77	+ 210 + 95	+1,052 + 168
among which: Holdings of domestic Treasury bills and non-interest Treasury bonds (without mobilisation paper)	(+ 98)	(— 126)	(+ 866)	(+ 867)	1966 1965	(+ 42) (+ 428)	(— 481) (— 26)	(+ 300) (+ 325)	(+1,006) (+ 139)
(2) Medium-term lending, total	+ 2,564	+ 2,169	+ 4,264	+ 5,296	1966 1965	+1,352 + 177	+1,609 +1,277	+1,285 +1,621	+1,050 +1,189
(a) to business enterprises and individuals	+ 2,474	+ 1,762	+ 3,362	+ 3,716	1966 1965	+ 955 + 16	+1,441 +1,165	+ 939 +1,371	+ 381 + 810
(b) to public authorities	+ 90	+ 407	+ 902	+ 1,580	1966 1965	+ 397 + 161	+ 168 + 112	+ 346 + 250	+ 669 + 379
(3) Long-term lending, total	+17,184	+19,808	+19,568	+14,127	1966 1965	+3,429 +4,261	+3,099 +4,058	+3,885 +5,572	+3,714 +5,677
(a) to business enterprises and individuals	+13,255	+14,673	+13,960	+10,262	1966 1965	+2,531 +2,941	+2,471 +3,110	+2,846 +4,043	+2,414 +3,866
(b) to public authorities	+ 3,929	+ 5,135	+ 5,608	+ 3,865	1966 1965	+ 898 +1,320	+ 628 + 948	+1,039 +1,529	+1,300 +1,811
(4) Covering claims	+ 239	+ 294	+ 199	+ 204	1966 1965	+ 98 + 79	+ 42 + 50	+ 52 + 50	+ 12 + 20
(5) Holdings of domestic securities and syndicate participations (except bank bonds) ¹⁾	+ 627	+ 1,507	+ 1,001	+ 513	1966 1965	+ 136 + 597	+ 157 + 982	— 148 — 879	+ 368 + 301
II. Lending (including acquisition of securities) to foreign non-banks, total	+ 1,353	+ 1,454	+ 1,517	+ 801	1966 1965	+ 21 +1,157	+ 186 — 82	+ 352 — 277	+ 242 + 719
(1) Short-term lending, total	+ 110	+ 118	+ 209	— 676	1966 1965	— 409 + 681	— 70 — 353	+ 44 — 512	— 241 + 393
among which: Money-market paper of foreign public authorities	(+ 117)	(+ 18)	(— 41)	(— 586)	1966 1965	(— 380) (+ 670)	(— 56) (— 377)	(+ 107) (— 520)	(— 257) (+ 186)
(2) Medium-term lending	— 1	— 66	— 53	+ 8	1966 1965	— 11 — 40	— 64 — 17	+ 45 + 11	+ 38 — 7
among which: to foreign public authorities	(— 38)	(— 119)	(— 72)	(— 46)	1966 1965	(— 23) (— 72)	(— 7) (— 43)	(— 2) (— 0)	(— 14) (+ 43)
(3) Long-term lending	+ 1,160	+ 1,351	+ 1,258	+ 1,513	1966 1965	+ 386 + 291	+ 305 + 359	+ 344 + 284	+ 478 + 324
among which: to foreign public authorities	(+ 731)	(+ 1,065)	(+ 858)	(+ 1,010)	1966 1965	(+ 216) (+ 201)	(+ 216) (+ 215)	(+ 204) (+ 215)	(+ 374) (+ 227)
(4) Holdings of foreign securities and syndicate participations	+ 84	+ 51	+ 103	— 44	1966 1965	+ 55 + 225	+ 15 — 71	— 81 — 60	— 33 + 9
III. Lending (including acquisition of securities) to domestic and foreign non-banks, total (sum total of respective items under I and II)	+25,956	+30,848	+34,199	+26,978	1966 1965	+6,897 +7,938	+8,022 +9,664	+5,579 +6,738	+6,480 +9,859
(1) Short-term lending	+ 4,099	+ 5,734	+ 7,859	+ 5,361	1966 1965	+1,452 +2,348	+2,859 +3,026	+ 197 + 139	+ 853 +2,346
(2) Medium-term lending	+ 2,563	+ 2,103	+ 4,211	+ 5,304	1966 1965	+1,341 + 137	+1,545 +1,260	+1,330 +1,632	+1,088 +1,182
(3) Long-term lending	+18,344	+21,159	+20,826	+15,640	1966 1965	+3,815 +4,552	+3,404 +4,417	+4,229 +5,856	+4,192 +6,001
(4) Covering claims	+ 239	+ 294	+ 199	+ 204	1966 1965	+ 98 + 79	+ 42 + 50	+ 52 + 50	+ 12 + 20
(5) Holdings of securities and syndicate participations (except domestic bank bonds)	+ 711	+ 1,558	+ 1,104	+ 469	1966 1965	+ 191 + 822	+ 172 + 911	— 229 — 939	+ 335 + 310

¹⁾ 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.

indebtedness serving to finance government expenditure, not least expenditure of the Federal Government on foreign exchange offset payments to the United States of America. Between August 1966 and February 1967 the Federal Government alone issued Treasury bills and non-interest Treasury bonds in the amount of almost DM 4 billion, and, in addition, between December 1966 and February 1967 medium-term notes totalling DM 0.9 billion (net). By doing so it made use in a particularly large degree of the opportunity — following from the renewed inflow of liquidity to the banking system and the relatively small private demand for credit — of taking shorter-term credit from banks, so as to revert to financing the budget by borrowing at a greater rate again while at the same time continuing to nurse the bond market. The banks' holdings of domestic Treasury bills and non-interest Treasury bonds (except mobilisation paper) increased by DM 300 million in the third quarter of 1966 and by roughly DM 1.0 billion in the fourth, whereas in the first six months of 1966 they still had declined. The other short-term credits to public authorities only played a minor role apart from temporary fluctuations. In January and February 1967

*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 ²⁾	Other public borrowers ³⁾	Other branches of economic activity and other borrowers ⁴⁾	Lending of instalment credit institutions ⁵⁾
			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	Foodstuffs, beverages and tobacco	Textiles, leather, footwear, and clothing	Industries working for building ¹⁾							
Medium and long-term lending																	
End-of-year-figures																	
1965	198,781	32,360	2,196	3,206	5,189	2,170	2,408	2,961	2,303	3,080	76,614	5,487	7,647	16,835	32,394	24,213	3,231
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
Increase (+), decrease (-), during year ⁶⁾																	
1963	+20,631	+3,129	+196	+534	+341	+132	+23	+342	+143	+465	+7,923	+689	+804	+1,837	+3,413	+2,478	+358
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
Medium-term lending																	
End-of-year figures																	
1965	27,216	8,405	678	1,057	1,493	748	877	557	453	871	2,914	598	2,143	931	1,963	7,048	3,214
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
Increase (+), decrease (-), during year ⁶⁾																	
1963	+2,534	+732	-26	+257	-17	+49	-84	+117	+46	+185	+396	-30	+255	+37	-16	+810	+350
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
Long-term lending																	
End-of-year figures																	
1965	171,565	23,955	1,518	2,149	3,696	1,422	1,531	2,404	1,850	2,209	73,700	4,889	5,504	15,904	30,431	17,165	17
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
Increase (+), decrease (-), during year ⁶⁾																	
1963	+18,097	+2,397	+222	+277	+358	+83	+107	+225	+97	+280	+7,527	+719	+549	+1,800	+3,429	+1,668	+8
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
<p>[*]) Not including Saarland. — ¹⁾) Stones and earths, flat glass, sawmills and woodworking, building and allied trades. — ²⁾) 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. — ³⁾) 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. — ⁴⁾) Credits to enterprises engaged in transport and communications, to the hotel and tourist industry and to "other private borrowers". — ⁵⁾) Including credits granted to traders for financing their range of goods, and small amounts of "other credits". — ⁶⁾) Statistical changes have been eliminated.</p>																	

bank holdings of money-market paper issued by public authorities rose by a further DM 1.2 billion compared with only DM 150 million in the same period of 1966; and, besides other government paper, the banks in particular acquired approximately DM 1.2 billion of public authorities' medium-term notes.

... but also by greater recourse to longer-term bank loans

Similarly, the medium and long-term bank loans granted to public authorities have in the meantime reassumed an upward trend of growth, whereas in 1966, at approximately DM 5.4 billion, their increase was over DM 1 billion less than in 1965. In the fourth quarter of 1966 already their expansion did not fall short of the previous year's corresponding figure so much as in the third, and in the first two months of 1967 the corresponding growth in the previous year was exceeded by a wide margin (+ DM 1.6 billion as against + DM 1.0 billion in 1966). Borrowers probably were, in the first place, local authorities which for financing their capital expenditure have always resorted chiefly to loans by savings banks and issuing institutions. But *Länder* likewise would seem to have incurred increased indebtedness at banks. In fact, the revival of public authorities' borrowing from banks has recently been paralleled by the increased issue of "communal bonds" by the issuing banks (although the proceeds of communal bonds may be lent not only to local authorities but also to *Länder* and other official borrowers). Thus, public investors in the circumstances reacted much more rapidly to the improvement of the market climate than private investors — not least because they had investment projects under way, which they had had to interrupt or postpone in part due to lack of finance and which they now restarted at the first opportunity for borrowing again.

Security investments of credit institutions greater towards end of year

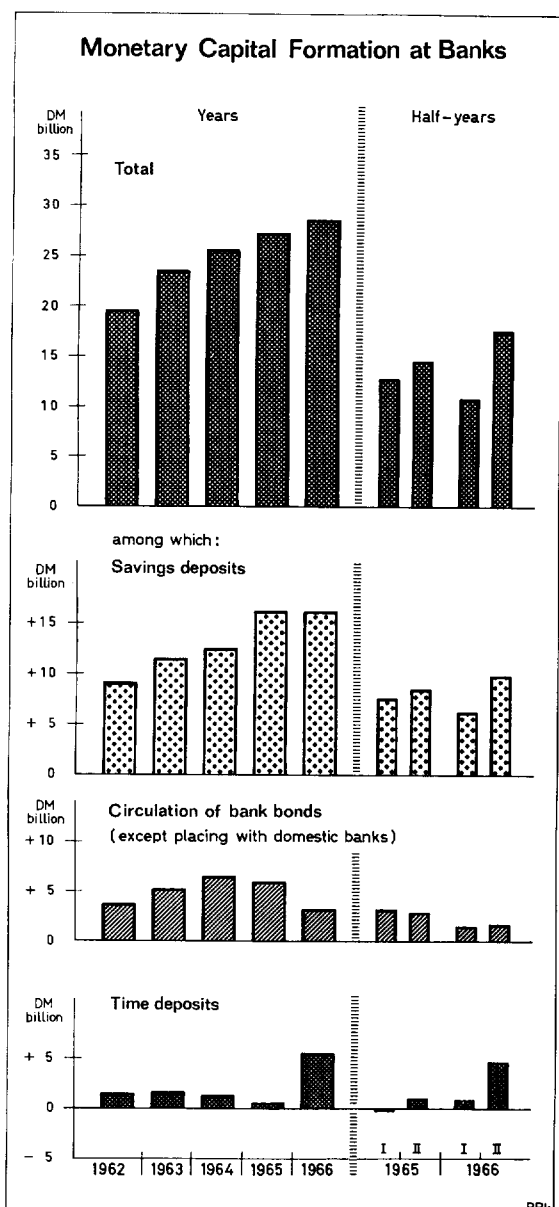
The above figures already include those security purchases (net) of banks which represent indirect granting of credit to domestic non-banks as they concern paper issued by non-banks. If, in order to show the influence exerted by banks on the security markets, all purchases of securities by banks are combined — *viz.*, the acquisition of securities issued by non-banks and the acquisition of bank bonds — the great extent is revealed to which credit institutions have contributed to the relaxation of security markets recorded since the autumn of 1966. Whereas in the first three quarters of 1966 they raised their holdings of domestic bonds and shares and their syndicate participations by no more than about DM 0.9 billion or just over one-fourth of the comparable amount for the previous year, in the fourth quarter of 1966, with net security purchases amounting to over DM 1 billion, they acquired twice as much as a year before. In January and February 1967 banks increased their security purchases, although these mainly concerned medium-term notes which are not readily comparable with the other types of securities because of their short maturity.

4. Special trends in the credit institutions' business on the liabilities side

Growth of savings deposits unchanged on the whole

Among the transactions on the liabilities side of banks' balance sheets, and particularly as a component of monetary capital formation, the accrual of savings deposits in the year under review again was the most important. At DM 16.4 billion it was approximately as large as in 1965 (DM 16.5 billion) when the growth had accelerated vigorously compared with 1964 (DM 12.7 billion). In 1966, a much greater part of the increase (DM 5.1 billion as against DM 3.8 billion in 1965) admittedly concerned interest credited, which had further gained in importance because of the raising of interest rates and the growth in total deposits; net in-payments to savings accounts, on the other hand, were smaller by DM 1.3 billion than in 1965. Savings deposits of domestic households, considered by themselves, moved somewhat more favourably; they rose by about DM 15.8 billion or slightly more than in 1965 (DM 15.6 billion). Here too, however, the upward trend has flattened.

The reasons are to be found first of all in the deceleration of the growth in incomes, but also in the fact that in the first months of 1966, when prices for consumer goods (especially those for food-stuffs) had risen substantially, the ability — and possibly also the propensity — to save was temporarily diminished. At all events, between January and June 1966 savings deposits of households



increased by only DM 6.2 billion, *i. e.* by approximately DM 1.1 billion less than in the same period of the previous year. In the second half of 1966 this “savings shortfall” compared with the same period a year before was made good, it is true; but this comparison is not entirely accurate, as the addition to savings deposits in the latter half of 1966 was particularly favoured by the greater amounts of interest credited (such crediting falling almost completely in December), whereas in the second half of 1965, conversely, “saving through accounts” had been impaired by the placing of V.E.B.A. shares which the general public mostly financed out of savings deposits.

During the year under review the most remarkable change in bank liabilities was recorded for the time deposits of all non-banks. They rose in 1966 by DM 5.3 billion, *i. e.* almost nine times as much as in 1965 (DM 0.6 billion), and also to a much greater extent than in the preceding years. The exceptionally vigorous increase was due for the most part to the partial decontrol of interest rates on time deposits as from the beginning of July 1966; since that date banks have been permitted freely to agree with their customers the creditor interest rates for deposits of at least DM 1 million (large deposits) and with maturities or periods of notice of not less than three months. Both private depositors and public authorities availed themselves of the opportunity, offered since then, of obtaining higher interest on their bank deposits by fixing on shorter-term time accounts substantial amounts which previously had been main-

Steep rise of time deposits, partly “interest-induced” ...

tained as sight deposits or came from maturing longer-term time deposits or other money investments. These shifts resulted in time deposits with periods to maturity or periods of notice of between three and less than six months increasing to a particularly great extent since the middle of the year, in fact by DM 5.2 billion until the end of 1966 as compared with DM 480 million in the second half of 1965. On the other hand the time deposits in the maturity category of one to three months, which at that time still were fully subject to interest rate control, slightly declined (by DM 260 million) in the latter half of 1966, and so did time deposits with periods of notice of between twelve and thirty months (— DM 960 million); only time deposits with periods of notice of six to less than twelve months and of thirty months and more continued to increase slightly. Accordingly, there were shifts in favour of the balances fixed for between three and six months also in the aggregate total of time deposits.

However, the large total accrual of time deposits cannot be explained solely by shifts due to considerations of the interest rate obtainable. The substantial increase in time deposits of enterprises and individuals — amounting to over DM 600 million in the first half of 1966, *i. e.* prior to

... and partly due to the cyclically induced accrual of financial reserves and to other reasons

Liabilities of the Monthly Reporting Credit Institutions to Non-Banks

Millions of DM

Item	Yearly figures				Quarterly figures				
	1963	1964	1965	1966	Year	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Increase (+) or decrease (—)									
I. Liabilities to domestic non-banks									
(1) Sight deposits, total	+ 3,150	+ 3,038	+ 3,782	— 150	1966 —4,454	+2,813	—1,491	+ 2,982	
					1965 —3,299	+3,130	— 94	+ 4,045	
(a) of business enterprises and individuals	+ 2,897	+ 3,070	+ 3,386	+ 132	1966 —3,458	+2,167	— 997	+ 2,420	
					1965 —2,494	+2,751	— 31	+ 3,160	
(b) of public authorities	+ 253	— 32	+ 396	— 282	1966 — 996	+ 646	— 494	+ 562	
					1965 — 805	+ 379	— 63	+ 885	
(2) Time deposits, total	+ 1,645	+ 1,284	+ 579	+ 5,393	1966 + 58	+ 629	+2,222	+ 2,484	
					1965 — 245	— 87	—1,041	+ 1,952	
(a) of business enterprises and individuals	+ 1,400	+ 1,831	+ 1,376	+ 4,044	1966 + 270	+ 437	+1,078	+ 2,259	
					1965 — 170	— 74	— 591	+ 2,211	
among which: Short-term time deposits	+ 245	+ 582	+ 514	+ 2,926	1966 — 696	+ 86	+1,390	+ 2,146	
					1965 — 816	— 230	— 168	+ 1,728	
(b) of public authorities	+ 245	— 547	— 797	+ 1,349	1966 — 212	+ 192	+1,144	+ 225	
					1965 — 75	— 13	— 450	— 259	
among which: Short-term time deposits	+ 509	+ 42	— 413	+ 1,829	1966 + 258	+ 145	+ 823	+ 603	
					1965 + 38	— 241	— 119	— 91	
Note:									
Time deposits of institutional investors				+ 2,529	1966 + 506	— 73	+ 888	+ 1,208	
					1965 — 257		— 257	+ 868	
(3) Savings deposits of residents, total	+11,549	+12,529	+16,257	+16,271	1966 +3,693	+2,626	+2,907	+ 7,045	
					1965 +4,747	+2,942	+2,384	+ 6,184	
(a) of individuals	+10,556	+11,845	+15,604	+15,763	1966 +3,485	+2,703	+2,847	+ 6,728	
					1965 +4,416	+2,906	+2,461	+ 5,821	
(b) of business enterprises	+ 110	+ 153	+ 260	+ 56	1966 + 77	— 45	+ 74	— 50	
					1965 + 111	+ 49	+ 2	+ 98	
(c) of public authorities	+ 883	+ 531	+ 393	+ 452	1966 + 131	— 32	— 14	+ 367	
					1965 + 220	— 13	— 79	+ 265	
(4) Monies and loans obtained from domestic non-banks, total	+ 3,354	+ 3,120	+ 2,302	+ 2,225	1966 + 743	+ 778	+ 285	+ 419	
					1965 + 249	+ 475	+ 687	+ 891	
among which: Medium and long-term monies and loans	+ 3,423	+ 3,271	+ 2,455	+ 2,035	1966 + 364	+ 837	+ 422	+ 412	
					1965 + 327	+ 615	+ 412	+ 1,101	
II. Liabilities to foreign non-banks									
(1) Sight deposits	+ 112	+ 31	+ 188	— 117	1966 — 390	+ 41	— 42	+ 274	
					1965 — 141	+ 76	— 58	+ 311	
(2) Time deposits	+ 23	— 160	+ 41	— 91	1966 — 30	— 40	— 24	+ 3	
					1965 + 9	— 53	— 2	+ 87	
(3) Savings deposits	+ 99	+ 161	+ 209	+ 163	1966 + 23	+ 30	+ 40	+ 70	
					1965 + 57	+ 60	+ 26	+ 66	
(4) Monies and loans obtained from foreign non-banks	+ 112	+ 29	— 156	+ 190	1966 + 133	— 20	+ 21	+ 56	
					1965 — 46	— 68	+ 20	— 62	
III. Liabilities to domestic and foreign non-banks (sum total of respective items under I and II)									
(1) Sight deposits	+ 3,262	+ 3,069	+ 3,970	— 267	1966 —4,844	+2,854	—1,533	+ 3,256	
					1965 —3,440	+3,206	— 152	+ 4,356	
(2) Time deposits	+ 1,668	+ 1,124	+ 620	+ 5,302	1966 + 28	+ 589	+2,198	+ 2,487	
					1965 — 236	— 140	—1,043	+ 2,039	
(3) Savings deposits	+11,648	+12,690	+16,466	+16,434	1966 +3,716	+2,656	+2,947	+ 7,115	
					1965 +4,804	+3,002	+2,410	+ 6,250	
(4) Monies and loans obtained from domestic and foreign non-banks	+ 3,466	+ 3,149	+ 2,146	+ 2,415	1966 + 876	+ 758	+ 306	+ 475	
					1965 + 203	+ 407	+ 707	+ 829	
IV. Bank bonds in circulation ¹⁾, total	+ 8,339	+ 9,855	+ 8,720	+ 4,630	1966 +1,513	+ 483	+1,239	+ 1,395	
					1965 +3,263	+1,896	+2,072	+ 1,489	
among which: Circulation excluding domestic credit institutions' holdings ²⁾	+ 5,239	+ 6,600	+ 5,952	+ 3,228	1966 +1,007	+ 492	+ 995	+ 734	
					1965 +1,858	+1,197	+1,643	+ 1,254	
Note:									
Monetary capital formation ³⁾ , total	+23,454	+25,604	+27,297	+28,593	1966 +5,728	+5,248	+6,754	+10,863	
					1965 +7,324	+5,438	+3,760	+10,775	
among which: Capital and reserves ⁴⁾	+ 1,598	+ 1,920	+ 2,054	+ 1,666	1966 + 606	+ 664	+ 208	+ 188	
					1965 + 637	+ 771	+ 362	+ 284	
¹⁾ Excluding bonds of own issues in the credit institutions' portfolios.— ²⁾ Separate recording of the circulation at home and abroad is not possible. — ³⁾ Comprising — apart from the item specified below — the items time and savings deposits, medium and long-term monies and loans taken, and bank bonds in circulation except credit institutions' holdings. — ⁴⁾ Including capital and reserves of Bundesbank.									

the further partial liberalisation of deposit rates, and to DM 3.3 billion in the latter half of the year (compared with DM 1.7 billion a year before) — no doubt was connected with the trend of economic activity as well. Already in former years of cyclical slackening or of a cyclical trough (*e. g.* in 1952 and 1953 as well as in 1957) enterprises were recorded to form much more time deposits than in years of cyclical upswing. Evidently with a weak state of economic activity operational receipts, especially funds resulting from depreciation, are not in all cases reinvested immediately but allocated to the financial reserves for the time being, unless they are used to repay bank credit. The greater preference given to time deposits as a form of employing the monetary assets of social insurance institutions (which increased this reserve by DM 1.3 billion) also has causes immediately connected with the insurance funds themselves — especially the expectation that in 1967 the financial reserves of the Unemployment Insurance Fund and the pension insurance institutions will have to be reduced owing to substantial deficits. These insurance funds therefore mostly employed in rather liquid form the surpluses achieved in 1966, avoiding investment in securities, as will be described below. Nevertheless there appears to be quite an appreciable balance of accruals to time deposits due solely to interest rate considerations. Such movements are useful for the economy only if they really lead to greater immobilisation of enterprises' cash reserves and not merely amount to "economising" the employment of money, for which in fact no appreciable additional loss of liquidity has to be accepted. As far as beyond that, because of the special attractiveness of the time deposits with three to six months' maturity for which there is sharp competition, longer-term deposits have on the whole lost their attraction, so that there occurred a shift to shorter periods in the maturity structure, the further partial freeing of interest rates actually had unfavourable effects. Free formation of interest rates on a broader basis, as is possible now that the banks' interest rates have been freed completely as from 1 April 1967, probably will at any rate contribute towards the interest rate structure taking better account of the different extent of liquidity losses connected with the various maturity categories of time deposits than it did in the period of merely partial liberalisation of interest rates.

5. Capital market

Accrual of longer-term finance

According to the statistics the volume of finance accrued on the capital market in the Federal Republic of Germany continued to increase in 1966, although the rise was no longer substantial and the capital formation channelled through the security markets in fact shrank considerably if considered in isolation. As the general public usually pays particular attention to the security markets and in many cases actually identifies them with "the capital market", the opinion was formed in some quarters that the capital market as a whole had proved particularly weak during 1966. To judge from the movement in the overall accrual of longer-term finance (including time deposits), however, this negative view is not correct. If acquisition of securities by households and public authorities as well as enterprises (but disregarding security purchases by banks, insurance companies and building and loan associations, which must be eliminated here as being mere "intermediaries in the provision of capital") is combined with the acquisition of other longer-term monetary assets, so as to show the volume of overall monetary capital formation by domestic sectors, there results for 1966 an amount (at nominal values) which at DM 44.2 billion was greater than in 1965 by DM 1.2 billion or not quite 3 per cent.

This picture needs to be revised however in one important respect. For the reasons explained above, among the various forms of monetary wealth formation time deposits have come to the fore in an exceptionally great measure; the rise in 1966 to a very great extent concerned short-term (up to six months) deposits, *i. e.* "near-money" deposits, which cannot be counted towards monetary capital formation, and thus to the capital market sphere, in their full amount. If, in the absence of detailed information as to their "savings character", they are completely eliminated from the

"Capital market volume" has grown as indicated by the statistics ...

... although its "solid" basis was rather smaller than in 1965

*Longer-Term Monetary Wealth Formation by Domestic Sectors¹⁾
and Overall Volume of Domestic Security Market *)*

Item	1964		1965		1966 P ^{c)}	
	DM bn	p. c. ²⁾	DM bn	p. c. ²⁾	DM bn	p. c. ²⁾
I. Longer-term monetary wealth formation by domestic sectors³⁾						
(1) Net accruals on savings deposits	13.85	38.4	17.65	40.8	17.8	45.5
(2) "Other" funds placed with banks ³⁾	5.58	15.4	4.81	11.1	4.2	10.9
(3) Monies placed with building and loan associations ³⁾	2.53	7.0	3.75	8.6	4.9	12.5
(4) Monies placed with insurance companies ³⁾ 4)	4.91	13.6	5.80	13.4	6.5	16.5
(5) Acquisition of						
(a) Bonds ⁵⁾	7.65	21.2	7.35	17.0	3.3	8.4
(b) Shares ⁵⁾	1.60	4.4	3.96	9.1	2.4	6.2
(6) Total (1 to 5)	36.11	100	43.30	100	39.0	100
(7) Change in time deposits	0.69	—	—0.35	—	5.1	—
(8) Longer-term monetary wealth formation and change in time deposits (6 + 7)	36.80	—	42.95	—	44.2	—
II. Overall volume of domestic security market			Billions of DM			
(1) Acquisition of securities by domestic non-financial sectors ⁶⁾ (I (5) a + b)	9.25		11.30		5.7	
(2) Acquisition of securities by financial institutions ⁶⁾	6.64		5.45		3.6	
of which:						
Banks		4.94		3.92		1.9
Building and loan associations		0.16		0.17		0.2
Insurance companies ⁴⁾		1.53		1.35		1.4
(3) Discrepancies in definition in comparison with the following figures on net sales of domestic securities at market values ⁶⁾	— 0.78		— 1.50		— 1.6	
III. Total net sales of domestic securities at market values	15.11		15.25		7.7	
of which:						
Domestic fixed-interest securities		12.87		11.29		5.0
Domestic shares		2.24		3.96		2.7
<p>*) Details may not add to totals because of rounding. —¹⁾ According to the definitions of the National Accounts: Households, government, and enterprises outside the financial sector. —²⁾ Per cent of longer-term monetary wealth formation by domestic sectors. —³⁾ Including banks' and institutional investors' own funds. —⁴⁾ Including pension funds. —⁵⁾ According to the definitions of the National Accounts: Total acquisition of domestic and foreign securities. —⁶⁾ Principally resulting from the fact that in calculating total net sales of domestic securities foreigners' net purchases of domestic securities are included, while residents' net purchases of foreign securities and the taking-over of bonus shares are left out of account. Moreover, the calculation is based on market values instead of nominal values. — P^{c)} Partly estimated.</p>						

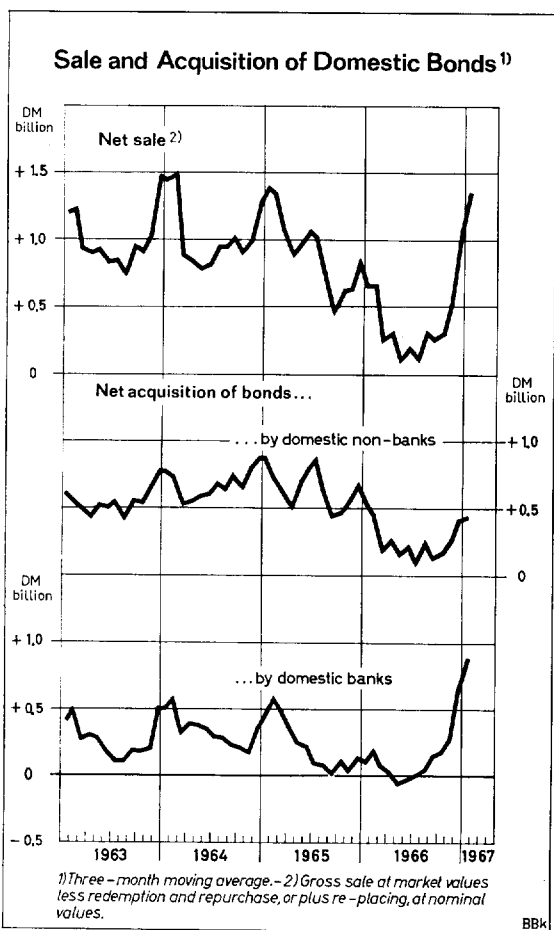
above analysis, the longer-term monetary wealth formation of the domestic sectors mentioned during the year under review works out at DM 39.0 billion, or DM 4.3 billion less than the volume for 1965. Even if an adequate portion of the deposits on short-term time accounts were included in monetary capital formation, the total accrual of funds available at longer term probably did not reach the figure for 1965.

Among the other forms of monetary investments (again completely disregarding the accrual of time deposits) there was a distinct shifting to investments not threatened by any price fluctuations; this is easily understandable in view of the long period of declining quotations in the security markets, which extended over more than two and a half years. Apart from "saving through securities", all types of monetary wealth formation have increased or at least maintained their proportion. The share taken by the net accrual of savings deposits in particular, at over 45 per cent, was substantially greater than in 1965 (41 per cent).

In 1966 those forms of saving in which the amounts to be saved are contractually agreed, or the savings are intended to serve a specific purpose, gained ground also in absolute terms, and their proportion to the overall longer-term wealth formation (again computed without time deposits) of domestic sectors increased at a particularly great rate. This applies for one thing to employment of

"Saving under contract", especially with building and loan associations, gained in importance

money with insurance companies, this type of saving probably being least sensitive to cyclical changes; but it also applies in a great degree to the placing of money with building and loan associations. During 1966 those associations recorded greatly increased accruals of funds in absolute terms, so that their proportion to total longer-term monetary wealth formation by domestic sectors grew from not quite 9 per cent to almost 13 per cent. These data are based on the definitions of the Bundesbank's "financial accounts" in which for reasons of method "money placed with building and loan associations" is considered in the main to comprise the net growth in savings deposits at the associations. If, however, the gross accrual to savings accounts at building and loan associations, including interest and premiums credited, were taken into account (that is to say, if the out-payments of savers' own funds saved for financing building were not deducted) and the redemptions made by the savers were also added, since all these in-payments represent capital formation¹⁾, there would result for the year under review an overall accrual of savings at building and loan associations in the amount of DM 11.8 billion (compared with DM 9.9 billion in 1965). Upon



deduction from this total of the part of the gross accrual falling to bodies corporate — which is only possible by means of an estimate, however — the amount for households alone works out at approximately DM 11 billion. Compared with households' overall saving, this was about 30 per cent as against only some 24 per cent in 1965²⁾. This shows that during 1966 saving at building and loan associations has made further considerable progress as a form of saving. The explanation is to be found both in the advantage which this form of saving offers to builders (*e. g.*, provision of the second mortgage at low interest) and — in 1966 probably more than before — in the fact that savers expected fiscal promotion of saving for building purposes to be reduced, this expectation having caused many savers to conclude contracts with building and loan associations at the more favourable existing terms and to make in-payments on them. In the meantime, the coming into force of the revision of tax and premium privileges for saving at building and loan associations caused the further growth of such business greatly to decline, especially as regards the number of new contracts concluded, but obviously also the amounts of savings accruing.

There was considerable reduction in the security investments by households, non-financial enterprises and public authorities (especially social insurance institutions). According to provisional figures, these sectors together in 1966 employed in securities about DM 5.7 billion or just on 15 per cent of their formation of longer-term monetary capital. As compared with the previous year this

Proportion of "saving through securities" on the decline

¹⁾ Cf. the notes on the method used in the study "Recent Developments in the Business of Building and Loan Associations" in the Monthly Report of the Deutsche Bundesbank, Vol. 18, No. 12, December 1966, p. 3.

²⁾ Really, this computation should also include the redemptions made by private individuals to other mortgage creditors; this is not possible however due to lack of statistical data. The proportion falling to building and loan associations would then be smaller to some — although not substantial — extent.

means a substantial decline, since both in 1965 and in 1964 the proportion of security purchases was about 26 per cent (the absolute amounts being DM 9.3 billion in 1964 and DM 11.3 billion in 1965). As regards the bond market in particular the decrease in relation to the total financial volume, already apparent in 1965, intensified further, *viz.*, from the all-time peak of 21 per cent in 1964 and a share of 17 per cent in 1965 to only something over 8 per cent in 1966. As already indicated, the principal reason is to be found in the continuing decline of prices in the bond market, which once again became more marked in the second quarter of 1966 before gradually coming to a standstill in the course of the summer and giving way to an upward trend — partly quite vigorous — in the last quarter of 1966. After the large price losses, averaging 15 per cent between the beginning and the middle of 1966, confidence in more stable market conditions returned only gradually. Now, however, the hope of realising market profits in the course of the normalisation of interest-rate conditions evidently encouraged greater purchases, although the acquisition of bonds seems not yet to have reattained its former significance among the forms in which households invest money.

The total placing of domestic securities — including, in addition to the acquisition by households and public authorities as well as non-financial enterprises, also the purchases by banks, insurance companies and building and loan associations (although the latter are of much smaller significance) — amounted to DM 7.7 billion net, at market value, in 1966¹⁾. This was less by almost one half than in the two preceding years (DM 15.2 and 15.1 billion, respectively).

Details on the placing of domestic securities

Non-banks especially cautious as regards acquisition of bonds

The decline in the placing of securities during 1966 was largely confined to bonds, net sales²⁾ of which declined from DM 12.9 billion in 1964 and DM 11.3 billion in 1965 to not more than DM 5.0 billion in 1966. This was due chiefly to the fact that domestic non-banks³⁾ again greatly reduced the acquisition of fixed-interest securities of domestic issuers. Domestic non-banks in 1966 acquired only DM 3.6 billion net of domestic bonds compared with DM 8.0 billion in 1965 and DM 8.5 billion in 1964. As to details, obviously the social pension insurance institutions in particular curbed new acquisition of bonds in view of the deterioration in their financial position. Complete figures on the investments of pension insurance funds are not yet available; it appears, however, that their security holdings did not rise at all (apart from the taking of DM 750 million of Federal Debt Register claims, which is not considered a security transaction in this analysis). The Unemployment Insurance Fund on balance actually reduced its holdings of longer-term securities by over DM 200 million. Insurance companies in all probability acquired domestic bonds in approximately the same amount as in 1965 (DM 1.1 billion) or even slightly increased their purchases. (However, they appear to have invested most of the additional accrual of employable funds in mortgages and borrower's note loans.) As mentioned above, households during the year under review probably expended only about half as much on domestic bonds as they did in 1965, although they continued to be the mainstay of the market, since at over DM 2 billion their new investments accounted for approximately two-fifths of the total amount of domestic bonds placed.

The banks as "pace-makers" of the reversal on the security market

Apart from households, banks were the principal group of investors last year. Although for the year as a whole they likewise drastically cut down their new security purchases — from DM 3.2 billion⁴⁾ in 1965 to only just on DM 1.6 billion in the year under review — in the latter half of the year, when the climate of the market distinctly improved, they were the pace-makers of the reversal. After net sales of domestic bonds amounting to over DM 100 million in the second quarter of 1966, in the third quarter banks purchased DM 180 million net, and in the fourth quarter DM 850 million net, of fixed-interest securities of domestic issuers. Although towards the end of the year the plac-

¹⁾ Explanations regarding definition (especially delimitation against security transactions with foreign countries) of the movements in the domestic security market as discussed below will be found in the preceding table.

²⁾ Calculated at market values and taking into account the changes in issuers' own holdings.

³⁾ Households and public authorities as well as enterprises (including insurance companies and building and loan associations).

⁴⁾ Depreciation owing to loss in value during 1965 has been eliminated from this and the following figures.

Security Holdings of the Banks

Year or quarter	Total	Domestic securities and syndicate participations										Foreign securities and syndicate participations	
		Total		Fixed-interest securities ¹⁾						Market-able equities ³⁾	Other securities		Syndicate participations
		in-cluding	ex-cluding ¹⁾	Bank bonds		Public issues		Industrial bonds and other interest-bearing debentures					
		bank bonds	Total	among which: Medium-term notes (<i>Kassenobligationen</i>)	Total	among which: Medium-term notes (<i>Kassenobligationen</i>)							
End-of-year figures, millions of DM													
1961	22,278	21,913	7,759	14,154	778	4,062	702	842	2,211	104	540	365	
1962 ⁴⁾	25,610	25,257	8,472	16,785	986	4,616	658	954	2,233	126	543	353	
1962 ⁴⁾	25,617	25,264	8,477	16,787	986	4,617	658	957	2,233	127	543	353	
1963	29,678	29,241	9,104	20,137	1,301	5,112	768	913	2,381	220	478	437	
1964	34,491	34,003	10,611	23,392	1,798	6,319	1,061	951	2,743	153	445	488	
1965	38,233	37,642	11,517	26,125	1,928	6,584	924	1,009	3,017	159	748	591	
1966	39,512	38,964	11,872	27,092	1,900	6,630	1,045	944	3,217	172	909	548	
Increase (+) or decrease (-) ⁵⁾ , millions of DM													
1962	+ 3,582	+ 3,594	+ 713	+ 2,881	+ 208	+ 554	- 44	+ 112	+ 22	+ 22	+ 3	- 12	
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	+ 3,639	+ 1,001	+ 2,697	+ 130	+ 265	- 137	+ 94	+ 274	+ 6	+ 303	+ 103	
1966	+ 1,279	+ 1,322	+ 515	+ 967	- 28	+ 46	+ 121	- 65	+ 200	+ 13	+ 161	- 43	
1965 1st qtr.	+ 2,227	+ 2,002	+ 597	+ 1,405	+ 202	+ 391	+ 179	+ 68	+ 21	+ 19	+ 98	+ 225	
2nd qtr.	+ 1,610	+ 1,681	+ 982	+ 699	- 8	+ 65	- 146	+ 23	+ 214	+ 3	+ 677	- 71	
3rd qtr.	- 510	- 450	- 879	+ 429	+ 32	- 140	- 51	+ 6	- 28	+ 8	- 725	- 60	
4th qtr.	+ 415	+ 406	+ 301	+ 164	- 96	- 51	- 119	- 3	+ 67	- 24	+ 253	+ 9	
1966 1st qtr.	+ 143	+ 88	+ 137	+ 103	+ 112	+ 32	- 34	- 61	+ 23	+ 30	- 39	+ 55	
2nd qtr.	+ 124	+ 109	+ 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	

¹⁾ Contribution to domestic credit expansion; depreciation owing to loss in value during 1965 has been eliminated from the figures showing changes for 4th quarter 1965 and 1st and 2nd quarters 1966 (but not from the end-of-year totals). — ²⁾ Depreciation not eliminated as it is not known for all categories of securities. — ³⁾ Including investment fund certificates. — ⁴⁾ At the end of 1962 the obligation to render returns was newly defined for the credit cooperatives (*Raiffeisen*). The figures are shown for both the old and the new range of institutions required to report. — ⁵⁾ Statistical changes and losses in value connected with depreciation (according to footnote ¹⁾) have been eliminated.

ings mainly concerned public authorities' notes running for between 3 and 4 years (*Kassenobligationen*), which can be attributed to the bond market only subject to qualification, these sales substantially contributed towards improving the general tone of the market. The resumption of security purchases by banks was due in the first place to the accruals of liquid funds which had increasingly eased the banks' liquidity position since last summer.

During the year under review foreign investors on balance did not acquire any German bonds. On an overall view they in fact sold fixed-interest securities of domestic issuers in the amount of approximately DM 120 million after having purchased about DM 100 million of such securities in 1965¹⁾. There was little to stimulate foreigners to purchase German bonds, if only because to the uncertainty about prices was added the special burden of the 25 per cent withholding tax. Moreover, the long-term interest rate was relatively high in most other industrial countries as well, so that the reduction in the yield caused by the withholding tax was not offset by the interest rate differential in relation to foreign countries.

Although raising of funds through the share market likewise declined in 1966, at DM 2.7 billion at issue value the volume was smaller by only DM 1.3 billion than in 1965 and larger by over DM 0.4 billion than in 1964. As usual, much the greater part of the newly issued shares were taken by domestic non-banks (including enterprises), in fact almost DM 2.1 billion compared with, admittedly, over DM 2.7 billion a year before. Still, at that rate the acquisition of shares was better maintained than purchases of domestic bonds. Shareholders, most of whom of course are enterprises, accordingly reacted favourably to the endeavours made by trade and industry to overcome

¹⁾ In each case excluding German external bonds as well as loans issued abroad by German residents.

Small amount of net security transactions with non-residents

Share issues relatively stable

the scarcity of funds by capital increases. In the year under review the banks participated to the extent of DM 370 million in the acquisition of domestic shares (including syndicate participations), compared with DM 580 million in 1965, whereas foreign purchasers reduced their acquisition from DM 650 million in 1965 to DM 220 million in 1966, special transactions being eliminated in each case.

Issuers of securities

The preceding statements are based exclusively on the actual recourse to the market by net sales of securities plus re-placements by the issuers of paper previously flowed back (or less new refluxes). On account of the growing extent of redemptions, gross sales of bonds calculated at issue values were much greater than net placings (cf. the following table). Net reflows or re-placements of bonds on the other hand did not play any appreciable part in the overall result for 1966. In the first half of the year indeed issuers repurchased DM 555 million net of securities flowing back, but in the latter half, after the reversal of the market trend, they were able to reduce their holdings of reflows by a similar amount (DM 519 million). Whereas in the second quarter of 1966 net sales had fallen to one-seventh of the corresponding amount for the previous year, in the following months they revived in such a measure that in December for the first time again much more bonds were sold than in the corresponding period of the previous year.

Among all issuers, public authorities recorded relatively the greatest decline in sales for the period under review. From the sale of new bond issues (including medium-term notes) over the whole of 1966 only DM 650 million net accrued to them, *i. e.* only just on one-fourth of the amount raised in 1965. This was chiefly due to the fact that, after it had proved very difficult to place in the market several *Länder* loans offered for subscription in February and March, public issuers in a Round Table conference early in May decided on an issue stop which later was prolonged several

Public authorities' issues greatly declining as a result of voluntary issue stop

*Sale of Securities of Domestic Issuers *)*

Billions of DM market value

Category of security	1963	1964	1965	1966
	Gross sale			
Mortgage bonds	4.05	4.75	4.15	2.63
Communal bonds	3.38	3.74	3.56	3.00
Bonds of specialised credit institutions	1.85	1.75	1.22	0.92
Other bank bonds	0.96	1.42	1.36	0.55
Industrial bonds	1.54	0.97	0.58	0.23
Bonded loans of public authorities	4.56	4.08	3.52	1.57
Fixed-interest securities, total	16.34	16.71	14.39	8.91
Shares	1.32	2.24	3.96	2.69
Fixed-interest securities and shares, total	17.66	18.95	18.35	11.60
<i>Note :</i>				
Bonded loans of foreign issuers	0.16	0.88	1.37	0.65 *)
	Net sale ¹⁾)			
Mortgage bonds	3.69	4.36	3.74	2.14
Communal bonds	2.55	2.93	2.89	2.03
Bonds of specialised credit institutions	1.18	1.06	0.35	0.10
Other bank bonds	0.91	1.30	1.13	0.09
Industrial bonds	0.34	0.33	0.36	0.00
Bonded loans of public authorities	3.30	2.88	2.82	0.65
Fixed-interest securities, total	11.96	12.87	11.29	5.00
Shares	1.32	2.24	3.96	2.69
Fixed-interest securities and shares, total	13.28	15.11	15.25	7.69
<i>Note :</i>				
Bonded loans of foreign issuers	0.11	0.88	1.34	0.62 *)
*) Details may not add to totals because of rounding. — ¹⁾) Gross sale at market values less redemption and repurchase or plus replacing at nominal values. — ²⁾) Excluding the DM convertible bonds issued in exchange for shares of German enterprises.				

times until the end of the year¹⁾). Towards the end of the year and particularly in January, however, the Federal Government and other public issuers to a considerable extent issued notes of three to four years' maturity (*Kassenobligationen*); but the proceeds largely came from money-market resources and to that extent were not lost to the market of long-term issues. The restraint shown by public issuers in the bond market did not however afford relief to the overall long-term credit market to anything like the same extent, since public authorities with particularly urgent borrowing requirements resorted to "subsidiary markets", especially the market for borrower's note loans.

Owing to the issue stop agreed on by public authorities, the bond market in the past year was largely left to the "regular issuers", *i. e.* private and public mortgage banks, although these were far from placing as many bonds as a year before owing to the greatly reduced absorptive capacity of the market. Altogether the issuing institutions (including specialised credit institutions) last year recorded net sales of not quite DM 4.4 billion; this was only something over half as much as in 1965 (DM 8.1 billion) and about DM 5 billion less than in 1964, the most productive year to date. As before, the issue of relatively short-term registered bonds by credit institutions and the placing of their own bonds under repurchase agreements played a part, although the significance of such "placing for a (comparatively short) specified period" does not seem to have grown any further in the year under review — at least as regards the absolute amount. The issuing institutions' repurchase liabilities under repurchase agreements in their own bonds rose during 1966 by about DM 670 million (to well over DM 6.3 billion), if statistical changes are eliminated. At the end of 1966 the outstanding total of registered bonds with maturities of less than four years, at some DM 640 million, was somewhat smaller than at the end of 1965 (DM 680 million). On the other hand the banks' registered bonds issued for four years or more, which have always formed the majority of securities in this category, showed vigorous growth (from DM 2.1 billion at the end of 1965 to almost DM 3.0 billion at the end of 1966). It is an open question whether the reason for this increase is to be found in the fact that such issues do not require permission (in 1966 again given in moderate volume) by the Federal Minister of Finance, or whether the determining factor was the desire of institutional investors to increase their investments particularly in securities which are not subject to fluctuations in stock exchange valuation and which accordingly can be entered in the balance sheets at unchanged values. Such paper however reduces rather than increases the effi-

Lower sales also
at real-estate credit
institutions

¹⁾ In the issue statistics minor amounts are still shown for the period of the issue stop; these however exclusively concern "performance bonds" of the Equalisation of Burdens Fund which are allotted upon application to persons entitled to equalisation of burdens instead of compensation in cash falling due at a later date.

Maturity Structure, and Placing for Specified Periods, of Bank Bonds

End-of-year position, millions of DM

Item	Year	Total	Maturity/specified period of placing		
			up to less than 30 months	30 months to less than 4 years	4 years and over
(1) Bonds in circulation ¹⁾	1966 ²⁾	74,551.8	535.1	982.4	73,034.3
	1965	69,646.0	625.1	1,039.2	67,981.7
of which:					
Bearer bonds	1966 ²⁾	(70,947.8)	(15.8)	(860.3)	(70,071.7)
	1965	(66,832.1)	(9.3)	(974.9)	(65,847.9)
Registered bonds	1966 ²⁾	(3,604.0)	(519.3)	(122.1)	(2,962.6)
	1965	(2,813.9)	(615.8)	(64.3)	(2,133.8)
(2) Bonds whose repurchase or redemption before maturity the issuing institutions have undertaken	1966 ²⁾	6,321.7	1,899.2	475.3	3,947.2
	1965	5,493.4	1,753.5	349.1	3,390.8

¹⁾ Including circulating bonds from pre-currency-reform issues. — ²⁾ Not fully comparable with previous year owing to statistical changes.

ciency of the security market, since registered bonds practically are issues “custom-built” for the initial purchaser, which as a rule are not re-sold.

Communal bonds coming to the fore

Communal bonds took an increasing share in total sales of bank bonds by real-estate credit institutions. Whereas previously as a rule only approximately two-fifths of sales by these institutions concerned communal bonds, in 1966 it was almost one-half (cf. table on page 56). Especially towards the end of the year communal bonds were offered in the first place, so that net sales of such securities in the fourth quarter of 1966, at about DM 690 million, exceeded the placing of mortgage bonds (DM 520 million). As has been explained in another context, official borrowers at that time again asked for long-term bank loans at an increased rate, whereas private borrowers' demand for mortgage loans was weak.

Enterprises did not resort to the domestic bond market

Private enterprises on the other hand virtually did not have recourse at all to the bond market during the past year. Disregarding the issue of some convertible bonds, as against which there were redemptions in equal amount, no issues were made in the last three quarters of 1966. Accordingly during the year under review business enterprises — just as some public authorities — appear to have procured funds in other ways, the taking up of bank loans and borrower's note loans probably being most important. Not until the beginning of this year did domestic enterprises again resort to the bond market to a greater extent (DM 370 million net) by issuing a large-sized loan and, in particular, convertible bonds while no sizable redemptions were made.

Foreign issuers include finance companies of German enterprises

Foreign enterprises during 1966 raised on the domestic market loans at an issue value of DM 650 million¹⁾; this amounted to approximately one half of the total issued in 1965. These issues in 1966 included DM 260 million of DM loans of foreign finance holdings of German companies issued through these subsidiaries in order to benefit from the advantages of the Euro-issue market. It would however seem that a large part of the funds raised in this way were not used for financing expenditure within the country, but for investments abroad of the companies concerned; it may also be assumed that about three-quarters of these securities were finally placed abroad. Bonded loans of this kind are particularly attractive to foreigners who thus receive DM paper not subject to withholding tax. For residents the yield is too small comparatively speaking.

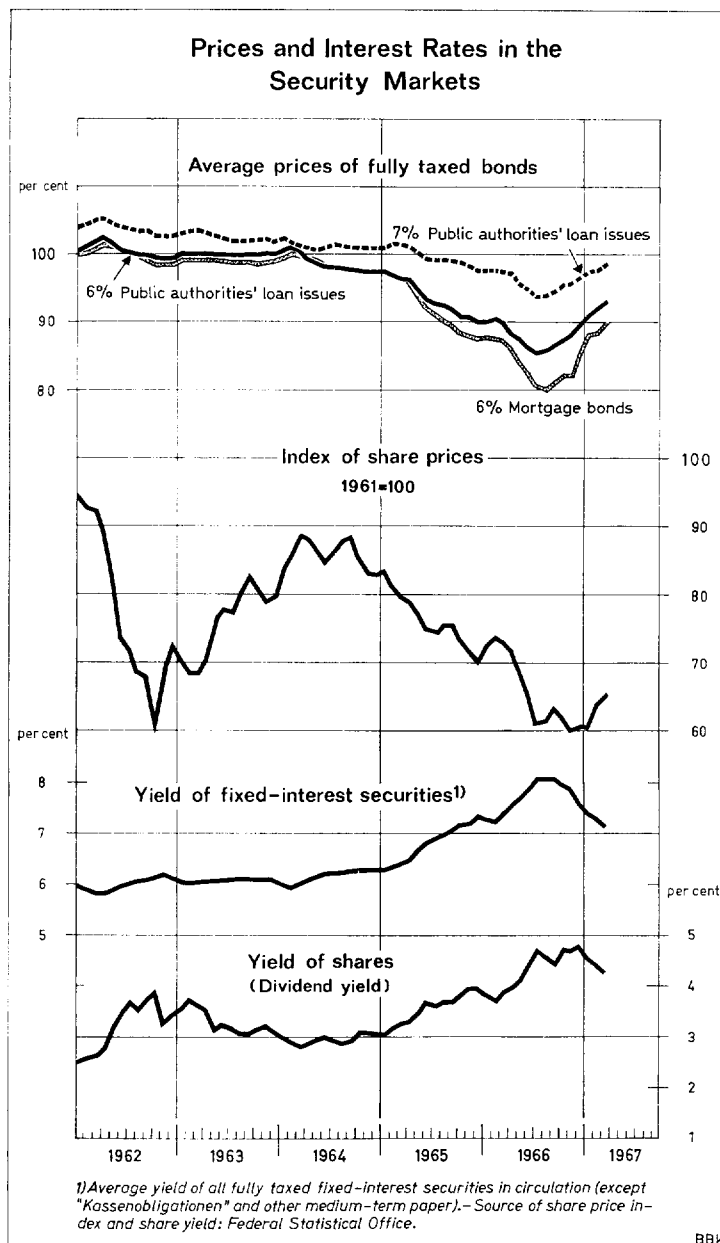
Movement in prices and yields

Accelerated price fall on the bond market during first half of 1966

While at the beginning of the year under review the bond market had appeared to become more firm again after the price declines in the previous year, the recovery soon proved to be short-lived. The bonded loans issued in February and March sold sluggishly, and those parts of the issues which were not placed initially but remained with the syndicate banks burdened the market for weeks. Nor was the downward trend of prices stopped by the agreement made at the Round Table by the public issuers early in May to the effect that no new loans should be issued until the end of June — especially since it was at first intensified by the raising of the central bank discount rate as at 27 May 1966 and the strong tightening of bank liquidity. Moreover, there was uncertainty as to official issuing activity in the further course of the year until unlimited prolongation of the issue stop for government loans was announced at the end of June.

In view of this unstable market situation it was all the more important that between May and July “regular” issuers resorted to the market hardly any less than in the first part of the year, although the productivity of the market usually tends to decline towards the middle of the year. In these circumstances, of course it was in particular the mortgage bonds and communal bonds in circulation which suffered the heaviest price falls during the summer months (see the graph), so that in August they were on the average about 7 points below their level as at the beginning of the year. At the lowest point to which quotations fell, 7% mortgage bonds were valued at 89 per cent, 6% issues at 80 per cent and 5½% issues at only 78 per cent. In the course of this development, the average yield of banks' long-term issues in circulation rose to slightly over 8% in August last year, this being in line with the average yield of all bonds in circulation. At the same time,

¹⁾ Excluding convertible bonds issued in exchange for shares of domestic enterprises.



however, 10% and more was granted on the market of borrower's note loans, whose rates — which are not officially established — are always slightly above those for bonded loans with equal maturities.

In the further course of the year, however, the sharp restriction of the demand for capital on the bond market, especially by complete abstinence on the part of public authorities, gradually produced good results in the same way as the renewed liquidity of the banking system began to stimulate the amount of funds offered for investment. In July at all events the quotations for public authorities' bonds again tended upwards, whereas in the case of mortgage bonds and communal bonds the deterioration at first continued, although by no means as markedly as in the second quarter. In September the firming of prices also extended to issues of the real-estate credit institutions, so that by the end of the year, with the nursing of the market being deliberately continued, prices were attained throughout which on the average approximately equalled the end-

Gradual consolidation of bond market in the autumn

1965 level. It was therefore possible in December again to offer "occasional" issues in substantial amounts. On 16 December the Reconstruction Loan Corporation was the first issuer to raise a 7% loan at 96 per cent (after having converted its previous loans upwards to the uniform rate of 7%); this loan was oversubscribed, as was the loan issue of Siemens AG which followed in January 1967 at slightly less favourable terms. Now public issuers also deemed it appropriate to put an end to the voluntary issue stop, after having in fact placed a substantial amount of medium-term notes (*Kassenobligationen*) prior to the end of the year under special agreements with banks and institutional investors.

In 1967 so far the recovery of the bond market made considerable further progress. Net sales of domestic bonds in January and February 1967, at altogether DM 3.0 billion, substantially exceeded the comparable amount for the previous year (DM 1.6 billion), although this figure was largely attained by increased issues of medium-term notes, which at all events contributed towards nursing the bond market proper. The yield of all bonds in circulation

Pronounced tendency to lower interest rates in the first months of 1967

accordingly declined further to some 7.3% in February, compared with 7.6% in December and 8.1% in the months July to September. It was characteristic of the increasing market relaxation that the general public again participated to a greater extent in the acquisition of new bonds; this was recorded in particular for the DM 170 million loan issued at the end of March by the Federal Railways. The increased demand of the private public for bonds no doubt also was the determining factor causing the tendency towards lower interest rates to become more accentuated as from mid-March, so that interest on capital fell below 7% in the first ten days of April.

Distinct "improvement of the climate" also on the share market

The share market, where prices had almost continuously been under downward pressure last year, likewise has shown a more cheerful picture of late. Admittedly, the share price index (31 December 1953 = 100) calculated by the Federal Statistical Office, which in the year under report had fallen, subject to fluctuations, from 474 at the beginning of the year by 14 per cent to 408 at its end, further declined by 16 points or 4 per cent to 392 by 18 January, so that at that time the level of share prices even was appreciably below the trough recorded for October 1962, at the time of the Cuba crisis (405). Since then, however, prices have recovered within a few weeks, partly by leaps and bounds, to 445 on 7 April 1967. No doubt this reversal of the tendency was determined by the anticyclical decisions announced by the Federal Cabinet, viz., introduction of special depreciations for a specified period, and drawing up of a "contingency budget". This is indicated by the fact that the share prices in the fields of activity primarily affected by the Federal Government's investment programme rose first and most vigorously. In addition, however, the general tendencies to lower interest rates and the more optimistic appraisal of future developments as a whole contributed towards the price recoveries on the share market which later also spread to other fields.

IV. Cash Transactions of the Public Authorities

1. Receipts and expenditure

Basic tendencies

Large deficits continuing

Under the influence of the general tightness of credit, which in the first six months of 1966 was determined to some extent by measures of credit policy, the expansion of public authorities' expenditure slowed down in the past year. However, as in the latter course of the year the growth of receipts, too, was markedly weaker than before owing to the trend of economic activity, the territorial authorities (including Equalisation of Burdens Fund and E. R. P. Special Fund) as a whole again showed a large cash deficit, although to all appearances it was smaller than that for the year 1965 (DM 11 billion). This is indicated, at all events, by the figures for the central authorities, whereas no doubt there was hardly any change as compared with the previous year (deficit of DM 4.3 billion) in the cash results of the local authorities, on which detailed figures are not yet available. As against the slight improvement in the territorial authorities' cash figures there was a decrease – by approximately DM 1.25 billion to an estimated DM 1 billion – in the surpluses achieved by the social insurance institutions. For this reason, the overall deficit of all public authorities in 1966 was of roughly the same order as in 1965 when it had amounted to over DM 9 billion as compared with only DM 5 billion in 1964. Just as almost all other economic processes in the past year, the movement in public finances showed quite considerable differences as between the two halves of the year. Whereas in the first six months the cash figures were appreciably more favourable than in the comparable period of the preceding year, in the latter half, when the above-mentioned tax losses caused by the state of economic activity gained in importance, they deteriorated substantially.

Receipts

During the past year the public authorities as a whole received some DM 184 billion; that is approximately DM 14 billion, or 8 per cent, more than in 1965 when receipts had increased by roughly DM 12 billion or not quite 8 per cent. The principal category of receipts – taxes including Equalisation of Burdens levies – at 6.6 per cent showed less than average growth, however. Tax receipts totalled about DM 112 billion; at that rate, the growth was hardly any more marked than in 1965 (+ 6.1 per cent) when considerable shortfalls had resulted especially from the lowering of income tax rates. One reason for the rise in tax receipts being small again is to be found in the fact that the revisions of tax legislation which had come into force in 1965 still made themselves felt to some extent in the 1966 cash receipts, and that the 1965 Tax Amendment Law, effective as from the beginning of 1966, caused further losses to arise, although these were not very important compared with those recorded for 1965. But the decisive factor was the cyclical slackening apparent as from mid-1966. Whereas in the first half of 1966 tax receipts had still grown by 9.0 per cent on the year, the growth rate in the last six months was only 4.4 per cent. Accordingly, the figures for tax receipts budgeted on the basis of a 7.5 per cent rise in the nominal gross national product (whereas in actual fact the increase achieved was only 6.3 per cent) were not attained. For Federal Government and *Länder* the shortfall of receipts amounted to over DM 2.6 billion. This made itself felt to a particularly great extent in the case of the assessed taxes on income and earnings. While at

Relatively small increase
in tax revenue

The Central Public Authorities' Finances on a Cash Basis

Millions of DM

Item	1963	1964	1965	1966 ^{c)}
I. (1) Balance of cash receipts and expenditure ¹⁾				
(a) Federal Government ²⁾ ³⁾	-2,691	- 666	-1,927	-2,317
(b) Equalisation of Burdens Fund ³⁾	- 214	- 296	+ 96	+ 323
(c) E.R.P. Special Fund ⁴⁾	- 280	- 109	- 241	+ 38
(d) <i>Länder</i>	- 625	-1,873	-4,279	-3,695
Total I (a to d)	-3,810	-2,944	-6,351	-5,651
(2) Special transactions ⁵⁾	769	950	789	721
(3) Cash surplus (+) or deficit (-)	-4,579	-3,894	-7,140	-6,372
II. Financing				
Increase (+), decrease (-) in				
(1) Cash reserves				
(a) Federal Government	+ 53	+ 199	- 246	+ 204
(b) Equalisation of Burdens Fund	+ 100	- 110	- 0	- 2
(c) E.R.P. Special Fund	+ 220	- 117	- 243	+ 33
(d) <i>Länder</i>	- 716	- 861	-1,174	- 728
Total 1 (a to d)	- 343	- 889	-1,663	- 493
(2) Indebtedness				
(a) Federal Government	+2,880	+1,202	+1,704	+2,564
(b) Equalisation of Burdens Fund	+ 778	+ 687	+ 506	+ 204
(c) E.R.P. Special Fund	+ 500	- 8	- 2	- 5
(d) <i>Länder</i>	- 73	+ 961	+3,111	+2,940
Total 2 (a to d)	+4,085	+2,842	+5,319	+5,703
(3) Amounts credited to Federal Government in respect of coinage	151	163	158	176
(4) Total (1 less 2 less 3)	-4,579	-3,894	-7,140	-6,372

¹⁾ 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. — ²⁾ Except Federal Railways and Federal Postal Administration. — ³⁾ 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. — ⁴⁾ Including special fund for the promotion of professional skill. — ⁵⁾ Fulfilment of expenditure commitments by allocation of claims (including subsequent allocation of equalisation claims, but excluding Debt Register claims of pension insurance institutions). — ^{c)} Partly estimated.

first quite appreciable final payments were received for 1964, a year of large profits, in the latter course of 1966 advance payments were reduced in many cases, especially in respect of corporation tax. Altogether receipts from assessed income tax, corporation tax and trade tax increased by only 4.7 per cent. The rise in the turnover tax yield was weaker still (+ 3.9 per cent) owing to the small growth of domestic turnover and to exemption from, and refunding of, turnover tax on the greatly increased exports of goods. As to the other major taxes, it was only wages tax (+ 13.8 per cent), excise duties (+ 7.8 per cent) and motor vehicle tax (+ 8.7 per cent) which increased more substantially. Receipts from Equalisation of Burdens levies, on the other hand, were smaller than in 1965 by 7.7 per cent.

Large increase in social insurance contributions

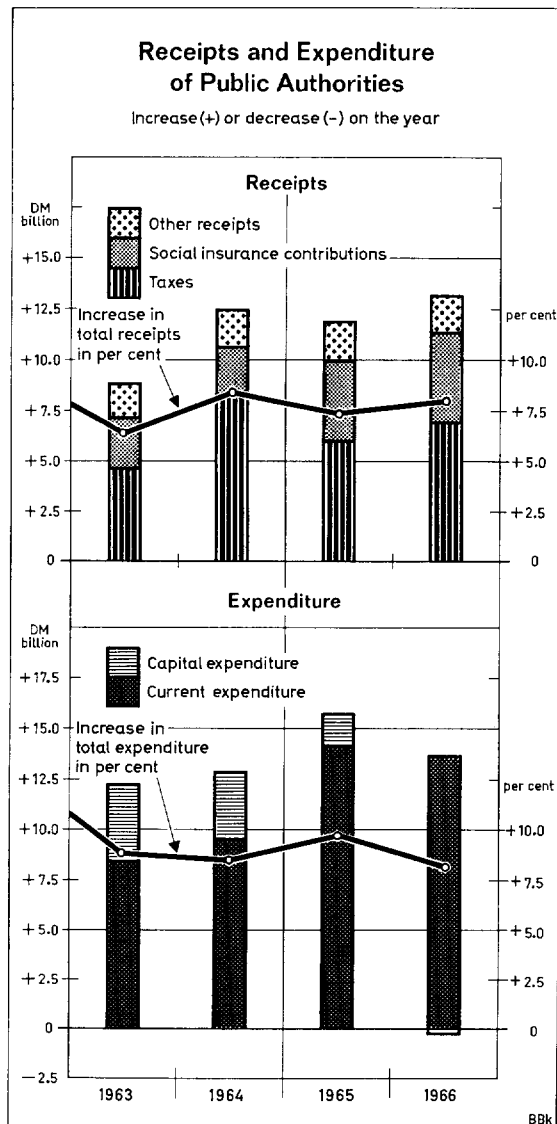
In contrast with tax receipts, social insurance contributions rose vigorously, by a total of 11 per cent. At that rate their increase appreciably exceeded that of total gross wages and salaries. This was largely due to the circumstance that 1966 was the first full year to be affected by the amendments in contribution legislation decreed in 1965. Thus, the receipts of the insurance institutions clearly reflect the fact that for employees the insurance liability limits had been raised in pension insurance as per 1 July 1965 (from DM 1,250 per month to DM 1,800) and in health insurance as per 1 September 1965 (from DM 660 per month to DM 900), while in addition the income limit for computing the contribution was raised correspondingly for all compulsory members of health insurance as per 1 September 1965. Moreover, with effect from January 1966 the monthly contribution to farmers' old-age assistance was increased, and as from 1 October 1966 the income limit for computing the contribution to unemployment insurance was likewise raised (from DM 750 per month to DM 1,300). Furthermore, numerous health insurance funds were obliged again to put up their contribution rates. Altogether the contribution income of the social insurance institutions would seem to have amounted to some DM 46 billion during 1966.

Expenditure

Slower rise in expenditure, but above-average increase in current expenditure

The rise in public authorities' overall expenditure during 1966 was appreciably smaller than in preceding years, but still about as great as that in receipts and more vigorous than the growth of the nominal gross national product. At an estimated DM 193 billion expenditure was just on DM 15 billion, or about 8 per cent, larger than in 1965 when it had risen by almost DM 16 billion or 10 per cent. The relative curbing of expenditure was effected largely at the expense of direct and indirect investment, whereas the other items of expenditure continued to be raised markedly even though no longer quite as much as in 1965. Thus last year, just as in 1965, such expenditure increased its proportion to total expenditure after having risen less than capital expenditure in the years 1960 to 1964. The rise was greatest in spending on personnel and for social purposes. Expenditure on personnel exceeded by approximately 11 per cent the figure for the year 1965 (when it had grown by over 12 per cent). One principal reason for the renewed great increase was the raising of officials' emoluments, which in the case of the Federal Government and most *Länder* — and hence in the case of the other public authorities as well — had been raised by 4 per cent each as per 1 January and 1 October 1966; another was the raising of collectively agreed wages and salaries of the other persons employed in public service (by altogether 7 per cent) coming into force in April and October 1966. However, just as in 1965 increases in the number of jobs and, in particular, structural improvements in respect of pay (more rapid promotion and upgrading of officials and employees), also required substantial additional funds.

The growth in social expenditure was even greater than that in expenditure on personnel. This applies in particularly pronounced form to the expenditure of the social insurance institutions. With effect from 1 January 1966 the pension insurance funds raised current pensions by 8.3 per cent in line with the raising of the general basis of assessment in the preceding year. Furthermore, the "Hardship Amendment", which came into effect in 1965 (amending a number of provisions on the granting of pensions), and the current increase in the number of pensioners resulted in additional expenditure. In accident insurance, pensions were raised by as much as 8.9 per cent,



likewise with effect from 1 January 1966. Health insurance also came in for substantial additional expenditure; in particular, the new scales of doctors' and dentists' fees effective from 1 April 1965, the raising of sickness benefit (as from September 1965) in the case of temporary disability lasting more than six weeks, and the increased rates for hospital treatment, caused substantially larger expenditure to be met by the insurance institutions. Payments by the Unemployment Insurance Fund, on the other hand, in 1966 were slightly smaller than in 1965. True, as a result of the increase towards the end of the year in the number of recipients of full benefit payments, and, as from October 1966, because of the raising of the income limit to be taken into account for calculating the payments, the Federal Institution for Labour Exchanges and Unemployment Insurance had to increase its expenditure on unemployment benefit in the last few months of the year, but at the beginning and towards the end of 1966 it saved considerable amounts, as compared with 1965, as a result of favourable weather conditions.

In contrast with expenditure on personnel and for social purposes the expenditure on defence — the third large item of current expenditure — rose only slightly, in fact by just on 4 per cent (1965: 3 per cent); until end-November, expenditure had actually fallen short of the amount for the comparable period of the previous year, and it was only the special payment of DM 1 billion

under the Foreign Exchange Offset Agreement with the United States, entered in the supplementary budget of the Federal Government, which caused expenditure to exceed the total for 1965. No details are yet available as to the other items of current expenditure, although they appear to have increased somewhat less last year than in 1965 (+ 12 per cent) because important items of expenditure were stagnating or even declining. The former included, for instance, the allocations to the Federal Railways, the latter the disbursements in favour of agriculture (part of the scheduled payments being postponed until the new year) and on indemnification, since no further payments had to be made to Israel and certain restitution payments were much smaller than in 1965.

The economies made by public authorities thus affected current expenditure only to a small extent while they predominantly concerned capital expenditure. In the case of indirect investments, *i. e.* loans to third parties and grants towards third parties' capital projects, as well as in the acquisition of participations, it has of course for a long time already been advisable to make some restrictions. In particular, expenditure on housing, which has always been an item of special importance, no longer appears as urgent as formerly in view of the construction work done in the last 20 years and of the better standard of housing thus achieved, and also in view of the progressing liberalisation of the housing market. Public authorities accordingly somewhat decreased their

Curbing of capital expenditure

expenditure in this field, so that — with partly substantial retrenchments in other fields as well — total indirect investments in 1966 were smaller by about 6 per cent than a year before. However, public authorities' own expenditure on material assets (including buildings, acquisition of landed property and procurement of movables) for the first time also was increased only slightly (by 3 per cent), whereas in all other years since the currency reform it had risen substantially. The restraint shown by public authorities in spending on buildings was felt very much in the building industry, especially because the demand for building work by other spheres of the economy likewise increased but little, while the productive capacity of the building industry grew further, partly owing to the favourable weather.

2. Indebtedness and reserves *)

Indebtedness¹⁾

Substantial increase

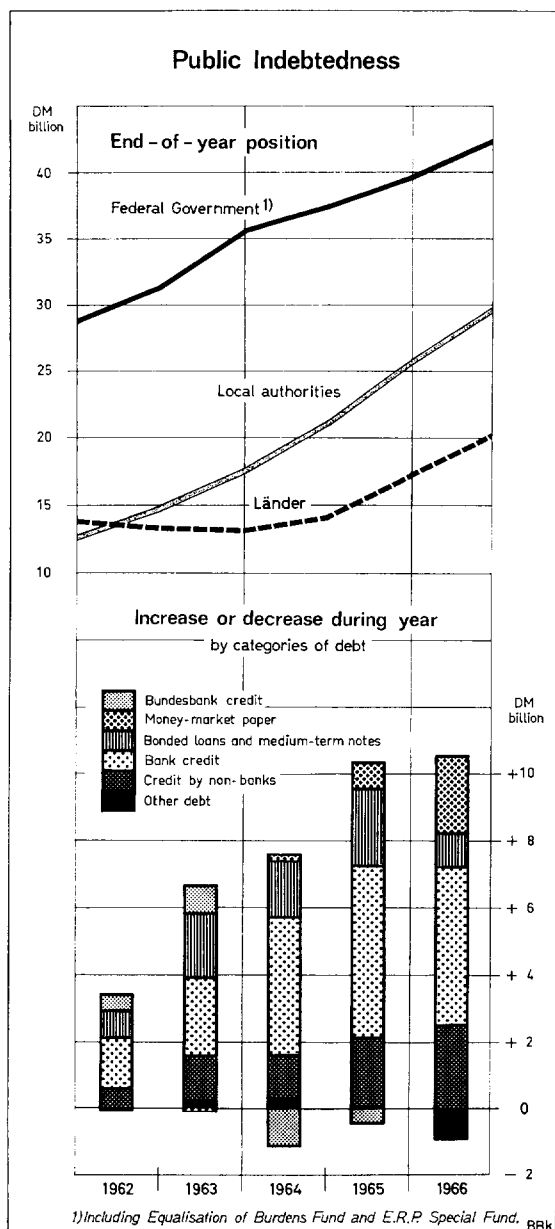
As a result of the large deficits the overall indebtedness of territorial authorities and their special funds (the social insurance funds are left out of consideration, as their debts are insignificant) has again grown considerably. At the end of 1966 the total indebtedness of all territorial authorities exceeded by DM 9.6 billion the end-1965 level; while the increase thus did not quite attain that recorded for 1965 (DM 9.9 billion), it still was much larger than in 1964 (DM 6.4 billion). The Federal Government was alone in expanding its indebtedness at a greater rate than a year before (DM 2.6 billion as against DM 1.7 billion), owing partly to the financing of the foreign exchange offset payments to the United States and partly to the fact that Federal tax receipts fell short of expectations in particularly great measure. Equalisation of Burdens Fund, *Länder* and local authorities, on the other hand, did not incur as much indebtedness as in 1965. The Equalisation of Burdens Fund last year borrowed only DM 204 million compared with DM 506 million in the previous year. The *Länder*, whose credit requirements had soared from just on DM 1 billion in 1964 to DM 3.1 billion in 1965 as a result of the rapid deterioration in their financial position, resorted to the market to the extent of some DM 2.9 billion in the past year. There was a particularly marked decline in the borrowing of local authorities, which procured about DM 3.9 billion of outside funds as against DM 4.6 billion in 1965. Just as in the two preceding years, the E.R.P. Special Fund did not have recourse to borrowing at all.

The individual categories of debt

The changes in the composition of public debts clearly reflect the temporarily abnormal situation on the capital market during 1966. The two principal forms of public indebtedness, *viz.*, issue of loans and borrowing from banks (mostly at longer term), appreciably lost in importance among the items of indebtedness newly incurred. The circulation of bonds issued by public authorities rose by only DM 0.9 billion during 1966, whereas in 1965 it had increased by over DM 2.2 billion and in 1964 by approximately DM 1.3 billion. The decisive factor in this connection was that, in accordance with the resolutions adopted at the Round Table — a body which is to coordinate public authorities' recourse to the bond market — no more public bonds were issued as from the spring of 1966 in order to afford relief to the market (the only exception being "performance bonds" of the Equalisation of Burdens Fund, which serve the advance settlement of claims of persons entitled to basic compensation). In the course of the year, like 1965, the circulation of medium-term notes (*Kassenobligationen*) increased only by a small margin (DM 91 million) as the quite substantial new issues were offset to a great extent by large redemptions. While the credit institutions' lending at almost DM 4.7 billion net still accounted for approximately one half of the

*) As regards the method used, the following data are more narrowly delimited than those given for the public sector in Chapter III 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 chapter concerns only public authorities in the narrower sense, *i. e.* the Federal Government, the *Länder*, the Equalisation of Burdens Fund, the local authorities and the social insurance institutions. This results in discrepancies between the two chapters, 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.

¹⁾ Different from the data on public indebtedness given in previous Annual and Monthly Reports, which only comprised the credit market indebtedness of the public authorities, now all debts (with the exception of the special credits granted by the Bundesbank for payments to the International Monetary Fund) have been included. At the same time certain intra-sectoral debts of the "government" sector were included, *viz.*, the claims of the social insurance funds on the territorial authorities. Further explanations will be given in a study to be published shortly in the Monthly Report of the Deutsche Bundesbank.



total increase in indebtedness, it likewise fell short of the amount for 1965 (DM 5.1 billion). This chiefly reflected the fact that at least until the autumn of 1966 the issuing institutions, which are of particular importance as lenders to public — especially local — authorities, were able to grant loans only to a relatively small extent owing to the difficulties met in procuring funds by the issue of bonds (communal bonds), and that such loans' attraction for official debtors declined in view of the temporarily very high interest rates. As against this, borrowing from other banks was hardly any smaller in 1966 than it had been in 1965. The special situation on the capital market *i. a.* also accounted for the fact that the maturities of long-term credits raised in 1966 were shorter on the average than before, and that medium and short-term loans were taken at a greater rate. This tendency was promoted by the official debtors themselves, since quite generally the terms for shorter-term loans were more favourable while debtors moreover could hope on maturity of their liabilities to meet with a capital market situation permitting consolidation by means of taking long-term loans at more favourable terms.

The difficulties facing the public authorities when borrowing at longer term on the bond market and from banks contributed towards the indebtedness in the money market and to institutional investors other than banks rising in particularly marked degree. Of the rise in overall indebtedness of territorial authorities during 1966, DM 2.3 billion or nearly one quarter concerned Treasury bills and non-interest Treasury bonds, whereas in 1965 only

DM 0.8 billion (8 per cent) had been raised in this way. As usual, it was almost exclusively a matter of Federal Government paper, which was issued in the last few months of 1966 for the purpose of financing substantial payments under the Foreign Exchange Offset Agreement with the United States and the 1966 budgetary deficit. The substantial increase of loans granted by institutional investors other than banks — chiefly insurance companies and building and loan associations — was due in the main to the demand by *Länder* and local authorities, which found a substitute by switching to these sources of credit. As regards the other categories of debt, it may be mentioned that, in spite of the very difficult cash position, the book credits taken from the Bundesbank at the end of 1966 fell short by DM 244 million of the amount taken a year before. While the *Länder* resorted to these funds at an increased rate — in some cases up to the limit fixed by law — both the Federal Government and the Equalisation of Burdens Fund took less in book credits from the Bundesbank than in 1965. However, at the end of the past year the legally fixed ceiling for cash advances was utilised to a greater extent than in all preceding years, because, in addition to book

credits, the Treasury bills in circulation also have to be counted towards it (cf. the explanations concerning the Annual Statement). The special credits granted by the Bundesbank to the Federal Government (excluding the loans serving fulfilment of its liabilities to the International Monetary Fund), which in each of the past few years had declined by more than DM 600 million owing to redemption of claims from post-war economic aid and to meeting of the revaluation loss, increased by DM 190 million during 1966. The Federal Government redeemed its debts according to schedule also in 1966, it is true; but at the same time the Bundesbank acquired the remaining claims of the United States on the Federal Republic of Germany in respect of post-war economic aid (DM 779 million). The external indebtedness of the Federal Government accordingly declined (incidentally this transaction was counted towards the Federal Government's commitments under the Foreign

Indebtedness of Territorial Authorities¹⁾

Millions of DM

Item	End-of-year position				Change during year		
	1963	1964	1965	1966 ^{e)}	1964	1965	1966 ^{e)}
I. Borrowers							
(1) Central authorities	49,001	51,843	57,162	62,865	+2,842	+5,319	+5,703
(a) Federal Government	30,136	31,338	33,042	35,606	+1,202	+1,704	+2,564
(b) Equalisation of Burdens Fund	4,961	5,648	6,154	6,358	+ 687	+ 506	+ 204
(c) E.R.P. Special Fund	575	567	565	560	— 8	— 2	— 5
(d) <i>Länder</i>	13,329	14,290	17,401	20,341	+ 961	+3,111	+2,940
(2) Local authorities	17,686	21,264	25,844	29,745	+3,578	+4,580	+3,901
Total (1 plus 2)	66,687	73,107	83,006	92,610	+6,420	+9,899	+9,604
II. Categories of debt							
(1) Book credits of Bundesbank	1,749	1,212	1,408	1,164	— 537	+ 196	— 244
(2) Special credit of Bundesbank to Fed. Govt. ²⁾	3,650	3,008	2,340	2,530	— 642	— 668	+ 190
(3) Money-market paper ³⁾	451	598	1,378	3,693	+ 147	+ 780	+2,315
(4) Medium-term notes (<i>Kassenobligationen</i>)	626	1,088	1,168	1,259	+ 462	+ 80	+ 91
(5) Bonded loans ⁴⁾	7,712	8,973	11,195	12,092	+1,261	+2,222	+ 897
(6) Direct lending by credit institutions	15,582	19,656	24,749	29,406	+4,074	+5,093	+4,657
(7) Social insurance institutions' claims on the Debt Register	3,123	3,543	4,209	4,829	+ 420	+ 666	+ 620
(8) Loans granted by social insurance institutions	1,943	2,115	2,381	2,384	+ 172	+ 266	+ 3
(9) Other loans	4,399	5,121	6,339	8,302	+ 722	+1,218	+1,963
(10) Commutation and compensation debt	1,003	1,020	1,006	997	+ 17	— 14	— 9
(11) Equalisation claims	20,419	20,550	20,489	20,336	+ 131	— 61	— 153
(12) Covering claims ⁵⁾	2,542	2,807	3,035	3,238	+ 265	+ 228	+ 203
(13) External debt	3,488	3,416	3,309	2,380	— 72	— 107	— 929
Total (1 to 13)	66,687	73,107	83,006	92,610	+6,420	+9,899	+9,604
III. Creditors							
(1) Banking system							
(a) Bundesbank	14,240	13,110	12,451	12,794	—1,130	— 659	+ 343
(b) Credit institutions	27,554	32,560	38,969	44,908	+5,006	+6,409	+5,939
(2) Domestic non-banks							
(a) Social insurance institutions	5,771	6,690	7,941	8,782	+ 919	+1,251	+ 841
(b) Other ⁶⁾	15,472	17,247	20,035	22,946	+1,775	+2,788	+2,911
(3) Foreign countries ^{e)}	3,650	3,500	3,610	3,180	— 150	+ 110	— 430
Total (1 to 3)	66,687	73,107	83,006	92,610	+6,420	+9,899	+9,604

¹⁾ Including Equalisation of Burdens Fund and E.R.P. Special Fund. — ²⁾ 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. — ³⁾ Excluding paper deriving from the conversion of equalisation claims (mobilisation paper). — ⁴⁾ Including interest-bearing Treasury bonds; without bonds in the issuers' own portfolios. — ⁵⁾ 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. — ⁶⁾ Public and private creditors (ascertained as difference). — ^{e)} Partly estimated.

Exchange Offset Agreement), but the indebtedness to the Bundesbank rose correspondingly. Moreover, the Bundesbank acquired DM 156 million of claims of the Bank for International Settlements on the Federal Government; at the end of the year these claims still amounted to DM 125 million.

The differences in movement as between the various categories of debts were also reflected in the structure of debt ownership. DM 5.9 billion, or 62 per cent of the total increase in indebtedness, came from banks, which not only granted loans in the amount of DM 4.7 billion, as mentioned above, but also increased their holdings of money-market paper and of public authorities' bonds and medium-term notes. Thus the banks' claims on territorial authorities rose less than in 1965 (DM 6.4 billion). The social insurance funds, too, restricted their lending (including acquisition of certificates of indebtedness); in 1966 it amounted to DM 0.8 billion as compared with DM 1.3 billion in the previous year. External claims on German public authorities declined to some extent, chiefly as a result of the Bundesbank acquiring the above-mentioned claim of the United States on the Federal Government. Likewise, it is largely a result of this transaction that in 1966 the claims of the Bundesbank on territorial authorities increased by over DM 0.3 billion following a decline by some DM 0.7 billion in 1965. Furthermore, the indebtedness of public authorities to domestic non-banks (chiefly building and loan associations and insurance companies but also private individuals) rose by DM 2.9 billion as against DM 2.8 billion in 1965.

Changes in
debt ownership

Reserves

Only incomplete figures are available on the movement in the liquid reserves of public authorities. It appears that the territorial authorities and their special funds further reduced their liquid resources, although not to the same extent as in 1965. This at least applies to the central authorities, whose cash holdings in the past year declined by not quite DM 0.5 billion as against DM 1.7 billion in 1965. The *Länder*, in particular, which ever since 1963 have resorted to their initially quite large reserves, in 1966 again had recourse to their credit balances, although only in the amount of DM 0.7 billion as against nearly DM 1.2 billion in the previous year. Their deposits with the Bundesbank thus shrank to about DM 0.5 billion by the end of 1966, the major part of this amount being held by a few *Länder*. The ("other") funds, employed by the *Länder* with banks, also fell considerably below their previous level. While the Federal Government at the end of 1966, in contrast with the previous year, had cash reserves in the amount of over DM 200 million, this concerned only temporary employment of cash resources earmarked for future fulfilment of the Foreign Exchange Offset Agreement. Furthermore, the E.R.P. Special Fund also slightly increased its cash resources (by DM 33 million) in the course of the year, after having reduced its reserves by DM 243 million in 1965. The movement in the case of local authorities is not known for certain. As early as 1965 their liquid reserves had scarcely increased any further, although in almost all previous years the rise in indebtedness had been accompanied by a substantial increase in cash reserves, as under budgetary law concerning borrowing for capital projects these authorities are required to hold available the funds already at the time the orders are placed. It appears, however, that in the past year the cash position compelled local authorities to reduce their liquid reserves.

Recourse to
liquid funds

Of the surpluses, estimated at DM 1.1 billion, which remained to the social insurance institutions after providing for current and capital expenditure, the territorial authorities and their special funds received over DM 0.6 billion as direct loans or against Debt Register claims. The residual DM 0.5 billion (compared with DM 1.4 billion in the preceding year) was employed by the insurance institutions with banks (as deposits or free loans), in money-market paper, and in longer-term bonds. It is remarkable in this context that in the course of the year the insurance institutions — partly in view of the amendments to the Interest Rates Order mentioned in the previous chapter — to some extent regrouped their assets, inasmuch as on balance they reduced their free loans to banks and their investments in longer-term securities, while substantially increasing the time deposits; they also acquired money-market paper in the amount of about DM 300 million.

3. Outlook

Large deficits
also in 1967

The partial data on the budget estimates for 1967 so far to hand indicate that in the current year the overall deficit of public authorities will hardly be any smaller — indeed even larger, if anything — than in 1966. In view of the changed economic situation, in 1967 the appraisal of the tendencies to deficits is, of course, bound to differ from that in 1966, not to mention 1965 when the expansive effects emanating from public authorities had substantially intensified the inflationary pressure within the country. The present slackening of economic activity requires an increase in domestic demand which, as matters stand, cannot be attained without raising government expenditure since enterprises will not increase their capital investments until their profit expectations have become more optimistic as a result of improved ultimate sales and more favourable price-cost ratios. The measures aimed at filling “in the classical way” the gap in this year’s Federal budget — which according to the planning as at the beginning of January 1967 amounted to DM 3.7 billion — might be considered a contradiction to this requirement, seeing that for the greater part they consist in opening up additional tax receipts (by earlier payment dates for excise and customs duties) and in curbing expenditure. It was necessary, however, by more energetic measures to combat the longer-term tendencies which became more and more clearly apparent in the Federal budget (and, incidentally, in the budgets of *Länder* and local authorities as well). These tendencies consist in the fact that already under present legal provisions expenditure on consumption grows at a disproportionate rate compared with receipts, this of course increasingly curtailing the financial margin for capital expenditure. The medium-term financial forecast published by the Federal Ministry of Finance in the autumn of 1966 very clearly showed the extent of the deficits which in all likelihood will arise, in the Federal budget alone, in the years up to 1970 unless the growth of expenditure is markedly curbed. In this context it will be unavoidable to revise existing legislation. The measures taken to balance the 1967 Federal budget must therefore be considered a first step on the way to give future budgets a new structure. The unfavourable effect on economic activity which the measures taken towards closing the gap would have had at the present time was forestalled by the Federal Cabinet at the same time resolving an additional investment budget in the amount of DM 2.5 billion. The Bundesbank has promised to support the financing of Federal budgetary deficits in 1967 — as far as these result from the nominal national product increasing by less than 5 per cent and tax revenue thus failing to attain the amount budgeted — by placing in the market shorter-term paper, *i. e.* non-interest Treasury bonds and medium-term notes (*Kassenobligationen*). The supplementary investment budget of DM 2.5 billion — the “contingency budget” of the Federal Government — is also to be financed in this way, due regard being given to the monetary and economic situation.

Extent of growth in
receipts uncertain, ...

In view of the uncertainty with regard to future cyclical developments it is not at present possible clearly to see whether public revenue will increase this year at a greater or smaller rate than in 1966. However, there is much to suggest that, in view of the slowing down of economic growth, tax receipts will at best rise at the same rate as in 1966, although substantial additional receipts can be expected to accrue under the tax amendment laws which have meanwhile come into force and which provide for cancellation of a number of tax concessions and for raising of the mineral oil tax (as from 1 January 1967) and the tobacco tax (as from 1 March 1967). But social insurance contributions will certainly increase appreciably less than in 1966. In fact, the emoluments liable to insurance will not grow as much as in the past year; moreover, amendments in contribution law will not play as important a part as in 1966, especially since for reasons of anticyclical policy the Federal Cabinet finally refrained from raising for the year 1967 the contributions to social pension insurance, which would actually have been necessary in view of the financial requirements.

... but expenditure
expanding substantially

As regards expenditure, all pointers indicate that in its case expansion in 1967 will be greater than it was in 1966. Admittedly, *Länder* and local authorities once more showed great caution in

their budget appropriations. In fact the *Länder* intend to spend only 4 per cent more than they had budgeted for 1966, and capital expenditure is actually planned to decline in absolute terms; budget planning by local authorities is on similar lines. However, both *Länder* and local authorities can resort to appropriations of previous years, the result being that in 1967 actual expenditure will be greater than budgeted, provided the credit markets continue to be more productive and borrowing facilities will be more favourable than had been assumed when the budget estimates were drawn up. But the decisive factor is that the Federal Government will markedly increase its expenditure. Compared with actual expenditure in 1966, and with the above-mentioned investment budget of DM 2.5 billion included, the Federal Government in 1967 will spend quite 9 per cent more than a year before, when the increase was just on 5 per cent. Payments by social insurance institutions also will possibly rise more vigorously than in the past year. In the pension insurance institutions and in accident insurance current pensions have been further raised by 8.0 per cent and 9.0 per cent, respectively, with effect from 1 January 1967, *i. e.* by about the same rate as in 1966; moreover, the number of pensioners continues to grow. In view of the greater number of unemployed and of short-time workers, and because of the raising of benefits effective as from April 1967, the Unemployment Insurance Fund, too, will have substantially to expand its out-payments. On the other hand, the expenditure of the health insurance funds probably will rise less vigorously than before. Another important factor bearing on the finances of the social insurance institutions is that the Federal Government is saddling the various insurance institutions with expenditure items in the amount of approximately DM 800 million by curtailing grants previously made or by transferring to the insurance funds functions it had previously assumed itself. The large expenditure increases will cause deficits to arise, in the place of the surpluses previously recorded in current account, with the pension insurance funds and the Unemployment Insurance Fund. These deficits will amount to at least DM 1.5 billion in the case of the pension insurance institutions and to roughly DM 0.5 billion in that of the Unemployment Insurance Fund, whereas in the past year the two branches of social insurance had still achieved surpluses of altogether some DM 2 billion in current account. The insurance institutions will therefore have to resort to their reserves. In the first place they will use their liquid funds maintained with banks, and this will not fail to affect the liquidity of those credit institutions with which deposits of social insurance institutions play a major part. In addition, however, they will not renew certain longer-term investments on maturity; a number of insurance institutions are even compelled to sell securities, this being rather undesirable in view of the still unstable situation on the bond market.

V. Economic Activity

In the course of the year 1966 recessionary tendencies increasingly made themselves felt in the Federal Republic of Germany. Starting with investments, the pressure of demand, at first still present, diminished to such an extent that despite substantial incentives emanating from exports in many cases overall demand was no longer sufficient to ensure the full utilisation of plant. Growth of production slowed down and towards the end of the year production had not infrequently to be somewhat limited in fields particularly sensitive to cyclical influences. With a considerable time-lag the labour market responded by the relaxation aimed at for a long time, which in turn began to exert a damping effect on the course of wages. The uptrend of prices likewise slowed down during the second half of the year. During the first months of 1967 the signs of recession in the labour market and in investment activity aggravated, so that, as already mentioned in the introductory "General Survey", the promotion of domestic demand appeared advisable. In the following the tendencies prevailing in important sections of the economy during the past year are described in more detail.

1. Demand

Capital expenditure of enterprises

Declining
capital expenditure

In the sphere of private enterprise the slackening in investment activity was particularly marked. According to provisional calculations, in 1966 total capital expenditure of enterprises (except housing) at DM 75 billion fell 6 per cent short of the amount recorded the year before, whereas in 1965 there had been a rise on the year of 14 per cent. Although gross investments decreased relatively little (— 2 per cent) during the first half of 1966, in the further course of the year they dropped more and more below the preceding year's expenditure. In the second half they were 10 per cent smaller than in the second half of 1965. By far the greatest decrease during 1966 was recorded for capital expenditure on inventories, since industry exercised extreme caution in its stock arrangements owing to the downward phase of the economic cycle. According to the admittedly very rough figures of the National Accounts, inventories grew by DM 1 billion or only just on one-sixth of the amount for 1965. Whereas specifically during the second half stocks of finished goods may be assumed to have risen further on non-seasonal grounds because of increasing sales difficulties, stocks of pre-products probably declined appreciably during the same period. At any rate, by the end of the year stocks of rolled-steel finished goods with capital goods industries (measured by steel consumption) reached an almost unprecedented low.

Enterprises' expenditure on equipment, too, after a 14 per cent increase in 1965, last year did not quite attain the level of the year before. Although it increased by 5 per cent during the first half, on the average of the months July to December 1966 6 per cent less was spent on equipment than a year previously. Better than in actual expenditure, which reflects alterations in enterprises' planning only with a time-lag, the flagging propensity to invest shows up in orders for equipment. In the second half of 1966 domestic orders received by capital goods industries, which are largely indicative of this, were 12 per cent smaller than a year before, after having been 1 per cent smaller in the first six months. Mechanical engineering, which almost exclusively produces equipment, received in fact 16 per cent fewer orders on the average of the months July to December 1966 than a year previously. Early in 1967 domestic orders continued to fall off; on the average of the months January/February 1967 capital goods industries as a whole received such orders at the rate of almost one-fifth less than a year ago.

Heavy decrease in
capital projects ...

On the other hand, the business community's demand for construction work rose also during the past year, which was probably the result of intensified planning by non-industrial enterprises,

Investment Activity in the Overall Economy

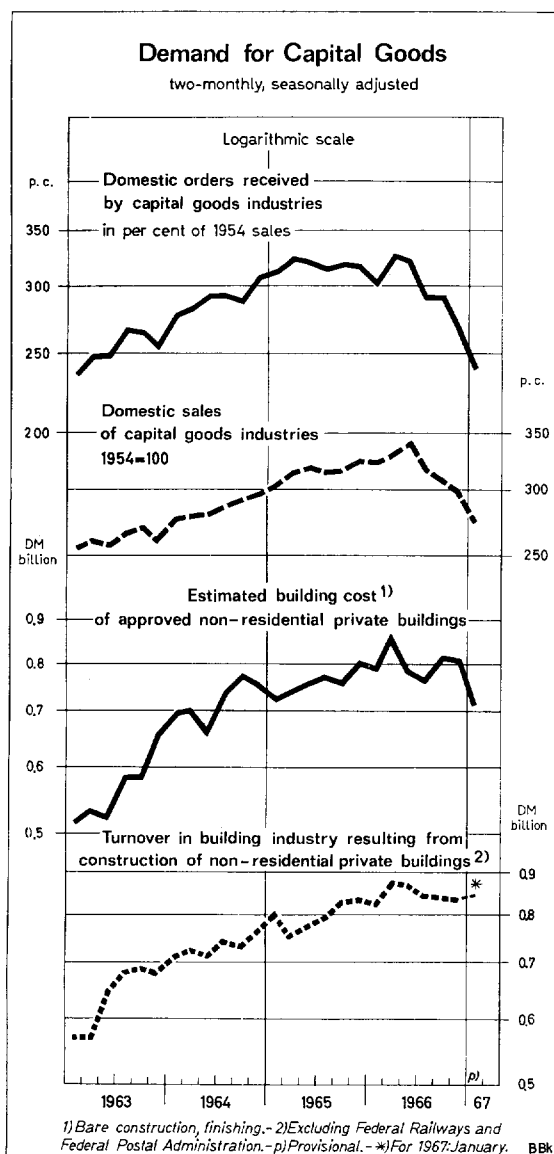
Item	1964	1965 P)			1966 P)			1965 P)	1966 P)		
		Total	1st hf	2nd hf	Total	1st hf	2nd hf		Total	1st hf	2nd hf
Gross investments classified by sectors	Billions of DM							Year-to-year change in per cent			
(1) Enterprises (excluding housing) ¹⁾	69.6	79.3	40.9	38.4	74.6	40.1	34.4	+14.0	— 6.0	— 1.9	—10.4
of which:											
Building	(14.8)	(15.9)	(7.2)	(8.7)	(17.1)	(8.1)	(9.0)	+ 7.2	+ 7.4	+11.8	+ 3.7
Equipment	(50.1)	(56.8)	(27.6)	(29.2)	(56.5)	(28.9)	(27.6)	+13.5	— 0.6	+ 4.6	— 5.5
Inventories	(4.7)	(6.6)	(6.1)	(0.5)	(1.0)	(3.2)	(—2.2)	.	.	.	.
(2) Housing ¹⁾	26.0	27.1	12.6	14.5	28.9	13.9	15.0	+ 4.5	+ 6.5	+10.3	+ 3.2
(3) Government ¹⁾	18.3	19.3	7.6	11.7	20.1	8.3	11.8	+ 5.4	+ 4.0	+ 8.9	+ 0.9
of which:											
Building	(16.8)	(17.7)	(7.0)	(10.7)	(18.3)	(7.7)	(10.7)	+ 5.5	+ 3.7	+ 9.3	± 0
Equipment	(1.6)	(1.6)	(0.6)	(1.0)	(1.7)	(0.7)	(1.1)	+ 3.2	+ 8.1	+ 4.8	+10.2
Gross investments, total (1 to 3)	113.9	125.7	61.1	64.6	123.5	62.3	61.2	+10.4	— 1.8	+ 1.9	— 5.3

¹⁾ Acquisition or sale of real estate excluded. — P) Provisional figures.

such as commerce, banks and insurance companies where, in contrast with industry, business activity did not slacken. Thus last year estimated building costs for approved non-residential buildings were altogether 5 per cent higher than in 1965. Taking the second half by itself the increase was no more than just on 2 per cent. During the first two months of 1967 estimated building costs dropped as much as 13 per cent below the comparable level of last year, thus largely adapting themselves to the domestic demand for equipment which had shown a downward trend for some time past.

The weakening in the enterprises' propensity to invest was primarily due to the fact that the enterprises' profit situation continued to deteriorate in 1966, after having taken quite an unfavourable course already during 1965. It was of crucial significance in this connection that the persistently rising production cost, specifically the wage increases which during the year under review by far exceeded the advance in productivity, could less and less be passed on in prices owing to the calming down of economic activity, so that profits per unit sold diminished. Since, unlike the year before, at the same time sales grew only slightly, this frequently involved an absolute decline in profits. According to provisional calculations enterprises' undistributed profits went down by another 14 per cent last year, after having suffered a decrease of 17 per cent in 1965. True,

... mainly due to further deterioration in profit situation



with the inclusion of "capital transfers" from other sectors, and of depreciations, enterprises had at their disposal altogether 6 per cent more funds for self-financing than during the year before. However, these additional resources were not only used for financing capital expenditure, but to a greater extent than before for the redemption of short-term credit and in some cases also for the formation of financial reserves. On the whole, industry saw no reason to expand investments because already existing capacities were less than previously utilised. According to the trend check carried out by the Ifo Institute for Economic Research, the use of capacities by processing industries, which in the first six months had shown an only insignificant decrease on the year, in October 1966 at 84 per cent was 5, and in January 1967 at 77 per cent 8, percentage points lower than a year earlier.

Investments of public authorities and house-building

In contrast with the greatly diminished investment activity of enterprises, capital expenditure of public authorities — principally on building projects — even towards the end of 1966 was hardly any smaller than a year earlier. In the first six months of the year it had actually shown a 9 per cent increase on the year. Admittedly, public capital expenditure in 1966 in the main was probably connected with building projects planned at an earlier time, whereas the ordering of new projects

Public authorities' building investments slightly increased, but decline in planning

was considerably curbed, above all as a result of the scarcity and higher cost of long-term finance. At any rate, for the whole of 1966 estimated construction cost of newly authorised public buildings, which of course is only a rough indicator, was almost 10 per cent lower than for 1965, while in the second half alone the decrease was as much as 19 per cent. On the average of the months January/February 1967, however, permits granted for public buildings were only 3 per cent less than a year ago, undoubtedly a consequence of the relaxation in the capital market, which has already led to increased borrowing by public authorities and is expected to continue in the future. A heavy decrease on the year (by 8 per cent) was likewise recorded in public authorities' orders for civil engineering during the period under review; in this case too the slowing down emerged more clearly during the second half than during the first six months of the year. The cutback was greatest (— 18 per cent) in orders of local authorities, which in the second half of 1966 showed particular restraint in planning capital expenditure because of their unfavourable financial situation.

In the field of housing, actual building work done during 1966 also continued to rise (+ 6.5 per cent), although the amount of planned building (measured by the estimated building cost of approved dwelling houses) increased only during the first half of last year, dropping by 6 per cent on the year during the second half. At DM 28.6 billion for the whole of 1966 estimated building cost of authorised dwelling houses just attained its level of a year before. At the same time the number of newly authorised dwellings (582,000) fell 6.6 per cent short of the 1965 result, but the building expenditure estimated per dwelling unit again rose last year. Specifically in publicly assisted house-building the planning of new projects was substantially restricted, as funds for the promotion of house-building are one of those items of public expenditure which, in case of budgetary difficulties, are cut back sooner than other expenses which are often statutorily laid down; in view of the great extent of housing supply achieved such cutting back does appear justifiable in the longer run. At any rate, in 1966 the authorising bodies of the *Länder* promised fully one-fifth fewer public funds than in 1965. The sum total of approved government loans and of private capital-market resources "tapped" for publicly assisted housing by means of government interest and redemption subsidies diminished by DM 1.2 billion to DM 3.9 billion. In 1966 the number of dwellings for which public financial aid was granted again showed a decline on the year, by 28 per cent, after having decreased by 18 per cent in 1965, amounting to not quite 150,000 against 208,000 in 1965 and 253,000 in 1964. The proportion of publicly assisted house-building to the total number of finished dwellings went down to 34 per cent in 1966, amounting to 38.5 per cent in 1965 and to as much as 40 per cent in 1964. In privately financed and tax-privileged house-building 400,000 dwellings were finished last year, which approximately corresponds to the figure frequently considered by experts to be the desirable total annual housing output. In 1966 altogether about 605,000 dwellings were completed, so reaching the second highest annual result in the post-war period (peak: 624,000 dwellings in 1964).

Carry-over of Unfinished Housing Projects
Thousands of dwellings

Dwellings in residential and non-residential buildings	1962	1963	1964	1965	1966 P)
(1) Carry-over of unfinished building projects at the beginning of the year ¹⁾	744.1	809.9	806.9	773.4	797.4
(2) Building permits newly granted in the course of the year	648.1	575.7	601.5	622.8	581.5
(3) Dwellings completed in the course of the year	573.4	569.6	623.8	591.9	605.0
(4) Difference between approved and completed dwellings (items 2 less 3)	+ 74.7	+ 6.1	—22.3	+ 30.9	—23.5
(5) Building permits expired in the course of the year ²⁾	8.9	9.1	11.2	6.9	9.6
(6) Carry-over at the end of the year (items 1 plus 4 less 5)	809.9	806.9	773.4	797.4	764.3

¹⁾ Carry-over of dwellings under construction, or of dwellings approved but not yet under construction, including dwellings already occupied in buildings not yet finished; the figures to (1) are identical with the carry-over of unfinished building projects at the end of the preceding year. — ²⁾ Including errors of ascertainment. — P) Provisional.

The high amount of house-building not assisted by public funds is all the more remarkable as, of course, this section was likewise affected by the tightening and higher cost of borrowing. Admittedly, the tightening of capital at first did not so much bear on the out-payment of capital as rather on the mortgage loans newly promised by institutional investors (other than life assurance companies and social insurance institutions), such promises running 5 per cent lower in 1966 than in 1965. However, this decline was solely due to the fact that banks and savings banks gave about one-fifth fewer promises for finance, while building and loan associations also last year were able to promise considerably more capital. At the end of 1966 the arithmetical "carry-over of unfinished building projects" still amounted to 764,000 dwelling units (33,000 or 4.2 per cent less than at the end of 1965). At the same time the number of dwellings under construction diminished, while that of dwellings approved but not yet started increased, which may be due to many builders having postponed the start of building in view of the difficult financial situation. The carry-over of unfinished projects by itself should again ensure a substantial volume of house-building for 1967.

Consumer expenditure

It was of significance for the economic situation in 1966 that government and private expenditure on consumption grew at a slower rate than a year before. The trend in the most important components of "government consumption" — *i. e.* expenditure on personnel in the civilian sector and on defence — has already been commented upon in the chapter on public authorities' cash transactions. Private consumer expenditure in the main did not slow down in growth until the second half of 1966. For the latter half of 1966 it showed a year-to-year increase of only 5 per cent, against 9 per cent both in the first half and in 1965. While private consumer expenditure thus reacted only relatively late to the slowdown of income rises which had been clearly evident for some time past, this was primarily due to the perceptible price increase in the case of various goods of non-selective demand (such as food, rent and transport) during the first half of the year. During the second half of 1966 the uptrend in prices tapered off appreciably; in some cases, more particularly with food-stuffs, there were even price reductions. Consequently during that period only about 3 per cent more than a year before had to be spent on food, beverages and tobacco, accounting for almost one-third of overall private consumption, and only 2 per cent more on clothing, compared with a 7.5 per cent increase in these expenses in the first six months. At the same time expenditure on consumer durables, specifically on motor vehicles, was also relatively cut down, which may have been, among other things, a result of the uncertainty about the future course of incomes. On the other hand, expenditure on living quarters, chiefly as a result of further considerable increases in rents, and on services, in particular on foreign travel, expanded at almost the same rate as hitherto.

Although in the first half-year total gross wages and salaries, the principal determinant of consumption, still showed an increase on the year of 8.5 per cent, the growth rate for the second half was only 6.5 per cent (against 10.5 per cent on the yearly average for 1965). In addition, in 1966 — unlike 1965, when income tax rates had been reduced — deductions from wage and salary income increased out of proportion to gross wages and salaries: 16 per cent more wages tax and social insurance contributions than a year before were paid in the first half of 1966, and 11 per cent more in the second. Consequently net wages and salaries rose to a lesser extent than total gross wages and salaries. Profit withdrawals by self-employed in 1966 appear to have virtually no longer increased in comparison with the previous year. Solely public income transfers continued to grow relatively vigorously, *viz.*, by 10 per cent in the first and by 8 per cent in the second half of 1966. Altogether in 1966 households had roughly DM 310 billion of net income available for consumption and saving, or as much as 6 per cent more than the year before.

Owing to the delayed adaptation of consumer expenditure to the slower growth in incomes savings formation by households fell off for the time being during 1966. However, this tendency was limited to the first half of the year, when private saving fell short of the corresponding figure for 1965 by 12 per cent, whereas in the second half-year it showed a 9 per cent growth on the year

Slower growth in government and private consumption

Subdued rise in incomes

Temporary restraint in private savings formation

National Product *)
Federal area including Berlin (West)

Item	1961	1962	1963	1964	1965 P)	1966 P)	Change against previous year				
							1962	1963	1964	1965 P)	1966 P)
Billions of DM							per cent				
I. Origin of National Product											
(a) At current prices											
Contributions to gross domestic product											
Agriculture, forestry and fisheries	17.9	18.0	19.3	20.5	20.1	20.1	+ 0.2	+ 7.3	+ 6.4	- 2.2	+ 0.2
Producing industries ¹⁾	174.7	189.9	199.0	218.9	237.7	248.4	+ 8.7	+ 4.8	+10.0	+ 8.6	+ 4.5
Trade and transport ²⁾	63.4	69.7	73.9	80.6	87.5	92.7	+ 9.9	+ 6.1	+ 9.1	+ 8.5	+ 6.0
Services ³⁾	70.6	77.3	85.8	94.6	105.4	117.5	+ 9.6	+10.9	+10.3	+11.5	+11.4
Gross domestic product	326.6	354.9	378.0	414.6	450.7	478.7	+ 8.7	+ 6.5	+ 9.7	+ 8.7	+ 6.2
Net income payments to factors of production due from the rest of the world	- 0.4	- 0.4	- 0.4	- 0.8	- 1.1	- 0.8					
Gross national product at market prices	326.2	354.5	377.6	413.8	449.6	477.9	+ 8.7	+ 6.5	+ 9.6	+ 8.7	+ 6.3
(b) At 1954 prices											
Gross national product at market prices id., per gainfully active person, in DM	268.6 (10,100)	279.6 (10,440)	289.3 (10,760)	308.5 (11,440)	323.2 (11,900)	331.5 (12,240)	+ 4.1 + 3.3	+ 3.5 + 3.1	+ 6.6 + 6.2	+ 4.8 - 4.1	+ 2.6 + 2.9
II. Distribution of National Income and National Product											
at current prices											
(a) Before income re-distribution											
Compensation of employees ⁴⁾	157.2	173.9	186.5	204.4	225.8	243.2	+10.6	+ 7.3	+ 9.6	+10.5	+ 7.7
Income from entrepreneurial activity and property	94.4	98.0	102.5	112.1	116.8	118.8	+ 3.8	+ 4.6	+ 9.4	+ 4.1	+ 1.8
of which:											
Individuals' income	(90.1)	(93.5)	(97.5)	(106.8)	(111.2)	(113.5)	+ 3.7	+ 4.3	+ 9.5	+ 4.2	+ 2.0
Government income ⁵⁾	(4.3)	(4.6)	(5.0)	(5.4)	(5.6)	(5.3)	+ 6.5	+ 9.6	+ 6.8	+ 3.5	- 4.0
Net national product at factor costs (national income) plus indirect taxes less subsidies	251.6 47.5 2.5	271.9 51.5 2.7	289.0 54.0 3.3	316.5 58.9 3.6	342.6 63.8 3.9	362.1 67.8 4.1	+ 8.1 + 8.4 + 7.6	+ 6.3 + 5.0 +21.5	+ 9.5 + 9.1 +10.1	+ 8.2 + 8.3 - 8.9	+ 5.7 - 6.2 - 5.3
Net national product at market prices plus depreciation	296.6 29.7	320.7 33.8	339.8 37.8	371.8 42.0	402.5 47.1	425.7 52.2	+ 8.1 +14.1	+ 6.0 +11.7	+ 9.4 +11.0	+ 8.3 +12.2	+ 5.8 +10.9
Gross national product at market prices	362.2	354.5	377.6	413.8	449.6	477.9	+ 8.7	+ 6.5	+ 9.6	+ 8.7	+ 6.3
(b) After income re-distribution ⁶⁾											
Net compensation of employees	117.0	128.9	137.7	150.9	168.0	178.3	+10.2	+ 6.8	+ 9.6	+11.4	+ 6.2
Net income from social security pensions and benefits and from retirement pensions	40.0	43.7	46.5	51.1	57.4	62.6	+ 9.2	+ 6.5	+ 9.9	+12.1	+ 9.1
Net income of individuals from entrepreneurial activity and property	64.5	65.3	68.0	75.7	79.1	79.6	+ 1.2	+ 4.1	+11.3	+ 4.5	+ 0.7
Net income of government	75.0	82.7	87.5	94.1	98.1	105.2	+10.4	+ 5.8	+ 7.5	+ 4.2	+ 7.2
Net national product at market prices	296.6	320.7	339.8	371.8	402.5	425.7	+ 8.1	+ 6.0	+ 9.4	+ 8.3	+ 5.8
III. Appropriation of National Product											
at current prices											
Private consumption	186.8	204.0	215.9	232.9	255.1	272.8	+ 9.2	+ 5.8	+ 7.9	+ 9.5	+ 7.0
Government consumption	46.1	53.1	59.2	61.7	69.6	75.1	+15.3	+11.5	+ 4.3	+12.7	+ 7.9
Gross investment in fixed assets	80.7	90.2	95.3	109.2	119.1	122.5	+11.8	+ 5.7	+14.5	+ 9.1	+ 2.8
of which:											
Building	(40.1)	(45.5)	(49.4)	(57.6)	(60.7)	(64.3)	+13.7	+ 8.4	+16.6	+ 5.5	+ 5.9
Equipment	(40.7)	(44.7)	(46.0)	(51.6)	(58.4)	(58.2)	+ 9.8	+ 2.9	+12.2	+13.2	- 0.3
Inventory changes	+ 5.9	+ 3.5	+ 2.1	+ 4.7	+ 6.6	+ 1.0					
External surplus	+ 6.8	+ 3.7	+ 5.0	+ 5.3	- 0.8	+ 6.5					
Exports	(65.8)	(69.0)	(75.0)	(83.5)	(91.1)	(102.7)	- 4.8	+ 8.8	+11.4	+ 9.1	+12.7
Imports	(-59.0)	(-65.3)	(-70.0)	(-78.2)	(-91.9)	(-96.2)	+10.6	+ 7.2	+11.8	+17.5	- 4.7
Gross national product at market prices	326.2	354.5	377.6	413.8	449.6	477.9	+ 8.7	+ 6.5	+ 9.6	+ 8.7	- 6.3
Proportions in per cent											
Private consumption	57.3	57.6	57.2	56.3	56.7	57.1	.	.	.	.	.
Government consumption	14.1	15.0	15.7	14.9	15.5	15.7	.	.	.	.	.
Gross investment in fixed assets	24.7	25.4	25.2	26.4	26.5	25.6	.	.	.	.	.
of which:											
Building	(12.3)	(12.8)	(13.1)	(13.9)	(13.5)	(13.5)	.	.	.	.	.
Equipment	(12.5)	(12.6)	(12.2)	(12.5)	(13.0)	(12.2)	.	.	.	.	.
Inventory changes	1.8	1.0	0.6	1.1	1.5	0.2	.	.	.	.	.
External surplus	2.1	1.0	1.3	1.3	-0.2	1.4	.	.	.	.	.
Exports	(20.2)	(19.4)	(19.9)	(20.2)	(20.3)	(21.5)	.	.	.	.	.
Imports	(-18.1)	(-18.4)	(-18.5)	(-18.9)	(-20.4)	(-20.1)	.	.	.	.	.
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. — ¹⁾ Mining and power (including water supply), manufacturing, building. — ²⁾ Including communications. — ³⁾ Credit institutions and insurance business, lease of dwellings, government, other services. — ⁴⁾ Gross wages and salaries including employers' contributions to social insurance funds. — ⁵⁾ After deduction of interest on public debt. — ⁶⁾ Before deduction of transfers to foreign countries. — P) Provisional.

again. The saving ratio (the proportion of saving to total disposable income), having dropped from 12.1 per cent in the second half of 1965 to 10.1 per cent in the first half of 1966, rose again during the second half to 12.5 per cent. At 11.4 per cent for the whole of 1966 it was lower than in 1965 by not quite one percentage point.

These appreciable fluctuations in private savings formation were of course more markedly reflected in those forms of saving where savers were not committed by contract to pay in specified amounts. Thus in the first half of 1966 the surplus of in-payments on savings accounts with credit institutions was 17 per cent below the corresponding figure a year before, while in the second half of the year the 1965 result was exceeded by 17 per cent; it should be noted in this connection that at the end of 1966 the amount of interest credited was particularly large, chiefly owing to the raising of interest rates. In addition, during the second half of 1965 saving through accounts was temporarily impaired by the placing of V.E.B.A. shares with the broad public. On the security markets the reactions were more pronounced still. In 1966 households acquired only about half the amount of securities they had purchased the year before and the reserve shown prevailed also during the second half of 1966. After the price losses previously suffered private investors obviously were not yet prepared to invest their savings in securities on any larger scale.

On the other hand, contractual saving with building and loan associations and insurance enterprises was not affected by the temporary decline in private saving. In fact, saving for building purposes continued to increase vigorously. It proved attractive if only because the building and loan associations, thanks to the continuous inflow of funds from the community of savers and to the low interest rates on deposits, are able to make available relatively cheap long-term funds to a major extent even at times when for lack of incoming funds other institutional investors have to restrict the granting of credit and to raise its cost. Furthermore, there is extensive government promotion of saving with building and loan associations by the granting of housing premiums and the facility of posting payments to building and loan associations as special expenditure chargeable against taxable income. When during the second half of the year discussions on the restriction of saving promotion intensified, this immediately had an especially invigorating effect on the new business of building and loan associations, as many savers endeavoured, by concluding new contracts with such associations, to secure the unlimited advantages of the promotion measures. Only when this possibility was abolished towards the end of the year did new business fall off. In December 1966 it showed a decline on the year of roughly one-third and in January 1967 one of one-sixth. Altogether savings deposited with building and loan associations during 1966 were 30 per cent larger than in 1965. At a growth rate of 13 per cent, saving with insurance enterprises and pension funds, also subject to contractual arrangements, grew somewhat faster than a year previously.

Relatively favourable movement in contractual saving

In their borrowing — in the overall economy considered as “negative” saving — households reacted relatively sharply to the economic situation, which kept deteriorating throughout 1966. True, during the first half of 1966 households’ indebtedness increased much more rapidly than a year before (by DM 400 million against DM 120 million during the first half of 1965), principally, so it seems, under the influence of the temporarily greatly intensified demand for motor vehicles during the spring months following the announcement of price rises; but in the second half, at a rate of DM 240 million, consumer credits expanded merely by one quarter of the preceding year’s growth. This shows clearly that consumers, as a result of increasing uncertainty over the further course of economic activity, entered into borrowing commitments only hesitatingly, or not at all.

Foreign demand

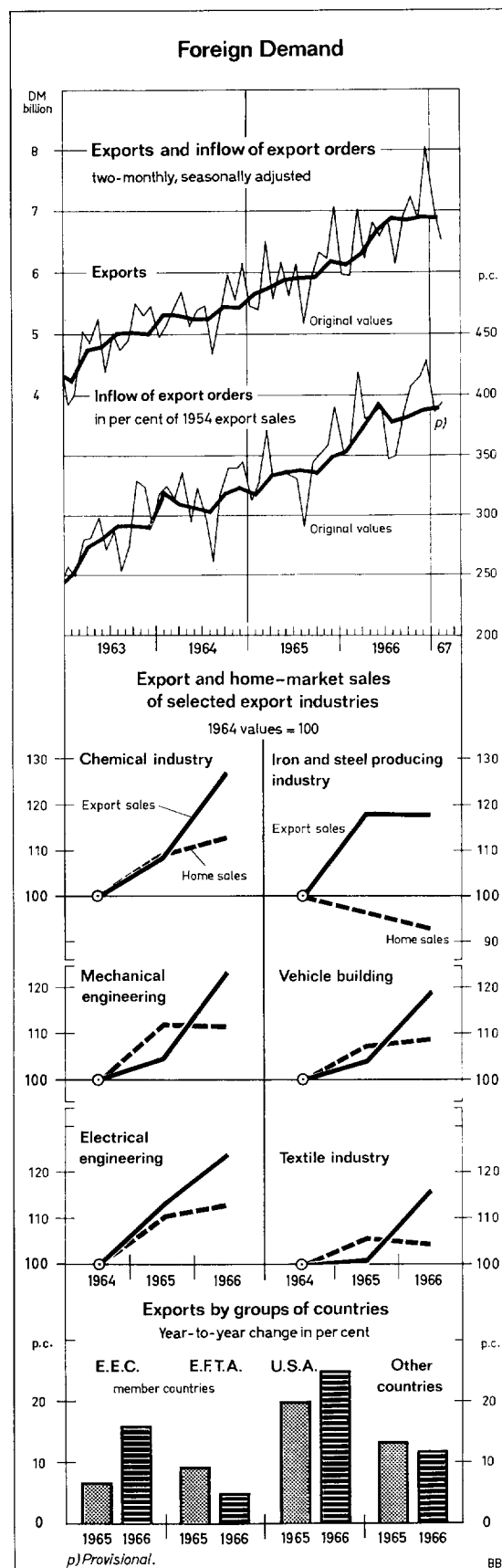
Foreign demand for German goods grew vigorously during the past year. Here above all the favourable economic situation in important buying countries, but also the endeavours of entrepreneurs to obtain additional export orders as compensation for slackening home sales, played a part. At any rate exports rose by 12.5 per cent in the past year, against 10.4 per cent in 1965; in the first two months of 1967 they likewise appreciably exceeded the corresponding figure for last year

Steep increase in exports ...

(+ 13.3 per cent). Above-average increases were recorded for 1966 in exports to the United States of America (+ 25 per cent) and to the E.E.C. countries (+ 16 per cent), while E.F.T.A. countries bought a mere 5 per cent more German goods than a year before. Apart from the generally weaker economic growth in the E.F.T.A. countries during 1966, this is probably a consequence of the difference in customs tariffs between the areas of E.E.C. and E.F.T.A. becoming more noticeable. The absolute expansion in exports by nearly DM 9 billion was accounted for at the rate of 55 per cent by the capital goods industries, which approximately corresponds to the previous share of these industries in German exports. The vigorous increase in capital goods exported, showing a year-to-year growth of 15 per cent for the second half against only 10 per cent for the first, afforded a notable counterweight to the decline in home sales during the second half. Thus on the average for last year the capital goods industries' export ratio rose to 27 per cent against 25 per cent for 1965, the rise in the second half of 1966 being as much as 28 per cent. The proportion of total exports to the gross national product in 1966 increased to 17 per cent, against 16 per cent in 1965.

Orders received from abroad last year grew to roughly the same extent as exports did. After having risen by 7 per cent in 1965, they exceeded the result for the preceding year by 13 per cent in 1966; on the average of January/February 1967 the growth rate went down to 10 per cent. Above average increases in export orders were recorded in 1966 by the chemical industry (+ 20 per cent), mechanical engineering (+ 16 per cent) and by the textile industry (+ 14 per cent). On the other hand, foreign demand for electrical products and motor vehicles expanded at a somewhat slower pace (by 10 per cent each). During the second half of 1966, however, it was not always possible to secure additional export orders without granting price concessions. This is shown by the index of sales prices of export goods, which in December 1966 stood 0.5 per cent below its level of June, after having risen by 2.3 per cent

... at partly declining prices



during the first six months of last year. Since it is unlikely that during that period production cost in the export industries grew to a lesser extent than previously, it may be assumed that profit margins in export business were smaller than before.

Exports by Categories of Goods ¹⁾

Period	Total ²⁾	Products of basic and producer goods industries	Products of capital goods industries			Products of consumer goods industries
			Total	among which:		
				Mechanical engineering	Vehicles	
Millions of DM						
1962	52,975	14,527	28,901	11,783	6,766	4,960
1963	58,309	15,493	32,118	12,549	7,914	5,645
1964	64,920	17,433	35,576	13,831	9,191	6,523
1965	71,651	19,661	38,883	14,989	10,144	7,235
1966	80,628	22,545	43,853	17,369	11,209	8,185
1965 1st half	34,768	9,546	18,970	7,195	5,168	3,410
2nd half	36,883	10,115	19,913	7,794	4,976	3,825
1966 1st half	38,581	10,772	20,952	8,242	5,420	3,892
2nd half	42,047	11,773	22,901	9,127	5,789	4,293
1967 Jan./Feb.	13,514	3,972	7,178	2,879	1,730	1,333
Change ³⁾ in per cent						
1962	+ 3.9	— 0.0	+ 5.9	+ 7.6	+ 8.0	+ 7.1
1963	+10.1	+ 6.6	+11.1	+ 6.5	+17.0	+13.8
1964	+11.3	+12.5	+10.8	+10.2	+16.1	+15.5
1965	+10.4	+12.8	+ 9.3	+ 8.4	+10.4	+10.9
1966	+12.5	+14.7	+12.8	+15.9	+10.5	+13.1
1965 1st half	+ 9.4	+11.5	+ 9.0	+ 7.1	+11.2	+ 9.9
2nd half	+11.3	+14.0	+ 9.6	+ 9.6	+ 9.5	+11.8
1966 1st half	+11.0	+12.8	+10.4	+14.6	+ 4.9	+14.1
2nd half	+14.0	+16.4	+15.0	+17.1	+16.3	+12.2
1967 Jan./Feb.	+13.3	+20.7	+10.8	+12.8	+ 0.7	+11.5

¹⁾ According to list of goods established for the industrial statistics. — ²⁾ Including exports of other products. — ³⁾ In comparison with corresponding period of preceding year.

2. Supply

Overall production

In the course of 1966 overall production increasingly adapted itself to the slower expansion in demand. After having risen by about 5 per cent in 1965, the real gross national product showed an increase on the year of quite 3 per cent in the first six months, although in the second half of the year the rise was only 2 per cent. With the exception of mining where it had been on the decline for some time past on structural grounds, production was cut down in most of the manufacturing industries towards the end of last year. At the beginning of 1967 the production figures for nearly all lines of industry showed a downward tendency. True, industry as a whole still had quite considerable order backlogs even at the end of the year (according to the trend check of the Ifo Institute for Economic Research, equivalent to a 2.5 months' "reach" at the end of December 1966, against 3.2 months in December 1965); however, in many cases order backlogs were no longer considered sufficient to ensure full employment, either because the periods required for technical performance were longer than the "reach" of orders on hand, or because substantial stocks of finished goods had already been formed involuntarily.

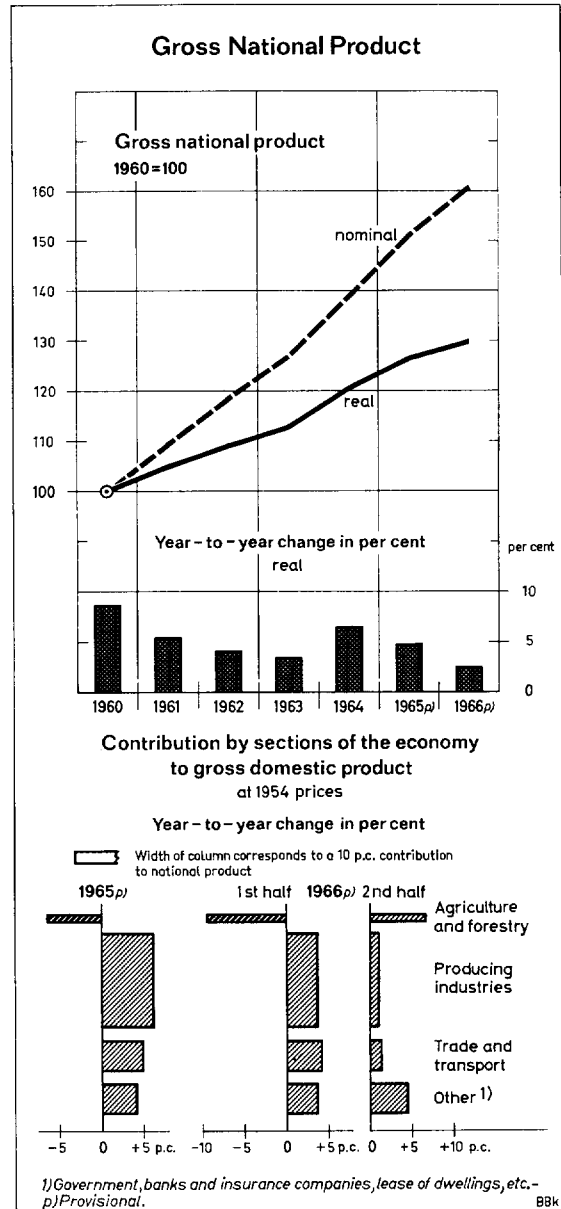
Until well into the first months of 1967 the decline in production was most marked in the capital goods industries. Whereas in the first half of 1966 production in this field was still slightly (just on 1 per cent) larger than a year before, on the average of the months July to December 1966 it dropped 2.7 per cent, and on the average of January/February 1967 10.5 per cent, below its level of the

Diminished expansion
in domestic production

preceding year. In the consumer goods industries too, where until the spring production had shown a clear upward trend, as from October it fell increasingly short of its level a year earlier. Finally, on the average of the months January/February 1967, it was 7.4 per cent lower than a year ago. The basic and producer goods industries were the only lines still to show an increase on the year at the beginning of 1967, this relatively favourable result being, however, exclusively due to the structural growth industries, like the chemical industry and mineral oil processing, while other groups of industry, specifically the iron and steel industry, had to cut down on production. The output of the building industry and civil engineering during the past year was favoured by weather conditions permitting an extended building season; especially for this reason it was nearly 4 per cent greater than in 1965. At the beginning of 1967 too, building output remained relatively high for the season, on the one hand certainly owing to the mild weather, but on the other hand resulting from the unfinished orders carried over from last year.

The net value added in the other fields of the economy generally reacted far less to the cyclical changes than that in industry, although by and large it no longer rose as vigorously as previously during the past year (cf. graph). In the second half of 1966 agricultural production (with the inclusion of the production of forestry) was nearly 7 per cent greater than a year before owing to the good harvest. Since, however, as a result of the poor crops in 1965, domestic supplies of farm produce in the first half of 1966 were appreciably smaller than a year before, for the whole year 1966 the net value added in agriculture and forestry remained 2 per cent below the level of the preceding year. In commerce, transport and communications the net value added during the second half of 1966 expanded at a far slower pace than during the first half of last year. Continuous growth throughout the past year was observed in the supply of services and similar lines of the economy, as the demand for services of any kind was hardly affected by the slowdown in activity in the producing sections of trade and industry.

The longer the cyclic downward phase lasted, the more the opinion gained ground with entrepreneurs that production cost would be pushed up to an unbearable level if redundant staff were hoarded or possibilities for saving labour ignored, as had been done in former recessionary periods. Thus during the second half of 1966 the manufacturing industries stood off labour to an increasing extent, while cutting down average working time by reducing overtime and introducing short-time work. The more efficient use of labour undoubtedly benefited overall productivity. Measured by



Smaller net value added in agriculture

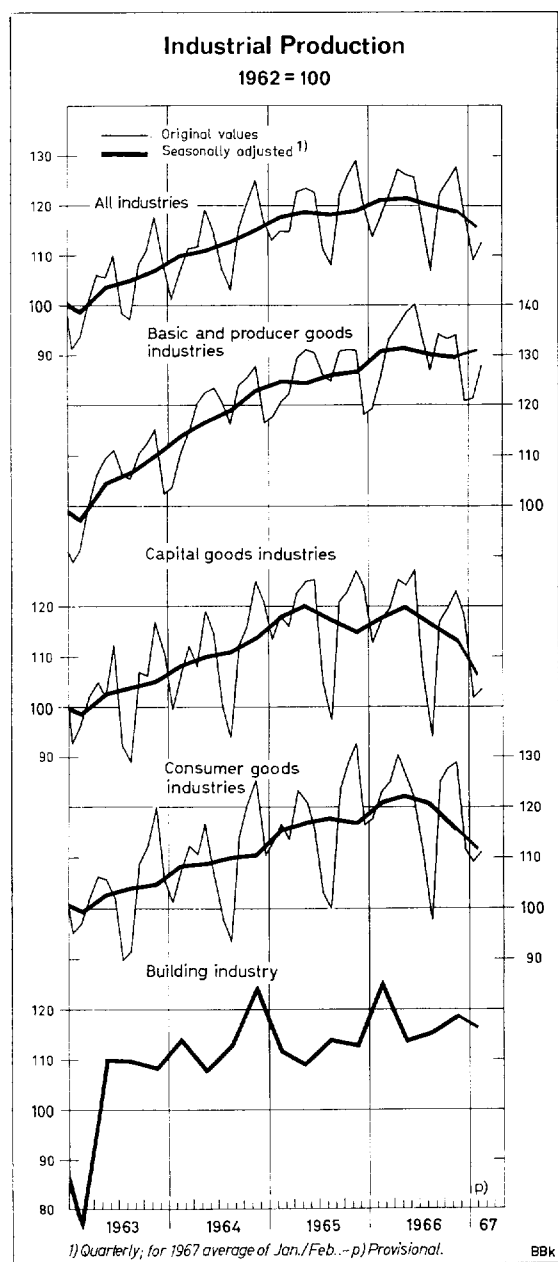
the real gross national product per man-hour worked, productivity of labour in the second half of 1966 increased to roughly the same degree as in the first half of the past year. If the year is considered as a whole, at roughly 4 per cent the advance in productivity was nevertheless somewhat smaller than a year before when, owing to the better use of capacities, it had run at about 4.5 per cent. However, the annual growth rate to be expected on a longer-term view appears to have been attained if not even slightly exceeded.

Advance in productivity only slightly smaller than in 1965

The situation on the labour market

After years of overemployment a fundamental relaxation emerged on the labour market in the course of 1966. By contrast to what is usual on seasonal grounds, the number of unemployed increased from the middle of the year, reaching by the end of December 1966 a figure of 372,000 or 1.6 per cent of the wage and salary earning labour force (end-1965: 178,000 or 0.8 per cent). Adjusted for seasonal variations, 1.3 per cent of the wage and salary

Reversal of tendency in the labour market



earners were out of work at the end of the year. For the first time in many years the number of unemployed exceeded the number of vacancies registered at the same time, which at just on 252,000 at the end of the year amounted to less than half the number registered a year before. At the end of February 1967 at 674,000 the number of unemployed reached its seasonal peak, but at 576,000 at the end of March 1967 it still exceeded the corresponding figure of last year by 435,000. Another factor was that the immigration of foreign workers came to a halt during the summer months of 1966 and in the fourth quarter of 1966 actually gave way to the remigration of 208,000 persons (against 93,000 in the same period of 1965). During the first quarter of this year this tendency continued. Nevertheless, on the average of the year 1966 quite 11 per cent more foreigners were working in the Federal Republic of Germany (1.24 million) than a year earlier. They represented the only component of the labour potential that still increased on the annual average. Compared with a year before, the total number of persons gainfully active during the second half of 1966 dropped by 0.7 per cent, after having slightly risen during the first half. Even the number of employed wage and salary earners, as a rule increasing more sharply than that of all persons gainfully active, on the average of the months July to December fell 0.4 per cent short of the figure for the second half of 1965. In the processing industry, building and civil engineering and the crafts in particular during the second half of last year leaving personnel was

*The Labour Force in the Years 1963 to 1966*¹⁾

Averages for the period indicated

Item	Unit	1963	1964	1965		1966 P)	
				1st hf	2nd hf	1st hf	2nd hf
Labour force, total	'000	27,066	27,148	27,254	27,346	27,284	27,202
of whom:							
Unemployed	"	186	169	193	101	169	153
Gainfully active	"	26,880	26,979	27,061	27,245	27,115	27,049
of whom:							
Self-employed ²⁾	"	5,577	5,432	5,340	5,284	5,240	5,184
Wage and salary earners	"	21,303	21,547	21,721	21,961	21,875	21,865
" " " "	Year-to-year change in p. c.	+ 1.2	+ 1.1	+ 1.6	+ 1.2	+ 0.7	- 0.4
of whom working in:							
Industry	"	- 0.8	+ 0.3	+ 2.2	+ 1.7	+ 0.2	- 1.6
Building	"	+ 5.9	+ 2.6	- 0.3	- 0.4	- 0.2	- 4.0
Crafts	"	+ 4.2	+ 0.8	+ 1.9	+ 1.5	+ 0.5	- 1.2
Public service	"	+ 3.3	+ 4.0	+ 3.6	+ 2.9	+ 2.6	- 2.4
Commerce, banking, insurance companies	"	+ 2.9	+ 2.3	+ 0.9	+ 0.3	+ 1.5	+ 1.3
Transport and communications (Railways and Posts)	"	+ 0.7	+ 0.1	- 0.6	- 1.2	- 1.6	- 2.0
<i>Note:</i>							
Foreign wage and salary earners	'000	773	902	1,057	1,181	1,226	1,262
" " " " "	Year-to-year change in p. c.	+22.9	+16.7	+25.2	+22.9	+16.0	+ 6.9
Proportion of foreign wage and salary earners to total number of wage and salary earners	p. c.	3.6	4.2	4.9	5.4	5.6	5.8

¹⁾ According to figures of the Federal Statistical Office and to calculations of Bundesbank. — ²⁾ Including assisting family members. — P) Provisional.

no longer replaced; in addition, staff was dismissed and short-time work introduced. However, against the decrease in the number of persons employed with producing trades there was, until into the last months of 1966, an increase in that of persons employed in other fields of the economy. Thus it was possible for commerce, banks and insurance companies to recruit part of the redundancies. Relatively the strongest growth — by 2.4 per cent on the average of the second half over the second half of 1965 — occurred in the number of personnel in the public service (other than Railways and Posts), which cannot however be registered as a favourable development in view of the rising proportion of personnel expenses in public authorities' budgets and the resultant implications especially for government investment activity.

Declining volume of work

Finally, in judging the situation on the labour market, also the growing number of short-time workers should be taken into consideration. Having increased to 90,000 until the middle of December 1966 (against 4,000 a year before), the number of short-time workers reached almost 344,000 at the middle of February 1967, but dropped again to 252,000 by the middle of March. At this time nearly one quarter of the short-time workers were registered with mechanical engineering, steel construction and vehicle building, where during the first months of this year production was most severely cut down. On the whole the "volume of work", that is to say the total number of man-hours worked, during 1966 declined by more than 1 per cent as a result of all the above-described components, whereas during 1965 it had still slightly increased. During the second half alone the decline on the year amounted to roughly 2 per cent.

Imports

The flagging expansion in domestic demand reduced also the Federal Republic of Germany's demand for imports. From a cyclical angle imports virtually stagnated during 1966. If the last quarter is considered alone, imports even fell 2 per cent short of the corresponding figure for the

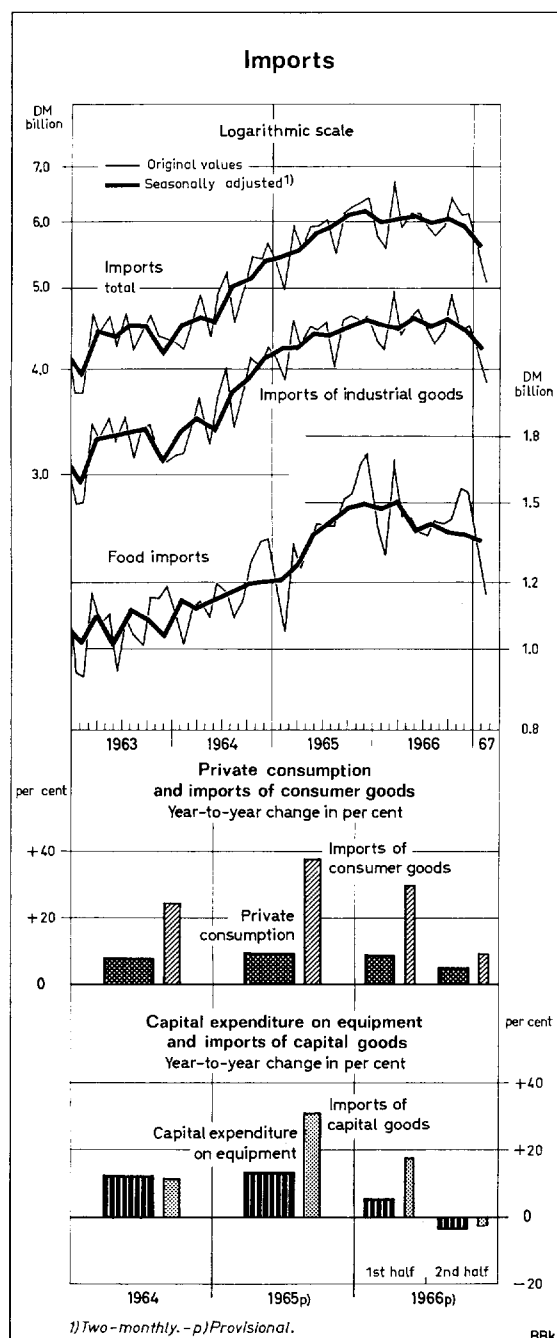
Stagnating imports

year before, and on the average of the first two months of 1967 the decline on the year was 6 per cent. Admittedly, the slackening was partly due to the fact that in 1966 and at the beginning of 1967 appreciably less defence material was imported than in 1965. Commercial imports last year still exceeded the level of a year earlier by over 5 per cent, but in the first two months of 1967 they likewise ran just on 6 per cent below the figure for last year.

The slowdown in imports affected in particular finished goods. The main reason was that, as domestic demand receded, not only did the demand for imports decrease *pari passu*, but domestic producers were especially eager to diminish the previously growing market shares of foreign competitors. At any rate, in the course of the past year the rise in imports of consumer goods slowed down much more markedly than the expansion of private consumer expenditure (see graph). The same applies to the import of capital goods which fell off relatively faster than domestic capital expenditure on equipment. In the case of some typical capital goods, *e. g.* mechanical engineering products, imports dwindled even more. Whereas in the first half of last year 16 per cent more mechanical engineering products were imported than during the comparable period of 1965, there was a decline on the year of roughly 7 per cent in the second half of 1966, and this downward movement continued during the first months of 1967.

Imports of industrial raw materials and semi-finished goods in 1966 — just like in the second half of 1965 — increased by no more than 2 per cent. Obviously stocks of raw materials were kept as small as possible.

Imports of foodstuffs, which continue to



account for a quarter of total imports, declined substantially after the summer of 1966 thanks to the favourable crop yields. During the whole of the second half of 1966 in terms of value 5 per cent fewer foodstuffs were purchased abroad than a year before, whereas for the first half

of 1966 such imports showed an increase on the year of 14 per cent and for the whole of 1965 even one of 20 per cent.

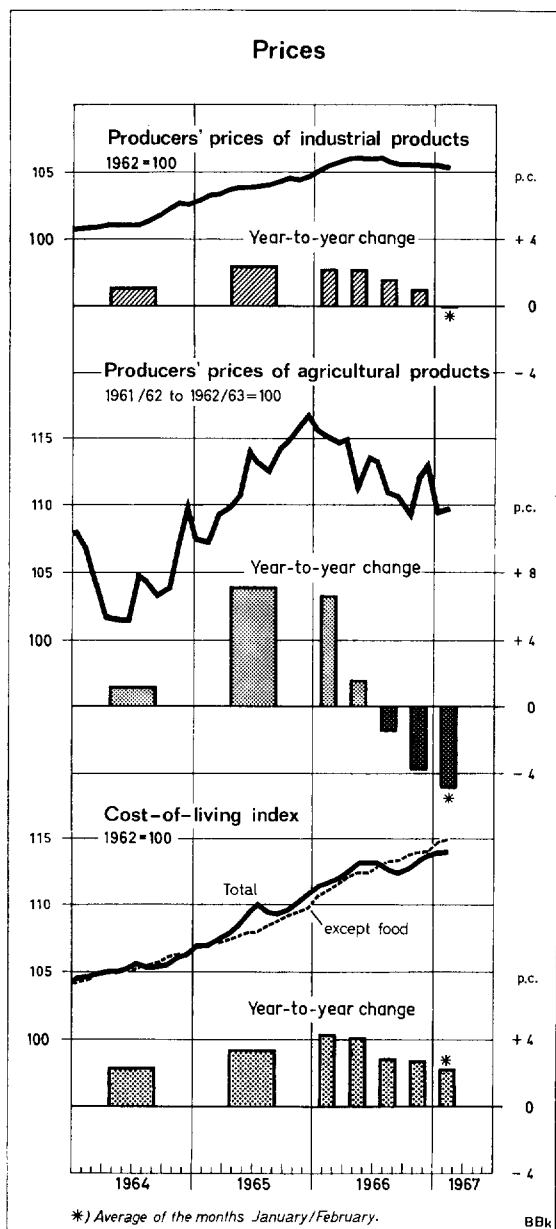
Imports by Categories of Goods ¹⁾

Period	Total ²⁾	Food	Industrial raw materials	Semi-finished goods	Finished goods
Millions of DM					
1962	49,498	13,684	8,820	7,863	18,688
1963	52,277	12,779	9,362	8,050	21,575
1964	58,839	14,035	10,916	9,779	23,519
1965	70,448	16,852	14,431	10,807	30,679
1966	72,670	17,451	11,819	10,814	31,792
1965 1st half	33,716	7,585	5,712	5,356	14,783
2nd half	36,732	9,267	5,719	5,451	15,896
1966 1st half	36,359	8,674	6,067	5,255	15,992
2nd half	36,311	8,777	5,752	5,559	15,800
1967 Jan./Feb.	10,674	2,485	1,853	1,635	4,573
Change ³⁾ in per cent					
1962	+11.6	+17.2	- 3.0	+ 4.3	+20.2
1963	+ 5.6	- 6.6	+ 6.1	+ 2.4	+15.4
1964	+12.6	+ 9.8	+16.6	+21.5	+ 9.0
1965	+19.7	+20.1	+ 4.7	+10.5	+30.4
1966	+ 3.2	+ 3.6	+ 3.4	+ 0.1	+ 3.6
1965 1st half	+23.0	+13.9	+ 6.8	+20.3	+38.2
2nd half	+16.9	+25.6	+ 2.7	+ 2.3	+24.0
1966 1st half	+ 7.8	+14.4	+ 6.2	- 1.9	+ 8.2
2nd half	- 1.1	- 5.3	+ 0.6	+ 2.0	- 0.6
1967 Jan./Feb.	- 6.1	- 8.1	- 6.6	- 0.0	- 7.5
¹⁾ According to figures from the official foreign trade statistics. — ²⁾ Including returns and replacements. — ³⁾ In comparison with corresponding period of preceding year.					

3. Prices and wages

Declining prices in trade and industry during second half of 1966 ...

The slackening in domestic demand led to a far-reaching calming of prices. After some years of persistent price increases, especially producers' prices of industrial products have no longer risen since the middle of 1966; in the course of the second half they declined by 0.5 per cent. Consequently, at the end of 1966 they were only 0.8 per cent higher, and in February 1967 even lower, than a year earlier. The reversal in the price movement became extremely evident in the case of capital goods, which are particularly sensitive to cyclic changes. After showing a 2.1 per cent rise in the first six months, brought about, *i. a.*, by the raising of metal workers' pay, prices of such goods dropped by 0.7 per cent in the second half. During the first months of 1967, too, prices of capital goods continued to decrease. A similar movement was recorded for prices of consumer goods which, after having risen quite fast in the first half of the year (+ 1.5 per cent), have remained stable since the middle of the year. Prices of basic materials and producer goods last year — as in 1965 — were comparatively strongly influenced by producers' prices in the non-ferrous metal industry, which are more than others dependent on world-market trends. If prices of non-ferrous metals are left out of account, it is found that prices of basic materials and producer goods have slightly declined since the middle of the year, primarily owing to price reductions for products of the iron and steel industry. In building, too, prices in 1966 at first rose somewhat, but since the summer they have been slightly on the decrease. Thus in November 1966 (no more recent data being at hand) the price index for dwelling houses was 0.5 per cent below its level of August 1966, though still exceeding its level of November 1965 by 2.1 per cent. In road construction the price decline, evident since the middle of 1964, continued; here prices in November 1966 were 1.6 per cent lower on the year.



Producers' prices of agricultural produce, which during 1965 had increased by nearly 6 per cent owing to the poor harvest, went down in most of the months of 1966, running 4.6 per cent below their level of a year ago in February 1967. After the 1966 crops had reached the market, prices of vegetable produce, such as fruit, vegetables and potatoes in particular, receded, after having previously been extremely high. As also the seasonal price rise in the autumn and winter months was smaller than a year before, in February 1967 the sub-index for vegetable produce fell nearly 10 per cent below its corresponding level of last year. Producers' prices of animal products at the beginning of 1967 likewise were lower than a year ago. They had declined already in the first half of 1966 (— 6.5 per cent) and during the following months they rose to a smaller degree than usual for the season, since on the one hand more abundant meat supplies were available from slaughtering, while on the other hand meat consumption mounted to a lesser extent than before owing to the subdued growth in incomes.

... and receding farm prices since beginning of year ...

The fact that price increases at the consumer stage have slowed down noticeably, especially since the middle of the year, is largely due to the price reductions for agricultural produce during 1966. On a comparison of end-of-year figures the cost-of-living index rose by 2.6 per cent (1965: 4.2 per cent) and on the average of the year by 3.5 per cent (1965: 3.4 per cent). More than four-fifths of the growth in the cost of living occurred in the first half of the year, while in the second half the cost-of-living index rose by a mere 0.4 per cent. In February

... weaken price increases at consumer stage

1967 the index was only 0.8 per cent above its level of July 1966, exceeding the corresponding level of last year by 2.2 per cent. Consumer prices of foodstuffs, which in the first half of 1966 had increased considerably, declined by about 1.5 per cent in the further course of the year, thus running at the beginning of 1967 approximately at the same level as a year ago. Consequently one of the most important factors so far contributing to the uptrend in prices has disappeared, at least for the time being, which is of course principally a result of the above-mentioned good harvest, but also due to cyclical influences.

Outside the food sector price increases continued even after the middle of the year, though to a markedly lesser degree. With foodstuffs excluded the price index, which in July 1966 still ran 4.5 per cent above its level of a year before, in February 1967 showed an annual increase rate of 3.4 per cent. The rise in prices of industrially produced consumer goods in particular was smaller than in the preceding year; at the end of 1966 they exceeded their level of a year earlier by 1.8 per cent and in February 1967 by 1.6 per cent, whereas in December 1965 the increase rate had stood

at 2.3 per cent. Noteworthy price reductions, partly generated by the cyclic trend, occurred only in the case of electrical goods, which in February 1967 were 2.7 per cent cheaper than a year ago. Prices of services, which in the first half of 1966 increased more vigorously than in the first half of 1965, rose more slowly in the second half-year (July to December 1966 + 1.8 per cent against + 3.2 per cent in the first half). In February 1967 the price index for services was 4.7 per cent above its level of last year.

In contrast with the general movement in prices, rents rose considerably faster last year than in 1965, the rise in rents for pre-currency-reform housing (+ 12.0 per cent) being far greater than for post-currency-reform accommodation (+ 7.7 per cent). For the first time house-owners were afforded the possibility of raising the rents of dwellings built prior to the currency reform in the "black districts" to the same extent as was earlier permitted by law in the case of pre-currency-reform rents in the "white districts". In addition, on 1 July 1966 a further 20 town and rural districts were declared "white districts". Consequently, in February 1967 rents exceeded their corresponding level of last year by 7.5 per cent. If rent were eliminated from the cost-of-living index — which would clearly not be justifiable in view of the weight the rent burden carries for consumers — an increase in the cost of living by 1.6 per cent for the period from February 1966 to February 1967 would be the result.

As a consequence of the relaxation in the labour market described above, wage expansion slackened appreciably in the course of 1966. True, on an hourly basis the level of standard wages on an annual average was still 7 per cent higher than a year earlier (1965 against 1964 + 7.8 per cent), and in the course of the year the increase in collectively agreed earnings subsided only insignificantly. However, the rises in standard wages last year to a considerable extent were due to previously concluded agreements on increases to be effected in steps and on reduction of working hours, whereas the newly concluded collective agreements, particularly towards the end of the year, as a rule provided for more moderate wage rises than in former years. How greatly the climate for collective bargaining has changed is demonstrated, *i. a.*, by the fact that collectively agreed increases concluded during recent months in many cases did not become effective immediately after the expiry of the renounced agreement but only after a more or less extended "wage pause". In some cases employers and employed came to an understanding to the effect that the wage and salary increases granted by the collective agreement may fully or partly be set off against previously conceded extra payments; it is, however, not known to what extent this has really been done. Nevertheless, it is characteristic of the changed conditions in the labour market that average earnings actually paid grew only slightly more than collectively agreed earnings. While gross wages and salaries per person employed in 1966 increased by 7.2 per cent (against 9.0 per cent in

Collectively Agreed Earnings and Actual Earnings in the Overall Economy
Year-to-year changes in per cent

Period	Level of standard wages and salaries		Actual gross wages and salaries per employed person	Real gross national product per gainfully active person ¹⁾	Wage and salary cost per production unit
	Hourly basis	Weekly basis			
1961	+ 8.7	+ 8.5	+ 10.6	+ 4.0	+ 6.3
1962	+ 8.8	+ 7.6	+ 9.0	+ 3.3	+ 5.5
1963	+ 5.8	+ 5.1	+ 6.1	+ 3.1	+ 2.9
1964	+ 6.4	+ 4.9	+ 8.9	+ 6.2	+ 2.5
1965 P)	+ 7.8	+ 7.0	+ 9.0	+ 4.1	+ 4.7
1966 P)	+ 7.1	+ 6.3	+ 7.2	+ 2.9	+ 4.2
1965 P) 1st half	+ 7.8	+ 7.1	+ 9.0	+ 4.8	+ 4.0
2nd half	+ 7.7	+ 6.9	+ 9.1	+ 3.5	+ 5.4
1966 P) 1st half	+ 7.4	+ 6.5	+ 7.6	+ 3.2	+ 4.3
2nd half	+ 6.8	+ 6.1	+ 6.8	+ 2.6	+ 4.1

¹⁾ As standard of productivity. — P) Provisional.

1965), collectively agreed earnings, reckoned on a weekly basis (that is to say, after elimination of the collectively agreed wage adjustment for cuts in working time), exceeded their level of a year previously by only 6.3 per cent. Thus the discrepancy was merely about half as great as in 1965 when standard earnings increased by 7 per cent (weekly basis), but actual gross wages and salaries by as much as 9 per cent. Particularly towards the end of the year the growth rates of actual earnings approached those of collectively agreed wages and salaries. For industry considered separately, they did not deviate from each other at all during the last quarter, whereas in 1965 the discrepancy — the “wage drift” — still came up to 2.6 points and in 1964 even to 5.6 points. The rise in wages and salaries would have flattened out even more markedly had it not been for public service, where during the second half of 1966, apart from general rises in earnings, substantial payments of arrears in respect of earlier wage and salary increases were made which in part ought to be ascribed to the first half of the year.

Narrowing “wage drift”

Now that this approximation of actual to collectively agreed wage rises has taken place, it is more than before incumbent upon employers and employed alike to shoulder the responsibility for a course of wages and salaries in line with the present economic situation. The latest collective agreements and, even more, the postponement to some later date of new agreements the conclusion of which is in fact due make it clear that the policy of collective bargaining pursued by employers and employed no longer runs counter to the requirements of overall economy to the same extent as hitherto. For the time being the situation on the labour market will have the effect that the heavy cost pressure emanating from wages ceases to persist, thus leaving room for an improvement in profit margins, in the absence of which capital projects can hardly be expected to be revived. The information so far available about the present course of collectively agreed earnings gives rise to the hope that during 1967 the wage expansion will not greatly overstep the limits set by the anticipated advance in productivity. Should these expectations materialise — to which end the Federal Government’s concerted action is to contribute — the cost of wages and salaries per production unit would no longer rise, whereas in 1966 it had mounted by 4.2 per cent and in 1965 by 4.7 per cent. Termination of excessive growth in costs should establish a sound basis for a fresh and inflation-resistant upward phase in economic activity.

VI. Balance of Payments *)

1. Overall survey

The balance-of-payments situation of the Federal Republic of Germany underwent a basic change in the course of 1966. Whereas in 1965 and even in the first six months of 1966 external payments had shown quite large deficits, as from mid-1966 surpluses were the rule. Towards the end of the year they reached a size which caused the balance of payments for the whole of 1966 also to show a surplus. The principal reason for the extent and speed of the reversal was the slackening in domestic demand, which on the one hand caused imports hardly to rise any further while on the other hand initiating intensified endeavours to export. According to the “balance-of-

Fundamental change
in balance-of-
payments situation

*) This chapter essentially conforms with the study “Principal Results of the Balance of Payments for the Year 1966” published in the Monthly Report of the Deutsche Bundesbank for February 1967. — The method used in defining the following data on foreign trade differs from that used in the official foreign trade statistics and in the preceding chapters of this Report entitled “General Survey” and “Economic Activity”. In line with the international practice in drawing up annual balance-of-payments statements, freight and insurance costs of sea-borne imports have in this chapter been eliminated from the official import figures and attributed to expenditure in service transactions, so that imports and exports are recorded uniformly at their f.o.b. values, *i. e.* at the values the goods have at the frontier of the exporting country. In the official foreign trade figures underlying our monthly reporting on the balance of payments and the other chapters of this Report, sea-borne imports are recorded at c.i.f. value, *i. e.* at the value of the imported goods at the German border, with transport and insurance costs included. Chiefly as a result of the regrouping of freight and insurance costs of sea-borne imports from the balance of trade to the services sector, the export surplus for 1966 is shown at DM 11.7 billion, whereas according to the official foreign trade statistics the surplus works out at DM 8.0 billion. On the other hand the deficit on services after inclusion of freight and insurance costs of imports amounts to DM 5.3 billion compared with DM 1.6 billion according to the balance-of-payments statements published monthly, which do not include incidental expenses on imports. The overall figure for external trade and service transactions (and hence also the balance of current transactions) is not however affected by this regrouping.

Principal Items of the Balance of Payments

Millions of DM

Item	1960	1961	1962	1963	1964	1965	1966	1965		1966	
								1st half	2nd half	1st half	2nd half
A. Basic balance											
I. Balance of current items											
(1) Goods and services											
Trade in goods (exports f.o.b., imports f.o.b.)	+8,432	+9,585	+6,171	+9,120	+9,530	+5,092	+11,663	+2,797	+2,295	+3,731	+7,932
Services	- 326	-2,245	-3,110	-3,140	-4,123	-5,303	- 5,344	-2,504	-2,799	-2,286	-3,058
incl.: Receipts from foreign troops	(4,100)	(3,824)	(4,300)	(4,289)	(4,220)	(4,160)	(4,956)	(1,932)	(2,228)	(2,259)	(2,697)
Net balance of goods and services	+8,106	+7,340	+3,061	+5,980	+5,407	- 211	+ 6,319	+ 293	- 504	+1,445	-4,874
(2) Transfer payments ¹⁾											
Private	- 574	- 986	-1,353	-1,603	-1,844	-2,388	- 2,751	-1,057	-1,331	-1,269	-1,482
Official	-2,820	-3,449	-3,801	-3,355	-3,100	-3,472	- 3,150	-2,050	-1,422	-1,690	-1,460
Net transfer payments	-3,394	-4,435	-5,154	-4,958	-4,944	-5,860	- 5,901	-3,107	-2,753	-2,959	-2,942
Net balance of current items (1 + 2)	+4,712	+2,905	-2,093	+1,022	+ 463	-6,071	+ 418	-2,814	-3,257	-1,514	+1,932
II. Long-term capital (except special transactions) ^{1) 2)}											
(1) German investments abroad (increase: -)											
Private	-1,435	-1,107	-1,382	-1,247	-1,872	-1,916	- 2,435	-1,046	- 870	-1,554	- 881
Direct investments	(- 633)	(- 862)	(-1,128)	(- 862)	(- 972)	(-1,174)	(- 1,347)	(- 595)	(- 579)	(- 661)	(- 686)
Credits and loans	(- 303)	(- 294)	(- 36)	(- 208)	(- 373)	(- 266)	(- 285)	(- 70)	(- 196)	(- 116)	(- 169)
Portfolio investments	(- 499)	(+ 49)	(- 218)	(- 177)	(- 527)	(- 476)	(- 803)	(- 381)	(- 95)	(- 777)	(- 26)
Official	- 825	-1,024	-1,084	-1,120	-1,161	-1,213	- 1,303	- 472	- 741	- 591	- 712
Total	-2,260	-2,131	-2,466	-2,367	-3,033	-3,129	- 3,738	-1,518	-1,611	-2,145	-1,593
(2) Foreign investments in Germany (increase: +)											
Private	+2,538	+2,017	+2,428	+4,366	+2,320	+4,021	+ 3,919	+2,108	+1,913	+2,580	+1,339
Direct investments	(+ 617)	(+ 897)	(+ 930)	(+1,445)	(+2,033)	(+3,142)	(+ 2,823)	(+1,900)	(+1,242)	(+1,816)	(+1,007)
Credits and loans	(+ 393)	(+ 35)	(+ 253)	(+ 352)	(+ 279)	(+ 857)	(+ 1,446)	(+ 244)	(+ 613)	(+ 861)	(+ 585)
Portfolio investments	(+1,528)	(+1,085)	(+1,245)	(+2,569)	(+ 8)	(+ 22)	(- 350)	(- 36)	(+ 58)	(- 97)	(- 253)
Official	- 314	- 92	- 89	- 61	- 79	- 74	- 144	- 48	- 26	- 94	- 50
Total	+2,224	+1,925	+2,339	+4,305	+2,241	+3,947	+ 3,775	+2,060	+1,887	+2,486	+1,289
Net long-term capital	- 36	- 206	- 127	+1,938	- 792	+ 818	+ 37	+ 542	+ 276	+ 341	- 304
Net basic balance (I + II)	+4,676	+2,699	-2,220	+2,960	- 329	-5,253	+ 455	-2,272	-2,981	-1,173	+1,628
B. Short-term capital (excl. special transactions) ¹⁾											
Credit institutions	+2,254	- 264	- 147	+ 704	+ 51	- 187	- 388	-2,102	+1,915	-1,384	+ 996
Enterprises ³⁾	+ 590	+ 545	+ 505	+ 39	+ 225	+ 817	+ 1,708	+ 259	+ 558	+ 894	+ 814
Public authorities ⁴⁾	- 957	-1,206	+ 594	- 458	-1,447	+1,203	- 189	+ 176	+1,027	+ 137	- 326
Net short-term capital	+1,887	- 925	+ 952	+ 285	-1,171	+1,833	+ 1,131	-1,667	+3,500	- 353	+1,484
C. Special capital transactions											
Long-term ⁵⁾	- 100	-4,005	-	-	-	-	-2,682	-	-	-1,898	- 784
Short-term ⁶⁾	-	-	-	-	-	-	+ 1,304	-	-	+1,304	-
Net special transactions	- 100	-4,005	-	-	-	-	-1,378	-	-	- 594	- 784
Net balance of current items and capital transactions (A + B + C)	+6,463	-2,231	-1,268	+3,245	-1,500	-3,420	+ 208	-3,939	+ 519	-2,120	+2,328
D. Residual item ⁷⁾	+1,544	+ 303	+ 716	+ 673	+1,512	+1,914	+ 822	+2,256	- 342	+1,113	- 291
E. Movement of gold and exchange ⁸⁾	+8,007	-1,928 ⁹⁾	- 552	+2,572	+ 12	-1,506	+ 1,030	-1,683	+ 177	-1,007	-2,037

¹⁾ Capital transactions are classified as "Private" or "Official" according to the sector to which the German party engaged in the transaction belongs. — ²⁾ Breakdown of long-term capital transactions into "Direct investments", "Credits and loans", and "Portfolio investments" is partly estimated; for breakdown by subject categories refer to table "Capital Transactions with Foreign Countries" in the Statistical Section of the Monthly Reports. — ³⁾ Chiefly granting and use of financial credits. — ⁴⁾ Chiefly changes in claims of the Federal Government from prepayments on defence imports and in commitments towards I.M.F. under the German quota (excluding increase of quota). — ⁵⁾ 1960: drawing of DM 100 million on the Deutsche Bundesbank credit to I.B.R.D. (roughly DM 1 billion) agreed in August 1960; 1961: prepayment of debt in respect of post-war economic aid (DM 3,125 million) and further drawing on the Bundesbank credit to I.B.R.D. (DM 880 million); 1966: prepayment of debt to B.I.S., Basle (DM 156 million) and to the United States (DM 784 million), and increase of German quota in I.M.F. (DM 1,650 million) and of German capital subscription to I.B.R.D. (DM 92 million). — ⁶⁾ Depositing of certificates of indebtedness at I.M.F. (DM 1,221 million) and at I.B.R.D. (DM 83 million) in connection with the increase of the German quotas in these institutions. — ⁷⁾ Unidentified difference between movement of gold and exchange and net balance of current items and capital transactions. — ⁸⁾ Change in net monetary reserves of Deutsche Bundesbank; increase: +. — ⁹⁾ Disregarding decrease by DM 1,419 million in the monetary reserves of the Deutsche Bundesbank owing to the DM revaluation.

payments definition” here applied (and explained in the footnote on page 85), Germany’s balance of trade showed a surplus of DM 11.7 billion for the year 1966 compared with one of DM 5.1 billion for the preceding year. In the latter half of 1966 regarded by itself, the surplus approximated DM 8.0 billion. Altogether in 1966 the export surpluses not only reattained the aggregate amount of the deficits on services and transfer payments (chiefly indemnification payments and wage transfers of foreigners employed in this country), but actually somewhat exceeded it. The balance of all current transactions with foreign countries therefore once more showed a slight surplus (of DM 400 million), whereas during 1965 a deficit of no less than DM 6.1 billion had arisen owing to the excessive boom conditions within the country at that time.

The improvement in the balance of current items during 1966 was accompanied by a decline of net money inflows in capital transactions. Including the surplus on statistically unidentifiable transactions (the “residual item of the balance of payments”), net capital imports in 1966 amounted to only DM 600 million as against DM 4.6 billion in the preceding year. Although this slowing down was partly due to the fact that special payments were made to foreign countries — the payments to the International Monetary Fund in connection with the raising of the German I.M.F. quota and the prepayment of debts to the United States of America being of particular weight — net capital imports would have declined by one half on the year even without these special transactions (totalling DM 1.4 billion). The inflow of liquid funds resulting from the surplus on current account no doubt reduced the demand of German trade and industry for foreign credit.

The large export surpluses continued in the first months of 1967. Exports kept rising vigorously, whereas imports fell slightly short of the corresponding figures for the previous year. The trade surpluses were offset only in part by deficits on services and transfers, so that the current items of the balance of payments likewise showed substantial surpluses early in 1967. In January and February — more recent figures not being available when this Report went to press — the surpluses on current account totalled DM 1.7 billion, whereas a deficit of approximately DM 650 million had resulted for the same months of 1966. The fact that the recent surpluses on current account were accompanied not by an increase but by a decline in the central monetary reserves (by altogether DM 170 million in January and February) was due chiefly to changes in the credit institutions’ foreign exchange position. The interest differential as between the domestic money market and foreign markets — quite large in those months — caused the banks to continue exporting money in spite of the revocation, described in another context, of the compensation facility for external liabilities previously granted for calculating the minimum reserve requirement, which had been expected to result in partial repatriation of the short-term external assets of banks; in fact the banks exported DM 2.7 billion in January and DM 0.6 billion in February. However, the large net exports of short-term capital effected in January were due in part merely to the fact that, as usual for the season, the credit institutions replenished their foreign assets, which had declined at the end of the past year, and reduced their external liabilities. If these largely seasonal changes are left out of account and the period from the end of November 1966 to the end of February 1967 is taken as a whole, the banks in this period exported short-term funds in the amount of DM 1.1 billion net. In addition, under the Foreign Exchange Offset Agreement with the United States the Federal Government in January paid a further DM 500 million to the U.S.A. after having transferred DM 1 billion at the end of 1966.

In the following sections the individual components of the balance of payments for 1966 will be analysed.

2. Current items

On the basis of f.o.b. figures for exports and imports, the trade surplus increased from DM 5.1 billion in 1965 to DM 11.7 billion in 1966. This increase in the surplus resulted primarily from the fact that exports in terms of absolute value rose by DM 9 billion to DM 80.4 billion, whereas

Increase in trade surplus
owing to low imports...

imports rose by the comparatively small amount of DM 2.4 billion to DM 68.9 billion¹). The great extent to which the slight increase in imports (by about 3 per cent against 20 per cent in 1965) — which moreover was limited to the first six months of 1966 whilst in the second half of the year imports already fell somewhat short of the corresponding level for the previous year — has to be ascribed to the slowing down of demand within the country, is revealed with particular clarity by the imports of finished goods, which account for more than 40 per cent of Germany's total imports. According to the figures of the official foreign trade statistics, which must be taken as basis here since f.o.b. figures are not available for the individual categories of imported goods, "commercial" imports of finished goods (*i. e.* imports excluding those of military equipment effected by the Federal Government) rose by only 9 per cent in 1966 as against 29 per cent in the previous year for reasons described in the chapter on economic activity; in the last three months of 1966 imports of "commercial" finished goods actually were 2 per cent less than a year before. No doubt adaptation to the decelerated movement of production and sales at home also was the principal reason for imports of semi-finished goods (DM 10.8 billion in 1966) only just reaching the previous year's level and imports of industrial raw materials (DM 11.8 billion) clearly levelling off in the course of 1966. The fact that imports of foodstuffs during 1966 were far from increasing as vigorously as in 1965 (growing by only 4 per cent to DM 17.5 billion as against a rise by 20 per cent in 1965) was due in the main not to the slackening of domestic economic activity, however, but to the abundant German crops, which in the latter half of 1966 substantially reduced the demand for food imports (see in this context the chart on page 89 and the table on page 82). Another factor contributing towards checking overall imports was that during the year under review the Federal Government reduced by approximately one-third the imports of military equipment compared with the year 1965, when such imports admittedly had been relatively large.

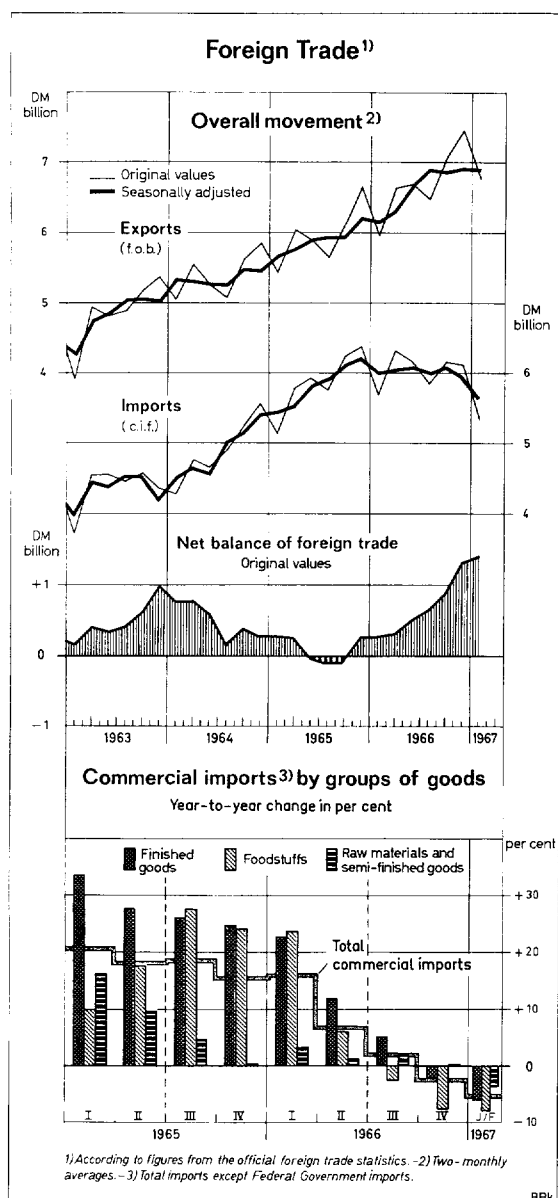
... with exports continuing to grow

Contrary to the movement in imports, exports during 1966 increased to a greater extent than in 1965, the growth being 12.5 per cent compared with 10 per cent a year before. In 1966 exports totalled DM 80.4 billion as against DM 71.5 billion in the preceding year. The greatest incentive was given to exports by the comparatively favourable state of economic activity in some important purchaser countries, such as in particular Italy (which raised imports from Germany by 26 per cent during 1966), France (increasing imports from Germany by 18 per cent), and the United States (which bought 25 per cent more German goods than a year earlier). In each of these countries the increase in imports from the Federal Republic of Germany was greater than the growth in imports from other countries. This reflects German trade and industry's intense efforts better to utilise productive capacities and to ensure employment by way of raising exports, this objective however being attained to some extent only by making price concessions in addition to offering shorter terms of delivery.

No change in deficit on service transactions, but shifts as between the components

In service transactions with foreign countries the deficit in 1966 (including freight and insurance costs of sea-borne imports) amounted to DM 5.3 billion; it was thus of the same size as in 1965. Hence the persistent deterioration of the balance of services as recorded for previous years has not continued for the time being. A principal factor in this connection was that receipts from foreign troops increased by DM 800 million to approximately DM 5 billion during 1966 after having continuously fallen, to less than DM 4.2 billion, between 1962 and 1965. The 1966 figure included U.S. dollars to the equivalent of DM 3.2 billion compared with DM 2.7 billion in 1965. As against the amounts received by the Federal Republic of Germany from the foreign troops stationed in its territory, there is, on the other hand, expenditure for military purposes (principally under the Foreign Exchange Offset Agreement with the United States); most of this expenditure is not contained in the services sector, however, but in other items of the balance of payments. This chiefly concerns imports of military equipment (comprised in imports of goods), advance payments for future deliveries of such equipment (these amounts being included in short-term

¹) In 1966 merchanting trade, which in the annual balance-of-payments statements is included in the trade figures (and not among services), showed a surplus of DM 200 million compared with one of DM 150 million for 1965.



capital movements), and — as a non-recurrent compensatory transaction — the acquisition by the Bundesbank of the remaining American claims in respect of post-war economic aid (recorded as an element of long-term capital transactions). Such payments during 1966 totalled approximately DM 4 billion, thus being not much smaller than the receipts from foreign troops in earlier years. They did fall appreciably short, however, of the receipts in the year 1966, which were particularly substantial owing in the first place to the transfer of American military agencies to the Federal Republic of Germany.

The other service items were more or less affected by the trend of economic activity. This applies, firstly, to transport. Including freight costs of sea-borne imports, the deficit in this field, according to partly provisional calculations, declined to some DM 540 million in 1966 compared with DM 760 million in the previous year and DM 1.1 billion in 1964. A contributing factor here was that in 1966 expenditure on maritime freights, which is of particular importance in the balance of transport services, at DM 3.3 billion hardly exceeded the previous year's level, imports nearly stagnating and freight rates being slightly on the decline. Expenditure by German shipping on foreign harbour services — likewise included on the expenditure side of the transport account — was slightly greater than a year before because of the rise in German ships' transport performances. At the same time, however, Germany's receipts from transport services rose from DM 5.3 billion in 1965 to

DM 5.8 billion in 1966 (largely on account of increased German services in sea-borne traffic).

Cyclical factors would also seem to have been the chief cause for the deficit on investment income declining to DM 1.7 billion in 1966 from DM 1.9 billion in the previous year. The influence of these factors is evident, in particular, from the fact that in 1966 dividend payments and profit distributions to foreigners, at DM 1.9 billion, were almost DM 300 million less than in 1965. Although the other items of investment income flowing to foreign countries continued to rise in line with the increase in foreign assets held in the Federal Republic of Germany, this did not quite make good the decline in profits distributed to foreign shareholders. On the other hand, during 1966 German receipts from capital invested abroad grew by about DM 200 million to DM 1.5 billion (including as much as DM 570 million of interest earned by the Bundesbank on its external assets). This, however, made up for only about one half of the total German payments of investment income to foreigners (DM 3.2 billion).

The "improvement" recorded for the balance of services thanks to larger receipts from foreign troops on the one hand, and smaller deficits on transport and investment income on the other,

Receipts and Expenditure in Service Transactions with Foreign Countries

Millions of DM

Item	1963			1964			1965			1966		
	Receipts	Expenditure	Balance	Receipts	Expenditure	Balance	Receipts	Expenditure	Balance	Receipts	Expenditure	Balance
Receipts from foreign troops ¹⁾	4,289	—	+ 4,289	4,220	—	+ 4,220	4,160	—	+ 4,160	4,956	—	+ 4,956
Travel	2,433	4,341	— 1,908	2,723	4,704	— 1,981	2,914	5,563	— 2,649	3,188	6,467	— 3,279
Transportation ²⁾	4,218	5,025	— 807	4,773	5,875	— 1,102	5,321	6,078	— 757	5,804	6,346	— 542
among which:												
Marine freights	(2,083)	(2,693)	(— 610)	(2,387)	(3,324)	(— 937)	(2,607)	(3,295)	(— 688)	(2,763)	(3,325)	(— 562)
Investment income	1,008	2,293	— 1,285	1,086	2,760	— 1,674	1,312	3,174	— 1,862	1,497	3,154	— 1,657
Commissions, publicity and trade fairs	235	1,572	— 1,337	274	1,767	— 1,493	324	1,920	— 1,596	322	2,129	— 1,807
Licences and patents	216	637	— 421	265	698	— 433	319	781	— 462	308	805	— 497
Personal services ³⁾	247	637	— 390	303	694	— 391	315	844	— 529	367	1,057	— 690
Other services	1,247	2,528	— 1,281	1,616	2,885	— 1,269	1,943	3,551	— 1,608	2,203	4,031	— 1,828
Total	13,893	17,033	— 3,140	15,260	19,383	— 4,123	16,608	21,911	— 5,303	18,645	23,989	— 5,344
Note:												
Net balance of services except freight and insurance costs, which are contained in the c.i.f. import value	14,850	14,902	— 52	16,168	16,842	— 674	17,748	19,162	— 1,414	19,913	21,552	— 1,639

¹⁾ Including receipts from deliveries, which are not recorded separately. — ²⁾ Including expenditure on freight costs recorded in the monthly balance-of-payments statements in the c.i.f. value of imports. — ³⁾ Except foreign workers' wage remittances, which are included in transfer payments.

was counteracted by greater expenditure on travel. The deficit on travel during 1966 increased to DM 3.3 billion compared with DM 2.6 billion in the preceding year and DM 2.0 billion in 1964. Expenditure on travel rose by 16 per cent to DM 6.5 billion. At that rate the increase was somewhat less than a year before, when it had amounted to 18 per cent; but it substantially exceeded the growth in the disposable income of households (+ 6.0 per cent), so that the portion of incomes applied to foreign travel increased from 1.9 per cent in 1965 to 2.1 per cent in 1966. On the other hand, the Federal Republic of Germany's receipts from foreign visitors increased by 9 per cent to DM 3.2 billion in the past year.

As regards the other sectors of service transactions it should be noted that net expenditure on commissions, publicity and trade fairs rose by some DM 200 million to DM 1.8 billion, to some extent probably as a result of German exporters' intensified efforts to gain more ground on foreign markets. Licence and patent transactions, with receipts hardly changed and expenditure growing further, showed a deficit of DM 500 million compared with one of DM 460 million in the previous year.

Deficit on transfer payments unchanged

In unilateral transfers, the third large current item of the balance of payments, the deficit did not grow any further during 1966; as in the previous year, it amounted to approximately DM 5.9 billion. The case is similar to that of services, however, inasmuch as the steadiness of the overall amount conceals in part greatly diverging trends. Thus, income and capital transfers of public authorities to foreign countries, at DM 3.2 billion, were smaller than a year before by DM 320 million. This was due chiefly to the expiry of the indemnification agreement with Israel, under which the last instalment of DM 300 million had been paid in 1965, whereas during 1966 no "collective" indemnification payments, but only "individual" restitution payments were made to Israel. During 1966 payments to foreigners entitled to individual indemnification totalled DM 1.8 billion, or just as much as in the previous year. The other official transfers principally concerned expenditure on officials' and social security pensions and benefit payments (DM 570 million) and contributions to international organisations (DM 480 million). The Federal Government's payments to the E.E.C. Agricultural Fund accounted for DM 50 million of the latter amount; in this case however payment obligations will substantially increase in the years to come, in particular as from 1969.

The decline in official payments was offset by an increase in private transfers (by DM 400 million to well over DM 2.7 billion). The main part was played by wage remittances of foreigners employed in Germany. Home remittances of these workers amounted to approximately DM 1.9 billion, compared with DM 1.7 billion in the previous year. The further increase is no doubt due in the first place to the fact that on the average of the year 1966, at 1.2 million, about 100,000 more foreign workers were employed in the Federal Republic of Germany than on the average of 1965. Of the total amount transferred by foreign workers, an estimated DM 700 million went to Italy, DM 350 million each to Spain and Greece, and DM 300 million to Turkey. The remaining private transfers, predominantly payments of welfare organisations without any legal obligation, and maintenance payments, likewise continued to increase; at DM 800 million they exceeded the amount for the previous year by DM 100 million.

3. Capital¹⁾

In Germany's external capital transactions, net capital imports decreased from DM 2.7 billion in 1965 to DM 1.2 billion in 1966 if special transactions are left out of account. With special transactions included, which in the past year resulted in almost DM 1.4 billion of funds flowing out, there was indeed a net capital export of some DM 200 million for 1966. The special transactions concerned, firstly, prepayment of Federal pre-war and post-war debts. In April 1966 the Bundesbank acquired the claims of the Bank for International Settlements (B.I.S.) on the Federal Republic, amounting to DM 156 million and arising from settlement of the Reichsmark assets of B.I.S. Furthermore, at the end of 1966 the Bundesbank, in connection with the German-American Foreign Exchange Offset Agreement, acquired the remaining claims of the United States on the Federal Republic resulting from post-war economic aid and amounting to U.S. \$ 196 million, equivalent to DM 779 million at the current rate²⁾. The Federal Government has undertaken to repay to the Bundesbank the latter amount by 1971 and the claim acquired from B.I.S. by 1970.

Deterioration in capital movements owing to special transactions ...

Further substantial capital transactions ensued from the raising, in May 1966, of the German participation in the International Monetary Fund from U.S. \$ 787.5 million to U.S. \$ 1,200 million in the course of the general raising of I.M.F. quotas proposed in 1964 and resolved in 1965. When entering this transaction in the standard schedule for the balance of capital transactions, not only the cash payments made to the Fund in respect of the quota increase, but all transactions which affected Germany's position in the I.M.F. were taken into account. Thus in the balance of long-term capital movements the raising of the quota by DM 1,650 million (= U.S. \$ 412.5 million) has been recorded in full as an increase in German external assets (that is to say as an export of capital) because Germany's share in the capital of the Fund has grown by this amount. According to the Fund's articles of association, in the case of quotas being raised, 25 per cent of the additional amount has to be paid in gold and 75 per cent in national currency, the member country being permitted to meet the obligation to effect in-payment in national currency by lodging non-interest certificates of indebtedness. In compliance with this provision the Federal Government transferred to the Fund gold in the value of DM 412.5 million. Of the amount payable in DM, on the other hand, only DM 16.5 million was paid into the DM account maintained by the I.M.F. with the Bundesbank, whereas the remainder was "financed" by handing over DM certificates of indebtedness in the amount of DM 1,221 million. The surrender of the certificates of indebtedness was recorded in the balance of payments as an increase in short-term external liabilities, *i. e.* as a short-term capital import. Thus the balance of capital movements has been inflated on both sides to the extent of this certificate-of-indebtedness transaction. In the ultimate result it has been "burdened" by the raising of the German I.M.F. quota to the extent of DM 429 million only — in

¹⁾ Detailed statistics on capital transactions have been published in the Monthly Report of the Deutsche Bundesbank for February 1967 (page 24).

²⁾ By way of difference from this figure, the DM equivalent converted at parity (DM 784 million) is shown in the balance of payments.

fact, in the amount of the gold payment to the Fund and the DM 16.5 million paid in national currency. As regards these items too, however, the posting is not quite satisfactory, as the cash payments to the Fund might just as well be considered a mere shift in central monetary reserves and might accordingly be eliminated from the balance of capital transactions (see in this context what is stated on page 95 *et seq.*).

Simultaneously with the raising of the German quota in the International Monetary Fund, Germany's share in the capital of the International Bank for Reconstruction and Development has been increased from U.S. \$ 1,050 million to U.S. \$ 1,280 million. Of this increase (equivalent to DM 920 million) only 1 per cent (DM 9.2 million) had to be met by paying U.S. dollars and 9 per cent (DM 82.8 million) by lodging DM certificates of indebtedness; the remaining 90 per cent merely represent an increase in the amount guaranteed, which does not affect the balance of payments.

In the balance-of-payments table the transactions just described are recorded as special transactions outside "regular" capital movements to which the following statements exclusively refer. As far as these regular capital movements were recorded statistically, they had in 1966 again resulted in net capital imports, although the inflows declined to the above-mentioned amount of DM 1.2 billion compared with DM 2.7 billion in the previous year. Long-term and short-term capital transactions contributed to this movement in approximately equal parts.

Long-term capital

In 1966 long-term external capital movements (excluding special transactions) almost balanced, whereas in the previous year they had still resulted in inflows of over DM 800 million. The ebbing of long-term capital imports during 1966 is explained principally by the fact that net private imports of capital declined to a level at which they were almost fully offset by official capital exports.

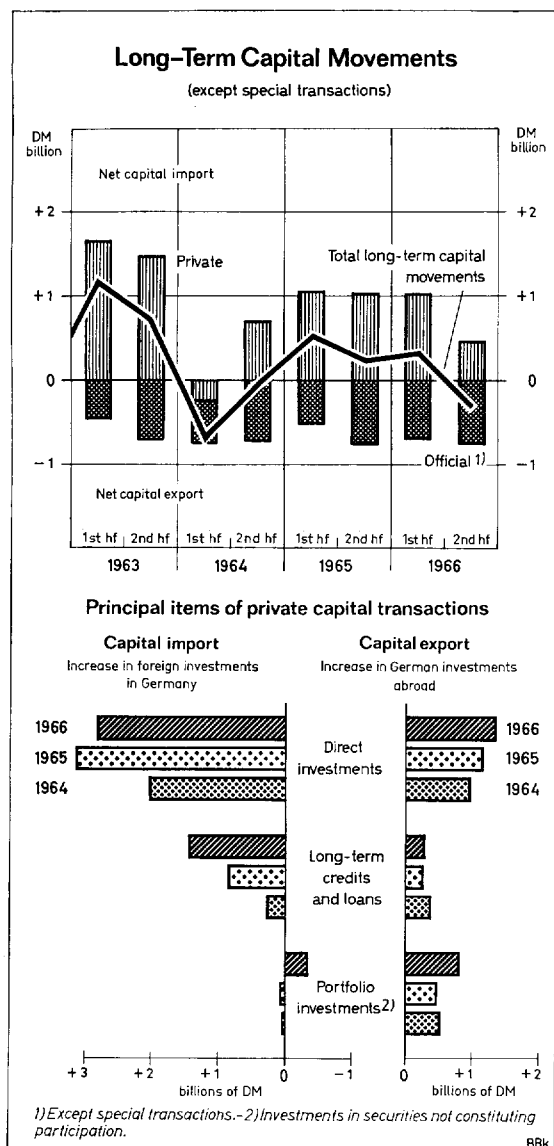
Private long-term capital was imported in the amount of DM 1.5 billion net during 1966, compared with DM 2.1 billion in the preceding year. One cause of this decrease was the fact that in 1966 German capital investments abroad grew more vigorously than in previous years. Another reason was that new investments by foreigners in the Federal Republic of Germany did not quite attain the figure for 1965. As to details, German investments abroad during 1966 amounted to DM 2.4 billion compared with DM 1.9 billion in 1965; direct investments (expenditure on the acquisition of foreign enterprises, especially purchases of foreign shares and acquisition of business interests not in the form of shares, and the establishing of branches and subsidiaries abroad) at over DM 1.3 billion were little greater than a year before (DM 1.2 billion), although they must be considered quite appreciable in view of the shortage of capital within the country. Portfolio investments too were quite sizeable, such investments being a matter of acquiring foreign fixed-interest securities and also of purchasing foreign shares, provided such transactions are not connected with the acquisition of new participations or the expansion of existing ones. These portfolio investments totalled DM 0.8 billion in 1966 as against DM 0.5 billion a year before. Approximately one half of the new portfolio investments concerned the D.E.A./Texaco transaction described in earlier Monthly Reports¹⁾. In this transaction, D.E.A. shares were exchanged for convertible DM bonds of the American investor. The balance of payments therefore shows DM 718 million of German portfolio investments abroad (equivalent to the convertible bonds acquired), as against which there is an equal amount of foreign direct investments in Germany. Thus the transaction did not burden the balance of payments or the domestic capital market. On the contrary: as, following the exchange, Texaco bonds in the amount of DM 275 million were sold by domestic holders to foreigners, there was in fact an inflow of funds to the capital market. The other seven DM loans issued by foreigners on the German capital market during 1966, with German banks leading the syndicate and proceeds totalling DM 610 million (including another convertible loan whose issue extended over the period from November 1966 to January 1967), were even subscribed to predominantly — at the rate of

¹⁾ Cf. Monthly Report of the Deutsche Bundesbank, Vol. 18, No. 8, August 1966, page 45.

... but capital imports
in other fields also decline

Long-term capital
movements approxi-
mately in equilibrium

Private German
investments abroad
larger than a year before



some 75 per cent — by foreign investors because the yield was unattractive for residents. Three of these loans, totalling DM 260 million, were issued by German enterprises' finance companies domiciled in Luxembourg, DM 100 million each being offered by Thyssen Investment S.A. and Siemens Europa-Finanz A.G., and DM 60 million by A.E.G. Finanz-Holding S.A.

It has already been mentioned that last year foreign investments in the Federal Republic of Germany rose somewhat more slowly than in 1965. Altogether foreigners invested in Germany DM 3.9 billion net during 1966 as against DM 4.0 billion a year before, foreigners' direct investments amounting to DM 2.8 billion against DM 3.1 billion in 1965. These amounts cannot be identified in full with money inflows from abroad, however. The acquisition of the majority of the D.E.A. capital by Texaco, for instance, was not "financed" by capital imports in the proper sense of the term, but by surrender of bonds on the part of the American investor. Moreover, DM 250 million of short-term credits granted previously by foreign lenders were converted into long-term capital; this transaction likewise did not cause any new funds from abroad to flow to the enterprises in question. If these processes are deducted from the DM 2.8 billion of foreign direct investments statistically recorded for 1966, there is a capital inflow of DM 1.9 billion "affecting the balance of payments". True, in

Capital imports in the form of direct investments smaller than in 1965

1965 too the figures showing direct investments had been inflated by processes "neutral in their effect on the balance of payments", viz., by book transfers. At that time, especially some American enterprises had to a substantial extent converted into long-term investments their funds lent at short term to German subsidiaries. If these conversions are left out of account, foreign direct investments during 1965 work out at DM 2.3 billion. Compared with that figure, direct investments in the year under review were lower by more than DM 400 million. On the other hand, the foreign long-term credits granted to German borrowers in 1966 showed a greater rise than in the previous year. They amounted to DM 1.4 billion as against DM 0.8 billion in 1965. However, towards the end of 1966 the tendency to borrow abroad slowed down perceptibly.

In official capital transactions with foreign countries, net capital exports during 1966 rose by DM 160 million to well over DM 1.4 billion. It was almost exclusively a matter of financial assistance to developing countries (DM 1.3 billion). The principal recipients of the "bilateral" development assistance credits, channelled in most cases through the Reconstruction Loan Corporation, were Israel (DM 230 million), India (DM 150 million), Pakistan (DM 140 million) and Liberia (DM 90 million). In addition the Federal Government paid the second instalment of DM 97 million

Official capital exports continue at a high rate

on the raising of the German capital share in the International Development Association (I.D.A.)¹⁾. The amounts here stated represent only a part of the total German development assistance, however. In compliance with the definition internationally applied, such assistance also includes technical aid and certain private capital payments which are contained in other items of the balance of payments. Including these expenses, the total (official and private) expenditure on development aid during 1966 amounted to approximately DM 3.1 billion, as against DM 2.9 billion in the preceding year and DM 2.8 billion in 1964.

Short-term capital

In short-term capital transactions, as against ...

During 1966 short-term capital movements in relation to foreign countries (excluding special transactions) were characterised by greatly diverging tendencies. Whereas credit institutions and public authorities on balance exported short-term capital, business enterprises borrowed substantial short-term funds abroad. On an overall view inflows of funds predominated in short-term capital transactions, although at DM 1.1 billion they were appreciably smaller than a year before when they had amounted to DM 1.8 billion.

... capital exports by public authorities ...

The principal factor determining the change in the overall balance was the reversal in short-term capital transactions of public authorities. In 1966 public authorities in fact exported short-term capital at the rate of DM 190 million net after having "imported" DM 1.2 billion of capital a year before, mainly as a result of the Federal payments on imports of defence goods having fallen considerably short of actual armament imports, and the Federal Government therefore having had to resort to its assets from previous advance payments.

... and by credit institutions ...

With temporarily quite vigorous and largely seasonal fluctuations, the short-term capital transactions of credit institutions in 1966 resulted in a net capital export of approximately DM 400 million. While short-term external assets as a whole hardly showed any change, the outflow of funds was due chiefly to the fact that the credit institutions reduced the credits taken at short term abroad.

... there was borrowing by trade and industry, although at a slightly lower rate than in 1965

In contrast with credit institutions and public authorities, German enterprises and foreign firms' subsidiaries operating in Germany imported short-term capital from abroad also in the past year. If certain statistical adjustments (shown in detail in the following table) are made, at DM 1.8 billion the accrual of funds was slightly below the figure for the preceding year, owing no doubt largely to the fact that the propensity to borrow abroad to a certain degree diverges from the trend of internal liquidity, which in the second half of 1966 was characterised by noticeable relaxation.

It has already been indicated that the emphasis of borrowing was in the first six months of the year. Towards the end of the year, on the other hand, borrowing abroad was clearly on the decline. The chief reason for this development was that the appreciable easing on the domestic money and capital markets once more facilitated enterprises' procurement of finance within the country. Some part may also have been played by the fact that the financial requirements of trade and industry declined as a result of restrictions in output and investment activity. These tendencies were reflected much more clearly in enterprises' statistically unrecorded capital transactions with foreign countries, the only indication of the movement in such transactions however being the residual item of the balance of payments, which of course — as repeatedly explained — also comprises transactions which would have to be attributed to the current account if they were known. But the change in the residual item, which in 1966 showed a surplus of only DM 800 million as compared with DM 1.9 billion in the preceding year, suggests that enterprises' statistically unrecorded short-term borrowing abroad also decreased. This movement was mainly due, no doubt, to the fact that the use of suppliers' credits more or less automatically declined in connection with the marked deceleration of the rise in imports, while the credits granted by exporters to foreign buyers actually increased further. To some extent however a deliberate reduction of borrowing probably also played a part in this movement.

¹⁾ The Federal Republic of Germany had undertaken in the years 1965 to 1967 to place at the disposal of I.D.A., over and above its former capital share of U.S. \$ 52.9 million, a further U.S. \$ 72.6 million (= DM 290.4 million).

Enterprises' Total Borrowing Abroad

(adjusted for transactions which — as far as ascertainable —
did not result in any fresh influx of funds from abroad)

Millions of DM

Item	1964	1965	1966		
			Total	1st hf	2nd hf
Direct investments ¹⁾	+ 1,815	+ 2,337	+ 1,862	+ 1,038	+ 824
Long-term credits and loans ¹⁾	+ 226	— 55	+ 361	+ 152	+ 209
Short-term credits and loans ¹⁾	+ 670	+ 1,890	+ 1,790	+ 996	+ 794
Residual item of the balance of payments	+ 1,512	+ 1,914	+ 822	+ 1,113	— 291
Total	+ 4,223	+ 6,086	+ 4,835	+ 3,299	+ 1,536
<i>Compare:</i>					
Credits granted by German enterprises to foreigners (including direct investments abroad)	— 1,323	— 1,464	— 1,337	— 777	— 560
Net balance of enterprises' total statistically adjusted capital movements	+ 2,900	+ 4,622	+ 3,498	+ 2,522	+ 976

¹⁾ The following items have been eliminated: conversion of previously granted short-term credits into long-term credits and owned funds (reserves); 1964: DM 234 million, 1965: DM 847 million, 1966: DM 243 million. Furthermore, the exchange of D.E.A. shares for DM convertible bonds of Deutsche Texaco, Ltd., as well as the exchange of Standard Elektrik Lorenz A.G. shares for DM convertible bonds of International Standard Electric Corporation, have been disregarded.

The above table shows data on enterprises' total borrowing abroad (including foreigners' direct investments), adjusted for the conversions described above. The figures show that total short and long-term borrowing of domestic enterprises (including the residual item of the balance of payments) increased from DM 4.2 billion in 1964 to DM 6.1 billion in 1965, only to decline to DM 4.8 billion in 1966. The slowing down was particularly marked in the second half of last year, owing in part to seasonal factors however. If German enterprises' lending to foreigners is also taken into consideration, the net inflow of capital to German firms decreased from an estimated DM 4.6 billion in 1965 to DM 2.5 billion in the first six months and DM 0.9 billion in the second half of 1966.

4. Movement of gold and foreign exchange

Capital inflows in the short-term field, together with the growing improvement in the balance on current account, resulted in renewed growth of the central monetary reserves¹⁾, especially in the latter half of the year. The gold and foreign exchange holdings of the Bundesbank rose by over DM 1.0 billion in 1966 after having fallen by DM 1.5 billion a year before. It is in particular the Bundesbank's liquid dollar assets which increased in 1966, rising by DM 3.1 billion or at a much greater rate than the total holding of monetary reserves. Gold holdings on the other hand declined by DM 472 million. Much the greater part (DM 412.5 million) concerned the gold payment to the International Monetary Fund in connection with the raising of the German quota; in accordance with earlier practice (which is also laid down in the Bundesbank Law) this gold payment was financed by the Bundesbank granting a credit to the Federal Government. As against the decrease in the gold holdings, however, there was an increase of equal amount in the quasi-automatic drawing rights of the Federal Republic of Germany, *i. e.* its "reserve position" in the I.M.F.; for this reason it would be quite justified from the economic angle to regard the creditor's claims on the Fund, which are in the nature of reserves, as a component of the German central monetary reserves. In addition to the gold reserves it is above all the Bundesbank's holding of U.S. Treasury DM bonds (Roosa Bonds) which declined (by DM 1 billion), as some maturities

Increase in monetary
reserves of Bundesbank

¹⁾ The figures here shown represent values converted into DM at parity rate; differences from the figures appearing in the annual balance sheet of the Bundesbank are due chiefly to the fact that in the latter figures external assets are valued according to the lowest value principle (cf. page 116 of this Report).

Central Reserve Position of the Federal Republic of Germany

Millions of DM

Item	1961	1962	1963	1964	1965	1966
I. Monetary reserves of the Deutsche Bundesbank						
Position at end of year ¹⁾						
Total holdings (net)	28,281	27,729	30,301	30,313	28,807	29,837
of which:						
(1) Gold holdings and freely usable external assets, total	26,165	25,786	28,409	27,879	25,410	27,085
of which: Gold	(14,654)	(14,716)	(15,374)	(16,992)	(17,639)	(17,167)
U.S. dollars	(10,886)	(10,785)	(11,668)	(7,712)	(5,167)	(8,307)
DM bonds of the U.S. Treasury ¹⁾	(—)	(—)	(1,100)	(2,700)	(2,400)	(1,400)
Other assets	(625)	(285)	(267)	(475)	(204)	(211)
(2) Credit granted to I.M.F. under the "General Arrangements to Borrow"	—	—	—	720	1,390	1,390
(3) External assets of limited usability	2,453	2,299	2,131	1,973	2,428	1,874
(4) External liabilities	337	356	239	259	421	512
II. The Federal Republic of Germany's position in relation to the International Monetary Fund						
Position at end of year						
(1) Quota	3,150	3,150	3,150	3,150	3,150	4,800
(2) In-payments actually made	2,549	2,069	2,208	2,930	2,915	3,638
(a) Gold ²⁾	(788)	(788)	(788)	(788)	(788)	(1,200)
(b) DM drawings by I.M.F. (net)	(1,761)	(1,281)	(1,420)	(2,142)	(2,127)	(2,438)
(3) Present DM holdings of I.M.F.	601	1,081	942	220	235	1,162
DM holdings in per cent of quota	19	34	30	7	7	24
Note: Federal Republic of Germany's overall reserve position in I.M.F. ³⁾	(2,549)	(2,069)	(2,208)	(3,650)	(4,305)	(5,028)
III. Change in overall central reserve position						
(1) Change in the Deutsche Bundesbank's monetary reserves (cf. I)						
Total holdings (net); (increase: +) ⁴⁾ ⁵⁾ ⁶⁾	— 1,928	— 552	+ 2,572	+ 12	— 1,506	+ 1,047
(a) Gold holdings and freely usable external assets	— 773	— 379	+ 2,623	— 530	— 2,469	+ 1,675
of which: Gold	(+ 2,781)	(+ 62)	(+ 658)	(+ 1,618)	(+ 647)	(— 472)
U.S. dollars	(— 3,383)	(— 101)	(+ 883)	(— 3,956)	(— 2,545)	(+ 3,140)
DM bonds of U.S. Treasury ¹⁾	(—)	(—)	(+ 1,100)	(+ 1,600)	(— 300)	(— 1,000)
Other assets	(— 171)	(— 340)	(— 18)	(+ 208)	(— 271)	(+ 7)
(b) Credit granted to I.M.F. under the "General Arrangements to Borrow"	—	—	—	+ 720	+ 670	—
(c) External assets of limited usability	— 1,246	— 154	— 168	— 158	+ 455	— 554
(d) External liabilities (increase: —) ⁶⁾	+ 91	— 19	+ 117	— 20	— 162	— 74
(2) Change in quasi-automatic drawing rights on I.M.F. within German quota (cf. II 2); (increase: +)	+ 1,322	— 480	+ 139	+ 722	— 15	+ 723
Note: Change in overall German reserve position in I.M.F. ⁷⁾	(+ 1,322)	(— 480)	(+ 139)	(+ 1,442)	(+ 655)	(+ 723)
(3) Change in the Deutsche Bundesbank's external assets not contained in the monetary reserves (increase: +) ⁸⁾	+ 848	— 12	+ 5	— 3	— 20	— 43
(4) Change in liabilities resulting from sale of German money-market paper to foreign monetary authorities (increase: —)	— 267	+ 140	+ 30	— 304	+ 245	— 322
Total	— 25	— 904	+ 2,746	+ 427	— 1,296	+ 1,405
Note: (1) Change in net foreign exchange position of credit institutions (except Bundesbank) ⁹⁾	(+ 264)	(+ 147)	(— 704)	(— 51)	(+ 187)	(+ 388)
(2) Change in overall central monetary position plus change in credit institutions' net foreign exchange position	(+ 239)	(— 757)	(+ 2,042)	(+ 376)	(— 1,109)	(+ 1,793)
<p>¹⁾ Data for earlier years will be found in Table VII 2 in the Statistical Annex to this Report; concerning valuation cf. relevant notes in that table. — ²⁾ Known as Roosa Bonds. — ³⁾ Including repurchase of DM by the Federal Republic of Germany under the "repurchase obligation", which was counted towards the gold in-payment. — ⁴⁾ Corresponds to the actual in-payments within 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. — ⁵⁾ Recorded as "Net movement of gold and exchange" in the balance-of-payments statements. — ⁶⁾ Disregarding the decrease by DM 1,419 million resulting from the DM revaluation in 1961. — ⁷⁾ 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 on I.M.F. within German quota). — ⁸⁾ Cf. footnote ³⁾. — ⁹⁾ 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. — ¹⁰⁾ Unlike the balance-of-payments statements, this table indicates improvement in the banks' position by + and deterioration by —.</p>						

were not renewed. Finally, those external assets of the Bundesbank which are of limited usability as a monetary reserve likewise declined by DM 550 million — chiefly because the earmarked sterling balance, equivalent to DM 465 million, which the Bundesbank had established with the Bank of England in the summer of 1965, was called. Redemption by the United Kingdom of some of its former E.P.U. indebtedness in the amount of DM 88 million also played a part, bringing the Bundesbank's remaining claims in respect of the settlement of the consolidated E.P.U. credits down to DM 420 million, *i. e.*, to about one-tenth of the original amount of the credits. Altogether the Bundesbank's monetary reserves at the end of 1966 amounted to DM 29.8 billion net (as compared, for example, with DM 32.5 billion at their peak level attained in April 1961). At the end of 1966, DM 17.2 billion of the total holding was in gold, this representing a proportion of 58 per cent as against one of 61 per cent at the end of 1965. At 8.3 billion the liquid dollar reserves at the end of 1966 accounted for about 28 per cent of the monetary reserves, compared with 18 per cent at the end of 1965.

As already indicated, the change in monetary reserves must be considered in close connection with processes which according to the standard schedule for our balance-of-payments statements are attributed to official capital movements even though they represent transactions with monetary authorities and thus serve the financing of surpluses or deficits resulting from current and capital transactions, but do not themselves affect such surpluses or deficits. Apart from the changes in the quasi-automatic drawing rights in the International Monetary Fund, these processes also include transactions in domestic money-market paper with foreign monetary authorities. During 1966 the quasi-automatic drawing rights in the Monetary Fund grew by DM 723 million, not only through the in-payment of gold but also as a result of various DM drawings on the part of I.M.F. member countries (especially the U.S.A.). This increase of assets in the nature of reserves was counteracted by a DM 322 million rise in German liabilities to foreign monetary authorities as a result of foreign central banks employing part of their DM balances maintained with the Bundesbank in money-market paper, with the proviso that such paper can be reconverted into sight balances of the foreign creditors practically at any time. If these and some other monetary movements specified in the preceding table are combined with the change in the Bundesbank's gold and foreign exchange holdings, there results for 1966 a balance-of-payments surplus of DM 1.4 billion, compared with one of DM 1.0 billion measured by the change in the Bundesbank's monetary reserves.

Overall central
reserve position

The Deutsche Bundesbank's Cooperation in Bank Supervision

Cooperation with
the Federal Banking
Supervisory Office

In the fifth year after the reorganisation of bank supervision and the establishment of the Federal Banking Supervisory Office there was, as before, good cooperation between that Office and the Deutsche Bundesbank in supervising the credit institutions. No occasion arose for the Office to issue any orders, apart from the orders amending the Interest Rates Order which will be dealt with below. Nor were there any new official announcements or notices published by the Office during 1966. The Federal Banking Supervisory Office and the Deutsche Bundesbank during 1966 were again intensively concerned with practical supervision of the various credit institutions. German banking continued its favourable course in the past year. The few insolvencies of credit institutions during the year under review were mainly caused by the granting of disproportionately large credits to individual borrowers.

Principles concerning
capital resources
and liquidity

There was no change during 1966 in the principles established pursuant to Articles 10 and 11 of the Banking Law, according to which the Federal Banking Supervisory Office judges the adequacy of a credit institution's capital resources and liquidity and which are also taken into consideration by the Deutsche Bundesbank when granting rediscount credit. Particularly during the last two years the Federal Banking Supervisory Office, in cooperation with the Deutsche Bundesbank, listed a number of facts that should be considered in the case of amendments. The text of the "Principles" is as follows:

**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 increase of the discount rate from 4% to 5% decreed by the Central Bank Council of the Deutsche Bundesbank in its session of 26 May 1966 and the consequent automatic raising, by the same margin, of the maximum debtor interest rates pursuant to the Interest Rates Order of 5 February 1965 the Federal Banking Supervisory Office, in agreement with the Deutsche Bundesbank, raised the maximum interest rates for sight deposits by $\frac{1}{8}\%$ and for other deposits by $\frac{1}{2}\%$ to $\frac{3}{4}\%$ with effect from 1 July 1966 (cf. Monthly Report of the Deutsche Bundesbank for July 1966, p. 66) through the

2nd Order amending
the Interest Rates Order

Second Order Amending the Interest Rates Order, dated 15 June 1966 (Federal Law Gazette, Part I 1966, page 386).

By the same Order deposits of DM 1 million or more with agreed period to maturity or period of notice of at least three months became exempt from interest rate control.

After the reduction of the discount rate from 5% to 4½% resolved by the Central Bank Council of the Deutsche Bundesbank on 5 January 1967 and an equal decrease in the maximum debtor interest rates the Federal Banking Supervisory Office, in agreement with the Deutsche Bundesbank, while maintaining the maximum interest rate for sight deposits reduced the maximum interest rates for all other categories of deposits throughout by ½% with effect from 1 February 1967 (cf. Monthly Report of the Deutsche Bundesbank for January 1967, p. 98) through the

Third Order Amending the Interest Rates Order, dated 20 January 1967 (Federal Law Gazette, Part I 1967, page 167).

By decision of 16 February 1967 the Central Bank Council of the Deutsche Bundesbank once more lowered the discount rate by ½%, from 4½% to 4%. The maximum debtor interest rates declined to the same extent. The Federal Banking Supervisory Office and the Deutsche Bundesbank were then concerned with the question of whether to adjust maximum creditor interest rates to the lower interest rate level or to rescind government control of interest rates altogether. Although the majority of the central associations of credit institutions objected to total or partial liberalisation of interest rates, the Central Bank Council on 16 March 1967, following the suggestion of the Federal Minister for Economic Affairs, decided to consent to abrogation of the Interest Rates Order. By the order cancelling the Interest Rates Order and regulations regarding the cost of instalment financing loans and small personal loans of 21 March 1967 (Federal Law Gazette, Part I 1967, page 352) the Interest Rates Order was repealed by the Federal Banking Supervisory Office with effect from 1 April 1967. At the same time the orders of the former bank supervisory authorities concerning the rates charged on the granting of credit in instalment financing business of banks, dated 25 June 1959, and of instalment financing institutions, dated 5 November 1959, in the version of 3 June 1960, as well as the order of the former bank supervisory authorities concerning the cost of small personal loans carrying the obligation of regular repayments, dated 22 December 1958, were cancelled. With effect from 1 April 1967 thus all credit institutions in the Federal area are permitted freely to negotiate the conditions on which they are granting credits and accepting deposits.

In connection with the current supervision of credit institutions the Land Central Banks, using the network of branches of the Deutsche Bundesbank, processed about 39,000 individual reports pursuant to Article 13, paragraph 1, sentences 1 and 2 of the Banking Law, as well as about 37,400 reports on large credits contained in compilations pursuant to Article 13, paragraph 1, sentence 4 of the Banking Law, and about 48,500 monthly returns pursuant to Article 25 of the Banking Law. The number of individual reports pursuant to Article 13, paragraph 1, sentences 1 and 2 of the Banking Law diminished in 1966 by 30 per cent in comparison with the year before; this is a result of the Order concerning the exemption from the duty to report credits pursuant to Article 13, paragraph 1 and Article 16, items 1 and 7 to 9 of the Banking Law (Third Exemption Order) of 28 January 1966, which lays down, *inter alia*, that credits amounting to more than 15 per cent of credit institutions' liable funds (large credits) are ordinarily to be reported only when they exceed DM 50,000, whereas previously reports were to be submitted when such credits exceeded DM 20,000. On the other hand, the number of large credits comprised in compilations increased by about 5,000 as compared with 1965; this increase is due to the fact that the small Raiffeisen credit cooperatives had to submit compilations for large credits on 31 October 1966. In 1965 the small Raiffeisen credit cooperatives had been exempt from the submission of compilations for large credits. So far as the Federal Banking Supervisory Office had not waived their transmission, the reports and returns mentioned were transmitted to the Office, if necessary with the comments of the Land Central Banks. As in the preceding year, the Land Central Banks processed about 4,200 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 legal form and in capital, opening of branches, *etc.*, must be notified. The number of annual statements dealt with dropped from 12,500 in 1965 to 11,200 in 1966, this decrease being due to the concentration process within the group of Raiffeisen credit cooperatives. A vigorous rise, from 218,000 in 1965 to 240,000 in 1966, occurred in the number of reports pursuant to Article 14, paragraph 1 of the Banking Law received by the recording centre for credits of DM 1 million or more, established at the Directorate of the Deutsche Bundesbank. On the average for each of the six processing periods of the year under review about 800 credit institutions and 370 insurance enterprises (including the social insurance funds) submitted reports pursuant to Article 14 of the Banking Law. An average of 3,500 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. Since in accordance with Article 19, paragraph 2, item 1 of the Banking Law all enterprises which belong to the same concern are deemed to be one and the same borrower, and since the law relating to concerns was revised by Articles 15 and following of the Companies Act of 6 September 1965 (Federal Law Gazette, Part I 1965, page 1089 *et seq.*), special attention had to be attached to the effects of the new definition of concerns on the process of reporting pursuant to Articles 13 to 16 of the Banking Law.

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).

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 Law concerning the Deutsche Bundesbank. 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 the case of grain and fodder bills the period to maturity may amount to three months, however, so as to facilitate the storage of grain and feedingstuffs at the marketing and processing stages, and thereby to reduce the demands for financial accommodation made on central official agencies (decision of 31 July 1952).

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 Bills which are given for the purpose of financing instalment sale transactions are in principle excluded from purchase (decision of 21 March 1956).

Instalment sale bills which serve to finance the purchase of agricultural machines that have a long life and assist production may however be purchased. In this exceptional case all bills which are due within 90 days may be discounted if it is a case of an instalment sale transaction where the buyer has paid cash down for at least 40 per cent of the purchase price, and the whole period for which the credit runs does not exceed 24 months. If these conditions are not fulfilled, then only the last bill due within 90 days (or, in the case of instalment sale transactions which are based on monthly instalments, the last three bills relating to the whole transaction) will be discountable.

In addition instalment sale bills with a remaining life not exceeding 14 days may be presented for purchase.

Building bills and building-material bills

Bills which serve for the interim financing of building projects (building bills) will not be purchased (decision of 12 October 1955). On the other hand bills which are drawn on the basis of the producer's building material deliveries to the trade, those of the trade to the builder or

building craftsman, and those of the builder to the owner of the house, for repair or maintenance work (building-material bills), but not their prolongations, are purchasable.

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).

Bank acceptances

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 Law concerning the Deutsche Bundesbank).

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 105, "Money-market regulation and money-market policy").

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 used in the regulation of the money market (latest decision of 18 November 1966; cf. page 105 "Money-market regulation and money-market policy").

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 mainly for the purpose of financing medium and long-term deliveries 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 February 1967 the rediscount line, known as Limit B of the AKA Ausfuhrkredit-Gesellschaft mbH, has amounted to DM 1,800 million (decision of 2 February 1967).

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, either through use of his own resources or through recourse to his own bank (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.

Under Article 19, paragraph 1, item 8, in conjunction with Article 22 of the Law concerning the Deutsche Bundesbank, 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 Law concerning the Deutsche Bundesbank. 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 of German exporters, financed through the AKA Ausfuhrkredit-Gesellschaft mbH's Limit A, which instruments may be taken as security for advances but may not be purchased (decisions of 5/6 December 1951 and 21 October 1965).

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 Law concerning the Deutsche Bundesbank, 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 Law concerning the Deutsche Bundesbank).

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 Law concerning the Deutsche Bundesbank), are laid down by the Directorate of the Deutsche Bundesbank (decision of 27/28 March 1958):

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,
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.

Since September 1964 the rediscount quota fixed for each credit institution has been reduced for the succeeding month by the additional amount computed by comparing the credit taken abroad by the credit institution at the end of any month with the average amount of credit taken abroad at the ends of months between 31 January and 30 June 1964. Upon application by a credit institution such credits are disregarded in the computation as serve the initial financing of imports or the financing of merchanting transactions (decision of 9 July 1964).

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 those promissory notes of German exporters may be purchased which have been issued within the rediscount line (Limit B) opened by the Bundesbank for the AKA Ausfuhrkredit-Gesellschaft mbH for the purpose of financing medium and long-term export transactions (decision of 17 April 1952), 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. Credit institutions whose rediscount quota is exhausted may resort to advances against securities.

3. Money-market regulation and money-market policy

In order to enable the Deutsche Bundesbank to conduct open-market policy and to ensure efficiency in credit and liquidity policy, the Federal Government, as the debtor in respect of the equalisation claim which the Bank holds under the Monetary Reform provisions, is required by

law (Article 42 of the Law concerning the Deutsche Bundesbank) 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 a maximum of DM 4 billion. On the Bank's request the Federal Cabinet may increase the maximum up to the nominal amount of the equalisation claim. In June 1958 the maximum was increased, on request, to the full amount of the equalisation claim (about DM 8.1 billion) entered in the Federal Debt Register in the name of the Bank. The mobilisation paper is payable at the Bundesbank. The Bank is under obligation to the Federal Government to meet all liabilities arising from such mobilisation paper.

In the course of its regulation of the money market the Bundesbank furthermore arranges the placing of Treasury bills and non-interest Treasury bonds which are issued by the Federal Government, its Special Funds and the *Länder*, as well as of promissory notes of the Import and Storage Agencies (Storage Agency bills). It lays down the selling rates for such money-market paper and also the purchasing rates so far as such paper is purchased.

With a view to maintaining the efficiency of the prime acceptance market, the Bundesbank has also declared itself ready to regulate that market. In purchasing and selling prime bankers' acceptances in the market, the Bank contracts only with the Privatdiskont-Aktiengesellschaft.

4. Provisions as to minimum reserves

During the year under review the Deutsche Bundesbank's Order on Minimum Reserves (MRO) was amended as follows:

By decision of 25 August 1966 the Central Bank Council established that loans taken also include registered bonds or, unless they are part of an aggregate issue, order instruments (supplement to Art. 2, paragraph 1, MRO).

On 1 December 1966 the Central Bank Council with effect from the close of 31 December 1966 cancelled the provision according to which credit institutions are permitted to deduct credit balances maintained with banks abroad and holdings of foreign money-market investments from their liabilities to non-residents (deletion of paragraph 4 of Art. 2, MRO). So as not to prejudice ownership status, credit balances abroad and foreign money-market investments established or acquired prior to 2 December 1966 may, until maturity or release, be deducted from liabilities to non-residents beyond 31 December 1966.

During the period under review minimum reserve ratios were reduced several times. The lowering of reserve ratios for sight and time liabilities to residents (Art. 4, paragraph 1, item 3 of the Foreign Trade and Payments Law) by 10 per cent of their level as of July 1964, resolved by the Central Bank Council on 3 November 1966 and originally limited to the month of December 1966, continued in force beyond 31 December 1966 pursuant to the Central Bank Council's decision of 1 December 1966. The approximation of the rates for savings deposits to those for time deposits resulting from the December 1966 reduction was maintained, because in the course of the last few years there was substantial growth both in the absolute amount of savings deposits and in their relative weight within total deposits of non-bank customers, and hence in their importance for the lending capacity of all credit institutions.

With effect from 1 February 1967 the reserve ratios for liabilities to non-residents (Art. 4, paragraph 1, item 4 of the Foreign Trade and Payments Law), hitherto subject to the legally permissible maximum ratios (sight liabilities: 30 per cent; time liabilities: 20 per cent; savings deposits: 10 per cent), were reduced to the level of the reserve ratios for liabilities to residents (decision of 19 January 1967). Finally, on 16 February 1967 the Central Bank Council, with effect from 1 March 1967, reduced all reserve ratios by 10 per cent of their level as of February 1967. A table showing movements in reserve ratios will be found on page 112 of this Report.

The version of the Order on Minimum Reserves 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 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 adjustments¹⁾;
 - (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;

¹⁾ 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.

- (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;
 - (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) ¹⁾
- (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".

¹⁾ 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.

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.

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 ¹⁾²⁾	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 ³⁾	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

*) Up to 31 July 1957 rates of Bank deutscher Länder and of Land Central Banks.

¹⁾ This is also the rate for cash advances. — ²⁾ 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). — ³⁾ An allowance of 3/4 per cent per annum was granted in respect of the advances on securities taken by credit institutions between 10 December 1964 and 31 December 1964.

(b) Reserve Ratios and Reserve Classes

(1) Reserve Ratios¹⁾

per cent of reserve-carrying liabilities

Applicable from	Sight liabilities												Time liabilities						Savings deposits		Reserve ratios for addition to liabilities		
	Bank places						Non-bank places						Reserve class						Bank places	Non-bank places	Sight liabilities	Time liabilities	Savings deposits
	1	2	3	4	5	6	1	2	3	4	5	6	1	2	3	4	5	6					
Reserve-carrying Liabilities to Residents²⁾																							
all such liabilities																							
1948 July 1			10								10						5			5			
Dec. 1			15								10						5			5			
1949 June 1			12								9						5			5			
Sep. 1			10								8						4			4			
1950 Oct. 1			15								12						8			4			
1952 May 1	15	14	13	12	11	10	12	11	10	9	8	8	8	7.5	7	6.5	6	5.5		4			
Sep. 1	12	12	11	11	10	9	10	10	9	9	8	8	7	7	6	6	5	5		4			
1953 Feb. 1	11	11	10	10	9	9	9	9	8	8	8	8	7	7	6	6	5	5	no special ratios				
1955 Sep. 1	12	12	11	11	10	10	10	10	9	9	9	9	8	8	7	7	6	6		5			
1957 May 1	13	13	12	12	11	11	11	11	10	10	9	9	9	9	8	8	7	7		6			
1959 Aug. 1	13	12	11	10	—	—	10	9	8	7	—	—	9	8	7	6	—	—	6	5			
Nov. 1	14.3	13.2	12.1	11.0	—	—	11.0	9.9	8.8	7.7	—	—	9.9	8.8	7.7	6.6	—	—	6.6	5.5			
1960 Jan. 1	15.6	14.4	13.2	12.0	—	—	12.0	10.8	9.6	8.4	—	—	10.8	9.6	8.4	7.2	—	—	7.2	6.0			
March 1	18.2	16.8	15.4	14.0	—	—	14.0	12.6	11.2	9.8	—	—	12.6	11.2	9.8	8.4	—	—	8.4	7.0			
June 1	20.15	18.60	17.05	15.50	—	—	15.50	13.95	12.40	10.85	—	—	13.95	12.40	10.85	9.30	—	—	9.00	7.50			
such liabilities up to average level of the months March to May 1960																							
July 1	20.15	18.60	17.05	15.50	—	—	15.50	13.95	12.40	10.85	—	—	13.95	12.40	10.85	9.30	—	—	9.00	7.50			
all such liabilities																							
Dec. 1	20.15	18.60	17.05	15.50	—	—	15.50	13.95	12.40	10.85	—	—	13.95	12.40	10.85	9.30	—	—	9.00	7.50			
1961 Feb. 1	19.50	18.00	16.50	15.00	—	—	15.00	13.50	12.00	10.50	—	—	13.50	12.00	10.50	9.00	—	—	8.70	7.25			
March 1	18.20	16.80	15.40	14.00	—	—	14.00	12.60	11.20	9.80	—	—	12.60	11.20	9.80	8.40	—	—	8.10	6.75			
April 1	17.55	16.20	14.85	13.50	—	—	13.50	12.15	10.80	9.45	—	—	12.15	10.80	9.45	8.10	—	—	7.80	6.50			
June 1	16.25	15.00	13.75	12.50	—	—	12.50	11.25	10.00	8.75	—	—	11.25	10.00	8.75	7.50	—	—	7.20	6.00			
July 1	15.60	14.40	13.20	12.00	—	—	12.00	10.80	9.60	8.40	—	—	10.80	9.60	8.40	7.20	—	—	6.90	5.75			
Aug. 1	14.95	13.80	12.65	11.50	—	—	11.50	10.35	9.20	8.05	—	—	10.35	9.20	8.05	6.90	—	—	6.60	5.50			
Sep. 1	14.30	13.20	12.10	11.00	—	—	11.00	9.90	8.80	7.70	—	—	9.90	8.80	7.70	6.60	—	—	6.30	5.25			
Oct. 1	13.65	12.60	11.55	10.50	—	—	10.50	9.45	8.40	7.35	—	—	9.45	8.40	7.35	6.30	—	—	6.00	5.00			
Dec. 1	13	12	11	10	—	—	10	9	8	7	—	—	9	8	7	6	—	—	6	5			
1964 Aug. 1	14.3	13.2	12.1	11.0	—	—	11.0	9.9	8.8	7.7	—	—	9.9	8.8	7.7	6.6	—	—	6.6	5.5			
1965 Dec. 1	13	12	11	10	—	—	10	9	8	7	—	—	9	8	7	6	—	—	6.6	5.5			
1966 Jan. 1	14.3	13.2	12.1	11.0	—	—	11.0	9.9	8.8	7.7	—	—	9.9	8.8	7.7	6.6	—	—	6.6	5.5			
Dec. 1	13	12	11	10	—	—	10	9	8	7	—	—	9	8	7	6	—	—	6.6	5.5			
1967 March 1	11.7	10.8	9.9	9.0	—	—	9.0	8.1	7.2	6.3	—	—	8.1	7.2	6.3	5.4	—	—	5.94	4.95			
Reserve-carrying Liabilities to Non-residents²⁾																							
all such liabilities																							
(Until April 1957 ratios were the same as for liabilities to residents ²⁾)																							
1957 May 1	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	10			
Sep. 1	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	10			
1959 April 1	13	13	12	12	11	11	11	11	10	10	9	9	9	9	8	8	7	7		6			
Aug. 1	13	12	11	10	—	—	10	9	8	7	—	—	9	8	7	6	—	—	6	5			
Nov. 1	14.3	13.2	12.1	11.0	—	—	11.0	9.9	8.8	7.7	—	—	9.9	8.8	7.7	6.6	—	—	6.6	5.5			
such liabilities up to the level as of 30 November 1959																							
1960 Jan. 1	15.6	14.4	13.2	12.0	—	—	12.0	10.8	9.6	8.4	—	—	10.8	9.6	8.4	7.2	—	—	7.2	6.0			
March 1	18.2	16.8	15.4	14.0	—	—	14.0	12.6	11.2	9.8	—	—	12.6	11.2	9.8	8.4	—	—	8.4	7.0			
June 1	20.15	18.60	17.05	15.50	—	—	15.50	13.95	12.40	10.85	—	—	13.95	12.40	10.85	9.30	—	—	9.00	7.50			
all such liabilities																							
1961 May 1	30	30	30	30	—	—	30	30	30	30	—	—	20	20	20	20	—	—	10	10			
1962 Feb. 1	13	12	11	10	—	—	10	9	8	7	—	—	9	8	7	6	—	—	6	5			
1964 April 1	30	30	30	30	—	—	30	30	30	30	—	—	20	20	20	20	—	—	10	10			
1967 Feb. 1	13	12	11	10	—	—	10	9	8	7	—	—	9	8	7	6	—	—	6.6	5.5			
March 1	11.7	10.8	9.9	9.0	—	—	9.0	8.1	7.2	6.3	—	—	8.1	7.2	6.3	5.4	—	—	5.94	4.95			

¹⁾ Prior to May 1954, partly different regulations applied to the Berlin credit institutions. The Saarland credit institutions have been subject to the minimum reserve requirement since August 1959. — ²⁾ Since coming into force of the Foreign Trade and Payments Law, residents and non-residents within the meaning of Art. 4 of that Law. — ³⁾ From July 1960 to end-January 1962 these ratios also applied to the addition, as compared with the level on 31 May 1960, to credits availed of by customers with third parties abroad. Up to this level the liabilities in question remained exempt from the reserve requirement also during the period mentioned.

(2) Reserve Classes¹⁾

May 1952 to July 1959				Since August 1959			
Reserve class	Credit institutions with reserve-carrying sight and time liabilities			Reserve class	Credit institutions with reserve-carrying liabilities (including savings deposits)		
1	of DM 100 million and over			1	of DM 300 million and over		
2	of DM 50 million to under DM 100 million			2	of DM 30 million to under DM 300 million		
3	of DM 10 million to under DM 50 million			3	of DM 3 million to under DM 30 million		
4	of DM 5 million to under DM 10 million			4	under DM 3 million		
5	of DM 1 million to under DM 5 million						
6	under DM 1 million						

¹⁾ The reserve class into which any credit institution is to be placed is determined by the amount of its reserve-carrying liabilities in the preceding month.

II. Foreign Exchange Policy Regulations

No new foreign exchange policy arrangements were made in 1966. 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 (“*en pension*” transactions) 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. Permits for the payment of interest on balances held by non-resident customers as cover for letters of credit were still granted. In May 1962 the credit institutions had been granted the facility of obtaining general permits allowing payment of interest, up to specified maximum rates, on time deposits of non-residents. This facility was discontinued in March 1964 and has not been resumed. 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” printed on the following pages.

In interzonal clearing transactions with the Deutsche Notenbank, Berlin, the total swing allowed was again DM 200 million. The annual turnovers in these clearing transactions, and the state of the clearing accounts on 31 December 1966, are indicated in Part B (Annual Statement — Assets — Other claims).

Interzonal transactions

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)
A. Trade in Goods				
Liberalisation of the import of goods				
I. from O.E.E.C. countries (in p.c. of 1949 imports)	47 per cent ¹⁾	92.4 per cent ¹⁾	94.0 per cent ¹⁾	*)
II. from dollar countries (in p.c. of 1953 imports)	—	92.9 per cent ¹⁾	95.0 per cent ¹⁾	
B. Services				
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 and 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	free up to DM 40	free	free	free
(ab) foreign payment media	free	free	free	free
(b) by foreigners (ba) national payment media	free up to DM 40	free	free	free
(bb) foreign payment media	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

¹⁾ Excluding governmental imports. — ²⁾ The ratio of liberalisation is no longer calculated.

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)
C. Capital Transactions				
I. Income from foreign-owned investments in the Federal Republic of Germany and proceeds of drawn bonds	to Blocked DM Account	free	free	free
II. Repatriation of foreign-owned capital amounts or investments (including transfer of capital assets to emigrants)				
(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
IV. Fresh investments				
(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 security 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 ³ / ₈ %; 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
D. Special Official Deliveries and Payments				
(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
E. Keeping of Accounts				
I. For foreigners, at financial institutions in the Federal Republic of Germany				
II. For residents, at foreign financial institutions	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)
(1) Financial institutions	opening and operation restricted	opening free; operation restricted	opening free; operation restricted	opening and operation free
(2) Business enterprises	not permitted	opening and 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 1966

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.

The limit up to which the Bundesbank, under Article 20 of the Bundesbank Law, may grant credits to the Federal Government for meeting the latter's commitments as a member of the International Monetary Fund has been raised from DM 3,307.5 million to DM 4,870 million by the "Second Law on Credit Authorisations occasioned by the Increase of the Federal Republic of Germany's Participations in the International Monetary Fund and the International Bank for Reconstruction and Development" of 12 May 1966 (Federal Law Gazette II, page 245).

Changes in con-
nection with staff

In 1966 the Bank again concluded a number of collective agreements, through which the legal positions of its salaried employees and wage-earners were in each case assimilated to those of the Federal Government's salaried employees and wage-earning workers. In connection with the introduction of an automatic upgrading scheme within the Deutsche Bundesbank, with effect from 1 January 1966 a special remuneration table with specific activity classifications for the employees of the Deutsche Bundesbank was collectively agreed. In addition, a revised list of wage groups for workers of the Deutsche Bundesbank became effective on 1 August 1966.

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. The Asset Item 14 was supplemented as compared with the preceding year by adding the sub-item "Claims on Federal Government in respect of acquisition of claims from B.I.S.". Under Asset Item 2 "Balances at foreign banks and money-market investments abroad" the sub-item "among which: Earmarked ..." was deleted.

Valuation

The classification of the Profit and Loss Account remained unchanged by comparison with 1965. In the same way as in previous years the provisions of the Companies Act (*Aktiengesetz*) were taken into account *mutatis mutandis* in the valuation (Art. 26 Bundesbank Law).

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 1966, the Bank's claim to allocation of equalisation claims rose by DM 73,158.49 to DM 8,103,427,335.33; the claim on the Federal Government arising from the non-interest-bearing

debt certificate issued in connection with the currency conversion in Berlin increased during the year under review by DM 60.00 to DM 547,168,481.20

Annual Statement

The Annual Statement for 1966, 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 1966.

Balance Sheet

Comparison of Balance Sheet Results

Millions of DM

Assets	31 December			Liabilities	31 December		
	1964	1965	1966		1964	1965	1966
Gold	16,730.8	17,371.2	16,905.2	Capital	290.0	290.0	290.0
Balances at foreign banks and money-market investments abroad	10,769.6	8,110.9	9,775.4	Reserves	775.8	860.5	962.8
Foreign notes and coin, foreign bills and cheques	563.4	892.2	1,083.5	Reserves for specific purposes	1,475.1	1,690.0	1,925.0
German divisional coin	116.2	129.6	166.3	Bank notes in circulation	27,691.8	29,455.6	30,770.1
Postal cheque account balances	377.1	409.2	425.1	Deposits of			
Domestic bills of exchange	2,413.3	4,650.1	5,031.0	credit institutions	15,143.3	16,241.3	17,385.7
Treasury bills and non-interest Treasury bonds of Federal Government and Federal Special Funds	307.0	345.4	711.4	Federal Government	42.6	46.6	39.5
Advances against securities	645.7	696.4	938.0	Federal Special Funds	979.8	964.6	1,521.2
Cash advances	1,212.0	1,407.6	1,163.7	Länder	2,145.7	1,108.3	504.2
Other claims	102.4	99.7	236.7	other public depositors	46.5	45.3	44.5
Securities	1,175.6	1,150.8	1,095.3	other German depositors	252.6	265.1	289.3
Equalisation claims on public authorities and debt certificate in respect of Berlin less equalisation claims returned in exchange for money-market paper	8,680.0	8,681.0	8,681.4	Liabilities in respect of foreign business	307.5	451.5	551.8
	2,598.6	1,064.4	877.8	Items in course of settlement	—	—	26.7
	6,081.4	7,616.6	7,803.6	Other liabilities	107.4	108.4	158.1
Credits to Federal Government for participation in international institutions	3,016.0	3,000.9	3,741.0	Net profit	303.7	366.5	534.6
Claims on Federal Government in respect of acquisition of claims resulting from post-war economic aid	2,010.3	1,507.7	1,770.1				
acquisition of claims from B.I.S.	—	—	125.0				
alteration of exchange parity	943.0	777.5	566.4				
Loans to international institutions and consolidation loans	2,683.5	3,344.3	3,255.9				
Items in course of settlement	195.1	180.9	—				
Other assets	219.4	202.7	209.9				
Total	49,561.8	51,893.7	55,003.5	Total	49,561.8	51,893.7	55,003.5

The Balance Sheet total as at 31 December 1966 increased by DM 3,109.8 million, as compared with the end of 1965, to DM 55,003.5 million.

Balance Sheet total

Assets

The gold holding, at DM 16,905.2 million on 31 December 1966, is shown lower by DM 466.0 million than on 31 December 1965.

Gold

The balances at foreign banks and the money-market investments abroad amounted to DM 9,775.4 million on 31 December 1966 (DM 8,110.9 million on 31 December 1965). The remainder of the credit balance deposited under the Anglo-German foreign exchange offsetting

Balances at foreign banks and money-market investments abroad

agreement was transferred to the Federal Government at the end of September 1966; in the Balance Sheet as at 31 December 1965 this deposit was shown in a sub-item.

Foreign exchange dealings The Bank's turnover in foreign exchange spot dealings (foreign currency against Deutsche Mark) amounted to DM 12,446.8 million in the year under review, against DM 13,360.8 million in 1965; the number of deals rose from 9,793 in the previous year to 9,864. They comprised

	1965		1966	
	Number	DM million	Number	DM million
Purchases	3,236	5,446.6	3,070	7,038.0
Sales	<u>6,557</u>	<u>7,914.2</u>	<u>6,794</u>	<u>5,408.8</u>
	9,793	13,360.8	9,864	12,446.8.

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

In addition, during the year under review the Bank effected 572 cross deals (one foreign currency against another foreign currency) in the equivalent of DM 1,838.1 million, as against 632 deals in the equivalent of DM 2,236.7 million in the previous year; furthermore in the year under report 302 U.S. dollar inter-centre switch transactions amounting to U.S.\$ 38.6 million were concluded, as against 283 transactions amounting to U.S.\$ 39.1 million in the previous year.

U.S.\$ swap transactions with German banks for the purchase of U.S.\$ Treasury bills were not concluded by the Bank during the year under review. Since 15 December 1965 the Bank has refrained from such operations.

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

	1964	1965 Number	1966
Orders for payment to foreign countries			
in foreign currency	284,564	320,932	383,203
in DM	<u>310,986</u>	<u>379,212</u>	<u>458,417</u>
	595,550	700,144	841,620
Orders for payment from foreign countries			
in foreign currency	17,117	19,898	19,354
in DM	<u>144,499</u>	<u>145,950</u>	<u>135,134</u>
	161,616	165,848	154,488
Total processed orders for payment to and from foreign countries	757,166	865,992	996,108.
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	2,244	2,216	2,473
and to the credit of such accounts	<u>1,138</u>	<u>730</u>	<u>499</u>
	3,382	2,946	2,972.
The number of transfers between such accounts was	58,977	63,349	67,615.

Foreign notes and coin, foreign bills and cheques Purchase and sale of foreign notes and coin At DM 5.3 million the holding of foreign notes and coin at the end of 1966 was greater by DM 0.7 million than on 31 December 1965. During the year under review the Deutsche Bundesbank effected 32,855 purchases of foreign notes and coin (1965: 32,354) and 13,438 sales of foreign notes and coin (1965: 13,394).

At the close of 1966 the holding of foreign bills arising from purchase within the country was DM 1,076.5 million as compared with DM 885.4 million on 31 December 1965. Purchase of foreign bills

Purchase of Foreign Bills in the Land Central Bank Areas

Land Central Bank	1965		1966	
	Number	DM mn	Number	DM mn
Baden-Württemberg	14,537	261.0	16,574	323.7
Bavaria	9,097	421.2	11,979	669.5
Berlin	1,292	103.1	1,386	132.9
Bremen	523	19.2	709	56.7
Hamburg	4,009	425.2	5,596	920.6
Hesse	12,769	770.2	12,990	947.5
Lower Saxony	4,831	168.2	4,717	143.5
North Rhine-Westphalia	30,862	862.1	34,075	1,464.6
Rhineland-Palatinate	2,985	69.9	2,897	78.8
Saarland	2,532	384.0	2,363	344.6
Schleswig-Holstein	376	8.8	302	26.7
Total	83,813	3,492.9	93,588	5,109.1

The proportion of DM acceptances to the total value of the foreign bills purchased averaged about 54 per cent for the year 1966 against about 55 per cent for the year 1965.

At the end of 1966 the holding of foreign cheques amounted to DM 1.7 million (end-1965: DM 2.2 million). During the year under review 145,767 foreign cheques worth DM 127.4 million were purchased, against 151,372 worth DM 135.7 million in the previous year. Altogether 11,121 (1965: 10,121) cheques on foreign countries were sold at the value of DM 37.6 million (1965: DM 17.0 million).

Purchase and sale of foreign cheques

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

Foreign commission business

	1965	1966
	Number	
Foreign notes and coin	6,321	5,292
Bills, cheques, etc., on a commission basis	11,902	12,183
	18,223	17,475.

The Bank's holding of German divisional coin amounted to DM 166.3 million at the close of 1966 (end-1965: DM 129.6 million). In 1966 the Federal Government was credited with DM 176.3 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 1966 the Bank took over coin amounting to DM 2,449.4 million, and redeemed, to the debit of the Federal Government, DM 147.2 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 1966 on minting orders given up till that time, namely DM 126.6 million of all denominations, the amount of coin per head of population works out at DM 40.62 on the basis of a population, on 30 September 1966, of 59.8 million in the Federal Republic of Germany including the Land of Berlin, the respective amount for 1965 being DM 37.12.

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 1966 DM 425.1 million (1965: DM 409.2 million). Each day the 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).

Balances on postal cheque account

Postal Cheque Transactions with Third Parties

Area	1965				1966			
	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	104,213	9,365.4	18,894	670.9	103,396	9,971.9	17,997	633.6
Bavaria	112,488	10,992.6	10,528	760.9	119,401	11,781.0	8,558	823.1
Berlin	18,742	1,965.2	4,205	394.4	24,751	2,309.9	3,716	415.2
Bremen	25,799	886.8	951	4.0	25,653	834.8	789	3.1
Hamburg	56,360	5,510.6	4,123	55.6	54,659	6,079.8	3,121	67.3
Hesse	65,614	6,188.0	5,994	616.3	63,412	6,673.0	4,530	631.1
Lower Saxony	115,768	5,683.0	5,301	145.5	117,422	6,160.0	3,072	125.3
North Rhine-Westphalia	197,046	12,698.8	17,536	1,326.1	196,337	13,293.9	13,292	1,644.8
Rhineland-Palatinate	54,888	2,289.0	5,061	14.8	55,930	2,498.5	4,542	19.0
Saarland	5,674	1,078.7	604	0.7	5,782	1,188.0	540	0.1
Schleswig-Holstein	9,767	247.7	2,297	14.3	8,855	239.7	1,921	8.5
Total	766,359	56,905.8	75,494	4,003.5	775,598	61,030.5	62,078	4,371.1
Bundesbank — Directorate —	10,226	1,409.8	20,772	14.5	10,481	1,505.9	14,293	8.8
Grand total	776,585	58,315.6	96,266	4,018.0	786,079	62,536.4	76,371	4,379.9

Domestic bills of exchange

	31 Dec. 1965	31 Dec. 1966
	Millions of DM	
The domestic bill holding comprised:		
Domestic bills		
purchased by way of discount	3,903.9	4,210.4
Import and Storage Agency bills taken in the course of open-market operations	141.4	103.6
Prime bankers' acceptances thus taken	604.8	717.0
	<u>4,650.1</u>	<u>5,031.0</u>

The average bill holding, as calculated from the figures on the return dates in the year under review, was DM 6,303.3 million (1965: DM 4,638.3 million).

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

Land Central Bank	1965		1966	
	'000	DM mn	'000	DM mn
Baden-Württemberg	286	3,765.8	332	4,287.3
Bavaria	141	3,004.0	188	3,565.9
Berlin	23	776.2	22	915.2
Bremen	52	1,120.5	52	1,054.5
Hamburg	129	3,602.2	149	4,627.0
Hesse	294	9,499.0	329	12,645.4
Lower Saxony	121	2,048.4	134	2,550.0
North Rhine-Westphalia	519	12,586.1	480	12,985.2
Rhineland-Palatinate	70	946.0	91	1,212.6
Saarland	15	626.9	20	818.9
Schleswig-Holstein	64	865.0	66	1,072.3
Total	1,714	38,840.1	1,863	45,734.3

At DM 24,549 the average amount of the bills purchased in 1966 was above the previous year's average (DM 22,661).

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

	1965		1966	
	Number	DM million	Number	DM million
	6,011	15.1	7,689	21.6
in per cent of the total purchased	0.35	0.04	0.41	0.05.

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

Commission business

	Number	DM million
1965	211,675	1,372.2
1966	200,823	1,365.4.

The Bundesbank's discount rate for domestic and foreign bills and for foreign cheques was 4% until 26 May 1966, and 5% as from 27 May 1966.

Discount rate

Storage Agency bills at a face value of DM 1,446.9 million (1965: DM 1,829.8 million) were purchased in the open market, and DM 1,009.1 million (1965: DM 849.5 million) of these were resold. Bills amounting to DM 475.6 million out of the Bank's holding were redeemed in 1966 (1965: DM 937.0 million). On 31 December 1966 the Bank's holding of Storage Agency bills amounted to DM 103.6 million (1965: DM 141.4 million).

Storage Agency bills

During the year under review the Bank afforded liquidity assistance to the prime bankers' acceptance market to a further increased extent (cf. statements on "Money-market regulation and money-market policy", page 105). Items amounting to DM 3,142.4 million (1965: DM 2,778.0 million) were purchased from the Privatdiskont-Aktiengesellschaft, Frankfurt am Main, which acts as broker; DM 1,051.0 million (1965: DM 940.3 million) were resold to the market. Prime bankers' acceptances amounting to DM 1,979.2 million remained in the Bank's hands until maturity. On 31 December 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 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 of Federal Government and Federal Special Funds

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

Millions of DM

Category of paper	In circulation on 31 Dec. 1965	Issued | Redeemed in 1966		In circulation on 31 Dec. 1966
		Issued	Redeemed	
Treasury bills of the Federal Republic of Germany "B" ¹⁾	522.5	2,833.8	2,160.8	1,195.5
Non-interest Treasury bonds of the Federal Republic of Germany "B" ¹⁾	670.0	2,478.6	877.0	2,271.6
Treasury bills of the German Federal Railways	342.2	1,248.2	1,334.1	256.3
Non-interest Treasury bonds of the German Federal Railways	450.0	574.5	575.0	449.5
Non-interest Treasury bonds of the German Federal Postal Administration	292.0	437.0	441.0	288.0

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

Of the items shown in the table the following were held by the Bank on 31 December 1966:

Millions of DM

158.7	Treasury bills of the Federal Republic of Germany "B"
250.0	non-interest Treasury bonds of the Federal Republic of Germany "B"
197.7	Treasury bills of the German Federal Railways
40.0	non-interest Treasury bonds of the German Federal Railways
65.0	non-interest Treasury bonds of the German Federal Postal Administration
711.4.	

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 307.3 million (1965: DM 152.9 million). On 31 December 1966 such advances outstanding totalled DM 938.0 million as compared with DM 696.4 million at the end of 1965.

Lending against Securities in the Land Central Bank Areas

Land Central Bank	Advances granted against securities				Outstanding on	
	1965		1966		31 Dec. 1965	31 Dec. 1966
	Number	DM mn	Number	DM mn	DM mn	
Baden-Württemberg	908	581.1	1,143	1,034.7	20.5	19.4
Bavaria	800	378.1	894	657.1	69.7	89.7
Berlin	41	97.4	49	151.8	0.3	4.3
Bremen	43	34.1	89	241.7	—	—
Hamburg	571	1,069.9	702	2,037.7	70.6	71.4
Hesse	1,405	7,890.0	1,706	11,908.6	225.1	340.0
Lower Saxony	1,437	547.0	1,535	1,001.8	5.1	18.3
North Rhine-Westphalia	926	4,205.6	1,347	6,917.5	272.4	378.8
Rhineland-Palatinate	826	342.0	864	609.4	23.7	13.6
Saarland	84	135.2	125	247.2	7.5	1.1
Schleswig-Holstein	255	99.8	309	365.1	1.5	1.4
Total	7,296	15,380.2	8,763	25,172.6	696.4	938.0

Advance rate

The rate for advances against securities amounted to 5% until 26 May 1966 and to 6 $\frac{1}{4}$ % as from 27 May 1966.

Cash advances

Art. 20, paragraph 1, item 1 of the Bundesbank Law lays down the following maximum credit limits:

Millions of DM

for the Federal Government	3,000
for the Federal Railways	400
for the Federal Postal Administration	200
for the Equalisation of Burdens Fund	200
for the E.R.P. Special Fund	50
for the <i>Länder</i> DM 20 per inhabitant, except for Berlin, Bremen and Hamburg, where the limit is DM 40 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 1965			31 December 1966		
	Book credit	Treasury bills	Total	Book credit	Treasury bills	Total
Federal Government	920.7	522.5	1,443.2	667.3	1,195.5	1,862.8
Federal Special Funds						
Equalisation Fund	153.8		153.8	54.3		54.3
Federal Railways		342.2	342.2		256.3	256.3
<i>Länder</i>						
Baden-Württemberg	49.6		49.6	59.8		59.8
Bavaria	38.3		38.3	190.0		190.0
Berlin	56.7		56.7	80.2		80.2
Hesse	81.0		81.0	24.9		24.9
Rhineland-Palatinate	64.9		64.9	60.4		60.4
Saarland				7.4		7.4
Schleswig-Holstein	42.6		42.6	19.4		19.4
Total	1,407.6	864.7	2,272.3	1,163.7	1,451.8	2,615.5

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 236.7 million shown in Asset Item 10 (1965: DM 99.7 million) include *inter alia* the net balance (DM 157.4 million against DM 28.2 million in 1965) of interzonal payments, which is cleared through the accounts kept at the Deutsche Notenbank, Berlin, and at the Bundesbank. Other claims

The turnover in clearing transactions with the Deutsche Notenbank amounted to:

	1965	1966
	Millions of DM	
West/East deliveries and services	1,185.1	1,438.2
East/West deliveries and services	1,188.6	1,308.9
	2,373.7	2,747.1.

The holding of securities is shown at DM 1,095.3 million (1965: DM 1,150.8 million); it includes bonds and other debt certificates of the International Bank for Reconstruction and Development, fixed-interest securities and Bundesbank Enjoyment Right Certificates. Securities

In 1966 the Federal Loan Consortium, which is under the Bank's leadership, offered for public sale solely the DM 250 million 7% Loan of 1966 of the Federal Republic of Germany on 25 January 1966 (1965: five loans totalling DM 1,410 million). Security issues

7% Treasury bonds (medium-term notes — *Kassenobligationen*) of the Federal Republic of Germany, running for three and four years, were sold through the Bank to a total extent of DM 476.3 million.

Besides the 7% Loan of 1966 of the Federal Republic of Germany, the 6% bearer bonds of the Equalisation of Burdens Fund of 1966, Issues I to IV, were introduced by the Bank for official dealings on the German stock exchanges, while several series of medium-term notes of 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. Admission to stock exchange dealings

Price supporting actions	In the year under review again the Bank currently undertook price supporting for account of public issuers in respect of loans issued by the Federal Government and its Special Funds, of two <i>Länder</i> loans as well as of loans of the Reconstruction Loan Corporation and the Equalisation of Burdens Bank.
The Bank as paying agent for loans	As paying agent specifically for bonds of the Federal Government and its Special Funds the Bank during 1966 paid or presented for redemption 9,078,216 interest coupons and matured bonds (1965: 8,323,195).
The Bank as conversion and paying agent for external 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 391,323 interest coupons and matured bonds (1965: 393,703); in 1966 773,297 interest coupons and matured bonds (1965: 734,610) were presented to foreign agents for redemption.

		31 Dec. 1965	31 Dec. 1966
		Millions of DM	
Equalisation claims on public authorities	Equalisation claims arising from own Conversion Account		
	Bank deutscher Länder	5,504.3	5,504.3
	Land Central Banks	<u>2,599.0</u>	<u>2,599.1</u>
		8,103.3	8,103.4
	Handed back in exchange for money-market paper	<u>1,064.4</u>	<u>877.8</u>
		7,038.9	7,225.6
	Conversion of Berlin pre-capitulation balances	29.0	29.4
	Conversion of RM balances at credit institutions in the Soviet Sector of Berlin	<u>1.5</u>	<u>1.5</u>
		7,069.4	7,256.5.

The slight increase of DM 73,000 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 1966, 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 1965, are entered in the Federal Debt Register.

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

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), continued to decrease in the year under review. The new issues declined from DM 6.4 billion in 1965 to DM 4.4 billion in 1966. The amount of mobilisation paper in circulation on 31 December 1966 was DM 877.8 million (end-1965: DM 1,064.4 million). During the year under review selling rates for mobilisation paper — just as those for the other money-market paper — were raised several times; on 30 December 1966 they were reduced (for details see Statistical Annex).

Mobilisation Paper Sold and Redeemed

Millions of DM

Category of paper	1964	1965			1966		
	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)	845.9	4,355.9	4,838.1	363.7	2,431.5	2,581.8	213.4
Non-interest Treasury bonds of the Federal Government (running for 6 to 24 months)	1,752.7	2,006.0	3,058.0	700.7	1,938.1	1,974.4	664.4
Total	2,598.6	6,361.9	7,896.1	1,064.4	4,369.6	4,556.2	877.8

The Bank's claim on the Federal Government in respect of the currency conversion in Berlin changed only slightly in the course of 1966; on 31 December 1966 it amounted to DM 547.2 million.

**Debt Certificate
in respect of Berlin**

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:

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

	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 increased to DM 3,686.6 million. In connection with the increase in the German quota, payment of DM 429 million (of which DM 412.5 million in gold) was made. Against DM drawings by various countries totalling DM 370 million during the year under review there were DM 59 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.

After payment of a DM 502.6 million instalment due on the partial claim acquired in 1961 and after assumption by the Bank of a residual claim of DM 779.3 million owed by the Federal Republic of Germany to the United States of America, the claim on the Federal Government in respect of post-war economic aid increased to DM 1,770.1 million in the year under review; the DM 14.3 million redemption instalment, due on 2 January 1967 and received on the same day, in respect of the residual claim acquired at the end of December 1966 is included in Asset Item 10 "Other claims".

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

Acquisition of claim from B.I.S. 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. It diminished to DM 125.0 million following payment of the redemption amount which had fallen due during the year under review.

(b) alteration of exchange parity The claim which arose against the Federal Government on revaluation of the DM (on 6 March 1961) still amounts to DM 566.4 million; it was redeemed, as agreed, to the extent of the DM 211.1 million share of profit (remaining balance) which was due to the Federal Government for the year 1965 under Art. 27 Bundesbank Law.

Loans to international institutions and consolidation loans At DM 3,255.9 million the loans to international institutions and consolidation loans are shown lower by DM 88.4 million than a year before. In detail the claims consisted of:

	31 Dec. 1965	31 Dec. 1966
	Millions of DM	
Loan to I.M.F.	1,390.0	1,390.0
Loans to I.B.R.D.	1,445.8	1,446.3
Loans arising from liquidation of E.P.U.	<u>508.5</u>	<u>419.6</u>
	3,344.3	3,255.9.

Loan to International Monetary Fund The loan granted to I.M.F. under the General Arrangements to Borrow of 24 October 1962 remained unchanged during the year under report.

Liquidation of E.P.U. The claims arising from liquidation of E.P.U. amounted at the end of 1966 to DM 419.6 million, against DM 508.5 million at the end of 1965 and DM 4,185.8 million after the E.P.U. settlement in January 1959; thus approximately 90 per cent of these credits have been repaid.

Land and buildings Against the additions of DM 24.9 million to land and buildings there are disposals of DM 0.5 million. After the writing off of DM 27.4 million the land and buildings are shown in the Balance Sheet at DM 82.0 million.

Equipment The additions of DM 4.9 million to equipment were fully written off in the same way as in previous years.

Other assets Of the DM 95.2 million (end-1965 DM 90.4 million) shown in the item "Other assets" DM 80.6 million (end-1965 DM 85.6 million) represents interest which falls due in 1967, but is assignable to the Profit and Loss Account for the year under review, on monies employed abroad and on securities.

Transitory items 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.

Liabilities

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

In pursuance of the Central Bank Council's decision of 14 April 1966, out of the net profit for 1965 DM 73.4 million was added to the legal reserve and DM 28.9 million to the other reserves; the reserves accordingly rose from DM 860.5 million at the end of 1965 to DM 962.8 million. **Reserves**

Position and Movement of Reserves for Specific Purposes

Millions of DM

Reserves for specific purposes	Position on 31 Dec. 1965	1966		Position on 31 Dec. 1966
		Withdrawal	Addition	
For pension liabilities	715.0	38.9	123.9	800.0
For note printing	25.0			25.0
Other	950.0		150.0	1,100.0
Total	1,690.0	38.9	273.9	1,925.0

**Reserves for
specific purposes**

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 is unchanged by comparison with 1965.

The other reserves for specific purposes were increased by DM 150 million in the year under review, to DM 1,100 million, with a view to covering hazards inherent in the foreign and domestic business.

The circulation of bank notes rose from DM 29,455.6 million at the end of 1965 to DM 30,770.1 million on 31 December 1966. **Bank notes in circulation**

Circulation of Notes and Coin

Millions of DM

End of year	Bank notes	Federal coin	Circulation of notes and coin total
1960	20,470.3	1,369.3	21,839.6
1961	22,991.7	1,496.6	24,488.3
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

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

The withdrawal of Bank deutscher Länder notes was continued with the calling in, as per 31 July 1966, of the first and second issue DM 10 and the second issue DM 5 bank notes; thus all bank notes of the Bank deutscher Länder have been called in.

In the year under review new Bundesbank notes of various denominations, totalling DM 7,926.0 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:

	1960	1961	1962	1963	1964	1965	1966
Millions	323.3	280.4	204.5	323.3	228.7	182.2	175.1
DM million	12,140.5	9,680.0	9,286.4	11,512.2	6,706.3	4,367.8	3,780.9.

The number of counterfeit DM notes detained dropped considerably during the year under review, as compared with the preceding year. On the other hand, the number of counterfeit coin increased during the same period (by about 24 per cent).

Counterfeits Discovered

Year	Notes		Coins	
	Number	Thousands of DM	Number	Thousands of DM
1960	499	19.4	5,695	18.2
1961	590	26.4	4,147	13.9
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

Deposits	The balances of German depositors comprise those of	31 Dec. 1965		31 Dec. 1966	
		Millions of DM			
(a)	Credit institutions (including Postal Cheque and Postal Savings Bank Offices)	16,241.3		17,385.7	
(b)	Public depositors				
	(ba) Federal Government	46.6		39.5	
	(bb) Federal Special Funds	964.6		1,521.2	
	(bc) <i>Länder</i>	1,108.3		504.2	
	(bd) Other public depositors	45.3	2,164.8	44.5	2,109.4
(c)	Other German depositors		265.1		289.3
			18,671.2		19,784.4.

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

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

Giro transactions

	Percentage of	
	number	amounts
in 1965	99.39	96.16
in 1966	99.40	96.19.

Annual Turnover on Giro Accounts at the Deutsche Bundesbank

	1965			1966		
	Number ¹⁾	Total amount	Average amount	Number ¹⁾	Total amount	Average amount
	'000	DM million	DM '000	'000	DM million	DM '000
(a) Credits						
of which:						
Cash in-payments	1,066	98,816	92.7	1,056	102,618	97.2
Settlements with account-holders	7,143	836,134	117.1	7,387	903,396	122.3
Local transfers	13,373	704,276	52.7	13,138	705,597	53.7
Transfers from other places	46,801	716,645	15.3	49,975	748,769	15.0
Cheque and debit-entry note collections (total lodged) ²⁾	115,601	247,109	2.1	117,515	260,344	2.2
Total	183,984	2,602,980	—	189,071	2,720,724	—
(b) Debits						
of which:						
Cash out-payments	1,168	101,020	86.5	1,182	104,630	88.5
Settlements with account-holders	4,354	830,646	190.8	4,470	902,584	201.9
Local transfers	13,373	704,276	52.7	13,138	705,597	53.7
Transfers to other places	46,975	719,783	15.3	50,216	746,436	14.9
Cheque and debit-entry note collections (total paid) ²⁾	115,002	247,160	2.1	116,510	260,382	2.2
Total	180,872	2,602,885	—	185,516	2,719,629	—
(c) In per cent of total turnover (credits and debits)		<i>per cent</i>			<i>per cent</i>	
Cash payments		3.84			3.81	
Settlements with account-holders		32.02			33.20	
Local transfers		27.06			25.94	
Transfers to and from other places		27.59			27.48	
Cheque and debit-entry note collections (total lodged and paid) ²⁾		<u>9.49</u> 100.00			<u>9.57</u> 100.00	

¹⁾ Number of transactions. — ²⁾ Until 30 June 1966 cheque collections only.

Liabilities in respect of foreign business

The liabilities in respect of foreign business comprised

	31 Dec. 1965		31 Dec. 1966	
	Millions of DM			
Deposits of non-residents				
Banks	364.3		402.8	
Others	53.2	417.5	90.8	493.6
Deposits of resident credit institutions				
on U.S. dollar accounts		14.8		21.5
Provision of cover for credits and guarantees by				
Non-residents	0.3		0.9	
Residents	15.3	15.6	12.7	13.6
Other liabilities		3.6		23.1
		451.5		551.8.

Items in course of settlement

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 the course of clearing. On 31 December 1966 there was a net liability of DM 26.7 million against an asset of DM 180.9 million at the end of 1965.

Other liabilities

The "Other liabilities" are shown on 31 December 1966 at DM 27.6 million as against DM 31.0 million at the end of 1965.

Transitory items

In the same way as previously the transitory items on the liabilities side (DM 130.5 million for 1966, DM 77.4 million for 1965) 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.

Contingent liabilities and claims

The contingent liabilities and claims are shown on 31 December 1966 at DM 0.6 million against DM 1.1 million at the end of 1965.

Profit and Loss Account

Comparison of Expenditure and Receipts

Millions of DM

Expenditure	1964	1965	1966	Receipts	1964	1965	1966
Interest on money-market paper issued in exchange for equalisation claims	137.1	78.8	56.7	Interest on monies employed abroad	483.8	425.9	462.3
Other interest	1.1	1.6	2.3	equalisation claims	243.9	244.0	244.1
	138.2	80.4	59.0	domestic bills of exchange, advances against securities and cash advances, as well as on other claims	144.6	236.2	362.6
Administrative costs				foreign bills of exchange bought in Germany	11.9	20.3	41.5
Personnel	169.6	184.8	201.4	securities, Treasury bills and Treasury bonds	61.0	63.4	67.4
Materials	28.5	30.8	34.4	Other interest	0.4	0.6	0.5
Note printing	28.4	25.4	23.9		945.6	990.4	1,178.4
Depreciation	25.1	32.2	32.3	Fees	3.2	3.4	3.6
Allocations to reserves for specific purposes	245.6	249.9	273.9	Other receipts	18.9	9.1	10.8
Pension payments in respect of Reichsbank	24.7	26.8	27.3				
Other expenditure	3.9	6.1	6.0				
Net profit	303.7	366.5	534.6				
Total	967.7	1,002.9	1,192.8	Total	967.7	1,002.9	1,192.8

Receipts

	1964	1965	1966	
	Millions of DM			
The interest received amounted to	945.6	990.4	1,178.4.	Interest
After deduction of the interest paid out, namely	138.2	80.4	59.0	
it is shown in the Profit and Loss Account at	807.4	910.0	1,119.4.	

The interest on monies employed abroad increased by DM 36.4 million, as compared with the previous year's figure, to DM 462.3 million in 1966.

The amount of interest received on equalisation claims was DM 244.1 million (1965: DM 244.0 million); the interest paid on money-market paper issued in exchange for equalisation claims declined, as against the previous year, by DM 22.1 million to DM 56.7 million. The 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 362.6 million in 1966 as compared with DM 236.2 million in the preceding year. At DM 67.4 million the interest received on securities, Treasury bills and Treasury bonds was greater by DM 4.0 million than in the previous year (DM 63.4 million). DM 41.5 million of interest accrued from the discounting of foreign bills (1965: DM 20.3 million).

DM 3.6 million of fees were received in the year under review (1965: DM 3.4 million).

DM 10.8 million is shown as "Other receipts" (1965: DM 9.1 million).

Fees
Other receipts

Expenditure

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 for officials, salaried employees and wage earners; they amounted to DM 201.4 million in 1966 (1965: DM 184.8 million). The Bank's staff increased in number by 275 in 1966.

Administrative costs
(a) Personnel

Number of Persons Employed in the Bundesbank

	End of 1965					End of 1966				
	Directorate	Land Central Banks	Total	of whom:		Directorate	Land Central Banks	Total	of whom:	
				male	female				male	female
Officials	587	3,951	4,538	4,484	54	604	4,004	4,608	4,545	63
Salaried employees	1,210	4,699	5,909	2,614	3,295	1,234	4,899	6,133	2,649	3,484
Wage earners	163	840	1,003	210	793	145	839	984	178	806
Total	1,960	9,490	11,450	7,308	4,142	1,983	9,742	11,725	7,372	4,353

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 4,974,646.25 in the year under review.

The administrative costs in respect of materials rose from DM 30.8 million in 1965 to DM 34.4 million.

The expenditure on note printing was smaller than in the previous year; it amounted to DM 23.9 million in 1966 against DM 25.4 million in 1965.

(b) Materials
Note printing

Depreciation and allocations to reserves for specific purposes

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.

Pension payments in respect of Reichsbank

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 31.1 million (1965: DM 30.6 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 27.3 million is shown as pension payments in respect of the Reichsbank by comparison with DM 26.8 million in 1965.

Net profit

Proposed distribution of the profit

According to the Profit and Loss Account the net profit amounts to 534,618,157.51 (1965: DM 366,518,712.59). DM

The Directorate proposes to the Central Bank Council that there be allocated	DM	
to the legal reserve		107,000,000.—
that there be provided for dividends on Bundesbank Enjoyment Rights		2,700,000.—
and that there be allocated to the other reserves		10,400,000.—
and to the Fund for the Purchase of Equalisation Claims		40,000,000.—
		160,100,000.—
Out of the balance of profit remaining to the Federal Government (Art. 27, item 4 Bundesbank Law), namely there has to be provided		374,518,157.51
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		364,518,157.51
has to be applied to redemption of the claim on the Federal Government in respect of alteration of the exchange parity.		374,518,157.51

Frankfurt am Main, April 1967

*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

In 1966 the Fund had DM 94.6 million available for the purpose of taking over further equalisation claims. Apart from the allocation of DM 40 million out of the Bank's net profit in 1965 the Fund received DM 33.9 million by way of interest and redemption. Liquid assets amounting to DM 20.7 million had been carried over from 1965.

**Fund for the Purchase of
Equalisation Claims**

In the year under review DM 70.6 million was applied to the purchase and taking over 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 25.1 million were purchased mainly from liquidating pension funds and credit institutions. Moreover, pursuant to Art. 9, paragraph 2, item 1 of the Law DM 12.8 million of equalisation claims were purchased from health-insurance enterprises and, in accordance with Art. 9, paragraph 2, item 2 of the Law, small equalisation claims which, on allotment, had been for initial capital amounts of up to DM 30,000 were acquired in the equivalent of DM 1.0 million.

The taking over of a uniform percentage of equalisation claims from all creditors, in accordance with Art. 9, paragraph 3 of the Law, was continued during the year under review. On 30 June 1966 1 per cent of all equalisation claims entered in the Debt Registers of the *Länder* Baden-Württemberg, Berlin, Bremen, Hamburg and Hesse were transferred to the Purchase Fund, for which purpose DM 31.7 million was used. It is intended on 30 June 1967 likewise to purchase 1 per cent of the equalisation claims from the creditors entered in the Debt Registers of the *Länder* North Rhine-Westphalia, Rhineland-Palatinate and Schleswig-Holstein.

At the end of the year the sum still available for purchase of equalisation claims was DM 24.0 million; it was mostly employed in Treasury bills and Treasury bonds of the Federal Government. Undertakings to purchase to the extent of DM 4.5 million still awaited fulfilment.

Movement in the Holding of Equalisation Claims

Interest rate	DM initial capital				DM remaining capital Holding on 31 Dec. 1966
	Holding on 31 Dec. 1965	Addition through purchase and linear taking over	Decrease through retrocessions	Holding on 31 Dec. 1966	
%	DM				DM
0	76,972,358.44	32,575.15	—	77,004,933.59	43,122,762.81
3	309,708,138.97	25,882,907.47	—	335,591,046.44	292,236,743.96
3½	186,183,074.37	48,495,284.17	508.81	234,677,849.73	203,654,027.24
4½	130,278,564.22	5,990,005.22	—	136,268,569.44	117,144,876.97
Total	703,142,136.—	80,400,772.01	508.81	783,542,399.20	656,158,410.98

The report on the position of the Fund for the Purchase of Equalisation Claims as on 31 December 1966, intended for publication in the Federal Advertiser, is attached as Appendix 3.

**Fund for Redemption
of Bundesbank
Enjoyment Rights**

Pursuant to the Notice of 9 March 1963 (Federal Advertiser No. 48) the Liquidator of the Deutsche Reichsbank had by the end of 1966 delivered altogether 1,499,679 Bundesbank Enjoyment Right Certificates, having a par value of DM 99,978,600, in discharge of Reichsbank Shares at a par value of RM 149,967,900; 321 such Certificates, at a par value of DM 21,400, were still held at his disposal on 31 December 1966.

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 15 of Bundesbank Enjoyment Right Certificates was drawn on 8 June 1966 for redemption on 30 September 1966 at 150 per cent of the par value (announcement of the Bank of 8 June 1966, published in Federal Advertiser Nos. 111 and 112 of 21 and 22 June 1966). For this purpose the Fund for Redemption of Bundesbank Enjoyment Rights had available out of the 1965 net profit DM 10 million, of which DM 9,997,600 was used to repay the Bundesbank Enjoyment Right Certificates which had been called. Drawn Enjoyment Right Certificates having a total redemption value of DM 9,100 (including DM 6,700 resulting from previous drawings) are held at the disposal of the Liquidator of the Deutsche Reichsbank.

Six groups of Bundesbank Enjoyment Right Certificates (Nos. 6, 8, 9, 11, 12 and 14), amounting at par value to DM 40,000,000 (and at redemption value to DM 60 million), now remain to be redeemed.

Frankfurt am Main, April 1967

*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 1966, the Combined Conversion Account of the Institutions Amalgamated to Form the Deutsche Bundesbank, as shown by the books on 31 December 1966, 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 1966, 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 1966, the bookkeeping and the Conversion Account as shown by the books on 31 December 1966 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 1966 on 13 April 1967. 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 1966, and approved the Reports on the Funds for the Purchase of Equalisation Claims and for Redemption of Bundesbank Enjoyment Rights as at 31 December 1966.

The Central Bank Council has assented to the Report for the Year 1966 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 1966 dividends on Bundesbank Enjoyment Rights, there is a residual profit of DM 374,518,157.51 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 364,518,157.51 towards repayment of the claim on the Federal Government in respect of the alteration of the exchange parity.

Since the publication of the Report for the Year 1965 the following changes have taken place in the organs of the Deutsche Bundesbank.

*We regret to report the death,
on 5 February 1967, of
the Member of the Directorate of the Deutsche Bundesbank
Dr. Hans Henckel.*

*Retired from service
as at the close of 30 November 1966
the Vice-President of the Land Central Bank in Rhineland-Palatinate
Herr Anton Wilz.*

Reappointed

with effect from 1 July 1966

Herr Johannes Tüngeler

Dr. Erich Zachau

Members of the Directorate of the Deutsche Bundesbank,

with effect from 15 November 1966

Dr. Rudolf Schmitt

Vice-President of the Land Central Bank in Bremen.

Newly appointed

with effect from 1 July 1966

Dr. Volkhard Szagunn

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

with effect from 1 December 1966

Herr Bernhard Rohland

to be Vice-President of the Land Central Bank in Rhineland-Palatinate,

with effect from 1 April 1967

Dr. Rolf Gocht

to be Member of the Directorate of the Deutsche Bundesbank.

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 1966.

Frankfurt am Main, April 1967

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 1 Jan. 1966 DM	Changes in 1966 DM	as shown by the books on 31 Dec. 1966 DM
1. Cash ¹⁾	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	8,103,354,176.84	73,158.49	8,103,427,335.33
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	547,168,421.20	60.—	547,168,481.20
	<u>8,736,122,308.79</u>	<u>73,218.49</u>	<u>8,736,195,527.28</u>
13. Contingent claims	126,558.92	—	126,558.92

¹⁾ Relating to converted Small Money Tokens.

Amalgamated to Form the Deutsche Bundesbank

on 31 December 1966

Liabilities

	as shown by the books on 1 Jan. 1966 DM	Changes in 1966 DM	as shown by the books on 31 Dec. 1966 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	—	264,957,735.81
4. Deposits	5,630,511,128.45	73,158.49	5,630,584,286.94
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.	588,503,134.91	60.—	588,503,194.91
	<u>8,736,122,308.79</u>	<u>73,218.49</u>	<u>8,736,195,527.28</u>
8. Contingent liabilities.	126,558.92	—	126,558.92

Deutsche Bundesbank The Directorate

Karl Blessing Dr. Troeger

Dr. Benning Dr. Emminger 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 1966 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, 10 March 1967

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			16,905,153,429.37
2. Balances at foreign banks and money-market investments abroad			9,775,406,311.57
3. Foreign notes and coin, foreign bills and cheques			1,083,501,038.22
4. German divisional coin			166,347,919.48
5. Balances on postal cheque account			425,098,497.44
6. Domestic bills of exchange			5,031,015,010.48
7. Treasury bills and non-interest Treasury bonds of Federal Government and Federal Special Funds			711,400,000.—
8. Advances against securities			937,956,100.—
9. Cash advances to			
(a) Federal Government and Federal Special Funds		721,600,000.—	
(b) <i>Länder</i>		442,138,832.—	1,163,738,832.—
10. Other claims			236,627,061.94
11. Securities			1,095,283,950.35
among which: Bundesbank Enjoyment Right Certificates having a par value of DM 37,025,533 ¹ / ₃			
12. Equalisation claims on public authorities and debt certificate in respect of Berlin			
(a) Equalisation claims	8,134,318,982.86		
less			
Equalisation claims returned in exchange for money-market paper	877,840,000.—	7,256,478,982.86	
(b) Debt certificate		547,168,481.20	7,803,647,464.06
13. Credits to Federal Government for participation in international institutions			3,741,042,000.—
14. Claims on Federal Government in respect of			
(a) acquisition of claims			
resulting from post-war economic aid		1,770,098,647.24	
from B.I.S.		124,992,000.—	
(b) alteration of exchange parity		566,373,586.28	2,461,464,233.52
15. Loans to international institutions and consolidation loans			3,255,926,175.—
among which: (a) to I.M.F. DM 1,390,000,000.—			
(b) to I.B.R.D. DM 1,446,290,000.—			
(c) arising from liqui- dation of E.P.U. DM 419,636,175.—			
16. Land and buildings			82,022,351.16
17. Equipment			1.—
18. Other assets			95,167,360.08
19. Transitory items			32,731,872.76
<i>Right of recourse in respect of contingent liabilities</i>		618,973.90	
			55,003,529,608.43
			55,003,529,608.43

as on 31 December 1966

Liabilities

	DM	DM	DM
1. Capital			290,000,000.—
2. Reserves		683,200,000.—	
(a) legal reserve		279,600,000.—	962,800,000.—
(b) other reserves			
3. Reserves for specific purposes		800,000,000.—	
(a) for pension liabilities		25,000,000.—	
(b) for note printing		1,100,000,000.—	1,925,000,000.—
(c) for other purposes			
4. Bank notes in circulation			30,770,146,225.—
5. Deposits of			
(a) credit institutions (including Postal Cheque and Postal Savings Bank offices)		17,385,660,714.40	
(b) public depositors			
(ba) Federal Government	39,485,753.87		
(bb) Federal Special Funds	1,521,243,098.35		
(bc) <i>Länder</i>	504,236,924.36		
(bd) other public depositors	44,530,928.29	2,109,496,704.87	
(c) other German depositors		289,288,298.98	19,784,445,718.25
6. Liabilities in respect of foreign business			
(a) Deposits of foreign depositors		493,578,871.98	
(b) others		58,231,851.02	551,810,723.—
among which: provision of cover for letters of credit and guarantees by			
foreigners DM 916,429.65			
residents DM 12,713,070.70			
7. Items in course of settlement			26,680,105.97
8. Other liabilities			27,591,510.60
9. Transitory items			130,437,168.10
10. Net profit			534,618,157.51
<i>Contingent liabilities</i>		618,973.90	
			<u>55,003,529,608.43</u>

Profit and Loss Account of the Deutsche Bundesbank for the Year 1966

Expenditure	DM	DM
1. Administrative costs		
(a) Personnel	201,368,229.90	
(b) Materials	34,435,634.72	235,803,864.62
2. Note printing		23,843,547.59
3. Depreciation		
(a) on land and buildings	27,424,904.80	
(b) on equipment	4,877,811.37	32,302,716.17
4. Allocations to reserves for specific purposes		
(a) for pension liabilities	123,935,674.69	
(b) others	150,000,000.—	273,935,674.69
5. Pension payments in respect of Reichsbank		27,332,666.20
6. Other expenditure		6,009,714.46
7. Net profit		534,618,157.51
		<u>1,133,846,341.24</u>
<hr style="border-top: 3px double #000;"/>		
Receipts		
1. Interest		1,119,401,929.37
2. Fees		3,638,708.50
3. Other receipts		10,805,703.37
		<u>1,133,846,341.24</u>
<hr style="border-top: 3px double #000;"/>		

*Deutsche Bundesbank
The Directorate*

Karl Blessing Dr. Troeger

Dr. Benning Dr. Emminger 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 provisions of the law and of the Bank's by-laws.

Frankfurt am Main, 10 March 1967

*Deutsche Revisions- und Treuhand-Aktiengesellschaft
Treuarbeit*

*Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft*

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

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Wirtschaftsprüfungsgesellschaft*

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

Fund for the Purchase of Equalisation Claims

Position on 31 December 1966

	Equalisation claims (remaining capital) DM	Cash resources DM	Total assets of the Fund DM
Position on 31 December 1965 . . .	598,337,798.45	20,677,875.51	619,015,673.96
Allocation from the Deutsche Bundesbank's 1965 net profit . . .		40,000,000.—	40,000,000.—
Purchase and linear taking over of equalisation claims	70,560,469.67	— 70,560,469.67	
Redemptions	— 12,739,408.63	12,739,408.63	
Retrocessions	— 448.51	448.51	
Interest			
on equalisation claims		20,193,345.24	20,193,345.24
from temporary employment of the Fund's cash resources		995,888.89	995,888.89
Position on 31 December 1966 . . .	<u><u>656,158,410.98</u></u>	<u><u>24,046,497.11</u></u>	<u><u>680,204,908.09</u></u>

Deutsche Bundesbank

The Directorate

Karl Blessing Dr. Troeger

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

Returns of the

Millions

Date of return	Assets														
	Gold	Balances at foreign banks and money-market investments abroad		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			Advances against securities	Cash advances			Securities
		Total	among which: Earmarked					Total	(a) Federal Government and Federal Special Funds	(b) Länder		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	
1 9 6 6															
Jan. 7	17,371.2	7,929.7	455.7	895.7	150.1	248.1	4,794.4	346.2	346.2	—	80.8	1,185.4	1,064.9	120.5	1,150.8
15	17,371.2	7,784.1	455.7	886.7	164.0	207.2	4,590.9	446.2	446.2	—	59.5	498.5	466.7	31.8	1,150.8
23	17,372.3	7,670.9	455.7	913.8	175.5	166.2	4,788.2	456.3	456.3	—	71.4	74.7	74.7	—	1,150.8
31	17,372.3	7,458.1	455.7	898.7	163.9	273.5	5,439.6	396.0	396.0	—	162.5	286.4	139.6	146.8	1,149.5
Feb. 7	17,372.3	7,305.2	400.1	886.8	166.1	161.3	5,671.5	397.2	397.2	—	47.9	292.9	211.9	81.0	1,149.5
15	17,377.5	7,223.6	400.1	893.3	172.9	232.1	4,702.4	513.6	513.6	—	38.6	61.8	—	61.8	1,149.5
23	17,356.2	7,095.3	400.1	889.4	170.1	179.2	4,526.4	469.6	469.6	—	1,056.3	38.2	—	38.2	1,149.5
28	17,356.2	7,212.3	400.1	916.9	157.8	326.6	4,892.1	319.9	319.9	—	338.6	608.8	513.4	95.4	1,148.7
Mar. 7	17,339.2	7,131.5	400.1	956.6	161.7	170.4	6,975.7	288.7	288.7	—	490.3	290.2	205.0	85.2	1,148.7
15	17,339.2	7,184.8	324.7	938.5	169.2	225.8	7,049.9	328.7	328.7	—	350.7	16.3	—	16.3	1,148.7
23	17,339.1	7,209.0	324.7	948.7	175.5	179.3	7,176.6	359.3	359.3	—	661.9	0.3	—	0.3	1,148.7
31	17,339.2	7,132.2	181.3	991.4	156.6	299.1	7,395.8	529.3	529.3	—	494.9	25.7	2.1	23.6	1,148.7
Apr. 7	17,339.2	6,874.7	181.3	1,043.5	146.8	201.2	7,846.6	478.3	478.3	—	1,205.1	57.5	—	57.5	1,148.7
15	17,339.2	6,970.4	181.3	1,034.7	148.4	271.8	7,245.6	478.3	478.3	—	587.0	33.4	—	33.4	1,148.7
23	17,339.2	6,996.0	181.3	1,027.1	152.8	170.0	6,834.3	274.0	274.0	—	749.1	38.8	8.8	30.0	1,148.7
30	17,339.2	6,741.2	181.3	1,043.6	140.7	306.6	7,065.6	270.0	270.0	—	112.6	146.2	84.4	61.8	1,148.7
May 7	17,339.2	6,783.3	181.3	1,052.2	142.0	185.0	7,526.4	278.0	278.0	—	904.0	214.6	144.3	70.3	1,148.7
15	17,344.4	6,596.7	181.3	1,102.2	144.2	180.1	7,646.6	372.0	372.0	—	176.5	232.1	191.1	41.0	1,148.6
23	17,344.4	6,626.3	181.3	1,103.6	147.9	176.0	7,028.1	565.0	565.0	—	196.9	1.2	—	1.2	1,148.6
31	16,977.1	6,671.1	139.4	1,076.0	128.7	330.3	7,339.2	503.0	503.0	—	54.9	550.1	422.6	127.5	1,148.6
June 7	16,970.7	6,811.2	139.4	1,065.0	138.3	225.6	8,019.8	428.0	428.0	—	452.3	713.3	591.5	121.8	1,148.5
15	16,970.7	6,998.6	139.4	1,035.2	148.7	239.2	7,473.8	428.0	428.0	—	110.7	70.3	55.8	14.5	1,148.5
23	16,970.7	7,420.5	92.4	1,012.1	155.4	213.4	7,379.6	388.8	388.8	—	507.7	50.5	50.5	—	1,213.5
30	16,970.7	7,509.1	92.4	1,015.2	140.8	348.0	7,311.5	194.8	194.8	—	347.8	217.4	198.2	19.2	1,213.5
July 7	16,938.7	7,867.4	92.4	1,011.3	144.0	215.5	7,837.0	203.0	203.0	—	693.6	549.6	542.1	7.4	1,148.5
15	16,938.9	8,170.4	92.4	1,004.0	149.6	204.6	7,380.4	88.4	88.4	—	305.1	298.4	287.7	10.7	1,148.5
23	16,938.9	8,353.0	92.4	1,018.4	148.2	160.5	7,036.6	88.4	88.4	—	219.9	148.5	147.6	0.9	1,148.5
31	16,938.9	8,329.9	92.4	1,017.5	131.2	357.8	6,920.9	23.0	23.0	—	58.1	978.1	939.6	38.5	1,148.5
Aug. 7	16,914.5	8,406.5	92.4	1,011.5	141.0	207.0	6,872.5	29.3	29.3	—	153.4	1,527.6	1,513.9	13.7	1,148.5
15	16,919.7	8,366.9	92.4	980.1	149.3	156.0	5,893.2	—	—	—	55.8	1,317.7	1,314.3	3.4	1,148.5
23	16,919.7	8,467.8	92.4	966.0	159.4	224.6	5,130.7	40.0	40.0	—	95.3	44.7	44.7	—	1,148.5
31	16,919.7	8,318.6	92.4	961.7	146.8	317.3	5,327.2	—	—	—	32.3	1,384.3	1,069.2	315.1	1,148.5
Sep. 7	16,910.4	8,542.3	92.4	971.0	153.5	217.6	6,469.5	80.0	80.0	—	122.2	1,474.4	1,263.8	210.6	1,148.5
15	16,910.4	8,496.6	92.4	975.9	160.2	236.3	6,446.6	127.0	127.0	—	61.1	71.9	71.9	—	1,148.5
23	16,910.4	8,426.8	92.4	940.8	162.8	140.5	6,106.0	102.1	102.1	—	230.4	29.5	29.5	—	1,146.7
30	16,910.7	8,357.7	—	974.3	149.2	294.3	6,635.6	213.0	213.0	—	71.6	185.2	77.6	107.6	1,138.8
Oct. 7	16,887.0	8,460.8	—	971.6	154.2	196.2	6,963.6	227.9	227.9	—	142.5	101.3	71.9	29.4	1,098.6
15	16,887.0	8,459.7	—	953.7	156.2	200.2	6,538.8	175.3	175.3	—	130.3	—	—	—	1,098.5
23	16,887.0	8,758.6	—	950.9	158.7	180.4	6,210.1	45.0	45.0	—	114.5	22.3	22.3	—	1,098.1
31	16,887.0	9,176.0	—	987.8	150.2	296.2	6,025.6	30.6	30.6	—	42.5	333.7	250.5	83.2	1,097.4
Nov. 7	16,887.0	9,018.8	—	976.0	157.5	200.3	6,250.0	18.8	18.8	—	63.1	871.7	798.8	72.9	1,097.4
15	16,892.2	9,047.7	—	976.9	161.0	233.3	5,468.9	14.2	14.2	—	49.2	346.5	322.9	23.6	1,097.4
23	16,892.2	9,160.4	—	979.7	162.9	195.1	4,839.6	1.7	1.7	—	102.0	18.1	—	18.1	1,097.4
30	16,892.2	9,314.1	—	995.4	147.7	333.2	4,706.8	1.8	1.8	—	49.7	694.9	379.2	315.7	1,097.4
Dec. 7	16,898.0	9,181.7	—	977.9	145.6	212.8	5,679.0	243.5	243.5	—	237.9	1,109.3	786.7	322.6	1,097.3
15	16,898.0	9,172.9	—	1,020.9	141.9	285.8	5,027.7	145.5	145.5	—	208.3	10.2	—	10.2	1,097.3
23	16,898.0	10,262.2	—	1,032.9	145.2	161.5	5,038.8	549.4	549.4	—	1,314.5	10.1	—	10.1	1,097.2
31	16,905.2	9,775.4	—	1,083.5	166.3	425.1	5,031.0	711.4	711.4	—	938.0	1,163.7	721.6	442.1	1,095.3

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				(c) Debt certificate		(a) acquisition of claims			Total	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			resulting from post-war economic aid	from B.I.S.	(b) alteration of exchange parity		(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		
																1 9 6 6	
7,631.0	8,133.8	—	1,050.0	7,083.8	547.2	3,000.9	1,507.7	—	777.5	3,344.3	1,390.0	1,445.8	508.5	249.9	50,663.7	Jan. 7	
7,585.7	8,133.8	—	1,095.3	7,038.5	547.2	3,000.9	1,507.7	—	777.5	3,344.3	1,390.0	1,445.8	508.5	276.4	49,651.1	15	
7,495.0	8,133.8	—	1,186.0	6,947.8	547.2	3,000.9	1,507.7	—	777.5	3,343.6	1,390.0	1,445.8	507.8	267.4	49,232.2	23	
7,400.5	8,133.8	—	1,280.5	6,853.3	547.2	3,054.9	1,507.7	—	777.5	3,343.6	1,390.0	1,445.8	507.8	765.9	50,450.6	31	
7,602.4	8,133.8	—	1,078.6	7,055.2	547.2	3,054.9	1,507.7	—	777.5	3,343.5	1,390.0	1,445.7	507.8	181.8	49,918.5	Feb. 7	
7,395.0	8,133.8	—	1,286.0	6,847.8	547.2	3,054.9	1,507.7	—	777.5	3,343.5	1,390.0	1,445.7	507.8	405.9	48,849.8	15	
7,201.6	8,133.8	—	1,479.4	6,654.4	547.2	3,054.9	1,507.7	—	777.5	3,343.5	1,390.0	1,445.7	507.8	777.4	49,592.8	23	
7,197.2	8,133.8	—	1,483.8	6,650.0	547.2	3,054.9	1,507.7	—	777.5	3,343.5	1,390.0	1,445.7	507.8	839.8	49,998.5	28	
7,363.0	8,133.8	—	1,318.0	6,815.8	547.2	3,054.9	1,507.7	—	777.5	3,343.5	1,390.0	1,445.7	507.8	175.0	51,174.6	Mar. 7	
7,355.3	8,133.8	—	1,325.7	6,808.1	547.2	3,054.9	1,507.7	—	777.5	3,343.5	1,390.0	1,445.7	507.8	206.2	50,996.9	15	
7,336.7	8,133.8	—	1,344.3	6,789.5	547.2	3,054.9	1,507.7	—	777.5	3,343.5	1,390.0	1,445.7	507.8	307.4	51,526.1	23	
7,356.2	8,133.8	—	1,324.8	6,809.0	547.2	3,094.9	1,507.7	—	777.5	3,343.5	1,390.0	1,445.7	507.8	883.7	52,476.4	31	
7,318.5	8,133.8	—	1,362.5	6,771.3	547.2	3,135.0	1,507.7	—	777.5	3,343.5	1,390.0	1,445.7	507.8	406.4	52,830.2	Apr. 7	
7,161.8	8,133.8	—	1,519.2	6,614.6	547.2	3,135.0	1,507.7	—	777.5	3,343.5	1,390.0	1,445.7	507.8	441.4	51,624.4	15	
7,075.1	8,133.8	—	1,605.9	6,527.9	547.2	3,135.0	1,507.7	—	777.5	3,343.5	1,390.0	1,445.7	507.8	501.1	51,069.9	23	
7,034.9	8,133.8	—	1,646.1	6,487.7	547.2	3,135.0	1,507.7	156.2	566.4	3,343.5	1,390.0	1,445.7	507.8	529.0	50,587.1	30	
7,037.7	8,133.8	—	1,643.3	6,490.5	547.2	3,135.0	1,507.7	156.2	566.4	3,343.5	1,390.0	1,445.7	507.8	361.9	51,681.8	May 7	
7,101.3	8,133.8	—	1,579.7	6,554.1	547.2	3,135.0	1,507.7	156.2	566.4	3,343.5	1,390.0	1,445.7	507.8	310.5	51,064.0	15	
7,003.0	8,133.8	—	1,678.0	6,455.8	547.2	3,135.0	1,507.7	125.0	566.4	3,343.5	1,390.0	1,445.7	507.8	257.4	50,276.0	23	
6,930.3	8,133.8	—	1,750.7	6,383.1	547.2	3,563.9	1,507.7	125.0	566.4	3,343.5	1,390.0	1,445.7	507.8	934.0	51,749.8	31	
7,056.5	8,133.8	—	1,624.5	6,509.3	547.2	3,583.9	1,507.7	125.0	566.4	3,343.5	1,390.0	1,445.7	507.8	415.2	52,570.9	June 7	
7,025.0	8,133.8	—	1,656.0	6,477.8	547.2	3,583.9	1,507.7	125.0	566.4	3,343.5	1,390.0	1,445.7	507.8	452.7	51,227.9	15	
7,026.8	8,133.8	—	1,654.2	6,479.6	547.2	3,583.9	1,507.7	125.0	566.4	3,343.5	1,390.0	1,445.7	507.8	486.5	51,952.0	23	
7,205.4	8,133.8	—	1,475.6	6,658.2	547.2	3,582.9	1,507.7	125.0	566.4	3,343.5	1,390.0	1,445.7	507.8	994.1	52,593.8	30	
7,235.9	8,133.8	—	1,445.1	6,688.7	547.2	3,582.9	1,507.7	125.0	566.4	3,343.5	1,390.0	1,445.7	507.8	244.8	53,214.7	July 7	
7,344.8	8,133.8	—	1,336.2	6,797.6	547.2	3,582.9	1,507.7	125.0	566.4	3,343.5	1,390.0	1,445.7	507.8	264.7	52,423.3	15	
7,324.3	8,133.8	—	1,356.7	6,777.1	547.2	3,582.9	1,507.7	125.0	566.4	3,343.5	1,390.0	1,445.7	507.8	269.5	51,980.2	23	
7,351.1	8,133.8	—	1,329.9	6,803.9	547.2	3,582.9	1,507.7	125.0	566.4	3,343.5	1,390.0	1,445.7	507.8	877.4	53,257.9	31	
7,551.5	8,133.8	—	1,129.5	7,004.3	547.2	3,571.7	1,507.7	125.0	566.4	3,255.4	1,390.0	1,445.8	419.6	292.0	53,281.5	Aug. 7	
7,615.2	8,133.8	—	1,065.8	7,068.0	547.2	3,571.7	1,507.7	125.0	566.4	3,255.4	1,390.0	1,445.8	419.6	325.6	51,954.2	15	
7,739.2	8,133.8	—	941.8	7,192.0	547.2	3,583.7	1,507.7	125.0	566.4	3,255.4	1,390.0	1,445.8	419.6	297.8	50,271.9	23	
7,858.0	8,133.8	—	823.0	7,310.8	547.2	3,583.7	1,507.7	125.0	566.4	3,255.4	1,390.0	1,445.8	419.6	848.9	52,301.5	31	
7,901.9	8,133.8	—	779.1	7,354.7	547.2	3,585.7	1,507.7	125.0	566.4	3,255.4	1,390.0	1,445.8	419.6	313.3	53,344.8	Sep. 7	
7,911.0	8,133.8	—	770.0	7,363.8	547.2	3,585.7	1,507.7	125.0	566.4	3,255.4	1,390.0	1,445.8	419.6	297.3	51,883.0	15	
7,850.5	8,133.8	—	830.5	7,303.3	547.2	3,585.0	1,507.7	125.0	566.4	3,255.4	1,390.0	1,445.8	419.6	1,040.0	52,126.0	23	
7,885.7	8,133.8	—	795.3	7,338.5	547.2	3,585.0	1,507.7	125.0	566.4	3,255.4	1,390.0	1,445.8	419.6	470.2	52,325.8	30	
7,896.0	8,133.8	—	785.0	7,348.8	547.2	3,605.0	1,507.7	125.0	566.4	3,255.4	1,390.0	1,445.8	419.6	303.2	52,462.4	Oct. 7	
7,873.1	8,133.8	—	807.9	7,325.9	547.2	3,605.0	1,507.7	125.0	566.4	3,255.4	1,390.0	1,445.8	419.6	316.2	51,848.5	15	
7,823.3	8,133.8	—	857.7	7,276.1	547.2	3,605.0	1,507.7	125.0	566.4	3,255.4	1,390.0	1,445.8	419.6	327.3	51,635.7	23	
7,530.6	8,133.8	—	1,150.4	6,983.4	547.2	3,605.0	1,507.7	125.0	566.4	3,255.4	1,390.0	1,445.8	419.6	403.7	52,020.8	31	
7,524.3	8,133.8	—	1,156.7	6,977.1	547.2	3,605.0	1,507.7	125.0	566.4	3,255.4	1,390.0	1,445.8	419.6	305.0	52,429.4	Nov. 7	
7,345.6	8,133.8	—	1,335.4	6,798.4	547.2	3,605.0	1,507.7	125.0	566.4	3,255.4	1,390.0	1,445.8	419.6	402.2	51,094.6	15	
7,295.8	8,133.8	—	1,385.2	6,748.6	547.2	3,605.0	1,507.7	125.0	566.4	3,255.4	1,390.0	1,445.8	419.6	335.8	50,140.2	23	
7,640.4	8,133.8	—	1,040.6	7,093.2	547.2	3,621.0	1,507.7	125.0	566.4	3,255.4	1,390.0	1,445.8	419.6	1,008.9	51,958.0	30	
7,625.4	8,133.8	—	1,055.6	7,078.2	547.2	3,621.0	1,507.7	125.0	566.4	3,255.4	1,390.0	1,445.8	419.6	330.1	52,814.0	Dec. 7	
7,607.8	8,133.8	—	1,073.2	7,060.6	547.2	3,621.0	1,507.7	125.0	566.4	3,255.4	1,390.0	1,445.8	419.6	315.0	51,006.8	15	
7,638.6	8,133.8	—	1,042.4	7,091.4	547.2	3,637.0	1,507.7	125.0	566.4	3,255.4	1,390.0	1,445.8	419.6	681.5	53,921.4	23	
7,803.7	8,134.3	—	877.8	7,256.5	547.2	3,741.0	1,770.1	125.0	566.4	3,255.9	1,390.0	1,446.3	419.6	356.8	54,913.8	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	of						
			(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	
1966									
Jan. 7	28,126.5	18,836.2	16,598.8	1,990.1	5.3	856.5	1,097.8	30.5	247.3
15	27,608.2	18,351.7	15,695.9	2,433.8	22.6	1,023.4	1,364.4	23.4	222.0
23	26,028.5	19,568.3	14,723.6	4,604.6	1,992.1	879.7	1,707.3	25.5	240.1
31	29,016.9	17,730.9	14,858.1	2,630.0	483.4	1,226.8	886.9	32.9	242.8
Feb. 7	27,347.0	18,850.1	17,133.1	1,474.6	6.0	432.8	1,010.3	25.5	242.4
15	26,648.9	18,485.7	15,589.7	2,660.4	150.2	848.6	1,595.6	66.0	235.6
23	26,037.9	19,813.1	14,228.9	5,338.8	902.2	2,773.8	1,635.4	27.4	245.4
28	29,647.2	16,650.4	13,394.8	3,025.0	28.2	1,835.6	1,127.9	33.3	230.6
Mar. 7	28,390.0	19,012.7	16,910.8	1,845.1	11.4	583.6	1,228.7	21.4	256.8
15	27,560.0	19,654.5	15,517.1	3,905.7	828.1	500.9	2,552.7	24.0	231.7
23	25,916.6	21,866.9	14,786.6	6,832.6	2,750.2	592.0	3,460.0	30.4	247.7
31	30,035.0	18,474.4	13,656.4	4,560.7	788.5	1,635.5	2,084.7	52.0	257.3
Apr. 7	28,983.0	20,094.3	16,783.9	3,079.5	329.2	892.7	1,830.5	27.1	230.9
15	28,115.7	19,720.9	16,090.8	3,385.0	687.6	599.5	2,071.2	26.7	245.1
23	26,761.3	20,560.9	14,488.6	5,829.3	1,927.0	1,523.7	2,346.2	32.4	243.0
30	30,511.6	16,568.5	14,057.8	2,260.0	395.9	588.3	1,244.5	31.3	250.7
May 7	29,114.9	19,073.0	17,117.6	1,722.5	7.4	379.6	1,298.1	37.4	232.9
15	28,682.8	18,836.8	16,445.7	2,150.6	14.7	420.5	1,674.8	40.6	240.5
23	26,894.4	19,843.5	15,117.3	4,478.9	1,472.8	798.6	2,161.9	45.6	247.3
31	30,580.1	17,653.6	14,556.5	2,837.5	12.1	1,622.8	1,165.3	37.3	259.6
June 7	28,644.2	20,366.1	18,107.3	2,017.9	12.5	708.4	1,272.4	24.6	240.9
15	28,536.3	19,085.5	15,540.1	3,295.7	382.9	525.1	2,352.6	35.1	249.7
23	27,058.8	21,275.0	15,017.1	6,001.6	2,252.3	590.0	3,109.1	50.2	256.3
30	30,916.7	17,926.4	14,065.4	3,559.1	374.8	1,393.4	1,734.6	56.3	301.9
July 7	29,615.4	19,832.5	16,955.7	2,566.7	9.6	955.4	1,576.2	25.5	310.1
15	29,493.7	19,231.0	16,306.8	2,679.1	33.6	709.3	1,906.4	29.8	245.1
23	28,420.1	19,781.1	15,709.3	3,825.5	930.4	798.6	2,059.7	36.8	246.3
31	31,809.1	17,715.8	14,673.7	2,783.8	26.3	1,493.7	1,127.6	136.2	258.3
Aug. 7	30,216.6	19,266.1	17,287.5	1,723.9	12.8	561.0	1,121.5	28.6	254.7
15	29,249.0	18,841.2	16,440.9	2,122.4	30.5	481.0	1,526.2	84.7	277.9
23	27,306.1	18,963.7	15,696.5	3,029.7	395.2	736.8	1,862.1	35.6	237.5
31	30,892.2	17,516.0	14,835.5	2,439.9	16.4	1,538.9	856.9	27.7	240.6
Sep. 7	29,211.0	20,211.9	18,184.6	1,779.3	7.7	865.0	877.8	28.8	248.0
15	28,987.4	18,951.8	16,051.9	2,655.3	23.4	575.0	2,017.5	39.4	244.6
23	27,574.5	20,665.9	13,423.7	7,007.6	2,076.6	2,403.8	2,490.4	36.8	234.6
30	31,200.4	17,226.8	14,468.6	2,508.8	40.5	1,266.5	1,161.7	40.1	249.4
Oct. 7	29,575.2	18,981.7	16,876.4	1,857.1	8.8	816.9	1,007.4	24.0	248.2
15	29,167.1	18,843.2	16,375.3	2,220.3	292.9	676.4	1,218.2	32.8	247.6
23	27,510.2	20,264.9	15,831.5	4,182.5	1,763.8	747.1	1,632.5	39.1	250.9
31	30,585.8	17,421.6	15,109.9	2,061.3	17.2	1,326.7	683.8	33.6	250.4
Nov. 7	28,875.2	19,533.6	17,571.1	1,714.7	6.8	913.2	762.9	31.8	247.8
15	28,219.2	18,922.8	16,737.8	1,940.3	24.1	663.2	1,185.9	67.1	244.7
23	26,660.6	19,582.7	15,488.8	3,818.3	1,581.2	809.9	1,377.1	50.1	275.6
30	31,488.4	16,401.9	14,467.1	1,644.8	19.5	1,289.5	292.9	42.9	290.0
Dec. 7	30,322.6	18,457.1	17,193.8	1,001.6	13.7	681.2	277.9	28.8	261.7
15	30,017.1	17,009.6	14,156.2	2,587.0	543.5	381.0	1,618.4	44.1	266.4
23	29,176.5	20,652.1	15,395.2	4,981.8	1,469.7	2,406.8	1,064.7	40.6	275.1
31	30,770.1	19,784.5	17,385.7	2,109.5	39.5	1,521.3	504.2	44.5	289.3

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	Total	(b) Others							
			among which, provision of cover for letters of credit and guarantees by							
41	42	43	foreigners	residents	46	47	48	49	50	
436.7	406.2	30.5	0.3	13.8	1,475.1	290.0	860.5	638.7	50,663.7	1966
423.5	402.0	21.5	0.2	8.6	1,475.1	290.0	860.5	642.1	49,651.1	Jan. 7
409.5	379.8	29.7	0.2	15.7	1,475.1	290.0	860.5	600.3	49,232.2	15
464.7	439.2	25.5	0.2	14.0	1,475.1	290.0	860.5	612.5	50,450.6	23
438.1	415.0	23.1	0.2	10.3	1,475.1	290.0	860.5	657.7	49,918.5	31
420.5	379.9	40.6	0.2	7.1	1,475.1	290.0	860.5	669.1	48,849.8	Feb. 7
444.5	404.4	40.1	0.7	14.6	1,475.1	290.0	860.5	671.7	49,592.8	15
407.4	377.0	30.4	0.7	13.3	1,475.1	290.0	860.5	667.9	49,998.5	23
412.7	385.4	27.3	0.7	11.6	1,475.1	290.0	860.5	733.6	51,174.6	28
435.1	386.4	48.7	0.7	7.3	1,475.1	290.0	860.5	721.7	50,996.9	Mar. 7
401.4	369.1	32.3	0.7	14.4	1,475.1	290.0	860.5	715.6	51,526.1	15
616.6	582.3	34.3	0.8	12.9	1,475.1	290.0	860.5	724.8	52,476.4	23
403.6	374.4	29.2	1.0	9.6	1,475.1	290.0	860.5	723.7	52,830.2	31
430.2	401.3	28.9	1.0	8.2	1,475.1	290.0	860.5	732.0	51,624.4	Apr. 7
419.8	389.4	30.4	1.0	14.3	1,475.1	290.0	860.5	702.3	51,069.9	15
410.0	379.8	30.2	1.0	12.8	1,690.0	290.0	962.8	154.2	50,587.1	23
408.3	377.8	30.5	1.0	9.1	1,690.0	290.0	962.8	142.8	51,681.8	30
433.5	372.5	61.0	1.0	6.9	1,690.0	290.0	962.8	168.1	51,064.0	May 7
425.6	395.5	30.1	1.0	14.0	1,690.0	290.0	962.8	169.7	50,276.0	15
399.3	369.6	29.7	0.9	13.7	1,690.0	290.0	962.8	174.0	51,749.8	23
423.3	394.2	29.1	0.9	9.1	1,690.0	290.0	362.8	194.5	52,570.9	31
447.2	384.9	62.3	0.9	6.8	1,690.0	290.0	962.8	216.1	51,227.9	June 7
465.3	391.8	73.5	0.9	16.7	1,690.0	290.0	962.8	210.1	51,952.0	15
450.7	424.5	26.2	0.9	12.4	1,690.0	290.0	962.8	357.2	52,593.8	23
388.2	363.8	24.4	1.0	8.3	1,690.0	290.0	962.8	435.8	53,214.7	30
358.5	337.0	21.5	1.0	7.5	1,690.0	290.0	962.8	397.3	52,423.3	July 7
355.2	328.3	26.9	1.0	13.5	1,690.0	290.0	962.8	481.0	51,980.2	15
384.8	344.2	40.6	1.0	12.5	1,690.0	290.0	962.8	405.4	53,257.9	23
356.4	332.7	23.7	0.4	9.3	1,690.0	290.0	962.8	499.6	53,281.5	31
432.8	373.0	59.8	0.4	6.7	1,690.0	290.0	962.8	488.4	51,954.2	Aug. 7
412.8	383.0	29.8	0.4	14.0	1,690.0	290.0	962.8	646.5	50,271.9	15
444.6	418.3	26.3	0.4	12.4	1,690.0	290.0	962.8	505.9	52,301.5	23
367.9	344.9	23.0	0.4	8.4	1,690.0	290.0	962.8	611.2	53,344.8	31
378.4	351.9	26.5	0.4	7.5	1,690.0	290.0	962.8	622.6	51,883.0	Sep. 7
418.5	350.5	68.0	0.4	15.5	1,690.0	290.0	962.8	524.3	52,126.0	15
408.7	379.3	29.4	0.4	12.6	1,690.0	290.0	962.8	547.1	52,325.8	23
351.4	325.9	25.5	0.2	8.5	1,690.0	290.0	962.8	611.3	52,462.4	30
333.3	310.5	22.8	0.3	7.2	1,690.0	290.0	962.8	562.1	51,848.5	Oct. 7
359.5	323.8	35.7	0.4	14.9	1,690.0	290.0	962.8	558.3	51,635.7	15
497.3	462.6	34.7	0.4	12.7	1,690.0	290.0	962.8	573.3	52,020.8	23
343.7	318.9	24.8	0.4	9.9	1,690.0	290.0	962.8	734.1	52,429.4	31
411.9	353.8	58.1	0.4	6.9	1,690.0	290.0	962.8	597.9	51,094.6	Nov. 7
350.9	317.2	33.7	0.4	14.5	1,690.0	290.0	962.8	603.2	50,140.2	15
489.5	439.7	49.8	0.9	13.8	1,690.0	290.0	962.8	635.4	51,958.0	23
339.7	315.3	24.4	0.9	9.0	1,690.0	290.0	962.8	751.8	52,814.0	30
343.3	307.3	36.0	0.9	7.0	1,690.0	290.0	962.8	694.0	51,006.8	Dec. 7
465.3	402.2	63.1	0.9	13.6	1,690.0	290.0	962.8	684.7	53,921.4	15
551.8	493.6	58.2	0.9	12.7	1,690.0	290.0	962.8	864.6	54,913.8	23
										31

Turnover on the Giro Accounts of the Deutsche Bundesbank

Area	Debits				Credits			
	1965		1966		1965		1966	
	'000 ¹⁾	DM million	'000 ¹⁾	DM million	'000 ¹⁾	DM million	'000 ¹⁾	DM million
Land Central Bank								
Baden-Württemberg	24,158	257,319	24,289	276,427	28,466	257,414	29,196	276,709
Bavaria	32,501	265,149	35,469	288,932	26,234	265,249	27,624	289,048
Berlin	2,245	57,746	2,293	61,579	2,976	57,673	2,913	61,616
Bremen	3,913	30,793	3,930	32,736	5,383	30,833	5,383	32,733
Hamburg	7,170	205,714	7,357	220,823	10,433	205,775	10,383	220,840
Hesse	18,105	344,963	18,961	388,156	18,611	345,231	19,335	388,543
Lower Saxony	20,032	154,575	19,691	161,763	18,297	154,518	18,892	161,870
North Rhine-Westphalia	54,551	857,192	54,774	835,792	56,020	856,709	57,092	835,492
Rhineland-Palatinate	10,325	85,237	10,505	92,986	10,565	85,326	10,791	92,986
Saarland	1,853	20,503	2,061	22,444	1,675	20,490	1,937	22,451
Schleswig-Holstein	5,551	41,972	5,675	45,800	4,804	41,984	5,021	45,817
Total	180,404	2,321,163	185,005	2,427,438	183,464	2,321,202	188,567	2,428,105
Bundesbank - Directorate -	468	281,722	511	292,191	520	281,778	504	292,619
Grand total	180,872	2,602,885	185,516	2,719,629	183,984	2,602,980	189,071	2,720,724

1) Number of transactions

Simplified Collection of Cheques and Debit-Entry Notes¹⁾

Area	Lodged				Paid			
	1965		1966		1965		1966	
	'000	DM million	'000	DM million	'000	DM million	'000	DM million
Land Central Bank								
Baden-Württemberg	17,494	35,231	17,704	36,356	16,042	34,582	16,141	35,583
Bavaria	16,033	30,187	16,603	31,987	16,078	32,744	16,723	35,156
Berlin	2,021	5,389	1,925	5,854	1,453	4,319	1,411	4,394
Bremen	4,066	4,672	4,003	4,830	2,478	4,496	2,451	4,901
Hamburg	6,313	15,304	6,105	16,010	4,045	15,298	4,087	15,926
Hesse	11,881	26,860	12,295	29,604	12,212	32,196	13,068	35,313
Lower Saxony	11,636	22,328	11,876	23,756	14,187	22,706	13,856	23,845
North Rhine-Westphalia	36,322	88,339	36,919	91,676	37,198	81,659	37,270	85,002
Rhineland-Palatinate	6,140	11,353	6,200	12,194	6,544	11,438	6,617	12,140
Saarland	1,058	2,565	1,178	2,830	1,228	2,397	1,323	2,594
Schleswig-Holstein	2,613	4,819	2,690	5,184	3,528	5,208	3,557	5,457
Total	115,577	247,047	117,498	260,281	114,993	247,043	116,504	260,311
Bundesbank - Directorate -	24	62	17	63	9	117	6	71
Grand total	115,601	247,109	117,515	260,344	115,002	247,160	116,510	260,382

1) Until 30 June 1966 simplified cheque collection only

Telegraphic Giro Transactions
telegraphic giro transfers dispatched

Area	1965		1966	
	'000	DM mn	'000	DM mn
Land Central Bank				
Baden-Württemberg	29	39,366	31	44,556
Bavaria	30	40,915	31	45,672
Berlin	5	16,680	5	18,201
Bremen	3	3,135	3	3,210
Hamburg	13	29,426	14	28,896
Hesse	35	64,747	36	80,605
Lower Saxony	21	24,434	22	25,974
North Rhine-Westphalia	61	145,430	62	133,903
Rhineland-Palatinate	11	13,091	12	14,109
Saarland	2	2,669	2	3,125
Schleswig-Holstein	5	5,824	5	6,755
Total	215	385,717	223	405,006
Bundesbank - Directorate -	6	3,617	6	3,792
Grand total	221	389,334	229	408,798

Certified Cheques

Land Central Bank	1965		1966	
	number	DM mn	number	DM mn
Baden-Württemberg	1,757	2,199	1,660	2,493
Bavaria	781	588	800	953
Berlin	85	5	90	5
Bremen	85	3	35	2
Hamburg	196	45	170	36
Hesse	1,678	1,768	1,394	1,595
Lower Saxony	302	492	241	448
North Rhine-Westphalia	10,288	18,993	9,827	17,853
Rhineland-Palatinate	587	277	359	255
Saarland	4	0	—	—
Schleswig-Holstein	211	96	201	111
Total	15,974	24,466	14,777	23,751

Turnover in Clearing Transactions

Land Central Bank	1965						1966					
	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	20,721	56,709	7,220	12,153	27,941	68,862	21,061	59,428	8,269	13,721	29,330	73,149
Bavaria	21,596	59,399	12,023	12,883	33,619	72,282	22,209	62,856	13,554	15,062	35,763	77,918
Berlin	5,180	13,865	4,004	18,906	9,184	32,771	5,114	14,755	4,564	19,519	9,678	34,274
Bremen	4,043	9,251	4,802	9,029	8,845	18,280	4,047	9,856	5,270	9,867	9,317	19,723
Hamburg ¹⁾	6,969	28,231	25,994	166,510	32,963	194,741	7,457	29,683	27,901	195,417	35,358	225,100
Hesse	15,771	178,887	6,555	323,177	22,326	502,064	16,999	190,954	7,561	398,542	24,560	589,496
Lower Saxony	13,121	28,040	6,456	11,250	19,577	39,290	13,136	29,725	7,268	11,931	20,404	41,656
North Rhine-Westphalia	47,859	119,264	13,600	35,898	61,459	155,162	47,211	125,570	16,010	68,636	63,221	194,206
Rhineland-Palatinate	6,844	14,976	2,610	3,915	9,454	18,891	6,985	16,230	3,021	4,446	10,006	20,676
Saarland	1,503	4,841	1,698	5,024	3,201	9,865	1,498	5,112	1,792	5,726	3,290	10,838
Schleswig-Holstein	4,513	7,956	5,466	5,556	9,979	13,512	4,616	8,512	6,038	6,099	10,654	14,611
Total	148,120	521,419	90,428	604,301	238,548	1,125,720	150,333	552,681	101,248	748,966	251,581	1,301,647

¹⁾ For 1966 the Hamburg clearing transactions, to which special arrangements apply, include moreover 1,138,000 transfers to and from other places amounting to DM 3,381 million (1965: 1,092,000 amounting to DM 3,188 million)

Bank Note Circulation

Position at end of year

Notes at DM	1963		1964		1965		1966	
	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
500	—	—	—	—	715.72	2.43	1,068.68	3.47
100	12,556.41	49.38	13,950.52	50.38	14,938.80	50.72	15,942.35	51.81
50	8,699.95	34.22	8,851.66	31.97	8,387.85	28.48	8,190.40	26.62
20	2,580.79	10.15	2,581.27	9.32	2,614.43	8.87	2,627.49	8.54
10	1,361.99	5.36	1,426.09	5.15	1,472.20	5.00	1,471.15	4.78
5	227.46	0.89	241.82	0.87	245.81	0.83	233.02	0.76
Total	25,426.60	100.00	27,691.75	100.00	29,455.58	100.00	30,770.15	100.00

Coin in Circulation

Position at end of year

Coin at DM	1963		1964		1965		1966	
	DM million	per cent	DM million	per cent	DM million	per cent	DM million	per cent
5.—	506.76	29.38	543.33	29.32	599.30	30.01	660.80	30.94
2.—	256.60	14.88	284.47	15.35	310.47	15.55	335.26	15.70
1.—	488.96	28.34	517.29	27.92	543.41	27.21	565.19	26.46
— .50	205.53	11.91	222.09	11.99	239.18	11.98	253.71	11.88
— .10	172.31	9.99	183.30	9.89	194.78	9.75	203.16	9.51
— .05	52.91	3.07	56.70	3.06	60.48	3.03	64.50	3.02
— .02	11.51	0.67	13.53	0.73	15.49	0.77	17.48	0.82
— .01	30.42	1.76	32.15	1.74	34.02	1.70	35.77	1.67
Total	1,725.00	100.00	1,852.86	100.00	1,997.13	100.00	2,135.87	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	Aachen	Aachen	NW	232	Flensburg	Flensburg	SH
563	Aalen	Ulm	BW	512	Frankenthal (Pfalz) ¹⁾	Ludwigshafen	R
319	Ahlen (Westf)	Hamm	NW	4	Frankfurt am Main	Frankfurt	H
282	Alfeld (Leine)	Hildesheim	N	57	Freiburg im Breisgau	Freiburg	BW
431	Alsfeld (Oberhess)	Fulda	H	435	Friedberg (Hess)	Gießen	H
415	Altena (Westf)	Hagen	NW	599	Friedrichshafen	Konstanz	BW
655	Amberg (Oberpf)	Regensburg	BY	644	Fürth (Bay)	Nürnberg	BY
447	Andernach	Koblenz	R	433	Fulda	Fulda	H
646	Ansbach (Mittelfr)	Nürnberg	BY				
416	Arnsberg (Westf)	Lippstadt	NW	689	Garmisch-Partenkirchen	München	BY
614	Aschaffenburg	Würzburg	BY	438	Gelnhausen	Fulda	H
68	Augsburg	Augsburg	BY	341	Gelsenkirchen	Gelsenkirchen	NW
				317	Gelsenkirchen-Buer	Gelsenkirchen	NW
536	Baden-Baden	Karlsruhe	BW	385	Gevelsberg	Hagen	NW
429	Bad Hersfeld	Fulda	H	43	Gießen	Gießen	H
469	Bad Kreuznach	Mainz	R	316	Gladbeck	Gelsenkirchen	NW
699	Bad Reichenhall	München	BY	323	Goch	Krefeld	NW
62	Bamberg	Nürnberg	BY	565	Göppingen ²⁾	Ulm	BW
63	Bayreuth	Hof	BY	288	Göttingen	Göttingen	N
352	Beckum (Bz.Münster, Westf)	Hamm	NW	296	Goslar	Braunschweig	N
496	Bensheim	Darmstadt	H	353	Gütersloh	Bielefeld	NW
1	Berlin (West)	Berlin	B	441	Gummersbach	Bonn	NW
444	Betzdorf	Koblenz	R				
597	Biberach an der Riß	Ulm	BW	41	Hagen	Hagen	NW
424	Biedenkopf	Gießen	H	2	Hamburg	Hamburg	HH
26	Bielefeld	Bielefeld	NW	22	Hamburg-Altona	Hamburg	HH
481	Bingen (Rhein)	Mainz	R	226	Hamburg-Harburg	Hamburg	HH
462	Bitburg	Trier	R	279	Hameln	Hannover	N
313	Bocholt	Münster	NW	35	Hamm (Westf.)	Hamm	NW
346	Bochum	Bochum	NW	439	Hanau am Main	Frankfurt	H
442	Bonn	Bonn	NW	27	Hannover	Hannover	N
29	Braunschweig	Braunschweig	N	381	Hattingen (Ruhr)	Bochum	NW
21	Bremen	Bremen	HB	236	Heide (Holst)	Flensburg	SH
215	Bremerhaven	Bremen	HB	523	Heidelberg	Mannheim	BW
531	Bruchsal	Karlsruhe	BW	567	Heidenheim an der Brenz	Ulm	BW
537	Bühl (Baden)	Karlsruhe	BW				
267	Bünde	Minden	NW	54	Heilbronn (Neckar)	Heilbronn	BW
				293	Helmstedt	Braunschweig	N
272	Celle	Hannover	N	269	Herford	Bielefeld	NW
622	Coburg	Hof	BY	343	Herne	Bochum	NW
221	Cuxhaven	Lüneburg	N	367	Hilden	Düsseldorf	NW
				28	Hildesheim	Hildesheim	N
49	Darmstadt	Darmstadt	H	452	Höhr-Grenzhausen	Koblenz	R
673	Deggendorf	Regensburg	BY	633	Hof (Saale)	Hof	BY
278	Detmold	Bielefeld	NW	284	Holzminden	Göttingen	N
451	Dillenburg	Gießen	H	231	Husum	Flensburg	SH
34	Dortmund	Dortmund	NW				
395	Düren	Aachen	NW	474	Idar-Oberstein	Mainz	R
36	Düsseldorf	Düsseldorf	NW	66	Ingolstadt (Donau)	München	BY
32	Duisburg	Duisburg	NW	411	Iserlohn	Dortmund	NW
331	Duisburg-Hamborn	Duisburg	NW	222	Itzehoe	Kiel	SH
329	Duisburg-Ruhrort	Duisburg	NW				
				393	Jülich	Aachen	NW
592	Ebingen (Württ)	Reutlingen	BW	513	Kaiserslautern	Kaiserslautern	R
235	Eckernförde	Kiel	SH	53	Karlsruhe	Karlsruhe	BW
224	Elmshorn	Lübeck	SH	42	Kassel	Kassel	H
212	Emden	Oldenburg	N	686	Kaufbeuren	Augsburg	BY
322	Emmerich	Duisburg	NW	685	Kempten (Allgäu)	Augsburg	BY
643	Erlangen	Nürnberg	BY	23	Kiel	Kiel	SH
428	Eschwege	Kassel	H	619	Kitzingen	Würzburg	BY
394	Eschweiler	Aachen	NW	321	Kleve	Krefeld	NW
33	Essen	Essen	NW	44	Koblenz	Koblenz	R
554	Eßlingen am Neckar	Stuttgart	BW	3	Köln	Köln	NW
397	Euskirchen	Bonn	NW	378	Köln-Mülheim	Köln	NW

¹⁾ The Branch at Frankenthal (Pfalz) was closed down on 30 September 1966. — ²⁾ With effect from 1 April 1967 the Branch at Göppingen was subordinated to the Main Branch at Ulm.

Appendix 5 (cont'd) to the Report of the Deutsche Bundesbank for the Year 1966

Serial number	Bank place	Appropriate Main Branch	Land Central Bank	Serial number	Bank place	Appropriate Main Branch	Land Central Bank
58	Konstanz	Konstanz	BW	535	Rastatt	Karlsruhe	BW
421	Korbach	Kassel	H	59	Ravensburg	Konstanz	BW
363	Krefeld	Krefeld	NW	318	Recklinghausen	Gelsenkirchen	NW
634	Kulmbach	Hof	BY	65	Regensburg	Regensburg	BY
				446	Remagen	Koblenz	R
571	Lahr (Schwarzw)	Freiburg	BW	374	Remscheid	Remscheid	NW
519	Landau in der Pfalz	Ludwigshafen	R	389	Remscheid-Lennep	Remscheid	NW
67	Landshut (Bay)	Regensburg	BY	237	Rendsburg	Kiel	SH
432	Lauterbach (Hess)	Fulda	H	55	Reutlingen	Reutlingen	BW
216	Leer (Ostfriesland)	Oldenburg	N	312	Rheine, Westf	Münster	NW
277	Lemgo	Bielefeld	NW	328	Rheinhausen	Duisburg	NW
453	Limburg a. d. Lahn	Wiesbaden	H	368	Rheydt	Mönchengladbach	NW
688	Lindau (Bodensee)	Augsburg	BY	697	Rosenheim	München	BY
262	Lingen (Ems)	Osnabrück	N	591	Rottweil	Reutlingen	BW
356	Lippstadt	Lippstadt	NW	457	Rüdesheim am Rhein	Wiesbaden	H
577	Lörrach	Freiburg	BW				
548	Ludwigsburg	Stuttgart	BW	47	Saarbrücken	Saarbrücken	S
51	Ludwigshafen am Rhein	Ludwigshafen	R	476	Saarlouis	Saarbrücken	S
24	Lübeck	Lübeck	SH	578	Säckingen	Freiburg	BW
417	Lüdenscheid	Hagen	NW	516	St. Ingbert	Saarbrücken	S
227	Lüneburg	Lüneburg	N	234	Schleswig	Flensburg	SH
				647	Schwabach, Mittelfr	Nürnberg	BY
48	Mainz	Mainz	R	562	Schwäbisch Gmünd	Stuttgart	BW
52	Mannheim	Mannheim	BW	545	Schwäbisch Hall	Heilbronn	BW
425	Marburg a. d. Lahn	Gießen	H	616	Schweinfurt	Würzburg	BY
638	Marktredwitz	Hof	BY	384	Schwelm	Wuppertal-Elberfeld	NW
449	Mayen	Koblenz	R	593	Schwenningen am Neckar	Freiburg	BW
683	Memmingen	Augsburg	BY	295	Seesen	Braunschweig	N
412	Menden (Sauerl)	Dortmund	NW	443	Siegburg	Bonn	NW
617	Miltenberg	Würzburg	BY	445	Siegen, Westf	Siegen	NW
268	Minden (Westf)	Minden	NW	603	Sindelfingen ³⁾	Stuttgart	BW
365	Mönchengladbach	Mönchengladbach	NW	584	Singen (Hohentwiel)	Konstanz	BW
325	Moers	Duisburg	NW	355	Soest, Westf	Hamm	NW
526	Mosbach (Baden)	Heilbronn	BW	373	Solingen	Remscheid	NW
335	Mülheim a. d. Ruhr	Essen	NW	372	Solingen-Ohligs	Remscheid	NW
6	München	München	BY	515	Speyer	Ludwigshafen	R
31	Münster (Westf)	Münster	NW	273	Stadthagen	Hannover	N
				396	Stolberg (Rhld.)	Aachen	NW
413	Neheim-Hüsten	Lippstadt	NW	672	Straubing	Regensburg	BY
238	Neumünster	Kiel	SH	5	Stuttgart	Stuttgart	BW
478	Neunkirchen/Saar	Saarbrücken	S				
366	Neuß	Köln	NW	465	Traben-Trarbach	Trier	R
239	Neustadt in Holstein	Lübeck	SH	46	Trier	Trier	R
514	Neustadt an der Weinstraße	Ludwigshafen	R	557	Tübingen	Reutlingen	BW
448	Neuwied	Koblenz	R	594	Tuttlingen	Konstanz	BW
271	Nienburg (Weser)	Hannover	N				
661	Nördlingen	Augsburg	BY	229	Uelzen	Lüneburg	N
211	Norden	Oldenburg	N	56	Ulm, Donau	Ulm	BW
263	Nordhorn	Osnabrück	N	354	Unna	Hamm	NW
286	Northeim (Han)	Göttingen	N				
64	Nürnberg	Nürnberg	BY	338	Velbert	Wuppertal-Elberfeld	NW
				362	Viersen	Mönchengladbach	NW
				582	Villingen im Schwarzwald	Freiburg	BW
333	Oberhausen (Rheinl)	Oberhausen	NW				
332	Oberhausen (Rheinl) -Sterkrade ¹⁾	Oberhausen	NW	705	Waiblingen, Rems	Stuttgart	BW
491	Offenbach am Main	Frankfurt	H	359	Warburg, Westf	Lippstadt	NW
539	Offenburg	Karlsruhe	BW	653	Weiden i. d. OPf.	Regensburg	BY
217	Oldenburg (Oldb)	Oldenburg	N	521	Weinheim (Bergstr)	Mannheim	BW
419	Olpe	Siegen	NW	528	Wertheim	Heilbronn	BW
376	Opladen	Remscheid	NW	324	Wesel	Duisburg	NW
265	Osnabrück	Osnabrück	N	454	Wetzlar	Gießen	H
298	Osterode am Harz	Göttingen	N	45	Wiesbaden	Wiesbaden	H
				213	Wilhelmshaven	Oldenburg	N
				382	Witten	Dortmund	NW
357	Paderborn	Lippstadt	NW	489	Worms	Mainz	R
677	Passau	Regensburg	BY	61	Würzburg	Würzburg	BY
275	Peine	Hildesheim	N	38	Wuppertal-Barmen	Wuppertal-Elberfeld	NW
534	Pforzheim ²⁾	Stuttgart	BW	37	Wuppertal-Elberfeld	Wuppertal-Elberfeld	NW
518	Pirmasens	Kaiserslautern	R				
418	Plettenberg	Hagen	NW	517	Zweibrücken	Kaiserslautern	R

¹⁾ The Branch at Oberhausen (Rheinl)-Sterkrade was closed down on 15 November 1966. — ²⁾ With effect from 1 October 1966 the Main Branch at Pforzheim was changed into a Branch and subordinated to the Main Branch at Stuttgart. — ³⁾ The Branch at Sindelfingen was established on 14 November 1966 and subordinated to the Main Branch at Stuttgart.

Annex

Statistics on Money and Credit and the Balance of Payments

I. Extracts from the "Consolidated Condition Statement for the Credit Institutions including the Deutsche Bundesbank"	
(1) Movement and Determinants of the Volume of Money	154
(2) Note and Coin Circulation and Residents' Sight Deposits	155
(3) Savings Deposits	155
II. Interim Statements of the Credit Institutions	156
III. Central Bank Lending to Non-Banks and Central Bank Deposits of Non-Banks	
(1) Central Bank Lending to Non-Banks	157
(2) Central Bank Deposits of Non-Banks	157
IV. Credit Institutions' Recourse to Bundesbank, Central Bank Deposits and Free Liquid Assets	
(1) Central Bank Lending to Credit Institutions and Central Bank Deposits of Credit Institutions	158
(2) Credit Institutions' Holdings of Domestic Money Market Paper and Short-Term External Assets	158
(3) Borrowing by Banking Groups from Deutsche Bundesbank	158
V. Interest Rates	
(1) Rates of Deutsche Bundesbank Applying to the Sale of Money Market Paper in the Open Market	159
(2) Swap Rates of Deutsche Bundesbank for Forward Transactions	159
(3) Money Market Rates in Frankfurt am Main by Months	159
(4) Rates for Day-to-Day Money in Frankfurt am Main by Bank Return Weeks	159
(5) Debtor and Creditor Interest Rates since the Currency Reform	160
VI. Sales of Securities	
(1) Gross Sales of Fixed-interest Securities and Shares of Domestic Issuers	161
(2) Redemption and Net Sales of Fixed-interest Securities of Domestic Issuers and Change in the Holdings of Repurchased Issues	161
(3) Gross Sales of Securities of Domestic Issuers: Nominal Values, Issue Values and Average Issue Prices	162
(4) Circulation of Investment Fund Units	162
(5) Capital Accruing at the Investment Funds	162
VII. Foreign Trade and the Balance of Payments	
(1) Balance of Payments of the Federal Republic of Germany 1960 to 1966	163
(2) Monetary Reserves of the Deutsche Bundesbank	164
(3) Short-Term Assets and Liabilities of the Credit Institutions in relation to Foreign Countries	164

**I. Extracts from the "Consolidated Condition Statement for the Credit Institutions
including the Deutsche Bundesbank"**

*(1) Movement and Determinants of the Volume of Money *)*

Increase (+) or decrease (—) Millions of DM

Item	Years			1965		1966	
	1964	1965	1966	1st half	2nd half	1st half	2nd half
I. Bank lending to domestic non-banks, total	+29,118	+32,233	+27,215	+15,358	+16,875	+13,867	+13,348
(1) Deutsche Bundesbank	— 276	— 449	+ 1,038	— 1,169	+ 720	— 845	+ 1,883
(a) Cash advances and credit granted by purchase of domestic Treasury bills and non-interest Treasury bonds	— 356	+ 234	+ 122	— 920	+ 1,154	— 1,341	+ 1,463
(b) Special credits to Federal Government for meeting its obligations to I.M.F., I.B.R.D. and European Fund	+ 722	— 15	+ 740	— 84	+ 69	+ 582	+ 158
(c) Claims on Federal Government in respect of post-war economic aid and alteration of exchange parity	— 642	— 668	+ 176	— 165	— 503	— 86	+ 262
(2) Credit institutions (not including Bundesbank)	+29,394	+32,682	+26,177	+16,527	+16,155	+14,712	+11,465
(a) Short-term lending (including holdings of domestic Treasury bills and non-interest Treasury bonds, but excluding "mobilisation paper" ¹⁾)	+ 5,616	+ 7,650	+ 6,037	+ 5,046	+ 2,604	+ 4,790	+ 1,247
(b) Medium and long-term lending to domestic non-banks	+21,977	+23,832	+19,423	+ 9,773	+14,059	+ 9,489	+ 9,934
(c) Covering claims	+ 294	+ 199	+ 204	+ 129	+ 70	+ 140	+ 64
(d) Holdings of domestic securities and syndicate participations ²⁾ (except bank bonds ³⁾)	+ 1,507	+ 1,001	+ 513	+ 1,579	— 578	+ 293	+ 220
II. Formation of monetary capital at credit institutions out of domestic sources, total	+25,604	+27,297	+28,593	+12,762	+14,535	+10,976	+17,617
(1) Residents' savings deposits	+12,529	+16,257	+16,271	+ 7,689	+ 8,568	+ 6,319	+ 9,952
(2) Residents' time deposits, total	+ 1,284	+ 579	+ 5,393	— 332	+ 911	+ 687	+ 4,706
among which:							
at notice or fixed period of less than 6 months	(+ 624)	(+ 101)	(+ 4,755)	(— 1,249)	(+ 1,350)	(— 207)	(+ 4,962)
(3) Domestic bank bonds in circulation (except those held by credit institutions) ⁴⁾	+ 6,600	+ 5,952	+ 3,228	+ 3,055	+ 2,897	+ 1,499	+ 1,729
(4) Monies and loans taken at longer term from domestic non-banks	+ 3,271	+ 2,455	+ 2,035	+ 942	+ 1,513	+ 1,201	+ 834
(5) Capital and reserves	+ 1,920	+ 2,054	+ 1,666	+ 1,408	+ 646	+ 1,270	+ 396
III. Excess of lending or of monetary capital formation (I less II)	+ 3,514	+ 4,936	— 1,378	+ 2,596	+ 2,340	+ 2,891	— 4,269
IV. Net claim on foreign countries ⁵⁾ (Bundesbank and other banks)	+ 1,279	— 195	+ 2,518	+ 946	— 1,141	+ 771	+ 1,747
V. Other influences (not assignable to specific items)	— 303	— 243	— 119	— 1,991	+ 1,748	— 2,961	— 2,842
VI. Central Bank deposits of German public authorities (decrease: +)	+ 913	+ 1,049	+ 55	— 378	+ 1,427	— 1,394	+ 1,449
VII. Note and coin circulation ⁶⁾ and sight deposits of domestic non-banks except German public authorities' Central Bank deposits (III to VI, net)	+ 5,403	+ 5,547	+ 1,076	+ 1,173	+ 4,374	— 693	+ 1,769
of which:							
Note and coin circulation ⁶⁾	+ 2,386	+ 1,752	+ 1,202	+ 1,317	+ 435	+ 911	+ 291
Sight deposits	+ 3,017	+ 3,795	— 126	— 144	+ 3,939	— 1,604	+ 1,478
Note:							
"Volume of money" including short-term time deposits	+ 6,027	+ 5,648	+ 5,831	— 76	+ 5,724	— 900	+ 6,731

*) The data in this survey are based on the "Consolidated Condition Statement for the Credit Institutions including the Deutsche Bundesbank". Apart from the "consolidation" of the figures for the credit institutions and those for the Bundesbank, one peculiarity for the purpose of this table lies in the fact that assets and liabilities in respect of foreign countries — except for DM notes and coins and bank bonds held by foreigners, which cannot be ascertained — are comprised in one overall net total and hence not contained in any of the other items. Statistical changes have been eliminated. — ¹⁾ I. e., Federal Treasury bills and non-interest Treasury bonds deriving from exchange for a corresponding partial amount of the Bundesbank's equalisation claim, the taking of which paper by the banks does not represent any additional granting of credit to non-banks. — ²⁾ For December 1965 and first half of 1966, after elimination of the changes resulting from depreciation on bond holdings. — ³⁾ Bank holdings of other banks' bonds do not represent any immediate granting of credit to non-banks but form part of interbank indebtedness. — ⁴⁾ Set off against the credit institutions' holdings of their own and other banks' bonds. — ⁵⁾ Including I.B.R.D. bonds taken by Bundesbank. — ⁶⁾ Excluding the credit institutions' cash holdings, but including DM notes and coins held abroad.

(2) Note and Coin Circulation and Residents' Sight Deposits *)

Millions of DM

End of month	Note and coin circulation, and residents' sight deposits*), total		Note and coin circulation excluding credit institutions' cash holdings *) *)	Sight deposits of domestic business enterprises and individuals			Sight deposits of German public authorities					Deposits of agencies of former occupying powers with Deutsche Bundesbank *)
	including amounts temporarily employed in equalisation claims ¹⁾	excluding amounts temporarily employed in equalisation claims ¹⁾		Total	with credit institutions (except Deutsche Bundesbank)	with Deutsche Bundesbank *)	Total including amounts temporarily employed in equalisation claims ¹⁾	excluding amounts temporarily employed in equalisation claims ¹⁾	with credit institutions (except Deutsche Bundesbank)	with Deutsche Bundesbank *)	temporarily employed in equalisation claims ¹⁾	
1952 December	26,011	24,286	10,804	10,512	10,247	265	3,942	2,217	1,829	388	1,725	753
1953 "	29,441	26,311	11,955	11,443	11,198	245	5,404	2,274	1,849	425	3,130	639
1954 "	34,155	29,419	12,751	13,719	13,414	305	7,162	2,426	2,077	349	4,736	523
1955 "	37,969	34,388	14,041	15,109	14,867	242	8,554	4,973	2,330	2,643	3,581	265
1956 "	41,085	37,864	14,876	16,405	16,111	294	9,660	6,439	2,608	3,831	3,221	144
1957 "	42,397	16,461	18,656	18,316	340	7,139	2,690	4,449	141			
1958 "	46,849	17,940	21,738	21,402	336	7,124	2,900	4,224	47			
1959 "	48,855	19,369	24,545	24,323	222	4,941	3,103	1,838	—			
1959 ¹⁾ "	49,446	19,344	25,067	24,845	222	5,035	3,197	1,838	—			
1960 ¹⁾ "	54,456	20,772	26,580	26,361	219	7,104	3,664	3,440	—			
1961 "	63,381	23,138	31,238	30,986	252	9,005	4,272	4,733	—			
1962 ²⁾ "	67,512	24,164	33,845	33,566	279	9,503	5,218	4,285	—			
1962 ²⁾ "	67,534	24,159	33,868	33,589	279	9,507	5,222	4,285	—			
1963 "	71,779	25,418	36,759	36,486	273	9,602	5,475	4,127	—			
1964 "	76,147	27,804	39,808	39,556	252	8,535	5,321	3,214	—			
1965 March	74,034	28,244	37,378	36,970	408	8,412	4,516	3,896	—			
June	77,606	29,121	39,998	39,721	277	8,487	4,895	3,592	—			
September	78,538	29,453	39,942	39,690	252	9,143	4,832	4,311	—			
December	80,553	29,556	43,115	42,850	265	7,882	5,717	2,165	—			
1966 March	78,718	29,787	39,649	39,392	257	9,282	4,721	4,561	—			
June	81,254	30,467	41,861	41,559	302	8,926	5,367	3,559	—			
September	79,293	31,100	40,811	40,562	249	7,382	4,873	2,509	—			
December	81,574	30,758	43,271	42,982	289	7,545	5,435	2,110	—			

*) From July 1959 onwards including DM notes and coins circulating in the Saarland as well as deposits of Saarland non-banks with the Bundesbank. Cf. footnote *). — ¹⁾ Since the entry into force, on 1 August 1957, of the Law concerning the Deutsche Bundesbank it has no longer been possible for public monies to be employed in equalisation claims. — ²⁾ Including DM notes and coins held abroad. — ³⁾ Until the end of 1958 including the (relatively small) deposits of foreign business enterprises and individuals at the Bundesbank. — ⁴⁾ From December 1960 onwards including deposits of the E.R.P. Special Fund and credit balances resulting from special transactions. — ⁵⁾ From January 1959 onwards included in foreign liabilities. — ⁶⁾ From January 1960 onwards including the deposits of non-banks maintained with Saarland credit institutions. The rows of figures were linked together by showing for December 1959, firstly, the figures excluding Saarland and, secondly, the figures including Saarland. Cf. footnote *). — ⁷⁾ Since December 1962 the obligation to render returns has been newly defined for the credit cooperatives (Raiffeisen). The December figures are shown for both the old and the new range of institutions required to report.

(3) Savings Deposits

Millions of DM

End of month	Savings deposits, total	among which:		Savings banks	Credit co-operatives	Total savings deposits comprise those at				
		Savings deposits				Total	Commercial banks		Postal Savings Bank	Other credit institutions
		carrying tax privileges	carrying premiums				Big banks	State, regional and local banks		
1952 December	7,581	972	—	4,934	1,118	1,115	605	424	380	34
1953 "	11,547	1,532	—	7,461	1,652	1,723	944	658	659	52
1954 "	17,225	2,319	—	10,965	2,418	2,794	1,556	1,052	965	83
1955 "	21,374	2,525	—	13,555	2,944	3,517	1,963	1,327	1,236	122
1956 "	24,276	2,917	—	15,506	3,418	3,782	2,055	1,489	1,457	113
1957 "	29,388	3,785	—	18,665	4,140	4,615	2,505	1,822	1,822	146
1958 "	36,102	4,157	—	22,882	5,081	5,698	3,128	2,215	2,286	155
1959 "	44,268	4,045	558	27,958 ¹⁾	6,167	7,142 ²⁾	4,129	2,576 ³⁾	2,783	218
1959 ¹⁾ "	45,039	4,051	565	28,516 ⁴⁾	6,305	7,204 ⁵⁾	4,135	2,616 ⁶⁾	2,793	221
1960 ¹⁾ "	53,114	3,216	1,408	33,724	7,454	8,402	4,827	3,027	3,274	260
1961 "	60,424	158	2,554	38,525	8,551	9,313	5,345	3,365	3,754	281
1962 ²⁾ "	69,705	57	3,972	44,407	9,843	10,896	6,275	3,927	4,204	355
1962 ²⁾ "	69,874	56	3,977	44,407	10,012	10,896	6,275	3,927	4,204	355
1963 "	81,522	36	6,026	51,816	11,925	12,668	7,277	4,589	4,701	412
1964 "	94,212	*)	8,269	59,713	14,160	14,681	8,388	5,386	5,196	462
1965 March	99,016	.	8,788	62,654	14,943	15,466	8,890	5,612	5,475	478
June	102,018	.	9,461	64,240	15,483	16,253	9,333	5,903	5,547	495
September	104,428	.	8,924	65,643	16,007	16,719	9,559	6,099	5,565	494
December	110,678	.	10,396	69,365	17,080	17,992	10,294	6,546	5,709	532
1966 March	114,394	.	10,656	71,555	17,730	18,700	10,729	6,778	5,858	551
June	117,051	.	11,434	72,875	18,203	19,508	11,229	7,045	5,899	566
September	119,997	.	11,289	74,496	18,755	20,299	11,679	7,341	5,880	567
December	127,112	.	12,786	78,813	19,983	21,662	12,426	7,871	6,067	587

¹⁾ From 1960 onwards including Saarland. The rows of figures were linked together by showing for December 1959, firstly, the figures excluding Saarland and, secondly, the figures including Saarland. — ²⁾ Statistical shift of about DM 100 million due to transfer of the savings business of a state bank to a savings bank. — ³⁾ In December 1962 the obligation to render returns was newly defined for the credit cooperatives (Raiffeisen). As from December 1962 those credit cooperatives (Raiffeisen) are required to report whose balance-sheet total on 31 December 1961 was DM 2 million or more. The December figures are shown for both the old and the new range of institutions required to report. — ⁴⁾ From July 1964 no longer recorded as the amounts are merely insignificant.

II. Interim Statements of the Credit Institutions *) ¹⁾

Millions of DM

Assets

End of year or month	Total of balance sheet	Cash reserve						Medium-term notes (Kassenobligationen), securities and syndicate participations	Bonds of own issues	Equalisation claims and covering claims under the Laws on Currency Conversion Compensation and Old Savings *)	Debtors		Long-term lending		Loans on a trust basis		Re-main-ing assets
		Total	among which: balances with Deutsche Bundesbank	Balances with credit institutions and on Postal Cheque account	Bills of exchange	Treasury bills and non-interest Treasury bonds	Bills of exchange				Non-banks	Credit institutions	Non-banks	Credit institutions	Non-banks	Credit institutions	
1949		1,645.8	1,371.1	2,090.0	1,695.3	275.9			5,531.1	7,357.8	745.0	1,776.7		360.7	133.5	1,802.8	
1950	35,515.5	2,171.7	1,862.6	2,410.3	2,676.2	528.8	526.8	52.5	5,991.6	9,722.1	871.6	5,886.1	2,146.3	595.2	133.5	1,802.8	
1951	45,377.1	3,210.4	2,806.6	3,537.8	3,776.9	945.1	714.4	53.9	6,074.0	10,565.5	965.1	9,048.3	2,908.9	1,132.7	158.8	2,285.3	
1952	59,010.7	3,581.0	3,114.9	4,787.4	6,230.9	1,039.3	1,331.9	134.4	6,299.5	12,875.9	1,186.6	12,744.2	3,601.7	1,681.4	646.5	2,870.0	
1953	74,701.0	3,916.4	3,436.6	6,197.8	7,485.6	1,169.8	2,629.7	69.7	6,807.3	15,928.4	1,584.8	17,826.5	4,439.8	2,328.8	1,001.0	3,315.4	
1954	95,760.3	4,682.1	4,137.2	8,599.9	9,948.4	1,103.7	4,769.3	112.7	8,070.3	18,547.1	1,786.1	23,370.6	5,183.4	4,391.4	2,265.5	3,929.8	
1955	113,791.0	5,191.6	4,590.1	8,886.0	9,793.6	1,197.9	6,559.2	174.7	8,150.3	20,495.6	2,010.6	30,909.7	6,103.2	6,392.6	3,357.2	4,568.8	
1956	130,289.7)	6,404.9	5,689.9	9,932.6	11,535.3	1,789.0	6,836.8	267.5	8,314.7	22,505.0	2,020.2	36,668.4	6,614.5	7,854.3)	4,440.4	5,106.1	
1957	154,714.8)	8,551.1	7,739.3	14,592.4	12,985.0	6,156.4	8,227.5	214.3	8,266.9	24,240.4	2,085.7	42,207.6)	7,643.5	8,691.3)	5,073.6	5,779.1	
1958	177,289.1(1)	9,806.0	8,888.1	17,462.3	13,327.4	6,767.0	13,146.2	180.0	8,163.0	25,912.1	2,286.2	50,739.1	8,507.4	9,629.0	5,105.1(1)	6,258.3	
1959 ²⁾	204,052.9(2)	10,830.9	9,875.3	18,575.3	14,845.4	5,694.6	18,106.7	262.9	8,200.9	30,317.0(3)	2,814.5	61,140.6	9,718.7	10,949.3(4)	5,430.7	7,165.4	
1959 ⁴⁾	207,425.4(1)	11,010.7	10,030.9	19,379.8	15,166.4	5,729.7	18,345.1	268.0	8,200.9	30,649.9(5)	2,833.9	62,324.3	9,749.9	11,016.0(6)	5,430.8	7,329.0	
1960	233,071.9(1)	14,630.5	13,562.4	20,390.1	16,018.9	6,004.2	18,704.5	335.4	8,222.5(8)	36,404.6	3,182.3	71,994.7	11,269.0	12,220.8	5,684.2(8)	8,012.3	
1961	271,199.4(1)	13,866.8	12,515.9	26,485.1	17,927.7	6,614.2	22,278.5	324.1	8,100.0	42,649.5(8)	3,552.5	84,852.1	13,583.1	14,374.5(8)	5,954.5	10,636.8(9)	
1962 ⁹⁾	302,040.3(20)	14,864.1	13,267.9	28,532.3	18,577.2	5,772.3	25,610.3	294.7	8,073.2	48,063.7	4,039.6	99,345.6(21)	15,502.5(22)	15,825.7	6,561.9	10,977.2	
1962 ⁹⁾	302,289.4(20)	14,868.7	13,268.0	28,583.7	18,581.9	5,772.3	25,616.7	294.7	8,055.4	48,135.4	4,039.7	99,448.8(21)	15,503.0(22)	15,836.7	6,561.9	10,990.5	
1963	341,682.0	16,555.6	14,821.7	32,674.7	20,000.1	6,774.9	29,677.9	341.9	8,214.7	53,282.1	4,290.2	115,952.4	17,718.9	17,778.5	6,779.8	11,640.3(23)	
1964	380,754.0	17,679.1	15,938.0	34,901.1	21,642.7	4,559.2	34,490.6	443.5	8,460.9	59,459.3	5,213.3(24)	132,910.6(25)	19,663.0(26)	21,667.5(27)	6,909.5	12,753.7	
1965	425,262.5	19,271.3	17,374.3	39,672.9	22,201.7	4,009.7	38,233.5	871.7	8,622.1	68,117.8	5,106.6	151,041.7(28)	22,368.9	24,176.0(29)	7,223.6	14,345.0	
1966 March	426,444.2	16,612.8	14,356.9	38,338.6	18,825.1	3,896.5	38,375.7	1,269.9	8,736.1	71,298.8(30)	4,869.0(31)	153,601.9(32)	21,451.4(30)	25,847.5(31)	9,118.0(32)	14,202.9	
June	437,183.0	17,070.8	14,559.7	39,616.3	19,252.1	3,195.8	38,500.6	1,462.6	8,770.9	75,817.3	5,450.2	156,721.9(32)	21,244.3	26,147.9(31)	9,202.6	14,729.7	
Sep.	447,797.6	17,610.5	15,405.6	43,298.5	19,543.7	3,074.1	38,514.8	1,325.5	8,831.6	77,065.3	5,235.6	160,363.7	21,790.2	26,724.0	9,299.4	15,120.7	
Dec.	465,017.9	21,128.7	18,980.8	45,526.4	22,808.7	4,320.7	39,511.6	1,147.4	8,742.8	77,305.2	5,567.7	163,900.7	22,010.1	27,357.8	9,369.2	16,320.9	
1967 Jan.	463,782.2	17,466.8	15,163.7	47,221.9	21,136.6	5,900.5	40,692.8	1,186.7	8,809.4	76,107.8	5,484.7	165,136.1	22,051.3	27,529.6	9,400.8	15,657.2	
Feb.	471,433.5	16,889.1	14,580.9	51,726.2	21,212.2	6,341.6	41,494.5	1,175.1	8,817.8	76,713.1	5,365.7	166,779.8(34)	22,228.0	27,416.2(30)	9,415.2	15,859.0	

Liabilities

End of year or month	Deposits				Monies taken		Own acceptances in circulation	Bonds in circulation ³⁾	Loans taken up for long periods (4 years and over)		Loans on a trust basis		Capital funds including reserves (Art. 10, Banking Law)	Re-main-ing liabilities	Endorsement liabilities on redis-counted bills ⁴⁾	
	Deposits of non-banks				Non-banks	Credit institutions			Non-banks	Credit institutions	Non-banks	Credit institutions				
	Total	Sight deposits	Time deposits	Savings deposits												Deposits of credit institutions
1949	13,759.1	8,573.9	2,108.8	3,076.4	1,493.1	1,492.3	1,864.7	1,230.1	711.6	554.8	173.9	830.7	2,327.4			
1950	17,981.6(50)	9,657.6	4,213.3	4,110.7	1,915.9	2,917.2	583.1	1,679.1	1,174.7	2,537.7	4,324.2	3,419.1	1,148.4	3,635.8		
1951	22,532.9	11,601.5	5,843.7	5,087.7	2,917.2	5,831.0	1,744.7	2,537.7	4,324.2	3,419.1	1,017.2	2,743.3	1,509.0	5,345.7		
1952	28,084.9	12,446.1	8,057.5	7,581.3	4,871.8	832.0	1,896.6	715.8	3,361.9	6,821.8	4,047.8	1,662.2	2,049.4	5,379.6		
1953	35,336.3	13,521.4	10,268.4	11,546.5	6,532.3	1,094.8	2,170.4	542.9	5,024.8	8,663.9	4,906.6	2,399.4	930.4	4,351.2		
1954	43,333.5	15,991.7	10,117.2	17,224.6	9,067.9	934.7	2,401.4	478.8	8,698.3	10,042.0	5,725.0	4,988.8	1,668.1	3,055.2	4,655.8	
1955	49,297.8	17,769.0	10,155.3	21,373.5	9,695.5	1,074.7	2,741.1	582.3	11,755.4	11,998.1	6,585.9	7,247.0	2,502.8	3,806.1	6,504.3	
1956	55,679.3	19,378.3	12,025.4	24,275.6	11,166.9	1,586.6	3,090.7	453.4	13,498.0	13,803.9	6,872.7	9,133.1(7)	3,161.6	4,572.7	7,270.8	
1957	66,768.8	21,795.3	15,585.2	29,388.3	16,031.2	1,635.9	3,447.0	340.9	15,629.3	15,245.6	7,891.6	9,954.0(10)	3,810.9	5,732.9	6,176.7	
1958	78,054.9	25,305.1	16,647.6	36,102.2	19,245.5	1,433.8	2,999.6	267.0	19,983.6	16,168.1	8,802.0	10,363.0(11)	4,371.1	6,813.6	8,786.9	
1959 ⁸⁾	91,171.7(1)	28,457.4(21)	18,445.9	44,268.4	20,716.4	1,545.8(22)	3,322.2	536.7	25,890.7	16,710.0	9,514.7	11,393.1(14)	4,986.9	8,168.1	10,095.6	2,506.4
1959 ⁸⁾	92,826.6(1)	29,075.6(21)	18,712.4	45,038.6	21,143.4	1,554.6(22)	3,365.5	536.8	25,116.7	17,211.6	9,684.8	11,452.5(14)	4,994.3	8,256.7	10,281.9	2,586.0
1960	104,051.3	31,244.3	19,693.5	53,113.5	22,683.3	2,210.3	4,623.8	635.0	29,627.2	18,606.0	11,200.1	12,321.7(15)	5,583.3	9,652.6	11,877.3	3,218.9
1961	118,344.1(1)	36,489.4(17)	21,430.3(17)	60,424.4	29,150.2	2,313.8(23)	5,695.0	585.6	35,591.9	21,821.5(23)	13,182.4	13,945.7(16)	6,383.3	12,186.5	11,999.4(17)	3,759.5
1962 ⁹⁾	132,880.2	40,037.1	23,137.8	69,705.3	30,316.3	2,494.2	5,875.8	629.1	42,154.0	23,981.0	14,597.0	15,554.0	6,833.6(24)	13,829.4	12,895.7	4,903.6
1962 ⁹⁾	133,080.9	40,064.2	23,142.8	69,873.9	30,316.9	2,494.8	5,886.7	629.4	42,154.0	23,984.7	14,607.9	15,555.4	6,843.2(25)	13,834.0	12,901.5	4,901.1
1963	149,659.4	43,326.2	24,811.0	81,522.2	35,551.0	2,547.9	6,162.7	722.6	50,441.3	26,231.5	16,495.9	16,854.7	7,703.6	15,393.9	13,817.5(24)	4,600.3
1964	166,419.2(26)	46,272.4(26)	25,934.8	94,212.0	37,664.3	2,278.6	7,305.0	1,006.7	60,497.2	26,134.9(26)	18,457.7	20,309.2(26)	8,267.8	17,298.8	15,114.6	5,802.1
1965	187,475.3	50,150.3	26,647.4	110,677.6	41,629.8	2,049.7	8,294.6	1,448.3	69,646.0	26,607.0	20,845.3(28)	22,201.8	9,197.8(29)	19,304.0	16,562.9	8,874.2
1966 March	186,376.1	45,307.2	26,674.5	114,394.4	39,533.6	2,500.7	8,345.8	1,380.7	71,557.2	26,453.9	21,256.8(33)	25,684.8(34)	9,280.7	17,205.8(35)	16,868.1	11,842.3
June	192,426.4	48,161.0	27,214.7	117,050.7	40,657.6	2,656.1	8,671.2	1,166.7	72,233.4	26,617.0	21,223.5	25,941.8(37)	9,408.7	17,859.8	18,320.8(38)	11,809.2
Sep.	196,037.3	46,627.9	29,412.4	119,997.0	43,488.3	2,281.3	8,657.6	1,157.3	73,335.4	26,667.0	21,759.4	26,573.8	9,449.6	18,066.5	20,324.1	11,197.7
Dec.	208,896.4	49,883.4	31,901.0	127,112.0	46,437.8	1,995.5	9,772.9	1,474.7	74,521.1	26,811.0	21,853.1	27,312.1	9,414.9	18,272.7	18,255.7	9,418.5
1967 Jan.	208,636.4	46,107.6	33,396.5	129,132.3	45,900.0	1,881.0	8,532.7	1,267.9	75,241.2	26,216.6	21,941.2	27,467.5	9,462.9	18,495.0	18,739.8	9,599.0
Feb.	211,839.7	47,256.2	34,041.8	130,541.7	49,856.9	1,800.7	8,486.5	1,112.9	75,894.0	26,471.9(39)	22,107.3	27,404.1(40)	9,427.3	18,656.7	18,375.5	9,165.7

*) Figures printed in italics are only of limited comparability. — ¹⁾ Cf. "Statistisches Handbuch der Bank deutscher Länder 1948—1954", observations on methods employed in Part III. — ²⁾ From January 1962 including covering claims under Art. 252 par. 4 of the Equalisation of Burdens Law. — ³⁾ From 1958 including bonds sold in advance. — ⁴⁾ Including own drawings in circulation. — ⁵⁾ First 1959 line, figures excluding Saarland, second 1959 line and following, including Saarland. — ⁶⁾ In December 1962 the obligation to render returns was newly defined for the credit cooperatives (Raiffeisen). As from December 1962 those credit cooperatives (Raiffeisen) are required to report whose balance-sheet total on 31 December 1961 was DM 2 million or more. The December figures are shown for both the old and the new range of institutions required to report. — ⁷⁾ Statistical decrease of about DM 560 million. — ⁸⁾ Statistical decrease of about DM 412 million. — ⁹⁾ Statistical increase of about DM 220 million. — ¹⁰⁾ Statistical decreases: assets about DM 474 million, liabilities about DM 682 million. — ¹¹⁾ Statistical decrease of about DM 600 million. — ¹²⁾ Statistical increase of about DM 570 million. — ¹³⁾ Statistical increase of about DM 467 million. — ¹⁴⁾ Statistical increase of about DM 190 million. — ¹⁵⁾ Statistical decrease of about DM 161 million. — ¹⁶⁾ Increase of about DM 150 million (order-financing programme on behalf of Berlin). — ¹⁷⁾ Statistical changes due to revised reporting for dependent building and loan departments: decline in "Total of balance sheet" DM 286 million; increase in Sight deposits DM 231 million, in Time deposits DM 423 million; decline in "Remaining liabilities" DM 920 million. — ¹⁸⁾ Some DM 400 million was regrouped from "Debtors" and "Monies taken" to "Loans on a trust basis". — ¹⁹⁾ Statistical decrease of about DM 23

III. Central Bank Lending to Non-Banks and Central Bank Deposits of Non-Banks

(1) Central Bank Lending to Non-Banks *)

Millions of DM

End of month	Total lending to non-banks including Treasury bills and securities		Public authorities											Business enterprises and individuals			
			Total in-cluding Treasury bills and securities		Federal Government and Federal Special Funds ¹⁾					Länder					Other public authorities	"Direct lending" ²⁾	Credits granted to insurance companies and building and loan associations ³⁾
					Total	Treasury bills and non-interest Treasury bonds	Cash advances	Credit to Fed. Govt. for participation in international institutions	Securities	Total	Treasury bills and non-interest Treasury bonds	Cash advances	Advances on securities				
1949 Dec.	802.1	568.4	756.1	522.4	504.2	101.1	403.1	—	—	250.6	132.6	97.2	20.8	1.3	27.7	18.3	
1950 "	1,622.8	926.4	1,503.7	807.3	1,213.8	241.3	637.5	—	335.0	288.7	120.1	161.1	7.5	1.2	53.8	65.3	
1951 "	1,166.5	299.1	1,036.6	169.2	839.4	553.3	—	—	286.1	196.0	28.0	168.0	—	1.2	69.3	60.6	
1952 "	750.0	380.4	603.4	233.8	538.2	355.2	—	183.0	—	64.8	14.4	50.4	—	0.4	85.6	61.0	
1953 "	622.5	369.1	478.4	225.0	430.4	203.1	—	183.0	44.3	47.6	6.0	41.6	—	0.4	108.4	35.7	
1954 "	734.3	601.9	605.4	473.0	522.7	100.4	—	390.7	31.6	61.2	0.4	60.8	—	21.5	109.9	19.0	
1955 "	1,011.2	749.8	891.0	629.6	652.1	247.3	—	390.7	14.1	205.8	—	180.4	25.4	33.1	103.5	16.7	
1956 "	813.0	639.3	715.0	541.3	564.5	119.9	—	390.8	53.8	101.8	—	101.8	—	48.7	88.7	9.3	
1957 "	808.6	480.4	802.8	474.6	719.0	153.7	—	390.8	174.5	83.8	—	83.8	—	—	2.2	3.6	
1958 "	1,094.4	748.7	1,094.0	748.3	1,024.9	100.0	17.5	661.7	245.7	69.1	—	69.1	—	—	—	0.4	
1959 *)	1,747.8	1,455.5	1,747.8	1,455.5	1,747.8	80.0	244.8	1,210.7	212.3	—	—	—	—	—	—	0.0	
1960 "	1,804.4	1,465.2	1,804.4	1,465.2	1,804.4	136.3	78.0	1,387.2	202.9	—	—	—	—	—	—	—	
1961 "	3,017.3	2,798.8	3,017.3	2,798.8	3,014.3	—	160.1	2,635.7	218.5	3.0	—	3.0	—	—	—	—	
1962 "	3,012.2	2,894.8	3,012.2	2,894.8	3,012.2	—	739.1	2,155.7	117.4	—	—	—	—	—	—	—	
1963 "	4,235.2	4,043.5	4,235.2	4,043.5	4,218.6	125.1	1,732.7	2,294.2	66.6	16.6	—	16.6	—	—	—	—	
1964 "	4,566.4	4,228.0	4,566.4	4,228.0	4,472.4	307.0	1,118.0	3,016.0	31.4	94.0	—	94.0	—	—	—	—	
1965 "	4,785.5	4,408.5	4,785.5	4,408.5	4,452.4	345.4	1,074.5	3,000.9	31.6	333.1	—	333.1	—	—	—	—	
1966 March	3,679.4	3,120.6	3,679.4	3,120.6	3,655.8	529.3	2.1	3,094.9	29.5	23.6	—	23.6	—	—	—	—	
June	4,089.4	3,800.3	4,089.4	3,800.3	4,070.2	194.8	198.2	3,582.9	94.3	19.2	—	19.2	—	—	—	—	
Sep.	4,010.7	3,770.2	4,010.7	3,770.2	3,903.1	213.0	77.6	3,585.0	27.5	107.6	—	107.6	—	—	—	—	
Dec.	5,639.5	4,904.7	5,639.5	4,904.7	5,197.4	711.4	721.6	3,741.0	23.4	442.1	—	442.1	—	—	—	—	
1967 Jan.	4,446.8	3,935.5	4,446.8	3,935.5	4,319.7	491.8	17.0	3,791.4	19.5	127.1	—	127.1	—	—	—	—	
Feb.	4,664.5	4,244.4	4,664.5	4,244.4	4,573.5	401.0	394.9	3,758.5	19.1	91.0	—	91.0	—	—	—	—	

*) From July 1959 onwards including Land Central Bank in the Saarland.

¹⁾ Including Federal Railways, Federal Postal Administration and Federal Equalisation of Burdens Office. — ²⁾ Discount credits and advances on securities granted by Land Central Bank branches in the former French zone of occupation. — ³⁾ Through temporary purchase of, or lending on, equalisation claims.

(2) Central Bank Deposits of Non-Banks *)

Millions of DM

End of month	Deposits of non banks total		Public authorities ¹⁾			Agencies of former occupying powers ⁶⁾	Other German depositors ⁷⁾
	including amounts temporarily employed in equalisation claims ²⁾	excluding	Federal Government (without Special Funds ³⁾ , Länder and Equalisation of Burdens Authorities	E.R.P. Special Fund ⁴⁾	Other public authorities ⁵⁾		
1949 Dec.	1,641.3	1,236.5	634.6	—	323.5	470.0	213.2
1950 "	3,693.3	3,446.0	594.3	965.0	396.7	907.6	829.7
1951 "	3,997.3	2,990.0	1,191.8	1,312.8	223.0	997.3	272.4
1952 "	3,957.8	2,194.1	1,906.1	825.9	207.2	753.4	265.2
1953 "	4,935.3	1,704.2	3,181.4	496.7	373.2	639.3	244.7
1954 "	6,266.5	1,529.9	4,684.7	352.8	400.6	523.4	305.0
1955 "	7,003.5	3,420.7	5,949.7	272.2	274.3	265.5	241.8
1956 "	7,682.3	4,459.3	6,711.8	192.5	339.8	143.8	294.4
1957 "	5,097.3	—	4,017.1	167.8	431.4	140.6	340.4
1958 "	4,968.2	—	3,614.0	361.2	610.3	46.8	335.9
1959 *)	2,260.8	—	1,161.3	200.4	677.3	—	221.8
1960 "	3,659.2	—	2,684.9	119.8	636.3	—	218.2
1961 "	4,985.8	—	3,781.6	352.3	599.5	—	252.4
1962 "	4,563.2	—	3,604.8	166.3	513.4	—	278.7
1963 "	4,399.9	—	3,022.1	159.6	945.4	—	272.8
1964 March	6,090.2	—	4,214.2	516.5	1,067.0	—	292.5
June	5,541.6	—	3,872.8	444.8	911.7	—	312.3
Sep.	6,616.6	—	4,586.4	553.0	1,182.9	—	294.3
Dec.	3,467.2	—	2,188.6	134.4	891.6	—	252.6
1965 March	4,304.1	—	2,695.5	256.5	944.4	—	407.7
June	3,869.0	—	2,321.9	131.0	1,139.2	—	276.9
Sep.	4,562.6	—	2,577.2	430.0	1,303.7	—	251.7
Dec.	2,429.9	—	1,155.1	63.4	946.3	—	265.1
1966 Jan.	2,872.8	—	1,370.5	319.7	939.8	—	242.8
Feb.	3,255.6	—	1,236.6	259.0	1,529.4	—	230.6
March	4,818.0	—	2,873.4	184.5	1,502.8	—	257.3
April	2,510.7	—	1,641.2	129.3	489.5	—	250.7
May	3,097.1	—	1,317.9	81.8	1,437.8	—	259.6
June	3,861.0	—	2,109.7	162.7	1,286.7	—	301.9
July	3,042.1	—	1,154.2	205.0	1,424.6	—	258.3
Aug.	2,680.5	—	873.9	214.9	1,351.1	—	240.6
Sep.	2,758.2	—	1,202.4	238.7	1,067.7	—	249.4
Oct.	2,311.7	—	701.3	309.7	1,050.3	—	250.4
Nov.	1,934.8	—	589.5	198.2	857.1	—	290.0
Dec.	2,398.8	—	544.0	143.2	1,422.3	—	289.3
1967 Jan.	2,739.8	—	1,045.4	566.4	895.2	—	232.8
Feb.	3,075.1	—	1,141.9	530.4	1,157.1	—	245.7

*) From July 1959 including deposits maintained with Land Central Bank in the Saarland.

¹⁾ Including amounts temporarily employed in equalisation claims. — ²⁾ Since the entry into force, on 1 August 1957, of the Law concerning the Deutsche Bundesbank it has no longer been possible for public monies to be employed in equalisation claims. — ³⁾ Including accounts kept in connection with the development aid loan (January 1961 to June 1964) and the partial denationalisation of the Volkswagen Works (April 1961 to November 1962), excluding however the amounts employed in money-market paper. — ⁴⁾ Until 31 July 1957 "counterpart funds" only. — ⁵⁾ From May 1958 onwards including the minimum reserve balances kept by the Federal Postal Administration on behalf of the Postal Cheque and Postal Savings Bank offices. — ⁶⁾ From January 1959 included in "foreign business". — ⁷⁾ Other foreign depositors, until December 1958 contained in this item, are now included in "foreign business".

IV. Credit Institutions' Recourse to Bundesbank, Central Bank Deposits and Free Liquid Assets

(1) Central Bank Lending to Credit Institutions and Central Bank Deposits of Credit Institutions *)

Millions of DM

End of month	Lending ¹⁾				De- posits ^{2) 3)}
	Total	Discount credits	Advances on securities	Equalisa- tion claims purchased	
1949 Dec.	3,807.2	3,226.2	338.2	242.8	1,277.1
1950 "	5,201.9	4,235.4	360.6	605.9	1,887.7
1951 "	5,717.5	4,757.2	290.8	669.5	2,675.0
1952 "	4,128.4	3,389.0	253.5	485.9	2,992.6
1953 "	3,351.1	2,739.1	245.2	366.8	3,286.9
1954 "	3,339.0	2,837.7	265.1	236.2	4,005.9
1955 "	4,683.0	4,130.9	340.5	211.6	4,502.2
1956 "	3,127.1	2,723.7	220.7	182.7	5,258.5
1957 "	1,676.6	1,463.0	52.8	160.8	7,108.9
1958 "	960.3	769.6	63.9	126.8	8,243.1
1959 "	1,285.7	949.2	234.4	102.1	9,343.8
1960 "	1,804.1	1,296.5	419.0	88.6	13,036.4
1961 "	1,663.8	1,395.4	219.7	48.7	11,614.6
1962 "	2,473.3	2,267.6	157.7	48.0	12,232.1
1963 "	2,097.9	1,890.2	207.7	—	13,606.5
1964 "	3,449.9	2,804.2	645.7	—	15,143.3
1965 March	4,567.6	4,531.5	36.1	—	12,739.0
June	5,218.6	4,973.6	245.0	—	13,444.4
Sep.	6,430.8	6,270.0	160.8	—	13,464.0
Dec.	5,487.9	4,791.5	696.4	—	16,241.3
1966 March	7,920.2	7,425.3	494.9	—	13,656.4
June	7,812.3	7,464.5	347.8	—	14,065.4
Sep.	7,054.5	6,982.9	71.6	—	14,468.6
Dec.	6,280.4	5,342.4	938.0	—	17,385.7
1967 Jan.	5,728.5	5,638.7	89.8	—	15,125.5
Feb.	5,455.5	5,303.7	151.8	—	14,947.5

*) From July 1959 including Saarland credit institutions.
¹⁾ Excluding cash advances to the Reconstruction Loan Corporation; including foreign bills and export drafts purchased, but excluding money-market paper purchased in the open market. — ²⁾ Including Central Bank deposits of Postal Cheque and Postal Savings Bank offices. — ³⁾ From May 1958 without the minimum reserve balances kept by the Federal Postal Administration on behalf of Postal Cheque and Postal Savings Bank offices.

(2) Credit Institutions' Holdings of Domestic Money Market Paper and Short-Term External Assets *)

Millions of DM

End of month	Total	of which:			
		Money-market paper ¹⁾		Short-term balances and money-market investments abroad ²⁾	
		Total	among which: Mobilisa- tion paper ³⁾	Total	among which: Money- market paper ³⁾
1958 Dec.	7,549.0	6,508.8	4,300.2	1,040.2	481.2
1959 "	7,878.8	5,336.4	2,940.0	2,542.4	1,245.5
1960 "	6,230.2	4,915.1	3,130.8	1,315.1	379.3
1961 "	7,689.7	5,555.0	4,233.8	2,134.7	578.3
1962 "	7,129.1	4,973.6	3,372.2	2,155.5	353.2
1963 March	8,329.5	5,217.6	3,924.4	3,111.9	303.1
June	8,491.0	5,020.3	3,313.1	3,470.7	284.2
Sep.	8,538.9	4,925.7	3,280.1	3,613.2	317.4
Dec.	8,387.6	5,839.2	4,159.9	2,548.4	577.4
1964 March	9,959.3	6,345.5	4,251.7	3,613.8	755.8
June	9,720.6	6,254.0	4,003.7	3,466.6	1,104.8
Sep.	8,205.5	4,573.8	2,493.8	3,631.7	984.7
Dec.	7,278.0	3,990.7	2,051.9	3,287.3	1,100.9
1965 March	8,632.0	4,635.4	2,432.5	3,996.6	1,803.0
June	7,616.4	3,735.5	1,549.5	3,880.9	1,353.6
Sep.	7,076.1	3,644.1	1,436.1	3,432.0	736.0
Dec.	6,847.4	3,213.6	677.8	3,633.8	886.2
1966 March	6,801.8	3,077.3	902.3	3,724.5	507.4
June	6,492.0	2,625.0	738.5	3,867.0	453.4
Sep.	6,774.2	2,331.2	209.6	4,443.0	537.0
Dec.	7,444.9	3,927.8	707.8	3,517.1	285.4

*) From 1959 including Saarland credit institutions. — ¹⁾ Treasury bills and non-interest Treasury bonds (in so far only as included in the Bundesbank's money-market regulation), Storage Agency bills and prime bankers' acceptances. — ²⁾ The holdings of special mobilisation paper series "L" ("Blessing Milliarde") were included at the time when the prohibition on sale was lifted (August 1961). — ³⁾ Excluding money-market investments of Reconstruction Loan Corporation from proceeds of the development aid loan.

(3) Borrowing by Banking Groups from Deutsche Bundesbank

Millions of DM

Banking group	1965				1966			
	31 March	30 June	30 Sep.	31 Dec.	31 March	30 June	30 Sep.	31 Dec.
Commercial banks	3,487	3,903	4,524	3,658	5,004	4,606	3,797	3,429
of which:								
Big banks ¹⁾	(1,341)	(1,414)	(1,912)	(1,018)	(2,014)	(1,270)	(896)	(594)
State, regional and local banks	(1,264)	(1,362)	(1,517)	(1,490)	(1,604)	(1,877)	(1,511)	(1,489)
Private bankers	(695)	(890)	(859)	(879)	(1,099)	(1,119)	(1,092)	(1,018)
Specialised commercial banks	(187)	(237)	(236)	(271)	(287)	(340)	(298)	(328)
Savings bank sector	541	691	1,023	861	1,526	1,882	1,850	1,442
of which:								
Saving banks	(106)	(138)	(257)	(331)	(560)	(792)	(903)	(761)
Central giro institutions	(435)	(553)	(766)	(530)	(966)	(1,090)	(947)	(681)
Credit cooperative sector	174	279	277	232	501	542	608	377
of which:								
(Schulze-Delitzsch)	(92)	(155)	(160)	(120)	(274)	(332)	(348)	(200)
(Raiffeisen)	(82)	(124)	(117)	(112)	(227)	(210)	(260)	(177)
All other credit institutions	655	942	1,155	1,548	1,541	1,399	1,224	1,377
among which:								
Credit institutions with special functions	(648)	(932)	(1,141)	(1,542)	(1,532)	(1,387)	(1,213)	(1,366)
All banking groups ²⁾	4,857	5,815	6,979	6,299	8,572	8,429	7,479	6,625

¹⁾ Deutsche Bank AG, Dresdner Bank AG, Commerzbank AG, and their Berlin subsidiaries. — ²⁾ Deviations of these figures, which are reported for the monthly banking statistics, from the corresponding data resulting from the Central Bank statistics as shown in Table IV (1) are partly due to the time-lag between the booking of Central Bank credits at the credit institutions and at the Central Bank, and partly to the fact that the Storage Agency bills and prime bankers' acceptances purchased by the Central Bank under its open-market policy are not comprised in the latter data.

V. Interest Rates

(1) Rates of Deutsche Bundesbank Applying to the Sale of Money Market Paper in the Open Market

% per annum

Applicable from	Treasury bills of Federal Government and Federal Railways		Non-interest Treasury bonds of Federal Government, Federal Railways and Federal Postal Administration				Storage Agency bills	
	running for		running for				running for	
	30 to 59 days	60 to 90 days	6 months	12 months	18 months	24 months	30 to 59 days	60 to 90 days
1961 Jan. 20	3 1/8	3 1/4	3 1/2	3 5/8	3 3/4	3 7/8	3 1/4	3 3/8
Feb. 9	3	3 1/8	3 3/8	3 1/2	3 5/8	3 3/4	3 1/8	3 1/4
Feb. 14	2 7/8	3	3 1/4	3 3/8	3 1/2	3 5/8	3	3 1/8
Mar. 3	2 3/4	2 7/8	3 1/4	3 1/4	3 3/8	3 1/2	2 7/8	3
Mar. 8	2 5/8	2 3/4	3	3 1/8	3 1/4	3 3/8	2 3/4	2 7/8
Mar. 17	2 1/2	2 5/8	2 7/8	3	3 1/8	3 1/4	2 5/8	2 3/4
Mar. 23	2 3/8	2 1/2	2 3/4	2 7/8	3	3 1/8	2 1/2	2 5/8
Apr. 26	2 1/4	2 3/8	2 5/8	2 3/4	2 7/8	3	2 3/8	2 1/2
May 5	2 1/8	2 1/4	2 1/8	2 5/8	2 3/4	2 7/8	2 1/4	2 3/8
Oct. 4	2	2 1/8	2 3/8	2 1/2	2 5/8	2 3/4	2 1/8	2 1/4
Oct. 20	1 7/8	2	2 3/8	2 1/2	2 5/8	2 3/4	2	2 1/8
1962 Jan. 4	1 3/4	1 7/8	2 1/4	2 3/8	2 5/8	2 3/4	1 7/8	2
Mar. 30	1 7/8	2	2 3/8	2 1/2	2 3/4	2 7/8	2	2 1/8
Apr. 13	2	2 1/8	2 1/2	2 5/8	2 7/8	3	2 1/8	2 1/4
June 6	2 1/8	2 1/4	2 3/8	2 3/4	3	3 1/8	2 1/4	2 3/8
July 16	2 1/4	2 3/8	2 3/4	2 7/8	3 1/8	3 1/4	2 3/8	2 1/2
Aug. 1	2 3/8	2 1/2	2 7/8	3	3 1/4	3 3/8	2 1/8	2 5/8
Oct. 3	2 1/2	2 5/8	3	3 1/8	3 3/8	3 1/2	2 5/8	2 3/4
1963 Nov. 25	2 1/2	2 5/8	3	3 1/8	3 1/4	3 3/8	2 5/8	2 3/4
1965 Jan. 22	3	3 1/8	3 5/8	3 3/4	4	4 1/8	3 1/8	3 1/4
Aug. 13	3 3/4	3 7/8	4 3/8	4 1/2	4 5/8	4 3/4	3 7/8	4
1966 Jan. 7	3 7/8	4	4 7/8	5	5 1/8	5 1/4	4	4 1/8
Feb. 23	3 7/8	4	5	5 1/8	5 1/4	5 3/8	4	4 1/8
Mar. 4	3 7/8	4	5 1/8	5 1/4	5 3/8	5 1/2	4	4 1/8
May 27	4 7/8	5	5 3/8	5 3/4	5 7/8	6	5	5 1/8
Dec. 30	4 5/8	4 3/4	5 3/8	5 1/2	5 5/8	5 3/4	4 3/4	4 7/8
1967 Jan. 6	4 3/8	4 1/2	5 1/8	5 1/4	5 3/8	5 1/2	4 1/2	4 5/8
Jan. 17	4 1/4	4 3/8	5	5 1/8	5 1/4	5 3/8	4 3/8	4 1/2
Jan. 20	4	4 1/8	4 3/4	4 7/8	5	5 1/8	4 1/8	4 1/4
Feb. 17	3 5/8	3 3/4	4 3/8	4 1/2	4 5/8	4 3/4	3 3/4	3 7/8
Apr. 14	3 1/4	3 3/8	3 7/8	4 1/8	4 3/8	4 1/8	3 3/8	3 1/2

(2) Swap Rates¹⁾ of Deutsche Bundesbank for Forward Transactions²⁾

Applicable from ³⁾	Minimum and maximum periods (months)	Discount(-) premium(+) ⁴⁾ in % p. a.
1961 Jan. 20	1/2 to 6	+ 1
Feb. 3	1/2 to 6	+ 1/2
Feb. 9	1/2 to 6	+ 1/4
Feb. 13	1/2 to 6	par
Aug. 14	1 to 6	- 1/4
Dec. 15	1 to 6	par
1962 Jan. 2	1 to 6	- 1/4
Jan. 8	1 to 6	- 3/8
Jan. 10	1 to 6	- 1/2
Feb. 14	2 to 6	- 1/2
March 8	1 to 6	- 1/2
March 30	1 to 2	- 1/2
	over 2 to 6	- 1/4
July 16	over 1 to 2	- 3/4
	over 2 to 6	- 1/2
Aug. 1	over 1 to 2	- 1
	over 2 to 6	- 3/4
Sep. 24	over 1 to 2	- 3/4
	over 2 to 6	- 1/2
1963 Jan. 7	over 1 to 2	- 1
	over 2 to 6	- 3/4
1964 March 10	3 to 6	- 1/2
July 13	3 to 6	- 1/4

¹⁾ Information regarding swap commitments will be found in Table VII 3. — ²⁾ Transactions in U.S. dollars with credit institutions for forward exchange covering of their money investments abroad. The fixing of swap rates does not necessarily mean that the Bundesbank currently concludes swaps at these rates; in fact the Bank may discontinue such operations for a time. As from 10 March 1964 swap transactions are concluded only for the acquisition of U.S.\$ Treasury bills. — ³⁾ Figures for the period from 1958 to 1960 will be found in the Report for the Year 1962. — ⁴⁾ Discount or premium by which the repurchase rate deviates from the selling rate (mean spot rate); par = repurchase rate equal to selling rate.

(3) Money Market Rates¹⁾ in Frankfurt am Main by Months

% per annum

Month	Day-to-day money ²⁾	One-month loans ³⁾	Three-month loans ⁴⁾	Note: Central Bank discount rate
1965 Jan.	1 1/2 — 3 3/8	3 1/8 — 3 1/2	3 3/4 — 4 1/8	3 1/2 ⁵⁾
Feb.	2 7/8 — 4 1/4	3 1/4 — 3 7/8	3 3/4 — 4 1/8	3 1/2
March	3 3/4 — 4 3/8	3 7/8 — 4 1/4	4 — 4 5/8	3 1/2
April	4 — 4 3/8	4 1/8 — 4 3/8	4 3/8 — 4 5/8	3 1/2
May	2 1/2 — 4 3/8	4 1/4 — 4 1/2	4 1/2 — 4 3/4	3 1/2
June	4 1/8 — 4 3/4	4 1/2 — 4 3/4	4 3/4 — 5	3 1/2
July	3 1/2 — 4 5/8	4 1/2 — 4 7/8	4 7/8 — 5 1/4	3 1/2
Aug.	2 1/2 — 4 3/8	4 1/2 — 4 7/8	5 1/8 — 5 1/2	4
Sep.	4 3/8 — 5 1/8	5 — 5 1/4	5 1/8 — 5 1/2	4
Oct.	3 1/2 — 5 1/8	5 1/8 — 5 3/8	6 3/8 — 6 3/4	4
Nov.	3 1/2 — 4 7/8	4 1/2 — 5 1/4	6 1/2 — 6 3/4	4
Dec.	3 — 5 ⁶⁾	6 3/8 — 7	6 1/2 — 6 3/4	4
1966 Jan.	3 3/4 — 4 3/4	4 1/2	5 1/8 — 5 3/8	4
Feb.	3 3/4 — 5 1/4	4 1/2 — 5	5 1/4 — 5 3/4	4
March	5 — 5 3/8	5 1/4 — 5 5/8	5 3/8 — 6	4
April	4 7/8 — 5 1/2	5 3/4 — 6	6 — 6 1/2	4
May	4 5/8 — 5 1/2	5 3/8 — 6 1/8	6 1/4 — 6 5/8	5 ⁷⁾
June	5 7/8 — 6 3/4	6 1/4 — 6 3/4	6 1/2 — 7	5
July	5 — 6 1/2	6 1/2 — 6 3/4	6 3/4 — 7	5
Aug.	4 3/4 — 6 1/2	5 3/4 — 6 3/4	6 3/4 — 7 1/4	5
Sep.	5 1/8 — 5 7/8	6 — 6 1/4	6 3/8 — 6 7/8	5
Oct.	5 1/2 — 6 1/8	6 — 6 3/8	7 1/2 — 8	5
Nov.	4 3/4 — 5 3/4	5 1/2 — 6	7 1/2 — 8	5
Dec.	5 3/8 — 6 1/2 ⁷⁾	7 3/4 — 8	7 1/2 — 7 5/8	5
1967 Jan.	4 1/2 — 5 3/4	5 — 5 3/4	5 3/8 — 6	4 1/2 ⁸⁾
Feb.	4 5/8 — 5 5/8	4 7/8 — 5 1/2	5 1/4 — 5 7/8	4 ⁹⁾
March	3 — 5	4 3/8 — 5 1/8	5 — 5 1/4	4

¹⁾ Money-market rates are not fixed or quoted officially. The rates here published have been ascertained from Frankfurt banks. — ²⁾ Lowest and highest rate quoted during month. — ³⁾ From 22 January 1965: 3 1/2%. — ⁴⁾ From 13 August 1965: 4%. — ⁵⁾ Money at the end of the month 6 1/8% to 6 3/4%. — ⁶⁾ From 27 May 1966: 5%. — ⁷⁾ Money at the end of the month 7 1/4% to 8%. — ⁸⁾ From 6 January 1967: 4 1/2%. — ⁹⁾ From 17 February 1967: 4%.

(4) Rates for Day-to-Day Money¹⁾ in Frankfurt am Main by Bank Return Weeks (% per annum)

Week	Lowest rate	Highest rate
1966 Sep. 1 — 7	5 5/8	5 7/8
8 — 15	5 1/2	5 5/8
16 — 23	5 1/8	5 3/8
24 — 30	5 1/2	5 3/4
Oct. 1 — 7	5 3/4	6 1/8
8 — 15	5 5/8	5 3/4
16 — 23	5 5/8	5 3/4
24 — 31	5 1/2	5 3/4
Nov. 1 — 7	5 1/2	5 3/4
8 — 15	4 7/8	5 1/2
16 — 23	4 3/4	5
24 — 30	4 3/4	5 1/8
Dec. 1 — 7	5 3/8	5 7/8
8 — 15	5 3/8	5 5/8
16 — 23	5 3/8	6 1/4
24 — 30	5 1/2	6 1/4
End of December	7 3/4	8
1967 Jan. 1 — 7	4 5/8	5 3/4
8 — 15	4 3/4 *	4 3/4
16 — 23	4 1/2	4 5/8
24 — 31	4 1/4	5 1/2
Feb. 1 — 7	5 1/4	5 3/8
8 — 15	5	5 1/4
16 — 23	4 3/8	5 1/4
24 — 28	4 7/8	5
March 1 — 7	4 3/4	4 3/4
8 — 15	3 1/4	4 1/4 *
16 — 23	3	5
24 — 31	4 1/2	5

¹⁾ Rates for day-to-day money are not fixed or quoted officially. The rates here published have been ascertained from Frankfurt banks. — *) Asked.

(5) Debtor and Creditor Interest Rates since the Currency Reform

(a) Maximum Debtor Interest Rates *) +) % per annum

Applicable from	Central Bank discount rate	Central Bank rate for advances on securities	Charges for money loans		Charges for own acceptances purchased	Charges for discount credits				
			under credit agreement	Overdrafts		DM 20,000 or above	DM 5,000 to less than DM 20,000	DM 1,000 to less than DM 5,000	less than DM 1,000	
1948 July 1	5	6								
Sep. 1	5	6	9	10 1/2	8	6 1/2	7	7 1/2	8	8
Dec. 15	5	6	9 1/4	11	8 1/2 — 9 1/2	7	7 1/2	8	8 1/2	8 1/2
1949 May 27	4 1/2	5 1/2	9	10 1/2	8 — 9	6 1/2	7	7 1/2	8	8
July 14	4	5	8 1/2	10	7 1/2 — 8 1/2 (1)	6	6 1/2	7	7 1/2 (2)	7 1/2 (2)
1950 Oct. 27	6	7	10 1/2	12	9 1/2	8	8 1/2	9	9	9
1952 May 29	5	6	9 1/2	11	8 1/2	7	7 1/2	8	8	8
Aug. 21	4 1/2	5 1/2	9	10 1/2	8	6 1/2	7	7 1/2	7 1/2	7 1/2
1953 Jan. 8	4	5	8 1/2	10	7 1/2	6	6 1/2	7	7	7
June 11	3 1/2	4 1/2	8	9 1/2	7	5 1/2	6	6 1/2	6 1/2	6 1/2
1954 May 20	3	4	8	9 1/2	6 1/2	5	5 1/2	6	6	6
July 1	3	4	7 3/4	9 1/4	6 1/2	5	5 1/2	6	6	6
1955 Aug. 4	3 1/2	4 1/2	8	9 1/2	7	5 1/2	6	6 1/2	6 1/2	6 1/2
1956 March 8	4 1/2	5 1/2	9	10 1/2	8	6 1/2	7	7 1/2	7 1/2	7 1/2
May 19	5 1/2	6 1/2	10	11 1/2	9	7 1/2	8	8 1/2	8 1/2	8 1/2
Sep. 6	5	6	9 1/2	11	8 1/2	7	7 1/2	8	8	8
1957 Jan. 11	4 1/2	5 1/2	9	10 1/2	8	6 1/2	7	7 1/2	7 1/2	7 1/2
Sep. 19	4	5	8 1/2	10	7 1/2	6	6 1/2	7	7	7
1958 Jan. 17	3 1/2	4 1/2	8	9 1/2	7	5 1/2	6	6 1/2	6 1/2	6 1/2
June 27	3	4	7 3/4	9 1/4	6 1/2	5	5 1/2	6	6	6
July 21	3	4	7 1/2	9	5	5	5 1/2	6	6	6
1959 Jan. 10	2 3/4	3 3/4	7 1/4	8 3/4	6 1/4	4 3/4	5 1/4	5 3/4	5 3/4	5 3/4
Sep. 4	3	4	7 1/2	9	6 1/2	5	5 1/2	6	6	6
Oct. 23	4	5	8 1/2	10	7 1/2	6	6 1/2	7	7	7
1960 June 3	5	6	9 1/2	11	8 1/2	7	7 1/2	8	8	8
Nov. 11	4	5	8 1/2	10	7 1/2	6	6 1/2	7	7	7
1961 Jan. 20	3 1/2	4 1/2	8	9 1/2	7	5 1/2	6	6 1/2	6 1/2	6 1/2
May 5	3	4	7 1/2	9	6 1/2	5	5 1/2	6	6	6
1965 Jan. 22	3 1/2	4 1/2	8	9 1/2	7	5 1/2	6	6 1/2	6 1/2	6 1/2
1965 March 1 (3)	3 1/2	4 1/2	8	9 1/2	7	6 1/2			8	8
Aug. 13	4	5	8 1/4	10	7 1/2	7			8 1/2	8 1/2
1966 May 27	5	6 1/4	9 1/2	11	8 1/2	8			9 1/2	9 1/2
1967 Jan. 6	4 1/2	5 1/2	9	10 1/2	8	7 1/2			9	9
Feb. 17	4	5	8 1/2	10	7 1/2	7			8 1/2	8 1/2
April 14	3 1/2	4 1/2								

bills eligible for rediscount at the Bundesbank

other bills

*) Up to 28 February 1965 compiled on the basis of announcements of the Hessian Bank Supervisory Authority; in most of the other Federal *Länder* equal rates applied. The rates apply only to credits fully taken. Turnover commission or charges per item processed are disregarded. — +) The "Interest Rates Order" (see footnote *) having been repealed by order of the Federal Banking Supervisory Office, as from 1 April 1967 debtor interest is no longer subject to fixed maximum rates. — 1) From 1 Sep. 1949 to 26 Oct. 1950 = 7 1/2 %. — 2) From 1 Sep. 1949 to 26 Oct. 1950 = 7 %. — 3) From 1 March 1965 the rates laid down in the Interest Rates Order of the Federal Banking Supervisory Office apply; the charges for discount credits are no longer differentiated according to the amount of the bills.

(b) Maximum Creditor Interest Rates *) +) % per annum

Applicable from	Sight deposits		Monies at notice ¹⁾ of				Monies placed for fixed periods ¹⁾ of				Savings deposits		
	on accounts free of commission	on accounts subject to commission	1 month to less than 3 months	3 months to less than 6 months	6 months to less than 12 months	12 months to less than 4 years	30 to 89 days	90 to 179 days	180 to 359 days	360 days to less than 4 years	with legal period of notice ²⁾	with agreed period of notice ²⁾ of	
												6 months to less than 12 months	12 months to less than 4 years
1948 Sep. 1	1	2	2 3/4	2 3/4	3	3 3/4	2 1/4	2 3/4	3	3 3/4	2 1/2	3	4
1949 Sep. 1	1	1 1/2	2 1/4	2 1/2	2 3/4	3 3/4	2 1/4	2 1/2	2 3/4	3 1/2	2 1/2	3	4
1950 July 1	1	1 1/2	2 1/4	2 1/2	2 3/4	3 3/4	2 1/4	2 1/2	2 3/4	3 1/2	2 1/2	3	4
Dec. 1	1	1 1/2	3 1/2	3 3/8	4 1/8	4 3/8	3 1/2	3 3/8	4 1/4	4 3/8	3	3 1/2	4 1/2
1952 Sep. 1	1	1 1/2	3	3 3/8	3 3/4	4 1/4	3	3 3/8	3 3/4	4 1/8	3	3 1/2	4 1/2
1953 Feb. 1	1	1 1/2	2 1/2	2 3/8	3 3/8	3 3/4	2 1/2	2 3/8	3 1/4	3 3/8	3	3 1/2	4 1/2
July 1	3/4	1 1/4	2 1/4	2 3/8	3 1/8	3 1/2	2 1/4	2 3/8	3	3 3/8	3	3 1/2	4 1/4
1954 July 1	1/2	1	2	2 3/8	2 3/4	3 1/4	2	2 3/8	2 3/4	3 1/8	3	3 1/4	4
1955 Aug. 4	3/4	1 1/4	2 3/8	2 3/4	3 1/4	3 3/4	2 3/8	2 3/4	3 1/8	3 3/8	3	3 1/2	4
1956 Mar. 16	1	1 1/2	3 3/8	3 3/4	4 1/4	4 3/4	3 3/8	3 3/4	4 1/4	4 3/8	3	4	5
May 19	1 1/2	2	4 1/4	4 3/4	5 1/4	5 1/4	4 1/4	4 3/4	5 1/4	5 1/2	3 1/2	4 1/2	5 1/2
Oct. 1	1 1/4	1 3/4	4 1/4	4 3/4	5 1/4	5 1/4	4 1/4	4 3/4	5 1/4	5 1/2	3 1/2	4 1/2	5 1/2
1957 Feb. 1	1	1 1/2	3 3/4	4 1/4	4 3/4	5 1/4	3 3/4	4 1/4	4 3/4	5 1/4	3 1/2	4 1/2	5 1/2
Oct. 17	3/4	1 1/4	3 3/8	3 3/4	4 1/4	4 1/4	3 3/4	3 3/4	4 1/4	4 3/4	3 1/2	4 1/4	5 1/4
1958 Feb. 10	1/2	1	2 3/8	3	3 3/4	4 1/4	2 3/8	3	3 3/4	4 1/2	3 1/4	4	5
July 21	1/2	1	2 3/8	2 3/4	3	3 3/4	2 3/8	2 3/4	3	3 3/8	3	3 1/4	4 1/4
Nov. 20	3/2	1	2	2 1/2	2 3/4	3 1/2	2	2 1/2	2 3/4	3 1/2	3	3 1/4	4
1959 Feb. 1	3/8	3/4	1 1/2	2	2 1/2	3 1/4	1 1/2	2	2 1/2	3 1/4	3	3 1/4	4
Nov. 20	1/2	1	2 1/4	2 3/4	3 1/4	4	2 3/4	2 3/4	3 1/4	4	3	3 1/4	4
1960 Jan. 1	1/2	1	2 1/4	2 3/4	3 1/4	4	2 3/4	2 3/4	3 1/4	4	3 1/2	3 3/4	4 1/2
July 1	1	1 1/2	3	3 1/2	4	4 3/4	3	3 1/2	4	4 3/4	4	4 1/2	5 1/2
Dec. 15	1 1/2	1	2 1/2	3	3 1/2	4 1/4	2 1/2	3	3 1/2	4 1/4	4	4 1/2	5 1/2
1961 Jan. 1	1/2	1	2 1/2	3	3 1/2	4 1/4	2 1/2	3	3 1/2	4 1/4	4	4 1/4	4 3/4
Feb. 15	1/2	1	2 3/4	2 3/4	3 3/4	4	2 1/4	2 3/4	3 1/4	4	4	4 1/4	4 3/4
April 1	1/2	1	2 3/4	2 3/4	3 3/4	4	2 1/4	2 3/4	3 1/4	4	3 1/2	4	4 1/2
June 10	3/8	3/4	1 3/4	2 1/4	2 3/4	3 1/2	1 3/4	2 1/4	2 3/4	3 1/2	3 1/2	4	4 1/2
July 1	3/8	3/4	1 3/4	2 1/4	2 3/4	3 1/2	1 3/4	2 1/4	2 3/4	3 1/2	3 1/4	3 1/2	4
1965 Mar. 1 (4)		3/8	2	2 1/2	3	4	2	2 1/2	3	4	3 1/2 (4)	4 1/2	5 1/2
Oct. 1		3/8	2 1/2	3	3 3/4	4 3/4	2 1/2	3	3 3/4	4 3/4	3 3/4 (4)		5
1966 July 1 (5)		1/2	3	3 1/2	4 3/4	5 1/4	3	3 1/2	4 1/4	5 1/4	4 1/2 (5)	5 1/2	
1967 Feb. 1		1/2	2 1/2	3	3 3/4	4 3/4	2 1/2	3	3 3/4	4 3/4	4 (5)	5	

Monies at notice under DM 1 million

Fixed monies under DM 1 million

Savings deposits under DM 1 million (7)

*) Up to 28 February 1965 compiled on the basis of announcements of the Hessian Bank Supervisory Authority; in most of the other Federal *Länder* equal rates applied. Since 1 March 1965 the rates laid down in the Interest Rates Order of the Federal Banking Supervisory Office have been in force. — +) The "Interest Rates Order" (see footnote *) having been repealed by order of the Federal Banking Supervisory Office, as from 1 April 1967 creditor interest is no longer subject to fixed maximum rates. — 1) For larger amounts deposited (DM 50,000 or more and DM 1 million or more, respectively) higher rates of interest were paid between 1 September 1949 and 19 November 1958. — 2) Up to 30 April 1957, the interest on Postal Savings Bank deposits was as a rule lower by 1/4 % than that on savings deposits with legal period of notice. — 3) As from 20 November 1958, when accepting savings deposits with agreed period of notice, notice will only be permissible after expiry of a blocking period of six months, such period to commence on the day of deposit. — 4) Since 1 March 1965 monies at notice, fixed monies and savings deposits with period of notice or period to maturity of 30 months or more have no longer been subject to fixed maximum rates of interest. — 5) These rates only apply to savings deposits of individuals and of bodies corporate serving welfare, charitable or ecclesiastical purposes. For savings deposits of other bodies corporate and of partnerships the interest rate is lower by 1/2 % unless a blocking period of at least six months has been agreed during which notice is not permissible. — 6) As from 1 July 1966 monies at notice, fixed monies and savings deposits of DM 1 million or more with period of notice or period to maturity of at least 3 months are no longer subject to fixed maximum rates of interest. — 7) As from 1 January 1967 the Postal Savings Bank offices also accept savings deposits with agreed period of notice.

VI. Sales of Securities

(1) Gross Sales¹⁾ of Fixed-interest Securities and Shares of Domestic Issuers

Millions of DM, nominal value

Period	Fixed-interest securities									Shares ²⁾	Fixed-interest securities and shares, total	Note: Gross sales of loans of foreign issuers	
	of which:								Total				among which: Medium-term notes (Kassenobligationen)
	Bank bonds					Industrial bonds (including convertible bonds)	Loans of public authorities						
Mortgage bonds (including ship mortgage bonds)	Communal (and similar) bonds	Bonds of specialised credit institutions	Other bank bonds	Total									
during year													
1958	1,618.8	2,337.6	521.1	2.0	4,479.5	1,651.9	1,903.7	8,035.1	102.0	1,139.5	9,174.6	92.0	
1959	3,050.0	2,363.7	1,331.1	—	6,744.8	919.5	2,039.2	9,703.5	1,295.2	1,383.0	11,086.5	344.6	
1960	2,343.4	1,119.9	501.1	3.0	3,967.4	27.5	1,332.6	5,327.5	568.5	1,904.5	7,232.0	44.8	
1961	3,641.5	2,505.3	1,051.2	100.0	7,298.0	319.6	1,991.2	9,608.8	388.7	2,192.4	11,801.2	12.0	
1962	4,096.2	2,368.2	1,122.0	401.1	7,987.5	1,076.1	2,780.9	11,844.5	810.0	1,506.7	13,351.2	100.0	
1963	4,070.8	2,397.6	1,857.9	969.2	10,295.5	1,552.5	4,576.5	16,424.5	1,528.7	1,015.7	17,440.2	160.0	
1964	4,805.9	3,772.1	1,775.1	1,441.9	11,795.0	973.7	4,138.7	16,907.4	1,981.0	1,608.4	18,515.8	895.0	
1965	4,331.2	3,691.1	1,242.7	3,392.7	10,657.7	585.8	3,589.2	14,832.7	1,453.8	2,645.9	17,478.6	1,389.2	
1966	2,835.2	3,180.8	971.6	575.8	7,563.4	231.7	1,603.8	9,398.9	1,318.9	2,029.9	11,428.8	658.9 ³⁾	
during month													
1966 Jan.	493.3	411.6	246.3	92.0	1,243.2	—	410.0	1,653.2	129.7	357.2	2,010.4	60.0	
Feb.	209.9	274.3	89.2	84.4	657.8	—	217.0	874.8	103.6	217.9	1,092.7	9.5	
March	212.7	200.4	67.6	80.9	561.6	—	334.3	895.9	156.4	93.3	989.2	239.3	
April	163.0	208.7	28.9	48.6	449.2	114.1	12.4	575.7	36.1	226.2	801.9	—	
May	233.2	214.7	23.4	18.7	490.0	—	6.4	496.4	7.3	143.8	640.2	—	
June	212.3	200.9	27.0	39.9	480.1	—	12.2	492.3	10.3	204.9	697.2	3.8 ⁴⁾	
July	221.5	287.6	45.0	45.0	599.1	117.6	4.6	721.3	18.3	202.2	923.5	112.2	
Aug.	201.1	237.1	61.9	58.6	558.7	—	12.8	571.5	27.1	135.8	707.3	—	
Sep.	234.5	238.5	130.1	25.6	628.7	—	21.0	649.7	114.0	45.4	695.1	—	
Oct.	181.4	251.2	72.8	23.2	528.6	—	20.7	549.3	61.2	200.4	749.7	100.0	
Nov.	227.0	208.6	13.0	18.4	467.0	—	50.7	517.7	28.9	58.3	576.0	134.1	
Dec.	245.3	447.2	166.4	40.5	899.4	—	501.7	1,401.1	626.6	144.5	1,545.6	—	
1967 Jan.	328.7	464.4	43.1	81.9	918.1	120.0	1,279.9	2,318.0	1,096.0 ⁴⁾	266.1	2,584.1	3.4 ⁵⁾	
Feb.	223.3	465.8	172.5	53.8	915.4	301.2	435.8	1,652.4	213.4 ⁴⁾	65.5	1,717.9	168.8	
March ^{P)}	277.8	594.1	30.3	66.8	969.0	—	362.8	1,331.8	27.4 ⁴⁾	13.6	1,345.4	197.5	

¹⁾ Only initial sale of newly issued securities, no account being taken of amounts redeemed or repurchased. Except conversion and old savers' securities. From 1959 including Saarland. The amounts issued between 1948 and 1959 by Saarland issuers are included in the annual figures for 1959. — ²⁾ Share issues under the Law on Capital Increase out of Company Reserves... dated 23 December 1959 ("bonus shares") are not included in the figures. — ³⁾ Not including the convertible DM bonds issued by two foreign enterprises in exchange for shares of two German enterprises (June 1966: DM 718.5 million, January 1967: DM 88.5 million). — ⁴⁾ Only "Kassenobligationen" of public authorities. — ^{P)} Provisional.

(2) Redemption and Net Sales of Fixed-interest Securities¹⁾ of Domestic Issuers and Change in the Holdings of Repurchased Issues

Millions of DM, nominal value

Period	Post-currency-reform issues									Pre-currency-reform issues	Fixed-interest securities, total	Note: Loans of foreign issuers	
	of which:								Total				among which: Medium-term notes (Kassenobligationen)
	Bank bonds					Industrial bonds (including convertible bonds)	Loans of public authorities						
Mortgage bonds (including ship mortgage bonds)	Communal (and similar) bonds	Bonds of specialised credit institutions	Other bank bonds	Total						Conversion and "old" savers securities			
Redemption													
1958	60.3	100.4	93.6	0.4	254.7	102.0	259.8	616.5	—	80.1	696.6	—	
1959	231.5	223.2	109.4	0.3	564.4	305.8	606.7	1,476.9	—	106.2	1,583.1	—	
1960	116.0	176.5	136.0	0.2	428.7	403.9	153.8	986.4	—	94.4	1,080.8	—	
1961	339.3	641.3	333.8	2.2	1,316.6	219.1	96.7	1,632.4	109.9	74.0	1,706.4	—	
1962	456.9	597.8	345.0	0.1	1,399.8	484.5	429.6	2,313.9	387.7	74.0	2,387.9	3.5	
1963	349.2	806.3	647.8	34.4	1,837.7	1,209.3	1,311.9	4,359.9	1,192.0	91.3	4,450.2	52.9	
1964	327.6	804.3	637.7	117.5	1,887.1	639.6	872.9	3,399.6	416.5	91.6	3,491.2	4.7	
1965	238.0	608.1	606.2	209.8	1,662.1	222.6	479.9	2,364.6	654.2	88.5	2,453.1	31.3	
1966	325.2	874.6	811.8	448.7	2,460.3	230.5	1,183.9	3,874.7	1,417.6	85.7	3,960.4	36.5	
Net sales²⁾													
1958	1,558.5	2,237.2	427.5	1.6	4,224.8	1,549.9	1,643.9	7,418.6	102.0	408.3	7,826.9	92.0	
1959	2,818.5	2,140.5	1,221.7	— 0.3	6,180.4	613.7	1,432.5	8,226.6	1,295.2	291.1	8,517.7	344.6	
1960	2,227.4	943.4	365.1	2.8	3,538.7	— 376.4	1,178.8	4,341.1	568.5	100.5	4,441.6	44.8	
1961	3,302.2	1,864.0	717.4	97.8	5,981.4	100.5	1,894.5	7,976.4	278.8	85.5	8,061.9	12.0	
1962	3,639.3	1,770.4	777.0	401.0	6,587.7	591.6	2,351.3	9,530.6	422.3	39.1	9,569.7	96.5	
1963	3,721.6	2,591.3	1,210.1	934.8	8,457.8	343.2	3,264.6	12,065.6	336.7	6.2	12,071.8	107.1	
1964	4,478.3	2,967.8	1,137.4	1,324.4	9,907.9	334.1	3,265.8	13,507.8	1,564.5	— 20.5	13,487.3	890.3	
1965	4,093.2	3,083.0	636.5	1,182.9	8,995.6	363.2	3,109.3	12,468.1	799.6	— 34.5	13,433.6	1,357.9	
1966	2,510.0	2,306.2	159.8	127.1	5,103.1	1.2	419.9	5,524.2	— 98.1	— 50.8	5,473.4	622.4	
Change in holdings of repurchased issues increase (+), decrease (—)													
1958	— 1.9	+ 8.3	— 39.2	—	— 32.8	+ 11.1	— 68.0	— 111.9	—	— 37.7	— 149.6	—	
1959	— 35.7	+ 18.7	— 71.8	—	— 17.4	+ 1.9	+ 102.8	+ 83.5	—	+ 14.0	+ 69.5	—	
1960	— 30.4	+ 34.4	— 3.0	—	+ 61.8	+ 9.3	— 7.8	+ 63.3	—	+ 3.4	+ 66.7	—	
1961	— 0.8	+ 3.9	+ 1.5	—	+ 6.2	+ 2.4	+ 26.5	+ 30.3	—	+ 17.9	+ 12.4	—	
1962	+ 17.4	— 12.7	+ 24.8	—	+ 29.5	+ 0.7	+ 10.8	+ 41.0	—	+ 20.5	+ 20.5	—	
1963	+ 15.9	+ 23.3	+ 22.5	+ 10.7	+ 72.4	— 8.0	— 44.9	+ 19.5	—	+ 8.5	+ 11.0	—	
1964	+ 65.6	+ 4.8	+ 49.4	+ 1.2	+ 121.0	—	+ 325.0	+ 446.0	—	+ 7.3	+ 438.7	—	
1965	+ 176.0	+ 68.0	+ 261.5	+ 14.8	+ 520.3	+ 0.3	+ 214.9	+ 735.5	—	+ 5.2	+ 740.7	—	
1966	+ 169.1	+ 96.9	+ 15.4	+ 16.3	+ 297.7	— 4.1	— 257.8	+ 35.8	—	+ 2.2	+ 38.0	—	

¹⁾ Since 1959 including Saarland. The amounts issued between 1948 and 1959 by Saarland issuers are included in the annual figures for 1959. — ²⁾ Gross sales less redemption; the minus sign indicates an excess of redemption over the amount newly sold during the period under review (or, in the case of pre-currency-reform issues, the amount recognised under the Securities Validation Law or other indemnification laws).

(3) Gross Sales¹⁾ of Securities of Domestic Issuers: Nominal Values, Issue Values and Average Issue Prices²⁾

Period	Fixed-interest securities															Shares		
	Total		of which:															
			Mortgage bonds ³⁾ and communal bonds			Bonds of specialised credit institutions and other bank bonds			Industrial bonds			Loans of public authorities						
	Nominal value	Issue value	Average issue price p. c.	Nominal value	Issue value	Average issue price p. c.	Nominal value	Issue value	Average issue price p. c.	Nominal value	Issue value	Average issue price p. c.	Nominal value	Issue value	Average issue price p. c.	Nominal value	Issue value	Average issue price p. c.
DM million		DM million	DM million	DM million	DM million	DM million	DM million	DM million	DM million	DM million	DM million	DM million	DM million	DM million	DM million	DM million	DM million	
1958	8,035.1	7,906.0	98.4	3,956.4	3,880.6	98.1	523.1	517.2	98.9	1,651.9	1,632.1	98.8	1,903.7	1,876.1	98.5	1,139.5	1,214.5	106.6
1959	9,703.5	9,560.8	98.5	5,413.7	5,349.6	98.8	1,331.1	1,311.3	98.5	919.5	902.5	98.1	2,039.2	1,997.4	97.9	1,383.0	1,851.3	133.9
1960	5,327.5	5,151.9	96.7	3,463.3	3,332.8	96.2	504.1	490.7	97.3	27.5	26.7	96.9	1,332.6	1,301.7	99.6	1,904.5	2,792.5	146.6
1961	9,608.8	9,480.0	98.7	6,146.8	6,052.2	98.5	1,151.2	1,133.0	98.4	319.6	315.5	98.7	1,991.2	1,979.3	99.4	2,192.4	3,295.7	150.3
1962	11,844.5	11,744.6	99.2	6,464.4	6,387.1	98.8	1,523.1	1,513.2	99.3	1,076.1	1,071.2	99.6	2,780.9	2,773.1	99.7	1,506.7	2,195.9	145.7
1963	16,424.5	16,340.7	99.5	7,468.4	7,431.7	99.5	2,827.1	2,802.9	99.1	1,552.5	1,541.4	99.3	4,576.5	4,564.7	99.7	1,015.7	1,318.8	129.9
1964	16,907.4	16,713.0	98.8	8,578.0	8,497.1	99.1	3,217.0	3,168.6	98.5	973.7	967.9	99.4	4,138.7	4,079.4	98.5	1,608.4	2,243.0	139.4
1965	14,832.7	14,389.3	97.0	8,022.3	7,718.6	96.2	2,635.4	2,574.6	97.7	585.8	578.0	98.7	3,589.2	3,518.1	98.0	2,645.9	3,958.7	149.6
1966	9,398.9	8,913.8	94.8	6,016.0	5,633.6	93.6	1,547.4	1,476.3	95.4	231.7	229.5	99.1	1,603.8	1,574.4	98.2	2,029.9	2,689.3	132.5
1966 Jan.	1,653.2	1,589.6	96.2	904.9	857.7	94.8	338.3	329.5	97.4	—	—	—	410.0	402.4	98.1	357.2	399.1	111.7
Feb.	874.8	846.7	96.8	484.2	464.6	96.0	173.6	168.4	97.0	—	—	—	217.0	213.7	98.5	217.9	370.1	169.9
March	895.9	867.0	96.8	413.1	396.5	96.0	148.5	144.2	97.1	—	—	—	334.3	326.3	97.6	93.3	103.7	111.2
April	575.7	554.0	96.2	371.7	354.6	95.4	77.5	75.1	97.0	114.1	111.9	98.0	12.4	12.4	100.0	226.2	243.9	107.8
May	496.4	467.6	94.2	447.9	420.0	93.8	42.1	41.2	97.9	—	—	—	6.4	6.4	100.0	143.8	249.1	173.3
June	492.3	458.1	93.1	413.2	381.0	92.2	66.9	64.9	97.1	—	—	—	12.2	12.2	100.0	204.9	256.9	125.4
July	721.3	668.3	92.6	509.1	463.7	91.1	90.0	82.4	91.5	117.6	117.6	100.0	4.6	4.6	100.0	202.2	268.5	132.8
Aug.	571.5	525.3	91.9	438.2	400.5	91.4	120.5	112.0	92.9	—	—	—	12.8	12.8	100.0	135.8	205.5	151.3
Sep.	649.7	594.6	91.5	473.0	434.6	91.9	155.7	139.0	89.3	—	—	—	21.0	21.0	100.0	45.4	54.9	120.8
Oct.	549.3	511.3	93.1	432.6	400.3	92.5	96.0	90.3	94.0	—	—	—	20.7	20.7	100.0	200.4	285.4	142.4
Nov.	517.7	481.2	92.9	435.6	401.5	92.2	31.4	29.5	93.9	—	—	—	50.7	50.2	99.0	58.3	71.4	122.5
Dec.	1,401.1	1,350.1	96.4	692.5	658.6	95.1	206.9	199.8	96.6	—	—	—	501.7	491.7	98.0	144.5	180.8	125.1
1967 Jan.	2,318.0	2,250.9	97.1	793.1	755.2	95.2	125.0	120.0	96.0	120.0	116.4	97.0	1,279.9	1,259.3	98.4	266.1	503.5	189.2
Feb.	1,652.4	1,613.2	97.6	689.1	664.5	96.4	226.3	220.5	97.4	301.2	301.2	100.0	435.8	426.9	98.0	65.5	84.7	129.3

¹⁾ From 1959 including Saarland figures. The amounts issued between 1948 and 1959 by Saarland issuers are included in the annual figures for 1959. — ²⁾ Average sales prices, weighted with the nominal values which are reported in thousands of DM. — ³⁾ Including ship mortgage bonds.

(4) Circulation of Investment Fund Units¹⁾

Investment Company and Fund	Inventory value ²⁾				Number of units issued ³⁾				Price per unit			
	1964	1965	1966	March 1967	1964	1965	1966	March 1967	1964 ⁴⁾	1965 ⁵⁾	1966 ⁶⁾	March 1967 ⁷⁾
	Millions of DM				Thousands				DM			
Allfonds Gesellschaft für Investmentanl. mbH	152.1	159.1	152.7	169.0	4,715.2	5,781.1	6,667.9	6,860.5	33.50	28.60	23.80	25.39
Allfonds Allgemeine Deutsche Investment-GmbH	155.3	135.8	118.7	136.7	3,158.4	3,390.9	3,667.7	3,742.7	50.90	41.50	34.00	37.88
Adifonds	22.7	21.1	19.4	20.6	434.2	455.8	489.9	499.2	54.30	48.00	41.70	43.29
Adiropa	19.5	16.8	16.7	18.6	406.7	461.7	493.5	512.1	49.60	37.80	35.50	38.18
Adiverba	216.1	182.3	156.5	177.7	5,524.9	5,753.2	5,951.3	6,020.1	40.30	32.80	27.70	30.62
Fondak	127.1	110.5	89.7	105.0	2,907.5	3,021.9	3,188.8	3,259.3	45.20	37.80	29.60	33.26
Fondis	109.0	136.5	151.0	168.9	1,206.2	1,747.0	2,086.9	2,170.8	93.50	80.80	76.00	80.64
Fondora	24.2	23.0	20.4	20.7	562.2	561.9	542.8	535.6	44.40	42.20	39.40	40.66
Anlage-Gesellschaft für Französische Aktienwerte mbH	58.2	50.4	41.4	38.2	1,737.9	1,649.7	1,601.2	1,585.4	35.00	31.90	27.10	25.64
Agefra-Fonds	—	—	—	—	—	—	—	—	—	—	—	—
Anlage-Gesellschaft mbH für englische u. holländ. Aktienwerte	—	—	—	—	—	—	—	—	—	—	—	—
Anglo-Dutch-Fonds	9.4	8.6	7.3	7.3	99.8	94.7	89.4	89.0	99.50	95.90	85.20	85.29
Deutsche Ges. für Wertpapiersparen mbH	19.7	17.9	15.3	17.1	346.4	329.7	322.0	318.9	59.00	56.40	49.30	54.84
Akkumula	—	—	50.3	60.6	—	—	629.0	722.4	—	—	81.80	84.61
Inrenta	96.9	93.4	79.6	85.3	990.0	976.9	969.4	971.0	102.00	99.70	85.60	90.83
Intervest	678.0	620.9	558.4	643.0	10,991.9	11,940.1	12,939.2	13,227.2	63.90	53.90	44.70	49.70
Investa	—	—	—	—	—	—	—	—	—	—	—	—
Deutscher Investm.-Trust, Ges. für Wertpapiernanlagen mbH	533.1	532.6	508.4	568.1	15,172.2	18,313.3	21,536.1	23,228.9	36.40	30.10	24.40	25.00
Concentra	—	—	27.7	29.6	—	—	290.9	296.0	—	—	97.60	101.00
Deutscher Rentenfonds	—	—	—	—	—	—	—	—	—	—	—	—
Industria	121.3	102.7	83.8	85.6	1,772.5	1,749.8	1,739.3	1,762.5	70.80	60.70	49.90	49.91
Thesaurus	165.8	138.3	108.6	122.4	3,415.3	3,273.0	3,041.9	2,978.6	50.30	43.70	36.90	41.78
Transatlanta	74.6	66.3	56.3	57.2	1,497.4	1,472.0	1,472.5	1,499.4	52.10	46.90	39.90	39.62
Deutsche Kapitalanl.-GmbH	—	—	—	—	—	—	—	—	—	—	—	—
Arideka	23.8	22.6	22.6	24.0	535.5	591.8	678.5	702.3	46.20	39.80	34.90	35.37
Dekafonds I	221.0	204.5	179.8	196.2	5,625.2	6,238.8	6,805.3	7,096.2	41.10	34.50	28.10	28.84
Internationale Kapitalanlagen-Ges. mbH	—	—	—	—	—	—	—	—	—	—	—	—
Braueri-Fonds	31.8	27.1	23.9	25.2	656.3	592.5	554.6	545.6	50.60	47.80	45.20	47.60
Union-Investment-GmbH	—	—	—	—	—	—	—	—	—	—	—	—
Atlantifonds	39.5	39.4	33.4	37.2	1,080.1 ⁸⁾	1,123.8	1,115.6	1,119.2	38.40	36.90	31.50	34.64
Europafonds I	35.7	31.3	26.1	27.7	587.7	590.2	594.9	599.9	63.90	55.80	46.20	48.12
Unifonds	362.7	394.6	356.3	408.2	11,906.2	15,508.3	17,193.3	17,449.6	32.00	26.80	21.80	24.29
Usafonds	3.2	—	—	—	27.4 ⁹⁾	—	—	—	118.62	—	—	—
Total ⁵⁾	3,300.7	3,135.6	2,904.1	3,250.2								

¹⁾ Companies falling under the Law on Investment Companies, of 16 April 1957 (Federal Law Gazette I, p. 378), with the exception of one Fund whose unit certificates are reserved to a specified group of persons. — ²⁾ Position at end of year or month indicated. — ³⁾ Average during month. — ⁴⁾ From 16 November 1964 up to and including 30 April 1965 it was possible to exchange Usafonds units for Atlantifonds units at the ratio of 1 : 3. — ⁵⁾ Details may not add to totals because of rounding.

(5) Capital Accruing¹⁾ at the Investment Funds

Period	Capital accruing DM mn
1957	182.8
1958	500.5
1959	465.7
1960	340.1
1961	229.5
1962	224.2
1963	192.6
1964	372.8
1965	382.5
1966	343.0
1964 Jan.	41.6
Feb.	36.2
March	30.7
April	26.3
May	22.9
June	25.3
July	24.7
Aug.	20.3
Sep.	14.3
Oct.	31.6
Nov.	50.8
Dec.	48.1
1965 Jan.	42.8
Feb.	59.2
March	45.0
April	28.8
May	18.7
June	22.4
July	28.1
Aug.	30.5
Sep.	23.0
Oct.	20.2
Nov.	32.3
Dec.	31.5
1966 Jan.	64.9
Feb.	62.6
March	40.0
April	22.7
May	18.7
June	10.1
July	15.8
Aug.	19.2
Sep.	17.6
Oct.	14.3
Nov.	24.4
Dec.	32.7
1967 Jan.	28.0
Feb.	39.6
March	30.2

¹⁾ Calculated from changes in circulation of units and in monthly-average unit price of each Fund.

VII. Foreign Trade and the Balance of Payments

(1) Balance of Payments of the Federal Republic of Germany 1960 to 1966 *)

Millions of DM

Item	1960	1961	1962	1963	1964	1965	1966P)
A. Balance of Current Items and Capital Movements							
I. Current items							
(1) Transactions in goods and services							
(a) Goods							
Exports (f.o.b.) ¹⁾	47,855	50,876	52,884	58,288	64,788	71,480	80,390
Imports (f.o.b.) ¹⁾	39,698	41,368	46,694	49,148	55,046	66,540	68,927
Merchandising trade: Sales	2,572	2,469	2,586	2,829	3,465	4,038	4,484
Purchases	2,297	2,392	2,605	2,849	3,677	3,886	4,284
Net transactions in goods	+ 8,432	+ 9,585	+ 6,171	+ 9,120	+ 9,530	+ 5,092	+ 11,663
(b) Services							
Receipts	12,058	11,975	13,237	13,893	15,260	16,608	18,645
Expenditure	12,384	14,220	16,347	17,033	19,383	21,911	23,989
Net services	- 326	- 2,245	- 3,110	- 3,140	- 4,123	- 5,303	- 5,344
Net transactions in goods and services	+ 8,106	+ 7,340	+ 3,061	+ 5,980	+ 5,407	- 211	+ 6,319
(2) Transfer payments (outflow: —, inflow: +)²⁾							
(a) Private							
Inflow	129	103	108	128	151	164	153
Outflow	703	1,089	1,461	1,731	1,995	2,552	2,904
Balance	- 574	- 986	- 1,353	- 1,603	- 1,844	- 2,388	- 2,751
(b) Official							
Inflow	177	102	29	32	29	26	53
Outflow	2,997	3,551	3,830	3,387	3,129	3,498	3,203
Balance	- 2,820	- 3,449	- 3,801	- 3,355	- 3,100	- 3,472	- 3,150
Transfer payments, total	306	205	137	160	180	190	206
Outflow	3,700	4,640	5,291	5,118	5,124	6,050	6,107
Balance	- 3,394	- 4,435	- 5,154	- 4,958	- 4,944	- 5,860	- 5,901
Net balance of current items	+ 4,712	+ 2,905	- 2,093	+ 1,022	+ 463	- 6,071	+ 418
II. Capital transactions (outflow: —, inflow: +)²⁾							
(1) Long-term capital³⁾							
(a) German capital investments abroad							
New investment							
Private	2,614	2,421	2,815	2,388	4,054	4,833	5,594
Official ⁴⁾	982	2,123	1,425	1,354	1,416	1,584	3,387
Total	3,596	4,544	4,240	3,742	5,470	6,417	8,981
Disinvestment							
Private	1,179	1,314	1,433	1,141	2,182	2,917	3,159
Official	57	219	341	234	255	371	342
Total	1,236	1,533	1,774	1,375	2,437	3,288	3,501
Net capital investments (increase: —)	- 1,435	- 1,107	- 1,382	- 1,247	- 1,872	- 1,916	- 2,435
Official	- 925	- 1,904	- 1,084	- 1,120	- 1,161	- 1,213	- 3,045
Total	- 2,360	- 3,011	- 2,466	- 2,367	- 3,033	- 3,129	- 5,480
(b) Foreigners' capital investments in Germany							
New investment							
Private	5,582	5,959	5,460	6,978	6,510	8,014	8,383
Official	—	—	—	—	—	0	—
Total	5,582	5,959	5,460	6,978	6,510	8,014	8,383
Disinvestment							
Private	3,044	3,942	3,032	2,612	4,190	3,993	4,464
Official ⁴⁾	314	3,217	89	61	79	74	1,084
Total	3,358	7,159	3,121	2,673	4,269	4,067	5,548
Net capital investments (increase: +)	+ 2,538	+ 2,017	+ 2,428	+ 4,366	+ 2,320	+ 4,021	+ 3,919
Official	- 314	- 3,217	- 89	- 61	- 79	- 74	- 1,084
Total	+ 2,224	- 1,200	+ 2,339	+ 4,305	+ 2,241	+ 3,947	+ 2,835
Net long-term capital transactions							
Private	+ 1,103	+ 910	+ 1,046	+ 3,119	+ 448	+ 2,105	+ 1,484
Official	- 1,239	- 5,121	- 1,173	- 1,181	- 1,240	- 1,287	- 4,129
Total	- 136	- 4,211	- 127	+ 1,938	- 792	+ 818	- 2,645
(2) Short-term capital							
(a) Private							
Net German capital investments abroad (increase: —)							
Credit institutions ⁵⁾	+ 1,103	- 1,558	- 175	- 129	- 709	- 319	+ 21
Non-banks	- 82	- 307	+ 151	- 9	- 211	- 226	+ 161
Total	+ 1,021	- 1,865	- 24	- 138	- 920	- 545	+ 182
Net foreign capital investments in Germany (increase: +)							
Credit institutions ⁵⁾	+ 1,151	+ 1,294	+ 28	+ 833	+ 760	+ 132	- 409
Non-banks	+ 672	+ 852	+ 354	+ 48	+ 436	+ 1,043	+ 1,547
Total	+ 1,823	+ 2,146	+ 382	+ 881	+ 1,196	+ 1,175	+ 1,138
Balance							
Credit institutions ⁵⁾	+ 2,254	- 264	- 147	+ 704	+ 51	- 187	- 388
Non-banks	+ 590	+ 545	+ 505	+ 39	+ 225	+ 817	+ 1,708
Total	+ 2,844	+ 281	+ 358	+ 743	+ 276	+ 630	+ 1,320
(b) Official⁶⁾							
Net short-term capital transactions	- 957	- 1,206	+ 594	- 458	- 1,447	+ 1,203	+ 1,115
Private	+ 1,887	- 925	+ 952	+ 285	- 1,171	+ 1,833	- 2,435
Official	+ 3,947	+ 1,191	+ 1,404	+ 3,862	+ 724	+ 2,735	+ 2,804
Total	- 2,196	- 6,327	- 579	- 1,639	- 2,687	- 84	- 3,014
Net total of capital transactions	+ 1,751	- 5,136	+ 825	+ 2,223	- 1,963	+ 2,651	- 210
Net Balance of Current Items and Capital Movements	+ 6,463	- 2,231	- 1,268	+ 3,245	- 1,500	- 3,420	+ 208
B. Movement of Gold and Exchange (change in net monetary reserves of Deutsche Bundesbank)⁷⁾							
I. Change in gold holdings (increase: —)							
II. Change in assets and liabilities							
(1) Assets (increase: —)							
(2) Liabilities (increase: +)							
Net change in assets and liabilities	- 6,605	+ 4,709	+ 614	- 1,914	+ 1,606	+ 2,153	- 1,502
Net Movement of Gold and Exchange (surplus: —, deficit: +)	- 8,007	+ 1,928	+ 552	- 2,572	- 12	+ 1,506	- 1,030
C. Net Errors and Omissions (ascertained as residue)⁸⁾							
	+ 1,544	+ 303	+ 716	- 673	+ 1,512	+ 1,914	+ 822

*) Federal area including Berlin (West); from 6 July 1959, the date of the Saarland's economic incorporation, including its transactions with foreign countries. — ¹⁾ Special trade. Including supplementary items (e. g., export and import of electric current); excluding the export of ships' and aircraft's fuel and other supplies, which is included in receipts from services. — ²⁾ Transactions are classified as "Private" or "Official" according to the sector to which the German party engaged in the transaction belongs. — ³⁾ Including special transactions; 1960: drawing of DM 100 million on the Deutsche Bundesbank credit to I.B.R.D. (roughly DM 1 billion) agreed in August 1960; 1961: prepayment of debt in respect of post-war economic aid (DM 3,125 million) and further drawing on the Bundesbank credit to I.B.R.D. (DM 880 million); 1966: prepayment of debt to B.I.S., Basle (DM 156 million) and to the United States (DM 784 million), and increase of German quota in I.M.F. (DM 1,650 million) and of German capital subscription to I.B.R.D. (DM 92 million). — ⁴⁾ Cf. footnote ³⁾. — ⁵⁾ For 1961 including statistical change of assets and liabilities in foreign currency due to the DM revaluation. — ⁶⁾ For 1966 including depositing of certificates of indebtedness at I.M.F. (DM 1,221 million) and at I.B.R.D. (DM 83 million) in connection with the increase of the German quotas in these institutions (see also footnote ³⁾. — ⁷⁾ Excluding the foreign assets of the Deutsche Bundesbank — taken into account under official long-term capital transactions — which mainly consist of the I.B.R.D. bonds and I.B.R.D. notes contained in the item "Securities" of the Bundesbank return. — ⁸⁾ For 1961 disregarding the decrease by DM 1,419 million, due to the DM revaluation, in the Deutsche Bundesbank's monetary reserves. — ⁹⁾ This residual item, ascertained as difference between the net balance of current items and capital movements on the one hand and the movement of gold and exchange on the other, mainly reflects the changes in the terms of payment, which are not statistically ascertained (movement of gold and exchange more favourable than balance of current items and capital movements: —, movement of gold and exchange less favourable: —). — P) Provisional.

(2) Monetary Reserves of the Deutsche Bundesbank *)¹⁾ (Millions of DM)

Position at end of year or month	Total monetary reserves (net)	Gold holdings and freely usable foreign assets			Credit granted to I. M. F. under "General Arrangements to Borrow"	Foreign assets of limited usability. ²⁾					External liabilities ²⁾	Note: External assets of Deutsche Bundesbank not included in the monetary reserves ³⁾
		Total	Gold holdings	Freely usable foreign assets		Total	among which:					
							Bilateral claims from former credits to E.P.U. (until end-1958: credit granted to E.P.U.)	I.B.R.D. debt certificates ³⁾	Earmarked balances with foreign banks and earmarked money-market investments	Consolidation loans to foreign Central Banks		
1952	4,635	2,971	587	2,384	—	2,026	1,061	—	—	—	362	—
1953	8,158	5,510	1,367	4,143	—	2,704	1,782	—	—	—	56	—
1954	10,930	8,426	2,628	5,798	—	2,672	2,054	—	—	146	168	—
1955	12,781	10,134	3,862	6,272	—	2,785	2,187	—	—	304	138	—
1956	17,795	14,412	6,275	8,137	—	3,571	2,890	—	240	403	188	73
1957	22,917	17,237	10,674	6,563	—	6,393	4,242	735	1,032	384	713	73
1958	26,105	19,477	11,085	8,392	—	7,000	4,597	1,166	972	265	372	73
1959	23,621	19,039	11,077	7,962	—	4,992	3,159	1,305	353	175	410	191
1960	31,628	28,295	12,479	15,816	—	3,762	1,993	1,400	265	104	429	272
1961	28,281	26,165	14,654	11,511	—	2,453	1,039	1,352	—	62	337	1,112
1962	27,729	25,786	14,716	11,070	—	2,299	897	1,352	—	50	356	1,100
1963	30,301	28,409	15,374	13,035	—	2,131	751	1,352	—	28	239	1,105
1964	30,313	27,879	16,992	10,887	720	1,973	615	1,352	—	6	259	1,102
1965	28,807	25,410	17,639	7,771	1,390	2,428	509	1,454	465	—	421	1,082
1966	29,837	27,085	17,167	9,918	1,390	1,874	420	1,454	—	—	512	1,039
1961 March 5 a) ⁵⁾	31,724	28,512	12,723	15,789	—	3,497	1,744	1,400	265	88	285	372
b) ⁵⁾	30,305	27,155	12,117	15,038	—	3,434	1,742	1,352	252	88	284	364
1964 March	30,309	28,467	15,813	12,654	—	2,115	740	1,352	—	23	273	1,104
June	30,430	28,642	16,324	12,318	—	2,099	729	1,352	—	18	311	1,104
Sep.	30,004	28,238	16,594	11,644	—	1,994	630	1,352	—	12	228	1,102
Dec.	30,313	27,879	16,992	10,887	720	1,973	615	1,352	—	6	259	1,102
1965 March	29,803	27,442	16,973	10,469	720	1,963	611	1,352	—	—	322	1,100
June	28,630	25,571	17,511	8,060	1,390	1,959	607	1,352	—	—	290	1,100
Sep.	28,622	25,214	17,560	7,654	1,390	2,355	515	1,374	465	—	337	1,082
Dec.	28,807	25,410	17,639	7,771	1,390	2,428	509	1,454	465	—	421	1,082
1966 March	27,630	24,598	17,608	6,990	1,390	2,234	508	1,454	272	—	592	1,080
June	27,800	24,775	17,239	7,536	1,390	2,064	508	1,454	102	—	429	1,080
Sep.	28,545	25,814	17,179	8,635	1,390	1,874	420	1,454	—	—	533	1,079
Dec.	29,837	27,085	17,167	9,918	1,390	1,874	420	1,454	—	—	512	1,039
1967 Jan.	28,823	25,967	17,159	8,808	1,390	1,874	420	1,454	—	—	408	1,039
Feb.	29,668	26,736	17,155	9,581	1,390	1,874	420	1,454	—	—	332	1,037
March p)	29,979	27,036	17,175	9,861	1,390	1,874	420	1,454	—	—	321	1,037

*) 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; cf. footnote 3). —¹⁾ From 1959 onwards including the previously disregarded letter-of-credit cover accounts and the liabilities recorded in the item "Deposits of foreign depositors" in the Bundesbank Return. —²⁾ In 1952 and 1953 including certain assets and liabilities such as consolidated clearing debts the changes in which were, in balance-of-payments tables, not entered under exchange movements but under capital transactions. —³⁾ Excluding the claims on I.B.R.D. mentioned in footnote 3), which are included in the Bundesbank Return in the item "Securities" and in the balance of payments in official long-term capital transactions. —⁴⁾ Mainly claims on I.B.R.D.; cf. footnote 3). —⁵⁾ Row a) valued at parity rate prior to, row b) after, DM revaluation. — p) Provisional.

(3) Short-Term Assets and Liabilities of the Credit Institutions⁺) in relation to Foreign Countries*)¹⁾ ²⁾ (Millions of DM)

Position at end of year or month	Balance of assets and liabilities	Assets						Liabilities							Note: U.S. \$ swap commitments of Deutsche Bundesbank to German credit institutions ³⁾
		Total	Balances with foreign banks		Money-market paper	Short-term lending	Total	Non-residents' deposits, by depositor groups				Short-term borrowing			
			Balances payable on demand	Time balances				Total	Banks ²⁾	Enterprises and individuals	Public authorities ²⁾		International organizations ²⁾		
1955	-1,397	524	312	7	1	204	1,921	1,473	730	—	622	121	448	—	
1956	-2,309	715	362	13	4	336	3,024	2,114	1,197	—	733	184	910	—	
1957	-2,285	1,320	307	20	448	545	3,605	2,650	1,580	—	914	156	955	—	
1958	-1,551	1,919	431	128	481	879	3,470	2,893	1,702	77	1,075	116	577	325	
1959	-272	3,471	754	543	1,246	928	3,743	3,410	1,924	140	1,095	216	333	746	
1960	-2,526	2,368	526	410	379	1,053	4,894	3,641	1,796	99	1,348	308	1,253	1,679 ³⁾	
1961	-2,262	3,926	651	906	1,221	1,148	6,188	3,985	2,044	141	1,419	311	2,203	1,135	
1962	-2,121	4,095	1,022	780	724	1,569	6,216	3,932	1,723	111	1,743	270	1,96	129	
1963	-2,808	4,208	1,116	855	842	1,395	7,016	4,792	2,323	149	2,041	287	1,41	2,224	
1964	-2,859	4,917	1,206	980	1,101	1,630	7,776	5,159	2,630	189	2,063	302	1,64	2,617	
1965	-2,709	5,236	1,550	1,198	886	1,602	7,945	5,606	2,753	205	2,434	235	1,84	2,339	
1966	-2,321	5,215	1,666	1,565	286	1,698	7,536	5,574	2,688	123	2,506	241	1,39	1,962	
1964 March	-584	5,317	1,092	1,766	897	1,562	5,901	4,125	1,931	114	1,804	254	1,36	1,776	
June	-1,006	5,094	1,019	1,343	1,105	1,627	6,100	4,377	2,198	149	1,797	234	1,48	1,723	
Sep.	-1,185	5,189	1,309	1,338	985	1,557	6,374	4,359	2,182	128	1,804	245	1,28	2,015	
Dec.	-2,859	4,917	1,206	980	1,101	1,630	7,776	5,159	2,630	189	2,063	302	1,64	2,617	
1965 March	-790	5,741	1,151	1,043	1,803	1,744	6,531	4,866	2,494	324	1,989	216	1,67	1,665	
June	-794	5,780	1,465	1,062	1,354	1,899	6,574	4,861	2,429	91	2,074	230	1,28	1,713	
Sep.	-1,833	5,018	1,528	1,168	736	1,586	6,851	4,896	2,518	206	2,032	209	1,37	1,955	
Dec.	-2,709	5,236	1,550	1,198	886	1,602	7,945	5,606	2,753	205	2,434	235	1,84	2,339	
1966 March	-1,319	5,540	1,710	1,507	507	1,816	6,859	4,998	2,521	210	2,145	208	1,24	1,861	
June	-1,325	5,632	1,759	1,655	453	1,765	6,957	5,048	2,522	227	2,155	217	1,54	1,909	
Sep.	-855	6,188	1,707	2,199	537	1,745	7,043	4,996	2,477	201	2,150	244	1,25	2,047	
Dec.	-2,321	5,215	1,666	1,565	286	1,698	7,536	5,574	2,688	123	2,506	241	1,39	1,962	
1967 Jan.	+425	6,765	1,928	2,749	275	1,813	6,340	4,658	2,110	151	2,192	238	1,18	1,682	
Feb.	+1,019	7,367	2,105	3,014	297	1,951	6,348	4,708	2,212	152	2,171	211	1,14	1,640	

+) Not including Deutsche Bundesbank. —*) Figures for the period after the economic incorporation of the Saarland (6 July 1959) include the assets and liabilities of the Saarland banks in relation to foreign countries. —¹⁾ The figures here shown, which are taken from the credit institutions' external position, deviate from the corresponding figures of the balance-sheet statistics, since in the monthly interim statements of foreign banks' subsidiaries — different from the external position — the claims on and liabilities to the foreign parent institution and the foreign sister establishments are recorded as a net total only. —²⁾ Assets and liabilities in foreign currency are valued at the parity rate prevailing at the end of the period indicated. —³⁾ Including foreign central banks. —⁴⁾ International Bank for Reconstruction and Development, European Investment Bank, and Bank for International Settlements. —⁵⁾ Cf. footnote 3). —⁶⁾ Excluding those international organizations which are recorded under "Banks"; cf. footnote 4). —⁷⁾ Swap rates of the Deutsche Bundesbank are published in Table V 2. —⁸⁾ Including swap contracts concluded between 24 August and 11 November 1960 to facilitate import and merchanting trade financing.