Report of the Deutsche Bundesbank

for the Year 1970

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Dr. Otmar Emminger, Deputy Chairman of the Central Bank Council
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Friedrich Wilhelm von Schelling
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Dr. Franz Suchan (died on February 3, 1971)
Johannes Tüngeler
Carl Wagenhöfer
Dr. Erich Zachau

Members of the Directorate of the Deutsche Bundesbank and of the Boards of Management of the Land Central Banks

Members as at April 1, 1971

of the Directorate of the Deutsche Bundesbank

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Dr. Otmar Emminger, Vice-President of the Deutsche Bundesbank

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Dr. Rolf Gocht
Dr. Heinrich Irmler
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Johannes Tüngeler
Dr. Erich Zachau

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The German original went to press on March 31, 1971

Part A: General Part

Economic trends and central bank policy

I. General survey

In 1970 the principal aim of the Deutsche Bundesbank's monetary policy was to prevent as far as possible a further decline in the value of money. In this the bank was acting in the same direction as the Federal Government, with its specific measures of fiscal policy designed to curb demand. During the course of 1970 the growth of aggregate demand did in fact moderate, partly because the intrinsic momentum of the economy was running down and partly because the measures adopted in the field of economic policy began to take effect. Although domestic prices went on rising at a hardly diminished rate during 1970 and have continued to do so in 1971, this was primarily due, apart from the usual time lag between a cyclical change and its impact on prices, to the unprecedented rises in wages and salaries of 1970 and early 1971 and to the attempts by entrepreneurs to pass on these higher costs in prices. However, owing to the slackening in the expansion of demand it was possible to pass on only part of the cost increases, with the result that profits declined and margins narrowed more rapidly than they had previously widened. At the time of going to press the economic scene shows distinct signs of a cost inflation which not only poses a further threat to the value of money but, if it persists, might also jeopardise full employment.

Since demand was no longer rising as steeply as before, monetary policy could be relaxed slightly in the course of 1970. The clearest expression of this relaxation was the progressive lowering from the summer onwards of the discount and lombard rates of the Deutsche Bundesbank from their highest level ever. Admittedly, the reduction was prompted above all by the sustained inflows of funds from abroad, which would no doubt have been larger still had not the Bundesbank itself contributed to the lowering of domestic interest rates, thus preventing the interest differential in relation to the rest of the world from becoming even greater. This differential, which developed during the summer of 1970, derived from the fact that monetary policy in the United States and in the Federal Republic of Germany of necessity had different ends in view. In the United States an attempt is being made, by means of a policy increasingly hinging on cheap money, to stimulate demand and reduce the high level of unemployment, whereas in Germany demand has to be damped down because of the persistent cyclical stress. In the latter part of 1970, it is true, the Bundesbank mopped up only part of the influx of liquidity from abroad, thus permitting the strains on the credit markets to ease, but this was because the first signs of an incipient relaxation of cyclical tensions made such action appear justifiable. An additional reason for the slight mitigation at times in late 1970 and early 1971 of the conflict between the squeeze on bank liquidity required on domestic grounds and the influx of funds brought on by the international interest differential was that the dollar drain from the United States no longer concentrated as heavily as before on Germany but started to spread out over several other countries with high interest rates. However, at the time of going to press the Bundesbank was still obliged to pursue a policy directed on the one hand at keeping national money creation as far as possible under control, and on the other at fulfilling its obligation to intervene in the dollar market while maintaining unimpaired the liberalisation of capital transactions with the rest of the world. The measures of monetary policy adopted on March 31, 1971 are an expression of this contradictory situation.

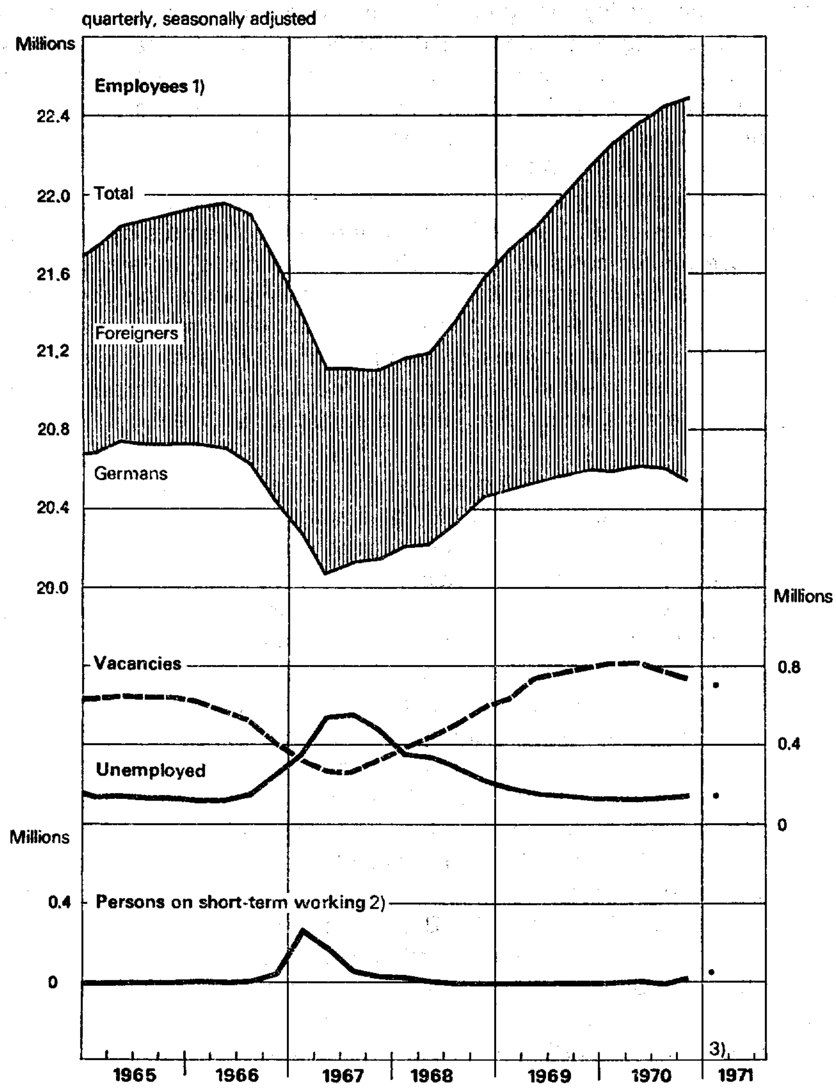
1. The economy of the Federal Republic of Germany in the late phase of the boom

(a) Excessive utilisation of the factors of production

Growth at the limits of economic capability

In 1970 the economy of the Federal Republic of Germany was running at maximum capacity. As the available manpower and existing plant were being utilised exceptionally heavily, the economy could in general expand only to the extent that new productive capacities were created and put into operation. The degree of capacity utilisation exceeded that reached in previous boom years, at least up to the autumn of 1970; in many industries it presumably also exceeded the operational optimum. However, the growth of production was no doubt impeded less by bottlenecks in industry's technical capacities than by the continuing shortage of labour. Altogether the gross national product went up in 1970 in real terms by roughly 5 %, and thus by little less than the stock of fixed capital. Throughout 1970 the demand for hundreds of thousands of workers remained

Labour market



1) Calculated by Bundesbank.- 2) Unadjusted.- 3) Jan./Feb. 1971.

unsatisfied; the labour exchanges registered an annual average of some 800,000 vacancies, and workers did more overtime and special shifts than usual. There was a comparatively steep rise (of over 2 %) in the number of employees, mainly owing to the recruitment of foreign manpower. Thus the labour market continued to be marked by excess demand in 1970, even though initial signs of easing were apparent from mid-year; these signs have not, however, become stronger in recent months.

Above-optimum capacity utilisation hampers growth of productivity

Partly as a result of this excessive strain, productivity increased distinctly more slowly in 1970 than the average for the last few years; real national product per working hour went up by only $3^1/_2$ % in 1970, as against an average of $5^1/_2$ % between 1965 and 1969. Whereas in the first few years of the present business cycle it was possible to increase the average productivity of the economy by exploiting previously idle capacities, in 1970 the not uncommon tendency for utilisation of resources, particularly manpower, to be pushed beyond the optimum level may in some cases actually have led to a decline in productivity. For example, the complete exhaustion of the domestic labour market meant that the standards of occupational training and experience demanded of applicants had to be lowered. Particularly in the case of foreign workers there were major training difficulties to overcome which inevitably had an adverse effect on the output per employee, above all in the initial phase. Foreigners, however, accounted for almost the entire increase in the working population; according to the statistics, at the beginning of 1971 nearly 2 million foreign workers were employed in Germany, this being a rise of some 390,000, or roughly a quarter, on the year before.

Return to optimum utilisation

In the further course of 1970 a growing number of enterprises reduced the degree of capacity utilisation and the demands made on their workers to a more normal level. As a rule it was not lack of orders or the desire rapidly to bring production into line with the partly slackening inflow of new orders that forced this step upon them; even in volume terms orders on hand declined only slightly up to the beginning of 1971. The important consideration was, rather, that enterprises were anxious to escape from the area of maximum capacity utilisation, with its unfavourable effect on costs — if only to avoid extra spending on overtime and the concomitant adverse impact on labour efficiency. Furthermore, in the capital goods industry special tax factors seem to have held down production: "investment tax" in the framework of value-added tax was lowered by 2 % of the value of the goods from the beginning of 1971 and the suspension of diminishing balance depreciation allowances expired at the end of January 1971. In consequence the delivery and hence the production of capital goods is likely to have been deferred in some cases until 1971.

Stock cycle factors . . .

Generally speaking, industrial output in the Federal Republic of Germany increased no further, seasonally adjusted, between the spring and the end of 1970. Output actually fell somewhat during 1970 in specific fields, particularly, for example, the production of steel and "traditional" consumer goods and the related raw materials. These industries have always been strongly affected by fluctuations in the stock cycle — in other words, miscalculations by customers, who at the beginning of the upswing regularly tend to order in excess of their needs and then in the further course of the cycle find themselves obliged to make downward adjustments of greater or lesser size. In late 1970 and early 1971 it seemed as if this dampening influence had again declined in importance, at least in certain industries.

. . . and heavy imports depress output in some industries

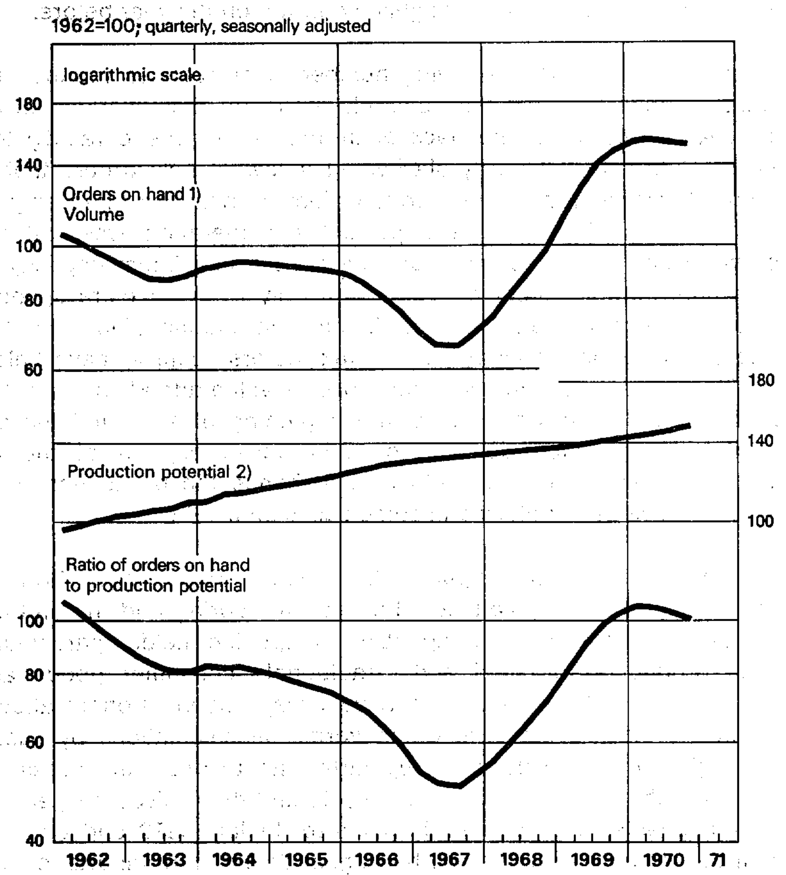
An additional factor that curbed the calls made on domestic production was the relatively steep rise in imports. Particularly in those fields where domestic demand was very heavy and where prices and delivery periods greatly increased (capital goods and durable consumer goods), mounting imports appreciably reduced the market share of domestic producers. In volume terms about 30 % more commercial finished products were imported during 1970 than in the previous year, which means that imports grew substantially faster than might have been expected from Germany's increasing integration in the world economy and given normal business conditions. The demand pressure engendered by business conditions and the favourable trend of import prices due to the revaluation undoubtedly helped to bring about this state of affairs. However, some of the factors depressing production were of limited duration only; in January 1971 seasonally adjusted industrial output again rose perceptibly. In economic fields outside industry — construction, agriculture and the numerous ramifications of the services sector — production in 1970 increased throughout the year.

(b) Growth of overall demand slightly curbed

Shift of emphasis from investment to consumption

The high degree of utilisation of the available factors of production and the resultant strains on the market were the upshot of the sharp increase in aggregate demand. If the growth of demand is measured by the total value of all goods and services sold in Germany, it came to some 13½ %, whereas the real supply of goods in Germany (from domestic production and from the reduction of the export surplus) went up by 6½ %. Demand rose rather less in the second half of 1970 than in the first. At the same time there was a distinct shift in the motive forces. Somewhat more weight accrued to private consumer demand and to government expenditure and somewhat less to private capital formation including stockbuilding. This change of emphasis in the forces fuelling activity, which to some extent is quite natural after an upswing of three years' duration, is reflected in the leading indicators of demand — new orders and building permits — even more clearly than in the expenditure flows. The inflow of orders to

Orders on hand and production potential in industry



1) Calculated from estimated basic value and, since January 1962, from price-adjusted cumulated order backlogs, after allowing for orders cancelled.- 2) Production divided by utilisation of capacities.

the consumer goods industries in the fourth quarter of 1970, and again at the beginning of 1971, was substantially higher in value terms than a year before, and was slightly up on the previous year in real terms too. By contrast, the volume of home-market orders reaching the capital goods industries (except the motor industry) between October 1970 and January 1971 was 9 % below the corresponding figure for the preceding year, although in value terms it almost regained the previous year's level. Orders for construction work also seem to have dropped slightly during this period: although the volume of permits granted for buildings between October and December 1970 was just as high as a year before, civil engineering orders fell distinctly short of the corresponding figure for 1969. Thus, compared with the soaring upward trend between mid-1967 and end-1969 the investment climate cooled off in the course of 1970. Even so, the investment actually made in machinery and equipment in the second half of 1970 was greater than ever, exceeding the level at the peak of the last investment boom (the second half of 1965) by about 40 %. As a result productive capacities increased very substantially in real terms in 1970, not only as regards the absolute amount but also in relation to the stock of existing plant; in the case of enterprises they went up by an estimated 7 %, and thus somewhat faster than the average for the preceding five years ($6^1/_2$ %). In the economy as a whole, however, fixed capital, including residential buildings and public authority fixed assets, increased less rapidly in real terms.

Non-financial reasons . . .

In the preceding upswing investors proved to be less capable than ever of escaping the influence of a certain investment euphoria: investment plans were frequently expanded more than was compatible with the sales prospects realisable in the immediate future. Nothing illustrates these exaggerations during the upswing phase of the investment cycle more clearly than the fact that within two years (beginning in the third quarter of 1967) the volume of home-market orders for capital goods received by domestic producers went up by almost 75 %. Any such abrupt upturn necessarily bears within it the seed of an adjustment, and the trimming of investment intentions since the spring of 1970 reflected in the inflow of orders to the capital goods industries was inevitable; it was the outcome of a more sober reassessment of future sales prospects. Notwithstanding the efforts made in the field of anticyclical policy to lessen the cyclical swings in investment activity, it has hardly proved possible so far – and in the most recent investment boom success has been further away than ever – to prevent in good time the exaggerations to which enterprises are prone, despite all market analyses and long range investment planning, in their investment decisions and stockbuilding during an upswing, which may easily be followed by exaggerations in the opposite direction during the downswing.

... and financial grounds for reduced propensity to invest

In addition to the fluctuations described, which are inherent in the cycle, financial changes no doubt also contributed to the weakening of the propensity to invest in the course of 1970. For one thing enterprises' profits, which had gone up sharply in the preceding period, dropped perceptibly again in that year. In spite of mounting turnovers, attributable not least to substantial price rises, it was often not possible to cover the additional costs completely. Hence profits declined, especially in the second half of the year, and enterprises were forced to borrow funds on a far larger scale than usual to finance their increased capital expenditure – and this often at relatively high rates of interest. Furthermore, the suspension of diminishing balance depreciation allowances on capital goods ordered between July 1970 and end-January 1971 may have encouraged purchasers to defer some orders until 1971, just as the lowering of "investment tax" may have resulted in some deliveries of capital goods being delayed till the beginning of the new year.

No sustained decline in investment

Around the turn of the year it became evident that in real terms industry intends to invest at least as much in 1971 as it did in the year before. Apart from the more favourable tax conditions, it may be of importance here that an increasing number of enterprises are able to obtain somewhat cheaper credit abroad (although it is mostly of a short-term nature), making them less dependent on the higher level of interest rates at home, and that in many cases entrepreneurs again appear to be assessing the future with greater optimism. Several months ago it was already apparent that domestic demand, particularly for goods for private and government consumption, would go on expanding sharply and that exports would continue to grow, too. But entrepreneurs are obviously also hoping that the upsurge of costs will gradually level off while prices go on increasing, so that their profit margins will at the least not narrow any further. If these hopes prove well founded it is unlikely that investment activity will suffer a prolonged decline.

Faster growth of private consumption expenditure

The most broadly based stimulus to domestic demand in 1970 proceeded, as already noted, from private consumption. According to the national accounts private consumption expenditure in 1970 went up by 11.4 %, compared with 10.8 % in 1969. Calculated in current prices the gross national product in 1970 rose slightly faster still, so that the proportion devoted to private consumption declined somewhat. However, it was of significance that the prices of goods and services for private consumption, while rising by almost 4 %, went up less than the prices of other goods and services in that year. In real terms at 1969 prices the share of the gross national product devoted to private consumption therefore increased in the year under review (to 56.6 %, compared with 55.3 % in 1969). The sharp growth of consumption expenditure was largely due to the wage and salary explosion which began in the autumn of 1969. Indeed, consumer demand would have gone up far more steeply still had not other factors resulted in the increase in total wages and salaries (of DM 45 billion, or 17.2 %) not flowing in its entirety into consumption. Of these, the first to be mentioned must be the disproportionate rise in wage tax, including the "anticyclical surcharge" levied from August 1970. Second is the fact that other private incomes increased more slowly in 1970 than in 1969 – particularly social security pensions, owing to the normal lag with which pensions are adjusted to the earnings of the active labour force. On the other hand, the trend of private savings did not curb consumer demand over the year as a whole, for there was no change in households' savings ratio, at 12.5 %, compared with 1969. During the greater part of 1970 savings were in fact slightly on the decline, but towards the end of the year they picked up noticeably. The propensity to save was presumably enhanced by the additional measures taken by the government or embodied in wage agreements to encourage the widespread acquisition of personal assets, as well as by the abrupt rise in incomes; equally, it was no doubt considered useful to put a certain amount on one side for a future that might perhaps, economically speaking, be somewhat less secure. On top of this, of course, the high interest rates (and particularly the yield on bonds) also provided an incentive to form monetary capital, despite the gradual decline in the value of money.

Large growth of government expenditure ...

The public authorities, too, exerted an expansionary influence on aggregate demand in 1970 through their cash transactions. Spending by the central, regional and local authorities went up by some 11 %, compared with 10 % in the previous year. Simply on account of the reduced margin of supply – the real supply of goods and services rose only half as fast in 1970 as in the year before – it would have been expedient to expand government expenditure to a smaller extent. The fact that this proved impossible demonstrates how restricted the public sector's scope for measures of anticyclical policy is on the expenditure side – particularly if spending has already been curtailed in the preceding year on anticyclical grounds. Not that special efforts were lacking in the field of anticyclical policy, particularly on the part of the Federal Government. In the 1970 Federal budget roughly DM 2.5 billion of planned capital investment and expenditure on military supplies was initially blocked and later largely cancelled altogether. The Länder Governments, too, blocked some expenditure, but even so their capital spending increased sharply, owing among other things to their drawing on residual amounts left over from budgets of earlier years. The growth of local authorities' capital expenditure was hardly less steep. Faced by the alternative in construction investment either of accepting the extremely large price increases (16 % and more) and raising their spending on construction accordingly or of diminishing the real volume of building, most of the public authorities normally decided to implement their plans in full, the well-known bottlenecks in infrastructure no doubt hampering their freedom of decision. Spending inevitably rose in other fields, such as the personnel sector, since the wages and salaries of government employees had to be brought approximately into line with the trend of incomes in general. The upshot of the steep increase in construction prices and labour costs was, as described in more detail on page 75, that the public authorities were hit particularly hard by inflationary processes on the expenditure side. The belief that the public sector profits by inflationary developments, since they give rise to a disproportionate growth in tax revenue, is, to judge from recent experience, in need of correction, for such "gains" on the receipts side are accompanied by substantial, and sometimes indeed larger, inflation-induced "losses" on the expenditure side.

... and small increase in receipts

Contrary to expectations, the aggregate receipts of the central, regional and local authorities in 1970 increased by only 6½ %, while the national product in money terms went up by 12½ %. The tax ratio in the economy thus fell substantially (see page 71). Put differently, this means that the part of the national product set aside for use by the government decreased, relatively speaking, on the year, whereas, given a handling of public finance that was neutral in its effect on business activity, the tax ratio should at least have been maintained. Besides changes in tax law (e. g. as regards value-added tax) and the effects of the fiscal reform, a further major reason for the comparatively small growth of receipts was that the pronounced shift in incomes in favour of employees and thus to the detriment of enterprises – that is, a shift from incomes subject to a higher rate of tax to incomes subject to a lower rate – led to tax shortfalls (see page 71). The balance of receipts and expenditure by the central, regional and local authorities in 1970 was a cash deficit of DM 4.5 billion, compared with a surplus of over DM 2 billion a year before, even if the anticyclical surcharge, which by nature cannot be counted among the receipts available for the defrayal of public expenditure, is included in the revenue for 1970. The cash balance thus "deteriorated" by almost DM 7 billion, or 1 % of the gross national product; hence the budgets of the

National product *

Item	1966	1967 p	1968 p	1969 p	1970 p	1966	1967 p	1968 p	1969 p	1970 p
	Billions of Deutsche Mark					Percentage change on previous year				
I. National product										
(a) At current prices										
Contributions to gross domestic product										
Agriculture, forestry and fisheries	20.7	20.2	20.5	21.8	21.0	+ 5.2	— 2.4	+ 1.2	+ 6.5	— 3.5
Production industries **1**	262.1	257.2	288.3	327.3	372.9	+ 4.8	— 1.9	+ 12.1	+ 13.6	+ 13.9
Distribution and transport **2**	94.7	96.6	102.2	111.6	122.8	+ 6.5	+ 1.9	+ 5.9	+ 9.1	+ 10.1
Services **3**	114.6	122.1	132.3	148.3	170.7	+ 10.9	+ 6.6	+ 8.4	+ 12.1	+ 15.1
Gross domestic product	492.1	496.1	**a** 539.5	**a** 603.2	**a** 680.4	+ 6.5	+ 0.8	+ 8.7	+ 11.8	+ 12.8
Net factor incomes from abroad	— 1.4	— 1.5	— 0.6	— 0.4	— 1.4	.	.	.	.	.
Gross national product at market prices	490.7	494.6	538.9	602.8	679.0	+ 6.6	+ 0.8	+ 9.0	+ 11.9	+ 12.6
(b) At constant (1962) prices										
Gross national product at market prices	431.7	430.5	461.7	499.1	523.4	+ 2.9	— 0.3	+ 7.2	+ 8.1	+ 4.9
do. per working person in Deutsche Mark	(15,940)	(16,370)	(17,530)	(18,610)	(19,240)	+ 3.2	+ 2.7	+ 7.0	+ 6.2	+ 3.4
II. National expenditure at current prices										
Private consumption	277.9	284.2	301.1	333.6	371.5	+ 7.4	+ 2.3	+ 5.9	+ 10.8	+ 11.4
Government consumption	76.5	81.0	84.4	94.3	106.4	+ 9.2	+ 5.9	+ 4.2	+ 11.7	+ 12.8
Gross fixed capital formation	126.3	114.4	124.8	146.2	180.0	+ 3.3	— 9.4	+ 9.0	+ 17.2	+ 23.1
Machinery and equipment	52.6	48.0	52.9	66.9	81.8	+ 1.2	— 8.7	+ 10.1	+ 26.5	+ 22.3
Construction	73.7	66.4	71.9	79.3	98.2	+ 4.9	— 9.9	+ 8.3	+ 10.3	+ 23.8
Change in stocks	+ 3.6	— 1.3	+ 11.0	+ 13.8	+ 9.6	.	.	.	.	.
Net exports of goods and services	+ 6.5	+ 16.3	+ 17.6	+ 14.9	+ 11.6	.	.	.	.	.
Exports	102.3	110.5	123.8	141.7	158.5	+ 12.6	+ 8.1	+ 12.0	+ 14.5	+ 11.9
Imports	— 95.8	— 94.3	—106.2	—126.8	—147.0	+ 4.8	— 1.6	+ 12.7	+ 19.4	+ 15.9
Gross national product at market prices	490.7	494.6	538.9	602.8	679.0	+ 6.6	+ 0.8	+ 9.0	+ 11.9	+ 12.6
Memorandum items:	1962 = 100									
GNP deflator	113.7	114.9	116.7	120.8	129.7	+ 3.6	+ 1.1	+ 1.6	+ 3.5	+ 7.4
Price index of private consumption	112.3	114.2	116.3	119.2	123.7	+ 3.5	+ 1.7	+ 1.8	+ 2.5	+ 3.8
III. Factor incomes at current prices	Billions of Deutsche Mark									
(a) Before income redistribution										
Compensation of employees **4**	247.6	247.9	266.3	300.1	352.8	+ 7.6	+ 0.1	+ 7.4	+ 12.7	+ 17.6
Property and entrepreneurial income	129.5	127.2	149.5	158.4	170.2	+ 3.4	— 1.8	+ 17.6	+ 5.9	+ 7.4
Private	125.8	124.3	146.0	154.6	166.0	+ 3.6	— 1.2	+ 17.5	+ 5.9	+ 7.4
Government **5**	3.7	2.9	3.6	3.8	4.1	— 2.6	— 21.0	+ 21.5	+ 5.9	+ 9.3
Net national product at factor cost (national income)	377.1	375.1	415.8	458.5	522.9	+ 6.1	— 0.5	+ 10.9	+ 10.2	+ 14.1
plus Indirect taxes **6**	62.9	65.7	65.7	80.6	82.0	+ 6.8	+ 4.4	— 0.1	+ 22.8	+ 1.7
Net national product at market prices	440.0	440.8	481.5	539.1	604.9	+ 6.2	+ 0.2	+ 9.2	+ 12.0	+ 12.2
plus Consumption of fixed capital	50.7	53.8	57.4	63.7	74.1	+ 9.7	+ 6.2	+ 6.7	+ 11.0	+ 16.3
Gross national product at market prices	490.7	494.6	538.9	602.8	679.0	+ 6.6	+ 0.8	+ 9.0	+ 11.9	+ 12.6
Memorandum items:	% of national income									
Wage ratio **7**	65.7	66.1	64.0	65.5	67.5	.	.	.	.	.
Profit ratio **7**	34.3	33.9	36.0	34.5	32.5	.	.	.	.	.
(b) After income redistribution	Billions of Deutsche Mark									
Net compensation of employees	181.7	180.8	190.8	210.6	241.2	+ 5.9	— 0.5	+ 5.5	+ 10.4	+ 14.6
Net income from pensions and assistance grants	64.0	70.4	73.8	79.5	85.5	+ 9.6	+ 10.1	+ 4.8	+ 7.7	+ 7.5
Net private property and entrepreneurial income	95.6	94.4	113.6	118.6	131.2	+ 3.6	— 1.3	+ 20.3	+ 4.4	+ 10.7
less Interest on consumer debts and other unclassifiable transfers **8**	— 9.6	— 9.7	— 9.7	— 11.5	— 14.2	+ 15.1	+ 0.8	+ 0.6	+ 17.9	+ 23.7
Net government income	108.4	104.9	113.1	141.9	161.2	+ 8.0	— 3.3	+ 7.9	+ 25.5	+ 13.6
Net national product at market prices	440.0	440.8	481.5	539.1	604.9	+ 6.2	+ 0.2	+ 9.2	+ 12.0	+ 12.2

Source: Federal Statistical Office. — * Federal area including Berlin (West). Discrepancies in the totals are due to rounding. — **1** Electricity, gas and water, mining, manufacturing, construction. — **2** Including telecommunications. — **3** Banks and insurance business, lease of dwellings, government, other services. — **4** Gross wages and salaries, employers' contributions to social security funds (incl. supplementary pension funds for government employees and imputed pension funds for established government employees) and fringe benefits. — **5** After deduction of interest on public debt. — **6** Less subsidies. — **7** Compensation of employees or property and entrepreneurial income as % of national income. — **8** Including taxes connected with private consumption (motor vehicle tax, dog tax, etc.), fines, reimbursements under social welfare, current transfers (net) between households and the rest of the world. — **a** In order to obtain the gross domestic product, the difference between the turnover tax charged at previous stages on investments and the investment tax on plant (1968: DM 3.8 billion, 1969: DM 5.8 billion, 1970: DM 7.0 billion) has to be deducted from total contributions to the gross domestic product. — **p** Provisional.

central, regional and local authorities in 1970 had an expansionary impact on aggregate demand.

Stabilising effect of specific fiscal measures ...

Of course, the change in the cash balances is not in itself sufficient to permit a full appraisal of the anticyclical impact of the financial operations of the central, regional and local authorities. To cite an example, the financial balances for 1970 do not reflect the fact that the suspension of diminishing balance depreciation allowances on investment projects begun between July 1970 and January 1971 slightly restrained, at least for a time, private demand for capital goods, which no doubt had an anticyclical effect. Moreover, these balances and the changes therein do not indicate all the repercussions of the government's financial transactions on bank liquidity, and thus on the banks' capacity to extend credit. In point of fact, receipts from the anticyclical surcharge (DM 2.2 billion) as well as anticyclical reserves of the Federal and Länder Governments totalling DM 2.5 billion were immobilised at the Bundesbank, so that a slightly contractionary effect was exerted on bank liquidity.

... and of the social security funds

Finally, it should not be forgotten that the budgets of the social security funds, unlike those of the central, regional and local authorities, showed substantial surpluses (some DM 4.5 billion) in 1970, whereas income and expenditure had been roughly in balance in 1969. Although these surpluses tended to depress aggregate demand, they are in the main the automatic result of the financing system of the statutory pension funds, which acts as a "built-in stabiliser", and thus are not primarily attributable to decisions in the field of anticyclical policy. Moreover, the social security funds' surpluses do not release the central, regional and local authorities from the obligation expressly imposed upon them by the Law on Economic Stability and Growth to adopt an anticyclical stance whenever economic equilibrium is endangered – in other words, to apply their income and expenditure policy to the reduction of overall demand whenever the economy is subjected to excessive strains.

(c) From demand-pull to cost-push inflation

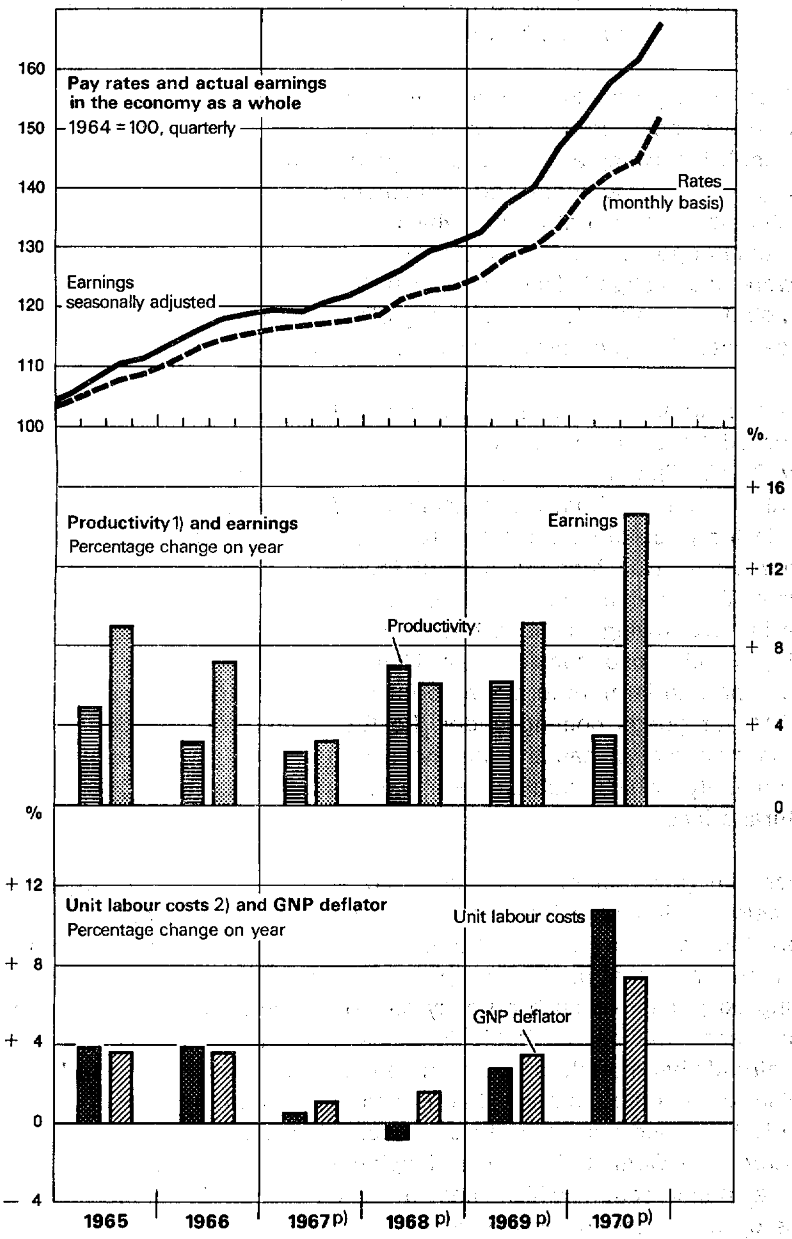
The scale of cost increases

The major cost items, and particularly labour costs, rose strongly throughout 1970 and also at the beginning of 1971. Although there has been a slight moderation in the increase of aggregate demand and the demand for labour, this has not so far appreciably reduced the scale of wage and salary growth. Averaged out over the whole economy, earnings went up by 14$^1/_2$ % in 1970, compared with 9 % in 1969 and an average of 7 % during the five years from 1965 to 1969; the increase in wage and salary rates (on a monthly basis) in 1970, at 12 %, ran slightly below this figure. The wage negotiations towards the end of the year in some cases resulted in growth rates far above this average; but in the final months of 1970 earnings no longer rose much more rapidly than in the preceding part of the year. One reason for this was that it has now become accepted practice for part of the increase in pay rates simply to represent the incorporation in wage agreements of supplementary payments previously made over and above the wage scale, so that to this extent actual earnings are not raised. The fact that, statistically speaking, the year-on-year growth of earnings continues to be higher than that of wage and salary rates is partly attributable to the obligation incumbent on employers since the beginning of 1970 to grant full pay to wage earners for up to six weeks during illness. Prior to that date the social health insurance institutions had paid sickness benefit for that period, but now such benefit is granted to wage earners only from the seventh week onwards, as has long been the custom with salary earners. As the health insurance contributions of the employers, like those of the employees, have not been lowered correspondingly, this has meant an additional burden on enterprises; so have the increases in contributions to the statutory pension funds.

Small compensation through productivity gains

In 1970, the effect of wage rises on unit costs was offset to a smaller extent than in previous years by improved productivity, for in the economy as a whole output per working person went up in 1970 by only 3$^1/_2$ %. As a result wage and salary costs per unit of output rose throughout the economy by 11 % in that year; in industry (except construction) labour costs per unit of output actually climbed by

Wages and productivity



1) Real gross national product per working person.- 2) Actual earnings index divided by real gross national product per working person.- p) Provisional.

13 %, for in this sector wages increased more and productivity less than the average for the entire economy. It was not possible to absorb cost increases of this magnitude in profit margins, if only because unit profits prior to the onset of the wave of cost rises were not infrequently smaller than the increases in unit costs that now occurred. Private enterprises therefore raised their prices, one of the factors enabling them to do so being the increased demand of households in the wake of the pay rises. Only public enterprises such as the Federal Railways and Federal Post Office and municipal public utilities normally refrained from putting up prices in 1970, with the result either that they started to show a loss (e. g. the Federal Post Office, which had prospered in earlier years), or, if they had been heavily in deficit before, that their losses increased still further (e. g. the Federal Railways). These public enterprises will presumably not be in a position to raise their prices, which are influenced in substantial measure by political considerations, and thus to cover their costs more effectively again, until 1971. But even private enterprises could not normally offset the wage and

salary increases by raising their prices. In the economy as a whole, at all events, the prices of goods and services sold at home went up by "only" about 6½ %, whereas, as noted, wage costs per unit of output climbed by roughly 11 %, or almost twice as fast. This meant that enterprises' profit margins were severely squeezed; one pointer to this is revenue from corporation tax, which brought in 20 % less in 1970 than a year before.

The scale of price increases

Price rises were particularly marked in those sectors of the economy in which demand grew most strongly. The cost of construction work (including civil engineering), for example, was on average over 16 % higher in 1970 than in 1969, and the prices of machinery and equipment rose by 9.5 % in the same period. Raw materials of industrial origin, which are more exposed to international competition, did not go up in price quite so much, and the prices of industrial consumer goods were raised slightly less still (+ 4.8 %). Nevertheless, in all fields of industry prices mounted faster in 1970 than in any other year since the price boom following the Korean war (1951): on overall average by some 6 %.

Sluggish rise in consumer prices ...

The rate of increase of consumer prices was less rapid in 1970. The cost of living index for all households was on average 3.8 % higher than in 1969, when it rose by 2.7 %. The main reason why the fairly large increase in the cost of industrial products, at both the consumer and the producer stages, together with the rise in the price of services and rents, did not show up in full in the index of consumer prices was that the cost of foodstuffs went up relatively little at the same time. The producer prices of farm produce actually fell sharply (by 4 %) on average in 1970, owing to the revaluation and because the supply of major agricultural products rose considerably. However, additional government subsidies have been paid to farmers to make up for the fall in prices caused by the revaluation (8.5 % for goods coming under the EEC's market regulations, where intervention is mandatory); had this not been done, farm incomes would have fallen correspondingly, which would have increased the political pressure to raise agricultural prices.

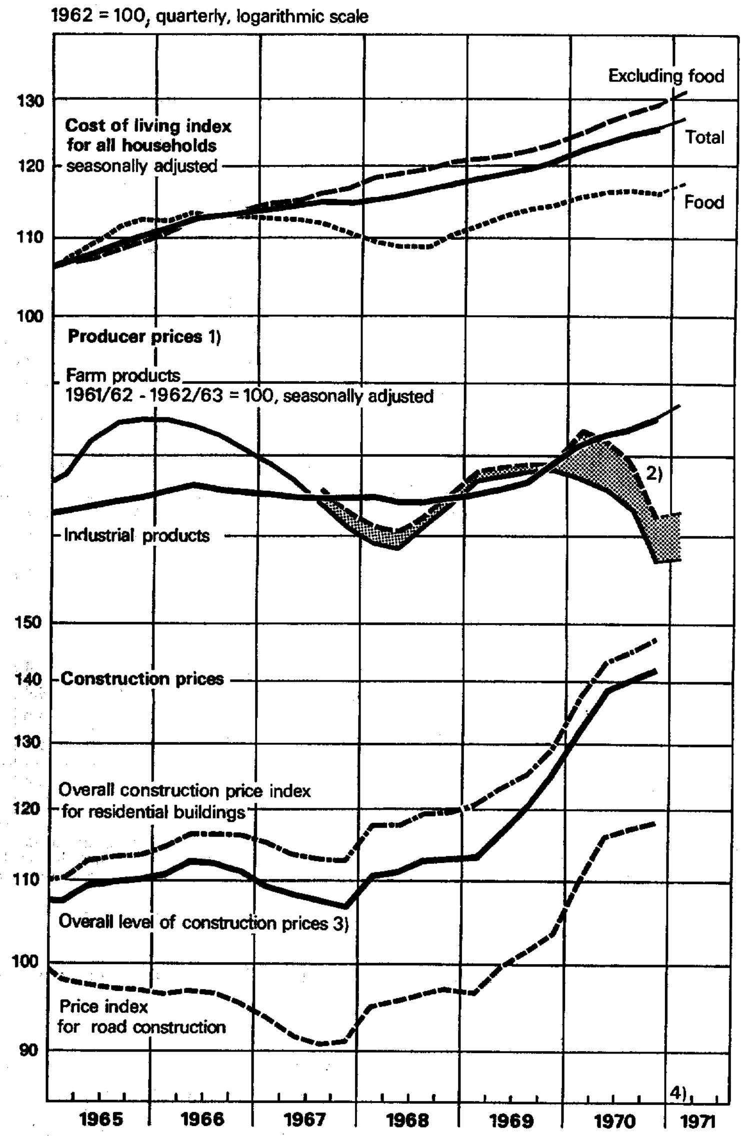
... only of limited informative value

Moreover, the government itself exercised an influence on consumer prices in several fields during 1970. To give an example, one reason why the prices of rail transport, the postal services and electricity rose little or not at all in 1970 is, as already mentioned, that public enterprises refrained from covering increased costs by putting up prices. As such a policy cannot be pursued for long, compensatory price increases will be inevitable in these areas in 1971; some of them have, indeed, already been made or are imminent. Agricultural prices, which in principle must also be counted among the prices influenced by the government, are likewise to be raised according to the recent decision of the Council of Ministers of the European Communities. This lagging of prices influenced by the authorities – a phenomenon which has occurred in a similar form in previous business cycles – has the disadvantage that the general public gains the impression that prices are rising as fast as ever, or even faster, at a time when the market-induced inflationary trends are already beginning to wane. In addition, the relation that exists between the movement of costs, particularly wages and salaries, on the one hand and that of prices on the other is not made clear to the public. Hence it would be less justifiable than ever to derive the economic strains and the changes therein simply from the movement of the cost of living index. For many years the Bundesbank has been pointing out that an appraisal of economic activity on the basis of the cost of living index would be misleading, owing to the time lag with which prices follow the course of activity. The basis for the assessment of economic activity must always be all the available evidence taken together.

Price rises increasingly due to domestic factors

Last year's price rises were mainly attributable to domestic factors. Foreign countries did not intensify the economic disequilibrium, in so far as their direct influence on the demand for goods and services is concerned. Quite the contrary: imports of goods and services rose appreciably faster than exports, so that the balance of payments on current account, comprising all goods, services and transfers, shrank from DM 6.2 billion in 1969 to DM 2.4 billion in 1970. In real terms – i. e. after adjustment for price changes in foreign trade, which were particularly

Prices



1) From January 1968 estimated effect of value added tax eliminated.- 2) Average receipts of farmers after inclusion of compensation paid in connection with the lowering of grain prices as from July 1, 1967 and the Law on compensation for revaluation losses.- 3) Calculated by Bundesbank.- 4) Jan./Feb. 1971.

favourable to Germany owing to the revaluation – the current balance deteriorated even more. This should not be taken to imply that the impact of the rest of the world on Germany in 1970 is to be judged beneficial in every respect, as suggested by the figures on current transactions; the purely monetary movements to be discussed later undoubtedly had an adverse effect on Germany's efforts to achieve stability in 1970. It must also be considered harmful that prices abroad rose just as steeply as in Germany; this applies, at least, to the national price level, although less to the wholesale prices of industrial products, which are mainly of importance on the plane of international competition (see the table overleaf). Moreover, it would presumably not be legitimate to ascribe the price rises in Germany in 1970 solely to the economic occurrences of the same year. The market conditions of that year are too closely interlinked with those of the preceding year and the years before that, when other countries had a highly unfavourable influence on stability in the Federal Republic of Germany. Since the revaluation was too long delayed, it was possible for the inflationary tendencies abroad to spread unimpeded to Germany at that time, via the growing demand for German goods and the international price nexus and through the excessive inflows of funds from abroad. The after-effects of these influences were undoubtedly still being felt

Price movements in the Federal Republic of Germany and in selected countries

Percentage increase on previous year

Country	1969	1970 Year	1970 1st qtr.	1970 2nd qtr.	1970 3rd qtr.	1970 4th qtr.
	Wholesale price index for industrial products					
Austria	2.3	5.0	3.6	5.6	5.7	4.8
Belgium	4.1	5.5	6.6	6.0	5.2	4.3
France 1	9.4	6.7	9.8	8.7	5.6	3.0
Italy	3.5	7.9	8.9	8.9	7.4	6.7
Japan	1.9	4.2	4.9	5.3	4.2	2.5
Netherlands 2	4.5	4.3	4.3	4.9	4.7	4.3
Sweden	5.1	7.0	8.3	8.4	7.2	4.9
Switzerland	3.0	4.6	5.6	5.8	4.4	2.5
United Kingdom 3	3.9	6.6	5.1	6.2	7.0	7.7
United States	3.4	3.7	3.7	3.8	3.8	3.7
Selected countries, total 4	4.2	5.3	5.7	5.9	5.3	4.5
Federal Republic of Germany 5	2.2	5.9	6.1	6.4	6.1	5.1
	Cost of living index					
Austria	3.1	4.4	3.9	4.2	4.7	4.8
Belgium 6	3.8	3.9	4.3	4.1	3.9	3.3
France	6.0	5.7	5.6	5.8	5.8	5.4
Italy	2.7	4.9	4.7	5.1	4.7	5.3
Japan	5.5	7.7	8.4	7.7	6.5	8.7
Netherlands	7.5	4.4	3.4	3.4	5.4	5.6
Sweden	2.7	7.0	5.9	6.7	7.4	8.0
Switzerland	2.5	3.6	2.3	3.0	4.0	5.3
United Kingdom	5.4	6.4	5.0	5.8	6.9	7.7
United States	5.4	6.0	6.2	6.1	5.7	5.7
Selected countries, total 4	5.0	5.8	5.5	5.7	5.8	6.2
Federal Republic of Germany	2.7	3.8	3.5	3.9	3.9	4.1

1 Semi-finished goods only. — 2 Finished goods only; influence of value-added tax eliminated. — 3 Manufactured goods only. — 4 Weighted with respective share of these countries' exports in world exports during the period from 1963 to 1969. — 5 Producer prices of industrial products. — 6 Consumer price index (excluding, inter alia, rent).

in 1970, although the primary role was now assumed by the expansion of domestic demand.

Onset of cost inflation

The fact that the causes of the price increases during 1970 and early 1971 were of a domestic nature is also shown by the discrepancy that developed during this period between the slackening in the growth of demand — apparent from the slight drop in the inflow of orders to industry — and the rise in costs, particularly the rise in wages and salaries, which, if anything, speeded up still further. Thus, as time went on, prices were increasingly affected by autonomous cost increases. This is suggested on the one hand by the decline of profits, and on the other by the fact that for months past earnings have not been rising much faster than agreed rates. In part this may be due to the particular way in which certain wage agreements were framed ("prior raises"), but it is also to some extent attributable to the fact that the latitude granted by the market for wage increases is being not only fully exploited but possibly even exceeded in the wage negotiations. It is in keeping with the picture of an incipient cost inflation that the movement of wage rates is hardly responding at all to the slight relaxation on the labour market evidenced by the reduction — relatively small though it be — in the number of vacancies, the drop in overtime, and isolated instances of short-time working.

The perils inherent in a cost-push inflation are not fully apparent at the moment, but they would presumably emerge more clearly if these tendencies persisted. The danger is that prices may be pushed up by costs without demand increasing on the same scale. This would lead to stagnating sales and falling employment — a situation faced in recent years by a number of major industrial countries, which so far have managed to reestablish neither price stability nor full employment.

Implications for economic policy

As the driving forces of the inflationary trend change, the main weight of economic policy measures must also be shifted. While the slackening in the growth of demand permits the restrictive stance of economic policy to be relaxed somewhat (monetary and fiscal policy have in fact been applied with rather less stringency for some little time), the increase in costs still needs to be contained by specific measures of economic policy. In an economic situation such as the present one, wage decisions are not dictated solely by market tendencies. Wage bargaining by means of free negotiations between management and labour, which is an important component of any economic system based on a free market, always involves the risk that the economic conditions, and particularly the profits situation, of the past are taken as a starting point for wage and salary agreements, even if the position has changed fundamentally in the meantime. The Federal Government is endeavouring to remedy the lack of foresight in this field – a failing that may affect both management and labour – by specifying "orientation data" and discussing them within the framework of the "concerted action" meetings. At the present stage of the cycle the important thing is, if possible, to prevent the cost inflation from proceeding any further – that is, to hinder any wage increase in excess of the productivity gain to be expected in the somewhat longer term – so as to eliminate the danger of further price rises and finally of a drop in employment. The wage settlements reached during the weeks before this Report went to press show a certain tendency to follow this course, although wage rate increases are, regrettably, still above the levels contained in the Federal Government's "orientation data". Moreover, it must be borne in mind that these data by no means aim at the complete stabilisation of prices, but only at a reduction (admittedly appreciable) in the pace of price rises.

2. Restrictive monetary policy and counter-effects from abroad

(a) Restrictive measures and safeguards against external influences

Sharp liquidity squeeze in first half of the year

In view of the economic strains and inflationary trends, monetary policy had to adopt a restrictive stance, albeit with diminishing stringency, throughout 1970. In the first half of the year the Bundesbank adhered firmly to the restrictive course, but from mid-year onwards the strains on the credit markets relaxed somewhat. The movement of both bank liquidity and interest rates is indicative of these changes during the year. In the first half of 1970 bank liquidity was very tight; during this period the banks' free liquid reserves never came to more than 6½ % of total deposits – a figure equal to the lowest liquidity ratio of the preceding decade, namely that of mid-1966. The principal determinant of the liquidity situation in the first half of the year was the fact that the foreign funds placed in Germany on speculative grounds prior to the revaluation started to flow out as soon as the revaluation had taken place, and that these repatriations were still leaving their mark in January 1970. Since the Bundesbank released no further minimum reserves from the beginning of the year onwards, the banks were now dependent on their rather depleted liquidity cushions. In consequence, interest rates on the credit markets went up in these months, particularly after the discount rate was raised from 6 to 7½ % and the lombard rate from 9 to 9½ % with effect from March 9. Interest rates on domestic credit markets soon reached their highest level since the war. The money market rates for specific maturities were running at a maximum of over 9½ % by the spring, the banks' rates on overdrafts (for amounts of less than DM 1 million) rose on average to just under 12 % in the second quarter of 1970, and the average yield on bonds outstanding came to 8.6 % in June and July. This peak level of interest rates in Germany coincided with similar record figures in a number of other countries; for a time, in fact, the level of interest rates on international credit markets was even higher than in Germany. As a result relatively little foreign money flowed into Germany up to the end of May 1970.

Change-round in U.S. monetary policy and implications for Germany

At the very beginning of 1970, however, the Federal Reserve System in the United States had completely changed the direction of monetary policy there: bank liquidity was increased and the level of interest rates lowered. The greater liquidity of the U.S. banking system enabled the private banks to channel substantial sums on to the Euro-dollar market, mainly in the form of debt repayments, in addition to the expansion of lending at home. With the growth of the dollar supply in Europe – which was due, incidentally, not only to short-term capital exports by

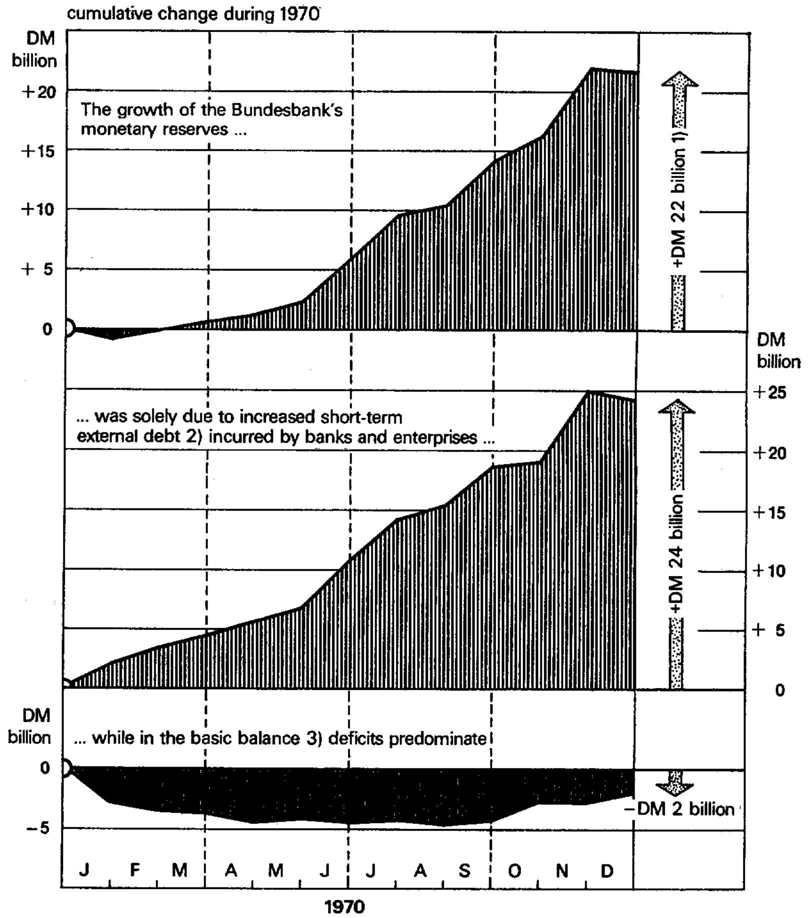
U.S. banks but also to other outflows of funds from the United States (the deficit in the balance of official reserve transactions came to US$ 10.7 billion in 1970, exclusive of special drawing rights allocated) – the downward trend of interest rates in the United States very soon spread to the Euro-dollar market. In the second quarter of 1970 the money market rates for the Euro-dollar began to fall below the comparable rates in Germany. The net exchange inflows into Germany amounting to several billion Deutsche Mark a month and the dollar outflows from the United States have persisted since that time, with some exceptions caused by seasonal factors. In order to reduce the relatively high unemployment and to stimulate economic growth, the United States has continued its "cheap money" policy since then. Money market rates in the United States have fallen from almost 9 % at the beginning of 1970 to about 4 % in the first few months of 1971. The means used to increase the liquidity of the U.S. banking system was net purchases of government securities by the Federal Reserve Banks; the stock of such securities rose between end-February 1970 and end-February 1971 by some US$ 7 billion to US$ 62 billion. Starting from this expansion of the "monetary base" a multiplicative process of money creation took place within the U.S. banking system. By contrast, the European monetary authorities, and particularly the Bundesbank, were mostly compelled for domestic reasons to keep credit in short supply and interest rates high. Massive net capital exports by U.S. banks put the interest rates on the Euro-dollar market under continuous pressure: at end-February 1970 three-month dollars yielded no more than a good 5 % per annum, compared with, say, a yield of about 7½ % for three-month money in Germany. German enterprises with access to the Euro-dollar market, or for which access was arranged in a variety of ways (not least by German banks), made increasing use of this relatively inexpensive source of funds. They took up credit at the low rates of interest obtaining on the Euro-money market, especially as the cost of forward cover was not as a rule high.

Borrowing abroad by non-banks ...

Altogether, it appears that domestic non-banks – here comprising enterprises only, not public authorities – raised about DM 16 billion of short-term credit abroad in 1970. This, at any rate, is the amount that results if statistically identified financial loans are added to the other short-term credit transactions ascertainable only as the "balancing item" of the balance of payments; the latter mainly occur in connection with foreign trade. What is more, if the same calculation is made not for the twelve months of the calendar year 1970 but for the twelve months March 1970 to February 1971, short-term external borrowing by non-banks comes to no less than some DM 22 billion. Thus, during the period between January and December 1970 enterprises met approximately a fifth of their net credit needs abroad, and between March 1970 and February 1971 roughly a quarter, there being, no doubt, substantial variations in specific cases. In some fields that are highly dependent on credit, such as housing, borrowing abroad is unlikely to have been a significant factor. An extreme instance of the opposite case is provided by certain large industrial enterprises and subsidiaries of foreign companies, which in 1970 obtained more credit abroad than from domestic lenders. This fund-raising abroad by enterprises meant that the borrowers concerned could to this extent evade the relatively high level of domestic interest rates, although the large volume of short-term debt abroad may involve a greater renewal risk than borrowing at home. The Bundesbank's monetary policy was, moreover, hampered by the repercussions this borrowing had on internal monetary circulation; the chief of these was that normally the net inflow of foreign exchange to non-banks increased the liquidity of the banks as well. The banking system, after all, takes over the foreign exchange accruing to non-banks and either sells it to the Bundesbank, thus enlarging the stock of liquid resources the Bank holds in Germany, or purchases short-term external assets, which can be converted into central bank funds at any time, so that the sum total of free liquid reserves increases in this fashion.

... and by banks

While it was not possible to cut down the external borrowing of non-banks by means of the available market instruments of monetary policy, the Bundesbank did succeed in slightly curbing external borrowing by domestic banks through the employment of specific measures. From April 1, 1970 it subjected the growth of banks' external liabilities to an additional minimum reserve ratio of 30 %. This



1) Excluding special drawing rights allocated.- 2) Measured by the deterioration in banks' net foreign exchange position, enterprises' recourse to financial loans and the balancing item of the balance of payments.- 3) Current account and long-term capital account combined.

raised the cost of external borrowing by German banks to such an extent that it was no longer economic in relation to the cost of obtaining funds in Germany. Since that date, in fact, the banks' short-term external liabilities have not increased very much, although they did jump up somewhat faster towards the end of last year when the base for the calculation of reserve-carrying growth was updated and hence raised slightly. With the fall of interest rates on the Euro-dollar market and the widening of the interest differential, however, the restrictive effect of the reserve on growth has declined; given an interest rate of 5 % per annum on the Euro-dollar market, such as is ruling at the moment, in mathematical terms the 30 % reserve on growth adds only about 2.8 % per annum to the cost of borrowing abroad.

Size of liquidity increase attributable to the rest of the world

The expansionary effect on bank liquidity of the short-term borrowing by non-banks and banks in 1970 was offset to only a minor degree by a small deficit in the basic balance. While aggregate short-term capital imports by enterprises and banks totalled some DM 24 billion, the other transactions – principally those on the current account of the balance of payments plus long-term capital transactions, together constituting the basic balance – showed a deficit of some DM 2 billion. After allowing for a number of special statistical factors, the total increase in bank liquidity attributable to external transactions may therefore be put at over DM 20 billion. In the first three months of 1971 there was a further growth of liquidity from the same source of approximately DM 7 billion.

Influx of liquidity neutralised by minimum reserves

In the past year the Bundesbank's main endeavours were necessarily aimed at mopping up such inflows of liquidity from abroad as could not be prevented by, say, the introduction of the reserve on the growth of external liabilities, with a view at least to eliminating secondary effects in the shape of a faster expansion of lending by the banks. The most important means to this end was the raising of the minimum reserve ratios. From July 1970 the minimum reserve ratios applying to the total of domestic liabilities were raised by 15 % of the previous ratios. On top of this, a special minimum reserve on the growth of domestic liabilities had to be maintained from September to November; the growth of sight and time liabilities together became subject to a minimum reserve of 40 % and that of savings deposits to one of 20 % (see page 47 for details). Not least in view of the undue hardships which this may have caused in specific cases, the Bundesbank abolished the reserve on the growth of domestic liabilities from December 1 and by way of compensation increased the general reserve ratios on the total of liabilities by a further 15 %. At this point the minimum reserve ratios were again approximately as high as at the beginning of 1966, but they remained substantially below the levels of early 1961. The raising of the reserve ratios, which in itself increased the required reserve by about DM 6 billion, absorbed, and thereby neutralised, only part of the liquidity that had flowed in from abroad. Since, however, reserve-carrying liabilities continued to rise at the same time, so that the required reserve grew by a further DM 3 billion between March 1970 and March 1971, considerable bank funds were locked up after all by the minimum reserve.

Support by open market policy

In addition, the Bundesbank attempted to combat the inflows of liquidity by means of open market transactions. These reduced free liquid reserves only to the extent that long-term paper — viz. public authority bonds — from the Bundesbank's portfolio was sold and shorter-term instruments — mainly mobilisation paper — were passed on to non-banks. The scale of such transactions was, however, limited, for on the one hand the Bundesbank had only a relatively modest residual holding of long-term paper and on the other shorter-term instruments have hitherto not been sold to everybody, but traditionally to public agencies, namely the social security funds and the Federal Post Office, and otherwise only to banks. Altogether, just under DM 2.5 billion of liquid resources was withdrawn from the banks in 1970 by open market transactions in long-term securities and by selling short-term paper to non-banks.

Sales of mobilisation paper to banks

Through sales to domestic banks, particularly in the last third of 1970 and early 1971, the amount of mobilisation paper outstanding drew level with the total of the Bundesbank's "mobilisable" equalisation claims (DM 8.1 billion). In consequence a certain quantity of the "liquidity paper" (ceiling: DM 8 billion) created by the Law on Economic Stability and Growth was issued for the first time. Although transactions of this type keep bank funds off the money market, they do not diminish the banks' free liquid reserves; these instruments can, rather, be converted back into central bank money at any time, so that they constitute highly liquid assets. Owing to the more flexible manner of fixing selling and repurchase rates introduced by the Bundesbank in the autumn of 1970 and practised since that time, the rate risk that may emerge for the banks when they return these instruments to the Bundesbank has become somewhat greater than it used to be. The rates are now no longer fixed for fairly long periods but are varied in accordance with market conditions and the intentions of monetary policy, without any special announcement being made. This has not, however, greatly detracted from the liquid character of this paper.

No policy of exporting funds

In contrast to earlier years when there were large inflows of money from abroad, in 1970 the Bundesbank refrained from employing swap policy as a means of influencing the domestic money market and the distribution of exchange reserves between the Bundesbank and the other banks. The main reason was that from the time when the influx of money into Germany began, the level of interest rates there was higher than that on international money markets. In the past, by contrast, swap policy had long been applied only when the interest differential was in the reverse direction. Although financial investment abroad yielded higher rates of interest than in Germany at such times, the interest differential was counterbalanced by the cost of forward cover ("discount"). Since the Bundesbank was offering forward cover at a more favourable rate than the market, German commercial banks obtained a higher yield on covered dollar investments abroad than on investments at home, which tightened conditions on the domestic money

Record of economic and monetary measures

1970	**I. Economic and fiscal policy**
End of January	The Federal Cabinet approves the 1970 Annual Economic Report and decides – to block for the time being DM 2.7 billion of the 1970 Federal budget, – to postpone until July 1, 1970 or January 1, 1971 certain tax reliefs planned for the beginning of the year (doubling of the employees' allowance, partial reduction of the income tax surcharge), – to form, pursuant to Article 15 of the Law on Economic Stability and Growth, an anticyclical reserve of the Federal and Länder Governments totalling DM 2.5 billion (Federal Government DM 1.5 billion, Länder Governments DM 1 billion), to be deposited with the Bundesbank in two equal instalments by March 31 and June 30 (Order to this effect issued on April 25), – to raise from DM 312 to DM 624 the total of payments to create personal assets that attract tax relief (Law to this effect passed by the Federal Lower House on June 4).
January 28	The Fiscal Planning Council recommends, inter alia, that the Länder Governments as well as the Federal Government should block expenditure on a scale at least equivalent to the sum transferred to the anticyclical reserve.
End of May	The budget committee of the Federal Lower House cuts DM 2.1 billion of expenditure envisaged in the 1970 Federal budget; a further DM 440 million remains blocked.
July 6 and 7	The Federal Cabinet announces a programme of additional economic stabilisation measures providing for – suspension of diminishing balance depreciation allowances from July 6, 1970 to January 31, 1971, – further postponement of the planned tax reliefs, – introduction of a repayable anticyclical surcharge on wage tax, assessed income tax, and corporation tax during the period from August 1, 1970 to June 30, 1971 for persons liable to pay more than DM 100 in tax per month. The introduction of the anticyclical surcharge and the suspension of diminishing balance depreciation allowances are approved by the legislature during July.
July 13	The Fiscal Planning Council recommends that the Federal and Länder expenditure blocks resolved for 1970 be retained. It considers an increase of 12 % in central, regional and local authority spending during 1971 to be justifiable.
October 22	The Federal Cabinet decides on "orientation data on overall economic development in 1971", and recommends, among other things, wage settlements on the basis of a 7 to 8 % growth in actual earnings in the course of 1971.
1971 End of January	The Federal Cabinet publishes the Annual Economic Report, in which it notes, inter alia, that the economic situation does not warrant a dissolution of the anticyclical reserve or a premature discontinuance or repayment of the anticyclical surcharge.
1970	**II. Monetary policy**
January 1	First allocation of special drawing rights (SDRs) by the IMF, to the total of US$ 3,414 million; the US$ 201.6 million (DM 738 million) allocated to the Federal Republic of Germany is transferred to the Deutsche Bundesbank.
March 6	Discount rate raised from 6 % to 7½ % and lombard rate from 9 % to 9½ % with effect from March 9, 1970. Introduction from April 1, 1970 of an additional minimum reserve of 30 % on the growth of banks' external liabilities over and above the level of March 6 or the average of the four bank return dates in February.
May 13	Reduction of banks' rediscount quotas by an amount equivalent to the growth of liabilities towards non-residents for security transactions under repurchase agreements shown "below the line" in the balance sheet and of endorsement liabilities for bills rediscounted abroad.
June 1	The Canadian government floats the Canadian dollar.
July 1	Across-the-board increase in minimum reserve ratios by 15 % with effect from the same date (withdrawing some DM 3 billion of liquidity). Additional reserve on the growth of external liabilities remains unchanged at 30 %.
July 15	Discount rate lowered from 7½ % to 7 % and lombard rate from 9½ % to 9 % with effect from July 16.
August 12	Introduction from September 1 of additional minimum reserve on the growth of reserve-carrying liabilities over and above the average level of April, May and June 1970, withdrawing about DM 2.8 billion of liquidity. Growth reserve ratios are 40 % for sight and time liabilities together, 20 % for savings deposits. The reserve on the growth of external liabilities in force since April 1 is superseded by this arrangement.
October 21	The exemption from minimum reserves of certain liabilities to non-residents arising from banking business ("interest arbitrage deals" and "customers' drawings on credits opened with third parties") is curtailed.
November 17	Discount rate lowered from 7 % to 6½ % and lombard rate from 9 % to 8 % with effect from November 18. The reserve on the growth of domestic liabilities is abolished, and by way of compensation the reserve ratios on the total of bank liabilities are raised by 15 %. The reserve on the growth of external liabilities is retained, at a ratio of 30 %; the new base in the average level of October 23 and 31 and November 7 and 15, 1970.
December 2	Discount rate lowered from 6½ % to 6 % and lombard rate from 8 % to 7½ % with effect from December 3, 1970.
December 24	German quota in the International Monetary Fund (IMF) is increased from US$ 1,200 million to US$ 1,600 million in the course of a general increase in quotas in the IMF.
1971 January 1	Second allocation of special drawing rights by the IMF, to the total of US$ 2,949 million; the US$ 171.2 million (DM 627 million) allocated to the Federal Republic of Germany is transferred to the Deutsche Bundesbank.
February 9	The Council of Ministers of the European Communities and the governments of the member countries agree to establish in the course of the next ten years an economic and monetary union in accordance with a step-by-step plan beginning on January 1, 1971. In the first phase (1971 to 1973) the main emphasis is to be placed on the coordination of economic and monetary policies. The central banks are required – to coordinate their policies within their own responsibilities, – tentatively to keep exchange rate fluctuations between the EEC currencies within narrower margins by means of coordinated action vis-à-vis the dollar, and possibly to reduce the margins successively at a later date. The monetary committee and the committee of central bank governors are required – to begin studies on the harmonisation of the instruments of monetary policy, – to report on the establishment and functions of a European Fund for Monetary Cooperation. Before the end of the first phase the measures will be determined which, after the transition to the second phase, will lead to the complete realisation of the economic and monetary union. At the same time a "safeguard clause" governing the period of validity of some of the measures taken was agreed upon (see page 42).
March 31	Discount rate lowered from 6 % to 5 % and lombard rate from 7½ % to 6½ %, and reduction of 10 % in rediscount quotas, with effect from April 1. The Bundesbank's open market transactions with non-banks are intensified.

market. Given a reverse interest differential, however, as in 1970, with interest rates in Germany higher than abroad, the only things that might have induced the banks to invest more funds abroad were either the emergence on the market of a forward exchange premium which was greater than the interest differential or the payment by the Bundesbank of a correspondingly large swap premium, as had been done for a brief spell in 1960/61. Experience with swap transactions, above all in 1969, when, particularly during critical periods, they gave rise to "roundabout transactions" without any effect in real terms (see Report of the Deutsche Bundesbank for the Year 1969, page 91), made it seem advisable to refrain from such operations. At times, however, the Bundesbank was active in the forward market and purchased forward dollars against Deutsche Mark ("outright" transactions). Between June and September 1970 commitments arising from such forward purchases of U.S. dollars rose to over DM 3 billion, but were then reduced to zero again during the months up to December. The object of these forward operations was to calm down the foreign exchange markets, which had been affected by appreciable nervousness, particularly in connection with the floating of the Canadian dollar.

Impact of the public authorities on liquidity

An additional factor contributing to the neutralisation of the liquidity flows to the banking system was that the public authorities increased their deposits at the Bundesbank in 1970 and early 1971, especially as a result of the obligation assumed by the Federal and Länder Governments to form anticyclical reserves and to immobilise the receipts accruing from the anticyclical surcharge on income taxes. The total effect of all the measures taken to tie up liquidity, in conjunction with other factors not detailed here, was that the banks' free liquid reserves in March 1971, at some DM 27 billion, were only DM 7 billion higher than at the end of 1969, despite the above-mentioned massive inflows of liquidity from abroad (DM 20 billion in 1970 and some DM 7 billion at the beginning of 1971). The liquidity ratio (free liquid reserves divided by total deposits) was thus roughly 8 % in the first few months of 1971, compared with a maximum of 6.5 % in the first half of 1970. Although liquidity increased perceptibly, the relaxation was of fairly modest proportions in relation to the influx of liquid assets from outside.

(b) The effects of restrictive monetary policy and its limitations

Liquidity conditions and interest rates

The primary impact of the Bundesbank's instruments of monetary policy is on the liquidity position of the banks and on the costs they incur when obtaining central bank funds, but their ultimate aim is to influence overall conditions on domestic credit markets and the economy's provision with liquid resources — that is, the financial "climate" of the economy. Changes in the overall level of interest rates form an important control lever in the transmission system of monetary policy measures. It has been described above how in 1970 the Bundesbank endeavoured, not without success, to contain bank liquidity; much the same can be said for the influence it exerted on German interest rates, which by mid-1970 had reached the highest level ever and since then have been relatively slow to come down again. When this Report closed for press on March 31, 1970 — the day before a further lowering of the discount and lombard rates to 5 % and $6^{1}/_{2}$ %, respectively, entered into force — the yield on bonds was nearly 8 %, bank overdrafts (of less than DM 1 million) cost in the main $10^{1}/_{2}$ %, an average of some $8^{1}/_{4}$ % was charged for discount credits (items of less than DM 20,000), the money market rate for three-month maturities was $7^{1}/_{2}$ %, and 5 % interest was payable on savings deposits with the statutory period of notice — the least profitable form of financial investment. Interest rates in Germany have fallen from the record level reached in the spring of 1970, the correlation always observed between the decline of central bank interest rates and that of interest rates on the credit markets recurring at a similar rate and with similar gradations to those recorded in the past, depending on the types of credits and investments concerned. Compared with May 1970 the money market rates have dropped to the same extent as the lombard rate (by two percentage points), discount credits have cheapened in step with the discount rate (by $1^{1}/_{2}$ percentage points), the rates for overdrafts have fallen slightly less (by about 1 percentage point), and the yield on securities has decreased by a smaller amount still (0.3 percentage points). The basic interest rate for savings deposits, which previously had lagged behind the rise in other rates, thus lessening the appeal of saving through savings accounts, has not so far given way at all. To judge from the experience of 1970, and also of the immediately preceding years, it cannot be said that the impact of the Bundesbank's interest rate policy on the level of interest rates has been any less pronounced since interest rates were decontrolled. Even when the official interest rate regulations were in force, the rates applied to the various forms of investment were not firmly tied to the Bundesbank's interest rates; the further removed from the money market the various assets and liabilities were, the looser was the connection. If, however, the discount and lombard rates are to maintain their leading function, it is essential for central bank interest rates to be changed in parallel with liquidity policy, as was done in 1970.

Changes in the discount and lombard rates

Both the sharp rise in central bank interest rates of March 1970 and the lowering of these rates in three stages in July, November and December 1970 to 6 % for discount credits and 7½ % for lombard loans are pointers to the changes in the liquidity position of the banking system and to the monetary intentions these reflect. At the same time, however, they created new points of reference for future developments. An important factor governing the spread of the changes in the Bundesbank's interest rates to the assets and liabilities of the banks was that credit transactions can be conducted between the Bundesbank and the commercial banks on the basis of the discount and lombard rates at any time and that normally the banks were under considerable pressure, also for reasons of liquidity, to seek finance from the Bundesbank. The volume of finance thus obtained came to nearly DM 25 billion in early 1970 and almost regained this level, after occasional fluctuations, at the beginning of 1971. At the time of going to press it totalled some DM 19 billion. Thus the banks consistently procured large amounts of finance from the central bank and the central bank's interest rates accordingly always exercised an influence on the market. Changes in these rates regularly affected the overall level of interest rates in the graduated manner that was to be expected, in spite of the fact that, as already described, the fall in interest rates on international credit markets was much greater from the early summer of 1970, so that the interest differential between Germany and the rest of the world widened.

Effects of the credit squeeze in Germany on interest rates

The principal objective of the Bundesbank's liquidity and interest rate policy during the last business year and so far in 1971 was, as noted, to reduce the excess demand and to curb the cost inflation at home. Changes in interest rates contributed to stabilisation in two different respects: on the one hand by restraining the inclination to invest, and on the other by stimulating the propensity to save. Account had to be taken of the fact that the decisions of both investors and

Decline in the value of money, and interest rate level

% per annum

Item	1964	1965	1966	1967	1968	1969	1970	4th qtr. 1970	Average 64–68
Decline in value of money, measured by cost of living index									
1. Eleven industrial countries 1 (including F. R. of Germany)	3.1	3.6	3.7	2.9	3.5	4.6	5.5	5.8	3.4
2. Federal Republic of Germany	2.4	3.1	3.7	1.7	1.6	2.7	3.8	4.1	2.5
3. Ten industrial countries (excluding F. R. of Germany)	3.3	3.7	3.7	3.1	3.9	5.0	5.8	6.2	3.5
Yield on Euro-dollar bonds 2									
1. Nominal	5.7	6.1	6.7	7.0	8.0	8.4	9.3	9.1	6.7
2. "Real" 3	2.3	2.3	2.9	3.8	3.9	3.2	3.3	2.7	3.0
Yield on DM bonds of domestic issuers 4									
1. Nominal	6.2	6.8	7.8	7.0	6.7	7.0	8.2	8.5	6.9
2. "Real" 5	3.7	3.6	4.0	5.2	5.0	4.2	4.2	4.2	4.3

1 All EEC member countries, Austria, Sweden, Switzerland, United Kingdom, Japan, United States, weighted with respective share of these countries' exports in world exports between 1963 and 1969. — 2 Average of end of quarter figures; fourth quarter 1970: end of quarter figure. Source: OECD. — 3 Calculated from the nominal yield and the average rate of decline in the value of money in ten industrial countries (excluding F. R. of Germany). — 4 Yield on bonds outstanding. — 5 Calculated from the nominal yield and the average rate of decline in the value of money in the Federal Republic of Germany.

Longer-term acquisition of financial assets and gross national product in various countries during 1969

Item	Federal Republic of Germany DM bn	France FF bn	Italy 1 Lit bn	Netherlands Gld mn	United States US$ bn	United Kingdom £ mn	Japan Yen bn
Longer-term acquisition of financial assets 2	61.2	44.6	5,642	11,342	49.2	2,572	9,961
Gross national product	602.8	725.6	47,134	102,340	947.8	45,765	59,902
Acquisition of financial assets as % of gross national product	(10.2)	(6.1)	(12.0)	(11.1)	(5.2)	(5.6)	(16.6)

Source: OECD Financial Statistics, National Accounts for 1970 of the European Communities' Statistical Office. Provisional figures. – 1 Figures relate to 1968. – 2 Funds employed at longer term by domestic non-financial sectors with banks and insurance companies, and in the security market.

savers would be swayed more than in earlier years by the expectation of further price increases, for at no time since the end of the war has the pace of price rises quickened so universally and so protractedly as it did last year. Thus a certain trimming of investment plans was to be expected only if the burden of interest remained sufficiently great, even after deduction of an anticipated rate of decline in the value of money, and any slackening in saving due to the diminishing value of money could be countered if savers could hope to receive a satisfactory real rate of interest on their savings after allowing for monetary erosion. In some measure the Bundesbank's interest rate policy achieved both ends, and at the very least it gave appreciable support to other influences acting in the same direction. The propensity to invest, at any rate, eased slightly in 1970, while the savings ratio, contrary to certain indications in the first half of the year, dropped no further, but actually rose again towards the end of the year.

Relatively high "real" interest rate facilitates stabilisation

In point of fact the level of interest rates in Germany, although in nominal terms appearing quite high, was not excessive in real terms, since the simultaneous fall in the value of money (measured by, say, the rise in the cost of living) must also be taken into consideration (see the table on page 19). As a result it has so far always been worth the saver's while, despite the accelerating pace of price rises, to acquire and hold financial assets – particularly those in forms other than savings deposits with statutory periods of notice. Presumably this circumstance has not been without influence on the fact that the ratio of "financial asset acquisition" in Germany is fairly high by international standards (see the table above). At all events, the efforts to bring about stabilisation would have been hampered even more if the traditionally high savings ratio in Germany had declined. On the other hand the relatively high "real" interest rate compels the debtors – that is to say, the investors – to examine the return on their investments with a more critical eye than when expectations of profit are equally high but nominal interest rates are lower. At the very least the course adopted by the Bundesbank in the field of monetary policy is likely to have stopped even more fixed investment being planned and started, because of the too-low real interest burden on the debtors (and hence the investors); indeed, monetary policy probably helped increasingly to restrain the demand for capital goods. The interest rate thus prevented the inflationary trends from persisting unchecked.

In public discussions a number of objections have been raised to this "anti-cyclical" handling of the tools of interest rate policy – a handling often termed a "policy of high interest rates". However, if these objections are considered more closely, they turn out to be mutually exclusive. On the one hand it is pointed out that interest is a cost item of production, which entrepreneurs try to pass on in prices, just like other costs. Interest rates should therefore be lowered to mitigate the pressure towards price increases, at least from this angle. On the other hand it is asserted that high interest rates impede investment activity – all the more so, the longer they are in force – and thus threaten both the future growth of the economy and full employment. If this view were correct, aggregate demand would tend to decline accordingly and at the same time the scope for passing on interest costs, just like other costs, would be restricted, i.e. profits in the economy would fall. Monetary policy is, however, based on the premise that although a high rate of interest primarily increases costs, in the somewhat longer term it also curbs demand and thus exercises a stabilising effect. Moreover, the Bundesbank fully realises that in 1970 other cost-boosting factors in addition to the increase in interest rates were working in the same direction, that is, in the direction of curbing demand. Monetary policy afforded these tendencies powerful support, especially as the interest rate must be accounted a burden of long duration in the case of all investments that are repayable over long periods.

Credit squeeze and money supply

While bank liquidity and domestic interest rates by and large moved in harmony with the Bundesbank's intentions in the field of monetary policy in 1970, despite the vast influx of money from abroad, this cannot be said so unreservedly of the movement of money supply. Note and coin circulation and sight deposits together rose by almost 9 % during 1970, and if time deposits for up to 89 days are included the money stock went up by no less than 19.6 %; in January and February 1971, too, the increase rates were of similar size. This growth was no doubt largely due to the fact that time deposits for fairly long periods – from 90 days to four years – declined in the course of 1970 (by almost DM 6 billion) and that some of these funds, at least, were transferred to time deposits with very short maturities, which increased exceptionally fast in 1970 (see also page 51). Non-banks' liquid resources, at all events, rose by DM 22.5 billion during 1970, and thus twice as rapidly as in 1969 and no less than three times as fast as in 1968. On the other hand, the fact that financial reserves in the form of time deposits with fairly long maturities decreased at the same time is indicative of a reduction in non-banks' liquid reserves, and should therefore not be disregarded; it was precisely the longer-term time deposits that rose unusually sharply in 1968, and also in 1969 up to the revaluation, since at that time non-banks' liquidity, most of which came from abroad, was no longer held solely in very short-term deposits. Liquidity over and above a normal cash holding "cascaded" from the upper pools of sight deposits and shorter-term time deposits into the final reservoir of longer-term time deposits. After the revaluation some of these funds were withdrawn in the reverse order. The fact that the money supply has grown so strongly is therefore in part a belated consequence of the liquidity increase of previous years caused by external factors. But in 1970, too, the influx of funds from abroad was presumably the main reason why the money supply expanded at a rate far in excess of the average of several years. In contrast, lending by domestic banks, which can be influenced only by the Bundesbank's monetary policy, in 1970 contributed somewhat less than in the preceding year to the expansion of the money stock (see also page 50), although the credit needs of trade and industry were in fact far greater than a year before.

The monetary triangle

The limits set under the given conditions of the world monetary system to the monetary policy of a country like Germany which does not have a reserve currency are clearly revealed by the fact that, while domestic credit expansion could be curbed to a remarkable degree, this achievement was largely nullified in quantitative terms by additional borrowing abroad; indeed, this decline itself is in part a reflection of a substitution process. In theory, the only way to achieve a lasting containment of borrowing by German enterprises abroad would have been to abandon one of the three corner-stones of the monetary triangle:

- the shaping of monetary policy in accordance with domestic requirements,

- the system of fixed exchange rates, modified only in the event of a fundamental balance of payments disequilibrium,

- the freeing of capital transactions with the rest of the world.

To start with the last-mentioned corner-stone: to limit the freedom of international capital movements by the introduction of exchange controls, such as could be put into effect by the Federal Government by a ban on the raising of short-term loans pursuant to Article 23 of the Foreign Trade and Payments Law, would have been a retrograde step which, in view of the integration desired between national capital markets (and above all in the area of the EEC), was not considered. The Federal

Republic of Germany is the only country to have kept capital movements free from all restrictions, while for years past other countries have not advanced but, if anything, retreated in this respect, and in the light of its very strong external position it feels a sense of particular responsibility. The system of fixed exchange rates – the second of the above-mentioned corner-stones – is for Germany a basic fact resulting both from international agreements and from the goal of a closer integration of national currency areas within the EEC. It was equally impossible to relinquish the aim embodied in the third corner-stone – the shaping of monetary policy according to domestic requirements – for in the prevailing circumstances this would have been tantamount to making the monetary decisions of the Federal Republic of Germany conform to those of the United States. As already explained, however, U.S. monetary policy in 1970 was mainly dictated by the economic problems present in that country (i.e. by the intention of reducing the high level of unemployment) – problems, that is, which were diametrically opposed to those encountered in Germany.

Substitution of domestic liquidity for foreign liquidity not without expansionary impact

Full adjustment of credit conditions in Germany to the falling trend of interest rates in the United States and the international money markets that it governs would have necessitated a complete reversal of the course of monetary policy, namely a sharp reduction in interest rates and a steep increase in bank liquidity by the deliberate creation of central bank money – in other words, by the lowering of minimum reserves and by other measures. Eliminating the interest and liquidity differential in relation to the rest of the world could, of course, have staunched the inflows from abroad, except for a residue caused, perhaps, by speculative considerations. It would, however, certainly have been impossible to confine the relaxation of the credit markets in Germany to a degree that would merely have offset the inflow of foreign liquidity without overcompensating for it. Admittedly, just under a quarter of enterpreneurial credit needs – and roughly a fifth of total domestic credit needs – managed to evade the effect of the credit restrictions by resorting to foreign credit markets, particularly the Euro-money and Euro-capital markets. The great majority of borrowers, for instance in housing, a large number of enterprises, and public borrowers as well, were, however, affected by the squeeze. For these borrowers it was the high level of interest rates in Germany that applied, and these naturally had a retarding effect on the expenditure plans of interest-sensitive investors. This effect would, of course, not have been exerted if the domestic level of interest rates had been lowered, by measures of monetary policy, to equal that ruling on international credit markets. Hence a relaxation of the credit squeeze based entirely on external considerations would have had a greater influence on monetary data than the partial evasion of the restrictions, which in the given circumstances was unavoidable.

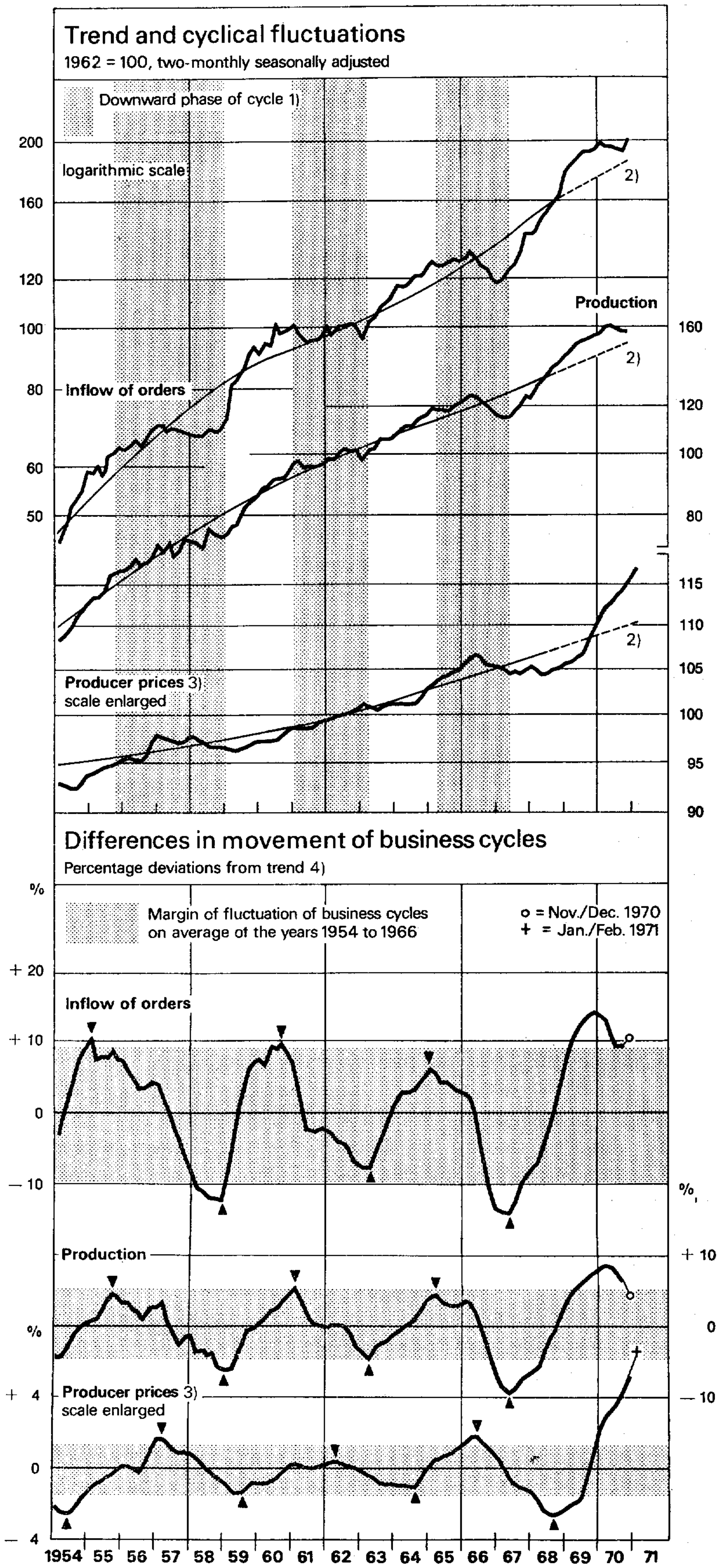
3. Monetary policy and the realisation of steady economic growth

The monetary policy measures taken in recent years were, as explained, primarily designed to curb the tendency for prices to rise. During this time, just as previously, monetary policy was thus supporting the overall course of economic and fiscal policy. In the words of Article 1 of the Law on Economic Stability and Growth, which has been in force since mid-1967, this course is to aim simultaneously at stable prices, a high level of employment, and external equilibrium, accompanied by steady and appropriate growth. Although the safeguarding of price stability has clearly been the principal objective of monetary policy for quite some time, this was only because the stability of prices was the most seriously threatened of all the aims mentioned. The rise in the price level has been not only continuous but also accelerating. In 1968 the cost of living went up by an average of 1.6 %, in 1969 by 2.7 %, in 1970 by 3.8 %, and now (February 1971) prices are increasing at an annual rate of 4.3 %.

Greater fluctuations in economic activity

The inflationary trends are closely related to the greater fluctuations in demand, which supply was often wholly unable to keep up with when demand increased. The chart opposite, although confined to industry, shows that the cyclical swings in the inflow of orders – an aggregate indicative of the course of demand – have widened substantially since 1967. In the three previous business cycles (from 1954 to 1966) the inflow of orders diverged at the peaks and troughs by only about 10 % from the longer-term trend, but in the last cycle beginning in 1967 the margin of

Business cycles since 1954 *



* Manufacturing.- 1) Measured by decline in industrial production values adjusted for trend (see lower part of chart).- 2) From second half of 1968 trend estimated by means of extrapolation.- 3) From 1968 influence of value added tax eliminated.- 4) Moving three-period averages.

fluctuation expanded to almost ± 15 %. In principle the same observation applies to production and prices. Thus the cyclical "ups and downs" of the economy have unmistakably intensified in recent years. The lesson to be drawn from this for monetary and economic policy is that during the upswing phase curbs must be imposed earlier and more effectively than has been done – no matter what the reasons may have been – in the present business cycle. For if the aim of the Law on Economic Stability and Growth – namely to realise price stability, high employment, and external equilibrium, if possible at the same time – is to be achieved, it is essential that economic growth should proceed more steadily than it has done hitherto, in other words, that the cyclical fluctuations be reduced.

Steady growth as an objective

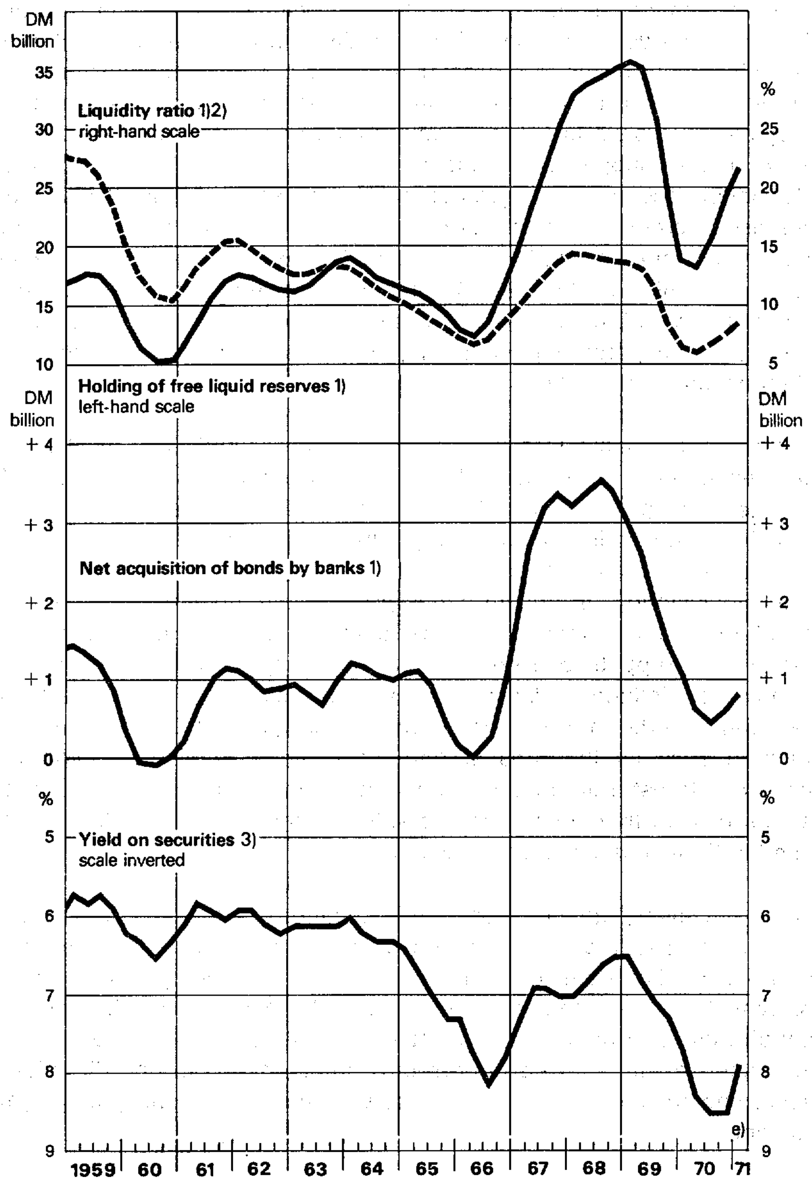
To keep aggregate demand as free as possible from cyclical fluctuations, an attempt should be made above all to smooth out the periodically varying waves of optimism and pessimism in enterprises' investment decisions. With this end in view it has been suggested that basic factors susceptible to the influence of economic policy (tax regulations, interest rates, etc.) should be kept as constant as possible, to prevent cyclical swings being set in motion simply by changes in such factors. In particular, the council of experts for assessing overall economic trends recommends that government fiscal policy, as well as monetary policy, should take the prospective longer-term trend of production potential as the principal point of reference. In the general discussion on economic policy a call has been heard from several quarters for the operation of the economy to be left to "regulators" in order that the imperfections of human judgment and foresight may be eliminated. Such imperfections may be inherent in all discretionary measures of monetary and fiscal policy and may possibly result in these measures taking effect too late and too strongly, or even too weakly. Certain aspects of these questions are to be examined briefly below.

(a) Monetary policy

Open external flank

It is no doubt true that, at least in the medium term, excess demand cannot come about in an economy without an undue rise in money creation. To this extent a limitation of money creation, if implemented effectively and promptly, would from the outset obviate the danger of the upswing assuming excessive proportions. However, the introduction of convertibility and of completely free capital movements has increasingly limited the national room for manoeuvre of monetary policy, as already explained (page 21). To give an example, in particularly unfavourable circumstances a restrictive monetary course at home can very quickly be rendered completely ineffective at times by an influx of funds from abroad running into the billions; the extreme case of this came at the beginning of May 1969, when flows into Germany from the rest of the world totalled DM 16 billion within ten days. Conversely, substantial sums may also flow out within a very short space of time, as occurred in connection with the dismantling of speculative external positions after the revaluation of the Deutsche Mark. Under the present monetary system the central bank of a country that does not have a reserve currency must, when the rate for the dollar drops to the lower intervention point, purchase any dollars offered at this rate, and similarly once the upper intervention point has been reached it must sell any amount of dollars required, no matter what the consequences of such exchange flows may be for the domestic economy. Such surges of inflowing and outflowing liquidity are the inevitable outcome of the integration of Germany's credit markets with international markets, on the basis of the present monetary system. These factors alone would make it impossible to keep the liquidity of the German banking system at a constant level, even if, as it has variously been urged to do, the central bank regarded such constancy as the best, or simply as a satisfactory, means of controlling the supply of money and credit with a view to promoting stability. Although the central bank will endeavour to keep the domestic consequences of unwanted foreign exchange movements as small as possible whenever this appears desirable from the point of view of monetary policy, it may not be able fully to neutralise these movements either in the short term or in the longer term. Thus the most important precondition for the autonomous national control of bank liquidity would be the elimination of the external influences. In theory this could be done by the alteration of exchange rates – no matter what form this may take – or by administrative controls on the payment flows across national borders. An insulation of this type against external

Bank liquidity and capital market



1) Seasonally adjusted and smoothed.- 2) Free liquid reserves as % of total deposits.-
3) Yield on fully taxed bonds outstanding, quarterly averages.- e) Partly estimated.

influences would, however, be incompatible with superordinate considerations and, above all, would obstruct the monetary integration of the EEC countries.

Credit expansion only one of the expansionary factors in the monetary field

Even if elimination of the external influences were feasible, however, the central bank would not by any means have the credit supply and money creation firmly under control. True, the money creation of the commercial banks, which is no less important than that of the central bank, is based on the credit expansion of the banking system, the scope for which is in turn dependent on the margin available to the banks for recourse to the central bank – in other words, on their free liquid reserves. But the relationship between changes in bank liquidity – the most important outcome of applying monetary policy – and the influencing of the banks' capacity to lend (it is this, after all, that is ultimately intended) is far from being accurately predictable. Thus, given an initially high level of bank liquidity, a substantial withdrawal of liquid funds is normally required before the "transmission belt" that transfers the effects of monetary policy tightens and begins to work. But even when their liquidity is greatly depleted, the banks' view of the degree of credit expansion warranted by available liquid reserves may change;

the same liquidity ratio does not necessarily mean the same measure of willingness to step up lending.

Varying contractionary effects exerted by monetary capital formation

Furthermore, influencing the banks' credit expansion is not in itself enough to control the economy in monetary respects. The effects of a certain rate of credit expansion may vary very considerably, depending on the size of monetary capital formation, which neutralises to a greater or lesser extent the expansionary impact of the credit growth. If, as in 1968, a credit expansion of medium size coincides with a very strong growth in longer-term monetary capital formation at banks, the increase in money supply may remain small. If, on the other hand, monetary capital formation declines to a greater or lesser degree (as in 1969 or 1970), a small increase in credit expansion, or even a fall (as in 1970), can be accompanied by a sharp rise in money supply. The money stock went up by only 7.5 % in 1968, but by 11 % in 1969 and 20 % in 1970 (although in that year there were particularly large inflows of funds from abroad). Hence monetary policy cannot be content simply with permitting, or attempting to bring about, a specific rate of growth in the volume of credit.

"Money supply" — an imprecise reference quantity

Finally, one and the same rate of growth in money supply may well have quite different effects, since the cash-holding habits of non-banks and individuals may change; indeed, in practice they tend to vary with the phases of the business cycles. Besides, the definition of money supply will always be a disputed issue for, depending on circumstances, not only cash and sight deposits at banks but also other "near money" in private hands perform the function of money at times, although at other times they are to be counted towards investments. (In this connection see also pp. 51/52.) Another reason why quantitative control of "money supply", however defined, is likely to prove unsatisfactory is that the "price" of borrowed money — the interest rate — would then quite possibly fluctuate widely. In a situation such as the present one, however, it is also of importance to influence the interest rate in such a manner that it overcompensates for the expectations of a further decline in the value of money — expectations that are widespread both in Germany and elsewhere.

If all these necessary qualifications and valuations are taken into account, it becomes evident that it would be neither possible nor sufficient to aim at, say, a predetermined medium-term growth rate for the money supply or for credit expansion, or to keep the banking system's liquidity ratio at a predetermined level. Even though monetary policy must never lose sight of the longer-term objectives, it cannot dispense with short-term corrective interventions in one direction or the other according to circumstances, that is, with the discretionary employment of its instruments.

(b) Fiscal planning governed by medium-term considerations

The planning of government budgets as far ahead as possible can contribute a great deal to the realisation of steady economic growth. The very volume of these budgets — the central, regional and local authorities and the social security funds together receive and expend about 40 % of the gross national product — and the influence exerted on publicly owned enterprises and subsidised private fields of the economy (e.g. government-assisted housing construction) lends government fiscal policy a weight that should have a favourable, steadying effect on trends in the economy if it is used to implement a revenue and expenditure policy largely independent of the cyclical situation. One aid in this direction is medium-term fiscal planning, to which the Federal and Länder Governments are committed under the Law on Economic Stability and Growth. The big cities and the Railways and Post Office — both Federal enterprises — also draw up medium-term fiscal plans, and a long-term estimate is likewise made of the financial pattern of the pension insurance funds. The purpose of such fiscal plans covering several years is not simply to make an accurate calculation of the expenditure commitments entered into for the years ahead and to define in budgetary terms the scope for financing new expenditure projects over several years, but also to examine the extent to which planned developments during those years can be brought into line with the "prospective trend of overall economic capability" (Article 9 of the Law on Economic Stability and Growth). That is to say, medium-term fiscal planning is designed

Net borrowing by central, regional and local authorities and longer-term borrowing with a "neutral" effect on economic activity

Billions of Deutsche Mark

	1966	1967	1968	1969	1970	1971	1972	1973	1974
	Federal Government								
1. Estimates included in medium-term fiscal plans for the following periods									
(a) 1967 to 1971	.	[1] 7.2	[1] 8.4	2.0	2.2	1.1	.	.	.
(b) 1968 to 1972	.	.	[1] 7.2	3.6	3.5	3.7	4.0	.	.
(c) 1969 to 1973 [2]	.	.	.	3.8	2.5	4.0	5.5	8.0	.
(d) 1970 to 1974	.	.	.	.	[3] 0.3	2.7 [4] (3.7)	[9] 5.3	[9] 7.2	[9] 9.4
2. Actual borrowing	2.6	7.9	3.7	−1.8	2.0	.	.	.	.
	All central, regional and local authorities [5]								
1. According to forecasts of Fiscal Planning Council of July 1970 [6]	.	.	.	.	−0.5	8.1 [7] (11.9)	[9] 11.7	[9] 13.5	[9] 15.7
2. Actual borrowing, total	9.4	15.1	8.9	0.8	7.7	.	.	.	.
3. Longer-term borrowing with "neutral" effect on economic activity									
(a) until 1970, according to commission of experts [8]	7.5	7.6	8.2	9.2	10.4	.	.	.	.
(b) 1970 to 1974, calculated on the basis of the Fiscal Planning Council's assumptions of July 1970 on the growth of GNP	.	.	.	.	10.3	11.1	11.8	12.6	13.5

1 Including borrowing in connection with the economic promotion programmes. — 2 After anticyclical blocking of expenditure, 1969: DM 2.0 billion and 1970: — DM 0.2 billion; since fiscal planning for 1969 to 1973 shows borrowing only inclusive of receipts in respect of coinage, in each case DM 0.2 billion has been deducted in order to arrive at the actual borrowing. — 3 After anticyclical blocking of expenditure, 1970: — DM 0.14 billion. — 4 As planned in the budget. — 5 Including Equalisation of Burdens Fund, ERP Special Fund and German Public Works Corporation. — 6 Financial balances less DM 0.2 billion receipts in respect of coinage in each case. — 7 According to more recent statistics. — 8 Source: Table 13 of the 1970 Annual Report. In the opinion of the commission of experts, any longer-term borrowing which, from a cyclically neutral base, grows at the same rate as the national product is neutral in its effects on economic activity. In the base year 1966 DM 7.5 billion was neutral in this way. Longer-term borrowing, as defined by the commission of experts, comprises bond issues, interest-bearing Treasury bonds (excluding medium-term notes), loans from banks, savings banks, insurance companies (excluding social security funds) and building and loan associations. — 9 According to the tax estimates of February 1971 less tax revenue is to be expected than according to the estimates of May 1970, on which the above figures are based. The shortfalls will amount in the case of the Federal Government to DM 1.6 billion in 1972, DM 2.3 billion in 1973 and DM 1.9 billion in 1974, and in the case of all central, regional and local authorities, to DM 3.1 billion in 1972, DM 4.2 billion in 1973 and DM 3.9 billion in 1974. It is an open question as yet whether net borrowing will be raised correspondingly.

to ensure that in the longer term expenditure does not increase faster than can be financed, with a neutral effect on economic activity, by the growth of receipts and reasonable recourse to longer-term borrowed funds, so that, in other words, the public authorities do not exercise an inflationary effect (or a deflationary one, although this is not pertinent today) over a period of several years.

The problem of the cyclically neutral base year . . .

A particular difficulty encountered by medium-term fiscal planning and one reason for the frequent revisions it undergoes is the selection of its base. Hitherto, planning has been based on the existing budget for the current year, which is succeeded by the draft budget for the following year. For the remaining three years of the planning period it is then assumed that the economy will move smoothly towards the goals set down in the medium-term target projection for the final year; in other words, it is assumed that economic movements start from a point strongly affected by cyclical conditions and very gradually draw nearer to the medium-term path. This, however, does not allow for the possibility of the economic cycle continuing to swing. Then in the first year when the boom begins to flag, and still more in subsequent years, there cannot fail to be disappointment at the fact that the envisaged growth rates of receipts are out of reach. "Tax shortfalls" occur in the medium-term fiscal planning, and unless expenditure is modified, the deficits, and hence the borrowing requirements, grow. The above table shows that the net borrowing planned in the Federal budget has quite frequently been amended in this direction from one fiscal planning period to the next.

. . . and cyclically neutral credit needs

The problems outlined here could be reduced considerably if in the medium-term fiscal planning of the Federal and Länder Governments — and the position is similar with forecasts of the finances of the pension insurance funds (see page 82) — an imputed "cyclically neutral" base year is taken as the starting point; that is, if national product, government receipts, and borrowing requirements are ascertained and projected after adjustment for cyclical influences. At the very least, alternative calculations should be made based on differing assumptions. To cite an example, the council of experts has on this basis computed the longer-term borrowing by the central, regional and local authorities that would be "neutral" in its effect on economic activity – i.e. the amount that could be borrowed without adverse consequences, given a balanced development of the economy. In the table on page 27 these figures are projected up to 1974, together with the assumptions of the Fiscal Planning Council on the growth of the national product; they indicate that for 1974 "neutral" borrowing by all central, regional and local authorities would amount to DM 13.5 billion, a figure already exceeded by the estimates of the medium-term fiscal planning for 1970/1974 (DM 15.7 billion). The disparity is likely to become greater still if this fiscal planning is updated while no new decisions are taken, despite the necessity of such a step, to narrow the financial gap at the same time. Leaving aside these methodological problems, which are certainly soluble, medium-term fiscal planning already provides a starting point for a contribution by the public authorities to the achievement of constancy in expenditure and revenue planning and thus to the reduction of the fluctuations in demand in the economy. If their budgets were linked more closely to the medium-term plans, it would be easier than before for the Federal and Länder Governments to decide on special anticyclical programmes – e.g. for curbing demand in the upswing phase and stimulating it during a recession – such as measures of tax policy in accordance with Article 26 of the Law on Economic Stability and Growth, or the levying of the "anticyclical surcharge" and its subsequent repayment, which, incidentally, do not effect the operation of the budget.

(c) The course of incomes and the realisation of steady economic growth

The "leads and lags" in the movement of the principal categories of income are a further major cause of the cyclical fluctuations. Mainly for institutional reasons – the duration of wage agreements, but also because changes on the labour market lag behind the trend of demand throughout the economy – wages follow the course of the cycle only after a delay. During the upswing there is to begin with only a sluggish rise in wages, but in the downswing phase, as described for late 1970 and early 1971, wages and salaries increase for a time as if the upswing were proceeding as strongly as ever. Hence the movement of wages has the effect of intensifying the cycle: the initial relatively small rises in wages during the upswing make the profit situation appear more favourable to entrepreneurs than it really is in the long term, while the large wage increases at the beginning of the downswing step up the pressure on profit margins, at least temporarily, and may result in heavier cuts in investment plans than are necessary or advisable. These time lags in the distribution of incomes are, however, in many respects inherent in the economic process. In view of the autonomy of management and labour, which is an indispensable feature of our economic system, it is not to be expected that agreements could be reached in which over a long period one side or the other would not fully exploit the opportunities offered by the market on account of "superordinate" goals. The position is different in periods of cyclical transition, when the further development of the market situation can easily be miscalculated; such miscalculation would then work out to the detriment of either management or labour, depending on circumstances. In the case of a possible downturn in economic activity, for instance, deliberate restraint by employees might help to prevent an otherwise conceivable drop in the level of employment. Such an attitude, of course, calls for "symmetry" during the upswing phase, that is, wage concessions at a time when profits are only just beginning to improve. It may be inferred from this that no "anticyclical" stance can be hoped for in the field of incomes, which are, after all, more the consequence of economic processes than their cause. However, it can presumably be hoped that the parties concerned become aware in good time of the danger of procyclical trends. The clarification of this question is one of the most important functions of the "concerted action" meetings. But the prevention, if possible, of economic imbalances, and the moderation of cyclical swings once they have been started are primarily tasks for economic policy, and thus, although its room for manoeuvre is often very greatly constricted by external factors, for monetary policy, too, as monetary policy is the most sensitive instrument of cyclical control.

II. International monetary trends and monetary policy

1. General survey

Tranquillity in the monetary system after weathering the crises

In marked contrast to the preceding crisis-ridden years international monetary relations were remarkably calm in 1970. Some of the acute imbalances in the international payments system were eliminated after the French franc had been devalued in the summer of 1969 and the Deutsche Mark subsequently revalued in the autumn of the same year. The United Kingdom, which had changed its parity as early as November 1967, continued to consolidate its external monetary position during the period under review and was able to redeem the entire short-term monetary indebtedness which it had contracted during the preceding crisis years. The floating of the Canadian dollar on June 1, 1970 was accompanied by some unrest in the foreign exchange markets, although only for a few weeks. Speculation against the Italian lira in the summer of 1970 ebbed away very quickly once a stable government had been established in Italy. Disequilibrium in the payments relations between the United States and the other industrial countries, however, continued unchanged during the period under report; a slight improvement in the trade balance and the entire current account of the United States was offset by a considerably larger deterioration in its capital account, mainly because of short-term money flows. By the time this Report went to press this had not caused any critical developments in the foreign exchange markets. It is quite remarkable that in February 1971 the Managing Director of the International Monetary Fund could state publicly that at present no important currency appeared to need a parity change (in which context he evidently assumed that an adjustment of the U.S. dollar parity is, for a variety of reasons, entirely unrealistic). The tranquillity in the international monetary system was also reflected in the free gold market, for which 1970 turned out to be the calmest year since the big speculative wave of 1967/68. Despite the slackening of business activity in the United States, world trade continued to expand surprisingly strongly.

Better equilibrium on current account . . .

During the period under review the balances of payments of a number of important countries — at least as far as *current accounts* are concerned — moved in the direction of better international equilibrium (see the table overleaf). By contrast, *capital movements* became a disturbing factor for a number of industrial countries. This applies, in particular, to short-term capital flows. In the period under report the reversal in the interest rate differential between North America and Western Europe induced money flows between the two continents of a volume even exceeding those recorded during the big monetary crises of the years 1967 to 1969. These money flows in 1970 resulted in a record deficit for the overall U.S. balance of payments and in an all-time high of surpluses in the German and British foreign exchange balances. In connection with these short-term money flows the foreign exchange reserves of some West European countries increased to a quite unusual degree. Since these interest-induced foreign exchange flows were obviously regarded by the markets mainly as a temporary development rather than as the result of fundamental imbalances they have not caused any speculative monetary unrest so far.

. . . but large interest-induced capital movements

The main problem: world-wide inflation

The main problems facing the international monetary system were clearly shifting from the field of balances of payments to the issue of *inflation* during the period reviewed here. Cost and price inflation has increasingly become a world-wide phenomenon that today no longer by-passes the former "islands of stability". This raises the question of whether this general spreading of price rises is due to shortcomings in the international monetary system or is principally caused by the world-wide appearance of new social tendencies which have weakened the effectiveness of the traditional demand management instruments in influencing developments in wages and prices.

2. International balance of payments developments

(a) British and French balances of payments and reserve positions restored

Large balance of payments surpluses in the United Kingdom . . .

The exchange rate adjustments made over the past few years have had quite favourable effects on the current accounts of the countries concerned. This applies in particular to the two former deficit countries France and the United

Current balances * of major countries

Millions of U.S. dollars

Country	1968	1969	1970
United States	— 336	— 885	+ 638
United Kingdom	— 734	+1,049	+1,514
EEC countries			
Germany (Federal Republic)	+2,725	+1,609	+ 666
France 1	— 894	—1,700	e — 100
Italy	+2,627	+2,370	+ 812
Benelux countries	+ 120	+ 445	+ 504
All EEC countries	+4,578	ca. +2,700	ca. +1,900
Canada	— 56	— 735	+1,250
Japan	+1,048	+2,119	+2,014
Total	+4,500	ca. +4,300	ca. +7,300

Source: OECD Secretariat and national statistics. — * Balance of trade, services and transfer payments. — 1 Calculated or estimated by OECD Secretariat (current items on transaction basis). — e Estimated.

Kingdom, but in the opposite sense — as set out in Part I of this Report — also to the Federal Republic of Germany. In 1969 the *United Kingdom* achieved a surplus on current account of approximately $ 1 billion and in 1970 one of as much as $ 1.5 billion. It appears unlikely that a current account surplus of such magnitude will be achieved in 1971. The United Kingdom has relatively the highest rate of price rises among all major industrial countries and its economy is particularly affected by strikes and other upsetting factors; hence in 1971, or at the latest in 1972, this surplus tendency will probably wane. *France* was able, after overcoming the large deficits recorded in the preceding years, almost to attain equilibrium on current account during the year under review. This improvement on current account was accompanied in both countries by large surpluses on capital account. In part these surpluses resulted from a reversal in the leads and lags and from the repatriation of funds which had left these countries during the currency crises. For the United Kingdom another factor was the renewed build-up of the overseas sterling balances to their former level and beyond. In the latter months of the period under review, finally, the increasing interest rate differential to the Euro-market rates provoked heavy flows of short-term funds into both countries, in particular the United Kingdom.

... and France ...

... permit redemption of short-term currency debts and rebuilding of reserves

In 1970 the *United Kingdom* recorded an exceptionally large foreign exchange surplus of almost $ 3.1 billion from both the current account and the capital inflows. As in the year before this foreign exchange gain was mainly used to repay currency debts incurred during the crisis years. At their peak, i.e. at end-1968, these debts amounted to $ 8.1 billion. By end-1970 they had already been reduced to about $ 3.3 billion. The persistently high foreign exchange inflow during the first months of the current year enabled the United Kingdom, in addition to building up its monetary reserves, to make further debt repayments. Thus in January 1971 the last instalments under the first Basle Group Arrangement of 1966 were repaid in advance. By the beginning of March 1971 the U.K. monetary authorities had repaid all their short-term currency debts. At present the only outstanding medium-term liability from the crisis years is that to the International Monetary Fund; of the $ 2.3 billion outstanding at the beginning of March the United Kingdom was able to repay $ 685 million prematurely by the end of the month. The second Basle Group Arrangement, which was concluded in 1968 to provide a safety-net against possible fluctuations in the sterling balances of the overseas sterling area, was used by the United Kingdom only in moderate amounts and only until September 1969. Since the agreement on this facility of up to $ 2 billion is due to expire in September 1971, negotiations are at present under way with a view to renewing it for another two years. The fact that hitherto little recourse has been had to the facility provided by the Basle Group of central banks will facilitate its extension.

Even more rapidly than the United Kingdom, *France* was able, after the devaluation of the franc in August 1969, to repay its currency debts and to rebuild its reserves. Already in the latter months of 1969 several hundred million dollars had flowed back, and in 1970 France recorded a foreign exchange inflow of approximately \$ 1.8 billion, while the current account was roughly in equilibrium. One half of these foreign exchange inflows was used to repay debts while the rest served to replenish the monetary reserves. At the end of 1970 the only outstanding indebtedness incurred during the monetary crisis was towards the International Monetary Fund, to the amount of approximately \$ 1 billion; of this sum, however, \$ 375 million will restore the French gold tranche, thus representing only the recourse which had been made to the French IMF reserve position.

(b) Settlement of the Bundesbank's assistance credits

Full repayment of the German assistance credits

The repayment of the British and French currency debts also benefited the Bundesbank. At the end of 1969 the claims of the Bundesbank stemming from support operations, including its financial contribution to the first Basle Group Arrangement, had still amounted to DM 3.8 billion. The bilateral credits extended by the Bundesbank to the Bank of England were redeemed by the end of March 1970 and those granted to the Bank of France by the end of April 1970. The German claims on the IMF for contributions to the financing of drawings by other countries, among them primarily the United Kingdom and France, were mobilised by the Bundesbank in November and December 1969 to finance the heavy foreign exchange withdrawals from the Federal Republic of Germany after the revaluation of the Deutsche Mark (for details see the Annual Report for the Year 1969, page 37). The contribution of the Bundesbank under the first Basle Group Arrangement was fully repaid, as already mentioned, in January 1971. *This means that the currency credits which the Bundesbank had granted or helped to finance in connection with the past monetary crises are now fully discharged.*

(c) Clouded U.S. balance of payments

Record deficit of the U.S. balance of payments . . .

The big unsolved problem of the international payments scene is now, as in the past, the disequilibrium in the U.S. balance of payments. In this field certain developments have taken place in the period under review which call for some brief comment. It has become quite difficult for non-specialists to estimate correctly the trend of the U.S. balance of payments on the basis of traditional official statistics. For example, the "balance of official reserve transactions" released by the U.S. authorities showed for 1969 a surplus of \$ 2.7 billion and for 1970 a record deficit of \$ 10.7 billion, which is a deterioration from one year to the next of no less than \$ 13.5 billion! Against this, the official "liquidity balance" for 1969 shows a deficit of \$ 7.0 billion and for 1970 a deficit of \$ 4.7 billion, which would reflect an improvement of \$ 2.3 billion (in 1970 not including special drawing rights allocated).

. . . owing to large outflows of short-term capital

Neither the sensational deterioration in the balance on official reserve transactions nor the improvement in the liquidity balance gives a true picture of the basic tendency in the U.S. balance of payments. In both computations the true payments picture is distorted by volatile flows of short-term funds. If the short-term capital movements are eliminated as far as practicable for the years 1969 and 1970, an almost unchanged basic deficit of about \$ 3 to 3.5 billion annually will appear (see the table overleaf). The above-mentioned slight improvement on current account in 1970 was largely offset by a deterioration in the long-term capital account, mainly due to higher U.S. direct investments abroad and reduced foreign purchases of securities in the United States. The U.S. Department of Commerce arrives at a similar conclusion, namely that the liquidity deficit in 1970, adjusted for short-term special influences, amounted to approximately \$ 4.5 billion (excluding allocated SDRs) and thus was not very different from the adjusted liquidity deficit for 1969.

Despite economic slack only minor improvement in the U.S. basic balance

The but slight improvement in the basic tendency of the U.S. balance of payments is particularly disappointing considering that in 1970 the U.S. economy was in a period of economic slack, whereas at the same time in Japan and in most European countries economic activity was running at full speed and production costs were often rising even more than in the United States. The past years of inflation seem

Basic data from the U.S. balance of payments

Billions of U.S. dollars

Item	Annual average 1960 to 1967	1968	1969	1970
1. Current balance	+3.2	−0.3	−0.9	+ 0.6
2. Long-term capital movements	−4.9	−1.5	−2.4	− 3.6
3. Basic balance	−1.7	−1.8	−3.3	− 3.0
4. Change in short-term external position of U.S. commercial banks (net outflow: −)	3 +0.5	+3.7	+7.8	− 7.4
of which: Liabilities	3 +1.1	+3.8	+8.7	− 6.2
5. Other short-term capital movements (incl. balancing item)	−0.9	−1.0	−2.3	− 1.1
6. Overall balance of payments 1				
(a) Official reserve transactions	−1.9	+1.6	+2.7	4 −10.7
(b) Liquidity balance 2	−2.5	+0.2	−7.0	4 − 4.7

Source: Survey of Current Business; OECD. — 1 Including unspecified special transactions. — 2 Change in monetary reserves and in liquid external liabilities. — 3 Annual average for the years 1961 to 1967. — 4 Excluding allocation of special drawing rights.

to have impaired the competitiveness of U.S. industry in foreign markets — and also in the home market against imports from other industrial countries — rather more than has hitherto generally been assumed. U.S. economists have increasingly put forward the view that the United States should adopt a "passive" attitude towards its payments disequilibrium, or, as has occasionally been suggested, should treat it with "benign neglect" and leave it to the surplus countries to find a solution. A country as decisive for the equilibrium of the world economy and the world monetary system as the United States can, however, hardly shirk its responsibility, especially when — as at present — disregard of its payments problem is a major inflationary threat to the rest of the world. It is therefore gratifying that leading representatives of the U.S. Treasury and the Federal Reserve System and also the President of the United States himself in his recent "State of the World Message" have explicitly emphasised the great responsibility of the United States for better equilibrium in the world economy.

(d) Short-term capital movements upsetting the world economy

Interest rate differential between the United States and Europe reverses . . .

There can be hardly any doubt that the persistent deficit of the U.S. basic balance of payments, especially as long as it is accompanied and in part caused by inflationary price developments in the United States, continuously spreads new inflationary tendencies throughout the rest of the world. During the period under report this effect was considerably intensified by the fact that in addition to the basic deficit a large volume of short-term funds moved from the United States to the Euro-money market, from where they passed on to a number of other industrial countries. This was primarily caused by the radical reversal in the interest rate and liquidity relations between the United States and most other industrial countries. In 1969 the United States, by a very sharp tightening of its interest rate and liquidity policy, had pushed up interest rates not only at home but to an even greater degree in the Euro-dollar market. This attracted short-term and to some extent also long-term funds from all over the world. Early in 1970 the Federal Reserve System sharply reversed its policy in order to forestall a threatening recession and an unacceptably high level of unemployment. In most European countries, however, the prime concern continued to be the fight against inflation, so that these countries abided by a comparatively restrictive monetary policy.

This resulted in a complete reversal of the interest rate differential. The three-month Euro-dollar rate, for example, peaked in June 1969 with a monthly average of 11.1 % (on one day the highest rate was even above 12 %), whereas at the same time the average rate for three-month time deposits in Germany ran at 5½ %. At the end of March 1971, however, the corresponding Euro-dollar rate had gone down to 5¼ %, whereas the three-month rate in Germany was still standing at 7½ %, after having risen to as much as 9 % in October 1970. Three-month U.S. Treasury bills in January 1970 were quoted at almost 8 %, but early in March 1971 at as low as only 3.3 %. There were similar developments in relation to interest rates in several other industrial countries; the differential between U.K. rates and Euro-dollar or U.S. interest rates was in fact substantially greater than in the case of German rates.

. . . and causes huge international money movements

This reversal of the interest rate relationship between the United States and other industrial countries led to an unusually large volume of foreign exchange flows. During the liquidity squeeze in 1969 U.S. banks had attracted foreign short-term funds to the tune of no less than $ 9 billion, drawn mostly from the Euro-market through their own European branches. In 1970, on the other hand, when they had access to less expensive domestic money, they shifted approximately $ 6 billion of these funds back to foreign countries. In the first months of 1971 this trend continued on a large scale; by the middle of March U.S. commercial banks had repaid a further $ 3.5 billion to the Euro-dollar market. Moreover, because of the changed interest rate structure U.S. banks again increasingly refinanced the foreign trade of other countries, especially that of Japan. Many U.S. corporations also repaid the short and medium-term credits they had raised abroad during the high rate period.

As has already been mentioned, the reversal of the short-term money flows in 1970 resulted in a $ 13.5 billion deterioration of the U.S. payments balance, i.e. a shift from a $ 2.7 billion surplus in 1969 to a deficit of $ 10.7 billion (excluding allocated SDRs) in 1970. A swing of similar magnitude, although in the opposite direction, occurred in the reserve balances of the EEC countries, i.e. from a decline of $ 3.2 billion in 1969 to an increase of no less than $ 8.4 billion (excluding allocated SDRs) in 1970. That these enormous fluctuations of the EEC balance were caused exclusively by alternating capital movements is demonstrated by the fact that the combined current balance of the EEC countries with the rest of the world actually deteriorated from 1969 to 1970 (see the table on page 30). Three quarters of the swing in the reserve balance of the EEC countries was accounted for by the Federal Republic of Germany alone; that country's foreign exchange balance, which in the revaluation year 1969 was still almost $ 3 billion in deficit, in 1970 recorded a surplus of more than $ 6 billion, produced exclusively by inflows of short-term funds, despite a deficit in the basic balance. In addition to the EEC countries, other European countries, especially the United Kingdom, recorded heavy foreign exchange inflows.

Twofold U.S. balance of payments problem

During the period covered by this Report the international monetary system thus had to cope with a twofold balance of payments problem of the United States. There was first the almost unchanged deficit of the U.S. basic balance, while on top of it there was the gigantic flow of short-term capital triggered by the reversal of U.S. monetary policy. It is, of course, true that the monetary flows from the United States since the beginning of 1970 were merely a counter-movement to earlier flows in the opposite direction. In point of fact, in the years 1968 and 1969 the U.S. balance on official settlements had still shown surpluses totalling $ 4.3 billion because of these movements (see the table opposite); and for the three years 1968 to 1970 taken together the U.S. reserve deficit averaged only about $ 2.1 billion p.a., thus being smaller than the simultaneous average basic deficit of the United States. It must also be admitted that the interest-induced dollar outflows from the United States and the additional outflows from the Euro-money market were influenced not solely by the sharp shift in U.S. monetary policy but also by the continuation of restrictive monetary policies in several European countries and by the investment of reserves in the Euro-money market by monetary authorities.

Nevertheless, the sudden flooding of other countries with dollars from the beginning of 1970 did disturb the monetary equilibrium of the world and has had an inflationary impact upon the monetary systems of numerous countries. In a period marked by strong internal inflationary forces, this dollar flood has, to say the least, made it much more difficult for these countries to pursue anti-inflationary policies. The consequences for the Bundesbank's monetary policy are described in Part I of this Report.

Germany particularly affected by large money inflows

The foreign exchange movements discussed above show that during the period under report Germany involuntarily became a sort of antipole to the United States by attracting a very considerable part of the foreign exchange outflows from that country. The Bundesbank endeavoured to keep the interest differential to the receding Euro-money rates within limits by reducing its discount rate in July, November and December of last year and at the end of March of this year. In European countries with large short-term currency indebtedness the unexpectedly high foreign exchange gains were used to repay these foreign debts, while at the same time an attempt was made to neutralise the liquidifying internal effects by measures of monetary policy. In addition, from January 1971 onwards the United Kingdom restricted borrowing by British corporations on the Euro-money market, without, however, preventing interest rates, which for domestic reasons were kept at a high level, from being undercut more and more by the foreign exchange inflow. Some other countries had already at an earlier stage introduced restrictions on borrowing abroad. In France the central bank employed a new refinancing method for the banks by flexibly adjusting its intervention rates to the declining Euro-market rates while keeping the discount rate, which largely determines the interest charged for bank credits, well above international money market rates. When massive inflows of short-term money threatened to render Canada's monetary policy ineffective, the Canadian monetary authorities let the Canadian dollar float at the beginning of June 1970.

Monetary autonomy of the European countries impaired . . .

Developments during 1970 and the first few months of 1971 have shown quite clearly how seriously the *monetary autonomy of European countries can be impaired* whenever monetary and especially interest rate effects emanating from the huge economy of the United States are not in conformity with the requirements of European monetary policy. Even when – as in the first few months of 1971 – several European central banks pursue similar interest rate policies, with the effect that the interest-induced money inflows are distributed over a number of countries, the U.S. and Euro-funds that are set in motion by the interest rate differential between the United States and Europe may reach such gigantic proportions that such a "common line of resistance" can actually be washed away.

. . . despite remedial action by the United States

It is entirely understandable that the U.S. monetary authorities primarily adjust their policies to the requirements of their domestic economy. But they will have to consider also the serious international repercussions of these policies. In fact, ever since the late autumn of 1970 the U.S. authorities have been seeking somewhat to mitigate the effects on the international money markets of their massive policy reversal. Thus, by special minimum reserve requirements they endeavoured to slow down the repayments by U.S. banks to the Euro-money market; moreover, since early in 1971 the U.S. Export-Import Bank has repeatedly borrowed large amounts on the Euro-dollar market – as a sort of counterweight to the fast repayments of the U.S. commercial banks to this market. However, all these measures have so far failed to eliminate, or even noticeably alleviate, the dilemma to which the monetary policies of various European countries have been exposed by the developments in the United States. Thorough relief can only be expected if the business upswing under way in the United States continues and puts an end to the decline in U.S. interest rates or if economic developments in Europe permit a lowering of interest rates on this side of the Atlantic.

3. Reserve developments and reserve creation

(a) Trends in world monetary reserves

The record deficit of the U.S. reserve balance of more than $ 10.5 billion in 1970 (excluding special drawing rights allocated) was accompanied by a record growth in the foreign exchange reserves of other countries. It is true that there were certain compensating items: part of the U.S. deficit was financed by recourse to the United States' own reserves. Above all, former debtor countries such as the United Kingdom and France were able to use the dollars accruing to them to repay their currency debts, which caused a corresponding destruction of monetary reserves. Nevertheless, the dollar flood emanating from the United States led to an unusually large increase in the monetary reserves of other countries. Foreign

Development of world monetary reserves
(gold, special drawing rights, IMF reserve positions, foreign exchange)

Millions of U.S. dollars

Item	Average annual change in the 6-year period from end-1958 to end-1964	Average annual change in the 6-year period from end-1964 to end-1970	Change 1968	Change 1969	Change 1970 p	Holdings End-1967	Holdings End-1970 p
Gold	+ 468	— 609	— 570	+ 190	— 1,940	39,505	37,185
Special drawing rights	—	+ 521	—	—	+ 3,124	—	3,124
IMF reserve positions	+ 266	+ 590	+ 740	+ 238	+ 971	5,748	7,697
Total	+ 734	+ 502	+ 170	+ 428	+ 2,155	45,253	48,006
Foreign exchange	+ 1,121	+ 3,329	+ 2,685	+ 315	+ 11,940	28,885	43,825
Total reserves	+ 1,855	+ 3,830	+ 2,865	+ 730	+ 14,095	74,140	91,830

Source: International Financial Statistics of the IMF. — **p** Provisional.

Extraordinary expansion of dollar reserves . . .

exchange reserves alone increased outside the United States by no less than $ 14 billion in 1970, thereby completely overshadowing the increase in other types of reserve assets, such as gold, special drawing rights and reserve positions in the IMF. Despite the allocation of special drawing rights to the value of $ 3.4 billion at the beginning of 1970, the increase in those reserve assets which are not tied to a national currency amounted to no more than $ 2.2 billion; the allocation of special drawing rights was partly offset by a fall in national gold reserves and a decline in the reserve positions in the IMF owing to repayment of debts. [1]

Closer analysis shows that the extraordinarily large increase in foreign exchange reserves outside the United States cannot be explained solely by the record U.S. deficit. Almost $ 2 billion had their origin in the replenishment of the reserves held in sterling by the sterling area countries and in the holding of Deutsche Mark assets as monetary reserves. The latter development reached a significant magnitude for the first time during the period under review. In addition, a considerable part of the rise in foreign exchange reserves in 1970 – probably more than $ 5 billion – can only be explained by a reserve creation via the Euro-money market independently of the U.S. payments deficit. The decisive element in this was that during the period under review central banks invested a fairly large amount of dollar reserves not in the United States but directly or indirectly in the Euro-money market, from where they flowed back to the central banks via the commercial banks of the countries involved; thus the same sum of dollars was added to the monetary reserves several times over.

The tremendous increase in foreign exchange reserves during the past year can thus mainly be traced back to four different sources: first, the deficit in the U.S. basic balance (or, more accurately, in the balance of non-monetary transactions) to the extent that it was not financed from the United States' own reserves; second, the reversal of short-term money flows between the United States and the Euro-money market; third, an additional reserve creation via the Euro-money market; and fourth, reserve creation via sterling and Deutsche Mark.

. . . partly caused by short-term money flows

The world monetary system thus faces a completely new situation; monetary reserves running into billions of dollars have unexpectedly come into being, merely because the interest rate differential between some important countries, or the differential between rates in these countries and the Euro-market, has shifted in a certain direction. It remains to be seen whether reserves created solely on the basis of short-term money flows will prove durable. In some countries which have benefited – or rather, suffered – particularly therefrom the resultant boosting of monetary reserves is in any case not regarded as a permanent feature and will certainly not be used as a base and an encouragement for a more expansive balance of payments policy. This applies, for instance, to the Federal

1 The decline in gold reserves shown for 1970 in the above table derived principally from gold payments to the IMF in connection with the general increase in quotas during the year 1970. These gold payments did not in every instance lead to a corresponding increase in Fund reserve positions, since the reserve positions of countries indebted to the IMF in the credit tranches did not improve as a result of their gold payments.

Republic of Germany: the boosting of German monetary reserves to roughly DM 57 billion by the end of March 1971 – from somewhat more than DM 26 billion at end-1969 – will not be regarded by the German monetary authorities as reliable and durable, since it is offset by a simultaneous increase of more than DM 30 billion in the short-term external indebtedness of German enterprises and banks.

Reserve growth exceeds longer-term requirements

Even if the insecure basis of part of this exorbitant reserve increase is disregarded, there is no doubt that it was out of all proportion to the genuine *reserve requirements of the world economy.* In the report on which the IMF's proposal for an annual allocation of $ 3.5 or 3 billion in special drawing rights for the years 1970 to 1972 was based, the Fund estimated the future reserve requirements of the world economy at an annual amount of anything between $ 3.5 and 6 billion, and the majority of the criteria applied called for an annual increase of between $ 4 and 5 billion (see Annual Report of the IMF, 1969, page 29). Starting from those estimates the world monetary reserves at end-1970 distinctly exceeded the amount which the IMF considered adequate. It is true that, when reserve developments are appraised, one must not base the evaluation on a period as short as one single year. Nevertheless, the recent boosting of dollar reserves has created at least a partial reserve surplus. Indeed, the dollar flood of the year 1970 and the first months of 1971 has brought various countries up to or even beyond the limits of their ability and readiness to take in still more dollars.

(b) First experience with special drawing rights

The first allocation of special drawing rights collides with boosting of dollar reserves

The considerations which in 1969 had led to the decision to make an initial allocation of special drawing rights for the three-year period from 1970 through 1972 were discussed in greater detail in the Annual Report for 1969. It was no doubt unfortunate that the first allocation of special drawing rights in 1970 took place in a period when, in contrast to the earlier assumptions, a huge volume of foreign exchange reserves was generated by a record deficit in the U.S. reserve balance and by other factors. Even though, as already observed, the allocation of special drawing rights should only be judged on a longer-term view and although world monetary reserves had almost stagnated in 1969, it is, after the developments in 1970, hardly legitimate any longer to claim there is a scarcity of world reserves which urgently calls for further allocations of special drawing rights as a corrective measure. Under these circumstances the activation of special drawing rights can be justified only by the consideration that with this instrument the reserve system can be transformed in the longer run into one which is no longer so much exposed to the fluctuations and risks of a national reserve currency.

Inflationary effect of special drawing rights doubtful

Incidentally, the experience hitherto gained with allocated special drawing rights permits two significant conclusions. *First,* the difficulties anticipated by some critics concerning the usability and acceptability of special drawing rights have not materialised. The regulations under which countries with strong currencies are required to accept special drawing rights after designation by the IMF have worked well, and indeed the technical procedure has been functioning quite smoothly altogether. *Second,* events so far have shown that allocated special drawing rights have up to now had hardly any significant inflationary effect, particularly when seen in relation to the other factors of reserve creation. In contrast to a gain in foreign exchange reserves, which, other things being equal, may have a marked expansive effect on the money supply of the country concerned, the mere allocation of special drawing rights normally has no expansive monetary effects whatever. The assumption that the allocation of special drawing rights might be inflationary therefore can only be based on the fear that the recipient countries might tend to relax their balance of payments policy unduly as a consequence of their improved reserve positions. The allocation of special drawing rights could only be expected to produce a world-wide inflationary effect if it induced countries of importance to the world economy to adopt a lax balance of payments discipline. In the preliminary discussions held in 1968 and 1969 on the first allocation, prime attention was therefore paid to the big deficit countries of that time – the United States, he United Kingdom and France. Today it may be stated that the allocation of special drawing rights had hardly

Regional breakdown of world monetary reserves
(gold, special drawing rights, IMF reserve positions, foreign exchange)

Millions of U.S. dollars

Country	Average annual change in the 6-year period from end-1958 to end-1964	end-1964 to end-1970	Change 1968	1969	1970 p	Holdings End-1967	End-1970 p
1. European industrial countries	+ 1,952	+ 1,757	— 1,632	— 3,166	+10,486	35,613	41,301
Germany (Federal Republic)	+ 334	+ 955	+ 1,795	— 2,819	+ 6,481	8,153	13,610
France	+ 779	— 127	— 2,793	— 368	+ 1,127	6,994	4,960
Italy	+ 273	+ 246	— 121	— 329	+ 286	5,463	5,299
Benelux countries	+ 247	+ 252	— 559	+ 267	+ 1,164	5,209	6,081
EEC countries	+ 1,633	+ 1,325	— 1,678	— 3,249	+ 9,058	25,819	29,950
Other 1	+ 319	+ 432	+ 46	+ 83	+ 1,428	9,794	11,351
2. Japan	+ 160	+ 470	+ 876	+ 748	+ 1,185	2,030	4,839
3. Canada	+ 142	+ 298	+ 329	+ 60	+ 1,573	2,717	4,679
4. Other developed countries (excluding United States)	+ 493	+ 320	+ 1,305	+ 390	+ 875	5,945	8,515
5. United States	— 978	— 364	+ 880	+ 1,254	— 2,477	14,830	14,487
All developed countries (1 to 5)	+ 1,769	+ 2,481	+ 1,757	— 714	+11,642	61,135	73,820
6. Developing countries	+ 86	+ 1,349	+ 1,108	+ 1,444	+ 2,450	13,005	18,005
All countries	+ 1,855	+ 3,830	+ 2,865	+ 730	+14,095	74,140	91,830

Source: International Financial Statistics of the IMF. — 1 United Kingdom, Switzerland, Austria, Denmark, Norway, Sweden. — p Provisional.

any influence on the balance of payments policies of these countries. During the first year when special drawing rights were allocated, the United Kingdom and France recorded large balance of payments surpluses and did not use special drawing rights to cover deficits; the United Kingdom used only a small amount for the premature repayment of currency debts. Since mid-1970 both countries have in fact been put by the IMF on the list of those countries with strong currencies, which are required to accept special drawing rights whenever they are designated by the IMF. The question of whether domestic or external monetary policy in the United States has been noticeably influenced by the allocation of special drawing rights can be left open. From January to November 1970 the United States used fewer special drawing rights than it acquired, so that its holdings rose above the level of the first allocation. It used $ 110 million of special drawing rights in December 1970 to repay dollar liabilities, and in the first quarter of 1971 again used, at the request of several countries, a total of $ 100 million to convert dollar holdings of those countries amounting to $ 375 million, an operation which also involved the U.S. reserve position in the IMF and a small sum of gold.

Overall, of the first allocation of special drawing rights, to a total of $ 3.4 billion, an amount of $ 859 million was used in 1970. Of this sum, $ 387 million was used in payments to the IMF itself, especially for payments on earlier drawings, payments of charges and the like. A further amount of $ 181 million was employed by the reserve currency countries United States and United Kingdom to redeem outstanding liabilities in their own currencies (the United States at the same time acquired special drawing rights equivalent to $ 144 million from other countries and from the IMF). "Normal" use to acquire foreign exchange from other countries on the basis of "designation" by the IMF was confined to an amount of $ 291 million, or roughly one third of all utilisations. These transactions were carried out mainly by developing countries. It is unlikely that any measurable inflationary effect on the world economy could have emanated from them. It is also not very plausible that the mere allocation of special drawing rights should have affected the balance of payments policies of these countries in any appreciable way, since the amount of special drawing rights allocated to this group of countries was insignificant as compared with the simultaneous reserve gains from other sources.

Minor significance of special drawing rights for German monetary reserves

Of the first allocation for 1970 the Federal Republic of Germany received an amount of $ 202 million; of the second allocation at the beginning of 1971 it received special drawing rights totalling $ 171 million. In accordance with German legal provisions these special drawing rights were received directly by the Bundesbank. In 1970 the Bundesbank acquired additional special drawing rights worth \$ 56 million from other countries because of designations by the IMF and the British debt repayments mentioned above. Following the second allocation early in January 1971 the Bundesbank therefore held special drawing rights in its reserves totalling \$ 429 million, which was very little compared with its aggregate reserves at that time of \$ 13.5 billion.

The decision taken in the autumn of 1969 on the allocation of special drawing rights for the three-year period from 1970 through 1972 provides for a further allocation of \$ 3 billion early in 1972. Despite the unexpected developments in world monetary reserves during the period under review it is hardly likely that the decision then taken by the IMF countries for 1972 will be reversed. On the other hand it will greatly depend upon reserve developments in 1971 and 1972, and particularly upon the future shape of the U.S. balance of payments, as to whether more special drawing rights will be allocated immediately after the three-year period 1970 through 1972.

(c) General increase in IMF quotas

The general increase in IMF quotas decided at end-1969 (see on this point the Annual Report for 1969, page 41) was carried out before the end of 1970, even though the deadline for the member countries to agree to their new quotas is not reached until November 15, 1971. At the end of January 1971, 105 out of 117 members of the IMF had expressed their consent to the increase in their quotas. Thus the total of all IMF quotas has risen to \$ 28.4 billion, as compared with \$ 21.3 billion at the end of 1969.

With effect from December 24, 1970 the German quota increased from \$ 1.2 billion to \$ 1.6 billion after Germany had declared its consent to the increase in its quota and the Bundesbank had paid the additional gold subscription of 25 % of the quota increase. The German reserve position in the IMF increased to the extent of this gold payment, so that only an exchange was made of two different reserve assets.

German reserve position in IMF now held entirely by the Bundesbank

As already set forth in detail in a special article published in the Monthly Report of the Bundesbank for January 1971, legal arrangements have been made in connection with the increase in the German quota which enable the Bundesbank to treat as its own assets the German claims on the IMF resulting from the gold payment and the provision of Deutsche Mark for the financing of drawings by other countries. German payments to the IMF have always been financed by the Bundesbank, although nominally in the form of credits granted to the Federal Government. Together with the claims resulting from credits granted by the Bundesbank under the General Arrangements to Borrow with the IMF, the German drawing rights in the gold tranche had for quite some time been treated by the Bundesbank as monetary reserves in its statistics, although not in its balance sheet. Both these claims were handled in this way, because in case of need they can in fact be utilised automatically for the purchase of any intervention currency needed without being subject to any special conditions. The ready availability of the reserve position in the IMF in case of a foreign exchange need was fully confirmed when large foreign exchange outflows from Germany followed the Deutsche Mark revaluation in October 1969. Henceforward the Bundesbank can show these claims in its weekly return and in its balance sheet together with the special drawing rights, which it receives directly according to the legal provisions, in one combined item as a special kind of reserve asset. The new arrangement affects only the internal relationship between the Federal Government and the Bundesbank and has no effect on the position of Germany in the IMF. As far as the relationship with the IMF is concerned the Federal Republic of Germany, as the holder of the IMF membership, continues to own the German claims and has to meet Germany's obligations. This in particular means, for instance, that only the Federal Government may make drawings in the credit tranches when such need arises, in which case it would also have to fulfil the conditions normally imposed by the IMF for the conduct of economic policy.

4. Endeavours to improve the international monetary system

(a) Curbing or controlling short-term money flows

Disturbing money flows are a new problem for the world monetary system

The enormous international money flows have raised a number of questions. Can a disturbing international interest rate differential be avoided, or its size at least be reduced, by better coordinated policies among the major countries? Or is there some other way to check international money flows to such an extent that they no longer disturb the foreign exchange balances and in particular the monetary autonomy of the countries affected? How far can the independence of monetary policy in the European countries be maintained against the influences of U.S. monetary policy and the Euro-money market, and what conclusions should be drawn for monetary and economic policy from recent experience? What policies should the national and international monetary authorities adopt vis-à-vis the Euro-money market? To what extent can progress along the road towards a monetary union within the EEC secure greater independence for European monetary policy?

During the period under report a keen discussion has commenced on these and similar questions, partly in committees of the EEC and OECD (Working Party 3), partly also within the Basle Group of Central Bank Governors. Lately, the U.S. monetary authorities have also become rather more conscious than before of the need to ensure better international cooperation on these matters. The President of the United States himself mentioned in his State of the World Message to Congress, published at end-February 1971, that the rapid and large-scale movements of funds present international monetary cooperation with the task of "handling large-scale shifts of liquid capital without exchange crises or losses in the ability of individual nations to pursue their own monetary policies". This will be no simple task for the immediate future.

(b) Making the exchange rate system less rigid

Discussion on relaxation of the exchange rate system

In another field deliberations to improve the international monetary order have been under way for some time. During the period under report they have in fact somewhat intensified as concerns possible further changes in the exchange rate system.

The monetary crises in the years 1967 to 1969 gave reason to re-examine the present IMF rules for the exchange rate system. In the course of these crises it had become apparent that necessary changes are often delayed for too long. As a result fundamental payments disequilibria and distortions in industrial structures occasionally assume intolerable proportions, quite apart from the violent currency crises which have frequently shaken the world monetary system and also the money systems of the countries concerned until the unrealistic exchange rates were eventually adjusted. This also raises the question of whether the disturbing fluctuations in short-term capital transactions could not better be handled by a controlled relaxation of the exchange rate system.

The tranquillity in international monetary relations since the end of 1969 made it possible to study these problems and the possible future evolution of the exchange rate system without running the risk of provoking renewed speculative disturbances. The discussions were conducted primarily by the Executive Board of the IMF and by the Group of Ten. The first tangible result was a report by the Executive Directors of the IMF on "The Role of Exchange Rates in the Adjustment of International Payments" which was submitted to the Board of Governors of the IMF at its annual meeting in Copenhagen in September 1970. In this report the Executive Directors unanimously came to the conclusion that the basic elements of the exchange rate system as it had developed on the basis of the IMF Articles of Agreement should remain in effect unchanged. "The par value system, based on stable, but adjustable, par values at realistic levels remains the most appropriate general regime to govern exchange rates . . ." Starting from this basis all proposals for greater exchange rate flexibility, especially freely floating rates, but also considerably wider margins and regular automatic parity adjustments based on a formula established in advance (e.g. according to movements in exchange rates or to changes in monetary reserves over some reference period), were rejected.

Proposed improvements

Three possible improvements of the present system were put up for discussion:
1. a prompt adjustment of parities in more frequent and therefore smaller steps;
2. a slight widening of margins beyond the $\pm$ 1 % of parity permitted at present under the IMF Articles of Agreement;
3. a temporary floating of the exchange rate, especially in the case of a transition from an obsolete to a new parity.

In their report to the IMF Governors the Executive Directors stated that they had not come to a final view on the pros and cons of such a modest and cautious change in the exchange rate system. At the time of the annual meeting of the IMF in Copenhagen it also had not yet become clear how far changes might be necessary to the IMF Articles of Agreement for such a cautious relaxation. Therefore no final opinions were offered at the meeting. The Executive Directors and the Management of the IMF were asked to further examine the proposals and the problems raised by them. At the annual meeting the German Minister of Economics advocated in general terms an improvement of the exchange rate system in the direction of greater flexibility without, however, discussing the various proposals in detail. Like some other Governors he emphasised in particular that greater international exchange rate flexibility was not incompatible with narrower margins and more monetary harmonisation within the EEC.

Impediments to the realisation of the relaxation proposals

Since the autumn of 1970 the discussions on a possible relaxation of the exchange rate system have made little progress. This is due especially to two difficulties. On the one hand, several important countries entertain misgivings about a formal change in the exchange rate provisions of the IMF Agreement, even though they believe that one or the other of the suggestions would indeed be of interest; it is accordingly still under discussion as to whether and how far the proposed relaxation might possibly be realised, without changes in the IMF Agreement, simply by a policy decision of the IMF Executive Directors regarding a more flexible application of the existing rules. On the other hand, the EEC countries have decided as far as possible to adopt a common attitude in this matter. Up to the time of going to press a common position of the six EEC countries had not yet been arrived at. Clearly, further discussions in the IMF and in the Group of Ten will be adversely affected by the present immobility of the Six on such questions of external monetary policy.

5. Monetary cooperation within the EEC

(a) Step by step establishment of an economic and monetary union

Decisions of the Council of Ministers of the European Communities taken on February 8 and 9, 1971 . . .

The most tangible progress in the development of the international monetary system was achieved in the period under report within the smaller circle of the EEC. A detailed account of the early stages of the work done in 1969 is contained in the preceding Annual Report. In February 1971 the decisions taken by the Council of Ministers of the European Communities laid the foundation for the step by step establishment of an economic and monetary union in the course of the next ten years.

The preliminary work was performed mainly by the so-called *Werner Group,* a group of experts composed of the chairmen of those committees of the European Communities which discuss matters of economic and monetary policy. The Group was chaired by the Luxembourg Prime Minister, Pierre Werner. This Group submitted its recommendations in an interim report drafted in May 1970 and in a final report addressed to the Council of Ministers and to the Commission in October 1970. In the final resolutions passed by the Council in February 1971 not all the suggestions made by the Werner Group were taken into account. Thus it was not found possible already at this juncture to get the member countries to make *firm commitments* to effect the necessary adjustments in the Treaty of Rome before the end of the first three-year phase, to transfer certain national competences in the field of economic and monetary policy to the Community as from the second phase, and to agree upon a specific institutional Community structure for the final phase as from 1980 (one institution each for economic and for monetary policy) including a European Parliament genuinely responsible for economic policy.

Nevertheless, the Council of Ministers accepted practically all the suggestions made by the Werner Group for the first three-year phase from 1971 to 1973. For the subsequent phases at least declarations of political intent were made. These declarations concern, among other things, the transition to a second phase after three years, the adjustment of the Treaty of Rome to the extent that this should prove necessary, the completion of the union if possible in ten years, the vesting of competences in the European Parliament according to the progress achieved with the common economic policy, and the further development of a common structural and regional policy.

The Council of Ministers of the European Communities in February 1971, besides the basic decision on the economic and monetary union, also passed decisions "on the strengthening of cooperation among the central banks of the member countries" and "on the strengthening of coordination in the short-term economic policy of the member countries". These decisions are intended to implement important sections of the basic decision referred to. Moreover, at the same meeting of the Council of Ministers the "mechanism for medium-term monetary assistance" within the EEC, which had been under discussion since 1969, as well as the "third programme for medium-term economic policy" (establishing coordinated medium-term orientation data for the member countries) were passed. The scheme for medium-term monetary assistance is to come into force from January 1972; this scheme provides for standby facilities to an overall amount of 2 billion units of account (= gold dollars), of which Germany will make available, via the Bundesbank, 600 million units.

(b) Measures for the first phase

For the first phase, which runs from 1971 to 1973, the basic decision provides on the one hand for measures in the field of general economic and fiscal policy and on the other hand for measures of domestic and external monetary policy. In the first field mainly intensified consultations and recommendations in matters of economic and budgetary policy are envisaged, but also a gradual harmonisation of the member countries' economic policy instruments. By harmonising the regulations in the field of indirect taxation the actual liberalisation of the movement of persons, goods, services and capital is to be accelerated. It is also proposed step by step to elaborate common measures of regional and structural policy and to promote the free movement of capital.

To improve the coordination of *monetary policy* within the community the basic decision of the Council of Ministers requires that:

... provide tangible monetary measures already in the first phase ...

- "the mandatory advance consultations within the Monetary Committee and the Committee of Central Bank Governors be intensified;
- the central banks coordinate within the limits of their authority and *within their own responsibilities* their policies in the Committee of Central Bank Governors, with due consideration to the general guidelines for economic policy as laid down by the Council;
- the Monetary Committee and the Committee of Central Bank Governors continue in close cooperation with their endeavours to harmonise the instruments of monetary policy".

In the field of *external monetary policy* the following steps are envisaged:

- In its monetary relations with third countries and with international organisations the Community will gradually proceed to adopt common views; in particular, as concerns exchange rate relationships among member countries it must not make use of any provisions which permit a relaxation of the international exchange rate regime.

- The central banks of the member countries are requested by means of co-ordinated action vis-à-vis the dollar tentatively to keep the exchange rate fluctuations between their currencies from the very beginning of the first phase within narrower margins than would result from the application of the margins provided for the U.S. dollar.

- The Monetary Committee and the Committee of Central Bank Governors are requested to submit at the latest by June 30, 1972 in close cooperation a report on the establishment, tasks and statutes of a "European Fund for Monetary Cooperation" in order to permit this Fund if necessary to be set up during the first phase, provided it appears justified by the experience gained with the reduced margins and the closer coordination of the economic policies of the member countries.

... which have to be supported by parallel progress in economic policy

Obviously the decisions of February 1971 do not necessarily ensure the required parallelism in economic and monetary policy. In the sphere of internal and external monetary policy some of the measures adopted will result in practical action and tangible institutions. In the sphere of general economic and fiscal policy, however, only efforts to intensify coordination were agreed, without any guarantees of their actual effectiveness. The monetary decisions have thus been taken in anticipation of future advance in the other fields as well. In order to ensure that at least in the course of time the necessary economic policy base is provided for these monetary arrangements, the parties have agreed to a "safeguard clause" proposed by Germany and stipulating that the validity of some of these monetary arrangements – reduced margins within the Community, possible establishment of a Fund for Monetary Cooperation, medium-term monetary assistance – will be limited to five years from the beginning of the first phase. The arrangements will, however, remain in force provided that the progress made in the first phase, or in the first five years, in realising the phased plan is considered to be sufficient by the Council and that agreement is duly reached regarding transition to the second phase. This condition for the continuing validity of the monetary arrangements might in case of need exercise a very useful pressure on progress in other fields.

(c) Consequences for internal and external monetary policy

The basic decisions of the Council of Ministers of the European Communities confront the central banks of the EEC countries with important tasks in internal and external monetary policy. Coordination and mutual consultation among the central banks, so far exercised somewhat loosely, will have to be intensified appreciably. Harmonisation of the monetary instruments and the monetary institutions – a particularly difficult and time-consuming task – will be one of the principal preconditions of a subsequent common monetary policy in the EEC area.

Reduction of margins initially of symbolic significance

The *reduction of the margins* for the EEC currencies will presumably come under way within in a few months. In an initial experimental phase it will be only a de facto reduction, whereas a final and formal reduction will be envisaged only after practical experience has been gained and in the light of the progress made in other fields. The practical significance of such a reduction for payments within the EEC must not be overestimated, at least as regards the early stages. It would, moreover, be an illusion to expect that the mere reduction of the margins might actually have a coercive influence in the direction of harmonising the entire economic and financial development in the EEC countries. It will be rather the other way round: the reduction of the margins and the harmonisation of the exchange rate policy of the member countries will in effect have a solid foundation only if they are secured by a greater convergence of the member countries' economic and monetary evolution. If major divergencies were to reappear in the development of wages, prices, balances of payments, etc., such as were recorded in past years, the exchange rate relationship between the member countries would inevitably again become strained, despite the reduction in margins, and would possibly require a parity change. In actual fact recourse to this ultimate expedient has by no means been excluded by the new decisions on monetary integration, so long as the final stage has not been reached.

Possibility of greater independence of monetary policy

On the other hand the reduction of margins, even though it is modest at the outset, may be of considerable significance for the monetary policy of the member countries *vis-à-vis the outside world.* Once the procedure has become established the EEC countries will be able to keep the Community margins independent of what happens in their relationship to the outside world, that is to say, to the dollar and to other currencies. This might also make it possible if necessary to pursue in common a less rigid exchange rate policy vis-à-vis the outside world. Of course one should not overestimate these possibilities of greater independence in the external monetary policy of the EEC, since they could only be resorted to if the EEC countries were entirely unanimous on questions of external monetary policy, seeing that all such decisions can only be taken unanimously. At present one can hardly speak of such a uniform attitude. Moreover, it is unrealistic to believe that inflation imported from the dollar area could effectively be countered simply by establishing a European currency bloc. Even then persistent U.S. balance of payments deficits towards Europe and corresponding EEC surpluses might have inflationary effects. Besides, even a well integrated EEC currency bloc could hardly dispense with the dollar as a reserve and intervention currency for the time being, at least as regards payment transactions *vis-à-vis the outside world,* and would have to settle its payments balances in currencies other than its own. For other reasons, too, the attempt to create a new European reserve currency would hardly be desirable, since the presence of several competing reserve currencies would not contribute to the stability of the international monetary system, but, if anything, to its instability.

Despite this scepticism over too far-reaching – and above all too short-term – hopes and expectations, the development towards closer monetary integration in Europe as just ushered in is of great importance. It is indeed indispensable in order to turn the EEC internally into a genuine and irrevocable economic union. In the relationship of the EEC to other countries, this monetary cooperation will also offer a chance, at least in the longer perspective, to safeguard by coordinated measures the monetary autonomy of Europe more effectively than is now possible.

III. Details of monetary developments

1. Money and credit

(a) Bank liquidity and liquidity policy

Bank liquidity mostly tight

The fundamental aim of the Bundesbank's liquidity policy in 1970 was, if possible, to keep bank liquidity tight. This objective was attained with no great difficulty in the first half of 1970, since at the beginning of the year market tendencies had a strongly tightening effect, which persisted for some little time. Later on, however, the attainment of the aim of monetary policy was increasingly endangered by inflows of liquidity from abroad. The Bundesbank was therefore constrained to make use of more and more complex methods of neutralising some, at least, of the influx, although later, owing to the incipient easing of cyclical tensions, it was able to reduce the attractiveness of money from abroad by lowering interest rates at home. Measured by changes in the level of free liquid reserves, the outcome of the Bundesbank's liquidity policy was as follows: at the end of 1970 the banks had more than DM 25.4 billion of free liquid reserves,[1] compared with DM 19.8 billion a year before; in relation to the total deposits [2] of the banking system this was 7.8 %, as against 6.8 % twelve months earlier, although there was a temporary low of 5.3 % in March 1970. The trend towards greater bank liquidity — especially in the later course of the year — is thus clearly recognisable, as is the fact that the increase in liquidity proceeded only gradually and that bank liquidity even at the end of 1970 was still relatively tight, though no longer quite as tight as nine or twelve months previously.

Interest rate and liquidity policy coordinated

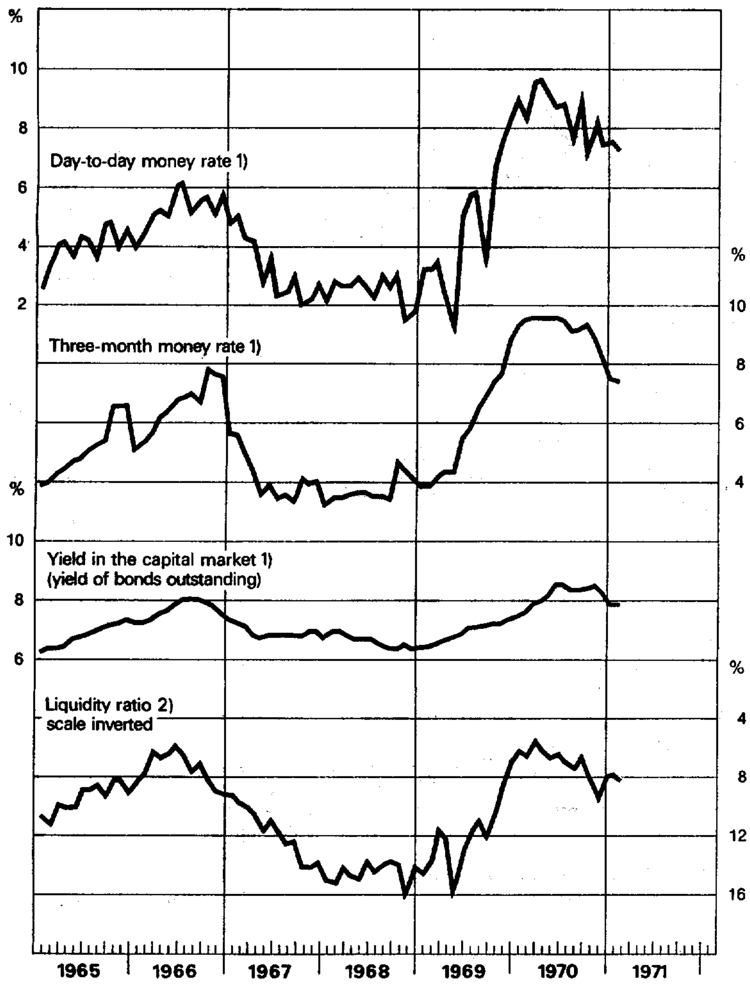
The described trend of bank liquidity was reflected in almost all sectors of the banking system and on the financial markets of the Federal Republic of Germany. Short and long-term interest rates, bank lending and the productiveness of the capital market were all influenced more or less strongly by the initial intensification of the liquidity shortage and the later relaxation (see the charts opposite and on page 25). A contributory factor to this was that the Bundesbank's interest rate policy was coordinated with the requirements of liquidity policy. Interest rate policy was of course primarily of a "confirmatory" nature, that is, the Bundesbank adjusted its interest rates to conform to the changed liquidity position, but the changes in the liquidity situation itself were either produced or deliberately accepted by the Bundesbank.

Interest rate differential towards foreign countries accepted

In the second half of the year, the Bundesbank kept the short-term interest rate level in Germany slightly above the declining money market rates on the Euro-money market and in the United States, in spite of the discount rate being lowered. At the same time the Bundesbank was fully aware that differences in interest rates would set off movements of foreign exchange which were bound to be prejudicial to the success of monetary policy. Even so, it was not true — as was occasionally asserted — that the only thing necessary to stop the movements of foreign exchange into Germany, while at the same time achieving an equally high, or perhaps even higher, degree of restriction at home, was a further lowering of interest rates. In the first place a sustained reduction of interest rates on the market would have been conditional not only on a change in the Bundesbank rates but also on a "home-made" relaxation in liquidity — an even greater increase in liquidity, indeed, than that brought about by the influx from abroad, a substantial proportion of which was in any case mopped up by new contractive measures (increase in minimum reserve requirements, open market policy).[3] In the second place it would have been necessary to lower interest rates in the Federal Republic of Germany very considerably if the exchange inflows, some of which were closely related to the U.S. balance of payments deficit and the United States' low interest rate policy which was behind it, were to have been kept out of Germany. As Euro-dollar rates fell to below 6 % and money market rates in the United States were lower still, interest rates in Germany would have dropped to a level that was

1 I.e. central bank balances, banks' holdings of domestic money market paper, money market investments abroad, unused rediscount quotas less minimum reserve requirement and the banks' lombard liabilities towards the Bundesbank.
2 Sight deposits, time and savings deposits (excluding deposits running for four years and more) of non-banks and foreign banks.
3 Any increase in liquidity designed to check borrowing abroad would have had to be large enough to set off a monetary expansion permitting the enterprises sector to finance its net financial deficit, which reached a new peak in 1970, on the home market.

Interest rates and bank liquidity



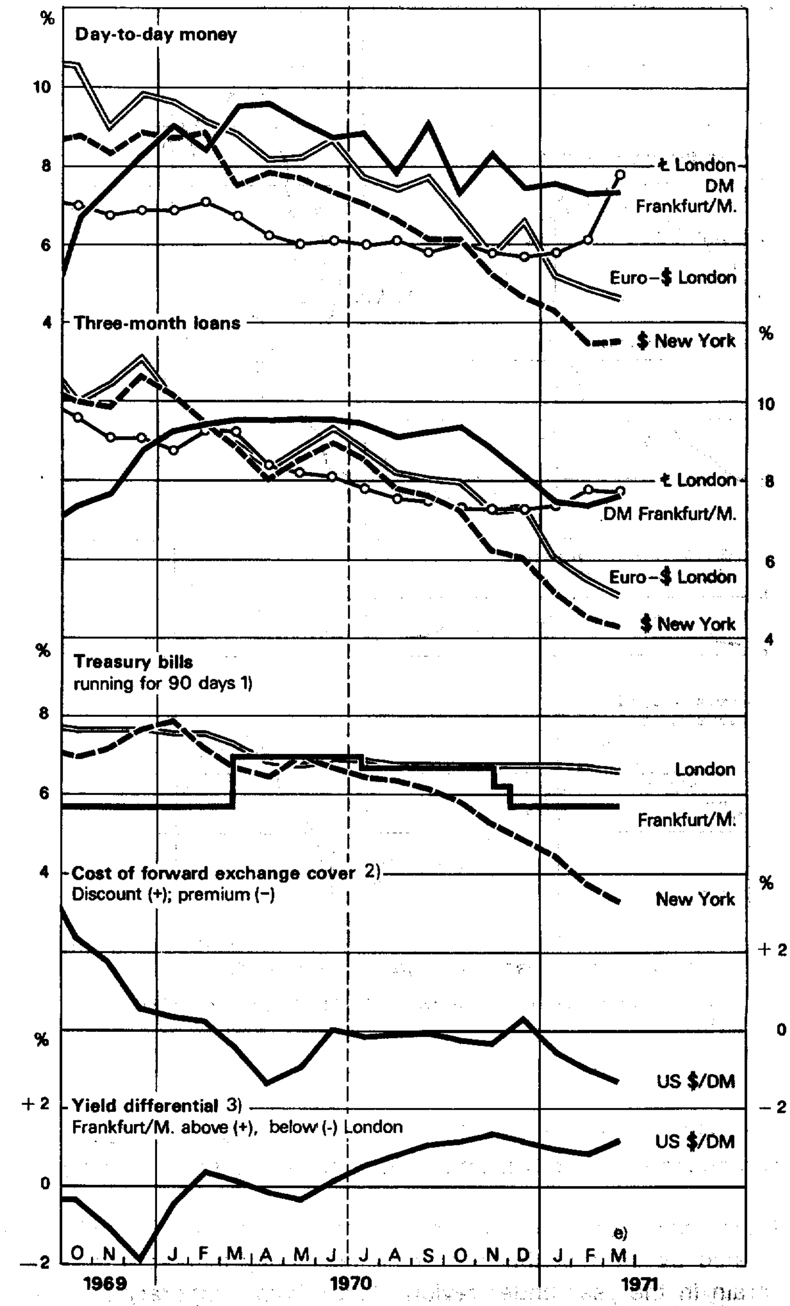
1) Monthly averages.- 2) Free liquid reserves as % of total deposits, end of month figures.

incompatible with the economic situation and requirements. Given continuing inflationary tendencies, liquidity must be kept tight and interest rates high.

Money market under almost continuous strain

That the Bundesbank was not powerless, in spite of the interest rate differential, is demonstrated by the fact that the domestic money market was under almost constant strain in the year under review. Apart from temporary fluctuations, the money market rates were always close to the Bundesbank's lombard rate (the rate for advances against securities); in April 1970 they reached the highest level since the currency reform – about 9.7 % – after on March 9 the Bundesbank had raised its discount rate to 7½ % (it had stood at 6 % since September 1969), and the lombard rate (since December 1969 at 9 %) to 9½ %. In the ensuing months the money market interest rates remained roughly at this level. From March onwards domestic money market rates were higher than those on the Euro-dollar market; the interest rate for three-month money there was soon more than one percentage point below the corresponding rate in Frankfurt. To begin with, however, there were no substantial imports of money, as parallel to this the cost of forward exchange cover (discount) for Deutsche Mark investments rose sharply for non-residents, while residents were obliged to grant a premium on borrowing dollars whenever a forward cover transaction was involved; thus there was no advantage. But from July onwards Euro-interest rates fell fairly steadily parallel to the movement in the United States, and in contrast to the position in the spring no further forward cover margins now developed in forward transactions of dollars against Deutsche Mark (and vice versa), so that

Money market rates at home and abroad and yield differential *



* Monthly averages.- 1) New York and London: issue rate at weekly tender, Frankfurt/M.: Bundesbank's selling rate.- 2) Under three-month contracts.- 3) After allowing for cost of forward exchange cover.- e) Average for period from March 1 to 26, 1971.

the gross difference in interest rates took effect in full and resulted in substantial movements of money into Germany (see the above chart).

Bundesbank measures against influx of money from abroad

With effect from April 1, 1970, however, the Bundesbank tried to make direct borrowing abroad commercially unattractive by introducing a special minimum reserve of 30 % on the growth of external liabilities (over and above the level of March 6 or the average level of the bank week return dates in February 1970). Furthermore, the Bundesbank sought to forestall evasion of this tightened reserve obligation by means of security transactions under repurchase agreements with foreign countries (whereby the banks' own assets are temporarily "sold" to non-residents, and liabilities arise which are often shown not in the balance sheet itself, but "below the line"). The Bundesbank did this by deducting, from June onwards, the increase in liabilities for such transactions over and above the level of the end of March from the banks' discount quotas. The same arrangement has applied since then for the banks' endorsement liabilities arising from the rediscounting of bills of exchange abroad, which likewise do not appear in the balance sheet. Naturally, all these measures could not prevent non-banks from borrowing money abroad. In this case the Bundesbank could only apply its general instruments of liquidity policy and attempt to restrict bank liquidity, which was also being inflated by these monetary influxes. For this purpose the minimum reserve ratios were uniformly raised on July 1 by 15 % of their previous level (about DM 3.0 billion).

In view of the increase in the interest rate differential as against foreign countries, with effect from July 16 the Bundesbank lowered its discount rate from 7 1/2 % to 7 %, and its lombard rate from 9 1/2 % to 9 %. As interest rates abroad continued downward, the minimum reserve regulations were again tightened with effect from September 1. This, however, did not take the customary form of an across-the-board increase in minimum reserve ratios; instead – for the first time since 1960 – minimum reserves were imposed on the growth of reserve-carrying liabilities towards residents in addition to the reserves on the total thereof. The growth reserve ratio amounted to 40 % for sight and time liabilities and 20 % for savings deposits; the basis of calculation was the growth of reserve-carrying liabilities during the month in question over and above the average level in the second quarter of 1970.[1] The aim of this regulation was to impose such a heavy minimum reserve burden on additional deposits, some of which were due to non-banks' surpluses on external payment transactions, that the banks' liquidity would derive little or no benefit from them, and that from the point of view of profitability the banks would have no further interest in an accretion of reserve-carrying liabilities. It is a fact that reserve-carrying deposits at first showed virtually no growth in this period, and bank lending decelerated. During the period of validity of this arrangement the banks strove primarily to conduct their operations in ways which would leave their balance sheets unaffected or even reduced in volume. Assets were sold either permanently or temporarily (i.e. under repurchase agreements) to non-banks, especially ones abroad. Transactions with foreign branches or subsidiaries of German banks, some of which substantially expanded their business at this particular time, seem to have been of some significance here. Simultaneously, reserve-carrying liabilities were apparently converted into reserve-free ones (with maturities of four years and more) and the raising of funds by the reserve-free issue of bank bonds (including those at shorter term) was intensified. The scope for such transactions tending to save minimum reserves was of course not equally great for all banks, so that the number of cases of undue hardship increased.

But not even this measure, which on its introduction at least partially neutralised the inflows of liquidity in the preceding two months of July and August, could relieve the Bundesbank of the necessity of preventing the interest rate differential from becoming too great, so that on two occasions (with effect from November 18 and December 3, 1970) the discount rate was lowered by 1/2 %, and the lombard rate first by 1 % and then by 1/2 %. Finally, on March 31, 1971, with effect from the following day, the discount rate was lowered from 6 to 5 % and the lombard rate from 7 1/2 to 6 1/2 %. There was no effect from the point of view of liquidity policy when, from December 1, 1970, the reserve on the growth of domestic liabilities was abolished and the reserve on the total of liabilities raised by 15 % of the November level instead. The reserve on the growth of external liabilities remained at the ratio of 30 %, the base for computing the reserve-carrying growth being fixed as the average level of external liabilities in the period from October 16 to November 15, 1970.[2] Together with the lowering of the discount rate on March 31, 1971, bank liquidity was, in effect, restricted by a 10 % cut in the banks' rediscount quotas from April 1, 1971.

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1 The reserve on the growth of liabilities and that on the total of liabilities, when combined, must not exceed the statutory ceilings for minimum reserves of 30 % for sight deposits, 20 % for time deposits and 10 % for savings deposits. The growth reserve on external liabilities, in force since April, was superseded by this arrangement; as regards growth, external liabilities were now subject to the general ratios, just as they previously were in respect of the total of liabilities.
2 Further particulars concerning the changes made to the minimum reserve regulations in 1970 will be found in the notes on the Bundesbank's monetary policy regulations (page 109).

Bank liquidity

Billions of Deutsche Mark

Item	1969	1970	1970 1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
	Changes during period, calculated from the averages of the four bank week return dates in the month					
I. Market factors						
1. Note and coin circulation (increase: –)	– 2.2	– 1.9	+ 1.7	– 0.7	– 0.7	– 2.2
2. Non-banks' net balances with Bundesbank (increase: –)	+ 0.9	– 3.0	– 2.0	– 1.0	– 1.5	+ 1.5
of which:						
Cash balances (net) of Federal and Länder Governments, Equalisation of Burdens Fund	+ 0.6	+ 2.6	– 1.2	+ 0.1	+0.0	+ 3.7
Special deposits in respect of anticyclical reserve, anticyclical surcharge and Federal education loan	– 0.1	– 4.9	– 0.9	– 1.3	– 1.0	– 1.7
3. Public authorities' money market indebtedness to banks and Bundesbank (increase: +)	– 4.9	– 0.8	– 0.8	+ 0.1	+ 0.1	– 0.2
4. Net foreign exchange holdings 1	– 6.0	+20.2	– 2.9	+ 4.6	+ 8.2	+10.3
5. Other factors	+ 2.4	+ 2.4	+ 1.5	+ 0.7	– 0.2	+ 0.4
Total	– 9.8	+16.9	– 2.5	+ 3.7	+ 5.9	+ 9.8
II. Monetary policy factors						
1. Minimum reserve required of banks 2 (increase: –)	– 0.5	– 9.8	– 2.1	– 0.3	– 6.2	– 1.2
2. Open market transactions with domestic non-banks 3 (purchases by Bundesbank: +)	– 1.2	– 2.3	+ 0.1	– 0.5	– 0.6	– 1.3
3. Cut in rediscount quotas	– 3.0	– 0.7	– 0.4	– 0.3	–	–
Total	– 4.7	–12.8	– 2.4	– 1.1	– 6.8	– 2.5
III. Increase (+) or decrease (–) in bank liquidity, total (I plus II) = change in free liquid reserves	**–14.5**	**+ 4.1**	**– 4.9**	**+ 2.6**	**– 0.9**	**+ 7.3**
1. Excess balances 4	– 0.3	– 0.4	– 0.7	+ 0.2	– 0.5	+ 0.6
2. Domestic money market paper 5	– 7.4	+ 2.2	– 0.6	+ 0.2	+ 0.5	+ 2.1
3. Money market investment abroad 6	+ 3.3	+ 0.3	– 1.3	– 0.2	+ 0.8	+ 1.0
4. Unused rediscount quotas	– 8.2	+ 1.7	– 1.9	+ 0.4	– 0.2	+ 3.4
5. Advances against securities (utilisation: –)	– 1.9	+ 0.3	– 0.4	+ 2.0	– 1.5	+ 0.2
	Position at end of period					
IV. Banks' free liquid reserves 7						
in billions of DM	19.8	25.4	15.2	18.5	19.4	25.4
as % of total deposits 8	6.8	7.8	5.3	6.3	6.4	7.8

1 Net monetary reserves of Bundesbank and other banks' short-term money market investment abroad. — 2 Excluding Federal Post Office. — 3 Including Federal Post Office. — 4 Difference between minimum reserve requirement and banks' total central bank balances on the average of the four bank week return dates. — 5 Domestic Treasury bills and discountable Treasury bonds, Storage Agency bills, prime bankers' acceptances, Limit B bills of AKA Export Credit Company and medium-term notes of domestic public issuers to the extent they are included in the Bundesbank's money market regulating arrangements. — 6 Shorter-term claims on foreign banks (excluding foreign currency assets falling due on demand), foreign Treasury bills and other foreign bills acquired for employment of money (mainly bankers' acceptances). — 7 Excluding investment by the Post Office. — 8 Sight, time and savings deposits (excluding funds with maturities of 4 years and over) of non-banks and foreign banks.

Inflows not mopped up in full towards year's end

In view of a nascent slackening in economic tension, the Bundesbank refrained from any further measures for reducing liquidity during the last quarter of 1970. The tendency for liquidity to increase owing to external factors therefore soon made itself felt on the credit markets, especially the bond market. The public — frequently guided only by active measures of the Bundesbank — had the impression that the course of monetary policy was unremittingly restrictive. However, the intentions of Bundesbank monetary policy are in each case directed towards certain specific results, such as the attainment or maintenance of a particular interest rate level and/or a particular degree of liquidity within the banking system, and from this point of view it is of secondary importance whether the result is achieved "automatically" with the aid of market forces, or by the active employment of instruments of monetary policy.

The determinants of liquidity in detail

Scale of the liquidity increase caused by external influences

As mentioned initially, the influences emanating from foreign trade and payments — influences of crucial importance for the state of the banks' liquidity — had just as great a restrictive effect on liquidity at the beginning of 1970 as they had in the last quarter of 1969. From February onwards foreign exchange began to flow in again, and in June the flow swelled to a flood, bringing in month by month, up to the end of the year, liquidity to the total of between DM 3 billion and DM 3.5 billion; only in July and August were the inflows slightly smaller, at DM 2.6 billion and DM 2.3 billion respectively. Over the year as a whole this influx of foreign exchange came to DM 20 billion,[1] the largest amount ever recorded in a single year (see the table opposite). As already indicated, and as explained in more detail in the section of this Report on the balance of payments, the influx of foreign exchange was due less to the banks' money imports (about DM 8 billion) than to external borrowing by domestic non-banks (about DM 16 billion, inclusive of the balancing item of the balance of payments). On the other hand, it was of comparatively little importance that the other balance of payments items — i.e. principally the basic balance (surplus on current account minus deficit on long-term capital account) — showed a slight deficit.

Slight withdrawal of liquidity by public authorities . . .

The other market factors tended to counteract the liquidity increase caused by foreign trade and payments. Foremost among these were the cash operations of the central and regional authorities. The net position of the Federal and Länder Governments and the Equalisation of Burdens Fund towards the Bundesbank improved in the first three quarters of 1970 by about DM 4.25 billion, principally because of the taxation measures decided on for cyclical reasons, but also to some extent on account of seasonal factors. In the fourth quarter, in connection with the annual bunching of expenditure towards the end of the fiscal year, these public authorities again withdrew about DM 2 billion on balance from their accounts at the Bundesbank. Thus the overall cash transactions of the public authorities in 1970 withdrew DM 2.25 billion of liquidity from the banks. Furthermore, the public authorities reduced bank liquidity by another DM 0.75 billion by redeeming short-term securities (Treasury bills, discountable Treasury bonds and medium-term notes included in the Bundesbank's money market regulating arrangements). The total liquidity withdrawal of about DM 3.0 billion includes the anticyclical reserves of the Federal and Länder Governments as well as the receipts from the anticyclical surcharge on the income and corporation taxes (about DM 5 billion; see page 69), all of which are immobilised at the Bundesbank.

. . . and by the circulation of notes and coin

Bank liquidity also tended to be tightened by the fact that there was a sharp increase in the circulation of notes and coin, namely by almost DM 2 billion, just as in the two preceding years. But this was more of a technical process in connection with the liquidity situation, for the increase in the circulation of notes and coin reflects the strongly expansive movement of the economic variables. Thus in 1970 the circulation of notes and coin (on the daily average) amounted to 8.6 % of disposable income, which is almost as much as in 1969.

Three quarters of market-induced liquidity increase absorbed by measures of monetary policy

All the "market factors" taken together brought roughly DM 17 billion of liquidity to the banks in 1970. At the same time the Bundesbank withdrew or immobilised DM 12.8 billion, or about three quarters of the entire influx to the banks, by monetary policy measures. Of these, the most important was the raising of the minimum reserve requirement. Altogether, the reserve ratios in December 1970 were just under half as high again as in December 1969; the reserve requirement went up rather faster (by 61 %) since the base for calculating the minimum reserve ratios — the total of reserve-carrying liabilities — rose at the same time, and the composition of the liabilities changed. Minimum reserve policy immobilised a total of about DM 9.8 billion of liquidity in 1970, the reserve requirements of the banks (excluding the Post Office) attaining a figure of over DM 25.7 billion in December. Bank liquidity was also restricted by the fact that the Bundesbank sold money market paper to domestic non-banks and — albeit to a limited extent, owing to a shortage of securities — long-term paper on the open market, too. It was mainly the social security funds that bought longer-term money market paper from the Bundesbank. The total liquidity reduction brought about in 1970 by open market operations amounted to DM 2.3 billion. Accordingly there was a net increase of DM 4.1 billion in bank liquidity last year (see the table opposite).

1 The change in the net foreign exchange reserves of the Bundesbank and the banks' external money market investments on the average of the bank week return dates of the months.

Changes in composition of liquid reserves

Of the various components of their free liquid reserves, it was their holdings of domestic money market paper which the banks increased the most (by DM 2.2 billion); in the preceding year these holdings had decreased by DM 7.4 billion owing to repayments. The newly acquired securities almost all took the form of mobilisation paper, which the Bundesbank sold again from July onwards in order to slow down the decline in interest rates on the domestic money market by offering a "rival" facility for the investment of the banks' liquid reserves.[1]

The banks hardly increased their short-term external investments at all in 1970, but, in spite of the interest rate differential as against foreign countries, they did not reduce them either. By contrast, their unutilised facilities for rediscounting at the Bundesbank rose by DM 1.7 billion. As in 1969, the banks had greater recourse to rediscount credit at the Bundesbank. Last year their engagement in respect of bills of exchange counted towards their rediscount quotas rose by about DM 2.8 billion to some DM 15.4 billion at the end of December. But their rediscount quotas went up even faster, firstly because the banks were granted additional quotas in proportion to the growth of their capital and reserves, and secondly because numerous banks which had hitherto never applied for a quota now did so. In the course of 1970 the rediscount quotas grew by DM 4 billion. The Bundesbank's lombard credit,[2] finally, was also much in demand in 1970. Average annual recourse was much greater than in any previous year (DM 1.4 billion, as against DM 0.9 billion in 1969 and DM 0.2 billion in 1968), though the peak figure of DM 7.25 billion (in December 1969) was not reached again (1970 peak: DM 4.9 billion, also in December). The Bundesbank urged certain banks which made excessive use of this privilege of short bridging credit to resort less and at shorter term to this facility in future. In general, on the daily average of a month, lombard loans should not exceed about 20 % of the rediscount quota. It is one of the principles of modern central bank policy that recourse to the central bank should be kept under constant control and above all should not be permitted in unlimited quantities.

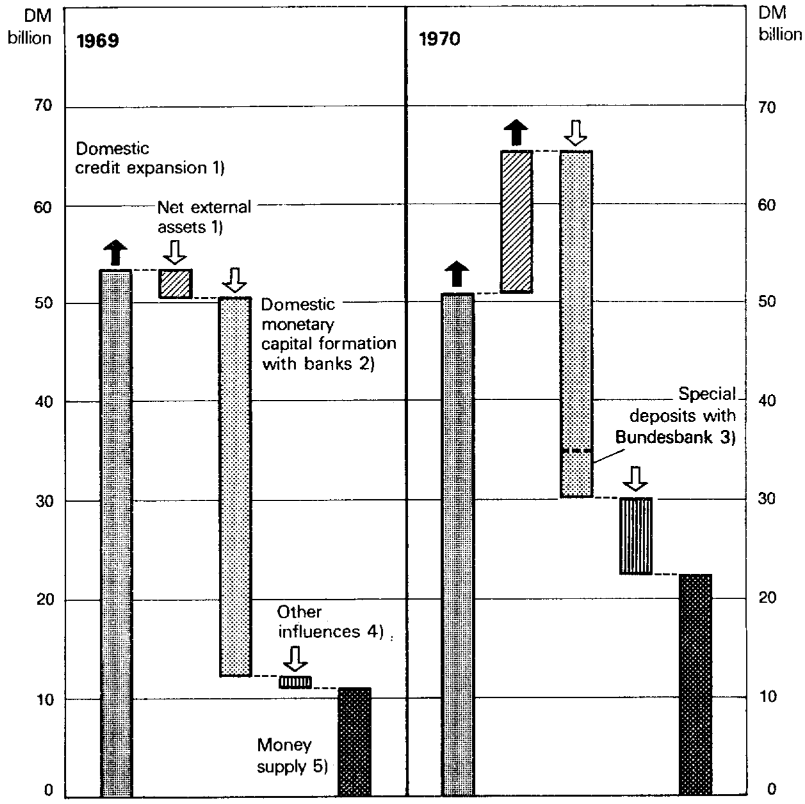
(b) The monetary trend

Unusually large expansion in money supply ...

In spite of all the measures to restrict liquidity, monetary expansion in 1970 was very large as a whole. Money supply,[3] in fact, grew twice as strongly as in 1969, at DM 22.4 billion. The main reason for this was not domestic credit expansion, which declined slightly in comparison with the preceding year, but the unusually sharp rise in the net external claims of the banking system, which in 1969, by contrast, had on balance fallen. These strongly expansive forces were accompanied by a smaller formation of monetary capital, which even together with other contractive factors by no means offset the expansive influences. This outcome for the year as a whole owed a great deal to the monetary expansion which occurred in the last few months of 1970; up to the autumn the expansive tendencies were much smaller owing to the simultaneous or preceding shortage of liquidity. If the size of the monetary expansion is compared with the growth in the total of the consolidated balance sheet of the banking system (in which the banks and the Bundesbank are combined and all interbank assets and liabilities are eliminated), it is seen that the expansion in the first three quarters of 1970 was roughly as great as in the same period of 1969. Not until the fourth quarter of 1970 were expansive influences much stronger than in the preceding year; the consolidated balance sheet of the banking system grew in this period by about DM 30 billion, against some DM 8 billion in the same period of 1969. The difference in the rate of expansion was principally caused by the divergence in external influences. Netted against external liabilities, the external claims of the banking system (including the Bundesbank) in the first three quarters of 1970 went up by DM 11.5 billion, which was rather less than in the same period of 1969. In the last quarter of 1970, on the other hand, the net external claims of the banking

1 In January 1971 the Bundesbank for the first time made use of the right conferred on it by Article 42a of the Bundesbank Law to sell liquidity paper too, as its equalisation claims on the Federal Government had already been converted in full into mobilisation paper. The nominal amount of the liquidity paper issued is entered by the Bundesbank in a special account and may only be used for the redemption of maturing securities or those being repurchased prior to maturity.
2 For the liquidity analysis this is deducted from the banks' liquid assets as a prior charge.
3 Circulation of notes and coin (excluding the banks' cash holdings) and bank liabilities with maturities of less than three months towards domestic non-banks (excluding public authorities central bank balances).

Determinants of money supply



1) Bundesbank and other banks.- 2) Savings received and other funds fixed for three months and longer (including capital and reserves).- 3)Anticyclical reserves, anti-cyclical surcharge on income taxes and partial proceeds of education loan.- 4) Cash balances of public authorities with Bundesbank and other items of the consolidated balance sheet.- 5) Including time deposits for less than three months.

system rose by DM 3 billion, whereas a year previously — i.e. during the months immediately following the revaluation of the Deutsche Mark — they had decreased by DM 17.5 billion. The acceleration in monetary expansion in the fourth quarter of 1970 was therefore, from the purely statistical point of view, due to the fact that the credit expansion at home was only slightly lower than in 1969 (DM 20 billion, as against DM 24 billion), in spite of the contrary movement in the external position. The growth in the banking system's liabilities was also correspondingly strong in the last three months of 1970. The liabilities included in money supply went up by DM 16.3 billion, as against DM 11.5 billion a year before, and longer-term liabilities by DM 14.3 billion, compared with DM 6.3 billion.

... on account of strong preference for short deposit periods by bank customers

The strong preference shown for very short-term bank deposits, which was more pronounced in relation to 1969 in the first three quarters of 1970 than in the fourth, was due not only to the need for an increase in liquid funds as a result of the growing volume of financial transactions but also to the sharp rise in interest rates for short-term funds, which for some time made it possible to hold liquid funds without forfeiting much interest by comparison with investments at longer term. With an interest rate structure of this kind, distinguishing between money supply and monetary capital naturally raises problems. In the Bundesbank's monetary analysis, time deposits with maturities of less than three months are counted as "money supply" on account of their high degree of liquidity and also because of their suitability for bridging the very short-term regular alternation of liquidity surplus and liquidity deficit periods in the economy; time deposits for three months and longer, on the other hand, are regarded as components of "monetary capital formation". In periods such as 1970, however, the dividing line between "money" and "monetary capital" is even harder to draw than usual, as can be seen from the fact that in the period under consideration other delimitations than those chosen lead to highly divergent results. If, for example, note and coin circulation, sight deposits and all time deposits of domestic non-banks with maturities of less than four years are taken together, it will be found that the rise in this monetary aggregate slowed down perceptibly between the end of December 1969 and the end of September 1970; the increase during this period came to DM 3.4 billion, compared with DM 8.2 billion and DM 5.5 billion in the same period of 1969 and 1968 respectively. A similar deceleration in the growth is also seen if note and coin circulation and sight deposits are considered alone after adjustment for seasonal influences. The explanation for these divergences from the course of "money supply" as defined above is the exceptionally strong growth of time deposits with maturities of less than three months, which in the first three quarters of 1970 went up by DM 6.4 billion (— DM 1.1 billion in 1969) and in the fourth quarter by a further DM 7.2 billion (DM 6.4 billion in 1969). Statistically it is not possible to determine precisely to what extent this represented shifts of funds otherwise held as longer-term time deposits — there was a sharp fall in other time deposits, except for those at very long term (over four years) — and to what extent money which would otherwise have been held as non-interest-bearing sight deposits was placed in very short-term time deposits, with their fairly high yield. In view of these shifts, any appraisal of monetary expansion based solely on a single concept of money supply is unsatisfactory; this is why overall bank liabilities were included in the above analysis, for these show incontestably that in 1970 monetary expansion accelerated sharply towards the end of the year.

Bank transactions in detail

Greater bank lending to public authorities

In 1970 the rise in the amount of credit of all periods granted to domestic non-banks by the banks and the Deutsche Bundesbank came to DM 51 billion, as against over DM 53 billion in 1969. Whereas in 1969 the net indebtedness of the public authorities to the banks had been but slight, in 1970, owing to the deterioration in their cash position, their bank borrowing increased again, namely by DM 7 billion, compared with DM 1.6 billion in the previous year. It was, in effect, only the longer-term direct lending of the banks to public authorities which went up (by DM 8.3 billion, as against DM 7.5 billion in 1969), whereas short-term bank lending — which had decreased by more than DM 6 billion in 1969 as a result of the Federal Government's funding operations — showed no notable increase in 1970, and credit taken at the Bundesbank declined slightly.

Large medium-term debt of trade and industry

At a figure of DM 44 billion, enterprises and individuals did not incur quite so much new debt to domestic banks as in the preceding year (DM 51 billion). This was principally due to the increased borrowing by enterprises abroad, which above all meant that they raised less short-term credit on the home market than in 1969, i.e. DM 12.2 billion, as against DM 20.6 billion. If, however, we ignore the inflated rise in domestic bank lending in the autumn of 1969 caused by the sudden withdrawal of external funds after the revaluation, short-term bank lending to trade and industry rose almost as steeply in 1970 as in 1969, and more steeply than in previous years. Medium-term bank lending to the private sector showed unusually strong growth in 1970, even in comparison with 1969: it went up by over DM 9 billion, or twice as much as in the preceding year, thus accounting for a substantial share of overall domestic credit expansion. As in 1966, this no doubt reflects the fact that trade and industry tried to avoid incurring new long-term debts for a while, on account of the high level of interest rates, and sought to delay funding of their liabilities until interest rates had come down. This is also indicated by the fact that the increase in long-term lending to enterprises and individuals, at just on DM 22 billion, was almost DM 3 billion smaller than in 1969. In particular, fewer mortgages for housing purposes were paid out or approved by savings banks and mortgage banks in 1970. Not until mortgage interest rates declined slightly towards the end of the year did the mortgage banks again begin to approve more mortgages. The situation was different in the case of the building and loan associations: in view of the special character of the savings contract for building purposes and of the particularly attractive measures of government encouragement, their business was not affected adversely by the restrictive course of monetary policy,

Money supply and its determinants

Millions of Deutsche Mark; increase: +

Item	Year	Total	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
I. Bank advances to domestic non-banks, total	1970	+50,761	+ 6,878	+14,226	+ 9,437	+20,220
	1969	+53,480	+ 9,317	+ 9,024	+11,042	+24,097
	1968	+39,990	+ 6,260	+10,758	+ 9,821	+13,151
1. Deutsche Bundesbank	1970	— 240	— 2,014	+ 415	— 757	+ 2,116
	1969	+ 672	— 1,150	— 627	— 18	+ 2,467
	1968	— 2,074	— 2,307	— 171	— 365	+ 769
to enterprises and individuals	1970	+ 154	— 137	+ 226	+ 27	+ 38
	1969	— 84	— 201	— 37	— 3	+ 157
	1968	— 181	— 116	+ 43	— 100	— 8
to public authorities	1970	— 394	— 1 877	+ 189	— 784	+ 2,078
	1969	+ 756	— 949	— 590	— 15	+ 2,310
	1968	— 1,893	— 2,191	— 214	— 265	+ 777
2. Other banks	1970	+51,001	+ 8,892	+13,811	+10,194	+18,104
	1969	+52,808	+10,467	+ 9,651	+11,060	+21,630
	1968	+42,064	+ 8,567	+10,929	+10,186	+12,382
to enterprises and individuals	1970	+44,035	+ 7,713	+12,901	+ 8,472	+14,949
	1969	+51,215	+ 9,187	+10,178	+ 9,755	+22,095
	1968	+30,895	+ 3,452	+ 9,028	+ 7,204	+11,211
Short-term advances	1970	+12,150	+ 2,286	+ 6,076	+ 25	+ 3,763
	1969	+20,564	+ 3,716	+ 3,542	+ 2,197	+11,109
	1968	+ 6,536	— 818	+ 3,213	+ 1,407	+ 2,734
Medium and long-term advances	1970	+30,990	+ 4,973	+ 6,967	+ 8,534	+10,516
	1969	+29,337	+ 4,601	+ 6,675	+ 7,335	+10,726
	1968	+21,623	+ 3,587	+ 5,248	+ 5,128	+ 7,660
Holdings of securities issued by German enterprises	1970	+ 895	+ 454	— 142	— 87	+ 670
	1969	+ 1,314	+ 870	— 39	+ 223	+ 260
	1968	+ 2,736	+ 683	+ 567	+ 669	+ 817
to public authorities	1970	+ 6,966	+ 1,179	+ 910	+ 1,722	+ 3,155
	1969	+ 1,593	+ 1,280	— 527	+ 1,305	— 465
	1968	+11,169	+ 5,115	+ 1,901	+ 2,982	+ 1,171
Short-term advances	1970	+ 7	— 334	— 40	— 28	+ 409
	1969	— 6,105	— 1,205	— 1,018	— 1,285	— 2,597
	1968	+ 1,146	+ 1,765	— 161	—	— 458
Medium and long-term advances 1	1970	+ 7,917	+ 1,940	+ 1,235	+ 1,808	+ 2,934
	1969	+ 7,108	+ 2,389	+ 563	+ 2,045	+ 2,111
	1968	+ 8,233	+ 2,625	+ 1,839	+ 2,571	+ 1,198
Holdings of securities issued by German public authorities	1970	— 958	— 427	— 285	— 58	— 188
	1969	+ 590	+ 96	— 72	+ 545	+ 21
	1968	+ 1,790	+ 725	+ 223	+ 411	+ 431
II. Net external assets of banks and Bundesbank	1970	+14,653	+ 1,552	+ 4,313	+ 5,665	+ 3,123
	1969	— 2,978	+ 477	+ 9,183	+ 4,829	—17,467
	1968	+10,703	+ 4,431	+ 1,531	+ 2,777	+ 1,964
III. Monetary capital formation with banks from domestic sources, total 2	1970	+30,162	+ 5,402	+ 4,814	+ 5,636	+14,310
	1969	+37,878	+14,142	+ 8,645	+ 8,836	+ 6,255
	1968	+41,877	+13,252	+ 6,815	+ 7,432	+14,378
of which Savings deposits and savings bonds	1970	+20,739	+ 3,576	+ 1,876	+ 2,307	+12,980
	1969	+21,590	+ 5,900	+ 3,662	+ 3,490	+ 8,538
	1968	+22,023	+ 6,125	+ 2,960	+ 3,758	+ 9,180
Time deposits 3	1970	— 1,630	— 649	+ 363	+ 520	— 1,864
	1969	+ 8,871	+ 6,010	+ 3,179	+ 3,295	— 3,613
	1968	+12,413	+ 4,820	+ 1,843	+ 2,504	+ 3,246
Bank bonds outstanding (excluding bank holdings)	1970	+ 8,320	+ 1,454	+ 1,713	+ 2,401	+ 2,752
	1969	+ 4,811	+ 1,436	+ 686	+ 1,765	+ 924
	1968	+ 4,652	+ 1,422	+ 827	+ 862	+ 1,541
IV. Central bank deposits of domestic public authorities	1970	+ 4,089	+ 3,251	+ 253	+ 1,378	— 793
	1969	+ 443	+ 2,727	— 600	+ 1,796	— 3,480
	1968	+ 1,189	+ 2,886	— 207	+ 1,756	— 3,246
V. Other influences 4	1970	— 8,768	— 6,126	— 3,331	— 5,754	+ 6,443
	1969	— 980	— 1,869	— 4,212	— 2,545	+ 7,646
	1968	— 405	— 3,815	— 979	— 1,364	+ 5,753
VI. Note and coin circulation and liabilities with maturities of less than 3 months = money supply (I plus II plus V less III less IV)	1970	+22,395	— 6,349	+10,141	+ 2,334	+16,269
	1969	+11,201	— 8,944	+ 5,950	+ 2,694	+11,501
	1968	+ 7,222	— 9,262	+ 4,702	+ 2,046	+ 9,736
Note and coin circulation 5 and sight deposits	1970	+ 8,790	— 5,977	+ 5,098	+ 592	+ 9,077
	1969	+ 5,963	— 5,915	+ 5,208	+ 1,522	+ 5,148
	1968	+ 5,531	— 6,793	+ 4,359	+ 1,476	+ 6,489
Time deposits of domestic non-banks with maturities of less than 3 months	1970	+13,605	— 372	+ 5,043	+ 1,742	+ 7,192
	1969	+ 5,238	— 3,029	+ 742	+ 1,172	+ 6,353
	1968	+ 1,691	— 2,469	+ 343	+ 570	+ 3,247
Memorandum item: Percentage increase in money supply (VI) on previous year	1970	19.6	14.7	18.0	17.2	19.6
	1969	10.9	8.7	9.6	10.1	10.9
	1968	7.5	7.9	8.0	9.3	7.5
of which Note and coin circulation 5 and sight deposits	1970	8.8	6.7	6.2	5.2	8.8
	1969	6.4	7.9	8.5	8.4	6.4
	1968	6.3	7.0	8.3	8.2	6.3

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

but – on account of the low interest rate for their loans – was actually stimulated. Total building and loan association loans (which are not included in the figures on domestic credit expansion) went up by 23 % in 1970, after an increase of 18 % in 1969. New contracts concluded also grew by a third, and doubled by comparison with 1968.

Varying expansion rates in the individual banking groups

Credit expansion differed widely among the various groups of banks. Of the "all-purpose banks" the central giro institutions recorded the largest growth in lending to domestic non-banks at 18 %, but private bankers, regional banks and credit cooperatives, with expansion rates of 15½ to 17 %, also ran distinctly above the average growth of lending in 1970 of 11 %. By contrast, the big banks increased their lending to domestic non-bank customers by only 7 %, which of course may well have been to some extent the result of their customers' borrowing abroad. The credit business with non-banks of the central institutions of credit cooperatives stagnated in 1970, the reduction in lending to public authorities playing a part. Among the specialised banks, instalment sales financing institutions stepped up their business by as much as a fifth, whereas the mortgage banks – in accordance with the trend in long-term lending – increased their loan business by little more than 5 %.

Of course, the divergencies in the expansion of lending business by individual banks and groups of banks derived not only from the differing urgency of the credit needs of their domestic customers but also from the differing growth of their deposit business and – in the case of the mortgage banks – their issuing business. It is quite clear, however, that in their lending not all banks and groups of banks reacted to the reduced supply of funds in the same way. A lending policy which, in relation to the fund-raising policy, is highly expansive, is bound to weaken a bank's liquidity position, just as conversely a comparatively cautious lending policy has a favourable effect on liquidity. The fact that liquidity conditions in the banking system in some cases developed along quite divergent lines in 1970 is certainly due more to these differences in commercial policy than, for example, to the circumstance that individual banks or groups of banks derived little or no benefit from the influx of liquidity from abroad. Experience has shown that only a relatively small proportion of such inflows of liquidity remain at the banks to which they originally accrue, because the banks' customers do not keep the funds from abroad for themselves, but make payments with them, so that they are soon distributed throughout the entire banking system.

Small purchases of securities

No expansive monetary influences were exerted by the banks' security purchases in 1970. On the one hand, on account of the prolonged great shortage of bank liquidity, the banks' overall security holdings went up on balance by only DM 3.1 billion (i. e. a quarter of the previous year's purchases of DM 11.1 billion). On the other hand, the banks bought on balance only domestic bank bonds, the equivalent of which the issuing banks lend to customers, so that they are already included in their credit figures. This, at all events, is the overall result of security transactions by the banking system, with some quite considerable differences among the various kinds of securities.

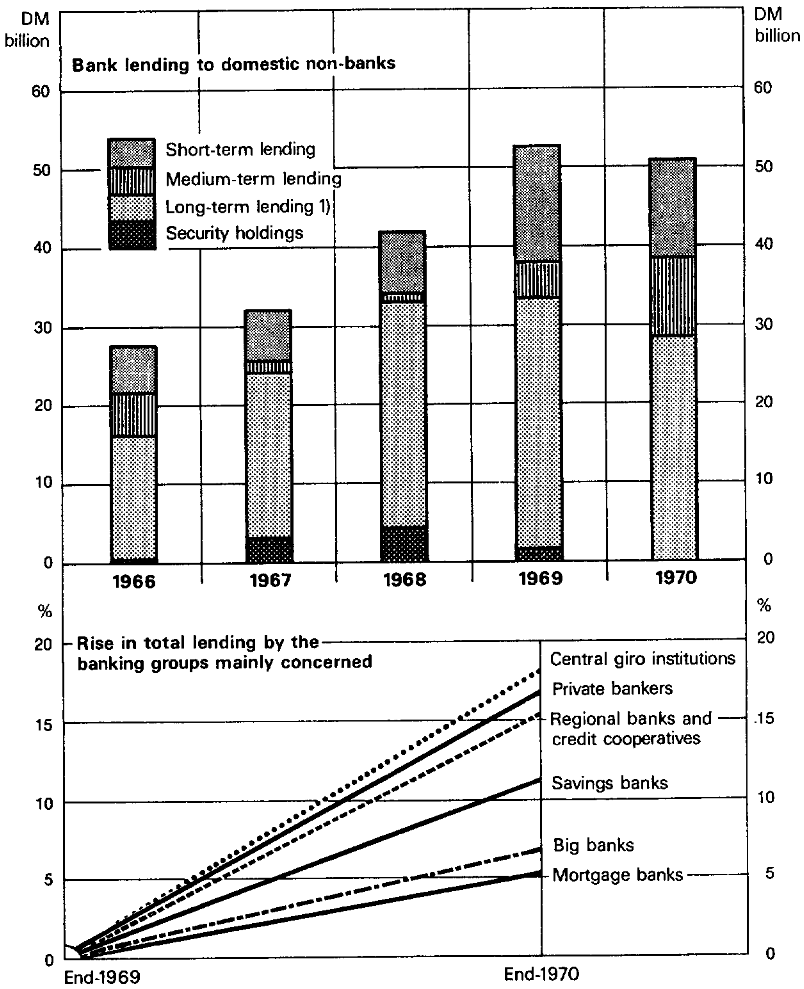
Large external bank indebtedness

In 1970, for the first time since the introduction of the convertibility of the Deutsche Mark, the banks took up direct credit abroad for a definite period and on a substantial scale – namely over DM 7 billion (excluding security transactions under repurchase agreement). The banks' short-term external assets, on the other hand, showed no significant fall, and longer-term external investments went up by only DM 130 million (net), not least owing to security sales. On balance, therefore, the banks raised a substantial volume of funds abroad, even though they did not borrow nearly as much abroad as the non-banks.

Relatively small formation of monetary capital at the banks

In spite of the large amounts of interest credited to deposit accounts, the formation of monetary capital at the banks from domestic sources in 1970, at about DM 30 billion, was much smaller than in 1969 and 1968 (DM 38 billion and DM 42 billion respectively). As before, this showed that credit restrictions not only influence the banks' lending capacity from the liquidity angle, but also reduce the funds available at longer term, if only in the sense that some of the funds available

Bank lending *



* Excluding Bundesbank.- 1) Including equalisation and covering claims.

for investment are invested at short term, so that – despite the already mentioned difficulties of definition – they cannot be counted towards the formation of monetary capital. A factor of particular significance here was that in 1970 time deposits running for between three months and less than four years fell by a total of DM 5.9 billion, whereas in 1969 they had increased by DM 3.3 billion and in earlier years by larger amounts still.

Small inpayments to savings accounts

On the whole, the other forms of longer-term investment at banks were no less productive than a year before. Balances on domestic savings acounts went up in 1970 by DM 19.3 billion, which was only DM 0.4 billion less than in the preceding year. The savings deposits of individuals grew by over DM 1 billion more than a year before (DM 19.8 billion, as against DM 18.7 billion), whilst those of enterprises and public authorities went down. More than half of the increase on savings accounts in 1970 was due to the crediting of interest (DM 10.1 billion, as against DM 7.2 billion in 1969 and DM 6.1 billion in 1968); the excess of inpayments over outpayments amounted to only DM 9.1 billion (about 30 % less than in 1969) – the lowest figure since 1962. But this was not because there was any relaxation in the propensity of individuals to save in 1970; instead, there was a shift of preference among the various forms of financial investment in 1970, as will be described in detail in the following section (page 58), to the disadvantage of savings accounts and the advantage of investments yielding higher rates of interest. In the maturity classification of savings deposits a trend towards financial investments at higher rates of interest is also discernible; the number and volume of savings deposits with periods of notice of one year and longer are constantly growing. In 1970 only 40 % of the annual increase in savings deposits was accounted for by savings accounts with the legal period of notice, and their share of total savings deposits amounted to only 58 % at the end of 1970, as against 67 % at the end of 1965. Another factor contributing to this trend is that bonus-carrying saving has continued to increase in importance, though only the net effect can be taken into account, which is smaller because savings contracts concluded at earlier dates are maturing in rapidly increasing numbers and the proceeds are being applied to consumption and very frequently to financial investment elsewhere.

Record sales of bank bonds

Preference for investments yielding a higher return was one of the main reasons for the heavy sales of bank bearer bonds to non-banks, which attained the record figure of DM 8.3 billion in 1970, as against DM 4.8 billion and DM 4.7 billion in 1969 and 1968 respectively. The banks' inclination to obtain funds by the issue of bonds also seems to have grown to some extent in 1970, for in view of the relatively high minimum reserve ratio on customers' deposits it is a significant consideration that liabilities arising from such issues are not subject to burdens of this type on costs and liquidity; this was especially apparent in the period from September to November, when the general growth reserve was in force. Time deposits for periods of four years and over are also exempt from the minimum reserve requirement; in 1970 these amounted to some DM 4.3 billion, which was quite a considerable amount, though it did not equal the very high figure for 1969 (DM 5.5 billion). Specifically, private investors, especially insurance companies, placed rather more long-term funds with the banks in 1970 than a year before (DM 2.7 billion, although this figure includes purchases of registered bank bonds), whereas public authorities invested only half as much at the banks at long term as they did in 1969.

Special contractive factors

To a certain extent the relatively small formation of monetary capital at the banks in 1970 was offset by the fact that public funds were compulsorily immobilised at the Bundesbank. These funds are not counted towards the formation of monetary capital, but they do form a counterpoise to the credit expansion of the economy as a whole. The central bank deposits of domestic public authorities increased in 1970 by the relatively large amount of over DM 4 billion, because the Federal and Länder Governments formed DM 2.5 billion of anticyclical reserves at the Bundesbank, and immobilised the anticyclical surcharge on the income and corporation taxes (over DM 2 billion) and the proceeds of the Education Loan (DM 260 million) on accounts at the central bank. And finally it should be noted that in 1970 the "other" influences shown in the "Monetary analysis", which are difficult to apportion in detail, also had a strongly contractive effect from the monetary point of view.

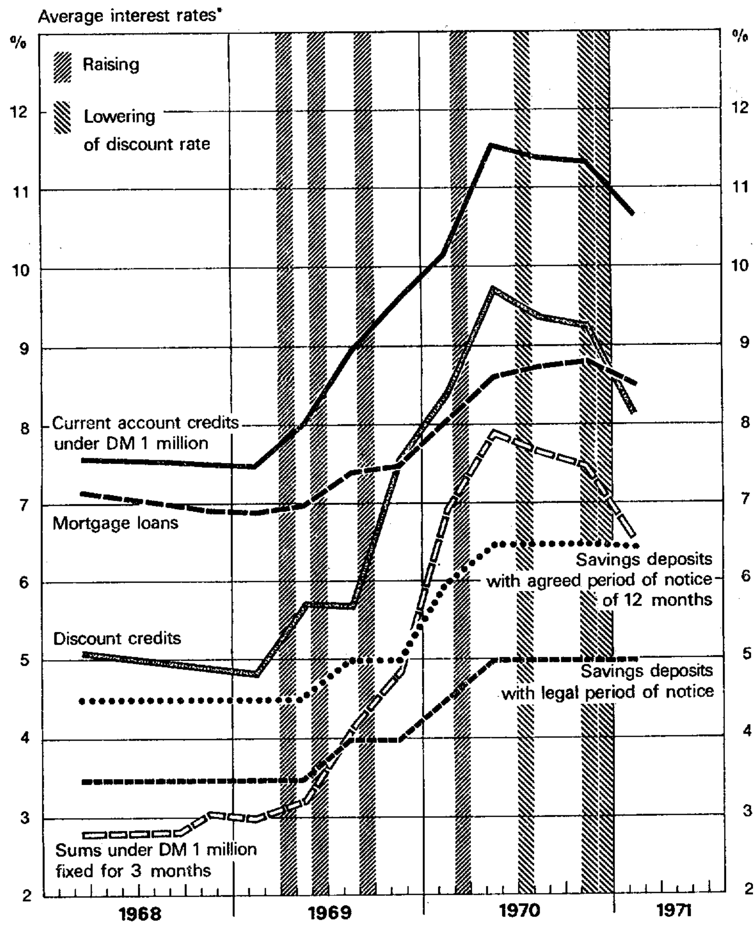
Divergent trends in bank interest rates

The banks' debtor and creditor interest rates followed the changes in the Bundesbank's discount rate and the fluctuations in bank liquidity only with some delay and generally only to a smaller extent. Even when clauses governing changes in rates of interest were included in their credit contracts, the competitive situation was such that customers were apparently not always unsuccessful in resisting the raising of interest rates. The banks were not able to restore the old differential between short-term interest rates and the discount rate until, starting in the summer, the Bundesbank reduced the discount rate in three stages from 7½ % to 6 %, though bank interest rates were not in all cases reduced to the same extent. As the liquidity position began to ease, the interest rates for time deposits, which had reached an unusually high level in the spring of 1970, went down rather more quickly than the banks' debtor rates. The cost of mortgage loans continued to increase right into the autumn of 1970, and the lowering of interest rates on the bond market at the turn of the year had little effect on mortgage conditions, because the interest rates on savings deposits, on which offers of mortgage loans by the savings banks are principally based, remained substantially unchanged from April 1970 onwards.

Decline in interest rates on time deposits too

Interest rates on time deposits proved to be particularly sensitive, having gone down markedly in 1970 after the lowering in the discount rate. The interest on three-month money (sums of less than DM 1 million) averaged 6.6 % in February 1971, after almost 8 % in the early summer of 1970. That the interest rates on time depos-

Bank interest rates



* Unweighted arithmetical mean, after elimination of minimum and maximum values.

its were unusually high at times is illustrated by the fact that throughout 1970 the rates on such deposits were on average higher than the discount rate, whereas in previous years these rates had been below it. The rates on savings deposits in 1970 were raised by the banks in two stages – in February and April. Since then, at the majority of banks, savings deposits with the legal period of notice have yielded 5 % and twelve-month deposits 6½ %. Between 7 % and 7½ % was granted on long-term savings deposits, but the number of banks allowing only 7 % has increased steadily since mid-1970.

2. Capital market

(a) Overall acquisition of financial assets and borrowing

Marked increase in acquisition of financial assets

Overall domestic acquisition of financial assets and borrowing (i. e. all processes affecting the credit markets in the broadest sense, including not only the security markets, but also the credit business of the banks, building and loan associations and insurance companies) showed exceptionally strong expansion in 1970. Altogether, households, public authorities and enterprises (excluding banks, insurance companies and building and loan associations) invested funds at long and short term in 1970 to a total of about DM 91 billion, which was DM 14 billion – or over 18 % – more than in 1969. However, this amount includes the increase of DM 2.5 billion in the anticyclical reserves of the Federal and Länder Governments, and over DM 2 billion from the anticyclical surcharge on the income and corporation taxes immobilised at the Bundesbank. These financial investments, totalling almost DM 5 billion, were mandatory, and until further notice they are available neither to the public authorities nor to individuals; but the acquisition of other financial assets of short and long-term nature also rose steeply — by approximately 13 % — on the year. However, the renewed expansion did not come about until the second half of 1970, whereas in the first six months, when liquidity was generally tighter, the domestic sectors acquired fewer financial assets than a year before.

Increase in private savings and new inflows of funds from abroad in the second half of the year

The change in the second half of the year was mainly due to the fact that the liquidity of trade and industry increased because of large new inflows from abroad and that households again stepped up their saving, though it should not be forgotten that the interest credited to savings accounts — usually at the end of the second half of the year, even though the interest is "earned" throughout the whole year — was especially great in 1970. For all that, the private sector's share of the overall domestic acquisition of financial assets went down in 1970, in comparison with 1969. Households accounted for some 55 % of the total, having acquired DM 50 billion of financial assets, and enterprises for about 26½ %, at DM 24 billion; in 1969 the ratios had been 60 % and 26 % respectively. Public authorities, on the other hand, made up a much larger proportion of the overall acquisition of financial assets in 1970 (18 %) than in 1969 (14 %). This was mainly because the social security funds increased their financial investment by DM 7 billion in 1970 (as against only DM 1.5 billion the year before) owing to their specific financing arrangements and the resultant surpluses. The central, regional and local authorities, on the other hand, acquired only slightly more financial assets, at DM 9.5 billion, than in 1969. Not counting their transfers to the anticyclical reserve, and excluding the immobilised "anticyclical surcharge", the growth of their financial assets was in fact much smaller than in the previous year. The small allocations made by the central, regional and local authorities to their freely usable financial reserves is a clear expression of the increasing tension in their financial position.

Increased prominence of short-term financial assets

It was characteristic of the situation on the credit markets in 1970 that the additional funds were invested almost entirely at short term. In the past year DM 30 billion, or 32½ % of all the financial assets acquired, was placed in cash holdings or sight and short-term time deposits at banks, compared with 20 % and 12½ % in 1969 and 1968 respectively. One reason for the increased prominence of these forms of investment, and especially of short-term time deposits, may well have been that because of an anomalous interest-rate structure probably caused by the expectation of a future lowering of interest rates, the yield on such investments was at times so high that longer-term investments were no longer attractive from the interest point of view. Furthermore, the compulsory investments made in 1970 by way of anticyclical reserves and anticyclical surcharge are, formally speaking, "short-term" financial Investments (sight deposits); and finally, in the second half of the year enterprises' liquid reserves — in the form of sight deposits and cash — also seem to have been augmented in connection with considerable direct borrowing abroad.

Despite reduced investment of longer-term funds great readiness to invest on the bond market

By comparison, the longer-term acquisition of financial assets at banks and institutional investors and through the purchase of securities in 1970, at DM 59 billion, was striking in that it did not quite reach the previous year's figure of DM 60 million. The banks, especially, recorded a distinctly smaller inflow of funds to longer-term time deposits and savings accounts, although private saving became markedly brisker in the second half of 1970. The volume of funds placed with insurance companies and on the share market also remained below the 1969 figure. However, this contrasted with substantially larger financial investment at building and loan associations and a very sharp increase in bond purchases. At DM 10 billion, the domestic non-financial sectors in 1970 bought about half as many bonds again as in 1969, and thus more than in any other year since the war. (The reason for this will be discussed in detail below.)

Strong increase in borrowing by enterprises and central, regional and local authorities

Recourse to the domestic and foreign credit markets increased much more strongly, however, than the acquisition of financial assets by the domestic sectors. Borrowing in 1970 totalled DM 95.5 billion, which was DM 22.5 billion, or about 31 %, more than in 1969. Enterprises, whose capital expenditure went up steeply while their self-financing margins declined, incurred debts of DM 83.5 billion on the finance markets — a sum which was substantially (DM 17 billion) larger than in

Acquisition of financial assets and borrowing by domestic sectors*

Item	1968 p	1969 p	1970 p Total	1970 p 1st half	1970 p 2nd half	1969 p	1970 p Total	1970 p 1st half	1970 p 2nd half	1968 p	1969 p	1970 p
	Billions of Deutsche Mark					Change on previous year in billions of Deutsche Mark				Percentage of total		
1. Acquisition of financial assets												
(a) Longer-term	55.7	60.3	59.3	18.5	40.8	+ 4.6	— 1.0	— 7.8	+ 6.8	100	100	100
(aa) at banks	34.6	30.7	20.8	5.9	14.9	— 3.9	— 9.9	—11.8	+ 1.9	62.1	50.9	35.0
Longer-term time deposits **1**	12.7	9.7	0.3	0.9	— 0.6	— 2.9	— 9.4	— 8.0	— 1.4	22.7	16.1	0.6
Savings deposits	22.0	20.9	20.4	5.0	15.4	— 1.0	— 0.5	— 3.8	+ 3.3	39.4	34.7	34.5
(ab) at insurance companies	7.6	8.3	8.2	4.1	4.1	+ 0.7	— 0.0	— 0.3	+ 0.3	13.6	13.7	13.9
(ac) at building and loan associations	2.7	4.3	5.9	0.3	5.6	+ 1.6	+ 1.6	+ 0.1	+ 1.5	4.8	7.1	10.0
(ad) Acquisition of securities	7.8	13.0	15.3	6.1	9.2	+ 5.2	+ 2.2	+ 0.5	+ 1.7	14.1	21.6	25.7
Bonds	4.9	6.7	10.2	3.7	6.5	+ 1.8	+ 3.5	+ 0.7	+ 2.8	8.9	11.1	17.1
Shares	2.9	6.3	5.1	2.4	2.7	+ 3.4	— 1.2	— 0.2	— 1.1	5.2	10.5	8.6
(ae) Direct loans to other sectors	3.0	4.0	9.1	2.1	7.1	+ 1.0	+ 5.1	+ 3.8	+ 1.4	5.4	6.6	15.4
(b) Short-term	7.7	16.7	31.8	11.9	19.9	+ 9.0	+15.1	+ 6.1	+ 9.0	100	100	100
of which:												
Notes and coin and sight deposits	6.5	10.5	17.0	7.4	9.6	+ 4.0	+ 6.5	— 1.2	+ 7.7	83.5	62.7	53.4
Short-term time deposits **2**	1.6	4.9	12.6	4.6	8.0	+ 3.3	+ 7.7	+ 6.7	+ 1.0	20.7	29.4	39.6
Acquisition of financial assets, total	63.4	77.0	91.1	30.5	60.7	+13.6	+14.1	— 1.7	+15.8	100	100	100
Households	38.2	46.1	50.4	17.4	33.0	+ 7.8	+ 4.3	— 2.4	+ 6.8	60.3	59.8	55.3
Enterprises	17.4	20.0	24.1	8.3	15.8	+ 2.6	+ 4.1	— 2.5	+ 6.7	27.4	25.9	26.5
Public authorities	7.8	11.0	16.6	4.8	11.8	+ 3.1	+ 5.7	+ 3.3	+ 2.4	12.3	14.2	18.2
Central, regional and local authorities	7.7	8.9	9.7	3.1	6.6	+ 1.2	+ 0.8	+ 1.6	— 0.7	12.1	11.5	10.6
Social security funds	— 0.7	1.5	7.1	1.9	5.2	+ 2.2	+ 5.6	+ 2.2	+ 3.4	— 1.0	2.0	7.8
2. Borrowing	55.7	73.0	95.6	37.4	58.2	+17.3	+22.6	+ 4.1	+18.5	100	100	100
Households	2.8	4.1	4.1	1.4	2.7	+ 1.3	+ 0.0	— 0.3	+ 0.4	4.9	5.6	4.3
Enterprises	40.1	66.3	83.5	35.6	47.9	+26.2	+17.2	+ 2.2	+15.0	72.0	90.8	87.4
Public authorities	12.8	2.6	7.9	0.4	7.5	—10.2	+ 5.3	+ 2.2	+ 3.2	23.0	3.6	8.3
Central, regional and local authorities **3**	12.0	2.0	8.1	0.6	7.6	—10.0	+ 6.1	+ 2.7	+ 3.4	21.6	2.8	8.5
Social security funds	—	—	—	—	—	—	—	—	—	—	—	—
3. Financial surplus or deficit (—) (1 less 2)												
Households	35.5	42.0	46.3	16.0	30.3	+ 6.5	+ 4.3	— 2.1	+ 6.4	.	.	.
Enterprises	—22.7	—46.3	—59.4	—27.4	—32.0	—23.6	—13.1	— 4.7	— 8.3	.	.	.
Public authorities	— 5.0	8.4	8.7	4.4	4.3	+13.3	+ 0.3	+ 1.1	— 0.8	.	.	.
Central, regional and local authorities	— 4.3	6.8	1.6	2.5	— 0.9	+11.2	— 5.3	— 1.1	— 4.2	.	.	.
Social security funds	— 0.7	1.5	7.1	1.9	5.2	+ 2.2	+ 5.6	+ 2.2	+ 3.4	.	.	.
Domestic non-financial sectors, total	7.8	4.0	— 4.4	— 6.9	2.5	— 3.7	— 8.4	— 5.7	— 2.7	.	.	.
4. Financial surplus or deficit (—) of financial institutions	2.2	**a** 2.2	6.1	7.1	— 1.0	— 0.0	+ 3.9	+ 3.3	+0.6	.	.	.
5. Change in net external assets of all domestic sectors	10.0	**a** 6.2	1.7	0.1	1.5	— 3.8	— 4.6	— 2.5	— 2.1	.	.	.
Change in external assets	23.8	**a** 17.4	34.5	11.0	23.6	— 6.3	+17.1	— 4.7	+21.8	.	.	.
Change in external liabilities	13.8	11.2	32.9	10.8	22.1	— 2.6	+21.6	— 2.2	+23.9	.	.	.

* Households, enterprises (including housing, but excluding banks and other institutional investors), and public authorities; discrepancies in the totals are due to rounding. — **1** For three months and longer. — **2** For less than three months. — **3** Borrowing by central, regional and local authorities as shown in this table is not identical with the figures quoted in the section "Public authorities' cash transactions". It includes, inter alia, the Federal Government's liabilities for deposit accounts of the European Communities' Commission and for the issue of coin. — **a** After elimination of a capital transfer abroad by the Deutsche Bundesbank to the amount of the revaluation loss of DM 4.1 billion. — **p** Provisional, 1970 partly estimated.

the preceding year. Nevertheless, their share of total borrowing by the domestic sectors diminished slightly — from 91 % to 87½ % — as the public authorities, especially the central, regional and local authorities, stepped up their borrowing following the deterioration in their cash position. Their share in 1970 amounted to as much as about DM 8 billion, or 8½ % of overall borrowing, against only DM 2.5 billion (or 3½ % of the total) a year previously. In terms of the absolute amount households' new indebtedness reached the previous year's figure, but in relation to overall borrowing by the domestic sectors it decreased again.

Large increase in both external claims and external liabilities

Domestic borrowers, enterprises predominant among them, satisfied a large part of their increased requirements of funds in 1970 not on the home market but on foreign credit markets with their more favourable rates of interest. This led to a sharp rise in overall external indebtedness on the one hand, and in external claims in the form of foreign exchange reserves on the other. With a relatively small increase in the net external claims of all domestic sectors (including the financial institutions) of about DM 1.5 billion, the external liabilities of the German economy went up last year by just on DM 33 billion and the external claims by nearly DM 35 billion, compared with DM 11 billion and DM 17.5 billion respectively a year previously. This "spreading effect" of external claims and liabilities shows very clearly the extent to which Germany's financial markets were under the influence of the completely free capital flows across national frontiers in 1970.

(b) Security markets

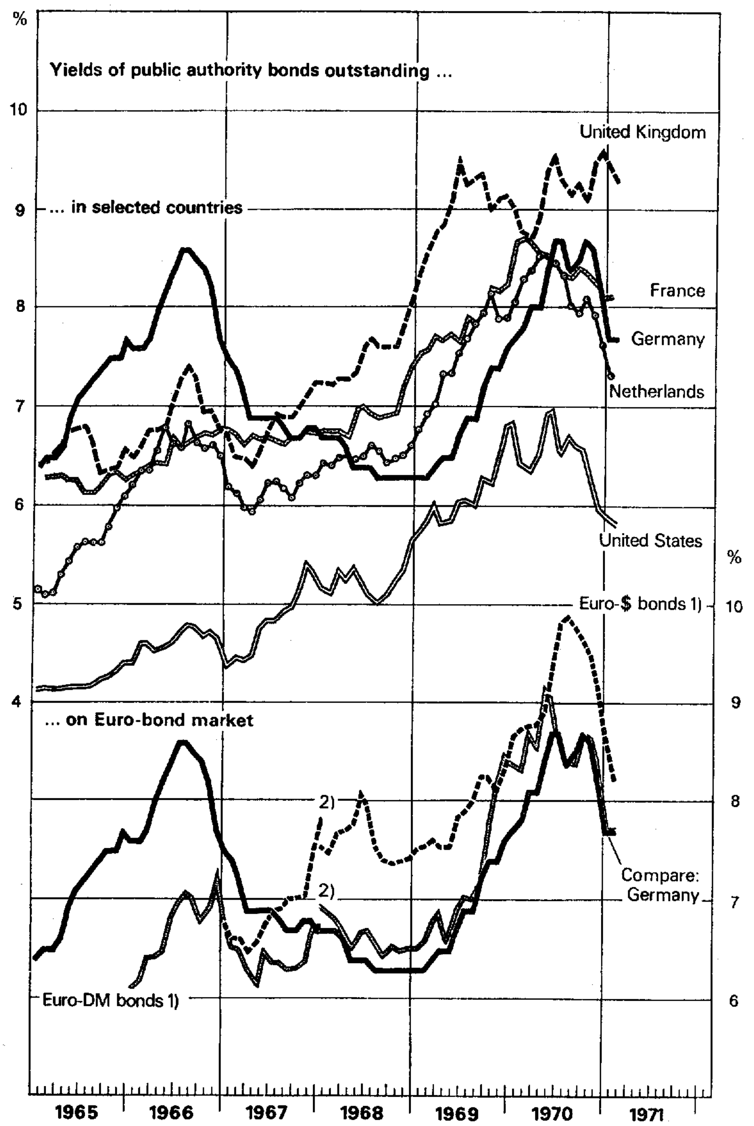
Increased domestic financing through the security markets

In 1970 the financing of the domestic sectors through the security markets grew in importance. Although the banks hardly purchased any securities for the major part of the year, domestic non-banks — especially households — bought more securities than ever. That domestic issuers were able to raise more funds on the security market than in 1969 was not due to any increase in the productivity of the market, but rather to a reduction in capital exports through the security markets; these came to an almost complete standstill at times in 1970, whereas in 1969 they had made up nearly half of the total capacity of the security markets. Although in aggregate fewer domestic and foreign securities were sold on the German security market in 1970 than in 1969 (about DM 22 billion, as against DM 26 billion), net sales of domestic securities, at some DM 18 billion, were DM 2.75 billion greater than in that year.

Reasons for reduced capital exports

There were several reasons for the shift of emphasis between domestic and foreign recourse to the German capital market, all of which were closely connected with the change in the financial climate before and after the revaluation of the Deutsche Mark in the autumn of 1969. The massive influx of foreign exchange preceding the revaluation in 1969 had in some cases led to a state of extreme liquidity at banks and non-banks, so that a sharp increase in the readiness to invest was accompanied — in some spheres at least — by a reduction in the domestic demand for capital. A large part of the foreign money coming in at short term was channelled back abroad at long term in order to put it to profitable use; this was done mostly by purchases of foreign securities. After the revaluation, when short-term foreign money flowed out again, the domestic demand for capital increased, and with it the volume of new issues by domestic agencies. But at the same time the banks' liquidity diminished, and their propensity to purchase securities declined accordingly. Sales of foreign securities were particularly hard hit, even in the further course of 1970 when the banks' liquidity position improved again, because the rate of interest for foreign securities no longer offered a special inducement to domestic investors. The yield on foreign bonds denominated in Deutsche Mark, which until June 1970 had been substantially above that on bonds of domestic issuers, then fell to the level prevailing on the home market. Finally, the fascination that foreign investment outlets had exercised on the German public at times in 1969 gave way to a more judicious appraisal following the financial difficulties experienced by some foreign investment companies and also by some issuers of international bonds (bonds not denominated in Deutsche Mark). By contrast, private purchasers bought many more domestic securities in 1970 than hitherto, especially fixed interest paper. This was due on the one hand to a further increase in private savings, and on the other to the fact that the interest yield on securities

International interest rates



1) The calculation is based on a range of fixed interest securities (public authority and private bonds) which are dealt in relatively frequently on the stock exchange or in telephone transactions of the banks (Euro-$ bonds).- 2) Change in method of calculation.

had risen more than the yield on other forms of saving (especially savings deposits with the legal period of notice) and that savers reacted more strongly than in the past to the interest differential between the various forms of investment. Whereas in 1966 the price losses always accompanying a rise in interest rates had deterred private purchasers for some considerable time from running the risk of investment in bonds, it seems that last year, when rates of interest again rose, far greater attention than before was paid to the advantages offered by a high interest yield, not least among them the chance of price gains in the event of a subsequent lowering of interest rates.

Movement of the interest rate on capital

Further rise in the interest rate on capital up to mid-1970

The nominal rate of interest on capital in the Federal Republic of Germany was higher in 1970 than in any previous year since the inception of the free capital market at the end of 1954. With a peak figure of 8.6 % in June/July 1970 the yield on all bonds outstanding considerably exceeded the previous record of the summer of 1966 (8.1 %). By June 1970 the domestic interest rate on capital had thus reached, and in some cases even surpassed, the figure prevailing in most partner countries. The international decline in interest rates evident from the early summer onwards, and set in motion by the U.S. capital market, was followed by yields in the Federal Republic of Germany, though only with a substantial delay; not until the end of 1970 and beginning of 1971 did any marked fall in rates of interest become widespread. In mid-January 1971 the daily yield ascertained for a number of selected bonds, at 7.7 %, was only slightly higher than at the beginning of 1970. Since then there has been another rise — to 8.0 %.

Impact of monetary policy and foreign countries on the interest rate on capital

The explanation of the level and movement of the interest rate on capital in the past year can be found in three fields: monetary policy, developments abroad, and domestic market influences. The predominant influence was undoubtedly that of monetary policy, though this cannot be considered separately from the others; thus the movement of interest rates abroad had constantly to be borne in mind. In the first few months after the revaluation of the Deutsche Mark an adjustment of the interest rates in Germany to the higher rates abroad seemed to be desirable in order to lessen the incentive for capital exports on the previous scale; from the point of view of the balance of payments, such exports had become unnecessary, and even unwelcome. Furthermore, a high rate of interest was advisable in terms of anticyclical policy, as productive resources were under constant excessive strain, and therefore prices and costs were rising. A conflict of aims did not arise until interest rates abroad fell, so that a step-by-step lowering of interest rates would presumably have accorded with the balance of payments situation, but at the same time would not have been advisable from the standpoint of domestic monetary policy. Under these conditions payment flows with foreign countries reversed, bank liquidity increased steadily, and monetary policy was obliged to counter these influences in order to prevent any premature easing on the domestic credit markets. This could only be done with any prospect of success if the interest rate differential did not become too great. It is mainly from this perspective that the three reductions of the discount rate in the second half of 1970 must be seen, even though they also seemed justified by the first signs of a slackening in the cyclical tensions in Germany.

Radical change in interest expectations

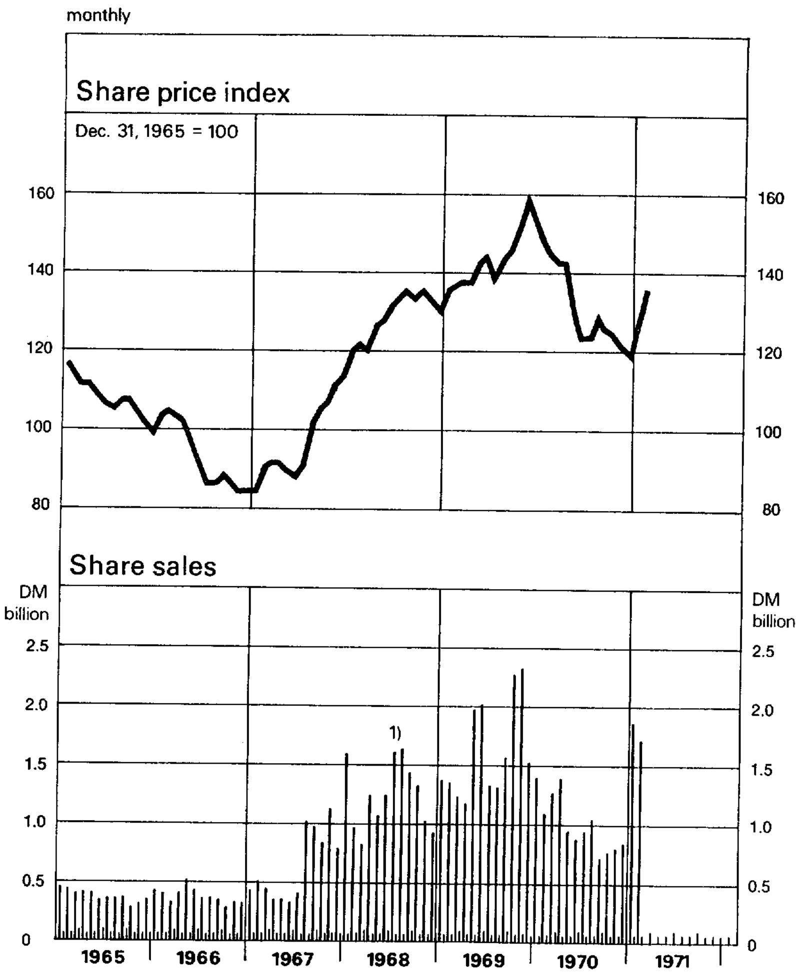
These monetary and balance of payments considerations were joined by a rather more psychological factor. Ever since the revaluation there had been latent expectations of a lowering of interest rates, which always became acute when investors thought they recognised signs of a change in the course of monetary policy: in October/November 1969, in July/August 1970, and especially at the end of 1970. Until the late autumn of 1970 such expectations had always proved to be premature, so that a reduction of interest rates in the market was immediately subjected to an upward adjustment as soon as the counter-effects of monetary measures made themselves felt. After the lowering of the discount rate in November and December 1970 expectations of a further fall in the interest rate on capital became so strong at times that in many cases funds which had previously been kept in liquid form were applied to the acquisition of securities. It may have been of significance that purchases of securities enabled the fairly high yields on financial investments to be secured for some considerable time, whereas a fall in interest rates was soon to be expected in the case of investments at banks, although at the time of closing for press this conclusion had been borne out only for time deposits and only to a certain extent. The banks are in fact making big efforts in their deposit business and in their sales of savings certificates and savings bonds to remain as competitive as possible in the eyes of savers by comparison with fixed interest securities.

Price movement on the share market

Heavy price losses on the share market

There was an almost continuous decline in share prices in 1970; only towards the middle of the year was there a pronounced phase of recovery. The overall index (December 31, 1965 = 100) calculated by the Federal Statistical Office, which at the end of May had fallen to almost 118, the lowest point of the year, had risen to 130 by August. Then the decline in prices resumed, however, so that at the year's end the index was little above its lowest figure for the year and showed a price loss of about 23 % as against the end of 1969. Then at the turn of the year a renewed upward movement set in and in January alone led

Share prices and sales



1) Owing to a change in banks' terms of business, as from July 1968 all orders of customers are executed via the stock exchange unless the customer explicitly directs otherwise. The data are therefore not fully comparable with previous figures.

to an average price gain of 11 %. As a result of the drop in prices and the rise in dividends during the preceding year – the average dividend on shares quoted on the stock exchange rose from 13.8 % at the end of 1969 to 15.7 % at the end of 1970 – the average dividend yield also went up considerably. Within a year it rose by more than half from 2.9 % at the end of 1969 to 4.4 % at the end of 1970. But by February 1971, because of the strong price recovery, it had fallen back to 3.8 %. These price movements on the share market conform remarkably closely to the pattern of prices and interest rates on the bond market, showing that this market, too, was influenced by factors of monetary policy, albeit to a lesser extent than the bond market. The marked price fluctuations on the share market, the price losses during 1970 and the price gains at the beginning of 1971 also had causes of their own – in the first case primarily the decline apparent in profits. Whether the expectations of an early improvement of the business situation reflected in the buoyant market at the beginning of 1971 have any solid foundation remains to be seen.

Clear connection between share sales and price movement

There is, furthermore, a very close connection between share sales and the movement of share prices (see the above chart). Sales of shares decreased sharply in the past year, reaching in the whole year a value of only DM 12.2 billion (market prices), as against DM 19.5 billion in 1969 and DM 15 billion in 1968. Calculated at nominal prices the decline in sales was not quite so pronounced, because of the fall in prices, but even so it was still quite appreciable. Sales slackened during the course of the year, and especially in the last six months. It should also be mentioned here that from mid-1970 – for the first time for almost 40 years – forward transactions in the form of "option deals" have again been permitted on the stock exchange. So far turnovers in this new branch of business have been very small. In the second half of 1970 a total of just on DM 40 million (basis price) of option deals were concluded, most of them being options to buy. Options to sell accounted for only about one eighth of all transactions, and rather less than a tenth of all options were exercised.

Security issues

Bank bonds predominant

Aggregate net sales of domestic and foreign bonds in 1970 totalled DM 15.3 billion, nine tenths of which fell to the share of domestic securities. As usual, the great majority of these were bank bonds (see the table opposite), although net sales of these instruments were somewhat smaller than a year before since far fewer mortgage bonds were sold in 1970 than in 1969. The issue of mortgage bonds was retarded particularly by the lending business of the mortgage banks for housebuilding. The further the interest rate on capital rose, the more unfavourable became the competitive position of these banks on the market for housing mortgages, as other lenders – especially the building and loan associations and the private life insurance companies – were less, or not at all, affected by the general movement of interest rates. In consequence, they were able to extend their share of the market for the financing of housebuilding at the expense of the mortgage banks – as, incidentally, were the savings banks as well. On the other hand, net sales of communal bonds went up slightly over the preceding year, not least because in the year under review local authorities and other public authorities (especially the Federal Government and its special funds, and also the Länder Governments) raised substantial borrower's note loans from the mortgage banks, which obtained the necessary funds by issuing communal bonds. One reason for the great popularity among these public authorities of this indirect recourse to the bond market is that the terms of the loans and the date of borrowing can be better adapted to the borrowers' requirements. Furthermore, the non-recurring costs of raising such a loan are smaller than those of issuing bonds, so that even if the interest rate is slightly higher this form of borrowing is not necessarily more expensive than raising funds through the direct issue of bonds. Finally, some part may also have been played by the fact that borrowing through borrower's note loans is generally less dependent on the current state of the bond market, is not subject to prior coordination in the Advisory Council on Anticyclical Policy (Public Credit Committee), and altogether receives less attention from the public – which is often highly critical of government bond issues.

Sales of bank bonds other than mortgage bonds and communal bonds – i.e. bonds of specialised banks, and other bank bonds issued mainly by the central giro institutions, the proceeds of which are used principally for lending to trade and industry – came to about DM 2.4 billion net in 1970, which was almost a third more than in 1969. Of this total, some three fifths represented other bonds and about two fifths bonds of specialised banks.

Public authority bonds gain ground

The greatest expansion in 1970 was in sales of bonds issued by the public authorities (including the Railways and Post Office); these sales amounted to about DM 2.2 billion net, as against only DM 0.3 billion a year previously. In 1968 and 1967, however, net sales had been even greater, at DM 3.8 billion and DM 4.9 billion respectively. This remains true even if, in order to reveal more clearly the overall recourse of public authorities to the bond market, net sales of public authority bonds and communal bonds are combined. Defined in this way, public authorities' new indebtedness on the bond market, at DM 9.8 billion net, was distinctly higher in 1970 than in 1969 (DM 7.6 billion), but markedly lower than in 1968 (DM 12.1 billion) and also less than in 1967 (DM 10.1 billion); but then these two years of deliberately anticyclical deficit financing are not comparable with 1970 from the point of view of economic policy. The main issuer among the public authorities was the Federal Post Office at DM 860 million net. The Federal Government sold DM 580 million (net) of bonds, including Federal savings bonds worth DM 300 million, which was slightly more than in 1969

Sales and purchases of securities *

Billions of Deutsche Mark

Item	1967	1968	1969	1970	1970 1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
A. Bonds								
Gross sales of domestic bonds (nominal value)	19.85	22.59	18.90	20.82	4.33	4.01	5.62	6.86
I. Capital raised in the market								
1. Net sales of domestic bonds (market value) **1**	14.97	17.67	12.38	14.31	2.21	2.68	4.26	5.16
Bank bonds	9.21	13.92	12.26	11.93	2.17	2.40	3.18	4.19
Mortgage bonds	3.23	4.09	3.14	1.90	0.50	0.28	0.43	0.69
Communal bonds	5.18	8.24	7.26	7.65	1.49	1.52	2.10	2.54
Other bank bonds	0.79	1.59	1.85	2.38	0.18	0.59	0.65	0.96
Public authority bonds **2**	4.88	3.82	0.29	2.16	— 0,32	0.40	1.18	0.90
Industrial bonds	0.88	— 0.07	— 0.16	0.22	0.36	— 0.11	— 0.10	0.07
2. Net acquisition or sale (—) of foreign bonds by residents **3**	0.47	4.10	5.37	1.04	0.35	0.21	0.22	0.26
Total capital raised in the market (1 plus 2)	15.44	21.77	17.75	15.35	2.56	2.90	4.48	5.42
II. Purchases								
1. Net acquisition of bonds by residents, total	16.27	21.92	18.70	14.54	2.63	2.81	4.28	4.82
Banks **4**	x 11.60	14.63	x 9.95	x 2.40	x 0.38	x 0.13	0.43	x 1.46
Bundesbank **5**	1.25	x — 0.40	x — 0.47	— 0.07	0.21	0.07	— 0,11	— 0.24
Non-banks **6**	3.42	7.69	9.22	12.21	2.05	2.61	3.96	3.60
Insurance companies and building and loan associations	1.79	2.93	2.32	1.72	0.83		0.89	
Social security funds	— 1.36	0.05	— 0.04	0.26	0.08		0.18	
Households	2.77	3.11	5.38	9.27	3.42		5.85	
Central, regional and local authorities	0.13	0.12	0.18	0.13	0.02		0.11	
Enterprises	0.25	1.64	1.13	0.50	0.17		0.32	
Differences of classification **7**	— 0.15	— 0.16	0.25	0.33	0.14		0.21	
2. Net acquisition or sale (—) of domestic bonds by foreigners **3**	— 0,84	— 0.15	— 0.95	0.82	— 0.07	0.09	0.20	0.60
Total purchases (1 plus 2)	15.44	21.77	17.75	15.35	2.56	2.90	4.48	5.42
B. Shares								
I. Capital raised in the market								
1. Sales of domestic shares (market value)	1.91	3.14	2.80	3.59	1.01	0.46	0.95	1.17
2. Net acquisition or sale (—) of foreign equities by residents **3, 8**	1.42	2.83	5.63	2.67	0.99	0.29	0.70	0.69
Total capital raised in the market (1 plus 2)	3.33	5.98	8.42	6.26	2.00	0.75	1.64	1.87
II. Purchases								
1. Net acquisition of equities by residents, total	2.58	5.12	8.25	6.00	2.22	0.72	1.60	1.46
Banks **4**	— 0.35	1.43	1.18	0.72	0.34	—	0.02	0.36
Non-banks **6**	2.93	3.69	7.07	5.28	1.88	0.72	1.58	1.10
2. Net acquisition or sale (—) of domestic equities by foreigners **3, 8**	0.75	0.85	0.17	0.27	— 0.22	0.03	0.05	0.41
Total purchases (1 plus 2)	3.33	5.98	8.42	6.26	2.00	0.75	1.64	1.87
Memorandum item:								
Net security transactions with foreigners								
(a) Capital exports (—(or capital imports (+) via bond market (A I 2 plus A II 2)	— 1.31-	— 4.25	— 6.32	— 0.22	— 0,42	— 0.12	— 0.02	+ 0.34
(b) Capital exports (—) or capital imports (+) via share market (B I 2 plus B II 2)	— 0.67	— 1.98	— 5.46	— 2.40	— 1.21	— 0.26	— 0.65	— 0.28
(c) Total capital exports (—) or capital imports (+) via security markets (a plus b)	— 1.98	— 6.23	—11.78	— 2.62	— 1.63	— 0.38	— 0.67	+ 0.06

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

(DM 280 million). The sales of the Federal Railways totalled DM 400 million and those of the Länder Governments DM 280 million.

Slight rise in industrial bonds outstanding

The interest of enterprises in financing through bond issues remained small. Even so, the volume of industrial bonds outstanding no longer declined in 1970, as in the two preceding years; instead, it increased by DM 220 million – a very small sum compared with enterprises' overall financing requirements. As for some considerable time, industry satisfied its long-term financing needs mainly by issuing shares or by taking borrower's note loans, which – as already mentioned – have numerous advantages over the issue of bonds. In the few cases in the past year when industry resorted to the bond market convertible bonds were issued, i.e. paper which can be regarded only with reservations as representing recourse to the bond market, because of the right of shareholders of the issuing company to subscribe and because of the right to conversion. Not until the end of the year was a "normal" industrial bond issue – i.e. one without conversion or option rights – sold again, for the first time for a considerable period. There are some indications that industrial enterprises, which at present are in great need of funding, will make rather greater use of this financing instrument again in the near future.

Sharp decline in sales of foreign bonds

There was a very sharp decline in the volume of foreign bonds offered for sale in the Federal Republic of Germany in the past year. Altogether, DM 2.5 billion of foreign bonds (Deutsche Mark and foreign currency bonds) were taken over for resale by German syndicate banks in 1970, compared with DM 6.2 billion in 1969 and DM 5.2 billion in 1968. Of the 1970 total, about three quarters (just on DM 1.9 billion) consisted of Deutsche Mark bonds and roughly one quarter (DM 650 million) of foreign currency issues, mainly ones in dollars. The reasons for the decrease were discussed at the beginning of this section. In aggregate, German investors bought little more than DM 1 billion (net) of foreign bonds in 1970, compared with DM 5.4 billion and DM 4.1 billion in 1969 and 1968 respectively. But in relative terms too – that is, in comparison with the simultaneous supply of such paper – net purchases by residents in the past year showed a sharp decrease. Whilst in 1969 and 1968 the net acquisition of foreign bonds by domestic buyers was equivalent to four fifths and more of the foreign bonds offered for sale by German syndicate banks, in the year under review purchases equalled only slightly more than two fifths of the foreign bonds on offer at the same time.[1]

Rise in sales of domestic shares

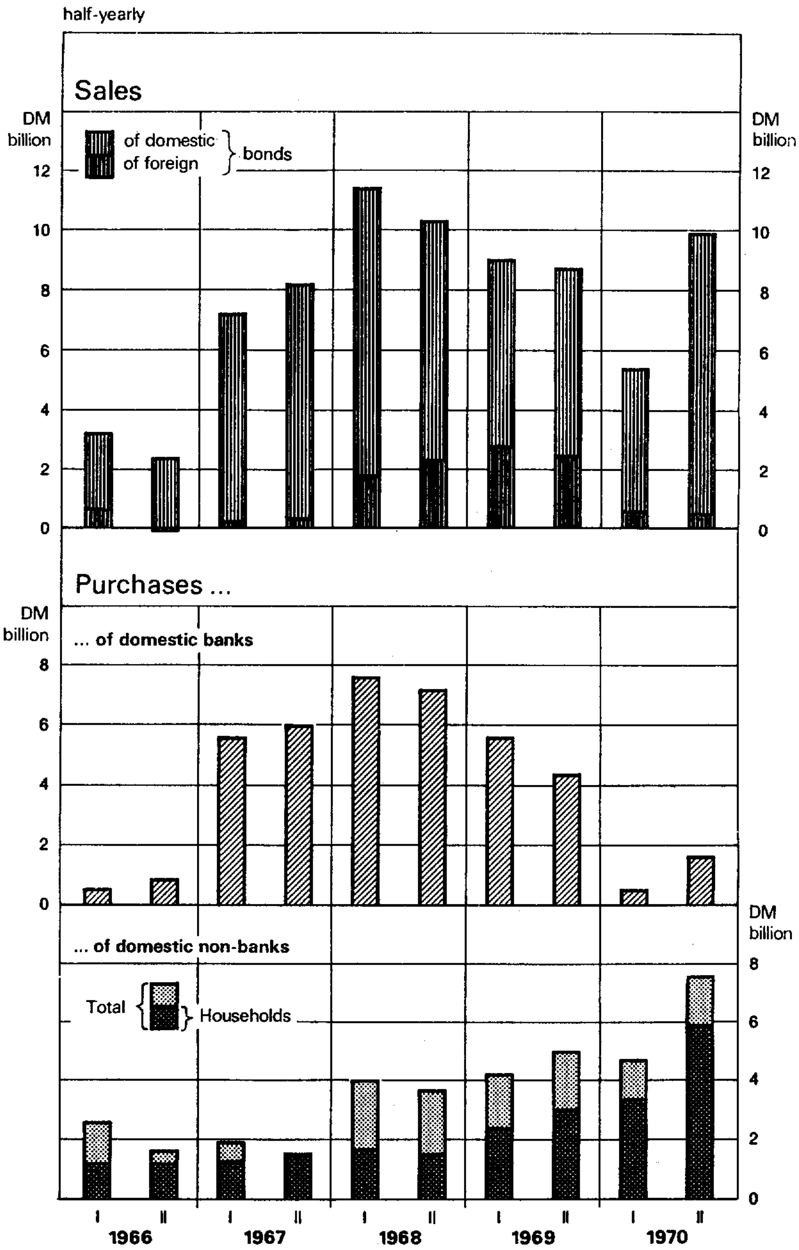
Recourse to the share market in 1970 was rather smaller than in 1969. Domestic and foreign shares to the value of DM 6.3 billion (market prices) were sold on the German share market in 1970; this was about a quarter less than the year before (DM 8.4 billion). Here, just as on the bond market, it was only the sales of foreign instruments that declined, whereas more domestic shares were sold than in the preceding year. Among the net purchases of foreign shares by residents in 1970, acquisitions having the character of trade investments predominated (DM 1.7 billion); "portfolio" purchases of foreign shares amounted to about DM 1 billion, as against DM 1.9 billion in 1969. The diminished inclination to purchase owed little to the price trend abroad, which in some major countries was rather more favourable than on the home market, especially in the second half of the year. Apart from considerations of a general nature, it was no doubt significant that in the course of 1970 the high degree of risk attaching to certain foreign investments became manifest.

Foreign investment fund units disappear from the market

This applied particularly to the purchase of foreign investment fund units, which in 1969, at DM 2.1 billion, had accounted for a large share of overall net purchases of foreign dividend-bearing securities, whereas in 1970, on balance, hardly any more of this paper was bought at all. The main factor here was the influence of the IOS crisis in the spring of that year. Whereas up to the end of April there had been net purchases of foreign investment fund units by residents, in May heavy net sales began, and persisted throughout the subsequent months, though the amounts involved were smaller. An additional factor was that with the coming into force of the Foreign Investment Fund Unit

1 For statistical reasons purchases of foreign bonds by residents also include paper issued at earlier dates. The inaccuracy caused by this is unlikely to be great.

Sales and purchases of bonds



Law in November 1969 the public sale of foreign investment fund units became subject to tighter control.

German investment funds, too, were not unaffected by the restraint shown by savers towards this form of investment; compared with 1969, their receipts were more than halved in 1970. For all the funds open to the general public combined, receipts amounted to DM 1.5 billion in 1970, as against about DM 3.4 billion the year before. The largest decrease was in bond-based funds, which in 1970 sold only some DM 400 million of units, and thus less than a quarter of the 1969 figure. Share funds showed somewhat better results, with sales proceeds of DM 1.0 billion, compared with almost DM 1.7 billion in 1969. Real estate funds, statistically covered for the first time in 1970, sold investment fund units to the total of DM 120 million (net).

The main groups of purchasers on the security market

Banks buy few bonds

The banks, traditionally the main purchasers on the bond market, played a very small role there in 1970 on account of their reduced liquidity margins and the heavy demand for direct credit. At DM 2.4 billion, their net purchases of domestic and foreign bonds in 1970 were but a fraction of the purchases made in the preceding three years. Only in 1966 were they smaller, at just on DM 1.5 billion. Specifically, the banks slightly reduced their holdings of foreign bonds, whilst their additional purchases of domestic bonds, mostly bank bonds, amounted on balance to DM 2.9 billion. In line with the improvement in their liquidity position, their security purchases increased again towards the end of the year.

Domestic non-banks, on the other hand, bought many more bonds in 1970 than ever before; at DM 12.2 billion their net purchases were one third greater than in 1969. About four fifths of all sales of domestic and foreign bonds thus went to non-banks — a result that must be viewed favourably in the context of a lasting expansion of bond sales, although a large part of this success is naturally attributable to the particularly advantageous interest rates of this form of investment, the continuation of which is by no means certain.

Households the main group of purchasers on the bond market

There was a particularly strong expansion in the security purchases of households in 1970. The bond funds, which in 1969 were regarded as the promoters of indirect bond sales to the private sector, took but a small share in this in 1970; their appeal was apparently diminished — wrongly, no doubt, in this case — by a certain scepticism towards investment fund securities. Among the other non-bank groups of purchasers it was only the acquisitions of private insurance enterprises which had any weight, though this was smaller than in the preceding two years. Last year, for the first time for a considerable period, non-residents figured as buyers on the German bond market. External purchases, which were concentrated in the second half of 1970, seem to have declined mainly on the initiative of the German banks, which at times tried to acquire abroad by means of special transactions with non-residents funds exempt from the minimum reserve requirement. At the same time, however, once there were signs of a reversal in the trend of interest rates in Germany, hopes of price gains may have led non-residents to effect some purchases.

Domestic non-banks buy most shares

On the share market, too, it was domestic non-banks which bought by far the bulk of all the domestic and foreign dividend-bearing securities sold. Their net purchases were not quite as large as in 1969, but they were substantially greater than in 1968 and 1967. In 1970 the main purchases by non-banks were those of domestic shares, whereas a year previously foreign shares greatly predominated. The banks' purchases were limited to domestic shares, while they sold foreign ones. As in 1969, non-residents bought few German shares on balance. Most of their buying was in the form of portfolio purchases, whereas, in contrast to former years, their trade investments in German public companies no longer increased, but actually fell slightly.

3. Public authorities' cash transactions

Deterioration in cash figures

The financial transactions of the central, regional and local authorities had an expansive effect on total demand in the economy in 1970. Last year there was a cash deficit estimated at DM 6.5 billion, while in 1969 a surplus of over DM 2 billion was achieved. Even if the receipts from the anticyclical surcharge are counted towards the central, regional and local authorities' revenue (though they are not available for spending, but are deposited on special accounts at the Bundesbank and must later be repaid), there was a cash deficit of DM 4.5 billion in 1970. This means that the cash out-turn deteriorated by almost DM 7 billion, mainly because tax revenue went up relatively slowly and in the event was substantially lower than estimated in the budgets. The central, regional and local authorities' total receipts (including those from the anticyclical surcharge) rose by 6½ % in 1970, or only about half as much as the gross national product. Their expenditure, by contrast, went up by roughly 11 %, or somewhat faster than a year before. Despite cuts by the Federal Government, the expenditure estimates contained in the budgets, which in any case were based on an over-optimistic assessment of receipts, appear to have been exceeded over the year as a whole, principally on account of the "explosion" in construction prices and additional spending on personnel.

The indebtedness of the central, regional and local authorities in 1970 increased by DM 7 billion, and thus by more than was consistent with the size of the cash deficits (excluding the anticyclical surcharge). Over the year these authorities augmented their bank deposits: although they drew on some DM 2 billion of freely usable funds, they immobilised, on special accounts at the Bundesbank, DM 2.5 billion in the form of Federal and Länder anticyclical reserves and DM 0.3 billion by way of proceeds from the "Education Loan". Together with the DM 2.2 billion from the anticyclical surcharge mentioned above, this means that DM 5 billion in all was "frozen" in the central banking system. These reserves were formed in accordance with (or on the basis of) provisions of the Law on Economic Stability and Growth, with the aim of counteracting the excess demand in the economy. It seems that the purpose of the anticyclical surcharge – the curbing of private consumption – was largely achieved, for even after the introduction of this compulsory levy households' savings ratio did not drop, although there was a real possibility of this happening; in fact, it actually rose slightly for a number of reasons. There is no evidence that the anticyclical reserve formed by the Federal and Länder Governments had a similarly restrictive impact on overall demand. The funds immobilised in this way did not stem, taken as a whole, from an excess of current receipts over expenditure, so that the formation of these reserves could not exercise a direct effect on the income circulation; it did, however, have a contractive impact to the extent that the funds were raised by additional borrowing on the credit markets and were not simply the result of transferring freely usable deposits.

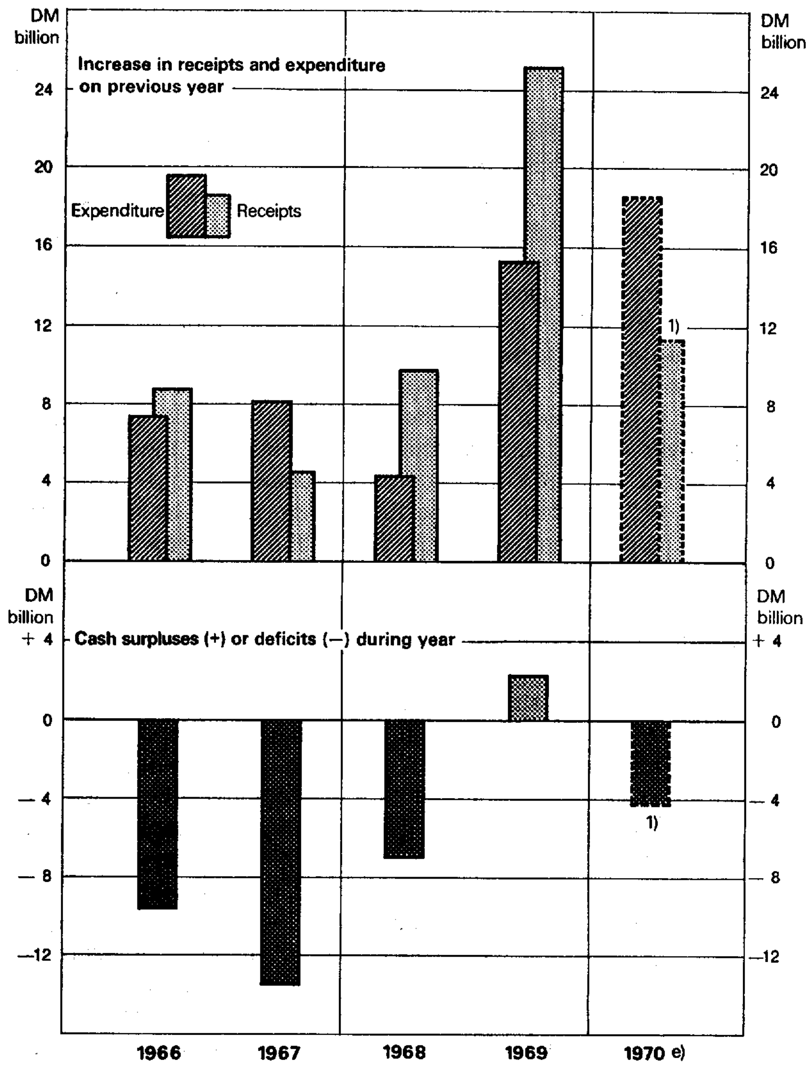
Even if the budgets of the central, regional and local authorities (again including the anticyclical surcharge) are combined with those of the social security funds, the cash outcome in 1970 for all public authorities together works out less favourably than in 1969: receipts and expenditure are merely in approximate balance, compared with a surplus of over DM 2 billion in the previous year. However, forming a public "consolidated budget" in this manner gives rise to serious problems in the appraisal of economic conditions, for it obscures the particular responsibility conferred by the legislature on both the Federal and the Länder Governments with regard to the course of economic activity. This is not to question the great importance – in economic terms as well – of the present surplus phase of the social security funds, but the stabilising effect these funds exert, according to the economic situation, on overall demand cannot take the place of the basically necessary anticyclical stance on the part of the central, regional and local authorities; aggregation of the cash figures, however, may suggest that it can. Moreover, the particular responsibility of these authorities in matters of economic policy is underlined by the fact that the call for anticyclical conduct is addressed expressly to them and that most of the instruments of anticyclical fiscal policy envisaged in the Law on Economic Stability and Growth relate to their budgets. The financial pattern of the social security funds was framed by the legislature in an anticyclical fashion, so that the Stability and Growth Law could confine itself to provisions under which some of the surpluses of the institutions concerned could be immobilised instead of being channelled on to the credit market in the usual manner.

(a) Central, regional and local authorities in 1970

Expansive effects despite contractive measures

When the central, regional and local authorities drew up their budgets for 1970 it was certainly not intended that their budgetary operations should exercise a significant expansive effect. The budgets, in fact, reflected the endeavour to keep the increase in expenditure distinctly below the projected growth rate of the nominal national product; both the Federal and the Länder Governments cut or blocked major appropriations in the field of capital investment in order to contain the rise in spending. In addition, during the first six months the Federal and Länder Governments formed anticyclical reserves to a total of DM 2.5 billion in accordance with an ordinance passed by the Federal Government at the beginning of the year under Article 15 of the Law on Economic Stability and Growth; the Federal Government raised DM 1.5 billion of this sum and the Länder Governments DM 1.0 billion. Furthermore, the doubling of the employees' income tax allowance and the partial reduction of the income tax surcharge, which had been announced in the Federal

Finances of central, regional and local authorities



1) Including income from anticyclical surcharge.- e) Estimated.

Government's policy statement, were postponed for a while at the beginning of the year and later (in July) were deferred again. The Federal Government decided on some additional measures in July, namely to suspend diminishing balance depreciation allowances up to the end of January 1971 and to levy a 10 % surcharge on the income and corporation taxes for a period of 11 months from August 1970 to June 1971; under the Law passed to this effect the surcharge is repayable not later than the end of March 1973. Where these measures affected the public authorities' cash figures at all, they simply prevented the central, regional and local authorities from getting more deeply into deficit and thus having a more expansive impact on overall demand than was already the case (see the introductory paragraphs of this section).

Deterioration particularly marked in case of Länder Governments and local authorities

The trends outlined for the central, regional and local authorities as a whole also apply, albeit in differing degrees, to each public authority individually. The smallest deterioration was in the cash figures of the Federal Government, which finished up with a cash deficit of DM 0.6 billion in 1970, whereas it had a cash surplus of DM 1.7 billion in 1969. The main reason why the Federal Government was able to keep its cash deficit within bounds was that, unlike the Länder Governments and local authorities, its expenditure fell short of the estimates presented in the budgets. As a result its spending rose very little faster than its receipts, even though the latter were far smaller than originally anticipated. By contrast, the Länder Governments recorded a cash deficit of DM 2 billion in 1970, as against a surplus of DM 1.4 billion the year before. The shortfall in Länder receipts (in relation to the budget estimates) was much smaller than that in Federal receipts, but the Länder Governments increased their spending even more strongly than provided for in the budgets (even without deduction of the blocked amounts). The largest deterioration in cash figures seems to have been recorded by the local authorities, for they showed a cash deficit estimated at DM 4 billion, whereas they had ended up roughly in balance in 1969. One factor contributing to this, however, was that the local authorities had collected large amounts of trade tax in advance in 1969 in view of the impending redistribution of taxes, so that the receipts in 1970 were relatively small, while major additional burdens were incurred on the expenditure side.

Receipts

Sluggish growth of receipts

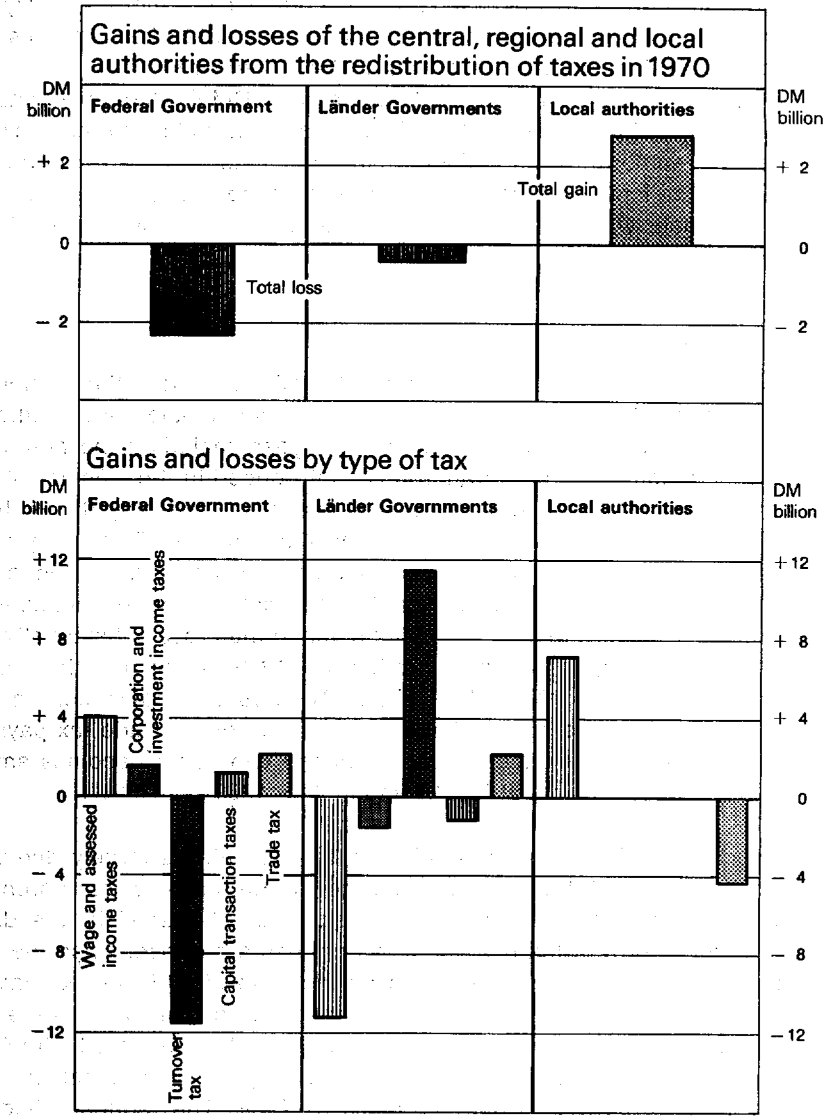
Although the focus of effort in the field of stability policy shifted to the income side from mid-year, the total receipts of the central, regional and local authorities increased much less in 1970 than in the previous year. Including the anticyclical surcharge on the income and corporation taxes introduced in the summer of 1970, receipts came to an estimated DM 186 billion, and were thus only $6^1/_2$ % higher than in 1969, when they went up two and a half times as fast. The freely usable tax revenue (i. e. excluding the anticyclical surcharge immobilised on Bundesbank accounts) received by the central, regional and local authorities amounted to DM 154 billion, or 6 % more than in 1969. Tax revenue thus rose substantially more slowly than the nominal gross national product (+ $12^1/_2$ %), so that the tax ratio in the economy fell from 24.1 % in 1969 to 22.7 % in 1970. If adjustment is made for a number of special factors, above all the advancing of the trade tax payments to 1969, the disparity between the tax ratios for the two years becomes smaller; the ratio for 1970 then works out at 23.0 % and that for 1969 at 23.6 %.

Soaring revenue from wage tax . . .

Apart from such special factors, the decline in the tax ratio is largely due to the marked change in the distribution of incomes to the detriment of entrepreneurial income and to the advantage of wages and salaries. At first sight the disproportionately small growth of tax revenue may come as a surprise, since the sharp rise in total wages and salaries resulted in an increase of 30 % in the wage tax yield owing to the progressive nature of the tax scale, so that the average wage tax burden on incomes from employment went up to 10 % (compared with 9 % in 1969). At the same time, however, revenue from assessed income tax fell by almost 6 % and that from corporation tax by as much as 20 %. The reduced yield from these taxes was caused at least in part by the very large wage increases, since these cut entrepreneurial profits. The main reason why the redistribution of incomes was bound to have an adverse effect on tax revenue was that the average tax burden on additional property and entrepreneurial income is substantially higher than that on additional income from employment. Under such conditions an income redistribution in favour of wages and salaries will of necessity be apt to work to the disadvantage of aggregate receipts from taxes. This structural factor tending to depress tax revenue was accompanied by special technical circumstances relating to payments. Not only were the advance payments small because enterprises always apply very quickly for a reduction of their advance payments when their profits positions worsen, but the assessment too (particularly the one for 1968) by and large resulted in few final payments or none at all, since in many cases the tax authorities had adjusted the advance payments in 1968/69 to the trend of profits at that time — applying, among other things, the new provisions of the Law on Economic Stability and Growth. Finally, the yield of assessed income tax is lessened, statistically speaking, by the fact that more and more wage tax payers are being assessed for income tax, and that any excess payment of wage tax is refunded not at the expense of the wage tax yield but of that of assessed income tax. Thus it cannot automatically be concluded from the differing rates of change in wage tax on the one hand and assessed income tax and corporation tax on the other that there has been a shift in the tax burden to the disadvantage of employees.

. . . but declining receipts from the assessed taxes

Redistribution of taxes



Strong growth in turnover tax revenue

The indirect taxes not related to profits again increased very strongly in 1970. Turnover tax revenue, for instance, went up by 13 %, and thus approximately as fast as private consumption, which in economic terms is the main basis of assessment for this tax. The movement of turnover tax receipts was also affected by legislative measures, however, so that this correspondence was more in the nature of a coincidence. The year-on-year growth of turnover tax revenue was particularly strong in the first quarter, because in early 1969 receipts of turnover tax were curtailed owing to the refunds made on old stocks in connection with the changeover to value-added tax. During the further course of the year revenue increased distinctly less rapidly than private consumption since some of the compensatory arrangements for farmers connected with the revaluation of the Deutsche Mark detract from the turnover tax yield, while the 1969 revenue included receipts caused by the Law on Safeguards (the "revaluation substitute" in the form of tax measures). Excise taxes and customs duties brought in just under 6 % more in 1970 than a year before, whereas trade tax — an indirect tax which is highly dependent on profits — yielded DM 3.5 billion (or one quarter) less than in the previous year. This was attributable not so much to the decline in profits as to the fact already mentioned that over DM 2 billion more was collected in 1969 than would have been raised under the normal procedure.

Local authorities profit from redistribution of taxes

The tax redistribution that came into effect at the beginning of 1970 had a considerable influence on the tax revenue of the various central, regional and local authorities. Compared with the previous distribution, the local authorities had extra receipts of DM 2.8 billion in 1970, for they now take a share of the income taxes, although in return they have to pay a proportion of trade tax yield to the Federal and Länder Governments. Roughly a quarter of the additional revenue is a once-for-all gain which the local authorities owe to their tactics of advancing trade tax payments to 1969, when they did not have to surrender any part of the yield, thus "saving" transfers to the Federal and Länder Governments in the ensuing period. The tax redistribution between the Federal and the Länder Governments (in return for surrendering part of the turnover taxes, the Federal Government receives a larger share of the revenue from the income taxes and the capital transaction taxes) resulted in additional receipts of DM 0.9 billion for the Länder Governments and corresponding losses for the Federal Government. As the above-mentioned gains of the local authorities come half from the Federal Government and half from the Länder Governments (that is, DM 1.4 billion each in 1970), the Federal Government lost a total of DM 2.3 billion owing to the 1970 tax redistribution while the Länder Governments forfeited only DM 0.5 billion. In consequence, the Federal Government's tax revenue increased rather more slowly (+ 7 %) than that of the Länder Governments (+ 8 %), whereas the contrary would have been true under the system of tax distribution in force before. Local authority tax receipts in 1970 were 3 % lower than in 1969 despite the additional revenue resulting from the fiscal reform; this, however, was entirely due to the advancing of trade tax payments to 1969.

Expenditure

Steep increase in expenditure . . .

Although the high expectations on the receipts side were not fulfilled, the central, regional and local authorities increased their expenditure in the period under review by an estimated 11 % (to roughly DM 190 billion), and thus even faster than in the previous year (10 %). For the first time since the stagnation year 1967 expenditure therefore rose more rapidly than receipts. While it is true that spending went up less than the nominal gross national product (+ 12½ %), just as in the two preceding years, this in itself does not denote that the stance of these authorities was in line with economic requirements. Comparison of the growth rate of government expenditure with the growth rate of the gross national product merely reveals whether there has been an increase or a decrease in that part of the national product which the government appropriates for itself through expenditure on goods and services or transfers to private economic agents, who then exert demand on their part. A comparison of this kind does not show the extent to which the government withdraws income from the private sector through the compulsory imposts it levies, thus reducing that sector's claims on the national product in order to transfer them to itself. In other words, the only way to obtain evidence of the effects exercised by public authorities on economic activity is to consider income and expenditure together, that is, to analyse the changes in the financial balance.

Among the individual central, regional and local authorities expenditure developed along divergent lines during the period under review. Federal spending went up by only 7½ %, a figure substantially below the budget estimates (9 %). Länder expenditure, on the other hand, increased by over 13 %, and thus more strongly than originally planned (12 %), even though certain appropriations in the budgets had been blocked on anticyclical grounds. Spending by the local authorities probably increased hardly less strongly than that of the Länder Governments.

. . . especially in the context of fixed investment . . .

There was an exceptionally steep rise last year in expenditure on fixed assets, which went up by approximately a fifth and thus distinctly faster than in 1969. The principal reason was the "price explosion" in the construction sector, which caused capital spending to shoot right up; the available statistics suggest that prices of office buildings rose by 17 % and prices of road construction by 15 % in

Central and regional authorities' finance on a cash basis

Billions of Deutsche Mark

Item	1967	1968	1969	1970 e
I. Cash surplus (+) or deficit (—) 1				
(a) Federal Government 2, 3	— 8.27	— 3.91	+ 1.68	— 0.56
(b) Equalisation of Burdens Fund 3	— 0.21	— 0.32	— 0.21	+ 0.26
(c) ERP Special Fund	+ 0.05	— 0.08	— 0.56	— 0.04
(d) Länder Governments	— 3.57	— 1.00	+ 1.38	— 2.12
Total (a to d)	— 12.00	— 5.30	+ 2.29	— 2.46
II. Financing				
1. Change in cash reserves				
(a) Federal Government	— 0.21	+ 0.02	— 0.01	+ 1.74
(b) Equalisation of Burdens Fund	+ 0.23	— 0.08	— 0.15	+ 0.00
(c) ERP Special Fund	+ 0.19	+ 0.29	— 0.41	+ 0.03
(d) Länder Governments	+ 0.30	+ 1.16	+ 0.81	— 0.13
Total 1 (a to d)	+ 0.51	+ 1.38	+ 0.24	+ 1.65
2. Change in indebtedness				
(a) Federal Government	+ 7.89	+ 3.72	— 1.83	+ 1.96
(b) Equalisation of Burdens Fund	+ 0.47	+ 0.25	+ 0.04	— 0.30
(c) ERP Special Fund	+ 0.15	+ 0.37	+ 0.15	+ 0.07
(d) Länder Governments	+ 3.86	+ 2.15	— 0.57	+ 2.00
Total 2 (a to d)	+ 12.36	+ 6.50	— 2.21	+ 3.73
3. Amounts credited to Federal Government in respect of coinage	0.15	0.18	0.16	0.38
4. Total (1 less 2 less 3)	— 12.00	— 5.30	+ 2.29	— 2.46

1 The cash surpluses or deficits of the Federal Government and the Equalisation of Burdens Fund were ascertained as net payments into or out of the accounts kept by the said authorities with the Bundesbank. These surpluses and deficits deviate from the final results of the official financial statistics primarily because the underlying payments were recorded not at the time they were entered in the budgetary accounts but at the time of the actual receipt or outpayment and because the incurring of debt was eliminated from receipts, and the expenditure on debt redemption (including repurchase of bonds) from outgoings. The cash results of the ERP Special Fund and the Länder Governments were estimated, according to the same method, by using statistics on budgetary receipts and expenditure, indebtedness, money holdings and the other liquid funds. — 2 Except Federal Railways and Federal Post Office. — 3 The cash surpluses or deficits of the Federal Government and the Equalisation of Burdens Fund do not in exact detail correspond to the changes in cash reserves and indebtedness, because there are certain items in course of settlement between these two authorities. — e Partly estimated. — Discrepancies in the totals are due to rounding.

1970. Despite these increases, the central, regional and local authorities were anxious to continue the projects they had begun and to postpone as few of their impending projects as possible. The local authorities, which are responsible for two thirds of all government fixed investment, found this course easier to pursue since they could fall back on the cash resources originating from the advance collection of trade tax revenue and since they benefited generally by the fiscal reform. The spending of the Länder Governments on fixed assets increased even faster than that of the local authorities, for their financial capacity had grown owing to the favourable cash results of 1969. The Federal Government increased its capital spending substantially less (by 11 %) in view of anticyclical considerations, but as the Federal Government accounts for only 15 % of all public authority fixed investment, it had hardly any effect on the total expenditure of the central, regional and local authorities on fixed assets. In the case of the Länder Governments and particularly the local authorities capital expenditure again showed itself to be largely dependent on revenue: any sustained improvement in the financial position leads to a rise in capital spending, while a pronounced deterioration results in a fall. Spending destined for investment by third parties (loans and grants extended, together with trade investments) rose by only 2 % in 1970, thus contrasting with fixed investment. This was, however, only because the central, regional and local authorities granted fewer loans and more assistance with debt service in that year; by this means they managed to augment their promotional measures without incurring additional budgetary burdens on a corresponding scale. Altogether, it is probable that government promotional schemes gave a substantial extra impetus to private investment activity. At all events, the retarding effect on investment activity of a high level of interest rates — an effect aimed for on general economic grounds — seems to have been more or less cancelled out in the fields that benefited from assistance with debt service.

... but also in the personnel field

Within the central, regional and local authorities' current expenditure, which increased by just under 10 % altogether, and thus as sharply as in 1969, the largest rise was in personnel costs, which went up by 15 %, compared with 12 % a year before. The wages and salaries of all government employees were raised across the board by 8 % (but not less than DM 100 per month) from the beginning of 1970. For the first time part of this increase was conceded in the form of a payment to create personal assets (made to employees having an income of less than DM 1,000 per month), so that in many cases it presumably did not affect demand. In addition, several Länder Governments increased certain emoluments during the course of the year, and finally structural improvements were made to the pay scales of wage and salary earners in the autumn. Spending by the central, regional and local authorities on social security went up relatively little, at 7½ %, mainly because the grants of the social security funds grew by only 4 %. Spending on assistance for war victims, on the other hand, rose steeply as a consequence of the improved benefits introduced in early 1970. Expenditure on child allowances increased by 6 %, and thus rather more than in the previous year, since higher benefits came into force from September 1970 onwards. There was little growth in defence spending, one reason being that substantial sums had already been expended in 1969 under the Foreign Exchange Offset Agreement with the United States.

It has already been noted that in two major items of public authority expenditure – personnel costs and capital expenditure – the rise in actual spending, which in some cases was far in excess of the estimates, was largely due to unexpectedly sharp increases in prices or wages and salaries. This shows that the expenditure side of the government budget is structurally highly vulnerable to inflationary rises in wages and costs, since the government, as a labour-intensive "service undertaking", can make only small compensatory productivity gains. The government figures as a purchaser of capital goods chiefly in the construction sector, a field in which the growth of productivity has also been below average in the past. As a result of these structural conditions the prices of almost all goods and services purchased by the government, and hence government expenditure as well, have always risen faster than the overall price level. It can, for example, be computed that the average price index of government expenditure (government consumption, government investment and transfers) went up in 1970 by 8.3 %, whereas that of the national product as a whole went up by "only" 7.4 %. A similar discrepancy is arrived at for the decade from 1960 to 1970 (an increase of the government expenditure "deflator" by 4½ % per year, and that of the national product "deflator" by 3½ % per year). This indicates that the government's real share of the gross national product can remain constant only if nominal government expenditure grows faster than the national product. Put differently, it means that, given a constant tax ratio and a constant ratio of credit financing, the government's real share of the national product should fall continuously, particularly if the inflationary trends are very pronounced. It is true that the government benefits on the receipts side from a very steep rise in nominal incomes owing to the progressive nature of the income tax scale, but at the same time there is a tendency for government expenditure to grow at a disproportionate rate on account of the increase in prices. Thus it comes about that, although the government has higher receipts when the wage and price level is boosted by inflation, its expenditure inevitably increases strongly too. The fact remains that the much-cited "built-in stabilisers" embodied in the tax system through the progressive tax scale may be not only offset, but even overwhelmed, by inflationary increases in wages and prices in the late phase of a boom.

Indebtedness and reserves

Heavy borrowing

The debt of the central, regional and local authorities increased in 1970 by DM 7.1 billion to a total of DM 123.2 billion, after having risen hardly at all in the previous year. This change is mainly attributable to the transactions of the Federal and Länder Governments. The Federal Government borrowed just under DM 2 billion of outside funds in 1970, whereas in 1969 it had on balance repaid DM 1.8 billion. Only the lesser part of this borrowing, however, was needed to finance its cash deficit, and the remaining funds were immobilised on special accounts at the Bundesbank, as mentioned at the beginning of this section. Taken together, the Equali-

Indebtedness of central, regional and local authorities *

Millions of Deutsche Mark

Item	End of year			Change during year		
	1968	1969	1970 e	1968	1969	1970 e
I. Borrowers						
1. Central and regional authorities	81,684	79,478	83,209	+ 6,496	— 2,206	+ 3,731
(a) Federal Government	47,192	45,360	47,323	+ 3,724	— 1,833	+ 1,963
(b) Equalisation of Burdens Fund	7,079	7,122	6,824	+ 251	+ 43	— 298
(c) ERP Special Fund	1,075	1,227	1,296	+ 369	+ 152	+ 69
(d) Länder Governments	26,339	25,771	27,767	+ 2,151	— 569	+ 1,996
2. Local authorities	34,186	36,663	40,000	+ 2,200	+ 2,477	+ 3,337
Total (1 plus 2)	115,870	116,141	123,209	+ 8,695	+ 271	+ 7,068
II. Categories of debt						
1. Book credits of Bundesbank	1,344	1,974	2,334	— 876	+ 630	+ 360
2. Special credits of Bundesbank to Federal Government 1	783	722	387	— 794	— 62	— 335
3. Treasury bills 2	150	—	—	— 54	— 150	—
4. Discountable Treasury bonds 2	8,603	2,360	1,700	+ 925	— 6,243	— 660
5. Tax reserve certificates	47	47	50	— 4	+ 0	+ 3
6. Medium-term notes	4,044	3,659	3,250	+ 855	— 386	— 408
7. Bonds 3	16,074	16,266	17,473	+ 1,844	+ 192	+ 1,207
8. Direct lending by banks	42,536	50,051	56,991	+ 8,422	+ 7,515	+ 6,940
9. Government inscribed stock of social security funds	4,891	4,223	4,019	— 1,210	— 668	— 204
10. Loans from social security funds	2,066	1,877	1,696	— 220	— 188	— 181
11. Other loans	9,221	9,884	10,938	+ 531	+ 663	+ 1,054
12. Commutation and compensation debt	926	904	865	— 47	— 21	— 40
13. Equalisation claims	19,902	19,585	19,332	— 273	— 317	— 253
14. Covering claims 4	3,331	3,116	2,819	— 60	— 215	— 297
15. External debt	1,951	1,473	1,356	— 345	— 479	— 117
Total (1 to 15)	115,870	116,141	123,209	+ 8,695	+ 271	+ 7,068
III. Creditors						
1. Banking system						
(a) Bundesbank	11,164	11,973	11,578	— 1,907	+ 809	— 395
(b) Banks	68,481	70,117	75,040	+11,137	+ 1,637	+ 4,923
2. Domestic non-banks						
(a) Social security funds	8,582	6,828	6,325	— 1,214	— 1,754	— 503
(b) Other 5	25,513	25,616	28,715	+ 987	+ 103	+ 3,099
3. Foreign creditors e	2,131	1,608	1,551	— 307	— 524	— 56
Total (1 to 3)	115,870	116,141	123,209	+ 8,695	+ 271	+ 7,068

* Including Equalisation of Burdens Fund and ERP Special Fund. — 1 Acquisition by Bundesbank of claims resulting from post-war economic aid and of claims from Bank for International Settlements. — 2 Excluding paper originating from the conversion of equalisation claims (mobilisation paper). — 3 Including Federal savings bonds; excluding bonds in the issuers' own portfolios. — 4 Covering claims on Equalisation of Burdens Fund pursuant to the Old Savings Law and in respect of the savings deposits arrangement, as well as government inscribed stock in respect of life assurance contracts. — 5 Public and private creditors (residual). — e Partly estimated. — Discrepancies in the totals are due to rounding.

sation of Burdens Fund and the ERP Special Fund slightly reduced their liabilities. The Länder Governments incurred DM 2 billion of debt, or roughly as much as the Federal Government, whereas they too had made net repayments (DM 0.6 billion) in 1969. Unlike the Federal Government, they needed all their borrowed funds to finance their cash deficit, while the formation of their anticyclical reserve was accompanied by the dissolution of freely usable Bundesbank balances of almost the same size (see the facing page). In the case of the local authorities the pattern was more uniform than in the case of the central and regional authorities: they borrowed an estimated DM 3.3 billion (net), after incurring an additional DM 2.5 billion of debt in 1969.

Not only did the central, regional and local authorities satisfy their entire net credit needs by means of long-term funds, but they also continued their funding operations by replacing short-term debt by debt at longer term. But as the money market paper and medium-term notes outstanding had fallen by almost DM 7 billion in 1969, so that the massive short-term debt incurred through the deficit spending of 1967/68 had largely been discharged, such "debt management" operations tending to lessen liquidity were possible only on a reduced scale in 1970. Since, moreover, maturing discountable Treasury bonds and medium-term notes were in some cases replaced by newly issued paper of the same type, shorter-term liabilities (Bundesbank book credit, money market paper and medium-term notes) declined altogether by only DM 0.7 billion. On the other hand, the central, regional and local authorities' long-term debt increased by DM 7.8 billion, compared with DM 6.4 billion a year previously. Last year, unlike 1969, bond issues again played a fairly important part, particularly in the second half of the year when the state of the bond market improved considerably. Debt in the form of bonds went up by a total of DM 1.2 billion, and thus by DM 1 billion more than in 1969. Even so, taken as a whole, direct lending by banks formed the largest item, as in both of the preceding years; the central, regional and local authorities raised DM 6.9 billion by this means, as against DM 7.5 billion in 1969. In view of the major role of the issuing institutions as lenders to the public authorities this also involved heavy recourse to the bond market, since these institutions normally obtained the funds required by selling "communal bonds". The volume of direct loans from other bodies – mainly insurance companies and building and loan associations – rose in 1970 by DM 1.1 billion, and thus by more than in 1969 (+ DM 0.7 billion). All other types of debt were, however, reduced, as shown in detail in the table opposite.

The credit extended by the Bundesbank to public authorities decreased on balance last year. Although the Federal and Länder Governments together took up just on DM 0.4 billion more book credit at the end of 1970 than a year previously, the Bundesbank's holdings of money market paper, which had amounted to DM 0.4 billion at the beginning of the year, were reduced to zero, and the volume of special credits fell by just over DM 0.3 billion.

Increase in bank balances

Despite their large deficits the central, regional and local authorities built up their financial reserves, which are mostly held in the form of bank balances, in the course of 1970. Only the local authorities, which, unlike the Federal and Länder Governments, do not need to keep their balances at the Bundesbank, appear to have reduced their cash holdings substantially; the funds involved seem mainly to have derived from the trade tax revenue which, as mentioned, was advanced in 1969 at the expense of the following years. By contrast, the central and regional authorities – the Federal and Länder Governments, the Equalisation of Burdens Fund and the ERP Special Fund – greatly increased their balances at the Bundesbank, principally because the Federal and Länder Governments had to form DM 2.5 billion of anticyclical reserves. In addition, the Federal Government immobilised the proceeds of the first tranche of the Education Loan, to the total of DM 260 million, at the Bundesbank. Since, however, the Länder Governments dissolved freely usable balances – on almost the same scale, in fact, as the anticyclical reserves they had to form (DM 1 billion) – the central and regional authorities' deposits at the Bundesbank went up on balance by only DM 1.9 billion. Thus, inclusive of the DM 2.2 billion balance resulting from the anticyclical surcharge, DM 4.1 billion was withdrawn from the internal money circulation; this forms a certain, although by no means wholly adequate, counterpoise to the increase in liquidity from abroad, in much the same way as the measures of minimum reserve policy taken by the Bundesbank. Nevertheless, aggregate final demand, which in the last analysis is the decisive factor in economic terms, is unlikely to have been curbed by the same amount.

Further outlook

Underlying trends

In the budgets for 1971 there are signs that the central, regional and local authorities will have much larger cash deficits this year than in 1970. Since the budgets are still subject to substantial risks on both the revenue and the expenditure sides, it is probable that the deficits will in fact grow by comparison with the current estimates, possibly to as much as DM 14 to 15 billion, against roughly DM 6.5 billion in 1970. If the receipts from the anticyclical surcharge deposited at the Bundesbank are included in this calculation, and on the assumption that this surcharge is not repaid before the end of 1971, a deficit of DM 11 to 12 billion is currently to be expected for 1971, compared with DM 4.5 billion in 1970.

The net borrowing requirement of the central, regional and local authorities will consequently rise from just over DM 7 billion in 1970 to DM 13 to 14 billion in 1971; if the Federal Railways and Federal Post Office are included, it might well go up to about DM 21 billion, compared with DM 12.25 billion in 1970. Quite apart from the issue of whether expansive trends of this magnitude can be reconciled with the economic situation, it seems questionable from the present perspective whether a borrowing requirement of this size can be satisfied on the capital market without difficulty; above all, it appears doubtful whether such credit needs are within the framework of the economic objectives set by the Federal Government itself. In this connection it must be borne in mind that a certain proportion of the annual growth in overall capital formation should normally remain available to meet the long-term credit needs of private investors. If undue demands were made on the credit markets, interest rates might be pushed upwards again and foreign money be attracted into Germany, which would set off a process of money creation that would not necessarily be appropriate to the domestic economic situation.

Further quickening in the growth of expenditure ...

According to present plans the expenditure of the central, regional and local authorities in 1971 will again increase more rapidly than the receipts; it is due to rise by some 13½ % over the actual spending in 1970 (compared with an increase of 11 % in 1970). But since possible additional spending of various kinds has not been taken into account in the budgets, the real increase in expenditure is likely to turn out larger still, unless reductions are made in other fields (of which there are no signs as yet). This would make the overall growth of the central, regional and local authorities' expenditure considerably greater than the percentage rise in the nominal gross national product, which the Federal Government puts at some 8 % in the Annual Economic Report.

Specifically, it is above all expenditure on personnel that will again rise at an above-average rate – far more, indeed, than consistent with the pay increase of about 9 % agreed upon from the beginning of 1971 for wage and salary earners and implemented with retrospective effect for established staff (including payments for the creation of personal assets). There are quite a number of reasons for this: the effects of the bonuses granted in several Länder last year and of the improvements made in the pay structure of wage and salary earners in October 1970 will for the first time be felt over a full year; besides, the bonuses for wage and salary earners employed by the Länder Governments and local authorities were standardised from the beginning of 1971 and consequently introduced in places where they had not yet been paid in 1970 (corresponding arrangements are imminent for wage and salary earners employed by the Federal Government). Bonuses will also be generally introduced for established government employees in May 1971 in connection with the harmonisation of the pay structure within the Federal and Länder Governments and local authorities. Furthermore, the "Christmas bonus" will be raised this year from half to two thirds of a month's earnings. Finally, additional expenditure will be required because of the increase in the number of posts; apart from the great demand for staff, particularly in the field of education, the reduction in working hours from the beginning of January may also entail a rise in the number of employees.

All in all, expenditure on personnel will go up by at least 15 % and probably by slightly more. Defence spending too is likely to increase sharply; the defence appropriations in the 1971 Federal budget for implementing the U.S.-German Foreign Exchange Offset Agreement of 1969 were raised substantially. There are, however, risks in this field with regard to the cost of the new Foreign Exchange Offset Agreement with the United States, which is due to be negotiated this year. Capital expenditure can also be expected to rise considerably again – although not as strongly as in 1970 – owing to the sharp rise in construction prices, unless the volume of construction is cut back, which is hardly to be anticipated.

... accompanied by "normal" growth of tax revenue

The strongly expansive stance of the central, regional and local authorities on the expenditure side will not be duly counterbalanced on the receipts side. On the basis of the growth of just over 8 % in the nominal gross national product envisaged by the Federal Government in its target projection, receipts will probably be some 9 to 10 % up on the year. As for the year-on-year growth rate of tax revenue, following the disappearance of the special factors which depressed receipts it will again be slightly higher than that of the gross national product, so that the overall tax ratio will rise somewhat. If, therefore, the term "tax shortfalls" is used in connection with the estimates of tax revenue for 1971, this is open to misunderstanding: as can be seen from these increase rates, tax revenue will not decline in absolute terms; it will merely fall short of the expectations expressed in earlier estimates for 1971, which were far too high. The main reason for the downward revision of these estimates was that already in 1970 much less revenue was received from taxes than had previously been assumed; in particular, the above-mentioned adverse effects on tax revenue of the major redistribution of incomes had not been afforded due consideration. If the adjustment of the over-optimistic estimates is disregarded, the growth of total tax revenue in 1971, at a rate, as noted, slightly above that of the national product, can be looked upon as substantially normal. This assumption takes into account that disproportionate increases in other taxes will make up for the reduction of the "investment tax" (by 2 further percentage points) and for the tax shortfalls caused by the Third Law on the Creation of Personal Assets, under the terms of which a savings bonus deductible from the wage tax yield is paid for the purpose of enabling employees to acquire financial assets, instead of exemption from taxes and social security contributions.

(b) Social security funds

Large surpluses

The financial position of the social security funds improved very considerably in the past year. According to the incomplete data available all the funds together had a cash surplus of about DM 4.5 billion, after they had finished up with a small deficit in 1969 and a deficit of DM 1.75 billion in 1968. This improvement was mainly due to the statutory pension funds, which recorded cash surpluses of DM 3.3 billion, compared with deficits of DM 0.6 billion in 1969. The statutory health insurance institutions also seem to have made substantial surpluses, and thus to have had much more satisfactory results than in 1969. The statutory accident insurance fund, whose financial results, like those of the health insurance institutions, can only be estimated at the moment owing to the lack of recent data, probably recorded its customary small surplus. Only the Federal Labour Office ended up in a less favourable position than a year before, with a deficit of DM 0.3 billion, as against a surplus of DM 0.1 billion in 1969.

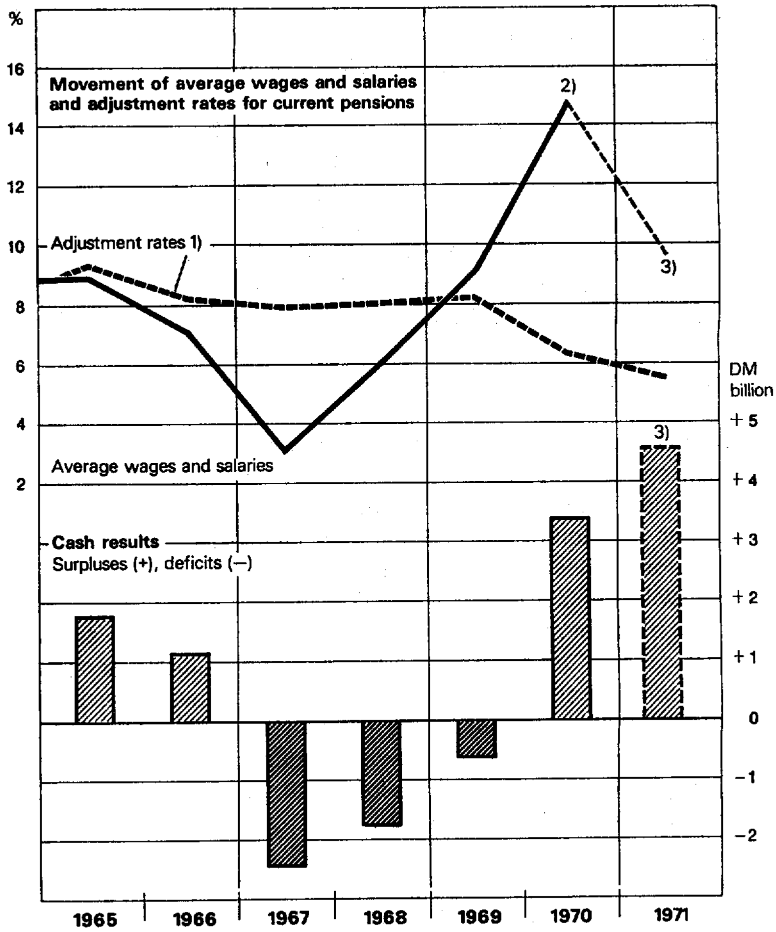
Owing to economic conditions very strong growth of receipts . . .

The receipts of all the social security funds together went up last year by an estimated 15 % (to DM 86 billion), and thus rather faster than in 1969 (12 %). Receipts from contributions rose at a more than proportional pace — by about 19 %, compared with 15 % in the previous year — so that they directly followed the course of the very large wage increases. In addition, the movement of receipts in the individual social security funds was materially affected by legal changes that came into force at the beginning of 1970. Some of these changes were motivated by social considerations, but some were designed to safeguard the finances of the social security institutions in the longer term. The contribution rate to the wage and salary earners' pension insurance funds was raised by one further percentage point (to 17 % of earnings) to make allowance for the longer-term financial needs indicated by the "pensions bulge". The income limit for contributions to the Federal Labour Office was raised from DM 1,300 to DM 1,800 per month and for compulsory contributions to the health insurance institutions from DM 990 to DM 1,200. Furthermore, the introduction of continued full pay to wage earners during sickness also led to additional receipts, since contributions now have to be paid on the wages that continue to be drawn, whereas previously no contributions were payable during illness. All these measures boosted receipts; an influence in the opposite direction was the fact that the above-mentioned raising of the income limit for contributions, and particularly the drop in the amount of sickness benefit paid after the introduction of full pay for sick wage earners, enabled the statutory health insurance institutions to lower their contribution rates appreciably, especially those for wage earners. The social security funds' other income was almost static in 1970, since the Federal grants were little higher than in the previous year and pensioners' contributions to the cost of their health insurance were abolished again.

. . . and moderate rise in expenditure

Expenditure grew only about half as fast as receipts, and, at just under 8 %, rather more slowly than in 1969 (10 %). The comparative moderation of the increase in expenditure was primarily due to the fact that the adjustment rates of social security pensions lag several years behind the trend of income from employment.

Finances of the wage and salary earners' pension insurance funds



1) Adjustment to general basis of assessment of previous year.- 2) Movement of earnings (according to preliminary figures), including increase due to continued wage payments (about 2%), which is disregarded in the calculation of later adjustment rates.- 3) According to official estimates of the course of the finances of the wage and salary earners' pension funds between 1971 and 1985.

The pension increase at the beginning of 1970, at 6.35 %, was thus lower than in the preceding years, as the average earnings of the stagnation year 1967 were included in the computation for the first time. Expenditure on pensions, which accounts for over half the total expenditure of the social security funds, therefore grew far less, at almost 8 %, than receipts from contributions. Moreover, the year-on-year growth of the social security funds' total spending was considerably curtailed by the fact that the statutory health insurance institutions, as mentioned, were largely relieved from the onus of paying sickness benefit owing to the introduction of continued full pay to sick wage earners. In relation it was of less significance that the assistance grants paid by the Federal Labour Office went up rather sharply. Although the Labour Office did not need to spend quite as much on unemployment benefit as a year before, bad weather allowances rose steeply on account of the exceptionally severe winter, and the grants made in connection with vocational promotion schemes more than doubled.

Liquid investment preferred

The social security funds' surpluses were for the most part invested in liquid forms. The wage and salary earners' pension insurance funds increased their deposits at banks by almost DM 3 billion, and acquired DM 0.9 billion of money market paper as well. As a result the pension funds' liquid resources, which had become greatly depleted during the economic slowdown in 1967, at the end of 1970 reached, and indeed surpassed, a figure equivalent to 1½ months' expenditure – the size laid down by law for the liquid reserves. The pension funds are therefore in a position to invest future surpluses in longer-term forms once again. By contrast, the Federal Labour Office had to run down its liquid reserves slightly in order to finance the deficit it showed last year.

Substantial surpluses in 1971 as well

In 1971 the receipts of the social security funds will again be substantially greater than their expenditure. The cash surpluses will be all the larger, the less the upward trend of wages slackens and the growth rate of receipts from contributions declines (for the pension funds — the most important branch — the present wage increases will result in a correspondingly sharp rise in expenditure on pensions in later years). Legislative changes will affect the pattern of receipts from contributions in the current year only in the case of the health insurance institutions. The income limit for contributions (and the limit below which insurance is compulsory for salary earners) was raised from DM 1,200 to DM 1,425 per month from the beginning of the year. In view of the extra receipts that this is expected to bring in, the health insurance institutions should generally be able to refrain from raising their contribution rates in 1971. The social security funds' expenditure will probably increase faster than in 1970 (just under 8 %). The pension funds' spending will go up by roughly the same amount as last year, although existing pensions were raised less at the beginning of 1971, by 5.5 %, than in the previous year (earnings per employed wage and salary earner on the average of 1966/67/68 were that much higher than on the average of 1965/66/67). The expenditure of the statutory health insurance institutions, on the other hand, will show a more than proportional increase, owing, for instance, to the substantial rise agreed in doctors' fees and to the new prophylactic measures for the early diagnosis of certain diseases.

Effects of the boom on the situation of pensioners

On account of the pension adjustment system, persons drawing social security pensions, unlike wage and salary earners still in employment, have had a below-average share of the nominal incomes explosion in recent years. Since average earnings rose extremely fast, and hence far more than pensions, in 1970, and since wages will increase more sharply than pensions in 1971 as well, the disparity between the level of pensions and the level of earnings of the active labour force, which had narrowed appreciably in 1967 and 1968, has greatly widened again in recent times. This in itself would hardly give cause for regarding the recent trend of pensions as unsatisfactory, for the pension increases of 1970/71, at 6.35 % and 5.5 % respectively, cannot by any means be considered exceptionally low (it may be recalled, for instance, that the increase rates between 1959 and 1963 were of a similar size). Concern may, however, rightly be aroused by the fact that the 1970 pension increase was largely swallowed up by the rise in the cost of living and that the same thing seems likely to happen in 1971. On the other hand, if the social situation of pensioners in relation to that of the active labour force is to be depicted accurately, the movement of pensions must be compared with the movement of the average net earnings of the active labour force and not, as is often the case, with the movement of gross earnings. Pensions are, after all, virtually tax free, whereas an increasing proportion of gross earnings is taken away from the employee on account of the progressive nature of the tax scale and the trend of contribution rates to the social security funds. Although in the longer term pensions have lagged distinctly behind the increase in average gross earnings, by comparison with net earnings the picture is by no means so unfavourable. Since 1959, when existing pensions were adjusted for the first time in accordance with the provisions of the 1957 Pension Reform, the level of pensions has been raised by a total of 141 % by the annual adjustment of existing pensions, compared with an increase in average net earnings of about 150 %; the rise in gross earnings, however, has been some 180 %. If the existing pension for 1971 of a person with 40 years of insurance and an income always equal to the average earnings of all insured persons is compared with the average earnings of the active labour force by means of a model, the pension works out at only about 42 % of present-day gross income from employment, but it is equivalent to as much as some 56 % of such income if calculated net. With more years of insurance, such as are often reached at least by those insured persons who are not prematurely incapacitated, these ratios improve accordingly. In any event it must be borne in mind that pensions will follow the recent exceptionally steep rise in wages during the years ahead; a pension increase of over 9 % is due for 1973 and the rate for 1974 will in all probability be higher still. Pensions will thus again be approaching more closely to wages, so that the disadvantages suffered by pensioners as a result of the overheating can be regarded as temporary – provided, at least, that the movement of wages can in future be directed along more settled paths.

Updating the longer-term forecast for the financial pattern of the pension funds

In accordance with its statutory obligation to update annually the longer-term forecast of the financial patterns of the wage and salary earners' pension insurance funds, the Federal Government presented a new projection for these funds for the period up to 1985 in its Pension Adjustment Report for 1971. Mathematically, the new forecast comes to a far more favourable result than the one presented a year ago, which predicted that reserves would fall consistently in relation to the volume of expenditure and that by the early eighties they would more or less be down to the statutory minimum, namely a sum equivalent to three months' expenditure. According to the latest forecast, however, the reserve will rise more rapidly than spending in 1971/72 and thereafter up to 1981 always be approximately equivalent to eleven months' expenditure; in every year, it is predicted, appreciable surpluses will be recorded.

Part of the explanation of this much more favourable picture is that the assumptions on the longer-term increase in the number of employees and the average earnings of insured persons have once again been raised. The hypothesis that the number of foreign workers will mount to 2½ million in the longer term, instead of 2 million as previously supposed, results in appreciably higher receipts from contributions in the new forecast, accompanied in the 15-year period under review by hardly any extra spending at all. The assumption that average earnings will grow by 6.3 % in 1972/75 and by 6.0 % a year from 1976 onwards (instead of 5.8 % in both cases in the preceding forecast) also leads quite naturally to improved results, for the higher the wage rises are, the further the level of pensions lags behind current earnings. It was, moreover, a factor of paramount importance for the forecast that the base for the 15-year projection was 1970, a year in which the pension funds' financial results were far above the long-term trend thanks to the greatest boom of the postwar period (and also the greatest price rises), and that even more favourable cash figures than those of 1970 are expected for 1971 in view of a continued very strong growth in average earnings estimated at 9.7 %. Although this computation can be regarded as "realistic", specifically as regards its base, the assumptions about the further course of events are not without their problems. It is anticipated for the following four years that all the economic variables start from a base strongly affected by the boom and proceed steadily towards the values aimed at, according to the Annual Economic Report of the Federal Government, for the final year of the medium-term projection. This amounts to a tacit assumption that it will prove possible to guide the economy out of the boom situation directly into conditions of steady growth without even having to accept a cyclical "breathing space" on the way.

Judging from experience, substantial risks are inherent in such assumptions. For the forecast of the financial pattern of the pension funds, a procedure of this kind means that up to the end of the period covered by the forecast all the figures are above the values which would result if a course of approximately balanced growth were followed. It goes without saying that the Federal Government is not aiming at an interruption in growth – let alone a recession year – in its economic target projection. But in a calculation designed to safeguard financially the system of wage-linked pensions, allowance should also be made for the fact taught by experience that economic growth has always been subject to fluctuations in the past and that much the same may happen in the future as well. If, however, the possibility of an interruption in growth – be it only of very limited duration – is included in the forecast, the result looks rather different. Some of the capital formation during the 15 years under consideration, which seems to have risen so sharply in relation to last year's forecast, then disappears just as suddenly as it was created in mathematical terms by raising the base of the forecast to the boom level of 1970/71. To prevent the long-term forecasts varying so greatly from year to year according to the point of the cycle which happens to be the base, it would be advisable to start from a "cyclically neutral" base and project the envisaged longer-term movement of the economic variables from this base; in such a case it would implicitly be assumed that the cyclical fluctuations in either direction, which in practice are unavoidable, roughly cancel each other out in the longer run.

4. Balance of payments

New equilibrium of the basic balance

In 1970 the items of Germany's balance of payments that are significant for the longer-term trend approached an equilibrium of a kind which had not been achieved for quite some time. On the one hand, the surplus on current account (including transfers) decreased to DM 2.4 billion, compared with DM 6.2 billion in 1969 (and just on DM 11 billion in 1968); both the economic strains in Germany and the repercussions of the revaluation of the Deutsche Mark in the autumn of 1969 contributed to this decline. On the other hand, the extremely large long-term capital exports of 1969 dropped to more or less normal proportions. In 1970 non-residents were provided with DM 4.4 billion (net) of long-term capital; this sum is equivalent to just on 8 % of the entire longer-term acquisition of financial assets in Germany. In 1969 – primarily as a consequence of speculative short-term money inflows from abroad, which could not be neutralised by measures of monetary policy at that time – Germany had exported DM 23 billion (net) of long-term funds, an amount equalling approximately two fifths of the longer-term acquisition of assets in Germany; the very size of that sum shows that these developments were quite extraordinary and could not continue for long. Germany's "basic balance", the sum of the surplus on current account (including transfer payments) and the deficit on long-term capital account (= net capital exports), continued to show a deficit in 1970, but, at DM 2 billion, this deficit was much smaller than in 1969, when it came to DM 17 billion as a result of extremely large capital exports. This normalisation of the basic state of the German balance of payments was facilitated in two respects by the revaluation of the Deutsche Mark. For one thing, the revaluation – as noted – strengthened the tendency for the surpluses on the current account of the balance of payments to fall; for another – and quantitatively this had a much greater effect – it set off the reflux of speculative foreign funds in the autumn of 1969, thus lessening the excess liquidity of the German banking system and reducing long-term capital exports in 1970 to a size more compatible with domestic saving.

New foreign exchange inflows of a short-term nature

In spite of these welcome trends, there were soon considerable new inflows of foreign exchange into Germany in 1970. The Bundesbank's monetary reserves (including the reserve position in the International Monetary Fund and special drawing rights) increased by a total of some DM 22.7 billion in 1970, entirely because of large short-term borrowing by enterprises and banks abroad. Net short-term capital imports totalled almost DM 24 billion in 1970, an estimated DM 16 billion accruing to enterprises (except banks) and some DM 8 billion to banks. The reason for this was not that non-residents sought to acquire Deutsche Mark assets on grounds of exchange rate speculation, as they had done in 1969, but rather that, by resorting to borrowing abroad, domestic enterprises and banks tried to circumvent the policy of making credit scarcer and dearer that the Bundesbank was pursuing in order to curb the boom. The increase in the Bundesbank's monetary reserves in 1970 thus constituted only an increment of "borrowed" international liquidity.

Polarisation between German and U.S. balances of payments

The extensive foreign exchange inflows into Germany in 1970 were accompanied by an even sharper deterioration in the U.S. balance of payments, with which these inflows were closely connected – not only in terms of their statistical magnitude but also materially (see the sections "General survey" and "International monetary trends and monetary policy"). In 1970 the U.S. balance of payments – calculated on the basis of official reserve transactions (comparable to some extent to our concept of changes in central monetary reserves) finished up with a record deficit of US$ 9.8 billion, and excluding the special drawing rights allocated to the United States in 1970 the deficit was as large as US$ 10.7 billion. In 1969, by contrast, official settlements produced a surplus of US$ 2.7 billion. The deterioration of the U.S. balance of payments in 1970, just like the improvement of the German balance, was mainly due to short-term capital

Main items of the balance of payments

Millions of Deutsche Mark

Item	1964	1965	1966	1967	1968	1969	1970 1st half	1970 2nd half	1970 Total
I. Current account									
1. Trade in goods									
Exports (f.o.b.) 1	64,914	71,633	80,557	86,950	99,445	113,504	59,696	65,134	124,830
Imports (f.o.b.) 1	55,091	66,585	68,932	66,303	76,807	93,533	50,746	52,784	103,530
Merchanting trade (net)	— 212	+ 152	+ 200	+ 362	+ 65	+ 94	— 96	+ 13	— 83
Balance of trade	+ 9,611	+ 5,200	+11,825	+21,009	+22,703	+20,065	+ 8,854	+12,363	+21,217
2. Services	— 4,316	— 5,546	— 5,462	— 5,151	— 4,487	— 5,415	— 3,953	— 5,513	— 9,466
3. Transfer payments	— 5,311	— 6,377	— 6,295	— 6,422	— 7,312	— 8,424	— 4,205	— 5,109	— 9,314
Balance on current account (1 plus 2 plus 3)	— 16	— 6,723	+ 68	+ 9,436	+10,904	+ 6,226	+ 696	+ 1,741	+ 2,437
II. Capital transactions									
1. Long-term capital transactions 2, 3									
Net German capital investment abroad (increase: —)									
Private	— 2,107	— 2,009	— 2,615	— 3,363	—11,833	—21,850	— 4,529	— 3,369	— 7,898
Direct investment	— 923	— 1,051	— 1,228	— 1,042	— 1,589	— 2,118	— 1,178	— 1,331	— 2,509
Portfolio investment	— 540	— 454	— 819	— 1,395	— 5,627	— 9,362	— 1,005	— 1,016	— 2,021
Loans and advances	— 482	— 287	— 368	— 755	— 4,393	— 9,993	— 2,189	— 773	— 2,962
Other	— 162	— 217	— 200	— 171	— 224	— 377	— 157	— 249	— 406
Official	— 1,236	— 1,219	— 1,458	— 1,442	— 1,280	— 1,738	— 1,137	— 1,202	— 2,339
Total	— 3,343	— 3,228	— 4,073	— 4,805	—13,113	—23,588	— 5,666	— 4,571	—10,237
Net foreign capital investment in the Federal Republic of Germany (increase: +)									
Private	+ 2,388	+ 4,257	+ 4,384	+ 1,673	+ 1,671	+ 769	+ 623	+ 5,284	+ 5,907
Direct investment	+ 2,122	+ 3,290	+ 3,441	+ 2,811	+ 1,483	+ 1,377	— 54	+ 1,083	+ 1,029
Portfolio investment	+ 21	+ 99	— 336	— 619	+ 13	— 1,208	+ 229	+ 1,109	+ 1,338
Loans and advances	+ 346	+ 988	+ 1,400	— 391	+ 310	+ 699	+ 511	+ 3,167	+ 3,678
Other	— 101	— 120	— 121	— 128	— 135	— 99	— 63	— 75	— 138
Official	— 79	— 72	— 1,073	— 48	— 49	— 99	— 87	— 18	— 105
Total	+ 2,309	+ 4,185	+ 3,311	+ 1,625	+ 1,622	+ 670	+ 536	+ 5,266	+ 5,802
Balance of long-term capital transactions	— 1,034	+ 957	— 762	— 3,180	—11,491	—22,918	— 5,130	+ 695	— 4,435
2. Short-term capital transactions (including balancing item)									
Banks	+ 85	— 478	— 574	— 4,823	+ 2,455	+ 4,325	+ 2,698	+ 5,229	+ 7,927
Official 4	— 1,041	+ 1,052	+ 337	— 361	+ 1,185	— 29	— 396	— 32	— 428
Enterprises	+ 2,441	+ 3,909	+ 2,883	— 1,212	+ 3,956	+ 2,134	+ 8,156	+ 8,255	+16,411
Financial loans	+ 225	+ 831	+ 1,880	— 1,634	+ 536-	— 235	+ 2,759	+ 3,695	+ 6,454
Balancing item 5	+ 2,216	+ 3,078	+ 1,003	+ 422	+ 3,420	+ 2,369	+ 5,397	+ 4,560	+ 9,957
Balance of short-term capital transactions	+ 1,485	+ 4,483	+ 2,646	— 6,396	+ 7,596	+ 6,430	+10,458	+13,452	+23,910
Overall balance of capital transactions	+ 451	+ 5,440	+ 1,884	— 9,576	— 3,895	—16,488	+ 5,328	+14,147	+19,475
Overall balance on current and capital accounts (I plus II)	+ 435	— 1,283	+ 1,952	— 140	+ 7,009	—10,262	+ 6,024	+15,888	+21,912
III. Contra-entries to changes in the central monetary reserves due to DM revaluation (1969) and allocation of special drawing rights (1970) 6	—	—	—	—	—	— 4,099	+ 738	—	+ 738
IV. Gold and foreign exchange movement (surplus: +) 7	+ 435	— 1,283	+ 1,952	— 140	+ 7,009-	—14,361	+ 6,762	+15,888	+22,650

1 Special trade including supplementary items. — **2** Capital transactions are classified as "Private" or "Official" according to the sector to which the German party concerned belongs. — **3** Classification of long-term capital by "Direct investment", "Portfolio investment", "Loans and advances" and "Other" partly estimated. For further breakdown see table on page 95 of this Report and table 9 ff. in the Statistical Supplements to the Monthly Reports of the Deutsche Bundesbank, Series 3, Balance of payments statistics. — **4** Chiefly concerning change in the Federal Government's assets resulting from prepayments on defence imports and in the Federal Government's liabilities to the European Communities on so-called deposit accounts. — **5** Net errors and omissions on current and capital accounts. — **6** See footnote 7. — **7** The net movement of gold and foreign exchange (= change in Deutsche Bundesbank's net monetary reserves) also contains the depreciation of the Deutsche Bundesbank's gold and foreign exchange positions expressed in DM due to the 9.3 % DM revaluation of October 27, 1969, and the first allocation of special drawing rights (Jan. 1970). As these changes are not attributable to current or capital transactions, contra-entries have been inserted under III in order to square the overall balance of payments in mathematical terms.

movements caused by interest rate discrepancies. In both countries the changes in the foreign exchange balances were ultimately attributable to the different objectives of national monetary policy. Because of the continued overheating in the Federal Republic of Germany the Bundesbank had, at the beginning of 1970, first stepped up the restrictive pressure and then eased it only gradually. The U.S. monetary authorities, on the other hand, had switched to monetary relaxations at the beginning of 1970 because of stagnating economic activity in the United States and had pressed ahead with their policy of cheap money throughout the year. From the beginning of 1970 U.S. commercial banks increasingly had the capacity, from the liquidity as well as from the interest rate angle, to repay on a large scale the sizable loans which they had raised on the Euro-money market in 1968 and 1969 prior to the exodus of foreign exchange from the Federal Republic of Germany following the revaluation of the Deutsche Mark. The liabilities of U.S. commercial banks to their foreign branches alone, which in 1969 had grown by almost US$ 7 billion, were reduced by over US$ 5 billion in 1970 (and by a further US$ 3.5 billion between the beginning of January and mid-March 1971). However, there were substantial outflows of funds in other sectors of the U.S. capital account as well; according to provisional calculations they amounted to about US$ 6 billion, that is, some US$ 3 billion more than in 1969. The fact that the major portion of the dollars that flowed out of the United States finally gravitated towards Germany must, on the one hand, be attributed to the interest rate differential, which became increasingly evident in the course of 1970; on the other hand, Germany, unlike other countries, countered short-term capital inflows neither by imposing exchange controls (meaning in this case measures to fend off the foreign exchange) nor by taking measures of exchange rate policy — in contrast to Canada. The inflow of foreign exchange into the Federal Republic of Germany could therefore be slowed, but not stopped altogether, only by market measures (such as subjecting the growth in borrowing abroad by German banks to a minimum reserve).

The balance of payments at the beginning of 1971

The trends which were characteristic of the balance of payments in 1970 mostly persisted at the beginning of the new year. In January and February 1971 together the basic balance showed a deficit of DM 0.6 billion; the deficit of DM 0.8 billion on current account — which was partly due to seasonal influences — was accompanied by net long-term capital imports of DM 0.2 billion. Enterprises' money imports, which were mainly induced by interest rate considerations, continued. They were particularly large (DM 6 billion) in January, when foreign credits, which had been reduced as usual at end-1970, were immediately taken up again. But even if the figures for December and January are combined — in order to eliminate seasonal fluctuations — net borrowing abroad by German companies came to just on DM 2 billion in this period. In February these inflows amounted to approximately DM 3 billion and in March they probably reached a similar size. In contrast, German banks have not recently taken up loans abroad. The general liquidity situation even permitted them to repay, at least temporarily, some of their foreign credits, which after allowing for the minimum reserve costs were relatively expensive; that is to say, banks exported money on balance. Until the end of March 1971 German banks reduced their net short-term debt to the rest of the world, which around the turn of the year had soared for seasonal reasons, to an estimated DM 8 billion, and thus approximately to the level of October 1970, though these repayments were subject to some fluctuations. Banks' net money exports, however, came nowhere near offsetting the loans raised abroad by trade and industry, so that the Bundesbank's monetary reserves grew by a further DM 8 billion in the first quarter of 1971 (and after inclusion of the special drawing rights allocated at the beginning of 1971 by just on DM 8.5 billion).

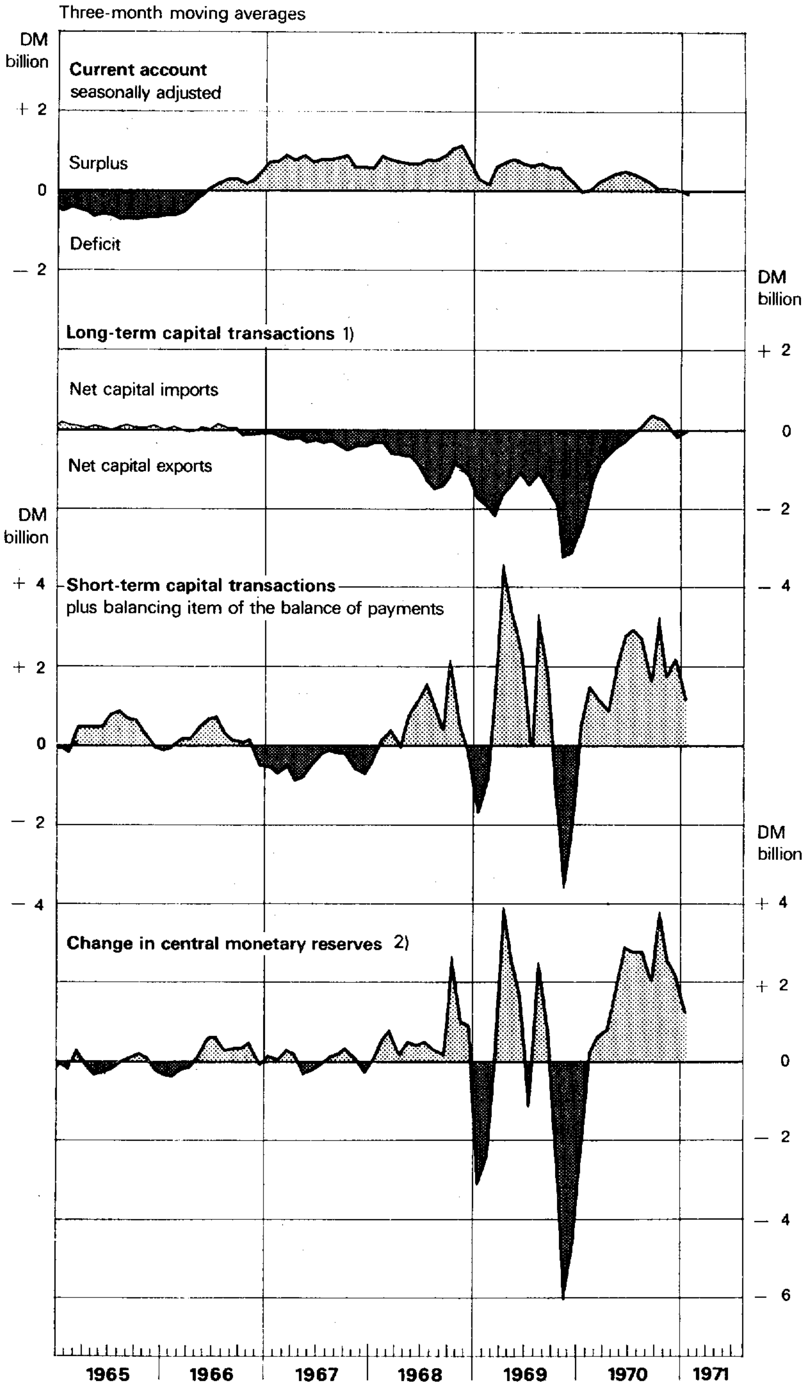
In the following sub-sections the most important trends in the individual sectors of the balance of payments for 1970 will be analysed.

(a) Current transactions with the rest of the world

Rise in nominal but sharp drop in "real" trade surplus

Germany's foreign trade surplus in 1970 in the definition used here, according to which freight and insurance charges on imports are counted not towards

Balance of payments



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

merchandise transactions (as in the official foreign trade statistics) but towards services, rose by DM 1.2 billion to DM 21.2 billion.[1] This surplus, which is calculated at current prices, does not reflect the considerable changes in favour of the Federal Republic of Germany in the real terms of trade since 1969. Mainly as a consequence of the revaluation, Deutsche Mark import prices (measured by the unit value of imports) in 1970 were 2 % down on 1969. In most other countries import prices rose considerably. Conversely, Deutsche Mark export prices (export

1 In accordance with international usage in the compilation of balances of payments, freight and insurance charges paid on imports have been eliminated from the official import figures and counted towards expenditure on services. This rearrangement of the freight and insurance charges on imports, which statistically results in an increase in the foreign trade surplus on the one hand and a rise in the deficit on services on the other, does not affect the overall balance on goods *and* services accounts (or the current balance as a whole).

unit values) were almost 2 % up on the previous year. If these price variations are eliminated, that is, if calculations are based on constant prices, the "real" export surplus in 1970, at some DM 17 billion, was DM 3 billion smaller than a year before (and not over DM 1 billion larger, as was the "nominal" surplus); the real supply of goods in Germany increased by the volume of this drop in the trade surplus, and to this extent exerted a restraining influence on the upward price tendencies, quite apart from the fact that the decline in import prices in itself partly counteracted domestic price increases.

Decelerated rise in exports

In 1970 *exports of goods,* in value terms, expanded by 10 % to some DM 125 billion. German exports not only rose more sluggishly than in 1969 (+ 14 %), they also lagged behind the growth of the nominal national product (+ 12.6 %) for the first time since 1961/62, so that the share of exports in the national product, the "export ratio", fell to 18.5 %, compared with just on 19 % a year before. This comparison is, however, distorted by the differing trends of export prices on the one hand and prices of products sold in Germany on the other (a disparity partly due to the revaluation). Calculated at 1969 prices, the proportion of exports in the total domestic product did not decrease; indeed, it rose to 19.4 %. For similar reasons it is of little significance that, calculated in U.S. dollars, there was a slight rise in Germany's share of world trade in 1970, namely to an average of about 12¹/₄ %, compared with 12 % in 1969. In the fourth quarter of 1970, in which the specific statistical distortions caused by the revaluation are of little importance (because in the fourth quarter of 1969 payment for exports had largely been effected on the basis of the new exchange rate), Germany's share of world trade actually fell to about 12¹/₂ %, compared with 12³/₄ % a year earlier.

The result of the revaluation and the persistent upsurge of prices and costs in Germany was that, calculated in foreign currency, German export products were on average 13 to 14 % dearer at end-1970 than in September 1969, the last month before the revaluation. This price rise considerably exceeds that experienced in other countries. Compared with 1962, the year after the first revaluation of the Deutsche Mark (March 1961), the increase in prices of German export products was in some cases bigger than the rise in the export prices of other major exporting countries. However, prices are certainly not the only determinant of international competitiveness. The large backlog of unfilled export orders, which at end-1970 was probably hardly smaller than before the revaluation, suggests that the reduced competitiveness in price terms was at least partly offset by the capacity to deliver, favourable delivery periods and terms of payment, and — at least in the short run — by a strong position in the field of specialised goods, above all in the capital goods sector. In the long run, however, the German export industry will be able to safeguard its international competitive position and to maintain its share of the world market, and moreover to expand this share in accordance with the increasing integration of the EEC countries (which naturally takes place on the imports side as well), only if the uptrend of costs in Germany moderates with lasting effect.

Relatively uniform rise in exports to the large trade areas but great differences among the individual countries

In 1970 the major trade areas accounted for roughly equal shares of the rise in exports: exports to the EEC countries, to the members of the European Free Trade Association (EFTA), to non-European industrial countries and to developing countries each rose by 9 to 11 %. In some cases, however, there were considerable differences among the individual countries, due to economic factors as well as to temporary influences (for example strikes). In trade with the trading partners of the European Economic Community, German goods to a total value of DM 50.3 billion were sold in 1970 (+ 11 % as against 1969). Exports to Italy rose by 21 %; there the demand for foreign goods at times ran at a particularly high level on account of production losses caused by strikes. Exports to France, the most important market for German products, increased by only 2 %; this shows above all the dual effect of the devaluation of the franc and the revaluation of the Deutsche Mark in 1969. Supplies to the EFTA area in 1970 rose by 10¹/₂ % to DM 28.3 billion. Compared with 1969, Austria and Switzerland, in both of which there were signs of overheating, expanded their purchases from Germany by 17 % each. The United Kingdom reduced its imports from Germany by 3 %, not least because belated consequences of the devaluation

Data on foreign trade *

Item	1966	1967	1968	1969	1970	1966	1967	1968	1969	1970
	Billions of Deutsche Mark					Percentage change on preceding year				
Exports (f.o.b.) 1										
EEC member countries	29.3	32.0	37.4	45.2	50.3	+ 16.1	+ 9.3	+ 16.7	+ 20.9	+ 11.3
Belgium-Luxembourg	6.4	6.4	7.5	9.3	10.3	+ 15.5	+ 0.3	+ 15.6	+ 24.6	+ 11.0
France	9.2	10.1	12.2	15.1	15.5	+ 18.3	+ 9.1	+ 21.8	+ 23.5	+ 2.4
Italy	5.7	6.9	7.6	9.3	11.2	+ 25.8	+ 21.8	+ 9.8	+ 22.4	+ 20.6
Netherlands	8.0	8.6	10.1	11.5	13.3	+ 8.4	+ 8.0	+ 17.2	+ 13.9	+ 15.6
EFTA member countries	20.4	20.7	22.7	25.7	28.3	+ 5.0	+ 1.6	+ 9.4	+ 13.3	+ 10.4
Denmark	2.3	2.4	2.4	2.7	2.9	+ 0.2	+ 1.9	+ 1.7	+ 13.6	+ 5.9
United Kingdom	3.1	3.5	4.0	4.6	4.4	+ 11.6	+ 11.0	+ 16.0	+ 14.0	— 2.9
Iceland	0.1	0.1	0.1	0.1	0.1	+ 14.6	+ 2.2	— 10.7	— 4.9	+ 23.0
Norway	1.5	1.5	1.4	1.6	1.8	+ 8.7	— 2.3	— 3.5	+ 14.6	+ 13.9
Austria	4.2	4.1	4.4	4.9	5.7	+ 11.1	— 2.9	+ 7.9	+ 9.9	+ 17.0
Portugal	0.7	0.6	0.8	0.8	1.0	+ 7.6	— 6.0	+ 18.1	+ 12.8	+ 18.1
Sweden	3.6	3.5	3.9	4.4	4.7	— 4.8	— 1.1	+ 8.9	+ 13.5	+ 7.3
Switzerland	4.9	5.0	5.7	6.6	7.7	+ 4.8	+ 3.5	+ 13.2	+ 15.1	+ 16.8
Other European industrial countries	1.3	1.3	1.3	1.6	1.9	— 5.6	— 3.4	+ 0.7	+ 23.9	+ 18.0
Non-European industrial countries	10.7	12.2	15.7	16.2	17.7	+ 18.4	+ 13.5	+ 29.3	+ 2.8	+ 9.5
of which										
United States	7.2	7.9	10.8	10.6	11.4	+ 25.0	+ 9.5	+ 37.9	— 1.9	+ 7.6
Canada	0.9	0.9	1.1	1.3	1.2	+ 19.1	+ 0.8	+ 19.4	+ 13.8	— 6.3
Japan	0.9	1.3	1.4	1.5	2.0	+ 16.1	+ 46.0	+ 9.8	+ 10.7	+ 26.6
Developing countries	15.3	16.2	17.7	19.5	21.4	+ 12.5	+ 5.9	+ 9.0	+ 10.6	+ 9.3
Socialist bloc	3.3	4.4	4.5	5.1	5.4	+ 23.6	+ 32.3	+ 3.1	+ 12.6	+ 6.3
All countries 3	80.6	87.1	99.6	113.6	125.3	+ 12.5	+ 8.0	+ 14.4	+ 14.1	+ 10.3
Imports (c.i.f.) 2										
EEC member countries	27.8	27.6	33.5	42.4	48.5	+ 4.2	— 0.5	+ 21.1	+ 26.8	+ 14.2
Belgium-Luxembourg	5.6	5.4	6.8	9.0	10.4	+ 3.5	— 3.0	+ 25.1	+ 32.2	+ 15.6
France	8.6	8.5	9.8	12.7	13.9	+ 9.9	— 1.5	+ 15.2	+ 29.9	+ 9.5
Italy	6.7	6.4	8.1	9.5	10.9	+ 1.8	— 3.6	+ 25.3	+ 17.7	+ 14.2
Netherlands	6.9	7.3	8.8	11.2	13.3	+ 0.6	+ 5.9	+ 21.1	+ 27.8	+ 18.3
EFTA member countries	12.0	11.0	12.7	15.3	16.6	— 1.4	— 8.2	+ 15.2	+ 20.3	+ 9.0
Denmark	1.4	1.2	1.2	1.5	1.5	— 7.8	— 14.5	+ 6.3	+ 17.8	+ 2.8
United Kingdom	3.1	2.9	3.4	3.9	4.3	+ 0.4	— 7.1	+ 16.2	+ 14.8	+ 9.0
Iceland	0.1	0.0	0.0	0.0	0.1	+ 26.0	— 48.4	— 8.5	+ 56.4	+ 70.3
Norway	0.9	0.9	1.1	1.4	1.7	+ 2.7	+ 7.3	+ 14.1	+ 25.4	+ 26.5
Austria	1.7	1.5	1.8	2.2	2.3	— 1.0	— 12.8	+ 19.5	+ 24.0	+ 5.6
Portugal	0.2	0.2	0.2	0.3	0.3	— 11.9	— 10.1	+ 5.9	+ 29.6	+ 5.4
Sweden	2.4	2.2	2.5	2.9	3.1	— 3.3	— 9.3	+ 14.9	+ 16.4	+ 8.7
Switzerland	2.2	2.1	2.5	3.1	3.3	+ 1.3	— 6.4	+ 17.5	+ 26.7	+ 6.2
Other European industrial countries	0.8	0.7	0.8	1.1	1.1	— 4.4	— 16.1	+ 16.8	+ 34.0	+ 3.0
Non-European industrial countries	12.6	12.1	12.8	15.1	17.9	+ 2.3	— 4.1	+ 6.1	+ 18.2	+ 18.7
of which										
United States	9.2	8.6	8.8	10.3	12.1	— 0.2	— 6.8	+ 3.4	+ 15.9	+ 17.7
Canada	0.9	0.9	1.1	1.2	1.9	— 2.1	+ 6.2	+ 18.8	+ 10.2	+ 49.3
Japan	1.0	0.9	1.2	1.6	2.1	+ 7.3	— 9.8	+ 25.3	+ 38.0	+ 28.0
Developing countries	16.2	15.7	17.9	20.0	21.0	+ 5.1	— 3.4	+ 14.4	+ 11.6	+ 4.9
Socialist bloc	3.1	3.0	3.4	4.0	4.4	+ 8.0	— 4.3	+ 13.1	+ 16.5	+ 10.6
All countries 3	72.6	70.2	81.2	98.0	109.6	+ 3.2	— 3.4	+ 15.7	+ 20.7	+ 11.9
Additional data on German foreign trade										
Index of export unit values (1962 = 100)	102.9	102.0	100.5	102.3	104.1	+ 1.1	— 0.9	— 1.5	+ 1.8	+ 1.8
Index of import unit values (1962 = 100)	103.4	102.2	99.9	102.2	100.2	+ 1.6	— 1.2	— 2.3	+ 2.3	— 2.0
Terms of trade 4	99.5	99.8	100.6	100.1	103.9	— 0.5	+ 0.3	+ 0.8	— 0.5	+ 3.8
Exports as percentage of nominal GNP (export ratio)	16.4	17.6	p 18.5	p 18.8	p 18.5	.	.	.	.	.
Imports (c.i.f.) as percentage of nominal GNP (import ratio)	14.8	14.2	p 15.1	p 16.3	p 16.1	.	.	.	.	.
World exports in US$ billion	181.3	190.6	212.9	243.5	278	+ 9.6	+ 5.1	+ 11.7	+ 14.4	+ 14.2
German exports as percentage of world exports	11.1	11.4	11.7	11.9	12.3	.	.	.	.	.

* According to figures from the official foreign trade statistics. — 1 By consumer countries. — 2 By producer countries. — 3 Including ships' and aircraft fuel and other supplies. — 4 Index of export unit values as percentage of index of import unit values. — p Provisional.

of the pound sterling in 1967 coincided with the effects of revaluing the Deutsche Mark. Among exports to non-European industrial countries (total growth on 1969: + 9½ %), those to Japan, whose economy again expanded considerably when measured by the international average, grew by 27 %, whereas exports to Canada, where economic growth was small, were 6 % down on 1969. German exports to the United States, which in 1969 had diminished slightly, increased again in 1970 by 7½ %, although industrial production and the real national product in the United States were on the decline in 1970. About 50 % of Germany's additional exports was accounted for by cars, for which the United States is the most important market after the EEC countries. Exports to the developing countries, two thirds of which consist of capital goods, increased by 9 % to almost DM 21.5 billion in 1970. Exports to the countries of the Socialist bloc showed a relatively sluggish growth in 1970 (+ 6 %), although large deliveries of pipes to the Soviet Union started in mid-1970. The share of exports to the countries of the Socialist bloc in total German exports thus declined slightly, from 4.5 % in 1969 to 4.3 % in 1970.

Steep rise in imports . . .

Germany's *imports* in 1970 went up by DM 10 billion, or some 11 %, to DM 103.5 billion (calculated at f.o.b. prices, that is, without freight and insurance charges on imports). If the price changes on the previous year are eliminated — as already mentioned the unit value of imports in 1970 was some 2 % lower than in 1969, mainly on account of the revaluation — imports grew in 1970 by about 14 % and thus almost three times as fast as the real gross national product (+ 4.9 %). This import growth rate was virtually as high as at the peak of the last economic cycle (1965). According to the official foreign trade statistics (which must be used because no f.o.b. import figures are available for individual items) imports of industrial finished products, that is, goods which can be applied directly to consumption or investment without further finishing or processing, showed the largest growth. In terms of value, they grew by 28 % to some DM 36 billion; price adjusted, the rise in these imports was even steeper than in 1969, the main reason being the great expansion of capital goods imports (+ 41 %). Apart from the sharp increase in domestic demand, the growth of imports in this sector can mainly be attributed to a substantial improvement in the competitive position of foreign suppliers on the German market on account of the revaluation. For example, the purchase prices of foreign finished products (end products) at end-1970 were only 1½ % higher than at end-1969, whereas the prices of comparable domestic products in Germany went up by some 7 % between the end of 1969 and the end of 1970.[1] In some sectors the price discrepancy was much greater, above all in the case of consumer goods, but also in that of important capital goods.

. . . mainly of finished goods . . .

. . . but slackening demand for foreign primary products

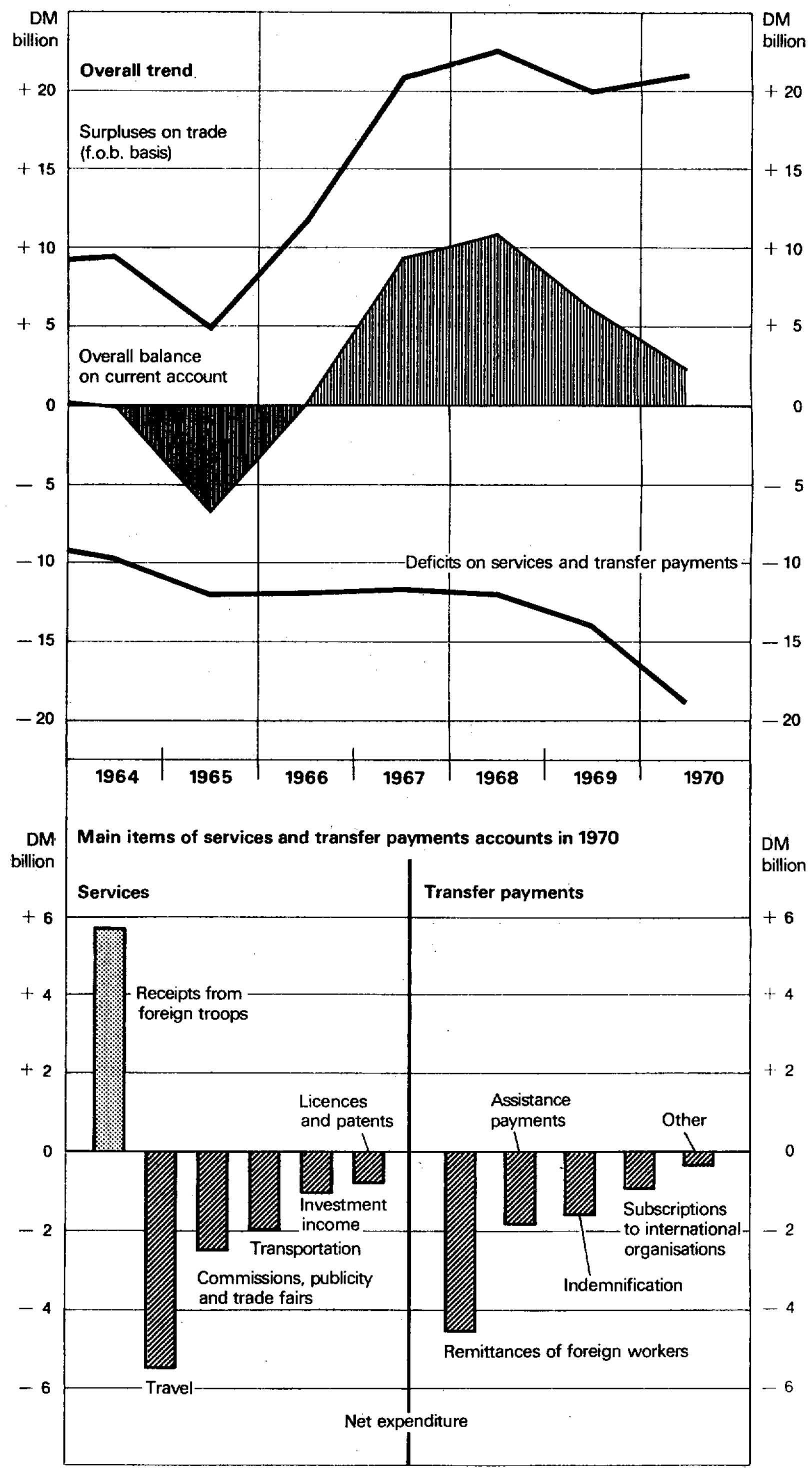
Imports of raw materials, semi-finished products and so-called products for further processing, which are all fairly closely connected with domestic industrial production, grew far more sluggishly than imports of finished products. Aggregate imports of primary goods increased by 5 % in 1970, as against 18 % in 1969. Specifically, imports of goods for further processing during the whole of 1970 were 8 % up on 1969, even though these imports were cut back slightly towards the end of 1970 because German industrial production was stagnating. Imports of semi-finished products, which in 1969 had expanded by over one fifth, grew by only 6 % in 1970. Finally, raw material imports were only 2 % larger than in 1969, owing both to world market influences and to the desire of the processing industry not to let its stocks grow any further. Irrespective of these trends, imports of agricultural products in 1970 increased by 8 % in terms of value. At times these imports were up to 5 % cheaper than in 1969; as a consequence of the current "market regulation" mechanism they largely determined the price level of the corresponding domestic products (although farmers received additional public subsidies for price declines on account of the revaluation).

Substantially larger deficit on services account . . .

Even more than in previous years the surplus on trade in 1970 was accompanied by increasing deficits on services and transfer payments, which showed once again that there is little point in an isolated analysis of foreign trade, since there

1 The purchase prices of foreign goods relate to contracts currently concluded and are not comparable with the unit value of goods actually imported (which, as noted, fell by 2 % in 1970).

Current account



is a close connection with other sectors of the current account. Exports and imports necessitate the use of transport and insurance services; goods exports on the present-day scale would not be possible without the efforts of foreign workers, whose wages and salaries are partly remitted abroad and count towards "transfer payments". The balance of trade can therefore only be assessed in conjunction with the services and transfer payments accounts. Here it is of particular importance that in 1970 the deficit on services transactions (inclusive of freight and insurance charges on imports) rose to some DM 9.5 billion, compared with DM 5.4 billion in 1969. The fairly sharp deterioration in the transportation account was directly linked with foreign trade; the deficit here went up by almost DM 1.3 billion to DM 2 billion. As sea-borne imports – the freight costs on which account for about half of all expenditure on transportation – were 15 % larger than a year before, the main increase was in expenditure on sea freight and port charges, which is directly related to these imports. Such outlays went up by DM 1 billion to DM 6.4 billion, in spite of the revaluation-induced reduction in the Deutsche Mark value of the freight rates, which are mostly fixed in U.S. dollars or pounds sterling. However, a statistical factor also contributed to the deterioration in the transportation account as against 1969; in 1970 receipts from and expenditure on the transportation of goods between Germany and other countries by road was fully taken into account for the first time; this resulted in a net deterioration estimated at DM 0.5 billion. On commission fees, publicity and trade fairs – that is, on services which are bound up with foreign trade as well – Germany spent some DM 2.5 billion (net) in 1970, or DM 200 million more than in 1969. Other commercial service transactions closely related to domestic production, such as payments of patent and licence fees and of wages and salaries to frontier-crossing workers (not to be confused with foreign workers' wage remittances, which appear under "transfer payments"), also finished up in larger deficit than a year earlier.

. . . in transactions connected with foreign trade and domestic production . . .

The sharp deterioration in the foreign travel and investment income accounts had rather more autonomous causes. Primarily for economic reasons and as a consequence of the revaluation, the deficit on foreign travel account in 1970 increased by DM 1.6 billion to DM 5.5 billion. As a result of the steep rise in households' disposable income, which in 1970 was approximately 11½ % larger than in 1969, and the cheapening – at least in relative terms – of foreign travel by the revaluation of the Deutsche Mark, German tourists (and businessmen) spent an estimated DM 9.2 billion abroad in 1970; that was DM 1.8 billion, or 23 %, more than in the preceding year, in which expenditure on foreign travel had already increased by some 20 %. Germany's receipts from foreign visitors rose but little – not least because trips to Germany had become dearer owing to the revaluation. In 1969 these receipts had gone up by 11½ %; in 1970 they rose by a mere DM 150 million (or 4 %) to DM 3.7 billion.

. . . in foreign travel . . .

There was a steep rise in the deficit on investment income account as well, namely from some DM 350 million in 1969 to over DM 1 billion in 1970. The effects of the revaluation played a part in so far as the Deutsche Mark equivalent of all German foreign currency income from financial investments abroad decreased as a result of the revaluation. Nevertheless, receipts from investment income in 1970, at DM 5.0 billion, were DM 1.2 billion larger than in 1969. The main increase was in banks' income from lending to non-residents; in 1969 such lending had been particularly large, and in 1970 the effects of the income therefrom were for the first time felt over a full year. The rise in interest income from the rest of the world was, however, far exceeded by the increase in interest and dividend payments to non-residents. The relatively high interest level in Germany and the steep rise in banks' and enterprises' short-term foreign debt caused interest payments on loans raised abroad to go up on the year by DM 1 billion, to a total of DM 2.3 billion. Profit distributions by domestic enterprises to their foreign shareholders in 1970 grew by DM 1.2 billion (or two thirds) to DM 2.9 billion, mainly because the high profits for 1969 were distributed in 1970 and because the transfer of profits had in many cases been postponed in 1969 on account of the expected revaluation of the Deutsche Mark. Foreign holders of German securities, finally, received some DM 0.8 billion of interest and dividends in the year under review, or almost as much as in 1969. Non-residents' aggregate income from their investments in Germany (and from their holdings of German securities) in 1970 thus rose by DM 2 billion to DM 6.1 billion.[1]

. . . and on investment income account

1 See also "Germany's investment income account with the rest of the world", Monthly Report of the Deutsche Bundesbank, Vol. 23, No. 3, March 1971, page 11.

Main balances on services and transfer payments accounts

Millions of Deutsche Mark

Item	1964	1965	1966	1967	1968	1969	1970
A. Services							
1. Commercial services							
Travel	– 2,154	– 2,766	– 3,403	– 3,034	– 3,106	– 3,888	– 5,488
Investment income	– 1,578	– 1,811	– 1,482	– 1,783	– 808	– 348	– 1,052
Transportation [1]	– 1,099	– 748	– 515	– 517	– 646	– 707	– 1,993
Commission fees, publicity and trade fairs	– 1,494	– 1,595	– 1,808	– 1,951	– 2,020	– 2,291	– 2,518
Other services	– 1,697	– 1,992	– 2,307	– 2,153	– 2,453	– 2,989	– 3,324
Balance	– 8,022	– 8,912	– 9,515	– 9,438	– 9,033	–10,223	–14,375
2. Other service items							
Receipts from foreign troops	+ 4,124	+ 4,044	+ 4,774	+ 5,127	+ 5,196	+ 5,546	+ 5,752
United States	+ 2,761	+ 2,643	+ 3,117	+ 3,443	+ 3,549	+ 3,760	+ 3,778
United Kingdom	+ 853	+ 907	+ 953	+ 949	+ 946	+ 981	+ 1,094
France	+ 276	+ 277	+ 410	+ 386	+ 284	+ 343	+ 410
Other countries	+ 234	+ 217	+ 294	+ 349	+ 417	+ 462	+ 470
Receipts and expenditure of German public authorities	– 418	– 678	– 721	– 840	– 650	– 738	– 843
Balance	+ 3,706	+ 3,366	+ 4,053	+ 4,287	+ 4,546	+ 4,808	+ 4,909
Services, total (1 plus 2)	– 4,316	– 5,546	– 5,462	– 5,151	– 4,487	– 5,415	– 9,466
B. Transfer payments (unilateral transfers)							
1. Official							
Indemnification	– 2,115	– 2,235	– 1,663	– 1,674	– 1,770	– 1,515	– 1,612
Subscriptions to European Communities	– 144	– 162	– 233	– 484	– 1,148	– 1,460	– 611
of which: to the EEC Agricultural Fund	–	– 10	– 41	– 197	– 856	– 1,146	– 293
Other payments	– 886	– 1,068	– 975	– 1,157	– 1,223	– 1,359	– 1,406
Balance	– 3,145	– 3,465	– 2,871	– 3,315	– 4,141	– 4,334	– 3,629
2. Private							
Wage remittances by foreign workers [2]	– 1,550	– 2,150	– 2,500	– 2,150	– 2,150	– 3,000	– 4,550
to: Italy	– 700	– 850	– 1,000	– 850	– 850	– 1,000	– 1,250
Yugoslavia	– 100	– 150	– 200	– 200	– 250	– 500	– 1,000
Turkey	– 150	– 300	– 350	– 300	– 350	– 550	– 900
Greece	– 250	– 350	– 400	– 350	– 300	– 400	– 550
Spain	– 350	– 450	– 500	– 350	– 300	– 400	– 500
Portugal	– 0	– 50	– 50	– 50	– 50	– 50	– 150
Other countries	– 0	– 0	– 0	– 50	– 50	– 100	– 200
Other payments	– 616	– 762	– 924	– 957	– 1,021	– 1,090	– 1,135
Balance	– 2,166	– 2,912	– 3,424	– 3,107	– 3,171	– 4,090	– 5,685
Transfer payments, total (1 plus 2)	– 5,311	– 6,377	– 6,295	– 6,422	– 7,312	– 8,424	– 9,314

1 Including freight and insurance charges paid to foreigners in connection with sea-borne visible imports and, from 1970, also in connection with overland imports by lorry, contained in the c.i.f. import value. – 2 Estimated.

Receipts from foreign troops

If the large deficits on commercial services transactions – which in 1970 amounted to over DM 14 billion, as against DM 10 billion in 1969 – were not fully reflected in the *overall* services account, this is only because of the receipts accruing to Germany from allied troops stationed in its territory. These receipts totalled some DM 5.8 billion in 1970; they were DM 200 million up on the year, mainly because the Deutsche Mark requirements of British and French military agencies were somewhat higher than in 1969.

Deficit on transfers continues to grow

The deficit on transfer payments rose in 1970 by nearly DM 1 billion to DM 9.3 billion. In this sector of the current account, too, the greater deterioration is essentially a cyclical phenomenon: the main reason for the increase was that, owing to the drying up of domestic sources of manpower, the number of foreigners employed in Germany went up steadily, namely by 400,000 to almost 2 million in the course of 1970, according to data provided by the Federal Labour Office. There was also a sharp increase in wages. In parallel, wage remittances by foreign workers soared by over DM 1.5 billion to more than DM 4.5 billion; DM 1.3 billion thereof went to Italy, DM 1.0 billion to Yugoslavia, and DM 0.9 billion to Turkey, so that these transfers are likely to have become an even more substantial item in the balances of payments of those countries (for further details see the above table). Official transfers in 1970 were somewhat smaller than a year before – DM 3.6 billion, as against DM 4.3 billion in 1969 – since the sums made available by the Federal Government to the Agricultural Fund of the European Economic Community fell to DM 0.3 billion (DM 1.1 billion in 1969). The figures for 1970 give little idea of the real burden on the Federal budget arising from commitments to the Community, for the actual payments depend partly on very temporary factors, for example the manner of settlement and the liquidity requirement, which among other things is reflected in the greatly varying size of the Agricultural Fund's credit balances in Germany. The other official transfer payments abroad continued to grow in 1970 – by DM 150 million to DM 3.3 billion (net); these transfers involved mainly indemnification payments (DM 1.6 billion), pension payments abroad (DM 0.8 billion) and contributions to the finances of international organisations (DM 0.7 billion, excluding the EEC Agricultural Fund).

(b) Long-term capital transactions

Decline in long-term capital exports

The decline in Germany's long-term capital exports from the exceptional level of the previous year (some DM 23 billion) to DM 4.4 billion in 1970 reflects not only the normalisation on domestic capital markets as a result of the reflux of speculative money following the revaluation, but also the deliberate credit squeeze in Germany evidenced by the reversal and increase in the interest rate differential between Germany and the rest of the world. It was particularly banks' long-term capital transactions with non-residents that were affected by these factors. It is true that in the first quarter of 1970 banks exported DM 1.5 billion of long-term capital – mainly, no doubt, in order to keep the promises of credit they made in the period of speculative money inflows. However, from the beginning of April to the end of the year banks on balance did not provide non-residents with additional long-term funds; on the contrary, they themselves raised DM 2.5 billion net in foreign financial markets. For the whole of 1970, therefore, there were net long-term capital imports of DM 1 billion in the banking sector. DM 0.5 billion of that sum was accounted for by net borrowing and DM 0.5 billion by sales of foreign securities held in the banks' own portfolios, above all foreign Deutsche Mark bonds (DM 230 million). The possibility cannot be ruled out, however, that both the banks' securities sales and their borrowing abroad were partly intended to meet rather short-term financial requirements. To a considerable extent securities appear to have been transferred by way of an "exchange of assets" to associated foreign banks – a way of procuring funds which seemed attractive to German banks mainly because the "growth reserve" which would have been imposed on an increase in external liabilities could thus be avoided.

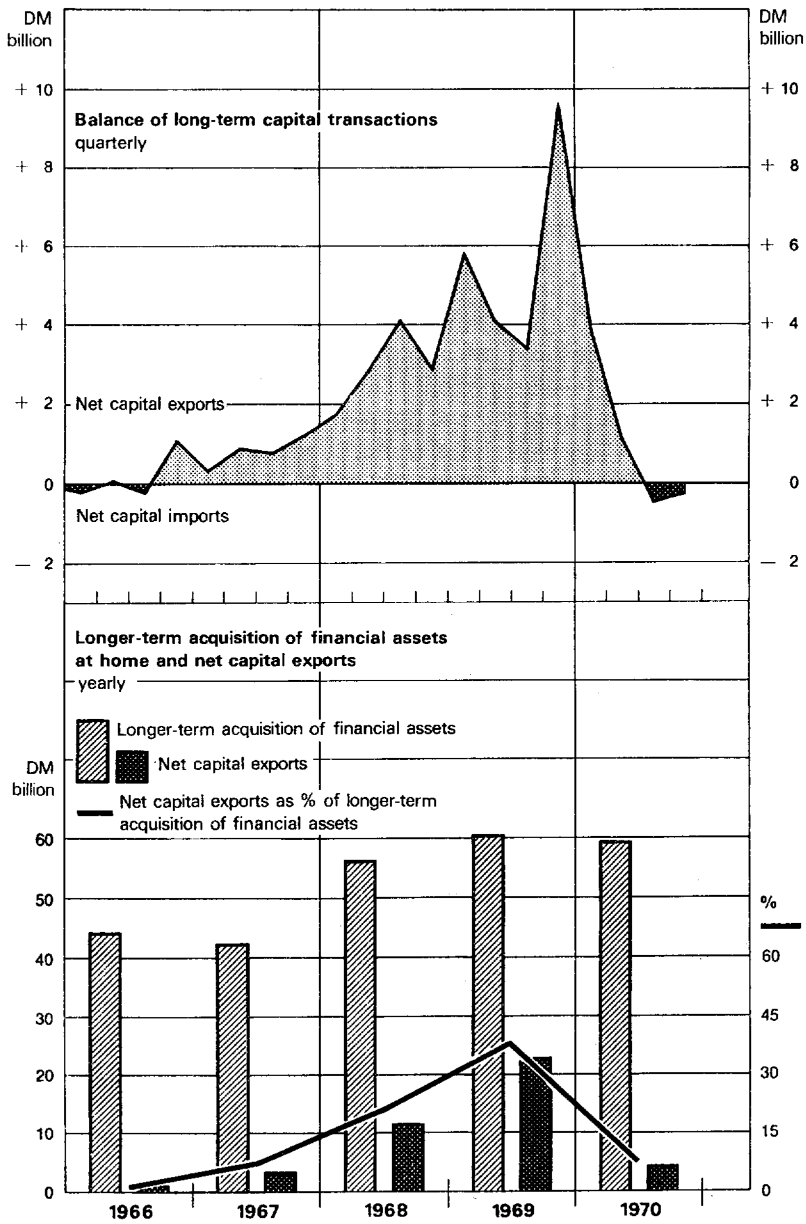
Slackening of capital exports by enterprises and individuals

Enterprises and individuals on balance exported long-term capital again in 1970, though, at DM 3 billion, the amount involved was less than a third of the 1969 figure (DM 10.3 billion). It was portfolio investment in foreign securities that slackened most (DM 2.5 billion, as against DM 7.7 billion in 1969). As explained in more detail in the section "Capital market", the major factor here was that throughout 1970 only DM 1.9 billion of foreign bonds denominated in Deutsche Mark were sold on the German capital market through German syndicate banks, compared with DM 5.3 billion in 1969; moreover, residents purchased a smaller proportion of these bonds than in 1969, so that for this reason, too, the capital account was ultimately affected to a lesser degree. Moreover, there was a decline in purchases of foreign currency bonds as well, and purchases of foreign investment fund units, which in 1969 had been very substantial, ceased almost completely in 1970. Finally, the acquisition of foreign shares (portfolio investment) slackened considerably in 1970, compared with the previous year (the reasons have been set forth in the section "Capital market"). Foreign investors, on the other hand, who in 1969 (above all in the latter part of that year) had sold DM 1.2 billion of German securities – the realisation of exchange profits after the revaluation was probably of importance – purchased German securities again in 1970. They invested DM 0.8 billion in German bonds and DM 0.5 billion in shares (excluding direct investment), in particular in the fourth quarter of the year when, after Germany's reductions of the discount rate, prices began to rise on the bond market and there were signs of an increase in share prices as well.

More German direct investment abroad

In 1970 Germany's direct investment abroad, which is determined not so much by the interest rate and liquidity differential as by longer-term considerations, grew by the largest amount ever recorded in a single year: DM 2.4 billion (DM 2.1 billion in

Long-term capital exports



1969). By contrast, non-residents showed some reserve with regard to new investment in Germany (DM 0.8 billion – excluding investment at banks – as against DM 1.3 billion in 1969). In 1970 German direct investment abroad was DM 1.5 billion larger than foreign direct investment in Germany (compared with DM 0.7 billion a year before). In 1968 the "direct investment account" was just in equilibrium, and in previous years non-residents had regularly invested substantially more funds in domestic enterprises than German residents invested abroad. This swing from net capital imports to net capital exports in the direct investment sector is partly due to the fact that since 1968 the United States Government has restricted U.S. corporations' direct investment in industrial countries, particularly those on the continent of Europe, by administrative arrangements. Not least for this reason the United States' direct investment in the Federal Republic of Germany financed with long-term foreign funds, which in 1966 and 1967 had averaged DM 2 billion, declined to DM 0.5 billion in 1970, though this decline was subject to some fluctuations; the reduced inflow of funds from abroad was probably

Long-term capital transactions, by domestic sectors

Millions of Deutsche Mark

Item	1969 German investment abroad 3	1969 Foreign investment in Germany 4	1969 Net capital exports (—) or imports (+)	1970 German investment abroad 3	1970 Foreign investment in Germany 4	1970 Net capital exports (—) or imports (+)
1. Banks						
Direct investment	— 60	+ 43	— 17	— 145	+ 182	+ 37
Portfolio investment 1	— 1,703	.	— 1,703	+ 460	.	+ 460
Foreign DM bonds	— 1,078	—	— 1,078	+ 227	—	+ 227
Other bonds	— 307	.	— 307	+ 77	.	+ 77
Shares	— 288	.	— 318	+ 148	.	+ 156
Investment fund units	— 30			+ 8		
Advances and loans	— 9,410	+ 306	— 9,104	— 2,426	+ 2,970	+ 544
Total	—11,173	+ 349	—10,824	— 2,111	+ 3,152	+ 1,041
2. Enterprises and households						
Direct investment	— 2,058	+ 1,334	— 724	— 2,364	+ 847	— 1,517
Portfolio investment 1	— 7,659	— 1,208	— 8,867	— 2,481	+ 1,338	— 1,143
Foreign DM bonds	— 3,188	—	— 3,188	— 1,052	—	— 1,052
Other bonds	— 792	— 953	— 1,745	— 294	+ 817	+ 523
Shares	— 1,573	— 255	— 3,934	— 1,109	+ 521	— 614
Investment fund units	— 2,106			— 26		
Advances and loans	— 583	+ 393	— 190	— 536	+ 708	+ 172
Other	— 377	— 99	— 476	— 406	— 138	— 544
Total	—10,677	+ 420	—10,257	— 5,787	+ 2,755	— 3,032
3. Public authorities						
Loans to developing countries	— 985	—	— 985	— 1,065	—	— 1,065
Loans to United States and United Kingdom 2	— 777	—	— 777	— 1,111	— 42	— 1,153
Other	+ 24	— 99	— 75	— 163	— 63	— 226
Total	— 1,738	— 99	— 1,837	— 2,339	— 105	— 2,444
4. Total long-term capital transactions	—23,588	+ 670	—22,918	—10,237	+ 5,802	— 4,435

1 Figures on German securities contain transactions in paper of all private and public issuers. — 2 Loans under the Foreign Exchange Offset Agreements. — 3 Increase: —, decrease: +. — 4 Increase: +, decrease: —.

partly offset by the loans raised in Germany by U.S. corporations' branches and subsidiaries.

Larger official long-term capital exports

Official long-term capital exports, which are largely independent of the interest rate differential, increased in 1970 by DM 0.6 billion to DM 2.4 billion. These additional capital exports were primarily a result of the sums made available under the U.S.-German Foreign Exchange Offset Agreement. Thus the Reconstruction Loan Corporation (RLC) transferred DM 400 million to the United States for temporary employment in longer-term U.S. Government securities; ultimately these funds are destined for direct investment by private German investors in the United States. Furthermore, the RLC and the Federal Government acquired DM 320 million of assets of the U.S. Export-Import Bank, as agreed, and finally the Federal Government transferred DM 275 million as the second instalment of a ten-year loan totalling US$ 250 million (interest rate $3^1/_2$ %) arranged under the Foreign Exchange Offset Agreement with the United States, and prematurely repaid a debt of DM 42 billion to that country. There was also a small rise in the long-term credits extended by the public sector to developing countries, which in 1970 came to some DM 1.1 billion (DM 1.0 billion in 1969). Germany's total development aid, which in conformity with the definitions of the Development Assistance Committee (DAC) of the OECD includes some private capital exports to developing countries and expenditure on technical assistance as well as official loans, came to DM 5.3 billion in 1970 according to provisional calculations; this corresponds to 0.79 % of gross national product or 1.02 % of national income. As expected, the 1969 figures (DM 8.2 billion or 1.36 % of gross national product) were not reached again; at that time private long-term capital exports to developing countries, like capital exports to industrial countries, had assumed a size far exceeding the level which could be expected and justified under normal circumstances.

(c) Short-term capital transactions

Steep rise in enterprises' short-term foreign indebtedness

Germany's short-term capital transactions with the rest of the world (including the balancing item of the balance of payments) in 1970 finished up with a surplus of no less than DM 24 billion. As already mentioned at the beginning of this section, domestic enterprises (including branches and subsidiaries of foreign companies domiciled in Germany) received an estimated DM 16 billion of that amount. At least DM 6.5 billion (net) of these capital flows to the enterprises sector was raised in the form of short-term financial loans abroad, mainly at foreign banks (DM 5.5 billion). This, at least, is the sum obtained from the statistical returns of about 1,000 firms (enterprises of all forms of organisation, although the accent is on large enterprises and subsidiaries of foreign companies). But in 1970 other financial loans were raised abroad which were not recorded in the statistics, for example because they were below the reporting limit of DM 100,000 or because the company raising the loan was unaware of the reporting requirement. Such loans are reflected in the statistical "balancing item" of the balance of payments, together with those short-term capital imports which result from changes in the periods of credit in merchandise import and export transactions. These inflows probably totalled about DM 10 billion. This, at all events, was the size of the "balancing item" of the balance of payments in 1970, which of course also reflects inaccuracies in the statistics and in the classification of transactions according to period outside the scope of short-term capital transactions.

Sharp increase in banks' short-term external liabilities as well

German banks (including branches of foreign banks in Germany) imported some DM 8 billion of short-term foreign funds in 1970. That the money inflows were not larger still was mainly due to the introduction from April 1, 1970 of a minimum reserve on the growth of external liabilities, which temporarily (from September 1 to December 1, 1970) gave way to a reserve on the growth of all liabilities subject to the minimum reserve requirement (see the section "Money and credit"). Besides the loans raised by German banks abroad (partly in the course of interest arbitrage dealings), money imports attributable not to the initiative of German banks but to foreign banks' investment arrangements seem to have contributed to the rise of as much as DM 7.8 billion in "normal" short-term external liabilities during 1970. Foreign monetary authorities alone increased their credit balances at German banks by DM 2.7 billion.[1] German banks, on the other hand, reduced their short-term external assets by only DM 100 million in 1970. As before, German banks' short-term external assets – that is, the equivalents of credit transactions with the rest of the world, including claims arising from interest arbitrage dealings – proved to be more or less constant.

(d) Monetary reserves

Strong growth of monetary reserves

The Bundesbank's monetary reserves (including the German reserve position in the International Monetary Fund and special drawing rights) grew in 1970 by DM 22.7 billion as a result of large money imports by enterprises and banks. The main increase was in the freely usable dollar assets (+ DM 26.3 billion). Furthermore, automatic drawing rights against the gold tranche position in the International Monetary Fund rose in 1970 by DM 1.9 billion on account of Deutsche Mark drawings by other IMF members and by DM 0.4 billion on account of the gold payment following the increase in the German quota in the IMF; that is, by a total of DM 2.3 billion. In this connection it should be mentioned that special drawing rights to the equivalent of DM 738 million were allocated to the Federal Republic of Germany on January 1, 1970 for the first time; in accordance with German legal provisions these special drawing rights were assigned to the Bundesbank direct. As a result of designations by the Fund, the repayment of monetary debts by the United Kingdom, and certain other transactions, the Bundesbank's holdings of special drawing rights had increased to DM 943 million by the end of 1970. (Following the second allocation of special drawing rights on January 1, 1971, of which the Bundesbank received DM 627 million, and further designations by the IMF the Bundesbank's total holding of special drawing rights

1 Some of these funds, too, were probably rechannelled on to foreign money markets by means of interest arbitrage dealings.

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

Millions of Deutsche Mark

Item	Change 1965	1966	1967	1968	1969	1970	1st qtr. 1971	Total at March 31, 1971
Gold holdings	+ 647	— 472	— 257	— 1,246	— 1,662	— 365	— 9	14,557
Freely usable or easily mobilisable assets in U.S. dollars	— 2,545	+ 3,141	+ 202	+ 50	— 4,980	+26,337	+ 6,993	35,569
Assets in other freely convertible currencies	— 270	+ 6	+ 370	+ 1,530	+ 1,518	— 3,445	+ 64	234
German reserve position in IMF and special drawing rights	+ 655	+ 723	— 821	+ 1,854	— 4,455	+ 3,198	+ 950	5,250
(a) Automatic drawing rights against gold tranche position	— 15	+ 723	— 101	+ 442	— 2,560	+ 2,255	+ 246	3,603
(b) GAB credits	+ 670	—	— 720	+ 1,412	— 1,895	—	—	—
(c) Special drawing rights **1**	—	—	—	—	—	+ 943	+ 704	1,647
DM bonds of U.S. Treasury	— 300	— 1,000	+ 1,000	+ 2,300	— 700	— 2,000	—	2,000
(a) short-term	— 300	— 1,000	—	— 200	— 1,200	—	—	—
(b) medium-term	—	—	+ 1,000	+ 2,500	+ 500	— 2,000	—	2,000
World Bank bonds	+ 102	—	—	+ 196	— 65	+ 379	+ 94	2,021
Other external assets of limited usability	+ 353	— 554	— 89	+ 112	— 83	— 64	+ 117	408
External liabilities (decrease: +)	+ 75	+ 108	— 545	— 279	+ 170	— 1,390	+ 227	2,585
Total reserves (net)	— 1,283	+ 1,952	— 140	+ 7,009	—14,361	+22,650	+ 8,436	57,454

* The decrease shown for 1969 in the monetary reserves, by a total of DM 14,361 million, also contains the depreciation of DM 4,099 million resulting from the new valuation of the Bundesbank's gold and foreign exchange positions in connection with the 9.3 % DM revaluation of October 1969; for further details and explanations see Table 18 in the Statistical Supplements to the Monthly Reports of the Deutsche Bundesbank, Series 3, Balance of payments statistics. — **1** Allocated on January 1, 1970: DM 738 million, on January 1, 1971: DM 627 million.

had risen to the equivalent of DM 1,647 million by the end of March 1971; see the section "International monetary trends and monetary policy".) In contrast, holdings of "other freely convertible currencies" decreased in 1970 by DM 3.4 billion. This decline was mainly due to the fact that at the beginning of 1970 the French and British central banks repaid loans which they had raised at the Bundesbank in 1969, when speculation on a revaluation of the Deutsche Mark was rife. In the first quarter of 1971 central monetary reserves grew by a further DM 8.5 billion to DM 57.5 billion (net) owing to short-term capital imports. Further details on the changes, holdings and composition of monetary reserves may be seen in the above table.

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

I. The Deutsche Bundesbank's cooperation in bank supervision and in the amendment of banking law

Revision of legislation in the field of mortgage loans

In 1970 the preparatory work on the revision of mortgage law (bills on building and loan associations, on the amendment of the Mortgage Bank Law and the Ship Mortgage Bank Law and on an amendment of the Law on Mortgage Bonds and Similar Bonds of Public-Law Financial Institutions) formed the focus of the legislative work associated with bank supervision on which the Bundesbank had to express its opinion. In December 1970 the bills were passed on by the Federal Cabinet to the Federal Upper House and were dealt with in committee and in the House itself during the following weeks.

Guidelines for securities deposit examination

At December 16, 1970 the Federal Banking Supervisory Office issued the

Announcement on the nature, extent and date of the securities deposit examination (guidelines for the securities deposit examination)
(Federal Advertiser No. 239 of December 23, 1970)

and gave information on the material requirements of such examination.

Admission for tax purposes of the banks' general depreciation reserves

The Federal Cabinet and Upper House consented to a proposal submitted by the Federal Minister of Finance that the general administrative regulation of March 21, 1966 (Federal Advertiser No. 58 of March 24, 1966) on the admission for tax purposes of the banks' general depreciation reserves should remain in force unchanged until December 31, 1972. The relevant administrative regulation of December 17, 1970 was published in Federal Advertiser No. 239 of December 23, 1970.

Principles concerning capital resources and liquidity of banks

The revision of the principles, announced and initiated in 1969, was continued in the year under review, but has not yet been concluded. The principles at present in force are as follows:

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

dated January 20, 1969

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

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

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

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

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

Principle I

(1) A bank's lending and trade investments less accumulated depreciation reserves and less deferred expenses and accrued income from assigning to the proper business years the fees concerning instalment sales financing transactions shall not be more than 18 times the capital and reserves. Lending shall be deemed to include:

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

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

3. Contingent claims arising from

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

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

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

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

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

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

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

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

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

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

Principle II

A bank's investment less accumulated depreciation reserves in

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

2. Securities not listed at a stock exchange,

3. Trade investments,

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

5. Land and buildings, and

6. Furniture and equipment

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

Long-term financial resources shall be deemed to include:

1. Capital resources,

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

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

4. 60 % of savings deposits,

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

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

7. 60 % of provisions for pensions,

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

Principle III

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

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

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

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

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

Financial resources shall be deemed to include:

1. 35 % of liabilities towards banks payable on demand and with agreed maturities or periods of notice of less than four years, excluding customers' drawings on credits opened with third parties,

2. 80 % of liabilities towards banks arising from customers' drawings on credits opened with third parties,

3. 20 % of savings deposits,

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

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

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

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

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

Berlin, January 20, 1969

The Federal Banking
Supervisory Office

Kalkstein

Cooperation in regular bank supervision

In the course of the regular supervision of banks the Land Central Banks, enlisting the services of their branch network, processed in 1970 some 43,000 (37,000 in 1969) individual reports on large-scale credits under Art. 13, para. 1, sentences 1 and 2 of the Banking Law and summaries under Art. 13, para. 1, sentence 4 of the Banking Law, containing about 49,500 (29,000 in 1969) large-scale credits. The number of large-scale credits contained in the summaries increased substantially in comparison with the year before, because the bulk of the summaries showing the position at October 31, 1969 filed by the credit cooperatives (Raiffeisen) of all size groups were not received or processed by the Land Central Banks until January 1970.

The decline in the number of annual accounts from 9,900 in 1969 to 9,400 reflects the wave of mergers in banking, which intensified in 1970 and which, in terms of number, bore particularly heavily on the Raiffeisen group.

In contrast, the number of monthly returns processed under Art. 25 of the Banking Law changed only insignificantly, from 50,000 in 1949 to 49,500, despite the drop from about 3,700 at end-1969 to roughly 3,600 at end-1970 in the number of institutions reporting for the monthly banking statistics. The reason was that the Federal Banking Supervisory Office in the year under review increasingly made use of its power to demand monthly returns under Art. 25, Banking Law, from those institutions not normally reporting for the balance sheet statistics.

The Land Central Banks received about 7,500 (1969: 5,900) reports from the banks under Art. 24 of the Banking Law announcing changes in management or form of organisation, interests in other banks, establishment of branches, etc.

In addition, the Land Central Banks handled about 670 reports on securities deposit examinations in the year under review.

The rate of increase in the number of reports under Art. 14, Banking Law, received by the information centre for credits of DM 1 million or over at the Directorate of the Deutsche Bundesbank rose in the year under review in comparison with 1969. In 1970 roughly 353,000 (1969: 305,000) such reports were processed. On the average of the six processing periods in the year under review 1,282 (1969: 1,048) banks and 351 (1969: 363) insurance institutions, including social security funds and the Federal Labour Office, filed reports under Art. 14 of the Banking Law. On the same average about 5,500 (1969: 4,600) combines and groups pursuant to Art. 19, para. 2, Banking Law, and single borrowers were found to have taken up credit under Art. 14, Banking Law, from several lenders, while about 11,700 (1969: 9,600) borrowers were indebted to only one lender. Pursuant to Art. 14, para. 2 of the Banking Law, the lenders were notified by the Deutsche Bundesbank of the size of their borrowers' indebtedness and the number of lenders concerned.

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

1. Credit instruments eligible at the Bundesbank

(a) Discount business

General

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

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

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

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

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

Instalment sales financing bills

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

Building bills

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

Bills in respect of building material deliveries issued to the trade, the building contractor or craftsman are likewise purchasable, not however renewals thereof.

Bank acceptances

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

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

Prime bankers' acceptances

Prime bankers' acceptances are bank acceptances of a special kind, viz., Deutsche Mark acceptances of the accepting banks admitted to the prime acceptance market, which serve for the financing of import, export and merchanting transactions, of international commission processing, or of international transactions in goods between two countries not including Germany, and which in the upper margin of their face bear a reference to the transaction financed. The period still to run must not exceed 90 days, the amount involved must be at least DM 100,000 and should not exceed DM 1 million, while it should be divisible by 5,000. Prime bankers' acceptances are included in the Deutsche Bundesbank's money market regulating arrangements (decisions of December 18, 1958, August 30, 1962 and May 6, 1965; see page 108 "Money market operations").

Bills drawn on debtors

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

Promissory notes of the Import and Storage Agencies

By virtue of special decisions of the Central Bank Council promissory notes of the Import and Storage Agencies (Storage Agency bills) are declared purchasable, up to certain maximum amounts newly fixed from time to time, and are included in the money market regulating arrangements (latest decision of December 2, 1970; see page 108 "Money market operations").

Bills for financing export orders

Also rediscountable are the promissory notes of German exporters, bearing the endorsement of the exporter's bank and of the AKA Ausfuhrkredit-Gesellschaft mbH (Export Credit Company), and necessary renewals of the said instruments, which have been issued for the purpose of financing medium and long-term deliveries and services rendered mainly to developing countries within the limits of a rediscount line accorded to the AKA Ausfuhrkredit-Gesellschaft mbH (decisions of March 5/6, 1952 and May 5, 1960). The rediscount line, known as Limit B of the AKA Ausfuhrkredit-Gesellschaft mbH, amounts to DM 3 billion (decision of April 3, 1970).

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

Bills for financing interzonal trade transactions

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

Foreign currency bills

Under Art. 19, para. 1, item 8 in conjunction with Art. 22 of the Bundesbank Law, the Bundesbank is empowered to purchase from any person bills 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 expressed in foreign currency not only from banks but also from public departments.

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

Since March 1, 1971 it has been possible to collect foreign cheques by means of the "Simplified collection procedure for foreign cheques on behalf of banks and public departments" (decision of June 18, 1970).

(b) Advances against securities (lombard loans)

Advances against securities (interest-bearing loans, against collateral, for not more than three months) may be granted to banks against pledging of the securities and government inscribed stock listed in Art. 19, para. 1, item 3 of the Bundesbank Law. Detailed information regarding the assets eligible as security for advances, and the lending limits applicable thereto, is given in the "List of securities eligible at the Deutsche Bundesbank as security for advances" which is published in the Federal Advertiser and in the Bank's Bulletins.

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

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

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

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

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

2. Rediscount quotas for banks

The extent of recourse by banks to the Deutsche Bundesbank by way of rediscounting bills of exchange is limited – apart from other measures of central bank policy – through rediscount quotas. The Central Bank Council has laid down standard quotas based on the banks' capital and reserves and differentiated according to categories of institutions.

Since June 1970 the rediscount quota of a bank has been reduced by an amount equivalent to the growth, if any, of its external liabilities for such security transactions under repurchase agreement as – in conformity with present rules – are shown below the line in the balance sheet and of endorsement liabilities for the rediscounting of bills abroad. The reduction is equal in size to the increase in all such liabilities over and above the level of end-March 1970 (decision of May 13, 1970).

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

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

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

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

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

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

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

3. Money market operations

The Bundesbank arranges the sale of Treasury bills, discountable Treasury bonds and interest bearing Treasury notes running for three to four years which are issued by the Federal Government, its special funds and the Länder Governments.

For the purpose of regulating the money market in pursuance of Art. 21 of the Bundesbank Law (money market regulating arrangements), the Bundesbank purchases and sells in the open market for its own account and at the rates fixed by it the Treasury bills and discountable Treasury bonds issued through the Bank, and the medium-term notes of the Federal Government, the Federal Railways, the Federal Post Office and the Länder Governments issued up to the end of 1968, provided their remaining life does not exceed 18 months. Included in the money market regulating arrangements are also Storage Agency bills and prime bankers' acceptances; in purchasing and selling prime bankers' acceptances in the money market, the Bundesbank contracts only with the Privatdiskont-Aktiengesellschaft.

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

4. Provisions on minimum reserves

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

In pursuance of its restrictive policy the Central Bank Council decided, on March 6, 1970, to impose once again a minimum reserve on the growth of banks' external liabilities. With effect from April 1 the overall growth of external liabilities over and above the level of March 6, 1970 or the average of the four bank return dates in February 1970, was subjected to an additional reserve ratio of 30%. A further – across-the-board – increase in reserve ratios by 15% for all liabilities except the growth reserve ratios came into effect on July 1, 1970.

To counteract the inflow of foreign funds triggered by non-banks' borrowing abroad and reflected in the rise in banks' domestic liabilities, the Central Bank Council decided, on August 12, 1970, to introduce a reserve on the growth of all reserve-carrying liabilities (general growth reserve), which replaced the reserve on the growth of external liabilities with effect from September 1, 1970. Pursuant to this regulation, the growth of all liabilities over and above the average level of the months April, May and June 1970 was subjected to an additional reserve ratio of 40 % for sight and time liabilities and 20 % for savings deposits. In view of the legally permissible maximum reserve ratios (Art. 16, para. 1, Bundesbank Law), these additional reserve ratios were to be applied with the proviso that a bank's aggregate minimum reserves (reserve on the total of liabilities plus reserve on growth) should not exceed 30 % in the case of sight liabilities, 20 % in the case of time liabilities and 10 % in the case of savings deposits.

On August 27, 1970 the Central Bank Council mitigated the measures resolved on August 12, 1970 inasmuch as in calculating the growth of savings deposits the basic amount (the base for computing the growth) could be raised by a sum equivalent to 60 % of the bonus-carrying savings deposits which reached maturity on July 1, 1970. At the same time upper limits were laid down governing the burden on the banks caused by the introduction of the general growth reserve, viz., 25 % of the reserve on the total of liabilities in September and 30 % in October. This ruling was later extended to November, with the upper limit remaining at 30 % (decision of Central Bank Council of October 21, 1970).

Because of the varying repercussions on individual banks and banking groups according to their – more or less fortuitous – basic position in the reference period the Central Bank Council decided on November 17, 1970 to abolish the reserve on the growth of domestic liabilities at the close of November 30 and to raise the minimum reserve on all reserve-carrying domestic and foreign liabilities by 15 % instead. The reserve on the growth of external liabilities was retained in a modified form. The additional reserve ratio stands at present at 30 %, the new base being the average level of external liabilities in the period from October 16 to November 15, 1970.

As a result of the above-mentioned measures the average reserve ratio (reserve requirement as % of reserve-carrying liabilities) was raised from 6.3 % in January to 8.4 % in December 1970, that is to say, by roughly one third.

The Deutsche Bundesbank's Order on Minimum Reserves (MRO) was amended as follows during the period under review:

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

To counteract circumvention of the minimum reserve regulations, the Central Bank Council, on June 18, 1970, inserted paragraph 6 in Art. 2 MRO, generally prohibiting the repeated employment of the same asset item for the purpose of using the various compensation and exemption facilities provided for in the MRO.

On October 21, 1970 the Central Bank Council, with effect from the next day, limited the regulations regarding the exemption of liabilities for "customers' drawings on credits opened with third parties" (Art. 2, para. 4 (f) MRO) and "interest arbitrage deals" (Art. 2, para. 4 (l) MRO), in order to prevent undesirable utilisation of the facility. Since then the only liabilities exempt from the minimum reserve requirement have been those for specific external transactions in respect of which the bank's customer is under an obligation to pay. Liabilities for "interest arbitrage deals" have since then been exempt only in the case of foreign currency liabilities which are passed on without delay in the same currency. There is the further precondition that the banks abroad or any one of these banks and the domestic bank may not be parts of the same institution or have any participating or dependent relationship with each other.

Likewise on October 21, 1970 the stipulations of paras. 2 and 3 of Art. 3 MRO, which until then laid down different delimitations for sight and time liabilities, depending on whether they arise from monies deposited at notice or for a fixed period (1 month or 30 days), were brought into line with the uniform delimitation (1 month) used in the balance sheet.

The Deutsche Bundesbank's Order on Minimum Reserves of November 11, 1968, as amended on October 22, 1970

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

I. General provisions

Article 1

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

(2) Not subject to the reserve obligation are

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

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

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

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

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

(e) for one calendar year on each occasion those banks which practise long-term lending as a permanent branch of business, and with which, according to the returns for the monthly balance sheet statistics, own resources and funds held for long periods, including long-term loans on a trust basis as well as the liabilities for bonds, at the twelve end of month dates from October 31 of the penultimate year to September 30 of the past year averaged at least 90 % of the volume of business reduced by accumulated depreciation reserves;

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

Article 2

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

(a) non-banks,

(b) banks not subject to the reserve requirement,

(c) banks in foreign countries

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

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

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

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

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

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

(a) claims payable on demand,

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

on that account holder, provided there is sufficient evidence that claims and liabilities are treated as a unit for the purpose of computing interest and commission. This does not apply to liabilities and claims in different currencies.

(4) Exempt from the reserve requirement are liabilities

(a) to the Bundesbank;

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

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

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

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

(f) in respect of customers' drawings on credits opened with third parties, provided the equivalent is immediately used to meet customers' payment commitments for specific foreign trade transactions;

(g) in respect of the receipt of amounts collected purely on a commission basis, so far as the said amounts are currently paid over to the beneficiaries. Amounts are to be regarded as "currently paid over" if they remain at the collecting institution for not longer than 14 days;

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

(i) in respect of savings deposits to the extent of the covering claims held under Art. 19 of the Old Savings Law for amounts credited as compensation to deposit accounts;

(j) in respect of savings deposits to the extent of the covering claims held under Art. 252, para. 4 of the Equalisation of Burdens Law;

(k) in respect of funds borrowed by a bank which apart from bank business also conducts business in goods or services and keeps separate accounts for its bank and its non-bank business, if such funds are intended exclusively for financing its own business in goods or services, provided this is shown by the books;

(l) in respect of interest arbitrage deals. An operation may be regarded as an interest arbitrage deal within the meaning of this provision only if a foreign currency amount is taken up at a bank abroad and is immediately transmitted to another bank abroad in the same currency, the same amount and with the same maturity, and not in connection with a Bundesbank swap transaction. It is a precondition that the banks abroad or any one of these banks and the domestic bank may not be parts of the same institution or have any participating or dependent relationship with each other.

(5) Branches of foreign banks (Art. 53 of the Banking Law) may, for the purpose of calculating the minimum reserve, deduct from a net liability on intercompany account those liabilities in relation to their own enterprise which in the case of

a juridically independent bank would constitute liabilities according to para. 4, items d, f, or g.

(6) If a certain asset item is used to exempt or offset a liability to the same amount, the respective asset item may not be employed a second time for compensation or exemption purposes. In the case of branches of foreign banks (Art. 53, Banking Law) this applies also to asset items if these are employed when ascertaining a net liability on intercompany account.

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 or a period to maturity of less than one month has been agreed, and, in the case of a bank as defined in Art. 53 of the Banking Law, a net liability on intercompany account.

(3) Time liabilities are deemed to comprise liabilities in respect of which a period of notice or a period to maturity of at least one month has been agreed.

(4) Savings deposits are deposits within the meaning of Arts. 21 and 22 of the Banking Law.

Article 4

A "bank place" within the meaning of the provisions on minimum reserves is any place at which the Deutsche Bundesbank maintains a branch establishment, as well as any place, or locality therein, which by Bulletin of the Deutsche Bundesbank is to be classed with a neighbouring bank place. In exceptional cases where due reason exists the appropriate Land Central Bank may declare localities within a "bank place" which are difficult of access, for example distant suburbs included within the municipal boundaries, to be "non-bank places" for the purpose of applying the minimum reserve provisions.

II. Reserve obligation

Article 5

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

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

Article 6

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

III. Calculation of the required and actual reserves

Article 7

(1) The required reserve is found by applying the percentages fixed by the Bundesbank (reserve ratios) to the monthly average, ascertained in accordance with Art. 8, of the bank's liabilities subject to the reserve requirement (Art. 2).

(2) The required reserve of a central institution of agricultural credit cooperatives means the required reserve found according to para. 1 plus the total actual reserves of the cooperatives holding reserves with it.

(3) If the reserve ratios are set at different levels according to the size of the institutions (reserve classes), then the ranking of a bank in one of the reserve classes is determined by the total of the monthly averages shown in the previous month's reserve statement (Art. 11) for its liabilities subject to the reserve requirement.

Article 8

(1) The monthly average of the liabilities subject to the reserve requirement is calculated from the totals at the close of the business and non-business days in the period from the 16th of the previous month to the 15th of the current month.

(2) The monthly average can instead be calculated uniformly for all categories of liabilities subject to the reserve requirement (Art. 3) from the total of these liabilities as they stand at the close of the following four days:

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

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

(3) Agricultural credit cooperatives may use, in place of the monthly average, the total of the liabilities subject to the reserve requirement as they stood at the close of the last day of the previous month. In exceptional cases where due reason exists the appropriate Land Central Bank may permit other banks to do the same.

(4) If one of the days mentioned in paragraphs 1 to 3 falls on a non-business day, then for the total of the liabilities subject to the reserve requirement on that day the total at the close of the previous business day shall be taken.

(5) In the case of agricultural credit cooperatives which maintain minimum reserves in accordance with Art. 5, para. 2, the appropriate Land Central Bank may permit an ascertained monthly average to stand good for a further period of up to five months.

Article 9

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

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

IV. Special interest

Article 10

(1) If in any month a bank's actual reserve falls short of its required reserve the said bank shall for 30 days pay special interest at the rate from time to time

ordered by the Bundesbank on the deficiency, unless the Bundesbank grants a request for waiver of the interest payment.

(2) Deficiencies of agricultural credit cooperatives which maintain minimum reserves in accordance with Art. 5, para. 2 may not be offset by the central institution against its own surplus reserve or the surplus reserve of another cooperative. In respect of deficiencies of cooperatives the central institution shall pay the special interest to the Bundesbank.

V. Reserve statement

Article 11

(1) Not later than the fifth business day in each month every bank subject to the reserve requirement has in respect of the past month, except as otherwise provided in paras. 2 and 3, to submit a reserve statement (Form 1500) to the account-keeping office of the Bundesbank. For each day (Art. 8) this statement shall show – on a schedule in the case of liabilities the monthly average of which is calculated in accordance with Art. 8, para. 1 – the liabilities subject to such requirement divided according to the different categories (Art. 3), and the liabilities left out of account in accordance with Art. 2, paras. 3 to 5 divided between liabilities in accordance with Art. 2, para. 3 and paras. 4 and 5.

(2) (a) In the case of banks with several branches, each office or branch shall in principle submit a reserve statement (Form 1500 – see para. 1). A combined reserve statement (Form 1500) indicating the number of the offices or branches covered may however be submitted for two or more offices or branches at similar places in the area of one Land Central Bank, if the records of the institution at any time permit the liabilities to be broken down according to the individual offices or branches. At the request of the Land Central Bank such breakdown has to be made for the time fixed by it.

(b) If a bank renders more than one reserve statement (Form 1500), the main office has moreover to submit a collective statement (Form 1500a) in which the total amounts of reserve-carrying liabilities as calculated in the reserve statements (Form 1500) and the monthly averages of Bundesbank giro balances of each office or branch, or of the offices or branches combined in one reserve statement (Form 1500), are to be shown. In the case of offices or branches not having a Bundesbank giro account of their own, total reserve-carrying liabilities may be shown in summary, with an indication of the number of such offices or branches, even if no use has been made of the possibility of submitting a combined statement – see (a).

(c) The collective statement (Form 1500a) shall likewise be submitted together with the reserve statements (Form 1500) not later than the fifth business day in each month, in respect of the past month, to the Bundesbank office keeping account for the main office of the bank; the appropriate Land Central Bank may permit submission to another office of the Bundesbank.

(3) Agricultural credit cooperatives which maintain minimum reserves in accordance with Art. 5, para. 2 have to give to their central institution the data required in Form 1500 for the calculation of the required reserve. For each cooperative maintaining a reserve with it the central institution shall state, in a schedule to its reserve statement, the monthly averages (Art. 8) of the liabilities subject to the reserve requirement, the required reserve and the actual reserve.

(4) The Bundesbank may cause the ascertainment of the liabilities subject to the reserve requirement to be explained to it in the reserve statement or in a schedule thereto. It reserves the right to satisfy itself that the said ascertainment is in order. The records on which the ascertainment of reserve-carrying liabilities is based (e.g. balance ledgers, work sheets) are, therefore, to be kept for at least four years.

VI. Entry into force

Article 12

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

Deutsche Bundesbank

Blessing Dr. Gocht

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

Applicable from	Discount rate 1 % per annum	Lombard rate (rate for advances against securities) % per annum	Special rate of interest charged to banks for failure to meet the minimum reserve requirement % per annum above lombard rate
1948 July 1	5	6	1
Dec. 1	5	6	3
1949 May 27	4½	5½	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	4½	5½	3
1953 Jan. 8	4	5	3
June 11	3½	4½	3
1954 May 20	3	4	3
1955 Aug. 4	3½	4½	3
1956 March 8	4½	5½	3
May 19	5½	6½	3
Sep. 6	5	6	3
1957 Jan. 11	4½	5½	3
Sep. 19	4	5	3
1958 Jan. 17	3½	4½	3
June 27	3	4	3
1959 Jan. 10	2¾	3¾	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	3½	4½	3
May 5	3	2 4	3
1965 Jan. 22	3½	4½	3
Aug. 13	4	5	3
1966 May 27	5	6¼	3
1967 Jan. 6	4½	5½	3
Feb. 17	4	5	3
April 14	3½	4½	3
May 12	3	4	3
Aug. 11	3	3½	3
1969 March 21	3	4	3
April 18	4	5	3
June 20	5	6	3
Sep. 11	6	7½	3
Dec. 5	6	9	3
1970 March 9	7½	9½	3
July 16	7	9	3
Nov. 18	6½	8	3
Dec. 3	6	7½	3
1971 April 1	5	6½	3

1 This is also the rate for cash advances. Until May 1956 lower rates likewise applied to foreign bills and export drafts; fixed special rates were charged for certain credits which had been granted to the Reconstruction Loan Corporation and which ran out at the end of 1958 (for details see footnotes to the table published in the Report for the Year 1961, page 91). — 2 An allowance of ¾ % per annum was granted to banks in respect of the advances against securities taken between December 10, 1964 and December 31, 1964.

Reserve classes *

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

* The reserve class in which any bank is to be placed is determined by the amount of its reserve-carrying liabilities in the preceding month.

Reserve ratios *

% of reserve-carrying liabilities

Applicable from	Sight liabilities								Time liabilities			
	Bank places				Non-bank places							
	Reserve class											
	1	2	3	4	1	2	3	4	1	2	3	4
	Reserve-carrying liabilities to residents 2											
1961 Feb. 1	19.5	18	16.5	15	15	13.5	12	10.5	13.5	12	10.5	9
March 1	18.2	16.8	15.4	14	14	12.6	11.2	9.8	12.6	11.2	9.8	8.4
April 1	17.55	16.2	14.85	13.5	13.5	12.15	10.8	9.45	12.15	10.8	9.45	8.1
June 1	16.25	15	13.75	12.5	12.5	11.25	10	8.75	11.25	10	8.75	7.5
July 1	15.6	14.4	13.2	12	12	10.8	9.6	8.4	10.8	9.6	8.4	7.2
Aug. 1	14.95	13.8	12.65	11.5	11.5	10.35	9.2	8.05	10.35	9.2	8.05	6.9
Sep. 1	14.3	13.2	12.1	11	11	9.9	8.8	7.7	9.9	8.8	7.7	6.6
Oct. 1	13.65	12.6	11.55	10.5	10.5	9.45	8.4	7.35	9.45	8.4	7.35	6.3
Dec. 1	13	12	11	10	10	9	8	7	9	8	7	6
1964 Aug. 1	14.3	13.2	12.1	11	11	9.9	8.8	7.7	9.9	8.8	7.7	6.6
1965 Dec. 1	13	12	11	10	10	9	8	7	9	8	7	6
1966 Jan. 1	14.3	13.2	12.1	11	11	9.9	8.8	7.7	9.9	8.8	7.7	6.6
Dec. 1	13	12	11	10	10	9	8	7	9	8	7	6
1967 March 1	11.7	10.8	9.9	9	9	8.1	7.2	6.3	8.1	7.2	6.3	5.4
May 1	11.05	10.2	9.35	8.5	8.5	7.65	6.8	5.95	7.65	6.8	5.95	5.1
July 1	10.15	9.35	8.6	7.8	7.8	7	6.25	5.45	7	6.25	5.45	4.7
Aug. 1	9.5	8.75	8.05	7.3	7.3	6.55	5.85	5.1	6.55	5.85	5.1	4.4
Sep. 1	9.25	8.5	7.8	7.1	7.1	6.4	5.7	4.95	6.4	5.7	4.95	4.25
1969 Jan. 1	9.25	8.5	7.8	7.1	7.1	6.4	5.7	4.95	6.4	5.7	4.95	4.25
June 1	10.6	9.8	8.95	8.15	8.15	7.35	6.5	5.7	7.35	6.5	5.7	4.9
Aug. 1	11.65	10.75	9.85	8.95	8.95	8.05	7.15	6.25	8.05	7.15	6.25	5.35
Nov. 1	10.45	9.65	8.85	8.05	8.05	7.25	6.45	5.65	7.25	6.45	5.65	4.85
Dec. 1	9.45	8.7	8	7.25	7.25	6.55	5.8	5.1	6.55	5.8	5.1	4.35
1970 Jan. 1	10.45	9.65	8.85	8.05	8.05	7.25	6.45	5.65	7.25	6.45	5.65	4.85
July 1	12.05	11.1	10.2	9.25	9.25	8.35	7.4	6.5	8.35	7.4	6.5	5.55
Sep. 1	12.05	11.1	10.2	9.25	9.25	8.35	7.4	6.5	8.35	7.4	6.5	5.55
Dec. 1	13.8	12.7	11.65	10.6	10.6	9.55	8.5	7.4	9.55	8.5	7.4	6.35
	Reserve-carrying liabilities to non-residents 4											
1961 Feb. 1 5	20.15	18.6	17.05	15.5	15.5	13.95	12.4	10.85	13.95	12.4	10.85	9.3
May 1	30	30	30	30	30	30	30	30	20	20	20	20
1962 Feb. 1	13	12	11	10	10	9	8	7	9	8	7	6
1964 April 1	30	30	30	30	30	30	30	30	20	20	20	20
1967 Feb. 1	13	12	11	10	10	9	8	7	9	8	7	6
March 1	11.7	10.8	9.9	9	9	8.1	7.2	6.3	8.1	7.2	6.3	5.4
May 1	11.05	10.2	9.35	8.5	8.5	7.65	6.8	5.95	7.65	6.8	5.95	5.1
July 1	10.15	9.35	8.6	7.8	7.8	7	6.25	5.45	7	6.25	5.45	4.7
Aug. 1	9.5	8.75	8.05	7.3	7.3	6.55	5.85	5.1	6.55	5.85	5.1	4.4
Sep. 1	9.25	8.5	7.8	7.1	7.1	6.4	5.7	4.95	6.4	5.7	4.95	4.25
1968 Dec. 1 5	9.25	8.5	7.8	7.1	7.1	6.4	5.7	4.95	6.4	5.7	4.95	4.25
1969 Jan. 1 5	9.25	8.5	7.8	7.1	7.1	6.4	5.7	4.95	6.4	5.7	4.95	4.25
Feb. 1 5	9.25	8.5	7.8	7.1	7.1	6.4	5.7	4.95	6.4	5.7	4.95	4.25
May 1 5	9.25	8.5	7.8	7.1	7.1	6.4	5.7	4.95	6.4	5.7	4.95	4.25
June 1 5	13.8	12.7	11.65	10.6	10.6	9.55	8.5	7.4	9.55	8.5	7.4	6.35
Aug. 1 5	15.2	14.05	12.85	11.7	11.7	10.55	9.35	8.2	10.55	9.35	8.2	7
Nov. 1	10.45	9.65	8.85	8.05	8.05	7.25	6.45	5.65	7.25	6.45	5.65	4.85
Dec. 1	9.45	8.7	8	7.25	7.25	6.55	5.8	5.1	6.55	5.8	5.1	4.35
1970 Jan. 1	10.45	9.65	8.85	8.05	8.05	7.25	6.45	5.65	7.25	6.45	5.65	4.85
April 1	10.45	9.65	8.85	8.05	8.05	7.25	6.45	5.65	7.25	6.45	5.65	4.85
July 1	12.05	11.1	10.2	9.25	9.25	8.35	7.4	6.5	8.35	7.4	6.5	5.55
Sep. 1	12.05	11.1	10.2	9.25	9.25	8.35	7.4	6.5	8.35	7.4	6.5	5.55
Dec. 1	13.8	12.7	11.65	10.6	10.6	9.55	8.5	7.4	9.55	8.5	7.4	6.35

* Reserve ratios applying until end-January 1961 were last published in the Report for the Year 1969. — **1** From January 1, 1969 the ratio for savings deposits with banks in reserve class 4 at bank places is equal to the prevailing reserve ratio for time liabilities. — **2** Since the coming into force of the Foreign Trade and Payments Law, residents and non-residents, respectively, within the meaning of Art. 4 of that Law. — **3** These ratios had to be applied with the proviso that a bank's total minimum reserves (reserve on the total of liabilities plus growth reserve) do not exceed 30 % in the case of sight liabilities, 20 % in the case of time liabilities

Savings deposits: Bank places 1	Savings deposits: Non-bank places	Growth of liabilities: Sight liabilities	Growth of liabilities: Time liabilities	Growth of liabilities: Savings deposits	Notes on the growth reserve regulations	Applicable from
8.7	7.25					1961 Feb. 1
8 1	6.75					March 1
7.8	6.5					April 1
7.2	6					June 1
6.9	5.75					July 1
6.6	5.5					Aug. 1
6.3	5.25					Sep. 1
6	5					Oct. 1
6	5					Dec. 1
6.6	5.5					1964 Aug. 1
6.6	5.5					1965 Dec. 1
6.6	5.5	no special ratios				1966 Jan. 1
6.6	5.5					Dec. 1
5.94	4.95					1967 March 1
5.61	4.68					May 1
5.15	4.3					July 1
4.8	4					Aug. 1
4.25	3.55					Sep. 1
4.7	3.9					1969 Jan. 1
5.4	4.5					June 1
5.95	4.95					Aug. 1
5.35	4.45					Nov. 1
4.8	4					Dec. 1
5.35	4.45					1970 Jan. 1
6.15	5.15					July 1
6.15	5.15	40		20	Additional reserve ratios for growth over and above the average level of the months April to June 1970 3	Sep. 1
7.05	5.9	no special ratios				Dec. 1
9	7.5	30	20	10	Reserve ratios for growth over and above the level of November 30, 1959 6	1961 Feb. 1
10	10					May 1
6	5					1962 Feb. 1
10	10					1964 April 1
6.6	5.5	no special ratios				1967 Feb. 1
5.94	4.95					March 1
5.61	4.68					May 1
5.15	4.3					July 1
4.8	4					Aug. 1
4.25	3.55					Sep. 1
4.25	3.55		100		Reserve ratio for growth over and above the level of November 15, 1968 3	1968 Dec. 1
4.7	3.9		100			1969 Jan. 1
4.7	3.9		100		Reserve ratio for growth over and above the level of November 15, 1968 or January 15, 1969 3	Feb. 1
4.7	3.9		100		Reserve ratio for growth over and above the level of April 15 or 30, 1969 3	May 1
7.1	5.9		100			June 1
7.8	6.5		100			Aug. 1
5.35	4.45	no special ratios				Nov. 1
4.8	4					Dec. 1
5.35	4.45					1970 Jan. 1
5.35	4.45		30		Additional reserve ratio for growth over and above the level of March 6, 1970 or the average level of the return dates February, 7, 15, 23 and 28, 1970	April 1
6.15	5.15		30			July 1
6.15	5.15	40		20	Additional reserve ratios for growth over and above the average level of the months April to June 1970 3	Sep. 1
7.05	5.9		30		Additional reserve ratio for growth over and above the average level of the return dates October 23 and 31, and November 7 and 15, 1970	Dec. 1

and 10 % in the case of savings deposits. This regulation applied to the growth reserve on liabilities to non-residents until end-August 1969 only. — 4 See footnote 2. — 5 These ratios applied only to liabilities up to the basic level listed in the column "Notes on the growth reserve regulations". — 6 From July 1960 to end-January 1962 these ratios also applied to the growth, as compared with the level of May 31, 1960, of customers' drawings on credits opened with third parties abroad. Up to this level the liabilities in question remained exempt from the reserve requirement also during the period mentioned.

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

Foreign trade and payments

Financial and capital transactions with foreigners were subject to no restrictions in the year under review, after they had been fully liberalised with effect from December 20, 1969 by the 18th Regulation to Amend the Foreign Trade and Payments Order of December 16, 1969.

Interzonal trade

The annual turnover in interzonal clearing transactions and the balance resulting from the settlement of these transactions at December 31, 1970 are shown in Part B, page 132 (Annual accounts — Assets — Other claims).

In the agreement reached with East Germany on May 6, 1970 the swing for the period from May 10, 1970 to December 31, 1971 was fixed at an aggregate amount of 440 million units of account. The agreement of December 6, 1968, by which the swing had been fixed at an amount equivalent to 25 % of all credit entries made in sub-accounts 1, 2 and 3 with the Deutsche Bundesbank in the previous year, has been suspended for the period mentioned.

The Deutsche Bundesbank's general licence concerning trade and payment transactions with the currency area of the Deutsche Mark (East) was changed in some items with regard to the disposability of blocked DM accounts or claims due to individuals domiciled in the currency area of the Deutsche Mark (East) (Bulletins Nos. 6002/70 and 6003/70). In addition, under section E retransfers have been generally licensed if they are associated with the settlement of approved interzonal trade transactions.

The general licence of the Deutsche Bundesbank, in the version in force at the end of the year, together with the 6th amendment, was published in Bulletin No. 6004/70.

Part B: Notes on the Deutsche Bundesbank's annual accounts for 1970

1. Legal bases, classification and valuation

Legal bases, accounting system and annual accounts

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

Amendment of the Law concerning the Deutsche Bundesbank and of the presentation of the reserve position in the IMF

Art. III of the Law of December 17, 1970 (Federal Law Gazette II, page 1325) Amending the Law concerning the Accession of the Federal Republic of Germany to the Agreements on the International Monetary Fund and the International Bank for Reconstruction and Development of July 28, 1952 and the Law concerning the European Monetary Agreement of March 26, 1959 rescinded Art. 20, para. 1, item 2 of the Bundesbank Law. Under that Article the Bank was authorised to grant credits to the Federal Government to enable the latter to meet its commitments as a member of the International Monetary Fund (IMF), the European Fund, and the International Bank for Reconstruction and Development (World Bank). On the entry into force of the new Law on December 24, 1970 the credits granted to the Federal Government and shown in the Bank's return and balance sheet under the heading "Credits to Federal Government for participation in international institutions" ceased to exist. Under the same Law the financial rights and obligations arising from the Federal Government's membership of the International Monetary Fund (including drawing rights against the gold tranche position) and of the European Fund were, for internal purposes, transferred to the Bank. The credit granted to the Federal Government in 1952 towards its subscription payments to the World Bank was repaid in 1968.

The new Law made it possible to combine the reserve claims on the IMF, viz.,

> drawing rights against the gold tranche position and
> loans under the General Arrangements to Borrow,

as well as special drawing rights, in one item in the return and in the balance sheet.

The German drawing rights against the gold tranche position, transferred to the Bank from the Federal Government, are the difference between the German quota in the IMF – raised at end-December 1970 from US $ 1,200 million to US $ 1,600 million (DM 5,856 million) – and the Deutsche Mark resources available to the IMF. Cash payments equivalent to the drawing rights against the gold tranche position were made to the IMF, 25 % of the quota in gold and the remainder by Deutsche Mark callings on the part of the IMF.

The claims on the IMF arising under the General Arrangements to Borrow (GAB) of the Group of Ten had always been due to the Bank. They were shown in a sub-item under asset item "Credits to international institutions and consolidation loans". During the year under review no such loans were extended.

Special drawing rights

Pursuant to Art. XXI of the Articles of Agreement of the International Monetary Fund, the Fund is authorised to allocate special drawing rights to members that are participants in the Special Drawing Account. Art. 3 of the Law of December 23, 1968 (Federal Law Gazette II, page 1225) concerning Amendments to the Articles of Agreement of the IMF stipulates the transfer to the Bank of the special drawing rights allocated to the Federal Government. At the same time the Bank, on behalf of the Federal Republic of Germany, fulfils the obligation laid down in Art. XXV, Section 4 of the Articles of Agreement of the IMF to provide own and foreign currencies in exchange for special drawing rights. It acquires the corresponding special drawing rights.

Against the special drawing rights allocated, which are likewise counted among monetary reserves and therefore posted on the assets side, a "Contra-entry to special drawing rights allocated" of the same amount has been inserted as a special liability item in the return and the balance sheet.

Classification of annual accounts

In the same way as in previous years the classification of the annual balance sheet and the designation of the balance sheet items were largely adapted to the arrangement in the Bank's weekly return as at December 31, 1970.

The items added to the profit and loss account last year in connection with the new valuation of the gold and foreign exchange positions due to the change in the par value of the Deutsche Mark with effect from October 27, 1969, were deleted.

The following new asset items have been included in the balance sheet

4. Reserve position in the International Monetary Fund
   and special drawing rights
   (a) Drawing rights against gold tranche position
   (b) Credits granted under General Arrangements to Borrow
   (c) Special drawing rights

5. Loans and other claims on the rest of the world
   (a) Loans to World Bank
   (b) Loans from liquidation of EPU
   (c) Other claims

The former asset items

14. Credits to the Federal Government for participation
    in international institutions

16. Loans to international institutions
    and consolidation loans
    of which (a) to IMF
    (b) to World Bank
    (c) from liquidation of EPU

have consequently been deleted.

The designation of asset item 3, which after the revision contains only medium-term bonds acquired under the foreign exchange offset agreements, has been changed to read

Other investment abroad.

On the liabilities side the offsetting item to allocated special drawing rights has been inserted as

4. Contra-entry to special drawing rights allocated.

In addition, asset item 14 "Securities" has been supplemented by the sub-column

of which Treasury bonds (medium-term notes) of Federal
Government and its special funds
with remaining life of up to 18 months DM . . .

The former sub-column "of which Bundesbank profit participation certificates having a par value of DM . . ." was deleted as at December 31, 1970, after redemption of the last group of profit participation certificates.

In the case of asset item 16 "Claims on Federal Government in respect of acquisition of claims resulting from post-war economic aid" sub-item "(b) from BIS" was deleted after the claim acquired by the BIS had been redeemed according to schedule by the Federal Government.

The anticyclical reserves of the Federal and Länder Governments deposited with the Bank, the anticyclical surcharge on income and corporation tax paid into special accounts of the Länder Governments, and the proceeds of the "Federal education loan" issued in December 1970 are shown in the new liability item

7. Special deposits
   (a) Anticyclical reserves
      (aa) of Federal Government
      (ab) of Länder Governments
   (b) Anticyclical surcharge on income taxes
   (c) Other (Federal education loan).

Valuation

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

2. Conversion account

The combined conversion account of the institutions amalgamated to form the Deutsche Bundesbank is attached to this Report as Appendix 1.

Through the corrections of the partial conversion accounts for the Bank deutscher Länder and the Land Central Banks, which now give the position shown by the books at December 31, 1970, the Bank's title to allocation of equalisation claims rose by DM 20,448.06 to DM 8,103,601,045.76; the claim on the Federal Government arising from the non-interest-bearing debt certificate issued in connection with the currency conversion in Berlin remained unchanged at DM 547,168,481.20 during the year under review.

3. Annual accounts

The annual accounts for 1970, which are attached as Appendix 2, will be explained as usual in the order of the items in the balance sheet and profit and loss account. At the same time a report is rendered on the Bank's activity during 1970.

Balance sheet

In the following comparison of balance sheet figures the credits to the Federal Government for participation in international institutions, which lapsed pursuant to the above-mentioned Federal Law of December 17, 1970,

	DM million	DM million
shown at December 31, 1969 to the amount of have been included in the following items:		1,172.5,
Drawing rights against gold tranche position	1,105.3	
Other claims on the rest of the world (participation in European Fund)	23.2	1,128.5
The remainder, amounting to		44.0
was offset against the IMF's credit balances contained in "Liabilities in respect of foreign business"		44.0.

In relation to the figures for December 31, 1969, as revised in the comparison of balance sheet figures, total assets at December 31, 1970 had increased by DM 18,706.8 million to DM 77,358.3 million.

Comparison of balance sheet figures

Millions of Deutsche Mark

Assets	December 31 1969	December 31 1970	Liabilities	December 31 1969	December 31 1970
Gold	14,700.0	14,340.0	Capital	290.0	290.0
Balances with foreign banks and money market investment abroad	5,693.1	28,362.1	Reserves	860.0	860.0
Other investment abroad	4,200.0	2,200.0	Provisions	1,170.0	2,370.0
Reserve position in the International Monetary Fund and special drawing rights			Contra-entry to special drawing rights allocated	—	737.9
Drawing rights against gold tranche position	1,105.3	3,356.8	Bank notes in circulation	34,616.5	36,479.7
Credit granted under General Arrangements to Borrow	—	—	Deposits of		
Special drawing rights	—	942.9	Banks	16,890.5	26,231.1
Loans and other claims on the rest of the world			Federal Government	46.3	32.2
Loans to World Bank	1,543.6	1,925.2	Federal special funds	1,350.1	1,869.4
Loans from liquidation of EPU	155.0	66.8	Länder Governments	2,376.4	1,030.1
Other claims	23.2	139.2	Other public depositors	52.7	55.0
Foreign notes and coin, foreign bills and cheques	3,445.4	2,910.7	Other German depositors	373.2	399.8
German coin	137.6	162.6	Special deposits		
Balances on postal giro account	451.4	446.9	Anticyclical reserves	—	2,936.5
Domestic bills of exchange	11,424.9	14,151.8	Anticyclical surcharge on income taxes	—	2,189.1
Treasury bills and discountable Treasury bonds	577.4	284.7	Other (Federal education loan)	—	256.1
Advances against securities	2,797.0	1,681.9	Liabilities in respect of foreign business	428.0	379.9
Cash advances	1,974.1	2,433.7	Other liabilities	35.9	32.2
Other claims	351.0	513.5	Deferred expenses and accrued income	161.9	423.1
Securities	1,031.3	759.8	Net profit	—	786.2
Equalisation claims on public authorities and debt certificate in respect of Berlin	8,682.7	8,682.8			
less equalisation claims returned in exchange for money market paper	2,029.5	7,531.8			
Claims on Federal Government in respect of acquisition of claims	6,653.2	1,151.0			
resulting from post-war economic aid	690.5	386.5			
from BIS	31.3	—			
Land and buildings	199.4	256.5			
Equipment	7.2	10.4			
Items in course of settlement	1,237.7	672.4			
Other assets	154.7	186.2			
Prepaid expenses and deferred income	67.2	16.7			
Total	58,651.5	77,358.3	Total	58,651.5	77,358.3

Assets

Gold

The gold holding, at DM 14,340.0 million at December 31, 1970, is shown DM 360.0 million smaller than at December 31, 1969.

Balances with foreign banks and money market investment abroad

Balances with foreign banks and money market investment abroad amounted to DM 28,362.1 million at December 31, 1970 (DM 5,693.1 million at December 31, 1969).

Foreign exchange dealings

The Bank's turnover in foreign exchange spot dealings (foreign currency against Deutsche Mark) amounted to DM 28,915.6 million in the year under review, against DM 102,828.3 million in 1969; the number of deals decreased from 9,574 in the previous year to 5,093. Such deals comprised

	1969 Number	1969 DM million	1970 Number	1970 DM million
Purchases	3,098	38,668.1	1,958	24,747.2
Sales	6,476	64,160.2	3,135	4,168.4
	9,574	102,828.3	5,093	28,915.6.

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

In addition, during the year under review the Bank effected 291 cross deals (one foreign currency against another foreign currency) in the equivalent of DM 1,272.4 million, as against 304 deals in the equivalent of DM 3,158.3 million in the previous year; furthermore during the year 501 U.S. dollar inter-centre switch transactions amounting to US$ 58.3 million were concluded, as against 480 transactions amounting to US$ 72.8 million in the previous year.

U.S. dollar forward transactions (outright) with German banks amounting to US$ 927.5 million were concluded in the year under review; there were no commitments at the end of the year.

Other investment abroad

After mobilisation of some of the U.S. bonds denominated in Deutsche Mark, the assets recorded in this item diminished from DM 4,200.0 million to DM 2,200.0 million.

Reserve position in the International Monetary Fund and special drawing rights

(a) Drawing rights against gold tranche position

At December 31, 1970 the drawing rights against the gold tranche position amounted to DM 3,356.8 million. They are calculated as the difference between the German quota, raised in December 1970 by US$ 400 million to US$ 1,600 million = DM 5,856 million (1 U.S. dollar = 3.66 Deutsche Mark), and the DM 2,499.2 million of resources at the disposal of the IMF; they are thus equivalent to the cash payments made to the IMF in Deutsche Mark and gold. Gold tranche position drawing rights increased on the year by DM 2,251.5 million, DM 1,885.5 million of which was accounted for by the use of Deutsche Mark in IMF transactions (especially DM drawings by other member countries and gold purchases by the IMF) and DM 366 million by the gold payment made in connection with the raising of the German quota. In conformity with the regulations of the IMF, 25 % of the quota increase (equivalent to US$ 100 million) was paid in gold and 75 % (equivalent to US$ 300 million) credited to the IMF in Deutsche Mark.

(b) Credits granted under General Arrangements to Borrow

In 1970 no credit was granted to the International Monetary Fund under the General Arrangements to Borrow (GAB) of October 24, 1962.

(c) Special drawing rights

Holdings of special drawing rights (SDRs) at December 31, 1970 amounted to DM 942.9 million. DM 737.9 million thereof represented the first allocation of SDRs of January 1, 1970, in respect of which a contra-entry of the same amount was posted on the liabilities side; the residue represents SDRs acquired by the Bank during the year under review.

Loans and other claims on the rest of the world

The item "Loans and other claims on the rest of the world" shows the loans to the World Bank and from liquidation of the EPU, which were included in the former asset item 16 "Loans to international institutions and consolidation loans", together with other external claims (sub-item c).

(a) Loans to World Bank

At DM 1,925.2 million, loans to the World Bank are shown DM 381.6 million higher than at the end of 1969. The amounts of bonds in the Bank's security holdings which fell due in the year under review were replaced by new loans to the World Bank totalling about DM 190 million. In addition, DM 192 million of World Bank paper passed on in Germany was repurchased.

(b) Loans from liquidation of EPU

Of the loans granted in connection with the liquidation of the European Payments Union (EPU), DM 88.2 million was repaid according to schedule in the year under review. The residual DM 66.8 million is due for repayment on August 1, 1971.

(c) Other claims

This sub-item contains, amongst other things, the claim of the Federal Government arising from participation in the European Fund, amounting to DM 23.2 million, which was transferred to the Bank in 1970.

Foreign notes and coin, foreign bills and cheques

Purchase and sale of foreign notes and coin

At DM 2.9 million the holding of foreign notes and coin at the end of 1970 was DM 0.2 million larger than at December 31, 1969. During the year under review the Bank effected 36,183 purchases of foreign notes and coin (1969: 34,635) and 19,845 sales of foreign notes and coin (1969: 16,437).

Purchase of foreign bills

At the close of 1970 the holding of foreign bills arising from purchase within Germany was DM 2,905.2 million, as compared with DM 3,440.0 million at December 31, 1969.

Purchase of foreign bills in the Land Central Bank areas

Land Central Bank	1969 Number	1969 DM mn	1970 Number	1970 DM mn
Baden-Württemberg	22,888	1,107.5	22,959	1,269.1
Bavaria	13,474	1,723.5	15,565	1,802.9
Berlin	978	358.1	1,142	445.8
Bremen	1,654	248.2	1,851	270.5
Hamburg	7,355	2,841.1	7,751	2,166.4
Hesse	13,504	2,759.0	16,489	3,000.1
Lower Saxony	5,294	578.3	4,251	591.3
North Rhine-Westphalia	26,259	2,465.1	27,011	2,773.3
Rhineland-Palatinate	4,301	245.7	5,028	294.4
Saarland	3,110	582.2	3,846	669.5
Schleswig-Holstein	842	378.8	1,082	237.1
Total	99,659	13,287.5	106,975	13,520.4

The ratio of Deutsche Mark acceptances to the total value of foreign bills purchased averaged about 72 % for 1970, against about 53 % for 1969.

Purchase and sale of foreign cheques

At the end of 1970 the holding of foreign cheques amounted to DM 2.6 million (end-1969: DM 2.7 million). During the year under review 128,833 foreign cheques worth DM 172.5 million were purchased, against 125,470 worth DM 141.2 million in the previous year. Altogether 18,250 (1969: 17,893) cheques on foreign countries were sold, to the value of DM 118.6 million (1969: DM 101.5 million).

Foreign commission business

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

	1969 Number	1970 Number
Foreign notes and coin	4,220	4,206
Bills, cheques, etc.	10,363	10,545
	14,583	14,751.

German coin

The Bank's holding of German coin amounted to DM 162.6 million at the close of 1970 (end-1969: DM 137.6 million). In 1970 the Federal Government was credited with DM 377.4 million for coin taken over from the Mints, and debited with DM 1.5 million for coin called in or no longer fit for circulation. Altogether in the years 1948 to 1970 the Bank took over coin amounting to DM 3,323.8 million, and cashed, to the debit of the Federal Government, DM 152.5 million of coin which was no longer fit to circulate or had been called in.

The total amount of coin in circulation at the end of 1970 divided by the number of inhabitants of the Federal Republic of Germany including the Land of Berlin at September 30, 1970 (61.8 million) yields the figure of DM 48.68 per head of population (1969: DM 43.50).

To mark the 1972 Olympic Games in Munich the Federal Government has for the first time issued a Federal coin in the denomination of 10 Deutsche Mark (Olympic Games coin) (Law on the Striking of an Olympic Games Coin of April 18, 1969 – Federal Law Gazette I, page 305). Coins with the first of the four motifs envisaged were put into circulation on January 26, 1970.

Balances on postal giro account

The postal giro account balances at December 31, 1970, including the branches' transfers in transit to the postal giro account of the Bank (Directorate) at Frankfurt am Main, totalled DM 446.9 million (1969: DM 451.4 million). Each day the Bank's credit balances on that account and on the postal giro account of the Land Central Bank in Berlin, in rounded amounts, are offset against the giro balances of the Central Cash Office of the Federal Post Office and the Postal Giro Office Berlin (West).

Postal giro transactions with third parties

Area	1969 Transfers received from third parties Number	DM mn	1969 Transfers made to third parties Number	DM mn	1970 Transfers received from third parties Number	DM mn	1970 Transfers made to third parties Number	DM mn
Land Central Bank								
Baden-Württemberg	95,031	11,130.8	13,048	711.8	93,114	10,906.8	11,390	762.6
Bavaria	122,291	13,787.6	8,276	1,286.8	121,798	14,772.9	10,495	1,876.7
Berlin	35,973	2,722.5	6,646	385.9	24,571	2,389.2	7,444	441.5
Bremen	18,246	599.1	460	0.2	17,218	577.4	622	0.2
Hamburg	50,089	7,413.9	1,848	30.1	49,303	7,847.0	1,818	18.0
Hesse	61,503	8,349.9	3,694	728.8	59,504	9,041.7	4,176	1,069.5
Lower Saxony	105,489	7,112.3	4,014	265.2	89,708	6,332.8	5,297	335.7
North Rhine-Westphalia	184,519	15,806.2	12,262	2,770.0	179,671	16,429.8	15,753	3,176.6
Rhineland-Palatinate	50,101	2,398.8	4,609	39.7	49,025	2,578.9	4,810	36.1
Saarland	6,769	1,519.2	4,651	1.2	7,045	1,616.8	5,389	1.5
Schleswig-Holstein	7,827	268.9	2,018	5.1	9,122	249.9	2,747	26.8
Total	737,838	71,109.2	61,526	6,224.8	700,079	72,743.2	69,941	7,745.2
Bundesbank — Directorate —	12,217	1,409.8	3,904	7.4	13,024	1,365.6	3,877	1.8
Grand total	750,055	72,519.0	65,430	6,232.2	713,103	74,108.8	73,818	7,747.0

Domestic bills of exchange

In 1970 the Bank's holding of domestic bills substantially exceeded that reported for 1969. On the average of all return dates it amounted to DM 16,145.1 million (1969: DM 6,525.5 million). This means that banks used the rediscount facilities more than ever before. Rediscounting of bills within Limit B granted to the Export Credit Company likewise continued to expand. The reasons underlying the increased rediscounting are specified in the General Part of this Report.

	Dec. 31, 1969 DM million	Dec. 31, 1970 DM million
The domestic bill holding comprised		
Domestic bills purchased by way of discount	10,230.9	13,290.3
Import and Storage Agency bills taken in the course of open market operations	110.7	–
Prime bankers' acceptances thus taken	1,083.3	861.5
	11,424.9	14,151.8.

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

Land Central Bank	1969 '000	1969 DM mn	1970 '000	1970 DM mn
Baden-Württemberg	346	6,408.7	488	10,942.6
Bavaria	170	5,264.5	326	10,072.9
Berlin	22	1,010.9	26	1,913.0
Bremen	46	1,453.0	49	1,670.7
Hamburg	100	4,984.9	112	6,292.0
Hesse	291	13,883.0	372	24,140.2
Lower Saxony	134	3,093.0	195	5,425.2
North Rhine-Westphalia	437	14,961.4	639	21,960.4
Rhineland-Palatinate	82	1,589.5	109	2,733.0
Saarland	19	1,152.0	27	1,503.3
Schleswig-Holstein	53	1,136.8	74	1,832.6
Total	1,700	54,937.7	2,417	88,485.9

At DM 36,604 the average amount of the bills purchased in 1970 was above the previous year's average (DM 32,322).

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

	1969		1970	
	Number	DM million	Number	DM million
	4,481	14.0	8,612	37.5
as % of the total purchased	0.26	0.03	0.36	0.04.

Commission business

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

	Number	DM million
1969	125,105	968.9
1970	71,429	702.6.

Discount rate

The Bundesbank's discount rate for domestic and foreign bills in the year under review stood at 6 % until March 8, at 7½ % from March 9, at 7 % from July 16, at 6½ % from November 18 and at 6 % from December 3.

Storage Agency bills

In the year under review Storage Agency bills with a face value of DM 2,282.0 million (1969: DM 1,989.8 million) were purchased in the open market and DM 2,168.2 million nominal (1969: DM 1,789.0 million) were resold. Bills amounting to DM 224.5 million were kept until redemption in the Bank's portfolio in 1970 (1969: DM 128.9 million). At December 31, 1970 no Storage Agency bills from open market operations were held by the Bank (end-1969: DM 110.7 million).

Prime bankers' acceptances

The liquidity assistance afforded by the Bank to the prime bankers' acceptance market was increasingly resorted to in 1970. The Bank purchased DM 5,786.7 million of bills from the Privatdiskont-Aktiengesellschaft (1969: DM 1,946.0 million), DM 1,271.8 million of which (1969: DM 737.0 million) were resold to the market via the broker and DM 4,736.7 million (1969: DM 125.7 million) redeemed on due date. At December 31, 1970 prime bankers' acceptances totalling DM 861.5 million (end-1969: DM 1,083.3 million) were held by the Bank.

Treasury bills and discountable Treasury bonds (a) Federal Government and its special funds (b) Länder Governments

Apart from the regulating arrangements in the market for Storage Agency bills and prime bankers' acceptances, the Bank was again active in the market for Treasury bills and discountable Treasury bonds for account of the Federal Government and its special funds; in addition, the Bank was involved in open market operations with the mobilisation paper discussed below (pursuant to Art. 42, Bundesbank Law).

Whereas Treasury bills of the German Federal Railways, in varying amounts, were issued more frequently in 1970, new issues of discountable Federal Treasury bonds were confined to an aggregate amount far below the redemption of such paper. The outstanding total of discountable Treasury bonds of the Federal Government, Federal Railways and Federal Post Office and of Treasury bills of the Federal Railways thus declined to DM 2.7 billion at December 31, 1970 (end-1969: DM 3.3 billion).

No Federal Treasury bills were issued in the year under review; the same applies to the Länder Governments' discountable Treasury bonds, the last issues of which were redeemed in 1969.

At December 31, 1970 DM 284.8 million of the money market paper shown in the following table was held in the Bank's portfolio (end-1969: DM 577.4 million).

Money market paper issued for account of Federal Government and Federal special funds

Millions of Deutsche Mark

Category of paper	Outstanding on Dec. 31, 1969	in 1970 Issued	in 1970 Redeemed	Outstanding on Dec. 31, 1970
Discountable Treasury bonds of the Federal Republic of Germany "B" 1	2,360.0	1,000.0	1,660.0	1,700.0
Treasury bills of the German Federal Railways	200.3	1,558.7	1,459.0	300.0
Discountable Treasury bonds of the German Federal Railways	400.0	101.0	101.0	400.0
Discountable Treasury bonds of the German Federal Post Office	300.0	112.5	112.5	300.0
Total	3,260.3	2,772.2	3,332.5	2,700.0

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

Advances against securities

The Bank's advances against securities fluctuated very widely in the course of the year, and on balance increased. The largest amounts were recorded in January, March, April and September 1970. On the average of all return dates advances outstanding totalled DM 1,422.8 million (1969: DM 887.5 million).

Lending against securities in the Land Central Bank areas

Land Central Bank	Advances granted against securities 1969 DM mn	Advances granted against securities 1970 DM mn	Outstanding on Dec. 31, 1969 DM mn	Outstanding on Dec. 31, 1970 DM mn
Baden-Württemberg	4,827.2	7,804.7	369.6	303.7
Bavaria	1,443.2	2,523.3	154.4	84.2
Berlin	408.5	1,081.9	95.3	51.8
Bremen	817.3	1,653.9	16.6	1.2
Hamburg	3,541.6	5,545.7	238.1	64.4
Hesse	50,807.1	64,413.7	1,164.9	368.8
Lower Saxony	2,222.8	4,512.6	302.9	340.6
North Rhine-Westphalia	13,064.2	22,695.7	282.3	370.5
Rhineland-Palatinate	2,181.9	2,956.9	69.6	88.3
Saarland	591.2	829.0	25.9	4.4
Schleswig-Holstein	943.3	1,626.3	77.4	4.0
Total	80,848.3	115,643.7	2,797.0	1,681.9

Lombard rate

Until March 8, 1970 the lombard rate (the rate for advances against securities) was 9 %; from March 9 it stood at 9½ %, from July 16 at 9 %, from November 18 at 8 % and from December 3 at 7½ %.

Cash advances to
(a) Federal Government and its special funds
(b) Länder Governments

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

	DM million
for the Federal Government	6,000
for the Federal Railways	600
for the Federal Post Office	400
for the Equalisation of Burdens Fund	200
for the ERP Special Fund	50

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

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

Cash advances

Millions of Deutsche Mark

Borrower	December 31, 1969 Book credit	Treasury bills	Total	December 31, 1970 Book credit	Treasury bills	Total
Federal Government	1,790.3		1,790.3	1,914.8		1,914.8
Federal special funds						
Equalisation of Burdens Fund	114.0		114.0	107.9		107.9
Federal Railways		200.4	200.4	100.0	300.0	400.0
Länder Governments						
Berlin	69.8		69.8	134.7		134.7
Hesse				152.1		152.1
Rhineland-Palatinate				24.2		24.2
Total	1,974.1	200.4	2,174.5	2,433.7	300.0	2,733.7

Interest rate

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

Other claims

The other claims of DM 513.5 million shown in asset item 13 (1969: DM 351.0 million) include, inter alia, the balance (DM 424.1 million, against DM 265.4 million in 1969) resulting from the settlement of interzonal payments.

Turnover on the relevant sub-accounts amounted to:

	1969 DM million	1970 DM million
West/East deliveries and services	1,812.5	2,089.8
East/West deliveries and services	1,518.6	1,933.1
	3,331.1	4,022.9.

Securities

The Bank's holding of securities at end-December 1970 amounted to DM 759.8 million (end-1969: DM 1,031.3 million). It mainly comprised bond issues and Treasury bonds (medium-term notes) of the Federal Republic of Germany, the German Federal Railways, the German Federal Post Office, a small amount of other domestic bonds, and bonds of the World Bank.

Issue of bonds

In 1970 the Federal Bond Consortium, of which the Bank is the manager, offered for public sale nine issues totalling DM 2,570 million, compared with four issues amounting to DM 1,170 million in 1969.

Bonds issued through the Federal Bond Consortium in 1970

Issuer	Amount DM mn	Interest rate %	Issue price %	Start of sales 1970
German Federal Railways	[1] 200	8	$98\frac{3}{4}$	March 19
German Federal Post Office	[2] 250	8	99	April 13
Federal Republic of Germany	[2] 400	8	$99\frac{1}{2}$	April 29
German Federal Railways	[1] 250	$8\frac{1}{2}$	$98\frac{1}{2}$	July 15
German Federal Post Office	[3] 260	$8\frac{1}{2}$	$99\frac{1}{2}$	July 29
Federal Republic of Germany	[2] 400	$8\frac{1}{2}$	$99\frac{3}{4}$	Aug. 11
German Federal Railways	[1] 260	$8\frac{1}{2}$	100	Sep. 23
German Federal Post Office	[3] 300	$8\frac{1}{2}$	100	Nov. 5
Federal Republic of Germany	[2] 250	$8\frac{1}{2}$	100	Dec. 1

1 In addition, DM 30 million at the issuer's disposal. — 2 In addition, DM 10 million at the issuer's disposal. — 3 In addition, DM 20 million at the issuer's disposal.

Issue of Federal savings bonds

With the cooperation of the Bank, DM 381.7 million (gross) of Federal savings bonds were sold to private investors through banks in 1970 (1969: DM 283.3 million). In the year under review it was for the first time possible to return Federal savings bonds from former issues prematurely to the issuer or to exchange them for newly issued Federal savings bonds. Despite the rising interest rate level this was done on a moderate scale only, DM 66.2 million of Federal savings bonds type A and DM 20.9 million of type B being returned to the issuer in 1970. Net sales of such bonds thus amounted to DM 294.6 million. At the end of 1970 DM 577.9 million of Federal savings bonds were outstanding.

The interest rate on Federal savings bonds was raised twice in the year under review. At the end of 1970 the yield amounted to 7.64 % for type A, 7.75 % for type B and 7.93 % for type R, running for 7 years and introduced at the beginning of 1970, and particularly suitable for bonus-carrying saving in securities under agreements to pay by instalments.

Gross sales of Federal savings bonds in 1970

Issue	Sales period 1970	Gross sales in DM mn				Interest rate (%) in . . . year after issue						
		Federal savings bonds A 1	Federal savings bonds B 2	Federal savings bonds R 2	Total	1st Year	2nd	3rd	4th	5th	6th	7th 3
1970/1 1970/2 1970/3	Jan. 2–Mar. 31	76.6	65.0	3.6	145.2	6	6.5	7	7.5	8	8.5	8.5
1970/4 1970/5 1970/6	Apr. 1–June 30	55.0	46.7	4.0	105.7	6.5	7	7.5	8	8.5	9	9
1970/7 1970/8 1970/9	July 1–Dec. 31	68.7	53.8	8.3	130.8	6.5	7	7.5	8	8.5	9	9

1 With yearly payment of interest. — 2 With accrual of interest. — 3 Federal savings bonds, type R only.

Issue of medium-term notes

In consultation with the Bank, Treasury bonds (medium-term notes) of the Federal Republic of Germany, the German Federal Railways and the German Federal Post Office totalling DM 700 million were sold in 1970 (1969: DM 1,020 million). The sales were not effected by tender.

Treasury bonds (medium-term notes) sold in 1970

Issuer	Amount DM mn	Interest rate %	Running for . . . years	Selling price %	Month of sale
German Federal Railways Series I	50	8	4	97 3/8	November
German Federal Railways Series II	50	8	4	97 3/8	November
German Federal Post Office 1st Issue	50	8	4	97 1/2	December
German Federal Post Office 2nd Issue	40	8	4	99 1/8	December
German Federal Post Office 3rd Issue	40	8	4	99 1/8	December
German Federal Post Office 4th Issue	70	8	3	99 3/8	December
Federal Republic of Germany 1st Issue	50	8	3	99 3/4	December
Federal Republic of Germany 2nd Issue	256	8	3	99 3/4	December
Federal Republic of Germany 3rd Issue	44	8	3	99 3/4	December
Federal Republic of Germany 4th Issue	50	7 1/2	3	98 1/2	December

The Treasury bonds (medium-term notes) issued during the year under review were not included in the money market regulating arrangements. At December 31, 1970 paper included in the money market regulating arrangements, viz., older Treasury bonds (medium-term notes) of the Federal Government, its special funds and the Länder Governments, was outstanding to the amount of DM 2,927.0 million (end-1969: DM 2,173.7 million). During 1970 DM 517.5 million of such paper was purchased by the Bank and DM 44.5 million resold. Owing to bonds falling due the Bank's holding diminished by DM 282.6 million, and totalled DM 219.8 million at December 31, 1970 (end-1969: DM 29.4 million).

Admission to stock exchange dealings

Apart from the issues mentioned before, which were launched through the Federal Bond Consortium, the 8 % bonds of the Equalisation of Burdens Bank of 1970, 13th Issue, and the 7½ % and the 8½ % bonds of the Reconstruction Loan Corporation of 1970 were introduced by the Bank for official dealings on all German stock exchanges and – confined to the Frankfurt stock exchange – the 6 % bearer bonds of the Equalisation of Burdens Fund of 1970. Two of the medium-term note series issued by the Reconstruction Loan Corporation were introduced for regulated unofficial dealings on the stock exchange at Frankfurt am Main.

Price supporting actions

In the year under review, as in preceding years, the Bank undertook price support for account of the issuers in respect of bonds issued by the Federal Government and its special funds, one Land Government, the Reconstruction Loan Corporation and the Equalisation of Burdens Bank.

The Bank as paying agent for bonds

As paying agent principally for bonds of the Federal Government and its special funds the Bank paid or presented for redemption 10,680,017 interest coupons and matured bonds during 1970 (1969: 10,695,104).

The Bank as conversion and paying agent for external bonds

In its capacity as paying agent for the external bonds of the Federal Republic of Germany the Bank paid 194,468 interest coupons and matured bonds during the year under review (1969: 340,291); in 1970 707,334 interest coupons and matured bonds (1969: 711,411) were presented to foreign agents for redemption.

Equalisation claims on public authorities

	Dec. 31, 1969 DM million	Dec. 31, 1970 DM million
Equalisation claims arising from own conversion account		
Bank deutscher Länder	5,504.4	5,504.4
Land Central Banks	2,599.2	2,599.2
	8,103.6	8,103.6
handed back in exchange for money market paper	2,029.5	7,531.8
	6,074.1	571.8
Conversion of Berlin pre-capitulation balances	30.4	30.5
Conversion of RM balances at banks in the Eastern Sector of Berlin	1.5	1.5
	6,106.0	603.8.

The slight increase, of DM 20,400, in the equalisation claims arising from the Bank's own conversion account is explained in the combined conversion account of the institutions amalgamated to form the Deutsche Bundesbank as shown by the books at December 31, 1970, which account is attached to this Report as Appendix 1. The equalisation claims belonging to the Bank in respect of its own conversion account, of the conversion of Berlin pre-capitulation balances and of the conversion of RM balances at banks in the Eastern Sector of Berlin, as shown by the books at December 31, 1969, are inscribed in the government stock registers.

Mobilising equalisation claims

For the purpose of regulating the money market the Bank again made use of the facility for selling Treasury bills and discountable Treasury bonds of the Federal Republic of Germany, which in accordance with Art. 42 Bundesbank Law are handed to the Bank on request (mobilisation paper). In pursuance of its restrictive monetary policy the Bank raised quite substantially the amount of such paper outstanding, especially in the second half of the year. Mobilisation discountable Treasury bonds outstanding showed particularly strong growth, by DM 4,907.0 million to DM 5,654.1 million. At December 31, 1970 mobilisation paper outstanding totalled DM 7,531.8 million. The upper limit for the issue of mobilisation paper set by the Bank's holding of equalisation claims (DM 8,103.6 million) was reached on January 13, 1971. The Bank's application, in conformity with Art. 42 (a) Bundesbank Law, to have placed at its disposal up to DM 8 billion of liquidity paper was granted by the Federal Minister of Finance on January 4, 1971. Since January 13, 1971 the Bank, through its open market operations, has sold liquidity paper in cases where mobilisation paper – including such resulting from current maturities – was no longer available, because the amount outstanding had reached the limit set by Art. 42 Bundesbank Law.

Mobilisation paper sold and redeemed

Millions of Deutsche Mark

Category of paper	1968 outstanding on Dec. 31	1969 sold	1969 redeemed	1969 outstanding on Dec. 31	1970 sold	1970 redeemed	1970 outstanding on Dec. 31
Treasury bills of the Federal Government (running for up to 90 days)	2,231.2	10,529.8	11,478.6	1,282.4	7,126.0	6,530.7	1,877.7
Discountable Treasury bonds of the Federal Government (running for 6 to 24 months)	303.0	759.6	315.5	747.1	5,306.5	399.5	5,654.1
Total	2,534.2	11,289.4	11,794.1	2,029.5	12,432.5	6,930.2	7,531.8

Debt certificate in respect of Berlin

In 1970 the Bank's claim on the Federal Government in respect of the currency conversion in Berlin remained unchanged at DM 547.2 million.

Claim on Fed. Govt. in respect of acquisition of claims resulting from post-war economic aid

After payment of scheduled instalments of DM 345.3 million, and an addition of DM 41.3 million, the claim on the Federal Government in respect of post-war economic aid shown in this item was reduced to DM 386.5 million in the year under review. The residual DM 31.3 million of the claim on the Federal Republic of Germany, which the Bank acquired in 1966 from the Bank for International Settlements, Basle, in discharge of the latter's claims resulting from RM investment in Germany, was redeemed in 1970 on due date.

Land and buildings; equipment

With additions of DM 65.7 million and depreciation of DM 8.7 million, land and buildings are shown at DM 256.5 million. Equipment increased to DM 10.4 million after additions of DM 9 million and depreciation of DM 5.8 million.

Items in course of settlement

The balance sheet item "Items in course of settlement" mainly comprises the intercity credit transfers that were proceeding inside the Bank at the close of the year as well as the cheques and debit transfer orders in course of clearing. At December 31, 1970, there was a net claim of DM 672.4 million, as against one of DM 1,237.7 million at the end of 1969.

Other assets

Of the DM 186.2 million (end-1969: DM 154.7 million) shown in the item "Other assets", DM 180.0 million (end-1969: DM 149.6 million) represents interest falling due in 1971, but assignable to the profit and loss account for the year under review, on funds employed abroad and on securities.

Prepaid expenses and deferred income

The prepaid expenses and deferred income comprise salary and pension payments made in the year under review but relating to 1971.

Liabilities

Capital

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

Reserves

The legal and other reserves are shown unchanged at DM 690 million and DM 170 million respectively.

Provisions

After withdrawal of DM 52.2 million for the payment of pensions and widows' and orphans' allowances, and an addition of DM 152.2 million, provisions for the payment of pensions are shown at DM 1,020 million.

For covering hazards inherent in foreign and domestic business, other provisions were increased by DM 1,100 million to DM 1,350 million.

Contra-entry to special drawing rights allocated

The contra-entry to the special drawing rights allocated by the International Monetary Fund for the first time in January 1970 and shown on the assets side is equal to the allocation of SDRs to the Federal Republic of Germany of January 1, 1970, to the amount of DM 737.9 million.

Bank notes in circulation

The circulation of bank notes rose from DM 34,616.5 million at the end of 1969 to DM 36,479.7 million at December 31, 1970.

Circulation of notes and coin

Millions of Deutsche Mark

End of year	Bank notes	Federal coin	Circulation of notes and coin, total
1965	29,455.6	1,997.1	31,452.7
1966	30,770.1	2,135.9	32,906.0
1967	31,574.2	2,255.1	33,829.3
1968	32,499.0	2,443.6	34,942.6
1969	34,616.5	2,657.9	37,274.4
1970	36,479.7	3,008.7	39,488.4

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

In 1970 DM 17,410.0 million of new Bundesbank notes of various denominations were taken over from the printing offices and put into circulation or made ready for that purpose.

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

	1965	1966	1967	1968	1969	1970
Number (millions)	182.2	175.1	207.6	323.8	306.7	343.5
Value (DM million)	4,367.8	3,780.9	5,501.6	10,110.9	10,105.5	11,306.3.

The number and amount of counterfeit Deutsche Mark notes detained in payment transactions in 1970 increased further in comparison with 1969, while the number of conterfeit German coins declined slightly.

Counterfeits discovered

Year	Notes		Coins	
	Number	Thousands of DM	Number	Thousands of DM
1965	797	15.4	2,671	5.8
1966	273	11.1	3,323	11.5
1967	679	31.8	7,126	26.0
1968	1,202	45.5	10,941	44.6
1969	1,769	84.9	11,621	48.2
1970	4,772	243.0	10,902	46.4

Deposits

The balances of German depositors comprise those of	Dec. 31, 1969 DM million		Dec. 31, 1970 DM million	
Banks		16,890.5		26,231.1
Public depositors				
Federal Government	46.3		32.2	
Federal special funds	1,350.1		1,869.4	
Länder Governments	2,376.4		1,030.1	
Other public depositors	52.7	3,825.5	55.0	2,986.7
Other German depositors		373.2		399.8
		21,089.2		29,617.6.

The banks' deposits are mainly composed of the minimum reserves which have to be maintained with the Bundesbank.

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

	Number	Amount
1969	99.53	97.33
1970	99.57	97.61.

Annual turnover on giro accounts of the Deutsche Bundesbank

	1969			1970		
	Number of transactions	Total amount	Average amount	Number of transactions	Total amount	Average amount
Turnover	'000	DM million	DM '000	'000	DM million	DM '000
(a) Credits						
Cash payments	1,000	108,761	108.8	992	116,793	117.7
Settlements with account-holders	7,273	1,431,462	196.8	7,620	1,695,329	222.5
Local transfers	15,057	1,073,728	71.3	16,290	1,348,892	82.8
Intercity transfers	57,839	1,123,461	19.4	62,072	1,329,913	21.4
Cheque and debit transfer order collections (total lodged)	164,357	397,200	2.4	186,884	482,820	2.6
Total	245,526	4,134,612	—	273,858	4,973,747	—
(b) Debits						
Cash payments	1,239	111,702	90.2	1,301	120,346	92.5
Settlements with account-holders	4,083	1,448,434	354.7	4,273	1,687,956	395.0
Local transfers	15,057	1,073,728	71.3	16,290	1,348,892	82.8
Intercity transfers	57,851	1,104,831	19.1	61,903	1,319,139	21.3
Cheque and debit transfer order collections (total paid)	156,392	396,485	2.5	174,672	483,710	2.8
Total	234,622	4,135,180	—	258,439	4,960,043	—
(c) as % of total turnover (credits and debits)		%			%	
Cash payments		2.67			2.39	
Settlements with account-holders		34.82			34.06	
Local transfers		25.97			27.15	
Intercity transfers		26.94			26.67	
Cheque and debit transfer order collections (total lodged and paid)		9.60			9.73	
		100.00			100.00	

Special deposits
(a) Anticyclical reserves
(b) Anticyclical surcharge on income taxes
(c) Other (Federal education loan)

The new item "Special deposits" shows the anticyclical reserves formed by Federal and Länder Governments pursuant to the Law for Promoting Stability and Growth of June 8, 1967 (Federal Law Gazette I, page 582), the anticyclical surcharge paid into special accounts of the Länder Governments with the Bank pursuant to the Law on the Levying of a Repayable Anticyclical Surcharge on Income and Corporation Taxes of July 23, 1970 (Federal Law Gazette I, page 1125), and the proceeds of the Federal education loan of December 1970 paid into a special account of the Federal Government. The composition of such deposits at December 31, 1970 was as follows:

	DM million	DM million
Anticyclical reserves		
of Federal Government	1,500.0	
of Länder Governments	1,436.5	2,936.5
Anticyclical surcharge on income taxes		2,189.1
Other (Federal education loan)		256.1
		5,381.7.

The DM 436 million of anticyclical reserves formed by the Länder Governments the year before were included in deposits of Länder Governments at December 31, 1969.

Liabilities in respect of foreign business

The liabilities in respect of foreign business comprised

	Dec. 31, 1969 DM million		Dec. 31, 1970 DM million	
Deposits of foreign depositors				
Banks	272.4		282.8	
Other	110.3	382.7	60.0	342.8
Deposits of domestic banks on U.S. dollar accounts		68.7		18.9
Provision of cover for credits and guarantees by				
non-residents	2.1		1.5	
residents	12.8	14.9	15.2	16.7
Other liabilities		5.7		1.5
		472.0		379.9.

Other liabilities

The "Other liabilities" are shown at December 31, 1970 at DM 32.2 million, as against DM 35.9 million at the end of 1969.

Deferred expenses and accrued income

In the same way as previously, the deferred expenses and accrued income (DM 423.1 million for 1970; DM 161.9 million for 1969) mainly comprise interest which was received in the year under review, but relates to the next year, on foreign and domestic commercial and Treasury bills.

Contingent liabilities and claims

The contingent liabilities and claims are shown at December 31, 1970 at DM 1.2 million, against DM 1.7 million at the end of 1969.

Profit and loss account

Comparison of expenditure and receipts

Millions of Deutsche Mark

Expenditure	1969	1970	Receipts	1969	1970
Interest on money market paper issued in exchange for equalisation claims (mobilisation paper)	89.2	583.3	Interest on money employed abroad	1,123.3	1,239.7
Other interest	2.7	3.6	domestic bills of exchange, advances against securities and foreign bills of exchange bought in Germany	449.1	1 437.1
	91.9	586.9	equalisation claims	244.1	244.1
Administrative costs			securities, Treasury bills and Treasury bonds	80.8	73.6
Personnel	243.1	278.7	Other interest	22.3	51.6
Materials	43.8	49.6		1,919.6	3,046.1
Note printing	38.4	48.8	Fees	5.4	6.1
Depreciation on fixed assets	14.7	14.5	Other receipts	16.5	15.7
Transfers to provisions					
Liabilities for pension payments	46.5	152.2			
Other	—	1,100.0	Drawing on accumulated depreciation reserves, provisions and reserves	2,679.0	—
Pension payments in respect of Reichsbank	32.9	33.5			
Other expenditure	10.3	17.5			
Compensatory amount required for gold and foreign exchange positions owing to alteration of DM parity	4,098.9	—			
Net profit	—	786.2			
Total	4,620.5	3,067.9	Total	4,620.5	3,067.9

Receipts

Interest

	1969 DM million	1970 DM million
The interest received amounted to	1,919.6	3,046.1.
After deduction of the interest paid out, namely	91.9	586.9
receipts are shown in the profit and loss account at	1,827.7	2,459.2.

The interest on funds employed abroad increased by DM 116.4 million to DM 1,239.7 million in 1970. Receipts from lending to German banks – domestic bills, advances against securities and foreign bills bought in Germany – amounted to DM 1,437.1 million in the year under review (1969: DM 449.1 million). Interest on equalisation claims remained unchanged at DM 244.1. Other interest income increased by DM 22.1 million to DM 125.2 million.

In the profit and loss account for 1970 DM 586.9 million of interest payments (1969: DM 91.9 million) were deducted from interest receipts. Except for a fractional amount of DM 3.6 million (1969: DM 2.7 million), such payments were on Treasury bills and discountable Treasury bonds of the Federal Government (mobilisation paper pursuant to Art. 42 Bundesbank Law), which were sold on a greatly increased scale, particularly in the second half of the year. The difference between repurchase and sales prices of mobilisation paper outstanding at December 31, 1970 is for the first time shown in full as an interest payment.

Fees

DM 6.1 million of fees were received in the year under review (1969: DM 5.4 million).

Other receipts

"Other receipts" are shown at DM 15.7 million (1969: DM 16.5 million).

Expenditure

Administrative costs
(a) Personnel

The administrative costs in respect of personnel rose in comparison with the previous year, mainly owing to the statutory or negotiated pay increases for established officials, salaried staff and wage earners; they amounted to DM 278.7 million in 1970 (1969: DM 243.1 million). The Bank's staff increased in number by 593 during 1970.

Number of persons employed in the Bundesbank

	End of 1969					End of 1970				
				of whom					of whom	
	Directorate	Land Central Banks	Total	male	female	Directorate	Land Central Banks	Total	male	female
Established officials	631	4,093	4,724	4,651	73	637	4,199	4,836	4,756	80
Salaried employees	1,302	5,158	6,460*)	2,647	3,813	1,333	5,606	6,939*)	2,714	4,225
Wage earners	142	815	957*)	153	804	143	816	959*)	144	815
Total	2,075	10,066	12,141	7,451	4,690	2,113	10,621	12,734	7,614	5,120

* of whom, working part time	End of 1969	End of 1970
Salaried employees	75	127
Wage earners	722	723

The payments to serving members of the Directorate of the Bank and the Central Bank Council amounted to DM 4,036,312.33 in the year under review. Former members of those bodies as well as of the Board of Directors and Board of Managers of the Bank deutscher Länder, and the Boards of Management of the Land Central Banks, including their surviving dependants, received payments to the amount of DM 2,548,072.10.

Changes in staff regulations

In 1970 the Bank again concluded a number of pay agreements, through which the legal positions of its salaried and wage-earning employees were brought into line with those of the Federal Government's salaried and wage-earning employees.

(b) Materials The administrative costs in respect of materials rose from DM 43.8 million in 1969 to DM 49.6 million.

Note printing The expenditure on note printing rose, as compared with 1969, by DM 10.4 million to DM 48.8 million.

Depreciation and transfer to provisions The depreciation on land and buildings as well as on equipment has been discussed, like the transfer to provisions, in connection with the respective balance sheet items.

Pension payments in respect of Reichsbank The payments to members of the former Deutsche Reichsbank and other persons to whom the Law concerning Article 131 of the Basic Law applies, and for whom the Bank is required to provide in accordance with Art. 41 Bundesbank Law, amounted in the year under review to DM 33.5 million (1969: DM 32.9 million). As in 1969, these payments were shown in full in the profit and loss account.

Net profit

Proposed distribution of profit

	DM	DM
According to the profit and loss account the net profit amounts to		786,189,871.99.
The Directorate proposes to the Central Bank Council		
that there be transferred to the legal reserve	157,300,000.00,	
that there be set aside for Bundesbank profit participation rights	2,500,000.00	
and that there be allocated to the other reserves	62,600,000.00	
to the Fund for the Purchase of Equalisation Claims	40,000,000.00	262,400,000.00.
The remaining profit of will be paid over to the Federal Government.		523,789,871.99

Frankfurt am Main, March 1971

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

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

Fund for the Purchase of Equalisation Claims

As the Deutsche Bundsbank's profit and loss account for 1969 did not show any profit, the Bank was unable to make the allocation to the Fund stipulated in Art. 27, item 3 of the Bundesbank Law. Thus, in 1970 the Fund had at its disposal merely the liquid resources (DM 38.1 million) brought forward from 1969, the interest and redemption payments on equalisation claims received during 1970 (DM 49.4 million) and interest on the temporary employment of the liquid resources (DM 1.4 million).

In the 1970 accounting year DM 60.1 million was used for purchasing equalisation claims pursuant to Art. 9, paras. 1 and 2, item 2 of the Law on the Redemption of Equalisation Claims, and for satisfying creditors of equalisation claims pursuant to Art. 9, para. 3 of the Law (general acquisition). Of this amount, DM 11.5 million was applied to purchases and DM 48.6 million to the general acquisition of equalisation claims.

The DM 11.2 million of equalisation claims bought pursuant to Art. 9, para. 1 were almost all taken from liquidating and merged banks (including building and loan associations) and insurance companies, the greater part coming from pension funds in liquidation. Purchases of small equalisation claims pursuant to Art. 9, para. 2, item 2 of the Law amounted to no more than DM 0.3 million.

The DM 48.6 million used for the general acquisition of equalisation claims was applied to taking over 1 % of the equalisation claims inscribed in the stock registers of the Länder Hesse, Lower Saxony, North Rhine-Westphalia, Rhineland-Palatinate and Schleswig-Holstein on June 30, 1970, thus completing the third acquisition and initiating at the same time the fourth one. To begin with, another 1 % of all equalisation claims inscribed in the stock registers of the Länder Lower Saxony, Rhineland-Palatinate and Schleswig-Holstein were transferred to the Purchase Fund. In all probability, this transaction will be completed in 1971.

With the inclusion of the interest and redemption payments due at the end of 1970, at that time the Fund had at its disposal for the 1971 accounting year DM 28.8 million of liquid resources, DM 1.8 million of which was to be used to fulfil purchase commitments. These resources were almost all employed in Federal Treasury bills and discountable Treasury bonds.

Changes in the holding of equalisation claims

	DM initial capital				DM remaining capital
Interest rate	Holding at Dec. 31, 1969	Addition through purchase, exchange and general acquisition	Decrease through exchange	Holding at Dec. 31, 1970	Holding at Dec. 31, 1970
%	DM				DM
0	77,725,580.37	501,606.41	—	78,227,186.78	31,290,874.71
3	449,841,679.95	44,261,369.35	—	494,103,049.30	401,363,164.52
3 1/2	398,366,646.50	27,211,018.—	—	425,577,664.50	342,553,526.—
4 1/2	160,744,491.55	2,306,544.60	505,555.83	162,545,480.32	128,252,233.07
Total	1,086,678,398.37	74,280,538.36	505,555.83	1,160,453,380.90	903,459,798.30

The report on the position of the Fund for the Purchase of Equalisation Claims at December 31, 1970, intended for publication in the Federal Advertiser, is attached as Appendix 3.

Fund for the Redemption of Bundesbank Profit Participation Rights

Pursuant to Art. 6, para. 5 of the Law concerning Liquidation of the Deutsche Reichsbank and the Deutsche Golddiskontbank, of August 2, 1961 (Federal Law Gazette I, page 1165), the Liquidator of the Deutsche Reichsbank in 1970 paid to the Fund for the Redemption of Bundesbank Profit Participation Rights DM 20 million plus DM 10 million out of the expected liquidation surplus, reserving the right of recall. Thus it was possible in the year under review to redeem the three groups of profit participation certificates outstanding at the end of December 1969.

Groups 9 and 11 of the Bundesbank profit participation certificates were drawn on May 21, 1970 for redemption at September 30, 1970 (Federal Advertiser Nos. 95

and 96 of May 27 and 30, 1970). Group 6 was called on August 18, 1970 for redemption at December 31, 1970 (Federal Advertiser Nos. 155 and 156 of August 25 and 26, 1970).

Pursuant to the announcement of March 9, 1963 (Federal Advertiser No. 48) of the Liquidator of the Deutsche Reichsbank, by the end of 1970 altogether 1,499,759 Bundesbank profit participation certificates, having a par value of DM 99,983,933$^1/_3$, had been delivered in discharge of Reichsbank Shares with a par value of RM 149,975,900.

Of the groups called for redemption during the year under review, profit participation certificates with a redemption value of DM 104,300 had not been presented for redemption by December 31, 1970. After presentation of these certificates at the beginning of 1971, all Bundesbank profit participation certificates delivered, having a par value of DM 99,983,933$^1/_3$ and a redemption value of DM 149,975,900, have now been redeemed. For this purpose the Redemption Fund received DM 90 million out of the Bank's residual profits for the years 1960 to 1968, due to the Federal Government under Art. 27, para. 4 Bundesbank Law, and DM 60 million out of the provisional liquidation surplus of the Reichsbank.

For the discharge of Reichsbank Shares not yet presented (RM 24,100 nominal) the amount of DM 24,100, representing the redemption value of 241 Bundesbank profit participation certificates with a par value of DM 16,066$^2/_3$, is being held available.

Frankfurt am Main, March 1971

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

Report of the Central Bank Council

The annual accounts of the Deutsche Bundesbank for 1970, the combined conversion account of the institutions amalgamated to form the Deutsche Bundesbank, as shown by the books at December 31, 1970, and the Reports on the Fund for the Purchase of Equalisation Claims and the Fund for the Redemption of Bundesbank Profit Participation Rights as at December 31, 1970, have been audited by the auditing companies Deutsche Revisions- und Treuhand-Aktiengesellschaft Treuarbeit of Frankfurt am Main and Dr. Wollert – Dr. Elmendorff KG of Düsseldorf, whom the Central Bank Council had appointed to be auditors in accordance with Article 26 of the Bundesbank Law.

In their notes of certification the auditors have unreservedly confirmed that the annual accounts for 1970, the bookkeeping and the conversion account as shown by the books at December 31, 1970 are in accordance with the legal provisions and that the Funds for the Purchase of Equalisation Claims and for the Redemption of Bundesbank Profit Participation Rights have been properly administered.

The Central Bank Council approved the annual accounts for 1970 on March 31, 1971. At the same time it confirmed the conversion accounts for the Bank deutscher Länder and the Land Central Banks as well as the combined conversion account of the institutions amalgamated to form the Deutsche Bundesbank, as shown by the books at December 31, 1970, and approved the Reports on the Funds for the Purchase of Equalisation Claims and for the Redemption of Bundesbank Profit Participation Rights as at December 31, 1970.

Since the publication of the Report for the Year 1969 the following changes have taken place in the Central Bank Council and the Directorate of the Deutsche Bundesbank.

We regret to record the death

on September 11, 1970 of
the Member of the Board of Management of the Land Central Bank in North Rhine-Westphalia
Dr. Clemens Heimann,

on February 3, 1971 of
the President of the Land Central Bank in Berlin
Dr. Franz Suchan.

Retired from service

as at the close of November 30, 1970
the Vice-President of the Land Central Bank in Bremen
Dr. Rudolf Schmitt.

Reappointed

with effect from July 1, 1970

Dr. Erich Zachau
Member of the Directorate of the Deutsche Bundesbank,

Herr Friedrich Wilhelm von Schelling
President of the Land Central Bank in the Free and Hanseatic City of Hamburg,

with effect from October 1, 1970
Dr. Bernhard Benning
Member of the Directorate of the Deutsche Bundesbank.

Newly appointed
with effect from November 1, 1970
Herr Ottomar Werthmöller
to be Member of the Board of Management of the Land Central Bank in North Rhine-Westphalia,

with effect from February 1, 1971
Herr Ludwig Preiss
to be Vice-President of the Land Central Bank in Bremen.

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 entire staff of the Deutsche Bundesbank its thanks for their loyal and understanding co-operation during the year 1970. The Council likewise wishes to record its appreciation of the excellent collaboration with the staff representative committees.

Frankfurt am Main, March 1971

Dr. Karl Klasen
President of the Deutsche Bundesbank

Appendices to Parts B and C

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

Assets

	as shown by the books at Dec. 31, 1969 DM	Changes in 1970 DM	as shown by the books at Dec. 31, 1970 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. Prepaid expenses and deferred income	938,761.74		938,761.74
10. Equalisation claims on public authorities	8,103,580,597.70	20,448.06	8,103,601,045.76
11. Proceeds from realisation of DM (East) holdings	41,334,713.71		41,334,713.71
12. Non-interest-bearing debt certificate in respect of Berlin	547,168,481.20		547,168,481.20
	8,736,348,789.65	20,448.06	8,736,369,237.71
13. Contingent claims	126,558.92		126,558.92

1 Relating to converted small money tokens.

	as shown by the books at Dec. 31, 1969 DM	Changes in 1970 DM	as shown by the books at Dec. 31, 1970 DM
1. Capital	270,000,000.—		270,000,000.—
2. Provisions for			
Pension liabilities	126,968,586.60		126,968,586.60
Other	233,810.35		233,810.35
3. Notes and coin put into circulation			
(a) first instalment of per-capita quotas	1,853,121,572.32		1,853,121,572.32
(b) second instalment of per-capita quotas, delayed cases, etc.	264,957,855.81		264,957,855.81
4. Deposits	5,630,737,429.31	20,448.06	5,630,757,877.37
5. Other liabilities	1,648,526.03		1,648,526.03
6. Deferred expenses and accrued income	177,814.32		177,814.32
7. Amounts paid or credited under para. 52a, b, d and e, Berlin Central Bank Ordinance, and para. 9, Implementing Reg. 2, Conversion Ordinance	588,503,194.91		588,503,194.91
	8,736,348,789.65	20,448.06	8,736,369,237.71
8. Contingent liabilities	126,558.92		126,558.92

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

Our audit, which was duly carried out, shows the bookkeeping and the conversion accounts for the Bank Deutscher Länder and the Land Central Banks, amended to conform with the revisions as at December 31, 1970 and provisionally closed, as well as the correspondingly amended combined conversion account of the institutions amalgamated to form the Deutsche Bundesbank, to be in accordance with the provisions of the law.

Frankfurt am Main, March 10, 1971

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

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

Balance sheet of the Deutsche Bundesbank as at December 31, 1970

Assets

	DM	DM	DM
1. Gold			14,339,977,357.87
2. Balances with foreign banks and money market investment abroad			28,362,147,694.81
3. Other investment abroad			2,200,000,000.—
4. Reserve position in the International Monetary Fund and special drawing rights			
(a) Drawing rights against gold tranche position		3,356,746,017.23	
(b) Credit granted under General Arrangements to Borrow		—	
(c) Special drawing rights		942,917,868.78	4,299,663,886.01
5. Loans and other claims on the rest of the world			
(a) Loans to World Bank		1,925,168,350.—	
(b) Loans from liquidation of EPU		66,836,175.—	
(c) Other claims		139,200,780.—	2,131,205,305.—
6. Foreign notes and coin, foreign bills and cheques			2,910,658,522.84
7. German coin			162,640,023.47
8. Balances on postal giro account			446,884,119.03
9. Domestic bills of exchange			14,151,803,339.10
10. Treasury bills and discountable Treasury bonds of			
(a) Federal Government and Federal special funds		284,750,000.—	
(b) Länder Governments		—	284,750,000.—
11. Advances against securities			1,681,918,200.—
12. Cash advances to			
(a) Federal Government and Federal special funds		2,122,700,000.—	
(b) Länder Governments		311,010,000.—	2,433,710,000.—
13. Other claims			513,471,241.08
14. Securities			759,822,662.22
of which Treasury bonds (medium-term notes) of Federal Government and its special funds with remaining life of up to 18 months DM 188,997,086.11			
15. Equalisation claims on public authorities and debt certificate in respect of Berlin			
(a) Equalisation claims	8,135,604,533.94		
less equalisation claims returned in exchange for money market paper	7,531,770,000.—	603,834,533.94	
(b) Debt certificate		547,168,481.20	1,151,003,015.14
16. Claims on Federal Government in respect of acquisition of claims resulting from post-war economic aid			386,533,312.65
17. Land and buildings			256,482,601.40
18. Equipment			10,414,312.—
19. Items in course of settlement			672,378,347.65
20. Other assets			186,218,728.72
21. Prepaid expenses and deferred income			16,658,628.34
Right of recourse in respect of contingent liabilities		1,191,370.30	
			77,358,341,297.33

		DM	DM	DM
1.	Capital			290,000,000.—
2.	Reserves			
	(a) Legal reserve		690,000,000.—	
	(b) Other reserves		170,000,000.—	860,000,000.—
3.	Provisions for			
	(a) Pension liabilities		1,020,000,000.—	
	(b) Other purposes		1,350,000,000.—	2,370,000,000.—
4.	Contra-entry to special drawing rights allocated			737,856,000.—
5.	Bank notes in circulation			36,479,685,280.—
6.	Deposits of			
	(a) Banks		26,231,119,731.39	
	(b) Public depositors			
	(ba) Federal Government	32,225,701.85		
	(bb) Federal special funds	1,869,434,887.47		
	(bc) Länder Governments	1,030,129,626.79		
	(bd) Other public depositors	55,021,158.03	2,986,811,374.14	
	(c) Other German depositors		399,748,330.89	29,617,679,436.42
7.	Special deposits			
	(a) Anticyclical reserves			
	(aa) of Federal Government	1,500,000,000.—		
	(ab) of Länder Governments	1,436,486,130.—	2,936,486,130.—	
	(b) Anticyclical surcharge on income taxes		2,189,101,031.87	
	(c) Other (Federal education loan)		256,103,567.76	5,381,690,729.63
8.	Liabilities in respect of foreign business			
	(a) Deposits of foreign depositors		342,802,551.93	
	(b) Other		37,076,653.82	379,879,205.75
	of which Provision of cover for letters of credit and guarantees by			
	non-residents DM 1,473,325.18			
	residents DM 15,205,430.08			
9.	Other liabilities			32,249,952.79
10.	Deferred expenses and accrued income			423,110,820.75
11.	Net profit			786,189,871.99
	Contingent liabilities		1,191,370.30	
				77,358,341,297.33

Profit and loss account of the Deutsche Bundesbank for the year 1970

Expenditure

	DM	DM
1. Administrative costs		
(a) Personnel	278,718,531.26	
(b) Materials	49,619,760.58	328,338,291.84
2. Note printing		48,817,138.88
3. Depreciation		
(a) on land and buildings	8,743,570.51	
(b) on equipment	5,818,527.23	14,562,097.74
4. Transfers to provisions		
(a) Pension liabilities	152,180,685.32	
(b) Other	1,100,000,000.—	1,252,180,685.32
5. Pension payments in respect of Reichsbank		33,445,525.04
6. Other expenditure		17,473,709.55
Net profit		786,189,871.99
		2,481,007,320.36

Receipts

	DM
1. Interest	2,459,168,358.29
2. Fees	6,121,389.20
3. Other receipts	15,717,572.87
	2,481,007,320.36

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

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

Frankfurt am Main, March 10, 1971

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

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

	Equalisation claims (remaining capital) DM	Cash resources DM	Total assets of the Fund DM
As at December 31, 1969	863,529,735.25	38,065,814.51	901,595,549.76
Purchase and general acquisition of equalisation claims	60,096,613.66	– 60,096,613.66	
Redemptions	– 20,166,550.61	20,166,550.61	
Interest			
on equalisation claims		29,234,609.28	29,234,609.28
from temporary employment of the Fund's cash resources		1,412,899.99	1,412,899.99
As at December 31, 1970	903,459,798.30	28,783,260.73	932,243,059.03

Deutsche Bundesbank
The Directorate
Dr. Klasen Dr. Emminger
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Returns of the Deutsche Bundesbank

Millions of Deutsche Mark

Date of return	Assets																
				Reserve position in IMF and special drawing rights				Loans and other claims on the rest of the world								Treasury bills and discountable Treasury bonds		
	Gold	Balances with foreign banks and money market investment abroad	Other investment abroad 1	Total	Drawing rights against gold tranche position	Credit granted under General Arrangements to Borrow 2	Special drawing rights	Total	Loans to World Bank 2	Loans from liquidation of EPU 2	Other claims	Foreign notes and coin, foreign bills and cheques	German coin	Balances on postal giro account	Domestic bills of exchange	Total	Federal Government and Federal special funds	Länder Governments
1970																		
Jan. 7	14,697	5,392	4,200	—	—	—	738	—	1,544	155	—	3,561	146	363	13,266	577	577	—
15	14,697	5,929	3,200	—	—	—	738	—	1,544	155	—	3,521	167	235	13,602	345	345	—
23	14,697	6,800	2,200	—	—	—	738	—	1,544	155	—	3,707	177	182	15,346	300	300	—
31	14,697	6,653	2,200	—	—	—	738	—	1,544	155	—	3,703	180	307	15,203	300	300	—
Feb. 7	14,697	6,774	2,200	—	—	—	738	—	1,718	155	—	3,672	182	187	15,795	300	300	—
15	14,697	6,918	2,200	—	—	—	738	—	1,718	155	—	3,604	188	164	15,797	300	300	—
23	14,697	7,019	2,200	—	—	—	738	—	1,718	155	—	3,593	192	135	15,788	300	300	—
28	14,697	7,232	2,200	—	—	—	738	—	1,718	155	—	3,420	187	378	14,757	300	300	—
Mar. 7	14,697	7,487	2,200	—	—	—	738	—	1,718	155	—	3,225	190	175	16,848	440	440	—
15	14,697	7,683	2,200	—	—	—	738	—	1,718	155	—	2,921	189	214	16,628	200	200	—
23	14,697	7,594	2,200	—	—	—	811	—	1,718	155	—	2,939	180	127	16,487	200	200	—
31	14,697	7,696	2,200	—	—	—	811	—	1,718	155	—	2,983	160	669	16,374	200	200	—
Apr. 7	14,697	7,896	2,214	—	—	—	811	—	1,718	155	—	2,899	161	239	16,840	223	223	—
15	14,697	8,072	2,214	—	—	—	840	—	1,718	155	—	2,927	171	199	16,703	223	223	—
23	14,697	8,182	2,214	—	—	—	840	—	1,718	155	—	2,879	172	143	16,976	223	223	—
30	14,697	8,085	2,330	—	—	—	840	—	1,718	155	—	2,905	162	338	16,538	123	123	—
May 7	14,697	8,285	2,316	—	—	—	840	—	1,718	155	—	3,022	159	232	16,925	123	123	—
15	14,697	9,094	2,316	—	—	—	851	—	1,718	155	—	3,046	152	448	17,041	23	23	—
23	14,697	9,129	2,316	—	—	—	851	—	1,718	155	—	3,055	154	463	16,975	23	23	—
31	14,697	9,106	2,316	—	—	—	851	—	1,718	155	—	3,021	141	653	16,665	163	163	—
June 7	14,697	9,677	2,316	—	—	—	851	—	1,718	155	—	3,061	149	219	17,398	163	163	—
15	14,702	12,947	2,316	—	—	—	851	—	1,718	155	—	3,089	155	200	16,144	263	263	—
23	14,702	12,639	2,316	—	—	—	906	—	1,718	155	—	3,065	157	242	15,604	284	284	—
30	14,702	12,592	2,316	—	—	—	906	—	1,718	155	—	3,242	153	669	16,220	434	434	—
July 7	14,701	14,314	2,316	—	—	—	906	—	1,718	155	—	3,303	154	249	17,215	444	444	—
15	14,702	15,134	2,316	—	—	—	906	—	1,718	155	—	3,242	165	214	16,355	173	173	—
23	14,702	14,505	2,316	—	—	—	915	—	1,718	155	—	3,199	162	221	16,403	274	274	—
31	14,702	15,992	2,316	—	—	—	915	—	1,718	155	—	3,153	148	367	16,286	274	274	—
Aug. 7	14,700	16,308	2,316	—	—	—	915	—	1,892	67	—	3,073	157	204	16,773	274	274	—
15	14,700	16,371	2,316	—	—	—	915	—	1,892	67	—	2,978	164	189	16,062	274	274	—
23	14,700	16,655	2,316	—	—	—	915	—	1,892	67	—	2,892	169	163	15,676	274	274	—
31	14,700	16,739	2,316	—	—	—	915	—	1,892	67	—	2,753	159	558	16,203	304	304	—
Sep. 7	14,699	17,373	2,316	—	—	—	915	—	1,892	67	—	2,754	154	221	17,441	104	104	—
15	14,699	18,060	2,316	—	—	—	915	—	1,892	67	—	2,709	162	246	17,794	250	250	—
23	14,706	20,141	2,316	—	—	—	915	—	1,892	67	—	2,707	165	228	17,784	245	245	—
30	14,706	20,404	2,316	—	—	—	930	—	1,892	67	—	2,657	157	792	17,638	347	347	—
Oct. 7	14,705	20,628	2,316	—	—	—	930	—	1,925	67	—	2,765	159	190	18,100	202	202	—
15	14,705	21,947	2,316	—	—	—	930	—	1,925	67	—	2,831	164	156	18,282	197	197	—
23	14,705	22,320	2,316	—	—	—	930	—	1,925	67	—	2,773	161	160	16,548	197	197	—
31	14,705	22,521	2,316	—	—	—	930	—	1,925	67	—	2,648	162	433	15,153	195	195	—
Nov. 7	14,704	23,163	2,316	—	—	—	930	—	1,925	67	—	2,761	184	192	15,944	—	—	—
15	14,704	23,853	2,316	—	—	—	930	—	1,925	67	—	2,706	198	190	15,478	—	—	—
23	14,704	26,107	2,316	—	—	—	937	—	1,925	67	—	2,651	199	145	15,288	—	—	—
30	14,704	28,373	2,316	—	—	—	937	—	1,925	67	—	2,643	186	590	14,668	—	—	—
Dec. 7	14,702	28,610	2,316	—	—	—	943	—	1,925	67	—	2,639	178	168	14,683	—	—	—
15	14,702	28,737	2,316	—	—	—	943	—	1,925	67	—	2,722	142	237	14,433	50	50	—
23	14,702	28,654	2,316	—	—	—	943	—	1,925	67	—	2,930	134	298	14,688	101	101	—
31	14,340	28,362	2,200	4,299	3,356	—	943	2,131	1,925	67	139	2,910	163	447	14,152	285	285	—

1 Until December 23, 1970 "Other investment of money abroad and external assets". — 2 Until December 23, 1970 shown under "Loans to international institutions and consolidation loans". — 3 Including equalisation claims resulting from conversion of

	Cash advances			Securities		Equalisation claims and non-interest-bearing debt certificate							Claims on Federal Government in respect of acquisition of claims				
		to			of which		Equalisation claims										
Advances against securities	Total	Federal Government and Federal special funds	Länder Governments	Total	Medium-term notes	Total	Equalisation claims from conversion of own balance sheet 3	Equalisation claims purchased	less equalisation claims returned in exchange for money market paper	Total	Debt certificate	Credits to Federal Govt. for participation in international institutions	resulting from post-war economic aid	from BIS	Other assets	Total	Date of return
																	1970
3,717	1,270	1,252	18	1,034	—	6,637	8,136	—	2,046	6,090	547	1,172	691	31	712	59,903	Jan. 7
3,101	1,188	1,188	—	1,034	—	6,720	8,136	—	1,963	6,173	547	1,172	691	31	742	58,812	15
2,157	41	41	—	1,029	—	7,049	8,136	—	1,634	6,502	547	1,172	691	31	1,121	59,137	23
1,543	1,675	1,655	20	1,029	—	7,093	8,136	—	1,590	6,546	547	1,172	691	31	792	59,706	31
2,231	1,142	1,142	—	1,056	136	7,032	8,136	—	1,651	6,485	547	1,172	691	31	544	60,317	Feb. 7
666	1,645	1,645	—	1,084	165	7,060	8,136	—	1,623	6,513	547	1,172	691	31	546	59,374	15
267	200	200	—	1,103	184	7,075	8,136	—	1,608	6,528	547	1,172	691	31	792	57,866	23
319	2,029	2,029	—	1,103	184	7,083	8,136	—	1,600	6,536	547	1,172	691	31	895	59,105	28
2,733	1,351	1,351	—	1,105	194	7,267	8,136	—	1,416	6,720	547	1,172	691	31	671	62,894	Mar. 7
2,394	866	866	—	1,143	231	7,152	8,136	—	1,531	6,605	547	1,172	691	31	437	61,229	15
2,920	28	28	—	1,150	240	7,143	8,136	—	1,540	6,596	547	1,172	691	31	348	60,591	23
2,681	129	92	37	1,148	240	7,264	8,136	—	1,419	6,717	547	1,172	691	31	1,133	61,912	31
3,651	—	—	—	1,143	240	7,273	8,136	—	1,410	6,726	547	1,200	691	—	547	62,358	Apr. 7
2,108	—	—	—	1,119	230	7,244	8,136	—	1,439	6,697	547	1,200	691	—	536	60,817	15
2,434	95	—	95	1,116	230	7,229	8,136	—	1,454	6,682	547	1,200	691	—	795	61,759	23
2,386	289	113	176	1,114	230	7,225	8,136	—	1,458	6,678	547	1,200	732	—	1,117	61,954	30
3,118	124	—	124	1,112	230	7,236	8,136	—	1,447	6,689	547	1,200	732	—	993	62,987	May 7
893	—	—	—	1,113	231	7,235	8,136	—	1,448	6,688	547	1,219	732	—	829	61,562	15
180	38	—	38	1,189	307	7,249	8,136	—	1,434	6,702	547	1,361	732	—	624	60,909	23
611	443	255	188	1,193	311	7,080	8,136	—	1,603	6,533	547	1,361	732	—	1,321	62,227	31
826	190	—	190	1,174	293	6,955	8,136	—	1,728	6,408	547	1,416	732	—	974	62,671	June 7
70	30	—	30	1,182	303	6,953	8,136	—	1,730	6,406	547	1,416	732	—	699	63,622	15
890	53	—	53	1,180	303	6,953	8,136	—	1,730	6,406	547	1,435	732	—	858	63,889	23
818	230	120	110	1,218	341	6,982	8,136	—	1,701	6,435	547	1,435	732	—	1,899	66,421	30
1,207	262	60	202	1,265	393	7,053	8,136	—	1,630	6,506	547	1,435	732	—	857	68,286	July 7
100	165	100	65	1,249	393	7,147	8,136	—	1,536	6,600	547	1,435	387	—	1,107	66,670	15
680	77	77	—	1,230	393	7,131	8,136	—	1,552	6,584	547	2,143	387	—	1,170	67,388	23
197	1,690	1,260	430	1,239	412	6,802	8,136	—	1,881	6,255	547	2,231	387	—	1,303	69,875	31
134	1,570	1,117	453	1,110	391	6,258	8,136	—	2,425	5,711	547	2,276	387	—	809	69,223	Aug. 7
107	644	469	175	1,087	391	5,931	8,136	—	2,752	5,384	547	2,294	387	—	936	67,314	15
136	21	—	21	1,047	391	5,809	8,136	—	2,874	5,262	547	2,439	387	—	824	66,382	23
1,076	1,088	819	269	1,028	390	5,753	8,136	—	2,930	5,206	547	2,459	387	—	1,162	69,559	31
2,009	1,089	834	255	1,021	389	5,425	8,136	—	3,258	4,878	547	2,457	387	—	756	71,080	Sep. 7
2,608	49	—	49	1,018	388	5,479	8,136	—	3,204	4,932	547	2,526	387	—	953	72,130	15
2,947	—	—	—	1,017	388	5,477	8,136	—	3,206	4,930	547	2,552	387	—	1,095	74,641	23
1,168	19	—	19	998	388	5,612	8,136	—	3,071	5,065	547	2,552	387	—	1,546	74,188	30
1,344	22	—	22	915	307	5,293	8,136	—	3,390	4,746	547	2,588	387	—	1,402	73,938	Oct. 7
183	2	—	2	933	325	5,224	8,136	—	3,459	4,677	547	2,588	387	—	1,640	74,477	15
101	37	—	37	930	325	4,120	8,136	—	4,563	3,573	547	2,588	387	—	1,679	71,944	23
615	344	174	170	929	325	3,190	8,136	—	5,493	2,643	547	2,586	387	—	1,651	70,757	31
291	644	476	168	929	328	2,922	8,136	—	5,761	2,375	547	2,586	387	—	1,182	71,127	Nov. 7
52	603	549	54	933	334	2,845	8,136	—	5,838	2,298	547	2,704	387	—	1,352	71,243	15
2,340	—	—	—	931	334	2,944	8,136	—	5,739	2,397	547	2,759	387	—	1,100	74,800	23
231	1,959	1,829	130	930	334	2,625	8,136	—	6,058	2,078	547	2,839	387	—	1,960	77,340	30
790	2,408	2,279	129	795	203	2,275	8,136	—	6,408	1,728	547	2,894	387	—	857	76,637	Dec. 7
757	1,614	1,614	—	793	203	2,034	8,136	—	6,649	1,487	547	2,912	387	—	1,490	76,261	15
4,824	302	209	93	791	203	1,647	8,136	—	7,036	1,100	547	3,012	387	—	1,607	79,328	23
1,682	2,434	2,123	311	760	189	1,151	8,136	—	7,532	604	547	—	387	—	1,655	77,358	31

Berlin pre-capitulation accounts (Supplementary Conversion Law) and from conversion of pre-currency-reform accounts with banks in the Soviet Sector of Berlin (Second Supplementary Conversion Law).

Returns of the Deutsche Bundesbank (cont'd)

Millions of Deutsche Mark

Date of return	Liabilities: Bank notes in circulation	Deposits: Total	of: Banks	Public depositors: Total	Federal Government	Federal special funds	Länder Governments	Other public depositors	Other German depositors	Special deposits: Total	Anticyclical reserves 1: Total	of Federal Government	of Länder Governments
1970 Jan. 7	33,015	23,350	20,139	2,859	14	654	2,157	34	352	—	—	—	—
15	32,415	22,881	18,767	3,809	20	720	3,032	37	305	—	—	—	—
23	30,806	24,771	17,626	6,855	600	1,736	4,474	45	290	—	—	—	—
31	33,831	22,421	17,394	4,737	40	1,183	3,475	39	290	—	—	—	—
Feb. 7	32,470	24,318	20,106	3,913	23	914	2,949	27	299	—	—	—	—
15	32,134	23,744	18,743	4,700	12	1,120	3,533	35	301	—	—	—	—
23	30,604	23,730	16,929	6,496	15	2,020	4,421	40	305	—	—	—	—
28	34,420	21,131	15,512	5,332	56	1,550	3,693	33	287	—	—	—	—
Mar. 7	33,272	25,791	21,012	4,490	25	1,315	3,122	28	289	—	—	—	—
15	32,928	24,643	19,295	5,054	23	517	4,486	28	294	—	—	—	—
23	31,277	25,685	16,669	8,724	2,030	1,183	5,462	49	292	—	1,186	750	436
31	34,567	23,683	15,950	7,386	1,513	1,717	4,108	48	347	—	1,804	750	1,054
Apr. 7	32,385	26,315	19,103	6,912	2,221	1,004	3,659	28	300	—	1,828	750	1,078
15	32,161	24,980	17,905	6,787	1,957	860	3,940	30	288	—	1,828	750	1,078
23	30,812	27,214	17,657	9,262	3,359	1,551	4,321	31	295	—	1,828	750	1,078
30	35,186	22,669	17,125	5,245	1,762	1,305	2,139	39	299	—	1,828	750	1,078
May 7	33,704	25,063	19,866	4,879	2,163	1,049	1,641	26	318	—	1,828	750	1,078
15	33,497	23,747	18,542	4,913	1,535	1,106	2,213	59	292	—	1,828	750	1,078
23	31,756	24,746	17,288	7,152	2,144	1,643	3,324	41	306	—	1,828	750	1,078
31	35,554	22,299	16,916	5,058	773	1,528	2,725	32	325	—	1,828	750	1,078
June 7	34,182	24,096	19,871	3,926	899	655	2,347	25	299	—	1,828	750	1,078
15	33,336	25,675	18,803	6,541	1,837	855	3,803	46	331	—	1,828	750	1,078
23	31,493	27,961	17,608	10,050	4,498	1,060	4,439	53	303	—	2,578	1,500	1,078
30	35,335	26,434	18,471	7,620	2,514	1,598	3,439	69	343	—	2,937	1,500	1,437
July 7	34,106	29,506	23,544	5,655	1,921	887	2,813	34	307	—	2,937	1,500	1,437
15	34,190	27,582	21,462	5,811	1,516	953	3,309	33	309	—	2,937	1,500	1,437
23	33,163	29,331	20,508	8,537	3,029	1,357	4,105	46	286	—	2,937	1,500	1,437
31	36,767	28,212	21,889	6,026	1,553	1,774	2,662	37	297	—	2,937	1,500	1,437
Aug. 7	35,068	29,231	23,674	5,281	1,513	1,452	2,292	24	276	—	2,937	1,500	1,437
15	34,749	24,643	21,702	2,650	15	1,224	1,375	36	291	2,938	2,937	1,500	1,437
23	33,262	25,114	20,474	4,294	1,265	873	2,124	32	346	2,949	2,937	1,500	1,437
31	36,165	25,367	21,941	3,135	33	1,667	1,393	42	291	2,961	2,937	1,500	1,437
Sep. 7	34,885	28,155	25,467	2,413	12	1,014	1,339	48	275	2,972	2,937	1,500	1,437
15	34,054	29,805	24,921	4,562	21	1,276	3,240	25	322	3,095	2,937	1,500	1,437
23	32,189	33,712	24,368	9,049	3,474	1,440	4,093	42	295	3,523	2,937	1,500	1,437
30	35,790	29,337	22,912	6,078	1,085	2,502	2,455	36	347	3,634	2,937	1,500	1,437
Oct. 7	34,322	30,508	26,000	4,198	619	1,482	2,067	30	310	3,687	2,937	1,500	1,437
15	34,053	31,117	26,079	4,708	735	1,243	2,707	23	330	3,773	2,937	1,500	1,437
23	32,393	30,109	22,769	7,022	2,067	1,792	3,131	32	318	3,926	2,937	1,500	1,437
31	35,832	25,471	21,728	3,397	38	1,550	1,777	32	346	3,978	2,937	1,500	1,437
Nov. 7	34,261	27,332	24,655	2,362	13	1,156	1,166	27	315	4,001	2,937	1,500	1,437
15	34,160	27,456	24,487	2,662	20	1,178	1,437	27	307	4,066	2,937	1,500	1,437
23	32,395	32,643	27,406	4,914	824	1,417	2,629	44	323	4,206	2,937	1,500	1,437
30	37,106	30,287	26,105	3,847	45	2,260	1,504	38	335	4,277	2,937	1,500	1,437
Dec. 7	36,838	29,680	26,982	2,373	19	1,336	992	26	325	4,557	2,937	1,500	1,437
15	36,049	29,802	26,052	3,425	81	952	2,357	35	325	4,728	2,937	1,500	1,437
23	35,820	32,562	25,866	6,301	69	4,061	2,113	58	395	5,245	2,937	1,500	1,437
31	36,480	29,617	26,231	2,986	32	1,869	1,030	55	400	5,382	2,937	1,500	1,437

1 Between March 15 and August 7, 1970 shown as footnote to deposits of Federal and Länder Governments.

Anti-cyclical surcharge on income taxes	Other (Federal education loan)	Liabilities in respect of foreign business: Total	Deposits of foreign depositors	Other: Total	of which Provision of cover for letters of credit and guarantees by non-residents	residents	Contra-entry to special drawing rights allocated	Provisions	Capital	Reserves	Other liabilities	Total	Date of return
—	—	421	376	45	2	12	738	1,170	290	860	59	59,903	1970 Jan. 7
—	—	385	355	30	2	7	738	1,170	290	860	73	58,812	15
—	—	417	361	56	2	16	738	1,170	290	860	85	59,137	23
—	—	353	315	38	2	12	738	1,170	290	860	43	59,706	31
—	—	370	325	45	2	11	738	1,170	290	860	101	60,317	Feb. 7
—	—	356	304	52	2	10	738	1,170	290	860	82	59,374	15
—	—	361	294	67	1	15	738	1,170	290	860	113	57,866	23
—	—	365	326	39	1	14	738	1,170	290	860	131	59,105	28
—	—	588	532	56	1	12	738	1,170	290	860	185	62,894	Mar. 7
—	—	420	383	37	1	12	738	1,170	290	860	180	61,229	15
—	—	377	334	43	1	14	738	1,170	290	860	194	60,591	23
—	—	388	328	60	1	15	738	1,170	290	860	216	61,912	31
—	—	353	307	46	1	11	738	1,170	290	860	247	62,358	Apr. 7
—	—	322	290	32	1	7	738	1,170	290	860	296	60,817	15
—	—	377	306	71	2	16	738	1,170	290	860	298	61,759	23
—	—	317	280	37	2	12	738	1,170	290	860	724	61,954	30
—	—	411	340	71	2	12	738	1,170	290	860	751	62,987	May 7
—	—	475	441	34	2	6	738	1,170	290	860	785	61,562	15
—	—	502	462	40	2	11	738	1,170	290	860	847	60,909	23
—	—	414	365	49	2	14	738	1,170	290	860	902	62,227	31
—	—	419	358	61	3	11	738	1,170	290	860	916	62,671	June 7
—	—	419	347	72	3	10	738	1,170	290	860	1,134	63,622	15
—	—	339	299	40	3	10	738	1,170	290	860	1,038	63,889	23
—	—	401	338	63	4	13	738	1,170	290	860	1,193	66,421	30
—	—	363	316	47	4	10	738	1,170	290	860	1,253	68,286	July 7
—	—	517	439	78	4	4	738	1,170	290	860	1,323	66,670	15
—	—	485	400	85	4	14	738	1,170	290	860	1,351	67,388	23
—	—	448	400	48	3	13	738	1,170	290	860	1,390	69,875	31
—	—	475	437	38	3	6	738	1,170	290	860	1,391	69,223	Aug. 7
1	—	508	460	48	3	5	738	1,170	290	860	1,418	67,314	15
12	—	533	471	62	3	13	738	1,170	290	860	1,466	66,382	23
24	—	441	389	52	4	13	738	1,170	290	860	1,567	69,559	31
35	—	492	413	79	4	12	738	1,170	290	860	1,518	71,080	Sep. 7
158	—	469	382	87	4	5	738	1,170	290	860	1,649	72,130	15
586	—	417	373	44	4	12	738	1,170	290	860	1,742	74,641	23
697	—	503	443	60	3	13	738	1,170	290	860	1,866	74,188	30
750	—	423	377	46	3	9	738	1,170	290	860	1,940	73,938	Oct. 7
836	—	466	379	87	3	6	738	1,170	290	860	2,010	74,477	15
989	—	431	381	50	3	15	738	1,170	290	860	2,027	71,944	23
1,041	—	445	390	55	3	12	738	1,170	290	860	1,973	70,757	31
1,064	—	473	400	73	3	9	738	1,170	290	860	2,002	71,127	Nov. 7
1,129	—	500	431	69	3	4	738	1,170	290	860	2,003	71,243	15
1,269	—	423	383	40	3	11	738	1,170	290	860	2,075	74,800	23
1,340	—	531	485	46	3	11	738	1,170	290	860	2,081	77,340	30
1,369	251	470	400	70	3	8	738	1,170	290	860	2,034	76,637	Dec. 7
1,539	252	555	508	47	2	1	738	1,170	290	860	2,069	76,261	15
2,054	254	540	433	107	2	14	738	1,170	290	860	2,103	79,328	23
2,189	256	380	343	37	1	15	738	1,170	290	860	2,441	77,358	31

Turnover on the giro accounts of the Deutsche Bundesbank

Area	Debits				Credits			
	1969		1970		1969		1970	
	'000 1	DM million	'000 1	DM million	'000 1	DM million	'000 1	DM million
Land Central Bank								
Baden-Württemberg	31,369	392,751	35,477	478,694	37,266	392,903	42,600	480,277
Bavaria	42,361	436,353	46,783	540,075	37,536	436,590	42,069	542,329
Berlin	2,986	81,313	3,298	96,382	3,134	81,357	3,337	96,679
Bremen	4,675	50,103	5,093	61,622	5,696	50,050	5,927	61,885
Hamburg	9,276	402,885	10,105	490,483	15,322	402,912	17,695	491,237
Hesse	27,476	754,295	30,246	883,910	27,021	753,789	29,545	885,799
Lower Saxony	24,476	210,175	27,060	253,561	24,131	210,040	26,607	254,613
North Rhine-Westphalia	68,709	1,200,742	74,830	1,484,619	71,149	1,200,906	78,487	1,487,217
Rhineland-Palatinate	13,086	143,322	14,225	157,696	15,174	143,306	17,475	158,222
Saarland	2,881	31,022	3,254	38,431	2,633	30,987	2,986	38,651
Schleswig-Holstein	6,807	59,803	7,526	68,501	5,942	59,849	6,600	68,798
Total	234,102	3,762,764	257,897	4,553,974	245,004	3,762,689	273,328	4,565,707
Bundesbank — Directorate —	520	372,416	542	406,069	522	371,923	530	408,040
Grand total	234,622	4,135,180	258,439	4,960,043	245,526	4,134,612	273,858	4,973,747

1 Number of transactions

Simplified collection of cheques and debit transfer orders

Area	Lodged				Paid			
	1969		1970		1969		1970	
	'000	DM million	'000	DM million	'000	DM million	'000	DM million
Land Central Bank								
Baden-Württemberg	24,115	55,188	28,438	71,296	21,933	55,679	25,168	69,033
Bavaria	24,750	52,411	28,241	62,335	22,958	55,075	26,000	68,987
Berlin	2,175	7,746	2,379	9,364	1,867	6,374	2,116	8,169
Bremen	4,253	7,197	4,387	9,265	3,051	7,391	3,280	8,173
Hamburg	10,347	25,641	12,526	31,714	5,066	21,404	5,612	26,106
Hesse	18,773	49,905	20,716	59,530	20,238	54,727	22,763	66,018
Lower Saxony	16,476	35,201	18,308	41,386	18,094	36,446	20,159	44,352
North Rhine-Westphalia	48,668	133,043	54,440	159,764	48,273	127,272	52,873	153,014
Rhineland-Palatinate	9,826	20,122	11,777	25,329	8,599	20,313	9,546	25,414
Saarland	1,611	3,940	1,824	5,133	1,810	4,040	2,093	5,009
Schleswig-Holstein	3,346	6,725	3,830	7,641	4,496	7,733	5,055	9,407
Total	164,340	397,119	186,866	482,757	156,385	396,454	174,665	483,682
Bundesbank — Directorate —	17	81	18	63	7	31	8	28
Grand total	164,357	397,200	186,884	482,820	156,392	396,485	174,673	483,710

Telegraphic giro transactions

telegraphic giro transfers dispatched

Area	1969		1970	
	'000	DM million	'000	DM million
Land Central Bank				
Baden-Württemberg	38	70,868	45	87,184
Bavaria	38	74,404	45	98,504
Berlin	5	22,302	5	24,479
Bremen	4	6,325	4	8,178
Hamburg	16	46,271	18	56,012
Hesse	41	156,816	49	200,798
Lower Saxony	22	38,730	25	47,433
North Rhine-Westphalia	67	209,474	76	271,683
Rhineland-Palatinate	13	29,191	14	30,358
Saarland	3	4,921	3	6,112
Schleswig-Holstein	6	10,763	7	11,609
Total	253	670,065	291	842,350
Bundesbank — Directorate —	7	5,235	8	6,188
Grand total	260	675,300	299	848,538

Certified cheques

Land Central Bank	1969		1970	
	Number	DM million	Number	DM million
Baden-Württemberg	1,883	3,114	1,851	3,661
Bavaria	997	1,492	897	1,718
Berlin	63	5	61	14
Bremen	57	2	38	1
Hamburg	222	41	193	166
Hesse	1,612	1,998	1,573	2,291
Lower Saxony	498	206	399	15
North Rhine-Westphalia	8,347	19,987	8,674	20,297
Rhineland-Palatinate	352	201	302	312
Saarland	6	—	6	—
Schleswig-Holstein	143	105	222	172
Total	14,180	27,151	14,216	28,647

Turnover in clearing transactions

Land Central Bank	1969						1970					
	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	27,116	83,096	12,455	23,517	39,571	106,613	31,094	102,833	14,699	30,173	45,793	133,006
Bavaria	28,252	87,641	19,517	25,147	47,769	112,788	32,538	108,337	22,210	32,692	54,748	141,029
Berlin	6,259	19,579	6,951	29,838	13,210	49,417	7,175	23,295	8,651	36,849	15,826	60,144
Bremen	4,951	13,461	6,234	11,913	11,185	25,374	5,737	15,805	6,971	13,351	12,708	29,156
Hamburg 1	11,652	38,298	36,352	357,817	48,004	396,115	13,835	45,035	40,141	485,062	53,976	530,097
Hesse	24,182	407,235	11,947	1,336,776	36,129	1,744,011	27,245	600,826	14,751	1,723,365	41,996	2,324,191
Lower Saxony	16,130	38,575	10,197	18,264	26,327	56,839	17,892	48,332	11,483	22,441	29,375	70,773
North Rhine-Westphalia	59,513	170,335	27,678	198,223	87,191	368,558	65,823	208,477	32,868	286,763	98,691	495,240
Rhineland-Palatinate	8,384	20,814	4,441	6,768	12,825	27,582	9,448	25,216	5,484	8,183	14,932	33,399
Saarland	2,313	6,613	2,229	8,811	4,542	15,424	2,543	8,294	2,737	11,201	5,280	19,495
Schleswig-Holstein	6,017	11,086	7,981	8,828	13,998	19,914	6,841	13,600	8,907	10,428	15,748	24,028
Total	194,769	896,733	145,982	2,025,902	340,751	2,922,635	220,171	1,200,050	168,902	2,660,508	389,073	3,860,558

1 The Hamburg clearing transactions, to which special arrangements apply, include: 1970: 1,667,000 intercity transfers worth DM 4,628 million (1969: 1,624,000 worth DM 5,340 million)

Bank note circulation

Position at end of year

Denomination in DM	1967		1968		1969		1970	
	DM million	%	DM million	%	DM million	%	DM million	%
1,000	1,418.43	4.49	1,773.73	5.46	1,949.00	5.63	2,194.65	6,01
500	1,250.07	3.96	1,452.24	4.47	1,670.64	4.83	1,929.58	5.29
100	16,407.94	51.96	16,897.53	51.99	18,162.43	52.47	19,366.67	53.09
50	8,063.18	25.54	7,917.25	24.36	8,166.20	23.59	8,212.35	22.51
20	2,671.33	8.46	2,662.04	8.19	2,773.66	8.01	2,836.96	7.78
10	1,540.00	4.88	1,582.92	4.87	1,677.38	4.84	1,727.76	4.74
5	223.28	0.71	213.27	0.66	217.24	0.63	211.72	0.58
Total	31,574.23	100.00	32,498.98	100.00	34,616.55	100.00	36,479.69	100.00

Coin in circulation

Position at end of year

Denomination in DM	1967		1968		1969		1970	
	DM million	%	DM million	%	DM million	%	DM million	%
10.—							96.75	3.22
5.—	722.04	32.02	806.84	33.02	885.81	33.33	998.21	33.18
2.—	359.28	15.93	389.17	15.93	422.56	15.90	457.10	15.19
1.—	584.92	25.94	617.64	25.27	668.07	25.14	717.11	23.83
—.50	266.41	11.81	285.07	11.67	309.42	11.64	337.78	11.23
—.10	200.64	8.90	213.20	8.72	229.77	8.64	249.22	8.28
—.05	64.55	2.86	69.34	2.84	74.63	2.81	79.81	2.65
—.02	19.58	0.87	22.27	0.91	25.31	0.95	27.87	0.93
—.01	37.63	1.67	40.12	1.64	42.30	1.59	44.86	1.49
Total	2,255.05	100.00	2,443.65	100.00	2,657.87	100.00	3.008.71	100.00

Branch Establishments of the Deutsche Bundesbank

Serial number	Bank place	Appropriate Main Branch	Land Central Bank[1]
390	5100 Aachen	Aachen	NW
614	7080 Aalen	Ulm	BW
253	3220 Alfeld	Hildesheim	N
456	5990 Altena	Hagen	NW
752	8450 Amberg	Regensburg	BY
574	5470 Andernach ranks as part of bank place Neuwied	Koblenz	R
765	8800 Ansbach	Nürnberg	BY
464	5770 Arnsberg	Lippstadt	NW
795	8750 Aschaffenburg	Würzburg	BY
720	8900 Augsburg	Augsburg	BY
662	7570 Baden-Baden	Karlsruhe	BW
532	6430 Bad Hersfeld	Fulda	H
560	6550 Bad Kreuznach	Mainz	R
710	8230 Bad Reichenhall	München	BY
770	8600 Bamberg	Nürnberg	BY
773	8580 Bayreuth	Hof	BY
412	4720 Beckum	Hamm	NW
509	6140 Bensheim	Darmstadt	H
100	1000 Berlin (West)	Berlin	B
573	5240 Betzdorf	Koblenz	R
654	7950 Biberach	Ulm	BW
480	4800 Bielefeld	Bielefeld	NW
552	6530 Bingen	Mainz	R
586	5520 Bitburg	Trier	R
428	4290 Bocholt	Münster	NW
430	4630 Bochum	Bochum	NW
603	7030 Böblingen ranks as part of bank place Sindelfingen	Stuttgart	BW
380	5300 Bonn	Bonn	NW
270	3300 Braunschweig	Braunschweig	N
290	2800 Bremen	Bremen	HB
292	2850 Bremerhaven	Bremen	HB
663	7520 Bruchsal	Karlsruhe	BW
492	4980 Bünde	Minden	NW
257	3100 Celle	Hannover	N
783	8630 Coburg	Hof	BY
241	2190 Cuxhaven	Lüneburg	N
508	6100 Darmstadt	Darmstadt	H
741	8360 Deggendorf	Regensburg	BY
476	4930 Detmold	Bielefeld	NW
516	6340 Dillenburg	Giessen	H
440	4600 Dortmund	Dortmund	NW
395	5160 Düren	Aachen	NW
300	4000 Düsseldorf	Düsseldorf	NW
350	4100 Duisburg	Duisburg	NW
352	4100 Duisburg-Hamborn	Duisburg	NW
653	7470 Ebingen	Reutlingen	BW
221	2200 Elsmhorn	Lübeck	SH
284	2970 Emden	Oldenburg	N
358	4240 Emmrich	Duisburg	NW
763	8520 Erlangen	Nürnberg	BY
522	3440 Eschwege	Kassel	H
360	4300 Essen	Essen	NW
611	7300 Esslingen	Stuttgart	BW
382	5350 Euskirchen	Bonn	NW
215	2390 Flensburg	Flensburg	SH
500	6000 Frankfurt	Frankfurt	H
680	7800 Freiburg	Freiburg	BW
518	6360 Friedberg	Giessen	H
651	7990 Friedrichshafen	Konstanz	BW
762	8510 Fürth	Nürnberg	BY
530	6400 Fulda	Fulda	H
703	8100 Garmisch-Partenkirchen	München	BY
507	6460 Gelnhausen	Fulda	H
420	4650 Gelsenkirchen	Gelsenkirchen	NW
422	4660 Gelsenkirchen-Buer	Gelsenkirchen	NW
454	5820 Gevelsberg	Hagen	NW
513	6300 Giessen	Giessen	H
424	4390 Gladbeck	Gelsenkirchen	NW
322	4180 Goch	Krefeld	NW
610	7320 Göppingen	Ulm	BW
260	3400 Göttingen	Göttingen	N
268	3380 Goslar	Braunschweig	N
478	4830 Gütersloh	Bielefeld	NW
384	5270 Gummersbach	Bonn	NW
450	5800 Hagen	Hagen	NW
200	2000 Hamburg	Hamburg	HH
206	2000 Hamburg-Altona	Hamburg	HH
207	2100 Hamburg-Harburg	Hamburg	HH
254	3250 Hameln	Hannover	N
410	4700 Hamm	Hamm	NW
506	6450 Hanau	Frankfurt	H
250	3000 Hannover	Hannover	N
218	2240 Heide	Flensburg	SH
672	6900 Heidelberg	Mannheim	BW
632	7920 Heidenheim	Ulm	BW
620	7100 Heilbronn	Heilbronn	BW
271	3330 Helmstedt	Braunschweig	N
494	4900 Herford	Bielefeld	NW
432	4690 Herne	Bochum	NW
303	4010 Hilden	Düsseldorf	NW
259	3200 Hildesheim	Hildesheim	N
572	5410 Höhr-Grenzhausen	Koblenz	R
780	8670 Hof	Hof	BY
272	3450 Holzminden	Göttingen	N
217	2250 Husum	Flensburg	SH
562	6580 Idar-Oberstein	Mainz	R
721	8070 Ingolstadt	München	BY
445	5860 Iserlohn	Dortmund	NW
222	2210 Itzehoe	Kiel	SH
397	5170 Jülich	Aachen	NW
540	6750 Kaiserslautern	Kaiserslautern	R
660	7500 Karlsruhe	Karlsruhe	BW
520	3500 Kassel	Kassel	H
734	8950 Kaufbeuren	Augsburg	BY
733	8960 Kempten	Augsburg	BY
210	2300 Kiel	Kiel	SH
791	8710 Kitzingen	Würzburg	BY
324	4190 Kleve	Krefeld	NW
570	5400 Koblenz	Koblenz	R
370	5000 Köln	Köln	NW
373	5000 Köln-Mühlheim	Köln	NW
690	7750 Konstanz	Konstanz	BW
523	3540 Korbach	Kassel	H
320	4150 Krefeld	Krefeld	NW
771	8650 Kulmbach	Hof	BY
682	7630 Lahr	Freiburg	BW
548	6740 Landau	Ludwigshafen	R
743	8300 Landshut	Regensburg	BY
519	6420 Lauterbach	Fulda	H

Serial number	Bank place	Appropriate Main Branch	Land Central Bank [1]
285	2950 Leer	Oldenburg	N
482	4920 Lemgo	Bielefeld	NW
511	6250 Limburg	Wiesbaden	H
735	8990 Lindau	Augsburg	BY
266	4450 Lingen	Osnabrück	N
416	4780 Lippstadt	Lippstadt	NW
683	7850 Lörrach	Freiburg	BW
604	7140 Ludwigsburg	Heilbronn	BW
545	6700 Ludwigshafen	Ludwigshafen	R
230	2400 Lübeck	Lübeck	SH
458	5880 Lüdenscheid	Hagen	NW
240	3140 Lüneburg	Lüneburg	N
550	6500 Mainz	Mainz	R
670	6800 Mannheim	Mannheim	BW
533	3550 Marburg	Giessen	H
781	8590 Marktredwitz	Hof	BY
576	5440 Mayen	Koblenz	R
731	8940 Memmingen	Augsburg	BY
447	5750 Menden	Dortmund	NW
796	8760 Miltenberg	Würzburg	BY
490	4950 Minden	Minden	NW
310	4050 Mönchen-gladbach	Mönchen-gladbach	NW
354	4130 Moers	Duisburg	NW
674	6950 Mosbach	Heilbronn	BW
362	4330 Mülheim	Essen	NW
700	8000 München	München	BY
400	4400 Münster	Münster	NW
466	5760 Neheim-Hüsten	Lippstadt	NW
212	2350 Neumünster	Kiel	SH
592	6680 Neunkirchen	Saarbrücken	S
305	4040 Neuss	Köln	NW
213	2430 Neustadt in Holstein	Lübeck	SH
546	6730 Neustadt an der Weinstrasse	Ludwigshafen	R
630	7910 Neu-Ulm [2] ranks as part of bank place Ulm	Ulm	BW
574	5450 Neuwied	Koblenz	R
256	3070 Nienburg	Hannover	N
722	8860 Nördlingen	Augsburg	BY
283	2980 Norden	Oldenburg	N
267	4460 Nordhorn	Osnabrück	N
262	3410 Northeim	Göttingen	N
760	8500 Nürnberg	Nürnberg	BY
612	7440 Nürtingen	Reutlingen	BW
365	4200 Oberhausen	Essen	NW
505	6050 Offenbach	Frankfurt	H
664	7600 Offenburg	Karlsruhe	BW
280	2900 Oldenburg	Oldenburg	N
462	5960 Olpe	Siegen	NW
375	5670 Opladen	Remscheid	NW
265	4500 Osnabrück	Osnabrück	N
263	3360 Osterode	Göttingen	N
472	4790 Paderborn	Lippstadt	NW
740	8390 Passau	Regensburg	BY
252	3150 Peine	Hildesheim	N
666	7530 Pforzheim	Stuttgart	BW
542	6780 Pirmasens	Kaiserslautern	R
665	7550 Rastatt	Karlsruhe	BW
650	7980 Ravensburg	Konstanz	BW
426	4350 Recklinghausen	Gelsenkirchen	NW

Serial number	Bank place	Approriate Main Branch	Land Central Bank [1]
750	8400 Regensburg	Regensburg	BY
577	5480 Remagen	Koblenz	R
340	5630 Remscheid	Remscheid	NW
214	2370 Rendsburg	Kiel	SH
640	7410 Reutlingen	Reutlingen	BW
403	4440 Rheine	Münster	NW
312	4070 Rheydt	Mönchen-gladbach	NW
711	8200 Rosenheim	München	BY
642	7210 Rottweil	Reutlingen	BW
590	6600 Saarbrücken	Saarbrücken	S
593	6630 Saarlouis	Saarbrücken	S
684	7880 Säckingen	Freiburg	BW
594	6670 St. Ingbert	Saarbrücken	S
216	2380 Schleswig	Flensburg	SH
764	8540 Schwabach	Nürnberg	BY
613	7070 Schwäbisch Gmünd	Stuttgart	BW
622	7170 Schwäbisch Hall	Heilbronn	BW
793	8720 Schweinfurt	Würzburg	BY
694	7220 Schwenningen ranks as part of bank place Villingen	Freiburg	BW
386	5200 Siegburg	Bonn	NW
460	5900 Siegen	Siegen	NW
603	7032 Sindelfingen	Stuttgart	BW
692	7700 Singen	Konstanz	BW
414	4770 Soest	Hamm	NW
342	5650 Solingen	Remscheid	NW
547	6720 Speyer	Ludwigshafen	R
255	4960 Stadthagen	Hannover	N
393	5190 Stolberg	Aachen	NW
742	8440 Straubing	Regensburg	BY
600	7000 Stuttgart	Stuttgart	BW
587	5580 Traben-Trarbach	Trier	R
585	5500 Trier	Trier	R
641	7400 Tübingen	Reutlingen	BW
643	7200 Tuttlingen	Konstanz	BW
258	3110 Uelzen	Lüneburg	N
630	7900 Ulm	Ulm	BW
443	4750 Unna	Hamm	NW
334	5620 Velbert	Wuppertal-Elberfeld	NW
314	4060 Viersen	Mönchen-gladbach	NW
694	7730 Villingen	Freiburg	BW
602	7050 Waiblingen	Stuttgart	BW
474	3530 Warburg	Lippstadt	NW
753	8480 Weiden	Regensburg	BY
673	6980 Wertheim	Heilbronn	BW
356	4230 Wesel	Duisburg	NW
515	6330 Wetzlar	Giessen	H
510	6200 Wiesbaden	Wiesbaden	H
282	2940 Wilhelmshaven	Oldenburg	N
452	5810 Witten	Dortmund	NW
553	6520 Worms	Mainz	R
790	8700 Würzburg	Würzburg	BY
332	5600 Wuppertal-Barmen	Wuppertal-Elberfeld	NW
330	5600 Wuppertal-Elberfeld	Wuppertal-Elberfeld	NW
543	6660 Zweibrücken	Kaiserslautern	R

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

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

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