Report of the Deutsche Bundesbank

for the Year 1968

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Contents

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Part A: General Part

Economic Trends and Central Bank Policy

I. General Survey

The Deutsche Bundesbank's credit policy in 1968 was guided mainly by balance-of-payments considerations. The Bank thus tolerated the increase in liquidity resulting for credit institutions as well as for trade and industry from the market tendencies and to that extent continued its policy, already pursued in 1967, of keeping money and capital cheap by comparison with foreign countries. The chief reason lay in the Federal Republic of Germany's foreign trade and payments situation; despite a gradual increase of cyclical tensions within the country this was marked, until the end of the year, by surpluses as great as ever on current transactions. At least during the first half of the past year credit policy was also in full accord with the internal economic situation. In the later course of the year it became increasingly clear, however, that the rapid economic upswing would soon reach a stage at which it would become more and more difficult to keep prices and costs stable. The authorities responsible for economic policy, and especially for credit policy, thus ran into the dilemma of how, on internal grounds, to check the expansion of demand, while the surplus on foreign transactions made continuance of the existing domestic expansion appear desirable. The Federal Government tried to resolve this conflict in the late autumn by adopting fiscal measures designed to safeguard the economy against external influences. The Bundesbank sought during those months of international monetary crisis to check, so far as possible, the speculative afflux of foreign money, and to ensure that the funds which had flowed into Germany should soon flow out again. From the autumn onwards other countries also worked harder than before to remedy the disequilibrium in their balances of payments; they did so largely through credit policy measures which, in conjunction with the increased uncertainty about the further course of monetary policy, led in almost all countries to higher rates of interest. For its credit policy the Bundesbank accordingly again found, at the beginning of 1969, a certain margin which – on a limited scale – permitted monetary measures designed to damp down demand without at the same time entailing the danger of renewed money inflows from abroad. The result was a situation in many respects new as compared with that during 1968, with which this Report must in the first place deal.

1. Economic trends during 1968

(a) Acceleration of the cyclical upswing

Vigorous growth of domestic demand

Economic policy impulses from 1967 . . .

At the start of the cyclical upswing in 1967, as described in our last Annual Report, economic policy measures adopted by the Federal Government and the Bundesbank had contributed towards overcoming the then recessive tendencies; these measures included in particular the stepping up of capital expenditure by public authorities, the permitting of special depreciation on that by the business sector, and the general easing of credit markets. But already at that time the expansive forces inherent in the economy were rapidly gaining ground, although for some time a damping effect resulted from initial fears that "old stocks" would be prejudiced by the change-over to the value-added tax at the beginning of 1968 to a greater extent than they eventually were, and from the idea that a reduction of inventories would therefore be desirable. With a view to further strengthening of the economic revival, moreover, the Federal Government and the *Länder* had in the late summer of 1967 decided on a second economic stimulation programme. In the last months of 1967 there was a great increase of domestic demand owing to anticipatory buying, since the facilities allowed for depreciation expired at the end of October, and the introduction of the value-added tax with effect from January 1968 gave cause to fear price rises. Despite the bounding rise of output due to those factors this additional demand could not be fully satisfied, so that many industries already began the year 1968 with a relatively large stock of orders in hand.

. . . and independent influences caused an increase of domestic demand

The economic upswing continued during 1968, in the main, on the lines of earlier cycles. A prominent feature was the increase of domestic demand – primarily, as will be shown, the rise in demand for capital goods. If domestic demand is measured by the value of all goods used within the country, then in each individual

Use of gross national product 1967/68

Seasonally adjusted values

Item	1967 p)		1968 p)				1967 p)		1968 p)			
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
	Change against preceding quarter **1)** in billions of DM						Change against preceding quarter in %					
Use of goods within the country	+ 4.5	+17	+12.5	+ 8.5	+11	+10.5	+ 1	+ 3.5	+ 2.5	+ 1.5	+ 2	+ 2
among which:												
Private consumption	+ 1.5	+ 4.5	+ 2.5	+ 7.5	+ 4	+ 8	+ 0.5	+ 1.5	+ 1	+ 2.5	+ 1.5	+ 2.5
Government consumption	— 1	— 0.5	+ 2	— 2	+ 4.5	— 0.5	— 1.5	— 0.5	+ 2	+ 2.5	+ 5.5	— 1
Gross investments in fixed assets	— 2	+ 8.5	— 0	+ 4.5	+ 4.5	+ 6	— 1.5	+ 8	— 0	+ 4	+ 4	+ 5
External surplus **2)**	— 2.5	— 0.5	+ 0.5	+ 0	+ 2	+ 5.5	.	.	.	.	.	.
of which:												
Exports	— 3	+ 3	+ 4	+ 1	+11.5	+ 5	— 0.5	+ 3	+ 3.5	+ 1	+ 9.5	+ 3.5
Imports	— 0	+ 3.5	+ 3.5	+ 1	+ 9	— 0.5	— 0.5	+ 4	+ 3.5	+ 1	+ 9	— 0.5
Gross national product at current prices	+ 2	+16	+13	+ 8.5	+13.5	+16	+ 0.5	+ 3.5	+ 2.5	+ 1.5	+ 2.5	+ 3

1 Converted into yearly values. Details may not add to totals because of rounding. — **2** Exports less imports. — **p** Provisional.

quarter of 1968 – after seasonal adjustment – it rose by some 2 %, or, in terms of absolute values converted to a yearly rate, by about DM 10 billion. It was domestic demand which chiefly determined the expansion of the total gross national product (see the table). In comparison Germany's foreign trade and payment transactions were of secondary importance as an impeller of the further growth in overall demand. It is true that exports of goods and services at this time rose steadily and, in percentage terms, even more than domestic demand. But the same also applied to imports of goods and services, which in percentage terms increased no less, and in absolute amount increased hardly less, than exports did. The fact that the net surplus on goods and service transactions grew at all in 1968 as compared with the previous year – it actually mounted by more than DM 2 billion – was mainly due to movements in the fourth quarter of 1968. Then, as a result of speculation on exchange rate alterations and of the subsequent measures to safeguard the economy against external influences, exports for a time expanded especially fast, while imports did not for some time increase. Analysis of the main economic impellents during 1968 in the Federal Republic of Germany would therefore be one-sided if the rise of exports were regarded as the principal stimulus of economic activity. The vigorous growth of exports did on the one hand utilise additional domestic production factors, but on the other hand the simultaneous rise of imports increased the supply of goods within the country in almost equal degree. As regards their overall effect, therefore, the goods and service transactions with foreign countries can hardly be held responsible for the acceleration of the economic upswing in the course of 1968. The problems connected with foreign trade and payments lay rather in the fact that the export surpluses did not decline during 1968, as they had in earlier periods of rapidly rising domestic demand, and so did not help, in the manner which might normally have been expected, to reduce market strains at home.

Typical investment cycle . . .

Just as in every earlier economic upswing it was investment activity which formed the crucial dynamic element among the components of domestic demand. Apart from the first quarter of 1968, when, if only on grounds of production capacity, deliveries could not at first be further raised after their steep increase in the fourth quarter of 1967, public authorities' and enterprises' expenditure on fixed capital formation rose continually. The relevant seasonally adjusted figures mounted by 4 % in the second and again by 4 % in the third quarter. In the last quarter of 1968 they actually increased by 5 %, which, converted to an annual rate, meant a rise by 20 %. On consideration of the overall result for 1968 it can be said that more than a quarter of that year's rise in total domestic demand was due to the increase of capital expenditure on fixed assets. The growth of domestic demand was moreover assisted by the fact that inventories in industry and trade were built up to far above normal. After the expected discriminatory taxation of old inventories on the change-over to the value-added tax had been largely eliminated in

. . . supported by especially large stockbuilding the autumn of 1967 there began – in some cases even before the end of that year – new stockbuilding, which continued in 1968 at a faster rate once the fiscal obstacles had been entirely removed. Altogether during 1968 inventories probably grew by something like DM 8 billion, as compared with reduction by more than DM 3 billion in the whole of 1967. Thus the reversal of the stock cycle accounted for more than a quarter of the total increase in domestic demand.

Many inducements to invest

The rise of investment activity, with the inclusion of stockbuilding, was the result of a variety of impulses emanating from the market and from economic policy. The incentives induced by economic policy included in the first place the after-effects of the 1967 economic stimulation programmes, since capital goods, which had been ordered by end-October 1967 so as to fall within the period legally set for special depreciation, were in many cases delivered only in the course of 1968. The same applied to orders by *Länder* and local authorities, which under the second economic stimulation programme likewise had to be given before the end of 1967, but some of which could not be executed until dates in the course of 1968. Moreover, market-induced incentives to invest resulted, above all, from the uncommonly favourable state of enterprises' earnings, which – as usual in periods of upswing – was due to the fact that productivity at first rose a great deal but wages only slightly, so that unit labour costs fell. The conditions for financing were moreover good; large financial reserves of enterprises, already existing at the start of the year and replenished by rapidly rising profits, coincided with relatively low and in some cases even further declining rates of interest for borrowing.

Tax relief for old inventories encouraged economic activity

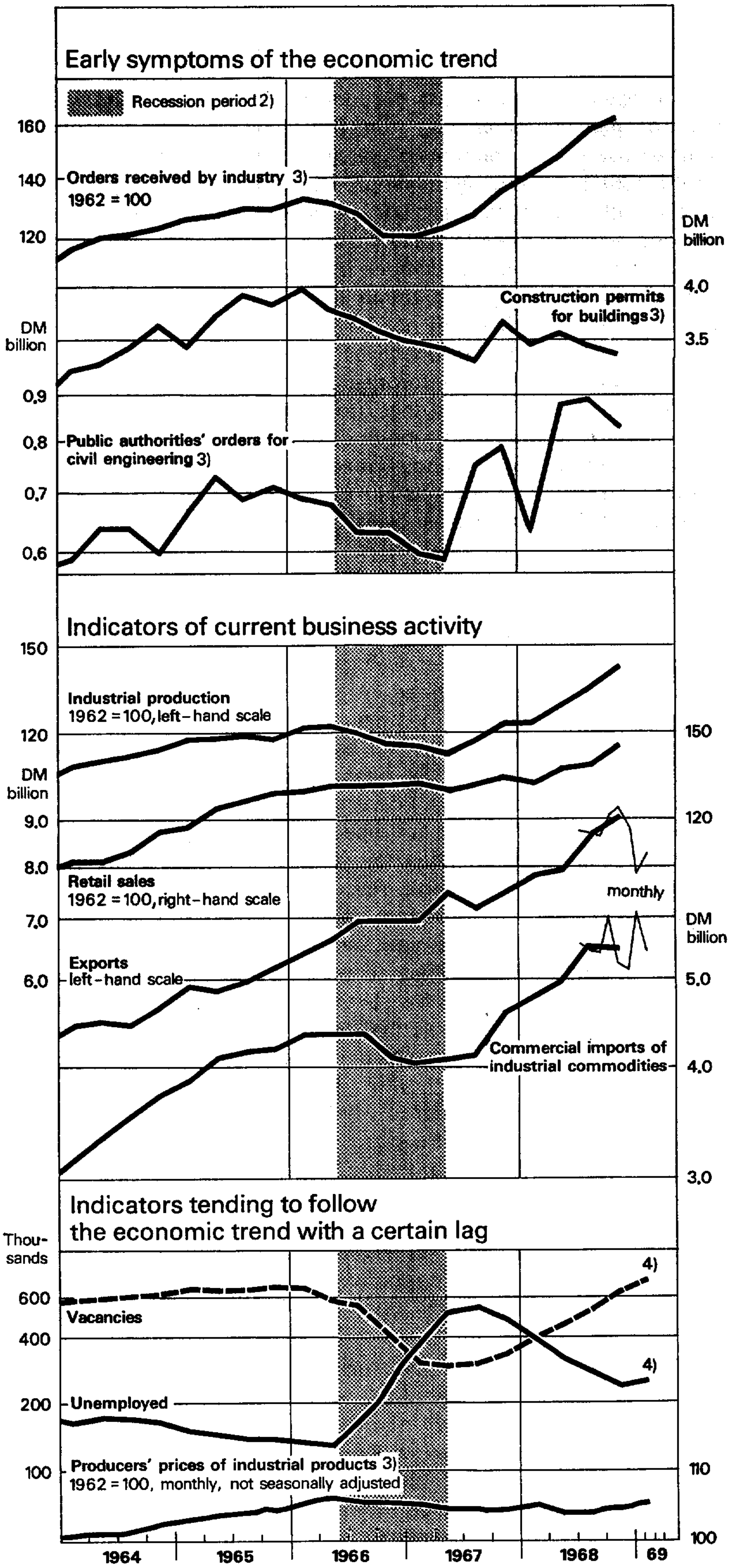
Another important impellent of the rise in capital expenditure during 1968 lay in the growth of liquidity and earnings which began when the "old inventories" were largely relieved from the former turnover tax. This relief was based on the ground that the former turnover tax contained in the inventories existing on 31 December 1967, unlike the value-added tax contained in goods bought later, could not be deducted as a tax prepayment from the enterprises' liability for value-added tax, and must therefore be repaid at flat rates. It is true that, as already mentioned, enterprises had tried, in their own interests, during 1967 to keep their stocks as low as possible. Nevertheless the tax repayment (which technically was as a rule offset against the current liabilities for payment of tax) did amount to about DM 4.5 billion. Enterprises' available resources increased by this amount. They could be either applied to financing capital expenditure or added to liquid reserves. Around the turn of the year 1967/68, when the value-added tax had been introduced, and a possible third economic stimulation programme had been discussed, the full significance of this stimulating effect produced by the tax relief on old stocks was not perceived. At that time the view prevailed that the initially selected rate of value-added tax (10 % or 5 % from 1 January 1968) was neutral in its effect on revenue; the authorities thus expected that the revenue from taxation of turnover would be equal to what could have been expected if the old tax system had been retained, and supposed that the relief enjoyed by enterprises on old inventories would be fully offset through a corresponding increase of the currently payable value-added tax. In fact however, as shown on page 72 *seq.*, despite the increase in turnover by some 9 % the tax yield rose by only 1 %. In the ultimate result the introduction of the value-added tax affected enterprises' net earnings exactly as though their direct taxes had been considerably reduced for a year.

Rising incomes and consumer expenditure

During 1968 private consumer expenditure at first proved, as usual, to be less dynamic than investment activity, but in the end it gave the cyclical upswing the broad basis required for lengthy duration. Already in the first half of 1968 seasonally adjusted consumer expenditure was greater by 3 % than in the second half of 1967, and in the second half of 1968 it rose by a further 4 %. Its growth became unmistakably faster towards the end of the year, since in the fourth quarter alone private consumer expenditure (seasonally adjusted) mounted by 2.5 % in comparison with the third quarter; converted to an annual rate, this amounted to a 10 % increase. In the first months of 1969 the strong upward trend appears to have continued. The basis for this was formed by a great increase in private incomes (wages and salaries as well as withdrawals by the self-employed);

Economic indicators

quarterly 1) adjusted for seasonal variation, logarithmic scale



1) Monthly averages for the quarter. – 2) Measured by the decrease in industrial production. – 3) As from January 1968 after elimination of estimated effect of value-added tax. – 4) January/February 1969.

in percentage terms this increase even exceeded that of consumer expenditure, since the saving ratio of households rose appreciably. The increase of private incomes, on its part, was an almost inevitable result of the general economic upswing as, among other things, the consequent additional demand for labour caused rapid growth not only in the number of man-hours worked but also in wages and salaries. The fact, known from long experience, that an investment boom promptly creates the consumer demand needed for utilisation of the rapidly growing production capacities which result from the new investments, was thus confirmed during 1968 just as during the upward phases of past business cycles in the Federal Republic of Germany, and this happened despite all the fears which had been expressed in that connection at the end of 1967 and the beginning of 1968. The durability of the upswing was then widely doubted and there was some fear of a slackening of economic activity in the second half of the year. Evidence is hardly required to prove how greatly the upswing would have been exaggerated if a third economic stimulation programme had been added to the stimulative effects described above — especially those connected with the change-over to the value-added tax — as was then recommended in various quarters.

Full employment of reserve production capacities

Unusually great increase of production

The uncommonly strong pull which the rise of demand exerted in 1968 on the mobilisation of production factors caused an almost equally great increase of production. The real gross national product grew in 1968 by 7 %, and the output of manufacturing industries, which is the part of total production most sensitive to cyclical changes, actually rose by 12 %. Expansion of output on this scale was of course possible only because production capacities were not yet fully employed at the beginning of 1968. In January of that year, for example, the Ifo Institute put the extent to which they were employed in manufacturing industries at 82 %; by January 1969 on the other hand the proportion had reached 88 %, a level unprecedented in such a month.

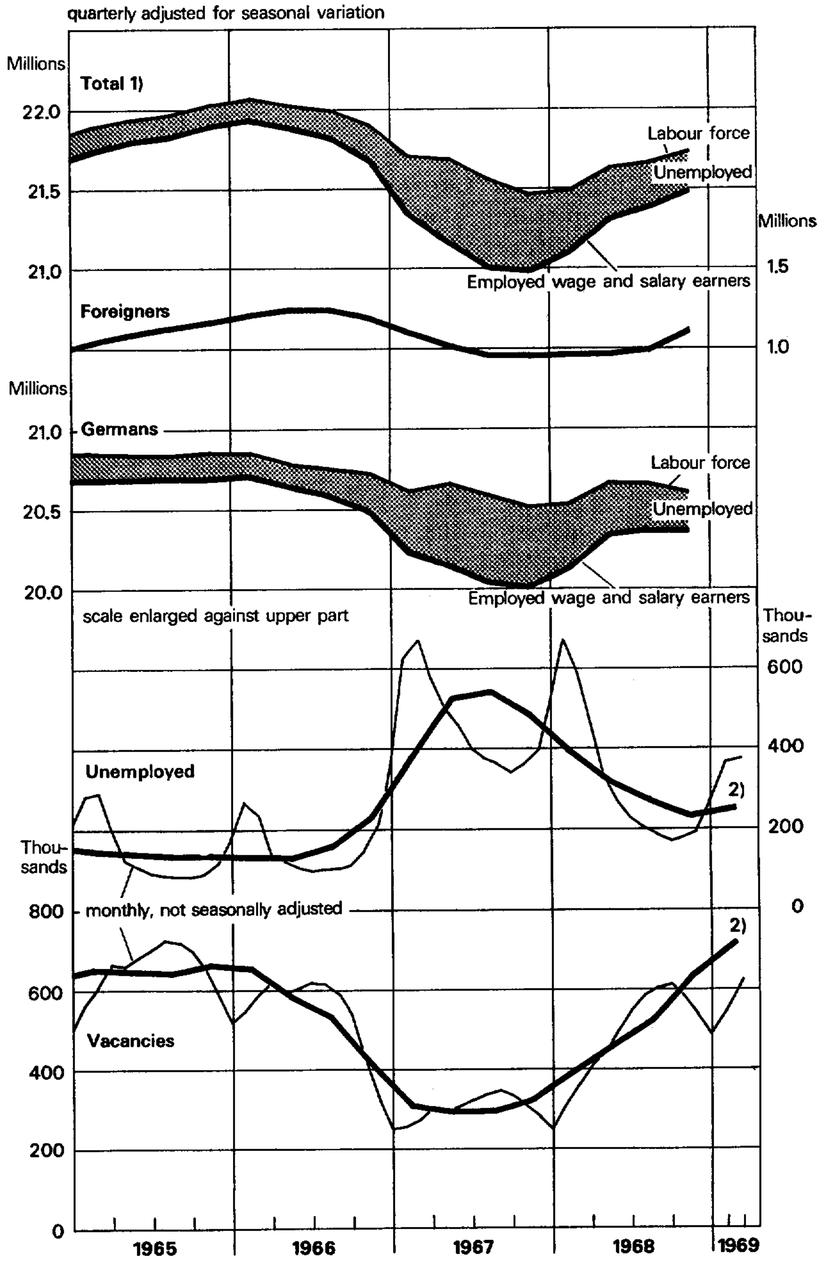
Recourse to labour reserves at home . . .

No less important, however, was the fact that substantial labour reserves could be mobilised, in the first place by re-employing people out of work, and later by recruiting additional workers abroad. The domestic labour market became largely exhausted in the course of the year; the unemployment ratio had fallen by the beginning of 1969, in terms of seasonally adjusted figures, to 1.2 % of all employed and unemployed wage and salary earners. Because of greater occupational and regional differences residual unemployment has not yet fallen again to its previous low point of 0.7 %, reached on the yearly average in 1965 and 1966. Nevertheless domestic labour reserves available at short notice can hardly any longer be said to exist. It is true that the total domestic wage and salary earning labour force including registered unemployed increased by about 100,000 between its low point in the autumn of 1967 and the autumn of 1968 (see the following graph); but even this increase was due in considerable degree, probably in the main, to the fact that people previously self-employed had in the meantime accepted paid employment. On the other hand the reservoir of "invisible" unemployed, estimated by various observers at between 150,000 and 300,000 persons, no doubt yielded only a modest contingent of workers — if indeed that reservoir was ever of any appreciable significance at all. Nor does it look as though in the further course of 1969 any appreciable reserves could be mobilised here, unless the labour market becomes so overheated as to entail recourse on a major scale even to inefficient marginal workers, whose employment would be relatively dear and therefore practicable only in inflationary conditions.

. . . and especially abroad

The supply of foreign labour, on the other hand, proved to be more elastic. From the summer of 1968 onwards, after the Federal Institution for Labour Exchanges and Unemployment Insurance had again begun to recruit abroad on a wide basis (until then it had done this only in cases of great regional demand for labour), the number of foreign workers increased considerably. At 1,137,000 at the end of January 1969 the number of foreign workers in Germany was greater by 230,000 than in January 1968. The number thus also slightly exceeded the previous greatest January total, namely the 1,127,000 reached in January 1966. In future too it will be possible to recruit foreign workers on a certain scale, whereas owing to

Labour market



1) According to calculations of Bundesbank.— 2) Average January/February 1969.

the unfavourable age structure in the Federal Republic of Germany additional domestic labour will hardly be available. No doubt however there will continue to be self-employed persons who change over to paid employment; although this does not alter the potential labour force in terms of quantity, it does increase over-all productivity if a less productive activity is given up.

Cyclically favoured growth of productivity

Despite the above-described increase in the number of workers the total number of man-hours worked only rose by the small margin of 0.5 % in 1968, because working hours were at the same time reduced. The output per man-hour in the entire economy on the other hand rose by 6.5 %. As usual, the growth of productivity was greater in industry than in the other sectors; at about 9 % the rise was indeed greater than in any other year since figures on the subject have been available. The main reason why it was possible for productivity to rise so much undoubtedly was that at the beginning of 1968, as already mentioned, plants had not yet been employed to anything like the optimum extent, whereas towards the end of the year they had attained or even already exceeded the optimum, and therefore the most productive degree of employment. On the annual average, capacities were utilised to the extent of about 86 %, or more than in 1967 by seven points per cent. The transition from less full to full employment would seem to have been the chief reason why the real gross national product per hour worked per gainfully active person rose in 1968 – as already mentioned – by 6.5 %, that is by slightly more than the average 5.3 % rise achieved during the entire cycle from 1964 to 1968, or the corresponding average of 5.4 % in the five years from 1960 to 1964. As the employment of capacities approached maximum, however, the special gains in productivity ceased, so that in the fourth quarter of 1968 the rise of productivity in industry – despite the strong pull of demand – was already little greater than normal.

Prices and costs largely stable

Growth in productivity offsets rise in wages

The full mobilisation of reserves of production capacities, induced partly through capital investment during past years but also through more rational use of labour in the brief recession period, which especially enforced saving on costs, contributed materially towards causing costs and prices to remain largely stable during 1968 as a whole. On the average for the year the rise in productivity actually was somewhat greater than that of employed persons' average earnings, so that unit labour costs declined slightly in 1968 for the first time since 1959, falling in fact by not quite 1 %. This result was of course mainly due to developments in the first half of the year, whereas in the second half-year not only did the growth of productivity become smaller, but towards its end the rise of wages also again quickened. Average earnings in the whole of 1968 increased by about 6 % compared with the whole of 1967; in the fourth quarter however they were already above the level of a year previously by 8 %. Unit labour costs thus began to rise again in the latter course of 1968. While this reversal approximately coincided with a corresponding change in the trend of prices, this does not of course mean that the rise of wages caused that of prices, or *vice versa*. They were on the contrary parallel movements, having their common origin in the fact that total demand was rising too fast in relation to the narrowing real margin for growth.

Largely stable prices on the average for 1968

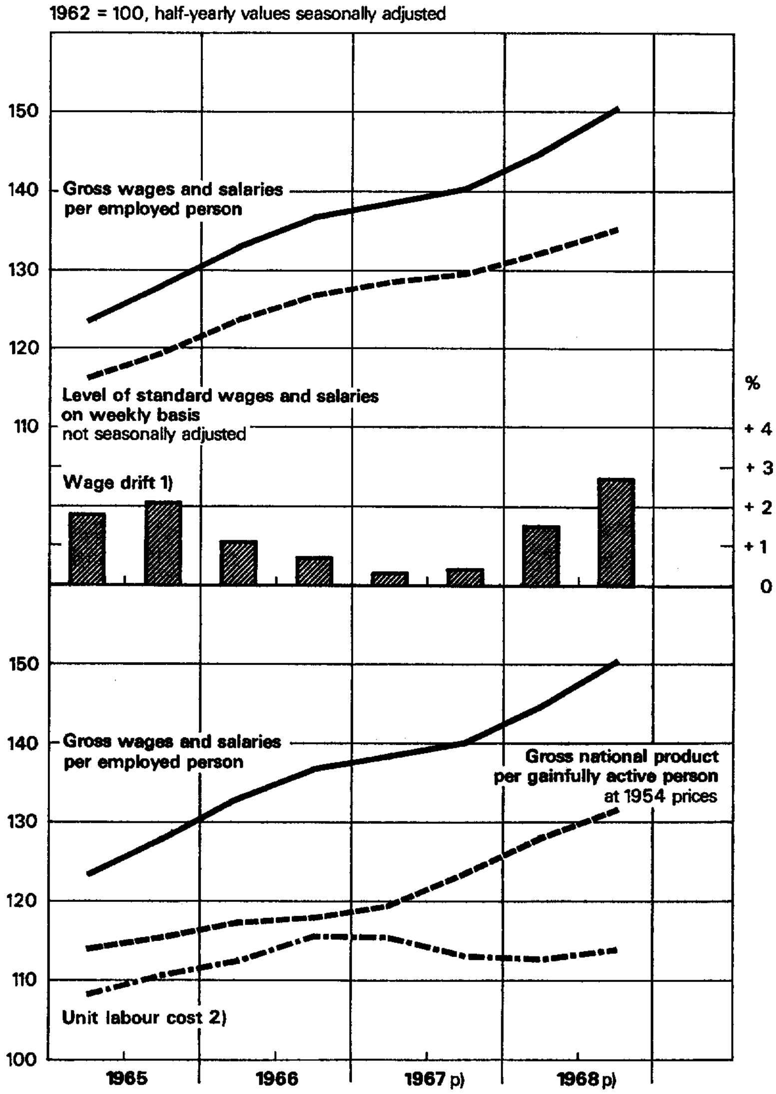
During 1968 as a whole, prices were fairly stable. Thus the price index for the national product was higher by 1.9 % on the annual average for 1968 than on that for 1967, and the cost-of-living index (for a middle category of consumers), which is foremost in the public mind, rose above the previous year's level by only 1.5 %. The fact that the level of consumer prices rose according to the cost-of-living index by less, and according to the price index for private consumption at all events by no more than the price index for the national product merits special mention, inasmuch as the transition to the value-added tax system would seem to have entailed a slight shift in the burden of turnover tax from capital goods to private consumer goods. In addition the new rate of tax, at all events after it had been raised in July from 10 % (or 5 %) to 11 % (or 5.5 %), meant a slight additional increase of the turnover tax burden on consumer goods as compared with the former tax system[1]). The tax on investment in plant has not been raised in mid-1968 because it will be gradually reduced during a transition period and will no longer be levied at all as from 1973. The price increases not due to changes in tax law were thus smaller in 1968, especially at the consumer stage, than might be supposed in the light of the indices.

Change of the price climate about mid-year

In the course of 1968 the price movement was much less satisfactory, however, than might be supposed on the basis of the change in average yearly figures. Price rises took effect at practically all levels from the middle of the year onwards. Industrial producers' prices, which are especially sensitive to the business cycle, rose by 0.6 % between August and the end of 1968; if January and February 1969 are included they actually rose by 1.1 %, whereas up till mid-1968 they had slightly declined and had thus formed the desirable counteractant to price rises in other fields. Producers' prices for finished capital goods actually rose between

1 The fact that enterprises paid less value-added tax in 1968 than they would have had to pay in turnover tax under the former legislation was due exclusively to the above-mentioned relief for old stocks.

Wages and productivity



1) Quotient of year-to-year increase in actual earnings and rise in level of standard wages and salaries (on weekly basis).—2) Quotient of index of gross earnings per employed person and index of real gross national product per gainfully active person.– p) Provisional.

August 1968 and February 1969 by more than the overall index, *viz.*, by 1.9 %. Thus during the last six months the prices for capital goods rose, in terms of equal periods, by as much as during the last boom, in 1964/1965. Prices for building work also increased markedly since mid-1968. Producers' prices for agricultural produce have shown particularly vigorous growth since then, however; between August 1968 and February 1969, after adjustment for the season, they rose by 4.2 %. It was also largely due to farm prices that the overall level of consumer prices mounted considerably from mid-1968 onwards. During the last six months for which figures were available when this Report went to press, namely the period from August 1968 to February 1969, such prices (when seasonally adjusted) rose by about 2 %, after having been fairly stable during the previous months of 1968. Thus during the last months before the writing of this Report the rise of prices at the consumer stage was almost as great as during the last boom.

Effect of administrative price rises tends to be over-estimated

The rise in consumer prices during the past six months was of course not solely due to market causes, but was affected, more than usual perhaps, by certain administrative price increases, even though such increases had also been a factor earlier and to that extent had always been an inherent part of the general price rise. Whatever importance may be attached to that, however, the influence of the administrative price rises in 1968 was at all events much smaller than that of the other factors. True, it is rightly pointed out that the recent rise in the cost-of-living index is in great part attributable to rising rents. Roughly two-fifths of the rise in the index between August 1968 and February 1969 is in fact due to this cause. However, less than half of these rent increases result from administrative measures, namely from raising the rents for the publicly assisted dwellings built before 1960. The other rent increases included in the cost-of-living index relate to pre-currency-reform dwellings, the rents for which have for some time been almost generally free, as well as to newly built publicly assisted dwellings, rents for which, because of higher building costs, are higher than those for dwellings built at earlier dates. These increases must of course be appraised in the same way as rises in the price of other services or goods; they are not administratively induced (increases in the rent for dwellings built since 1948 outside the publicly assisted programmes are not recorded in the index at all). It is also correct to point out that the rise in the cost of living of late has been partly due to that of food prices. Another two-fifths of the rise in the cost-of-living index between August 1968 and February 1969 was due to that cause. Only to an insignificant extent, however, does this reflect price rises really caused by administrative action (for example, the official order raising the price of milk). In general, foodstuffs have risen in price because the demand for them rose faster than the supply; in some categories, moreover, relatively poor crops were of some, although not of crucial importance. Finally the fact that prices for basic foodstuffs such as grain and fatstock are in great part subject to uniform market regulation through the E. E. C. Commission can likewise not be automatically regarded as ground for assuming a price increase due to administrative action, but can be so regarded only in so far as the Commission raised, contrary to the market tendency, an agricultural price level which initially existed. During the period now under consideration, however, this hardly happened; it may however be that price reductions which would have been in line with the market were not effected (for example in the case of butter). It would accordingly seem that price changes really due to administrative action contributed to the extent of only about one-fifth towards the overall rise (by about 2 % after seasonal adjustment) in the cost of living during the period from August 1968 to February 1969. Since the price rise thus quickened mainly because of market causes, there was good reason to adopt anticyclical measures.

(b) Domestic monetary expansion

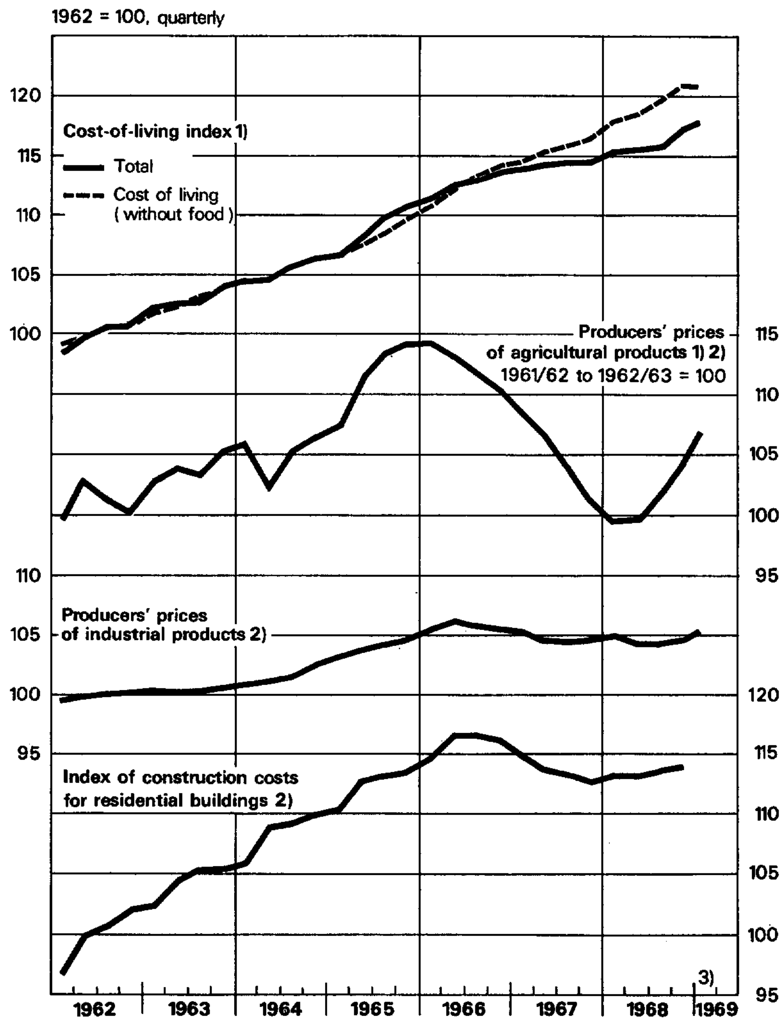
The strong cyclical upswing during 1968 was accompanied, and favoured, by monetary expansion which was no less marked. The reinforcement which domestic demand received from the monetary angle is above all apparent in the fact that the increase which the upswing necessarily entailed in the domestic demand for credit was satisfied, even though the foreign demand for credit was at the same time considerable, at stable and indeed at slightly declining rates of interest. This fact is all the more significant because in foreign countries the tendency of interest rates was strongly upward towards the end of the year.

Great expansion of credit

Extent of total credit expansion

The size of the demand for credit may be illustrated by the fact that ultimate domestic borrowers (that is enterprises other than institutional investors, plus public authorities and private households) obtained about DM 54 billion by borrowing from banks, building and loan associations and insurance companies, through the issue of securities, and by borrowing in foreign countries. In 1967 the domestic sectors' borrowing had been smaller by DM 7.5 billion. The especially dynamic role of bank lending in this movement is shown *inter alia* by the fact that the banking system's lending to domestic non-banks (including its acquisition of securities issued by them) amounted to about DM 39 billion in 1968 against only DM 31 billion in 1967 and DM 32 billion in 1965, the year of previously greatest credit expansion. Reckoned in per cent of outstanding lendings to domestic non-bank customers at the end of 1967, this expansion of credit amounted to $11^1/_2$ % against 10 % in 1967. The proportion of the total domestic demand for credit met through banks' direct lending was about 65 %, thus being

Prices



1) Seasonally adjusted.- 2) As from January 1968 after elimination of estimated effect of value-added tax.- 3) Average for January/February 1969.

much greater than in earlier years. The other financial institutions — building and loan associations and insurance companies — contributed in absolute amount less than previously towards meeting the domestic demand for finance, at least so far as the granting of direct loans is concerned. Also effectively smaller was the procurement of funds by domestic non-banks through the issue of securities, namely shares, fixed-interest securities and money-market paper. In particular the public authorities, which in 1967 had for reasons of anticyclical policy financed their requirements on a large scale through the issue of fixed-interest debt instruments and non-interest Treasury bonds, kept their new issues during 1968 within narrower limits.

Large and further increased liquidity reserves as basis

The banks' expansion of credit was based in the first place on the abundant liquidity with which they had already begun the year 1968, secondly on further increases of their free liquid reserves in the course of the year and thirdly, so far as the banks in their lending business largely depend on the accrual of funds at longer term, also on the fact that the public employed longer-term funds with them on a considerable scale materially in excess of the previous year's figure. By January 1968, as a result of the expansive credit policy pursued in 1967, the credit institutions already had free liquid reserves greater in absolute amount by fully two-thirds than a year before. The banks' liquidity at the beginning of 1968 was larger than during the immediately preceding years also in comparison with customers' deposits held with them, and was as great as before credit restriction began in 1964. This assured them of a good basis for abundant offering of credit, and continued to do so even when, in the course of 1968, the free liquid reserves no longer grew *pari passu* with deposits at banks. As shown in the chapter on monetary developments (page 46 *seq.*), the liquidity which accrued to credit institutions from the market was largely offset by the fact that, together with the reserve-carrying liabilities, the minimum reserves also rose. The free liquid reserves accordingly increased only in so far as the banks granted credits which they can refinance at the Bundesbank without this being counted against their rediscount quotas and which accordingly represent additional reserves of liquidity, and in so far as they were able, through an increase of their liable funds, to obtain larger quotas for rediscounting commercial bills at the Bundesbank. At the beginning of 1969 in any case the liquidity ratio, that is the proportion of free liquid reserves to non-banks' deposits, was somewhat lower than at the beginning of 1968.

Strong growth of monetary capital formation permits preference for longer-term lending

A special feature of the banks' credit expansion in the year under review was the considerable increase of their longer-term lending; this is to be seen in close connection with the big accrual of long-term resources. Domestic non-banks in 1968 placed about DM 39 billion with banks at longer term (time deposits at less than six months' notice not being included) against only DM 26 billion a year before. This large accrual of longer-term resources also enabled the banks greatly to expand their longer-term lendings to domestic non-bank customers (including their acquisition of securities issued by non-banks), increasing them by about DM 33 billion, or roughly DM 10 billion more than in the previous year. Short-term lending to the same category of customers, on the other hand, increased only a little more than in 1967. There was an even greater increase in the granting of long-term loans to foreign borrowers, however. In 1968 German credit institutions expanded their longer-term foreign assets (offset against long-term foreign liabilities) by DM 6.6 billion as against only DM 1.6 billion in 1967, but reduced their net short-term foreign assets by nearly the same amount by which these had risen in 1967 (DM 3 billion). Thus in 1968, on an overall view, the banks converted part of their short-term external assets into long-term investments.

Security market under the influence of heavy bank buying

The banks' security buying as a means of transforming maturities . . .

The turn to longer-term commitment would hardly have been possible, on the scale described, had not the credit system in very large measure employed the medium of securities, which in the German financial system are of importance for the transformation of maturities. On the one hand non-banks in 1968 again employed by far the greater part of their monetary capital at credit institutions, placing most of it — at least in form — for medium and shorter periods (details will be found on page 63 *seq.*). On the other hand, however, the parties incurring capital expenditure mostly need long-term loans, for instance to finance house-building, for local authorities' capital investments or for long-term industrial projects. When credit institutions buy securities, they thereby acquire assets which because of their marketability are deemed to be relatively salable, so that concordance of maturity with the liabilities side of bank balance sheets is assured, although at the risk of losses on sale in the case of price declines. But, as a result of the banks' security purchases, borrowers receive long-term credit either directly (so far as they themselves issue the securities) or indirectly (so far as the issuing banks do this, and lend out the proceeds of issue to non-banks at long term). Thus the banking system, by dint of acquiring securities, transforms the maturity. In point of fact during 1968 credit institutions bought securities of domestic non-bank issuers to the extent of about DM 4.5 billion, and those of foreign issuers to the extent of some DM 2 billion. Furthermore, credit institutions were also the principal buyers of other banks' bonds; during 1968 they took approximately DM 9.5 billion, or say two-thirds, of the issuing institutions' total net bond sales.

. . . and a mainstay of security sales

Although transformation of maturities on a security basis was extremely marked during 1968, and greater amounts passed through these channels than ever before, its relative importance grew no further in comparison with 1967. Credit institutions in 1968 acquired securities amounting to DM 16 billion, or 58 % of the total net sales of domestic and foreign securities in the Federal Republic of

Germany, whereas in 1967 they had acquired DM 11.25 billion, or 60 % of such total net sales. Thus during 1968 non-banks too again bought more securities, almost on the same scale as in 1965 when the heavy fall on the bond market started. Acquisition of bonds alone however has not yet reattained its 1964 level, although running at more than twice the previous year's figure. Dividend-bearing securities on the other hand were purchased in the year under report to a greater extent than in all previous years, mostly no doubt by private individuals; this is indicated by the fact that the rise in sales of certificates of investment funds specialising in shares was particularly marked. Individuals continued to show relatively little interest in the acquisition of bonds, however. It is obvious that they fear the greater risk on price inherent in direct buying of securities. Nor have the attempts to offer fixed-interest securities, or at all events debt instruments or claims similar to securities, not involving any risk on price – such as credit institutions' savings certificates and recently the Federal Savings Bonds – yet attained any considerable significance as compared with saving through accounts, even though such instruments are becoming perceptibly more popular.

Direct lending reduced the bond market's dependence on liquidity

In the light of the facts described, the large sales of bonds and shares in 1968, to an extent totalling almost DM 28 billion, would not have been conceivable without the banks' abundant liquidity and without the great accrual of longer-term resources in their hands. But whereas longer-term resources are formed more or less continuously, there is every prospect that the credit institutions' liquidity will remain subject to major fluctuations, in particular since it is precisely the main point to which credit policy is applied. This dependence of security markets on the money market – much deplored by the public – would be reduced if maturities could be transformed more than hitherto without interposition of securities, that is if a larger degree of maturity transformation could be effected in the credit institutions' own lending business. During the year under review some signs of this process were apparent inasmuch as certain important groups of borrowers, who had previously financed their requirements mainly through their own issues, managed to satisfy their long-term borrowing requirements on a significant scale directly at the banks, and by no means only at those institutions which procure their funds predominantly through the issue of long-term bank bonds, but also, in particular, at the major commercial banks as well as at the central institutions of savings banks and of credit cooperatives. That applies especially to the Federal Government, which during 1968 – in contrast to earlier times – mostly borrowed directly at long term from credit institutions against its notes. In the banks' long-term foreign business a similar tendency appeared. The credit institutions granted roughly twice as much in the way of direct long-term loans to foreign customers as they acquired in foreign securities. In industrial financing, on the other hand, the direct loan has long predominated. The chief reason why the banks have applied themselves to direct long-term lending is no doubt that the resulting assets, unlike securities, entail no risk on the price while the consequent greater risk to liquidity has evidently not so far conflicted with the liabilities-side structure of bank balance sheets, especially since at all banks the large accruals of savings deposits provided the necessary basis for cultivation of longer-term lending business. In future too, of course, many borrowers will continue to depend for the satisfaction of their long-term credit needs on the institutions which specialise in long-term lending, and which procure funds of concordant maturity through the issue of securities.

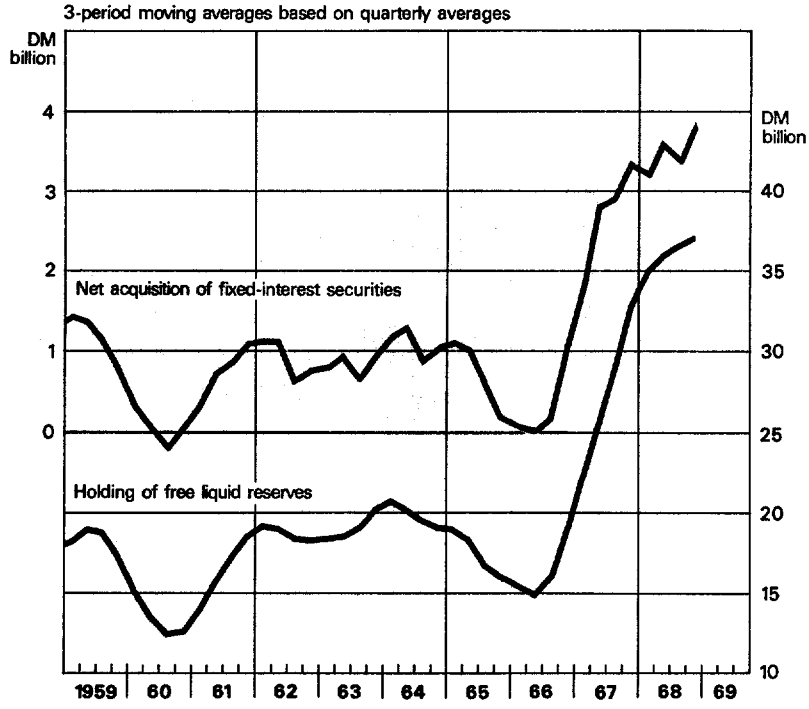
Great increase of the whole economy's liquidity

Bond market also favoured through increase in non-banks' liquidity

But the great productiveness of the bond markets in 1968 also rested on a presumably not quite permanent basis inasmuch as the great accrual of longer-term resources at the banks chiefly acquiring securities was in some measure the result of a far-reaching increase in the liquidity of trade and industry, this increase being in turn due to factors some of which were not very durable. In the first place the unusual rise of enterprises' monetary holdings was due in part to the great increase of earnings consequent on the tax reimbursement, now practically ended, in respect of old inventories. Secondly, and this was no doubt even more important, liquidity constantly accrued to enterprises from payment transactions with foreign countries. The growth of the banking system's (including the Bundes-

Bank liquidity and net acquisition of fixed-interest securities by credit institutions

3-period moving averages based on quarterly averages



bank's) net external assets, which are identical with non-banks' net sales of foreign exchange to the banking system and therefore to a large extent also with the accrual of resources resulting therefrom, amounted in 1968 to more than DM 11 billion. This amount would already suffice to explain the total 1968 increase of non-banks' money holdings, which on the yearly average were higher by 9.4 % than in 1967. Of course the effect of non-banks' external transactions cannot be counted as having gone entirely to expand the money supply in the narrower sense. It must rather be assumed that the afflux of resources from abroad ultimately contributed in a very high degree towards increasing longer-term time deposits – which are not counted as part of the money supply – and thus formed one of the reasons why the banks felt unusually liquid and acquired more securities. No doubt, however, the great increase of non-banks' liquidity is just what makes a monetary policy aimed at stability difficult.

(c) Resistance of the external surpluses to the economic upswing

Surpluses on current account as large as ever

The great additions to non-banks' resources from foreign transactions resulted above all from the persistently large surplus on current items (goods, services and transfer payments). At DM 11.5 billion in 1968 this surplus was not smaller but was actually greater by more than DM 1.5 billion than in 1967 (although this increase is largely explained by the special factors operating towards the end of the year). Up till the end of the period under review, therefore, current items in the balance of payments did not react in the manner expected to the economic upswing which lasted from mid-1967 onwards. In the course of the preceding cycle, on the other hand, the surpluses on current account had begun to decrease about six months after the upswing started. In the second half of 1968 the export surpluses actually rose further as a result of special factors like expectation of a revaluation of the DM and certain features of the "substitute upvaluation" then effected through fiscal measures. In the absence of these special factors, which were followed however by an opposite movement in January and February 1969, the current account surpluses would hardly have been any greater in the second half of 1968 than a year before; at all events this applies to the period from July 1968 until February 1969.

National product *)

Item	1964	1965	1966	1967 p)	1968 p)	1964	1965	1966	1967 p)	1968 p)
	Billions of DM					Year-to-year change in %				
I. Origin of national product										
(a) At current prices										
Contributions to gross domestic product										
Agriculture, forestry and fisheries	20.5	20.1	20.3	20.9	20.7	+ 6.4	— 1.9	+ 0.7	+ 3.1	— 0.8
Producing industries **1)**	218.9	238.9	248.3	242.2	270.6	+ 10.0	+ 9.1	+ 3.9	— 2.5	+ 11.7
Trade and transport **2)**	80.6	88.4	93.9	95.1	101.7	+ 9.1	+ 9.6	+ 6.3	+ 1.2	+ 6.9
Services **3)**	94.6	106.5	119.1	127.9	138.6	+ 10.3	+ 12.6	+ 11.9	+ 7.3	+ 8.4
Gross domestic product	414.6	453.8	481.6	486.0	**a)** 529.0	+ 9.7	+ 9.5	+ 6.1	+ 0.9	+ 8.8
Net income payments to factors of production due from the rest of the world	— 0.8	— 1.1	— 0.8	— 0.9	— 0.2	.	.	.	.	.
Gross national product at market prices	413.8	452.7	480.8	485.1	528.8	+ 9.6	+ 9.4	+ 6.2	+ 0.9	+ 9.0
(b) At 1954 prices										
Gross national product at market prices	308.5	325.7	333.3	334.1	357.5	+ 6.6	+ 5.6	+ 2.3	+ 0.2	+ 7.0
id., per gainfully active person, in DM	(11,430)	(12,000)	(12,310)	(12,710)	(13,570)	+ 6.2	+ 4.9	+ 2.6	+ 3.2	+ 6.8
II. Distribution of national income and national product at current prices										
(a) Before income re-distribution										
Compensation of employees **4)**	204.4	225.8	243.0	243.4	261.0	+ 9.6	+ 10.5	+ 7.6	+ 0.2	+ 7.3
Income from entrepreneurial activity and property	112.1	119.6	121.8	120.3	141.4	+ 9.4	+ 6.7	+ 1.8	— 1.2	+ 17.4
of which:										
Individuals' income	(106.8)	(113.9)	(116.1)	(115.5)	(136.0)	+ 9.5	+ 6.7	+ 1.9	— 0.6	+ 17.8
Government income **5)**	(5.4)	(5.7)	(5.7)	(4.9)	(5.4)	+ 6.8	+ 6.0	— 0.2	— 14.6	+ 11.8
Net national product at factor costs (national income)	316.5	345.4	364.8	363.7	402.5	+ 9.5	+ 9.1	+ 5.6	— 0.3	+ 10.7
plus indirect taxes	59.0	64.1	68.0	70.4	72.4	+ 9.1	+ 8.7	+ 6.1	+ 3.6	+ 2.7
less subsidies	3.6	3.9	4.1	4.0	5.3	+ 10.1	+ 7.5	+ 6.4	— 2.7	+ 32.1
Net national product at market prices	371.8	405.6	428.6	430.1	469.5	+ 9.4	+ 9.1	+ 5.7	+ 0.3	+ 9.2
plus depreciation	42.0	47.1	52.2	55.0	59.3	+ 11.0	+ 12.2	+ 10.9	+ 5.4	+ 7.8
Gross national product at market prices	413.8	452.7	480.8	485.1	528.8	+ 9.6	+ 9.4	+ 6.2	+ 0.9	+ 9.0
(b) After income re-distribution **6)**										
Net compensation of employees	150.9	167.9	178.3	177.5	186.7	+ 9.6	+ 11.3	+ 6.2	— 0.5	+ 5.2
Net income from social security pensions and benefits and from retirement pensions	51.2	57.4	62.7	69.1	72.9	+ 10.1	+ 12.1	+ 9.2	+ 10.2	+ 5.5
Net income of individuals from entrepreneurial activity and property	75.7	81.8	82.3	81.7	99.6	+ 11.3	+ 8.1	+ 0.6	— 0.8	+ 22.0
Net income of government	94.1	98.4	105.3	101.9	110.2	+ 7.4	+ 4.6	+ 7.0	— 3.3	+ 8.2
Net national product at market prices	371.8	405.6	428.6	430.1	469.5	+ 9.4	+ 9.1	+ 5.7	+ 0.3	+ 9.2
III. Appropriation of national product at current prices										
Private consumption	232.9	255.7	274.9	281.4	297.3	+ 7.9	+ 9.8	+ 7.5	+ 2.4	+ 5.7
Government consumption	61.7	69.7	75.5	80.6	82.9	+ 4.3	+ 12.8	+ 8.4	+ 6.7	+ 2.9
Gross investment in fixed assets	109.2	118.9	121.9	110.4	121.9	+ 14.5	+ 9.0	+ 2.5	— 9.4	+ 10.4
of which:										
Buildings	(57.6)	(60.7)	(64.3)	(58.2)	(63.9)	+ 16.6	+ 5.5	+ 5.9	— 9.5	+ 9.8
Equipment	(51.6)	(58.2)	(57.6)	(52.2)	(58.0)	+ 12.2	+ 12.8	— 1.0	— 9.4	+ 11.1
Inventory changes	+ 4.7	+ 9.0	+ 2.0	— 3.5	+ 8.2	.	.	.	.	.
External surplus	+ 5.3	— 0.6	+ 6.5	+ 16.2	+ 18.5	.	.	.	.	.
Exports	(83.5)	(91.4)	(103.0)	(111.5)	(125.9)	+ 11.4	+ 9.4	+ 12.7	+ 8.2	+ 12.9
Imports	(— 78.2)	(— 92.0)	(— 96.5)	(— 95.3)	(—107.4)	+ 11.8	+ 17.6	+ 4.9	— 1.3	+ 12.7
Gross national product at market prices	413.8	452.7	480.8	485.1	528.8	+ 9.6	+ 9.4	+ 6.2	+ 0.9	+ 9.0
	Proportions in %									
Private consumption	56.3	56.5	57.2	58.0	56.2	.	.	.	.	.
Government consumption	14.9	15.4	15.7	16.6	15.7	.	.	.	.	.
Gross investment in fixed assets	26.4	26.3	25.4	22.8	23.1	.	.	.	.	.
of which:										
Buildings	(13.9)	(13.4)	(13.4)	(12.0)	(12.1)	.	.	.	.	.
Equipment	(12.5)	(12.9)	(12.0)	(10.8)	(11.0)	.	.	.	.	.
Inventory changes	1.1	2.0	0.4	— 0.7	1.6	.	.	.	.	.
External surplus	1.3	— 0.1	1.4	3.3	3.5	.	.	.	.	.
Exports	(20.2)	(20.2)	(21.4)	(23.0)	(23.8)	.	.	.	.	.
Imports	(— 18.9)	(— 20.3)	(— 20.1)	(— 19.6)	(— 20.3)	.	.	.	.	.
Gross national product at market prices	100.0	100.0	100.0	100.0	100.0	.	.	.	.	.

Source: Federal Statistical Office, and calculations of Bundesbank. — * Federal area including Berlin (West). Details may not add to totals because of rounding. — **1** Mining and power (including water supply), manufacturing, building. — **2** Including telecommunications. — **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. — **a** In order to obtain the gross domestic product, the difference between deduction of prior turnover tax on investments and investment tax on plant, amounting to DM 2.5 billion, has to be deducted from total contributions by branches of economic activity to the gross domestic product. — **p** Provisional.

Relatively small additions to monetary reserves

The large surpluses on the current account of the balance of payments produced no lasting effect on the central monetary reserves of the Bundesbank; those reserves were not appreciably greater at the end of February 1969 than they had been at the end of February 1968. It is true that they did for a time rapidly grow as a result of the international monetary crisis in the autumn of 1968, but when the foreign exchange markets calmed down again after the Bonn monetary conference from 20 to 22 November 1968, as a result of the measures which were adopted both in the Federal Republic of Germany and in other countries (and which are described in Chapter II), the speculative money soon flowed back again.

Effect of capital exports on international squaring of payments

In the ultimate result Germany's large surpluses on the balance of payments in current account, amounting to about DM 10 billion in the period from March 1968 to February 1969, were largely offset through capital exports. For the international squaring of payments it was especially important that the German capital exports were, on balance, of a longer-term nature; at over DM 14 billion in the twelve months from March 1968 until February 1969 long-term capital exports were indeed much greater than the surpluses on current account. Thus for the rest of the world the large German exports of long-term capital produced the consequence not only that total transactions with Germany caused no loss of monetary reserves, but in addition that Germany's previous short-term lendings were in part replaced by loans at longer term. Thus the long-term capital exports not only prevented lasting disturbances of equilibrium in international payments, but also operated to consolidate the debtor position of some important countries. The basic balance of payments, *i.e.* the balance on current account plus long-term capital movements, which in the period mentioned showed a deficit, quite correctly reflects these facts that are significant for international payments equilibrium.

Internal effect of the capital exports

The effect which the capital exports produced on the economic cycle in the Federal Republic of Germany must, however, be assessed differently. An offset to the expansive influences which the current account surpluses exerted on domestic income formation, as well as on domestic monetary expansion, can in this context be expected with some certainty to result only from non-banks' exports of capital. In so far as non-banks on balance export capital it can be assumed that, against the addition to income from the transactions on current account and hence also against the additional accruals of money from these transactions, there is a compensatory domestic movement in the form of saving, and in the monetary sphere in that of a money withdrawal. Non-banks' long and short-term exports of capital accounted for only one-third of all capital exports, however, banks' capital exports accounting for as much as two-thirds of the total. If the long-term capital exports are regarded by themselves, it is found that roughly half of them came from banks. How far the banks' export of capital exerted a compensatory effect on the internal income and money circulation is much harder to judge.

The role of the banks' capital exports

As regards the banks' long-term capital exports, it would seem from appearances that these likewise amounted to a transfer abroad of long-term funds employed at banks. This conclusion is certainly correct as far as the individual institution is concerned; the banks could in the long run certainly not have entered into their long-term foreign commitments without a corresponding accrual of funds available at relatively long term. The offset, desired on overall economic grounds, to the expansive effect of the surpluses on non-banks' transactions with foreign countries occurs here, however, only in so far as the accrual at the banks of resources available at longer term is based on saving, that is, on non-consumption. In a period of great addition to non-banks' liquidity, especially if the addition results from unexpected accruals of liquidity at enterprises, such an equation is however less justified than in other circumstances. It should for example be realised that in 1968 enterprises alone increased their sight and time deposits by almost DM 14 billion, against DM 11 billion in the previous year but only between DM 3 and 4 billion in earlier years.

It is at most in part, therefore, that the banks' longer-term capital exports reduce the expansive effect which the surplus on non-banks' foreign transactions (that is the current account surplus less non-banks' capital exports) exerts on income formation. Still less, however, can such a compensatory effect be assumed to

Transactions of non-banks with foreign countries, capital exports of the banking system and liquid reserves of domestic enterprises

Billions of DM

Item	March 1967 to Feb. 1968	March 1968 to Feb. 1969
Transactions of non-banks with foreign countries		
(1) Surplus on current account	+ 9.8	+10.1
(2) Capital transactions of non-banks **1)** (net capital exports: —)	— 3.7	— 3.1
Surplus (1 + 2)	+ 6.1	+ 7.0
Capital transactions of banking system with foreign countries		
(1) Credit institutions (net capital exports: —)	— 5.2	— 5.9
(a) Long-term transactions **2)**	(— 1.3)	(— 6.4)
(b) Short-term transactions	(— 3.9)	(+ 0.5)
(2) Deutsche Bundesbank (increase in monetary reserves: —)	— 0.9	— 1.1
Total capital exports (1 + 2)	— 6.1	— 7.0
Note:		
Increase in liquid reserves of domestic enterprises 3)		
(1) Sight deposits and short-term time deposits	+ 6.1	**e)** + 8.0
(2) Other time deposits	+ 3.5	**e)** + 4.5
Total (1 + 2)	+ 9.6	**e)** +12.5

1 Including residual item of the balance of payments. — **2** Not including long-term lending by Reconstruction Loan Corporation. — **3** Except insurance enterprises and building and loan associations, but including public enterprises with legal personality of their own, and including the small reserves of households kept in this form. — **e** Estimated.

occur in monetary terms. Since non-banks' foreign exchange surpluses resulting from their external transactions are practically all sold to the domestic banking system (in 1968 non-banks sold in this way the DM 11 billion already mentioned), they increase non-bank customers' money and near-money holdings. This expansive effect produced by resources reaching non-banks from abroad is a crucial monetary prerequisite for the start of a domestic adjustment process which, with constant rates of exchange, would be bound finally to raise the price level at home and to reduce the external surpluses on current account.

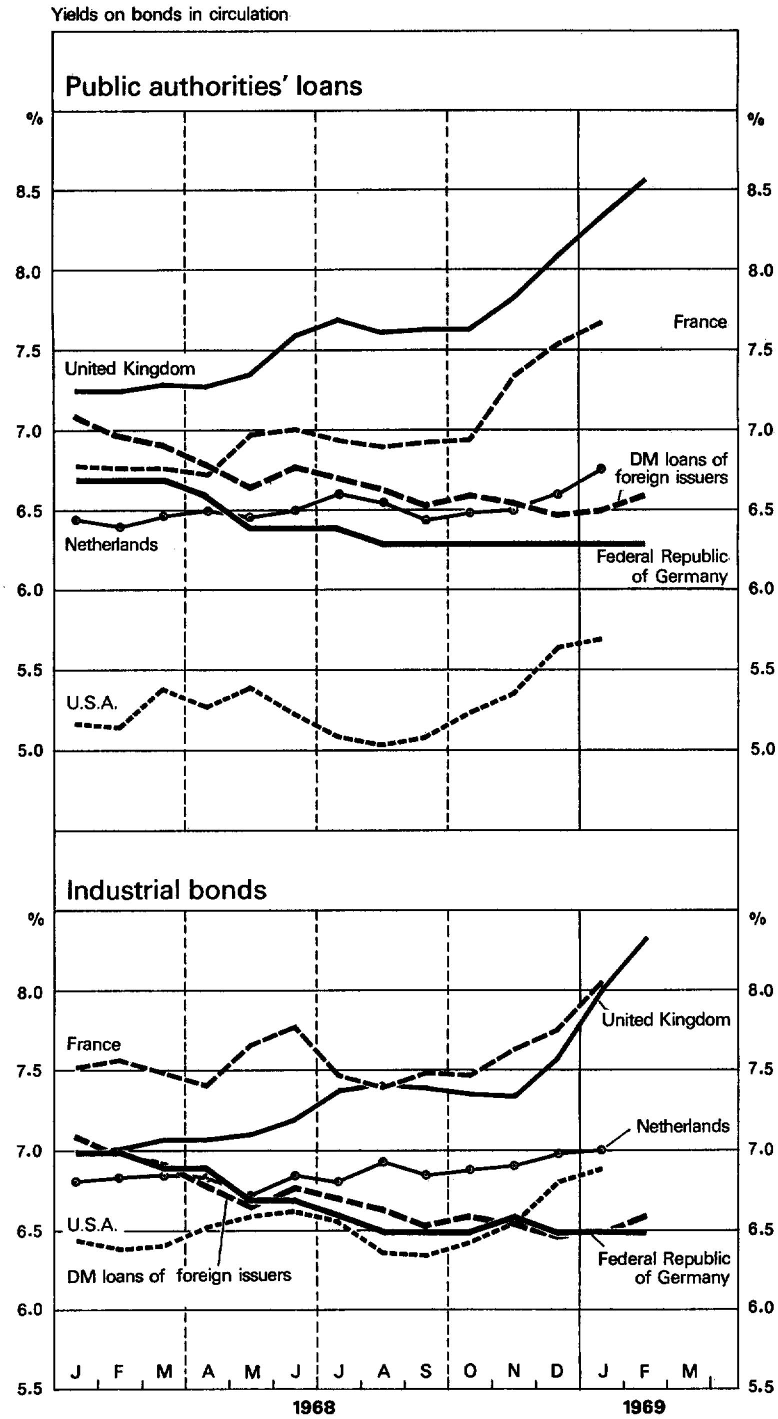
Effect on bank liquidity

The banks' longer-term capital exports of course affect the size of the credit institutions' free liquid reserves, since the granting of long-term credit to foreign borrowers entails a loss of liquidity for the banking system as a whole. If, in other words, the banks had not effected large exports of capital in 1968, their free liquid reserves would have increased by much more than they in fact did as the result of other factors. Per contra it must of course also be said that continuance of longer-term capital exporting by the banks will largely depend on the further trend of liquidity in the banking system as a whole. Thus, experience confirms that the banks, when their liquidity is under pressure, first cut down their acquisition of securities before they begin no longer fully to satisfy their individual borrowing customers' demand. If for example a credit policy guided purely by the balance of payments had to be abandoned because of domestic trends, and if the banks' free liquid reserves were drastically reduced through credit policy measures, this would certainly affect the banks' long-term export of capital — not only their acquisition of foreign securities but also their granting of direct loans. This conclusion follows not least from the special degree in which the export of capital depends on interest rates, since liquidity shortage at home is likely to narrow or cancel out the difference between rates of interest at home and abroad.

Capital exports in the long run bear no relation to economic strength

Apart from these considerations, however, long-term capital exports on the scale of the DM 11.3 billion which were actually effected in 1968, and which squared the basic balance, their monthly rate being even far exceeded in the first two months of 1969, on a longer view in any case stand in no reasonable relationship to Germany's capacity for exporting saved capital. Such exports on the scale achieved in 1968 alone equalled one-fifth of the total longer-term domestic monetary capital formation, to say nothing of the somewhat faster rate in the first two months of 1969. Thus the Federal Republic of Germany has for a time become the world's largest exporter of long-term capital, a fact which shows that such large capital exports must in the long run exceed Germany's economic strength in relation to its own capital requirements. It must for example be realised that in the Federal Republic of Germany the gross national product, which is the real basis for capital exports, converted at purchasing power parities[1]) amounts to only just on one-fifth of that in the United States, and that on a long view the two countries' capacities for forming capital must be regarded as being in an approximately similar proportion to each other.

Security yields in selected countries and on the market of foreign DM loans



1 Calculated from the consumer parities of the Federal Statistical Office.

Boomerang effect

The present total amount of long-term capital exports, however, not only exceeds that which could on a longer view be reconciled with domestic needs for investment and consumption; at its present level, it is not on the right lines for long-term squaring of the balance of payments either because of the intrinsic connection between capital and current transactions with foreign countries. There is frequently, for example, a direct connection between exports of capital from the Federal Republic of Germany and additional German exports of goods. This can be assumed especially as regards a part of the German development assistance credits, and also as regards direct German investments in foreign countries. In view of German suppliers' ability to compete it is also not completely impossible in the case of other capital exports, however, that a part of the foreign exchange outflows effected through that means may return to the Federal Republic of Germany as a result of increased German exports. This is at all events true as long as the capital exporting country is internationally regarded as selling goods on particularly cheap terms.

2. Economic and credit policy problems in 1968 and at the beginning of 1969

(a) The external imbalance

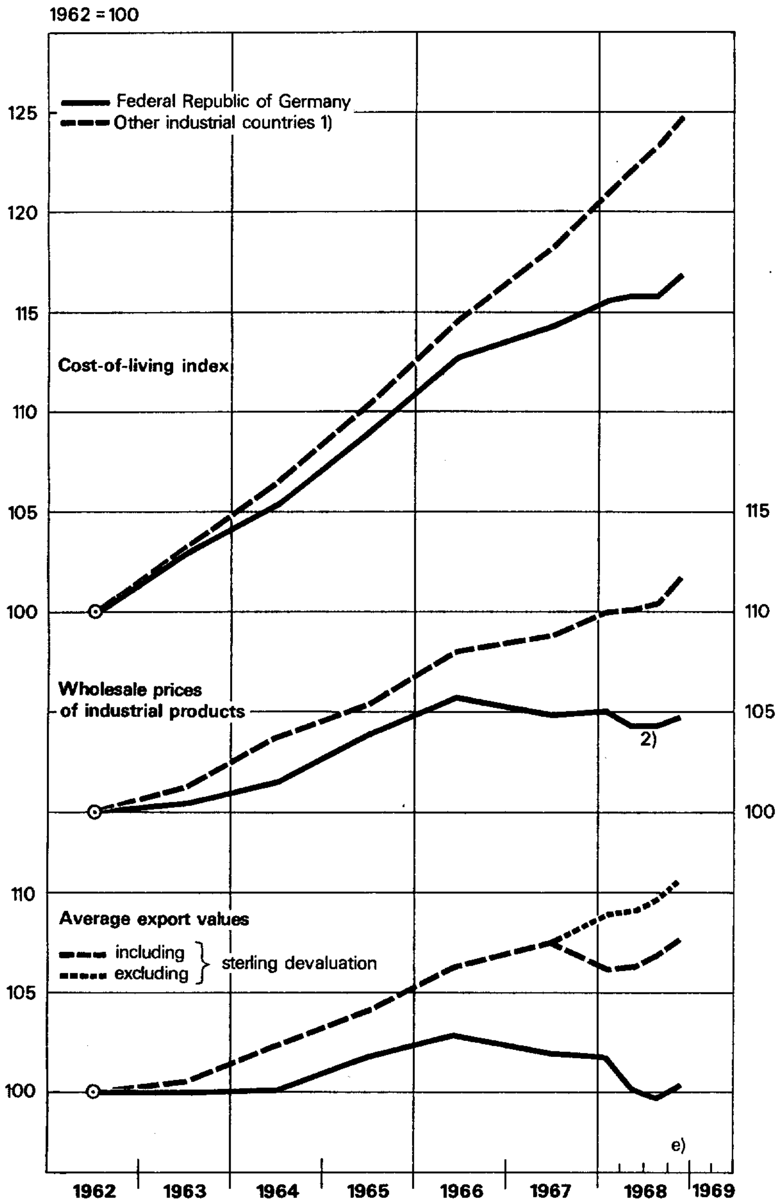
Disparity between German and foreign prices

One reason why the balance of payments did not react typically to the economic upswing through a decrease of current account surpluses was certainly that the upswing had begun, at the middle of 1967, with production capacities less fully employed than in the case, for example, of the preceding cycle. The demand for imports therefore grew less rapidly at first and exports, despite the rise of domestic demand, increased if anything at a faster pace. But the final reason why the external surpluses remained very large even during the boom lies in the disparity between prices in the Federal Republic of Germany, on the one hand, and those in the most important countries trading with it on the other. In the course of recent years Germany has become a relatively cheap country in which to buy. Whereas during the previous economic upswing, from 1963 to 1965, the level of prices in Germany had increased by almost as much as in other industrial countries, price movements began to differ clearly when economic activity quietened down in 1966. The price differential between the Federal Republic of Germany and foreign countries widened until towards the end of 1968. At that time it could be said as regards the principal price and cost indices that in the main Western industrial countries they had risen in comparison with the fourth quarter of 1965 by nearly 5 % more, and in comparison with 1962 (the first year after the DM upvaluation) by some 7 % more than in the Federal Republic of Germany (see the graph on page 19).

Economic policy solutions

The monetary and economic authorities in the Federal Republic of Germany had never thought of correcting the external imbalance by permitting the level of prices and costs in Germany to adjust itself to that in foreign countries. Such a course would accord neither with the Bundesbank's legal obligation to safeguard the value of money, nor with the June 1967 Law to Promote Stability and Growth of the Economy, which expressly lays down that "if overall economic equilibrium suffers external disturbances, not avertible through internal measures", the Federal Government, after exhausting all possibilities of international coordination, "shall use the economic means available to it for safeguarding external equilibrium" (Article 4 of the Law). Among the theoretically possible forms of such "external safeguarding" – that is, some kind of change in price relations to foreign countries, either through alteration of the Deutsche Mark's exchange rate or through changes in import and export taxation – the Federal Government, after thorough consultation since the summer of 1968 both with the Board of Experts and with the Bundesbank, selected fiscal measures on the eve of the November 1968 Bonn monetary conference. On 1 December 1968 the Law concerning Measures for Safeguarding the Economy against External Influences came into force; it provides that on exports a special turnover tax amounting normally to 4 % is levied, while on imports a subsidy of equal amount will be paid (goods subject to agricultural market regulation being in each case excepted). This Law is to expire on 31 March 1970.

Price movements in the Federal Republic of Germany and in other industrial countries



1) Other E.E.C. countries, United Kingdom, Sweden, Switzerland, Japan, U.S.A., weighted with respective share of these countries' exports in world exports during the period 1962 to 1967.- 2) Index of producers' prices of industrial products in home-market sales; the estimated effect of value-added tax, resulting from the change of system in January 1968 and the tax-rate increase in July 1968, has been eliminated.- e) Estimated.

Arguments against upvaluation

The decision in favour of these fiscal measures was at the same time a decision against any kind of alteration in the rate of exchange. Upvaluation appeared to the Federal Government too risky because, owing to the uncertainty about foreign countries' future trade policy decisions (it was for example feared that such countries might introduce border taxes), a high degree of flexibility appeared desirable, and this seemed more likely to be ensured by the fiscal measures. No less important, however, were the differing fiscal consequences which the two sorts of measures would have produced. The use of turnover tax for external safeguarding gives the Federal Treasury net additional revenues (which, according to Government order, are to be partly allocated to the industries especially affected by these measures), while upvaluation might in certain circumstances have entailed considerable additional Federal expenditure, if for example full or partial compensation had been granted to agriculture, for a shorter or longer period of time, by way of offsetting any shortfall in proceeds due to upvaluation.

Arguments against external safeguarding through fiscal measures

The discussions about the nature and extent of safeguarding the economy against external influences of course took into account all the important facts which could be used as arguments against fiscal action and in favour of upvaluation, for instance that the fiscal "substitute upvaluation" would be confined to trade in goods although the undervaluation of the Deutsche Mark, if any, did not apply only to such trade, and although there is no doubt that cheapening of foreign travel and foreign investment, as well as raising the value of foreign workers' home remittances – to mention only a few points – would be of advantage for trade and industry and for consumers. In addition the fiscal safeguarding action raised the special problem of the old contracts. For exporters there was no means of guarding against this, whereas in the case of a true upvaluation the risk on foreign currency assets would have been largely covered through forward exchange guarantee. Finally the fact that the fiscal measures for external safeguarding had to be limited in time also raises certain problems. In the decisive consultations the Bundesbank took the view that, while the planned fiscal action was aimed in the right direction, it would probably be insufficient.

The effect of external safeguarding

Now that the decision has gone in favour of fiscal action, it is of course necessary "to live with it". There can be no doubt that the quasi-upvaluation, as many people call it, will tend to reduce the external imbalance. But the extent to which any kind of external safeguarding will produce the desired effect depends not only on the Federal Republic of Germany and its cyclical trends, but also in particular on whether the most important trading partners of Germany can check their price rise quickly enough, or whether the degree of inflation accepted there during recent years will continue for some time longer. In any case there is reason to welcome the fact that the discussion initiated, and the decision finally adopted by the Federal Government, have made the public aware of the problems entailed by external disequilibrium in the presence of fixed rates of exchange.

(b) The threat to internal equilibrium

Autonomous causes of danger to internal equilibrium

Towards the end of 1968 and at the beginning of 1969, however, internal equilibrium also appeared to be increasingly endangered by autonomous domestic factors. In particular government demand grew on a scale which increasingly threatened to conflict with the requirements for stability. One important basis for this was formed by the unusually favourable trend in government revenue. In 1969, when no special tax reimbursements like those of 1968 (on old inventories) are due to be effected, tax revenue will rise by much more than in the immediately preceding years. It is true, on the other hand, that according to planning government expenditure will increase in 1969 by less than revenue (details on page 79 *seq.),* and that public authorities' net borrowing requirements, already down in 1968, should therefore decrease further in 1969. Until the Federal Government (on recommendations by the Fiscal Planning Council) reached its decisions of 18 March 1969, however, there was reason to expect that public expenditure would rise in 1969 by at least 9 %, that is by more than the nominal and by roughly twice as much as the real gross national product.

Governmental growth-promoting structural programmes

One not unimportant cause of the rise in government expenditure during 1969, apart from the constant growth of expenditure on personnel and social services, lies in the measures to improve regional and sectoral economic structures. In the 1969 budget estimates of the Federal Government, the E.R.P. Special Fund and the *Länder* the appropriations for these purposes were in some cases increased, and moreover new programmes were included. There were also allocations for some industries especially hit by the measures for external safeguarding. The cyclical effect of these programmes is hard to quantify, because to an increasing extent not only are reduced-interest loans granted, but investment grants and premiums as well as – in particular – continuing interest subsidies are also given. The effect is therefore to be measured not only by the size of government expenditure, already quite considerable; it goes on the contrary much further, since the expenditure as a rule produces a multiplicative effect, which cannot of course be accurately estimated. Despite the evident cyclical tensions such assistance programmes have as yet been hardly cut down, so that investment activity is to that

Recent programmes of Federal Government and E.R.P. Special Fund for structural improvement *)

Designation	Kind of assist-ance 1)	Running period	Burden on budget millions of DM: in 1969	Burden on budget millions of DM: by total programme	Estimated investment volume assisted 2) millions of DM: in 1969	Estimated investment volume assisted 2) millions of DM: during entire term of programme
(1) Federal Government						
(a) Joint structural programme for Ruhr, Saar, zonal border areas, regions and localities scheduled for development	CG,IS,L	1968—1970	60	389	640	1,300
(b) Structural programme Saarland/Rhineland-Palatine 3)	O,CG	1969—1978	.	.	.	.
(c) 10 % investment premium on capital projects 4)						
(1) in zonal border areas and in regions and localities scheduled for development	CG	no time limit, from 1969	—	.	1,050	.
(2) for research and development	CG		—	.	1,100	.
(3) for newspaper enterprises	CG		—	.	50	.
(d) Programme connected with the Law on Safeguards against External Influences						
(1) adaptation aid to certain industries	G	non-recurring 1969	155	155	.	.
(2) addition to funds for regional aid measures	CG,IS		150	150	700—1,000	700—1,000
(3) reserve funds 5)			195	.	.	.
(e) Programme for redirection of goods traffic from road to rail 6)	CG	no time limit, from 1969	250	.	300	.
(2) E.R.P. Special Fund						
(a) Infrastructural programme for communities in rural areas	L	non-recurring 1969	250	250	500— 750	500— 750
(b) Industrial development of rural areas	L	1969—1972	35	150		.
(c) Aid for introduction of electronic data-processing in medium-sized trade and industry	L	no time limit, from 1969	10	.		.
(d) Modernisation of merchant fleet	L	1969—1972	5	66	250— 400	.
(e) Adaptation measures for shipyards	L	1968—1969	35	70		.
(f) Support to medium-sized newspaper enterprises	L	no time limit, from 1968	20	.		.

* Referring only to programmes adopted since 1968, hence disregarding all programmes initiated previously even if latterly expanded. — **1** O = own investments; L = loans (interest-free or at low rate of interest); G = grants; CG = capital grants or investment premiums; IS = interest subsidies. — **2** As a rule greater than the expenditure incurred by Federal Government or E.R.P. Special Fund, because the beneficiaries or other parties have to contribute own funds. — **3** So far only regulation of the Saar river between Saarbrücken and Dillingen has been resolved; total programme provides for about DM 2 billion of capital expenditure within ten years. — **4** Not yet voted by the legislative bodies. In terms of cash outpayments, the budgets will not yet be burdened in 1969. Once the programme has been initiated, the burdens on Federal Government and *Länder* may be estimated at DM 220 million annually for the time being, which would correspond to a promoted investment volume of more than DM 2 billion per year. — **5** Pursuant to the Federal Cabinet's decisions of 18 March 1969 on anticyclical measures these funds will not be made available at present. — **6** Financed out of receipts from road haulage tax.

extent screened against any cooling measures which may become necessary on cyclical grounds.

The March 1969 fiscal measures

Under the impression of price movements in January and February 1969 (consumer prices rose in those two months alone by almost 1 %, against a projected annual average rise of prices by 2 % for the whole of 1969), and also in view of the fact that the fiscal measures for external safeguarding alone might prove insufficient to offset the great increase of demand, the Federal Government on 18 March 1969 introduced a programme of moderately restrictive fiscal measures. Firstly, Federal expenditure to the extent of DM 1.6 billion, as well as a part (DM 0.2 billion) of the expenditure to be financed out of Safeguarding Law revenues, was temporarily blocked; a decision as to possible cancellation is not to be reached until July. This will somewhat slow down the rise of government expenditure although, even if the temporarily blocked expenditure were completely cancelled, the rise would still amount to something between 8 % and 9 % as against 1968. Secondly, the tax authorities are not only to adjust current prepayments of income and corporation tax so far as possible to the better state of earnings, but in cases of some importance are also to raise *ex post facto* the unduly low prepayments for 1968. The resulting additional revenue is to be used for reduction of government borrowing, so that the financial requirements will be switched from the government to the enterprises sector, which fact may slightly check private capital expenditure. Finally, all additional revenues which the Federal Government, *Länder* and local authorities will receive over and above budget estimates as a result of the cyclical trend shall not be spent but likewise be applied to reduction of borrowing.

Increased possibilities of importing industrial goods

This set of fiscal measures is being supplemented through the Federal Minister for Economic Affairs' intention, of which the Federal Government has taken cognizance with approval, to increase the possibilities of importing industrial goods. For this purpose quotas are to be autonomously increased, and self-restricting agreements terminated. In 1969 this would create additional possibilities of importing industrial goods to the extent of DM 580 million, although it is not certain in advance whether, or how far, the market will actually make use of the new facilities.

(c) Credit policy in 1968 and at the beginning of 1969

Credit policy determined by the most endangered economic objective

Credit policy in the year under review and the first months of 1969 gave priority to achieving whatever economic policy objective was at the time most endangered. So long as internal stability permitted it, the Bundesbank pursued a policy mainly guided by balance-of-payments considerations in order by that means to reduce the external imbalance as far as possible. The Bundesbank therefore allowed the market tendencies operating primarily to increase the liquidity of trade and industry, and in lesser degree that of the banks, to produce their effect, thereby promoting the slightly downward tendency of interest rates. Its open-market operations in long-term securities also primarily served this object, through the temporary increase which they produced in the market's liquidity, although in 1968 during periods of temporary excess demand for fixed-interest securities the Bank again sold longer-term bonds, and indeed on balance sold more than it had to take up in other periods. At all events the level of interest rates in the Federal Republic of Germany was somewhat lower at the end of 1968, in wide fields, than when the year had begun. The rates which the Bundesbank charged to borrowers, namely its discount and advance rates, remained unchanged during the year under review.

Minimum reserve changes not primarily designed to affect liquidity

So far as the Bundesbank changed the provisions concerning minimum reserves in 1968, it did not do so primarily to affect liquidity. For one thing, the redefinition of credit institutions' reserve classes with effect from 1 July 1968 was merely of a technical nature. The effect was slightly to reduce the required reserve. For another, the exempting of four-year and longer deposits (mostly savings deposits) from the reserve obligation as from 1 January 1969 was not based on motives of credit policy either, but necessarily resulted from the simultaneous change in the legal and statistical regulations concerning balance sheets; a compensatory raising of the reserve ratios for savings deposits prevented the total reserve required to be held by credit institutions from falling appreciably. Finally, the introduction of a 100 % reserve against the addition to foreign liabilities with effect from 1 December 1968, while it did at first reduce bank liquidity, was designed at the outset to make the taking of foreign balances as unattractive as possible for the banks. To that extent it supported the Federal Government's simultaneous order requiring a permit for acceptance of deposits and credits from non-residents. The object of these primarily foreign exchange measures was rapidly achieved, although largely for other reasons. The institutions' reserve requirement did not therefore lastingly rise as a result of the 100 % reserve imposed on the addition to external liabilities.

Reactivation of swap rate policy

In connection with the various spells of speculation last year the Bundesbank also reactivated its swap rate policy. In the spring, and again in the autumn, it temporarily offered German credit institutions forward exchange cover for short-term dollar in-

A chronicle of anticyclical and monetary measures taken in 1968

Date of coming into force or resolution	
	I. Economic and fiscal policy
1 January	Introduction of value-added tax
1 July	Tariff union within E.E.C.; removal of internal tariffs for industrial goods between E.E.C. countries. Common external tariff between the six and the outside world (realisation of two-fifths of the tariff reductions agreed upon in the Kennedy Round of G.A.T.T.).
1 July	Raising of value-added tax rates from 10 to 11 % (and from 5 to 5.5 % on goods subject to the reduced tax rate).
4 September	Federal Cabinet resolves: (1) 1969 Federal budget estimates (DM 82.4 billion) (2) fiscal planning of Federal Government for 1968 to 1972.
19 November	The Federal Government declares the DM will not be revalued and resolves modification of tax equalisation in goods traffic across the border.
28 November	*Bundestag* passes: "Law on Safeguards against External Influences pursuant to Art. 4 of the Law to Promote Stability and Growth of the Economy". With effect from 20 November 1968 the tax burden on imports of goods (except agricultural market-regulation produce) is reduced by 4 % (in some cases 2 %), while with effect from 29 November 1968 an export tax of 4 % (in some cases 2 %) is levied on exports of goods (except agricultural market-regulation produce). The measures will be applicable until 31 March 1970. Exemption from the export tax is granted for export deliveries under contracts concluded prior to 23 November 1968 with fixed prices being agreed which are effected by 23 December 1968.
4 December	Publication of 1968/69 Report of the Board of Experts for Assessment of Overall Economic Trends entitled "Alternatives of adaptation in the field of foreign trade and payments".
6 December	Fiscal Planning Council recommends measures to offset shortfalls in demand resulting from the Law on Safeguards against External Influences: (1) Half the tax revenue that *Länder* will receive in excess of the 1969 budget estimates – after deduction of unavoidable additional expenditure – is to be used for financing additional capital expenditure, especially that of local authorities. (2) Net additional receipts of the Federal Government arising under the Law on Safeguards against External Influences are to be used as stopgap assistance to industries particularly affected.
	II. Monetary and credit policy
20–22 November	Conference of Ministers and Central Bank Presidents of the Club of Ten at Bonn at the culmination of the monetary crisis. Official foreign-exchange markets in London, Paris and Frankfurt closed for several days.
22 November	Federal Cabinet resolves: Fourteenth Ordinance Amending the Foreign Trade and Payments Ordinance (revision of Art. 53). Introduction of an obligation to obtain authorisation for acceptance of non-residents' deposits and credits and for payment of interest on balances on newly opened savings accounts of non-resident individuals.
1 December	Fixing of minimum reserve ratios for the growth in minimum-reserve-carrying liabilities to non-residents over their level of 15 November 1968 at 100 % (decision of Central Bank Council of 21 November 1968).
5 December	Easing of regulation on 100 % reserve on growth by modifying calculation of growth in minimum-reserve-carrying liabilities to non-residents for the month of December.

vestments abroad at a cost lower than market rates. For a time the banks made very great use of this facility. The relatively low cost of forward exchange cover encouraged the banks' export of money, although of course the changes in the Bundesbank's swap commitment ran nowhere near parallel with the credit institutions' foreign investments. The Bundesbank wanted German banks' foreign investments to increase especially for reasons of international monetary cooperation; as regards liquidity, virtually all that was achieved was to switch liquid reserves of banks from Germany to foreign countries, although with the consequence that the rate of interest on the German money market tended to rise.

Price stability especially endangered in 1969

Towards the end of 1968, and still more in the first months of 1969, the cyclical conditions changed, however. It became clear that the rise of domestic demand had reached the stage where, in the absence of economic countermeasures, the equilibrium of the domestic economy would be lost for some time. True, after the fiscal measures for safeguarding the economy against external influences had come into force there was more hope than previously that Germany's external imbalance would be reduced, quite apart from the fact that the vigorous economic upswing was bound increasingly to cause some reduction of the surpluses on the current account of the balance of payments. But averting the dangers to domestic price stability now had to be recognised as the most urgent task of economic and credit policy, there being some hope that the conflict between internal stabilisation measures and external needs would be somewhat less acute than in 1968. This hope was also based on the fact that since the autumn of last year the interest differential between the Federal Republic of Germany and foreign countries had widened, because partly for market reasons but mainly owing to credit policy measures the level of interest rates in most of the countries concerned had since then notably risen, whereas in Germany it had not risen until the beginning of February 1969.

First conclusions affecting credit policy

The first conclusion which the Bundesbank drew from the new situation was to tolerate the tightening of the money market in January, and to cease open-market operations in bonds at the beginning of February 1969. Since then the official issuers have again been regulating prices of their bonds in circulation, although with gradual downward adjustments of the price; this caused a slight rise of interest rates on the bond market. A further step in the field of credit policy was to cut down the credit institutions' rediscount quotas at the Bundesbank by (as a rule) 20 %, which reduced the banks' free liquid reserves by about DM 3.5 billion. Finally the Bundesbank with effect from 21 March 1969 raised its advance rate from 3½ % to 4 % per annum, thereby restoring the earlier 1 point margin between its discount and advance rates. The latest credit policy changes allow for the fact that in view of the continuing disequilibrium in the balance of payments more severe credit policy measures might easily prove self-defeating by causing large foreign exchange inflows, either because capital was not exported, or because the current account surpluses again increased, or because of renewed speculation on upvaluation of the DM. In view of this, and under the obligation resulting from the Stability Law, the Federal Government adopted the moderately restrictive fiscal measures which have already been mentioned. But in the selection of these measures too Germany's foreign trade and payments situation could not be disregarded.

3. Price stability and economic growth

Last year, the more obvious the conflicts which can result from divergent trends of prices abroad and at home became, and the more the need for internal cooling measures due to the domestic cyclical trend became evident, the more were voices from the public heard describing every policy aimed at real price stability as pointless and advocating at least conforming to the inflationary trend in the rest of the world. Some commentators, pointing to the allegedly critical economic trend at the end of 1966 and the beginning of 1967, even describe a credit and fiscal policy aiming at stability as being harmful on the supposed ground that it leads to losses of growth. In the course of last year and at the beginning of 1969 there were therefore calls in various quarters for economic policy to show greater tolerance of price rises. One argument put forward was that pursuit of a policy directed to price stability would lead to losses of growth, and therefore meant forgoing a possible improvement of living standards; this argument would be especially weighty if it were correct. It may be considered a moot question whether there are countries where, because the state of development is much lower or because of other deeply rooted modes of economic behaviour, it is difficult to ensure adequate economic growth without inflationary processes. But no empirical observation justifies the conclusion that this applies to the Federal Republic of Germany.

Federal Republic divorced from the international trend towards faster price rise

In order to judge the link between prices and economic growth in the Federal Republic of Germany it is desirable to start from observations covering multi-year periods, in which the short-term cyclical fluctuations largely cancel each other out. On a medium-term view the price movement in Germany can be described as follows. According to the index between 1949 and 1953, the first five years after currency reform, the cost of living was stable, but then increasingly rose in each of the next three five-year periods. In the second five years the annual rate of increase amounted to 1.7 % (it thus presumably exceeded only slightly the rate which results solely from statistical defects in measuring price changes). In the third five years, however, the average rise amounted to 2.1 %, and in the fourth five-year period after currency reform it reached 2.4 % per annum. Although this tendency regarded in itself is unsatisfactory, the last-mentioned rate of increase in the index did mean that the Federal Republic of Germany managed to divorce itself from a

Average growth in national product, employment and productivity

per cent

Period	Real gross national product 1)	Employ-ment 2)	Produc-tivity 3)	Compare: Unemploy-ment ratio 4)	Cost-of-living index	Utilisation of indus-trial capacity 5)
	I. Five-year periods 1949 to 1968					
1949 to 1953 6)	7) + 10.7	.	.	7) 8.8	± 0	.
1954 to 1958 6)	+ 7.0	+ 2.4	+ 4.5	4.6	+ 1.7	.
1959 to 1963	+ 5.7	+ 1.0	+ 4.6	1.2	+ 2.1	87
1964 to 1968	+ 4.3	— 0.4	+ 4.8	1.2	+ 2.4	85
	II. Four-year periods 1961 to 1969					
2nd hf 1961 to 1st hf 1965	+ 4.8	— 0.3	+ 5.1	0.8	+ 2.8	87
2nd hf 1965 to 1st hf 1969 8)	+ 3.6	— 1.2	+ 4.9	1.3	+ 2.4	85

1 At 1954 prices. — 2 I: number of gainfully active persons; II: total number of hours worked by gainfully active persons. — 3 I: real gross national product per gainfully active person; II: real gross national product per hour worked by gainfully active person. — 4 Until 1965: unemployed in % of employed and unemployed wage and salary earners. Since 1966: unemployed in % of employed wage and salary earners according to microcensus. — 5 In % of full plant capacity (calculation based on figures from the I.F.O. trend check). — 6 Federal area excluding Saarland and Berlin. — 7 Four-year period 1950 to 1953 (partly estimated). — 8 1969: estimated by Bundesbank.

much greater quickening of the price rise in the rest of the world. In fact, during the last five-year period mentioned, that from 1964 to 1968, the cost of living in the industrial countries closely connected with Germany rose by 3.6 % per annum, that is by much more than in the immediately preceding five-year period and in that further back, during each of which it had risen by 2.3 % per annum[1]).

Slower growth of the real national product

If the medium-term price movement in the Federal Republic of Germany is compared with the real growth in the national product during the last twenty years, the comparison certainly affords — at all events in appearance — no evidence to support the argument that toleration of price rises at higher rates would promote real growth of the economy. Even if the exceptionally high growth-rates of about 11 % per annum in the first five years after currency reform are disregarded, and if for the second five years special factors are accepted as having caused the considerable annual rise of the national product (7 %), it is still found that as between the third and the fourth five-year periods since the currency reform the increase of the real national product continued to slow down. The average real annual growth-rate between 1959 and 1963 was still 5.7 %, while in the succeeding years, from 1964 to 1968, it was 4.3 %. This slowing down, however, was essentially due to non-monetary causes. Whereas indeed during the third five-year period after currency reform the potential labour force was still rising (although only by 1 % per annum as compared with much greater increases in the years further back), during the last five years the number of gainfully active persons declined by the small margin of 0.4 % per year. Productivity on the other hand, as measured by output per gainfully active person, even increased during the last five years by 4.8 % per annum, that is by slightly more than the 4.6 % annual increase in the previous five-year period. If the output per man-hour worked were considered, the result would show a like tendency.

Recession causes no loss of productivity

The undiminished — or, to be accurate, the even slightly increased — rise of productivity is especially noteworthy because the last period of five years also includes 1967, when for a time a somewhat greater recession was recorded than in earlier cycles. The statement made in our last Annual Report, that "even if 1967 is included, productivity as the true source of economic progress increased hardly any less throughout the entire cycle than it did in previous five-year periods", has since been fully confirmed[2]) if the 1968 productivity increase is included, which could never have been achieved on that scale without the previous recession, and

1 These calculations include the indices for the following countries: the E.E.C. member countries (other than the Federal Republic of Germany), the United Kingdom, Sweden, Switzerland, Japan and the United States, weighted with the respective share of these countries' exports in world exports during the periods mentioned.

2 This statement is also true if related to periods which accord more closely with the last cycles than is the case with five-year periods. For this reason the table above also compares average rates of growth for the period from the second half of 1965 to the first half of 1969 with those for the corresponding previous period, without this being intended to make any statement as to the duration of the present cycle.

which must therefore be counted as belonging to that cycle. This shows that a policy which seriously aims at price stability will not reduce the growth of productivity over a period of several years even if, for a short time, a period of dullness and hence a reduction of the extent to which capacities are employed has to be accepted.

Decrease of total man-hours worked

Even if the vigorous growth of the national product in 1968 is included it remains true to say, as we did last year, that the slowing down of medium-term real growth is principally explained by the greater decrease in the total number of man-hours worked, and indeed mainly by the decrease (due to the population's age structure) in the number of persons within the country able and willing to work, as well as by the further reduction of working hours. It is true that in the present cycle, reckoned from mid-1965 onwards, the unemployment ratio (at 1.3 % of all wage and salary earners) seems to be turning out somewhat higher than in the preceding cycle (from mid-1961 to mid-1965: 0.8 %). On the other hand, on the average for the last five years far more foreign workers have been employed, while moreover the number of persons actually turning up for work would appear to be greater[1]). From the slightly increased unemployment ratios it cannot therefore be concluded that medium-term losses of growth occurred because, owing to lack of demand, fewer workers were mobilised. This multi-year view takes account of the fact that in 1967, during the recession, the unemployment ratio was for a time higher than it normally is as a result of the usual fluctuation on the labour market.

Improving the bases for growth

While on the one hand there is thus no evidence that economic and credit policy during recent years impaired economic growth, although it tried to stabilise the price level with more instruments than those of credit policy alone (without indeed being able to achieve more than to detach the Federal Republic of Germany from the quickening of the price rise in the rest of the world), there is on the other hand much evidence that this policy has on a longer view strengthened the bases for growth. Although statistical proof is impracticable because of the highly complex movements, the following arguments can at least be quoted in support of this statement. *First,* because its prices rose less than those in foreign countries, Germany escaped a lengthy phase of balance-of-payments deficits, which, as foreign experience shows, may force a country strongly dependent on foreign trade to interfere seriously with the economic process, and so really reduce growth. Maintenance of Germany's international competitive capacity, also being a result of past efforts to maintain stability, has frequently been found to afford significant support for strong economic growth. *Secondly,* an economic policy aiming at stability promotes individuals' savings formation, which in the Federal Republic of Germany perhaps depends more than elsewhere on adequate confidence in the value of money. The considerable formation of savings outside the enterprises and government sectors is to be reckoned a success not only on grounds of social policy but also from the economic angle. It ensures much more efficient use of capital than would be likely with self-financing ratios high. *Thirdly,* price conditions which are as stable as possible should also promote efficient use of labour.

The social importance of price stability

Those who have recently advocated that in this country price stability should be given only relative priority, as an aim, contest not only the economic importance of stable prices; they also deny that continuing price rises can produce social disadvantages. They point out that with higher rates of inflation the incomes not only of the active population but also of social insurance and retirement pensioners and the like would rise faster, so that, they assert, individual social groups could not be prejudiced through price rises. We shall not here investigate in detail the question whether, in conditions of inflation, an equal pace in the growth of incomes could be achieved. So far, at all events, when the price rise has quickened the individual income groups have been able to adjust their incomes to that quickening, if at all, only with different degrees of delay, and have not been able to safeguard their real incomes again until after having suffered temporary losses. This applies above all to social insurance and retirement pensioners, whose

1 The average number of sick among the persons obligatorily insured at local sickness insurance funds will amount in the present cycle (reckoned from mid-1965 until mid-1969) to 5.3 % of those insured as against 5.7 % in the previous cycle.

incomes are invariably adjusted only with some delay, and more particularly to the recipients of incomes from monetary assets, so far as adjustment is possible at all in their case. Even more serious, however, are the social consequences which currency erosion produces on the real distribution of wealth.

Net creditors and net debtors

The chief characteristic of overall capital formation is that non-monetary assets are mainly formed in enterprises, while monetary savings are mostly formed by households. Enterprises, as the principal investors, are therefore on balance permanently indebted to the other sectors, although as a rule not directly but through the credit system. The principal net creditors of these principal net debtors are households, that is wage and salary earners, officials, social insurance pensioners and also the self-employed, so far as they save in their private sphere. In addition the government sector, at all events in the Federal Republic of Germany, has appreciably more monetary assets than liabilities and is therefore likewise a net creditor. If the capital relationships which exist between the various sectors in the form of equity rights (mostly shares) are eliminated (because to that extent there can be no reference to creditors or debtors), then the orders of magnitude for the end of 1968 were as follows. Enterprises had statistically recordable net debts (debts less their own monetary assets) to the extent of about DM 350 billion. Households on the other hand had net monetary assets (monetary assets less debts) amounting to about DM 300 million[1]). The positions of net debtors and net creditors in a period of rising prices are opposite. On every deterioration in the value of money, other things being equal, households in particular lose something of their monetary assets' real value. On the other hand the real value of enterprises' debt burden decreases in equal degree. To tolerate price rises therefore means to accept permanent shifting of the real wealth in favour of the net debtors.

Only partial equalisation through raising of the interest rate

Against this statement it is often objected that, in the event of continuing price rises, the decrease in the real value of monetary assets would in the ultimate effect be counterbalanced by higher interest rates. Interest is in fact found to be not entirely independent of the degree to which prices rise, but the connection is only loose, and in many forms of saving practically non-existent. In particular there is hardly an adequate interest-rate equivalent for major price rises as regards that form of saving, namely saving through accounts, which large numbers of the population in the Federal Republic of Germany especially prefer. At the end of 1968, out of households' above-mentioned monetary assets, savings deposits at legal period of notice accounted for about DM 110 billion, while sight deposits and cash holdings accounted for a further DM 40 billion. Whereas fully liquid assets of course bear no interest at all, the interest received on savings deposits at legal period of notice as a rule varies between 3 % and 4 % per annum; periods when the rate was only 3 % predominated in the past. To counterbalance through rises in interest rates the losses on deterioration in the value of money is not possible as regards saving in these forms, which account for roughly half the net monetary assets of households. The argument that with higher rates of inflation the loss is made good through correspondingly higher and variable income from capital can, however, hardly be sustained as regards the income from other important forms of saving which are significant for households. There is for example the rate of interest, rigid for institutional reasons, on savings account balances at building societies; there is also the yield on saving through life assurance. On the other hand securities, which throughout yield a higher rate of interest, and the income from which normally varies more widely in the case of new investments, are not important as a form of investment by households, particularly as regards the monetary assets of the lower and middle income groups[2]), which are quite ready to save but, because of their small total wealth, are not yet ready to buy securities.

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1 Rough estimate on the basis of transaction values from 1950 to 1968. The difference from page 24 in the Report for 1967 is due to deduction of households' shareholdings, and to offsetting against outstanding debts. The difference between the net positions of enterprises and of households is explained, apart from errors and omissions, by the net position of the government and foreign sectors.

2 Between 1960 and 1967, of all monetary wealth formed, the following proportions were invested in fixed-interest securities: by self-employed persons 14.6 %, by social insurance pensioners 12.7 %, by wage and salary earners 10.1 %. See the article on "Savings Formation in Households of Wage and Salary Earners, Self-Employed and Pensioners" in the Monthly Report of the Deutsche Bundesbank, Vol. 20, No. 7, July 1968, page 7.

Fortunately those who publicly advocate that economic policy should tolerate price rises are in the minority. It was moreover not until 1967 that the legislature defined the basic aims of economic policy, more precisely than before, in the Law to Promote Stability and Growth of the Economy. Stability of the price level, adequate growth, full employment and external equilibrium are, according to that Law, equally ranking aims of economic policy. If one of these aims is threatened more than others (in this connection the points of emphasis may shift at relatively short notice, as they did in 1968), then the economic policy instruments which are in each case appropriate must be employed with priority to avert whatever danger is especially acute.

II. International Monetary Developments and Monetary Policy

1. International monetary developments in the crisis year 1968

Changing character of monetary crises

In the period under review the international monetary stage was dominated by a series of crises and dramatic confrontations following each other in rapid succession. In this respect 1968 was the most restless year since the end of World War II. At its beginning the still unsurmounted sterling crisis, the dollar weakness, and an overheated private gold speculation closely connected with it were at the centre of events. The origins of these various crises to some extent go back to former events. Since these turmoils involved the main reserve elements they posed an immediate threat to the entire international monetary system. The course of the sterling, dollar and gold crises up to the spring of 1968 were described in our last Annual Report.

At the end of 1968 the immediate danger to the international monetary system seemed to have abated. Due to the American stabilisation efforts and the surprising improvement in the American balance of official settlements, unrest about the dollar had faded away. Sterling, it is true, was still in an unsettled situation and susceptible to confidence movements, as was demonstrated during the speculative crisis of November 1968; however, some indications of an incipient improvement of a more permanent nature could be discerned by the end of 1968. In the meantime the focus of international monetary disturbances had shifted to the French and German currencies, the first one being dragged into a movement speculating on its devaluation, the latter being exposed to expectations of revaluation. These new disturbances reached a climax in November 1968. They resulted in the Bonn Conference of the Group of Ten and produced a number of measures taken in the Federal Republic of Germany, in France and also in the United Kingdom with the objective of alleviating or eliminating the balance-of-payments disequilibria which are at the root of these disturbances.

Waning of the foreign exchange speculation since November 1968 . . .

The international monetary situation has been much less strained since the monetary crisis of November 1968. The speculative positions taken during the November crisis have in the meantime been largely unwound. From 21 November 1968, which was the climax of speculative unrest, until the end of January 1969 the Bundesbank lost more foreign exchange than it acquired in the crisis weeks before. Its monetary reserves, which on 21 November 1968 had shot up to DM 43 billion, have in the meantime receded to a normal height; at the end of March 1969 they amounted to DM 30.3 billion and were thus lower than a year ago. On the other hand, after the November crisis had been overcome more foreign exchange funds flowed back to the Bank of France than it had lost in the crisis weeks before. In the first months of 1969 the United Kingdom, too, enjoyed quite substantial foreign exchange gains for the first time since the devaluation of sterling. The U.S. dollar, which had been unaffected by the speculative unrest in November of last year, has been quite strong in the foreign exchange markets of the world during the opening months of the new year. Behind this easing of tensions in the exchange markets one could discern some first improvements in the more basic balance-of-payments data of the countries mainly affected, and the measures taken by deficit and surplus countries make a continuation of this development a possibility.

. . . but confidence in exchange rate relationships not yet fully restored

Nevertheless, when this report went to press confidence in the present monetary setup and in particular in the existing parities was not yet fully restored. The crises following each other at short intervals, from the sterling devaluation in November 1967 to the dollar and gold crises and to the German-French monetary flare-up in November 1968, brought about such a convulsion that an extended period of calmness and improved equilibrium on all sides is necessary to overcome the existing mistrust. To the deep-seated lack of confidence there contributed in particular the experience made last year that even a currency as strong as the French franc could overnight become badly shaken by unforeseeable political and social turmoils. The monetary unrest has also time and again revived private demand for gold; until recently gold was thus almost constantly quoted more than 20 % above the official price in the private market, and in the first half of March 1969, under the impact of renewed unrest about the French franc and French gold purchases for hoarding connected with it, the price temporarily went up to almost 44 dollars per ounce. It is true that the price for privately held gold is no longer a reliable monetary barometer; it has become dependent on speculative expectations and for some time now it has been influenced by the deliberate abstention from the market of the main supplier of newly mined gold, South Africa. Thanks to the separation of the private gold market from official gold transactions of the central banks the fluctuations of the private gold price do not, at present, exercise a disturbing effect on the monetary system.

Another reason for the only gradually returning confidence in the international exchange rate pattern has been the general experience gained during last year's events that even apparently drastic adjustment measures to overcome balance-of-payments difficulties have become effective much more slowly than had generally been assumed. This applies as much to budgetary and monetary measures for cutting back internal demand as to changes of parities or substitute actions with similar objectives. All the more is it necessary to let the corrective measures which have been arrived at under the salutary pressure of the crises take full effect and to sustain them energetically until a durable international payments equilibrium has been achieved.

Reform of the monetary system or closer adherence to the "rules of the game"?

Last year's turbulent events in the international monetary arena and the measures taken by central banks and international institutions to bring them to an end are frequently considered as indicative of existing deficiencies in the present monetary system. The multitude of assistance operations, some of which were only organised under the acute pressure of events, have often been considered mere "patchwork" and proof of the fact that the system designed in 1944 at Bretton Woods has become obsolete and stands in need of a basic overhaul. In particular, criticism is aimed at the principle of fixed parities and the frequently rather limited possibilities of altering them in view of the prevalent political realities. This criticism cannot indeed be completely rejected. A system of basically fixed exchange rates can work satisfactorily only if the major countries of the world economy observe a minimum of harmony as to the aims and priorities of economic policy, and if they also have the will and the ability to attain the agreed aims to an adequate degree. The experience made over recent years demonstrates, however, that there does not yet exist complete harmony among the leading industrial nations as far as the aims of economic policy are concerned, and that in particular there are wide divergencies in the degree of tolerance with respect to deviations from price stability. As a consequence, balance-of-payments strains and excessive stress for the international monetary system may result. A system of basically fixed parities can only be maintained without the risk of heavy disturbances and crises if at least the major countries agree on their economic policy objectives and march in step in their realisation.

2. The effects of the monetary crises on world trade and international capital movements

World trade not affected by monetary crises

The world economy as a whole was surprisingly little affected by the violent monetary crises in the period reviewed here. Above all this is true with respect to *international trade.* Measured on the basis of the expansion of exports it advanced by not less than 11 % during the crisis year 1968; that is more than twice the rate of expansion of the previous year, which amounted to only 5 %. The strong 1968 expansion took place at stable or even slightly falling prices in world trade. German exports have, of course, benefited from this unusually large advance in international demand. In 1968 they increased by more than 14 % and thus further enlarged their share of world exports. In drawing this comparison, however, the German competitive position is exaggerated; it is necessary to allow for the distortion in the statistical data which was caused in the closing months of last year by a temporary bunching of German exports partly due to international expectations for a revaluation of the Deutsche Mark and partly due to the 23 December 1968 deadline for the exemption of "old export contracts" from the new export surcharge. Adjusted for these influences, the increase in last year's German exports should be around 12 %, which is much less than the export expansion experienced by countries like Japan (plus 25 %) and Italy (plus 17 %).

That the strong 1968 upsurge in world exports took place in spite of the monetary unrest can be ascribed to a number of factors, some of which can be considered as positive, while some others are negative ones. The particularly close co-operation of central banks and the assistance lent by the International Monetary Fund (I.M.F.) in the period reviewed here have prevented chain reactions from developing; they served to confine the crises mainly to the monetary and foreign exchange areas and helped to avoid serious restrictive measures for foreign trade. By and large the internationally agreed rules of G.A.T.T. and I.M.F. for trade liberalisation withstood the menaces they were exposed to by the acute foreign exchange worries of important countries. The exchange controls that had to be imposed, as for instance in the wake of the French exchange crisis, were limited in the main to the prevention of a capital flight movement. The import restrictions temporarily introduced in June 1968 by France with the consent of the E.E.C. authorities did not become an important trade barrier; in fact they were removed at the scheduled date. The widely feared imposition of import quotas or special import surcharges to benefit the U.S. balance of payments (or rather to benefit no longer fully competitive American industries), which could have easily led to a chain reaction of trade restrictions all over the world, fortunately did not materialise.

World trade expansion partially inflation-inspired

The exceptionally large world trade expansion of last year was also contributed to by the failure of some large deficit countries, mainly the United States and France, but also the United Kingdom, to contain effectively and in time their domestic excess demand. In so far world trade expansion in 1968 was to some extent due to an expansion of demand "in the wrong places". It can be expected, and in the interest of international monetary balance it must even be urgently desired, that effective anti-inflationary policies of the countries concerned will in 1969 eliminate this special factor for the growth of the world economy. The expansionary tendencies in world trade, however, are so strong at present that – according to estimates made by experts of O.E.C.D. – in 1969 international trade may still increase by approximately 8 % even if a considerable reduction in the imports of France, the United Kingdom and the United States should occur. A key role will be played in this respect by the further import expansion of the surplus countries, especially of the Federal Republic and other continental European countries.

Shifts in international capital movements

No less surprising is it that also *international capital transactions* by no means suffered as much from the exchange worries of leading countries as was originally feared. These apprehensions were mainly caused by the additional restrictions imposed on American capital exports at the beginning of 1968 as part of President Johnson's balance-of-payments programme. The actual shifts in international capital movements that occurred last year by far exceeded in their extent the effects of the American restrictions. In consequence of these shifts in the capital movements the United States changed from an exporter of private capital to an importer for the first time since the end of World War II. The absence of the United States as a capital exporter was compensated by the sudden rise in the capital exports of other, mainly European, countries. In this context the exceptionally large exports of long-term capital by the Federal Republic of Germany must be mentioned, which amounted to DM 11.3 billion (net). Italy and France, too – the latter country however not quite voluntarily – have contributed to a large extent to capital exports.

Out of the diverse developments in the international capital field in the period reviewed here two important results deserve to be mentioned: First, notwithstanding capital export controls, American industry was able to continue enlarging its direct foreign investments by increasingly drawing on non-American, especially continental European, capital funds. Secondly, in spite of the impediments brought about by the balance-of-payments worries of important countries last year, total capital exports of the industrialised countries to the development countries almost reached the level of the previous year.

3. Efforts to restore pound sterling and dollar

(a) Pound sterling

Delayed restoration of sterling ...

The objective of the British authorities after the sterling devaluation had been to achieve approximate balance in the United Kingdom's external accounts by mid-1968 and a sizable balance-of-payments surplus in the second half of the year. This objective has not been attained. In spite of a significant improvement since the spring of 1968 full equilibrium in the balance on current account was not reached by the end of the year, much less the desired surplus. Because of the exceptionally large shortfall in the first half of 1968 the "basic balance" for the whole year showed a deficit only slightly lower than that for 1967 (see table on page 33). In the meantime the combination of devaluation and restraint in public and private demand appears to have brought about an export-led economic growth in the United Kingdom, in contrast to previous boom periods. Unless this development is frustrated by an unexpectedly severe slowdown in the world's business climate or by crippling strikes in the United Kingdom a surplus in the British balance of payments should be attainable in 1969 for the first time in seven years.

... makes more foreign credits necessary

The considerable delay in restoring the balance of payments contributed in a decisive way to the repeated confidence movements and substantial foreign exchange losses which in turn forced the British authorities to use extensively the foreign credit lines made available to them at the time of the sterling devaluation and again in March 1968. Thus in June 1968 they drew on the I.M.F. stand-by of \$ 1.4 billion which was arranged immediately following the sterling devaluation. In addition to this the Bank of England had to draw in a varying degree on the swap facilities provided by other central banks. Finally, at the end of September 1968 it made use of part of the funds put at its disposal under the only recently agreed "Second Basle Group Arrangement" (see below).

British external indebtedness thereby aggravated

By resorting to additional credits in 1968 the already difficult problem of *British external indebtedness* was further aggravated. During the three years from 1969 to 1971 repayments amounting to over \$ 4 billion will fall due on medium and long-term credits which were made available in the past under various international assistance loans; out of this amount approximately \$ 2.7 billion is owed to the I.M.F. In 1969 more than \$ 1.3 billion is coming up for redemption, \$ 922 million of this due to the I.M.F. for a British drawing made in May 1965 and a special 1966 I.M.F. credit to finance the gold payment due for the increase in the British quota made in connection with the general revision of the I.M.F. quotas. It remains to be seen whether these repayments can be made from current foreign exchange surpluses or whether a partial rescheduling of the outstanding debt will be necessary, which could for instance take the form of a new I.M.F. drawing. During the first months of 1969, when speculative positions built up in past crises were reversed and the balances of the sterling area countries replenished, the Bank of England gained foreign exchange to an extent enabling it to repay substantial amounts to the I.M.F. as well as to central banks and individual countries without having to dip into its monetary reserves.

Stabilisation of the sterling reserve system by 2nd Basle Group Arrangement

Great significance for monetary policy attaches to the already mentioned *"Second Basle Group Arrangement"* agreed upon in September 1968 between the Bank of England on the one hand and twelve other central banks and the Bank for International Settlements (B.I.S.) on the other. It puts at the disposal of the British monetary authorities a two-billion-dollar credit facility which can be drawn upon over the next three years to the extent necessary to compensate swings in the balances held in London by sterling area countries. The amount outstanding at the end of the three-year period will be repayable by the United Kingdom in instalments over a period of seven more years. The share of the Bundesbank in this two-billion-dollar facility is \$ 400 million. In order to prevent excessive downward movements in sterling balances, the United Kingdom at the same time negotiated bilateral agreements with the sterling area countries. These countries were guaranteed the maintenance of the dollar value of a significant part of their sterling balances while they in turn undertook to keep a specified minimum

Balance-of-payments positions of the United States, United Kingdom and E.E.C. countries 1953 to 1968 *)

Billions of U.S. dollars

Item	Annual average 1953—56	1958—60	1961—64	1965	1966	1967	1968
I. United States							
(1) Current items (excluding military transactions) **1)**	+ 4.00	+ 4.25	+ 7.71	+ 7.99	+ 6.97	+ 6.59	+ 3.94
(2) Government transactions (a) Military transactions (net)	— 2.59	— 2.90	— 2.37	— 2.12	— 2.91	— 3.10	— 3.14
(b) Foreign aid (less repayments)	— 2.05	— 2.45	— 3.23	— 3.37	— 3.44	— 4.21	— 3.98
Total (1 plus 2)	— 0.64	— 1.09	+ 2.11	+ 2.50	+ 0.62	— 0.72	— 3.17
(3) Private capital **2)**	— 0.82	— 2.64	— 5.07	— 4.03	— 2.06	— 3.30	+ 1.48
(4) Overall balance of payments (liquidity basis) **3)**	— 1.49	— 3.71	— 2.51	— 1.34	— 1.36	— 3.57	+ 0.19
(4a) Balance of official reserve transactions	**4)** — 0.8	— 2.8	— 1.91	— 1.29	+ 0.27	— 3.41	+ 1.66
(4b) Change in net external position of the monetary authorities and the banking system	.	.	— 1.83	— 1.75	— 2.01	— 4.07	— 1.99
II. United Kingdom							
(1) Current items	+ 0.22	+ 0.21	— 0.13	— 0.25	+ 0.01	— 1.03	— 1.01
(2) Net long-term capital transactions	— 0.49	— 0.60	— 0.38	— 0.57	— 0.29	— 0.31	— 0.09
(3) Basic balance of payments (1 plus 2)	— 0.27	— 0.39	— 0.51	— 0.82	— 0.27	— 1.35	— 1.10
(4) Net overall balance of payments (= Balance of monetary movements)	— 0.09	— 0.07	— 0.50	— 0.64	— 0.29	— 0.82	— 1.31
III. E.E.C. countries							
(1) Current items (including transfers)	+ 1.3	+ 2.72	+ 0.98	+ 1.54	+ 2.05	+ 4.47	**5)** + 4.9
(2) Change in gross official monetary reserves (including I.M.F. reserve positions)	+ 1.16	+ 2.19	+ 1.52	+ 1.32	+ 1.15	+ 1.35	— 1.70

* 1957 figures have been omitted since they are distorted by 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 exports of military equipment; for 1968 these official special transactions produced an amount of + $ 1.92 billion. — **4** Annual average for the years 1954 to 1956. — **5** Partly estimated.

proportion of their reserves in sterling. Also in September 1968 the First Basle Group Arrangement[1]), fully utilised at the time, was terminated and it was agreed that the balance outstanding shall be repaid in instalments within three years. The scheduled repayments will start in September 1969.

New financing method in the Basle Group Arrangement

While the First Basle Group Arrangement provided only for short-term credit assistance to offset temporary fluctuations in the sterling balances and did not affect the character of the balances themselves, the Second Group Arrangement is basically different in several respects. It not only covers temporary fluctuations in the sterling balances but also takes account of a possible gradual reduction in the total of the balances held by the sterling area countries; also it enables the United Kingdom to spread the foreign exchange cost of such a process over a longer period. The method of financing envisaged in the agreement employs new ways: The B.I.S. will cover possible British drawings first by resorting to the foreign exchange deposits placed with it by sterling area countries, supplementing this, if necessary, by borrowing in the national and international money markets. Recourse to the participating central banks shall only be had when and so long as the primary sources of funds are not plentiful enough. Obviously B.I.S. borrowings in the money markets will be fully backed by the ultimate liability of the participating central banks towards the B.I.S. to provide the required funds. And finally the agreements negotiated with the sterling area countries, according to which the latter will continue to keep a specified minimum of their reserves in pound sterling, mean that the principle of maintaining a balanced relationship in the composition of international reserves has been established, which is similar to that incorporated in the agreement on Special Drawing Rights in the I.M.F.

1 Cf. Report of the Deutsche Bundesbank for the Year 1967, page 37.

The 2nd Basle Group Arrangement and the complementary agreements between the United Kingdom and the sterling area countries largely remove the hitherto existing risk of instability for a considerable portion of the reserves held in sterling. So far the agreements have had the desired effects. During the closing months of 1968 – and even during the November crisis – the officially held balances of the sterling area countries which had negotiated such bilateral undertakings fluctuated only very little, and since the beginning of 1969 they have indeed been considerably replenished. In contrast, balances of non-sterling area countries have fluctuated considerably in the meantime and on balance in fact declined since September of last year. Shortly after the 2nd Group Arrangement became effective the United Kingdom drew part of it, since at that time the eligible balances had fallen below the level agreed upon in the agreement. The DM share of the required financing (just as the share of other currencies not covered by sterling area country deposits) has so far been supplied without difficulty by B.I.S. borrowings in the money markets, without requiring the Bundesbank and the other participating central banks to put up their own funds. The Bank of England actually repaid in the first months of 1969 part of its earlier drawing, since as already mentioned the total of the sterling balances on which the calculation is based increased somewhat in the meantime.

(b) The U.S. dollar

Restoration of confidence in the dollar

Unrest about the American dollar had climaxed around the turn from 1967 to 1968, when the general crisis in confidence that arose out of the sterling devaluation, the sudden rise in the American balance-of-payments deficit, and overheated private gold speculation converged in putting pressure on the dollar. The various stages of the rehabilitation of the dollar were set by the balance-of-payments programme announced by President Johnson of the United States in January 1968, by the introduction of the two-tier gold price system in March 1968, and by the tax and budgetary measures which after much delay were enacted by the United States Congress in June 1968 in order to restore balance in the Federal budget. The first two of the aforementioned actions were described in detail in our Annual Report for 1967. Full restoration of confidence in the dollar was achieved only with the budgetary measures of June 1968, by which the budget deficit which in fiscal year 1967/68 had reached a peace-time record of more than $ 25 billion was completely eliminated. The fiscal year ending in June 1969 may possibly even show a small surplus, and there are prospects that this will again be the case in fiscal year 1969/70 (July 1969 to June 1970).

Expected lessening of the inflationary pressures failed to show so far

The quick reduction of the inflationary pressures confidently expected from the drastic budgetary measures did not however show by the beginning of 1969. Excessive domestic demand and the price rises resulting from it – during 1968 consumer prices rose by 4.6 % – slowed down only slightly. Even when, following a temporary loosening, the monetary brakes were again applied more forcefully in the autumn of 1968, the restrictive effects of the budgetary and monetary measures made themselves felt only with a disappointingly long delay. Although some first signs of a less strained business climate have become visible in the meantime, a dampening of the boom in business investment has remained surprisingly small until this Report went to press. This experience demonstrates again that excessive demand that has been allowed to prevail for years can produce an inflationary psychology which can be eliminated only with great difficulty and very drastic action.

Despite foreign trade deterioration, surplus in the U.S. balance of payments...

The continuation of excessive demand led in 1968 to an increase in imports of no less than 23 %. Though the 10 % export rise over the previous year was quite gratifying, the excessive expansion of imports resulted in a $ 3½ billion deterioration of the trade balance as compared with the previous year. The remaining surplus of close on $ 100 million was the worst trade balance outcome in 30 years. In surprising contrast, for the first time since 1957 the balance of payments showed a surplus for 1968: on liquidity basis it amounted to $ 190 million, on an official settlements basis it was as high as $ 1.6 billion. In 1967 a $ 3½ billion deficit was recorded on both these definitions.

The contradiction between the worrisome deterioration in the trade balance and the improvement in the overall balance finds its explanation — apart from improvements in some current invisible items — mainly in a *reversal of the American capital balance.* The United States, which for several decades was by far the most important exporter of capital in the world — which is in conformity with its economic strength and its leading position in the world economy — in 1968, as already mentioned, for the first time became a net importer of private capital funds. This radical change in the American capital balance will probably not continue for very long, since it is partially based on unstable factors, as has been expressly admitted also by the American authorities. Moreover, in view of the whole economic setup of the world it would be highly undesirable if the wealthiest country of the world were to maintain such a structure in its balance of payments for an extended period.

... because of shift in capital movements

The reversal in the U.S. balance of long-term capital transactions is in the main due to three factors: First to the compensatory medium-term investments of foreign governments and central banks, secondly to the effects of the Johnson programme of January 1968 for limiting capital exports, and thirdly to the rapid increase in European investments in American securities. A fourth factor was the borrowing of more than $ 3 billion of foreign short-term bank funds by American banks in consequence of the rise in interest rates and the tightening of bank liquidity in the United States. This inflow of short-term capital, which in 1967 was much smaller and amounted to only $ 1.3 billion, is not taken into account when calculating the balance of payments on a "liquidity basis"; it therefore did not contribute to balancing the external accounts on this basis in 1968, although it serves to explain the substantial surplus in the balance on official reserve transactions. The medium term investments of foreign governments and central banks, which at $ 2.4 billion in 1968 were nearly twice as high as in the previous year, were contributed to in particular by special arrangements between Canada and the United States, and also by increased Bundesbank purchases of American 4½ year Treasury notes to offset American foreign exchange outlays for the armed forces stationed in the Federal Republic (see section 5 below). Special arrangements of this nature will probably not continue at the 1968 rate; but it is likely that they will be replaced to some extent by other transactions designed to offset the foreign exchange costs of the U.S. troops stationed in Germany, thus avoiding a complete shortfall in the relief for the American balance of payments. The effects of the Johnson programme, to the extent that it bears on American direct investment and bank lending abroad, are estimated to have amounted to $ 2–2½ billion. It is the declared intention of the new U.S. Administration gradually to relax these restrictions for capital exports and eventually to remove them completely. It remains to be seen how quickly this intention will or can be translated into action. In 1968 bank credits to foreigners were recalled in a larger measure than was required by the programme. The improvement in the capital balance achieved in this way cannot be repeated in 1969, but the example demonstrates that the increasing tightness and cost of credit in the United States has through the market forces been working in the same direction as the administrative programme. The same is presumably true of the repatriation of balances held abroad by the foreign affiliates of American corporations. Especially towards the end of 1968 repatriation of such funds was very substantial, exceeding the level prescribed by government regulations. Some leeway for renewed capital exports on a somewhat larger scale has thus been created in this area, as also for the banks; actual utilisation of such leeway will very greatly depend on the monetary situation in the United States.

Sudden rise in foreign purchases of American securities

The most surprising phenomenon in the American capital balance was the sudden rise in foreign purchases of American securities. These purchases related to stocks as well as to bonds, and especially convertible bonds which were issued by American corporations mainly in the Eurobond-market. Beginning in the middle of 1967 American stocks, which in 1965 and 1966 on balance were sold more than bought by foreigners, met with growing interest abroad, which is to be attributed in the first place to the aggressive sales efforts by American investment funds and brokerage houses in Europe. Foreign net purchases of American stocks climbed swiftly from $ 0.75 billion in 1967 to $ 2.26 billion in 1968. The placement of American corporate bonds abroad in the same period climbed from $ 0.3 billion to 1.9 billion.

The American restrictions on financing direct investment abroad with domestic funds to the debit of the American balance of payments certainly gave impetus to this enormous rise, but cannot manage to explain it entirely. In total, foreigners in 1968 bought American securities for no less than $ 4.2 billion net. It may be assumed that the discovery of American stocks by European investors and the tremendous broadening of the Eurobond-market will be of a fairly permanent character, although the extent of the use made by American corporations of the Eurobond-market will in the long run largely depend on the interest differential between Europe and North America.

After the fluctuations of confidence over the past years, the U.S. dollar was able to strengthen its position very much since the middle of 1968. Although the actual effects of sounder U.S. budget policies on excessive domestic demand and the trade balance have proved to be much delayed, this budgetary policy has nevertheless been decisive in restoring confidence in the dollar. When in the late autumn of 1968 American monetary policy likewise adopted a restrictive attitude, the position of the dollar regained such strength that it remained absolutely unaffected by the November crisis around the French franc and the Deutsche Mark.

Capital flows to the U.S. in part only temporary

So long as the present tightness and high cost of money in the U.S. lasts, American banks and the American economy as a whole should continue to be a magnet for money and capital from the rest of the world, and in particular from Europe. Yet over the course of 1969 some deterioration in the capital balance as compared with the unusual result of the previous year can hardly fail to come about, especially if interest rates, which are abnormally high at the moment, should drop. Thus a great deal will depend on whether the American trade balance can regain its former strength and whether the foreign exchange costs of the Vietnam war can be reduced.

U.S. trade surplus crucial for restoration of the dollar

The result of the race between the well-nigh unavoidable deterioration in the capital balance and the desired improvement in the trade accounts will be of great importance for the stability of the international monetary system. This is so because the stability of the latter depends to a large extent on the stability and the strength of the U.S. dollar, which after all is not only the currency of the dominating economy of the world but also the universal intervention currency and, for many countries, also the most important reserve medium. But the position of the dollar as a corner-stone of the present world monetary system will not merely depend upon the strength or weakness of the American balance of payments. The dollar will be able to fulfill its function as an anchor and a point of reference for the other currencies only so long as it remains reasonably stable in its purchasing power. Restoration of domestic stability of the dollar therefore is the crucial problem for the future stability of the world monetary system.

4. French Franc and Deutsche Mark — sources of a new crisis

(a) The French monetary crisis

Social crisis in France . . .

While the problems of the pound sterling as well as those of the dollar date far back into the past and presented sources of unrest already for years, the French franc became a new factor for unrest in consequence of the events which erupted quite unexpectedly — as it were as "a bolt from the blue" — in May and June 1968. Until April 1968 the franc was considered to be one of the "strong" currencies of the world. At the end of that month French monetary reserves amounted to about $ 7 billion (including a $ 885 million I.M.F. reserve position), at which rate they were higher than the German reserves when measured against the volume of foreign trade. The French balance of payments, despite the unfavourable repercussions of the German recession, remained in equilibrium in 1967. After being temporarily feeble in 1967 French foreign trade expanded significantly from January to April 1968 and a clear tendency for further improvement in the trade balance could be discerned. It gives cause for concern that a few weeks of social unrest and strikes — the origins of which have to be looked for in non-economic areas — sufficed to jeopardise a seemingly firm monetary position and to burden the international monetary system with a new source of disturbance.

Settlement of the May/June 1968 social crisis was achieved by granting substantial wage increases. These resulted in a $13^1/_2$ % wage rise in the manufacturing and distributive industries between the end of 1967 and the end of 1968; on average, wages were about 10 % higher in 1968 than in the previous year. These wage increases by far exceeded the simultaneous rise in productivity; therefore labour costs increased and the international competitiveness of the French economy deteriorated. At the same time the expansion in demand which came along with the wage explosion had the effect of substantially increasing imports from the autumn of 1968 onwards.

... leads to explosion in wages ...

Nevertheless in 1968 the deterioration of the French trade balance was by no means dramatic. Despite the large shortfalls during the strike-ridden weeks exports climbed on average by no less than 11.8 %, that is, on the same scale as world trade, while imports advanced by close on 13 %. The falling-off in the trade balance vis-à-vis non-franc area countries (calculated on a transaction basis) from 1967 to 1968 amounted to about $ 600 million (a surplus of $ 240 million in 1967 as against a deficit of approximately $ 350 million in 1968). Much more dramatic was the development in the French net reserve position, which in 1968 showed a deficit of no less than $ 3.7 billion. Since this deficit was covered to the extent of $ 2.8 billion by drawing on official reserve assets, these declined from a level of $ 7 billion at the end of April to about $ 4.2 billion at the end of December 1968. Even if allowance is made for the fact that part of the loss of official reserve assets was caused by the banks having increased their own foreign exchange assets by end-1968 because of a higher volume of forward transactions, the $ 3 billion deficit in the combined reserve position of central bank and commercial banks was several times larger than the "genuine" deficit on current account and non-speculative capital movements. The speculative capital transactions determining the actual fall in the total reserve position took a variety of forms: changes in the terms of payment for imports and exports, hedging operations to the extent that they were allowed by the foreign exchange controls (tightened in November 1968), direct capital flight, and gold purchases at home and abroad. Since the foreign exchange controls were initially handled rather leniently and were completely removed between the beginning of September 1968 and the November currency crisis, very substantial capital funds could be transferred to foreign countries in these various ways.

... and to deterioration in the trade account and the balance of payments

To a considerable extent this capital flight movement was already under way during and immediately following the May/June 1968 disturbances. After the foreign exchange speculation against the franc had temporarily calmed down from the middle of September until the middle of October it started to break loose again when in the second half of October indications that the credit expansion and the budget deficit were getting out of hand became numerous, while simultaneously French prices and foreign trade took a turn for the worse. At the end of October speculation against the franc coincided with a world-wide speculation on a revaluation of the Deutsche Mark.

(b) The Deutsche Mark suspected of revaluation

Price stability in Germany since the beginning of 1967 – which was at variance with international price developments – and the huge surpluses in the German balance on current account – in part due to the recession – caused suspicions of a DM revaluation to arise since the spring of 1968. Next to the Swiss franc, the Deutsche Mark was a favoured target of international flight capital whenever monetary unrest developed. In 1968 the foreign exchange surplus of the Federal Republic of Germany was on balance attributable only to short-term capital transactions, inclusive of the changes in the terms of payment in foreign trade. The German "basic balance", *i. e.* the balance on current account and long-term capital transactions, for the ten months from January to October 1968 even showed a deficit of as much as DM 1.0 billion while for the whole of 1968 it was roughly in balance. Expectations of a revaluation were thus encouraged less by an acute imbalance in the total external accounts but rather by the unusually large surplus in the German balance on trade and services. There was increasing doubt, especially abroad, as to whether the excessive German trade surplus could be

Speculation on franc devaluation coincides with speculation on revaluation of the Deutsche Mark sufficiently reduced by a further expansion of home demand or compensated by sufficiently large exports of long-term capital over the longer run.

That the speculative expectations eventually escalated into a severe monetary crisis may well be attributable to the contrast apparent between the price stability and currency strength of the Federal Republic and the weakening balance of payments of our neighbour country, France, which was caused by the wage explosion. This eventually led to a cumulative torrent of speculative foreign exchange movements. During the first three weeks of November, when the crisis was drawing to its climax, the Bundesbank was flooded with foreign exchange to the extent of DM 9$^{1}/_{2}$ billion. More than DM 5 billion of this sum was accounted for by foreign funds which were seeking refuge on deposits with German commercial banks, while the remainder stemmed from inflows and changes in the terms of payments in foreign trade. The foreign exchange flow into Germany of almost \$ 2$^{1}/_{2}$ billion was accompanied by heavy French reserve losses; the pound, too, which was assumed to suffer repercussions from a massive French devaluation, came under pressure again and the Bank of England lost substantial amounts of foreign exchange. The foreign exchange gains of the Federal Republic, however, were considerably larger than the simultaneous French and British reserve losses; statistical evidence as to the origin of the foreign funds flowing into the German banks also points to the fact that speculation on an upvaluation of the Deutsche Mark attracted funds from all over the world.

Climax of monetary crisis in November 1968 ...

(c) The Bonn Monetary Conference in November 1968

... leads to Bonn Monetary Conference in November 1968

When it became obvious that the monetary crisis could not be overcome in the conventional way – at the climax of the crisis the Bundesbank in one single day (15 November 1968) gained foreign exchange for more than \$ 800 million – the Ministers and Central Bank Governors of the Group of Ten were asked by the German Minister for Economics, who at that time was Chairman of the group, to meet for a monetary conference. This conference convened in Bonn from 20 November to 22 November 1968. The foreign exchange markets of the countries mainly affected, *i. e.* United Kingdom, France, and Germany, were closed during these days.

Defensive action in Germany, France and the United Kingdom

On 19 November 1968 the Federal Government had already decided and announced in a *communiqué* that it was not prepared to yield to pressure for an upvaluation of the Deutsche Mark. Instead, it introduced a "substitute revaluation" in the form of a special 4 % tax to be levied until 31 March 1970 on German exports and a 4 % tax rebate to be granted on imports (with the exception of agricultural products subject to official market interventions). The Bonn Conference thus did not result in the widely expected and advocated multilateral "re-alignment" of exchange rates. One day after the Bonn Conference was adjourned the French Government, contrary to widespread expectations, decided not to devalue the franc but instead to bolster the existing parity by a package of other measures: internal demand was reduced by budgetary and monetary actions, a devaluation-like effect on costs was to be achieved by a tax reform (the payroll tax being replaced by an increase in the value-added tax), and foreign exchange controls were reinstituted in an attempt to shield the French currency from the flight of capital. Immediately following the Bonn Conference the British Government likewise announced a number of measures for the defence of the pound, namely, the imposition of additional taxes on consumption, a tightening of the monetary brakes, and the introduction of interest-free import deposits. Shortly before, the regulations for instalment credits had already been made more stringent.

The *communiqué* issued by the participants of the Bonn Conference expressly stressed the joint responsibility of surplus and deficit countries alike for maintaining international monetary stability and also stated the intention of pursuing concerted economic and monetary policies, including measures to counter speculative capital movements. The Federal Government affirmed its intention to introduce licensing requirements for certain inflows of foreign short-term funds in order to ward off "hot money". During the Bonn Conference the Bundesbank decreed that for the time being banks were to maintain an interest-free minimum reserve on additional liabilities toward non-residents to the full extent (100 %) of the increase (details as to the German measure see Chapter III, page 49). These measures, together with the 4 % "substitute revaluation", were considered by the Group of Ten as a "significant contribution to the stability of the monetary system and the adjustment process".

In addition to this, the central bank representatives in the Group of Ten decided during the Bonn Conference to make available to the Bank of France a supplementary credit facility of $ 2 billion (the Bundesbank share amounting to $ 600 million). This action was to be seen as a token for the determination of the monetary authorities to counter speculative capital movements. The central bank governors agreed that "they, together with the B.I.S., will examine new central bank arrangements to alleviate the impact on reserves of speculative movements".

Appraisal of the Bonn Conference

The effects of the Bonn Conference on the international monetary scene have been considerable. It is true that the only real decision taken by the Group of Ten during the conference was that of the Central Bank Governors to make available to the Bank of France an additional credit facility of $ 2 billion, and even this particular decision, apart from its psychological effect, did not have any immediate consequences. Nevertheless, the Bonn Conference and its after-effects must in two respects be considered as a landmark in the sequence of last year's monetary events: First, the determination not to alter the present exchange rates demonstrated under dramatic circumstances did not fail to impress the world; this can be seen from the unexpectedly rapid liquidation of the speculative positions built up especially in expectation of a DM revaluation. Secondly, the adjustment measures taken before and after the Bonn Conference in Germany and in the deficit countries France and United Kingdom to establish an improved balance-of-payments equilibrium must be considered and judged as a whole. Each one of these measures in itself may not be entirely adequate. But as a whole they may bring about a better international payments equilibrium if carried through resolutely.

(d) Efforts to improve compensation of speculative money movements

Improvements in recycling speculative foreign exchange flows . . .

In accordance with the intention expressed in the *communiqué* of the Bonn Conference the Central Bank Governors of the Group of Ten have examined, together with the B.I.S., new methods to mitigate the effects of speculative shifts of funds on the monetary reserves. The result of their examination was made public in a joint announcement on 10 February 1969.

The form, the extent and the duration of credit assistance between central banks shall, as has been the case hitherto, be adapted to prevailing circumstances in a flexible way. For the improvement and acceleration of this process it was agreed, in cases of exceptionally large speculative money shifts, to convene without undue delay the Central Bank Governors at the invitation of the President of the B.I.S. in order to agree on possibly required credit facilities. The share of the individual central banks in the credit assistance and the sequence of calls on individual banks shall if possible reflect the direction of the speculative money movements which are to be compensated. To those central banks which are drawn upon on the strength of their agreed participation but have not had simultaneous reserve increments, a refinancing facility shall be made available in case of need with those central banks whose reserves have increased by speculative money inflows. In this way actual provision of the credit funds to the deficit country can be separated from the assumption of the credit risk, thus sparing a central bank which during a crisis receives high amounts of speculative funds the burden of having to assume a disproportionate share in the credit risk. Finally it was envisaged that the B.I.S. might increasingly act as an intermediary in the process of recycling speculative money flows by borrowing either from the central banks gaining reserves or in the money markets, and in turn relending the funds thus acquired to the central bank losing foreign exchange.

This approach to the international money markets for the re-channeling of short-term funds constitutes a method which in some ways has already been successfully introduced under the Second Group Arrangement agreed upon in September 1968 (see section 3). Such a procedure appears the more advisable since the various currency crises of the recent past have shown that the foreign exchange losses of a central bank which is affected by a monetary crisis will not always – at least in any case not to the full extent – be reflected in respective reserve gains of other central banks since the mobile funds may be flowing to the international money markets either directly or *via* the commercial banks of the countries enjoying strong currencies. This for instance happened on a large scale when very substantial sums of French flight money were flowing to the Euro-markets *via* Swiss and other banks during the events of May/June 1968 in France.

... by applying a non-automatic but flexible *ad-hoc* procedure

By favouring a "flexible" procedure adaptable to changing circumstances the Central Bank Governors of the Group of Ten rejected proposals occasionally mentioned in the international discussion, according to which speculative funds should be fed back automatically and without limits from the country receiving them to the country losing reserves. The objections against such an automatic and unlimited system are obvious. In an acute crisis it would frequently be very difficult to distinguish foreign exchange flows caused by a genuine balance-of-payments deficit from those of a clearly speculative kind, quite apart from the fact that occasionally speculative funds do not flow to a central bank but to the international money markets. Moreover a central bank suddenly gaining large amounts of foreign exchange can hardly be expected to accept an unlimited credit risk vis-à-vis the deficit country. And finally the automatic and unlimited feeding back of foreign exchange losses would imply that pressure on deficit countries to resort to appropriate corrective measures against the reserve outflow was greatly eased.

On the other hand the central banks concerned are fully aware of the fact that loss of confidence may lead to disproportionately large foreign exchange flows, considering the present volume of liquid funds in the economies and in view of the possibility of financing speculative movements by recourse to the international money markets at short notice. In such an event compensatory credit assistance on an *ad-hoc* basis may be justified in order to preclude international chain reactions as well as panic-like national defensive actions.

5. Participation of the Bundesbank in international credit operations

Limited function of central bank assistance

Credit assistance by central banks and the I.M.F. for the bridging of foreign exchange difficulties cannot however remove the real causes of the balance-of-payments troubles. To establish international credit mechanisms can therefore by no means be considered a preventive measure against future currency crises. Foreign currency loans for countries in need of such assistance rather have the function of providing some breathing space until results of the required corrective measures show up in the external accounts. Furthermore, such assistance serves to compensate or to "recycle" excessive speculative foreign exchange flows until normal conditions have been restored. Because of their very nature central bank credits have to be limited to the short-term area, while the I.M.F. provides medium-term credit assistance.

In view of the strong German balance-of-payments and reserve position the Bundesbank has participated actively in international credit operations during the period reviewed here. The importance of these operations justifies a summarised presentation. Direct central bank operations must be distinguished from the Bundesbank's indirect participation in I.M.F. loans. In order to provide a complete picture we shall include in this presentation also the Bundesbank's cooperation in financing the offset arrangements for the U.S. and British armed forces stationed in the Federal Republic, though these operations are actions of a special kind.

(a) Short-term central bank operations

Participation of the Bundesbank in central bank credits for the United Kingdom and France

Establishing credit facilities between central banks, which in case of need can be drawn upon by temporarily swapping foreign exchange funds, proved to be of particular importance when the various monetary crises occurred, because short-term assistance of this kind can be organised at very short notice. At present the Bundesbank participates in short-term central bank assistance for the United Kingdom and France. Moreover, it is one of the partners in the far-reaching network of reciprocal swap facilities of the Federal Reserve System. And finally the Bundesbank participated in a short-term credit operation in favour of Canada which, however, was cancelled after a short period because of the fast recovery in the Canadian foreign exchange situation.

Credit assistance for the United Kingdom

(i) At the beginning of November 1967 a group of central banks provided the United Kingdom with a \$ 250 million loan channelled through the B.I.S. to enable Great Britain to pay to the I.M.F. the last instalment on a large drawing made in December 1964 that was falling due in December 1967. The Bundesbank's share in this operation was \$ 55 million. It was agreed that the United Kingdom would redeem this loan in monthly instalments; it is expected to be completely paid off by the end of May 1969. At the end of March 1969 the remaining claim of the Bundesbank amounted to \$ 9 million.

(ii) The Bundesbank's share in the \$ 1½ billion credit (later reduced to \$ 1.3 billion) granted by 12 central banks and the B.I.S. in November 1967 immediately following the devaluation of sterling was \$ 250 million. This facility, which was prolonged several times, is drawn upon by the Bank of England according to developments in its reserves. The German share was fully utilised at the end of March 1969.

(iii) An additional facility of \$ 1.1 billion provided during the gold crisis of March 1968 has expired in the meantime, as far as it consisted of central bank advances. The amounts drawn under this line of credit were repaid by the United Kingdom in the autumn of 1968.

Credit assistance to France

(i) In July 1968 a group of central banks made available to the Bank of France a credit line of \$ 1.3 billion to help France to overcome the crisis which developed in the wake of the disturbances in May and June 1968. Of this facility, \$ 600 million was provided by the Federal Reserve System, a like amount by the central banks of the European Economic Community, and another \$ 100 million by the B.I.S. The Bundesbank participates in this facility with \$ 300 million. Since the Bank of France had arranged with the Federal Reserve System a swap facility of \$ 100 million long before the outbreak of the crisis it now disposed of credit lines of altogether \$ 1.4 billion. France used this credit line together with its own gold and foreign exchange reserves and its reserve position in the I.M.F. to cover its huge foreign exchange losses which overwhelmingly resulted from speculative movements of various kinds. Beginning in December 1968, when substantial funds returned to France once the November crisis was surmounted and foreign exchange control had been tightened, the Bank of France repaid a large part of the loans. At the end of March 1969 the Bundesbank's share of the facility was still drawn upon with \$ 110 million.

(ii) The \$ 2 billion credit facility made available by a larger group of central banks and the B.I.S. during the Bonn Conference, for which the Bundesbank provided the largest individual share amounting to \$ 600 million, has not been drawn upon so far by the Bank of France.

Credit operation in favour of Canada

At the beginning of 1968 speculative money withdrawals from Canada – mainly because of exaggerated notions about the effects of the American balance-of-payments programme on the Canadian monetary situation – led to very large foreign exchange losses of the Canadian central bank. Within a few weeks it lost about one third of its monetary reserves. Thereupon the I.M.F., the American Export-Import Bank and some central banks jointly provided a credit facility for Canada. The Bundesbank contributed \$ 150 million to the total of close on \$ 1 billion. The monetary crisis was overcome so quickly that Canada did not have to make use of the facility provided by the Bundesbank, and after a few months it could be cancelled.

The reciprocal swap-lines of the Federal Reserve System

The network of reciprocal credit lines between the Federal Reserve System and 14 other central banks and the B.I.S. has been further enlarged and increased in 1968 in consequence of the various currency crises. While the total of the agreed credit lines was $ 7.1 billion at the end of 1967, it amounted to $ 10.5 billion at the end of 1968. During the gold crisis in March 1968 the reciprocal swap facility between the Bundesbank and the Federal Reserve System was raised from $ 750 to 1,000 million to meet all emergencies. This line was still in force when this Report went to press.

The swap network was drawn upon by the American side at the turn from 1967 to 1968 in an amount of $ 1.8 billion. By the middle of 1968 the Federal Reserve System had repaid all drawings. At the end of 1968 it again drew about $ 400 million, mainly in Swiss francs and Deutsche Mark, to counteract the usual year-end tightness in the international money markets. By the beginning of March 1969 all American drawings had been repaid except for a small balance with the Swiss National Bank from a previous Swiss franc drawing. To a considerably larger extent the Federal Reserve System provided funds for other central banks in the year under review. At the end of 1968 swap credits to other central banks in the amount of $ 1.67 billion were outstanding, of which $ 1.15 billion were owed by the Bank of England and $ 430 million by the Bank of France. At the end of 1968 the Federal Reserve System thus on balance provided credits for other central banks with a total of more than $ 1.2 billion.

(b) The Basle Group Arrangements for the United Kingdom

The Basle Group Arrangements of 1966 and 1968

A special kind of central bank assistance is provided by the two "Basle Group Arrangements" for the United Kingdom. The *First Group Arrangement,* concluded in June 1966 between a larger group of central banks and the B.I.S. on one side and the Bank of England on the other side, has already been described in the Annual Reports of the Bundesbank for 1966 and 1967. The United Kingdom drew almost the total of the $ 1 billion agreed upon in this agreement to compensate for the foreign withdrawals of sterling balances during the various pound crises. When the Second Group Arrangement of September 1968 was being prepared the amounts outstanding under the first agreement were consolidated. It was agreed that beginning in September 1969 the United Kingdom shall repay the balance outstanding in quarterly instalments within a period of two years.

The Second Group Arrangement has already been described in detail in the third section of this part of our report. The share of the Bundesbank in the maximum of the engagement of the central bank group involved amounts to $ 400 million out of the $ 2 billion total, as already mentioned. Since the B.I.S. was so far able to borrow in the money markets all the DM amounts drawn by the United Kingdom under this agreement the Bundesbank hitherto did not need to provide own funds.

(c) Credit assistance *via* the International Monetary Fund

Refinancing supplied by the Bundesbank for British and French I.M.F. drawings

(i) The $ 1 billion drawn by the United Kingdom during the sterling crisis of November/December 1964 was repaid in 1967. To meet the refinancing requirements for this loan the Bundesbank provided the I.M.F. under the General Arrangements to Borrow (G.A.B.) with $ 180 million.

(ii) According to the I.M.F. statutes another British I.M.F. drawing of $ 1.4 billion made in May 1965 has to be repaid within a period of 3 to 5 years. Last year the United Kingdom and the I.M.F. agreed on a repayment schedule according to which the United Kingdom in 1968 repaid $ 200 million. Of the next $ 800 million falling due in 1969 the first one of four instalments, each amounting to $ 200 million, was paid at the end of February 1969. The Bundesbank participated in the refinancing of the original British drawing with a G.A.B. credit to the I.M.F. of $ 167.5 million. In June 1968, when in consequence of their own foreign exchange troubles the French monetary authorities had to make use of their I.M.F. reserve position, the Bundesbank acquired in addition to this sum from France the $ 80 million French

Financing of I.M.F. assistance to France and the United Kingdom in June 1968

Millions of U.S. dollars (equivalent)

Transaction	Procurement of funds: out of I.M.F. holdings	by G.A.B. 1) credit granted to I.M.F.	by gold sales of I.M.F.	Total
	1	2	3	4 = 1 + 2 + 3
(a) French drawing on I.M.F.				
All (14) currencies	298	265	182	745
among which: Deutsche Mark	—	140	64	204
(b) Transfer of a French G.A.B. claim to other participants				
All (4) currencies	—	140	—	140
among which: Deutsche Mark	—	80	—	80
(c) British drawing on I.M.F.				
All (16) currencies	559	476	365	1,400
among which: Deutsche Mark	—	226	121	347
Total (a + b + c)	857	881	547	2,285
among which: Deutsche Mark	—	446	185	631

1 Credit granted by members of the Group of Ten under the General Arrangements to Borrow (G.A.B.) of 1962.

G.A.B. credit granted on the occasion of that particular British drawing. After this transaction was completed the Bundesbank therefore held claims of $ 247.5 million on the I.M.F. under the G.A.B., all originating from the same British drawing. British repayments to the I.M.F., which according to the statutes have first to be applied to the outstanding G.A.B. borrowings, enabled the I.M.F. to reduce the G.A.B. claim of the Bundesbank in 1968 by a total of $ 93 million and in February 1969 by another $ 101 million. Of the G.A.B. claim of the Bundesbank arising from the British I.M.F. drawing of 1965 therefore $ 53.5 million was still outstanding in March 1969.

(iii) The stand-by facility made available to the United Kingdom at the time of the sterling devaluation in November 1967 was drawn upon in June 1968 in its full amount, *i. e.* $ 1.4 billion. It was used mainly to repay outstanding short-term obligations to other central banks. To the extent of $ 347 million this loan was used to draw Deutsche Mark; of this amount, $ 226 million was provided by the Bundesbank under the G.A.B. while the balance of $ 121 million was supplied in exchange for gold out of the I.M.F. stock (see table above). This British drawing and the G.A.B. credits granted to refinance it will mature in three years.

(iv) Also in June 1968, France had recourse to its $ 885 million I.M.F. reserve position to meet its large foreign exchange losses. Included in this reserve position was a French credit of $ 140 million to the I.M.F. granted under the G.A.B. to refinance the British drawing of 1965 (see item (b) above). To refinance the $ 745 million drawing by France in its gold tranche the Bundesbank made available to the I.M.F. $ 140 million under the G.A.B. Further details can be seen in the table above.

(v) At the end of 1968 the Bundesbank had G.A.B. claims towards the I.M.F. totalling DM 2,082 million, which all arose from the various I.M.F. operations in favour of France and the United Kingdom; by the end of March 1969 the outstanding balance had been reduced to DM 1,678 milion ($ 419.5 million) due to the already mentioned British repayments.

(d) Participation of the Bundesbank in financing the foreign exchange offset agreements

Contributions to the offset agreements with the United States and the United Kingdom

As already mentioned in our Report for the Year 1967 the Bundesbank contributed medium-term funds to the financing of the Anglo-German and German-American foreign exchange offset agreements.

Under the offset agreement concluded between the Federal Republic of Germany and the United States for the American fiscal year 1967/68 the Bundesbank lent to the U.S. Government DM 2 billion against Treasury notes running for $4^1/_2$ years and denominated in Deutsche Mark. In the subsequent agreement for the fiscal year 1968/69 it undertook to provide a like amount in four instalments. By the end of 1968 it had paid three instalments in a total of DM 1,500 million. The last instalment of DM 500 million is to follow during the first half of 1969.

In a similar way the Bundesbank acquired British Treasury notes for DM 200 million, running for $4^1/_2$ years and also denominated in Deutsche Mark. This purchase was effected on the basis of the Anglo-German foreign exchange offset agreement for the British fiscal year 1968/69.

At the end of 1968 the Bundesbank held American and British Treasury notes denominated in Deutsche Mark in a total amount of DM 3,700 million, of which DM 1,000 million were acquired in 1967 and DM 2,700 million in 1968. Although these Treasury notes can be cashed in under special circumstances, *i. e.* if the German balance of payments should gravely deteriorate, and are therefore considered as belonging to the Bundesbank's monetary reserves, they nevertheless immobilise the German monetary reserves to some extent. There is agreement among all participants, including the United States, that by its contribution for 1968/69 the Bundesbank has reached the upper limit for finance supplied in this form.

(e) The effects of the assistance operations on the monetary reserves of the Bundesbank

German monetary reserves not overcharged by assistance operations . . .

The extreme volume of international credit assistance and of German participation in it has occasionally caused concern and criticism in the period reviewed here. Criticism to the effect that the German relative share in the various assistance operations had been too high is actually not justified. The individual German participations were fixed in accordance with generally accepted criteria which are based on the volume of monetary reserves, the I.M.F. reserve position, *etc.* The German share in the two-billion-dollar credit line made available to the Bank of France in November 1968, which amounted to $ 600 million, was indeed somewhat larger than usual, but this was justified by the fact that at that time the speculative foreign exchange losses suffered by France were mainly flowing to the Federal Republic. Special circumstances thus prevailed.

. . . but nevertheless heavily burdened

Another concern is that the German currency might be overburdened by the credit operations, since they unduly strain and immobilise German monetary reserves. The composition of the Bundesbank's reserve assets has in fact experienced considerable shifts in the period under review. The credit operations have transformed part of the immediately available dollar balances into advances to central banks of a lower liquidity grade, and into claims on the I.M.F. At the end of March 1969 the loans to central banks that have arisen from assistance operations, including those to the B.I.S. for credit operations supporting the United Kingdom, totalled DM 2.06 billion, while claims on the I.M.F. under the G.A.B. amounted to DM 1.7 billion. If these claims are added to the DM 3.7 billion of medium-term securities from the financing of the foreign exchange offset agreements the total assets originating from the listed credit operations amount to DM $7^1/_2$ billion. At the end of March 1969 the total net monetary reserves of the Bundesbank had almost exactly the same volume as at the end of 1967, namely, DM 30.3 billion. The assistance credits contained in the monetary reserves increased, however, during this same period by about DM 4.3 billion, while the immediately available reserves declined accordingly. As far as the credit lines established during the period under review have not been drawn upon in full, there exist open commitments which under unfavourable conditions might lead to a further immobilisation of monetary reserves.

Potential liquidity reserves

It must not be overlooked, however, that in case of need, *i. e.* if the German balance of payments were to turn into a persistent deficit, a substantial part of the claims based on assistance operations could be mobilised quite quickly. This for example applies to the claims on the I.M.F. under the G.A.B. They represent a claim on the I.M.F. which could be drawn upon, should Germany record a deficit in its balance of payments, just like a drawing right in the gold tranche, meaning "almost automatically". If it were necessary, a large part of the other assistance credits could also be mobilised. This applies to the American medium-term Treasury notes as much as to the various direct credits to central banks which could be reversed before maturity, at least if a significant deterioration in the German external accounts were matched by an improvement on the other side. Finally, the general reserve position in the I.M.F. constitutes another source of liquidity which arose, in addition to the G.A.B. claim, out of general Deutsche Mark financing operations of the I.M.F. and which amounted to almost DM 4 billion at the end of February 1969. In case of a sudden deterioration in the German reserve situation use could also be made of the reciprocal swap-line with the Federal Reserve System.

It should not be left unmentioned that direct and indirect assistance credits of the Bundesbank, while they went at the expense of its liquid dollar reserves, have at the same time somewhat reduced the exchange risk in the Bundesbank reserves. The majority of the assistance credits are denominated in Deutsche Mark, and the G.A.B. claims on the I.M.F. enjoy a gold value guaranty.

III. Details of Monetary Developments

1. Money and credit

(a) Bank liquidity

Inflows of liquidity from market processes fully neutralised by higher minimum reserve requirements . . .

In connection with the measures taken to combat economic stagnation in 1967 the liquidity of the banking system was increased very strongly. As explained in our last Annual Report, not only were the minimum reserves required of the banks reduced several times and were securities purchased by the Bundesbank on the open market in 1967; in addition, the financing of the budget deficit was also to a large extent deliberately given a form creating with the banks securities eligible for refinancing, thus enabling the banking system to grant more credits. This process of increasing liquidity continued in 1968 to a certain degree, though much less intensely, in that the so-called "market" determinants of bank liquidity, *i.e.* movements of foreign exchange, changes in the circulation of notes and coin, *etc.*, increased bank liquidity by about DM 3.25 billion on balance (in each case calculated on the average of the four weekly bank-return dates in December). On the other hand, however, the minimum reserve liability also went up — especially through the growth in banks' balance sheets — in fact by about the same amount as central bank money was channelled to banks through the market factors. With liquidity policy measures the Bundesbank exerted but little active influence on bank liquidity in 1968. It tolerated market factors somewhat restricting liquidity, on the whole, in the first three quarters of the year under report, whilst in the last part of the year, by special measures governing minimum reserves, it neutralised for a time part of those large inflows of liquid funds which were due to the temporary substantial transfers of foreign money to Germany for speculative reasons.

. . . but banks' free liquid reserves rising nevertheless

In spite of this the banks' free liquid reserves rose in 1968 in terms of the absolute amount (calculated over the whole year and not as an average) by a further DM 6.5 billion, after having risen in the year 1967 by more than twice that amount (by almost DM 13.6 billion), it is true. In percentage terms, however, the increase in 1968 hardly any longer exceeded that of the volume of deposits. At 13.5 % at the end of 1968 the liquidity ratio, *i. e.* the relation between free liquid reserves and the volume of deposits with the banks, did not substantially exceed the end-of-1967 figure, though it was greater than in the period from the spring of 1964 until about the autumn of 1967. In the first two months of 1969 the ratio once more decreased slightly, thus amounting to only some 13 % at the end of February 1969 as against 15 % in February 1968, when it had reached a temporary peak.

Creation of free liquid reserves through the banks' own operations

The increase in the banks' free liquid reserves by about DM 6.5 billion in 1968, as stated, was due firstly to raising of the gross rediscount margin allowed to the credit institutions by the Bundesbank, and secondly to the fact that certain assets, especially holdings of bills which can be sold to the Bundesbank outside the rediscount quotas, continued to grow in 1968. As regards rediscount quotas, these are essentially based on the individual bank's own capital and other liable funds. As a rule, therefore, they rise automatically with any rise in the liable funds. That was the case in 1968, just as in all previous years. The rediscount quotas at the Bundesbank mounted for this reason by over DM 2 billion. Furthermore, in the course of their credit business the credit institutions increased their holdings of paper which is included in the "money-market regulation" or which for other reasons can be sold to the Bundesbank without counting towards the quotas (this comprising, within certain limits, Storage Agency bills, prime bankers' acceptances, "Limit B bills" of the AKA Ausfuhrkredit-Gesellschaft, and medium-term notes *(Kassenobligationen)* of the Federal Government and the *Länder* with residual periods to maturity of up to 18 months). Holdings of this paper rose by a total of quite DM 2.2 billion. But finally the banks also had just on DM 0.8 billion greater holdings of "genuine" Treasury bills and non-interest Treasury bonds of domestic public authorities, which — in contrast to "mobilisation paper" — had been issued to finance cash deficits and are also included in the money-market regulation. In granting credit in one of the forms mentioned, the banks thus indeed do not reduce their free liquid reserves, but augment them through the very act of lending[1]).

1 That the individual components of the increase in free liquid reserves as enumerated do not quite add up to DM 6.5 billion is due principally to the fact that the increase in bank liquidity due to market processes, less the rise in banks' Bundesbank balances, appears to be greater if it is calculated for the exact position at the year's end, as is the case with the free liquid reserves, whereas the above com-

"Liquidity ratios" of the credit institutions

Position at end of year or month		Liquid reserves 1) in % of total deposits 4)	Liquid reserves 1) in % of not long-term 3) deposits 4)	Liquid assets 2) in % of total deposits 4)	Liquid assets 2) in % of not long-term 3) deposits 4)
1963		12.6	19.9	5.6	8.9
1964		11.1	17.9	4.4	7.1
1965		8.8	14.4	3.7	6.0
1966		8.8	14.6	3.7	6.1
1967	March	11.2	18.9	5.9	10.0
	June	11.1	18.6	6.3	10.5
	September	12.8	21.5	7.4	12.4
	December	13.2	21.7	7.6	12.6
1968	February	15.0	25.2	9.2	15.5
	March	14.5	24.4	8.9	15.0
	June	13.5	22.6	8.1	13.6
	September	14.0	23.2	8.7	14.4
	December	13.5	22.0	8.1	13.3
1969	February pe)	13.4	21.9	8.3	13.6

1 Bank holdings of domestic Treasury bills, non-interest Treasury bonds (as far as included in the money-market regulation by the Bundesbank), rediscountable Storage Agency bills, prime bankers' acceptances, Limit B bills of AKA export credit company and, as from end-December 1967, bank holdings of public issuers' medium-term notes *(Kassenobligationen)* with a remaining life of up to 18 months, as well as banks' short-term investments abroad and 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 % of the savings deposits and 90 % of the sight and time deposits. — 4 Not including domestic interbank deposits. — pe Partly estimated.

It is therefore only logical for the Bundesbank in times of great economic activity and threatening price rises to tend to tighten conditions for Central Bank assistance, such as by making cuts in rediscount quotas. This was done by the decision of 20 March 1969 to reduce the banks' rediscount quotas by 20 % (those of the private bankers by 10 %) in normal cases. It is moreover in keeping with such an economic situation that the borrowing requirements of the government sector should be met as far as possible in forms avoiding the creation of paper that can be "refinanced" at the Bundesbank. This was done in 1968 and to a greater degree also in the first few months of 1969.

The only "market" factor increasing liquidity: Foreign currency transactions

The fact that on the whole the "market" determinants of bank liquidity, reduced by the additional minimum reserve requirements, in 1968 no longer contributed towards increasing free liquid reserves is the more noteworthy in that foreign currency transactions alone resulted in a money influx of about DM 9.1 billion, which was more than ever before. The net inflow of money from abroad would have been considerably larger still, had not the banks to a much greater extent bought foreign securities or granted longer-term direct credits to foreigners. Instead of making exports of money (which merely transfer their liquid reserves abroad without reducing them) they exported capital, which tightens their liquidity. In fact, the banks exchanged by far the greater part of their net receipts of foreign exchange for central bank credit balances with the Bundesbank, and only a fraction (about DM 0.75 billion) — always comparing the average level in December — was added to their own short-term money-market investments abroad. The inflow of foreign currency swelled particularly strongly in November, when upward revaluation of the Deutsche Mark and devaluation of other currencies seemed imminent. When the acute monetary crisis had been overcome by adjustment measures adopted in the countries chiefly affected and by measures of the Bundesbank too, the flood of foreign currency ebbed away perceptibly; nevertheless, in the fourth quarter of 1968 foreign currency transactions still caused liquidity in the banking system to grow by DM 4.75 billion net (which was about half of the increase in liquidity from abroad in the whole of 1968).

Public authorities' cash transactions again exerted strong reciprocal effects

The other market determinants of bank liquidity counteracted the tendencies to increased liquidity emanating from external transactions, pride of place among these determinants being held by cash transactions of the central public authorities. As in 1967, the net position of Federal Government, *Länder* and Equalisation

parison of market determinants with the influence of minimum reserves is based on average figures. In order to eliminate fortuitous fluctuations it has in fact proved to be more practical to analyse the movement in bank liquidity on the basis of average figures for the four weekly bank-return dates of the months compared (see table), as is done in the following part of this section.

Bank liquidity

Millions of DM

Item	1967	1968 p)	1968 1st qtr.	1968 2nd qtr.	1968 3rd qtr.	1968 4th qtr. p)
	Change during period, calculated from the averages of the four weekly bank-return dates in the last month of the quarter or year					
I. Chiefly market-induced determinants						
(1) Increase (—) or decrease (+) in note and coin circulation 1)	— 1,029	— 1,935	+ 1,629	— 1,074	— 263	— 2,227
(2) Increase (—) or decrease (+) in net balances of Federal Government, *Länder* and Equalisation of Burdens Fund with Bundesbank	+ 980	— 2,467	— 4,532	+ 960	— 1,318	+ 2,423
(3) Increase (—) or decrease (+) in net balances of other non-banks with Bundesbank 2)	— 298	— 249	+ 527	+ 43	— 50	— 769
(4) Increase (+) or decrease (—) in Bundesbank's net foreign exchange reserves 3) and in credit institutions' short-term external assets 4)	+ 3,319	+ 9,148	+ 2,059	+ 804	+ 1,550	+ 4,735
(5) Favourable (+) or unfavourable (—) movement of items in course of settlement in the Bundesbank's payment transactions	+ 407	— 228	— 476	+ 64	+ 81	+ 103
(6) Other items	— 305	— 1,024	— 747	— 141	— 393	+ 257
Total (1 to 6)	+ 3,074	+ 3,245	— 1,540	+ 656	— 393	+ 4,522
II. Changes in bank liquidity chiefly due to measures of credit policy						
(1) Minimum reserve policy						
Increase (—), decrease (+) in minimum reserve required 5)	(+ 3,259)	(— 3,247)	(— 560)	(— 492)	(— 89)	(— 2,106)
Increase (—) or decrease (+) in credit institutions' central bank balances largely determined thereby 6)	+ 2,935	9) — 3,614	+ 361	— 701	+ 99	9) — 3,373
(2) Open-market operations with non-banks and on the basis of long-term securities, total	+ 1,186	— 298	— 58	+ 34	— 274	—
of which Open-market purchases (+) or sales (—) of domestic long-term securities	+ 1,182	— 278	— 38	+ 72	— 317	+ 5
Sale (—) or purchase (+) of mobilisation paper by Bundesbank in open-market transactions with non-banks	+ 4	— 20	— 20	— 38	+ 43	— 5
Total (1 plus 2)	+ 4,121	— 3,912	+ 303	— 667	— 175	— 3,373
III. Rise (+) or decline (—) in credit institutions' freely available liquid funds due to the factors listed above (total I plus II)	+ 7,195	— 667	— 1,237	— 11	— 568	+ 1,149
IV. Credit institutions' liquidity arrangements						
(1) Acquisition (—) or resale (+) of money-market paper under the Bundesbank's money-market regulation 7)	— 2,098	+ 611	+ 1,024	— 158	+ 148	— 403
(2) Formation (—) or repatriation (+) of short-term external assets 4) by credit institutions	— 3,525	— 746	— 235	+ 5	— 664	+ 148
(3) Credit institutions' credit repayment to (—) or borrowing from (+) Bundesbank	— 1,572	+ 802	+ 448	+ 164	+ 1,084	— 894
Total (1 to 3; counteritem to III)	— 7,195	+ 667	+ 1,237	+ 11	+ 568	— 1,149
Note:	Position at end of period					
Liquid assets of credit institutions						
Holdings of money-market paper of domestic public issuers	9,448	10,837	10,719	10,544	10,961	10,837
Holdings of Storage Agency bills, prime bankers' acceptances, and Limit B bills of AKA export credit company	1,745	3,312	2,250	2,522	2,802	3,312
Short-term balances with foreign banks and investments in foreign money-market paper	7,483	8,927	8,886	7,646	9,083	8,927
Total millions of DM	18,676	23,076	21,855	20,712	22,846	23,076
% of total deposits 8)	7.6	8.1	8.9	8.1	8.7	8.1

1 Including changes in credit institutions' cash holdings, which cannot be eliminated here. — **2** Net balances of Federal Postal Administration, E.R.P. Special Fund, other public authorities, and private depositors. — **3** After elimination of changes due to certain transactions of the Bundesbank on own account. — **4** Balances with foreign banks and investments in foreign money-market paper (claims deriving from money exports). — **5** Comparable with the other figures of the table only subject to qualification because of differences in the method of computation; cf. footnote 6. — **6** The differences between changes in central bank balances and those in the required minimum reserve are mainly explained by the fact that banks are obliged to maintain the required minimum reserve only on the daily average for the month, whereas the central bank balances here recorded are calculated from averages of the four weekly bank-return dates of the months in accordance with the design of the table. The differences also reflect the tendency — almost exclusively due to technical reasons — for the banks' reserves to exceed the minimum required. — **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** Including above-average excess reserves of over DM 0.9 billion in December. — **p** Provisional.

of Burdens Fund vis-à-vis the Bundesbank improved by almost DM 5.25 billion until October 1968, and not until the last two months of the year, following the seasonal trend, did these entities withdraw some DM 2.75 billion on balance from their Bundesbank accounts, to that extent channelling central bank money back into the banking system. Of course, in the first quarters of the year it was a matter not only of surplus receipts of public authorities, but also of premature taking of loans, proceeds of which, especially in the first ten months of the year, were not expended in full. That the cash transactions of the central public authorities again increased liquidity towards the end of the year — thus further accentuating the glut of money due to the speculative influx of foreign money — was unavoidable in view of the concentration of expenditure which is the rule towards the end of the fiscal year.

Cyclically induced greater demand for notes and coins

As in every year, in 1968 again the increase in note and coin circulation resulting from the rise in mass incomes reduced bank liquidity to a considerable extent, in fact, substantially more than in 1967. The circulation of DM notes and coins increased in 1968 by some DM 1.9 billion as against only DM 1.0 billion in 1967. In the fourth quarter alone it went up by quite DM 2.2 billion, compared with DM 1.7 billion in the same period of the preceding year. Nevertheless, in percentage terms the increase in the circulation of notes and coins in 1968 was not as strong as that in the disposable income of households, so that the "note-and-coin ratio" fell again, as it has done for five years. The ground being gained by methods of payment not requiring cash, especially by the opening of more wage and salary accounts, is probably playing its part here.

Absorption of liquidity by greater minimum reserve requirements

The increase in the liquidity of the banking system due to market factors, amounting to DM 3.25 billion, was completely neutralised however, as already mentioned, by the fact that in 1968 the minimum reserve requirement also went up by about DM 3.25 billion, principally because of the increased growth in liabilities subject to the reserve requirement. The minimum reserve rates for domestic liabilities, which had been lowered five times in 1967, remained largely unchanged in 1968. The re-definition, effective as from 1 July 1968, of the reserve classes in which credit institutions are graded according to size was even attended by a slight lowering of the minimum reserves required. In the course of the year under review the Central Bank Council introduced another revision which has no far-reaching effects on the required reserve, in that from 1 January 1969 onwards, in connection with the changes in the banks' annual balance-sheet form, it freed deposits with fixed periods of four years and more from the reserve obligation and, by way of compensation, raised the minimum reserve rates for savings deposits (long-term deposits being almost exclusively of that nature) by 10 %. Further details concerning these predominantly "technical" changes in the minimum reserve provisions are contained in a later section of this Report dealing with the Bundesbank's credit policy regulations.

Special minimum reserve on external liabilities

About one-third of the additional minimum reserve requirement (about DM 1.2 billion) in 1968 was due to the fact, however, that on 21 November 1968 the Central Bank Council introduced a 100 % minimum reserve on the growth in external liabilities in order to render acceptance of speculative money from abroad unattractive for banks and thus at the same time to contribute towards calming the international monetary situation. According to the new provision from December onwards credit institutions had to maintain the increase in reserve-carrying external liabilities over the level of 15 November to the full extent as minimum reserves, provided the upper limits fixed by law for minimum reserves (30 % of holdings of sight liabilities, 20 % of time liabilities and 10 % of savings deposits) were not exceeded. When the measure came into force in December, a new situation arose, however. As mentioned before, the "hot" money transferred to Germany from abroad had begun to flow out again and the banks were in danger of becoming involved in a pincer movement between the rise in the reserve requirement (to be calculated partly according to the level of liabilities in November) on the one hand and the strain on liquidity caused by the continuous outflow of the foreign money on the other. As the main purpose of the special minimum reserve — *i. e.* at least to immobilise to as great an extent as possible any further speculative inflows from abroad if they could not be warded off altogether —

had to a large extent become pointless due to the rapid return flow of foreign money, the Central Bank Council decided on a first slackening of the measure as early as 5 December, allowing the banks to disregard the particularly high level of external liabilities of 23 November when calculating the reserve. On 6 February 1969 the Bundesbank further restricted the measure so as to apply to any growth in overall reserve-carrying external liabilities (whereas until then liabilities of each kind had counted separately) and also gave the banks the choice of a second date of reference for the calculation of growth, *viz.*, 15 January 1969. Through this measure those banks are better placed which – in spite of the global return flow of the speculative foreign deposits – had recorded a rise in external liabilities from November until mid-January, perhaps because interest had been credited to non-residents' accounts at the year's end. The hundred percent reserve for growth in external liabilities, which was still maintained, now has practically only the significance of a precautionary measure which would take effect only in the event of a new strong inflow to external accounts.

Banks record substantial "genuine" excess reserves for the first time

The extremely large flood of foreign exchange in November resulted in the credit institutions maintaining large "genuine" excess reserves for the first time since the currency reform, their credit balances at the Bundesbank on the average per calendar day for that month – the "actual reserve" – exceeding the requirement by about DM 3.3 billion, or almost 24 per cent. The usual over-fulfilment of the reserve requirement for reasons connected with the technicalities of meeting the obligation does not generally exceed DM 100 to 200 million. In December 1968 again, at DM 946 million or 6.1 per cent of the requirement, the banks' surplus reserves were considerably larger than normal. In December 1967, for example, they had amounted to only DM 437 million, and in 1966 to a mere DM 200 million. Not until after the turn of the year did the "genuine" excess reserves practically disappear.

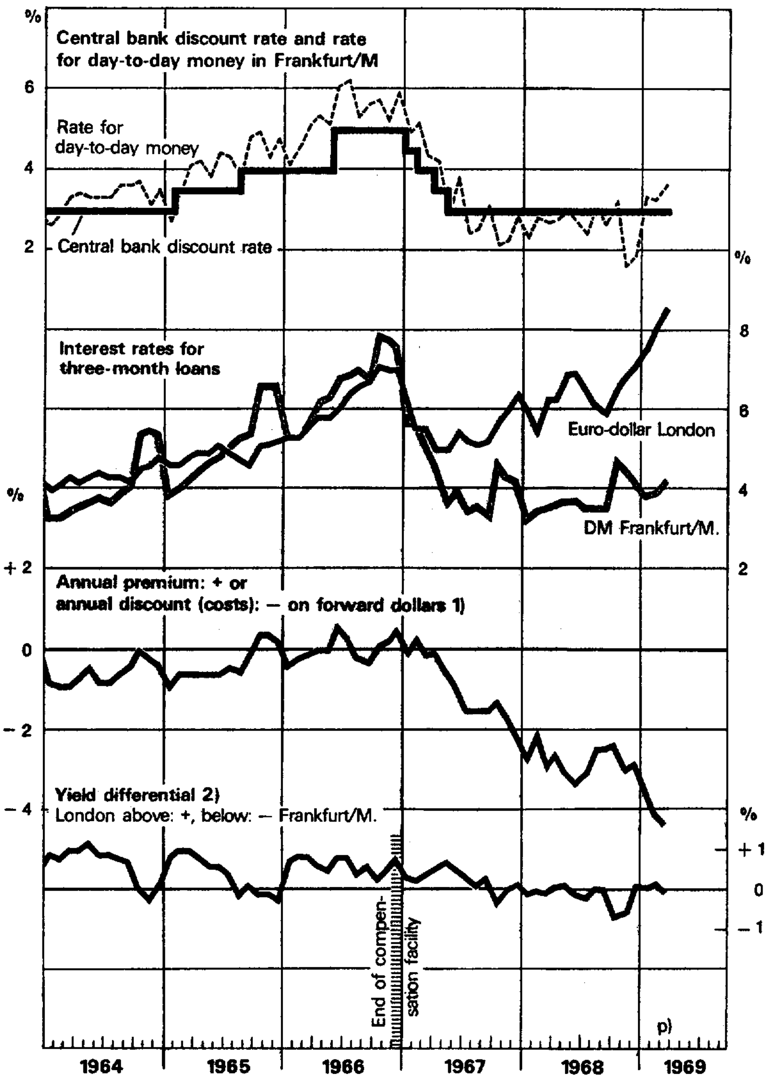
Restraint in open-market transactions

The Bundesbank would easily have been able to draw off the excess liquidity on the domestic money market in November and December 1968 by placing "mobilisation paper" at the disposal of the banks. By doing so it would, however, at the same time have eased the strong pressure exerted on domestic money-market rates by the large surplus reserves. This did not seem to be very advisable, of course, in view of the external cause of the glut of money. On the contrary, it seemed better to let the foreign monies which had already streamed in take full effect in lowering interest rates on the home market, because this would soonest encourage their outflow. Also during the glut of money, therefore, the Bundesbank restricted itself to occasional sales of short-term mobilisation Treasury bills in specified exceptional cases, but fundamentally maintained the sales stop on such paper. Conversely, other money-market paper was just as seldom offered to the Bank by the market, so that open-market transactions in short-term paper kept within relatively narrow limits; through redemptions of matured mobilisation paper these transactions brought central bank money to the credit institutions in the amount of quite DM 0.6 billion in 1968, with the emphasis in the first quarter. On the other hand, the favourable trend on the bond market permitted the Bundesbank to sell part of its holdings of long-term securities of the Federal Government and its Special Funds on the open market. On the average of the four weekly bank-return dates in December 1968 its portfolio holdings of such paper were about DM 280 million smaller than a year previously, and there was a further reduction in the first few weeks of 1969.

Banks' claims from money exports rose again . . .

The banks' short-term external liquid assets increased further in the year under report, though far less pronouncedly than in 1967. On the average of the four weekly bank-return dates in December 1968, with the institutions reporting weekly on their external position they exceeded the previous year's position by about DM 0.75 billion, while in 1967 they had risen by DM 3.5 billion. Considerations of interest rates urged the banks no longer to invest their funds primarily at short term, but rather to export more capital at long term, also by purchasing foreign securities expressed in DM. The actually increasing interest differential between Germany and foreign money markets in short-term transactions was largely absorbed by correspondingly rising costs of forward exchange cover (see diagram), whereas for longer-term DM investments abroad the effective interest difference

Domestic and foreign interest rates and yield differential in relation to foreign countries



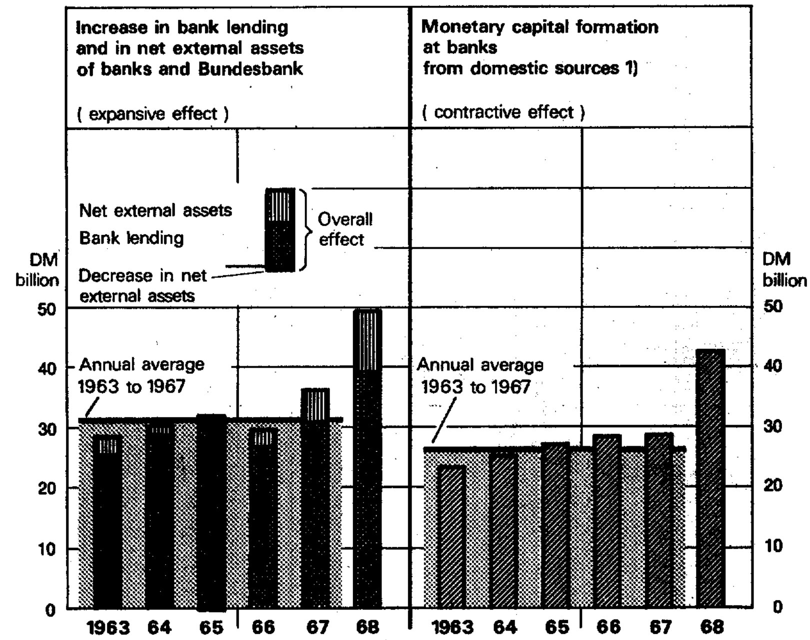
1) Rates for three-month contracts.- 2) Ascertained with due regard to the swap premiums obtainable or swap costs to be paid; until end-1966 including an assumed 1% p.a. "compensation gain" in respect of minimum reserves.- p) Provisional.

was in some cases considerable. After the end of 1968, however, relatively large monetary exports occurred again, because for some time the Bundesbank offered more favourable swap facilities than the free market. During the year under report, too, the Bundesbank several times took on forward exchange guarantee for short-term dollar investments abroad in order to support the export of money by banks and to exert a calming influence on the international monetary situation.

... but accompanied by increased recourse to Bundesbank credit

The readiness of the Bundesbank to grant refinance at a low rate of interest naturally was an important condition for the banks' export of money, or just for the maintenance of their short-term external assets. In fact the banks had greater recourse to Bundesbank credit; their liability in respect of rediscounting of bills of exchange and taking advances against securities was DM 0.8 billion greater in December 1968 than a year previously. Foreign bills were rediscounted at the Bundesbank to a particularly large extent in the year under report, so that their share in overall rediscount credits rose from 44 % in December 1967 to 62 % in December 1968, reaching the highest level for December recorded so far. The reason for the preference given to presentation of foreign bills for rediscount is to be seen in the fact that in buying bills of exchange made out in foreign currencies the Bundesbank simultaneously provides forward exchange cover at favourable rates. Bills serving settlement of trade between foreigners — "third

Main determinants of monetary trend



1) Including formation of time deposits.

country bills" – also were rediscounted to an increasing extent in the past year, as German banks were able to participate more in international financing transactions.

(b) Monetary expansion in the cyclical upswing

Basic trends

Bank credits expanded to an unusually great extent in 1968, and the net external claims of the banking system (including the Bundesbank) grew further. On the other hand, of course, considerably more "monetary capital" was also formed at the banks, without the expansive tendencies being thereby even approximately compensated, however. The "volume of money" continued to rise strongly in the year under report, and in addition the other liquid reserves in the economy increased substantially. Thus, not only were no obstacles placed in the way of further development of the economic upswing from the monetary side, but a financial margin actually arose which can favour the appearance of excessive demand and thus threaten price stability.

The domestic volume of credit and net lending to foreign countries by the banking system together grew in 1968 by about DM 50 billion as against only DM 36 billion in 1967. The expansion of credit in the broadest sense thus intensified by about two-fifths within a year. On the other hand the formation of monetary capital with banks, including short-term time deposits, amounted to almost DM 43 billion as against only DM 29 billion in 1967. This figure cannot of course without qualification be identified with savings formation in the sense of non-expenditure of disposable income, because – more than usual – it contains a liquidity surplus which arose especially with enterprises. In 1968 this "surplus liquidity" was reflected in sight deposits less than it was in 1967, and enterprises made greater efforts to invest their liquid funds more profitably. Thus they raised their short-term time deposits by DM 3.2 billion and their longer-term time deposits by DM 6.2 billion. Immobilisation of funds in time accounts (especially at short term) does not of course mean that they are thereby deprived of their "money character", so as to be attributable to saving processes in the proper sense. If time deposits are nevertheless, in accordance with international usage, included in the "formation of monetary capital" with banks (and not in the "volume of money"), the actual extent of monetary expansion is inadequately reflected in the figures for the volume of money; in the year here reviewed the amount in question is more than DM 9 billion if only the time deposits of enterprises are counted, and in the case of overall time deposits of domestic non-banks the figure is as high as DM 12.5 billion.

The reasons for the strong increase in the liquidity of enterprises have been discussed in detail elsewhere[1]). They will be found in the generally good profit situation but also in the fact that, after transition to the value-added tax, enterprises received substantial refunds of the old turnover tax already paid on "old inventories". The inflow of larger funds at fixed terms enabled the banks to engage in longer-term credit transactions to a greater extent than formerly. Medium and long-term loans to domestic and foreign non-banks (including the increase in the banks' holdings of securities) in 1968 therefore participated to the extent of 88 % in the overall expansion of credit, as against about 76 % on the average of the preceding three years. However, the sum of the banks' medium and long-term assets — at any rate for the whole of 1968, with some deviations in individual quarters — did not rise quite as strongly as the sum of the banks' liabilities immobilised by the depositors at longer term (not including time deposits of less than six months)[2]). It cannot therefore be said that in 1968 the banking system as a whole immobilised funds at longer term in any excessive degree. The ample supply of longer-term credits through the banks was one of the main reasons why interest rates in Germany continued to fall slightly during 1968.

Continuing large credit expansion in spite of further accelerated increase in liquidity through foreign trade and payments

If the movement in overall monetary figures is analysed in greater detail, the first striking thing is that also in the year under review the movement in credit followed in almost a straight line the expansive trend which it had started in mid-1967. Excluding the credits of the Bundesbank, which quantitatively were of little importance, but including investments in securities, bank credits to domestic non-banks in 1968 rose by almost DM 41 billion, *i.e.* by over DM 10 billion more than in 1967 and also at a substantially higher rate (by about DM 8.25 billion) than in the boom year 1965. The year-to-year growth rate of the sum total of outstanding credits, which was relatively small in mid-1967 (just on 8 %) because of the stagnation in the economy, continued to increase from month to month — with some fluctuations — in the year under report, until at the end of October 1968, at 13.5 %, it had approximately reached the figure for the end of 1964 and 1965 again. If the volume of bank lending by the end of the year reviewed was nevertheless "only" about 12.2 % above the preceding year's comparable level, this does not mean that monetary expansion actually slackened again towards the end of the year. For one thing, comparison with the previous year is not very indicative for this date, because the volume of credit at the end of 1967 was for a time particularly heavily inflated under the special influence of transition to the value-added tax; for another, towards the end of 1968 there was a sharp increase in the amount of foreign money flowing to German enterprises, so that for a time — until the return flow of this money soon after, or until its application to normal payments — their borrowing requirements declined perceptibly for this reason. The scale of the demand for credit was the more remarkable as in the year under report more than twice as much liquidity was created through payment transactions with foreign countries as in 1967, when the trend in the net external claim of the banks and the Bundesbank already was an important expansive factor. The aforementioned net balance rose in 1968 by DM 11.2 billion as against DM 5.1 billion in 1967, but only DM 2.5 billion in 1966; in 1965 it had even decreased slightly, because at that time the balance of payments was in deficit[3]).

1 See "National product and income in the second half of 1968", Monthly Report of the Deutsche Bundesbank, Vol. 21, No. 3, March 1969, page 5 *seq.*

2 In 1968 the accrual of longer-term funds at banks from this country and from abroad (excluding however short-term time deposits and domestic interbank liabilities) exceeded the increase in medium and long-term domestic and external assets (including security holdings, but excluding domestic interbank assets) by about DM 1.25 billion as against DM 0.2 billion in 1967 and DM 2.25 billion in 1966.

3 The increase in this balance, which comprises all external claims (including those at longer term) and liabilities of the banks and the Bundesbank, is characteristic of the growth in domestic non-banks' liquidity due to external transactions, because it can be assumed that as a rule the net foreign exchange obtained abroad by trade and industry is transferred to the banking system against credit entries to accounts.

Movement and determinants of the volume of money *)

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

Item	Year	Total **p)**	1st qtr.	2nd qtr.	3rd qtr.	4th qtr. **p)**
I. Bank lending to domestic non-banks, total	1968	+38,895	+ 5,840	+10,409	+9,633	+13,013
	1967	+31,109	+ 2,955	+ 6,443	+7,635	+14,076
(1) Deutsche Bundesbank **1)**	1968	r) — 2,076	r) — 2,307	r) — 172	r) — 365	r) + 768
	1967	r) + 670	r) — 1,645	r) — 215	r) — 210	r) + 2,740
(2) Credit institutions (not including Bundesbank) **2)**	1968	+40,971	+ 8,147	+10,581	+9,998	+12,245
	1967	+30,439	+ 4,600	+ 6,658	+7,845	+11,336
Credits to domestic business enterprises and individuals	1968	+27,805	+ 2,341	+ 8,554	+6,902	+10,008
	1967	+15,034	— 511	+ 4,588	+3,846	+ 7,111
Credits to German public authorities	1968	+13,166	+ 5,806	+ 2,027	+3,096	+ 2,237
	1967	+15,405	+ 5,111	+ 2,070	+3,999	+ 4,225
II. Formation of monetary capital at credit institutions from domestic sources, total **3)**	1968	+42,779	+10,724	+ 6,949	+7,938	+17,168
	1967	+28,869	+ 6,431	+ 4,260	+4,532	+13,646
among which: Short-term time deposits **4)**	1968	+ 3,644	— 1,180	— 1,023	+1,206	+ 4,641
	1967	+ 3,319	— 48	— 592	+ 92	+ 3,867
III. Excess of lending or of monetary capital formation (I less II)	1968	— 3,884	— 4,884	+ 3,460	+1,695	— 4,155
	1967	+ 2,240	— 3,476	+ 2,183	+3,103	+ 430
IV. Net external assets of Bundesbank and other banks **5)**	1968	+11,238	+ 4,671	+ 1,383	+3,196	+ 1,988
	1967	+ 5,123	+ 3,642	+ 514	+1,190	— 223
(1) Bundesbank	1968	r) + 7,358	r) + 1,773	r) + 1,268	r) +1,194	r) + 3,123
	1967	r) + 284	r) + 152	r) — 882	r) + 736	r) + 278
(2) Credit institutions	1968	+ 3,880	+ 2,898	+ 115	+2,002	— 1,135
	1967	+ 4,839	+ 3,490	+ 1,396	+ 454	— 501
V. Central bank deposits of German public authorities (decrease: +)	1968	— 1,184	— 2,539	+ 117	—1,534	+ 2,772
	1967	— 5	— 897	+ 425	— 958	+ 1,425
VI. Other influences (not assignable to specific items)	1968	— 667	— 4,062	— 675	—1,805	+ 5,875
	1967	+ 965	— 3,103	— 30	—1,824	+ 5,922
VII. Note and coin circulation **6)** and sight deposits of domestic non-banks except German public authorities' central bank deposits (III to VI, net)	1968	+ 5,503	— 6,814	+ 4,285	+1,552	+ 6,480
	1967	+ 8,323	— 3,834	+ 3,092	+1,511	+ 7,554
(1) Note and coin circulation **6)**	1968	+ 930	— 390	+ 846	— 64	+ 538
	1967	+ 654	— 596	+ 699	+ 82	+ 469
(2) Sight deposits	1968	+ 4,573	— 6,424	+ 3,439	+1,616	+ 5,942
	1967	+ 7,669	— 3,238	+ 2,393	+1,429	+ 7,085
Note: "Volume of money" including short-term time deposits **4)**	1968	+ 9,147	— 7,994	+ 3,262	+2,758	+11,121
	1967	+11,642	— 3,882	+ 2,500	+1,603	+11,421

* The data in this survey are based on the "Consolidated condition statement for the credit institutions including the Deutsche Bundesbank"; statistical changes have been eliminated. — **1** Including special credits to Federal Government for fulfilment of its obligations to international institutions — but excluding credit for payments under German quota in I.M.F. — 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 by credit institutions (other than Bundesbank) to non-banks". — **3** For further breakdown see table "Liabilities of credit Institutions (other than Bundesbank) to non-banks". — **4** Time deposits with period of notice or period to maturity of less than six months. — **5** Comprising short, medium and long-term items including I.B.R.D. bonds taken by Bundesbank, as well as payments under German quota in I.M.F. — **6** Excluding credit institutions cash holdings, but including DM notes and coin held abroad. — **r** Revised. — **p** For 1968 and for fourth quarter of 1968 provisional figures.

In 1968 the credit institutions sold a much larger portion of their net foreign currency receipts to the Bundesbank than in the preceding year. The Bundesbank's monetary reserves therefore showed an overall increase of about DM 7.4 billion for the year, whereas the banks' net claims (change in short and longer-term assets offset against change in short and longer-term liabilities) increased by only about half that amount. In 1967, on the other hand, it was almost exclusively the external position of the banks which improved, rather than that of the Bundesbank. The most important reason for the relatively diminished external engagement of the banks was the monetary uncertainty, which reached its culmination in November; in that month alone the credit institutions' net external assets even decreased substantially for a time, primarily because of the sharp rise in external liabilities. In December already, however, the trend changed, and in January 1969 the banks' external position showed a marked improvement while the Bundesbank's monetary reserves were now on the decline. From the end of January 1968 until the end of January 1969 the increase in the net external assets of the banking system was divided between the Bundesbank and the credit institutions approximately in the ratio of 1 : 2½, compared with 2 : 1, as indicated, in the period from December 1967 to December 1968.

Even if the figures for January 1969 are included, however, it is true that in the period under report for the first time banks showed marked preference for longer-term investment abroad, not least for DM bonds of foreign issuers, which give a relatively high yield without involving any exchange risk for the purchaser. The medium and long-term net claims of the banks (excluding the Bundesbank) on non-residents – including claims in the form of securities – at any rate rose from December 1967 to December 1968 by DM 6.6 billion (as against DM 1.6 billion in 1967), whereas short-term net claims decreased by DM 2.7 billion. If, in order to eliminate the influences of the November 1968 monetary crisis, changes are calculated for the period from January 1968 to January 1969, the result is a net growth of almost DM 7 billion in medium and long-term assets, and hardly any rise in short-term net claims. In 1967, on the other hand, the banks mostly had increased their short-term external assets. Naturally, they favoured "capital exports" not only because there is no currency risk in connection with DM lending (especially as they were able to obtain forward exchange cover also for short-term investments in foreign currencies, albeit in some cases at considerable expense), but primarily no doubt because of the higher yield, the large domestic "monetary capital formation" affording them the necessary basis for longer-term investments.

Credit institutions invest foreign exchange proceeds at longer term

At DM 42.8 billion in the year under report the formation of monetary capital from domestic sources reached a record level which put previous figures into the shade (just on DM 29 billion each in 1966 and 1967; DM 27.3 billion in 1965; DM 25.6 billion in 1964). Attention has already been drawn to the special part played here by the formation of time deposits. But even if the growth in short-term time deposits is omitted because of its special character of "quasi-money", an amount of rather more than DM 39 billion still results for the formation of monetary capital in the narrower sense, compared with about DM 24 to 27 billion in the preceding four years. Nevertheless, the volume of money increased very considerably in the year under report. If the internationally applied definition of the volume of money – *i. e.* note and coin circulation (excluding banks' cash holdings) and sight deposits of domestic non-banks without central bank deposits of public authorities – is taken as a basis, the increase amounted to about DM 5.5 billion. This was about equal to the rise in the boom years 1964 and 1965, but was less than in 1967, when the volume of money grew particularly strongly – by DM 8.3 billion – in connection with the impending transition to the value-added tax. The cyclical rise in money holdings is characterised more accurately, however, if the year-to-year growth rate of the volume of money is calculated not from the comparison between the beginning and end of the year, but from the average of the end-of-month levels for the year 1968 compared with those for 1967; for 1968 the growth rate for the volume of money in the narrower sense then works out at 7.8 % as against 3.0 % in 1967. If short-term time deposits are also taken into consideration, money holdings grew by as much as 9.4 % on the average for 1968, as against 7.3 % in 1967. The growth rate of the nominal gross national product (some 1 % in 1967 and about 9 % in 1968) was thus exceeded by the growth in money holdings – indeed substantially so if both years are taken together.

Formation of monetary capital with banks at record level . . .

. . . but volume of money likewise expanding substantially

(c) Special trends in lending business

In particular, bank lending to domestic enterprises and private individuals (including the purchase of securities of those issuers) in 1968 increased by DM 27.8 billion, or almost twice as much as in 1967; even the expansion of the boom years 1964 (DM 21.7 billion) and 1965 (DM 25.3 billion) was exceeded. It is characteristic of the vigour of the upswing that the year-to-year growth rate of all bank lending to enterprises (calculated by comparing the levels at the beginning and at the end of the year) rose from 6.2 % in 1967 to 10.7 % in 1968. Short-term lending alone rose by DM 6.7 billion, so that its share in the overall increase (of DM 27.8 billion, as mentioned) was about a quarter. Only in the boom year 1965 was the increase in short-term loans to enterprises and individuals more vigorous, amounting to DM 7.3 billion, but at that time a deficit on external transactions had continually withdrawn funds from trade and industry, whereas in 1968 the opposite was the case. Medium-term loans (6 months to 4 years) to enterprises and private individuals grew by just on DM 1.6 billion in 1968 as against only DM 0.7 billion in 1967, but almost DM 3.4 billion in 1965.

Strong expansion of bank lending to enterprises and private individuals . . .

Lending by credit institutions (other than Bundesbank) to non-banks

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

Item	Yearly figures 1966	1967	1968 p)	Quarterly figures Year	1st qtr.	2nd qtr.	3rd qtr.	4th qtr. p)
I. Lending (including acquisition of securities) to domestic non-banks, total	+ 26,177	+ 30,439	+ 40,971	1968	+ 8,147	+ 10,581	+ 9,998	+ 12,245
				1967	+ 4,600	+ 6,658	+ 7,845	+ 11,336
(1) Short-term lending, total	+ 6,037	+ 6,628	+ 7,668	1968	+ 929	+ 3,020	+ 1,481	+ 2,238
				1967	— 515	+ 2,164	+ 1,843	+ 3,136
(a) to business enterprises and individuals	+ 5,103	+ 1,948	+ 6,732	1968	— 853	+ 3,195	+ 1,642	+ 2,748
				1967	— 1,728	+ 1,775	+ 452	+ 1,449
(b) to public authorities	+ 934	+ 4,680	+ 936	1968	+ 1,782	— 175	— 161	— 510
				1967	+ 1,213	+ 389	+ 1,391	+ 1,687
among which: Holdings of domestic Treasury bills and non-interest Treasury bonds (without mobilisation paper)	+ 867	+ 4,959	+ 790	1968	+ 1,842	— 169	— 231	— 652
				1967	+ 1,389	+ 394	+ 1,582	+ 1,594
(2) Medium-term lending, total	+ 5,296	+ 1,485	+ 1,332	1968	— 189	+ 1,365	— 231	+ 387
				1967	+ 62	+ 701	— 240	+ 962
(a) to business enterprises and individuals	+ 3,716	+ 717	+ 1,568	1968	— 208	+ 1,485	— 112	+ 403
				1967	— 448	+ 464	+ 40	+ 661
(b) to public authorities	+ 1,580	+ 768	— 236	1968	+ 19	— 120	— 119	— 16
				1967	+ 510	+ 237	— 280	+ 301
(3) Long-term lending, total	+ 14,127	+ 18,989	+ 27,494	1968	+ 5,929	+ 5,407	+ 7,718	+ 8,440
				1967	+ 3,828	+ 3,153	+ 4,800	+ 7,208
(a) to business enterprises and individuals	+ 10,262	+ 12,741	+ 18,223	1968	+ 3,064	+ 3,653	+ 5,076	+ 6,430
				1967	+ 2,043	+ 2,243	+ 3,394	+ 5,061
(b) to public authorities	+ 3,865	+ 6,248	+ 9,271	1968	+ 2,865	+ 1,754	+ 2,642	+ 2,010
				1967	+ 1,785	+ 910	+ 1,406	+ 2,147
(4) Covering claims	+ 204	+ 173	— 24	1968	+ 67	— 2	— 50	— 39
				1967	+ 107	+ 42	+ 27	— 3
(5) Holdings of domestic securities and syndicate participations (except bank bonds)	+ 513	+ 3,164	+ 4,501	1968	+ 1,411	+ 791	+ 1,080	+ 1,219
				1967	+ 1,118	+ 598	+ 1,415	+ 33
II. Lending (including acquisition of securities) to foreign non-banks, total	+ 801	+ 3,390	+ 4,905	1968	+ 511	+ 2,264	+ 1,598	+ 532
				1967	+ 212	+ 831	+ 498	+ 1,849
(1) Short-term lending, total	— 676	+ 1,680	— 195	1968	— 324	+ 459	— 646	+ 316
				1967	— 67	+ 383	+ 234	+ 1,130
among which: Money-market paper of foreign public authorities	— 586	+ 767	— 839	1968	— 375	+ 9	— 414	— 59
				1967	+ 16	+ 231	— 88	+ 608
(2) Medium and long-term lending	+ 1,521	+ 1,470	+ 3,070	1968	+ 602	+ 910	+ 1,445	+ 113
				1967	+ 186	+ 457	+ 256	+ 571
among which: to foreign public authorities	+ 964	+ 1,086	+ 705	1968	+ 369	+ 305	+ 596	— 565
				1967	+ 169	+ 273	+ 233	+ 411
(3) Holdings of foreign securities and syndicate participations	— 44	+ 240	+ 2,030	1968	+ 233	+ 895	+ 799	+ 103
				1967	+ 93	— 9	+ 8	+ 148
III. Lending (including acquisition of securities) to domestic and foreign non-banks, total	+ 26,978	+ 33,829	+ 45,876	1968	+ 8,658	+ 12,845	+ 11,596	+ 12,777
				1967	+ 4,812	+ 7,489	+ 8,343	+ 13,185
(1) Short-term lending	+ 5,361	+ 8,308	+ 7,473	1968	+ 605	+ 3,479	+ 835	+ 2,554
				1967	— 582	+ 2,547	+ 2,077	+ 4,266
(2) Medium and long-term lending	+ 20,944	+ 21,944	+ 31,896	1968	+ 6,342	+ 7,682	+ 8,932	+ 8,940
				1967	+ 4,076	+ 4,311	+ 4,816	+ 8,741
(3) Covering claims	+ 204	+ 173	— 24	1968	+ 67	— 2	— 50	— 39
				1967	+ 107	+ 42	+ 27	— 3
(4) Holdings of securities and syndicate participations (except domestic bank bonds)	+ 469	+ 3,404	+ 6,531	1968	+ 1,644	+ 1,686	+ 1,879	+ 1,322
				1967	+ 1,211	+ 589	+ 1,423	+ 181

p For 1968 and for fourth quarter of 1968 provisional figures.

... with simultaneous lengthening of lending terms, especially to 4 years and longer

Long-term loans (4 years and longer) to enterprises and private individuals rose more strongly in the year under report than ever before, *viz.*, by about DM 18.25 billion as against DM 12.75 billion in 1967 and just on DM 14 billion in 1965. The relative preference for longer terms is probably due to the fact that borrowers did not reckon with any substantial lowering of interest rates in the immediate future and that such loans were in ample supply. Accordingly the opportunity for consolidating was used. As usual, the lion's share of long-term loans went to house-building, although in relative terms these loans rose less vigorously than long-term loans to trade and industry in the narrower sense. According to the "borrowers statistics" – which are available only up to the end of September 1968, however – in particular industry and handicrafts took substantially more long-term loans from banks than in 1967, the main borrowers being the iron and metal producing industries, steel construction, mechanical engineering and vehicle building, and the building industry. Furthermore, trade too, which contrary to current belief shows very large investments [1]), incurred substantially greater long-term debts at banks than in the preceding year.

Smaller increase in bank lending to public authorities

In contrast with lending to enterprises and individuals, lending by banks (excluding the Bundesbank) to domestic public authorities increased less in the year under report than in 1967, when the cyclical decline in revenue and the economic stimulation programmes had caused a special rise in borrowing requirements. Bank lending to public authorities, including the banks' purchases of public issuers' securities, grew in 1968 by DM 13.2 billion, or DM 2.25 billion less than in 1967, but still almost twice as much as in the years 1964 to 1966 (between DM 6.8 and 7.7 billion). In 1968 public authorities in the narrower sense accounted for DM 11 billion, the remainder going to the Federal Railways and Federal Postal Administration. A factor of primary importance in the movement of bank lending to public borrowers in 1968 is that on balance no more short-term credit was taken. The credit institutions' short-term lending to public authorities increased slightly (by DM 0.9 billion), it is true, but at DM 1.3 billion recourse to Bundesbank book credits was DM 0.9 billion less at the end of 1968 than a year previously. Other Bundesbank lending to public authorities, principally special credits granted in connection with special events or transactions, was also reduced in 1968. Thus the Federal Government repaid according to schedule a further DM 0.5 billion of those liabilities towards the Bundesbank which had arisen from prepayment of post-war economic aid, and applied DM 200 million of the Bundesbank profit to redemption of the Bundesbank's remaining claim resulting from alteration of the exchange parity, as agreed. While in 1968 public authorities thus on balance took only longer-term bank credits, the main emphasis was on loans with a currency of four years and more, principally because in the year here reviewed the Federal Government for the first time borrowed from credit institutions at long term against borrower's notes to any marked extent (in the amount of almost DM 4.7 billion), having in previous years covered much the greater part of its long-term requirements by issuing fixed-interest securities. Overall long-term bank loans to public authorities in 1968 rose by no less than DM 9.25 billion, which was about DM 3 billion more than in 1967 and almost DM 5.5 billion more than in 1966.

Further vigorous increase in banks' purchases of securities

The banks' holdings of domestic and foreign securities and their syndicate participations increased by DM 16 billion in 1968 after having risen considerably more than ever before, at DM 11.25 billion, already in 1967. Within two years banks thus bought more securities than in the preceding eight years (1959 to 1966) together. While in 1967 it was above all the marked growth in liquidity and smaller demand for credits which caused the banks to make considerably greater investments in securities (some groups hesitantly at first), in the year here reviewed it was probably the substantial formation of monetary capital and the pressure on profit margins which urged them to engage still more in security purchases. As already mentioned elsewhere, one characteristic development in 1968 was that for the first time the banks also purchased foreign securities to a considerable extent, *viz.*, for quite DM 2 billion, which is nearly three times as much as their holdings at the end of 1967. As regards domestic securities, the credit institutions mostly took

1 Detailed information on the principal differences in the financing structure of the individual branches of the economy was given for the first time in the article "Annual Statements of Enterprises for 1965 and 1966" published in the Monthly Report of the Deutsche Bundesbank for November/December 1968.

bank bonds into their portfolios (for DM 9.5 billion as against quite DM 7.8 billion in 1967) and to that extent enabled the issuers for their part to grant more long-term loans to non-banks. If this part of security purchases, being a component of interbank indebtedness, is left out of account, the amount of bank credit granted to domestic non-banks in the form of security purchases works out at DM 4.25 billion for the past year as against DM 3.2 billion in 1967, much the greater part (DM 3.2 billion in 1968 as against DM 3.5 billion in 1967) relating to loan issues of public authorities. Over and above this the banks invested a remarkably large amount (DM 1.3 billion) in shares (including investment fund certificates). Further particulars regarding the importance of banks as purchasers of securities are given in the section on the capital market.

(d) Special trends on the liabilities side

Unusually great addition to private enterprises' reserves on time accounts

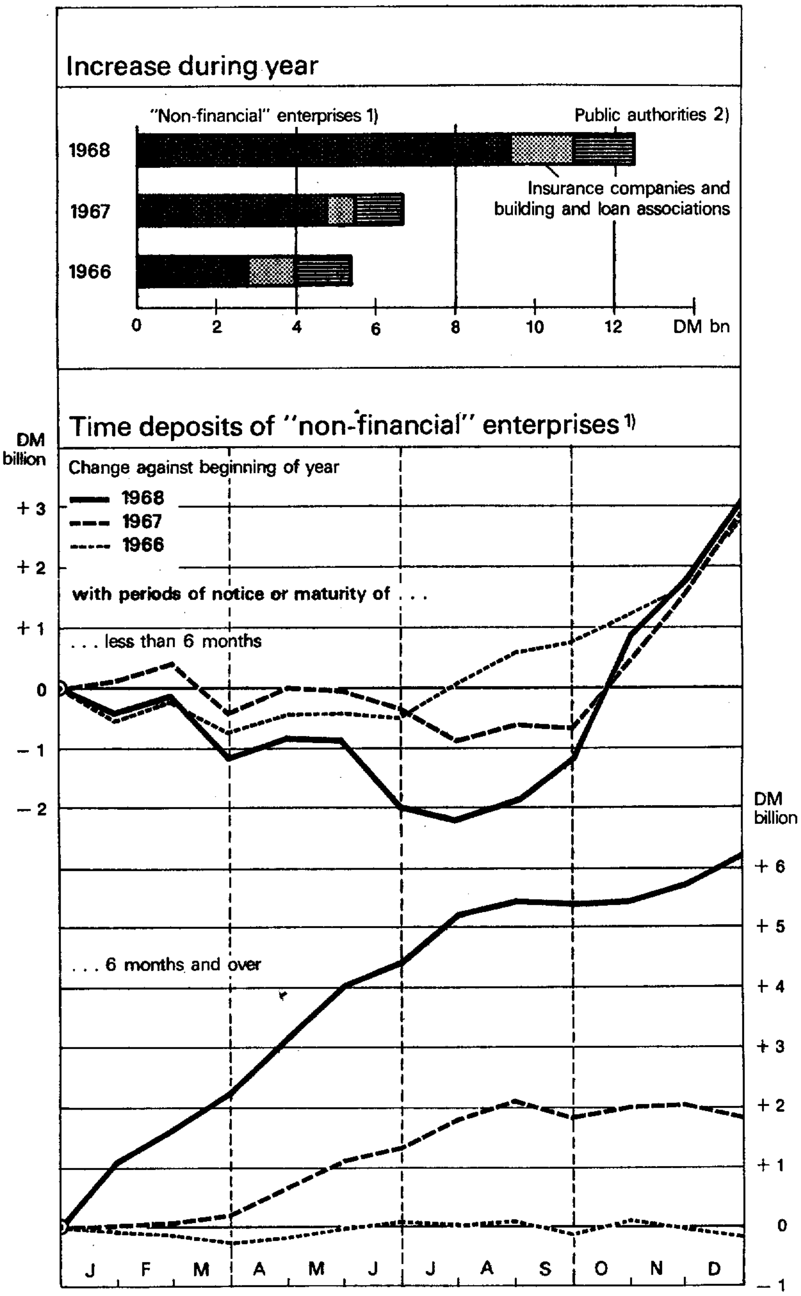
As already indicated, the banks' liabilities-side business was characterised in 1968 by unusually marked growth in the time deposits of domestic non-banks. These deposits grew by no less than DM 12.5 billion; at that rate the increase amounted to almost twice as much as in 1967 (DM 6.7 billion) and to four times as much as on the average of the years from 1963 to 1967 (DM 3.1 billion). As the following graph shows, by far the greater portion — DM 11.0 billion — concerned the accounts of domestic private enterprises, especially "non-financial" enterprises *(i. e.* enterprises excluding insurance companies and building and loan associations), which by themselves placed an additional DM 9.4 billion in time deposits. Thus in the year under report the funds accumulated by enterprises on time accounts were nearly twice as great as in 1967, when a strong increase was already recorded. Another feature of the trend in the year reviewed is that enterprises immobilised by far the greater part of new time deposits — DM 6.2 billion or two-thirds of the overall rise — for periods of six months and more, whereas in the previous year they had still favoured short periods (up to less than 6 months). The diagram shows that the great increase in longer-term time deposits of "non-financial" enterprises *(i. e.* not including insurance companies and building and loan associations) was concentrated to a large extent in the first half of the year under report, whereas with the continuation of the upswing in the second half of the year the securing of liquid funds for the future financing of investments seems to have come to the fore again. At any rate, enterprises' longer-term time deposits stagnated from July 1968 onwards; instead — partly, however, also under the influence of seasonal factors — short-term time deposits showed renewed strong growth.

Renewed acceleration in the growth of savings deposits

The most important component of monetary capital formation in the banking system in 1968 of course remained "saving through accounts" with banks, savings banks and credit cooperatives. Following growth by DM 17.4 billion in 1967 and DM 16.3 billion in 1966, the savings deposits of residents increased by DM 20.5 billion in the year under report, the increase over 1967 being due almost exclusively to the greater savings activity of private individuals. The important factor undoubtedly was that growth in incomes accelerated while prices remained fairly stable, so that households were able to save more. Towards the end of 1967, on the other hand, purchases had been made in advance in many cases for fear of price rises in connection with the introduction of the value-added tax, depressing the savings figures for the last quarter of 1967, but favouring the situation in the first quarter of 1968 (DM 5.2 billion as against DM 4.1 billion a year previously). However, other factors had rather a damping effect during 1968 on "saving through accounts" in the proper sense. This applies especially to the growing importance of savings bonds and other savings certificates issued by savings banks and by some other groups of banks too. In the year here reviewed such paper, in as much as it was a matter of registered bonds (which is mainly the case[1])), was sold in the amount of about DM 1.5 billion, whereas in previous years it had been of quite subsidiary importance. The interest of savers in savings bonds — which as a rule are not in the nature of securities, have no "market" and are generally not transferable — is due to the better yield in comparison with savings deposits; the rate is usually higher than for savings deposits with a fixed

1 Hitherto shown in the banking statistics under "loans taken".

Time deposits of domestic non-banks



1) Including the insignificant amount of time deposits owned by individuals.- 2) Including social insurance institutions.

period of four years and more. Furthermore the price risk inherent in securities is practically eliminated by the fact that savings bonds can be returned to the "issuers" or given to them as collateral for advances at any time, albeit with some loss in interest. Many banks have however been endeavouring for some time also to furnish the actual longer-term savings deposits with equivalent advantages as regards interest rates and liquidity. Since the beginning of 1969 the Federal Government has moreover been issuing securities (or, to be more accurate: "claims") in the form of "Federal Savings Bonds", which carry no risk on price, and for which interest is calculated in progression, the average rate of interest being just on 6 % over the entire six-year period of currency. By the time this Report went to press, Federal Savings Bonds had been sold in the amount of not quite DM 90 million.

Liabilities of credit institutions (other than Bundesbank) to non-banks

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

Item	Yearly figures 1966	1967	1968 p)	Quarterly figures Year	1st qtr.	2nd qtr.	3rd qtr.	4th qtr. p)
I. Liabilities to domestic non-banks								
(1) Sight deposits, total	— 150	+ 7,624	+ 4,530	1968	— 6,369	+3,423	+1,590	+ 5,886
				1967	— 3,212	+2,389	+1,398	+ 7,049
(a) of business enterprises and individuals	+ 132	+ 6,742	+ 4,170	1968	— 5,194	+2,752	+1,411	+ 5,201
				1967	— 2,624	+2,011	+1,416	+ 5,939
(b) of public authorities	— 282	+ 882	+ 360	1968	— 1,175	+ 671	+ 179	+ 685
				1967	— 588	+ 378	— 18	+ 1,110
(2) Time deposits, total	+ 5,393	+ 6,734	+12,520	1968	+ 2,172	+2,084	+2,160	+ 6,104
				1967	+ 1,249	+ 942	+ 764	+ 3,779
(a) of business enterprises and individuals	+ 4,044	+ 5,511	+10,964	1968	+ 2,120	+1,210	+1,427	+ 6,207
				1967	+ 324	+1,037	+ 138	+ 4,012
among which: Short-term time deposits **1)**	+ 2,926	+ 3,236	+ 3,203	1968	— 1,019	—1,077	+ 694	+ 4,605
				1967	— 463	+ 102	— 388	+ 3,985
(b) of public authorities	+ 1,349	+ 1,223	+ 1,556	1968	+ 52	+ 874	+ 733	— 103
				1967	+ 925	— 95	+ 626	— 233
among which: Short-term time deposits **1)**	+ 1,829	+ 83	+ 441	1968	— 161	+ 54	+ 512	+ 36
				1967	+ 415	— 694	+ 480	— 118
Note: Time deposits of institutional investors	+ 2,529	+ 530	+ 2,165	1968	+ 135	+ 452	+ 230	+ 1,348
				1967	+ 740	— 385	— 185	+ 360
(3) Savings deposits of residents, total	+16,271	+17,399	+20,468	1968	+ 5,680	+2,678	+3,378	+ 8,732
				1967	+ 4,188	+2,802	+2,766	+ 7,643
(a) of individuals	+15,763	+16,189	+19,212	1968	+ 5,196	+2,344	+3,298	+ 8,374
				1967	+ 4,077	+2,668	+2,537	+ 6,907
(b) of business enterprises	+ 56	+ 306	+ 281	1968	+ 187	+ 38	+ 5	+ 51
				1967	+ 65	+ 30	+ 63	+ 148
(c) of public authorities	+ 452	+ 904	+ 975	1968	+ 297	+ 296	+ 75	+ 307
				1967	+ 46	+ 104	+ 166	+ 588
(4) Monies and loans obtained from domestic non-banks, total	+ 2,225	+ 853	+ 2,727	1968	+ 594	+ 239	+1,206	+ 688
				1967	— 255	— 464	+ 637	+ 935
among which: Medium and long-term monies and loans	+ 2,035	+ 1,201	+ 2,387	1968	+ 462	+ 313	+1,230	+ 382
				1967	— 88	— 311	+ 615	+ 985
II. Liabilities to domestic and foreign non-banks								
(1) Sight deposits	— 267	+ 7,673	+ 4,828	1968	— 6,425	+3,443	+1,584	+ 6,226
				1967	— 3,483	+2,396	+1,412	+ 7,348
(2) Time deposits	+ 5,302	+ 6,756	+12,769	1968	+ 2,286	+2,078	+2,265	+ 6,140
				1967	+ 1,226	+ 991	+ 792	+ 3,747
(3) Savings deposits	+16,434	+17,560	+20,760	1968	+ 5,747	+2,738	+3,476	+ 8,799
				1967	+ 4,206	+2,829	+2,801	+ 7,724
(4) Monies and loans obtained from domestic and foreign non-banks	+ 2,415	+ 953	+ 2,741	1968	+ 613	+ 186	+1,218	+ 724
				1967	— 282	— 325	+ 639	+ 921
III. Bank bonds in circulation **2)**, total	+ 4,630	+ 9,547	+14,174	1968	+ 4,334	+2,819	+3,255	+ 3,766
				1967	+ 2,151	+1,842	+2,279	+ 3,275
among which: Circulation excluding domestic credit institutions' holdings	+ 3,228	+ 1,711	+ 4,698	1968	+ 1,535	+ 728	+ 873	+ 1,562
				1967	+ 427	+ 144	+ 224	+ 916
Note: Monetary capital formation **3)**, total	+28,593	+28,869	+42,779	1968	+10,724	+6,949	+7,938	+17,168
				1967	+ 6,431	+4,260	+4,532	+13,646
among which: Capital and reserves **4)**	+ 1,666	+ 1,824	+ 2,706	1968	+ 875	+1,146	+ 297	+ 388
				1967	+ 655	+ 683	+ 163	+ 323

1 Time deposits with period of notice or period to maturity of less than 6 months. — **2** Excluding bonds of own issues in the credit institutions' portfolios. — **3** Comprising — apart from the item specified under III — the items time and savings deposits as well as medium and long-term monies and loans obtained. — **4** Including capital and reserves of Bundesbank. — **p** For 1968 and for fourth quarter of 1968 provisional figures.

(e) Movement of bank interest rates

Sustained heavy competition among banks in regard to rates of interest

In view of the large degree of liquidity in the banking system, debtor interest rates were under pressure during the entire period under report: in particular, borrowers of first-class standing were able to obtain preferential conditions. On the other hand, the banks were also compelled to pay higher interest on some deposit categories, particularly on larger time deposits. On an overall view the banks' interest margin was thus narrowed still further, *i. e.* the cost of "transformation of capital" in the economic sense has decreased further[1]). In terms of the absolute amount the profits of the banks may however have continued to rise in spite of the reduced interest margin, as the volume of business expanded considerably (by about 15 %) and furthermore profits are determined to a large extent by the banks' service-rendering branches.

Reduction in debtor interest rates

Competition in the sphere of rates and charges in credit business continued in the first few months of 1969. In the second and third weeks of February 1969, the time of the last statistical survey of bank interest rates, 72 % of the banks questioned most frequently charged 7.5 % for loans of less than DM 1 million in current account, whereas scarcely one year earlier only 65 % of the banks questioned had preferred this "common rate" to higher rates. For discount credits (items between DM 5,000 and DM 20,000 eligible for rediscount at the Bundesbank) less than 4.5 % was agreed more frequently in February 1969 than before, whilst rates of more than 5.5 % were much less frequent. A particularly marked fall was recorded for the effective interest rate on mortgage loans secured by residential real estate: in February 1969 almost one-third of all banks reporting demanded less than 6¾ %, but only 6 % of all institutions reported rates in excess of 7¼ %, whereas a year previously one-third of the banks were still demanding interest in excess of the range of 6¾ to 7¼ %.

Partial slight rise in creditor interest rates

Among deposit interest rates, those on time deposits rose in the eleven-month period from March 1968 to February 1969. For 3-month deposits of less than DM 1 million in February 1969 60 % of the reporting banks (as against 74 % in March 1968) granted 2.5 to 3 %; the remainder offered almost exclusively higher rates. For savings deposits with legal period of notice 94 % of the banks reporting for the interest-rate statistics paid 3½ %, as before. Savings deposits with agreed period of notice of one year continued for the most part to bring interest at 4½ %, whereas savings deposits with periods of four years or longer in February 1969, just as in March 1968, on the average brought 5½ % or slightly more. Interest rates were under pressure here at times, but stiffened later.

2. Capital market

(a) Overall borrowing requirements and financial asset formation

Marked increase in domestic saving

The supply of and demand for longer-term finance expanded very heavily during the year 1968. In the domestic field this applied particularly to financial asset formation. According to the data hitherto available, households and public authorities as well as enterprises (not including banks, insurance companies and building and loan associations) increased their financial assets during the year under report by DM 66 billion (as against DM 57 billion in the previous year and no more than DM 49 billion in 1966). Although a major part of this was again maintained in such a way as to be disposable at short term (in the form of cash, sight deposits and short-term time deposits), longer-term financial asset formation at the rate of DM 55 billion was almost DM 10 billion higher than in 1967. Once again borrowing by domestic sectors fell far short of their financial asset formation. Including short-term credits, borrowing in 1968 amounted to DM 54 billion (as compared with admittedly only DM 46 billion in 1967). The difference in relation to financial asset formation within the country, which was almost DM 12 billion higher, reflects the growth in net claims on foreign countries, meaning net capital exports and the increase in monetary reserves. The surplus of domestic financial asset formation

1 A detailed analysis of the "Structure and movement of bank interest rates" was published by the Bundesbank in the Monthly Report for January 1969 (Vol. 21, No. 1, page 5 *seq.*)

over domestic borrowing – which automatically results when the current transactions with foreign countries run surpluses (and which indicates nothing regarding the effect of such surpluses on prices on domestic goods markets) – in 1968 was by as much as DM 1.5 billion greater than in 1967.

Moderate rise in borrowing

At the aforementioned figure of DM 54 billion overall borrowing by the domestic sectors exceeded the admittedly very low amount for the previous year by quite DM 7 billion, or approximately 16 %. Nevertheless overall borrowing in 1968 failed to come up to the figure for 1965 (DM 59 billion), and by comparison with investments in fixed assets and inventories (gross investments in 1968: DM 130 billion as against DM 128 billion in 1965) outside financing continued to run at a comparatively low level. This applies, above all, to enterprises (including housing), where indebtedness in 1968 increased by DM 40 billion, which was considerably less than during the comparable year of the preceding cyclical upswing. In 1968 enterprises were able to finance a far greater part of their capital expenditure from their own resources than had been the case between 1960 and 1966. Not only did the proceeds obtained during the period develop very favourably, but the profit situation of enterprises also improved considerably owing to the tax relief accorded to old stocks on hand when the value-added tax was introduced on 1 January 1968.

The financial situation of public authorities likewise improved significantly in 1968, especially owing to the fact that on cyclical grounds tax receipts were greater with the result, among other things, that public authorities in 1968 cut down their borrowing against the previous year by DM 2.5 billion to DM 12 billion[1]), although they too increased their capital expenditure. It is a fact however that borrowing by public authorities, on the definition selected for this purpose, in 1968 even exceeded the high level – compared with earlier years – of the years 1965 and 1966 (DM 8 billion). During the past year moreover the indebtedness of households for consumption purposes also rose comparatively heavily (by roughly DM 2 billion), even though quantitatively it continued to play only a minor role within the scope of overall borrowing. The increased consumer indebtedness reflects the optimistic expectations of households regarding their future income; it thereby – as already on earlier occasions – had a pro-cyclical effect in that, regarded by itself, it counteracted the formation of savings by households and strengthened consumer demand in the very midst of the boom.

Higher financial asset formation in all sectors

All domestic sectors shared in the 1968 increase in financial asset formation to DM 66 billion, of which total DM 55 billion materialised in longer-term form. In contrast to experiences made in earlier years with a similarly heavy propensity to invest, enterprises in 1968 also increased their financial assets quite noticeably, *viz*, by DM 22 billion as against DM 19 billion in the preceding year. This, if anything, shows even more clearly than the comparatively low borrowing requirements of enterprises how uncommonly favourable their profit and liquidity situation was during the year under report. The fact that in many cases the monetary reserves of enterprises by far exceed the funds required in the immediate future is reflected *i. a.* in the circumstance that in 1968 it was not so much the funds tied at short term as those at longer term which were built up. Public authorities too in 1968 once again contributed somewhat more towards overall financial asset formation, whereas in the recession year 1967 they had slightly diminished their financial asset formation, especially because of the deficits of the social insurance funds. In absolute terms it was however the households which formed most financial assets owing to the progressive increase in private incomes; in 1968 they raised their financial assets by DM 37 billion, as compared with DM 32 billion in 1967 and DM 34 billion in 1965, in which connection principally, although by no means

1 The difference between the figures given here and the data shown on page 76 is explained for one thing by the fact that the latter figures apply to the indebtedness of territorial authorities, whereas in this instance the liabilities of all public authorities (including social insurance institutions) are presented, although only vis-à-vis other economic sectors, which means that the territorial authorities' indebtedness vis-à-vis social insurance funds has to be disregarded. Since the latter has decreased in 1968, there results for public authorities overall greater net borrowing than for the territorial authorities alone. Moreover it should be borne in mind that in conformity with the method of overall financial accounting here, in contrast to the data given on page 76, among other things the liabilities of the Federal Government resulting from deposit accounts of the E.E.C. Commission and from the crediting of savings premiums by credit institutions have been included.

Financial asset formation and borrowing by domestic sectors *) 1)

Item	1965	1966	1967 p)	1968 p)	1965	1966	1967 p)	1968 p)	1965	1966	1967 p)	1968 p)
	Billions of DM				Year-to-year change in billions of DM				Proportion in %			
(1) Financial asset formation												
(a) Longer-term	48.5	43.6	44.9	54.6	+ 6.7	— 5.0	+ 1.4	+ 9.6	100.0	100.0	100.0	100.0
of which:												
(aa) with banks	22.3	22.6	25.4	33.2	+ 3.2	+ 0.3	+ 2.8	+ 7.8	46.0	51.9	56.5	60.8
Longer-term time deposits **2)**	(— 0.4)	(0.4)	(3.2)	(7.8)	(— 0.6)	(+ 0.8)	(+ 2.8)	(+ 4.6)	(— 0.8)	(0.9)	(7.1)	(14.3)
Savings deposits	(17.6)	(17.8)	(18.9)	(22.3)	(+ 3.8)	(+ 0.1)	(+ 1.2)	(+ 3.4)	(36.4)	(40.7)	(42.1)	(40.9)
Other investments	(5.1)	(4.5)	(3.3)	(3.1)	(— 0.0)	(— 0.6)	(— 1.2)	(— 0.2)	(10.4)	(10.3)	(7.3)	(5.6)
(ab) with insurance companies	5.8	6.3	7.0	7.9	+ 0.9	+ 0.5	+ 0.8	+ 0.8	12.0	14.4	15.7	14.4
(ac) with building and loan associations	3.8	4.9	3.1	2.9	+ 1.2	+ 1.1	— 1.8	— 0.2	7.7	11.2	6.9	5.4
(ad) Acquisition of securities	11.3	5.7	5.1	8.1	+ 2.0	— 5.6	— 0.6	+ 2.9	23.2	13.1	11.4	14.8
Bonds	(7.4)	(3.3)	(1.9)	(5.0)	(— 0.3)	(— 4.0)	(— 1.4)	(+ 3.1)	(15.2)	(7.6)	(4.3)	(9.2)
Shares	(3.9)	(2.4)	(3.2)	(3.1)	(+ 2.3)	(— 1.5)	(+ 0.8)	(— 0.1)	(8.0)	(5.5)	(7.1)	(5.6)
(ae) Direct loans to other sectors	5.4	4.1	4.3	2.5	— 0.7	— 1.3	+ 0.2	— 1.7	11.1	9.4	9.5	4.6
(b) Short-term	3.3	5.2	11.6	11.0	— 3.3	+ 1.9	+ 6.4	— 0.5	100.0	100.0	100.0	100.0
among which:												
Notes and coin and sight deposits	4.4	0.8	8.1	7.0	— 0.0	— 3.6	+ 7.4	— 1.2	133.8	14.6	70.3	63.2
Short-term time deposits **3)**	0.0	4.7	3.0	3.6	— 0.5	+ 4.7	— 1.7	+ 0.6	0.9	91.6	26.3	32.6
Financial asset formation, total	51.8	48.7	56.5	65.6	+ 3.4	— 3.1	+ 7.8	+ 9.1	100.0	100.0	100.0	100.0
of which:												
Households	34.0	32.2	31.5	36.9	+ 6.1	— 1.8	— 0.8	+ 5.4	65.7	66.1	55.7	56.2
Enterprises	11.3	9.2	18.7	21.9	+ 0.8	— 2.1	+ 9.5	+ 3.2	21.7	18.9	33.0	33.4
Public authorities	6.5	7.3	6.4	6.8	— 3.6	+ 0.8	— 0.9	+ 0.5	12.6	15.0	11.3	10.4
Territorial authorities	(4.0)	(5.2)	(9.2)	(6.7)	(— 3.3)	(+ 1.2)	(+ 4,0)	(— 2.5)	(7.6)	(10.6)	(16.3)	(10.2)
Social insurance funds	(3.8)	(3.4)	(— 1.4)	(— 0.9)	(+ 0.2)	(— 0.4)	(— 4.8)	(+ 0.5)	(7.4)	(7.1)	(— 2.5)	(— 1.3)
(2) Borrowing	58.8	48.3	46.5	53.9	+10.7	—10.5	— 1.8	+ 7.4	100.0	100.0	100.0	100.0
of which:												
Households	1.1	0.6	0.8	2.2	+ 0.0	— 0.5	+ 0.2	+ 1.3	1.9	1.3	1.7	4.0
Enterprises	49.3	39.9	30.9	39.6	+ 7.9	— 9.4	— 9.1	+ 8.7	83.8	82.7	66.5	73.4
Public authorities	8.4	7.7	14.8	12.2	+ 2.8	— 0.7	+ 7.0	— 2.6	14.3	16.0	31.8	22.6
Territorial authorities **4)**	(9.7)	(9.0)	(16.2)	(11.1)	(+ 3.3)	(— 0.7)	(+ 7.2)	(— 5.0)	(16.5)	(18.7)	(34.8)	(20.7)
Social insurance funds	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)
(3) Financial surplus or deficit (—) 5) (1 less 2)	— 7.0	0.4	10.0	11.7	— 7.4	+ 7.4	+ 9.6	+ 1.7	.	.	.	.
of which:												
Households	32.9	31.6	30.7	34.7	+ 6.1	— 1.4	— 0.9	+ 4.1	.	.	.	.
Enterprises	—38.0	—30.7	—12.2	—17.7	— 7.1	+ 7.3	+18.5	— 5.5	.	.	.	.
Public authorities	— 1.9	— 0.4	— 8.4	— 5.3	— 6.4	+ 1.5	— 8.0	+ 3.1	.	.	.	.
Territorial authorities	(— 5.7)	(— 3.9)	(— 7.0)	(— 4.5)	(— 6.6)	(+ 1.9)	(— 3.1)	(+ 2.5)	.	.	.	.
Social insurance funds	(3.8)	(3.4)	(— 1.4)	(— 0.9)	(+ 0.2)	(— 0.4)	(— 4.8)	(+ 0.5)	.	.	.	.

* Details may not add to totals because of rounding. — **1** Households, enterprises (including housing, but excluding banks and other institutional investors), and public authorities. — **2** For six months and longer. — **3** For less than six months. — **4** In contrast to the figures quoted in the section "Cash transactions of public authorities", these data do also include other liabilities — e. g. those of the Federal Government resulting from deposit accounts of the E.E.C. Commission and from banks' crediting of savings premiums. — **5** Equal to change in net external assets. — **p** Provisional, 1968 partly estimated.

exclusively, inpayments on private savings accounts mounted at an accelerated pace.

Banks particularly favoured by financial asset formation

The fact that financial asset formation in 1968 thus materialised rather more than in earlier years with banks was however also due to investments with credit institutions suggesting themselves for liquidity reasons in the first place for enterprises, even more than for households. On an overall view, in 1968 approximately 61 % of the domestic sectors' longer-term financial asset formation was placed with credit institutions, compared with 57 % in the preceding year and only 52 % in 1966. The share of institutional investors outside the banking system in longer-term financial asset formation in 1968 accordingly diminished to 20 %, as compared with 23 % in the preceding year and 26 % in 1966. Investment with private life insurance companies and pension funds in the year under report increased in approximately the same measure as in earlier years, whereas investment with building and loan associations declined further (although not as heavily as in the preceding year) since outpayments on allocations of contracts (which for by far the major part are related to acquisition of apartments and owner-occupied houses and thus represent a transition from financial to fixed assets) have once again increased more, in relative terms, than the inpayments of savers under building and loan contracts. In contrast to this, investment in bonds in 1968 became somewhat more popular; the domestic sectors (excluding banks and other institutional investors) in fact acquired fixed-interest securities in the amount of DM 5 billion, which was quite twice as much as in the previous year. It is true however that investment by non-banks on the bond market is still far from having regained the significance that attached to it in the early half of the sixties; in 1968 it accounted for 9 % of all longer-term financial asset formation of the domestic sectors, as compared with 4 % in the preceding year, but approximately 16 % on the average of the years 1960 to 1965. The funds invested by the domestic sectors (again not including banks and other institutional investors) in shares, in contrast to purchases of bonds, in 1968 at about DM 3 billion ran at no higher rate than a year before. As set forth in the following section, the banks, in view of the investment habits of the public described in the foregoing, had the important task of transforming a significant part of the longer-term funds accruing to them into investment in securities.

(b) Security markets

Placement of securities

Purchases of securities reach a record level

Purchases of securities by the public in the widest sense, dealt with in the preceding section, formed only a minor part of all financial flows passing through the security markets. A rather more important element were — as formerly — the funds which the institutional investors, especially the credit institutions, with which the public principally saved, in turn transformed into investment in securities. Banks, savings banks and insurance enterprises thereby in the place of private savers assumed the price risk inherent in investment in securities, while at the same time they also of course benefited from the higher interest offered by this form of investment. Net purchases of securities by domestic institutional investors, by the general public and by foreign countries together in 1968 amounted to almost DM 28 billion; at that rate they were higher by approximately one half than in 1967 and amounted to three times the net sales of securities in 1966, when admittedly the markets had been unusually unproductive. The average result for the years 1964/65 (DM 16.2 billion) was likewise far exceeded during the year under review. Of the entire net total of securities sold in 1968 DM 21.8 billion related to bonds (1967: DM 15.4 billion) and DM 6.0 billion to shares (1967: DM 3.3 billion).

Persistent high purchases of bonds by credit institutions . . .

The primary element in the expansion of bond sales in 1968 was once again the purchasing activity of the credit institutions (excluding the Bundesbank). They increased their holdings of domestic and foreign bonds in 1968 on balance by DM 14.6 billion, or by DM 3.0 billion more than a year before. In 1968 for the first time the credit institutions also acquired bonds of foreign issuers in greater volume, *viz.*, for almost DM 1.9 billion, whereas formerly such paper had played only a very subordinate part in the bond portfolios of banks. Preponderantly it was a case of bonds expressed in DM, issued in the Federal Republic of Germany by foreigners, with German agencies heading the syndicates. Such securities proved attractive, if only by virtue of higher yield, which, to the extent that the loans were expressed in DM and thus did not expose German purchasers to any exchange risk, on average ran between 1/2 and 3/4 % higher than that of comparable domestic loans.

The increase in the banks' bond portfolios accounted for approximately one-fifth of the expansion of their "earning assets" and for about two-thirds of internal overall sales of domestic and foreign bonds. Compared with earlier years, the latter share was very high, even though it did not quite come up to the 1967 quota which had been approximately three-quarters. The bond market thus in the year under report again depended greatly upon the liquidity of the banking system, which in 1968 was indeed very great (cf. page 46) although in future it may at any time decline again. On the other hand it looks as if in the event of the market becoming tighter the demand for capital will, in contrast to earlier times, react somewhat more rapidly to rising interest rates by showing a corresponding decline, since foreign bonds on the German market are likely to be more sensitive to changes in interest rates than many domestic loans.

... but likewise greatly stepped-up purchases by non-banks

However, in addition to credit institutions, during the year under report domestic non-banks on balance also invested considerably greater funds – DM 7.8 billion – in fixed-interest securities than during the preceding year (DM 3.4 billion), their new investments in 1966 having been halved as against 1965. The high amount of new investments in the years 1964 and 1965 (approximately DM 9.0 and 8.4 billion, respectively) was not yet re-attained during the year under review. The increase in net purchases by the non-bank sector was connected on the one hand with the fact that the social insurance institutions on balance again acquired bonds (DM 120 million) because their financial situation improved both owing to the liquidity aid extended by the Federal Government (re-acquisition of Debt Register claims out of the holdings of the pension insurance institutions) as well as owing to mounting income from contributions; in 1967, by contrast, they had been obliged to lower their holdings by almost DM 1.4 billion owing to high cash deficits. On the other hand the remaining groups of purchasers in 1968 bought more securities than before.

Private insurance companies and enterprises recorded high investment requirements

Thus the private insurance companies, especially the big life insurance enterprises which differ from the social insurance institutions in that they work on the principle of capital cover and regularly apply the growing inflow of funds – although in a varying proportion – towards investment in securities, during the year under report bought fixed-interest paper for almost DM 2.5 billion, or DM 800 million more than in the previous year. By comparison with the years 1965 and 1966 new investments in securities by insurance companies have in fact more than doubled. It looks as if the "non-financial" enterprises, *i. e.* those of the producing industry, have stepped up their purchases of bonds even more in relative terms. According to our estimates they bought in 1968 bonds for something like DM 1.6 billion net, or quite twice as much as in 1967. The high financial reserves which accumulated here in the year under report for many reasons (such as good earning situation, relief of old stocks from gross turnover tax, funds accruing from abroad) have thus not merely been deposited in time accounts with banks but indeed for some part – admittedly the smaller one – also employed towards the purchase of securities which would have a still better yield although they may occasionally be less liquid.

Greater interest of households in fixed-interest paper ...

Finally, a comparatively high rate was attained by investments of households in bonds, as far as this can already be told from the data available. In 1968 such investments are thought to have amounted to DM 3.2 billion, which would be by quite DM 0.6 billion more than the low result in the year 1967; nevertheless, they still lagged far behind the high purchases in 1965 (DM 4.5 billion) or 1964 (DM 5.4 billion). It is however apparent that the stronger rise in private income and saving has also benefited the bond market, for which the stability of the price level and the fact that many sections of the population are becoming alive to securities as financial assets are built up have to the thanked. In order to make the maximum use of the advantages in terms of interest offered by investment of savings in bonds, and at the same time to diversify the price risk as much as possible, private investors have recently tended more and more to deal with investment funds specialising in fixed-interest paper. The assets of these funds, which presumably sell their certificates, if not exclusively, at least preponderantly, to households, have in any case in 1968 risen considerably (by approximately DM 770 million), whereas in 1967 they had merely recorded an initial success at the rate of not quite DM 90 million. (These sales are included in the aforementioned figures on bonds purchased by households, which also cover indirect purchases *via* investment funds.)

... but even greater attraction of risk-bearing paper

However, investors displayed an even greater interest in funds dealing with shares than in those handling bonds. Domestic and foreign investment companies, whose fund assets are entirely or preponderantly invested in dividend-bearing paper, in 1968 in the Federal Republic of Germany on balance sold certificates at the rate of DM 1.8 billion, as compared with DM 0.7 billion in 1967 and as little as DM 0.4 billion in 1966. Such paper likewise would seem to have been purchased preponderantly by households, which thus indirectly stepped up the demand for domestic shares or contributed to capital exports. In detail, in 1968 in Germany approximately DM 950 million's worth of foreign investment fund certificates and just under DM 900 million's worth of domestic share fund certificates were sold. Domestic non-banks moreover in considerable volume acquired shares by direct purchase, *i. e.* without the intermediary of share funds. All in all, their "direct purchases" of domestic and foreign dividend-bearing paper during the year under report reached an amount of approximately DM 2.0 billion net at current prices; at this figure they ran almost parallel with that for 1967. Taking sales of share funds and direct purchases of shares by domestic non-banks together, the total amounts to DM 3.7 billion in 1968 against just under DM 2.7 billion in 1967. Domestic credit institutions additionally included in their portfolios a further DM 1.4 billion of domestic and foreign shares; also, foreigners in 1968 on balance acquired German dividend-bearing paper for approximately DM 0.8 billion.

Establishment of special funds for institutional investors

In addition to private households, in the past year institutional investors such as insurance companies and private pension and relief funds took a greater interest in the facilities offered by saving through investment companies. This took shape not so much in such enterprises acquiring units of existing funds dealing with the general public as in their establishing special funds of their own, streamlined to meet the specific needs of these investors. The institutional investors proceed in such a way that they turn over their entire security portfolio or parts thereof to a capital investment company which on the basis of such paper establishes individual funds open only to the enterprises in question. The purpose of these special funds bears — in addition to more rational administration of assets in the form of securities and the resultant lowering of costs — especially on the increment of value which the enterprises hope to achieve by the assistance of the professional securities management of such capital investment companies. At end-1968 two capital investment companies administered a total of 13 special funds of this type. The assets of such special funds at that time ran at approximately DM 150 million.

Supply of securities

Gross sales rose approximately as much as net sales

Overall sales of bonds (gross sales of domestic fixed-interest paper, *i. e.* prior to deduction of redemptions, plus net purchases of foreign bonds by residents) in 1968 reached an amount of DM 26.7 billion, at which rate they were DM 6.4 billion higher than in 1967. Since redemptions of domestic bonds at DM 4.8 billion were only slightly greater than in 1967 (even though they considerably exceeded the amounts in years further back owing to substantial maturities of shorter-term bonds), while on the other hand in 1968 on balance rather more bonds out of intervention holdings of domestic issuers were re-placed, overall sales rose in approximately the same volume as net sales of domestic bonds plus net purchases of foreign bonds by residents. Net sales in 1968, reckoned at current market prices, amounted to DM 21.8 billion, at which rate they were approximately DM 6.3 billion greater than in 1967. Of the total, roughly DM 17.7 billion related to domestic and

DM 4.1 billion to foreign bonds (as compared with DM 15.0 and DM 0.5 billion, respectively, in 1967).

Communal bonds claimed one half of net sales of domestic bonds

Next to foreign countries whose soaring significance as issuers on the German market will be discussed further on, it was in particular the domestic "constant" issuers who availed themselves of the greater financing power of the bond market. Far in the van of all securities offered by the issuing institutions ranked the communal bonds of which during the past year no less than DM 8.25 billion (net) were sold, which corresponds to almost one half of the entire net sales of domestic bonds. This expansion in sales derives in particular from the heavy requirements of public authorities in the way of long-term credits for the financing of their current deficits and the funding of short-term debts. The authorities in this context gave preference to indirect borrowing on the bond market effected *via* the issuing institutions, whereas they were quite reticent in placing loans of their own. That public debtors borrowed more heavily from credit institutions – a procedure adopted in particular by the Federal Government – in actual fact only apparently "relieved" the bond market since for one thing the issuing institutions were obliged to have greater recourse to the bond market in order to meet the credit requirements of public authorities, while for another public authorities' recourse to direct credits from non-issuing banks and insurance enterprises detracted from the latter's capacity and willingness to acquire securities. The fact that public debtors in 1968 preferred to take up loans from issuing institutions rather than issue loans of their own is presumably explained, for one thing, by the general advantage of loans against borrower's notes, which is connected with the fact that such loans can be "custom-tailored" to the requirements both of the debtor and of the creditor. For another thing, while the nominal interest rate of such loans is undoubtedly frequently higher, there are also numerous opportunities to economise on costs, so that on average the overall burden is unlikely to be any higher than with loans issued by the public debtors themselves. Finally, public borrowers clearly regard it as an advantage that they should not have to satisfy their credit desires in such a high measure on the open market, since every new issue made by public authorities is given considerable publicity, not least because of the deliberations which continued last year in the Economic Council for Public Authorities (Committee for Public Credit).

Mortgage bonds moderately lively

The sale of mortgage bonds – formerly the most important type of security among bank bonds – in 1968, as already in 1967, in terms of quantity was far from any longer attaining the significance of communal bonds. Overall, in 1968 quite DM 4 billion (net) of mortgage bonds were disposed of. As compared with 1967 the sale of mortgage bonds thus increased only relatively little, *viz.*, by approximately DM 850 million, as against almost DM 1.1 billion from 1966 to 1967. Clearly, this is due to the trend in building in the private sector continuing in 1968 to follow a comparatively calm course, so that the mortgage promises of issuing institutions (for which the institutions are normally in the habit of securing refinancing funds on the bond market) also increased by no more than 13 % in the year under review, after having exceeded in 1967 by more than half the rather low volume of 1966.

Particularly keen issuing activity of specialised credit institutions

Bank bonds other than mortgage and communal bonds – meaning bonds issued by specialised credit institutions and "other bank bonds" issued mainly by central giro institutions, the proceeds of which are principally employed in granting credit to trade and industry – were sold in 1968 for a total of approximately DM 1.6 billion net, which was twice as much as in 1967. In the case of these issues and also of the newly issued government loans in 1968 more securities at longer term were issued than a year before.

Industry kept aloof from the bond market

In 1968 on balance industry had no recourse whatever to the bond market. While it is a fact that in terms of gross amount during the past year industrial loans in a total of DM 300 million (as compared with DM 1.12 billion in 1967) were issued, this amount lagged behind simultaneous redemptions, so that circulation of industrial bonds overall fell off. The main reason why business enterprises abstained from entering the bond market presumably was that on the grounds mentioned above the financial situation of enterprises improved quite considerably during the year under review. To some extent this abstention from the issuing of loans also had structural causes, since the business community – even more than public authorities – prefers to resort to loans against borrower's note, which can be better geared to the individual situation of the debtor. Moreover, while normally higher nominal interest rates are charged for direct loans, it is possible to economise on issue costs (expenditure on the printing of prospectuses and securities, advertising, admission to the stock exchange, price support, *etc.*) which are of even greater significance here than with public issues. A further reason for business enterprises shunning the bond market probably derives from the fact that as already mentioned enterprises in 1968 had far greater recourse to the stock market than in the year before.

Unusually heavy supply of loans offered by foreign issuers ...

In 1968 the supply of loans of foreign issuers in the Federal Republic of Germany was unusually great. Taking together, for the purpose of providing a survey of the overall supply of such paper on the German market, the amounts placed through German syndicate banks (meaning that of all foreign loans offered on the domestic and on the foreign market only the German syndicate quotas are taken into account), there results for 1968 an amount of DM 5.2 billion. By comparison with earlier years supply has thus gone up steeply; although accurately comparable data are not available for earlier years[1]), it is nevertheless possible to state approximately that the volume of foreign issues in Germany in 1968 was six times as great as in 1967. Thus the overall amount of foreign loans in 1968 was roughly as high as in the preceding eleven years from 1957 to 1967 together. Under the leadership of German syndicate banks almost exclusively loans expressed in DM were placed; of the total mentioned of DM 5.2 billion, this applied to quite DM 4.7 billion or 92 %. Since domestic investors in the year under review on balance purchased foreign DM loans for DM 3.7 billion (among which there were in fact some smaller amounts of old foreign DM loans), they accordingly purchased approximately four-fifths of all foreign DM loans offered in Germany. If these purchases of residents were related to the overall issue amount of the foreign DM loans, *i. e.* if the quotas of foreign syndicate banks offered for sale in foreign countries were added to this, the share of German purchases would be found to amount to just short of two-thirds, as compared with only roughly one-third on the average of the years 1966 and 1967. The placing of foreign DM loans in 1968 was thus preponderantly a form of German capital export and only for a minor part mere "capital in transit". It was only in the latter quarter of 1968 that net purchases by foreign countries increased slightly, probably because in connection with the international monetary crisis foreign investors were keener on DM as the loan currency.

... was taken up in a large degree by domestic investors

Germany gaining in significance as issuing country and the DM as loan currency

In connection with the sharp rise of issues of foreign loans on the German bond market the significance of the Federal Republic of Germany as an international issue market has distinctly grown. Whereas in 1967 loans of foreign issuers floated in Germany (including – regardless of the loan currency – fractional amounts of loans issued abroad and taken up by German syndicate banks) accounted for barely one-tenth of all foreign loans issued in Europe, this share in 1968 went up to 30 %[2]). At the same time the DM gained considerably in popularity as loan currency for foreign loans, the foreign loans expressed in DM being issued mainly in Germany and in all cases with German banks leading the syndicates. In 1967 the share of foreign loans expressed in DM (including DM option loans) had amounted to only barely 10 % of the overall volume of all foreign loans issued in Europe. In 1968 however this share rose to 34 %.

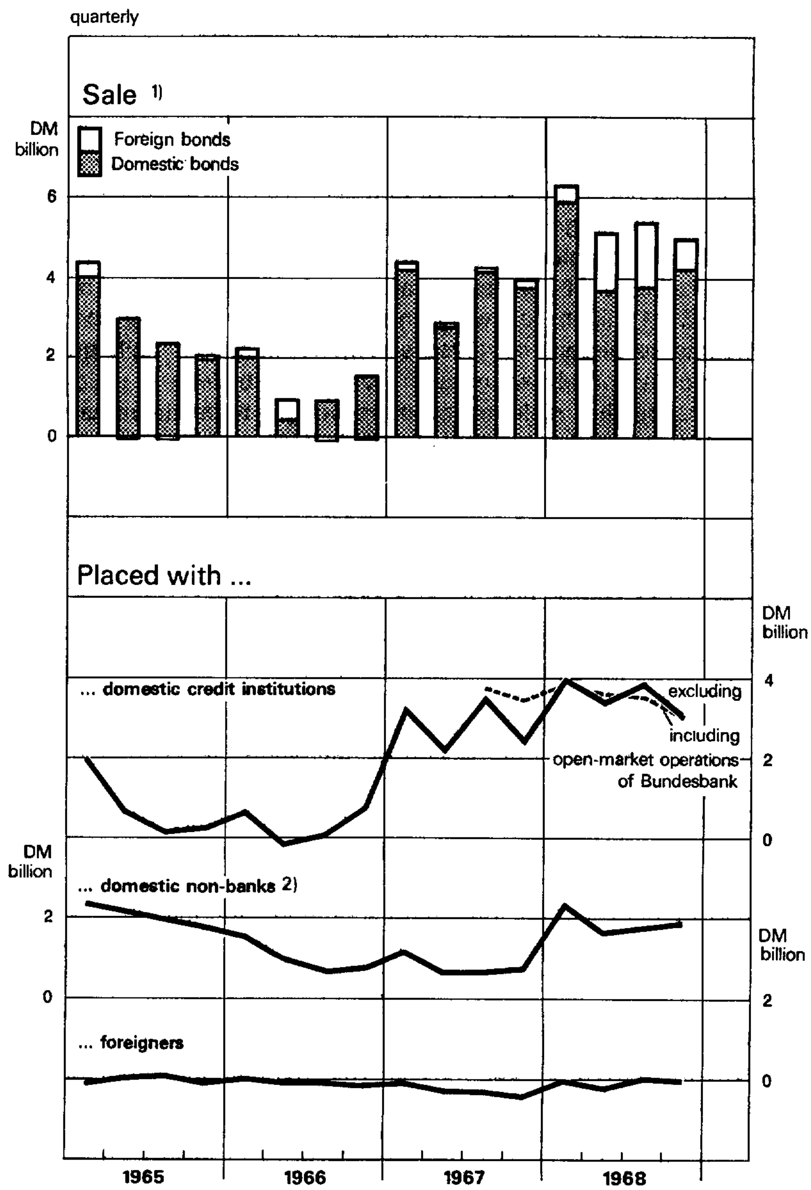
Greater interest rate differential mainly responsible for increase in foreign loans

The keen interest of German investors in DM foreign loans is probably explained by the difference in the movement of interest rates at home and abroad. Whereas in most industrial countries during the past year capital interest temporarily held its level or rose, in Germany the tendency for interest rates to give way, although on a slower scale, initially continued; as from the autumn, when the upward trend of interest became accentuated in other countries, the German interest rate level kept stable. On an international comparison Germany became a low-interest country and thus became more attractive for foreign loans. The issue yield for

1 As from 1968 the supply of foreign loans on the German market is understood to include only the syndicate amounts or quotas taken by German banks, whereas for earlier years the foreign DM loans were entered at the full loan amounts even where foreign banks had taken up syndicate quotas.

2 See also footnote 1.

Sale and placing of fixed-interest securities



1) Net sale of domestic bonds at market values with due regard to changes in issuers' own holdings, plus net acquisition of foreign bonds by residents.– 2) Ascertained as residue.

DM foreign loans since the end of 1967, it is true, in the normal way kept slightly above the comparable domestic yield, but it followed the latter's decline in the further course of the year 1968 at a distance of anything between $1/2$ and $3/4$ % p. a. This means that foreign issues had also become an interesting proposition for domestic investors, at least to the extent that they were expressed in DM and thus involved residents in no currency risk. For foreign debtors however – except those from countries with even lower interest rates, such as Switzerland, Italy and partially the U.S.A. – it appeared more advantageous in terms of interest rate to issue DM loans in Germany than to take up credits in other countries, quite apart from the fact that at present few capital markets are so extensively liberalised as the German one. The risk of a possible DM revaluation was clearly in this context generally rated lower than the advantage of low interest expenditure and the possibility of obtaining capital at all. It was only during the period of the acute monetary crisis in the late autumn of 1968 that foreign countries temporarily displayed some reserve as regards new loans, whereas already in the first months of 1969 more foreign loans were issued in Germany than ever before, thus in January DM 400 million and in February approximately DM 1 billion. During the last-named month this figure corresponded to more than four-fifths of overall net sales of domestic loans.

Record sales of dividend-bearing securities

As already observed in connection with the presentation of developments with share funds, the supply of dividend-bearing paper from new domestic share issues plus net purchases of foreign dividend-bearing paper by residents during the past year increased vigorously. At almost DM 6.0 billion the highest annual result so far, *i. e.* that for 1965 (quite DM 4.6 billion), was exceeded by 29 % and the result for last year (DM 3.3 billion) by as much as 82 %. This remarkable rise is due in particular to substantial share issues of domestic enterprises availing themselves of the good stock exchange position in the past year — which in turn was the consequence of the consistent uptrend in business activity — in order to expand their capital basis. Sales of domestic shares in 1968, calculated at market prices, reached quite DM 3.1 billion, following on DM 1.9 billion in the preceding year. In addition, residents, as already observed elsewhere, in substantially greater degree purchased foreign dividend-bearing paper (for DM 2.8 billion), in which connection it was of significance that resident investors bought three times as much in the way of foreign investment fund certificates as in 1967 and six times as much as in 1966, *viz.*, almost DM 950 million.

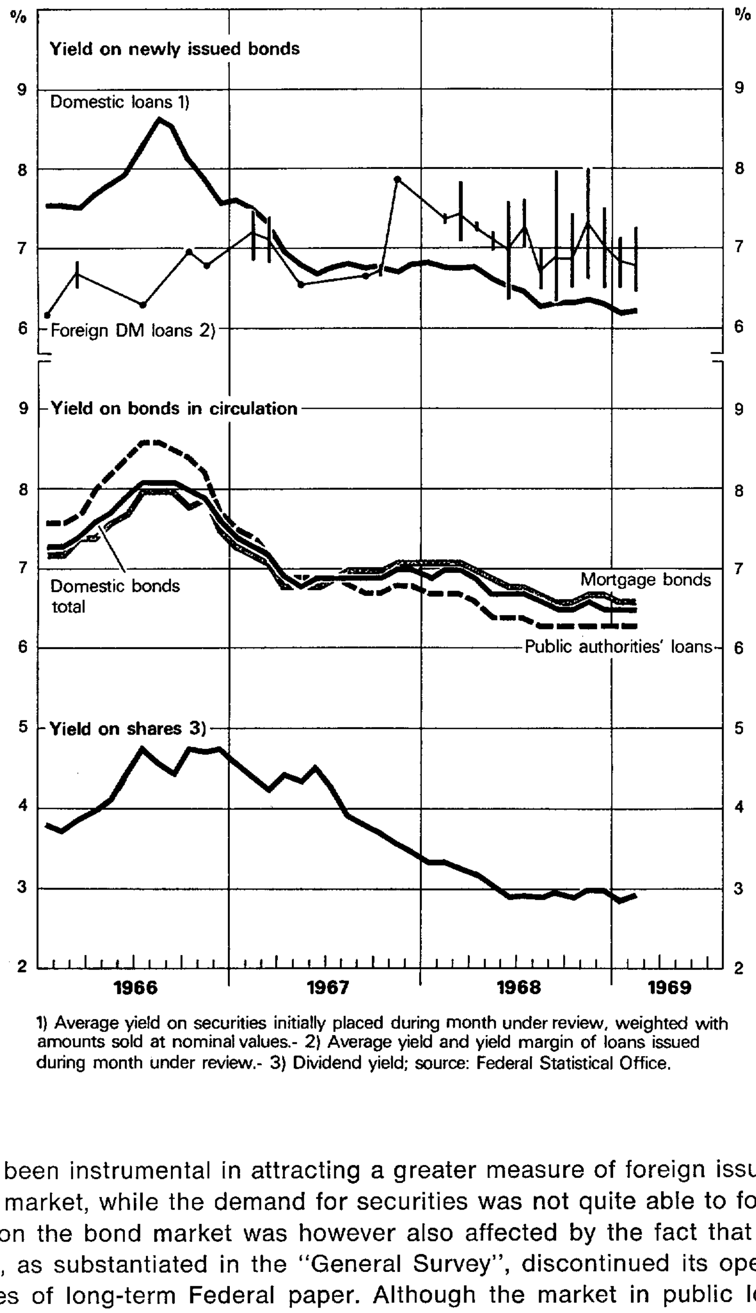
Movement in prices and yields

Further decline in interest rates on the bond market despite higher strain on market

Even though the bond market was under a considerably greater strain from issues, the yield on bonds in 1968 continued to decline, although rather more slowly and generally rather less than in 1967. The average yield of all bonds in circulation, which early last year had been in the neighbourhood of 7 %, by mid-May had dropped to 6.7 %; at this level it held its own until the end of July and from then on decreased further to 6.5 % at the end of September. In September a 6 % loan (of the Federal Posts) was then for the first time again successfully offered to the public. In October however (especially under the influence of persistently high capital demand of foreign countries), a slight tendency for interest rates to rise became apparent, which in November raised the yield level back to 6.6 %. Both German public authorities and foreigners thereupon for the time being shelved their issue plans, and the Bundesbank for some time proceeded to buy bonds again on the open market. In this manner the trend of interest rates was again successfully reversed, so that by the end of the year the capital interest rate again gave way to 6.5 %, at which figure it was 0.5 percentage points under the level at the corresponding period a year before. The yield of industrial bonds has, if anything, diminished more than average, while that of bank bonds declined slightly less than the overall average. A noticeable fact is furthermore that the loans of the Federal Government, included since the autumn of 1967 in the open-market operations of the Bundesbank, showed a far smaller drop in interest during the year under report than in 1967, *viz.*, by only 0.4 percentage points, whereas at that time as a result of Bundesbank purchases they had made a particularly large jump downwards (by a full percentage point). At 6.2 % their yield at the end of December 1968 was however still distinctly lower than the overall average.

Recent tendencies for interest rates to rise on the bond market . . .

After the turn of the year the tendency of interest rates to decline on the German bond market at first continued. The securities most affected were mortgage bonds and communal bonds, where the yields in December 1968 at 6.7 % had still been distinctly higher than the average yield of all bonds in circulation. By the end of January 1969 they reached 6.6 %. In February however the first signs of a rise in interest rates became visible. A characteristic feature in this context was that in this month — as distinct from January — large amounts of old loans, especially those of public authorities, flowed back into the market and depressed the prices of the securities concerned. Despite appreciable support purchases by public issuers the price level was not entirely maintained, so that from the middle of the month the yields again tended slightly upward. This movement became accentuated in March, so that the yields of bonds in circulation — measured by the daily yield of a selection of fixed-interest-bearing securities dealt in particularly frequently — by mid-March rose by approximately 0.2 percentage points. The renewed rise in interest rates on the bond market is principally the consequence of the interest rate differential as against foreign countries, which has become greater



1) Average yield on securities initially placed during month under review, weighted with amounts sold at nominal values.- 2) Average yield and yield margin of loans issued during month under review.- 3) Dividend yield; source: Federal Statistical Office.

... are largely connected with the overstraining of the market by interest-induced foreign issues

and has been instrumental in attracting a greater measure of foreign issues to the German market, while the demand for securities was not quite able to follow. The climate on the bond market was however also affected by the fact that the Bundesbank, as substantiated in the "General Survey", discontinued its open-market purchases of long-term Federal paper. Although the market in public loans was thereby not left altogether to its own devices, since regulation of the market now continues with the funds of issuers, the public interpreted the discontinuation of open-market purchases by the Bundesbank quite properly as indicative of a slight swing in credit policy in accordance with the cyclical situation, which in the light of previous experience would not leave the interest rate level entirely unaffected.

Further price rises on the share market

The vigorous rise of share prices in 1967, which had already largely anticipated the revival of business activities and the improved earning chances of the business community, during the first eight months of the year under report continued for the time being. The price index (31 December 1965 = 100) calculated by the Federal Statistical Office, which at the end of 1967 stood at 116, by 19 August with certain fluctuations had risen by 21 points, or 18 %, to 137. From then on it kept its level and finally, in November and December, tended to give way, since general uncertainty began to prevail as to what effects tax measures adopted to safeguard the economy against external influences in November 1968 might have on the course of business activity, especially in industries relying on a high percentage of exports. Towards the end of the year share prices however recovered and in the new year the German stock exchanges, under the influences of favourable annual balance sheets and of expectations of concentration began to show a distinctly confident tendency, in the course of which the price index by the end of January rose to almost 139, which was slightly in excess of the peak recorded on 19 August 1968 (137). This was the level which share prices also registered at the end of March, after having temporarily given way slightly in the meantime.

3. Cash transactions of public authorities

(a) Basic tendencies

Declining deficits

There was a considerable shrinkage in public authorities' cash deficits during 1968. Territorial authorities and social insurance institutions showed an overall deficit estimated at DM 8 billion compared with approximately DM 16 billion in 1967. The principal factor in this movement was that the cyclical growth of incomes and consumption caused receipts from taxes and social insurance contributions also to increase substantially while the rise in expenditure was only relatively slight compared with 1967 when it had been particularly high owing to the economic stimulation programmes as well as for other reasons. The decline was especially marked in the deficits of the Federal Government and the *Länder*. The Federal Government, whose expenditure virtually stagnated, recorded a cash deficit of DM 3.9 billion; at that level it was only about half as much as in 1967 (DM 8.3 billion), although still higher than in any other previous year. In the case of the *Länder,* which benefited in particularly large degree from the rise in tax revenue, the deficit diminished from DM 3.6 billion in 1967 to DM 1.0 billion in 1968. The local authorities, too, appear to have recorded a decline in deficits, although a smaller one. Although the social insurance funds — contrary to the movement up to 1966 — once again showed a deficit, at roughly DM 1.25 billion this also was smaller than in the preceding year, receipts growing at a substantially accelerated pace while expenditure continued to rise markedly.

With the decline in deficits, official borrowing requirements likewise dropped perceptibly. On balance territorial authorities (including Equalisation of Burdens Fund and E.R.P. Special Fund) borrowed just on DM 9 billion in 1968 compared with nearly DM 15 billion in the stagnation year 1967. In the past year, they hardly expanded their short-term indebtedness any further, but largely took long-term loans, whereas in 1967 approximately one-half of public authorities' net borrowing had been at shorter term. Another indicator of the reversal in the course of public finances was a renewed slight increase in liquid reserves, which in 1967 had fallen for the first time in many years.

(b) Developments in detail

Receipts

Accelerated growth of tax revenue

Territorial authorities and social insurance funds in 1968 received about DM 206 billion, this being DM 16 billion or 8 % more than in 1967 when receipts had grown by only DM 6 billion or 3 %. DM 174 billion accrued to the authorities in the form of taxes and social insurance contributions, which together account for more than five-sixths of overall receipts. Tax receipts at DM 122 billion were higher by quite 6 % than in 1967 when they had risen by 2 %; but they grew at a slower rate than the overall gross national product, so that the "tax burden ratio" *(i. e.,* the proportion of tax receipts to the nominal gross national product) dropped from 23.6 % in 1967 to 23.0 % in 1968. The fact that tax revenue did not grow at a more than proportionate rate in spite of the favourable course of economic activity was due in large part to the value-added tax, which yielded at least DM 2 billion less than would have had to be expected if the turnover-tax system applying until end-1967 had continued in force. Thus, the legislators' ideas have not been realised, which were to the effect that, in spite of the financial repercussions of the transitional regulations (principally the shortfalls in tax revenue owing to the large-scale freeing of "old stocks" from gross turnover tax, which however were partly compensated by certain additional receipts resulting from the transition to tax collection at the date of invoicing), it would be possible on

The central public authorities' finances on a cash basis

Billions of DM

Item	1965	1966	1967	1968 e)
I. (1) Balance of cash receipts and expenditure **1)**				
(a) Federal Government **2) 3)**	— 1.93	— 2.32	— 8.24	— 4.19
(b) Equalisation of Burdens Fund **3)**	+ 0.10	+ 0.32	+ 0.39	— 0.04
(c) E.R.P. Special Fund **4)**	— 0.24	+ 0.04	+ 0.05	— 0.13
(d) *Länder*	— 4.28	— 3.68	— 3.56	— 1.23
Total 1 (a to d)	— 6.35	— 5.64	— 11.35	— 5.59
(2) Special transactions **5)**	0.79	0.72	0.65	— 0.27
(3) Cash surplus (+) or deficit (—)	— 7.14	— 6.36	— 12.00	— 5.32
II. Financing				
Increase (+), decrease (—) in				
(1) Cash reserves				
(a) Federal Government	— 0.25	+ 0.20	— 0.21	+ 0.02
(b) Equalisation of Burdens Fund	— 0.00	— 0.00	+ 0.23	— 0.08
(c) E.R.P. Special Fund	— 0.24	+ 0.03	+ 0.19	+ 0.24
(d) *Länder*	— 1.17	— 0.73	+ 0.30	+ 1.16
Total 1 (a to d)	— 1.66	— 0.49	+ 0.51	+ 1.32
(2) Indebtedness				
(a) Federal Government	+ 1.70	+ 2.56	+ 7.89	+ 3.72
(b) Equalisation of Burdens Fund	+ 0.51	+ 0.20	+ 0.47	+ 0.25
(c) E.R.P. Special Fund	— 0.00	— 0.01	+ 0.15	+ 0.37
(d) *Länder*	+ 3.11	+ 2.93	+ 3.86	+ 2.12
Total 2 (a to d)	+ 5.32	+ 5.69	+ 12.36	+ 6.46
(3) Amounts credited to Federal Government in respect of coinage	0.16	0.18	0.15	0.18
(4) Total (1 less 2 less 3)	— 7.14	— 6.36	— 12.00	— 5.32

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 the 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) as well as revisions. — **e** Estimated. — Details may not add to totals because of rounding.

the basis of the tax rates of 10 % and 5 % initially selected and including the tax increase as per 1 July (to 11 % and 5½ %, respectively) to attain a tax yield even slightly higher than would have had to be expected under the former legislation. Moreover, account must be taken of the fact that the marked growth in entrepreneurs' profits in 1968 was not fully reflected in the yield of taxes on profit because of the usual delays in tax collection. Amendments in tax legislation (apart from the turnover tax reform) on balance hardly affected the course of tax receipts. True, a supplementary Federal levy on income and corporation taxes was introduced, tax privileges for certain credit institutions were cancelled, and the rates of value-added tax were raised to 11 % and 5½ % respectively from 1 July 1968, as stated above. On the other hand, however, there were no additional non-recurrent receipts such as the nearly DM 1.5 billion which the Federal Government had recorded in 1967 owing to the advancing of payment dates for various taxes on consumption and for import levies.

Particularly favourable movement in *Länder* revenue

Specifically, receipts from taxes on income (due jointly to the Federal Government and the *Länder*) mounted at an above-average rate, *viz.*, by more than 10 %, the wages tax yielding almost 13 % more, and the assessed income tax, capital yield tax and corporation tax together quite 8 % more, than in 1967. As the *Länder* receive the greater part (until end-1968, 63 %; of late, 65 %) of the income taxes accruing, they benefited in particularly large degree from these additional receipts which were due to the state of economic activity. Including the revenue from own taxes of the *Länder* (growing less rapidly, it is true), their tax receipts increased by almost 9 % (1967: 4 %), so that the amounts budgeted were exceeded by DM 2 billion. Federal tax receipts, on the other hand, rose by little more than 5 % (1967: 1 %). In spite of the substantial additional yield of income taxes, they did not even reach the amount entered in the 1968 budget estimates because receipts from taxes on turnover grew by only just on 1 %. With the inclusion of receipts from excise and customs duties (+ 3 %) as well as the yield of the supplementary levy on income and corporation taxes, the Federal Government's own taxes increased by only about 3 %. Receipts from local taxes grew by quite 5 % in 1968 after having practically stagnated in the previous year. Here it was the trade tax, accounting for much the greater part of local tax receipts, which responded to the improved earning situation of enterprises. Revenue from equalisation of burdens levies was slightly higher than in 1967 (by 1 %).

Above-average rise in social insurance contributions

A much more pronounced rise than that in taxes was recorded last year for receipts from social insurance contributions. They totalled approximately DM 52 billion, or 11 % more than in 1967 when they had increased by only about 3 %. One contributory factor was the vigorous cyclical rise in total gross wages and salaries; some part however was also played by the legal alterations under the fiscal amendment law which came into force at the beginning of 1968, these alterations being designed both to disburden the Federal budget and to improve the financial position of the social insurance institutions. As to details, the contribution rate in the pension insurance of workers and salaried employees was raised from 14 % to 15 %, the insurance liability limit in salaried employees' insurance was abolished (this measure increasing the number of contributors in this insurance branch), and employers' contribution for employed pensioners was reintroduced. Furthermore, the statutory health insurance funds – especially the recognised private sickness insurance funds – further raised their contributions, and the accident insurance funds adapted contributions to the increased expenditure.

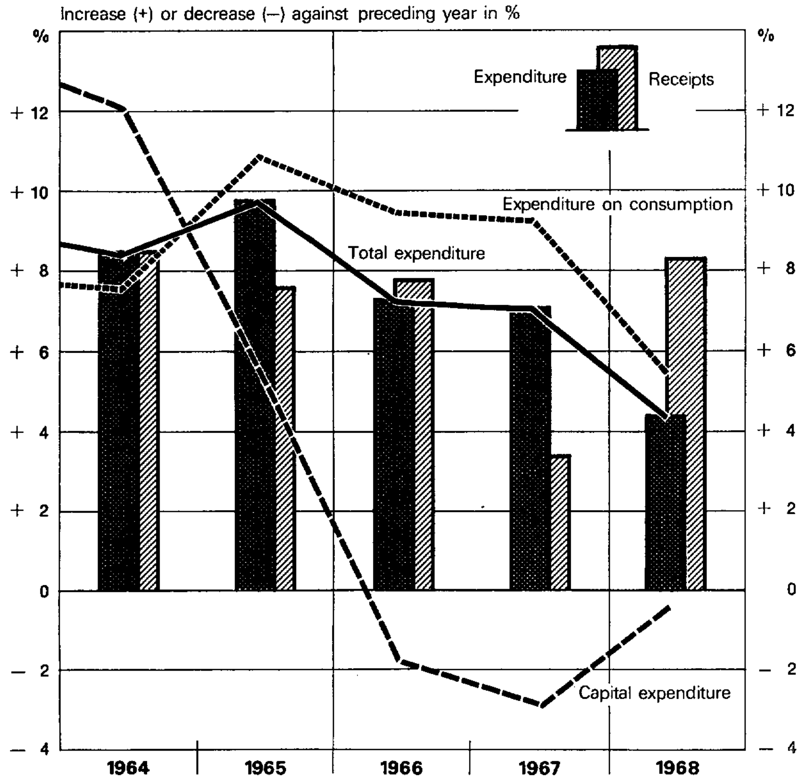
Expenditure

Slight increase in expenditure

Public authorities' expenditure in 1968 amounted to approximately DM 215 billion. It rose by DM 9 billion, or quite 4 %, above the 1967 figure, the rise thus being not only noticeably smaller than that in overall government revenue, but also much slower than that in the national product. Measured by the share of public authorities' total expenditure in the gross national product – this share declining from over 42 % in 1967 to just on 41 % in 1968 – direct or indirect utilisation of overall supply by the government sector thus slightly dropped during the year under review. The increase in expenditure was relatively small especially because the Federal Government, which accounts for more than one-third of overall public expenditure, in 1968 spent only about as much as in the preceding year when its cash expenditure had soared by over 11 % mainly as a result of the programmes for stimulating economic activity, but also because of substantial special payments for armament imports. Some part was also played by the fact that the social insurance funds' expenditure no longer rose as much as in preceding years (although at 8 % the increase continued above average), mainly because the pension insurance institutions' expenditure grew at a somewhat slower rate while the outlay of the unemployment insurance fund was on the decline thanks to the favourable cyclical situation. *Länder* and local authorities, which in the stagnation year 1967 had increased their overall spending only slightly, expanded it by about 5 % last year.

Capital expenditure stagnating

As regards the individual categories of expenditure, according to the partial data to hand outlay on capital investment and promotion of investments virtually stagnated in 1968 after having been on the decline in 1967 owing to the restrictive attitude observed by *Länder* and local authorities in the conduct of their finances. Contributory factors in this movement were that Federal capital expenditure in 1968 fell short of the preceding year's figure when it had markedly expanded under the influence of the economic stimulation programmes and that, because of their unfavourable financial position, the pension insurance institutions in the same way as in 1967 no longer granted any loans on balance but actually reduced the amount of their loans outstanding. Account must of course be taken



of the fact that cash expenditure presents an incomplete picture of the cyclical effects emanating from public authorities. This applies, for one thing, to public authorities' own capital expenditure (buildings, acquisition of real estate and procurement of movables), on which in 1968 about 5 % more was spent than in 1967, whereas the statistics on public authorities' civil engineering projects, for example, have for some time indicated much more vigorous growth of orders and output, although this did not yet result in correspondingly increased expenditure. Still less however is indicated, with regard to the trend of economic activity, by the fact that expenditure on the encouragement of third parties' investments (loans and grants as well as acquisition of participations) declined appreciably – by 11 % – in 1968. In this respect it must be remembered that official promotion of private investment (especially housebuilding) increasingly takes the form of granting subsidies rather than loans, so that the same volume of private investments to be encouraged requires much less budgetary expenditure (a fact which frequently is considered favourable from the fiscal point of view although it means that the capital market is being split to a growing extent into a section where interest payment is subsidised and one not so subsidised).

Moderate rise in expenditure on consumption

In 1968 government expenditure on consumption rose by not more than about 5 % whereas a year before it had grown by over 9 %, the principal reason for this movement being that Federal cash expenditure on defence was about DM 3 billion less than in 1967 although expenditure on military personnel and material continued to grow. The Federal Government in fact paid substantially less on armament imports than in 1967 when it had had to meet substantial payment obligations under the foreign exchange offset agreement with the United States of America expiring at that time (and by these payments partly financed in advance the 1968 imports). Social expenditure (pensions, maintenance payments and payments in kind) during 1968 mounted by 7 %, that is, at an above-average rate as expected, but more slowly than in 1967 when it had risen by more than 10 %. Important items of expenditure for social purposes indeed virtually stagnated or even declined. Thus, outlay on war victims' pensions (which had last been raised in 1967) and on children's allowance only was about as high as in 1967. Payments by the unemployment Insurance Fund declined appreciably as the number of persons out of work and that of short-time workers dropped rapidly. They would have diminished at an even greater rate had not expenditure on bad weather allowance risen substantially owing to the unfavourable weather in the winter months 1967/68; moreover, the fact that benefit rates have been higher since April 1967 made itself felt. Payments by the statutory pension insurance institutions continued to rise vigorously, though not so much as in 1967. True, current pensions were raised by 8.1 %, *i. e.* to approximately the same extent as a year before[1]). On the other hand, however, less was spent on refunding of contributions – pursuant to the provision of the fiscal amendment law ruling that contributions are no longer repaid to insured women on marriage – and on rehabilitation measures (evidently in connection with the recession). In addition, the number of pensioners did not increase so much as in 1967. Outlay of the statutory health insurance once more expanded substantially, since the number of sick persons and hence payments of sickness benefit were on the increase again and expenditure in kind continued to grow vigorously.

Expenditure on personnel (outside the defence sector) and other expenditure rose at an undiminished rate in 1968. Public authorities in 1968 spent 7 % more on wages, salaries and pensions than in the previous year. This was due in the first place to the fact that at the beginning of 1968 workers' wages and employees' basic salaries were raised by 3½ % while at the middle of the year the basic salaries of officials and local bonuses for officials and salaried employees were increased by 4 %; moreover, the annual special grant ("Christmas bonus") for all employed persons and pensioned officials was raised from 33⅓ % to 40 % of a monthly salary. Furthermore, certain "structural" improvements again made themselves felt financially, although they no longer were as significant as in previous years. The number of employed persons and pensioners moreover continued to grow. While there are no details available so far on the other items of expenditure, it would seem that they ran about 12 % above the previous year's level.

Indebtedness

Smaller net borrowing

Public debts (excluding the – only small – indebtedness of the social insurance funds, including however the debts of territorial authorities and their special funds to social insurance institutions[2])) rose by a total of DM 8.6 billion in 1968. Even allowing for the fact that net borrowing must be put DM 0.4 billion higher because reductions in indebtedness in this amount were due solely to statistical reasons and that moreover the Federal Government's liabilities in respect of deposit accounts of the Commission of the European Communities increased by DM 0.8 billion[3]) in 1968 after having shown little change in the previous year, territorial authorities had substantially less recourse to borrowing than in 1967 (DM 14.9 billion); new indebtedness accordingly ran at about the same level as in 1966 (DM 9.3 billion) and 1965 (DM 9.9 billion). In 1968 almost all public authorities borrowed less than in 1967. It was only the insignificant indebtedness of the E.R.P. Special Fund that rose more rapidly than in 1967 owing to the financing – not fully started before last year – of expenditure under the second economic stimulation programme, the increase amounting to DM 0.4 billion compared with DM 0.1 billion in 1967. The slowing down was greatest in net borrowing of the Federal Government and *Länder,* Federal indebtedness in 1968 mounting by only DM 3.7 billion and *Länder* indebtedness by a mere DM 2.1 billion compared with DM 7.9 billion and DM 3.9 billion, respectively, in 1967. The local authorities, too, once more had less recourse to borrowing; their indebtedness rose by only

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1 At the same time however a contribution by pensioners to their health insurance in the amount of 2 % of the pension was introduced, which in this context is included among other receipts rather than being deducted from expenditure on pensions.

2 The territorial authorities' liabilities to social insurance funds are attributed to the latter's reserves (cf. following subsection). As for the rest, cf. footnote 1 on page 62.

3 As a rule the Federal Government's financial contributions to the Commission of the European Communities (in particular, payments in connection with the E.E.C. agricultural market) are not transferred directly, but credited until withdrawal to "deposit accounts" which are maintained with the Federal Cash Office and the holdings on which practically represent Federal indebtedness to the E.C. Commission.

DM 2.1 billion in 1968 against DM 2.5 billion a year before (DM 3.6 billion in 1966 and DM 4.6 billion in 1965), as the communal entities continued to keep within narrow confines the extent of their expenditure financed by borrowing. Furthermore, the Equalisation of Burdens Fund as well in 1968 incurred less indebtedness than before; the reasons here were that the budget estimate for borrowing, which in 1967 had been increased for the purpose of assisting the measures designed to stimulate economic activity, was reduced to a "normal level" last year and that moreover persons entitled to basic compensation availed themselves in much smaller degree than in previous years of the possibilities of having their claims met in "non-cash" form.

Long-term debts ranking foremost

The territorial authorities not only reduced their net borrowing in terms of quantity in accordance with requirements in the light of the cyclical trend, but also adapted their borrowing policy to the cyclical situation in terms of quality by making use of the greater productivity of the market for long-term capital in that they borrowed predominantly at long term. As specified in the following table, the shorter-term liabilities (medium-term notes termed *Kassenobligationen,* money-market paper, and book credits of the Bundesbank) in 1968 merely rose by an overall amount of DM 0.8 billion against DM 7.2 billion in the stagnation year 1967. As regards long-term debts, which increased by just on DM 8 billion or virtually as much as in 1967, the borrowing requirements of public authorities in very large measure shifted to direct loans from banks since for the first time the Federal Government as well had extensive recourse to this source of finance, whereas in the past — in contrast with *Länder* and local authorities — it had hardly borrowed at all in this form. The — principally long-term — bank indebtedness of the public authorities as a whole accordingly mounted by DM 8.4 billion, whereas in 1967 it had risen by a mere DM 4.6 billion and in each of the two preceding years by similar amounts. Consequently the other categories of debt declined on an overall view. Liabilities in respect of loan issues and of direct loans from private insurance companies, building and loan associations and other non-banks continued to rise, although noticeably less than in 1967. The social insurance funds' Debt Register claims on the Federal Government diminished by DM 1.2 billion in 1968. In fact, whereas from 1964 to 1967 amounts ranging between DM 500 and 1,450 million per year had been allocated to the insurance institutions in the form of Debt Register claims as a means of making grants which otherwise would have had to be effected in cash, in 1968 the Federal Government, in addition to contractual redemptions, repurchased from the workers' pension insurance such paper in the amount of DM 1.0 billion; this prevented the regional insurance institutions from having to sell securities — as in 1967 — for the purpose of financing their deficits. On an overall view, the other debts (equalisation claims, external indebtedness, *etc.*) also were reduced.

Structure of debt ownership

The differing developments in the various categories of indebtedness caused the structure of debt ownership likewise to change. As indicated above, it was in particular the leading position of the credit institutions (exluding Bundesbank) as lenders to public authorities that intensified. In 1968, at DM 11.1 billion, they put DM 1.2 billion less at the disposal of the territorial authorities and the special funds than in 1967, it is true; but the claims of the other creditors (Bundesbank, domestic non-banks, and foreign countries) diminished by as much as DM 2.6 billion. Specifically, credit institutions vigorously expanded their direct lending. In addition, their holdings of money-market paper and securities continued to increase, although not nearly as much as in 1967 since in particular their investments in shorter-term paper rose little for the aforementioned reasons whereas at that time the Bundesbank by its easy-money policy had encouraged banks to acquire substantial amounts of such paper. Public authorities' indebtedness to the Bundesbank, on the other hand, at end-1968 was smaller by DM 1.9 billion than a year before. In addition to book credits, in 1968 the Bundesbank's special credits and its claims on the Federal Government were further reduced (by DM 0.8 billion) in accordance with existing agreements, while moreover the Bundesbank reduced its holding of Federal loans — which it had purchased in the course of its open-market operations on the bond market initiated in 1967 — by DM 0.25 billion (excluding bonds of the Federal Railways and Federal Postal Administration) through sales on the market. By way of contrast, in 1967 and also in 1966

Indebtedness of territorial authorities *)

Millions of DM

Item	Position at end of year 1966	1967	1968 e)	Change during year 1966	1967	1968 e)
I. Borrowers						
(1) Central public authorities	62,852	75,214	81,679	+5,690	+12,362	+ 6,465
(a) Federal Government	35,607	43,493	47,218	+2,564	+ 7,887	+ 3,724
(b) Equalisation of Burdens Fund	6,358	6,828	7,079	+ 204	+ 470	+ 251
(c) E.R.P. Special Fund	560	706	1,075	— 5	+ 146	+ 369
(d) *Länder*	20,328	24,188	26,308	+2,927	+ 3,860	+ 2,120
(2) Local authorities	29,465	31,986	34,100	+3,621	+ 2,522	+ 2,114
Total (1 and 2)	92,317	107,201	115,779	+9,311	+14,884	+ 8,578
II. Categories of debt						
(1) Book credits of Bundesbank	1,164	2,220	1,344	— 244	+ 1,056	— 876
(2) Special credits of Bundesbank to Federal Government **1)**	2,530	1,603	809	+ 190	— 927	— 794
(3) Treasury bills **2)**	1,196	204	150	+ 673	— 992	— 54
(4) Non-interest Treasury bonds **2)**	2,447	7,678	8,603	+1,642	+ 5,231	+ 925
(5) Tax credit certificates	51	51	47	+ 0	— 0	— 4
(6) Medium-term notes *(Kassenobligationen)*	1,259	3,189	4,044	+ 91	+ 1,930	+ 855
(7) Bonded loans **3)**	12,092	14,230	16,074	+ 897	+ 2,139	+ 1,844
(8) Direct lending by credit institutions	29,519	34,114	42,546	+4,770	+ 4,595	+ 8,433
(9) Debt Register claims of social insurance institutions	4,829	6,102	4,891	+ 620	+ 1,273	— 1,210
(10) Loans from social insurance institutions	2,416	2,285	2,058	+ 35	— 131	— 228
(11) Other loans	7,868	8,690	9,104	+1,529	+ 822	+ 414
(12) Commutation and compensation debt	997	973	926	— 9	— 24	— 47
(13) Equalisation claims	20,336	20,175	19,902	— 153	— 161	6)— 273
(14) Covering claims **4)**	3,238	3,391	3,331	+ 203	+ 153	— 60
(15) External debt	2,376	2,296	1,950	— 933	— 80	6)— 346
Total (1 to 15)	92,317	107,201	115,779	+9,311	+14,884	+ 8,578
III. Creditors						
(1) Banking system						
(a) Bundesbank	12,794	13,096	11,189	+ 343	+ 302	— 1,907
(b) Credit institutions	45,021	57,344	68,491	+6,052	+12,323	+11,147
(2) Domestic non-banks						
(a) Social insurance institutions	8,814	9,796	8,574	+ 873	+ 982	— 1,222
(b) Other **5)**	22,511	24,526	25,404	+2,476	+ 2,015	+ 878
(3) Foreign creditors **e)**	3,177	2,438	2,122	— 433	— 739	— 316
Total (1 to 3)	92,317	107,201	115 779	+9,311	+14,884	+ 8,578
Note: Liabilities of Federal Government in respect of deposit accounts of E.C. Commission	147	94	905	— 75	— 54	+ 811

* Including Equalisation of Burdens Fund and E.R.P. Special Fund. — **1** Acquisition by Bundesbank of claims resulting from post-war economic aid and of claims from Bank for International Settlements, claim in respect of alteration of exchange parity, as well as credits for subscription payments to World Bank and European Fund; not including, however, credits for subscription payments to International Monetary Fund. — **2** Without paper originating in the conversion of equalisation claims (mobilisation paper). — **3** Including interest-bearing Treasury bonds; excluding bonds in the issuers' own portfolios. — **4** Covering claims on Equalisation of Burdens Fund pursuant to the Old Savings Law and in respect of the savings deposits arrangement, as well as Debt Register claims in respect of life assurance contracts. — **5** Public and private creditors (ascertained as difference). — **6** Including statistical decreases of DM 56 million (equalisation claims) and DM 270 million (external debts). — **e** Partly estimated. — Details may not add to totals because of rounding.

the Bundesbank's creditor position had strengthened further. Foreign countries' claims as well, which have been on the decline for some years now, diminished slightly in 1968 (by DM 0.3 billion compared with DM 0.7 billion in the previous year). For the first time a decrease (by DM 1.2 billion) was also recorded for the funds provided by the social insurance institutions, the main reason being the aforementioned premature redemptions of Debt Register claims held by the workers' pension insurance. On the other hand the debts incurred with the other domestic non-banks increased further; at DM 0.9 billion their rise again was smaller however than a year before (DM 2.0 billion), since private insurance companies in particular purchased more on the security market while curbing direct business with public authorities, which had been expanded substantially during the years of the latest credit restrictions.

Reserves rising anew

The partial data to hand indicate that public authorities' financial reserves — in the form of bank balances and similar investments as well as holdings of the social insurance funds in money-market paper, securities and Debt Register claims — once more rose in 1968. They will have mounted by an estimated DM 500 million after having declined in 1967 (by an estimated DM 750 million) for the first time in some years, chiefly owing to the deficitary trend in the pension and unemployment insurance funds. The rise was largely due to the fact that the *Länder* and the E. R. P. Special Fund in 1968 increased their liquid resources by altogether about DM 1.4 billion, while the Federal Government and the Equalisation of Burdens Fund recorded only slight changes in cash holdings. Since the local authorities, for which however relevant data are not yet available, also would seem to have built up their reserves further — as they did in each of the preceding years — the overall reserves of territorial authorities in 1968 grew by DM 1.5 billion at least, chiefly in the form of deposits with the Bundesbank. The reserves of the social insurance institutions on the other hand dropped by quite DM 1 billion. At that rate the decline not only was smaller than in 1967 — both pension insurance and unemployment insurance again showing deficits, these being smaller however than last year — but also took place in another form than a year before. As the pension insurance funds, different from the movement in 1967, had not to take any Debt Register claims from the Federal Government but on the contrary were able (as mentioned above) to return large amounts of such paper before due date, there was hardly any net change in the other reserves of the social insurance institutions. In fact their security holdings, which had been reduced by DM 1.5 billion in 1967 chiefly owing to the sales by the workers' pension insurance fund, declined by only DM 0.2 billion last year while bank deposits actually were on the increase again.

(c) Outlook

Deficits continuing to decline

In the current year the cash deficit of all public authorities together is likely to diminish further compared with 1968, the principal reason being that overall receipts will increase even more than in 1968 although the national product will probably not grow to the same extent as last year in nominal terms, let alone in real terms. Tax shortfalls owing to the freeing of "old stocks" from the gross turnover tax will in fact hardly play any part in 1969; moreover, the raising of value-added tax rates as from 1 July 1968 for the first time affects a full year; and finally additional revenue of DM 500 million is expected to accrue in connection with the law to safeguard the economy against external influences. Since at the same time important overall economic factors (*e. g.* wages and salaries, capital expenditure and private consumption) will show above-average growth, the respective tax receipts as well as the revenue from social insurance contributions — the contribution rate in the workers' and salaried employees' pension insurance being further increased by 1 percentage point (from 15 % to 16 %) — are bound to rise vigorously. Finally, revenue is likely to grow at an accelerated pace also because the Federal Government — adopting the recommendations made by the Economic Council and the Fiscal Planning Council in March 1969 — deems it necessary "in cases of significance" subsequently to adapt the advance payments on income and corporation taxes for 1968 and to revise current advance payments; this would mean that the favourable trend of enterprises' profits will be reflected more rapidly in larger tax receipts than would normally be the case. On the other hand however public expenditure will also show accelerated growth. Particularly outlay on wages, salaries and pensions as well as on defence will rise at an above-average rate. Increases will also be recorded for investment in material assets and for indirect investments. Although such expenditure has been put quite conservatively in the budget estimates (or draft estimates) that have meanwhile become known, account should be taken of the fact that the territorial authorities have at their disposal appreciable amounts appropriated in previous fiscal years. On an overall view however public expenditure is likely to mount slightly less than it appeared at the beginning of the year. At that time a rise in territorial authorities' and social insurance institutions' expenditure by no less than 9 % was expected, not least because as late as December 1968 the Fiscal

Planning Council had, in the light of the cyclical situation as then seen, recommended that the *Länder* make available to local authorities, for financing their capital expenditure, part of the tax receipts exceeding the amounts estimated in the draft budgets for 1969 as they stood at that time. In March 1969 the Fiscal Planning Council made new recommendations however in the light of the latest cyclical developments. Local authorities shall now spend the funds additionally allocated to them by the *Länder* only to the extent required for "vital" investments, while in principle they shall apply these funds towards lowering their borrowing requirements. Likewise, all additional tax yields received by Federal Government, *Länder* and local authorities over and above the amounts estimated in their final budgets shall be applied towards reducing credit requirements. Finally, the Federal Government shall curb the upturn of its expenditure; a decision to that effect has in the meantime been adopted by the Federal Cabinet. The full quantitative effect of these recommendations cannot of course be foreseen at present. They will however tend to damp the growth of public expenditure, although the increase still will be much greater than in 1968, probably reaching, or even exceeding, the rise of the nominal gross national product.

The further decline in deficits (and hence by and large also in borrowing requirements) is quite desirable in view of the cyclical situation. In absolute terms however, even if the recommendations of the Fiscal Planning Council are adhered to in full, in 1969 the deficits are not likely to diminish so much as in 1968 when the overall cash deficit was smaller by about DM 8 billion than in 1967, as mentioned above. In 1969 the damping effect emanating from the diminution of deficits would consequently be weaker than a year before while the contrary is desirable. By the readiness, in principle, of public authorities to ward off by means of fiscal measures any dangers threatening overall economic equilibrium the right course has however been taken. The essential point will now be to avoid everything tending to force up deficits again. In particular it is urgent to be very cautious in taking decisions regarding new expenditure items which beyond the year 1969 will burden the subsequent years without new sources of ordinary revenue being tapped.

4. Balance of payments*)

(a) Overall survey

Principal tendencies in the balance of payments for 1968

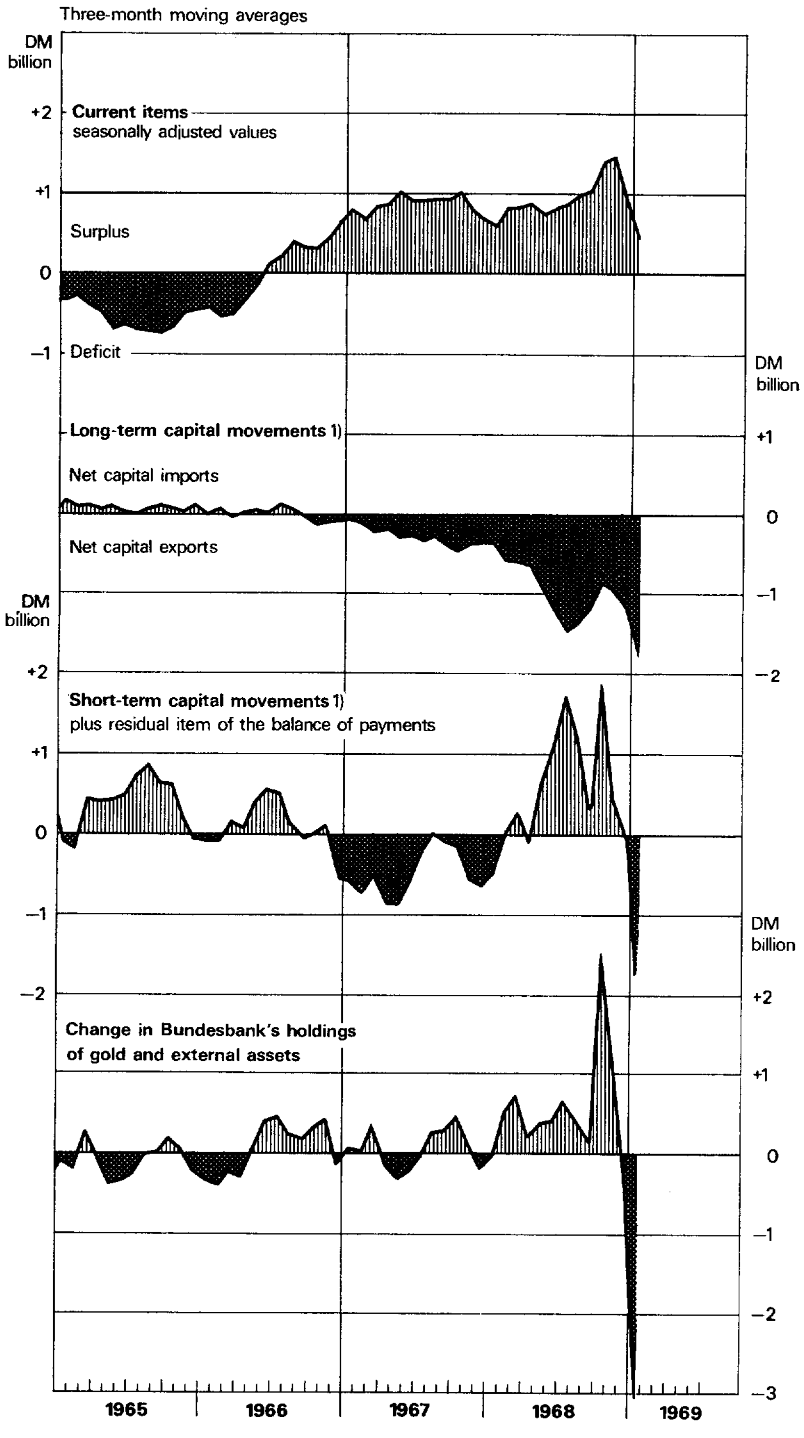
The main features of the German balance of payments for 1968 were

- the further increase in the surplus on current transactions with foreign countries,
- the exceptionally large rise in net long-term capital exports, and
- the reversal in short-term capital flows from net capital exports to net capital imports.

As a result of the pronounced economic upswing within the country — the 1968 gross national product exceeding that for 1967 by 7 % in real terms and by 9 % nominally — imports showed a marked increase (+ 16 %), it is true. Since, however, exports likewise grew vigorously over the same time (+ 14 %), owing to the different levels of exports and imports the trade surplus did not decline but continued to rise — by DM 1.9 billion to DM 22.9 billion on the definition here used (and explained in the footnote). As the overall deficit on services and transfer payments in 1968, at DM 11.4 billion, was of approximately the same size as in the preceding year, the surplus on all current transactions with foreign countries during 1968 mounted by DM 1.7 billion to DM 11.5 billion.

* This section essentially conforms with the study "Principal results of the balance of payments for the year 1968" published in the Monthly Report of the Deutsche Bundesbank for March 1969. — The method used in defining the following data on foreign trade differs from that applied in the official foreign trade statistics (unless stated otherwise). In line with the international practice in drawing up balance-of-payments statements, freight and insurance costs of sea-borne imports have in this section been eliminated from the official import figures and attributed to expenditure on services. Exports and imports are thus recorded uniformly at their f.o.b. (free on board) values. The regrouping of freight and insurance costs of sea-borne imports, which results in a statistical rise of the trade surplus on the one hand and a statistical deterioration of the balance of services on the other, does not however affect the overall figure for external trade and service transactions (and hence the balance of current transactions). Cf. the preliminary remarks as to the method used in the study on the balance of payments published in the Monthly Report for March 1969.

Balance of payments



1) Without special transactions.

The continuously high and indeed rising trade surpluses of the Federal Republic of Germany, in a cyclical phase in which according to all experience a reduction was to be expected, were one of the reasons for the international monetary system being under severe strain in the autumn of 1968, although the persistently large and in part even growing deficits in important neighbouring countries did not of course contribute less to this development. Germany in 1968 exported long-term capital in an unprecedented amount (DM 11.3 billion), it is true; frequently this outflow of capital was not considered sufficient to stabilise the external situation, however, because at times it was accompanied by large capital imports in the short-term field (so that on balance inflows of foreign exchange into the Federal Republic of

Germany remained). In addition there was some doubt whether the long-term capital exports would continue for any prolonged period, since the export of capital was due on the one hand to an extremely high level of liquidity in Germany and on the other hand to exceptionally high interest rates in other countries. Several waves of speculative money inflows, reaching their peak in November 1968, were the principal reason causing in 1968 DM 7 billion of short-term capital to flow into the Federal Republic of Germany (the residual item of the balance of payments being included), whereas in 1967 more than DM 6 billion of short-term capital had been exported. The swing from capital exports to capital imports in the short-term field during 1968 was much more important, in terms of quantity, than the increase in long-term capital exports. Taking short and long-term capital transactions together, a net capital export of DM 4.5 billion results for 1968, this being roughly DM 5 billion less than in the previous year. It is due in the first place to this change that the Bundesbank's holding of gold and external assets rose by DM 7.1 billion in 1968 (compared with merely DM 400 million in 1967). For much the greater part, the Bundesbank did not apply the foreign exchange received towards building up its freely usable monetary reserves, but placed substantial amounts at medium or long term at the disposal of those countries which last year had lost foreign exchange and run into balance-of-payments difficulties. Details on this subject have already been given in the chapter "International Monetary Developments and Monetary Policy", especially on page 40 *seq.*).

Considerable distortions in the balance of payments at the turn of the year 1968/1969

As the measures of fiscal and credit policy adopted by France, the United Kingdom and the Federal Republic of Germany in connection with the Bonn Conference of the Group of Ten for the purpose of reducing the external disequilibria (see the chronological survey on page 91) will not become fully effective until some time in 1969, the annual figures in the balance of payments for 1968 have of course been affected, on balance, to a greater extent by the speculative movements preceding the conference than by the counter-movement recorded in the last weeks of 1968. The pattern of short-term capital transactions would change quite substantially if the months of January and February 1969, in which large net outflows of money were recorded, were included in the analysis, net inflows of short-term capital having amounted to "only" DM 5.3 billion from the beginning of March 1968 to the end of February 1969.

Conditions are similar in foreign trade. For the months November and December 1968 as a whole, the balance of trade according to the official foreign trade statistics showed a record surplus of DM 4.7 billion, chiefly because foreign demand was particularly high until end-November owing to the uncertainty regarding continuation of existing exchange rates and because in December another vigorous export surge occurred as a result of the accelerated execution of "old contracts". In November and December together, exports accordingly were higher by 22 % than a year earlier, whereas imports at a growth rate of 10 % expanded much more slowly than before. By way of reaction to the anticipation of exports, the export figure for January/February 1969 at DM 15.8 billion was lower by DM 3.3 billion than in the last two months of 1968, exceeding the comparable level for the previous year by only 6 % (after adjustment for seasonal variation, it actually was smaller by 10 % on the average of the months January and February than in the two preceding months in spite of continually large inflows of export orders). Imports, on the other hand, at DM 14.6 billion in January/February were larger by DM 0.2 billion than in the previous two months; they exceeded the corresponding level for the beginning of 1968 by 18 %, and seasonally adjusted they were higher by 11 % than in November/December 1968. Owing to these opposite movements the foreign trade surplus in January/February 1969 shrank to DM 1.2 billion compared with the aforementioned DM 4.7 billion in the last two months of 1968 and DM 2.6 billion for the months January/February 1968.

The statistical reflection of the surge of speculation and its ebbing away – *i. e.* movements leaving distinct traces in many subsections of the balance of payments – will be seen in the following table. The central monetary reserves, having grown by DM 9.5 billion from the beginning of September to 23 November 1968, dropped by DM 11.1 billion between 24 November 1968 and end-February 1969, thus falling below the level recorded at the beginning of the speculative inflows last autumn.

Changes in the German banking system's net short-term claims on foreign countries

Increase: +, decrease: —; millions of DM

Period	Bundesbank	Credit institutions	Total
I. **Speculative surge in the autumn of 1968**			
September	+ 963	+ 91	+ 1,074
October	— 605	+ 508	— 97
1 to 23 November	+ 9,150	1) — 5,737	+ 3,413
Total	**+ 9,528**	**— 5,138**	**+ 4,390**
II. **Ebbing of speculative surge since Bonn Conference**			
24 to 30 November	— 1,940	1) + 2,712	+ 772
December	— 3,519	+ 374	— 3,145
January	— 5,059	+ 5,847	+ 788
February	— 572	— 888	— 1,460
Total	**— 11,090**	**+ 8,045**	**— 3,045**
III. **Foreign exchange movements since September 1968** (I + II)	**— 1,562**	**+ 2,907**	**+ 1,345**

1 Only position of weekly reporting banks.

Contrary to the movement in central reserves, however, the short-term net external assets of credit institutions showed a fresh rise of DM 8 billion from 24 November 1968 to end-February 1969 after having diminished by quite DM 5 billion in the weeks preceding the Bonn Conference owing to substantial inflows from abroad. By its swap policy the Bundesbank very substantially assisted in redirecting such large amounts to foreign money markets. If, in order to arrive at an overall picture of foreign exchange movements, the efflux of foreign exchange from the Bundesbank and the improvement in the credit institutions' position are added together, there results for the period 24 November 1968 to end-February 1969 a net outflow of foreign exchange in the amount of DM 3.0 billion which absorbed almost three-quarters of the inflows (DM 4.4 billion) recorded in the period from end-August to the Bonn Conference. The remaining foreign exchange surplus of DM 1.3 billion for a period of six months no doubt was predominantly due to "normal" transactions in goods, services and capital. The basic balance over this period actually showed a deficit of DM 2 billion as the surplus of approximately DM 6 billion on current transactions contrasted with exports of long-term capital in the amount of almost DM 8 billion. Of the overall long-term capital exports, DM 4.2 billion concerned portfolio purchases of foreign securities (especially DM loans of foreign issuers: DM 2.3 billion, and foreign investment fund certificates: DM 0.9 billion), and DM 2.9 billion private lending to foreigners.

The principal tendencies in the various sections of the 1968 balance of payments are described on the following pages.

(b) Current items

Further increase in foreign trade surpluses

On the basis of f.o.b. figures the surplus on trade in goods (including merchanting trade) went up from DM 21.0 billion in 1967 to DM 22.9 billion in 1968, as mentioned initially; at that rate it reached almost twice the amount recorded two years before (1966: DM 11.8 billion). Whereas in 1967 the growth in the export surplus was due largely to the slackening of domestic economic activity at that time, the continuance of the large surplus in 1968 would seem to have been due in the first place to the fact that the price and cost disparity between the Federal Republic of Germany and other countries continued to widen in favour of Germany even though domestic demand in Germany also rose substantially. An important factor in this connection was that at the beginning of 1968 capacities had not yet been fully employed again, so that with rising output productivity at first grew remarkably, permitting offers to be made at steady and at times indeed falling prices. Moreover, the transition to value-added tax on 1 January 1968 offered exporters the opportunity of slightly reducing prices, while conversely importers experienced a certain increase in the prices of imported goods[1]).

1 Accurate computations have indeed shown that the introduction of the value-added tax at first had a revaluation-like effect, although only if the "blurring effect" (*i. e.* in particular the burdening of existing plant with turnover tax, which is no longer "deductible" under the new system) is included. Evidently, however, exporters and importers did not attach any importance to these indirect cost increases.

Total *exports* of the Federal Republic of Germany in 1968 rose by over 14 % to DM 99.4 billion, compared with an 8 % rise in 1967. The increase in German exports accordingly exceeded the expansion of world exports, which may be estimated at quite 11 % for 1968. The German share in world trade therefore continued to grow.

Imports on the other hand expanded in 1968 by almost 16 % or slightly more than DM 10 billion, to DM 76.6 billion (not including freight and insurance costs of sea-borne imports), whereas in the preceding year of stagnation they had dropped by 3.5 %. As the gross national product during 1968 rose by DM 44 billion in nominal terms, the growth of imports is equal to approximately 25 % of the simultaneous rise in the gross national product. The relation between the increase in imports and that in the gross national product (the "marginal import ratio") has always proved to be greatly dependent on the course of economic activity. It reached its all-time record, of 30 %, in 1965, the culmination of the previous upswing. Thus, demand for imports in 1968 was only relatively little less than in previous boom years. Any more marked increase in imports could no doubt have been expected only if foreign suppliers had reduced prices quite generally. In fact, however, there were merely isolated price reductions and these probably only because diminution of proceeds was accepted for the sake of maintaining or expanding the market share in the Federal Republic of Germany.

In addition to the factors just described, however, special influences causing a temporary increase in the trade surplus also were at work in 1968. It has been mentioned above that in the autumn of 1968 fears of an alteration of exchange rates in particular were, on the one hand, increasing foreign demand in Germany and on the other retarding German imports. In addition, in December 1968, after promulgation of the fiscal measures designed to provide safeguards against external influences, there was a special surge of exports, because delivery of goods under so-called old contracts was exempt from the export tax if it was effected not later than 23 December 1968. In fact, for this reason exports in the order of DM 1 to 2 billion would seem to have been advanced in time while in normal conditions delivery would not have been made until early in 1969. Export figures in January and February 1969 were correspondingly lower.

Details on foreign trade movements

Specifically, developments in foreign trade during 1968 were as follows. Regional breakdown of *exports* shows that it was German exports to the United States which expanded most in 1968. They went up by DM 3 billion (or 38 %) to DM 10.8 billion, this raising the share of exports to America in overall German exports from 9 % in 1967 to 11 %. There was a particularly marked increase in exports of motor vehicles (+ 60 %). But an above-average rise was also recorded in 1968 for German sales to the members of the European Economic Community; such exports rose by 17 % (or DM 5.4 billion) to DM 37.4 billion (information on the movement in foreign trade with the individual partners of the community of six will be found in the opposite table). German exports to the countries of the European Free Trade Association, on the other hand, in 1968 showed a less than average rise — by 9.5 % to DM 22.6 billion — although they grew at a somewhat more rapid rate than these countries' overall imports. This indicates that in general the disadvantages imposed by trade policy on exports to this area have been compensated by other factors. The scope of changes in the export figures in relation to the individual E.F.T.A. countries is particularly large, it is true — ranging from a decline by 3.5 % in exports to Norway to an increase by 18 % in exports to Portugal. Exports to the United Kingdom rose by 16 %; in spite of the devaluation of Sterling they thus expanded much more vigorously in 1968 than in 1967 (11 %), when the devaluation of Sterling in November of that year could not yet have any practical effects.

Developing countries in 1968 purchased German goods in the equivalent of DM 17.7 billion, or 9 % more than in the previous year (+ 6 %). Exports to the countries of the Sino-Soviet area, which in 1967 still had raised their purchases from Germany by one-third, grew by a mere 3 % in 1968, so that the share of these countries in German exports again dropped to 4.5 %, *i. e.*, approximately to the ratio for the year 1966.

Figures on foreign trade *)

Item	1964	1965	1966	1967	1968	1965	1966	1967	1968
	Billions of DM					Year-to-year change in %			
	Exports (f.o.b.) 1)								
Industrial countries	50.5	55.1	61.8	66.2	77.1	+ 9.3	+ 12.0	+ 7.2	+ 16.5
E.E.C. countries	23.6	25.2	29.3	32.0	37.4	+ 6.7	+ 16.1	+ 9.3	+ 16.7
Belgium-Luxembourg	4.9	5.5	6.4	6.4	7.5	+ 13.9	+ 15.5	+ 0.3	+ 15.6
France	7.4	7.8	9.2	10.1	12.2	+ 5.0	+ 18.3	+ 9.1	+ 21.8
Italy	4.6	4.5	5.7	6.9	7.6	— 2.0	+ 25.8	+ 21.8	+ 9.8
Netherlands	6.7	7.4	8.0	8.6	10.1	+ 9.4	+ 8.4	+ 8.0	+ 17.2
E.F.T.A. countries	17.7	19.4	20.3	20.6	22.6	+ 9.4	+ 5.0	+ 1.6	+ 9.5
Austria	3.3	3.8	4.2	4.1	4.4	+ 15.2	+ 11.1	— 2.9	+ 7.9
Denmark	2.1	2.3	2.3	2.4	2.4	+ 10.7	+ 0.2	+ 1.9	+ 1.7
Norway	1.2	1.4	1.5	1.5	1.4	+ 11.4	+ 8.7	— 2.3	— 3.5
Portugal	0.5	0.6	0.7	0.6	0.8	+ 23.0	+ 7.6	— 6.0	+ 18.1
Sweden	3.3	3.8	3.6	3.5	3.9	+ 15.2	— 4.8	— 1.1	+ 8.9
Switzerland	4.6	4.7	4.9	5.0	5.7	+ 2.0	+ 4.8	+ 3.5	+ 13.2
United Kingdom	2.7	2.8	3.1	3.5	4.0	+ 3.2	+ 11.6	+ 11.0	+ 16.0
United States of America	4.8	5.7	7.2	7.9	10.8	+ 20.0	+ 25.0	+ 9.5	+ 37.9
Other industrial countries	4.4	4.8	5.0	5.7	6.3	+ 11.2	+ 3.5	+ 14.5	+ 10.4
Developing countries	11.9	13.6	15.3	16.2	17.7	+ 14.0	+ 12.5	+ 5.9	+ 9.0
Sino-Soviet area	2.3	2.7	3.3	4.4	4.5	+ 15.5	+ 23.6	+ 32.3	+ 3.1
All countries 3)	64.9	71.6	80.6	87.1	99.6	+ 10.4	+ 12.5	+ 8.0	+ 14.4
	Imports (c.i.f.) 2)								
Industrial countries	42.5	52.0	53.2	51.4	59.8	+ 22.3	+ 2.3	— 3.4	+ 16.2
E.E.C. countries	20.4	26.7	27.8	27.6	33.5	+ 30.7	+ 4.2	— 0.5	+ 21.1
Belgium-Luxembourg	4.3	5.4	5.6	5.4	6.8	+ 25.8	+ 3.5	— 3.0	+ 25.1
France	6.3	7.9	8.6	8.5	9.8	+ 25.1	+ 9.9	— 1.5	+ 15.2
Italy	4.5	6.6	6.7	6.4	8.1	+ 46.9	+ 1.8	— 3.6	+ 25.3
Netherlands	5.3	6.8	6.9	7.3	8.8	+ 27.6	+ 0.6	+ 5.9	+ 21.1
E.F.T.A. countries	10.7	12.1	11.9	11.0	12.7	+ 13.5	— 1.5	— 8.0	+ 15.2
Austria	1.5	1.7	1.7	1.5	1.8	+ 12.4	— 1.0	— 12.8	+ 19.5
Denmark	1.3	1.5	1.4	1.2	1.2	+ 17.6	— 7.8	— 14.5	+ 6.3
Norway	0.8	0.9	0.9	0.9	1.1	+ 11.2	+ 2.7	+ 7.3	+ 14.1
Portugal	0.2	0.2	0.2	0.2	0.2	+ 18.5	— 11.9	— 10.1	+ 5.9
Sweden	2.3	2.5	2.4	2.2	2.5	+ 7.3	— 3.3	— 9.3	+ 14.9
Switzerland	1.8	2.2	2.2	2.1	2.5	+ 21.0	+ 1.3	— 6.4	+ 17.5
United Kingdom	2.8	3.1	3.1	2.9	3.4	+ 12.9	+ 0.4	— 7.1	+ 16.2
United States of America	8.1	9.2	9.2	8.6	8.8	+ 14.0	— 0.2	— 6.8	+ 3.4
Other industrial countries	3.3	4.0	4.3	4.2	4.8	+ 19.5	+ 6.8	— 1.4	+ 13.1
Developing countries	13.8	15.4	16.2	15.7	17.9	+ 11.6	+ 5.1	— 3.4	+ 14.4
Sino-Soviet area	2.4	2.9	3.2	3.0	3.4	+ 20.9	+ 8.0	— 4.3	+ 13.1
All countries 3)	58.8	70.4	72.7	70.2	81.2	+ 19.7	+ 3.2	— 3.4	+ 15.7
	Further data on German foreign trade								
World exports	610.8	661.6	726.0	762.0	p) 848.8	+ 8.3	+ 9.7	+ 5.0	p) + 11.4
Share of German exports									
in world exports in %	10.6	10.8	11.1	11.4	p) 11.7	.	.	.	.
in the exports of the O.E.C.D. countries in %	14.5	14.6	14.8	15.2	p) 15.4	.	.	.	.
in the exports of the E.E.C. countries in %	38.1	37.3	38.3	38.7	p) 38.7	.	.	.	.
Share of exports in gross national product in % (export ratio)	15.7	15.8	16.8	p) 18.0	p) 18.8	.	.	.	.
Share of imports in gross national product in % (import ratio)	14.2	15.6	15.1	p) 14.5	p) 15.4	.	.	.	.

* According to figures of the official foreign trade statistics. — **1** Ascertained according to consumer countries. — **2** Ascertained according to producer countries. — **3** Including ships' and aircraft's fuel and other supplies, etc. — **p** Provisional.

It has already been mentioned that German *imports* rose by just on 16 % during 1968. According to the official foreign trade statistics (to which recourse must be had because for some items import figures on f.o.b. basis are not available), *commercial imports of industrial goods* increased by as much as 22 % or DM 11 billion to over DM 60 billion. The rise was greatest in imports of foreign semi-finished goods and products for further processing, such imports growing by almost 30 % to over DM 26 billion. This marked growth was due not only to the expansion of industrial production (which is always accompanied by a certain rise in imports) but was additionally favoured by the replenishing of stocks, which at the turn of the year 1967/68 had fallen to a particularly low level owing to the transition to value-added tax and the concomitant incomplete freeing of old stocks from cumulative turnover tax. A more than proportionate rise, by 19 %, was also recorded for imports of finally finished products, so that to that extent foreign suppliers' shares in the domestic market have somewhat expanded. Imports of raw materials, which had stagnated in 1967, grew during 1968 at approximately the same rate as overall imports (by 15 %). Here again some part was played not only by the production-induced additional demand, but also by replenishing of stocks, although less markedly so than in the case of semi-finished goods. The imports hardly affected by the state of domestic economic activity (*viz.,* Federal Government imports and imports of foodstuffs) were somewhat smaller in 1968, on an overall view, than in 1967.

Smaller deficit on services owing to . . .

According to provisional calculations, service transactions of the Federal Republic of Germany with foreign countries, including freight and insurance costs of seaborne imports, during 1968 resulted in a deficit of approximately DM 4.4 billion (compared with DM 4.9 billion in 1967). The principal deficit items were expenditure on travel, payments of investment income to foreigners, and outlay on transport services, commissions, publicity and trade fairs.

. . . marked growth in German receipts from investment income

The deficit on *investment income* declined from DM 1.8 billion (1967) to DM 0.9 billion (1968), it is true. A particularly important factor here was that German receipts from investment income rose by DM 730 million (to just on DM 2.8 billion), whereas in the previous year they had grown by a mere DM 230 million. Apart from the high level of interest rates abroad, the rise was due in the first place to the relatively marked expansion of German external assets which, with interest-bearing monetary reserves of the Bundesbank included, mounted during 1968 by approximately DM 21 billion (including DM 13 billion of long-term assets) after having risen by DM 12 billion in 1967. Germany's payments of investment income to foreigners, on the other hand, dropped by DM 100 million on the year to DM 3.7 billion, the yields from foreign participations in German enterprises having been depressed, owing to the poor 1967 profits, to DM 1.6 billion compared with DM 1.8 billion in 1967. If the monetary reserves of the Bundesbank are added to the other German assets invested abroad, and the overall income from German external assets thus defined is compared with the amounts which had to be transferred abroad in respect of income from foreign investments in the Federal Republic of Germany, it is found that in 1968 approximately three-quarters of German transfer payments were "covered" by receipts. In most years since the monetary reform, German investment income abroad had amounted to a much smaller proportion of the investment income payable to foreigners.

German external assets, and foreign assets in the Federal Republic of Germany

Monetary reserves on the one hand and private external assets on the other of course bear interest at quite different rates, so that comparison of the two flows of payments does not permit any conclusions to be drawn as to the respective capital holdings. However, the approximation of capital income received to that paid indicates that at least the gap between the *absolute* amount of German external assets and the foreign assets in the Federal Republic of Germany has narrowed substantially. After the war virtually no German external assets existed whereas conversely foreign assets in Germany continued in existence although the order of magnitude is not known. According to the data of the balance-of-payments statistics, Germany between 1950 and 1968 acquired external assets in the amount of DM 110 billion (including DM 38 billion in the form of monetary reserves, it is true), whereas foreign investments in Germany rose by DM 52 billion during the same

Principal net items in service transactions with foreign countries

Millions of DM

Item	1962	1963	1964	1965	1966	1967	1968
(1) Commercial services							
Travel	— 2,160	— 1,926	— 1,982	— 2,550	— 3,066	— 2,727	— 2,677
Investment income	— 1,258	— 1,213	— 1,578	— 1,811	— 1,482	— 1,783	— 934
Transportation **1)**	— 854	— 805	— 1,099	— 748	— 515	— 517	— 812
Commissions, publicity and trade fairs	— 1,272	— 1,336	— 1,494	— 1,595	— 1,808	— 1,951	— 2,017
Other services	— 1,533	— 1,782	— 1,835	— 2,158	— 2,531	— 2,426	— 2,769
Balance	— 7,077	— 7,062	— 7,988	— 8,862	— 9,402	— 9,404	— 9,209
(2) Other service items							
Receipts from foreign troops	+ 4,101	+ 4,244	+ 4,187	+ 4,124	+ 4,898	+ 5,241	+ 5,362
of which:							
United States of America	+ 2,920	+ 2,915	+ 2,824	+ 2,723	+ 3,241	+ 3,557	+ 3,715
United Kingdom	+ 732	+ 848	+ 853	+ 907	+ 953	+ 949	+ 946
France	+ 252	+ 256	+ 276	+ 277	+ 410	+ 386	+ 284
Other	+ 197	+ 225	+ 234	+ 217	+ 294	+ 349	+ 417
Receipts and expenditure of German public authorities	— 89	— 337	— 300	— 547	— 589	— 687	— 505
Balance	+ 4,012	+ 3,907	+ 3,887	+ 3,577	+ 4,309	+ 4,554	+ 4,857
Service transactions total (1) plus (2)	— 3,065	— 3,155	— 4,101	— 5,285	— 5,093	— 4,850	— 4,352
Note:							
Net balance of services *except* incidental expenses of sea-borne imports **2)**	— 21	— 6	— 571	— 1,288	— 1,226	— 703	+ 178

1 Including expenditure on freight and insurance costs of sea-borne imports paid to foreigners, which is comprised in the c.i.f. value of imports. — **2** Equal to the balance of service transactions currently published in the Statistical Section of the Monthly Reports of the Deutsche Bundesbank and in the Statistical Supplements, Series 3 "Balance-of-payments statistics".

period[1]). These figures do not include changes in the value of industrial participations (altogether the statistical data are incomplete, *e. g.* as regards reinvestment of profits). They do show, however, that Germany's net debtor position in relation to foreign countries has diminished appreciably if not indeed approximate equilibrium between foreign assets in Germany and German assets abroad (including claims on foreign countries) has already been reached. Of course, among foreign assets in the Federal Republic of Germany industrial interests predominate whereas German external assets mainly consist of monetary reserves, investments in securities, and loans granted. The different structure of German external assets is due in part to the fact that in post-war years German industry first aimed at expanding its domestic capital investments and therefore sold to the central bank much the greater part of the foreign exchange proceeds from foreign trade (this resulting in substantial growth of the monetary reserves), while it spent only little on investments abroad. A significant part was also played by the fact that transformation of liquid external assets into longer-term investments, particularly industrial participations, in many cases failed to be realised because in the light of existing exchange rate relations acquisition of industrial interests abroad appeared too expensive in relative terms (*i. e.* compared with corresponding investment within the country).

Travel

The deficit on *foreign travel* declined insignificantly (to somewhat less than DM 2.7 billion) in 1968. Although German tourists' expenditure abroad, which in 1967 had diminished for the first time since the war, rose again in 1968, the increase by DM 240 million or not quite 4 % (to DM 6.3 billion) kept within relatively narrow limits compared with earlier years. In relation to households' disposable income, whose rate of increase accelerated in the course of 1968, expenditure on foreign travel actually declined further – although but slightly – to somewhat less than 1.9 % against just on 2 % in 1967. Germany's receipts from foreign visitors mounted by almost DM 300 million to DM 3.6 billion in 1968; at that rate their rise was greater than that in the expenditure of German tourists abroad not only in relative terms (8.5 %) but also in absolute amount.

1 From 1950 to 1968 the unidentifiable residual item of the balance of payments showed a cumulative surplus of just on DM 11 billion; this amount was considered in full to represent an increase in foreign assets held in Germany although it conceals greatly differing processes, not least unrecorded receipts from current transactions with foreign countries.

Other commercial services

In the other fields of commercial service-rendering, on the other hand, expenditure expanded more vigorously than receipts in line with the requirements of the economic situation. This applies in the first place to the *balance of transportation,* whose deficit increased by DM 300 million to DM 800 million. As sea-borne imports, freight costs on which account for more than one-half of total expenditure on transportation, were higher than in the previous year by fully one-tenth, it was especially expenditure on maritime freight and harbour services incurred on them that increased (by DM 720 million to DM 5.8 billion). In 1968 the Federal Republic of Germany expended about DM 2 billion (net), or not quite DM 100 million more than a year before, on commissions, publicity and trade fairs. Such expenditure, which has risen continuously since the monetary reform and meanwhile is no longer appreciably smaller in amount than the deficit on travel, is directly connected with the expansion of German exports. For the other commercial service transactions, in 1968 the deficit rose by DM 350 million over the previous year's figure to DM 2.8 billion, DM 0.8 billion being accounted for by wage and salary payments to persons commuting across the border (these payments must not be mistaken for wage remittances on the part of guest workers, which are recorded among "transfer payments"), and DM 0.6 billion by payments of patent and licence fees (previous year: DM 0.5 billion).

Commercial service transactions in the Federal Republic of Germany and abroad

Germany's overall *commercial service transactions* with foreign countries in 1968 resulted in a deficit of DM 9.2 billion, compared with one of DM 9.4 billion in 1967. The position of the Federal Republic of Germany in international service transactions thus continues to differ fundamentally from that of other big industrial countries. For example, the United States in 1967 recorded a surplus on commercial services equivalent to approximately DM 24 billion, and the United Kingdom a surplus in the equivalent of DM 8 billion. Similarly, Switzerland (+ an estimated DM 4 billion), Italy (+ DM 3 billion), and the Netherlands (+ DM 2 billion) showed relatively large net receipts on commercial service-rendering[1]). The causes of these substantial differences between the German position and that of other important industrial countries are to be seen, for one thing, in the fact that in spite of the large increase during recent years the Federal Republic of Germany holds comparatively small external assets (held, moreover, to an appreciable extent in liquid form) and accordingly receives much less investment income than other industrial countries. The receipts of the United States, for instance, from its external assets in 1967 amounted to the equivalent of DM 34 billion (gross). In addition, the Federal Republic of Germany always records large deficits on foreign travel and regularly pays to foreign countries much more on transport services — principally for use of foreign ships, harbour services and airlines — than it receives on transport services rendered.

Receipts from foreign troops

While the large deficits recorded by the Federal Republic of Germany on commercial services are not fully reflected in the balance of *overall* service transactions (as mentioned above, the balance of services in 1968 showed a deficit of DM 4.4 billion), this is due to the receipts accruing to Germany from the troops of the allied powers stationed in its territory. In 1968 such receipts amounted to approximately DM 5.4 billion; they were higher by DM 120 million than in the previous year. These receipts in the main resulted from agencies of American troops changing dollars at the Bundesbank in the equivalent of DM 3.6 billion into Deutsche Mark for their own DM requirements and for the DM requirements of American servicemen (and their dependents). The receipts from American sources compared with German payments under the foreign exchange offset agreement (recorded in other balance-of-payments items) in the amount of DM 3.9 billion, Federal Government payments for military purposes (training costs, imports of military equipment and advance payments on such imports) accounting for DM 0.9 billion, and acquisition of medium-term DM notes of the U.S. Treasury by the Bundesbank (DM 2.5 billion) and by German banks (DM 0.5 billion) for DM 3.0 billion.

Growing deficit on transfer payments

In the balance of transfer payments, the third large section of the current account, the deficit in 1968 rose by DM 740 million to over DM 7 billion. The increase in the deficit is due chiefly to the fact that the Federal Government in 1968 on balance

1 Sources: "Balance of Payments Yearbook" of the International Monetary Fund and national statistics.

Principal items of the balance of payments

Millions of DM

Item	1962	1963	1964	1965	1966	1967	1968 Total	1968 1st half	1968 2nd half
I. Current items									
(1) Goods									
Exports (f.o.b.) **1)**	52,985	58,401	64,914	71,633	80,557	86,950	99,426	46,123	53,303
Imports (f.o.b.) **1)**	46,445	49,200	55,091	66,585	68,932	66,303	76,606	36,236	40,370
Merchanting trade (net)	— 19	— 20	— 212	+ 152	+ 200	+ 362	+ 82	+ 124	— 42
Net balance of trade	+ 6,521	+ 9,181	+ 9,611	+ 5,200	+ 11,825	+ 21,009	+ 22,902	+ 10,011	+ 12,891
(2) Services	— 3,065	— 3,155	— 4,101	— 5,285	— 5,093	— 4,850	— 4,352	— 1,701	— 2,651
(3) Transfer payments	— 5,196	— 5,056	— 5,308	— 6,390	— 6,256	— 6,305	— 7,045	— 3,264	— 3,781
Net balance of current items (1 + 2 + 3)	— 1,740	+ 970	+ 202	— 6,475	+ 476	+ 9,854	+ 11,505	+ 5,046	+ 6,459
II. Capital transactions (except special transactions)									
(1) Long-term capital **2) 3)**									
Net German capital investments abroad (increase: —)									
Private	— 1,540	— 1,443	— 2,107	— 2,009	— 2,614	— 3,321	—11,785	— 4,545	— 7,240
Direct investments	— 941	— 646	— 923	— 1,051	— 1,224	— 987	— 1,572	— 734	— 838
Portfolio investments	— 187	— 179	— 540	— 454	— 819	— 1,394	— 5,627	— 2,317	— 3,310
Credits and loans	— 187	— 454	— 482	— 287	— 368	— 755	— 4,350	— 1,384	— 2,966
Other	— 225	— 164	— 162	— 217	— 203	— 185	— 236	— 110	— 126
Official	— 1,101	— 1,186	— 1,236	— 1,219	— 1,366	— 1,465	— 1,292	— 376	— 916
Total	— 2,641	— 2,629	— 3,343	— 3,228	— 3,980	— 4,786	—13,077	— 4,921	— 8,156
Net foreign capital investments in Germany (increase: +)									
Private	+ 2,477	+ 4,436	+ 2,388	+ 4,257	+ 4,384	+ 1,657	+ 1,780	+ 471	+ 1,309
Direct investments	+ 1,074	+ 1,530	+ 2,122	+ 3,290	+ 3,441	+ 2,795	+ 1,522	+ 767	+ 755
Portfolio investments	+ 1,277	+ 2,593	+ 21	+ 99	— 336	— 619	+ 14	— 191	+ 205
Credits and loans	+ 264	+ 416	+ 346	+ 988	+ 1,400	— 391	+ 379	— 16	+ 395
Other	— 138	— 103	— 101	— 120	— 121	— 128	— 135	— 89	— 46
Official	— 189	— 261	— 79	— 72	— 133	— 48	— 51	— 35	— 16
Total	+ 2,288	+ 4,175	+ 2,309	+ 4,185	+ 4,251	+ 1,609	+ 1,729	+ 436	+ 1,293
Net long-term capital	— 353	+ 1,546	— 1,034	+ 957	+ 271	— 3,177	—11,348	— 4,485	— 6,863
(2) Short-term capital									
Credit institutions	— 259	+ 684	+ 85	— 478	— 574	— 4,823	+ 3,152	— 243	+ 3,395
Enterprises **4)**	+ 505	+ 39	+ 225	+ 831	+ 1,880	— 1,634	+ 482	— 65	+ 547
Public authorities **5)**	+ 164	— 177	— 1,464	+ 830	— 239	+ 193	+ 1,289	+ 160	+ 1,129
Net short-term capital	+ 410	+ 546	— 1,154	+ 1,183	+ 1,067	— 6,264	+ 4,923	— 148	+ 5,071
(3) Special capital transactions (net) **6)**	—	—	—	—	— 1,378	—	—	—	—
Net balance of overall capital transactions	+ 57	+ 2,092	— 2,188	+ 2,140	— 40	— 9,441	— 6,425	— 4,633	— 1,792
Net balance of current items and capital transactions (I + II)	— 1,683	+ 3,062	— 1,986	— 4,335	+ 436	+ 413	+ 5,080	+ 413	+ 4,667
III. Residual item **7)**	+ 1,130	— 490	+ 1,998	+ 2,830	+ 594	+ 1	+ 2,033	+ 2,319	— 286
IV. Gold and exchange movement **8)**	— 553	+ 2,572	+ 12	— 1,505	+ 1,030	+ 414	+ 7,113	+ 2,732	+ 4,381

1 Special trade; including supplementary items. — **2** Capital transactions are classified as "Private" or "Official" according to the sector to which the German party concerned belongs. — **3** Breakdown of long-term capital by "Direct investments", "Portfolio investments", "Credits and loans", and "Other" is partly estimated; for further breakdown see Table 9 and following in the Statistical Supplements to the Monthly Reports, Series 3 "Balance-of-payments statistics". — **4** Chiefly granting and use of financial credits. — **5** Chiefly changes in claims of the Federal Government from prepayments on defence imports and in commitment to I.M.F. under the German quota (excluding increase of quota); see also Table 15 "Short-term capital transactions" in the Statistical Supplements to the Monthly Reports, Series 3 "Balance-of-payments statistics". — **6** For further breakdown see Table 1 in the Statistical Supplements to the Monthly Reports, Series 3 "Balance-of-payments statistics". — **7** Unidentified difference between gold and exchange movement and net balance of current items and capital transactions. — **8** Change in net monetary reserves of Deutsche Bundesbank; increase: +.

placed at the disposal of the E.E.C. Agricultural Fund DM 856 million, while in 1967 the comparable amount was only DM 197 million[1]). In future, too, the costs of financing agriculture will burden the German balance of payments with growing amounts. In addition to its payments to the Agricultural Fund the Federal Republic of Germany in 1968 transferred DM 122 million (1967: DM 54 million) to the E.E.C. Development Fund, whose resources are applied in the main to development projects in the African states associated to the European Economic Community. The other German contributions to the European communities (including Euratom) in 1968 amounted to DM 190 million, part of the total concerning grants towards administrative costs and the remaining part contributions to research projects. The overall funds placed at the disposal of the organisations of the European communities for a variety of reasons during 1968 totalled DM 1.1 billion net, this being about DM 700 million more than in 1967.

The two other items significant for the overall balance of transfer payments in 1968 – *viz.*, indemnification payments and home remittances of foreign workers – showed even larger deficits than the payments to the European communities; in comparison with the previous year, however, the overall deficit in these two items has declined slightly. First, as regards *indemnification*, the Federal Government and *Länder* together in 1968 provided DM 1.7 billion, or approximately as much as in 1967, for non-residents entitled to indemnification. *Home remittances of foreigners employed in the Federal Republic of Germany* at DM 2.0 billion in 1968 were not quite as large as in the previous year (nearly DM 2.2 billion). In the course of 1968 the number of foreign workers increased continuously, it is true, owing to the tightening of the domestic labour market; at 1,020,000 on the average for the year it reattained the previous year's level. While nevertheless in 1968 the overall amount transferred abroad was smaller than in 1967, this is due no doubt to the fact that in 1967 to a considerable extent not only current remittances were made but capital was withdrawn by the guest workers discharged for cyclical reasons and returning to their home countries. The other transfer payments, not discussed separately here, showed for 1968 – much as for the previous year – a deficit of approximately DM 2 billion, containing DM 900 million of private maintenance payments to foreign countries (including substantial payments of welfare organisations), DM 600 million of official pension payments, and fully DM 200 million of "technical aid" to developing countries.

(c) Long-term capital

Long-term capital exports and foreign trade

Overall long-term capital exports in 1968 reached DM 11.3 billion net (compared with only DM 3.2 billion in the previous year), thus being of almost the same magnitude as the surplus on current transactions with foreign countries (DM 11.5 billion). In statistical terms, therefore, the surplus on current transactions was offset by long-term capital exports. From the economic point of view of course it is necessary to make some qualifications. Thus, capital exports are likely themselves to contribute, at least in part, to the formation of trade surpluses. The connection is particularly close in the case of public authorities' financial assistance to developing countries, which at DM 1.3 billion represents a significant part of autonomous capital exports, although in the German case these credits are tied to own exports only to the extent of about 50 %, or much less than in other countries (the proportion in the United States, for example, having been about 90 % in 1967 according to data of the Development Assistance Committee). A relatively close connection also exists between direct investments abroad and the export of goods, since it may be assumed that a large part of the equipment required for plant abroad is supplied by Germany, quite apart from the fact that the expansion of the branch network in many cases precisely serves the promotion of exports and is thus designed to stimulate German exports.

On the other hand the connection appears to be less close between visible exports and such capital transactions as for their part arise only as a result of surpluses

1 These monies were not however transferred abroad in full, approximately DM 800 million being credited to the E.E.C. Agricultural Fund on a "deposit account" of the Federal Government. The rise in the balance of the E.E.C. Agricultural Fund on this account is entered in the balance of payments as short-term foreign lending to German public authorities, *i. e.* as a short-term official capital import.

A chronicle of developments in foreign trade and payments since sterling devaluation

Date	Event
18 Nov. 1967	Devaluation of £ sterling by 14.3 %
November 1967	Devaluation of currency of other countries, including – Denmark (21 Nov. 1967) by 7.9 % – Israel (19 Nov. 1967) by 14.3 % – New Zealand (20 Nov. 1967) by 19.5 % – Spain (20 Nov. 1967) by 14.3 %
1 Jan. 1968	Programme of U.S. Government to improve the American balance of payments. Improvement by U.S. $ 3 billion envisaged for 1968.
17 March 1968	Dissolution of gold pool and splitting of gold market. Washington decisions of central bank governors of the countries actively participating in the London gold pool: – Decision no longer to sell gold to the London gold market or any other gold markets, nor to buy gold from these markets; – no sale of gold to central banks to replace gold sold by them in private markets.
19 March 1968	Introduction of budget in the House of Commons providing for rise in tax burden by an estimated £ 775 million in the fiscal year 1968/69.
29/30 March 1968	Monetary conference of Group of Ten in Stockholm. Agreement (without France) on Special Drawing Rights (S.D.R) on I.M.F., the principles governing which had already been approved at the annual meeting of I.M.F. in Rio de Janeiro (Sep. 1967).
Beginning of May 1968	Outbreak of strike movements in France, leading to a serious national and economic crisis.
31 May 1968	Reintroduction of foreign exchange control in France; maintenance of present franc parity "at all events" (Banque de France).
June 1968	I.M.F. drawing by France in the equivalent of U.S. $ 745 million (incl. U.S. $ 204 million in DM) on 4 June and transfer of U.S. $ 140 million of G.A.B. credit to other central banks (German contribution: U.S. $ 80 million) on 17 June 1968.
19 June 1968	United Kingdom draws on I.M.F. equivalent of U.S. $ 1.4 billion, incl. U.S. $ 347 million in DM (use of standby credit promised in November 1967).
21 June 1968	U.S. Congress approves 10 % surcharge on income and corporation taxes from 1 April 1968 for individuals, from 1 January 1968 for corporations, to be applied until 30 June 1969; at the same time reduction of government spending by U.S. $ 6 billion.
26 June 1968	Introduction of temporary import quotas in France, with effect from 1 July 1968, to protect particularly exposed industries (motor cars, textiles, steel, household appliances); expansion of privileged rediscounting of export bills; temporary export promotion in the shape of 6 % premium on the total of wages contained in cost of export products.
1 July 1968	European customs union established in the industrial field; two-fifths of the worldwide tariff reductions agreed upon in the Kennedy Round of G.A.T.T. are put into practice.
10 July 1968	Banque de France concludes short-term credit agreements with a number of central banks (incl. Bundesbank) totalling U.S. $ 1.3 billion (contribution of Bundesbank: U.S. $ 300 million).
20 July 1968	E.E.C. Ministerial Council decides on "mutual assistance" as provided for in the E.E.C. Treaty (Art. 108, par. 2) in favour of France.
August 1968	Beginning of speculative flows into the Federal Republic of Germany.
End of August 1968	Reactivation of swap policy by Bundesbank.
4 Sep. 1968	Abolition of French foreign exchange control.
9 Sep. 1968	B.I.S., supported by the central banks of Austria, Belgium, Canada, Denmark, Germany, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland and the United States of America, accords medium-term accommodation of U.S. $ 2 billion to Bank of England to offset fluctuations in sterling balances of countries belonging to the sterling area (2nd Group Arrangement); German contribution: U.S. $ 400 million. The preceding Group Arrangement (of June 1966) will progressively terminate until 1971.
End of Sep./ beginning of Oct. 1968	Annual meeting of I.M.F. in Washington (election of Federal Minister of Economic Affairs, Schiller, to be chairman of Group of Ten).
Sep./Oct. 1968	Various comments from political and economic quarters against DM revaluation.
November 1968	Large inflow of speculative monies to Bundesbank. Increase in reserves by DM 9.2 billion between 1 and 23 November.
12 Nov. 1968	Credit squeeze and raising of Bank Rate in France.
19 Nov. 1968	The Federal Cabinet announces: (1) The Federal Government will not revalue the DM. (2) It will safeguard internal price stability by immediate fiscal measures in the field of imports and exports. (3) In doing so it is at the same time making an effective German contribution towards improving international balances of payments.
21 Nov. 1968	The Deutsche Bundesbank decides to fix at 100 %, with effect from 1 December 1968, the reserve ratios for the growth in reserve-carrying liabilities to non-residents over their level of 15 November 1968.
22 Nov. 1968	Administrative restriction of German banks' short-term transactions with foreigners pursuant to Art. 53 of the Foreign Trade and Payments Ordinance.
20 to 22 November 1968	Meeting of Ministers and Central Bank Governors of the countries of the Group of Ten at Bonn. – Ministers and Governors agree that the "German measures represent an important contribution towards stability of the monetary system and towards the process of adaptation". – Credit line opened by central banks in favour of France, amounting to U.S. $ 2 billion (incl.: U.S. $ 600 million by Deutsche Bundesbank). – Examining question of whether new agreements among central banks will contribute towards mitigating the effects of speculative movements on monetary reserves (re-cycling).
22 Nov. 1968	Chancellor of the Exchequer, Jenkins, in the House of Commons announces British measures (limitation of credit, raising of excise duties, interest-free import deposits), hire-purchase terms having been tightened already on 2 November.
23 Nov. 1968	The French President states: "The present parity of the French franc is being maintained."
25 Nov. 1968	Reintroduction of foreign exchange control in France.
26 Nov. 1968	Publication of French recovery measures: – Abolition of tax on total wages paid (from 1 Dec. 1968) and compensatory raising of value-added tax (from 1 Jan. 1969). – Reduction of deficit on the national budget by Ffrs 5 billion.
1 Dec. 1968	Coming into force of Law on Safeguards against External Influences (tax of normally 4 % levied on exports from 29 Nov., tax relief of normally 4 % on imports from 20 Nov., E.E.C. agricultural market-regulation produce being excluded in either case); exemption of export deliveries under old contracts until 23 Dec. 1968.
December 1968	Ebbing of speculative surge since Bonn conference: decrease in Bundesbank reserves by DM 1.9 billion between 24 and 30 November and by a further DM 3.5 billion in December 1968.
1 Jan. 1969	Removal of remaining import quotas in France according to schedule.
January 1969	Continual decline in Bundesbank's monetary reserves (January: – DM 5.1 billion).
1 Feb. 1969	Complete cancellation of export premium in France, which had been reduced to 3 % already from 1 Nov. 1968.
6 Feb. 1969	Central Bank Council revises decision of 21 November 1968 on 100 % reserve for growth in deposits.
10 Feb. 1969	Opinion of the Central Bank Governors of the Group of Ten and Switzerland regarding mitigation of effects of speculative movements on monetary reserves.
24 Feb. 1969	16th Ordinance to Amend Foreign Trade and Payments Ordinance. Removal of the administrative restriction, introduced by ordinance of 22 Nov. 1968, of German banks' short-term transactions with foreigners.

on the current account of the balance of payments (and in certain circumstances disappear with the surpluses), in that the domestic process of increasing liquidity and reduction of interest rates, induced by these surpluses, establishes an interest differential in relation to foreign countries which in turn stimulates the export of capital. In fact, the Bundesbank in 1968 deliberately tolerated the increase in domestic liquidity caused by the surpluses on current external transactions, thereby maintaining the domestic interest-rate level relatively low in spite of increasing demand for credit at home and in spite of growing capital exports. Such interest-induced capital exports, too, do not of course fail to affect visible exports because the export of capital enables the recipient countries either to purchase abroad, and hence also in Germany, more goods than would be possible without these inflows of funds, or to avoid any restriction of their imports which might otherwise be necessary. In principle, it is no doubt true that this "boomerang effect" of capital exports will be all the more pronounced the lower the prices are at which the capital-exporting country offers its goods and services, that is to say, the greater its competitiveness in the world market is. The "boomerang effect" of capital exports, also of those induced by interest-rate considerations, therefore tends gradually to even out the price differential between a surplus country and a deficit country — which initially causes (or assists in causing) a trade surplus — in that more goods are imported in the deficit country (which tends to have a stabilising effect there) whereas in the surplus country the export surplus is maintained for the time being (which tends to have an inflationary effect there).

In fact, during 1968 net *private* long-term capital exports, including the banks' transactions, at DM 10.0 billion were about six times as large as in 1967 (DM 1.7 billion). In addition to the aforementioned factors relating to interest-rate and liquidity policy, a part was played in this respect by important traditional capital-exporting countries increasingly impeding their capital transactions with foreign countries because of permanent balance-of-payments difficulties, so that the Federal Republic of Germany was one of the few major countries in which external capital transactions remained free. For this reason, too, international demand for long-term capital was in growing measure directed to the German capital market.

Large private German investments abroad

The increase in net private capital exports took place exclusively by a more rapid growth of *German capital investments abroad* (increase in 1968: DM 11.8 billion against DM 3.3 billion a year previously), primarily in the form of intensified purchases of foreign securities and increased lending to foreigners. Both these cases concern forms of investment which experience has shown to react quickly to changes in the interest-rate and liquidity differentials against foreign countries. German portfolio investments in foreign securities (*i. e.* all purchases of securities with the exception of purchases of foreign shares serving the acquisition of a permanent participation) by themselves amounted to approximately DM 5.6 billion in 1968; this was several times the corresponding amounts for 1967 (DM 1.4 billion) and 1966 (DM 0.8 billion). A particularly important factor here was that domestic investors on balance purchased foreign fixed-interest securities in the amount of DM 4.1 billion, including in particular DM loans of foreign issuers, of which altogether DM 5.7 billion was floated in 1968 (German banks' underwriting quota: quite DM 4.7 billion). Further particulars will be found in the following table.

Among the issuers of DM loans, foreign public authorities ranked foremost, accounting for DM 3.0 billion. DM 500 million of this total was in medium-term bonds of the U.S. Treasury, which some German banks acquired under the German-American agreement on foreign exchange offset for the American troops stationed in the Federal Republic of Germany. However, the floating of DM loans by American firms (and by American concerns' subsidiaries domiciled outside the United States) in an overall amount of DM 1,060 million also contributed towards easing the American balance of payments. International organisations issued DM loans in the amount of DM 870 million, the World Bank accounting for as much as DM 670 million of this total. In addition to the greatly increased purchases of foreign fixed-interest securities, a part in the increase of overall German portfolio investments was also played by the fact that residents in 1968 acquired unit certificates of foreign (especially American, Canadian and Belgian-Luxembourg) investment funds for more than DM 900 million, compared with DM 300 million in

Security transactions with foreign countries

Millions of DM

Item	1962	1963	1964	1965	1966	1967	1968
(1) Transactions in foreign securities (residents' net purchases: —)							
Fixed-interest-bearing securities	— 94	— 221	— 489	— 381	— 550	— 470	— 4,103
among which: DM loans issued by foreigners	(— 48)	(— 99)	(— 271)	(— 322)	(— 505)	(— 123)	(— 3,696)
Dividend-bearing paper	— 639	— 266	— 346	— 672	— 892	— 1,378	— 2,834
Portfolio investments in shares	— 63	+ 59	— 31	+ 3	— 117	— 627	— 576
Investment fund certificates	— 30	— 17	— 20	— 76	— 152	— 297	— 948
Direct investments in shares	— 546	— 308	— 295	— 599	— 623	— 454	— 1,310
Total	— 733	— 487	— 835	— 1,053	— 1,442	— 1,848	— 6,937
(2) Transactions in German securities (foreigners' net purchases: +)							
Fixed-interest-bearing securities	+ 722	+ 1,991	+ 5	+ 103	— 128	— 835	— 151
Government and municipal loan issues	+ 459	+ 1,339	— 121	+ 99	— 183	— 530	— 77
Other loans	+ 324	+ 698	+ 169	+ 30	+ 61	— 289	— 57
German external bonds	— 61	— 46	— 43	— 26	— 6	— 16	— 17
Dividend-bearing paper	+ 800	+ 910	+ 563	+ 768	+ 907	+ 750	+ 819
Portfolio investments in shares and investment fund certificates	+ 555	+ 602	+ 16	— 4	— 208	+ 216	+ 165
Direct investments in shares	+ 245	+ 308	+ 547	+ 772	+ 1,115	+ 534	+ 654
Total	+ 1,522	+ 2,901	+ 568	+ 871	+ 779	— 85	+ 668
(3) Balance of all transactions in foreign and German securities (net capital export: —)	+ 789	+ 2,414	— 267	— 182	— 663	— 1,933	— 6,269
of which: Portfolio investments	+ 1,090	+ 2,414	— 519	— 355	— 1,155	— 2,013	— 5,613
Direct investments in shares	— 301	+ 0	+ 252	+ 173	+ 492	+ 80	— 656

the preceding year. German portfolio purchases of foreign shares, on the other hand, at about DM 600 million remained approximately as large as in 1967.

The distinct interest differential against foreign countries (see the graph on page 71) would also seem to have been the principal reason causing the exceptionally vigorous growth in the granting of direct loans to non-residents. In 1968 German enterprises granted DM 0.5 billion, and German banks almost DM 4.0 billion, of long-term loans to foreigners, compared with a total of only DM 750 million in 1967. Including security transactions with foreign countries, about DM 5.9 billion or quite one-half of overall private long-term capital exports came from banks in 1968.

On acquisition of foreign enterprises by Germans and transfers of funds to German-owned foreign enterprises nearly DM 1.6 billion was spent in 1968 compared with DM 1.0 billion in 1967. The main reason for these capital exports not rising as markedly as portfolio investments and lending was that direct investments are effected to a much greater extent under long-term aspects and hence are less sensitive to short-term changes in interest and liquidity relations. It would moreover seem that the figures are too low inasmuch as data on reinvestment of profits abroad are lacking almost completely; nevertheless, for the first time in the postwar period statistically recorded German direct investments abroad exceeded the simultaneous new foreign direct investments in the Federal area (which enjoy a much higher degree of publicity).

Relatively small private capital imports

In 1968 – as in the previous year – *private foreign capital investments in the Federal Republic of Germany* rose by DM 1.8 billion (whereas both in 1965 and in 1966 they had grown by over DM 4 billion). In this context particular significance attached to foreign direct investments in Germany, although these too, at DM 1.5 billion, amounted to only half as much in 1968 as in 1967. This was due not least to the restriction of American external investments by the U.S. Government's balance-

Capital transactions by sectors

Capital exports: —; capital imports: +; millions of DM

Sector	1962	1963	1964	1965	1966	1967	1968	Change 1968 against 1967 1)
Credit institutions	— 588	+ 380	— 272	+ 208	— 230	— 5,930	— 2,093	+ 3,837
Long-term 2)	— 329	— 304	— 357	+ 686	+ 344	— 1,107	— 5,245	— 4,138
Short-term	— 259	+ 684	+ 85	— 478	— 574	— 4,823	+ 3,152	+ 7,975
Business enterprises 3)	+ 2,901	+ 2,846	+ 2,861	+ 5,223	+ 3,900	— 2,190	— 2,245	— 55
Long-term	+ 1,266	+ 3,297	+ 638	+ 1,562	+ 1,426	— 557	— 4,760	— 4,203
Short-term	+ 505	+ 39	+ 225	+ 831	+ 1,880	— 1,634	+ 482	+ 2,116
Residual item of the balance of payments	+ 1,130	— 490	+ 1,998	+ 2,830	+ 594	+ 1	+ 2,033	+ 2,032
Public authorities	— 1,126	— 1,624	— 2,779	— 461	— 3,116	— 1,320	— 54	+ 1,266
Long-term	— 1,290	— 1,447	— 1,315	— 1,291	— 4,181	— 1,513	— 1,343	+ 170
Short-term	+ 164	— 177	— 1,464	+ 830	+ 1,065	+ 193	+ 1,289	+ 1,096
Total	+ 1,187	+ 1,602	— 190	+ 4,970	+ 554	— 9,440	— 4,392	+ 5,048

1 Plus sign indicates more capital imports and/or less capital exports. — 2 Without long-term loans of the Reconstruction Loan Corporation, which are counted among official transactions. — 3 Including households.

of-payments programme. Foreign portfolio investments in Germany and lending to residents amounted to DM 0.4 billion.

Official capital exports

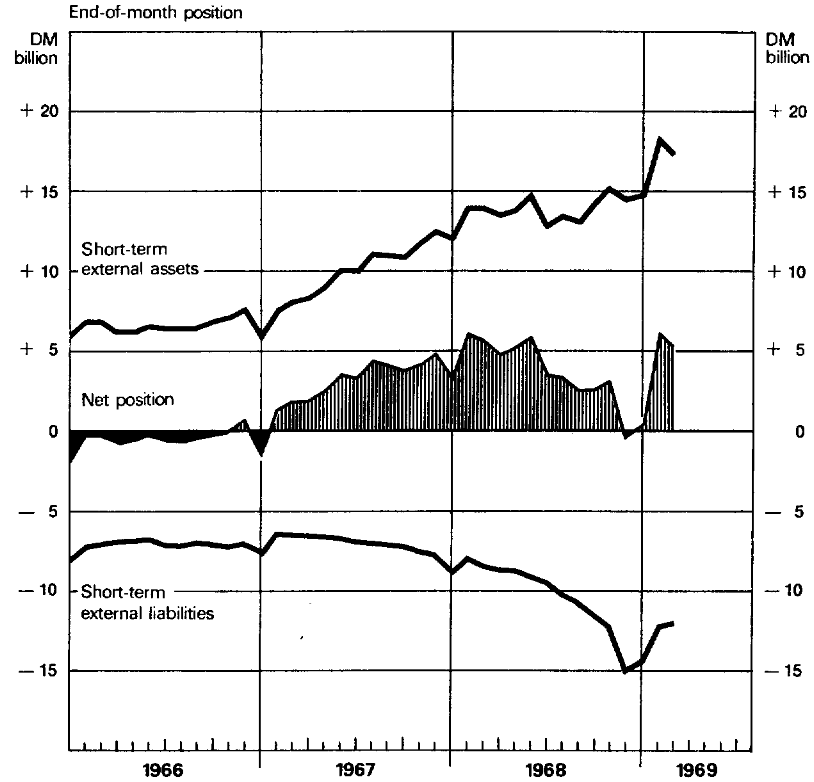
Official long-term capital transactions in 1968 caused a net capital export of DM 1.3 billion (1967: DM 1.5 billion); this largely concerned financial credits to developing countries channelled through the Reconstruction Loan Corporation. These payments however constitute only part of the total German development aid. If, in accordance with international usage, development aid payments contained in other items of the balance of payments (outlay on "technical aid" and certain private capital payments, especially long-term export credits and direct investments, but also purchases of securities issued by residents of developing countries) are included in the computation, according to provisional figures the overall development assistance of the Federal Republic of Germany in 1968 amounted to DM 6.6 billion, or 1.64 % of the national income and 1.25 % of the gross national product. In the previous year German development aid had run at DM 4.6 billion, equal to 1.27 % of the national income or 0.95 % of the gross national product. At that level the development aid granted by the Federal Republic of Germany (expressed as a percentage of the gross national product) was exceeded, at any rate in 1967, only by the Netherlands (1.01 %) and by France (1.24 %).

(d) Short-term capital

Substantial inflows in short-term capital transactions

Last year the movement in short-term capital was dominated by tendencies quite different from those affecting long-term capital transactions. Although here, too, in many cases the liquidity differential in relation to foreign countries was reflected in interest-rate differences in favour of foreign investments, these differences caused corresponding capital movements only at times, because not infrequently the fears of changes in parities raised the cost of forward exchange cover to German investors to such an extent that the existing interest-rate advantages were thereby consumed. Speculation on an upward revaluation of the Deutsche Mark and devaluation of other currencies, which gained ground especially as from September, also induced foreign investors and lenders to employ substantial funds in the Federal Republic of Germany at short term, although these funds bore little or no interest. Following the Bonn Conference of the Group of Ten and the fiscal and monetary measures adopted by the German, French and British Governments a reflux started, which however by the end of 1968 had not yet led to complete withdrawal of the foreign monies which had previously flowed in, so that the annual result of short-term capital transactions for 1968 is characterised in large degree by the speculative influx of money during the autumn. Altogether, therefore, in 1968 short-term capital transactions with foreign countries, including the residual item of the balance of payments, caused a net capital import of DM 7 billion. But even if the period from the beginning of February 1968 until end-January 1969 is taken as basis, so as to avoid the problematic key date of 31 December 1968, a net short-term capital import of DM 5 billion results which however

Foreign exchange position of German credit institutions



appears to have contained only a small amount of speculative money. In 1967, on the other hand, short-term funds had flowed into foreign countries to the extent of more than DM 6 billion.

Credit institutions

The speculative tendency mostly affected *credit institutions.* In 1968 the banking system on balance imported DM 3.2 billion of capital, whereas in 1967 German banks still had employed DM 4.8 billion (net) on foreign markets. From mid-1968 to the end of the year, their overall short-term liabilities to foreigners mounted by DM 5.3 billion against a mere DM 0.6 billion in the first half of the year. The banks' short-term capital exports on the other hand, which the Bundesbank assisted by offering facilities for forward exchange cover especially in the autumn of 1968, did not play so great a part (DM 2.8 billion)[1]). They were largely replaced during the year under review by long-term capital exports of banks.

Business enterprises

In the short-term capital transactions of *business enterprises* the speculative tendencies operating last year also made themselves felt, although their effect was far less pronounced than in the case of credit institutions. In 1968 statistically recorded short-term borrowing abroad on the part of German enterprises amounted to not quite DM 0.5 billion net, compared with DM 1.6 billion of net repayments of credit in the previous year. It was especially DM loans from foreign non-banks that were taken – which suggests that the desire of foreign partners to acquire DM assets was at least one determining factor. Further substantial amounts no doubt flowed to enterprises through credit transactions in connection with goods traffic *(i. e.* through shifts in the terms of payment). This is clearly indicated by the marked plus movement in the residual item of the balance of payments, which in

1 The data on the credit institutions' foreign exchange position were revised as at the end of the year. For one thing, in connection with the rearrangement of the credit institutions' balance-sheet scheme as at 31 December 1968 the definition of some items in the reports on the credit institutions' external position changed slightly. For another, the banks' holdings of foreign notes and coin as well as the discount credits granted to non-residents were included in the data on the foreign exchange position. To that extent the figures now published differ from the data previously shown.

Gold holdings and external assets of the Deutsche Bundesbank *)

Millions of DM

Item	Change 1963	1964	1965	1966	1967	1968	Position on 31 Dec. 1968
(1) Gold	+ 658	+ 1,618	+ 647	— 472	— 257	+ 1,246	18,156
(2) Freely usable or easily mobilisable external assets, total	+ 1,965	— 1,428	— 2,445	+ 2,147	— 148	+ 2,792	13,957
U.S. dollars	+ 883	— 3,956	— 2,545	+ 3,141	+ 202	+ 50	8,561
Other freely convertible currencies	— 18	+ 208	— 270	+ 6	+ 370	+ 1,530	2,114
Short-term DM notes of U.S. Treasury	+ 1,100	+ 1,600	— 300	— 1,000	—	— 200	1,200
Credits granted under General Arrangements to Borrow	—	+ 720	+ 670	—	— 720	+ 1,412	2,082
(3) External assets of limited usability, total	— 168	— 158	+ 455	— 554	+ 911	+ 2,808	5,593
Medium-term DM notes of U.S. and U.K. Treasuries	—	—	—	—	+ 1,000	+ 2,700	3,700
Bonds of World Bank	—	—	+ 102	—	—	+ 196	1,650
Other assets	— 168	— 158	+ 353	— 554	— 89	— 88	243
(4) External liabilities (decrease: +)	+ 117	— 20	— 162	— 91	— 92	+ 267	337
Total	+ 2,572	+ 12	— 1,505	+ 1,030	+ 414	+ 7,113	37,369

* For further details and for explanations see Table 18 in the Statistical Supplements to the Monthly Reports of the Deutsche Bundesbank, Series 3 "Balance-of-payments statistics".

1968 was in surplus to the extent of DM 2 billion whereas a year before it was in equilibrium.

Public authorities

In contrast with the short-term capital transactions of credit institutions and business enterprises, the short-term capital movements of *public authorities* appear to have been influenced by speculative considerations only in small degree, if at all. The fact that nevertheless in this field as well net capital imports rose from DM 200 million in 1967 to DM 1.3 billion in 1968 is due in the first place to certain particularities in the accounting of short-term capital transactions of public authorities. As already mentioned on page 90, the Federal Government in 1968 made available substantial monies to the E.E.C. Agricultural Fund, which however were not transferred abroad by the latter but left on a "deposit account" in the Federal Republic of Germany. Like foreign deposits with German banks, "depositing" of these funds (roughly DM 800 million) materially represents short-term lending by foreigners. In addition, sales of German public issuers' money-market paper to foreign monetary authorities and international organisations (especially the World Bank) caused inflows of DM 0.5 billion. Information on the movement in short and long-term capital by sectors is presented in the preceding table.

(e) Gold and exchange movement

Vigorous growth in gold holdings and in external assets of Bundesbank contrasts with extensive credit assistance to foreign countries

The Bundesbank's overall holding of gold and external assets, whose change is shown in the balance of payments as "net gold and exchange movement", increased during 1968 by DM 7.1 billion (compared with DM 400 million in 1967). Part of the increase occurred in gold holdings. While in the first few months of 1968 the gold reserves had still declined through sales to the gold pool owing to the gold crisis, in the further course of the year they rose to such an extent as to cause the increase for the whole year to amount to quite DM 1.2 billion. The inflows of gold were due, firstly, to the fact that for the purpose of financing the British and French drawings in June last year the International Monetary Fund also sold gold to the Bundesbank; secondly, they resulted from gold sales of the Banque de France designed to finance the French balance-of-payments deficits. Whereas there was hardly any increase in the Bank's liquid Dollar assets (+ DM 50 million), the holdings of other freely convertible currencies rose by DM 1.5 billion. For much the greater part this was a matter of amounts credited in French Francs and Pounds Sterling which the Bundesbank received as countervalue (with exchange rate guarantee) for placing Deutsche Mark at the disposal of the French and British central banks in swap transactions. Furthermore, the Bundesbank granted to the International Monetary Fund credits totalling DM 1.4 billion for the purpose of refinancing British and French drawings on the Fund under the "General Arrangements to Borrow". Finally, the external assets usable as a monetary reserve only subject to qualification also increased by DM 2.8 billion, especially through acquisition of medium-term DM notes of the U.S. and U.K. Treasuries. These bonds were purchased under the agreements serving to offset the foreign exchange burden on the American and British balances of payments arising from the stationing of troops in the Federal Republic of Germany.

Altogether the Bundesbank in 1968 thus applied the surpluses accruing from external payment transactions not so much towards increasing its liquid reserves as towards granting credit assistance to the United Kingdom and France under the international supporting operations and towards purchasing 4 1/2-year bonds of the U.S. Treasury. It moreover endeavoured, by offering forward exchange cover at favourable rates, to redirect to foreign money markets the monies which had flowed to German banks especially in the months September to November.

At the end of 1968 the Bundesbank's overall holding of gold and external assets amounted to DM 37.4 billion (net), gold accounting for DM 18.2 billion and Dollar claims for DM 8.6 billion (equivalent). Among the other external assets, greatest significance attached to the holdings of short and medium-term DM bonds of the U.S. Treasury (DM 4.7 billion), as well as to the claims in other freely convertible currencies and to those resulting from the granting of credits under the General Arrangements to Borrow (DM 2.1 billion each). In January and February 1969 as a whole, the reserves declined by DM 5.6 billion to DM 31.7 billion; at that level they were no longer higher than in the spring of 1968.

The Deutsche Bundesbank's cooperation in bank supervision

The regulation of the Federal Minister of Justice on forms for the breakdown of the annual statements of credit institutions dated 20 December 1967 (Federal Law Gazette I, p. 1300) necessitated a number of important changes in the regulations of the Federal Banking Supervisory Office:

Rules for the preparation of annual accounts of credit institutions

After close consultation with the Bundesbank, the Federal Supervisory Office issued its

> Notice No. 1/68 of 22 July 1968 concerning rules for the preparation of annual accounts of the credit institutions and the form for the appendix to the annual balance sheet of the credit institutions operating as registered cooperative society, except for central institutions of credit cooperatives (Appendix to Federal Advertiser No. 161 of 29 August 1968),

for the credit institutions operating as joint-stock companies, partnerships limited by shares, private limited companies, registered cooperative societies, sole proprietorships, general partnerships and limited partnerships, which are covered by the aforementioned regulation.

Forms and rules for the preparation of annual accounts of mortgage banks and ship mortgage banks

The breakdown of the annual balance sheet and the profit and loss account of mortgage banks and ship mortgage banks was regulated by the Federal Minister of Justice by means of his

> Regulation on forms for the breakdown of the annual accounts of mortgage banks and ship mortgage banks of 17 December 1968 (Federal Law Gazette I, p. 1337).

The Federal Banking Supervisory Office, in cooperation with the Deutsche Bundesbank, has elaborated rules for the preparation of the annual accounts of these two categories of institutions and published them as

> Notice No. 2/69 concerning rules for the preparation of the annual balance sheet and the profit and loss account of mortgage and ship mortgage banks, of 28 Februar 1969 (Federal Advertiser No. 51 of 14 March 1969).

Forms and rules for the preparation of annual accounts of savings banks

In the fourth quarter of 1968 the central savings banks authorities of the *Länder* issued regulations, with largely identical contents, on the forms for the breakdown of the annual accounts, and rules for the preparation of the annual balance sheet and the profit and loss account as well as the appendix to the annual balance sheet of savings banks. Together with the Deutsche Bundesbank the Federal Banking Supervisory Office cooperated in an advisory capacity in formulating these regulations.

Rules for the contents of audit reports on annual accounts of credit institutions

There is a close connection between the revised breakdown of the annual account of credit institutions and

> Notice No. 2/68 concerning rules for the contents of audit reports on the annual accounts of credit institutions (audit rules) of 20 December 1968 (Federal Advertiser No. 3 of 7 January 1969)

issued by the Federal Banking Supervisory Office.

At the same time, by its

Supplement to the declaration of completeness

> Notice No. 3/68 concerning the supplement to the declaration of completeness (declaration that all records and vouchers had been made accessible to the auditor) of 20 December 1968 (Federal Advertiser No. 3 of 7 January 1969)

for credit institutions operating as sole proprietorships, general partnerships, limited partnerships and partnerships limited by shares the Federal Supervisory Office has ordered that a declaration supplementing the customary declaration of completeness be made to the auditor commissioned to audit the annual accounts.

This additional declaration has to be filed, together with the annual accounts, with the Federal Banking Supervisory Office and, according to Article 26 of the Banking Law, also with the Deutsche Bundesbank.

The new regulations for the breakdown of the balance sheet of credit institutions necessitated also a change in the monthly balance-sheet statistics of the Deutsche Bundesbank as from 31 December 1968 (Notice No. 8005/68 of the Deutsche Bundesbank of 6 December 1968). This made it not only possible but also necessary to adapt the principles concerning capital resources and liquidity of credit institutions to the new breakdown regulations. In agreement with the Deutsche Bundesbank and after having heard the central associations of credit institutions the Federal Banking Supervisory Office, by its

Principles concerning capital resources and liquidity of credit institutions

> Notice No. 1/69 regarding principles concerning capital resources and liquidity of credit institutions, of 20 January 1969 (Federal Advertiser No. 17 of 25 January 1969),

rescinded its previous notices concerning the principles in accordance with Articles 10 and 11 of the Banking Law and established new principles to be applied as from January 1969. Detailed information will be found in the Monthly Report of the Deutsche Bundesbank of March 1969.

The new principles read as follows:

Notice No. 1/69
regarding principles concerning the capital resources and liquidity of credit institutions

dated 20 January 1969

(1) The Federal Banking Supervisory Office, pursuant to Article 10, par. 1, sentence 3 and Article 11, sentence 3 of the Banking Law of 10 July 1961 (Federal Law Gazette I, p. 881) hereby announces the principles, established in agreement with the Deutsche Bundesbank and after the central associations representing the credit institutions have been heard, according to which it will decide in normal cases whether the capital resources of a credit institution are adequate and whether the liquidity of a credit institution is sufficient (Article 10, par. 1 and Article 11, Banking Law).

(2) Whenever a credit institution more than negligibly exceeds the upper limits laid down in the principles, or whenever it exceeds them repeatedly, grounds shall as a rule exist for presuming that the said credit institution does not possess the necessary capital resources (Principle I) or that its liquidity is inadequate (Principles II and III). When assessing the adequacy of a credit institution's capital resources and liquidity it shall be permissible to take into account special circumstances which might justify lower or higher requirements, as the case may be.

(3) Mortgage banks established under public law, instalment credit institutions, and credit institutions exclusively transacting banking business within the meaning of Article 1, par. 1, sentence 2, items 7 and 8 of the Banking Law are subject to Principle I only.

(4) The principles shall not apply to mortgage banks failing to make use of the right to conduct extended business in accordance with Article 46, par. 1 of the Mortgage Bank Law, to ship mortgage banks, central security depositories, and to investment companies.

(5) The principles as revised on 20 January 1969 shall be applied for the first time in regard to the month of January 1969. Notice No. 1/62 of the Federal Banking Supervisory Office of 8 March 1962 (Federal Advertiser No. 53 of 16 March 1962) as amended by Notice No. 1/64 of 25 August 1964 (Federal Advertiser No. 161 of 1 September 1964) is hereby rescinded.

Principle I

(1) A credit institution's lending and participations less value adjustments and less transitory items on the liabilities side from assigning to the proper business years the fees concerning instalment financing transactions shall not be more than 18 times the liable funds. Lending shall be deemed to include:

1. Bills of exchange held and bills of exchange from own holdings dispatched for collection prior to maturity,

2. Claims on credit institutions and on clients (including trade receivables in the case of credit institutions trading in commodities),

3. Contingent claims arising from

   (a) outstanding own drawings discounted and credited to borrowers,

   (b) endorsement liabilities under bills of exchange passed on,

   (c) guarantees, bill of exchange and cheque guarantees and guarantee agreements.

(2) Of the credits listed in par. 1, sentence 2 the following credits shall be counted at the rate of 50 % only:

1. Long-term credits serving as cover for bonds or granted against mortgages in the mortgage business within the meaning of Article 20, par. 2, items 1 and 4 of the Banking Law or against ship mortgages of a similar nature.

2. Claims on clients in accordance with par. 1, sentence 2, item 2 as far as they are guaranteed by domestic legal entities existing under public law or are secured by them in some other manner,

3. Contingent claims on clients in accordance with par. 1, sentence 2, item 3 (c),

4. Credits to foreign credit institutions in accordance with par. 1, sentence 2.

(3) Credits to domestic credit institutions under par. 1, sentence 2 (including domestic branches of foreign enterprises within the meaning of Article 53 of the Banking Law and of such credit institutions as are domestic legal entities existing under public law) shall be included at the rate of 20 %.

(4) Credits to domestic legal entities existing under public law (excluding credit institutions) and to a Special Fund of the Federal Government shall be left out of account when calculating the credit volume.

Principle II

A credit institution's investments less value adjustments in

1. Claims on credit institutions and clients with an agreed maturity or period of notice of four years or over,

2. Securities not listed at a stock exchange,

3. Participations,

4. Shares in a controlling company or a company holding a majority interest,

5. Land and buildings, and

6. Furniture and equipment

shall not exceed the total of the long-term financial resources listed below.

Long-term financial resources shall be deemed to include:

1. Capital resources,

2. Liabilities (excluding savings deposits) towards credit institutions and those towards other creditors arising from banking business with agreed maturities or periods of notice of four years or over,

3. 10 % of liabilities (excluding savings deposits) from banking business towards other creditors payable on demand or with an agreed maturity or period of notice of less than four years,

4. 60 % of savings deposits,

5. Bonds outstanding or sold in advance with maturities of more than four years,

6. 60 % of bonds outstanding or sold in advance with maturities of up to four years,

7. 60 % of provisions for pensions,

8. 20 % of liabilities towards associated credit institutions with agreed maturities or periods of notice of not less than six months but less than four years (to apply only to central giro institutions and the central institutions of credit cooperatives).

Principle III

1. Claims on clients with agreed maturities or periods of notice of less than four years (including trade receivables of credit institutions trading in commodities),

2. Own drawings, and promissory notes issued by the borrowers, discounted and credited to them, held by the banks (excluding promissory notes of the Bank for International Settlements and the Import and Storage Agencies and promissory notes issued for availment of credits of the Export Credit Company and the Industrial Plant Finance Company) and contingent claims arising from such notes in circulation,

3. Shares listed at stock exchanges and investment fund certificates,

4. "Other assets" (including inventories of credit institutions trading in commodities)

shall not, value adjustments having been deducted, exceed the total of the following financial resources.

Financial resources shall be deemed to include:

1. 35 % of liabilities towards credit institutions payable on demand and with agreed maturities or periods of notice of less than four years, excluding credits availed of by clients with third parties,

2. 80 % of liabilities towards credit institutions arising from credits availed of by clients with third parties,

3. 20 % of savings deposits,

4. 60 % of other liabilities arising from banking business towards other creditors payable on demand and with agreed maturities or periods of notice of less than four years,

5. 80 % of liabilities arising from commodity transactions and commodity credits taken, excluding the liabilities of credit institutions trading in commodities contained in item 7,

6. 20 % of bonds outstanding or sold in advance with maturities of up to four years,

7. 80 % of own acceptances and promissory notes outstanding and of own drawings discounted and credited to the borrowers, and outstanding promissory notes issued by them and discounted (excluding promissory notes of the Bank for International Settlements and the Import and Storage Agencies and promissory notes issued for availment of credits of the Export Credit Company and the Industrial Plant Finance Company)

plus the financial surplus or less the financial deficit, as the case may be, in accordance with Principle II.

Berlin, 20 January 1969

The Federal Banking
Supervisory Office

Kalkstein

Regulation to amend the first exemption regulation

The order, published in Notice No. 8005/68 of the Deutsche Bundesbank, in accordance with Article 18 of the Law concerning the Deutsche Bundesbank regarding the filing of monthly balance-sheet statistics exempts from filing such returns with effect from 31 December 1968 credit cooperatives (Raiffeisen) whose balance-sheet total amounted to less than DM 5 million on 31 December 1967. Regarding the requirement to file monthly returns under Article 25, par. 1 of the Banking Law the Federal Supervisory Office, by means of its

> regulation to amend the first exemption regulation, of 11 December 1968 (Federal Law Gazette I, p. 1325),

adopted, for the time being, this arrangement governing the filing of monthly balance-sheet statistics as from 1 January 1969.

Investigation of shifts in competitive positions of credit institutions and of ways of securing deposits

As a result of the resolution of the German Bundestag of 16 March 1961 the Federal Chancellor submitted under date of 18 November 1968 to the President of the Bundestag the report on the investigation of shifts in competitive positions of credit institutions and of ways to secure deposits. The investigations were made under the leadership of the Federal Minister of Economics in cooperation with the other Federal departments concerned and with support from the Federal Banking Supervisory Office and the Deutsche Bundesbank. The questions concerning taxation of credit institutions, making the discussion of competitive positions particularly difficult, were rendered less explosive by the second law to amend tax legislation of 1967 dated 21 December 1967 (Federal Law Gazette I, p. 1254). As regards providing security for deposits, a question on which the Federal Government already presented its views in general outline in the above-mentioned report, work will be continued with the central associations of the credit institutions concerned, the Federal Banking Supervisory Office, and the Deutsche Bundesbank cooperating.

Cooperation in regular bank supervision

In the course of the regular supervision of credit institutions the Land Central Banks, enlisting the services of the branches of the Deutsche Bundesbank, processed about 31,000 (32,000 last year) individual reports on large-scale credits under Article 13, par. 1, sentences 1 and 2 of the Banking Law and summaries under Article 13, par. 1, sentence 4 of the Banking Law, containing about 34,000 (41,000 last year) large-scale credits. The decline in individual reports under Article 13, par. 1, sentences 1 and 2 of the Banking Law in 1968 as against the corresponding figures in 1967 is due to statistical reasons. No drop in the granting of new large-scale credits by the credit institutions as against the preceding year can be deduced from the reduction of the number of statistically recorded individual reports on large-scale credits. The number of large-scale credits included in the summaries under Article 13, par. 1, sentence 4 of the Banking Law largely depends on the cycle of the filing of summaries by the credit cooperatives. For 1968 no key dates had been fixed by the Federal Banking Supervisory Office for the filing of summaries by the group of credit cooperatives (Raiffeisen) – comprising a great number of institutions – with balance-sheet totals of up to DM 10 million.

The number of monthly returns under Article 25 of the Banking Law processed in 1968, at about 49,000, was higher than a year before (47,000). This rise despite a decreasing number of institutions liable to file returns for the monthly balance-sheet statistics is attributable to the fact that the Federal Banking Supervisory Office increasingly tends to ask in special cases for monthly returns under Article 25 of the Banking Law to be submitted by institutions not required to report for the monthly balance-sheet statistics.

A considerable decline – from 11,750 in 1967 to 10,000 – occurred in the number of processed annual accounts. This substantial decrease, too, is partly to be ascribed to statistically caused chance events, *i.e.* the differing numbers of reports not yet processed at the end-of-year dates. To quite some extent, however, it results from the concentration process in banking, especially of rural credit cooperatives, that has been noticeable for several years.

Furthermore, the Land Central Banks handled 5,000 (4,400 in 1967) reports of the credit institutions under Article 24 of the Banking Law announcing changes in management and legal form, participations in other credit institutions, establishment of branches, *etc.*

For years there has been a continuous rise in the number of reports under Article 14, par. 1 of the Banking Law. In 1968 the information centre for credits of DM 1 million or over at the Directorate received 271,000 (251,000 in 1967) such reports. On the average of the six processing periods in the year under report 913 credit institutions and 374 insurance institutions (including social insurance institutions) filed reports under Article 14 of the Banking Law. An average of 3,900 borrowers (3,700 in 1967) – on the definition of "borrower" laid down in Article 19 (2) of the Banking Law – was found to have raised credits under Article 14 of the Banking Law from several lenders, and about 8,000 borrowers were indebted for DM 1 million or over to only one lender. The lending credit institutions, insurance companies, social insurance institutions and the Federal Administration for Labour Exchanges and Unemployment Insurance were notified by the Deutsche Bundesbank of the magnitude of their borrowers' indebtedness and the number of lenders.

The Deutsche Bundesbank's Credit and Foreign Exchange Policy Regulations at present in force

I. Credit Policy Regulations

1. Credit instruments eligible at the Bundesbank

Discount business

General

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

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

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

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

Instalment sale financing bills

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

Building bills and building-material bills

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

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

Bank acceptances

Bank acceptances are purchased only if they serve to finance at short term specific individual transactions (decisions of 10 May 1949 and 3 March 1966). The Land Central Banks may in cases where they deem it appropriate waive the declaration as to the underlying transaction, which indicates the business financed by the bank acceptance (decision of 14 April 1954).

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

Prime bankers' acceptances

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 must not exceed 90 days, 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 109 "Money-market operations").

Bills drawn on debtors

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).

Promissory notes of the Import and Storage Agencies

By virtue of special decisions of the Central Bank Council promissory notes of the Import and Storage Agencies (Storage Agency bills) are declared purchasable, up to certain maximum amounts newly fixed from time to time, and are included in the regulation of the money market (latest decision of 21 November 1968; cf. page 109 "Money-market operations").

Bills for financing export orders

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

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

Bills for financing interzonal trade transactions

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

Foreign currency bills

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

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

Advances on securities (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 Art. 19, par. 1, item 3 of the Bundesbank Law. Detailed information regarding the assets eligible as security for advances, and the lending limits applicable thereto, is given in the "List of securities eligible at the Deutsche Bundesbank as security for advances" which is published in the Federal Advertiser and in the Bank's Notices.

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

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

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

In other respects the "Deutsche Bundesbank's general business conditions" (VI. Advances) apply to the granting of advances on securities.

Notwithstanding the limitations under Art. 19, par. 1, item 3 of the Bundesbank Law, the Bundesbank may grant loans to credit institutions, insurance companies and building and loan associations against the pledging of equalisation claims within the meaning of Art. 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 (Art. 24, par. 1 of the Bundesbank Law).

2. Rediscount quotas for credit institutions

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

As from 1 April 1969 standard quotas are reduced by 20 % – for private bankers by 10 %. The ensuing curtailment of the rediscount quotas laid down will become effective from the beginning of July 1969 (decision of 20 March 1969).

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 (Art. 7, par. 1, item 2 of the Bundesbank Law) are laid down by the Directorate of the Deutsche Bundesbank (decisions of 27/28 March 1958 and 1 June 1967):

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

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

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

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

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

3. Money-market operations

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

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

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

4. Provisions as to minimum reserves

With effect from 1 January 1969 the Deutsche Bundesbank's Order on Minimum Reserves (MRO) has been revised (Notice No. 5008/68). The revision had become necessary mainly in view of the new directives applying to credit institutions' annual statements and monthly balance-sheet statistics. Specifically, the following minimum-reserve provisions have been modified.

According to the previous regulation liabilities on borrowed funds (monies and loans taken) were subject to the reserve requirement only if they were running for less than four years, while there was no such limitation for liabilities on deposits. As pursuant to the revision of the regulations governing returns deposits and borrowed funds are no longer shown separately since the end of 1968, it was not possible to continue treating these two categories of liabilities differently as regards minimum reserves. In Art. 2, par. 1 MRO the obligation to maintain reserves was, therefore, uniformly confined to liabilities on deposits and funds borrowed with periods of less than four years. The decrease in the required reserve due to the exemption of long-term deposits, principally savings deposits entitling to premiums, was offset by the raising of ratios for savings deposits.

Newly introduced was the exemption from the reserve obligation of certain liabilities resulting from interest-rate arbitrage dealings (Art. 2, par. 4 item 1 MRO). This kind of borrowing does not affect domestic circulation of money or domestic lending, since the equivalent remains abroad. In the past the reserve obligation for such liabilities had prevented German credit institutions from participating in international money dealings.

Impediments were brought about by the introduction of the reserve obligation for transactions under repurchase agreements running for less than four years, which have to be reported as from the end of 1968 (Art. 2, par. 2 (c) MRO), and by the revision of the provisions regarding compensation in Art. 2, par. 3 MRO, which were likewise adapted to the stipulations governing annual balance-sheets and monthly balance-sheet statistics.

The other alterations are of minor importance. They concern either adjustment of the MRO wording to the new terminology of the balance-sheet forms and the returns for the monthly balance-sheet statistics or the technicalities of keeping minimum reserves. The new version of the MRO is reproduced below.

By redefining, with effect from 1 July 1968, the reserve classes, which had remained unchanged since August 1959, the Central Bank Council paid due regard to the increase in credit institutions' reserve-carrying liabilities. The changes in reserve classes will be seen in the table on page 117 of this Report.

In order to ward off speculative inflows of money from abroad and to immobilise such money within the country, the Central Bank Council on 21 November 1968, by way of supplementing the Federal Government's measures in the field of foreign-exchange policy, fixed the reserve ratio for the growth in external liabilities over their level of 15 November 1968, with effect from 1 December 1968, uniformly at 100 % in respect of sight liabilities, time liabilities and savings deposits. This 100 % ratio applies however only with the qualification that in its average reserve holding for the different categories of reserve-carrying liabilities no credit institution need exceed the legally permissible maximum ratios (sight liabilities 30 %, time liabilities 20 %, savings deposits 10 %). The decision of 21 November 1968 was modified on 6 February 1969 to the effect that, as from 1 February 1969, credit institutions are allowed to calculate the growth in reserve-carrying external liabilities either according to the level of such liabilities on 15 November 1968 or according to that on 15 January 1969; furthermore, they may add up the different categories of liabilities in ascertaining the growth.

In order to offset the minimum reserves released with effect from 1 January 1969 by exempting long-term savings deposits, the Central Bank Council as from the same day correspondingly raised the minimum reserve ratios for savings deposits. The rise amounted to 10 % of the ratios applying in December 1968; the reserve ratio for savings deposits with credit institutions in reserve class 4 at bank places was exempted from this rise lest it should exceed the reserve ratio for such institutions' time liabilities.

The Deutsche Bundesbank's Order on Minimum Reserves of 11 November 1968

In pursuance of Arts. 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):

Article 1

I. General provisions

(1) Credit institutions within the meaning of this Order comprise all enterprises (also branches of foreign banks) conducting bank business within the meaning of Art. 1, par. 1 of the Banking Law of 10 July 1961 (Federal Law Gazette I, p. 881) within the scope there indicated.

(2) Not subject to the reserve obligation are

(a) the enterprises mentioned in Art. 2, par. 1, items 4 to 9 of the Banking Law, except those quoted in Art. 2, par. 1, item 8 of the Banking Law which mainly conduct banking business;

(b) the investment companies (Law dated 16 April 1957);

(c) the security-clearing institutions *(Kassenvereine);*

(d) credit institutions which are in liquidation, other credit institutions whose activity is confined to winding up, and dormant credit institutions;

(e) for one calendar year on each occasion those credit institutions which practise long-term lending as a permanent branch of business, and with which, according to the returns for the monthly balance-sheet statistics, the owned resources and the funds placed at their disposal for long periods, including the long-term loans on a trust basis as well as the liabilities on bonds, at the twelve end-of-month dates from 31 October of the penultimate year to 30 September of the past year averaged at least 90 per cent of the volume of business reduced by the value adjustments[1]);

(f) enterprises in the case of which the Federal Banking Supervisory Office has determined, in accordance with Art. 2, par. 4 of the Banking Law, that the provisions of the Banking Law mentioned in the said paragraph shall not apply.

Article 2

(1) Minimum reserves have to be maintained in respect of all liabilities with maturities of less than four years to

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.

(a) non-banks,

(b) credit institutions not subject to the reserve requirement,

(c) banks in foreign countries

arising from deposits and borrowed funds (reserve-carrying liabilities).

(2) Reserve-carrying liabilities pursuant to par. 1 also comprise

(a) a net liability on intercompany account of a credit institution within the meaning of Art. 53 Banking Law,

(b) liabilities on registered bonds or on order instruments not forming constituent parts of an issue,

(c) liabilities on transactions under repurchase agreement under which the creditor is obliged to return the asset transferred to him, while such asset continues to be counted among the borrowing institution's assets.

(3) For the purpose of ascertaining the reserve-carrying liabilities, liabilities to an account holder payable on demand and not subject to any restriction may be reduced by the offsetting of

(a) claims payable on demand,

(b) claims on special loan accounts (so-called "English accounting method")

on that account holder. This does not apply to liabilities and claims in different currencies.

(4) Exempt from the reserve requirement are liabilities

(a) to the Bundesbank;

(b) in respect of earmarked monies, so far as the said monies have already been passed on to the recipients or to an intermediary credit institution. Earmarked monies within the meaning of this provision are monies which according to directions laid down from the outset by the lender, in regard to the terms of lending in particular, are to be lent to borrowers designated by name by the lender or – where it is a case of a public or publicly assisted lending scheme – to borrowers who fulfil the requirements for taking part in the said lending scheme; the agreed maturity or period of notice of the earmarked monies as well as of the credits granted or to be granted out of this source must be not less than one year, unless a public or publicly assisted lending scheme is concerned;

(c) of private or public mortgage banks or ship mortgage banks in respect of monies which have been taken as global loans but have not yet been passed on to the borrowers, and for the purpose of securing which there has been transferred to the lender a registered mortgage bond that is covered not by mortgages but by substitute cover through use of the loan monies received;

(d) in respect of balances for covering letters of credit, and of other covering balances, in so far as the credit institution for its part maintains a corresponding covering balance at a bank within the country or abroad;

(e) of a credit institution in the legal form of a general partnership (OHG), limited partnership (KG), or company limited by shares (KGaA), to personally liable partners, provided the liabilities represent balances on accounts which are exclusively credited with dividends;

(f) in respect of customers' drawings on credits opened with third parties;

(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 Art. 4 of the Law on Currency Conversion Compensation for Expelled Persons' Savings Balances, in so far as such balances have not yet been released (Art. 11, par. 3 of the Law);

(i) in respect of savings deposits to the extent of the covering claims held under Art. 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 Art. 252, par. 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;

(l) to non-residents if there is evidence that the equivalent was passed on in the same amount and for the same period to non-residents without delay and undivided (interest-rate arbitrage dealings).

(5) Branches of foreign banks (Art. 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 par. 4, 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 Art. 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 Arts. 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, as well as any place, or locality therein, which by notice of the Deutsche Bundesbank is to be classed with a neighbouring bank place. 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" for the purpose of applying the minimum reserve provisions.

II. Reserve obligation

Article 5

(1) Credit institutions subject to the reserve requirement (Art. 1) are required to maintain minimum reserves with the Bundesbank as credit balances on giro account.

(2) Agricultural credit cooperatives which are affiliated to a central institution and maintain no giro account with the Bundesbank have to keep the minimum reserves as balances payable on demand on a special account with their central institution; to the extent of the balances on such accounts the central institution has to maintain credit balances with the Bundesbank.

Article 6

The duty to maintain minimum reserves is fulfilled if a credit institution's actual reserve (Art. 9) comes up to the required reserve (Art. 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 Art. 8, of the credit institution's liabilities subject to the reserve requirement (Art. 2).

(2) The required reserve of a central institution of agricultural credit cooperatives means the required reserve found according to par. 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 (Art. 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 (Art. 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 Art. 8, par. 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 Art. 5, par. 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 Art. 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.

Article 10

IV. Special interest

(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 Art. 5, par. 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.

Article 11

V. Reserve statement

(1) Not later than the fifth business day in each month every credit institution subject to the reserve requirement has 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 (Art. 8) this statement shall show – on a schedule in the case of liabilities the monthly average of which is calculated in accordance with Art. 8, par. 1 – the liabilities subject to such requirement divided according to the different categories (Art. 3), and the liabilities left out of account in accordance with Art. 2, paragraphs 3 to 5 divided between liabilities in accordance with Art. 2, par. 3 and paragraphs 4 and 5.

(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 total amounts of reserve-carrying liabilities as calculated in the reserve statements (Form 1500) and the monthly averages of 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 the case of offices or branches not having a Bundesbank giro account of their own, total reserve-carrying liabilities 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 Art. 5, par. 2 have 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 (Art. 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. The records on which the ascertainment of reserve-carrying liabilities is based (*e.g.* balance ledgers, work sheets) are, therefore, to be kept for at least four years.

VI. Coming into force

Article 12

The Order comes into force on 1 January 1969. At the same time the Deutsche Bundesbank's Order on Minimum Reserves of 3 September 1962 (Notice No. 5013/62 – Federal Advertiser No. 174 of 13 September 1962), last amended by announcement of 6 December 1966 (Notice No. 5019/66 – Federal Advertiser No. 231 of 10 December 1966), ceases to have effect.

Deutsche Bundesbank
Blessing Dr. Gocht

5. Interest rates and minimum reserve ratios of the Deutsche Bundesbank

Rates for discounts and advances, and special rate of interest charged for failure to meet the minimum reserve requirement

Applicable from			Discount rate 1)	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	2) 4	3
1965	Jan.	22	3 1/2	4 1/2	3
	Aug.	13	4	5	3
1966	May	27	5	6 1/4	3
1967	Jan.	6	4 1/2	5 1/2	3
	Feb.	17	4	5	3
	April	14	3 1/2	4 1/2	3
	May	12	3	4	3
	Aug.	11	3	3 1/2	3
1969	March	21	3	4	3

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

Reserve classes *)

From May 1952 to July 1959		From August 1959 to June 1968		Since July 1968	
Reserve class	Credit institutions with reserve-carrying sight and time liabilities	Reserve class	Credit institutions with reserve-carrying liabilities (including savings deposits)	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	1	of DM 1,000 million and over
2	of DM 50 to less than 100 million	2	of DM 30 to less than 300 million	2	of DM 100 to less than 1,000 million
3	of DM 10 to less than 50 million	3	of DM 3 to less than 30 million	3	of DM 10 to less than 100 million
4	of DM 5 to less than 10 million	4	of less than DM 3 million	4	of less than DM 10 million
5	of DM 1 to less than 5 million				
6	of less than DM 1 million				

* 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.

Reserve ratios *)

% of reserve-carrying liabilities

Applicable from	Sight liabilities											
	Bank places x)						Non-bank places					
	Reserve class											
	1	2	3	4	5	6	1	2	3	4	5	6
	Reserve-carrying liabilities to residents 1) all such liabilities											
1948 July 1				10						10		
Dec. 1				15						10		
1949 June 1				12						9		
Sep. 1				10						8		
1950 Oct. 1				15						12		
1952 May 1	15	14	13	12	11	10	12	11	10	9	8	8
Sep. 1	12	12	11	11	10	9	10	10	9	9	8	8
1953 Feb. 1	11	11	10	10	9	9	9	9	8	8	8	8
1955 Sep. 1	12	12	11	11	10	10	10	10	9	9	9	9
1957 May 1	13	13	12	12	11	11	11	11	10	10	9	9
1959 Aug. 1	13	12	11	10	—	—	10	9	8	7	—	—
Nov. 1	14.3	13.2	12.1	11	—	—	11	9.9	8.8	7.7	—	—
1960 Jan. 1	15.6	14.4	13.2	12	—	—	12	10.8	9.6	8.4	—	—
March 1	18.2	16.8	15.4	14	—	—	14	12.6	11.2	9.8	—	—
June 1	20.15	18.6	17.05	15.5	—	—	15.5	13.95	12.4	10.85	—	—
	such liabilities up to the average level of the months March to May 1960											
July 1	20.15	18.6	17.05	15.5	—	—	15.5	13.95	12.4	10.85	—	—
	all such liabilities											
Dec. 1	20.15	18.6	17.05	15.5	—	—	15.5	13.95	12.4	10.85	—	—
1961 Feb. 1	19.5	18	16.5	15	—	—	15	13.5	12	10.5	—	—
March 1	18.2	16.8	15.4	14	—	—	14	12.6	11.2	9.8	—	—
April 1	17.55	16.2	14.85	13.5	—	—	13.5	12.15	10.8	9.45	—	—
June 1	16.25	15	13.75	12.5	—	—	12.5	11.25	10	8.75	—	—
July 1	15.6	14.4	13.2	12	—	—	12	10.8	9.6	8.4	—	—
Aug. 1	14.95	13.8	12.65	11.5	—	—	11.5	10.35	9.2	8.05	—	—
Sep. 1	14.3	13.2	12.1	11	—	—	11	9.9	8.8	7.7	—	—
Oct. 1	13.65	12.6	11.55	10.5	—	—	10.5	9.45	8.4	7.35	—	—
Dec. 1	13	12	11	10	—	—	10	9	8	7	—	—
1964 Aug. 1	14.3	13.2	12.1	11	—	—	11	9.9	8.8	7.7	—	—
1965 Dec. 1	13	12	11	10	—	—	10	9	8	7	—	—
1966 Jan. 1	14.3	13.2	12.1	11	—	—	11	9.9	8.8	7.7	—	—
Dec. 1	13	12	11	10	—	—	10	9	8	7	—	—
1967 March 1	11.7	10.8	9.9	9	—	—	9	8.1	7.2	6.3	—	—
May 1	11.05	10.2	9.35	8.5	—	—	8.5	7.65	6.8	5.95	—	—
July 1	10.15	9.35	8.6	7.8	—	—	7.8	7	6.25	5.45	—	—
Aug. 1	9.5	8.75	8.05	7.3	—	—	7.3	6.55	5.85	5.1	—	—
Sep. 1	9.25	8.5	7.8	7.1	—	—	7.1	6.4	5.7	4.95	—	—
1969 Jan. 1	9.25	8.5	7.8	7.1	—	—	7.1	6.4	5.7	4.95	—	—
	Reserve-carrying liabilities to non-residents 1) all such liabilities (Until April 1957 ratios were the same as for liabilities to residents 1))											
1957 May 1	20	20	20	20	20	20	20	20	20	20	20	20
Sep. 1	30	30	30	30	30	30	30	30	30	30	30	30
1959 April 1	13	13	12	12	11	11	11	11	10	10	9	9
Aug. 1	13	12	11	10	—	—	10	9	8	7	—	—
Nov. 1	14.3	13.2	12.1	11	—	—	11	9.9	8.8	7.7	—	—
	such liabilities up to the level as of 30 November 1959											
1960 Jan. 1	15.6	14.4	13.2	12	—	—	12	10.8	9.6	8.4	—	—
March 1	18.2	16.8	15.4	14	—	—	14	12.6	11.2	9.8	—	—
June 1	20.15	18.6	17.05	15.5	—	—	15.5	13.95	12.4	10.85	—	—
	all such liabilities											
1961 May 1	30	30	30	30	—	—	30	30	30	30	—	—
1962 Feb. 1	13	12	11	10	—	—	10	9	8	7	—	—
1964 April 1	30	30	30	30	—	—	30	30	30	30	—	—
	(From February 1967 to November 1968 ratios were the same as for liabilities to residents 1))											
	such liabilities up to the level as of 15 November 1968											
1968 Dec. 1	9.25	8.5	7.8	7.1	—	—	7.1	6.4	5.7	4.95	—	—
1969 Jan. 1	9.25	8.5	7.8	7.1	—	—	7.1	6.4	5.7	4.95	—	—
	such liabilities up to the level as of 15 November 1968 or 15 January 1969											
1969 Feb. 1	9.25	8.5	7.8	7.1	—	—	7.1	6.4	5.7	4.95	—	—

* 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. — **1** Since coming into force of the Foreign Trade and Payments Law, residents and non-residents, respectively, within the meaning of Art. 4 of that Law. — **2** 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 men-

Time liabilities 1	2	3	4	5	6	Savings deposits: Bank places	Non-bank places	Reserve ratios for addition to liabilities: Sight liabilities	Time liabilities	Savings deposits	Applicable from
		5				5		no special ratios			1948 July 1
		5				5					Dec. 1
		5				5					1949 June 1
		4				4					Sep. 1
		8				4					1950 Oct. 1
8	7.5	7	6.5	6	5.5	4					1952 May 1
7	7	6	6	5	5	4					Sep. 1
7	7	6	6	5	5	4					1953 Feb. 1
8	8	7	7	6	6	5					1955 Sep. 1
9	9	8	8	7	7	6					1957 May 1
9	8	7	6	—	—	6	5				1959 Aug. 1
9.9	8.8	7.7	6.6	—	—	6.6	5.5				Nov. 1
10.8	9.6	8.4	7.2	—	—	7.2	6				1960 Jan. 1
12.6	11.2	9.8	8.4	—	—	8.4	7				March 1
13.95	12.4	10.85	9.3	—	—	9	7.5				June 1
								Addition to the average level of the months March to May 1960			
13.95	12.4	10.85	9.3	—	—	9	7.5	30	20	10	July 1
13.95	12.4	10.85	9.3	—	—	9	7.5	no special ratios			Dec. 1
13.5	12	10.5	9	—	—	8.7	7.25				1961 Feb. 1
12.6	11.2	9.8	8.4	—	—	8.1	6.75				March 1
12.15	10.8	9.45	8.1	—	—	7.8	6.5				April 1
11.25	10	8.75	7.5	—	—	7.2	6				June 1
10.8	9.6	8.4	7.2	—	—	6.9	5.75				July 1
10.35	9.2	8.05	6.9	—	—	6.6	5.5				Aug. 1
9.9	8.8	7.7	6.6	—	—	6.3	5.25				Sep. 1
9.45	8.4	7.35	6.3	—	—	6	5				Oct. 1
9	8	7	6	—	—	6	5				Dec. 1
9.9	8.8	7.7	6.6	—	—	6.6	5.5				1964 Aug. 1
9	8	7	6	—	—	6.6	5.5				1965 Dec. 1
9.1	8.8	7.7	6.6	—	—	6.6	5.5				1966 Jan. 1
9	8	7	6	—	—	6.6	5.5				Dec. 1
8.1	7.2	6.3	5.4	—	—	5.94	4.95				1967 March 1
7.65	6.8	5.95	5.1	—	—	5.61	4.68				May 1
7	6.25	5.45	4.7	—	—	5.15	4.3				July 1
6.55	5.85	5.1	4.4	—	—	4.8	4				Aug. 1
6.4	5.7	4.95	4.25	—	—	4.25	3.55				Sep. 1
6.4	5.7	4.95	4.25	—	—	3) 4.7	3.9				1969 Jan. 1
10	10	10	10	10	10	10		no special ratios			1957 May 1
20	20	20	20	20	20	10					Sep. 1
9	9	8	8	7	7	6					1959 April 1
9	8	7	6	—	—	6	5				Aug. 1
9.9	8.8	7.7	6.6	—	—	6.6	5.5				Nov. 1
								Addition to the level as of 30 November 1959 2)			
10.8	9.6	8.4	7.2	—	—	7.2	6	30	20	10	1960 Jan. 1
12.6	11.2	9.8	8.4	—	—	8.4	7	30	20	10	March 1
13.95	12.4	10.85	9.3	—	—	9	7.5	30	20	10	June 1
20	20	20	20	—	—	10	10	no special ratios			1961 May 1
9	8	7	6	—	—	6	5				1962 Feb. 1
20	20	20	20	—	—	10	10				1964 April 1
								Addition to the level as of 15 November 1958 4)			
6.4	5.7	4.95	4.25	—	—	4.25	3.55	100	100	100	1968 Dec. 1
6.4	5.7	4.95	4.25	—	—	3) 4.7	3.9	100	100	100	1969 Jan. 1
								Addition to the level as of 15 November 1968 or 15 January 1969 4)			
6.4	5.7	4.95	4.25	—	—	3) 4.7	3.9	100	100	100	1969 Feb. 1

tioned. — **3** By way of divergence, the ratio for savings deposits with credit institutions in reserve class 4 is 4.25%. — **4** The ratios for the increase apply with the proviso that a credit institution's average reserve ratios for the different categories of reserve-carrying liabilities to residents and non-residents do not exceed 30 % in the case of sight liabilities, 20 % in the case of time liabilities and 10 % in the case of savings deposits. —

x "Bank places" are places at which there is an office or branch of the Deutsche Bundesbank.

II. Foreign Exchange Policy Regulations

Foreign trade and payments

The restrictions contained in Art. 52 of the Foreign Trade and Payments Order concerning the sale of domestic money-market paper to non-residents and the use of domestic fixed-interest securities for the purpose of borrowing from non-residents by way of security transactions under repurchase agreement remained in force. As before, no permits were granted for such transactions.

The regulation laid down in Art. 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 also continued to apply. Payment of interest on balances held by non-resident customers as cover for letters of credit was still permitted; by and large, permits for the payment of interest on deposits of non-residents were granted in special cases only.

Furthermore, in accordance with the 14th Regulation to Amend the Foreign Trade and Payments Order decreed by the Federal Government, which was rescinded by the 16th Regulation to Amend the Foreign Trade and Payments Order, between end-November 1968 and end-February 1969 the acceptance of deposits on non-residents' accounts (including savings accounts) and the taking of loans and other credits from non-residents by resident financial institutions was subject to permission, in order to ward off the influx of speculative monies from abroad, provided the transactions in question were not necessary for orderly settlement of transactions in goods, services and capital. For accepting payments from non-residents which led to formation of credit balances, financial institutions on application were granted collective licences limiting the maximum amount payable on accounts of non-resident non-banks to DM 200,000 and on accounts of non-resident banks to DM 1 million per account holder; additional inpayments could without special licence be credited to the accounts only with the proviso that any balance exceeding the maximum amounts had to be paid out within ten calendar days. As regards savings accounts of non-resident individuals, financial institutions were authorised by collective licences to accept inpayments of not more than DM 10,000 per account and calendar month and to pay interest on credit balances on newly opened savings accounts.

For borrowing abroad financial institutions were granted only *ad hoc* licences in limited amount, account being taken of the extent to which the institution in question had resorted to foreign money for financing its lending business during a fairly long period of reference or to which participation in foreign money markets was part of the institution's regular business. Borrowing for at least four years was not subject to any authorisation.

Whereas the above-mentioned additional restrictions were removed after the reflux abroad of the foreign monies that had previously flowed in, the requirement of subjecting payment of interest for credit balances on non-residents' accounts (other than savings accounts of individuals) to the granting of licences was maintained by the Federal Government in agreement with the Deutsche Bundesbank.

Interzonal trade

The annual turnover in interzonal clearing transactions and the balance resulting from the settlement of these transactions as of 31 December 1968 are shown in Part B, page 129 (Annual Statement — Assets — Other claims).

The total swing allowed again amounted to DM 200 million for 1968. As from 1 January 1969 an interzonal agreement applies — for the time being intended to run until 1975 — according to which at the beginning of each year the swing is to be fixed at an amount equal to 25 % of all credit entries made in the clearing accounts with the Deutsche Bundesbank in the preceding calendar year; consequently the 1969 swing was fixed at DM 360 million.

As in the past, no use was made in 1968 of the clause provided for in the Interzonal Trade Agreement to the effect that any debit balance on the clearing accounts outstanding on 30 June has to be settled by the debtor through cash payment within 30 days — the debtor on that date having been the East German side. By mutual agreement the clause has been dropped as from 1969.

The Bundesbank's general licence concerning trade and payment transactions with the currency area of the DM (East) was again extended; the extensions concerned the use of blocked DM accounts by persons residing in the currency area of the DM (East) and the winding up of estates of such persons, as well as the granting of guarantees in respect of advance payments on deliveries from the currency area of the DM (East) and the cession – as a means of affording security – of interzonal trade claims to financial institutions in the Federal area (Notice No. 6001/68).

Part B: Explanation of the Deutsche Bundesbank's annual statement for 1968

1. Legal bases, classification and valuation

Legal bases, accounting system and annual statement

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

Amendment of the Law concerning the Deutsche Bundesbank

With effect from 1 October 1968 Art. 37, par. 1, sentence 2 of the Bundesbank Law, containing provisions on the confiscation of false money, has been rescinded by Art. 150, par. 2, item 17 of the Introductory Law to the Law on Irregularities of 24 May 1968 (Federal Law Gazette I, page 503).

Changes in connection with staff

During 1968 the Bank again concluded a number of collective agreements, through which the legal positions of its salaried employees and wage-earning workers were in each case assimilated to those of the Federal Government's salaried employees and wage-earning workers.

Classification of 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. Since the residual DM 201.9 million of the claim on the Federal Government established on the DM revaluation (6 March 1961) was redeemed in the year under review out of the Federal Government's share in the 1967 profit, it was possible to delete sub-item "alteration of exchange parity" to asset item "Claims on Federal Government . . .". Owing to inclusion of the deposits of Postal cheque and Postal savings bank offices in the other credit balances of the German Federal Postal Administration as shown under Deposits of Federal Special Funds the insertion in brackets "(including Postal cheque and Postal savings bank offices)" in liability item 5 (a) "Deposits of credit institutions" has been deleted.

The classification of the profit and loss account remained unchanged by comparison with 1967.

Valuation

The provisions of the Companies Act (*Aktiengesetz*) were taken into account *mutatis mutandis* in the valuation (Art. 26 Bundesbank Law).

2. 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 1968, the Bank's claim to allocation of equalisation claims rose by DM 54,733.49 to DM 8,103,548,468.80; the claim on the Federal Government arising from the non-interest-bearing debt certificate issued in connection with the currency conversion in Berlin remained unchanged at DM 547,168,481.20 during the year under review.

3. Annual statement

The annual statement for 1968, 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 1968.

The balance-sheet total as at 31 December 1968 increased by DM 4,856.8 million, as compared with the end of 1967, to DM 58,835.8 million.

Comparison of balance-sheet results

Millions of DM

Assets	31 December 1967	31 December 1968	Liabilities	31 December 1967	31 December 1968
Gold	16,646.6	17,880.5	Capital	290.0	290.0
Balances with foreign banks and money-market investments abroad	10,352.7	11,502.6	Reserves	1,080.2	1,179.7
Other investments of money abroad and claims on foreign countries	1,000.0	3,714.7	Provisions	2,110.0	2,570.0
Foreign notes and coin, foreign bills and cheques	1,953.2	3,134.0	Bank notes in circulation	31,574.2	32,499.0
German coin	200.3	191.0	Deposits of		
Postal cheque account balances	418.4	469.8	credit institutions	15,178.6	17,578.6
Domestic bills of exchange	2,922.5	2,139.1	Federal Government	43.4	58.8
Treasury bills and non-interest Treasury bonds	—	5.0	Federal Special Funds	1,528.0	1,660.5
Advances against securities	949.6	875.2	*Länder*	496.0	1,523.2
Cash advances	2,219.9	1,344.2	other public depositors	48.0	56.4
Other claims	226.6	92.5	other German depositors	333.6	377.7
Securities	2,316.9	1,688.5	Liabilities in respect of foreign business	643.5	365.5
Equalisation claims on public authorities and debt certificate in respect of Berlin	8,682.2	8,682.5	Other liabilities	156.3	175.6
less equalisation claims returned in exchange for money-market paper	2,244.5	2,534.2	Net profit	497.2	500.8
	6,437.7	6,148.3			
Credits to Federal Government for participation in international institutions	3,639.4	4,052.9			
Claims on Federal Government in respect of					
acquisition of claims resulting from post-war economic aid	1,238.3	720.9			
from B.I.S.	93.7	62.5			
alteration of exchange parity	201.9	—			
Loans to international institutions and consolidation loans	2,448.2	3,969.0			
Items in course of settlement	388.4	467.5			
Other assets	324.7	377.6			
Total	53,979.0	58,835.8	Total	53,979.0	58,835.8

Assets

Gold

The gold holding, at DM 17,880.5 million on 31 December 1968, is shown DM 1,233.9 million greater than on 31 December 1967.

Balances with foreign banks and money-market investments abroad

Balances with foreign banks and money-market investments abroad amounted to DM 11,502.6 million on 31 December 1968 (DM 10,352.7 million on 31 December 1967).

Foreign exchange dealings

The Bank's turnover in foreign exchange spot dealings (foreign currency against Deutsche Mark) amounted to DM 53,876.8 million in the year under review, against DM 12,821.8 million in 1967; the number of deals increased from 8,874 in the previous year to 10,947. They comprised

	1967 Number	1967 DM million	1968 Number	1968 DM million
Purchases	2,827	6,223.7	3,961	27,760.1
Sales	6,047	6,598.1	6,986	26,116.7
	8,874	12,821.8	10,947	53,876.8.

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

In addition, during the year under review the Bank effected 603 cross deals (one foreign currency against another foreign currency) in the equivalent of DM 1,628.8 million, as against 714 deals in the equivalent of DM 1,671.3 million in the previous year; furthermore in the year under report 296 U. S. dollar inter-centre switch transactions amounting to U.S. $ 43.3 million were concluded, as against 271 transactions amounting to U. S. $ 44.9 million in the previous year.

U. S. dollar swap transactions with German credit institutions, amounting to U. S. $ 5,919.7 million, were concluded in the year under review; the commitment at the end of the year stood at U. S. $ 1,940.4 million. In addition the Bank took roughly U. S. $ 250 million outright in forward transactions.

Other investments of money abroad and claims on foreign countries

The assets recorded in this item rose, in comparison with 1967, by DM 2,714.7 million to DM 3,714.7 million, almost exclusively owing to additional investments in medium-term U. S. and U. K. securities expressed in DM. Should monetary reserves undergo a sustained decline, the bonds are redeemable before due date.

Foreign notes and coin, foreign bills and cheques

Purchase and sale of foreign notes and coin

At DM 3.7 million the holding of foreign notes and coin at the end of 1968 was DM 0.7 million smaller than on 31 December 1967. During the year under review the Bank effected 33,353 purchases of foreign notes and coin (1967: 33,441) and 14,663 sales of foreign notes and coin (1967: 13,768).

Purchase of foreign bills

At the close of 1968 the holding of foreign bills arising from purchase within the country was DM 3,128.2 million as compared with DM 1,945.3 million on 31 December 1967.

Purchase of foreign bills in the Land Central Bank areas

Land Central Bank	1967 Number	1967 DM mn	1968 Number	1968 DM mn
Baden-Württemberg	20,739	504.9	21,394	808.7
Bavaria	11,325	823.9	11,079	1,240.8
Berlin	1,495	255.6	889	312.7
Bremen	1,044	99.7	1,265	204.6
Hamburg	7,992	1,629.0	8,020	2,545.2
Hesse	12,823	1,546.9	14,153	2,616.4
Lower Saxony	5,862	282.5	5,712	475.6
North Rhine-Westphalia	32,870	2,074.6	29,658	2,809.1
Rhineland-Palatinate	3,808	196.4	4,613	310.4
Saarland	2,997	487.1	3,377	491.3
Schleswig-Holstein	464	167.5	997	486.9
Total	101,419	8,068.1	101,157	12,301.7

The proportion of DM acceptances to the total value of foreign bills purchased averaged about 37 % for 1968 against about 51 % for the year 1967.

Purchase and sale of foreign cheques

At the end of 1968 the holding of foreign cheques amounted to DM 2.1 million (end-1967: DM 3.5 million). During the year under review 170,140 foreign cheques worth DM 190.6 million were purchased, against 146,718 worth DM 140.6 million in the previous year. Altogether 16,771 (1967: 11,241) cheques on foreign countries were sold in the value of DM 64.4 million (1967: DM 57.1 million).

Foreign commission business

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

	1967 Number	1968 Number
Foreign notes and coin	6,096	5,668
Bills, cheques, etc., on a commission basis	13,071	12,698
	19,167	18,366.

German coin

The Bank's holding of German coin amounted to DM 191.0 million at the close of 1968 (end-1967: DM 200.3 million). In 1968 the Federal Government was credited with DM 180.6 million for coin taken over from the Mints, and debited with DM 1.3 million for coin called in or no longer fit for circulation. Altogether in the years 1948 to 1968 the Bank took over coin amounting to DM 2,783.9 million, and redeemed, to the debit of the Federal Government, DM 149.3 million of coin which was no longer fit to circulate or had been called in.

The total amount of coin in circulation (cf. Appendix 4) divided by the number of inhabitants of the Federal Republic of Germany including Land of Berlin as of 30 September 1968 (60.3 million inhabitants) results in the figure of DM 40.52 per head of population (1967: DM 37.65).

Balances on postal cheque account

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 1968 DM 469.8 million (1967: DM 418.4 million). Each day the Bank's credit balances on that account and on the postal cheque account of the Land Central Bank in Berlin, in amounts rounded off, are offset against the giro balances of the Central Cash Office of the Postal Administration and the Postal Cheque Office Berlin (West).

Postal cheque transactions with third parties

	1967				1968			
	Transfers received from third parties		Transfers made to third parties		Transfers received from third parties		Transfers made to third parties	
Area	Number	DM mn	Number	DM mn	Number	DM mn	Number	DM mn
Land Central Bank								
Baden-Württemberg	99,828	10,050.0	15,682	609.2	96,774	10,572.0	15,944	641.1
Bavaria	124,907	11,955.2	9,562	1,031.3	124,081	12,893.6	8,669	1,125.9
Berlin	30,878	2,581.8	3,346	433.7	38,825	2,773.7	6,696	385.3
Bremen	24,726	695.2	539	0.4	19,927	621.4	446	0.1
Hamburg	55,692	6,455.7	2,181	34.2	54,614	7,187.7	2,117	36.0
Hesse	66,636	7,202.5	3,970	585.0	64,562	7,973.4	3,982	571.1
Lower Saxony	116,183	6,432.2	3,297	154.3	111,698	6,927.4	3,563	236.5
North Rhine-Westphalia	196,437	13,730.9	11,286	1,941.5	190,842	14,741.4	11,598	2,244.4
Rhineland-Palatinate	55,082	2,538.5	4,698	36.9	54,888	2,543.8	4,949	44.4
Saarland	6,140	1,308.5	579	0.1	6,411	1,433.1	1,867	0.6
Schleswig-Holstein	8,811	254.7	1,922	16.7	8,681	276.7	1,951	12.1
Total	785,320	63,205.2	57,062	4,843.3	771,303	67,944.2	61,782	5,297.5
Bundesbank — Directorate —	11,800	1,503.8	11,993	7.7	11,838	1,342.1	6,850	3.4
Grand total	797,120	64,709.0	69,055	4,851.0	783,141	69,286.3	68,632	5,300.9

Domestic bills of exchange

	31 Dec. 1967 Millions of DM	31 Dec. 1968 Millions of DM
The domestic bill holding comprised		
domestic bills purchased by way of discount	2,784.2	2,100.3
Import and Storage Agency bills taken		
in the course of open-market operations	65.6	38.8
prime bankers' acceptances thus taken	72.7	—
	2,922.5	2,139.1.

The average bill holding, as calculated from the figures on the return dates in the year under review, was DM 2,900.5 million (1967: DM 4,165.6 million).

Purchase of domestic bills of exchange in the Land Central Bank areas

Land Central Bank	1967 '000	1967 DM mn	1968 '000	1968 DM mn
Baden-Württemberg	216	3,121.3	174	2,744.9
Bavaria	78	1,838.3	57	1,411.1
Berlin	7	595.5	6	326.4
Bremen	45	827.4	34	855.6
Hamburg	103	3,633.4	64	3,037.8
Hesse	236	9,563.7	191	7,151.2
Lower Saxony	88	1,650.1	65	1,392.5
North Rhine-Westphalia	302	9,399.3	199	6,948.1
Rhineland-Palastinate	53	832.2	46	745.5
Saarland	17	736.0	14	795.9
Schleswig-Holstein	47	855.3	34	617.4
Total	1,192	33,052.5	884	26,026.4

At DM 29,426 the average amount of the bills purchased in 1968 was above the previous year's average (DM 27,724).

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

	1967 Number	1967 DM million	1968 Number	1968 DM million
	6,441	19.2	2,993	8.9
in % of the total purchased	0.54	0.06	0.34	0.03.

Commission business

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

	Number	DM million
1967	189,453	1,262.2
1968	174,696	1,270.8.

Discount rate

The Bundesbank's discount rate for domestic and foreign bills has remained unchanged at 3 % since 12 May 1967. Foreign cheques were purchased at the discount rate until 31 October 1968; since 1 November 1968 they have been purchased at the flat rate of 1/2 ‰ of the equivalent.

Storage Agency bills

Storage Agency bills at a face value of DM 1,015.1 million (1967: 1,122.7 million) were purchased in the open market; DM 895.8 million (1967: DM 704.4 million) were sold. Bills amounting to DM 146.1 million out of the Bank's holding were redeemed in 1968 (1967: DM 456.3 million). On 31 December 1968 the Bank's holding of Storage Agency bills amounted to DM 38.8 million (1967: DM 65.6 million).

Prime bankers' acceptances

During the year under review the Privatdiskont-Aktiengesellschaft, Frankfurt am Main, which acts as broker, resorted only in very limited degree to the Bank's liquidity assistance (for details see "Money-market operations", page 109). The Bank purchased from the Privatdiskont-Aktiengesellschaft items amounting to DM 79.5 million (1967: DM 1,675.7 million); DM 149.0 million (1967: DM 1,492.1 million) were resold to the market and DM 3.2 million redeemed on due date. On 31 December 1968 no prime bankers' acceptances were held by the Bank (1967: DM 72.7 million).

Treasury bills and non-interest Treasury bonds

The Bank's transactions in money-market paper during the year under report – like in preceding years – covered not only Storage Agency bills and prime bankers' acceptances, but also Treasury bills of the Federal Government and the German Federal Railways, the non-interest Treasury bonds of the Federal Republic of Germany, the German Federal Railways, the German Federal Postal Administration and the Land of Bavaria, placed for account of the issuers, as well as the mobilisation paper (pursuant to Art. 42, Bundesbank Law) discussed below. New issues of Treasury bills and non-interest Treasury bonds for account of the issuers – with the exception of non-interest Treasury bonds of *Länder* – declined considerably in comparison with 1967.

Money-market paper issued for account of Federal Government, Federal Special Funds and Länder

Millions of DM

Category of paper	In circulation on 31 Dec. 1967	in 1967 Issued	in 1967 Redeemed	In circulation on 31 Dec. 1968
Treasury bills of the Federal Republic of Germany "B" **1)**	204.0	1,611.0	1,665.0	150.0
Non-interest Treasury bonds of the Federal Republic of Germany "B" **1)**	7,475.0	2,535.5	1,693.6	8,316.9
Treasury bills of the German Federal Railways	0.9	25.1	25.5	0.5
Non-interest Treasury bonds of the German Federal Railways	450.0	101.5	325.4	226.1
Non-interest Treasury bonds of the German Federal Postal Administration	300.0	113.4	113.4	300.0
Non-interest Treasury bonds of the *Länder*	68.0	98.2	—	166.2

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

On 31 December 1968 merely DM 5.0 million of the items shown in the preceding table were held by the Bank (1967: nil).

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 189.2 million (1967: DM 172.3 million). On 31 December 1968 such advances outstanding totalled DM 875.2 million as compared with DM 949.6 million at the end of 1967.

Lending against securities in the Land Central Bank areas

Land Central Bank	Advances granted against securities 1967 Number	Advances granted against securities 1967 DM mn	Advances granted against securities 1968 Number	Advances granted against securities 1968 DM mn	Outstanding on 31 Dec. 1967 DM mn	Outstanding on 31 Dec. 1968 DM mn
Baden-Württemberg	798	647.7	909	794.0	22.9	29.7
Bavaria	654	329.3	756	306.6	75.2	24.4
Berlin	58	55.4	53	78.3	7.5	7.9
Bremen	74	213.0	63	215.1	0.2	—
Hamburg	719	1,035.6	626	1,187.7	51.4	58.0
Hesse	1,110	6,448.5	1,303	12,467.7	466.7	195.7
Lower Saxony	1,168	885.7	1,071	826.6	21.0	111.4
North Rhine-Westphalia	1,090	3,541.1	1,335	3,577.8	275.1	418.7
Rhineland-Palatinate	576	545.4	766	712.7	18.9	16.2
Saarland	132	203.4	162	219.3	9.3	7.0
Schleswig-Holstein	227	336.6	274	401.8	1.4	6.2
Total	6,606	14,241.7	7,318	20,787.6	949.6	**875,2**

Advance rate

The rate for advances against securities had stood at $3^1/_2$ % since 11 August 1967; with effect from 21 March 1969 it has been raised to 4 %.

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

Cash advances

	Millions of DM
for the Federal Government	6,000
for the Federal Railways	600
for the Federal Postal Administration	400
for the Equalisation of Burdens Fund	200
for the E.R.P. Special Fund	50

for the *Länder* DM 40 per inhabitant; for Berlin, Bremen and Hamburg DM 80 per inhabitant.

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

Cash advances

Millions of DM

Borrower	31 December 1967			31 December 1968		
	Book credit	Treasury bills	Total	Book credit	Treasury bills	Total
Federal Government	2,061.8	204.0	2,265.8	1,344.2	150.0	1,494.2
Federal Special Funds						
Federal Railways		0.9	0.9		0.5	0.5
Länder						
Berlin	49.7		49.7			
Hesse	78.2		78.2			
Rhineland-Palatinate	30.2		30.2			
Total	2,219.9	204.9	2,424.8	1,344.2	150.5	1,494.7

Interest rate

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

Other claims

The other claims of DM 92.5 million shown in asset item 11 (1967: DM 226.6 million) include, *inter alia*, the net balance (DM 31.8 million against DM 142.2 million in 1967) resulting from the settlement of interzonal payments.

Turnover on the relevant sub-accounts amounted to:

	1967 Millions of DM	1968 Millions of DM
West/East deliveries and services	1,229.2	1,374.1
East/West deliveries and services	1,254.6	1,424.2
	2,483.8	2,798.3.

Securities

The holding of securities is shown at DM 1,688.5 million (1967: DM 2,316.9 million), which includes amounts resulting from the Bank's open-market operations in loans of the Federal Republic of Germany, the German Federal Railways and the German Postal Administration, as well as bonds of the World Bank, other bonds and Bundesbank Enjoyment Right Certificates.

Bond issues

In 1968 the Federal Loan Consortium, which is under the Bank's leadership, offered for public sale seven loans totalling DM 1,820 million, compared with six loans amounting to DM 1,190 million in 1967.

Loans issued through the Federal Loan Consortium in 1968

Issuer	Amount DM mn	Interest rate %	Issue price %	Start of sales 1968
German Federal Railways	220	6 1/2	98 1/2	29 February
Federal Republic of Germany	300	6 1/2	98 1/2	3 April
German Federal Postal Administration **1)**	200	6 1/2	99	24 May
German Federal Railways, 2nd Issue	280	6 1/2	99	21 June
Federal Republic of Germany, 2nd Issue	400	6 1/2	99 1/2	10 July
German Federal Postal Administration **1)**	200	6	98	19 September
German Federal Railways	220	6	98	30 December

1 In addition, DM 10 million was placed by the issuer direct.

Issue of *Kassenobligationen*

During 1968 DM 1,065 million of Treasury bonds (medium-term notes — *Kassenobligationen*) of the Federal Republic of Germany and of the German Postal Administration were sold through the Bank (1967: DM 1,948.7 million). With one exception, the 1968 issues were sold by tender.

Treasury bonds sold through the Bundesbank in 1968 (Kassenobligationen)

Issuer	Amount DM mn	Interest rate %	Running for ... years	Minimum price %	Selling price %	Sales 1968
Federal Republic of Germany 1st Issue	90.0 150.0	5	3	99 5/8 99 7/8	99 7/8 99 7/8	January
Federal Republic of Germany 2nd Issue	120.0 70.0	5	3 1/2	98 5/8 98 3/4	98 3/4 98 3/4	January
Federal Republic of Germany 3rd Issue	90.0 80.0	5	4	97 1/2 97 3/4	97 3/4 97 3/4	January
Federal Republic of Germany 4th Issue	65.0	5	3	—	99 7/8	March
German Federal Postal Administration 1st Issue	40.0	5	3	99 7/8	99 7/8	July
German Federal Postal Administration 2nd Issue	60.0	5	3 1/2	98 3/4	98 7/8	July
German Federal Postal Administration 3rd Issue	100.0	5	4	97 3/4	97 7/8	July
German Federal Postal Administration 4th Issue	50.0	5	3	100	100 1/8	December
German Federal Postal Administration 5th Issue	50.0	5	3 1/2	99	99 1/8	December
German Federal Postal Administration 6th Issue	100.0	5	4	98	98 1/4	December

The Treasury bonds *(Kassenobligationen)* of the Federal Government, the German Federal Railways, the German Federal Postal Administration and the *Länder* with a remaining life of up to 18 months are included in the money-market regulation; on 31 December 1968 such bonds amounted to DM 1,812.3 million. So far the Bank has not engaged in money-market transactions in these Treasury bonds.

Admission to stock exchange dealings

Besides the loan issues mentioned, the 6 % bearer bonds of the Equalisation of Burdens Fund of 1968, Issues I to IV, were introduced by the Bank for official dealings on the German stock exchanges. In addition, a number of series of *Kassenobligationen* of the Federal Republic of Germany, the German Federal Railways, the German Federal Postal Administration and the Reconstruction Loan Corporation were introduced for regulated unofficial dealings on the stock exchange at Frankfurt am Main and, to some extent, on the stock exchange at Düsseldorf.

Price supporting actions

In the year under review again the Bank undertook price support for account of the issuers in respect of loans issued by the Federal Government and its Special Funds, of loans of one *Land*, 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 1968 paid or presented for redemption 10,595,684 interest coupons and matured bonds (1967: 9,323,129).

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 316,333 interest coupons and matured bonds (1967: 343,117); in 1968 716,243 interest coupons and matured bonds (1967: 740,628) were presented to foreign agents for redemption.

Equalisation claims on public authorities

	31 Dec. 1967	31 Dec. 1968
	Millions of DM	
Equalisation claims arising from		
own conversion account		
Bank deutscher Länder	5,504.3	5,504.3
Land Central Banks	2,599.2	2,599.2
	8,103.5	8,103.5
handed back in exchange for money-market paper	2,244.5	2,534.2
	5,859.0	5,569.3
Conversion of Berlin pre-capitulation balances	30.1	30.3
Conversion of RM balances at credit institutions in the Soviet Sector of Berlin	1.5	1.5
	5,890.6	5,601.1.

A slight increase, of DM 54,700, 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 1968, 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 1967, are entered in the Federal Debt Register.

Mobilising of equalisation claims

As regards Treasury bills and non-interest Treasury bonds of the Federal Republic of Germany, which in accordance with Art. 42 Bundesbank Law are handed to the Bank on request in exchange for the equalisation claim that it holds on the Federal Government in respect of its own conversion account (mobilisation paper), turnover in Treasury bills rose during the year under review, whereas that in non-interest Treasury bonds decreased appreciably. The amount of mobilisation paper in circulation on 31 December 1968 was DM 2,534.2 million (end-1967: DM 2,244.5 million).

Mobilisation paper sold and redeemed

Millions of DM

	1966	1967			1968		
Category of paper	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)	213.4	5,421.4	4,013.8	1,621.0	10,724.0	10,113.8	2,231.2
Non-interest Treasury bonds of the Federal Government (running for 6 to 24 months)	664.4	1,520.7	1,561.6	623.5	373.2	693.7	303.0
Total	877.8	6,942.1	5,575.4	2,244.5	11,097.2	10,807.5	2,534.2

Debt certificate in respect of Berlin

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

Credits to Fed. Govt. for participation in international institutions

Under Art. 20, par. 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 International Monetary Fund up to DM 4,870.0 million,
the European Fund up to DM 210.0 million,
the World Bank up to DM 35.0 million.

As a result of DM transactions (especially DM drawings and repayments by other member countries) the credit granted to the Federal Government in respect of its participation in the International Monetary Fund increased by DM 442.4 million to DM 4,027.5 million. The credit granted to the Federal Government for the purpose of meeting the payment liability to the European Fund remained unchanged. Under an agreement with the Federal Government the Federal Republic of Germany's financial participations in the International Monetary Fund and the European Fund belong for practical purposes wholly to the Bank.

The credit granted to the Federal Government in 1952 for partial fulfilment of its subscription liability to the World Bank, at DM 29.0 million was repaid during the year under report.

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

Through payment of scheduled instalments the claim on the Federal Government in respect of post-war economic aid, shown in this item, was reduced in the course of 1968 by DM 517.4 million to DM 720.9 million.

(b) acquisition of claim from B.I.S.

The claim on the Federal Republic of Germany which the Bank hat acquired in 1966 from the Bank for International Settlements, Basle, in discharge of the latter's claims resulting from RM investments in Germany diminished by DM 31.2 million to DM 62.5 million through payment of the redemption amount falling due in the year under review.

Loans to international institutions and consolidation loans

At DM 3,969.0 million the loans to international institutions and consolidation loans are shown DM 1,520.8 million greater than in 1967. In detail the claims consisted of:

	31 Dec. 1967	31 Dec. 1968
	Millions of DM	
Loan to I.M.F.	670.0	2,082.0
Loans to I.B.R.D.	1,446.8	1,643.7
Loans arising from liquidation of E.P.U.	331.4	243.3
	2,448.2	3,969.0.

Loan to International Monetary Fund

For financing the drawings by the United Kingdom and France loans amounting to DM 904 million and DM 560 million, respectively, were granted to the International Monetary Fund in 1968 under the "General Arrangements to Borrow" of 24 October 1962; furthermore, the Bank undertook to finance a partial amount of DM 320 million of the loan previously granted by France to I.M.F. in connection with a drawing by the United Kingdom. DM 372 million of the loan of DM 670 million granted to I.M.F. in 1965 was repaid.

Loans to I.B.R.D.

At DM 1,643.7 million, loans to the World Bank are recorded greater by DM 196.9 million than in 1967. To finance the partial amounts falling due in the year under review of the I.B.R.D. Loan of 1960 (included among security holdings), DM 196 million of credits were granted to the World Bank, which are shown in this item.

Liquidation of E.P.U.

The claims arising from liquidation of E.P.U. amounted at the end of 1968 to DM 243.3 million, against DM 331.4 million at the end of 1967 and DM 4,185.8 million after the E.P.U. settlement in January 1959; thus approximately 94 % of these credits have been repaid.

Land and buildings
Equipment

With additions of DM 43.7 million and depreciations of DM 11.5 million, land and buildings are shown at DM 138.5 million. Equipment increased by DM 3.2 million to DM 5.8 million after DM 3.8 million had been written off.

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 course of clearing. On 31 December 1968 there was a net asset of DM 467.5 million as against one of DM 388.4 million at the end of 1967.

Other assets

Of the DM 201.4 million (end-1967: DM 183.9 million) shown in the item "Other assets" DM 171.0 million (end-1967: DM 125.2 million) represents interest which falls due in 1969, 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

Capital

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

Reserves

In pursuance of the Central Bank Council's decision of 10 April 1968, out of the net profit for 1967 DM 99.5 million was added to the legal reserve; reserves accordingly rose from DM 1,080.2 million at the end of 1967 to DM 1,179.7 million.

Provisions

After withdrawal of DM 44.9 million for payment of retirement pensions, widows' and orphans' allowances, and after addition of DM 104.9 million, provisions for pension liabilities are shown at DM 920 million.

With a view to covering hazards inherent in the foreign and domestic business the other provisions were increased by DM 400.0 million to DM 1,650.0 million.

Bank notes in circulation

The circulation of bank notes rose from DM 31,574.2 million at the end of 1967 to DM 32,499.0 million on 31 December 1968.

Circulation of notes and coin

Millions of DM

End of year	Bank notes	Federal coin	Circulation of notes and coin, total
1963	25,426.6	1,725.0	27,151.6
1964	27,691.7	1,852.9	29,544.6
1965	29,455.6	1,997.1	31,452.7
1966	30,770.1	2,135.9	32,906.0
1967	31,574.2	2,255.1	33,829.3
1968	32,499.0	2,443.6	34,942.6

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

In the year under review new Bundesbank notes of various denominations, totalling DM 9,950.3 million, were 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:

	1963	1964	1965	1966	1967	1968
Millions	323.3	228.7	182.2	175.1	207.6	323.8
DM million	11,512.2	6,706.3	4,367.8	3,780.9	5,501.6	10,110.9.

The number and amount of faked German payment media detained in payment transactions in the course of 1968 increased in comparison with the preceding year.

Counterfeits discovered

Year	Notes		Coins	
	Number	Thousands of DM	Number	Thousands of DM
1963	413	25.8	5,502	11.2
1964	400	24.1	3,013	7.1
1965	797	15.4	2,671	5.8
1966	273	11.1	3,323	11.5
1967	679	31.8	7,126	26.0
1968	1,202	45.5	10,941	44.6

Deposits

The balances of German depositors comprise those of		31 Dec. 1967 Millions of DM		31 Dec. 1968 Millions of DM
credit institutions		15,178.6		17,578.6
public depositors				
Federal Government	43.4		58.8	
Federal Special Funds	1,528.0		1,660.5	
Länder	496.0		1,523.2	
other public depositors	48.0	2,115.4	56.4	3,298.9
other German depositors		333.6		377.7
		17,627.6		21,255.2.

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

Giro transactions

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

	% of number	% of amounts
1967	99.40	96.40
1968	99.48	96.84.

Annual turnover on giro accounts at the Deutsche Bundesbank

Turnover	1967			1968		
	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	1,047	101,862	97.3	1,016	104,228	102.6
Settlements with account-holders	7,070	944,153	133.5	7,031	1,115,184	158.6
Local transfers	12,804	718,901	56.1	13,746	853,727	62.1
Transfers from other places	48,026	817,993	17.0	53,037	928,591	17.5
Cheque and debit-entry note collections (total lodged)	123,275	261,989	2.1	143,335	319,440	2.2
Total	192,222	2,844,898	—	218,165	3,321,170	—
(b) Debits						
of which:						
Cash out-payments	1,213	103,234	85.1	1,221	105,833	86.7
Settlements with account-holders	4,012	952,372	237.4	3,926	1,122,749	286.0
Local transfers	12,804	718,901	56.1	13,746	853,727	62.1
Transfers to other places	48,153	811,114	16.8	52,840	915,731	17.3
Cheque and debit-entry note collections (total paid)	121,078	261,517	2.2	138,746	319,441	2.3
Total	187,260	2,847,138	—	210,479	3,317,481	—
(c) In % of total turnover (credits and debits)		%			%	
Cash payments		3.60			3.16	
Settlements with account-holders		33.32			33.71	
Local transfers		25.26			25.72	
Transfers to and from other places		28.62			27.78	
Cheque and debit-entry note collections (total lodged and paid)		9.20			9.63	
		100.00			100.00	

1 Number of transactions.

Liabilities in respect of foreign business

The liabilities in respect of foreign business comprised

	31 Dec. 1967 Millions of DM		31 Dec. 1968 Millions of DM	
Deposits of foreign depositors				
Banks	408.0		230.2	
Others	98.1	506.1	92.0	322.2
Deposits of domestic credit institutions on U.S. dollar accounts		15.4		15.8
Provision of cover for credits and guarantees by				
non-residents	1.7		1.8	
residents	11.6	13.3	12.2	14.0
Other liabilities		108.7		13.5
		643.5		365.5.

Other liabilities The "Other liabilities" are shown on 31 December 1968 at DM 54.4 million as against DM 50.0 million at the end of 1967.

Transitory items In the same way as previously the transitory items on the liabilities side (DM 121.2 million for 1968, DM 106.3 million for 1967) 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 1968 at DM 0.4 million against DM 0.3 million at the end of 1967.

Profit and loss account

Comparison of expenditure and receipts

Millions of DM

Expenditure	1967	1968	Receipts	1967	1968
Interest on money-market paper issued in exchange for equalisation claims	85.1	58.5	Interest on monies employed abroad	560.8	840.4
Other interest	1.9	1.7	equalisation claims	244.1	244.1
	87.0	60.2	domestic bills of exchange, advances against securities and cash advances, as well as on other claims	213.0	126.4
Administrative costs					
Personnel	211.3	220.7	foreign bills of exchange bought in Germany	48.6	68.0
Materials	35.9	39.8			
Note printing	27.1	35.1	securities, Treasury bills and Treasury bonds	75.5	114.0
Depreciation	12.3	15.3			
Allocations to provisions	275.9	504.9	Other interest	1.0	0.8
Pension payments in respect of Reichsbank	28.1	27.6		1,143.0	1,393.7
Other expenditure	7.2	8.1	Fees	3.1	4.2
Net profit	497.2	500.8	Other receipts	35.9	14.6
Total	1,182.0	1,412.5	Total	1,182.0	1,412.5

Interest *Receipts*

	1967	1968
	Millions of DM	
The interest received amounted to	1,143.0	1,393.7.
After deduction of the interest paid out, namely	87.0	60.2
it is shown in the profit and loss account at	1,056.0	1,333.5.

The interest on monies employed abroad increased by DM 279.6 million to DM 840.4 million in 1968.

As in the year before, the amount of interest received on equalisation claims was DM 244.1 million; the interest paid on money-market paper issued in exchange for equalisation claims decreased during the year under review by DM 26.6 million to DM 58.5 million. Interest receipts from the discounting of domestic bills and the granting of advances against securities and of cash advances, as well as from other claims, amounted to DM 126.4 million in 1968 as compared with DM 213.0 million in the preceding year. At DM 114.0 million the interest received on securities, Treasury bills and Treasury bonds was greater by DM 38.5 million than in the previous year (DM 75.5 million). DM 68.0 million of interest accrued from the discounting of foreign bills (1967: DM 48.6 million).

Fees DM 4.2 million of fees were received in the year under review (1967: DM 3.1 million).

Other receipts "Other receipts" are shown at DM 14.6 million (1967: DM 35.9 million).

Administrative costs
(a) Personnel

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 220.7 million in 1968 (1967: DM 211.3 million). The Bank's staff decreased in number by 19 during 1968.

Number of persons employed in the Bundesbank

Persons employed	End of 1967					End of 1968				
	Directorate	Land Central Banks	Total	of whom: male	of whom: female	Directorate	Land Central Banks	Total	of whom: male	of whom: female
Officials	608	4,050	4,658	4,590	68	611	4,060	4,671	4,599	72
Salaried employees	1,301	4,961	6,262	2,672	3,590	1,307	4,943	6,250	2,643	3,607
Wage earners	147	839	986	166	820	147	819	966	163	803
Total	2,056	9,850	11,906	7,428	4,478	2,065	9,822	11,887	7,405	4,482

The total payments to serving and former members of the Directorate of the Deutsche Bundesbank, the Board of Directors and Board of Managers of the Bank deutscher Länder, and the Boards of Management of the Land Central Banks, including their surviving dependants, amounted to DM 5,528,252.36 in the year under review.

(b) Materials

The administrative costs in respect of materials rose from DM 35.9 million in 1967 to DM 39.8 million.

Note printing

The expenditure on note printing rose, as compared with 1967, by DM 8.0 million to DM 35.1 million.

Depreciation and allocations to provisions

The depreciation on land and buildings as well as on equipment has been discussed, like the allocations to provisions, 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 31.5 million (1967: DM 31.9 million); of this amount DM 3.9 million was taken from the provision for pension payments, so that DM 27.6 million is shown as pension payments in respect of the Reichsbank by comparison with DM 28.1 million in 1967.

		DM	DM
Proposed distribution of the profit	According to the profit and loss account the net profit amounts to (1967: DM 497,201,177.70).		500,785,617.82
	The Directorate proposes to the Central Bank Council that there be allocated		
	to the legal reserve		100,200,000.00,
	that there be provided for dividends on Bundesbank Enjoyments Rights		1,900,000.00,
	and that there be allocated to the Fund for the Purchase of Equalisation Claims	40,000,000.00	142,100,000.00.
	Out of the balance of profit due to the Federal Government (Art. 27, item 4 Bundesbank Law), namely		358,685,617.82
	there shall be provided		
	for allocation to the Fund for Redemption of Bundesbank Enjoyments Rights	10,000,000.00,	
	so that the balance at the disposal of the Federal Government amounts to	348,685,617.82	358,685,617.82.

Frankfurt am Main, April 1969

Deutsche Bundesbank
The Directorate
Karl Blessing Dr. Troeger
Dr. Benning Dr. Emminger Dr. Gocht Dr. Irmler Lucht Tüngeler Dr. Zachau

Part C: Fund for the Purchase of Equalisation Claims and Fund for Redemption of Bundesbank Enjoyment Rights

The Fund carried over from 1967 liquid funds in the amount of DM 38.6 million and received during 1968 DM 93.2 million of new funds, DM 40 million out of the Bank's net profit in the 1967 accounting year, DM 42 million by way of interest and redemption, and DM 11.2 million of special payments resulting from one of the settlements, mentioned in last year's Report, between the Federal Government and *Länder* on the one hand and associations or institutions on the other.

In the 1968 accounting year DM 83.5 million was used for purchasing equalisation claims pursuant to Art. 9, paragraphs 1 and 2 of the Law on the Redemption of Equalisation Claims, and for satisfying creditors of equalisation claims pursuant to Art. 9, par. 3 of the Law (linear taking over). In conformity with the Fund's principal long-term task, which is to satisfy all creditors equally, the linear taking over of equalisation claims gained in importance, accounting for DM 70.1 million of total expenditure, while DM 13.4 million was spent on the purchase of equalisation claims.

In accordance with Art. 9, par. 1 of the Law, DM 13.0 million of equalisation claims were purchased during 1968, DM 9.7 million from liquidating and fused credit institutions and insurance companies (mainly pension funds), and DM 3.3 million from non-liquidating credit institutions and insurance companies (again chiefly pension funds). Purchases under Art. 9, par. 2, item 1 of the Law were no longer carried out. DM 0.4 million was spent on buying small equalisation claims pursuant to Art. 9, par. 2, item 2 of the Law.

At the middle of 1968 DM 70.1 million was applied to taking over, in accordance with Art. 9, par. 3 of the Law, 1 % of all equalisation claims entered in the Debt Registers of the Länder Baden-Württemberg, Bavaria, Berlin, Bremen, Hamburg, Hesse, Lower Saxony and North Rhine-Westphalia. This second taking-over transaction, initiated in 1967, will not be concluded before the 1969 accounting year with the taking over of 1 % of the equalisation claims entered in the Federal Debt Register, because the funds available at mid-1968 did not suffice therefor. Since, by order of the Bundesbank, the equivalent of the equalisation claims taken over on a linear basis is transferred by the debt administrations – together with interest and redemption payments, as a labour-saving measure – most of the debt administrations however refusing to carry out such a taking-over transaction at the year's end, linear taking over of equalisation claims is as a rule only possible at the middle of the year.

For this reason, and because interest and redemption payments accruing to the Fund at the end of the year cannot, at any rate, be used until the following year, the Fund at end-1968 had at its disposal for the 1969 accounting year DM 48.4 million of liquid funds; they were almost exclusively employed in Federal Treasury bills and Treasury bonds. Undertakings to purchase to the extent of DM 1.6 million still awaited fulfilment.

Movement in the holding of equalisation claims

Interest rate	DM initial capital Holding on 31 Dec. 1967	Addition through purchase and linear taking over	Decrease through retrocessions	Holding on 31 Dec. 1968	DM remaining capital Holding on 31 Dec. 1968
	DM				DM
0	77,605,757.36	16,309.01		77,622,066.37	37,258,591.86
3	361,985,281.—	55,227,667.74		317,212,948.74	351,472,769.08
3½	275,614,506.75	40,080,444.66	150,536.68	315,544,414.73	264,373,668.20
4½	154,884,648.17	3,142,821.19		158,027,469.36	130,517.007.48
Total	870,090,193.28	98,467,242.60	150,536.68	968,406,899.20	783,622,036.62

The report on the position of the Fund for the Purchase of Equalisation Claims as on 31 December 1968, 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 1968 delivered altogether 1,499,759 Bundesbank Enjoyment Right Certificates, having a par value of DM 99,983,933 $^{1}/_{3}$, in discharge of Reichsbank Shares at a par value of RM 149,975,900; 241 such Certificates, at a par value of DM 16,066 $^{2}/_{3}$, were still held at his disposal on 31 December 1968.

Pursuant to Art. 7, par. 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 14 of Bundesbank Enjoyment Right Certificates was drawn on 6 June 1968 for redemption on 30 September 1968 at 150 % of the par value (Notice of the Bank of 6 June 1968, published in Federal Advertiser Nos. 107 and 108 of 11 and 12 June 1968). For this purpose the Fund for Redemption of Bundesbank Enjoyment Rights had available out of the 1967 net profit DM 10 million, of which DM 9,998,500 was used to repay the Bundesbank Enjoyment Right Certificates which had been called. Five Certificates at DM 500 redemption value (DM 333 $^{1}/_{3}$ par value) were not presented for redemption. Of the Enjoyment Right Certificates held at the disposal of the Liquidator of the Deutsche Reichsbank, 108 have been drawn, having a redemption value of DM 10,800 (par value: DM 7,200) and including DM 6,533 $^{1}/_{3}$ from previous drawings.

Four groups of Bundesbank Enjoyment Right Certificates (Nos. 6, 9, 11 and 12), amounting at par value to DM 26,666,666 $^{2}/_{3}$ (and at redemption value to DM 40 million), now remain to be redeemed.

Frankfurt am Main, April 1969

Deutsche Bundesbank
The Directorate
Karl Blessing   Dr. Troeger
Dr. Benning   Dr. Emminger   Dr. Gocht   Dr. Irmler   Lucht   Tüngeler   Dr. Zachau

Report of the Central Bank Council

The Annual Statement of the Deutsche Bundesbank for 1968, the Combined Conversion Account of the Institutions Amalgamated to Form the Deutsche Bundesbank, as shown by the books on 31 December 1968, 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 1968, 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 1968, the bookkeeping and the Conversion Account as shown by the books on 31 December 1968 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 1968 on 20 March 1969. 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 1968, and approved the Reports on the Funds for the Purchase of Equalisation Claims and for Redemption of Bundesbank Enjoyment Rights as at 31 December 1968.

The Central Bank Council has assented to the Report for the Year 1968 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 1968 dividends on Bundesbank Enjoyment Rights, there is a residual profit of DM 358,685,617.82 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.

Since the publication of the Report for the Year 1967 the following changes have taken place in the organs of the Deutsche Bundesbank.

Retired from service

as at the close of 31 May 1968
the Vice-President of the Land Central Bank in Lower Saxony
Herr Hans Karnstädt,

as at the close of 31 January 1969
the Vice-President of the Land Central Bank in Schleswig-Holstein
Herr Wolfgang Hecker,

as at the close of 31 March 1969
the Vice-President of the Land Central Bank in Hesse
Dr. Werner Schubert.

Reappointed

with effect from 1 February 1969
Herr Carl Wagenhöfer
President of the Land Central Bank in Bavaria,

with effect from 1 April 1969
Herr Ernst Fessler
President of the Land Central Bank in North Rhine-Westfalia.

Newly appointed

with effect from 1 June 1968
Dr. Gerhard Hauptmann
to be Vice-President of the Land Central Bank in Lower Saxony,

with effect from 16 March 1969
Herr Heinz Ruppert
to be Vice-President of the Land Central Bank in Schleswig-Holstein,

with effect from 1 April 1969
Professor Dr. Dr. Adolf Hüttl
to be Vice-President of the Land Central Bank in Hesse.

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 1968. The Council likewise wishes to record its appreciation of the excellent collaboration with the staff representations.

Frankfurt am Main, April 1969

Karl Blessing
President of the Deutsche Bundesbank

Appendices to Parts B and C

Combined conversion account of the institutions amalgamated to form the Deutsche Bundesbank

Assets

	as shown by the books on 31 Dec. 1967 DM	Changes in 1968 DM	as shown by the books on 31 Dec. 1968 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	8,103,493,735.31	54,733.49	8,103,548,468.80
11. Proceeds from realisation of DM (East) holdings	41,334.713.71		41,334,713.71
12. Non-interest-bearing debt certificate in respect of Berlin	547,168,481.20		547,168,481.20
	8,736,261,927.26	54,733.49	8,736,316,660.75
13. Contingent claims	126,558.92		126,558.92

1 Relating to converted small money tokens.

	as shown by the books on 31 Dec. 1967 DM	Changes in 1968 DM	as shown by the books on 31 Dec. 1968 DM
1. Capital	270,000,000.—		270,000,000.—
2. Provisions			
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.	264,957,855.81		264,957,855.81
4. Deposits	5,630,650,566.92	54,733.49	5,630,705,300.41
5. Other liabilities	1,648,526.03		1,648,526.03
6. Transitory items	177,814.32		177,814.32
7. Amounts paid or credited under par. 52a, b, d and e, Berlin Central Bank Ordinance, and par. 9, Implementing Reg. 2, Conversion Ordinance	588,503,194.91		588,503,194.91
	8,736,261,927.26	54,733.49	8,736,316,660.75
8. Contingent liabilities	126,558.92		126,558.92

Deutsche Bundesbank
The Directorate
Karl Blessing Dr. Troeger
Dr. Benning Dr. Emminger Dr. Gocht Dr. Irmler 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 1968 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, 7 March 1969

Deutsche Revisions- und Treuhand-Aktiengesellschaft
Treuarbeit
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft
Dr. Merckens (Certified Auditor)
per pro. Dr. Haufschild (Certified Auditor)

Dr. Wollert – Dr. Elmendorff K.G.
Wirtschaftsprüfungsgesellschaft
Dr. Wollert (Certified Auditor)
Dr. Bargmann (Certified Auditor)

Balance sheet of the Deutsche Bundesbank as on 31 December 1968

Assets

	DM	DM	DM
1. Gold			17,880,501,519.26
2. Balances at foreign banks and money-market investments abroad			11,502,636,270.24
3. Other investments of money abroad and claims on foreign countries			3,714,662,519.44
4. Foreign notes and coin, foreign bills and cheques			3,134,010,001.52
5. German coin			191,005,734.91
6. Balances on postal cheque account			469,819,618.99
7. Domestic bills of exchange			2,139,117,336.36
8. Treasury bills and non-interest Treasury bonds of			
(a) Federal Government and Federal Special Funds		5,000,000.—	
(b) *Länder*		—	5,000,000.—
9. Advances against securities			875,238,700.—
10. Cash advances to			
(a) Federal Government and Federal Special Funds		1,344,200,000.—	
(b) *Länder*		—	1,344,200,000.—
11. Other claims			92,513,375.70
12. Securities among which Bundesbank Enjoyment Right Certificates having a par value of DM 24 683 333 1/3			1,688,486,059.13
13. Equalisation claims on public authorities and debt certificate in respect of Berlin			
(a) Equalisation claims	8,135,351,743.23		
less equalisation claims returned in exchange for money-market paper	2,534,260,000.—	5,601,091,743.23	
(b) Debt certificate		547,168,481.20	6,148,260,224.43
14. Credits to Federal Government for participation in international institutions			4,052,912,000.—
15. Claims on Federal Government in respect of acquisition of claims			
(a) resulting from post-war economic aid		720,870,128.68	
(b) from B.I.S.		62,496,000.—	783,366,128.68
16. Loans to international institutions and consolidation loans			3,968,966,175.—
among which (a) to I.M.F. DM 2,082,000,000.—			
(b) to I.B.R.D. DM 1,643,730,000.—			
(c) from liquidation of E.P.U. DM 243,236,175.—			
17. Land and buildings			138,511,256.81
18. Equipment			5,769,095.—
19. Items in course of settlement			467,554,988.34
20. Other assets			201,385,493.53
21. Transitory items			31,897,537.58
Right of recourse in respect of contingent liabilities		358,098.99	
			58,835,814,034.92

Appendix 2 to the Report of the Deutsche Bundesbank for the Year 1968

	DM	DM	DM
1. Capital			290,000,000.—
2. Reserves			
(a) legal reserve		889,700,000.—	
(b) other reserves		290,000,000.—	1,179,700,000.—
3. Provisions			
(a) for pension liabilities		920,000,000.—	
(b) for other purposes		1,650,000,000.—	2,570,000,000.—
4. Bank notes in circulation			32,498,981,870.—
5. Deposits of			
(a) credit institutions		17,578,633,681.40	
(b) public depositors			
(ba) Federal Government	58,816,067.59		
(bb) Federal Special Funds	1,660,476,739.33		
(bc) *Länder*	1,523,214,077.98		
(bd) other public depositors	56,409,730.02	3,298,916,614.92	
(c) other German depositors		377,635,368.37	21,255,185,664.69
6. Liabilities in respect of foreign business			
(a) Deposits of foreign depositors		322,211,718.45	
(b) Others		43,255,305.10	365,467,023.55
among which provision of cover for letters of credit and guarantees by			
foreigners DM 1,798,776.21			
residents DM 12,150,418.73			
7. Other liabilities			54,483,584.56
8. Transitory items			121,210,274.30
9. Net profit			500,785,617.82
Contingent liabilities		358,098.99	
			58,835,814,034.92

Profit and loss account of the Deutsche Bundesbank for the year 1968

Expenditure

	DM	DM
1. Administrative costs		
(a) Personnel	220,739,438.01	
(b) Materials	39,798,342.73	260,537,780.74
2. Note printing		35,082,644.79
3. Depreciation		
(a) on land and buildings	11,562,382.28	
(b) on equipment	3,791,024.48	15,353,406.76
4. Allocations to provisions		
(a) for pension liabilities	104,877,933.19	
(b) others	400,000,000.—	504,877,933.19
5. Pension payments in respect of Reichsbank		27,554,485.07
6. Other expenditure		8,116,711.86
7. Net profit		500,785,617.82
		1,352,308,580.23

Receipts

	DM
1. Interest	1,333,510,566.77
2. Fees	4,150,628.55
3. Other receipts	14,647,384.91
	1,352,308,580.23

Deutsche Bundesbank
The Directorate
Karl Blessing Dr. Troeger
Dr. Benning Dr. Emminger Dr. Gocht Dr. Irmler Lucht Tüngeler Dr. Zachau

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

Frankfurt am Main, 7 March 1969

Deutsche Revisions- und Treuhand-Aktiengesellschaft
Treuarbeit
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft
Dr. Merckens (Certified Auditor) per pro. Dr. Haufschild (Certified Auditor)

Dr. Wollert — Dr. Elmendorff KG
Wirtschaftsprüfungsgesellschaft
Dr. Wollert (Certified Auditor) Dr. Bargmann (Certified Auditor)

Fund for the Purchase of Equalisation Claims

Position on 31 December 1968

	Equalisation claims (remaining capital) DM	Cash resources DM	Total assets of the Fund DM
Position on 31 December 1967	716,242,763.86	38,613,040.43	754,855,804.29
Allocation from the Deutsche Bundesbank's 1967 net profit		40,000,000.—	40,000,000.—
Special inflows resulting from settlements on equalisation claims		11,200,000.—	11,200,000.—
Purchase and linear taking over of equalisation claims	83,500,100.97	— 83,500,100.97	
Redemptions	— 15,993,625.75	15,993,625.75	
Retrocessions	— 127,202.46	127,202.46	
Interest			
on equalisation claims		24,666,425.21	24,666,425.21
from temporary employment of the Fund's cash resources		1,321,741.34	1,321,741.34
Position on 31 December 1968	783,622,036.62	48,421,934.22	832,043,970.84

Deutsche Bundesbank
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Returns of the Deutsche Bundesbank

Millions of DM

	Assets														
								Treasury bills and non-interest Treasury bonds				Cash advances			
													to		
Date of return	Gold	Balances with foreign banks and money-market investments abroad	Other investments of money abroad and claims on foreign countries	Foreign notes and coin, foreign bills and cheques	German coin	Balances on postal cheque account	Domestic bills of exchange	Total	Federal Government and Federal Special Funds	*Länder*	Advances against securities	Total	Federal Government and Federal Special Funds	*Länder*	Securities
1968															
Jan. 7	16,646.5	8,454.0	1,500.0	2,014.7	228.1	344.4	2,709.0	—	—	—	88.3	931.2	894.5	36.7	2,297.6
15	16,297.3	8,905.4	1,500.0	1,877.7	253.5	208.4	2,316.3	—	—	—	85.7	21.9	—	21.9	2,239.6
23	16,297.7	8,949.0	1,500.0	1,808.0	267.1	202.9	2,467.4	—	—	—	325.8	—	—	—	2,184.6
31	16,297.7	9,236.0	1,500.0	1,822.8	254.0	330.6	3,326.5	40.0	40.0	—	75.8	45.4	—	45.4	2,184.2
Feb. 7	16,236.8	9,424.8	1,500.0	1,806.9	262.2	212.8	3,207.4	40.0	40.0	—	23.0	52.2	—	52.2	2,092.4
15	16,239.4	9,283.6	1,504.6	1,710.9	271.8	201.4	2,511.7	40.0	40.0	—	22.9	40.3	—	40.3	2,090.7
23	16,239.4	9,334.6	1,504.6	1,889.0	274.6	119.4	2,531.7	270.0	270.0	—	615.1	—	—	—	2,095.1
29	16,239.4	10,330.5	1,504.6	1,898.4	259.4	334.1	2,573.5	270.0	270.0	—	244.1	23.8	—	23.8	2,082.7
Mar. 7	16,197.7	11,390.2	1,504.6	1,974.0	261.9	183.5	3,183.9	220.0	220.0	—	30.8	41.1	—	41.1	2,098.0
15	16,197.7	11,424.1	1,500.0	2,064.4	269.2	181.1	3,110.9	340.0	340.0	—	71.0	—	—	—	2,093.4
23	16,197.7	12,567.5	1,514.6	2,060.7	269.3	145.2	2,779.0	40.0	40.0	—	132.7	—	—	—	2,108.3
31	15,629.6	12,037.9	1,514.6	2,118.5	256.2	327.5	2,891.5	10.0	10.0	—	481.8	—	—	—	2,122.3
Apr. 7	15,629.5	11,443.6	2,014.6	2,116.1	253.9	186.3	3,159.7	—	—	—	44.4	10.0	—	10.0	2,081.9
15	15,629.5	11,429.0	2,014.6	2,139.4	241.4	211.7	3,126.3	—	—	—	122.1	7.1	—	7.1	2,040.0
23	15,629.5	11,475.9	2,000.0	2,152.1	253.3	231.8	2,725.9	—	—	—	69.1	—	—	—	2,050.7
30	15,629.6	11,298.2	2,200.0	2,133.0	240.9	317.0	2,335.5	—	—	—	42.3	25.1	—	25.1	2,045.3
May 7	15,629.6	11,060.2	2,200.0	2,135.7	243.1	276.8	2,384.3	—	—	—	53.4	—	—	—	2,039.2
15	15,632.0	10,712.1	2,200.0	2,122.6	248.0	233.9	2,268.0	—	—	—	123.1	—	—	—	2,059.4
23	15,632.0	10,885.9	2,200.0	2,277.3	255.3	186.3	3,411.9	—	—	—	287.8	—	—	—	2,087.6
31	15,632.3	10,854.3	2,200.0	2,271.0	240.2	297.7	3,358.0	—	—	—	44.7	—	—	—	2,132.1
June 7	15,887.5	10,473.2	2,200.0	2,300.6	246.5	228.7	3,167.7	—	—	—	46.1	4.9	—	4.9	2,145.1
15	15,887.5	11,393.1	2,200.0	2,315.4	249.3	224.3	2,840.0	—	—	—	72.4	—	—	—	2,161.4
23	16,990.3	9,640.0	2,200.0	2,247.3	251.2	251.5	2,312.9	—	—	—	150.2	—	—	—	2,184.8
30	16,990.3	9,481.0	2,200.0	2,360.9	237.0	305.2	3,190.8	—	—	—	310.0	4.5	—	4.5	2,217.8
July 7	16,989.8	9,599.3	2,200.0	2,349.9	239.2	222.5	3,300.6	9.9	9.9	—	60.5	—	—	—	2,234.6
15	16,990.1	9,543.8	2,200.0	2,236.9	241.6	185.9	2,947.5	4.2	4.2	—	47.6	—	—	—	2,264.5
23	17,140.4	9,484.8	2,200.0	2,225.6	246.7	196.1	2,661.2	—	—	—	146.1	—	—	—	2,259.8
31	17,140.7	9,242.5	2,200.0	2,244.7	225.3	370.7	2,563.6	—	—	—	25.7	—	—	—	2,204.2
Aug. 7	17,140.0	9,115.9	2,220.0	2,220.8	234.2	244.5	2,546.4	—	—	—	28.1	5.8	—	5.8	1,969.1
15	17,145.7	8,806.6	2,200.0	2,286.8	243.8	193.8	2,738.0	—	—	—	49.8	4.6	—	4.6	1,823.9
23	17,145.7	8,469.9	2,700.0	2,523.0	247.5	166.5	4,099.8	—	—	—	1,406.7	—	—	—	1,765.6
31	17,426.3	8,885.7	2,700.0	2,640.0	235.7	298.8	4,202.8	—	—	—	47.0	15.4	—	15.4	1,785.7
Sep. 7	17,425.9	9,756.1	2,700.0	2,711.0	236.9	194.2	3,816.1	—	—	—	27.1	22.3	—	22.3	1,793.1
15	17,425.9	9,176.9	2,700.0	2,706.0	240.4	239.8	3,333.6	—	—	—	43.3	—	—	—	1,750.0
23	17,485.5	9,616.0	2,700.0	2,776.3	240.2	153.9	3,135.4	—	—	—	783.4	—	—	—	1,729.3
30	17,565.4	9,794.0	2,700.0	2,843.5	225.8	318.1	3,254.1	—	—	—	202.9	—	—	—	1,766.7
Oct. 7	17,565.1	9,375.0	3,200.0	2,889.7	220.8	190.1	3,634.1	—	—	—	310.1	—	—	—	1,813.9
15	17,565.1	8,289.5	3,200.0	2,956.3	220.3	233.5	3,455.3	—	—	—	103.8	—	—	—	1,848.7
23	17,565.1	8,302.9	3,200.0	3,012.2	223.9	181.4	3,596.0	—	—	—	242.4	—	—	—	1,880.5
31	17,565.1	8,606.3	3,200.0	3,069.7	217.4	309.3	3,491.8	—	—	—	82.3	1.3	—	1.3	1,982.4
Nov. 7	17,564.7	9,430.9	3,200.0	3,147.2	230.0	235.4	3,379.1	—	—	—	48.2	14.5	—	14.5	2,011.5
15	17,891.2	10,104.5	3,200.0	3,210.9	237.5	228.9	2,865.1	—	—	—	73.7	1.6	—	1.6	2,013.8
23	17,891.2	18,141.3	3,200.0	3,101.8	231.4	195.3	2,367.1	—	—	—	155.4	—	—	—	1,986.1
30	17,891.2	15,762.5	3,200.0	3,041.1	213.4	318.7	2,045.2	—	—	—	62.3	127.8	—	127.8	1,858.5
Dec. 7	17,890.8	15,203.8	3,200.0	3,166.5	197.9	207.0	2,154.5	—	—	—	84.1	102.6	—	102.6	1,824.7
15	17,895.3	15,341.6	3,200.0	3,110.6	187.8	255.8	1,944.1	—	—	—	126.5	17.7	—	17.7	1,783.2
23	17,895.3	13,574.9	3,214.7	3,196.9	170.9	686.5	1,666.2	—	—	—	487.6	—	—	—	1,717.0
31	17,880.5	11,502.6	3,714.7	3,134.0	191.0	469.8	2,139.1	5.0	5.0	—	875.2	1,344.2	1,344.2	—	1,688.5

1 Including equalisation claims resulting from conversion of Berlin pre-capitulation accounts (Supplementary Conversion Law) and from conversion of pre-currency-reform accounts with credit institutions in the Soviet Sector of Berlin (Second Supplementary Conversion Law).

Equalisation claims and non-interest-bearing debt certificate							Claims on Federal Government in respect of			Loans to international institutions and consolidation loans						
	Equalisation claims						acquisition of claims				among which					
Total	Equalisation claims from conversion of own balance sheet 1)	Equalisation claims purchased	less equalisation claims returned in exchange for money-market paper	Total	Debt certificate	Credits to Federal Govt. for participation in international institutions	resulting from post-war economic aid	from B.I.S.	alteration of exchange parity	Total	to I.M.F.	to I.B.R.D.	from liquidation of E.P.U.	Other assets	Total	Date of return
																1968
6,786.3	8,135.1	—	1,896.0	6,239.1	547.2	3,639.5	1,238.3	93.7	201.9	2,448.2	670.0	1,446.8	331.4	530.5	50,152.2	Jan. 7
7,247.1	8,135.1	—	1,435.2	6,699.9	547.2	3,648.5	1,238.3	93.7	201.9	2,448.2	670.0	1,446.8	331.4	406.8	48,990.3	15
7,409.1	8,135.1	—	1,273.2	6,861.9	547.2	3,648.5	1,238.3	93.7	201.9	2,448.2	670.0	1,446.8	331.4	369.8	49,412.0	23
7,160.1	8,135.1	—	1,522.2	6,612.9	547.2	3,633.9	1,238.3	93.7	201.9	2,448.2	670.0	1,446.8	331.4	768.3	50,657.4	31
7,473.8	8,135.1	—	1,208.5	6,926.6	547.2	3,638.0	1,238.3	93.7	201.9	2,546.3	670.0	1,544.9	331.4	360.3	50,410.8	Feb. 7
7,407.9	8,135.1	—	1,274.4	6,860.7	547.2	3,672.6	1,238.3	93.7	201.9	2,546.3	670.0	1,544.9	331.4	399.9	49,477.9	15
7,377.4	8,135.1	—	1,304.9	6,830.2	547.2	3,612.6	1,238.3	93.7	201.9	2,546.3	670.0	1,544.9	331.4	977.8	50,921.5	23
7,377.0	8,135.1	—	1,305.3	6,829.8	547.2	3,872.6	1,238.3	93.7	201.9	2,546.3	670.0	1,544.9	331.4	692.0	51,782.3	29
6,821.9	8,135.1	—	1,860.4	6,274.7	547.2	3,872.6	1,238.3	93.7	201.9	2,546.3	670.0	1,544.9	331.4	381.7	52,242.1	Mar. 7
6,853.4	8,135.1	—	1,828.9	6,306.2	547.2	3,977.8	1,238.3	93.7	201.9	2,546.3	670.0	1,544.9	331.4	370.9	52,534.1	15
6,703.5	8,135.1	—	1,978.8	6,156.3	547.2	4,050.3	1,238.3	93.7	201.9	2,546.3	670.0	1,544.9	331.4	357.0	53,006.0	23
6,664.8	8,135.1	—	2,017.5	6,117.6	547.2	3,970.1	1,238.3	93.7	201.9	2,546.3	670.0	1,544.9	331.4	573.4	52,678.4	31
6,444.7	8,135.1	—	2,237.6	5,897.5	547.2	3,930.3	1,238.3	62.5	201.9	2,546.3	670.0	1,544.9	331.4	465.7	51,829.7	Apr. 7
6,388.3	8,135.1	—	2,294.0	5,841.1	547.2	3,930.3	1,238.3	62.5	201.9	2,546.3	670.0	1,544.9	331.4	396.7	51,725.4	15
6,218.9	8,135.1	—	2,463.4	5,671.7	547.2	3,940.0	1,238.3	62.5	—	2,546.3	670.0	1,544.9	331.4	433.5	51,027.8	23
7,216.2	8,135.1	—	1,466.1	6,669.0	547.2	3,942.1	1,238.3	62.5	—	2,546.3	670.0	1,544.9	331.4	662.5	51,934.8	30
6,710.6	8,135.1	—	1,971.7	6,163.4	547.2	3,954.1	1,238.3	62.5	—	2,546.3	670.0	1,544.9	331.4	360.9	50,895.0	May 7
6,645.5	8,135.1	—	2,036.8	6,098.3	547.2	3,934.2	1,238.3	62.5	—	2,546.3	670.0	1,544.9	331.4	383.7	50,409.6	15
6,825.9	8,135.1	—	1,856.4	6,278.7	547.2	3,934.2	1,238.3	62.5	—	2,546.3	670.0	1,544.9	331.4	364.1	52,195.4	23
6,668.4	8,135.1	—	2,013.9	6,121.2	547.2	3,931.4	1,238.3	62.5	—	2,546.3	670.0	1,544.9	331.4	759.2	52,236.4	31
6,676.7	8,135.1	—	2,005.6	6,129.5	547.2	4,499.4	1,238.3	62.5	—	2,546.3	670.0	1,544.9	331.4	378.6	52,102.1	June 7
6,712.2	8,135.1	—	1,970.1	6,165.0	547.2	4,519.4	1,238.3	62.5	—	2,546.3	670.0	1,544.9	331.4	382.6	52,804.7	15
6,783.8	8,135.1	—	1,898.5	6,236.6	547.2	4,019.4	1,238.3	62.5	—	4,330.3	2,454.0	1,544.9	331.4	447.4	53,109.9	23
7,103.2	8,135.1	—	1,579.1	6,556.0	547.2	4,019.3	1,238.3	62.5	—	4,330.3	2,454.0	1,544.9	331.4	733.1	54,784.2	30
6,792.0	8,135.1	—	1,890.3	6,244.8	547.2	4,075.4	1,223.4	62.5	—	4,330.3	2,454.0	1,544.9	331.4	516.6	54,206.5	July 7
6,666.3	8,135.1	—	2,016.0	6,119.1	547.2	4,022.5	1,223.4	62.5	—	4,330.3	2,454.0	1,544.9	331.4	410.9	53,378.0	15
6,659.3	8,135.1	—	2,023.0	6,112.1	547.2	4,021.9	1,223.4	62.5	—	4,330.3	2,454.0	1,544.9	331.4	436.7	53,294.8	23
6,412.3	8,135.1	—	2,270.0	5,865.1	547.2	3,998.9	1,223.4	62.5	—	4,330.3	2,454.0	1,544.9	331.4	758.7	53,003.5	31
6,385.4	8,135.1	—	2,296.9	5,838.2	547.2	3,998.9	1,223.4	62.5	—	4,340.9	2,454.0	1,643.6	243.3	453.5	52,169.4	Aug. 7
6,190.5	8,135.1	—	2,491.8	5,643.3	547.2	4,013.3	1,223.4	62.5	—	4,340.9	2,454.0	1,643.6	243.3	449.6	51,773.2	15
6,454.1	8,135.1	—	2,228.2	5,906.9	547.2	4,007.1	1,223.4	62.5	—	4,168.9	2,282.0	1,643.6	243.3	694.7	55,135.4	23
6,616.2	8,135.1	—	2,066.1	6,069.0	547.2	4,019.5	1,223.4	62.5	—	4,168.9	2,282.0	1,643.6	243.3	480.9	54,808.8	31
6,491.5	8,135.1	—	2,190.8	5,944.3	547.2	4,030.5	1,223.4	62.5	—	4,168.9	2,282.0	1,643.6	243.3	454.0	55,113.5	Sep. 7
6,498.4	8,135.1	—	2,183.9	5,951.2	547.2	4,025.5	1,223.4	62.5	—	4,168.9	2,282.0	1,643.6	243.3	450.9	54,045.5	15
6,612.6	8,135.1	—	2,069.7	6,065.4	547.2	4,025.5	1,223.4	62.5	—	4,168.9	2,282.0	1,643.6	243.3	458.1	55,171.0	23
6,554.2	8,135.1	—	2,128.1	6,007.0	547.2	4,015.9	1,223.4	62.5	—	4,168.9	2,282.0	1,643.6	243.3	1,180.6	55,876.0	30
6,542.7	8,135.1	—	2,139.6	5,995.5	547.2	4,055.9	1,223.4	62.5	—	4,169.2	2,282.0	1,644.0	243.2	488.9	55,741.4	Oct. 7
6,766.2	8,135.1	—	1,916.1	6,219.0	547.2	4,124.7	1,223.4	62.5	—	4,169.2	2,282.0	1,644.0	243.2	527.6	54,746.1	15
6,542.4	8,135.1	—	2,139.9	5,995.2	547.2	4,124.7	1,223.4	62.5	—	4,169.2	2,282.0	1,644.0	243.2	653.2	54,979.8	23
7,072.2	8,135.1	—	1,610.1	6,525.0	547.2	4,119.9	1,223.4	62.5	—	4,169.2	2,282.0	1,644.0	243.2	1,028.4	56,201.2	31
6,764.0	8,135.1	—	1,918.3	6,216.8	547.2	4,111.9	1,223.4	62.5	—	4,169.2	2,282.0	1,644.0	243.2	572.9	56,165.4	Nov. 7
6,484.7	8,135.1	—	2,197.6	5,937.5	547.2	4,145.7	1,223.4	62.5	—	4,169.2	2,282.0	1,644.0	243.2	487.1	56,399.8	15
6,486.9	8,135.1	—	2,195.4	5,939.7	547.2	4,145.7	1,223.4	62.5	—	3,969.2	2,082.0	1,644.0	243.2	543.4	63,700.7	23
6,433.8	8,135.1	—	2,248.5	5,886.6	547.2	4,136.9	1,223.4	62.5	—	3,969.2	2,082.0	1,644.0	243.2	875.1	61,221.6	30
6,319.4	8,135.1	—	2,362.9	5,772.2	547.2	4,177.7	1,223.4	62.5	—	3,969.2	2,082.0	1,644.0	243.2	489.2	60,273.3	Dec. 7
6,333.7	8,135.1	—	2,348.6	5,786.5	547.2	4,084.9	1,223.4	62.5	—	3,969.2	2,082.0	1,644.0	243.2	574.6	60,110.9	15
6,243.0	8,135.1	—	2,439.3	5,695.8	547.2	4,032.9	1,223.4	62.5	—	3,969.2	2,082.0	1,644.0	243.2	924.3	59,065.3	23
6,148.3	8,135.4	—	2,534.3	5,601.1	547.2	4,052.9	720.9	62.5	—	3,968.9	2,082.0	1,643.7	243.2	812.8	58,710.9	31

Returns of the Deutsche Bundesbank (cont'd)

Millions of DM

Date of return	Liabilities								
		Deposits							
			of						
				public depositors					
	Bank notes in circulation	Total	credit institutions	Total	Federal Government	Federal Special Funds	*Länder*	other public depositors	other German depositors
1968 Jan. 7	29,733.8	15,984.6	14,006.5	1,663.6	18.3	1,258.0	354.0	33.3	314.5
15	28,631.0	15,689.5	13,028.6	2,373.3	220.9	1,155.6	961.3	35.5	287.6
23	26,638.3	18,234.6	12,048.9	5,942.0	2,724.5	1,426.3	1,764.3	26.9	243.7
31	30,088.7	16,214.3	12,615.2	3,340.2	1,468.5	1,157.6	679.5	34.6	258.9
Feb. 7	28,379.0	17,552.0	14,107.5	3,196.6	1,367.8	1,031.5	773.5	23.8	247.9
15	28,194.7	16,791.8	11,903.8	4,647.5	1,803.2	1,108.1	1,676.1	60.1	240.5
23	27,254.3	19,225.1	12,561.0	6,433.4	2,101.0	2,489.5	1,815.2	27.7	230.7
29	30,929.4	16,279.6	12,221.6	3,819.2	1,197.1	1,431.5	1,158.3	32.3	238.8
Mar. 7	29,498.0	18,136.6	14,288.0	3,605.1	1,178.5	1,134.7	1,263.6	28.3	243.5
15	29,049.8	18,955.2	12,331.9	6,382.7	2,514.6	1,143.3	2,690.7	34.1	240.6
23	27,683.6	20,652.0	12,482.4	7,929.0	3,073.3	1,443.0	3,379.1	33.6	240.6
31	31,350.6	16,775.3	11,842.4	4,653.7	1,083.7	1,725.6	1,805.3	39.1	279.2
Apr. 7	30,060.5	17,189.4	12,860.2	4,076.7	1,128.2	1,326.2	1,600.9	21.4	252.5
15	30,081.8	17,211.0	13,487.8	3,462.3	594.9	1,292.6	1,549.9	24.9	260.9
23	27,150.9	19,700.0	13,032.4	6,402.7	2,268.3	1,846.4	2,259.5	28.5	264.9
30	31,006.7	16,744.2	12,399.2	4,034.2	917.2	2,022.2	1,116.8	28.0	260.8
May 7	29,403.6	17,183.5	13,383.0	3,531.7	1,128.4	1,195.0	1,184.0	24.3	268.8
15	28,974.2	17,186.1	12,615.2	4,319.6	1,460.1	987.3	1,832.4	39.8	251.3
23	27,983.9	19,980.7	14,542.1	5,183.1	1,715.2	1,202.7	2,210.2	55.0	255.5
31	31,979.4	15,975.1	13,545.1	2,180.1	242.7	1,069.4	838.0	30.0	249.9
June 7	30,203.7	17,552.1	15,135.6	2,159.2	118.5	1,080.6	933.8	26.3	257.3
15	30,243.7	18,094.5	13,587.2	4,252.7	792.4	1,094.2	2,332.5	33.6	254.6
23	28,760.0	20,011.6	12,062.5	7,689.7	2,980.4	1,208.3	3,445.9	55.1	259.4
30	32,427.7	17,790.5	12,958.6	4,536.9	787.4	1,369.8	2,327.2	52.5	295.0
July 7	31,202.3	18,358.0	14,383.1	3,706.1	400.4	1,271.2	2,007.0	27.5	268.8
15	30,455.9	18,134.6	13,414.8	4,447.1	931.4	962.2	2,512.2	41.3	272.7
23	28,773.9	19,929.1	12,841.5	6,828.3	2,608.7	1,237.4	2,928.2	54.0	259.3
31	32,269.3	16,253.8	12,744.8	3,240.9	537.6	1,099.4	1,561.7	42.2	268.1
Aug. 7	30,439.1	16,906.1	13,866.9	2,779.7	325.9	1,055.7	1,372.5	25.6	259.5
15	30,189.4	16,742.0	12,583.8	3,888.0	1,082.6	826.7	1,936.0	42.7	270.2
23	28,875.6	21,572.9	13,934.1	7,386.1	2,753.9	2,174.0	2,414.7	43.5	252.7
31	32,368.3	17,785.2	14,067.2	3,463.1	792.0	1,495.9	1,149.4	25.8	254.9
Sep. 7	31,029.0	19,345.3	15,522.3	3,546.8	1,240.2	1,068.4	1,216.1	22.1	276.2
15	30,711.5	18,583.2	12,993.8	5,316.4	1,758.7	916.2	2,618.3	23.2	273.0
23	28,634.0	21,810.7	12,301.6	9,220.7	3,866.6	1,144.1	4,171.1	38.9	288.4
30	32,141.6	18,920.2	12,528.6	6,070.6	1,976.3	1,344.7	2,710.4	39.2	321.0
Oct. 7	30,766.4	20,120.3	13,817.4	6,021.8	2,327.2	999.8	2,666.3	28.5	281.1
15	29,923.0	19,758.4	13,234.4	6,245.8	2,079.6	971.4	3,165.5	29.3	278.2
23	28,155.3	21,969.7	13,830.4	7,877.2	3,737.6	880.1	3,224.3	35.2	262.1
31	32,139.6	19,221.6	13,485.8	5,419.8	2,028.4	1,595.7	1,765.8	29.9	316.0
Nov. 7	30,193.2	21,164.1	15,834.2	5,039.4	2,135.3	1,139.1	1,738.5	26.5	290.5
15	30,187.9	21,365.3	15,210.3	5,876.5	2,338.4	973.8	2,500.1	64.2	278.5
23	29,115.0	29,048.3	20,030.9	8,735.7	3,323.7	2,610.8	2,766.2	35.0	281.7
30	33,835.4	22,274.4	17,855.0	4,120.3	1,119.7	1,726.4	1,234.5	39.7	299.1
Dec. 7	33,134.8	22,146.9	18,341.5	3,500.8	1,080.9	1,271.5	1,119.5	28.9	304.6
15	32,703.9	22,419.1	16,753.5	5,364.9	1,141.1	1,411.5	2,780.6	31.7	300.7
23	32,635.5	21,417.5	14,168.8	6,882.6	1,697.8	2,770.1	2,369.7	45.0	366.1
31	32,499.0	21,255.2	17,578.6	3,298.9	58.8	1,660.5	1,523.2	56.4	377.7

Liabilities in respect of foreign business: Total	Deposits of foreign depositors	Others: Total	Others: among which provision of cover for letters of credit and guarantees by foreigners	Others: among which provision of cover for letters of credit and guarantees by residents	Provisions for contingencies	Capital	Reserves	Other liabilities	Total	Date of return
374.6	315.2	59.4	1.7	22.9	1,925.0	290.0	1,080.2	764.0	50,152.2	1968 Jan. 7
368.1	331.3	36.8	1.7	6.2	1,925.0	290.0	1,080.2	1,006.5	48,990.3	15
364.7	320.5	44.2	1.7	12.2	1,925.0	290.0	1,080.2	879.2	49,412.0	23
337.5	295.9	41.6	1.7	11.2	1,925.0	290.0	1,080.2	721.7	50,657.4	31
372.0	303.0	69.0	1.6	10.1	1,925.0	290.0	1,080.2	812.6	50,410.8	Feb. 7
400.5	376.0	24.5	1.5	6.0	1,925.0	290.0	1,080.2	795.7	49,477.9	15
351.1	292.8	58.3	1.6	15.0	1,925.0	290.0	1,080.2	795.8	50,921.5	23
466.0	428.7	37.3	1.5	11.4	1,925.0	290.0	1,080.2	812.1	51,782.3	29
348.1	301.5	46.6	1.5	8.2	1,925.0	290.0	1,080.2	964.2	52,242.1	Mar. 7
315.3	286.5	28.8	1.5	6.4	1,925.0	290.0	1,080.2	918.6	52,534.1	15
474.8	433.6	41.2	1.5	12.3	1,925.0	290.0	1,080.2	900.4	53,006.0	23
401.7	348.9	52.8	1.7	10.5	1,925.0	290.0	1,080.2	855.6	52,678.4	31
360.3	328.8	31.5	1.8	6.2	1,925.0	290.0	1,080.2	924.3	51,829.7	Apr. 7
376.8	349.4	27.4	1.8	6.2	1,925.0	290.0	1,080.2	760.6	51,725.4	15
337.4	297.0	40.4	1.8	2.4	2,110.0	290.0	1,179.7	259.8	51,027.8	23
342.3	294.5	47.8	1.8	15.6	2,110.0	290.0	1,179.7	261.9	51,934.8	30
369.9	313.6	56.3	1.7	12.5	2,110.0	290.0	1,179.7	358.3	50,895.0	May 7
383.7	323.4	60.3	1.8	10.9	2,110.0	290.0	1,179.7	285.9	50,409.6	15
360.8	324.2	36.6	1.8	17.1	2,110.0	290.0	1,179.7	290.3	52,195.4	23
391.4	332.5	58.9	1.8	16.5	2,110.0	290.0	1,179.7	310.8	52,236.4	31
390.4	350.6	39.8	1.7	14.0	2,110.0	290.0	1,179.7	376.2	52,102.1	June 7
449.5	421.0	28.5	1.7	9.0	2,110.0	290.0	1,179.7	437.3	52,804.7	15
391.9	358.4	33.5	1.7	13.5	2,110.0	290.0	1,179.7	366.7	53,109.9	23
512.1	448.6	63.5	1.8	13.3	2,110.0	290.0	1,179.7	474.2	54,784.2	30
525.2	488.5	36.7	1.8	8.0	2,110.0	290.0	1,179.7	541.3	54,206.5	July 7
527.4	481.3	46.1	1.6	5.8	2,110.0	290.0	1,179.7	680.4	53,378.0	15
425.7	383.1	42.6	1.2	12.4	2,110.0	290.0	1,179.7	586.4	53,294.8	23
350.5	319.7	30.8	1.2	13.0	2,110.0	290.0	1,179.7	550.2	53,003.5	31
542.3	509.9	32.4	1.2	10.6	2,110.0	290.0	1,179.7	702.2	52,169.4	Aug. 7
527.8	477.2	50.6	1.2	7.6	2,110.0	290.0	1,179.7	734.3	51,773.2	15
411.7	355.8	55.9	1.4	14.3	2,110.0	290.0	1,179.7	695.5	55,135.4	23
385.8	338.2	47.6	1.4	12.7	2,110.0	290.0	1,179.7	689.8	54,808.8	31
404.8	368.3	36.5	1.3	10.2	2,110.0	290.0	1,179.7	754.7	55,113.5	Sep. 7
389.0	345.7	43.3	2.3	8.2	2,110.0	290.0	1,179.7	782.1	54,045.5	15
351.4	321.3	30.1	2.3	11.7	2,110.0	290.0	1,179.7	795.2	55,171.0	23
456.0	410.6	45.4	2.3	11.8	2,110.0	290.0	1,179.7	778.5	55,876.0	30
406.1	358.2	47.9	2.3	9.3	2,110.0	290.0	1,179.7	868.9	55,741.4	Oct. 7
629.1	572.1	57.0	2.3	6.5	2,110.0	290.0	1,179.7	855.9	54,746.1	15
403.9	367.9	36.0	2.2	12.5	2,110.0	290.0	1,179.7	871.2	54,979.8	23
380.4	353.9	26.5	1.9	10.6	2,110.0	290.0	1,179.7	879.9	56,201.2	31
339.7	296.3	43.4	2.0	9.6	2,110.0	290.0	1,179.7	888.7	56,165.4	Nov. 7
367.0	326.6	40.4	1.8	7.4	2,110.0	290.0	1,179.7	899.9	56,399.8	15
1,025.0	994.7	30.3	1.9	10.9	2,110.0	290.0	1,179.7	932.7	63,700.7	23
523.2	458.3	64.9	1.9	11.2	2,110.0	290.0	1,179.7	1,008.9	61,221.6	30
402.9	369.2	33.7	1.9	9.0	2,110.0	290.0	1,179.7	1,009.0	60,273.3	Dec. 7
418.3	358.9	59.4	2.0	6.5	2,110.0	290.0	1,179.7	989.9	60,110.9	15
422.9	329.9	93.0	2.0	14.5	2,110.0	290.0	1,179.7	1,009.7	59,065.3	23
365.5	322.2	43.3	1.8	12.2	2,110.0	290.0	1,179.7	1,011.5	58,710.9	31

Turnover on the giro accounts of the Deutsche Bundesbank

	Debits				Credits			
	1967		1968		1967		1968	
Area	'000 1)	DM million	'000 1)	DM million	'000 1)	DM million	'000 1)	DM million
Land Central Bank								
Baden-Württemberg	24,818	284,541	27,940	321,684	29,559	284,189	33,032	322,004
Bavaria	34,010	300,665	37,577	343,254	27,714	300,265	31,803	343,814
Berlin	2,280	66,306	2,613	71,823	2,751	66,299	2,899	71,894
Bremen	4,041	34,423	4,335	40,882	5,162	34,372	5,603	40,956
Hamburg	7,563	248,892	8,733	306,579	10,748	248,716	12,998	306,815
Hesse	19,954	423,647	22,896	533,624	20,334	423,825	23,127	534,295
Lower Saxony	20,244	162,596	22,292	179,537	19,688	162,437	21,762	179,755
North Rhine-Westphalia	54,946	843,529	62,526	973,077	57,287	842,402	65,126	974,160
Rhineland-Palatinate	10,772	95,256	11,971	108,001	11,280	95,145	13,296	108 119
Saarland	2,302	22,940	2,654	26,648	2,080	22,923	2,342	26,683
Schleswig-Holstein	5,818	47,683	6,410	54,305	5,102	47,647	5,659	54,337
Total	186,748	2,530,478	209,947	2,959,414	191,705	2,528,220	217,647	2,962,832
Bundesbank – Directorate –	512	316,660	532	358,067	517	316,678	518	358,338
Grand total	187,260	2,847,138	210,479	3,317,481	192,222	2,844,898	218,165	3,321,170

1 Number of transactions

Simplified collection of cheques and debit-entry notes

	Lodged				Paid			
	1967		1968		1967		1968	
Area	'000	DM million	'000	DM million	'000	DM million	'000	DM million
Land Central Bank								
Baden-Württemberg	18,355	36,189	20,928	43,621	16,787	35,497	19,354	43,902
Bavaria	17,024	31,777	20,203	39,784	17,173	34,655	19,747	43,307
Berlin	1,852	5,961	1,989	6,488	1,435	4,267	1,648	5,225
Bremen	3,853	5,089	4,210	6,169	2,560	5,209	2,864	6,215
Hamburg	6,528	16,832	8,427	21,697	4,153	16,862	4,637	18,641
Hesse	13,381	30,654	15,588	38,604	13,962	34,992	16,357	42,861
Lower Saxony	12,881	24,033	14,587	27,725	14,446	23,930	16,264	29,012
North Rhine-Westphalia	38,567	91,287	44,542	110,134	38,519	85,774	44,220	104,536
Rhineland-Palatinate	6,756	12,246	8,384	16,187	6,921	12,118	7,855	15,961
Saarland	1,258	2,659	1,423	3,122	1,426	2,630	1,652	3,148
Schleswig-Holstein	2,804	5,206	3,035	5,839	3,691	5,550	4,142	6,593
Total	123,259	261,933	143,316	319,370	121,073	261,484	138,740	319,401
Bundesbank – Directorate –	16	56	19	70	5	33	6	40
Grand total	123,275	261,989	143,335	319,440	121,078	261,517	138,746	319,441

Telegraphic giro transactions

telegraphic giro transfers dispatched

	1967		1968	
Area	'000	DM mn	'000	DM mn
Land Central Bank				
Baden-Württemberg	34	52,214	34	57,884
Bavaria	33	49,858	34	55,704
Berlin	5	19,833	5	20,996
Bremen	3	3,585	3	4,574
Hamburg	14	31,612	15	36,070
Hesse	35	92,564	37	112,670
Lower Saxony	22	28,834	22	32,214
North Rhine-Westphalia	64	151,962	64	168,345
Rhineland-Palatinate	12	14,527	13	16,651
Saarland	2	3,774	3	4,379
Schleswig-Holstein	6	7,566	6	9,851
Total	230	456,329	236	519,338
Bundesbank – Directorate –	6	3,755	6	5,490
Grand total	236	460,084	242	524,828

Certified cheques

	1967		1968	
Land Central Bank	number	DM mn	number	DM mn
Baden-Württemberg	1,640	2,665	1,901	2,710
Bavaria	843	942	1,022	1,316
Berlin	98	10	75	11
Bremen	21	—	60	2
Hamburg	134	20	252	68
Hesse	1,584	1,812	1,605	1,678
Lower Saxony	333	368	317	424
North Rhine-Westphalia	9,239	17,491	8,743	19,831
Rhineland-Palatinate	311	144	320	133
Saarland	6	1	3	—
Schleswig-Holstein	219	122	103	51
Total	14,428	23,575	14,401	26,224

Turnover in clearing transactions

Land Central Bank	1967 Bills, cheques, etc., lodged '000	1967 Bills, cheques, etc., lodged DM mn	1967 Local transfers lodged '000	1967 Local transfers lodged DM mn	1967 Total '000	1967 Total DM mn	1968 Bills, cheques, etc., lodged '000	1968 Bills, cheques, etc., lodged DM mn	1968 Local transfers lodged '000	1968 Local transfers lodged DM mn	1968 Total '000	1968 Total DM mn
Baden-Württemberg	22,025	58,239	9,291	16,095	31,316	74,334	24,659	67,929	10,874	19,248	35,533	87,177
Bavaria	22,831	61,259	15,209	16,837	38,040	78,096	25,273	69,802	17,330	20,099	42,603	89,901
Berlin	5,079	14,906	5,052	21,767	10,131	36,673	5,773	17,018	5,916	25,132	11,689	42,150
Bremen	4,191	10,141	5,556	10,648	9,747	20,789	4,556	11,491	5,963	10,808	10,519	22,299
Hamburg 1)	8,188	30,981	29,698	224,803	37,886	255,784	9,732	33,300	36,551	281,716	46,283	315,016
Hesse	17,867	231,051	8,533	565,155	26,400	796,206	20,193	313,415	10,032	868,224	30,225	1,181,639
Lower Saxony	13,434	30,113	7,888	13,150	21,322	43,263	14,565	33,209	9,027	15,548	23,592	48,757
North Rhine-Westphalia	48,480	121,952	19,786	113,624	68,266	235,576	53,974	138,993	23,724	147,644	77,698	286,637
Rhineland-Palatinate	7,128	15,493	3,349	4,987	10,477	20,480	7,768	17,274	3,745	5,682	11,513	22,956
Saarland	1,943	4,908	2,027	6,153	3,970	11,061	2,105	5,430	2,058	7,120	4,163	12,550
Schleswig-Holstein	4,750	8,315	6,607	6,797	11,357	15,112	5,376	9,141	7,428	7,894	12,804	17,035
Total	155,916	587,358	112,996	1,000,016	268,912	1,587,374	173 974	717,002	132,648	1,409,115	306,622	2,126,117

1 The Hamburg clearing transactions, to which special arrangements apply, include moreover 1968: 1,776,000 transfers to and from other places amounting to DM 4,796 million (1967: 1,265,000 amounting to DM 3,468 million)

Bank note circulation

Position at end of year

Notes at DM	1965 DM million	1965 %	1966 DM million	1966 %	1967 DM million	1967 %	1968 DM million	1968 %
1,000	1,080.77	3.67	1,237.06	4.02	1,418.43	4.49	1,773.73	5.46
500	715.72	2.43	1,068.68	3.47	1,250.07	3.96	1,452.24	4.47
100	14,938.80	50.72	15,942.35	51.81	16,407.94	51.96	16,897.53	51.99
50	8,387.85	28.48	8,190.40	26.62	8,063.18	25.54	7,917.25	24.36
20	2,614.43	8.87	2,627.49	8.54	2,671.33	8.46	2,662.04	8.19
10	1,472.20	5.00	1,471.15	4.78	1,540.00	4.88	1,582.92	4.87
5	245.81	0.83	233.02	0.76	223.28	0.71	213.27	0.66
Total	29,455.58	100.00	30,770.15	100.00	31,574.23	100.00	32,498.98	100.00

Coin in circulation

Position at end of year

Coin at DM	1965 DM million	1965 %	1966 DM million	1966 %	1967 DM million	1967 %	1968 DM million	1968 %
5.--	599.30	30.01	660.80	30.94	722.04	32.02	806.84	33.02
2.—	310.47	15.55	335.26	15.70	359.28	15.93	389.17	15.93
1.—	543.41	27.21	565.19	26.46	584.92	25.94	617.64	25.27
—.50	239.18	11.98	253.71	11.88	266.41	11.81	285.07	11.67
—.10	194.78	9.75	203.16	9.51	200.64	8.90	213.20	8.72
—.05	60.48	3.03	64.50	3.02	64.55	2.86	69.34	2.84
—.02	15.49	0.77	17.48	0.82	19.58	0.87	22.27	0.91
—.01	34.02	1.70	35.77	1.67	37.63	1.67	40.12	1.64
Total	1,997.13	100.00	2,135.87	100.00	2,255.05	100.00	2,443.65	100.00

Serial number	Bank place	Appropriate Main Branch	Land Central Bank [1]
39	51 Aachen	Aachen	NW
563	708 Aalen	Ulm	BW
282	322 Alfeld	Hildesheim	N
415	599 Altena	Hagen	NW
655	845 Amberg	Regensburg	BY
447	547 Andernach [2]	Koblenz	R
646	88 Ansbach	Nürnberg	BY
416	577 Arnsberg	Lippstadt	NW
614	875 Aschaffenburg	Würzburg	BY
68	89 Augsburg	Augsburg	BY
536	757 Baden-Baden	Karlsruhe	BW
429	643 Bad Hersfeld	Fulda	H
469	655 Bad Kreuznach	Mainz	R
699	823 Bad Reichenhall	München	BY
62	86 Bamberg	Nürnberg	BY
63	858 Bayreuth	Hof	BY
352	472 Beckum	Hamm	NW
496	614 Bensheim	Darmstadt	H
1	1 Berlin (West)	Berlin	B
444	524 Betzdorf	Koblenz	R
597	795 Biberach	Ulm	BW
424	356 Biedenkopf	Gießen	H
26	48 Bielefeld	Bielefeld	NW
481	653 Bingen	Mainz	R
462	552 Bitburg	Trier	R
313	429 Bocholt	Münster	NW
346	463 Bochum	Bochum	NW
603	703 Böblingen considered as part of the bank place Sindelfingen	Stuttgart	BW
442	53 Bonn	Bonn	NW
29	33 Braunschweig	Braunschweig	N
21	28 Bremen	Bremen	HB
215	285 Bremerhaven	Bremen	HB
531	752 Bruchsal	Karlsruhe	BW
267	498 Bünde	Minden	NW
272	31 Celle	Hannover	N
622	863 Coburg	Hof	BY
221	219 Cuxhaven	Lüneburg	N
49	61 Darmstadt	Darmstadt	H
673	836 Deggendorf	Regensburg	BY
278	493 Detmold	Bielefeld	NW
451	634 Dillenburg	Gießen	H
34	46 Dortmund	Dortmund	NW
395	516 Düren	Aachen	NW
36	4 Düsseldorf	Düsseldorf	NW
32	41 Duisburg	Duisburg	NW
331	41 Duisburg-Hamborn	Duisburg	NW
592	747 Ebingen	Reutlingen	BW
224	22 Elmshorn	Lübeck	SH
212	297 Emden	Oldenburg	N
322	424 Emmerich	Duisburg	NW
643	852 Erlangen	Nürnberg	BY
428	344 Eschwege	Kassel	H
33	43 Essen	Essen	NW
554	73 Esslingen	Stuttgart	BW
397	535 Euskirchen	Bonn	NW
232	239 Flensburg	Flensburg	SH
4	6 Frankfurt	Frankfurt	H
57	78 Freiburg	Freiburg	BW
435	636 Friedberg	Gießen	H
599	799 Friedrichshafen	Konstanz	BW
644	851 Fürth	Nürnberg	BY
433	64 Fulda	Fulda	H
689	81 Garmisch-Partenkirchen	München	BY
438	646 Gelnhausen	Fulda	H
341	465 Gelsenkirchen	Gelsenkirchen	NW
317	466 Gelsenkirchen-Buer	Gelsenkirchen	NW
385	582 Gevelsberg	Hagen	NW
43	63 Gießen	Gießen	H
316	439 Gladbeck	Gelsenkirchen	NW
323	418 Goch	Krefeld	NW
565	732 Göppingen	Ulm	BW
288	34 Göttingen	Göttingen	N
296	338 Goslar	Braunschweig	N
353	483 Gütersloh	Bielefeld	NW
441	527 Gummersbach	Bonn	NW
41	58 Hagen	Hagen	NW
2	2 Hamburg	Hamburg	HH
22	2 Hamburg-Altona	Hamburg	HH
226	21 Hamburg-Harburg	Hamburg	HH
279	325 Hameln	Hannover	N
35	47 Hamm	Hamm	NW
439	645 Hanau	Frankfurt	H
27	3 Hannover	Hannover	N
236	224 Heide	Flensburg	SH
523	69 Heidelberg	Mannheim	BW
567	792 Heidenheim	Ulm	BW
54	71 Heilbronn	Heilbronn	BW
293	333 Helmstedt	Braunschweig	N
269	49 Herford	Bielefeld	NW
343	469 Herne	Bochum	NW
367	401 Hilden	Düsseldorf	NW
28	32 Hildesheim	Hildesheim	N
452	541 Höhr-Grenzhausen	Koblenz	R
633	867 Hof	Hof	BY
284	345 Holzminden	Göttingen	N
231	225 Husum	Flensburg	SH
474	658 Idar-Oberstein	Mainz	R
66	807 Ingolstadt	München	BY
411	586 Iserlohn	Dortmund	NW
222	221 Itzehoe	Kiel	SH
393	517 Jülich	Aachen	NW
513	675 Kaiserslautern	Kaiserslautern	R
53	75 Karlsruhe	Karlsruhe	BW
42	35 Kassel	Kassel	H
686	895 Kaufbeuren	Augsburg	BY
685	896 Kempten	Augsburg	BY
23	23 Kiel	Kiel	SH
619	871 Kitzingen	Würzburg	BY
321	419 Kleve	Krefeld	NW
44	54 Koblenz	Koblenz	R
3	5 Köln	Köln	NW
378	5 Köln-Mülheim	Köln	NW
58	775 Konstanz	Konstanz	BW
421	354 Korbach	Kassel	H
363	415 Krefeld	Krefeld	NW
634	865 Kulmbach	Hof	BY
571	763 Lahr	Freiburg	BW
519	674 Landau	Ludwigshafen	R
67	83 Landshut	Regensburg	BY

Serial number	Bank place	Appropriate Main Branch	Land Central Bank [1])
432	642 Lauterbach	Fulda	H
216	295 Leer	Oldenburg	N
277	492 Lemgo	Bielefeld	NW
453	625 Limburg	Wiesbaden	H
688	899 Lindau	Augsburg	BY
262	445 Lingen	Osnabrück	N
356	478 Lippstadt	Lippstadt	NW
577	785 Lörrach	Freiburg	BW
548	714 Ludwigsburg	Stuttgart	BW
51	67 Ludwigshafen	Ludwigshafen	R
24	24 Lübeck	Lübeck	SH
417	588 Lüdenscheid	Hagen	NW
227	314 Lüneburg	Lüneburg	N
48	65 Mainz	Mainz	R
52	68 Mannheim	Mannheim	BW
425	355 Marburg	Gießen	H
638	859 Marktredwitz	Hof	BY
449	544 Mayen	Koblenz	R
683	894 Memmingen	Augsburg	BY
412	575 Menden	Dortmund	NW
617	876 Miltenberg	Würzburg	BY
268	495 Minden	Minden	NW
365	405 Mönchen-gladbach	Mönchen-gladbach	NW
325	413 Moers	Duisburg	NW
526	695 Mosbach	Heilbronn	BW
335	433 Mülheim	Essen	NW
6	8 München	München	BY
31	44 Münster	Münster	NW
413	576 Neheim-Hüsten	Lippstadt	NW
238	235 Neumünster	Kiel	SH
478	668 Neunkirchen	Saarbrücken	S
366	404 Neuß	Köln	NW
239	243 Neustadt	Lübeck	SH
514	673 Neustadt	Ludwigshafen	R
56	791 Neu-Ulm [3]) considered as part of the bank-place Ulm	Ulm	BW
448	545 Neuwied	Koblenz	R
271	307 Nienburg	Hannover	N
661	886 Nördlingen	Augsburg	BY
211	298 Norden	Oldenburg	N
263	446 Nordhorn	Osnabrück	N
286	341 Northeim	Göttingen	N
64	85 Nürnberg	Nürnberg	BY
333	42 Oberhausen	Oberhausen	NW
491	605 Offenbach	Frankfurt	H
539	76 Offenburg	Karlsruhe	BW
217	29 Oldenburg	Oldenburg	N
419	596 Olpe	Siegen	NW
376	567 Opladen	Remscheid	NW
265	45 Osnabrück	Osnabrück	N
298	336 Osterode	Göttingen	N
357	479 Paderborn	Lippstadt	NW
677	839 Passau	Regensburg	BY
275	315 Peine	Hildesheim	N
534	753 Pforzheim	Stuttgart	BW
518	678 Pirmasens	Kaiserslautern	R
418	597 Plettenberg	Hagen	NW
535	755 Rastatt	Karlsruhe	BW
59	798 Ravensburg	Konstanz	BW
318	435 Recklinghausen	Gelsenkirchen	NW
65	84 Regensburg	Regensburg	BY

Serial number	Bank place	Appropriate Main Branch	Land Central Bank [1])
446	548 Remagen	Koblenz	R
374	563 Remscheid	Remscheid	NW
237	237 Rendsburg	Kiel	SH
55	741 Reutlingen	Reutlingen	BW
312	444 Rheine	Münster	NW
368	407 Rheydt	Mönchen-gladbach	NW
697	82 Rosenheim	München	BY
591	721 Rottweil	Reutlingen	BW
47	66 Saarbrücken	Saarbrücken	S
476	663 Saarlouis	Saarbrücken	S
578	788 Säckingen	Freiburg	BW
516	667 St. Ingbert	Saarbrücken	S
234	238 Schleswig	Flensburg	SH
647	854 Schwabach	Nürnberg	BY
562	707 Schwäbisch Gmünd	Stuttgart	BW
545	717 Schwäbisch Hall	Heilbronn	BW
616	872 Schweinfurt	Würzburg	BY
593	722 Schwenningen considered as part of the bank place Villingen	Freiburg	BW
443	52 Siegburg	Bonn	NW
445	59 Siegen	Siegen	NW
603	7032 Sindelfingen	Stuttgart	BW
584	77 Singen	Konstanz	BW
355	477 Soest	Hamm	NW
373	565 Solingen	Remscheid	NW
515	672 Speyer	Ludwigshafen	R
273	496 Stadthagen	Hannover	N
396	519 Stolberg	Aachen	NW
672	844 Straubing	Regensburg	BY
5	7 Stuttgart	Stuttgart	BW
465	558 Traben-Trarbach	Trier	R
46	55 Trier	Trier	R
557	74 Tübingen	Reutlingen	BW
594	72 Tuttlingen	Konstanz	BW
229	311 Uelzen	Lüneburg	N
56	79 Ulm	Ulm	BW
354	475 Unna	Hamm	NW
338	562 Velbert	Wuppertal-Elberfeld	NW
362	406 Viersen	Mönchen-gladbach	NW
582	773 Villingen	Freiburg	BW
705	705 Waiblingen	Stuttgart	BW
359	353 Warburg	Lippstadt	NW
653	848 Weiden	Regensburg	BY
521	694 Weinheim [2])	Mannheim	BW
528	698 Wertheim	Heilbronn	BW
324	423 Wesel	Duisburg	NW
454	633 Wetzlar	Gießen	H
45	62 Wiesbaden	Wiesbaden	H
213	294 Wilhelmshaven	Oldenburg	N
382	581 Witten	Dortmund	NW
489	652 Worms	Mainz	R
61	87 Würzburg	Würzburg	BY
38	56 Wuppertal-Barmen	Wuppertal-Elberfeld	NW
37	56 Wuppertal-Elberfeld	Wuppertal-Elberfeld	NW
517	666 Zweibrücken	Kaiserslautern	R

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

2 These Branches were closed down on 31 March 1969.

3 Belonging to the area of the Land Central Bank in Bavaria.

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