Report of the Deutsche Bundesbank

for the Year 1969

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The German original went to press on April 3, 1970

Part A: General Part

Economic Trends and Central Bank Policy

I. General survey

The Deutsche Bundesbank's monetary policy in 1969 was directed to checking the price rise within the country. Owing to the continued strong increase of foreign demand, and the faster rise of domestic demand, production facilities were fully employed throughout the year and not infrequently overstrained. The labour shortage increased further, although the number of foreign workers was materially enlarged by new recruiting. Despite the internal boom the Federal Republic of Germany's balance of trade and services continued to show large surpluses, so that the domestic market tensions were not reduced, at all events from that direction. Although production proved to be quite flexible, the total supply of goods and services fell appreciably short of the demand; consequently price stability became more and more endangered in the course of the year. Monetary policy strove throughout the year to counteract the instability by keeping the banks as short of liquidity as possible and by raising the interest rate level. But Germany's fundamental external disequilibrium and the consequent foreign exchange accruals, accentuated by repeated floods of incoming speculative money, largely nullified the effect of the restrictive monetary policy measures. The banks and industry remained very liquid, so that, from the monetary angle, there was nothing to impede the start of an inflationary adjustment process.

The revaluation of the Deutsche Mark in the autumn of 1969 formed a turning point for monetary policy as well as for Germany's foreign trade and payments situation. Foreigners were convinced that the Deutsche Mark was no longer undervalued, and that further exchange profits could not now be achieved. Consequently large amounts of money which before revaluation had found their way into Germany by many channels flowed back abroad. In this way the banks' liquidity was reduced, and credit became scarcer and dearer. The entire financial climate in Germany changed radically. The Bundesbank's monetary reserves, which before revaluation had swollen to an unusual extent, reverted to normal size. Since large amounts of long-term capital continued to be exported, however, against the background of trade surpluses which – while also considerable – were not nearly so large, Germany's basic balance of payments continued to show deficits, although of decreasing dimensions. In order to restore internal and external equilibrium as quickly as possible the Bundesbank, with Government fiscal policy directed to the same object, stepped up its restrictive pressure at the beginning of March 1970 by additional monetary policy measures.

1. The German economy before the Deutsche Mark revaluation

(a) Increase of excess demand

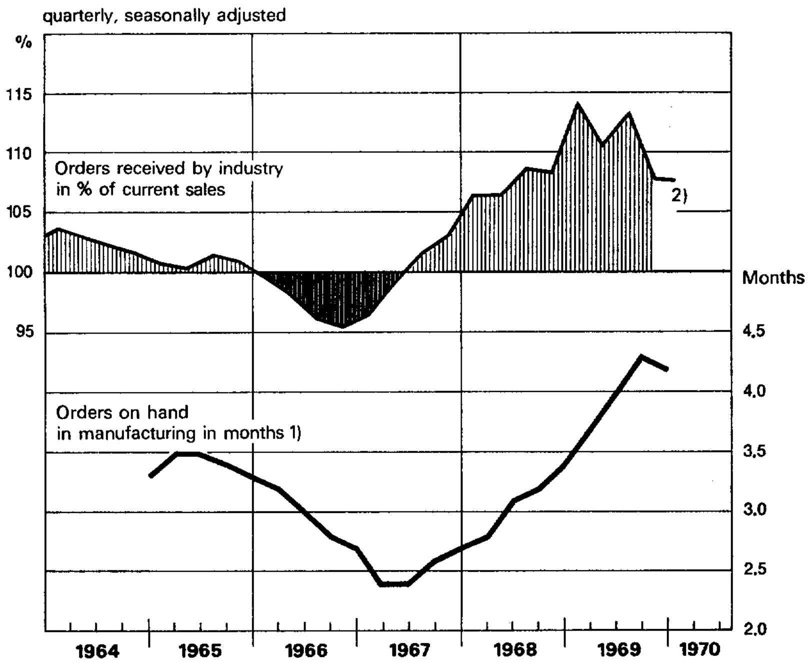
Large order backlogs

Trade and industry in the Federal Republic of Germany began 1969 with order books already full, and – to anticipate – ended that year with a still greater stock of uncompleted orders. The order backlog at the beginning of the year had been the result of the unusually steep upswing which started in 1967, with the support of economic and monetary policy, and which promptly raised demand to an excessively high level in relation to the current supply of goods and services. The stocks of unfilled orders in industry were already higher at the beginning of 1969 than during the last boom in 1964/65. Throughout the first three quarters of 1969 the inflow of new orders from at home and abroad rose as strongly as before. In this period incoming orders from abroad increased by an especially large amount (18 % after seasonal adjustment), but home market orders also grew at a very similar rate. Not until revaluation of the Deutsche Mark in the autumn did the tendency change.

Economic activity internationally synchronised

The persistent strong increase of foreign demand during a boom increasingly fuelled by the home market revealed problems of a severity which had been foreign to earlier booms. The pattern typical of previous upswings had been that the rise of foreign demand, after having as a rule begun earlier and for a time been greater than that of domestic demand, slackened when domestic investors – encouraged not least by better export business – and consumers appreciably expanded their own buying; in addition, during that phase imports greatly increased. This process of self-correction, reflected in earlier booms by a diminishing export surplus, failed to operate in the period before the last revaluation. One

Surplus demand



1) Production period assured by order backlogs. End-of-quarter positions. Source of original figures: IFO Institute.- 2) Jan./Feb. 1970.

reason was that the business cycle in Germany during 1969 marched largely in step with that of the rest of the world. In all important countries trading with Germany the tendency was definitely upward in 1969, apart from first signs of weakening in the United States from the summer of that year onwards. German industry was therefore in great demand as a supplier to help in reducing these countries' shortages, reflected, inter alia, in an accelerated price rise. The customers of German exporting industries were not deterred by the fact that they had to pay appreciably more for German goods from the end of 1968 onwards, initially because of the newly introduced 4 % export tax, but then also because of additional price increases for German exports. In September 1969, that is, immediately before revaluation of the Deutsche Mark, German export prices were 7 % higher than a year before.

Competitive advantage of German goods only slightly reduced

Another point, no less important, was that although German exports had become a good deal dearer in the immediately preceding months they certainly did not lose all their advantage on price before revaluation, since that advantage was at the outset great and the customer countries themselves experienced price rises, though not as a rule of equal extent. Moreover, from time to time the foreign customers also felt it expedient on speculative grounds to place additional orders in Germany; at all events foreign orders always rose especially fast when the foreign exchange inflow into Germany expanded on renewed expectation that the Deutsche Mark would be revalued. To that extent many export orders were advanced, with the result that after revaluation the order inflow for a time declined quite sharply. These recurring spates of foreign demand and also of inflowing foreign exchange were indeed of a "speculative" nature, inasmuch as foreigners hoped for an exchange rate alteration and hence for exchange profits; but this "speculation" was based on entirely realistic economic and political assumptions – in particular, on the consideration that the German economic authorities might not submit to leaving correction of Germany's competitive advantage over other countries to an inflationary adjustment process at home.

Domestic demand follows suit

Upward adjustment of the domestic price and cost level, in the circumstances the only alternative to revaluation, did indeed proceed all the faster, the longer the exchange rate alteration was delayed. Whereas in 1968 the expansion of domestic demand had been impelled chiefly by investment, during 1969 there was also a quickening of private consumption. Had the pattern of earlier cycles been repeated, some flagging of investment would have been due in this period. To expect such repetition in the special conditions of 1969 was the crucial error of those forecasters who, in the autumn of 1968 and even at the beginning of 1969, had prophesied that the propensity to invest would slacken off in the second half of 1969, and had thereby very wrongly encouraged the then prevalent attitude of "wait and see" in economic affairs. However, up till the revaluation in October the increase of capital project planning not only continued but actually speeded up. During the first three quarters of 1969 German firms planning capital projects gave almost 40 % more orders than a year previously to home capital goods industries, other than vehicle building, whereas in 1968 the increase had amounted to about 20 %. In September 1969, the last month before revaluation, the orders reaching these industries were some 90 % greater than at the beginning of 1967, the cyclical low $2^1/_2$ years earlier.

Causes of the investment boom only in part non-monetary

The reason why the present investment boom far exceeds all its predecessors in strength, and why its end cannot yet be foreseen as this Report goes to press, lies not only in non-monetary factors but also – and presumably for the most part – in tax and other financial considerations. Among the real factors influencing decisions about investment, nothing would seem to have changed so spectacularly during recent years as to justify such an explosion of investment planning. It is true that the labour shortage has never before been so marked, and that for this reason the incentive to invest in labour-saving projects has been especially great. Technological progress may also have been faster in some cases, and have provided a greater stimulus to renew existing installations. The demand for capital goods for enlargement of plants, on the other hand, would not seem to have diverged far from earlier patterns. If only because of the inevitable limits set by the availability of labour, the possible real growth of the national product, which is the governing factor here at medium term, will probably not exceed the earlier medium-term average of about $4^1/_2$ % per annum. The precipitous rise in orders for machinery and equipment – up by 90 % on the 1967 cyclical trough, and by 40 % on the last (1965) peak – cannot be fully explained from this angle. It can on the contrary be assumed that the capacity extensions envisaged by enterprises as a whole, if actually realised within a short period, would lead for a time to excess capacity, at least in many fields.

Importance of financial incentives

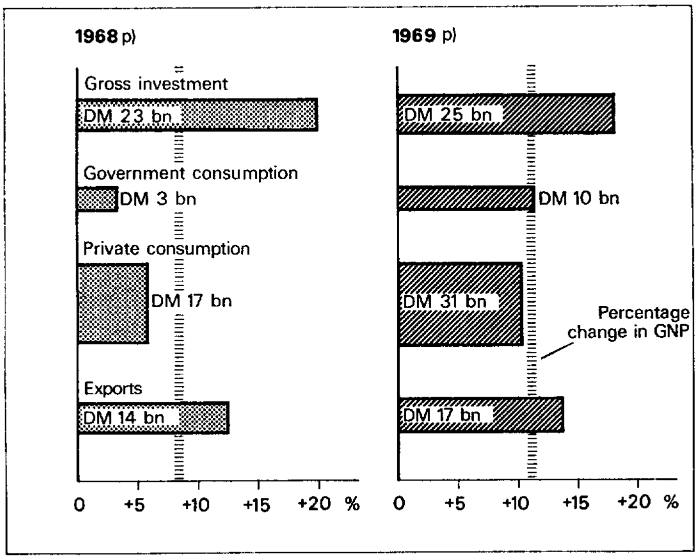
An, if anything, more important reason for the increase of the propensity to invest is to be found in the financial aspects of the decisions to do so. Thus, the great rise of profits since 1967, the improvement of enterprises' financial positions through the tax regulation about old stocks on the change-over to value-added tax, the large amounts of liquidity accruing to enterprises from abroad, and the relatively low interest rates, have facilitated these decisions and in many cases no doubt speeded them up. In addition there were tax considerations, which operated with procyclical effect particularly in connection with equipment investments, where the widespread practice of declining-balance depreciation during the first few years results in especially heavy writing down, on a scale which exceeds the average wear and tear and so reduces the taxable profit. Tax considerations of this kind were of course also a factor in earlier business cycles. But since then they would seem to have become more important, especially for firms not in limited company form (roughly two thirds of all taxes on profits come from such firms), inasmuch as the "marginal" tax burden has grown because of the progressive tax scale, and with it the advantage conferred by extra depreciation. In addition, since the beginning of 1968 all enterprises have benefited as investors from the annual reduction of the so-called investment tax levied as an element of the value-added tax, and will do so until the investment tax ceases to operate at the beginning of 1973. Proposals that this reduction of tax should be temporarily suspended on grounds of anticyclical policy did not get beyond the stage of first discussions.

Influence of the growing expectation of inflation

Perhaps an even more important reason for the latest investment boom than those so far listed, however, was a change in the estimation of further price movement. On the one hand signs of big price rises multiplied in the case of machinery and

Components of demand

Changes on preceding year 1)



Source: Federal Statistical Office.- 1) The shaded areas correspond to the share of the change in overall demand accounted for by the changes in the individual components.- p) Provisional.

equipment, and these in themselves hastened the placing of orders, on the principle that to invest now is cheaper than to wait. On the other hand firms were more and more able to achieve price increases for their own products. The expectation that prices would rise at a faster rate was supported in that connection from two sides. First, it became increasingly clear that very powerful upward price tendencies were spreading throughout the western world. Secondly, it was questionable, in the light of economic policy discussions in Germany until the Deutsche Mark was floated, whether timely and adequate steps would be taken to prevent domestic prices and wages from adjusting to the higher foreign level. The non-revaluation of the Deutsche Mark, and the absence of any direct action by the Federal Government to check investment activity, could at all events be construed by enterprises as opting for inflation, to bring Germany into line with other countries. In addition it proved impossible perceptibly to counteract the growing expectation of price rises by means of a correspondingly high level of interest rates in the period before revaluation. Monetary policy was unable, in view of the repeated speculative money inflows, to raise the level of interest rates at home to anywhere near that ruling abroad. Some of the factors mentioned as accelerating investment in machinery and equipment became increasingly important for building investment as well during the first three quarters of 1969, and this applied not only to the building activity of enterprises and public authorities but also to house-building. The amount of house-building planned again rose in 1969, although the relatively high standard of housing and the decrease of government aid would rather have led one to expect a decline in the longer run.

Income and consumption in the grip of the boom

Private incomes, especially wages and salaries, and private consumer expenditure as a whole did not remain unaffected by the speeding up of foreign demand and investment during the first three quarters of 1969. During the first half of the year consumer expenditure – in line with the growth of incomes – was already 10 % greater than a year previously (against growth by 6 % in 1968), and in the third quarter of 1969 the rise continued at the same pace. The propensity to save hardly increased during that period, and hence exerted practically no restraining influence on total demand. Until that time households' income and consumption played no independent role, but a role derived from the other – dynamic – elements of overall demand.

(b) Great expansion of supply as counterpoise

Sharp increase of output through rationalisation . . .

The great increase of total demand touched off a considerable rise, typifying the dynamic state of the German economy, in the supply of goods and services. Internally this was manifested in an expansion of output which, after an upswing that had already lasted two years and longer, was exceptionally large. Thus the real gross national product in the first half of 1969 was greater than a year previously by $8^1/_2$ %, a rate of growth which even exceeded the considerable (7 %) rise of the gross national product in 1968. In the third quarter of 1969 the growth rate was equally high. A quite crucial contributing cause was the advance of productivity. Total production per man-hour was fully 7 % greater in the first half and the third quarter of 1969 than a year before. The basis of this productivity increase, unexpectedly great by earlier standards, was provided by the further rise in the degree to which plants were utilised, due among other things to working more than one shift. But evidently the last few years' capital expenditure has also been particularly fruitful in the technical sense, either in the form that great advances in the use of new production methods were indeed achieved in specific fields – this is in particular suggested by the far more than proportionate expansion in the sale of capital goods for automating the production process (electronic controlling and measuring devices, information systems, and the like) – or that further great progress was made in the organisation of work, and in the retraining and advanced training of workers. What is noteworthy is that during recent years not only the Federal Labour Office but also enterprises and employees' organisations have striven harder and spent more to bring about, through further vocational training, an increase befitting technological progress in workers' mobility between different trades.

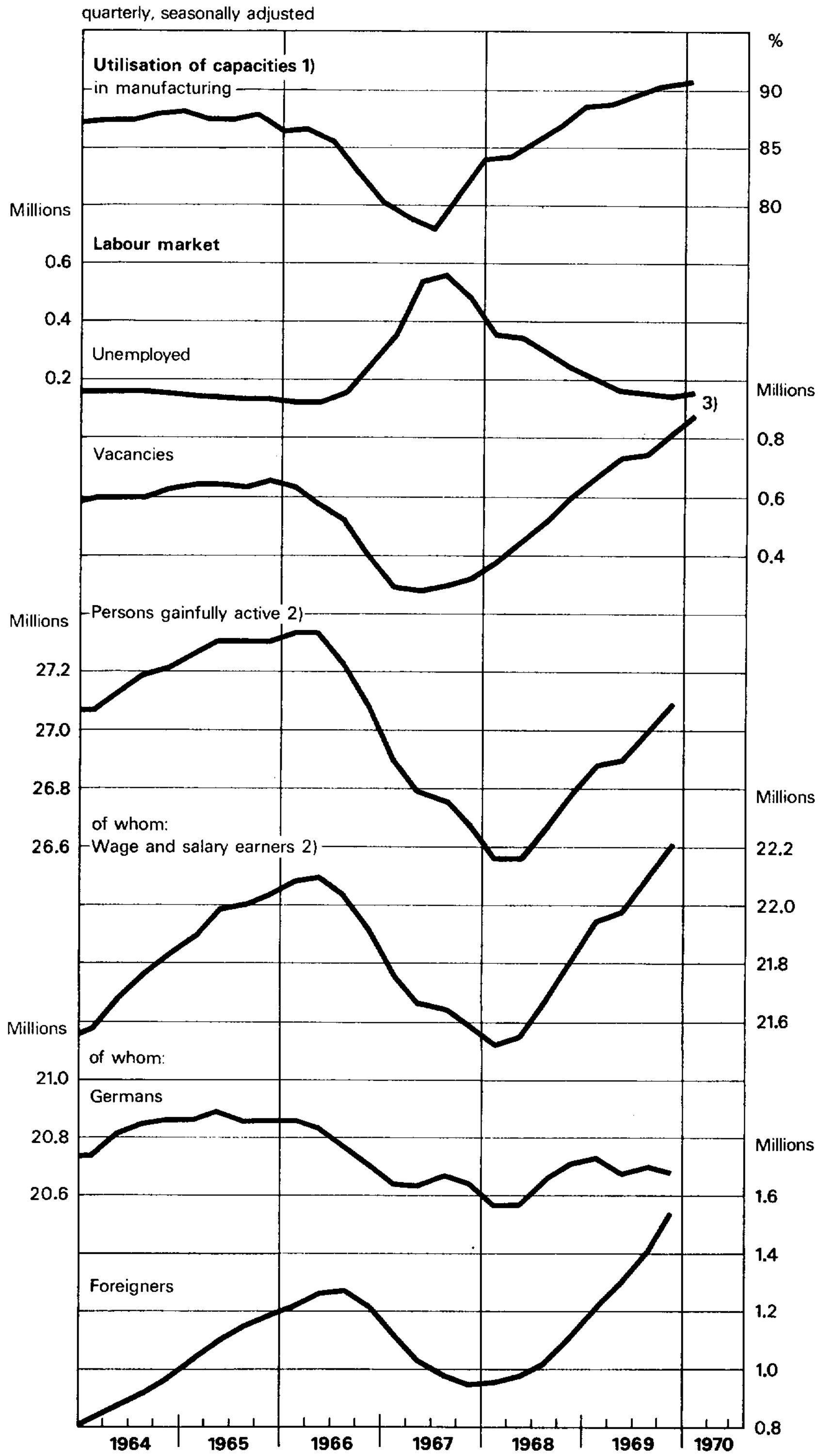
. . . and further expansion of the labour potential

The rise of production entailed complete exhaustion of the domestic labour supply and, moreover, the recruiting of supplementary foreign workers. As had been expected, the domestic labour reserves yielded little additional manpower. In the third quarter of 1969 only 60,000 more residents were employed than a year before. This growth was in effect confined to the re-employment of people out of work; other labour reserves could no longer be mobilised, particularly since the total number of persons of employable age appears to have decreased. By far the bulk of the rise in persons employed came from abroad. At the end of September 1969 some 1.5 million foreign workers were employed in Germany, this being about 400,000, or nearly two fifths, more than a year previously. It was moreover remarkable that, contrary to some wage agreements, the tendency towards a reduction in working hours no longer continued; there was indeed a slight increase in the number of hours worked per employee, at least in industry.

Growth of supply due to imports

The domestic supply of goods was expanded through a rise in imports, even more than through recourse to foreign labour reserves. On the average for the first three quarters of 1969, in terms of value, 22 % more was imported than in the corresponding period of 1968. Imports thus grew practically twice as fast as the national product, but "import elasticity" was not so great as in the preceding boom periods, when the percentage rise of imports had at times been almost three times as fast as that of the national product. This reflected, on the imports side as well, the consequences of "harmonising" international cyclical movements. In earlier cycles Germany had benefited during the boom phase from the fact that some other countries were in the trough, and therefore depended more on exports than they do now. In 1969 foreign suppliers were not obliged to export to Germany "at any price"; this is shown by the fact that even before revaluation they had considerably raised their selling prices. Thus the import price index, which perhaps somewhat overstates the price movement, rose between September 1968 and September 1969 by more than 5 %, that is, by at least as much as foreign suppliers raised selling prices in their home countries, and no doubt by more than producers in Germany at the same time raised their domestic prices. The relatively great increase in the price of imported goods did not weaken their competitive power, however, since from November 1968 onwards importers were granted a 4 % subsidy on industrial imports into Germany.

Utilisation of productive capacity reserves



1) Measured in % of optimum utilisation. Position at beginning of quarter (source: IFO Institute).- 2) Calculated by Bundesbank.- 3) Jan./Feb. 1970.

(c) Mounting internal imbalance

Markets increasingly overtaxed

Despite the great rise of production and imports it proved impossible, until revaluation, even to reduce the internal imbalance; on the contrary, more and more signs indicated that the economy was increasingly overstrained. The orders reaching industry, and before long also the building trade, constantly exceeded deliveries. By the end of September 1969 the industrial order backlogs, already very large at the end of 1968, had grown by a full month's output. In relation to the volume of production and turnover they were thus greater than ever, and delivery periods lengthened accordingly. The labour market acted like a focal point for the tendencies towards overstrain in the economy. At the end of September 1969, despite the increase in numbers employed, the number of vacancies recorded at labour exchanges (833,000) was eight times that of the unemployed (100,000); even if seasonal fluctuations are eliminated, the disproportion between vacancies and unemployed at that time was greater than ever, at a ratio of 5 : 1.

Beginning of upward price adjustment . . .

Inevitably, the longer the increasing market tensions continued, the more they threatened price stability. After being stable for years the sensitive prices at producer level now quite rapidly began to move. Whereas at the beginning of 1969 the index of industrial producer prices had been little higher (+ 0.3 %) than at the beginning of 1968, and if anything lower than at the beginning of 1967, in September 1969 it was already 2.9 % above the level of a year previously. Producer prices had not increased more since the end of the price rise precipitated by the Korean war. There was, moreover, a clear tendency towards further quickening of the increase. Consumer prices, on the other hand, were until then little affected by the movement at the producer stage; at consumer level indeed the prices of industrial goods and services rose rather less than in 1968. While the cost-of-living index was nevertheless 2.8 % higher at the end of September than a year before, this was mainly due to the fact that food prices rose by a disproportionately large amount, partly because the harvest was less good than in the previous year. The slowness of the rise in prices of industrial consumer goods largely reflected the usual time-lag with which consumer prices conform to the trend. The seed of the promptly ensuing marked increase in the cost of living had already been sown, however, before the revaluation.

. . . and of a rapid wage rise

A period of adjustment similar in length to that of consumer prices was observable, not without a certain interrelationship, in the case of wages and salaries. Despite the strong demand for labour, average earnings only gradually rose faster up to the autumn of 1969; in the third quarter they were about 8½ % higher than a year before, whereas the growth rate at the end of 1968 had been 7½ %. Until this time the rise of wages did not much exceed the overall advance of productivity. In the first half of 1969, therefore, unit labour costs throughout the economy were practically no higher than a year before; not until the third quarter did the disparity widen. Since the wage rises up to the summer were as good as completely offset by the advances in productivity, enterprises' profit margins were until then not appreciably narrowed by the wage factor. Total profits therefore grew in roughly the same degree as turnovers – in many cases even more, indeed, because at that time selling prices, unlike unit labour costs, were already increasing considerably.

Causes of the wage explosion in the autumn of 1969

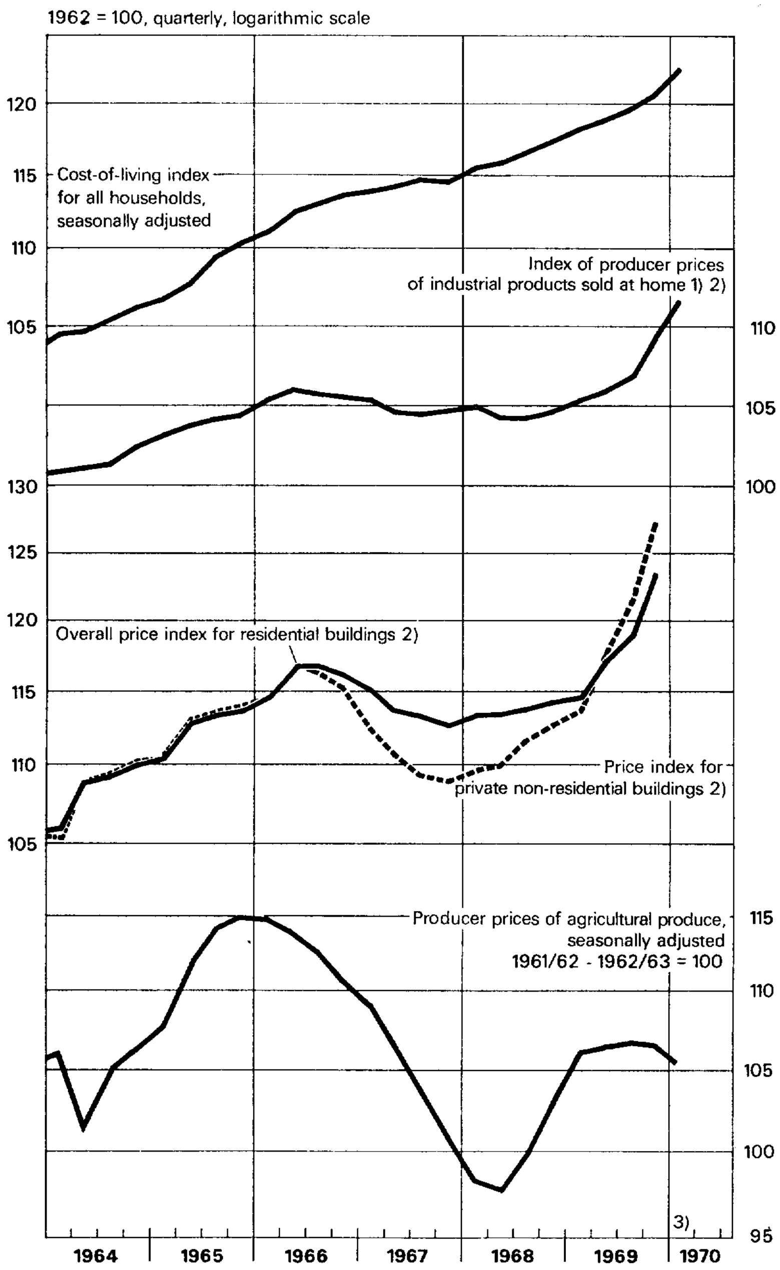
These tendencies in income distribution, which until the autumn of 1969 favoured profits, accorded ill with the labour shortage, which had for some time been marked. Whereas during the summer months relatively restrained pay rises had been stipulated in new wage agreements, the picture changed abruptly in September after the employees of some large firms had obtained considerable wage increases by wildcat strikes, which in their first stage were intended to bring about not a general rise in pay but harmonising measures in the wage sphere. Immediately before the general election – and that also means immediately before the final decision about the Deutsche Mark exchange rate – this touched off a wage movement which, after first making up a certain leeway in relation to entrepreneur incomes, was soon to put all earlier rates of increase into the shade. At the latest by this time it was clear that the long-feared adjustment of domestic prices and costs to the higher foreign level was fully under way, and that, in other words, internal equilibrium was in the greatest danger.

(d) The external imbalance

Signs of fundamental disequilibrium

The upsetting of the internal balance had its primary cause in the Federal Republic of Germany's fundamental external disequilibrium. This view, which the Bundesbank and the Council of Economic Experts had held since the autumn of 1968 – and which the Federal Government had to some extent taken into account by

Prices



1) Producer prices in manufacturing.– 2) From January 1968 estimated effect of value-added tax eliminated.– 3) Jan./Feb. 1970.

enacting the November 1968 tax measures to safeguard the economy against external influences — encountered a good deal of opposition among some sections of the public, the more so since accepting it was necessarily tantamount to advocating an alteration of the exchange rate. The Bundesbank, in its announcements, had repeatedly pointed to the most important signs of fundamental disequilibrium: first to the failure of the balance of trade and services to react "normally", by a tendency towards deficit, to the continuing upswing and to the increasing tensions at home; secondly to the considerable, statistically demonstrable price and cost disparity in relation to the main countries trading with Germany; and thirdly to the fact that foreign transactions were bringing into the economy a great afflux of money which created the monetary conditions for the start of the inflationary adjustment process and which, in the existing circumstances, monetary policy was powerless to prevent.

Understanding the problems presented by the foreign trade and payments situation was rendered difficult by the fact that Germany's basic balance was in deficit because of large long-term capital exports, and that therefore the Bundesbank's monetary reserves did not rise much except at the times when there were great accruals of speculative foreign money. In this connection it was obvious that the growth of long-term capital exports — they rose to DM 13.4 billion net in the first three quarters of 1969, against, it is true, as much as DM 8.6 billion in the corresponding period of 1968, but only DM 2 billion in the first three quarters of 1967 — was a consequence neither of a sudden excessive expansion of capital formation at home nor of the fact that the domestic demand for credit had materially declined. In simplified terms, the long-term capital exports, almost half of which came from the banks, were by and large no more than a re-export of accruing foreign exchange, which originated to a lesser extent from ordinary external trade and mostly from short-term foreign money inflows. Already at this time, therefore, the export of long-term capital was largely based on the increase of the short-term foreign indebtedness of trade, industry and the banks — an increase which had not as a rule resulted from any initiative of the domestic debtors, but was due to the foreign creditors, who from the outset thought only of employing their funds for a limited time, namely until the revaluation or final non-revaluation of the Deutsche Mark. The afflux of foreign money led to the interest rate and liquidity differential, which greatly stimulated the export of capital. The large long-term capital exports caused the Bundesbank's monetary reserves to decline in the first four months of 1969. During the speculative money inflows at the end of April and beginning of May 1969 — at about DM 17 billion within ten days the foreign exchange accruals at the Bundesbank were far bigger than on the occasion of the first great speculative flood in November 1968 — the export of long-term capital was, of course, only a weak counterpoise. But some of the hot money left Germany again, and this, together with the continuing long-term capital exports, led to a renewed decrease of the central monetary reserves. At the end of August, that is immediately before the third and last speculation on revaluing the Deutsche Mark, the monetary reserves were only DM 3 billion greater than at the end of 1968. During this time, though, the banks, many of them with the aid of Bundesbank swaps (which enabled them to obtain forward cover more cheaply), had also increased their liquid foreign assets by about DM 1.5 billion. In the absence of the long-term capital exports the monetary reserves, and the banks' liquidity, would have risen a good deal more.

Large long-term capital exports checked the rise of monetary reserves and bank liquidity . . .

The long-term capital exports, however, offset the accruals of money to non-banks much less than they offset bank liquidity. These accruals stemmed on the one hand from trade and services, but on the other hand from foreigners' speculative employment of funds, chiefly in the form of advance payments for exports, longer terms of payment for imports, and direct lending to German enterprises. The long-term exports of capital by German non-banks (enterprises, public authorities and individuals) nowhere near counterbalanced these inflows. All told, in the first nine months of 1969 non-banks received funds to the net extent of almost DM 15 billion from external payment transactions. Since enterprises sold these net foreign exchange receipts to the banking system for domestic currency, as usual, their money holdings and time deposits at the banks rose very greatly. The ground was thus prepared from the monetary angle too for inflation into line with other countries.

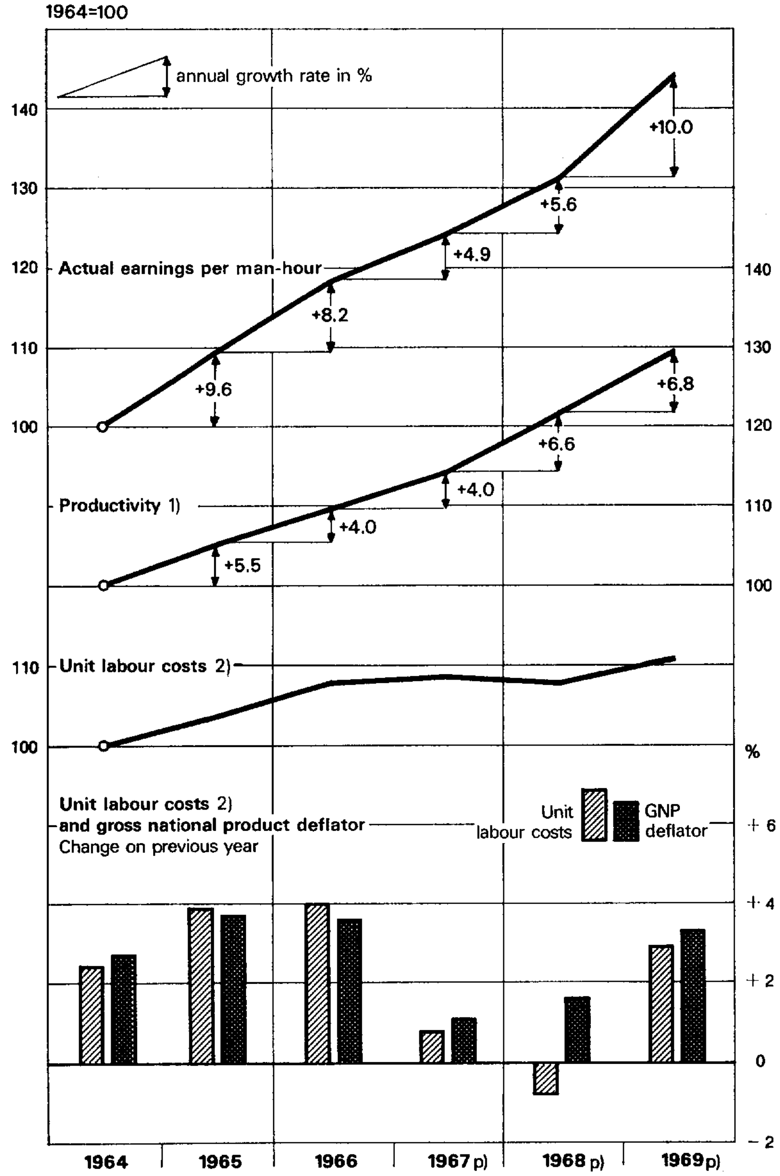
. . . but did not greatly affect the liquidity of trade and industry

(e) Monetary policy in the light of the external disequilibrium

So long as the exchange rate for the Deutsche Mark remained unaltered, monetary trends in the Federal Republic of Germany were chiefly determined by the external factors just described. This was the main reason why the growth of the money supply steadily quickened, although bank lending in the months up till revaluation was not much greater than before. Between the end of 1968 and the end of September 1969, with longer-term funds accruing faster than a year before (so that lending produced a smaller expansive effect on the money supply), the banks, including the Bundesbank, lent to domestic non-banks about DM 29 billion, as against some DM 27 billion in the corresponding period a year previously. But at the end of September 1969 the money supply was about 10 % greater than

Money supply grows faster while credit expansion remains constant

Wages, productivity and unit labour costs



1) Gross national product per man-hour at 1962 prices.- 2) Quotient of index of actual earnings per man-hour and real gross national product deflator per man-hour.- p) Provisional.

at the corresponding date in the previous year, whereas at the end of 1968 it had been only 7½ % greater than at the end of 1967. The dynamic element of monetary trends thus lay in domestic non-banks' foreign exchange surpluses, and in the acquisition of these by the banking system. Owing to net foreign exchange sales to the banking system (including the Bundesbank), the system's net external assets rose by about DM 15 billion in the first nine months of 1969. The non-banks' surplus on payment transactions with foreign countries produced an expansive monetary effect of this size, and to this extent replaced bank lending to residents as a source of the additional money and quasi-money holdings of trade and industry.

Even faster growth of quasi-money holdings

But the increase of the money supply reveals only in part how much the liquid assets of trade and industry actually increased in this period, because there was a rise not only in cash holdings, sight deposits and time deposits and similar funds with maturities of up to 90 days, these alone being reckoned as money supply, but also at the same time in "quasi-money" holdings. These essentially consist of enterprises' time deposits with maturities of 90 days or more. Because of the higher interest yield there was a tendency for enterprises to employ a part of their funds at somewhat longer term, evidently on the assumption that any withdrawal of the funds which had flowed in from abroad would not take place at really short notice. During the first three quarters of 1969 the time deposits (with maturities ranging from 90 days to under four years) rose by almost DM 8 billion; they were thus greater by almost one third than a year before. In some respects such improved liquidity facilitated enterprises' arrangements, even though they certainly knew that some of these funds were of a temporary character. Enterprises at all events entered the post-revaluation period with money and quasi-money[1] holdings approaching DM 100 billion, or about one quarter more than a year before.

The Bundesbank's restrictive measures before revaluation

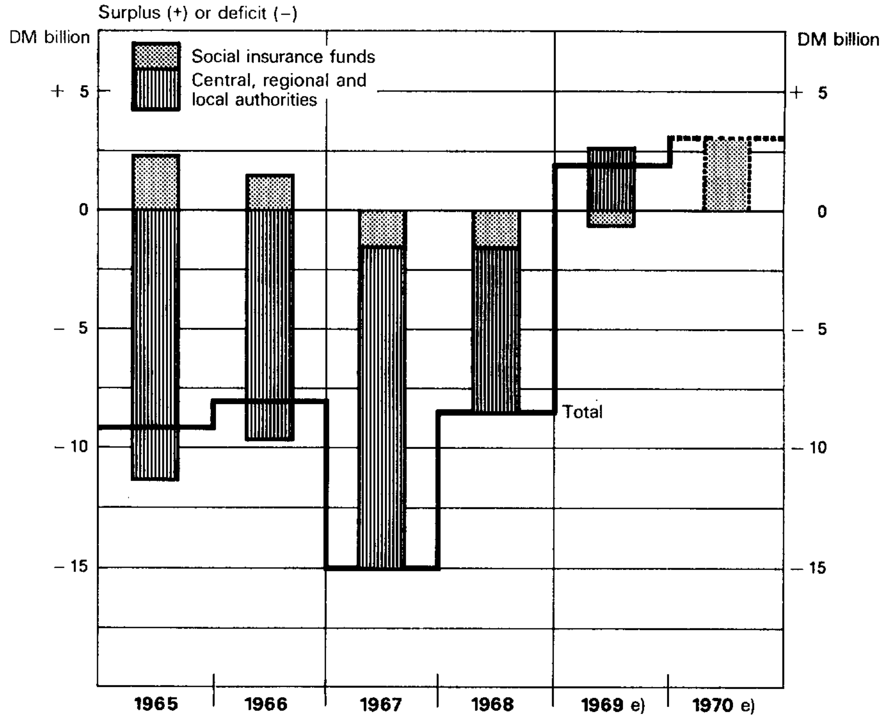
The Bundesbank was aware of the dangers which lay in this increasing expansion of the money supply, as well as of the business community's other liquid assets. Within the margin left to it by the existing external disequilibrium it adopted a restrictive monetary policy, and tried step by step to increase its stringency — well knowing that, so long as the foreign trade and payments flank was open, there was not much chance of success. The Bundesbank twice raised the banks' minimum reserve ratios, first from June 1, 1969 by about 15 % and then again from August 1 by a further 10 %. All in all, the minimum reserve requirement was thus increased by roughly DM 4 billion. From July onwards effect was moreover given to a general cut in rediscount quotas, which had already been decided on in the spring, and which reduced the banks' scope for rediscounting at the Bundesbank by about DM 2.5 billion. To this extent the banks' commercial bill holdings, regarded as a whole, lost their character as assets at all times rediscountable at the Bundesbank. In addition the Bundesbank also steered its open market dealings in a restrictive direction, although in this connection there was not much room for manœuvre. Altogether these actions drew off liquidity to the net extent of something over DM 750 million. The central bank's interest rates were also raised. Thus the discount rate was increased in three steps, in April, June and September, from 3 % to 6 %. The advance rate was raised for the first time as early as March (from 3 1/2 % to 4 %), and then on the same occasions as the discount rate, but in September by more than the latter (to 7 1/2 %). Money market rates also tended to rise, although their movement was much influenced by the foreign money inflows, the effect of which was to lower rates of interest; to that extent the monetary policy measures did not bite. If the Bundesbank had applied its instruments much more restrictively, there would have been reason to fear even far greater inflows of money from abroad. The Federal Government, which alone is responsible for deciding on any change in the parity of the Deutsche Mark, would have had its hand directly forced by any such central bank policy, and moreover the position would have become even more difficult for the central banks of other countries, from which the speculative money flows came to Germany.

Support by fiscal policy

The Bundesbank's restrictive stance was in principle supported by the public authorities, especially the Federal Government. In the first three quarters of 1969, for example, the Federal Government achieved cash surpluses of more than DM 4 billion, as against a deficit of just on DM 1 billion in the corresponding period of 1968. These surpluses had a restrictive effect on the circulation of funds, since part of the receipts were not spent (whereas a year previously expenditure had exceeded revenue). The impact on bank liquidity was also contractive, because the cash surpluses were used to repay almost the same amount of Federal non-interest Treasury bonds, which until then — as they are included in the Bundesbank's open market regulating operations — had formed a component of the banks' free liquid reserves. The Federal Government also reduced its direct debt to the Bundesbank, and simultaneously borrowed at longer term. This "consolidation" of Federal debt likewise constricted the banks' liquidity. The liquidity-contracting effect of the central and regional authorities' finance in the first three quarters of 1969 (when there is always, for seasonal reasons, a certain tendency to restrictively operating surpluses) totalled about DM 8 billion. Thus fiscal policy in this period fully accorded with the basic concept of the Law to Promote Stability and Growth, just as in 1967 and part of 1968 Federal finance had operated "anticyclically" in the sense of stimulating economic activity. The restrictive

1 Notes, coin, sight deposits, and time deposits and similar funds with maturities of less than four years.

Public authorities



e) Estimated.

effect resulted indeed mainly from the "built-in stabilisers", that is, from the automatic, disproportionately large rise of public revenue in connection with the strong upswing. The Fiscal Planning Council's recommendations that in 1969 the Federal and Länder Governments should form anticyclical reserves or repay money market debts out of these additional receipts, and should check the growth of expenditure (the Federal Government, for instance, blocked budget appropriations amounting to DM 1.8 billion), aimed at ensuring that these automatic effects on the receipts side should not be cancelled out by new decisions to spend. (Details, in particular of developments among the other public authorities, are given on page 66 ff.)

Counteractive effect of money inflows from abroad

Regarded in themselves, the domestic factors tending to narrow bank liquidity were of considerable weight. If the restrictive effect of public finance (including the repayment of money market paper) and of the monetary policy measures aiming in the same direction during the first three quarters of 1969 is combined, it is found to have reduced bank liquidity by about DM 16 billion (details on page 45 ff.). As against this, the banking system received net liquid assets amounting to about DM 11 billion from foreign transactions between the beginning of January and the end of September 1969 – despite the great "re-export" of liquidity through long-term capital exports, including those by banks. Thus, although this afflux did not therefore nullify the whole of the restriction intended on grounds of liquidity policy, it did nullify the greater part. And the relation of the contractive domestic measures to the money inflow from abroad was not always so unfavourable as at the end of September, just when the third – and last – speculation on revaluing the Deutsche Mark had reached its peak. At such peaks the restrictive tendencies were for a time completely submerged. In the periods of renewed foreign exchange outflow following these affluxes the banks' liquidity became strained, as is shown by the fluctuation, already mentioned, of money market rates. The upshot was that at the end of September 1969 the German banks had free liquid reserves amounting to about DM 33 billion, against DM 38 billion at the end of 1968, but at 11.9 % of deposits the "liquidity ratio" in

September 1969 was still quite high – much too high, at all events, to make the banks show caution in their lending for liquidity reasons.

By the autumn of 1969 it was clear that, given Germany's external disequilibrium, not even the utmost domestic effort to exercise stringency – whether by monetary or fiscal means – could achieve lasting success, unless the freedom and integration of international goods and capital transactions were restricted – a course which, however, was rightly never given serious consideration. At the end of September the situation was as follows. The decrease of bank liquidity was not sufficient to check the banks' lending. Because of the irremovable excess liquidity the raising of the official discount rate from 3 % to 6 % produced only a relatively small effect on the rates of interest which non-banks had to pay for loans: until the autumn the cost of long-term bank loans rose by only half a percentage point. The demand for credit could of course not be checked in this way, quite apart from the fact that the money inflows from abroad made many enterprises largely independent of bank borrowing. Money supply rose faster, month by month, contrary to the Bundesbank's intentions. The crucial defect was that under the existing international monetary system the Bundesbank was obliged, at least at the lower intervention point of the prescribed exchange rate spread, to buy any quantity of foreign exchange (or, more precisely, dollar exchange) offered – in May 1969, for instance, it bought the equivalent of about DM 17 billion within ten days – and at the end of September a new flood came rolling in. The only remaining course was therefore to attempt to neutralise this incoming foreign exchange – so far as it did not promptly flow back abroad – at least as regards its effect on liquidity. But such attempts rather strengthened the speculation; at all events, they did not reduce it. The restrictive measures, without alteration of the exchange rate, thus largely cancelled each other out. The inflation into line with other countries, clearly apparent in the wage movement from the beginning of September onwards, ran faster and faster; a great potential inflation had been built up within the country, Germany's central monetary reserves again greatly rose, and strains on the international monetary system, of the kind already experienced in the currency crises of May 1969 and November 1968, were repeated.

2. The revaluation of the Deutsche Mark and its immediate consequences

(a) Change to a new parity

Rate temporarily floated

During the days before the general election on September 28, 1969 the international monetary situation became acute, for the third time, because of expectation that the Deutsche Mark would be revalued. On the Bundesbank's proposal, in order to prevent repetition of the exceptionally large April/May inflows and the consequent threat to the international monetary system, the official foreign currency exchanges in Germany were closed on the last two business days before the election. The original intention had been to reopen the currency exchanges on September 29, the first working day after the election, but on the morning of that day in pre-exchange dealings the Bundesbank again had to take a considerable amount of dollars off the market, because it was concluded from the outcome of the general election that the Deutsche Mark would in all probability soon be revalued. In the light of this large exchange accrual the competent authorities decided to keep the currency exchanges closed on that day too. At the same time the Bundesbank, in accordance with its proposal, was authorised by the Federal Government temporarily to cease intervening on the spot foreign exchange market at the previous limits. On the first day (September 30) without Bundesbank intervention on the foreign currency exchanges the dollar rate, which had last been quoted officially on September 24 at DM 3.97 (that is, at the then lower intervention point), fell to DM 3.84, and by the end of the third week in October it had declined further to about DM 3.73. During this period large amounts of the foreign money which had been placed in Germany at short term before September 30 were pressing to return abroad; the Bundesbank met this urgent demand for dollars, totalling almost DM 4 billion within not quite four weeks, as a rule outside the official currency exchange and at rates slightly above the market level. Otherwise the Deutsche Mark, for a time in a weak market position owing to the incipient reflux of foreign

National product *

Item	1965	1966	1967 p	1968 p	1969 p	1965	1966	1967 p	1968 p	1969 p
	Billions of DM					Change on previous year in %				
I. Origin of national product										
(a) At current prices										
Contributions to gross domestic product										
Agriculture, forestry and fisheries	19.7	20.7	20.2	20.5	21.8	— 3.4	+ 5.2	— 2.4	+ 1.2	+ 6.5
Producing industries 1	250.1	262.1	257.2	288.3	327.4	+ 10.0	+ 4.8	— 1.9	+ 12.1	+ 13.5
Trade and transport 2	89.0	94.7	96.6	102.5	111.6	+ 8.0	+ 6.5	+ 1.9	+ 6.2	+ 8.8
Services 3	103.3	114.6	122.1	131.7	146.5	+ 12.3	+ 10.9	+ 6.6	+ 7.8	+ 11.3
Gross domestic product	462.0	492.1	496.1	a 539.2	a 601.4	+ 9.4	+ 6.5	+ 0.8	+ 8.7	+ 11.5
Net income payments to factors of production due from the rest of the world	— 1.6	— 1.4	— 1.5	— 0.7	— 0.4	.	.	.	.	.
Gross national product at market prices	460.4	490.7	494.6	538.5	601.0	+ 9.4	+ 6.6	+ 0.8	+ 8.9	+ 11.6
(b) At 1962 prices										
Gross national product at market prices	419.5	431.7	430.5	461.5	498.2	+ 5.6	+ 2.9	— 0.3	+ 7.2	+ 8.0
id., per gainfully active person, in DM	(15,450)	(15,940)	(16,370)	(17,520)	(18,600)	+ 4.9	+ 3.2	+ 2.7	+ 7.0	+ 6.2
II. Distribution of national income and national product at current prices										
(a) Before income re-distribution										
Compensation of employees 4	230.0	247.6	248.0	266.0	299.4	+ 10.3	+ 7.6	+ 0.2	+ 7.3	+ 12.5
Income from entrepreneurial activity and property	125.3	129.5	127.1	149.3	160.0	+ 8.1	+ 3.4	— 1.9	+ 17.5	+ 7.2
of which:										
Individuals' income	(121.5)	(125.8)	(124.2)	(146.0)	(156.6)	+ 8.5	+ 3.6	— 1.3	+ 17.6	+ 7.3
Government income 5	(3.8)	(3.7)	(2.9)	(3.3)	(3.4)	— 3.1	— 2.6	— 21.0	+ 13.3	+ 3.6
Net national product at factor costs (national income)	355.3	377.1	375.1	415.3	459.4	+ 9.6	+ 6.1	— 0.5	+ 10.7	+ 10.6
plus indirect taxes 6	58.9	62.9	65.7	65.8	77.8	+ 6.2	+ 6.8	+ 4.4	+ 0.1	+ 18.3
Net national product at market prices	414.2	440.0	440.8	481.1	537.3	+ 9.1	+ 6.2	+ 0.2	+ 9.1	+ 11.7
plus depreciation	46.2	50.7	53.8	57.4	63.7	+ 12.2	+ 9.7	+ 6.2	+ 6.7	+ 11.0
Gross national product at market prices	460.4	490.7	494.6	538.5	601.0	+ 9.4	+ 6.6	+ 0.8	+ 8.9	+ 11.6
(b) After income re-distribution										
Net compensation of employees	171.6	181.7	180.8	190.8	210.6	+ 11.3	+ 5.9	— 0.5	+ 5.5	+ 10.4
Net income from social security pensions and benefits and from retirement pensions	58.3	64.0	70.4	73.6	79.0	+ 12.1	+ 9.6	+ 10.1	+ 4.5	+ 7.3
Net income of individuals from entrepreneurial activity and property	92.3	95.6	94.3	113.5	120.5	+ 10.9	+ 3.6	— 1.4	+ 20.4	+ 6.1
— Interest on consumer debts and other unclassifiable transfers 7	— 8.3	— 9.6	— 9.6	— 9.7	— 11.3	+ 22.3	+ 15.1	+ 0.4	+ 0.6	+ 16.2
Net income of government	100.4	108.4	104.9	112.9	138.5	+ 3.4	+ 8.0	— 3.2	+ 7.6	+ 22.7
Net national product at market prices	414.2	440.0	440.8	481.1	537.3	+ 9.1	+ 6.2	+ 0.2	+ 9.1	+ 11.7
III. Use of national product at current prices										
Private consumption	258.7	277.9	284.2	301.1	332.3	+ 10.1	+ 7.4	+ 2.3	+ 5.9	+ 10.3
Government consumption	70.0	76.5	81.0	83.6	93.2	+ 12.5	+ 9.2	+ 5.9	+ 3.3	+ 11.4
Gross investment in fixed assets	122.2	126.3	114.4	124.8	146.9	+ 7.7	+ 3.3	— 9.4	+ 9.0	+ 17.7
of which:										
Machinery and equipment	(52.0)	(52.6)	(48.0)	(52.9)	(68.0)	+ 10.1	+ 1.2	— 8.7	+ 10.1	+ 28.6
Buildings	(70.2)	(73.7)	(66.4)	(71.9)	(78.9)	+ 6.0	+ 4.9	— 9.9	+ 8.3	+ 9.7
Inventory changes	+ 10.0	+ 3.6	— 1.3	+ 11.0	+ 13.5	.	.	.	.	.
External surplus	— 0.5	+ 6.5	+ 16.3	+ 18.0	+ 15.2	.	.	.	.	.
Exports	(90.9)	(102.3)	(110.5)	(124.4)	(141.6)	+ 9.6	+ 12.6	+ 8.1	+ 12.5	+ 13.8
Imports	(— 91.4)	(— 95.8)	(— 94.3)	(—106.4)	(—126.4)	+ 17.4	+ 4.8	— 1.6	+ 12.8	+ 18.8
Gross national product at market prices	460.4	490.7	494.6	538.5	601.0	+ 9.4	+ 6.6	+ 0.8	+ 8.9	+ 11.6
IV. Gross national product deflator	1962 = 100									
Private consumption	108.5	112.3	114.2	116.3	119.2	+ 3.2	+ 3.6	+ 1.7	+ 1.8	+ 2.5
Government consumption	117.6	125.8	128.9	134.3	143.8	+ 7.3	+ 6.9	+ 2.5	+ 4.2	+ 7.1
Machinery and equipment	105.2	107.4	107.7	107.2	110.5	+ 3.4	+ 2.1	+ 0.3	— 0.4	+ 3.1
Buildings	111.7	114.5	112.1	114.5	121.5	+ 2.7	+ 2.5	— 2.1	+ 2.1	+ 6.1
Exports	103.3	105.1	104.7	103.8	105.6	+ 2.0	+ 1.7	— 0.4	— 0.8	+ 1.7
Imports	103.5	105.8	105.4	103.7	106.0	+ 2.7	+ 2.2	— 0.3	— 1.6	+ 2.2
Gross national product at market prices	109.8	113.7	114.9	116.7	120.6	+ 3.6	+ 3.6	+ 1.1	+ 1.6	+ 3.4

Source: Federal Statistical Office (revised figures). — * Federal area including Berlin (West). The sum of the items may differ from the total shown owing to rounding. — **1** Mining and power (including water supply), manufacturing, building. — **2** Including telecommunications. — **3** Banks and insurance business, lease of dwellings, government, other services. — **4** Gross wages and salaries, employers' contributions to social insurance funds (incl. supplementary pension funds of public authorities and assumed pension funds for established civil servants) and fringe benefits. — **5** After deduction of interest on public debt. — **6** Less subsidies. — **7** I. a., taxes connected with private consumption (motor vehicle tax, dog tax, etc.), fines, reimbursements under social welfare, current transfers (net) between households and the rest of the world. — **a** In order to obtain the gross domestic product, the difference between deduction of prior turnover tax on investments and investment tax on plant (1968: DM 3.8 billion, 1969: DM 5.8 billion) has to be deducted from total contributions by branches of economic activity to the gross domestic product. — **p** Provisional.

funds, would constantly have diverged — with fluctuations — from the rate promising longer-term equilibrium.

New Deutsche Mark parity

On October 24, 1969 the new Federal Government, after hearing the Central Bank Council of the Deutsche Bundesbank and after consultations with the member countries of the European communities, as well as with the concurrence of the International Monetary Fund, fixed the new dollar parity of the Deutsche Mark with effect from October 27, 1969 at DM 3.66 per US dollar. The external value of the Deutsche Mark thus rose by about 9.3 % or, otherwise reckoned, the Deutsche Mark equivalent of foreign currencies declined by 8.5 %. Full use was not made, however, of the spread (divergence from parity by 1 % either way) permitted by the International Monetary Fund's Articles of Agreement. The Federal Government declared that it would allow the Deutsche Mark spot rates for the US dollar, as the sole intervention currency, to diverge from parity by not more than 3 pfennigs (or 0.82 %) either way.

Choice of a convincing revaluation rate . . .

The revaluation of a currency by 9.3 % is, in terms of magnitude, a significant step. Since the second World War no western industrial country, apart from Sweden in 1946 and a minor adjustment of the Canadian exchange rate, had revalued upwards except Germany and the Netherlands, which both did so in March 1961 by 5 %. The choice of a relatively high revaluation rate seemed necessary for two reasons. First, only such a rate could be regarded as convincing. A point to be taken into account here was that, in foreign trade in industrial goods, prices in relation to foreign countries had been adjusted by about 4 % in November 1968 by fiscal measures, the original time limit on which had been cancelled following the wave of speculation in May, but which were due to lapse, and did lapse, on revaluation. In addition, the heavy discounts on foreign currencies in forward exchange dealings had already anticipated a part of the revaluation. It was therefore natural to choose a revaluation rate appreciably above that which had already formed (although not without some intervention by the Bundesbank) during the period of variable exchange rates.

. . . on the basis of existing price disparities

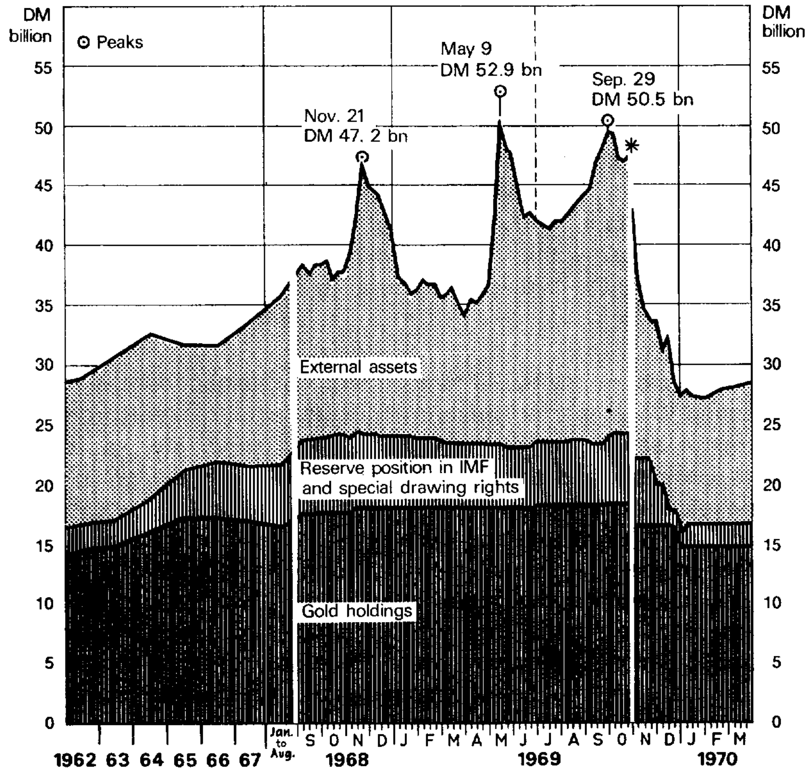
Secondly the revaluation of the Deutsche Mark was designed to check, as quickly and lastingly as possible, internal economic activity and the domestic price rise. From this viewpoint the highest possible revaluation rate appeared desirable. Of course, in selecting the rate of revaluation not only the domestic aims had to be considered; any repercussions on the balance of payments, which revaluation was meant to bring into long-term equilibrium, had likewise — and ultimately even more — to be taken into account. The 9.3 % revaluation rate finally chosen was, if anything, a maximum value. This may be seen from the fact that on comparison of price indices between 1962 (the first year after the last Deutsche Mark revaluation) and the third quarter of 1969 Germany had gained an advantage of about 8 % on export prices over the other main western industrial countries. On the average for ten important industrial countries the wholesale prices of industrial products, which are likewise indicative of the goods that enter into international competition, had risen in the same period by $7^1/_2$ % more than in Germany. The revaluation by 9.3 % has therefore eliminated the price differential vis-à-vis competing countries, the extent of which can of course be measured only approximately by statistical methods.

An obligation for economic policy

Selection of the relatively high revaluation rate of course entailed greater risk inasmuch as at home, as described above, an adjustment process had started which, in itself, was operating to remove differences of price level between Germany and the rest of the world. To this extent, therefore, the revaluation came very late. The hazard inherent in the new exchange rate was reduced, however, by the fact that prices and costs in the rest of the world went on rising as strongly as ever, even in the recent past. It is true that the price rises in Germany at the producer stage have now caught up with the international pace, and even seem to have somewhat exceeded it in January and February 1970. But at the moment there is hope that, given the slowing down of a sometimes explosive rise in wages at the turn of 1969/70, prices will again increase more slowly, and after a while will again rise less than in other countries. So far as the monetary effects of revaluation in Germany are concerned, after only a short time it has already created an

Monetary reserves of the Deutsche Bundesbank

including German reserve position in the International Monetary Fund and special drawing rights 1)



1) Between 1962 and autumn 1968 averages of end-of-month figures, from September 1968 end-of-week figures.- * Break due to new valuation of gold and foreign exchange positions following the DM revaluation of October 27, 1969.

important basis for disinflation. This likewise sets narrower limits to further price rises within the country. The domestic seats of inflation must of course also be held in check by internal economic measures. To this extent the relatively high rate of revaluation imposes a special obligation on those responsible for economic and monetary policy.

(b) The immediate consequences of revaluation

Rapid ebbing of monetary reserves . . .

The first and initially most important reaction to revaluation was that the foreign money previously placed in the Federal Republic of Germany on speculative grounds quickly flowed out again. This was most clearly apparent in the decrease of central monetary reserves, a decrease which began on the floating of the Deutsche Mark exchange rate, but continued for a time at a faster pace after the change of parity. Between September 30, 1969 (the first day on which the Bundesbank was released from its duty to intervene at the limits on either side of the old parity) and the end of December the central reserves decreased by DM 19.5 billion, not counting the loss on revaluation. Thus within three months they declined by more than they had increased in the whole period of speculative inflows (between the end of August 1968 and September 29, 1969 they had risen by about DM 13 billion). If the loss of monetary reserves due to revaluation is also taken into account, the decrease during the first quarter after revaluation was about DM 4 billion greater. At the end of December 1969 the monetary reserves (including the IMF reserve position) amounted to DM 27.4 billion, as against DM 50.5 billion on September 29 (the last working day before the rate was floated).

. . . due to withdrawal of speculative funds . . .

The decrease of the central reserves was mainly, but not exclusively, due to the backswing of the speculative money movements pendulum. Whereas between the end of August 1968 and September 1969 short-term capital movements of every kind, chiefly commercial credits, financial loans to enterprises and the placing of money at banks, had brought foreign exchange equivalent to DM 24 billion into

Germany, by the end of December about DM 15.5 billion had flowed out again through the same channels (see page 89). This, however, would appear to have largely ended the return flow of speculative money. A part of the funds originally transferred to Germany with speculative intent, namely those placed by foreigners at banks, have not been recalled. The German banks' short-term external liabilities – at the end of 1969 they were almost DM 11 billion greater than in August 1968 – now represent normal borrowing abroad or deposits for the sake of the interest income (whereas previously banks were not allowed to pay interest on foreigners' deposits). So far as the foreign funds still originate from the time before revaluation, they have accordingly lost the character of speculative holdings. In this connection, many balances placed here earlier on speculative grounds may have been superseded by new deposits, attracted by interest considerations.

... and excessive long-term capital exports

The above-mentioned figures show that the central monetary reserves have declined not only owing to repatriation of speculative foreign funds but also because of Germany's basic balance-of-payments deficit, which stems from the fact that the current account surpluses were smaller than the long-term export of capital. Between October and December 1969, when long-term capital amounting to DM 9.6 billion net was exported, there remained a deficit of DM 7.8 billion on the basic balance. In the nine months from January to September together the deficit on the basic balance had already come to DM 8.1 billion, but at that time the short-term capital inflows were much greater than this deficit. After revaluation the deficit on the basic balance was added to the outflow of short-term money. What had previously been difficult to see because of the speculative money inflows now became evident: the great volume of long-term capital exports far exceeded the foreign exchange surpluses earned by Germany on foreign trade and services. After revaluation it was possible to finance capital exports of this magnitude only with the help of short-term borrowing abroad, or out of the available monetary reserves.

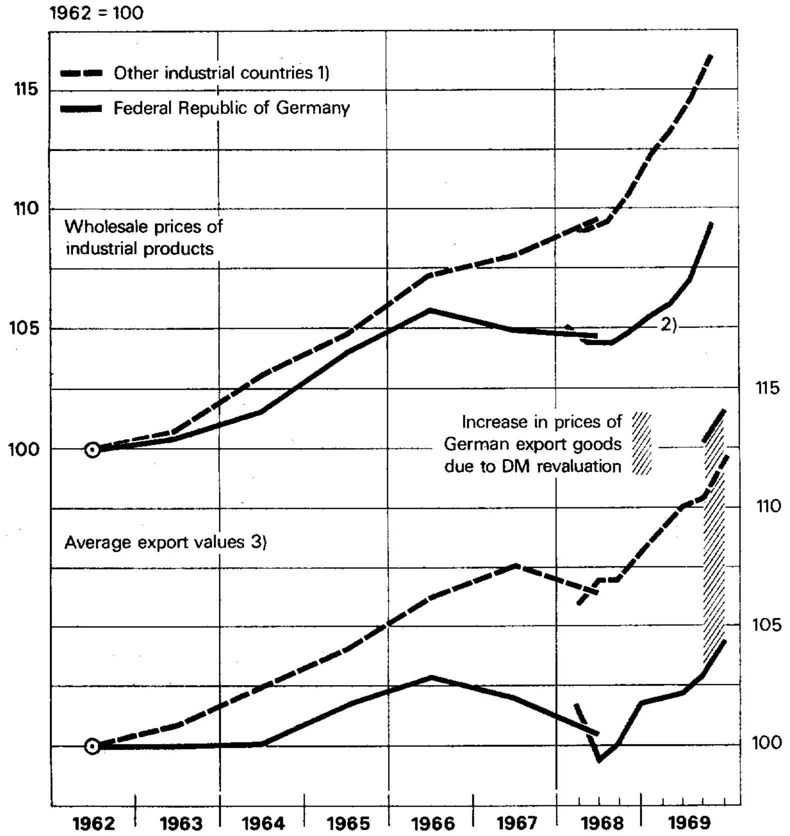
Much liquidity drained from the banking system

The domestic consequence of the foreign exchange outflows was that bank liquidity shrank faster than had been expected from its previously inflated volume down to the necessary minimum. Within three months the banks lost about DM 21 billion through foreign transactions. The liquidity outflow stripped off the veil which, during the time before revaluation, had concealed the basic changes occurring in bank liquidity. The loss of funds immediately after revaluation was due partly to the current long-term export of capital, but mainly to the return flow of speculative foreign money, that is, to the outflow of resources which had accrued at quite short term from abroad to German non-banks, and sometimes also to banks, before revaluation. For the banks, however, the consequences which the large capital exports (including those before revaluation) were having on their own liquidity now became clear. So that the banks should not immediately be exposed to the full force of the externally induced liquidity outflow the Bundesbank lowered their minimum reserves in November by 10 %. A further reduction of equal amount was then allowed in December, but was confined to that month. Together with other, mostly market-induced liquidity accruals (arising in particular from the seasonal cash deficits of the central and regional authorities) this counteracted, to the extent of about DM 7 billion, the loss of liquidity caused by foreign transactions. At not quite DM 20 billion at the end of December the banks' free liquid reserves were DM 13 billion smaller than at the end of September. Further liquidity outflows, also due to foreign transactions, then reduced these reserves by the end of March 1970 to around DM 15 billion, or something over 5 % of non-banks' total deposits. This was slightly below the previous lowest liquidity ratio of 5.8 %, reached in June 1966.

Tightening of monetary conditions

As the banks' liquidity declined, so conditions on the domestic credit markets became tighter. This was clearly shown by the rise in interest rates. The increase was greatest in money market rates, which tended towards the higher level on the Euro-dollar market once further exchange profits on Deutsche Mark assets were no longer expected, so that an important reason for the previous heavy discounts on foreign currencies in forward dealings ceased to apply. The Bundesbank supported this tendency by raising its advance rate to 9 %. At the same time there was a rise – like the earlier one, but somewhat more marked – in rates of interest

Prices in the Federal Republic of Germany and other industrial countries



1) Other EEC member countries, United Kingdom, Austria, Sweden, Switzerland, Japan and United States, weighted with shares of these countries exports in world exports between 1962 and 1968.- 2) Index of producer prices of industrial products, effect of value-added tax eliminated.- 3) Alterations in parity (France, United Kingdom) have been taken into account. From 1968 end-of-quarter figures.

for bank loans and bank deposits as well as in the yield on securities. In this phase, of course, bank lending hardly reacted to the changed monetary conditions. For a time, indeed, lending to customers expanded faster than before revaluation. On an overall view a relatively large amount of lending was unavoidable if only because the short-term foreign funds which enterprises lost had in many cases to be replaced by credit obtained from German banks. Non-banks' money holdings did not contract, but expanded, if anything even more than before. The money supply at the end of February 1970 was 14 % greater than a year previously. Enterprises, however, were already becoming somewhat less liquid at this time owing to the reduction of their time deposits. In addition enterprises, as well as public authorities and individuals, were obliged as borrowers to take into account not only the rising rates of interest but also the fact that new credit would be more difficult to obtain. New loans were doubtless granted during recent months mainly to fulfil existing credit promises; to that extent the banks could not as yet act restrictively at all. But new assurances of credit were given only with restraint. In February the actual expansion of credit was appreciably less than a year before.

Narrowing of the security market

The cooling of the financial climate in the first months after revaluation was most clearly apparent on the bond market. Not only did rates of interest rise perceptibly here, as already mentioned, but the productiveness of the market also declined fast. During the months from December to February domestic issuers were able to sell fixed-interest securities to the net extent of only DM 0.4 billion, against DM 4.3 billion in the last three months before revaluation. The reason, apart from an initial wait-and-see attitude on the part of issuers and buyers, was that from December onwards the banks on balance no longer acquired any securities (not even foreign ones) and indeed, in view of the pressure on their liquid assets, actually reduced their security holdings. This shows that the monetary policy brakes now operate faster than before; in the last cycle, when monetary restrictions began at mid-1964, the same result – namely a slight reduction of the banks' security holdings in place of their previous growth – was not achieved until mid-1965, one year later.

First "real" effects of revaluation

In the non-monetary sphere revaluation, as had been expected, produced only relatively slight effects during the first months after its announcement. It was noticeable, however, that foreign orders definitely declined. No doubt this was to a substantial extent the reaction to the premature placing of orders immediately before revaluation. Thus export orders fell little further after their first large downward plunge (after seasonal adjustment), and in February 1970 they even rose; their level during the last few months has been only slightly below that of a year previously. In terms of value, however, export orders are still somewhat greater than simultaneous deliveries to foreign countries, so that the backlog of such orders has not declined, but has continued to grow slightly. Unfilled export orders are now so large that exports could go on increasing for some time even if new orders dropped off. Presumably export deliveries will also continue to rise in future, although at a slower pace. In the case of imports, on the other hand, growth can be expected to accelerate, if anything, according to the tendencies of the last few months. On the whole therefore the latest trend of foreign trade – as shown in particular by the figures from December to February – is characterised by signs of a decrease in the export surpluses, without this process appearing to attain any threatening pace.

Effects of revaluation on prices

Revaluation, as a measure designed mainly to affect the balance of payments, could not of course be expected to have an immediate impact on the domestic price level as well. In the scales of overall equilibrium, what weighs heaviest is the decrease brought about by revaluation in the surpluses on goods and services; this alone puts more goods on to domestic markets, a process which, with demand remaining constant, would tend to lower prices. Secondarily, however, the "international price nexus" will also check price rises at home, since the revaluation-induced change of price relationships with foreign countries stimulates competition by making imports relatively cheaper, and eliminates the pull on domestic prices which had previously often resulted from the fact that proceeds from exports ran ahead of those from home-market sales. The trend since revaluation does not indeed permit much hope that the direct price nexus will in fact do much to keep the German domestic price level down. On the one hand foreign suppliers have in the meantime raised their prices on sales to Germany so considerably that, along with the effect of the abolition of the import subsidy, industrial imports in Deutsche Mark terms are at present not cheaper, but – despite revaluation – nearly 3 % dearer than before. Only agricultural products can in fact be more cheaply imported than in the autumn of 1969. On the other hand industry has further raised its Deutsche Mark prices for exports during recent months, despite the revaluation, although not by quite so much as in home market business. The consequent considerable increase in the price of German exports for foreign buyers – for most countries it amounts, with revaluation included, to about 15 % between early 1969 and early 1970 – will indeed help to make foreign demand for German goods ease in relation, but this will probably not tend to depress the domestic price level. Still, what can be said with certainty is that, but for revaluation, the marked inflationary trend of the world economic system would have pushed up prices in Germany more strongly than will now be the case.

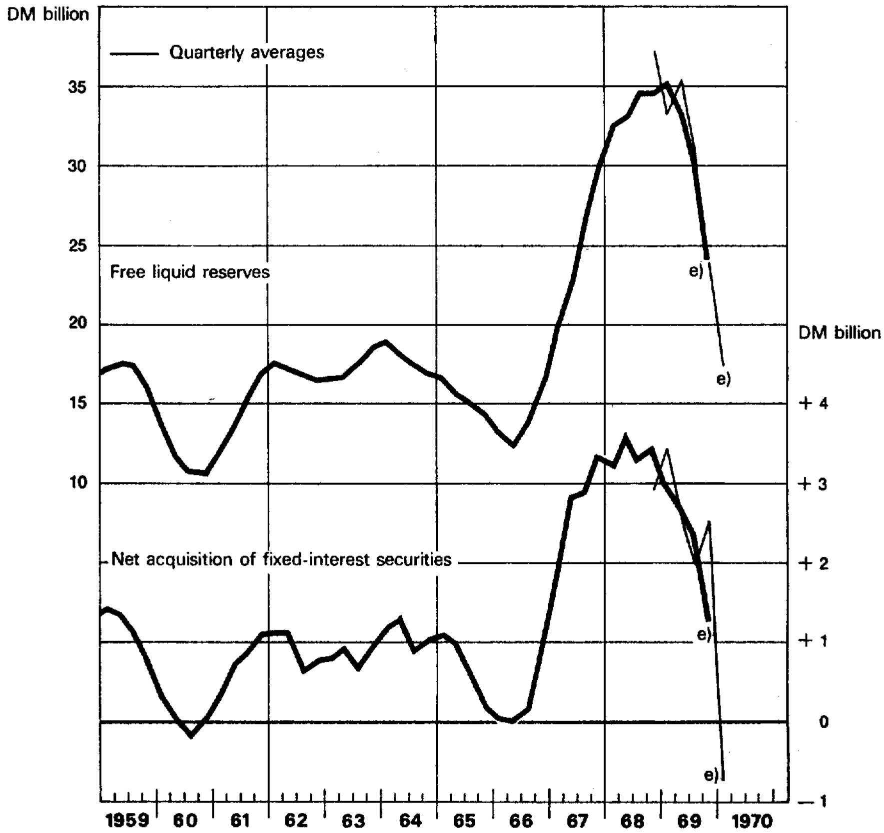
3. Monetary and economic problems after revaluation

(a) Better basis for stabilisation policy

Checking the price rise

Since revaluation of the Deutsche Mark removes the fundamental disequilibrium in the balance of payments and tightens monetary conditions at home, it has been a disciplining factor. It is probable that any inflationary trend in the domestic economy will now perceptibly worsen the balance-of-payments position more quickly than before, thus possibly calling for economic policy measures earlier than in the past. Restrictive economic policy instruments now act in two directions: they help to achieve both internal and external aims at the same time, whereas before revaluation economic policy measures quickly led to a conflict of objectives.

Bank liquidity and net acquisition of fixed-interest securities by banks



e) Partly estimated.

Within the economy as this Report goes to press – that is, six months after the revaluation initiated at the end of September 1969 – checking the price rise remains in the forefront of economic policy. Apart from a brief phase after the Korean boom the price rise at home has never been so marked as now, although for the present more at the preliminary stages than at the consumer stage itself. In the light of all the internal and external problems, the Bundesbank adopted new measures of monetary policy. On March 6, 1970 it raised its discount rate to 7 1/2 % and its advance rate to 9 1/2 %. This raising of interest rates supports their already upward tendency within the country: it will constrict the demand for credit, just as the continuing tightness of liquidity will compel the banks gradually to cut down their lending. It is true that the banks are trying to improve their liquidity by borrowing more abroad, but this has been stopped as from April 1970 by the introduction of a 30 % reserve requirement – additional to the normal reserve – on any growth of foreign liabilities with effect from that time.

The working of credit restriction at home

The credit restriction will check domestic demand primarily by reason of the fact that the planning of investments is being revised in those sectors of the economy which are especially sensitive to interest rates because interest rates are higher and less credit is available. This need not mean that the actual volume of investment will decline, and hence that the investments required for growth will not in future be effected. Initially, any considerable reduction in the giving of orders – and of that there are no clear signs at the time of writing – would merely reduce the excessive cushion of orders on hand. But even if capital expenditure was temporarily reduced, this would for the time being mean not so much a risk that urgently necessary extensions of capacity would not be carried out as that – and this would be a good thing – some producers would avoid the misinvestments and excess capacities which might otherwise result from many of them planning their investments too optimistically. If the tendency towards a

Chronicle of anticyclical and monetary measures

1969 End of January	**I. Economic and fiscal policy** Federal Government publishes Annual Economic Report for 1969. To offset recessive effects on external transactions expected from the Law on safeguards against external influences of November 1968 the following measures to encourage domestic demand are considered necessary: – an "adjustment programme" for the domestic economy, total expenditure DM 500 to 700 million; – spending of part of the increase in tax revenue expected for 1969 on the financing of additional investment in accordance with the Fiscal Planning Council's recommendations; – granting of a 10 % investment bonus for certain investment projects eligible for support and some other measures serving investment promotion which are, however, motivated primarily by structural policy.
March 18	To assure price stability in line with the Fiscal Planning Council's recommendations the Federal Government decides – not to spend revenue in excess of the 1969 budget estimates; – to adjust advance tax payments pursuant to Art. 26, para. 1, Taxation Law; – to block expenditure of DM 1.8 billion until further notice; – to expand imports by raising quotas and terminating self-restricting agreements; – to re-examine these measures in July for necessity of continuance.
May 14	Supplementing decision of May 9, the Federal Cabinet decides that – the time limit on the Law on safeguards against external influences (until March 31, 1970) be lifted; – additional tax revenue of Federal and Länder Governments of DM 3.6 billion shall be transferred to an anticyclical reserve pursuant to the Taxation Law; the redemption of certain shorter-term obligations shall be counted towards such transfers; – temporarily blocked budgetary expenditure shall as far as possible be deleted from the budget.
July 22	The Federal Government decides that the temporary blocking of budgetary expenditure (DM 1.8 billion) be definitely extended until end-1969; additional tax revenue not transferred to the anticyclical reserve shall be neutralised as to its cyclical effects.
October 8	The Federal Government decides to suspend the Law on safeguards against external influences with effect from October 11 until November 30, 1969.
October 30	The Law on safeguards against external influences is suspended sine die by an ordinance of the Federal Government.
November 11	The Council of the European Communities decides that income losses suffered by agriculture owing to the revaluation (DM 1.7 billion p. a.) shall be compensated.
1970 End of January	Publication of the Annual Economic Report for 1970; under the stabilisation programme for the domestic economy contained in the Report, some of the measures provided for are: – in the 1970 Federal budget (total volume DM 91.4 billion), DM 2.7 billion of expenditure remains blocked for the time being; – the tax reductions envisaged in the 1970 Tax Amendment Law for the beginning of the year are deferred: the doubling of employees' tax-free allowance until July 1, 1970; the first reduction of the income tax surcharge until January 1, 1971; – by June 30, 1970 an anticyclical reserve pursuant to Art. 15, Taxation Law, shall be formed with the Bundesbank in the amount of DM 2.5 billion (Federal Government DM 1.5 billion, Länder Governments DM 1 billion); – the measures intended as regards asset formation are to become effective as soon as possible (in particular the increase in the annual tax-free amount, affecting assets, from DM 312 to DM 624).
1969	**II. Monetary policy**
Beginning of February	Suspension of the Bundesbank's open-market purchases of long-term paper.
March 20	Raising of advance rate from 3½ % to 4 % with effect from March 21, 1969; reduction of rediscount quotas by 20 % with effect from July 1, 1969 (decrease of banks' free liquid reserves by roughly DM 2.6 billion).
April 17	Raising of the Bank's discount rate from 3 % to 4 % and of the advance rate from 4 % to 5 % with effect from April 18.
May 9	The Federal Government once more decides not to revalue the Deutsche Mark.
May 22	Raising of minimum reserve ratios for domestic liabilities by about 15 %, and for external liabilities by about 50 %, with effect from June 1, 1969 (decrease of banks' free liquid reserves by roughly DM 2.5 billion).
June 19	Raising of the Bank's discount rate from 4 % to 5 % and of the advance rate from 5 % to 6 % with effect from June 20, 1969.
July 17	Raising of minimum reserve ratios by 10 % with effect from August 1, 1969 (decrease in liquidity about DM 1.6 billion).
August 14	Introduction of special advance rates of 7 % and 8 % with effect from September 1, 1969 to counteract above-average recourse to advances in both amount and period.
August 28	Exemption of liabilities on interest-rate arbitrage dealings from the minimum reserve requirement is limited to prevent "roundabout transactions".
September 11	Raising of the Bank's discount rate from 5 % to 6 % and of the advance rate from 6 % to 7½ % (special advance rates being abolished) with effect from September 11, 1969.
September 25	To ward off increasing speculative inflows of foreign exchange, the foreign currency exchanges are closed up to and including September 29 by the responsible Land authorities.
September 29	On the day following the general election the Federal Government decides – to request the Bundesbank temporarily to suspend its intervention in the foreign exchange market at the former upper and lower limits; – to recommend the Bundesbank to make the utmost use of the possibility of imposing a higher minimum reserve ratio on foreign-held accounts; – to compensate losses suffered by German farmers by the floating of the Deutsche Mark.
October 24	With effect from October 27 the Federal Government fixes a new par value of the Deutsche Mark: 1 US dollar equal to DM 3.66.
November 6	Abolition of the 100 % reserve requirement for additions to banks' external liabilities with effect from November 1, 1969; reserve ratios for foreign liabilities brought into line with those for domestic liabilities and simultaneous lowering by 10 % (freeing of liquidity about DM 2 billion).
December 4	As from December 5, 1969 advance rate raised from 7½ % to 9 %; minimum reserve ratios lowered by 10 %, but only for the month of December.
December 18	Abolition of the limitation, ordered on August 28, 1969, of the exemption of liabilities on interest-rate arbitrage dealings from the minimum reserve requirement.
1970 March 6	Raising of the Bank's discount rate from 6 % to 7½ % and of the advance rate from 9 % to 9½ % with effect from March 9, 1970; introduction of an additional 30 % minimum reserve with effect from April 1, 1970 to be held against an increase in banks' external liabilities.

slackening of investment activity became established, conditions on the labour market would also be more likely to return to normal, and this would certainly not fail to influence the trend of nominal wages and salaries, and hence of labour costs.

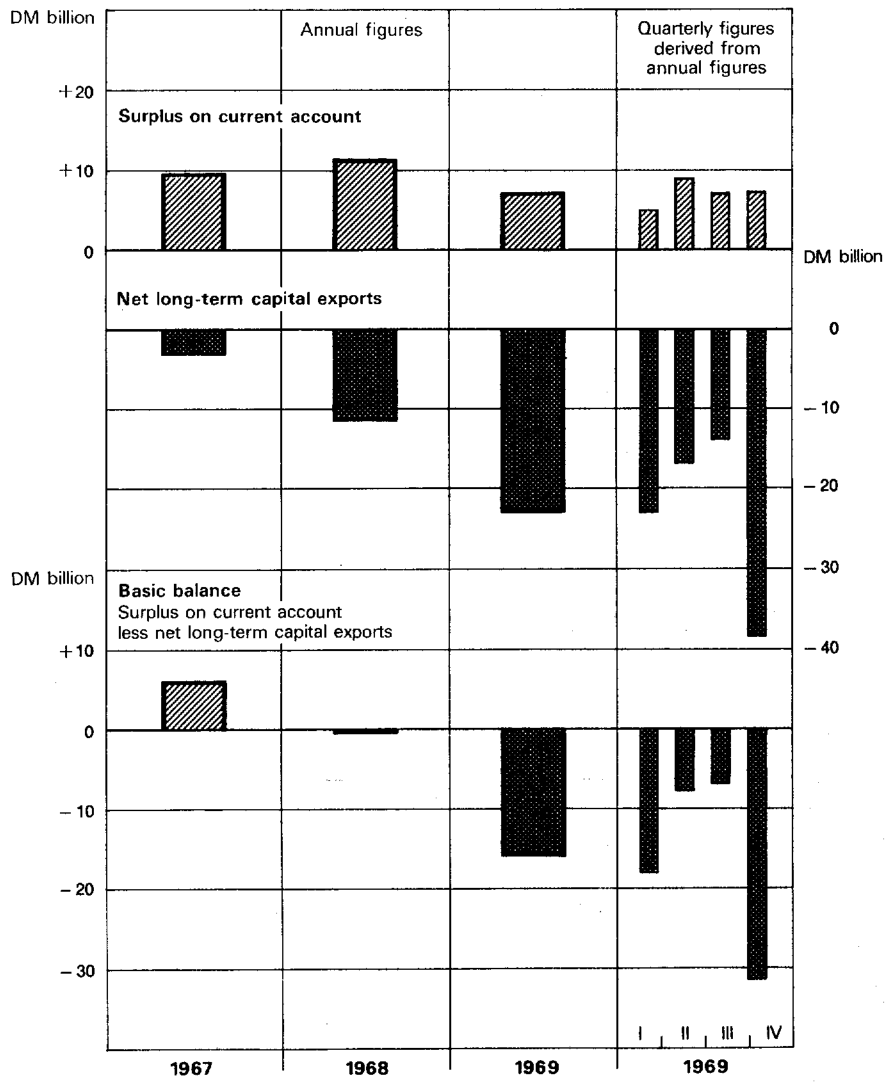
No relief through fiscal policy

Monetary policy cannot of course affect overall demand and the price tendency instantaneously, but can do so only with a time-lag. Fiscal measures would have made it possible immediately to reduce the effective demand flows, and so to achieve the aims of economic policy faster. Realisation of this fact caused the legislature in 1967 to give the Federal Government wide powers, under the Stability and Growth Law, to pursue an anticyclical fiscal policy. Since then for example the Federal Government – although only with the previous assent of both Houses of the Federal Parliament – may, if overall economic equilibrium is disturbed and there is a risk of substantial price rises, increase income and corporation tax by a maximum of 10 % for a period of up to one year; the Federal and Länder Governments would then be obliged to deposit the resulting receipts as anticyclical reserves at the Bundesbank. According to this Law the Federal Government can also suspend for a time declining-balance depreciation (which in principle operates procyclically during an upswing), so that new investments can be written down only by equal yearly amounts; the tax incentive afforded by declining-balance depreciation would thereupon cease to exist, at least as regards investments initiated in a period of overheating. Especially at the beginning of 1970 there was talk of temporary tax increases, in which connection the possibility of counting such payments towards later tax obligations was also considered. The Bundesbank would have welcomed such measures, since it may be assumed that they would have immediately reduced demand. They would moreover have proved that tax instruments can be used to influence economic activity not only in an expansive sense (as they were for example in 1967, when special depreciation was permitted), but also in a contractive direction. Additional cuts in expenditure would of course have operated even more directly than tax increases, but action here was confined to the temporary blocking of expenditure by Federal and Länder Governments which had long been contemplated, and to the decision that, during the first half of 1970, these authorities should form the anticyclical reserves totalling DM 2.5 billion proposed by the Fiscal Planning Council. Once it was clear that no further fiscal measures to check demand could be expected, the Bundesbank's monetary measures of March 6, 1970 were indispensable for the domestic reasons already described.

Balance-of-payments motives

Considerations of balance-of-payments policy also made it desirable to raise the domestic interest rate level. Apart from seasonal variations Germany's "net monetary movements", that is, the net change in the central monetary reserves and the banks' foreign position, showed a considerable deficit in the first few months of 1970. In the official monetary reserves this failed to emerge only because banks in part reduced their short-term external assets, and in part incurred short-term debt abroad. The deficit on "net monetary movements" was mainly due to the still considerable long-term capital exports. In January and February long-term capital was exported to the net extent of about DM 2.8 billion, while the current account showed in January a deficit (because of special factors) and in February a surplus of DM 0.3 billion. Long-term capital was exported not least because the interest rate level outside Germany, namely on the Euro-capital market and on some other important foreign capital markets, still remained higher than in Germany. On the raising of the discount rate the long-term interest rate level in Germany rose further, so that the interest rate incentive to export capital will largely have disappeared by now. Independently of this, of course, the German banks' shortage of liquidity also hinders new lending to foreigners, which was still very considerable in January but has in the meantime greatly declined. The prospects of restoring the basic balance to equilibrium have accordingly grown, although certain long-term capital exports, governed not so much by considerations of interest and liquidity as by the intention to acquire investments in other companies and to mix security portfolios, as well as by other motives, will remain of great importance in the future. This applies on the one hand to private transactions and direct investments, to purchases of both foreign shares and investment fund units, and on the other hand to official credit transactions

Basic balance of the Federal Republic of Germany in transactions with other countries



within the framework of development aid and of foreign exchange offsetting agreements. A deficit on the basic balance would mean that Germany is financing its long-term capital exports – as, at bottom, it has been doing since mid-1968 – through banks and enterprises incurring short-term foreign debt, unless the monetary reserves are used for this purpose. Any such tendencies, although they can be tolerated for a time, would in the long run increasingly raise problems. It looks, however, as though these tendencies are now at least gradually on the decline.

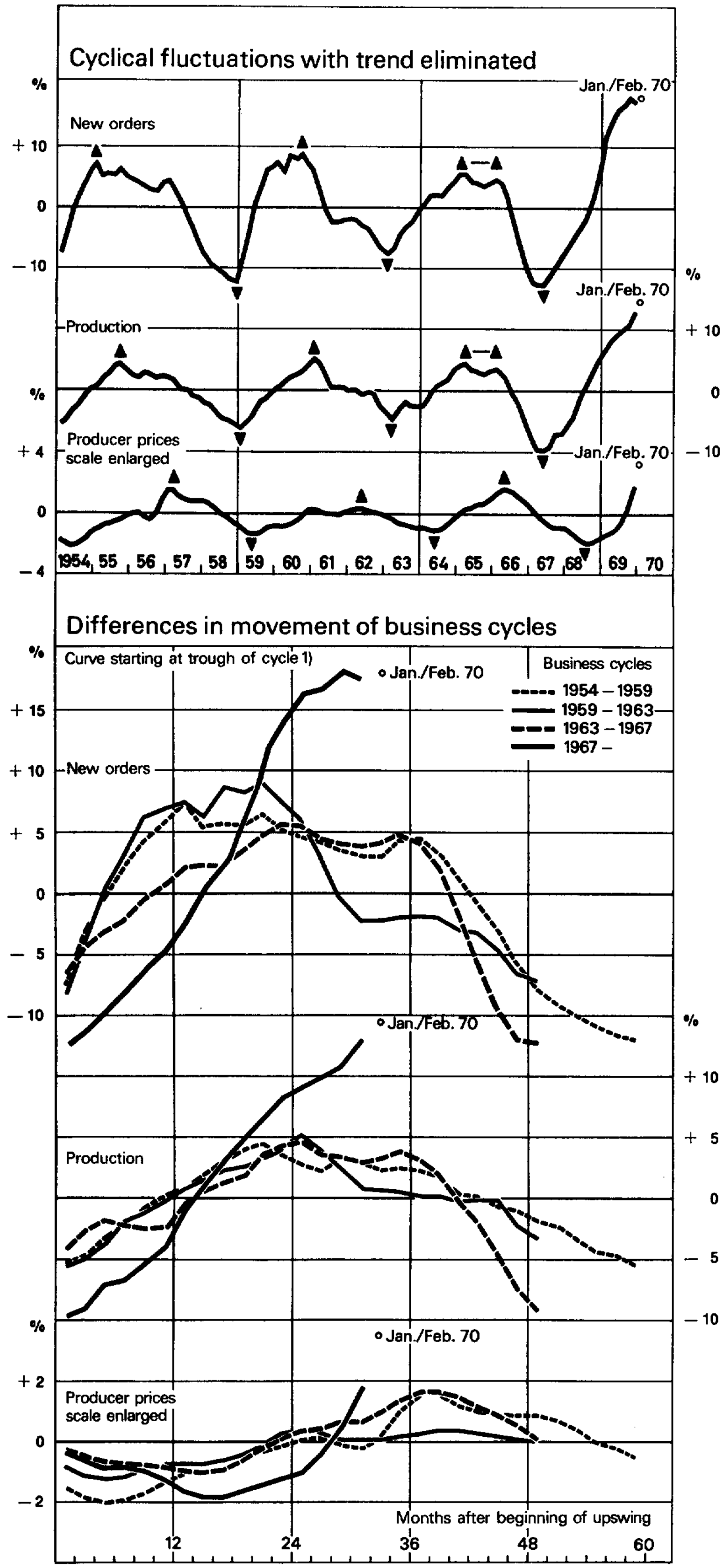
(b) Curbing the boom, and economic growth

Excessive upswing . . .

One objection raised against the Bundesbank's March 1970 monetary policy measures was that they were adopted at a late stage of the cycle, entailing a risk that the restriction, together with the anticipated effects of revaluation, the fiscal policy measures, and the curtailing of profits by large wage rises, might lead to a recession. Even the basic premise of these considerations is much disputed, since only in retrospect is it possible to determine with certainty whether the late stage of the cycle has been reached at the present time. The United States' last boom began in 1961 and lasted with slight fluctuations until mid-1969, that is, for eight years. But from 1964 onwards the impending end of the upswing in the United States was forecast again and again with greater or

Business cycles since 1954 *

Percentage deviations from trend



* Manufacturing excluding food, drink and tobacco, three-period moving averages of two-monthlv seasonally adjusted values.- 1) Troughs of cycles determined by the deviation from trend of industrial production.

lesser certainty. An end to the present boom in Germany has also often been prophesied in fairly precise terms, first for the second half of 1968, then for the second half of 1969 and now for the second half of 1970. Although numerical forecasts in Germany during the last three years have not infrequently been subject to such large margins of error as to make them appear unsuitable as a basis for decisions, they influence economic policy if anything more than before. One important reason for the errors in forecasting is that the dynamic forces inherent in the economy were underrated, while the effectiveness of the measures adopted at home and abroad to influence the business cycle and the balance of payments was overrated. Another was that the behaviour patterns of earlier business cycles were frequently taken as the basis of the forecast, although in the changed conditions they did not apply. Germany's present upswing has far exceeded that of earlier cycles both in pace and in duration. Not only did it start from a lower trough; in addition, and in particular, the upward divergences from the long-term trend have been greater, and are lasting — as can already be said — longer, than in the past. This can clearly be seen from the chart on the facing page; it shows for example that industry's order inflow during the second half of 1969 deviated twice as far from the long-term trend as at the peaks of the three preceding cycles. Whatever the reasons for this may have been, the authorities responsible for economic policy have now had to admit that the resulting excess demand and the dangers to price stability are greater than in former cycles, and that stronger efforts are therefore needed to redress the balance.

... increases the risk of a setback ...

Experience of course teaches that the greater the upward divergences are, the greater is also the risk that a possible setback may assume larger proportions. This follows inescapably from the fact that the most important factors impelling the upswing, namely enterprises' investment planning and stockbuilding, appear in many cases to have reached a degree of excess which, once it is recognised as such, might lead to strong reactions in the opposite direction. In the individual enterprise the correcting of such exaggerations is in general inevitable, but under certain circumstances it is also necessary in the economy as a whole. As experience during the 1966/67 economic setback shows, pauses in expansion make it possible to reorganise production factors and production programmes. That is how the foundation was laid for the substantial advances of productivity in subsequent years. It can now be proved by figures, even more clearly than a year ago, that the brief 1967 economic stagnation did not lead in the medium term to any "loss of growth". During the last five years from 1965 to 1969, including the stagnation year 1967, the average yearly growth of productivity (real gross national product per gainfully active person) amounted to 4.8 %; it was thus just as great as in the two preceding five-year periods (between 1955 and 1959, and between 1960 and 1964, the growth had amounted to 4.7 %). While on the other hand at 4.6 % on the average for the years 1965/69 the growth of the national product fell short of that for the years 1960/64, namely 5.6 %, this was solely because in earlier years the number of gainfully active persons had still been growing by 1 % per annum, whereas during the last five years it remained the same despite

... but improves the chance of reorganising the production factors

Average growth of national product, employment and productivity

per cent

Period	Real gross national product [1]	Employment [2]	Productivity [3]	For comparison: Cost-of-living index [4]	Unemployment ratio [5]	Utilisation of industrial capacity [6]
	Change				Position	
1950 to 1954 [7]	+ 9.6	.	.	+ 0.3	8.4	.
1955 to 1959 [7]	+ 7.0	+ 2.1	+ 4.7	+ 1.9	3.7	87
1960 to 1964	+ 5.6	+ 0.9	+ 4.7	+ 2.4	0.9	87
1965 to 1969	+ 4.6	— 0.1	+ 4.8	+ 2.6	1.2	85

1 At 1962 prices. — 2 Number of gainfully active persons. — 3 Real gross national product per gainfully active person. — 4 Until 1964: four-member employed persons' households; since 1965: all households. — 5 Unemployed in % of employed wage and salary earners. — 6 In % of optimum plant capacity (calculation based on figures from the IFO trend check). — 7 Federal area excluding Saarland and Berlin.

the increase in the number of foreign workers. Hence, brief stagnation of economic activity, if it follows a period of overheating, does not on a medium-term view involve losses in growth of productivity, which is what really matters as a source of the rise in the population's real income. Germany does not appear to be facing any stagnation in the immediately foreseeable future; but in the long run stagnation would probably be that much the less avoidable, the longer really thorough curbing of the present strong tendencies to inflation was deferred.

(c) Counteracting world inflation

The extent of inflation throughout the world

Price rises have become stronger during recent years throughout the western world. In regional terms the crucial fact was that the United States left the group of stable countries, which it had led for almost a decade and a half (from 1952 to 1965). During the last five years, from 1965 to 1969, the U.S. price level, measured by consumer prices, rose by almost as much as in the preceding fifteen years together; thus in the last five years the pace of the price rise has almost trebled. Many other countries have more or less conformed to this trend, especially those which had earlier been less successful in mastering the tendencies to inflation. If the price movements in ten important industrial countries (excluding the Federal Republic of Germany) are considered, the rate of currency depreciation in these countries on the basis of consumer prices averaged 5.0 % in 1969, and in the fourth quarter of 1969 as much as 5.3 %, against 3.2 % and 3.7 % in 1964 and 1965 respectively (see table on facing page). Germany's consumer prices have so far lagged behind the international rates of increase; but, as previously mentioned, the faster-reacting producer prices have for months been rising more rapidly here than in the other industrial countries. If a 5 % inflation rate continued, the real value of all kinds of monetary assets (as distinct from equities) would be halved within only thirteen years, and within 40 years – that is, in the course of a working life – it would drop to 13 % of its initial level. These consequences ought to be kept in view by anybody who advocates the toleration of price rises which are to be constant, but are allegedly to be kept within limits.

Currency depreciation and interest rate level

The increasing currency erosion in the western world has inevitably affected the level of interest rates, both nationally and on the international capital market. Of course investors try to safeguard themselves as far as possible through higher interest incomes against the loss in real value of their assets. On the other hand debtors are in these circumstances willing and able to pay higher rates of interest out of the likewise greater nominal income from their investments, and also in view of the fact that the value of their tangible assets constantly rises while the nominal value of the debts remains the same. Of course at the present time there are only a few economies where savers can in fact obtain full compensation through correspondingly higher interest rates for the loss in real value of their monetary assets, and thus receive an adequate "real rate of interest". For the great mass of savers the acquiring of equities is possible only within limits, and because of the special risk inherent in them it is not always advisable anyway. In many countries, even leading countries of the world, government regulations on interest rates impede their prompt adjustment to market changes. Only a few countries enjoy such far-reaching liberalisation of interest rates as Germany, although of course even where such rates are formally liberalised recommendations by associations or agreements or the attitude taken by leading groups of institutions may hinder – or at any rate delay – the formation of interest rates in full conformity with the market, especially as regards the principal kinds of savings deposits. Freedom from interest rate restrictions is enjoyed by the Euro-capital market, which in view of its supranational character is subject solely to the operation of market forces, although it also has, among other things, to compensate movements caused by national regulation of markets and interest rates.

The interest rate level as an indicator ...

If the yields in the Euro-capital market are taken as indicating the international tendency of interest rates, it becomes apparent that the level of such rates during the last five years has run more or less parallel to the international price tendency. Whereas Euro-dollar bonds in 1964 yielded 5.7 %, their yield rose on the average for 1969 to 8.4 %, and at the end of that year it reached 8.8 %. If the yield on such bonds is deflated by the rate of price rise usual in the industrial countries (exclud-

Depreciation of money and interest rate level

% per annum

Item	1964	1965	1966	1967	1968	1969	4th qtr 1969
Depreciation of money measured by cost-of-living index							
1. Eleven industrial countries 1 (including F. R. of Germany)	3.1	3.6	3.7	2.9	3.5	4.6	4.9
2. Federal Republic of Germany	2.4	3.1	3.7	1.7	1.6	2.7	2.8
3. Ten industrial countries (excluding F. R. of Germany)	3.2	3.7	3.7	3.1	3.9	5.0	5.3
Yield on Euro-dollar bonds 2							
1. Nominal	5.7	6.1	6.7	7.0	8.0	8.4	8.8
2. "Real" 3	2.4	2.3	2.9	3.8	3.9	3.2	3.3

1 All EEC member countries, Austria, Japan, Sweden, Switzerland, United Kingdom, United States weighted with respective share of these countries' exports in world exports between 1962 and 1968. — 2 Average of end-of-quarter figures; fourth quarter 1969: end-of-quarter figure. Source: OECD. — 3 Calculated from the nominal yield and the average rate of money depreciation in ten industrial countries (excluding F.R. of Germany).

ing Germany), the result is a "real interest rate" which fluctuated between not quite 2½ % and just under 4 % during the years from 1964 to 1969. With the inclusion of Germany (where currency depreciation was less) there would in all cases be a somewhat higher real interest income. This calculation, which is of course as hypothetical as any international average, indicates that even at a nominal rate of nearly 9 % the present international interest rate level is by no means exorbitantly high if the rates of price rise are taken into account. It would be just as unjustifiable to describe as "exotic" the national interest rates, which in most countries are lower than on the Euro-capital market but tend to show similar movements, and to qualify a rate of discount adequate to these rates of interest as a "crisis discount rate".

... and as a stabiliser

High rates of interest have of course more than merely indicative significance, at all events when they are deliberately used as a monetary policy instrument for stabilisation. Even in a period when currency depreciation is no longer just "creeping", but is going ahead quite briskly, investors continue to draw comparisons between interest costs and future income, although estimates of the latter largely depend on what expectations are entertained about inflation. Even in these circumstances a sufficiently high rate of interest may operate to prevent certain investments which are to be amortised over a long period and depend on credit. The authorities responsible for monetary and interest rate policy in the most important countries have hardly ever before drawn such clear conclusions as last year from the prevailing degree of inflation. Under the influence of restrictive monetary policy, for example, interest rates in the United States during 1969 reached a level without parallel since the American Civil War. Not until the beginning of 1970 were signs of a decrease apparent — at a time when the tendencies to inflation in the United States continued to be extremely marked. Bank rate was, and is, also unusually high in the United Kingdom. It was only consistent for the discount rate in Germany, like most other interest rates, to be raised in the meantime to a relatively high level. In Germany, where in some markets price rises have up till now lagged behind the international pace, the rates of interest now asked and paid not only afford, as a rule, an equivalent for the higher rate of currency depreciation, but also very probably exert a retarding influence on decisions to invest.

Rule-bound or "discretionary" monetary policy

The Bundesbank's monetary policy has aimed neither in earlier years, nor of late, solely at affecting rates of interest; but it has also pursued no exclusively quantitative goal, such as providing the banks with a specified amount of liquidity or increasing the money supply at a specified annual rate. The Bundesbank has rather tried, through combination of its monetary policy instruments, always to aim at both objectives — that is at altering not only the level of interest rates but also bank liquidity and the volume of money. In this connection observing the quantity of money has been and is a prominent feature of the Bank's monetary analyses, but the movement of the money supply is merely assessed as an important pointer to the size of the monetary movement proceeding under the influence of central bank policy. The Bank's judgment of the appropriateness of an observed rate of growth in the money supply largely depends on the possible real expansion of the national product and of productive capacity. In point of fact the central bank, at least with the present monetary system of fixed exchange rates and with the far-reaching integration of international capital movements, would be quite unable to regulate growth of the money supply according to strict quantitative rules – to fix it at 2, 4 or 6 per cent per annum or, as has also been proposed, at a margin between such percentage rates. One need only think of the compulsion to create money which results from the fact that the Bundesbank, as the central bank of a country having a currency not used for intervention, must buy at fixed rates any quantity of foreign exchange (or, more precisely, of dollar exchange) offered to it when the lower intervention point is reached. A "rule-bound" monetary policy would moreover mean that the central bank must in large measure refrain from short-term, situation-conditioned measures aiming at process control, that is, from "discretionary" decisions guided by considerations of anticyclical and balance-of-payments policy. But the possibility of influencing the monetary process in the short run, with the object of stabilising the internal and external value of money, is just what gives monetary policy its special advantage over other anticyclical policy instruments.

Shorter braking distance of monetary policy ...

One reason why a discretionary monetary policy often encounters opposition lies in the idea that the time required for monetary policy to take effect is long, allegedly too long; the culminating reproach is that because of such delays monetary policy often operates not anticyclically but procyclically. The Bundesbank's Report for 1967 contained data concerning the undeniable fact that the braking distance required for monetary policy is long, but by no means hopelessly long. The last few years have confirmed the experience then expressed. It is true that monetary policy had little effect before revaluation because of the external disequilibrium, but since revaluation the monetary policy brakes have begun to bite relatively hard. The time which elapsed between the tightening of bank liquidity (rendered possible by revaluation) and the first signs that the banks were cutting down their lending, namely by ceasing to acquire securities, was shorter than before. Presumably this will also apply to the further stages of monetary policy's effects (the banks' direct lending to customers, growth of the money supply, and repercussions on goods markets).

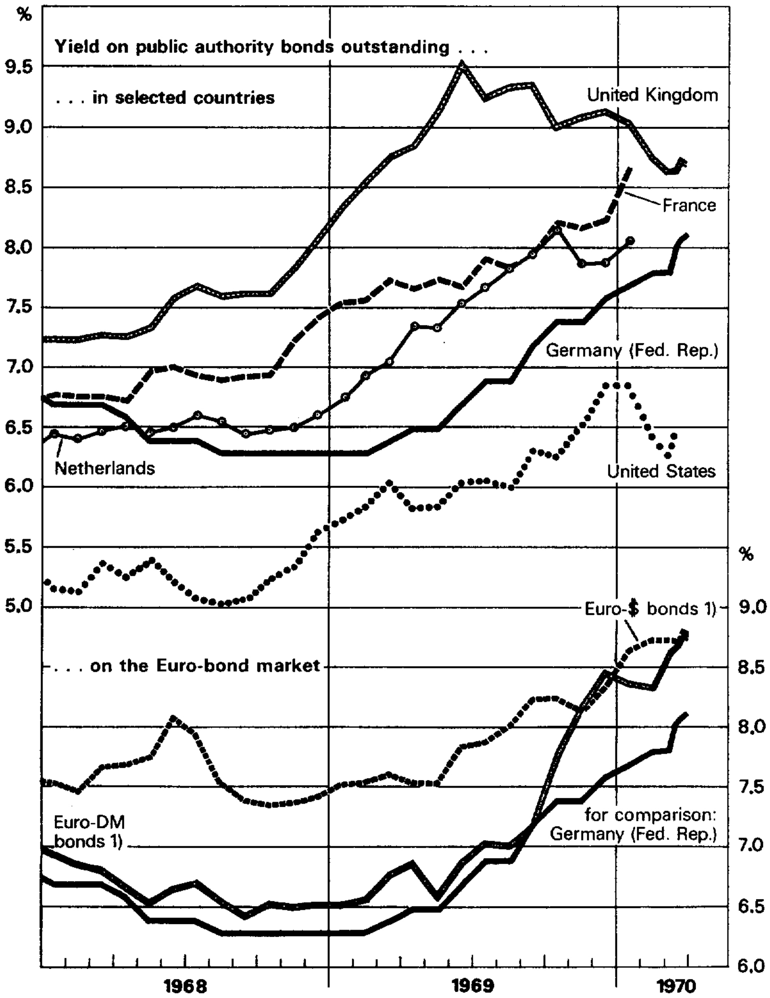
... and support by fiscal policy

Nevertheless it is essential for monetary policy to be supported, even in restrictive phases, by fiscal policy. Fiscal restrictions, once decided on, undoubtedly require a shorter braking distance than monetary policy. The political margin for such measures is of course small, as experience in almost all western countries shows. Not least for this reason it appears important that, in the case of fiscal decisions which are to operate for relatively long periods, a certain margin be left to permit subsequent anticyclical policy measures. In the medium-term fiscal plans which the Federal and Länder Governments have to draw up each year this should be taken into consideration from the outset. It would be especially desirable in the case of medium-term estimates of borrowing by public authorities not to assume that overall equilibrium, and the state of the credit markets, will permit – let alone require – a large annual increase in the financing of public expenditure on credit. If indeed the borrowing estimates in the medium-term fiscal planning are not kept low, if in other words the authorities budget from the outset for a volume of expenditure which cannot be largely met out of current receipts, it will be extremely difficult in the event of overheating to reduce government borrowing as much as is required on economic grounds and, if appropriate, to achieve cash surpluses serving to curb economic activity.

Disinflation in the shaping of incomes too

The Deutsche Mark revaluation made clear that in past years Germany has been able in some measure to dissociate itself from world inflation. But the change of parity can really help better to safeguard the value of money in Germany only if the most important economic groups continue in future to approve of the curbing of inflationary tendencies. In the present economic situation the measures of monetary and fiscal policy require, more than usual, the support of both labour and management. It would certainly make little sense to appeal for restraint in wage policy so long as market tendencies do not indicate that excess demand is

International interest rates



1) Yield on bonds of private and public issuers. The calculation is based in each case on a selection of ten fixed-interest securities which are negotiated relatively often on the stock exchange or in banks' telephone dealings (Euro-$ bonds).

disappearing. Wage agreements conflicting with the state of the labour market would produce little effect on actual wages, but would create new problems for the employers' and workers' organisations. If total demand were already beginning to flag, however, and if pay agreements nevertheless continued to conform to the high rates of wage increase of the recent past, the economy would run into a serious phase of cost inflation. Any lasting decline of the propensity to invest, a decline which in these circumstances could not be ruled out, would thus endanger full employment. If on the other hand overall demand made it possible for a time to pass on even large wage increases in prices, the new rising tide of wages would automatically set off a fresh price rise. The more that strict standards are again laid down in future wage negotiations, the more readily both these possible aberrations could be avoided. As regards economic and monetary policy, such stability-minded behaviour on the part of all groups concerned in the economic process would make it possible to relax the monetary brakes sooner than this could otherwise be done.

II. International monetary trends and monetary policy

1. General survey

In 1969 the international monetary system was again subjected to a number of severe tests in the form of violent monetary crises. As already in the autumn of 1968, the German and French currencies were particularly affected. Sterling, which in previous years had been the most susceptible currency, gradually managed to consolidate its position from the spring of 1969 onwards, although naturally it did not remain entirely unmarked by the upheavals brought on by the Deutsche Mark and franc crises. Following the revaluation of the Deutsche Mark in October 1969 the international monetary situation calmed down surprisingly quickly and indeed, apart from minor disturbances of a local character, stayed calm up to the time of this Report going to press. Thus the protracted series of monetary crises which had started with the sterling crisis in 1964 was finally brought to an end by the alignment of important parities and the accompanying rehabilitation programmes.

The period under review was also of great significance owing to a number of measures and decisions which aimed at further development of the international monetary system, i. e. the first decision on the allocation of special drawing rights for the three years 1970 to 1972, the agreement on the treatment of newly mined gold and, finally, the general review of member quotas in the International Monetary Fund. In addition, preliminary discussions were conducted during the period within the IMF regarding a possible relaxation of the international exchange rate system. The efforts at closer monetary integration within the European Economic Community are likely also to lead to a structural change in international monetary relations; during the period under review some first decisions were taken in the direction of such integration.

2. Monetary crises and parity adjustments in 1969

(a) The Deutsche Mark crisis in May 1969

Deutsche Mark speculation as the centre of unrest

Speculation in connection with the Deutsche Mark proved to be the centre of unrest in the world monetary system up to the late autumn of 1969. The measures to ensure better equilibrium in external trade and payments put in force in November 1968 just before the Bonn Monetary Conference — a 4 % special tax on exports and tax relief in the same amount for imports in the non-agricultural sector — were insufficient either to close the steadily widening gap between the price movement in Germany and that abroad or to re-establish confidence in the existing parity of the Deutsche Mark in the longer run. In such an unstable environment sometimes even minor events were enough to rekindle speculation. The heaviest speculative wave in terms of volume developed between the end of April and May 9, 1969. In the course of this "May crisis" far larger amounts of foreign money flowed into Germany than in the November 1968 crisis. Between April 28 and May 9 the Bundesbank's monetary reserves were inflated by no less than DM 16.7 billion, as compared with approximately DM 9.5 billion during the November crisis. The speculative wave receded when the Federal Cabinet on May 9 decided not to upvalue the Deutsche Mark. However, international mistrust of the Deutsche Mark parity abated only temporarily.

The monetary reserves of a number of other countries were quite significantly affected by the heavy inflow of foreign funds into Germany in May 1969. Whereas France was protected to some extent by its tight foreign exchange control, and besides had at its disposal sufficient financing means stemming from the large foreign credit lines granted during the Bonn Monetary Conference, several other countries which were substantially affected were assisted by the Bundesbank through short-term "recycling" credits, more particularly the Bank of England.

(b) The devaluation of the French franc

Adjustment of the franc parity without a fresh international monetary crisis

After a few months of relative quiet the international monetary system was again disturbed when the French franc was devalued by 11.1 % on August 10, 1969. The effect of the measures of domestic restraint adopted in France following the Bonn Monetary Conference proved to be short-lived, so that from the spring of

1969 onwards both the internal and the external disequilibrium was again accentuated. It thus became evident to the new French Government, which had taken over after the resignation of General de Gaulle, that it would be impossible in the long run to rehabilitate the franc without adjusting its parity. The French net monetary reserves, which just before the social disorders in May 1968 had totalled almost $ 7 billion (including the reserve position in the IMF), dwindled considerably because of foreign exchange losses amounting to $ 3.7 billion during the course of 1968 and to a further $ 1.2 billion during the first seven months of 1969. Although it was fairly generally expected that sooner or later the franc parity would have to be adjusted downward, the timing of the French devaluation nevertheless came as a surprise, so that the measure was not preceded by any new speculative wave on the exchange markets. It should not, however, be overlooked that the French foreign exchange balance had already long before been seriously distorted because everybody interested in payment transactions with France had taken all the steps possible within the framework of foreign exchange control to protect himself against a devaluation.

Domestic measures supporting the devaluation of the franc prove to be successful

The devaluation of the franc was supplemented by a comprehensive stabilisation programme, in particular by a determined tightening of the screw of fiscal and monetary restriction, and reinforced by an IMF standby credit of $ 985 million. In addition, France was granted short-term credit lines in a total of $ 600 million, to which the Deutsche Bundesbank contributed $ 400 million. The French rehabilitation programme provided for a gradual reduction of the deficit in the basic balance of payments and the attainment of external equilibrium by mid-1970 at the latest. The French experts anticipated that before this goal was reached a foreign exchange deficit of up to $ 1 billion might have to be envisaged. At the time of going to press there appears to be a fair chance that equilibrium in the French balance of trade and services will be reached well before the time set in the rehabilitation programme. This is due both to the slackening in French domestic demand effected by the restrictions and to the improvement in the French competitive position vis-à-vis foreign countries – an improvement which was amplified shortly after the franc devaluation by the Deutsche Mark revaluation and the German and Italian wage-cost inflations. After the Deutsche Mark revaluation the leads and lags in French foreign trade and other credit flows returned to normal surprisingly quickly; this enabled the French monetary authorities to acquire foreign exchange in an amount of approximately $ 0.8 billion between early November 1969 and mid-March 1970. These foreign exchange receipts were chiefly used for the repayment of short-term monetary debts.

(c) The Deutsche Mark revaluation

Fresh monetary unrest before the general election in Germany

As the general election on September 28, 1969 approached, unrest regarding the Deutsche Mark again developed in the foreign exchange markets. This was only to be expected since the controversy over the Deutsche Mark revaluation had become an issue in the election campaign. In the week before election day, starting on September 22, the foreign exchange inflow again reached critical dimensions. Within three days, between September 22 and 24, foreign exchange amounting to the equivalent of DM 2.2 billion was acquired by the Bundesbank in the foreign exchange spot market, the sums showing an alarming upward trend. In the whole period between September 1 and 24 the foreign exchange inflow totalled DM 6.3 billion, of which 1.4 billion was rechannelled to commercial banks through swap operations of the Bundesbank. Since there was reason to believe that in line with the experience of November 1968 and May 1969 the foreign exchange inflow would assume avalanche-like proportions during the remaining days before the general election, while on the other hand the Government was clearly unable to take a quick decision in the days before and immediately after the election, the foreign currency exchanges in Germany were temporarily closed on September 25 and 26 on the application of the Deutsche Bundesbank. This closure had above all the effect that the Bundesbank no longer purchased unlimited amounts of US dollars offered on the foreign exchange markets. Exchange dealings among banks and with the banks' customers were not, however, subject to any restriction, although in practice there was very little business. On September 29, the day after the election, the markets were closed again. On September 30 they

Deutsche Mark exchange rate temporarily floated were reopened after the Federal Government, at the suggestion of the Bundesbank, had decided on the previous day to relieve the latter until further notice of its obligation to intervene on the foreign exchange market at the former maximum and minimum rates (DM 3.97 and 4.03 per US dollar). This measure was intended, according to the official communiqué of the Federal Government, "to ward off further speculative exchange inflows and to contribute to the stabilisation of the world monetary situation".

Shortly before September 28 preparatory consultations had taken place with the Management of the IMF regarding the obvious inevitability of a temporary discontinuance of intervention at the exchange rate limits prescribed by the IMF Articles of Agreement. At a special meeting on September 29 the Executive Directors of the IMF discussed the German decision and in a press communiqué declared, among other things: "The Fund recognises the exigencies of the situation that have led the German Government to take the action described above. The Fund notes the intention of the German authorities to collaborate with the Fund and to resume the maintenance of the limits around par at the earliest opportunity." In this way the temporary suspension of the obligation to intervene on the foreign exchange market — which was formally at variance with the IMF Articles of Agreement — was de facto tolerated by that institution.

Between September 30 and October 24 the Deutsche Mark rate on the exchange market was allowed to fluctuate without being kept near a parity by market intervention. In actual fact, however, the fluctuations were comparatively small. The market rate of the US dollar, which immediately before the floating of the rate had been DM 3.97, fell fairly steadily to a level of DM 3.7035 on October 24. It is not possible to draw any very far-reaching conclusions regarding the functioning of a flexible exchange rate from this period of a floating Deutsche Mark rate. For one thing, the duration of this experiment was far too short since — especially in view of the preceding distortions on the exchange market and in the balance of payments — a genuine equilibrium rate could only have formed after several months. For another thing, during the short period of the "interim float" the formation of the exchange rate was greatly influenced by two anomalous special factors which were working in opposite directions: on the one hand, the reflux of short-term speculative funds, which began immediately the Deutsche Mark rate had been floated, tended to depress the rate (a tendency which the Bundesbank sought to counteract by selling foreign exchange to the market in the amount of almost $ 1 billion during the period of the floating rate); on the other hand, the anticipation of an imminent fixing of a new higher parity for the Deutsche Mark acted in the opposite direction. However that may be, the excellent technical functioning of this "interim float" encountered such keen interest on an international scale that in discussions in the IMF it has been suggested that, in the event of a possible relaxation of the IMF provisions regarding exchange rate policy, such a controlled flexibility should be legalised for a limited transitional period until a new parity can be fixed.

Deutsche Mark revalued by 9.3 %

On October 24, a Friday, the Federal Government, after consultation with the IMF and the Monetary Committee of the EEC, fixed the new gold parity of the Deutsche Mark with effect from October 27 at a level corresponding to a dollar parity of DM 3.66 instead of the former DM 4.00. At the same time the intervention points (exchange rate limits) were set at DM 3.63 and 3.69 per US dollar (formerly 3.97 and 4.03). This signified an upvaluation of the Deutsche Mark as against gold and foreign currencies by 9.3 %; calculated in the other direction, it meant that the value of foreign currencies vis-à-vis the Deutsche Mark was reduced by 8.5 %. The revaluation rate of 9.3 % indicates the increase which German export prices, ceteris paribus, underwent in foreign currencies owing to the revaluation. The rate of 8.5 % reflects the cheapening which should result, ceteris paribus, for the prices of foreign goods expressed in Deutsche Mark.

3. The international monetary situation following the Deutsche Mark revaluation

(a) Effects of the Deutsche Mark revaluation on foreign exchange movements

Relaxation of the international monetary situation

The revaluation of the Deutsche Mark brought about an instantaneous relaxation and stabilisation of the international monetary situation, which has kept up until the time of going to press. While after the upvaluation in March 1961 the new Deutsche Mark parity did not immediately gain full international acceptance, and consequently for several months additional speculative funds flowed into Germany, this time the new parity was forthwith regarded as credible and definitive. The immediate result was that foreign exchange flowed out of Germany in a very large volume. During the three months between end-September and end-December 1969 the outflows, calculated according to the balance of monetary movements, attained the equivalent of almost DM 23 billion. The bulk of these outflows resulted from the unwinding of leads and lags, especially from the reduction of prepayments for German export goods, which had been particularly high before revaluation, and also from the repayment of time deposits and short-term financial loans which German firms, and particularly German subsidiaries of foreign enterprises, had received from abroad. In addition to the normalisation of short-term monetary positions the aforementioned heavy exchange outflows following revaluation also reflected a deficit in the basic balance of payments (current account plus long-term capital transactions); during the fourth quarter of 1969 this deficit reached the considerable amount of DM 7.8 billion (for details see Part III, 4).

Heavy exchange outflows . . .

. . . benefit the main deficit countries

Repayments of short-term financial loans presumably for the most part benefited the United States, either directly or via the Euro-money market. The unwinding of leads and lags benefited in a general way the foreign exchange balances of numerous trade partners of the Federal Republic of Germany. Most of all, however, it benefited those countries whose currencies had previously suffered especially from the monetary unrest and from confidence movements, i. e. those countries where there had been a particularly marked distortion of the terms of payment in the other direction. Thus, the United Kingdom and France recorded exceptionally large exchange inflows as a consequence of the Deutsche Mark revaluation. In the case of the United Kingdom they amounted to several billion dollars between October 1969 and March 1970; of the total, it is true, part was accounted for not by the normalisation of the speculative positions but by a genuine balance-of-payments surplus and by money inflows on account of interest rate arbitrage. As already observed, France was able to net roughly $ 0.8 billion in foreign exchange between November 1969 and mid-March 1970, even though during this time the French basic balance of payments was at best approximately in equilibrium. The U.S. balance of payments, too, improved to a surprising degree during the latter months of the past year. It is true that in this instance, besides the effects of the Deutsche Mark revaluation, a contributory factor was in particular the extensive repatriation of funds undertaken in December 1969 by U.S. corporations that had to fulfil their obligations under the U.S. balance-of-payments programme and in this context drew heavily upon their credit lines with German banks.

The readjustment of exchange parities and the elimination of unrest in the world monetary system were among the external aims of the Deutsche Mark revaluation. This particular objective was attained with unexpected speed. Not only did the Deutsche Mark revaluation establish a credible new parity for the Deutsche Mark upon which no doubt has been cast at any time since October 27, 1969; beyond this, it also invested the new parities of sterling and the French franc with full credibility. One may thus legitimately claim that the Deutsche Mark revaluation marked the conclusion of the major European currency realignment which had begun with the devaluation of sterling in November 1967 and been followed by the devaluation of the franc in August 1969. Further evidence of the restoration of confidence in the international structure of parities can be seen in the fact that the gold price on the free market, which in the spring of 1969 had exceeded US $ 43 per ounce, in December 1969 was back to the official price of US $ 35, and temporarily dropped even slightly below that figure.

(b) Light and dark spots on the international monetary scene

Whether this re-establishment of confidence in the international structure of parities will be of long duration will of course depend not only upon the normalisation of short-term exchange flows but in the first place upon whether the basic balances of the principal countries come closer to stable equilibrium. Here again, thanks to exchange rate adjustments and domestic measures to flank and support them, substantial progress has been made in several instances.

Equilibrating tendencies in international payments relations

The fact that the current account in *Germany* is tending towards normalisation has been set forth in detail in the "General survey". At the moment the German balance-of-payments problem is no longer, as in the past, one of persistent surpluses but rather one of deficit caused by excessively high long-term capital exports. In *France,* as already stated, the balance of trade and services is successfully heading for equilibrium, while owing to the revival of confidence in the French currency the capital account is in fact at present recording surpluses. As a result France was enabled largely to repay its currency debts dating from the earlier period of balance-of-payments deficits.

A particularly impressive feature is the improvement which has come about in the external position of the *United Kingdom.* In 1968 the U.K. balance of payments was still in very bad shape, despite the devaluation of sterling in November 1967. At roughly $ 1 billion the deficit in the basic balance of payments was almost as high as in 1967, while the deficit in the balance of monetary movements was in fact appreciably higher than in the preceding year (see table on facing page). In 1969 the basic balance of payments moved into surplus. This was due, besides the devaluation of sterling, which was rather late in affecting foreign trade and the balance of payments, to a programme of domestic restraint which combined a budget surplus without precedent in British history with a restrictive monetary policy of tight liquidity and credit ceilings. This constraint on domestic demand, in conjunction with an unusually favourable evolution of world trade, led to a complete reversal of the trend in foreign trade and in the overall balance of payments of the country. For the first time in seven years the U.K. basic balance of payments recorded a surplus. For the entire year 1969 this surplus, at $ 0.93 billion, was almost as high as the deficit in the preceding year. Since at the same time the terms of payment improved noticeably, especially after the Deutsche Mark revaluation, the surplus on the balance of monetary movements, at $ 1.37 billion, was in fact appreciably greater. During the first quarter of 1970 this tendency towards a surplus continued in an even stronger form. The balance-of-payments target of a surplus of $ 720 million (= £ 300 million) agreed upon with the IMF in the spring of 1969 has thus by far been exceeded. Whether the recovery of the U.K. balance of payments obtained by all these efforts can be successfully maintained in the long run will mainly depend upon whether it proves possible to control the wage inflation which appears to be imminent in the U.K. economy.

Reduction in U.K. external indebtedness

The hitherto extremely favourable movement of the balance of payments enabled the United Kingdom to repay its external debts on a large scale. The peak of its short-term indebtedness was reached at the end of 1968. During the Deutsche Mark crisis tension was renewed, so that the United Kingdom was obliged temporarily to have recourse to a recycling credit of the Bundesbank. When the situation subsequently improved the country was able to reduce its debts vis-à-vis foreign monetary authorities and the IMF on balance (measured by the level at end-1968) by about $ 4 billion up to March 1970; by then the bulk of the particularly pressing short-term external debts had been repaid. Moreover, the United Kingdom not only repaid the instalments due as from September 1969 on the First Basle Group Arrangement of 1966, which had been funded[1] in September 1968, but managed in fact to pay several additional instalments in advance.

The Second Basle Group Arrangement of 1968, which provided the United Kingdom with a credit line for up to $ 2 billion via the BIS to cope with the fluctuations in the sterling balances held in the United Kingdom by sterling area countries, was

1 See Annual Report of the Deutsche Bundesbank for the Year 1968, page 33.

Balance-of-payments positions of the United States, United Kingdom and EEC countries 1953 to 1969 *

Billions of US dollars

Item	Annual average 1953–56	Annual average 1958–60	Annual average 1961–64	1965	1966	1967	1968	1969
I. United States								
(1) Current account (excluding military transactions) **1**	+4.15	+4.45	+7.97	+8.29	+7.29	+7.12	+4.46	+4.29
(2) Government transactions								
(a) Military transactions (net)	−2.59	−2.90	−2.37	−2.12	−2.94	−3.14	−3.10	−3.38
(b) Foreign aid (less repayments)	−2.05	−2.45	−3.23	−3.41	−3.44	−4.22	−3.96	−3.87
Total (1 plus 2)	−0.49	−0.90	+2.37	+2.77	+0.91	−0.24	−2.60	−2.96
(3) Private capital **2**	−0.97	−2.83	−5.33	−4.29	−2.35	−3.75	+0.89	−4.23
(4) Overall balance of payments (liquidity basis) **3**	−1.49	−3.71	−2.51	−1.34	−1.36	−3.54	+0.17	−7.06
(4a) Balance on official reserve transactions	**4** −0.8	−2.8	−1.91	−1.29	+0.27	−3.42	+1.64	+2.71
(4b) Change in net external position of the monetary authorities and the banking system	.	.	−1.83	−1.75	−2.01	−4.07	−2.03	−5.21
II. United Kingdom								
(1) Current account	+0.22	+0.21	−0.11	−0.14	+0.11	−0.81	−0.74	+0.88
(2) Net long-term capital transactions	−0.49	−0.60	−0.38	−0.57	−0.30	−0.38	−0.21	+0.05
(3) Basic balance of payments (1 plus 2)	−0.27	−0.39	−0.49	−0.71	−0.19	−1.19	−0.96	+0.93
(4) Overall balance of payments (= Balance of monetary movements)	−0.09	−0.07	−0.52	−0.66	−0.29	−0.62	−1.30	+1.37
III. EEC countries								
(1) Current account (including transfers)	+1.3	+2.72	+0.98	+1.55	+2.10	+4.38	+4.52	**5** +2.7
(2) Change in gross official monetary reserves (including IMF reserve positions)	+1.16	+2.19	+1.52	+1.32	+1.15	+1.35	−1.68	−3.25

* 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 sales of non-convertible government bonds to foreign countries and international aid organisations, as well as advances received in respect of exports of military equipment; these official special transactions produced an amount of + $ 1.87 billion for 1968 and + $ 0.12 billion for 1969. — **4** Annual average for the years 1954 to 1956. — **5** Partly estimated.

no longer availed of after September 1969. Owing to the restoration of confidence in sterling – which in this instance, it is true, had also been assisted by the granting of an exchange rate guarantee to the sterling area countries – the sterling balances of these countries have again mounted to more than the basic level agreed upon for recourse to the Arrangement. Accordingly, the United Kingdom has repaid the outstanding residual amount to the BIS. The Bundesbank, whose maximum contribution to the credit line is $ 400 million, has so far never been called upon, since the BIS was able to procure the amounts required up to September 1969 partly from deposits of the sterling area countries with itself and partly on the money markets. It remains to be seen whether and to what extent the credit line under the Second Basle Group Arrangement, which will be available until September 1971, will in future be availed of by the United Kingdom.

Large deficit in the U.S. balance of payments

While the tensions in the international monetary system have been greatly relieved by the progress of the balances of payments of France and the United Kingdom, a dark shadow still falls over the international scene as a result of the critical situation of the balance of payments of the *United States*. In 1969 the U.S. balance of payments, depending upon how it is looked at, either recorded the highest deficit in the history of the country – i. e. about $ 7 billion according to the "liquidity definition" of the balance of payments – or the highest surplus of the past twenty years – i. e. $ 2.7 billion according to the balance on official reserve transactions. As compared with the year 1968, in which the U.S. balance of payments was in surplus according to both definitions (see above table), a dramatic deterioration occurred in the liquidity balance in 1969. It is true that part of this deterioration was accounted for by the disappearance of considerable window-dressing operations which had favourably influenced the previous year's balance; another part (estimated at $ 2 to 3 billion) was due to a shifting, for reasons of the interest differential, of U.S. funds from the United States to the Euro-money market, from where they were rechannelled by the U.S. banks to the United States. By the U.S. method of balance-of-payments accounting this money circulation through the Euro-money market is reckoned as a capital outflow and thus as a debit item, whereas the reflow of the same funds via the banks appears only in the balance on official reserve transactions, but not as a credit item in the liquidity balance. In 1969 U.S. banks, in order to escape the pressure of liquidity tightness, took up far more short-term funds from abroad than had been shifted there from U.S. sources, in fact a total of $ 8.8 billion. This tremendous short-term money inflow into the United States is the principal explanation for the discrepancy between the (favourable) balance on official reserve transactions and the (excessively adverse) liquidity balance, which at first sight appears absurd. The attraction of such heavy amounts of short-term foreign funds also explains the comparatively strong position of the dollar on the exchange markets during the major part of 1969. If one tries to eliminate the anomalous factors, or those of a purely accounting nature, from the U.S. balance of payments it will be found that in 1969 the basic balance of payments, with a "genuine" deficit of about $ 3.5 billion, deteriorated considerably as against 1968. Even though the balance of payments in the fourth quarter of 1969 temporarily presented a more favourable picture owing to the effects of the Deutsche Mark revaluation and the year-end window-dressing, the balance-of-payments results in the first months of 1970 demonstrate that the basic data of the U.S. balance of payments have so far not improved significantly, so that in the current year a considerable deficit has to be expected. The chronic deficit position of the leading economic power in the western world, which hitherto has been bridged only by the attraction exercised by high U.S. interest rates on Euro-funds, is a heavy burden on the world monetary system.

4. Reduction of the international credit assistance provided by the Bundesbank

Drastic reduction of the assistance credits extended by the Bundesbank

For the first time for a considerable while it is possible to report for the period under review a significant reduction of the assistance credits the Bundesbank provided for other central banks and the International Monetary Fund. This is in line with developments in the international monetary situation, as described in this Report. The volume of outstanding assistance credits of the Bundesbank reached its peak in the summer of 1969 immediately before the revaluation of the Deutsche Mark. After this revaluation and the reversal in foreign exchange flows brought about by it, the United Kingdom and France, the principal debtor countries, very quickly started to repay their external debts. Moreover, in November and December 1969, the Bundesbank was able to mobilise German claims on the IMF which resulted from earlier financial transactions via the IMF in favour of the United Kingdom and France, using the funds thus received to cover the substantial foreign exchange outflows after the revaluation.

(a) Assistance for central banks

At the end of 1968 the Bundesbank credits connected with assistance operations in favour of other central banks totalled DM 2.6 billion, including the credit extended to the BIS within the framework of the First Basle Group Arrangement in favour of the United Kingdom, and the Bundesbank's share in the BIS credit of November 1967, but excluding financial assistance channelled through the IMF. At the end of July 1969 the balances outstanding reached their peak at DM 4.9 billion. By the end of March 1970 they had been reduced to DM 558 million. At this time a residual claim on the Bank of France under the credit line established in August 1969 and an amount of DM 265 million supplied under the agreement for the consolidation of the First Basle Group Arrangement were still outstanding.

(b) Assistance channelled through the IMF

On several occasions the Bundesbank had contributed substantial amounts towards the financing of IMF operations in favour of the United Kingdom and

France, by extending to the Fund special credits within the framework of the General Arrangements to Borrow (GAB). The Bundesbank claims that arose from GAB credits to the IMF had reached a total of DM 2.1 billion at the end of 1968. By the end of May 1969 they had been reduced by scheduled repayments of the United Kingdom to the IMF, although later on they climbed again to DM 2.2 billion (equivalent to $ 550 million) owing to the provision of additional funds to finance U.K. and French drawings in the summer and autumn of 1969. Since this claim is expressed in gold, the Deutsche Mark revaluation caused a reduction of the outstanding balance to DM 2,013 million.

Germany also provided cash payments to the IMF within its quota, i. e. contributions over and above the 25 % payment made in gold in accordance with the IMF Articles of Agreement. These German cash payments within the IMF quota are also financed by the Bundesbank; from an economic point of view they have the same effect as the GAB credits extended by the Bundesbank to the IMF, since they create a "reserve position in the IMF", i. e. an automatic drawing right. From a legal point of view, however, unlike the GAB credits these advances do not constitute a direct claim of the Bundesbank on the IMF but a "Credit to the Federal Government for participation in international institutions". With regard to these credits the claim on the IMF is formally held by the Federal Government, not the Bundesbank. In case of a foreign exchange need for balance-of-payments purposes, however, this claim (the so-called super gold tranche) can likewise at any time be drawn upon automatically. Such a drawing will not create a repayment obligation on the part of Germany, since in such instances no loan is obtained from the Fund but rather a former cash payment is recalled.

Mobilisation of German claims on the IMF

When the financing of the massive foreign exchange withdrawals after the revaluation put a heavy strain on the liquid foreign exchange reserves of the Bundesbank, the German reserve position in the IMF was mobilised, i. e. converted into immediately usable foreign exchange funds. In November 1969 the outstanding balance under the super gold tranche, amounting to $ 540 million, and in December 1969 the $ 550 million GAB claim were mobilised. After these transactions Germany still has at its disposal the automatically available gold tranche amounting to 25 % of the German IMF quota, which means $ 300 million in the equivalent of DM 1,098 million. In case of need this could also be mobilised at any time and without any strings attached; however, unlike the mobilisation of the super gold tranche and the GAB claim a drawing in the gold tranche creates an obligation to repay the amount drawn later on, when the foreign exchange position of the country concerned has changed for the better.

The sudden reversal in the German foreign exchange position in the latter months of 1969 also had the effect that a German contribution to the financing of a French drawing scheduled for January 1970, which had been arranged already in September 1969, was cancelled and replaced by contributions from other countries. It would not have made much sense for the Bundesbank to provide new cash payments for IMF assistance operations at the very moment when it was mobilising its former cash contributions to the IMF to replenish its own liquid foreign exchange holdings. The cancellation of the scheduled German contribution was initiated not by the German monetary authorities but by the IMF itself.

(c) Other contributions of the Bundesbank

As already stated in the Annual Report of the Deutsche Bundesbank for 1968 (pages 43/44) the Bank acquired medium-term Treasury notes of the United States and the United Kingdom under the foreign exchange offset agreements. At the end of 1968 the total amount of these Treasury notes was DM 3.7 billion. It increased to DM 4.2 billion when the last instalment of DM 500 million on the offset agreement with the United States for 1968/69 was transferred in April 1969.

Liquidation of medium-term U.S. Treasury notes

It was agreed between the parties to the offset agreements that these Treasury notes could be liquidated in advance of their maturity and converted into short-term Treasury bills should the German monetary reserves decline significantly. The Bundesbank — in full agreement with the U.S. authorities — took advantage of this clause to the extent of DM 2 billion at the beginning of January 1970, when Germany's liquid foreign exchange reserves were substantially reduced because of the foreign exchange outflow which set in after the revaluation of the Deutsche Mark. Since January 1970 the Bundesbank thus holds medium-term U.S. and U.K. Treasury notes totalling only DM 2.2 billion.

5. Changes in the international reserve system

(a) First allocation of special drawing rights

First decision to allocate special drawing rights

The decision of the IMF Governors at the 1969 Annual Meeting of the International Monetary Fund to allocate special drawing rights over the years 1970 to 1972 is a landmark in monetary history in so far as it inaugurates the first world-wide system for the deliberate creation of reserves. The new Articles XXI to XXXII of the Articles of Agreement of the International Monetary Fund are the legal basis for the special drawing rights. This amendment to the IMF Articles entered into force in July 1969 after it had been ratified by the required number of IMF members.

The decision of the IMF Governors provides for the allocation of special drawing rights to the extent of 9.5 billion units of value (1 unit of value equals 1 United States dollar) over a three-year basic period; 3.5 billion will be allocated in the first year of the basic period, 3 billion in each of the two subsequent years. The first annual allocation of special drawing rights to IMF members was made on January 1, 1970. A member's share of the allocation is determined by its IMF quota. In accordance with the quota relationship existing at the end of 1969 Germany was allotted special drawing rights for 1970 worth about 202 million units of value (equivalent to DM 738 million). According to the Law concerning the Amendments to the Articles of Agreement of the International Monetary Fund of December 23, 1968, the special drawing rights allotted to the Federal Republic of Germany were transferred to the Bundesbank. Since they are a reserve asset which in case of a balance-of-payments need can be used at any time, this allocation increased the Bundesbank's "freely usable or easily mobilisable external assets" accordingly. In the Bank's weekly return this new asset is matched on the liabilities side by a "Contra-entry to special drawing rights allocated". This item shows the amount of the special drawing rights allotted. As far as special drawing rights acquired by transactions with other countries are concerned, these replace the foreign exchange holdings which were transferred in exchange for the special drawing rights received. It may be mentioned that in accordance with the respective IMF quotas the first allocation of special drawing rights for the United States amounted to 867 million units of value, for the United Kingdom to 410 million, and for France to 165.5 million. Before special drawing rights could be allocated for the first time two difficult questions had to be resolved. First, considering the present world monetary situation, do the prevailing circumstances really justify the activation of the system? Second, if so, to what extent and for what basic period should special drawing rights be allocated? Both questions were discussed in the summer of 1969 not only by the appropriate bodies of the IMF but also by the Group of Ten and Working Party 3 of the OECD.

Preconditions for the allocation of special drawing rights

The agreement on the establishment of the special drawing rights system stipulates the following precondition for their first allocation: "The first decision to allocate special drawing rights shall take into account, as special considerations, a collective judgment that there is a global need to supplement reserves, and the attainment of a better balance-of-payments equilibrium, as well as the likelihood of a better working of the adjustment process in the future." Working Party 3 of the OECD, examining at the request of the Group of Ten whether these preconditions are present, after intensive deliberation reached the following conclusion: "There is a general consensus that, from the point of view of the adjustment process and of balance-of-payments equilibrium, it would not be inappropriate to proceed with an early allocation of special drawing rights."

Need for monetary reserves present

The presence of a world-wide *need for monetary reserves* was amply substantiated. As shown by the table on the facing page, the increase in world monetary

World monetary reserves
(gold, foreign exchange, IMF reserve position)

Period	All countries		Reserve currency countries (U.S.A. and U.K.)		Group of Ten (incl. Switzerland; excl. U.S.A. and U.K.)		Group of Ten (incl. Switzerland), total		OECD countries, total		Non-OECD countries, total	
	Change $ mn	in %	Change $ mn	in %	Change $ mn	in %	Change $ mn	in %	Change $ mn	in %	Change $ mn	in %
1960 [1]	+2,840	+ 4.9	–1,227	– 5.0	+4,368	+23.8	+3,141	+ 7.4	+3,562	+ 7.8	– 722	– 6.1
1961	+2,085	+ 3.4	–1,007	– 4.4	+2,835	+12.5	+1,828	+ 4.0	+2,268	+ 4.6	– 183	– 1.6
1962	+ 535	+ 0.9	–1,543	– 7.0	+1,575	+ 6.2	+ 32	+ 0.1	+ 431	+ 0.8	+ 104	+ 0.9
1963	+3,420	+ 5.4	– 538	– 2.6	+1,626	+ 6.0	+1,088	+ 2.3	+1,842	+ 3.5	+1,578	+14.2
1964	+2,285	+ 3.4	–1,002	– 5.0	+2,242	+ 7.8	+1,240	+ 2.5	+2,136	+ 4.0	+ 149	+ 1.2
Annual average change in 5-year period from end-1959 to end-1964	+2,233	[3] + 3.6	–1,063	[3] – 4.8	+2,529	[3] +11.1	+1,466	[3] + 3.2	+2,048	[3] + 4.1	+ 185	[3] + 1.5
1965	+1,805	+ 2.6	– 534	– 2.8	+1,733	+ 5.6	+1,199	+ 2.4	+1,035	+ 1.8	+ 770	+ 6.0
1966	+1,520	+ 2.2	– 473	– 2.6	+ 914	+ 2.8	+ 441	+ 0.9	+ 461	+ 0.8	+1,059	+ 7.8
1967	+1,690	+ 2.3	– 456	– 2.5	+1,320	+ 3.9	+ 864	+ 1.7	+1,018	+ 1.8	+ 672	+ 4.6
1968	+2,905	+ 3.9	+ 607	+ 3.5	– 121	– 0.3	+ 486	+ 0.9	+ 938	+ 1.6	+1,967	+12.8
1969	[2] + 150	[2] + 0.2	+1,359	+ 7.5	–2,505	– 7.2	–1,146	– 2.2	–1,014	– 1.7	[2] +1,164	[2] + 6.7
Annual average change in 5-year period from end-1964 to end-1969	+1,614	[3] + 2.2	+ 101	[3] + 0.5	+ 268	[3] + 0.9	+ 369	[3] + 0.7	+ 488	[3] + 0.9	+1,126	[3] + 7.6
Annual average change in 10-year period from end-1959 to end-1969	+1,924	[3] + 2.9	– 481	[3] – 2.2	+1,399	[3] + 5.8	+ 917	[3] + 2.0	+1,268	[3] + 2.5	+ 656	[3] + 4.5

Source: IFS. – **1** Since the beginning of 1959 non-convertible currencies, claims arising under payment agreements and bilateral claims resulting from the liquidation of the EPU are no longer contained in monetary reserves. – **2** Provisional. – **3** Cumulative.

reserves during the past five years on an annual average was no more than 2.2 % and in 1969 in fact practically nil; monetary reserves in the area of the OECD countries remained almost stationary over this five-year period. At the same time world trade grew by 9.7 % on an annual average. While it is no longer advocated anywhere that world monetary reserves should increase pari passu with world trade, there are nevertheless good grounds for assuming that in a period of marked growth in world trade and international payments the surpluses and deficits to be financed by monetary reserves likewise tend to become greater. In addition, it can be observed that at present a number of countries and groups of countries are definitely aiming at higher owned reserves. The crisis-induced great fluctuations in the exchange balances of a number of countries during the past few years have distinctly accentuated these endeavours to build up higher reserves in several countries. To some extent as a consequence of this experience an increasing pressure towards the creation of "substitute reserves" on a bilateral or multilateral basis has asserted itself in recent years. The steady extension of the swap network of the Federal Reserve System, which has frequently been due to the initiative of the other central banks, is indicative of this trend. In the same way the latest efforts to introduce new mechanisms for short and medium-term monetary assistance within the EEC must also partly be seen as reflecting such a need for additional credit lines in lieu of reserves.

Examination of other preconditions difficult

It proved more difficult to decide the question of the effects to be expected from an allocation of special drawing rights on the balance-of-payments discipline of the big deficit countries. In assessing this problem Working Party 3 of the OECD faced the task of weighing two risks against one another: a premature or excessive creation of reserves might detract from the efforts of the deficit countries to equilibrate their balances of payments; on the other hand, lack of sufficient reserves might thwart such efforts if, in the process of reversal of the balance-of-payments positions of the deficit countries, those other countries that were threatened by exchange losses were to resort to countermeasures in order to maintain their reserve positions. As regards the attenuation of the balance-of-payments discipline of the deficit countries, the representatives of other countries were prepared in the summer of 1969 to give the U.K., U.S. and French endeavours at balance-of-payments rehabilitation the benefit of the doubt. It was held that the present anti-inflationary policies pursued by these countries would not be weakened by a moderate allocation of special drawing rights. On the contrary, it was thought rather more likely that a rehabilitation of the U.S., U.K. and French balances of payments, once it had come under way, might be impeded and partially nullified if other countries were to take steps for the protection of their inadequate reserves as soon as they incurred the first exchange losses. However, in view of the fact that at the time of taking the decision several important countries had not yet attained full equilibrium in their balances of payments and that more particularly the United States, despite the surplus in its balance on official reserve transactions, was still far from having achieved genuine balance of payments rehabilitation, the initial allocation decision was made for a period of only three years instead of the normal five. This facilitates a more flexible adaptation of future allocations to subsequent developments.

As regards the question of the *initial allocation amount* it had to be borne in mind that the monetary gold reserves in the world will presumably not increase in any appreciable way in the foreseeable future, and that through repayment of currency debts by countries hitherto in deficit monetary reserves are destroyed. In point of fact this happened extensively during the closing months of the past year and especially in the opening months of 1970. On the other hand, it is entirely uncertain in the present situation to what extent in the years to come there will be any further reserve creation via the US dollar. The allocation volume of $ 3 to 3.5 billion per annum for an allocation period of three years, as proposed by the Group of Ten and adopted by the Managing Director of the IMF, is founded on the assumption that the annual growth rate required for world monetary reserves will on a medium-term view be about 5 to 6 %, and that through traditional channels, i. e. via an increase in dollar reserves and reserve positions in the IMF, a certain contribution to the growth of reserves will continue to be made. On the other hand, the latest monetary developments following the Deutsche Mark revaluation have

Main categories of monetary reserves from 1964 to 1969

Millions of US dollars

Item	End-1963	Change 1964	1965	1966	1967	1968	1969	End-1969
Gold	40,220	+ 620	+1,015	— 950	—1,400	— 570	+ 195	39,130
Foreign exchange	22,390	+1,445	— 425	+1,520	+3,670	+2,735	— 290	31,045
IMF reserve position	3,940	+ 215	+1,221	+ 954	— 582	+ 740	+ 238	6,726
Monetary reserves, total	66,550	+2,285	+1,805	+1,520	+1,690	+2,905	+ 150	76,905
Memorandum item:								
Gold held by international organisations	2,080	+ 92	— 797	+ 904	— 179	— 131	— 87	1,882
Monetary gold reserves, total	42,300	+ 710	+ 220	— 45	—1,580	— 700	+ 110	41,015

Source: IFS.

shown that it may be necessary after all to allow a somewhat larger amount for the destruction of monetary reserves through repayment of monetary debts than appeared likely in the summer of 1969. The above-mentioned original hypothesis of a legitimate growth of world-wide reserve requirements by 5 or 6 % on average needs to be compared with the estimated medium-term growth of world trade of at least 8 % and an increase in the international payments turnover which will probably be very considerably higher than this.

(b) Quota increases in the IMF

Third general increase in the IMF quotas

Under the terms of the IMF Articles of Agreement a review of membership quotas has to be carried out at the latest every five years. On the basis of this provision agreement in principle on a third general increase of IMF quotas was reached towards the end of 1969. The negotiations on the order of magnitude of this increase proved difficult, because certain important countries had expressed a desire for quite substantial increases of their own quotas, either in order to adapt their position in the IMF to the greater importance of their countries in the world economy, or in order to have larger scope for the consolidation of short-term monetary debts by drawing on the IMF. Since, however, at the same time a balanced relationship between the various national quotas was to be preserved and especially because care had to be taken not to let the quotas of developing countries fall back too much in relative importance, the acceptance of such extreme individual requests would have led to an exaggerated boosting of the overall volume of the member quotas, and thus of the volume of "conditional liquidity" in the world economy.

The solution finally adopted provides for an increase in member quotas from a present total of $ 21.3 billion to a future $ 28.9 billion, i. e. by approximately 36 %. For the Federal Republic of Germany the quota – in conformity with the concept of the German authorities – is to be raised from $ 1.2 billion to $ 1.6 billion. In accordance with the decision on the increase the new quotas can at the earliest take effect on October 30, 1970, provided the prescribed minimum number of members has fulfilled the necessary conditions for the payment of the additional subscription and actually effected payment thereof. In most member countries this presupposes ratification by Parliament, which in Germany is at present in the course of preparation.

(c) The treatment of South African gold in the world monetary system

A compromise on sales of South African gold . . .

The suspension of interventions on the London gold market by the gold pool of the central banks, which occurred in March 1968 and led to the formation of a free gold market, caused a controversy with South Africa on the subject of utilisation of newly mined gold. When discontinuing the gold pool in March 1968 the principal central banks agreed, inter alia, not only to sell no more monetary gold on the free market but also not to acquire gold from holdings other than the official monetary gold holdings. This meant that South Africa, the main gold-producing country, was reduced to the free gold market for its sales of newly mined gold. South Africa endeavoured to secure for itself the right to sell newly mined gold to the IMF (and if need be to other monetary authorities) at its discretion at the official price. On the legal issue as to whether the IMF was obliged by its Articles of Agreement to effect such purchases in unlimited amounts, i. e. at the discretion of the offering country, no agreement was reached in the Executive Board of the IMF.

Between March 1968 and December 1969 the price on the free market consistently exceeded the official gold price. When an arrangement governing the sale of gold became more urgent for South Africa – for one thing, because the country was forced, owing to the deterioration of its balance of payments, to resort once again to regular gold sales to balance its net foreign exchange position, and for another, because the price on the free gold market was gradually again approaching the official level of $ 35 per ounce – a compromise was reached in December 1969 following protracted negotiations conducted primarily between South Africa and the United States. Towards the end of 1969 this compromise was approved by the Executive Directors of the IMF, thereby becoming part of the institution's policy. Under the terms of the agreement South Africa undertakes to effect regular sales of gold on the free market in proportion to its current foreign exchange requirements. The IMF will be prepared, in the event that the gold price on the free markets drops to $ 35 or less, to buy gold from South Africa at the official price of $ 35, less a nominal handling charge, in the volume required to permit South Africa's current foreign exchange requirements to be met. In addition, South Africa is entitled to sell gold to the IMF at the official price, up to a certain maximum amount per quarter, out of the monetary gold it held before March 17, 1968. The agreement was concluded for an initial period of five years. In this manner South Africa has secured for itself for all legitimate purposes a floor price for its newly mined gold. This, however, by no means signifies that such a floor price of $ 35 will apply on the free market under all circumstances such as the dissolution of major gold hoards or extensive Russian gold sales. On the other hand, there is now a certain guarantee that the newly mined gold of by far the most important gold producer will reach the free market in an orderly way as long as the free market gold price runs above $ 35. Moreover, this agreement signifies that the arrangement of March 1968, involving the setting up of the two-tier gold market, has in due form been sanctioned by the IMF. Although it cannot be excluded that in the case of major disturbances in the world monetary system speculative price fluctuations may again take place on the free gold market, the new gold agreement nevertheless makes it less likely that in normal times the free gold market will once more become a centre of unrest.

... strengthens the monetary system

6. Strengthening monetary cooperation among EEC members

Endeavours to arrive at closer monetary cooperation in the EEC

The endeavours to bring about closer cooperation in monetary policy within the EEC, which were a feature of the period under review, may prove to be of great significance for future monetary developments and the international monetary system. These efforts are motivated on the one hand by the desire to avoid a repetition of monetary crises and tensions similar to those that threatened to jeopardise the aims of the Community in the years 1968 and 1969. In addition, the termination of the twelve-year transitional period on December 31, 1969 suggested the laying of the foundation stone for transition to a genuine economic and monetary union. These considerations were endorsed at a conference of the Heads of State and Government of the EEC countries early in December 1969 at The Hague. The communiqué issued after this conference stated that it was resolved among other things "that based on the memorandum of the Commission of February 12, 1969 and in close cooperation with the latter, a step-by-step plan for the establishment of an economic and monetary union should be worked out in the Ministerial Council".

Preparatory work for closer cooperation in the monetary field dates back to a decision of the Ministers of Economics and Finance of the EEC in September 1968, by which the Monetary Committee and the Committee of Central Bank Governors were asked to examine the possibilities of more intensive cooperation in monetary policy. In a number of reports submitted both by the Monetary Committee and by the Commission the foundations for proposals in this direction were laid down. In its memorandum of February 12, 1969 "Coordination of economic policy and cooperation in monetary questions within the Community" the Commission placed before the Council a package of proposals under the following main headings:

In the field of economic policy:

- Harmonisation of medium-term economic objectives and data for the orientation of member countries;

- improved coordination of short-term economic policy by a procedure for advance consultation prior to important decisions in economic policy.

In the monetary field:

- A system of short-term monetary assistance, under which credits are to be granted without any conditions attached as to economic policy;

- a system of medium-term monetary assistance which can be resorted to within the framework of mutual assistance under the terms of Article 108 of the EEC Treaty.

In the meantime the EEC Council of Ministers has adopted a resolution concerning *advance consultations* prior to important decisions of the member countries on economic policy. The Council also approved the elaboration of a concept of *medium-term orientation data* for the establishment of economic aims (prices, external balance, growth rate, unemployment ratio) and instructed the Commission to submit, in close cooperation with the Committee for Medium-Term Economic Policy, a proposal for the third medium-term programme (1971–1975) by the autumn of 1970.

Short-term monetary assistance . . .

Acting on the desire expressed by the Council of Ministers, the Committee of Central Bank Governors of the EEC as from mid-1969 drafted an *agreement on short-term monetary assistance,* which came into force in February 1970. Under the terms of this agreement the central banks of the EEC member countries will make available to one another credit lines for short-term reciprocal assistance to permit the bridging of temporary balance-of-payments disequilibria. Under the provisions of the agreement such credits may be granted either bilaterally or through an agent, in quasi-automatic form, i. e. without any attendant conditions in the field of economic policy. Each central bank is accorded a quota which determines on the one hand the amount of monetary assistance it can receive and on the other hand the extent of its financing liability. These quotas (which are expressed in national currencies) add up to a total equivalent of approximately $ 1 billion (share of Federal Republic of Germany and France 30 % each, Italy 20 %, Belgium and Netherlands 10 % each). By unanimous decision of the EEC central banks an increase in the total up to the equivalent of a further billion dollars can be effected by establishing debtor or creditor rallonges. The agreement does not specify quotas per country for recourse and financing in the event of such increases; these quotas are to be fixed ad hoc in each case in order to ensure adequate flexibility. Maturity of the credits is normally three months; a non-recurring prolongation by a further three months is possible. Should a creditor central bank itself run into balance-of-payments difficulties during the lifetime of the credits it may request premature repayment or transfer of its claims to the other parties concerned. Every instance of recourse to the assistance system sets in motion a consultation procedure in the Monetary Committee of the EEC regarding the economic situation of the debtor country.

. . . and medium-term monetary assistance . . .

In addition, negotiations are in progress with a view to devising a practicable system for the *medium-term monetary assistance* suggested by the Commission. By means of this system reciprocal financial aid under the terms of Article 108, para. 2 (c), of the EEC Treaty is to be made applicable in practice. In the past this facility has never been resorted to, because in each case it would have been necessary to obtain the consent of the national Parliaments of the member countries concerned, a procedure which would have been too complicated and time-consuming for such assistance. An important problem in the establishment of such an assistance system consists in finding a solution guaranteeing the creditors a possibility of mobilising their claims under the system in the event that they themselves run into balance-of-payments difficulties. In the case of short-term assistance this question is of minor significance since the credits have a maximum lifetime of no more than six months. In the case of longer maturities there is a greater probability of a creditor country encountering balance-of-payments difficulties of its own while the credit is outstanding, so that some provision has to be made for the mobilisation of the creditor country's claim in such an event. In the International Monetary Fund this problem can be resolved rather more easily, because in a world-wide organisation a reversal in any one balance-of-payments position will always be offset by contrary trends in other countries. For a regionally limited mechanism, however, safeguarding the liquidity and mobility of medium-term monetary claims presents considerably greater difficulties. At the time of going to press a solution of the problems connected with medium-term monetary assistance was still under discussion in the Monetary Committee of the EEC.

... as the first steps to closer monetary cooperation

Coordination of short-term economic policy and harmonisation of medium-term targets of economic policy, as well as the mechanisms for short and medium-term assistance within the EEC, already represent the first tentative moves in the direction of the closer monetary cooperation it is sought to achieve as preliminary phase of a subsequent monetary union within the EEC. For an economic community it is only natural and logical to aim at establishing an economic and monetary union. In so doing, however, it is of outstanding importance that the proper sequence of the various steps to be taken is observed. Experience gained during the past two years has demonstrated very drastically that major divergences among the member countries in movements of prices, wages, general demand and balances of payments must inevitably lead to tensions and crises in the monetary field which will subsequently necessitate either dirigistic intervention or exchange rate adjustments. Of their own accord neither common credit mechanisms or reserve funds nor the premature cementing of reciprocal exchange rate relations are capable of preventing such divergences, especially in the field of prices and production costs. The illusory notion that such mechanisms exercise a sort of "factual coercion" in the direction of harmonising the trend of wages and prices must be dropped in the light of the experience of recent years in particular. Mutual commitments in the monetary field which gradually lead up to a monetary union will thus become meaningful only if and when in the individual member countries wage and price movements, government demand and indebtedness, and other determining factors of overall economic demand can be reliably harmonised by joint supervision in such a way that insurmountable discrepancies and tensions can be avoided in the future. As long as there is no guarantee to this effect the possibility of national adjustment measures, including adjustment of the exchange rate, must remain open against emergencies.

III. Details of monetary developments

1. Money and credit

(a) Bank liquidity

Severe drain of liquidity, especially in the fourth quarter

There were very large fluctuations in the liquid reserves of the German banking system in the course of 1969, and over the year as a whole there was a substantial reduction. The main causative factor, both of the fluctuations in liquidity and of the reduction, was the movement of foreign exchange. In the first quarter the Bundesbank's net foreign exchange holdings and the banks' short-term external assets decreased by over DM 6 billion owing to large long-term capital exports. In the second and third quarters, on the other hand, there was an increase of DM 11 billion and DM 6 billion respectively due to speculation on a revaluation of the Deutsche Mark, although the export of capital continued. Not until after revaluation, in the fourth quarter, did an extraordinarily large decline (of over DM 20.5 billion) in net foreign exchange holdings set in, so that for 1969 as a whole there was an overall decrease of just on DM 10 billion. In relation to these movements the other factors determining liquidity – as far as they stemmed from the market – were of comparatively little importance in their impact on the annual figures. All in all the effect of market factors in 1969 was to withdraw DM 13.5 billion of liquidity from the banks.

Tendency towards liquidity squeeze already in the first three quarters

Monetary policy could not stand idly by while liquidity in the German banking system was vastly increased by the speculative influx of money prior to revaluation. Owing to the raising of minimum reserves more than DM 4 billion was immobilised in the second quarter and over DM 1 billion in the third. In the third quarter, furthermore, the reduction of fully DM 2.5 billion in the banks' rediscount quotas which had been decided on in March took full effect, so that disposable liquid funds suffered restriction from this direction too. If the market and monetary policy determinants of bank liquidity are taken together, the drain of liquidity came to DM 4.7 billion in the first three quarters, made up of a reduction of over DM 9 billion in the first quarter, an increase of DM 5.7 billion in the second, and then a slight decrease (DM 1.3 billion) in the third. Up to the moment of revaluation therefore – or until the immediately preceding introduction of a floating exchange rate – it at least proved possible to reduce bank liquidity on balance to a level perceptibly below that at the start of the year, even though speculation on revaluation had been responsible for the influx of substantial sums into Germany. In the fourth quarter, i. e. after revaluation, a very great reduction in liquidity – by upwards of DM 13 billion – set in.

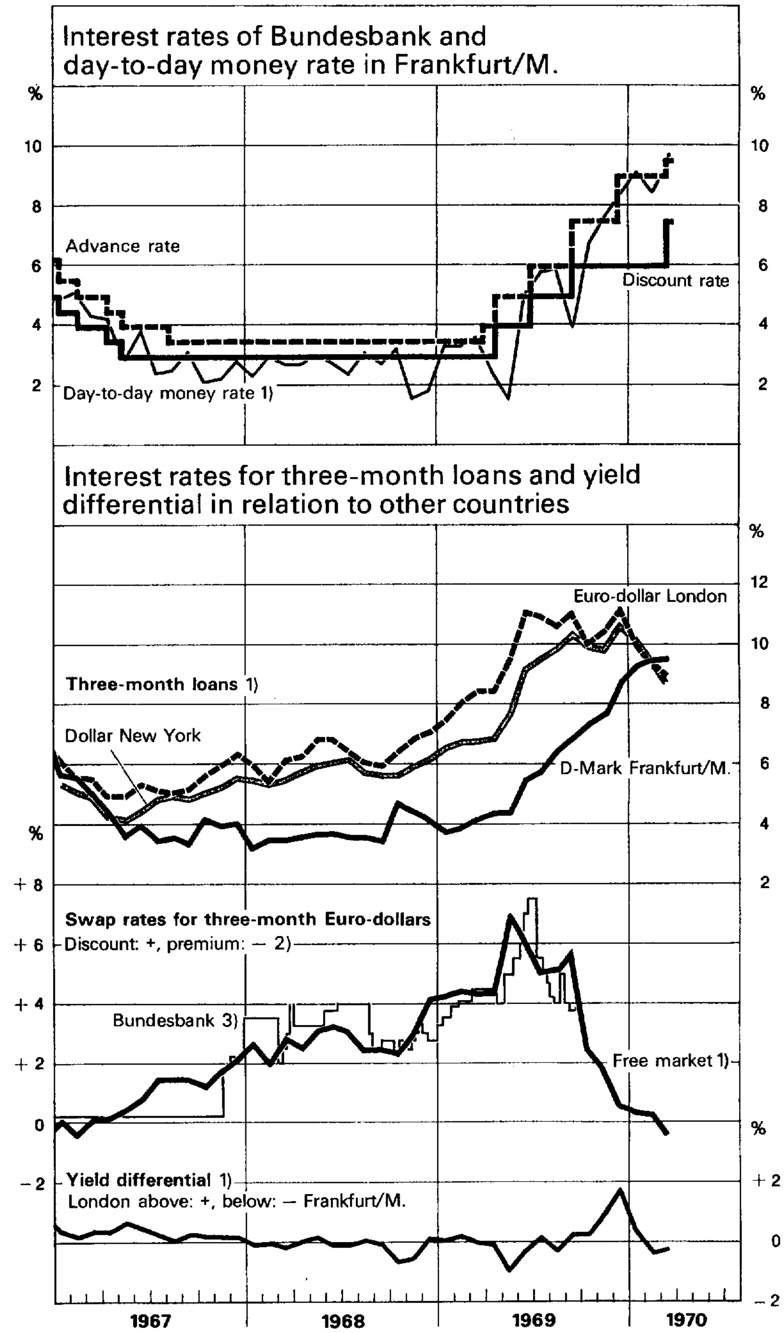
Banks' free liquid reserves halved in 1969

Over the whole of 1969 bank liquidity decreased by DM 17.9 billion (for details see bottom table on page 48). Thus in terms of absolute amounts the free liquid reserves[1] of the German banking system were practically halved in 1969. In terms of deposits at the banks, amounting to some DM 291 billion at the end of the year (including all liabilities towards non-banks and foreign banks with maturities of up to four years), liquid reserves totalled only 6.8 % at the end of 1969, compared with a liquidity ratio of 14.2 % a year previously. The liquidity ratio continued to decrease in the first few months of 1970, too: at the end of March, when free liquid reserves came to an estimated DM 15 billion, it amounted to about 5.2 %.

The far-reaching effects on bank liquidity and its determinants of the floating of the exchange rate on September 30 and the fixing of a new parity for the Deutsche Mark are revealed when the figures for the first nine months of 1969 are compared with those for the remaining period from October to December (see top table on page 48). There was no reason for the Bundesbank to compensate by relaxing monetary policy for the desired efflux of foreign money caused by the revaluation. Only at the moment of the abrupt reversal in the movements of money were minimum reserves lowered on a single occasion by 10 %, whilst a further lowering in December – again by 10 % – was restricted from the outset to that month, when liquidity is drained by a main tax payment date and by the demands of Christmas business. In January the minimum reserve ratios of November 1969 applied again. Tolerating the dearth of liquidity arising from the extraordinarily

1 Including domestic money market paper, short-term external assets, central bank balances less required minimum reserves, and unused rediscount quotas less advances on securities.

Money-market rates and yield differential in relation to other countries



1) Monthly averages.- 2) "Discount"= deduction to be accepted as cost of forward exchange cover on selling forward dollars, "premium"= yield obtainable on selling forward dollars.- 3) Swap transactions suspended since September 29.

large capital exports was the appropriate market means of bringing about a reduction of capital exports to the much lower longer-term level maintainable by Germany. However, the fact that this adjustment is not a rapid one and has not so far been sufficient was shown by the last few months, when in spite of the great reduction in bank liquidity capital exports continued, and at times even increased. This also demonstrates what efforts are necessary in order to eliminate the distortions in the economy caused by a wrong rate of exchange over a lengthy space of time.

From the point of view of the internal economy, too, the described trend of bank liquidity has so far been in keeping with the requirements of economic policy. Because of the speculative influxes, there was no possibility before revaluation of mastering the threatening upsurge of internal demand with any degree of permanence by monetary policy means. The Bundesbank had to restrict itself to sounding out and making use of the small scope left for measures of liquidity policy. At the time of revaluation the forces of cyclical expansion had become so strong that a reduction in liquidity exceeding all previous squeezes in speed and extent was called for in order to bring the situation under control again. Monetary policy was not in any danger of abruptly limiting the liquidity of trade and industry; the next section of this Report shows that lending by the banking system was not restricted by sufficiently effective means. Admittedly, the first effects of the decrease in liquidity are now becoming apparent in the banks' credit operations. The cessation of security purchases by the banks, especially, must be considered symptomatic of this.

Domestic money market interest rates adjust to foreign levels

The described fluctuations in bank liquidity were naturally reflected in the trend of the money market and its interest rates. Expectation of revaluation, and after it the absence of this expectation, had a very marked effect on the German money market. In the first three quarters of the year the domestic money market was not directly affected by the high rates of interest on foreign money markets, as German lenders were saddled with considerable costs for forward exchange cover on investment in foreign currencies. Therefore, in spite of the high level of interest rates abroad, exports of money came about only if the Bundesbank was prepared to take over the forward exchange guarantees at lower rates than those prevailing on the market. The money market rates at home kept in line with the Bundesbank's advance rate, which up to the middle of the year was raised in stages from 3 1/2 % to 6 %. Fairly sharp downward movements in the rate for day-to-day money occurred after the large speculative influxes of foreign exchange in May, when the banks saw hardly any profitable use for central bank balances available only at short term and ceased taking day-to-day money. The same thing occurred in September shortly after the advance rate had been fixed temporarily at a graduated rate of 6–8 %, depending on the amount of availment, and then at a uniform 7 1/2 %. With the new wave of speculative influxes the demand for advances on securities fell rapidly.

With the floating of the exchange rate for the Deutsche Mark at the end of September, the Bundesbank suspended its forward exchange cover operations and the cost of forward exchange cover on the free market sank almost to zero; the domestic money market interest rate rose correspondingly. For a time, rates near the advance rate of 7 1/2 % were still quoted on the domestic money market, it is true, but the interest rates on the Euro-money markets – 10 % and more throughout – stimulated money exports strongly. Domestic banks with a need for liquidity often obtained finance at this time by recourse to advances on securities at the Bundesbank, and indeed it was no rare thing for the banks to take such advances especially for the purpose of money exports. On December 5 the Bundesbank finally raised its advance rate to 9 %, the discount rate remaining at the level of 6 % reached on September 11. After the increase in the advance rate, which was followed by the money market rates, interest rates on the domestic money market almost came up to those on the Euro-money market; money exports stopped for a while at the year's end and borrowing against securities declined somewhat. With the lowering of the minimum reserve requirement adopted on December 5 and limited to that month there was even a temporary easing of the money market. In the first few months of 1970, however, there was again considerable strain; the interest differential in relation to the Euro-money markets virtually ceased to exist.

Domestic factors determining bank liquidity

Contractive effect of repayment of public authorities' money market paper and of note and coin circulation

Public authorities' financial transactions resulted in a contraction of bank liquidity by about DM 5 billion in 1969. Their cash transactions with the Bundesbank were in balance over the year as a whole. In the first few months of 1969 their net credit balances increased strongly, primarily for seasonal reasons, but also to some extent because of expenditure cuts decided on for reasons of anticyclical policy; in November and December their balances fell more than usual for the time of year. But as public authorities' debts at the same time underwent a shift in line

Main determinants of bank liquidity before and after the floating of the Deutsche Mark

Billions of DM; increase in liquidity: +

Item	January to September 1969	October to December 1969	January/ February 1970
Deficit on basic balance (surplus on current account of the balance of payments less net long-term capital exports)	— 8.1	— 7.8	— 3.4
Cash transactions of domestic non-banks with Bundesbank and reduction of public authorities' money-market indebtedness	— 7.9	+ 2.9	— 1.7
Balance of other domestic market factors (including note and coin circulation, but excluding foreign exchange movements)	— 0.1	+ 1.4	+ 1.3
Monetary policy measures	— 7.5	+ 3.1	— 2.4
Total	—23.6	— 0.4	— 6.2
Inflow and outflow of foreign "hot" money	+19.0	—15.5	—
Other foreign exchange movements	— 0.1	+ 2.7	+ 5.1
Change in liquidity, total	— 4.7	—13.2	— 1.1

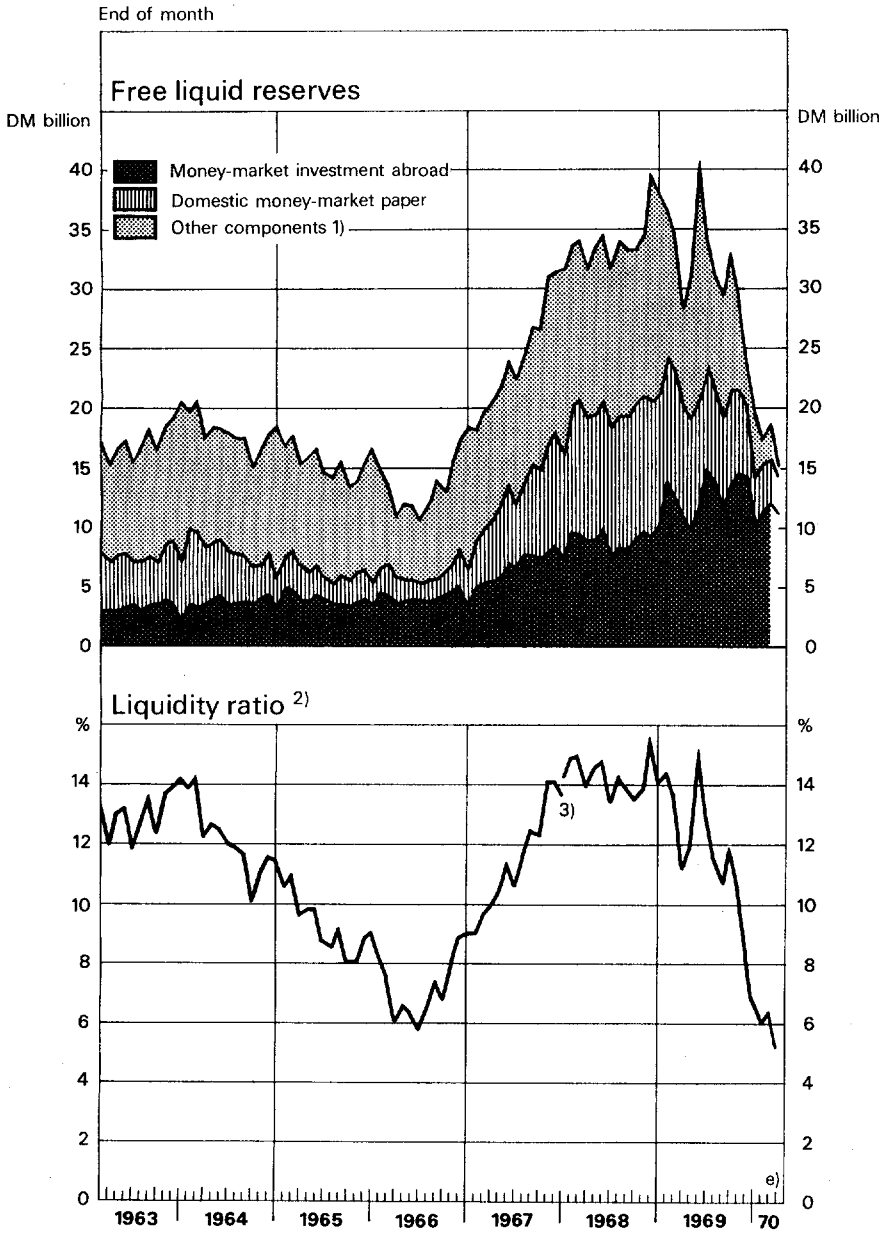
Details on bank liquidity

Billions of DM

Item	1968	1969	1969 1st qtr	1969 2nd qtr	1969 3rd qtr	1969 4th qtr
	Changes during period, calculated from end-of-month figures					
I. Market factors						
1. Note and coin circulation (increase: –)	— 1.1	— 2.3	— 0.2	— 1.2	— 0.3	— 0.6
2. Net balances of non-banks with Bundesbank (increase: –)	— 1.9	+ 0.2	— 3.7	+ 0.2	— 1.5	+ 5.2
of which: Federal and Länder Governments, Equalisation of Burdens Fund	(— 1.7)	(+ 0.0)	(— 4.1)	(+ 0.5)	(— 1.7)	(+ 5.3)
3. Public authorities' money-market indebtedness to banks and Bundesbank (increase: +)	+ 1.3	— 5.2	— 0.8	— 1.3	— 0.8	— 2.3
4. Net foreign exchange holdings **1**	+ 9.4	— 9.8	— 6.3	+11.2	+ 5.9	—20.6
5. Other factors	+ 1.9	+ 3.6	+ 0.5	+ 1.3	— 0.2	+ 2.0
Total	+ 9.6	—13.5	—10.5	+10.2	+ 3.1	—16.3
II. Monetary-policy factors						
1. Minimum reserve required of banks **2** (increase: –)	— 3.3	— 0.4	+ 1.2	— 4.1	— 1.2	+ 3.7
2. Open-market transactions with domestic non-banks **3** (purchases by Bundesbank: +)	— 0.3	— 1.0	+ 0.2	— 0.4	— 0.6	— 0.2
3. Reduction of rediscount quotas	—	— 3.0	—	—	— 2.6	— 0.4
Total	— 3.6	— 4.4	+ 1.4	— 4.5	— 4.4	+ 3.1
III. Increase (+) or decrease (–) in bank liquidity, total (I plus II) = change in free liquid reserves	+ 6.0	—17.9	— 9.1	+ 5.7	— 1.3	—13.2
of which:						
1. Excess reserves **4**	— 0.8	— 1.1	— 3.3	— 0.9	+ 1.5	+ 1.6
2. Domestic money-market paper **5**	+ 2.4	— 7.2	— 2.4	— 0.2	— 0.5	— 4.1
3. Money-market investment abroad **6**	+ 2.6	+ 0.2	+ 1.1	+ 3.8	— 1.5	— 3.2
4. Unused rediscount quotas	+ 1.7	— 7.9	— 4.9	+ 2.9	— 1.1	— 4.8
5. Advances on securities (utilisation: –)	+ 0.1	— 1.9	+ 0.4	+ 0.1	+ 0.3	— 2.7
	Position at end of period					
IV. Banks' free liquid reserves **7**						
in billions of DM	37.8	19.8	28.6	34.3	33.0	19.8
in % of total deposits **8**	14.2	6.8	11.3	12.9	11.9	6.8

1 Net monetary reserves of Bundesbank and other banks' short-term money-market investment abroad. — **2** Not including Federal Post Office. — **3** Including Federal Post Office. — **4** Difference between minimum reserve requirement and banks' total central bank balances at end of month. — **5** Domestic Treasury bills and non-interest Treasury bonds, Storage Agency bills, prime bankers' acceptances, Limit B bills of AKA Export Credit Company and medium-term notes of domestic public issuers to the extent they are included in the Bundesbank's money-market regulation. — **6** Shorter-term claims on foreign banks (excluding foreign currency claims payable on demand), foreign Treasury bills and other foreign bills of exchange acquired for employment of money (mainly bankers' acceptances). — **7** Excluding investment by the Post Office. — **8** Sight, time and savings deposits and similar funds (excluding funds with maturities of 4 years and over) of non-banks and foreign banks.

Bank liquidity



1) Unused rediscount quotas and central bank balances, less minimum reserve requirement and advances taken against securities.- 2) Liquid reserves in % of total deposits.- 3) Statistical break resulting from redefinition of total deposits.- e) Partly estimated.

with a debt management policy befitting the economic situation, bank liquidity was reduced in this way, for public authorities diminished the indebtedness towards the banks and the Bundesbank they incurred in 1967 and 1968 in respect of money market paper by DM 5.2 billion (with the emphasis on the second and fourth quarters). The redemption of this paper, which is included in the money market regulation of the Bundesbank, had a contractive effect on bank liquidity similar to that which would have been exerted had the Bundesbank balances of public authorities risen or Bundesbank cash advances been repaid.[1] Liquidity was reduced also by the cyclical rise in the circulation of notes and coin, which was mainly due to the growth in incomes and amounted to about DM 2.3 billion in 1969, thus being greater than in the preceding year.

Monetary policy measures to restrict liquidity

As far as the monetary policy measures of the Bundesbank are concerned, the minimum reserve ratios for domestic liabilities were raised by 15 % and those

1 For further particulars see Monthly Report of the Deutsche Bundesbank, August 1969, pages 6/7, and September 1969, pages 15 and 23.

for external liabilities by 50 % in June, and both by a further 10 % with effect from August. Owing to these measures the reserve requirement (not including the Post Office banks) went up by about DM 4.25 billion. In November and December the Bundesbank freed about the same amount of minimum reserves. The lowering of the minimum reserve by 10 % in December, through which the reserve requirement went down by DM 1.8 billion, applied however – as already stated – only to that month. Since May 1969, if all subsequent months are included, minimum reserve policy has tended to tighten liquidity slightly. Furthermore the Bundesbank several times altered the reserve regulations in 1969. A change of a technical nature was made to the conditions governing the reserve on the growth of external liabilities, pursuant to the amendment of Article 16 of the Bundesbank Law, which regulates in detail the legal right of the Bundesbank to determine minimum reserves. The requirement was raised only slightly by this. The temporary restriction on the exemption of interest-rate arbitrage dealings from the reserve requirement did not lead to any noteworthy burdening of bank liquidity. The object of the measure was rather as far as possible to prevent "roundabout" transactions with the aid of Bundesbank swaps. On the other hand the 100 % reserve on additions to external liabilities, the dates of reference for which had twice been changed in the first half of the year, was lifted with effect from November 1, so that to this extent the minimum reserve requirement was lowered already from the beginning of November onwards (by some DM 400 million), whereas otherwise it would only have fallen in proportion to the further reduction in liabilities subject to the reserve. The reduction in the banks' rediscount quotas decided on in March served to restrict their liquid reserves and became effective mainly in July 1969. Including the lowering of supplementary quotas for third-country bills on October 1, bank liquidity decreased by about DM 3 billion through reductions in quotas in the year under review. A further reduction in the banks' rediscount margins, albeit a small one, was made in February 1970, when the Bundesbank again lowered the supplementary quotas for third-country bills.

Effects of liquidity losses on individual components of liquid reserves

The aforementioned overall reduction by DM 17.9 billion affected the individual components of the banks' liquid reserves in varying degrees. The greatest reduction was in the banks' rediscount margin at the Bundesbank; unused rediscount quotas decreased by DM 7.9 billion, whilst the banks' liability towards the Bundesbank for bills counting towards rediscount quotas increased from DM 5.0 billion to DM 12.6 billion by the end of 1969. The reduction in rediscount quotas from July onwards was almost nullified in its effect on the banks' rediscount margins by the "normal" growth of the quotas. On the one hand the banks increased their liable funds and therefore the basis for the determination of rediscount quotas. On the other hand quotas were granted to banks – mostly savings banks – which had never before had resort to them. This is a predictable concomitant of any marked shortage of bank liquidity. In the overall view the banks were using about two thirds of their rediscount quotas at the end of December 1969, compared with only about a quarter a year before. At the end of February 1970, indeed they were using over 70 %.

Recourse to advances against securities raises problems

In 1969 the banks also had much greater recourse to Bundesbank advances on securities, which unlike Bundesbank discount credit are subject not to quantitative but only to "qualitative" restrictions, since they are supposed to be granted only in order to meet quite short-term liquidity requirements.[1] On the average of all calendar days of the year, DM 0.9 billion of advances against securities were taken in 1969, compared with not quite DM 0.2 billion in 1968. In five months of 1969 the average recourse exceeded DM 1.0 billion, however. Shorter-term bank utilisation of advances against securities was greater still, reaching as much as DM 7.25 billion on some days. Recourse to advances against securities was restricted from the cost angle, however, by the advance rate, which by previous standards was unusually high; from December 5 to March 8 it was 3 % higher than the discount rate and from March 9 onwards 2 % higher than the discount rate, then raised to 7 1/2 %. Although in some quarters advances against securities are apparently regarded as a permanent source of funds for financing purposes, this is contrary to their intended object of providing short-term interim loans.

1 Banks' total holdings of securities eligible for Bundesbank advances (including equalisation claims, but not bills and non-interest Treasury bonds, which are also eligible) can be put at about DM 75 billion.

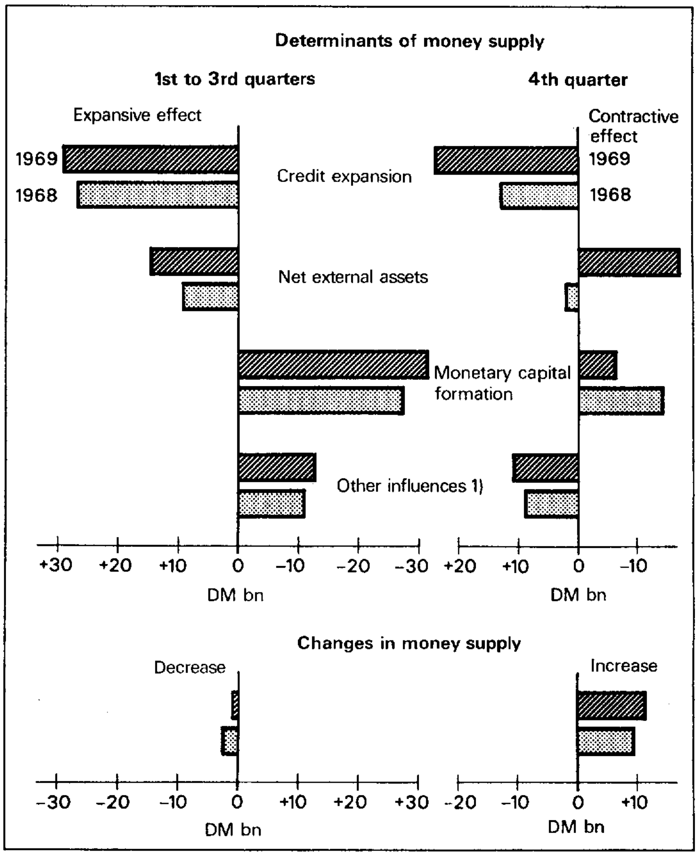
Money supply and its determinants

Millions of DM; increase: +

Item	Year	Total	1st qtr	2nd qtr	3rd qtr	4th qtr
I. Bank advances to domestic non-banks, total	1969	+53,394	+9,317	+9,024	+11,042	+24,011
	1968	+39,990	+6,260	+10,758	+9,821	+13,151
	1967	+32,892	+3,363	+6,987	+8,060	+14,482
1. Deutsche Bundesbank	1969	+672	—1,150	—627	—18	+2,467
	1968	—2,074	—2,307	—171	—365	+769
	1967	+668	—1,646	—217	—208	+2,739
of which: to enterprises and individuals	1969	—84	—201	—37	—3	+157
	1968	—181	—116	+43	—100	—8
	1967	+368	—271	—35	+94	+580
to public authorities	1969	+756	—949	—590	—15	+2,310
	1968	—1,893	—2,191	—214	—265	+777
	1967	+300	—1,375	—182	—302	+2,159
2. Other banks	1969	+52,722	+10,467	+9,651	+11,060	+21,544
	1968	+42,064	+8,567	+10,929	+10,186	+12,382
	1967	+32,224	+5,009	+7,204	+8,268	+11,743
of which: to enterprises and individuals	1969	+51,130	+9,147	+10,178	+9,755	+22,050
	1968	+30,895	+3,452	+9,028	+7,204	+11,211
	1967	+18,332	+980	+5,098	+4,509	+7,745
Short-term advances	1969	+20,443	+3,620	+3,542	+2,197	+11,084
	1968	+6,536	—818	+3,213	+1,407	+2,734
	1967	+1,989	—1,629	+1,729	+221	+1,668
Medium and long-term advances	1969	+29,393	+4,657	+6,675	+7,335	+10,726
	1968	+21,623	+3,587	+5,248	+5,128	+7,660
	1967	+15,873	+2,398	+3,281	+3,951	+6,243
Holdings of securities issued by German enterprises	1969	+1,294	+870	—39	+223	+240
	1968	+2,736	+683	+567	+669	+817
	1967	+470	+211	+88	+337	—166
to public authorities	1969	+1,592	+1,320	—527	+1,305	—506
	1968	+11,169	+5,115	+1,901	+2,982	+1,171
	1967	+13,892	+4,029	+2,106	+3,759	+3,998
Short-term advances	1969	—6,105	—1,205	—1,018	—1,285	—2,597
	1968	+1,146	+1,765	—161	—	—458
	1967	+4,627	+1,102	+475	+1,570	+1,480
Medium and long-term advances 1	1969	+7,148	+2,429	+563	+2,045	+2,111
	1968	+8,233	+2,625	+1,839	+2,571	+1,198
	1967	+6,450	+2,021	+1,124	+1,106	2,199
Holdings of securities issued by German public authorities	1969	+549	+96	—72	+545	—20
	1968	+1,790	+725	+223	+411	+431
	1967	+2,815	+906	+507	+1,083	+319
II. Net external assets of banks and Bundesbank	1969	—3,045	+321	+9,488	+4,940	—17,794
	1968	+11,249	+4,671	+1,383	+3,196	+1,999
	1967	+5,123	+3,642	+514	+1,190	—223
III. Monetary capital formation with banks from domestic sources, total 2	1969	+37,968	+14,142	+8,645	+8,836	+6,345
	1968	+41,877	+13,252	+6,815	+7,432	+14,378
	1967	+26,577	+6,865	+3,151	+5,340	+11,221
of which: Savings deposits and savings bonds	1969	+21,590	+5,900	+3,662	+3,490	+8,538
	1968	+22,023	+6,125	+2,960	+3,758	+9,180
	1967	+17,648	+4,188	+2,800	+2,768	+7,892
Time deposits and similar funds 3	1969	+8,871	+6,010	+3,179	+3,295	—3,613
	1968	+12,413	+4,820	+1,843	+2,504	+3,246
	1967	+5,213	+1,571	—502	+2,186	+1,958
Bank bonds outstanding (excluding bank holdings)	1969	+4,901	+1,436	+686	+1,765	+1,014
	1968	+4,652	+1,422	+827	+862	+1,541
	1967	+1,800	+429	+138	+208	+1,025
IV. Central bank deposits of domestic public authorities	1969	+443	+2,727	—600	+1,796	—3,480
	1968	+1,189	+2,886	—207	+1,756	—3,246
	1967	+285	+1,571	—275	+927	—1,938
V. Other influences 4	1969	—737	—1,713	—4,517	—2,656	+8,149
	1968	—951	—4,055	—831	—1,783	+5,718
	1967	+373	—2,600	—383	—2,129	+5,485
VI. Note and coin circulation and liabilities with maturities of less than 3 months = money supply (I plus II plus V less III less IV)	1969	+11,201	—8,944	+5,950	+2,694	+11,501
	1968	+7,222	—9,262	+4,702	+2,046	+9,736
	1967	+11,526	—4,031	+4,242	+854	+10,461
of which: Note and coin circulation 5	1969	+2,102	—7	+1,031	+255	+823
	1968	+959	—368	+925	—144	+546
	1967	+631	—557	+737	+24	+427
Sight deposits	1969	+3,861	—5,908	+4,177	+1,267	+4,325
	1968	+4,572	—6,425	+3,434	+1,620	+5,943
	1967	+7,671	—3,241	+2,392	+1,432	+7,088
Time deposits and similar funds of domestic non-banks with maturities of less than 3 months	1969	+5,238	—3,029	+742	+1,172	+6,353
	1968	+1,691	—2,469	+343	+570	+3,247
	1967	+3,224	—233	+1,113	—602	+2,946
Increase in money supply (VI) on previous year in %	1969	10.9	8.7	9.6	10.1	10.9
	1968	7.5	7.9	8.0	9.3	7.5
	1967	13.7	2.3	2.0	5.4	13.7

1 Including equalisation and covering claims. — 2 Apart from the items mentioned, including capital and reserves of Deutsche Bundesbank and other banks. — 3 With maturities of 3 months and over; including loans on a trust basis. — 4 Balance of the other items in the consolidated balance sheet of the banking system; changes mainly resulting from fluctuations in the items in course of settlement within the banking system. — 5 Excluding banks' cash holdings, but including DM notes and coin held abroad.

Money supply



1) Including central bank deposits of domestic public authorities.

Reduction in holdings of domestic money market paper

Apart from the increased recourse to Bundesbank rediscount credit, the losses of liquidity resulted in the banks reducing their holdings of domestic money market paper by DM 7.2 billion. For one thing, as already mentioned, the money market paper held by the banks was redeemed, and could not be replaced because no such paper was on offer. The total of officially issued money market paper outstanding decreased by DM 6 billion in 1969. For another, the banks also sold to the Bundesbank in the fourth quarter of 1969 paper which was not due until 1970. At the same time they tried to husband their short-term external assets as far as possible on account of the comparatively high interest yield, and – whenever feasible – to increase them still further. In spite of the halving of other liquid reserves, at the end of December 1969 the banks' assets from money exports at DM 10.3 billion were DM 0.2 billion greater than at the end of 1968. In the course of 1970 until this Report went to press, too, the banks have not diminished their short-term external assets, but – with some fluctuations – have increased them slightly further.

(b) The monetary trend

Quickening of monetary expansion in 1969 . . .

Whilst bank liquidity decreased in 1969 – by almost DM 18 billion over the entire year, as already mentioned – the money holdings of trade and industry expanded more and more strongly from quarter to quarter. Though the year-to-year growth rate of money supply was still 8.7 % at the end of the first quarter of 1969, it had risen to 10.9 % by the close of the year. At the end of February 1970 it even reached the extreme figure of 14.1 %. If in comparison the increase in real terms of the gross national product is called to mind, which amounted to 8 % in 1969 and in 1970, after exhaustion of the labour market, might come to 5 %, it is clear that the "monetary side" has forged substantially ahead of real growth. In principle an expanding economy also needs a growing supply of money, but on the other hand too heavy claims on the national product must not be backed up by the monetary sector. It is important, therefore, that the supply of money is brought into a healthier relationship with the possibilities for real growth as quickly as possible.

. . . but substantial changes in the determinants in the last quarter

The revaluation of the Deutsche Mark and the reversal of the short-term flows of capital in external transactions it occasioned were responsible for an important change in the financial climate in Germany. Before the establishment of the new parity for the Deutsche Mark the surplus on external payments was the mainspring of monetary expansion. In the first three quarters of 1969 the net external assets of the banks and the Bundesbank grew by no less than DM 14.7 billion, which was over 50 % more than in the same period of the preceding year, after an unprecedentedly strong rise in the banking system's net external assets already in 1968. Characteristic of the remarkable strength of the expansive forces in the economy was the fact that, in spite of this heavy influx of money from abroad, still more recourse was had to bank lending in the first nine months of 1969 than in 1968. Lending by the banks (including the Bundesbank) to domestic non-banks grew almost 10 % more strongly in those months than in the same period of 1968, i. e. by DM 29.4 billion as against DM 26.8 billion. After the change in the Deutsche Mark parity there was an immediate reversal of the speculative money movements in external transactions, and in the last three months of 1969 banks' net external assets decreased by DM 17.8 billion, which was a good DM 3 billion more than had previously flowed in. As a result, the demands of trade and industry for bank credit increased more than ever, so that at DM 24.0 billion the credit expansion in the last quarter of 1969 was almost twice as great as in any previous quarter. Therefore in the final figures for 1969, on the one hand the banking system's net external assets diminished, and on the other hand credit expansion at home reached a higher level than in all previous years.

Decline in the formation of monetary capital as a reaction to foreign exchange effluxes

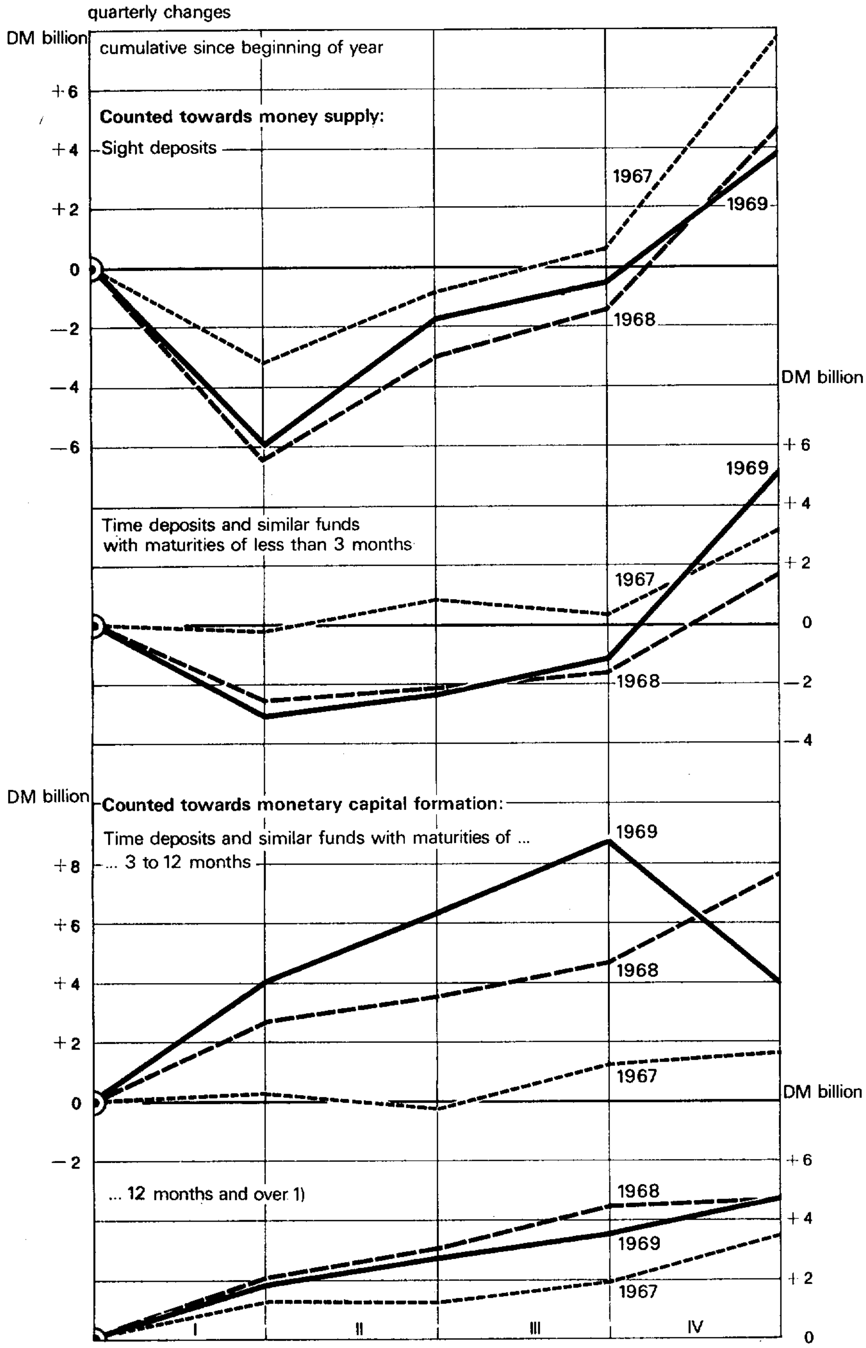
Not only the volume of credit, however, but also the formation of monetary capital at home – at least in so far as it is effected via the banks – was greatly influenced by the changes in the sphere of external transactions. This is discernible above all in the movements of time deposits with maturities of between 3 months and less than 4 years. Their increase in the first three quarters of 1969 was no less than DM 8.5 billion; in the fourth quarter, however, after the alteration of the rate of exchange, they fell by DM 5.2 billion. From January to September 1969 the banks' aggregate longer-term liabilities included in the formation of monetary capital grew by a total of DM 31.6 billion, or more vigorously than in the same period of 1968 (DM 27.5 billion), but the increase in the fourth quarter – at DM 6.3 billion – was not even half as great as in the same quarter of 1968 (DM 14.4 billion). This confirms the observation made in the Bundesbank's Report for the year 1968 that in periods of abundant liquidity the increasing time deposits at the banks are mainly made up of the money holdings of enterprises, including those with maturities of 3 months and more, which therefore, for statistical purposes, come into the category of "monetary capital" and not "money supply". The fall in time deposits in the last few months of 1969 and at the beginning of 1970, too, indicates a shrinkage in the liquid reserves of trade and industry.

The individual components of the monetary trend

Great expansion in lending to enterprises and individuals, especially at short term

If the components of the monetary trend in 1969 are analysed separately, the most conspicuous feature is that the public authorities, which had incurred fairly substantial debts with the banks in 1967 and again in 1968 in connection with the economic stimulation programmes, accounted for hardly more than a twentieth of the credit expansion in 1969. Aggregate credit expansion in 1969 came to over DM 53 billion (or 12.7 % up on the end of 1968), and most of this, i. e. DM 51 billion, was due to borrowing by enterprises and individuals (DM 20 billion more than in 1968 and DM 24 billion more than in 1965, the peak of the previous business cycle). An unusually large portion of these credits (DM 20.4 billion) had maturities of up to one year, whereas the previous maximum increase in short-term credits to enterprises and individuals had totalled only a good third of that amount (DM 6.9 billion in 1965). Although this figure also includes short-term consumer credits, by far the

Sight and time deposits and similar funds of domestic non-banks



1) Including funds on a trust basis.

greatest part of the rise (about 90 %) is accounted for by lending to enterprises. Apart from the effects — already described — of the withdrawal of funds due to the efflux of foreign money, this enormous increase is above all an expression of the increased demand for credit, which — as always in boom periods — was satisfied mainly by recourse to short-term credits, with their notable flexibility.

Shifts among the groups of banks in long-term transactions

However, enterprises and private individuals also took medium and long-term credits at the banks to a large extent (DM 29.4 billion, as against DM 21.6 billion in 1968, but only DM 15.9 billion in 1967). The importance of the mortgage banks as institutions specialising in long-term credit decreased perceptibly, though. In 1969, for the first time, they gave fewer medium and long-term credits to enterprises and individuals (DM 4.2 billion) than the big banks, for example (DM 4.6 billion). The group of the commercial banks as a whole — including however the two mixed-type mortgage banks — and the savings banks granted twice as many medium and long-term loans as the pure mortgage banks. The increased prominence of the big banks is partly connected with the newly introduced so-called "personal mortgage loans". A further important factor for this comparison is that the mortgage banks turned their attention more and more to the granting of credit to public authorities. But as already mentioned, lending by all banks to domestic public authorities was not very great in 1969. The banks and the Bundesbank together granted additional credits to public authorities totalling DM 2.3 billion, compared with DM 9.3 billion in 1968 and DM 14.2 billion in 1967. The main borrowers were local authorities (+ DM 2.4 billion). At the same time very substantial funding operations were carried out by the Federal Government, which reduced its short-term liabilities towards the banks and the Bundesbank by about DM 5 billion, while borrowing DM 5.4 billion at longer term from the banks. In 1969 it was almost exclusively non-interest Treasury bonds that were redeemed, which — because of the declared readiness of the Bundesbank to purchase them at any time — are "potential central bank money" and thus form part of the banking system's liquid reserves (see page 49). The Länder Governments, too, repaid non-interest Treasury bonds from the holdings of the banks to a slight extent in 1969. Their overall bank liabilities decreased by about DM 370 million.

Little additional lending to public authorities, but substantial funding operations by the Federal Government

In contrast to the particularly strong expansion of direct lending to customers, the banks' security purchases in 1969 did not attain the figure of the preceding year. Their holdings of domestic and foreign securities in 1969 went up by a total of DM 11.0 billion, which was one third less than in 1968 (+ DM 16.1 billion). Particularly towards the end of the year, when bank liquidity was under great strain due to the efflux of money abroad and furthermore many previously made promises of credit to domestic and foreign customers had to be met, there was a perceptible weakening of the banks' propensity to purchase securities. In December 1969, and also in the first two months of 1970, the banks' security portfolios even diminished slightly on balance, although it is just possible that this decrease is to some extent due to writing down security holdings as a result of the price falls of 1969. As previously, in 1969 the banks mostly bought domestic bank bonds (DM 7.3 billion as against DM 9.5 billion in 1968), which of course only extended the interlocking credit relationships of the banks without contributing directly to domestic credit expansion. Securities issued by domestic non-banks were bought by the banks on balance for only DM 1.8 billion as against DM 4.5 billion in 1968 (see page 65 ff. for details of security purchases by the banks).

Rather fewer security purchases by the banks

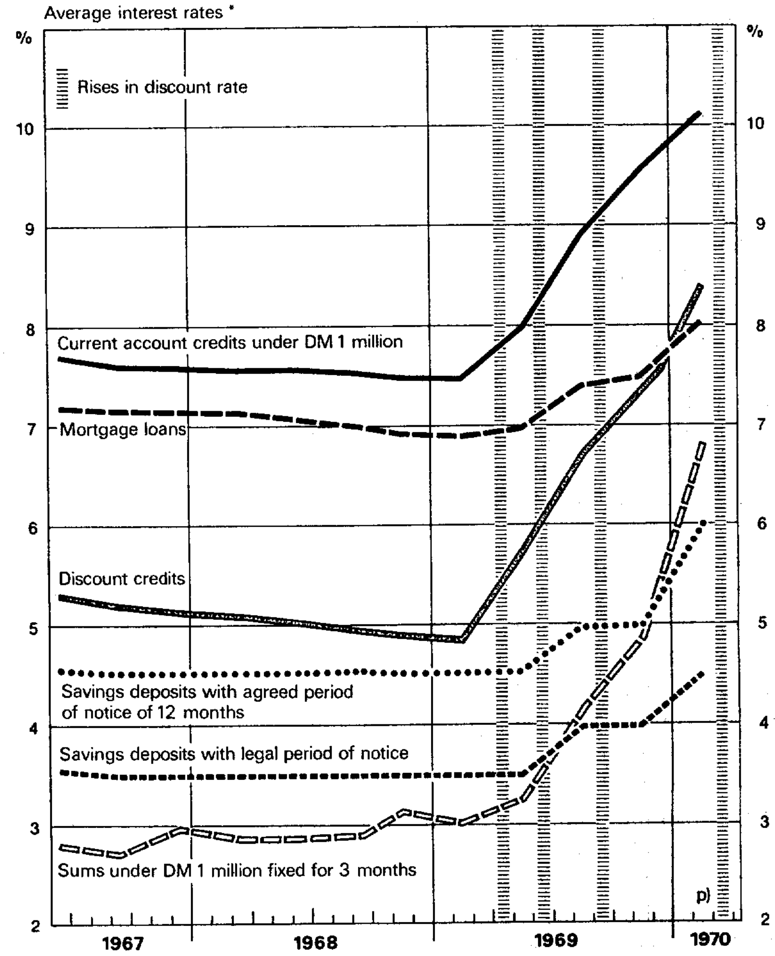
Whereas the net external assets of the banks and the Bundesbank together (including long-term credits to foreign countries and holdings of foreign securities) decreased in 1969, as already stated, by DM 3.0 billion, the banks alone increased their net external assets more than ever before, by DM 7.5 billion. Medium and long-term external assets increased even further, namely by DM 11.8 billion net (DM 6.8 billion in 1968). Direct credits to foreign countries accounted for most of the rise (about DM 10 billion), but holdings of foreign securities, too, went up by DM 1.8 billion. German banks' short-term external assets rose but slightly, however, whereas their external liabilities grew strongly.

The net external assets of the banking system as a whole decreased in 1969 — but banks increased their net external assets more than ever

Monetary capital formation in the whole of 1969 was smaller than in 1968 because of the already mentioned decline in the last quarter. The overall increase in all liabilities of the banking system apart from those counting as "money supply" (i. e. bank liabilities with maturities of 3 months and longer, all savings deposits, and capital and reserves) came to DM 38 billion, as against DM 42 billion in 1968, but only DM 27 billion in 1967. The special movement in the fourth quarter chiefly affected time deposits and similar funds with minimum maturities of 3 months, which rose by DM 9 billion in 1969 as against DM 12.5 billion in 1968. The decline, which was principally due to the reversal in external payments, applied particularly to funds of enterprises and private individuals with maturities of 3 months to 1 year. In the first nine months of 1969 they rose by DM 7.5 billion, but were reduced by DM 5 billion in the fourth quarter. Enterprises had obviously recognised from the beginning the transitory nature of the influx from abroad, and therefore pre-

Smaller rise in time deposits and similar funds . . .

Bank interest rates



* Unweighted arithmetical mean of the interest rates reported by banks. – p) Provisional.

ferred correspondingly short periods of immobilisation. It was also in keeping with the changed financial climate in the enterprises sector for trade and industry to reduce their time deposits and similar funds with maturities of more than 1 year and less than 4 years at banks by DM 350 million on balance, after having formed considerable financial reserves (DM 3.5 billion) in 1968 in precisely this medium-term range. There was also a vigorous increase, however, in funds placed with banks by the private sector at long term, i. e. with maturities of 4 years and more (DM 2.4 billion). To a substantial extent these were the funds of insurance enterprises. On the whole, in 1969 public authorities immobilised considerably more funds in bank accounts for 3 months and longer than they did a year previously, namely DM 4.1 billion as against DM 2.6 billion. To a certain degree this reflects the improvement in the financial position of a number of social insurance institutions, which above all increased their funds with maturities of three months to one year at the banks. A large portion of public authorities' funds was placed at banks for four years and more (DM 3.2 billion as against DM 1.3 billion in 1968), an important part being played by Federal and Länder funds placed at the banks on condition that they be passed on to specific borrowers for specific purposes, such as house-building.

... and in savings deposits

The most important component of the formation of monetary capital in the banking system in 1969, too, was saving through bank accounts. The total savings deposits of residents went up by DM 19.6 billion, which was not quite as much as in 1968 (DM 20.5 billion). In particular, the savings deposits of private individuals, which predominate in this sphere, increased slightly less in 1969 than in 1968 (DM 18.7 billion as against DM 19.2 billion). As the private saving ratio remained quite high in 1969,[1] however, the decline in saving through bank accounts indicates a preference for other forms of investment – presumably ones with better yields. This trend was also observed in the sphere of saving through bank accounts itself, because DM 11.3 billion or almost 60 % of the increase flowed into accounts with agreed periods of notice, to which higher interest rates apply, whereas only 40 % of all savings deposits are in such accounts. Especially towards the year's end savings deposits at banks showed perceptibly smaller growth than in the preceding year; this no doubt owed something not only to a slight decline in the overall rate of saving by individuals, but particularly to the widening difference between the interest rates on savings deposits and those on other investments. More savings bonds, the interest rate on which is slightly higher than that on longer-term savings deposits, were purchased than in the preceding year (DM 1.9 billion as against DM 1.6 billion).

Interest rates raised appreciably under the influence of the liquidity shortage

The raising of the Bundesbank's interest rates in stages since the spring of 1969 (by 4 1/2 % for discount credit and 6 % for advances against securities) and the great restriction of bank liquidity in the last few months caused the banks to charge and to offer higher rates of interest in transactions with their customers too. The chart opposite gives particulars of the movement of interest rates for the main assets and liabilities-side transactions of the banks up to February 1970.

2. Capital market

(a) Financial asset formation and overall financing requirements

Greatly expanded formation of financial assets in connection with influxes of liquidity from abroad . . .

On the domestic markets in the broadest sense, i.e. on the credit market of the banks and institutional investors as well as on the security market, there was again a great expansion in the volume of business in 1969 compared with 1968. Households, public authorities and enterprises (excluding banks, insurance companies and building and loan associations) formed financial assets totalling DM 74 billion, as against DM 62.5 billion in 1968 and DM 55.5 billion in 1967. As the major portion of the additional funds – over DM 8.5 billion – was raised in the first half of the year in connection with the very substantial inflows of foreign money to enterprises, the latter's share in the overall formation of financial assets went up sharply – to 29 1/2 % compared with 27 % the year before. The share of households, on the other hand, remained roughly constant at about 61 % (which actually represents a considerable increase in absolute terms), whereas that of public authorities as a whole fell from 11 1/2 % in 1968 to just on 10 % in spite of the improvement of DM 12 billion in their financial position.

. . . and increased borrowing at home

The credit needs of the domestic sectors grew just about as strongly as financial asset formation. At DM 66.5 billion, the rise in borrowing was DM 12 billion, or more than one fifth, greater than in the preceding year. With the speeding up of investment activity enterprises in particular showed a sharply rising demand for funds for financing purposes, and accounted for no less than 92 1/2 % of the borrowing of all domestic non-financial sectors (as against 71 % a year before). On the other hand, thanks to the favourable movement of their cash position public authorities scarcely needed to make any new debts in 1969, whereas in 1968 they were responsible for almost a quarter of all borrowing. The share of private individuals in aggregate borrowing went up slightly in 1969 as against 1968 – from 5 1/2 % to 7 %.

Rise in share of short-term financial asset formation

As enterprises invested the funds which had flowed in from abroad at relatively short term, the share of short-term funds in the overall formation of financial assets rose considerably, amounting to about 23 % in 1969, compared with only 11 % in 1968, but as much as 25 % in 1967. In absolute amount, accruals of short-term funds last year were DM 10 billion greater than in the preceding year. At DM 57 billion, accruals of longer-term funds for financing purposes in 1969 exceeded the already very high level of the previous year by just on DM 2 billion. On the overall view the longer-term funds lodged at the banks were markedly smaller

In longer-term financial asset formation, decline in money lodged at banks . . .

1 See "National product and income in the second half of 1969" in Monthly Report of the Deutsche Bundesbank, Vol. 22, No. 2, February 1970, pages 50/52.

Financial asset formation and borrowing by domestic sectors *

Item	1967	1968 p	1969 p Total	1969 p 1st half	1969 p 2nd half	1968 p	1969 p Total	1969 p 1st half	1969 p 2nd half	1967	1968 p	1969 p
	Billions of DM					Change on preceding year in DM bn				Proportion in %		
1. Financial asset formation												
(a) Longer-term	41.8	55.2	57.1	25.8	31.2	+13.4	+ 1.8	+ 2.5	— 0.7	100.0	100.0	100.0
of which:												
(aa) with banks	22.5	34.6	30.9	16.6	14.3	+12.1	— 3.7	+ 1.3	— 5.0	53.7	62.6	54.1
Longer-term time deposits and similar funds 1	(4.1)	(12.6)	(9.5)	(7.5)	(2.0)	(+ 8.5)	(— 3.1)	(+ 1.2)	(— 4.3)	(9.7)	(22.8)	(16.7)
Savings deposits	(18.4)	(22.0)	(21.4)	(9.1)	(12.3)	(+ 3.5)	(— 0.6)	(+ 0.1)	(— 0.7)	(44.0)	(39.8)	(37.4)
(ab) with insurance companies	6.7	7.6	8.0	4.2	3.8	+ 0.8	+ 0.5	+ 0.5	— 0.0	16.1	13.7	14.1
(ac) with building and loan associations	2.8	2.8	4.2	0.1	4.1	— 0.0	+ 1.4	+ 0.1	+ 1.3	6.7	5.1	7.4
(ad) Acquisition of securities	4.8	7.8	13.3	5.6	7.6	+ 3.0	+ 5.5	+ 1.9	+ 3.6	11.5	14.1	23.3
Bonds	(1.8)	(4.9)	(6.8)	(3.1)	(3.7)	(+ 3.1)	(+ 1.9)	(+ 0.5)	(— 1.4)	(4.3)	(8.9)	(12.0)
Shares	(3.0)	(2.9)	(6.5)	(2.5)	(3.9)	(— 0.1)	(+ 3.6)	(+ 1.4)	(+ 2.2)	(7.2)	(5.2)	(11.3)
(ae) Direct loans to other sectors	5.0	2.5	0.7	— 0.7	1.4	— 2.5	— 1.8	— 1.3	— 0.6	12.0	4.5	1.2
(b) Short-term	13.9	7.1	17.1	7.0	10.1	— 6.8	+10.0	+ 6.1	+ 3.8	100.0	100.0	100.0
of which:												
Notes and coin and sight deposits	9.8	5.4	10.6	8.4	2.3	— 4.4	+ 5.2	+ 5.3	— 0.0	70.8	76.3	62.4
Short-term time deposits and similar funds 2	3.2	1.6	4.8	— 0.8	5.6	— 1.7	+ 3.2	+ 1.1	+ 2.0	23.4	22.5	27.9
Financial asset formation, total	55.7	62.3	74.1	32.8	41.3	+ 6.6	+11.8	+ 8.7	+ 3.2	100.0	100.0	100.0
of which:												
Households	31.7	38.3	45.0	19.8	25.3	+ 6.6	+ 6.7	+ 4.3	+ 2.5	56.9	61.5	60.8
Enterprises	16.1	16.8	21.9	10.9	10.9	+ 0.7	+ 5.1	+ 5.9	— 0.8	28.8	26.9	29.5
Public authorities	7.9	7.2	7.2	2.1	5.1	— 0.7	+ 0.0	— 1.5	+ 1.5	14.2	11.6	9.7
Central, regional and local authorities	(10.9)	(7.4)	(5.6)	(2.2)	(3.4)	(— 3.5)	(— 1.8)	(— 2.2)	(+ 0.4)	(19.6)	(11.9)	(7.6)
Social insurance funds	(— 1.5)	(— 1.1)	(0.8)	(— 0.5)	(1.3)	(+ 0.4)	(+ 1.9)	(+ 0.7)	(+ 1.1)	(— 2.7)	(— 1.7)	(1.1)
2. Borrowing	47.9	54.4	66.4	34.0	32.5	+ 6.5	+ 12.1	+10.5	+ 1.5	100.0	100.0	100.0
of which:												
Households	1.1	3.1	4.5	1.9	2.6	+ 2.0	+ 1.4	+ 1.0	+ 0.5	2.3	5.7	6.8
Enterprises	31.8	38.4	61.3	33.8	27.5	+ 6.7	+22.9	+17.0	+ 5.9	66.3	70.7	92.3
Public authorities	15.0	12.8	0.6	— 1.8	2.3	— 2.2	—12.3	— 7.5	— 4.8	31.3	23.6	0.9
Central, regional and local authorities 3	(16.5)	(11.9)	(— 0.2)	(— 2.2)	(1.9)	(— 4.5)	(—12.2)	(— 7.4)	(— 4.8)	(34.3)	(22.0)	(— 0.3)
Social insurance funds	(—)	(—)	(—)	—)	(—)	(—)	(—)	(—)	(—)	(—)	—)	(—)
3. Financial surplus or deficit (—) 4 (1 less 2)	7.8	7.9	7.7	— 1.1	8.8	+ 0.1	— 0.2	— 1.9	+ 1.7	.	.	.
of which:												
Households	30.6	35.2	40.5	17.9	22.6	+ 4.6	+ 5.3	+ 3.3	+ 2.0	.	.	.
Enterprises	—15.7	—21.7	—39.5	—22.9	—16.6	— 5.9	—17.8	—11.2	— 6.7	.	.	.
Public authorities	— 7.1	— 5.6	6.7	3.9	2.8	+ 1.5	+12.3	+ 6.0	+ 6.3	.	.	.
Central, regional and local authorities	(— 5.6)	(— 4.5)	(5.9)	(4.4)	(1.5)	(+ 1.0)	(+10.4)	(+ 5.2)	(+ 5.2)	.	.	.
Social insurance funds	(— 1.5)	(— 1.1)	(0.8)	(— 0.5)	(1.3)	(+ 0.4)	(+ 1.9)	(+ 0.7)	(+ 1.1)	.	.	.

* Households, enterprises (including housing, but excluding banks and other institutional investors), and public authorities; it was not yet possible to take into account the results of the revision of National Accounts by the Federal Statistical Office; the sum of the items may differ from the total shown owing to rounding. — **1** For three months and longer. — **2** For less than three months. — **3** Borrowing by central, regional and local authorities as shown in this table is not identical with the figures quoted in the section "Public authorities' cash transactions". It includes, i. a., the Federal Government's liabilities resulting from deposit accounts of the European Communities Commission and from the issue of coin. — **4** Equal to change in net financial position in relation to financial sectors and foreign countries. — **p** Provisional, 1969 partly estimated.

in 1969, principally because the large accruals of time deposits (with periods of 3 months and more to maturity) in the first half of the year gave way to substantially greater withdrawals of such money after revaluation of the Deutsche Mark in the autumn of 1969. Accruals of savings deposits were also smaller over the year than in 1968. The share of funds placed at longer term at banks consequently declined sharply – from 62 1/2 % to 54 % – but was still above the very low level of 1964/65. Most of the other forms of longer-term financial asset formation, however, increased their shares in 1969. In the year under review saving through insurance accounted for 14 % (as against 13 1/2 % in 1968), and saving for building purposes for 7 1/2 % (5 % in 1968), of all longer-term financing funds accruing. Securities again became very prominent for the investment of money in 1969. In that year they made up almost one quarter of overall longer-term funds invested, half of this sum being spent on bond purchases and half on share purchases – partly direct, and partly through the intermediary of investment funds. Only once before – in the years 1964/65 – have security purchases constituted a share of this magnitude. It was not so much domestic issuers, however, as foreign issuers who profited from the increased readiness to buy securities. The reasons for this will be discussed in greater detail in the next section.

... and increase in security purchases

(b) Security markets [1]

Heavy recourse to the German capital market by non-residents

The security markets in Germany were less heavily involved in home financing in 1969 than in the preceding two years. Public authorities and industry had practically no recourse at all to the bond market with issues of their own, and domestic share issues were also not as high as in 1968. Even bank bonds, which serve to raise funds primarily for long-term bank lending to public authorities, and secondarily for loans for house-building purposes, were not issued to the same extent as in the previous year. Unusually large in 1969, on the other hand, were capital exports through the security markets, especially purchases of foreign securities by domestic non-banks. For one thing residents increased their purchases of foreign bonds, for another sales of foreign equities in Germany doubled, and furthermore non-residents parted with some of their German securities. Of the total funds raised in the security markets – at DM 26 billion in 1969 only slightly less than in 1968 – some 45 % went abroad, compared with over 22 % in 1968 and only just on 11 % in 1967.

The heavy recourse to the domestic capital market by foreign issuers in the past year was due above all to the large interest rate differential between domestic and foreign securities. It is of course necessary to explain why a differential of the given proportions could exist for so long in spite of the close integration of the German market with the international capital market. The main reason for this was undoubtedly the fact that before revaluation foreign investors could hope for substantial exchange profits on paper denominated in Deutsche Mark and therefore were not deterred by the lower yields. Conversely foreign borrowers, who could incur debts in Germany on comparatively favourable terms, had to take a correspondingly large exchange risk into account. The expectation of revaluation thus had the effect of an interest barrier protecting the domestic level of interest rates from complete adjustment to the international level in spite of the heavy demand for capital. After the floating of the Deutsche Mark and its subsequent revaluation – and hence after the elimination of this interest barrier – interest rates in Germany climbed rapidly and approached international levels. Domestic issuers were very slow to enter into competition with the conditions of issue of foreign Deutsche Mark bonds, which – if only because of domestic investors' unfamiliarity with the issuers – must of course always have rather more attractive terms. A large part was undoubtedly played here by the fact that potential domestic issuers were less dependent on the capital market than usual. This applied especially to public authorities, whose requirements in 1969 were mainly for funding purposes. Furthermore, official borrowers preferred "direct loans", because their borrowing on the "transparent" security market is always watched most critically by the general public. This applies to a much smaller degree in the case of borrowing on

1 Unlike the data given in the preceding section for security purchases by the so-called domestic sectors, the figures in this section include purchases by banks and institutional investors as well as those by the public.

the less transparent market for loans granted by banks and other institutional investors against borrower's notes, although of course both kinds of borrowing are in the final analysis an equal burden on the capital market. Recourse to the market by enterprises, too, remained relatively modest, because the speculative influxes of foreign money made borrowing on the home market at least partly superfluous. Of no less importance, however, was the fact that, with short interruptions, domestic bank liquidity was quite substantial until revaluation, so that the banks offered long-term loans on a large scale at rates of interest which in relative terms were only slightly increased. Even after the raising of the discount and advance rates before revaluation, the banks' interest rates on deposits, and therefore the "cost price" of the longer-term loans of many banks, for a time changed less than would have been consistent with the movement of interest rates on the bond market.

Prices and yields

Upward movement of interest rates

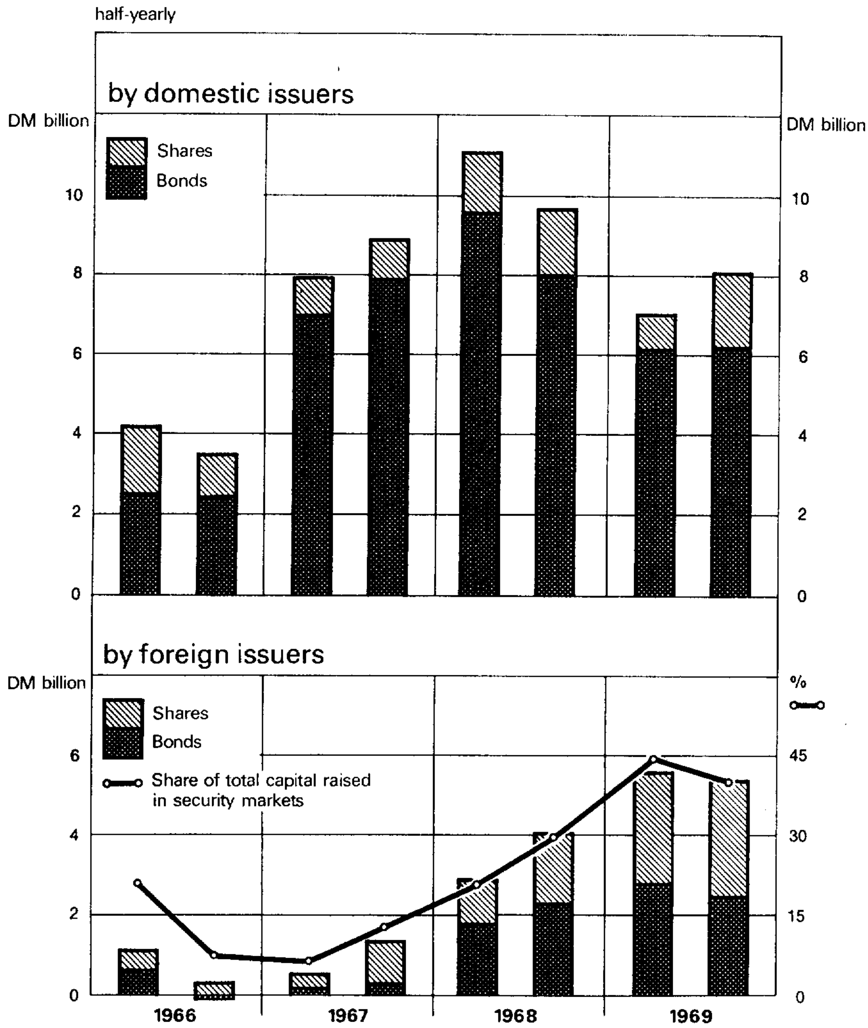
In the course of 1969 the rate of interest on capital rose gradually in Germany, but up to the autumn it generally lagged behind the trend of interest rates on comparable international capital markets. The first fairly marked rises in interest rates on the bond market came already in March, the Bundesbank's suspension of intervention for its own account in the market for public authority bonds at the beginning of February certainly having played a part in this development. With the two increases of the Bundesbank's advance rate and the raising of the discount rate in March and April proof was given, moreover, that from the point of view of monetary policy a further rise in the domestic interest rate level was desirable. The heavy speculative influxes of foreign exchange brought the upward trend of interest rates on the capital market to a temporary standstill once more. Not until bank liquidity was severely and lastingly curtailed after revaluation did the banks reduce their security purchases considerably, from December 1969 even going so far as to sell securities; the market was strongly influenced by this. The yields on outstanding normally taxed fixed-interest securities of domestic issuers reached 7.5–7.8 % in February 1970 – depending on the kind of security – as against 6.1–6.6 % in February 1969.

Temporary restraint by issuers eases the upward trend of interest rates

If in spite of this the interest rate on long-term funds showed no abrupt rise in the last few months of 1969, this was due on the one hand to the sustained propensity of domestic non-banks to buy, and on the other to the restraint exercised by domestic issuers. This restraint could be maintained for only a few months, however, especially as the bank loans preferred by public authorities as a substitute also became more expensive. The issue yields of domestic fixed-interest securities, which had risen in the course of 1969 from 6.2–6.5 % in January to 7.0–7.4 % in December, finally reached 7.6–7.9 % in February 1970. As usual in phases of rising interest rates, issue yields thus exceeded the average yield of all outstanding domestic fixed-interest securities, especially as the latter, on account of the large proportion of paper which is dealt in relatively seldom and is thus not very flexible in price, is liable to show too small an increase in the interest rate on capital.

The yield on outstanding Deutsche Mark bonds of foreign issuers, which German purchasers prefer to other foreign bonds, was only slightly above that of domestic bonds until the exchange rate of the Deutsche Mark was altered; at times – May, July, August – it was even lower than the yield on domestic paper, under the influence of non-residents' purchases. After the floating of the Deutsche Mark at the end of September many non-residents dissolved their holdings, however, and under the selling pressure which developed, the yield on this paper quickly rose more strongly than that on domestic bonds, attaining rates of over 8.5 %, which corresponded more or less to the yield on Euro-dollar bonds. Thus a differential of about 3/4 percentage point developed in relation to the yield on domestic bonds. This difference may be due to the various opinions held about instruments to some extent unfamiliar to the German purchaser, and also to the small price support enjoyed by this paper, but it is plainly great enough to interest German purchasers in the acquisition of such securities.

Capital raised in security markets (net)



Cyclical rise in share prices

Price rises predominated on the whole on the share market in 1969, but the state of the market underwent big fluctuations largely connected with the expectation of revaluation; at any rate in phases of general expectation of such a change prices declined, to rise again when the correction of the rate of exchange failed to materialise. When at the end of September revaluation was finally initiated prices reacted first of all — astonishingly enough — with a further rise, reaching a maximum in November. The index of share prices of the Federal Statistical Office (December 31, 1965 = 100), which at the end of 1968 had stood at 132.7, on November 17 reached 163.4, the highest figure of the year. Since then, thanks to anticipation of an imminent narrowing of profit margins and a generally decreasing propensity to invest, share prices have fallen; on March 31, 1970 the index stood at 144.1. In February 1970 the dividend yield reached a figure of some 3.2 % as against just on 3.0 % in February 1969.

Security issues

The supply of newly issued bonds (gross issues of domestic fixed-interest securities) plus net purchases of foreign bonds by residents on the German capital market in 1969 was at DM 24.2 billion almost one tenth smaller than in 1968 (DM 26.7 billion).[1] Taking into consideration repayments and changes in issuers'

1 Comparison with previous years is rendered difficult by the change in the definition of securities from the beginning of 1969 onwards. Since then registered bank bonds are not included in security issues. Net issues of this type of paper amounted to about DM 1 billion in 1969 and are not included in overall issues, whereas the figure for 1968 includes DM 0.8 billion of registered bank bonds.

New issues of domestic bonds on the decline

own holdings, net issues of domestic and foreign bonds amounted to almost DM 18 billion at market prices and were thus about one fifth lower than in 1968 (DM 22 billion). It was only the issues of domestic borrowers' securities that decreased; they totalled DM 12.4 billion compared with DM 17.7 billion the year before. The paper issued consisted almost entirely of bank bonds (DM 12.3 billion as against DM 13.9 billion in the previous year). As in 1968, about three fifths of net issues of bank bonds were communal bonds; mortgage bonds accounted for a good quarter of the net funds raised by sales of domestic bank bonds. The remainder consisted of bonds of specialised banks and of so-called "other" bank bonds, which are issued mainly by central giro institutions, the proceeds being intended for loans to industry. The sustained importance of communal bonds (their above-mentioned large share in the overall volume of issues was attained only in the course of the last three years) is a result of growing indirect recourse to the bond market by public authorities, since the amount accruing from communal bonds – as "communal loans" – flows mostly to domestic public authorities. The expression "communal loan" is a technical term used in the Mortgage Bank Law; to avoid misunderstanding it should perhaps be said that the share of local authorities or groups of local authorities in communal loans has decreased, whereas the share of the Federal and Länder Governments and of public enterprises operated as special funds has grown to the point where it exceeds that of the local authorities.

Communal bonds still account for large share of bank issues

Few industrial bonds offered

As in 1968, industry had no recourse to the bond market on balance in the year under review. Industrial bonds were issued in the volume of DM 460 million gross (as against DM 300 million in 1968), but new issues remained smaller than simultaneous repayments, so that the amount of these securities outstanding decreased by a total of DM 160 million. With the exception of convertible bonds (all the industrial bonds issued in 1969 were convertible), issues of which are attractive to industry because of the relatively low rate of interest (6 % throughout), while purchasers have the chance of a gain in value in the case of conversion to shares, the traditional industrial bond seems to have lost its appeal for industrial enterprises as a means of raising capital. Direct loans from banks or other institutional investors – even with slightly higher nominal interest rates – are evidently cheaper, as they entail no extra costs (for printing prospectuses and certificates, admission to quotation on the stock exchange, price support, etc.), and furthermore they have to some extent greater flexibility in respect of repayment or conversion should interest rates tend to fall.

Increased prominence of foreign issues

In 1969 the supply of foreign issuers' bonds on the German bond market even exceeded the high figure of 1968. German banks participating in syndicates underwrote the issue of DM 6.2 billion of foreign bonds on the home market (as against DM 5.2 billion the year before). DM 5.3 billion of these were foreign bonds denominated in Deutsche Mark and issued in the Federal Republic of Germany, whereas the remainder (15 %) were bonds denominated in foreign currencies. Of the total amount of foreign bonds issued in Germany, DM 1.8 billion were offered by purely German syndicates, whilst DM 4.4 billion were issued by international syndicates in several countries simultaneously. The major part of the bonds issued in Germany by foreign borrowers were bought by residents, except for short periods of appreciable interest from abroad. Residents' net purchases of foreign bonds in 1969 came to DM 5.3 billion, or 86 % of the total amount of foreign and international bonds underwritten by German syndicate banks, as against 80 % the year before.[1] In order to control recourse to the market by foreign issuers, the Central Capital Market Committee (a voluntary association of the chief issuing banks), in consultation with the Federal Ministry of Economics and the Bundesbank, decided on an "issue programme" for the coordination of non-residents' issue requirements. The issue volume of foreign Deutsche Mark bonds having amounted to just on DM 0.8 billion on the monthly average from January to April 1969, the Committee recommended that with effect from May recourse to the market with foreign Deutsche Mark bonds should be restricted to a maximum of DM 0.5 billion per month. In the autumn of 1969 this amount was reduced to DM 0.3 billion per month. Issues of foreign Deutsche Mark bonds remained largely within these limits. On the monthly

1 The comparison does not of course mean that this ratio applies to new issues of foreign bonds in 1969, as domestic purchases also included bonds issued in Germany at earlier dates. Over a certain length of time, however, purchases at home probably do not deviate very widely from these ratios.

New issues of securities *

Billions of DM

Item	1966	1967	1968	1969	1969			
					1st qtr	2nd qtr	3rd qtr	4th qtr
A. Fixed-interest securities								
Gross issues of domestic bonds (nominal value)	9.40	19.85	22.59	18.90	5.50	4.06	5.22	4.13
I. Capital raised in the market								
1. Net issues of domestic bonds (market value) **1**	5.01	14.97	17.67	12.38	3.77	2.41	3.91	2.29
Bank bonds	4.38	9.21	13.92	12.26	3.97	2.47	3.10	2.72
Mortgage bonds	(2.16)	(3.23)	(4.09)	(3.14)	(1.08)	(0.85)	(0.63)	(0.59)
Communal bonds	(2.04)	(5.18)	(8.24)	(7.26)	(2.48)	(1.37)	(1.88)	(1.53)
Other bank bonds	(0.18)	(0.79)	(1.59)	(1.85)	(0.41)	(0.24)	(0.60)	(0.60)
Public authority bonds **2**	0.62	4.88	3.82	0.29	— 0.06	— 0.27	0.79	— 0.18
Industrial bonds	0.00	0.88	— 0.07	— 0.16	— 0.14	0.21	0.02	— 0.26
2. Net acquisition or sale (—) of foreign bonds by residents **3**	0.55	0.47	4.10	5.32	2.07	0.72	0.85	1.68
Total capital raised in the market (1 plus 2)	5.56	15.44	21.77	17.70	5.84	3.13	4.76	3.97
II. Purchases								
1. Net acquisition of fixed-interest securities by residents, total	5.69	16.28	21.92	18.65	5.93	3.45	4.76	4.51
Banks **4**	° 1.61	° 11.70	14.63	9.77	3.69	1.90	2.24	1.94
Bundesbank **5**	—	1.25	— 0.40	— 0.47	— 0.38	— 0.01	— 0.00	— 0.08
Non-banks **6**	4.08	3.33	7.69	9.35	2.62	1.56	2.52	2.65
Insurance companies and building and loan associations	(1.41)	(1.79)	(2.93)	(2.32)	(1.42)		(0.90)	
Social insurance funds	(—0.07)	(—1.36)	(0.08)	(—0.04)	(0.09)		(—0.13)	
Households	(2.42)	(2.77)	(3.11)	(5.38)	(2.36)		(3.02)	
Central, regional and local authorities	(0.08)	(0.12)	(0.08)	(0.10)	(0.04)		(0.06)	
Enterprises	(0.64)	(0.25)	(1.64)	(1.39)	(0.63)		(0.76)	
Differences of classification **7**	(—0.40)	(—0.24)	(—0.15)	(0.20)	(—0.36)		(0.56)	
2. Net acquisition or sale (—) of domestic bonds by foreigners **3, 8**	— 0.13	— 0.84	— 0.15	— 0.95	— 0.09	— 0.32	— 0.00	— 0.54
Total purchases (1 plus 2)	5.56	15.44	21.77	17.70	5.84	3.13	4.76	3.97
B. Shares								
I. Capital raised in the market								
1. Issues of domestic shares (market value)	2.71	1.91	3.14	2.80	0.26	0.61	1.09	0.84
2. Net acquisition or sale (—) of foreign equities by residents **3, 8**	0.89	1.42	2.83	5.64	1.56	1.24	1.47	1.37
Total capital raised in the market (1 plus 2)	3.60	3.33	5.97	8.44	1.82	1.85	2.56	2.21
II. Purchases								
1. Net acquisition of equities by residents, total	2.69	2.59	5.12	8.23	1.71	1.89	2.10	2.53
Banks **4**	° 1.02	° — 0.34	1.43	1.18	0.53	0.05	0.07	0.53
Non-banks **6**	1.67	2.93	3.69	7.05	1.18	1.84	2.03	2.00
2. Net acquisition or sale (—) of domestic equities by foreigners **3, 8**	0.91	° 0.74	0.85	0.21	0.11	— 0.04	0.46	— 0.32
Total purchases (1 plus 2)	3.60	3.33	5.97	8.44	1.82	1.85	2.56	2.21
For information:								
Net security transactions with foreign countries								
(a) Capital export (—) or capital import (+) via bond market (A I 2 plus A II 2)	— 0.68	— 1.31	— 4.25	— 6.27	— 2.16	— 1.04	— 0.85	— 2.22
(b) Capital export (—) or capital import (+) via share market (B I 2 plus B II 2)	— 0.02	° — 0.68	— 1.98	— 5.43	— 1.45	— 1.28	— 1.01	— 1.69
(c) Total capital export (—) or capital import (+) via security markets (a plus b)	— 0.66	— 1.99	— 6.23	—11.70	— 3.61	— 2.32	— 1.86	— 3.91

* As from 1969 excluding registered bank bonds; the sum of the items may differ from the total shown owing to rounding. — **1** Gross issues at market values less redemptions and repurchases or plus resales by issuers. — **2** Including Federal Railways and Federal Post Office, but excluding bonds issued by the Equalisation of Burdens Bank on behalf of the Equalisation of Burdens Fund. — **3** Transaction values. — **4** Balance sheet values. — **5** Since August 1967. — **6** Residual; also including acquisition of domestic and foreign securities by domestic investment funds. — **7** In comparison with the figures taken from the financial accounts regarding acquisition of securities by the various groups of non-banks; the differences are chiefly due to the fact that in the National Accounts nominal values are used instead of market values. — **8** Including direct investment and investment fund units. — ° Adjusted for statistical changes.

average for the fourth quarter, for example, German syndicate banks underwrote the sale of only DM 300 million of foreign Deutsche Mark bonds. But at the same time the amount of foreign currency bonds, which until then had been of little importance, increased to an average of DM 160 million per month. It cannot be determined whether agreements previously made by the banks were responsible for this, or whether the switch – due to market factors – to issues in foreign currencies after revaluation was already taking effect. In January and February 1970 the issue of foreign Deutsche Mark bonds on the German security market, under the influence of the change in bank liquidity which had meanwhile occurred, came to a complete standstill for a while. In all these months, however, capital exports by German banks through direct loans to non-residents continued, the peak being attained in December 1969, with further quite large amounts in January 1970. There was also a repetition of a circumstance already noted in connection with the restraint shown by domestic borrowers in making new issues: deliberately refraining from issues can of course be ostensibly successful, but it cannot relieve the capital market in the broader sense, i. e. including the market for long-term loans, unless borrowing is made more difficult by substantial increases in interest rates.

Domestic share issues declined slightly

At an issue value of DM 2.8 billion, the supply of domestic shares was distinctly smaller than in 1968 (DM 3.1 billion). Whilst in the first few months of last year far fewer domestic shares were issued than in the same period of 1968, issues of shares in the following quarters were either greater, or at least hardly smaller (in the fourth quarter) than a year before. Of overall issues of securities on the share market only about one third was accounted for by domestic shares, however, compared with more than one half in 1968 and in some cases substantially larger proportions in preceding years. Compared with trade and industry's total financial requirements – which rose in 1969 because of greatly increased capital expenditure – the issue figures are quite small. Among the reasons why no greater use was made of this source of risk capital, a large part is probably played by the tax considerations of public limited companies, as financing through the issue of new shares is still disproportionately expensive. But other motives, too, are certainly of no little importance, such as reluctance to adopt an issue price appropriate to the price level of the shares already in circulation – a reluctance frequently due to disinclination to change the existing pattern of holdings in public companies. It can at any rate be observed that some companies whose ownership is firmly established expand their financing with funds from outside sources in a way that sometimes raises problems. The small desire to take up equity capital – reinforced, as already mentioned, by considerable institutional difficulties – is the more regrettable for the economy as a whole as the home supply of capital for investment at risk is constantly growing. A clear proof of this is the great increase in the purchase of foreign shares and of saving by investment in domestic and foreign share funds.

Sales of foreign equities in Germany again doubled

In 1969 residents bought foreign equities in an amount of DM 5.6 billion, which was not only twice as much as in 1968, but also twice as much as was spent on the purchase of domestic shares. Specifically, purchases of foreign shares in 1969 came to about DM 3.5 billion and those of investment fund units issued by foreign share funds to DM 2.1 billion. Among overall share purchases expenditure on the acquisition of interests in companies (direct investment) increased to only a relatively modest extent – from DM 1.3 billion in 1968 to DM 1.6 billion in 1969. At about DM 1.9 billion, portfolio purchases of shares, on the other hand, were DM 1.3 billion greater than in 1968. Of course, the rapidly growing interest in foreign shares at home was fostered in only a few cases by the price trend abroad, since on many foreign stock exchanges the price trend last year was less favourable – in some cases considerably less favourable – than in Germany, although there were also some exceptions (e.g. Japan). In the first three quarters of 1969, furthermore, the risk of a revaluation of the Deutsche Mark had also to be taken into account. Interest in foreign equities undoubtedly began to grow fast in previous years, however, when the favourable price trend was even more enticing, and foreign investment funds advertised very actively. Added to this are considerations in connection with a wider distribution of risks in private portfolios.

Smaller bond purchases by the banks . . .

The changes in the security purchases of the individual groups of purchasers make it apparent that the decline in bond sales is mainly due to the diminished purchases of the banks. These amounted to DM 9.8 billion in 1969 as against DM 14.6 billion in 1968. Fewer domestic bonds, particularly, were bought by the banks than in the preceding year (DM 8.2 billion as against DM 12.8 billion). The banks' purchases of foreign bonds totalled DM 1.5 billion, which was about DM 0.5 billion less than in the preceding year.

. . . but large bond purchases by non-banks

Domestic purchasers of bonds outside the banking system – i.e. the institutional investors and the general public – were in 1969 more prepared than in 1968 to invest their capital in securities. Non-banks invested a total of DM 9.4 billion in domestic and foreign bonds as against DM 7.7 billion in 1968 and DM 4.1 billion in 1966, but DM 9.0 billion and DM 8.4 billion in 1964 and 1965 respectively. This re-emergence of fixed-interest securities as a form of investment for private savings is the more remarkable in that it occurred while interest rates were rising and thus while the prices of the securities already outstanding were falling. The increased interest in the purchase of bonds was mainly directed towards foreign bonds, on which domestic non-banks expended DM 3.8 billion in 1969, or almost twice as much as in 1968 (DM 2.1 billion). On purchases of domestic bonds, on the other hand, they spent hardly more than in 1968 (DM 5.6 billion as against DM 5.5 billion). The main group of purchasers among the non-banks was private individuals, who bought domestic and foreign bonds totalling about DM 5.4 billion, which was as much as in 1964, the year of the previous highest investment volume. Admittedly, this is partly due to increased sales of units by the German bond funds. Purchases by these funds are all attributed to individuals, although other groups no doubt bought small amounts. At DM 1.7 billion, sales of German bond fund units in 1969 for the first time exceeded sales of share fund units (just over DM 1.6 billion). Unlike individuals, the other groups of purchasers included among domestic non-banks bought hardly more bonds in 1969 than in 1968. Private insurance companies and building and loan associations actually bought fewer fixed-interest securities than last year. Purchases by enterprises also decreased a little, whilst, as in 1968, public authorities (including the social insurance funds) stepped up their purchases slightly. Foreign investors, on the other hand, on balance sold domestic bonds in 1969, the sales tempo accelerating in the months following revaluation. Overall sales of domestic bonds by non-residents amounted to almost DM 1 billion in 1969; compared with the yields attainable abroad, these bonds were for the most part at lower interest rates and after revaluation also promised no further exchange profits.

Heavy investment in the share market by domestic non-banks

Bank purchases of domestic and foreign shares in 1969 amounted to DM 1.2 billion, or about one seventh of the total, as against almost one quarter in 1968. They continued to purchase mainly domestic shares, if only to maintain their relative holdings; their purchases of foreign equities also reached a substantial figure (DM 0.3 billion) for the first time. In 1969 domestic non-banks bought domestic and foreign shares totalling no less than DM 7.1 billion, which was almost twice as much as in 1968. More than two thirds of the overall purchases of domestic non-banks (including domestic investment funds) fell to the share of foreign dividend-bearing securities, in the form both of shares and of foreign share fund units. Compared with the small issue of German shares (DM 2.8 billion), the amount of capital seeking investment in shares was several times larger. The fact that so little use is made of shares in Germany as a means of financing, whilst on the other hand the desire for investment in such securities is widespread and will probably grow still further (especially if the plans now under discussion for increasing the formation of assets are realised), could lead to substantial tensions in future in the ratio of supply to demand on the share market, particularly as investing in foreign shares to even things up would be hard to reconcile with the current state of Germany's balance of payments. For this and other reasons, which may be found especially in the less-than-satisfactory financial structure of incorporated companies, it would seem to be necessary to carry out an immediate investigation into and elimination of the reasons why the issue of new shares has hitherto appealed so little to enterprises. The Ministry of Economics and the commission of stock exchange specialists appointed by it to examine this and other problems are seeking solutions and suggestions as to changes, tax questions naturally being of particular importance.

3. Public authorities' cash transactions

(a) Underlying trends in 1969

Anticyclical effect of cash transactions

The public authorities exercised an anticyclical effect on economic activity in 1969. Taken together, the central, regional and local authorities and the social insurance funds had a cash surplus – estimated at DM 2 billion – for the first time for a long while, after cash deficits of almost DM 9 billion in 1968 and DM 15 billion in the stagnation year 1967. This abrupt change in the cash balance came about because in comparison with 1968 the authorities' receipts rose DM 11 billion more than outlays. This had a contractive impact on the non-governmental sectors of the economy inasmuch as overall demand had been stimulated in 1968 owing to the public authorities' deficits, while this was no longer the case in 1969. The favourable trend of receipts was due above all to the exceptionally sharp increase in revenue from taxes and social insurance contributions. This was for the most part an automatic consequence of the upswing, but had other causes as well, as will be explained below; only a small proportion was attributable to specific measures of anticyclical policy (raising the advance payments of tax). On the expenditure side, too, cuts in disbursements motivated by anticyclical considerations were of only minor importance. Thus, the change in the cash balance was to a large extent the outcome of the progressive shaping of the tax scale into a built-in stabiliser (that is, as the national product rises, receipts also rise automatically at a disproportionately fast rate) and of amendments to tax and social insurance law, and owed less to anticyclical measures taken by the fiscal authorities.

Marked improvement in Federal figures

The cash figures of almost all public authorities showed an improvement over those for 1968. The improvement was particularly marked in the case of the Federal Government, whose receipts grew at an above-average pace: for the first time since the mid-fifties it had a cash surplus – of DM 1.6 billion, compared with deficits of almost DM 4 billion in 1968 and over DM 8 billion in 1967. The Länder Governments had an almost equally large cash surplus; in 1968 they recorded a cash deficit of DM 1 billion. Even the local authorities, whose receipts have been smaller than disbursements for many years, appear to have had a surplus, which however was largely due to special factors, as will be set forth below. Altogether the central, regional and local authorities (including the Equalisation of Burdens Fund and the ERP special fund) showed cash surpluses of nearly DM 3 billion after deficits of DM 7 billion a year before. The social insurance funds did not in fact end up with surpluses last year, which would have been appropriate in view of the overheated economy, but at any rate their deficits came to no more than DM 0.75 billion, which was only about half as much as in the two preceding years.

Reduction of shorter-term debt

Thanks to the cash surpluses the central, regional and local authorities were able not only to build up their liquid resources but also to refrain from increasing their indebtedness further; at the end of the year the level of debt was roughly as high as a year previously. Another factor of significance from the monetary policy angle was that maturing short-term credits were mostly replaced by longer-term ones. In the process the outstanding amount of paper included in the Bundesbank's money market regulating arrangements and thus representing "potential central bank money" was substantially reduced, as already noted. The banks' liquid reserves, which had been greatly swollen by the issue of such instruments, particularly during the 1967 recession, were lessened by these measures. The trend was also assisted by the fact that, under a decree issued in July pursuant to Article 15 of the Law to Promote Stability and Growth, the Federal and Länder Governments had to form anticyclical reserves totalling DM 3.6 billion, it being possible to offset the repayment of short-term instruments included in the money market regulating arrangements against the obligation to form reserves. In terms of monetary policy it comes to the same thing whether the banks' liquid reserves are reduced by redeeming such paper or by forming larger central bank deposits

Central and regional authorities' finance on a cash basis

Billions of DM

Item	1966	1967	1968	1969 e
I. 1. Balance of cash receipts and expenditure 1				
(a) Federal Government 2, 3	— 2.32	— 8.24	— 4.19	+ 1.50
(b) Equalisation of Burdens Fund 3	+ 0.32	+ 0.39	— 0.04	— 0.12
(c) ERP special fund 4	+ 0.04	+ 0.05	— 0.08	— 0.58
(d) Länder Governments	— 3.68	— 3.56	— 1.06	+ 1.28
Total 1 (a to d)	— 5.64	—11.35	— 5.37	+ 2.08
2. Special transactions 5	0.72	0.65	— 0.07	— 0.14
3. Cash surplus (+) or deficit (—)	— 6.36	—12.00	— 5.30	+ 2.22
II. Financing				
1. Change in cash reserves				
(a) Federal Government	+ 0.20	— 0.21	+ 0.02	— 0.01
(b) Equalisation of Burdens Fund	— 0.00	+ 0.23	— 0.08	— 0.15
(c) ERP special fund 4	+ 0.03	+ 0.19	+ 0.29	— 0.43
(d) Länder Governments	— 0.73	+ 0.30	+ 1.16	+ 0.81
Total 1 (a to d)	— 0.49	+ 0.51	+ 1.38	+ 0.22
2. Change in indebtedness				
(a) Federal Government	+ 2.56	+ 7.89	+ 3.72	— 1.78
(b) Equalisation of Burdens Fund	+ 0.20	+ 0.47	+ 0.25	+ 0.04
(c) ERP special fund 4	— 0.01	+ 0.15	+ 0.37	+ 0.15
(d) Länder Governments	+ 2.93	+ 3.86	+ 2.15	— 0.58
Total 2 (a to d)	+ 5.69	+ 12.36	+ 6.50	— 2.17
3. Amounts credited to Federal Government in respect of coinage	0.18	0.15	0.18	0.16
4. Total (1 less 2 less 3)	— 6.36	—12.00	— 5.30	+ 2.22

1 The cash surpluses or deficits of the Federal Government and the Equalisation of Burdens Fund were ascertained as net payments into or out of 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 were not recorded at the time they were 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 receipts, and the expenditure on debt redemption (including repurchase of bonds) from outgoings. The cash results of the ERP 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 Post Office. — 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 government inscribed stock of pension insurance funds) as well as revisions. — e Partly estimated. — The sum of the items may differ from the total shown owing to rounding.

(anticyclical reserves). The Federal Government made use of this facility to the full extent and the Länder Governments to a large extent.

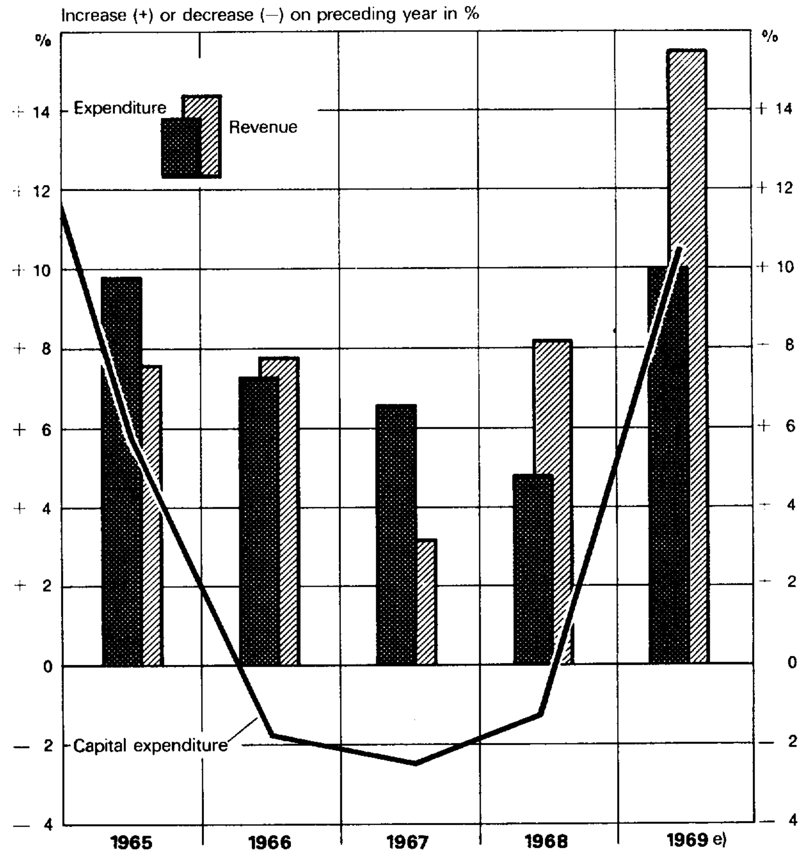
(b) Detailed analysis

Revenue

Faster rise in tax revenue

Total revenue of central, regional and local authorities and social insurance funds went up by some 16 % last year (to about DM 237 billion) and thus roughly twice as fast as in 1968. Tax revenue in particular rose at a more rapid rate, namely by over 19 % (after only 6 % in 1968) to DM 145 billion, direct taxes yielding just on 16 % and indirect taxes 22 % more than in the previous year. However, the trends of the individual taxes differed very widely. Among the direct taxes, wage tax brought in almost 23 % more in 1969 than in 1968 owing to the growth of wages and salaries and to the progressive tax scale. The average wage tax burden on wages and salaries consequently increased to 10.0 %, compared with 9.1 % in 1968 and 8.0 % in 1965, the last year when there was a general lowering of the tax scale. From corporation tax as much as 27 % more accrued to the central, regional and local authorities than in 1968. The income and corporation tax surcharge introduced in 1968, which is also levied to a lesser extent from persons liable to wage tax, yielded 30 % more than in the preceding year; assessed income tax, in contrast, brought in only 4 % more. Obviously, assessed income tax — unlike corporation tax — was hardly affected by the recommendation made by the Fiscal Planning Council in the spring of 1969 to bring advance payments into line with climbing profits "in significant cases". Tax payments appear to have grown less

Public revenue and expenditure



e) Estimated.

than the incomes in question on account of the lagging assessment and advance payment procedure.

The above-average increase in indirect taxes came about largely because revenue from the taxes on turnover was no less than 33 % above the 1968 level. Only a small proportion of the increase is attributable to the sharp rise in consumption caused by economic conditions. Other factors were of far greater significance: in 1969, unlike 1968, the yield of the turnover taxes (value-added tax and related taxes) was lessened to only a small degree by refunds of the gross turnover tax levied on old stocks, and the effects of the increase in tax rates implemented in mid-1968 were for the first time felt over an entire year. Moreover, the road haulage tax from the beginning of 1969 and (on balance) the Law on Safeguards against External Influences from November 1968 up to its suspension in October 1969 resulted in additional accruals of turnover tax revenue. Excise taxes and customs duties, the second largest group of indirect taxes, brought in "only" 8 % more in 1969 than the year before. The steep rise in indirect taxes was also partly due to the fact that revenue from local authority trade tax exceeded the level of 1968 very substantially – namely by one third. The bulk of this extra revenue was composed of advance payments or accelerated final payments, for the local authorities aimed at achieving considerable receipts before the end of 1969 at the expense of the following years, since from the beginning of 1970 onwards they have to surrender some 40 % of the trade tax yield to the Federal and Länder Governments (receiving in return a proportion of the taxes on income). Of overall tax revenue, the amounts due to the Federal and Länder Governments were in each case fully 18 % above the figure for 1968, and local authorities' tax revenue rose by 29 %, or even faster, for the reasons set out above. The Equalisation of Burdens Fund's receipts from levies decreased (by 5 %), in line with the longer-term trend.

Social insurance contributions did not go up quite as strongly as taxes, but at 15 % they likewise increased far more than in the previous year (11 %); in 1969 their total yield rose to about DM 60 billion. Wage increases and amendments to the law both played a part in this. At the beginning of 1969 the contribution rate of the wage earners' and salary earners' pension funds was raised from 15 % to 16 % of the earnings liable to insurance. In the field of statutory health insurance as well, numerous institutions raised their contribution rates further, in addition to which the income limit for computing contributions, which had been DM 900 per month since 1965, was increased to DM 990 from August 1969. The monthly contribution to the agricultural old age pension funds was also put up.

Rapid growth of social insurance contributions

Expenditure

Public authorities' expenditure grew by 10 % to about DM 235 billion last year. That means it went up twice as fast as in 1968, but far more slowly than revenue (16 %) and also more slowly than nominal gross national product (12 %). The ratio of public expenditure to the gross national product, which rose to over 42 % in the stagnation year 1967 and still came to fully 40 % in 1968, dropped below 40 % in 1969, thus reverting to the level of 1965/1966. Spending by the central, regional and local authorities and the social insurance funds rose approximately parallel to this in 1969, whereas in 1968 the social insurance funds' outlays had increased at a far more rapid rate (9 %) than those of the other public authorities (3 %). This came about primarily because the Federal Government, whose disbursements had stagnated in 1968, spent 8 % more in 1969 than in the previous year; an even more pronounced rise in spending was prevented by the Federal Government blocking budget expenditure totalling DM 1.8 billion in view of the economic situation.

Expenditure rose less fast than revenue

Among the various types of expenditure, spending on capital investment and on encouraging capital investment, which was on the decline between 1966 and 1968, went up again by 10 %, or just as much as total expenditure. In particular, public authorities' own investment in tangible assets (buildings, real estate and movables) speeded up – by 11 %, compared with 5 % in 1968. According to the incomplete data available, the sharpest increase was in local authorities' investment in tangible assets, which accounted for some two thirds of all such investment by the public authorities. This capital expenditure had a procyclical effect in 1969, just as during the recession of 1967 when it had in effect been cut back. Admittedly it would have increased still further if budget appropriations of the Federal Government and to some extent also of the Länder Governments had not been blocked. Spending to encourage capital investment by third parties (loans and grants plus the acquisition of interests in companies) also went up again by 9 % after having dropped appreciably (by 13 %) in 1968. This change reflects an alteration in the approach of the social insurance funds: the pension funds ran down their loans far less than in 1968, while the Federal Labour Office increased both its loans and its grants. Indirect investment by the central, regional and local authorities, on the other hand, was at approximately the same level as in 1968.

Capital expenditure again increased . . .

Expenditure on government consumption rose by 10 % in 1969 as against 6 % in the previous year. There was a particularly sharp increase – by 12 %, compared with just on 8 % in 1968 – in civil spending on personnel. Wage and salary earners in Government employment were paid some 6 % more from January 1, 1969 and established civil servants and pensioners 5 % more from April, and on top of this all Government employees and pensioners received a non-recurring special payment of normally DM 300, and for the first time the Christmas bonus amounted to 50 % of monthly earnings instead of 40 %. There were also – as usual – structural improvements and an increase in the number of posts. Spending on the social services rose by about 9 % and thus somewhat more sharply than in the previous year; it accounted for roughly half of all expenditure on consumption. The changes in the individual items varied considerably. Payments by the public pension funds increased fairly strongly (by 10 %), mainly because existing pensions were raised by 8.3 % – a rate based on the rather large wage increases of 1964/66 – and because the number of pensioners went up further. Spending on rehabilitation, which had previously declined somewhat apparently as a result of the stagnating economy, also rose again. The statutory health insurance institu-

. . . but spending on consumption also continued to climb tions likewise appear to have spent substantially more than a year before. On the other hand, payments by the unemployment fund were considerably lower than in 1968 owing to the further drop in unemployment, although the Federal Labour Office had to disburse rather more than in the previous year for bad weather allowances on account of the bad weather in the winter of 1968/69. Expenditure on war victims' pensions and family allowances was approximately as high as in 1968 (and also 1967); the main reason for this was that benefits were not increased in these areas.

Expenditure on defence came to DM 19.4 billion in 1969, or 12 % more than a year before, one important factor being that sizable sums were paid under the foreign exchange offset agreement with the United States. However, when comparing with the previous year it should be borne in mind that defence spending was particularly low in 1968 since the Federal Government had paid substantial amounts in 1967 under the expiring foreign exchange offset agreement with the United States, thus financing 1968 imports in advance. No more detailed information is available as yet on other expenditure; it was probably about 9 % higher than in 1968.

Indebtedness

For the first time no increase in debt

As noted, public authorities' debt (excluding the insignificant debt of the social insurance funds, but including the debt of the central, regional and local authorities and their special funds to the social insurance funds[1]) did not rise further in 1969, for the first time in a full year since the currency reform, thanks to the favourable pattern of cash movements. In 1968 the central, regional and local authorities had taken up DM 8.7 billion of outside funds (net), as against DM 14.9 billion in the stagnation year 1967. The turn-round was most marked in the case of the Federal and Länder Governments: the Federal Government reduced its debt by DM 1.8 billion after having increased it by DM 3.7 billion in 1968, and the liabilities of the Länder Governments fell by DM 0.6 billion after having risen by DM 2.2 billion in the previous year. Local authorities and the Federal Government's two special funds did continue to take up credit, net, in 1969, but on a somewhat smaller scale than in the year before: the local authorities borrowed DM 2.1 billion of outside funds as against DM 2.2 billion in 1968; the ERP special fund took up only DM 0.2 billion in 1969 after its indebtedness had temporarily increased rather sharply in 1968 in connection with the financing of measures under the second economic stimulation programme launched in 1967; and the Equalisation of Burdens Fund's liabilities remained approximately constant since the Fund had availed itself of part of its 1969 borrowing authorisation at the end of 1968, and since persons entitled to basic compensation requested cashless settlement of their claims to a far lesser extent than in previous years.

Debt funded

In conformity with economic requirements, not only did the central, regional and local authorities as a whole refrain from further net borrowing, they also funded their indebtedness. Shorter-term liabilities (Bundesbank book credit, money market paper and medium-term notes) dropped by over DM 6 billion altogether, while longer-term debt rose by almost the same amount. In 1968, on the other hand, shorter-term indebtedness increased by DM 0.8 billion after a total of DM 7.2 billion had been taken up at shorter term in 1967 — particularly by the Federal Government to compensate for the loss of tax revenue due to economic conditions and to finance the pump-priming measures. The money market paper issued at that time mostly matured in 1969, and only a small part of it was replaced by instruments of the same type. In addition, the Länder Governments redeemed paper totalling DM 0.4 billion prematurely, so as to fulfil their obligation to form anticyclical reserves as far as possible by means of redemptions that could be counted towards these reserves. The reduction in the amount of money market paper outstanding lessened — as mentioned — the banks' free liquid reserves and thus their scope for extending credit.

Altogether, longer-term debt increased by nearly DM 6 billion, which was some DM 2 billion less than in 1968. As at that time, in 1969 the prime means of procuring funds

1 The liabilities of the central, regional and local authorities towards the social insurance funds are counted towards the latter's reserves (see the following section).

Indebtedness of central, regional and local authorities *

Millions of DM

Item	End of year 1967	End of year 1968	End of year 1969 e	Change during year 1967	Change during year 1968	Change during year 1969 e
I. Borrowers						
1. Central and regional authorities	75,214	81,710	79,544	+12,362	+ 6,496	— 2,166
(a) Federal Government	43,493	47,218	45,440	+ 7,887	+ 3,724	— 1,778
(b) Equalisation of Burdens Fund	6,828	7,079	7,122	+ 470	+ 251	+ 43
(c) ERP special fund	706	1,075	1,226	+ 146	+ 369	+ 151
(d) Länder Governments	24,188	26,339	25,756	+ 3,860	+ 2,151	— 583
2. Local authorities	31,986	34,186	36,300	+ 2,522	+ 2,200	+ 2,114
Total (1 plus 2)	107,201	115,896	115,844	+14,884	+ 8,695	— 52
II. Categories of debt						
1. Book credits of Bundesbank	2,220	1,344	1,974	+ 1,056	— 876	+ 630
2. Special credits of Bundesbank to Federal Government 1	1,603	809	745	— 927	— 794	— 64
3. Treasury bills 2	204	150	—	— 992	— 54	— 150
4. Non-interest Treasury bonds 2	7,678	8,603	2,360	+ 5,231	+ 925	— 6,243
5. Tax reserve certificates	51	47	47	— 0	— 4	+ 0
6. Medium-term notes	3,189	4,044	3,659	+ 1,930	+ 855	— 386
7. Bonds 3	14,230	16,074	16,273	+ 2,139	+ 1,844	+ 199
8. Direct lending by banks	34,114	42,536	49,818	+ 4,595	+ 8,422	+ 7,282
9. Government inscribed stock of social insurance funds	6,102	4,891	4,223	+ 1,273	— 1,210	— 668
10. Loans from social insurance funds	2,285	2,066	1,876	— 131	— 220	— 190
11. Other loans	8,690	9,221	9,728	+ 822	+ 531	+ 507
12. Commutation and compensation debt	973	926	906	— 24	— 47	— 20
13. Equalisation claims	20,175	19,902	19,585	— 161	6 — 273	— 317
14. Covering claims 4	3,391	3,331	3,116	+ 153	— 60	— 215
15. External debt	2,296	1,951	1,533	— 80	6 — 345	— 419
Total (1 to 15)	107,201	115,896	115,844	+14,884	+ 8,695	— 52
III. Creditors						
1. Banking system						
(a) Bundesbank	13,096	11,189	11,996	+ 302	— 1,907	+ 807
(b) Banks	57,344	68,481	69,885	+12,323	+11,137	+ 1,404
2. Domestic non-banks						
(a) Social insurance funds	9,796	8,582	6,827	+ 982	— 1,214	— 1,755
(b) Other 5	24,526	25,513	25,519	+ 2,015	+ 987	+ 6
3. Foreign creditors e	2,438	2,131	1,618	— 739	— 307	— 514
Total (1 to 3)	107,201	115,896	115,844	+14,884	+ 8,695	— 52

* Including Equalisation of Burdens Fund and ERP 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** Excluding paper originating in the conversion of equalisation claims (mobilisation paper). — **3** Including interest-bearing Treasury bonds and Federal savings 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 government inscribed stock in respect of life assurance contracts. — **5** Public and private creditors (residual). — **6** Including statistical decreases of DM 56 million (equalisation claims) and DM 270 million (external debts). — **e** Partly estimated. — The sum of the items may differ from the total shown owing to rounding.

was through recourse to bank loans. The central, regional and local authorities acquired a total of DM 7.3 billion in this way — by far the greater part at long term — compared with DM 8.4 billion in 1968; once again, the Federal Government accounted for over half of this. In contrast, liabilities arising from long-term bonds increased but slightly (by DM 0.2 billion, as against DM 1.8 billion in 1968), and other debt declined by DM 1.4 billion. With regard to bonds it should be noted that the Federal Government sold almost DM 0.3 billion of Federal savings bonds, which were introduced at the beginning of 1969, but new issues of bonds were substantially lower and repayments higher than in 1968. The outstanding amount of bonds of the central, regional and local authorities (excluding Federal Railways and Federal Post Office) accordingly decreased slightly in 1969. It would however be a mistake to measure the recourse to the capital market by public authorities by this yardstick, since the domestic capital market was of course also affected by the fact that the public sector took bank loans, especially as a large proportion of these loans were granted directly by banks which in turn obtained finance by issuing bonds on the bond market. In 1969 the public authorities merely withdrew from the issue market, where they are particularly exposed to public criticism, but not from the capital market in the broader sense — a trend that was discernible in earlier periods of tightness on the bond market, but which was not practised systematically until 1969.

Creditors

Analysis of the public authorities' creditors shows that the position of the banks (excluding the Bundesbank) as lenders was strengthened further in 1969. If short and longer-term public debt is combined (the total of which remained unchanged in 1969), liabilities towards the banks grew by DM 1.4 billion. Bank holdings of money market paper declined (by DM 6 billion) as did those of equalisation and covering claims (by DM 0.4 billion), but on the other hand banks extended DM 7.3 billion of direct loans and acquired DM 0.6 billion net of securities. Towards the Bundesbank, too, the public authorities were DM 0.8 billion more heavily in debt at the end of 1969 than the year before, since the Federal Government availed itself of book credit at the end of the year on a larger scale than in 1968, and, moreover, in contrast to 1968, the Länder Governments and the Equalisation of Burdens Fund made use of Bundesbank book credit. In addition, at the end of 1969 the Bundesbank had more money market paper in its portfolio than a year previously, although it was able to sell during 1969 some of the Federal Government securities which it had purchased in the past as a part of its open-market policy, and furthermore the special credits granted to the Federal Government declined. The liabilities of the central, regional and local authorities to the other sectors — the social insurance funds, other domestic non-banks, and foreign creditors — fell by a total of DM 2.3 billion. The prime reason for this was that, as in 1968, the social insurance funds returned government inscribed stock to the Federal Government before maturity, in addition to the scheduled repayments, and that they reduced their claims on the central, regional and local authorities arising from money market paper, medium-term notes, bonds, and direct loans.

Reserves

Growth of reserves

Public authorities' financial reserves — in the form of bank balances and equivalent deposits, along with the social insurance funds' holdings of money market paper, securities, and government inscribed stock — rose in 1969 by over DM 2 billion although the social insurance funds reduced their reserves by a further DM 0.75 billion on account of their deficits. To make up for this, however, the liquid resources of the central, regional and local authorities increased by almost DM 3 billion, and thus faster than in 1968 when they went up by nearly DM 2 billion. The Federal Government again had hardly any cash resources at the end of the year, and the holdings of the Equalisation of Burdens Fund and the ERP special fund together fell by DM 0.6 billion, but the reserves of the Länder Governments and above all those of the local authorities continued to rise. At the Bundesbank alone the Länder Governments had DM 2.4 billion of cash reserves at the end of 1969, which was over DM 0.9 billion more than a year before. This figure contains fully DM 0.4 billion of anticyclical reserves which the Länder Governments lodged at the central bank on special accounts (they met the remaining commitment, as mentioned above, by redeeming suitable paper). Local authorities' reserves increased even more strongly, particularly because exceptionally large payments accrued to them from trade tax in the last two months of 1969.

(c) Further outlook

Continued surpluses

Taken as a whole the public authorities are unlikely to continue to exercise a contractive effect in 1970. As the expenditure planning stands at the moment, and assuming that the gross national product increases by 9 % to 10 % in nominal terms, in line with the Federal Government's annual projection, public authorities will probably have another cash surplus, but it is unlikely to be much higher than that of 1969. In contrast, public authorities' cash figures showed a year-to-year growth of DM 11 billion last year and DM 6.5 billion in 1968. Indeed, the central, regional and local authorities can no longer be expected to have a surplus at all, although the social insurance funds will probably make substantial surpluses after finishing up in deficit in 1969.

Slower increase of revenue

In consequence, no further notable improvement is foreseeable in public finance, since revenue will increase only slightly — if at all — faster in 1970 than expendi-

Distribution of tax revenue pursuant to the 1969 fiscal reform

Proportion of revenue in %

Categories of tax affected by redistribution	Federal Government until 1969	Federal Government from 1970	Länder Governments until 1969	Länder Governments from 1970	Local authorities 1 until 1969	Local authorities 1 from 1970
1. Wage tax and assessed income tax	35	43	65	43	—	14
2. Corporation tax and capital gains tax	35	50	65	50	—	—
3. Turnover taxes	100	70	—	30	—	—
4. Capital transactions, insurance and bill taxes	—	100	100	—		
5. Trade tax **2** (including tax on total wages paid)	—	20	—	20	100	60

1 Including local rates levied by Berlin, Bremen and Hamburg. — **2** The proportions given are average figures and may deviate slightly from actual figures.

ture. Receipts from the most important type of revenue – taxes – will in all likelihood grow more slowly than nominal gross national product. While it is true that the effects of the progressive income tax scale will make themselves felt in the current year, their impact will be somewhat lessened by the doubling of the personal allowance on wage tax with effect from July 1, 1970. An additional factor tending to slow down the growth of tax revenue is that the net receipts from the Law on Safeguards will be lost and that the arrangements to compensate farmers following the revaluation of the Deutsche Mark are in part at the expense of turnover tax revenue. Finally it must be borne in mind that the trade tax yield is likely to be lower in 1970 owing to the additional advance payments made in 1969.

Redistribution of taxes under the fiscal reform

Among the individual central, regional and local authorities substantial shifts, benefiting the local authorities on balance, are manifest owing to the redistribution of taxes under the fiscal reform enacted last year. From the beginning of 1970 the local authorities receive a proportion of the taxes on income and in return pay part of the trade tax (a smaller part in volume terms) to the Federal and Länder Governments, which now share the remaining receipts from the income taxes half each. As up to 1969 the bulk of the income taxes (latterly 65 %) accrued to the Länder Governments, they receive as a substitute a proportion of the revenue from the turnover taxes, which previously went to the Federal Government alone. Under the fiscal reform, the local authorities will gain at least DM 2 billion in 1970, mostly at the expense of the Federal Government.

Unlike the tax revenue of the central, regional and local authorities, the social insurance funds' receipts from contributions will increase at least to the same extent as in 1969. The main reasons for this, apart from the higher wages, are that at the beginning of the year the contribution rate to the wage and salary earners' pension funds was again raised by 1 point (to 17 % of wages and salaries) and the limit for assessing contributions to the unemployment fund was put up from DM 1,300 to DM 1,800 per month and that for the health insurance institutions from DM 990 to DM 1,200. The earnings that are liable to insurance have also been increased by the introduction of continued payment of gross wages to workers during sickness; but this measure is linked with a lowering of the contribution rates to the health insurance which, to begin with, has a retarding effect on the growth of receipts from contributions. The increase in the social insurance funds' total receipts is also slowed down somewhat by the abolition, retrospectively from the beginning of 1970, of a measure introduced two years ago – the contribution of pensioners to the cost of their health insurance.

No restrictive expenditure policy

The expenditure of the central, regional and local authorities and social insurance funds together will presumably rise hardly less strongly in 1970 than in the previous year, when it went up by 10 %, as noted above. At all events, this is what the budgets suggest, always assuming that the central, regional and local authorities, in line with the Fiscal Planning Council's recommendations of January 1970, block part of their expenditure, and that this block remains in force throughout the year. The Federal Government has already decided not to spend DM 2.7 billion (about

3 % of the budget volume), and the Länder Governments too have announced their intention of following suit. Whether the local authorities will also curb their expenditure remains to be seen; judging by the experience of previous years, it may be expected that the appreciable improvement in their revenue will lead primarily to additional spending and only to a smaller extent to a lower level of borrowing or even a reduction of debt. Even when the Federal and Länder Governments' block on expenditure is taken into account, spending by the central, regional and local authorities as a whole is likely to increase more sharply than in 1969. To be specific, expenditure on personnel will hardly go up less than in 1969 and capital spending on tangible assets will probably rise steeply if only because of the substantial increase in the cost of construction. As regards social welfare, one reason why the central, regional and local authorities have to raise considerably larger sums is that war victims' pensions were raised appreciably at the beginning of the year. In addition, particularly defence spending and the compensatory payments to farmers for their losses of income due to the revaluation call for larger amounts. The expenditure of the social insurance funds, unlike that of the central, regional and local authorities, will if anything go up more slowly in 1970 than in the preceding year. The pension funds will feel the effects of the increase rate of existing pensions, at 6.35 %, being lower than in earlier years, as for the first time the average earnings of the stagnation year 1967, when wages and salaries rose relatively little, are included in the computation. In point of fact, however, pensions are going up by over 8 % this year as well, since pensioners now no longer have to contribute to the cost of their health insurance, as mentioned above. Abolition of the contribution was not part of the original planning and is a burden on the finances of the pension funds, and moreover means that the concept of the new system of finance for the pension funds[1] has already been departed from to some extent; now that the former principle that the pension funds should form assets has finally been abandoned, the new concept provides for cash figures that are in balance at least in the medium term and thus for the formation of correspondingly large surpluses during booms. The health insurance institutions' expenditure will not increase as fast as before since sickness benefit will largely disappear following the introduction of continued payment of gross wages to workers during sickness.

Credit again needed

Although the public authorities, including the social insurance funds, will thus fare rather better than last year according to present plans, they will probably borrow again on balance in the current year. One reason for this is that, seen as a whole, an improvement is likely only in the finances of the social insurance funds, and not in those of the central, regional and local authorities. Another important factor is that the Federal and Länder Governments are to form anticyclical reserves totalling altogether DM 2.5 billion in the present year as well; the Federal Government, in agreement with the Advisory Council on Anticyclical Policy and the Fiscal Planning Council and with the concurrence of the Upper House, has issued a decree to this effect. Since the Federal Government (whose share amounts to DM 1.5 billion) and possibly certain of the Länder Governments will not be able to finance these reserves in part or in full by further cuts in expenditure or by mobilising their cash holdings, they will have to take up credit in addition – always provided that the reserve, which is to be formed by mid-year, is not freed again before the end of the year. If the anticyclical reserve were financed on credit in this way, overall demand would not be curbed directly, but there would be a "restrictive" effect and thus at least an indirect impact on overall demand owing to the withdrawal of liquidity from the banks if the necessary outside funds were taken up at longer term on the capital market. Even this impact would be lost if money market paper were issued or resort were had to central bank credit – courses which the purpose of the anticyclical reserve should in itself be sufficient to rule out. Concurrently with the presumable renewed growth of indebtedness, the financial reserves of the public authorities as a whole will increase faster than in 1969. The surpluses the social insurance funds will be able to form during the year will probably play a more important part in this than the creation of the anticyclical reserve.

1 See "The finances of the social pension insurance funds in recent years" in Monthly Report of the Deutsche Bundesbank Vol. 21, No. 10, October 1969, page 20.

4. Balance of payments

Main balance of payments trends in 1969

There was hardly a single area of the German balance of payments that was not strongly affected by the expectation of revaluation in the period up to the autumn of 1969, and by reactions to the abandonment of the old exchange rate from the end of September onwards. The fluctuations were particularly striking in the field of short-term capital transactions, which was marked by large speculative inflows prior to the floating of the Deutsche Mark, and by no less large outflows from late September 1969. In the annual figures, however, these movements largely cancel each other out; the annual statistics reveal little of the – at times – hectic activity during the course of 1969. For instance, enterprises' short-term capital transactions (including the balancing item of the balance of payments, which is a pointer to changes in commercial credits), ended up 1969 with an overall surplus of about DM 1 billion. This net capital import in the period under review was the upshot of an influx of short-term capital into Germany between January and September 1969 of the order of DM 16 billion and the reflux of these funds abroad to the total of just on DM 15 billion in the last three months of 1969. The changes in central monetary reserves between end-1968 and end-1969 also betray little of the dramatic events in the monetary sphere during 1969. Excluding the loss due to revaluation, the Bundesbank's monetary reserves (including the automatic German drawing rights in the International Monetary Fund) fell by over DM 10 billion in 1969. In the first nine months of 1969, however, the net movement of foreign exchange had shown a surplus of DM 8.1 billion, while there was a deficit of DM 18.4 billion in the last three months of 1969. In the other areas of the balance of payments, though, the fluctuations during the year were far less pronounced.

The principal data of the 1969 balance of payments may be summarised as follows:

- The surplus on the current account of the balance of payments decreased in 1969 to DM 7.1 billion compared with DM 11.4 billion in 1968. All three items of the current account contributed to this. In foreign trade under the definition used here (whereby the freight and insurance costs of sea-borne imports are counted towards services and not towards goods traffic) the surplus fell by DM 2.7 billion to DM 20.0 billion.[1] On services account, inclusive of the freight and insurance costs of goods arriving by sea, the deficit increased by DM 0.8 billion to DM 4.8 billion. The deficit on transfer payments also increased by DM 0.8 billion to DM 8.2 billion in 1969. The growth of the deficits on services and transfer payments accurately reflects the trends that prevailed during 1969, but this applies to foreign trade only with reservations. The decrease of just on DM 3 billion in the foreign trade surplus is primarily due to the fact that at the end of 1968 a substantial quantity of exports planned for 1969 were advanced to avoid the export tax introduced at that time. Without these factors the foreign trade surpluses would have been of about equal size in both years, at an estimated DM 21 billion in round figures.

- Abundant liquidity at home, due in part to the speculative inflows of money, together with the interest rate differential in relation to other countries resulted in net long-term capital exports by Germany soaring to nearly DM 23 billion in 1969, compared with DM 11.5 billion in the previous year and DM 3.2 billion in 1967, and with net capital imports of almost DM 0.5 billion on the average of the years 1963 to 1966. At this rate, long-term capital exports in 1969 were equivalent in scale to two fifths of Germany's total longer-term financial asset formation.

- Banks on the one hand and enterprises and individuals on the other contributed some DM 10.5 billion each to this DM 23 billion of net long-term capital exports in 1969, while a further DM 1.8 billion was exported by public authorities.

1 In line with international practice in drawing up balances of payments, in this section the freight and insurance charges paid for the importation of goods by sea are eliminated from the official import figures and included under expenditure on services. Exports and imports are thus shown uniformly at free on board (f.o.b.) values. Reclassifying the freight and insurance costs of sea-borne imports, which leads statistically to an increase in the foreign trade surplus on the one hand and a deterioration in the services account on the other, does not however affect the overall figures for transactions in goods and services together (and thus the current account).

- Not only did long-term capital exports in 1969 assume proportions in relation to domestic capital formation that far exceeded lasting national capabilities, they also went far beyond the limits imposed by the balance of payments. Since the surpluses on current account came to only DM 7 billion, as noted, current account and long-term capital transactions together — i. e. the basic balance — ended up with a deficit of DM 16 billion in 1969.

- In contrast, short-term capital transactions finished up with money imports amounting to DM 5.6 billion, mainly as a result of borrowing by German banks abroad (DM 4.3 billion net). Hence the decline in central monetary reserves, which came to just over DM 10 billion excluding the Bundesbank's loss owing to the revaluation, was not as large as the deficit on the basic balance.

Balance of payments at the beginning of 1970

At the beginning of 1970 the drain of Bundesbank reserves slackened off; from early February up to the time of writing there was indeed a net growth. At the end of March 1970 overall central monetary reserves came to DM 28.6 billion, as against DM 27.5 billion at the end of December 1969. However, only about DM 400 million of this increase of DM 1.1 billion since the beginning of the year is due to "genuine" external transactions, whereas DM 738 million derives from the special drawing rights allocated to the Bundesbank (further details will be found in the chapter "International monetary trends and monetary policy", particularly on page 38 ff.). The renewed increase in central monetary reserves was mainly attributable to short-term capital imports by banks and enterprises. The basic balance, on the other hand, was greatly in deficit even at the beginning of the current year. The prime reason for this was the persistently high level of long-term capital exports, which came to some DM 2.8 billion in January and February (more recent data are not yet available). Admittedly, compared with the record figures of the autumn months of 1969 this represents a decline, due above all to the fact that on the average of January and February 1970 long-term lending by German banks to foreigners dropped to DM 600 million compared with, say, DM 1.3 billion on the monthly average of the last quarter of 1969. As however current external transactions produced a deficit of DM 0.5 billion in January and February 1970 together — affected in part by temporary transport difficulties due to the weather — the basic balance had a deficit of somewhat over DM 3.3 billion during this period. After the raising of the Bundesbank's discount rate and advance rate at the beginning of March 1970 and the resultant increase of the national interest rate level, a further decline in long-term capital exports can be expected, and is indeed requisite to bring Germany's balance of payments back to a state of lasting equilibrium.

The following sections provide an outline of the principal features of the individual items of the balance of payments for 1969.

(a) Current account

1969 foreign trade surplus again very large

Despite the tax measures adopted at the end of 1968 to safeguard the economy against external influences and despite the exceptional boom at home the balance of trade again showed a very large surplus in 1969. If f.o.b. figures are used, the surplus in visible trade (including merchanting trade) in 1969 came to almost DM 20 billion, as against DM 22.7 billion in 1968. As mentioned above, this slight drop was mostly due to the shifts in exports around the turn of 1968/69. What had already been evident in the second half of 1968 became more and more manifest in the course of 1969: the large foreign trade surpluses, which in the first three quarters of 1969 went on rising, after seasonal adjustment, from quarter to quarter, were not caused primarily by differences in the level of economic activity between Germany and other countries (the German economy was experiencing a boom — in 1969 at least — just like many foreign countries), but rather by substantial disparities in prices and costs between Germany and other countries — disparities that had developed since 1966. Owing to the pronounced inflationary trends abroad, foreign demand for German goods, which were cheap in relation, continued to rise strongly, while on the other hand Germany did not manage to a sufficient extent to curb the excessive demand at home by adequate imports. The revaluation

Main items of the balance of payments

Millions of DM

Item	1963	1964	1965	1966	1967	1968	1969 Total	1969 1st to 3rd quarters	1969 4th qtr
I. Current account									
1. Trade in goods									
Exports (f.o.b.) 1	58,401	64,914	71,633	80,557	86,950	99,445	113,473	82,598	30,875
Imports (f.o.b.) 1	49,200	55,091	66,585	68,932	66,303	76,807	93,590	68,701	24,889
Merchanting trade (net)	— 20	— 212	+ 152	+ 200	+ 362	+ 65	+ 94	+ 133	— 39
Balance of trade	+ 9,181	+ 9,611	+ 5,200	+ 11,825	+ 21,009	+ 22,703	+ 19,977	+ 14,030	+ 5,947
2. Services	— 3,135	— 4,081	— 5,250	— 4,994	— 4,709	— 3,967	— 4,763	— 3,281	— 1,482
3. Transfer payments	— 5,067	— 5,322	— 6,420	— 6,324	— 6,434	— 7,315	— 8,160	— 5,476	— 2,684
Balance on current account (1 plus 2 plus 3)	+ 979	+ 208	— 6,470	+ 507	+ 9,866	+ 11,421	+ 7,054	+ 5,273	+ 1,781
II. Capital transactions (excluding special transactions)									
1. Long-term capital 2, 3									
Net German capital investment abroad (increase: —)									
Private	— 1,443	— 2,107	— 2,009	— 2,615	— 3,363	—11,838	—21,769	—14,405	— 7,364
Direct investment	— 646	— 923	— 1,051	— 1,228	— 1,042	— 1,594	— 2,143	— 1,437	— 706
Portfolio investment	— 179	— 540	— 454	— 819	— 1,395	— 5,627	— 9,311	— 6,843	— 2,468
Loans and advances	— 454	— 482	— 287	— 368	— 755	— 4,393	— 9,952	— 5,865	— 4,087
Other	— 164	— 162	— 217	— 200	— 171	— 224	— 363	— 260	— 103
Official	— 1,186	— 1,236	— 1,219	— 1,366	— 1,465	— 1,317	— 1,740	— 903	— 837
Total	— 2,629	— 3,343	— 3,228	— 3,981	— 4,828	—13,155	—23,509	—15,308	— 8,201
Net foreign capital investment in the Federal Republic of Germany (increase: +)									
Private	+ 4,436	+ 2,388	+ 4,257	+ 4,384	+ 1,673	+ 1,681	+ 633	+ 1,968	— 1,335
Direct investment	+ 1,530	+ 2,122	+ 3,290	+ 3,441	+ 2,811	+ 1,483	+ 1,232	+ 1,185	+ 47
Portfolio investment	+ 2,593	+ 21	+ 99	— 336	— 619	+ 13	— 1,208	— 282	— 926
Loans and advances	+ 416	+ 346	+ 988	+ 1,400	— 391	+ 320	+ 708	+ 1,136	— 428
Other	— 103	— 101	— 120	— 121	— 128	— 135	— 99	— 71	— 28
Official	— 261	— 79	— 72	— 133	— 48	— 49	— 99	— 51	— 48
Total	+ 4,175	+ 2,309	+ 4,185	+ 4,251	+ 1,625	+ 1,632	+ 534	+ 1,917	— 1,383
Balance of long-term capital transactions	+ 1,546	— 1,034	+ 957	+ 270	— 3,203	—11,523	—22,975	—13,391	— 9,584
2. Short-term capital (including balancing item)									
Banks	+ 684	+ 85	— 478	— 574	— 4,823	+ 2,455	+ 4,325	— 181	+ 4,506
Official 4	— 38	— 742	+ 815	+ 72	+ 92	+ 1,731	— 129	+ 336	— 465
Enterprises	— 460	+ 2,217	+ 3,656	+ 2,444	— 1,619	+ 3,471	+ 1,436	+ 16,093	—14,657
Financial credits	+ 39	+ 225	+ 831	+ 1,880	— 1,634	+ 536	— 235	+ 5,308	— 5,543
Balancing item 5	— 499	+ 1,992	+ 2,825	+ 564	+ 15	+ 2,935	+ 1,671	+ 10,785	— 9,114
Balance of short-term capital transactions	+ 186	+ 1,560	+ 3,993	+ 1,942	— 6,350	+ 7,657	+ 5,632	+ 16,248	—10,616
3. Special capital transactions (net) 6	—	—	—	— 949	—	—	—	—	—
Overall balance of capital transactions	+ 1,732	+ 526	+ 4,950	+ 1,263	— 9,553	— 3,866	—17,343	+ 2,857	—20,200
Overall balance on current and capital accounts (I plus II)	+ 2,711	+ 734	— 1,520	+ 1,770	+ 313	+ 7,555	—10,289	+ 8,130	—18,419
III. Compensatory amount required by the Deutsche Bundesbank 7	—	—	—	—	—	—	— 4,099	—	— 4,099
IV. Gold and foreign exchange movement 8	+ 2,711	+ 734	— 1,520	+ 1,770	+ 313	+ 7,555	—14,388	+ 8,130	—22,518

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** Classification of long-term capital by "Direct investment", "Portfolio investment", "Loans and advances" and "Other" partly estimated. For further breakdown see table on page 88 of this Report and table 9 ff. in the Statistical Supplements to the Monthly Reports of the Deutsche Bundesbank, Series 3, Balance-of-payments statistics. — **4** Chiefly concerning change in the Federal Government's assets resulting from prepayments on defence imports and in the Federal Government's liabilities to the European communities on so-called deposit accounts. — **5** Net errors and omissions in current and capital accounts. — **6** Principally prepayment of long-term liabilities to BIS, Basle (DM 156 million) and to the U.S.A. (DM 784 million). — **7** Contra-entry to the depreciation shown under net movement of gold and foreign exchange of the Deutsche Bundesbank's gold and foreign exchange expressed in DM, due to the 9.3 % DM revaluation of October 27, 1969. — **8** Change in the Deutsche Bundesbank's net monetary reserves including German reserve position in IMF; increase: +.

in autumn 1969 was the logical reaction to the resultant undervaluation of the Deutsche Mark in international transactions. The repercussions of the revaluation on foreign trade will become apparent only gradually in changes in the volume of exports and imports due to the new prices. In the last three months of 1969 – i. e. the first three months after revaluation, which was initiated at the end of September – there were a number of striking modifications to external goods trade, but they probably reflected in large measure the reaction of exports to the speculative excesses immediately preceding revaluation, as well as in part comparable reactions on the import side.

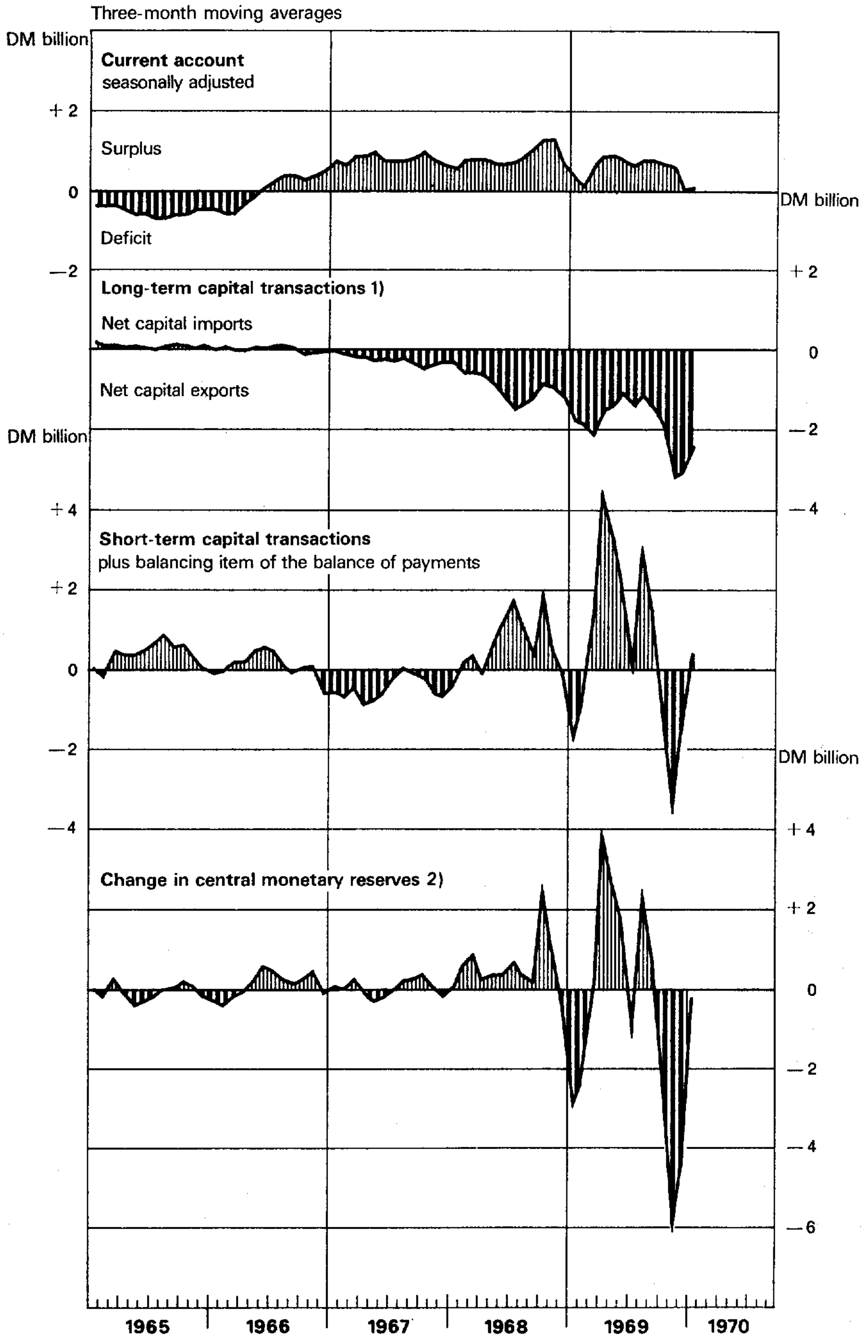
Germany's exports increased in 1969 by 14 % to DM 113.5 billion, and thus just as fast as in the previous year. As exports grew more rapidly than the gross national product in nominal terms (+ 11.6 %), exports' share of the gross national product – the "export ratio" – went up further to 18.9 %, as against 18.5 % in 1968 and, for instance, 15.6 % in 1965, when the last business cycle reached its peak. Once again the growth of German exports outstripped the expansion of world exports, which, calculated in US dollars, may be put at about 14 % in 1969. As a result, Germany's share of world trade again increased slightly (see the table "Data on foreign trade" on page 81). Unlike the previous year, however, imports grew in percentage terms substantially faster than world trade, so that the integration of the German economy in the world economic system proceeded at a faster pace, and this not only on the export side, as was the case in, for example, 1966 and 1967.

Regional trend of exports mainly dictated by the economic activity of the importing countries

Analysis of exports by region shows that German exports to the member countries of the European Economic Community expanded most in 1969. They grew by DM 7.8 billion (or 21 %) to over DM 45 billion, which is about a quarter of all the goods imported by the countries of the Six. The table on page 81 provides details of the progress of trade with the various EEC countries. Exports to all other major sales areas increased less than those to the EEC countries, which is presumably due not only to differences in the levels of economic activity, but also to the fact that integration among the Six speeded up after the introduction of a common external tariff in mid-1968. On top of this, France's import needs were particularly marked owing to the extremely high level of domestic demand, though these needs gradually eased off as a result of the devaluation of the franc in August 1969. German exports to the countries of the European Free Trade Association went up by a good 13 % in 1969. Compared with 1968, imports from Germany by Austria, Denmark, Norway, Sweden, and Switzerland increased substantially in some cases, while imports by the United Kingdom no longer grew so strongly. Here the sterling devaluation of November 1967 was having the originally intended effect. German exports to countries of the Socialist bloc increased by 12½ % in 1969 to over DM 5 billion. Although this probably means that Germany further cemented its position as the largest western supplier of the eastern bloc, the volume of trade with the east, at some 4½ % of the total, continues to play a minor role in relation to German exports as a whole. Finally, developing countries too increased their purchases in Germany, which contained an above-average proportion of industrial finished products, by just on 11 % to DM 19.5 billion, and thus at a rate similar to that of 1968.

The United States was the only major export market to import less from Germany in 1969 than in the year before. In some cases the only reason for the slight decline in U.S. purchases was that shipments were disrupted at the beginning of the year by the dockers' strike on the east coast of the United States. Otherwise, German exports might even have risen somewhat; but the earlier strong growth was lacking since economic activity slowed down in the United States in the course of 1969. Consequently, the United States accounted for only 9.5 % of Germany's total exports in 1969 compared with 11 % in 1968. France, with a share of 13.3 %, headed the list of purchasers of German goods in 1969, and the Netherlands, with a share of 10.1 %, came second; the United States, which had previously occupied this position, was the third largest buyer of German goods in 1969.

Balance of payments



1) Excluding prepayments of debt (1966). – 2) October 1969: excluding depreciation of the Deutsche Bundesbank's gold and foreign exchange positions (DM 4.1 billion) due to the revaluation.

Sharp rise in import ratio

Germany's imports increased in 1969 by DM 16.8 billion or 22 % to DM 93.6 billion (in f.o.b. terms, i. e. excluding the freight and insurance costs of sea-borne imports); in 1968 the increase had been about 16 %. However, not only did imports rise faster than in the preceding year, they also went up more rapidly than the gross national product. Imports (again f.o.b.) amounted to 15.6 % of gross national product in 1969 compared with 14.3 % a year earlier. The demand for imports is illustrated even more plainly by the increase in the "marginal import ratio", i.e. the ratio of the growth of imports (DM 16.8 billion) to the growth of nominal gross national product (DM 62.5 billion); it came to some 27 % in 1969 as against 24 % in 1968, thus being not far below the highest figure ever recorded – 29 % in 1965. As however economic strains in 1969 – measured, for instance, by the degree of capacity utilisation, the length of order-books, and the excessive demand for labour – were unquestionably greater than in 1965, an even stronger growth of imports would have been desirable to reduce the strains on domestic markets; but this was prevented by the likewise marked inflationary trends in the rest of the world.

According to the official foreign trade statistics (to which reference must be made because import data on an f.o.b. basis are not available for the individual goods items), *commercial imports of industrial goods* in 1969 increased by 23 % or almost DM 14 billion to DM 75 billion. Imports of end products showed a particularly sharp rise; they grew by nearly a third to DM 28 billion, primarily as a result of vigorous capital investment at home and increasing consumer demand. The acceleration of domestic demand and widening gaps in supply also led to a sharp increase in demand for foreign semi-finished products. Imports of products for further processing went up by 25 % to almost DM 16 billion and those of semi-finished products by 23 % to DM 16.7 billion. Compared with these rates, imports of unprocessed raw materials rose comparatively little (by 6 %). Besides sporadic price cuts on world raw material markets, reduced raw material imports in the second half of 1969 played a part in this. The reduction was probably due in part to expectations of revaluation, but also to the fact that importers began to cut back their investment in stocks in view of the sharp increase in the cost of finance at home, especially as in general they appear to have built up their stocks in the previous year rather more than was necessary for production purposes. Imports of *o odstuffs* in 1969 increased by 13 % to just on DM 19.5 billion. This is partly attributable to the fact that, owing to the large forward discounts on French francs, amounting at times to 20 to 30 % p. a. and for short periods to even more, up to the early summer of 1969 it was financially rewarding to import grain from France, pay for it with forward exchange, and sell it to the German government's storage agencies at the prices laid down in the market regulations (and linked to exchange parities). In consequence, grain imports from France in 1969 at DM 1.1 billion were DM 540 million, or almost 100 %, larger than a year before. The additional imports from France were partly at the expense of grain imports from other countries, German purchases from which decreased by DM 340 million or 29 %; but altogether far more grain was imported than necessary in the light of the German crops. Stocks of grain accordingly increased further, the government giving particular encouragement to stockpiling by the private sector (the so-called Intervention B procedure).

Larger deficit on services mainly due to ...

Inclusive of freight and insurance costs on goods imported by sea, Germany's external services account had a deficit of DM 4.8 billion in 1969 according to preliminary calculations. The deficit thus increased by a fifth on 1968, when it came to DM 4.0 billion, whereas it had declined sharply between 1966 and 1968. The fact that Germany again availed itself of foreign services on a larger scale in 1969 is due above all to economic conditions. This becomes especially clear if receipts from foreign troops and official German service transactions are omitted and attention is concentrated on Germany's *commercial service transactions* (see table on page 84). This shows that there was a record deficit of DM 10 billion (DM 1.4 billion more than in 1968) on commercial services in 1969. A major reason for this was that the deficit on foreign travel rose in 1969 by DM 1.0 billion to the

... steep rise in German spending on foreign travel

unprecedented total of DM 3.7 billion. Spending by German tourists and businessmen abroad went up by DM 1.4 billion to DM 7.7 billion in 1969. Relatively speaking, expenditure on foreign travel increased approximately twice as fast (22 %) as households' disposable income (10.6 %), the most important determinant of travel expenditure, so that the ratio of spending on foreign travel to disposable income rose from 1.9 % in 1968 to 2.1 % in 1969.[1] Germany's receipts from foreign visitors in 1969 went up by DM 400 million (or 11 %) to DM 4.0 billion, thus also setting up a new record.

In most of the other fields of commercial service transactions spending rose faster than receipts, in keeping with economic requirements. On commissions, advertising and trade fairs, which are closely related to the expansion of German visible

1 When determining expenditure on foreign travel — statistically a particularly difficult task — Deutsche Mark bank-notes returning from abroad are also taken into account. As such returns were especially large in the months following the revaluation, it seems likely that Deutsche Mark notes were hoarded abroad. If this hoarding started prior to 1969 (which is not out of the question), the foreign travel expenditure shown in the statistics for 1969 is to this extent too high, and that for previous years too low.

Data on foreign trade *

Item	1965	1966	1967	1968	1969	1966	1967	1968	1969
	Billions of DM					Change on preceding year in %			
Exports (f.o.b.) 1									
Industrial countries	55.1	61.8	66.2	77.1	88.7	+ 12.0	+ 7.2	+ 16.5	+ 15.0
EEC member countries	25.2	29.3	32.0	37.4	45.2	+ 16.1	+ 9.3	+ 16.7	+ 20.9
Belgium-Luxembourg	5.5	6.4	6.4	7.5	9.3	+ 15.5	+ 0.3	+ 15.6	+ 24.6
France	7.8	9.2	10.1	12.2	15.1	+ 18.3	+ 9.1	+ 21.8	+ 23.5
Italy	4.5	5.7	6.9	7.6	9.3	+ 25.8	+ 21.8	+ 9.8	+ 22.4
Netherlands	7.4	8.0	8.6	10.1	11.5	+ 8.4	+ 8.0	+ 17.2	+ 13.9
EFTA member countries	19.4	20.3	20.6	22.6	25.6	+ 5.0	+ 1.6	+ 9.5	+ 13.4
Denmark	2.3	2.3	2.4	2.4	2.8	+ 0.2	+ 1.9	+ 1.7	+ 13.6
United Kingdom	2.8	3.1	3.5	4.0	4.6	+ 11.6	+ 11.0	+ 16.0	+ 14.0
Norway	1.4	1.5	1.5	1.4	1.6	+ 8.7	— 2.3	— 3.5	+ 14.6
Austria	3.8	4.2	4.1	4.4	4.9	+ 11.1	— 2.9	+ 7.9	+ 9.9
Portugal	0.6	0.7	0.6	0.8	0.8	+ 7.6	— 6.0	+ 18.1	+ 12.8
Sweden	3.8	3.6	3.5	3.9	4.4	— 4.8	— 1.1	+ 8.9	+ 13.5
Switzerland	4.7	4.9	5.0	5.7	6.5	+ 4.8	+ 3.5	+ 13.2	+ 15.1
United States	5.7	7.2	7.9	10.8	10.6	+ 25.0	+ 9.5	+ 37.9	— 1.9
Other industrial countries	4.8	5.0	5.7	6.3	7.3	+ 3.5	+ 14.5	+ 10.4	+ 15.1
Developing countries	13.6	15.3	16.2	17.7	19.5	+ 12.5	+ 5.9	+ 9.0	+ 10.6
Socialist bloc	2.7	3.3	4.4	4.5	5.1	+ 23.6	+ 32.3	+ 3.1	+ 12.6
All countries 3	71.6	80.6	87.1	99.6	113.6	+ 12.5	+ 8.0	+ 14.4	+ 14.1
Imports (c.i.f.) 2									
Industrial countries	52.0	53.2	51.4	59.8	73.9	+ 2.3	— 3.4	+ 16.2	+ 23.7
EEC member countries	26.7	27.8	27.6	33.5	42.5	+ 4.2	— 0.5	+ 21.1	+ 26.8
Belgium-Luxembourg	5.4	5.6	5.4	6.8	9.0	+ 3.5	— 3.0	+ 25.1	+ 32.2
France	7.9	8.6	8.5	9.8	12.7	+ 9.9	— 1.5	+ 15.2	+ 29.9
Italy	6.6	6.7	6.4	8.1	9.5	+ 1.8	— 3.6	+ 25.3	+ 17.7
Netherlands	6.8	6.9	7.3	8.8	11.3	+ 0.6	+ 5.9	+ 21.1	+ 27.8
EFTA member countries	12.1	11.9	11.0	12.7	15.2	— 1.5	— 8.0	+ 15.2	+ 20.2
Denmark	1.5	1.4	1.2	1.2	1.5	— 7.8	— 14.5	+ 6.3	+ 17.8
United Kingdom	3.1	3.1	2.9	3.4	3.9	+ 0.4	— 7.1	+ 16.2	+ 14.8
Norway	0.9	0.9	0.9	1.1	1.3	+ 2.7	+ 7.3	+ 14.1	+ 25.4
Austria	1.7	1.7	1.5	1.8	2.2	— 1.0	— 12.8	+ 19.5	+ 24.0
Portugal	0.2	0.2	0.2	0.2	0.3	— 11.9	— 10.1	+ 5.9	+ 29.6
Sweden	2.5	2.4	2.2	2.5	2.9	— 3.3	— 9.3	+ 14.9	+ 16.4
Switzerland	2.2	2.2	2.1	2.5	3.1	+ 1.3	— 6.4	+ 17.5	+ 26.7
United States	9.2	9.2	8.6	8.8	10.2	— 0.2	— 6.8	+ 3.4	+ 15.9
Other industrial countries	4.0	4.3	4.2	4.8	6.0	+ 6.8	— 1.4	+ 13.1	+ 25.4
Developing countries	15.4	16.2	15.7	17.9	20.0	+ 5.1	— 3.4	+ 14.4	+ 11.6
Socialist bloc	2.9	3.2	3.0	3.4	4.0	+ 8.0	— 4.3	+ 13.1	+ 16.5
All countries 3	70.4	72.7	70.2	81.2	98.0	+ 3.2	— 3.4	+ 15.7	+ 20.7
Additional data on German foreign trade									
World exports in US $ bn	165.4	181.3	190.6	212.9	**e** 243	+ 9.6	+ 5.1	+ 11.7	**e** + 14
German exports as percentage of world exports	10.8	11.1	11.4	11.7	**e** 12.0	.	.	.	.
OECD member countries' exports	14.6	14.8	15.2	15.4	15.6	.	.	.	.
EEC member countries' exports	37.3	38.3	38.7	38.7	38.4	.	.	.	.
Exports as percentage of GNP (export ratio)	15.6	16.4	17.6	**p** 18.5	**p** 18.9	.	.	.	.
Imports (c.i.f.) as percentage of GNP (import ratio)	15.3	14.8	14.2	**p** 15.1	**p** 16.3	.	.	.	.

* According to figures from the official foreign trade statistics. — **1** By consumer countries. — **2** By producer countries. — **3** Including ships' and aircraft fuel and other supplies. — **p** Provisional. — **e** Estimated.

exports, Germany spent DM 2.3 billion net in 1969, or just on DM 300 million more than in 1968. Net expenditure on patents and licences rose by DM 130 million to DM 0.7 billion, and that on wages and salaries to frontier-crossing workers etc. (not to be confused with foreign workers' wage remittances, which appear under "transfer payments") at DM 0.6 billion net was DM 120 million higher than a year before.

Transportation account

However, the transportation and investment income accounts form significant exceptions to the trend for commercial service transactions to show a deficit. To take first the transportation account, which made up almost a third of Germany's total turnover in commercial service transactions in 1969, with receipts of DM 7.3 billion and expenditure of DM 7.9 billion, there was hardly any change in the deficit at DM 0.6 billion. Also in the case of sea freight, the most important item of the transportation account, net spending (DM 0.5 billion) was no greater than a year ago, although the volume of Germany's sea-borne imports in 1969 was approximately 20 % larger than in 1968. But the increase in overall imports by sea masks a certain shift towards areas nearer to Germany: sea-borne imports from the European area, for instance, grew by some 26 %, but those from North and South America or from the Middle and Far East went up by only 16 % and 8 % respectively. Other important factors were that even prior to the Deutsche Mark revaluation some freight rates were distinctly lower than a year before and that transport costs after the revaluation fell still further, since the Deutsche Mark equivalent of the tariffs, most of which are fixed in US dollars or pounds sterling, declined by the revaluation rate. Of course, these price and revaluation factors apply in principle to receipts from transport services as well, as German transport services abroad or in frontier-crossing sea and air traffic are usually offered at the dollar prices customary throughout the world. Obviously, however, there are a number of exceptions to this (e. g. transport services for foreigners within Germany). Moreover, the volume of German transportation for foreigners appears to have increased.

Investment income account

On the investment income account, which only a few years ago was burdening the balance of payments with particularly large sums, the deficit fell in 1969 by a further DM 300 million to a mere DM 550 million, although German payments of investment income to foreign countries went up by DM 460 million in 1969 to DM 4.0 billion. However, the increase in payments to foreign countries was greatly exceeded by the rise in German receipts from investment abroad: they grew in 1969 by DM 760 million, or almost 30 %, to nearly DM 3.5 billion. Apart from the high level of interest rates abroad, the increase was mainly due to the steep rise in German foreign investment, which, including the Bundesbank's interest-bearing monetary reserves, went up in 1969 alone by DM 18.5 billion, and between 1967 and 1969 by DM 53 billion (DM 41 billion of which is made up of long-term assets).[1] Specifically, the items that increased in 1969 were: interest receipts from lending, which the German banks had particularly intensified, by DM 250 million to DM 1.7 billion; interest on security holdings, also by DM 250 million to DM 0.6 billion; and the Bundesbank's investment income receipts from its monetary reserves, by DM 320 million to DM 1.1 billion. However, statistical returns covering income from foreign investment still contain only a small proportion of the income from direct investment abroad, since as a rule this is only reported when large-scale transfers take place, but not when such income is re-invested abroad. Accordingly, the investment income account was probably even more favourable than expressed in the statistics.

Receipts from foreign troops

If the increase in the deficit on commercial service transactions was not fully reflected in the services account as a whole, this is only because of the rise in the receipts accruing to Germany from allied troops stationed in its territory. These receipts totalled some DM 6 billion in 1969 — DM 600 million more than a year before. The strongest growth was in receipts from U.S. military agencies and the dependants of U.S. soldiers, namely by DM 480 million to DM 4.2 billion. As this rise exceeded the normal level of domestic purchases by the forces stationed here, it presumably owes something to advance payments and similar transactions

1 On the average of 1969 the Bundesbank's monetary reserves were higher than at the end of 1969, as the exodus of foreign exchange was concentrated in the final months of the year.

Chronicle of developments in foreign trade and payments since the autumn of 1968

Date	Event
Nov. 19, 1968	Statement of Federal Cabinet not to revalue Deutsche Mark; it decides on alteration of tax equalisation in border-crossing visible trade.
Nov. 20 to 22, 1968	Meeting of Ministers and Central Bank Governors of the countries of the Group of Ten at Bonn.
Dec. 1, 1968	Coming into force of Law to Safeguard the Economy against External Influences (tax of normally 4 % levied on exports from Nov. 29, tax relief of normally 4 % on imports from Nov. 20, EEC agricultural market-regulation products being excluded in either case); exemption of export deliveries under old contracts until Dec. 23, 1968.
Feb. 24, 1969	Removal of administrative restriction, introduced at end-November 1968, of German banks' financial transactions with foreigners.
March 18, 1969	In line with Federal Government's decisions to assure price stability additional import facilities are to be created for 1969.
April 28/ May 8, 1969	Bundesbank decides that calculation of 100 % minimum reserve against growth of banks' external liabilities, may, with effect from May 1969, be based on the key dates of either April 15 or 30.
May 7, 1969	At height of speculative inflow of foreign funds Bundesbank discontinues US dollar swap transactions with German banks since "roundabout" transactions are frequently concluded. Resumption of forward exchange rate covering on May 21.
May 9, 1969	Federal Cabinet decides once more not to revalue Deutsche Mark; to support the decision not to revalue it proposes various measures (i.a., dropping of time limit of March 31, 1970 in Law on Safeguards) on May 14.
May 22, 1969	Bundesbank raises minimum reserve ratios for total external liabilities by 50 % with effect from June 1.
June 30, 1969	In a special report Council of Economic Experts advocates alteration of Deutsche Mark par value.
July 17, 1969	EEC member countries agree upon joint consultations in the event of one member country having to make important short-term economic policy decisions.
July 28, 1969	Plan to create special drawing rights in IMF enters into force after three fifths of all IMF members representing four fifths of all votes have approved.
Aug. 10, 1969	Devaluation of French franc by about 11.1 %; supporting measures accompanying franc devaluation in the field of French monetary, price and fiscal policies.
Aug. 28, 1969	Bundesbank decides to grant exemption from minimum reserve requirement only for those external liabilities from interest-rate arbitrage dealings which are expressed in foreign currency and where the interest-rate arbitrage dealing is not associated with any Bundesbank swap transaction.
Sep. 24, 1969	At suggestion of Bundesbank, Federal and Länder Governments agree to close official foreign currency exchanges on Sep. 25/26 – the last two working days preceding the general election (Sep. 28) – to prevent further influx of speculative funds from abroad. Foreign currency exchanges remain closed on Sep. 29 as well.
Sep. 29, 1969	Caretaker government – requests Bundesbank at the Bank's suggestion temporarily to suspend its intervention in the foreign exchange market at the former upper and lower limits; – undertakes to ensure that German agriculture is not discriminated against by the floating of the DM.
Sep. 29, 1969	Bundesbank suspends swap transactions with domestic banks.
Sep. 30, 1969	First day without Bundesbank intervention in the spot market; dollar rate drops to DM 3.84 per US dollar.
Oct. 1, 1969	EEC Commission disapproves of levying an equalisation tax on agricultural imports as proposed by Federal Cabinet.
Oct. 8, 1969	In the light of German statements made in EEC Ministerial Council the Commission revises its decision of Oct. 1 and authorises the levying of a border tax on certain agricultural imports until the fixing of a new Deutsche Mark parity. Pursuant to a later decision these measures are extended until end-1969.
Oct. 11, 1969	Lowering of export tax and import subsidy to zero for the period Oct. 11 to Nov. 30.
Oct. 24, 1969	Fixing of new DM par value with effect from Oct. 27, 1969, 0.00 hrs CET, at DM 3.66 per US dollar; revaluation of Deutsche Mark by about 9.29 %. The last official middle rate for the dollar prior to revaluation (Oct. 24) was DM 3.7035 per US dollar. IMF concurs in new Deutsche Mark par value.
Oct. 30, 1969	By order of Federal Government Law on Safeguards is suspended sine die.
Nov. 6, 1969	Bundesbank decides, with effect from Nov. 1, 1969, to abandon minimum reserve against growth of liabilities to foreigners, to bring reserve ratios for liabilities to foreigners into line with the ratios applying to liabilities to residents, and to lower minimum reserve ratios throughout by 10 %.
Nov. 1969/ Jan. 1970	Owing to extensive outflow of foreign exchange Bundesbank mobilises part of its external assets resulting from credit assistance to foreign countries. This includes – calling on super gold tranche in IMF of US $ 540 million (DM 1,976 million) on Nov. 26, 1969; – mobilisation of Bundesbank credits to IMF, which the latter had previously received under the General Arrangements to Borrow (GAB) to finance British and French drawings, in the amount of US $ 550 million (DM 2,013 million) on December 9/10, 1969; – conversion of DM bonds of U.S. Treasury previously acquired into short-term paper totalling DM 2.8 billion; Bundesbank receives further large dollar amounts, partly as prepayments of swap credits granted to the French and British central banks.
Dec. 1/2, 1969	Meeting of heads of state or government of EEC member countries in The Hague. Decision to prepare graduated plan for establishment of an economic and monetary union and to examine possibility of forming a European reserve fund.
Dec. 9, 1969	Free gold price on the London market drops to US $ 35 per fine ounce.
Dec. 20, 1969	Lifting of ban on the paying of interest on balances of non-resident account-holders and of other restrictions on capital transactions.
Jan. 1, 1970	End of transition period and beginning of final phase of EEC common market. Third stage of tariff reductions by 20 % of total reductions agreed upon in the Kennedy Round of 1967.
Jan. 1, 1970	Following the decision taken at beginning of Oct. 1969 by IMF Board of Governors to allocate special drawing rights (SDR) totalling US $ 9.5 billion for a three-year period, SDRs worth US $ 3,414 million are granted for the first time. Participating IMF member countries receive 16.8 % of their respective IMF quotas as at end-December 1969. Germany is allotted US $ 201.6 million (DM 738 million). Further allocations of SDRs amounting to US $ 3.0 billion each will follow on Jan. 1, 1971 and Jan. 1, 1972.
Jan. 1, 1970	German border tax levied since the beginning of Oct. 1969 on the import of most EEC market-regulation products is cancelled and is replaced, to prevent agriculture from suffering income losses due to revaluation, by direct, in part jointly financed, subsidies and by favourable alteration of value-added tax.
March 6, 1970	Bundesbank decides, also in view of the deficit in the German basic balance of payments, to raise discount rate from 6 % to $7^1/_2$ % and advance rate from 9 % to $9^1/_2$ % with effect from March 9, 1970.

Principal items in service transactions and transfer payments (net)

Millions of DM

Item	1963	1964	1965	1966	1967	1968	1969
A. Services							
1. Commercial services							
Travel	— 1,926	— 1,982	— 2,550	— 3,066	— 2,727	— 2,697	— 3,658
Investment income	— 1,213	— 1,578	— 1,811	— 1,482	— 1,783	— 837	— 538
Transportation 1	— 805	— 1,099	— 748	— 515	— 517	— 646	— 594
Commissions, publicity and trade fairs	— 1,336	— 1,494	— 1,595	— 1,808	— 1,951	— 2,020	— 2,293
Other services	— 1,622	— 1,697	— 1,992	— 2,300	— 2,132	— 2,464	— 2,936
Balance	— 6,902	— 7,850	— 8,696	— 9,171	— 9,110	— 8,664	—10,019
2. Other service items							
Receipts from foreign troops	+ 4,244	+ 4,187	+ 4,124	+ 4,898	+ 5,241	+ 5,347	+ 5,963
of which:							
United States	+ 2,915	+ 2,824	+ 2,723	+ 3,241	+ 3,557	+ 3,700	+ 4,177
United Kingdom	+ 848	+ 853	+ 907	+ 953	+ 949	+ 946	+ 981
France	+ 256	+ 276	+ 277	+ 410	+ 386	+ 284	+ 343
Other countries	+ 225	+ 234	+ 217	+ 294	+ 349	+ 417	+ 462
Receipts and expenditure of German public authorities	— 477	— 418	— 678	— 721	— 840	— 650	— 707
Balance	+ 3,767	+ 3,769	+ 3,446	+ 4,177	+ 4,401	+ 4,697	+ 5,256
Services, total (1 plus 2)	— 3,135	— 4,081	— 5,250	— 4,994	— 4,709	— 3,967	— 4,763
B. Transfer payments (unilateral transfers)							
1. Official							
Indemnification	— 2,536	— 2,115	— 2,235	— 1,663	— 1,674	— 1,770	— 1,487
Subscription payments to European communities	— 127	— 144	— 162	— 233	— 484	— 1,148	— 1,460
of which: to the EEC Agricultural Fund	(—)	(—)	(— 10)	(— 41)	(— 197)	(— 856)	(— 1,146)
Other payments	— 611	— 886	— 1,068	— 975	— 1,157	— 1,223	— 1,415
Balance	— 3,274	— 3,145	— 3,465	— 2,871	— 3,315	— 4,141	— 4,362
2. Private							
Wage remittances by foreign workers **2**	— 1,222	— 1,561	— 2,193	— 2,529	— 2,162	— 2,153	— 2,742
to: Italy	— 568	— 630	— 858	— 962	— 810	— 813	— 953
Greece	— 173	— 253	— 347	— 385	— 370	— 302	— 364
Spain	— 244	— 325	— 440	— 463	— 325	— 299	— 365
Turkey	— 78	— 150	— 280	— 360	— 304	— 337	— 421
Yugoslavia	— 80	— 104	— 131	— 191	— 197	— 239	— 460
Portugal	— 5	— 10	— 31	— 56	— 52	— 57	— 72
Other countries	— 74	— 89	— 106	— 112	— 104	— 106	— 107
Other payments	— 571	— 616	— 762	— 924	— 957	— 1,021	— 1,056
Balance	— 1,793	— 2,177	— 2,955	— 3,453	— 3,119	— 3,174	— 3,798
Transfer payments, total (1 plus 2)	— 5,067	— 5,322	— 6,420	— 6,324	— 6,434	— 7,315	— 8,160

1 Including freight and insurance cost payments to foreigners in connection with overseas visible imports, contained in the c.i.f. import value. — **2** Estimated.

prior to the alteration of the Deutsche Mark exchange rate. As a result, certain economies, compared with the amounts normally paid, may be expected for 1970. To compensate in foreign exchange terms for this expenditure by the forces stationed in Germany, new foreign exchange offset agreements with the United States und the United Kingdom were signed in 1969. The agreement reached with the United States in July 1969, covering the period up to June 1971, provides for German payments totalling DM 6.08 billion. In the Anglo-German agreement of September 1969 current payments of DM 1,020 million and a long-term loan of DM 500 million were arranged, likewise for a two-year period.

Deficit on transfer payments continues to grow

The deficit on transfer payments rose in 1969 by DM 850 million to DM 8.2 billion. The main reason for the increase was that, on the average of 1969 as a whole, the number of foreigners employed in Germany went up by a third to nearly 1.4 million (about 6 % of all wage and salary earners), so that wage remittances by these workers soared by DM 600 million to DM 2.7 billion according to preliminary calculations. Over a third of these remittances were to Italy (DM 1.0 billion). There was also an increase in the sums made available by the Federal Government to the EEC Agricultural Fund; they came to DM 1.1 billion net in 1969, and thus to DM 290 million more than a year previously. Finally, pension payments abroad by the public authorities and technical aid to developing countries also went up further, by DM 200 million altogether to DM 1.2 billion. Indemnification payments, on the other hand, decreased from DM 1.8 billion in 1968 to DM 1.5 billion in 1969; thus these official transfers are only about half as large as at the beginning of the sixties, when, in addition to the payments to individual beneficiaries, large sums were still being paid under the terms of indemnification agreements with a number of countries, particularly Israel.

Current account

Altogether, the deficits on transfer payments and services totalling DM 13 billion absorbed about two thirds of the foreign trade surplus, which came to DM 20 billion if imports and exports are calculated f.o.b. As no doubt emerged from the above analysis, the relationship between these accounts is close: one need only think of the interlocking between the exchange of goods and transportation, or between the real possibilities of increasing exports and the necessity of employing more and more foreigners in Germany who regularly transfer part of their incomes abroad. This also illustrates the fact that, particularly in the case of Germany, it is not sufficient solely to consider the surpluses on visible trade or on visible trade and services together (the so-called external surplus) and that this can easily lead to erroneous conclusions for the economy as a whole. On an overall view what matters much more is the balance on current account, for it is only to this extent that Germany can acquire net claims on the rest of the world; in 1969 this balance came to DM 7.1 billion, as against DM 11.4 billion in 1968. The trend of long-term capital exports contrasted ever more sharply with this decline, which, even though partly due to special factors, was fully in keeping with economic conditions.

(b) Long-term capital transactions

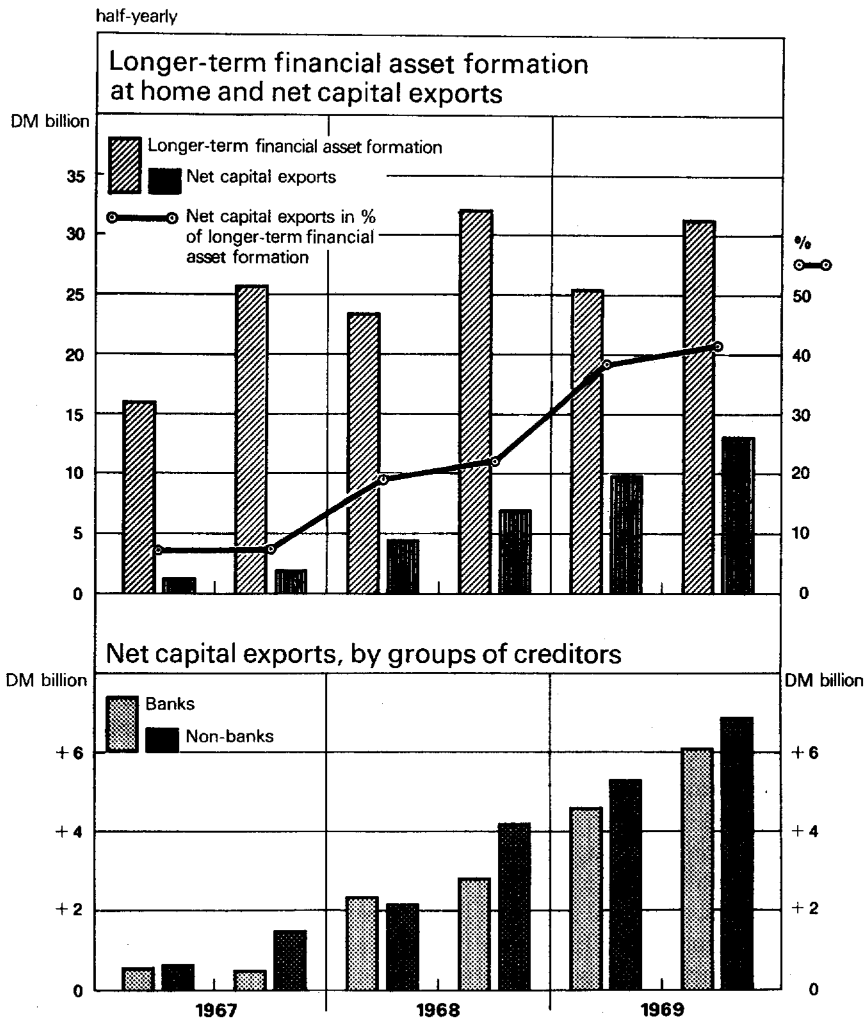
Exceptional expansion of long-term capital exports

Germany's overall net long-term capital exports reached the extremely high level of DM 23 billion in 1969. This means that capital exports again doubled compared with the previous year, when they rose to DM 11.5 billion (which in itself was regarded as an exceptional sum), and the Federal Republic of Germany became by far the biggest exporter of long-term capital in the world. Expressed at the parity in force at the time, capital exports in 1969 came to approximately $ 6 billion, as against net long-term capital exports by the United States in that year of some $ 3 billion.[1] This comparison with the country which, by tradition, has always been the biggest exporter of capital shows that Germany has come into a position that is out of all proportion to its long-term capabilities, and this fact becomes even more apparent if capital exports are related to longer-term financial asset formation; as already mentioned, in 1969 such exports were equivalent to two fifths of longer-term financial asset formation in Germany.

German capital exports would not have reached such an extremely high level if the German banking system and trade and industry had not become excessively liquid owing to the expectation of revaluation and the influx of foreign money it precipitated. It hardly needs explaining that without such a glut of liquidity the export of DM 23 billion of long-term capital would have made undue inroads into the capital needs of domestic trade and industry and would to this extent have been a misdirection of capital. In fact, as explained in detail elsewhere in this Report, domestic capital investment too reached a record level in 1969 and was in no way hampered by problems of finance. A further outcome of the expectation of revaluation was that German interest rates remained substantially below those of other countries. Particularly in the period prior to the alteration of the Deutsche Mark parity interest rates on the credit and bond markets of the most important countries and on the Euro-bond market were far higher than in Germany. This state of affairs was hardly changed by the fact that the domestic yield level rose by 0.7 percentage points between the beginning of the year and September 1969, since interest rates abroad also went up. When taking up loans in Germany foreign borrowers had to consider that a possible revaluation of the Deutsche Mark would increase the amount of the debt in terms of their own currencies, but the German capital market was virtually the only large national capital market that was free from all official or other control, so that in many cases borrowers had no alternative. In addition, the interest rate compensatory mechanism that usually comes

1 Italy's net long-term capital exports were also exceptionally high in 1969, but not only the interest rate and liquidity differential but also the flight of capital played a part in this, so that in February 1970 the Italian monetary authorities were obliged to impose certain administrative restrictions, particularly in the settlement of Lira notes returning from abroad.

Long-term capital exports



into play when demand is heavy was largely paralysed by the sustained short-term inflows of money into Germany from abroad. Normally, heavy demand for capital, including that from abroad, raises the level of domestic interest rates, thus automatically damping down further demand (this is shown clearly by the trend, unaffected by speculative elements, after the revaluation of the Deutsche Mark), but in the period before revaluation this effect did not occur, since, owing to the simultaneous speculative influx of short-term capital from abroad domestic banks and non-banks did not feel the loss of liquidity which always accompanies exports of capital. The fact that these normal interest rate and liquidity reactions failed to take place had the unfortunate outcome that the most important capital exporters could delude themselves into hoping that this state of affairs could be continued for a long time without painful consequences. However, the real position became apparent with brutal suddenness after revaluation, though capital exports could not be drastically cut back at once owing to the heavy lending and issuing commitments already entered into.

Private capital exports

The great extent to which Germany's capital exports were determined by the prolonged interest rate differential and the abundant liquidity is shown by a further breakdown of private capital transactions, i.e. those of banks, enterprises, and individuals. New German private capital investment abroad totalled DM 21.8 billion in 1969 as against DM 11.8 billion in 1968. There was a sharp increase in portfolio buying of foreign securities, which is always sensitive to changes in interest rates. In 1969 it came to DM 9.3 billion and thus almost DM 4 billion more than in 1968, and was made up for the most part of purchases of Deutsche Mark bonds issued by foreign borrowers. On balance, domestic enterprises and individuals acquired DM 3.2 billion of Deutsche Mark bonds of foreign issuers in 1969 (compared with DM 2.2 billion in 1968), and banks purchased DM 1.0 billion of such paper (as against DM 1.5 billion in 1968). Details of capital procurement by issuing Deutsche Mark bonds and other foreign bonds were given on page 62. Purchases of foreign shares (excluding the acquisition of permanent interests), at DM 1.9 billion, were no less than three times as high as in the previous year, and net purchases of foreign investment fund units, which a few years ago were only an insignificant item among capital transactions, went up from some DM 950 million in 1968 to DM 2.1 billion last year. Undoubtedly, however, certain extraneous factors had a bearing on the purchase of foreign equities, in that the supply of equities of domestic issuers was relatively small (see also the analysis of the German capital market, particularly page 64).

The second large group of private long-term investments abroad largely attributable to interest rate considerations consists of advances and loans to foreign countries. In 1969 they amounted to DM 10.0 billion, which was more than twice as much as in 1968. These loans were provided almost entirely by the German banking system. Practically half the 1969 total was lent in the last quarter of the year; foreign borrowers were apparently eager for the commitments made to them to be fulfilled as quickly as possible in view of the steep increase in interest rates in Germany. The contracts on which these loans were based were no doubt largely signed prior to the revaluation.

German direct investment abroad, the dominant feature of which was longer-term planning in connection with interests, acquisition of property, and continuation of new investment previously begun, grew relatively little in 1969; at DM 2.1 billion it was only DM 0.5 billion larger than in 1968. It must however be noted here that these figures certainly show the actual increase in assets at too low a level, since reinvestment of profits from German interests abroad is frequently not reported.

Small private capital imports

Private capital investment in Germany by foreigners increased by a mere DM 630 million in 1969, compared with DM 1.7 billion in 1968. Three or four years ago it had increased by DM 4 to 4.5 billion a year. The 1969 growth was the lowest since 1958. The principal item of private capital imports was foreign direct investment in Germany; it amounted to over DM 1.2 billion in 1969, which was however about DM 250 million less than in the previous year. Compared with 1965 and 1966, when above all large U.S. direct investment was of significance, foreign direct investment in 1969 dropped to no more than a third. Foreign portfolio investment in Germany and lending to German residents — just like the corresponding German investment abroad — seem to have been heavily affected by the interest rate differential. From the beginning of 1969 onwards, foreigners sold German securities almost without a break, even if to begin with in relatively small amounts. After the revaluation however, there was a massive return flow of German paper from other countries, since no one could now expect further exchange profits, which not infrequently may have persuaded holders of German instruments to retain them despite their relatively low rate of interest. In the fourth quarter of 1969 capital outflows totalling over DM 0.9 billion resulted from these transactions and the efflux over the whole year came to DM 1.2 billion. In the first three quarters of 1969 long-term foreign lending to Germany increased considerably, against the interest rate and liquidity differential (this appears to have owed much to the lenders' wish to acquire Deutsche Mark assets), but after the revaluation there was a complete reversal in this trend. The process of repaying loans by German residents had not been completed by the end of 1969, so that for the year as a whole net borrowing abroad amounted to DM 0.7 billion.

Official long-term capital exports

Official long-term capital transactions, which are autonomous in the sense that interest is only a secondary consideration in the mind of the lender, resulted in an outflow of DM 1.8 billion in 1969. The increase on the previous year, when official capital exports came to DM 1.4 billion, was due to the fact that in 1969 the Federal Government granted the United Kingdom DM 500 million and the United States DM 277 million of longer-term loans under the terms of the foreign exchange

Long-term capital transactions, by domestic sectors

Millions of DM

Item	1968 German investment abroad 3	1968 Foreign investment in Germany 4	1968 Net capital exports (—) or imports (+)	1969 German investment abroad 3	1969 Foreign investment in Germany 4	1969 Net capital exports (—) or imports (+)
1. Banks						
Direct investment	— 176	+ 46	— 130	— 60	+ 43	— 17
Portfolio investment	— 1,727	.	— 1,727	— 1,663	.	— 1,663
Foreign DM bonds	— 1,468	—	— 1,468	— 1,044	—	— 1,044
Other bonds	— 156	.	— 156	— 301	.	— 301
Shares	— 103	. (Shares and Investment fund units)	— 103 (Shares and Investment fund units)	— 288	. (Shares and Investment fund units)	— 318 (Shares and Investment fund units)
Investment fund units	.			— 30		
Advances and loans	— 3,885	+ 586	— 3,299	— 9,410	+ 306	— 9,104
Other	—	—	—	—	—	—
Total	— 5,788	+ 632	— 5,156	—11,133	+ 349	—10,784
2. Enterprises and households						
Direct investment	— 1,418	+ 1,437	+ 19	— 2,083	+ 1,189	— 894
Portfolio investment 1	— 3,900	+ 13	— 3,887	— 7,648	— 1,208	— 8,856
Foreign DM bonds	— 2,228	—	— 2,228	— 3,171	—	— 3,171
Other bonds	— 251	— 151	— 402	— 798	— 953	— 1,751
Shares	— 473	+ 164 (Shares and Investment fund units)	— 1,257 (Shares and Investment fund units)	— 1,573	— 255 (Shares and Investment fund units)	— 3,934 (Shares and Investment fund units)
Investment fund units	— 948			— 2,106		
Advances and loans	— 508	— 266	— 774	— 542	+ 402	— 140
Other	— 224	— 135	— 359	— 363	— 99	— 462
Total	— 6,050	+ 1,049	— 5,001	—10,636	+ 284	—10,352
3. Public authorities						
Loans to developing countries	— 1,341	—	— 1,341	— 1,002	—	— 1,002
Loans to United States and United Kingdom 2	—	—	—	— 777	—	— 777
Other	+ 24	— 49	— 25	+ 39	— 99	— 60
Total	— 1,317	— 49	— 1,366	— 1,740	— 99	— 1,839
4. Total long-term capital transactions (1 plus 2 plus 3)	—13,155	+ 1,632	—11,523	—23,509	+ 534	—22,975

1 Figures on German securities contain transactions in paper of all private and public issuers. — 2 Loans under the foreign exchange offset agreements. — 3 Increase: —, decrease: +. — 4 Increase: +, decrease: —.

offset agreements signed with these countries. In terms of the amount, however, the bulk of official capital exports was accounted for by loans to developing countries (DM 1.0 billion). Germany's total development aid was, of course, on a much larger scale. Under the customary international definition, which takes into account expenditure on technical aid and certain private capital payments in addition to official financial loans, Germany spent DM 8.89 billion on development aid in 1969 according to preliminary calculations (compared with DM 6.65 billion in the previous year); this figure is equivalent to 1.48 % of the gross national product or 1.94 % of the national income.

Regional distribution of capital exports

Virtually all major countries and areas benefited by the increase in overall net private and official capital exports from DM 11.5 billion in 1968 to DM 23.0 billion in 1969. The biggest expansion, however, was in long-term capital exports to North America: DM 3.9 billion (as against DM 1.5 billion in 1968) went to the United States, and DM 2.3 billion (compared with DM 1.1 billion in 1968) to Canada. Germany's net capital exports to the EFTA countries grew from DM 2.0 billion to DM 4.3 billion, DM 1.4 billion of which was to the United Kingdom and DM 1.6 billion to Switzerland. The EEC member countries received some DM 4.2 billion in 1969 as against DM 1.9 billion the year before. Japan took DM 700 million of long-term funds in 1969, which was about DM 200 million more than in 1968. There was a very substantial increase in net direct private and official capital exports to the developing countries; including capital exports to countries and areas that are particularly attractive from the taxation point of view, many of which act merely as distribution centres in international capital transactions, such exports went up by DM 2.5 billion to DM 5.1 billion. Finally, international organisations that make available to developing countries the bulk of the funds procured at long term received DM 1.3 billion, which was likewise more than in the previous year (DM 1.0 billion). The expansion of capital exports channelled directly and indirectly (via the international organisations) to developing countries was chiefly in the private, i.e. commercial, sphere; thus it came about without government subsidies, despite the high interest rates.

(c) Short-term capital transactions

Sharp fluctuation in short-term capital transactions

Short-term capital transactions in 1969 were marked by large influxes of money into Germany prior to the revaluation and a substantial reflux afterwards. At the latest with the conference of the Group of Ten in Bonn in November 1968 changing the parity of the Deutsche Mark had become a live issue. It was therefore not surprising that investors within Germany and abroad prepared themselves more and more for a change in parity. The striking feature was that enterprises, especially international combines, undertook financial transactions on a scale that had previously been practised only among banks, if at all. As shown by the table on page 77 and the chart overleaf, trade and industry received some DM 16 billion direct from abroad in the first three quarters of 1969. The greater part of these funds flowed into Germany through shifts in commercial credits. Judging by the balancing item of the balance of payments, which is indicative of such changes in the terms of payment, this factor alone accounted for some DM 11 billion. German exporters received advance payments for future deliveries, were paid faster than before for goods already dispatched, and took up loans in foreign currencies to cover the exchange risk of external assets. German importers, on the other hand, delayed the settlement of external liabilities in foreign currencies. On top of this there were "financial loans"; reporting enterprises in Germany received over DM 5 billion net of such loans outside their normal trading. The German enterprises undertook to repay approximately four fifths of this inflow in Deutsche Mark. This suggests that these transactions were designed not so much to provide foreign exchange cover as to enable foreign creditors to gain exchange profits by the transfer of liquid funds. Understandably, such transactions were mainly internal, between the foreign parent companies and their subsidiaries in Germany, as in this case the question of soundness did not arise and interest rate differences were not the decisive factor.

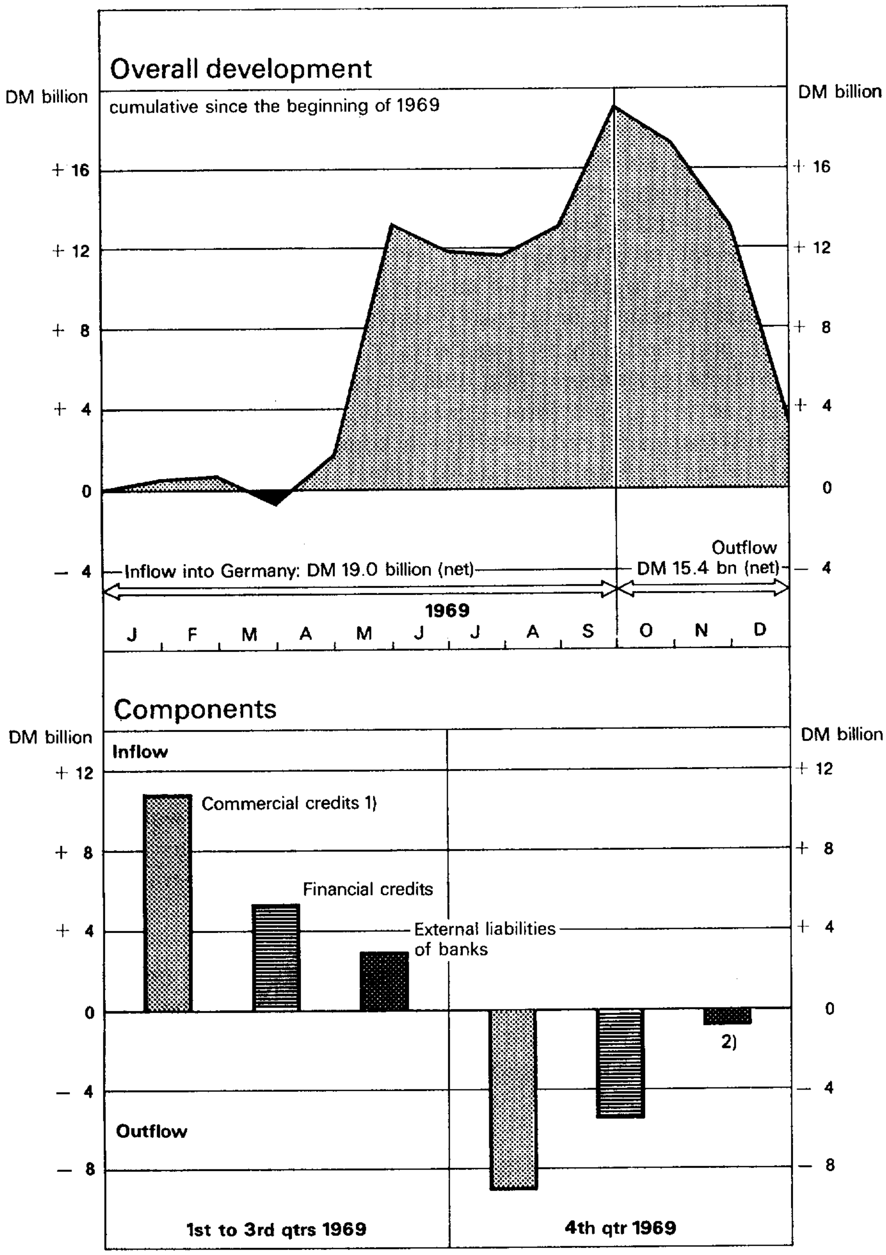
The banks' foreign liabilities, too, increased by DM 2.9 billion between January and September 1969, partly as a result of speculative inflows. The influx would no doubt have been greater still had not the Bundesbank imposed a minimum reserve requirement of 100 % on additions to external liabilities, thus making such funds unattractive to German banks.

After the Deutsche Mark was floated, and particularly after the adoption of the new parity, the foreign funds flowed out rapidly. Due to the normalisation of the terms of payment some DM 9.5 billion left Germany between October and December 1969, together with a further DM 5.5 billion through net repayments of financial loans. But only DM 0.8 billion was withdrawn or used for payments at home by the German banks in October and November. Disregarding the renewed growth of the banks' foreign liabilities in December (DM 4.8 billion) – growth caused principally by borrowing from foreign banks to ease the strain on liquidity – about DM 15.5 billion of the speculative inflows into Germany during the first three quarters of 1969, which amounted in all to about DM 19 billion, had drained off again by the end of the year.

Banks' external assets

The movement of banks' short-term external assets in 1969 was heavily affected by the Bundesbank's swap policies. During the monetary crisis, i.e. particularly in May and September 1969, the Bank constantly strove to channel the funds pouring into Germany back on to the money markets abroad by flexible use of this tool, but its endeavours were not always wholly successful. As a legacy of the crisis of November 1968, the Bundesbank started 1969 with a swap commitment of just on DM 8 billion; in other words, this was the extent to which it had relieved the banks of the exchange rate risk at costs which were lower than those of the market. At the beginning of 1969 the foreign exchange that had entered Germany in the previous autumn had not yet all flowed out and in consequence the Bank contin-

Short-term capital movements before and after the DM revaluation



1) Measured by "Balancing item of the balance of payments".- 2) Excluding December 1969, during which external liabilities of banks increased owing to shortage of liquid funds.

ued to increase its swap commitment for a time, thus encouraging the banks to export money; but from mid-January 1969 it reduced its commitment. The German banks repatriated some of their foreign investments. By mid-April 1969 the Bundesbank's swap commitment, at roughly DM 2 billion, was DM 8.5 billion lower than three months before, but at the same time the banks' short-term external assets fell by only DM 4 billion. One conclusion to be drawn from this is that the net effect of the preceding swap transactions on money exports was far smaller than might have been supposed from the increase in the Bundesbank's swap commitment.

In late April and early May 1969 the picture underwent a further change. The new international monetary crisis entailed the largest influx of foreign exchange into Germany ever recorded up to then. Once more, the Bundesbank attempted to recycle at least some of the foreign funds but the success of its swap policy was impaired even more than before by side-effects. The Bundesbank's swap commitment grew between the end of April and the beginning of June by almost DM 5 billion to over DM 7 billion, but the banks' external assets increased by only DM 2.5 billion. During this period the Bank found more clearly than ever that the relatively cheap forward exchange cover it offered was being misused by the combination of interest rate arbitrage and Bundesbank swap transactions to carry on "roundabout transactions", by which it was possible to obtain interest rate profits without using additional funds; as a result the Bank withdrew temporarily from the market. To preclude further misuse once the swap policy was resumed (particularly in September it again led to an appreciable increase in the swap commitment) the Central Bank Council decided at the end of August 1969 to exempt external liabilities arising from interest rate arbitrage transactions from the minimum reserve requirement only if they were liabilities in foreign currencies and if the interest rate arbitrage transaction was not associated with a Bundesbank swap transaction.

Since September 29, when the Deutsche Mark was floated, the Bundesbank has entered into no new swap contracts with German banks; contracts in the amount of DM 5.8 billion, the revaluation loss on which had to be borne by the Bundesbank, were still outstanding at the end of September, but had been settled by the end of the year. Nevertheless, despite the steady decline in the banks' total liquid reserves, they maintained their foreign investment at the level of the end of September, apart from largely seasonal fluctuations; one of the reasons was apparently that the net yields attainable on international money markets were higher than interest rates in Germany. Since mid-January 1970 there have however been repatriations, though on a comparatively small scale so far.

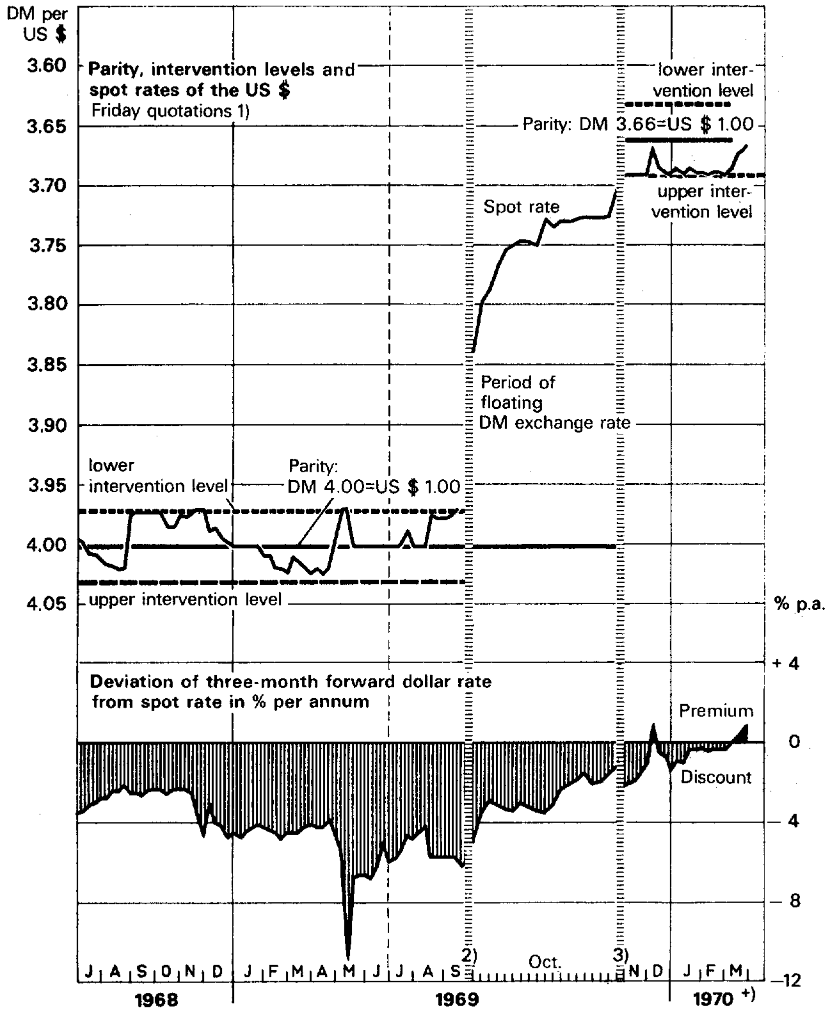
Monetary reserves of the Deutsche Bundesbank (including German reserve position in IMF and special drawing rights)

Millions of DM

Item	Holdings				Change			
					1969			
						Sep. 30 to Dec. 31	Total	
	Dec. 31, 1968	Sep. 29, 1969 1	Dec. 31, 1969	March 31, 1970	Jan. 1 to Sep. 29	excl. change in value due to revaluation 2		1st qtr 1970
Gold holdings	18,156	18,388	14,931	14,929	+ 232	— 1,894	— 1,662	— 2
Freely usable or easily mobilisable assets in US dollars 3	8,561	16,918	2,239	7,459	+ 8,357	—13,336	— 4,979	+ 5,220
Assets in other freely convertible currencies 4	2,114	3,497	3,615	516	+ 1,383	+ 134	+ 1,517	— 3,099
German reserve position in IMF and special drawing rights	6,061	5,855	1,105	1,916	— 206	— 4,249	— 4,455	+ 811
(a) Special drawing rights	(—)	(—)	(—)	(811)	(—)	(—)	(—)	(+ 811)
(b) Automatic drawing rights under the quota	(3,979)	(3,655)	(1,105)	(1,105)	(— 324)	(— 2,236)	(— 2,560)	(—)
(c) GAB credits 5	(2,082)	(2,200)	(—)	(—)	(+ 118)	(— 2,013)	(— 1,895)	(—)
DM bonds of U.S. Treasury	4,700	4,800	4,000	2,000	+ 100	— 800	— 700	— 2,000
(a) short-term	(1,200)	(800)	(—)	(—)	(— 400)	(— 800)	(— 1,200)	(—)
(b) medium-term 6	(3,500)	(4,000)	(4,000)	(2,000)	(+ 500)	(—)	(+ 500)	(— 2,000)
IBRD debt certificates	1,650	1,585	1,548	1,722	— 65	—	— 65	+ 174
Other external assets of limited usability 7	443	355	355	355	— 88	—	— 88	—
External liabilities (decrease: +)	288	867	344	378	— 579	+ 722	+ 143	— 34
Total reserves (net)	41,397	50,531	27,449	28,519	+ 9,134	—19,423	—10,289	+ 1,070

1 Latest position before the floating of the Deutsche Mark, valued at former parity. — 2 The revaluation loss suffered by the Bundesbank on the occasion of the 9.3 % revaluation of the Deutsche Mark on October 27, 1969 amounted to DM 4,099 million. — 3 Including US $ loans to European central banks. — 4 Including swap credits granted to Banque de France and Bank of England. — 5 Claims of Bundesbank on IMF in respect of credits granted under the "General Arrangements to Borrow". — 6 These bonds were taken over by the Bundesbank under the foreign exchange offset agreement with the United States. — 7 Bilateral claims from former credits to the European Payments Union and medium-term DM bonds of the U.K. Treasury.

Foreign exchange quotations



1) For the period of floating DM rate daily quotations.- 2) Currency exchanges closed on September 25, 26, and 29, 1969; DM floated from September 30, 1969.- 3) New DM parity with effect from October 27, 1969.- +) Latest position: March 26, 1970.

(d) Net movement of foreign exchange

Changes in central monetary reserves before and after revaluation

The changes in the Bundesbank's central monetary reserves accurately reflect the ups and downs of external payments and the resultant problems in 1969. As during the crisis of November 1968, at the critical phases of spring and autumn 1969 the Bundesbank endeavoured to afford balance-of-payments assistance in the most varied forms to the countries badly hit by the outflows of foreign exchange. In particular, it granted swap credits to foreign central banks and transferred dollar balances from the United States to Europe. Of the increase of DM 9.1 billion — to a total of some DM 50.5 billion on September 29, 1969 — in central monetary reserves prior to the floating of the Deutsche Mark, DM 2.5 billion was used for granting assistance credits to other central banks and for other financing measures. The turn-round in foreign exchange flows after revaluation, which reduced the Bundesbank's reserves by more than the freely usable dollar balances held at the end of September 1969, bore witness to the high degree of liquidity of these commitments, which amounted to approximately DM 12.5 billion at the end of September 1969. Most of them were dissolved within a short time since the debtor countries could meet their obligations to the Bundesbank without difficulty, and even in some cases prematurely, owing to the improvement of their foreign exchange positions. By calling monetary reserves lent temporarily to the IMF (not, that is, by borrowing) the Bank increased its dollar balances by DM 4 billion or US $ 1,090 million: US $ 540 million through drawing on the so-called super gold tranche and US $ 550 million through the mobilisation of claims on the IMF originating from previous lending in favour of France and the United Kingdom under the General Arrangements to Borrow. The Bundesbank also received substantial amounts of dollars through repayments by the British and French central banks of previously granted bilateral assistance credits. Finally, the Bundesbank also obtained liquid dollar balances by converting DM 2.8 billion of previously acquired U.S. Treasury Deutsche Mark bonds into short-term paper, in accordance with the terms of the agreement, and by selling gold to the value of US $ 500 million to the U.S. Treasury at the turn of 1969/70.

The precipitous fall in central monetary reserves after revaluation made plain in what large measure the Bundesbank's gold and foreign exchange holdings, which soared to over DM 50 billion at the end of September 1969, were not "earned" but "borrowed" international liquidity, that is, liquidity based on short-term indebtedness abroad. Apart from the book loss of about DM 4 billion occasioned by the new valuation of the Bundesbank's gold and foreign exchange positions, the central monetary reserves decreased by DM 19.5 billion to DM 27.5 billion between September 30 and December 31, 1969. More recent changes in Germany's monetary reserves were described at the beginning of this section (page 76).

Bank supervision and monetary and foreign exchange policy regulations of the Deutsche Bundesbank

I. The Deutsche Bundesbank's cooperation in bank supervision

Law on the Sale of Foreign Investment Fund Units, on the Taxation of Earnings therefrom and on the Amendment of the Law on Investment Companies

In 1969 the

> Law on the Sale of Foreign Investment Fund Units, on the Taxation of Earnings therefrom and on the Amendment of the Law on Investment Companies of July 28, 1969 (Federal Law Gazette I, page 986 ff.)

was passed.

The first part of the Law, dealing with foreign investment companies, made the public sale of foreign investment fund units subject to certain requirements, and it is the responsibility of the Federal Banking Supervisory Office to see to it that they are met. The second part of the Law amended the Law on Investment Companies of April 16, 1957 (Federal Law Gazette I, page 378). One of the new provisions is that the term "investment company" within the meaning of Article 1 of the Investment Law comprises also those that invest funds deposited with them in real estate and heritable building rights in accordance with the principle of spreading the risks (open real-estate funds) and thus are subject to bank supervision in accordance with Article 1, para. 1, item 6 of the Banking Law. The Deutsche Bundesbank participated in preparing the bill.

Forms and rules for the preparation of the annual accounts of banks and mortgage banks under public law

The supervisory authorities of the Länder issued in 1969, for the banks and mortgage banks coming within their province, provisions on the forms for the breakdown of annual accounts and rules for the preparation of the annual balance sheets and profit and loss accounts that are largely identical as to their contents and tally in all essential points with the corresponding provisions for banks in the legal form of public limited companies or for mortgage banks. The Federal Banking Supervisory Office, together with the Deutsche Bundesbank, cooperated in an advisory capacity in drawing up these provisions.

The Federal Banking Supervisory Office, in agreement with the relevant Federal Ministries, has recommended the banks and mortgage banks under public law which come under the supervision of the Federal Government to use these forms and rules for balance sheets for the first time when drawing up the annual accounts for 1969.

Regulation to amend the rules for forms to be used for the annual accounts

The regulation concerning forms for the breakdown of annual accounts of banks of December 20, 1967 (Federal Law Gazette I, page 1300) and the regulation concerning forms for the breakdown of annual accounts of mortgage banks and ship mortgage banks of December 17, 1968 (Federal Law Gazette I, page 1337) have been slightly altered by the

> Regulation to amend the provisions regarding forms for the breakdown of the annual accounts of banks and the annual accounts of mortgage banks and ship mortgage banks of May 27, 1969 (Federal Law Gazette I, page 444)

of the Federal Minister of Justice. Among other things, this amendment took into account the desire of the banks, supported by the Deutsche Bundesbank, to show "sight liabilities arising from banking transactions with other creditors" separately in the annual accounts.

Principles concerning capital resources and liquidity of banks

At the time the new principles concerning capital resources and liquidity of banks were published in January 1969, the Federal Banking Supervisory Office announced that it might revise once more or change Principle III as soon as further facts had come to light from the information supplied by the banks in the monthly balance sheet statistics in accordance with the new breakdown. Furthermore, the Federal Banking Supervisory Office announced it might also include the other principles in this revision to the extent that the effects of the new regulations or other reasons should occasion it to do so.

Work with this end in view started in 1969 but has not yet been completed. The principles at present in force are as follows:

Announcement No. 1/69
on the principles concerning the capital resources and liquidity of banks

dated January 20, 1969

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

(2) Whenever a bank exceeds the upper limits laid down in the principles to a more than insignificant extent, or repeatedly, grounds shall as a rule exist for presuming that the said bank 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 bank'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 sales financing institutions, and banks exclusively transacting banking business within the meaning of Article 1, para. 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, para. 1 of the Mortgage Bank Law, to ship mortgage banks, central security depositories, and investment companies.

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

Principle I

(1) A bank's lending and participations less valuation reserves and less transitory items on the liabilities side from assigning to the proper business years the fees concerning instalment sales 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 banks and on clients (including trade receivables in the case of banks 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 para. 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, para. 2, items 1 and 4 of the Banking Law or against ship mortgages of a similar nature,

2. Claims on clients in accordance with para. 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 para. 1, sentence 2, item 3 (c),

4. Credits to foreign banks in accordance with para. 1, sentence 2.

(3) Credits to domestic banks under para. 1, sentence 2 (including domestic branches of foreign enterprises within the meaning of Article 53 of the Banking Law and of such banks 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 banks) and to a Special Fund of the Federal Government shall be left out of account when calculating the credit volume.

Principle II

A bank's investment less valuation reserves in

1. Claims on banks 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 banks 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 banks 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 banks 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 outstanding,

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

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

shall not, valuation reserves having been deducted, exceed the total of the following financial resources.

Financial resources shall be deemed to include:

1. 35 % of liabilities towards banks 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 banks 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 banks trading in commodities, as 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 und 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, January 20, 1969

The Federal Banking
Supervisory Office

Kalkstein

Securing deposits

The work started in the Federal Ministry of Economics at the end of 1968 to improve the security of deposits was continued, with the relevant central associations of banks, the Federal Banking Supervisory Office and the Deutsche Bundesbank cooperating. No legislation has so far been passed. The central associations, however, have largely met the concepts of the Federal Government concerning better protection of depositors and have voluntarily improved existing arrangements or created new ones. Such banks as have not so far joined in any arrangement to protect deposits or groups of institutions that are unable to provide security arrangements of their own for lack of a sufficient spread of risks may participate in the arrangements made by the other groups of institutions. The legal claim of creditors on the security funds, however, which the Federal Government deems to be necessary has not so far been realised.

Cooperation in regular bank supervision

In the course of the regular supervision of banks the Land Central Banks, enlisting the services of their branches, processed in 1969 some 37,000 (31,000 in 1968) individual reports on large-scale credits under Article 13, para. 1, sentences 1 and 2 of the Banking Law and summaries under Article 13, para. 1, sentence 4 of the Banking Law, containing about 29,000 (34,000 in 1968) large-scale credits. The number of the large-scale credits contained in the summaries once more declined although the credit cooperatives (Raiffeisen) of all size groups had to file in the year under review summaries showing the position on October 31, 1969. However, up to the end of the year some of the summaries had not yet been received or processed by the Land Central Banks.

The number of monthly returns processed under Article 25 of the Banking Law slightly increased to about 50,000 (49,000 in 1968). This figure includes some 2,800 monthly returns in accordance with Article 25 of the Banking Law which the Federal Banking Supervisory Office had invited those institutions to supply that are not required to file monthly balance sheet statistics.

The number of annual accounts decreased insignificantly from 10,000 in 1968 to 9,900 in 1969.

Furthermore, the Land Central Banks handled 5,900 (5,000 in 1968) reports of the banks under Article 24 of the Banking Law announcing changes in management or legal form, participation in other banks, establishment of branches, etc.

The growth of the number of reports under Article 14, para. 1 of the Banking Law received by the information centre for credits of DM 1 million or over at the Directorate of the Deutsche Bundesbank was particularly large. In 1969 the number of such reports processed amounted to 305,000 (271,000 in 1968). On the average of the six processing periods in the year under review 1,048 banks and 363 insurance institutions (including social insurance funds) filed reports under Article 14 of the Banking Law. On the same average 4,600 (3,900 in 1968) borrowers — with the term "borrower" defined in accordance with Article 19 (2) of the Banking Law — were found to have raised credits under Article 14 of the Banking Law at several lenders and about 9,600 (8,000 in 1968) borrowers were indebted for DM 1 million or over to only one lender. The lending banks, insurance companies, social insurance funds, and the Federal Labour Office were notified by the Deutsche Bundesbank of the magnitude of their borrowers' indebtedness and the number of lenders.

II. The Deutsche Bundesbank's monetary policy regulations at present in force

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, para. 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 under 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, para. 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 February 20, 1957).

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

If the Bundesbank deems it necessary in exceptional cases, it may, after special announcement, on one day or several days discount bills only with the reservation that the discount rate will be fixed later.

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 sales financing bills

Domestic bills drawn in instalment sales 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 – even in part – renewed, 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 % of the purchase price, and the entire period for which the credit runs must not exceed 24 months. In addition, instalment sales bills with a remaining life not exceeding 14 days may be purchased (decision of February 1, 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 – even in part – renewed. The bills must have been issued by the creditor of the underlying transaction and accepted by the building owner.

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

Bank acceptances

Bank acceptances are purchased only if they serve to finance at short term specific individual transactions (decisions of May 10, 1949 and March 3, 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 April 14, 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, para. 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 in 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 December 18, 1958, August 30, 1962 and May 6, 1965; see page 104 "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 banks 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 January 31, 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 December 4, 1969; see page 104 "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 renewals 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 March 5/6, 1952 and May 5, 1960). The rediscount line, known as Limit B of the AKA Ausfuhrkredit-Gesellschaft mbH, amounts to DM 3 billion (decision of January 4, 1968).

The rediscount line may be used only for credits running for not less than one and not more than four years (decision of February 6, 1957). The exporter must as a rule himself participate to the extent of 30 % of the value of the order (decisions of October 6, 1954 and July 14, 1966). Only individual transactions may be financed. The financing assistance is intended in general to bridge 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 the period between dispatch of the goods and receipt of the export proceeds (decisions of May 18, 1956, July 25, 1956 and February 6, 1957). The rediscount line must not be used to provide funds for capital investment or working capital 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 (Industrial Plant Finance Company) 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 June 1, 1967).

Foreign currency bills and cheques

Under Art. 19, para. 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 banks but also from public departments (decisions of October 16, 1957 and September 4, 1958).

Foreign currency bills are purchased at the Deutsche Bundesbank's rate of discount (decisions of May 18, 1956 and January 22, 1958). The purchase rates are laid down in conformity with the prevailing forward rates, and are regularly published in the Federal Advertiser (decision of August 21/22, 1957); foreign currency cheques are purchased against deduction of a lump-sum interest of $^{1}/_{2}$ ‰ of the equivalent.

Advances on securities

Advances on securities (interest-bearing loans, against collateral, for not more than three months) may be granted to banks against pledging of the securities and government inscribed stock listed in Art. 19, para. 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 Bulletins.

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 of 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 is to 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 December 17/18, 1952).

Bills which cannot be purchased under the regulations in force are in principle also ineligible as security for advances (decision of May 10, 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 December 5/6, 1951, June 1, 1967 and January 4, 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, para. 1, item 3 of the Bundesbank Law, the Bundesbank may grant loans to banks, 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 July 30, 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, para. 1 of the Bundesbank Law).

2. Rediscount quotas for banks

The extent of recourse by banks 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 banks' liable funds and differentiated according to categories of institutions.

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

The rediscount quotas are fixed by the Boards of Management of the Land Central Banks for the banks located in their area. The rediscount quota of any large bank with a branch system, or of any other supra-regionally operating bank, 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 September 17/18, 1952).

The rediscount quotas of the following banks, which have central functions in the whole Federal area (Art. 7, para. 1, item 2 of the Bundesbank Law) are laid down by the Directorate of the Deutsche Bundesbank (decisions of March 27/28, 1958 and June 1, 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 bank is individually determined in accordance with the standard quota, due regard being given to whether the bank observes the principles laid down by the Federal Banking Supervisory Office in respect of the banks' capital resources and liquidity. The method of fixing the quotas contains sufficiently elastic elements.

For the purpose of determining the extent to which any bank has used its rediscount quota the total amount of the bills which the bank 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 April 17, 1952 and June 1, 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 December 18, 1958 and February 3, 1966).

The fixed rediscount quota must never be exceeded, not even temporarily. A bank whose rediscount quota is exhausted may resort to advances against securities in conformity with the provisions governing the granting of such credit (see above).

3. Money-market operations

The Bundesbank arranges the sale of Treasury bills, non-interest Treasury bonds and 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 medium-term notes of the Federal Government, the Federal Railways, the Federal Post Office and the Länder issued up to the end of 1968, 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 is outstanding 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 June 8, 1967 (Federal Law Gazette I, page 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 on minimum reserves

During the period under review the minimum reserve ratios were modified several times.

The 10 % increase of the reserve ratios for savings deposits adopted by the Central Bank Council with effect from January 1, 1969 was to make up for the lowering of the reserve requirement that resulted from the simultaneous exemption of long-term savings deposits from the minimum reserve obligation. The reserve ratio for savings deposits with banks in reserve class 4 at bank places was exempted from the increase in order to prevent it from exceeding those banks' reserve ratio for time liabilities.

The minimum reserve on additions decided upon on November 21, 1968 in order to ward off speculative inflows of money from abroad and to immobilise such funds within the country, by which additions to all external liabilities over and above their level of November 15, 1968 were subjected to a 100 % minimum reserve with effect from December 1, 1968, was modified on February 6, 1969. With effect from February 1, 1969 banks were allowed to calculate the additions to reserve-carrying external liabilities either in relation to the level of such liabilities on November 15, 1968 or in relation to that on January 15, 1969, and, moreover, in ascertaining the growth to add up the different categories of liabilities. From May 1969 the reference dates for calculating the additions to external liabilities were April 15 or April 30, 1969. After the Law to Amend the Law concerning the Deutsche Bundesbank dated July 22, 1969 (Federal Law Gazette I, page 877) had authorised the Bundesbank to fix the reserve ratio for external liabilities at up to 100 %, the Central Bank Council dropped with effect from September 1969 the former qualification that the 100 % reserve ratio was applicable only if a bank's average reserve ratios for the different categories of reserve-carrying liabilities to residents and non-residents together did not exceed 30 % for sight liabilities, 20 % for time liabilities and 10 % for savings deposits.

In June 1969 the Central Bank Council raised the reserve ratios for domestic liabilities by 15 % and for the basis level of external liabilities by 50 %; a further – uniform – increase by 10 % came into force on August 1, 1969.

Once the Deutsche Mark had been revalued, on October 27, 1969, and the reflux of speculative funds that had flowed into Germany set in, the reason for treating external and domestic liabilities differently no longer existed; on November 6, 1969 the Central Bank Council therefore abolished the 100 % minimum reserve on additions to external liabilities with effect from November 1, 1969 and brought the reserve ratios for external liabilities into line with the ratios for domestic liabilities. At the same time the unified minimum reserve ratios were lowered by 10 %. By these measures the average reserve ratio (reserve requirement in % of reserve-carrying liabilities) was reduced from 7.2 % in October 1969 to 6.3 % in November 1969.

To overcome the special seasonal strain on bank liquidity in December the Central Bank Council, by a decision of December 4, 1969, reduced the reserve ratios for all reserve-carrying liabilities by 10 % for the month of December 1969 only.

Finally, one of the monetary policy resolutions the Central Bank Council took on March 6, 1970 provided that with effect from April 1, 1970 an additional 30 % minimum reserve was imposed on the growth in a bank's external liabilities over and above either the level of March 6 or the average of the four weekly bank-return dates of February. This is meant to prevent the desired tightening of bank liquidity from being counteracted by the banks raising funds abroad.

Since the revised Order of the Deutsche Bundesbank on Minimum Reserves (MRO) came into force on January 1, 1969 (see Report for the Year 1968, page 110) it has been amended as follows:

On August 28, 1969 the Central Bank Council restricted in two respects the provision under which certain liabilities resulting from interest-rate arbitrage dealings were exempt from the minimum reserve obligation (Art. 2, para. 4, item 1 MRO). In order to prevent foreigners' speculative Deutsche Mark investment from being favoured, the exemption was limited to liabilities in foreign currencies. To avoid double and multiple use of the facility (so-called roundabout transactions), it was also decreed that interest-rate arbitrage dealings must not be connected with Bundesbank swaps.

With the fixing of the new Deutsche Mark parity the cause underlying the limitation of the exemption to liabilities in foreign currencies ceased to exist, so that the requirement was dropped as from December 16, 1969.

In addition, in its session of March 6, 1970, the Central Bank Council decided to limit with effect from June 16, 1970 the offsetting facility for liabilities and claims in respect of one and the same account holder (Art. 2, para. 3 MRO). From that date onwards, when calculating the minimum reserve, offsetting is only permissible if the additional requirement is met that there is sufficient evidence of claims and liabilities being treated as a unit for the purpose of computing interest and commission. Accordingly, with effect from June 16, 1970, Art. 2, para. 2 MRO will read as follows:

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

(a) claims payable on demand,

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

on that account holder, provided there is evidence that the claims and liabilities are being treated as a unit for the purpose of computing interest and commission. It is not admissible to offset liabilities and claims in different currencies.

The Deutsche Bundesbank's Order on Minimum Reserves of November 11, 1968, as amended on December 16, 1969

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 on Minimum Reserves (MRO):

I. General provisions

Article 1

(1) Banks within the meaning of this Order comprise all enterprises (also branches of foreign banks) conducting banking business within the meaning of Art. 1, para. 1 of the Banking Law of July 10, 1961 (Federal Law Gazette I, page 881) within the scope there indicated.

(2) Not subject to the reserve obligation are

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

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

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

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

(e) for one calendar year on each occasion those banks 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 for bonds, at the twelve end-of-month dates from October 31 of the penultimate year to September 30 of the past year averaged at least 90 % of the volume of business reduced by valuation reserves;

(f) enterprises in respect of which the Federal Banking Supervisory Office has determined, in accordance with Art. 2, para. 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

(a) non-banks,

(b) banks 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 para. 1 also comprise

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

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

(c) liabilities for 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 bank's assets.

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

(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.

1 In accordance with the definitions given in Art. 2 para. 1, items 4 to 9 of the Banking Law the following enterprises are concerned: Social insurance funds and Federal Labour Office; private and public-law insurance enterprises; private and public-law building and loan associations; non-profit housing enterprises; enterprises recognised as bodies carrying out governmental housing policy, which do not mainly conduct banking business; enterprises engaged in pawnbroking.

(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 bank. 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 bank for its part maintains a corresponding covering balance at a bank within the country or abroad;

(e) of a bank in the legal form of a general partnership (OHG), limited partnership (KG), or partnership 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, para. 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, para. 4 of the Equalisation of Burdens Law;

(k) in respect of funds borrowed by a bank 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, and not in conjunction with any swap transaction of the Bundesbank (exempted 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 bank would constitute liabilities according to para. 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 bank 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" within the meaning of the provisions on minimum reserves is any place at which the Deutsche Bundesbank maintains a branch establishment, as well as any place, or locality therein, which by Bulletin 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) Banks 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 bank'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 bank'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 para. 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 bank 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 bank 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, para. 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 banks 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, para. 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 bank at the close of the month by the Bundesbank (or the appropriate central institution in the case of agricultural credit cooperatives).

(2) If a bank 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 bank's actual reserve falls short of its required reserve the said bank 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, para. 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 bank subject to the reserve requirement has in respect of the past month, except as otherwise provided in paras. 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, para. 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, paras. 3 to 5 divided between liabilities in accordance with Art. 2, para. 3 and paras. 4 and 5.

(2) (a) In the case of banks with several branches, each office or branch shall in principle submit a reserve statement (Form 1500 – see para. 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 bank 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 – see (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 office keeping account for the main office of the bank; 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, para. 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 satisfy 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. Entry into force

Article 12

The Order enters into force on January 1, 1969. At the same time the Deutsche Bundesbank's Order on Minimum Reserves of September 3, 1962 (Bulletin No. 5013/62 – Federal Advertiser No. 174 of September 13, 1962), last amended by announcement of December 6, 1966 (Bulletin No. 5019/96 – Federal Advertiser No. 231 of December 10, 1966), ceases to have effect.

Deutsche Bundesbank

Blessing Dr. Gocht

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 banks for failure to meet the minimum reserve requirement
	% per annum	% per annum	% p. a. above 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
April 18	4	5	3
June 20	5	6	3
Sep. 11	6	7 1/2	3
Dec. 5	6	9	3
1970 March 9	7 1/2	9 1/2	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 to banks in respect of the advances on securities taken between December 10, 1964 and December 31, 1964.

Reserve classes *

From May 1952 to July 1959		From August 1959 to June 1968		Since July 1968	
Reserve class	Banks with reserve-carrying sight and time liabilities	Reserve class	Banks with reserve-carrying liabilities (including savings deposits)	Reserve class	Banks 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 in which any bank is to be placed is determined by the amount of its reserve-carrying liabilities in the preceding month.

Reserve ratios *
(a) Liabilities to residents [1]

% of reserve-carrying liabilities

Applicable from	Sight liabilities – Bank places – Reserve class 1	2	3	4	5	6	Non-bank places – Reserve class 1	2	3	4	5	6
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	10	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	—	—
July 1 [3]	20.15	18.6	17.05	15.5	—	—	15.5	13.95	12.4	10.85	—	—
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	—	—
June 1	10.6	9.8	8.95	8.15	—	—	8.15	7.35	6.5	5.7	—	—
Aug. 1	11.65	10.75	9.85	8.95	—	—	8.95	8.05	7.15	6.25	—	—
Nov. 1	10.45	9.65	8.85	8.05	—	—	8.05	7.25	6.45	5.65	—	—
Dec. 1	9.45	8.7	8	7.25	—	—	7.25	6.55	5.8	5.1	—	—
1970 Jan. 1	10.45	9.65	8.85	8.05	—	—	8.05	7.25	6.45	5.65	—	—

* Prior to May 1954 partly different regulations applied to the Berlin banks. The Saarland banks have been subject to the minimum reserve requirement since August 1959. — 1 Since the coming into force of the Foreign Trade and Payments Law, residents within the meaning of Art. 4 of that Law. — 2 From January 1969 the ratio for savings deposits with banks in reserve class 4 at bank places

Time liabilities						Savings deposits		Reserve ratios for addition to liabilities			Applicable from
1	2	3	4	5	6	Bank places 2	Non-bank places	Sight liabilities	Time liabilities	Savings deposits	
5						5					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		no special ratios			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
13.95	12.4	10.85	9.3	—	—	9	7.5	30	20	10	July 1 3
13.95	12.4	10.85	9.3	—	—	9	7.5				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
	8	7	6	—	—	6.6	5.5				1965 Dec. 1
9.9	8.8	7.7	6.6	—	—	6.6	5.5	no special ratios			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	—	—	4.7	3.9				1969 Jan. 1
7.35	6.5	5.7	4.9	—	—	5.4	4.5				June 1
8.05	7.15	6.25	5.35	—	—	5.95	4.95				Aug. 1
7.25	6.45	5.65	4.85	—	—	5.35	4.45				Nov. 1
6.55	5.8	5.1	4.35	—	—	4.8	4				Dec. 1
7.25	6.45	5.65	4.85	—	—	5.35	4.45				1970 Jan. 1

is equal to the prevailing reserve ratio for time liabilities. — **3** Between July 1 and November 30, 1960 only liabilities up to average level and addition to average level of the months March to May 1960.

Reserve ratios *
(b) Liabilities to non-residents [1]

% of reserve-carrying liabilities

Applicable from	Sight liabilities											
	Bank places						Non-bank places					
	Reserve class											
	1	2	3	4	5	6	1	2	3	4	5	6
	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	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 on November 30, 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	—	—
1967 Feb. 1	13	12	11	10	—	—	10	9	8	7	—	—
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	—	—
	such liabilities up to the level on November 15, 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 on November 15, 1968 or January 15, 1969											
1969 Feb. 1	9.25	8.5	7.8	7.1	—	—	7.1	6.4	5.7	4.95	—	—
	such liabilities up to the level on April 15 or April 30, 1969											
1969 May 1	9.25	8.5	7.8	7.1	—	—	7.1	6.4	5.7	4.95	—	—
June 1	13.8	12.7	11.65	10.6	—	—	10.6	9.55	8.5	7.4	—	—
Aug. 1	15.2	14.05	12.85	11.7	—	—	11.7	10.55	9.35	8.2	—	—
	all such liabilities											
1969 Nov. 1	10.45	9.65	8.85	8.5	—	—	8.05	7.25	6.45	5.65	—	—
Dec. 1	9.45	8.7	8	7.25	—	—	7.25	6.55	5.8	5.1	—	—
1970 Jan. 1	10.45	9.65	8.85	8.05	—	—	8.05	7.25	6.45	5.65	—	—
	such liabilities up to the level on March 6, 1970 or up to average level of the return dates February 7, 15, 23 and 28, 1970											
1970 April 1	10.45	9.65	8.85	8.05	—	—	8.05	7.25	6.45	5.65	—	—

Note: In many months the above reserve ratios are equal to those for liabilities to residents; see Table (a). — * Prior to May 1954 partly different regulations applied to the Berlin banks. The Saarland banks have been subject to the minimum reserve obligation since August 1959. — **1** Since the coming into force of the Foreign Trade and Payments Law, non-residents within the meaning of Art. 4 of that Law. — **2** From January 1969 the ratio for savings deposits with banks in reserve class 4 at bank places is equal to the prevailing reserve ratio for time liabilities. — **3** From July 1960 to end-January 1962 these ratios also applied to the addition, as compared with the

Time liabilities 1	2	3	4	5	6	Savings deposits: Bank places 2	Savings deposits: 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
10	10	10	10	10	10	10					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 on November 30, 1959 3			
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
9	8	7	6	—	—	6.6	5.5				1967 Feb. 1
8.1	7.2	6.3	5.4	—	—	5.94	4.95				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
								Addition to the level on November 15, 1968 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	—	—	4.7	3.9	100	100	100	1969 Jan. 1
								Addition to the level on November 15, 1968 or January 15, 1969 4			
6.4	5.7	4.95	4.25	—	—	4.7	3.9	100	100	100	1969 Feb. 1
								Addition to the level on April 15 or April 30, 1969 4			
6.4	5.7	4.95	4.25	—	—	4.7	3.9	100	100	100	1969 May 1
9.55	8.5	7.4	6.35	—	—	7.1	5.9	100	100	100	June 1
10.55	9.35	8.2	7	—	—	7.8	6.5	100	100	100	Aug. 1
7.25	6.45	5.65	4.85	—	—	5.35	4.45	no special ratios			1969 Nov. 1
6.55	5.8	5.1	4.35	—	—	4.8	4				Dec. 1
7.25	6.45	5.65	4.85	—	—	5.35	4.45				1970 Jan. 1
								Addition to the level on March 6, 1970 or to the average level of the return dates February 7, 15, 23 and 28, 1970			
7.25	6.45	5.65	4.85	—	—	5.35	4.45	5 + 30			1970 April 1

level on May 30, 1960, to credits availed of by customers with third parties abroad. Up to this level the liabilities in question remained exempt from the reserve requirement also during the period mentioned. — 4 Until end-August 1969 the ratios for the increase applied with the proviso that a bank's average reserve ratios for the different categories of reserve-carrying liabilities to residents and non-residents do not exceed 30 % for sight liabilities, 20 % for time liabilities and 10 % for savings deposits. — 5 This reserve ratio for additions is added to the various reserve ratios applying to the basic level of liabilities to non-residents.

III. The Deutsche Bundesbank's foreign exchange policy regulations at present in force

Foreign trade and payments

The restrictions imposed on financial institutions in the Federal area at the end of November 1968 by the 14th Regulation to Amend the Foreign Trade and Payments Order, limiting both the acceptance of deposits on non-residents' accounts and borrowing from non-residents in order to ward off the influx of speculative monies from abroad, were lifted at the end of February 1969 by the 16th Regulation to Amend the Foreign Trade and Payments Order.

The obligation to obtain permission to pay interest on non-residents' credit balances (other than balances on individuals' savings accounts) remained in force until the end of the year and was cancelled with effect from December 20, 1969 by the 18th Regulation to Amend the Foreign Trade and Payments Order. From the same date the restrictions contained in Art. 52 of the Foreign Trade and Payments Order regarding the sale of domestic money-market paper to foreigners and the conclusion of security repurchase agreements with foreigners were lifted, so that money and capital transactions with foreigners are now fully liberalised.

Interzonal trade

The annual turnover in interzonal clearing transactions and the balance resulting from the settlement of these transactions as at December 31, 1969 are shown in Part B, page 127 (Annual accounts — Assets — Other claims).

Since January 1, 1969 the swing has to be fixed at the beginning of each year at an amount equal to 25 % of all credit entries made in the clearing accounts with the Deutsche Bundesbank in the preceding calendar year. The total swing computed on this basis amounted to DM 360 million for 1969 and rose to DM 380 million for 1970. The clause in the Interzonal Trade Agreement providing that any debit balance on the clearing accounts outstanding on June 30 has to be settled in cash within 30 days has been dropped with effect from January 1, 1969.

The Bundesbank's general licence concerning trade and payment transactions with the currency area of the Deutsche Mark (East) was extended to include transactions subject to the agreement on the establishment and maintenance of consignment stocks (Bulletins Nos. 6003 to 6005/69). In conjunction with general licences No. 2 — Deliveries — of January 1969 and No. 3 — Purchases — of December 1969, granted by the Federal Minister of Economics, regulations were published in Bulletins Nos. 6002/69 and 6001/70 which have to be observed in payment transactions.

Part B: Notes on the Deutsche Bundesbank's annual accounts for 1969

1. Legal bases, classification and valuation

Legal bases, accounting system and annual accounts

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

Amendment of the Law concerning the Deutsche Bundesbank

Article 16, paragraph 1, sentence 2 of the Bundesbank Law was supplemented by Article 1 of the Law to Amend the Law concerning the Deutsche Bundesbank of July 22, 1969 (Federal Law Gazette I, page 877) to the effect that the Bank was authorised to raise to a maximum of one hundred the percentage rate of the balances to be held with it on giro account (minimum reserve) against liabilities to non-residents.

Changes in staff regulations

In consequence of the Second Law to Amend the Salary Law (Federal Law Gazette 1969 I, page 365) on April 17, 1969 the Central Bank Council adopted revised regulations on the staffing of the various career groups in the Directorate, the Main Offices and branch establishments. With effect from July 1, 1969 a revision of salary scales (appendix 1 to the pay agreement for salaried employees of the Deutsche Bundesbank) was negotiated. Moreover, the Bank concluded a number of other pay agreements, through which the legal positions of its salaried and wage-earning employees were in each case brought into line with those of the Federal Government's salaried and wage-earning employees.

Classification of annual accounts

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. They remained unchanged compared with the preceding year.

In connection with the new valuation of the gold and foreign exchange positions due to the alteration of the par value of the Deutsche Mark with effect from October 27, 1969, the profit and loss account was supplemented by the following items:

Expenditure

7. Compensatory amount required for gold and foreign exchange positions owing to alteration of DM parity

Receipts

4. Drawing on
   (a) Valuation reserves
   (b) Other provisions
   (c) Reserves
      (ca) legal
      (cb) other

Valuation

The provisions of the Company Law (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 at December 31, 1969, the Bank's title to allocation of equalisation claims rose by DM 32,128.90 to DM 8,103,580,597.70; 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 accounts

The annual accounts for 1969, which are 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 1969.

Balance sheet

The balance-sheet total as at December 31, 1969 decreased by DM 140.3 million, as compared with the end of 1968, to DM 58,695.5 million.

Comparison of balance sheet figures

Millions of DM

	December 31			December 31	
Assets	1968	1969	Liabilities	1968	1969
Gold	17,880.5	14,700.0	Capital	290.0	290.0
Balances with foreign banks and money-market investment abroad	11,502.6	5,693.1	Reserves	1,179.7	860.0
Other investment of money abroad and external assets	3,714.7	4,200.0	Provisions	2,570.0	1,170.0
Foreign notes and coin, foreign bills and cheques	3,134.0	3,445.4	Bank notes in circulation	32,499.0	34,616.5
German coin	191.0	137.6	Deposits of		
Postal cheque account balances	469.8	451.4	banks	17,578.6	16,890.5
Domestic bills of exchange	2,139.1	11,424.9	Federal Government	58.8	46.3
Treasury bills and non-interest Treasury bonds	5.0	577.4	Federal Special Funds	1,660.5	1,350.1
Advances against securities	875.2	2,797.0	Länder	1,523.2	2,376.4
Cash advances	1,344.2	1,974.1	other public depositors	56.4	52.7
Other claims	92.5	351.0	other German depositors	377.7	373.2
Securities	1,688.5	1,031.3	Liabilities in respect of foreign business	365.5	472.0
Equalisation claims on public authorities and debt certificate in respect of Berlin	8,682.5	8,682.7	Other liabilities	175.6	197.8
less equalisation claims returned in exchange for money-market paper	2,534.2	2,029.5	Net profit	500.8	—
	6,148.3	6,653.2			
Credits to Federal Government for participation in international institutions	4,052.9	1,172.5			
Claims on Federal Government in respect of acquisition of claims					
resulting from post-war economic aid	720.9	690.5			
from BIS	62.5	31.3			
Loans to international institutions and consolidation loans	3,969.0	1,698.6			
Items in course of settlement	467.5	1,237.7			
Other assets	377.6	428.5			
Total	58,835.8	58,695.5	Total	58,835.8	58,695.5

Assets

Gold

The gold holding, at DM 14,700.0 million on December 31, 1969, is shown DM 3,180.5 million smaller than on December 31, 1968.

Balances with foreign banks and money-market investment abroad

Balances with foreign banks and money-market investment abroad amounted to DM 5,693.1 million on December 31, 1969 (DM 11,502.6 million on December 31, 1968).

Foreign exchange dealings

The Bank's turnover in foreign exchange spot dealings (foreign currency against Deutsche Mark) amounted to DM 102,828.3 million in the year under review, against DM 53,876.8 million in 1968; the number of deals decreased from 10,947 in the previous year to 9,574.

Such deals comprised

	1968 Number	1968 DM million	1969 Number	1969 DM million
Purchases	3,961	27,760.1	3,098	38,668.1
Sales	6,986	26,116.7	6,476	64,160.2
	10,947	53,876.8	9,574	102,828.3

The bulk of the turnover was once again in US dollars.

In addition, during the year under review the Bank effected 304 cross deals (one foreign currency against another foreign currency) in the equivalent of DM 3,158.3 million, as against 603 deals in the equivalent of DM 1,628.8 million in the previous year; furthermore, during the year 480 US dollar inter-centre switch transactions amounting to US $ 72.8 million were concluded, as against 296 transactions amounting to US $ 43.3 million in the previous year.

US dollar swap transactions with German banks amounting to US $ 4,774.1 million were concluded in the year under review; there were no commitments at the end of the year.

Other investment of money abroad and external assets

The assets recorded in this item rose, in comparison with 1968, from DM 3,714.7 million to DM 4,200.0 million owing to additional investment in medium-term U.S. securities expressed in Deutsche Mark. Should monetary reserves undergo a sustained decline, the U.S. bonds are redeemable before due date.

Foreign notes and coin, foreign bills and cheques

Purchase and sale of foreign notes and coin

At DM 2.7 million the holding of foreign notes and coin at the end of 1969 was DM 1.0 million smaller than on December 31, 1968. During the year under review the Bank effected 34,635 purchases of foreign notes and coin (1968: 33,353) and 16,437 sales of foreign notes and coin (1968: 14,663).

Purchase of foreign bills

At the close of 1969 the holding of foreign bills arising from purchase within the country was DM 3,440.0 million as compared with DM 3,128.2 million on December 31, 1968.

Purchase of foreign bills in the Land Central Bank areas

Land Central Bank	1968 Number	1968 DM mn	1969 Number	1969 DM mn
Baden-Württemberg	21,394	808.7	22,888	1,107.5
Bavaria	11,079	1,240.8	13,474	1,723.5
Berlin	889	312.7	978	358.1
Bremen	1,265	204.6	1,654	248.2
Hamburg	8,020	2,545.2	7,355	2,841.1
Hesse	14,153	2,616.4	13,504	2,759.0
Lower Saxony	5,712	475.6	5,294	578.3
North Rhine-Westphalia	29,658	2,809.1	26,259	2,465.1
Rhineland-Palatinate	4,613	310.4	4,301	245.7
Saarland	3,377	491.3	3,110	582.2
Schleswig-Holstein	997	486.9	842	378.8
Total	101,157	12,301.7	99,659	13,287.5

The proportion of DM acceptances to the total value of foreign bills purchased averaged about 53 % for 1969 against about 37 % for 1968.

Purchase and sale of foreign cheques

At the end of 1969 the holding of foreign cheques amounted to DM 2.7 million (end-1968: DM 2.1 million). During the year under review 125,470 foreign cheques worth DM 141.2 million were purchased, against 170,140 worth DM 190.6 million in the previous year. Altogether 17,893 (1968: 16,771) cheques on foreign countries were sold to the value of DM 101.5 million (1968: DM 64.4 million).

Foreign commission business

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

	1968 Number	1969 Number
Foreign notes and coin	5,668	4,220
Bills, cheques, etc.	12,698	10,363
	18,366	14,583.

German coin

The Bank's holding of German coin amounted to DM 137.6 million at the close of 1969 (end-1968: DM 191.0 million). In 1969 the Federal Government was credited with DM 162.4 million for coin taken over from the Mints, and debited with DM 1.6 million for coin called in or no longer fit for circulation. Altogether in the years 1948 to 1969 the Bank took over coin amounting to DM 2,946.4 million, and redeemed, to the debit of the Federal Government, DM 150.9 million of coin which was no longer fit to circulate or had been called in.

The total amount of coin in circulation at the end of 1969 divided by the number of inhabitants of the Federal Republic of Germany including the Land of Berlin at September 30, 1969 (61.1 million) yields the figure of DM 43.50 per head of population (1968: DM 40.52).

Balances on postal cheque account

The postal cheque account balances on December 31, 1969, including the branches' transfers in transit to the postal cheque account of the Bank (Directorate) at Frankfurt am Main, totalled DM 451.4 million (1968: DM 469.8 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 rounded amounts, are offset against the giro balances of the Central Cash Office of the Federal Post Office and the Postal Cheque Office Berlin (West).

Postal cheque transactions with third parties

	1968				1969			
	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	96,774	10,572.0	15,944	641.1	95,031	11,130.8	13,048	711.8
Bavaria	124,081	12,893.6	8,669	1,125.9	122,291	13,787.6	8,276	1.286.8
Berlin	38,825	2,773.7	6,696	385.3	35,973	2,722.5	6,646	385.9
Bremen	19,927	621.4	446	0.1	18,246	599.1	460	0.2
Hamburg	54,614	7,187.7	2,117	36.0	50,089	7,413.9	1,848	30.1
Hesse	64,562	7,973.4	3,982	571.1	61,503	8,349.9	3,694	728.8
Lower Saxony	111,698	6,927.4	3,563	236.5	105,489	7,112.3	4,014	265.2
North Rhine-Westphalia	190,842	14,741.4	11,598	2,244.4	184,519	15,806.2	12,262	2,770.0
Rhineland-Palatinate	54,888	2,543.8	4,949	44.4	50,101	2,398.8	4,609	39.7
Saarland	6,411	1,433.1	1,867	0.6	6,769	1,519.2	4,651	1.2
Schleswig-Holstein	8,681	276.7	1,951	12.1	7,827	268.9	2,018	5.1
Total	771,303	67,944.2	61,782	5,297.5	737,838	71,109.2	61,526	6,224.8
Bundesbank – Directorate –	11,838	1,342.1	6,850	3.4	12,217	1,409.8	3,904	7.4
Grand total	783,141	69,286.3	68,632	5,300.9	750,055	72,519.0	65,430	6,232.2

Domestic bills of exchange

The Bank's holding of domestic bills rose appreciably during the year under review since, under the pressure of tight liquidity, as described in detail in the General Part of this Report, banks increasingly resorted to Bundesbank credit, especially during the last months of the year. Principally this was done by rediscounting domestic bills, which for the first time included to a major extent bills purchased under the rediscount line opened by the Bundesbank to the AKA Export Credit Company.

	Dec. 31, 1968 DM million	Dec. 31, 1969 DM million
The domestic bill holding comprised		
domestic bills purchased by way of discount	2,100.3	10,230.9
Import and Storage Agency bills taken in the course of open-market operations	38.8	110.7
Prime bankers' acceptances thus taken	—	1,083.3
	2,139.1	11,424.9.

The average bill holding, as calculated from the figures on the return dates in the year under review, was DM 6,525.5 million (1968: DM 2,900.5 million).

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

Land Central Bank	1968 '000	1968 DM mn	1969 '000	1969 DM mn
Baden-Württemberg	174	2,744.9	346	6,408.7
Bavaria	57	1,411.1	170	5,264.5
Berlin	6	326.4	22	1,010.9
Bremen	34	855.6	46	1,453.0
Hamburg	64	3,037.8	100	4,984.9
Hesse	191	7,151.2	291	13,883.0
Lower Saxony	65	1,392.5	134	3,093.0
North Rhine-Westphalia	199	6,948.1	437	14,961.4
Rhineland-Palatinate	46	745.5	82	1,589.5
Saarland	14	795.9	19	1,152.0
Schleswig-Holstein	34	617.4	53	1,136.8
Total	884	26,026.4	1,700	54,937.7

At DM 32,322 the average amount of the bills purchased in 1969 was above the previous year's average (DM 29,426).

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

	1968 Number	1968 DM million	1969 Number	1969 DM million
	2,993	8.9	4,481	14.0
in % of the total purchased	0.34	0.03	0.26	0.03.

Commission business

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

	Number	DM million
1968	174,696	1,270.8
1969	125,105	968.9.

Discount rate

The Bundesbank's discount rate for domestic and foreign bills in the year under review stood at 3 % until April 17, at 4 % from April 18, at 5 % from June 20 and at 6 % from September 11.

Storage Agency bills

Storage Agency bills at a face value of DM 1,989.8 million (1968: 1,015.1 million) were purchased in the open market and DM 1,789.0 million (1968: DM 895.8 million) were resold. Bills amounting to DM 128.9 million out of the Bank's holding were redeemed in 1969 (1968: DM 146.1 million). On December 31, 1969 the Bank's holding of Storage Agency bills amounted to DM 110.7 million (1968: DM 38.8 million).

Prime bankers' acceptances

In 1969 the Bank had to render much more liquidity assistance than a year before to the Privatdiskont-Aktiengesellschaft, Frankfurt am Main, which acts as broker (for details see "Money-market operations", page 104). Items amounting to DM 1,946.0 million (1968: DM 79.5 million) were purchased from the Privatdiskont-Aktiengesellschaft; DM 737.0 million (1968: DM 149.0 million) were resold to the market via the broker and DM 125.7 million (1968: DM 3.2 million) redeemed on due date. On December 31, 1969 prime bankers' acceptances amounting to DM 1,083.3 were held by the Bank (end-1968: nil).

Treasury bills and non-interest Treasury bonds

The Bank's transactions in the market for domestic money-market paper – as in preceding years – covered not only Storage Agency bills and prime bankers' acceptances, but also the 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 Post Office and the Länder, issued for account of the issuers, as well as the mobilisation paper (pursuant to Art. 42, Bundesbank Law) discussed below. Whereas issuance of Treasury bills of the German Federal Railways and of non-interest Treasury bonds of the German Federal Railways and the German Federal Post Office increased on the previous year, new issues of non-interest Treasury bonds of the Federal Government declined considerably and redemptions rose extremely fast. Thus, the outstanding amount of non-interest Treasury bonds of the Federal Government contracted from DM 8.3 billion to DM 2.4 billion. No Treasury bills of the Federal Government or non-interest Treasury bonds of the Länder Governments were issued during the year under review.

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

Millions of DM

Category of paper	Outstanding on Dec. 31, 1968	in 1969 Issued	in 1969 Redeemed	Outstanding on Dec. 31, 1969
Treasury bills of the Federal Republic of Germany "B" 1	150.0	—	150.0	—
Non-interest Treasury bonds of the Federal Republic of Germany "B" 1	8,316.9	1,300.0	7,256.9	2,360.0
Treasury bills of the German Federal Railways	0.5	206.0	6.2	200.3
Non-interest Treasury bonds of the German Federal Railways	226.1	400.3	226.4	400.0
Non-interest Treasury bonds of the German Federal Post Office	300.0	187.5	187.5	300.0
Non-interest Treasury bonds of the Länder	166.2	—	166.2	—

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

On December 31, 1969 DM 577.4 million of the paper shown in the preceding table was held by the Bank (end-1968: DM 5.0 million).

Advances against securities

In the same way as discounts, Bundesbank advances against securities expanded very strongly during the last quarter of the year. Recourse to Bundesbank credit reached a record height in November, averaging DM 3,210 million on the return dates. On the average of all return dates resort to advances against securities amounted to DM 887.5 million in the year under review (1968: DM 189.2 million). On December 31 advances outstanding ran at DM 2,797.0 million, against DM 875.2 million at the end of December 1968.

Lending against securities in the Land Central Bank areas

Land Central Bank	Advances granted against securities 1968 Number	1968 DM mn	1969 Number	1969 DM mn	Outstanding on Dec.31,1968 DM mn	Outstanding on Dec.31,1969 DM mn
Baden-Württemberg	909	794.0	1,495	4,827.2	29.7	369.6
Bavaria	756	306.6	905	1,443.2	24.4	154.4
Berlin	53	78.3	93	408.5	7.9	95.3
Bremen	63	215.1	153	817.3	—	16.6
Hamburg	626	1,187.7	730	3,541.6	58.0	238.1
Hesse	1,303	12,467.7	2,027	50,807.1	195.7	1,164.9
Lower Saxony	1,071	826.6	1,302	2,222.8	111.4	302.9
North Rhine-Westphalia	1,335	3,577.8	2,172	13,064.2	418.7	282.3
Rhineland-Palatinate	766	712.7	923	2,181.9	16.2	69.6
Saarland	162	219.3	232	591.2	7.0	25.9
Schleswig-Holstein	274	401.8	335	943.3	6.2	77.4
Total	7,318	20,787.6	10,367	80,848.3	875.2	2,797.0

Advance rate

Until March 20, 1969 the advance rate was 3½ %; it was then raised in five stages and, with effect from December 5, 1969, finally stood at 9 %. Between September 1 and 10, 1969 for a temporary period special – graduated – advance rates of 7 % and 8 % were introduced in case recourse to advances against securities by a single bank during one calendar month should exceed certain limits. However, the special advance rates were abolished as early as September 10, 1969; instead, the general advance rate was raised by an above-average amount (by 1½ % p. a.), while the discount rate was increased by 1 %.

Cash advances

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

	DM million
for the Federal Government	6,000
for the Federal Railways	600
for the Federal Post Office	400
for the Equalisation of Burdens Fund	200
for the ERP Special Fund	50
for the Länder DM 40 per inhabitant; for Berlin, Bremen and Hamburg DM 80 per inhabitant.	

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

Cash advances

Millions of DM

Borrower	December 31, 1968			December 31, 1969		
	Book credit	Treasury bills	Total	Book credit	Treasury bills	Total
Federal Government	1,344.2	150.0	1,494.2	1,790.3		1,790.3
Federal Special Funds						
Equalisation of Burdens Fund				114.0		114.0
Federal Railways		0.5	0.5		200.4	200.4
Land Berlin				69.8		69.8
Total	1,344.2	150.5	1,494.7	1,974.1	200.4	2,174.5

Interest rate

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

Other claims

The other claims of DM 351.0 million shown in asset item 11 (1968: DM 92.5 million) include, inter alia, the balance (DM 265.4 million against DM 31.8 million in 1968) resulting from the settlement of interzonal payments.

Turnover on the relevant sub-accounts amounted to:

	1968 DM million	1969 DM million
West/East deliveries and services	1,374.1	1,812.5
East/West deliveries and services	1,424.2	1,518.6
	2,798.3	3,331.1.

Securities

The holding of securities at end-December 1969 is shown at DM 1,031.3 million (end-1968: DM 1,688.5 million). This amount includes bond issues and Treasury bonds of the Federal Republic of Germany, the German Federal Railways and the German Federal Post Office, other bonds, Bundesbank profit participation certificates and IBRD debt certificates.

Issue of bonds

In 1969 the Federal Bond Consortium, which is under the Bank's leadership, offered for public sale four issues totalling DM 1,170 million, compared with seven issues amounting to DM 1,820 million in 1968.

Bonds issued through the Federal Bond Consortium in 1969

Issuer	Amount DM mn	Interest rate %	Issue price %	Start of sales 1969
German Federal Post Office	1 300	6	98	Jan. 28
German Federal Railways	270	6	98	Feb. 26
German Federal Post Office	1 200	$6^1/_2$	$98^1/_2$	June 16
Federal Republic of Germany	400	7	$99^1/_4$	Nov. 18

1 Excluding amount of DM 10 million, which was sold by the issuer direct.

Issue of Federal savings bonds

With the cooperation of the Bank DM 283.3 million of Federal savings bonds were issued through banks in 1969. The Federal savings bonds – graduated according to number of years – carry an increasing rate of interest, have a period to maturity of six years and may be returned by the buyer at their nominal value plus interest accrued at any time after twelve months have elapsed since the beginning of sales.

Sales of Federal savings bonds in 1969

Issue	Sales period 1969	Sales in DM mn: Federal savings bonds A 1	Sales in DM mn: Federal savings bonds B 2	Sales in DM mn: Total	Interest rate (%) in . . . year after issue: 1st	2nd	3rd	4th	5th	6th	Yield (%): Federal savings bonds A 1	Yield (%): Federal savings bonds B 2
1969/1 3	Jan. 2–June 30	102.7	—	102.7	4	5	6	6	7	8	5.88	—
1969/2 1969/3	June 30–Aug. 20	18.8	13.7	32.5	4.5	5.5	6.5	7	7.5	8	6.38	6.49
1969/4 1969/5	Sep. 1–Dec. 31	78.4	69.7	148.1	5.5	6	7	7	7.5	8	6.74	6.83

1 With yearly payment of interest. — 2 With accrual of interest. — 3 In the first issue only Federal savings bonds with yearly payment of interest were offered.

Issue of medium-term notes

Treasury bonds (medium-term notes) of the Federal Republic of Germany and the German Federal Post Office in the amount of DM 1,020 million were sold through the Bank during 1969 (1968: DM 1,065 million). With the exception of the four tranches issued in July 1969, the issues were sold by tender.

Treasury bonds (medium-term notes) sold through the Bundesbank in 1969

Issuer	Amount DM mn	Interest rate %	Running for . . . years	Minimum price %	Selling price %	Sales 1969
German Federal Post Office	20	5	3	$97^3/_8$	$97^3/_8$	April
German Federal Post Office	80	$5^1/_2$	4	$97^1/_4$	$97^1/_4$	April
Federal Republic of Germany 1st Issue	137	$6^1/_2$	2 $4^1/_2$ m.	—	$99^3/_{10}$	July
Federal Republic of Germany 2nd Issue	166	$6^1/_2$	3	—	$99^1/_8$	July
Federal Republic of Germany 3rd Issue	115	$6^1/_2$	3 $4^1/_2$ m.	—	$98^7/_8$	July
Federal Republic of Germany 4th Issue	102	$6^1/_2$	4	—	$98^1/_2$	July
German Federal Post Office 1st Issue	110	$6^1/_2$	3	$99^1/_8$	$99^1/_8$	August
German Federal Post Office 2nd Issue	20	$6^1/_2$	3 6 m.	$98^7/_8$	$98^7/_8$	August
German Federal Post Office 3rd Issue	70	$6^1/_2$	4	$98^1/_2$	$98^1/_2$	August
Federal Republic of Germany 5th Issue	15	$6^1/_2$	3	$98^3/_4$	$98^3/_4$	October
Federal Republic of Germany 6th Issue	35	$6^1/_2$	3 6 m.	$98^1/_4$	$98^1/_4$	October
Federal Republic of Germany 7th Issue	150	$6^1/_2$	4	$97^3/_4$	$97^3/_4$	October

Contrary to the former practice, the Treasury bonds (medium-term notes) of the Federal Government, the German Federal Railways, the German Federal Post Office and the Land of Berlin issued during the year under review, with a remaining life of up to 18 months, were no longer included in the money-market regulation. On December 31, 1969 DM 2,173.7 million (end-1968: DM 1,812.3 million) of previously issued Treasury bonds (medium-term notes) of the Federal Government, its Special Funds and the Länder Governments with a remaining life of up to 18 months were outstanding and, according to their terms of issue, ranked among the paper included in the money-market regulation. In 1969 the Bank for the first time bought such paper — in the amount of DM 29.4 million, which was still held on December 31, 1969.

Admission to stock exchange dealings

Besides the bond issues mentioned, the 6 % bearer bonds of the Equalisation of Burdens Fund of 1969 Issues I to III were introduced by the Bank for official dealings on the German stock exchanges. In addition, several series of medium-term notes of the Federal Republic of Germany, the German Federal Railways, the German Federal Post Office, the Reconstruction Loan Corporation and the Equalisation of Burdens Bank 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 — as before — the Bank undertook price support for account of the issuers in respect of bonds issued by the Federal Government and its Special Funds, of bonds of one Land, as well as of bonds of the Reconstruction Loan Corporation and the Equalisation of Burdens Bank.

The Bank as paying agent for bonds

As paying agent specifically for bonds of the Federal Government and its Special Funds the Bank during 1969 paid or presented for redemption 10,695,104 interest coupons and matured bonds (1968: 10,595,684).

The Bank as conversion and paying agent for external bonds

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 340,291 interest coupons and matured bonds (1968: 316,333); in 1969 711,411 interest coupons and matured bonds (1968: 716,243) were presented to foreign agents for redemption.

Equalisation claims on public authorities

	Dec. 31, 1968	Dec. 31, 1969 DM million
Equalisation claims arising from own conversion account		
Bank deutscher Länder	5,504.3	5,504.4
Land Central Banks	2,599.2	2,599.2
	8,103.5	8,103.6
handed back in exchange for money-market paper	2,534.2	2,029.5
	5,569.3	6,074.1
Conversion of Berlin pre-capitulation balances	30.3	30.4
Conversion of RM balances at banks in the Eastern Sector of Berlin	1.5	1.5
	5,601.1	6,106.0.

A slight increase, of DM 32,100, 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 at December 31, 1969, 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 at banks in the Eastern Sector of Berlin, as shown by the books at December 31, 1968, are inscribed in the government stock registers.

Mobilising equalisation claims

Turnover in 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 claims that it holds on public authorities in respect of its own conversion account (mobilisation paper), approximately maintained the 1968 level. The amount of mobilisation paper outstanding on December 31, 1969 was DM 2,029.5 million (end-1968: DM 2,534.2 million).

Mobilisation paper sold and redeemed

Millions of DM

	1967	1968			1969		
Category of paper	outstanding on Dec. 31	sold	redeemed	outstanding on Dec. 31	sold	redeemed	outstanding on Dec. 31
Treasury bills of the Federal Government (running for up to 90 days)	1,621.0	10,724.0	10,113.8	2,231.2	10,529.8	11,478.6	1,282.4
Non-interest Treasury bonds of the Federal Government (running for 6 to 24 months)	623.5	373.2	693.7	303.0	759.6	315.5	747.1
Total	2,244.5	11,097.2	10,807.5	2,534.2	11,289.4	11,794.1	2,029.5

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, para. 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 million and of the European Fund up to DM 210 million. Compared with the preceding year the total of such credits declined by DM 2,880.4 million to DM 1,172.5 million. The decline was chiefly due to drawing on German reserve balances with the IMF; DM 316.3 million was accounted for by the new valuation in connection with the alteration of the Deutsche Mark parity.

Under an agreement with the Federal Government the Federal Republic of Germany's financial participations in the IMF and the European Fund belong for practical purposes wholly to the Bank; as they are expressed in US dollars of the gold weight in effect on July 1, 1944 or in units of account (1 unit of account = 1 US $), they had to be newly valued after the alteration of the Deutsche Mark parity.

The credit granted to the Federal Government in respect of its participation in the IMF decreased by DM 2,878.3 million to DM 1,149.2 million owing to the Federal Republic's drawing, in November 1969, on its super gold tranche, i. e. the conversion of a German claim on the IMF into foreign exchange balances, and to DM drawings and repayments of other member countries and the new valuation resulting from the alteration of the Deutsche Mark parity. The change in the credit granted to the Federal Government for fulfilment of its commitments as a member of the European Fund is exclusively due to the new valuation resulting from the alteration of the Deutsche Mark parity.

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 1969 by DM 30.4 million to DM 690.5 million.

(b) acquisition of claim from BIS

The claim on the Federal Republic of Germany which the Bank 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 31.3 million through payment of the redemption amount falling due in the year under review.

Loans to international institutions and consolidation loans

At DM 1,698.6 million the loans to international institutions and consolidation loans are shown DM 2,270.4 million smaller than in 1968. Specifically the claims consisted of:

	Dec. 31, 1968	Dec. 31, 1969
		DM million
Loans to IMF	2,082.0	–
Loans to IBRD	1,643.7	1,543.6
Loans arising from liquidation of EPU	243.3	155.0
	3,969.0	1,698.6.

Loans to International Monetary Fund (IMF)

The loans granted by the Bank to the International Monetary Fund under the "General Arrangements to Borrow" (GAB) of October 24, 1962 decreased by DM 618 million in the early months of 1969 owing to repayments by the IMF, and rose again by DM 736 million to DM 2,200 million in June and September as a result of the IMF's callings to finance drawings by the United Kingdom and France. Following the new valuation due to the alteration of the Deutsche Mark parity, the DM equivalent of these claims – expressed in gold – fell to DM 2,013 million. In December 1969 the Bank's entire assets with the IMF were converted into foreign exchange balances so as to bolster its liquid monetary reserves; some of the assets were repaid in foreign currencies by the Fund itself, while the remainder was transferred to other members of the IMF.

Loans to World Bank

At DM 1,543.6 million, loans to the World Bank are shown DM 100.1 million smaller than at the end of 1968. Altogether there were DM 296.1 million of reductions, which were due to the passing on of IBRD paper within the country and to depreciation of the US $ loans on account of the alteration of the Deutsche Mark parity. These reductions were accompanied by additions of DM 196 million resulting from the fact that partial amounts of IBRD debt certificates held in the Bank's portfolio were replaced by new loans on maturity.

Liquidation of EPU

The claims arising from liquidation of the European Payments Union (EPU) amounted at the end of 1969 to DM 155.0 million, against DM 243.3 million at the end of 1968 and DM 4,185.8 million after the EPU settlement in January 1959; thus approximately 96 % of these credits have been repaid.

Land and buildings
Equipment

With additions of DM 71.6 million and depreciation of DM 10.6 million, land and buildings are shown at DM 199.5 million. Equipment increased to DM 7.2 million after additions of DM 5.6 million and depreciation of DM 4.1 million.

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 direct debit notes in course of clearing. On December 31, 1969, there was a net asset of DM 1,237.7 million as against one of DM 467.5 million at the end of 1968.

Other assets

Of the DM 154.7 million (end-1968: DM 201.4 million) shown in the item "Other assets" DM 149.6 million (end-1968: DM 171.0 million) represents interest which falls due in 1970, but is assignable to the profit and loss account for the year under review, on funds 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 March 20, 1969, out of the net profit for 1968 DM 100.2 million was added to the legal reserve. In order to cover part of the compensatory amount required for the gold and foreign exchange positions owing to the alteration of the Deutsche Mark parity, DM 299.9 million was withdrawn from the legal and DM 120 million from the other reserves; reserves accordingly declined to DM 860 million.

Provisions

Provisions for the payment of pensions are shown unchanged at DM 920 million; the amount of DM 46.5 million withdrawn for the payment of pensions and widows' and orphans' allowances was returned to these provisions.

Other provisions, serving to cover hazards inherent in foreign and domestic business, decreased in the year under review by DM 1,400 million to DM 250 million. An amount of DM 12.8 million was used to cover the losses suffered on the devaluation of the French franc. DM 1,387.2 million was withdrawn in order partly to offset the depreciation of the gold and foreign exchange positions due to the alteration of the Deutsche Mark parity.

Bank notes in circulation

The circulation of bank notes rose from DM 32,499.0 million at the end of 1968 to DM 34,616.5 million on December 31, 1969.

Circulation of notes and coin

Millions of DM

End of year	Bank notes	Federal coin	Circulation of notes and coin, total
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
1969	34,616.5	2,657.9	37,274.4

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 12,054.6 million, were taken over from the printing offices and put into circulation or made ready for that purpose.

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

	1964	1965	1966	1967	1968	1969
Millions	228.7	182.2	175.1	207.6	323.8	306.7
DM million	6,706.3	4,367.8	3,780.9	5,501.6	10,110.9	10,105.5.

The number and amount of counterfeit German payment media detained in payment transactions in the course of 1969 continued to increase on the preceding year.

Counterfeits discovered

Year	Notes		Coins	
	Number	Thousands of DM	Number	Thousands of DM
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
1969	1,769	84.9	11,621	48.2

Deposits

The balances of German depositors comprise those of		Dec. 31, 1968 DM million		Dec. 31, 1969 DM million
banks		17,578.6		16,890.5
public depositors				
Federal Government	58.8		46.3	
Federal Special Funds	1,660.5		1,350.1	
Länder	1,523.2		2,376.4	
other public depositors	56.4	3,298.9	52.7	3,825.5
other German depositors		377.7		373.2
		21,255.2		21,089.2.

The banks' deposits are mainly composed of the minimum reserves which have to be maintained with the Bundesbank. The Länder deposits on December 31, 1969 included DM 436 million of anticyclical reserves.

Giro transactions

Of the turnover on giro accounts the percentage of cashless settlements was:

	number	amount
1968	99.48	96.84
1969	99.53	97.33.

Annual turnover on giro accounts at the Deutsche Bundesbank

	1968			1969		
	Number of trans-actions	Total amount	Average amount	Number of trans-actions	Total amount	Average amount
Turnover	'000	DM million	DM '000	'000	DM million	DM '000
(a) Credits						
of which						
Cash payments	1,016	104,228	102.6	1,000	108,761	108.8
Settlements with account-holders	7,031	1,115,184	158.6	7,273	1,431,462	196.8
Local transfers	13,746	853,727	62.1	15,057	1,073,728	71.3
Transfers from other places	53,037	928,591	17.5	57,839	1,123,461	19.4
Cheque and direct debit note collections (total lodged)	143,335	319,440	2.2	164,357	397,200	2.4
Total	218,165	3,321,170	—	245,526	4,134,612	—
(b) Debits						
of which						
Cash payments	1,221	105,833	86.7	1,239	111,702	90.2
Settlements with account-holders	3,926	1,122,749	286.0	4,083	1,448,434	354.7
Local transfers	13,746	853,727	62.1	15,057	1,073,728	71.3
Transfers to other places	52,840	915,731	17.3	57,851	1,104,831	19.1
Cheque and direct debit note collections (total paid)	138,746	319,441	2.3	156,392	396,485	2.5
Total	210,479	3,317,481	—	234,622	4,135,180	—
(c) In % of total turnover (credits and debits)		%			%	
Cash payments		3.16			2.67	
Settlements with account-holders		33.71			34.82	
Local transfers		25.72			25.97	
Transfers to and from other places		27.78			26.94	
Cheque and direct debit note collections (total lodged and paid)		9.63			9.60	
		100.00			100.00	

Liabilities in respect of foreign business

The liabilities in respect of foreign business comprised

	Dec. 31, 1968 DM million		Dec. 31, 1969 DM million	
Deposits of foreign depositors				
Banks	230.2		272.4	
Other	92.0	322.2	110.3	382.7
Deposits of domestic banks on US dollar accounts		15.8		68.7
Provision of cover for credits and guarantees by				
non-residents	1.8		2.1	
residents	12.2	14.0	12.8	14.9
Other liabilities		13.5		5.7
		365.5		472.0.

Other liabilities

The "Other liabilities" are shown on December 31, 1969 at DM 35.9 million as against DM 54.4 million at the end of 1968.

Transitory items

In the same way as previously, the transitory items on the liabilities side (DM 161.9 million for 1969; DM 121.2 million for 1968) mainly comprise interest which was received in the year under review, but relates to the next year, on foreign and domestic Treasury bills, bankers' acceptances and commercial bills.

Contingent liabilities and claims

The contingent liabilities and claims are shown on December 31, 1969 at DM 1.7 million against DM 0.4 million at the end of 1968.

Profit and loss account

Comparison of expenditure and receipts

Millions of DM

Expenditure	1968	1969	Receipts	1968	1969
Interest on money-market paper issued in exchange for equalisation claims	58.8	89.2	Interest on		
Other interest	1.7	2.7	monies employed abroad	840.4	1,123.3
	60.2	91.9	equalisation claims	244.1	244.1
Administrative costs			domestic bills of exchange, advances against securities and cash advances, as well as other claims	126.4	365.7
Personnel	220.7	243.1	foreign bills of exchange bought in Germany	68.0	104.5
Materials	39.8	43.8	securities, Treasury bills and Treasury bonds	114.0	80.8
Note printing	35.1	38.4	Other interest	0.8	1.2
Depreciation on fixed assets	15.3	14.7		1,393.7	1,919.6
Allocations to provisions			Fees	4.2	5.4
Liabilities for pension payments	104.9	46.5	Other receipts	14.6	16.5
Other	400.0	—		1,412.5	1,941.5
Pension payments in respect of Reichsbank	27.6	32.9	Drawing on valuation reserves, provisions and reserves	—	2,679.0
Other expenditure	8.1	10.3			
	911.7	521.6			
Compensatory amount required for gold and foreign exchange positions owing to alteration of DM parity	—	4,098.9			
Net profit	500.8	—			
Total	1,412.5	4,620.5	Total	1,412.5	4,620.5

Receipts

Interest

	1968 DM million	1969 DM million
The interest received amounted to	1,393.7	1,919.6.
After deduction of the interest paid out, namely	60.2	91.9
it is shown in the profit and loss account at	1,333.5	1,827.7.

The interest on funds employed abroad increased by DM 282.9 million to DM 1,123.3 million in 1969.

As in the year before, the amount of interest received on equalisation claims was DM 244.1 million; the interest paid on money-market paper issued in exchange for equalisation claims increased during the year under review by DM 30.7 million to DM 89.2 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 365.7 million in 1969 as compared with DM 126.4 million in the preceding year. At DM 80.8 million the interest received on securities, Treasury bills and Treasury bonds was lower by DM 33.2 million than in the previous year. DM 104.5 million of interest accrued from the discounting of foreign bills (1968: DM 68.0 million).

Fees

DM 5.4 million of fees were received in the year under review (1968: DM 4.2 million).

Other receipts

"Other receipts" are shown at DM 16.5 million (1968: DM 14.6 million).

Expenditure

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 established officials, salaried staff and wage earners; they amounted to DM 243.1 million in 1969 (1968: DM 220.7 million). The Bank's staff increased in number by 254 during 1969.

Number of persons employed in the Bundesbank

	End of 1968					End of 1969				
				of whom					of whom	
	Directorate	Land Central Banks	Total	male	female	Directorate	Land Central Banks	Total	male	female
Established officials	611	4,060	4,671	4,599	72	631	4,093	4,724	4,651	73
Salaried employees	1,307	4,943	6,250	2,643	3,607	1,302	5,158	6,460	2,647	3,813
Wage earners	147	819	966	163	803	142	815	957	153	804
Total	2,065	9,822	11,887	7,405	4,482	2,075	10,066	12,141	7,451	4,690

Payments to serving members of the Directorate of the Deutsche Bundesbank and the Central Bank Council amounted to DM 3,840,673.84 in the year under review. Former members of those bodies as well as of 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, received payments in the amount of DM 2,069,696.52.

(b) Materials

The administrative costs in respect of materials rose from DM 39.8 million in 1968 to DM 43.8 million.

Note printing

The expenditure on note printing rose, as compared with 1968, by DM 3.3 million to DM 38.4 million.

Depreciation and allocation to provisions

The depreciation on land and buildings as well as on equipment has been discussed, like the allocation to provisions for pension payments, in connection with the respective balance-sheet items.

Pension payments in respect of Reichsbank

The payments to 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 review to DM 32.9 million (1968: DM 31.5 million). For 1969 these payments were for the first time shown in their full amount in the profit and loss account after the provisions for pension payments to this group of persons, taken over from the Land Central Banks' conversion account, had been used up in 1968.

Compensatory amount required for gold and foreign exchange positions owing to alteration of DM parity

In accordance with the announcement of the Federal Minister of Economics of October 24, 1969 (Federal Advertiser No. 201 of October 28, 1969) the par value of the Deutsche Mark in relation to gold and to the US dollar has been fixed as follows with effect from October 27, 1969:

old parity	new parity
DM 1.00 = 0.222168 grammes of fine gold	DM 1.00 = 0.242806 grammes of fine gold
DM 140.00 = 1 troy ounce of fine gold	DM 128.10 = 1 troy ounce of fine gold
DM 4.00 = 1 US dollar	DM 3.66 = 1 US dollar
DM 1.00 = 25.0000 US cents	DM 1.00 = 27.3224 US cents.

The necessary new valuation of gold and foreign exchange positions resulted in a compensatory amount required of DM 4,098.9 million, which was covered as follows:

Drawing on valuation reserves, provisions and reserves

		DM million
Surplus on current receipts and expenditure in 1969		1,419.9
Drawing on		
Valuation reserves	871.9	
Other provisions	1,387.2	
Reserves		
legal	299.9	
other	120.0	2,679.0
		4,098.9.

The valuation reserves were formed primarily in the second half of 1968 and in 1969 out of profits from foreign exchange dealings, which had expanded exceptionally fast, and out of swap premiums when the exchange risks inherent in the monetary reserves became increasingly evident in view of the growing disequilibria in the balances of payments.

After inclusion of the amounts withdrawn from valuation reserves, provisions, and reserves, the profit and loss account for 1969 is in balance.

Frankfurt am Main, April 1970

Deutsche Bundesbank
The Directorate
Dr. Klasen Dr. Emminger
Dr. Benning Dr. Gocht Dr. Irmler Lucht Tüngeler Dr. Zachau

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

Fund for the Purchase of Equalisation Claims

The Fund brought forward from 1968 liquid funds in the amount of DM 48.4 million. In 1969 DM 87.9 million of new liquid funds were added, DM 40 million out of the Bank's net profit in the 1968 accounting year, DM 47 million by way of interest, redemption and minor resales of equalisation claims, and DM 0.9 million representing a special payment resulting from the settlements mentioned in previous Reports between the Federal and Länder Governments on the one hand and associations or institutions on the other.

In the 1969 accounting year DM 98.3 million was used for purchasing equalisation claims pursuant to Art. 9, paras. 1 and 2, item 2 of the Law on the Redemption of Equalisation Claims, and for satisfying creditors of equalisation claims pursuant to Art. 9, para. 3 of the Law (linear taking over). The linear taking over of equalisation claims accounted for roughly DM 88 million, thus outstripping purchases of equalisation claims, which amounted to a mere DM 10.3 million, by even more than in 1968.

DM 9.7 million was spent in 1969 on purchases pursuant to Art. 9, para. 1 of the Law. Of this amount DM 7.4 million of equalisation claims were bought from liquidating and merged banks and insurance companies (again mainly pension funds), and DM 2.3 million from non-liquidating insurance companies (here, too, pension funds predominated). DM 0.6 million was spent on buying small equalisation claims pursuant to Art. 9, para. 2, item 2 of the Law.

In accordance with Art. 9, para. 3 of the Law, on June 30, 1969 the Purchase Fund took over 2 % of all equalisation claims inscribed in the Federal Government stock register, amounting to DM 88 million, and 1 % of all equalisation claims inscribed in the stock registers of the Länder Baden-Württemberg, Bavaria, Berlin, Bremen and Hamburg. This ended the second taking-over transaction started in 1967, and at the same time initiated the third taking-over transaction.

With the inclusion of the interest and redemption payments due at the end of 1969, at that time the Fund had at its disposal for the 1970 accounting year DM 38.1 million of liquid funds, serving the fulfilment of purchase commitments in the amount of DM 1.5 million; they were almost exclusively employed in Federal Treasury bills and non-interest Treasury bonds. These cash resources and the receipts from interest and redemption payments will probably suffice, apart from necessary purchases, also to take over — on a smaller scale than last year — equalisation claims under Art. 9, para. 3 of the Law. There will be no allocation to the Purchase Fund in 1970 out of the Bank's net profit as provided for in Art. 27, item 3 of the Bundesbank Law, since the Bundesbank's profit and loss account does not show any profit.

Changes in the holding of equalisation claims

	DM initial capital				DM remaining capital
Interest rate	Holding on Dec. 31, 1968	Addition through purchase and linear taking over	Decrease through retrocessions	Holding on Dec. 31, 1969	Holding on Dec. 31, 1969
%	DM				DM
0	77,622,066.37	187,222.49	83,708.49	77,725,580.37	34,199,255.36
3	417,212,948.74	32,628,731.21		449,841,679.95	372,285,648.38
3½	315,544,414.73	82,859,090.81	36,859.04	398,366,646.50	327,182,749.89
4½	158,027,469.36	2,717,022.19		160,744,491.55	129,862,081.62
Total	968,406,899.20	118,392,066.70	120,567.53	1,086,678,398.37	863,529,735.25

The report on the position of the Fund for the Purchase of Equalisation Claims as at December 31, 1969, intended for publication in the Federal Advertiser, is attached as Appendix 3.

Fund for the Redemption of Bundesbank Profit Participation Rights

Pursuant to the announcement of March 9, 1963, (Federal Advertiser No. 48) the Liquidator of the Deutsche Reichsbank had by the end of 1969 delivered altogether 1,499,759 Bundesbank profit participation certificates, having a par value of DM 99,983,933⅓, 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 December 31, 1969.

Pursuant to Art. 7, para. 2 of the Law concerning Liquidation of the Deutsche Reichsbank and the Deutsche Golddiskontbank, of August 2, 1961 (Federal Law Gazette I, page 1165), group 12 of Bundesbank profit participation certificates was drawn on May 19, 1969 for redemption on September 30, 1969 at 150 % of the par value (announcement of the Bank of May 19, 1969, published in Federal Advertiser Nos. 94 and 95 of May 23 and 24, 1969). For this purpose the Fund for the Redemption of Bundesbank Profit Participation Rights had available out of the 1968 net profit DM 10 million, of which DM 9,996,900 was used to repay the Bundesbank profit participation certificates which had been called. One certificate at DM 100 redemption value (DM 66 2/3 par value) was not presented for redemption. Of the profit participation certificates held at the disposal of the Liquidator of the Deutsche Reichsbank, 138 have been drawn, having a redemption value of DM 13,800 (par value: DM 9,200) and including DM 10,800 (par value: DM 7,200) from previous drawings.

Three groups of Bundesbank profit participation certificates (Nos. 6, 9 and 11), amounting at par value to DM 20,000,000.00 (and at redemption value to DM 30 million), now remain to be redeemed.

Frankfurt am Main, April 1970

Deutsche Bundesbank
The Directorate
Dr. Klasen Dr. Emminger
Dr. Benning Dr. Gocht Dr. Irmler Lucht Tüngeler Dr. Zachau

Report of the Central Bank Council

The annual accounts of the Deutsche Bundesbank for 1969, the combined conversion account of the institutions amalgamated to form the Deutsche Bundesbank, as shown by the books at December 31, 1969, and the Reports on the Fund for the Purchase of Equalisation Claims and the Fund for the Redemption of Bundesbank Profit Participation Rights as at December 31, 1969, 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 accounts for 1969, the bookkeeping and the conversion account as shown by the books at December 31, 1969 are in accordance with the legal provisions and that the Funds for the Purchase of Equalisation Claims and for the Redemption of Bundesbank Profit Participation Rights have been properly endowed and administered.

The Central Bank Council approved the annual accounts for 1969 on April 3, 1970. 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 at December 31, 1969, and approved the Reports on the Funds for the Purchase of Equalisation Claims and for the Redemption of Bundesbank Profit Participation Rights as at December 31, 1969.

Since the publication of the Report for the Year 1968 the following changes have taken place in the Central Bank Council and the Directorate of the Deutsche Bundesbank.

Retired from service

as at the close of May 31, 1969
the President of the Land Central Bank in the Rhineland-Palatinate
Professor Dr. Hans-Georg Dahlgrün,

as at the close of December 31, 1969
the President of the Deutsche Bundesbank
Dr. h. c. Karl Blessing,

the Vice-President of the Deutsche Bundesbank
Dr. Dr. h. c. Heinrich Troeger.

Reappointed

with effect from June 16, 1969
Dr. Paul Schütz
President of the Land Central Bank in the Saarland.

Newly appointed

with effect from June 1, 1969
Professor Fritz Duppré, former State Secretary
to be President of the Land Central Bank in the Rhineland-Palatinate,

with effect from January 1, 1970
Dr. Karl Klasen
to be President of the Deutsche Bundesbank,

Dr. Otmar Emminger
hitherto Member of the Directorate
to be Vice-President of the Deutsche Bundesbank.

The Central Bank Council, acting also on behalf of the Directorate and of the Boards of Management of the Land Central Banks, expresses to the established officials, salaried staff and wage earners of the Deutsche Bundesbank its thanks for their loyal and understanding cooperation during the year 1969. The Council likewise wishes to record its appreciation of the excellent collaboration with the staff representations.

Frankfurt am Main, April 1970

Dr. Karl Klasen
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 at Dec. 31, 1968 DM	Changes in 1969 DM	as shown by the books at Dec. 31, 1969 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	8,103,548,468.80	32,128.90	8,103,580,597.70
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
	8,736,316,660.75	32,128.90	8,736,348,789.65
13. Contingent claims	126,558.92		126,558.92

1 Relating to converted small money tokens.

	as shown by the books at Dec. 31, 1968 DM	Changes in 1969 DM	as shown by the books at Dec. 31, 1969 DM
1. Capital	270,000,000.—		270,000,000.—
2. Provisions			
for pension liabilities	126,968,586.60		126,968,586.60
other	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	5,630,705,300.41	32,128.90	5,630,737,429.31
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 para. 52a, b, d and e, Berlin Central Bank Ordinance, and para. 9, Implementing Reg. 2, Conversion Ordinance	588,503,194.91		588,503,194.91
	8,736,316,660.75	32,128.90	8,736,348,789.65
8. Contingent liabilities	126,558.92		126,558.92

Deutsche Bundesbank
The Directorate
Dr. Klasen Dr. Emminger
Dr. Benning 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 at December 31, 1969 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, March 10, 1970

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 at December 31, 1969

 Assets

	DM	DM	DM
1. Gold			14,699,957,863.45
2. Balances with foreign banks and money-market investment abroad			5,693,105,859.52
3. Other investment of money abroad and external assets			4,200,000,000.—
4. Foreign notes and coin, foreign bills and cheques			3,445,363,194.15
5. German coin			137,594,036.51
6. Balances on postal cheque account			451,376,964.70
7. Domestic bills of exchange			11,424,907,087.52
8. Treasury bills and non-interest Treasury bonds of			
(a) Federal Government and Federal Special Funds		577,400,000.—	
(b) Länder		—	577,400,000.—
9. Advances against securities			2,796,971,700.—
10. Cash advances to			
(a) Federal Government and Federal Special Funds		1,904,300,000.—	
(b) Länder		69,791,000.—	1,974,091,000.—
11. Other claims			351,035,690.46
12. Securities of which Bundesbank profit participation certificates having a par value of DM 18,513,000.—			1,031,322,241.28
13. Equalisation claims on public authorities and debt certificate in respect of Berlin			
(a) Equalisation claims	8,135,491,461.43		
less equalisation claims returned in exchange for money-market paper	2,029,450,000.—	6,106,041,461.43	
(b) Debt certificate		547,168,481.20	6,653,209,942.63
14. Credits to Federal Government for participation in international institutions			1,172,501,980.—
15. Claims on Federal Government in respect of acquisition of claims			
(a) resulting from post-war economic aid		690,545,634.65	
(b) from BIS		31,248,000.—	721,793,634.65
16. Loans to international institutions and consolidation loans			1,698,580,925.—
of which (a) to IMF	DM —		
(b) to IBRD	DM 1,543,544,750.—		
(c) from liquidation of EPU	DM 155,036,175.—		
17. Land and buildings			199,469,173.56
18. Equipment			7,246,953.—
19. Items in course of settlement			1,237,688,115.71
20. Other assets			154,738,713.69
21. Transitory items			67,191,606.73
Right of recourse in respect of contingent liabilities		1,672,178.47	
			58,695,546,682.56

	DM	DM	DM
1. Capital			290,000,000.—
2. Reserves			
(a) legal reserve		690,000,000.—	
(b) other reserves		170,000,000.—	860,000,000.—
3. Provisions			
(a) for pension liabilities		920,000,000.—	
(b) for other purposes		250,000,000.—	1,170,000,000.—
4. Bank notes in circulation			34,616,546,855.—
5. Deposits of			
(a) banks		16,890,482,841.50	
(b) public depositors			
(ba) Federal Government	46,309,858.77		
(bb) Federal Special Funds	1,350,121,035.76		
(bc) Länder	2,376,431,086.57		
(bd) other public depositors	52,687,881.03	3,825,549,862.13	
(c) other German depositors		373,198,974.81	21,089,231,678.44
6. Liabilities in respect of foreign business			
(a) Deposits of foreign depositors		382,669,639.22	
(b) Other		89,366,497.63	472,036,136.85
of which provision of cover for letters of credit and guarantees by			
non-residents DM 2,123,234.22			
residents DM 12,822,806.21			
7. Other liabilities			35,849,683.52
8. Transitory items			161,882,328.75
9. Net profit			—
Contingent liabilities		1,672,178.47	
			58,695,546,682.56

Profit and loss account of the Deutsche Bundesbank for the year 1969

Expenditure

	DM	DM
1. Administrative costs		
(a) Personnel	243,105,442.64	
(b) Materials	43,750,513.49	286,855,956.13
2. Note printing		38,428,239.50
3. Depreciation		
(a) on land and buildings	10,579,478.44	
(b) on equipment	4,145,703.26	14,725,181.70
4. Allocation to provisions for pension liabilities		46,500,003.85
5. Pension payments in respect of Reichsbank		32,861,588.03
6. Other expenditure		10,304,612.—
7. Compensatory amount required for gold and foreign exchange positions owing to alteration of DM parity		4,098,852,360.48
8. Net profit		—
		4,528,527,941.69

Receipts

	DM	DM	DM
1. Interest			1,827,691,871.04
2. Fees			5,319,712.62
3. Other receipts			16,498,137.82
4. Drawing on			
(a) Valuation reserves		871,948,002.34	
(b) Other provisions		1,387,170,217.87	
(c) Reserves			
(ca) legal	299,900,000.—		
(cb) other	120,000,000.—	419,900,000.—	2,679,018,220.21
			4,528,527,941.69

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

Frankfurt am Main, March 10, 1970

Deutsche Revisions- und Treuhand-Aktiengesellschaft
Treuarbeit
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Fund for the Purchase of Equalisation Claims

As at December 31, 1969

	Equalisation claims (remaining capital) DM	Cash resources DM	Total assets of the Fund DM
As at December 31, 1968	783,622,036.62	48,421,934.22	832,043,970.84
Allocation from the Deutsche Bundesbank's 1968 net profit		40,000,000.—	40,000,000.—
Special inflows resulting from settlements on equalisation claims		931,743.23	931,743.23
Purchase and linear taking over of equalisation claims	98,279,977.24	— 98,279,977.24	
Redemptions	— 18,302,972.76	18,302,972.76	
Retrocessions	— 69,305.85	69,305.85	
Interest			
on equalisation claims		27,104,839.87	27,104,839.87
from temporary employment of the Fund's cash resources		1,514,995.82	1,514,995.82
As at December 31, 1969	863,529,735.25	38,065,814.51	901,595,549.76

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Returns of the Deutsche Bundesbank

Millions of DM

Date of return	Assets: Gold	Balances with foreign banks and money-market investment abroad	Other investment of money abroad and external assets	Foreign notes and coin, foreign bills and cheques	German coin	Balances on postal cheque account	Domestic bills of exchange	Treasury bills and non-interest Treasury bonds: Total	Federal Government and Federal Special Funds	Länder	Advances against securities	Cash advances: Total	to Federal Government and Federal Special Funds	to Länder	Securities
1969															
Jan. 7	17,880	8,657	3,715	3,143	207	345	2,240	—	—	—	180	1,172	1,146	26	1,666
15	17,880	7,110	3,715	3,172	236	271	3,554	—	—	—	114	739	724	15	1,541
23	17,880	5,993	3,700	3,173	252	195	4,489	—	—	—	1,135	2	—	2	1,463
31	17,880	6,420	3,700	3,174	248	341	4,671	—	—	—	139	200	143	57	1,359
Feb. 7	17,880	6,540	3,700	3,163	254	187	4,412	—	—	—	106	267	258	9	1,225
15	17,888	6,862	3,700	3,272	257	204	4,095	—	—	—	76	418	418	—	1,222
23	17,888	6,559	3,700	3,307	254	176	3,775	—	—	—	927	—	—	—	1,222
28	17,888	6,053	3,700	3,345	242	303	3,261	—	—	—	1,054	—	—	—	1,221
Mar. 7	17,888	5,803	3,700	3,710	243	187	6,233	—	—	—	890	2	—	2	1,215
15	17,888	6,397	3,700	3,786	245	220	6,513	—	—	—	464	—	—	—	1,215
23	17,888	6,270	3,700	3,948	246	176	6,875	130	130	—	1,675	—	—	—	1,215
31	17,888	5,016	3,700	4,159	227	317	7,406	590	590	—	476	—	—	—	1,215
Apr. 7	17,887	5,214	4,200	4,284	214	212	7,583	510	510	—	375	—	—	—	1,210
15	17,887	5,904	4,200	4,294	218	229	7,106	250	250	—	87	—	—	—	1,210
23	17,887	5,944	4,200	4,239	221	162	6,501	250	250	—	82	—	—	—	1,210
30	17,887	7,164	4,200	3,786	208	296	5,453	250	250	—	46	—	—	—	1,210
May 7	17,886	10,005	4,200	3,620	209	248	5,040	10	10	—	47	—	—	—	1,209
15	17,893	21,487	4,200	3,445	208	225	4,372	—	—	—	39	—	—	—	1,209
23	17,893	19,040	4,200	3,025	198	197	3,509	—	—	—	91	—	—	—	1,209
31	17,893	18,462	4,200	2,763	193	364	3,032	—	—	—	46	7	—	7	1,209
June 7	17,892	16,317	4,200	2,522	195	211	3,673	—	—	—	91	17	—	17	1,208
15	17,896	12,640	4,200	2,492	200	272	5,543	—	—	—	1,394	—	—	—	1,208
23	17,895	13,053	4,200	2,428	202	183	7,058	—	—	—	1,055	—	—	—	1,208
30	17,975	11,974	4,200	2,288	190	380	6,860	—	—	—	358	—	—	—	1,210
July 7	17,974	11,608	4,200	2,135	188	194	6,957	100	100	—	958	2	—	2	1,208
15	17,974	11,401	4,200	1,966	189	217	7,003	300	300	—	1,820	—	—	—	1,208
23	17,974	12,123	4,200	1,910	191	191	7,510	200	200	—	511	—	—	—	1,208
31	17,974	12,030	4,215	1,670	169	345	6,984	—	—	—	54	104	98	6	1,208
Aug. 7	17,972	12,398	4,215	1,820	174	215	7,564	—	—	—	1,066	240	229	11	1,111
15	17,978	12,556	4,215	1,952	181	162	6,964	—	—	—	517	—	—	—	1,111
23	17,978	13,090	4,200	2,026	185	168	7,010	304	304	—	2,554	—	—	—	1,111
31	17,978	14,254	4,200	2,061	170	321	7,210	304	304	—	78	—	—	—	1,111
Sep. 7	17,976	15,246	4,200	2,254	170	199	7,889	83	83	—	181	5	—	5	1,109
15	17,976	16,778	4,200	2,300	176	191	8,653	33	33	—	33	—	—	—	1,105
23	17,976	17,032	4,200	2,038	176	184	6,919	—	—	—	101	—	—	—	1,105
30	18,112	19,440	4,200	1,951	161	380	5,800	—	—	—	38	—	—	—	1,096
Oct. 7	18,112	19,772	4,200	1,722	160	219	6,353	—	—	—	44	—	—	—	1,095
15	18,112	17,622	4,200	1,719	162	215	5,519	—	—	—	40	—	—	—	1,082
23	18,112	16,816	4,200	1,865	160	177	6,614	60	60	—	360	—	—	—	1,073
31	16,570	12,307	4,200	1,891	156	329	7,034	453	453	—	1,229	3	—	3	1,012
Nov. 7	16,570	9,205	4,200	2,029	171	202	7,853	753	753	—	1,421	15	—	15	1,008
15	16,577	6,724	4,200	2,039	177	205	8,282	653	653	—	2,452	16	—	16	1,006
23	16,577	5,823	4,200	2,419	174	183	8,899	633	633	—	6,003	—	—	—	1,006
30	16,617	7,450	4,200	2,763	153	363	9,168	533	533	—	2,964	49	—	49	1,006
Dec. 7	16,576	4,776	4,200	3,086	135	286	10,624	2,118	2,118	—	5,077	41	—	41	1,028
15	16,506	7,803	4,200	3,244	125	205	10,837	1,668	1,668	—	318	—	—	—	1,030
23	16,506	5,860	4,200	3,391	115	734	10,903	978	978	—	1,033	444	444	—	1,032
31	14,700	5,693	4,200	3,445	138	452	11,425	578	578	—	2,797	1,974	1,904	70	1,031

1 Including equalisation claims resulting from conversion of Berlin pre-capitulation accounts (Supplementary Conversion Law) and from conversion of pre-currency-reform accounts with banks 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 acquisition of claims		Loans to international institutions and consolidation loans							
	Equalisation claims									of 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 BIS	Total	to IMF	to IBRD	from liquidation of EPU	Compensatory amount required for new valuation of gold and foreign exchange positions	Other assets	Total	Date of return
																1969
6,108	8,136	—	2,575	5,561	547	4,042	706	62	3,969	2,082	1,644	243	—	411	54,503	Jan. 7
6,286	8,136	—	2,397	5,739	547	4,013	706	62	3,969	2,082	1,644	243	—	473	53,841	15
6,497	8,136	—	2,186	5,950	547	4,012	706	62	3,969	2,082	1,644	243	—	395	53,923	23
6,594	8,136	—	2,089	6,047	547	3,962	706	62	3,969	2,082	1,644	243	—	759	54,184	31
6,538	8,136	—	2,145	5,991	547	3,960	706	62	4,068	2,082	1,743	243	—	362	53,430	Feb. 7
6,576	8,136	—	2,107	6,029	547	3,960	706	62	4,068	2,082	1,743	243	—	377	53,743	15
6,556	8,136	—	2,127	6,009	547	3,960	706	62	4,068	2,082	1,743	243	—	858	54,018	23
6,616	8,136	—	2,067	6,069	547	3,960	706	62	3,664	1,678	1,743	243	—	713	52,788	28
6,509	8,136	—	2,174	5,962	547	3,960	706	62	3,664	1,678	1,743	243	—	402	55,174	Mar. 7
6,724	8,136	—	1,959	6,177	547	3,960	706	62	3,664	1,678	1,743	243	—	395	55,939	15
6,986	8,136	—	1,697	6,439	547	3,853	706	62	3,402	1,678	1,481	243	—	490	57,622	23
7,011	8,136	—	1,672	6,464	547	3,811	706	62	3,402	1,678	1,481	243	—	799	56,785	31
6,924	8,136	—	1,759	6,377	547	3,810	706	31	3,402	1,678	1,481	243	—	448	57,010	Apr. 7
6,866	8,136	—	1,817	6,319	547	3,810	706	31	3,402	1,678	1,481	243	—	518	56,718	15
6,805	8,136	—	1,878	6,258	547	3,800	706	31	3,402	1,678	1,481	243	—	496	55,936	23
6,841	8,136	—	1,842	6,294	547	3,730	706	31	3,402	1,678	1,481	243	—	880	56,090	30
6,732	8,136	—	1,951	6,185	547	3,708	706	31	3,402	1,678	1,481	243	—	547	57,600	May 7
6,657	8,136	—	2,026	6,110	547	3,678	706	31	3,402	1,678	1,481	243	—	471	68,023	15
6,593	8,136	—	2,090	6,046	547	3,671	706	31	3,188	1,464	1,481	243	—	1,278	64,829	23
6,289	8,136	—	2,394	5,742	547	3,671	706	31	3,188	1,464	1,481	243	—	765	62,819	31
6,464	8,136	—	2,219	5,917	547	3,671	706	31	3,188	1,464	1,481	243	—	636	61,022	June 7
6,332	8,136	—	2,351	5,785	547	3,671	706	31	3,188	1,464	1,481	243	—	596	60,369	15
6,569	8,136	—	2,114	6,022	547	3,671	706	31	3,188	1,464	1,481	243	—	773	62,220	23
6,574	8,136	—	2,109	6,027	547	3,731	706	31	3,548	1,824	1,481	243	—	1,278	61,303	30
6,214	8,136	—	2,469	5,667	547	3,731	691	31	3,548	1,824	1,481	243	—	633	60,372	July 7
6,222	8,136	—	2,461	5,675	547	3,731	691	31	3,548	1,824	1,481	243	—	793	61,294	15
6,218	8,136	—	2,465	5,671	547	3,731	691	31	3,548	1,824	1,481	243	—	806	61,043	23
6,175	8,136	—	2,508	5,628	547	3,718	691	31	3,548	1,824	1,481	243	—	1,136	60,052	31
6,078	8,136	—	2,605	5,531	547	3,718	691	31	3,559	1,824	1,580	155	—	592	61,444	Aug. 7
6,434	8,136	—	2,249	5,887	547	3,768	691	31	3,559	1,824	1,580	155	—	694	60,813	15
6,603	8,136	—	2,080	6,056	547	3,748	691	31	3,559	1,824	1,580	155	—	719	63,977	23
6,816	8,136	—	1,867	6,269	547	3,748	691	31	3,559	1,824	1,580	155	—	839	63,371	31
6,527	8,136	—	2,156	5,980	547	3,568	691	31	3,559	1,824	1,580	155	—	658	64,346	Sep. 7
6,390	8,136	—	2,293	5,843	547	3,561	691	31	3,559	1,824	1,580	155	—	639	66,316	15
5,643	8,136	—	3,040	5,096	547	3,549	691	31	3,559	1,824	1,580	155	—	567	63,771	23
5,757	8,136	—	2,926	5,210	547	3,729	691	31	3,935	2,200	1,580	155	—	1,329	66,650	30
6,195	8,136	—	2,488	5,648	547	3,729	691	31	3,935	2,200	1,580	155	—	745	67,003	Oct. 7
6,276	8,136	—	2,407	5,729	547	3,770	691	31	3,935	2,200	1,580	155	—	899	64,273	15
6,296	8,136	—	2,387	5,749	547	3,770	691	31	3,935	2,200	1,580	155	—	925	65,085	23
6,261	8,136	—	2,422	5,714	547	3,450	691	31	3,711	2,013	1,543	155	4,287	1,097	64,712	31
6,196	8,136	—	2,487	5,649	547	3,450	691	31	3,711	2,013	1,543	155	4,287	678	62,471	Nov. 7
6,052	8,136	—	2,631	5,505	547	3,390	691	31	3,711	2,013	1,543	155	4,287	691	61,184	15
5,978	8,136	—	2,705	5,431	547	3,390	691	31	3,711	2,013	1,543	155	4,287	831	64,836	23
6,007	8,136	—	2,676	5,460	547	1,172	691	31	3,711	2,013	1,543	155	4,277	1,629	62,784	30
6,310	8,136	—	2,373	5,763	547	1,172	691	31	3,711	2,013	1,543	155	4,277	669	64,808	Dec. 7
6,609	8,136	—	2,074	6,062	547	1,172	691	31	1,698	—	1,543	155	4,277	790	61,204	15
6,690	8,136	—	1,993	6,143	547	1,172	691	31	1,698	—	1,543	155	4,277	1,703	61,458	23
6,653	8,136	—	2,030	6,106	547	1,172	691	31	1,698	—	1,543	155	—	2,018	58,696	31

Returns of the Deutsche Bundesbank (cont'd)

Millions of DM

Date of return		Liabilities: Bank notes in circulation	Deposits: Total	of: banks	public depositors: Total	Federal Government	Federal Special Funds	Länder	other public depositors	other German depositors
1969 Jan.	7	30,880	18,480	15,503	2,659	13	1,191	1,421	34	318
	15	29,973	18,759	15,338	3,107	14	1,091	1,959	43	314
	23	28,271	20,778	14,239	6,259	2,110	1,243	2,874	32	280
	31	31,931	17,402	14,216	2,917	13	1,330	1,543	31	269
Feb.	7	30,217	18,244	15,489	2,490	11	1,064	1,390	25	265
	15	30,059	18,646	14,802	3,574	12	1,414	2,114	34	270
	23	28,892	19,893	13,381	6,256	1,422	2,236	2,569	29	256
	28	32,637	15,169	12,371	2,524	153	990	1,349	32	274
Mar.	7	31,223	18,575	15,783	2,507	259	873	1,346	29	285
	15	30,790	20,005	14,374	5,361	959	1,026	3,345	31	270
	23	29,321	23,116	13,755	9,094	3,855	1,041	4,161	37	267
	31	32,722	19,265	13,211	5,729	1,537	1,535	2,613	44	325
Apr.	7	32,356	19,817	14,743	4,758	1,130	1,250	2,351	27	316
	15	30,280	21,499	16,128	5,067	1,222	938	2,870	37	304
	23	28,756	22,273	13,888	8,098	3,291	1,694	3,080	33	287
	30	33,029	18,230	13,762	4,174	1,444	982	1,720	28	294
May	7	31,191	21,620	18,010	3,300	745	870	1,657	28	310
	15	31,288	31,406	27,737	3,338	482	764	2,052	40	331
	23	30,356	29,092	20,402	8,386	2,714	3,034	2,603	35	304
	31	33,428	24,150	20,291	3,554	814	1,010	1,693	37	305
June	7	32,251	23,655	20,118	3,244	751	845	1,618	30	293
	15	31,902	23,045	17,752	5,000	988	743	3,199	70	293
	23	30,045	27,158	16,939	9,909	4,225	1,111	4,510	63	310
	30	33,810	22,315	16,397	5,587	1,213	1,571	2,743	60	331
July	7	32,618	22,586	18,457	3,805	552	930	2,293	30	324
	15	32,258	23,802	18,685	4,768	826	983	2,921	38	349
	23	30,861	24,982	17,877	6,812	2,848	818	3,097	49	293
	31	34,487	20,304	16,923	3,092	32	1,266	1,757	37	289
Aug.	7	32,781	23,172	20,554	2,334	11	741	1,548	34	284
	15	32,486	22,999	18,809	3,891	462	941	2,435	53	299
	23	31,038	27,544	20,431	6,840	2,479	1,439	2,886	36	273
	31	34,404	23,443	19,255	3,912	295	1,928	1,657	32	276
Sep.	7	33,141	25,757	22,295	3,177	277	1,167	1,707	26	285
	15	32,202	28,449	21,915	6,217	1,402	838	3,936	41	317
	23	30,311	27,836	16,897	10,643	4,766	953	4,875	49	296
	30	34,066	26,459	19,037	7,106	2,234	1,443	3,387	42	316
Oct.	7	32,548	28,715	22,156	6,246	2,209	996	3,014	27	313
	15	32,040	26,337	19,777	6,250	1,624	1,193	3,408	25	310
	23	30,389	28,893	19,228	9,370	4,129	1,329	3,859	53	295
	31	34,234	24,000	18,284	5,417	1,721	1,266	2,401	29	299
Nov.	7	32,495	23,351	18,662	4,397	1,049	970	2,353	25	292
	15	32,376	22,333	17,154	4,869	975	1,002	2,854	38	310
	23	31,109	27,313	18,796	8,218	3,349	1,214	3,600	55	299
	30	35,947	20,427	15,545	4,569	1,254	1,596	1,680	39	313
Dec.	7	35,548	23,084	19,747	3,032	821	801	1,379	31	305
	15	34,216	20,861	15,862	4,637	1,008	372	3,220	37	362
	23	34,490	20,909	14,954	5,621	48	2,339	3,177	57	334
	31	34,617	21,089	16,890	3,826	46	1,351	2,376	53	373

Liabilities in respect of foreign business					Provisions	Capital	Reserves	Other liabilities	Total	Date of return
		Other								
			of which provision of cover for letters of credit and guarantees by							
Total	Deposits of foreign depositors	Total	non-residents	residents						
479	372	107	2	11	2,110	290	1,180	1,084	54,503	1969 Jan. 7
416	352	64	2	8	2,110	290	1,180	1,113	53,841	15
394	343	51	2	15	2,110	290	1,180	900	53,923	23
349	308	41	2	13	2,110	290	1,180	922	54,184	31
352	313	39	2	10	2,110	290	1,180	1,037	53,430	Feb. 7
416	382	34	2	6	2,110	290	1,180	1,042	53,743	15
595	543	52	2	13	2,110	290	1,180	1,058	54,018	23
335	297	38	2	12	2,110	290	1,180	1,067	52,788	28
629	505	124	2	8	2,110	290	1,180	1,167	55,174	Mar. 7
395	355	40	2	7	2,110	290	1,180	1,169	55,939	15
522	478	44	2	12	2,110	290	1,180	1,083	57,622	23
506	412	94	2	13	2,110	290	1,180	712	56,785	31
512	473	39	2	10	2,110	290	1,180	745	57,010	Apr. 7
578	513	65	2	6	2,570	290	1,280	221	56,718	15
567	523	44	1	12	2,570	290	1,280	200	55,936	23
503	461	42	1	12	2,570	290	1,280	188	56,090	30
447	406	41	1	10	2,570	290	1,280	202	57,600	May 7
783	666	117	1	6	2,570	290	1,280	406	68,023	15
839	755	84	1	14	2,570	290	1,280	402	64,829	23
667	563	104	1	11	2,570	290	1,280	434	62,819	31
509	397	112	1	8	2,570	290	1,280	467	61,022	June 7
553	477	76	1	5	2,570	290	1,280	729	60,369	15
428	370	58	1	11	2,570	290	1,280	449	62,220	23
438	403	35	1	12	2,570	290	1,280	600	61,303	30
444	365	79	1	9	2,570	290	1,280	584	60,372	July 7
486	423	63	1	5	2,570	290	1,280	608	61,294	15
463	418	45	1	12	2,570	290	1,280	597	61,043	23
476	435	41	1	12	2,570	290	1,280	645	60,052	31
675	643	32	2	6	2,570	290	1,280	676	61,444	Aug. 7
506	443	63	2	5	2,570	290	1,280	682	60,813	15
470	433	37	2	10	2,570	290	1,280	785	63,977	23
556	524	32	2	10	2,570	290	1,280	828	63,371	31
465	440	25	2	10	2,570	290	1,280	843	64,346	Sep. 7
488	429	59	2	8	2,570	290	1,280	1,037	66,316	15
483	451	32	2	11	2,570	290	1,280	1,001	63,771	23
999	966	33	2	12	2,570	290	1,280	986	66,650	30
517	483	34	2	7	2,570	290	1,280	1,083	67,003	Oct. 7
628	572	56	2	6	2,570	290	1,280	1,128	64,273	15
548	483	65	2	15	2,570	290	1,280	1,115	65,085	23
632	599	33	2	12	2,570	290	1,280	1,706	64,712	31
801	769	32	2	10	2,570	290	1,280	1,684	62,471	Nov. 7
684	650	34	2	9	2,570	290	1,280	1,651	61,184	15
695	656	39	2	16	2,570	290	1,280	1,579	64,836	23
711	674	37	2	13	2,570	290	1,280	1,559	62,784	30
478	447	31	2	12	2,570	290	1,280	1,558	64,808	Dec. 7
560	473	87	2	5	2,570	290	1,280	1,427	61,204	15
548	439	109	3	16	2,570	290	1,280	1,371	61,458	23
472	383	89	2	13	1,170	290	860	198	58,696	31

Turnover on the giro accounts of the Deutsche Bundesbank

Area	Debits				Credits			
	1968		1969		1968		1969	
	'000 1	DM million	'000 1	DM million	'000 1	DM million	'000 1	DM million
Land Central Bank								
Baden-Württemberg	27,940	321,684	31,369	392,751	33,032	322,004	37,266	392,903
Bavaria	37,577	343,254	42,361	436,353	31,803	343,814	37,536	436,590
Berlin	2,613	71,823	2,986	81,313	2,899	71,894	3,134	81,357
Bremen	4,335	40,882	4,675	50,103	5,603	40,956	5,696	50,050
Hamburg	8,733	306,579	9,276	402,885	12,998	306,815	15,322	402,912
Hesse	22,896	533,624	27,476	754,295	23,127	534,295	27,021	753,789
Lower Saxony	22,292	179,537	24,476	210,175	21,762	179,755	24,131	210,040
North Rhine-Westphalia	62,526	973,077	68,709	1,200,742	65,126	974,160	71,149	1,200,906
Rhineland-Palatinate	11,971	108,001	13,086	143,322	13,296	108,119	15,174	143,306
Saarland	2,654	26,648	2,881	31,022	2,342	26,683	2,633	30,987
Schleswig-Holstein	6,410	54,305	6,807	59,803	5,659	54,337	5,942	59,849
Total	209,947	2,959,414	234,102	3,762,764	217,647	2,962,832	245,004	3,762,689
Bundesbank – Directorate –	532	358,067	520	372,416	518	358,338	522	371,923
Grand total	210,479	3,317,481	234,622	4,135,180	218,165	3,321,170	245,526	4,134,612

1 Number of transactions

Simplified collection of cheques and direct debit notes

Area	Lodged				Paid			
	1968		1969		1968		1969	
	'000	DM million	'000	DM million	'000	DM million	'000	DM million
Land Central Bank								
Baden-Württemberg	20,928	43,621	24,115	55,188	19,354	43,902	21,933	55,679
Bavaria	20,203	39,784	24,750	52,411	19,747	43,307	22,958	55,075
Berlin	1,989	6,488	2,175	7,746	1,648	5,225	1,867	6,374
Bremen	4,210	6,169	4,253	7,197	2,864	6,215	3,051	7,391
Hamburg	8,427	21,697	10,347	25,641	4,637	18,641	5,066	21,404
Hesse	15,588	38,604	18,773	49,905	16,357	42,861	20,238	54,727
Lower Saxony	14,587	27,725	16,476	35,201	16,264	29,012	18,094	36,446
North Rhine-Westphalia	44,542	110,134	48,668	133,043	44,220	104,536	48,273	127,272
Rhineland-Palatinate	8,384	16,187	9,826	20,122	7,855	15,961	8,599	20,313
Saarland	1,423	3,122	1,611	3,940	1,652	3,148	1,810	4,040
Schleswig-Holstein	3,035	5,839	3,346	6,725	4,142	6,593	4,496	7,733
Total	143,316	319,370	164,340	397,119	138,740	319,401	156,385	396,454
Bundesbank – Directorate –	19	70	17	81	6	40	7	31
Grand total	143,335	319,440	164,357	397,200	138,746	319,441	156,392	396,485

Telegraphic giro transactions

telegraphic giro transfers dispatched

Area	1968		1969	
	'000	DM million	'000	DM million
Land Central Bank				
Baden-Württemberg	34	57,884	38	70,868
Bavaria	34	55,704	38	74,404
Berlin	5	20,996	5	22,302
Bremen	3	4,574	4	6,325
Hamburg	15	36,070	16	46,271
Hesse	37	112,670	41	156,816
Lower Saxony	22	32,214	22	38,730
North Rhine-Westphalia	64	168,345	67	209,474
Rhineland-Palatinate	13	16,651	13	29,191
Saarland	3	4,379	3	4,921
Schleswig-Holstein	6	9,851	6	10,763
Total	236	519,338	253	670,065
Bundesbank – Directorate –	6	5,490	7	5,235
Grand total	242	524,828	260	675,300

Certified cheques

Land Central Bank	1968		1969	
	Number	DM million	Number	DM million
Baden-Württemberg	1,901	2,710	1,883	3,114
Bavaria	1,022	1,316	997	1,492
Berlin	75	11	63	5
Bremen	60	2	57	2
Hamburg	252	68	222	41
Hesse	1,605	1,678	1,612	1,998
Lower Saxony	317	424	498	206
North Rhine-Westphalia	8,743	19,831	8,347	19,987
Rhineland-Palatinate	320	133	352	201
Saarland	3	—	6	—
Schleswig-Holstein	103	51	143	105
Total	14,401	26,224	14,180	27,151

Turnover in clearing transactions

	1968						1969					
	Bills, cheques, etc., lodged		Local transfers lodged		Total		Bills, cheques, etc., lodged		Local transfers lodged		Total	
Land Central Bank	'000	DM mn	'000	DM mn	'000	DM mn	'000	DM mn	'000	DM mn	'000	DM mn
Baden-Württemberg	24,659	67,929	10,874	19,248	35,533	87,177	27,116	83,096	12,455	23,517	39,571	106,613
Bavaria	25,273	69,802	17,330	20,099	42,603	89,901	28,252	87,641	19,517	25,147	47,769	112,788
Berlin	5,773	17,018	5,916	25,132	11,689	42,150	6,259	19,579	6,951	29,838	13,210	49,417
Bremen	4,556	11,491	5,963	10,808	10,519	22,299	4,951	13,461	6,234	11,913	11,185	25,374
Hamburg 1	9,732	33,300	36,551	281,716	46,283	315,016	11,652	38,298	36,352	357,817	48,004	396,115
Hesse	20,193	313,415	10,032	868,224	30,225	1,181,639	24,182	407,235	11,947	1,336,776	36,129	1,744,011
Lower Saxony	14,565	33,209	9,027	15,548	23,592	48,757	16,130	38,575	10,197	18,264	26,327	56,839
North Rhine-Westphalia	53,974	138,993	23,724	147,644	77,698	286,637	59,513	170,335	27,678	198,223	87,191	368,558
Rhineland-Palatinate	7,768	17,274	3,745	5,682	11,513	22,956	8,384	20,814	4,441	6,768	12,825	27,582
Saarland	2,105	5,430	2,058	7,120	4,163	12,550	2,313	6,613	2,229	8,811	4,542	15,424
Schleswig-Holstein	5,376	9,141	7,428	7,894	12,804	17,035	6,017	11,086	7,981	8,828	13,998	19,914
Total	173,974	717,002	132,648	1,409,115	306,622	2,126,117	194,769	896,733	145,982	2,025,902	340,751	2,922,635

1 The Hamburg clearing transactions, to which special arrangements apply, include moreover: 1969: 1,624,000 transfers to and from other places amounting to DM 5,340 million (1968: 1,776,000 amounting to DM 4,796 million)

Bank note circulation

Position at end of year

	1966		1967		1968		1969	
Denomination in DM	DM million	%	DM million	%	DM million	%	DM million	%
1,000	1,237.06	4.02	1,418.43	4.49	1,773.73	5.46	1,949.00	5.63
500	1,068.68	3.47	1,250.07	3.96	1,452.24	4.47	1,670.64	4.83
100	15,942.35	51.81	16,407.94	51.96	16,897.53	51.99	18,162.43	52.47
50	8,190.40	26.62	8,063.18	25.54	7,917.25	24.36	8,166.20	23.59
20	2,627.49	8.54	2,671.33	8.46	2,662.04	8.19	2,773.66	8.01
10	1,471.15	4.78	1,540.00	4.88	1,582.92	4.87	1,677.38	4.84
5	233.02	0.76	223.28	0.71	213.27	0.66	217.24	0.63
Total	30,770.15	100.00	31,574.23	100.00	32,498.98	100.00	34,616.55	100.00

Coin in circulation

Position at end of year

	1966		1967		1968		1969	
Denomination in DM	DM million	%	DM million	%	DM million	%	DM million	%
5.—	660.80	30.94	722.04	32.02	806.84	33.02	885.81	33.33
2.—	335.26	15.70	359.28	15.93	389.17	15.93	422.56	15.90
1.—	565.19	26.46	584.92	25.94	617.64	25.27	668.07	25.14
—.50	253.71	11.88	266.41	11.81	285.07	11.67	309.42	11.64
—.10	203.16	9.51	200.64	8.90	213.20	8.72	229.77	8.64
—.05	64.50	3.02	64.55	2.86	69.34	2.84	74.63	2.81
—.02	17.48	0.82	19.58	0.87	22.27	0.91	25.31	0.95
—.01	35.77	1.67	37.63	1.67	40.12	1.64	42.30	1.59
Total	2,135.87	100.00	2,255.05	100.00	2,443.65	100.00	2,657.87	100.00

Branch Establishments of the Deutsche Bundesbank

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
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 part of 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
432	642 Lauterbach	Fulda	H

Serial number	Bank place	Appropriate Main Branch	Land Central Bank [1]
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	Heilbronn	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 [2] considered part of 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
612	744 Nürtingen	Reutlingen	BW
333	42 Oberhausen [3]	Essen	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 part of 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
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 Belonging to the area of the Land Central Bank in Bavaria.
3 This Main Branch was changed into a Branch on April 1, 1970.

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