

REPORT

of the

DEUTSCHE BUNDESBANK

for the Year 1965

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IN THE ACCOUNTING YEAR 1965**

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Dr. Leonhard G l e s k e

Heinrich H a r t l i e b (died 15 August 1965)

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AND OF THE BOARDS OF MANAGEMENT OF THE LAND CENTRAL BANKS**

Members as of 1 April 1966

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REPORT OF THE DEUTSCHE BUNDESBANK FOR THE YEAR 1965

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The German original went to press on 14 April 1966

Part A

General Part

Economic Trends and Central Bank Policy

I. General Survey

The Bundesbank's credit policy in 1965 was directed to checking domestic inflationary tendencies and to averting major danger to external equilibrium. While towards the end of last year and in the first months of this it looked as though the deficit on current transactions with foreign countries had somewhat decreased, the domestic markets even very recently have still been far from thorough stabilisation. Here too, however, there was in many respects a turn for the better. It is true that by the end of 1965 the labour market had not become perceptibly relaxed, nor had the rise of prices and costs come to an end. But the growth of home demand was becoming a good deal slower, so that gradual cessation of the upward price trend appears possible, at least if in all measures relevant to economic policy the stability of prices is accorded priority over every other aim of such policy.

The signs of incipient stabilisation are due not only to the curative forces automatically inherent in a deficit on the balance of payments, but also in no small degree to the restrictive course which the Bundesbank pursued during 1965 in its credit policy — just as it had in 1964 — and which it has consistently maintained. This connection is apparent above all in the fact that the demand for capital goods and building on the part of enterprises, and later in 1965 also on that of public authorities, that is more particularly the demand in the sectors dependent on interest rates and credit, was rising far more slowly than before. In contrast to opinions voiced in some quarters, the economy in important fields continues to be quite sensitive to changes in interest rates. This applies in particular to longer-term investments, where interest is of great importance as a cost factor except where such importance is artificially diminished by government measures such as interest subsidies and other forms of encouragement. If interest rates increase perceptibly, the overall demand for credit slackens sooner or later even if some sectors of the economy should remain unaffected. Another factor of at least equal importance for the success of restrictive credit policy is the tightening of liquidity which has the effect that credits not only become more expensive but can no longer be made available by the banks to the extent required. Thus a restrictive monetary and credit policy affects both the demand for credit and the supply of it, and hence markedly influences investors' decisions even though this effect becomes evident only gradually because of the time-lags which are to some extent unavoidable. It would amount to misunderstanding of the functioning of credit policy to conclude from such time-lags — which for special reasons have been quite large in the present restrictive phase — that the instruments of credit policy became effective only when the state of economic activity no longer demanded restraint.

True, the restrictive effect of credit policy resulted not so much from new decisions of the Bundesbank as from the fact that the Bank deliberately allowed the continuing drain of bank liquidity induced by the deficit on the balance of payments, and also by the rest of the relevant factors, to produce its full effect on the liquidity of credit institutions. The Bundesbank adopted

active measures only in so far as it reduced the credit institutions' facilities for borrowing from it by cutting their rediscount quotas, and moreover raised its discount and advance rates as well as its rates for sale and repurchase in open-market transactions, raising its rate for discounts and for cash advances by $\frac{1}{2}\%$ in January and by a further $\frac{1}{2}\%$ in August 1965 to a final level of 4% per annum, and the rate for advances against securities by equal increases to 5% per annum. The Bundesbank's other measures, serving mainly to refine the instruments of Central Bank policy, were of relatively less importance although they did support the restrictive intention.

Owing to the large deficit on the balance of payments and the outflows of foreign exchange the Bundesbank's credit policy during 1965, even more clearly than during 1964, was in the "classical" situation in which restrictive measures served to restore both internal and external equilibrium. The contradiction typical of some earlier boom periods, when excess demand at home was accompanied by large balance-of-payments surpluses and so confronted the framers of credit policy with a basically insoluble conflict of aims, was not present in 1965. It nevertheless did not prove possible rapidly to decrease the imbalance in the economy, still less to eliminate it, the reason being that it was in practice left to credit policy alone to support the process of economic stabilisation. But the Central Bank's instruments, which directly affect only liquidity and the level of interest rates, never act more than gradually. This is especially so when, as at the beginning of the present restrictive period, the liquid reserves of the banks and of trade and industry are very large because they have previously been built up. An extremely unfortunate effect was moreover produced by the fact that the public authorities' demand for credit in 1965, especially up till the summer, proved immune to the general deterioration of conditions for financing. Despite sharply rising rates of interest the authorities tried to effect their planned expenditure, which materially exceeded their prospective revenues, and to finance the uncovered expenditure by borrowing and by reducing their credit balances. Thus they not only on their part aggravated the rise of interest rates, but also decisively contributed towards the excess demand on the markets for goods continuing, or at all events not decreasing so much as it might have done if the authorities' spending policy had been even merely neutral in its effect on the business cycle, let alone anticyclical. Only on the basis of political decisions, largely consequent on the round-table discussions about the capital market, was the official demand for credit cut down to some extent — or at least the meeting of it postponed — from the late summer onwards.

In 1965 it became even more obvious than before how greatly the effectiveness of credit policy depends on the course of the public finances, and that credit policy cannot neutralise — still less outweigh — the expansive effect which large government deficits produce through a direct increase of overall demand and of income formation. More particularly in the short run credit policy cannot do this; it is indeed rendered powerless if the public authorities can finance their deficits out of existing credit balances, as they still could to an appreciable extent in 1965. Measures of credit policy can never do more than reduce demand and income formation indirectly, by worsening the conditions for financing, thereby limiting investment and hence affecting employment. In any event delays must be accepted. One reason why fiscal policy in 1965 was definitely procyclical, contrary to every aim of economic policy, was that — particularly owing to the income tax reduction at the beginning of 1965 — receipts were rising much less than previously, and that not enough allowance was made for this fact in the planning of expenditure, still less in the execution of the budget.

If the public authorities behave in a manner distinctly at variance with that required in view of the business cycle, matters cannot really be set right even by widening the Central Bank's powers to control credit, and by vigorously using those widened powers, desirable though it is to perfect the Central Bank's instruments and adapt them to changing economic circumstances. The remarks which now follow about the most important trends in the German economy last year, and on how they were influenced by credit policy measures, will clearly show that the effectiveness of such policy was limited not so much by any inefficiency of instruments (in Germany

these are fully up-to-date) but by reason of the fact that the decisions on financial policy were in great part contrary to the needs of credit policy. If the instruments for control of the business cycle are to be improved, and such improvement would undoubtedly be welcome, a start should be made with fiscal policy — although here again formal improvement of the instruments is not enough, since this must inevitably prove worthless if there is no firm political will to make use of the available possibilities.

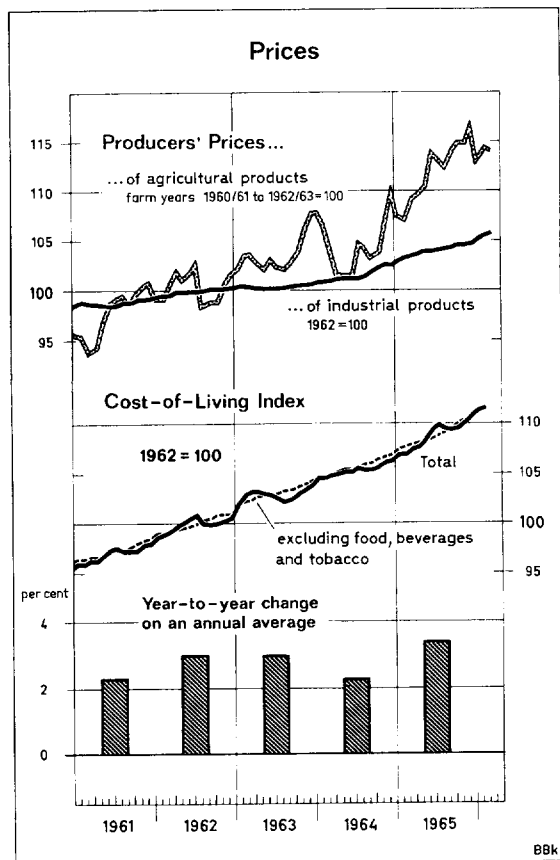
1. Overstraining of the domestic economy

The economy of the Federal Republic of Germany began the year 1965 with full order books, with optimistic plans for the expansion of plants, and with relatively good expectations in regard to earnings. The plans of enterprises for investment, those of public authorities for expenditure and those of households for consumption, at that time far exceeded what could ultimately be realised in terms of supply. Even when the propensity of enterprises to invest became weaker in the further course of the year, and moreover owing to the scarcity of credit the public authorities were not able to spend as much as they had planned, total demand within the country still grew faster than the supply available from domestic production and supplemented by steeply rising imports. The tensions which resulted on domestic markets from this overstraining persisted throughout the year although, as is clear from some of the statistical pointers, their strength did decrease.

Pointers to excessive strains in the internal economy

The clearest and most publicly noticed indication of the imbalance on domestic markets was that prices rose continuously, in almost all cases even faster than a year before. On the average for 1965 the cost-of-living index (which, although certainly in some respects inadequate,

Faster price rise



is the most representative measure of changes in the value of money) was higher by 3.4 per cent than on the average for 1964. At the same time producers' prices for industrial products were up by 2.4 per cent, prices for house building work by 4.5 per cent, and producers' prices for farm products by 7.1 per cent. Apart from builders' prices, which in civil engineering actually declined, the above-mentioned price rises were on the annual average greater in 1965 than in 1964. Prices reacted only slightly to the fact that demand in the second half of 1965 no longer continued to grow at the previous pace. Although the rise in producers' prices for industrial products became slower towards the end of last year, the index for them in March 1966 was still higher by 2.3 per cent than a year previously (against, it is true, 2.9 per cent at the middle of 1965). Producers' prices for farm products towards the end of 1965 rose less than usual at the season, and at the beginning of 1966 they even fell for a time. But here again the previous rise was offset only in part, since agricultural prices in March 1966 were still above the level of a year previously by

Figures Illustrating Economic Trends

Monthly averages

| Item | Basis or unit | 1959 | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1965 | | | | 1966 | |
|--|------------------------------|------------------------------------|----------------------|----------------------|----------------------|--------------------|--------------------|--------------------|----------------------|----------------------|----------------------|----------------------|---------------------|--|
| | | | | | | | | | 1st qtr. | 2nd qtr. | 3rd qtr. | 4th qtr. | Jan. / Feb. P) | |
| Production | | | | | | | | | | | | | | |
| Index of industrial production ^{1) 5) 6)} | | | | | | | | | | | | | | |
| Total | 1958 = 100 | 107 | 119 | 127 | 132 | 137 | 149 | 157 | 151 | 163 | 151 | 165 | 154 | |
| Basic and producer goods industries | 1958 = 100 | 113 | 129 | 135 | 141 | 148 | 168 | 178 | 169 | 184 | 180 | 179 | 173 | |
| Capital goods industries | 1958 = 100 | 107 | 124 | 134 | 138 | 141 | 153 | 163 | 160 | 172 | 149 | 172 | 159 | |
| Consumer goods industries | 1958 = 100 | 107 | 118 | 124 | 132 | 136 | 145 | 155 | 151 | 159 | 144 | 166 | 155 | |
| Output of selected products | | | | | | | | | | | | | | |
| Power production ³⁾ | mn kw-hrs | 8,464 ⁶⁾ ¹⁵⁾ | 9,573 ⁶⁾ | 10,219 ⁶⁾ | 11,135 ⁶⁾ | 12,370 | 13,496 | 14,132 | 14,785 | 13,200 | 12,996 | 15,546 | ... | |
| Rolled steel, per production day ¹⁾ | '000 tons | 63.7 | 73.9 | 72.4 | 72.6 | 73.1 | 84.6 | 86.5 | 89.2 | 87.2 | 85.2 | 84.5 | 83.3 | |
| Passenger cars ¹⁾ | '000's | 125 ¹⁵⁾ | 151 | 159 | 176 | 201 | 221 | 228 | 237 | 237 | 190 | 247 | 476 | |
| Motor trucks ¹⁾ | '000's | 18 ¹⁵⁾ | 20 | 20 | 21 | 21 | 21 | 20 | 22 | 20 | 17 | 20 | 36 | |
| Television sets ¹⁾ | '000's | 150 ¹⁵⁾ | 180 | 144 | 141 | 160 | 192 | 232 | 222 | 236 | 211 | 259 | 401 | |
| Farm products ²⁾ | | | | | | | | | | | | | | |
| Food production (annual figures) ²⁾ | 1935/36— 1938/39 = 100 | 137 | 149 | 145 | 151 | 159 | 162 | 156P) | . | . | . | . | . | |
| of which: | | | | | | | | | | | | | | |
| Vegetable products | 1935/36— 1938/39 = 100 | 129 | 162 | 120 | 136 | 157 | 155 | 130P) | . | . | . | . | . | |
| Animal products | 1935/36— 1938/39 = 100 | 139 | 145 | 152 | 155 | 160 | 164 | 164P) | . | . | . | . | . | |
| Labour Market and Employment | | | | | | | | | | | | | | |
| Registered unemployed ³⁾ | '000's | 540 | 271 | 181 | 155 | 186 | 169 | 147 | 201 ¹⁶⁾ | 95 ¹⁶⁾ | 85 ¹⁶⁾ | 178 ¹⁶⁾ | 236 ¹⁶⁾ | |
| Employed ^{1) 8)} | '000's | 18,865 | 20,331 | 20,730 | 21,053 | 21,303 | 21,547 | 21,841 | 21,841 | 21,841 | 21,841 | 21,841 | 21,841 | |
| among whom, in industry ¹⁾ | '000's | 7,765 | 8,081 | 8,316 | 8,340 | 8,264 | 8,301 | 8,460 | 8,417 ¹⁶⁾ | 8,473 ¹⁶⁾ | 8,504 ¹⁶⁾ | 8,438 ¹⁶⁾ | 8,412 [*] | |
| Unemployment ratio ^{3) 9)} | per cent | 0.9 ¹⁷⁾ | 0.5 ¹⁷⁾ | 0.5 ¹⁷⁾ | 0.4 ¹⁷⁾ | 0.5 ¹⁷⁾ | 0.4 ¹⁷⁾ | 0.4 ¹⁷⁾ | 0.9 ¹⁶⁾ | 0.4 ¹⁶⁾ | 0.4 ¹⁶⁾ | 0.8 ¹⁶⁾ | 1.0 ¹⁶⁾ | |
| Total man-days lost ^{3) 10)} | millions | 11.9 | 12.2 | 31.2 | 60.7 | 37.5 | 32.5 | 30.2 | 28.9 ¹⁶⁾ | 28.9 ¹⁶⁾ | 28.9 ¹⁶⁾ | 9.0 ¹⁶⁾ | 18.2 ¹⁶⁾ | |
| Weekly hours paid in industry ¹⁾ | hours | 45.6 | 45.6 | 45.5 | 44.9 | 44.7 | 44.1 | 44.3 | 44.0 ¹¹⁾ | 44.0 ¹¹⁾ | 44.5 ¹¹⁾ | 44.7 ¹¹⁾ | 44.7 ¹¹⁾ | |
| Weekly hours worked in industry ¹⁾ | hours | 41.3 | 42.0 | 40.8 | 40.8 | 40.2 | 41.1 | 40.2 | 40.3 ¹¹⁾ | 39.1 ¹¹⁾ | 38.7 ¹¹⁾ | 42.8 ¹¹⁾ | 42.8 ¹¹⁾ | |
| Orders Booked, and Sales ^{1) 8)} | | | | | | | | | | | | | | |
| Orders booked in industry (Values, per calendar month) in per cent of 1954 sales | | | | | | | | | | | | | | |
| Total | 1954 = 100 | 175 | 201 | 201 | 207 | 216 | 247 | 263 | 254 | 265 | 257 | 276 | 251 | |
| Basic industries | 1954 = 100 | 168 | 185 | 179 | 188 | 193 | 223 | 230 | 218 | 237 | 234 | 229 | 221 | |
| Capital goods industries | 1954 = 100 | 203 | 255 | 254 | 253 | 269 | 310 | 336 | 336 | 329 | 326 | 354 | 327 | |
| Consumer goods industries | 1954 = 100 | 147 | 148 | 160 | 170 | 176 | 196 | 210 | 193 | 218 | 195 | 236 | 186 | |
| in per cent of current sales | | | | | | | | | | | | | | |
| Total | per cent | 109 | 108 | 101 | 98 | 100 | 103 | 101 | 103 | 103 | 99 | 99 | 101 | |
| Retail sales at current prices ⁹⁾ | | | | | | | | | | | | | | |
| Total | 1954 = 100 | 146 ¹⁵⁾ | 159 ¹⁵⁾ | 174 | 188 | 195 | 208 | 229 | 194 | 221 | 216 | 286 | . | |
| Building Industry ¹⁾ | | | | | | | | | | | | | | |
| Output of building and civil engineering ⁵⁾ | 1958 = 100 | 114 | 116 | 127 | 137 | 141 | 158 | 160 | 108 | 191 | 182 | 160 | 116 | |
| Estimated expenditure on approved buildings, total | DM million | 1,908.6 | 2,290.9 | 2,640.4 | 2,889.6 | 2,849.1 | 3,390.0 | 3,738.4 | 2,845.0 | 3,830.8 | 4,368.3 | 3,909.5 | 2,958.0 | |
| Carry-over of unfinished building projects at end of year | | | | | | | | | | | | | | |
| Dwellings in residential buildings | '000 dwell- ings | 623.1 | 668.3 | 730.0 | 794.5 | 790.8 | 756.1 | . | . | . | . | . | . | |
| Non-residential buildings | mn cu.m. | 148.6 | 161.8 | 190.9 | 210.7 | 215.4 | 231.2 | . | . | . | . | . | . | |
| Price index for residential buildings ⁶⁾ | 1958 = 100 | 105.3 ¹⁵⁾ | 113.2 ¹⁵⁾ | 121.8 ¹⁵⁾ | 132.4 | 140.3 | 147.8 | 154.4 | 150.7 ¹⁸⁾ | 155.1 ¹⁸⁾ | 155.7 ¹⁸⁾ | 155.9 ¹⁸⁾ | . | |
| Prices and Wages ¹⁾ | | | | | | | | | | | | | | |
| Prices of basic materials (of domestic and foreign origin) ¹²⁾ | | | | | | | | | | | | | | |
| Total | 1962 = 100 | 100.4 ¹⁵⁾ | 100.4 | 100.1 | 100.0 | 101.0 | 103.3 | 106.1 | 105.0 | 105.9 | 106.0 | 107.4 | 108.3 | |
| of which: | | | | | | | | | | | | | | |
| Farm, forest and plantation products | 1962 = 100 | 102.0 ¹⁵⁾ | 100.1 | 99.6 | 100.0 | 103.0 | 105.9 | 109.5 | 107.6 | 108.7 | 109.9 | 111.8 | 111.9 | |
| Industrial products | 1962 = 100 | 99.3 ¹⁵⁾ | 100.5 | 100.3 | 100.0 | 99.6 | 101.5 | 103.7 | 103.3 | 103.9 | 103.4 | 104.3 | 105.7 | |
| Purchase prices for foreign goods ¹³⁾ | | | | | | | | | | | | | | |
| Total | 1962 = 100 | 104.2 | 104.9 | 101.0 | 100.0 | 102.4 | 104.5 | 107.1 | 105.8 | 107.3 | 106.8 | 108.2 | 109.1 | |
| Selling prices for export goods ¹²⁾ | | | | | | | | | | | | | | |
| Total | 1962 = 100 | 98.7 | 100.0 | 99.8 | 100.0 | 100.1 | 103.7 | 106.2 | 105.9 | 106.1 | 106.2 | 106.5 | 107.3 | |
| Producers' prices of domestic industrial goods | | | | | | | | | | | | | | |
| Total | 1962 = 100 | 96.5 ⁶⁾ ¹⁵⁾ | 97.6 ⁶⁾ | 98.9 | 100.0 | 100.5 | 101.6 | 104.0 | 103.3 | 103.9 | 104.2 | 104.7 | 105.5 | |
| among which: | | | | | | | | | | | | | | |
| Capital goods industries | 1962 = 100 | 93.1 ⁶⁾ ¹⁵⁾ | 94.5 ⁶⁾ | 97.2 | 100.0 | 100.4 | 101.6 | 104.6 | 104.0 | 104.6 | 104.8 | 105.0 | 105.6 | |
| Consumer goods industries | 1962 = 100 | 93.3 ⁶⁾ ¹⁵⁾ | 96.6 ⁶⁾ | 99.1 | 100.0 | 101.6 | 103.6 | 106.0 | 105.1 | 105.6 | 106.3 | 107.0 | 107.9 | |
| Cost-of-living index ¹³⁾ | | | | | | | | | | | | | | |
| Total | 1962 = 100 | 93.6 ⁶⁾ ¹⁵⁾ | 94.9 ⁶⁾ | 97.1 | 100.0 | 103.0 | 105.4 | 109.0 | 107.2 | 108.6 | 109.7 | 110.3 | 111.6 | |
| of which: | | | | | | | | | | | | | | |
| excluding food, beverages and tobacco | 1962 = 100 | 91.9 ⁶⁾ ¹⁵⁾ | 93.9 ⁶⁾ | 97.4 | 100.0 | 103.1 | 105.7 | 108.9 | 107.8 | 108.4 | 109.2 | 110.3 | 111.7 | |
| Food, beverages and tobacco | 1962 = 100 | 95.5 ⁶⁾ ¹⁵⁾ | 96.0 ⁶⁾ | 96.8 | 100.0 | 102.9 | 105.0 | 109.0 | 106.5 | 108.8 | 110.4 | 110.2 | 111.6 | |
| Industrial workers' wages | | | | | | | | | | | | | | |
| Hourly earnings | DM | 2.44 ⁶⁾ ¹⁵⁾ | 2.69) | 2.96 ⁶⁾ | 3.30 ⁶⁾ | 3.55 ⁶⁾ | 3.87 | 4.22 | 4.07 ¹¹⁾ | 4.18 ¹¹⁾ | 4.29 ¹¹⁾ | 4.35 ¹¹⁾ | . | |
| Weekly earnings | DM | 112 ⁶⁾ ¹⁵⁾ | 122 ⁶⁾ | 135 ⁶⁾ | 148 ⁶⁾ | 159 ⁶⁾ | 171 | 187 | 179 ¹¹⁾ | 184 ¹¹⁾ | 191 ¹¹⁾ | 195 ¹¹⁾ | . | |
| Foreign Trade ^{1) 14)} | | | | | | | | | | | | | | |
| Imports | DM million | 2,985 | 3,560 | 3,697 | 4,125 | 4,356 | 4,903 | 5,871 | 5,426 | 5,812 | 5,902 | 6,342 | 5,686 | |
| Exports | DM million | 3,432 | 3,995 | 4,248 | 4,415 | 4,859 | 5,410 | 5,971 | 5,792 | 5,797 | 5,751 | 6,543 | 5,965 | |
| Balance | DM million | + 447 | + 435 | + 551 | + 290 | + 503 | + 507 | + 100 | + 366 | - 15 | - 151 | + 201 | + 279 | |

Sources: ¹⁾ Federal Statistical Office. — ²⁾ Report on the Situation in Agriculture (Green Report). — ³⁾ Federal Institution for Labour Exchanges and Unemployment Insurance. — ⁴⁾ Federal Ministry for Economic Affairs. — ⁵⁾ Adjusted for calendar irregularities. — ⁶⁾ Not including Berlin. — ⁷⁾ Farm years from 1 July of the year under review to 30 June of following year. — ⁸⁾ Estimated annual averages. — ⁹⁾ Proportion of unemployed to total of employed and unemployed wage and salary earners. — ¹⁰⁾ In building, during the bad weather period between 1 November of the year under review and 31 March of following year. — ¹¹⁾ Position at end of first month in the quarter. — ¹²⁾ Re-calculated from original basis 1958 = 100. — ¹³⁾ Four-member employed persons' households in towns, with the sole earner in medium income group. — ¹⁴⁾ Special trade according to the official foreign trade statistics; imports c.i.f., exports f.o.b. — ¹⁵⁾ Excluding Saarland. — ¹⁶⁾ Position at end of quarter. — ¹⁷⁾ Position at end of third quarter. — ¹⁸⁾ Mid-quarter position. — ¹⁹⁾ Position at end of February. — P) Provisional. — *) January 1966.

over 4 per cent. So far, therefore, the reaction of producers' prices to the slowing in the rise of demand has been slight, and has not been enough perceptibly to check the rise of prices at the consumer stage.

Towards the end of 1965 and at the beginning of 1966 consumer prices in fact rose even faster than before. In December 1965 the cost-of-living index was 4.2 per cent higher than a year earlier, and in February 1966 the rise on the year amounted to 4.3 per cent, whereas twelve months before it had been 2.3 per cent. The latest movements do not mean, however, that the factors determining the rise of prices at the consumer stage have further strengthened of late. Consumer prices indeed always react to the cyclical trend with a substantial time-lag, since consumer demand usually increases comparatively late during the cyclical upswing, so that price rises at the various stages of production and trade can spread only gradually. The position was aggravated by the fact that the governmentally manipulated prices which are recorded in the cost-of-living index, and some of which had remained unchanged for a relatively long while, have now been raised by a particularly wide margin after a lengthy period of rising costs. Thus, rents of pre-currency-reform dwellings in the so-called black areas would not have risen so much as they did in the first few months of 1966 had they not been previously held down by law for a long time (regardless of current cost increases), meaning that they now had to be adjusted to the level of rents for pre-currency-reform dwellings in the so-called white areas, where housing control has been abolished. Of the above-mentioned rise in the cost-of-living index between February 1965 and February 1966 about 20 per cent concerned rents. Charges for official services, particularly those of public utilities, also were raised — in some cases substantially — in the meantime. (The raising of railway charges in March this year and of important postal rates in April also meant an additional burden for the consumer; pertinent index figures were not yet to hand when this Report went to press.) Taking into account that a further 50 per cent of the rise in the index resulted from increases in the prices of food, beverages and tobacco, that is of goods the prices for which are largely influenced by the government at the wholesale stage, it is clear that the extent of price rises at the consumer stage reflects only in part a *present* inflationary trend. Nevertheless it cannot be denied that, whether the price rises are due to past or present market disequilibria, they have caused the rise of personal incomes to be much smaller in real than in nominal terms. Apart from the extreme conditions prevailing during and immediately after the Korea boom of 1951 there has never before been so great a rise of prices in any year; it is also true, however, that there has hardly ever before been such marked overstraining of the economy, especially the labour market, as there was during the past year, the result being that nominal incomes in 1965 quite substantially diverged from the economically practicable increase in the supply of goods.

A further clear pointer to the overstraining of the home economy last year was the state of the labour market, which was characterised by a great unsatisfied demand for labour. As explained in the chapter on Economic Activity the disparity between vacancies and unemployed, regarded in purely statistical terms, was greater in 1965 than ever before. At the peak of the season there were 8 vacancies, against 6½ in 1964, for every person registered as out of work. Even though these figures possibly do not quite correctly reflect the real situation on the labour market (because, with continuing over-employment, vacancies are not immediately reported as filled even when the demand for workers is no longer so urgent), it is nevertheless undeniable that the economy as a whole was inhibited in its ability to expand because workers were lacking, although there were some industries where production declined through lack of demand. The addition to the number of gainfully active persons — on balance exclusively from abroad — was quite substantial in 1965, it is true, but it sufficed only to make good the losses of man-hours due to further cuts in working time. This continued the process of substitution which has been taking place for years — *viz.*, reduction of the hours worked, on the one hand, and an increase in the number of foreign workers on the other. Although the number of foreigners employed has by now risen

Time-lag in price adjustment

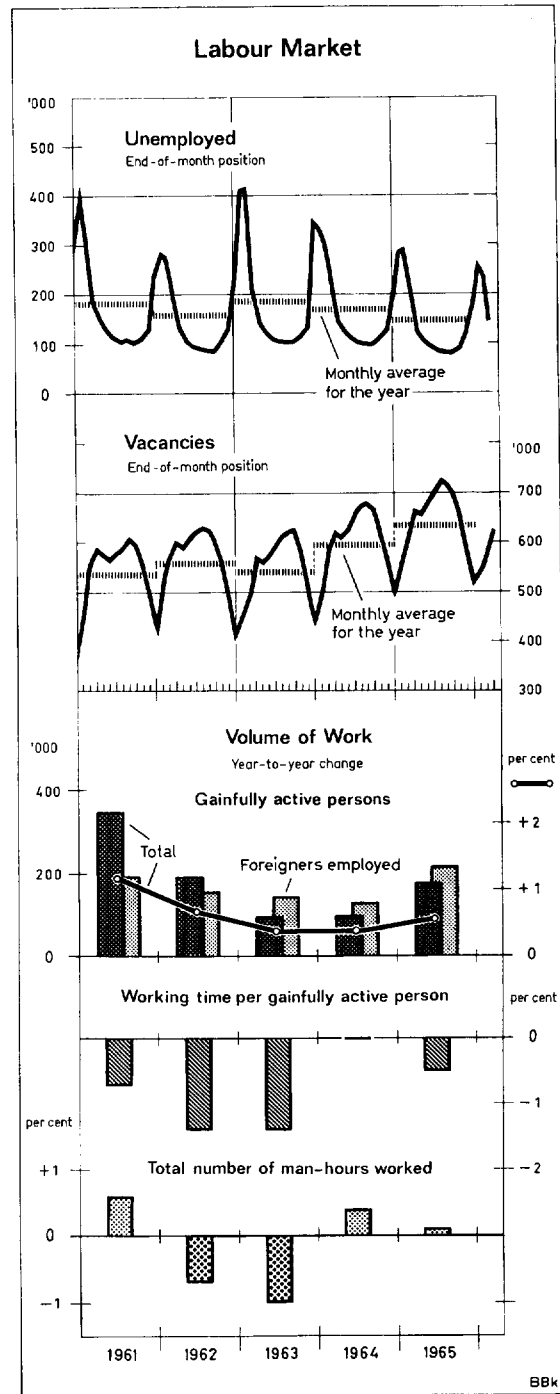
Persistent excess demand on the labour market...

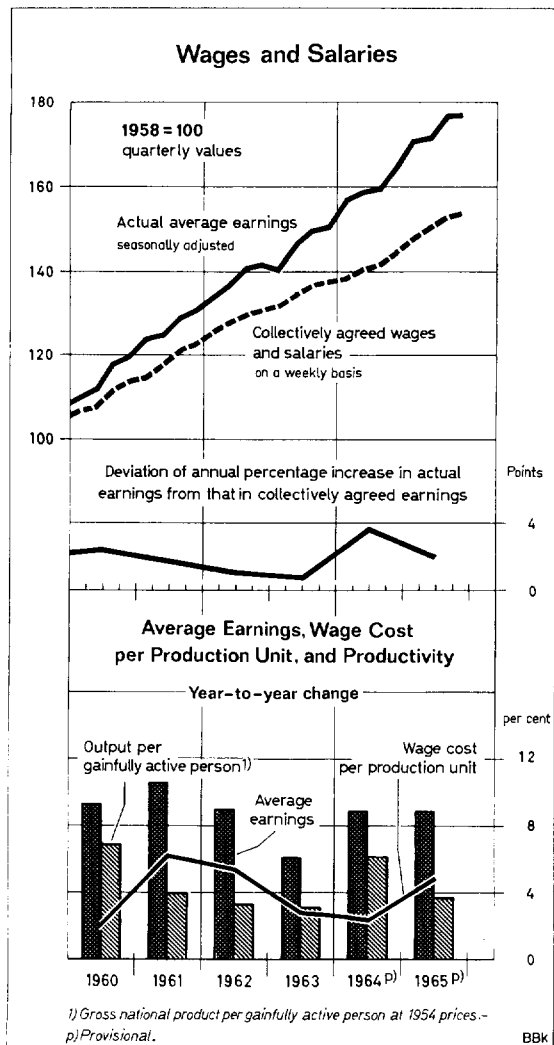
to over 1.2 million, that is to 5 per cent of all employed wage and salary earners in the Federal Republic of Germany, the total number of man-hours worked (the so-called volume of work) was no greater in 1965 than in 1964. For the economy as a whole, after these experiences, a real increase in the number of man-hours worked would seem conceivable only if working hours are for some time not reduced any further (particularly since, because of the natural trend in population, some slight decrease in the number of German workers must be expected for the next few years), and if in addition further foreign workers are recruited, problematic as this might be under various aspects.

A consequence of the labour market bottleneck, and of fear that this may be permanent, is that rational employment of labour is hindered more than in earlier times. Enterprises where the level of sales and production would in itself permit some reduction in the number of their employed shrink from such reduction because they believe that they will not be able to meet some possible future demand. On the one hand this tendency to hoard labour slows down the advance of productivity; on the other hand it prevents or delays labour market relaxation, which is particularly important as an object of reducing demand, because it will at the same time ensure better adjustment of incomes to the real possibilities of production. With fully operative competition there are limits to labour hoarding, which entails additional costs. But it cannot be denied that precisely those industries which are less favoured by the business cycle, and still more those which for structural reasons are tending to contract, strongly incline to hinder these unwelcome consequences of competition either by appealing for obstacles to imports or by seeking

guarantees that home-produced goods will be sold, their object being in this way to preserve or even artificially expand their share of the market, or by calling for government subsidies to compensate for the financial consequences of not having taken and still not taking proper steps to adapt themselves. Such economic policy measures contribute towards causing workers to be employed in industries where they contribute much less to the national product than they might do in those industries where there is labour shortage because demand continues to rise. In the net result the preservation of a production structure which is no longer economically justifiable will always impair productivity in the economy as a whole, and will therefore prejudice price stability.

... aggravated by great immobility of the production factor labour





The most serious effect of the labour market's sluggish reaction is, however, that the rise of wages has so far remained unaffected by the slowing in the growth of total demand for goods and services. In 1965, like the previous year, average wages and salaries rose by 9 per cent. A change is apparent only inasmuch as the wage increases last year were determined, more than in 1964, by the results of collective bargaining. It is true that in 1965 actual earnings again rose by more than the collectively agreed remuneration; but the remaining gap between the increase of actual earnings and that of collectively agreed wages and salaries appears to have more or less declined to the institutionally conditioned minimum. The course of wages has thus again become more a responsibility of the employers and the employed, whereas in 1964 wages and salaries had been determined almost exclusively by shortages in the labour market, and much less by decisions of the employers' representatives and the trade unions.

Undiminished rise of wages

The actual wage increases in 1965 amounted to more than twice the overall advance of productivity; this, measured by the real national product per gainfully active person, was 3.7 per cent. The overall level of costs was thus raised greatly, in fact about 5 per cent, by the movement of wages. Even with very keen competition it would doubtless have been impossible to prevent this

Danger of cost inflation

rise of costs (which was accompanied by an increase in the rest of the economically important production costs) from exerting an independent influence on price formation. It is true that competition increased on some important markets owing to the rapid growth of imports; but nevertheless the greater part of the cost increases was passed on in prices. To an admittedly not very large extent those increases also narrowed profit margins, however, so that total earnings of enterprises increased only slightly, and in the course of 1965 finally ceased to rise. If wages and salaries continue to increase on the previous scale (and the collective agreements newly concluded in the first months of 1966 almost afford ground for fearing that they will), then, with demand no longer growing substantially, the constrictive pressure on profit margins must inevitably become even more clearly perceptible. In these circumstances wage and salary incomes would grow in a manner even less justified than before by the overall economic situation; in other words the cost inflation, which would cause not only further price rises but also appreciable setbacks to investment activity and finally to overall economic growth, might assume undesirable forms, as shown by the experience in other countries. The present situation therefore requires that employers and employed should reach decisions which allow for the weakening apparent in total demand. Wage policy would thus make its own contribution towards checking the expansion of households' incomes and of their demand; this, as the following sections will show, combined last year with government expenditure to exert the strongest impulses on the expansion of overall demand.

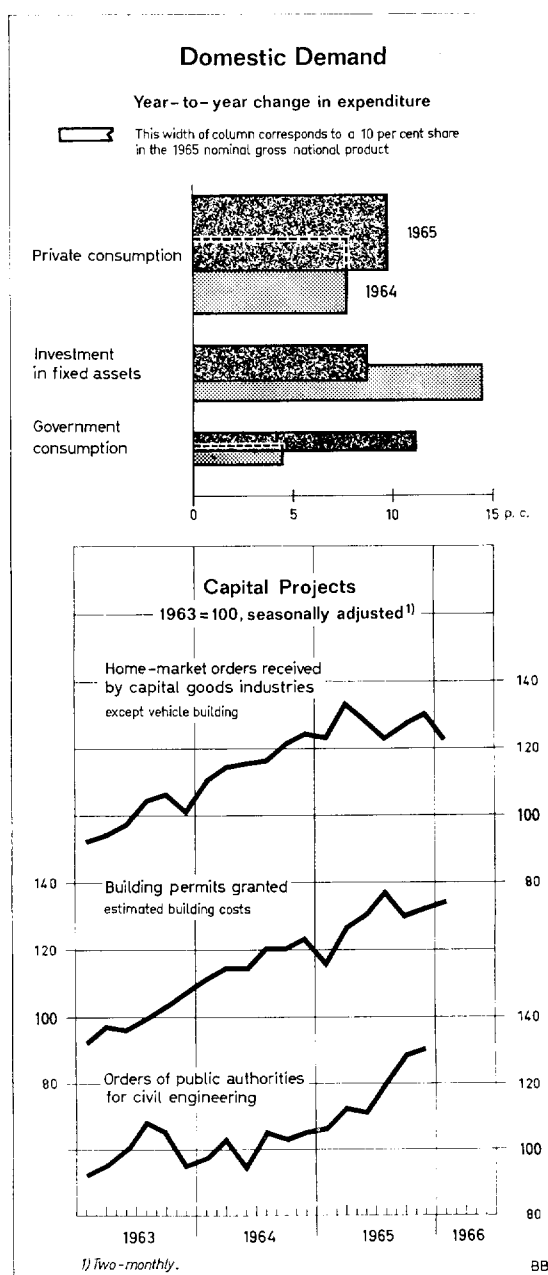
The main causes of excess demand

Increased prominence of domestic demand

In the course of 1965, and the months of 1966 which have so far elapsed, the importance of the main demand components greatly changed as compared with 1964. These changes are inherent in the business cycle inasmuch as the longer the upswing lasts, the more the external impellents lose significance, because the incentive to export as a rule gradually to some extent declines while the increase of home demand leads to greater imports. The fact that during the present cycle the external impellents so quickly disappeared — at all events more quickly than in earlier boom periods, when moreover they had never completely ceased — was of course partly due to the low level of economic activity in some important neighbouring countries, and was to that extent independent of the internal economic trend. In 1965 domestic demand, on the other hand, grew just as vigorously as in the previous year. If the increase is measured by the total nominal value of domestic purchases for consumption plus capital expenditure, domestic demand rose in 1965 by about 10 per cent, and hence actually a little more than in 1964 (9.6 per cent). At the same time there were shifts in the importance attaching to the various categories of that domestic demand. There were rises greater than the average in government purchases for consumption and in investment (together up by 10.8 per cent), while private consumption (up by 9.8 per cent) increased in accordance with the average growth of total home demand. Only the capital expenditure of enterprises, including housing, lagged somewhat behind the general rise. In 1964 the order in which the sectors of the economy shared in total expansion had been the opposite; at that time enterprises had expanded their purchases most, and public authorities least.

Expansion produced by public authorities and enterprises

The difference between the rates at which the above-mentioned categories of expenditure grew is of course no sufficient measure of how far the individual domestic sectors contributed towards the excess demand in the whole economy. In purely statistical terms the National Accounts indicate excess demand inasmuch as the overall rise of expenditure within the country — in 1965, as already mentioned, it was about 10 per cent — considerably exceeded the real increase (about 6 per cent) in the total supply of goods from domestic production and net imports. Evidence of the differing roles played by the individual sectors in the inflationary process is gained, however, if the expenditure and receipts for each of these sectors are separately compared. As can be seen in detail from the following table, the expansive course of the public finances in 1965 is particularly clear.



While the public authorities' total expenditure on purchases of goods and services plus income and capital transfers to other sectors rose in 1965 by almost 12 per cent, their total current revenue increased by only 6.5 per cent. Thus in fact the public authorities' expenditure in 1965 exceeded their current revenue by nearly DM 2 billion, whereas in 1964 it had fallen short of such revenue by DM 5.5 billion. In the case of the public authorities therefore the "financial balance", which indicates the expansive and contractive effects produced by any sector (although it affords no absolutely reliable evidence, especially as it excludes lending to others, which precisely in the public sector is very large), changed during 1965 by no less than DM 7 billion in the expansive direction. The financial deficit of enterprises also increased in 1965 — with capital expenditure growing and their own funds for financing purposes decreasing — although at DM 6 billion the increase was smaller than the deterioration in the financial balance of the public authorities. Since on an overall view enterprises are traditionally debtors, so that their financial deficit is structurally very large, the change in their financial balance during 1965 was relatively much smaller than that in the public authorities' financial balance.

Against these expansive tendencies, however, there was the fact that households during 1965 increasingly formed savings, and thus pro tanto refrained from full use of their incomes on the markets for goods and services. The financial surplus of households consequently increased in

Contractive effect of private saving

Receipts, Expenditure and Financial Balances of the Sectors of the Economy

| Transactions of the individual sectors | Receipts | | | | | Expenditure | | | | | Financial surplus or deficit (—) | | |
|--|----------------|---------|---------|--|---------|----------------|---------|---------|--|---------|----------------------------------|---------|---------|
| | 1963 | 1964 P) | 1965 P) | 1964 P) | 1965 P) | 1963 | 1964 P) | 1965 P) | 1964 P) | 1965 P) | 1963 | 1964 P) | 1965 P) |
| | Billions of DM | | | Change against previous year in per cent | | Billions of DM | | | Change against previous year in per cent | | Billions of DM | | |
| Enterprises | | | | | | | | | | | | | |
| (a) Contribution to gross national product ¹⁾ | 133.6 | 146.4 | 155.5 | + 9.6 | + 6.2 | . | . | . | . | . | . | . | . |
| (b) Purchase of goods | . | . | . | . | . | 81.0 | 94.6 | 104.1 | +16.7 | +10.1 | . | . | . |
| (c) Transfers from and to other sectors | 9.2 | 10.5 | 12.7 | +13.7 | +21.4 | 86.3 | 93.0 | 100.8 | + 7.8 | + 8.3 | . | . | . |
| Total | 142.8 | 156.8 | 168.2 | + 9.8 | + 7.3 | 167.4 | 187.6 | 204.9 | +12.1 | + 9.2 | -24.5 | -30.8 | -36.7 |
| Government | | | | | | | | | | | | | |
| (a) Contribution to gross national product ²⁾ | 57.5 | 63.0 | 67.8 | + 9.7 | + 7.5 | . | . | . | . | . | . | . | . |
| (b) Purchase of goods | . | . | . | . | . | 75.6 | 81.1 | 89.9 | + 7.3 | +10.8 | . | . | . |
| (c) Transfers from and to other sectors | 80.0 | 86.7 | 91.5 | + 8.3 | + 5.6 | 58.2 | 63.2 | 71.1 | + 8.7 | +12.4 | . | . | . |
| Total | 137.5 | 149.7 | 159.3 | + 8.9 | + 6.4 | 133.7 | 144.3 | 161.0 | + 7.9 | +11.6 | 3.8 | 5.4 | - 1.7 |
| Households | | | | | | | | | | | | | |
| (a) Contribution to gross national product ³⁾ | 186.5 | 204.4 | 225.6 | + 9.6 | +10.3 | . | . | . | . | . | . | . | . |
| (b) Purchase of goods | . | . | . | . | . | 215.9 | 232.8 | 255.6 | + 7.8 | + 9.8 | . | . | . |
| (c) Transfers from and to other sectors | 106.6 | 116.5 | 129.5 | + 9.3 | +11.1 | 56.3 | 62.3 | 67.5 | +10.7 | + 8.4 | . | . | . |
| Total | 293.1 | 321.0 | 355.0 | + 9.5 | +10.6 | 272.2 | 295.1 | 323.1 | + 8.4 | + 9.5 | 20.9 | 25.9 | 32.0 |
| Foreign Countries | | | | | | | | | | | | | |
| (b) Purchase of goods | . | . | . | . | . | (5.0) | (5.3) | (-0.8) | . | . | . | . | . |
| External surplus | . | . | . | . | . | . | . | . | . | . | . | . | . |
| Exports / imports | 70.0 | 78.2 | 91.9 | +11.8 | +17.5 | 75.0 | 83.5 | 91.1 | +11.4 | + 9.1 | . | . | . |
| (c) Transfers from and to other sectors | 5.2 | 5.2 | 6.0 | - 0.4 | +15.7 | 0.2 | 0.3 | 0.3 | +16.7 | +10.7 | . | . | . |
| Total | 75.1 | 83.4 | 97.9 | +11.0 | +17.4 | 75.2 | 83.8 | 91.5 | +11.4 | + 9.1 | - 0.1 | - 0.4 | 6.4 |
| <i>Note:</i> | | | | | | | | | | | | | |
| Gross national product [*]) | 377.6 | 413.8 | 448.8 | + 9.6 | + 8.5 | 377.6 | 413.8 | 448.8 | + 9.6 | + 8.5 | . | . | . |

^{*}) Sum total of all "Contributions to gross national product" shown under "Receipts" (boldface printing) or of all purchases of finally finished goods and services shown under "Expenditure" (boldface printing). — ¹⁾ Measured by the private sector's gross income from entrepreneurial activity and property plus depreciations. — ²⁾ Measured by the public authorities' gross income from entrepreneurial activity and property plus depreciations and indirect taxes, less subsidies and interest on public debt. — ³⁾ Measured by the gross income of employed wage and salary earners. — P) Provisional figures.

1965 by about DM 6 billion, which of course offset only a part of the above-mentioned demand-raising tendencies, while for the rest offsetting was reached through greater recourse to foreign resources. At all events in 1965, because the payments for imports and unilateral transfers far exceeded the proceeds of exports, the Federal Republic of Germany showed in relation to foreign countries a financial deficit of more than DM 6 billion. This deficit, which is practically identical with that on current account in the balance of payments, represented foreign countries' contribution towards a better balance of domestic markets (being, as it were, an import of stability), which contribution, however, did not suffice to stop the rise in prices. Adequate checking of that rise could have been expected only if still more had been saved, or if public authorities had shown anticyclical behaviour by forming budget surpluses or at least increasing the extent to which their expenditure is covered by tax revenue. As has been shown, however, the public authorities in 1965 acted by no means "anticyclically", but rather "procyclically".

Effects of the tax reduction

One important reason for the expansive effect produced by the public finances in 1965 was the course of revenue and revenue policy. According to our statistics of cash receipts and expenditure the revenue of all public authorities (territorial authorities, special funds and social insurance institutions) rose by only just on 7 per cent in 1965 to about DM 168 billion; thus their growth fell appreciably short of the 8 per cent by which the total incomes in the economy grew. This primarily resulted from the fact that the scale of income taxes was lowered at the beginning of 1965; the consequent revenue shortfall is estimated at more than DM 2 billion for the year under review. In the case of the assessed taxes (Income Tax and Corporation Tax), moreover, the final payments for earlier years — including some for 1963, a year of poor profits — were small, while similar payments for 1964, when profits were again larger, were not yet of major significance. Once again last year, greatly to the detriment not only of general cyclical trends but also the finances of the Federal Government and more particularly of the *Länder*, no general solution was found to the problem — discussed for years past — of how to ensure more up-to-date assessment of the Income and Corporation Taxes. Recently however a start has been made in certain areas, through self-assessment, on a system which should result in more up-to-date taxation.

Chief causes of the great rise in expenditure

The fact that revenue only grew so little was all the more serious in its cyclical effects because in 1965 expenditure increased at an accelerated rate. At over DM 177 billion in 1965 — if the lending to others (disregarded above) is included, but excluding investments by social insurance institutions — the expenditure of all public authorities was greater by nearly 10 per cent than in 1964, when the growth rate had been by just under 9 per cent. In that connection the income transfers of all kinds (social security pensions and benefits, retirement pensions, children's allowance and the like) showed greater increase than most of the other expenditure items, rising in fact by over 12 per cent. Although this largely concerned social insurance pensions, which were financed out of current contribution incomes and so burdened the territorial authorities' budgets only to the extent of their grants (likewise of course "dynamised") to the pension insurance institutions, an appreciable part of the said transfers was nevertheless directly effected from the Federal budget, the amounts in question being indeed substantially greater than during the previous year as a result, for instance, of the increase ordered by the Children's Allowance Law. The rest of the Government's current expenditure, mainly on civil administration and on military requirements but also on grants to the Federal Railways, subsidies to agriculture and the like, also increased by relatively large amounts in 1965. The increase of expenditure thus chiefly served for purposes of consumption; efforts ought in fact to have been made — even more than in the case of capital expenditure — to finance such expenditure out of taxes, thereby reducing the disposable income of individuals and achieving the intended redistribution of incomes without inflationary repercussions.

Public capital expenditure under pressure from capital shortage

On the other hand, so far as can yet be seen, the public authorities' expenditure affecting assets — which means expenditure on their own investments and on lending — did not increase so much in 1965 as the other expenditure, although this was only in part the result of deliberate anti-

cyclical policy. Quite apart from the fact that the bad weather at times enforced limitation of official as well as other building work, thereby reducing the expenditure on construction, the shortage of funds for financing purposes in some cases caused the cutting down of capital expenditure, which as a rule is based not on legally fixed obligations to spend but only on authorisations embodied in the budget. Considerations of economic and capital market policy probably did not reinforce such limitations until the autumn of 1965, when the principal public authorities — the Federal Government, the Federal Special Funds, the *Länder* and the cities — proved ready at the round-table discussions in the Federal Ministry for Economic Affairs to limit and mutually harmonise their demands for credit. Although at DM 5.7 billion the public authorities' borrowing in the second half of 1965 was very large, it is remarkable that the increase in such borrowing declined as compared with the corresponding period a year earlier (when admittedly it had already attained a considerable extent), falling to about DM 1.2 billion as against something over DM 2.2 billion in the first half-year. Under the influence of the general capital shortage and of the round-table discussions about coordinated covering of the official demand for credit, and finally the unwillingness of the Federal Government in particular to incur too much short-term debt, previously contemplated expenditure was evidently reduced during this period, or at least postponed.

While households' demand for consumer goods did not increase by so much during 1965 as government purchases, it did rise a good deal more than in previous years — in fact by 9.8 per cent as against 7.8 per cent and 5.8 per cent respectively in 1964 and 1963. Given the great importance of private consumption — in 1965 it accounted for some 57 per cent of the gross national product — the increase of consumption naturally provided additional impulses although in effect it was mainly the consequence of the cyclical upswing, already long operative, which now also spread with the usual time-lag to private consumption. The basis for the growth of consumer demand was the great rise in wages and salaries, plus the income-raising action by government agencies. Such action included both the increases, already mentioned, in social security payments and the lowering of taxation, by which the disposable income of households was additionally increased. True, the great increase of households' saving did mean that more than one-fifth of this addition to incomes was not spent on consumption and the growth of incomes was to that extent neutralised (if the volume of investment is regarded as a datum, which in the short run is doubtless to a large extent correct). Nevertheless private consumer expenditure increased by much more than domestic supplies could be expanded, so that overall income formation contained a strong inflationary component. In that connection the increase of households' saving ratio to the present 12 per cent of their disposable income was the more noteworthy since the price rises precisely in the category of goods for private consumption were greater than for a long time past. Evidently the incentives to save, namely the desire to form wealth and provide for the future, the relatively high rates of interest on many investments, and no doubt also governmental promotion of saving, have been stronger than the impairment which the propensity to save might have suffered through persistent price rises. Another important factor probably was that the continuous rise in incomes enabled wider sections of the population to save at an increased rate without having to curb their consumption in real terms. It therefore appears doubtful whether governmental promotion of saving — even if, as a principle, its effectiveness for the lower income brackets in particular is recognised — ought to be continued unaltered, since the concessions are partly cumulative and also apply to incomes which by no means need any further aids to saving. The best way to promote saving in the long run is undoubtedly to limit the tendencies to inflation.

The most important indication that domestic demand was weakening lay during 1965 in the investment activity of enterprises. Not only did their capital expenditure increase a good deal more slowly than a year before, but in addition new capital development orders, which in great part were probably not to be executed until 1966, were placed to an extent only a little greater than in 1964. In the first two months of 1966 the amount of orders placed by enterprises with

Private consumption follows general income trends

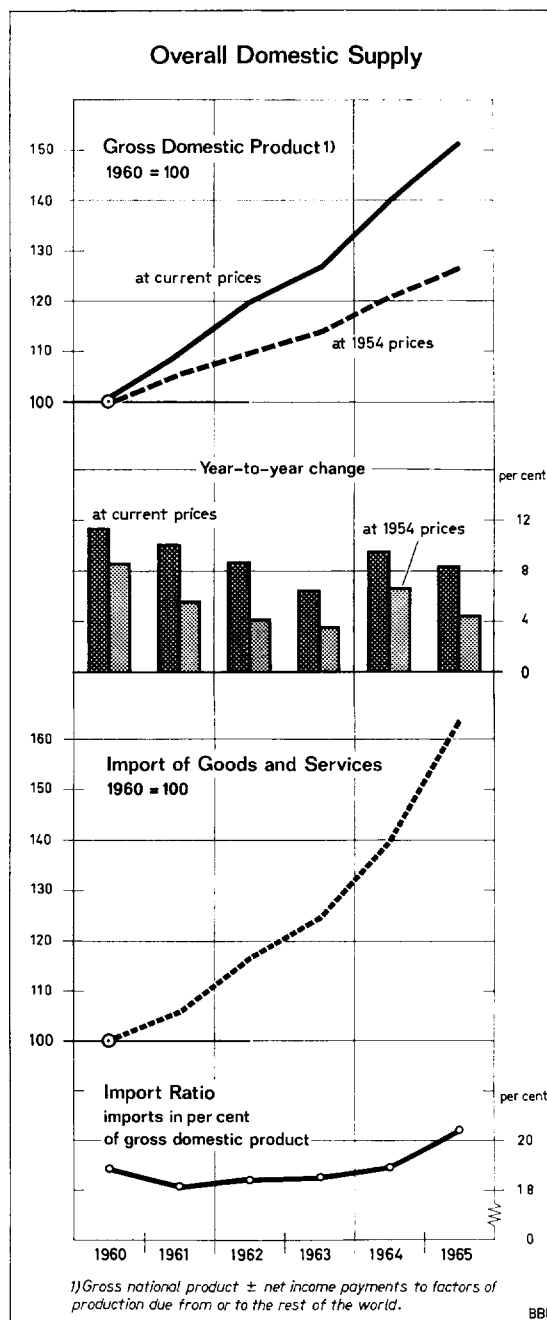
Decreasing cyclical importance of investment by enterprises

domestic producers of capital goods was smaller than a year previously. The shortage and high cost of credit seems so far in the case of enterprises to have contributed more towards reducing demand, which has long been the aim of credit policy, than it has done in the case of public authorities' plans for capital expenditure; in the case of enterprises the sensitivity to interest rates was no doubt relatively great also because both earnings and the expectations concerning them deteriorated in the course of the year. Given the relatively large backlog of unfulfilled orders it is indeed questionable whether ordering will henceforward be cut down so much that actual capital expenditure will also decline within the foreseeable future; but the growth of capital expenditure will probably continue to slow down further, at least for the time being. The tendency to reduction in the proportion borne by private investment to the total national product is thus likely to continue; but even then the investment ratio would still be very considerable — total gross investment in 1965 amounted to 27.7 per cent of the gross national product, this proportion being higher than in most Western industrial countries.

Capital expenditure and real economic growth

Contrary to views expressed in many quarters, a slowing down of private investment need not necessarily be accompanied by slowing of real economic growth. That is in particular not to be expected if it is above all the investments contributing relatively little — in proportion to the capital expended — to the annual growth of the national product which are cut down, such as house-building and other projects (office-building and the like) which require much capital; naturally enough, such investments are not of great importance for enlarging the supply of goods in the short run. But even if investment by trade and industry in fixed assets should grow for

a time more slowly than hitherto, there is no immediate reason to fear that potential supply will be adversely affected, since the real bottleneck obstructing expansion of domestic output lies rather more in the shortage of labour than in lack of plant. It is true that capital expenditure is on a long view indispensable for overcoming the labour shortage through further rationalisation. In the short run, however, *i. e.* during the investment phase itself, it binds production factors and, without already increasing supply, on its part creates additional incomes and hence additional demand, so far as it has not for its counterpart an equal increase of voluntary saving. So long as the dangers to price stability have not been removed, some limitation of industrial investment can, and in certain circumstances indeed must, be accepted.



Some critics now advocate an increase of investment with the object of thereby generally raising demand more. Although it is correct that expansion of capital expenditure affords the best means of raising total demand, it would be unjustifiable to accede to this suggestion at a time when, as has been previously described, the checking of the rise in costs and prices and more particularly the stopping of any autonomous rise in incomes must be a prominent aim of economic policy. This checking process, which has indeed started but has not yet made very much progress, would be jeopardised if domestic demand (already continuing to rise considerably outside the investment sphere) at the same time received further strong impulses from investment activity. Economic growth would on a long view be much more impaired than assisted if prices and costs continued appreciably to rise, and if no steps were taken to restrain domestic demand as is now being done with the result that, while for a time the maximum increases of production are perhaps not being obtained from the economic potential, the essential basis for satisfactory economic growth is being secured in the shape of confidence in the existing monetary system.

2. The contribution made by credit policy towards stabilisation

It has already been indicated that the restraint of domestic demand, although as yet not sufficient for stabilisation, has been strongly supported by monetary trends, and in wide fields that restraint has even been exclusively due to monetary causes. One important precondition for this was the change in Germany's external situation, the more so since this change in itself operated to constrict the supply of funds for financing purposes.

The change in the foreign trade and payments situation

The most important change in the Federal Republic of Germany's foreign trade and payment relationships during 1965 consisted in the fact that the proceeds derived from exports of goods and services fell short by more than DM 6 billion of current expenditure on imports and transfer payments. In 1964 the current account had still shown a surplus, although only of just under half a billion DM, and in most earlier years the surplus had been much greater. It is true that the deterioration of Germany's external position as reflected in these figures was in some measure affected by the slackening of economic activity in some of its important customer countries; producers there accordingly found it easy to meet the Federal Republic's demand-pull by quick deliveries. This does not mean, however, that the much higher proportion of imported goods in German markets resulting from the considerable increase in imports would necessarily be reduced again if economic activity in those countries were to increase even more than it has already done. In fact, the persistent excess demand in Germany in the past affected not only the differing growth of the international goods streams — through much greater increase of imports than of exports — but also the terms of trade. Export prices in the Federal Republic have risen relatively fast since the beginning of 1964, while in some major industrial countries, particularly in Italy, France and Japan, they fell or at all events in some cases rose by less than in the Federal Republic. Some important foreign competitors have thus cancelled or even reversed the advantage formerly enjoyed by Germany. This situation is unlikely to alter even if economic activity in neighbouring European countries were to rise still more; at all events the recovery in many of those countries has been accompanied, at least up till now, by price and cost rises smaller than those which have occurred even of late in the Federal Republic of Germany; moreover, there is no mistaking the fact that especially suppliers from the E.E.C. countries attained a remarkable market position, particularly in the field of semi-luxuries and luxuries.

Cyclically induced deterioration on current account

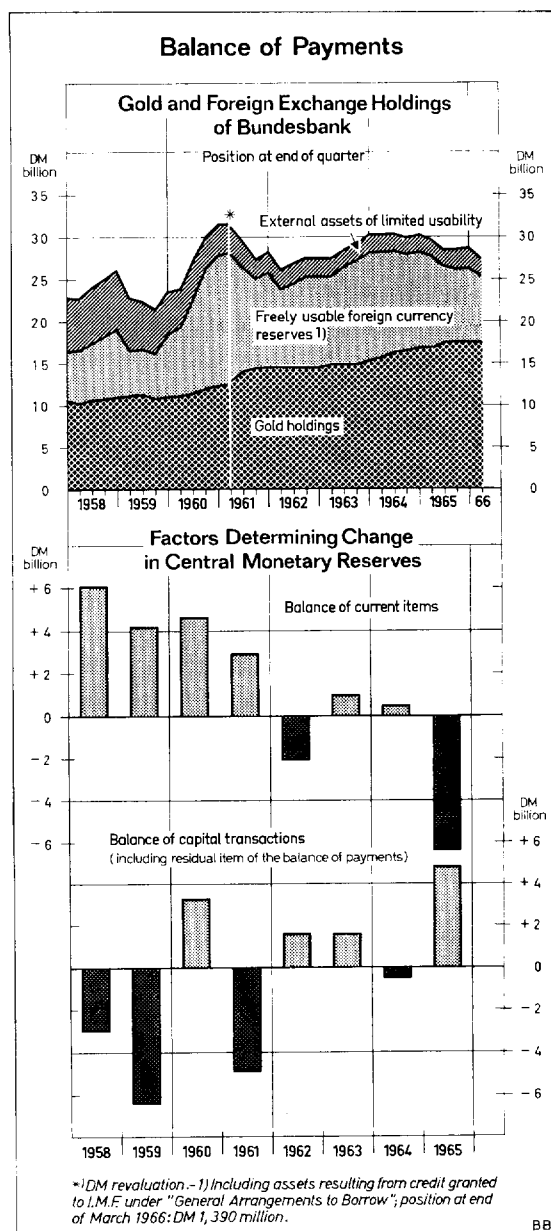
Although from the foreign trade and payments point of view the pace and extent of the reversal in the balance of payments during 1965 must be regarded with some anxiety, since for the Federal Republic of Germany not only equilibrium in the current account of the balance of payments is desirable but rather a certain surplus, which would permit the financing from "currently" earned

Capital imports reduce retarding effect of deficit on current account

foreign exchange of the capital export which is indispensable on economic and political grounds, yet on the other hand the effects of this reversal must be assessed as favourable from the internal point of view. This applies not only to the anti-inflationary effect which a deficit on the current items in the balance of payments always exerts on the markets for goods; it is also true, in principle, as regards the monetary sphere. Of course, only to the extent of about one-quarter did the deficit on current transactions with foreign countries in 1965 cause a net loss of monetary reserves (which loss, alone, is monetarily significant), because at the same time the Federal Republic on balance received more than DM 4.5 billion net through reduction of external assets and through borrowing abroad. This total for the net capital import results, at all events, if the DM 1.5 billion decrease of central monetary reserves in 1965 is set against the above-mentioned DM 6.2 billion deficit on current account, although it is of course not impossible that this difference may be partly due to statistical inadequacies, which — if they could be remedied — would presumably somewhat reduce the deficit on current account and hence also the surplus on capital movements.

Dams against interest-induced capital imports held good

Imports of capital took place during 1965 less than previously through the traditional channels. To quite a substantial extent they were exogenously induced, or at all events were not directly due to the shortage of capital within the country. It is noteworthy that the dams which had been erected in 1964 against the inflow of capital from abroad, or were reinforced in that year, held good in 1965; they comprised the withholding tax on investment income from German bonds held by non-residents as well as the safeguards against importation of money by German banks. Thus non-residents in the year under review acquired German fixed-interest securities to the net extent of only DM 100 million; through the introduction of the withholding tax such securities have become unattractive to those foreigners who have no title to tax refund or, for whatever reasons, do not claim reimbursement of tax despite existing double taxation conventions. And the credit institutions, which in earlier periods of liquidity shortage had drawn more on their liquid assets abroad or had borrowed there, in 1965 actually “improved” their total net position on short-term foreign assets and liabilities by DM 187 million; in that connection the banks’ actions were no doubt crucially affected by the maintenance of the offsetting facility for calculating the minimum reserve, which exempts the banks’ foreign liabilities from the minimum reserve obligation to the extent to which balances and money-market investments are at the same time held abroad.



While the capital afflux to the Federal Republic of Germany in 1965 was nevertheless considerable, this was largely due to autonomous factors. That applies in the first place to foreigners' so-called direct investments in Germany; at about DM 3.0 billion in 1965 these were of much greater importance than before. Capital inflows of this kind were no doubt only in small part a consequence of capital shortage within the country; in the main they result from desire to share in the growth of the German economy. Even less, however, would domestic financing conditions appear to have affected those "capital imports" which resulted from the fact that the Federal Government reduced its total advance payments to foreign countries for armaments by over DM 1 billion through its imports of armament goods being greater than the payments which it at the same time made. On the other hand German enterprises resorted on a relatively large scale to foreign sources of credit. In 1965, according to the data to hand, short-term financial credit was obtained abroad to the net extent of DM 850 million. Enterprises also incurred short-term foreign debt in other ways, especially in connection with the financing of foreign trade. The 1965 surplus of about DM 2.2 billion on the residual item in the balance of payments indicates that the order of magnitude involved was relatively substantial, even though this amount also reflects statistically unrecorded movements which cannot be counted as capital transactions. It is furthermore impossible to determine the extent to which the statistically unrecorded capital movements represent cash advances which were obtained abroad because credit was tight at home, or how far it was a matter merely of suppliers' credits, which automatically grew as imports rose faster than exports during 1965. Probably the residual item did include a large amount of suppliers' credits. At all events the tendency towards deficit observable in that item for some months past points in that direction, since it is accompanied by gradual reapproximation of the growth-rate for imports to that for exports. The 1965 capital inflows into Germany were at any rate due only in part to tightness on the domestic money and capital markets. That is so even if the direct investments by foreign companies and individuals in German subsidiaries and in other enterprises were in one case or another effected exclusively for this reason, which assumption however cannot usually be made in connection with this kind of capital transactions. Otherwise it would, moreover, be difficult to explain why German enterprises also effected direct investments abroad, although these were far from equal in size to the capital inflows of the same kind.

Capital afflux from other sources

From the credit policy angle the import of capital in 1965 was undesired, because it diminished — although it did not quite cancel — the restrictive effect which the large deficit on current items in the balance of payments produced on the liquidity of the banks and of trade and industry. Some among the above-mentioned determinants of the capital imports were in any case from the outset to be regarded as having no more than passing effect; this for instance applied to the reduction of governmental advance payments for armaments, and to a part of the capital imports in connection with trade. The trends during the first months of 1966 already indicate that in certain categories the import of capital has no longer continued, although this has afforded no ground for removing the dams against such imports. As regards the withholding tax, in particular, it is stated that, quite apart from balance-of-payments considerations, it is required in order to close the gap which had previously existed in many cases in respect of income on fixed-interest securities held by non-residents, whereas the other income obtained by non-residents from German sources had in general already before been subject to the "limited" tax liability. In fact, tax deduction "at source" is usual in many countries for non-residents' investment income on domestic bonds; by introducing the withholding tax the Federal Republic of Germany has thus lost the character of a "taxation oasis" for the interest on securities paid to non-residents¹⁾. Nor would it have been appropriate to relax the screening measures in connection with short-term capital movements — like the rule restricting payment of interest to non-residents, the higher minimum reserve obligation for liabilities to non-residents, or the banks' above-mentioned offsetting privilege as regards their minimum reserve, which serves the promotion of money exports — since such relaxation

A market screen against capital imports remains desirable

¹⁾ Cf. "The Effects of the Withholding Tax", Monthly Report of the Deutsche Bundesbank, Vol. 17, No. 6, June 1965, p. 4 *et seq.*

would with fair certainty have reduced the balance of payments' restrictive effect on the liquidity of the banks and of the entire economy still more than this had already been the case.

Effect of restrictive credit policy

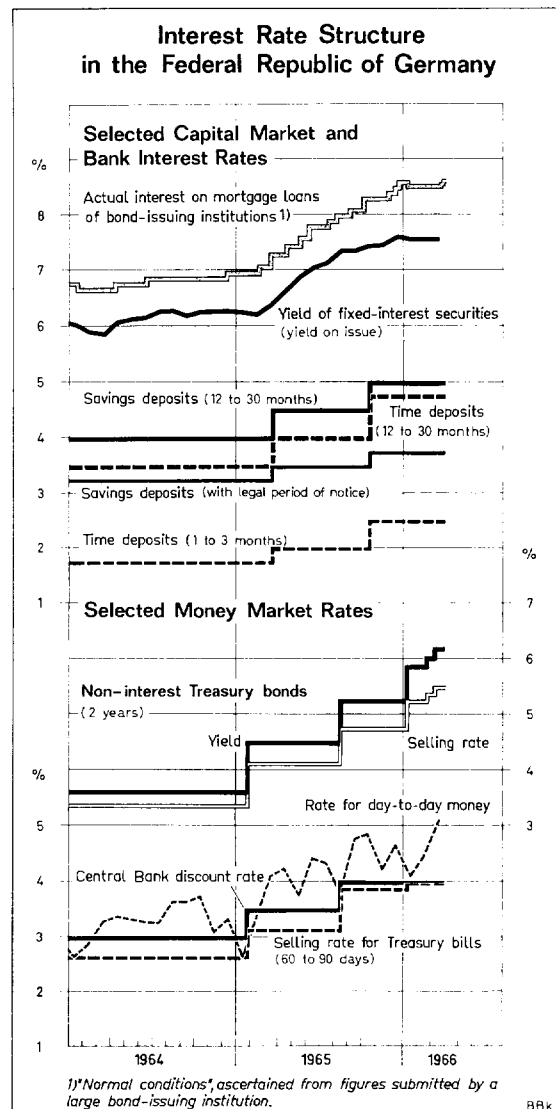
Great narrowing of the banks' liquidity margin

The banking system lost much liquidity in 1965 both through the deficit on the balance of payments and through the other market-induced money streams. Since moreover a good deal of liquid funds were sterilised by the minimum reserve requirement, which automatically grew together with deposits and monies taken, the credit institutions' free liquid reserves almost continuously declined, apart from seasonal fluctuations, while their liabilities increased. In proportion to non-bank customers' total deposits the banks' liquid assets declined from 4.6 per cent at the end of 1964 to 3.9 per cent at the end of 1965. The total free liquid reserves, which apart from the liquid assets mentioned¹⁾ also include the banks' unused rediscount quotas, were of course much greater. It is true that the amount of the unused rediscount quotas declined, first because the banks increasingly resorted to the Bundesbank and so made greater use of their quotas, and secondly because the quotas were cut down following the Central Bank Council's decision of 4 March 1965. In October 1965 one-half of the cut then ordered came into force, while the second half of that cut was for the time being postponed, being put into effect at the beginning of May 1966. At the end of December 1965 the freely available liquid reserves (including unused rediscount quotas) still amounted to 9.0 per cent of all non-banks' deposits, against 11.4 per cent at the end of 1964. (It will be shown in Chapter III of this Report that even a more detailed assessment of the banks' liquid reserves than is here made will lead to the conclusion that their margin of free liquidity has been greatly narrowed.)

Adaptation of interest rates for Central Bank lending

The banks' shortage of liquidity kept funds in short supply on the domestic money markets. Both during 1965 and at the beginning of 1966, apart from temporary fluctuations, money-market rates were consistently above the Central Bank discount rate, being above it by a full point or more during the periods of principal tension. In the long run it would of course have been incompatible with general credit policy if the banks had been able to satisfy their great need for liquidity by recourse to the Bundesbank at unchanging cost. Both in January and in August the rate of discount, the rate for advances against securities and that for cash advances to public authorities were each raised by one-half per cent. At the levels finally reached, namely 4% for discounts and cash advances and 5% for advances against securities, Central Bank credit still remained relatively cheap, even in comparison with official discount rates and money-market rates

¹⁾ Treasury bills, non-interest Treasury bonds, Storage Agency bills, prime bankers' acceptances and short-term money investments abroad.



abroad; in some important countries these were further raised in the course of last year, and in many cases they exceeded the rates in the Federal Republic of Germany. It was however particularly important that the rates on internationally significant money markets, especially London and New York, were almost always above the comparable rates in Germany, so that they afforded little inducement for the banks to procure short-term funds abroad. The banks therefore met their need for liquidity almost exclusively at the Bundesbank; they did so in roughly equal parts, on the one hand through rediscounting bills and borrowing against securities (to the extent of about DM 1.6 billion), and on the other through open-market transactions (amounting to DM 1.9 billion net)¹⁾. In the course of 1965 the Bundesbank also raised its rates for both repurchase and sale of money-market paper; and during the first months of 1966 the open-market rates were again raised in conformity with the tendency on the money market.

The fact that the Bundesbank largely adjusted its selling and repurchase rates to the level of rates in the money market is sometimes construed as meaning that it merely recorded conditions in that market. But this overlooks the fact that, when approximation to market rates is intended, this means adjustment to a market situation which the Bundesbank has itself largely brought about and which — if the course of rates on the money market ran contrary to its credit policy intentions — it could appropriately correct. This can accordingly be called “recording” only in the sense that the Bundesbank, by its decisions about interest rates, ultimately reinforced its liquidity policy. The Bank was aware that its policy on liquidity would lead to a rise of interest rates which it thought was required — on the market for fixed-interest securities as well — with the overriding object of reducing demand. It would of course not hesitate, as soon as it thought a reversal of the trend in interest rates justifiable on grounds of credit policy and desirable for the sake of further economic development, to change its liquidity policy and hence also the basic state of the credit markets.

Policy on interest rates reinforces that on liquidity

Particularly in view of the greatly increased demand for credit, on the part both of public authorities and of enterprises, the shortage of total funds for financing purposes caused interest rates to rise during 1965 in all sections of the credit markets. The rates of interest for short-term bank loans rose by at least as much as the Central Bank discount rate; no doubt on the average (through the limiting of concessions on rates in the banks' assets-side business) they were raised even more. There was a particularly great rise in the cost of loans from real-estate credit institutions, whose costs of procuring funds rose, owing to the upsurge of interest rates in the bond market, more than the rest of the costs incurred by banks in procuring money; on the other hand, the long-term loans based on the taking of savings deposits, which means especially such loans extended by savings banks, would seem to have shown a smaller rise in cost so far, seeing that the interest rate on savings deposits with legal period of notice was raised by only $\frac{1}{2}\%$ over its level as at the beginning of 1965. The rise in the cost of credit created for German trade and industry, and also for the public authorities, a new set of facts which affected plans for further investment more or less strongly according to the nature of the capital projects to be financed by loans, as well as according to whether the interest charge must be met in full out of the income from the projects, or whether interest rate subsidies will wholly or partly nullify the additional burden. In the preceding section it has already been pointed out that enterprises in particular, but in many cases public authorities as well, at first expanded their plans for investment more slowly and in the end actually cut them down to some extent. On the other hand the 1965 current capital expenditure, largely initiated some time earlier, had to be continued and completed even despite the increased cost of borrowing. This was one reason why the expansion of credit by banks in 1965 not only continued undiminished but actually became even faster, particularly during the first eight months of the year.

Interest rates rise and credit expands

A further reason for the relatively long time-lag with which the granting of credit reacted to the raising of interest rates, as described below, lies in the deliberate action to screen important

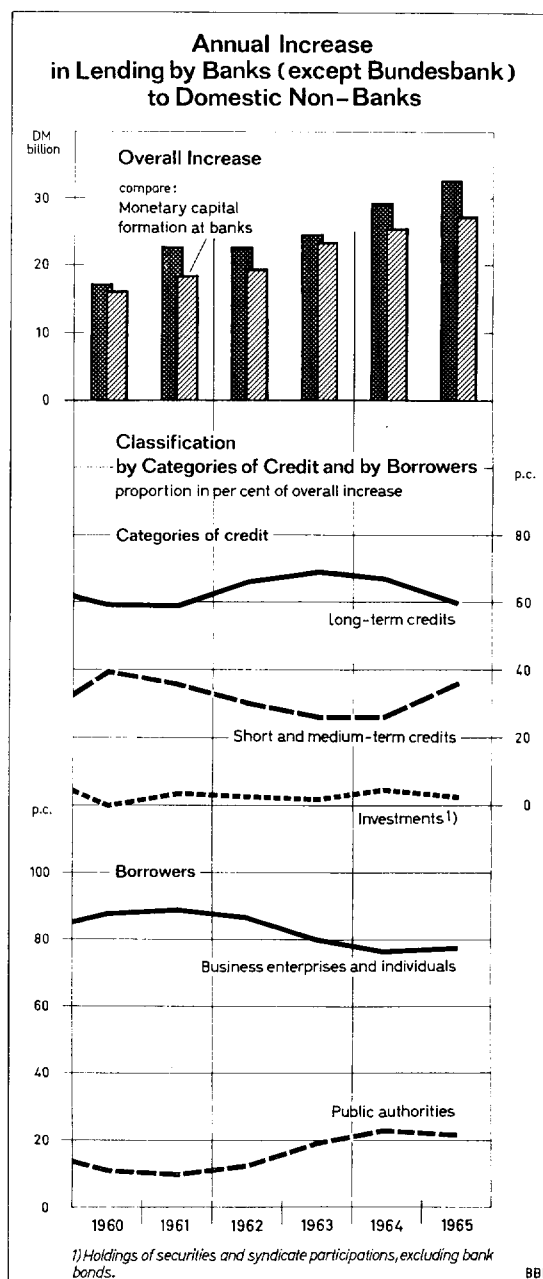
A screen through interest rate subsidies

¹⁾ All data are based on averages of the four bank-return dates in December.

categories of investment activity from the effect of interest rate increases. Happily it is true that last year, in the case of house-building, governmental encouragement in the form of help with interest and redemption and also in that of almost interest-free government loans was not further extended. But the number of dwellings assisted with government monies remains great. So far the encouragement of house-building has hardly allowed for the fact that the supply of housing has by now greatly improved in terms of both quantity and quality. For other purposes too substantial interest-rate subsidies continue to be granted; according to provisional data this happened during 1965, if anything, to an even greater extent than in 1964. The subsidies not only reduce the effective interest charge on borrowers to half the market rates, or even less; in many cases, for example in that of agriculture, they are so constructed that rises of the market rate do not fully affect the borrower because in such circumstances the subsidies are also raised, although not in equal degree. It is moreover obvious that sensitivity to changes in interest rates is particularly small, or appears only with a certain time-lag, in those categories where an account of expenditure and receipts is not possible (as in the case of public authorities), or where any losses have to be assumed by the government (as in the case of some official undertakings). Any elimination of market reactions by borrowers is extremely detrimental to the efficiency of credit policy.

Rapid credit expansion...

When it is borne in mind how greatly the banking system's liquidity was constricted, and how much the money-market was tightened, the expansion of bank credit in 1965 was quite considerable. The credit institutions' extension of credit to resident non-banks (including acquisition of securities issued by these latter) increased by about DM 32.6 billion, this being considerably more than the 1964 increase by DM 29.4 billion. It is however obvious that this wide concept of bank lending goes far beyond the banking system's real money-creating extension of credit, the regulation of which according to monetary needs is the immediate aim of credit policy. Owing to the mixed structure of German banking the above-mentioned increase of lending to domestic non-banks in fact also includes those loans which the banks, in their capacity as institutional investors, either arrange for others or — as in the case of government lending schemes — in practice merely transmit, but which they show in their balance sheets and which are therefore also included in the statistics. The significance of the "capital-type" loans is approximately shown by the total accrual of funds available to the banks



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

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

| Item | Year | Total | of which: | | | December to February of following year |
|--|------|---------|------------------|---------------|------------------|--|
| | | | January to April | May to August | Sep. to December | |
| I. Bank lending to domestic non-banks, total | 1965 | +32,174 | + 7,595 | + 11,492 | + 13,087 | + 7,238 |
| | 1964 | +29,118 | + 5,969 | + 9,565 | + 13,584 | + 8,339 |
| (1) Deutsche Bundesbank ¹⁾ | 1965 | — 449 | — 1,156 | + 152 | + 555 | — 562 |
| | 1964 | — 276 | — 1,576 | + 290 | + 1,010 | + 499 |
| (2) Credit institutions (not including Bundesbank) ²⁾ | 1965 | +32,623 | + 8,751 | + 11,340 | + 12,532 | + 7,800 |
| | 1964 | +29,394 | + 7,545 | + 9,275 | + 12,574 | + 7,840 |
| II. Formation of monetary capital at credit institutions from domestic sources, total ³⁾ | 1965 | +27,368 | + 9,729 | + 6,451 | + 11,188 | + 12,213 |
| | 1964 | +25,604 | + 8,564 | + 6,219 | + 10,821 | + 12,192 |
| III. Excess of lending or of monetary capital formation (I less II) | 1965 | + 4,806 | — 2,134 | + 5,041 | + 1,899 | — 4,975 |
| | 1964 | + 3,514 | — 2,595 | + 3,346 | + 2,763 | — 3,853 |
| IV. Net claim on foreign countries ⁴⁾ (Bundesbank and other banks) | 1965 | — 195 | + 1,877 | — 1,781 | — 291 | + 42 |
| | 1964 | + 1,279 | + 2,318 | + 85 | — 1,124 | + 1,085 |
| V. Other influences (not assignable to specific items) | 1965 | — 113 | — 1,501 | — 578 | + 1,966 | + 2,588 |
| | 1964 | — 303 | — 2,027 | — 224 | + 1,948 | + 2,268 |
| VI. Central Bank deposits of German public authorities (decrease: +) | 1965 | + 1,049 | + 263 | + 161 | + 625 | — 613 |
| | 1964 | + 913 | — 32 | + 263 | + 682 | — 513 |
| VII. Note and coin circulation ⁵⁾ and sight deposits of domestic non-banks except German public authorities' Central Bank deposits (III to VI, net) | 1965 | + 5,547 | — 1,495 | + 2,843 | + 4,199 | — 2,958 |
| | 1964 | + 5,403 | — 2,336 | + 3,470 | + 4,269 | — 1,013 |

*) The data in this survey are based on the "Consolidated Condition Statement for the Credit Institutions including the Deutsche Bundesbank" (cf. Table I 1 in the Statistical Annex); statistical changes have been eliminated. — ¹⁾ Including special credit to Federal Government for fulfilment of its obligations to international institutions, as well as claims on Federal Government in respect of post-war economic aid and of alteration of the exchange parity. — ²⁾ For further breakdown see Table "Lending of the Monthly Reporting Credit Institutions to Non-Banks". — ³⁾ For further breakdown see Table "Liabilities of the Monthly Reporting Credit Institutions to Non-Banks". — ⁴⁾ Comprising short, medium and long-term items including I.B.R.D. bonds taken by Bundesbank. — ⁵⁾ Excluding credit institutions' cash holdings, but including DM notes and coin held abroad.

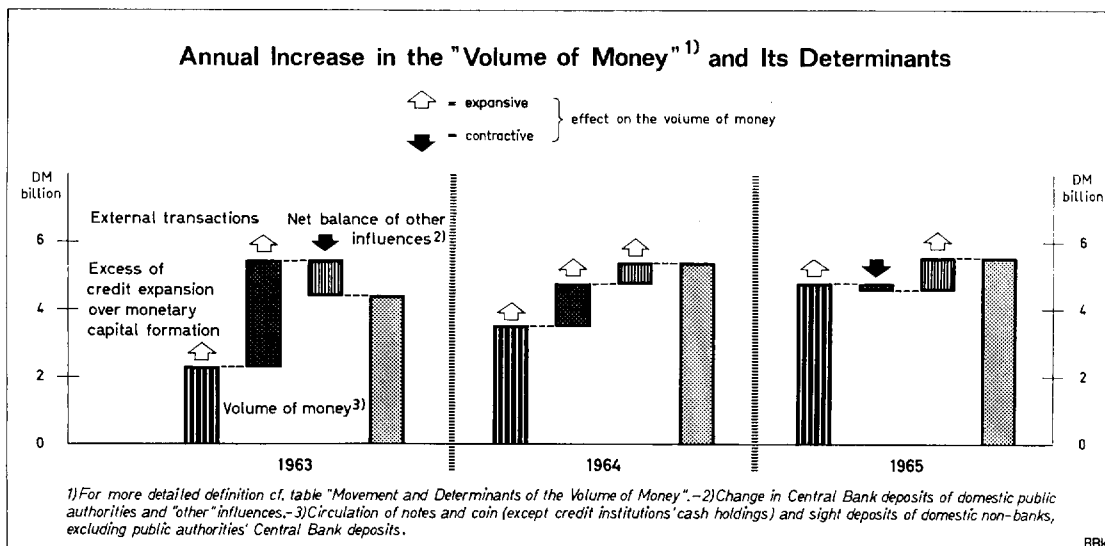
for longer-term financing; if the basis taken is the usual definition of monetary capital formation at banks, as in the table on this page, such accrual amounted to about DM 27.4 billion in 1965 against DM 25.6 billion in the previous year. The formation of monetary capital at the banks thus likewise increased substantially, although somewhat less than the expansion of credit. Nevertheless at DM 4.8 billion in 1965 the amount by which domestic extension of credit exceeded monetary capital formation — such excess affords a pointer to the money-creating effect of the credit expansion — was greater by DM 1.3 billion than in 1964¹⁾.

Nevertheless the credit institutions' increased money-creating activity did not in the ultimate effect make the quantity of money increase more vigorously than in the previous year. The notes and coin in circulation plus sight deposits²⁾ rose by DM 5.5 billion in 1965 as against DM 5.4 billion in 1964. Reckoned in per cent of the initial amount in each case, the increase in the volume of money actually became somewhat smaller. The quickening of domestic credit expansion thus produced no direct effect on the volume of money, mainly because in 1965 the foreign transactions of the banks (and the Bundesbank) showed a deficit and to that extent operated to cancel money as contrasted with a money-creating surplus on such transactions in 1964. The relatively rapid rise in the volume of money during 1965 was chiefly due to the movement in the first four months of that year, when the note and coin circulation plus sight deposits declined by much less than a year previously; since then the volume of money has increased by perceptibly less than in 1964. The slowing down of monetary expansion was particularly striking in the last few months. Between December 1965 and February 1966 the volume of money in fact declined by much more than it

... but slower growth in the volume of money since mid-1965

¹⁾ This includes the change in the Bundesbank's claims on domestic non-banks; they decreased slightly owing to partial repayment of the claims which the Bank acquired on the Federal Government partly through taking over foreign countries' claims in respect of post-war economic aid, and partly upon alteration of the currency parity.

²⁾ Notes and coin in circulation outside the banks, and domestic non-banks' sight deposits, excluding public authorities' deposits at the Bundesbank.



had in the corresponding period of earlier years, decreasing by DM 3.0 billion against DM 1.0 billion one year and DM 1.7 billion two years previously. This reflects the fact not only that foreign transactions continued to have no money-creating effect, but also that the granting of credit by all banks (including the Bundesbank) during those months was appreciably smaller than a year before.

The capital market under the influence of restrictive credit policy

Credit restriction and the bond market

The effects of the Bundesbank's restrictive attitude made themselves felt last year even more than in earlier periods of credit restriction on the markets for longer-term credit, and especially on the bond market. Throughout 1965 and the first months of 1966 the prices for fixed-interest German securities declined, although with interruptions. The connection between the price fall and hence the interest-rate rise, on the one hand, and the measures of credit policy on the other, is evident particularly from the fact that the shortage of liquidity caused the credit institutions, at all events those chiefly affected, appreciably to cut down their buying of fixed-interest securities. At the same time the increased downward pressure on bond prices tended to cause non-banks — particularly institutional investors, but also individuals — likewise to hold back from buying new fixed-interest securities because of the price-risk which had in the meantime become obvious in connection with these, and thereby on their part to contribute towards the further fall of bond prices. The decrease in the buying of bonds by credit institutions and also by non-banks of course explains only a part of the fall in quotations. An appreciable effect also resulted, for a long time, from the fact that the demand for capital in the bond market was very great. During the first seven months of 1965 not only the real-estate credit institutions (which remained very active) but also for example the public authorities issued far more loans than in the corresponding period of the previous year, and so increased the downward pressure on bond prices, particularly since the stock exchange reacted with special force to every announcement of further loan issues by public authorities. Only after the Federal Government had in August 1965 called the principal official borrowers together for round-table talks about coordination did public authorities appreciably hold back from further issuing; by doing so they contributed — just as did the temporary introduction of a rule suspending private borrowers' bearer bond issues, and the practice thereafter followed in the granting of issue permits — towards causing the market finally to become somewhat calmer.

One result of the banks' restraint in acquiring securities, and of the wait-and-see attitude on the part of the other purchasing groups, was that the volume of newly placed issues steadily contracted. Whereas net sales of domestic bonds (at sale value and with allowance for return flows to issuers) had amounted to DM 4.0 billion in the first quarter of 1965, they fell in the second quarter to DM 3.0 billion, and in the third and fourth quarters to DM 2.3 billion and DM 2.0 billion respectively. In the first three months of 1966 the net amount placed, at DM 2.0 billion, was only half as great as a year before. This decrease in placings had the advantage that some important borrowers, whose plans for expenditure and investment had previously been to a large extent directly or indirectly based on heavy borrowing in the bond market, were obliged to revise such plans. Even though borrowers managed to some extent to procure loans elsewhere, nevertheless — as, for example, this year's budgeting by some public authorities showed — the deterioration in the financial climate, especially on the bond market, did on balance exert a retarding effect. As against this, however, the capital market suffered disadvantages due to shrinkage of the market for bonds. Price falls compel the banks and other institutional investors to apply depreciation (which of course, if prices rise again, results in undisclosed reserves having been formed free of tax), and they generally reduce the fungibility of fixed-interest securities because holders are reluctant to sell these and to accept the losses on the price which then become effective. At the moment it is impossible to judge whether the propensity to buy bonds has been impaired not only in the short but also in the long run. The narrowing of the bond market is serious, however, not least because it reduces the particularly "transparent" part of the capital market, which means that part of the capital market where savers (as lenders) and the initiators of capital projects (as borrowers) can meet anonymously, and where the long life of debt instruments enables the borrower to fix his borrowed resources at really long term, while it is open to the individual lender to liquidate his commitment at short notice through the market. On the other hand in these circumstances there is an increase in the institutionally bound part of capital procurement, which has no "open market", and hence cannot assume the orienting function which the security market performs as regards the formation of interest rates. Since the amount of monetary capital formation in the whole economy is largely independent of the bond market's state, having actually risen even more in 1965 than in 1964, a large part of monetary savings will go (if investors are not greatly interested in fixed-interest securities) to institutional investors, *i. e.* banks, insurance companies and building and loan associations. If, as of late, owing to price falls the institutional investors are likewise reluctant to buy such securities, the savings which accrue to them will be placed at the borrowers' disposal by way of loan, but this will to a large extent be done "bilaterally" and without the transparency afforded by a market. A further unfortunate feature of this process is that, with a view to inducing institutional investors nevertheless to acquire securities, some rather questionable kinds of transaction are becoming prevalent. In many cases transactions under repurchase agreement ("*en pension*" transactions) are concluded; issuers moreover increasingly offer securities which run for short periods, and instead of fungible bearer bonds they often issue registered bonds which are not negotiable on the stock exchange. The institutional investors' preference for registered securities is due to the rules for drawing up balance sheets. In the case of bearer securities — if they are counted among the working assets — these rules require entry at minimum value, that is at the reduced market value, and that leads to book losses; on the other hand they do not require this in the case of registered securities, for which there is no market quotation. It would be desirable to investigate the question as to whether, for example, in the case of life assurance companies the minimum value principle need really on economic grounds be strictly applied to that part of bearer bond holdings which clearly was acquired for long periods and must therefore not necessarily be attributed to the working assets, since from the angle of solvency application of that principle is probably dispensable, while it is undoubtedly detrimental from the angle of capital market policy.

The dilemma of capital market policy thus is that on the one hand the bond market is weakened when restrictive measures are required on grounds of economic policy, but that on the other hand

Conflict between aims of general economic and capital market policy

The dilemma of capital market policy

the necessary checking of excess economic activity must not be allowed to entail the spread of undesirable short-term financing practices. For this reason it is important that the demand for capital in the bond market shall be confined to the amount which can be provided without overstraining. Only by this means will it prove possible, so long as restrictive credit policy has to continue, to remove the ground for fearing continuous further falls in quotations, and to restore the attraction of investment in securities which basically offers a very high yield. For the present, therefore, the talks between official borrowers about coordination will need to be continued with the same object as hitherto. In any case they should fix not only the sequence but also, in good time, the extent to which public authorities will resort to the capital market in all its forms.

3. Amplifying the instruments of credit and general economic policy

Limitations of credit policy

The above-described cyclical and monetary trends have once again revealed the limits of credit policy as a means to ensure a stable currency. In the light of the actual situation during 1965 those limitations chiefly consisted in the fact that credit policy intentions were thwarted by trends in the public finances, these being largely responsible for the long braking distance required by credit policy measures; they were also apparent, however, in the previously described effects produced on the structure of the capital market, which relegated into the background the "transparent" part of that market. It is true that in 1965, unlike earlier periods of Central Bank counteraction, the effect of credit restriction was not offset by external influences, even though this possibility must not be lost sight of. Because these limitations are recognised, the Bundesbank itself having indeed repeatedly pointed them out, the weapons of credit policy as well as the fiscal policy instruments of general economic policy have of late been critically examined. Both the report of the Commission on the Reform of the Public Finances, appointed by the Federal Chancellor and by the Prime Ministers of the *Länder*, and the 1965/66 annual report of the Board of Experts for the Assessment of Overall Economic Trends have on the basis of such examinations made proposals for amplifying the instruments of economic policy. In the meantime the Federal Cabinet has started consultations about improving these instruments; it intends in the near future to introduce into the legislature a bill designed both to create some additional instruments and to improve the possibilities of employing such means as are already available.

Amplifying the instruments of credit policy

Backing up by fiscal policy is urgent

There is no doubt that the above-mentioned limitations of credit policy cannot be remedied by improving the instruments of such policy; to a certain extent they are inherent in credit policy as such. The prime need is therefore to back up credit policy by parallel measures in other fields, above all in fiscal policy. The 1957 Law concerning the Deutsche Bundesbank, which empowered the Bank to employ the credit policy measures hitherto adopted, is a relatively modern law including practically all the instruments of monetary policy tested up till that time. In the not very long period since that Law was promulgated, it is true, a good deal of experience has been gained and certain weaknesses have been found; they make it appear worth while to consider whether the existing legal provisions ought not to be improved and also supplemented in this or that respect. The Bundesbank agrees with the Commission on the Public Finances Reform in its opinion that further tools of credit policy are desirable, although it regards as more urgent the said Commission's proposals directed to better coordination of fiscal policy and to activation of the latter's cyclical aspects.

Proposed limiting of credit

Both reports in particular propose that the Bundesbank should be empowered to lay down, for credit institutions, the maximum permissible expansion of their lendings to customers within a specified period. They assume that the fixing of a limit for credit expansion would contribute towards approaching more quickly, and above all within a more readily foreseeable period, the object of restoring the economy's internal financial equilibrium — an object which could otherwise

be attained only by degrees, through making liquidity scarce and dear. The Bundesbank feels that the imposition of a “credit ceiling”, if such a measure were authorised in the Bundesbank Law, would in fact operate in that sense and would therefore render good service in especially critical situations. In that connection it of course appreciates that the fixing of growth rates for credit cannot be a normal instrument of Central Bank policy, in the sense that it might replace control of liquidity and interest rates. A policy aimed at tightening liquidity would still be required because otherwise the supply of credit tended to remain too large; and increases in interest rates would be necessary in order to restrict the demand for credit as well. The fixing of growth rates for credit will lead, at least if it is done for a relatively lengthy period, to a certain “freezing” of the competitive situation in banking. It would moreover certainly not be altogether easy to make adequate allowance for the differing customer structures of the banks and banking groups, and for the consequent differences — in some cases wide — between the seasonal credit requirements. On the other hand the fixing of credit ceilings would, at times when rapid stopping of credit expansion appears necessary, help to avoid disadvantages which may no doubt be involved in control of the banks’ lending solely through constricting liquidity and raising the cost of credit. Thus for example the banks would feel less impelled to compete for customers’ deposits through overdone out-bidding on interest rates, if they could on the other hand no longer lend such deposits to customers because they had already reached the credit ceiling set. Against the background of legal power for the Bundesbank to impose a credit ceiling, it might be possible to achieve by mere voluntary agreement with the banks the limiting of credit expansion which is required in times of excessive economic activity, since in these circumstances each bank could expect its competitors also to observe any such agreement. Despite all its known disadvantages, therefore, the inclusion in the Bundesbank Law of power to impose a ceiling on credit is certainly calculated to shorten the braking distance required by credit policy, a distance which many critics rightly feel to be too long. No miracles, of course, can be expected to result from such a ceiling. In the first place, as mentioned above, its imposition always needs to be supplemented by an appropriate liquidity and interest rate policy; secondly, however, and above all, both budgetary and general economic policy must be aimed betimes in the same direction, so as to reduce the demand for credit as such and thereby relatively soon render unnecessary the imposition of the ceiling, which can never be more than a transitional measure. On the whole the Bundesbank therefore favours in principle the proposal for a credit ceiling, even though it believes that in the present phase of the business cycle application of this instrument should not be contemplated.

Among the said reports’ other recommendations for amplifying the instruments of credit policy the most important is that the social insurance institutions should be obliged to deposit their liquid funds in accordance with Article 17 of the Bundesbank Law. The Bundesbank welcomes discussion of the social insurance institutions’ investment policy, the more so since it has itself been urging for years that, in particular, regulations about the social pension insurance institutions’ employment of their working funds and reserves should be better adapted to the needs of credit policy. The object of extending Article 17 of the Bundesbank Law as mentioned above should not, however, be to bring in, for interest-free depositing at the Bundesbank, the whole or even only a part of the social insurance institutions’ liquid or easily liquefiable funds. Rather, it would suffice to stipulate that the social insurance institutions have to employ part of their monetary resources in forms to be determined by the Bundesbank if the Bank deems this to be necessary on grounds of monetary policy. The Bundesbank would then be able, more than before, to influence the employment of these funds in accordance with its intentions concerning credit and the business cycle.

Obligation for social insurance institutions to deposit at the Bundesbank

Amplifying the instruments of fiscal policy

The other publicly discussed proposals for amplifying the instruments of economic policy principally relate to fiscal policy, the framers of which are to be enabled more than previously to affect the course of the business cycle through decisions about revenue and expenditure. The object

Need for anticyclical budget policy

of these proposals is to bind the public authorities by law to act in conformity with considerations of economic policy and thereby directly or indirectly to affect the business cycle. It was precisely the events in 1965, when considerable budgetary deficits conflicted with the requirements of economic policy, that revealed the need for anticyclical orientation in drawing up the major public authorities' budgets and — almost more — in their execution. It would however be wrong to blame the procyclical course of public finances in 1965 primarily on the fact that fiscal policy lacks instruments which can be varied according to the requirements of economic policy. The reason was rather that in some fundamental decisions regarding revenue and expenditure the public authorities did not sufficiently allow for the said decisions' foreseeable cyclical consequences.

Fixing the responsibility
with regard to economic
policy

The proposals which the two reports make with a view to amplifying fiscal policy instruments, and which the Federal Cabinet appears to be partly adopting, are chiefly designed to provide an institutional and legal platform for the public authorities' responsibility to conduct their finances with due regard for economic policy requirements. What seems especially important in that context from the angle of credit policy is that the public authorities shall be required to take the cyclical aspects into account in their debt management. The voluntarily arranged round-table discussions between the major public borrowers about the capital market have already produced, as shown above, considerable results also regarding these aspects. The coordination of public borrowing would of course be a good deal more effective still if it was done on a legally regulated basis, as is proposed more particularly in the report by the Commission on the Public Finances Reform.

Greater flexibility
in decisions on fiscal
policy

A number of other recommendations for amplifying the instruments of fiscal policy aim at permitting quicker reaction to cyclical changes, whether through short-term variation of official plans for revenue or expenditure, or through special fiscal incentives or deterrents designed for short-term influencing of individuals' demand. From the angle of credit policy such refinement of the instruments would be entirely welcome. For example, short-term variation of tax rates would render it possible to manipulate the extent to which expenditure is covered by tax revenue (and conversely the extent of borrowing required) in a way desirable from the angle of anticyclical policy. The fact must not however be overlooked that relatively narrow limits are set to such changes in rates of taxation or depreciation, inasmuch as tax revenues serve in the first place to cover government expenditure, and the permitted rates of depreciation are designed to help in determining income as precisely as possible. It will moreover be desirable, before introducing new instruments which influence the course of the business cycle, to examine the justification for all those government measures which have hitherto proved to be strongly procyclical, for example the interest rate subsidies, the granting of government loans at low rates of interest, and the cumulating of various tax concessions such as those which continue to be granted — although in part no longer so extensively as before — particularly to house-building and agriculture.

Confidence in the value
of money

Even a fuller set of instruments will help to safeguard the value of money only if measures of fiscal and economic policy are always based on firm determination to ensure price stability. It would for example conflict with that requirement if the expenditure planning of public budgets were based on revenue estimates which on their part contain "rates of inflation", so that inflation-induced increases of revenue were automatically spent even though some anticyclical use of the funds, say for redemption of debt, appeared appropriate on grounds of economic policy. Every institutional extension of calculating based on "rates of inflation" would be bound further to hinder price stabilisation. That applies not least to the income policy decisions which the employers and the employed have to reach. The opportunity to check the rise of prices is quite materially impaired if, in wage negotiations, further price rises are expected and compensation for them is already agreed on beforehand. The experience gained in other countries shows that the building-in of an automatic equaliser for currency depreciation, through escalator clauses and the like, is not certain to realise the underlying aims of social policy. Precisely on social grounds it would appear to remain worth while to make every effort to ensure that all measures of economic policy shall assign first priority to the reattainment of price stability.

II. International Monetary Trends and Monetary Policy

1. General developments in the world payments situation and in world trade

During the period under review the international payments situation made some progress in the direction of better order. The threat to international monetary equilibrium and to the structure of exchange rates resulting from the high balance-of-payments deficits of the two great *reserve currency countries*, i.e. the United States of America and Great Britain, decreased considerably. Both countries were able in 1965 to reduce their balance-of-payments deficits to less than half their respective deficits in the preceding year. Confidence in the dollar as the main pillar of the present gold exchange standard was once again strengthened, thereby reinforcing the international monetary system. A contributing factor was that the interest differential between the United States and other industrialised countries is approaching more normal proportions owing to the substantial increase of interest rates in the United States, especially towards the end of 1965 and during the first months of the current year; thus, in addition to administrative measures, market forces have now also begun to take a hand in the necessary adjustment process towards restoration of capital and monetary equilibrium between the United States and Europe. Furthermore, the U.S. balance of payments, for the first time since 1958, has in the period under review ceased to contribute towards the expansion of the so-called “international liquidity”. The U.S. dollar, which during the past five years had provided more than one half of all accruals to the monetary reserves of the world, in 1965 no longer contributed to international liquidity. However, despite these favourable aspects there remains the fact that neither the United States nor Great Britain have been able to solve their balance-of-payments problems definitively and convincingly. Also private gold hoarding which has been persisting almost uninterruptedly since the beginning of 1965 shows that confidence in the present international monetary system, especially in the present gold price, is far from having been restored everywhere.

Strengthening of international monetary situation . . .

In Europe the monetary situation has clearly improved. Italy was able not only fully to overcome its balance-of-payments crisis of the spring of 1964 but, at a balance-of-payments surplus of \$ 1.6 billion, has even managed to become the country with the highest surplus in world economy. Not only in Italy but also in France a successful programme of combating inflation had produced temporary stagnation resulting in very high balance-of-payments surpluses. In both countries, however, since the spring of 1965 a remarkable upward trend in the economic situation has been noticeable, in the course of which the extreme balance-of-payments surpluses are beginning to decline. The counterpart — and, from the point of view of world economy, the main counterbalance — to the high Italian and French surpluses in 1965 was the deficitary trend of Germany’s current transactions.

... although conditions are not yet sound

The fears expressed in many quarters as recently as a year ago to the effect that the simultaneous efforts of the two great reserve currency countries in the direction of removing their foreign exchange deficits would necessarily entail a substantial slowing down of *world trade*, possibly even an international deflationary tendency — all the more so since they were intensified by the contracting effects of the internal stabilisation programmes of France and Italy — proved to be unfounded. In 1965 world trade increased by no less than 8 per cent; while this was not as much as the unusually high growth rate of 1964 (+ 13 per cent), when some particular events caused it to soar, the expansion of world trade in 1965 was still considerably greater than the average of the preceding decade 1953 to 1963 (+ 6.3 per cent), a period which after all was characterised by an almost uninterrupted boom of world trade. Even the fact that in the past year “international liquidity”, i.e. the volume of international monetary reserves, statistically speaking rose only very little as compared with the years before, failed to act as a brake on world trade and international economic activity, at least in the short run; this is in contrast to the fears of that “naive” school of thought which assumes the existence of a direct and short-term interrelation between the develop-

Further increase in world trade

ment of “international liquidity” and world trade or the trend of international prices. The reason why despite substantial shifts in the balances of payments of leading industrialised countries world trade managed to maintain its upward trend without interruption can be largely attributed to the fact that the United States reduced its balance-of-payments deficit exclusively by influencing the balance of capital transactions rather than by curbing imports. A less gratifying aspect is that the *international price trend* likewise continued to move upward, independently of the direction taken by “international liquidity”. The progressive expansion of world industrial production and world trade has caused raw material prices, especially those for non-ferrous metals, to take a sustained upward turn since 1964. In the years before they had remained fairly stable, although with occasional fluctuations (*e.g.* during the Suez crisis), on the level they had found in 1953/54, after the Korea crisis and its consequences had ceased to take effect. Despite price rises during the past two years the average German purchasing prices for imports in 1965 were still short of those some ten or twelve years ago; in fact international raw material and foodstuff prices, in line with all prices of goods entering into world trade, have on average remained much more stable than the levels of national prices.

2. Equilibrating movements in economic activity in Europe

The Federal Republic
imports stability ...

As explained in greater detail in the preceding “General Survey”, the Bundesbank did not in the period under review have to worry any longer about “imported inflation”. On the contrary, its efforts towards stabilisation were during the past year greatly helped by developments in foreign trade and payments. The worsening of the German balance of goods and services in 1965 indicates the extent to which the expansion of demand in the Federal Republic has been overtaking the rate of expansion in the other countries. It is thus indicative not only of excessive demand in the Federal Republic but also of the efforts at stabilisation made in important partner countries. The “importation of stability” via the deficit in the balance of payments had hardly any support from the endeavours of the reserve currency countries to regain their external equilibrium; on the contrary, the sustained expansion of the U.S. market in 1965 attracted considerable quantities of exports from Germany (goods exported to the United States increased by 20 per cent), while at the same time the inflow of American capital into the German economy — which likewise had an expansive effect — was even higher in 1965 than in 1964. Against this, the stabilising influences on the German economy emanating from the stabilisation policies in Italy and France were much more effective. Excessive demand in the Federal Republic of Germany was offset in Italy and France by capacities that were not fully utilised and highly competitive. Of the decline in the German trade surplus by almost DM 5 billion in 1965 no less than DM 3.4 billion was accounted for by trade with these two countries. Conversely, the marked upswing of German demand — in 1965 German imports from Italy rose by 47 per cent, and from France by 25 per cent — was for both countries a welcome stimulus for the stagnating economic activity. In other words, the differentials in demand and in economic activity during the past year were by far the most important factors influencing trade. Experiences made in the E.E.C. in 1965 show that the complete parallelism of economic activities in the member countries so often called for in the discussion on E.E.C. integration under the heading “harmonisation of economic and monetary policies” is not necessarily always the obvious objective, quite apart from the fact that it would hardly seem possible to attain it as long as the financial policies of the governments of the member countries remain autonomous. A single inflationary drive of a member country can of course easily affect the other member countries in an undesirable manner, or counteract their stabilisation efforts as illustrated by the example of Italy in 1963. On the other hand, however, developments in the past year have shown that, if the business cycles in major member countries differ or indeed are in contrast with one another, this may exercise both a desirable braking effect in the country featuring the excessive demand and an equally desirable stimulating effect in the country showing signs of

... and helps partner
countries to overcome
their stagnation

stagnation or recession. If important trading partners with close interrelations simultaneously reach the peak of economic activity (or, *mutatis mutandis*, the trough), this might instead by interaction impart an undesirable effect to inflationary or recessionary influences. Nevertheless, harmonisation on the basis of stability still remains the ideal and long-distance target for the E.E.C. countries.

3. International monetary cooperation to support sterling

The relaxation of the international monetary and balance-of-payments situation in the period under review was encouraged principally by the fact that the acute *speculative sterling crisis* which reached its peak in the autumn of 1964 and continued well into 1965 has meanwhile been largely overcome and that considerable progress has been made in the elimination of the British balance-of-payments disequilibrium. The deficit of the British basic balance of payments (current items and long-term capital transactions), which in 1964 had risen to as much as \$ 2.15 billion, was brought down to \$ 1.0 billion in 1965 (see Table 1).

Although the British payments position has improved ...

Despite this progress there were still several occasions in 1965 when sterling faced serious moments of weakness, especially in the summer months. Twice the necessity arose of organising international support operations for the British balance of foreign exchange, to which the Bundesbank contributed substantial amounts. In May 1965 Great Britain had recourse to the International Monetary Fund for convertible currencies totalling \$ 1.4 billion. An amount of \$ 1.1 billion of this drawing served to settle short-term central bank loans which had been made available to Great Britain in the course of the dramatic support operation of 25 November 1964, when the sterling crisis was at its peak; the balance was used to reinforce British monetary reserves. Having in December 1964 already drawn \$ 1 billion from the I.M.F., Great Britain thus came close to the

... sterling remained vulnerable

Table 1: Balance of Payments Position of the United States, United Kingdom and E.E.C. Countries 1953 to 1965 *)

Billions of U.S. dollars

| Item | Annual averages 1953 to 1956 | Annual averages 1958 to 1960 | 1961 | 1962 | 1963 | 1964 | 1965 |
|---|------------------------------|------------------------------|-------|-------|-------|-------|---------|
| I. United States | | | | | | | |
| (1) Current items (excluding military transactions) ¹⁾ | +4.02 | +4.26 | +7.48 | +6.83 | +7.35 | +9.78 | +8.13 |
| (2) Government transactions | | | | | | | |
| (a) Military transactions (net) | -2.59 | -2.88 | -2.55 | -2.42 | -2.27 | -2.06 | -2.02 |
| (b) Foreign aid (less repayments) | -2.05 | -2.45 | -2.78 | -3.01 | -3.58 | -3.56 | -3.39 |
| Total (1 plus 2) | -0.62 | -1.07 | +2.14 | +1.40 | +1.50 | +4.16 | +2.71 |
| (3) Private capital ²⁾ | -0.83 | -2.66 | -4.61 | -4.47 | -4.55 | -7.40 | -4.24 |
| (4) Overall balance of payments (liquidity basis) ³⁾ | -1.45 | -3.72 | -2.37 | -2.20 | -2.67 | -2.80 | -1.30 |
| (4a) Balance of official reserve transactions | -0.8 ⁴⁾ | -2.8 | -1.3 | -2.7 | -1.98 | -1.34 | -1.30 |
| (4b) Change in net external position of the monetary authorities and the banking system | . | . | -1.31 | -2.59 | -1.83 | -1.24 | -1.74 |
| II. United Kingdom | | | | | | | |
| (1) Current items | +0.23 | +0.18 | -0.04 | +0.26 | +0.29 | -1.14 | -0.38 |
| (2) Net long-term capital transactions | -0.49 | -0.59 | +0.22 | -0.26 | -0.45 | -1.02 | -0.61 |
| (3) Basic balance of payments (1 plus 2) | -0.26 | -0.41 | +0.18 | 0 | -0.16 | -2.15 | -0.99 |
| (4) Net overall balance of payments (= Balance of monetary movements) | -0.09 | -0.07 | +0.11 | +0.25 | -0.35 | -2.09 | -0.70 |
| III. E.E.C. Countries | | | | | | | |
| (1) Current items (including transfers) | +1.05 | +2.72 | +2.42 | +0.83 | +0.03 | +0.42 | +0.9 P) |
| (2) Change in official gross monetary reserves (including I.M.F. reserve position) | +1.16 | +2.19 | +2.17 | +0.43 | +1.48 | +1.97 | +0.94 |
| <p>*) The 1957 results have been omitted since they are distorted owing to the Suez crisis. — ¹⁾ Including export of goods financed by foreign aid. — ²⁾ Including errors and omissions. — ³⁾ Contains, apart from items (1), (2) and (3), the placing of non-convertible government bonds with foreign countries and international aid organisations, as well as advances received in respect of armament exports. — ⁴⁾ Annual average for the years 1954 to 1956. — P) Provisional.</p> | | | | | | | |

end of its tether as far as drawings under its existing quota in the I.M.F.¹⁾ were concerned. Table 2 gives an outline of the financing of the two British I.M.F. drawings and of the part played by DM allocations in this connection. The immense sum of \$ 2.4 billion, representing the total drawn by Great Britain, was financed by the Fund in various ways. Only about one-third of the total, viz. \$ 820 million, was derived from the normal currency holdings composed of member subscriptions. Currencies in the equivalent of \$ 650 million were obtained by selling gold, of which under the two transactions the Bundesbank received a total of approximately \$ 225 million. These gold sales by the Fund to the national gold reserves were particularly welcome at a time when accruals of gold from new production and Russian sales were largely absorbed by gold hoarding and thus failed to enter into the national gold reserves. The greatest contribution to financing the British drawing was in the form of special credits of the member countries of the Group of Ten to the I.M.F. under the General Arrangements to Borrow (G.A.B.). In this way a total of \$ 930 million was raised in various currencies, including a German share of DM 1,390 million, the equivalent of \$ 347.5 million. By making these Deutsche Mark funds available to the I.M.F. the Bundesbank acquired a quasi-automatic drawing right on the Fund in a like amount if needed; since this increases the German reserve position in the Fund, the amount is included among the monetary reserves of the Bundesbank.

Table 2: Financing of the British Drawings on I.M.F. of 2 December 1964 and 25 May 1965
Millions of U.S. dollars (equivalent)

| Currency used | Procurement of funds | | | Total 4 = 1 + 2 + 3 |
|---|-----------------------------|--|-----------------------------------|------------------------|
| | out of I.M.F. holdings 1 | out of special credits to I.M.F. under General Arrangements to Borrow 2 | through gold sales of I.M.F. 3 | |
| I. Drawing of December 1964: | | | | |
| All currencies | 345 | 405 | 250 | 1,000 |
| among which: Deutsche Mark | — | 180 | 93 | 273 |
| II. Drawing of May 1965: | | | | |
| All currencies | 475 | 525 | 400 | 1,400 |
| among which: Deutsche Mark | 12.5 | 167.5 | 132.5 | 312.5 |
| III. British drawings on I.M.F. in 1964/65, total | | | | |
| All currencies | 820 | 930 | 650 | 2,400 |
| among which: Deutsche Mark | 12.5 | 347.5 | 225.5 | 585.5 |

The *General Arrangements to Borrow*, whose benefit to the I.M.F. is evident from these two support operations for Great Britain, have been extended for another four years beyond their first expiry date — October 1966 — by a decision of the Group of Ten and a similarly worded resolution of the Board of Executive Directors of the I.M.F. passed in October 1965, on which occasion it was agreed that after two years any member country may demand a review of the arrangements.

Whereas the support operation of the Fund in May 1965 was not due to an acute sterling crisis but served the financial adjustment and consolidation of the bilateral aids given by central banks during the crisis between November 1964 and February 1965, sterling towards the middle of the year again began to show very serious symptoms of weakness, which called for a further support operation. Early in September 1965 the central banks of the member countries of the Group of Ten (without the participation of France), with the Bank for International Settlements (B.I.S.) and the Austrian National Bank joining in, arranged to open for the Bank of England bilateral short-term

¹⁾ The general increase of quotas in the I.M.F., which was already mentioned in the Annual Report for 1964 (p. 36), was definitively resolved in February 1966 with the approval of the qualified majority of member countries as established in 1965. As a result of this quota increase the amount up to which Great Britain can draw on the I.M.F. has risen by approximately \$ 500 million as from March this year.

credit lines (standby facilities) for substantial amounts. These credit lines, except for an American special credit line already granted and a further credit line drawn upon only for a very brief period of time, did not have to be resorted to by the British monetary authorities. The mere fact of their existence sufficed to allay the acute distrust concerning the pound. Immediately upon announcement of the joint central bank action a really amazing reversal of the trend took place in the exchange markets. During the following months up to the beginning of February 1966 the Bank of England regained almost as much foreign exchange as it lost in the spring and summer of 1965. The central bank credit lines opened in September 1965 were originally meant to expire at mid-March 1966. In the meantime they have again been extended, not so much because this appeared essential with a view to continued support for the British balance of payments but rather in order to provide general backing for sterling in its function as an international reserve and trading currency.

There are two reasons for the recurring difficulties of the pound. The first one results from the weak balance-of-payments position of Great Britain, the second one from the position of the pound as a trading currency for a considerable part of world trade and as a reserve currency for the countries of the Sterling Bloc. The balance-of-payments deficit is a problem for Great Britain to cope with, but the difficulties that may arise from the traditional position of the pound as an important international trading and reserve currency are not a mere national British problem but one of international interest. The monetary reserves of Great Britain are comparatively low as related to sterling commitments entered into in the past, which are a substantial component of the international monetary reserves. A collapse of the reserve currency system of sterling would cause great damage to the international monetary system and to world economy. In the interest of maintaining existing international monetary reserves it is most important that this problem be accorded due attention within or outside the efforts to reform the international monetary system.

4. Light and shadow in the American balance of payments development

By far the most important pre-condition for the stabilisation of the international monetary situation was, and still is, of course, the complete restoration of equilibrium in the balance of payments of the other reserve currency country, *i.e.* the United States. In this respect the period under report was characterised both by encouraging and disappointing features. The overall deficit calculated by the most common of the various American definitions of the balance of payments, *i.e.* on the "liquidity basis"¹⁾, decreased from \$ 2.8 billion in 1964 to \$ 1.3 billion in 1965. Since this latter sum contains a mainly calculatory deficit item of about \$ 0.5 billion due to the conversion of part of the British government's holdings of U.S. securities into short-term U.S. bonds, the statistical balance-of-payments result for 1965 would in fact look even more favourable if this non-recurring special factor were eliminated. This improvement in the overall balance was however achieved almost exclusively through a reversal of the movements of money in the banking sector as well as through considerable repatriations of short-term credit balances in the enterprises sector and at financial institutions outside the banking sphere. In the banking sector alone an improvement of more than \$ 2.5 billion took place in comparison with 1964; for whereas in 1964 increases in short and long-term lending by American banks to foreign countries had reached the record sum of almost \$ 2.5 billion, there was in 1965, on balance, a repatriation of bank deposit money in the amount of \$ 0.1 billion. This reversal of the movements of money far exceeded the result to be expected from the directives laid down by the Federal Reserve Board in February 1965 for "voluntary self-restraint"; these permitted for 1965 a net expansion of bank lending to foreign countries by 5 per cent above the level reached by the end of 1964, which would have permitted net capital exports of about \$ 0.5 billion in the bank sector.

Great improvement in United States short-term movement of capital ...

¹⁾ Changes in the official monetary reserves and in the liquid dollar indebtedness towards foreign countries (both towards official foreign holders and towards banks and private individuals).

... partly offset by
deterioration in current
items

In contrast to this outstanding improvement in the financial sector there was a considerable deterioration on the year both in the U.S. *balance of trade* and in *direct investments* of American companies abroad. Under the influence of the extraordinarily vigorous expansion of the American domestic economy, reinforced by some special factors (unusually large imports of steel due to threatening strikes in the steel industry, *etc.*), American imports of goods grew by no less than 14 per cent in 1965, whereas over the same period exports went up by only 4 per cent. The deterioration in the balance of trade by about \$ 1.8 billion induced an almost equal deterioration in the balance of current items. The extraordinarily large surplus on the balance of trade of the year 1964 could thus not be fully maintained last year, although compared with 1963 and preceding years the surplus on current account achieved in 1965 is nevertheless quite sizable (cf. Table 1). The reduction in the surplus on the balance of trade does not reflect any deterioration in the competitive position of the U.S. economy as regards costs in the period under review, but mainly — apart from the above-mentioned special circumstances — the changed demand differential between the United States and the rest of the industrialised countries; in 1965 for the first time in a long period overall demand in the United States increased appreciably more than the average for the other members of the O.E.C.D. According to estimates of the I.M.F. Secretariat the competitive position of the United States in relation to the other industrialised countries, measured by labour costs (wage costs per unit produced), improved by about 15 per cent between 1960 and 1964; this improvement still continued in the period under review (cf. Table 3). Now that a state

Table 3: Changes in Labour Cost per Unit Produced by the Manufacturing Industry

Annual rates in per cent
(rounded off to .5 per cent)

| Annual average | United States | Fed. Rep. of Germany | Japan | United Kingdom | Canada | France | Italy |
|------------------------------------|---------------|----------------------|-------|----------------|--------|--------|-------|
| 1958 to 1964 ¹⁾ | 0 | +3 | + 1.5 | +2 | + 0.5 | +4 | +4 |
| 1965 as against 1964 ²⁾ | 0 | +5.5 | + 5 | +5.5 | + 1.5 | +1 | -3.5 |

Source: O.E.C.D.; figures for the Federal Republic of Germany calculated by Bundesbank. — ¹⁾ Computed in national currencies. When taking into account the effect of exchange rate alterations on the international comparison of cost the following values are found as annual average for 1958 to 1964: Federal Republic of Germany + 4 p. c.; France + 1 p. c.; Canada — 1.5 p. c. — ²⁾ Last three months of 1965 for which data are available, compared with the corresponding period of the preceding year; for the Federal Republic of Germany, 1965 average as against 1964 average.

of full employment and full utilisation of production capacities has been reached, and considering the material and psychological effects of the Vietnam conflict on the U.S. economy, it is of course becoming increasingly difficult also for the United States to preserve the stability of labour costs per unit of production and of industrial prices as maintained since 1959. Thus for the first time in many years industrial prices in the United States have also taken on a slow upward movement on a broad front since mid-1965, the trend being principally promoted by demand and not so much by costs. This trend must be regarded by the rest of the world with anxiety. Firstly, it tends to impede the efforts of the American authorities to achieve a speedy, complete elimination of the deficit in the balance of payments, whereas the removal of the American deficit is one of the most important conditions of all for a stabilisation of the international balance-of-payments and monetary situation. Secondly, it is of the greatest importance for the other industrialised countries, especially those of continental Europe, whether the leading national economy of the western world manages in a period of full employment successfully to maintain a relative price stability from which the other countries linked with the dollar by fixed exchange rates can in the long run take their bearings. Should the United States of America fail to achieve any lasting success in maintaining a reasonable measure of price stability, then the other countries would time and again face the prospect of having, under the system of fixed exchange rates, to effect a further undesirable “upward adjustment”, with no end to the process being in sight. In the long run this might discredit the system of fixed rates of exchange.

The reduction in the surplus on the U.S. balances of trade and on current account in 1965 has been connected directly by some quarters, especially by academic critics of the American balance-of-payments policy (such as the influential French economist, Professor Rueff), with the *restriction of the United States' capital exports* through the various measures of American balance-of-payments policy in the years 1964 and 1965. It was regarded as an experimental proof of the so-called boomerang theory of direct repercussion of capital exports on the balance of trade. It would in any case be somewhat strange if the limitation of American capital exports had in this case so very promptly affected the balance of trade, whereas in the opposite case at an earlier date the vigorous expansion of American capital exports had by no means so promptly had the effect of increasing American trade surpluses. On closer examination two facts would seem to indicate that there is no direct connection between the restriction of American capital exports and the decrease in the surplus on the balance of trade. On the one hand, the main reason for the latter was the extraordinarily strong rise in imports, easily explained by the vigorous expansion in American domestic economic activity and by such special circumstances as the temporary sharp rise in steel imports, *i. e.* circumstances not attributable to the curbing of American capital exports. On the other hand, and this is usually overlooked by the critics, the measures taken by the United States in 1965 failed to lead to a reduction in those capital exports which might conceivably be regarded as directly or indirectly connected with the export of goods. Thus private long-term capital exports as a whole in 1965 were roughly as great as the year before, in spite of the interest equalisation tax and the self-restraint measures regarding direct investments abroad. In particular, direct investments of American enterprises abroad, as far as they were financed at the expense of the United States balance of payments and not from funds earned or borrowed abroad, in 1965 were \$ 0.9 billion greater, at \$ 3.3 billion, than in 1964, which means that the efforts of the U.S. government towards voluntary self-restraint in these investments abroad met with no success whatever in 1965. Similarly, new issues of foreign securities on the American capital market were still slightly greater than in 1964. Only long-term lending by American banks abroad decreased as a result of self-restraint measures.

The improvement in the American balance of capital transactions was due entirely to the reversal in the short-term movements of capital in the financial sector, as mentioned above. However, the connection of this particular sphere with the balance of trade in the sense of the above-mentioned alleged "boomerang effect" is quite loose, not to say quite improbable. This is all the more pertinent since, as will be shown, the absence of American short-term money on the international finance markets in the period under review was fully compensated, or even over-compensated, by similar funds of other origin. Furthermore the fact should not be overlooked that the curbing of short-term capital exports, the only real success so far of the American measures, was due in 1965 less and less to the measures of self-restraint, but in *an increasing degree to the effect of the market forces*. The sharp rise in American interest rates in the short-term sector, strengthened in the period under review by a rise in the U.S. discount rate from 4% to 4½% — although in the case of most short-term rates it exceeded 1% in the course of one year — made itself felt just as much as, at the end of 1965 and the beginning of 1966, the increasingly marked shortage of funds for financing purposes on the American markets themselves. This trend also explains why the American banks took no advantage at all of the given facility to increase their overall lending to foreign countries by \$ 0.5 billion (net) in 1965; instead, they rather allowed part of their previous lendings to terminate without replacement and thus on balance repatriated money. It is likely that in 1966 too, given a continuance of such monetary tension, the American banks will by no means make full use of the possibilities open to them under the self-restraint measures for lending to foreigners (permissible net capital exports about \$ 0.7 billion).

... recently also
by market forces

The one-sided concentration of the improvement of the American balance of payments on the short-term financial sector in 1965 was undoubtedly the least disturbing way for the world economic system to approach a state of equilibrium in the balance of payments. On the other hand

however, particularly as far as the repatriation of short-term funds of American financial institutions and enterprises was concerned, it was at least to some extent a process of a unique kind which cannot simply be repeated. A further improvement in the U.S. balance of payments, which the U.S. government has declared to be its firm and urgent objective, can from now on only be expected from an improvement in the basic elements of the balance of payments, *i. e.* from an improvement in the balance of current items or in the balance of long-term capital transactions. Above all, the American authorities are hoping for an easing in 1966 of the pressure on the balance of payments resulting from the direct investments of American enterprises abroad. According to the directives for voluntary self-restraint, which were tightened in December 1965, the latter, to the extent that they have an adverse effect on the U. S. balance of payments, are to be kept almost \$ 1 billion lower in 1966 than in 1965. Even given the full reduction envisaged by the directives, they would nevertheless still be roughly as great as in 1964 and about one-third greater than the yearly average for 1960 to 1963.

5. Effects of the balance of payments measures on the international money and capital markets

It is necessary to bear in mind these relations in comparison with former absolutely "normal" years if the significance of the U.S. balance-of-payments policy for the world economic system is to be judged correctly. In this connection, just as in the case of the Swiss and German measures for curbing capital imports, critics have spoken of incipient "disintegration of international capital movements". As far as the effects of these measures are concerned, the following circumstances must not however be overlooked:

1. In spite of the official restrictive measures, exports of American long-term private capital in 1964 and 1965 at about \$ 4.5 billion in either year reached a *record level far above that at the beginning of the sixties* (1960–1962 between \$ 2.5 billion and \$ 3 billion). A considerable portion of these capital exports went to European industrialised countries, where in view of current over-employment they had the effect of aggravating inflationary tendencies still further. Under these circumstances it is reasonable to argue that not only in the interests of equilibrium in the American balance of payments, but also for the sake of international monetary stability in general a restriction of the all-too-vigorous expansion of American capital exports was timely, and indeed imperative.

2. According to data compiled by the Secretariat of the O.E.C.D. overall capital exports by industrialised countries to those especially in need of capital, *viz. the group of countries other than O.E.C.D. members*, did not decrease in 1965, but even slightly *exceeded* the level of the preceding year despite of a number of retarding circumstances.

3. The *international financial markets in 1965 showed astonishing elasticity*. To a large extent they compensated the restrictions on American capital exports, as far as these had taken effect at all, by the provision of funds from other sources. The sudden increase in the German economy's demand for foreign capital was likewise met by the international credit markets quite smoothly; indeed, from the point of view of effective Bundesbank policy, rather too smoothly. This elasticity in international financing was apparent both in the long-term and the short-term sphere.

In the *long-term sphere* the restriction on foreigners' access to the American issue market and the referring of American enterprises to partial financing abroad contributed to the *market for foreign issues* in Europe taking a remarkable upswing within a very few years (cf. Table 4). Whereas until 1963 bonds issued by foreign borrowers could be placed only on a few European markets (mainly in Switzerland and the Netherlands, and on both markets only to a limited extent), two significant new markets for foreign loans have developed since 1964: on the one hand the market in DM foreign bonds with leading participation by German banks or bank syndicates, and on the other hand a bond market in foreign currencies, mainly in U.S. dollars, but also in units of account (like the former E.P.U. unit of account) or in "foreigners' sterling" (with DM option clause). This market for loans in foreign currencies, domiciled principally in London or Luxembourg, is a Euro-

International movements
of capital still heavy
despite American
restrictions

Euro-issue market
fills the gap

Table 4: Newly Issued Foreign Loans

Millions of dollars (rounded values)

| Country of issue | 1963 | 1964 | 1965 |
|--|-------------|--------------|--------------|
| United States | 1,250 | 1,060 | 1,200 |
| Canada | — | — | 20 |
| Europe | 440 | 970 | 1,300 |
| of which: | | | |
| (a) National issue markets (among which: DM issues) | 320 (40) | 430 (220) | 540 (320) |
| (b) Euro-issue market*) | 120 | 540 | 760 |
| Total | 1,690 | 2,030 | 2,520 |

Source: O.E.C.D. — *) Except DM issues, which since 1964 have formed part of the Euro-market.

issue market *par excellence*, in as far as it is only very loosely connected with the national issue markets in Europe; it appeals mainly to international capital of the most varied kinds, in many cases directed via Swiss accounts, and has partly replaced the Swiss market for foreign loans, which suffered restrictions at the hands of the authorities in the period under review. Until now issuers on these various European markets for foreign issues were predominantly European borrowers, including European community institutions, such as the European Investment Bank and the High Authority of the European Coal and Steel Community in Luxembourg. But non-European borrowers too have been able to reap profit from these issuing facilities to an increasing extent. Thus in 1965 \$ 230 million was placed by non-O.E.C.D. countries (including international institutions outside Europe), and \$ 40 million by Japan; since June 1965 American enterprises in particular have also been appearing more and more frequently as issuers; their total issues were no less than \$ 340 million by the end of the year, followed in the first three months of 1966 by further American placings amounting to about \$ 300 million.

Of the national markets for foreign issues, the German market has become by far the most important in Europe. Whereas in the entire period since the war up to and including 1963 a total of only about DM 640 million was placed on the market for foreign DM loans, the aggregate for 1964 and 1965 alone was about DM 2.2 billion. This movement is, however, not so much a repercussion of the American restrictive measures as a direct consequence of the introduction of the withholding tax in Germany, which was announced in March 1964 and came into force in March 1965. As loans issued by foreigners on the German market are not subject to the withholding tax, such DM foreign bonds came to be preferred as investments by those foreigners who are keen on high-interest-bearing investments in DM currency, which is considered to be especially safe. Today the market for foreign DM loans can be regarded to a large extent as a component of the general Euro-issue market. The movement of interest rates on the DM foreign loan market has adapted itself more and more to that of the Euro-issue market and has detached itself very largely from the movement of interest rates on the German domestic bond market. At the beginning of 1966 first-class foreign issuers of DM securities had to offer a yield of about 6.5%, whilst at the same time the yield for new German Government loans was about 7.4%. At such a difference in interest yields the interest of resident German investors in foreign-issued DM loans has naturally diminished more and more; these are of late being subscribed to predominantly by foreigners, whereas in 1964 an estimated two-fifths of the foreign DM loans issued in Germany were still purchased by residents. The fact that yields from issues on the Euro-market rose from the beginning of 1965 to the beginning of 1966 by between 0.3% and 1%, depending on the type of loan, and that on that market pronounced signs of congestion manifested themselves in the first few months of the current year, is not so much a reflection of specific tendencies on Europe's national capital markets as of the circumstance that more and more borrowers compete for the relatively limited funds of the Euro-issue market. The limited amount of funds available for such

Upswing in the market for DM foreign loans

... but only to a limited extent

foreign issues is readily explained by the fact that the Euro-issue market is only very loosely connected with the main sources of the European supply of capital, be it that the export of capital for these purposes is not permitted in a number of important countries, or that in the only major country with complete freedom to export capital, *viz.* the Federal Republic of Germany, interest rates are much higher on the domestic loan market, or finally because the large institutional investors of the European countries are prevented from acquiring such securities by statutory investment regulations and administrative impediments prohibiting the acquisition of foreign-currency securities. Thus, contrary to popular belief, especially in America, the Euro-issue market is by no means representative of the European capital markets in general.

The U.S. measures to restrict capital exports have impelled American companies in particular to rely more and more on overseas financing of their foreign investments. According to an estimate of the Secretariat of the I.M.F., American subsidiary enterprises in Europe received about \$ 0.9 billion of outside funds for financing purposes from European sources in 1965 (among them the above-mentioned \$ 340 million from loans issued on the Euro-market), *i. e.* about \$ 0.3 billion more than in 1964. This did not however result in any direct saving for the American balance of payments as overall expenditure of American enterprises on investments in Europe increased still more substantially than the funds taken by them in Europe. Greater difficulties in obtaining finance engendered by the American self-restraint measures have thus not yet successfully curbed the extremely marked propensity to invest in Europe shown by American firms. A further increase in outside funds taken by American companies in Europe must be reckoned with as a result of the stricter U.S. directives issued at the end of 1965. It is clear that this, other things being equal, must increase the strain on the already tight European capital markets. However, the magnitude of this increase in demand by American companies compared with the overall financing capacity of the European financial markets is not such that, as is often asserted in American and European commentaries, it can be regarded as one of the main factors for the shortage of capital and the rise in interest rates on some European national issue markets. Until now, at any rate, it appears that *local* market factors were responsible for the market situation and particularly for the movement of interest rates on the European national capital markets. In countries where local factors favoured an upswing in interest rates, such as in Germany and the Netherlands, this occurred even though in the period under review – at least in Germany – the import of capital by no means decreased, but indeed rose considerably in comparison with the year before. In other countries however, where the national market forces and national monetary policy favoured a fall in interest rates, this took place in spite of the upward movement of interest rates on the Euro-issue market, as proved, for example, by developments in Italy, France and Japan.

Elasticity of the
short-term
Euro-dollar market

4. The elasticity of the international financial markets already mentioned asserted itself even more strongly in the *short-term* sphere. This is all the more noteworthy in that this is the only field in which American self-restraint measures, together with developments in the credit situation in the United States, have so far had any really striking effect. As already mentioned, these measures not only led to that standstill in bank lending to foreign countries desired by the American authorities, but also to considerable repatriation of short-term foreign assets by American banks and enterprises. The *Euro-dollar market*, which was hardest hit by these measures, in part directly and in part via the withdrawal of Canadian banks' deposits, nevertheless only temporarily showed any noteworthy tension in 1965, apart from seasonal fluctuations especially at the end of the year. Not until the spring of 1966 did the increasing tightness on the American money markets affect the London Euro-dollar market, and with it the Swiss money market, to a greater extent. In 1965 the outflow of funds withdrawn by North American investors was outweighed by short-term bank monies from various west European countries accommodated additionally on the Euro-dollar market. Italian banks had the largest share in this, followed by Swiss and French financial institutions. In the case of Italy it was of course a non-recurrent transaction, inasmuch as the Italian central bank deliberately used part of the country's large balance-of-payments surplus to improve

the external position of the Italian banks, which had previously shown a marked deficit. If the movement of the Euro-dollar market is measured by the dollar claims and liabilities of the commercial banks domiciled in London against foreign countries – which is by far the most important part of the entire market – it will be seen that in 1965, in spite of the American restrictive measures, this market in fact expanded on either side of the balance sheet by about \$ 0.9 billion, which was a more substantial expansion than in many a previous year.

The position of the German commercial banks in the London Euro-dollar market does not seem to have changed very much during the period under review. On the other hand, part of the short-term Euro-dollar funds found their way directly to German enterprises, especially through Dutch and Swiss banks, and contributed to financing the *new indebtedness of German trade and industry* to foreign countries in 1965. Of the increase in the statistically ascertainable short-term indebtedness of German enterprises to foreign countries by about DM 840 million (excluding indebtedness directly connected with trade), the bulk was accounted for by short-term financial credits from Swiss, Dutch and Belgian lenders. The expansion of the funds available to the short-term Euro-credit markets in 1965 thus by no means had only useful effects but contributed to frustrating, or at least delaying, the efficacy of German restrictive credit policy.

5. In the light of the developments of the last few years, the question as to whether *freedom of the international movement of capital* should at all times be granted the same degree of priority as the freedom of movement of goods and services has been debated again and again. It will be recalled that because of bad experiences in the thirties with movements of capital upsetting the state of equilibrium, in the Articles of Agreement of the International Monetary Fund the question has been answered unequivocally in favour of priority for the movement of goods and services. In practice, the opinion has gained more and more ground in the last 15 years, at least among the leading industrialised countries, that freedom of international movement of capital is also of great intrinsic value for increasing the prosperity of the free world, and that in the presence of capital movements disturbing the state of equilibrium the main objective is to tackle their causes. In the Treaty of Rome the freedom of capital movement among the member countries of the E.E.C. is laid down as an aim “as far as necessary for the functioning of the Common Market”. Even for this somewhat limited freedom of capital movement within the E.E.C. rather far-reaching escape clauses were however stipulated in case of balance-of-payments or capital market disturbances. The doubts about the sanctity of the international movement of capital, which have recently become stronger again, are mainly based on the following considerations: *Firstly*, it is at least open to discussion as to whether capital transactions between the advanced industrialised countries are really nowadays based on unassailable economic premises in the countries concerned, or whether these basic premises, *e. g.* different national interest rate levels or freedom of international access to national credit markets, are not so distorted by interventions of all kinds, especially by the different handling of monetary policy in the various countries, and also by differences in institutional structures founded in history, that the movement of capital based on them does not always serve to ensure the maximum increase in prosperity in the world economic system. Thus it is quite open to doubt whether the German economy’s net borrowing abroad in 1965 really reflected the true differential of capital in the world economic system – Germany is the country in the western world’s economic system with the second highest formation of capital in absolute amount, and relatively speaking also maintains one of the highest capital accumulation quotas – and whether this substantial capital import is really so useful both for the equilibrium of the world economy and for Germany’s own. *Secondly*, it has been seen again and again that freedom in the short-term movement of money in particular is apt to impede enforcement of a national monetary policy aimed at stabilisation of the currency, and indeed in extreme cases may even render it impossible. In such cases consideration must be given to the problem whether the regaining of monetary stability ought not to take precedence over the freedom of such disturbing credit movements. *Thirdly* and finally, as America’s example shows, a certain direct influencing of the movements of capital

Freedom of international
movement of capital...

... not uncontested

Need for definite rules

can be the quickest and internationally most painless method of overcoming dangerous balance-of-payments disequilibria, in which connection the problem remains as to how a state of equilibrium brought about in this way can be permanently maintained without official intervention. On the other hand care should be taken not to make capital transactions the scapegoat, so to speak, of balance-of-payments policy at every undesirable development in the balance of payments. Precisely in order to avoid uncontrolled and unilateral national intervention in the international movement of capital, an attempt should be made to lay down some international rules for the treatment of capital movements within the scope of the balance-of-payments policy of the leading industrialised countries. The present endeavours of Working Party 3 of the O.E.C.D. to lay down *rules for the adjustment process in case of disturbances in the balance of payments* should therefore also take care of these problems.

6. Movement of reserves and reserve policy

Diminishing increase in international liquidity

International liquidity, which at present forms the focal point of official discussions, at least as far as its main component, the national monetary reserves, is concerned, underwent a particularly interesting development during the period under review. In 1965 for the first time in a considerable period the official gold and foreign exchange reserves of the countries of the western world no longer increased (cf. Table 5). The rise in national gold reserves shown in statistical returns, amounting to slightly more than \$ 1 billion, was offset by the reduction in official foreign exchange reserves. If the reserve position with the I.M.F. (*i.e.* the quasi-automatic drawing rights available to each member country) is added to official gold and foreign exchange reserves, as has been the practice for some time, then there is for 1965 a calculatory increase in monetary reserves in the western economy which, at \$ 1.3 billion, is only about half as much as on the per-annum average of the last five years. This increase in monetary reserves (in the above-mentioned extended sense) arose, however, only because Great Britain's \$ 1.4 billion drawing on the I.M.F. in May 1965 brought about an increase by \$ 1 billion in the reserve position with the I.M.F. for the countries participating in this financing operation, as well as a transfer of gold from the holdings of the I.M.F. amounting to \$ 400 million (see Table 2). With the repayment of the British drawings, due to commence according to the arrangements in December 1967, part of the relatively high reserve positions in the fund will probably disappear again.

Apart from this mainly temporary increase in liquidity, the real increase in international liquidity was also for other reasons in fact smaller than would appear from Table 5 below. The rise in gold reserves by over \$ 1 billion shown there does not accord with the real increase in monetary gold in the western economy. In 1965 the gold holdings of the I.M.F. decreased by quite \$ 300 million (mainly on account of the above-mentioned transfer of gold in connection with the British drawing); furthermore, the gold position of the Bank for International Settlements (B.I.S.) deteriorated.

Table 5: Movement in Monetary Reserves of the Western World ¹⁾

Millions of U.S. dollars

| Monetary reserves | C h a n g e | | | Holdings end of 1965 ²⁾ |
|-------------------------|-------------------------------|---------|-----------------------|------------------------------------|
| | 1960 to 1964 (annual average) | 1964 | 1965 ²⁾ | |
| Gold | + 602 | + 660 | + 1,050 ²⁾ | 41,940 ²⁾ |
| Foreign exchange assets | + 1,477 | + 1,520 | — 940 | 22,915 |
| I.M.F. reserve position | + 181 | + 215 | + 1,221 ²⁾ | 5,376 ²⁾ |
| Total | + 2,260 | + 2,395 | + 1,330 | 70,230 |

Source: I.F.S. — ¹⁾ Monetary reserves of the countries without international organisations and Eastern Bloc. — ²⁾ Provisional figures. — ³⁾ Premature gold subscriptions to I.M.F. on the ground of the raising of quotas, which was not introduced until 1966, have been added to national gold holdings and not yet to the I.M.F. gold tranche (prepayments in 1965: U.S.A. \$ 259 million, Australia \$ 25 million, Afghanistan \$ 1.6 million).

rated by almost \$ 500 million, principally because of the gold/dollar swap operations transacted with the Swiss National Bank at the end of 1965. If the I.M.F. and the B.I.S. are included in the calculation, the net increase in monetary gold in 1965 was only about \$ 250 million. The gold accruing to official holdings thus formed only a very modest portion of the actually very high overall accruals of gold from new production and from sales of gold by Russia, estimated for 1965 to total about \$ 1.8 or \$ 1.9 billion. The period covered by this report was in fact characterised by a rapidly increasing demand for gold for industrial purposes, especially for jewellery, still more however by an almost unwavering heavy demand for gold for private hoarding. In 1965, because of this movement, the gold pool of the central banks, which regulates the London gold market, and which in 1963 and 1964 had produced considerable gold surpluses for distribution to the participating central banks, was able on balance to take up only a negligible amount of gold for account of these banks.

The decline in officially reported *foreign exchange reserves* affected not only sterling, but also the dollar reserves. It was mainly the advanced industrialised countries which reduced their dollar reserves. Official dollar holdings of the Members of the Group of Ten (without the United States) fell by more than \$ 1.2 billion in 1965; including Roosa bonds and similar liquid claims on the United States the decline was still about \$ 1 billion. They would have fallen still more had not Great Britain, in connection with the replenishment of its reserves through international aid, and contrary to its usual practice, substantially increased its dollar holdings. Even though the overseas developing countries on the whole were able to achieve considerably larger foreign exchange surpluses in the period covered by this report than in the previous year, and accumulated such funds predominantly in the form of dollar balances, these were by no means adequate fully to make good the decrease in the dollar reserves in the industrialised countries. The aggregate result for all countries with the exception of the United States shows *that in 1965 on balance the rest of the world no longer contributed to the financing of the U.S. deficit by the accumulation of dollar reserves*, or, in other words, *that in 1965 for the first time in many years the American deficit has no longer led to an expansion of international liquidity in a global sense.*

The dollar ceases to be a liquidity-creating factor

In the past year the United States had indeed to cover its entire deficit towards foreign countries in gold; in fact, the outflow of gold to foreign countries amounting to \$ 1.4 billion¹⁾ was even slightly greater than the deficit of \$ 1.3 billion to be covered from official sources (according to the "Balance of official reserve transactions"). No less than some \$ 0.9 billion of the U.S. gold sales totalling \$ 1.4 billion went to France. France insisted on carrying out its new reserve policy announced early in 1965 and in that year changed into gold not only the current foreign exchange surplus but in addition several million dollars from previously accumulated foreign exchange holdings. The reserve policy practised by France, it will be recalled, amounts to maintaining in the form of foreign exchange (for practical purposes as a dollar balance) no more than the equivalent of the French public external indebtedness in dollars (just under \$ 450 million) plus a working balance of about \$ 300 million for market intervention purposes.

As already set forth in detail in the Report of the Deutsche Bundesbank for the Year 1964 (page 34) the *Bundesbank* saw no reason to alter its longstanding reserve policy concerning the composition of its reserves. The Bundesbank aims not so much at establishing any rigid relationship in the composition of its reserves as at a reasonable distribution of risks whilst conforming to the principle of international solidarity. Since through the deficit on the German balance of payments the Bundesbank in the course of 1965 lost DM 1.5 billion of reserves, which outflow was naturally covered from its dollar holdings, this in itself caused a shift in the reserve ratio in favour of a higher proportion of gold. Furthermore, the Bundesbank's gold holdings increased by DM 647 million (= about \$ 162 million), mainly through the above-mentioned sale of Deutsche Mark to the I.M.F. against gold in connection with the financing of the British drawing (see Table 2). As a result of

The Bundesbank's reserve policy

¹⁾ In addition the United States in 1965 transferred to the I.M.F. \$ 259 million in gold by way of advance payment of the gold due under the 25 per cent increase in the quota.

these two movements the share of gold in the Bundesbank's gross reserves at the end of 1965 had risen to 60.3 per cent, from 55.6 per cent at the end of 1964 and no more than 50.3 per cent at the end of 1965. *Without any conversion of dollar holdings detrimental to the U.S. gold reserves the Bundesbank was thus able in 1965 to create a gold ratio in its reserves which was more in line with its conception.*

The decline in the Bundesbank's dollar balance, at \$ 636 million (DM 2,545 million), was much greater than had been necessary to cover the deficit on the foreign exchange market due to support for the DM rate of exchange. The main reason for this is that the provision of DM amounts for the I.M.F. — both against the above-mentioned transfer of gold by the I.M.F. as well as in connection with the General Arrangements to Borrow and as part of normal transactions with the I.M.F. — in almost all cases led to a withdrawal of these DM amounts by the recipient countries in the form of foreign exchange, *i. e.*, in practice, in U.S. dollars. The final effect was thus that part of the Bundesbank's dollar holdings were converted into a gold-guaranteed claim on the I.M.F. Through the combination of all these processes the Bundesbank's dollar balance in 1965 fell to just on \$ 1.3 billion, or scarcely more than one-third of the maximum reached at the end of 1960 (cf. also the table on page 103). This dwindling of its immediately available dollar holdings caused the Bundesbank in the course of 1965 not to extend some of the maturities of the Roosa Bonds in its holdings. Thus the Bundesbank's holdings of Roosa Bonds decreased from DM 2,700 million at the end of 1964 to DM 2,400 million at the end of 1965. This policy also continued in the first few months of the current year, so that by the beginning of April 1966 Roosa Bond holdings had decreased further to DM 1,800 million.

It is remarkable that in 1965, through the movements described, the Bundesbank's holdings of dollar balances decreased even more markedly than the dollar reserves of the French central bank, although the reserve policies pursued by the two banks were entirely different from each other, especially as regards the direct exchange of dollars into gold. As long as countries in deficit show an understandable tendency to cover their foreign exchange deficits on the market by recourse to their foreign exchange holdings, whereas countries in surplus exchange part of their foreign exchange surpluses for gold at the U.S. Treasury, an asymmetrical state arises in the present gold exchange standard, which may lead to gradual upward spiralling of the average ratio of gold to overall reserves. This process was clearly noticeable in 1965, when it was particularly encouraged by France's heavy conversions of dollars into gold; the share of gold in the overall reserves of the Group of Ten (including Switzerland), outside the two reserve currency countries, *i. e.* the U.S.A. and Great Britain, increased in 1965 from 56.4 per cent to 60.5 per cent. In the longer run, of course, the proportion of gold in international monetary reserves might be expected to move in the opposite direction, since the relatively small annual inflow of monetary gold can scarcely be sufficient to cover the world's reserve requirement over a longer period. Without the chief countries reaching agreement on their reserve policy it is probably hardly possible, however, to bring the actual development of the average relation of gold to foreign exchange into harmony with the course which would really be desirable in the long run. The idea of such an agreement, as far as possible with an underlying tendency to harmonise the relationship between gold and foreign exchange reserves, has often enough been advanced in international monetary discussions by representatives of the Deutsche Bundesbank, without however having so far gained acceptance.

7. The reform of the international monetary system

During the period under review international discussion on the improvement and development of the present monetary system, the underlying considerations of which were described in detail in the Annual Report for 1964, was concerned mainly with three problems, *viz*:

1. *the improvement of the adjustment process, i. e.* the balance-of-payments policy for the correction of external disequilibria;

2. the problem of *potential instability* of the foreign exchange element in the present gold exchange standard;
3. the problem of an adequate – but not excessive – *world supply of monetary reserves at long term* (the problem of “international liquidity”).

Improvement of the adjustment process

The improvement of the adjustment process, *i. e.* of the balance-of-payments policy of the leading countries, is a focal element of any lasting improvement of the monetary system. To adjust internal economic policy to the requirements of balance-of-payments equilibrium is, if unbearable tensions and monetary crises are to be avoided, imperative in particular for a system of basically fixed exchange rates according to I.M.F. regulations, a system which has time and again emphatically been proclaimed as fundamental by the countries of the Group of Ten. The problem of “international liquidity” also can only be solved satisfactorily within the framework of an adequate balance-of-payments policy on the part of all concerned. The demand for monetary reserves and facilities similar to reserves is closely tied up with the effectiveness of adjustment policy.

Adjustment of economic policy to balance-of-payments equilibrium an indispensable element

In accordance with the request which the Ministers and Central Bank Governors of the Group of Ten had already made in their report published in August 1964, the O.E.C.D. committee on monetary and balance-of-payments matters (known as Working Party 3) since the end of 1964 has been concerned with the setting up of certain principles or “rules of the game” for adjustment policies within the principal industrial countries. This request by the Group of Ten was explicitly reiterated in a press release of the Ministers and Central Bank Governors on occasion of the last Annual Meeting of the International Monetary Fund in September 1965; in this, the expectation was voiced that a report on potential improvements in adjustment policy should be finished, if possible, simultaneously with a report on the improvement of the international reserve system, and submitted to the group of ministers.

Work in connection with this problem has proved extremely difficult. The priorities in the aims of economic policy are not the same in all industrial countries. Moreover, almost every single balance-of-payments disturbance represents a case of its own that needs varying and highly differentiated remedies. Patent recipes and cut-and-dried principles thus fail to provide a solution. Also the setting up of binding rules stands against the barriers of national sovereignty in economic policy. It ought, however, not to prove impossible to set up certain basic rules for the most important cases of balance-of-payments disturbances, such as rules on the monetary and fiscal policy to be pursued in each case (plus possible combinations of the two, known as “policy mix”); also rules dealing with capital imports and exports in the case of serious disturbances, with the mutual responsibilities of surplus and deficit countries, and finally with a system of “early warning” in the event of imminent disequilibria. Naturally such basic rules could not be unconditionally binding but would merely imply an initial assumption as to the correct attitude to be adopted by the countries concerned. Nevertheless, any deviations therefrom would have to be justified before an international coordinating body.

The risk of instability of the gold exchange standard

The fact that the present gold exchange standard involves the risk of strong fluctuations in the world supply of reserves, and indeed of a persistent liquidity shrinkage leading to an international monetary crisis, has become more clear to the general public as a result of experiences made over the period under review. These experiences have in fact proved that the total holdings of dollar reserves in the world economy can well be diminished by sudden conversions into gold with the American Treasury and that sterling reserves in the world can likewise suffer from distrust regarding the future of the pound. Thus the problem as to how existing reserve holdings can be maintained and world economy be protected against dangerous shrinkages of its liquidity has become a highly topical partial aspect of the international monetary problem. Certain radical proposals

for the elimination of this potential instability inherent in the present reserve system, such as the total exclusion of the foreign exchange component by transition to a pure gold reserve standard or the transfer of today's foreign exchange reserves to the I.M.F., accompanied by the transformation of the latter into a sort of world central bank, were rejected by the leading countries from the outset as being impracticable under the present circumstances. The same applies to the proposal that outstanding foreign exchange reserves might be put on a more solid foundation by a comprehensive gold value guarantee, a proposal which would not only be unacceptable to the two reserve currency countries but would be rejected by most other important countries as well. The suggestion brought up for discussion by the Bundesbank on various occasions to the effect that the reserve policies of the leading countries with regard to the composition of the official reserves in terms of gold and foreign exchange should be harmonised with the aim of maintaining the existing "international liquidity" has so far – as already observed – not found sufficient support in the international institutions. Nevertheless there is some indication of growing recognition of the fact that at least some measure of understanding among the leading countries on the principles of reserve policy and its supervision within the framework of the "multilateral surveillance" of the Group of Ten should be sought.

Need for greater confidence in present price of gold

The fact that *gold has been privately hoarded* ever since the beginning of the year 1965 almost without interruption on a very extensive scale — which in part has been brought on, or at least encouraged, by the attitude of monetary authorities towards the gold problem — proves that many quarters lack adequate confidence in the present price of gold even though the leading countries, that is to say all members of the Group of Ten, have declared their firm determination not to change the present gold price. Confidence in the stability of the dollar, which is one of the most important prerequisites for confidence in the present gold exchange standard, and also in the present price of gold, has undoubtedly been strengthened substantially by the improvement in the U.S. balance of payments and the shorter supply of dollars circulating in the world. The fact that official and private hoarding of gold goes on in spite of this is to a large extent caused by the expectation or concern that one day, quite apart from the movement of the U.S. balance of payments, an increase in the price of gold might come about because the shortage of monetary gold would in the long run make such a move inevitable. The longer such lack of confidence in the present-day price of gold persists, causing private and official hoarding of gold to continue, the less propitious in fact are the prospects that gold by itself, *i. e.* without the support of a fiduciary reserve element, will be able to ensure a sufficient supply of monetary reserves. In order to overcome this vicious circle two things would seem to be necessary: on the one hand, and above all, the further strengthening of the dollar by complete elimination of the U.S. deficit, and, on the other hand, a further development of the present reserve system capable of inspiring all parties concerned with firm confidence in the fact that the supply of the world economy with reserves will, also on a longer view, meet all requirements without being subject to the risk of misuse.

Adequate and proper supply of monetary reserves

No acute shortage in monetary reserve supplies

Of the three main problems of the present international monetary discussions the third, *i. e.* adequate supplies of "international liquidity", seems to be the least urgent. It is true, however, that the total holdings of monetary reserves have increased only slightly in 1965, especially when the statistics are adjusted for the influence of some temporary special circumstances. It is also true that new accruals of monetary gold in the western world have, especially owing to persistent hoarding of gold, since the beginning of 1965 dwindled to very small proportions, which alone would never suffice to meet the world's demand for reserves in the longer run. On the other hand, however, this slow expansion of the world's monetary reserves has by no means prevented world trade from developing extremely vigorously during the past year, and to all appearances also in the present one. Indeed, monetary expansion in the world, and especially the tendencies of prices, would seem to reflect too much of monetary "liquidity" rather than too little. It therefore looks as

if in the past years characterised by big American balance-of-payments deficits the rest of the world has been supplied with monetary reserves so abundantly that it needs to grow into this somewhat ample garment.

These latest developments merely confirm what a glance at the movements of the world monetary reserves in post-war history (see Table 6) likewise reveals: also in the past there have been individual years of stagnation or of comparatively little growth of the world's monetary reserves – even confining consideration to the countries outside the reserve centres in order to exclude the structural decline of the American holdings in the course of the big redistribution of reserves following the war – without this having made itself felt internationally either directly in the movement of world trade or in a noticeable decrease of the expansive monetary tendencies. It has in the meantime become generally recognised that the world's monetary reserves have nothing to do with the immediate financing of world trade but rather serve to permit the monetary authorities to overcome balance-of-payments disequilibria. The interrelationship between the movement of monetary reserves and the monetary tendencies within the national economies concerned, that is,

Table 6: Changes in World Monetary Reserves ¹⁾

| Period | All countries | | All countries — except U.S.A. and U.K. — | |
|--|---------------|--------------------------|---|--------------------------|
| | Million \$ | annual percentage change | Million \$ | annual percentage change |
| 1950 | + 3,200 | + 7.0 | + 3,268 | + 18.4 |
| 1951 | + 645 | + 1.3 | + 1,680 | + 8.0 |
| 1952 | + 560 | + 1.1 | + 561 | + 2.5 |
| 1953 | + 1,860 | + 3.7 | + 2,404 | + 10.3 |
| 1954 | + 1,690 | + 3.3 | + 1,806 | + 7.0 |
| 1955 | + 835 | + 1.6 | + 1,658 | + 6.0 |
| 1956 | + 1,845 | + 3.4 | + 1,092 | + 3.8 |
| 1957 | + 495 | + 0.9 | — 769 | — 2.5 |
| 1958 | + 1,085 | + 1.9 | + 2,646 | + 9.0 |
| 1959 ²⁾ | — 130 | — 0.2 | + 1,210 | + 3.8 |
| 1960 | + 3,060 | + 5.3 | + 4,287 | + 12.9 |
| 1961 | + 2,025 | + 3.3 | + 3,032 | + 8.1 |
| 1962 | + 375 | + 0.6 | + 1,918 | + 4.7 |
| 1963 | + 3,445 | + 5.5 | + 3,983 | + 9.4 |
| 1964 | + 2,395 | + 3.6 | + 3,397 | + 7.3 |
| 1965 ³⁾ | + 1,330 | + 1.9 | + 1,864 | + 3.7 |
| Cumulative change during the decade from end-1949 to end-1959 | + 12,085 | ∅ + 2.4 | + 15,556 | ∅ + 6.5 |
| during the six years from end-1959 to end-1965 | + 12,630 | ∅ + 3.4 | + 18,481 | ∅ + 7.6 |

¹⁾ Gold, foreign exchange and I.M.F. reserve position (source: I.F.S.).— ²⁾ Since the beginning of 1959 non-convertible currencies, claims arising under payment agreements, and bilateral claims resulting from the liquidation of E.P.U. are *not* contained any longer in the monetary reserves. — ³⁾ Pro visional figures.

of their inflationary or deflationary effects, is less recognised. The technical term “international liquidity”, which merely connotes the combination of monetary reserves and credit facilities similar to reserves, leads one to look upon the monetary reserves as a sort of “international quantity of money” which exercises an immediate and inevitable effect on internal monetary liquidity and thus on the flows of money and demand in the countries concerned. No doubt such an interrelationship does exist as long as monetary reserves are acquired by a balance-of-payments surplus (“acquired reserves”); normally this is accompanied by a primary expansion effect on the domestic liquidity of the surplus country, *i. e.*, *prima facie*, although by no means in every instance, by “imported inflation”. In the ordinary way of things, this should of course be offset by a contractive effect in the country losing reserves. Experiences in post-war years have however shown that this has frequently been lacking, and indeed by no means only in the case of deficits of reserve currency countries. Yet not even with reserves acquired by balance-of-payments surpluses is an expansive

effect inevitable. In the very period under review it was possible to observe, taking the extreme surplus countries Italy and France as an example, how even in countries with unusually high foreign exchange surpluses and a resulting considerable growth of reserves, monetary expansion in the domestic scene was by comparison smaller than in other countries which over the same period recorded a large-scale loss of reserves. Nevertheless experiences during the past ten years have shown that in the reserve system of the gold exchange standard a pronounced general increase in foreign exchange reserves is normally accompanied by a creeping inflation affecting the entire system. In part this is due to the fact that in this system a large portion of the reserves has been directly created by balance-of-payments deficits of the United States, and at times also of the United Kingdom. These balance-of-payments deficits, or the corresponding surpluses of other countries, tended to induce excessive monetary expansion. The leading countries of the Group of Ten today agree on the fact that any deliberate creation of reserves should in future as far as possible take place according to general objective concepts *rather than in connection with balance-of-payments deficits of individual countries and any import of inflation into the receiving countries possibly resulting therefrom.*

In any case supplies of monetary reserves take only delayed effect on world economy

One thing can be said with reasonable certainty on the grounds of experiences made both during the period under review and in earlier post-war years: the supplies of monetary reserves exercise no immediate short-term effects on the world economy, *being of importance only on a longer-term view.* A few years of relative “short supply” of monetary reserves – however such short supply be measured – can, in the presence of reasonably intelligent international cooperation, without any difficulty be bridged by re-distributing reserves out of existing holdings or by international credit facilities. In fact, the problem of world-wide replenishment with monetary reserves does not come up except on a longer-term view. The leading industrial countries making up the Group of Ten have accordingly from the outset undertaken their investigation into the future reserve supplies for the world, which they embarked upon in the autumn of 1963, under such a long-term view, that is, with an eye to the coming ten years. They acted on the assumption that sooner or later an important source of the world’s traditional supply of foreign exchange reserves would come to a natural end since the creation of additional reserves by U.S. balance-of-payments deficits, which in the past seven years accounted for more than half of the new gold and exchange reserves, would in the long run be neither desirable nor indeed possible. Considering that the period of reserve creation via the dollar was coming to an end, the Ministers and Central Bank Governors of the Group of Ten had already agreed among themselves, as expressed in their report published in August 1964, on the fact that it might not be possible under certain circumstances to ensure under the present reserve system an adequate or proper supply to meet the future world monetary demand, so that further expansion of credit facilities and, on a longer view, possibly “a new kind of reserve asset” might become necessary¹⁾. The movement of reserves in 1965 merely served to confirm this view that the creation of reserves via the dollar must inevitably come to an end. Following the 1964 Report of the Ministers of the Group of Ten a technical subcommittee of that Group (the “Ossola Committee”) under the chairmanship of Signor Ossola, the representative of the Central Bank of Italy, analysed various technical possibilities of providing reserves in some other way in the event that the traditional reserve creation should no longer function.

In September 1965 the Ministers and Central Bank Governors of the Group of Ten on the occasion of a conference during the Annual Meeting of the I.M.F. in Washington drew the necessary conclusions from the subsequent developments. They resolved unanimously that their deputies were to report to the Ministers by the spring of 1966 “what basis of agreement can be reached on improvements needed in the international monetary system including arrangements for the future creation of reserve assets, as and when needed, so as to permit adequate provision for the reserve needs of the world economy”. The report was to indicate the “scope of agreement that they have found”. This meant that the stage of mere investigations and analyses had been concluded and the

Mandate for the Group of Ten to enter upon negotiations

¹⁾ Cf. Ministerial Statement of the Group of Ten, August 1964 (Annex, par. 25d).

stage of negotiations, or at least preparatory negotiations, on the essential principles of the future reserve system entered upon. In a subsequent second phase these negotiations are to be given a broader platform by being expanded to include the rest of the world. In addition, it was declared that they are to take on the character of “contingency planning”.

Quite recently, it is true, certain misgivings have been voiced within the Group of Ten as to whether it really appears advisable at the present moment to go on seriously with the “contingency planning” as unanimously resolved at the time, or whether it would not be preferable to return to the stage of analyses and investigations, *i. e.* in practice to put the whole matter on the shelf. Such tendencies are inspired by various motives. On the one hand, at least one member of the Group of Ten points out that in respect of important basic and institutional questions views are still widely divergent. Another argument from this same quarter is to the effect that the precondition for the provision of new reserve units, such as accepted by all members, *viz.* the complete elimination of the U.S. balance-of-payments deficit, is as yet by no means assured and that there is not in fact at present any immediate proven need for additional monetary reserves. On the other hand, a leading central bank has recently more strongly than before expressed its apprehension that one might be about to construct an instrument which possibly could not be successfully kept under control and would be liable one day to reveal itself as a “gigantic machinery promoting inflation on an international scale”.

These are serious objections and misgivings which it will be necessary to discuss. The fact that there is at present no imminent need for additional reserves – and, in view of the general increase in quotas just coming under way, all the less need for additional drawing rights in the I.M.F. – is uncontested, at least among the members of the Group of Ten; the dissenting opinion expressed by a group of experts of UNCTAD is based on a one-sided view governed by the expansive interests of the developing countries and on an inadmissible confusing of purely monetary problems with those of development aid. Nevertheless, for several reasons it would seem to be appropriate not to defer further efforts in the direction of “contingency planning” for too long. Further negotiations regarding such contingency planning are likely to be difficult and above all lengthy for the very reason of the still present differences in opinions. Even once full agreement on matters of principle has been reached within the Group of Ten, of which there is at present no indication, a minimum of two or three years will pass before any new instrument can be effectively employed. Within such a period of time developments with regard to the world demand for reserve assets may take place which are at present unforeseeable. Were one to postpone the commencement of negotiations until a general shortage of monetary reserves is universally realised and recognised, one might find oneself too late or at least short of time to prepare a solution thoroughly. The latest trend would seem to indicate that in future the dollar as an element in the provision of reserve assets will largely, if not entirely, drop out of the picture. Nor is it in the American or international interest to expand the period of creation of reserves by U.S. balance-of-payments deficits any further. Finally, the noticeable unrest and concern over a possible shortage of gold in the future suggests that the world should as soon as possible be re-inspired with confidence to the effect that the leading countries in case of need are in a position to solve the problem of the world’s reserves in a satisfactory manner.

Clearly such a solution must not merely consist in providing the preconditions for a possible subsequent provision of reserves. It no less requires the establishment of adequate safeguards against any misuse, in such a form that the ultimate solution is capable of creating confidence with conservative financial quarters as well.

This means that the conditions governing eventual subsequent activation of any form of “contingency planning” will have to be formulated with sufficient precision. Neither political pressure nor a majority decision must be permitted to put in motion a new reserve system without genuine demand, which would involve a risk of renewed creeping inflation. The responsibility for such an instrument must be vested in a limited group of countries with strong currencies, which are in turn prepared to submit to strict rules regarding their balance-of-payments policy and the “multilat-

Urgency of task
recently contested ...

...but nevertheless
good reasons for
“contingency planning”

Safeguards against
misuse of a new
instrument necessary

eral surveillance" of their deficit financing and reserve policies. Such restriction to a limited group appears indispensable for the mere reason that any form of new provision of reserve assets basically in every instance means that *reciprocal credit facilities or possibilities of drawing on the currencies of other members* are being granted, whatever name one may choose for the new reserve facility. Nothing would be more misleading — and nothing has indeed so far misled the discussions more — than the view that this procedure was equal to kind of a *donation* of monetary reserves; it is this particular misunderstanding which has aroused the covetousness of some developing countries. In reality, however, the sole point at issue is the setting up of a system of reciprocal rights and duties, including the duty to make available each country's own currency for the legitimate reserve requirements of the other countries. Such a restriction of the main responsibility to a limited group is today recognised as a general principle by all the leading countries. Thus, the United States Secretary of the Treasury stated before the Meeting of the Governors of the I.M.F. in Washington in September 1965 that "we should not expect to rely upon the dollar to continue to supply the major part of the growth in world reserves. The responsibility for providing reserves should be shared". But this responsibility, which the dollar alone can no longer bear, can only be assumed by a *group of countries with strong currencies*.

To ensure against abusive exploitation of such an instrument of reciprocal multilateral drawing facilities ought not to be over-difficult. The problem in this context is not quite as novel as public discussion frequently makes it out to be. As a general principle, we are up against a problem similar to the one encountered when instituting the European Payments Union (E.P.U.) in 1950, when by the same vehicles of paper and ink an amount — quite sizable for conditions then obtaining — of reciprocal unconditional drawing lines, meaning international liquidity, was created; the E.P.U. rule then in force, according to which this artificially created reserve facility could only be used together with a certain proportion of gold (or U.S. dollars), might well serve as an imitable model for some new reserve facility within an extended group of countries. The central bank swap lines introduced by the Federal Reserve System in 1961 in transactions with a limited group of other central banks for a total of U.S. \$ 2.8 billion, which also represent a reciprocally employable unconditional "liquidity" — although only on a short-term basis — have so far likewise produced no discernible inflationary risk or any danger of abuse. In any event such an alternative system of multilaterally employable credit lines will be easier to supervise and to protect against abusive practices, than, say, the enormous pool of Euro-dollar funds from which, *e. g.*, Italy during its balance-of-payments crisis in 1962/63 via its commercial banks was able without any check to appropriate approximately a billion dollars in the form of "foreign exchange aid" (incidentally with a liquidising effect on its banking system). This represents an amount which a country of comparable size could hardly within a foreseeable time obtain under a system of deliberate allocation of reserves.

Whether it will prove possible in the near future to overcome differences in opinion even within the restricted circle of the Group of Ten so successfully that a satisfactory solution on a longer view can be found appears at present somewhat uncertain. In view of the wide-spread mistrust of the present reserve system and of the present price of gold, early agreement, at least regarding matters of principle, would of course be desirable. On the other hand, it would probably do no great harm if the search for a solution satisfactory to all quarters were to go on for some time. The world reserve system now in operation is sufficiently flexible, especially as it is supported by close cooperation among the central banks, to be able presumably to function satisfactorily on the present basis for several years to come. On a longer view, however, some decisions will have to be faced. In the long run it will be inevitable that, as the Managing Director of the I.M.F. stated in February 1965, "the creation of international liquidity, like the creation of domestic liquidity, should become a matter of deliberate decision", instead of being, as in the past, dependent upon fortuitous events determining the supply of monetary gold, or upon highly undesirable and inflation-promoting permanent deficits with the reserve currency countries.

III. Trends in Money and Credit

1. Bank liquidity

The banks' liquidity margin was further narrowed in 1965, just as in 1964, because in particular the mainly "market" determinants of bank liquidity operated to constrict it. Altogether the banking system lost in 1965 as a result of the "market factors" more than DM 2.7 billion¹⁾ of liquid funds, that is considerably more than the DM 1.1 billion so lost in 1964, whereas in 1963 it had on the contrary received about DM 2.5 billion net. The deprivation of liquidity due to "market" determinants was concentrated mainly in the spring and summer months of the year under review and, together with the permanent sterilisation of resources due to the minimum reserve requirement growing with customers' deposits and to the cut in the banks' rediscount quotas, it resulted in considerable tightness on the domestic money market. Only in the fourth quarter of 1965 were there again net additions to the banks' liquidity, partly for seasonal reasons, and this, coupled with the temporary lowering of minimum reserves on money-market grounds in December 1965, materially contributed to renewed easing of the money market towards the end of the year.

Overall effect of the "market factors"

Once again in the year under report the rise of the note and coin circulation constituted, as usual, the most important factor impairing the liquidity of banks. With the inclusion of the only relatively small change in credit institutions' cash holdings the amount of DM notes and coin in circulation increased by more than DM 1.9 billion between December 1964 and December 1965, whereas at not quite DM 1.8 billion in 1964 and about DM 1.6 billion in 1963 the rises in the two preceding years had not been quite so great. The course of the note and coin circulation suggests that cashless payments evidently continued to gain ground in the year under review. At all events during 1965 the note and coin circulation on the average of all calendar days in that year rose by not quite 9 per cent, while on the other hand households' disposable income (mainly spent in the form of notes and coin) increased by 11 per cent. As the graph on page 47 shows, the proportion borne by the note and coin circulation to disposable income, after having already steadily declined during recent years, consequently declined further to roughly 10 per cent in 1965. Other things being equal, a relative decrease of note and coin circulation will increase the banking system's credit potential.

Increase of the note and coin circulation

In the year under review, unlike the two preceding years, payment transactions with foreign countries also operated to reduce the banks' liquidity. The balance of payments of the Federal Republic of Germany ran into deficit, whereas in 1964 it had still been in approximate equilibrium and the Bundesbank's net monetary reserves, together with the credit institutions' short-term foreign assets, had actually still increased (see the table as well as the chapter on the Balance of Payments in this Report). The Bundesbank's net monetary reserves, calculated in each case on the average of the four bank-return dates in December, declined by DM 1.1 billion in 1965 as compared with the previous year; the other banks also drew to the net extent of about DM 150 million on their short-term foreign assets. In the upshot, therefore, foreign payments reduced the banking system's liquidity by about DM 1.25 billion. The movement showed considerable variation in the course of the year under report. Whereas for example, as the table on page 48 shows, the above-mentioned foreign exchange positions as a whole hardly altered at all in the first quarter of the year, in the second and third quarters there were net foreign exchange outflows of DM 1 billion each. In the fourth quarter of 1965 on the other hand the foreign exchange inflows predominated, although partly for seasonal reasons. This largely explains why the "market" strain on bank liquidity reached its peak in the late summer.

Contractive influence of foreign exchange transactions

The above-mentioned constrictive factors were counteracted by the cash transactions of the central public authorities (the Federal Government, *Länder* und Equalisation of Burdens Fund), since in particular the *Länder*, because of their strained cash situation, continued greatly to reduce

Official cash transactions' expansive influence on liquidity

¹⁾ Calculated from averages of the amounts shown on the four bank-return dates in December of each year. Reasons why it is expedient to use this method of calculation in the analysis of bank liquidity were given in the article entitled "Notes on Methods of Analysing Bank Liquidity" in the Monthly Report of the Deutsche Bundesbank, Vol. 17, No. 4, April 1965, page 29 *et seq.*

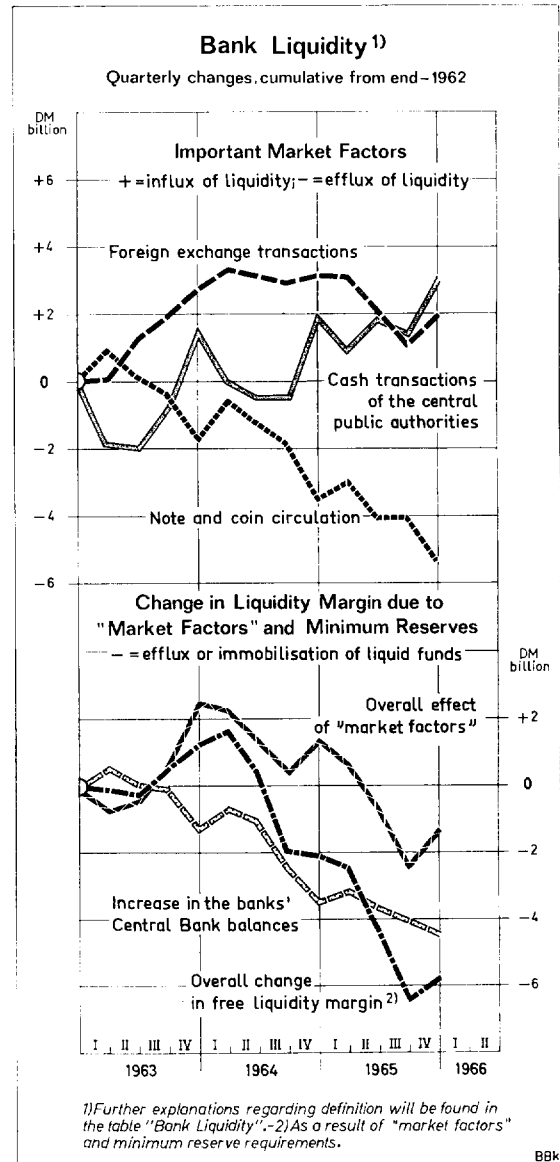
their deposits at the Bundesbank or took cash advances there. The Federal Government also resorted to cash advances at the Bundesbank more often and on a larger scale in the course of the year under review than in the previous year; at the end of December 1965, however, its debt to the Bundesbank was less than at the end of December 1964 (details will be found in Chapter IV of this Report). On the whole the net Bundesbank position of the Federal Government, *Länder* and Equalisation of Burdens Fund deteriorated by over DM 1.1 billion in 1965 against only DM 390 million in 1964. The resulting increase of liquidity was largely concentrated, as usual, in the fourth quarter.

“Other” determinants of bank liquidity

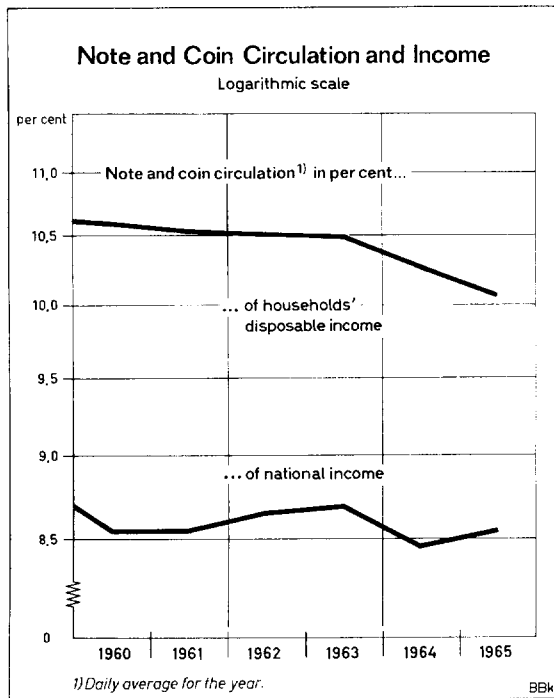
The other “market” determinants of bank liquidity produced quite widely differing effects during the year under report. In the first place the banks in 1965 lost just on DM 100 million of liquid funds through the Bundesbank’s open-market transactions with domestic *non-banks*. This was mainly a matter of net sales of mobilisation paper to the social insurance institutions, or in any case to public authorities. *Per contra* the banks received more than DM 100 million through growth of the net clearing surplus of the Bundesbank in respect of the payments settled through the latter. Furthermore, the “other items” (I(7) in the table) exerted on the banks’ liquidity a contractive influence which, at DM 830 million, was relatively large in comparison with earlier years, the main reason being that at the end of 1964 the repayment (not entered among ordinary public transactions) of the Bundesbank’s claims on the Federal Government arising from its assumption of debt in respect of post-war economic aid started in instalments at the rate of roughly DM 500 million per annum (as to this, see the description in Chapter IV).

Minimum reserve requirement

Finally the banks’ available liquidity was also reduced by reason of the fact that the minimum reserve required of them rose by a further DM 0.9 billion (against DM 2.6 billion in 1964 and DM 1.1 billion in 1963). On the one hand the credit institutions’ reserve-carrying liabilities grew more in 1965 than in 1964, which ought *prima facie* to have caused an even greater increase of the reserve requirement on the year. A change in the system of reserve calculation, namely the releasing of certain institutions which specialise in long-term lending from the obligation to keep minimum reserves, also operated to increase the amount of such reserves¹⁾. On the other hand however in December 1965, with a view to easing the state of the money market, the reserve ratios in respect of



¹⁾ On the release of these institutions with their relatively small reserve-carrying liabilities from the obligation to keep minimum reserves there was a consequent additional minimum reserve obligation in respect of their considerable deposits and investments at other banks. For details see the article on “The Exemption of Credit Institutions with Mainly Long-Term Business from the Minimum Reserve Obligation” in the Monthly Report of the Deutsche Bundesbank, Vol. 17, No. 5, May 1965, page 60 *et seq.*



domestic sight and time liabilities were temporarily lowered to the level at which they had stood before the last raising of minimum reserve ratios. If this temporary reduction of minimum reserves is eliminated by comparing the months of January in 1965 und 1966 with each other (in order to record the "permanent effect" of the minimum reserves), the result is a rise of the banks' minimum reserve obligations by DM 1.6 billion.

On a year-to-year comparison, the calculation being in each case based on the average of the four bank-return dates in December, the effect of the great predominance of the above-described "market" constrictive factors was such that the banks' freely available liquid funds were reduced by almost DM 3.7 billion, that is by more than the previous year's reduction (DM 3.3 billion). The net total contractive effect exerted by the course of liquidity on credit was further strengthened by the fact that with effect from 1 October 1965 the banks'

Total decrease of freely available liquid funds

rediscount quotas were reduced by some DM 1.3 billion. While the reduction of the rediscount quotas represented an act determined not least on grounds of regulative policy, and while this act may likewise tend to make the banks show greater restraint in lending but otherwise does not compel them to take any immediate financial action, the credit institutions had to make good the market-induced contractions of liquidity as well as the greater minimum reserve requirements by dissolving parts of their free liquid reserves.

In the year under report the banks procured the necessary liquid funds mainly by reducing their holdings of domestic Treasury bills and non-interest Treasury bonds, which they had acquired from the Bundesbank in the course of open-market operations, or by selling other paper (Storage Agency bills and prime bankers' acceptances) in which the Bundesbank deals on the open market. In this way the banks made almost DM 1.9 billion liquid during the year under report, with a peak in the second quarter. Whereas in the second and fourth quarters it was chiefly mobilisation paper that was resold to the Bundesbank, the predominant element in the third quarter was sale of "other" open-market paper, especially of Storage Agency bills and prime acceptances.

Procurement of liquidity mainly through open-market transactions...

At the same time accommodation was obtained on a considerable scale at the Bundesbank. Altogether the banks' liability to the Bundesbank on rediscounts and advances (the latter are in general of only slight significance) increased by DM 1.6 billion between December 1964 and December 1965. Thus the amount of funds procured from this source was nearly as great as that procured by resale of open-market paper. At the end of January 1966 (for well-known reasons the end of the year is not typical) the rediscount quotas had been on the average used to the extent of about 40 per cent, and in the commercial banks' group alone to that of 43 per cent.

... and recourse to the Bundesbank...

On the other hand the banks, in the year under report, drew in only relatively small degree on their short-term liquid assets abroad for meeting their need for liquid funds. At DM 3.78 billion on the average of the weekly bank-return figures in December 1965 the short-term foreign assets (that is short-term balances with foreign banks and money-market investments abroad) of the 90 credit institutions which report weekly on their external position were smaller by only DM 150 million than in December 1964. One reason why drawing on liquid reserves held abroad was only moderate is that rates of interest on leading foreign money markets were mostly higher

... not so much through repatriation of short-term funds employed abroad

Bank Liquidity

Millions of DM

| Item | 1964 | 1965 | 1965 | | | |
|---|--------------|--------------|---------------------------|--------------|--------------|--------------|
| | | | 1st qtr. | 2nd qtr. | 3rd qtr. | 4th qtr. |
| Change during period, calculated from the averages of the four weekly bank-return dates in the last month of the year or quarter | | | | | | |
| I. Determining factors | | | | | | |
| (1) Increase (—) or decrease (+) in note and coin circulation ¹⁾ | —1,784 | —1,922 | + 520 | —1,173 | + 7 | —1,276 |
| (2) Increase (—) or decrease (+) in net balances of Federal Government, Länder and Equalisation of Burdens Fund with Bundesbank ²⁾ | + 390 | +1,125 | —1,006 | + 921 | — 405 | +1,615 |
| (3) Increase (—) or decrease (+) in net balances of other non-banks with Bundesbank ²⁾ | — 81 | + 127 | + 337 | + 34 | — 217 | — 27 |
| (4) Increase (+) or decrease (—) in Bundesbank's net foreign exchange reserves ¹⁾ and in credit institutions' short-term foreign assets ³⁾ among which: Bundesbank's net foreign exchange reserves ⁴⁾ | + 406 | —1,251 | — 16 | —1,012 | —1,000 | + 777 |
| (5) Sale (—) or repurchase (+) of mobilisation paper by Bundesbank in open-market transactions with non-banks | + 68 | — 87 | — 38 | — 240 | + 165 | + 26 |
| (6) Favourable (+) or unfavourable (—) movement of items in course of settlement in the Bundesbank's payment transactions | + 100 | + 107 | — 19 | + 89 | + 10 | + 27 |
| (7) Other items | — 193 | — 830 | — 492 | + 73 | — 210 | — 201 |
| Increase (+) or decrease (—) in bank liquidity due to the above factors | —1,094 | —2,731 | — 714 | —1,308 | —1,650 | + 941 |
| II. Change in credit institutions' reserve balances (determined over longer periods by the minimum reserve requirement ⁶⁾ ; increase: +, decrease: —) | | | | | | |
| | +2,222 | + 934 | — 356 | + 466 | + 455 | + 369 |
| Note: Change of minimum reserve required (increase: +, decrease: —) | (+2,551) | (+ 873) | (+ 303) | (+ 484) | (+ 487) | (— 401) |
| III. Rise (+) or decline (—) in credit institutions' freely available liquid funds due to the factors listed above (balance of I less II) | | | | | | |
| | —3,316 | —3,665 | — 358 | —1,774 | —2,105 | + 572 |
| IV. Credit institutions' liquidity arrangements | | | | | | |
| (1) Acquisition (—) or resale (+) of money-market paper in open-market transactions with Bundesbank ²⁾ | +2,230 | +1,870 | — 8 | + 970 | + 492 | + 416 |
| (2) Formation (—) or repatriation (+) of short-term foreign assets ³⁾ by credit institutions | — 887 | + 153 | — 333 | + 206 | + 620 | — 340 |
| (3) Credit institutions' credit repayment to (—) or borrowing from (+) Bundesbank | +1,973 | +1,642 | + 699 | + 598 | + 993 | — 648 |
| Total (1 to 3; counteritem to III) | +3,316 | +3,665 | + 358 | +1,774 | +2,105 | — 572 |
| Note: | | | | | | |
| Liquid assets of credit institutions | | | Position at end of period | | | |
| Holdings of domestic Treasury bills and non-interest Treasury bonds | 3,708 | 3,200 | 4,517 | 3,608 | 3,819 | 3,200 |
| Holdings of Storage Agency bills and prime bankers' acceptances P ^c) | 805 | 648 | 648 | 653 | 339 | 648 |
| Short-term balances with foreign banks and investments in foreign money-market paper | 3,287 | 3,634 | 3,997 | 3,881 | 3,432 | 3,634 |
| Total millions of DM P ^c) per cent of total deposits ⁸⁾ | 7,800 4.6 | 7,482 3.9 | 9,162 5.4 | 8,142 4.6 | 7,590 4.3 | 7,482 3.9 |
| ¹⁾ Including changes in credit institutions' cash holdings, which cannot be eliminated here. — ²⁾ In order to obtain the net position, only the cash advances taken in the form of book credits (but not the special credit according to Art. 20, par. 1, item 2 Bundesbank Law) have been deducted from the credit balances maintained with the Bundesbank by the authorities concerned. — ³⁾ Net balances of Federal Postal Administration, E.R.P. Special Fund, other public authorities and private depositors. — ⁴⁾ After elimination of changes due to certain transactions of the Bundesbank on own account (e. g., foreign currency payments owing to DM drawings under agreements with the International Monetary Fund). — ⁵⁾ Balances with foreign banks and investments in foreign money-market paper (claims deriving from money exports). — ⁶⁾ The differences between changes in the required minimum reserve and changes in Central Bank balances are mainly explained by the fact that banks are obliged to maintain the required minimum reserve only on the daily average for the month, whereas the Central Bank balances here recorded are calculated on the basis of the four weekly bank-return dates in accordance with the design of the table. The differences also reflect the tendency — almost exclusively due to technical reasons — of the banks' reserves to exceed the minimum required. — ⁷⁾ Only transactions concerning "mobilisation paper" and "other money-market paper" in so far as they affect the Bundesbank's holdings of such paper. — ⁸⁾ Excluding domestic interbank deposits. — P ^c) Partly estimated. | | | | | | |

than the comparable rates in Germany, even though the interest differential was appreciably narrowed in the course of the year through the rise of interest rates in Germany following the Central Bank discount rate increases in January and August 1965. In addition the banks in the year under review continued to receive considerable advantage as regards yield by reason of the "offset privilege" allowed by the Bundesbank, that is the exempting from the minimum reserve obligation of foreign liabilities which are "offset" by short-term foreign assets. It was no doubt mainly because of this offset privilege that the banks again strongly pushed their export of money in the first weeks of 1966 (after the seasonal low point reached by such exports in December), even though the interest differential alone would have made such export desirable in only a few cases by that time and the Bundesbank did not resume forward rate-fixing in respect of dollar investments even when such exchange rate guarantee again entailed expense after the turn of the year, whereas during the latter part of the previous year premiums had been obtainable, for seasonal reasons, on forward dollar deals. At present therefore, unlike the time before the Report for the Year 1964 went to press, when the Bundesbank had granted forward rate covering to the extent of about DM 1 billion, the Bundesbank has no swap commitments running.

As a result of all liquidity determinants on the one hand, and the further increase of bank deposits on the other, the proportion borne by the credit institutions' total free or easily mobilisable liquid reserves (comprising domestic Treasury bills and non-interest Treasury bonds, Storage Agency bills, prime bankers' acceptances and assets arising from money exports, as well as unused rediscount quotas) to their total deposits¹⁾ declined to 9.0 per cent at the end of 1965 from 11.4 per cent at the end of 1964 and 12.9 per cent at the end of 1963. This "liquidity ratio" decreased most in the second and third quarters, as already mentioned, whereas in the last three months of the year, when there were additions to the banks' liquidity, it rose again contrary to the seasonal tendency (from 8.6 per cent at the end of September to 9.0 per cent at the year's end). In any assessment of such liquidity ratios it must of course be borne in mind that as a basis for this calculation the banks' total deposits represent a more or less arbitrary parameter, if only because they also include longer-term deposits, more particularly all savings deposits, which in many foreign countries are not counted as bank deposits at all. If only those deposits are included in the liquidity quotient which do not in the true sense represent "long-term funds" (in accordance with the Federal Banking Supervisory Office's Principle II²⁾ that would mean 40 per cent of the savings deposits and 90 per cent of non-banks' sight and time deposits), the resulting liquidity ratios would of course be higher, in fact about 15 per cent at the end of 1965 as against 18 per cent at the end of 1964 (see the table); but this more differential treatment does not alter the downward

Banks' liquidity cushion diminishing

¹⁾ Deposits of domestic non-banks plus all non-residents' deposits.

²⁾ Principles pursuant to Articles 10 and 11 of the Banking Law, concerning the Capital Resources and Liquidity of Credit Institutions, in the terms of Notice No. 1/64 of the Federal Banking Supervisory Office, dated 25 August 1964.

"Liquidity Ratios" of the Credit Institutions

| Position at end of year or end of month | Liquid reserves ¹⁾ in per cent of | | Liquid assets ²⁾ in per cent of | |
|--|---|--|---|--|
| | total | not long-term ³⁾ deposits ⁴⁾ | total | not long-term ³⁾ deposits ⁴⁾ |
| 1963 | 12.9 | 20.3 | 5.9 | 9.3 |
| 1964 | 11.4 | 18.2 | 4.6 | 7.4 |
| 1965 March | 11.1 | 18.2 | 5.4 | 8.8 |
| June | 10.2 | 16.7 | 4.6 | 7.6 |
| September | 8.6 ⁵⁾ | 14.2 ⁵⁾ | 4.3 | 7.1 |
| December | 9.0 | 14.8 | 3.9 | 6.3 |

¹⁾ Bank holdings of domestic Treasury bills, non-interest Treasury bonds, Storage Agency bills and prime bankers' acceptances, short-term credit balances and banks' money-market investments abroad, as well as unused rediscount quotas. — ²⁾ Liquid reserves less unused rediscount quotas. — ³⁾ Deposits not at long term within the meaning of Principle II are to be understood as comprising 40 per cent of the savings deposits and 90 per cent of the sight and time deposits. — ⁴⁾ Not including domestic interbank deposits. — ⁵⁾ Calculated with due allowance for the reduction in rediscount quotas with effect from 1 October 1965.

trend of bank liquidity. If allowance were further made for the fact that the minimum reserves need to be maintained only on the *daily average* of each month (so that they are fully available for the banks' daily payment transactions), the said liquidity ratios would on the average be still greater by some 8 or 13 per cent respectively of the total deposits, according to whether all deposits or those "not at long term" are made the basis of the calculation. It is therefore not surprising that it was evidently not until towards the end of the year under report that the banks approached the limit as from which they are reluctant to dissolve further liquid reserves, and show marked caution in their assets-side business; at all events it is only since the last months of 1965 and the beginning of 1966 that any definite slowing down in the expansion of credit has been discernible.

2. The banks' lending business

Total increase in lending greater than in the previous year

Total lending by the monthly reporting credit institutions was again notably great in 1965 although, as already mentioned, the rate of expansion became a good deal slower in the last months of the year. Between the end of December 1964 and the end of December 1965 the total bank credit extended to resident private and public borrowers, including the banks' security holdings originating from domestic non-banks' issues, rose by DM 32.6 billion (to more than DM 278 billion), as compared with rises by DM 29.4 billion in 1964 and DM 24.6 billion in 1963. Against the credit expansion in the year under report there was also much greater formation of monetary capital at credit institutions than in the previous year. Such monetary capital formation amounted to DM 27.4 billion in 1965 against DM 25.6 billion in 1964 and DM 23.5 billion in 1963. As already pointed out in the General Survey, this materially counteracted the expansion of credit. At all events, as measured by the increase in the volume of money, the total expansive effect produced by the banks' granting of credit and by the other monetary determinants was little greater in 1965 than in 1964.

In the first two months of 1966 the banks' lending increased by less than in the corresponding period of 1965 (rising by DM 3.26 billion as against DM 3.83 billion), and the volume of money appreciably contracted, mainly because the formation of monetary capital seasonally exceeded the expansion of credit. The volume of money declined by no less than DM 3.85 billion; this decrease was greater by almost DM 1.4 billion than in the corresponding period of 1965. Also in February 1966 alone, at about DM 550 million the growth of the volume of money, which normally increases in that month, was much less than a year earlier (+ DM 925 million) even though, at DM 2.4 billion, the expansion of credit by the banks was again greater than that by not quite DM 2.0 billion a year before, and although, in particular, at DM 2.1 billion the formation of monetary capital did not reach the level of DM 3.1 billion attained a year earlier. The reason lies in the contractive influence which foreign payments exerted on the volume of money in February 1966 to the extent of about DM 100 million, as compared with the expansive effect amounting to some DM 0.9 billion which they had produced in February 1965.

Slackening towards the end of the year

The change in the extent of credit expansion during the year is clearly revealed by the fact that the increase of the banks' total lending plus investments in securities was greater than a year earlier by DM 1.2 billion in the first four months of 1965, and by about DM 2.1 billion in the period from May to August of that year, whereas in the last four months it actually fell slightly short of what it had been a year previously. At the same time the figures for the last four months of 1965 include the exceptionally great expansion of short-term lending to business enterprises and individuals which took place in December, and which afterwards turned out to be temporary. If the figures for the six months from September 1965 to February 1966 are combined, the result is an expansion of credit which, at DM 15.8 billion, fell short of the amount for the corresponding period of 1964/65 by over DM 0.6 billion, or about 4 per cent.

Main causes of credit expansion

Apart from the general expansion of incomes and the accompanying monetary capital formation one of the main determinants of the 1965 credit expansion, which was on the whole quite large,

Lending and Security Holdings ¹⁾ at Banking Groups

Millions of DM

| Banking group | Increase (+) during year | | | | | | Amount outstanding at end of 1965 |
|---|--------------------------|----------|-----------|----------|------------|----------|-----------------------------------|
| | 1963 | | 1964 | | 1965 | | |
| | DM mn | p.c.*) | DM mn | p.c.*) | DM mn | p.c.*) | |
| Commercial banks | - 4,993 | + 9.1 | + 6,972 | + 11.6 | + 7,283 | + 10.9 | 74,405 |
| Big banks | (+ 1,241) | (+ 5.2) | (+ 2,590) | (+ 10.3) | (+ 2,115) | (+ 7.6) | (29,967) |
| State, regional and local banks | (+ 2,952) | (+ 12.5) | (+ 3,511) | (+ 13.2) | (+ 3,751) | (+ 12.5) | (33,843) |
| Private bankers | (+ 512) | (+ 9.1) | (+ 502) | (+ 8.2) | (+ 800) | (+ 12.1) | (7,432) |
| Specialised commercial banks | (+ 288) | (+ 15.2) | (+ 369) | (+ 16.9) | (+ 617) | (+ 24.2) | (3,163) |
| Savings bank sector | + 11,617 | + 14.4 | + 13,500 | + 14.7 | + 16,136 | + 15.3 | 121,655 |
| Central giro institutions | (+ 3,666) | (+ 13.4) | (+ 4,296) | (+ 13.8) | (+ 5,193) | (+ 14.7) | (40,581) |
| Savings banks | (+ 7,951) | (+ 15.0) | (+ 9,204) | (+ 15.1) | (+ 10,943) | (+ 15.6) | (81,074) |
| Credit cooperative sector (Schulze-Delitzsch) | + 1,448 | + 16.9 | + 1,642 | + 16.4 | + 2,070 | + 17.8 | 13,706 |
| Central institutions of credit cooperatives (Schulze-Delitzsch) | (+ 107) | (+ 28.8) | (+ 142) | (+ 29.6) | (+ 123) | (+ 19.8) | (744) |
| Credit cooperatives (Schulze-Delitzsch) | (+ 1,341) | (+ 16.4) | (+ 1,500) | (+ 15.8) | (+ 1,947) | (+ 17.7) | (12,962) |
| Credit cooperative sector (Raiffeisen) | + 1,087 | + 15.7 | + 1,391 | + 17.4 | + 1,627 | + 17.3 | 11,015 |
| Central institutions of credit cooperatives (Raiffeisen) | (+ 122) | (+ 6.9) | (+ 256) | (+ 13.5) | (+ 218) | (+ 10.1) | (2,370) |
| Credit cooperatives (Raiffeisen) | (+ 965) | (+ 18.8) | (+ 1,135) | (+ 18.6) | (+ 1,409) | (+ 19.5) | (8,645) |
| Private and public mortgage banks | + 5,655 | + 15.9 | + 6,824 | + 16.6 | + 6,030 | + 12.6 | 53,883 |
| Private mortgage banks | (+ 2,980) | (+ 17.3) | (+ 4,024) | (+ 20.0) | (+ 3,179) | (+ 13.1) | (27,366) |
| Public mortgage banks | (+ 2,675) | (+ 14.6) | (+ 2,800) | (+ 13.3) | (+ 2,851) | (+ 12.0) | (26,517) |
| Credit institutions with special functions | + 2,531 | + 16.3 | + 2,693 | + 14.9 | + 2,057 | + 9.9 | 22,762 |
| Instalment credit institutions | + 446 | + 10.2 | + 243 | + 5.0 | + 299 | + 5.9 | 5,368 |
| Postal Cheque and Postal Savings Bank offices | + 923 | + 18.2 | + 526 | + 8.4 | + 1,177 | + 17.4 | 7,934 |
| All banking groups | + 28,700 | + 13.6 | + 33,791 | + 14.1 | + 36,679 | + 13.4 | 310,728 |

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

lies in the fact that owing to the reversal of foreign trade and payment relationships borrowers — and in particular the business sector — made good the shortfall in accruals of funds from abroad during the year under review by borrowing more from domestic banks. The “net claim of the banks and the Bundesbank on foreign countries”¹⁾, which typifies the influence of external transactions on the domestic money supply, decreased again in 1965 for the first time since 1959, declining in fact by DM 195 million, whereas it had risen by just on DM 1.3 billion in 1964 and by DM 3.1 billion in 1963. Its contractive influence was however counteracted by the fact that during the year under report the Federal Government and the *Länder* more often and in greater degree resorted to cash advances from the Bundesbank, or reduced their deposits there, and so contributed towards producing in the volume of money an increase which *pro tanto* did not originate from the other banks’ expansion of credit.

In 1965, as usual, domestic enterprises and individuals were again prominent among borrowers from banks other than the Bundesbank. In 1965, without counting the banks’ security purchases, they took additional credit to the extent of DM 24.6 billion; this was more than in 1964 by DM 3.3 billion or 15 per cent. But at DM 6.8 billion in 1965 the extension of credit to public authorities (including the taking of domestic Treasury bills and non-interest Treasury bonds, but excluding mobilisation paper) was greater than a year previously by more than DM 600 million, or about one-tenth. Its proportion to the total increase of bank credit declined slightly, from 23.3 per cent in 1964 to 22.2 per cent in 1965. With the inclusion of the Bundesbank’s above-mentioned cash advances, of the Treasury bills and non-interest Treasury bonds held by the Bundesbank, and of the banks’ security holdings (which are classified by issuers), the share of credit granted to public authorities in the total expansion of credit by the banking system (including the Bundesbank)

¹⁾ Apart from the net foreign exchange reserves of the Bundesbank and the other banks this balance also comprises the long-term claims of the banking system (especially the Reconstruction Loan Corporation) on foreign countries.

Lending of the Monthly Reporting Credit Institutions to Non-Banks

Millions of DM

| Item | Yearly figures | | | | Quarterly figures | | | | |
|---|------------------------------|---------|-----------|---------|------------------------------|--------------------|--------------------|--------------------|----------|
| | 1962 | 1963 | 1964 | 1965 | Year | 1st qtr. | 2nd qtr. | 3rd qtr. | 4th qtr. |
| | Increase (+) or decrease (—) | | | | | | | | |
| I. Lending (including acquisition of securities) to domestic non-banks, total | +22,795 | +24,603 | +29,394 | +32,623 | 1965 +6,781 1964 +5,494 | +9,746 +8,075 | +7,015 +7,185 | +9,081 +8,640 | |
| (1) Short-term lending, total | + 3,567 | + 3,989 | + 5,616 | + 7,650 | 1965 +1,667 1964 +1,264 | +3,379 +2,092 | + 651 + 570 | +1,953 +1,690 | |
| (a) to business enterprises and individuals | + 3,229 | + 3,533 | + 4,956 | + 7,327 | 1965 +1,530 1964 + 482 | +3,456 +2,375 | + 556 + 563 | +1,785 +1,536 | |
| (b) to public authorities | + 338 | + 456 | + 660 | + 323 | 1965 + 137 1964 + 782 | — 77 — 283 | + 95 + 7 | + 168 + 154 | |
| among which: Holdings of domestic Treasury bills and non-interest Treasury bonds (without mobilisation paper) | (+ 499) | (+ 98) | (— 126) | (+ 866) | 1965 (+ 428) 1964 (+ 399) | (— 26) (— 320) | (+ 325) (— 98) | (+ 139) (— 107) | |
| (2) Medium-term lending, total | + 3,347 | + 2,564 | + 2,169 | + 4,264 | 1965 + 177 1964 — 89 | +1,277 + 887 | +1,621 + 793 | +1,189 + 578 | |
| (a) to business enterprises and individuals | + 3,418 | + 2,474 | + 1,762 | + 3,362 | 1965 + 16 1964 — 126 | +1,165 + 734 | +1,371 + 735 | + 810 + 419 | |
| (b) to public authorities | — 71 | + 90 | + 407 | + 902 | 1965 + 161 1964 — 37 | + 112 + 153 | + 250 + 58 | + 379 + 159 | |
| (3) Long-term lending, total | +15,062 | +17,184 | +19,808 | +19,568 | 1965 +4,261 1964 +3,667 | +4,058 +4,381 | +5,572 +5,415 | +5,677 +6,345 | |
| (a) to business enterprises and individuals | +12,455 | +13,255 | +14,673 | +13,960 | 1965 +2,941 1964 +2,515 | +3,110 +3,597 | +4,043 +4,155 | +3,866 +4,406 | |
| (b) to public authorities | + 2,607 | + 3,929 | + 5,135 | + 5,608 | 1965 +1,320 1964 +1,152 | + 948 + 784 | +1,529 +1,260 | +1,811 +1,939 | |
| (4) Covering claims | + 106 | + 239 | + 294 | + 199 | 1965 + 79 1964 + 111 | + 50 + 85 | + 50 + 95 | + 20 + 3 | |
| (5) Holdings of domestic securities and syndicate participations (except bank bonds) | + 713 | + 627 | + 1,507 | + 942 | 1965 + 597 1964 + 541 | + 982 + 630 | — 879 + 312 | + 242 + 24 | |
| II. Lending (including acquisition of securities) to foreign non-banks, total | + 966 | + 1,353 | + 1,454 | + 1,517 | 1965 +1,157 1964 + 436 | — 82 + 411 | — 277 — 26 | + 719 + 633 | |
| (1) Short-term lending, total | — 320 | + 110 | + 118 | + 209 | 1965 + 681 1964 + 49 | — 353 + 101 | — 512 + 261 | + 393 + 229 | |
| among which: Money-market paper of foreign public authorities | (— 479) | (+ 117) | (+ 18) | (— 41) | 1965 (+ 670) 1964 (+ 55) | (— 377) (+ 100) | (— 520) (— 228) | (— 186) (+ 91) | |
| (2) Medium-term lending | + 226 | — 1 | — 66 | — 53 | 1965 — 40 1964 + 42 | — 17 — 79 | + 11 — 53 | — 7 + 24 | |
| among which: to foreign public authorities | (—) | (— 38) | (— 119) | (— 72) | 1965 (— 72) 1964 (+ 0) | (— 43) (— 15) | (— 0) (— 88) | (+ 43) (— 16) | |
| (3) Long-term lending | + 1,072 | + 1,160 | + 1,351 | + 1,258 | 1965 + 291 1964 + 294 | + 359 + 324 | + 284 + 299 | + 324 + 434 | |
| among which: to foreign public authorities | (+ 712) | (+ 731) | (+ 1,065) | (+ 858) | 1965 (+ 201) 1964 (+ 244) | (+ 215) (+ 199) | (+ 215) (+ 247) | (+ 227) (+ 375) | |
| (4) Holdings of foreign securities and syndicate participations | — 12 | + 84 | + 51 | + 103 | 1965 + 225 1964 + 51 | — 71 + 65 | — 60 — 11 | + 9 — 54 | |
| III. Lending (including acquisition of securities) to domestic and foreign non-banks, total (sum total of respective items under I and II) | +23,761 | +25,956 | +30,848 | +34,140 | 1965 +7,938 1964 +5,930 | +9,664 +8,486 | +6,738 +7,159 | +9,800 +9,273 | |
| (1) Short-term lending | + 3,247 | + 4,099 | + 5,734 | + 7,859 | 1965 +2,348 1964 +1,313 | +3,026 +2,193 | + 139 — 309 | +2,346 +1,919 | |
| (2) Medium-term lending | + 3,573 | + 2,563 | + 2,103 | + 4,211 | 1965 + 137 1964 — 47 | +1,260 + 808 | +1,632 + 740 | +1,182 + 602 | |
| (3) Long-term lending | +16,134 | +18,344 | +21,159 | +20,826 | 1965 +4,552 1964 +3,961 | +4,417 +4,705 | +5,856 +5,714 | +6,001 +6,779 | |
| (4) Covering claims | + 106 | + 239 | + 294 | + 199 | 1965 + 79 1964 + 111 | + 50 + 85 | + 50 + 95 | + 20 + 3 | |
| (5) Holdings of securities and syndicate participations (except domestic bank bonds) | + 701 | + 711 | + 1,558 | + 1,045 | 1965 + 822 1964 + 592 | + 911 + 695 | — 939 + 301 | + 251 — 30 | |

works out somewhat higher, however, viz. at 22.9 per cent in 1965 against, it is true, 25.3 per cent in 1964.

Also typical of trends in credit during the year under review was the fact that short and medium-term bank lending accounted for a much greater part of total credit expansion than in 1963 and 1964, while the banks' long-term lending and their investments in securities — which likewise mostly represent long-term commitments — declined notably in importance. Of the total increase in the credit institutions' extension of credit to domestic non-banks, including their security commitments towards these, short and medium-term lending accounted for almost 37 per cent in 1965 as against some 27 per cent in each of the years 1963 and 1964; on the other hand the share of long-term bank lending to non-banks in total credit expansion declined in 1965 to 60 per cent, as compared with 67 per cent in 1964 and 70 per cent in 1963.

The chief reason for the great increase of short and medium-term lending to enterprises and individuals was no doubt that the borrowers were reluctant to be bound for a long period by taking

Increasing proportion of lending at shorter term

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

Millions of DM

| Year | Total lending to non-banks | Industries and handicrafts, total | among which: | | | | | | | | | | Residential building | Public utilities | Trade | Agriculture, forestry, and water regulation and supply ²⁾ | Other public borrowers ³⁾ | Other branches of economic activity and other borrowers ⁴⁾ | Lending of instalment credit institutions ⁵⁾ |
|---|----------------------------|-----------------------------------|--------------|---|--|---|--|-----------------------------------|---|---|--------|-------|----------------------|------------------|--------|--|--------------------------------------|---|---|
| | | | Mining | Iron and metal producing industries and foundries | Steel construction, machine and vehicle building | Electrical engineering, precision instruments and optical goods | Chemical and pharmaceutical industries | Foodstuffs, beverages and tobacco | Textiles, leather, footwear, and clothing | Industries working for building ¹⁾ | | | | | | | | | |
| Medium and long-term lending | | | | | | | | | | | | | | | | | | | |
| End-of-year-figures | | | | | | | | | | | | | | | | | | | |
| 1964 | 174,070 | 28,755 | 2,083 | 2,894 | 4,451 | 1,855 | 2,251 | 2,649 | 2,154 | 2,550 | 68,018 | 4,938 | 6,543 | 14,774 | 27,173 | 20,909 | 2,960 | | |
| 1965 | 198,781 | 32,360 | 2,196 | 3,206 | 5,189 | 2,170 | 2,408 | 2,961 | 2,303 | 3,080 | 76,614 | 5,487 | 7,647 | 16,835 | 32,394 | 24,213 | 3,231 | | |
| Increase (+), decrease (-), during year ⁶⁾ | | | | | | | | | | | | | | | | | | | |
| 1962 | +19,378 | +4,026 | +324 | +374 | +754 | +143 | +602 | +245 | +123 | +318 | +7,335 | +710 | +1,017 | +1,733 | +2,040 | +2,324 | +193 | | |
| 1963 | +20,631 | +3,129 | +196 | +534 | +341 | +132 | +23 | +342 | +143 | +465 | +7,923 | +689 | +804 | +1,837 | +3,413 | +2,478 | +358 | | |
| 1964 | +22,968 | +2,647 | +108 | +198 | +107 | -39 | +350 | +252 | +296 | +422 | +9,458 | +756 | +436 | +1,847 | +4,792 | +2,829 | +203 | | |
| 1965 | +24,711 | +3,605 | +113 | +312 | +738 | +315 | +157 | +312 | +149 | +530 | +8,596 | +549 | +1,104 | +2,061 | +5,221 | +3,304 | +271 | | |
| Medium-term lending | | | | | | | | | | | | | | | | | | | |
| End-of-year figures | | | | | | | | | | | | | | | | | | | |
| 1964 | 23,095 | 7,044 | 575 | 915 | 1,016 | 555 | 760 | 491 | 437 | 685 | 2,689 | 370 | 1,808 | 873 | 1,255 | 6,111 | 2,945 | | |
| 1965 | 27,216 | 8,405 | 678 | 1,057 | 1,493 | 748 | 877 | 557 | 453 | 871 | 2,914 | 598 | 2,143 | 931 | 1,963 | 7,048 | 3,214 | | |
| Increase (+), decrease (-), during year ⁶⁾ | | | | | | | | | | | | | | | | | | | |
| 1962 | +3,561 | +1,589 | +107 | +283 | +414 | +86 | +302 | +42 | +25 | +97 | +365 | +130 | +312 | +49 | -119 | +1,043 | +192 | | |
| 1963 | +2,534 | +732 | -26 | +257 | -17 | +49 | -84 | +117 | +46 | +185 | +396 | -30 | +255 | +37 | -16 | +810 | +350 | | |
| 1964 | +2,402 | +250 | +139 | -37 | -34 | -78 | +135 | +34 | +61 | +67 | +444 | +147 | +72 | +388 | +159 | +742 | +200 | | |
| 1965 | +4,121 | +1,361 | +103 | +142 | +477 | +193 | +117 | +66 | +16 | +186 | +225 | +228 | +335 | +58 | +708 | +937 | +269 | | |
| Long-term lending | | | | | | | | | | | | | | | | | | | |
| End-of-year figures | | | | | | | | | | | | | | | | | | | |
| 1964 | 150,975 | 21,711 | 1,508 | 1,979 | 3,435 | 1,300 | 1,491 | 2,158 | 1,717 | 1,865 | 65,329 | 4,568 | 4,735 | 13,901 | 25,918 | 14,798 | 15 | | |
| 1965 | 171,565 | 23,955 | 1,518 | 2,149 | 3,696 | 1,422 | 1,531 | 2,404 | 1,850 | 2,209 | 73,700 | 4,889 | 5,504 | 15,904 | 30,431 | 17,165 | 17 | | |
| Increase (+), decrease (-), during year ⁶⁾ | | | | | | | | | | | | | | | | | | | |
| 1962 | +15,817 | +2,437 | +218 | +91 | +339 | +57 | +300 | +203 | +99 | +220 | +6,970 | +580 | +706 | +1,685 | +2,158 | +1,280 | +1 | | |
| 1963 | +18,097 | +2,397 | +222 | +277 | +358 | +83 | +107 | +225 | +97 | +280 | +7,527 | +719 | +549 | +1,800 | +3,429 | +1,668 | +8 | | |
| 1964 | +20,566 | +2,397 | -31 | +235 | +141 | +39 | +215 | +218 | +235 | +355 | +9,014 | +609 | +364 | +1,459 | +4,633 | +2,087 | +3 | | |
| 1965 | +20,590 | +2,244 | +10 | +170 | +261 | +122 | +40 | +246 | +133 | +344 | +8,371 | +321 | +769 | +2,003 | +4,513 | +2,367 | +2 | | |

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

long-term loans, which were at the time particularly expensive. In many cases moreover the banks had not enough long-term resources available because in their liabilities-side business too — even though frequently (where transactions under repurchase agreement are concerned) this is not apparent from the balance sheets — a tendency towards somewhat shorter periods emerged while the formation of monetary capital was nevertheless increasing. The nature of the capital projects mostly to be financed — in the case of enterprises equipment investments, having a shorter “life” than building investments, became especially prominent — may have also contributed towards preference being given not to short-term borrowing, it is true, but to borrowing at medium term. Finally, in connection with short and medium-term lending to enterprises and individuals a further point was that consumer credit grew a good deal faster last year than in preceding years.

In terms of absolute amount the short-term bank credit extended to residents¹⁾ increased by DM 7.65 billion between the end of 1964 and the end of 1965. This was more by DM 2.03 billion than in 1964, and more by DM 3.66 billion than in 1963; short-term lending to enterprises and individuals accounted for some 95 per cent of the 1965 expansion. The quickening of the rise was mainly confined, however, to the first half-year; in the second half-year short-term lending to enterprises and individuals increased by only about DM 240 million more than a year previously. If the first two months of 1966 are included in the calculation, such lending actually expanded by almost DM 400 million less in the months from July 1965 onwards than a year earlier. The amount of short-term credit extended to domestic public authorities by banks other than the Bundesbank was greater by about DM 320 million at the end of 1965 than at the end of 1964; thus it rose by only about half as much as in the latter year, with quite wide divergence between the individual

Great increase of credit at short and medium term

¹⁾ Including the banks' holdings of domestic Treasury bills and non-interest Treasury bonds, but excluding their holdings of mobilisation paper, which, like foreign Treasury bills, are to be regarded as purely money-market assets.

Security Holdings of the Banks

| Year or quarter | Total | | Domestic securities and syndicate participations | | | | | | | Foreign securities and syndicate participations | |
|---|-----------------------|---|--|---|--|------------------------------------|------------------|--------------------------|------|---|-------|
| | | | Fixed-interest-bearing securities | | | Market-able equities ¹⁾ | Other securities | Syndicate participations | | | |
| | Bank bonds | among which: Medium-term notes (Kassenobligationen) | Public issues | among which: Medium-term notes (Kassenobligationen) | Industrial bonds and other interest-bearing debentures | | | | | | |
| in-cluding bank bonds | ex-cluding bank bonds | Total | | Total | | | | | | | |
| End-of-year figures, millions of DM | | | | | | | | | | | |
| 1960 | 18,705 | 7,226 | 11,479 | 611 | 3,533 | 472 | 763 | 1,987 | 103 | 469 | 371 |
| 1961 | 22,278 | 8,124 | 14,154 | 778 | 4,062 | 702 | 842 | 2,211 | 104 | 540 | 365 |
| 1962 ²⁾ | 25,610 | 8,825 | 16,785 | 986 | 4,616 | 658 | 954 | 2,233 | 126 | 543 | 353 |
| 1962 ²⁾ | 25,617 | 8,830 | 16,787 | 986 | 4,617 | 658 | 957 | 2,233 | 127 | 543 | 353 |
| 1963 | 29,678 | 9,541 | 20,137 | 1,301 | 5,112 | 768 | 913 | 2,381 | 220 | 478 | 437 |
| 1964 | 34,491 | 11,099 | 23,392 | 1,798 | 6,319 | 1,061 | 951 | 2,743 | 153 | 445 | 488 |
| 1965 | 38,233 | 12,108 | 26,125 | 1,928 | 6,584 | 924 | 1,009 | 3,017 | 159 | 748 | 591 |
| Increase (+) or decrease (—) ³⁾ , millions of DM | | | | | | | | | | | |
| 1961 | +3,573 | + 898 | +2,675 | + 167 | + 529 | + 230 | + 79 | + 224 | + 1 | + 71 | — 6 |
| 1962 | +3,582 | + 701 | +2,881 | + 208 | + 554 | — 44 | + 112 | + 22 | + 22 | + 3 | — 12 |
| 1963 | +3,811 | + 711 | +3,100 | + 315 | + 495 | + 110 | — 44 | + 148 | + 93 | — 65 | + 84 |
| 1964 | +4,813 | +1,558 | +3,255 | + 497 | +1,207 | + 293 | + 6 | + 362 | — 35 | — 33 | + 51 |
| 1965 | +3,742 | +1,045 | +2,697 | + 130 | + 265 | — 137 | + 94 | + 274 | + 6 | +303 | + 103 |
| 1964 1st qtr. | +1,979 | + 592 | +1,387 | + 292 | + 533 | + 280 | — 89 | + 82 | — 8 | + 23 | + 51 |
| 2nd qtr. | +1,441 | + 695 | + 746 | + 70 | + 293 | + 123 | + 145 | + 165 | — 49 | + 76 | + 65 |
| 3rd qtr. | + 954 | + 301 | + 653 | + 127 | + 316 | — 54 | — 51 | + 47 | + 14 | — 14 | — 11 |
| 4th qtr. | + 439 | — 30 | + 469 | + 8 | + 65 | — 56 | + 1 | + 68 | + 8 | —118 | — 54 |
| 1965 1st qtr. | +2,227 | + 822 | +1,405 | + 202 | + 391 | + 179 | + 68 | + 21 | + 19 | + 98 | + 225 |
| 2nd qtr. | +1,610 | + 911 | + 699 | — 8 | + 65 | — 146 | + 23 | + 214 | + 3 | + 677 | — 71 |
| 3rd qtr. | — 510 | — 939 | + 429 | + 32 | — 140 | — 51 | + 6 | — 28 | + 8 | — 725 | — 60 |
| 4th qtr. | + 415 | + 251 | + 164 | — 96 | — 51 | — 119 | — 3 | + 67 | — 24 | + 253 | + 9 |

¹⁾ Including investment fund certificates. — ²⁾ At the end of 1962 the obligation to render returns was newly defined for the credit cooperatives (Raiffeisen). The figures are shown for both the old and the new range of institutions required to report. — ³⁾ Statistical changes have been eliminated.

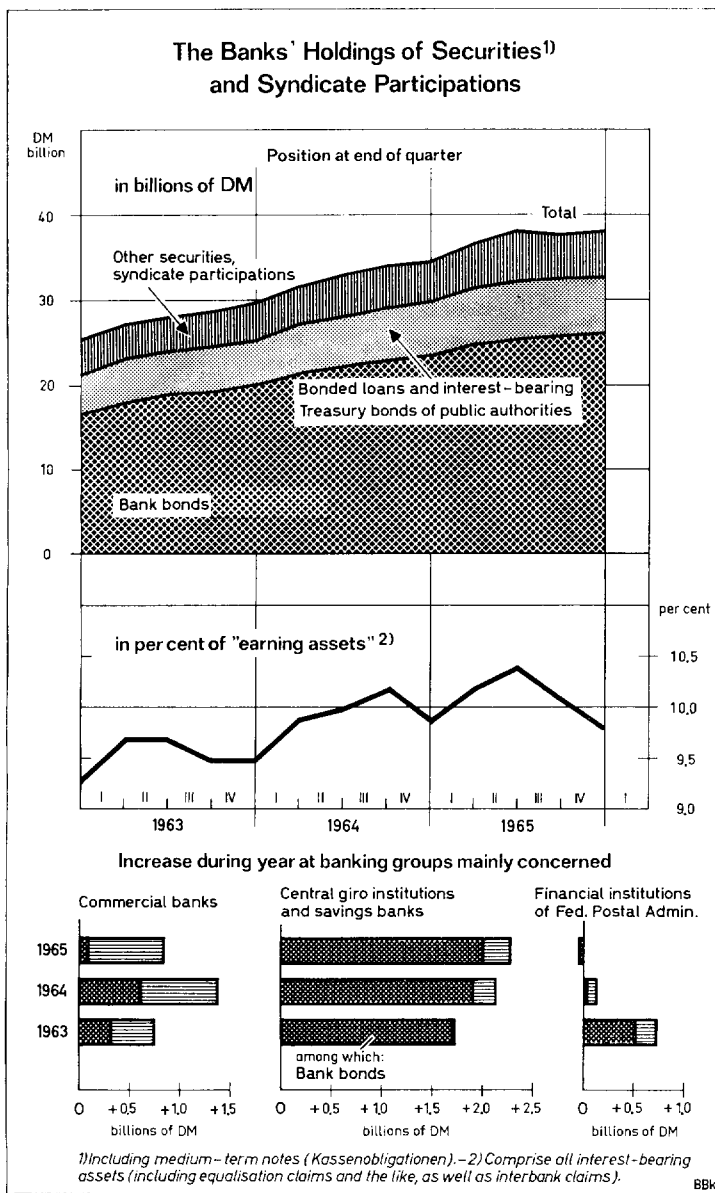
forms of credit. Credit in the form of Treasury bills and non-interest Treasury bonds, which as a rule can be sold to the Bundesbank in the course of open-market transactions, increased by as much as DM 870 million; on the other hand credits granted in account to public authorities decreased by DM 540 million. An increase relatively even greater than that in short-term credit took place in medium-term lending, that is in bank loans running for between six months and four years. Such loans rose by DM 4.3 billion, or about twice as much as in 1964. Unlike short-term credit, medium-term lending to the private sector on the one hand and to official borrowers on the other grew by equal percentages, although in absolute terms — in accordance with the conditions prevailing during earlier years — enterprises and individuals, with an increase by DM 3.4 billion in 1965, accounted for a larger portion than public authorities.

Contrary to the overall trend of credit the long-term loans to resident non-banks in 1965, for the first time since 1960, no longer increased by more than in the previous year; they rose by DM 19.6 billion, which was slightly less than in 1964 (DM 19.8 billion). Here again the slowing down took place in the second half of the year, in fact exclusively in the last quarter, when such lending rose

Smaller increase of long-term loans

by about DM 670 million (or 11 per cent) less than in the corresponding period of the previous year. This slowing down was exclusively in lending to private customers, while at DM 5.6 billion the amount of long-term loans taken by public authorities in 1965 was greater than in 1964 by almost half a billion DM. During the last quarter, however, the rise in long-term lending to public authorities also became slower. In particular the real-estate credit institutions, which are among the principal lenders to local authorities as well as to other public-sector borrowers, were no longer able — because the accrual of resources was smaller — to lend so much as a year earlier.

The chief reason for the slower expansion of long-term lending lay in the restraint shown by private orderers of building work. According to the quarterly statistics of borrowers (see the table on page 53) long-term loans amounting to DM 8.37 billion went to house-builders in 1965; this was less than in 1964 by about DM 650 million, which is the more noteworthy because in



1964 the amount of housing loans granted had on the contrary been greater by some DM 1.5 billion than in 1963. At DM 2.24 billion in 1965 the increase in the long-term indebtedness of industry and craftsmen to the banks was also less than the increase (by DM 2.4 billion) in each of the years 1964 and 1963. The slowing down in this category, however, was far outweighed by the expansion of medium-term bank lending; this, at DM 1.36 billion, was greater than in the previous year by more than DM 1 billion. Further details concerning medium and long-term lending, classified both by borrowers and by objects, will be found in the table.

Credit institutions' investments in securities

The granting of credit to resident non-banks through the taking of bonds, shares and syndicate holdings which originate from issues by such non-banks was cut down in 1965 even more than the granting of long-term loans. Altogether such bank assets rose by only DM 940 million in 1965 as compared with over DM 1.5 billion in 1964. If to this rise there is added the accrual of bonds of other credit institutions — which, as a component of interbank indebtedness, has been eliminated from the previous review of lending to non-banks — as well as the increase in the banks' holdings of foreign securities, so that the basis taken is the banks' total security holding, the growth works out at DM 3.7 billion for 1965 as against DM 4.8 billion in 1964. This confirms that, as experience shows, the banks in each case primarily react to the constriction of their liquidity by cutting down their purchases of securities, as is also evident from the fact that those groups of banks which were especially affected by the liquidity shortage (as the commercial banks were) observed much more restraint than other groups of credit institutions in the acquiring of securities. One reason why the commercial banks added to their security holding at all is no doubt that they are leaders in syndicate business, and are often obliged, at least for a certain period, to take unsold residues — especially of public authorities' loans — into their own portfolios; on the other hand during the year under report, as the preceding graph shows, the commercial banks acquired practically no bank bonds, in connection with which there is no such obligation.

3. The credit institutions' liabilities-side business

The chief feature of the liabilities-side business done in 1965 by the monthly reporting credit institutions was growth of savings deposits at a high rate, indeed considerably faster than in the previous year. From the remaining sources of monetary capital formation, that is from the increase in the circulation of bank bonds, from formation of time deposits and from the taking of monies and loans from non-banks, on the other hand, the credit institutions last year received less funds than in 1964; the shortfall in that section of their liabilities-side business was, however, smaller than the gain on the increase of savings deposits. Total monetary capital formation at the banks amounted, as already mentioned, to DM 27.4 billion in 1965 against DM 25.6 billion in 1964.

Savings deposits as a form of investment preferred by private savers

The savings deposits held at credit institutions rendering monthly returns rose in the year under review by almost one-third more than in 1964, rising in fact by DM 16.5 billion to nearly DM 111 billion at the year's end, as compared with an increase by DM 12.7 billion in 1964. Ordinary net payments accounted for DM 12.7 billion of the total rise, and interest credited for about DM 3.8 billion; this latter gained further in importance last year, if only owing to the rise of interest rates. With differences in the movements for the various groups, the growth of savings deposits of account-holders not to be reckoned as households, that is enterprises, public authorities and non-residents, was (at about DM 850 million) as great in 1965 as in 1964. The quickening of the rise in deposits thus came in the main from resident households, whose savings deposits grew by DM 15.6 billion in 1965 as against DM 11.8 billion in 1964. As will be shown in the next section, however, the great increase of households' saving through accounts was not due only to an increase of their propensity to save; it was also due to the fact that savers were less favourably disposed than before to other forms of investment, particularly investment in fixed-interest securities. Saving with the benefit of premiums again attained substantial importance as an element in private saving through

Liabilities of the Monthly Reporting Credit Institutions to Non-Banks

Millions of DM

| Item | Yearly figures | | | | Quarterly figures | | | | |
|--|------------------------------|---------|---------|---------|-------------------|----------|----------|----------|----------|
| | 1962 | 1963 | 1964 | 1965 | Year | 1st qtr. | 2nd qtr. | 3rd qtr. | 4th qtr. |
| | Increase (+) or decrease (—) | | | | | | | | |
| I. Liabilities to domestic non-banks | | | | | | | | | |
| (1) Sight deposits, total | + 3,526 | + 3,150 | + 3,038 | + 3,782 | 1965 —3,299 | +3,130 | — 94 | +4,045 | |
| | | | | | 1964 —3,709 | +2,456 | + 257 | +4,034 | |
| (a) of business enterprises and individuals | + 2,580 | + 2,897 | + 3,070 | + 3,385 | 1965 —2,494 | +2,751 | — 31 | +3,159 | |
| | | | | | 1964 —2,863 | +2,149 | + 471 | +3,313 | |
| (b) of public authorities | + 946 | + 253 | — 32 | + 397 | 1965 — 805 | + 379 | — 63 | + 886 | |
| | | | | | 1964 — 846 | + 307 | — 214 | + 721 | |
| (2) Time deposits, total | + 1,522 | + 1,645 | + 1,284 | + 579 | 1965 — 245 | — 87 | —1,041 | +1,952 | |
| | | | | | 1964 — 183 | + 430 | — 110 | +1,147 | |
| (a) of business enterprises and individuals | + 961 | + 1,400 | + 1,831 | + 1,372 | 1965 — 170 | — 74 | — 591 | +2,207 | |
| | | | | | 1964 + 100 | + 42 | + 361 | +1,328 | |
| (b) of public authorities | + 561 | + 245 | — 547 | — 793 | 1965 — 75 | — 13 | — 450 | — 255 | |
| | | | | | 1964 — 283 | + 388 | — 471 | — 181 | |
| (3) Savings deposits of residents, total | + 9,178 | +11,549 | +12,529 | +16,257 | 1965 +4,747 | +2,942 | +2,384 | +6,184 | |
| | | | | | 1964 +3,617 | +1,883 | +2,102 | +4,927 | |
| (a) of individuals | + 7,986 | +10,556 | +11,845 | +15,604 | 1965 +4,416 | +2,906 | +2,461 | +5,821 | |
| | | | | | 1964 +3,397 | +1,794 | +2,066 | +4,588 | |
| (b) of business enterprises | + 173 | + 110 | + 153 | + 260 | 1965 + 111 | + 49 | + 2 | + 98 | |
| | | | | | 1964 + 29 | + 26 | + 13 | + 85 | |
| (c) of public authorities | + 1,019 | + 883 | + 531 | — 393 | 1965 + 220 | — 13 | — 79 | + 265 | |
| | | | | | 1964 + 191 | + 63 | + 23 | + 254 | |
| (4) Monies and loans obtained from domestic non-banks, total | + 4,055 | + 3,354 | + 3,120 | + 2,302 | 1965 + 249 | + 475 | + 687 | + 891 | |
| | | | | | 1964 + 245 | + 589 | + 584 | +1,702 | |
| among which: | | | | | | | | | |
| Medium and long-term monies and loans | + 3,682 | + 3,423 | + 3,271 | + 2,455 | 1965 + 327 | + 615 | + 412 | +1,101 | |
| | | | | | 1964 + 248 | + 727 | + 614 | +1,682 | |
| (a) from business enterprises and individuals | + 651 | + 317 | + 378 | + 183 | 1965 + 145 | — 38 | + 21 | + 55 | |
| | | | | | 1964 + 16 | + 58 | + 4 | + 300 | |
| (b) from public authorities | + 3,031 | + 3,106 | + 2,893 | + 2,272 | 1965 + 182 | + 653 | + 391 | +1,046 | |
| | | | | | 1964 + 232 | + 669 | + 610 | +1,382 | |
| II. Liabilities to foreign non-banks | | | | | | | | | |
| (1) Sight deposits | + 22 | + 112 | + 31 | + 188 | 1965 — 141 | + 76 | — 58 | + 311 | |
| | | | | | 1964 — 214 | + 60 | — 49 | + 234 | |
| (2) Time deposits | + 189 | + 23 | — 160 | + 41 | 1965 + 9 | — 53 | — 2 | + 87 | |
| | | | | | 1964 — 74 | — 78 | — 28 | + 20 | |
| (3) Savings deposits | + 100 | + 99 | + 161 | + 209 | 1965 + 57 | + 60 | + 26 | + 66 | |
| | | | | | 1964 + 31 | + 36 | + 57 | + 37 | |
| (4) Monies and loans obtained from foreign non-banks | — 42 | + 112 | + 29 | — 156 | 1965 — 46 | — 68 | + 20 | — 62 | |
| | | | | | 1964 — 31 | + 51 | + 24 | — 15 | |
| III. Liabilities to domestic and foreign non-banks (sum total of respective items under I and II) | | | | | | | | | |
| (1) Sight deposits | + 3,548 | + 3,262 | + 3,069 | + 3,970 | 1965 —3,440 | +3,206 | — 152 | +4,356 | |
| | | | | | 1964 —3,923 | +2,516 | + 208 | +4,268 | |
| (2) Time deposits | + 1,711 | + 1,668 | + 1,124 | + 620 | 1965 — 236 | — 140 | —1,043 | +2,039 | |
| | | | | | 1964 — 257 | + 352 | — 138 | +1,167 | |
| (3) Savings deposits | + 9,278 | +11,648 | +12,690 | +16,466 | 1965 +4,804 | +3,002 | +2,410 | +6,250 | |
| | | | | | 1964 +3,648 | +1,919 | +2,159 | +4,964 | |
| (4) Monies and loans obtained from domestic and foreign non-banks | + 4,013 | + 3,466 | + 3,149 | + 2,146 | 1965 + 203 | + 407 | + 707 | + 829 | |
| | | | | | 1964 + 214 | + 640 | + 608 | +1,687 | |
| IV. Bank bonds in circulation ¹⁾, total | + 6,592 | + 8,339 | + 9,855 | + 8,720 | 1965 +3,263 | +1,896 | +2,072 | +1,489 | |
| | | | | | 1964 +3,275 | +1,830 | +2,292 | +2,458 | |
| among which: Circulation excluding domestic credit institutions' holdings ²⁾ | + 3,711 | + 5,239 | + 6,600 | + 6,023 | 1965 —1,858 | +1,197 | +1,643 | +1,325 | |
| | | | | | 1964 +1,888 | +1,084 | +1,639 | +1,989 | |
| <i>Note:</i> Monetary capital formation ³⁾ , total | +19,690 | +23,454 | +25,604 | +27,368 | 1965 +7,324 | +5,438 | +3,760 | +10,846 | |
| | | | | | 1964 +6,158 | +4,786 | +4,667 | +9,993 | |
| among which: Capital and reserves ⁴⁾ | +1,597 | +1,598 | +1,920 | +2,054 | 1965 + 637 | + 771 | + 362 | + 284 | |
| | | | | | 1964 + 588 | + 662 | + 422 | + 248 | |

¹⁾ Excluding bonds of own issues in the credit institutions' portfolios.— ²⁾ Separate recording of the circulation at home and abroad is not possible.— ³⁾ Comprising — apart from the item specified below — the items time and savings deposits, medium and long-term monies and loans taken, and bank bonds in circulation except credit institutions' holdings.— ⁴⁾ Including capital and reserves of Bundesbank.

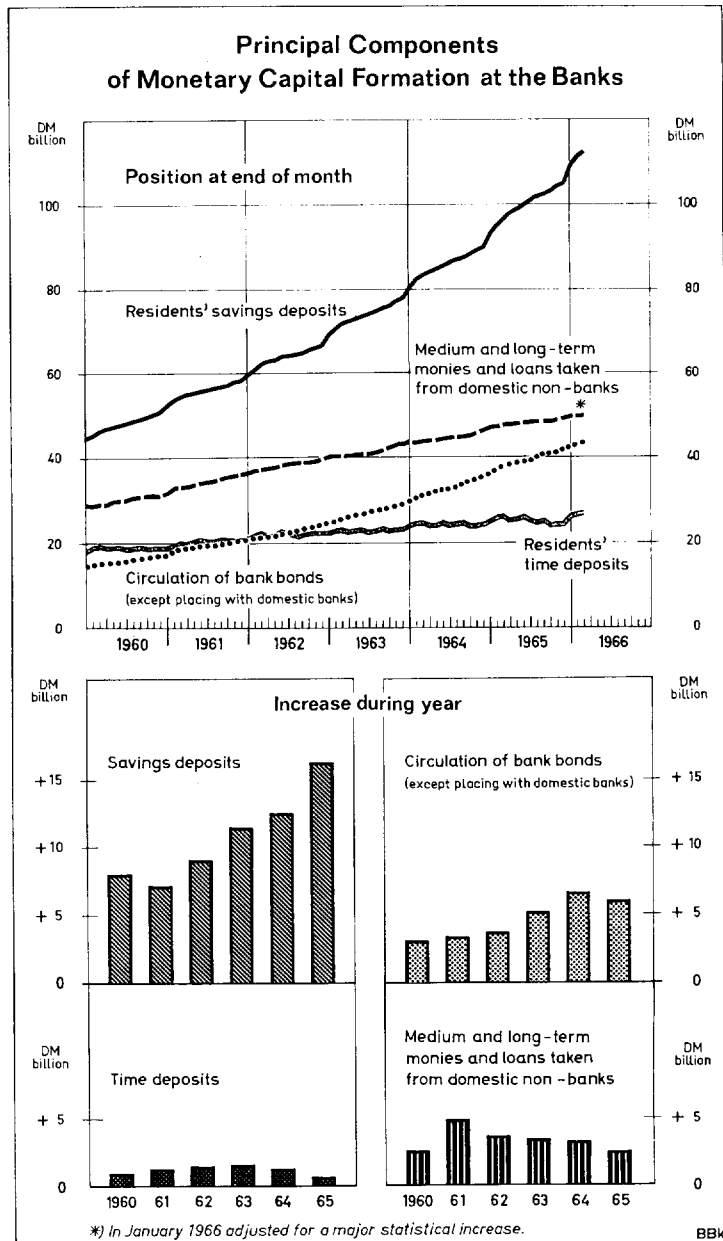
accounts. At DM 2.13 billion in the year under report, it is true, the growth of savings deposits carrying premiums was somewhat smaller than in the previous year, when it amounted to DM 2.24 billion; this, however, was solely due to the fact that much greater amounts of such deposits were released in 1965 than in 1964. The credit institutions continue to carry the released funds (if these are not withdrawn, or freshly deposited with the benefit of premiums) as balances on normal savings accounts. Nevertheless the proportion of premium-carrying to total savings deposits rose to 9.4 per cent at the end of 1965, against 8.8 per cent for 1964 and 2.7 per cent for 1960, the first year after the system still in force for the promotion of saving through premiums began. As can be seen from the graph on page 59, saving through accounts with the benefit of premiums has become considerably more widespread than saving through the acquisition of securities entitling to such premiums.

Circulation of bank bonds

At DM 8.7 billion last year total proceeds of sales of bank bonds, including medium-term notes (*Kassenobligationen*) issued by banks, fell short of the previous year's total by over DM 1.1 billion. If the bonds sold to other domestic credit institutions are deducted from these figures, it appears that non-banks in 1965 acquired bank bonds to the extent of DM 6.0 billion as against DM 6.6 billion in 1964; thus, for the first time since 1957, the steady increase in sales to non-bank customers did not continue. (It will be shown in the next section that bank bond placings also changed in terms of quality.)

Time deposits

At not quite DM 600 million in the year under report the increase of domestic non-banks' time deposits was only just on half as great as that by DM 1.28 billion in 1964; it fell short by even more of the DM 1.65 billion increase in 1963. Time deposits as a whole would indeed probably have decreased in the year under report if their amount had not tended to rise also by reason of the fact that, as a result of the Interest Rates Order which came into force on 1 March 1965, monies which had previously been put into banks as the latter's "borrowed funds and loans",



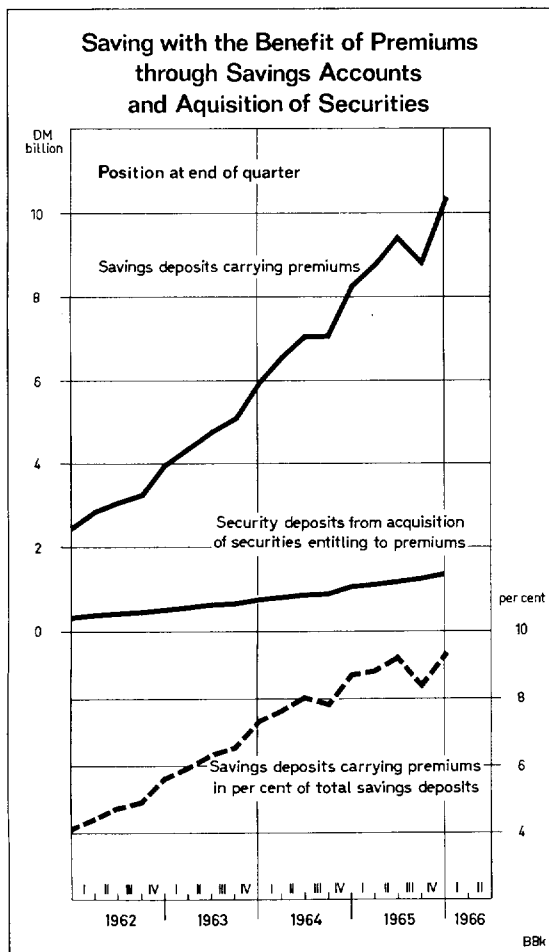
but did not conform to the stricter requirements of the Interest Rates Order regarding such items¹⁾, were newly fixed on time accounts.

At the end of 1965 there were some DM 700 million of such resources among time deposits. The amount of such "reclassified" monies, no doubt mainly held by public authorities, would however appear to have been still greater, because it seems that some part of the monies and loans which were converted during the year into time deposits had been drawn off again by the end of the year. That makes it all the more significant that according to the statistics the time deposits of public authorities decreased by about DM 790 million in 1965, since this means that in the absence of the above-mentioned book transfers the decrease might well have been greater still. It is impossible to determine precisely how far this represents withdrawals due to the strained state of public finances, and how far it reflects mere conversion into forms of investment which yield a higher interest income because the rate of interest is uncontrolled (as for instance in the case of transactions under repurchase agreement with banks); there is no doubt that some important investors, especially social insurance institutions, did effect such switches on the ground of the interest rate obtainable. It is true that in 1965 the time deposits of resident enterprises, including in particular those of building and loan associations, did in themselves continue to rise; nevertheless at about DM 1.4 billion the increase according to the statistics, that is with the above-mentioned switches included, was smaller than in 1964 by nearly half a billion DM. A notable feature of the trend in time deposits is, finally, the marked propensity to prefer deposits running for 30 months or longer; since 1 March 1965 these deposits have no longer been subject to interest rate control, so that rates are paid on them which are high in comparison with those on other

time deposits. Non-banks' time deposits free from interest rate control increased by DM 1.4 billion between the end of April and the end of December 1965, while their total deposits running for between six months and 30 months decreased by about DM 2.1 billion.

The amount of monies and loans obtained from resident non-banks was again smaller in the year under report than in preceding years, totalling DM 2.3 billion against DM 3.1 billion in 1964 and DM 3.4 billion in 1963. The decrease during the year under review was partly due to the Interest Rates Order causing such resources to be switched to time deposits. But the less than proportionate increase observable for some time now in monies and loans taken from non-banks also reflects the fact that the transmission through banks of public budgetary funds, a process which is mainly reflected in such liabilities, has become less important during recent years. In the first place the total amount of these transmissions, as such, has contracted; in addition the *Länder* have increasingly used their own specialised institutions, some of which are not comprised in the monthly banking statistics, to transmit loans for housing purposes.

Procurement of monies and loans from non-banks



¹⁾ For details see the Report of the Deutsche Bundesbank for the Year 1964, page 53 *et seq.*

*The Banks' Transactions in Assets under Repurchase Agreement
(including dealer transactions)*

Millions of DM

| Item | Position at end of December 1965 | | | Change Dec. 1965 against April 1965 | | |
|--|---|--|--|---|--|---------------|
| | Liabilities ¹⁾ arising from banks' transactions under repurchase agreement (borrowing and liabilities from dealer transactions) | Claims ¹⁾ (lending and claims from dealer transactions) | B a l a n c e (excess of liabilities: —, of claims: +) | Liabilities ¹⁾ arising from banks' transactions under repurchase agreement (borrowing and liabilities from dealer transactions) | Claims ¹⁾ (lending and claims from dealer transactions) | B a l a n c e |
| I. Total amount of banks' transactions under repurchase agreement | 4,280.3 | 4,118.3 | — 162.0 | + 457.1 | — 78.6 | — 535.7 |
| II. Object of repurchase agreements | | | | | | |
| (1) Fixed-interest securities ²⁾ | 2,185.8 | 3,348.6 | +1,162.8 | — 266.1 | — 172.4 | + 93.7 |
| (10) Bank bonds | 1,605.9 | 3,104.0 | +1,498.1 | — 296.8 | — 96.8 | + 200.0 |
| (11) Public loan issues | 488.9 | 167.8 | — 321.1 | + 2.5 | — 105.2 | — 107.7 |
| (12) Other | 91.0 | 76.8 | — 14.2 | + 28.2 | + 29.6 | + 1.4 |
| (2) Claims in respect of non-bonded loans | 1,901.1 | 602.1 | —1,299.0 | + 575.5 | + 28.0 | — 547.5 |
| (3) Other assets ³⁾ | 193.4 | 167.6 | — 25.8 | + 147.7 | + 65.8 | — 81.9 |
| III. Maturity of repurchase agreements | | | | | | |
| (1) Up to less than 6 months ⁴⁾ | 997.9 | 789.4 | — 208.5 | + 68.9 | — 103.7 | — 172.6 |
| (2) 6 months to less than 30 months | 2,914.2 | 2,085.1 | — 829.1 | + 351.4 | — 195.7 | — 547.1 |
| up to less than 30 months, total | 3,912.1 | 2,874.5 | —1,037.6 | + 420.3 | — 299.4 | — 719.7 |
| (3) 30 months up to less than 4 years | 166.1 | 414.2 | + 248.1 | + 80.4 | + 91.4 | + 11.0 |
| up to less than 4 years, total | 4,078.2 | 3,288.7 | — 789.5 | + 500.7 | — 208.0 | — 708.7 |
| (4) 4 years and over | 202.1 | 829.6 | + 627.5 | — 43.6 | + 129.4 | + 173.0 |
| IV. Partners of banks | | | | | | |
| The repurchase agreements were concluded: | | | | | | |
| (1) by domestic banks with domestic credit institutions (banks and issuing institutions) | 1,747.7 | 3,489.4 | +1,741.7 | — 386.8 | — 289.7 | + 97.1 |
| (2) by domestic banks with domestic non-banks and foreigners | 2,532.6 | 628.9 | —1,903.7 | + 843.9 | + 211.1 | — 632.8 |
| (20) Domestic business enterprises (except 22a) | 907.2 | 329.7 | — 577.5 | — 23.9 | + 91.3 | + 115.2 |
| (21) Domestic public authorities (except 22b) | 177.9 | 50.4 | — 127.5 | + 38.5 | + 31.5 | — 7.0 |
| (22) Domestic institutional investors | 679.5 | 203.1 | — 476.4 | + 212.6 | + 75.0 | — 137.6 |
| (a) Insurance companies and building and loan associations | (163.8) | (113.9) | (— 49.9) | (— 2.2) | (+ 8.4) | (+ 10.6) |
| (b) Social insurance funds | (515.7) | (89.2) | (— 426.5) | (+ 214.8) | (+ 66.6) | (— 148.2) |
| (23) Foreigners | 768.0 | 45.7 | — 722.3 | + 616.7 | + 13.3 | — 603.4 |

¹⁾ Including the issuing institutions' liabilities and claims under repurchase agreements the object of which is not own bonds but assets. —
²⁾ Including medium-term notes (*Kassenobligationen*). — ³⁾ Bills of exchange, Treasury bills, shares, etc. — ⁴⁾ Including transactions without specified maturity.

Credit institutions' transactions under repurchase agreement with non-banks

The banks' liabilities-side business last year included a good deal of "en pension transactions", that is procurement of money by assigning assets subject to an obligation to repurchase these after a certain time, although of course these obligations are not shown as such in bank balance sheets. What matters in connection with the present survey of the banks' procurement of funds from non-banks is to know what they procured through repurchase agreements with these latter, not only through temporary sale of "outside" securities but also through assignment of claims result-

ing from loans and of other assets. The consequent liabilities amounted at the end of 1965 to about DM 2.53 billion. They were mostly to resident enterprises (DM 0.91 billion), resident institutional investors (about DM 0.68 billion) and non-residents (DM 0.77 billion). Details of how such liabilities varied in the past are available only since the end of April 1965. They indicate that during the last eight months of that year only the procurement of funds by way of repurchase agreements with non-residents was of major significance; the liabilities to non-residents rose during that period by DM 620 million, and did so mainly on the basis of claims in respect of loans and "other" assets and not of German fixed-interest securities, the sale of which to foreigners under repurchase agreement is not permitted. Among the liabilities to resident non-banks resulting from repurchase agreements it was above all those to institutional investors, almost exclusively social insurance institutions, which appreciably increased, having risen by DM 215 million.

4. Capital market

The provision of longer-term funds

The Federal Republic of Germany's capital market, in the sense of the whole market of funds available for financing at longer term, again proved quite efficient in 1965. One criterion is the total longer-term monetary wealth formation by households, public authorities and enterprises (at banks and other institutional investors as well as in the form of securities); at about DM 42 billion in 1965 this was greater than in the previous year by DM 5.8 billion, or 16 per cent. In 1964, on the other hand, the growth of monetary wealth formation had amounted to only DM 3.8 billion or not quite 12 per cent. Despite this great increase, however, the formation of monetary capital did not fully suffice to meet the demand for capital funds. This was apparent, not least, in the trend of interest rates on the bond market which was upward throughout 1965. While there was especially severe overstraining of the bond market, which is particularly "transparent" and which the public therefore often simply identify with the "capital market", this was due to the fact that the increase of monetary wealth formation last year benefited not that market but solely the banks, the other institutional investors and the share market. In terms of absolute amount, it is true, the investment of monetary savings in fixed-interest securities declined only a little; but in proportion to total wealth formation it declined considerably, falling from 21.5 per cent in the previous year to 17.4 per cent in 1965. On the other hand the formation of monetary capital by domestic non-banks on savings accounts and at building and loan associations accounted in 1965 for 48.7 per cent of the total domestic monetary wealth formation as against 42.8 per cent in the previous year. Investors' reluctance to take fixed-interest securities would not of course have affected the bond market so much if banks and other institutional investors had for their part invested in securities, at least on the scale formerly usual, the increased amounts of capital accruing in their hands. For reasons already discussed in the previous section, however, that did not happen; especially towards the end of the year the credit institutions on balance acquired no more securities at all, but actually reduced their security holding.

Great increase of monetary wealth formation

The chief reason for the general public's disinclination to acquire securities lies in the persistent decline of prices on the bond market, while this decline was in turn partly due to the relatively small demand for fixed-interest securities. Savers instead preferred forms of saving which are free from price-risk, even if they yield a lower return than fixed-interest securities do. What is more, some such forms of saving have for some time borne considerably higher interest too. Since the official maximum rates were twice raised last year, savings deposits subject to notice of between 12 and 30 months, for example, now yield 5% interest per annum. Rates of interest on savings deposits subject to 30 months' notice, or longer, have probably risen still more; the rate of interest on them was released last year, whereas before then only deposits running for four years or more had been exempt from interest-rate control. It would seem that in 1965, just as in past years, governmental

Reasons why saving at institutions is preferred

*Longer-Term Monetary Wealth Formation by Domestic Sectors^{1) *)}*

| Type of investment | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 P ^c) |
|---|----------------|--------------|--------------|--------------|--------------|-----------------------|
| | Billions of DM | | | | | |
| (1) Time deposits | 0.43 | 0.87 | 0.95 | 1.21 | 0.70 | — 0.3 |
| (2) Savings deposits | 8.05 | 7.39 | 9.45 | 11.86 | 12.87 | 16.6 |
| (3) Other funds placed with banks ²⁾ | 5.37 | 6.99 | 5.54 | 6.29 | 5.61 | 4.7 |
| (4) Monies placed with building and loan associations ²⁾ | 2.06 | 2.17 | 1.96 | 2.30 | 2.57 | 3.8 |
| (5) Monies placed with insurance companies ^{2) 3)} | 3.41 | 3.94 | 4.19 | 4.58 | 4.91 | 5.8 |
| (6) Acquisition of | | | | | | |
| (a) Bonds | 2.65 | 3.71 | 4.51 | 5.58 | 7.76 | 7.3 |
| (b) Shares | 3.54 | 2.37 a) | 1.76 | 0.51 | 1.64 | 4.0 b) |
| Total | 25.50 | 27.43 | 28.36 | 32.32 | 36.08 | 41.9 |
| | per cent | | | | | |
| (1) Time deposits | 1.7 | 3.2 | 3.3 | 3.7 | 1.9 | — 0.7 |
| (2) Savings deposits | 31.6 | 26.9 | 33.3 | 36.7 | 35.7 | 39.6 |
| (3) Other funds placed with banks ²⁾ | 21.1 | 25.5 | 19.5 | 19.5 | 15.6 | 11.3 |
| (4) Monies placed with building and loan associations ²⁾ | 8.1 | 7.9 | 6.9 | 7.1 | 7.1 | 9.1 |
| (5) Monies placed with insurance companies ^{2) 3)} | 13.4 | 14.3 | 14.8 | 14.2 | 13.6 | 13.8 |
| (6) Acquisition of | | | | | | |
| (a) Bonds | 10.4 | 13.5 | 15.9 | 17.2 | 21.5 | 17.4 |
| (b) Shares | 13.9 | 8.6 | 6.2 | 1.6 | 4.6 | 9.5 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 |

¹⁾ Enterprises, government, households. — ²⁾ Including institutional investors' owned funds. — ³⁾ Including pension funds. — a) After deduction of government price gain on the sale of Volkswagen shares (DM 900 million). — b) After deduction of government price gain on the sale of VEBA shares (DM 170 million). — P^c) Partly estimated. — *) Details may not add to totals because of rounding.

concessions materially contributed towards the accelerated growth of saving at institutions, especially at building and loan associations and on savings accounts, the more so since it was feared that government promotion of savings might be cut down within the near future. Finally the placing of bonds probably also suffered a certain setback by reason of the fact that, especially because of the partial denationalisation of V.E.B.A., a greater proportion of saving was channelled into the share market, in which connection the rule restricting acquisition of the shares to recipients of relatively small incomes (just as when Volkswagen was transferred partly into private ownership) evidently caused many investors to expect prompt gains in the price.

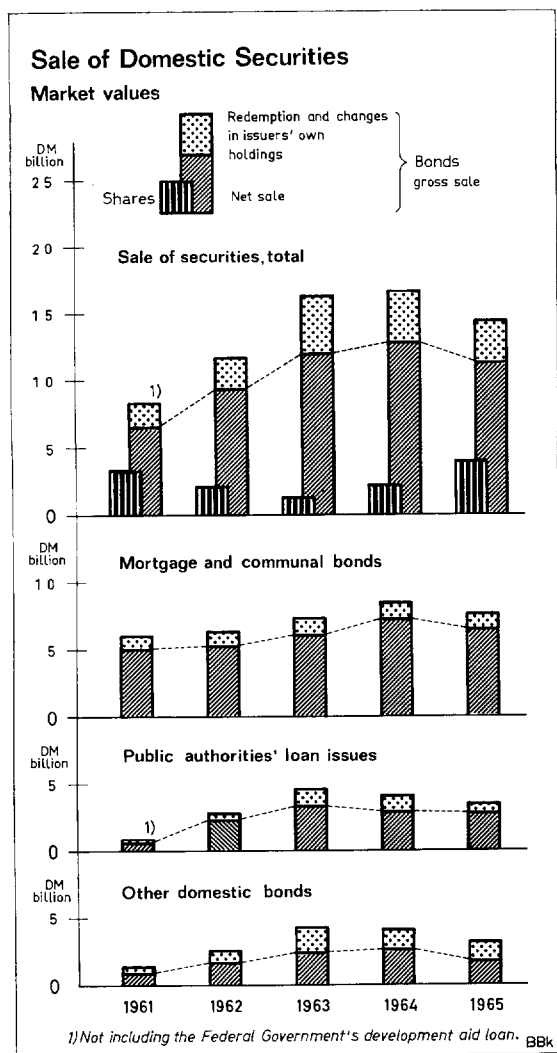
Sales of securities

Increased sales of shares

Not least owing to the issue of V.E.B.A. shares the amount of new shares placed in 1965 was especially great; reckoned at market values, it totalled about DM 4 billion, being thus almost twice as much as the DM 2.2 billion placed in the previous year. On the other hand the gross sales of bonds definitely contracted in the year under report. Likewise at market values, they amounted to DM 15.8 billion; thus they were not only smaller by DM 1.8 billion than in the previous year, but also fell short by some three-quarters of a billion DM of the 1963 placings, which were of course exaggerated through foreigners' purchases.

Net sales of bonds change only little, but placing is frequently not permanent

If with a view to more accurately recording the actual recourse to the market the gross sales of bonds are reduced by the simultaneous repayments (DM 2.4 billion) as well as by the return flows — mainly due to support buying — of their own bonds to the issuers (DM 0.7 billion), the net sales of fixed-interest securities at market value in the year under report work out at DM 12.6 billion as compared with DM 13.7 billion in 1964. In terms of figures this result for the year is not too unfavourable; but it does not reflect the fact that placings became more and more difficult in the course of the year. The net amount of fixed-interest securities placed was smaller in the fourth quarter of 1965 by 20 per cent, and in the first three months of this year it was actually smaller by 50 per cent, than in the corresponding period a year before. In terms of quality too the placings in 1965 were not comparable with those in previous years, since it proved possible in many cases to place new securities only "for a time", or if they had short lives. Issuing institutions' sales of bonds



on *en pension* terms, that is subject to an obligation to repurchase them before maturity at a predetermined price, amounted in the period from April to December 1965 (figures for the whole year are not available), as regards transactions running for less than four years, to about DM 300 million or some 6 per cent of the simultaneous net placings of bank bonds. Issues of relatively short-term fixed-interest securities also greatly increased in the year under report. Thus in 1965 securities running for not more than five years accounted for some 7 per cent of total gross placings of fixed-interest securities (excluding medium-term notes), whereas the proportion in the previous year had been only 3 per cent. As will be shown later, this was mainly due to greater issuing of relatively short-term registered bonds by real-estate credit institutions. Of late moreover, in addition to the central giro institutions, which have long issued medium-term bonds, some commercial banks also began to issue debentures at relatively short term; some of these indeed run for periods so short that they must be regarded as appropriate not to the capital but to the money market. In terms of quantity these securities have so far not produced any appreciable effect, so that they do not impair the evidential value of the above-mentioned figures, which include these issues, with regard to the productiveness of the capital market.

By the expedients just mentioned, it is true, the issuing institutions managed in 1965 only to alleviate and not to overcome the difficulties of placing securities. There was an especially marked decline in the placing of issues by specialised credit institutions; at a total of DM 350 million in 1965 this reached only one-third of the previous year's net sales. One reason was that apart from substantial repayments the said institutions also engaged in exceptionally extensive support buying, and that support purchases, like repayments, were deducted from the figures for gross sales. Real-estate credit institutions' mortgage and communal bonds were sold in 1965, after deduction of repayments and repurchases, to the extent of DM 6.6 billion, which was less than in the previous year by almost DM 670 million, or over 9 per cent. It was the placing of mortgage bonds (down by DM 620 million) which chiefly decreased, while communal bonds were sold on roughly the same scale as in the previous year. The difference between sales of mortgage bonds on the one hand and of communal bonds on the other can only be explained in actual fact by the differing strength in the demand for credit. The public authorities' demand for credit, satisfied from proceeds of issues of communal bonds, would seem to have reacted less strongly to the rise of interest rates than the demand for private mortgage loans, which serve as the underlying cover for mortgage bonds. In the new year the sales of real-estate credit institutions' bonds declined further. They amounted in January and February of 1966 to DM 1.1 billion, being thus smaller by about one-third than in the corresponding period of the previous year.

Decrease in sales by issuing institutions

The relative barrenness of the market, with a pressing demand for credit, caused the Federal Minister for Economic Affairs at the end of July 1965 for the time being, pursuant to Article 795 of the Civil Code, to cease authorising new issues of bearer bonds by non-governmental issuers such as mortgage banks. This temporary stoppage of authorisations, relaxed with effect from September and finally terminated, was designed to allow the security market an interval for recovery and to check the rise of interest rates, which was continuing at a rapid pace. At the same time the Minister invited the principal official borrowers — the Federal Government, the Federal Special Funds, the *Länder* and the local authorities — to round-table talks with the object of making the public authorities' desires for credit accord better than before with the productive power of the capital market. These discussions on the capital market, with the Bundesbank taking part, have from the outset been directed not only to the narrower objective of stabilising the security market but also to including in the overall coordination all the public authorities' demands for credit. It was indeed clear that introduction of the single-file principle in connection with the issuing of public authorities' loans would not restore the capital market in the wider sense to a sound state if the demands for credit, as such, remained as great as ever and were merely met in other ways, for instance by borrowing against notes or by obtaining loans from banks. Given the interdependence of all the credit markets it would be only a short time before further rises of interest rates on these other markets would again upset the laboriously established equilibrium in the market for securities. It will soon become clear whether it has proved possible to cut down the public authorities' overall demand for credit. All the participants in the round-table talks agree on the urgency of limiting the demands for credit, as well as on the need to continue the talks about coordination. Altogether during 1965 the public authorities placed "direct issues" of bonds to the extent of DM 2.82 billion, or almost as much as the DM 2.88 billion so placed in the previous year, in which connection there was an especially marked increase in demands for credit on the part of the *Länder*, which placed bonds to the net extent of DM 1 billion as against only DM 200 million in the previous year.

*Sale of Securities *)*

Billions of DM market value

| Category of security | 1962 | 1963 | 1964 | 1965 |
|---|------------------------|-------|-------|-------|
| | Gross sale | | | |
| Mortgage bonds | 4.05 | 4.05 | 4.75 | 4.15 |
| Communal bonds | 2.34 | 3.38 | 3.74 | 3.56 |
| Bonds of specialised credit institutions | 1.12 | 1.85 | 1.75 | 1.22 |
| Other bank bonds | 0.40 | 0.96 | 1.42 | 1.36 |
| Industrial bonds | 1.07 | 1.54 | 0.97 | 0.58 |
| Bonded loans of public authorities | 2.77 | 4.56 | 4.08 | 3.52 |
| Bonded loans of foreign issuers | 0.10 | 0.16 | 0.88 | 1.37 |
| Fixed-interest securities, total | 11.84 | 16.50 | 17.60 | 15.76 |
| Shares | 2.20 | 1.32 | 2.24 | 3.96 |
| Fixed-interest securities and shares, total | 14.04 | 17.82 | 19.84 | 19.72 |
| | Net sale ¹⁾ | | | |
| Mortgage bonds | 3.57 | 3.69 | 4.36 | 3.74 |
| Communal bonds | 1.75 | 2.55 | 2.93 | 2.89 |
| Bonds of specialised credit institutions | 0.75 | 1.18 | 1.06 | 0.35 |
| Other bank bonds | 0.40 | 0.91 | 1.30 | 1.13 |
| Industrial bonds | 0.59 | 0.34 | 0.33 | 0.36 |
| Bonded loans of public authorities | 2.32 | 3.30 | 2.88 | 2.82 |
| Bonded loans of foreign issuers | 0.09 | 0.11 | 0.88 | 1.34 |
| Fixed-interest securities, total | 9.48 | 12.07 | 13.75 | 12.63 |
| Shares | 2.20 | 1.32 | 2.24 | 3.96 |
| Fixed-interest securities and shares, total | 11.68 | 13.39 | 15.99 | 16.59 |

*) Details may not add to totals because of rounding. — ¹⁾ Gross sale at market values less redemption and repurchase or plus replacing at nominal values.

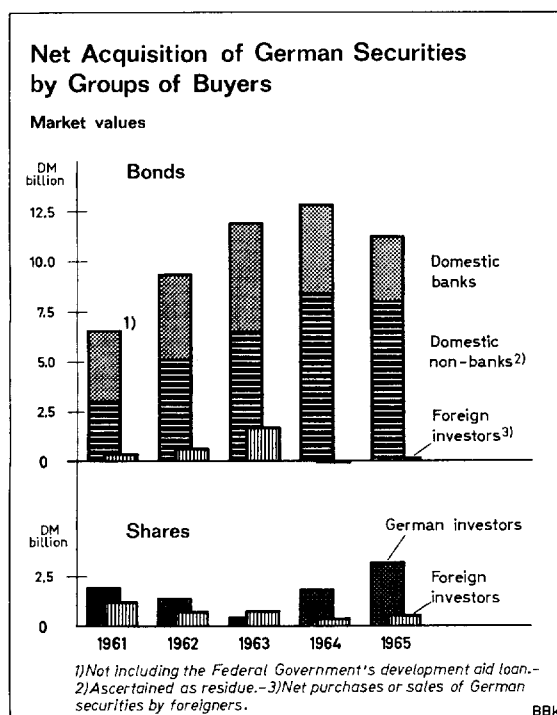
As regards security issuing institutions, the effect of the restraint observed by the Ministry for Economic Affairs in authorising issues after the stoppage ceased was that the total of authorised issues became considerably smaller than in the summer months. The issuers tried, however, to obviate the handicap of non-authorisation by increasingly issuing registered bonds, which require no permit. The placing of these was incidentally made easier by the fact that certain institutional investors, especially insurance companies, preferred these bonds as an investment (in some cases even in exchange for bearer bonds), because registered bonds, for which there is of course no stock exchange quotation, differ from quoted bearer bonds in that they need not be written down to their lower current value when the trend of interest rates is upward. The issuing institutions last year brought out registered bonds totalling almost DM 1.7 billion, that is four times as much as in the previous year. The newly issued registered bonds in many cases ran for only relatively short periods; at all events at the end of 1965 registered bonds with maturities of under 2½ years accounted for more than one-fifth of all registered bonds in circulation. Measured by the total circulation of bank bonds, however, neither the relatively short-term registered bonds (running for up to 2½ years) nor the “transactions under repurchase agreement in issuers’ own bonds” providing for resale in up to 2½ years have so far been of great importance, since at the end of 1965 all such items together made up only about 3 per cent of the total bank bond circulation. The maturity structure in the bond market would of course appreciably change if the above-described trend towards shorter-term securities in new business were to last much longer.

Increase in issues of registered bonds

Among the other issuers of fixed-interest securities in 1965 only foreign borrowers were of major significance. Apart from one quite large convertible loan German industrial companies issued only relatively few fixed-interest securities; they drew on domestic capital formation in 1965, as already mentioned, mainly through larger share issues. The total placed by foreign issuers — it amounted to DM 1.3 billion as against DM 0.9 billion in the previous year — gives, however, an exaggerated impression of the strain thereby imposed on the domestic market, since the greater part of these issues, in fact about two-thirds, was acquired by non-residents. Even the residue not yet finally placed, and still left with the syndicate institutions, will doubtless gradually find its way into the hands of non-residents because, despite their relatively low rate of interest, foreign loans

Foreign issues in the German market

(which are of course not subject to withholding tax) are quite attractive to non-residents, although not to residents.

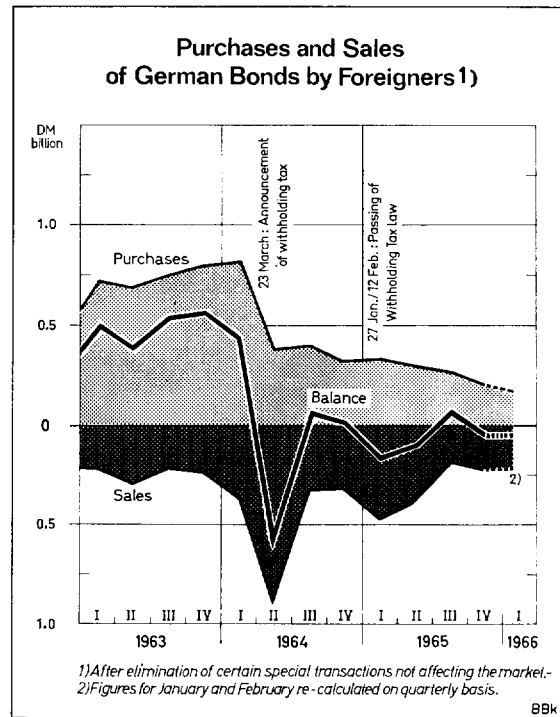


Purchasing groups in the security market

While placings of bonds definitely declined in 1965, the chief reason was that credit institutions purchased German bonds to the extent of only DM 3.0 billion instead of the DM 4.5 billion bought in the previous year. In the first half of 1965, when credit institutions still had relatively large liquid reserves or at all events still thought considerable expansion of their assets-side business possible, they had bought substantial amounts of bonds; but in the second half of the year, according to the monthly banking statistics, their holding of domestic fixed-interest securities rose by only DM 400 million against DM 1.5 billion in the second half of 1964. True, the figure of DM 400 million puts the real growth of holdings somewhat too low, since some banks in the course of 1965 have

Acquisition of bonds reduced chiefly by banks

already written their holdings down to the lower current value, a proceeding which of course all the more impairs the informative value of the data concerning banks' security holdings in the first months of 1966 (for this reason the Bundesbank recently asked the banks for appropriate explanations). There is no doubt, however, that in the second half of 1965 the banks purchased appreciably less securities than before. This above all reflected the banks' growing liquidity shortage, which according to experience leads first to cutting down of security purchases and only in the second place to restricting direct lending. It is characteristic that, as described in the previous section, those banking groups whose liquidity was especially strained more or less ceased to buy in the German bond market, whereas for example the relatively liquid savings banks in 1965 actually acquired even more German fixed-interest securities than in the previous year.



Resident non-banks also held back

The resident "non-banks", that is households and enterprises as well as private and public institutional investors, also on balance bought less German fixed-interest securities in the year under review than in the previous year — in fact about DM 8.1 billion as compared with some DM 8.5 billion in 1964. So far as can yet be seen, households in particular showed restraint. They are estimated to have invested in bonds DM 4.5 billion, or roughly DM 1 billion less than a year before, while the social insurance institutions probably acquired somewhat more of such securities, although these in some cases had very short maturities.

No renewal of sales by foreigners

Foreign investors again bought German bonds in the year under report, although to the very small extent of about DM 100 million net, whereas in 1964 the announcement of the withholding tax (not in fact introduced until mid-1965) had caused sales to predominate by DM 100 million¹⁾. While the withholding tax still operates as a dam against the inflow of foreign portfolio capital into Germany, although German interest rates have by now reached a level which allows the foreign investor to obtain a yield of almost 6% even without reimbursement of the withholding tax (this being wholly or partly possible, in many countries, under double taxation conventions), the chief reason is no doubt that interest rates have greatly risen since 1964 in foreign countries also, and that the yields obtainable there are in many cases above 6%. On the other hand foreign issuers' DM bonds, which are not subject to withholding tax, continue to be attractive to foreign purchasers; as already mentioned, such bonds were issued in 1965 to a greater extent than in 1964, and were in fact mostly bought by non-residents. The resulting "preferential position" enjoyed by foreign issuers on the German bond market, as reflected in the materially lower rate of interest on foreign fixed-interest securities, has caused some German enterprises to form foreign subsidiary companies, which have on their part issued DM loans on the German market, their object being themselves to enjoy such "foreigners' benefits", although hitherto only in order to finance (or to obtain funds for financing) capital expenditure abroad.

Great acquisition of shares

During 1965 practically all groups of purchasers bought shares to an extent definitely greater than in the previous year. The banks for instance acquired shares amounting at purchase value to about DM 580 million, that is more than twice as much as the approximately DM 260 million so bought

¹⁾ In each case excluding German external bonds as well as German issuers' loans floated abroad.

in 1964. Nearly half of the 1965 total went into "syndicate holdings", however, and therefore had the character of a merely temporary investment. As usual, few except commercial banks took part in this type of business. What was far more important was that domestic non-banks in 1965 acquired shares to the extent of roughly DM 2.8 billion (against DM 1.6 billion in 1964), thus taking some 70 per cent of all the new shares on offer. It is estimated that in 1965 households alone bought shares amounting to DM 2.4 billion, against only around DM 610 million in 1964; this in great part resulted from the V.E.B.A. scheme previously mentioned, that is the partial transfer into private ownership, together with a capital increase, of the Vereinigte Elektrizitäts- und Bergwerks AG (the United Electricity and Mining Company, known as V.E.B.A.), which had before then been 100 per cent government-owned. Initial acquisition of these shares was reserved to individuals (below a specified income limit), who spent a total of DM 1.1 billion for this purpose. Finally, while foreigners in 1965 also acquired far more shares than in the previous year (DM 620 million as against DM 420 million), in each case including investment fund certificates¹⁾, they of course did so for the most part not through the market but through foreign companies' direct investments in their German subsidiaries.

Prices and yields

The persistent predominance of demand for capital over the simultaneous supply in the bond market caused prices to fall during 1965, or in other words caused the interest on capital to rise. Between December 1964 and December 1965 the average prices quoted for public authorities' and industrial companies' 6% bonds declined from 97¾ to 90, and those for 6% bonds of real-estate credit institutions to between 87¾ and 88. Hence at 7.4% the yields on fixed-interest securities circulating at the end of 1965 were higher than at the end of the previous year by more than 1% per annum. Government loans and industrial bonds in circulation afforded an average yield of as much as 7.7% and 7.6% as compared, respectively, with 6.4% and 6.3% a year before.

Further price fall
on the bond market

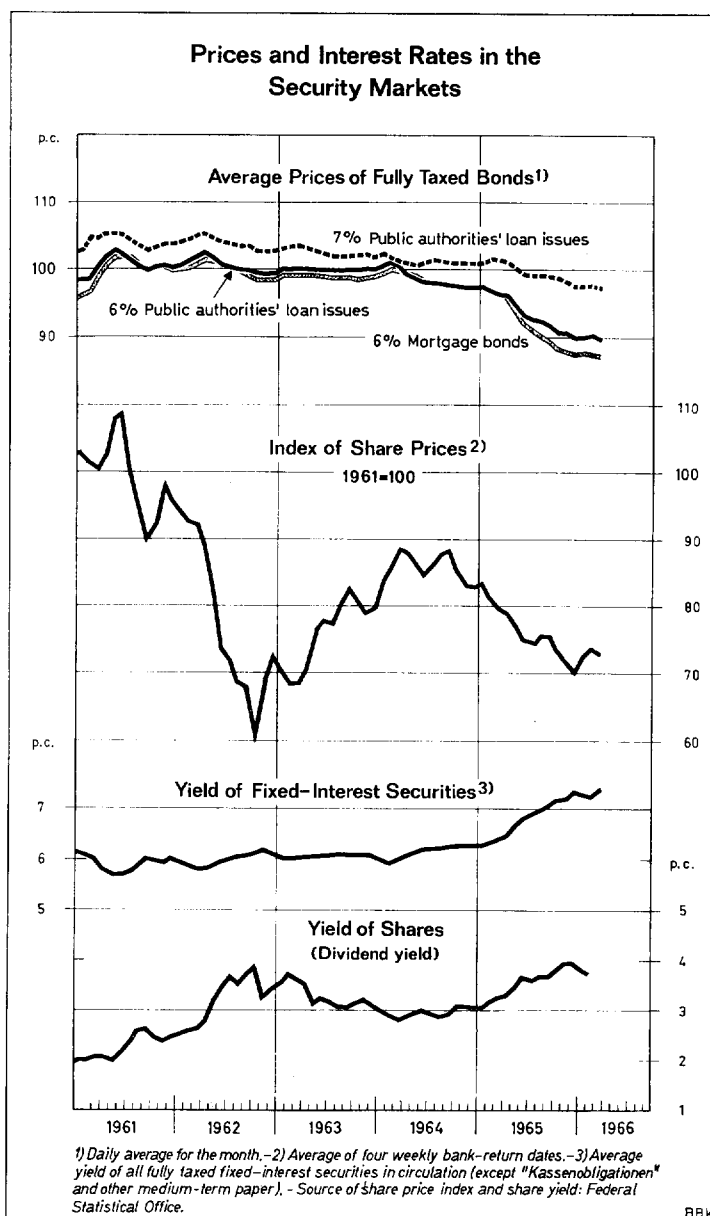
Price falls were especially marked in the spring of 1965, when public authorities entered the market with considerable borrowing projects. Towards the middle of the year many issuers decided to switch to the 7% type of bonds, which induced a temporary slight stabilisation of the market. Very soon prices started to drop again, especially as many investors — in particular institutional investors — procured the funds for acquiring the new issues by selling older securities, since some of the new loans were offered at terms more favourable than those obtainable on the market of bonds in circulation. It is true that issuers tried to check the price falls by supporting purchases, but they were compelled gradually to lower the prices at which they did so. Only after the authorising of new issues was temporarily stopped at the end of July, and when public-sector issuers began their round-table talks about coordination, did the price fall become slower and for some time completely cease. Conditions in the bond market remained unstable, however, as is also shown by the further price falls observable during the last weeks before this Report went to press.

Share prices also fell almost constantly during 1965. The mainly better company results for the previous business year published during the first six months, and the accompanying announcements of dividend increases and subscription rights, put virtually no life into the market for shares. On the contrary the share price index calculated by the Federal Statistical Office had already fallen 12 per cent by the middle of the year, both the continued heavy straining of the share market through capital increases and the upward movement of interest rates on the bond market no doubt having operated to depress prices and so to raise yields. It is of course not possible to say how far, apart from this, the stock exchange discounted the clear deterioration in prospects for industrial earnings. After temporary fluctuations the above-mentioned index at the end of 1965 was below its

Prices also fall
in the share market

¹⁾ The differences between these figures and those given in the table on "Capital Transactions with Foreign Countries" (on page 100 of this Report) for the acquisition of German dividend-bearing securities by non-resident investors are mainly due to the fact that various direct investments by foreign enterprises in their German subsidiaries have been recorded at different dates in the statistics mentioned.

end-of-1964 level by about 16 per cent. The price falls in 1965 affected shares in nearly all categories, although in quite widely differing degree. Especially heavy falls were shown, in particular, by the shares of companies concerned with building and also by the shares of the mechanical engineering, coal and steel industries, the price indices for these being at the present time (mid-April 1966) below the end-of-1964 level by between 20 and 30 per cent. On the other hand shares of department stores continued to form an exception to the general downward movement; the prices quoted for them have in fact slightly risen since the end of 1964. A more cheerful tendency was shown in the new year especially by bank shares, which during the first months of 1966 largely made good the decline suffered last year. In this connection, among other things, publication of the banks' interests in industrial and trading companies as required by the new provisions of company law has no doubt led to the intrinsic value of bank shares being now rated a good deal higher than before.



IV. The Public Authorities' Cash Transactions in 1965

1. Tendencies in the movement of receipts and expenditure

Smaller rise
of receipts

In 1965 the public authorities' cash situation deteriorated greatly, this being reflected in the fact that considerably more outside funds were needed and more substantial recourse was had to the still available cash holdings than in the previous year. Of no small importance in this connection was the noticeable slackening in the rise in receipts. For all public authorities together receipts in 1965, at about DM 168 billion, were only just on DM 11 billion — or not even 7 per cent — greater than in 1964, when they had risen by a good DM 12 billion, or about 9 per cent. The decline concerned tax revenue alone, which in 1965 increased by little more than 6 per cent as

against 9 per cent in the previous year. In this case a particularly significant factor was the reduction in income tax rates which became effective at the beginning of last year, leading to losses estimated at DM 2 billion. But the revenue from income and trade taxes was to a noticeable extent adversely affected for other reasons too, especially because of the small final payments on the assessment for 1963 (a year of low profits), through the revision of the law concerning the formation of wealth and through the decisions of the Federal Constitutional Court on the taxation of the branches of retail firms. Finally, as expected, the receipts from many imposts, such as property tax, customs duties and Equalisation of Burdens levies, were even smaller in absolute terms than in 1964. The slowing down of the rise in tax revenue was not compensated by the fact that contributions to social insurance increased much more than in 1964, viz., by almost 10 per cent as against not quite 7 per cent, mainly because the liability limits for employees' insurance and for health insurance were extended to cover new categories of people, and the income limit for computing the contribution to health insurance was raised in July and September, respectively.

The reduction in the margin of receipts was not taken into account in expenditure policy, however; in fact expenditure rose at an increased rate in comparison with the previous year. In

Increased growth
in expenditure

The Public Authorities' Finances on a Cash Basis

Millions of DM

| Item | 1963 | 1964 | | | 1965 P ^c) | | |
|--|--------|--------|----------|----------|-----------------------|----------|----------|
| | | Total | 1st half | 2nd half | Total | 1st half | 2nd half |
| I. Cash Surplus (+) or Deficit (—) ¹⁾ | | | | | | | |
| (1) Federal Government and its Special Funds ²⁾ | —3,682 | —1,042 | +1,155 | —2,197 | —1,913 | —466 | —1,447 |
| Federal Government ³⁾ | —3,142 | —557 | +977 | —1,534 | —1,551 | —404 | —1,147 |
| Equalisation of Burdens Fund ³⁾ | —260 | —377 | —52 | —325 | —122 | —19 | —103 |
| E.R.P. Special Fund ⁴⁾ | —280 | —108 | +230 | —338 | —240 | —43 | —197 |
| (2) Länder | —727 | —1,960 | +183 | —2,143 | —4,190 | —1,145 | —3,045 |
| (3) Total of 1 plus 2 | —4,409 | —3,002 | +1,338 | —4,340 | —6,103 | —1,611 | —4,492 |
| (4) Non-cash social expenditure of the Federal Government | — | 500 | — | 500 | 750 | — | 750 |
| (5) Total of 3 plus 4 | —4,409 | —3,502 | +1,338 | —4,840 | —6,853 | —1,611 | —5,242 |
| II. Financing | | | | | | | |
| Increase (+), decrease (—), in | | | | | | | |
| A. Cash reserves | | | | | | | |
| (1) Federal Government and its Special Funds | +373 | —27 | +836 | —863 | —489 | —290 | —199 |
| Federal Government | +53 | +199 | +620 | —421 | —246 | —247 | +1 |
| Equalisation of Burdens Fund | +100 | —110 | —14 | —96 | —0 | — | —0 |
| E.R.P. Special Fund ⁴⁾ | +220 | —116 | +230 | —346 | —243 | —43 | —200 |
| (2) Länder | —716 | —861 | +235 | —1,096 | —1,174 | +68 | —1,242 |
| (3) Total A (1 plus 2) | —343 | —888 | +1,071 | —1,959 | —1,663 | —222 | —1,441 |
| B. Credit market indebtedness | | | | | | | |
| (1) Federal Government and its Special Funds | +3,904 | +852 | —398 | +1,250 | +1,266 | +93 | +1,173 |
| Federal Government | +2,966 | +659 | —356 | +1,015 | +1,159 | +70 | +1,089 |
| Equalisation of Burdens Fund | +438 | +201 | —42 | +243 | +110 | +23 | +87 |
| E.R.P. Special Fund | +500 | —8 | —0 | —8 | —3 | — | —3 |
| (2) Länder | +11 | +1,099 | +52 | +1,047 | +3,016 | +1,213 | +1,803 |
| (3) Total B (1 plus 2) | +3,915 | +1,951 | —346 | +2,297 | +4,282 | +1,306 | +2,976 |
| C. Amounts credited to Federal Government in respect of coinage | 151 | 163 | 79 | 84 | 158 | 83 | 75 |
| D. Total (A less B less C) | —4,409 | —3,002 | +1,338 | —4,340 | —6,103 | —1,611 | —4,492 |
| E. Debt Register claims allocated to the pension insurance institutions (cf. I 4) | — | 500 | — | 500 | 750 | — | 750 |
| F. Total (D less E) | —4,409 | —3,502 | +1,338 | —4,840 | —6,853 | —1,611 | —5,242 |

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

1965 public authorities expended on the whole a good DM 177 billion, which is over DM 15 billion or almost 10 per cent more than in the previous year, when the increase was only just on 9 per cent. Noteworthy is the fact that the expansion shifted more and more markedly to current expenditure, which showed above-average growth in all spheres. The only exception was the defence budget, for which hardly any more funds were required than a year before. The greatest increase was in expenditure of a social character, particular importance attaching to the fact that not only is the number of pensioners increasing continually, but the existing social insurance pensions were increased by over 9 per cent and doctors' fees in health insurance were raised; furthermore, with the educational grants new social expenditure has arisen. Expenditure on personnel rose hardly less in percentage terms; due to general salary and wage rises, increases in the numbers of posts and recent structural changes in officials' pay, public authorities had to disburse over 11 per cent more last year than in 1964. On the other hand capital expenditure was less than in previous years. According to the data available, especially indirect expenditure for capital purposes — grants and loans for financing the capital projects of others — hardly increased at all. Public authorities having been exercising restraint for some time, particularly in the appropriations for house-building (apart from the automatically increasing requirement for housing premiums), and authorisations previously made having been worked off more and more, cash expenditure too increased only slightly in 1965. Investments in material assets, which had increased especially strongly in the preceding years, also showed markedly weaker growth than previously, *viz.*, by only 5 per cent as against 17 per cent in 1964. The reasons for this likewise are to be found partly in more careful budgeting, but partly also in the fact that public civil engineering work was perceptibly hindered by the unfavourable summer weather last year and that the outside funds necessary for the financing of the capital projects could not be procured in all cases to the full extent.

2. Individual budgets

All public authorities with the exception of the Equalisation of Burdens Fund were affected by the deterioration in the cash situation. Sufficiently accurate data are at present available only for the central public authorities, however, which in this connection include not only the Federal Government, the Equalisation of Burdens Fund and the E.R.P. Special Fund, but also the *Länder*, since they too have such sources of taxation and are charged with such tasks as are reserved to the central public authority in other countries with a three-level administrative structure (as in the United States). The movement of the finances of the local authorities and the social insurance institutions, on the other hand, is at present recognisable only in its outlines, so that in the following text only a few tendencies can be shown, while a complete account for all public authorities together cannot yet be compiled.

The central
authorities

Compared with 1964 the cash deficit of the central authorities more than doubled in 1965, rising from DM 3 billion to DM 6.1 billion. As already mentioned, the final account showed an improvement only for the Equalisation of Burdens Fund, which with practically stagnating receipts reduced its expenditure in comparison with the previous year. In the case of the Federal Government, on the other hand, expenditure exceeded ordinary receipts by DM 1,551 million as against DM 557 million in 1964. If the part of the grants to the statutory pension insurance funds financed by the allocation of Debt Register Claims is included in the expenditure, the sum not covered by current receipts even increased from over DM 1 billion in 1964 to DM 2.3 billion. The deterioration in the Federal finances is noteworthy because the Federal Government's receipts were on the whole hardly affected by the income tax reduction, and the Federal taxes were much more productive than in the previous year. But since the rise in expenditure was considerably greater not least as a result of substantial disbursements in excess of appropriations (particularly to the Federal Railways), the deficit also increased.

The finances of the *Länder* showed a very unfavourable trend, their deficit increasing from just on DM 2 billion in 1964 to almost DM 4.2 billion in 1965. Of particular importance in this case was the fact that *Länder* revenue — which is determined principally by the proceeds from income taxes — grew by hardly more than 4 per cent in the past year, having risen by almost 7 per cent in 1964 in spite of the renewed reduction in the *Länder* share of income tax revenue (from 62 per cent to 61 per cent). Expenditure, on the other hand, continued to increase considerably; the absolute amount of additional expenditure was greater than a year before at roughly the same rate of growth (about 9 per cent). Current expenditure, especially personnel costs, increased much more substantially in percentage terms than did total expenditure, whilst capital expenditure rose at a slower rate.

From the data available for local authorities it can be seen that the long-existent gap between ordinary receipts and overall expenditure again became greater last year. In the first place the growth of receipts decreased markedly. This at all events applies to local authorities' tax receipts, which grew by only about 4 per cent in 1965 as against almost 7 per cent in 1964. There was a similar movement in the general and special allocations from the *Länder*. The latter having considerably improved the financial equalisation between themselves and local authorities and having substantially extended their local authorities' revenue margins, especially in the years 1960 to 1963, the scope of the financial equalisation payments even in 1964 did not rise nearly as vigorously as before; the increase obviously decelerated still further in 1965. Local authorities took this into account inasmuch as they increased their capital expenditure only slightly. Such expenditure has been scarcely greater since the second quarter of 1965 than it was a year before, under the influence first of all of the bad weather, which hampered civil engineering work, and then probably because of greater difficulty in borrowing. But since current expenditure rose vigorously, requirements of additional financing funds also grew further. This can of course only be proved with certainty for borrowing; in any case local authorities' indebtedness on the credit markets grew by an estimated DM 4.6 billion in 1965 compared with about DM 3.5 billion in 1964. It is not impossible that drawing on cash holdings and reserves also increased further.

Local authorities

In contrast to the central budgets and local authorities the social insurance funds showed surpluses again in 1965, to no small extent because the workers' and employees' pension insurance funds are obliged by law to form certain reserves. According to the data available their surpluses decreased slightly in 1965, however, because expenditure increased more rapidly than receipts. On the other hand the surplus of the unemployment insurance grew slightly, as the main expenditure (unemployment benefit and bad weather allowance) practically stagnated while receipts continued to grow. If it is assumed that statutory sickness insurance and accident insurance have shown no substantial change in their results — and there is much to support this view — the accounting surpluses of the social insurance institutions can be estimated to have totalled about DM 2.5 billion for 1965. Compared with 1964 (DM 2.75 billion) the deterioration in this sector of public authorities thus would seem to have remained within relatively narrow limits. After deduction of the comparatively small expenditure on investments in material assets (mainly buildings) and of the Debt Register Claims with which the Federal Government met part of the cash grants to the pension insurance funds (DM 750 million as against DM 500 million in 1964), the insurance institutions had about DM 1.6 billion available for free investment last year, which is a good DM 0.5 billion less than in 1964. It is not possible to ascertain how much was lent for the financing of investments of third parties and how much was allocated to the liquid reserves of the insurance funds, because the forms of investment give less and less information on this. Thus for example the security holdings of the Unemployment Insurance Fund increased by about DM 1 billion last year, whereas bank deposits were greatly diminished, but the amount of "liquid" investments (with periods to maturity of up to 24 months) was not reduced thereby.

Social insurance funds

3. Indebtedness and cash assets *)

Heavy increase
in indebtedness

As can be seen from the preceding table, the central authorities last year financed their deficits for the most part by borrowing. Their credit market indebtedness increased by almost DM 4.3 billion, *i. e.* by a sum equivalent to a good two-thirds of the deficit. The predominant part of the overall increase in credit market indebtedness fell to the share of the *Länder*, which at about DM 3 billion took almost three times as much in outside funds (net) as in 1964, having had no recourse to the credit markets at all on balance in 1963. On the other hand, the increase in the indebtedness of the Federal Government and its two Special Funds remained within narrower limits. Just as in 1964, the obligations of the E.R.P. Special Fund remained practically unchanged in 1965, and at DM 110 million the Equalisation of Burdens Fund borrowed less than in 1964. The Federal Government itself became more heavily indebted than in the previous year, however, borrowing just on DM 1.2 billion. Furthermore it strained the capital market in yet another form, *viz.*, as already mentioned, by the issue of Debt Register Claims to the social pension insurance funds and also by the partial shifting of its borrowing requirements to the German Company for Public Works ("Öffa"); but even if these sums are included in the Federal debt, it has increased to a considerably smaller degree than has the indebtedness of the *Länder*.

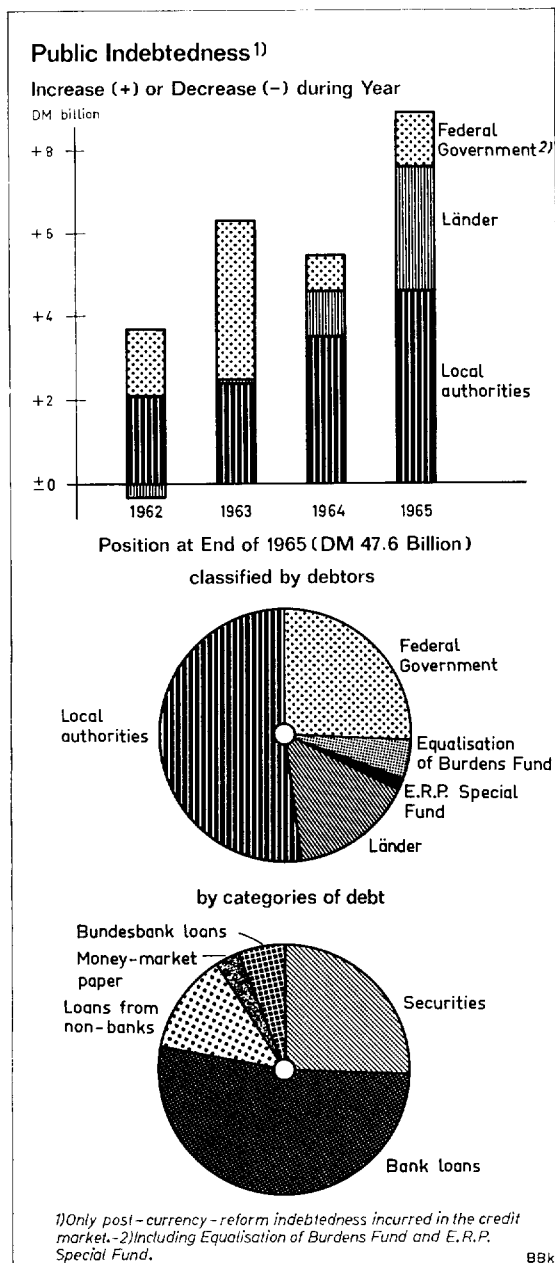
Local authorities' indebtedness in 1965 grew by an estimated DM 4.6 billion, which is still rather more than the growth for the central authorities together. Compared with the previous year the local authorities again increased their recourse to outside funds (by about DM 1.1 billion). The overall indebtedness of public authorities on the credit markets last year increased by almost DM 8.9 billion¹⁾, having risen by about DM 6.3 billion and DM 5.5 billion in 1963 and 1964 respectively.

Types of debt

Certain shifts have taken place among the types of debt incurred by public authorities in the past year which indicate that the productiveness of the capital market in the broadest sense has not increased in the same measure as the overall (public and private) demand for credit. Thus it is remarkable, in the first place, that the direct lending of the credit institutions (predominantly at long term) — going as usual for the greater part to local authorities, but in 1965 with increasingly large sums to the *Länder* too — showed an only slightly greater increase than in the year before, although it still constitutes the public authorities' chief type of debt. Secondly, the circulation of fixed-interest securities increased by almost DM 2.2 billion, or about DM 600 million more than in 1964, the increase concerning almost exclusively loans, whereas the circulation of medium-term notes (*Kassenobligationen*) hardly changed. With more than DM 1 billion (as against about DM 200 million in 1964), the *Länder* occupied the first place among issuers, whilst the Federal Government and the Equalisation of Burdens Fund did not resort to the securities market to the same extent as in 1964. Although public authorities as a whole thus had recourse to the bond market in a larger sum than a year previously, only about one quarter of the funds newly obtained on balance by them was raised in this way; compared with 1964, and above all with 1963, the share of security issues (net) in the overall increase in public indebtedness has diminished. On the other hand, there was a relatively great increase in the taking of borrower's note loans from non-banks (especially private institutional investors), from over DM 0.7 billion in 1964 to about DM 1.4 billion in 1965. Since in their demand for credit public authorities came up against the limits of the market, they switched to some extent to short-term borrowing. Even though this still accounts for only a small share of overall indebtedness, the circulation of Treasury bills and non-

*) As regards the method used, the following data are more narrowly delimited than those given for the public sector in Chapter III on "Trends in Money and Credit". Whereas the latter mostly concern all public entities comprising not only the public authorities in the narrower sense, but also the "Special Funds" Federal Railways and Federal Postal Administration, the public enterprises without own legal personality, and other domestic and foreign public authorities, this chapter concerns only public authorities in the narrower sense, *i.e.* the Federal Government, the *Länder*, the Equalisation of Burdens Fund, the local authorities and the social insurance institutions. This results in there being discrepancies between the two chapters, especially in the data concerning the public bank balances and the lendings of the credit institutions to public authorities and also in the figures on fixed-interest securities.

¹⁾ As in previous years, this leaves out of consideration the increase in indebtedness of the two other large Special Funds of the Federal Government — the Federal Railways and the Federal Postal Administration — which do not count as public authorities in the narrower sense. Railways and Postal Administration in 1965 incurred credit market debts amounting to about DM 1.7 billion as against DM 3.1 billion in 1964.



interest Treasury bonds nevertheless increased by DM 780 million last year, whereas in 1964 it had grown by only DM 146 million. Much the greater part — DM 645 million — was issued by the Federal Government and the remainder was made up of non-interest Treasury bonds of one *Land*. Borrowing on the money market enabled the Federal Government to keep its recourse to book credits of the Bundesbank at the end of 1965, at DM 921 million, below the corresponding figure (DM 1,081 million) for the previous year, but on the other hand the *Länder* and the Equalisation of Burdens Fund took larger book credits than a year before. Incidentally, during 1965 all central authorities had much more frequent and considerably greater recourse to book credits than in almost all previous years, which is characteristic of the difficulties which they met in obtaining longer-term funds. It is also noteworthy that among bank lending to local authorities the shorter and medium-term loans gained in importance compared with previous years.

Although the total book credits granted to public authorities by the Bundesbank were greater at the end of 1965 than at the end of 1964, total lending by the Bundesbank to public authorities decreased in 1965 too, though not to the same extent as during 1964. The decrease was primarily due to the fact that in 1965 just as in 1964 the Federal Government paid the amortisation instalment (DM 502 million) on the obligations assumed in connection with the repurchase of its external debts by the Bundesbank (1961) before maturity; another important factor was that the Bundesbank's holdings of Federal money-

Lenders

market paper were smaller at the end of 1965 than a year earlier. To the amount of the debt repayments to the Bundesbank, and in 1964 also to foreign countries, the sum of outside funds obtained from all other creditors exceeded the entire increase in indebtedness. These creditors together thus lent DM 6.46 billion to public authorities in 1964, but DM 9.37 billion in 1965. The major portion still concerned the banks, but their share in the total production of funds declined quite strongly in 1965 in spite of the greater absolute amount. Apart from their direct lending, which rose by about DM 800 million to about DM 4.9 billion, the banks also increased their holdings of public authorities' bonds by about DM 1.1 billion as against about DM 0.7 billion in 1964. Much the greater part of last year's increase — in fact, DM 950 million — concerned money-market paper which the banks acquired mainly from new issues but also from Bundesbank holdings. The banks' holdings of fixed-interest securities of public issuers on the other hand increased on balance by only DM 150 million, whereas in 1964 they had risen by DM 720 million.

The Public Authorities' Indebtedness *)

Millions of DM

| Item | Position at end of year | | | | Change during year | | |
|---|-------------------------|--------|--------|-----------------------|--------------------|--------|--------|
| | 1962 | 1963 | 1964 | 1965 P ^c) | 1963 | 1964 | 1965 |
| I. Borrowers | | | | | | | |
| (1) Central authorities | 12,534 | 16,449 | 18,400 | 22,682 | +3,915 | +1,951 | +4,282 |
| Federal Government | 7,285 | 10,251 | 10,910 | 12,069 | +2,966 | + 659 | +1,159 |
| Equalisation of Burdens Fund | 1,763 | 2,201 | 2,402 | 2,512 | + 438 | + 201 | + 110 |
| E.R.P. Special Fund | 75 | 575 | 567 | 564 | + 500 | — 8 | — 3 |
| Länder | 3,411 | 3,422 | 4,521 | 7,537 | + 11 | +1,099 | +3,016 |
| (2) Local authorities | 14,400 | 16,800 | 20,310 | 24,900 | +2,400 | +3,510 | +4,590 |
| Total (1 plus 2) | 26,934 | 33,249 | 38,710 | 47,582 | +6,315 | +5,461 | +8,872 |
| II. Categories of Debt | | | | | | | |
| (1) Book credits of Bundesbank | 739 | 1,749 | 1,212 | 1,407 | +1,010 | — 537 | + 195 |
| (2) Federal Government indebtedness to Bundesbank in respect of the latter's acquisition of claims resulting from post-war economic aid | 2,513 | 2,513 | 2,010 | 1,508 | — | — 503 | — 502 |
| (3) Direct lending by credit institutions ¹⁾ | 13,595 | 15,933 | 19,987 | 24,840 | +2,338 | +4,054 | +4,853 |
| (4) Money-market paper ²⁾ | 533 | 452 | 598 | 1,378 | — 81 | + 146 | + 780 |
| (5) Medium-term notes (Kassenobligationen) | 735 | 626 | 1,088 | 1,168 | — 109 | + 462 | + 80 |
| (6) Bonded loans ³⁾ | 5,700 | 7,712 | 8,811 | 10,897 | +2,012 | +1,099 | +2,086 |
| (7) Other debt ⁴⁾ | 3,119 | 4,264 | 5,004 | 6,384 | +1,145 | + 740 | +1,380 |
| Total (1 plus 7) | 26,934 | 33,249 | 38,710 | 47,582 | +6,315 | +5,461 | +8,872 |
| III. Creditors | | | | | | | |
| (1) Bundesbank ⁵⁾ | 3,252 | 4,357 | 3,422 | 2,925 | +1,105 | — 935 | — 497 |
| (2) Credit institutions ¹⁾ ⁶⁾ | 16,197 | 18,508 | 23,275 | 29,226 | +2,311 | +4,767 | +5,951 |
| (3) Foreign creditors P ^c) | 840 | 1,500 | 1,435 | 1,525 | + 660 | — 65 | + 90 |
| (4) Domestic non-banks ⁷⁾ | 6,645 | 8,884 | 10,578 | 13,906 | +2,239 | +1,694 | +3,328 |
| Total (1 to 4) | 26,934 | 33,249 | 38,710 | 47,582 | +6,315 | +5,461 | +8,872 |

*) The figures relate to post-currency-reform indebtedness; the mutual indebtedness among the authorities mentioned and the indebtedness to social insurance funds have been disregarded. — ¹⁾ Except lending by the Equalisation of Burdens Bank to the Equalisation of Burdens Fund resulting from the passing-on of loans granted under Art. 7 (f), Income Tax Law, and of the proceeds of bonded loans and medium-term notes issued by that Bank (comprised in items II 7 or 5 and 6, respectively); also excluding loans granted to local authorities out of public funds (amount estimated). — ²⁾ Treasury bills and non-interest Treasury bonds; excluding paper deriving from the conversion of equalisation claims. — ³⁾ Including interest-bearing Treasury bonds; without bonds in the issuers' own portfolios and without the bonds issued by the Equalisation of Burdens Fund for the premature meeting of claims to basic compensation. — ⁴⁾ Chiefly loans from private institutional investors. — ⁵⁾ Book credits and Bundesbank's holdings of money-market paper, as well as acquired claims resulting from post-war economic aid. — ⁶⁾ Including holdings of bonded loans and medium-term notes of the Equalisation of Burdens Bank (amounts estimated). — ⁷⁾ Public and private creditors (ascertained as difference). — P^c) Partly estimated.

Although lending by domestic non-banks gained greatly in importance during 1965, rising from just on DM 1.7 billion to more than DM 3.3 billion, the non-banks' share in the public debt remained relatively small, especially by international comparison. Nevertheless in the past year domestic non-banks not only granted considerably more loans to public authorities, but took over fixed-interest securities to a large extent. Of the increase in the circulation of such securities almost 90 per cent fell to the share of these lenders as against not quite 60 per cent in 1964. Even if this share should be somewhat exaggerated due to the above-mentioned sum for the banks being too small by reason of the depreciations made by them on their holdings, private persons and private and public institutional investors (especially the social insurance institutions) were nevertheless increasingly concerned in the placing of fixed-interest securities issued by public authorities.

Reduction
of cash holdings

In the past year the central public authorities also had considerably greater recourse to available reserves for covering their deficits than a year previously, viz., to the extent of almost DM 1.7 billion as compared with just on DM 0.9 billion. This applies in the first instance to the *Länder*, which spent a total of almost DM 1.2 billion of their liquid funds (or a good DM 300 million more than in 1964). The Federal Government too, which in 1964 had temporarily formed credit balances, used these again in 1965, whilst the liquid resources of the Equalisation of Burdens Fund were completely exhausted as early as 1964. Certain shifts have taken place in the forms in which public authorities' liquid reserves are invested. Thus, credit balances at the Bundesbank were

reduced in 1965 by DM 1.1 billion, or by almost DM 250 million more than a year before, whereas the funds kept by the central public authorities at credit institutions with the authorisation of the Bundesbank — quite small on the whole — decreased last year by about DM 360 million. The major part concerned the Federal Government, which expended an amount deposited with the German Transport Credit Bank at the end of 1964; the remainder concerned the *Länder*, which reduced their credit balances at banks further just as they had done in 1964. The E.R.P. Special Fund, moreover, whose liquid funds are in part invested in money-market paper and in other forms, reduced these investments by a total of about DM 200 million.

No sufficient data are available concerning the movement in the liquid funds of the other public authorities. Estimates which could be used formerly are no longer feasible at present. As mentioned, the social insurance funds to a quite substantial extent shifted their liquid monetary holdings — which they had largely kept as deposits with banks until the coming into force of the Interest Rates Order in March 1965 — into other forms of investment, especially securities, without the liquid nature of these assets having been changed, however. It is furthermore not possible to determine the extent to which local authorities had recourse to previously formed bank deposits, but according to the movement of the main receipts and expenditure items in the budgets of local authorities it seems practically certain that the outside funds alone taken by them on balance (DM 4.6 billion) will not have been sufficient to close the gap between current receipts and overall expenditure.

4. Further outlook

The prospects for the public budgets are more difficult to assess at the present moment than they have usually been at this time of year. The main reason for this uncertainty is the fact that according to the present state of affairs the possibilities of borrowing will probably not be as great as the *Länder*, in particular, and many local authorities too, had supposed in drawing up their budgets, so that certain cuts may have to be made in the expenditure planned. On an overall view current receipts in 1966 will increase perceptibly more strongly than last year, however, even if the rise in the nominal national product should slacken in comparison with 1965, as is to be expected. This applies especially to tax receipts, which will be impaired to a considerably smaller extent than in 1965 by the income tax reduction of that year. The social insurance contributions will probably grow hardly any less than in 1965 in spite of the expected slackening in the rate of increase of total gross wages and salaries, as the raising of the insurance liability limit for the employees' pension insurance with effect from July and for the statutory health insurance with effect from September 1965 (in the latter case also the raising of the income limit for fixing contributions) will be reflected for the first time in full in the contribution income.

Whether the additional receipts from taxes and social insurance contributions together with the further rise in other receipts will cover the entire additional requirement, however, or will even exceed it, depends on the spending policy of the public authorities. If the budget estimates are realised, the expenditure of the Federal Government at least should increase to a noticeably smaller extent than in 1965 now that — thanks to the Law to Ensure Balancing of the 1966 Budget passed in December 1965 — it has become possible to make drastic cuts also in some of the expenditure items based on statutory and contractual obligations; at any rate according to the estimates entered in the Cabinet bill total Federal expenditure is to exceed the actual figure for the previous year by only 5 per cent, the ordinary receipts on the other hand by 6 per cent. The Equalisation of Burdens Fund will again in fact expend less in absolute amount than a year before. The situation of the *Länder* and the local authorities still is much more precarious, as here the collectively agreed and structural improvements in the remuneration of employees take much stronger effect — both in absolute and in relative terms — than in the case of the Federal Government, and furthermore their financial freedom of movement is still hampered — even if to a

noticeably diminished extent — by capital expenditure programmes which were started in previous years under the influence of large receipts, and which only now lead to actual disbursements. Nevertheless the local authorities will considerably restrict the growth in their expenditure, according to the partial data available concerning their budgets. On the other hand the expenditure appropriations in the budgets of the *Länder* have been increased to almost the same degree — by about 9 per cent — as in 1965. The expenditure of the social insurance institutions may well increase even further in 1966 in percentage terms. In this context it is of particular importance that the existing pensions in the social pensions insurance were increased by 8.3 per cent, and that in social health insurance the increase in doctors' fees agreed on in 1965 in the new fee schedule will now produce its effect for a full year; furthermore the pension insurance funds will in 1966 for the first time feel to a larger extent the burdens arising for them from the amendment of the law decided on last year. In spite of cuts in many spheres it seems, therefore, that on the whole public expenditure in 1966 too will increase scarcely less strongly than receipts. For this reason borrowing requirements will still be very great, and it remains to be seen to what extent they can be met in view of the continuing tensions on the capital market.

V. Economic Activity

General economic trends in the past year, especially in its first six months, were still under the influence of the upward cyclical tendencies which had set the tone during the whole of 1964. As already explained in the General Survey, in 1965 again on an overall view the production factors available at home were unable completely to satisfy demand. In the second half of 1965, however, not only did the growth in domestic supply slacken, but that in demand did likewise, so that in some sectors of the economy, especially the investment sector, cyclical tensions began to ease. One important factor of course was that the considerable growth in imports, particularly of industrial finished goods, played its part in relieving domestic markets. Home supply capacities remained fully employed; but in 1965 too they were adversely affected in many spheres by the shortage of labour, which still proved to be the main bottleneck in the more expansive sectors of the economy. Lack of mobility has so far prevented workers being released to any great extent by branches in which demand was less great. In the following text the cyclical trends in the various branches of the economy — to some extent differing considerably from branch to branch — will be explained in detail.

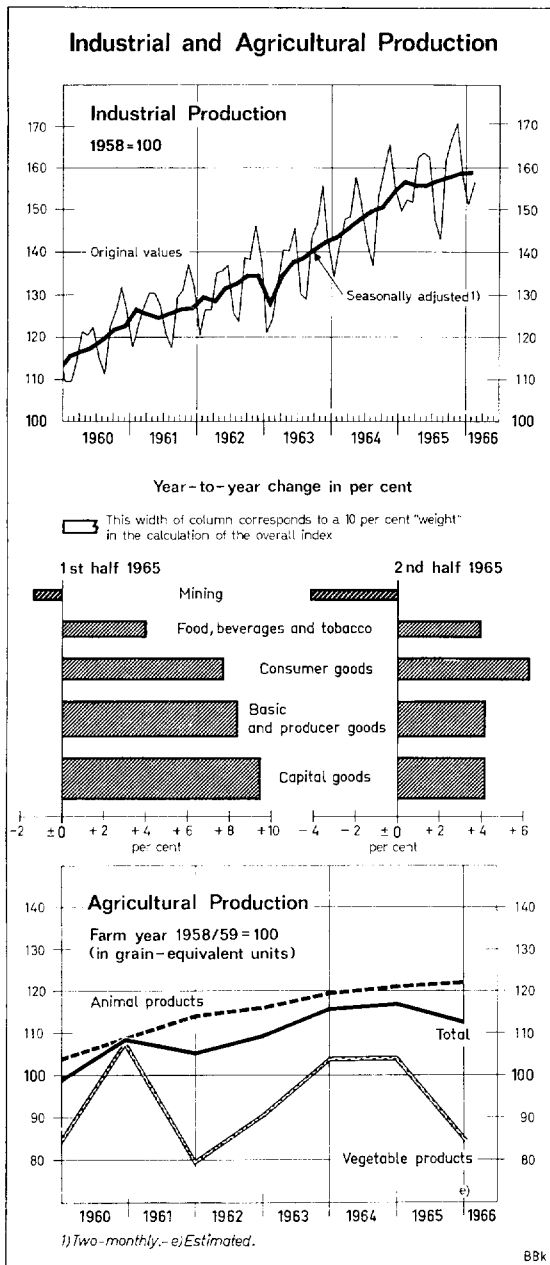
1. Supply

Overall production

Decline in agricultural production...

The growth of overall production was weaker in 1965 than in 1964. According to provisional calculations the gross national product, at constant prices, rose by 4.5 per cent as against 6.6 per cent in 1964, the growth rate decreasing from 5 per cent in the first six months to 4 per cent in the second. Agriculture contributed substantially to this deceleration in growth, in spite of its actually not very large share in overall production. The production of foodstuffs¹⁾ calculated for the calendar year 1965, reckoned in grain-equivalent units, was 1 per cent less than a year previously compared with an increase of 3.6 per cent in the calendar year 1964. As a result of unfavourable weather the production of vegetable foodstuffs was 9 per cent less than a year before, while the output of animal products was a good 1 per cent more. Among animal products importance attached particularly to the decline in meat production; the supply of meat from commercial and domestic slaughtering was almost 2 per cent less in weight than in the previous year, falling short

¹⁾ Calculated from half the production of each of the agricultural years 1964/65 and 1965/66.



of the comparable 1964 level especially in the second half of the year. Milk production on the other hand, which is important for the profitability of agriculture, increased by 2 per cent.

In 1965 again the most important factor in overall production was the movement in the industrial sector. Calculated per working day industrial output (without building and power) increased by 5.7 per cent in 1965; although this was somewhat more than in 1963 (+ 3.5 per cent), in the latter half of which the new cyclical upswing had begun, the great increase of 8.3 per cent for the year 1964 was not reached again. In the course of 1965 there was a still greater flattening out of the rise than is reflected in the annual average figures. Adjusted for seasonal variation, the period of vigorous increase in production in the present economic cycle already ended in the first few months of last year; in the fourth quarter of 1965 the seasonally adjusted values were only just over 1 per cent greater than in the first. With this distinct slackening in the cyclical upswing the year-to-year growth ratio also decreased considerably: whereas in the first two quarters of 1965 industrial production was still 7.5 per cent greater than a year before, the rate of growth decreased to 4.9 per cent in the third quarter and to 3.4 per cent in the fourth, finally falling to an average of 1.2 per cent in the first two months of 1966. Considerable importance attached to the fact that, figures being adjusted for seasonal variation, the capital goods industries (excepting vehicle-building), which until the beginning of 1965 had been the mainstay of the upswing, did not increase their output any further over the rest

... and slackening of rise in industrial production

of the year. In some industries of the basic materials and producer goods sector which are especially responsive to changes in the economic trend, particularly in the iron and steel and the non-ferrous metal industries, production has in fact declined noticeably since the summer of 1965 as compared with the corresponding period a year before. Only the production of consumer goods grew relatively strongly.

The reversal which took place in the movement of production in some of the main branches of industry was no doubt partly demand-induced. Precisely in the basic materials industries just mentioned, but in some important capital goods industries too, the rise in the inflow of orders slackened perceptibly or even gave way to a decline. Thus orders on hand were reduced in the latter part of the year, in some cases markedly, although probably not more strongly than they had increased in the first half of the year. According to the test of the Ifo Institute for Economic Research, at any rate, the reach of orders on hand at the end of December 1965 averaged 3.2

The influence of demand...

... and of the labour shortage

months' output, which is the same as a year before. In part, however, the slackening of the rise in production noticeable for industry as a whole would seem to have been connected with the fact that on account of the shortage of labour many industries were still unable to expand their production in that measure which demand would have made possible and necessary. Reports from industry that production could not be increased sufficiently because of a shortage of workers were very numerous throughout the past year, although they differed considerably from branch to branch. The differences between cyclically weaker and stronger spheres of production thus have had still less effect on the level of employment in individual branches than they had in comparable phases of previous economic cycles, as in many cases neither employers nor employed seem yet to be entertaining the possibility of a more lasting slackening in economic activity. One of the great disadvantages of the immobility of labour brought about by this attitude is that in this way progress in productivity is hampered. This no doubt partly explains the fact that in industry the output per hour worked per employed person was only 4.9 per cent greater on the average for 1965 than it was a year before; the growth rate was thus smaller than in 1964 and 1963, when it had amounted to 8.3 per cent and 5.6 per cent respectively. Another noteworthy fact is that productivity in industry, although it usually rises more strongly than in the rest of the economy — as was still the case in the first six months of 1965 — grew by 4.1 per cent in the second half of the year, this being only about the same rate of growth as that shown by the other sectors, which have fewer facilities for rationalisation. In fact, production per man-hour increased by 4 per cent in the economy as a whole during the second half of 1965 as compared with the same period of the previous year, thus however likewise failing to attain the increase rate for the first half (4.5 per cent).

The situation on the labour market

More vacancies ...

The change in the economic situation in important fields has so far had no great influence on the demand for labour; from the statistical point of view the shortage of labour rather became still more acute in 1965. On the monthly average for the past year Labour Exchanges reported 649,000 vacancies (about 40,000 more than in 1964), whereas at 147,000 the number of registered unemployed — also on a monthly average — was almost 22,000 lower than in 1964. In the last few months of 1965, however, more vacancies than in the same period of the previous year were reported only for female workers, as only the consumer goods industries and most services, which employ female labour predominantly or to a large extent, still had a greater unmet demand for labour than a year before. First signs of a forthcoming relaxation on the labour market are also seen in the fact that from the middle until the end of 1965 industry reduced the number of its employed by about 35,000, whereas in the same period of 1964 the level of employment in industry had still risen by 57,000. At the end of 1965, therefore, industry employed only 1.1 per cent more persons than a year before, as against 2.2 per cent at the end of June. The basic and producer goods industries — with the notable exception of the chemical industry — even reduced the number of their employed within a year, although probably less than could have been the case in view of the progress in productivity. In the capital goods industries on the other hand, in spite of growth in production having become slower, again considerably more persons were employed than a year before.

... in spite of a slackening in industry's labour requirements

In contrast to 1964, when industry including building, with an increase of about 155,000 employed persons (as against only 80,000 in 1965), attracted the majority of new entrants into the labour force, recruits in the past year evidently benefited predominantly commerce and transport and other forms of service (private and public), as in 1965 the total number of employed persons (wage earners, salaried employees and officials) was on the average well over 290,000, or 1.4 per cent, greater than a year previously. At the same time, according to the figures of the Federal Statistical Office, the total number of gainfully active persons increased by only a good 170,000, or 0.6 per cent, because the number of self-employed and assisting family members decreased further. That

Increasing importance of foreign labour

The National Product *)

Area of the Federal Republic including Berlin (West)

| Item | 1960 | 1961 | 1962 | 1963 | 1964 P) | 1965 P) | Change against previous year | | | | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------|------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | | | | | | | 1961 | 1962 | 1963 | 1964 P) | 1965 P) |
| Billions of DM | | | | | | | per cent | | | | |
| I. Origin of National Product | | | | | | | | | | | |
| (a) At current prices | | | | | | | | | | | |
| Contributions to gross domestic product | | | | | | | | | | | |
| Agriculture, forestry and fisheries | 17.7 | 17.9 | 18.0 | 19.3 | 20.5 | 20.0 | + 1.2 | + 0.2 | + 7.3 | + 6.4 | - 2.5 |
| Producing industries ¹⁾ | 158.1 | 174.7 | 189.9 | 199.0 | 219.0 | 237.1 | +10.5 | + 8.7 | + 4.8 | +10.1 | + 8.3 |
| Trade and transport ²⁾ | 58.5 | 63.4 | 69.7 | 73.9 | 80.6 | 87.8 | + 8.4 | + 9.9 | + 6.1 | + 9.1 | + 8.9 |
| Services ³⁾ | 62.4 | 70.6 | 77.3 | 85.8 | 94.5 | 105.0 | +13.2 | + 9.6 | +10.9 | +10.2 | +11.1 |
| Gross domestic product | 296.6 | 326.6 | 354.9 | 378.0 | 414.6 | 449.9 | +10.1 | + 8.7 | + 6.5 | + 9.7 | + 8.5 |
| Net income payments to factors of production due from the rest of the world | + 0.2 | - 0.4 | - 0.4 | - 0.4 | - 0.8 | - 1.1 | . | . | . | . | . |
| Gross national product at market prices | 296.8 | 326.2 | 354.5 | 377.6 | 413.8 | 448.8 | + 9.9 | + 8.7 | + 6.5 | + 9.6 | + 8.5 |
| (b) At 1954 prices | | | | | | | | | | | |
| Gross national product at market prices id., per gainfully active person, in DM | 254.9 (9,710) | 268.6 (10,100) | 279.6 (10,440) | 289.3 (10,760) | 308.5 (11,440) | 322.3 (11,870) | + 5.4 + 4.0 | + 4.1 + 3.3 | + 3.5 + 3.1 | + 6.6 + 6.2 | + 4.5 + 3.8 |
| II. Distribution of National Income and National Product at current prices | | | | | | | | | | | |
| (a) Before income re-distribution | | | | | | | | | | | |
| Compensation of employees ⁴⁾ | 139.8 | 157.2 | 173.9 | 186.5 | 204.4 | 225.6 | +12.5 | +10.6 | + 7.3 | + 9.6 | +10.3 |
| Income from entrepreneurial activity and property | 90.0 | 94.4 | 98.0 | 102.5 | 112.0 | 116.2 | + 4.9 | + 3.8 | + 4.6 | + 9.3 | + 3.7 |
| of which: | | | | | | | | | | | |
| Individuals' income | (86.4) | (90.1) | (93.5) | (97.5) | (106.3) | ... | + 4.3 | + 3.7 | + 4.3 | + 9.0 | . |
| Government income ⁵⁾ | (3.6) | (4.3) | (4.6) | (5.0) | (5.7) | ... | +18.4 | + 6.5 | + 9.6 | +14.1 | . |
| Net national product at factor costs (national income) plus indirect taxes less subsidies | 229.8 42.8 2.1 | 251.6 47.5 2.5 | 271.9 51.5 2.7 | 289.0 54.0 3.3 | 316.5 58.9 3.5 | 341.8 59.8 | + 9.5 +10.8 +21.3 | + 8.1 + 8.4 + 7.6 | + 6.3 + 5.0 +21.5 | + 9.5 + 9.0 + 7.9 | + 8.0 + 9.0 + 7.9 |
| Net national product at market prices plus depreciation | 270.6 26.2 | 296.6 29.7 | 320.7 33.8 | 339.8 37.8 | 371.8 42.0 | 401.5 47.3 | + 9.6 +13.0 | + 8.1 +14.1 | + 6.0 +11.7 | + 9.4 +11.0 | + 8.0 +12.7 |
| Gross national product at market prices | 296.8 | 326.2 | 354.5 | 377.6 | 413.8 | 448.8 | + 9.9 | + 8.7 | + 6.5 | + 9.6 | + 8.5 |
| (b) After income re-distribution ⁶⁾ | | | | | | | | | | | |
| Net compensation of employees | 104.5 | 117.0 | 128.9 | 137.7 | 150.9 | 168.0 | +12.0 | +10.2 | + 6.8 | + 9.6 | +11.4 |
| Net income from social security pensions and benefits and from retirement pensions | 36.6 | 40.0 | 43.7 | 46.6 | 51.0 | 57.3 | + 9.5 | + 9.2 | + 6.5 | + 9.5 | +12.4 |
| Net income of individuals from entrepreneurial activity and property | 64.2 | 64.5 | 65.3 | 68.0 | 75.2 | 78.3 | + 0.5 | + 1.2 | + 4.1 | +10.5 | + 4.2 |
| Net income of government | 65.3 | 75.0 | 82.8 | 87.6 | 94.8 | 97.9 | +14.8 | +10.3 | + 5.8 | + 8.3 | + 3.2 |
| Net national product at market prices | 270.6 | 296.6 | 320.7 | 339.8 | 371.8 | 401.5 | + 9.6 | + 8.1 | + 6.0 | + 9.4 | + 8.0 |
| III. Appropriation of National Product at current prices | | | | | | | | | | | |
| Private consumption | 170.0 | 186.8 | 204.0 | 215.9 | 232.8 | 255.6 | + 9.8 | + 9.2 | + 5.8 | + 7.8 | + 9.8 |
| Government consumption | 40.4 | 46.1 | 53.1 | 59.2 | 61.9 | 69.8 | +14.0 | +15.3 | +11.5 | + 4.5 | +12.8 |
| Gross investment in fixed assets | 70.6 | 80.7 | 90.2 | 95.3 | 109.1 | 118.7 | +14.3 | +11.8 | + 5.7 | +14.5 | + 8.8 |
| of which: | | | | | | | | | | | |
| Building | (35.0) | (40.1) | (45.5) | (49.4) | (57.6) | (60.8) | +14.4 | +13.7 | + 8.4 | +16.6 | + 5.7 |
| Equipment | (35.6) | (40.7) | (44.7) | (46.0) | (51.6) | (57.9) | +14.2 | + 9.8 | + 2.9 | +12.2 | +12.3 |
| Inventory changes | + 8.6 | + 5.9 | + 3.5 | + 2.1 | + 4.7 | + 5.5 | . | . | . | . | . |
| External surplus | + 7.2 | + 6.8 | + 3.7 | + 5.0 | + 5.3 | - 0.8 | . | . | . | . | . |
| Exports | (62.9) | (65.8) | (69.0) | (75.0) | (83.5) | (91.1) | + 4.6 | + 4.8 | + 8.8 | +11.4 | + 9.1 |
| Imports | (-55.8) | (-59.0) | (-65.3) | (-70.0) | (-78.2) | (-91.9) | + 5.9 | +10.6 | + 7.2 | +11.8 | +17.5 |
| Gross national product at market prices | 296.8 | 326.2 | 354.5 | 377.6 | 413.8 | 448.8 | + 9.9 | + 8.7 | + 6.5 | + 9.6 | + 8.5 |
| Proportions in per cent | | | | | | | | | | | |
| Private consumption | 57.3 | 57.3 | 57.6 | 57.2 | 56.3 | 56.9 | . | . | . | . | . |
| Government consumption | 13.6 | 14.1 | 15.0 | 15.7 | 15.0 | 15.6 | . | . | . | . | . |
| Gross investment in fixed assets | 23.8 | 24.7 | 25.4 | 25.2 | 26.4 | 26.5 | . | . | . | . | . |
| of which: | | | | | | | | | | | |
| Building | (11.8) | (12.3) | (12.8) | (13.1) | (13.9) | (13.6) | . | . | . | . | . |
| Equipment | (12.0) | (12.5) | (12.6) | (12.2) | (12.5) | (12.9) | . | . | . | . | . |
| Inventory changes | 2.9 | 1.8 | 1.0 | 0.6 | 1.1 | 1.2 | . | . | . | . | . |
| External surplus | 2.4 | 2.1 | 1.0 | 1.3 | 1.3 | -0.2 | . | . | . | . | . |
| Exports | (21.2) | (20.2) | (19.4) | (19.9) | (20.2) | (20.3) | . | . | . | . | . |
| Imports | (-18.8) | (-18.1) | (-18.4) | (-18.5) | (-18.9) | (-20.5) | . | . | . | . | . |
| Gross national product at market prices | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | . | . | . | . | . |

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

The Labour Force in the Years 1961 to 1965

Thousands of persons

| Item | 1961 | 1962 | 1963 | 1964 | 1965 P) |
|--|--------|--------|-------------------------------|--------|---------|
| | | | Position ¹⁾ | | |
| Labour force, total | 26,772 | 26,937 | 27,066 | 27,148 | 27,300 |
| of whom: | | | | | |
| Unemployed | 181 | 154 | 186 | 169 | 147 |
| Gainfully active | 26,591 | 26,783 | 26,880 | 26,979 | 27,153 |
| of whom: | | | | | |
| Self-employed ²⁾ | 5,861 | 5,730 | 5,577 | 5,432 | 5,312 |
| Wage and salary earners | 20,730 | 21,053 | 21,303 | 21,547 | 21,841 |
| | | | Change against preceding year | | |
| Labour force, total | + 254 | + 165 | + 129 | + 82 | + 152 |
| Classified by principal sources: | | | | | |
| Foreign wage and salary earners | + 195 | + 160 | + 140 | + 130 | + 220 |
| Natural movement of population, change in "gainful activity ratio" and increase due to migration ³⁾ | + 59 | + 5 | - 11 | - 48 | - 68 |
| Classified by groups: | | | | | |
| Unemployed | - 90 | - 27 | + 32 | - 17 | - 22 |
| Gainfully active | + 344 | + 192 | + 97 | + 99 | + 174 |
| of whom: | | | | | |
| Self-employed ²⁾ | - 55 | - 131 | - 153 | - 145 | - 120 |
| Wage and salary earners | + 399 | + 323 | + 250 | + 244 | + 294 |
| <i>Note:</i> | | | | | |
| Juveniles leaving school | 682 | 650 | 712 | 723 | 708 |

¹⁾ Averages estimated by Federal Statistical Office. — ²⁾ Including assisting family members. — ³⁾ Principally immigrants from Central Germany and Berlin. — p) Provisional.

the number of gainfully occupied persons increased at all is due exclusively to arrivals of foreign workers, which were even more numerous than in the previous year. On the average for 1965 there were 1.12 million foreigners (about 220,000 more than in 1964) employed in the Federal area (including West Berlin), the share of foreigners in the total of employed wage and salary earners thereby rising to 5.1 per cent from 4.2 per cent on the average for the year 1964. Additions to the German labour force due to the natural movement of population and to changes in the "gainful activity ratio" were estimated to be 30,000 less in 1965 than decreases due to pensioning, disability or the giving up of work for other reasons. This unfavourable movement will continue in the next few years as well.

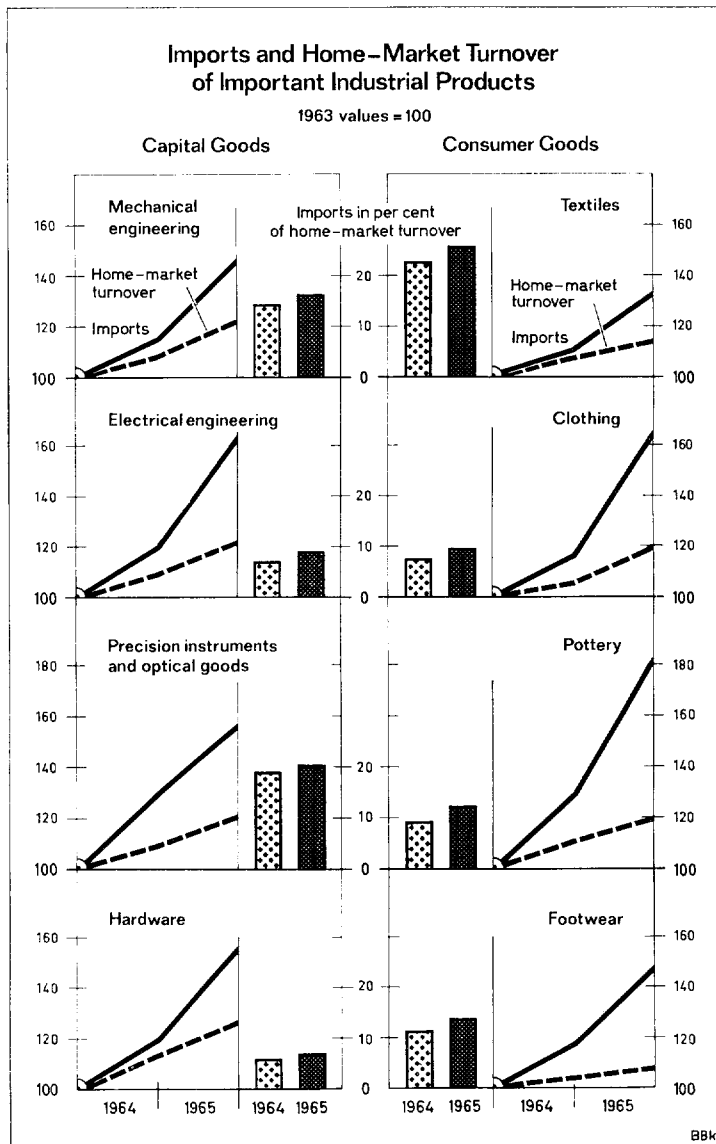
Volume of work not greater than in 1964

In spite of the relatively large increase in the number of gainfully active persons as a result of the recruitment of foreign workers the "volume of work", *i.e.* the sum of man-hours worked in the whole economy, remained practically unchanged in 1965, whereas in the previous year, when admittedly some special factors (*e. g.* the greater number of working days compared with 1963) were of some importance, there had still been an increase by 0.4 per cent. The unfavourable movement in 1965 was mainly due to the fact that the average number of man-hours worked decreased in practically the same measure as the number of the gainfully active increased. Apart from the renewed reduction in the collectively agreed number of working hours per week, and thus generally speaking also in the number of hours actually worked per week, the further increase in the average annual holidays granted to the employed was also of importance.

Imports

Supplementation of too meagre domestic supply by imports...

The heavy increase in imports during 1965 meant not only a supplementation — very welcome because of its tendency to contain the price movement — of the supply from domestic production which in many sections of the market was inadequate, but indirectly also entailed a certain easing on the labour market, since demand for the "production factor labour" is basically dependent on the demand for goods and services produced within the country. Germany's imports, including



the freight and insurance costs of sea-borne imports (*i. e.*, according to the foreign trade statistics), grew to DM 70.5 billion last year, thus increasing in value by almost 20 per cent and in volume by a good 16 per cent (as compared with growth rates of 12.6 per cent and 11.3 per cent, respectively, in 1964). The rise in imports slackened considerably, however, in the fourth quarter of last year and in the first few months of the current year. The year-to-year rate of increase by value, which had averaged 21.8 per cent in the first three quarters of 1965, diminished from October to December to 14.4 per cent and in January and February 1966 still further to 10.3 per cent.

The movement of imports last year was characterised by the fact that — especially in connection with a reduction in stocks — imports of industrial raw materials and semi-finished goods scarcely increased any further in the course of the year; in the second half they were only 2.5 per cent greater than a year before. On the other hand imports of industrial finished goods rose ex-

... mainly in the case of industrial finished goods...

traordinarily strongly in 1965, *viz.*, by 30.4 per cent, the growth concerning not only products of some consumer goods industries with above-average increase rates (especially glass and ceramics with + 48.1 per cent), but also capital goods to a remarkable extent. Thus for example the imports of finished goods of the electrical engineering industry exceeded the corresponding value for the previous year by 37.6 per cent, and imports of machinery were 27.9 per cent greater in value than in 1964, whilst home-market sales by mechanical engineering grew by “only” 12 per cent over the same period. The more than proportionate rise in imports caused the import ratio in the economy as a whole to rise to about 16 per cent of the gross national product from about 14 per cent in 1964. The different extent to which this movement affected the main industrial products is shown in the diagram above, which also reveals that in the course of last year foreign countries were able to increase their share of the market in important branches of industry quite considerably.

It was due not so much to cyclical reasons as to a shortage in domestic supply connected with harvest yields that in 1965 imports of foodstuffs, too, increased much more strongly than in the year before, *viz.*, by 20.1 per cent. In view of the short domestic supplies there was a particularly

... and of agricultural products

large rise in imports of live animals and meat (+ 39.3 per cent) and of fruit and vegetables (+ 26.5 per cent). To a great extent the increased recourse to foreign supplies of foodstuffs was moreover due to producers' prices of comparable domestic products, which as a rule are subject to "market regulation", being higher than those asked by foreign suppliers, especially in some non-E.E.C. supplier countries. Imports in this sphere would no doubt have risen still more vigorously if certain official measures, such as the lowering or suspension of levies on imports, had been taken earlier or more forcefully than was actually the case.

2. Demand

Capital expenditure of enterprises

Decline in the rise of capital expenditure...

In 1965, and especially until the middle of the year, economic developments were characterised again by very lively activity in capital expenditure. Although the expenditure of enterprises and of the government for investment purposes grew by no means to the same extent as in 1964, the investment ratio (the proportion of capital expenditure to the gross national product) at 27.7 per cent was still slightly higher than a year before, when it had stood at 27.5 per cent. According to provisional calculations total expenditure on gross investment at DM 124.2 billion (enterprises accounting for DM 104.1 billion and the government sector for DM 20.1 billion) exceeded the previous year's level by 9.1 per cent, whereas in 1964 the increase had been 16.8 per cent. The slackening in the rate of growth was thus unmistakable, this applying both to investments in fixed assets, the year-to-year increase of which declined from 10.8 per cent on the monthly average for January to June 1965 to 7.1 per cent for July to December, and to inventory investments. The fact that the latter weakened substantially in the second half of 1965 was probably due to manufacturing industries' stocks of raw materials and primary products not having been increased any further, but in some cases having even been reduced. The growing restraint exercised by enterprises in their inventory planning can be seen not only in the above-mentioned stagnation in imports of industrial raw materials, which in all probability no longer quite covered the current consumption of the manufacturers in the second half of the year, but also in the fact that stocks of rolled steel finished products at capital goods industries were reduced more markedly in the last few months than is usual for the season; according to the Index of the Rhenish-Westphalian Institute for Economic Research they were 14 per cent lower in December 1965 than they had been a year before.

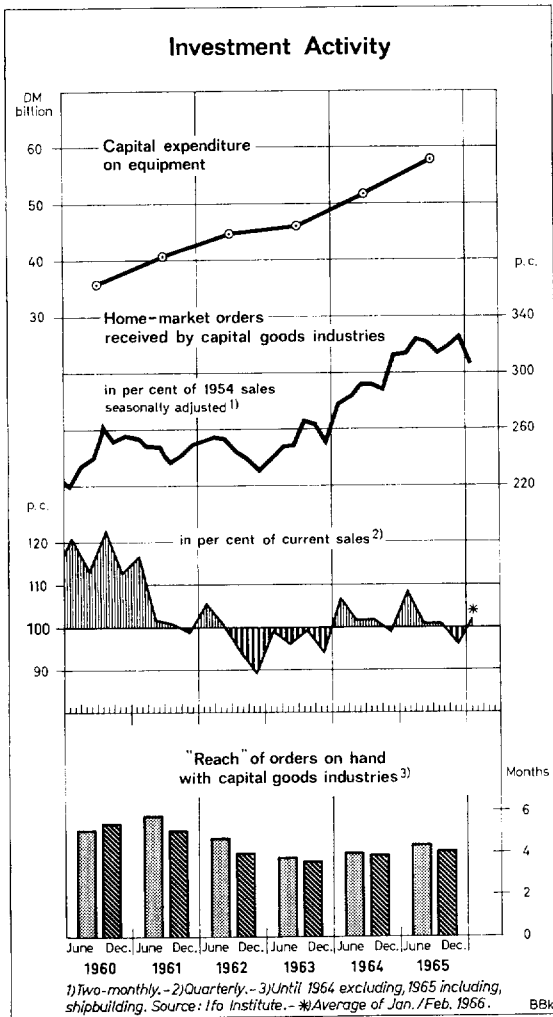
... especially on building

Taking as a basis the payments made, overall equipment investments grew by a good 12 per cent in 1965, which was about as much as in 1964. But in this case too a distinct deceleration prevailed in the course of the second half of the year, expenditure on equipment being only just on 10 per cent greater from July to December than a year previously, compared with 15 per cent in the first half of 1965. Thus with a certain time-lag investment activity followed the decrease in domestic demand for equipment goods which had been clearly perceptible earlier. On the average of the months July to December 1965 capital goods industries (excluding vehicle-building)

Gross Investments in 1964 and 1965

Change against preceding year in per cent

| Item | 1964 | | | 1965 | | |
|-----------------------------------|---------|-----------|----------|--------|-----------|----------|
| | Year | of which: | | Year | of which: | |
| | | 1st half | 2nd half | | 1st half | 2nd half |
| Total gross investments | + 16.8 | + 16.3 | + 17.2 | + 9.1 | + 13.6 | + 5.2 |
| of which: | | | | | | |
| Gross investments in fixed assets | + 14.5 | + 19.2 | + 10.8 | + 8.8 | + 10.8 | + 7.1 |
| Equipment | 12.2 | + 12.2 | + 12.2 | + 12.3 | + 15.0 | + 9.8 |
| Building | + 16.6 | + 26.9 | + 9.6 | + 5.7 | + 6.7 | + 4.9 |
| Inventory investments | + 123.8 | . | . | + 17.0 | . | . |



received only 5 per cent more home orders than a year before, the growth rate already having decreased to 13 per cent in the first half of the year (as against 18 per cent in 1964). Adjusted for price, orders in the second half of 1965 even were only 2 per cent larger than in the corresponding period of 1964; in the first two months of 1966 they actually remained 4 per cent below the comparable level for the previous year. This movement was especially pronounced in mechanical engineering, which had previously shown extremely high rates of growth. Domestic orders in this industry were only about 2 per cent greater in value (*i. e.*, not adjusted for price) in the second half of 1965, and 10 per cent smaller in January and February 1966, than a year before. Trade and industry showed a certain restraint in investments in building at an earlier date than in equipment investments. This applies in any case to the amount of building planned, which — according to the building permits granted for industrial buildings, and measured by the estimated building costs — in the fourth quarter of 1965 was 1 per cent less than in the corresponding period of 1964. In terms of volume building permits were even a good 4 per cent less than a year before. In the first two months of 1966 the declining tendency of building permits for commercial and industrial buildings did not continue,

however; estimated building costs on the average for January and February were nearly 12 per cent above the previous year's corresponding level.

Indications of future investment activity, and questionnaires on investment plans for 1966 too, show that enterprises' propensity to invest has slackened. Various factors have contributed to this cooling of the investment climate. For one thing, the profitability of enterprises deteriorated noticeably in the course of 1965. According to provisional calculations, undistributed profits were quite 20 per cent lower last year than in 1964, thus falling back to the relatively low level of 1963. Even if the depreciations available for the financing of gross investment (which were higher again in 1965 than in 1964) are included in these considerations, enterprises had at their disposal only relatively little more funds of their own for the financing of their investments in 1965 than in 1964. Whilst therefore enterprises' requirements of outside funds for financing purposes increased considerably, far more expensive funds had to be borrowed in the past year than previously in order to fill this gap. Moreover, to some extent greater recourse was had to short-term borrowing, *i. e.* to loans with which — with a view to a sound financing structure — enterprises must not overburden themselves. Apart from the difficulties in financing, however, the fact that the growth in production has been decreasing for some time already and may in future weaken still further probably caused enterprises to show rather more restraint than previously when embarking on new investment projects. Until the autumn of 1965 there was no decline in the degree to which the production capacities of industry were utilised, it is true; but in January 1966, for the first

Motives for decreasing propensity to invest

time in three years, a decline in the utilisation of capacity was reported which exceeded that usual for the season.

Building investments of public authorities and house-building

Great demand for work
in public civil
engineering...

The total volume of the demand for building work still increased quite considerably in 1965, in spite of the restraint shown by enterprises. This was due in part to the fact that public authorities gave substantially more civil engineering orders (the increase being 15 per cent as against only 5 per cent and 1 per cent in 1963 and 1964 respectively). In public building, on the other hand, the estimated building costs for newly approved buildings rose much less at about 8 per cent than they did in 1964 (+ 19 per cent); the growth rate would have been substantially less had it not been for the large "leap" in the third quarter of 1965 (+ 29 per cent compared with the same period of 1964) which was plainly due to special factors. In the fourth quarter of 1965 and in January and February 1966 the estimated building costs for public buildings were only 3 per cent higher, on an average, than the corresponding amounts a year before, although the slackening tendency was replaced of late by a slight cyclical rise. Nevertheless, if the rise in building costs is taken into account, the volume of public building orders shows for the last five months under review a year-to-year decline which is undoubtedly a result — long striven for from the point of view of credit policy — of the shortage and increasing cost of funds for borrowing. Local authorities especially, the most important public customers in the building sector, seem actually to be restricting their expenditure on buildings in 1966.

... and in housing

In contrast to non-residential building by trade and industry and by public authorities, house-building so far reacted relatively slightly to the deterioration in the financing climate. Only in house-building encouraged by public funds did activity slacken noticeably. The number of publicly assisted dwellings for which authorisations were issued was 208,400, which is 48,400, or 19 per cent, less than in 1964, and about 3 per cent less than in 1963. The public funds appropriated as capital aid, as well as the approved interest and redemption subsidies and the capital market funds thereby cheapened, fell short in 1965 of the corresponding values for the previous year. If the capital assistance (government loans) and capital market funds made cheaper by means of government subsidies are added together, the sums thus promised or "tapped" were 8 per cent less at DM 5.2 billion than in 1964. The situation was different for freely financed and tax-privileged housing, since in spite of the above-mentioned decrease in authorisations for publicly assisted housing altogether 21,100 more dwellings were officially approved than in 1964, and the estimated building costs for them, at DM 28.5 billion, were a good 12 per cent higher than then.

Larger payments or
promises by institutional
investors

Thus, despite the general worsening of financing conditions in the economy, institutional investors as a whole in 1965 were able not only to compensate the fall-off in government support,

Carry-over of Unfinished Housing Projects

Thousands of dwellings

| Dwellings in residential and non-residential buildings | 1961 | 1962 | 1963 | 1964 | 1965 P) |
|---|--------|--------|-------|--------|---------|
| (1) Carry-over of unfinished building projects at the beginning of the year ¹⁾ | 681.9 | 744.1 | 809.9 | 806.9 | 773.4 |
| (2) Building permits newly granted in the course of the year | 648.8 | 648.1 | 575.7 | 601.5 | 622.8 |
| (3) Dwellings completed in the course of the year | 565.8 | 573.4 | 569.6 | 623.8 | 591.9 |
| (4) Difference between approved and completed dwellings (items 2 less 3) | + 83.0 | + 74.7 | + 6.1 | — 22.3 | + 30.9 |
| (5) Building permits expired in the course of the year ²⁾ | 20.8 | 8.9 | 9.1 | 11.2 | 8.9 |
| (6) Carry-over at the end of the year (items 1 plus 4 less 5) | 744.1 | 809.9 | 806.9 | 773.4 | 795.4 |

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

but, what is more, to make available still more funds for financing purposes. At about DM 17.1 billion in 1965 the promises of mortgage loans by all institutional investors (excluding life and social insurance) were 11.5 per cent greater than in 1964. This strikingly high figure was due to the decrease in promises of finance by the real-estate credit institutions (paralleled recently by a similar tendency at the savings banks) being outweighed by the vigorously growing financial capacity of the building and loan associations. Promises of mortgage loans by these associations were no less than 26.2 per cent greater in 1965 than in the previous year. This trend is due in part to saving at building and loan associations receiving government encouragement in the form of savings premiums and tax preferences pursuant to Article 10 of the Income Tax Law. The funds expended for this purpose — premiums granted and shortfall in tax revenue — probably amounted to about DM 1.5 billion in 1965. There is the additional advantage of the low rate of interest for building loans to savers, which because of unchanged financing costs — *i. e.* unaltered interest rates on deposits at building and loan associations — is independent of the market movements in the interest rate level.

In spite of the rising demand for building work in civil engineering and in the chief building sphere, house-building, the year 1965 was a period of relatively calm movement in the production of the building sector. Building output in bare structures and civil engineering — there is no corresponding index for the finishing trades — increased by only 1.6 per cent as against the previous year (1964: + 11.5 per cent). The fact that the growth in production was so slight was connected on the one hand with to some extent unusually bad weather, and on the other with the shortage of labour, which became especially noticeable in the months of fair weather, and which should not be underrated. For a not inconsiderable number of building firms, therefore, production was still being impaired from this quarter, although less so than in former years. Since under these circumstances the building industry as a whole — with great differences in the individual branches — was not in a position to raise its supply in accordance with demand, orders on hand at building firms increased again in the course of last year. Total orders on hand in building and civil engineering were stated at the end of December 1965 to have an average reach of 3.5 months as against 3.3 months in December 1964. In housing alone the statistically ascertained carry-over of unfinished building projects — in spite of an output of 592,000 dwellings for the year — amounted to about 795,000 dwelling units; thus it was 22,000 greater than at the end of 1964, the rise concerning both the number of dwellings still under construction and, especially, the number of those approved but not yet started on.

Only slight increase in building output ...

... therefore increase in carry-over of unfinished housing projects

Foreign demand

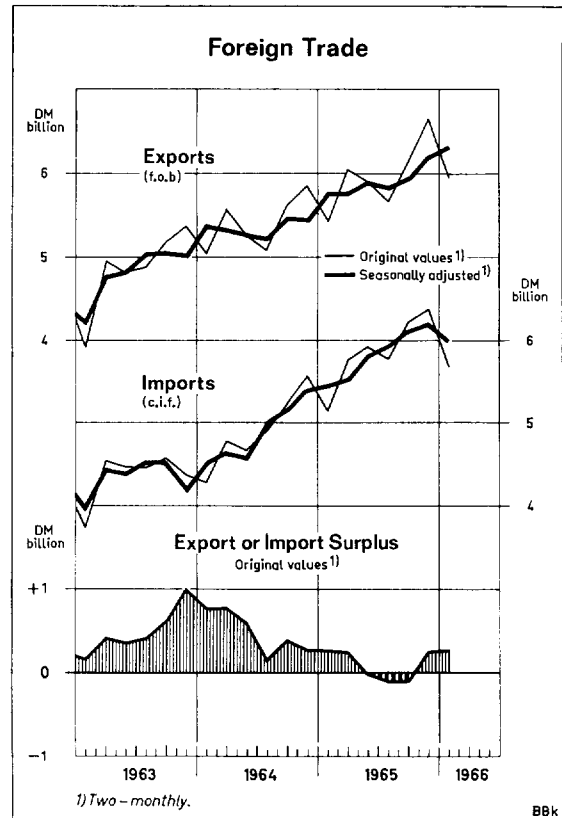
Judging by the orders reaching industry in 1965, foreign demand increased only slightly more strongly than domestic demand, *viz.*, by 7 per cent (by 5 per cent when adjusted for price) as against rises in terms of value by 12 per cent in 1964 and by 17 per cent in 1963. In the course of the past year there was again a slight cyclical acceleration, however. The revival benefited principally the consumer goods industries, which until then had a comparatively low export ratio; the amount of export orders reaching them was 18 per cent greater in the fourth quarter of 1965 than a year before, whereas at the beginning of the year it was still stagnating. These industries, partly hard-pressed by foreign competition on the home market, obviously succeeded for their part in gaining a footing on foreign markets. Some capital goods industries with traditionally high export ratios also recorded a considerable increase in export orders. It is possible that this is already a reflection of the progressive cyclical recovery in some neighbouring countries.

Further rise in foreign demand

Apart from a temporary decline in the second quarter exports grew again considerably last year, the average for the year amounting to 10.4 per cent as against 11.3 per cent in 1964. In terms of volume the increase was of course noticeably smaller (8.2 per cent as against 10.2 per cent in 1964) as a result of the rise in export prices. The relatively favourable movement of exports was due to a large extent to an improvement in the economic situation in the main E.E.C. countries

Continued cyclical increase in exports

and the consequent revival in their receptivity for German goods. Whilst exports to E.E.C. countries were only 3 per cent higher in the first half of 1965 than a year before, they exceeded the previous year's value by 10 per cent in the second half; exports to Italy alone rose by 15 per cent in the second six months, whilst in the first half of the year they had been substantially lower than in 1964. On the other hand exports to the E.F.T.A. countries increased less last year than in 1964 (by 9.4 per cent compared with 12.0 per cent), although in the course of the year it was possible to overcome the earlier negative effects of the British import restrictions. Deliveries to Denmark and Switzerland hardly increased at all, however, in the last few months of 1965 as compared with the same period of the previous year. The greatest percentage increase in exports was achieved by Germany in overseas countries, especially in the United States of America, which raised its imports from Germany by 20 per cent in 1965. Overseas developing countries, too, showed a more than average share in the growth of Germany's exports with an increase rate of well over 12 per cent.



Export surplus fell to one-fifth in 1965

Goods to a total value of DM 71.7 billion were exported in 1965 and — on the basis of the official foreign trade statistics, *i. e.* including freight and insurance costs of sea-borne imports — goods were imported to the value of DM 70.5 billion. The past year thus produced the smallest export surplus since 1953, amounting to DM 1.2 billion (again inclusive of freight and insurance costs) as against about DM 6 billion each in 1964 and 1963¹⁾. The decline by almost DM 4.9 billion from 1964 to 1965 was for by far the greater part due to the reversal which occurred in trade with the E.E.C. countries. In trade with other countries on the other hand there were no very substantial changes in the net balance of trade. The reduction in the export surplus, just as the increase in the deficit on services, demonstrate the great extent to which foreign countries contributed to the reduction in market tensions.

Consumption and saving of households

Faster rise in wage and salary income ...

The general cyclical trend was influenced more strongly in 1965 than in previous years by the expansion of private consumption. The main impulses for this originated in the increase in the disposable income of households, the net income of wage and salary earners in particular growing at a faster rate. In gross figures, *i. e.* before deduction of taxes and social insurance contributions, wages and salaries increased at only a slightly greater rate, however, than in the previous year (by 10.3 per cent as against 9.6 per cent in 1964). But at that rate the gross income from wages and salaries rose much more strongly than the overall national income (+ 8.0 per cent), so that its share in the national income increased from 64.6 per cent in 1964 to 66.0 per cent in 1965. This share has thus risen by almost one-tenth in the course of the last five years (since 1960, when it was 60.8 per cent), and that of the income from entrepreneurial activity and property has de-

¹⁾ If imports too are calculated at f.o.b. values, as is usual in international balance-of-payments statistics, the export surplus amounted to about DM 5.1 billion in 1965, DM 9.7 billion in 1964 and DM 9.2 billion in 1963. Cf. footnote on page 91.

creased correspondingly. Furthermore, the fact that the burden of official imposts in the form of taxes and contributions to social insurance was much less in 1965 than previously was of considerable importance for the movement in the income of wage and salary earners. The tax reduction which came into effect at the start of the year played its part here; although contributions to social insurance funds continued to rise very vigorously — among other things because of the raising of the insurance liability limit in the employees' pension insurance and in the statutory sickness insurance — the overall burden of imposts on gross income fell from 26.1 per cent in 1964 to 25.4 per cent last year. Net incomes of wage and salary earners therefore increased by 11.4 per cent and thus more vigorously than gross incomes.

Public income transfers to households, *i. e.* social security pensions and benefits and retirement pensions, rose more than all other incomes in 1965, exceeding the previous year's sum by 12.3 per cent. Both social insurance pensions and officials' pensions showed a greater rise than in 1964. In addition, extra payments (educational assistance) were granted after mid-1965 under the Children's Allowances Law. If all the components of the net income of households are added together, *viz.*, compensation of employees, public income transfers and also the profit withdrawals of the self-employed, in 1965 a total of DM 290 billion, or 11.3 per cent more than in 1964, was at the disposal of households. In the two previous years the growth rates had been 9.3 per cent and 6.7 per cent.

... and in income transfers

On the basis of this movement of income it was possible for households without prejudice to their savings to expend almost 10 per cent more for consumption purposes in 1965 than in 1964. This caused the share of private consumption in the gross national product to increase for the first time since 1961, from 56.3 per cent in 1964 to 57.0 per cent. Apparently only about 8 per cent more than in 1964 was expended on foodstuffs, beverages and tobacco in spite of price rises in this sector particularly, but 11 per cent more on industrially produced consumer goods. High grade and more durable articles, such as furnishings, books, watches and jewellery, proved particularly attractive to consumers. 1965 was also a good year for the clothing branch. Turnover in the main branches of services also increased more than proportionately; in particular, about 19 per cent more was spent on foreign travel than in 1964.

Growing importance of private consumption

Saving by households nevertheless grew more strongly in 1965 than their disposable income. The average saving ratio of households increased again, to 12.0 per cent of the disposable income as against 10.8 per cent in 1964 and 9.6 per cent in 1963. The investment habits of private savers changed considerably, however. Whereas in 1964 investment in securities, and especially the acquisition of bonds, had received preference, households purchased much less fixed-interest paper in the past year, as they feared further price losses as a result of the rising trend in interest. Net accruals of savings deposits at the credit institutions were about 29 per cent greater than in 1964, however, accounting for practically one half of overall private saving. There was a slightly greater increase in in-payments to accounts with building and loan associations, this forming the basis for the above-mentioned unusually vigorous expansion of lending by these institutions for house-building purposes.

Saving ratio 12.0 per cent

3. Prices and wages

According to the representative indices, prices in Germany rose noticeably more substantially in all sectors in 1965 than in the two previous years, one of the main factors being that on agricultural markets supply was tight as a result of relatively poor harvests and of partly inadequate imports. On the average of all months of 1965 producers' prices for agricultural products were 7.1 per cent higher than a year before, the movement of prices being uneven throughout the year due to large fluctuations in the prices of vegetable products. Whereas the prices of vegetable products rose strongly in the first half of 1965 on account of the scarcity in supply due to bad weather (the sub-index was 26.0 per cent higher in June than a year previously), large price falls occurred in the

Significance of rising prices of farm products

third quarter because of the increase in supplies from the harvests (these being in many cases rather late), to be followed again in the next few months by renewed substantial price rises. The price level of vegetable products, which in September 1965 had exceeded the previous year's level by only 3.4 per cent, was 11.0 per cent above the previous year's level in March 1966, mainly because of the high prices for potatoes and vegetables. The prices for animal products, too, showed extreme rises at times. Thus pigs for slaughtering became a good fifth more expensive within a few months (from July to October), which was due not only to the cyclical decrease in the domestic supply of pigs, but also to the fact that the possibilities for taking in larger imports by lowering the levies on them were not utilised in due time. Despite the lowering of the levies on imports from E.E.C. and other countries, which took place at the end of December, in March 1966 the prices for pigs for slaughtering were still 18.1 per cent above the previous year's level. Thanks to greater imports, prices for fat cattle fell from mid-1965 onwards, although the decline in prices was retarded in September and October by withdrawals from the market made by the Import and Storage Agency, and in December by imposing levies on such imports for the first time. Fat cattle were nevertheless 9.1 per cent cheaper in March 1966 than a year before. Although the prices for eggs also fell sharply in January and February, animal products as a whole were still 2.3 per cent dearer on the average in March 1966 than in March 1965. This and the high prices for vegetable products explain why the index of producers' prices for all agricultural products was 4.4 per cent higher in March than it was a year ago. If 1966 were to bring a good harvest, there could however be price falls for important products, and hence a reduction in the agricultural price level, which at present seems to be excessively high in comparison with the price movement in other sectors of the economy.

In the industrial sector the price rise became slower in the second half of the year, it is true, not least for cyclical reasons; but the producers' price index for industrial products was above the corresponding level of the previous year by 2.0 per cent at the end of 1965, and by as much as 2.3 per cent in March 1966 (against 2.9 per cent at mid-1965). The upward trend of prices slackened more noticeably for capital goods in particular, prices rising from July to December 1965 by only 0.4 per cent, whereas the rise had been 1.3 per cent in the first half of the year and 2.2 per cent in the second half of 1964. A similar movement was discernible in the basic and producer goods industries. Here too the price rise amounted to only 0.4 per cent in the second half of 1965, this rate being to some extent affected by world market influences; in fact, whereas at the end of 1965 prices were lower than at the middle of the year for products of the main industries in this category (e.g., for iron and steel, chemical products, plate glass, cellulose and paper) and in many other cases there were almost stable prices, producers' prices in the non-ferrous metal industry, which are more dependent on the world market, rose by 9.7 per cent during the same period. Only in the consumer goods sphere did the price rise continue undiminished in the second half of 1965, being

Price rise slackening
in industrial sector during
second half of 1965

Cost-of-Living Index for Consumers in Medium Income Group

1962 = 100

| Item | Weight within the index in per mille | Monthly average 1965 | | | December 1965 | | | February 1966 P) | | |
|---------------------------------|--------------------------------------|----------------------|---|-----------------------|---------------|----------------------------------|-----------------------|------------------|----------------------------------|-----------------------|
| | | 1962 = 100 | Change against monthly average 1964 in p.c. | Share in rise in p.c. | 1962 = 100 | Change against Dec. 1964 in p.c. | Share in rise in p.c. | 1962 = 100 | Change against Feb. 1965 in p.c. | Share in rise in p.c. |
| Total | 1,000.0 | 109.0 | +3.4 | 100.0 | 110.9 | +4.2 | 100.0 | 111.7 | +4.3 | 100.0 |
| of which: | | | | | | | | | | |
| Food | 338.6 | 110.4 | +4.5 | 45.3 | 113.0 | +6.0 | 47.9 | 112.6 | +5.3 | 41.9 |
| Consumer goods (incl. durables) | 409.2 | 104.4 | +1.8 | 21.7 | 105.5 | +2.3 | 21.7 | 106.0 | +2.1 | 19.5 |
| Services | 158.3 | 112.2 | +3.4 | 16.3 | 114.8 | +4.6 | 17.5 | 115.8 | +4.9 | 18.6 |
| Rent ¹⁾ | 93.9 | 118.4 | +5.7 | 16.7 | 120.9 | +5.4 | 12.9 | 126.1 | +8.4 | 20.0 |

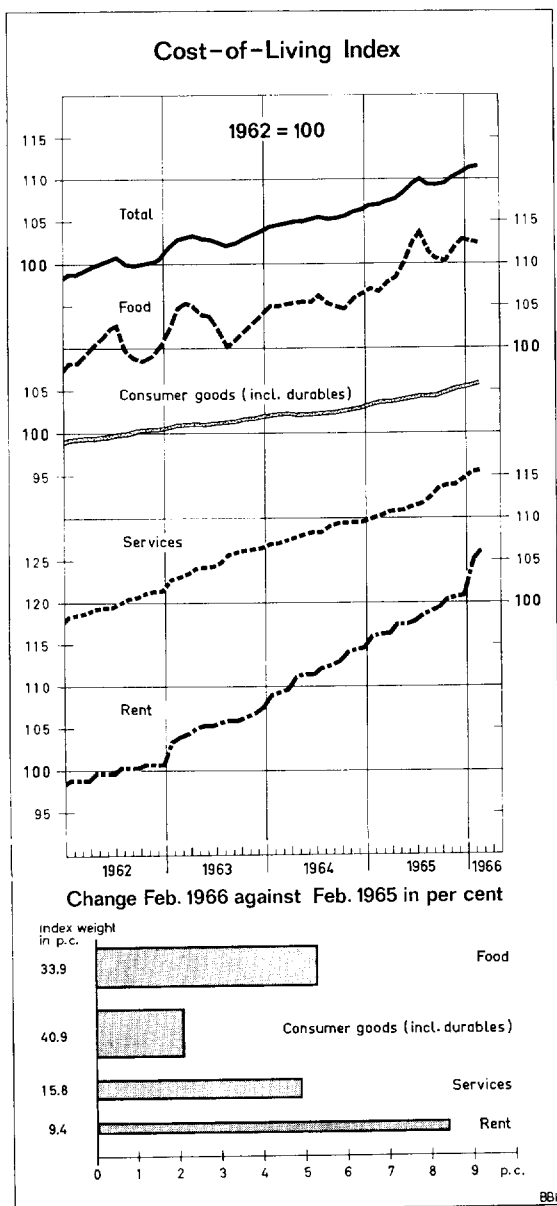
¹⁾ Including rent for garages.

considerably stronger at 1.3 per cent than in other industrial groups. The great demand in the consumer goods sector apparently made it easier to pass on the growing costs to the customer than was the case in other branches of the economy.

The upward trend in prices accelerated considerably at the consumer stage too in the past year. The cost-of-living index was 4.2 per cent higher in December 1965 and 4.3 per cent higher in February 1966 than in the corresponding months a year before, compared with a year-to-year increase of 2.3 per cent in December 1964. A good two-thirds of the rise in the cost of living during 1965 occurred in the first half of the year, when — as already explained — food prices at the producer stage increased to a particularly marked extent. In the second six months, when the overall index rose by another 1.3 per cent, the influence of food prices on the rise of the consumer price level was small, even if only because at this time some of the main vegetable foodstuffs became seasonally cheaper, so that the price increase for foodstuffs of animal origin was outweighed for a few months. Not until January 1966 was there again a slight fall in prices in the foodstuffs sector (excluding beverages and tobacco, and catering); in February 1966, however, foodstuffs on

Considerable rise in consumer prices

Influence of agricultural prices ...



the average still were 5.3 per cent dearer than a year before. A good two-fifths (42 per cent) of the overall rise in the cost-of-living index from February 1965 to February 1966, amounting to 4.3 per cent, fell to the share of price increases for the foodstuffs included in the index.

At the same time house rents rose relatively even more strongly than food prices. An important factor here was that with effect from 1 January 1966, in those areas in which housing control will still continue for a time, it was permissible to raise the rents of dwellings built before the currency reform by the same percentages by which such rents had already been permitted to be raised in "white" areas. As far as they are included in the cost-of-living index, in February this year rents on the whole were 8.5 per cent above the corresponding level of the previous year (11.3 per cent for pre-currency-reform dwellings and 5.5 per cent for new dwellings). The raising of rents was responsible for about one more fifth of the overall rise in the cost-of-living index from February 1965 to February 1966. Just recently, in particular, there were considerable price rises also for the services included in the index (+ 4.9 per cent in February 1966 as against February 1965), some items, such as motor vehicle repairs, having increased by as much as over 9 per cent. While the price movement in industrial consumer goods appears to be relatively moderate in comparison with such rises as were recorded both for the foodstuffs included in the index and for the rents and services taken into account in its computation,

... and of rents

New wage round since
January 1966

it should nevertheless be remembered that in this sphere too there was an increase as against the previous year, and that this, at 2.1 per cent in February 1966, was almost twice as great as a year before. Thus, industrial consumer goods, which according to the index pattern account for about 40 per cent of all the expenditure of private consumers, also contributed one-fifth to the rise in the overall index from February 1965 to February 1966.

The movement of wages continued in 1965, the level of collectively agreed wages even rising more strongly than in 1964 — on the average for 1965, on an hourly basis, by 7.7 per cent as against 6.7 per cent in 1964 — and actual earnings too continued to rise more vigorously than collectively agreed wages and salaries. A new wage round started at the beginning of 1966. In the first four months of this year alone collectively agreed wage rises will probably come into force for about 15 million wage and salary earners (*i. e.*, for about 80 per cent of the employed who are included in the statistics on collective wage agreements), especially in the metal-working industry, in building and civil engineering and in the public service. Wage negotiations in the last few months made clear an appreciable stiffening of the resistance of employers to the demands of the trade unions, and in the case of the latter a certain readiness to reduce wage demands and for the present to waive further cuts in working hours. Nevertheless, most of the agreements which have meanwhile come into force (*e. g.* in the metal-working industry, in which the average of collectively agreed wages for 1966 will be about 7 per cent higher than the previous year's) still considerably exceeded the limits set by the possible increase in productivity and also surpassed the guiding values mentioned for 1966 by the council of experts, which — as is well known — are by no means without effect on prices, but which reduce the upward price trend only by degrees.

To observe restraint in collective agreements on wage and salary rises seems to be of importance not least because according to previous years' experience the increase in actual earnings is always somewhat greater than that in collectively agreed earnings. This was the case in 1965 too. If the calculation of the collectively agreed wage level on a weekly basis is used as a measure for the movement of collectively agreed wages — which is recommended because actual earnings in the economy as a whole also can only be given for weekly or monthly periods and to this extent are influenced by reductions in working hours in a similar way as collectively agreed earnings on a weekly basis — then it is seen that on the monthly average for 1965 collectively agreed earnings on a weekly basis in the economy as a whole rose by 6.7 per cent, while actual earnings increased by 9.0 per cent. The discrepancy was indeed considerably smaller than in 1964, when the comparable increase ratios were 4.9 and 8.9 per cent, but nevertheless greater than in previous years. Complete agreement of the increase in standard earnings and that in actual earnings seems hardly to be possible, if only for statistical reasons. In fact, it is not possible to include in the movement of collectively agreed wages all the arrangements reached between employers and employed affecting wages, which — such as the granting of holiday money, of special grants, *etc.* — are reflected in the

Collectively Agreed Earnings and Actual Earnings in the Overall Economy

| Period | Level of standard wages and salaries on a weekly basis | | Actual gross wages and salaries per employed person | |
|---------------------|--|---|---|---|
| | 1960 = 100 | Change against preceding year in per cent | 1960 = 100 | Change against preceding year in per cent |
| 1961 | 108.5 | + 8.5 | 111 | + 10.6 |
| 1962 | 116.9 | + 7.7 | 121 | + 9.0 |
| 1963 | 122.9 | + 5.2 | 128 | + 6.1 |
| 1964 | 129.0 | + 4.9 | 139 | + 8.9 |
| 1965 P) | 137.7 | + 6.7 | 152 | + 9.0 |
| 1965 P) 1st quarter | 134.7 | + 7.0 | 140 | + 8.9 |
| 2nd quarter | 137.1 | + 7.0 | 152 | + 9.1 |
| 3rd quarter | 138.9 | + 7.3 | 154 | + 10.3 |
| 4th quarter | 140.1 | + 6.1 | 161 | + 7.9 |

P) Provisional.

statistically ascertained actual earnings. Apart from this there are a few other institutional influences which contribute towards actual earnings rising more steeply than collectively agreed earnings, even when the labour market is less strained.

The increase in actual average earnings, which as already mentioned amounted to 9.0 per cent on the monthly average for 1965, was of all the more importance as the output per gainfully active person increased considerably less than in 1964, viz., by only 3.8 per cent as against 6.2 per cent. This resulted in wage costs per unit of production increasing last year by about 5 per cent, which is considerably more than in 1964 (2.5 per cent) and 1963 (3 per cent), a clear trend towards acceleration being recognisable in the course of 1965. It is obvious that such a substantial rise in wage costs was bound to act as a stimulus for further price rises which would have an importance of its own even if demand did not facilitate the passing on of costs so much as was the case at least until fairly recently.

Great increase
in wage costs

VI. The Balance of Payments *)

1. Overall survey

In 1965 the balance of payments of the Federal Republic of Germany closed at a considerable deficit, whereas in 1964 there had still been some surpluses, particularly in the current account. Within one year imports of goods into Germany grew by about 20 per cent, mainly as a result of domestic cyclical tension. While exports from Germany also grew considerably, at 10 per cent their rate of increase was only half as great as that of imports. In 1965 Germany's balance of trade, in the "balance-of-payments definition" used here, showed a surplus of only DM 5.1 billion compared with DM 9.7 billion in 1964. At the same time the deficit on the balance of services increased still further, and on transfers (mainly indemnification payments and foreign workers' wage remittances), too, the deficit grew again. The balance of current items accordingly closed at a deficit of DM 6.2 billion in 1965, whereas a year before there had been a surplus of DM 0.5 billion.

Considerable balance-
of-payments deficit
resulting from domestic
cyclical tension

The fact that in 1965 the large deficit on current account reduced the monetary reserves of the Bundesbank relatively slightly, by DM 1.5 billion, is due principally to the movement of short-term capital. In this sector, including the residual item of the balance of payments, there was a net capital import of about DM 4 billion in 1965, whereas in 1964 short-term movements of capital (again including the residual item) were roughly balanced. Net borrowing abroad was probably due in part to the tightening of liquidity and credit at home. To a considerable extent, however, it was caused by independent factors. This applies in the first place to the foreign direct investments in those enterprises which are domiciled in Germany but are for the most part owned by foreigners. It is principally due to these investments that in 1965, in contrast to 1964, long-term movements of capital also closed at a net capital import. In the second place, however, that part of German enterprises' short-term borrowing abroad which more or less automatically resulted from the marked growth in imports and the ensuing increase in foreign suppliers' commercial credits was largely independent of the conditions on the domestic credit markets.

Capital imports retard
decrease in central
reserves

*) This section essentially conforms with the study "Principal Results of the Balance of Payments for the Year 1965", published in the Monthly Report of the Deutsche Bundesbank for February 1966, which has been amplified only by some figures on the movement of the balance of payments in the first few months of 1966. — The method used in defining the following data on foreign trade differs from those used in the official foreign trade statistics and in the preceding chapters of this Report entitled "General Survey" and "Economic Activity". In accordance with international usage in balance-of-payments statistics, freight and insurance costs of sea-borne imports have in this chapter been eliminated from the official import figures and included in the expenditure on services, so that imports and exports are recorded uniformly at their f.o.b. values. In the preceding chapters this was not the case because regional analysis of imports on a f.o.b. basis is not yet possible at the present moment and, furthermore, f.o.b. calculations cannot be made for the individual groups of goods imported. Further details on the regrouping of the freight and insurance costs for imports, as well as references to revisions of previously presented balance-of-payments statements, will be found in the provisional survey for the year 1965 published in February 1966.

Principal Items of the Balance of Payments

Millions of DM

| Item | 1959 | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1964 | | 1965 | |
|--|----------|----------|----------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| | | | | | | | | 1st half | 2nd half | 1st half | 2nd half |
| A. Basic Balance | | | | | | | | | | | |
| I. Balance of current items | | | | | | | | | | | |
| (1) Goods and services | | | | | | | | | | | |
| Trade in goods (exports f.o.b., imports f.o.b.) | +7,657 | +8,462 | +9,643 | +6,228 | +9,166 | +9,654 | +5,095 | +6,062 | +3,592 | +2,821 | +2,274 |
| Services | - 176 | - 356 | -2,284 | -3,198 | -3,235 | -4,228 | -5,490 | -1,744 | -2,484 | -2,560 | -2,930 |
| incl.: Receipts from foreign troops | (3,956) | (4,100) | (3,824) | (4,300) | (4,289) | (4,220) | (4,152) | (2,026) | (2,194) | (1,932) | (2,220) |
| Net balance of goods and services | +7,481 | +8,106 | +7,359 | +3,030 | +5,931 | +5,426 | - 395 | +4,318 | +1,108 | + 261 | - 656 |
| (2) Transfer payments ¹⁾ | | | | | | | | | | | |
| Private | - 343 | - 574 | - 986 | -1,353 | -1,603 | -1,845 | -2,375 | - 857 | - 988 | -1,077 | -1,298 |
| Official | -2,904 | -2,820 | -3,449 | -3,801 | -3,355 | -3,100 | -3,444 | -1,759 | -1,341 | -2,050 | -1,394 |
| Net transfer payments | -3,247 | -3,394 | -4,435 | -5,154 | -4,958 | -4,945 | -5,819 | -2,616 | -2,329 | -3,127 | -2,692 |
| Net balance of current items (I + 2) | +4,234 | +4,712 | +2,924 | -2,124 | + 973 | + 481 | -6,214 | +1,702 | -1,221 | -2,866 | -3,348 |
| II. Long-term capital (except special transactions) ^{1) 2)} | | | | | | | | | | | |
| (1) German investments abroad (increase: -) | | | | | | | | | | | |
| Private | -2,022 | -1,435 | -1,107 | -1,382 | -1,184 | -1,815 | -1,895 | -1,149 | - 666 | -1,046 | - 849 |
| Direct investments | . | . | . | -1,128 | - 825 | - 947 | -1,172 | - 490 | - 457 | - 595 | - 577 |
| Portfolio investments | . | . | . | - 254 | - 359 | - 868 | - 723 | - 659 | - 209 | - 451 | - 272 |
| Official | - 954 | - 825 | -1,024 | -1,084 | -1,120 | -1,161 | -1,213 | - 469 | - 692 | - 472 | - 741 |
| Total | -2,976 | -2,260 | -2,131 | -2,466 | -2,304 | -2,976 | -3,108 | -1,618 | -1,358 | -1,518 | -1,590 |
| (2) Foreign investments in Germany (increase: +) | | | | | | | | | | | |
| Private | + 870 | +2,501 | +1,987 | +2,454 | +4,315 | +2,260 | +3,881 | + 853 | +1,407 | +1,978 | +1,903 |
| Direct investments | . | . | . | + 915 | +1,419 | +1,914 | +3,032 | + 702 | +1,212 | +1,810 | +1,222 |
| Portfolio investments | . | . | . | +1,539 | +2,896 | + 346 | + 849 | + 151 | + 195 | + 168 | + 681 |
| Official | - 517 | - 314 | - 92 | - 89 | - 61 | - 98 | - 75 | - 42 | - 56 | - 48 | - 27 |
| Total | + 353 | +2,187 | +1,895 | +2,365 | +4,254 | +2,162 | +3,806 | + 811 | +1,351 | +1,930 | +1,876 |
| Net long-term capital | -2,623 | - 73 | - 236 | - 101 | +1,950 | - 814 | + 698 | - 807 | - 7 | + 412 | + 286 |
| Net basic balance (I + II) | +1,611 | +4,639 | +2,688 | -2,225 | +2,923 | - 333 | -5,516 | + 895 | -1,228 | -2,454 | -3,062 |
| B. Special long-term capital transactions ³⁾ | -2,824 | - 100 | -4,005 | - | - | - | - | - | - | - | - |
| C. Short-term capital ¹⁾ | | | | | | | | | | | |
| Credit institutions | -1,035 | +2,254 | - 264 | - 147 | + 704 | + 51 | - 187 | -1,802 | +1,853 | -2,102 | +1,915 |
| Enterprises ⁴⁾ | - 158 | + 656 | + 603 | + 419 | + 21 | + 173 | + 837 | + 721 | - 548 | + 298 | + 539 |
| Public authorities ⁵⁾ | + 398 | - 957 | -1,206 | + 594 | - 458 | -1,447 | +1,149 | - 967 | - 480 | + 176 | + 973 |
| Net short-term capital | - 795 | +1,953 | - 867 | + 866 | + 267 | -1,223 | +1,799 | -2,048 | + 825 | -1,628 | +3,427 |
| Net balance of current items and capital (A I + A II + B + C) | -2,008 | +6,492 | -2,184 | -1,359 | +3,190 | -1,556 | -3,717 | -1,153 | - 403 | -4,082 | + 365 |
| D. Unidentified difference between movement of gold and exchange and net balance of current items and capital | - 196 | +1,515 | + 256 | + 807 | - 618 | +1,568 | +2,211 | +1,282 | + 286 | +2,399 | - 188 |
| E. Movement of gold and exchange (change in net monetary reserves of Deutsche Bundesbank, increase: +) | -2,204 | +8,007 | -1,928 ⁶⁾ | - 552 | +2,572 | + 12 | -1,506 | + 129 | - 117 | -1,683 | + 177 |

¹⁾ Transactions are classified as "Private" or "Official" according to the sector to which the German party engaged in the transaction belongs. — ²⁾ Breakdown of long-term capital transactions into "Direct investments" and "Portfolio investments" is partly estimated; further specification will be found in the table "Capital Transactions with Foreign Countries" on page 100. — ³⁾ 1959: increase of German quota with I.M.F. (DM 1,921 million) and repayment of debt in respect of post-war economic aid (DM 903 million); 1960: drawing of DM 100 million on the Deutsche Bundesbank credit to I.B.R.D. (roughly DM 1 billion) agreed in August 1960; 1961: repayment of debt in respect of post-war economic aid (DM 3,125 million) and further drawing on the Bundesbank credit to I.B.R.D. (DM 880 million). — ⁴⁾ Mainly granting and use of "financial credits". — ⁵⁾ Chiefly concerning changes in the assets of the Federal Government resulting from prepayments on defence imports and in the liabilities of the Federal Government to I.M.F. under the German quota. — ⁶⁾ Disregarding the decrease by DM 1,419 million in the monetary reserves of the Deutsche Bundesbank due to the DM revaluation.

A tendency towards a gradual renewed increase in the trade surplus seems to have started in the last few months of 1965 and at the beginning of 1966. Thus, imports did not rise as vigorously as before, whereas exports grew rather more substantially. Since, however, there still arose large deficits on services and on transfer payments, the current account of the balance of payments continued in deficit during the first few months of 1966. In January and February together (more recent data were not available when this Report went to press) the deficit on current items amounted to DM 550 million as against DM 360 million in the same period of 1965. In the first few weeks of 1966 the movement of capital was largely determined by the fact that, as usual at this time of year, the banks other than the Bundesbank replenished their external assets, which had diminished at the end of last year, and reduced their external liabilities. Disregarding these changes in the external position of the banks, since they are largely of a seasonal nature, and considering total capital transactions in the last three months for which complete data are available — December 1965 and January and February 1966 — it is seen that affluxes of capital indeed still predominated in direct investments, but that the other borrowing of the business community (especially in the short-term sector) was not only smaller than in the autumn of last year, but also fell considerably short of the inflows during the corresponding period a year earlier. It is principally due to the decline in these capital imports that the central monetary reserves decreased by almost DM 1 billion from December 1965 to the end of February 1966 as compared with about DM 300 million in the same period a year before.

The individual sectors of the balance of payments for 1965 will be examined in detail in the following text.

2. Balance of current items

According to the definition applied here the surplus on the balance of trade in 1965 amounted to DM 5.1 billion as against DM 9.7 billion in 1964. The decrease in the surplus was due mainly to the fact that imports (reckoned on a f.o.b. basis, *i. e.* without freight and insurance costs) rose in absolute value by DM 11.6 billion to DM 66.6 billion, while exports increased by only about DM 6.7 billion to DM 71.6 billion¹⁾.

Decrease in trade surplus due to greatly accelerated increase in imports ...

The more than proportionate growth in imports was due to the excessive demand at home and to the fact that in some sections the cost situation had deteriorated markedly compared with foreign countries. The growth in imports of industrial finished goods in particular, which constituted the major part of the increase in imports, shows that foreign products, the prices of which were in some cases lower in 1965 than previously, expanded their share of the German market substantially — at any rate far more than would have been the case in a normal process of integration. According to the foreign trade statistics (the individual components of which cannot, of course, be converted to f.o.b. values), imports of industrial finished goods (including the larger imports of armaments) rose by 30 per cent in 1965; the increase in imports of finished goods excluding armaments was almost as great, however. But imports of foodstuffs, too, grew not inconsiderably in 1965, by DM 2.8 billion or 20 per cent, importance of course attaching not only to cyclical factors, such as the great increase in mass incomes and its reactions on requirements of foodstuffs, but also to relatively bad harvests in some cases. On the other hand, imports of raw materials and semi-finished goods slackened noticeably in 1965, particularly in the second half of the year, this perhaps being primarily connected with the downward phase in the stock cycle, but also with the fact of a slower growth than formerly in production by manufacturing industries, and of a consequently slighter increase in the demand for raw materials.

At about 10 per cent, the growth in exports during 1965 was comparable with that for other industrial countries. If, for example, the exports of all O.E.C.D. countries (including Japan) are added together, they likewise were 10 per cent greater in 1965 than in the previous year. Since

... with exports continuing to grow

¹⁾ The reduction in the foreign trade surplus caused by the differing movements of imports and exports was made good to a slight extent by the fact that merchanting trade improved by about DM 300 million.

*Imports by Categories of Goods *)*

| Period | Total 1) | Food | Industrial raw materials | Semi-finished goods | Finished goods |
|---|-------------|--------|-----------------------------|------------------------|-------------------|
| Millions of DM | | | | | |
| 1961 | 44,363 | 11,677 | 9,095 | 7,541 | 15,550 |
| 1962 | 49,498 | 13,684 | 8,820 | 7,863 | 18,688 |
| 1963 | 52,277 | 12,779 | 9,362 | 8,050 | 21,575 |
| 1964 | 58,839 | 14,035 | 10,916 | 9,779 | 23,519 |
| 1965 | 70,448 | 16,852 | 11,431 | 10,807 | 30,679 |
| 1965 1st qtr. | 16,279 | 3,556 | 2,840 | 2,637 | 7,121 |
| 2nd qtr. | 17,437 | 4,029 | 2,872 | 2,719 | 7,662 |
| 3rd qtr. | 17,706 | 4,334 | 2,846 | 2,715 | 7,621 |
| 4th qtr. | 19,026 | 4,933 | 2,873 | 2,736 | 8,275 |
| 1966 Jan./Feb. | 11,373 | 2,703 | 1,985 | 1,634 | 4,945 |
| Change 2) in per cent | | | | | |
| 1961 | + 3.8 | + 3.8 | - 1.9 | - 6.4 | + 13.1 |
| 1962 | + 11.6 | + 17.2 | - 3.0 | + 4.3 | + 20.2 |
| 1963 | + 5.6 | - 6.6 | + 6.1 | + 2.4 | + 15.4 |
| 1964 | + 12.6 | + 9.8 | - 16.6 | + 21.5 | + 9.0 |
| 1965 | + 19.7 | + 20.1 | - 4.7 | + 10.5 | + 30.4 |
| 1965 1st qtr. | + 23.5 | + 10.0 | + 7.8 | + 27.2 | + 38.9 |
| 2nd qtr. | + 22.4 | + 17.6 | + 5.8 | + 14.3 | + 37.5 |
| 3rd qtr. | + 19.7 | + 27.5 | + 4.8 | + 4.9 | + 28.3 |
| 4th qtr. | + 14.4 | + 24.1 | + 0.8 | - 0.1 | + 20.3 |
| 1966 Jan./Feb. | + 10.3 | + 21.8 | + 4.0 | - 7.0 | + 13.7 |
| *) According to the official foreign trade statistics. — 1) Including returns and replacements. — 2) As compared with corresponding period of preceding year. | | | | | |

Germany, just like the other E.E.C. countries and the E.F.T.A. countries, is in a process of integration which is being furthered by mutual reductions in customs tariffs (and which among other things is also a cause of the strong increase in imports), it is more expedient from this point of view to compare its export growth rate with that of the other E.E.C. members and the E.F.T.A. countries; for these countries the growth rate amounted to 11.4 per cent in 1965, thus exceeding that for the Federal Republic of Germany. In view of the export position attained in previous years, Germany's fall-back is of no great consequence, however, at any rate if this tendency does not continue for any length of time.

Regional shifts in foreign trade

The great changes which during 1965 occurred in foreign trade, especially in imports, led to some partly considerable shifts in the regional composition of the streams of goods. The pertinent figures, determined according to the balance-of-payments definition given initially, are not yet available, it is true, so that a more detailed analysis will have to be made in a subsequent study dealing with the regional results of the balance of payments. But the most important changes in tendency can also be gathered from the official foreign trade statistics, which are based on c.i.f. values for imports and f.o.b. values for exports. According to these data the decrease in the surplus on foreign trade in 1965 was due principally to trade with member countries of the Common Market resulting for Germany in an import surplus of DM 1.4 billion as against an export surplus of DM 3.2 billion in 1964. The balances on trade with the rest of the world changed to a much smaller extent. This divergence is probably connected not only with cyclical differences between Germany and its partners in the Common Market having been especially pronounced in the last few years, but is also due to the fact that, because of the reduction of trade barriers between the E.E.C. countries, cyclical fluctuations have affected foreign trade with these countries more rapidly than they have affected transactions with countries outside the Community.

Renewed increase in deficit on services

The deficit on service transactions with foreign countries (including freight and insurance costs for sea-borne imports) increased to DM 5.5 billion in 1965 compared with DM 4.2 billion in 1964

and DM 3.2 billion in 1963. The deterioration in this sector of the current account, which had been noticeable for years, thus became still more marked. Although almost all branches of the services sector contributed to this result, the deficit on travel increased to a particularly great extent. Whereas in 1964 this deficit, at DM 1.9 billion, was only just as great as in the previous year, it grew by over DM 700 million to approximately DM 2.7 billion during 1965. Expenditure on travel rose by 19 per cent to DM 5.6 billion, or much more pronouncedly than receipts from travel, which in the year under review increased by only 6 per cent to DM 2.9 billion. Expenditure abroad by German tourists in 1965 increased more rapidly than did the disposable incomes of households (+ 11.2 per cent), so that the portion of income expended on foreign travel rose to more than 1.9 per cent in 1965 against 1.8 per cent in the previous year. Thus the tendency continued which had been observable until 1962 and was interrupted only in 1963 and 1964, when the share of foreign travel expenditure in private incomes decreased compared with previous years, partly as a reaction to the substantial rises in prices important for tourists in some of the major tourist countries. Since then, however, prices have risen less markedly than before in a number of countries favoured by German tourists, whilst in German holiday districts the rise in prices has intensified. Furthermore, foreign travel centres offered other advantages, such as a favourable climate, decrease in the cost of transportation by air, *etc.*, which added to the attraction of holidays abroad. The increased expenditure by German tourists benefited not only such traditional holiday countries as Italy, Austria and Switzerland, but also, in particular, Spain and Greece.

Travel

The balance of transportation (including the freight costs of sea-borne imports), for which a certain dependence on the cyclical situation was to be expected, did not deteriorate any further in 1965. On the contrary, according to calculations which, however, are partly only provisional, the deficit decreased to DM 830 million compared with DM 1,150 million in 1964. This result — rather surprising in view of the great rise in imports — is explained principally by the fact

Transportation

*Exports by Groups of Industry *)*

| Period | Total 1) | Capital goods industries | | | Basic industries | Consumer goods industries |
|-----------------------|-------------|--------------------------|---------------------------|---------------------|---------------------|------------------------------|
| | | Total | among which: | | | |
| | | | Mechanical engineering | Vehicle building | | |
| Millions of DM | | | | | | |
| 1961 | 50,978 | 27,606 | 10,984 | 6,529 | 14,491 | 6,826 |
| 1962 | 52,975 | 29,172 | 11,778 | 7,098 | 14,222 | 7,398 |
| 1963 | 58,309 | 32,394 | 12,532 | 8,551 | 14,925 | 8,470 |
| 1964 | 64,920 | 35,888 | 13,779 | 9,741 | 16,259 | 9,732 |
| 1965 | 71,651 | 39,231 | 15,004 | 10,806 | 18,027 | 10,756 |
| 1965 1st qtr. | 17,377 | 9,517 | 3,522 | 2,849 | 4,444 | 2,530 |
| 2nd qtr. | 17,391 | 9,620 | 3,690 | 2,715 | 4,325 | 2,567 |
| 3rd qtr. | 17,253 | 9,187 | 3,623 | 2,228 | 4,519 | 2,696 |
| 4th qtr. | 19,630 | 10,907 | 4,169 | 3,014 | 4,739 | 2,963 |
| 1966 Jan./Feb. | 11,930 | 6,524 | 2,547 | 1,840 | 2,991 | 1,821 |
| Change 2) in per cent | | | | | | |
| 1961 | + 6.3 | + 9.2 | +21.2 | + 3.2 | + 2.6 | + 3.5 |
| 1962 | + 3.9 | + 5.7 | + 7.2 | + 8.7 | - 1.9 | + 8.4 |
| 1963 | +10.1 | +11.0 | + 6.4 | +20.5 | + 4.9 | +14.5 |
| 1964 | +11.3 | +10.8 | + 9.9 | +13.9 | + 8.9 | +14.9 |
| 1965 | +10.4 | + 9.3 | + 8.9 | +10.9 | +10.9 | +10.5 |
| 1965 1st qtr. | +11.6 | +11.4 | + 8.5 | +21.4 | +11.9 | + 9.4 |
| 2nd qtr. | + 7.2 | + 6.7 | + 6.8 | + 4.8 | + 6.2 | + 8.5 |
| 3rd qtr. | +11.5 | + 8.8 | + 8.9 | + 6.0 | +15.9 | +10.8 |
| 4th qtr. | +11.1 | +10.4 | +11.2 | +11.5 | + 9.8 | +13.1 |
| 1966 Jan./Feb. | + 9.8 | +10.0 | +16.2 | + 4.9 | + 6.0 | +16.9 |

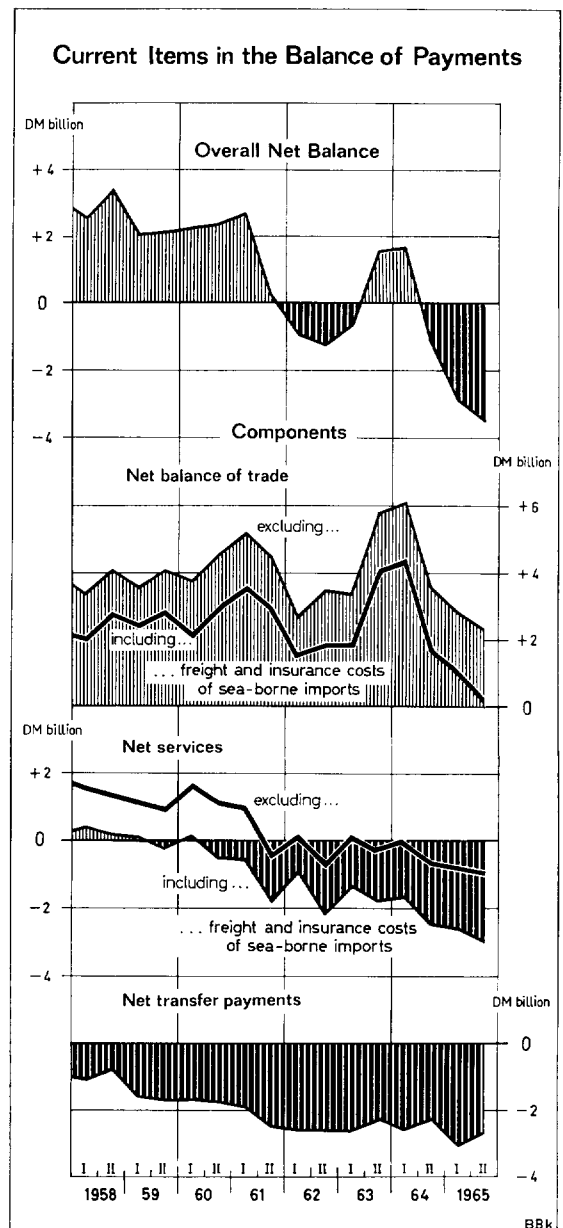
*) According to the official foreign trade statistics. — 1) Including returns, replacements and other exports. — 2) As compared with corresponding period of preceding year.

that in 1965 there was an increase especially in the imports from European neighbouring countries, in whose case, different from sea-borne imports, no freight costs affecting the balance of payments are incurred, and that in the case of imports from overseas important branches recorded a reduction in freight costs, in that not only did freight rates fall somewhat, but certain commodities (particularly mineral oil) were to an increasing extent imported from areas geographically nearer to Germany. Furthermore, Germany's receipts from transportation services rose strongly, from DM 4.8 billion in 1964 to DM 5.3 billion in the year under review. The possibility cannot be ruled out, however, that the gaps in the statistical ascertainment of freight costs, which undoubtedly exist, widened last year as a result of the great change in imports.

Investment income

There was a further deterioration during 1965 in investment income, the movement of which is not directly connected with the cyclical trend, since enterprises' distributions of profits frequently react only with a certain time-lag to changes in profitability. The deficit increased by DM 200 million to DM 1.9 billion, the increase being largely due to the fact that last year — as in earlier years too — foreign capital assets invested at interest in Germany grew more substantially than German assets abroad. Total expenditure in the balance of investment income rose from DM 2.8 billion in 1964 to DM 3.2 billion in 1965, profit distributions by German enterprises to their foreign (especially American) shareholders being to the fore. Compared with the fact that, as far as it is covered by statistical reports, foreign participation capital grew by about DM 2.4 billion in 1965 (and by DM 1.2 billion in 1964), the growth in profit distributions by DM 240 million (to DM 1,700 million) in one year is quite remarkable, although of course it must remain an open question to what extent this was a matter of profits achieved in 1965 or of distributions of previous earnings. The distributed profits were not entirely transferred abroad, however, but were in many cases reinvested in Germany. Thus, for example, foreign enterprises financed increases in the capital of their German subsidiaries to the amount of almost DM 500 million through reinvestment of profits. To this extent, therefore, there is a close connection between the larger deficit on investment income and the inflow of long-term capital into Germany. German receipts from external investments, approximately one-third of which is accounted for by interest earned by the Bundesbank, rose by DM 200 million to DM 1.3 billion during 1965. The yield from German direct investments abroad, especially receipts from distributed profits, played a relatively small part (DM 140 million). The profitability of German private external assets¹⁾

¹⁾ For the movement of direct investments abroad see page 99.



Receipts and Expenditure in Service Transactions with Foreign Countries

Millions of DM

| Item | 1962 | | | 1963 | | | 1964 | | | 1965 | | |
|--|---------------|---------------|----------------|---------------|---------------|----------------|---------------|---------------|----------------|---------------|---------------|----------------|
| | Receipts | Expenditure | Balance | Receipts | Expenditure | Balance | Receipts | Expenditure | Balance | Receipts | Expenditure | Balance |
| Receipts from foreign troops ¹⁾ | 4,300 | — | + 4,300 | 4,289 | — | + 4,289 | 4,220 | — | + 4,220 | 4,152 | — | + 4,152 |
| Travel | 2,155 | 4,267 | — 2,112 | 2,433 | 4,347 | — 1,914 | 2,745 | 4,682 | — 1,937 | 2,914 | 5,573 | — 2,659 |
| Transportation ²⁾ incl.: Harbour services | 3,977 | 4,876 | — 899 | 4,210 | 5,070 | — 860 | 4,765 | 5,919 | — 1,154 | 5,266 | 6,091 | — 825 |
| Investment income | (743) | (1,172) | (— 429) | (754) | (1,167) | (— 413) | (831) | (1,222) | (— 391) | (917) | (1,306) | (— 389) |
| Commissions, publicity and trade fairs | 956 | 2,286 | — 1,330 | 1,008 | 2,293 | — 1,285 | 1,086 | 2,760 | — 1,674 | 1,289 | 3,162 | — 1,873 |
| Licences and patents | 216 | 1,488 | — 1,272 | 235 | 1,572 | — 1,337 | 274 | 1,767 | — 1,493 | 322 | 1,915 | — 1,593 |
| Personal services ³⁾ | 186 | 631 | — 445 | 216 | 637 | — 421 | 265 | 698 | — 433 | 322 | 782 | — 460 |
| Other services | 242 | 636 | — 394 | 255 | 637 | — 382 | 308 | 694 | — 386 | 314 | 844 | — 530 |
| Total | 1,211 | 2,257 | — 1,046 | 1,262 | 2,587 | — 1,325 | 1,670 | 3,041 | — 1,371 | 1,916 | 3,618 | — 1,702 |
| Total | 13,243 | 16,441 | — 3,198 | 13,908 | 17,143 | — 3,235 | 15,333 | 19,561 | — 4,228 | 16,495 | 21,985 | — 5,490 |
| <i>Note:</i> Net balance of services except freight and insurance costs, which are contained in the c.i.f. import value | 14,138 | 14,585 | — 447 | 14,883 | 14,984 | — 101 | 16,275 | 16,930 | — 655 | 17,656 | 19,254 | — 1,598 |

¹⁾ Including receipts from deliveries, which are not recorded separately. — ²⁾ Including expenditure on freight and insurance costs in the case of sea-borne imports. — ³⁾ Except foreign workers' wage remittances, which are included in transfer payments.

should be assessed much higher, it is true; but a large part of the profits made seem not to be transferred, and also not to be recorded due to the absence of statistical reports.

Receipts from foreign troops are a special item on the receipts side of the balance of services, which is offset to but a slight extent by similar expenditure within this section, *e. g.* for the training of German troops abroad. Germany's expenditure abroad for military purposes, primarily for the import of armaments, is in fact included for the most part in other items of the balance of payments. In the past year again such expenditure, which is incurred not least in order to give to the allied powers stationing their forces in Germany some foreign exchange compensation for their expenses here, counterbalanced to a large extent our N.A.T.O. partners' payments in Deutsche Mark, whereas in former years it was at times even greater. Overall receipts from foreign troops — including both the countervalue of goods delivered and services rendered to troops and also the "private" Deutsche Mark conversions by members of the foreign armed forces — amounted to DM 4,150 million in 1965, which was slightly less than in previous years. There was a further decline especially in expenditure by United States troops.

On unilateral transfers — the third large section under current items in the balance of payments — there was a deficit in 1965 which at DM 5.8 billion was DM 900 million greater than in the previous year. In 1964 and 1963, on the other hand, German transfer payments had shown a decreasing tendency. An important reason for the renewed increase in the deficit during 1965 was the fact that official transfers, particularly because of larger indemnification payments, grew by DM 350 million to more than DM 3.4 billion and thus approached the highest level reached so far (DM 3.8 billion in the year 1962). Some factors of only temporary effect were involved, it is true, such as the payment of the last instalment (DM 300 million) under the Israel Agreement and also payments to individuals pursuant to the final laws concerning indemnification, but on the other hand a noticeable decrease in indemnification payments to foreign countries can only be expected in a few years. Thus, for by far the greater part this is a matter of regularly recurrent payments, the inclusion of which in the current account is justified particularly by the fact that they are unilateral transactions, through which neither claims are acquired nor are debts repaid in the economic sense; they cannot therefore be included in capital transactions.

Receipts from foreign troops

Greatly increased deficit on transfer payments

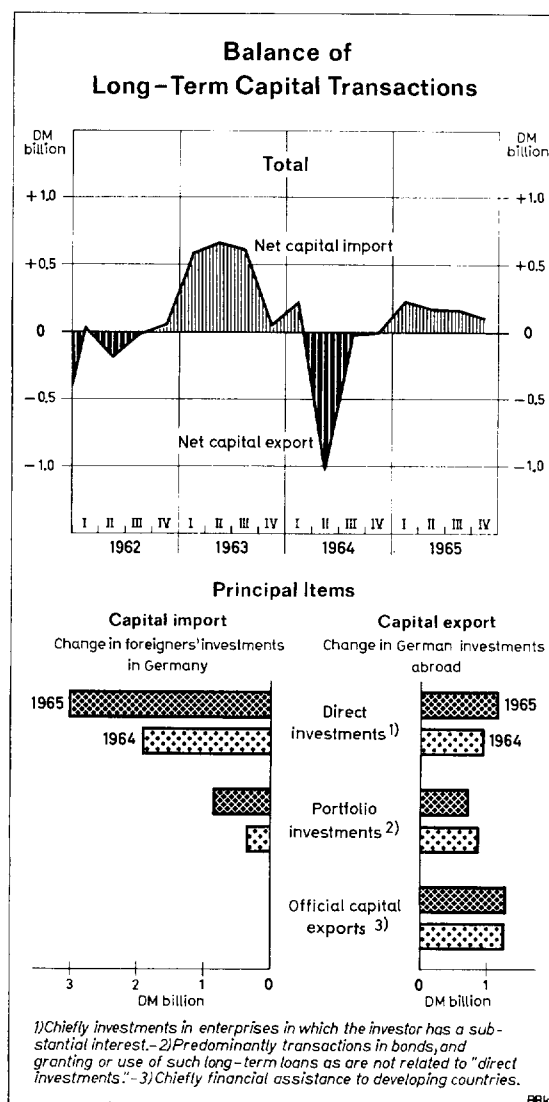
Whilst official transfers are due in the first place to political decisions, private transfers mainly reflect cyclical influences. This applies especially to the wage remittances of foreign workers, which are included here. The number of foreigners working in Germany increased by 185,000 to 1.1 million from the end of 1964 until the end of 1965. It is due to this fact and to the rise in the general level of wages that the wage remittances of foreign workers in 1965 rose by an estimated DM 400 million to DM 1.7 billion. Of this sum approximately DM 600 million was remitted to Italy, DM 300 million each to Spain and Greece, and DM 260 million to Turkey. Other private transfers abroad, mainly donations by charitable organisations and maintenance payments, also increased; at 690 million they were DM 130 million greater than in 1964.

3. Long-term external capital transactions

There was not nearly as great an import of long-term capital in 1965 to compare with the large deficit on current items in the balance of payments (DM 6.2 billion as mentioned above). Indeed, long-term capital transactions showed a surplus (*i. e.* a net capital import) of only about DM 0.7 billion, whereas in the year before capital had on balance been exported to approximately the same extent, it is true. The basic balance (current items plus long-term capital transactions), which provides a specially fair criterion for judging the balance-of-payments situation of a country, and which therefore is often used in international statistics, accordingly showed a deficit of DM 5.5 billion in 1965.

The reversal in net long-term capital transactions in 1965 was principally connected with the fact that more capital was imported on private account (DM 3.9 billion compared with DM 2.3 billion the year before). The main part was played in this connection by foreign direct investments, *i. e.* the inflow of capital to the German subsidiaries of foreign firms and to German businesses with substantial foreign participation; in 1965 such investments — as far as they are not included in short-term capital transactions — amounted to about DM 3.0 billion as against DM 1.9 billion a year before and DM 1.4 billion in 1963¹⁾. This import of capital was effected chiefly by foreigners' purchase of shares and acquisition of holdings in private limited companies in G.m.b.H. form. Borrowing by those enterprises which are wholly or to a substantial extent owned by foreigners — which is likewise counted as direct investment — also was not inconsiderable. In addition to foreigners' interest in taking part in the growth and the profit-earning prospects of German trade and industry by direct capital participation, there was in 1965 the further fact

¹⁾ After addition of the short-term capital inflows to the "direct investments", the figures are DM 3.1 billion for 1965 and DM 2.5 billion for 1964.



Improvement in long-term capital transactions, ...

... nevertheless large deficit on basic balance

Greater capital import through foreigners' direct investments

that the financing of American subsidiaries abroad from non-American sources of credit, as required by the U. S. Government in connection with its balance-of-payments policy measures, often presupposed reinforcement of these subsidiaries' own capital resources. However, foreign direct investments are not fully equivalent to inflows of foreign exchange into Germany, since to the extent of DM 850 million they were due to the conversion of previously granted short-term loans and to the amount of about DM 500 million they were financed by reinvestment of distributed profits.

Imports of other long-term private capital, to a large extent "portfolio investments", also grew in 1965. These inflows of capital are more strongly influenced by considerations of interest and liquidity than are the direct investments just mentioned; they amounted to about DM 850 million as against DM 350 million in 1964. Transactions under repurchase agreement between German banks and foreigners were of special importance, since repurchase commitments arising from the sale — in general for a specified period — of loan claims (in the first place probably loans secured by borrower's notes) and of other domestic assets to foreigners grew by about DM 600 million in the course of 1965, whereas in 1964 they would seem to have been of hardly any importance¹⁾. Nevertheless, in 1965 considerably less portfolio capital was imported on the whole than two years previously (1963: DM 2.9 billion); in fact, during 1965 foreign countries on balance purchased German bonds in the sum of only DM 100 million, as against DM 2.0 billion in 1963. The announcement of the 25 per cent withholding tax on foreign-held German fixed-interest securities caused purchases of German bonds by foreigners to decline to only DM 5 million net in 1964, and, as the figures show, there was practically no change as against this in 1965.

Direct investments are of the greatest significance in the export of capital just as they are in capital imports. Overall German private long-term capital investments abroad grew by DM 1.9 billion in 1965 (similar to the movement in the previous year), an estimated DM 1.2 billion being attributable to direct investments of German firms. Nevertheless German direct investments abroad during 1965 increased by only one-third of the new foreign direct investments in Germany, the proportion thus being even less than in previous years²⁾. Portfolio investments, which at about DM 700 million were slightly less in 1965 than in 1964, include purchases of foreign fixed-interest securities totalling DM 390 million. Purchases concerned principally foreign DM loans issued in Germany. In 1965 foreign countries as a whole issued in this country thirteen loans at a face value of DM 1,300 million, the statistics on capital transactions showing that 65 per cent of this total was acquired by foreigners (shares of foreign syndicate banks and "free market" purchases being taken together), and 35 per cent by residents. German investment in these bonds is probably only of a short-term nature. It will concern principally the German syndicate banks, which are endeavouring to resell this paper, if only because of its relatively low rates of interest, the buyers being as a rule foreigners.

If private capital imports (DM 3.9 billion in 1965) are offset against private capital exports (DM 1.9 billion in 1965), a net capital import of DM 2.0 billion results for total private long-term movements of capital in 1965 as compared with about DM 450 million in the year before. However, this inflow of funds in the private sector in 1965 again contrasted with substantial official capital exports, which at DM 1.3 billion were even slightly greater than in 1964. For the most part (DM 1.1 billion) it was a matter of financial aid to developing countries; in this context it should be explained that these payments represent but a portion of the total development aid granted by the Federal Republic of Germany. If expenditure on technical assistance and certain private capital payments, which are contained in other items of the balance of payments, are included in the analysis, as is the usual international practice, then the entire (official and private) expenditure on development aid in 1965 amounted to approximately DM 2.8 billion, that is as much as in the preceding year.

Direct investments also predominate in private capital exports

Official capital exports continue at a high rate

¹⁾ Foreign assets sold to foreigners under repurchase agreements (about DM 100 million in 1965), which were mainly in the form of securities, have not been included here, but were entered as a reduction in German capital investments abroad.

²⁾ Cf. "German Direct Investments Abroad" in the Monthly Report of the Deutsche Bundesbank, Vol. 17, No. 12, December 1965, page 19 *et seq.*

Capital Transactions with Foreign Countries

(Increase of assets and decrease of liabilities: —,
decrease of assets and increase of liabilities: +)

Millions of DM

| Item | 1959 | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1964 | | 1965 | |
|---|-----------|------------------------|------------------------|---------|---------|-----------|-----------|----------|----------|----------|----------|
| | | | | | | | | 1st half | 2nd half | 1st half | 2nd half |
| A. Long-term capital transactions | | | | | | | | | | | |
| I. Private capital transactions ¹⁾ | | | | | | | | | | | |
| (1) Net German capital investments abroad, total | -2,022 | -1,435 | -1,107 | -1,382 | -1,184 | -1,815 | -1,895 | -1,149 | - 666 | -1,046 | - 849 |
| of which: | | | | | | | | | | | |
| Fixed-interest securities | - 452 | + 24 | + 1 | - 94 | - 221 | - 489 | - 391 | - 446 | - 43 | - 326 | - 65 |
| Shares ²⁾ | -1,012 | - 739 | - 206 | - 639 | - 254 | - 344 | - 655 | - 169 | - 175 | - 411 | - 244 |
| Business and capital interests not embodied in security form | - 192 | - 267 | - 300 | - 325 | - 393 | - 434 | - 406 | - 254 | - 180 | - 157 | - 249 |
| Credits and loans | - 249 | - 329 | - 423 | - 99 | - 150 | - 382 | - 226 | - 223 | - 159 | - 51 | - 175 |
| Other | - 117 | - 124 | - 179 | - 225 | - 166 | - 166 | - 217 | - 57 | - 109 | - 101 | - 116 |
| (2) Net foreign capital investments in the Federal Republic of Germany, total | + 870 | + 2,501 | + 1,987 | + 2,454 | + 4,315 | + 2,260 | + 3,881 | + 853 | + 1,407 | + 1,978 | + 1,903 |
| of which: | | | | | | | | | | | |
| Fixed-interest securities | - 140 | + 1,373 | + 303 | + 722 | + 1,991 | + 5 | + 103 | - 76 | + 81 | + 32 | + 71 |
| Shares ²⁾ | + 609 | + 700 | + 1,442 | + 800 | + 877 | + 507 | + 662 | + 87 | + 420 | + 249 | + 413 |
| Business and capital interests not embodied in security form ³⁾ | + 515 | + 345 | + 434 | + 552 | + 577 | + 727 | + 1,687 | + 331 | + 396 | + 1,117 | + 570 |
| Credits and loans | + 156 | + 292 | + 91 | + 517 | + 974 | + 1,124 | + 1,550 | + 565 | + 559 | + 647 | + 903 |
| Other | - 270 | - 209 | - 283 | - 137 | - 104 | - 103 | - 121 | - 54 | - 49 | - 67 | - 54 |
| Net balance of private long-term capital transactions | -1,152 | + 1,066 | + 880 | -1,072 | + 3,131 | + 445 | + 1,986 | - 296 | + 741 | + 932 | + 1,054 |
| II. Official capital transactions | -4,295 | -1,239 | -5,121 | -1,173 | -1,181 | -1,259 | -1,288 | - 511 | - 748 | - 520 | - 768 |
| among which: | | | | | | | | | | | |
| Financial assistance to developing countries ⁴⁾ | (- 481) | (- 746 ⁵⁾) | (- 950 ⁶⁾) | (- 922) | (- 954) | (- 1,060) | (- 1,143) | (- 409) | (- 651) | (- 432) | (- 711) |
| Special transactions ⁶⁾ | (- 2,824) | (- 100) | (- 4,005) | (-) | (-) | (-) | (-) | (-) | (-) | (-) | (-) |
| Overall net balance of long-term capital transactions | -5,447 | - 173 | -4,241 | - 101 | + 1,950 | - 814 | + 698 | - 807 | - 7 | + 412 | + 286 |
| B. Short-term capital transactions | | | | | | | | | | | |
| (1) Credit institutions | | | | | | | | | | | |
| Assets | -1,315 | + 1,103 | -1,558 | - 175 | - 129 | - 709 | - 319 | - 886 | + 177 | - 863 | + 544 |
| Liabilities | + 280 | + 1,151 | + 1,294 | + 28 | + 833 | + 760 | + 132 | - 916 | + 1,676 | -1,239 | + 1,371 |
| Balance | -1,035 | + 2,254 | - 264 | - 147 | + 704 | + 51 | - 187 | -1,802 | + 1,853 | -2,102 | + 1,915 |
| (2) Enterprises ⁷⁾ | | | | | | | | | | | |
| Assets | - 106 | - 82 | - 307 | + 151 | - 9 | - 211 | - 225 | - 60 | - 151 | - 68 | - 157 |
| Liabilities ⁸⁾ | - 52 | + 738 | + 910 | + 268 | + 30 | + 384 | + 1,062 | + 781 | - 397 | + 366 | - 696 |
| Balance | - 158 | + 656 | + 603 | + 419 | + 21 | + 173 | + 837 | + 721 | - 548 | + 298 | + 539 |
| (3) Public authorities ⁹⁾ | + 398 | - 957 | -1,206 | + 594 | - 458 | -1,447 | + 1,149 | - 967 | - 480 | + 176 | + 973 |
| Overall net balance of short-term capital transactions | - 795 | + 1,953 | - 867 | + 866 | + 267 | -1,223 | + 1,799 | -2,048 | + 825 | -1,628 | + 3,427 |
| Total capital transactions statistically recorded (A + B) (net capital export: —) | -6,242 | + 1,780 | -5,108 | + 765 | + 2,217 | -2,037 | + 2,497 | -2,855 | + 818 | -1,216 | + 3,713 |
| <i>Note:</i> | | | | | | | | | | | |
| Residual item in the balance of payments ¹⁰⁾ | - 196 | + 1,515 | + 256 | + 807 | - 618 | + 1,568 | + 2,211 | + 1,282 | + 286 | + 2,399 | - 188 |

¹⁾ Breakdown of private long-term capital transactions into "Direct investments" and "Portfolio investments" will be found in the table "Principal Items of the Balance of Payments" on page 92. — ²⁾ Including investment fund certificates. — ³⁾ Mainly interests in limited-liability companies (GmbH). — ⁴⁾ "Bilateral" loans, and assistance channelled to developing countries through international organisations. — ⁵⁾ Excluding the credits, mentioned in footnote ⁶⁾, granted by Deutsche Bundesbank to I.B.R.D. — ⁶⁾ 1959: increase of German quota with I.M.F. (DM 1,921 million) and prepayment of debt in respect of post-war economic aid (DM 903 million); 1960: drawing of DM 100 million on the Deutsche Bundesbank credit to I.B.R.D. (roughly DM 1 billion) agreed in August 1960; 1961: prepayment of debt in respect of post-war economic aid (DM 3,125 million) and further drawing on the Bundesbank credit to I.B.R.D. (DM 880 million). — ⁷⁾ Mainly granting and use of "financial credits". — ⁸⁾ The changes resulting from conversion of short-term credits into owned capital and long-term credits have not been eliminated (e.g., 1965: DM 847 million). — ⁹⁾ Chiefly concerning changes in the assets of the Federal Government resulting from prepayments on defence imports and in the liabilities of the Federal Government to I.M.F. under the German quota. — ¹⁰⁾ Mainly due to credit movements not statistically recorded.

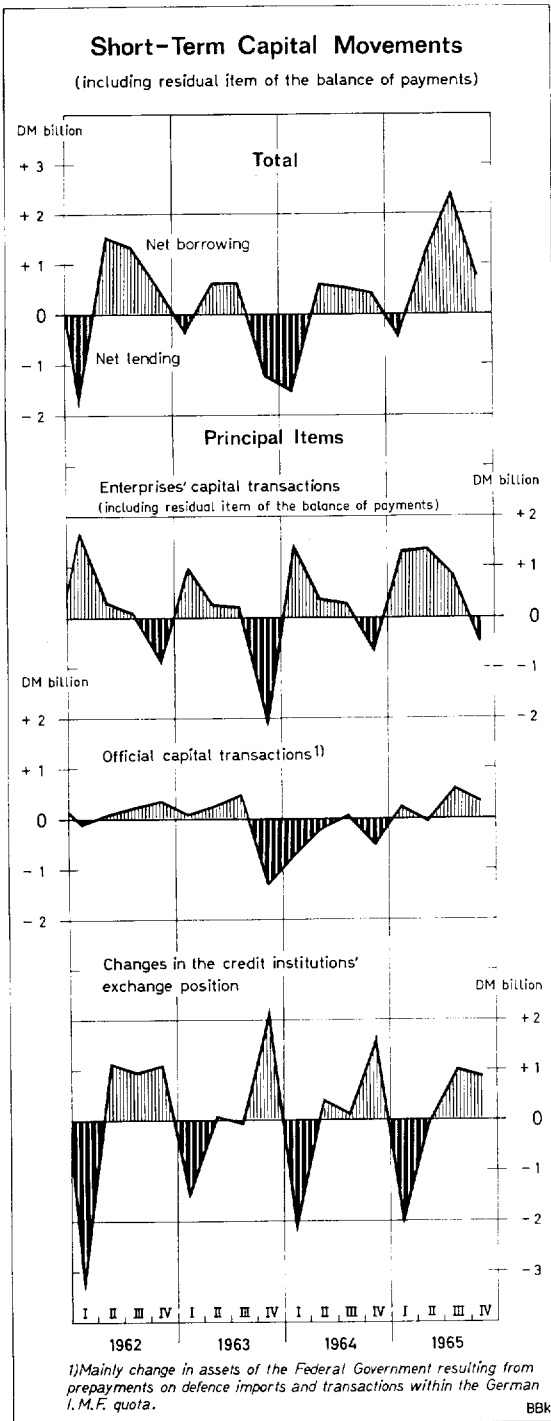
4. Short-term external capital transactions

In short-term capital transactions, which (including the residual item of the balance of payments) were more or less in equilibrium in 1964, the tendency to borrow abroad or to repatriate own funds in order to some extent to circumvent the shortage of credit at home became more marked in the course of 1965.

Examination of the short-term indebtedness of enterprises reveals that in 1965 the “financial credits”¹⁾ taken direct by German firms in foreign countries (and recorded statistically) increased

Net capital import ...

... through borrowing abroad by trade and industry...



on balance by approximately DM 850 million compared with about DM 170 million in the previous year and only DM 20 million in 1963. This rise is all the more remarkable as in the course of 1965 short-term loans in the sum of DM 850 million were converted into long-term loans and owned capital; disregarding these conversions, DM 1.7 billion of short-term foreign loans were taken additionally. Moreover, enterprises also obtained credits which were not ascertained statistically, especially suppliers' credits. An indication of this is given only by the residual item of the balance of payments, in which of course — apart from errors in statistical calculation — not only unrecorded movements of capital are reflected but also transactions which, if they were known, would have to be included under current items. In 1965 the residual item showed a surplus of DM 2.2 billion (as against DM 1.6 billion in 1964). In part this has been a more or less automatic result of the very great rise in imports, as the commercial debts of importers would have grown if only by reason of the increase (by 20 per cent in 1965) in imports, even if periods allowed for payment had remained unchanged. This is reflected in the residual item most particularly when, as in 1965, exports (and thus claims on foreign buyers) increase less vigorously than do imports and the resultant commercial liabilities to foreign countries. However, since these influences cannot be assessed any more exactly, it is not possible either to find out whether the terms of payment have also changed, *i. e.*, whether, for example, German importers on the average utilised longer periods allowed by their foreign suppliers for payment, and whether the reverse applied to German exports.

¹⁾ “Financial credits” are the short-term external claims and liabilities of German enterprises exclusive of advance payments made and received for deliveries of goods and services, and also excluding utilised or granted periods for payment. Returns are required of those firms whose short-term claims or liabilities amount to more than DM 100,000 at the end of any month.

In considering the residual item it should furthermore not be forgotten that in view of Germany's substantial turnover in foreign trade, amounting as it did to DM 138 billion in 1965, an average shifting of the periods allowed for payment by only a few days in Germany's favour suffices to cause the surplus on the residual item of the balance of payments greatly to increase. If, for example, the average periods for payment are extended by five days for imports, and if they are reduced in the same way for exports — perhaps by the granting of attractive discounts — then, all other circumstances being equal, this would improve the residual item by as much as roughly DM 2 billion. In a country economically so closely linked with foreign countries as Germany is, such shifts must always be reckoned with.

Whereas in 1964 short-term capital transactions of public authorities had led to outflows of foreign exchange amounting to DM 1.4 billion, they yielded a surplus of DM 1.1 billion in 1965. The improvement was due primarily to the fact that — in contrast to the position in 1964 — payments made by the Federal Government for imports of armaments were less than the actual imports, so that the Government's claims on foreign countries resulting from previous advance payments decreased, this having the effect of a recourse to credit balances abroad and thus being similar to a net capital import (even if there was no inflow of funds in the proper sense). According to the form of our balance-of-payments statement, some processes have been included in short-term official capital payments which are actually connected with arrangements made by monetary authorities and thus must be regarded in close relation with the changes in the Bundesbank's gold and foreign exchange holdings. These are the transactions with the International Monetary Fund under the German I.M.F. quota and the investments by foreign monetary authorities in German money-market paper. An overall outflow of about DM 200 million was caused in 1965 by these processes, which will be analysed in the section on the movement of gold and foreign exchange.

As regards the short-term capital transactions of credit institutions, there was an insignificant net capital export (DM 187 million) for the whole of 1965. In point of time it resulted above all from the fact that the seasonally large exports of money in January and February 1965 were not quite counterbalanced by the also seasonally large money imports towards the end of the year. Incidentally, the credit institutions obtained substantial funds in 1965 by selling to foreigners assets under repurchase agreement for specified periods; reference to these transactions has already been made in another context.

5. Movement of gold and foreign exchange

As a result of the capital imports described and of the increase in the surplus shown by the residual item of the balance of payments, the monetary reserves of the Deutsche Bundesbank¹⁾ decreased by only DM 1.5 billion during 1965 in spite of the considerable deterioration on current account. The Bundesbank's total holdings of gold and external assets amounted to about DM 28.8 billion net on 31 December 1965 compared with DM 30.3 billion at the end of 1964 and 32.5 billion at their peak level reached in April 1961. In the first quarter of 1966 the central reserves decreased by a further DM 1.2 billion to DM 27.6 billion. The 1965 balance-of-payments deficit was met mainly by drawing on dollar balances, which decreased by over DM 2.5 billion during the year. The fact that the decrease in the freely disposable dollar reserves was even greater than the overall deficit is not connected with conversions into gold, but essentially with special transactions in favour of Great Britain. For the medium-term consolidation of the foreign exchange aid utilised at the end of the year 1964, and for replenishing its reserves, Great Britain in May 1965 drew on the International Monetary Fund various currencies to the equivalent of altogether \$ 1.4 billion, after having already drawn on the Fund in December 1964 to the extent of \$ 1.0 billion. Germany participated in the provision of funds in May 1965 with a sum of DM 1,250 million (\$ 312.5 mil-

¹⁾ The figures given here are values converted into Deutsche Mark at parity rates; divergences from the figures in the Bundesbank's balance sheet for 1965 are explained principally by the fact that there the foreign assets are calculated on the lowest value principle (cf. page 122 of this Report).

... and through reduction
in public authorities'
foreign assets...

... with hardly any
alteration in the credit
institutions' foreign
exchange position

Decrease in the
monetary reserves
of the Bundesbank

Evaluation of the Gold and Foreign Exchange Movement

Millions of DM

| Item | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 |
|--|-----------|-----------------------|----------|-----------|-----------|-----------|
| I. Monetary Reserves of the Deutsche Bundesbank | | | | | | |
| Position at end of year ⁺) | | | | | | |
| Total holdings (net) | 31,628 | 28,281 | 27,729 | 30,301 | 30,313 | 28,807 |
| of which: | | | | | | |
| (1) Gold holdings and freely usable external assets, total | 28,295 | 26,165 | 25,786 | 28,409 | 27,879 | 25,410 |
| of which: Gold | (12,479) | (14,654) | (14,716) | (15,374) | (16,992) | (17,639) |
| U.S. dollars | (14,981) | (10,886) | (10,785) | (11,668) | (7,712) | (5,167) |
| Other assets | (835) | (625) | (285) | (1,367) | (3,175) | (2,604) |
| (2) Credit granted to I.M.F. under the "General Arrangements to Borrow" | — | — | — | — | 720 | 1,390 |
| (3) External assets of limited usability | 3,762 | 2,453 | 2,299 | 2,131 | 1,973 | 2,428 |
| (4) External liabilities | 429 | 337 | 356 | 239 | 259 | 421 |
| II. The Federal Republic of Germany's Position in relation to the International Monetary Fund | | | | | | |
| Position at end of year ^{o)} | | | | | | |
| (1) Quota ¹⁾ | 3,307 | 3,150 | 3,150 | 3,150 | 3,150 | 3,150 |
| (2) In-payments actually made | 1,296 | 2,549 | 2,069 | 2,208 | 2,930 | 2,915 |
| (a) Gold ²⁾ | (827) | (788) | (788) | (788) | (788) | (788) |
| (b) DM drawings by I.M.F. (net) | (469) | (1,761) | (1,281) | (1,420) | (2,142) | (2,127) |
| (3) Present DM holdings of I.M.F. | 2,011 | 601 | 1,081 | 942 | 220 | 235 |
| DM holdings in per cent of quota | 61 | 19 | 34 | 30 | 7 | 7 |
| Note: The Federal Republic of Germany's overall reserve position in I.M.F. ³⁾ | (1,296) | (2,549) | (2,069) | (2,208) | (3,650) | (4,305) |
| III. Change in Overall Central Monetary Position | | | | | | |
| (1) Change in the Deutsche Bundesbank's monetary reserves ⁴⁾ ⁵⁾ | | | | | | |
| (cf. I) | | | | | | |
| Total holdings (net); (increase: +) | + 8,007 | —1,928 | — 552 | + 2,572 | + 12 | — 1,506 |
| of which: | | | | | | |
| (a) Gold holdings and freely usable external assets | + 9,256 | — 773 | — 379 | + 2,623 | — 530 | — 2,469 |
| of which: Gold | (+ 1,402) | (+2,781) | (+ 62) | (+ 658) | (+ 1,618) | (+ 647) |
| U.S. dollars | (+ 7,725) | (—3,383) | (— 101) | (+ 883) | (— 3,956) | (— 2,545) |
| Other assets | (+ 129) | (— 171) | (— 340) | (+ 1,082) | (+ 1,808) | (— 571) |
| (b) Credit granted to I.M.F. under the "General Arrangements to Borrow" | — | — | — | — | + 720 | + 670 |
| (c) External assets of limited usability | — 1,230 | —1,246 | — 154 | — 168 | — 158 | + 455 |
| (d) External liabilities (increase: —) | — 19 | + 91 | — 19 | + 117 | — 20 | — 162 |
| (2) Change in quasi-automatic drawing rights on I.M.F. within German quota (cf. II item 2); (increase: +) | + 169 | +1,322 | — 480 | + 139 | + 722 | — 15 |
| Note: Change in total quasi-automatic drawing rights on I.M.F. ⁶⁾ | (+ 169) | (+1,322) | (— 480) | (+ 139) | (+ 1,442) | (+ 655) |
| (3) Change in the Deutsche Bundesbank's external assets not contained in the monetary reserves (increase: +) ⁷⁾ | + 81 | + 848 | — 12 | + 5 | — 3 | — 20 |
| (4) Change in liabilities resulting from sale of German money-market paper to foreign monetary authorities (increase: —) ⁸⁾ | — 68 | — 267 | + 140 | + 29 | — 304 | + 245 |
| Total | + 8,189 | — 25 | — 904 | + 2,745 | + 427 | — 1,296 |
| Note: (1) Change in net foreign exchange position of the credit institutions (except Bundesbank); (improvement: +) | (— 2,254) | (+ 264) ⁹⁾ | (+ 147) | (— 704) | (— 51) | (+ 187) |
| (2) Change in overall central monetary position plus change in the credit institutions' net foreign exchange position | (+ 5,935) | (+ 239) | (— 757) | (+ 2,041) | (+ 376) | (— 1,109) |
| ⁺) Figures for earlier years will be found in Table VII 2 in the Statistical Annex to this Report; as regards valuation, cf. explanations to that table. — ^{o)} Valued at the parity rates of U.S. \$ 1.00 = DM 4.20 prior to, and of U.S. \$ 1.00 = DM 4.00 after, the DM revaluation. — ¹⁾ Since 15 September 1959 the German quota has amounted to U.S. \$ 787.5 million, being equivalent to DM 3,307 million until the DM revaluation in 1961, and from then onwards to DM 3,150 million. — ²⁾ Including repurchase of DM by the Federal Republic of Germany under the repurchase obligation. — ³⁾ Corresponds to the actual in-payments within the quota (II 2) plus the Bundesbank assets, contained in central monetary reserves, resulting from credit granted under the "General Arrangements to Borrow" (I 2). — ⁴⁾ Recorded as "Net movement of gold and exchange" in the balance-of-payments statements. — ⁵⁾ Disregarding the decrease by DM 1,419 million due to the DM revaluation in 1961. — ⁶⁾ Cf. the Federal Republic of Germany's overall reserve position in I.M.F. recorded in II under "Note". — ⁷⁾ Mainly I.B.R.D. bonds and drawing on the credit line of some DM 1 billion opened to I.B.R.D. in August 1960. — ⁸⁾ Including international organisations with monetary responsibilities. — ⁹⁾ Statistical changes due to the DM revaluation have not been eliminated. | | | | | | |

lion). The Bank of England for its part used some of the Deutsche Mark received through the I.M.F. for purchasing dollars from the holdings of the Bundesbank. A further reduction in the central dollar reserves not connected with current sales on the spot exchange market resulted from transactions under the Anglo-German "foreign exchange offsetting agreement". Pursuant to this agreement the Bundesbank gave dollars to the British monetary authorities and acquired a sterling balance covered by a forward exchange guarantee, to the equivalent of DM 465 million, which Germany can dispose of only under certain conditions (which is why this balance is included among the monetary reserves of only limited usability).

The Bundesbank's holding of gold, on the other hand, continued to grow in 1965, increasing by a further DM 647 million to DM 17.6 billion mainly because of gold sales of the I.M.F. against Deutsche Mark in connection with the financing of the DM portion of the above-mentioned drawing by Great Britain. Thus the share of gold holdings in the Bundesbank's overall gross monetary reserves increased from 55.6 per cent at the end of 1964 to 60.3 per cent at the end of 1965¹⁾.

Overall reserve position

From the purely functional point of view, as already indicated, movements in connection with the German I.M.F. quota and also transactions with foreign monetary authorities in domestic money-market paper ought to be included in the balance of gold and foreign exchange, since — just like the central monetary reserves — they serve to finance imbalances on current and capital account. These changes were not very considerable in 1965, however, so that combining them with the change in the Bundesbank's reserves would not lead to any substantial alterations, as shown by the table on page 103.

The change in the foreign exchange position of the banks other than the Bundesbank is not infrequently included among the movements of the monetary reserves, whereas according to the method employed in our balance-of-payments statement it appears as one of the determinants of the movement of gold and exchange, *viz.*, in the balance of short-term capital transactions. A combination of this kind is certainly appropriate from certain points of view for short-term analyses, particularly when for seasonal reasons substantial shifts of foreign exchange between the Central Bank and the credit institutions take place. On a long-term view, however, this method is not justified if the changes in the external position of the credit institutions concern autonomous movements of capital governed by costs and expectations of earnings, which are not notably different from other forms of capital transactions, unless the Central Bank were to take special measures to influence the foreign exchange position of the credit institutions. The Bundesbank has done this repeatedly in the past, it is true, particularly in the case of swap transactions with the credit institutions and also in connection with the privilege granted to the banks of being exempt from the minimum reserve obligation on the deposits of foreigners through the maintenance of credit balances and money market investments abroad. In the past year, however, there has been no essential change in these measures, which were last of any great importance in 1964, apart from the fact that in the meantime the Bundesbank allowed the swap commitment still existent at the end of 1964 to run off. It is therefore not fitting to include in the net movement of gold and exchange the change in the net foreign exchange position of the German banks, which — as the table on page 103 shows — kept within relatively narrow limits.

¹⁾ If the foreign assets in Deutsche Mark contained in the gross monetary reserves are disregarded, the gold portion amounted to about 73 per cent at the end of 1965.

The Deutsche Bundesbank's Cooperation in Bank Supervision

In 1965 the Deutsche Bundesbank again assisted the Federal Banking Supervisory Office and cooperated closely with it in supervising the credit institutions pursuant to the Banking Law.

The Principles concerning the Capital Resources and Liquidity of Credit Institutions under Articles 10 and 11 of the Banking Law were not amended in 1965. Their text is as follows:

Principles concerning
capital resources
and liquidity

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

dated 8 March 1962

(Federal Advertiser No. 53 of 16 March 1962)

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

(Federal Advertiser No. 161 of 1 September 1964)

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

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

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

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

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

P r i n c i p l e I

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

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

P r i n c i p l e I a

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

Principle II

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

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

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

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

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

Principle III

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

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

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

Pending a revision of the Principles, which will become necessary following the issue of a statutory order of the Federal Minister of Justice concerning new report forms for credit institutions having the legal form of joint stock companies (AG) and companies limited by shares (KGaA) pursuant to Article 161 of the Companies Law of 6 September 1965, and also for other reasons, the Federal Banking Supervisory Office in agreement with the Deutsche Bundesbank declared in a letter to the banking associations dated 12 July 1965 that in the event of credit institutions exceeding the limits laid down in the Principles they may

in a given case, with a pertinent note, treat pension reserves to the extent of 60 per cent as long-term financial funds under Principle II, and may now deduct from the assets components of Principles I, II and III all global and individual value adjustments carried as liabilities, irrespective of whether or not they are admitted for tax purposes.

3rd Exemption Order

After consultation with the Deutsche Bundesbank the Federal Banking Supervisory Office has issued the

Order concerning the exemption from the duty to report credits pursuant to Article 13, paragraph 1 and Article 16, items 1 and 7 to 9 of the Banking Law (Third Exemption Order) of 28 January 1966 (Federal Law Gazette, Part I, 1966, page 97).

This order lays down that large credits within the meaning of Article 13, paragraph 1 of the Banking Law are ordinarily to be reported only when they exceed DM 50,000, whereas previously reports were to be made when credits exceeded DM 20,000. Reliefs were conceded in reporting

credits granted to staff members of credit institutions pursuant to Article 16, item 1 of the Banking Law. It was furthermore laid down that long-term credits of all credit institutions are no longer to be reported in accordance with Article 13, paragraph 1 and Article 16, items 7 to 9 of the Banking Law in so far as a domestic authority or public-law institution has undertaken to guarantee them in full. Credits of this kind amounting to DM 1 million or more must, however, still be reported pursuant to Article 14 of the Banking Law.

After the increase of $\frac{1}{2}\%$ in the discount and advance rates decreed by the Central Bank Council of the Deutsche Bundesbank in its session of 12 August 1965 and the consequent automatic raising of the maximum debtor interest rates pursuant to the Interest Rates Order of 5 February 1965 the Federal Banking Supervisory Office, in agreement with the Deutsche Bundesbank and after hearing the central associations of the credit institutions and the Federal Postal Administration, raised the maximum interest rates on all deposits with the exception of the maximum interest rate for sight deposits by between $\frac{1}{4}\%$ and $\frac{3}{4}\%$ with effect from 1 October 1965 (cf. Monthly Report of the Deutsche Bundesbank for August 1965, page 3) through the

First Order Amending the Interest Rates Order of 31 August 1965 (Federal Law Gazette, Part I, page 1062).

Finally the Bundesbank took part in an advisory capacity in the revision of the order concerning the formation of global value adjustments at credit institutions. The Federal Banking Supervisory Office published the order as Notice No. 1/65 of 14 July 1965 (Federal Advertiser No. 244, page 4, of 29 December 1965). The Federal Government's administrative order, by which the minimum rates laid down by the Federal Banking Supervisory Office for the formation of global value adjustments are also admissible for tax purposes, was passed by the *Bundesrat* on 11 February 1966 and published in the Federal Advertiser No. 58 of 24 March 1966.

In connection with the current supervision of credit institutions the Land Central Banks, using the network of branches of the Deutsche Bundesbank, processed about 55,000 individual reports pursuant to Article 13, paragraph 1, sentences 1 and 2 of the Banking Law, as well as about 32,000 reports on large credits contained in compilations pursuant to Article 13, paragraph 1, sentence 4 of the Banking Law, and about 46,500 monthly returns pursuant to Article 25 of the Banking Law. So far as the Federal Banking Supervisory Office had not waived their transmission, these reports and returns were transmitted to the Office, and the Land Central Banks expressed their views on the contents of the reports regularly and on the monthly returns as the occasion demanded. The Office uses this material, as well as the information obtained on the basis of its own data and personal contacts regarding the position of individual credit institutions, in its decisions concerning any measures of bank supervision which might become necessary. In addition the Land Central Banks processed about 4,200 reports pursuant to Article 24 of the Banking Law made by the credit institutions, by which changes in the management, participations in other credit institutions, changes in legal form and in capital, opening of branches, *etc.*, must be notified, as well as some 12,500 annual statements of the credit institutions pursuant to Article 26 of the Banking Law. The recording centre for credits of DM 1 million or more, established at the Directorate of the Deutsche Bundesbank, received about 218,000 reports pursuant to Article 14, paragraph 1 of the Banking Law. On the average for each of the six processing periods of the year under report, about 3,000 borrowers were ascertained who had taken from two or more lenders credits pursuant to Article 14 of the Banking Law. The lending credit institutions, insurance companies, social insurance institutions, and the Federal Institution for Labour Exchanges and Unemployment Insurance were informed about the amount of their borrowers' indebtedness as well as about the number of lenders.

1st Order amending the Interest Rates Order

Order concerning the formation of global value adjustments

Cooperation in the current supervision of banks

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

I. Credit Policy Regulations

1. Credit instruments eligible at the Bundesbank

Discount business

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

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

The period to the maturity of bills must not exceed the time which is necessary for carrying out the underlying transaction in goods (decision of 10 May 1949). In the case of grain and fodder bills the period to maturity may amount to three months, however, so as to facilitate the storage of grain and feedingstuffs at the marketing and processing stages, and thereby to reduce the demands for financial accommodation made on central official agencies (decision of 31 July 1952).

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

Instalment sale
financing bills

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

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

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

Building bills and
building-material bills

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

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

Bank acceptances are purchased only if they serve to finance at short term specific individual transactions (decisions of 10 May 1949 and 3 March 1966). They should be for at least DM 5,000 (decision of 31 January 1951). The Land Central Banks may in cases where they deem it appropriate waive the declaration as to the underlying transaction, which indicates the business financed by the bank acceptance (decision of 14 April 1954).

Bank acceptances

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

Prime bankers' acceptances are bank acceptances of a special kind, viz., DM acceptances of the accepting banks admitted to the prime acceptance market, which serve for the financing of import, export and merchanting transactions, of international commission processing, or of international transactions in goods between two countries not including Germany, and which on the upper margin of their face bear a reference to the transaction financed. The period still to run may only be 90 days or less, the amount involved must be at least DM 50,000 and should not exceed DM 1 million, while it should be divisible by 5,000. Prime bankers' acceptances are included in the Deutsche Bundesbank's regulation of the money market (decisions of 18 December 1958, 30 August 1962 and 6 May 1965; cf. page 112, "Money-market regulation and money-market policy").

Prime bankers' acceptances

The guiding principles for the purchase of bank acceptances apply *mutatis mutandis* to the purchase of bills drawn by credit institutions on their debtors, subject to the proviso that the total amount of the bills drawn by a bank and relating to any one debtor should not exceed DM 20,000, and that no minimum amount is laid down (decision of 31 January 1951).

Bills drawn on debtors

By virtue of special decisions of the Central Bank Council promissory notes of the Import and Storage Agencies (Storage Agency bills) are declared purchasable, up to certain maximum amounts newly fixed from time to time, and are used in the regulation of the money market (latest decision of 17 March 1966; cf. page 112 "Money-market regulation and money-market policy").

Promissory notes of the Import and Storage Agencies

Also rediscountable are the promissory notes of German exporters, bearing the endorsement of the exporter's bank and of the AKA Ausfuhrkredit-Gesellschaft mbH (Export Credit Company), and necessary prolongations of the said instruments, which have been issued mainly for the purpose of financing medium and long-term transactions for deliveries to developing countries within the limits of a rediscount line accorded to the AKA Ausfuhrkredit-Gesellschaft mbH (decisions of 5/6 March 1952 and 5 May 1960). Since the beginning of 1963 the rediscount line, known as Limit B of the AKA Ausfuhrkredit-Gesellschaft mbH, has amounted to DM 300 million (decision of 5 May 1960).

Bills for financing export orders

The rediscount line may be used only for credits running for not less than one and not more than four years (decision of 6 February 1957). The exporter must as a rule himself participate to the extent of 40 per cent of the value of the order, either through use of his own resources or through recourse to his own bank (decision of 6 October 1954). Only individual transactions may be financed. The financing assistance is intended in general to bridge over the interval between the time when production begins and that when the export proceeds are received. In case of the export of mass or series-produced goods, which are produced within any manufacturer's normal production programme or are sold ex warehouse, the duration of production and of warehousing must not be included in the period for which the financing assistance runs. For export transactions of this kind, therefore, the Bundesbank's assistance is given only for the purpose of bridging over the period between dispatch of the goods and receipt of the export proceeds (decisions of 18 May 1956, 25 July 1956 and 6 February 1957). The rediscount line must not be used to provide funds for capital investment or working resources for general export purposes of the exporting firms.

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

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

Advances on securities

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

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

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

Bills which cannot be purchased under the regulations in force are in principle also ineligible as security for advances (decision of 10 May 1949). There is an exception in the promissory notes of German exporters, financed through the AKA Ausfuhrkredit-Gesellschaft mbH's Limit A, which instruments may be taken as security for advances but may not be purchased (decisions of 5/6 December 1951 and 21 October 1965).

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

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

2. Rediscount quotas for credit institutions

The extent of recourse by credit institutions to the Deutsche Bundesbank by way of rediscounting bills of exchange and foreign cheques is limited – apart from other measures of Central Bank policy – through rediscount quotas. The Central Bank Council has laid down standard quotas based on the credit institutions' liable funds and differentiated according to categories of institutions (decisions of 17 April 1952 and 7 March 1963). As from 1 May 1965 the standard quotas, which in recent years, together with the credit institutions' liable funds, have been rising substan-

tially, were generally re-calculated. The resulting reductions of standard quotas became effective to the extent of one half at the beginning of October 1965 (decisions of 4 March 1965 and 12 August 1965); they will be put into force to their full extent at the beginning of May 1966 (decision of 3 February 1966).

The rediscount quotas are fixed by the Boards of Management of the Land Central Banks for the credit institutions located in their area. The rediscount quota of any large bank with a branch system, or of any other supra-regionally operating credit institution, is fixed by the Board of Management of the Land Central Bank in the area of which the head office of the institution in question is located (decision of 17/18 September 1952).

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

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

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

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

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

Outside the fixed rediscount quota those promissory notes of German exporters may be purchased which have been issued within the rediscount line (Limit B) opened by the Bundesbank for the AKA Ausfuhrkredit-Gesellschaft mbH for the purpose of financing medium and long-term export transactions (decision of 17 April 1952), and also prime bankers' acceptances which have passed through the money market and, at the time of their purchase, have not more than 29 days still to run (decisions of 18 December 1958 and 3 February 1966).

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

3. Money-market regulation and money-market policy

In order to enable the Deutsche Bundesbank to conduct open-market policy on a broader basis and to ensure efficiency in credit and liquidity policy, the Federal Government, as the debtor in respect of the equalisation claim which the Bank holds under the Monetary Reform provisions, is required by law (Article 42 of the Law concerning the Deutsche Bundesbank) to hand to the Bank, on request, Treasury bills or non-interest Treasury bonds in denominations and on terms of the Bank's choice (mobilisation paper) up to a maximum of DM 4 billion. On the Bank's request the Cabinet may increase the maximum up to the nominal amount of the equalisation claim. In June 1958 the maximum was increased, on request, to the full amount of the equalisation claim (about DM 8.1 billion) entered in the Federal Debt Register in the name of the Bank. The mobilisation paper is payable at the Bundesbank. The Bank is under obligation to the Federal Government to meet all liabilities arising from such mobilisation paper.

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

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

4. Provisions as to minimum reserves

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

On 6 May 1965 the Central Bank Council resolved that such credit institutions as definitely engage predominantly in long-term business shall, with effect from 1 July 1965, be exempt from the obligation to maintain minimum reserves (insertion of item (e) in Article 1, paragraph 2 of the Order on Minimum Reserves). This regulation applies primarily to real-estate credit institutions proper, to housing promotion institutions of various *Länder*, and to several credit institutions with special functions.

The enactment of the Interest Rates Order of 5 February 1965 required the offsetting facilities provided for in Article 2, paragraph 2, MRO, which in part were linked to the regulations of the former Debtor Interest Rate Agreement, to be adapted to the provisions of Articles 4 and 5 of the Interest Rates Order. The amendment of the provision was decided upon by the Central Bank Council on 21 October 1965. At the same date those credit institutions which under Article 2, paragraph 4 of the Banking Law had been exempt by the Federal Banking Supervisory Office from the stipulations of the Banking Law mentioned in the said paragraph, and which in practice do not show any reserve-carrying liabilities in their statements, were also exempt from the minimum reserve obligation (addition of item (f) to Article 1, paragraph 2, MRO). Some further alterations, made to Article 2, paragraph 3, items (i) and (j), served the sole purpose of adapting the wording of these provisions to the terminology used in other orders.

By decision of 4 November 1965 the Central Bank Council lowered, for the month of December 1965, the reserve ratios for sight and time liabilities to residents (Article 4, paragraph 1, item 3 of the Foreign Trade and Payments Law) to their level as of July 1964. Since 1 January 1966 the ratios valid in November 1965 have been in force again. A table showing the movements in reserve ratios will be found on page 118 of this Report.

The version of the Order on Minimum Reserves as at present in force is reproduced below.

The Deutsche Bundesbank's Order on Minimum Reserves

of 3 September 1962

as amended on 4 November 1965

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

I. General provisions

Article 1

- (1) Credit institutions within the meaning of this Order comprise all enterprises (also branches of foreign banks) conducting bank business within the meaning of Article 1, paragraph 1 of the Banking Law of 10 July 1961 (Federal Law Gazette I p. 881) within the scope there indicated.
- (2) Not subject to the obligation are
 - (a) the enterprises mentioned in Article 2, paragraph 1, items 4 to 9 of the Banking Law, except those quoted in Article 2, paragraph 1, item 8 of the Banking Law which mainly conduct banking business;
 - (b) the investment companies (Law dated 16 April 1957);
 - (c) the security-clearing institutions (Kassenvereine);
 - (d) credit institutions which are in liquidation, other credit institutions whose activity is confined to winding up, and dormant credit institutions;
 - (e) for one calendar year on each occasion those credit institutions which practise long-term lending as a permanent branch of business, and with which, according to the returns for the monthly balance-sheet statistics, the owned resources and the funds placed at their disposal for long periods, including the long-term loans on a trust basis as well as the liabilities on bonds, at the twelve end-of-month dates from 31 October of the penultimate year to 30 September of the past year averaged at least 90 per cent of the volume of business reduced by the value adjustments¹);
 - (f) enterprises in the case of which the Federal Banking Supervisory Office has determined, in accordance with Article 2, paragraph 4 of the Banking Law, that the provisions of the Banking Law mentioned in the said paragraph shall not apply.

Article 2

- (1) Liabilities subject to the reserve requirement comprise all liabilities to
 - (a) non-banks,
 - (b) credit institutions not subject to the reserve requirement, and
 - (c) banks in foreign countries,
arising from deposits and from loans taken, the latter for agreed periods to maturity, or at agreed periods of notice, of less than four years. In the case of a credit institution as defined in Article 53 of the Banking Law, a net liability on intercompany account is likewise deemed to be a liability in respect of deposits within the meaning of sentence 1.
- (2) For the purpose of ascertaining the liabilities subject to the reserve requirement an account-holder's deposits payable on demand may be reduced by the offsetting of claims on that account-holder derived from credits in current account to the extent that in calculating the interest the claims are netted against such deposits. This does not apply to deposits in foreign currency.
- (3) Exempt from the reserve requirement are liabilities
 - (a) to the Bundesbank;
 - (b) in respect of earmarked monies taken as loans, so far as the said monies have already been passed on to the recipients or to an intermediary credit institution. Earmarked monies within the meaning of this provision are monies which according to directions laid down from the outset by the lender, in regard to the terms of lending in particular, are to be lent to borrowers designated by name by the lender or — where it is a case of a public or publicly assisted lending scheme — to borrowers who fulfil the requirements for taking part in the said lending scheme; the agreed maturity or period of notice of the earmarked monies as well as of the credits granted or to be granted out of this source must be not less than one year, unless a public or publicly assisted lending scheme is concerned;

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

- (c) of private or public mortgage banks or ship mortgage banks in respect of monies which have been taken as global loans but have not yet been passed on to the borrowers, and for the purpose of securing which there has been transferred to the lender a registered mortgage bond that is covered not by mortgages but by substitute cover through use of the loan monies received;
 - (d) in respect of balances for covering letters of credit, and of other covering balances, in so far as the credit institution for its part maintains a corresponding covering balance at a bank within the country or abroad;
 - (e) of a credit institution in the legal form of a general partnership (OHG), limited partnership (KG), or company limited by shares (KGaA), to personally liable partners, provided the liabilities represent balances on accounts which are exclusively credited with dividends;
 - (f) in respect of customers' drawings on credits opened with third parties;
 - (g) in respect of the receipt of amounts collected purely on a commission basis, so far as the said amounts are currently paid over to the beneficiaries. Amounts are to be regarded as "currently paid over" if they remain at the collecting institution for not longer than 14 days;
 - (h) in respect of compensation balances within the meaning of Article 4 of the Law on Currency Conversion Compensation for Expelled Persons' Savings Balances, in so far as such balances have not yet been released (Article 11, paragraph 3 of the Law);
 - (i) in respect of savings deposits to the extent of the covering claims held under Article 19 of the Old Savings Law for amounts credited as compensation to deposit accounts;
 - (j) in respect of savings deposits to the extent of the covering claims held under Article 252, paragraph 4 of the Equalisation of Burdens Law;
 - (k) in respect of funds borrowed by a credit institution which apart from bank business also conducts business in goods or services and keeps separate accounts for its bank and its non-bank business, if such funds are intended exclusively for financing its own business in goods or services, provided this is shown by the books.
- (4) Also exempt from the reserve obligation are liabilities to non-residents (Article 4 of the Law on Foreign Trade and Payments) — in so far as they are not already exempt under the above provisions — in the amount of the credit balances maintained with banks abroad and not taken into account according to paragraph 3 (d) and of the foreign money-market investments (bank acceptances, bank-endorsed commercial bills, Treasury bills and non-interest Treasury bonds).
- (5) Branches of foreign banks (Article 53 of the Banking Law) may, for the purpose of calculating the minimum reserve, deduct from a net liability on intercompany account those liabilities in relation to their own enterprise which in the case of a juridically independent credit institution would constitute liabilities according to paragraph 3, items d, f, or g.

Article 3

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

Article 4

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

II. Reserve Obligation

Article 5

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

Article 6

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

III. Calculation of the Required and Actual Reserves

Article 7

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

Article 8

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

23rd day of the previous month;
last day of the previous month;
7th day of the current month;
15th day of the current month.

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

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

Article 9

- (1) The actual reserve means the monthly average of the credit balance maintained in accordance with Article 5. It is calculated from the totals at the close of all the days in the month — the total balance on any non-business day being deemed to be the balance ascertained at the close of the preceding business day — and notified to the credit institution at the close of the month by the Bundesbank (or the appropriate central institution in the case of agricultural credit cooperatives).
- (2) If a credit institution keeps a giro account at more than one office of the Bundesbank, the actual reserve is deemed to be the total of the monthly averages of the individual credit balances.

IV. Special Interest

Article 10

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

V. Reserve Statement

Article 11

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

VI. Coming into Force

Article 12

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

Deutsche Bundesbank

Blessing Dr. Wolf

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

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

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

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

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

II. Foreign Exchange Policy Regulations

No new foreign exchange policy arrangements were made in 1965. The restrictions contained in Article 52 of the Foreign Trade and Payments Order concerning the sale of domestic money-market paper to non-residents, and the use of domestic fixed-interest securities for the purpose of borrowing from non-residents by way of security transactions under repurchase agreement (“*en pension*” transactions) remained in force. The same applies to the regulation laid down in Article 53 of the Foreign Trade and Payments Order to the effect that the payment of interest on non-residents’ credit balances other than individuals’ savings balances requires a permit.

Foreign trade
and payments

As before, no permits were granted either for the above-mentioned security transactions or for payment of interest on non-residents’ sight deposits. In May 1962 the credit institutions had been granted the facility of obtaining general permits allowing payment of interest on time deposits of non-residents up to specified maximum rates. This facility was discontinued in March 1964 and has not been resumed since; the granting of ad hoc permits for the payment of interest on time deposits of non-residents was reserved to special cases. Permits for the payment of interest on balances held by non-resident customers as cover for letters of credit are still granted on application.

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

In interzonal clearing transactions with the Deutsche Notenbank, Berlin, the total swing allowed was again DM 200 million. The annual turnovers in these clearing transactions, and the state of the clearing accounts on 31 December 1965, are indicated in Part B (Annual Statement — Assets — Other claims).

Interzonal transactions

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

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

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

Main Items of Services and Capital Transactions with Foreign Countries

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

Part B

Explanation of the Deutsche Bundesbank's Annual Statement for 1965

Legal Bases, Classification and Valuation

Legal bases,
accounting system
and Annual Statement

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

Changes in con-
nection with staff

In 1965 the Bank again concluded a number of collective agreements, through which the legal positions of its salaried employees and wage-earners were in each case assimilated to those of the Federal Government's salaried employees and wage-earning workers.

Form of the
Annual Statement

In the same way as in previous years the classification of the Annual Balance Sheet, and the designation of the Balance Sheet items, were largely adapted to the arrangement in the Bank's weekly return. The Asset Item "Balances at foreign banks and money-market investments abroad" was supplemented as compared with the preceding year by adding, in the text column, the sub-item "among which: Earmarked ...". The reserves for conversion costs having been expended during 1965, the respective sub-item under the Liability Item "Reserves for specific purposes" was deleted.

Valuation

The classification of the Profit and Loss Account remained unchanged by comparison with 1964.

In the same way as in previous years the provisions of the Companies Act (*Aktiengesetz*) were taken into account *mutatis mutandis* in the valuation (Art. 26 Bundesbank Law).

Conversion Account

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

Through the corrections of the Partial Conversion Accounts for the Bank deutscher Länder and the Land Central Banks, which now give the position shown by the books on 31 December 1965, the Bank's claim to allocation of Equalisation Claims rose by DM 28,420.66 to DM 8,103,354,176.84; the claim on the Federal Government arising from the non-interest-bearing debt certificate issued in connection with the currency conversion in Berlin increased during the year under review by DM 804.60 to DM 547,168,421.20

Annual Statement

The Annual Statement for 1965, which is attached as Appendix 2, will be explained as usual in the order of the items in the Balance Sheet and Profit and Loss Account. At the same time a report is rendered on the Bank's activity during 1965.

Balance Sheet

Comparison of Balance Sheet Results

Millions of DM

| Assets | 31 December | | | Liabilities | 31 December | | |
|--|-----------------|-----------------|-----------------|--|-----------------|-----------------|-----------------|
| | 1963 | 1964 | 1965 | | 1963 | 1964 | 1965 |
| Gold | 15,137.7 | 16,730.8 | 17,371.2 | Capital | 290.0 | 290.0 | 290.0 |
| Balances at foreign banks and money-market investments abroad | 12,894.4 | 10,769.6 | 8,110.9 | Reserves | 700.8 | 775.8 | 860.5 |
| Foreign notes and coin, foreign bills and cheques | 417.2 | 563.4 | 892.2 | Reserves for specific purposes | 1,260.4 | 1,475.1 | 1,690.0 |
| German divisional coin | 81.1 | 116.2 | 129.6 | Bank notes in circulation | 25,426.6 | 27,691.8 | 29,455.6 |
| Postal cheque account balances | 376.2 | 377.1 | 409.2 | Deposits of | | | |
| Domestic bills of exchange | 1,646.7 | 2,413.3 | 4,650.1 | credit institutions | 13,607.0 | 15,143.3 | 16,241.3 |
| Treasury bills and non-interest Treasury bonds of Federal Government and Federal Special Funds | 125.1 | 307.0 | 345.4 | Federal Government | 93.4 | 42.6 | 46.6 |
| Advances against securities | 207.7 | 645.7 | 696.4 | Federal Special Funds | 1,161.4 | 979.8 | 964.6 |
| Cash advances | 1,749.3 | 1,212.0 | 1,407.6 | Länder | 2,837.9 | 2,145.7 | 1,108.3 |
| Other claims | 70.4 | 102.4 | 99.7 | other public depositors | 33.9 | 46.5 | 45.3 |
| Securities | 1,221.7 | 1,175.6 | 1,150.8 | other German depositors | 272.8 | 252.6 | 265.1 |
| Equalisation claims on public authorities and debt certificate in respect of Berlin less equalisation claims returned in exchange for money-market paper | 8,679.6 | 8,680.0 | 8,681.0 | Liabilities in respect of foreign business | 269.9 | 307.5 | 451.5 |
| | 4,689.7 | 2,598.6 | 1,064.4 | Other liabilities | 123.5 | 107.4 | 108.4 |
| | 3,989.9 | 6,081.4 | 7,616.6 | Net profit | 269.9 | 303.7 | 366.5 |
| Credits to Federal Government for participation in international institutions | 2,294.2 | 3,016.0 | 3,000.9 | | | | |
| Claims on Federal Government in respect of | | | | | | | |
| acquisition of claims resulting from post-war economic aid | 2,512.8 | 2,010.3 | 1,507.7 | | | | |
| alteration of exchange parity | 1,082.5 | 943.0 | 777.5 | | | | |
| Loans to international institutions and consolidation loans | 2,121.8 | 2,683.5 | 3,344.3 | | | | |
| Items in course of settlement | 153.1 | 195.1 | 180.9 | | | | |
| Other assets | 265.7 | 219.4 | 202.7 | | | | |
| Total | 46,347.5 | 49,561.8 | 51,893.7 | Total | 46,347.5 | 49,561.8 | 51,893.7 |

The Balance Sheet total as at 31 December 1965 rose by DM 2,331.9 million, as compared with the end of 1964, to DM 51,893.7 million. Balance Sheet total

Assets

The gold holding, at DM 17,371.2 million on 31 December 1965, is shown higher by DM 640.4 million than on 31 December 1964. Gold

The balances at foreign banks and the money-market investments abroad amounted to DM 8,110.9 million on 31 December 1965 (against DM 10,769.6 million on 31 December 1964). This Balance Sheet item contains the foreign exchange deposit provided for in the Anglo-German foreign exchange offsetting agreement; at DM 455.7 million this deposit is shown in a sub-item as earmarked credit balance. Balances at foreign banks and money-market investments abroad

The Bank's turnover in foreign exchange spot dealings (foreign currency against Deutsche Mark) amounted to DM 13,360.8 million in the year under report, against DM 14,924.4 million in 1964; the number of deals rose from 9,775 in the previous year to 9,793. They comprised Foreign exchange dealings

| | 1964 | | 1965 | |
|-----------|--------|------------|--------|------------|
| | Number | DM million | Number | DM million |
| Purchases | 3,647 | 6,715.9 | 3,236 | 5,446.6 |
| Sales | 6,128 | 8,208.5 | 6,557 | 7,914.2 |
| | 9,775 | 14,924.4 | 9,793 | 13,360.8. |

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

In addition, during the year under review the Bank effected 632 cross deals (one foreign currency against another foreign currency) in the equivalent of DM 2,236.7 million, as against 831 deals in the equivalent of DM 1,854.0 million in the previous year; furthermore in the year under report 283 U.S. dollar inter-centre switch transactions amounting to U.S.\$ 39.1 million were concluded, as against 307 transactions amounting to U.S. \$ 29.3 million in the previous year.

In the year under report the Bank concluded U.S. \$ swap transactions with German banks, for the purchase of U.S. \$ Treasury bills (swap rate = $\frac{1}{4}\%$ p. a. discount), totalling U.S. \$ 479.5 million against U.S. \$ 393.0 million in the previous year, and completed such transactions at the rate of U.S. \$ 568.5 million against U.S. \$ 304.0 million. The commitment reached its highest level of U.S. \$ 356.0 million on 28 January 1965. The last transaction was completed on 21 October 1965, so that there was no commitment by the end of December 1965 (commitment at the end of December 1964 U.S. \$ 89.0 million). Since 15 December 1965 the Bank has refrained from such operations.

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

| | 1963 | 1964 | 1965 |
|---|---------|---------|----------|
| | Number | | |
| Orders for payment to foreign countries | | | |
| in foreign currency | 257,859 | 284,564 | 320,932 |
| in DM | 255,431 | 310,986 | 379,212 |
| | 513,290 | 595,550 | 700,144 |
| Orders for payment from foreign countries | | | |
| in foreign currency | 16,596 | 17,117 | 19,898 |
| in DM | 165,613 | 144,499 | 145,950 |
| | 182,209 | 161,616 | 165,848 |
| Total processed orders for payment to and from foreign countries | 695,499 | 757,166 | 865,992. |
| Of the orders for payment in foreign currency the amount executed to the debit of German credit institutions' U.S. dollar accounts kept at the Bank was | 2,243 | 2,244 | 2,216 |
| and to the credit of such accounts | 1,142 | 1,138 | 730 |
| | 3,385 | 3,382 | 2,946. |
| The number of transfers between such accounts was | 55,747 | 58,977 | 63,349. |

Trade and other economic agreements

During the year under report the Bank assisted in the conclusion of trade and other economic agreements with thirteen countries, including four investment promotion agreements.

At DM 4.6 million the holding of foreign notes and coin at the end of 1965 was greater by DM 0.6 million than on 31 December 1964. During the year under review the Deutsche Bundesbank effected 32,354 purchases of foreign notes and coin (against 33,517 in 1964) and 13,394 sales of foreign notes and coin (against 13,900 in 1964).

At the close of 1965 the holding of foreign bills arising from purchase within the country was DM 885.4 million as compared with DM 557.4 million on 31 December 1964.

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

Purchase of foreign bills

Purchase of Foreign Bills in the Land Central Bank Areas

| Land Central Bank | 1964 | | 1965 | |
|------------------------|--------|---------|--------|---------|
| | Number | DM mn | Number | DM mn |
| Baden-Württemberg | 14,863 | 231.3 | 14,537 | 261.0 |
| Bavaria | 7,234 | 281.8 | 9,097 | 421.2 |
| Berlin | 913 | 53.7 | 1,292 | 103.1 |
| Bremen | 535 | 15.8 | 523 | 19.2 |
| Hamburg | 3,269 | 189.4 | 4,009 | 425.2 |
| Hesse | 11,359 | 479.3 | 12,769 | 770.2 |
| Lower Saxony | 5,087 | 130.4 | 4,831 | 168.2 |
| North Rhine-Westphalia | 28,567 | 774.3 | 30,862 | 862.1 |
| Rhineland-Palatinate | 2,800 | 57.4 | 2,985 | 69.9 |
| Saarland | 2,719 | 400.1 | 2,532 | 384.0 |
| Schleswig-Holstein | 852 | 13.3 | 376 | 8.8 |
| Total | 78,198 | 2,626.8 | 83,813 | 3,492.9 |

The proportion of DM acceptances to the total value of the foreign bills purchased averaged about 55 per cent for the year 1965 against about 51 per cent for the year 1964.

At the end of 1965 the holding of foreign cheques amounted to DM 2.2 million (end-1964 DM 2 million). During the year under review 151,372 foreign cheques worth DM 135.7 million were purchased, against 150,075 worth DM 135.7 million in the previous year. Altogether 10,121 cheques on foreign countries were sold, against 11,288 in 1964, their total amount being DM 17.0 million as against DM 22.7 million in 1964.

Purchase and sale of foreign cheques

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

Foreign commission business

| | 1964 | Number | 1965 |
|---|--------|--------|---------|
| Foreign notes and coin | 5,153 | | 6,321 |
| Bills, cheques, etc., on a commission basis | 10,918 | | 11,902 |
| | 16,071 | | 18,223. |

The Bank's holding of German divisional coin amounted to DM 129.6 million at the close of 1965, against DM 116.2 million at the end of 1964. In 1965 the Federal Government was credited with DM 158.3 million for coin taken over from the Mints, and debited with DM 0.7 million for coin called in or no longer fit for circulation. Altogether in the years 1948 to 1965 the Bank took over coin amounting to DM 2,273.1 million, and redeemed, to the debit of the Federal Government, DM 146.4 million of coins which were no longer fit to circulate or had been called in.

German divisional coin

With the inclusion of the deliveries of coin still outstanding at the end of December 1965 on minting orders given up till that time, namely DM 70.7 million of all denominations, the amount of coin per head of population works out at DM 37.12 on the basis of a population, on 30 September 1965, of 59.2 million in the Federal Republic of Germany including the Land of Berlin.

The postal cheque account balances, including the branches' transfers in progress to the postal cheque account of the Bank (Directorate) at Frankfurt am Main, totalled on 31 December 1965 DM 409.2 million (against DM 377.1 million at the end of 1964). Each day the credit balance on that account, in amounts rounded off to multiples of DM 100,000, is offset against the giro balance of the Central Cash Office of the Postal Administration.

Balances on postal cheque account

Postal Cheque Transactions with Third Parties

| Area | 1964 | | | | 1965 | | | |
|-------------------------------|--------------------------------|----------|----------------------------|---------|--------------------------------|----------|----------------------------|---------|
| | Third-party transfers received | | Used for current transfers | | Third-party transfers received | | Used for current transfers | |
| | Number | DM mn | Number | DM mn | Number | DM mn | Number | DM mn |
| Land Central Bank | | | | | | | | |
| Baden-Württemberg | 102,693 | 8,461.0 | 27,485 | 757.5 | 104,213 | 9,365.4 | 18,894 | 670.9 |
| Bavaria | 100,006 | 9,986.4 | 17,591 | 707.8 | 112,488 | 10,992.6 | 10,528 | 760.9 |
| Berlin | 15,480 | 1,822.9 | 8,240 | 394.3 | 18,742 | 1,965.2 | 4,205 | 394.4 |
| Bremen | 25,900 | 868.0 | 1,541 | 26.4 | 25,799 | 886.8 | 951 | 4.0 |
| Hamburg | 58,737 | 4,989.8 | 5,906 | 68.8 | 56,360 | 5,510.6 | 4,123 | 55.6 |
| Hesse | 64,559 | 5,522.7 | 14,624 | 846.4 | 65,614 | 6,188.0 | 5,994 | 616.3 |
| Lower Saxony | 113,609 | 5,258.5 | 6,584 | 159.0 | 115,768 | 5,683.0 | 5,301 | 145.5 |
| North Rhine-Westphalia | 192,937 | 11,440.6 | 28,787 | 1,421.0 | 197,046 | 12,698.8 | 17,536 | 1,326.1 |
| Rhineland-Palatinate | 55,158 | 2,047.9 | 7,711 | 119.8 | 54,888 | 2,289.0 | 5,061 | 14.8 |
| Saarland | 5,057 | 984.9 | 1,052 | 22.8 | 5,674 | 1,078.7 | 604 | 0.7 |
| Schleswig-Holstein | 10,596 | 230.5 | 4,047 | 71.2 | 9,767 | 247.7 | 2,297 | 14.3 |
| Total | 744,732 | 51,613.2 | 123,568 | 4,595.0 | 766,359 | 56,905.8 | 75,494 | 4,003.5 |
| Bundesbank — Directorate — | 9,868 | 1,509.9 | 32,682 | 43.6 | 10,226 | 1,409.8 | 20,772 | 14.5 |
| Grand total | 754,600 | 53,123.1 | 156,250 | 4,638.6 | 776,585 | 58,315.6 | 96,266 | 4,018.0 |

Domestic bills of exchange

The domestic bill holding comprised:

Domestic bills

purchased by way of discount

Import and Storage Agency bills taken in the course of open-market operations

Prime bankers' acceptances thus taken

31 Dec. 1964 31 Dec. 1965
Millions of DM

| | |
|----------------|----------------|
| 2,246.8 | 3,903.9 |
| 98.1 | 141.4 |
| 68.4 | 604.8 |
| <u>2,413.3</u> | <u>4,650.1</u> |

The average bill holding, as calculated from the figures on the return dates in the year under review, was DM 4,638.3 million against DM 2,597.7 million in 1964.

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

| Land Central Bank | Purchase | | | | Held on | |
|-------------------------------|----------|----------|-------|----------|--------------|--------------|
| | 1964 | | 1965 | | 31 Dec. 1964 | 31 Dec. 1965 |
| | '000 | DM mn | '000 | DM mn | DM mn | |
| Baden-Württemberg | 225 | 2,560.2 | 286 | 3,765.8 | 163.0 | 351.3 |
| Bavaria | 112 | 1,886.2 | 141 | 3,004.0 | 140.9 | 224.4 |
| Berlin | 14 | 492.7 | 23 | 776.2 | 27.8 | 58.7 |
| Bremen | 47 | 809.6 | 52 | 1,120.5 | 60.2 | 86.7 |
| Hamburg | 124 | 2,788.3 | 129 | 3,602.2 | 236.8 | 401.4 |
| Hesse | 272 | 7,337.5 | 294 | 9,499.0 | 529.3 | 1,036.2 |
| Lower Saxony | 122 | 1,370.5 | 121 | 2,048.4 | 157.4 | 307.8 |
| North Rhine-Westphalia | 415 | 9,161.7 | 519 | 12,586.1 | 758.7 | 1,044.0 |
| Rhineland-Palatinate | 57 | 611.4 | 70 | 946.0 | 59.8 | 120.8 |
| Saarland | 9 | 436.6 | 15 | 626.9 | 43.1 | 92.2 |
| Schleswig-Holstein | 56 | 587.4 | 64 | 865.0 | 64.2 | 175.0 |
| Bills in course of remittance | — | — | — | — | 5.6 | 5.4 |
| Total | 1,453 | 28,042.1 | 1,714 | 38,840.1 | 2,246.8 | 3,903.9 |

At DM 22,661 the average amount of the bills purchased in 1965 was above the previous year's average of DM 19,299.

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

| | 1964 | | 1965 | |
|------------------------------------|--------|------------|--------|------------|
| | Number | DM million | Number | DM million |
| | 5,545 | 13.4 | 6,011 | 15.1 |
| in per cent of the total purchased | 0.4 | 0.05 | 0.35 | 0.04. |

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

Commission business

| | Number | DM million |
|------|---------|------------|
| 1964 | 220,513 | 1,603.0 |
| 1965 | 211,675 | 1,372.2. |

Until 21 January 1965 the Bundesbank's discount rate for domestic and foreign bills and for foreign cheques was 3%, from 22 January 1965 3½%, and since 13 August 1965 it has stood at 4%.

Discount rate

As compared with the previous year there was no substantial change in open-market purchases and sales of Storage Agency bills. Bills having a face value of DM 1,829.8 million were purchased (in 1964 DM 1,730.5 million), and DM 849.5 million of these (in 1964 DM 942.8 million) were resold. Bills amounting to DM 937.0 million out of the Bank's holding were redeemed in 1965 (against DM 719.8 million in 1964). On 31 December 1965 the Bank's holding of Storage Agency bills amounted to DM 141.4 million (against DM 98.1 million at the end of 1964).

Storage Agency bills

During the year under review the Bank afforded liquidity assistance to the prime bankers' acceptance market to an increased extent (cf. statements on "Money-market regulation and money-market policy", page 112). Items amounting to DM 2,778.0 million (in 1964 DM 1,295.3 million) were purchased from the Privatdiskont-Aktiengesellschaft, Frankfurt am Main, which acts as broker; DM 940.3 million (against DM 1,193.0 million in 1964) were resold to the market. Prime bankers' acceptances amounting to DM 1,301.3 million remained in the Bank's hands until maturity. On 31 December 1965 DM 604.8 million of prime bankers' acceptances were in the Bank's portfolio.

Prime bankers' acceptances

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

Treasury bills and non-interest Treasury bonds of Federal Government and Federal Special Funds

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

Millions of DM

| Category of paper | In circulation on 31 Dec. 1964 | Issued | | In circulation on 31 Dec. 1965 |
|--|--------------------------------|---------|---------|--------------------------------|
| | | in 1965 | | |
| Treasury bills of the Federal Republic of Germany "B" ¹⁾ | — | 1,823.5 | 1,301.0 | 522.5 |
| Non-interest Treasury bonds of the Federal Republic of Germany "B" ¹⁾ | 547.0 | 378.0 | 255.0 | 670.0 |
| Treasury bills of the German Federal Railways | 400.0 | 1,386.4 | 1,444.2 | 342.2 |
| Non-interest Treasury bonds of the German Federal Railways | 450.0 | 497.2 | 497.2 | 450.0 |
| Non-interest Treasury bonds of the German Federal Postal Administration | 300.0 | 220.4 | 228.4 | 292.0 |

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

Of the items shown in the table the following were held by the Bank on 31 December 1965:

Millions of DM

| | |
|--------|---|
| 10.0 | non-interest Treasury bonds of the Federal Republic of Germany "B", |
| 185.4 | Treasury bills of the German Federal Railways, |
| 60.0 | non-interest Treasury bonds of the German Federal Railways, and |
| 90.0 | non-interest Treasury bonds of the German Federal Postal Administration |
| 345.4. | |

Advances
against securities

The average extent of recourse to the Bank through taking advances against securities, as calculated from the amounts on return dates during the year under review, was DM 152.9 million against DM 124.7 million in 1964. On 31 December 1965 such advances outstanding totalled DM 696.4 million as compared with DM 645.7 million at the end of 1964.

Lending against Securities in the Land Central Bank Areas

| Land Central Bank | Advances granted against securities | | | | Outstanding on | |
|------------------------|-------------------------------------|----------|--------|----------|----------------|--------------|
| | 1964 | | 1965 | | 31 Dec. 1964 | 31 Dec. 1965 |
| | Number | DM mn | Number | DM mn | DM mn | |
| Baden-Württemberg | 967 | 656.1 | 908 | 581.1 | 17.5 | 20.5 |
| Bavaria | 860 | 276.5 | 800 | 378.1 | 64.2 | 69.7 |
| Berlin | 35 | 74.9 | 41 | 97.4 | 1.5 | 0.3 |
| Bremen | 37 | 26.2 | 43 | 34.1 | 0.0 | 0.0 |
| Hamburg | 599 | 1,203.9 | 571 | 1,069.9 | 16.8 | 70.6 |
| Hesse | 1,272 | 4,266.1 | 1,405 | 7,890.0 | 220.6 | 225.1 |
| Lower Saxony | 1,727 | 489.4 | 1,437 | 547.0 | 54.8 | 5.1 |
| North Rhine-Westphalia | 909 | 3,574.7 | 926 | 4,205.6 | 234.5 | 272.4 |
| Rhineland-Palatinate | 777 | 301.0 | 826 | 342.0 | 28.4 | 23.7 |
| Saarland | 63 | 49.3 | 84 | 135.2 | 6.4 | 7.5 |
| Schleswig-Holstein | 317 | 86.1 | 255 | 99.8 | 1.0 | 1.5 |
| Total | 7,563 | 11,004.2 | 7,296 | 15,380.2 | 645.7 | 696.4 |

Advance rate The rate for advances against securities amounted to 4% until 21 January 1965, to 4½% from 22 January 1965, and has stood at 5% since 13 August 1965.

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

| | Millions of DM |
|---|----------------|
| for the Federal Government | 3,000 |
| for the Federal Railways | 400 |
| for the Federal Postal Administration | 200 |
| for the Equalisation of Burdens Fund | 200 |
| for the E.R.P. Special Fund | 50 |
| for the <i>Länder</i> DM 20 per inhabitant, except for Berlin, Bremen and Hamburg, where the limit is DM 40 per inhabitant. | |

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

Cash Advances

Millions of DM

| Borrower | 31 December 1964 | | | 31 December 1965 | | |
|-----------------------|------------------|----------------|----------------|------------------|----------------|----------------|
| | Book credit | Treasury bills | Total | Book credit | Treasury bills | Total |
| Federal Government | 1,081.1 | | 1,081.1 | 920.7 | 522.5 | 1,443.2 |
| Federal Special Funds | | | | | | |
| Equalisation Fund | 36.9 | | 36.9 | 153.8 | | 153.8 |
| Federal Railways | | 400.0 | 400.0 | | 342.2 | 342.2 |
| <i>Länder</i> | | | | | | |
| Baden-Württemberg | 41.1 | | 41.1 | 49.6 | | 49.6 |
| Bavaria | | | | 38.3 | | 38.3 |
| Berlin | | | | 56.7 | | 56.7 |
| Hesse | | | | 81.0 | | 81.0 |
| Rhineland-Palatinate | | | | 64.9 | | 64.9 |
| Saarland | 14.0 | | 14.0 | | | |
| Schleswig-Holstein | 38.9 | | 38.9 | 42.6 | | 42.6 |
| Total | 1,212.0 | 400.0 | 1,612.0 | 1,407.6 | 864.7 | 2,272.3 |

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

The "Other claims" of DM 99.7 million shown in Asset Item 10 (in 1964 DM 102.4 million) include *inter alia* the net balance (DM 28.2 million against DM 29.6 million in 1964) of interzonal payments, which is cleared through the accounts kept at the Deutsche Notenbank, Berlin, and at the Bundesbank. Other claims

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

| | 1964 | 1965 |
|-----------------------------------|----------------|---------|
| | Millions of DM | |
| West/East deliveries and services | 1,125.5 | 1,185.1 |
| East/West deliveries and services | 1,097.9 | 1,188.6 |
| | 2,223.4 | 2,373.7 |

The holding of securities is shown at DM 1,150.8 million (against DM 1,175.6 million in 1964); it includes bonds and other debt certificates of the International Bank for Reconstruction and Development, fixed-interest securities and Bundesbank Enjoyment Right Certificates. Securities

In 1965 the Federal Loan Consortium, which is under the Bank's leadership, offered for public sale bonds amounting to DM 1,410 million as compared with DM 2,290 million in the previous year. Security issues

Loans Issued Through the Federal Loan Consortium in 1965

| Issuer | Amount | Interest rate | Issue price | Start of sales 1965 | Introduced on stock exchanges (official dealings) 1965 |
|---------------------------------------|-------------------|---------------|-------------|---------------------|--|
| | DM mn | % | per cent | | |
| Federal Republic of Germany | 400 | 6 | 98 | 4 Jan. | 19 Jan. |
| German Federal Postal Administration | 200 ¹⁾ | 6 | 96 | 1 April | 21 April |
| German Federal Railways | 260 | 6 | 94 ½ | 4 May | 19 May |
| Federal Republic of Germany | 350 ²⁾ | 7 | 99 ½ | 5 July | 21 July |
| Federal Republic of Germany 3rd Issue | 200 | 7 | 98 ¼ | 21 Oct. | 3 Nov. |

¹⁾ In addition DM 10 million was placed by the issuer direct. — ²⁾ In addition DM 50 million (2nd Issue) was admitted to official dealings on 18 August 1965.

Through a consortium led by the Land Central Bank in the Rhineland-Palatinate the Land of the Rhineland-Palatinate issued in May 1965 a DM 100 million 7% Loan of 1965 at a price of 99½ per cent and in November 1965 a DM 100 million 7% Loan of 1965, Second Issue, at a price of 98¼ per cent. In June 1965, through a consortium led by the Land Central Bank in Hesse, the Land of Hesse issued a DM 150 million 7% Loan of 1965 at a price of 99½ per cent.

Treasury bonds (medium-term notes — *Kassenobligationen*) of the Federal Republic of Germany, running for four years and bearing interest at 5½% and 6%, were sold through the Bank to a total extent of DM 250 million.

Admission to stock exchange dealings

Besides the issues mentioned, the 6% bearer bonds of the Equalisation of Burdens Fund of 1965, Issues I to IV, the 7% Equalisation of Burdens Bank Loan (issue no. 12) of 1965 and the 6% Reconstruction Loan Corporation Loan of 1965 were introduced by the Bank, on behalf of the issuers, for official dealings on the German stock exchanges, while medium-term notes of the German Federal Railways and of the Reconstruction Loan Corporation were introduced for regulated unofficial dealings on the stock exchanges at Frankfurt am Main and Düsseldorf.

Price supporting actions

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

The Bank as conversion and paying agent for external loans

In its capacity as paying agent or agency for the bonds of the Federal Republic of Germany, issued in connection with the conversion of external bonds, the Bank in the course of the year under report paid 393,703 interest coupons and matured bonds as against 395,435 in 1964; in 1965 734,610 interest coupons and matured bonds, against 732,772 in 1964, were presented to foreign agents for redemption.

| | | 31 Dec. 1964 | 31 Dec. 1965 |
|--|---|----------------|----------------|
| | | Millions of DM | |
| Equalisation claims on public authorities | Equalisation claims arising from | | |
| | own Conversion Account Bank deutscher Länder | 5,504.3 | 5,504.3 |
| | Land Central Banks | <u>2,599.0</u> | <u>2,599.0</u> |
| | | 8,103.3 | 8,103.3 |
| | Handed back in exchange for money-market paper | <u>2,598.6</u> | <u>1,064.4</u> |
| | | 5,504.7 | 7,038.9 |
| | Conversion of Berlin pre-capitulation balances | 28.0 | 29.0 |
| | Conversion of RM balances at credit institutions in the Soviet Sector of Berlin | <u>1.5</u> | <u>1.5</u> |
| | | 5,534.2 | 7,069.4 |

The slight increase of DM 28,000 in the equalisation claims arising from the Bank's own Conversion Account is explained in the Combined Conversion Account of the Institutions Amalgamated to Form the Deutsche Bundesbank as shown by the books on 31 December 1965, which account is attached to this Report as Appendix 1. The equalisation claims belonging to the Bank in respect of its own Conversion Account and of the conversion of Berlin pre-capitulation balances as shown by the books on 31 December 1964 are entered in the Federal Debt Register. According to Art. 11, paragraph 2 of the Law on the Redemption of Equalisation Claims of 30 July 1965 (Federal Law Gazette I, page 650) the Land of Berlin is no longer liable for the equalisation claims in respect of the conversion of RM balances at credit institutions in the Soviet Sector of Berlin, this liability having been transferred, with effect from 1 January 1965, to the Federal Government; these equalisation claims are also entered in the Federal Debt Register.

The dealings in Federal Government Treasury bills and non-interest Treasury bonds, which in accordance with Art. 42 Bundesbank Law are handed to the Bank in exchange for the equalisation claim that it holds on the Federal Government in respect of its own Conversion Account, and which it sells to the market as a measure of open-market policy (mobilisation paper), decreased in the year under review. The new issues declined from DM 8.0 billion in 1964 to DM 6.4 billion in 1965. The amount of mobilisation paper in circulation on 31 December 1965 was DM 1,064.4 million (against DM 2,598.6 million at the end of 1964). On the occasion of the raising of the Bank's discount rate on 22 January and 13 August 1965 the selling rates for mobilisation paper were also raised (for details see Statistical Annex).

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

Mobilisation Paper Sold and Redeemed

Millions of DM

| Category of paper | 1963 | 1964 | | | 1965 | | |
|--|---------------------------|----------------|-----------------|---------------------------|----------------|----------------|---------------------------|
| | in circulation on 31 Dec. | sold | redeemed | in circulation on 31 Dec. | sold | redeemed | in circulation on 31 Dec. |
| Treasury bills of the Federal Government (normally running for ninety days) | 982.8 | 5,803.0 | 5,939.9 | 845.9 | 4,355.9 | 4,838.1 | 363.7 |
| Non-interest Treasury bonds of the Federal Government (running for 6 to 24 months) | 3,706.8 | 2,152.4 | 4,106.5 | 1,752.7 | 2,006.0 | 3,058.0 | 700.7 |
| Total | 4,689.6 | 7,955.4 | 10,046.4 | 2,598.6 | 6,361.9 | 7,896.1 | 1,064.4 |

The Bank's claim on the Federal Government in respect of the currency conversion in Berlin changed but slightly in the course of 1965; on 31 December 1965 it amounted to DM 547.2 million.

Debt Certificate in respect of Berlin

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

Credits to Fed. Govt. for participation in international institutions

Millions of DM

| | |
|---|---------|
| International Monetary Fund | 3,307.5 |
| European Fund | 210.0 |
| International Bank for Reconstruction and Development | 35.0 |

The credit granted to the Federal Government in respect of its participation in the International Monetary Fund decreased to DM 2,946.5 million after DM 487.5 million of repayments and DM 472.3 million of DM drawings by various countries. The credits granted to the Federal Government for the purpose of meeting payment liabilities to the I.B.R.D. and to the European Fund remained unchanged during the year under review. Under an agreement with the Federal Government the Federal Republic of Germany's financial participations in the International Monetary Fund, the European Fund and the International Bank for Reconstruction and Development belong for practical purposes wholly or proportionately to the Bank.

The claim acquired by the Bank on the Federal Government in respect of post-war economic aid declined by DM 502.6 million during 1965 to DM 1,507.7 million as a result of redemption according to plan.

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

| (b) alteration of exchange parity | The claim which arose against the Federal Government on revaluation of the DM (on 6 March 1961) still amounts to DM 777.5 million; it was redeemed, as agreed, to the extent of the DM 165.5 million share of profit (remaining balance) which was due to the Federal Government for the year 1964 under Art. 27 Bundesbank Law. | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|--------------|--------------|--------------|--|----------------|--|----------------|-------|---------|-------------------|---------|---------|---------------------|--|--|------------------------------------|-------|-------|--------------------------|-----|---|--|---------|----------|
| Loans to international institutions and consolidation loans | At DM 3,344.3 million the loans to international institutions and consolidation loans are shown higher by DM 660.8 million than a year before. In detail the claims consist of: | | | | | | | | | | | | | | | | | | | | | | | | |
| | <table border="0" style="width: 100%;"> <thead> <tr> <th></th> <th style="text-align: right;">31 Dec. 1964</th> <th style="text-align: right;">31 Dec. 1965</th> </tr> <tr> <th></th> <th colspan="2" style="text-align: center;">Millions of DM</th> </tr> </thead> <tbody> <tr> <td style="padding-left: 20px;">Loan to I.M.F.</td> <td style="text-align: right;">720.0</td> <td style="text-align: right;">1,390.0</td> </tr> <tr> <td style="padding-left: 20px;">Loans to I.B.R.D.</td> <td style="text-align: right;">1,343.1</td> <td style="text-align: right;">1,445.8</td> </tr> <tr> <td style="padding-left: 20px;">Consolidation loans</td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 40px;">arising from liquidation of E.P.U.</td> <td style="text-align: right;">614.6</td> <td style="text-align: right;">508.5</td> </tr> <tr> <td style="padding-left: 40px;">to foreign Central Banks</td> <td style="text-align: right;">5.8</td> <td style="text-align: right;">—</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">2,683.5</td> <td style="text-align: right; border-top: 1px solid black;">3,344.3.</td> </tr> </tbody> </table> | | 31 Dec. 1964 | 31 Dec. 1965 | | Millions of DM | | Loan to I.M.F. | 720.0 | 1,390.0 | Loans to I.B.R.D. | 1,343.1 | 1,445.8 | Consolidation loans | | | arising from liquidation of E.P.U. | 614.6 | 508.5 | to foreign Central Banks | 5.8 | — | | 2,683.5 | 3,344.3. |
| | 31 Dec. 1964 | 31 Dec. 1965 | | | | | | | | | | | | | | | | | | | | | | | |
| | Millions of DM | | | | | | | | | | | | | | | | | | | | | | | | |
| Loan to I.M.F. | 720.0 | 1,390.0 | | | | | | | | | | | | | | | | | | | | | | | |
| Loans to I.B.R.D. | 1,343.1 | 1,445.8 | | | | | | | | | | | | | | | | | | | | | | | |
| Consolidation loans | | | | | | | | | | | | | | | | | | | | | | | | | |
| arising from liquidation of E.P.U. | 614.6 | 508.5 | | | | | | | | | | | | | | | | | | | | | | | |
| to foreign Central Banks | 5.8 | — | | | | | | | | | | | | | | | | | | | | | | | |
| | 2,683.5 | 3,344.3. | | | | | | | | | | | | | | | | | | | | | | | |
| Loan to International Monetary Fund | In connection with further drawings by the United Kingdom the loan granted to I.M.F. under the General Arrangements to Borrow of 24 October 1962 increased by DM 670 million to DM 1,390 million during the year under review. | | | | | | | | | | | | | | | | | | | | | | | | |
| Liquidation of E.P.U. | The claims arising from liquidation of E.P.U. amounted at the end of 1965 to DM 508.5 million, against DM 614.6 million at the end of 1964 and DM 4,185.8 million after the E.P.U. settlement in January 1959; thus approximately 88 per cent of these credits have been repaid. | | | | | | | | | | | | | | | | | | | | | | | | |
| Loans to foreign Central Banks | The consolidation and interim loans which the Bundesbank granted to foreign Central Banks on the change-over of payments from a bilateral to a multilateral basis were repaid (DM 5.8 million had still been outstanding at the end of December 1964). | | | | | | | | | | | | | | | | | | | | | | | | |
| Land and buildings | Against the additions of DM 28.6 million to land and buildings there are disposals of DM 0.1 million. After the writing off of DM 28.5 million the land and buildings are shown in the Balance Sheet unchanged at DM 85 million. | | | | | | | | | | | | | | | | | | | | | | | | |
| Equipment | The additions of DM 3.7 million to equipment were fully written off in the same way as in previous years. | | | | | | | | | | | | | | | | | | | | | | | | |
| Items in course of settlement | As before, 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 in course of clearing. On 31 December 1965 there was a net asset of DM 180.9 million as against one of DM 195.1 million at the end of 1964. | | | | | | | | | | | | | | | | | | | | | | | | |
| Other assets | Of the DM 90.4 million (against DM 83.9 million at the end of 1964) shown in the item "Other assets" DM 85.6 million (at the end of 1964 DM 78.1 million) represents interest which falls due in 1966, but is assignable to the Profit and Loss Account for the year under review, on monies employed abroad and on securities. | | | | | | | | | | | | | | | | | | | | | | | | |

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

Transitory items

Liabilities

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

Capital

In pursuance of the Central Bank Council's decision of 1 April 1965, out of the net profit for 1964 DM 60.8 million was added to the legal reserve and DM 23.9 million to the other reserves; the reserves accordingly rose from DM 775.8 million at the end of 1964 to DM 860.5 million.

Reserves

Position and Movement of Reserves for Specific Purposes

Millions of DM

Reserves for specific purposes

| Reserves for specific purposes | Position on 31 Dec. 1964 | 1965 | | Position on 31 Dec. 1965 |
|--------------------------------|--------------------------|-------------|--------------|--------------------------|
| | | Withdrawal | Addition | |
| For pension liabilities | 650.0 | 34.9 | 99.9 | 715.0 |
| For note printing | 25.0 | — | — | 25.0 |
| For conversion costs | 0.1 | 0.1 | — | — |
| Other | 800.0 | — | 150.0 | 950.0 |
| Total | 1,475.1 | 35.0 | 249.9 | 1,690.0 |

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

The reserve for note printing is unchanged by comparison with 1964.

The reserve for conversion costs, which arise from the providing of interest on and redemption of special equalisation claims pursuant to Article 3, paragraph 1 of Regulation 45 under the Conversion Law, and to Article 12 of the Law for Increasing Payments in respect of Private Pension Insurance and in respect of Compulsory Capital-Sum Insurance, dated 24 December 1956 (Federal Law Gazette I, page 1074), was used in the year under review for the purpose laid down. Since 1948 a total of DM 255.7 million had been allocated to this reserve.

The other reserves for specific purposes were increased by DM 150 million in the year under review, to DM 950 million, with a view to covering hazards inherent in the foreign and domestic business.

The circulation of banks notes rose from DM 27,691.7 million at the end of 1964 to DM 29,455.6 million on 31 December 1965.

Bank notes in circulation

Circulation of Notes and Coin

Millions of DM

| End of year | Bank notes in circulation | Federal coin | Circulation of notes and coin total |
|-------------|---------------------------|--------------|-------------------------------------|
| 1959 | 19,045.7 | 1,278.5 | 20,324.2 |
| 1960 | 20,470.3 | 1,369.3 | 21,839.6 |
| 1961 | 22,991.7 | 1,496.6 | 24,488.3 |
| 1962 | 24,146.6 | 1,613.2 | 25,759.8 |
| 1963 | 25,426.6 | 1,725.0 | 27,151.6 |
| 1964 | 27,691.7 | 1,852.9 | 29,544.6 |
| 1965 | 29,455.6 | 1,997.1 | 31,452.7 |

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

In April 1965 the DM 500 bank note was put into circulation as the last item in the Bundesbank note series. The withdrawal of Bank deutscher Länder notes was continued with the calling in, as per 31 July 1965, of the third issue DM 50 and the second issue DM 100 bank notes.

In connection with the issue of Bundesbank notes the Bank in the year under review put into circulation, or made available for that purpose, new notes of various denominations totalling DM 19,934.7 million.

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

| | 1959 | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 |
|------------|---------|----------|---------|---------|----------|---------|----------|
| Millions | 153.0 | 323.3 | 280.4 | 204.5 | 323.3 | 228.7 | 182.2 |
| DM million | 4,916.3 | 12,140.5 | 9,680.0 | 9,286.4 | 11,512.2 | 6,706.3 | 4,367.8. |

The number of counterfeit notes detained in the course of payments increased during 1965, as compared with the preceding year, though a decline is recorded in terms of value. The number of counterfeit coin continued to diminish.

Counterfeits Discovered

| Year | Notes | | Coins | |
|------|--------|-----------------|--------|-----------------|
| | Number | Thousands of DM | Number | Thousands of DM |
| 1959 | 763 | 29.5 | 6,673 | 21.0 |
| 1960 | 499 | 19.4 | 5,695 | 18.2 |
| 1961 | 590 | 26.4 | 4,147 | 13.9 |
| 1962 | 354 | 19.3 | 4,536 | 13.6 |
| 1963 | 413 | 25.8 | 5,502 | 11.2 |
| 1964 | 400 | 24.1 | 3,013 | 7.1 |
| 1965 | 797 | 15.4 | 2,671 | 5.8 |

| Deposits | The balances of German depositors comprise those of | 31 Dec. 1964 | | 31 Dec. 1965 | |
|----------|--|----------------|---------|--------------|---------|
| | | Millions of DM | | | |
| | (a) Credit institutions (including Postal Cheque and Postal Savings Bank Offices) | 15,143.3 | | 16,241.3 | |
| | (b) Public depositors | | | | |
| | (ba) Federal Government | 42.6 | | 46.6 | |
| | (bb) Federal Special Funds | 979.8 | | 964.6 | |
| | (bc) <i>Länder</i> | 2,145.7 | | 1,108.3 | |
| | (bd) Other public depositors | 46.5 | 3,214.6 | 45.3 | 2,164.8 |
| | (c) Other German depositors | 252.6 | | 265.1 | |
| | | 18,610.5 | | 18,671.2 | |

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

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

Giro transactions

| | Percentage of | |
|---------|---------------|---------|
| | number | amounts |
| in 1964 | 99.35 | 96.00 |
| in 1965 | 99.39 | 96.16. |

Annual Turnover on Giro Accounts at the Deutsche Bundesbank

| | 1964 | | | 1965 | | |
|--|----------------------|-----------------|----------------|----------------------|-----------------|----------------|
| | Number ¹⁾ | Total amount | Average amount | Number ¹⁾ | Total amount | Average amount |
| | '000 | DM million | DM '000 | '000 | DM million | DM '000 |
| (a) Credits | | | | | | |
| of which: | | | | | | |
| Cash in-payments | 1,058 | 90,160 | 85.2 | 1,066 | 98,816 | 92.7 |
| Settlements with account-holders | 6,944 | 719,884 | 103.7 | 7,143 | 836,134 | 117.1 |
| Local transfers | 12,558 | 623,281 | 49.6 | 13,373 | 704,276 | 52.7 |
| Transfers from other places | 41,454 | 632,838 | 15.3 | 46,801 | 716,645 | 15.3 |
| Cheque collections (cheques lodged) | 110,851 | 220,359 | 2.0 | 115,601 | 247,109 | 2.1 |
| Total | 172,865 | 2,286,522 | — | 183,984 | 2,602,980 | — |
| (b) Debits | | | | | | |
| of which: | | | | | | |
| Cash out-payments | 1,157 | 92,745 | 80.2 | 1,168 | 101,020 | 86.5 |
| Settlements with account-holders | 4,370 | 716,267 | 163.9 | 4,354 | 830,646 | 190.8 |
| Local transfers | 12,558 | 623,281 | 49.6 | 13,373 | 704,276 | 52.7 |
| Transfers to other places | 41,633 | 633,434 | 15.2 | 46,975 | 719,783 | 15.3 |
| Cheque collections (cheques paid) | 110,480 | 220,448 | 2.0 | 115,002 | 247,160 | 2.1 |
| Total | 170,198 | 2,286,175 | — | 180,872 | 2,602,885 | — |
| (c) In per cent of total turnover (credits and debits) | | <i>per cent</i> | | | <i>per cent</i> | |
| Cash payments | | 4.00 | | | 3.84 | |
| Settlements with account-holders | | 31.41 | | | 32.02 | |
| Local transfers | | 27.26 | | | 27.06 | |
| Transfers to and from other places | | 27.69 | | | 27.59 | |
| Cheque collections (cheques lodged and paid) | | 9.64 | | | 9.49 | |
| | | 100.00 | | | 100.00 | |

¹⁾ Number of transactions.

Liabilities in respect of foreign business

The liabilities in respect of foreign business comprised

| | 31 Dec. 1964 | | 31 Dec. 1965 | |
|--|----------------|-------|--------------|-------|
| | Millions of DM | | | |
| Deposits of non-residents | | | | |
| Banks | 214.6 | | 364.3 | |
| Others | 42.0 | 256.6 | 53.2 | 417.5 |
| Deposits of resident credit institutions on U.S. dollar accounts | | 14.5 | | 14.8 |
| Provision of cover for credits and guarantees by | | | | |
| Non-residents | — | | 0.3 | |
| Residents | 19.5 | 19.5 | 15.3 | 15.6 |
| Other liabilities | | 16.9 | | 3.6 |
| | | 307.5 | | 451.5 |

Export credit business Orders to open credits or to pay documentary bills continued in the year under report to be given to the Bank only on an insignificant scale.

Import credit business In the year under review 44 credits (in the previous year 60) were newly opened and 59 expired credits were re-established.

Other liabilities The "Other liabilities" are shown on 31 December 1965 at DM 31.0 million as against DM 32.5 million at the end of 1964.

Transitory items In the same way as previously the transitory items on the liabilities side (DM 77.4 million for 1965, DM 74.9 million for 1964) mainly comprise interest which was received in the year under report, but relates to the next year, on foreign and domestic Treasury bills, bank acceptances and commercial bills.

Contingent liabilities and claims The contingent liabilities and claims are shown on 31 December 1965 at DM 1.1 million against DM 0.6 million at the end of 1964.

Profit and Loss Account

Comparison of Expenditure and Receipts

Millions of DM

| Expenditure | 1963 | | | 1964 | | | 1965 | | |
|---|-------|-------|---------|---|-------|-------|---------|------|------|
| | 1963 | 1964 | 1965 | 1963 | 1964 | 1965 | 1963 | 1964 | 1965 |
| Interest on money-market paper issued in exchange for equalisation claims | 135.5 | 137.1 | 78.8 | Interest on monies employed abroad | 428.0 | 483.8 | 425.9 | | |
| Other interest | 1.1 | 1.1 | 1.6 | equalisation claims | 245.7 | 243.9 | 244.0 | | |
| | 136.6 | 138.2 | 80.4 | domestic bills of exchange, advances against securities and cash advances, as well as on other claims | 120.7 | 144.6 | 236.2 | | |
| Administrative costs | | | | foreign bills of exchange bought in Germany | 8.6 | 11.9 | 20.3 | | |
| Personnel | 160.2 | 169.6 | 184.8 | securities, Treasury bills and Treasury bonds | 61.8 | 61.0 | 63.4 | | |
| Materials | 26.9 | 28.5 | 30.8 | Other interest | 0.4 | 0.4 | 0.6 | | |
| Note printing | 24.4 | 28.4 | 25.4 | | 865.2 | 945.6 | 990.4 | | |
| Depreciation | 17.8 | 25.1 | 32.2 | Fees | 2.8 | 3.2 | 3.4 | | |
| Allocations to reserves for specific purposes | 212.3 | 245.6 | 249.9 | Other receipts | 9.8 | 18.9 | 9.1 | | |
| Pension payments in respect of Reichsbank | 25.9 | 24.7 | 26.8 | | | | | | |
| Other expenditure | 3.8 | 3.9 | 6.1 | | | | | | |
| Net profit | 269.9 | 303.7 | 366.5 | | | | | | |
| Total | 877.8 | 967.7 | 1,002.9 | Total | 877.8 | 967.7 | 1,002.9 | | |

Receipts

| | Millions of DM | | | |
|---|----------------|-------|--------|-----------------|
| | 1963 | 1964 | 1965 | |
| The interest received amounted to | 865.2 | 945.6 | 990.4. | Interest |
| After deduction of the interest paid out, namely | 136.6 | 138.2 | 80.4 | |
| it is shown in the Profit and Loss Account at | 728.6 | 807.4 | 910.0. | |

The interest on monies employed abroad diminished by DM 57.9 million, as compared with the previous year's figure, to DM 425.9 million in 1965.

The amount of interest received on equalisation claims was DM 244.0 million (against DM 243.9 million in 1964); the interest paid on money-market paper issued in exchange for equalisation claims declined, as against the previous year, by DM 58.3 million to DM 78.8 million. The interest receipts from the discounting of domestic bills and the granting of advances against securities and of cash advances, as well as from other claims, amounted to DM 236.2 million in 1965 as compared with DM 144.6 million in the preceding year. At DM 63.4 million the interest received on securities, Treasury bills and Treasury bonds was greater by DM 2.4 million than in the previous year (DM 61.0 million). DM 20.3 million of interest accrued from the discounting of foreign bills, against DM 11.9 million in 1964.

DM 3.4 million of fees were received in the year under review, DM 3.2 million having been so received in 1964. **Fees**

DM 9.1 million are shown as "Other receipts", against DM 18.9 million in 1964. **Other receipts**

Expenditure

The administrative costs in respect of personnel increased in comparison with the previous year mainly owing to the statutorily imposed or collectively agreed wage increases resolved in 1963 and 1964, which became fully effective in 1965; they amounted to DM 184.8 million in 1965 as against DM 169.6 million in 1964. The Bank's staff increased in number by 182 in 1965. **Administrative costs
(a) Personnel**

Number of Persons Employed in the Bundesbank

| | End of 1964 | | | | | End of 1965 | | | | |
|--------------------|------------------|--------------------------|---------------|--------------|--------------|------------------|--------------------------|---------------|--------------|--------------|
| | Direc- torate | Land Central Banks | Total | of whom: | | Direc- torate | Land Central Banks | Total | of whom: | |
| | | | | male | female | | | | male | female |
| Officials | 575 | 3,944 | 4,519 | 4,473 | 46 | 587 | 3,951 | 4,538 | 4,484 | 54 |
| Salaried employees | 1,198 | 4,547 | 5,745 | 2,580 | 3,165 | 1,210 | 4,699 | 5,909 | 2,614 | 3,295 |
| Wage earners | 164 | 840 | 1,004 | 213 | 791 | 163 | 840 | 1,003 | 210 | 793 |
| Total | 1,937 | 9,331 | 11,268 | 7,266 | 4,002 | 1,960 | 9,490 | 11,450 | 7,308 | 4,142 |

The total payments — with subsequent payments included — to serving and former members of the Directorate of the Deutsche Bundesbank, the Board of Directors and Board of Managers of the Bank deutscher Länder, and the Boards of Management of the Land Central Banks, including their surviving dependants, amounted to DM 4,712,742.57 in the year under review.

The administrative costs in respect of materials rose from DM 28.5 million in 1964 to DM 30.8 million. **(b) Materials**

The expenditure on note printing was smaller than in the previous year; it amounted to DM 25.4 million in 1965 against DM 28.4 million in 1964. **Note printing**

Depreciation and allocations to reserves for specific purposes

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

Pension payments in respect of Reichsbank

The payments for members of the former Deutsche Reichsbank and other persons to whom the Law concerning Article 131 of the Basic Law applies, and for whom the Bank is required to provide in accordance with Art. 41 Bundesbank Law, amounted in the year under report to DM 30.6 million (against DM 28.5 million in 1964); of this amount DM 3.8 million was taken from the reserve for pension payments, in the same way as previously, so that DM 26.8 million is shown as pension payments in respect of the Reichsbank by comparison with DM 24.7 million in 1964.

| | | <i>Net profit</i> | DM |
|-------------------------------------|--|-----------------------|-----------------------|
| Proposed distribution of the profit | According to the Profit and Loss Account the net profit amounts to (against DM 303,696,659.65 in 1964). | | 366,518,712.59 |
| | The Directorate proposes to the Central Bank Council that there be allocated | DM | |
| | to the legal reserve | 73,400,000.— | |
| | that there be provided for dividends on Bundesbank Enjoyment Rights | 3,100,000.— | |
| | and that there be allocated to the other reserves | 28,900,000.— | |
| | and to the Fund for the Purchase of Equalisation Claims | <u>40,000,000.—</u> | <u>145,400,000.—</u> |
| | Out of the balance of profit remaining to the Federal Government (Art. 27, item 4 Bundesbank Law), namely there has to be provided | | 221,118,712.59 |
| | for allocation to the Fund for Redemption of Bundesbank Enjoyment Rights | 10,000,000.— | |
| | and under the agreement made with the Federal Government the sum of | 211,118,712.59 | |
| | has to be applied to redemption of the claim on the Federal Government in respect of alteration of the exchange parity. | <u>211,118,712.59</u> | <u>221,118,712.59</u> |

Frankfurt am Main, April 1966

Deutsche Bundesbank

The Directorate

Karl Blessing Dr. Troeger

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

Part C

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

By the promulgation of the Law on the Redemption of Equalisation Claims, dated 30 July 1965 (Federal Law Gazette I, page 650), the Fund for the Purchase of Equalisation Claims was given a new legal basis.

**Fund for the Purchase of
Equalisation Claims**

In 1965 the Fund had resources available to the extent of DM 103.1 million for the purpose of taking over further equalisation claims. Apart from the allocation of DM 40 million out of the Bank's net profit in 1964 the Fund received DM 29.8 million by way of interest and redemption. Liquid assets amounting to DM 33.3 million had been carried over from 1964.

In the year under review DM 82.4 million was applied to the purchase and taking over of equalisation claims. In accordance with Art. 9, paragraph 1 of the Law on the Redemption of Equalisation Claims, equalisation claims in a total of DM 16.1 million were purchased mainly from liquidating pension funds, life insurance companies and credit institutions; in accordance with Art. 9, paragraph 2, item 2 of the Law, small equalisation claims which, on allotment, had been for initial capital amounts of up to DM 30,000 were likewise purchased to the extent of DM 15.3 million.

As per 31 December 1965, equalisation claims in the amount of DM 51 million were for the first time taken over in accordance with Art. 9, paragraph 3 of the Law, which affords the possibility of satisfying all creditors of equalisation claims at a uniform percentage of the equalisation claim. As the funds available did not suffice for taking over 1 per cent of the equalisation claims of all creditors, and as it would have been inexpedient to begin at a lower percentage or to accumulate the Fund's resources for a correspondingly longer period, at first only those creditors were taken into consideration whose equalisation claims had been entered in the Federal Debt Register or the Debt Registers of the *Länder* Bavaria and Lower Saxony. In accordance with available funds, the creditors whose equalisation claims are entered in the Debt Registers of the other *Länder* will later be satisfied also at 1 per cent of their equalisation claims. It is intended to take over further equalisation claims on 30 June 1966.

At the end of the year the sum still available for purchase of equalisation claims was DM 20.7 million; it was mostly employed in Treasury bills of the Federal Government and the Federal Railways. Undertakings to purchase to the extent of DM 17.3 million still awaited fulfilment.

Movement in the Holding of Equalisation Claims

| Interest rate | DM initial capital | | | | DM remaining capital Holding on 31 Dec. 1965 |
|---------------|-------------------------|--|---------------------------|-------------------------|--|
| | Holding on 31 Dec. 1964 | Addition through purchase, linear taking over and exchange | Decrease through exchange | Holding on 31 Dec. 1965 | |
| % | DM | | | | DM |
| 0 | 76,934,248.01 | 121,131.79 | 83,021.36 | 76,972,358.44 | 46,183,415.06 |
| 3 | 270,327,183.39 | 39,685,041.14 | 304,085.56 | 309,708,138.97 | 273,900,199.42 |
| 3½ | 136,824,605.63 | 49,358,468.74 | — | 186,183,074.37 | 164,202,805.04 |
| 4½ | 126,183,000.99 | 4,095,563.23 | — | 130,278,564.22 | 114,051,378.93 |
| Total | 610,269,038.02 | 93,260,204.90 | 387,106.92 | 703,142,136.— | 598,337,798.45 |

The report on the position of the Fund for the Purchase of Equalisation Claims as on 31 December 1965, intended for publication in the Federal Advertiser, is attached as Appendix 3.

Fund for Redemption of Bundesbank Enjoyment Rights

Pursuant to the Notice of 9 March 1963 (Federal Advertiser No. 48) the Liquidator of the Deutsche Reichsbank had by the end of 1965 delivered altogether 1,499,659 Bundesbank Enjoyment Right Certificates, having a par value of DM 99,977,266 $\frac{2}{3}$, in discharge of Reichsbank Shares at a par value of RM 149,965,900; 341 such Certificates, at a par value of DM 22,733 $\frac{1}{3}$, were still held at his disposal on 31 December 1965.

On 15 June 1965 the Bank effected the third drawing of Bundesbank Enjoyment Right Certificates pursuant to Article 7, paragraph 2 of the Law concerning Liquidation of the Deutsche Reichsbank and the Deutsche Golddiskontbank, of 2 August 1961 (Federal Law Gazette I, page 1165), and published the result in Federal Advertiser Nos. 112 and 113 on 22 and 23 June 1965. One group of Bundesbank Enjoyment Right Certificates was drawn for redemption on 30 September 1965 at 150 per cent of their par value. For this purpose the Fund for Redemption of Bundesbank Enjoyment Rights had available out of the 1964 net profit DM 10 million, of which DM 9,996,100 was used to repay the Bundesbank Enjoyment Right Certificates which had been called. Drawn Enjoyment Right Certificates having a total redemption value of DM 8,200 (including DM 4,300 resulting from the 1964 drawing) are held at the disposal of the Liquidator of the Deutsche Reichsbank.

Seven groups of Bundesbank Enjoyment Right Certificates, amounting at par value to DM 46,666,666 $\frac{2}{3}$ (and at redemption value to DM 70 million), now remain to be redeemed.

Frankfurt am Main, April 1966

*Deutsche Bundesbank
The Directorate*

Karl Blessing Dr. Troeger

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

Report of the Central Bank Council

The Annual Statement of the Deutsche Bundesbank for 1965, the Combined Conversion Account of the Institutions Amalgamated to Form the Deutsche Bundesbank, as shown by the books on 31 December 1965, and the Reports on the Fund for the Purchase of Equalisation Claims and the Fund for Redemption of Bundesbank Enjoyment Rights as at 31 December 1965, have been audited by the auditing companies Deutsche Revisions- und Treuhand-Aktiengesellschaft Treuarbeit of Frankfurt am Main and Dr. Wollert — Dr. Elmendorff KG of Düsseldorf, whom the Central Bank Council had appointed to be Auditors in accordance with Article 26 of the Bundesbank Law.

In their notes of certification the Auditors have unreservedly confirmed that the Annual Statement for 1965, the bookkeeping and the Conversion Account as shown by the books on 31 December 1965 are in accordance with the legal provisions and that the Funds for the Purchase of Equalisation Claims and for Redemption of Bundesbank Enjoyment Rights have been properly endowed and administered.

The Central Bank Council approved the Annual Statement for 1965 on 14 April 1966. At the same time it confirmed the Conversion Accounts for the Bank deutscher Länder and the Land Central Banks as well as the Combined Conversion Account of the Institutions Amalgamated to Form the Deutsche Bundesbank, as shown by the books on 31 December 1965, and approved the Reports on the Funds for the Purchase of Equalisation Claims and for Redemption of Bundesbank Enjoyment Rights as at 31 December 1965.

The Central Bank Council has assented to the Report for the Year 1965 and to the Directorate's proposal for appropriation of the profit. After making allocations to the Reserves and to the Fund for the Purchase of Equalisation Claims, and earmarking the amount required for the 1965 dividends on Bundesbank Enjoyment Rights, there is a residual profit of DM 221,118,712.59 due to the Federal Government; of this residual profit, DM 10 million shall be used for allocation to the Fund for Redemption of Bundesbank Enjoyment Rights and DM 211,118,712.59 towards repayment of the claim on the Federal Government in respect of the alteration of the exchange parity.

Since the publication of the Report for the Year 1964 the following changes have taken place in the organs of the Deutsche Bundesbank.

We regret to report the death,

*on 15 August 1965, of
the Member of the Directorate of the Deutsche Bundesbank
Herr Heinrich Hartlieb.*

Retired from service

*as at the close of 14 February 1966
the Member of the Directorate of the Deutsche Bundesbank
Herr Wilhelm Könniker.*

Reappointed

*with effect from 1 January 1966
Dr. h. c. Karl Blessing
President of the Deutsche Bundesbank,*

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

Dr. Karl Frede
Vice-President of the Land Central Bank in Baden-Württemberg,

Herr Werner Gust
Vice-President of the Land Central Bank in Berlin,

with effect from 15 February 1966

Professor Dr. Otto Pfleiderer
President of the Land Central Bank in Baden-Württemberg,

Herr Leopold W. Bröker
President of the Land Central Bank in Hesse,

with effect from 1 April 1966

Dr. Otmar Emminger
Member of the Directorate of the Deutsche Bundesbank.

Newly appointed

with effect from 1 February 1966

Dr. Hans Henckel
to be Member of the Directorate of the Deutsche Bundesbank,

with effect from 1 March 1966

Herr Werner Lucht
to be Member of the Directorate of the Deutsche Bundesbank
at the same time giving up his office of Member of the Board of Management of the Land
Central Bank in Baden-Württemberg.

The Central Bank Council, acting also on behalf of the Directorate and of the Boards of Management of the Land Central Banks, expresses to the officials, employees and workers of the Deutsche Bundesbank its thanks for their loyal and understanding cooperation during the year 1965.

Frankfurt am Main, April 1966

KARL BLESSING
President of the Deutsche Bundesbank

Appendices
to
Parts B and C

Combined Conversion Account of the Institutions

Assets as shown by the books

| | as shown by the books on 1 Jan. 1965 DM | Changes in 1965 DM | as shown by the books on 31 Dec. 1965 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 | 8,103,325,756.18 | + 28,420.66 | 8,103,354,176.84 |
| 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 | 547,167,616.60 | + 804.60 | 547,168,421.20 |
| | <u>8,736,093,083.53</u> | <u>+ 29,225.26</u> | <u>8,736,122,308.79</u> |
| 13. Contingent claims | 126,558.92 | — | 126,558.92 |

¹⁾ Relating to converted Small Money Tokens.

Amalgamated to Form the Deutsche Bundesbank

on 31 December 1965

Liabilities

| | as shown by the books on 1 Jan. 1965 DM | Changes in 1965 DM | as shown by the books on 31 Dec. 1965 DM |
|---|--|--------------------------|---|
| 1. Capital | 270,000,000.— | — | 270,000,000.— |
| 2. Reserves for specific purposes: | | | |
| for pension liabilities | 126,968,586.60 | — | 126,968,586.60 |
| others | 233,810.35 | — | 233,810.35 |
| 3. Notes and coin put into circulation | | | |
| (a) first instalment of per-capita quotas | 1,853,121,572.32 | — | 1,853,121,572.32 |
| (b) second instalment of per-capita quotas, delayed cases, etc. | 264,957,703.05 | + 32.76 | 264,957,735.81 |
| 4. Deposits | 5,630,482,740.55 | + 28,387.90 | 5,630,511,128.45 |
| 5. Other liabilities | 1,648,526.03 | — | 1,648,526.03 |
| 6. Transitory items | 177,814.32 | — | 177,814.32 |
| 7. Amounts paid or credited under par. 52a, b, d and e, Berlin Central Bank Ordinance, and par. 9, Implementing Reg. 2, Conversion Ordinance | 588,502,330.31 | + 804.60 | 588,503,134.91 |
| | 8,736,093,083.53 | + 29,225.26 | 8,736,122,308.79 |
| 8. Contingent liabilities | 126,558.92 | — | 126,558.92 |

Deutsche Bundesbank The Directorate

Karl Blessing Dr. Troeger

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

The final result of our audit, which was duly carried out on the basis of the books and records of the Deutsche Bundesbank as well as of the explanations given and vouchers produced, shows the bookkeeping and the Conversion Accounts for the Bank Deutscher Länder and the Land Central Banks, amended to conform with the revisions as of 31 December 1965 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, 11 March 1966

*Deutsche Revisions- und Treuhand-Aktiengesellschaft
Treuarbeit*

*Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft*

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

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

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

| Assets | Balance Sheet of the Deutsche Bundesbank | | |
|--|--|------------------|--------------------------|
| | DM | DM | DM |
| 1. Gold | | | 17,371,155,588.57 |
| 2. Balances at foreign banks and money-market investments abroad | | | 8,110,895,876.41 |
| among which: Earmarked DM 455,674,366.37 | | | |
| 3. Foreign notes and coin, foreign bills and cheques | | | 892,157,021.87 |
| 4. German divisional coin. | | | 129,627,086.63 |
| 5. Balances on postal cheque account. | | | 409,182,465.03 |
| 6. Domestic bills of exchange | | | 4,650,082,818.23 |
| 7. Treasury bills and non-interest Treasury bonds of Federal Government and Federal Special Funds | | | 345,400,000.— |
| 8. Advances against securities | | | 696,420,400.— |
| 9. Cash advances to | | | |
| (a) Federal Government and Federal Special Funds | | 1,074,500,000.— | |
| (b) <i>Länder</i> | | 333,135,000.— | 1,407,635,000.— |
| 10. Other claims | | | 99,673,174.23 |
| 11. Securities. | | | 1,150,761,675.95 |
| among which: Bundesbank Enjoyment Right Certificates having a par value of DM 43,196,600.— | | | |
| 12. Equalisation claims on public authorities and debt certificate in respect of Berlin | | | |
| (a) Equalisation claims | 8,133,823,973.13 | | |
| less | | | |
| Equalisation claims returned in exchange for money-market paper | 1,064,440,000.— | 7,069,383,973.13 | |
| (b) Debt certificate. | | 547,168,421.20 | 7,616,552,394.33 |
| 13. Credits to Federal Government for participation in international institutions | | | 3,000,942,000.— |
| 14. Claims on Federal Government in respect of | | | |
| (a) acquisition of claims resulting from post-war economic aid | | 1,507,696,948.79 | |
| (b) alteration of exchange parity | | 777,492,298.87 | 2,285,189,247.66 |
| 15. Loans to international institutions and consolidation loans | | | 3,344,332,222.94 |
| among which: (a) to I.M.F. DM 1,390,000,000.— | | | |
| (b) to I.B.R.D. DM 1,445,810,000.— | | | |
| (c) arising from liqui- dation of E.P.U. DM 508,522,222.94 | | | |
| 16. Land and buildings | | | 85,000,000.— |
| 17. Equipment | | | 1.— |
| 18. Items in course of settlement | | | 180,946,595.89 |
| 19. Other assets | | | 90,433,201.99 |
| 20. Transitory items | | | 27,343,526.43 |
| <i>Right of recourse in respect of contingent liabilities</i> | | 1,104,046.16 | |
| | | | <u>51,893,730,297.16</u> |

as on 31 December 1965

| | Liabilities | | |
|--|------------------|-------------------|-------------------|
| | DM | DM | DM |
| 1. Capital | | | 290,000,000.— |
| 2. Reserves | | | |
| (a) legal reserve | | 609,800,000.— | |
| (b) other reserves | | 250,700,000.— | 860,500,000.— |
| 3. Reserves for specific purposes | | | |
| (a) for pension liabilities | | 715,000,000.— | |
| (b) for note printing | | 25,000,000.— | |
| (c) for other purposes | | 950,000,000.— | 1,690,000,000.— |
| 4. Bank notes in circulation | | | 29,455,583,875.— |
| 5. Deposits of | | | |
| (a) credit institutions (including Postal Cheque and Postal Savings Bank offices) | | 16,241,266,284.85 | |
| (b) public depositors | | | |
| (ba) Federal Government | 46,619,548.42 | | |
| (bb) Federal Special Funds | 964,572,710.09 | | |
| (bc) <i>Länder</i> | 1,108,327,706.07 | | |
| (bd) other public depositors | 45,313,994.08 | 2,164,833,958.66 | |
| (c) other German depositors | | 265,054,693.71 | 18,671,154,937.22 |
| 6. Liabilities in respect of foreign business | | | |
| (a) Deposits of foreign depositors | | 417,531,266.65 | |
| (b) others | | 33,996,577.62 | 451,527,844.27 |
| among which: provision of cover for letters of credit and guarantees by foreigners DM 299,460.73 residents DM 15,262,966.94 | | | |
| 7. Other liabilities | | | 30,987,186.27 |
| 8. Transitory items | | | 77,457,741.81 |
| 9. Net profit | | | 366,518,712.59 |
| <i>Contingent liabilities</i> | | 1,104,046.16 | |
| | | | 51,893,730,297.16 |

Profit and Loss Account of the Deutsche Bundesbank for the Year 1965

| Expenditure | DM | DM |
|--|----------------|----------------|
| 1. Administrative costs | | |
| (a) Personnel | 184,816,453.50 | |
| (b) Materials | 30,765,941.78 | 215,582,395.28 |
| 2. Note printing | | 25,394,843.55 |
| 3. Depreciation | | |
| (a) on land and buildings | 28,527,237.41 | |
| (b) on equipment | 3,694,051.02 | 32,221,288.43 |
| 4. Allocations to reserves for specific purposes | | |
| (a) for pension liabilities | 99,882,804.20 | |
| (b) others | 150,000,000.— | 249,882,804.20 |
| 5. Pension payments in respect of Reichsbank | | 26,837,470.01 |
| 6. Other expenditure | | 6,085,218.31 |
| 7. Net Profit | | 366,518,712.59 |
| | | 922,522,732.37 |
| | | 922,522,732.37 |
| Receipts | | |
| 1. Interest | | 909,986,773.21 |
| 2. Fees | | 3,443,400.85 |
| 3. Other receipts | | 9,092,558.31 |
| | | 922,522,732.37 |
| | | 922,522,732.37 |

*Deutsche Bundesbank
The Directorate*

Karl Blessing Dr. Troeger

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

The final result of our audit, which was duly carried out on the basis of the records, books and other data of the Deutsche Bundesbank as well as of the explanations given and vouchers produced by the Directorate, shows the bookkeeping and the Annual Statement to be in accordance with the provisions of the law.

Frankfurt am Main, 11 March 1966

*Deutsche Revisions- und Treuhand-Aktiengesellschaft
Treuarbeit
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft*

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

*Dr. Merckens
(Certified Auditor)*

*Dr. Meyer
(Certified Auditor)*

*Dr. Bargmann
(Certified Auditor)*

*Schindewolf
(Certified Auditor)*

Fund for the Purchase of Equalisation Claims

Position on 31 December 1965

| | Equalisation claims (remaining capital) DM | Cash resources DM | Total assets of the Fund DM |
|---|--|-----------------------------|-----------------------------------|
| Position on 31 December 1964 . . . | 526,754,486.97 | 33,270,643.17 | 560,025,130.14 |
| Allocation from the Deutsche Bundesbank's 1964 net profit . . . | | 40,000,000.— | 40,000,000.— |
| Purchase and linear taking over of equalisation claims | 82,406,786.45 | ./. 82,406,786.45 | |
| Redemptions | ./. 10,823,474.97 | 10,823,474.97 | |
| Interest | | | |
| on equalisation claims | | 17,092,175.77 | 17,092,175.77 |
| from temporary employment of the Fund's cash resources | | 1,898,368.05 | 1,898,368.05 |
| Position on 31 December 1965 . . . | <u><u>598,337,798.45</u></u> | <u><u>20,677,875.51</u></u> | <u><u>619,015,673.96</u></u> |

*Deutsche Bundesbank
The Directorate*

Karl Blessing Dr. Troeger

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

| Date of return | Assets | | | | | | | | | | | | | | |
|----------------|----------|---|------------------------|---|------------------------|-----------------------------------|----------------------------|--|--|------------|-----------------------------|---------------|--|------------|------------|
| | Gold | Balances at foreign banks and money-market investments abroad | | Foreign notes and coin, foreign bills and cheques | German divisional coin | Balances on postal cheque account | Domestic bills of exchange | Treasury bills and non-interest Treasury bonds | | | | Cash advances | | | Securities |
| | | Total | among which: Earmarked | | | | | Total | (a) Federal Government and Federal Special Funds | (b) Länder | Advances against securities | to | | | |
| | | | | | | | | | | | | Total | (a) Federal Government and Federal Special Funds | (b) Länder | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | |
| 1965 | | | | | | | | | | | | | | | |
| Jan. 7 | 16,730.8 | 10,300.4 | — | 562.8 | 136.4 | 280.2 | 2,718.4 | 356.7 | 356.7 | — | 43.2 | 593.0 | 558.7 | 34.3 | 1,175.9 |
| 15 | 16,733.0 | 10,191.0 | — | 547.4 | 159.1 | 210.1 | 2,425.7 | 331.9 | 331.9 | — | 67.6 | — | — | — | 1,176.0 |
| 23 | 16,735.6 | 10,038.9 | — | 603.1 | 168.0 | 169.0 | 4,018.2 | 77.9 | 77.9 | — | 36.4 | — | — | — | 1,176.0 |
| 31 | 16,735.7 | 9,303.8 | — | 566.3 | 153.1 | 254.0 | 3,546.9 | 78.9 | 78.9 | — | 19.5 | 187.8 | 154.8 | 33.0 | 1,176.0 |
| Feb. 7 | 16,735.7 | 9,466.8 | — | 554.7 | 159.4 | 148.8 | 3,260.0 | 6.0 | 6.0 | — | 20.6 | 601.3 | 578.7 | 22.6 | 1,176.0 |
| 15 | 16,737.5 | 9,517.6 | — | 536.9 | 170.4 | 156.9 | 2,761.7 | 1.0 | 1.0 | — | 19.8 | 217.3 | 214.6 | 2.7 | 1,176.0 |
| 23 | 16,738.2 | 9,472.4 | — | 514.0 | 171.4 | 163.1 | 3,045.7 | 1.0 | 1.0 | — | 147.8 | — | — | — | 1,176.0 |
| 28 | 16,738.2 | 9,691.0 | — | 516.5 | 156.8 | 290.6 | 3,096.0 | 1.0 | 1.0 | — | 212.8 | 824.3 | 760.8 | 63.5 | 1,176.0 |
| Mar. 7 | 16,706.9 | 10,051.5 | — | 521.8 | 156.0 | 179.2 | 4,456.5 | 70.0 | 70.0 | — | 64.0 | 486.2 | 420.7 | 65.5 | 1,176.0 |
| 15 | 16,706.9 | 10,243.0 | — | 541.4 | 162.5 | 169.2 | 4,077.6 | 70.0 | 70.0 | — | 100.8 | — | — | — | 1,176.0 |
| 23 | 16,707.6 | 10,197.2 | — | 549.7 | 168.8 | 175.2 | 4,438.8 | 115.0 | 115.0 | — | 147.8 | — | — | — | 1,176.0 |
| 31 | 16,707.6 | 10,348.8 | — | 550.7 | 148.7 | 270.1 | 4,352.7 | — | — | — | 36.5 | — | — | — | 1,176.0 |
| Apr. 7 | 16,707.7 | 10,443.5 | — | 536.2 | 149.3 | 203.3 | 4,647.7 | 10.0 | 10.0 | — | 40.1 | — | — | — | 1,176.0 |
| 15 | 16,707.8 | 10,243.4 | — | 543.6 | 142.8 | 171.7 | 3,981.2 | 96.0 | 96.0 | — | 154.8 | — | — | — | 1,176.4 |
| 23 | 16,708.5 | 10,072.7 | — | 531.2 | 147.4 | 224.0 | 3,760.5 | 141.0 | 141.0 | — | 308.7 | — | — | — | 1,176.4 |
| 30 | 16,708.4 | 10,203.7 | — | 513.5 | 131.5 | 272.9 | 3,291.7 | 392.0 | 392.0 | — | 128.2 | 274.7 | 137.9 | 136.8 | 1,176.4 |
| May 7 | 16,708.4 | 10,226.4 | — | 513.2 | 135.9 | 189.9 | 4,170.5 | 190.0 | 190.0 | — | 63.6 | 479.1 | 366.7 | 112.4 | 1,176.4 |
| 15 | 16,711.1 | 10,070.9 | — | 503.8 | 145.5 | 177.8 | 3,997.6 | 190.0 | 190.0 | — | 56.4 | 106.0 | 46.8 | 59.2 | 1,176.4 |
| 23 | 16,711.8 | 9,643.9 | — | 554.2 | 154.2 | 150.3 | 4,544.4 | 280.0 | 280.0 | — | 49.9 | 28.4 | — | 28.4 | 1,176.4 |
| 31 | 17,245.2 | 8,323.1 | — | 531.0 | 136.3 | 319.1 | 3,803.2 | 180.0 | 180.0 | — | 60.1 | 993.5 | 737.5 | 256.0 | 1,176.4 |
| June 7 | 17,245.2 | 8,144.7 | — | 542.0 | 136.7 | 199.9 | 4,913.4 | 120.0 | 120.0 | — | 153.8 | 1,081.2 | 955.8 | 125.4 | 1,176.4 |
| 15 | 17,245.2 | 8,176.9 | — | 540.4 | 147.7 | 253.0 | 4,411.0 | 121.0 | 121.0 | — | 37.7 | 38.2 | — | 38.2 | 1,176.2 |
| 23 | 17,245.8 | 8,142.1 | — | 580.8 | 154.4 | 216.8 | 5,035.8 | 286.0 | 286.0 | — | 530.1 | — | — | — | 1,176.2 |
| 30 | 17,245.8 | 7,945.8 | — | 593.3 | 140.3 | 306.5 | 5,012.9 | 275.0 | 275.0 | — | 245.0 | 323.3 | 267.1 | 56.2 | 1,176.2 |
| July 7 | 17,265.2 | 8,126.0 | — | 604.4 | 145.7 | 261.8 | 5,850.1 | 272.0 | 272.0 | — | 358.4 | 424.6 | 372.1 | 52.5 | 1,176.2 |
| 15 | 17,265.5 | 8,133.0 | — | 595.2 | 154.9 | 229.7 | 5,438.1 | 272.0 | 272.0 | — | 66.1 | 144.9 | 91.5 | 53.4 | 1,176.1 |
| 23 | 17,266.3 | 8,094.5 | 464.2 | 608.8 | 153.8 | 143.1 | 5,548.8 | 275.0 | 275.0 | — | 93.1 | 28.9 | — | 28.9 | 1,176.1 |
| 31 | 17,266.2 | 7,991.2 | 464.2 | 631.4 | 134.2 | 313.0 | 5,327.1 | 415.0 | 415.0 | — | 32.2 | 682.5 | 580.3 | 102.2 | 1,176.1 |
| Aug. 7 | 17,255.1 | 7,413.3 | 464.2 | 629.2 | 143.5 | 225.2 | 5,730.4 | 383.0 | 383.0 | — | 50.1 | 977.8 | 904.3 | 73.5 | 1,176.1 |
| 15 | 17,259.7 | 7,446.2 | 464.2 | 619.7 | 150.5 | 175.6 | 5,699.2 | 393.0 | 393.0 | — | 38.7 | 504.5 | 439.9 | 64.6 | 1,176.1 |
| 23 | 17,260.4 | 7,625.7 | 464.2 | 625.2 | 160.0 | 148.3 | 4,904.6 | 353.0 | 353.0 | — | 92.9 | 20.4 | — | 20.4 | 1,176.1 |
| 31 | 17,260.4 | 7,656.6 | 464.2 | 621.7 | 143.0 | 358.2 | 4,466.8 | 254.0 | 254.0 | — | 22.2 | 489.6 | 145.8 | 343.8 | 1,176.1 |
| Sep. 7 | 17,293.5 | 7,487.2 | 464.2 | 628.7 | 145.9 | 229.1 | 6,058.2 | 275.5 | 275.5 | — | 27.1 | 664.2 | 370.2 | 294.0 | 1,175.9 |
| 15 | 17,293.4 | 7,784.9 | 464.2 | 647.6 | 150.8 | 235.0 | 6,014.5 | 227.5 | 227.5 | — | 72.4 | 11.5 | — | 11.5 | 1,160.2 |
| 23 | 17,294.1 | 7,894.8 | 464.2 | 630.5 | 154.7 | 167.8 | 6,210.8 | 237.5 | 237.5 | — | 381.8 | — | — | — | 1,160.2 |
| 30 | 17,294.3 | 7,993.9 | 464.2 | 636.9 | 135.4 | 310.3 | 6,384.8 | 191.5 | 191.5 | — | 160.8 | 91.4 | — | 91.4 | 1,152.3 |
| Oct. 7 | 17,275.3 | 7,837.7 | 464.2 | 645.0 | 137.5 | 243.8 | 6,486.4 | 192.0 | 192.0 | — | 458.4 | 141.9 | — | 141.9 | 1,152.3 |
| 15 | 17,351.1 | 7,758.2 | 464.2 | 647.7 | 136.4 | 186.4 | 6,046.0 | 201.0 | 201.0 | — | 137.1 | 91.0 | — | 91.0 | 1,152.3 |
| 23 | 17,351.8 | 7,913.8 | 464.2 | 645.1 | 136.8 | 165.2 | 5,656.5 | 201.0 | 201.0 | — | 281.2 | 80.7 | — | 80.7 | 1,152.3 |
| 31 | 17,351.9 | 8,067.1 | 464.2 | 685.0 | 121.4 | 305.3 | 5,314.9 | 169.0 | 169.0 | — | 233.4 | 305.8 | — | 305.8 | 1,152.3 |
| Nov. 7 | 17,351.9 | 8,151.2 | 464.2 | 713.8 | 128.3 | 237.9 | 5,702.5 | 232.0 | 232.0 | — | 105.1 | 297.4 | — | 297.4 | 1,152.3 |
| 15 | 17,357.1 | 8,165.3 | 464.2 | 694.0 | 133.2 | 189.3 | 4,762.5 | 191.0 | 191.0 | — | 43.2 | 192.4 | — | 192.4 | 1,152.3 |
| 23 | 17,357.8 | 8,176.0 | 464.2 | 701.1 | 133.8 | 224.3 | 3,883.4 | 138.0 | 138.0 | — | 69.9 | 100.1 | — | 100.1 | 1,152.3 |
| 30 | 17,357.8 | 8,135.2 | 464.2 | 735.3 | 109.8 | 369.1 | 4,158.2 | 149.0 | 149.0 | — | 99.9 | 892.8 | 469.6 | 423.2 | 1,152.3 |
| Dec. 7 | 17,357.8 | 8,187.0 | 464.2 | 722.3 | 105.7 | 250.3 | 5,012.0 | 199.7 | 199.7 | — | 153.1 | 998.6 | 660.8 | 337.8 | 1,152.3 |
| 15 | 17,357.8 | 8,188.3 | 464.2 | 730.0 | 109.0 | 269.4 | 4,600.1 | 222.4 | 222.4 | — | 177.0 | 11.8 | — | 11.8 | 1,152.3 |
| 23 | 17,358.5 | 8,143.0 | 464.2 | 832.7 | 109.6 | 195.9 | 4,963.0 | 285.4 | 285.4 | — | 743.5 | 43.2 | — | 43.2 | 1,152.3 |
| 31 | 17,371.1 | 8,110.9 | 455.7 | 892.2 | 129.6 | 409.2 | 4,650.1 | 345.4 | 345.4 | — | 696.4 | 1,407.6 | 1,074.5 | 333.1 | 1,150.8 |

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

Deutsche Bundesbank

of DM

| Assets | | | | | | | | | | | | | | | Date of return |
|---|---|-----------------------------------|--|----------------------|--|--|-----------------------------------|-------|---|---------------|-----------------|--------------------------------|--------------|----------|----------------|
| Equalisation claims and non-interest-bearing debt certificate | | | | | Credits to Federal Govt. for participation in international institutions | Claims on Federal Government in respect of | | | Loans to international institutions and consolidation loans | | | | Other assets | Total | |
| Total | Equalisation claims | | | (c) Debt certificate | | (a) acquisition of claims resulting from post-war economic aid | (b) alteration of exchange parity | Total | among which: | | | | | | |
| | (a) Equalisation claims from conversion of own balance sheet 1) | (b) Equalisation claims purchased | less equalisation claims returned in exchange for money-market paper | | | | | | Total | (a) to I.M.F. | (b) to I.B.R.D. | (c) from liquidation of E.P.U. | | | |
| 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | |
| 6,196.8 | 8,132.8 | — | 2,483.2 | 5,649.6 | 547.2 | 2,905.2 | 2,010.3 | 943.0 | 2,683.6 | 720.0 | 1,343.1 | 614.6 | 258.2 | 47,894.9 | 1965 Jan. 7 |
| 6,227.6 | 8,132.8 | — | 2,452.4 | 5,680.4 | 547.2 | 2,883.2 | 2,010.3 | 943.0 | 2,683.5 | 720.0 | 1,343.1 | 614.6 | 442.7 | 47,032.1 | 15 |
| 6,830.5 | 8,132.8 | — | 1,849.5 | 6,283.3 | 547.2 | 2,883.2 | 2,010.3 | 943.0 | 2,682.8 | 720.0 | 1,343.1 | 613.9 | 344.6 | 48,717.5 | 23 |
| 5,991.8 | 8,132.8 | — | 2,688.2 | 5,444.6 | 547.2 | 2,856.6 | 2,010.3 | 943.0 | 2,682.8 | 720.0 | 1,343.1 | 613.9 | 642.9 | 47,149.4 | 31 |
| 6,111.1 | 8,132.8 | — | 2,568.9 | 5,563.9 | 547.2 | 2,894.0 | 2,010.3 | 943.0 | 2,683.6 | 720.0 | 1,343.9 | 613.9 | 358.0 | 47,129.3 | Feb. 7 |
| 5,801.4 | 8,132.8 | — | 2,878.6 | 5,254.2 | 547.2 | 2,872.0 | 2,010.3 | 943.0 | 2,683.6 | 720.0 | 1,343.9 | 613.9 | 277.7 | 45,883.1 | 15 |
| 5,818.2 | 8,132.8 | — | 2,861.8 | 5,271.0 | 547.2 | 2,862.0 | 2,010.3 | 943.0 | 2,682.9 | 720.0 | 1,343.9 | 613.2 | 1,235.4 | 46,981.4 | 23 |
| 5,726.5 | 8,132.8 | — | 2,953.5 | 5,179.3 | 547.2 | 2,862.0 | 2,010.3 | 943.0 | 2,682.9 | 720.0 | 1,343.9 | 613.2 | 985.7 | 47,893.6 | 28 |
| 5,724.9 | 8,132.8 | — | 2,955.1 | 5,177.7 | 547.2 | 2,834.0 | 2,010.3 | 943.0 | 2,682.9 | 720.0 | 1,343.9 | 613.2 | 364.4 | 48,427.6 | Mar. 7 |
| 5,783.1 | 8,132.8 | — | 2,896.9 | 5,235.9 | 547.2 | 2,812.0 | 2,010.3 | 943.0 | 2,682.9 | 720.0 | 1,343.9 | 613.2 | 261.3 | 47,740.0 | 15 |
| 5,627.3 | 8,132.8 | — | 3,052.7 | 5,080.1 | 547.2 | 2,912.0 | 2,010.3 | 943.0 | 2,682.2 | 720.0 | 1,343.9 | 612.5 | 421.6 | 48,272.5 | 23 |
| 5,678.7 | 8,132.8 | — | 3,001.3 | 5,131.5 | 547.2 | 2,887.0 | 2,010.3 | 943.0 | 2,674.8 | 720.0 | 1,343.9 | 610.9 | 940.7 | 48,725.6 | 31 |
| 5,662.8 | 8,132.8 | — | 3,017.2 | 5,115.6 | 547.2 | 2,887.0 | 2,010.3 | 943.0 | 2,674.8 | 720.0 | 1,343.9 | 610.9 | 307.7 | 48,399.4 | Apr. 7 |
| 5,680.2 | 8,132.8 | — | 2,999.8 | 5,133.0 | 547.2 | 2,887.0 | 2,010.3 | 777.5 | 2,674.8 | 720.0 | 1,343.9 | 610.9 | 364.7 | 47,612.2 | 15 |
| 5,531.6 | 8,132.8 | — | 3,148.4 | 4,984.4 | 547.2 | 2,887.0 | 2,010.3 | 777.5 | 2,674.1 | 720.0 | 1,343.9 | 610.2 | 1,160.1 | 48,111.0 | 23 |
| 6,043.2 | 8,132.8 | — | 2,636.8 | 5,496.0 | 547.2 | 2,887.0 | 2,010.3 | 777.5 | 2,674.1 | 720.0 | 1,343.9 | 610.2 | 483.5 | 47,958.6 | 30 |
| 5,924.0 | 8,132.8 | — | 2,756.0 | 5,376.8 | 547.2 | 2,910.5 | 2,010.3 | 777.5 | 2,674.1 | 720.0 | 1,343.9 | 610.2 | 320.0 | 48,469.8 | May 7 |
| 5,973.0 | 8,132.8 | — | 2,707.0 | 5,425.8 | 547.2 | 2,892.5 | 2,010.3 | 777.5 | 2,674.1 | 720.0 | 1,343.9 | 610.2 | 423.9 | 47,886.6 | 15 |
| 6,123.5 | 8,132.8 | — | 2,556.5 | 5,576.3 | 547.2 | 2,882.5 | 2,010.3 | 777.5 | 2,673.4 | 720.0 | 1,343.9 | 609.5 | 243.8 | 48,004.5 | 23 |
| 6,118.6 | 8,132.8 | — | 2,561.4 | 5,571.4 | 547.2 | 2,932.5 | 2,010.3 | 777.5 | 3,343.4 | 1,390.0 | 1,343.9 | 609.5 | 867.5 | 48,817.7 | 31 |
| 6,173.9 | 8,132.8 | — | 2,506.1 | 5,626.7 | 547.2 | 2,932.5 | 2,010.3 | 777.5 | 3,343.4 | 1,390.0 | 1,343.9 | 609.5 | 356.9 | 49,307.8 | June 7 |
| 6,185.1 | 8,132.8 | — | 2,494.9 | 5,637.9 | 547.2 | 2,932.5 | 2,010.3 | 777.5 | 3,343.4 | 1,390.0 | 1,343.9 | 609.5 | 340.5 | 47,736.6 | 15 |
| 6,468.1 | 8,132.8 | — | 2,211.9 | 5,920.9 | 547.2 | 2,932.5 | 2,010.3 | 777.5 | 3,342.7 | 1,390.0 | 1,343.9 | 608.8 | 457.1 | 49,356.2 | 23 |
| 6,480.9 | 8,132.8 | — | 2,199.1 | 5,933.7 | 547.2 | 2,932.5 | 2,010.3 | 777.5 | 3,341.1 | 1,390.0 | 1,343.9 | 607.2 | 1,184.5 | 49,990.9 | 30 |
| 6,605.9 | 8,132.8 | — | 2,074.1 | 6,058.7 | 547.2 | 2,972.5 | 2,010.3 | 777.5 | 3,341.1 | 1,390.0 | 1,343.9 | 607.2 | 262.4 | 50,454.1 | July 7 |
| 6,686.3 | 8,132.8 | — | 1,993.7 | 6,139.1 | 547.2 | 2,989.8 | 2,010.3 | 777.5 | 3,341.1 | 1,390.0 | 1,343.9 | 607.2 | 515.4 | 49,795.9 | 15 |
| 6,723.5 | 8,132.8 | — | 1,956.5 | 6,176.3 | 547.2 | 2,989.8 | 2,010.3 | 777.5 | 3,340.4 | 1,390.0 | 1,343.9 | 606.5 | 928.8 | 50,158.7 | 23 |
| 6,933.4 | 8,132.8 | — | 1,746.6 | 6,386.2 | 547.2 | 2,956.0 | 2,010.3 | 777.5 | 3,340.4 | 1,390.0 | 1,343.9 | 606.5 | 471.5 | 50,458.0 | 31 |
| 6,960.6 | 8,132.8 | — | 1,719.4 | 6,413.4 | 547.2 | 2,956.0 | 2,010.3 | 777.5 | 3,274.2 | 1,390.0 | 1,365.8 | 518.4 | 403.0 | 50,365.3 | Aug. 7 |
| 6,875.5 | 8,132.8 | — | 1,804.5 | 6,328.3 | 547.2 | 2,956.0 | 2,010.3 | 777.5 | 3,274.2 | 1,390.0 | 1,365.8 | 518.4 | 399.8 | 49,756.5 | 15 |
| 7,036.0 | 8,132.8 | — | 1,644.0 | 6,488.8 | 547.2 | 2,952.8 | 2,010.3 | 777.5 | 3,273.5 | 1,390.0 | 1,365.8 | 517.7 | 336.7 | 48,753.4 | 23 |
| 6,578.5 | 8,132.8 | — | 2,101.5 | 6,031.3 | 547.2 | 2,952.8 | 2,010.3 | 777.5 | 3,273.5 | 1,390.0 | 1,365.8 | 517.7 | 961.4 | 49,002.6 | 31 |
| 6,586.3 | 8,132.8 | — | 2,093.7 | 6,039.1 | 547.2 | 2,952.8 | 2,010.3 | 777.5 | 3,273.5 | 1,390.0 | 1,365.8 | 517.7 | 397.6 | 49,965.3 | Sep. 7 |
| 5,533.5 | 8,132.8 | — | 2,146.5 | 5,986.3 | 547.2 | 2,952.8 | 2,010.3 | 777.5 | 3,273.5 | 1,390.0 | 1,365.8 | 517.7 | 559.5 | 49,704.9 | 15 |
| 6,627.2 | 8,132.8 | — | 2,052.8 | 6,080.0 | 547.2 | 2,952.8 | 2,010.3 | 777.5 | 3,272.8 | 1,390.0 | 1,365.8 | 517.0 | 528.0 | 50,300.8 | 23 |
| 6,723.0 | 8,132.8 | — | 1,957.0 | 6,175.8 | 547.2 | 2,940.8 | 2,010.3 | 777.5 | 3,271.2 | 1,390.0 | 1,365.8 | 515.4 | 1,054.9 | 51,129.3 | 30 |
| 6,850.4 | 8,132.8 | — | 1,829.6 | 6,303.2 | 547.2 | 2,940.8 | 2,010.3 | 777.5 | 3,271.2 | 1,390.0 | 1,365.8 | 515.4 | 424.0 | 50,844.5 | Oct. 7 |
| 6,848.8 | 8,132.8 | — | 1,831.2 | 6,301.6 | 547.2 | 2,940.8 | 2,010.3 | 777.5 | 3,271.2 | 1,390.0 | 1,365.8 | 515.4 | 494.9 | 50,050.7 | 15 |
| 6,875.0 | 8,132.8 | — | 1,805.0 | 6,327.8 | 547.2 | 2,940.8 | 2,010.3 | 777.5 | 3,270.5 | 1,390.0 | 1,365.8 | 514.7 | 555.6 | 50,014.1 | 23 |
| 8,873.3 | 8,132.8 | — | 1,806.7 | 6,326.1 | 547.2 | 2,960.8 | 2,010.3 | 777.5 | 3,270.5 | 1,390.0 | 1,365.8 | 514.7 | 829.2 | 50,427.7 | 31 |
| 6,979.8 | 8,132.8 | — | 1,700.2 | 6,432.6 | 547.2 | 2,960.9 | 2,010.3 | 777.5 | 3,270.5 | 1,390.0 | 1,365.8 | 514.7 | 542.7 | 50,614.1 | Nov. 7 |
| 6,983.5 | 8,132.8 | — | 1,696.5 | 6,436.3 | 547.2 | 3,000.9 | 2,010.3 | 777.5 | 3,349.7 | 1,390.0 | 1,445.0 | 514.7 | 579.2 | 49,581.4 | 15 |
| 6,948.7 | 8,132.8 | — | 1,731.3 | 6,401.5 | 547.2 | 3,000.9 | 2,010.3 | 777.5 | 3,349.0 | 1,390.0 | 1,445.0 | 514.0 | 591.7 | 48,614.8 | 23 |
| 6,963.8 | 8,132.8 | — | 1,716.2 | 6,416.6 | 547.2 | 3,000.9 | 2,010.3 | 777.5 | 3,346.6 | 1,390.0 | 1,445.0 | 511.6 | 1,194.8 | 50,453.3 | 30 |
| 7,025.2 | 8,132.8 | — | 1,654.8 | 6,478.0 | 547.2 | 3,000.9 | 2,010.3 | 777.5 | 3,346.6 | 1,390.0 | 1,445.0 | 511.6 | 297.4 | 50,596.7 | Dec. 7 |
| 7,188.6 | 8,132.8 | — | 1,491.4 | 6,641.4 | 547.2 | 3,000.9 | 2,010.3 | 777.5 | 3,346.6 | 1,390.0 | 1,445.0 | 511.6 | 529.2 | 49,671.2 | 15 |
| 7,596.0 | 8,132.8 | — | 1,084.0 | 7,048.8 | 547.2 | 3,000.9 | 2,010.3 | 777.5 | 3,345.9 | 1,390.0 | 1,445.0 | 510.9 | 1,184.0 | 51,741.7 | 23 |
| 7,616.6 | 8,133.8 | — | 1,064.4 | 7,069.4 | 547.2 | 3,000.9 | 1,507.7 | 777.5 | 3,344.3 | 1,390.0 | 1,445.8 | 508.5 | 432.8 | 51,843.1 | 31 |

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

Returns of the Deutsche

Millions

| Date of return | Liabilities | | | | | | | | |
|----------------|---------------------------|----------|---|-----------------------|-------------------------|----------------------------|-------------|------------------------------|-----------------------------|
| | Deposits | | | | | | | | |
| | Bank notes in circulation | Total | (a) credit institutions (including Postal Cheque and Postal Savings Bank offices) | (b) public depositors | | | | | (c) other German depositors |
| | | | | Total | (ba) Federal Government | (bb) Federal Special Funds | (bc) Länder | (bd) other public depositors | |
| 31 | 32 | 33 | 34 | 35 | 36 | 37 | 38 | 39 | |
| 1965 | | | | | | | | | |
| Jan. 7 | 26,162.1 | 18,559.3 | 14,886.2 | 3,411.3 | 7.5 | 1,151.9 | 2,219.3 | 32.6 | 261.8 |
| 15 | 25,624.3 | 18,218.6 | 13,608.3 | 4,375.2 | 204.2 | 1,204.9 | 2,906.5 | 59.6 | 235.1 |
| 23 | 24,307.2 | 21,248.7 | 15,035.7 | 5,976.2 | 1,671.2 | 1,227.9 | 3,048.8 | 28.3 | 236.8 |
| 31 | 27,352.7 | 16,652.3 | 13,238.0 | 3,191.1 | 10.1 | 1,194.5 | 1,957.7 | 28.8 | 223.2 |
| Feb. 7 | 26,082.1 | 17,853.6 | 14,815.5 | 2,791.4 | 11.3 | 671.3 | 2,083.1 | 25.7 | 246.7 |
| 15 | 25,332.5 | 17,373.6 | 13,549.5 | 3,580.1 | 28.2 | 935.8 | 2,552.5 | 63.6 | 244.0 |
| 23 | 24,419.4 | 19,429.8 | 13,281.1 | 5,906.5 | 580.8 | 3,013.1 | 2,280.4 | 32.2 | 242.2 |
| 28 | 28,376.8 | 16,399.2 | 12,937.4 | 3,234.4 | 20.6 | 1,711.7 | 1,457.1 | 45.0 | 227.4 |
| Mar. 7 | 27,329.2 | 17,940.1 | 15,189.4 | 2,508.7 | 8.4 | 775.5 | 1,695.4 | 29.4 | 242.0 |
| 15 | 26,349.8 | 18,123.2 | 13,504.4 | 4,384.2 | 911.1 | 629.6 | 2,804.2 | 39.3 | 234.6 |
| 23 | 24,555.9 | 20,407.2 | 13,383.2 | 6,778.7 | 2,380.5 | 624.7 | 3,731.6 | 41.9 | 245.3 |
| 31 | 28,388.5 | 17,043.1 | 12,739.0 | 3,896.4 | 285.3 | 1,200.3 | 2,368.7 | 42.1 | 407.7 |
| Apr. 7 | 26,723.4 | 18,490.6 | 14,962.9 | 3,275.8 | 83.2 | 788.5 | 2,381.4 | 22.7 | 251.9 |
| 15 | 26,973.7 | 17,637.9 | 13,852.8 | 3,554.3 | 389.6 | 485.0 | 2,648.5 | 31.2 | 230.8 |
| 23 | 25,416.3 | 19,681.9 | 13,279.6 | 6,157.0 | 1,469.2 | 1,986.2 | 2,671.8 | 29.8 | 245.3 |
| 30 | 29,120.8 | 15,843.3 | 12,630.8 | 2,951.2 | 9.6 | 1,087.7 | 1,806.8 | 47.1 | 261.3 |
| May 7 | 27,804.4 | 17,606.1 | 14,883.7 | 2,469.3 | 5.6 | 553.4 | 1,892.9 | 17.4 | 253.1 |
| 15 | 27,428.4 | 17,347.8 | 14,292.0 | 2,810.2 | 14.7 | 578.0 | 2,161.9 | 55.6 | 245.6 |
| 23 | 26,097.7 | 18,819.5 | 14,645.1 | 3,945.4 | 896.6 | 674.9 | 2,332.8 | 41.1 | 229.0 |
| 31 | 29,336.8 | 16,416.1 | 13,181.2 | 2,989.4 | 10.2 | 1,632.3 | 1,310.7 | 36.2 | 245.5 |
| June 7 | 28,665.0 | 17,547.4 | 15,167.3 | 2,146.6 | 12.8 | 737.8 | 1,375.7 | 20.3 | 233.5 |
| 15 | 27,254.8 | 17,321.8 | 13,913.4 | 3,175.2 | 323.5 | 571.0 | 2,252.5 | 28.2 | 233.2 |
| 23 | 25,717.9 | 20,526.7 | 14,157.0 | 6,126.8 | 1,837.7 | 775.5 | 3,469.3 | 44.3 | 242.9 |
| 30 | 29,426.2 | 17,313.4 | 13,444.4 | 3,592.1 | 45.2 | 1,215.4 | 2,276.4 | 55.1 | 276.9 |
| July 7 | 27,971.3 | 19,013.4 | 15,574.5 | 3,192.7 | 9.1 | 854.5 | 2,296.2 | 32.9 | 246.2 |
| 15 | 28,014.3 | 18,532.8 | 14,657.9 | 3,620.4 | 21.6 | 951.6 | 2,609.0 | 38.2 | 254.5 |
| 23 | 27,318.8 | 19,568.3 | 13,602.8 | 5,728.4 | 821.9 | 2,326.4 | 2,538.6 | 41.5 | 237.1 |
| 31 | 30,146.5 | 17,016.5 | 13,667.9 | 3,109.8 | 100.9 | 1,432.6 | 1,545.8 | 30.5 | 238.8 |
| Aug. 7 | 28,587.1 | 18,395.9 | 15,623.8 | 2,545.6 | 10.6 | 777.5 | 1,735.1 | 22.4 | 226.5 |
| 15 | 28,071.2 | 18,290.2 | 15,437.7 | 2,623.3 | 15.9 | 753.3 | 1,813.7 | 40.4 | 229.2 |
| 23 | 26,212.1 | 19,094.4 | 14,219.3 | 4,640.0 | 1,682.4 | 829.1 | 2,085.3 | 43.2 | 235.1 |
| 31 | 29,386.3 | 16,233.9 | 13,201.4 | 2,790.3 | 20.6 | 1,637.7 | 1,104.0 | 28.0 | 242.2 |
| Sep. 7 | 27,807.7 | 18,759.6 | 16,473.8 | 2,046.0 | 6.9 | 837.5 | 1,178.7 | 22.9 | 239.8 |
| 15 | 27,372.7 | 18,883.7 | 14,662.1 | 3,966.7 | 926.7 | 777.4 | 2,225.1 | 37.5 | 254.9 |
| 23 | 26,051.8 | 20,840.0 | 13,902.1 | 6,694.4 | 2,443.2 | 1,122.8 | 3,091.0 | 37.4 | 243.5 |
| 30 | 29,640.5 | 18,026.6 | 13,464.0 | 4,310.9 | 745.9 | 1,795.8 | 1,707.6 | 61.6 | 251.7 |
| Oct. 7 | 28,147.7 | 19,193.9 | 15,641.8 | 3,305.9 | 437.7 | 1,033.3 | 1,808.2 | 26.7 | 246.2 |
| 15 | 27,734.1 | 18,870.3 | 14,802.9 | 3,821.9 | 913.5 | 824.4 | 2,046.9 | 37.1 | 245.5 |
| 23 | 26,285.3 | 20,318.3 | 14,793.5 | 5,274.1 | 2,240.2 | 830.7 | 2,171.2 | 32.0 | 250.7 |
| 31 | 29,728.6 | 17,257.5 | 13,793.0 | 3,235.1 | 652.9 | 1,236.1 | 1,315.8 | 30.3 | 229.4 |
| Nov. 7 | 28,259.7 | 18,897.5 | 16,134.0 | 2,523.8 | 233.6 | 845.6 | 1,419.1 | 25.5 | 239.7 |
| 15 | 27,350.1 | 18,682.6 | 15,217.9 | 3,204.3 | 567.8 | 775.6 | 1,794.4 | 66.5 | 260.4 |
| 23 | 25,652.7 | 19,437.9 | 14,572.1 | 4,593.6 | 1,886.6 | 838.4 | 1,818.6 | 50.0 | 272.2 |
| 30 | 30,311.8 | 16,625.2 | 13,941.7 | 2,412.1 | 31.0 | 1,544.0 | 788.3 | 48.8 | 271.4 |
| Dec. 7 | 29,330.5 | 17,688.7 | 16,126.6 | 1,319.4 | 19.6 | 482.2 | 788.7 | 28.9 | 242.7 |
| 15 | 28,882.4 | 17,107.7 | 14,121.2 | 2,737.8 | 378.5 | 427.2 | 1,895.0 | 37.1 | 248.7 |
| 23 | 28,061.8 | 19,976.1 | 13,488.7 | 6,197.2 | 1,527.2 | 2,337.3 | 2,291.4 | 41.3 | 290.2 |
| 31 | 29,455.6 | 18,671.2 | 16,241.3 | 2,164.8 | 46.6 | 964.6 | 1,108.3 | 45.3 | 265.1 |

Bundesbank (cont'd)

of DM

| Liabilities | | | | | | | | | | Date of return |
|--|------------------------------------|-------|---|-----------|--------------------------------|---------|----------|-------------------|----------|----------------|
| Liabilities in respect of foreign business | | | | | | | | | | |
| Total | (a) Deposits of foreign depositors | Total | (b) Others | | Reserves for specific purposes | Capital | Reserves | Other liabilities | Total | |
| | | | among which, provision of cover for letters of credit and guarantees by | | | | | | | |
| | | | foreigners | residents | | | | | | |
| 40 | 41 | 42 | 43 | 44 | 45 | 46 | 47 | 48 | 49 | |
| 256.8 | 202.3 | 54.5 | 0.1 | 16.2 | 1,260.4 | 290.0 | 775.8 | 590.5 | 47,894.9 | 1965 |
| 279.8 | 225.4 | 54.4 | 0.1 | 15.2 | 1,260.4 | 290.0 | 775.8 | 583.2 | 47,032.1 | Jan. 15 |
| 259.8 | 220.9 | 38.9 | 0.1 | 20.9 | 1,260.4 | 290.0 | 775.8 | 575.6 | 48,717.5 | 23 |
| 252.6 | 216.4 | 36.2 | 0.1 | 19.9 | 1,260.4 | 290.0 | 775.8 | 565.6 | 47,149.4 | 31 |
| 309.7 | 278.7 | 31.0 | 0.1 | 15.9 | 1,260.4 | 290.0 | 775.8 | 557.7 | 47,129.3 | Feb. 7 |
| 297.4 | 266.5 | 30.9 | 0.2 | 13.0 | 1,260.4 | 290.0 | 775.8 | 553.4 | 45,883.1 | 15 |
| 244.7 | 205.1 | 39.6 | 0.1 | 20.4 | 1,260.4 | 290.0 | 775.8 | 561.3 | 46,981.4 | 23 |
| 231.5 | 194.5 | 37.0 | 0.1 | 22.9 | 1,260.4 | 290.0 | 775.8 | 559.9 | 47,893.6 | 28 |
| 259.4 | 229.5 | 29.9 | 0.1 | 16.0 | 1,260.4 | 290.0 | 775.8 | 572.7 | 48,427.6 | Mar. 7 |
| 259.7 | 231.4 | 28.3 | 0.1 | 13.3 | 1,260.4 | 290.0 | 775.8 | 681.1 | 47,740.0 | 15 |
| 381.7 | 325.1 | 56.6 | 0.1 | 20.5 | 1,260.4 | 290.0 | 775.8 | 601.5 | 48,272.5 | 23 |
| 353.1 | 320.1 | 33.0 | 0.1 | 18.9 | 1,260.4 | 290.0 | 775.8 | 614.7 | 48,725.6 | 31 |
| 279.4 | 223.2 | 56.2 | 0.1 | 14.5 | 1,260.4 | 290.0 | 775.8 | 579.8 | 48,399.4 | Apr. 7 |
| 274.0 | 238.2 | 35.8 | 0.1 | 18.9 | 1,475.1 | 290.0 | 860.5 | 101.0 | 47,612.2 | 15 |
| 290.7 | 243.9 | 46.8 | 0.1 | 21.7 | 1,475.1 | 290.0 | 860.5 | 96.5 | 48,111.0 | 23 |
| 261.4 | 224.6 | 36.8 | 0.2 | 15.6 | 1,475.1 | 290.0 | 860.5 | 107.5 | 47,958.6 | 30 |
| 311.1 | 251.8 | 59.3 | 0.3 | 14.4 | 1,475.1 | 290.0 | 860.5 | 122.6 | 48,469.8 | May 7 |
| 336.2 | 307.1 | 29.1 | 0.3 | 12.6 | 1,475.1 | 290.0 | 860.5 | 148.8 | 47,886.8 | 15 |
| 307.3 | 264.6 | 42.7 | 0.2 | 20.2 | 1,475.1 | 290.0 | 860.5 | 154.4 | 48,004.5 | 23 |
| 281.2 | 219.9 | 61.3 | 0.2 | 18.5 | 1,475.1 | 290.0 | 860.5 | 158.0 | 48,817.7 | 31 |
| 309.9 | 276.2 | 33.7 | 0.3 | 16.8 | 1,475.1 | 290.0 | 860.5 | 159.9 | 49,307.8 | June 7 |
| 327.3 | 296.3 | 31.0 | 0.3 | 12.7 | 1,475.1 | 290.0 | 860.5 | 207.1 | 47,736.6 | 15 |
| 318.8 | 276.1 | 42.7 | 0.4 | 20.5 | 1,475.1 | 290.0 | 860.5 | 167.2 | 49,356.2 | 23 |
| 324.1 | 288.4 | 35.7 | 0.3 | 19.2 | 1,475.1 | 290.0 | 860.5 | 301.6 | 49,990.9 | 30 |
| 497.7 | 458.0 | 39.7 | 0.3 | 16.1 | 1,475.1 | 290.0 | 860.5 | 346.1 | 50,454.1 | July 7 |
| 264.3 | 230.9 | 33.4 | 0.4 | 12.0 | 1,475.1 | 290.0 | 860.5 | 358.9 | 49,795.9 | 15 |
| 292.2 | 248.6 | 43.6 | 0.5 | 21.1 | 1,475.1 | 290.0 | 860.5 | 353.8 | 50,158.7 | 23 |
| 308.0 | 275.8 | 32.2 | 0.5 | 17.7 | 1,475.1 | 290.0 | 860.5 | 361.4 | 50,458.0 | 31 |
| 321.5 | 291.0 | 30.5 | 0.4 | 15.5 | 1,475.1 | 290.0 | 860.5 | 435.2 | 50,365.3 | Aug. 7 |
| 331.6 | 304.2 | 27.4 | 0.4 | 13.9 | 1,475.1 | 290.0 | 860.5 | 437.9 | 49,756.5 | 15 |
| 349.6 | 310.8 | 38.8 | 0.4 | 20.4 | 1,475.1 | 290.0 | 860.5 | 471.7 | 48,753.4 | 23 |
| 309.4 | 273.4 | 36.0 | 0.4 | 17.8 | 1,475.1 | 290.0 | 860.5 | 447.4 | 49,002.6 | 31 |
| 320.1 | 283.8 | 36.3 | 0.4 | 14.3 | 1,475.1 | 290.0 | 860.5 | 452.3 | 49,965.3 | Sep. 7 |
| 361.1 | 319.6 | 41.5 | 0.4 | 12.4 | 1,475.1 | 290.0 | 860.5 | 461.8 | 49,704.9 | 15 |
| 318.2 | 276.9 | 41.3 | 0.3 | 20.9 | 1,475.1 | 290.0 | 860.5 | 465.2 | 50,300.8 | 23 |
| 370.8 | 328.3 | 42.5 | 0.3 | 15.3 | 1,475.1 | 290.0 | 860.5 | 465.8 | 51,129.3 | 30 |
| 396.7 | 246.0 | 150.7 | 0.3 | 12.3 | 1,475.1 | 290.0 | 860.5 | 480.6 | 50,844.5 | Oct. 7 |
| 333.6 | 306.9 | 26.7 | 0.3 | 10.3 | 1,475.1 | 290.0 | 860.5 | 487.1 | 50,050.7 | 15 |
| 301.9 | 267.7 | 34.2 | 0.3 | 19.6 | 1,475.1 | 290.0 | 860.5 | 483.0 | 50,014.1 | 23 |
| 327.8 | 290.8 | 37.0 | 0.3 | 17.6 | 1,475.1 | 290.0 | 860.5 | 488.2 | 50,427.7 | 31 |
| 336.7 | 280.0 | 56.7 | 0.3 | 14.7 | 1,475.1 | 290.0 | 860.5 | 494.6 | 50,614.1 | Nov. 7 |
| 408.9 | 380.7 | 28.2 | 0.3 | 12.8 | 1,475.1 | 290.0 | 860.5 | 514.2 | 49,581.4 | 15 |
| 382.0 | 344.8 | 37.2 | 0.3 | 19.4 | 1,475.1 | 290.0 | 860.5 | 516.6 | 48,614.8 | 23 |
| 367.7 | 334.8 | 32.9 | 0.3 | 18.1 | 1,475.1 | 290.0 | 860.5 | 523.0 | 50,453.3 | 30 |
| 393.8 | 331.7 | 62.1 | 0.3 | 12.9 | 1,475.1 | 290.0 | 860.5 | 558.1 | 50,596.7 | Dec. 7 |
| 488.6 | 464.3 | 24.3 | 0.3 | 11.5 | 1,475.1 | 290.0 | 860.5 | 566.9 | 49,671.2 | 15 |
| 520.7 | 424.3 | 96.4 | 0.3 | 20.6 | 1,475.1 | 290.0 | 860.5 | 557.5 | 51,741.7 | 23 |
| 451.5 | 417.5 | 34.0 | 0.3 | 15.3 | 1,475.1 | 290.0 | 860.5 | 639.2 | 51,843.1 | 31 |

Turnover on the Giro Accounts of the Deutsche Bundesbank

| Area | Debits | | | | Credits | | | |
|----------------------------|--------------------|------------|--------------------|------------|--------------------|------------|--------------------|------------|
| | 1964 | | 1965 | | 1964 | | 1965 | |
| | '000 ¹⁾ | DM million | '000 ¹⁾ | DM million | '000 ¹⁾ | DM million | '000 ¹⁾ | DM million |
| Land Central Bank | | | | | | | | |
| Baden-Württemberg | 23,256 | 225,279 | 24,158 | 257,319 | 27,400 | 225,518 | 28,466 | 257,414 |
| Bavaria | 28,535 | 236,012 | 32,501 | 265,149 | 24,728 | 236,211 | 26,234 | 265,249 |
| Berlin | 2,167 | 52,409 | 2,245 | 57,746 | 2,847 | 52,434 | 2,976 | 57,673 |
| Bremen | 3,743 | 27,415 | 3,913 | 30,793 | 5,150 | 27,425 | 5,383 | 30,833 |
| Hamburg | 6,938 | 178,144 | 7,170 | 205,714 | 10,224 | 178,127 | 10,433 | 205,775 |
| Hesse | 17,212 | 288,726 | 18,105 | 344,963 | 17,468 | 288,389 | 18,611 | 345,231 |
| Lower Saxony | 19,680 | 141,105 | 20,032 | 154,575 | 17,565 | 141,002 | 18,297 | 154,518 |
| North Rhine-Westphalia | 51,445 | 761,035 | 54,551 | 857,192 | 51,329 | 761,565 | 56,020 | 856,709 |
| Rhineland-Palatinate | 9,616 | 75,145 | 10,325 | 85,237 | 9,667 | 75,112 | 10,565 | 85,326 |
| Saarland | 1,652 | 17,672 | 1,853 | 20,503 | 1,380 | 17,697 | 1,675 | 20,490 |
| Schleswig-Holstein | 5,460 | 37,847 | 5,551 | 41,972 | 4,544 | 37,877 | 4,804 | 41,984 |
| Total | 169,704 | 2,040,789 | 180,404 | 2,321,163 | 172,302 | 2,041,357 | 183,464 | 2,321,202 |
| Bundesbank – Directorate – | 494 | 245,386 | 468 | 281,722 | 563 | 245,165 | 520 | 281,778 |
| Grand total | 170,198 | 2,286,175 | 180,872 | 2,602,885 | 172,865 | 2,286,522 | 183,984 | 2,602,980 |

1) Number of transactions

Simplified Cheque Collection

| Area | Cheques lodged | | | | Cheques paid | | | |
|----------------------------|----------------|------------|---------|------------|--------------|------------|---------|------------|
| | 1964 | | 1965 | | 1964 | | 1965 | |
| | '000 | DM million | '000 | DM million | '000 | DM million | '000 | DM million |
| Land Central Bank | | | | | | | | |
| Baden-Württemberg | 17,526 | 32,665 | 17,494 | 35,231 | 15,686 | 31,297 | 16,042 | 34,582 |
| Bavaria | 15,381 | 27,217 | 16,033 | 30,187 | 15,595 | 29,324 | 16,078 | 32,744 |
| Berlin | 1,997 | 4,497 | 2,021 | 5,389 | 1,437 | 3,757 | 1,453 | 4,319 |
| Bremen | 3,950 | 4,341 | 4,066 | 4,672 | 2,418 | 4,030 | 2,478 | 4,496 |
| Hamburg | 6,414 | 13,807 | 6,313 | 15,304 | 3,933 | 12,838 | 4,045 | 15,298 |
| Hesse | 11,353 | 24,001 | 11,881 | 26,860 | 11,816 | 29,101 | 12,212 | 32,196 |
| Lower Saxony | 11,499 | 20,035 | 11,636 | 22,328 | 13,940 | 20,830 | 14,187 | 22,706 |
| North Rhine-Westphalia | 33,465 | 76,242 | 36,322 | 88,339 | 34,978 | 72,513 | 37,198 | 81,659 |
| Rhineland-Palatinate | 5,766 | 9,991 | 6,140 | 11,353 | 6,105 | 9,928 | 6,544 | 11,438 |
| Saarland | 900 | 2,141 | 1,058 | 2,565 | 1,109 | 2,073 | 1,228 | 2,397 |
| Schleswig-Holstein | 2,533 | 4,405 | 2,613 | 4,819 | 3,455 | 4,640 | 3,528 | 5,208 |
| Total | 110,784 | 219,342 | 115,577 | 247,047 | 110,472 | 220,331 | 114,993 | 247,043 |
| Bundesbank – Directorate – | 67 | 1,017 | 24 | 62 | 8 | 117 | 9 | 117 |
| Grand total | 110,851 | 220,359 | 115,601 | 247,109 | 110,480 | 220,448 | 115,002 | 247,160 |

Telegraphic Giro Transactions
telegraphic giro transfers dispatched

| Area | 1964 | | 1965 | |
|----------------------------|------|---------|------|---------|
| | '000 | DM mn | '000 | DM mn |
| Land Central Bank | | | | |
| Baden-Württemberg | 28 | 32,398 | 29 | 39,366 |
| Bavaria | 29 | 34,996 | 30 | 40,915 |
| Berlin | 5 | 15,176 | 5 | 16,680 |
| Bremen | 3 | 2,785 | 3 | 3,135 |
| Hamburg | 11 | 24,809 | 13 | 29,426 |
| Hesse | 32 | 48,145 | 35 | 64,747 |
| Lower Saxony | 20 | 21,684 | 21 | 24,434 |
| North Rhine-Westphalia | 59 | 126,432 | 61 | 145,430 |
| Rhineland-Palatinate | 11 | 9,832 | 11 | 13,091 |
| Saarland | 2 | 2,081 | 2 | 2,669 |
| Schleswig-Holstein | 5 | 5,062 | 5 | 5,824 |
| Total | 205 | 323,400 | 215 | 385,717 |
| Bundesbank – Directorate – | 8 | 5,529 | 6 | 3,617 |
| Grand total | 213 | 328,929 | 221 | 389,334 |

Certified Cheques

| Land Central Bank | 1964 | | 1965 | |
|------------------------|--------|--------|--------|--------|
| | number | DM mn | number | DM mn |
| Baden-Württemberg | 1,807 | 2,046 | 1,757 | 2,199 |
| Bavaria | 856 | 533 | 781 | 588 |
| Berlin | 99 | 8 | 85 | 5 |
| Bremen | 78 | 1 | 85 | 3 |
| Hamburg | 250 | 58 | 196 | 45 |
| Hesse | 1,481 | 1,570 | 1,678 | 1,768 |
| Lower Saxony | 304 | 464 | 302 | 492 |
| North Rhine-Westphalia | 10,456 | 17,952 | 10,288 | 18,993 |
| Rhineland-Palatinate | 606 | 286 | 587 | 277 |
| Saarland | 12 | 32 | 4 | 0 |
| Schleswig-Holstein | 206 | 94 | 211 | 96 |
| Total | 16,155 | 23,044 | 15,974 | 24,466 |

Turnover in Clearing Transactions

| Land Central Bank | 1964 | | | | | | 1965 | | | | | |
|------------------------|------------------------------|----------------|------------------------|----------------|----------------|----------------|------------------------------|----------------|------------------------|----------------|----------------|------------------|
| | Bills, cheques, etc., lodged | | Local transfers lodged | | Total | | Bills, cheques, etc., lodged | | Local transfers lodged | | Total | |
| | '000 | DM mn | '000 | DM mn | '000 | DM mn | '000 | DM mn | '000 | DM mn | '000 | DM mn |
| Baden-Württemberg | 19,952 | 50,446 | 6,712 | 11,359 | 26,664 | 61,805 | 20,721 | 56,709 | 7,220 | 12,153 | 27,941 | 68,862 |
| Bavaria | 20,947 | 52,828 | 10,648 | 11,085 | 31,595 | 63,913 | 21,596 | 59,399 | 12,023 | 12,883 | 33,619 | 72,282 |
| Berlin | 5,122 | 12,491 | 3,489 | 15,202 | 8,611 | 27,693 | 5,180 | 13,865 | 4,004 | 18,906 | 9,184 | 32,771 |
| Bremen | 3,936 | 8,284 | 4,435 | 8,027 | 8,371 | 16,311 | 4,043 | 9,251 | 4,802 | 9,029 | 8,845 | 18,280 |
| Hamburg ¹⁾ | 6,494 | 24,366 | 24,108 | 149,382 | 30,602 | 173,748 | 6,969 | 28,231 | 25,994 | 166,510 | 32,963 | 194,741 |
| Hesse | 15,197 | 171,677 | 5,756 | 253,626 | 20,953 | 425,303 | 15,771 | 178,887 | 6,555 | 323,177 | 22,326 | 502,064 |
| Lower Saxony | 13,035 | 25,874 | 5,921 | 10,971 | 18,956 | 36,845 | 13,121 | 28,040 | 6,456 | 11,250 | 19,577 | 39,290 |
| North Rhine-Westphalia | 46,210 | 106,332 | 11,755 | 31,965 | 57,965 | 138,097 | 47,859 | 119,264 | 13,600 | 35,898 | 61,459 | 155,162 |
| Rhineland-Palatinate | 6,650 | 13,351 | 2,422 | 3,538 | 9,072 | 16,889 | 6,844 | 14,976 | 2,610 | 3,915 | 9,454 | 18,891 |
| Saarland | 1,527 | 4,164 | 1,452 | 4,312 | 2,979 | 8,476 | 1,503 | 4,841 | 1,698 | 5,024 | 3,201 | 9,865 |
| Schleswig-Holstein | 4,234 | 7,095 | 5,103 | 4,864 | 9,337 | 11,959 | 4,513 | 7,956 | 5,466 | 5,556 | 9,979 | 13,512 |
| Total | 143,304 | 476,908 | 81,801 | 504,131 | 225,105 | 981,039 | 148,120 | 521,419 | 90,428 | 604,301 | 238,548 | 1,125,720 |

¹⁾ For 1965 the Hamburg clearing transactions, to which special arrangements apply, include moreover 1,092,000 transfers to and from other places amounting to DM 3,188 million (1964: 1,120,000 amounting to DM 2,897 million)

Bank Note Circulation

| Notes at DM | 1962 | | 1963 | | 1964 | | 1965 | |
|--------------|------------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|
| | DM million | per cent | DM million | per cent | DM million | per cent | DM million | per cent |
| 1,000 | — | — | — | — | 640.39 | 2.31 | 1,080.77 | 3.67 |
| 500 | — | — | — | — | — | — | 715.72 | 2.43 |
| 100 | 11,236.03 | 46.53 | 12,556.41 | 49.38 | 13,950.52 | 50.38 | 14,938.80 | 50.72 |
| 50 | 8,712.59 | 36.08 | 8,699.95 | 34.22 | 8,851.66 | 31.97 | 8,387.85 | 28.48 |
| 20 | 2,710.03 | 11.22 | 2,580.79 | 10.15 | 2,581.27 | 9.32 | 2,614.43 | 8.87 |
| 10 | 1,292.95 | 5.36 | 1,361.99 | 5.36 | 1,426.09 | 5.15 | 1,472.20 | 5.00 |
| 5 | 194.99 | 0.81 | 227.46 | 0.89 | 241.82 | 0.87 | 245.81 | 0.83 |
| Total | 24,146.59 | 100.00 | 25,426.60 | 100.00 | 27,691.75 | 100.00 | 29,455.58 | 100.00 |

Coin in Circulation

| Coin at DM | 1962 | | 1963 | | 1964 | | 1965 | |
|--------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|
| | DM million | per cent | DM million | per cent | DM million | per cent | DM million | per cent |
| 5.— | 498.38 | 30.89 | 506.76 | 29.38 | 543.33 | 29.32 | 599.30 | 30.01 |
| 2.— | 228.55 | 14.17 | 256.60 | 14.88 | 284.47 | 15.35 | 310.47 | 15.55 |
| 1.— | 456.04 | 28.27 | 488.96 | 28.34 | 517.29 | 27.92 | 543.41 | 27.21 |
| — .50 | 186.50 | 11.56 | 205.53 | 11.91 | 222.09 | 11.99 | 239.18 | 11.98 |
| — .10 | 156.79 | 9.72 | 172.31 | 9.99 | 183.30 | 9.89 | 194.78 | 9.75 |
| — .05 | 48.51 | 3.01 | 52.91 | 3.07 | 56.70 | 3.06 | 60.48 | 3.03 |
| — .02 | 9.57 | 0.59 | 11.51 | 0.67 | 13.53 | 0.73 | 15.49 | 0.77 |
| — .01 | 28.90 | 1.79 | 30.42 | 1.76 | 32.15 | 1.74 | 34.02 | 1.70 |
| Total | 1,613.24 | 100.00 | 1,725.00 | 100.00 | 1,852.86 | 100.00 | 1,997.13 | 100.00 |

Branch Establishments of the Deutsche Bundesbank

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

| Serial number | Bank place | Appropriate Main Branch | Land Central Bank | Serial number | Bank place | Appropriate Main Branch | Land Central Bank |
|---------------|-----------------------------|-------------------------|-------------------|---------------|-------------------------|-------------------------|-------------------|
| 39 | Aachen | Aachen | NW | 232 | Flensburg | Flensburg | SH |
| 563 | Aalen | Ulm | BW | 512 | Frankenthal (Pfalz) | Ludwigshafen | R |
| 319 | Ahlen (Westf) | Hamm | NW | 4 | Frankfurt am Main | Frankfurt | H |
| 282 | Alfeld (Leine) | Hildesheim | N | 57 | Freiburg im Breisgau | Freiburg | BW |
| 431 | Alsfeld (Oberhess) | Fulda | H | 435 | Friedberg (Hess) | Gießen | H |
| 415 | Altena (Westf) | Hagen | NW | 599 | Friedrichshafen | Konstanz | BW |
| 655 | Amberg (Oberpf) | Regensburg | BY | 644 | Fürth (Bay) | Nürnberg | BY |
| 447 | Andernach | Koblenz | R | 433 | Fulda | Fulda | H |
| 646 | Ansbach (Mittelfr) | Nürnberg | BY | | | | |
| 416 | Arnsberg (Westf) | Lippstadt | NW | 689 | Garmisch-Partenkirchen | München | BY |
| 614 | Aschaffenburg | Würzburg | BY | 438 | Gelnhausen | Fulda | H |
| 68 | Augsburg | Augsburg | BY | 341 | Gelsenkirchen | Gelsenkirchen | NW |
| | | | | 317 | Gelsenkirchen-Buer | Gelsenkirchen | NW |
| 536 | Baden-Baden | Karlsruhe | BW | 385 | Gevelsberg | Hagen | NW |
| 429 | Bad Hersfeld | Fulda | H | 43 | Gießen | Gießen | H |
| 469 | Bad Kreuznach | Mainz | R | 316 | Gladbeck | Gelsenkirchen | NW |
| 699 | Bad Reichenhall | München | BY | 323 | Goch | Krefeld | NW |
| 62 | Bamberg | Nürnberg | BY | 565 | Göppingen | Stuttgart | BW |
| 63 | Bayreuth | Hof | BY | 288 | Göttingen | Göttingen | N |
| 352 | Beckum (Bz. Münster, Westf) | Hamm | NW | 296 | Goslar | Braunschweig | N |
| 496 | Bensheim | Darmstadt | H | 353 | Gütersloh | Bielefeld | NW |
| 1 | Berlin (West) | Berlin | B | 441 | Gummersbach | Bonn | NW |
| 444 | Betzdorf | Koblenz | R | | | | |
| 597 | Biberach an der Riß | Ulm | BW | 41 | Hagen | Hagen | NW |
| 424 | Biedenkopf | Gießen | H | 2 | Hamburg | Hamburg | HH |
| 26 | Bielefeld | Bielefeld | NW | 22 | Hamburg-Altona | Hamburg | HH |
| 481 | Bingen (Rhein) | Mainz | R | 226 | Hamburg-Harburg | Hamburg | HH |
| 462 | Bitburg | Trier | R | 279 | Hameln | Hannover | N |
| 313 | Bocholt | Münster | NW | 35 | Hamm (Westf) | Hamm | NW |
| 346 | Bochum | Bochum | NW | 439 | Hanau am Main | Frankfurt | H |
| 442 | Bonn | Bonn | NW | 27 | Hannover | Hannover | N |
| 29 | Braunschweig | Braunschweig | N | 381 | Hattingen (Ruhr) | Bochum | NW |
| 21 | Bremen | Bremen | HB | 236 | Heide (Holst) | Flensburg | SH |
| 215 | Bremerhaven | Bremen | HB | 523 | Heidelberg | Mannheim | BW |
| 531 | Bruchsal | Karlsruhe | BW | 567 | Heidenheim an der Brenz | Ulm | BW |
| 537 | Bühl (Baden) | Karlsruhe | BW | | | | |
| 267 | Bünde | Minden | NW | 54 | Heilbronn (Neckar) | Heilbronn | BW |
| | | | | 293 | Helmstedt | Braunschweig | N |
| 272 | Celle | Hannover | N | 269 | Herford | Bielefeld | NW |
| 622 | Coburg | Hof | BY | 343 | Herne | Bochum | NW |
| 221 | Cuxhaven | Lüneburg | N | 367 | Hilden | Düsseldorf | NW |
| | | | | 28 | Hildesheim | Hildesheim | N |
| 49 | Darmstadt | Darmstadt | H | 452 | Höhr-Grenzhausen | Koblenz | R |
| 673 | Deggendorf | Regensburg | BY | 633 | Hof (Saale) | Hof | BY |
| 278 | Detmold | Bielefeld | NW | 284 | Holzminden | Göttingen | N |
| 451 | Dillenburg | Gießen | H | 231 | Husum | Flensburg | SH |
| 34 | Dortmund | Dortmund | NW | | | | |
| 395 | Düren | Aachen | NW | 474 | Idar-Oberstein | Mainz | R |
| 36 | Düsseldorf | Düsseldorf | NW | 66 | Ingolstadt (Donau) | München | BY |
| 32 | Duisburg | Duisburg | NW | 411 | Iserlohn | Dortmund | NW |
| 331 | Duisburg-Hamborn | Duisburg | NW | 222 | Itzehoe | Kiel | SH |
| 329 | Duisburg-Ruhrort | Duisburg | NW | | | | |
| | | | | 393 | Jülich | Aachen | NW |
| 592 | Ebingen (Württ) | Reutlingen | BW | | | | |
| 235 | Eckernförde | Kiel | SH | 513 | Kaiserslautern | Kaiserslautern | R |
| 224 | Elmshorn | Lübeck | SH | 53 | Karlsruhe | Karlsruhe | BW |
| 212 | Emden | Oldenburg | N | 42 | Kassel | Kassel | H |
| 573 | Emmendingen ¹⁾ | Freiburg | BW | 686 | Kaufbeuren | Augsburg | BY |
| 322 | Emmerich | Duisburg | NW | 685 | Kempten (Allgäu) | Augsburg | BY |
| 643 | Erlangen | Nürnberg | BY | 23 | Kiel | Kiel | SH |
| 428 | Eschwege | Kassel | H | 619 | Kitzingen | Würzburg | BY |
| 394 | Eschweiler | Aachen | NW | 321 | Kleve | Krefeld | NW |
| 33 | Essen | Essen | NW | 44 | Koblenz | Koblenz | R |
| 554 | Eßlingen am Neckar | Stuttgart | BW | 3 | Köln | Köln | NW |
| 397 | Euskirchen | Bonn | NW | 378 | Köln-Mülheim | Köln | NW |

¹⁾ The Branch at Emmendingen was closed down on 31 March 1966.

Appendix 5 (cont'd) to the Report of the Deutsche Bundesbank for the Year 1965

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

Annex

Statistics on Money and Credit and the Balance of Payments

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

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

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

| Item | Years | | | 1964 | | 1965 | |
|--|---------|---------|---------|----------|----------|----------|----------|
| | 1963 | 1964 | 1965 | 1st half | 2nd half | 1st half | 2nd half |
| I. Bank lending to domestic non-banks, total | +25,769 | +29,118 | +32,174 | +12,142 | +16,976 | +15,358 | +16,816 |
| (1) Deutsche Bundesbank | + 1,166 | — 276 | — 449 | — 1,427 | + 1,151 | — 1,169 | + 720 |
| (a) Cash advances and credit granted by purchase of domestic Treasury bills and non-interest Treasury bonds | + 1,136 | — 356 | + 234 | — 1,875 | + 1,519 | — 920 | + 1,154 |
| (b) Special credits to Federal Government for meeting its obligation to I.M.F., I.B.R.D. and European Fund | + 138 | + 722 | — 15 | + 587 | + 135 | — 84 | + 69 |
| (c) Claims on Federal Government in respect of post-war economic aid and alteration of exchange parity | — 108 | — 642 | — 668 | — 139 | — 503 | — 165 | — 503 |
| (2) Credit institutions (not including Bundesbank) | +24,603 | +29,394 | +32,623 | +13,569 | +15,825 | +16,527 | +16,096 |
| (a) Short-term lending (including holdings of domestic Treasury bills and non-interest Treasury bonds, but excluding "mobilisation paper" ¹⁾) | + 3,989 | + 5,616 | + 7,650 | + 3,356 | + 2,260 | + 5,046 | + 2,604 |
| (b) Medium and long-term lending to domestic non-banks | +19,748 | +21,977 | +23,832 | + 8,846 | +13,131 | + 9,773 | +14,059 |
| (c) Covering claims | + 239 | + 294 | + 199 | + 196 | + 98 | + 129 | + 70 |
| (d) Holdings of domestic securities and syndicate participations (except bank bonds ²⁾) | + 627 | + 1,507 | + 942 | + 1,171 | + 336 | + 1,579 | — 637 |
| II. Formation of monetary capital at credit institutions out of domestic sources, total | +23,454 | +25,604 | +27,372 | +10,944 | +14,660 | +12,766 | +14,606 |
| (1) Residents' savings deposits | +11,549 | +12,529 | +16,257 | + 5,500 | + 7,029 | + 7,689 | + 8,568 |
| (2) Residents' time deposits, total | + 1,645 | + 1,284 | + 579 | + 247 | + 1,037 | — 332 | + 911 |
| among which: | | | | | | | |
| at notice or fixed period of 6 months or more | (+ 891) | (+ 660) | (+ 478) | (+ 772) | (— 112) | (+ 917) | (— 439) |
| (3) Domestic bank bonds in circulation (except those held by credit institutions ³⁾) | + 5,239 | + 6,600 | + 6,023 | + 2,972 | + 3,628 | + 3,055 | + 2,968 |
| (4) Monies and loans taken at longer term from domestic non-banks | + 3,423 | + 3,271 | + 2,459 | + 975 | + 2,296 | + 946 | + 1,513 |
| (5) Capital and reserves | + 1,598 | + 1,920 | + 2,054 | + 1,250 | + 670 | + 1,408 | + 646 |
| III. Excess of lending or of monetary capital formation (I less II) | + 2,315 | + 3,514 | + 4,802 | + 1,198 | + 2,316 | + 2,592 | + 2,210 |
| IV. Net claim on foreign countries ⁴⁾ (Bundesbank and other banks) | + 3,127 | + 1,279 | — 195 | + 2,532 | — 1,253 | + 946 | — 1,141 |
| V. Other influences (not assignable to specific items) | — 1,197 | — 303 | — 109 | — 2,570 | + 2,267 | — 1,987 | + 1,878 |
| VI. Central Bank deposits of German public authorities (decrease: +) | + 158 | + 913 | + 1,049 | — 1,103 | + 2,016 | — 378 | + 1,427 |
| VII. Note and coin circulation ⁵⁾ and sight deposits of domestic non-banks except German public authorities' Central Bank deposits (III to VI, net) | + 4,403 | + 5,403 | + 5,547 | + 57 | + 5,346 | + 1,173 | + 4,374 |
| of which: | | | | | | | |
| Note and coin circulation ⁵⁾ | + 1,259 | + 2,386 | + 1,752 | + 1,271 | + 1,115 | + 1,317 | + 435 |
| Sight deposits | + 3,144 | + 3,017 | + 3,795 | — 1,214 | + 4,231 | — 144 | + 3,939 |
| Note: | | | | | | | |
| Note and coin circulation and sight deposits of domestic non-banks, including German public authorities' Central Bank deposits | + 4,245 | + 4,490 | + 4,498 | + 1,160 | + 3,330 | + 1,551 | + 2,947 |

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

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

Millions of DM

| End of month | Note and coin circulation, and residents' sight deposits*), total | | Note and coin circulation excluding credit institutions' cash holdings ^{2) *} | Sight deposits of domestic business enterprises and individuals | | | Sight deposits of German public authorities | | | | Deposits of agencies of former occupying powers with Deutsche Bundesbank ⁵⁾ | |
|----------------------|---|-----------|--|---|---|--|---|---|---|--|--|---|
| | including amounts temporarily employed in equalisation claims ¹⁾ | excluding | | Total | with credit institutions (except Deutsche Bundesbank) | with Deutsche Bundesbank ³⁾ | Total including excluding | | with credit institutions (except Deutsche Bundesbank) | with Deutsche Bundesbank ⁴⁾ | | |
| | | | | | | | amounts temporarily employed in equalisation claims ¹⁾ | amounts temporarily employed in equalisation claims ¹⁾ | | on giro account | | temporarily employed in equalisation claims ¹⁾ |
| 1952 December | 26,011 | 24,286 | 10,804 | 10,512 | 10,247 | 265 | 3,942 | 2,217 | 1,829 | 388 | 1,725 | 753 |
| 1953 " | 29,441 | 26,311 | 11,955 | 11,443 | 11,198 | 245 | 5,404 | 2,274 | 1,849 | 425 | 3,130 | 639 |
| 1954 " | 34,155 | 29,419 | 12,751 | 13,719 | 13,414 | 305 | 7,162 | 2,426 | 2,077 | 349 | 4,736 | 523 |
| 1955 " | 37,969 | 34,388 | 14,041 | 15,109 | 14,867 | 242 | 8,554 | 4,973 | 2,330 | 2,643 | 3,581 | 265 |
| 1956 " | 41,085 | 37,864 | 14,876 | 16,405 | 16,111 | 294 | 9,660 | 6,439 | 2,608 | 3,831 | 3,221 | 144 |
| 1957 " | 42,397 | | 16,461 | 18,656 | 18,316 | 340 | 7,139 | | 2,690 | | 4,449 | 141 |
| 1958 " | 46,849 | | 17,940 | 21,738 | 21,402 | 336 | 7,124 | | 2,900 | | 4,224 | 47 |
| 1959 " | 48,855 | | 19,369 | 24,545 | 24,323 | 222 | 4,941 | | 3,103 | | 1,838 | — |
| 1959 ⁶⁾ " | 49,446 | | 19,344 | 25,067 | 24,845 | 222 | 5,035 | | 3,197 | | 1,838 | — |
| 1960 ⁶⁾ " | 54,456 | | 20,772 | 26,580 | 26,361 | 219 | 7,104 | | 3,664 | | 3,440 | — |
| 1961 " | 63,381 | | 23,138 | 31,238 | 30,986 | 252 | 9,005 | | 4,272 | | 4,733 | — |
| 1962 ⁷⁾ " | 67,512 | | 24,164 | 33,845 | 33,566 | 279 | 9,503 | | 5,218 | | 4,285 | — |
| 1962 ⁷⁾ " | 67,534 | | 24,159 | 33,868 | 33,589 | 279 | 9,507 | | 5,222 | | 4,285 | — |
| 1963 " | 71,779 | | 25,418 | 36,759 | 36,486 | 273 | 9,602 | | 5,475 | | 4,127 | — |
| 1964 March | 70,100 | | 25,757 | 33,916 | 33,623 | 293 | 10,427 | | 4,629 | | 5,798 | — |
| June | 72,939 | | 26,689 | 36,084 | 35,772 | 312 | 10,166 | | 4,936 | | 5,230 | — |
| September | 74,727 | | 27,267 | 36,538 | 36,243 | 295 | 10,922 | | 4,600 | | 6,322 | — |
| December | 76,147 | | 27,804 | 39,808 | 39,556 | 252 | 8,535 | | 5,321 | | 3,214 | — |
| 1965 March | 74,034 | | 28,244 | 37,378 | 36,970 | 408 | 8,412 | | 4,516 | | 3,896 | — |
| June | 77,606 | | 29,121 | 39,998 | 39,721 | 277 | 8,487 | | 4,895 | | 3,592 | — |
| September | 78,538 | | 29,453 | 39,942 | 39,690 | 252 | 9,143 | | 4,832 | | 4,311 | — |
| December | 80,553 | | 29,556 | 43,114 | 42,849 | 265 | 7,883 | | 5,718 | | 2,165 | — |

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

(3) Savings Deposits

Millions of DM

| End of month | Savings deposits, total | among which: | | Total savings deposits comprise those at | | | | | | |
|----------------------|-------------------------|-------------------------|-------------------|--|----------------------|---------------------|--------------|---------------------------------|---------------------|---------------------------|
| | | Savings deposits | | Savings banks | Credit co-operatives | Commercial banks | | | Postal Savings Bank | Other credit institutions |
| | | carrying tax privileges | carrying premiums | | | Total | among which: | State, regional and local banks | | |
| | | | | | | Big banks | | | | |
| 1952 December | 7,581 | 972 | — | 4,934 | 1,118 | 1,115 | 605 | 424 | 380 | 34 |
| 1953 " | 11,547 | 1,532 | — | 7,461 | 1,652 | 1,723 | 944 | 658 | 659 | 52 |
| 1954 " | 17,225 | 2,319 | — | 10,965 | 2,418 | 2,794 | 1,556 | 1,052 | 965 | 83 |
| 1955 " | 21,374 | 2,525 | — | 13,555 | 2,944 | 3,517 | 1,963 | 1,327 | 1,236 | 122 |
| 1956 " | 24,276 | 2,917 | — | 15,506 | 3,418 | 3,782 | 2,055 | 1,489 | 1,457 | 113 |
| 1957 " | 29,388 | 3,785 | — | 18,665 | 4,140 | 4,615 | 2,505 | 1,822 | 1,822 | 146 |
| 1958 " | 36,102 | 4,157 | — | 22,882 | 5,081 | 5,698 | 3,128 | 2,215 | 2,286 | 155 |
| 1959 " | 44,268 | 4,045 | 558 | 27,958 ²⁾ | 6,167 | 7,142 ²⁾ | 4,129 | 2,576 ²⁾ | 2,783 | 218 |
| 1959 ¹⁾ " | 45,039 | 4,051 | 565 | 28,516 ²⁾ | 6,305 | 7,204 ²⁾ | 4,135 | 2,616 ²⁾ | 2,793 | 221 |
| 1960 ¹⁾ " | 53,114 | 3,216 | 1,408 | 33,724 | 7,454 | 8,402 | 4,827 | 3,027 | 3,274 | 260 |
| 1961 " | 60,424 | 158 | 2,554 | 38,525 | 8,551 | 9,313 | 5,345 | 3,365 | 3,754 | 281 |
| 1962 ²⁾ " | 69,705 | 57 | 3,972 | 44,407 | 9,843 | 10,896 | 6,275 | 3,927 | 4,204 | 355 |
| 1962 ²⁾ " | 69,874 | 56 | 3,977 | 44,407 | 10,012 | 10,896 | 6,275 | 3,927 | 4,204 | 355 |
| 1963 " | 81,522 | 36 | 6,026 | 51,816 | 11,925 | 12,668 | 7,277 | 4,589 | 4,701 | 412 |
| 1964 March | 85,170 | 27 | 6,569 | 54,161 | 12,533 | 13,155 | 7,547 | 4,769 | 4,888 | 433 |
| June | 87,089 | 26 | 7,088 | 55,239 | 12,882 | 13,540 | 7,777 | 4,924 | 4,983 | 445 |
| September | 89,248 | . ⁴⁾ | 7,095 | 56,561 | 13,316 | 13,893 | 7,942 | 5,090 | 5,020 | 458 |
| December | 94,212 | . | 8,269 | 59,713 | 14,160 | 14,681 | 8,388 | 5,386 | 5,196 | 462 |
| 1965 March | 99,016 | . | 8,788 | 62,654 | 14,943 | 15,466 | 8,890 | 5,612 | 5,475 | 478 |
| June | 102,018 | . | 9,461 | 64,240 | 15,483 | 16,253 | 9,333 | 5,903 | 5,547 | 495 |
| September | 104,428 | . | 8,924 | 65,643 | 16,007 | 16,719 | 9,559 | 6,099 | 5,565 | 494 |
| December | 110,678 | . | 10,396 | 69,365 | 17,080 | 17,992 | 10,294 | 6,546 | 5,709 | 532 |

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

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

Millions of DM

Assets

| End of year or month | Total of balance sheet | Assets | | | | | | | | | | Loans on a trust basis | Remaining assets | | |
|----------------------|--------------------------|--------------|--|--|-------------------|--|---|---------------------|--|-------------------------|------------------------|-------------------------|-------------------------|------------------------|-------------------------|
| | | Cash reserve | | Balances with credit institutions and on Postal Cheque account | Bills of exchange | Treasury bills and non-interest Treasury bonds | Medium-term notes (Kassenobligationen), securities and syndicate participations | Bonds of own issues | Equalisation claims and covering claims under the Laws on Currency Conversion Compensation and Old Savings ²⁾ | Debtors | | | | Long-term lending | |
| | | Total | among which: balances with Deutsche Bundesbank | | | | | | | Non-banks | Credit institutions | | | Non-banks | Credit institutions |
| 1949 | | 1,645.8 | 1,371.1 | 2,090.0 | 1,695.3 | 275.9 | | 5,531.1 | 7,357.8 | 745.0 | 1,776.7 | | 360.7 | | |
| 1950 | 35,515.5 | 2,171.7 | 1,862.6 | 2,410.3 | 2,676.2 | 528.8 | 526.8 | 5,991.6 | 9,722.1 | 871.6 | 5,886.1 | 2,146.3 | 595.2 | 133.5 | 1,802.8 |
| 1951 | 45,377.1 | 3,210.4 | 2,806.6 | 3,537.8 | 3,776.9 | 945.1 | 714.4 | 53.9 | 6,074.0 | 10,565.5 | 9,048.3 | 2,908.9 | 1,132.7 | 158.8 | 2,285.3 |
| 1952 | 59,010.7 | 3,581.0 | 3,114.9 | 4,787.4 | 6,230.9 | 1,039.3 | 1,331.9 | 134.4 | 6,299.5 | 11,866.6 | 12,744.2 | 3,601.7 | 1,681.4 | 646.5 | 2,870.0 |
| 1953 | 74,701.0 | 3,916.4 | 3,436.6 | 6,197.8 | 7,485.6 | 1,169.8 | 2,629.7 | 69.7 | 6,807.3 | 15,928.4 | 15,884.8 | 4,439.8 | 2,328.8 | 1,001.0 | 3,315.4 |
| 1954 | 95,760.3 | 4,682.1 | 4,137.2 | 8,599.9 | 8,948.4 | 1,103.7 | 4,769.3 | 112.7 | 8,070.3 | 18,547.1 | 17,861.1 | 5,183.4 | 4,391.4 | 2,265.5 | 3,929.8 |
| 1955 | 113,791.0 | 5,191.6 | 4,590.1 | 8,886.0 | 9,793.6 | 1,197.9 | 6,559.2 | 174.7 | 8,150.3 | 20,495.6 | 20,106.6 | 6,103.2 | 6,392.6 | 3,357.2 | 4,568.8 |
| 1956 | 130,289.7 ³⁾ | 6,404.9 | 5,689.9 | 9,932.6 | 11,535.3 | 1,789.0 | 6,838.8 | 267.5 | 8,314.7 | 22,505.0 | 22,020.2 | 6,614.5 | 7,854.3 ⁷⁾ | 4,440.4 | 5,106.1 |
| 1957 | 154,714.8 ⁸⁾ | 8,551.1 | 7,739.3 | 14,592.4 | 12,985.0 | 6,156.4 | 8,227.5 | 214.3 | 8,266.9 | 24,240.4 | 2,085.7 | 7,643.5 | 8,691.3 ¹⁰⁾ | 5,073.6 | 5,779.1 |
| 1958 | 177,289.1 ¹¹⁾ | 9,806.0 | 8,888.1 | 17,462.3 | 13,327.4 | 6,767.0 | 13,146.2 | 180.0 | 8,163.0 | 25,912.1 | 2,286.2 | 8,507.4 | 9,629.0 | 5,105.1 ¹¹⁾ | 6,258.3 |
| 1959 ¹²⁾ | 204,052.9 ¹²⁾ | 10,830.9 | 9,875.3 | 18,575.3 | 14,845.4 | 5,694.6 | 18,106.7 | 262.9 | 8,200.9 | 30,317.0 ¹³⁾ | 2,814.5 | 9,718.7 | 10,949.3 ¹⁴⁾ | 5,430.7 | 7,165.4 |
| 1959 ¹³⁾ | 207,425.4 ¹³⁾ | 11,010.7 | 10,030.9 | 19,379.8 | 15,166.4 | 5,729.7 | 18,345.1 | 268.0 | 8,200.9 | 30,649.9 ¹⁵⁾ | 2,833.9 | 9,740.9 | 11,016.0 ¹⁴⁾ | 5,430.8 | 7,329.0 |
| 1960 | 233,071.9 ¹⁴⁾ | 14,630.5 | 13,562.4 | 20,390.1 | 16,018.9 | 6,002.1 | 18,704.5 | 335.4 | 8,222.5 ¹⁵⁾ | 36,404.6 | 3,182.3 | 11,269.0 | 12,220.8 | 5,684.2 ¹⁵⁾ | 8,012.3 |
| 1961 | 271,199.4 ¹⁵⁾ | 13,866.8 | 12,515.9 | 26,485.1 | 17,927.7 | 6,614.2 | 22,278.5 | 324.1 | 8,100.0 | 42,649.5 ¹⁶⁾ | 3,552.5 | 13,583.1 | 14,374.5 ¹⁶⁾ | 5,954.5 | 10,636.8 ¹⁶⁾ |
| 1962 ¹⁶⁾ | 302,400.3 ¹⁶⁾ | 14,864.1 | 13,267.9 | 28,532.3 | 18,577.2 | 5,772.3 | 25,610.3 | 294.7 | 8,073.2 | 48,063.7 | 4,039.6 | 15,502.5 ¹⁷⁾ | 15,825.7 | 6,561.9 | 10,972.2 |
| 1962 ¹⁷⁾ | 302,289.4 ¹⁷⁾ | 14,868.7 | 13,268.0 | 28,583.7 | 18,581.9 | 5,772.3 | 25,616.7 | 294.7 | 8,055.4 | 48,135.4 | 4,039.7 | 15,503.0 ¹⁸⁾ | 15,836.7 | 6,561.9 | 10,990.5 |
| 1963 | 341,682.0 | 16,555.6 | 14,821.7 | 32,674.7 | 20,000.1 | 6,774.9 | 29,677.9 | 341.9 | 8,214.7 | 53,282.1 | 4,290.2 | 17,718.9 | 17,778.5 | 6,779.8 | 11,640.3 ¹⁸⁾ |
| 1964 | 380,754.0 | 17,679.1 | 15,938.0 | 34,901.1 | 21,642.7 | 4,559.2 | 34,490.6 | 443.5 | 8,460.9 | 59,459.3 | 5,213.3 ¹⁹⁾ | 19,663.0 ²⁰⁾ | 21,667.5 ²¹⁾ | 6,909.5 | 12,753.7 |
| 1965 Jan. | 380,724.2 | 15,058.8 | 13,231.0 | 35,690.1 | 19,768.4 | 5,980.9 | 35,275.3 | 559.2 | 8,511.0 | 59,659.0 | 4,966.1 | 19,822.8 | 21,912.0 | 6,926.6 | 12,379.9 |
| Feb. | 386,147.5 | 15,148.4 | 13,276.7 | 37,264.3 | 20,106.1 | 6,221.5 | 35,916.9 | 579.8 | 8,517.4 | 60,003.0 | 5,112.2 | 20,095.7 | 21,983.2 | 6,956.3 | 12,706.7 |
| March | 387,166.7 | 14,722.9 | 12,717.0 | 35,969.8 | 19,454.3 | 6,038.1 | 36,717.7 | 621.1 | 8,558.3 | 61,253.1 | 5,072.3 | 20,493.6 | 22,028.1 | 6,960.2 | 12,425.5 |
| April | 388,820.4 | 14,835.4 | 12,879.8 | 34,806.6 | 20,527.2 | 5,015.1 | 37,088.7 | 601.6 | 8,590.7 | 61,361.9 | 5,076.3 | 20,727.7 | 22,183.6 | 6,976.8 | 12,574.3 |
| May | 396,688.7 | 15,400.7 | 13,250.2 | 37,705.7 | 20,447.1 | 5,456.3 | 37,950.4 | 776.9 | 8,606.0 | 62,186.2 | 5,104.8 | 20,933.8 | 22,371.0 | 7,000.6 | 12,880.3 |
| June | 399,197.6 | 15,749.2 | 13,525.0 | 36,290.2 | 19,842.3 | 4,751.6 | 38,328.2 | 820.9 | 8,583.2 | 64,795.0 | 5,501.2 | 20,887.2 | 22,509.0 | 7,024.1 | 13,362.2 |
| July | 400,801.7 | 16,471.1 | 14,323.2 | 36,892.2 | 19,634.8 | 3,945.8 | 38,309.3 | 885.6 | 8,597.6 | 64,407.3 | 5,123.2 | 21,707.2 | 22,854.5 | 7,064.9 | 12,721.8 |
| Aug. | 406,417.4 | 15,906.4 | 13,780.6 | 39,722.9 | 20,241.0 | 4,857.5 | 37,732.1 | 918.1 | 8,596.4 | 64,471.7 | 4,931.5 | 21,440.2 | 23,067.8 | 7,088.5 | 12,794.1 |
| Sep. | 406,653.9 | 16,177.4 | 14,027.1 | 37,221.9 | 18,498.1 | 4,442.7 | 37,818.3 | 903.0 | 8,627.9 | 66,563.2 | 5,053.4 | 21,775.8 | 23,237.3 | 7,112.8 | 13,244.8 |
| Oct. | 411,293.5 | 16,407.0 | 14,353.1 | 38,047.2 | 19,392.1 | 4,451.6 | 37,979.8 | 980.4 | 8,699.0 | 66,758.0 | 5,006.7 | 22,079.2 | 23,655.1 ²²⁾ | 7,139.3 | 13,243.6 |
| Nov. | 419,326.9 | 16,758.4 | 14,477.0 | 41,261.4 | 20,251.5 | 4,753.2 | 38,268.7 | 947.0 | 8,711.3 | 66,919.7 | 4,824.7 | 22,439.1 | 23,905.6 | 7,197.6 | 13,868.6 |
| Dec. | 425,262.5 | 19,271.3 | 17,374.3 | 39,672.9 | 22,201.7 | 4,009.7 | 38,233.5 | 871.7 | 8,622.1 | 68,117.8 | 5,106.6 | 22,368.9 | 24,176.0 | 7,223.6 | 14,345.0 |
| 1966 Jan. | 424,418.8 | 17,434.6 | 15,316.1 | 40,396.8 | 20,060.2 | 4,383.1 | 38,379.6 | 997.3 | 8,693.4 | 68,168.9 ²³⁾ | 4,843.0 ²⁴⁾ | 21,002.7 ²⁵⁾ | 25,485.3 ²⁶⁾ | 9,043.8 ²⁷⁾ | 14,093.0 |
| Feb. | 427,811.9 | 16,467.5 | 14,348.9 | 41,572.7 | 20,476.2 | 4,142.6 | 38,218.5 | 1,126.0 | 8,699.1 | 69,520.0 | 4,782.9 | 21,205.2 | 25,664.3 | 9,120.1 | 14,171.1 |

Liabilities

| End of year or month | Deposits | | | | | Monies taken | | Own acceptances in circulation | Bonds in circulation ¹⁾ | Loans taken up for long periods (4 years and over) | | Loans on a trust basis | | Capital funds including reserves (Art. 10, Banking Law) | Remaining liabilities | Endorsement liabilities on rediscounted bills ¹⁾ |
|----------------------|--------------------------|-------------------------|-------------------------|------------------|---------------------------------|------------------------|---------------------|--------------------------------|------------------------------------|--|---------------------|-------------------------|------------------------|---|-------------------------|---|
| | Deposits of non-banks | | | | Deposits of credit institutions | Non-banks | Credit institutions | | | Non-banks | Credit institutions | Non-banks | Credit institutions | | | |
| | Total | Sight deposits | Time deposits | Savings deposits | | | | | | | | | | | | |
| 1949 | 13,759.1 | 8,573.9 | 2,108.8 | 3,076.4 | 1,493.1 | 1,492.3 | 1,864.7 | 1,230.1 | 711.6 | | | 830.7 | | | 2,327.4 | |
| 1950 | 17,981.6 ²⁴⁾ | 9,657.6 | 4,213.3 | 4,110.7 | 1,915.9 | 302.0 | 1,858.2 | 1,851.7 | 1,809.9 | 2,651.1 | 2,501.6 | 554.8 | 173.9 | 1,148.4 | 2,766.4 | 3,635.8 |
| 1951 | 22,532.9 | 11,601.5 | 5,843.7 | 5,087.7 | 2,917.2 | 583.1 | 1,679.1 | 1,174.7 | 3,537.7 | 4,324.2 | 3,419.1 | 1,017.2 | 274.3 | 1,509.0 | 3,408.6 | 5,345.7 |
| 1952 | 28,084.9 | 12,446.1 | 8,057.5 | 5,087.7 | 4,871.8 | 832.0 | 1,896.6 | 715.8 | 2,361.9 | 6,821.8 | 4,047.8 | 1,662.2 | 665.7 | 2,049.4 | 4,008.8 | 5,379.6 |
| 1953 | 35,336.3 | 13,521.4 | 10,268.4 | 11,546.5 | 6,532.3 | 1,094.8 | 2,170.4 | 542.9 | 8,024.8 | 8,663.9 | 4,906.6 | 2,399.4 | 930.4 | 2,623.5 | 4,475.7 | 4,351.2 |
| 1954 | 43,333.5 | 15,991.7 | 10,117.2 | 12,224.6 | 9,067.9 | 934.7 | 2,401.4 | 478.8 | 6,698.3 | 10,042.0 | 5,725.0 | 4,988.8 | 1,668.1 | 3,055.2 | 5,366.6 | 4,655.8 |
| 1955 | 49,297.8 | 17,769.0 | 10,155.3 | 21,373.5 | 9,695.5 | 1,074.7 | 2,741.1 | 582.3 | 11,755.4 | 11,998.1 | 6,585.9 | 7,247.0 | 2,502.8 | 3,806.1 | 6,504.3 | 6,186.2 |
| 1956 | 55,679.3 | 19,378.3 | 12,025.4 | 24,275.6 | 11,166.9 | 1,586.6 | 3,090.7 | 453.4 | 13,498.0 | 13,803.9 | 6,872.7 | 9,133.1 ²⁵⁾ | 3,161.6 | 4,572.7 | 7,270.8 | 6,625.1 |
| 1957 | 66,768.8 | 21,795.3 | 15,585.2 | 29,388.3 | 16,031.2 | 1,635.9 | 3,447.0 | 340.9 | 15,629.3 | 15,245.6 | 7,891.6 | 9,954.0 ²⁶⁾ | 3,810.9 | 5,732.9 | 8,226.7 | 3,761.7 |
| 1958 | 78,054.9 | 25,305.1 | 16,647.6 | 36,102.2 | 19,245.5 | 1,433.8 | 2,999.6 | 267.0 | 19,983.6 | 16,168.1 | 8,802.0 | 10,363.0 ²⁷⁾ | 4,371.1 | 6,813.6 | 8,786.9 | 2,575.8 |
| 1959 ²⁸⁾ | 91,171.7 ²⁸⁾ | 28,457.4 ²⁸⁾ | 18,445.9 | 44,268.4 | 20,716.4 | 1,545.8 ²⁹⁾ | 3,323.2 | 536.7 | 25,890.7 | 16,710.0 | 9,514.7 | 11,393.1 ²⁸⁾ | 4,986.9 | 8,168.1 | 10,095.6 | 2,700.4 |
| 1959 ²⁹⁾ | 92,826.6 ²⁹⁾ | 29,075.6 ²⁹⁾ | 18,712.4 | 45,038.6 | 21,143.4 | 1,554.6 ³⁰⁾ | 3,365.5 | 536.8 | 26,116.7 | 17,211.6 | 9,684.8 | 11,452.5 ²⁸⁾ | 4,994.3 | 8,256.7 | 9,286.0 | 2,586.0 |
| 1960 | 104,051.3 | 31,244.3 | 19,693.5 | 53,113.5 | 22,683.3 | 2,210.3 | 4,623.8 | 635.0 | 29,627.2 | 18,606.0 | 11,200.1 | 12,321.7 ³¹⁾ | 5,583.3 | 9,652.6 | 11,871.3 | 3,218.9 |
| 1961 | 118,344.1 ³¹⁾ | 36,489.4 ³¹⁾ | 21,430.3 ³¹⁾ | 60,424.4 | 29,150.2 | 2,313.8 ³¹⁾ | 5,695.0 | 585.6 | 35,591.9 | 21,821.5 ³²⁾ | 13,182.4 | 13,945.7 ³¹⁾ | 6,383.3 | 12,186.5 | 11,999.4 ³¹⁾ | 3,759.5 |
| 1962 ³²⁾ | 132,880.2 | 40,037.1 | 23,137.8 | 69,705.3 | 30,316.3 | 2,494.2 | 5,875.8 | 629.1 | 42,154.0 | 23,984.7 | 14,597.0 | 15,554.0 | 6,833.6 ³³⁾ | 13,829.4 | 12,895.7 | 4,903.6 |
| 1962 ³³⁾ | 133,080.9 | 40,064.2 | 23,142.8 | 69,873.9 | 30,316.9 | 2,494.8 | 5,866.7 | 629.6 | 42,154.0 | 23,984.7 | 14,607.9 | 15,555.4 | 6,843.2 ³⁴⁾ | 13,834.0 | 12,901.5 | 4,901.1 |
| 1963 | 149,659.4 | 43,326.2 | 24,811.0 | 81,522.2 | 35,551.0 | 2,547.9 | 6,162.7 | 722.4 | 50,541.3 | 26,231.7 | 16,495.9 | 16,854.7 | 7,703.6 | 15,393.9 | 13,817.5 ³⁴⁾ | 4,600.3 |
| 1964 | 166,419.2 ³⁵⁾ | 46,272.4 ³⁵⁾ | 25,934.8 | 94,212.0 | 37,664.3 | 2,278.6 | 7,305.0 | 1,006.7 | 60,497.2 | 26,134.9 ³⁶⁾ | 18,457.7 | 20,309.2 ³⁶⁾ | 8,267.8 | 17,298.8 | 15,114.6 | 5,802.1 |
| 1965 Jan. | 165,725.6 | 43,088.9 | 26,672.5 | 95,964.2 | 37,438.8 | 2,407.5 | 6,799.2 | 959.3 | 61,803.0 | 25,922.2 | 18,559.9 | 20,580.9 | 8,257.7 | 17,478.0 | 14,792.1 | 6,973.3 |
| Feb. | 167,592.3 | 43,056.6 | 26,843.6 | 97,692.1 | 38,686.1 | 2,382.4 | 6,862.1 | 841.7 | 63,065.8 | 26,166.7 | 18,830.3 | 20,563.0 | 8,286.7 | 17,626.6 | 15,154.0 | 6,224.3 |
| March | 167,547.5 | 42,741.3 | 25,790.3 | 99,015.9 | 38,167.0 | 2,157.8 | 6,540.7 | 846.2 | 63,938.0 | 26,226.5 | 19,298.8 | 20,676.8 | 8,311.5 | 17,945.4 | 15,510.5 | 7,437.1 |
| April | 169,243.8 | 43,281.2 | 26,048.7 | 99,913.9 | 36,775.7 | 1,950.2 | 6,522.4 | 892.2 | 64,850.8 | 26,397.8 | 19,548.8 | 20,819.3 | 8,341.1 | 18,193.3 | 15,288.0 | 6,654.9 |
| May | 173,356.7 | 45,352.2 | 26,950.1 | 101,054.4 | | | | | | | | | | | | |

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

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

Millions of DM

| End of month | Total lending to non-banks including Treasury bills and securities | | Public authorities | | | | | | | | | | | Business enterprises and individuals | | |
|--------------|--|---------|---|---|--|--|---------------|--|------------|--------|--|---------------|------------------------|--------------------------------------|---|------|
| | | | Total | | Federal Government and Federal Special Funds ¹⁾ | | | | | Länder | | | | Other public authorities | Credits granted to insurance companies and building and loan associations ²⁾ | |
| | | | including Treasury bills and securities | excluding Treasury bills and securities | Total | Treasury bills and non-interest Treasury bonds | Cash advances | Credit to Fed. Govt. for participation in international institutions | Securities | Total | Treasury bills and non-interest Treasury bonds | Cash advances | Advances on securities | | | |
| 1949 Dec. | 802.1 | 568.4 | 756.1 | 522.4 | 504.2 | 101.1 | 403.1 | — | — | 250.6 | 132.6 | 97.2 | 20.8 | 1.3 | 27.7 | 18.3 |
| 1950 " | 1,622.8 | 926.4 | 1,503.7 | 807.3 | 1,213.8 | 241.3 | 637.5 | — | 335.0 | 288.7 | 120.1 | 161.1 | 7.5 | 1.2 | 53.8 | 65.3 |
| 1951 " | 1,166.5 | 299.1 | 1,036.6 | 169.2 | 839.4 | 553.3 | — | — | 286.1 | 196.0 | 28.0 | 168.0 | — | 1.2 | 69.3 | 60.6 |
| 1952 " | 750.0 | 380.4 | 603.4 | 233.8 | 538.2 | 355.2 | — | 183.0 | — | 64.8 | 14.4 | 50.4 | — | 0.4 | 85.6 | 61.0 |
| 1953 " | 622.5 | 369.1 | 478.4 | 225.0 | 430.4 | 203.1 | — | 183.0 | 44.3 | 47.6 | 6.0 | 41.6 | — | 0.4 | 108.4 | 35.7 |
| 1954 " | 734.3 | 601.9 | 605.4 | 473.0 | 522.7 | 100.4 | — | 390.7 | 31.6 | 61.2 | 0.4 | 60.8 | — | 21.5 | 109.9 | 19.0 |
| 1955 " | 1,011.2 | 749.8 | 891.0 | 629.6 | 652.1 | 247.3 | — | 390.7 | 14.1 | 205.8 | — | 180.4 | 25.4 | 33.1 | 103.5 | 16.7 |
| 1956 " | 813.0 | 639.3 | 715.0 | 541.3 | 564.5 | 119.9 | — | 390.8 | 53.8 | 101.8 | — | 101.8 | — | 48.7 | 88.7 | 9.3 |
| 1957 " | 808.6 | 480.4 | 802.8 | 474.6 | 719.0 | 153.7 | — | 390.8 | 174.5 | 83.8 | — | 83.8 | — | — | 2.2 | 3.6 |
| 1958 " | 1,094.4 | 748.7 | 1,094.0 | 748.3 | 1,024.9 | 100.0 | 17.5 | 661.7 | 245.7 | 69.1 | — | 69.1 | — | — | — | 0.4 |
| 1959 " | 1,747.8 | 1,455.5 | 1,747.8 | 1,455.5 | 1,747.8 | 80.0 | 244.8 | 1,210.7 | 212.3 | — | — | — | — | — | — | 0.0 |
| 1960 " | 1,804.4 | 1,465.2 | 1,804.4 | 1,465.2 | 1,804.4 | 136.3 | — | 78.0 | 1,387.2 | 202.9 | — | — | — | — | — | — |
| 1961 " | 3,017.3 | 2,798.8 | 3,017.3 | 2,798.8 | 3,014.3 | — | 160.1 | 2,635.7 | 218.5 | 3.0 | — | 3.0 | — | — | — | — |
| 1962 " | 3,012.2 | 2,894.8 | 3,012.2 | 2,894.8 | 3,012.2 | — | 739.1 | 2,155.7 | 117.4 | — | — | — | — | — | — | — |
| 1963 " | 4,235.2 | 4,043.5 | 4,235.2 | 4,043.5 | 4,218.6 | 125.1 | 1,732.7 | 2,294.2 | 66.6 | 16.6 | — | 16.6 | — | — | — | — |
| 1964 " | 4,566.4 | 4,228.0 | 4,566.4 | 4,228.0 | 4,472.4 | 307.0 | 1,118.0 | 3,016.0 | 31.4 | 94.0 | — | 94.0 | — | — | — | — |
| 1965 March | 2,919.2 | 2,887.4 | 2,918.8 | 2,887.0 | 2,918.8 | — | — | 2,887.0 | 31.8 | — | — | — | — | — | — | 0.4 |
| June | 3,562.4 | 3,255.8 | 3,562.4 | 3,255.8 | 3,506.2 | 275.0 | 267.1 | 2,932.5 | 31.6 | 56.2 | — | 56.2 | — | — | — | — |
| Sep. | 3,255.0 | 3,032.2 | 3,255.0 | 3,032.2 | 3,163.6 | 191.5 | — | 2,940.8 | 31.3 | 91.4 | — | 91.4 | — | — | — | — |
| Dec. | 4,785.5 | 4,408.5 | 4,785.5 | 4,408.5 | 4,452.4 | 345.4 | 1,074.5 | 3,000.9 | 31.6 | 333.1 | — | 333.1 | — | — | — | — |
| 1966 Jan. | 3,767.6 | 3,341.3 | 3,767.6 | 3,341.3 | 3,620.8 | 396.0 | 139.6 | 3,054.9 | 30.3 | 146.8 | — | 146.8 | — | — | — | — |
| Feb. | 4,013.1 | 3,663.7 | 4,013.1 | 3,663.7 | 3,917.7 | 319.9 | 513.4 | 3,054.9 | 29.5 | 95.4 | — | 95.4 | — | — | — | — |

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

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

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

Millions of DM

| End of month | Deposits of non banks total | | Public authorities ¹⁾ | | | Agencies of former occupying powers ²⁾ | Other German depositors ³⁾ |
|--------------|---|-----------|--|-----------------------------------|--|---|---------------------------------------|
| | including amounts temporarily employed in equalisation claims ⁴⁾ | excluding | Federal Government (without Special Funds), ⁵⁾ Länder and Equalisation of Burdens Authorities | E.R.P. Special Fund ⁶⁾ | Other public authorities ⁷⁾ | | |
| 1949 Dec. | 1,641.3 | 1,236.5 | 634.6 | — | 323.5 | 470.0 | 213.2 |
| 1950 " | 3,693.3 | 3,446.0 | 594.3 | 965.0 | 396.7 | 907.6 | 829.7 |
| 1951 " | 3,997.3 | 2,990.0 | 1,191.8 | 1,312.8 | 223.0 | 997.3 | 272.4 |
| 1952 " | 3,957.8 | 2,194.1 | 1,906.1 | 825.9 | 207.2 | 753.4 | 265.2 |
| 1953 " | 4,935.3 | 1,704.2 | 3,181.4 | 496.7 | 373.2 | 639.3 | 244.7 |
| 1954 " | 6,266.5 | 1,529.9 | 4,684.7 | 352.8 | 400.6 | 523.4 | 305.0 |
| 1955 " | 7,003.5 | 3,420.7 | 5,949.7 | 272.2 | 274.3 | 265.5 | 241.8 |
| 1956 " | 7,682.3 | 4,459.3 | 6,711.8 | 192.5 | 339.8 | 143.8 | 294.4 |
| 1957 " | — | 5,097.3 | 4,017.1 | 167.8 | 431.4 | 140.6 | 340.4 |
| 1958 " | — | 4,968.2 | 3,614.0 | 361.2 | 610.3 | 46.8 | 335.9 |
| 1959 " | — | 2,260.8 | 1,161.3 | 200.4 | 677.3 | — | 221.8 |
| 1960 " | — | 3,659.2 | 2,684.9 | 119.8 | 636.3 | — | 218.2 |
| 1961 " | — | 4,985.8 | 3,781.6 | 352.3 | 599.5 | — | 252.4 |
| 1962 " | — | 4,563.2 | 3,604.8 | 166.3 | 513.4 | — | 278.7 |
| 1963 March | — | 7,128.1 | 5,378.0 | 351.1 | 1,150.1 | — | 248.9 |
| June | — | 7,493.8 | 5,794.5 | 282.6 | 1,132.7 | — | 284.0 |
| Sep. | — | 6,628.3 | 4,828.0 | 637.9 | 893.0 | — | 269.4 |
| Dec. | — | 4,399.9 | 3,022.1 | 159.6 | 945.4 | — | 272.8 |
| 1964 March | — | 6,090.2 | 4,214.2 | 516.5 | 1,067.0 | — | 292.5 |
| June | — | 5,541.6 | 3,872.8 | 444.8 | 911.7 | — | 312.3 |
| Sep. | — | 6,616.6 | 4,586.4 | 553.0 | 1,182.9 | — | 294.3 |
| Dec. | — | 3,467.2 | 2,188.6 | 134.4 | 891.6 | — | 252.6 |
| 1965 Jan. | — | 3,414.3 | 1,968.1 | 568.6 | 654.4 | — | 223.2 |
| Feb. | — | 3,461.8 | 1,558.9 | 269.6 | 1,405.9 | — | 227.4 |
| March | — | 4,304.1 | 2,695.5 | 256.5 | 944.4 | — | 407.7 |
| April | — | 3,212.5 | 1,816.7 | 111.6 | 1,022.9 | — | 261.3 |
| May | — | 3,234.9 | 1,464.7 | 232.4 | 1,292.3 | — | 245.5 |
| June | — | 3,869.0 | 2,321.9 | 131.0 | 1,139.2 | — | 276.9 |
| July | — | 3,348.6 | 1,655.8 | 407.1 | 1,046.9 | — | 238.8 |
| Aug. | — | 3,032.5 | 1,337.0 | 303.2 | 1,150.1 | — | 242.2 |
| Sep. | — | 4,562.6 | 2,577.2 | 430.0 | 1,303.7 | — | 251.7 |
| Oct. | — | 3,464.5 | 1,990.1 | 216.3 | 1,028.7 | — | 229.4 |
| Nov. | — | 2,683.5 | 1,129.6 | 158.9 | 1,123.6 | — | 271.4 |
| Dec. | — | 2,429.9 | 1,155.1 | 63.4 | 946.3 | — | 265.1 |
| 1966 Jan. | — | 2,872.8 | 1,370.5 | 319.7 | 939.8 | — | 242.8 |
| Feb. | — | 3,255.6 | 1,236.6 | 259.0 | 1,529.4 | — | 230.6 |

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

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

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

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

Millions of DM

| End of month | Lending ¹⁾ | | | | De- posits 2) 3) |
|--------------|-----------------------|---------------------|------------------------------|--|------------------------|
| | Total | Discount credits | Advances on securities | Equalisa- tion claims purchased | |
| 1949 Dec. | 3,807.2 | 3,226.2 | 338.2 | 242.8 | 1,277.1 |
| 1950 " | 5,201.9 | 4,235.4 | 360.6 | 605.9 | 1,887.7 |
| 1951 " | 5,717.5 | 4,757.2 | 290.8 | 669.5 | 2,675.0 |
| 1952 " | 4,128.4 | 3,389.0 | 253.5 | 485.9 | 2,992.6 |
| 1953 " | 3,351.1 | 2,739.1 | 245.2 | 366.8 | 3,286.9 |
| 1954 " | 3,339.0 | 2,837.7 | 265.1 | 236.2 | 4,005.9 |
| 1955 " | 4,683.0 | 4,130.9 | 340.5 | 211.6 | 4,502.2 |
| 1956 " | 3,127.1 | 2,723.7 | 220.7 | 182.7 | 5,258.5 |
| 1957 " | 1,676.6 | 1,463.0 | 52.8 | 160.8 | 7,108.9 |
| 1958 " | 960.3 | 769.6 | 63.9 | 126.8 | 8,243.1 |
| 1959 " | 1,285.7 | 949.2 | 234.4 | 102.1 | 9,343.8 |
| 1960 " | 1,804.1 | 1,296.5 | 419.0 | 88.6 | 13,036.4 |
| 1961 " | 1,663.8 | 1,395.4 | 219.7 | 48.7 | 11,614.6 |
| 1962 " | 2,473.3 | 2,267.6 | 157.7 | 48.0 | 12,232.1 |
| 1963 " | 2,097.9 | 1,890.2 | 207.7 | — | 13,606.5 |
| 1964 March | 3,145.1 | 2,941.8 | 203.3 | — | 10,872.3 |
| June | 2,804.8 | 2,771.0 | 33.8 | — | 10,894.1 |
| Sep. | 4,299.9 | 4,214.7 | 85.2 | — | 12,102.1 |
| Dec. | 3,449.9 | 2,804.2 | 645.7 | — | 15,143.3 |
| 1965 March | 4,567.6 | 4,531.5 | 36.1 | — | 12,739.0 |
| June | 5,218.6 | 4,973.6 | 245.0 | — | 13,444.4 |
| Sep. | 6,430.8 | 6,270.0 | 160.8 | — | 13,464.0 |
| Dec. | 5,487.9 | 4,791.5 | 696.4 | — | 16,241.3 |
| 1966 Jan. | 5,908.6 | 5,746.1 | 162.5 | — | 14,858.1 |
| Feb. | 5,908.4 | 5,569.8 | 338.6 | — | 13,394.8 |

*) From July 1959 including Saarland credit institutions.

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

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

Millions of DM

| End of month | Total | of which: | | | |
|--------------|----------|----------------------------------|---|---|--|
| | | Money-market paper ¹⁾ | | Short-term balances and money-market investments abroad ²⁾ | |
| | | Total | among which: Mobilisa- tion paper ³⁾ | Total | among which: Money- market paper ³⁾ |
| 1958 Dec. | 7,931.4 | 6,891.2 | 4,300.2 | 1,040.2 | 481.2 |
| 1959 " | 8,308.1 | 5,765.7 | 2,940.0 | 2,542.4 | 1,245.5 |
| 1960 " | 6,671.7 | 5,356.6 | 3,130.8 | 1,315.1 | 379.3 |
| 1961 " | 8,210.4 | 6,075.7 | 4,233.8 | 2,134.7 | 578.3 |
| 1962 March | 10,022.6 | 5,465.9 | 3,967.8 | 4,556.7 | 524.6 |
| June | 9,088.6 | 5,589.4 | 3,985.1 | 3,499.2 | 501.7 |
| Sep. | 7,940.0 | 5,060.4 | 3,635.2 | 2,879.6 | 390.6 |
| Dec. | 7,713.6 | 5,558.1 | 3,372.2 | 2,155.5 | 353.2 |
| 1963 March | 8,979.2 | 5,867.3 | 3,924.4 | 3,111.9 | 303.1 |
| June | 9,135.7 | 5,665.0 | 3,313.1 | 3,470.7 | 284.2 |
| Sep. | 9,172.7 | 5,559.5 | 3,280.1 | 3,613.2 | 317.4 |
| Dec. | 9,006.8 | 6,458.4 | 4,159.9 | 2,548.4 | 577.4 |
| 1964 March | 10,546.5 | 6,932.7 | 4,251.7 | 3,613.8 | 755.8 |
| June | 10,272.5 | 6,805.9 | 4,003.7 | 3,466.6 | 1,104.8 |
| Sep. | 8,748.4 | 5,116.7 | 2,493.8 | 3,631.7 | 984.7 |
| Dec. | 7,799.7 | 4,512.4 | 2,051.9 | 3,287.3 | 1,100.9 |
| 1965 March | 9,161.2 | 5,164.6 | 2,432.5 | 3,996.6 | 1,803.0 |
| June | 8,141.7 | 4,260.8 | 1,549.5 | 3,880.9 | 1,353.6 |
| Sep. | 7,589.7 | 4,157.7 | 1,436.1 | 3,432.0 | 736.0 |
| Dec. | 7,481.0 | 3,847.2 | 677.8 | 3,633.8 | 886.2 |

*) From 1959 including Saarland credit institutions.

¹⁾ Treasury bills and non-interest Treasury bonds, Storage Agency bills and prime bankers' acceptances. — ²⁾ The holdings of special mobilisation paper series "L" ("Blessing Milliarde") were included at the time when the prohibition on sale was lifted (August 1961). — ³⁾ Excluding money-market investments of Reconstruction Loan Corporation from proceeds of the development aid loan.

(3) Borrowing by Banking Groups from Deutsche Bundesbank

Millions of DM

| Banking group | 1964 | | | | 1965 | | | |
|--|----------|---------|---------|---------|----------|---------|---------|---------|
| | 31 March | 30 June | 30 Sep. | 31 Dec. | 31 March | 30 June | 30 Sep. | 31 Dec. |
| Commercial banks | 2,400 | 2,047 | 3,290 | 2,518 | 3,487 | 3,903 | 4,524 | 3,658 |
| of which: | | | | | | | | |
| Big banks ¹⁾ | (716) | (451) | (1,280) | (652) | (1,341) | (1,414) | (1,912) | (1,018) |
| State, regional and local banks | (952) | (912) | (1,177) | (998) | (1,264) | (1,362) | (1,517) | (1,490) |
| Private bankers | (578) | (544) | (628) | (690) | (695) | (890) | (859) | (879) |
| Specialised commercial banks | (154) | (140) | (205) | (178) | (187) | (237) | (236) | (271) |
| Savings banks and central giro institutions | 274 | 354 | 479 | 329 | 541 | 691 | 1,023 | 861 |
| of which: | | | | | | | | |
| Saving banks | (14) | (32) | (63) | (28) | (106) | (138) | (257) | (331) |
| Central giro institutions | (260) | (322) | (416) | (301) | (435) | (553) | (766) | (530) |
| Credit cooperatives and their central institutions | 146 | 136 | 171 | 159 | 174 | 279 | 277 | 232 |
| of which: | | | | | | | | |
| (Schulze-Delitzsch) | (50) | (57) | (87) | (76) | (92) | (155) | (160) | (120) |
| (Raiffeisen) | (96) | (79) | (84) | (83) | (82) | (124) | (117) | (112) |
| All other credit institutions | 462 | 539 | 732 | 456 | 655 | 942 | 1,155 | 1,548 |
| among which: | | | | | | | | |
| Credit institutions with special functions | (454) | (531) | (721) | (448) | (648) | (932) | (1,141) | (1,542) |
| All banking groups ²⁾ | 3,282 | 3,076 | 4,672 | 3,462 | 4,857 | 5,815 | 6,979 | 6,299 |

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

V. Interest Rates

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

% per annum

| Applicable from | Treasury bills of Federal Government and Federal Railways | | Non-interest Treasury bonds of Federal Government, Federal Railways and Federal Postal Administration | | | | Storage Agency bills | |
|-----------------|---|---------------|---|-----------|-----------|-----------|----------------------|---------------|
| | running for | | running for | | | | running for | |
| | 30 to 59 days | 60 to 90 days | 6 months | 12 months | 18 months | 24 months | 30 to 59 days | 60 to 90 days |
| 1960 Feb. 29 | 3 7/8 | 3 7/8 | 4 1/8 | 4 3/8 | 4 1/2 | 4 5/8 | 3 7/8 | 4 |
| Mar. 3 | 3 7/8 | 4 | 4 1/4 | 4 1/2 | 4 5/8 | 4 3/4 | 4 | 4 1/8 |
| June 3 | 4 3/4 | 4 7/8 | 5 1/8 | 5 1/4 | 5 3/8 | 5 1/2 | 4 7/8 | 5 |
| Nov. 2 | 4 3/4 | 4 3/4 | 5 | 5 1/8 | 5 1/4 | 5 3/8 | 4 3/4 | 4 7/8 |
| Nov. 3 | 4 3/8 | 4 1/2 | 4 3/4 | 4 7/8 | 5 | 5 1/8 | 4 1/2 | 4 3/8 |
| Nov. 11 | 3 7/8 | 4 | 4 1/4 | 4 3/8 | 4 1/2 | 4 5/8 | 4 | 4 1/8 |
| Dec. 20 | 3 7/8 | 3 3/4 | 4 | 4 1/8 | 4 1/4 | 4 3/8 | 3 3/4 | 3 7/8 |
| 1961 Jan. 20 | 3 1/8 | 3 1/4 | 3 1/2 | 3 3/8 | 3 3/4 | 3 7/8 | 3 1/4 | 3 3/8 |
| Feb. 9 | 3 | 3 1/8 | 3 3/8 | 3 1/2 | 3 3/8 | 3 3/4 | 3 1/8 | 3 1/4 |
| Feb. 14 | 2 7/8 | 3 | 3 1/4 | 3 3/8 | 3 1/2 | 3 5/8 | 3 | 3 1/8 |
| Mar. 3 | 2 3/4 | 2 7/8 | 3 1/8 | 3 1/4 | 3 3/8 | 3 1/2 | 2 7/8 | 3 |
| Mar. 8 | 2 5/8 | 2 3/4 | 3 | 3 1/8 | 3 1/4 | 3 3/8 | 2 3/4 | 2 7/8 |
| Mar. 17 | 2 1/2 | 2 3/8 | 2 7/8 | 3 | 3 1/8 | 3 1/4 | 2 3/8 | 2 3/4 |
| Mar. 23 | 2 3/8 | 2 1/2 | 2 3/4 | 2 7/8 | 3 | 3 1/8 | 2 1/8 | 2 3/8 |
| Apr. 26 | 2 1/4 | 2 3/8 | 2 5/8 | 2 3/4 | 2 7/8 | 3 | 2 3/8 | 2 1/2 |
| May 5 | 2 3/8 | 2 1/4 | 2 1/2 | 2 5/8 | 2 3/4 | 2 7/8 | 2 1/4 | 2 3/8 |
| Oct. 4 | 2 | 2 1/8 | 2 3/8 | 2 1/2 | 2 5/8 | 2 3/4 | 2 1/8 | 2 1/4 |
| Oct. 20 | 1 7/8 | 2 | 2 3/8 | 2 1/2 | 2 5/8 | 2 3/4 | 2 | 2 1/8 |
| 1962 Jan. 4 | 1 3/4 | 1 7/8 | 2 1/4 | 2 3/8 | 2 5/8 | 2 3/4 | 1 7/8 | 2 |
| Mar. 30 | 1 7/8 | 2 | 2 3/8 | 2 1/2 | 2 3/4 | 2 7/8 | 2 | 2 1/8 |
| Apr. 13 | 2 | 2 1/8 | 2 1/2 | 2 5/8 | 2 7/8 | 3 | 2 1/8 | 2 1/4 |
| June 6 | 2 1/8 | 2 1/4 | 2 5/8 | 2 3/4 | 3 | 3 1/8 | 2 1/4 | 2 3/8 |
| July 16 | 2 1/4 | 2 3/8 | 2 3/4 | 2 7/8 | 3 1/8 | 3 1/4 | 2 3/8 | 2 1/2 |
| Aug. 1 | 2 3/8 | 2 1/2 | 2 7/8 | 3 | 3 1/4 | 3 3/8 | 2 3/8 | 2 3/8 |
| Oct. 3 | 2 1/2 | 2 5/8 | 3 | 3 1/8 | 3 3/8 | 3 1/2 | 2 5/8 | 2 3/4 |
| 1963 Nov. 25 | 2 1/2 | 2 5/8 | 3 | 3 3/8 | 3 1/4 | 3 3/8 | 2 5/8 | 2 3/4 |
| 1965 Jan. 22 | 3 | 3 1/8 | 3 5/8 | 3 3/4 | 4 | 4 1/8 | 3 1/8 | 3 1/4 |
| Aug. 13 | 3 3/4 | 3 7/8 | 4 3/8 | 4 1/2 | 4 5/8 | 4 3/4 | 3 7/8 | 4 |
| 1966 Jan. 7 | 3 7/8 | 4 | 4 7/8 | 5 | 5 1/8 | 5 1/4 | 4 | 4 1/8 |
| Feb. 23 | 3 7/8 | 4 | 5 | 5 1/8 | 5 1/4 | 5 3/8 | 4 | 4 1/8 |
| Mar. 4 | 3 7/8 | 4 | 5 1/8 | 5 1/4 | 5 3/8 | 5 1/2 | 4 | 4 1/8 |

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

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

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

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

% per annum

| Month | Day-to-day money ²⁾ | One-month loans ³⁾ | Three-month loans ³⁾ | Note: Central Bank discount rate |
|-----------|--------------------------------|-------------------------------|---------------------------------|----------------------------------|
| 1964 Jan. | 2 1/8 — 3 1/4 | 2 7/8 — 3 1/4 | 3 1/4 — 3 7/8 | 3 |
| Feb. | 2 1/4 — 3 1/8 | 3 — 3 1/4 | 3 1/4 — 3 3/8 | 3 |
| March | 2 3/4 — 4 | 3 1/8 — 3 3/8 | 3 3/8 — 3 5/8 | 3 |
| April | 2 7/8 — 4 | 3 1/8 — 3 1/2 | 3 3/8 — 3 5/8 | 3 |
| May | 2 7/8 — 3 7/8 | 3 1/4 — 3 1/2 | 3 5/8 — 3 3/4 | 3 |
| June | 2 3/4 — 3 7/8 | 3 1/2 — 3 3/4 | 3 5/8 — 3 7/8 | 3 |
| July | 3 — 3 3/4 | 3 1/4 — 3 1/2 | 3 5/8 — 3 7/8 | 3 |
| Aug. | 2 3/4 — 4 | 3 1/2 — 4 1/8 | 3 5/8 — 4 1/4 | 3 |
| Sep. | 3 3/8 — 4 | 3 5/8 — 4 1/4 | 3 7/8 — 4 3/8 | 3 |
| Oct. | 2 1/2 — 4 | 3 7/8 — 4 | 5 1/4 — 5 1/2 | 3 |
| Nov. | 2 1/2 — 3 3/4 | 3 1/4 — 4 | 5 3/8 — 5 5/8 | 3 |
| Dec. | 2 1/4 — 3 1/2 ³⁾ | 5 3/8 — 5 3/4 | 5 1/8 — 5 1/2 | 3 |
| 1965 Jan. | 1 1/2 — 3 3/8 | 3 1/8 — 3 1/2 | 3 3/4 — 4 1/8 | 3 ⁴⁾ |
| Feb. | 2 7/8 — 4 1/4 | 3 1/4 — 3 7/8 | 3 3/4 — 4 1/8 | 3 1/2 |
| March | 3 3/4 — 4 3/8 | 3 7/8 — 4 1/4 | 4 — 4 5/8 | 3 1/2 |
| April | 4 — 4 3/8 | 4 1/8 — 4 3/8 | 4 3/8 — 4 5/8 | 3 1/2 |
| May | 2 1/2 — 4 3/8 | 4 1/4 — 4 1/2 | 4 1/2 — 4 3/4 | 3 1/2 |
| June | 4 1/8 — 4 3/4 | 4 1/2 — 4 3/4 | 4 3/4 — 5 | 3 1/2 |
| July | 3 1/2 — 4 5/8 | 4 1/2 — 4 7/8 | 4 7/8 — 5 1/4 | 3 1/2 |
| Aug. | 2 1/2 — 4 2/8 | 4 1/2 — 4 7/8 | 5 1/8 — 5 1/2 | 4 ⁵⁾ |
| Sep. | 4 3/8 — 5 1/8 | 5 — 5 1/4 | 5 1/8 — 5 1/2 | 4 |
| Oct. | 3 1/2 — 5 1/8 | 5 1/8 — 5 3/8 | 6 3/8 — 6 3/4 | 4 |
| Nov. | 3 1/2 — 4 7/8 | 4 1/2 — 5 1/4 | 6 1/2 — 6 5/8 | 4 |
| Dec. | 3 — 5 ⁶⁾ | 6 5/8 — 7 | 6 1/2 — 6 3/4 | 4 |
| 1966 Jan. | 3 3/4 — 4 3/4 | 4 1/2 — 5 | 5 1/8 — 5 3/4 | 4 |
| Feb. | 3 3/4 — 5 1/4 | 4 1/2 — 5 | 5 1/4 — 5 3/4 | 4 |
| March | 5 — 5 1/2 | 5 1/4 — 5 5/8 | 5 3/8 — 6 | 4 |

¹⁾ Money-market rates are not fixed or quoted officially. The rates here published have been ascertained from Frankfurt banks. They may be considered to be representative. — ²⁾ Lowest and highest rate quoted during month. — ³⁾ Money at the end of the month 5 1/2%. — ⁴⁾ Since 22 January 1965: 3 1/2%. — ⁵⁾ Until 12 August 1965: 3 1/2%. — ⁶⁾ Money at the end of the month 6 3/8 to 6 3/4%.

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

| Week | Lowest rate | Highest rate |
|-----------------|-------------|--------------|
| 1965 Sep. 1 — 7 | 4 3/8 | 4 5/8 |
| 8 — 15 | 4 1/2 | 4 7/8 |
| 16 — 23 | 4 7/8 | 5 |
| 24 — 30 | 4 7/8 | 5 1/8 |
| Oct. 1 — 7 | 4 7/8 | 5 1/8 |
| 8 — 15 | 4 7/8 | 5 |
| 16 — 23 | 4 7/8 | 5 |
| 24 — 31 | 3 1/2 | 5 |
| Nov. 1 — 7 | 4 5/8 | 4 7/8 |
| 8 — 15 | 3 3/4 | 4 5/8 |
| 16 — 23 | 3 1/2 | 4 3/8 |
| 24 — 30 | 3 3/4 | 4 3/4 |
| Dec. 1 — 7 | 4 1/2 | 4 3/4 |
| 8 — 15 | 4 3/8 | 4 3/4 |
| 16 — 23 | 4 5/8 | 5 |
| 24 — 30 | 3 | 4 3/4 |
| End of December | 6 5/8 | 6 3/4 |
| 1966 Jan. 1 — 7 | 3 7/8 | 4 1/2 |
| 8 — 15 | 3 3/4 | 4 1/4 |
| 16 — 23 | 3 3/4 | 4 1/8 |
| 24 — 31 | 4 | 4 3/4 |
| Feb. 1 — 7 | 4 3/4 | 4 3/4 |
| 8 — 15 | 3 7/8 | 4 3/4 |
| 16 — 23 | 3 3/4 | 5 |
| 24 — 28 | 5 | 5 3/4 |
| March 1 — 7 | 5 | 5 1/8 |
| 8 — 15 | 5 | 5 1/4 |
| 16 — 23 | 5 | 5 1/4 |
| 24 — 31 | 5 | 5 3/8 |

¹⁾ Rates for day-to-day money are not fixed or quoted officially. The rates here published have been ascertained from Frankfurt banks. They may be considered to be representative.

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

(a) Maximum Debtor Interest Rates *)

% per annum

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

*) Up to 28 February 1965 compiled on the basis of announcements of the Hessian Bank Supervisory Authority; in most of the other Federal Länder equal rates applied. The rates apply only to credits fully taken. Turnover commission or charges per item processed are disregarded. — ¹⁾ From 1 Sep. 1949 to 26 Oct. 1950 = 7 1/2%. — ²⁾ From 1 Sep. 1949 to 26 Oct. 1950 = 7%. — ³⁾ From 1 March 1965 the rates laid down in the Interest Rates Order of the Federal Banking Supervisory Office apply; the charges for discount credits are no longer differentiated according to the amount of the bills.

(b) Maximum Creditor Interest Rates *)

% per annum

| Applicable from | Sight deposits | | Monies at notice ²⁾ of | | | | Monies placed for fixed periods ³⁾ of | | | | Savings deposits | | |
|-----------------|--------------------------------|-----------------------------------|-----------------------------------|--------------------------------|---------------------------------|--------------------------------|--|----------------|-----------------|-------------------------------|---|---|--------------------------------|
| | on accounts free of commission | on accounts subject to commission | 1 month to less than 3 months | 3 months to less than 6 months | 6 months to less than 12 months | 12 months to less than 4 years | 30 to 89 days | 90 to 179 days | 180 to 359 days | 360 days to less than 4 years | with legal period of notice ³⁾ | with agreed period of notice ³⁾ of | |
| | | | | | | | | | | | | 6 months to less than 12 months | 12 months to less than 4 years |
| 1948 Sep. 1 | 1 | 2 | 2 1/4 | 2 3/4 | 3 | 3 3/4 | 2 1/4 | 2 3/4 | 3 | 3 3/4 | 2 1/2 | 3 | 4 |
| 1949 Sep. 1 | 1 | 1 1/2 | 2 1/4 | 2 3/4 | 2 7/8 | 3 3/4 | 2 1/4 | 2 1/2 | 2 3/4 | 3 1/2 | 2 1/2 | 3 | 4 |
| 1950 July 1 | 1 | 1 1/2 | 2 1/4 | 2 3/4 | 2 7/8 | 3 3/4 | 2 1/4 | 2 1/2 | 2 3/4 | 3 1/2 | 2 1/2 | 3 | 4 |
| Dec. 1 | 1 | 1 1/2 | 2 1/4 | 2 3/4 | 3 1/2 | 4 1/4 | 3 1/2 | 3 3/4 | 4 1/4 | 4 3/8 | 3 | 3 1/2 | 4 1/2 |
| 1952 Sep. 1 | 1 | 1 1/2 | 3 | 3 3/8 | 3 7/8 | 4 1/4 | 3 | 3 3/4 | 3 3/4 | 4 1/8 | 3 | 3 1/2 | 4 1/2 |
| 1953 Feb. 1 | 1 | 1 1/2 | 2 1/2 | 2 3/4 | 3 3/8 | 3 3/4 | 2 1/2 | 2 3/4 | 3 1/4 | 3 3/8 | 3 | 3 1/2 | 4 1/4 |
| July 1 | 3/4 | 1 1/4 | 2 1/4 | 2 3/8 | 3 1/8 | 3 1/2 | 2 1/4 | 2 3/8 | 3 | 3 3/8 | 3 | 3 1/2 | 4 1/4 |
| 1954 July 1 | 3/2 | 1 | 2 | 2 3/8 | 3 1/8 | 3 1/2 | 2 | 2 3/8 | 2 3/4 | 3 3/8 | 3 | 3 1/4 | 4 |
| 1955 Aug. 4 | 3/4 | 1 1/4 | 2 3/8 | 2 3/4 | 3 1/4 | 3 3/4 | 2 3/8 | 2 3/4 | 3 1/8 | 3 3/8 | 3 | 3 1/2 | 4 |
| 1956 Mar. 16 | 1 | 1 1/2 | 3 3/8 | 3 3/4 | 4 1/4 | 4 3/4 | 3 3/8 | 3 3/4 | 4 1/4 | 4 5/8 | 3 | 4 | 5 |
| May 19 | 1 1/2 | 2 | 4 1/4 | 4 3/4 | 5 1/4 | 5 1/2 | 4 1/4 | 4 3/4 | 5 1/4 | 5 1/2 | 3 1/2 | 4 1/2 | 5 1/2 |
| Oct. 1 | 1 1/4 | 1 3/4 | 4 1/4 | 4 3/4 | 5 1/4 | 5 1/2 | 4 1/4 | 4 3/4 | 5 1/4 | 5 1/2 | 3 1/2 | 4 1/2 | 5 1/2 |
| 1957 Feb. 1 | 1 | 1 1/2 | 3 3/4 | 4 1/4 | 4 3/4 | 5 1/4 | 3 3/4 | 4 1/4 | 4 3/4 | 5 1/4 | 3 1/2 | 4 1/2 | 5 1/2 |
| Oct. 17 | 3/4 | 1 1/4 | 3 3/4 | 4 1/4 | 4 3/4 | 5 1/4 | 3 3/4 | 4 1/4 | 4 3/4 | 5 1/4 | 3 1/2 | 4 1/2 | 5 1/4 |
| 1958 Feb. 10 | 1/2 | 1 | 2 3/8 | 3 | 3 3/4 | 4 1/4 | 2 7/8 | 3 | 3 3/4 | 4 1/4 | 3 1/4 | 4 | 5 |
| July 21 | 1 | 1 | 2 3/8 | 3 | 3 3/4 | 4 1/4 | 2 3/8 | 3 | 3 3/4 | 4 1/4 | 3 1/4 | 4 | 5 |
| Nov. 20 | 1/2 | 1 | 2 | 2 3/4 | 3 | 3 3/8 | 2 3/8 | 3 | 3 3/8 | 4 1/4 | 3 | 3 1/4 | 4 1/4 |
| 1959 Feb. 1 | 3/8 | 3/4 | 1 1/2 | 2 | 2 1/2 | 3 1/4 | 2 | 2 1/2 | 2 3/4 | 3 1/4 | 3 | 3 1/4 | 4 |
| Nov. 20 | 1/2 | 1 | 2 1/4 | 2 3/4 | 3 1/4 | 4 | 2 1/4 | 2 3/4 | 3 1/4 | 4 | 3 | 3 1/4 | 4 |
| 1960 Jan. 1 | 1/2 | 1 | 2 1/4 | 2 3/4 | 3 1/4 | 4 | 2 1/4 | 2 3/4 | 3 1/4 | 4 | 3 1/2 | 4 1/2 | 5 1/2 |
| July 1 | 1 | 1 1/2 | 3 | 3 1/2 | 4 | 4 3/4 | 3 | 3 1/2 | 4 | 4 3/4 | 4 | 4 1/2 | 5 1/4 |
| Dec. 15 | 1/2 | 1 | 2 1/2 | 3 | 3 1/2 | 4 1/4 | 2 1/2 | 3 | 3 1/2 | 4 1/4 | 4 | 4 1/2 | 5 1/4 |
| 1961 Jan. 1 | 1/2 | 1 | 2 1/2 | 3 | 3 1/2 | 4 1/4 | 2 1/2 | 3 | 3 1/2 | 4 1/4 | 4 | 4 1/2 | 5 1/4 |
| Feb. 15 | 1/2 | 1 | 2 1/4 | 2 3/4 | 3 1/4 | 4 | 2 1/4 | 2 3/4 | 3 1/4 | 4 | 4 | 4 1/4 | 4 3/4 |
| April 1 | 1/2 | 1 | 2 1/4 | 2 3/4 | 3 1/4 | 4 | 2 1/4 | 2 3/4 | 3 1/4 | 4 | 3 1/2 | 4 | 4 1/2 |
| June 10 | 3/8 | 3/4 | 1 3/4 | 2 1/4 | 2 3/4 | 3 1/2 | 1 3/4 | 2 1/4 | 2 3/4 | 3 1/2 | 3 1/2 | 4 | 4 1/2 |
| July 1 | 3/8 | 3/4 | 1 3/4 | 2 1/4 | 2 3/4 | 3 1/2 | 1 3/4 | 2 1/4 | 2 3/4 | 3 1/2 | 3 1/4 | 4 | 4 |
| 1965 March 1 | 3/8 | 3/8 | 2 | 2 1/2 | 3 | 4 | 2 | 2 1/2 | 3 | 4 | 3 3/4 ⁴⁾ | 4 1/2 | 5 |
| Oct. 1 | 3/8 | 3/8 | 2 1/2 | 3 | 3 3/4 | 4 3/4 | 2 1/2 | 3 | 3 3/4 | 4 3/4 | 3 3/4 ⁴⁾ | 4 1/2 | 5 |

*) Up to 28 February 1965 compiled on the basis of announcements of the Hessian Bank Supervisory Authority; in most of the other Federal Länder equal rates applied. Since 1 March 1965 the rates laid down in the Interest Rates Order of the Federal Banking Supervisory Office have been in force. — ¹⁾ For larger amounts deposited (DM 50,000 or more and DM 1 million or more, respectively) higher rates of interest were paid between 1 September 1949 and 19 November 1958. — ²⁾ Up to 30 April 1957, the interest on Postal Savings Bank deposits was as a rule lower by 1/4% than that on savings deposits with legal period of notice. — ³⁾ As from 20 November 1958, when accepting savings deposits with agreed period of notice, notice will only be permissible after expiry of a period of six months, such period to commence on the day of deposit. — ⁴⁾ These rates only apply to savings deposits of individuals and of bodies corporate serving welfare, charitable or ecclesiastical purposes. For savings deposits of other bodies corporate and of partnerships the interest rate is lower by 1/2% unless a blocking period of at least six months has been agreed during which notice is not permissible.

VI. Sales of Securities

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

Millions of DM, nominal value

| Period | Fixed-interest-bearing securities | | | | | | | | | | Shares ²⁾ | Fixed interest-bearing securities, and shares, total |
|--|-----------------------------------|--|------------------|---------|----------|--|-----------------------------|--------------------------|-----------------------|---|----------------------|--|
| | of which: | | | | | | | | | | | |
| | Bonds of German issuers | | | | | | | | | | | |
| | Bank bonds | | | | | Industrial bonds (including convertible bonds) | Loans of public authorities | Loans of foreign issuers | Total | among which: Medium-term notes (Kassenobligationen) | | |
| Mortgage bonds (including ship mortgage bonds) | Communal (and similar) bonds | Bonds of specialised credit institutions | Other bank bonds | Total | | | | | | | | |
| during year | | | | | | | | | | | | |
| 1957 | 1,161.1 | 1,125.2 | 265.2 | — | 2,551.5 | 931.1 | 700.9 | 21.0 | 4,204.5 | — | 1,631.7 | 5 836.2 |
| 1958 | 1,618.8 | 2,337.6 | 521.1 | 2.0 | 4,479.5 | 1,651.9 | 1,903.7 | 92.0 | 8,127.1 | 102.0 | 1,139.5 | 9,266.6 |
| 1959 | 3,050.0 | 2,363.7 | 1,331.1 | — | 6,744.8 | 919.5 | 2,039.3 | 344.6 | 10,048.1 | 1,295.2 | 1,383.0 | 11,431.1 |
| 1960 | 2,343.4 | 1,119.9 | 501.1 | 3.0 | 3,967.4 | 27.5 | 1,332.6 | 44.8 | 5,372.3 | 568.5 | 1,904.5 | 7,276.8 |
| 1961 | 3,641.5 | 2,505.3 | 1,051.2 | 100.0 | 7,298.0 | 319.6 | 1,991.2 ³⁾ | 12.0 | 9,620.8 ³⁾ | 388.7 | 2,192.4 | 11,813.2 |
| 1962 | 4,096.2 | 2,368.2 | 1,122.0 | 401.1 | 7,987.5 | 1,076.1 | 2,780.9 | 100.0 | 11,944.5 | 810.0 | 1,506.7 | 13,451.2 |
| 1963 | 4,070.8 | 3,397.6 | 1,857.9 | 969.2 | 10,295.5 | 1,552.5 | 4,576.5 | 160.0 | 16,584.5 | 1,528.7 | 1,015.7 | 17,600.2 |
| 1964 | 4,805.9 | 3,772.1 | 1,775.1 | 1,441.9 | 11,795.0 | 973.7 | 4,138.7 | 895.0 | 17,802.4 | 1,981.0 | 1,608.4 | 19,410.8 |
| 1965 | 4,331.2 | 3,691.1 | 1,242.7 | 1,392.7 | 10,657.7 | 585.8 | 3,589.2 | 1,389.2 | 16,221.9 | 1,453.8 | 2,645.9 | 18 867.8 |
| during month | | | | | | | | | | | | |
| 1965 Jan. | 582.6 | 441.6 | 129.4 | 205.0 | 1,358.6 | 150.0 | 797.5 | 65.0 | 2,371.1 | 245.8 | 86.4 | 2,457.5 |
| Feb. | 444.0 | 382.1 | 250.7 | 270.2 | 1,347.0 | — | 11.3 | 157.3 | 1,515.6 | 164.5 | 288.7 | 1,804.3 |
| March | 488.4 | 287.6 | 98.0 | 65.9 | 939.9 | 115.8 | 119.5 | 400.0 | 1,575.2 | 184.9 | 78.0 | 1,653.2 |
| April | 372.5 | 343.2 | 78.2 | 134.2 | 928.1 | — | 452.3 | — | 1,380.4 | 17.5 | 90.9 | 1,471.3 |
| May | 238.6 | 200.8 | 63.1 | 129.6 | 632.1 | — | 375.0 | 106.7 | 1,113.8 | 197.4 | 327.6 | 1,441.4 |
| June | 276.8 | 376.5 | 13.8 | 138.1 | 805.2 | 270.0 | 343.6 | 26.6 | 1,445.4 | 74.1 | 415.3 | 1,860.7 |
| July | 404.3 | 513.4 | 305.9 | 88.0 | 1,311.6 | — | 482.5 | 116.8 | 1,910.9 | 55.8 | 176.5 | 2,087.4 |
| Aug. | 235.0 | 256.7 | 41.9 | 74.8 | 608.4 | — | 60.6 | — | 669.0 | 89.0 | 544.9 | 1,213.9 |
| Sep. | 297.1 | 245.2 | 64.4 | 54.0 | 660.7 | — | 57.9 | — | 718.6 | 63.4 | 105.5 | 824.1 |
| Oct. | 346.5 | 154.8 | 23.2 | 71.4 | 595.9 | — | 326.3 | 236.8 | 1,159.0 | 86.6 | 221.3 | 1,380.3 |
| Nov. | 295.5 | 248.7 | 97.8 | 89.2 | 731.2 | 50.0 | 347.2 | 160.0 | 1,288.4 | 162.0 | 70.1 | 1,358.5 |
| Dec. | 349.9 | 240.5 | 76.3 | 72.3 | 739.0 | — | 215.5 | 120.0 | 1,074.5 | 112.8 | 240.7 | 1,315.2 |
| 1966 Jan. | 493.3 | 411.6 | 246.3 | 92.0 | 1,243.2 | — | 410.0 | 60.0 | 1,713.2 | 129.7 | 357.2 | 2,070.4 |
| Feb. | 209.9 | 274.3 | 89.2 | 84.4 | 657.8 | — | 217.0 | 9.5 | 884.3 | 103.6 | 217.9 | 1,102.2 |
| March ^{P)} | 212.6 | 194.9 | 64.1 | 81.3 | 552.9 | — | 334.3 | 239.3 | 1,130.1 | 156.4 | 93.3 | 1,219.8 |

¹⁾ Only initial sale of newly issued securities, no account being taken of amounts redeemed or repurchased. Except conversion and old savers' securities. From 1959 including Saarland. The amounts issued between 1948 and 1959 by Saarland issuers are included in the annual figures for 1959. — ²⁾ Share issues under the Law on Capital Increase out of Company Reserves... dated 23 December 1959 ("bonus shares") are not included in the figures. — ³⁾ Including DM 1,176.2 million 5% Loan of the Federal Republic of Germany (development aid). — P) Provisional.

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

Millions of DM, nominal value

| Period | Post-currency-reform issues | | | | | | | | | | Pre-currency-reform issues | Fixed interest-bearing securities, total |
|--|------------------------------|--|------------------|-----------|---------|--|-----------------------------|--------------------------|----------|---|----------------------------|--|
| | of which: | | | | | | | | | | | |
| | Bonds of German issuers | | | | | | | | | | | |
| | Bank bonds | | | | | Industrial bonds (including convertible bonds) | Loans of public authorities | Loans of foreign issuers | Total | among which: Medium-term notes (Kassenobligationen) | | |
| Mortgage bonds (including ship mortgage bonds) | Communal (and similar) bonds | Bonds of specialised credit institutions | Other bank bonds | Total | | | | | | | | |
| Redemption | | | | | | | | | | | | |
| 1957 | 21.8 | 32.1 | 53.3 | 0.3 | 107.5 | 53.2 | 586.4 | — | 747.1 | — | 136.2 | 883.3 |
| 1958 | 60.3 | 100.4 | 93.6 | 0.4 | 254.7 | 102.0 | 259.8 | — | 616.5 | — | 80.1 | 696.6 |
| 1959 | 231.5 | 223.2 | 109.4 | 0.3 | 564.4 | 305.8 | 606.7 | — | 1,476.9 | — | 106.2 | 1,583.1 |
| 1960 | 116.0 | 176.5 | 136.0 | 0.2 | 428.7 | 403.9 | 153.8 | — | 986.4 | — | 94.4 | 1,080.8 |
| 1961 | 339.3 | 641.3 | 338.8 | 2.2 | 1,316.6 | 219.1 | 96.7 | — | 1,632.4 | 109.9 | 74.0 | 1,706.4 |
| 1962 | 456.9 | 597.8 | 345.0 | 0.1 | 1,399.8 | 484.5 | 429.6 | 3.5 | 2,317.4 | 387.7 | 74.0 | 2,391.4 |
| 1963 | 349.2 | 806.3 | 647.8 | 34.4 | 1,837.7 | 1,209.3 | 1,311.9 | 52.9 | 4,411.8 | 1,192.0 | 91.3 | 4,503.1 |
| 1964 | 327.6 | 804.3 | 637.7 | 117.5 | 1,887.1 | 639.6 | 872.9 | 4.7 | 3,404.3 | 416.5 | 91.6 | 3,495.9 |
| 1965 | 238.0 | 608.1 | 606.2 | 209.8 | 1,662.1 | 222.6 | 479.9 | 31.3 | 2,395.9 | 654.2 | 88.5 | 2,484.4 |
| Net sales ²⁾ | | | | | | | | | | | | |
| 1957 | 1,139.3 | 1,093.1 | 211.9 | — 0.3 | 2,444.0 | 877.9 | 114.5 | 21.0 | 3,457.4 | — | — 46.6 | 3,410.8 |
| 1958 | 1,558.5 | 2,237.2 | 427.5 | — 1.6 | 4,244.8 | 1,549.9 | 1,643.9 | 92.0 | 7,510.6 | 102.0 | — 408.3 | 7,918.9 |
| 1959 | 2,818.5 | 2,140.5 | 1,221.7 | — 0.3 | 6,180.4 | 613.7 | 1,432.5 | 344.6 | 8,571.2 | 1,295.2 | 291.1 | 8,862.3 |
| 1960 | 2,227.4 | 943.4 | 365.1 | — 2.8 | 3,538.7 | — 376.4 | 1,178.8 | 44.8 | 4,385.9 | 568.5 | 100.5 | 4,486.4 |
| 1961 | 3,302.2 | 1,864.0 | 717.4 | — 97.8 | 5,981.4 | 100.5 | 1,984.5 | 12.0 | 7,988.4 | 278.8 | 85.5 | 8,073.9 |
| 1962 | 3,639.3 | 1,770.4 | 777.0 | — 401.0 | 6,587.7 | 591.6 | 2,351.3 | 96.5 | 9,627.1 | 422.3 | 39.1 | 9,666.2 |
| 1963 | 3,721.6 | 2,591.3 | 1,210.1 | — 934.8 | 8,457.8 | 343.2 | 3,264.6 | 107.1 | 12,172.7 | 336.7 | — 6.2 | 12,178.9 |
| 1964 | 4,478.3 | 2,967.8 | 1,137.4 | — 1,324.4 | 9,907.9 | 334.1 | 3,265.8 | 890.3 | 14,398.1 | 1,564.5 | — 20.5 | 14,377.6 |
| 1965 | 4,093.2 | 3,083.0 | 636.5 | — 1,182.9 | 8,995.6 | 363.2 | 3,109.3 | 1,357.9 | 13,826.0 | 799.6 | — 34.5 | 13,791.5 |
| Change in the holdings of repurchased issues | | | | | | | | | | | | |
| increase (+), decrease (—) | | | | | | | | | | | | |
| 1957 | — 18.6 | — 10.3 | — 30.9 | — | — 59.8 | — 3.1 | — 69.9 | — | — 122.8 | — | + 113.2 | — 19.6 |
| 1958 | — 1.9 | + 8.3 | — 39.2 | — | — 32.8 | — 11.1 | — 68.0 | — | — 111.9 | — | — 37.7 | — 149.6 |
| 1959 | + 35.7 | + 18.7 | — 71.8 | — | — 17.4 | — 1.9 | + 102.8 | — | + 83.5 | — | — 14.0 | + 69.5 |
| 1960 | + 30.4 | + 34.4 | — 3.0 | — | + 61.8 | + 9.3 | — 7.8 | — | + 63.3 | — | + 3.4 | + 66.7 |
| 1961 | + 0.8 | + 3.9 | + 1.5 | — | + 6.2 | + 2.4 | + 26.5 | — | + 30.3 | — | — 17.9 | + 12.4 |
| 1962 | + 17.4 | + 12.7 | + 24.8 | — | + 29.5 | + 0.7 | + 10.8 | — | + 41.0 | — | — 20.5 | + 20.5 |
| 1963 | + 15.9 | + 23.3 | + 22.5 | + 10.7 | + 74.2 | + 8.0 | + 44.9 | — | + 19.5 | — | — 8.5 | + 11.0 |
| 1964 | + 65.6 | + 4.8 | + 49.4 | + 1.2 | + 121.0 | — | + 325.0 | — | + 446.0 | — | — 7.3 | + 438.7 |
| 1965 | + 176.0 | + 68.0 | + 261.5 | + 14.8 | + 520.3 | + 0.3 | + 214.9 | — | + 735.5 | — | + 5.3 | + 740.8 |

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

(3) Gross Sales of Securities¹⁾: Nominal Values, Issue Values and Average Issue Prices²⁾

| Period | Fixed-interest securities | | | | | | | | | | | | | | | Shares | | |
|--------------------------|---|---------------------------|---------------|-------------------------|---------------------------|---------------|-----------------------------|---------------------------|---------------|-------------|---------------------------|---------------|-------------|---------------------------|---------------|--------------------------|---------------------------|-------|
| | Total | | | among which: | | | | | | | | | | | | | | |
| | | | | Bonds of German issuers | | | | | | | | | | | | Bonds of foreign issuers | | |
| | Mortgage bonds ³⁾ and communal bonds | | | Industrial bonds | | | Loans of public authorities | | | | | | | | | | | |
| Nominal value | Issue value | Average issue price p. c. | Nominal value | Issue value | Average issue price p. c. | Nominal value | Issue value | Average issue price p. c. | Nominal value | Issue value | Average issue price p. c. | Nominal value | Issue value | Average issue price p. c. | Nominal value | Issue value | Average issue price p. c. | |
| DM million | | | DM million | | | DM million | | | DM million | | | DM million | | | DM million | | | |
| 1957 | 4,204.5 | 4,058.9 | 96.5 | 2,286.3 | 2,186.5 | 95.6 | 931.1 | 909.7 | 97.7 | 700.9 | 685.7 | 97.8 | 21.0 | 21.0 | 100.0 | 1,631.7 | 1,676.2 | 102.7 |
| 1958 | 8,127.1 | 7,996.3 | 98.4 | 3,956.4 | 3,880.6 | 98.1 | 1,651.9 | 1,632.1 | 98.8 | 1,903.7 | 1,876.1 | 98.5 | 92.0 | 90.3 | 98.2 | 1,139.5 | 1,214.5 | 106.6 |
| 1959 | 10,048.1 | 9,903.7 | 98.6 | 5,413.7 | 5,349.6 | 98.8 | 919.5 | 902.5 | 98.1 | 2,039.2 | 1,997.4 | 97.9 | 344.6 | 342.9 | 99.5 | 1,383.0 | 1,851.3 | 133.9 |
| 1960 | 5,372.3 | 5,195.4 | 96.7 | 3,463.3 | 3,332.8 | 96.2 | 27.5 | 26.7 | 96.9 | 1,332.6 | 1,301.7 | 97.6 | 44.8 | 43.5 | 96.8 | 1,904.5 | 2,792.5 | 146.6 |
| 1961 | 9,620.8 | 9,491.4 | 98.7 | 6,146.8 | 6,052.2 | 98.5 | 319.6 | 315.5 | 98.7 | 1,991.2 | 1,979.3 | 99.4 | 12.0 | 11.4 | 95.0 | 2,192.4 | 3,295.7 | 150.3 |
| 1962 | 11,944.5 | 11,841.1 | 99.1 | 6,464.4 | 6,687.1 | 98.8 | 1,076.1 | 1,071.2 | 99.6 | 2,780.9 | 2,773.1 | 99.7 | 100.0 | 96.5 | 100.0 | 1,506.7 | 2,195.9 | 145.7 |
| 1963 | 16,584.5 | 16,498.6 | 99.5 | 7,468.4 | 7,431.7 | 99.5 | 1,552.5 | 1,541.4 | 99.3 | 4,576.5 | 4,564.7 | 99.7 | 160.0 | 157.9 | 98.7 | 1,015.7 | 1,318.8 | 129.9 |
| 1964 | 17,802.4 | 17,596.8 | 98.8 | 8,578.0 | 8,497.1 | 99.1 | 973.7 | 967.9 | 99.4 | 4,138.7 | 4,079.4 | 98.5 | 895.0 | 883.8 | 98.7 | 1,608.4 | 2,243.0 | 139.4 |
| 1965 | 16,221.9 | 15,761.4 | 97.2 | 8,022.3 | 7,718.6 | 96.2 | 585.8 | 578.0 | 98.7 | 3,589.2 | 3,518.1 | 98.0 | 1,389.2 | 1,372.1 | 98.8 | 2,645.9 | 3,958.7 | 149.6 |
| 1965 Jan. | 2,371.1 | 2,324.9 | 98.0 | 1,024.2 | 1,004.4 | 98.1 | 150.0 | 147.0 | 98.0 | 797.5 | 782.5 | 98.1 | 65.0 | 64.4 | 97.7 | 86.4 | 108.1 | 125.1 |
| 1965 Feb. | 1,515.6 | 1,482.0 | 97.7 | 826.1 | 803.5 | 97.3 | — | — | — | 11.3 | 11.3 | 99.9 | 157.3 | 156.1 | 99.2 | 288.7 | 448.5 | 155.4 |
| 1965 March | 1,575.2 | 1,537.5 | 97.6 | 776.0 | 751.0 | 96.8 | 115.8 | 112.0 | 96.7 | 119.5 | 116.2 | 97.3 | 400.0 | 398.5 | 99.6 | 78.0 | 158.5 | 203.1 |
| 1965 April | 1,380.4 | 1,319.7 | 95.6 | 715.7 | 679.3 | 94.9 | — | — | — | 452.3 | 434.9 | 96.2 | — | — | — | 90.9 | 113.0 | 124.3 |
| 1965 May | 1,113.8 | 1,072.0 | 96.3 | 439.4 | 417.5 | 95.0 | — | — | — | 375.0 | 364.3 | 97.1 | 106.7 | 103.4 | 97.0 | 327.6 | 431.0 | 131.6 |
| 1965 June | 1,445.4 | 1,398.5 | 96.8 | 653.3 | 613.1 | 93.8 | 270.0 | 270.0 | 100.0 | 343.6 | 341.9 | 99.5 | 26.6 | 25.8 | 97.0 | 415.3 | 502.2 | 120.9 |
| 1965 July | 1,910.9 | 1,869.4 | 97.8 | 917.7 | 889.8 | 97.0 | — | — | — | 482.5 | 479.6 | 99.3 | 116.8 | 111.3 | 95.3 | 176.5 | 256.4 | 145.3 |
| 1965 Aug. | 669.0 | 642.7 | 96.1 | 491.7 | 470.1 | 95.6 | — | — | — | 60.6 | 59.4 | 98.0 | — | — | — | 544.9 | 996.5 | 182.9 |
| 1965 Sep. | 718.6 | 696.1 | 96.9 | 542.3 | 523.6 | 96.5 | — | — | — | 57.9 | 56.8 | 98.2 | — | — | — | 105.5 | 163.9 | 155.3 |
| 1965 Oct. | 1,159.0 | 1,124.4 | 97.0 | 501.3 | 478.7 | 95.5 | — | — | — | 326.3 | 320.3 | 98.2 | 236.8 | 233.0 | 98.4 | 221.3 | 401.9 | 181.6 |
| 1965 Nov. | 1,288.4 | 1,256.2 | 97.5 | 544.2 | 524.2 | 96.3 | 50.0 | 49.0 | 98.0 | 347.2 | 340.0 | 97.9 | 160.0 | 159.4 | 99.6 | 70.1 | 71.2 | 101.6 |
| 1965 Dec. | 1,074.5 | 1,038.0 | 96.6 | 590.4 | 563.4 | 95.4 | — | — | — | 215.5 | 210.8 | 97.8 | 120.0 | 120.0 | 100.0 | 240.7 | 307.5 | 127.8 |
| 1966 Jan. | 1,713.2 | 1,648.7 | 96.2 | 904.9 | 857.7 | 94.8 | — | — | — | 410.0 | 402.4 | 98.1 | 60.0 | 59.1 | 98.5 | 357.2 | 399.1 | 111.7 |
| 1966 Feb. | 884.3 | 856.2 | 96.8 | 484.2 | 464.6 | 96.0 | — | — | — | 217.0 | 213.7 | 98.5 | 9.5 | 9.5 | 100.0 | 217.9 | 370.1 | 169.9 |
| 1966 March ⁴⁾ | 1,130.1 | 1,098.6 | 97.2 | 407.5 | 391.2 | 96.0 | — | — | — | 334.3 | 326.3 | 97.6 | 239.3 | 237.5 | 99.2 | 93.3 | 103.7 | 111.2 |

¹⁾ From 1959 including Saarland figures. The annual figures for 1959 comprise the amounts issued from 1948 to 1959 by Saarland issuers. — ²⁾ Weighted average prices computed from original figures which are reported in thousands of DM. — ³⁾ Including ship mortgage bonds. — ⁴⁾ Provisional.

(4) Circulation of Investment Fund Units¹⁾

| Investment Company and Fund | Inventory value ²⁾ | | | | Number of units issued ³⁾ | | | | Price per unit | | | |
|---|-------------------------------|---------|---------|------------|--------------------------------------|-----------------------|----------|------------|--------------------|--------------------|--------------------|--------------------------|
| | 1963 | 1964 | 1965 | March 1966 | 1963 | 1964 | 1965 | March 1966 | 1963 ⁴⁾ | 1964 ⁴⁾ | 1965 ⁴⁾ | March 1966 ⁴⁾ |
| | Millions of DM | | | | Thousands | | | | DM | | | |
| Allfonds Gesellschaft für Investmentanl. mbH | 114.4 | 152.1 | 159.1 | 171.0 | 3,436.4 | 4,715.2 | 5,781.1 | 6,043.5 | 34.60 | 33.50 | 28.60 | 29.81 |
| Allfonds Allgemeine Deutsche Investment-GmbH | 149.7 | 155.3 | 135.8 | 144.1 | 3,074.9 | 3,158.4 | 3,390.9 | 3,436.9 | 50.40 | 50.90 | 41.50 | 44.14 |
| Adifonds | 22.2 | 22.7 | 21.1 | 22.4 | 406.5 | 434.2 | 455.8 | 463.3 | 57.00 | 54.30 | 48.00 | 50.97 |
| Adiropa | 16.4 | 19.5 | 16.8 | 18.6 | 331.6 | 406.7 | 461.7 | 466.7 | 51.10 | 49.60 | 37.80 | 41.85 |
| Adiverba | 214.7 | 216.1 | 182.3 | 193.3 | 5,419.0 | 5,524.9 | 5,753.2 | 5,797.3 | 40.90 | 40.30 | 32.80 | 34.96 |
| Fondak | 123.4 | 127.1 | 110.5 | 115.7 | 2,848.9 | 2,907.5 | 3,021.9 | 3,046.2 | 44.80 | 45.20 | 37.80 | 39.98 |
| Fondis | 78.9 | 109.0 | 136.5 | 152.2 | 858.6 | 1,206.2 | 1,747.0 | 1,885.4 | 95.00 | 93.50 | 80.80 | 84.23 |
| Fondra | 27.6 | 24.2 | 23.0 | 23.3 | 651.3 | 562.2 | 561.9 | 551.0 | 43.70 | 44.40 | 42.20 | 44.52 |
| Tresora | — | — | — | — | — | — | — | — | — | — | — | — |
| Anlage-Gesellschaft für Französische Aktienwerte mbH | 64.4 | 58.2 | 50.4 | 52.4 | 1,754.9 | 1,737.9 | 1,649.7 | 1,652.1 | 38.40 | 35.00 | 31.90 | 33.60 |
| Agefra-Fonds | — | — | — | — | — | — | — | — | — | — | — | — |
| Anlage-Gesellschaft mbH für englische u. holländ. Aktienwerte | 11.2 | 9.4 | 8.6 | 8.1 | 108.8 | 99.8 | 94.7 | 93.6 | 109.00 | 99.50 | 95.90 | 92.80 |
| Anglo-Dutch-Fonds | — | — | — | — | — | — | — | — | — | — | — | — |
| Deutsche Ges. für Wertpapiersparen mbH | 20.1 | 19.7 | 17.9 | 18.4 | 375.2 | 346.4 | 329.7 | 328.1 | 55.70 | 59.00 | 56.40 | 59.12 |
| Akkumula | — | — | — | 30.0 | — | — | — | 379.9 | — | — | — | 80.60 |
| Inrenta | 95.2 | 96.9 | 93.4 | 91.2 | 1,015.4 | 990.0 | 976.9 | 973.6 | 97.50 | 102.00 | 99.70 | 98.85 |
| Interinvest | 603.8 | 678.0 | 620.9 | 663.5 | 10,046.9 | 10,991.9 | 11,940.1 | 12,144.5 | 62.30 | 63.90 | 53.90 | 57.48 |
| Investa | — | — | — | — | — | — | — | — | — | — | — | — |
| Deutscher Investm.-Trust, Ges. für Wertpapieranlagen mbH | 438.3 | 533.1 | 532.6 | 568.4 | 12,730.1 | 15,172.2 | 18,313.3 | 20,178.8 | 35.60 | 36.40 | 30.10 | 29.69 |
| Concentra | — | — | — | 20.7 | — | — | — | 234.0 | — | — | — | 90.63 |
| Deutscher Rentenfonds | 122.1 | 121.3 | 102.7 | 100.2 | 1,806.5 | 1,772.5 | 1,749.8 | 1,757.8 | 70.00 | 70.80 | 60.70 | 60.12 |
| Industria | 160.3 | 165.8 | 138.3 | 139.7 | 3,596.3 | 3,415.3 | 3,273.0 | 3,176.5 | 46.10 | 50.30 | 43.70 | 46.32 |
| Thesaurus | 78.4 | 74.6 | 66.3 | 64.6 | 1,567.4 | 1,497.4 | 1,472.0 | 1,479.7 | 52.40 | 52.10 | 46.90 | 46.13 |
| Transatlanta | — | — | — | — | — | — | — | — | — | — | — | — |
| Deutsche Kapitalanl.-GmbH | 21.5 | 23.8 | 22.6 | 22.8 | 486.1 | 535.5 | 591.8 | 624.3 | 45.70 | 46.20 | 39.80 | 38.67 |
| Arideka | 198.9 | 221.0 | 204.5 | 206.4 | 5,125.3 | 5,625.2 | 6,238.8 | 6,492.1 | 40.50 | 41.10 | 34.50 | 33.97 |
| Dekafonds I | — | — | — | — | — | — | — | — | — | — | — | — |
| Internationale Kapitalanlages. mbH | 35.5 | 31.8 | 27.1 | 27.3 | 751.5 | 656.3 | 592.5 | 581.5 | 49.50 | 50.60 | 47.80 | 49.09 |
| Brauerer-Fonds | — | — | — | — | — | — | — | — | — | — | — | — |
| Union-Investment-GmbH | 35.8 | 39.5 | 39.4 | 39.1 | 992.7 | 1,080.1 ⁴⁾ | 1,123.8 | 1,123.5 | 37.50 | 38.40 | 36.90 | 36.82 |
| Atlantifonds | 40.0 | 35.7 | 31.3 | 32.3 | 636.0 | 587.7 | 590.2 | 595.7 | 65.00 | 63.90 | 55.80 | 58.15 |
| Europafonds I | 237.3 | 362.7 | 394.6 | 427.1 | 7,707.0 | 11,906.2 | 15,508.3 | 16,124.3 | 32.40 | 32.00 | 26.80 | 28.28 |
| Unifonds | 11.5 | 3.2 | — | — | 103.5 | 27.4 ⁴⁾ | — | — | 117.50 | 118.62 | — | — |
| Uscafonds | — | — | — | — | — | — | — | — | — | — | — | — |
| Total ⁵⁾ | 2,921.8 | 3,300.7 | 3,135.6 | 3,352.7 | — | — | — | — | — | — | — | — |

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

(5) Capital Accruing¹⁾ at the Investment Funds

| Period | Capital accruing DM mn |
|------------|------------------------|
| 1956 | 109.7 |
| 1957 | 182.8 |
| 1958 | 500.5 |
| 1959 | 465.7 |
| 1960 | 340.1 |
| 1961 | 229.5 |
| 1962 | 224.2 |
| 1963 | 192.6 |
| 1964 | 372.8 |
| 1965 | 382.5 |
| 1963 Jan. | 16.5 |
| 1963 Feb. | 12.2 |
| 1963 March | 9.5 |
| 1963 April | 13.4 |
| 1963 May | 10.5 |
| 1963 June | 9.2 |
| 1963 July | 26.0 |
| 1963 Aug. | 16.2 |
| 1963 Sep. | 12.6 |
| 1963 Oct. | 14.6 |
| 1963 Nov. | 22.8 |
| 1963 Dec. | 29.1 |
| 1964 Jan. | 41.6 |
| 1964 Feb. | 36.2 |
| 1964 March | 30.7 |
| 1964 April | 26.3 |
| 1964 May | 22.9 |
| 1964 June | 25.3 |
| 1964 July | 24.7 |
| 1964 Aug. | 20.3 |
| 1964 Sep. | 14.3 |
| 1964 Oct. | 31.6 |
| 1964 Nov. | 50.8 |
| 1964 Dec. | 48.1 |
| 1965 Jan. | 42.8 |
| 1965 Feb. | 59.2 |
| 1965 March | 45.0 |
| 1965 April | 28.8 |
| 1965 May | 18.7 |
| 1965 June | 22.4 |
| 1965 July | 28.1 |
| 1965 Aug. | 30.5 |
| 1965 Sept. | 23.0 |
| 1965 Oct. | 20.2 |
| 1965 Nov. | 32.3 |
| 1965 Dec. | 31.5 |
| 1966 Jan. | 64.9 |
| 1966 Feb. | 62.6 |
| 1966 March | 40.0 |

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

VII. Foreign Trade and the Balance of Payments

(1) Balance of Payments of the Federal Republic of Germany 1959 to 1965*) (Millions of DM)

| Item | 1959 | 1960 | 1961 | 1962 | 1963 | 1964 | 1965P) |
|--|---------|---------|---------|---------|---------|---------|---------|
| A. Balance of Current Items and Capital Movements | | | | | | | |
| I. Current items | | | | | | | |
| (1) Transactions in goods and services | | | | | | | |
| (a) Goods | | | | | | | |
| Exports (f.o.b.) ²⁾ | 41,031 | 47,855 | 50,876 | 52,884 | 58,288 | 64,788 | 71,477 |
| Imports (f.o.b.) ¹⁾ | 33,242 | 39,698 | 41,368 | 46,694 | 49,148 | 55,046 | 66,578 |
| Merchandising trade: Sales | 1,886 | 2,536 | 2,460 | 2,580 | 2,815 | 3,428 | 3,978 |
| Purchases | 2,018 | 2,231 | 2,325 | 2,542 | 2,789 | 3,516 | 3,782 |
| Net transactions in goods | + 7,657 | + 8,462 | + 9,643 | + 6,228 | + 9,166 | + 9,654 | + 5,095 |
| (b) Services | | | | | | | |
| Receipts from foreign military agencies | 3,956 | 4,100 | 3,824 | 4,300 | 4,289 | 4,220 | 4,152 |
| Other receipts | 6,918 | 7,994 | 8,159 | 8,943 | 9,619 | 11,113 | 12,343 |
| Expenditure | 11,050 | 12,450 | 14,267 | 16,441 | 17,143 | 19,561 | 21,985 |
| Net services | - 176 | - 356 | - 2,284 | - 3,198 | - 3,235 | - 4,228 | - 5,490 |
| Net transactions in goods and services | + 7,481 | + 8,106 | + 7,359 | + 3,030 | + 5,931 | + 5,426 | - 395 |
| (2) Transfer payments (outflow: -, inflow: +) ³⁾ | | | | | | | |
| (a) Private | | | | | | | |
| Inflow | + 115 | + 129 | + 103 | + 108 | + 128 | + 151 | + 165 |
| Outflow | - 458 | - 703 | - 1,089 | - 1,461 | - 1,731 | - 1,996 | - 2,540 |
| Balance | - 343 | - 574 | - 986 | - 1,353 | - 1,603 | - 1,845 | - 2,375 |
| (b) Official | | | | | | | |
| Inflow | + 88 | + 177 | + 102 | + 29 | + 32 | + 29 | + 26 |
| Outflow: | - 2,992 | - 2,997 | - 3,551 | - 3,830 | - 3,387 | - 3,129 | - 3,470 |
| Indemnification | - 1,738 | - 2,259 | - 2,750 | - 2,718 | - 2,514 | - 2,067 | - 2,167 |
| Other | - 1,254 | - 738 | - 801 | - 1,112 | - 873 | - 1,062 | - 1,303 |
| Balance | - 2,904 | - 2,820 | - 3,449 | - 3,801 | - 3,355 | - 3,100 | - 3,444 |
| Net transfer payments | - 3,247 | - 3,394 | - 4,435 | - 5,154 | - 4,958 | - 4,945 | - 5,819 |
| Net balance of current items (I plus 2) | + 4,234 | + 4,712 | + 2,924 | - 2,124 | + 973 | + 481 | - 6,214 |
| II. Capital transactions (outflow: -, inflow: +)³⁾ | | | | | | | |
| (1) Long-term capital ³⁾ | | | | | | | |
| (a) German capital investments abroad | | | | | | | |
| New investment | | | | | | | |
| Private: Purchase of foreign securities | - 2,033 | - 1,724 | - 1,211 | - 1,599 | - 1,201 | - 2,618 | - 3,428 |
| Other new investment | - 774 | - 890 | - 1,210 | - 1,216 | - 1,128 | - 1,379 | - 1,384 |
| Official: Payments to international organisations | - 2,351 | - 221 | - 924 | - 124 | - 111 | - 85 | - 144 |
| Loans to developing countries | - 481 | - 733 | - 1,096 | - 1,067 | - 1,066 | - 1,224 | - 1,330 |
| Other new investment | - 43 | - 28 | - 103 | - 234 | - 177 | - 107 | - 110 |
| Disinvestment | | | | | | | |
| Private: Sale of foreign securities | + 569 | + 1,009 | + 1,006 | + 866 | + 726 | + 1,785 | + 2,382 |
| Other disinvestment | + 216 | + 170 | + 308 | + 567 | + 419 | + 397 | + 535 |
| Official | - | + 57 | + 219 | + 341 | + 234 | + 255 | + 371 |
| Net capital investments (increase: -) | - 1,464 | - 715 | - 205 | - 733 | - 475 | - 833 | - 1,046 |
| Private: Foreign securities | - 558 | - 720 | - 902 | - 649 | - 709 | - 849 | - 849 |
| Other net capital investments | - 2,875 | - 925 | - 1,904 | - 1,084 | - 1,120 | - 1,161 | - 1,213 |
| Official | - 4,897 | - 2,360 | - 3,011 | - 2,466 | - 2,304 | - 2,976 | - 3,108 |
| (b) Foreigners' capital investments in the Federal Republic of Germany | | | | | | | |
| New investment | | | | | | | |
| Private: Purchase of domestic securities | + 2,528 | + 4,349 | + 4,507 | + 3,496 | + 4,748 | + 3,932 | + 3,121 |
| Other new investment | + 973 | + 1,180 | + 1,375 | + 1,864 | + 2,135 | + 2,441 | + 4,650 |
| Official | - | - | - | - | - | - | + 0 |
| Disinvestment | | | | | | | |
| Private: Sale of domestic securities | - 2,059 | - 2,276 | - 2,762 | - 1,974 | - 1,880 | - 3,420 | - 2,356 |
| Other disinvestment | - 572 | - 752 | - 1,133 | - 932 | - 688 | - 693 | - 1,534 |
| Official: Prepayment of debts resulting from post-war economic aid | - 903 | - | - 3,125 | - | - | - | - |
| Other disinvestment | - 517 | - 314 | - 92 | - 89 | - 61 | - 98 | - 75 |
| Net capital investments (increase: +) | + 469 | + 2,073 | + 1,745 | + 1,522 | + 2,868 | + 512 | + 765 |
| Private: Domestic securities | + 401 | + 428 | + 242 | + 932 | + 1,447 | + 1,748 | + 3,116 |
| Other net capital investments | - 1,420 | - 314 | - 3,217 | - 89 | - 61 | - 98 | - 75 |
| Official | - 550 | + 2,187 | - 1,230 | - 2,365 | + 4,254 | + 2,162 | + 3,806 |
| Total | - 5,447 | - 173 | - 4,241 | - 101 | + 1,950 | - 814 | + 698 |
| Net long-term capital transactions (a plus b) | - 5,447 | - 173 | - 4,241 | - 101 | + 1,950 | - 814 | + 698 |
| (2) Short-term capital | | | | | | | |
| (a) Private | | | | | | | |
| Net German capital investments abroad (increase: -) | | | | | | | |
| Credit institutions ⁵⁾ | - 1,315 | + 1,103 | - 1,558 | - 175 | - 129 | - 709 | - 319 |
| Non-banks | - 106 | - 82 | - 307 | + 151 | - 9 | - 211 | - 225 |
| Total | - 1,421 | + 1,021 | - 1,865 | - 24 | - 138 | - 920 | - 544 |
| Net foreign capital investments in the Federal Republic of Germany (increase: +) | | | | | | | |
| Credit institutions ⁵⁾ | + 280 | + 1,151 | + 1,294 | + 28 | + 833 | + 760 | + 132 |
| Non-banks | - 52 | + 738 | + 910 | + 268 | + 30 | + 384 | + 1,062 |
| Total | + 228 | + 1,889 | + 2,204 | + 296 | + 863 | + 1,144 | + 1,194 |
| Balance | - 1,193 | + 2,910 | + 339 | + 272 | + 725 | + 224 | + 650 |
| (b) Official | | | | | | | |
| Transactions with International Monetary Fund | + 1,392 | - 169 | - 1,322 | + 480 | - 139 | - 722 | + 15 |
| Other payments | - 994 | - 788 | + 116 | + 114 | - 319 | - 725 | + 1,134 |
| Total | + 398 | - 957 | - 1,206 | + 594 | - 458 | - 1,447 | + 1,149 |
| Net short-term capital transactions (a plus b) | + 795 | + 1,953 | + 867 | + 866 | + 267 | - 1,223 | + 1,799 |
| Net total of capital transactions (I plus 2) | - 6,242 | + 1,780 | - 5,108 | + 765 | + 2,217 | - 2,037 | + 2,497 |
| Net Balance of Current Items and Capital Movements (I plus II) | - 2,008 | + 6,492 | - 2,184 | - 1,359 | + 3,190 | - 1,556 | - 3,717 |
| B. Movement of Gold and Exchange | | | | | | | |
| (change in net monetary reserves of Deutsche Bundesbank) ⁶⁾ | | | | | | | |
| I. Change in gold holdings (increase: -) | + 8 | - 1,402 | - 2,781 | - 62 | - 658 | - 1,618 | - 647 |
| II. Change in assets and liabilities | | | | | | | |
| (1) Assets (increase: -) | + 2,439 | - 6,624 | + 4,800 | + 595 | - 1,797 | + 1,586 | + 1,991 |
| (2) Liabilities (increase: +) | - 243 | + 19 | - 91 | + 19 | - 117 | + 20 | + 162 |
| Net balance of changes in assets and liabilities | + 2,196 | - 6,605 | + 4,709 | + 614 | - 1,914 | + 1,606 | + 2,153 |
| Net Movement of Gold and Exchange (surplus: -, deficit: +) (I plus II) | + 2,204 | - 8,007 | + 1,928 | + 552 | - 2,572 | - 12 | + 1,506 |
| C. Net Errors and Omissions (ascertained as residue)⁸⁾ | - 196 | + 1,515 | + 256 | + 807 | - 618 | + 1,568 | + 2,211 |

*) Federal area including Berlin (West); from 6 July 1959, the date of the Saarland's economic incorporation, including its transactions with foreign countries. — ¹⁾ Special trade. Including supplementary items (e. g., export and import of electric current); excluding the export of ships' and aircraft's fuel and other supplies, which is included in receipts from services. — ²⁾ Transactions are classified as "Private" or "Official" according to the sector to which the German party engaged in the transaction belongs. — ³⁾ Cf. footnote 5). — ⁴⁾ Breakdown of long-term capital transactions into "Direct investments" and "Portfolio investments" will be found in the table "Principal Items of the Balance of Payments" on page 92; a more detailed specification is given in the table "Capital Transactions with Foreign Countries" on page 100. — ⁵⁾ For 1961 including statistical change of assets and liabilities in foreign currency due to the DM revaluation. — ⁶⁾ Excluding the foreign assets of the Deutsche Bundesbank — taken into account under official long-term capital transactions — which mainly consist of the I.B.R.D. bonds and I.B.R.D. notes contained in the item "Securities" of the Bundesbank Return. — ⁷⁾ For 1961 disregarding the decrease by DM 1,419 million, due to the DM revaluation, in the Deutsche Bundesbank's monetary reserves. — ⁸⁾ This residual item, ascertained as difference between the net balance of current items and capital movements on the one hand and the movement of gold and exchange on the other, mainly reflects the changes in the terms of payment, which are not statistically ascertained (movement of gold and exchange more favourable than balance of current items and capital movements: +, movement of gold and exchange less favourable: -). — P) Provisional.

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

| Position at end of year or month | Total monetary reserves (net) | Gold holdings and freely usable foreign assets | | | Credit granted to I. M. F. under "General Arrangements to Borrow" | Foreign assets of limited usability ²⁾ | | | | | Foreign liabilities ³⁾ | Note: Foreign assets of Deutsche Bundesbank not included in the monetary reserves ⁴⁾ |
|----------------------------------|-------------------------------|--|---------------|------------------------------|---|---|--|--|--|--|-----------------------------------|---|
| | | Total | Gold holdings | Freely usable foreign assets | | Total | among which: | | | | | |
| | | | | | | | Bilateral claims from former credits to E.P.U. (until end-1958: credit granted to E.P.U. ⁵⁾) | I.B.R.D. debt certificates ⁶⁾ | Earmarked balances with foreign banks and earmarked money-market investments | Consolidation loans to foreign Central Banks | | |
| 1952 | 4,635 | 2,971 | 587 | 2,384 | — | 2,026 | 1,061 | — | — | — | 362 | — |
| 1953 | 8,158 | 5,510 | 1,367 | 4,143 | — | 2,704 | 1,782 | — | — | — | 56 | — |
| 1954 | 10,930 | 8,426 | 2,628 | 5,798 | — | 2,672 | 2,054 | — | — | 146 | 168 | — |
| 1955 | 12,781 | 10,134 | 3,862 | 6,272 | — | 2,785 | 2,187 | — | — | 304 | 138 | — |
| 1956 | 17,795 | 14,412 | 6,275 | 8,137 | — | 3,571 | 2,890 | — | 240 | 403 | 188 | 73 |
| 1957 | 22,917 | 17,237 | 10,674 | 6,563 | — | 6,393 | 4,242 | 735 | 1,032 | 384 | 713 | 73 |
| 1958 | 26,105 | 19,477 | 11,085 | 8,392 | — | 7,000 | 4,597 | 1,166 | 972 | 265 | 372 | 73 |
| 1959 | 23,621 | 19,039 | 11,077 | 7,962 | — | 4,992 | 3,159 | 1,305 | 353 | 175 | 410 | 191 |
| 1960 | 31,628 | 28,295 | 12,479 | 15,816 | — | 3,762 | 1,993 | 1,400 | 265 | 104 | 429 | 272 |
| 1961 | 28,281 | 26,165 | 14,654 | 11,511 | — | 2,453 | 1,039 | 1,352 | — | 62 | 337 | 1,112 |
| 1962 | 27,729 | 25,786 | 14,716 | 11,070 | — | 2,299 | 897 | 1,352 | — | 50 | 356 | 1,100 |
| 1963 | 30,301 | 28,409 | 15,374 | 13,035 | — | 2,131 | 751 | 1,352 | — | 28 | 239 | 1,105 |
| 1964 | 30,313 | 27,879 | 16,992 | 10,887 | 720 | 1,973 | 615 | 1,352 | — | 6 | 259 | 1,102 |
| 1965 | 28,807 | 25,410 | 17,639 | 7,771 | 1,390 | 2,428 | 509 | 1,454 | 465 | — | 421 | 1,082 |
| 1961 March 5 ^{a)} b) | 31,724 | 28,512 | 12,723 | 15,789 | — | 3,497 | 1,744 | 1,400 | 265 | 88 | 285 | 372 |
| | 30,305 | 27,155 | 12,117 | 15,038 | — | 3,434 | 1,742 | 1,352 | 252 | 88 | 284 | 364 |
| 1963 March | 27,633 | 25,785 | 14,995 | 10,790 | — | 2,281 | 884 | 1,352 | — | 44 | 433 | 1,100 |
| June | 28,633 | 26,794 | 15,013 | 11,781 | — | 2,263 | 872 | 1,352 | — | 39 | 424 | 1,127 |
| Sep. | 29,328 | 27,481 | 15,044 | 12,437 | — | 2,150 | 764 | 1,352 | — | 34 | 303 | 1,105 |
| Dec. | 30,301 | 28,409 | 15,374 | 13,035 | — | 2,131 | 751 | 1,352 | — | 28 | 239 | 1,105 |
| 1964 March | 30,309 | 28,467 | 15,813 | 12,654 | — | 2,115 | 740 | 1,352 | — | 23 | 273 | 1,104 |
| June | 30,430 | 28,642 | 16,324 | 12,318 | — | 2,099 | 729 | 1,352 | — | 18 | 311 | 1,104 |
| Sep. | 30,004 | 28,238 | 16,594 | 11,644 | — | 1,994 | 630 | 1,352 | — | 12 | 228 | 1,102 |
| Dec. | 30,313 | 27,879 | 16,992 | 10,887 | 720 | 1,973 | 615 | 1,352 | — | 6 | 259 | 1,102 |
| 1965 March | 29,803 | 27,442 | 16,973 | 10,469 | 720 | 1,963 | 611 | 1,352 | — | — | 322 | 1,100 |
| June | 28,630 | 25,571 | 17,511 | 8,060 | 1,390 | 1,959 | 607 | 1,352 | — | — | 290 | 1,100 |
| Sep. | 28,622 | 25,214 | 17,560 | 7,654 | 1,390 | 2,355 | 515 | 1,374 | 465 | — | 337 | 1,082 |
| Dec. | 28,807 | 25,410 | 17,639 | 7,771 | 1,390 | 2,428 | 509 | 1,454 | 465 | — | 421 | 1,082 |
| 1966 Jan. | 28,138 | 24,761 | 17,640 | 7,121 | 1,390 | 2,427 | 508 | 1,454 | 465 | — | 440 | 1,082 |
| Feb. | 27,935 | 24,556 | 17,624 | 6,932 | 1,390 | 2,372 | 508 | 1,454 | 410 | — | 383 | 1,080 |
| March | 27,630 | 24,598 | 17,608 | 6,990 | 1,390 | 2,234 | 508 | 1,454 | 272 | — | 592 | 1,080 |

*) The figures are not fully identical with those shown in the Return of the Bundesbank. Gold holdings as well as foreign assets and liabilities are here converted at parity rate in accordance with the International Monetary Fund's instructions on the compilation of balance-of-payments statements, whereas in the Bundesbank Return they are valued for the end of the year according to the lowest value principle on the assets side, and according to the maximum value principle on the liabilities side. On this basis the holdings are ascertained for the current year by means of the changes calculated at the rate of the day. Moreover, in the case of liabilities there are some differences regarding the delimitation of the items to be taken into account; cf. footnote 1). — 2) From 1959 onwards including the previously disregarded letter-of-credit cover accounts and the liabilities recorded in the item "Deposits of foreign depositors" in the Bundesbank Return. — 3) In 1952 and 1953 including certain assets and liabilities such as consolidated clearing debts the changes in which were, in balance-of-payments tables, not entered under exchange movements but under capital transactions. — 4) Not taking into account the latest E.P.U. settlement in each case. — 5) Excluding the claims on I.B.R.D. mentioned in footnote 6), which are included in the Bundesbank Return in the item "Securities" and in the balance of payments in official long-term capital transactions. — 6) Mainly claims on I.B.R.D.; cf. footnote 4). — 7) Row a) valued at parity rate prior to, row b) after, DM revaluation.

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

| Position at end of year or month | Balance of assets and liabilities | Assets | | | | | | Liabilities | | | | | | | Note: U.S. \$ swap commitments of Deutsche Bundesbank to German credit institutions ⁸⁾ |
|----------------------------------|-----------------------------------|--------|-----------------------------|---------------|--|--|--------------------|-------------|--|---------------------|-----------|-------|-----|----------------------|---|
| | | Total | Balances with foreign banks | | Money-market paper | | Short-term lending | Total | Non-residents' deposits, by depositor groups | | | | | Short-term borrowing | |
| | | | Balances payable on demand | Time balances | Excluding investments of Reconstruction Loan Corporation | Investments of Reconstruction Loan Corporation ⁹⁾ | | | Total | Banks ⁴⁾ | Non-banks | | | | |
| 1955 | -1,397 | 524 | 312 | 7 | 1 | — | 204 | 1,921 | 1,473 | 730 | — | 622 | 121 | 448 | — |
| 1956 | -2,309 | 715 | 362 | 13 | 4 | — | 336 | 3,024 | 2,114 | 1,197 | — | 733 | 184 | 910 | — |
| 1957 | -2,285 | 1,320 | 307 | 20 | 448 | — | 545 | 3,605 | 2,650 | 1,580 | — | 914 | 156 | 955 | — |
| 1958 | -1,551 | 1,919 | 431 | 128 | 481 | — | 879 | 3,470 | 2,893 | 1,702 | 77 | 1,075 | 116 | 577 | 325 |
| 1959 | -272 | 3,471 | 754 | 543 | 1,246 | — | 928 | 3,743 | 3,410 | 1,924 | 140 | 1,095 | 216 | 775 | 746 |
| 1960 | -2,526 | 2,368 | 526 | 410 | 379 | — | 1,053 | 4,894 | 3,641 | 1,796 | 99 | 1,348 | 308 | 189 | 1,253 |
| 1961 | -2,262 | 3,926 | 651 | 906 | 578 | 643 | 1,148 | 6,188 | 3,985 | 2,044 | 141 | 1,419 | 311 | 211 | 2,203 |
| 1962 | -2,121 | 4,095 | 1,022 | 780 | 353 | 371 | 1,569 | 6,216 | 3,932 | 1,723 | 111 | 1,743 | 270 | 196 | 2,284 |
| 1963 | -2,808 | 4,208 | 1,116 | 855 | 578 | 264 | 1,395 | 7,016 | 4,792 | 2,323 | 149 | 2,041 | 287 | 141 | 2,224 |
| 1964 | -2,859 | 4,917 | 1,206 | 980 | 1,101 | — | 1,630 | 7,776 | 5,159 | 2,630 | 189 | 2,063 | 302 | 164 | 2,617 |
| 1965 | -2,709 | 5,236 | 1,550 | 1,198 | 886 | — | 1,602 | 7,945 | 5,606 | 2,753 | 205 | 2,434 | 235 | 184 | 2,339 |
| 1963 March | -580 | 4,988 | 983 | 1,826 | 302 | 306 | 1,571 | 5,568 | 3,670 | 1,664 | 91 | 1,540 | 271 | 195 | 1,898 |
| June | -678 | 5,344 | 1,211 | 1,976 | 284 | 170 | 1,703 | 6,022 | 4,106 | 2,023 | 79 | 1,659 | 284 | 140 | 1,916 |
| Sep. | -592 | 5,413 | 1,177 | 2,119 | 317 | 276 | 1,524 | 6,005 | 3,862 | 1,813 | 97 | 1,656 | 238 | 155 | 2,143 |
| Dec. | -2,808 | 4,208 | 1,116 | 855 | 578 | 264 | 1,395 | 7,016 | 4,792 | 2,323 | 149 | 2,041 | 287 | 141 | 2,224 |
| 1964 March | -584 | 5,317 | 1,092 | 1,766 | 756 | 141 | 1,562 | 5,901 | 4,125 | 1,931 | 114 | 1,804 | 254 | 136 | 1,776 |
| June | -1,006 | 5,094 | 1,019 | 1,343 | 1,105 | — | 1,627 | 6,100 | 4,377 | 2,198 | 149 | 1,797 | 234 | 148 | 1,723 |
| Sep. | -1,185 | 5,189 | 1,309 | 1,338 | 985 | — | 1,557 | 6,374 | 4,359 | 2,182 | 128 | 1,804 | 245 | 128 | 2,015 |
| Dec. | -2,859 | 4,917 | 1,206 | 980 | 1,101 | — | 1,630 | 7,776 | 5,159 | 2,630 | 189 | 2,063 | 302 | 164 | 2,617 |
| 1965 March | -790 | 5,741 | 1,151 | 1,043 | 1,803 | — | 1,744 | 6,531 | 4,866 | 2,494 | 324 | 1,989 | 216 | 167 | 1,665 |
| June | -794 | 5,780 | 1,465 | 1,062 | 1,354 | — | 1,899 | 6,574 | 4,861 | 2,429 | 91 | 2,074 | 230 | 128 | 1,713 |
| Sep. | -1,833 | 5,018 | 1,528 | 1,168 | 736 | — | 1,586 | 6,851 | 4,896 | 2,518 | 206 | 2,032 | 209 | 137 | 1,955 |
| Dec. | -2,709 | 5,236 | 1,550 | 1,198 | 886 | — | 1,602 | 7,945 | 5,606 | 2,753 | 205 | 2,434 | 235 | 184 | 2,339 |
| 1966 Jan. | -881 | 6,241 | 1,927 | 1,679 | 874 | — | 1,761 | 7,122 | 4,986 | 2,464 | 204 | 2,161 | 246 | 115 | 2,136 |
| Feb. | -835 | 6,143 | 1,813 | 1,844 | 627 | — | 1,859 | 6,978 | 4,944 | 2,446 | 198 | 2,148 | 234 | 116 | 2,034 |

+) Not including Deutsche Bundesbank. — *) Figures for the period after the economic incorporation of the Saarland (6 July 1959) include the assets and liabilities of the Saarland banks in relation to foreign countries. — 1) The figures here shown, which are taken from the credit institutions' external position, deviate from the corresponding figures of the balance-sheet statistics, since in the monthly interim statements of foreign banks' subsidiaries — different from the external position — the claims on and liabilities to the foreign parent institution and the foreign sister establishments are recorded as a net total only. — 2) Assets and liabilities in foreign currency are valued according to the parity rate prevailing at the end of the period indicated. — 3) Only temporary investment, in U.S. Treasury bills out of the Bundesbank's holdings, of funds provided for development assistance. — 4) Including foreign central banks. — 5) International Bank for Reconstruction and Development, European Investment Bank, and Bank for International Settlements. — 6) Cf. footnote 4). — 7) Excluding those international organisations which are recorded under "Banks"; cf. footnote 4). — 8) Swap rates of the Deutsche Bundesbank are published in Table V 2 on page 165. — 9) Including swap contracts concluded between 24 August and 11 November 1960 to facilitate import and merchanting trade financing.