Report of the Deutsche Bundesbank

for the Year 1971

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Dr. Otmar Emminger, Deputy Chairman of the Central Bank Council
Dr. Bernhard Benning
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Prof. Fritz Duppré
Ernst Fessler
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Dr. Rolf Gocht
Werner Gust (from April 21, 1971)
Dr. Heinrich Irmler
Otto Kähler
Werner Lucht
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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, 1972

of the Directorate of the Deutsche Bundesbank

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Dr. Bernhard Benning
Dr. Rolf Gocht
Dr. Heinrich Irmler
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Johannes Tüngeler
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General part

The German original went to press on April 12, 1972

Part A: General part

Economic trends and central bank policy

I. General survey

1. The economy of the Federal Republic of Germany during the period of slower growth

The economic results in the light of the list of macro-economic targets

Out of the four economic targets which the Law on Economic Stability and Growth specifies and which are often described as the "magic quadrangle" of economic policy, only one was fully attained in 1971, namely the target of a "high level of employment". "Sustained and adequate growth of the economy", by contrast, was achieved only during the early months of the year, while from the late spring a period of slower growth ensued. The goal which was least fully reached in the past year was that of "stability of the price level"; on the contrary, the marked upswing of prices in 1970 gained momentum in the year under review. "External equilibrium", which is the fourth and last item on the list of macro-economic targets, while hardly upset any longer (in contrast to the immediately preceding years) in the field of merchandise and service transactions with foreign countries, was still characterised by considerable imbalance in monetary transactions. Net capital imports remained at a very high level and the resultant foreign exchange inflows at times deprived internal stabilisation measures — and also the credit policy pursued by the Deutsche Bundesbank — of any chance of success.

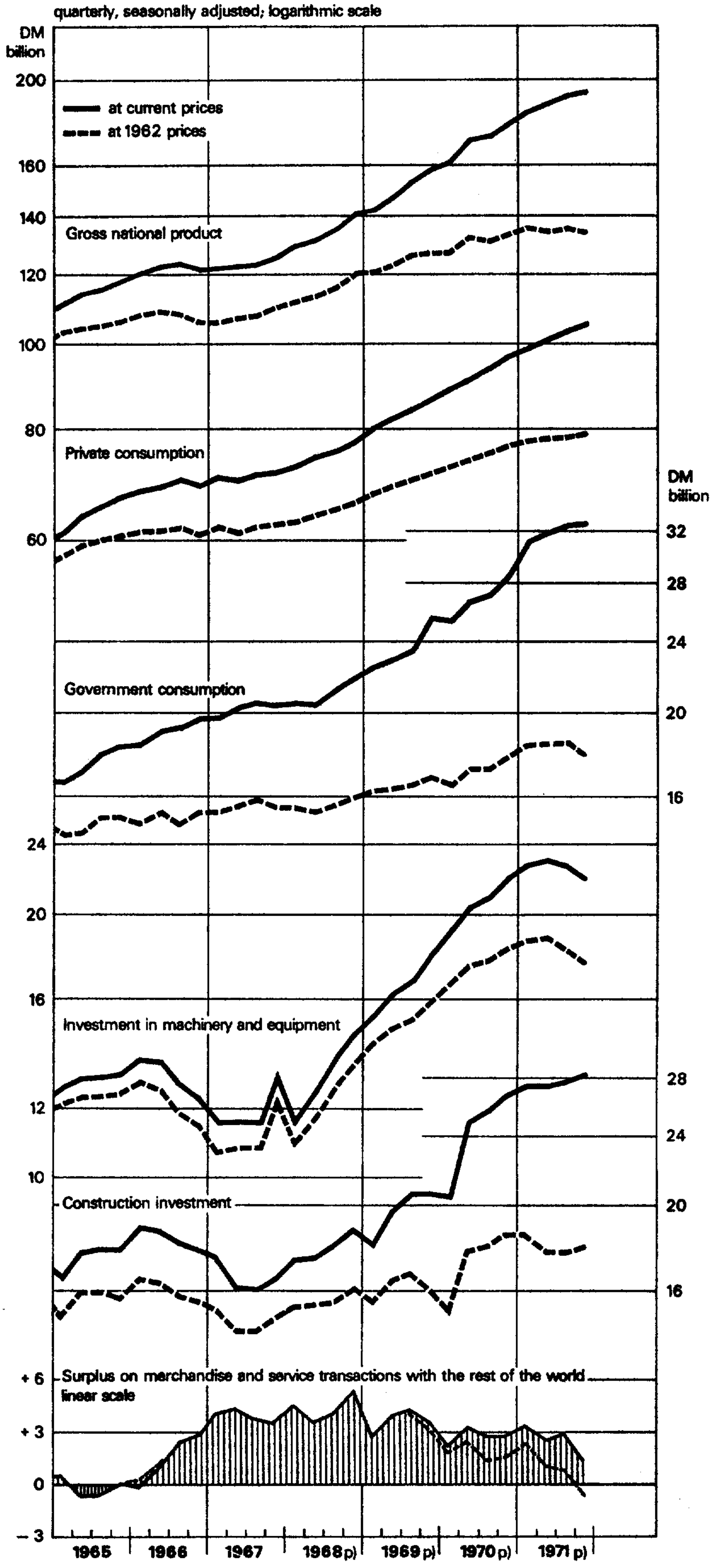
The fact that the main economic targets were in many respects not attained in 1971 can only partly be ascribed to domestic occurrences and to national actions or omissions in the field of economic policy. The failure of efforts in the field of price stabilisation was, incidentally, a sequel to misdirected developments in earlier years. If only by reason of normal time lags, prices reacted but sluggishly to the general relaxation of economic activity. The virulence of the inflation bacillus was also for a large part attributable to the fact that the upswing in prices throughout the western world continued in almost unabated form. The de facto upvaluation of the Deutsche Mark which started when the exchange rates began to float provided a certain amount of protection for the Federal Republic of Germany against immediate infection with price increases from other countries. Among other things, this showed in the fact that from the turn of the year 1971/72 price rises in Germany, which early in 1971 had been even greater than in the other industrial countries where prices sensitive to cyclical fluctuations were concerned, fell noticeably short of growth rates in other countries. In the same way the forced expansion in the preceding years had already laid the foundation for the slowdown in growth which occurred in the spring of 1971. Owing to this interruption of growth Germany has in fact managed to move somewhat closer again to the target of stability, even though it is not likely that this will show more tangibly until 1972; the movement of the economy in the course of the year 1971 can accordingly be judged in a rather more positive sense than by mere technical reference to the list of targets contained in the Law on Economic Stability and Growth.

(a) Stagnation with full employment

Stagnation of the gross national product . . .

Overall production reached a new peak during the first quarter of 1971. In that period the gross national product at constant prices, expressing in the most comprehensive form the value added to the national economy, once again mounted considerably, seasonally adjusted; the corresponding level for the previous year was exceeded by almost 7 %. The fact that at first production grew rather more than in 1970 was due primarily to the mild winter weather and other temporary factors; contrary to the tendencies in the second half of 1970, however, demand on the domestic market likewise rose appreciably in that period. The particularly high production level during the first quarter of 1971 is in fact one of the main reasons why the average real gross national product in 1971 ran nearly 3 % above the average for 1970. In the second quarter of 1971 the level of the first quarter was not fully regained, and from the summer onwards the real national product stagnated; in fact, towards the end of the year it even fell off slightly owing to production losses caused by strikes. Industrial production, which normally shows more marked cyclical fluctuations than production in other economic sectors, declined somewhat between the spring and the end of the year, especially since in November and December the consequences of the metal workers' strike had particularly adverse effects in this field. According to the information on hand as this Report goes to press, the decline in production now appears to have come to

Gross national product



p) Provisional.

National product and production potential between 1965 and 1971					
	Gross national product		Production potential of the economy as a whole 1		Utilisation of production potential 2
	at 1962 prices				
Year	DM billion	Annual change in %	DM billion	Annual change in %	%
1965	419.5	+ 5.6	412	+ 4	102
1966	431.7	+ 2.9	432	+ 4½	100
1967	430.8	— 0.2	451	+ 4½	96
1968	462.3	+ 7.3	469	+ 4	99
1969	499.3	+ 8.0	490	+ 4½	102
1970	527.0	+ 5.5	515	+ 5	102
1971	541.5	+ 2.8	541	+ 5	100

1 On the basis of the average utilisation over several years. — 2 GNP as % of production potential.

an end; in January and February 1972 industrial production, seasonally adjusted, rose and regained the level of the spring of 1971.

... leads to better utilisation of plant ...

The period of stagnation affecting overall production from the middle of 1971 was in part no doubt caused by the fact that demand was diminishing. Generally speaking, however, throughout the year the business community could still fall back on a fairly high order backlog which in itself would have enabled producers to expand output and speed up delivery. The fact that this did not happen and that in some instances production was actually cut back was due — in addition to the general insecurity resulting from the international monetary crisis and the temporary floating of exchange rates, but presumably also inspired by plans regarding new tax burdens and other uncertainties — in the first place to the unsatisfactory earnings situation of enterprises. This forced the firms to cut their costs, which meant above all reducing the hitherto common over-exploitation of capacities (occasionally by bringing into play production capacities from current new investment). Normally, however, the utilisation of capacities declined only to the level of the average degree of exploitation over a number of years, which in many cases no doubt ensures a more favourable relationship between costs and earnings than a higher degree of utilisation.

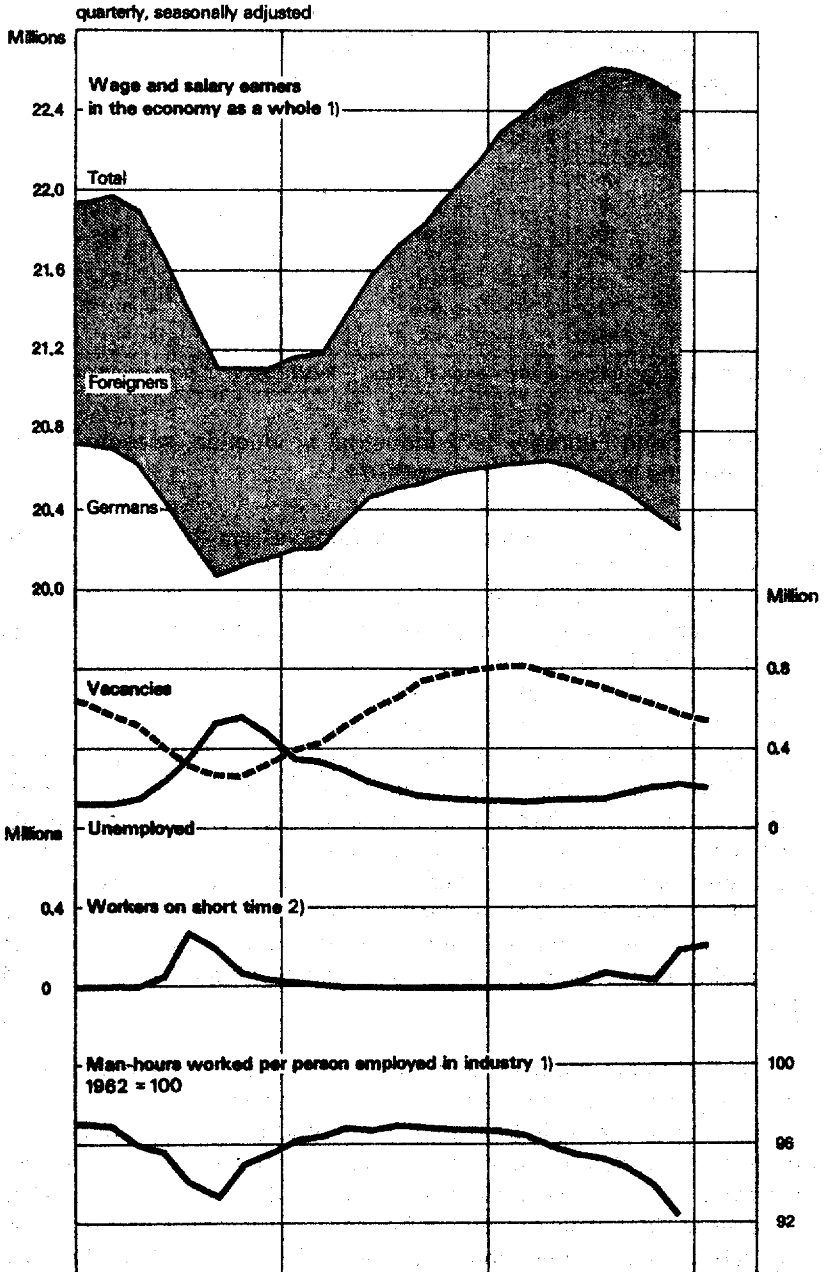
... and of labour potential from the cost angle

Particularly in the employment of labour, rationalisation tendencies made themselves more universally felt. In many instances overtime was reduced to some extent — in industry for example from an average of 4 hours to 3½ hours per week — with proportionate savings in overtime bonuses. Moreover, mobility on the labour market improved. Since industry set workers free, other economic branches — in particular services, including the public service — were now able to meet their demand for labour rather better than had formerly been possible. On an overall view, however, hardly any workers were released except by a natural process of departure. The number of unemployed rose only insignificantly and seasonally adjusted never exceeded the proportion of 1.1 % of all wage and salary earners. Even if this figure were extended to include the number of persons on short-time working, which in mid-February 1972 can be estimated at the equivalent of 55,000 wholly unemployed persons, a seasonally adjusted unemployment ratio of 1.2 % would result for the average of the first quarter of 1972. Thus after three quarters of real stagnation in the West German economy, full employment still persisted.

Structural labour shortage

Even as late as end-1971 and early 1972 the labour market in many respects still presented symptoms of over-full employment. Statistically, for example, this was reflected in the fact that the number of vacancies registered at labour exchanges early in 1972 was some 2.5 % of the number of employed persons. Qualified personnel (including staff for senior positions) continued to be in great demand. Also, the number of foreign workers mounted further in 1971. At the end of March 1972 there were 2.2 million foreign workers in Germany; by now every tenth worker in the country is a foreigner. The proportion is in fact considerably higher in densely populated areas, such as the area around Frankfurt and Offenbach, where every fifth worker comes from abroad. The increase in foreign manpower derives from the

Labour market and working hours in industry



1) Calculated by Bundesbank.- 2) Unadjusted.

current demand for labour – especially for jobs which in an affluent society it is becoming harder and harder to fill – and also reflects the structural decrease in the number of domestic workers. In view of the fact that in 1971 once again more domestic workers left the labour force for reasons of age than simultaneously grew old enough to join it and that – quantitatively an even more important consideration – the share of working persons in the population of working age is steadily decreasing owing to longer schooling and earlier retirement, the number of domestic workers at the end of 1971 was probably some 300,000 smaller than at the end of 1970. It is unlikely that in the coming years there will be much change in the tendency for the domestic labour potential to decrease, especially if schooling were prolonged still further and the state were bent on promoting premature retirement. The labour supply within Germany will therefore continue to keep the growth of the economy within comparatively narrow margins, particularly since it is becoming increasingly clear that the recruiting of further foreign workers is creating more and more problems. During the past three years the number of foreign workers in the Federal Republic of Germany has doubled. The more foreign workers take up residence in the country and become incorporated in the German economy, the more obvious it becomes that this is leading to a considerable demand for infrastructure in the field of housing, schools and health. The social costs resulting from this make it appear doubtful whether such an expansion of employment can in the long run make a contribution to the consolidation of overall economic equilibrium.

Appreciable productivity gains

The reduction of the strain placed on production plant and on labour was accompanied by quite an appreciable increase in productivity. This increase is reflected in the statistics by the fact that output per man-hour in 1971 increased, even though production stagnated: the average annual rise for the economy as a whole was 3.5 % (1970: + 4 %). In industry the success of rationalisation through reducing the sum total of man-hours worked was even more marked, for although industrial production diminished slightly from the spring onwards the output per man-hour in 1971 rose by 4.5 %, which was more than in the year before (3 %). The frequently advanced theory that comparatively large advances in productivity can only be achieved by forcing the pace of growth in the overall national product was thus refuted again in 1971, as it had been during the recession of 1966/67. The advantage gained by the more efficient use of labour will not of course show to its full extent until 1972.

(b) Cyclical flagging of demand

The relaxation of demand partly due to the stock cycle

The relaxation in demand which – as explained above – contributed towards causing aggregate production to stagnate to some extent during three quarters of the year 1971 was in part a cyclical effect, meaning that it represented a more or less inevitable reaction to the exaggerated conditions that characterised the preceding boom. This applies in particular to the braking effects which emanated from stockbuilding during the past year. Among the various fields of national expenditure as distinguished in the National Accounts, in 1971 only DM 4.5 billion (or about DM 7.5 billion less than in the previous year) was allocated to stockbuilding. In the national economic balance sheet this represents a reduction in demand as against the previous year amounting to roughly 1 % of the national product. The fact that the gross national product at current prices in 1971 rose 2.5 percentage points less than in 1970 – by 10.5 %, compared with 13 % in the preceding year – is accordingly due in no little measure to this "trough" in the stock cycle. The reduction in investment in stocks had already begun in 1970 in important fields; as regards the steel industry, for instance, it became apparent quite early in 1970 that the steel processing enterprises were placing fewer orders than corresponded to current steel consumption. As the year 1971 went on, though, it became clear that the pendulum was beginning to swing back in the other direction.

Enterprises show restraint in capital investment

In 1971 domestic demand was also retarded by the fact that enterprises' propensity to invest declined. Although capital expenditure did increase on the year, in fact by about 11.5 %, it had been up by 24 % during 1970. In particular, the rise in spending on machinery and equipment moderated; during the second half of the year only 4 % more was spent for such purposes than a year before. Nevertheless the real investment volume of enterprises in 1971 was still greater than the year before on an overall view, despite heavy price rises. Thus it seems likely that production plant again expanded by 6 %. Owing to the stagnation of production, the slight decline in the utilisation of capacities and the unsatisfactory earnings situation, enterprises planned less new capital investment during 1971 than formerly; the volume of orders placed with the capital goods industry, at all events, decreased steadily as from mid-1971. Surveys have revealed that enterprises were proposing to curtail their capital expenditure by approximately 6 % in 1972. As the insecurity with respect to the exchange rate of the Deutsche Mark began to disappear once fixed rates were re-established, and as the rise in wages began to taper off at the end of 1971, earnings prospects improved again, so that it now seems that investment plans have in some instances been revised upwards once more.

Only a slight fall in construction demand

Disregarding the primarily cyclical relaxation of expenditure on stocks, machinery and equipment, domestic demand in the other sectors rose in 1971 with roughly the same rapidity as in 1970. In specific fields there were, it is true, certain shifts in dynamism. Expenditure on construction did not grow so extremely fast as in 1970, whereas government consumption expenditure accelerated and private consumption expenditure continued to go up vigorously. The grounds for these shifts varied considerably: the slowdown in the growth of construction expenditure was mainly the consequence of temporary restrictions on the placing of orders for public construction projects, especially in public civil engineering. The fact is that when in the first months of 1971 it became clear that the slowdown in business activity forecast in various quarters already for the beginning of 1971 was failing to materialise, the Fiscal Planning Council and the Advisory Council for Anticyclical Policy of the public authorities recommended the curtailment of Federal and Länder expenditure by a total of DM 1.8 billion, thereby supplementing the safeguarding of the economy against external influences through the introduction of freely floating exchange rates. Over and above this it was also suggested that commitments to the charge of future budgets should be reduced. It is probably due to these considerations, as well as to the shortage of funds at the disposal of local authorities, that in the further course of 1971 the expenditure of the central, regional and local authorities on real assets — almost exclusively spending on construction — increased comparatively little (by roughly 13 % over the figure for the same period a year before), whereas in the first quarter — partly, it is true, on account of shifts in payment deadlines — they had risen by as much as 47 %.[1] Other expenditure on construction kept growing vigorously throughout the year, especially that on housing construction, for which purpose 20 % more funds were spent in 1971 than in the preceding year (1970: + 18 %). Building plans in this field were stepped up so much over the entire year that production capacities were once again severely overtaxed. Never before had the backlog in housing construction been so great as at the end of 1971; it amounted to approximately one million dwellings, which corresponds to the building output of almost two years. The fact that in this field the comparatively high interest rates for long-term borrowing did not succeed in exercising a braking effect may in part be due to government assistance for housebuilding in the form of cheap loans and subsidies towards interest and redemption payments being stepped up in 1971. The real background, however, was the prevalence of an inflationary mentality which obviously impels private individuals to acquire real assets even when these have become very expensive by comparison with their value in use. The rise in building prices, which far exceeded all previous expectations in this field (statistically the rise amounted to 27 % for the years 1970/71 together), certainly failed to exercise a deterrent effect but, if anything, acted as a stimulant to building demand. Incidentally, it is by no means certain that the increased expenditure on construction can be recouped by higher rents when such dwellings are let, but quite obviously people are at present prepared to accept certain cuts in profitability provided they can acquire a "value-guaranteed" asset.

Unchanged growth of private consumption

Taking the average of the year 1971 private consumption expenditure increased just as much as in 1970 (by almost 11 %), although in the course of the year a certain relaxation became discernible, mainly due to the gradual tapering off of wage rises. However, the other factors determining earnings, such as the vigorous expansion of government current transfers, and also, as from July, the abolition of the anticyclical surcharge on income tax, worked in the opposite direction. Since the saving ratio remained practically constant, consumption expenditure moved up in parallel with private incomes. The production and turnover of consumer goods therefore increased further, while at the same time the price rise in this sector continued in almost unabated form.

Accelerated increase in government consumption expenditure

A particularly significant feature for the course of business activity in 1971 was the fact that, contrary to the trend in the private sector, government expenditure rose faster. However, one may wish to define government expenditure — whether according to cash expenditure (on which the detailed comments beginning on page 74 are based) or according to the definitions of the National Accounts — either way

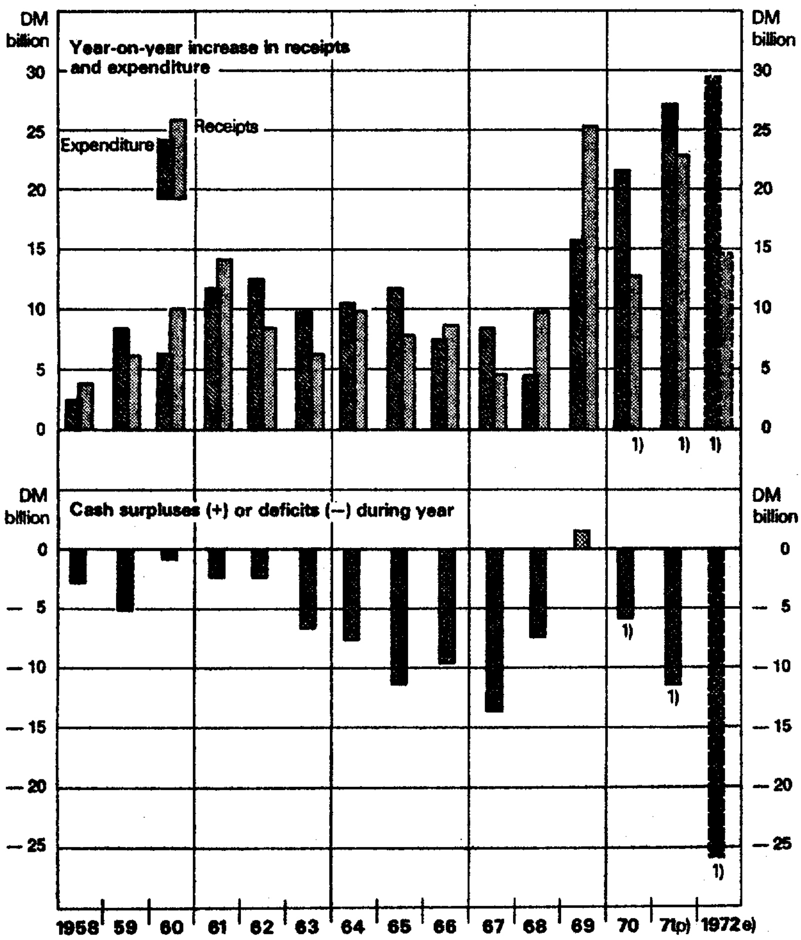
1 This figure is calculated on the basis of cash expenditure, which normally does not tally with the course of production as established for the National Accounts.

National product *

Item	1967	1968	1969	1970	1971	1967	1968	1969	1970	1971
	Billions of Deutsche Mark					Percentage change on year				
I. National product										
(a) At current prices										
Contributions to gross domestic product										
Agriculture, forestry and fisheries	21.0	20.8	22.4	21.4	21.4	+ 1.3	— 1.0	+ 8.0	— 4.5	— 0.2
Production industries **1**	257.6	287.7	326.0	376.0	414.1	— 1.7	+ 11.7	+ 13.3	+ 15.4	+ 10.1
Distribution and transport **2**	95.8	103.2	112.2	123.9	134.2	+ 1.2	+ 7.7	+ 8.8	+ 10.4	+ 8.3
Services **3**	122.5	132.7	149.1	169.8	195.8	+ 6.9	+ 8.3	+ 12.3	+ 13.9	+ 15.3
Gross domestic product	496.9	**a** 540.5	**a** 603.9	**a** 684.2	**a** 756.9	+ 1.0	+ 8.8	+ 11.7	+ 13.3	+ 10.6
Net factor incomes from abroad	— 1.4	— 0.5	— 0.5	— 1.4	— 0.8	.	.	.	.	.
Gross national product at market prices	495.5	540.0	603.4	682.8	756.1	+ 1.0	+ 9.0	+ 11.7	+ 13.2	+ 10.7
(b) At constant (1962) prices										
Gross national product at market prices	430.8	462.3	499.3	527.0	541.5	— 0.2	+ 7.3	+ 8.0	+ 5.5	+ 2.8
do. per working person in Deutsche Mark	(16,390)	(17,550)	(18,620)	(19,350)	(19,860)	+ 2.8	+ 7.1	+ 6.1	+ 3.9	+ 2.6
II. National expenditure at current prices										
Private consumption	285.3	301.8	334.0	370.3	410.2	+ 2.7	+ 5.8	+ 10.7	+ 10.9	+ 10.8
Government consumption	81.1	84.3	95.1	108.2	128.8	+ 6.1	+ 3.9	+ 12.8	+ 13.8	+ 19.0
Gross fixed capital formation	114.4	124.8	146.2	181.1	202.2	— 9.4	+ 9.0	+ 17.2	+ 23.9	+ 11.7
Machinery and equipment	48.0	52.9	66.9	82.9	90.9	— 8.7	+ 10.1	+ 26.5	+ 23.9	+ 9.7
Construction	66.4	71.9	79.3	98.2	111.3	— 9.9	+ 8.3	+ 10.3	+ 23.8	+ 13.3
Change in stocks	— 1.3	+ 11.5	+ 13.3	+ 12.0	+ 4.5	.	.	.	.	.
Net exports of goods and services	+ 15.9	+ 17.6	+ 14.8	+ 11.2	+ 10.4	.	.	.	.	.
Exports	110.1	123.8	141.9	157.4	171.1	+ 7.7	+ 12.5	+ 14.6	+ 10.9	+ 8.7
Imports	94.2	106.2	127.1	146.2	160.7	— 1.7	+ 12.8	+ 19.6	+ 15.1	+ 9.9
Gross national product at market prices	495.5	540.0	603.4	682.8	756.1	+ 1.0	+ 9.0	+ 11.7	+ 13.2	+ 10.7
Memorandum items:	1962 = 100									
GNP deflator	115.0	116.8	120.8	129.6	139.6	+ 1.1	+ 1.6	+ 3.5	+ 7.2	+ 7.8
Price index of private consumption	114.3	116.5	119.4	123.8	130.3	+ 1.8	+ 1.9	+ 2.4	+ 3.7	+ 5.2
III. Factor incomes at current prices	Billions of Deutsche Mark									
(a) Before income redistribution										
Compensation of employees **4**	247.9	266.3	300.1	353.2	400.0	+ 0.1	+ 7.4	+ 12.7	+ 17.7	+ 13.3
Property and entrepreneurial income	128.1	150.6	159.0	173.1	179.9	— 1.1	+ 17.5	+ 5.6	+ 8.9	+ 3.9
Private	125.0	146.9	155.1	169.0	175.1	— 0.7	+ 17.6	+ 5.5	+ 9.0	+ 3.6
Government **5**	3.1	3.6	3.9	4.1	4.7	— 16.4	+ 16.8	+ 7.5	+ 5.7	+ 14.8
Net national product at factor cost (national income)	376.0	416.9	459.1	526.3	579.9	— 0.3	+ 10.9	+ 10.1	+ 14.6	+ 10.2
plus Indirect taxes **6**	65.7	65.7	80.5	81.7	90.7	+ 4.4	+ 0.0	+ 22.5	+ 1.5	+ 11.0
Net national product at market prices	441.7	482.6	539.6	608.1	670.6	+ 0.4	+ 9.3	+ 11.8	+ 12.7	+ 10.3
plus Consumption of fixed capital	53.8	57.4	63.8	74.7	85.5	+ 6.2	+ 6.7	+ 11.1	+ 17.1	+ 14.4
Gross national product at market prices	495.5	540.0	603.4	682.8	756.1	+ 1.0	+ 9.0	+ 11.7	+ 13.2	+ 10.7
Memorandum items:	Percentage of national income									
Wage ratio **7**	65.9	63.9	65.4	67.1	69.0	.	.	.	.	.
Profit ratio **7**	34.1	36.1	34.6	32.9	31.0	.	.	.	.	.
(b) After income redistribution **8**	Billions of Deutsche Mark									
Net compensation of employees	180.7	190.8	210.5	241.5	267.3	— 0.5	+ 5.5	+ 10.4	+ 14.7	+ 10.7
Net income from pensions and assistance grants	67.5	70.6	76.2	82.0	91.2	+ 10.2	+ 4.6	+ 7.9	+ 7.6	+ 11.2
Net private property and entrepreneurial income	92.9	112.6	117.1	132.1	136.1	— 0.9	+ 21.2	+ 3.9	+ 12.8	+ 3.0
Net government income	100.5	108.6	135.8	152.6	176.1	— 2.7	+ 8.0	+ 25.1	+ 12.3	+ 15.4
Net national product at market prices	441.7	482.6	539.6	608.1	670.6	+ 0.4	+ 9.3	+ 11.8	+ 12.7	+ 10.3

Source: Federal Statistical Office and calculations of Bundesbank. — * Federal area including Berlin (West). Discrepancies in the totals are due to rounding; provisional figures. — **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** Prior to deduction of net transfers to 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, 1971: DM 8.5 billion) has to be deducted from total contributions to the gross domestic product.

Finances of the central, regional and local authorities *



* Including Equalisation of Burdens Fund, ERP Special Fund and financial contribution to German Public Works Corporation. – 1) Including receipts (1970 and 1971) and expenditure (1972) in connection with the anticyclical surcharge on income and corporation tax. – p) Provisional. – e) Estimated.

it gained momentum. In 1971 the entire cash expenditure of the central, regional and local authorities rose by almost 14 %, as compared with 12.5 % in 1970. The faster expansion of spending was by no means in line with the objectives of anticyclical policy, but was mainly the outcome of the steep rises in the prices and costs of the goods and services required by public authorities. First and foremost there was the explosion of personnel expenditure (total increase of almost 19 %, and a rise in average earnings of 15 %), but the prices of goods supplied to public authorities likewise went up very heavily in 1971 (see also page 79). The fact that many public authorities failed to react to such price rises by cutting down their real demand for goods and services, and instead elected to spend that much more, contributed towards protracting and intensifying the upswing of prices and wages.

No anticyclical streamlining of public expenditure

In practice, certainly, it became apparent that there was comparatively little latitude for any anticyclical restriction of public expenditure precisely because of the sharp price rises which ought to have been combated by such restriction, even though in 1971, just as in 1970, there was no lack of attempts to curb spending.

On the other hand, a certain anticyclical effect was achieved by stepping up revenue. The 10 % anticyclical surcharge on income and corporation tax had been introduced already in mid-1970. Both in the latter half of 1970 and in the first six months of 1971 this surcharge reduced the disposable income of households and the business community while at the same time withdrawing liquidity from the banking system. Such a drain of liquidity from the banks was coupled with the further payment of budgetary funds into the anticyclical reserves. If the anticyclical effect of fiscal policy is measured by the change in the cash balances of the central, regional and local authorities, however, the impact in 1971 was expansive. Owing to the fact that expenditure rose at a higher rate while receipts, in spite of the anticyclical surcharge mentioned above, failed to go up correspondingly, the cash deficit of these authorities in 1971 rose by DM 5.5 billion to just over DM 11 billion. Measured by this change in the cash deficit, the budgetary management of these authorities in 1971 raised aggregate demand to the extent of something like 0.75 % of the gross national product, thereby largely offsetting the small contractive effects in other spheres of domestic demand. A similar conclusion is reached when, following the approach of the Council of Experts for the Assessment of Overall Economic Trends, the actual cash deficit is compared with the so-called "cyclically neutral" deficit. This latter deficit would in 1971 have amounted to DM 4 billion (see the table on page 83), whereas the actual cash deficit (fully DM 11 billion) was DM 7.5 billion larger. This again shows what a highly expansive effect the central, regional and local authorities had in 1971 when measured by this yardstick. The Council of Experts reaches the same conclusions in establishing that the goal of budgetary policy, i. e. to contribute to price stability and cyclical relaxation, was again not attained in 1971 (1971/72 Annual Forecast, section 177).

Smaller net exports of goods and services

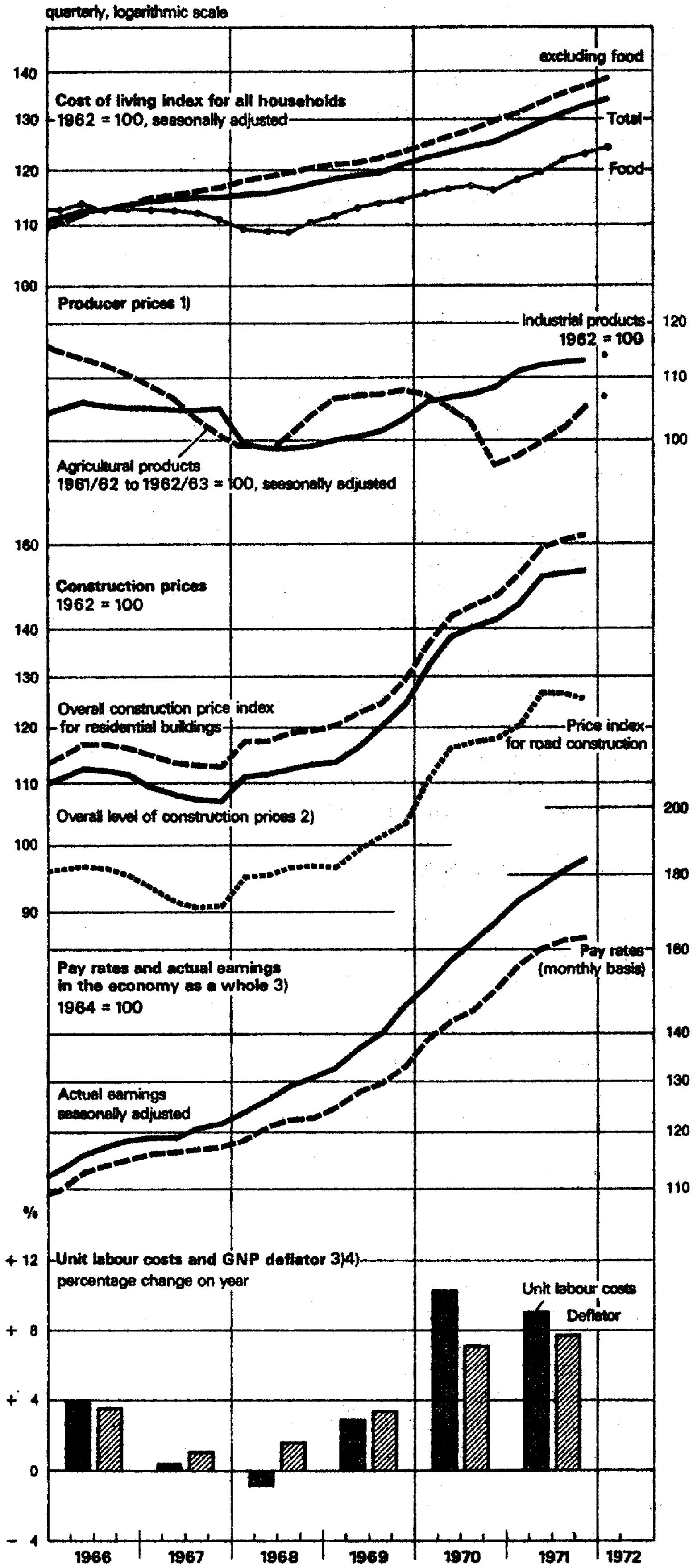
Some contribution to the relaxation on the domestic markets was made in 1971 by changes in transactions in goods and services with foreign countries. In actual fact the surplus in transactions in goods and services – calculated at current prices – was only a little smaller in 1971 than in 1970. However, owing to the de facto upvaluation of the Deutsche Mark from May 1971 the terms of trade increasingly moved in favour of Germany since, calculated in Deutsche Mark, import prices fell (according to the import price index by 5 % between April 1971 and February 1972) while export prices continued to rise slightly even after the exchange rates had started floating. Thus for its exports the Federal Republic of Germany received an increasingly higher real equivalent in imports. Once price movements have been eliminated, it becomes apparent that Germany's surplus in merchandise and service transactions with foreign countries in 1971 (calculated at the prices of the previous year) declined by roughly DM 4 billion. This reduction of the surplus on goods and services was concentrated mainly in the second half of the year 1971, when it increased the real supply of goods and services available to the domestic market by 1 %, thus slowing down price rises within the country.

(c) Steady fall in the value of money

Slight slackening of price rises in the course of 1971

Under the influence of cyclical and external factors, rises in prices (except agricultural prices) reached a new peak in the Federal Republic of Germany in 1971, even though certain changes in the trend began to appear in the course of the year. In the case of industrial producer prices the turning point occurred in May, from which time onwards they rose at a slower rate; in the case of consumer prices the rise did not start to slow down slightly until the late autumn. By and large, however, prices continued to run at an excessive level. At end-1971 consumer prices, as measured by the cost of living index for all households, were 5.8 % higher than a year before. In March 1972 the advance on the previous year was still 5.4 %. With the exception of the peak attained during the Korea crisis (1951), living costs had not risen by anything near such a high percentage since the currency reform; the highest rate of increase on the year had hitherto been 4.5 % (April 1966). The break in the trend was rather more significant in the field of producer prices. Here, the increase over the corresponding period of the previous year had in May 1971 still been as much as 5.2 %, whereas in December it was down to 3.4 % and in February 1972 to 2.6 %. For industrial products this was of course still a high rate of price increase, since on the average of the years 1962 to 1967, for example, industrial sales prices had gone up only by 1.0 % every year. Should it prove impossible to keep real producer prices at a more or less stable level in the near future – which would presumably depend on production costs ceasing to rise – there would be no chance of counteracting the partly structural tendency towards rises in the prices of services and in rents, and thus of cutting the increase in living costs down to a reasonable size. Certainly such progress in containing increases in the cost of industrial products as has hitherto been made is not – in the light of this goal – in any way sufficient, especially since new administratively determined price rises are imminent, not least for farm produce subject to the EEC agricultural market regulations.

Prices and wages



1) From January 1968 estimated effect of value-added tax eliminated.- 2) Calculated by Bundesbank.- 3) From 1967 provisional.- 4) Index of actual earnings divided by index of real GNP per working person.- • Jan./Feb. 1972.

The movement of prices by comparison with foreign countries

The comparatively rapid rate at which the value of money in Germany declined in 1971, and indeed already in 1970, cannot of course be properly assessed without a glance at the rest of the world, where prices likewise went up much more significantly than before. In the ten western industrial countries (not including the Federal Republic of Germany) to which reference is normally made for comparative purposes in our Reports, for instance, living costs increased by an average of 5.2 % and 6 % in 1969 and 1970, while wholesale prices of industrial products went up by 4.2 % and 5.3 %; in the same countries between 1962 and 1968 living costs rose by an annual average of 3.1 % and wholesale prices of industrial products by no more than 1.6 %. Price rises in Germany in these years had in part quite distinctly lagged behind the increases recorded in foreign countries; between 1962 and 1968, for instance, German consumer prices went up by an annual average of 2.6 %, and producer prices of industrial products by 0.8 %. In 1969 and part of 1970 the price rise in Germany was again lower than abroad. For 1971, however, the reverse was true, since over the better part of the year producer prices increased more markedly in Germany than in other countries; not until December 1971 and subsequent months did the rise in prices in Germany slacken to a rate slightly below that ruling in other countries. As from mid-1971 consumer prices in Germany all increased more vigorously than in the other industrial countries, and there was no change in this respect until early February 1972, even though the extent of the rise in the cost of living in Germany thenceforward began to decline slightly; this has also been a feature in other countries for some time.

The effects of the parity changes of the Deutsche Mark

In the Federal Republic of Germany the inflationary trend in 1970, and especially in 1971, thus by and large reached much the same order of magnitude as in the other countries, although the Deutsche Mark was upvalued appreciably both in October 1969 and in May 1971 when the exchange rate began to float. The Deutsche Mark revaluation of 1969 was unable to slow down the growth of domestic prices and costs in any significant way, apparently for a number of reasons: for one thing, it took place very late, and for another, it was presumably too small in quantitative terms. Although the nominal revaluation rate at 9.3 % had been set at a fairly high level — and indeed few people in Germany would at that time have been prepared to upvalue the Deutsche Mark still more — the "quasi-revaluation" of 4 % introduced through fiscal measures in the trade field a year before was cancelled when the parity change came into force, so that the revaluation effect was mitigated to the extent of this 4 %. In particular, however, the price-dampening effect of the revaluation in the autumn of 1969 was nullified by the fact that inflation gathered pace world-wide; at that time it had not been envisaged that such a movement would take place. The price reactions that followed the de facto upvaluation of the Deutsche Mark in May 1971 are more gratifying, at least to the extent that they can already be assessed. In the eleven months which have passed since then the size of the increase in the prices of industrial products in the Federal Republic of Germany at the producer level has been halved. In the cost of living index, on the other hand, the countercurrent movement of agricultural prices has meant that only initial signs of a slowdown in prices are apparent. Of course the tendency towards a moderation of price rises cannot be exclusively ascribed to the parity change, but it is indubitable that it did play a major part, and will presumably continue to do so in the more immediate future. Be that as it may, revaluation has succeeded in curbing import prices appreciably; since April 1971 the import price index has dropped by 5 %, although in foreign countries prices have, to say the least, not taken a downward course since then. It seems that foreign suppliers have been unable to exploit the cheapening of foreign currencies for German importers in such a way as to raise their sales prices in foreign currencies; this had been a common feature after the devaluation of 1969. On the other hand, since May 1971 German exporters have found it difficult to raise their export prices in Deutsche Mark even slightly, so that export business has tended to become somewhat less attractive from the profit angle. This may have encouraged competition on the domestic market, which will likewise have tended to curb prices.

The factors underlying price rises in the domestic economy

The high rate of price rises in Germany in 1971, which at the consumer level actually accelerated, was due in a large measure to certain factors inherent in the domestic structure which in the last analysis are not easy to segregate from the inflationary tendencies in the rest of the world to which reference has already been

Price movements in selected countries

Percentage change on year

Country	Annual average 1962 to 1968	1969	1970	1971	1971 1st qtr.	1971 2nd qtr.	1971 3rd qtr.	1971 4th qtr.	1972 Jan./Feb.
	Wholesale price index for industrial products								
EEC countries									
Belgium	+ 1.4	+ 4.1	+ 5.6	+ 2.1	+ 2.3	+ 2.2	+ 2.4	+ 1.7	+ 2.5
France	+ 1.1	+ 9.4	+ 6.7	+ 4.0	+ 2.3	+ 3.3	+ 5.1	+ 5.6	+ 4.9
Italy	+ 1.9	+ 3.5	+ 7.9	+ 3.8	+ 4.7	+ 4.0	+ 3.9	+ 2.6	+ 2.4
Netherlands	+ 3.1	+ 4.5	+ 4.3	+ 4.1	+ 4.5	+ 4.5	+ 3.3	+ 3.3	...
EEC countries, total **1, 2**	+ 1.8	+ 5.6	+ 6.3	+ 3.5	+ 3.2	+ 3.5	+ 3.8	+ 3.5	**e** +3.2
EFTA countries									
Austria	+ 2.3	+ 2.4	+ 4.9	+ 6.3	+ 6.9	+ 6.5	+ 6.3	+ 6.3	+ 4.0
Sweden	+ 2.4	+ 5.1	+ 7.0	+ 3.0	+ 2.7	+ 2.7	+ 3.0	+ 3.4	...
Switzerland	+ 0.6	+ 3.0	+ 4.6	+ 2.1	+ 1.9	+ 2.0	+ 1.9	+ 2.2	+ 3.1
United Kingdom	+ 2.4	+ 3.9	+ 6.6	+ 7.8	+ 8.2	+ 8.4	+ 8.2	+ 6.5	+ 5.6
United States	+ 1.3	+ 3.4	+ 3.8	+ 3.6	+ 3.6	+ 3.6	+ 4.3	+ 3.3	+ 3.4
Japan	+ 0.7	+ 1.9	+ 4.2	— 0.7	+ 0.1	— 0.9	— 0.9	— 1.2	— 0.4
Selected countries, total **2**	+ 1.6	+ 4.2	+ 5.3	+ 3.8	+ 3.8	+ 3.9	+ 4.2	+ 3.6	**e** +3.3
Compare:									
Federal Republic of Germany	+ 0.8	+ 2.2	+ 5.9	+ 4.7	+ 5.0	+ 5.1	+ 4.8	+ 3.8	+ 2.7
	Cost of living index								
EEC countries									
Belgium	+ 3.4	+ 3.8	+ 3.9	+ 4.3	+ 3.5	+ 3.9	+4.6	+ 5.4	+ 5.4
France	+ 3.4	+ 6.0	+ 5.6	+ 5.5	+ 4.9	+ 5.2	+ 5.6	+ 5.8	+ 5.7
Italy	+ 4.2	+ 2.7	+ 4.9	+ 4.9	+ 5.0	+ 4.8	+ 4.9	+ 4.8	+ 4.8
Netherlands	+ 4.6	+ 7.5	+ 4.4	+ 7.6	+ 6.6	+ 7.7	+ 7.6	+ 8.4	+ 8.2
EEC countries, total **1, 3**	+ 3.8	+ 5.0	+ 5.2	+ 5.3	+ 5.1	+ 5.2	+ 5.3	+ 5.6	+ 5.5
EFTA countries									
Austria	+ 3.4	+ 3.1	+ 4.4	+ 4.7	+ 4.3	+ 4.5	+ 5.0	+ 5.0	+ 5.5
Sweden	+ 4.0	+ 2.7	+ 7.0	+ 7.4	+ 8.6	+ 6.9	+ 6.9	+ 7.2	+ 5.0
Switzerland	+ 3.5	+ 2.5	+ 3.6	+ 6.6	+ 6.2	+ 6.8	+ 6.6	+ 6.6	+ 6.7
United Kingdom	+ 3.5	+ 5.4	+ 6.4	+ 9.4	+ 8.6	+ 9.8	+10.1	+ 9.2	+ 8.1
United States	+ 2.4	+ 5.4	+ 5.9	+ 4.3	+ 4.9	+ 4.4	+ 4.3	+ 3.5	+ 3.5
Japan	+ 5.5	+ 5.3	+ 7.9	+ 6.2	+ 5.8	+ 6.2	+ 7.2	+ 5.5	+ 3.8
Selected countries, total **3**	+ 3.1	+ 5.2	+ 6.0	+ 5.2	+ 5.4	+ 5.2	+ 5.4	+ 4.8	+ 4.3
Compare:									
Federal Republic of Germany	+ 2.6	+ 2.7	+ 3.8	+ 5.2	+ 4.1	+ 4.8	+ 5.6	+ 5.8	+ 5.6

1 Excluding Federal Republic of Germany and Luxembourg. — **2** Weighted with respective share of these countries' exports in world exports during the period from 1963 to 1969. — **3** Weighted with respective share of these countries in the 1968 GNP of the OECD countries. — **e** Partly estimated.

made. One of these particular causes of inflation was the expansive effect of public authorities (already described in detail in the foregoing), which promoted the continuation of the former rates of price rise. A further set of underlying reasons is connected with the attitude of management and labour in wage policy. The wage increases have undoubtedly encouraged the uptrend of prices both on the cost side and on the demand side. In 1971 average wages and salaries rose by about 12 % over the figures for the previous year, whereas productivity — measured by the real gross national product per working person — moved up by only 2.5 %. Wage and salary costs per unit of output thus mounted by 9 % in 1971, after having risen by as much as 10.5 % in 1970, although only by 3 % in 1969. This means that from the cost side there was considerable pressure in the direction of a rise in the price level; in the case of products consumed at home this went up by 7.5 % according to the National Accounts. Since the increase and decrease of the other cost elements (such as depreciation and import prices) generally speaking cancelled out and profit margins diminished further, the wage increases would be a quantitatively sufficient explanation for the price rises within the framework of the overall economic balance sheet. In the face of such a conclusion it might of course be argued that in the last analysis wages are also prices which in turn are closely linked with the entire price and cost movement in Germany and the rest of the world. After all, the price-determining influences in Germany and abroad all affect the domestic markets and thus also the labour market as the hub of the production factor "labour", which is in particularly short supply. Wage increases consistent

Unit labour costs in industry in selected countries *

Country	1968	1969	1970	1971	1969	1970	1971
	1963 = 100				Percentage increase on year		
Italy	108.4	113.2	129.4	148.2	4.4	14.3	14.5
Belgium	111.2	112.5	120.7	131.6	1.1	7.3	9.0
Netherlands	119.3	124.9	131.9	141.1	4.7	5.6	7.0
France	115.4	122.5	128.4	136.1	6.1	4.8	6.0
United Kingdom	113.9	119.2	130.0	138.4	4.6	9.1	6.5
Western Europe, selected countries 1	113.5	119.1	130.2	139.5	5.0	8.2	8.2
United States	112.1	118.7	125.0	128.1	5.9	5.2	2.5
Compare:							
Federal Republic of Germany	105.2	108.2	121.7	131.4	2.9	12.4	8.0

* Including construction; calculated from change in gross income per employee and gross value added per employee at 1963 prices, in national currencies. — 1 Weighted with respective share of these countries in the 1968 GNP of the OECD countries. — Source: EEC Commission.

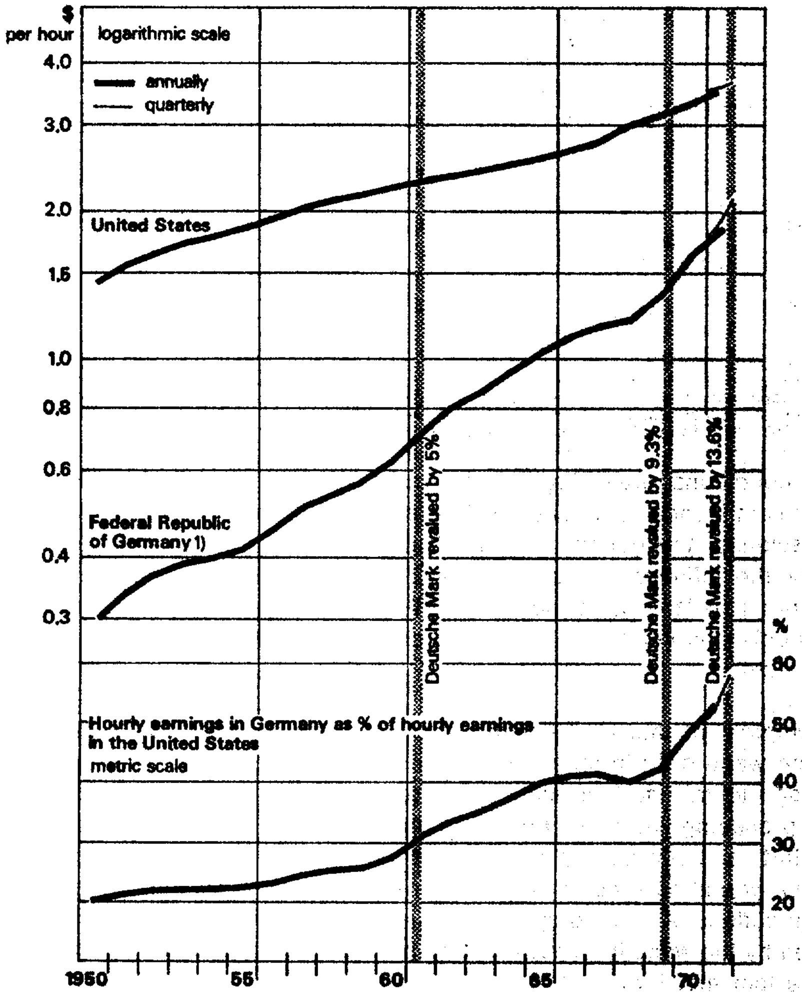
with the conditions prevailing on the labour market would thus exercise no autonomous influence on prices and costs, but would themselves only amount to an expression of the general excess demand which in turn would be the chief reason for the inflationary trend. Some important symptoms, however, seem to indicate that in 1971 — as in rudimentary form in 1970[1] — wage increases were by no means only "market induced" but had an influence on the movement of prices in their own right.

Autonomous role of wage policy

A first symptom of this kind can be seen in the fact that in 1971 there was in practice no wage drift; in other words, that in the past year, for the first time in a long period, actual earnings statistically rose hardly more than wage and salary rates.[2] In preceding years, on the other hand, the sometimes remarkably high level of wage drift had been a fairly certain indication that the state of the labour market would have permitted greater wage increases than were actually agreed upon in wage negotiations. A second symptom pointing to the autonomous price-boosting role played by the wage increases agreed between management and labour in 1971 lies in the fact that they took place at a time when the sum total of man-hours worked was definitely on the downgrade; greater moderation in wage policy would no doubt have conformed better to market conditions. However, specific demographic characteristics of the Federal Republic of Germany (owing to which the size of the domestic working population continually diminishes) and the shortening of working hours forestalled the advent of a major unemployment phase in 1971. A third symptom indicating that, to a certain degree, wage increases in 1971 were agreed upon in opposition to the "market tendency" can be seen in the fact that the profit ratio, which in 1970 had already fallen appreciably by comparison with earlier years, in 1971 dropped still further — indeed, to presumably the lowest level since the war. To put it differently: the macro-economic wage ratio once again rose considerably in 1971 to the unprecedented figure of 69 % of the national income; it thus went up far more than could be explained by reference to the increase in the share of employees in the total working population. It may be concluded from this fact that no "pent-up demand" can be invoked to explain the extent of the wage movement in 1971, seeing that already in 1970 the wage ratio had been higher than ever before. Similar results will be obtained when comparing wage rises throughout the world. Basing the comparison on the increase in unit labour costs in industry — for lack of any more comprehensive standard of comparison — the rise in the Federal Republic of Germany in 1971 was again greater than the average increase in the other EEC countries plus the United Kingdom, after having already been much higher in 1970. The only exception is on a longer-term comparison, roughly from 1963, where unit labour costs in German industry rose slightly less than in the comparable European countries up till 1971; but this "lead" was far more than offset by the two revaluations of the Deutsche Mark

1 See Annual Report of the Deutsche Bundesbank for the Year 1970, page 8 ff.
2 If the wage increases with no effect on costs were not eliminated, a negative wage drift would in fact result.

Average gross hourly earnings of industrial workers in the Federal Republic of Germany and the United States



1) Deutsche Mark converted to U.S. dollars at the current exchange rate, in the fourth quarter of 1971 at the central rate.

in 1969 and 1971 and the devaluations of two European currencies (sterling in 1967 and the French franc in 1969). This, incidentally, applies not only to the comparison with the movement of wages in other European industrial countries but also – and indeed far more – to the comparison with the United States. Thus the average hourly wage of the German industrial worker in the fourth quarter of 1971, converted at the current parity, amounted to approximately 60 % of the average hourly wage in U.S. industry; in 1970 it had been only 50%, in 1965 40 % and in 1950 no more than some 20 %.

Wage determination through organised market parties

Finally, it always has to be expected that on the labour market – which of course is by no means a market with anything like perfect competition between supply (i.e. the employees) and demand (i.e. the employers), but rather a market in which closed groups face one another as market parties – wages emerge which occasionally deviate considerably from the "equilibrium wage". In other words, wage formation can easily represent the result of struggles for power or distribution. However, to the extent that the equilibrium wage is exceeded (while full employment is guaranteed) wages have a price-increasing effect. If, conversely, the "equilibrium wage" were not attained, prices would fall in the presence of reasonably perfect national and international competition; where competition was restricted, such as under the influence of wrong exchange rates or of cartel arrangements, entrepreneurs' earnings would rise. One of the principal tasks of what is known as "concerted action" – the Federal Government's round-table talks with management and labour on the subject of incomes policy – consists in avoiding as far as possible any deviations from the equilibrium wage and the resulting adverse consequences for prices and wages. The fact that in 1971 a "misdirected development" nevertheless came about in the field of wage costs would seem to have been caused by employers and employed failing to adjust in good time to the change which took place in the cyclical situation, especially when the upvaluation of the Deutsche Mark began. Not until the end of the year was there, in negotiations with the metal industry, a substantial decline in wage rises. A particularly serious issue was that the public employers were ultimately prepared to concede very high wage and salary increases contrasting with the basic "orientation data" laid down by the Federal Government and contained, for instance, in the 1971 Annual Economic Report. Actual earnings in the public service in 1971 went up on average by 15 % after already having risen by 13 % in 1970. Certainly, it seems to have been a significant factor that following the rapid wage growth rates between the autumn of 1969 and the spring of 1971 it had come to be popularly believed that a continuation of the accustomed steep wage rises – which were allegedly necessary for the redistribution of income – would not after all, despite many warnings, endanger jobs; it was thought to be up to economic policy to prevent this. Since the beginning of 1972 the wage growth rates appear to be diminishing somewhat, but even the rates latterly agreed upon (of 7 %, 8 % and more) still contain a considerable inflationary component.

2. Monetary policy in the crisis of the international monetary system

(a) The main principles of monetary policy in 1971

Conflicting targets

During the past year the Deutsche Bundesbank was greatly exposed to the conflict between domestic and external targets. It is true that the tapering off of domestic business activity permitted further relaxation of the restrictive policy still in effect at the beginning of 1971; even without pressure from outside, conditions on the credit markets would have been eased by suitable measures in the course of the year, although relaxation would certainly have been slower than it actually was. Compulsion to conform to the conditions obtaining on the international money and credit markets was by no means equally strong throughout the year; indeed, at times it disappeared entirely or – as in the first stages of flexible exchange rates – shifted in such a way that thenceforward it was not so much a question of the interest rate level as of the correct amount of the exchange rate. Owing to the rapidly changing situation on foreign exchange markets – especially to the eruption and subsequent overcoming of the international monetary crisis and its repercussions on domestic conditions inside Germany – the Deutsche Bundesbank was required to vary its attitude in the different phases in order to impart a maximum of efficacy to its policies at any given time.

The phases of monetary policy
First: up to the floating of exchange rates

From the beginning of the year 1971 until the release of the Bundesbank from its obligation to intervene on the foreign exchange market as from May 10, 1971 the German credit markets were under the influence of heavy exchange inflows which finally tended to accelerate more and more. The monetary reserves of the Deutsche Bundesbank in that period increased by DM 19 billion, of which DM 8 billion was taken in within the last three days before the exchanges were closed on May 5. The main reason for this trend was the interest rate differential between Germany and the other countries, but speculation in respect of exchange rate modifications also increasingly played a part. After the switch to flexible exchange rates on May 10, 1971 the short-term capital flows in transactions with foreign countries reversed, although the outflow from the Bundesbank's foreign exchange holdings, amounting from May 10 until the end of July to a net total of DM 6 billion, fell distinctly short of earlier inflows. The latitude for monetary policy had thus grown somewhat, but even so was not unlimited. The limit was now above all to be seen in the steady upvaluation of the Deutsche Mark, which, owing to the resultant deterioration of the competitive position of German trade and industry, caused the greater misgivings the longer it persisted. Every exacerbation of conditions on German domestic credit markets naturally strengthened the tendency towards capital imports and thereby the pressure on the dollar rate on the German exchange markets; this was tantamount to a further upvaluation of the Deutsche Mark not only in relation to the dollar but also vis-à-vis most other countries, which during that

Second: floating of the Deutsche Mark

Balance of payments between 1965 and 1971

Billions of Deutsche Mark

Item	1965	1966	1967	1968	1969	1970	1971
1. Current account	— 6.7	+ 0.1	+ 9.4	+10.9	+ 6.2	+ 2.7	+ 0.4
2. Long-term capital transactions	+ 0.9	— 0.8	— 3.2	—11.4	—23.0	— 2.9	+ 6.6
3. Short-term capital transactions of non-banks	+ 1.9	+ 2.2	— 1.9	+ 1.7	— 0.3	+ 6.0	— 0.3
4. Balancing item	+ 3.1	+ 1.0	+ 0.4	+ 3.3	+ 2.5	+ 8.2	+ 8.5
Overall foreign exchange balance (1 plus 2 plus 3 plus 4)	— 0.8	+ 2.5	+ 4.7	+ 4.5	—14.6	+14.0	+15.2
(a) Net position of banks other than Bundesbank (improvement: +)	+ 0.5	+ 0.6	+ 4.8	— 2.5	— 4.3	— 7.9	— 1.2
(b) Central monetary reserves of the Bundesbank (increase: +)	— 1.3	+ 1.9	— 0.1	+ 7.0	—10.3	+21.9	+16.4

period still retained their fixed parities unchanged. This situation, which was detrimental to the exchange rate of the Deutsche Mark, did in fact change when the Government of the United States suspended the convertibility of the dollar on August 15, 1971, with the result that most other industrial countries set their exchange rates free (although France even then retained fixed parities). As from this point, an upvaluation of the Deutsche Mark with respect to the U.S. dollar could no longer be equated with an upvaluation with respect to all trade partners. On the contrary, since dollar prices in other countries dropped more rapidly than in the Federal Republic of Germany after August 15, the result was a slight reduction, by comparison with the time when (apart from the Netherlands guilder and the Canadian dollar) only the Deutsche Mark was floating, in the average revaluation rate of the Deutsche Mark. This reduction was, however, not sustained since capital imports into Germany again brought pressure to bear on the dollar rate. In this period of extensive "floating" rumours and conjectures as to some future rearrangement of exchange rates gained more and more in significance. Domestic monetary policy was now forced to give greater consideration again to external influences. The phase of uncertainty regarding the exchange rates finally came to an end after the monetary conference in Washington on December 17 and 18, 1971. The Federal Republic of Germany, in common with all major countries (except Canada), reverted to fixed exchange rates, although the margins of fluctuation were wider. Since foreign exchange was again offered on the market soon after the realignment, monetary policy once more had to be geared more effectively to external conditions. Accordingly, in March 1972 a first attempt was made to arrive at a certain external safeguarding by introducing an obligation to maintain cash deposits when taking up certain types of credit abroad.

Third: floating of the currencies of many industrial countries

Fourth: realignment of exchange rates

The reactions of monetary policy: repeated lowering of central bank interest rates ...

The fluctuating situation in external respects called for quite different combinations of the various monetary measures. As long as the external disturbances were not eliminated the Bundesbank had to ease interest rates, with the primary object of reducing the interest rate differential as against foreign countries and thus the inducement to engage in capital imports. The Bank accordingly lowered the discount and lombard rates on three different occasions in 1971. The first was in the period of fixed rates and massive foreign exchange inflows on March 31, and took the discount rate from 6 % to 5 % and the lombard rate from 7.5 % to 6.5 %. The second was on October 13, i.e. in the period of floating in most industrial countries, when the rates went down by 0.5 and 1 percentage point. A further step was taken on December 22, following the realignment of exchange rates under the Washington Agreement; the discount rate was fixed at 4 % and the lombard rate at 5 %. The process was terminated at the end of February 1972 by a further lowering of the discount and lombard rates to 3 % and 4 %, a measure which must be seen in close connection with the external safeguarding resolved by the Federal Government in the form of the cash deposit requirement on certain credits taken up in foreign countries.

... compensatory and ...

Thus, while in 1971 and the early months of 1972 the trend of Bundesbank interest rate policy was unequivocal, the various measures of liquidity policy pursued differing aims. In several instances they served to compensate for an excessive liquidity in the banking system, at least up to a certain degree. The fact that in connection with the lowering of the discount rate in March 1971 the banks' rediscount quotas were cut by 10 % must be seen in this light; following the external safeguarding by the floating of the exchange rate the minimum reserve ratios on domestic liabilities were raised with effect from June 1 by 15 %; those applying to the total of foreign liabilities were raised even more, while in connection with the reduction of the discount rate at the end of February 1972 the rediscount quotas were again decreased by 10 %.[1] In each case this reduced the banks' free liquid reserves, although only to the point where the newly fixed discount and lombard rates could still be considered as conforming to the market. In October and December 1971 the minimum reserve ratios were lowered at the same time as the central bank's interest rates, in each case by 10 %. In October the release of liquidity appeared desirable because funds had previously flowed out on a considerable scale, so that without an increase in liquidity the reduced Bundesbank interest rates would have been outside the market. The same would have had to be expected after the realignment of exchange rates, at least if — as was at first anticipated — substantial outflows of foreign exchange had taken place.

... supporting measures of liquidity policy

Other measures in the field of central bank policy

The central bank's instruments for the "fine tuning" of bank liquidity and interest rates — primarily open market policy, but in addition certain interventions on the forward exchange market, which of course were also designed to achieve other ends — could in general be used but little owing to the huge extent of some of the liquidity movements. The scope for open market operations with long-term paper was not very great, because the Bundesbank does not have any considerable holdings of government securities in its portfolio and can issue its "own paper" only in the form of short-term mobilisation or liquidity paper. The free liquid reserves of the banks could in principle also have been influenced by selling shorter-term government paper to non-banks; in June 1971 the Central Bank Council had decided that Treasury bonds with a term of up to two years issued by the Bundesbank (in exchange for equalisation claims) as so-called mobilisation and liquidity paper could in future also be sold to non-banks. In practice it was found that transactions of this kind were feasible only with the social security funds.

Interventions on the forward exchange market

Occasionally forward exchange transactions were concluded on a fairly large scale with German banks — mostly in the form of outright forward interventions, where, in contrast to swap deals, there is no link with a spot transaction. Especially in the months with heavy exchange inflows prior to the floating of exchange rates the Bank entered into such contracts with a twofold aim in mind: it was hoped in the first place to defer for some time the otherwise imminent exchange flow into the Bundesbank and the resultant creation of liquidity and in the second place to influence the forward exchange market in such a way that borrowing abroad would become slightly more expensive for residents so that inflows of exchange would be discouraged. However, the Bank again had the experience that, while such contracts may work in the desired direction for a temporary period, once the exchange markets are subject to very heavy speculative influences the contracts are frequently employed for so-called "roundabout" transactions which tend to prevent them having the desired result. As soon as it became evident that the effect intended by the Bank could no longer be achieved, these transactions were discontinued. The forward contracts in the period of flexible rates (mainly immediately before and after the monetary conference in September) were primarily directed towards dampening the tendency for the Deutsche Mark to appreciate; at that time this was a particularly acute problem because so important a trade partner as France had not then upvalued its currency with respect to the dollar, which meant that German exports suffered competitive disadvantages. The settlement of some of these forward contracts was effected in the period after the realignment of exchange rates, when the currencies of practically all industrial countries had been revalued against the U.S. dollar.

1 The reduction in rediscount quotas must also be seen in connection with the fact that these quotas grow automatically every year with the banks' capital and reserves, although the calculation system remains unchanged; this may under certain circumstances be an undesirable trend in the view of the central bank.

(b) The outcome of monetary policy

As a result of the external disturbances during the past year described above, it was not possible to ensure control of the volume of money in circulation and of credit supplied to the economy for the purpose of safeguarding the currency — the central task assigned to the Bank by the Bundesbank Law (Article 3) — in a satisfactory measure. This was apparent from the change in the underlying monetary aggregates. Taking the movement of the money stock as a yardstick, its rise of 12.4 % over the entire year quite considerably exceeded the figure which would have been compatible with normal growth in the economy, given stability. How greatly the expansion of money supply was influenced by the prevailing external factors is apparent from a breakdown of the increase in the money stock during the above-mentioned phases of monetary development in 1971. On calculating the growth of the money stock in the definitions M_1 (currency and sight deposits of non-banks) and M_2 (which in addition to M_1 includes the "quasi-money stock", i.e. the time deposits of non-banks with maturities of up to four years) the following seasonally adjusted growth rates will be arrived at, expressed on an annual basis:

	M_1	M_2
January to May 1971 (fixed exchange rates, narrow margins)	+ 16.3 %	+ 20.4 %
June to September 1971 (flexible exchange rates, preponderantly only in Germany)	+ 8.1 %	+ 4.7 %
October to December 1971 (flexible rates in most industrial countries)	+ 11.5 %	+ 19.1 %
January and February 1972 (fixed exchange rates, wider margins)	+ 11.4 %	+ 14.3 %

Expansion of the money stock due to funds accruing from abroad ...

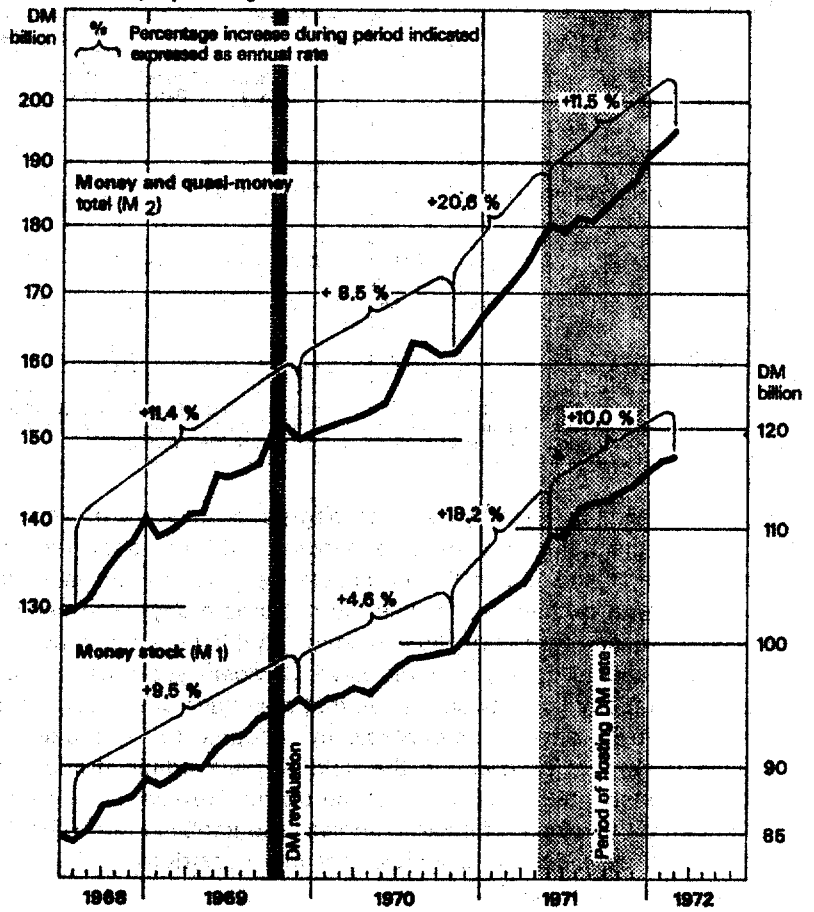
This movement in the money supply is the result of many factors, but the external influences throughout 1971 and early in 1972 so dominated the scene that they alone would suffice to explain the expansion of the money stock (M_1). These influences took effect in dual form: for one thing, any inflow of funds from abroad to non-banks has an expansive effect on the money supply. The foreign exchange surpluses are transferred from domestic non-banks to the banking system, meaning that deposits of non-banks develop. While the non-banks are capable of putting these deposits to monetarily contractive use (such as when they repay bank credits or purchase bonds), they did so only in part. In 1971 the expansion of the money stock (M_1), at DM 13.5 billion, only slightly exceeded the increase in the net claims of the banks (including the Bundesbank) on foreign countries (DM 12.2 billion). Quite apart from this rough correspondence, the timing also confirms the interrelationship between the influx of funds from abroad and the acceleration or deceleration of the growth of money supply. Between January and May 1971, when the inflows from abroad were running at a very high level, the increase in the money stock was also very great (M_1: + 16.3 %). When, however, funds flowed out again to other countries later on, as they did between June and September, the money stock expanded comparatively little (M_1: + 8.1 %). There was another change when foreign funds commenced to flow back (between October 1971 and February 1972 M_1: + 11.4 %).

... and indirectly via the expansion of banks' liquidity

For another thing, the inflows and outflows of funds in transactions with foreign countries react indirectly on monetary developments to the extent that they increase or reduce banks' liquidity — something they normally, although not invariably, do. Beginning on page 53 of this Report it is explained in greater detail to what degree the various determining factors affected the banks' liquidity during the year under review. Here again, foreign exchange movements were predominant in 1971. The compensatory measures of the Bundesbank to which reference was made above were not sufficient to prevent the banks' liquidity from being increased by the exchange inflows. Despite the support — strong at times — of fiscal policy (both the formation of anticyclical reserves at the Bundesbank and the payment of the anticyclical surcharge on income and corporation tax into blocked

Money and quasi-money stock of domestic non-banks

seasonally adjusted, logarithmic scale



accounts with the Bundesbank reduced bank liquidity) and despite all the other counteractive measures, the free liquid reserves of the banking system mounted considerably during the period between January and May while foreign exchange continued to flow in heavily. However, when between June and September foreign exchange flowed out of the country again, the free liquid reserves decreased more sharply because the measures adopted by the central bank (i.e. the increase in minimum reserves mentioned above) could then no longer be outflanked by borrowing abroad, at least not as long as the Bundesbank was not prepared to intervene on the spot foreign exchange market. In the following months the liquid reserves increased again. The inflows of foreign funds at times intensified after the new central rates had been introduced, although the increases were far from reaching the levels which had obtained up till May 1971. At the end of February 1972 the banks' free liquid reserves were running at about DM 28.5 billion, as against DM 34.5 billion at their peak at the end of May 1971. In March 1972 the banks were still comparatively liquid, which showed clearly in the extent of their credit expansion.

Very large credit expansion . . .

Quite generally in the past year the Bundesbank's policy was rendered more difficult by the fact that even in periods of tighter liquidity the banks continued credit expansion on a hitherto almost unprecedented scale. In 1971 the banks granted roughly DM 70 billion of new credits to domestic non-bank customers, as compared with quite DM 50 billion each in 1970 and 1969, i.e. in years in which their liquid reserves had been partly slightly lower, but partly considerably greater than in 1971. The implication is that the banks' view of the volume of liquidity required for a given credit expansion has changed. This was particularly apparent, for instance, when the Bundesbank was relieved of its obligation to intervene on the foreign exchange market. During this period not only did the

Monetary developments and foreign exchange movements in the Federal Republic of Germany

Billions of Deutsche Mark

Item	1969	1970	1971 Total 4	1971 Jan./May	1971 June/Sep.	1971 Oct./Dec.	1972 Jan./Feb.
1. Change in money stock							
M_1 = currency and sight deposits	+ 6.0	+ 8.8	+13.4	+ 1.5	+ 2.7	+ 9.3	− 7.0
M_2 = M_1 plus quasi-money **1**	+14.5	+16.5	+25.1	+ 9.3	− 0.8	+16.7	− 5.3
partly caused by							
Inflow of foreign funds to non-banks **2**	− 3.0	+14.7	+12.2	+21.5	− 4.4	− 4.8	+ 9.4
2. Change in banks' free liquid reserves	−18.0	+ 5.6	− 1.2	+ 9.1	−15.0	+ 4.7	+ 4.3
partly caused by							
Inflow of liquid funds from abroad **3**	−13.4	+23.0	+17.2	+22.7	− 6.6	+ 1.0	+ 6.8

1 Time deposits for less than four years. — **2** Change in net external claims of banks and Bundesbank. — **3** Change in the Bundesbank's net monetary reserves and banks' money market investments abroad (claims arising from money exported). — **4** Discrepancies in the totals are due to rounding.

liquid reserves diminish in quantity, but the degree of liquidity of some of the liquid resources of the banking system as a whole (viz. the short-term foreign assets) was reduced, since under the circumstances the Bundesbank desisted from purchasing foreign exchange and thus did not create any more central bank funds. A significant reason for the banks' changed "liquidity feeling" may well have been that the international money markets have in recent years been exceptionally productive so that any liquidity shortages that may have arisen for the individual bank appeared to be easily surmountable by recourse to its foreign connections. It is quite likely that progress in the field of bank administration and the generally more expansive business policy of the banks likewise modified opinions regarding the necessary volume of liquid reserves. The implication for the Bundesbank is that it must, as a general principle, act more restrictively if it wishes to obtain the same results as it used to.

... and declining interest rate level

How uncommonly abundant the credit supply of the banks was, also showed in the fact that the interest rate level in Germany dropped sharply despite much higher demand for credit during 1971 and the early months of 1972. The interest on short-term bank credits diminished more or less continuously in conformity with the discount rate. Thus in May 1970, before the first lowering of the discount rate, the banks were asking 9 % to 12 % for discount credits and 10 % to 12 % for current account credits. By contrast, at the beginning of March 1972 (that is, after the lowering of the discount rate at the end of February) the banks asked 3.5 % to 6.5 % for discount credits and 6.5 % to 10 % for current account credits. As was to be expected, the interest rates on long-term credits declined much less than those on short-term credits, although they too decreased quite appreciably. It is typical of the drop in interest rates in the long-term range that the yield on public authority bonds outstanding, which was 8.6 % in November and 8.2 % in December 1970, should have declined to 7.9 % in December 1971 and 7.3 % at the end of February 1972, representing a total reduction of just about 1.5 percentage points. In the months in which bank liquidity was markedly tighter – between June and September 1971 – the fall in interest rates on the capital market came to a halt, and indeed occasionally gave way to the opposite tendency. On an overall view domestic interest rates have dropped to a level which in the case of long-term credits may still appear high by comparison with earlier periods, but which in view of persisting inflationary expectations ought, if anything, to be described as moderate – and this is how it is clearly regarded by many borrowers. Even if one takes as a basis not the year-on-year price increase rate statistically established for the turn of the year 1971/1972 but the lower price rises expected in economic circles for the immediate future, the "real rate of interest" – i.e. after allowing for the fall in the value of money – is not high. When early in 1972 new issues were floated on the capital market with a nominal interest rate of 7 % and an issue price of 98½ %, the demand for capital expanded very vigorously, with the effect that the decline in interest rates was forthwith halted; indeed, throughout March and in early April the yields on securities actually rose slightly.

Large amounts raised on the capital market

Already in 1971 the bond market had proved quite productive (net sales: DM 19.4 billion, as against DM 15.4 billion in 1970 and DM 17.7 billion in 1969). These improved issue figures were due principally to the banks purchasing far more securities than in 1970, as well as granting more direct credits. During the early months of the year 1972 this tendency continued in accentuated form. In addition to the banks, non-banks and foreigners gained increasingly in significance as purchasers in the course of 1971 and early 1972. As regards banks' purchases of securities, and of course also some of the purchases of non-banks, there is no guarantee that the capital thus offered represents "genuine" savings, releasing production factors in the economy. On the contrary, quite a large proportion of this supply of capital is the result of credit creation possibilities inherent in the banking system, and thus a consequence of the liquidity available to banks, which at least at times was far too copious from the domestic angle. In the course of 1971 this was reflected very clearly in the fact that during the period when bank liquidity was under the complete control of the Bundesbank net purchases of securities by banks moderated, and indeed in one month were lacking altogether. As the banks' liquid reserves built up, so did the "productiveness" of the bond market, which, the more it derives from the credit creation of the credit system, is not without its problems for the overall economy. Detrimental effects on stability may ultimately show in the fact that certain important borrowers such as public authorities, housing and latterly also industrial enterprises – encouraged by expectations of comparatively easy credit financing – may again vigorously expand their expenditure plans, thus under certain circumstances helping to boost aggregate demand unduly.

(c) Interdependence of international liquidity

The size of money inflows from abroad

Hardly in any previous year have monetary developments in the Federal Republic of Germany been influenced so greatly by exchange inflows and outflows as they were in 1971. The figures of the German balance of payments for the entire year do not adequately reflect the dramatic course of events, since inflows and outflows over the year as a whole in part balanced out. Accordingly it is of no great significance for the assessment of international money flows that in 1971 the foreign exchange holdings of the Bundesbank (not allowing for losses arising from the revaluation of the Deutsche Mark and SDRs allocated) grew by DM 16.5 billion, and thus by somewhat less than in 1970, when the increase had been DM 22 billion. For one thing, in 1970 the foreign exchange position of German banks deteriorated sharply, while in 1971 it hardly worsened at all, so that for the Bundesbank and the other banks together there was a greater exchange inflow in 1971 than in 1970. For another thing, the ups and downs of exchange movements in the course of 1971 were greater than the year before, meaning that in this respect they were more comparable to movements in 1969 (when on balance there had been an exchange outflow). The exchange inflows were almost entirely due to net capital imports; on current account the balance of payments in 1971, unlike 1970 or 1969, no longer recorded any noticeable surpluses. It was mainly the short-term foreign borrowing of German non-banks which determined the volume of capital movements with foreign countries, although long-term capital imports were also quite appreciable (see page 99 ff.). In all periods in which funds were borrowed abroad there was an interest rate differential as against foreign countries, since the rates there declined in a fairly parallel way to those in Germany; the difference which had existed vis-à-vis the rates on the U.S. money market since the summer of 1970 decreased only temporarily. A similar development characterised the rates for Euro-Deutsche Mark, which are particularly attractive to German borrowers in that they involve them in no exchange risk and in addition were mostly offered with an interest rate discount by comparison with Euro-dollar credits.

Main cause: cheap money policy in the United States

The marked elasticity of the international finance markets undoubtedly derives from a good many causes, but it can hardly be denied that the causal chain in the monetary field begins with the policy of cheap money in the United States. The truth of this theory is borne out not only – as already explained in our last Annual Report – by the fact that the massive foreign exchange inflows into Germany in 1970 did not start until the Federal Reserve Board began to pursue a deliberate policy of lower interest rates, but also by the interdependence of effects on the international money markets. The factor responsible for the interest rate reductions in the United States was above all the creation of "base money" by the monetary authorities of the United States, who acted – and are still acting – with the intention of promoting economic growth at home and curbing unemployment. Measured by this objective, the creation of base money in the United States in 1971 moved entirely within reasonable limits. It amounted to approximately $ 6 billion, as a result of which the "monetary base" expanded by no more than 7 %. The expansion of the money stock (M_1) in the United States which this permitted, at $ 14 billion or 6.3 % in 1971, was not unduly large in the light of economic conditions. In domestic terms this monetary policy need not appear to pose particular problems, especially in view of the comparatively high level of unemployment. The real problems arise from the fact that in an international monetary system of a practically "pure dollar standard" U.S. monetary policy can have a strong effect on monetary developments in the other industrial countries as well, and that this – as we shall demonstrate – can under certain circumstances have repercussions which are much more pronounced in these other countries than in the United States itself.

The transmission mechanism

The relaxation of monetary policy in the United States is transmitted to the other countries by international payment flows and, among these, especially by credit transactions. Normally such capital transactions are not bilateral but largely – via the turntable of the Euro-dollar market – multilateral. The exaggeration of this development in 1971 was partly caused by the interest rate differential, but increasingly also by the loss of confidence in the dollar, not least on the grounds of the deterioration of the U.S. balance of trade. The results of these movements can be seen from the balance of payments of the United States and of all the industrial countries. Under the influence of the high capital exports from the United States (estimated at $ 28 billion), the "balance of official reserve transactions" of the United States showed a deficit of $ 30.5 billion in 1971.[1] The official reserves of the ten industrial countries which are the principal recipients of the dollar inflow from the United States (countries of the Group of Ten including Switzerland) rose during the same year by just under $ 31 billion.[2] For these countries the foreign exchange inflows to their central banks are of far greater monetary significance than the outflows from the United States are for that country's monetary policy; in these countries the acquisition of dollars by the central monetary authorities is accompanied by the creation of central bank funds, thereby inevitably furnishing the basis for a far greater national money creation. Even if an attempt is made to offset this central bank money creation by restrictive measures in the domestic field, success – as already observed in respect of Germany – is negligible. The result is, rather, that owing to the involuntary expansion of central bank funds through dollar purchases the national money supply of the countries other than the United States is enlarged in an inflationary way. What then happens can be seen from the table on the facing page. In 1971 the money stock (M_1) of the ten industrial countries (not including the United States) shown there expanded by approximately $ 50 billion, or 18 % of the level at end-1970. Countries recording particularly large official reserve surpluses also showed a particularly large increase in the money stock (Japan: 30 %); other countries with less marked reserve surpluses (France: 11.5 %) or with more stringent domestic restrictions (Federal Republic of Germany: 12.5 %) registered a somewhat smaller growth. Whereas this expansion of the money stock produced far too much scope for the raising of prices and wages in the case of the European countries (and Japan), the underlying large balance of payments deficits of the United States had no immediate repercussions on that country's economy. The only thing that changed materially for the United States, as the world's reserve currency country, was the fact that its short-term indebtedness in its own currency vis-à-vis foreign countries increased substantially. On the other hand, in contrast to what non-reserve currency countries would have to do in the case of deficits, the United States surrendered only minor quantities of gold, special drawing rights and other currencies, and indeed stopped such transfers

1 Not including special drawing rights allocated.

2 The almost complete correspondence of the deficit of the United States and the surpluses of the ten industrial countries is partly fortuitous; normally there would be no such coincidence for the mere reason that both regions also record deficits or surpluses in payments with third countries (see also the table).

Money stock and official reserve balances of important industrial countries

Year	United States							Other industrial countries 1			
	Monetary base 2, 7			Money stock 3, 7			Official reserve balance 4, 5 (surplus: +, deficit: –)	Official reserve balance 5, 6 (surplus: +, deficit: –)	Money stock 3, 8		
		Change on year			Change on year					Change on year	
	$ bn	$ bn	%	$ bn	$ bn	%	$ bn	$ bn	$ bn	$ bn	%
1967	71.3	+ 4.1	+ 6.1	188.6	+11.7	+ 6.6	– 3.4	± 0	218.4	+20.6	+10.4
1968	77.5	+ 6.2	+ 8.7	203.4	+14.8	+ 7.8	+ 1.6	– 4.0	240.0	+21.6	+ 9.9
1969	78.3	+ 0.8	+ 1.0	209.8	+ 6.4	+ 3.1	+ 2.7	– 2.5	258.9	+18.9	+ 7.9
1970	83.3	+ 5.0	+ 6.4	221.2	+11.4	+ 5.4	–10.7	+14.8	296.8	+37.9	+14.6
1971	89.1	+ 5.8	+ 7.0	235.1	+13.9	+ 6.3	–30.5	+30.5	350.1	+53.3	+18.0

1 EEC member countries, United Kingdom, Japan, Canada, Switzerland and Sweden. – 2 Seasonally adjusted. – 3 Currency (excluding banks' cash balances) and sight deposits of domestic enterprises and individuals with the banking system (in the case of the United States, plus foreigners' demand deposits with Federal Reserve banks). – 4 Besides official liabilities, the official reserve transactions balance contains liabilities of U.S. commercial banks to foreign monetary authorities. – 5 Excluding special drawing rights allocated in 1970 and 1971. – 6 1971 figures partly estimated. – 7 December averages. – 8 End of year figures. – Sources: International Financial Statistics (IFS) and national publications.

completely from the moment when the convertibility of the dollar was suspended. Under these circumstances there is no automatic reaction on the part of the United States which would lessen the balance of payments deficit. This circumstance, which has often been emphasised, contributes to the instability of our monetary system – an instability which the Federal Republic of Germany has been able to escape only in part, and certainly not sufficiently.

National safeguarding measures

In the light of the serious consequences of the dollar influx it was almost inevitable that safeguarding measures should be adopted in Germany, as also in other countries. One of the possibilities was for the Bundesbank to give up its mandatory interventions on the foreign exchange market, and the Federal Government did in fact decide in favour of this in May 1971. However, it soon became apparent that flexible exchange rates cannot be maintained for any length of time in an economy so closely intertwined with those of its neighbour countries as that of Germany, at least not on its own. The hoped-for realisation of a monetary union within the EEC calls for common steps on the part of the participating countries to ward off undesirable money inflows. Among the various possibilities open for this purpose Germany elected to introduce a cash deposit requirement on certain forms of borrowing abroad. It would be gratifying if such measures were to become unnecessary owing to a reduction in the international interest rate differential and a return of confidence in the U.S. dollar. However, as long as the risk of large exchange inflows persists, the national money markets will have to be protected against a surfeit of liquidity such as it was found impossible to avoid in 1971 to the detriment of all countries.

3. A glance at the problems of the domestic economy in 1972

Conclusion of the phase of slower economic growth

Quite apart from the tasks which present themselves today and in the near future for the international monetary system – they will be dealt with in the following Section on international monetary trends and monetary policy – economic policy in Germany in 1972 must make every effort as far as possible to correct some of the misdirected developments of the previous years. It would no doubt create certain problems if in spite of continuously growing capacities production were to go on stagnating, or even drop, as was feared around the turn of the year. In the light of the facts and figures known as this Report goes to press there can, however, be hardly any doubt that the economy will resume its growth. In the first few months of 1972 production again picked up, seasonally adjusted; short-time working became less common and demand grew stronger. The figures for January and February and the few data available for March may have turned out particularly favourable as a result of the mild winter weather, the earlier strikes, etc., but even if some allowance is made for these factors the impression still prevails that the stagnation is gradually being overcome. A particularly important consideration in this respect is that some features which in 1971 slowed down the course of business activity no longer appear to be acting in that direction:

- First, it appears quite probable that in 1972 investment in stocks will not be cut back still further (contrary to what happened last year), but that, if anything, it will be stepped up again. Increased orders for essential primary materials, in particular, have for some time now been coming in from the processing firms.

- Second, as far as can be judged from the prevailing tendencies, there is no reason to expect the surplus in transactions in goods and services with foreign countries to decline further, as it did in 1971 – a trend which tends to have a dampening effect on domestic sales of German producers, especially in price adjusted terms. Seeing that exports are rising vigorously while imports are growing only at a slow rate, the surplus on goods and services has increased noticeably since the beginning of the year. Orders coming in from abroad are also picking up significantly.

- Third, it must be taken into consideration that capital investment is unlikely to diminish any further in 1972. In January and February domestic enterprises again placed sizable orders for capital goods, although of course this does not imply that a definitive change is taking place in enterprises' propensity to invest. Even if this component of investment activity were for the time being to remain comparatively subdued, there can be no doubt that investment intentions in other fields – be it in housing or in the public sector – are unequivocally on the upgrade.

- Fourth, it is certain that both private and public consumption will increase quite considerably above the figures for the previous year, especially since disposable private income will be augmented by the repayment of the anticyclical surcharge; nevertheless, demand in these spheres, too, will not rise as strongly as in 1971.

In the prospective National Accounts for 1972 all the components of demand, with the exception of enterprises' investment, accordingly show a marked increase over the figures for the preceding year. It is thus quite possible that the rise in nominal demand will in the further course of the first six months of 1972 – as already in January and February – be transmitted to production as well (whereas in the forecasts made around the turn of the year an increase in production was not anticipated before the second half of the year). Should these expectations be fulfilled, the stagnation in economic growth would have come to an end.

Continuation of price rises

Once the period of slow growth has been overcome – which will possibly be a gradual process – price stabilisation must again take pride of place in economic effort. There is reason to believe that owing to comparatively favourable conditions for advances in productivity there may initially be a chance of price rises slowing down and of prices increasing less in 1972, taken as a whole, than in the previous year. The Federal Government and other bodies that made quantified forecasts at the turn of the year expect the cost of living index to go up by about 4.5 % in 1972. However, allowing for the fact that the expected revival of economic activity will encounter relatively small production reserves, especially on the labour market, it is possible that the prospects of a further slackening of price rises will be eclipsed comparatively rapidly. There would be a tangible risk of the 1972 rate of price rises forming the platform from which fresh price rises could build up in the future if the upswing of business activity were to continue. Already at this juncture, therefore, economic policy should envisage steps suitable to forestall such a possibility.

Tasks for fiscal policy ...

A special place among these efforts is accorded to fiscal policy, which in its effectiveness is much less subject to counteractive influences from abroad than monetary policy is. The Federal Government, the Fiscal Planning Council and the Advisory Council on Economic Trends took account of the above apprehensions

Record of economic and monetary measures

1971	**I. Economic and fiscal policy**
Late January	The Federal Cabinet publishes the 1971 Annual Economic Report containing the conclusions reached during the discussions of the Advisory Council on Anticyclical Policy on January 15, 1971, viz. that the dissolution of the anticyclical reserve and the premature termination or repayment of the anticyclical surcharge are not compatible with the economic situation.
March 5	The Federal Minister of Finance orders restraint in the management of the 1971 Federal budget.
May 9	The Federal Cabinet announces a stabilisation programme for public authorities designed to – reduce the budget appropriations of the Federal Government and Länder Governments by DM 1 billion and DM 0.8 billion respectively, – channel additional Federal and Länder tax revenue into the anticyclical reserve (DM 1 billion and DM 0.7 billion respectively), – curtail the borrowing requirement of the central, regional and local authorities, – reduce the acceptance of commitments extending into future budget years.
June 11	The Federal Cabinet decides upon the principles and basic values for the envisaged 1974 tax reform.
September 11	The Federal Cabinet adopts the 1972 budget estimates, which provide for a volume of DM 106.6 billion and a deficit of DM 5 billion, along with a contingency budget of DM 2.5 billion. It decides to increase the taxes on petrol, tobacco and spirits. The Federal fiscal plan for 1971 to 1975 is also adopted.
December 10	The Federal Minister of Economics and Finance elucidates the macro-economic basic data and the key issues of economic policy in 1972 at a "concerted action" meeting.
1972 Late January	The Federal Cabinet publishes the 1972 Annual Economic Report: the provisional management of the budget is to be effected in such a way as to give appropriate support to overall demand; the contingency budget may possibly be put into effect from about the spring; and a start is to be made in the summer on the repayment of the anticyclical surcharge on income and corporation tax.
March 9	The Fiscal Planning Council and the Advisory Council on Anticyclical Policy affirm: there is no need to activate the Federal and Länder contingency budgets and release the anticyclical reserves; the emerging new debt of the public authorities does not conform to economic requirements; expenditure plans must be re-examined and reduced to a macro-economically justifiable level.
March 15	The Federal Minister of Economics and Finance announces that the anticyclical surcharge will be repaid in June 1972.
1971	**II. Monetary policy**
March 31	The discount rate is lowered from 6 % to 5 % and the lombard rate from 7½ % to 6½ %; rediscount quotas are cut by 10 % with effect from April 1.
April 1	For a short period the Bundesbank conducts swap transactions with German banks.
April 2–28	The Bundesbank engages in outright interventions on the forward exchange market.
May 9	The exchange rates of the Deutsche Mark and the Netherlands guilder are floated with effect from May 10. The Swiss franc is revalued by about 7 % and the Austrian schilling by about 5 %.
	Ban on the payment of interest on non-residents' deposits with German banks.
June 2	The minimum reserve ratios on reserve-carrying domestic liabilities are raised by 15 % and on external liabilities to twice the amount of the new domestic ratios with effect from June 1971 (tying up about DM 5 billion of liquidity). The reserve ratio on the growth of external liabilities remains unchanged at 30 %.
	Additional rediscount quotas for "third country bills" are cancelled with effect from October 1, 1971.
August 15	The U.S. Government decides on measures to rehabilitate the balance of payments, including: – suspension of the convertibility of the U.S. dollar into gold, – surcharge of in most cases 10 % on merchandise imports, – tax reliefs for purchases of home-produced capital goods, – ninety-day price and wage freeze.
	The obligation of the other members of the IMF to keep their exchange rates against the U.S. dollar within the stipulated margins of fluctuation thus ceases to apply.
August 16–20	The foreign currency exchanges are closed.
Late September/ early October	The Bundesbank engages in outright interventions on the forward exchange market.
October 13	The discount rate is lowered from 5 % to 4½ % and the lombard rate from 6½ % to 5½ % with effect from October 14.
	The minimum reserve ratios on domestic liabilities are lowered by 10 % with effect from November 1, 1971 (releasing about DM 3 billion of liquidity). The reserve ratios on the total and the growth of external liabilities remain unchanged.
December 10	The Bundestag passes an amendment to the Foreign Trade and Payments Law (Cash Deposit Law), which enters into force on January 1, 1972.
December 17/18	Agreement of the countries of the Group of Ten in Washington on the – establishment of "central rates" among the countries of the Group of Ten, – widening of the margins of exchange rate fluctuation to ± 2¼ %, – devaluation of the U.S. dollar in terms of gold by just under 8 %, – suppression of the 10 % import surcharge and the job development credit by the United States.
December 21	The new "central rate" of the Deutsche Mark is fixed at DM 3.2225 = US$ 1.
December 22	The discount rate is lowered from 4½ % to 4 % and the lombard rate from 5½ % to 5 % with effect from December 23, 1971. The minimum reserve ratios on reserve-carrying domestic liabilities are lowered by 10 % with effect from January 1, 1972 (releasing about DM 2.9 billion of liquidity). The reserve ratios on the total and the growth of external liabilities remain unchanged.
1972 February 24	The discount rate is lowered from 4 % to 3 % and the lombard rate from 5 % to 4 % with effect from February 25, 1972.
	The rediscount quotas are cut by 10 % with effect from March 1, 1972 (reducing the banks' free liquid reserves by about DM 2.3 billion).
	The reserve ratio on the growth of external liabilities is raised from 30 % to 40 % with effect from March 1, 1972. The base for the calculation of the growth reserve is updated (November 1971 instead of November 1970).
March 1	A cash deposit requirement is introduced on certain credits raised abroad by enterprises and banks, the ratio being 40 % of the liabilities subject to the deposit.

in March 1972, in that they shelved, at least for the current year, the "contingency budgets" originally envisaged. This measure will not be sufficient on its own since, as explained in greater detail on page 82 ff. of this Report, the "basic budgets", including the release of the anticyclical surcharge, already have a highly expansive effect. It is true that some of the planned increases in expenditure are already fixed, especially now that decisions have been taken on wage rises in the public service and on other measures in the field of civil service pay. However, it seems to have been of some importance that a low level of business activity was expected when planning for 1972. The more it becomes apparent that special fiscal stimulation of activity is not required, or at least not to the extent envisaged, the more the planned increases in expenditure will have to be reviewed. In any case, the fact that credit markets in Germany have hitherto proved highly elastic and might permit a higher level of credit financing than in the previous year ought not to be construed as meaning that correspondingly higher deficit financing is also neutral in respect of the value of money. The acceptable size of the government deficit can only be measured by the available real resources – specifically the degree of utilisation of the production potential – not, however, by the possibilities of financing budget deficits, not even when the funds required are borrowed on the "capital market" as distinct from the "money market". A deficit of the central, regional and local authorities which according to the present state of planning (including the release of approximately DM 6 billion of anticyclical surcharge) may be estimated at more than DM 26 billion would not only go far beyond the "cyclically neutral" deficit (which for 1972 can be estimated at about DM 12 billion), but would also exceed the additional (but not very great) margin available on top of this owing to a certain under-utilisation of the production potential.

... and for incomes policy

The further movement of prices will naturally also be greatly affected by future wage policy. While it is true that in the latest wage settlements growth rates have been considerably slower than a year ago, the increases (including all auxiliary arrangements) are still running at about 7 %. The extent of the productivity gains to be expected in 1972 (between 3.5 and 4.5 %) is thus again being greatly exceeded. In current wage settlements it is clearly an important factor that both labour and management are counting on further considerable price rises: the employees because they are anxious to protect themselves against a decline in their real income through price rises by securing comparatively large wage increases, and the employers because they believe that cost increases caused by higher wages can largely be passed on. Persistent anticipation of rates of inflation in this way would certainly have dire consequences for wide sections of the population. Even if it were feasible to minimise the adverse effects of sustained price increases on real incomes in respect of the active members of the labour force, and to step up their "prosperity" still further – the increase in the share of wages in national income in recent years shows that this is possible over a certain time – those who have left the labour force would nevertheless be hard hit by the price rises. On page 86 ff. of this Report figures will be found which show how greatly in the inflationary process of the past few years the relationship between social security pensions and the earnings of the actively employed has changed to the detriment of the pensioners and that this comparative discrimination against pensioners will continue for the time being and taper off only slowly.

Negative effects on distribution of wealth

Even assuming that employees will be able to maintain their share in national income, a matter of no less gravity is that in the event of persistent inflationary developments it will not be possible to prevent the distribution of national wealth from changing to the disadvantage of the general public. Inflationary tendencies always favour the net debtor and place the net creditor in a national economy at a disadvantage. Net creditors are in the first place households, above all those of wage and salary earners, for whom the acquisition of financial assets represents a particularly appropriate form of wealth formation, even though wage and salary earners and pensioners now increasingly own real assets (especially land and buildings). At the end of 1971 the net financial assets of households, calculated at nominal values (i. e. not deducting debts for the construction of dwellings owned by households), amounted to approximately DM 465 billion. Only a small part of this, namely holdings of shares and corresponding investment fund units (approximately DM 25 billion at issue values) have the character of real assets; DM 440 billion are claims of various kinds under the law of contract denominated in currency units. These financial assets do not change their nominal value when the price level changes. The nominal value of real assets, by contrast, increases more or less vigorously with the general tendency towards inflation. Some particular types of real assets, especially land with or without buildings, normally actually increase their value more than the general price level, whereas in the case of other forms of real property, particularly those that are exposed to risks, such as enterprises subject to pressure on earnings, the increase in value may be below the average.

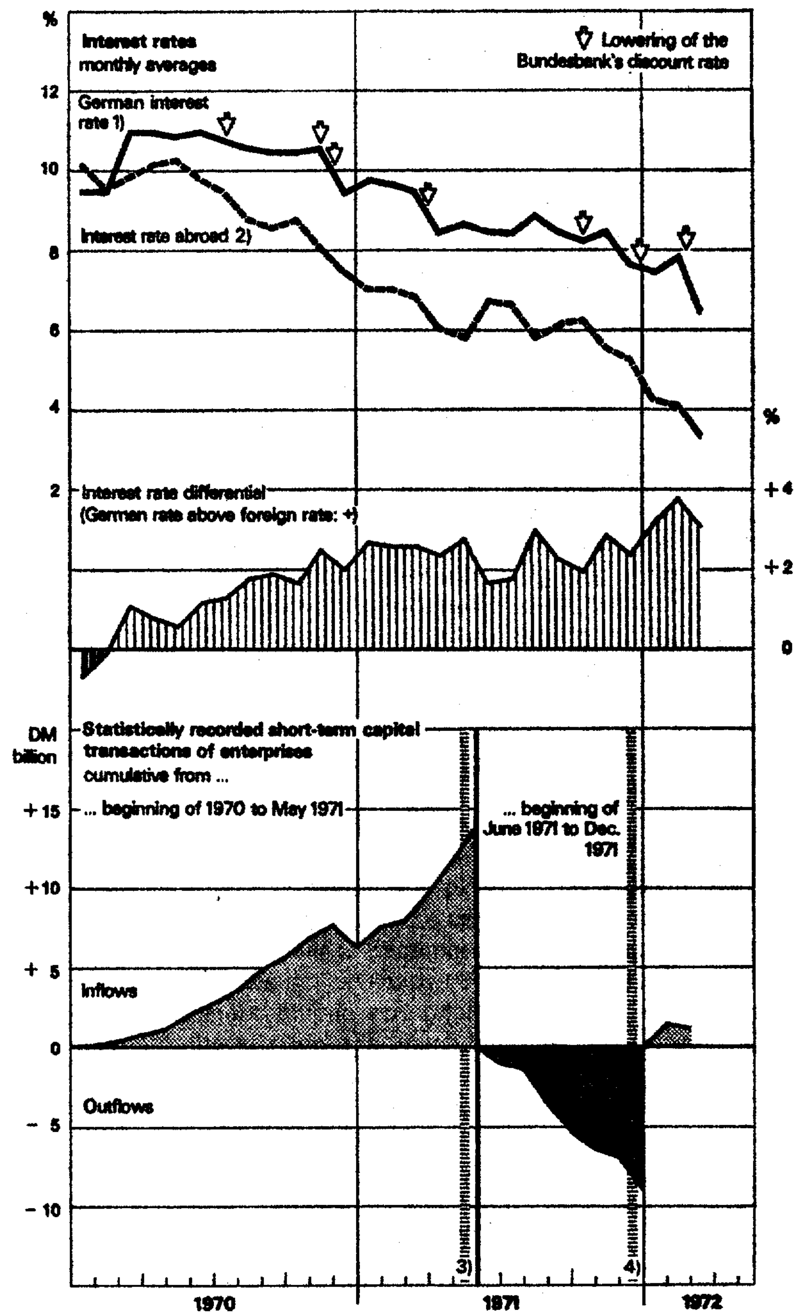
Increase in value for real property

A glance at the orders of magnitude involved, difficult though it may be to express them in figures, will serve to illustrate the extent of inflation-induced shifts in assets in the Federal Republic of Germany: applying figures given by the Federal Statistical Office, the net real assets of the economy (not including land), calculated at current values according to owners' estimates, can be assessed at something like DM 2,000 billion at the end of 1971. Including land, for which no overall estimates exist as yet, the current value of real assets is probably something like DM 2,500 billion. Some of these assets, such as agricultural property and real estate, are widely disseminated, but by far the greater part is concentrated in enterprises of every kind. In the event of a general increase in value, as a result of an inflationary process, of for instance 5 % per annum, the nominal value of total real assets would increase mathematically by DM 125 billion owing to inflation (in addition, of course, the growth in ownership of real assets continues on account of the new investment of the asset-owners' own funds). Those not owning real assets, however, do not obtain any such increase in value for the assets they possess in monetary form. Even if they step up their saving, they can scarcely reach the point where their share in overall national wealth, expressed at current prices, is maintained, once there are major inflation-induced increases in the value of real assets. The owners of financial assets may – as they did in 1971 – increase their wealth by roughly DM 60 billion per annum; but this presupposes that they forgo consumption. The only sure way in which the share of owners of financial assets in the overall national wealth calculated at current prices can be maintained, and if at all possible expanded in conformity with current saving, is to keep the value of money stable. Given stable money, existing real assets would rise in value comparatively little, while the increase in wealth (for owners of real assets as well) would be restricted to what they have saved and newly invested. For wage policy the important thing in the long run should therefore not simply be to guarantee, or to raise, the wage and salary earners' share in the national income; in the interests of wage and salary earners and of social peace wage policy should also be concerned with safeguarding the value of money, thus helping to prevent inflation-induced changes in shares in national wealth to the disadvantage of the broad mass of the population. This would presuppose that, as more and more wage and salary earners become owners of financial assets – and an impressive number are so today – wage policy should not predominantly be guided by nominal wage increases but should also give consideration to the above-mentioned adverse effects on the distribution of wealth of price rises for which wages may be responsible.

Tasks of monetary policy

The prerequisite for the contribution of monetary policy to the containment of inflationary tendencies – a contribution which cannot in fact be dispensed with – is that in the presence of persistent excess liquidity on the international credit markets effective safeguarding against money inflows from foreign countries is assured. The renewed lowering of the short-term interest rate level in Germany in February 1972 and the introduction of the cash deposit requirement promise, to judge by initial experience, to work in this direction, without it being in any way certain that their impact will be adequate. Of course, a great deal will also depend upon the future monetary policy of other countries, especially the United States. If short-term money were to become somewhat more expensive on an international scale, as seemed to be the case in the last few weeks before this Report went to press, the safeguarding of Germany against interest-induced capital inflows will become that much easier. In the case of major speculative movements – which are not in evidence at the present moment and which are not very probable after the considerable upvaluation of the Deutsche Mark – more stringent counter-

Interest rate differential and enterprises' short-term capital transactions



1) Based on average lending rates for fairly large credits in current account (DM 1 to 5 million), taken from the Bundesbank's interest rates statistics.- 2) Three-month money rates (incl. forward exchange cover) in interbank transactions, plus 0.5 % premium in transactions with non-banks.- 3) Floating of the Deutsche Mark on May 10, 1971.- 4) Re-alignment of the exchange rates of the principal industrial countries on December 18, 1971.

measures might have to be resorted to. Under German law the Federal Government has powers to introduce quantitative controls on capital transactions in case of need. The fact that so far no such controls have been envisaged derives from the justifiably high esteem in which the freedom of international capital transactions is held. Analogously to the free exchange of goods, the economic advantage of free international capital transactions is mainly to be seen in the fact that they help to ensure that economic resources are utilised in as efficient a manner as possible. In a world economy safe from inflation, with a soundly based international monetary system, this advantage is likely to be gained by a maximum of freedom in capital transactions. The results of capital transactions under the conditions obtaining during recent years — especially the effects of the short-term, mostly speculative waves of capital inflows and outflows – have however managed to put this success in jeopardy. With a sufficient measure of external safeguarding, monetary policy should be able, by flexible application of the available instruments, to keep monetary expansion under more effective control in future than in the past. In the light of the experience of the past few years this also means that the possibilities open to banks for recourse to the central bank must be kept within such close limits that any restriction of liquidity really has an impact on the banks' lending policy, even when they believe – as seems to be the case at present – that they can get by with less liquidity than formerly.

II. International monetary trends and monetary policy

1. General survey

Mark of the dollar crisis

International monetary developments in the period under review were completely dominated by the *dollar crisis*. In view of the dollar's position as a key currency this crisis affected the entire international monetary system. International monetary policy was therefore confronted with a twofold task: first, a sustainable balance of payments equilibrium between the United States and the rest of the world had to be restored; second, a reform of the international monetary system had become inevitable, both to take account of the changed position of the dollar and to make the monetary system less crisis-prone in the future.

A major contribution to the solution of the first problem was the Washington Agreement reached by the Group of Ten in December 1971. Under the terms of this agreement the dollar was devalued in relation to the other major currencies with a simultaneous realignment of the relationships between these other currencies. It will presumably take some time for the realignment of exchange rates to have its full effect on the trade balances and current accounts of the countries involved, particularly the United States. The defence of the new exchange rate structure in this intermediate period has become a major task of external monetary policy for a number of countries. In the Federal Republic of Germany it has also strongly influenced domestic monetary policy, as described in more detail in Section I of this Report. Regarding the second problem — i. e. improvements in the international monetary system — various ideas and proposals have been forthcoming from official and unofficial quarters alike, especially from IMF experts. But present indications are that negotiations about such improvements will be time-consuming and will probably not be successfully concluded before tangible progress has been made towards the restoration of monetary and balance of payments equilibrium between the United States and the rest of the world.

Main causes of the crisis

The dollar crisis of last year was the consequence of various developments which converged around the middle of 1971 in a world-wide monetary crisis. The most important of these factors were on the one hand the *massive flows of short-term funds* from the United States to other industrial countries, and on the other the worsening of the *fundamental disequilibrium* latent for some time in the U.S. current account and basic balance. The outflow of funds from the United States began on a large scale as early as 1970, and continued at an even faster rate in the first few months of 1971. Up to the beginning of May 1971 a substantial proportion, though by no means all, of these partly speculative and partly interest-induced capital flows poured into Germany, but also into the United Kingdom and some other countries. It was in Germany that the dams broke first. As the influx increasingly swamped the German monetary system with steadily growing inflationary effects, and finally assumed the dimensions of a flood, on May 5 the German Government saw no alternative to temporarily closing the foreign exchange market and subsequently permitting the exchange rate of the Deutsche Mark to fluctuate freely. Some European countries followed suit, either, like the Netherlands, by also discontinuing their purchases of foreign exchange and allowing the exchange rate to fluctuate freely in the markets or, like Switzerland and Austria, by revaluing their currencies by a fixed percentage. Other countries tightened their controls on capital imports to ward off unwanted dollars.

The May crisis proved to be no more than a prelude to the world-wide dollar crisis that followed. For a time, it is true, the above-mentioned measures taken by some European countries to fend off excessive dollar inflows relieved the pressure on the international monetary system and particularly on the dollar itself. But this relief lasted no more than a few months, for in the meantime it had become obvious to the world public, not least because of a series of sensational U.S. trade deficits from April 1971 onwards, that the crisis was not caused simply by strains and disruptions in the short-term money and capital flows between certain countries, but that the underlying factor was a dangerous fundamental disequilibrium in the current account and the basic balance (i. e. the current and long-term capital transactions) of the United States. Thus a new, world-wide dollar crisis erupted in August. On August 15, the President of the United States reacted to this crisis by announcing far-reaching external measures, besides a domestic

U.S. measures of August 15, 1971 ...

programme to reduce inflation and combat economic stagnation. The convertibility of the dollar into gold and other reserve assets was suspended, and a 10 % surcharge was temporarily imposed on a large part of U.S. imports. The object of these measures was to contain speculation against the dollar, to rehabilitate the balance of payments by adjusting the dollar rate, to re-arrange trade relationships between the United States and its major trading partners, and to pave the way for what President Nixon called "an urgently needed new international monetary system".

... result in most currencies being floated

The U.S. measures induced most industrial countries, though by no means all, to stop buying dollars at a fixed intervention rate, meaning that their currencies fluctuated subsequently against the dollar, and thus also against each other. The period of floating came to an end in December with the above-mentioned general realignment of exchange rates, which was accompanied by a widening of the exchange rate margins. Important questions remained unresolved, however, particularly the question of how dollar convertibility could be restored and what the future world monetary system would look like in other respects.

The course of the great monetary crisis in 1971 was thus marked by three outstanding events: first, the May crisis, with the suspension of dollar purchases by the Federal Republic of Germany; second, President Nixon's message of August 15; and third, the Washington Agreement of December 18. Another important landmark in international monetary developments was the decision the EEC Council of Ministers took in March 1972 to resume and intensify work on a European economic and monetary union.

2. International capital movements as a source of crisis

Disruptive short-term capital movements reach their peak in 1971

Between 1968 and 1970 there had already been large fluctuations in capital transactions between the United States and other industrial countries, particularly those in the Group of Ten. The disruptions this caused to international monetary equilibrium were described in detail in last year's Annual Report.[1] In 1971 such money movements and the disturbances they triggered reached a peak which is unlikely to be surpassed. The net capital outflow from the United States in that single year reached the enormous amount of almost $ 28 billion, i. e. nearly two and a half times the net capital outflow of the preceding year, which itself had been wholly exceptional (see the table overleaf). This $ 28 billion was fully reflected in a corresponding rise in U.S. dollar liabilities to foreign monetary authorities. Thus, U.S. net capital exports, and particularly the flight from the dollar, constituted by far the most important source of world reserve creation last year. Only a fraction of this capital outflow went to less developed countries; the greater part accrued to other industrial countries. The OECD countries other than the United States had a net surplus on their capital accounts of the order of $ 24 billion in the same year; and since those countries exported capital to non-OECD countries, particularly to the developing countries, the net inflow to them from the United States and the Euro-currency market was even larger. In this analysis short and long-term capital transactions (including the balancing item of the balance of payments) have been added together; in the past it seemed useful to separate long-term and short-term capital transactions since the former were thought to promote the "genuine" transfer of real resources from countries richly endowed with capital to those in need of capital while the latter were frequently held to be nothing more than a shunting around of short-term monetary liquidity between developed industrial countries. More recently, however, the distinction between the two categories of capital has become rather blurred. At any rate in 1971 it appears that differences in interest rates and bank liquidity between the industrialised countries, due to monetary policy and speculative considerations, increasingly triggered capital movements which are statistically recorded as "long-term capital transactions".[2]

1 See Report of the Deutsche Bundesbank for the Year 1970, page 32.

2 This applies – statistically speaking – to long-term U.S. capital exports, which were abnormally swollen in 1971, and also, for instance, to long-term capital imports into Germany, some of which were likewise monetary and speculative in character, especially where German banks acquired abroad formally longer-term funds.

Basic data from the U.S. balance of payments

Billions of U.S. dollars

Item	Annual average 1960–67	1968	1969	1970	1971
1. Trade balance	+ 5.0	+ 0.6	+ 0.7	+ 2.1	— 2.9
2. Current account	+ 3.2	— 0.4	— 0.9	+ 0.4	— 2.8
3. Long-term capital movements	— 4.4	— 1.0	— 2.0	— 3.5	— 6.5
4. Basic balance	— 1.2	— 1.3	— 2.9	— 3.0	— 9.3
5. Short-term capital movements (including balancing item)	— 0.7	+ 3.0	+ 5.6	— 7.7	—21.2
of which: Change in short-term external position of U.S. commercial banks	1 (+ 0.5)	(+ 3.7)	(+ 7.8)	(— 7.4)	(— 9.1)
6. Overall balance of payments					
(a) Official reserve transactions	— 1.9	+ 1.6	+ 2.7	3 —10.7	3 —30.5
(b) Liquidity balance 2	— 2.9	— 1.6	— 6.1	3 — 4.7	3 —22.7

Source: Survey of Current Business; OECD. — 1 Annual average 1961 to 1967. — 2 Change in monetary reserves and in net liquid external liabilities. — 3 Excluding allocations of special drawing rights: 1970 about $ 0.9 billion; 1971 about $ 0.7 billion.

Main target up to May 1971: Federal Republic of Germany

Up to the suspension of dollar purchases by the Bundesbank in May 1971, the Federal Republic of Germany was one of the countries that suffered most from the spate of funds pouring out of the United States. In the 17 months from January 1970 to May 1971 the Bundesbank had to take in more than $ 11 billion all told.[1] As a result Germany's monetary reserves shot up from DM 26 billion at the end of 1969 to almost DM 69 billion at the end of May 1971. The effects of this flood of liquidity on the German money system have been described in more detail in Section I. Only a small part — some $ 0.9 billion — of the foreign exchange influx stemmed from the German current account surplus; almost all of it was caused by net capital imports (some $ 10.5 billion). Thus the swelling of Germany's monetary reserves since the beginning of 1970 constituted almost entirely "borrowed reserves". The increase in reserves was accompanied by an almost equal rise in Germany's foreign debt (primarily its short-term debt), which can of course be very volatile. This fact is sometimes overlooked when imaginative proposals are put forward for the use of allegedly "surplus" monetary reserves.

Movements due to interest rate differentials and speculation ...

Up to about March 1971 movements of funds into Germany were predominantly determined by the differential in interest rates and the discrepancy in the liquidity situation between Germany on the one hand and the United States and the Euro-dollar market on the other. Germany was by no means the only European country to feel the effects of the reversal in U.S. interest rate and liquidity policy from the beginning of 1970. In 1970 and the first quarter of 1971 the German reserve gains accounted for 40 to 45 % of the total influx into the Group of Ten countries outside the United States. In the first quarter of 1971, in fact, the United Kingdom took in slightly more dollars than Germany (some $ 2.3 billion against $ 2.1 billion); however, it was able to use a large proportion of this inflow to repay monetary assistance received in earlier crises. Moreover, the pound sterling, unlike the Deutsche Mark, was in no respect a revaluation suspect at that time. In Germany, on the other hand, the interest-induced inflows were more and more overshadowed by speculative foreign exchange movements from March 1971 onwards. In April the Bundesbank had to purchase "only" $ 0.9 billion on the spot market, but at the same time it bought $ 2.1 billion forward; taken together the inflow in that month thus already totalled $ 3 billion. The speculative flood reached its peak at the beginning of May, when no less than $ 2.1 billion poured in within three days. This speculative excess resulted in the temporary closure of the German foreign currency exchanges and, from May 10, the floating of the Deutsche Mark rate with the suspension of official dollar purchases within the margins previously in force.

... reach first peak at the beginning of May 1971

Suspension of dollar purchases

At that time there could still be some doubt as to whether official dollar purchases could not, after all, have been resumed at the old parity of the Deutsche Mark pro-

1 Excluding the dollar forward purchases in February and April 1971, totalling $ 2.7 billion.

vided an effective mechanism were set up designed to discourage interest-induced and speculative inflows of foreign funds. This question was much discussed at the time, but was rendered irrelevant by subsequent events.

Abrupt change in U.S. monetary policy . . .

Influential foreign observers have sometimes claimed that at least the first dollar crisis of May 1971 – which might also be termed a "dollar-Deutsche Mark crisis" since the dollar and the Deutsche Mark were predominantly involved – could easily have been avoided by a "reasonable coordination of American and German monetary policies". Apart from the fact that this would have at best postponed the inevitable major dollar crisis, a contention of this kind is an inadmissible simplification for various other reasons. In January 1970, in view of persistent stagnation and unemployment, the monetary authorities of the United States had switched rather abruptly from their previous policy of severe restraint to one of pronounced credit ease. U.S. interest rates began to decline, bringing down the yield on three-month Treasury bills, for example, from almost 8 % in January 1970 to 3 % in March 1971. For the Federal Republic of Germany, which in 1970 was still on the crest of a boom with over-full employment and dangerous inflationary tensions, it was quite impossible to follow this reversal of U.S. monetary policy at once and to its full extent. The Bundesbank did in fact try to prevent the interest rate differential vis-à-vis the Euro-currency market from becoming too large: contrary to the requirements of domestic stability, it lowered the discount rate between July 1970 and March 1971 in four stages from $7^1/_2$ % to 5 %. But this was not sufficient to keep pace with the relaxation of liquidity and interest rate policy in the United States. The situation was made even more difficult by another factor: during the preceding period of restraint in the United States the U.S. banks had obtained roughly $ 12.5 billion of liquid funds from banks abroad in 1968/69, mainly through the Euro-dollar market, and had thereby pushed their short-term indebtedness to their foreign branches alone to over $ 14 billion. Inevitably, the easing of credit policy from the beginning of 1970 resulted in the banks running down this relatively expensive external indebtedness at a rapid pace. Thus in 1970/71 some $ 13 billion was channelled back on to international money markets by U.S. banks. According to statements by leading U.S. experts these in- and outflows of liquid foreign funds did not unduly disturb U.S. monetary policy, owing to the large size of the U.S. money system. But for the rest of the world it is difficult to cope with such rapid *ebbs and flows of liquidity,* set off by U.S. monetary policy, especially as the dollar flows into other countries very often lead to an increase in "high powered" central bank money. Neither Germany nor the other European countries affected could possibly lower interest rates in Europe so swiftly and effectively as to forestall the U.S. repayments to the Euro-money market.

. . . poses difficult problems for other industrial countries

Germany insulated from unwanted inflows after May 1971

By suspending official dollar purchases at a fixed intervention rate and floating the Deutsche Mark from May 10, 1971 Germany successfully avoided further disruptive capital inflows for the rest of the year. This is not in principle altered by the fact that the Bundesbank bought a certain amount of forward dollars on its own initiative in September and October 1971, with a view to influencing the exchange rate of the Deutsche Mark particularly as the amounts involved were not very large. Between the beginning of June and August 6, the Bundesbank was even able to sell no less than $ 4.8 billion on the spot market; however, since in the same period $ 2.7 billion of forward purchases made in February and April fell due and some more foreign exchange was acquired in other current transactions outside the foreign exchange market, the foreign exchange holdings of the Bundesbank showed a net reduction of only $ 1.7 billion, or DM 6 billion, from June to August. Outside Germany the speculative monetary movements continued, the absolute peak being reached in the crisis month of August 1971. Altogether, over $ 17 billion flowed out of the United States after the May crisis, i.e. between June and December 1971. These dollars were absorbed mainly by the other countries of the Group of Ten – about $ 10 billion after August 15, that is, after dollar convertibility had been suspended.

The overall result of the foreign exchange movements in the crisis year 1971 (see the tables on pages 35 and 49) may be summed up as follows:

The reserves of the Group of Ten countries (other than the United States) increased in that year by no less than $ 26 billion.[1] Of this total, some $ 4.5 billion[1] flowed into the Federal Republic of Germany. It thus received far less than the other main surplus countries, i. e. Japan (whose reserves increased by more than $ 10 billion) and the United Kingdom (which had an inflow of roughly $ 8 billion and a rise in its visible reserves of $ 3.6 billion).

3. Means to discourage disruptive capital flows

(a) Lessons from the monetary crises

The disruptive and crisis-provoking international money flows of 1970/71 raise a number of fundamental questions. In view of the great interdependence of international money markets, of the increasing internationalisation of banking, and of the huge Euro-currency market, it could be asked whether and to what extent an individual country is still able to pursue an autonomous monetary policy in line with its own stability requirements. Do countries outside the United States have to adjust their monetary policies to the monetary policy of the United States and to the interest rate developments in the Euro-money markets unless they want to run the risk of seeing their external balance and monetary equilibrium regularly thrown into disarray by massive inflows of foreign funds? How can an autonomous monetary policy be safeguarded, at least to some degree, against external influences? And finally, how can the instability be overcome to which the world monetary system is being exposed by the extreme volatility of international money movements?

Means to keep disruptive short-term capital flows at bay

Recent experience has lent urgency to these questions and in the period under review the IMF, the OECD and, last but not least, the European Economic Community devoted attention to them. In the communiqué of the Washington monetary conference of December 1971 better control over short-term capital movements was explicitly included among the issues to be considered in a future reform of the international monetary system. At that conference it was decided to widen the permissible margins of exchange rate fluctuation from the previous ± 1 % (de facto approximately ± ¾ % in most industrial countries) to ± 2.25 % on either side of parity. The temporary widening of the margins beyond the limits prescribed in the IMF rules — which widening will presumably be sanctioned in this or a similar form when the monetary system is eventually reformed — is intended, inter alia, to increase the exchange risk for inter-country movements of short-term capital in order to make such capital movements more expensive, thus providing a little more freedom of action for national monetary policies. For the member countries of the European Communities, the EC Commission submitted to the Council of Ministers in June 1971 the draft of a "Directive on the regulation of international financial flows and the neutralisation of undesired effects on domestic liquidity", which was, however, not adopted by the Council of Ministers until March 1972, together with the decisions on the resumption of work on the economic and monetary union. According to this directive the member countries are expected to have at their disposal a number of specified instruments enabling them, when necessary, effectively to contain undesired inflows of funds from abroad into both the banking and non-banking sectors and to neutralise the impact of these inflows on domestic liquidity.

It remains to be seen whether such means are adequate to solve the problem of disruptive international short- and long-term capital movements. In particular, it is doubtful whether they will prove capable of efficiently warding off not only purely interest-induced flows but also speculative capital movements under all circumstances. Experience has shown that at times of monetary unrest a considerable part of the foreign exchange movements are connected with changes in the terms of payment (the "leads and lags"), which are difficult to bring under control. Although a great variety of defensive measures have been employed by a number of countries during the monetary crises of the past, no clear judgment can be passed as to their effectiveness either over the longer term or against massive

1 Excluding the allocation of special drawing rights at the beginning of 1971.

U.S. balance of payments deficits and changes in monetary reserves of the rest of the world *

Billions of U.S. dollars

Item	1969	1970	1971 2	1971 1 1st qtr.	2nd qtr.	3rd qtr.	4th qtr. 2
I. U.S. deficits							
Balance on official reserve transactions	+ 2.7	—10.7	—30.5	— 5.4	— 6.5	—12.7	— 5.9
Liquidity balance	— 6.1	— 4.7	—22.7	— 2.6	— 6.6	—10.1	— 3.4
II. Changes in monetary reserves							
(a) of the rest of the world							
Total monetary reserves	— 0.4	+14.3	+31.3	+ 4.8	+ 6.3	+13.8	+ 6.4
of which: Foreign exchange reserves	+ 1.2	+14.3	+31.2	+ 5.3	+ 6.1	+13.4	+ 6.4
(b) of Group of Ten (excl. United States, incl. Switzerland) 3							
Total monetary reserves	— 2.3	+11.6	+26.1	+ 4.5	+ 5.2	+11.0	+ 5.4
of which: Foreign exchange reserves	— 0.7	+10.7	+25.4	+ 4.7	+ 5.0	+10.4	+ 5.3

Source: International Financial Statistics of the IMF; Survey of Current Business. — * Excluding allocations of special drawing rights. — **1** Not seasonally adjusted. — **2** The changes in monetary reserves in the 4th quarter of 1971 are partly estimated, since the data on monetary reserves published in "International Financial Statistics" had to be adjusted for changes in book value due to the dollar devaluation (see the table on page 47). — **3** For 1971 and its individual quarters U.K. claims from swaps with foreign monetary authorities totalling $ 2.25 billion are included.

Two-tier foreign exchange market hardly suitable for Germany

currency speculation. This also applies to the *two-tier foreign exchange market,* which distinguishes between foreign exchange transactions for the commercial sector based on a fixed exchange rate and those for the financial sector (for capital transactions) with a freely floating rate. This two-tier system has long been practised in Belgium and Luxembourg — although formerly with the opposite objective in view — and was adopted last year by France in a more stringent form and by the Netherlands for a limited sector. Such a system requires elaborate controls in order to ensure that transactions are channelled through the appropriate part of the market and, moreover, it has not yet passed the test of massive currency speculation. France, for instance, had to supplement it by extensive regulations on credit terms allowed in foreign trade and other administrative measures. For Germany, setting up the necessary control mechanism would pose particular difficulties since here, unlike some other European countries, many hundreds of large, medium and small-sized banks are engaged in foreign payments transactions. Of even greater importance is the fact that the German current account is more or less balanced only because the very large trade surplus is matched by deficits on foreign travel and unilateral transfers of approximately equal size. It would hardly be possible, however, adequately to subject foreign travel and remittances by foreign workers to foreign exchange controls; and if these items were assigned to a "free" foreign exchange market, both the controlled market for commercial transactions and the free market for "financial" transactions would be highly distorted from the outset.

Cash deposit as a new defensive instrument

To discourage disruptive interest-induced capital inflows, the Federal Republic of Germany broke new ground with the introduction of the *cash deposit requirement* on March 1, 1972. Under this new regulation a certain percentage of all borrowings abroad, other than the use of foreign trade credits with customary maturities and other than foreign loans tied to specified supplies of goods and services, must be deposited in an interest-free account with the Bundesbank. Initially the deposit ratio has been fixed by the Deutsche Bundesbank at 40 % of the amount borrowed. The Bundesbank is empowered to raise this percentage to up to 50 % of the amount borrowed, subject to the approval of the Federal Minister of Economics and Finance. It is the aim of this new instrument to reduce the incentive to borrow at the sometimes extremely low interest rates ruling on the Euro-currency markets, especially the Euro-market for Deutsche Mark. When this Report went to press it was not yet possible to form a judgment as to whether the new instrument will achieve results on the scale desired. The cash deposit requirement supplements a number of existing defensive measures, such as the ban on paying interest on non-residents' deposits with domestic banks, the ban on selling certain types of domestic money market paper to non-residents, and the special minimum reserves which domestic banks have to maintain against deposits of non-residents.

Better coordination of monetary policies desirable

In particularly critical situations further foreign exchange control measures to keep out unwanted money inflows from abroad may well be unavoidable. As a permanent solution, however, foreign exchange controls hardly seem very promising. Therefore, one will have to look for other possible remedies that are better suited to market processes. But there is no ready-made answer. It would of course be highly desirable if a disruptive interest rate and liquidity differential could be prevented from developing from the outset by a *better coordination of monetary policy* among the major industrial countries, and if massive speculation on large parity changes could be forestalled by a *prompt adjustment of exchange rates* to differing rates of inflation and productivity. In both these areas it is certainly possible to do more than has been done so far. Some of the reform proposals are, in fact, aimed at preventing as far as possible the accumulation of fundamental disequilibria in future. However, the limits set to the coordination of monetary policies when closely related countries are in different cyclical phases have been demonstrated by the experience of the years 1969 to 1971. These difficulties were again brought into focus by the policy of low interest rates pursued by the U.S. authorities in the first few months of 1972. While this policy may have been justified by domestic economic requirements in the United States, it impeded an early return to balance of payments equilibrium in the world. In a given situation, moreover, the question usually arises as to which side is to adjust its interest rate policy to external requirements: at present the Europeans regard it as almost axiomatic that the Americans should raise short-term interest rates, while conversely many Americans have been of the opinion that European interest rates are still to high.

(b) Control of the Euro-money markets?

Control of the Euro-money markets

In some quarters hopes are being pinned on a better *control of the Euro-money markets.* This raises the question of what the role of the Euro-money market actually was in the destabilising short-term capital movements of recent years. From the statistical data on the capital outflow from the United States and the capital inflows to other industrial countries in 1971 one might conclude that for the most part the Euro-money market only performed the function of an intermediary, while the real causes of the disruptions lay elsewhere. However, the following factors have to be borne in mind: on the one hand, by specialising in bringing together business partners from different countries and continents the Euro-money market has greatly encouraged interest-induced money transactions: as a result of this and of the growing importance of the money flows of multinational corporations, even relatively small interest rate differentials between countries are now sufficient to make large amounts of money move. This internationalisation of money flows may expose world balance of payments equilibrium to considerable strains. On the other hand, in crisis periods the Euro-money market has often greatly facilitated short-term foreign exchange speculation. Finally, it has by no means acted only as a helpful intermediary, as a "transmission belt", between national money markets, but has supplied additional funds by creating money itself. Money is created in the Euro-money market, in particular, when central banks do not invest their dollar reserves in the United States itself but rather in the Euro-money market in order to obtain a higher interest rate. A similar effect comes about when, in a system with reserves held primarily in dollars, central banks switch their reserves out of the dollar into other currencies. The investment of monetary reserves on the Euro-money market was of substantial importance as early as 1970, when it reached approximately $ 6 billion. The central banks of the Group of Ten, together with the Bank for International Settlements (BIS), thereupon agreed in the spring of 1971 that they would neither directly nor indirectly (e. g. through the BIS) increase their investments in the Euro-money market, but even, depending on the circumstances, reduce them. The importance of this standstill agreement is, however, limited, since the direct and indirect investments of the central banks of the Group of Ten in the Euro-money market, amounting to roughly $ 4 billion, form only a small part of a market volume of over $ 65 billion. The Bundesbank itself does not invest any reserves in the Euro-money market.

Euro-market investments by monetary authorities not members of the Group of Ten account for a larger proportion: at the end of 1970 their investments in the Euro-money market were already estimated at some $ 7 billion, and they are likely to have increased by a further $ 5 to 6 billion in 1971, recently mostly in currencies other than the dollar. The steady growth of reserve investments in the Euro-money market is contributing to an undesirable inflation in international liquidity. It would certainly be desirable to restrict such liquidity creation by international agreements, including agreements with those monetary authorities which do not belong to the Group of Ten. So far, however, no way has been found to accomplish this.

According to suggestions any undesirable inflation of funds in the Euro-money markets should be absorbed by open market operations or by limiting the money-creating capacity of these markets through minimum reserve requirements and other regulations. The first of these methods was applied by the U.S. authorities immediately prior to last year's monetary crises: the U.S. Treasury and the U.S. Export-Import Bank raised a total of $ 3 billion on the Euro-dollar market in the first half of 1971 at interest rates which were considerably higher than U.S. money market rates. Although this helped to maintain interest rates on the Euro-money market and distinctly reduced the interest rate differential between the European countries and that market, it hardly had a lasting effect in view of the crisis in these months. The introduction of liquidity rules and minimum reserve requirements for Euro-money banks would be the responsibility of those countries in which the banks specialising in such business are mainly located. Logical and desirable though such a step may be, it would give rise to problems as long as there was a likelihood that Euro-money business would move to other countries owing to lack of solidarity among the monetary authorities.

4. The fundamental disequilibrium of the U.S. balance of payments and the suspension of dollar convertibility

(a) Causes of the fundamental disequilibrium

Fundamental deterioration of the U.S. balance of payments

By comparison with the huge movements on the U.S. capital account in 1971, the simultaneous deficit on current account – that is, transactions in goods and services plus transfer payments – appears relatively modest. Of the United States' overall deficit (some $ 30 billion on the basis of official reserve transactions and $ 23 billion on the basis of the liquidity balance),[1] the deficit on current account amounted to only $ 2.8 billion. Even so, it was the structural deterioration of the trade balance and of the current account as a whole and the fact that it became apparent in dramatic circumstances that must be regarded as the real causes of the dollar's weakness. Without this deterioration there would hardly have been that deep-seated mistrust of the dollar parity which finally led in the spring and summer to an open flight out of the dollar. The adjustment of the exchange rate of the dollar by the Washington Agreement was primarily designed to rectify the fundamental disequilibrium of the U.S. current account and thus of the basic balance.

The structural weakness of the U.S. current account and basic balance is mainly attributable to the deterioration in the U.S. foreign trade position since about 1965. In 1964 the U.S. trade surplus, at almost $ 7 billion, was still able to offset all the foreign exchange burdens arising from military spending, development aid, private long-term capital exports, and other foreign expenditure. In 1968 and 1969 this trade surplus, which is indispensable for achieving an overall payments surplus, had almost disappeared. The modest surplus of 1970 was chiefly due to a temporary set of economic circumstances (a recession in the United States and boom conditions in most other industrial countries). The adjustment of the U.S. trade balance and current account for cyclical influences and other special factors (by a method developed by the OECD since the beginning of 1971, mainly for the purposes of its balance of payments committee, Working Party 3) reveals that both the "adjusted" trade balance and the current account deteriorated fairly continuously from 1965 to 1971 (see the following table).

1 In each case excluding the allocation of special drawing rights at the beginning of 1971.

Trade balance and current account of the United States, cyclically adjusted

Billions of U.S. dollars

	Trade balance		Current account 1 (usual definition)	Current account excluding official transfers	
	Not cyclically adjusted	Cyclically adjusted		Not cyclically adjusted	Cyclically adjusted
1965	+ 4.9	+ 5.0	+ 4.3	+ 6.1	+ 6.1
1968	+ 0.6	+ 2.8	— 0.4	+ 1.3	+ 3.6
1969	+ 0.7	0	— 0.9	+ 0.7	+ 0.8
1970	+ 2.1	— 1.0	+ 0.4	+ 2.2	— 0.2
1971	— 2.9	2 — 2¾	— 2.8	— 1.0	2 — 1½

Source: OECD; Survey of Current Business. — **1** Trade balance, services, private and official transfers. — **2** OECD estimates.

Deterioration of the U.S competitive position

The causes of this chronic deterioration are complex. To some extent, "structural" factors were involved: other industrial countries were catching up fast in technology and productivity; export-orientated production by U.S. corporations was being transferred abroad, greatly fostering the rapid spread of sophisticated U.S. production methods to other countries; the vast U.S. market was being "discovered" and penetrated by foreign producers while, conversely, U.S. consumers were evincing growing interest in foreign products; and finally, the United States was showing an increasing dependence on imports of certain important raw materials over the longer run. In addition, structural changes in the field of trade policy — called by the United States the "unfair treatment of American goods" — no doubt played a part, though their importance was sometimes exaggerated.

This structural deterioration would hardly have left so strong a mark, however, if its effects had not been intensified from 1965 to 1969 by a pronounced demand-pull inflation followed by a cost-push inflation in the United States. The strength of this inflationary surge is not so readily apparent from the conventional inflation indices; as measured by the cost of living index and the GNP deflator, it was only between 1967 and 1969 that the U.S. rate of inflation was slightly above the average registered in the other industrial countries, while in the decade from 1960 to 1970 as a whole it was actually lower. On the other hand, unit labour costs in manufacturing and unit export values between 1965 and 1969 rose much faster in the United States than for its major competitors, on a weighted average. From 1965, therefore, U.S. industry lost much ground both on foreign markets and in the competition for the domestic market. The U.S. share in total exports of manufactured goods by the Group of Ten countries (plus Switzerland), which between 1960 and 1965 only declined from 21.6 % to 20.3 %, had dropped to 17.0 % by 1971. Conversely, U.S. imports of manufactured goods went up between 1964 and 1970 from 4 % to almost 10 % of U.S. industrial production. The deterioration in the U.S. trade balance from 1964 to the "disaster year" of 1971 amounted to almost $ 10 billion. Shifts in bilateral trade balances with Canada (some $ 3 billion), Japan (about $ 3.5 billion) and the EEC countries (roughly $ 1.6 billion) contributed to this deterioration. The fact that U.S. foreign trade in 1971 was particularly affected by a number of special factors, such as dock strikes and the build-up of foreign supplies though for other reasons, distorted the statistical picture to some extent but probably not unduly.

(b) The crisis of August 1971

Adjustment of the dollar rate unavoidable

No matter what the causes of this chronic deterioration in the U.S. competitive position may have been, in the final analysis the only way to remedy its effects was to lower U.S. production costs and prices relative to those abroad. From the spring of 1971 onwards, if not before, more and more experts inside and outside the United States became convinced that the situation could be rectified only by a significant change in the exchange rate relationships between the dollar and the other currencies. This was made plain to the public at large in particularly dramatic fashion when the U.S. trade balance got into mounting deficit from April 1971 onwards. In the second quarter the seasonally adjusted trade deficit was running at an annual rate of no less than $ 4 billion (after a surplus of $ 2 billion for the calendar year 1970). The prospect that 1971 would see a substantial trade deficit for the first time for almost 80 years amounted to a sensation. The publication on August 7 of the report of a congressional subcommittee,[1] usually referred to as the "Reuss Report" after the name of its chairman, added more momentum to the situation. The report stated very clearly that the dollar was overvalued and the required improvement in the U.S. current account could not be achieved without an exchange rate adjustment. According to the report, the objective of such an adjustment should be to guarantee a surplus on current account sufficient to cover the foreign exchange costs of all other burdens, including completely unrestricted capital exports. The adjustment of the dollar parity was to be effected by suspending its gold convertibility and immediately declaring the devaluation of the dollar in the IMF. It was not surprising that, given the tense situation, this report and its recommendations triggered a flight out of the dollar. In August no less than $ 8.8 billion poured out of the United States – more than half of this sum before August 15 – and flowed for the most part to Switzerland, France and the United Kingdom. Japan too had to take in quite considerable amounts of dollars before August 15; but is was not until the second half of the month that the speculative dollar flood into Japan really gathered momentum when the Japanese authorities attempted to hold the yen rate of the dollar at its previous level, even after August 15, by applying stringent foreign exchange controls. At this peak of the flight from the dollar Germany was spared from inflows thanks to its floating exchange rate; indeed, over August as a whole there was a net dollar outflow.

By mid-August 1971 the liquid dollar liabilities of the United States to the rest of the world had shot up to a total of about $ 56 billion. The dollar liabilities to foreign monetary authorities (liquid and non-liquid) came to almost $ 40 billion, compared with $ 17 billion at the beginning of 1970. Against this the U.S. reserves in mid-August totalled $ 12 billion, of which $ 10.2 billion was in gold (calculated at the old parity). Under these circumstances and in view of the spate of dollar withdrawals it was inevitable that the U.S. Government suspended the gold convertibility of the dollar and at the same time formally announced that it desired an exchange rate adjustment for the dollar in order to remedy the fundamental balance of payments disequilibrium. It did not, however, announce an immediate devaluation of the dollar in the IMF. It feared that such a step, taken unilaterally, might be followed by an uncoordinated wave of devaluations in other currencies which would have been contrary to the objective of the dollar devaluation; besides, the U.S. Government was still basically opposed to an increase in the official dollar price of gold, which a unilateral devaluation of the dollar would have entailed. Moreover, an official par value change in the IMF was subject to congressional approval, which at the time seemed by no means assured. Hence the U.S. Government opted for a coordinated realignment of the major exchange rates, preferably through the revaluation of the other currencies. In this context the temporary surcharge on a large proportion of U.S. imports was designed to anticipate the devaluation of the dollar in part (that is, on the import side) and at the same time to serve as a bargaining weapon which could be used to exert pressure in the negotiations on the exchange rate realignment.

(c) The end of the gold-dollar standard

The suspension of dollar convertibility was not just a matter of form, merely legalising a state of affairs that already existed de facto. As recently as 1971 the U.S authorities converted, up to the beginning of August, as much as $ 2.6 billion into gold and other reserve assets with a fixed gold value (special drawing rights and reserve positions in the IMF) and in addition used up $ 0.4 billion of their own foreign exchange reserves, mostly from swap credits formerly granted by the Federal Reserve System. On the other hand, for a long time prior to August 15, 1971 – indeed, for years – it had been obvious that any attempt by other major central banks to convert large amounts of dollars into gold would inevitably have led to the "closing of the U.S. gold window".

August 15, 1971 was a *turning point in international monetary relations during the post-war period.* It did not, as has so often (and wrongly) been claimed, mean the

1 Subcommittee on International Exchange and Payments of the Joint Economic Committee.

August 15 marks the end of the gold-dollar standard

"end of the Bretton Woods System". Important elements of this system still survive or were restored with the new de facto parities. It did, however, mark the *end of the gold-dollar standard.* Up to August 15, 1971 the dollar was the only currency which gave other monetary authorities guaranteed access to monetary gold, even though this guarantee was being increasingly undermined in actual fact. A matter of greater consequence than this now broken link with gold was that up to August 15 the dollar was unchallenged as the world's most important intervention and reserve currency. This function, which has no basis in the IMF Articles of Agreement, could be performed by the dollar without detriment to international monetary equilibrium only as long as it was one of the most stable and confidence-inspiring currencies of the world. Should this confidence evaporate, this special function was bound to become a burden to the entire system, as the events of 1971 showed so dramatically. In the meantime it has proved far from easy to find a substitute for the dollar as an intervention and reserve currency. Even after the suspension of its convertibility and the crises of last year the dollar continues to be used for these purposes for lack of a satisfactory alternative. As a result the gold-dollar standard has been replaced for the time being by a dollar standard. This demonstrates how great a need there is for a key currency in particular for an intervention currency, to which other currencies may be pegged. But it also permits the conclusion that the dollar has a real chance of again consolidating its position as a key currency if the United States succeeds in regaining a sufficient degree of internal stability.

5. The Washington Monetary Agreement

(a) Floating in the transition period

Reaction of the other countries: floating . . .

After the U.S. statements of August 15 most of the other industrial countries ceased buying dollars at a guaranteed fixed price (the lower intervention point). The EEC countries reacted in very diverse ways, rather as they had done during the May crisis. France, which went over to a two-tier foreign exchange market, kept the rate for the commercial franc (which applies to all foreign trade transactions) on the old dollar basis until the Washington Agreement in December 1971. By intensifying the measures to ward off foreign exchange inflows the French monetary authorities managed to keep dollar purchases within very narrow limits and even at times to sell dollars. Belgium and Luxembourg switched to a floating exchange rate, and

. . . but with qualifications

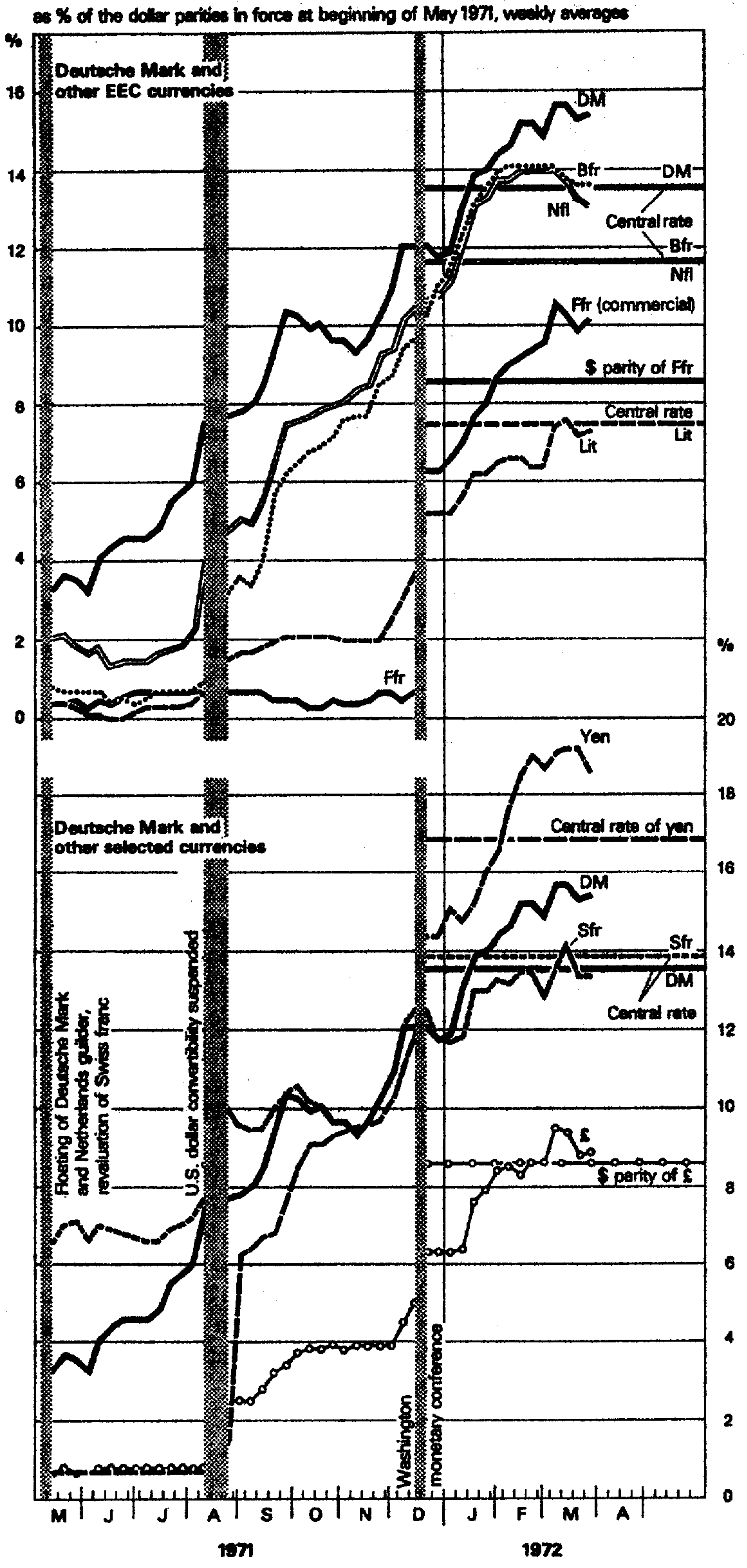
joined with the Netherlands in an arrangement whereby their currencies fluctuated together, with the spread between them limited to $\pm 1^1/_2$ %. Italy discontinued dollar interventions at the lower point, but intervened to influence the market rate of the dollar and tightened its foreign exchange controls. The Federal Republic of Germany retained the floating exchange rate it had had since May, while occasionally buying dollars on the forward market to prevent undue pressure building up on the Deutsche Mark rate of the dollar. It became clear that practically no country was willing to leave the rate of its currency against the dollar (and against the other currencies) exposed entirely to the free play of market forces. This was not surprising, since these forces were repeatedly distorted by speculative movements and by the defensive measures of other countries. Hence it proved impossible to arrive at a new equilibrium set of exchange rates through market forces alone.

Negotiations on a multilateral realignment of exchange rates

At the Annual Meeting of the IMF at the end of September 1971 the U.S. Secretary of the Treasury offered to remove the import surcharge if, in return, the other countries would allow the rates of their own currencies against the dollar to float freely in accordance with market forces. For the reasons already mentioned, and because some of the other countries were calling for a "contribution" by the United States in the form of a formal devaluation of the dollar parity in the IMF, there was no chance of this proposal being accepted. Thus negotiation was the only way to establish new exchange rate relationships between the dollar and the major other currencies. The negotiations on this matter in the Group of Ten lasted from September to mid-December 1971. They were the first attempt in the monetary history of the world to bring about a rectification and adjustment of all major exchange rates by multilateral agreement, that is, by a genuine multilateral "exchange rate realignment". That this proved possible within so short a time in spite of all the difficulties inherent in such an endeavour speaks

The movement of exchange rates of important currencies in relation to the dollar

as % of the dollar parities in force at beginning of May 1971, weekly averages



well for the willingness and ability of the western world to cooperate in monetary matters. The increasingly troublesome effects of the distorted "floating" and the pressure exerted by the special U.S. measures on imports no doubt also helped substantially; but this does not detract from the final result.

(b) Negotiations on new exchange rate relationships

Three important points about the negotiations deserve special mention:

(i) It proved possible to agree on the order of magnitude to be aimed at for the current account adjustment between the United States and the rest of the world. While at the beginning of the negotiations the Americans believed they had to hold out for an improvement of $ 13 billion in their current account over the figure that was otherwise to be expected for 1972, agreement was finally reached, after detailed studies in the balance of payments committee (Working Party 3) of the OECD, on a necessary minimum improvement of $ 8 to 9 billion.[1] This was on the basis of an assumed annual net balance of payments burden of roughly $ 6 billion in American development aid and private long-term capital exports. In these calculations and in the hypothetical breakdown of the necessary balance of payments adjustments among the principal trading partners "cyclically adjusted" current account figures were for the first time used on a large scale.

(ii) The establishment of the new exchange rate relationships vis-à-vis the dollar and among the most important currencies was in the final analysis the fruit of political negotiations. Nevertheless, calculations of the changes required in exchange rates in order to achieve the desired new equilibrium had a substantial bearing on the result. In this connection a new IMF "world trade model" performed valuable services. This was thus not only the first world-wide realignment of exchange rates negotiated multilaterally but also a settlement which was based to some extent on methodical calculation.

(iii) It was the ultimate willingness of the Americans to contribute to the establishment of better exchange rate relationships by lowering the gold parity of the dollar in the IMF — a willingness which first became apparent at the conference of the Group of Ten at Rome at the beginning of December 1971 — that permitted the real break-through to the successful conclusion of the difficult negotiations. Only by a devaluation of the dollar in relation to gold was it possible to induce major European countries, which saw no reason to change their parities in the IMF because of their own balance of payments situations, to alter the dollar exchange rate of their currency to a sufficient extent.

(c) Main results of the Washington conference

Contents of the Washington Monetary Agreement

The Washington Agreement of the Group of Ten — usually called the "Smithsonian Agreement" in the United States, after the name of the conference building — contains on the one hand arrangements for immediate measures to deal with the monetary crisis and on the other hand general declarations of intent on the steps that should be taken for the longer term.

The *immediate measures* — new "central rates" or parities, widening of the permissible margins of fluctuation to $\pm 2^1/_4$ %, removal of the import surcharge and related measures by the United States, and devaluation of the dollar in terms of gold by 7.89 % (increase in the official gold price from 35 to 38 dollars per ounce) — in some cases were implemented at once and in others, such as the formal change in the gold parity of the dollar, were approved a few months later by the U.S. Congress, after the trade negotiations between the United States on the one hand and Japan and the EEC on the other — negotiations which were already under way during the Washington conference — had yielded adequate results for the United States.

1 The Reuss Report of August 1971 had estimated that the "inherent" deficit — which was to be offset — in the U. S. basic balance was of a similar size; the estimate was made on the assumption that the controls on capital exports would soon be lifted.

Current accounts * of major countries

Billions of U.S. dollars

Country	1968	1969	1970	1971 [1]
United States	— 0.39	— 0.90	+ 0.44	— 2.77
United Kingdom	— 0.69	+ 1.06	+ 1.47	+ 2.28
EEC countries				
Germany (Federal Republic)	+ 2.73	+ 1.61	+ 0.68	+ 0.16
France	— 1.06	— 1.80	— 0.16	0
Italy	+ 2.63	+ 2.34	+ 0.81	+ 1.90
Benelux countries	+ 0.11	+ 0.12	+ 0.32	+ 0.68
All EEC countries	approx.+ 4.40	approx.+ 2.30	approx.+ 1.70	approx.+ 2.70
Canada	— 0.10	— 0.85	+ 1.10	+ 0.22
Japan	+ 1.64	+ 2.12	+ 1.97	+ 5.90
Total	approx.+ 4.90	approx.+ 3.70	approx.+ 6.60	approx.+ 8.40

Source: OECD Secretariat and national statistics. — * Balance of trade, services and transfers. — **1** Partly estimated by OECD Secretariat.

The *general declarations of intent* refer to the willingness in the years ahead to enter into negotiations on longer-term issues of international trade policy, particularly between the United States and the European Community, and the announcement that discussions are to start soon on the long-term reform of the international monetary system. The main tasks of this reform were set out in the final communiqué.

Keystone: devaluation of the dollar

The changes in the exchange rates of the major countries are shown in the table on page 45. The keystone of the exchange rate realignment is the devaluation of the dollar by an average of roughly 9 % against the currencies of the United States' most important competitors. At the same time the mutual relationships of the other currencies were rearranged. According to the IMF's calculation of the weighted average exchange rate alterations, only three currencies of the Group of Ten were appreciably upvalued against the other major currencies as a whole by comparison with the position at the beginning of May 1971; these were the Japanese yen, the Deutsche Mark and the Swiss franc. The currencies of the Benelux countries were upvalued by a minor amount, while those of France, the United Kingdom, Italy and Sweden (along with those of the other Scandinavian countries) maintained their position, on a weighted average, substantially unchanged. The currencies of countries not belonging to the Group of Ten adjusted to the new situation soon after; a surprisingly large number (55) decided on a relative upvaluation against the dollar, while 48 countries (out of 120 IMF members) maintained the existing relationship of their currencies to the dollar, i. e. devalued in relation to the currencies of the other industrial countries. Although the *value of gold,* as measured by official parities, was raised by 8.57 % in terms of the dollar and the currencies pegged to it, it remained unchanged in relation to major other currencies and was reduced in relation to a few currencies, including the Deutsche Mark. On a weighted average,[1] the price of gold, as measured by the new parities of the countries of the Group of Ten (excluding Canada), rose by about $1^1/_2$ %. So did the value of one unit of special drawing rights. The objective of neither upvaluing nor devaluing the position of gold and special drawing rights, in relation to the broad average of currencies, was thus achieved.

The members of the Group of Ten — except Canada, which continues to float its exchange rate — and a number of other countries decided to avail themselves of the permissible wider margins of fluctuation of ± $2^1/_4$ % with respect to their currencies. After the Washington conference, as before, the U.S. authorities are not intervening on the foreign exchange market to support the dollar rate; thus the support of the new central rates or parities is left to the other countries and their interventions on exchange markets. This was unavoidable from the foreign exchange angle since, in view of the huge dollar holdings of other countries, the reserves available to the U.S. monetary authorities would not have sufficed

1 Weighted in accordance with the gold reserves at the beginning of December 1971.

for dollar support operations. One may wonder, however, whether such a one-sided burden-sharing in the defence of the new exchange rate relationships should not have been supplemented from the outset by mutual arrangements in other fields of monetary policy, such as interest rates.

The outcome of the Washington conference brought relief to the *Federal Republic of Germany* in several respects. It is true that the revaluation rate of the Deutsche Mark against the dollar, at 13.58 %, was higher than the highest de facto revaluation recorded during the float (12.7 % on December 15). For German exports to the United States, however, this was offset by the immediate removal of the 10 % import surcharge and other discriminatory import restrictions in the United States. In relation to the European trading partners of particular importance in German foreign trade, almost all of which had to accept substantial revaluations against the dollar by comparison with their positions prior to the conference, the average revaluation rate of the Deutsche Mark declined quite considerably. On the basis of the new central rates it is now only 3.5 % in relation to the other EEC currencies, compared with an average of 6 % at the end of the float. The average revaluation of the Deutsche Mark in relation to the currencies of all the other industrial countries — which is crucial for the competitive position of the German economy — is between 5 % and 6 % on the basis of the new central rates or parities. Even more important than the details of the various new exchange rate relationships was the fact that the Washington Agreement restored a certain element of stability to these relationships and to the international payments mechanism.

(d) The long road to a new equilibrium

Rough seas to cross until realignment becomes fully effective

Those who had expected that complete calm would immediately be restored to the foreign exchange markets after the Washington Agreement were disappointed. Even after the Washington conference there were, up to the time of going to press, periods of unrest and speculative movements on the exchange markets. Some countries, including the Federal Republic of Germany as well as Japan and the Benelux countries, had occasionally to intervene in the markets and buy substantial amounts of dollars in order to defend the new parities agreed in Washington. However, such dollar inflows are not entirely of a speculative nature. It is unavoidable that the U.S. basic balance of payments (the balance on current and long-term capital accounts) will remain in deficit for a certain time to come, and other countries will show corresponding surpluses in their basic balances. Even before the Washington conference it had been estimated by experts that the U.S. current account cannot be expected to improve noticeably after the dollar devaluation until the second half of 1972, and that it might take one and a half to two years, if not longer, for the realignment to have its full effect. Experience with the sterling devaluation of November 1967 had been similar: it did not have a clearly visible impact until mid-1969, but its repercussions are still being strongly felt today, in spite of the exceptionally high rate of inflation in the United Kingdom.

So far no return flows to the United States

The likelihood of such an interim period, during which continuing U.S. deficits may impair confidence in the new exchange rates and, moreover, force the other countries to finance these transitional deficits, makes heavy demands on the people mainly involved with respect to their solidarity and willingness to cooperate in matters of monetary policy. Before and during the Washington conference it had been expected that the difficulty of this interim period would be alleviated by the early reflux of a considerable part of the funds that had poured out of the United States during the crisis; this would substantially ease both the problem of confidence and that of financing. The potential for such return flows is in fact very large. According to estimates made by OECD experts, over one half, and perhaps as much as two thirds of U.S. net capital exports in 1971, totalling almost $ 28 billion, were mainly attributable to currency uncertainties. Even if these "abnormal" capital flows do not all turn round in the foreseeable future, billions of dollars could start returning to the United States once confidence is fully restored in the new dollar parity.

Changes in exchange rates of the Group Ten countries (plus Switzerland) as a result of the Washington realignment of December 18, 1971 *

Per cent

Country	Change from former		Average weighted appreciation (+) or depreciation (–) vis-à-vis the rest of the world calculated on the basis of **1**	
	gold parity	dollar parity	bilateral trade shares in 1969 and 1970	the multilateral exchange rate model of the IMF **2**
Germany (Federal Republic)	+ 4.61	+13.58	**4** + 5.7	+ 5.1
Belgium-Luxembourg	+ 2.76	+11.57	+ 2.1	+ 2.4
Netherlands	+ 2.76	+11.57	+ 1.8	+ 2.6
France	0	+ 8.57	– 0.6	– 0.2
Italy	– 1.00	+ 7.48	– 0.4	– 1.0
United Kingdom	0	+ 8.57	+ 2.4	+ 1.2
Sweden	– 1.00	+ 7.48	– 0.6	– 1.0
Switzerland	+ 4.89	+13.88	+ 4.9	+ 6.3
Japan	+ 7.66	+16.88	+13.6	+11.6
Canada **3**	–	(+ 8.48)	+ 5.2	+ 3.2
United States	– 7.89	.	– 8.5	**5** – 9.1

Source: International Monetary Fund. – * In comparison with the par values in force on May 1, 1971; in the case of Canada in comparison with the par value in effect before the float at the end of May 1970. – **1** After allowing for changes in exchange rates of a group of 28 countries and certain assumptions of average changes in the exchange rates of the other countries. – **2** The exchange rate model of the IMF includes not only the (bilateral) trade relationships of each country but also the (multilateral) pattern of world trade, the composition of goods, and the respective price elasticities. – **3** Canada's exchange rate continues to float. The average appreciation (columns 4 and 5) is calculated on the basis of the appreciation of 8.48 % which results from a comparison of the market rate on December 17, 1971 with the former parity of the Canadian dollar (ineffective since the end of May, 1970). – **4** The weighted appreciation rate for the Deutsche Mark of 6.4 % shown in the table on page 92 is also weighted according to (bilateral) trade shares. The difference compared with the rate of 5.7 % (column 4), calculated by the IMF in a similar way, is partly due to the fact that the Bundesbank's calculations are based on the foreign trade results of the years 1968 to 1970 and that they include a larger number of trading partners. – **5** Expressed as the effective depreciation of the U.S. dollar corresponding to the average appreciation of all other currencics, as calculated from the multilateral exchange rate model.

Interest rate relationships not beneficial

The return flow would undoubtedly be accelerated considerably if the interest rate relationships between the United States and the main European countries conformed more closely to balance of payments requirements. On the European side various countries – not least the Federal Republic of Germany – have in the meantime gone a long way towards adjusting their interest rates to external needs. In these countries short-term interest rates, and sometimes the long-term rates as well, are today one or even several percentage points lower than they were in the late autumn of 1971. The external impact of this adjustment was in some cases nullified, however, by the fact that at the same time short-term rates in the United States also declined. It is a regrettable convergence of unfortunate circumstances that, precisely at the moment when a tight U.S. interest rate policy would have been crucial for setting the capital reflux in motion, an easy money policy was considered necessary by the U.S. authorities because of overriding domestic considerations. U.S. interest rates reached their low point in mid-February 1972, when the market rate for three-month Treasury bills temporarily fell below 3 % – its lowest level for eight years – and the commercial bank prime rate, at 4½ %, was lower than at any time since 1960.

Good prospects for eventual success of realignment

In all probability, however, these difficulties will only be temporary. It can be anticipated that the relationship between the interest rates of the principal countries concerned will be more in line with balance of payments requirements in the longer term, not least because, as the upswing in the U.S. gains momentum and the large budget deficit has to be financed, a rise of short-term rates appears inevitable. The decisive factor in the longer term is, however, *whether an adequate improvement in the U.S. current account can be expected.* Experts of the IMF and the OECD reckon that the exchange rate adjustment for the dollar may lead in the end to an improvement of the order of some $ 8 billion in the U.S. current account. The effects of the exchange rate measures will be supported at present – and no doubt for a certain time to come – by the greater stability of prices and costs in the United States, as compared with the average of the other countries. In 1971 unit labour costs in manufacturing, i. e. the increase in wage rates in relation to the increase in productivity, went up in the United States by only 2½ to 3 %, whereas the average rise among the larger European countries (and in

Germany, too) was no less than 8 %. In 1972 developments in the unit costs of production in the United States are again likely to compare favourably with those in the European industrial countries. This, too, will help to lighten the burden placed on the U.S. competitive position by the relatively greater cost inflation of earlier years. However, the present state of business activity throughout the world argues against a rapid improvement in the U.S. current account. The expected faster growth of the U.S. economy will lead to higher imports, while economic slack in other important industrial countries will for a time be disadvantageous for U.S. exports. But this combination of circumstances, unfavourable as it is for the restoration of the U.S. trade balance, may also be expected to improve towards the end of 1972 (or during 1973 at the latest) and eventually to give way to normal conditions.

In spite of the uncertainty on the foreign exchange markets, which was still being felt at the time of going to press, the final success of the exchange rate realignment is not in doubt. The monetary authorities of the countries mainly concerned have also left no doubt that in their view the new parities are realistic, and that they will defend these parities at all costs, including necessary interventions on the foreign exchange markets.

6. International reserves and reform of the monetary system

(a) Massive creation of reserves through the flight out of the dollar

Reserve creation completely out of control

One of the most difficult legacies of past monetary crises is the so-called "dollar overhang", i. e. the undesirably large dollar reserves of a number of monetary authorities. A criticism long – and rightly – levelled at the old reserve system was that the development of world monetary reserves depended to a substantial extent on the ups and downs of the U.S. balance of payments deficit. Last year this weakness of the system was made glaringly obvious when the flight out of the dollar contributed to an – involuntary – creation of reserves in the world of unprecedented proportions. Of the U.S. deficit of over $ 30 billion on official reserve transactions (not counting the allocation of special drawing rights), almost $ 28 billion was accounted for by the net capital outflow. U.S. liabilities to foreign monetary authorities rose by roughly the same amount. In 1971 alone, these reserve liabilities increased by more than in the preceding 25 years combined; they went up from $ 23.8 billion at the end of 1970 to no less than $ 51.2 billion at the end of 1971. The uncontrollable nature of reserve creation through national reserve currencies could not be spotlighted more clearly than by the events of 1971.

The effect on international monetary reserves can be seen in detail from the opposite table. Expressed in dollars, monetary reserves rose by over 40 % in 1971.[1] Apart from the $ 27 billion increase in the United States' dollar liabilities to foreign monetary authorities, there was a growth of some $ 6 billion in other foreign exchange reserves outside the United States. This additional reserve creation was due partly to reserve creation in the Euro-money markets and partly to the investment of monetary reserves in currencies other than the dollar, both on the respective Euro-markets and directly in the countries concerned. Besides investments in sterling, investments in Deutsche Mark also contributed to this reserve development.

Diversification of monetary reserves and multi-currency standard undesirable

The "diversification" of international monetary reserves, i. e. the switching out of dollar reserves into investment in other currencies, appears to have continued on a fairly large scale in the first three months of 1972, and presumably contributed to the dollar flows into Germany during this period. Such a transition to a "multi-currency standard" is highly undesirable, not only for the Federal Republic of Germany but also from the point of view of the world economy. For one thing, it is a source of further uncontrollable reserve creation since any such shift leads to a further increase in foreign exchange reserves, even irrespective of U.S. deficits. For another, it brings an additional element of instability into the world

1 Expressed in SDR units or gold, i.e. after adjusting the value of existing foreign exchange reserves for the depreciation of the dollar, the increase in reserves was still as much as almost 30 %.

Changes in world monetary reserves

Billions of U.S. dollars

Item	Holdings end-1960	Average annual change 1961–1968	Changes 1969	1970	1971 1	Holdings end-1971 2
Gold	38.0	+ 0.1	+ 0.2	— 1.9	— 1.1	39.2
Special drawing rights	—	—	—	+ 3.1	+ 2.8	6.4
IMF reserve position	3.6	+ 0.4	+ 0.2	+ 1.0	— 1.3	6.9
Foreign exchange	18.7	+ 1.6	+ 0.4	+12.2	+30.9	77.3
Total reserves	60.2	+ 2.1	+ 0.9	+14.3	+31.2	129.8

Source: International Financial Statistics of the IMF. – **1** The changes in monetary reserves in 1971 are partly estimated, since the data on monetary reserves published in "International Financial Statistics" had to be adjusted for the changes in book value due to the dollar devaluation (see footnote 2). – **2** Includes the following changes in the dollar value of the monetary reserve holdings due to the dollar devaluation against gold of 7.9 %:

Gold		+ $ 3.1 billion
Special drawing rights		+ $ 0.5 billion
IMF reserve positions		+ $ 0.5 billion
Foreign exchange (estimate)		+ $ 1.9 billion
Total	about	+ $ 6 billion

monetary system, since large disruptive movements out of one reserve currency into another may occur as interest rates vary or confidence fluctuates. Similar doubts must be expressed with regard to the suggestion occasionally made of late that the EEC countries should keep part of their monetary reserves in currencies of other member countries. This, too, would only lead to a shifting of dollar reserves from one member country to another and, incidentally, to further reserve creation.

(b) The role of special drawing rights

Special drawing rights overshadowed by creation of foreign exchange reserves

The allocation of *special drawing rights* in 1970 and 1971, which totalled $ 6.4 billion, was completely overshadowed by the creation of foreign exchange reserves in those years, which came to about $ 43 billion. In making such a comparison it must also be borne in mind that an inflow of foreign exchange reserves normally entails an automatic increase in domestic liquidity in the recipient country, whereas the allocation of special drawing rights does not result directly (i.e. on allocation) in such liquidity increases. Special drawing rights ordinarily have an expansive effect only if, as a result of the SDR allocation, some countries later on exert more foreign demand than they would have done without the allocation of SDRs. In view of the rather modest use that has been made of allocated special drawing rights so far, such processes have hardly been of great significance on a global scale. It is quite obvious that the real problem of our international reserve system lies in the uncontrolled creation of international liquidity *in the form of national reserve currencies.*

In view of the present glut of monetary reserves it will not be easy for the authorities concerned to take the decision due in 1972 on a further allocation of special drawing rights. New allocations of special drawing rights can hardly be justified in the near future, bearing in mind their original purpose, which was to avert a threatening shortage of world monetary reserves. Nor does the fact that only the industrial countries "benefited" – or better: suffered – from the over-abundant reserve creation of 1970/71 warrant an immediate creation of additional SDRs. If it were intended to gear the allocation of special drawing rights to *regional* requirements, this would be at variance with the original purpose of this instrument, which was to be a means of controlling world monetary reserves on a *global* basis. It is often claimed that the allocation of special drawing rights should not be interrupted by blank periods, since this might harm the credibility of this new reserve instrument, to which most reform proposals assign an enhanced role in a future monetary system. With this in mind it has been suggested that at least a "token" amount of special drawing rights should be allocated for the next two to three years. It would certainly be better, however, if the proper conditions for enhancing the role of special drawing rights were created first; above all, this would mean limiting by international agreement the creation of reserves in the form of reserve currencies.

(c) Reform of the international monetary system

Reform of the monetary system: the main problems

The developments during last year's crises showed with great clarity where the reform of the international monetary system must begin. The crises in the period under review undermined the efforts undertaken in various countries to achieve internal stability. Only with great effort was it possible to avert serious disruption and restriction of international trade and payments. Finally, the dollar's weakness and the suspension of its convertibility have created a new situation.

Thus the following questions have to be answered: how can the changed position of the dollar be taken into account? How can the world monetary system be made less crisis-prone? How can the inflationary effects of excessive money movements across national borders be reduced in future? The reform tasks that result from these questions mainly relate to: (1) the exchange rate system, (2) the reserve system, and (3) the containment or reduction of destabilising short-term capital movements.

The future exchange rate system

In the future *exchange rate system* a balance has to be struck between the stability essential for international trade and a degree of flexibility and adaptability which would allow prompt action against emerging fundamental disequilibria. The defence of unrealistic parities at the cost of monetary crises and distortions in domestic economies is not synonymous with "stability" of the exchange rate system. In this connection it would be appropriate to re-examine the future role of the IMF. The question is: how can the IMF be better equipped to influence, in the general interest, exchange rate policies of its members while paying due regard to their sovereignty? Particular problems are posed by the U.S. demand that in future the dollar should have the same opportunity for autonomous exchange rate adjustment as all other currencies. This will be difficult to achieve as long as the dollar continues to serve globally as an intervention and reserve currency.

A suggestion made occasionally both inside and outside the European Community that in the more distant future the exchange rate between the dollar and a (by then) unified EEC monetary bloc should be allowed to float freely in the long run must be viewed with considerable misgivings. Such a "bipolar" monetary system would no doubt inevitably lead to an even more pronounced break-up of the world economy into economic blocs, also in the field of trade policy.

Problems of the reserve system

Two main problems arise for the future *reserve system:* on the one hand a solution must be found to the "dollar overhang", i. e. the excessive quantity of outstanding U.S. reserve liabilities; otherwise it will not be easy to restore the convertibility of the dollar on a reasonable scale. On the other hand, the accumulation of reserves in national currencies should be made subject to definite rules and limitations on account of its effects on international liquidity. In practice, however, this is likely to run into especially great difficulties. But unless this problem is solved all the well-meant proposals to replace the dollar standard by a genuine international reserve standard (e. g. a special drawing right standard) will remain theory.

Containing disruptive capital movements

Equally, it will not be easy in future to contain the disturbances caused by *interest-induced or speculative capital movements.* Stringent control of the Euro-money markets is exceedingly difficult. Nor would it be sufficient on its own. Even without the Euro-money markets acting as an intermediary, massive capital movements directly between important countries can create disorder. Efforts will therefore have to be directed to eliminating as far as possible the causes of such disturbances, namely wide interest rate differentials or a sustained lack of confidence in important currencies. It remains to be seen how far the widening of the exchange rate margins, the introduction of cash deposits and other direct means of curbing disruptive capital movements can remedy the situation.

Reforms of the machinery no substitute for good monetary policy

One thing must be emphasised, however: not even the best reforms of the monetary system's machinery can guarantee that it remains stable and is not plagued by

Regional changes in world monetary reserves 1969 to 1971; U.S. dollar basis *

(gold, special drawing rights, IMF reserve position, foreign exchange)

Billions of U.S. dollars

Country	Changes		Holdings		
	1970	1971 1	1969	1970	1971 2
1. United States	— 2.5	— 2.3	16.96	14.49	13.19
2. Other countries of the Group of Ten (plus Switzerland)	+12.9	+25.0	35.33	48.24	76.39
of which:					
Germany (Federal Republic)	+ 6.5	+ 4.3	7.13	13.61	18.38
France	+ 1.1	+ 2.9	3.83	4.96	8.24
United Kingdom	+ 0.3	3 + 3.6	2.53	2.83	6.58
Italy	+ 0.3	+ 1.1	5.05	5.35	6.79
Japan	+ 1.2	+10.4	3.65	4.84	15.36
Canada	+ 1.6	+ 0.9	3.11	4.68	5.70
3. Other developed countries	+ 1.3	+ 4.8	10.33	11.58	17.36
All developed countries (1 plus 2 plus 3)	+11.7	+27.7	62.64	74.32	106.96
4. Developing countries	+ 2.7	+ 3.5	15.56	18.22	22.81
All countries	+14.3	+31.2	78.20	92.54	129.75

Source: International Financial Statistics of the IMF. — * Gross reserves, including allocations of special drawing rights. — **1** The changes in monetary reserves in 1971 are partly estimated, since the data on monetary reserves published in "International Financial Statistics" had to be adjusted for the changes in book value due to the dollar devaluation. — **2** Includes changes in the dollar value of the monetary reserve holdings due to the dollar devaluation (see footnote 2 to the table on page 47). — **3** The actual reserve inflow amounted to about $ 8 billion (excluding allocation of special drawing rights) of which $ 2.25 billion was used for swap transactions and $ 2.2 billion for the repayment of debts to the IMF, the BIS and the United States.

crises unless the reforms are backed up by appropriate economic and monetary policies by the major countries. This applies particularly to the future position of the U.S. dollar. Whatever its position may be in a reformed monetary system, the dollar will without doubt continue to be the currency of by far the most powerful economy in the western world. Irrespective of the design and mechanism of any future monetary system, an unstable or weak dollar will necessarily affect the other countries and the entire international monetary system. Conversely, a stable and strong dollar will be more important for the stability of the world economy than all mechanical reforms.

7. Fresh start in EEC cooperation on monetary policy

(a) Reactions of the EEC countries to the monetary crises

Differing reactions to the crises . . .

As already mentioned, neither in the monetary crisis of May nor in that of August 1971 could the EEC member countries agree on a common exchange rate and external monetary policy. A proposal made by the German Minister of Economics at the Council Meeting of May 8/9, 1971 that the EEC countries should all stop their dollar purchases and temporarily allow their currencies to float together against the rest of the world, while keeping them fixed in relation to each other, did not meet with the approval of all the other partner countries. Only the Netherlands ceased purchasing dollars at a fixed rate as early as May, like the Federal Republic of Germany, and allowed its currency to float — independently, however, of the Deutsche Mark. The other EEC countries tightened up their foreign exchange controls against money inflows from abroad. After the suspension of dollar convertibility in August 1971 the Benelux countries made arrangements for their currencies to float jointly.

. . . but efforts to present common external view

In the May crisis the Council of Ministers of the European Communities had agreed, inter alia, that appropriate measures should be devised "to counteract excessive capital inflows and to neutralise their effects on the domestic monetary situation". As a result the EC Commission submitted a draft "Directive on the regulation of international financial flows and the neutralisation of undesired effects on domestic liquidity" in June 1971. The directive proposed that all member states should equip their monetary authorities with the following instruments for use in case of need:

- Regulations on money market investments and interest payments on non-residents' deposits;
- Powers to restrict recourse by residents to foreign loans;
- Measures for regulating the net external position of banks;
- Powers to impose special minimum reserve ratios on banks' external liabilities.

This draft directive was formally accepted by the Council of Ministers only in March 1972 when it was decided to narrow the exchange rate margins within the Community. But even before these decisions were taken the Council had encouraged several member countries to supplement their monetary instruments in the direction indicated. The precise form and application of the individual measures is left to the discretion of the countries concerned, but the member countries are expected to coordinate their actions closely. Since the introduction of the cash deposit on certain types of foreign borrowing, the Federal Republic of Germany possesses all the technical facilities listed in the new EEC directive. Even though the banks' net external position cannot be "regulated" directly by the Bundesbank, it can be influenced sufficiently by indirect measures.

(b) Work on economic and monetary union resumed

Fresh start to establish monetary union

The dollar crisis and the EEC countries' differing reactions to it made a temporary interruption of the work on a European monetary union inevitable. The first reduction of the exchange rate margins within the EEC, which had been envisaged for June 1971, could not be implemented. Nor did the procedure decided on in March 1971 for the better coordination of short-term economic policy among the member states yield the hoped-for results in the period under review.

The agreement reached in the Group of Ten on the return to fixed exchange rates cleared the way for the resumption of work on the economic and monetary union. On March 21, 1972 the Council of Ministers of the European Communities adopted a resolution providing for a reduction of the margins of fluctuation between the EEC currencies and a number of other measures designed to advance integration. For the better coordination of short-term economic policy a "steering committee" was set up, composed of the deputies of the ministers responsible for the formulation of economic policy and one member of the Commission. A Community directive "On the promotion of stability, growth and full employment in the Community" is also under preparation. Furthermore, the Council has agreed to create better financial conditions for the promotion of regional economic development. Simultaneously with the adoption of the resolution of March 21 the directive already mentioned on the "Regulation of international financial flows and the neutralisation of undesired effects on domestic liquidity" was formally put into force.

New situation for the reduction of margins

With regard to the narrowing of the exchange rate margins, the procedure agreed upon but not put into effect in 1971 because of the monetary crisis was not simply revived. The Community was, in fact, confronted with a new situation. Up to May 1971 the margin of fluctuation of member countries' currencies against the dollar had been $\pm$ 3/4 %, with small deviations in some cases; this meant that cross rates between the EEC currencies could fluctuate by no more than 1.5 % in either direction. At that time it had been intended to reduce the spread between the EEC currencies to $\pm$ 1.2 % by coordinated dollar interventions. Through the Washington Monetary Agreement, however, the permissible margin of fluctuation vis-à-vis the dollar was widened to $\pm$ 2.25 % and in theory this would allow a spread of up to $\pm$ 4.5 % for the cross rates between the EEC currencies. The new decision narrows the margins between the EEC currencies also to $\pm$ 2.25 %, thereby halfing the theoretically possible maximum spread. It was also decided not only to have common rules for intervention in dollars but also *to intervene directly in member currencies* to keep the spread within the agreed limits. This is an important step which had originally been envisaged only for a later stage in the integration of external monetary policy.

New intervention system

The interventions of EEC central banks on the foreign exchange markets are now governed by the following principles:

- in order to keep the EEC currencies within the narrower margins of $\pm$ 2.25 %, the authorities will intervene in Community currencies whenever their rates reach the agreed limits;

- in order to keep the dollar rate within the prescribed margins the authorities will intervene in dollars when the rate of one or more member currencies reaches the outer limits of the margin;

- interventions within the margin will only be possible when a coordinated decision has been taken by the central banks.

As a result of this arrangement, the dollar will cease to be the only intervention currency. Its position will therefore no longer be as central as in the past. In view of the increasing economic integration within the Community, it was natural to attach at least as much importance to exchange rate relationships between partner currencies as to relations with the dollar.

Principles for settlement

Interventions in Community currencies require that a central bank which has to support its own "weak" currency is supplied with sufficient amounts of "strong" currency by a partner central bank to be able to intervene in the foreign exchange market; conversely, a central bank with a strong currency must be willing to buy on the exchange market the weak EEC currency which has reached the floor. This calls for mutual short-term central bank facilities. These facilities are, however, not intended to become a new, additional system of unlimited lending. Liabilities arising from interventions in Community currencies must therefore be settled within a short period – as a rule after one month, or at the most two.

For the monthly settlement the debtor country must draw on its monetary reserves. In case of need it can also avail itself of the arrangements for short and medium-term monetary assistance within the Community, subject to the agreed conditions. It is agreed that when a country settles balances it is owing with reserves of its own, it should use the different reserve assets – gold, special drawing rights, foreign exchange – in proportion to the composition of its monetary reserves. This rule is designed to ensure that a deficit country does not run out of a particular reserve asset, thereby getting into difficulties with the settlement rules in spite of adequate aggregate reserves. In addition, the agreed procedure will over time lead to a harmonised composition of the monetary reserves of the member countries. This is an important prerequisite for the future adoption by the member countries of a common reserve policy vis-à-vis the rest of the world. The use of gold in the settlement arrangements emphasises that gold, contrary to a widely held view, is by no means obsolete and will continue to be a normal means of settling payments balances. The use of special drawing rights in the settlement procedure represents a desirable strengthening of their position.

Narrowing of the margins as a token of confidence

The narrowing of the exchange rate margins within the Community and, in particular, the procedure now decided upon for mutual interventions in Community currencies are first steps towards the *"own monetary identity" of the Community vis-à-vis the rest of the world,* that is, principally in relation to the dollar. The acceptance of common intervention rules also, of course, entails limits to the national autonomy of the member states in external monetary policy. The smooth functioning of such a system does not merely require very close technical cooperation between the central banks concerned; the most important precondition for gradual integration in the monetary sphere is greater harmonisation among the member countries in price and balance of payments developments. If this were not achieved and if, instead, major divergences and tensions in economic activity and price developments were to reappear among the member countries, the new exchange rate system would be built on quicksand. The narrowing of exchange rate margins and the intervention system in Community currencies have thus been effectuated in the hopeful belief in future success in the coordination of economic policy and the harmonisation of economic developments in the member countries; in other words, they are a "token of confidence given in advance". It is to be hoped – and must be the aim of all those involved – that the desired harmonisation among the member countries is not achieved by harmonising inflation but on the basis of common stability instead.

III. Details of monetary developments

1. Money and credit

(a) Bank liquidity and liquidity policy

Peak of restrictive policy passed at beginning of year

At the beginning of 1971 the Bundesbank's restrictive policy had already passed its peak. By then banks were far more liquid than they had been for approximately twelve months. Of course, the easing was only in part the consequence of adaptation to the slackening of cyclical tensions within the country; it was rather more due to the relaxation on internal credit markets caused by capital imports. It is shown in another context in this Report to what extent German enterprises borrowed abroad in the months preceding the suspension of the Bundesbank's obligation to intervene, thus benefiting from the interest rate differential (see page 102). In these circumstances the only possibility left to the Bundesbank was to try and make use of the narrow margin between, on the one hand, complete adjustment to the terms of procuring funds prevailing abroad and, on the other, a relative squeeze on funds — still effective at least in some important fields — together with correspondingly high interest rates within the country. Shortly after the Bundesbank had taken another step toward approximation to the interest rate level ruling on international credit markets by lowering, from April 1, 1971, its discount rate from 6 % to 5 % and its lombard rate from $7^1/_2$ % to $6^1/_2$ %, thus narrowing the interest rate differential in the short-term field, the inflow of foreign funds continued, and even intensified on speculative grounds. In this situation of fixed exchange rates without foreign exchange controls, monetary policy was almost powerless. A modification of the basic conditions, in the direction either of stopping the inflows by administrative action or of suspending the Bundesbank's mandatory intervention, became necessary. The decision of the Federal Cabinet was in favour of the suspension of mandatory intervention.

Rapid growth of liquidity up to the floating of the Deutsche Mark

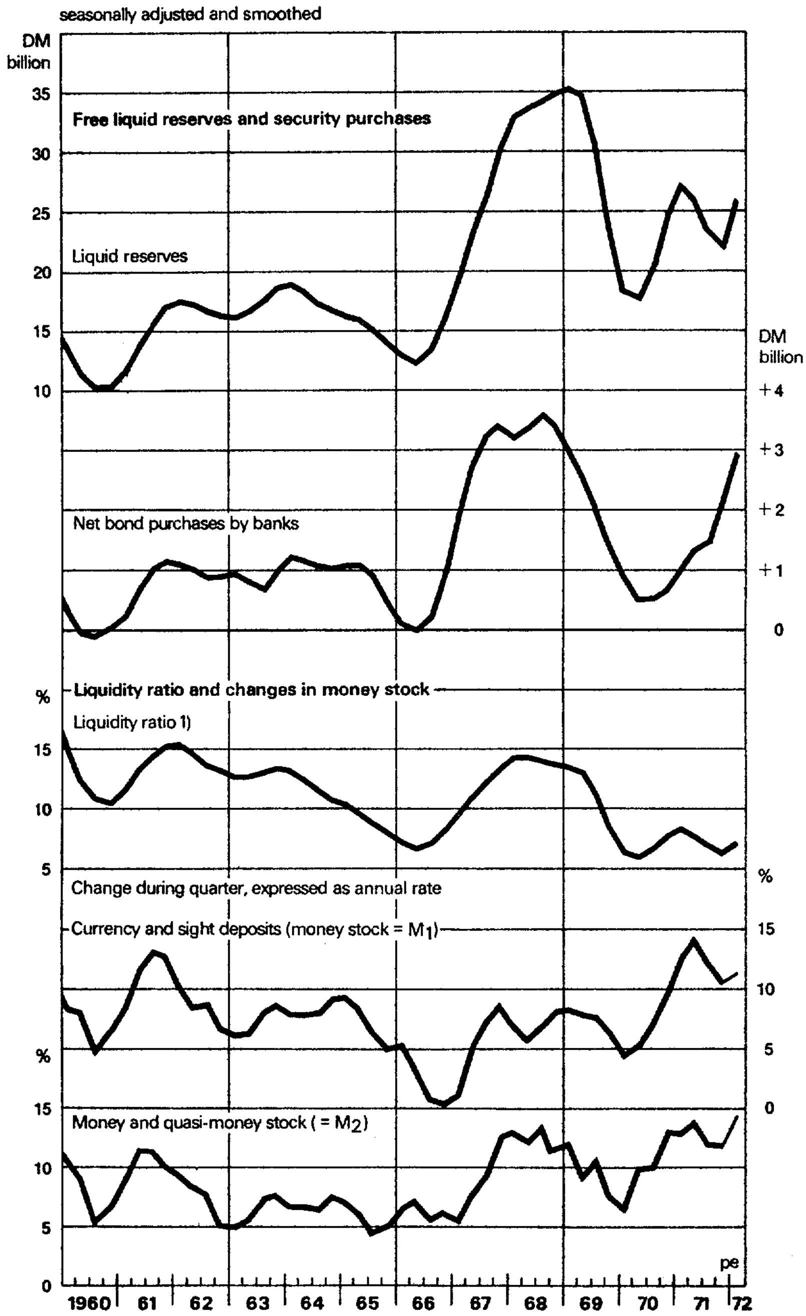
Between January and May 1971 the inflow of liquidity from abroad amounted to nearly DM 23 billion (see the table on page 55). During that period banks' free liquid reserves rose by DM 9 billion, since DM 8 billion of this external influx was neutralised by partly seasonal transactions of public authorities with the Bundesbank, a further DM 5 billion by measures of credit policy, including the raising of minimum reserves, and DM 1 billion by other influences. At the end of May 1971 banks had almost DM 35 billion of free liquid reserves at their disposal, an amount last recorded in the summer of 1969. As will be explained in the following subsection, during the first five months of the past year the money stock and other liquid funds of the business community had expanded to such a degree that it could no longer be said that monetary policy had any restrictive effect on economic activity during that period.

Reversal in the trend of liquidity in June

By the freeing of the Bundesbank from its obligation to intervene on the foreign exchange markets credit policy was relieved of the compulsion to create central bank money, although certain limits had still to be observed under the new conditions, namely those set by the movement of the Deutsche Mark exchange rate. In retrospect it can be said that the period between May and September 1971, in particular, may be considered a phase of autonomous monetary policy because, under the cover of effective safeguards against external influences, it was possible to reduce inflated bank liquidity by measures of monetary policy. In the period from June onwards foreign funds flowed out in large quantities. With effect from June the minimum reserve ratios for domestic liabilities were raised by 15%, and those applying to total external liabilities were fixed at more than twice the former ratio. The reserve against the growth of external liabilities introduced in December 1970 remained in force.

In these circumstances it seems likely that the nearly DM 7 billion of foreign funds which flowed out between June and September consisted principally of speculative money, since the German economy was still able to raise credit abroad and the interest rate differential made such borrowing as attractive a proposition as before. But when in the further course of events the dollar rate fell rather quickly vis-à-vis the Deutsche Mark, foreign investors' chances of making exchange profits with the Deutsche Mark diminished, while, conversely, the risk of exchange losses in the case of a possible recovery of the dollar rate increased. The main consideration

Bank liquidity, security purchases by banks and money stock



1) Liquid reserves as % of total deposits.- pe Partly estimated.

was, however, that many other currencies to which the former fixed exchange rates still applied by then offered far greater opportunities for speculative gains than the Deutsche Mark. This was particularly true of the period which ended with the suspension of dollar convertibility in the middle of August 1971 and the adoption of flexible exchange rates by other countries. Only in the further course of the year, when the de facto revaluation of these currencies too — e. g. the Swiss franc, the Japanese yen, etc. — caused prospects of further exchange profits to wane, did the Deutsche Mark again become the focus of monetary speculation, and the outflow of foreign exchange from Germany ceased. In the period from May to September 1971 the net efflux of foreign exchange, together with the restrictive measures of monetary policy, brought about a decrease of DM 15 billion in the free liquid reserves of the German banking system. At the end of September

Bank liquidity

Billions of Deutsche Mark

Item	1971	Jan./May 1971	June/Sep. 1971	Oct. 1971/ Feb. 1972
	Changes during period, on the basis of end of month figures			
I. Market factors				
1. Currency (increase: –)	– 3.8	– 1.7	– 0.8	– 0.3
2. Non-banks' net balances with Bundesbank (increase: –)	– 3.8	– 7.1	– 2.4	+ 0.3
of which:				
Cash balances (net) of Federal and Länder Governments, Equalisation of Burdens Fund	+ 1.2	– 3.9	– 0.1	+ 0.7
Special deposits in respect of anticyclical reserve, anticyclical surcharge and Federal education loan	– 4.6	– 2.3	– 2.0	– 0.4
3. Public authorities' money market indebtedness to banks and Bundesbank (increase: +)	– 2.1	– 0.7	– 0.4	– 1.4
4. Net foreign exchange holdings **1**	+17.2	+22.7	– 6.6	+ 7.8
5. Other factors	+ 0.1	+ 0.8	+ 0.9	– 0.8
Total	+ 7.6	+14.0	– 9.3	+ 5.6
II. Monetary policy factors				
1. Minimum reserve required of banks **2** (increase: –)	– 5.6	– 2.3	– 5.3	+ 3.8
2. Open market transactions with domestic non-banks **3** (purchases by Bundesbank: +)	+ 0.0	– 0.2	– 0.4	+ 0.4
3. Cuts in rediscount quotas	– 3.2	– 2.4	—	– 0.8
Total	– 8.8	– 4.9	– 5.7	+ 3.4
III. Increase (+) or decrease (–) in bank liquidity, total (I plus II) = change in free liquid reserves	– 1.2	+ 9.1	–15.0	+ 9.0
1. Excess balances **4**	+ 0.7	– 1.9	– 0.4	+ 1.9
2. Domestic money market paper **5**	– 2.0	+ 0.7	– 4.0	+ 1.3
3. Money market investment abroad **6**	+ 1.1	+ 4.1	– 0.7	+ 1.2
4. Unused rediscount quotas	– 1.3	+ 4.6	– 7.6	+ 4.5
5. Lombard advances (utilisation: –)	+ 0.3	+ 1.6	– 2.3	+ 0.1
	Position at end of period			
IV. Banks' free liquid reserves **7**				
in billions of Deutsche Mark	24.2	34.5	19.5	28.5
as % of total deposits **8**	6.6	10.2	5.8	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. — **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 claims payable on demand), foreign Treasury bills, discountable Treasury bonds and other foreign bills acquired for the 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.

1971 banks' free reserves amounted to DM 19.5 billion; the persistent increase in banks' liquidity since the last quarter of 1970 had thus been wiped out.

Scant reaction by banks to liquidity squeeze

Although the tightening of bank liquidity was accompanied by a marked slackening in the growth of the money stock, the two phenomena were not immediately connected with each other. In actual fact, monetary expansion slowed down because non-banks' money holdings were no longer being directly inflated by funds flowing in from abroad but, on the contrary, were being reduced by the outflow of funds. In addition, banks' customers held a larger portion of their resources with banks in non-liquid forms. The fact that, despite the liquidity squeeze, banks granted more credit in the period mentioned than ever before during four successive months, even including the last four months of 1969, was at variance with all traditional ideas. No doubt the demand for credit was massive not only because it tended to concentrate on domestic sources of credit, but also because, on balance, credit was being repaid to the rest of the world. However, the fact that the banking system was able to meet this demand relatively smoothly, at almost constant lending rates (see page 67), and that, moreover, banks continued to build up their security holdings during this period, suggests that a gradual change was taking place in the banks' standards for assessing their liquidity requirements. So far the Bundesbank had been able to rely on the banks reacting not only when there was an actual lack of central bank money, but already in the event of a shortage of assets readily convertible into central bank money – that is, of any major and lasting decline in their free liquid reserves – by cutting down on credit expansion, particularly that in the form of security purchases. But now banks seemed to consider even the heavily depleted liquid reserves of the summer of 1971 sufficient to form the basis of substantial credit expansion. The idea appeared to have caught on that in the last analysis liquidity in the form of central bank money would always be made available and that in the case of still greater tightness in the banking system an easier monetary policy would in all likelihood be adopted.

Easing of monetary policy at first for domestic reasons ...

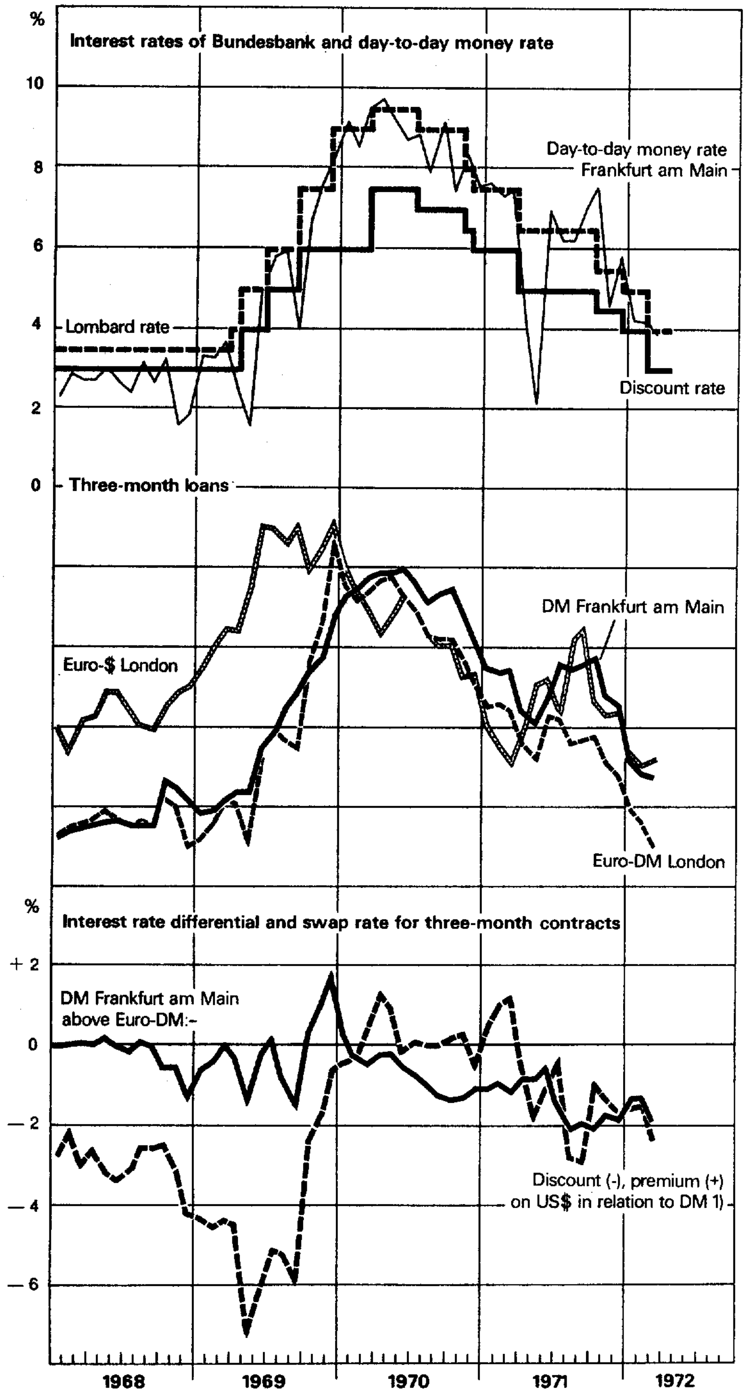
In the autumn of 1971 banks were the more entitled to expect such relaxations as the liquidity shortage within the country triggered the tendency towards capital imports although, with exchange rates floating, such capital imports in the first place depress exchange rates, while, as long as the central bank has stopped buying foreign currencies, the banking system's foreign exchange holdings can only increase through purchases by banks. Actually, during that period the de facto appreciation of the Deutsche Mark grew still more, which did not fit in with the relaxation and stagnation tendencies spreading throughout the domestic economy. Thus in October 1971 the Bundesbank deemed it timely further to lower its interest rates, which had remained unchanged during the phase of restriction (discount rate from 5 % to 4 1/2 %, lombard rate from 6 1/2 % to 5 1/2 % as from October 14), and, for the first time since the end of 1969, to reduce the minimum reserve ratios for domestic liabilities by 10 % with effect from November 1. But even in the final months of 1971 bank liquidity remained comparatively tight, partly for seasonal reasons.

... but after the realignment determined by external considerations

With the Washington monetary agreements of December 18, 1971, which reintroduced fixed rates but with wider margins of fluctuation, conditions changed again for domestic liquidity policy. The Bundesbank took these changes into account as early as December by lowering its interest rates by another half percentage point each (discount rate to 4 %, lombard rate to 5 %). At the same time it reduced the minimum reserve ratios for domestic liabilities by a further 10 % as from January 1972. But soon problems arose similar to those faced before the adoption of floating exchange rates since, on the one hand, the interest rate differential in relation to international credit markets remained great while, on the other hand, the new central rates either called for external safeguards in the form of some type of control on capital transactions or, should the necessity arise, had to be defended by central bank intervention even before the lower intervention point was reached. In fact, since then the influx of liquidity from abroad has again played an important part among the forces determining liquidity. Between December 1, 1971 and the end of February 1972 on balance roughly DM 7 billion of foreign exchange flowed in (excluding the DM 0.6 billion of new special drawing rights allocated in January 1972), although about DM 2 billion of this sum was accounted for by the settlement of forward exchange purchase contracts previously concluded by the Bundesbank. In order to narrow the interest rate differential, the Bundesbank decided to cut its discount and lombard rates by another full percentage point, with effect from February 25, to 3 % and 4 % respectively; they thus reached a level below which they had dropped only once before in the post-war period, and then only for a short time (a few months during 1959). This interest rate reduction was solely motivated by external considerations, being conceived as a measure of interest policy to safeguard the simultaneously decreed cash deposit requirement against the business community's borrowing abroad. To prevent as far as possible the preceding liquidity increase from having secondary effects on bank lending, the rediscount quotas of banks were curtailed by 10 % at the same time. In addition, the minimum reserve ratio for the growth of liabilities to non-residents was raised from 30 % to 40 % and the base for the calculation of the growth was updated from November 1970 to November 1971.[1] By the end of February 1972 the free liquid reserves (disregarding the cut of DM 2.3 billion in

1 Any consequent reduction of the base must not, however, exceed 20 %.

Money market rates in Germany and abroad *



* Monthly averages (except for discount and lombard rates).- 1) On the free market.

quotas effective from March) had increased again by over DM 4 billion, in comparison with the end of November, to just on DM 29 billion. This rise was accompanied by an acceleration of monetary expansion.

(b) Principal features of the monetary trend

Brisk monetary expansion

As already indicated, monetary expansion in the Federal Republic of Germany over the entire year 1971, apart from a distinct deceleration in the first few months following the floating of the Deutsche Mark, was most vigorous and indeed, considering the necessary stabilisation of the value of money, too great. For one thing, the expansion was a consequence of the fast rise in lending; for another it was due to the considerable influx of foreign exchange from abroad during the first five months of the year (shown in the banking statistics as net acquisition of external claims by the banking system including the Bundesbank). Although a large amount of "monetary capital" was formed with banks, the expansive tendencies were by far predominant. In relative as well as absolute terms the money stock increased at a speed hardly recorded again since the fifties. The money stock and quasi-money combined (M_2) rose by over DM 25 billion, or 14.5 %, in 1971, which in terms of the amount was 50 % more than in 1970; the growth rate also clearly exceeded the figures for years further back. The money stock by itself (M_1) was about 12.5 % larger at the end of 1971 than at the end of 1970. As mentioned in the preceding sub-section, this development did not take a consistent course. If seasonal influences are disregarded, it was chiefly determined by the events in the first five months of 1971. During the period of flexible exchange rates – statistically representable only by the months June to December – expansive tendencies on the whole were notably weaker, though the braking effect lessened perceptibly towards the end of the year, not least because of the monetary relaxation decided upon in the meantime. Seasonally adjusted, the money stock mounted between January and May 1971 by almost DM 7 billion or, expressed as an annual rate, by over 16 %. Between the end of May and the end of September the growth, likewise as an annual rate, dropped to about 8 %, but in the last three months of the past year it rose again to nearly 12 %. Time deposits, to be regarded as "quasi-money", also expanded substantially in 1971, with similar – and sometimes even greater – fluctuations.

Significance of the inflow of foreign funds

The measures by which the Bundesbank tried to check the excessive growth in the money stock up to the autumn of 1971 have already been dealt with in the sub-section on bank liquidity. The scale reached at times merely by the direct effects of the influx of foreign funds – not to mention the secondary ones via the rise in bank liquidity – becomes evident when the increase in net external claims (which reflects the inflow of foreign money) is compared with the expansion of the money and quasi-money stock in the various phases of last year:

	Increase (+) or decrease (–) in net external claims of banks (incl. Bundesbank)	Increase (+) or decrease (–) in money and quasi-money stock
	Billions of Deutsche Mark	
1971	+ 12.2	+ 25.1
January to May	+ 21.4	+ 9.3
June to September	– 4.4	– 0.9
October to December	– 4.8	+ 16.7

The primary expansion of the money stock on account of foreign exchange inflows, which comes about through domestic non-banks selling foreign exchange acquired abroad to their banks, is outside the control of monetary policy. The Bundesbank is unable to neutralise this expansion in the money supply direct as it can exercise a direct influence only on the liquidity of banks, but not on that of non-banks. Only to the extent that the Bundesbank succeeds in squeezing bank liquidity and in persuading banks from this angle to show greater restraint in lending does it have a chance of preventing the money inflow from abroad from having multiplicative effects on Germany. Without effective means of warding off external influences, such as were definitely provided by the floating of the Deutsche Mark and might be afforded by the introduction of the cash deposit requirement (see page 35) or the successful repulsion of foreign loans by administrative action, it is difficult even to restrict the secondary effects as long as there is an influx of foreign money owing to interest rate or speculative considerations. The reasons underlying the inflow of foreign funds will be described in detail in the section dealing with the balance of payments; the following table shows how the net positions of those external transactions that are relevant to the money stock and bank liquidity differ

Influence of external transactions on money stock, bank liquidity and foreign exchange balance

Expansive effect (= inflow of foreign exchange): +, millions of Deutsche Mark

Item	1971/72 January/May	June/September	October/February
1. Current account	+ 674	— 1,037	+ 1,028
2. Non-banks' external short and long-term capital transactions	+ 8,806	— 2,869	+ 1,014
3. Statistically unclassifiable transactions (= balancing item of the balance of payments)	+ 12,268	— 947	+ 1,956
Total 1 to 3 = change in net external claims of the banking system in the **"Monetary analysis" 1**	+ 21,748	— 4,853	+ 3,998
4. Banks' external long-term capital transactions	+ 1,231	+ 1,917	+ 1,034
Total 1 to 4 = overall **"Balance of monetary movements"**	+ 22,979	— 2,936	+ 5,032
5. Change in banks' short-term external liabilities (increase: +)	— 888	— 3,507	+ 2,179
6. Change in banks' short-term claims on foreign non-banks and foreign currency claims on foreign banks payable on demand (increase: —)	+ 1,057	+ 95	+ 538
Total 1 to 6 = change in the banking system's net foreign exchange holdings in the **"Liquidity analysis"** (calculated from final positions) **1**	+ 23,148	— 6,348	+ 7,749
7. Change in banks' short-term claims on foreign banks (excluding foreign currency claims payable on demand) (increase: —)	— 4,157	+ 508	— 1,202
8. Allocation of special drawing rights (+) and compensatory amount required by Bundesbank for revaluation losses	+ 627	—	— 5,376
Total 1 to 8 = change in the **Bundesbank's net monetary reserves** (= overall central foreign exchange balance; surplus: +)	+ 19,618	— 5,840	+ 1,171

1 For statistical reasons the figures given in this table differ slightly from those shown in the tables "Money stock and its determinants" and "Bank liquidity".

from the other aggregates (foreign exchange balance, balance of monetary movements).

Continuous expansion of lending

The other driving force of monetary expansion alongside foreign exchange inflows — domestic lending — was operating virtually flat out throughout the year 1971, especially at times when there were temporary stoppages in the influx of foreign exchange. The only conclusion to be drawn from this is that banks as suppliers of credit never considered themselves to be under strain, not even during the period of tighter bank liquidity, so that by and large the expansion of lending was determined by the demand for credit. In effect all domestic sectors — enterprises, households, government — raised more bank loans in 1971 than in former years. Lending to public authorities was markedly larger than in 1970 and 1969, though not quite as large as in 1967, the year of slack activity. Employees who had shown great restraint in borrowing during 1970 in comparison with 1969, raised far more credit in 1971 than two years earlier. Housing, whose recourse to credit had stagnated in 1970, incurred a particularly large amount of debt to banks last year. Enterprises (and self-employed individuals, excluding housing), who regularly take up more than half of all bank loans, likewise borrowed on a larger scale than in 1970 or 1969.

No restraint in demand for credit for interest rate reasons

A feature common to all these borrower groups appears to have been that the nominal rates of interest, which in 1971 were still relatively high (as shown in the table on page 67, in 1971 banks' lending rates on an annual average were slightly lower than in 1970 in short-term business and almost at the same level in long-term business), no longer had any pronounced restraining effect; this, no doubt, must be attributed to these groups deliberately taking account of the depreciation of money. In the enterprises sector (including housing) gross capital formation grew much more steeply in 1971 than internal resources and the resultant financial deficit rose correspondingly. It was, however, also important for lending in the banking sector that, first, enterprises' financial assets increased rapidly (meaning that in gross terms more credit was raised than the net figure "financial deficit" would have called for) and, second, that more than three fifths of enterprises' borrowed funds was taken from domestic banks, against only just over one half in 1970. A similar picture presents itself in other fields too. The exceptional credit expansion of last year thus had several causes: the continued fast-growing demand for bank credit due to expansive investment planning, and the greater divergence of economic trends. The latter reason, among others, may be responsible for the fact that enterprises' financial assets showed a rapid increase despite a relatively low self-financing ratio, as only a small part of these assets would seem to have been formed by these enterprises which at the same time incurred debt on a larger scale.

Monetary capital formation large in amount, but small in relative terms

The strong expansion in bank lending and the acquisition of net external claims was, by definition, coupled with a similarly strong expansion in bank liabilities. From the monetary policy angle it was of importance that the longer-term immobilisation of resources – monetary capital formation with banks – in comparison with the simultaneous growth in the money and quasi-money stock was smaller than in most of the preceding years. The great predilection for liquidity which bank customers thus expressed may in part be attributed to the fact that the reward for forgoing liquidity – the interest – did not present an adequate incentive for immobilising funds at longer term. As will be seen in the table on page 67, a major role – though not quite as prominent as in 1970 – was played by the fact that even relatively short-term investments earned comparatively high yields.

Bank transactions in detail

Large credits to the public sector

In 1971 banks and the Bundesbank together granted credit of all maturities (including purchases of securities) to non-banks to the amount of DM 70 billion, or about two fifths more than in 1970; the previous highest increase during one year had been DM 53 billion in 1969. In detail, bank lending (including Bundesbank credit) to domestic public authorities rose by just on DM 10 billion in 1971; this was 50 % more than in 1970, but much less than in 1967, when revenue shortfalls due to economic conditions and pump-priming programmes had led to the public authorities borrowing DM 14.2 billion from banks. In 1971 virtually the only increase was in longer-term direct loans to public authorities – primarily communal loans, raised by the lending institutions through issuing communal bonds on the bond market. Altogether, domestic public authorities borrowed DM 9.3 billion at long term in 1971, against roughly DM 7.2 billion in 1970. Local authorities and local authority associations (including special-purpose associations) incurred the largest amount of long-term debt towards banks. Länder Governments took up about DM 2 billion of long-term loans from banks.

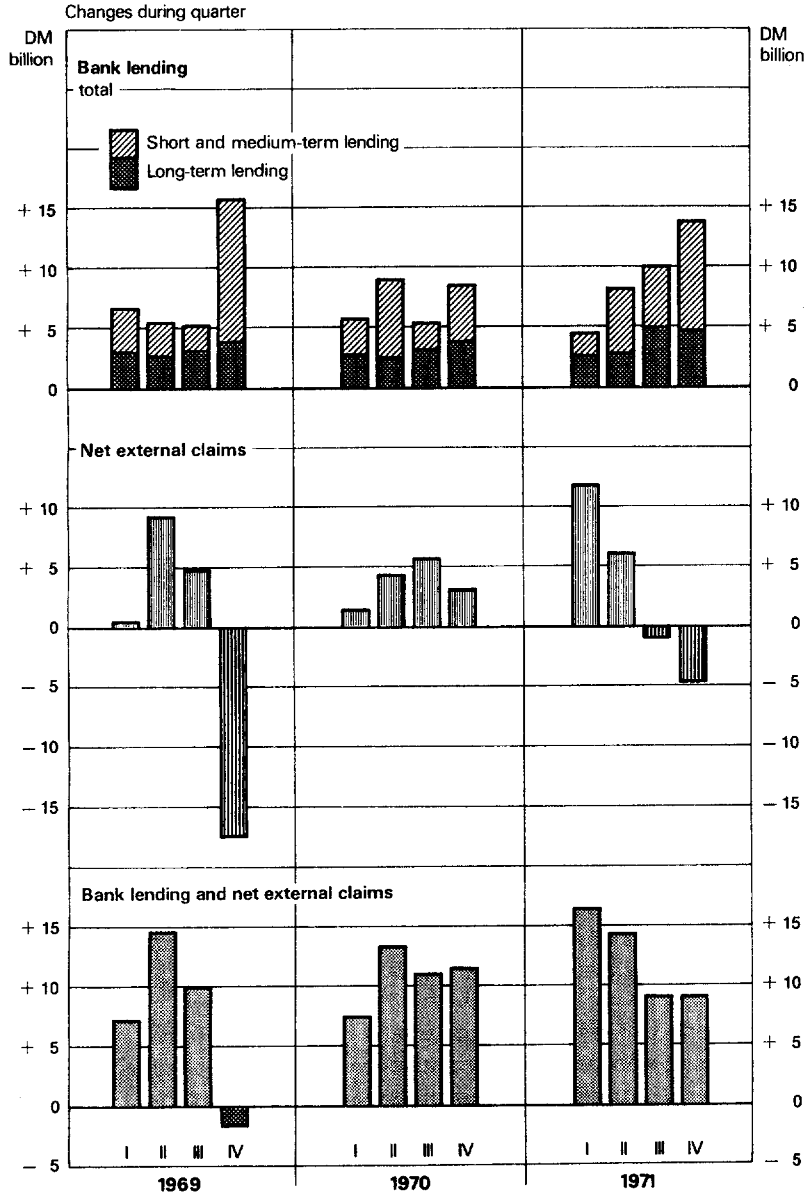
Different trends in short-term borrowing by various branches of economic activity

The bulk of the credit expansion in 1971 was again accounted for by lending by the banking system to enterprises and individuals, growth coming to about DM 60 billion, which was one third more than in 1970. Short-term lending to the private sector mounted by roughly DM 18 billion in 1971 (against fully DM 12 billion in 1970); only in 1969 had such credits risen more steeply, by DM 20.5 billion, but at that time there had also been considerable outflows of funds to the rest of the world, which always boost domestic demand for credit. The picture varied, however, among the individual branches of economic activity. Manufacturing took up DM 5.2 billion (net) of short-term credits from domestic banks, which was less than a year before (DM 6.1 billion). In the case of the distributive trades on the other hand, short-term borrowing showed considerable growth on the year (DM 2.6 billion net, against DM 0.2 billion), as it also did among the service industries (DM 3.4 billion net, against DM 2.1 billion). Firstly, these branches probably found fewer favourable credit facilities abroad than industry with its large-scale units. Secondly, capital expenditure outside industry may be assumed to have taken a more consistent course than in industry itself, where capital expenditure was in some cases curtailed in 1971.

Medium-term borrowing by capital-intensive branches of the economy

Medium-term lending to enterprises and individuals, which was of relatively little significance between 1967 and 1969, grew about one third more in 1971 than in 1970, when it had risen twice as fast as in 1969. Among those resorting to medium-term bank advances on a larger scale were gas, electricity and water undertakings, and transport and telecommunications enterprises (chiefly the Federal Railways and Federal Post Office). The fact that it was primarily capital-intensive under-

Bank lending to enterprises * and net external claims of the banking system **



* Excluding housing. - ** Including Bundesbank.

takings that took up notably more medium-term bank loans during 1971 than before suggests that these advances were to serve investment financing, be it that the investment was quickly written off, be it that only interim financing was sought in the hope of a phase of lower interest rates.

Extremely steep rise in long-term bank lending

Banks' long-term lending (for four years and over) to enterprises and individuals (including housing) went up exceptionally fast in 1971, viz. by DM 29 billion; thus growth was DM 7 billion larger than in 1970, and substantially exceeded the previous highest increase (almost DM 25 billion in 1969). Credit running for four years and more to enterprises other than housing mounted by DM 15.3 billion in 1971, against DM 12.3 billion in 1970. Nearly all branches of economic activity recorded an acceleration in newly incurred net long-term indebtedness to banks. This is particularly true of manufacturing (except the leather, textile and clothing industry) and of gas, electricity and water supply undertakings; in 1971 both branches raised about twice as much credit at long term at banks than a year before. Agriculture also borrowed slightly more at long term from banks in 1971 than in 1970. However, the acceleration in long-term borrowing was mainly ac-

Lending to domestic non-banks (including security purchases) by banking groups

Banking group	Change in DM million (increase: +)			Percentage change against initial position		
	1969	1970	1971	1969	1970	1971
Commercial banks	+16,833	+12,468	+18,525	+ 18.7	+ 11.7	+ 15.5
Big banks	+ 7,709	+ 3,209	+ 6,448	+ 19.3	+ 6.7	+ 12.7
Regional banks and other commercial banks	+ 8,059	+ 7,645	+10,582	+ 19.5	+ 15.5	+ 18.6
Private bankers	+ 1,065	+ 1,614	+ 1,495	+ 12.4	+ 16.8	+ 13.3
Savings bank sector	+17,891	+23,555	+27,631	+ 11.6	+ 13.7	+ 14.0
Central giro institutions	+ 4,167	+11,195	+11,564	+ 7.3	+ 18.2	+ 15.6
Savings banks	+13,724	+12,360	+16,067	+ 14.1	+ 11.2	+ 13.0
Cooperative sector	+ 6,732	+ 5,584	+ 9,047	+ 18.0	+ 12.7	+ 18.2
Central institutions of credit cooperatives	+ 1,081	— 143	+ 881	+ 17.6	— 2.0	+ 12.5
Credit cooperatives	+ 5,651	+ 5,727	+ 8,166	+ 18.1	+ 15.5	+ 19.2
Mortgage banks	+ 6,078	+ 5,329	+ 9,793	+ 6.5	+ 5.4	+ 9.8
Instalment sales financing institutions	+ 1,075	+ 1,437	+ 1,478	+ 19.6	+ 21.9	+ 18.5
Banks with special functions	+ 2,739	+ 2,389	+ 2,554	+ 12.8	+ 9.9	+ 8.5
Postal giro and postal savings bank offices	+ 1,460	+ 239	+ 1,062	+ 20.8	+ 2.8	+ 12.2
All banks	+52,808	+51,001	+70,090	+ 12.9	+ 11.0	+ 13.7

counted for by the procurement of housing finance; here, apart from the larger real volume of building, the sharp increase in the cost of construction work boosted credit demand. Financial institutions of all types provided roughly DM 12 billion (net) of long-term credit for housebuilding in 1971; this was nearly DM 4 billion, or 50 %, more than in 1970 and markedly more than in 1969 (DM 9.8 billion). Assurances of housing mortgage loans rose much faster still; new mortgage loans promised by banks for residential building amounted to about DM 16 billion in 1971, thus exceeding the 1970 figure by roughly two thirds. Housing loans granted by building and loan associations went up by DM 4.4 billion in 1971, against DM 6.4 billion in 1970.[1] The number of newly concluded savings contracts for building purposes likewise increased at a much slower pace than in the preceding year.

Importance of individual banking groups

Among the banking groups it was particularly credit cooperatives which expanded lending to domestic non-banks at an above-average rate last year (19.2 %, against an average of 13.7 % for all banking groups). Similarly high growth rates were only achieved by instalment sales financing institutions (18.5 %) and, among commercial banks, by regional banks and other commercial banks. The smallest rise was in credit commitments undertaken by banks with special functions (8.5 %) and mortgage banks (9.8 %); see the table above.

Components of monetary capital formation

Longer-term funds accruing to banks from domestic sources, which tend to reduce the growth of the money and quasi-money stock, amounted to DM 48 billion in 1971, thus being DM 11.5 billion up on the year. The principal component of monetary capital formation in 1971 was again saving through bank accounts. Residents' savings deposits rose by DM 26.8 billion last year, compared with about DM 19.5 billion in both 1970 and 1969, and DM 20.5 billion in 1968. DM 11 billion of interest was credited to savings accounts in 1971 (1970: about DM 10 billion). Savings deposits at agreed notice, which carry higher rates of interest, increased by 15 % to almost DM 100 billion in 1971, while savings deposits at statutory notice mounted by 12 %. The proportion of long-term savings to total savings deposits was about 43 % at the end of December 1971, against 40 % two years before and 36 % four years earlier; however, at over DM 130 billion, savings deposits at statutory notice, which in the year under review yielded an average 4.6 % interest, still constituted the largest category of savings deposits with banks. Sales of bank bonds to non-banks reached a new peak last year, at DM 8.8 billion. To some extent this sum may contain funds representing medium-term investments, that is to say, funds against which minimum reserves would have to be maintained if

1 These figures are not included in the above-quoted data on domestic credit expansion.

Money stock and its determinants

Millions of Deutsche Mark; Increase: +

Item	1969	1970	1971 Total	1971 Jan./May	1971 June/Sep.	1971 Oct./Dec.
I. Bank lending to domestic non-banks, total	+53,480	+50,761	+69,484	+13,992	+27,635	+27,857
1. Deutsche Bundesbank	+ 672	— 240	— 626	— 2,125	— 20	+ 1,519
to enterprises and individuals	— 84	+ 154	— 169	+ 30	+ 237	— 436
to public authorities	+ 756	— 394	— 457	— 2,155	— 257	+ 1,955
2. Other banks	+52,808	+51,001	+70,110	+16,117	+27,655	+26,338
to enterprises and individuals	+51,215	+ 44,035	+59,952	+12,820	+24,840	+22,292
Short-term lending	+20,564	+12,155	+18,117	+ 1,821	+ 8,345	+ 7,951
Medium and long-term lending	+29,337	+30,985	+41,234	+10,928	+16,242	+14,064
Holdings of securities issued by German enterprises	+ 1,314	+ 895	+ 601	+ 71	+ 253	+ 277
to public authorities	+ 1,593	+ 6,966	+10,158	+ 3,297	+ 2,815	+ 4,046
Short-term lending	— 6,105	+ 32	+ 813	+ 314	— 18	+ 517
Medium and long-term lending 1	+ 7,108	+ 7,892	+ 9,749	+ 3,383	+ 2,811	+ 3,555
Holdings of securities issued by German public authorities	+ 590	— 958	— 404	— 400	+ 22	— 26
II. Net external claims of banks and Bundesbank	— 2,978	+14,653	+12,193	+21,451	— 4,441	— 4,817
III. Monetary capital formation with banks from domestic sources, total 2	+34,531	+36,049	+45,524	+14,651	+11,713	+21,160
of which						
Savings deposits and bank savings bonds	+21,590	+20,739	+28,928	+ 8,761	+ 4,932	+15,235
Time deposits 3	+ 5,524	+ 4,257	+ 7,073	+ 2,017	+ 2,620	+ 2,436
Bank bonds outstanding (excluding bank holdings)	+ 4,811	+ 8,320	+ 8,829	+ 2,358	+ 3,499	+ 2,972
IV. Central bank deposits of domestic public authorities	+ 443	+ 4,089	+ 4,203	+ 4,146	+ 2,416	— 2,359
V. Other influences 4	— 980	— 8,768	— 4,803	— 7,373	— 9,908	+12,478
VI. Money and quasi-money stock (= M_2) (I plus II plus V less III less IV)	+14,548	+16,508	+25,147	+ 9,273	— 843	+16,617
Currency and sight deposits (money stock = M_1)	+ 5,963	+ 8,790	+13,423	+ 1,455	+ 2,715	+ 9,253
Currency 5	+ 2,102	+ 2,200	+ 3,523	+ 841	+ 726	+ 1,956
Sight deposits	+ 3,861	+ 6,590	+ 9,900	+ 614	+ 1,989	+ 7,297
Time deposits for less than 4 years (quasi-money)	+ 8,585	+ 7,718	+11,724	+ 7,818	— 3,558	+ 7,464

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 4 years 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 Deutsche Mark notes and coins held abroad.

they were held as deposits. This may be inferred from the fact that in 1971 — in contrast to earlier periods — there was a strong rise in sales of short-term bank bonds, especially those issued by central giro institutions. It may be due to similar tendencies that time deposits with maturities of four years and over, which are likewise exempt from the minimum reserve obligation, increased very vigorously (by DM 7.1 billion — the steepest rise ever recorded in these non-bank deposits in a single year). By far the greater part of this amount came from public authorities, especially social security funds.

2. Capital market

(a) Overall acquisition of financial assets and borrowing

Persistent strong increase in acquisition of financial assets

In 1971 customers' acquisition of financial assets and borrowing increased further vis-à-vis not only banks, but also other financial institutions, the insurance companies and building and loan associations, as well as on the money market. The following survey reveals, however, that the banks' position as financial intermediaries has, if anything, strengthened; in other words, the funds placed with banks and borrowing from banks grew more steeply than financial transactions with other agencies. The total acquisition of financial assets by the government, households and enterprises (excluding banks, building and loan associations and insurance companies) amounted to about DM 104.5 billion last year. This sum includes the funds transferred by the Federal and Länder Government to the anticyclical reserves (DM 1.2 billion) and, moreover, the receipts from the anticyclical surcharge on income and corporation tax during the first half of 1971 (DM 3.7 billion) — funds, that is, which had been immobilised at the Bundesbank for the time being and hence were not available to the parties to whom they were due. In comparison with 1970, the acquisition of financial assets by domestic non-financial sectors expanded by DM 16.5 billion, or 19 %, in the year under review. The increase came almost exclusively during the first six months of the year. Enterprises, in particular, which received massive amounts of foreign funds up to May 1971, raised their financial assets extremely fast during that period. This movement stopped when, in the second half of the year, foreign loans were in some cases repaid. On the other hand, households' acquisition of financial assets continued undiminished during the second half-year, while the acquisition of such assets by the government was subject to the usual seasonal influences.

Declining share of households and rising share of government in acquisition of financial assets

Households, the sector which acquires most of the financial assets, did so in 1971 to the amount of DM 59.5 billion (1970: DM 50.5 billion). Nevertheless, their share in the acquisition of assets by all domestic non-financial sectors dropped by half a percentage point to 57 %. On the other hand, the share of the government sector, at DM 15.5 billion, rose from 14 % to 15 %. Enterprises, which acquired DM 29.5 billion of financial assets in 1971, accounted for 28 % of the acquisition of financial assets by all domestic sectors — approximately the same proportion as in 1970. The crucial factor was that in the first half of the year some of the inflowing foreign funds were devoted not to the financing of capital formation but to interest-bearing financial investment.

Smaller proportion of short-term acquisition of financial assets

As regards maturities, the emphasis in the acquisition of financial assets by all domestic non-financial sectors in 1971 clearly shifted to longer-term assets, while the increase in holdings of short-term assets — though in itself very considerable, at roughly DM 31 billion — was relatively little up on the year (namely by about DM 1 billion). Consequently, the proportion of short-term funds (which in this context include all financial assets with maturities of one year and less) in the aggregate domestic acquisition of financial assets declined somewhat; it came to 30 % in 1971, after a temporary rise to 34 % in 1970 owing to the sharp increase in enterprises' liquidity at that time due to the influx of external short-term funds. Although, on the one hand, additions to currency in circulation, sight deposits and short-term time deposits were very substantial in 1971 (DM 33.5 billion, against DM 28 billion in 1970), on the other hand, domestic lenders reduced their short-term external claims by about DM 2 billion during the year under review, the main reason being that the Federal Government availed itself to a greater extent of its credit balances resulting from prepayments for armament imports. In addition, domestic enterprises diminished their short-term external claims, as far as the latter can be statistically ascertained, between the beginning and the end of the year.

Large longer-term financial assets

As already mentioned, the longer-term acquisition of financial assets (which in this calculation covers all financial assets with maturities of one year and more, including, for instance, securities running for less than four years that are normally counted among short-term paper) expanded extremely fast in 1971. At DM 73.5 billion it was roughly one quarter up on the year. The annual growth was particularly steep in the case of longer-term time deposits, savings deposits with banks and purchases of bank savings bonds. Funds employed with insurance companies in 1971 were about one third larger than in 1970, whereas investments with building and loan associations fell below the level of the year before. Although savings deposits for building purposes continued to rise vigorously (+ 14 %), building and loan associations had to pay out large amounts of balances accumulated under savings contracts which had been allocated in the meantime. (The smaller net increase in savings balances for building purposes was parallelled by the slower growth in the granting of mortgage loans by building and loan associations, as mentioned before.) At DM 14 billion, households, government and enterprises also bought distinctly fewer securities (bonds and shares) than in 1970 (DM 15.5 billion). As will be shown in detail below, the diminished readiness of

Acquisition of financial assets and incurrence of liabilities by domestic sectors *

Item	1969	1970	1971 Total	1971 1st half	1971 2nd half	1970	1971 Total	1971 1st half	1971 2nd half	1969	1970	1971
	Billions of Deutsche Mark					Change on previous year in billions of Deutsche Mark				Percentage of total		
1. Acquisition of financial assets												
(a) Longer-term	54.8	57.8	73.3	24.3	49.0	+ 3.0	+ 15.5	+ 7.9	+ 7.6	100	100	100
(aa) at banks	26.3	23.5	34.4	11.0	23.4	— 2.7	+ 10.9	+ 5.2	+ 5.7	47.9	40.7	46.9
Longer-term time deposits 1	5.3	3.3	6.8	1.7	5.1	— 2.0	+ 3.5	+ 0.9	+ 2.7	9.7	5.8	9.3
Savings deposits	20.9	20.2	27.6	9.3	28.3	— 0.7	+ 7.3	+ 4.3	+ 3.0	38.2	34.9	37.6
(ab) at insurance companies	8.2	8.3	11.4	5.2	6.2	+ 0.1	+ 3.1	+ 1.0	+ 2.1	14.9	14.3	15.6
(ac) at building and loan associations	4.3	5.9	5.7	— 0.2	5.9	+ 1.6	— 0.2	— 0.5	+ 0.3	7.9	10.2	7.7
(ad) Acquisition of securities	13.3	15.3	14.0	6.0	8.0	+ 2.0	— 1.3	— 0.0	— 1.3	24.3	26.5	19.1
Bonds	6.9	10.5	9.6	3.4	6.2	+ 3.6	— 0.9	— 0.3	— 0.6	12.5	18.1	13.0
Shares	6.5	4.9	4.4	2.8	1.8	— 1.6	— 0.4	+ 0.3	— 0.8	11.8	8.4	6.1
(ae) Direct loans to other sectors	2.7	4.8	7.9	2.4	5.5	+ 2.0	+ 3.1	+ 2.2	+ 0.9	5.0	8.2	10.7
(b) Short-term	20.9	30.1	31.2	22.9	8.3	+ 9.2	+ 1.1	+ 9.3	— 8.2	100	100	100
of which												
Currency and sight deposits	10.3	18.4	22.2	20.6	1.6	+ 8.1	+ 3.8	+ 11.6	— 7.8	49.1	61.2	71.1
Short-term time deposits 2	9.3	9.6	11.1	4.3	6.8	+ 0.3	+ 1.6	— 0.4	+ 1.9	44.5	31.8	35.7
Acquisition of financial assets, total	75.7	87.9	104.5	47.2	57.3	+ 12.2	+ 16.6	+ 17.2	— 0.6	100	100	100
Households	46.1	50.7	59.7	21.4	38.3	+ 4.6	+ 9.1	+ 4.4	+ 4.7	60.9	57.6	57.1
Enterprises	20.1	25.1	29.3	18.7	10.7	+ 5.0	+ 4.2	+ 8.6	+ 4.3	26.5	28.6	23.1
Government	9.5	12.1	15.5	7.1	8.4	+ 2.6	+ 3.4	+ 4.2	— 0.9	12.6	13.8	14.8
2. Incurrence of liabilities	71.9	90.6	110.7	53.1	57.6	+ 18.7	+ 20.0	+ 17.6	+ 2.4	100	100	100
Households	4.1	4.1	6.3	2.6	3.7	+ 0.0	+ 2.2	+ 1.3	+ 0.9	5.7	4.5	5.7
Enterprises	65.3	78.6	91.7	46.6	45.1	+ 13.3	+ 13.1	+ 12.9	+ 0.2	90.8	86.7	82.8
Government	2.6	8.0	12.7	3.8	8.9	+ 5.4	+ 4.8	+ 3.4	+ 1.3	3.6	8.8	11.5
3. Financial surplus or deficit (—) (1 less 2)												
Households	42.0	46.6	53.4	18.8	34.6	+ 4.6	+ 6.9	+ 3.2	+ 3.7	.	.	.
Enterprises	— 45.2	— 53.5	— 62.3	— 27.9	— 34.4	— 8.3	— 8.9	— 4.4	— 4.5	.	.	.
Government	6.9	4.2	2.8	3.3	— 0.5	— 2.8	— 1.4	+ 0.8	— 2.2	.	.	.
Domestic non-financial sectors, total	3.8	— 2.7	— 6.1	— 5.8	— 0.3	— 6.5	— 3.4	— 0.4	— 3.0	.	.	.
4. Financial surplus or deficit (—) of financial institutions	a 2.3	3.9	a 4.0	4.5	a —0.5	+ 1.6	+ 0.1	— 0.9	+ 1.0	.	.	.
5. Change in net external assets of all domestic sectors	a 6.0	1.2	a —2.1	— 1.4	a —0.8	— 4.9	— 3.3	— 1.3	— 2.0	.	.	.
Change in external assets	a 17.6	34.4	a 17.9	16.1	a 1.9	+ 16.8	— 16.5	+ 5.1	— 21.6	.	.	.
Change in external liabilities	11.5	33.2	20.1	17.4	2.7	+ 21.7	— 13.1	+ 6.5	— 19.6	.	.	.

* Households, enterprises (including housing, but excluding banks and other institutional investors), and government; discrepancies in the totals are due to rounding; provisional. — **1** With maturities of more than 1 year. — **2** With maturities of 1 year and less. — **a** After adjustment for a capital transfer by Deutsche Bundesbank to rest of the world equal to the revaluation losses of DM 4.1 billion (1969) and DM 6 billion (1971).

domestic non-financial sectors to acquire securities was, however, outweighed by very considerable security purchases on the part of the banks.

Steep rise on borrowing

The above-mentioned acquisition of financial assets by households, government and enterprises (excluding banks, building and loan associations and insurance companies) totalled DM 104.5 billion in the year under review; against this there was an increase in the liabilities incurred by domestic non-financial sectors to domestic and foreign financial institutions as a whole amounting to DM 110.5 billion, which was DM 20 billion, or just over 20 %, up on the year. In percentage terms, enterprises – by far the most important group of borrowers – increased their borrowing less than the other sectors. At DM 91.5 billion, enterprises accounted for just on 83 % of total liabilities incurred by domestic sectors in 1971, against 87 % in 1970. In the second half of the year enterprises' borrowing was no larger than during the same period of 1970, since during the period of flexible exchange rates they repaid some (though not many) of their external debts. In the first six months – to be more exact, in the period up to the floating of exchange rates – they had evidently taken up more foreign resources than necessary for their own purposes and, as already mentioned, had lent some of them to the banks in the form of time deposits.

Unlike enterprises, households and the government incurred notably greater liabilities last year than in 1970. Households borrowed DM 6.5 billion net for consumption purposes, and thus roughly 50 % more than in the year before. In the case of the government, the increase in indebtedness, at DM 12.5 billion net, was as much as 60 % up on the year. In the total amount of credit raised by domestic non-financial sectors in 1971, households had a share of 5.5 % and the government one of 11.5 % (1970: 4.5 and 9 % only). Among the lenders, banks extended roughly 64 % of the aggregate credit granted to domestic sectors (1970: 59 %), insurance companies 5 % (1970: 4.5 %), and building and loan associations 4 % (1970: 7 %). The part played by securities as a financing instrument for non-banks was still not very important: 4.5 % of all outside finance was raised by share issues and 5 % by bond issues of non-banks (public authorities, Federal Railways, Federal Post Office and some large industrial enterprises).

(b) Security markets

Relatively large sales of securities

If the security markets, as the particularly transparent part of the capital market, are scrutinised by themselves, it is the great availability of funds in 1971 that attracts attention. Domestic borrowers made greater calls on the security market in 1971 than ever before, but capital exports through the security markets, which had played an unusually important part in 1968 and especially in 1969, petered out; for the first time since 1963 (prior to the introduction of the coupon tax) security transactions even resulted in net capital imports in 1971. All domestic groups of issuers exploited the greater productivity of the security markets. Banks again issued the greatest number of bonds, but sales of public authority bonds and of industrial bonds also increased relatively strongly. Domestic shares, too, were sold on a larger scale in 1971 than in previous years.

For the first time since 1963 net capital imports through security markets

The swing from capital exports to capital imports in security transactions with non-residents – in itself probably the most important difference from the accustomed picture of the security markets in recent years – was mainly due to the fact that in contrast to 1969 the renewed speculation on a Deutsche Mark revaluation coincided with relatively tight domestic finance markets and thus with correspondingly higher domestic interest rates. Because of the coupon tax non-residents continued to be interested mainly in foreign Deutsche Mark bonds, which are exempt from that tax, but banks as well as other investors seized the opportunity of procuring additional funds by selling foreign Deutsche Mark bonds from their holdings; in the case of banks such funds were not subject to minimum reserve requirements. In this way they imported foreign capital into the Federal Republic of Germany, or, to put it differently, they repatriated capital formerly exported. The amount of foreign Deutsche Mark bonds issued in 1971 was in fact far below the figure for 1969, partly perhaps because foreign borrowers were reluctant to pay the initially high interest rates applying to Deutsche Mark debts, but mostly because in

Movement of interest rates since 1969

% per annum

Period	Bundesbank rates: Discount rate	Bundesbank rates: Lombard rate	Money market rates: Three-month loans Frankfurt 1	Capital market rates: Yield on public authority bonds outstanding	Bank interest rates 2 – Lending rates: Credits in current account 3	Lending rates: Discount credits 4	Lending rates: Mortgage loans secured by residential real estate 5	Deposit rates: Time deposits (three months) 3	Deposit rates: Savings deposits at statutory notice	Deposit rates: Savings deposits at agreed notice of 12 months
1969										
Feb.	3.0	3.5	3.91	6.3	7.50	4.86	6.90	3.01	3.50	4.52
May	4.0	5.0	4.38	6.5	8.03	5.73	6.99	3.24	3.50	4.52
Aug.	5.0	6.0	6.50	6.9	8.95	6.71	7.40	4.16	4.00	5.00
Nov.	6.0	7.5	7.75	7.4	9.60	7.57	7.49	4.88	4.00	5.00
1970										
Feb.	6.0	9.0	9.51	7.8	10.16	8.42	8.06	6.95	4.50	6.00
May	7.5	9.5	9.93	8.4	11.58	9.75	8.61	7.93	5.00	6.47
Aug.	7.0	9.0	9.16	8.4	11.40	9.39	8.75	7.67	5.00	6.48
Nov.	6.5	8.0	8.84	8.6	11.35	9.27	8.81	7.49	5.00	6.48
1971										
Jan.	6.0	7.5	7.50	7.7	10.69	8.24	8.59	6.64	5.00	6.47
Feb.	6.0	7.5	7.47	7.7	10.65	8.13	8.51	6.56	5.00	6.46
May	5.0	6.5	6.16	8.0	9.86	7.13	8.34	5.59	4.53	5.90
Aug.	5.0	6.5	7.56	8.3	9.87	7.26	8.58	6.21	4.53	5.91
Nov.	4.5	5.5	6.79	7.9	9.58	6.71	8.46	6.05	4.52	5.90
1972										
Feb.	3.0	4.0	4.88	7.3	9.05	6.09	8.25	5.12	4.50	5.88

1 Unweighted monthly averages computed from daily quotations reported by Frankfurt banks. — 2 Average rates calculated as unweighted arithmetical mean of reported interest rates within the spread. The spread indicates the range covering 90 % of the interest rates reported, if 5 % each of the reports containing maximum and minimum interest rates are eliminated. — 3 Less than DM 1 million. — 4 Bills of DM 5,000 to less than DM 20,000 eligible for rediscount at Bundesbank. — 5 Effective interest rate.

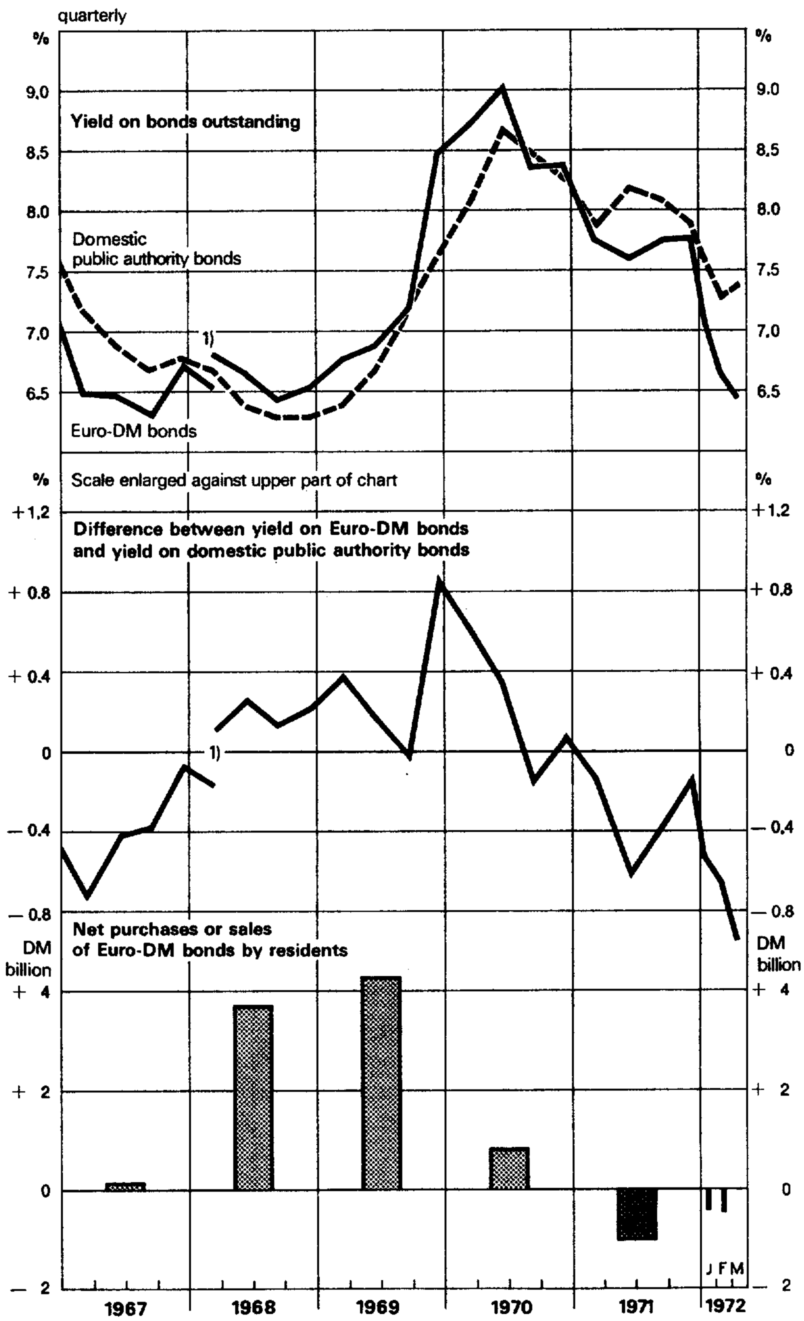
view of the repeated revaluations they had to take the exchange risk of the Deutsche Mark into account. It doubtless owed something to the relatively small volume of issues that the prices of foreign Deutsche Mark bonds outstanding rose far more strongly — and hence the yields fell more strongly — than those of comparable domestic bonds. At times the point was reached where even non-residents thought it worth while to acquire German bonds, especially where a refund of coupon tax or its offsetting against another tax was possible under double taxation conventions.

Movement of the interest rate on capital

Interest rate fluctuations balanced out to some extent over the year

Measured by the yield on public authority bonds outstanding the average annual interest rate on capital in 1971, at 8.0 %, was somewhat lower than in 1970. On balance it changed little in the course of the year in spite of substantial fluctuations. The lowering of interest rates at the end of 1970 and in early 1971 came to a halt in February 1971 when it became apparent that the continuing economic strains rendered a further easing of credit policy rather unlikely. At first the long-term interest rate remained at the level reached, but then it slowly rose again in spite of the fact that in early April the Bundesbank lowered the discount rate and the lombard rate further in view of the persistent inflow of foreign exchange. As the effectiveness of credit policy grew after the floating of the Deutsche Mark exchange rate in early May, the interest rate on capital increased again, almost regaining in July the level of the summer and the autumn of 1970. From the middle of August the interest rate on capital began to drop once more, mostly because under the influence of the de facto revaluation of the Deutsche Mark economic activity slackened distinctly, so that an easing of credit policy was expected, and did in fact come about in October. Parallel with the further relaxation of credit policy the drop in the interest rate on capital accelerated until it reached 7¼ % at the end of February — a level it had not stood at since the autumn of 1969. In March, however,

Movement of interest rates and domestic sales of Euro-Deutsche Mark bonds



1) Change in method of calculation.

the downward trend did not continue; in fact the interest rate on capital increased slightly again, to 7½ %.

Movement of share prices

Considerable price fluctuations on the share market . . .

In a similar way to bond prices, though not always in phase with them, share prices in general followed the various changes on domestic credit markets in 1971. The index of share prices calculated by the Federal Statistical Office (December 31, 1965 = 100), which stood at 119 at the beginning of last year, thus being only slightly above its mid-1970 low (the lowest level since 1967), had risen to 141 by early April. Even after the beginning of the Deutsche Mark float it remained at this level, though fluctuating, until early August. Then the index fell sharply, so that by November 8 the price gains of the first four months of the year had been wiped out. Thereafter, however, there was a rapid recovery which continued into this year. At the end of March 1972 the share price index, at 154, was distinctly above its 1971 peak (141).

... and their causes

The price fluctuations on the share market were undoubtedly determined by the varying degree of monetary ease or tightness; at any rate these variations coincided, though it is true that opinions as to economic conditions were generally subject to similar fluctuations. Furthermore, during the first four months of last year, i.e. prior to the floating of the exchange rate, foreign investors bought a relatively large amount of German equities, thus giving the market a particular stimulus. The subsequent sharp drop in prices during the period from August to November was mainly a reaction to the monetary and economic measures announced by the United States in the middle of August, which gave rise to a pessimistic assessment of domestic conditions owing to fear of repercussions on the export industries. But when pessimism was particularly widespread, a few minor encouragements sufficed to make the future look brighter. This was the effect of the fixing of central rates, which slightly diminished the extent of the de facto revaluation of the Deutsche Mark, of the slowdown of the upward surge of wages, and of the further easing of monetary policy.

Lower dividend yield

In 1971 the dividend yield on quoted shares dropped from 4.39 % in December 1970 to 3.98 % in December 1971; this was due partly to small price rises in the course of the year, and partly to decreasing dividend payments since April 1971 – the average dividend on a share with a face value of DM 100 fell from DM 15.94 in March to DM 15.32 in December. By February 1972 the average dividend had declined further to DM 14.57, and the dividend yield to 3.42 %. The turnover in domestic shares on the stock exchange increased noticeably last year. Over the entire year it amounted to DM 15.7 billion, thus exceeding the figure for the previous year (DM 12.2 billion) by more than one quarter. The share turnover was especially large during the first eight months, when prices were running at a relatively high level. During the slump from September to November, however, turnover declined markedly, and only in December did it improve substantially in connection with the rally in prices.

Increase in share turnover . .

... and in option deals

Forward business in shares in the form of so-called "option deals", which has been permissible since mid-1970, increased in 1971; it came to nearly DM 150 million, or almost 1 % of the total turnover in shares. In the second half of 1970 (before then such transactions had not been possible) option deals amounting to just under DM 40 million had been concluded. The emphasis among last year's transactions was on options to buy (about four fifths). The option to buy, meaning the right to demand delivery against payment of the option price of a certain amount of shares at the previously agreed price at any time during the life of the contract, was in fact exercised in only about one third of all cases. In about two thirds of all cases the option was not exercised as the price speculation had not proved successful. The rate of success was higher with options to sell: about two fifths of all such options were exercised.

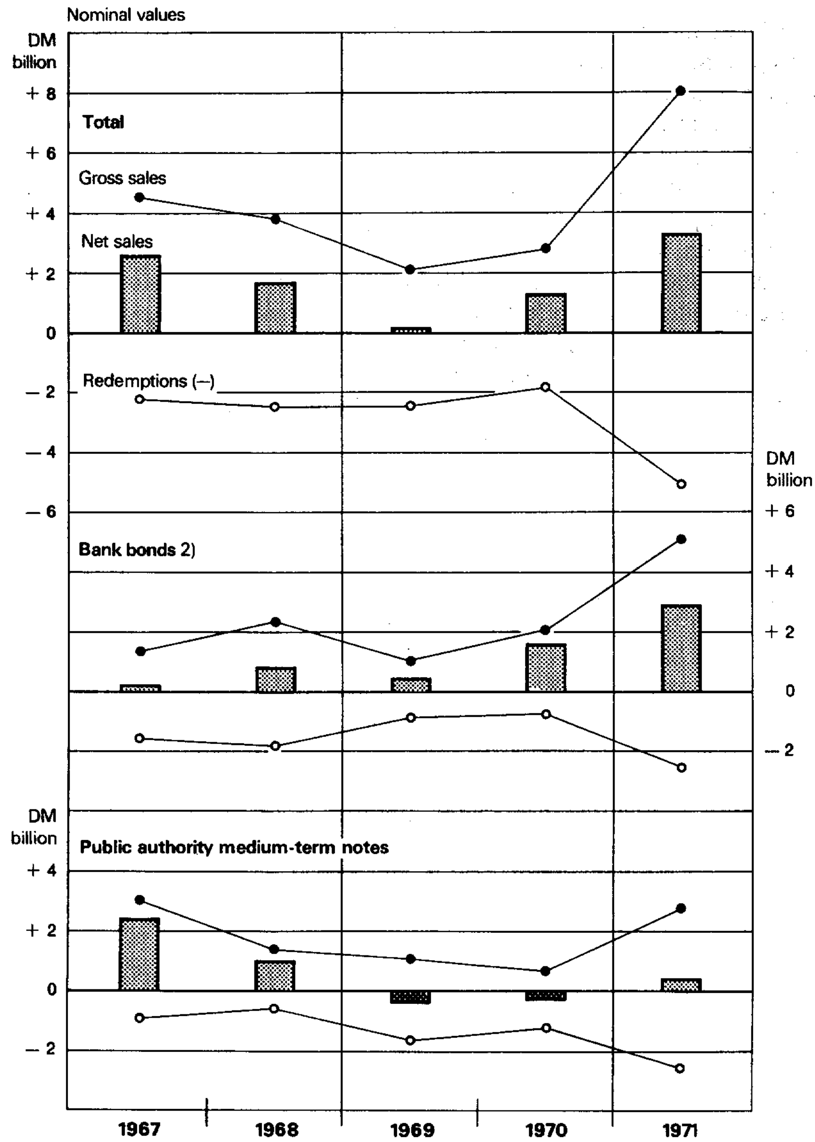
Sales of securities

Record sales of domestic bonds

On the German bond market DM 19.4 billion (net) of fixed interest securities were sold in 1971. This was the second largest amount of bonds ever sold in one year; only in 1968 was this figure surpassed, at DM 21.8 billion (1970: DM 15.4 billion). If foreign bonds are omitted – on balance they were sold by residents in 1971, as already mentioned – net sales of domestic bonds amounted to DM 20.6 billion; this was almost half as much again as in 1970 and was above the figures for all previous years (1968: DM 17.7 billion). In gross terms the rise looks even more impressive as domestic bond sales in 1971 (at market value) came to DM 30.3 billion (1970: DM 20.4 billion, 1968: DM 22.2 billion). On the other hand, redemptions were especially large last year (DM 9.5 billion, as against DM 5.8 billion in 1970), mainly because short-term paper (with maturities of four years and less) fell due for redemption on a large scale, in particular medium-term notes of public authorities. The volume of short-term bonds floated in 1971 was also very great: sales of such paper totalled over DM 8 billion, or roughly one quarter of aggregate

Large volume of redemptions

Sales of short-dated bonds [1]



1) Up to four years.- 2) Since 1970 chiefly bonds issued by central giro institutions.

gross sales by domestic issuers. The greater the increase in the share of short-term paper and the greater the consequent rise in redemptions in relation to bonds outstanding, the smaller is of course the significance of the gross sales figures for the productivity of the market.

Among long-term domestic bonds it was again bank bonds that held the lead, though not as easily as in most of the previous years. On the one hand, as already mentioned, public authorities raised relatively large amounts on the market, on the other hand there was something of a renaissance in industrial bonds, though their share of the market is still very small. As has been the case for some time now, the bank bonds mainly consisted of communal bonds, though net sales of such bonds (DM 6.9 billion) slightly decreased compared with the year before (DM 7.1 billion). Sales of mortgage bonds, however, rose substantially (from DM 1.9 billion in 1970 to DM 4.4 billion in 1971), in part perhaps because issuing institutions offered more and more favourable terms, especially shorter maturities. Of the mortgage bonds sold in 1971, only 37 % had a maturity of 20 years and over (as against 54 % in 1970). Furthermore, in 1971 mortgage banks again concluded special agreements to curtail maturities (albeit not so many as in 1970). A shortening of the lives of

Sales of mortgage bonds expanded ...

mortgage bonds, which used to be extremely long, is one of the principal aims of the mortgage loan reform; maturities of mortgage bonds are not to exceed substantially "the period necessary in the light of the maturities of the mortgage loans" – which should gradually make special agreements on maturities with major buyers of mortgage bonds superfluous. The great expansion of sales of mortgage bonds was probably caused mainly by the strong demand for housing loans; this demand concentrated on mortgage banks to a much larger degree than in the last few years in spite of relatively high nominal interest rates. In contrast to 1970 borrowers apparently did not think it worth while to wait for interest rates to fall. At any rate, in 1971 the amount of mortgage loans promised for housing purposes by mortgage banks, at DM 9 billion, was almost twice as large as in the preceding year, whereas the loans promised by savings banks, whose mortgages have no fixed rates of interest, exceeded last year's figure by "only" about one third. An additional factor was that the lending capacity of building and loan associations increased little.

... owing to strong upswing in housing finance

In 1971 public authorities sold long-term issues of their own amounting to DM 3.9 billion net, or over half as much again as in the year before. It was the bonded debt of the Federal Government that rose most – by nearly DM 1.6 billion, as against DM 890 million in 1970. The bulk of the sum – almost DM 1 billion – was raised through Federal savings bonds, sales of which were three times as large as in 1970 (about DM 300 million). In the last year the interest paid on savings bonds was especially attractive at times – namely while the interest rate on capital was falling at the beginning and end of the year – by comparison with the yields on securities, as there was always a time lag in the adjustment of the terms for savings bonds to the market situation. Consequently the amount of savings bonds returned to the issuer was relatively small (about DM 90 million). It is, of course, one of the principal factors of Federal savings bonds that the holder may return them after one year without a price loss; this stipulation may, however, one day greatly increase the inclination to sell, given a rising trend in the interest rate on capital.

Sales of public authority bonds grew considerably

The Länder Governments stepped up their borrowing on the bond market at a relatively greater pace than the Federal Government (just over DM 1 billion, after only DM 330 million in the previous year). This mainly reflects the financial situation of the Länder Governments, which deteriorated in the course of last year. Local authorities, on the other hand, in spite of their chronic financial difficulties, raised only DM 170 million (net) on the bond market in 1971, after actually reducing their bonded debt in 1970 by a small amount (DM 50 million). The reason for the small increase in local authorities' borrowing on the bond market is primarily that only larger cities have access to the capital market and that local authorities more readily choose other ways of obtaining finance, especially loans from savings banks and from issuing institutions that finance such loans by floating communal bonds. Recourse to the bond market by the Federal Railways and Federal Post Office (DM 650 million and DM 620 million respectively) was in aggregate slightly above last year's level.

In 1971, for the first time for a considerable period, enterprises played an important role as issuers on the bond market. They sold well over DM 1.4 billion (net) of industrial bonds, which was appreciably more than in any year since 1959. Only in 1958 was a higher figure reached than that of 1971 (net sales of over DM 1.5 billion), and in subsequent years sales seldom exceeded DM 350 million. Apparently the relatively large volume of industrial bonds sold in 1971 constitutes more than a passing re-discovery of the bond market by private borrowers; it is known at all events that the flotation of numerous further loans is planned for 1972. This is probably due to the deterioration of profit margins and consequently to the reduced self-financing capacity of enterprises, as well as to the desire to fund debt. Industrial bonds were presumably also sold to foreigners, especially as sales of securities to non-residents are not subject to the cash deposit requirement on borrowing abroad announced last year and effective as from March 1, 1972.

Renaissance of industrial bonds

In the period under review sales of short-term bonds rose considerably, viz. to a total of DM 3.2 billion net (more than DM 2 billion above the figure for 1970). By

Net sales of short-term bonds almost tripled far the majority (DM 2.5 billion) consisted of "other" bank bonds of central giro institutions (net sales in 1970 of just under DM 1 billion, while between 1967 and 1969 there was a reduction in the total outstanding). The new predilection for shorter maturities may have been attributable to the expectation that interest rates will sooner or later drop, so that long-term investments seemed inappropriate. Another consideration was probably no less important: funds raised in this way – in contrast to time deposits with corresponding maturities – are not subject to minimum reserve requirements, which are prohibitively high especially in the case of loans raised abroad.

German investors not interested in foreign bonds

Last year the volume of foreign bonds offered was somewhat larger than in the previous year, when the amount of foreign bonds taken over for resale by German syndicate banks had shrunk greatly. The total of foreign bonds on offer in 1971 came to about DM 3 billion (nominal value), as against DM 2.5 billion in 1970, but DM 5.2 billion in 1968 and DM 6.2 billion in 1969. Just as in the previous year, about three quarters of the total were Deutsche Mark bonds, and the rest foreign currency bonds. For the first time since 1961 domestic investors on balance bought no foreign bonds, but rather sold DM 1.2 billion (net) of such paper because of the relatively low yield. In 1970 residents had bought an almost equal volume of foreign bonds, and in 1968 and 1969 net purchases by residents had amounted to as much as DM 4.1 billion and DM 5.4 billion respectively.

Another rise in sales of domestic shares

On the German share market domestic and foreign equities totalling DM 6.75 billion (market value) were sold in 1971, or slightly more than in the year before (DM 6.3 billion), the emphasis again being on domestic shares. Aggregate sales of domestic shares in 1971 had a market value of DM 4.7 billion, and exceeded the 1970 figure (DM 3.6 billion) by almost one third. Net purchases of foreign equities by residents, however, continued to decrease in 1971, to DM 2 billion. As for foreign investment fund units, there were for the first time net sales by residents (of about DM 270 million on balance) in 1971; in 1970, after the record year of 1969, the addition had already been rather small (DM 20 million). This development was apparently a consequence not only of the increased monetary risks and of the impediments placed in the way of sales of foreign investment fund units in the Federal Republic of Germany by the Foreign Investment Fund Unit Law but also of the unfavourable impression investors had gained in 1970 of some foreign investment funds.

Revival of sales of German investment funds

The sales of German investment funds (those open to the general public) slightly rose last year after a fall of more than one half in 1970. In 1971 German funds altogether sold DM 1.8 billion of investment fund units, compared with DM 1.5 billion in 1970, but almost DM 3.4 billion in 1969. The success was, however, limited to units of real estate funds; such sales more than quadrupled in comparison with those of the year before. Thus just over a quarter of the total inflow to German investment funds accrued to the real estate funds. Share-based funds and bond-based funds, taken as a whole, were unable to increase their sales in 1971.

Buyers of securities

Private investors bought fewer bonds . . .

On the bond market domestic non-banks were again the most important group of buyers in 1971 though their purchases, at DM 12 billion, were slightly smaller than those of the previous year (DM 12.2 billion). Purchases by households – the largest group of buyers among the non-banks – decreased much more; last year they amounted to just under DM 7.1 billion, and were thus one quarter below the 1970 figure. Perhaps this was because the interest rate trend was not clearly discernible last year after the renewed drop in prices in the spring, so that investors were reluctant to buy for fear of potential price losses. But it may have been of more importance that many savers availed themselves of the possibilities of the Third Law on the Creation of Personal Assets, mainly by signing contracts to save through bank accounts and by taking out insurance policies; under the Law in question, the latter were for the first time included among the government-assisted forms of saving. The life assurance enterprises have themselves stated that in 1971 new business was especially buoyant, and that almost half of it was due to contracts under the Law on the Creation of Personal Assets. It was probably this

. . . but purchases by insurance companies increased

Sales and purchases of securities *

Billions of Deutsche Mark

Item	1968	1969	1970	1971	1971 1st qtr.	1971 2nd qtr.	1971 3rd qtr.	1971 4th qtr.
Bonds								
Sales = total purchases	21.77	17.75	15.35	19.40	3.85	4.15	4.90	6.49
Sales								
1. Domestic bonds **1**	17.67	12.38	14.31	20.58	3.94	4.53	5.30	6.80
Bank bonds	13.92	12.26	11.93	14.86	2.93	3.47	4.00	4.46
Mortgage bonds	4.09	3.14	1.90	4.37	0.74	0.89	1.33	1.41
Communal bonds	8.24	7.26	7.65	7.12	1.94	1.37	1.86	1.95
Other bank bonds	1.59	1.85	2.38	3.37	0.25	1.20	0.81	1.11
Public authority bonds **2**	3.82	0.29	2.16	4.28	0.90	0.77	0.91	1.70
Industrial bonds	—0.07	—0.16	0.22	1.44	0.12	0.30	0.40	0.63
2. Foreign bonds **3**	4.10	5.37	1.04	—1.18	—0.09	— 0.38	—0.40	—0.31
Purchases								
1. Domestic purchasers **4**	21.92	18.70	14.54	17.78	3.72	3.96	4.51	5.59
Banks **5**	14.63	x 9.95	x 2.40	x 5.80	x 1.13	x 1.58	x 1.37	x 1.72
Bundesbank **5**	x —0.40	x —0.47	—0.07	x 0.01	0.14	0.38	—0.16	x —0.35
Non-banks **6**	7.69	9.22	12.21	11.97	2.45	2.00	3.30	4.22
Insurance companies and building and loan associations	2.91	2.27	1.72	2.60	1.16		1.44	
Social security funds	0.08	—0.05	0.27	1.80	—0.11		1.92	
Households	3.11	5.53	9.54	7.07	3.15		3.91	
Central, regional and local authorities	0.08	0.19	0.12	0.15	0.09		0.06	
Enterprises	1.66	1.19	0.54	0.55	0.28		0.27	
Differences of classification **7**	—0.15	0.09	0.02	—0.20	—0.12		—0.08	
2. Foreign purchasers **8**	—0.15	—0.95	0.82	1.62	0.14	0.20	0.39	0.89
Shares								
Sales = total purchases	5.98	8.42	6.26	6.74	1.87	1.86	0.91	2.10
Sales								
1. Domestic shares **9**	3.14	2.80	3.59	4.74	0.81	1.56	0.66	1.72
2. Foreign shares **10**	2.83	5.63	2.67	2.00	1.07	0.30	0.25	0.38
Purchases								
1. Domestic purchasers **11**	5.12	8.25	5.97	5.94	1.52	1.81	0.87	1.74
Banks **5**	1.43	1.18	0.72	0.13	—0.02	0.12	0.16	—0.13
Non-banks **6**	3.69	7.07	5.25	5.81	1.54	1.69	0.72	1.87
2. Foreign purchasers **12**	0.85	0.17	0.29	x 0.80	0.36	x 0.05	0.03	0.36
Memorandum item:								
Overall balance of security transactions with other countries (capital exports: —; capital imports: +)	—6.23	—11.77	—2.60	+1.60	—0.48	+0.32	+0.57	+1.19
Bonds	—4.25	—6.32	—0.22	+2.80	+0.23	+0.58	+0.79	+1.21
Shares	—1.98	—5.46	—2.38	—1.20	—0.71	—0.26	—0.22	—0.02

* 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** Net purchases (+) or net sales (—) of foreign bonds by residents; transaction values. — **4** Domestic and foreign bonds. — **5** Balance sheet values. — **6** Residual; also including purchases of domestic and foreign securities by domestic investment funds. — **7** As compared with the figures of the capital finance account on security purchases by the various categories of non-banks; the differences stem mainly from the fact that the National Accounts are based on nominal values rather than market values. — **8** Net purchases (+) or net sales (—) of domestic bonds by non-residents; transaction values. — **9** Market values. — **10** Net purchases (+) or net sales (—) of foreign shares (including direct investment and investment fund units) by residents; transaction values. — **11** Domestic and foreign shares. — **12** Net purchases (+) or net sales (—) of domestic shares (including direct investment and investment fund units) by non-residents; transaction values. — **x** Adjusted for statistical changes.

large volume of new business that induced insurance enterprises to acquire substantially more bonds in 1971 than in 1970 (DM 2.6 billion, against DM 1.7 billion a year before). For the first time for a number of years the social security funds, too, bought a considerable amount of bonds in 1971 (DM 1.8 billion, against no more than DM 0.3 billion in 1970), as the financial situation of the statutory pension funds continued to improve greatly. The bond purchases of the central, regional and local authorities and of enterprises, which were of a less significant size, are shown in the table on page 73.

Larger purchases of securities by banks

As already mentioned, banks, too, were more active again on the bond market last year than they had been in 1970. Even though banks were relatively short of liquidity during most of the year, their purchases of fixed interest securities in 1971 amounted to DM 5.8 billion net (1970: DM 2.4 billion). From 1967 to 1969, however, they had spent between DM 10 and 15 billion a year on fixed interest securities owing to the exceptional liquidity of those years. In 1971 purchases by the banks, as usual, consisted mainly of bank bonds (DM 6.5 billion), and otherwise of public authority bonds, including non-negotiable medium-term notes (DM 1.5 billion) and smaller quantities of industrial bonds (DM 210 billion). There was, on the other hand, a relatively sharp decrease in the banks' holdings of foreign bonds, which fell by DM 770 million or almost one quarter. The banks' holdings of negotiable medium-term notes with a remaining life of less than 18 months were also greatly reduced (by DM 1.7 billion), partly on account of their maturing, and partly on account of premature return to the Bundesbank.

Greater demand from abroad

In the course of last year foreigners displayed distinctly more interest in German bonds, as has already been mentioned. Though interest accruing to non-residents from such paper is subject to the 25 % coupon tax, foreign investors bought a total of DM 1.6 billion (net) of German fixed interest securities last year, and thus twice as much as in the year before. Purchases were especially large in the last two months of 1971, when expectations of a change in the interest rate trend grew, so that the assumption seems justified that – apart from speculations on parity changes – it was mostly hopes of price gains which led to the larger purchases by non-residents.

Domestic non-banks the main buyers on the share market

Domestic and foreign equities amounting to DM 6.75 billion changed hands on the German share market in 1971, most of them being taken over by domestic non-banks. They alone acquired DM 5.8 billion of shares, thus slightly exceeding the previous year's figure of DM 5.25 billion; but their purchases fell distinctly short of the very high level of 1969 (DM 7.1 billion). The buying of equities by domestic banks, on the other hand, was rather small in 1971 at DM 130 million, as against DM 720 million in the year before and almost DM 1.2 billion in 1969. Their purchases were exclusively of domestic paper, whereas foreign equities were sold, though only on a small scale. Non-residents were rather more active again on the German share market in 1971 with purchases of DM 800 million, which was above the figures for the previous two years (DM 290 million and DM 170 million). Just under one half of this amount went into portfolio purchases (DM 390 million) and the rest (DM 410 million) into the acquisition of trade investments.

3. Public authorities' cash transactions

Basic trends in 1971

Deficits increase ...

The cash deficits of the central, regional and local authorities increased considerably in 1971. In spite of new restrictive measures they went up by DM 7 billion to DM 15 billion, as the record growth of almost 14 % in expenditure was substantially in excess of the notable rise in revenue of just on 12 %. As the extremely steep increase in expenditure in the first few months slackened in the further course of the year (more sharply, in fact, than the trend in receipts), the cash results of the central, regional and local authorities still exerted fairly considerable expansionary effects in the second half of the year, though these were not quite as marked as they had been in the first six months. It was of much greater importance in the course of the year that in the second half the contractionary effects deriving from the anticyclical surcharge on income taxes levied from August 1970 to June 1971, were no longer felt. Including the anticyclical surcharge, which was immobilised in special accounts at the Bundesbank and did not affect the budgets of the central, regional and local authorities, the cash deficit for the whole of 1971 came to over DM 11 billion, which was DM 5.5 billion more than in 1970, when the expansionary swing (i. e. the swing from surpluses in 1969 to deficits) amounted to as much as about DM 7.5 billion.

. . . contrary to the requirements of economic policy

From the point of view of economic policy the considerable expansionary effect in 1971 – as in 1970 – was not appropriate because, in the first half of the year at least, the production of the economy as a whole was being very heavily utilised. In the last six months of the year the degree of utilisation of production potential decreased, it is true, but for the most part only from an excessive level to one usual at medium term. In this respect the time had not yet come when expansionary effects on the part of fiscal policy could be considered desirable. In fact the expansionary effects were much more pronounced in the second half of the year than in the first. This becomes clear if the central, regional and local authorities' cash results are combined with the receipts from the anticyclical surcharge levied until the middle of the year. The fact that the overall increase in cash deficits in 1971 had too expansive an effect, and was thus out of line with cyclical requirements, is also apparent if the "cyclically neutral budget" of the Council of Experts is taken as a criterion. This mode of calculation, which goes beyond our restricted study of changes in the cash balances inasmuch as it also takes the growth of production potential into consideration, shows that in 1971, just as in 1970, an expansionary effect of over DM 7 billion emanated from the budgets of the central, regional and local authorities, if the anticyclical surcharge is included (see the table on page 83).

The debt of the central, regional and local authorities went up much more in 1971 than indicated by the extent of their cash deficits, including the anticyclical surcharge, the growth reaching almost DM 15 billion (as against DM 8 billion in 1970). This was due, firstly, to the fact that revenue from the anticyclical surcharge was not available for spending, and secondly to the Federal and Länder Governments having increased their anticyclical reserves by DM 1.2 billion. At the same time, however, they reduced their other balances at the Bundesbank by DM 0.7 billion. Apart from this, the overall anticyclical reserves were raised to a large extent by incurring further debt (just as in 1970). The increase in the balances at the Bundesbank reduced bank liquidity, just like the payment of the anticyclical surcharge to Bundesbank accounts, this furthermore having a contractionary effect on the income stream. The smaller part of these balances – namely the anticyclical reserves, which have risen to about DM 4 billion – are immobilised at the central bank until the right moment comes as a government anticyclical intervention reserve. The greater part of these funds – i. e. the anticyclical surcharge, amounting to about DM 6 billion – are to be repaid in June this year, as announced by the Federal Government in the middle of March; in view of the statutory obligation to repay these amounts by the end of March 1973 at the latest, even if the economic situation were to make this appear inopportune, from the present perspective the earliest possible release of these funds is probably the most justifiable course from the point of view of anticyclical policy.

As regards the other large group among public authorities – the social security funds – the financial situation improved further in 1971, though by no means to the same degree as in the previous year. The social security funds' surpluses went up once more by over DM 0.5 billion in the year under review (to an estimated DM 5.5 billion). Their cash transactions had a contractionary effect of this size on the circulation of income. The "built-in" mechanisms of the social security funds' financial system thus again contributed to an anticyclical trend in this sector.

(a) Central, regional and local authorities

Expansionary effects of central, regional and local authorities . . .

When the central, regional and local authorities drew up their budgets for 1971 they were affected by rather pessimistic economic forecasts and assumed that the economic climate would cool off considerably in 1971. This was one of the main reasons why the Fiscal Planning Council recommended an increase of 12 % in

Central and regional authorities' finance on a cash basis

Billions of Deutsche Mark

Item	1967	1968	1969	1970	1971 e
I. Cash surplus (+) or deficit (–) 1					
(a) Federal Government 2, 3	– 8.27	– 3.91	+ 1.68	– 0.56	– 1.36
(b) Equalisation of Burdens Fund 3	– 0.21	– 0.32	– 0.21	+ 0.27	+ 0.22
(c) ERP Special Fund	+ 0.05	– 0.08	– 0.52	– 0.04	+ 0.05
(d) Financial contribution to German Public Works Corporation	– 0.24	– 0.25	– 0.53	– 0.60	– 0.38
(e) Länder Governments	– 3.57	– 1.00	+ 1.38	– 2.11	– 5.60
Total (a to e)	–12.24	– 5.54	+ 1.77	– 3.05	– 7.08
II. Financing					
1. Change in cash reserves					
(a) Federal Government	– 0.21	+ 0.02	– 0.01	+ 1.74	+ 0.78
(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	+ 0.12
(d) Financial contribution to German Public Works Corporation	–	–	–	–	–
(e) Länder Governments	+ 0.30	+ 1.16	+ 0.81	– 0.09	– 0.38
Total 1 (a to e)	+ 0.51	+ 1.38	+ 0.24	+ 1.68	+ 0.52
2. Change in indebtedness					
(a) Federal Government	+ 7.89	+ 3.72	– 1.83	+ 1.96	+ 1.44
(b) Equalisation of Burdens Fund	+ 0.47	+ 0.25	+ 0.04	– 0.30	– 0.26
(c) ERP Special Fund	+ 0.15	+ 0.37	+ 0.15	+ 0.07	+ 0.07
(d) Financial contribution to German Public Works Corporation	+ 0.24	+ 0.25	+ 0.52	+ 0.60	+ 0.38
(e) Länder Governments	+ 3.86	+ 2.15	– 0.57	+ 2.02	+ 5.23
Total 2 (a to e)	+12.60	+ 6.74	– 1.69	+ 4.35	+ 6.85
3. Amounts credited to Federal Government in respect of coinage	0.15	0.18	0.16	0.38	0.74
4. Total (1 less 2 less 3)	–12.24	– 5.54	+ 1.77	– 3.05	– 7.08
Memorandum item:					
Anticyclical surcharge on income and corporation tax	–	–	–	+ 2.19	+ 3.69

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 actual receipt or outpayment and because the incurring of debt was eliminated from receipts, and the expenditure on debt redemption (including repurchases of bonds) from outgoings. The cash results of the ERP Special Fund, the financial contribution to the German Public Works Corporation 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.

Federal Government, Länder Government and local authority expenditure as early as July 1970. On the basis of a growth of the nominal national product of 7 to 8 %, as then expected for 1971 (but which in fact was substantially exceeded), this meant that the sharply rising expenditure of central, regional and local authorities could not nearly be financed from tax and other revenue; in other words, that the financial deficit would go up steeply and that this would have expansionary effects on the economy as a whole. It was probably not least due to the course thus set in the fiscal field that the cyclical tensions increased, if anything, at the beginning of 1971, so that in the middle of May 1971, to supplement the floating of the Deutsche Mark as an external safeguarding measure, the Federal Government adopted a domestic economic stabilisation programme which was approved by the Fiscal Planning Council and the Advisory Council on Anticyclical Policy. Under this programme the Federal Government and the Länder Governments were to cut the expenditure planned for 1971 by DM 1.0 billion and DM 0.8 billion respectively. By an Order pursuant to Article 19 of the Law on Economic Stability and Growth the Federal and Länder Governments were required to reduce their projected borrowing for 1971 by an amount equal to the recommended cuts in expenditure (however, it was permitted to use up to 15 % of authorisations to borrow carried over from previous fiscal years for the purpose of reducing residual expenditure). A recommendation to local authorities to restrict their borrowing to 90 % of the amounts provided for in their budgets was, however, of little effect, in that local authorities regularly overestimate their borrowing requirements in their budgets.

Finally, in order to make it difficult for Federal and Länder Governments to realise – in spite of the credit restrictions – the volume of expenditure originally planned it was decided that any extra tax revenue was to be added to the anticyclical reserves at the Bundesbank, up to the amount of DM 1.7 billion.

It did in fact prove possible – thanks not least to these measures – to curb the rise in Federal Government, Länder Government and local authority expenditure quite considerably (to about 12 %) in the second half of the year, whereas in the first six months it had been exceptionally high at 16.5 %. An especially restrictive effect was attained in civil engineering, as the restriction on the placing of new orders led in this sphere to a marked cooling off which towards the end of the year was even held to be too far-reaching. Over the year as a whole, however, high unforeseen extra expenditure resulted in the level of spending originally planned being substantially exceeded in some cases. In 1971 in its entirety expenditure went up by about 14 %, and thus by even more than the recommendation (12 %) made by the Fiscal Planning Council in mid-1970 when an easing of cyclical strains was expected, so that in contrast to the two preceding years expenditure went up much more steeply than the national product. Although, for cyclical reasons, current revenue rose at the same time rather more sharply than predicted at the beginning of the previous year, this increase was not sufficient to outweigh the expansionary effect of expenditure.

. . . mainly due to the budgets of Länder Governments and local authorities

As in the preceding year, individual authorities contributed in varying degrees to the deterioration of the overall figures of the central, regional and local authorities. The Federal Government again had the smallest expansionary swing, its deficit going up to DM 1.4 billion (+ DM 0.8 billion), with a rise in cash expenditure of 12 %. Much stronger expansionary influences were exerted by Länder Government and local authority budgets. Their expenditure grew in 1971 by 15 to 16 %, which in spite of a fairly high overall level of receipts led to greatly increased deficits. The Länder Governments' cash deficit expanded by about DM 3.5 billion to over DM 5.5 billion. The rise in local authorities' cash deficits was probably just as large, though their deficit had already reached an unusually high level in 1970, at about DM 5 billion. As will be explained later, the diverging final cash positions conceal the fact that individual authorities are affected to different degrees by the inflationary trends. The Länder Governments and local authorities have to finance by far the bulk of the personnel and capital expenditure which reacts particularly strongly to inflationary trends; both the wages and salaries of government employees and building prices, which are of particular significance for public authorities' capital investment, tend to rise much more steeply than the general level of prices. On the other hand, price increases do not have the same effect on expenditure in some of the main fields of the Federal budget (e. g. acquisitions of military goods, social security spending). However, the rise in expenditure on personnel, which has a particularly pronounced effect on Länder Governments and local authorities, is mostly due to decisions (civil service pay laws and collective wage agreements) in which the Federal Government played a decisive part. The rather differing sensitivity of the budgets to price rises was one of the factors making it necessary for the Länder Governments and – by way of grants – the local authorities, too, to be given a larger share in joint tax revenue from 1972 onwards.

Receipts

Accelerated growth in revenue

At about DM 210 billion the receipts of the central, regional and local authorities, including the anticyclical surcharge levied until the middle of the year, were over 12 % greater than in 1970, when – mainly because of special factors – they had increased by only about 7 %. On the whole the trend of receipts presented a picture typical of the cost-inflationary late phase of the business cycle, i.e. a sharp growth (mainly due to wage tax) in the taxes on income, supplemented above all by a substantial rise in the taxes on turnover. Since, in spite of the stagnation in the real gross national product, wages and turnovers continued their nominal sharp rise in the second half of the year, tax revenue again went up in that half by an amount which, taken by itself, was quite considerable. Other revenue also followed the typical cyclical pattern. Thus the central, regional and local authorities mostly raised their fees, subscriptions and charges sharply and thereby, in a period which was particularly critical for monetary stability, substantially made up for having throttled back their requirements in the preceding upswing.

More than DM 172 billion of revenue from taxes (excluding the anticyclical surcharge) flowed to the central, regional and local authorities in 1971; this was almost 12 % more than in the preceding year. After rising by more than 13 % in the first half of the year, the tax yield increased by 10.5 % in the second. Thus last year the tax yield went up rather more steeply than the gross national product (almost 11 %); consequently the tax ratio (the ratio of tax revenue to gross national product) went up by 0.2 percentage points to 22.8 %. If, however, it is taken into account that the tax yield for 1970/71 was substantially reduced by some special factors, in particular the advancing of trade tax payments to 1969, the figures adjusted for such special influences indicate that the tax ratio fell from 23.7 % in 1968 to 22.9 % in 1970, and finally to 22.8 % in 1971. This trend reflects the continued shifting of income in favour of wages and salaries, which tends to lower the tax ratio inasmuch as the growth in wages and salaries is on average much less burdened by taxes, in spite of the progressive tax scale, than the growth in income from profits.

Revenue from corporation tax again falling off ...

The tax ratio for 1971 would have fallen still more had not the revenue from assessed income tax gone up relatively sharply (+ 14.6 %), contrary to the actual trend in profits. This again demonstrates that, owing to the assessment procedure, this tax has a rather procyclical character, the full extent of which is only revealed if it is taken into consideration that refunds to those assessed for income tax, which reduce the yield of the taxes paid by enterprises and the self-employed, seem to have increased substantially again last year. In the case of enterprises in the narrower sense the large payments of assessed income tax possibly increased the restraint they showed in their capital expenditure – restraint which partly derived from the decline in profits. In the case of corporation tax the delayed reaction of the tax yield to the movement of profits was of no great importance. The lower profitability of enterprises led to another decline (of 18 %), so that this tax brought in hardly more than in 1967, the year of stagnation. However, the decline in revenue from corporation tax is only a rough indication of the trend in undistributed profits, because the distributed profits of incorporated enterprises, which on account of the low tax rate of 15 % applicable to them yield comparatively little corporation tax, do not fluctuate in the same measure as overall profits under the prevailing dividend policy, which aims at continuity. Revenue from trade tax was not influenced nearly as much as revenue from corporation tax by the unfavourable trend in profits, though the effect was clearly noticeable. Trade tax revenue went up comparatively sharply in 1971, at 16.5 %, but this steep increase was mainly due to the fact that the comparative figures for 1970 were particularly low as a result of trade tax revenue being brought forward into 1969. But for this special influence, trade tax revenue would have gone up only slightly in 1971, although quite a few local authorities sought to improve their financial situation by reintroducing the tax on the total of wages paid or by sharply increasing the rates of this tax.

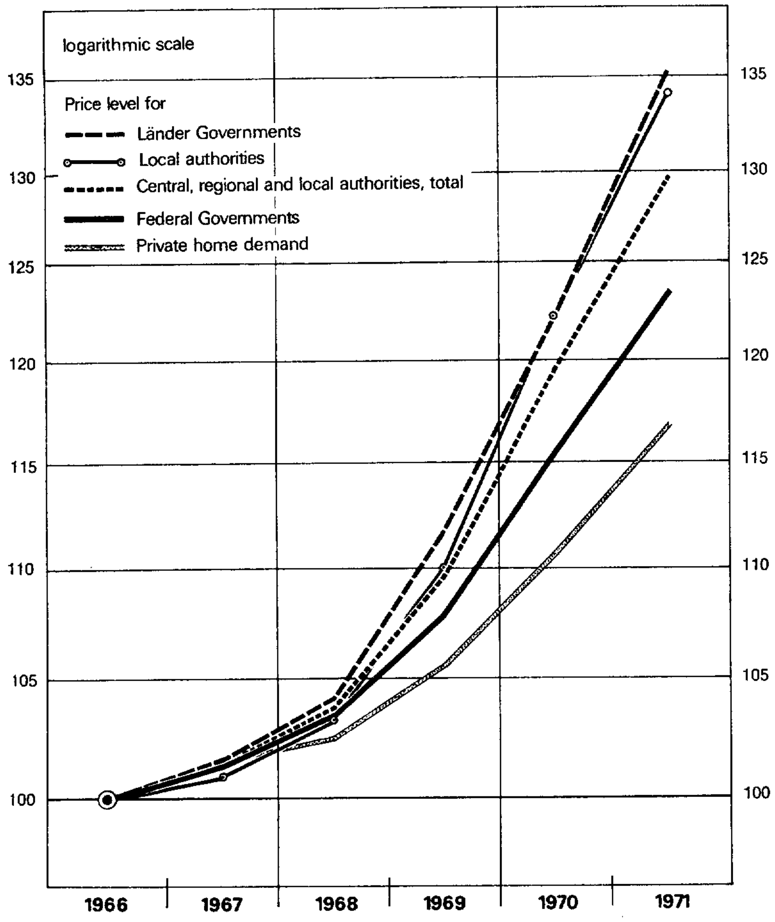
... but much higher receipts of wage and turnover tax

Owing to the highly progressive effect of the income tax scale, revenue from wage tax increased almost twice as fast, at 22 %, as income from wages itself, the average burden of tax on incomes of the employed rising still further to almost 12 % (1970 just on 11 %). In spite of the increase, year by year, in the tax burden on wage income, the burden of income and corporation tax on profit income is considerably greater (over 14 % in 1971 according to the incomes data of the National Accounts). The sharp price rises resulted particularly in an increase in the revenue from turnover tax; despite the lowering of the rate of investment tax at the beginning of 1971 it grew by 12.5 % – and thus by much more than private consumption (+ 10.8 %) – as the other components of final demand subject to value added tax (capital expenditure and other expenditure on real assets of public authorities, and private expenditure on housebuilding) went up particularly steeply in 1971.

The Federal and Länder Governments had practically equal shares in the favourable trend in tax revenue. The Federal Government's tax revenue went up by 11.3 %

Changes in the price level for central, regional and local authority demand and private home demand

1966 = 100



in 1971, and that of the Länder Governments by 12.1 %. Greater still was the increase in local authorities' tax receipts (+ 16 %), but this was again partly due to the special influences on trade tax already mentioned. Furthermore, the distribution of taxes effective since the beginning of 1970 benefited the local authorities inasmuch as they received a share of the sharply increased revenue from wage and assessed income tax, but not of corporation tax, revenue from which fell in 1971.

Expenditure

Great expansion in expenditure . . .

The sustained expansion of the central, regional and local authorities' expenditure since 1969 reached its apogee in the period under review. With an estimated increase of 14 % (to DM 221 billion), expenditure went up much more steeply than receipts, and more sharply than the national product, too. Its share in the gross national product increased from 28.5 % to 29.3 %. Specifically, the Federal Government's cash expenditure rose by 12 % in 1971, and thus less in percentage terms than that of the Länder Governments or local authorities. On the other hand, Länder Government expenditure went up disproportionately fast at 15 %, which was much more than estimated in their budgets (+ 11 %); local authority expenditure probably rose even more sharply. It has already been indicated that the inflationary trends hit the Länder Governments and local authorities hardest. Two thirds of local authorities' overall spending, and half of that of the Länder Governments, was in the form of personnel expenditure, which was strongly influenced by these trends, and fixed investment (mostly construction) in 1971, while the figure for the Federal Government was less than one quarter. What was true in 1971 also

. . . especially among Länder Governments and local authorities applies to the trend of the last five years. During this period the prices of goods and services required by the government rose by about 30 %, and thus almost twice as sharply as the prices of goods and services required in the private sector. As measured by the specific structure of expenditure at the time, the Länder Governments had to contend with price rises of over 35 %, the local authorities with ones of about 34 %, and the Federal Government with ones of only about 24 %. Thus, although the structure of the local authorities' and Länder Governments' budgets is one of the reasons why much stronger procyclical effects have emanated from these authorities in the last few years than from the Federal Government, it should not be forgotten that by adopting a more deliberately anticyclical stance, for instance as customers for construction work or by being less accommodating in questions of pay policy, the Länder Governments and local authorities might have been able to counteract the rises in costs and prices "suffered" in some areas in the late phase of the boom. The particularly great sensitivity of the Länder Governments' and local authorities' budgets to price fluctuations demonstrates clearly how very much it is in their own interest to pursue as far as possible a policy directed towards damping down demand, and thereby also inflation.

... due to explosion in personnel costs ...

Total current expenditure rose by 13 % in 1971 (1970: 11 %), expenditure on personnel recording the largest increase at almost 19 %. Thus the personnel costs of the central, regional and local authorities have gone up by over one third in the last two years. This is not nearly accounted for by the two across-the-board increases in pay, because in 1971 public service wage and salary settlements provided for an all-round rise of 7 % plus DM 27 (following a rise of 8 %, but not less than DM 100, in 1970). The "remainder" – an amount of almost equal size – is attributable to the so-called structural improvements in connection with the First Law for the Standardisation and Revision of Civil Service Pay, to other measures agreed upon at much earlier dates but not coming into effect until the period under review, and to the increase in the number of government employees. Of the other current expenditure, that on military goods and equipment went up moderately at 3 %, but that on pensions, assistance payments and grants to social security funds was 11 % higher than a year previously (the only major statutory increases in benefits being the improvements in children's allowances which came into force in September 1970).

... and the sharp rise in capital expenditure

The second expansionary factor in overall spending was again capital expenditure, the rise in which in the year under review probably amounted to about 16 % (but to only about half as much in real terms). The wave of capital expenditure reached its peak in 1970, however, when it grew by almost a quarter. The fact that the investment activity of public authorities declined in the course of the year was indicated by the steady levelling off of the growth rates in 1971, from 47 % in the first quarter to 8 % in the last; this was also one of the main reasons for overall expenditure expanding less in the last six months of the year than in the first, as already explained. The expenditure partly served for the final financing of completed projects and does not fully express the fact that, from the point of view of its effect on production, investment activity decelerated considerably, because the ever-narrowing financial margins made it imperative to cut down new orders. Whereas in 1969 and 1970 the many orders placed by central, regional and local authorities substantially reinforced the uptrend in prices, in 1971 the rise in prices was curbed by the enforced restraint; this can be seen, for example, in the fact that the prices for road construction went up by "only" 8 % in 1971 compared with 15 % in 1970.

Debt and reserves

Greater increase in debt

The debt of the central, regional and local authorities increased by DM 14.7 billion in 1971, and thus by DM 6.7 billion more than in 1970. In comparison with last year, borrowing by the Länder Governments and local authorities more than doubled. Länder Government debt rose by DM 5.2 billion (as compared with DM 2 billion in 1970), and local authorities took up DM 7.8 billion of credit (as against DM 3.6 billion a year previously). The Federal Government, on the other hand, borrowed DM 0.5 billion less than a year before, at DM 1.4 billion. Whereas Federal net

Indebtedness of central, regional and local authorities *

Millions of Deutsche Mark

Item	End of year			Change during year		
	1969	1970	1971 e	1969	1970	1971 e
I. Borrowers						
1. Central and regional authorities	81,241	85,595	92,446	— 1,690	+ 4,354	+ 6,852
(a) Federal Government	45,360	47,323	48,764	— 1,833	+ 1,963	+ 1,441
(b) Equalisation of Burdens Fund	7,122	6,824	6,560	+ 43	— 298	— 263
(c) ERP Special Fund	1,227	1,296	1,364	+ 152	+ 69	+ 68
(d) Order financing on behalf of German Public Works Corporation	1,763	2,366	2,747	+ 516	+ 604	+ 381
(e) Länder Governments	25,771	27,786	33,011	— 569	+ 2,016	+ 5,225
2. Local authorities	36,663	40,295	48,100	+ 2,477	+ 3,632	+ 7,805
Total (1 plus 2)	117,904	125,890	140,546	+ 787	+ 7,986	+14,657
II. Categories of debt						
1. Book credits of Bundesbank	1,974	2,334	2,349	+ 630	+ 360	+ 15
2. Special credits of Bundesbank to Federal Government **1**	722	387	41	— 62	— 335	— 345
3. Treasury bills **2**	—	—	—	— 150	—	—
4. Discountable Treasury bonds **2**	2,360	1,700	1,700	— 6,243	— 660	—
5. Tax reserve certificates	47	50	50	+ 0	+ 3	—
6. Medium-term notes	3,659	3,210	2,570	— 386	— 448	— 640
7. Bonds **3**	16,266	17,491	20,219	+ 192	+ 1,225	+ 2,728
8. Direct lending by banks	51,813	59,523	70,632	+ 8,031	+ 7,710	+11,108
9. Government inscribed stock of social security funds	4,223	4,019	3,803	— 668	— 204	— 216
10. Loans from social security funds	1,877	1,706	2,851	— 188	— 171	+ 1,145
11. Other loans	9,884	11,104	12,671	+ 663	+ 1,220	+ 1,567
12. Commutation and compensation debt	904	865	793	— 21	— 40	— 72
13. Equalisation claims	19,585	19,331	19,110	— 317	— 254	— 221
14. Covering claims **4**	3,116	2,819	2,481	— 215	— 297	— 338
15. External debt	1,473	1,351	1,277	— 479	— 122	— 74
Total (1 to 15)	117,904	125,890	140,546	+ 787	+ 7,986	+14,657
III. Lenders						
1. Banking system						
(a) Bundesbank	11,973	11,578	11,140	+ 809	— 395	— 438
(b) Banks	71,880	77,572	87,823	+ 2,153	+ 5,692	+10,251
2. Domestic non-banks						
(a) Social security funds	6,828	6,335	7,281	— 1,754	— 493	+ 946
(b) Other **5**	25,616	28,868	32,451	+ 103	+ 3,253	+ 3,583
3. Foreign lenders **e**	1,608	1,537	1,852	— 524	— 71	+ 315
Total (1 to 3)	117,904	125,890	140,546	+ 787	+ 7,986	+14,657

* Including Equalisation of Burdens Fund, ERP Special Fund and order financing on behalf of German Public Works Corporation. — **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 lenders (residual). — **e** Partly estimated. — Discrepancies in the totals are due to rounding.

borrowing remained about DM 1.25 billion below the limit set by the Order issued under Article 19 of the Law on Economic Stability and Growth, the Länder Governments to some extent side-stepped the intended limitation of their borrowing to DM 4.6 billion by exploiting the possibility left open to them by the Order and utilising authorisations to borrow left over from previous fiscal years and taking up more cash advances.

In accordance with the requirements of credit policy the central, regional and local authorities satisfied their net credit needs, as a whole, solely with long-term funds. It was also of advantage from the point of view of credit policy — because bank liquidity was diminished — that of those medium-term notes included pursuant to previous monetary decisions in the Bundesbank's money market regulating operations for the last 18 months of their lives that were still outstanding at the beginning of 1971, all but a small residue were redeemed in the course of last year.

Long-term bank loans very prominent

In 1971 the central, regional and local authorities again obtained by far the greatest part of the outside funds they needed by means of direct loans from banks. Three quarters of all the funds they borrowed were raised in this way (DM 11.1

billion). As a large part of these loans were granted by banks which in turn procure the finance on the bond market by issuing communal bonds, this led to considerable indirect recourse to the market for fixed interest securities by the public authorities. But the public sector again floated more direct issues, too, in 1971. It is true that the total of medium-term notes outstanding which had gone down in the two preceding years, dropped further in 1971 (by DM 0.6 billion), but liabilities arising from long-term bonds went up by DM 2.7 billion, which is more than twice as steeply as in 1970 (+ DM 1.2 billion). Of this amount, DM 1.7 billion fell to the share of loans and almost DM 1 billion to Federal savings bonds, sales of which trebled as against the previous year, mainly because of the attractive rates of interest and the absence of a price risk. This trend strengthened considerably up to mid-February 1972, as in fixing the terms for this paper the Federal Government did not follow the fall in interest rates until a further DM 1.4 billion (net) of Federal savings bonds had been sold. To this extent the Federal Government financed its money requirements, which in 1972 were going up by leaps and bounds, as it were without fuss. In addition to direct bank lending and borrowing on the bond market, borrower's note loans from other lenders again played a major part. The central, regional and local authorities borrowed DM 1.1 billion on balance from the social security funds; from 1967 to 1970, by contrast, repayments had in each case exceeded new borrowing from these funds. At DM 1.6 billion, the central, regional and local authorities obtained more than in the preceding year in loans from other institutional investors, especially insurance companies. Other debt diminished by DM 1.3 billion, as shown in detail in the table on page 81. Indebtedness towards the Bundesbank went down by over DM 0.3 billion, as the Federal Government repaid the last instalment of its obligations to the Bundesbank arising from the latter discharging the former's debts arising from post-war economic aid, thus acquiring claims on the Federal Government.

Little change in cash reserves

The central, regional and local authorities' cash reserves showed hardly any change in aggregate in 1971, though the individual trends were quite dissimilar. The Federal Government built up its deposits by DM 0.8 billion: on the one hand it voluntarily increased its anticyclical reserve by DM 1 billion to DM 2.5 billion, and on the other hand it dissolved the special reserve of DM 260 million formed a year previously from the proceeds of the first tranche of the "education loan". The Länder Governments reduced their holdings by DM 0.3 billion on balance, freely disposable cash funds being reduced by DM 0.5 billion while the anticyclical reserves were increased by DM 0.2 billion. The total Bundesbank deposits of the Federal and Länder Governments thus went up by DM 0.5 billion in the year under review; this was a smaller growth than a year earlier (+ DM 1.8 billion). However, the restrictive effect exerted on bank liquidity by the increase in Government balances with the Bundesbank was roughly as large in 1971 as in 1970, because the anticyclical surcharge on income and corporation tax brought in DM 3.7 billion in 1971, compared with DM 2.2 billion the year before. Local authorities, which are not obliged to deposit their funds at the Bundesbank, slightly reduced the reserves they had formed earlier.

Further outlook

Strong expansionary influences again in 1972

In all probability the central, regional and local authorities will tend to stimulate demand more strongly in 1972 than in 1971. According to the budgets so far available, or according to the present state of budget deliberations (the Federal Government's budget will not be finalised in the current year until April or May), if a 7.5 % growth in the nominal national product is assumed, the deficits in the basic budgets, which came to over DM 11 billion in 1971 (counting the receipts from the anticyclical surcharge as revenue), would rise to about DM 20 to 21 billion this year. This would involve a net borrowing requirement of about DM 19 to 20 billion (i.e. roughly DM 5 billion more than in 1971 and DM 11 to 12 billion more than in 1970). If the repayment of the anticyclical surcharge, planned for mid-1972, is taken into consideration, the deficits will increase by a further DM 6 billion to between DM 26 and 27 billion. The expansionary swing, which is a measure of the expansionary influences on the circulation of incomes emanating from the central, regional and local authorities, would amount to about DM 15 billion in 1972, as compared with 1971, equivalent to approximately 2 % of the gross national product:

The budgets of the central, regional and local authorities and their effects on economic activity over the medium term

Billions of Deutsche Mark

Item	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
Actual cash balance	—9.7	—13.7	—7.3	+1.6	—5.8	—11.4	—26 1/2 1 (—20 1/2)	2 —20	2 —19 1/4	2 —21	2 —21
"Cyclically neutral" cash balance 3	—9.7	—14.5	—7.5	—2.6	+1.4	— 3.9	—12 1/4	—13 1/2	—16 1/4	—17	—17 1/2
Cyclical effect (expansive: + contractive: —)	—	— 0.8	—0.2	—4.2	+7.2	+ 7.5	+14 1/4 1 (+ 8 1/4)	+ 6 1/4	+ 3	+ 4	+ 3 1/2

1 Disregarding repayment of anticyclical surcharge on income and corporation tax. – 2 Calculation based on latest official tax estimate and on a growth of overall expenditure within the medium-term growth rate of nominal GNP aimed at by the Federal Cabinet. – 3 The calculation of the "cyclically neutral" cash balance is based on the approach of the Council of Experts for Assessing Overall Economic Trends, as last set out in the 1970/71 Annual Forecast, page 91 ff. It can be derived from this approach that the government behaves in a "cyclically neutral" manner if the net cash position is a "cyclically neutral" balance. Such a balance is the difference between "cyclically neutral" expenditure and "cyclically neutral" receipts (tax revenue and other income). According to the Council's approach, expenditure may rise more than proportionally to the growth of the production potential (plus the "cyclically neutral" price increase rate) if provision is made for additional restrictive effects on the receipts side (e.g. if the underlying trend of the overall tax ratio is upward). The calculation is based on the reference values of the Federal Cabinet's target projection published in the 1972 Economic Report and relating to the period 1971/1976.

following the approach of the Council of Experts this would result in an expansionary effect of about DM 14 billion, which would thus be twice as great as in 1971 (see the above table). In view of the rather narrow margin for any non-inflationary increase in expenditure, given at the present degree of utilisation of the production potential, such large deficits entail the danger that the economy may again be overtaxed; the great expansion in deficits and in the need for credit would be particularly undesirable if the inherent upward forces should gain momentum. In the present state of business activity it is obviously out of the question to put into force the contingency budgets with their volume of up to about DM 5 billion. Bearing such considerations in mind, the Fiscal Planning Council and the Advisory Council on Anticyclical Policy affirmed on March 9, 1972 that there will be no need in the foreseeable future to implement the contingency budgets of the Federal and Länder Governments, simultaneously releasing the anticyclical reserves. Furthermore, the two Councils stated that the level of aggregate public authority borrowing so far apparent in 1972 is in accordance neither with such economic requirements as are at present discernible nor with the longer-term financial possibilities.

Slower rise in expenditure . . .

It is therefore considered necessary to cut the amount of borrowing planned, and, according to the decisions of the Fiscal Planning Council and the Advisory Council on Anticyclical Policy, this is to be achieved by re-examining the expenditure plans of the Federal Government, the Länder Governments and the local authorities and reducing them to a macro-economically acceptable level, taking account of the future trend of business activity. Under the plans existing up to now, the central, regional and local authorities' spending in the basic budgets in the current year would grow markedly more slowly than in 1971, but at an estimated increase of 11 to 12 % it would still rise about 4 percentage points faster than the gross national product, which the Federal Government has assumed will go up by a nominal 7 to 8 %. Moreover, possible additional burdens of various kinds have not yet been allowed for in the budgets. If in 1972 expenditure nevertheless increases less than in 1971, this will mainly be because spending on personnel will now go up rather more slowly after the "explosion" of 1970 and 1971 – namely by an estimated 11 to 12 %. As for a number of years, the rise in actual earnings will be much greater in 1972 than might have been assumed solely on the basis of the wage agreement reached at the beginning of the year, which provided for a pay increase averaging about 6 % for employees of the Federal and Länder Governments and local authorities (i.e. not those of the Federal Railways and Post Office); furthermore, the number of employees is steadily increasing. Capital expenditure will also grow less than in 1971. Particularly the local authorities, which are responsible for about two thirds of all capital spending by the central, regional and local authorities, are likely to step up such expenditure to a much smaller degree than hitherto, which will help to weaken the strongly inflationary trend which still persists, at least in the building field. On the other hand, the expenditure of the central, regional and local authorities on social security will go up more steeply than before, principally because the Federal Government will again make full-scale grants to the statutory pension funds in 1972, the regulations curtailing them under the 1967 Finance Law Amendment having expired.

... but also greatly reduced growth in tax revenue

In all probability the expansion in receipts will also decrease distinctly, so that the rise in receipts will again be considerably smaller than in expenditure. Because of the slower growth of incomes and turnovers, taxes, in particular, will go up less sharply, although the tax ratio will probably increase a little owing to the progressive nature of the income tax scale and the raising of the taxes on spirits, petroleum and tobacco. This progressive effect will again be especially noticeable in the case of wage tax revenue which, as usual, will increase much more than proportionally and make up over a quarter of overall tax revenue in 1972. However, since the beginning of the year factors have been at work that tend to reduce tax revenue such as the lowering of the rate of "investment tax" by two percentage points and the ending of the road haulage tax which has only partly been offset by the increase in the motor vehicle tax for heavy transport vehicles.

Danger of unduly large deficits in the next few years

As already explained, the deficits and borrowing that appear to be taking shape for 1972 are disquietingly large, at any rate if business activity should sooner or later gather pace again, as is to be expected. The central, regional and local authorities' cash deficit in 1971, at over DM 11 billion, was already DM 7.5 billion greater than the amount calculable, using the Council of Experts' approach, as a "cyclically neutral" deficit, but on the basis of the state of budget planning up till now the cash deficits in the basic budgets (excluding the anticyclical surcharge, which is to be repaid) would exceed the "cyclically neutral deficit" (about DM 12 billion) by over DM 8 billion. If the economy is to come as close as possible to balanced growth whilst maintaining monetary stability, this presupposes that the deficits – and hence to a large extent the borrowing too – not only remain below the record figure initially taking shape in 1972, but also are considerably reduced in ensuing years. But the trends so far discernible among the central, regional and local authorities give no reason to expect the deficits to decline in this way. In the near future, when projecting their medium-term fiscal planning for the period from 1973 to 1976, the central, regional and local authorities will therefore be faced with the difficult task of bringing the deficits already perceptible for the years ahead down to a level compatible with stability policy. The Fiscal Planning Council and the Advisory Council on Anticyclical Policy made the above-mentioned recommendation to limit borrowing in 1972 and to cut planned expenditure not least with these medium-term perspectives in mind. One reference point for fiscal policy might be the "cyclically neutral" budget balance as shown in the table on page 83. Even if expenditure went up in the medium term no faster than the rate aimed at by the Federal Government in its target projection for the nominal gross national product, there would be considerable expansionary effects in each of the years covered by the projection.

(b) Social security funds

Continued large surpluses

In the past year the financial position of the social security funds remained favourable. According to the incomplete data available, all the funds together achieved cash surpluses estimated at DM 5.5 billion, as compared with DM 4.9 billion in 1970. In 1969, by contrast, there had been deficits totalling DM 0.2 billion. The surpluses have thus not gone up very substantially as against the preceding year (+ DM 0.6 billion), and the contractionary effects resulting from the change in the balance were correspondingly small. The financial trend was quite varied in its components. Whilst the statutory pension funds had surpluses that rose from DM 3.2 billion in 1970 to DM 5.4 billion in 1971 – due to the trend in expenditure, which is largely determined by the method of adjusting pensions – the Federal Labour Office had a deficit which, at DM 0.9 billion, was almost three times as great as in 1970. The statutory health insurance, for which full data are not as yet available, probably again recorded surpluses in 1971, though they will not have been as large as those of 1970. The statutory accident insurance, for which up-to-date figures are completely lacking, probably also had surpluses last year.

Further steep increase in receipts . . .

The receipts of the social security funds last year went up by an estimated 14 % to DM 97.6 billion, and thus almost as fast as in 1970. The rise in receipts from contributions was above this average, at 15 %, although it was smaller than in the preceding year (+ 18 %). This mainly reflects the fact that gross wages and salaries again went up steeply in 1971, but no longer at the tremendous pace of 1970. The contribution rates did not change by comparison with 1970: the contribution rates in the sphere of statutory health insurance, which are determined autonomously by the individual institutions, also remained practically constant on the average. But additional contribution receipts flowed to the statutory health insurance owing to the fact that at the beginning of 1971 the income limit up to which contributions are chargeable was raised substantially (from DM 1,200 to DM 1,425 per month), and that new contributors were recruited by "opening" the statutory insurance to various groups of persons. For an employee with earnings within the stipulated limits, the employee and the employer together had to pay an amount equal to over 26 % of gross earnings in social security contributions in 1971.

. . . but also a steep rise in expenditure

Expenditure by the social security funds did not go up quite as steeply as receipts, but at a figure of about 13.5 % its growth accelerated considerably as against 1970 (7 %). This is remarkable, in that spending by the statutory pension funds, which accounts for more than half of total expenditure, increased only moderately (10 %) since the pension adjustment rate was the lowest for years (5.5 %). The sharp increase in the expenditure of the other social security funds was thus all the more significant. The incomplete figures available show that spending by the statutory health insurance institutions went up by more than one fifth, whereas a year earlier it had grown but little, because then – owing to the introduction of continued wage payments in case of sickness – the health insurance institutions made considerable savings on cash benefits. The rise in expenditure is mainly due to the rapid growth of non-cash benefits, caused chiefly by increases in doctors' fees, hospital charges and the cost of medicines. The Federal Labour Office's expenditure went up even more sharply (by 26 %) though the percentage rise was smaller than in 1970. This increase in expenditure was, however, not connected with the Federal Labour Office's original function of being an unemployment insurance institution. On the contrary, the higher expenditure on unemployment benefits (including short-time working allowances and follow-up unemployment relief) incurred because of the slight increase in the number of unemployed receiving assistance was in fact more than offset by the decrease in payment of bad weather allowances. Against this, payments for the promotion of employment – especially payments for the purpose of vocational training, which the Federal Labour Office is required to make under the Work Promotion Law – continued to grow considerably. In 1971 the Federal Labour Office spent DM 1.9 billion on promotion measures of all kinds; this was almost 80 % more than a year previously, when expenditure had already doubled. In 1971 payments of this kind made up 39 % of total expenditure by the Labour Office, compared with 27 % in 1970 and 18 % in 1969.

Longer-term investments again

The surpluses obtained by the social security funds, especially the statutory pension funds for wage and salary earners, were mostly invested at longer term. Thus the pension funds granted a large quantity of longer-term loans (DM 2.5 billion), over half of them to the central, regional and local authorities and the Federal Railways and Post Office. At the same time they increased their holdings of securities with maturities of more than four years by a total of DM 1.1 billion. But it no longer seemed so urgent to increase their liquid funds again as the insurance institutions filled up their liquid reserve in the course of 1971 (unless they had already done so in 1970). Deposits with banks were raised by DM 0.7 billion, and holdings of money market paper and of medium-term notes running for less than twelve months by DM 0.6 billion. The Federal Labour Office, on the other hand, was forced to run down its reserves owing to the deficit incurred; this particularly affected its holding of money market paper, which was completely dissolved in 1971.

Overall, large surpluses again in 1972, but differing trends in the various branches

Considerable surpluses can again be expected for the social security funds in 1972. However, they will probably not turn out to be as large as in the past year, so that the social security funds are likely to have an expansionary impact – if only a small one – on aggregate demand. The growth in receipts from contributions will fall off as a result of the slackening of the expansion in pay. On the other hand, the contribution rate to the Federal Labour Office has been raised since the beginning of the year from 1.3 % to 1.7 % of earnings liable to contributions. The health insurance institutions, too, will probably be forced to put up their contributions by further rises in costs (a number of insurance institutions raised their contribution rates with effect from the beginning of the year). Furthermore, other receipts will go up at a faster rate, as the Federal Government's grants to the statutory pension funds will be paid in full from 1972 onwards, now that the cuts made under the 1967 Finance Law Amendment no longer apply.[1] In contrast to the receipts, the expenditure of the social security funds will go up rather more steeply than in 1971. In the case of the statutory pension funds the main reason for the faster growth will be that the 2 % health insurance contribution made by pensioners in 1968 and 1969 is to be refunded; quite apart from the rise in pensions, which at 6.3 % was slightly higher than in the previous year, this alone will result in a further increase in payments of $3^1/_3$ % over the year as a whole. The Federal Labour Office's expenditure will probably continue to rise steeply; the growing expenditure on promotion measures will presumably again carry greater weight than the spending on unemployment benefits and short-time working allowances, which is rising as the labour market calms down.

Improvements planned in the benefits paid by the statutory pension funds

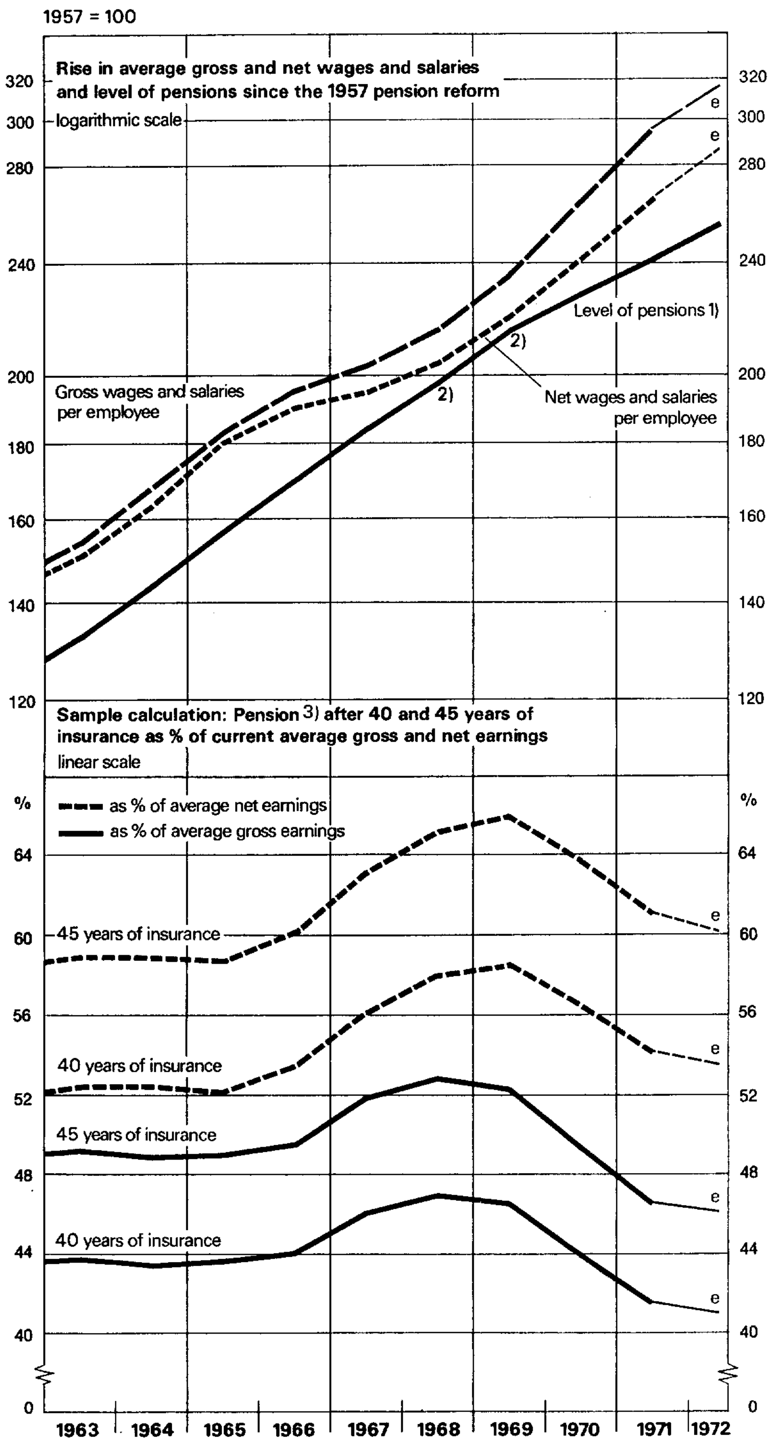
In the autumn of 1971 the Federal Government proposed measures of considerable financial importance for the statutory pension funds in the draft Pension Reform Law, which is due to come into force at the beginning of 1973. The intention is to give insured persons with at least 35 eligible years of insurance an opportunity of drawing their old age pension on reaching the age of 63. Further improvements planned are pensions according to minimum incomes and "baby allowances" for female insured persons; in addition, persons hitherto uninsured (self-employed persons, housewives) are to be permitted to join the statutory pension scheme on a voluntary basis.

Any appraisal of the financial consequences of these measures depends on a multitude of factors which individually are hard to predict. It follows from the very length of the period for which the forecasts must be made (no less than 15 years, according to the statutory provisions) that they are bound to be subject to uncertainty. In every new forecast which the Federal Government is required to make, in successive Pension Adjustment Reports, of the financial trend of the statutory pension funds for wage and salary earners it is to be expected, for various reasons, that figures will not coincide with those of the previous year, but in the last two Pension Adjustment Reports the differences have been particularly great. The forecast made in 1972 showed a much more favourable result than that of the beginning of 1971, which in turn had been considerably better than that of the beginning of 1970, although the period covered by the forecasts (first 1970 and 1971 to 1985, now 1972 to 1986) is to a large extent identical. On the basis of current law and assuming that the present adjustment procedure is retained, the latest forecast indicates that the statutory pension funds' reserves — calculated in terms of monthly expenditure to the debit of the insurance institutions — will initially go on increasing from just under 9 months' spending at the end of 1971, will remain at 13 to 14 months from 1974 to 1980 (roughly the widest part of the "pension bulge"), and from then up to 1986 (the last year covered by the forecast) will resume its rise up to about 19 months' expenditure. In absolute figures, this would mean reserves of about DM 200 billion at the end of 1986, so that the minimum reserve required by law of three months' expenditure would then be exceeded by some DM 169 billion. For the end of 1985, the last year covered by previous estimates, the lastest forecast puts reserves at DM 178 billion, as against DM 132 billion according to the forecast made at the beginning of 1971 and only DM 31 billion according to the 1970 forecast.

The reason why the picture of future financial developments presented by the latest forecasts is far more favourable than before is that the highly inflationary trend of the last few years has substantially increased the gap between earnings

1 The DM 1 billion of grants made by the Federal Government in 1972 in the form of Federal savings bonds are regarded in our calculations as receipts of the statutory pension funds (and correspondingly as expenditure of the Federal Government).

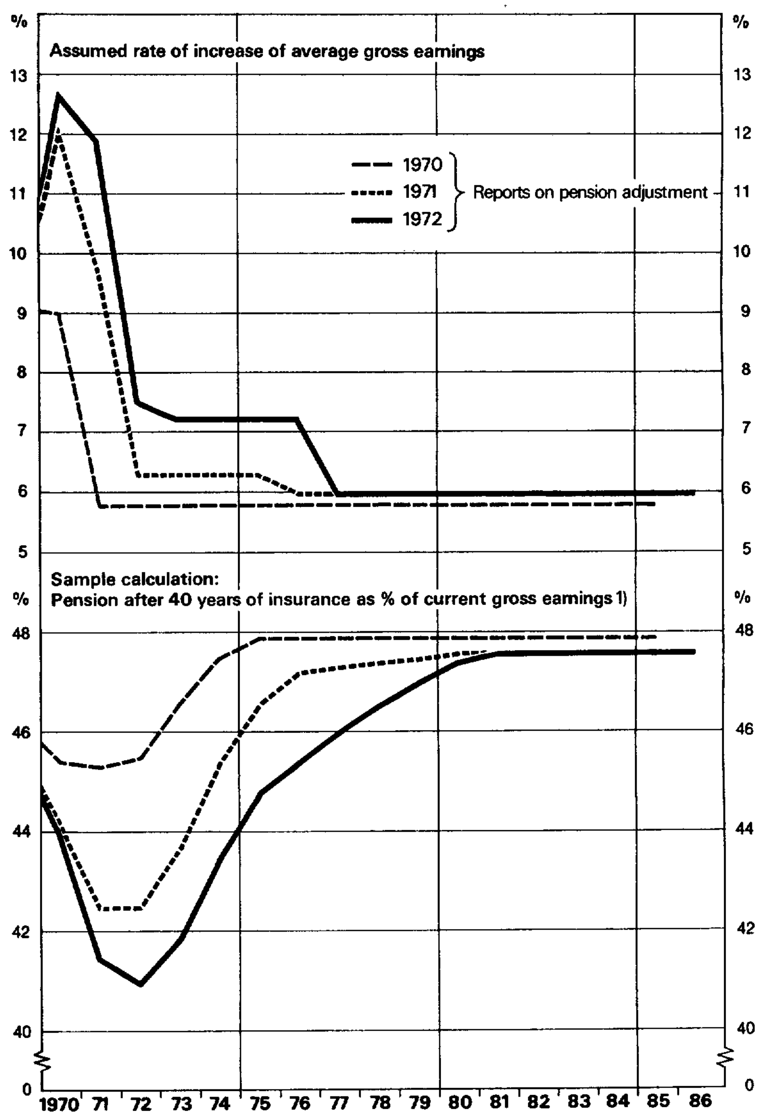
Pensions in comparison with employees' earnings



1) Here account was taken solely of the rise in the pension level due to the yearly adjustment of existing pensions since 1959.- 2) Disregarding the 2% deduction made in 1968/69 for pensioners' health insurance contributions.- 3) Current pension of an insured person who always received the average earnings of all insured persons.- e Estimated

and pensions. As the adjustment of pensions is always effected with a time lag of several years, pensioners have undoubtedly been among those to suffer in the "struggle" for the distribution of wealth in the last few years. This is because the rise in average gross earnings accelerated sharply in 1970 and 1971, whereas current pensions follow such rises with a lag averaging about three and a half years, owing to the structure of the general basis for determining pensions and to the adjustment procedure hitherto applied; as a result the increase rates of the last two years still reflected the small rises in incomes in 1967. In 1971, for example, the current (admittedly tax-free) pension of an insured person who had always

Assumed wages and changes in the relation between pensions and gross wages and salaries according to the last three official forecasts



1) This example is based on the current pension of an insured person who for forty years received the average earnings of all insured persons. A comparison of this pension with average net earnings cannot be made for the future since future changes in deductions cannot be estimated.

earned an amount equal to the gross average earnings of all insured persons fell after 40 years of insurance to 41.5 %, and after 45 years of insurance to 46.6 %, of simultaneous gross average earnings, compared with 47.0 % and 52.9 %, respectively, in 1968.[1] The relationship between the level of pensions and average net earnings, which is a more informative standard for comparing the social positions of pensioners and active members of the labour force has also shifted markedly to the disadvantage of pensioners in the last two years (although, as the chart on page 87 shows, the relationship was still rather more favourable than in the mid-sixties, because of the considerable improvement in 1967/69). Since pensions thus lagged behind the increase in earnings liable to contributions, the statutory pension funds achieved unexpectedly large surpluses in 1970 and 1971; and it is these surpluses, which to a large extent are due to inflation, that now form the basis for the forward projection of the financial trend in future years. In addition, because of the above-mentioned time lag in the adjustment of pensions, the cash figures of the immediately following years will improve by comparison

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1 If the 2 % health insurance contribution paid by pensioners in 1968/69 were taken into account, the percentage for 1968 would be somewhat lower (i. e. 46.0 % and 51.8 %).

with the previous year's forecast. This, too, is mainly due to the fact that pensioners suffer further relative losses of income during this period – a process that would only end if the movement of wages moderated again for a few years; only then would the "dynamic" adjustment of pensions bring the level of pensions nearer to the level of earnings again.

Besides these cyclical changes in the underlying position, another reason why the latest forecast turned out more favourable than the previous ones is that a faster increase in average earnings is now being assumed for the first third of the period covered by the forecast (i. e. the medium-term five-year projection period). On this assumption, pensions do not approach wages – despite relative improvements in the next few years – as closely as they did under previous hypotheses, which were based on lower wage increase rates in the medium term. Between 1973 and 1976 it is now estimated that average gross earnings will go up by 7.25 % per annum, whereas only a year ago a medium-term rise of 6.3 % (1972/75) had been expected, and two years ago one of 5.8 % (from 1971). As it is not to be anticipated that productivity will increase more rapidly in this period than hitherto postulated (some 4½ % per annum), this amounts to the assumption of a faster rise in unit labour costs (by almost 3 % per annum), thus in all probability also implying a faster rise in the level of prices. As a result the Deutsche Bundesbank objected on monetary grounds to the change in the assumptions about the growth rate of average earnings between 1973 and 1976.

For the period from 1977 (up to 1986) the Federal Government's forecasts in the Pension Adjustment Report of 1972 (as in that of 1971) are based on the premise of a rise of 6 % per annum in average earnings. Even so, in view of the modified basic data for the years up to 1976 the surpluses for this period, too, work out larger than in the previous forecast. On this basis a financial margin has been computed which – should it be achieved in practice – would enable the improved benefits proposed in the Pension Reform Law to be implemented without the necessity of raising the contribution rate (over and above the already decided increase to 18 % from 1973) or without the reserve dropping for a time below the equivalent of three months' expenditure. Owing to misgivings about the basic assumptions and to other dangers present in the calculations some of the members of the Social Advisory Council, on which the Deutsche Bundesbank is represented, advocated in the Council's report for this year that, when estimating the financial scope for improving benefits, allowance should be made on grounds of prudence for the possibility of a recession occurring during the period covered by the forecast (as already mentioned, 15 years); in other words, that it should not be taken for granted that receipts from contributions will increase continuously and uniformly year by year by the percentage assumed. Any risk that benefit improvements laid down by law which from the present perspective appear justifiable might in future financially overtax the statutory pension funds should definitely be excluded.

4. Balance of payments

Main determinants of the balance of payments in 1971

In the course of 1971 Germany's balance of payments was mainly influenced by the following events, which in part tended to work in opposing directions:

1. *By the short-term capital inflows between the beginning of the year and the floating of the Deutsche Mark at the beginning of May, which were first largely attracted by interest considerations but which soon became highly speculative.* On account of these inflows the Bundesbank's monetary reserves (excluding special drawing rights allocated) grew by DM 11 billion from the beginning of January to the end of April 1971, and between May 3 and May 5 they rose by a further DM 8 billion. Within a period of less than four months the central monetary reserves thus increased by DM 19 billion; this inflow can only be compared with the massive foreign exchange movements during the speculative waves in the spring and the autumn of 1969. Immediately before the foreign currency exchanges were closed on May 5, 1971, the Bundesbank's monetary reserves reached the amount of DM 68.5 billion. Since the end of 1969 – that is, since the time when the major part of the foreign funds which had flowed into

Germany before the revaluation of the Deutsche Mark in the autumn of 1969 had found their way back abroad – the total increase came to as much as DM 41 billion (not including the DM 1.4 billion rise in reserves on account of the allocation of special drawing rights).

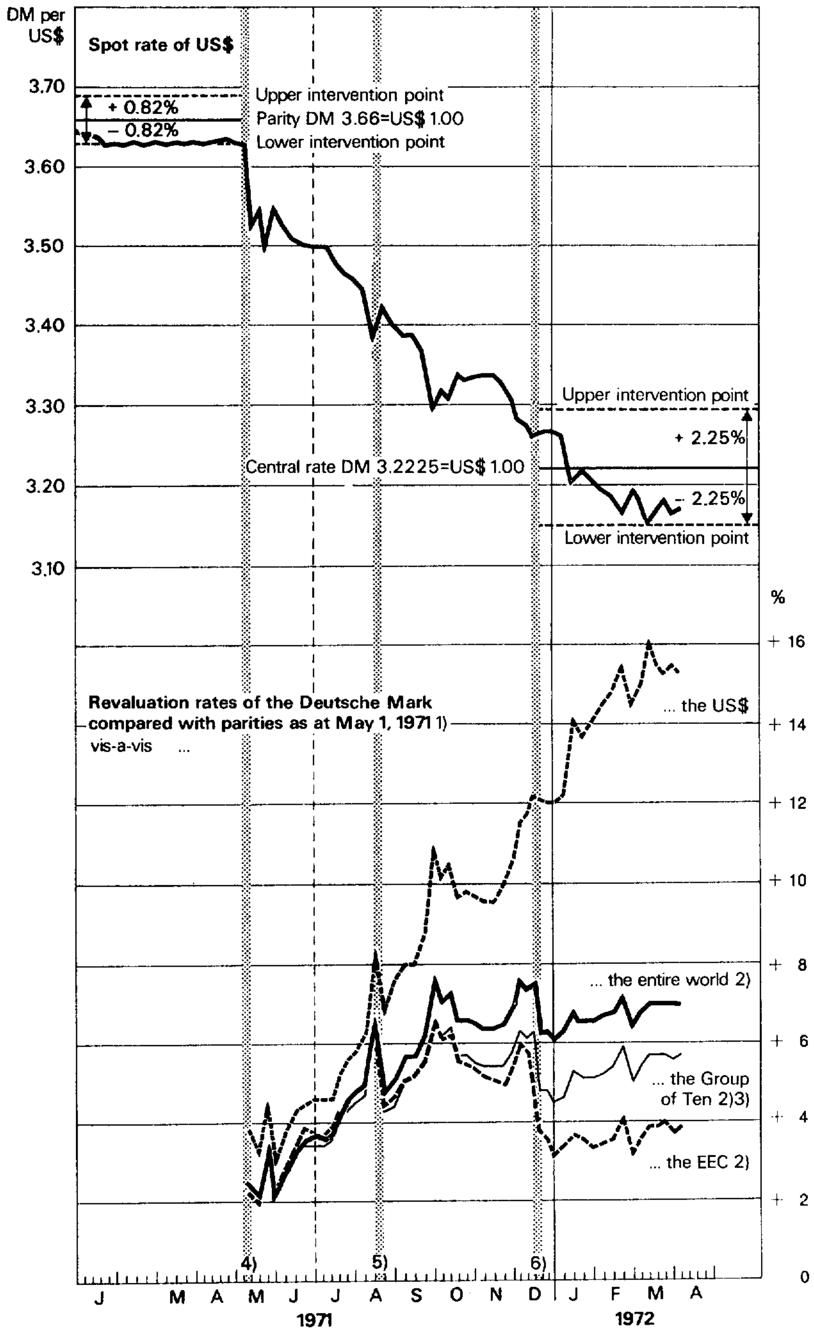
2. *By the Federal Government's decision to float the Deutsche Mark as from May 10, 1971.* This decision led to an increasing de facto revaluation of the Deutsche Mark against the U.S. dollar; on the first day on which the rate was freely formed the revaluation amounted to 3.8 %, and by mid-August it came to some 8 % – a rate which at that time was only a little higher than the revaluation of the Deutsche Mark in relation to all other currencies (just over 6½ %). During this time the speculative money inflows stopped and were replaced by money outflows; as already explained in the section "Money and credit", this was an important prerequisite for a more effective monetary policy in Germany. At the beginning of June, three weeks after the Deutsche Mark had been floated, the Bundesbank resumed its intervention on the foreign exchange market and sold dollars – at falling rates – on the spot exchange market. From the beginning of June to the beginning of August 1971, the Bundesbank sold U.S. dollars equivalent to some DM 17 billion on the spot exchange market. On the other hand it had to purchase the equivalent of DM 10 billion in dollars in the course of settling forward dollar purchases arising from outright transactions with the Federal Reserve Bank of New York (which had operated on the forward market for the Bundesbank's account) and with German banks, and also from maturing swap transactions with domestic banks. After setting off against the Bundesbank's other foreign exchange transactions, there was a net outflow of foreign exchange of almost DM 6 billion between the beginning of June and the beginning of August.

3. *By the outbreak of the international monetary crisis in August 1971.* The eruption of the dollar crisis caused by the U.S. measures of August (suspension of the convertibility of the dollar into gold and other reserve assets, introduction of an import surcharge) had some effects on the situation in the Federal Republic of Germany, not however on changes in the German monetary reserves. In that period, in which almost all industrial countries more or less discontinued their intervention in relation to the dollar and de facto started to revalue their currencies, the Bundesbank purchased dollars on the foreign exchange market on several occasions because the movements in the U.S. dollar rate were sometimes rather large; the amounts involved, however, were only small. As the freely floating exchange rates of other currencies against the dollar rose, the de facto revaluation of the Deutsche Mark in relation to the rest of the world declined. At first the outflow of short-term funds from the Federal Republic of Germany continued, for speculation concentrated on other currencies which at that time had not appreciated against the dollar as much as the Deutsche Mark. But when, in the autumn of 1971, expectations of a forthcoming realignment of exchange rates, including a definite devaluation of the U.S. dollar, grew, the revaluation rate of the Deutsche Mark against the U.S. dollar increased sharply again. At the same time, however, the rates of other important currencies (except that of the commercial franc) also rose, so that the revaluation of the Deutsche Mark in relation to the rest of the world went up only a little; on the eve of the monetary conference in Washington it stood at 7.5 %, although the revaluation rate against the U.S. dollar alone had risen to 12.2 %.

4. *By the realignment of exchange rate relationships among the most important western industrial countries, decided on at the Washington conference of the Group of Ten in December 1971.* The realignment of exchange rates meant a return to the principle of fixed exchange rates, although the agreed margin of fluctuation of the individual currencies in relation to the U.S. dollar, at ± 2.25 %, was considerably larger than that allowed according to the IMF rules (± 1 %)[1] which Germany ceased to observe in May 1971. The external value of the Deutsche Mark was fixed 13.6 % higher, in relation to the U.S. dollar, and the Deut-

1 Most members of the European Monetary Agreement had narrowed this margin; in Germany the spread was ± 0.82 % between the revaluation of the Deutsche Mark in October 1969 and the floating of the exchange rate in May 1971.

Foreign exchange rates and DM revaluation rates



1) For the Canadian $ the parity at end-May 1970 was taken as basis.- 2) Average DM revaluation rate weighted with foreign trade shares (average exports and imports from 1968 to 1970).- 3) Including Switzerland.- 4) Floating of DM rate on May 10, 1971.- 5) Foreign currency exchanges closed between August 16 and 20, 1971.- 6) Realignment on December 18, 1971.

sche Mark was thus revalued against the U.S dollar to a slightly greater degree than during the seven months of flexible exchange rates. However, as the new dollar central rates of most other currencies were revalued more, by comparison with the market rates immediately before the realignment, than the central rate of the Deutsche Mark, the de facto revaluation rates of the Deutsche Mark in relation to the rest of the world were reduced by the realignment of exchange rates. The table overleaf shows that, on the basis of the new central rates in relation to the old parities, the weighted revaluation rate of the Deutsche Mark against the currencies of the other EEC countries was 3.5 %, against the 15 major industrial countries 4.7 % and against the rest of the world 6.4 %, whereas the respective revaluation rates immediately before the realignment had been 6 %, 6.2 % and 7.5 %.

Realignment of exchange rates at the Washington monetary conference of December 1971

Currency	Percentage change of newly fixed central rates vis-à-vis the parities of May 1, 1971	Percentage change of newly fixed central rates vis-à-vis the U.S. dollar	Percentage revaluation (+) or devaluation (–) of the Deutsche Mark, vis-à-vis the currencies mentioned, on December 17, 1971 (last market rates before realignment) 1	December 18, 1971 (results of realignment)	December 21, 1971 (first market rates after realignment) 1
U.S. dollar	— 7.9	×	+12.2	+13.6	+12.1
Deutsche Mark	+ 4.6	+13.6	×	×	×
French franc (Commercial franc)	± 0	+ 8.6	+11.2	+ 4.6	+ 5.5
Italian lira	— 1.0	+ 7.5	+ 7.8	+ 5.7	+ 6.5
Belgian franc	+ 2.8	+11.6	+ 2.1	+ 1.8	+ 1.6
Netherlands guilder	+ 2.8	+11.6	+ 1.5	+ 1.8	+ 1.2
Pound sterling	± 0	+ 8.6	+ 6.6	+ 4.6	+ 5.3
Swedish kronor	— 1.0	+ 7.5	+ 6.0	+ 5.7	+ 5.6
Swiss franc	+ 4.9	+13.9	— 0.5	— 0.3	— 0.5
Canadian dollar	2	2	+ 3.5	2	+ 3.1
Japanese yen	+ 7.7	+16.9	3 + 0.1	— 2.8	3 — 2.0
Memorandum item:					
Weighted revaluation rates of the Deutsche Mark * vis-à-vis the					
(a) other EEC countries	×	×	+ 6.0	+ 3.5	+ 3.8
(b) countries of the Group of Ten (plus Switzerland)	×	×	+ 6.3	4 + 4.8	+ 4.8
(c) 15 countries whose currencies are officially quoted in Frankfurt/M.	×	×	+ 6.2	+ 4.7	+ 4.7
(d) entire world	×	×	pe + 7.5	pe 5 + 6.4	pe + 6.1

1 Ascertained on the basis of official spot rate quotations on the Frankfurt foreign currency exchange. — **2** The Canadian authorities decided to allow the exchange rate of the Canadian dollar to continue to float for the time being. — **3** The change was ascertained on the basis of an (indirectly) computed Deutsche Mark/Yen exchange rate since there was no official quotation of the yen on that day. — **4** Including the Canadian dollar rate of December 21, 1971. — **5** Deviates slightly from the rate (5.7%) given in the table on page 45, inter alia because the weighting in this table is with the bilateral trade shares between 1968 and 1970. — * Weighted with the average annual share in German foreign trade (exports plus imports), classified by producer and consumer countries, between 1968 and 1970. — **pe** Partly estimated.

Effects of the change in exchange rates

The "adjustment" to the new exchange rate relationships, which going by past experience with parity changes takes a considerable time in the sector of current transactions, above all in foreign trade, began back in the period of flexible exchange rates, that is, in May 1971. The effect on foreign trade prices could soon be seen in the statistics. In particular, imports calculated in Deutsche Mark became cheaper, a fact which directly dampened the upward price trends in Germany. Indirectly, the movement in export prices also worked in the same direction, for, as the prices of German exports increased owing to the revaluation, foreign demand for German products slackened and the exporting industries had to try and raise their sales at home. Similar effects were apparent in "imports" of services, especially in foreign travel, which became cheaper, at least in relative terms.

On the other hand, the direct impact of the Washington decisions on capital transactions between Germany and foreign countries remained relatively small. In many quarters a massive outflow of foreign funds from Germany had been expected, but it did not materialise, if only because the foreign funds which had flowed in for speculative reasons in the first few months of 1971 had already flowed out again during the period of flexible exchange rates. There was no inducement for the short-term capital imports attracted mainly by interest rate considerations to leave Germany again after the realignment because the decline in interest rates in Germany did not narrow the gap vis-à-vis the most important financial markets abroad. In other words, even after the Washington conference the interest rate differential between Germany and foreign countries remained in being, as the interest rates in the United States and consequently also on the Euro-money market continued to fall. In this period, too, the U.S. monetary authorities pursued a policy of cheap money, guided solely by domestic objectives, in order to reduce unemployment and accelerate economic growth. Although the balance of payments of the United States in 1971 showed the huge deficit of some $ 30 billion and was thus a dominant factor in the balances of payments and monetary policy of other countries, where these deficits were reflected as surpluses, these external implications did not influence U.S. monetary policy. The defence of the new exchange rate structure created by the realignment has so far remained the exclusive concern of the countries outside the United States. Their weapons have been reductions in their interest rates (reductions which in some cases, as in the Federal Republic of Germany, were contrary to the requirements of domestic economic policy), supporting purchases by the central banks, and — increasingly — administrative measures to staunch capital inflows. In Germany the cash deposit on certain types of foreign loans which was introduced as from March 1, 1972 counts among these weapons. In the first two months of 1972 the Bundesbank's monetary reserves rose by DM 3.3 billion (excluding the special drawing rights equivalent to DM 0.6 billion allocated at the beginning of the year). The main cause of this increase in reserves was the inflows of long-term foreign capital. In short-term capital transactions, on the other hand, the first effects were visible of the cash deposit requirement on certain types of borrowing abroad announced in February, in that enterprises' money imports slowed down. The dollar rate of the Deutsche Mark, which in the first few weeks after the realignment had been in the upper range of the widened margin for spot rates, had fallen almost to the lower intervention point by the beginning of March 1972; since then it has firmed slightly again (see the chart on page 91).

On the following pages the most important trends in the individual sectors of the balance of payments for 1971 will be described. Where the annual balance of payments figures do not show opposing movements — some of which were very marked — in the course of the year (this applies particularly to short-term capital transactions), other periods are formed and analysed.

(a) Germany's current transactions with the rest of the world

Small surplus on current account

Germany's current account (that is, merchandise transactions, service transactions and transfer payments combined) was virtually in balance in 1971. Statistically there was a surplus of only DM 0.4 billion, as against DM 2.7 billion the year before and DM 6.2 billion in 1969. If it had been possible to ascertain all the current transactions statistically, there would probably have been a somewhat larger surplus in 1971, as in the years before, since it is likely that the foreign exchange receipts from current transactions, in particular, have not all been included. Nevertheless, the decline in the current surplus is a certain indication of the fact that the tendency towards an equilibrium became stronger in the current account. The condition of the balance of payments would only have been ideal if, given the excessive cyclical stress to which the economy was exposed, the current account had been in deficit — which was the case neither in 1970 nor in the first half of 1971, when, admittedly, the boom was already slackening — but the trend in this direction was quite pronounced, and became even more marked with the revaluation of the Deutsche Mark which began with the floating of the exchange rates in May 1971.

Small rise in nominal . . .

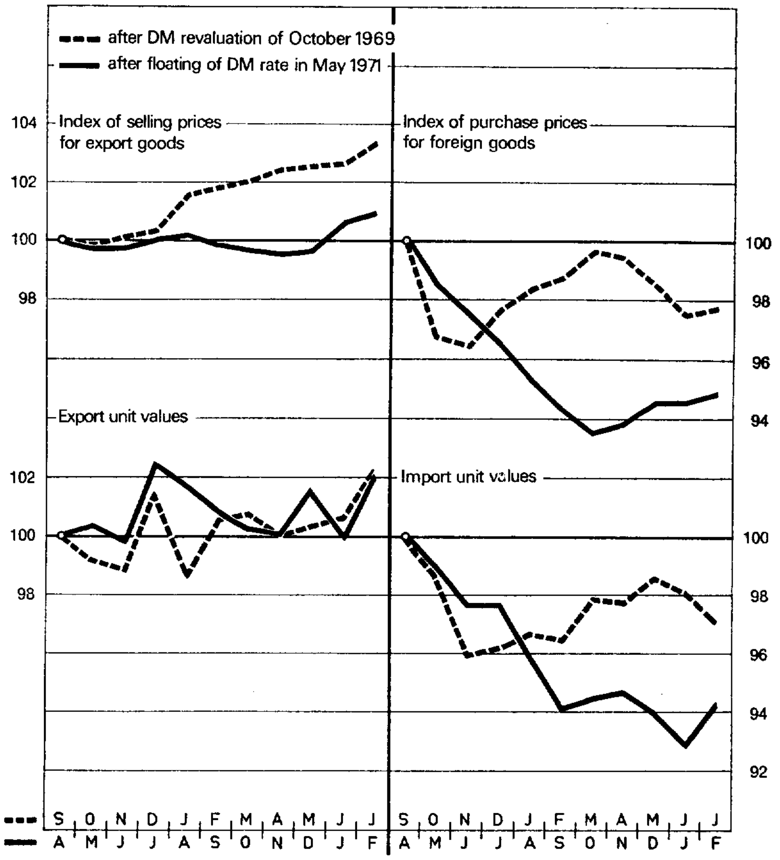
Germany's foreign trade surplus in 1971 in the definition used here (and internationally), according to which freight and insurance charges on imports are counted not towards merchandise transactions (as in the official foreign trade statistics of the Federal Statistical Office) but towards services, rose slightly — by DM 0.7 billion — to DM 22.2 billion.[1] In real terms, however, German exports were on balance not larger than in 1970, but smaller. Calculated at constant prices (those of 1970) exports rose by only 7 %, but imports by 11 %, and in "real" terms the trade surplus fell by almost DM 3 billion. The supply of goods in Germany increased to this extent (equal to about 1/2 % of the real gross national product), which tended to exert a restraining influence on prices. This reflects the fact that imports became

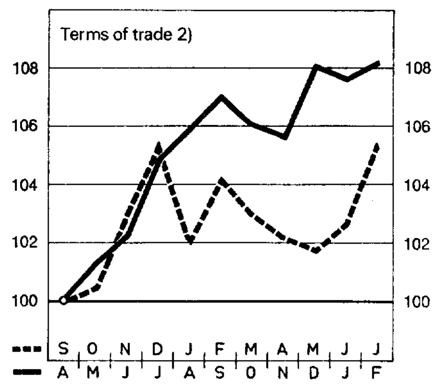
. . . but sharp drop in "real" export surplus

1 In accordance with international practice 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 results of the current account.

Price trends in foreign trade after DM revaluation of October 1969 and after floating of DM rate in May 1971

Unadjusted figures 1)





1) September 1969=100 and April 1971=100.- 2) Index of export unit values as % of index of import unit values.

cheaper on account of the revaluation (on annual average, measured by the Deutsche Mark unit values of imports, by 1 %, and in the second half of 1971 alone by over 2 %), whereas Deutsche Mark export prices rose (by 1½ % on the annual average). The terms of trade therefore improved by just over 2½ % in the whole of 1971 (see the above chart); in other words, the same quantity of exports "paid for" about 2½ % more imports than in 1970, when the terms of trade had already improved by 4 % owing to the preceding revaluation of the Deutsche Mark. In 1972 the terms of trade will again improve further, as the full price reactions after a revaluation only become apparent little by little.

Slower rise in exports

In 1971 Germany's *exports of goods,* in value terms, expanded by 8½ % to almost DM 136 billion. In the first few months of 1971 there was a steep rise in exports, but after the floating of the Deutsche Mark the rise slowed down. In the last quarter of 1971 there was even a decline in exports under the impact of the international monetary situation, which was very complex up to the Washington monetary conference, and as a consequence of shortfalls in deliveries caused by the labour dispute in the metal-working industry of Baden-Württemberg; however, early in 1972 it became apparent that this decline was of only a temporary nature.

Unchanged Deutsche Mark export prices since the beginning of the float

Exporters soon reacted to the de facto revaluation of the Deutsche Mark, not only in their deliveries abroad but also in their price policy. From April 1971 to the end of the year, only the Deutsche Mark export prices of products with a particularly strong market position — for example machinery — were raised in new export contracts; in general, exporters had to refrain from further price increases. Exporters thus behaved in much the same way as after the Deutsche Mark revaluation of 1961 (when Deutsche Mark export prices actually declined in absolute terms), whereas after the revaluation of October 1969 the Deutsche Mark sales prices of exports were increased further, in some cases perhaps because costs in Germany rose at that time even more steeply than in 1971, in some cases also because German prices had previously lagged far behind those in competing countries and because price increases intensified in the rest of the world.

Exchange risk insurance for long-term export claims

As a result of the floating of the Deutsche Mark export business became more difficult not only from the price angle but also because of the greater exchange risk. To a certain degree this is true also of the period after the realignment, as wider margins then applied to the exchange rates fluctuating around the new "central rates". It is above all longer-term export claims denominated in foreign currencies that are exposed to risks; however, all the evidence suggests that by far the largest part of the longer-term export claims are denominated in Deutsche Mark, although it is by no means impossible that, in the case of exchange rate alterations, the foreign customer will attempt to pass on part of his additional burden to the supplier, the German exporter. At the beginning of 1972 the Federal Government therefore created facilities for insuring against the exchange risk through Hermes Kreditversicherungs-AG, as the agent of the Federal Government. This "subsidiary" exchange risk insurance scheme, which is "in conformity with the free market economy", for export claims with a maturity of more than two years is designed in such a way that efficient forward exchange markets may continue to exist alongside it. For the so-called "preliminary period" (the first two years) the exporter remains entirely dependent on his own exchange risk cover, for example via the forward market. During the insurance period he carries a share of up to 3 % of exchange losses (franchise); only export contracts concluded in U.S. dollars, pounds sterling or Swiss francs can be insured, against payment, with Hermes AG. For the export industry the exchange risk has thus become more calculable, particularly in periods of pronounced international monetary unrest. However, the Federal Government's support is by no means so extensive that it might be regarded as a subsidy; this is apparent, inter alia, from the fact that exporters' interest in concluding exchange risk insurances with Hermes AG, at premiums of 0.6 % to 0.7 % p.a., has so far not been at all great.

Further rise in imports . . .

Germany's *imports* in 1971, in terms of value, rose by almost 10 % to DM 113.5 billion (calculated at f.o.b. prices, that is, without the freight and insurance charges included in the c.i.f. value of imports). In the course of 1971 the demand for imports slackened because the economic situation in Germany eased noticeably. The import values also reflect the fall in import prices since the beginning of the de facto revaluation of the Deutsche Mark. In terms of volume, imports of goods grew by almost 11 % in 1971 and thus almost three times as fast as overall national expenditure (+ 3½ %); the average market share of imported goods in Germany thus grew distinctly in 1971. Imports of the individual groups of goods expanded by differing amounts depending on whether the imports are determined by domestic economic activity — as with imports of raw materials — or whether their competitiveness in comparison with similar home-produced goods counts more. Competition with domestic products is greatest in the case of imported industrial end products; imports of such goods increased relatively sharply in 1971 — by 17 %. After the de facto revaluation of the Deutsche Mark the sales possibilities for consumer goods were particularly favourable as these products became cheaper and demand in Germany continued to grow. It was above all clothing, shoes and automobiles which were imported on a larger scale. Imports of capital goods,

. . . especially those of end products

Main items of the balance of payments

Millions of Deutsche Mark

Item	1965	1966	1967	1968	1969	1970	1971 Total	1971 1st half	1971 2nd half
I. Current account									
1. Merchandise transactions									
Exports (f.o.b.) 1	71,633	80,557	86,950	99,445	113,528	124,932	135,622	66,692	68,930
Imports (f.o.b.) 1	66,585	68,932	66,303	76,807	93,533	103,377	113,519	56,580	56,939
Merchanting trade (net)	+ 152	+ 200	+ 362	+ 65	+ 94	— 83	+ 102	— 243	+ 345
Balance of trade	+ 5,200	+11,825	+21,009	+22,703	+20,089	+21,472	+22,205	+ 9,869	+12,336
2. Services	— 5,546	— 5,462	— 5,151	— 4,485	— 5,413	— 9,740	—11,233	— 4,271	— 6,962
3. Transfer payments	— 6,377	— 6,295	— 6,422	— 7,312	— 8,450	— 9,059	—10,551	— 5,118	— 5,433
Balance on current account (1 plus 2 plus 3)	— 6,723	+ 68	+ 9,436	+10,906	+ 6,226	+ 2,673	+ 421	+ 480	— 59
II. Capital account (outflow: —)									
1. Long-term capital transactions 2, 3									
Private long-term capital transactions									
Direct investment	+ 2,239	+ 2,213	+ 1,769	— 26	— 741	— 962	+ 902	— 323	+ 1,225
German investment abroad	— 1,051	— 1,228	— 1,042	— 1,589	— 2,118	— 2,504	— 2,344	— 1,272	— 1,072
Foreign investment in Germany	+ 3,290	+ 3,441	+ 2,811	+ 1,563	+ 1,377	+ 1,542	+ 3,246	+ 949	+ 2,297
Security portfolio investment	— 355	— 1 155	— 2,014	— 5,614	—10,721	— 683	+ 2,540	+ 558	+ 1,982
Foreign securities	— 454	— 819	— 1,395	— 5,627	— 9,513	— 2,021	+ 532	— 177	+ 709
of which									
Foreign Deutsche Mark bonds	— 322	— 505	— 123	— 3,696	— 4,266	— 839	+ 1,011	+ 412	+ 599
German securities	+ 99	— 336	— 619	+ 13	— 1,208	+ 1,338	+ 2,008	+ 735	+ 1,273
Loans and advances	+ 701	+ 1,032	— 1,146	— 4 083	— 9,294	+ 1,697	+ 6,151	+ 3,490	+ 2,661
Banks	+ 613	+ 297	— 887	— 3,299	— 9,104	+ 544	+ 2,708	+ 1,670	+ 1,038
Enterprises 4	+ 88	+ 735	— 259	— 784	— 190	+ 1,153	+ 3,443	+ 1,820	+ 1,623
Other transactions	— 337	— 321	— 299	— 359	— 476	— 544	— 707	— 302	— 405
Total	+ 2,248	+ 1,769	— 1,690	—10,082	—21,232	— 492	+ 8,886	+ 3,423	+ 5,463
Official long-term capital transactions	— 1,291	— 2,531	— 1,490	— 1,329	— 1,837	— 2,456	— 2,281	— 1,121	— 1,160
Balance of long-term capital transactions	+ 957	— 762	— 3,180	—11,411	—23,069	— 2,948	+ 6,605	+ 2,302	+ 4,303
2. Short-term capital transactions									
Banks	— 478	— 574	— 4,823	+ 2,455	+ 4,325	+ 7,927	+ 1,174	— 8,607	+ 9,781
Enterprises	+ 831	+ 1,880	— 1,634	+ 536	— 235	+ 6,454	— 1,383	+ 6,530	— 7,913
Official 5	+ 1,052	+ 337	— 361	+ 1,185	— 29	— 428	+ 1,038	+ 963	+ 75
Balance of short-term capital transactions	+ 1,405	+ 1,643	— 6,818	+ 4,176	+ 4,061	+13,953	+ 829	— 1,114	+ 1,943
Overall balance on capital account	+ 2,362	+ 881	— 9,998	— 7,235	—19,008	+11,005	+ 7,434	+ 1,188	+ 6,246
III. Balance of statistically recorded transactions (I plus II)	— 4,361	+ 949	— 562	+ 3,671	—12,782	+13,678	+ 7,855	+ 1,668	+ 6,187
IV. Balance of statistically unclassifiable transactions (balancing item) 6	+ 3,078	+ 1,003	+ 422	+ 3,338	+ 2,520	+ 8,234	+ 8,503	+ 9,547	— 1,044
V. Overall balance on current and capital accounts (III plus IV)	— 1,283	+ 1,952	— 140	+ 7,009	—10,262	+21,912	+16,358	+11,215	+ 5,143
VI. Contra-entry to changes in central monetary reserves due to the DM revaluation (1969), the fixing of central rates (1971) and the allocation of special drawing rights (1970 and 1971) 7	—	—	—	—	— 4,099	+ 738	— 5,369	+ 627	— 5,996
VII. Foreign exchange balance (surplus: +) 8	— 1,283	+ 1,952	— 140	+ 7,009	—14,361	+22,650	+10,989	+11,842	— 853

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", "Security portfolio investment", "Loans and advances" and "Other transactions" partly estimated. For further breakdown see table 9 ff. in the Statistical Supplements to the Monthly Reports of the Deutsche Bundesbank, Series 3, Balance of payments statistics. — 4 Including households. — 5 Chiefly concerning change in the Federal Government's assets resulting from prepayments on government imports and in the Federal Government's liabilities to the European Communities on so-called deposit accounts. — 6 Net errors and omissions on current and capital accounts. — 7 See footnote 8. — 8 The foreign exchange balance (= change in Deutsche Bundesbank's net monetary reserves) also contains the depreciation of the Deutsche Bundesbank's gold and foreign exchange positions expressed in Deutsche Mark due to the 9.3 % DM revaluation of October 27, 1969, the fixing of central rates in December 1971 and the raising of monetary reserves by the allocation of special drawing rights (January 1970 and 1971). As these changes are not attributable to current or capital transactions a contra-entry has been inserted under VI in order to square the overall balance of payments in mathematical terms.

too, increased considerably – by almost 20 % – although domestic demand for such goods slackened slightly.

Reduced demand for foreign raw materials and semi-finished products

Imports of raw materials and semi-finished products, which are relatively closely linked to industrial production and the stock cycle and were therefore affected by the downturn in the domestic economy, in 1971 were 1 % below the 1970 figure in value terms; in terms of volume, however, they exceeded the 1970 figure by 2 %. The demand for products for further processing, which are at a more advanced stage of processing than semi-finished products, increased again in 1971 (by 10 % in value terms and by some 16 % in volume terms). Imports of foodstuffs rose almost independently of economic trends (9 %). The cheapening of agricultural products caused solely by the revaluation – the Deutsche Mark price level of agricultural products is mainly linked to the (unchanged) EEC unit of account, the "green dollar" – did not have any effects on the domestic market because of the levies made at the border for farm policy reasons. Finally, imports by the Federal Government (mainly made under the foreign exchange offset agreements) rose by some 50 % in 1971.

Further rise in the deficit on services account . . .

The deficits in "invisible" current transactions with foreign countries continued to increase in 1971. The deficit on services account alone (inclusive of freight and insurance charges on imports) grew to DM 11.2 billion in 1971, compared with DM 9.7 billion in 1970 and DM 5.4 billion in 1969. Within a period of only two years the deficit on service transactions has thus more than doubled, making the Federal Republic of Germany by far the largest "importer of services" in the world. The increased use of foreign services was partly a cyclical phenomenon, partly however also the consequence of the exchange rate measures of autumn 1969 and May 1971. The effects of these two factors were most apparent in foreign travel.

. . . mainly due to larger expenditure on foreign travel . . .

The deficit on foreign travel account in 1971 soared by DM 1.7 billion to some DM 7 billion. Expenditure on holiday and business trips abroad in 1971 rose by 22 %, or DM 2.25 billion, to over DM 12.5 billion. It thus came to almost 3 % of personal disposable income; such a large share had never been reached before. Never before, however, had travelling abroad, as compared with travelling in Germany, been as cheap as in 1971 after the floating of the exchange rates.[1] Germany's receipts from foreign visitors rose too – by 11 % to DM 5.5 billion – although stays in Germany became considerably dearer as a result of the revaluation of the Deutsche Mark.[2] With the growth of foreign travel, transit traffic through Germany appears to have gained in importance, and it is likely that the greater number of business trips also carried some weight.

. . . but also due to larger expenditure on other services

However, the deficits in those sectors of the services account which are closely related to foreign trade and domestic production also continued to rise. This applies above all to transportation, which accounts for almost one third of Germany's total commercial services turnover. Expenditure on freight, passenger fares and foreign port services (DM 11.4 billion) in 1971 exceeded the corresponding receipts of German transport enterprises and ports (DM 8.5 billion) by DM 2.9 billion, compared with DM 2.3 billion in 1970. Expenditure on freight would probably have increased even more sharply had not the revaluation of the Deutsche Mark resulted in a reduction of the Deutsche Mark equivalent of the freight rates, which are mostly fixed in U.S. dollars or pounds sterling.

The other expenditure on services – mainly on commission fees, publicity and trade fairs, patent and licence fees – also showed a deficit which, compared with 1970, grew by DM 0.6 billion to DM 6.7 billion. An important exception to this general deteriorating trend was, however, the investment income account. The

1 This is evident from the movement in "travel currency parities" as ascertained by the Federal Statistical Office for a number of holiday destinations. Taking into account the exchange rate alterations since the summer of 1969, the purchasing power advantages of the "travel Mark" were even greater in the summer of 1971 than in the summer of 1969 in major holiday areas such as France, Italy, the Netherlands, Austria and Spain; it is likely that more or less the same applies to Yugoslavia, although it is not easy to make comparisons with that country.

2 The recording of foreign travel receipts and expenditure presents particular statistical difficulties. However, the foreign travel statistics are regularly reviewed and improved. It is on account of such improvements that gross foreign travel receipts and expenditure are no longer fully comparable with earlier figures for 1970 and 1971, since the purchases and sales of Deutsche Mark notes advised to us by the central banks of major European holiday countries have been included in the foreign travel account. In this way it has become possible to include the Deutsche Mark notes purchased by banks abroad and then sold again abroad (and thus not returned to German banks) as expenditure by German travellers abroad on the one hand and German receipts from foreign travellers on the other. Apart from certain regional changes, the balance on foreign travel account is not affected.

Main balances on services and transfer payments accounts

Millions of Deutsche Mark

Item	1965	1966	1967	1968	1969	1970	1971
A. Services							
1. Commercial services							
Travel	—2,766	—3,403	—3,034	—3,106	— 3,888	— 5,377	— 7,055
Investment income	—1,811	—1,482	—1,783	— 808	— 348	— 930	— 160
Transportation [1]	— 748	— 515	— 517	— 646	— 707	— 2,284	— 2,898
Commission fees, publicity and trade fairs	—1,595	—1,808	—1,951	—2,020	— 2,291	— 2,523	— 2,629
Other services	—1,992	—2,307	—2,153	—2,451	— 2,987	— 3,565	— 4,031
Balance	—8,912	—9,515	—9,438	—9,031	—10,221	—14,679	—16,773
2. Other service items							
Receipts from foreign troops	+4,044	+4,774	+5,127	+5,196	+ 5,546	+ 5,756	+ 6,520
Receipts and expenditure of German public authorities	— 678	— 721	— 840	— 650	— 738	— 817	— 980
Balance	+3,366	+4,053	+4,287	+4,546	+ 4,808	+ 4,939	+ 5,540
Services, total (1 plus 2)	—5,546	—5,462	—5,151	—4,485	— 5,413	— 9,740	—11,233
B. Transfer payments (unilateral transfers)							
1. Official							
Indemnification	—2,235	—1,663	—1,674	—1,770	— 1,515	— 1,598	— 1,620
Subscriptions to the European Communities	— 162	— 233	— 484	—1,148	— 1,460	— 611	— 569
of which: to the EEC Agricultural Fund	— 10	— 41	— 197	— 856	— 1,146	— 293	[2] .
Other payments	—1,068	— 975	—1,157	—1,223	— 1,426	— 1,518	— 1,844
Balance	—3,465	—2,871	—3,315	—4,141	— 4,401	— 3,727	— 4,033
2. Private							
Wage remittances by foreign workers e	—2,150	—2,500	—2,150	—2,150	— 3,000	— 4,300	— 5,300
to: Italy	— 850	—1,000	— 850	— 850	— 950	— 1,150	— 1,300
Yugoslavia	— 150	— 200	— 200	— 250	— 550	— 950	— 1,250
Turkey	— 300	— 350	— 300	— 350	— 550	— 900	— 1,200
Greece	— 350	— 400	— 350	— 300	— 400	— 500	— 600
Spain	— 450	— 500	— 350	— 300	— 350	— 450	— 500
Portugal	— 50	— 50	— 50	— 50	— 100	— 150	— 200
Other countries	— 0	— 0	— 50	— 50	— 100	— 200	— 250
Other payments	— 762	— 924	— 957	—1,021	— 1,049	— 1,032	— 1,218
Balance	—2,912	—3,424	—3,107	—3,171	— 4,049	— 5,332	— 6,518
Transfer payments, total (1 plus 2)	—6,377	—6,295	—6,422	—7,312	— 8,450	— 9,059	—10,551

1 Including freight and insurance charges paid to foreigners in connection with sea-borne visible imports and, from 1970, also in connection with imports by lorry, contained in the c.i.f. import value. — **2** Owing to the new financial regulations it is no longer possible to show payments to the EEC Agricultural Fund separately. — **e** Estimated.

Dwindling deficit on investment income account

deficit on this account, which in 1970 had amounted to DM 0.9 billion and in earlier years to as much as DM 1.5 to DM 1.8 billion (see the above table) dwindled to DM 160 million in 1971. The main reason for this near-equilibrium on investment income account was that Germany's receipts from money and capital investment abroad rose by over 20 % to DM 6.2 billion in 1971, thus being almost as large as the interest and dividend payments made to non-residents. If it were possible to include all investment income, in particular undistributed profits from German enterprises' direct investment abroad, the investment income account for 1971 would probably even show net receipts. In view of the steep rise in German enterprises' foreign debt in 1971 this picture may at first sight appear surprising, but it must be remembered that as the total of external claims rises, the income also grows from year to year and that, on the other hand, the interest on the sizable funds raised abroad in 1971 is in some cases not due to be paid until 1972.

Receipts from foreign troops

If the large deficits in commercial service transactions, which in 1971 increased to DM 16.8 billion (as against DM 14.7 billion in 1970), were not fully reflected in the overall balance on services account, this was only because the receipts from the troops of allied nations — which are likewise shown in the services account — at DM 6.5 billion were again larger in 1971 than a year before. The additional receipts were solely due to the larger Deutsche Mark requirements of U.S. and U.K. military agencies. To offset the foreign exchange burden arising in this connection for the balances of payments of the United States and the United Kingdom, the Federal Government in the past concluded foreign exchange offset agreements with these two countries; these agreements have now been renewed for the next few years. Under the old and new agreements Germany paid about DM 2.25 billion in 1971; the major part of that amount is included in other items of the balance of payments (merchandise transactions, transfer payments, capital movements).

Deficit on transfers continues to grow

The deficit on transfer payments in 1971 rose by nearly DM 1.5 billion to DM 10.6 billion. The main reason for the increase was that, in spite of the gradual easing of the German labour market, the average number of foreign workers employed in the Federal Republic of Germany exceeded 2.1 million in 1971; this was some 320,000 more than in 1970. At the same time wages increased sharply. The upshot of these two factors was that wage remittances by foreign workers to their home countries grew by an estimated DM 1 billion to a total of DM 5.3 billion; the table opposite gives details of the distribution of that amount among the individual countries. Official transfer payments, too, were somewhat greater in 1971 (DM 0.4 billion) than a year before (DM 3.7 billion), mainly because of a larger payment under the U.K.-German foreign exchange offset agreement and of larger contributions to technical development aid. By contrast, the 1971 result hardly differed from that of the previous year in other sectors, such as indemnification payments (DM 1.6 billion) and contributions to the finances of the European Communities (DM 0.6 billion net), which include the German payments towards EEC agricultural finance.

(b) Long-term capital transactions

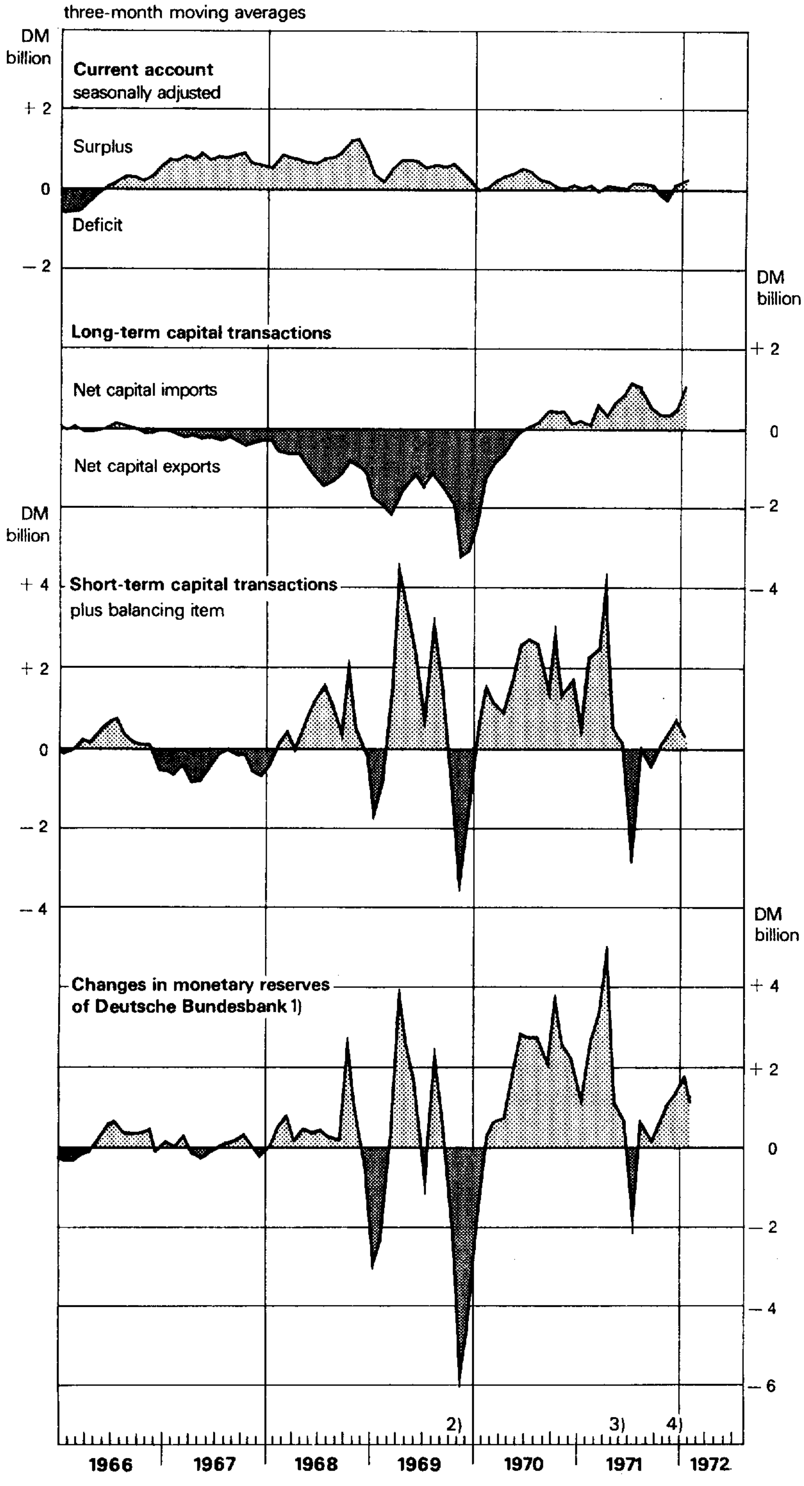
Swing from capital exports to capital imports

The main problems in Germany's balance of payments in 1971 were caused by capital transactions with foreign countries. Whereas the inflows and outflows of short-term funds had determined the scene in the two preceding years, the swing in long-term capital transactions from capital exports to capital imports now raised new problems. As may be seen in detail from the table on page 96, Germany received over DM 6.5 billion (net) of long-term funds from abroad in 1971, whereas in 1970 DM 3 billion of long-term funds had flowed out. Two years ago (in 1969) net long-term capital exports had come to as much as DM 23 billion, far exceeding the domestic scope for raising capital for such purposes. After the revaluation of the Deutsche Mark in the autumn of 1969 and the subsequent shortage of funds in Germany at the beginning of 1970, exports of long-term funds soon went down and in the summer of the same year gave way to net capital imports, since from then on, owing to the United States' deliberate adoption of a policy of cheap money, the interest rate level in Germany was always higher than that on international credit markets, in spite of several cuts in the discount rate. This interest rate differential still existed in 1971; in addition, as unrest on the foreign exchange markets grew, foreign demand for medium and long-term Deutsche Mark assets increased on grounds of exchange rate speculation. With the de facto revaluation of the Deutsche Mark as from May 1971 this motive seems to have declined in importance, at least temporarily. But the relative liquidity shortage in Germany again encouraged long-term capital imports, the more so as there were no longer any short-term capital imports.

Banks import long-term funds

German banks, in particular, tried to reduce the dearth of liquidity by importing longer-term funds; in 1971, mainly in the summer months, they raised DM 2.7 billion (net) of long-term credit abroad, as against DM 0.5 billion in 1970. The banks' choice of "long-term" engagements was probably dictated not so much by real long-term financing requirements as by the fact that credits with a maturity of four years and more are not subject to the minimum reserve regulations, and hence not to the reserve on the growth of external liabilities introduced by the Bundesbank with effect from December 1, 1970, which made borrowing abroad for periods of less than four year uninteresting in cost terms. Similar motives may be assumed for banks' sales of longer-term assets to non-residents, for such sales do not affect the liabilities side of the banks' balance sheets, to which alone the minimum reserve regulations apply. The scale on which banks sold longer-term assets to non-residents can be ascertained in a reasonably reliable manner only in the case of foreign assets previously owned by the banks: in 1971 an amount of about DM 600 to 700 million was involved. But banks certainly sold German assets to non-residents, too.

Balance of payments



1) Excluding the depreciation of monetary reserves due to the DM revaluation of October 1969 (DM 4.1 billion) and the fixing of central rates in December 1971 (provisionally DM 6.0 billion) and excluding allocation of special drawing rights (1970 to 1972: DM 2.0 billion).- 2) DM revaluation of October 1969.- 3) Floating of DM rate in May 1971.- 4) Realignment of exchange rates at the Washingten monetary conference in December 1971.

Borrowing by trade and industry

Enterprises' long-term debt vis-à-vis foreign countries likewise rose in 1971. Statistically recorded direct loans raised abroad came to nearly DM 3.5 billion (net) in that year, as against DM 1.2 billion a year before. Apart from the conversion of short-term financial credits into long-term loans, this amount also includes the borrower's note loans issued by domestic enterprises which were first purchased by German banks and then sold to non-residents.

Security transactions

In security transactions with the rest of the world there was also a net inflow of funds in 1971. As regards transactions in German securities, non-residents bought a total of DM 1.6 billion of German fixed interest securities in 1971, that is, twice as many as in 1970. German fixed interest securities are liable to coupon tax for non-residents (and refunds under double taxation conventions have obviously not been made in all cases), so that the most important motive for purchasing them appears to have been the urge to switch into Deutsche Mark. In addition, non-residents purchased DM 0.4 billion of German shares and investment fund units for investment purposes (DM 0.5 billion in 1970). At the same time German investors (banks, enterprises and households), which in 1970 increased their holdings of foreign securities (including portfolio investments in foreign shares) by DM 2 billion, ran down their investments in foreign assets by DM 0.5 billion in 1971, primarily by selling foreign Deutsche Mark bonds (DM 1 billion).[1] All in all, security transactions with the rest of the world in 1971 (excluding direct investment through the acquisition of shares) resulted in an inflow of funds totalling DM 2.5 billion, whereas in 1970 about DM 0.7 billion of German capital had, on balance, been exported in this way. The very extensive transactions in foreign Deutsche Mark bonds which took place exclusively between non-residents — as both issuers and purchasers — have not been included, as they do not affect the German balance of payments (see page 72 in the section "Capital market").

Steep rise in foreign direct investment in Germany

Whereas from 1968 to 1970 — in contrast to earlier years — German direct investment abroad had been larger than the corresponding foreign investment in Germany, this relationship reversed again in 1971. In that year foreign direct investment in German enterprises (except banks) rose much more steeply, at DM 3.1 billion, than in 1970 (DM 1.4 billion). Apart from the acquisition of branches and subsidiaries in German, it mainly took the form of channelling new capital and reserves to enterprises in which there were already foreign majority interests; in many cases these funds were reinvested profits. In addition, previously extended short-term credits were converted into long-term loans or capital resources on a considerable scale. A particularly sharp increase was recorded in direct investment by U.K. firms (DM 0.9 billion, as against DM 0.3 billion in 1970), but enterprises in Switzerland (DM 0.3 billion in 1971) and the United States (DM 1.2 billion in 1971) also invested more funds in their German branches and subsidiaries than in 1970. These investments were often made against the interest rate differential, which confirms once more that trade investments are usually determined by the prospects of a return in the longer run and not so much by the current situation on national credit markets. In 1971 German enterprises' new direct investment abroad, at DM 2.2 billion, did not quite reach the 1970 figure (DM 2.4 billion). The data on German direct investment are based on transaction reports, which are incomplete to the extent that the reinvestment of profits in German enterprises abroad is covered very imperfectly. For this reason the amount given here is certainly too small and not fully comparable with that for foreign direct investment in Germany.

Continued official long-term capital exports

In contrast to the long-term capital transactions of the private sector, official capital transactions, in which liquidity and interest rate considerations play only a subordinate role, did not change materially as compared with the year before. In 1971 there were again net capital exports, namely of DM 2.3 billion (DM 2.5 billion in 1970). Some DM 700 million of that amount was accounted for by long-term credits to the United States extended by the German Government under the U.S.-German foreign exchange offset agreement of 1969, which expired at the end of June 1971. The major part of the official long-term capital exports consisted of loans to developing countries, just as in earlier years: long-term direct lending to these countries by the Federal Government in 1971 came to DM 1.2 billion. Furthermore, the Federal Government paid a first instalment of DM 237 million towards the increase in capital of the International Development Association (IDA); indirectly these funds benefit the developing countries, too. Germany's total payments to developing countries, which in conformity with the definitions of the Development Assistance Committee of the OECD (DAC) include some private capital exports and expenditure on technical assistance as well as official lending,

1 At end-1971 Deutsche Mark bonds of foreign issuers with a nominal value of almost DM 23 billion were outstanding; according to the balance of payments statistics about DM 9 billion of that amount (= 40 % of the bonds outstanding) was in the hands of German investors and some DM 14 billion (60 %) in the hands of foreign investors.

came to DM 6.7 billion in 1971 according to provisional calculations; this corresponds to 0.88 % of gross national product or 1.15 % of national income. In the preceding year German development aid had amounted to DM 5.5 billion (0.80 % of gross national product or 1.04 % of national income). The rise of DM 1.2 billion in development aid in 1971, as compared with the previous year, is in part due to increased official payments, but chiefly to larger payments by trade and industry, which mainly stepped up guaranteed export credits.

(c) Short-term capital transactions

Great fluctuations in short-term capital transactions

The major part of the – at times – dramatic monetary events of 1971 were reflected, as far as the Federal Republic of Germany was concerned, in short-term capital transactions. The first stage was marked by large liquidity and interest-induced short-term money inflows into Germany. This stage began as early as 1970, although the situation did not become acute until the spring of 1971. The picture changed abruptly with the floating of the Deutsche Mark. Money stopped flowing into Germany and began to flow back abroad; and the reflux continued on the eruption of the international monetary crisis in August and during the months thereafter. After the return to fixed exchange rates – within the wider margin agreed at the Washington monetary conference in December 1971 – there were again imports of short-term capital at times.

Great importance of short-term capital movements in the enterprises sector

These alternating movements in short-term capital transactions were predominantly due to the raising and repayment of loans by trade and industry, and not so much to that of banks, because their borrowing abroad was hampered by the growth reserve. From the spring of 1970 to May 1971 domestic enterprises (except banks, but including subsidiaries and branches of foreign firms) raised over DM 14 billion of short-term financial credits abroad, DM 7.6 billion of that sum in the first five months of 1971 alone. As may be seen from a breakdown of capital imports by the lenders' countries of residence, the major part of the financial credits raised between the beginning of 1970 and May 1971 stemmed from the Euro-money market. In this period German enterprises' liabilities for short-term financial credits vis-à-vis the United Kingdom and Switzerland (two countries whose banks conduct a considerable part of all Euro-money market transactions) grew by almost DM 6.0 billion. Borrowing from Belgium-Luxembourg was also substantial; domestic enterprises received no less than DM 3.4 billion from that source, a considerable part being played by the lending of German banks' branches and subsidiaries in Luxembourg, most of which were established after 1968. The short-term financial credits raised in the Netherlands and France amounted to DM 1.6 billion and DM 0.9 billion, respectively. Direct borrowing by German firms in the United States was comparatively small, at DM 1.8 billion, but this picture must be supplemented in so far as the statistics have to be based on the country of residence of the legal creditors of the German debtors. Economically speaking, that is, in terms of the original provenance of the short-term funds, the United States was presumably the most important source of funds, for the policy of cheap money pursued there had the result that U.S. banks rendered the Euro-money market extremely liquid by repaying funds raised earlier and thus made a major contribution to creating the liquidity that enabled European banks to lend to German enterprises. At the end of May 1971 the liabilities of U.S. banks to their branches abroad came to only \$ 1.6 billion, compared with some \$ 13 billion at the beginning of 1970.[1]

Less short-term borrowing by banks

In contrast to enterprises, banks raised only DM 1 billion (net) of short-term funds between the spring of 1970 and the spring of 1971, in spite of sometimes large fluctuations. Their borrowing was of a similar size in the calendar year 1971. Banks' external claims were reduced by only about DM 100 million – over the year as a whole – which suggests that in the longer term banks are trying to hold or return to the positions obtained in the field of foreign exchange investment policy and in short-term lending business with foreign customers. The increase in banks' short-

1 Some of the funds flowing to U.S. banks' branches abroad as a result of the repayment of loans by the parent companies were temporarily mopped up by the branches' taking into their portfolios U.S. Treasury and U.S. Export-Import Bank notes, which were offered to them from the beginning of 1971 on special terms. By mid-1971 the foreign branches of U.S. banks held some \$ 3 billion of such notes, but by the end of October 1971 they had been redeemed in full.

Statistically recorded short-term capital transactions

Millions of Deutsche Mark (net capital exports: –)

Item	Calendar years 1969	1970	1971	Periods before and after the floating of the Deutsche Mark: Beginning of 1970 to May 1971	Jan./May 1971	June/Dec. 1971 1
Banks	+ 4,325	+ 7,927	+ 1,174	+ 3,939	— 3,988	+ 5,162
Claims	— 2,648	+ 99	+ 87	— 3,001	— 3,100	+ 3,187
Liabilities	+ 6,973	+ 7,828	+ 1,087	+ 6,940	— 888	+ 1,975
Enterprises (short-term financial credits only) 2	— 235	+ 6,454	— 1,383	+14,045	+ 7,591	— 8,974
Claims	— 1,017	— 587	+ 573	— 61	+ 526	+ 47
Liabilities						
(a) Total	+ 782	+ 7,041	— 1,956	+14,106	+ 7,065	— 9,021
(b) by domicile of foreign creditor 3						
Belgium-Luxembourg	— 19	+ 1,592	— 446	+ 3,417	+ 1,825	— 2,271
France	— 35	+ 582	— 326	+ 909	+ 327	— 653
Netherlands	— 313	+ 1,025	— 5	+ 1,639	+ 614	— 619
Switzerland	— 258	+ 1,753	— 171	+ 3,257	+ 1,504	— 1,675
United Kingdom	+ 360	+ 967	— 705	+ 2,621	+ 1,654	— 2,359
United States	+ 527	+ 713	— 382	+ 1,808	+ 1,095	— 1,477
Other countries	+ 520	+ 409	+ 79	+ 455	+ 46	+ 33
Official	— 29	— 428	+ 1,038	+ 535	+ 963	+ 75
Total	+ 4,061	+13,953	+ 829	+18,519	+ 4,566	— 3,737
Memorandum item:						
Balancing item of the balance of payments	+ 2,520	+ 8,234	+ 8,503	+20,502	+ 12,268	— 3,765

1 As a rule, short-term capital movements are strongly influenced by seasonal factors around the turn of the year. These special influences lead in December to net capital imports in the banking sector and net capital exports in the enterprises sector, usually followed by movements in the opposite direction in January. – **2** Trade credits and other unrecorded transactions are reflected in the "Balancing item of the balance of payments", which is shown as a memorandum item. – **3** Classification by country of residence of the legal creditor of the German debtor.

term external liabilities was small (DM 1.1 billion), not least because of the minimum reserve regulations, which render borrowing abroad considerably dearer, and because of the ban decreed on May 9, 1971 on the payment of interest on non-residents' deposits. As already mentioned, banks resorted to other means of procuring funds abroad, partly for this reason (see page 99). In official short-term capital transactions in 1971 there were net capital imports of DM 1 billion, mainly due to the reduction of claims arising from previous advance payments for arms imports; these movements did not present any major monetary problems.

Disturbance of monetary policy by non-banks' short-term money movements

Elsewhere in this Report it has been explained in detail what impact the short-term money imports – in 1971 mainly those of non-banks – had on liquidity and to what extent they rendered the Bundesbank's monetary policy ineffective. One reason why this development could not be checked by using monetary tools – if exchange rate measures are disregarded for the moment – is that in Germany there was no instrument for influencing non-banks' capital movements across national boundaries which was roughly comparable to the minimum reserve regulations applying to banks (including the special minimum reserve on the growth of external liabilities). The suspension of mandatory Bundesbank interventions by the Federal Government in May 1971 and the resultant floating of the Deutsche Mark exchange rate modified the situation, in so far as capital imports (and other foreign exchange transactions) no longer necessarily led to a change in the monetary reserves, with all its implications for liquidity, but instead resulted in corresponding exchange rate movements – unless the Bundesbank intervened voluntarily. With the steady de facto revaluation of the Deutsche Mark the money movements in the non-banking sector soon reversed direction, not least perhaps because non-residents were hoping for larger speculative profits when employing their funds in other currencies which were still traded at unchanged and fixed exchange rates. Between June and December 1971 German enterprises repaid DM 8 billion of short-term financial credits to non-residents and converted DM 1 billion of short-term credits into long-term loans and capital resources. The pace of the outflows slowed down, however, from August/September onwards; the reflux slackened as soon as other countries

Monetary reserves of the Deutsche Bundesbank *

(including German reserve position in IMF and special drawing rights)

Millions of Deutsche Mark

Item	Change 1967	1968	1969 *	1970	1971 * Total	Jan. 1 to floating	May 10 to Dec. 31	Total at March 31, 1972
Gold	— 257	+ 1,246	— 1,662	— 365	+ 353	+ 179	+ 174	14,689
U.S. dollar investments	+ 202	+ 50	— 4,980	+26,337	+15,222	+18,108	— 2,886	40,850
Other foreign exchange balances	+ 370	+ 1,530	+ 1,518	— 3,445	+ 82	+ 162	— 80	223
Other financial investments abroad 1	+ 1,000	+ 2,500	— 700	— 2,000	— 200	—	— 200	2,249
short-term	—	— 200	— 1,200	—	—	—	—	—
medium-term	+ 1,000	+ 2,700	+ 500	— 2,000	— 200	—	— 200	2,249
Reserve position in IMF and special drawing rights	— 821	+ 1,854	— 4,455	+ 3,198	+ 1,281	+ 847	+ 434	6,286
Drawing rights within the gold tranche	— 101	+ 442	— 2,560	+ 2,255	+ 560	+ 137	+ 423	3,963
GAB credits	— 720	+ 1,412	— 1,895	—	—	—	—	—
Special drawing rights 2	—	—	—	+ 943	+ 721	+ 710	+ 11	2,323
World Bank obligations	—	+ 196	— 65	+ 379	+ 272	+ 94	+ 178	2,325
Other external assets	— 89	— 88	— 88	— 64	+ 35	+ 50	— 15	125
External liabilities (Increase: —)	— 545	— 279	+ 170	— 1,390	— 60	+ 73	— 133	3,511
Total reserves (net)	— 140	+ 7,009	—10,262	+22,650	+16,985	+19,513	— 2,528	63,236

* The net change in monetary reserves shown in the balance of payments (see the table "Main items of the balance of payments" on page 96 of this Report) under "Foreign exchange balance" includes for 1969 the depreciation of the monetary reserves due to the DM revaluation of October 1969 (DM 4,099 million) and for 1971 the depreciation in foreign currency assets and liabilities due to the fixing of central rates in December 1971 (DM 5,996 million). — 1 The investments result from payments made by Deutsche Bundesbank under the foreign exchange offset agreements with the United States and the United Kingdom. — 2 DM 738 million of which was allocated on January 1, 1970, DM 627 million on January 1, 1971 and DM 620 million on January 1, 1972.

adopted flexible exchange rates following the suspension of dollar convertibility and increasingly revalued their currencies in relation to the U.S. dollar – that is, when the prospects of achieving speculative profits in the more distant future diminished. After fixed parities, though with wider margins, had in effect been re-introduced with the realignment of exchange rates, the interest rate differential between Germany and other countries, which had increased if anything in spite of the new relaxation of monetary policy in Germany, again assumed a more important role. Money and capital imports into Germany were resumed, the dollar rate in terms of the Deutsche Mark approached the lower intervention point of the wider margin and the Bundesbank felt obliged to intervene on the spot foreign exchange market. Under the impact of these trends the discount rate was lowered on February 25, 1972 and the cash deposit requirement on certain loans raised abroad by non-banks and banks was introduced.

Owing to the large repayments of financial credits during the Deutsche Mark float and immediately after the currency realignment of mid-December 1971 the efflux of short-term funds in the calendar year 1971 came to DM 1.4 billion. It is likely that trade credits, which are greatly influenced by changes in the terms of payment, tended to develop along the same lines as financial credits. This is suggested by the fact that the balancing item of the balance of payments, in which these credit transactions as well as other unidentified external transactions are reflected, showed a surplus (an indication of capital imports) of more than DM 20 billion between the spring of 1970 and May 1971 and a deficit (an indication of capital exports) of DM 3.75 billion between June and December 1971. Over the whole of 1971 the balancing item was DM 8.5 billion in surplus; it must be assumed, however, that a substantial part of this amount was due to unidentified current transactions. Particularly in the period of flexible exchange rates the "balancing item" was also greatly influenced by the fact that the rates at which current and capital transactions were converted into Deutsche Mark for the purposes of the foreign trade and balance of payments statistics differed from the rates at which the Bundesbank purchased or sold foreign exchange.

Rise in reserves in 1971 only up to the floating of the Deutsche Mark

In 1971 the Bundesbank's monetary reserves rose by DM 17 billion through current and capital transactions, which including the balancing item of the balance of payments yielded a surplus of DM 16.4 billion, and through the allocation of special drawing rights (DM 0.6 billion), compared with an increase of DM 22.7 billion in 1970. The rise occurred primarily in the period between the beginning of 1971 and the floating of the Deutsche Mark rate on May 10, 1971, when the reserves grew by nearly DM 20 billion. During the Deutsche Mark float, which lasted virtually until the end of 1971, a net amount of DM 2.5 billion flowed back abroad. The new valuation of the foreign currency claims and liabilities effected in December 1971 in connection with the fixing of central rates resulted in the value of the Bundesbank's reserves being reduced by DM 6.0 billion as a consequence of the value adjustments made until then. The corresponding details – also on the still pending new valuation of gold holdings, drawing rights within the gold tranche in the International Monetary Fund, and special drawing rights – and details regarding the cover of the compensatory amount which thus had to be entered in the Bundesbank's balance sheet may be seen in Part B of this Report "Notes on the Deutsche Bundesbank's annual accounts for 1971" (mainly pages 129, 143 and 146).

The main increase in 1971 was in the dollar balances of the Bundesbank, which went up by over DM 15 billion (without allowing for the loss in value as a result of the revaluation). The Bundesbank invested all the newly accrued dollars in the United States, and not, for instance, partly on the Euro-dollar market. It thus neither exerted pressure on interest rates on the Euro-market nor stimulated a further expansion of international liquidity, such as occurs whenever central banks invest dollars outside the United States and the borrowing banks exchange these dollars for national currency at their central bank. The relatively small dollar investments of the Bundesbank outside the United States (for example, at the Bank for International Settlements) were in fact cut down in 1971. Further details on the level and composition of monetary reserves may be seen from the table opposite.

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

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Revision of legislation in the field of mortgage loans

In 1971 the work on the revision of mortgage law (parliamentary 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) was continued. The Bundesrat expressed its opinion on January 29, 1971. After the Federal Cabinet had given a reply, the bills were passed on to the Bundestag for decision. At present they are being dealt with in the appropriate parliamentary committees.

Law to Amend the Banking Law

On December 24, 1971 the

Law to Amend the Banking Law of December 23, 1971 (Federal Advertiser I, page 2139)

entered into force. The Amendment provides that the maximum amount which may be withdrawn, without notice, within thirty interest-days from savings deposits at statutory notice be raised from DM 1,000 to DM 2,000 (Art. 22, para. 1, sentence 2 of the Banking Law).

Principles concerning capital resources and liquidity of banks

The revision of the principles which was 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 processed in 1971 some 50,200 (1970: 43,000) individual reports on large-scale credits under Art. 13, para. 1, sentence 1, Banking Law, and the summaries required by the Federal Banking Supervisory Office under Art. 13, para. 1, sentence 4, Banking Law, in respect of reportable large-scale credits.

In 1971 the Land Central Banks processed only about 9,000 (1970: 9,400) annual accounts. This drop was principally due to the decline in the number of banks as a result of mergers. Similarly, fewer monthly returns under Art. 25 of the Banking Law were received (about 48,100 against 49,500 in 1970), since the number of institutions reporting for the monthly balance sheet statistics decreased as well.

The Land Central Banks received in the year under review about 7,100 (1970: 7,500) reports under Art. 24, Banking Law, notifying changes in management or form of organisation, interests in other banks, establishment of branches, etc.

In addition, the Land Central Banks handled about 700 reports on security deposit audits in the year under review.

The number of reports under Art. 14, Banking Law, received by the information centre for credits of DM 1 million or over at the Central Office of the Deutsche Bundesbank continued to rise strongly. In 1971 roughly 398,800 (1970: 352,800) such reports were processed. At the return date of November 30, 1971 about 70,400 reports under Art. 14, Banking Law, were filed by 1,528 (end-November 1970: 1,372) banks and 349 (end-November 1970: 347) insurance institutions, including social security funds and the Federal Labour Office. When evaluating these reports about 6,000 (end-November 1970: 5,800) 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. About 15,000 (end-November 1970: 12,400) borrowers were indebted to only one lender.

At the return date of November 30, 1971, roughly DM 244.2 (end-November 1970: 206.5) billion of credits of DM 1 million or over were reported; of this amount, some DM 185.1 (end-November 1970: 156.7) billion was accounted for by enterprises and individuals, and the remainder by banks and public authorities, whose indebtedness towards banks and insurance institutions is subject to reports under Art. 14, Banking Law, to a limited extent only.

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 115 "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 November 24, 1971, see page 115 "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.

(b) Lombard advances (advances against securities)

Lombard advances (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 lombard advances, and does not limit the Bank's right to determine the cover to be provided by the borrower.

The question of whether a lombard advance can be granted will be decided according to the general credit situation and the individual circumstances of the would-be borrower. In principle a lombard advance is to be granted only where the object is to meet for a short period a temporary need for liquidity, and where the lombard borrowing appears appropriate and justifiable as regards both size and period.

"Danger mark"

It can as a rule be assumed that utilisation of lombard advances is excessive in size and period if in one calendar month a bank takes up lombard advances, on daily average, to an amount exceeding 20 % of the rediscount quota laid down for the bank in question (see below). In such a case the bank will be asked by the competent Land Central Bank or the Central Office of the Deutsche Bundesbank to explain its lending policy and at the same time to indicate the manner in which it intends to change its conduct in order to avoid excessive recourse to lombard advances in the future (decisions of December 17/18, 1952 and August 12, 1970).

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. Lombard advances) apply to the granting of lombard advances.

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 a maximum remaining life of 29 days (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 lombard advances 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 und 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 entire period under review the minimum reserve on the growth of external liabilities remained in force. This regulation, introduced on December 1, 1970, imposed an additional reserve ratio of 30 % on the growth of external liabilities over and above the level of November.

In order to neutralise at least part of the increase in the banking system's liquidity caused by the inflow of foreign exchange up to the suspension of mandatory interventions on the foreign exchange market, on June 2, 1971, with effect from June 1, 1971, the Central Bank Council raised the minimum reserve ratios for reserve-carrying domestic liabilities by 15 % across the board and simultaneously fixed the reserve ratios for the total of external liabilities at twice the level of the ratios for domestic liabilities.

By its decision of October 13, 1971, to reduce the reserve ratios for domestic liabilities by 10 % with effect from November 1, 1971, the Central Bank Council took account of the relaxation becoming apparent in the domestic economy.

As part of the easing of monetary policy decided on by the Central Bank Council on December 22, 1971 in order to support the realignment of parities, the reserve ratios for domestic liabilities were reduced by a further 10 % with effect from January 1, 1972. In the decisions of October 13 and December 22, 1971 the reserve ratios for the total and the growth of liabilities towards non-residents remained unchanged to stem the influx of foreign funds.

It was also with the above-mentioned objective in mind that the Central Bank Council took the decisions of February 24, 1972. In order further to reduce the incentive for foreign funds to flow into Germany, the additional reserve ratio for the growth of external liabilities was raised from 30 % to 40 % with effect from March 1, 1972. At the same time the base for calculating the growth reserve was modified, for in the course of 1971 the total of banks' external liabilities had dropped markedly below the base level of November 1970. To preclude the possibility of banks taking in foreign funds without being affected by the growth reserve, since March 1, 1972 calculation of the growth has been based on the level of external liabilities as of November 1971; in order to avoid hardships, however, any resultant reduction of the base amount is not to exceed 20% of the base level of November 1970.

To prevent circumvention of the minimum reserve requirement, on March 9, 1972 the Central Bank Council stipulated by amending Art. 8, para. 2 of the Deutsche Bundesbank's Order on Minimum Reserves (MRO), that from April 16, 1972 banks with reserve-carrying liabilities of DM 10 million and over must calculate the monthly average of their sight liabilities to non-residents not on the basis of four return dates, as hitherto, but on the basis of all calendar days of the month. All other liabilities may continue to be computed on the basis of four return dates.

No other amendments were made to the MRO during the period under review.

The Deutsche Bundesbank's Order on Minimum Reserves of November 11, 1968, as amended on April 16, 1972

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

I. General provisions

Article 1

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

(2) Not subject to the reserve obligation are

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

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

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

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

(e) for one calendar year on each occasion those banks which practise long-term lending as a permanent branch of business, and with which, according to the returns for the monthly balance sheet statistics, 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).

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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.

(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 of the liabilities subject to the reserve requirement can instead be calculated 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.

Calculation according to sentence 1 is inadmissible for the sight liabilities to non-residents of banks with reserve-carrying liabilities of DM 10 million and over. It may also 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 paras. 1 to 3 falls on a non-business day, then for the total of the liabilities subject to the reserve requirement on that day the total at the close of the previous business day shall be taken.

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

Article 9

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

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

Article 10

IV. Special interest

(1) If in any month a bank's actual reserve falls short of its required reserve the said bank shall for 30 days pay 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.

Article 11

V. Reserve statement

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

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

individual offices or branches. At the request of the Land Central Bank such breakdown has to be made for the time fixed by it.

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

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

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

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

VI. Entry into force

Article 12

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

Deutsche Bundesbank

Blessing　　Dr. Gocht

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

Applicable from			Discount rate 1	Lombard rate (rate for advances against securities)	Special rate of interest charged to banks for failure to meet the minimum reserve requirement
			% per annum	% per annum	% per annum above lombard rate
1948	July	1	5	6	1
	Dec.	1	5	6	3
1949	May	27	$4\frac{1}{2}$	$5\frac{1}{2}$	3
	July	14	4	5	3
1950	Oct.	27	6	7	3
	Nov.	1	6	7	1
1951	Jan.	1	6	7	3
1952	May	29	5	6	3
	Aug.	21	$4\frac{1}{2}$	$5\frac{1}{2}$	3
1953	Jan.	8	4	5	3
	June	11	$3\frac{1}{2}$	$4\frac{1}{2}$	3
1954	May	20	3	4	3
1955	Aug.	4	$3\frac{1}{2}$	$4\frac{1}{2}$	3
1956	March	8	$4\frac{1}{2}$	$5\frac{1}{2}$	3
	May	19	$5\frac{1}{2}$	$6\frac{1}{2}$	3
	Sep.	6	5	6	3
1957	Jan.	11	$4\frac{1}{2}$	$5\frac{1}{2}$	3
	Sep.	19	4	5	3
1958	Jan.	17	$3\frac{1}{2}$	$4\frac{1}{2}$	3
	June	27	3	4	3
1959	Jan.	10	$2\frac{3}{4}$	$3\frac{3}{4}$	3
	Sep.	4	3	4	3
	Oct.	23	4	5	3
1960	June	3	5	6	3
	Nov.	11	4	5	3
1961	Jan.	20	$3\frac{1}{2}$	$4\frac{1}{2}$	3
	May	5	3	2 4	3
1965	Jan.	22	$3\frac{1}{2}$	$4\frac{1}{2}$	3
	Aug.	13	4	5	3
1966	May	27	5	$6\frac{1}{4}$	3
1967	Jan.	6	$4\frac{1}{2}$	$5\frac{1}{2}$	3
	Feb.	17	4	5	3
	April	14	$3\frac{1}{2}$	$4\frac{1}{2}$	3
	May	12	3	4	3
	Aug.	11	3	$3\frac{1}{2}$	3
1969	March	21	3	4	3
	April	18	4	5	3
	June	20	5	6	3
	Sep.	11	6	$7\frac{1}{2}$	3
	Dec.	5	6	9	3
1970	March	9	$7\frac{1}{2}$	$9\frac{1}{2}$	3
	July	16	7	9	3
	Nov.	18	$6\frac{1}{2}$	8	3
	Dec.	3	6	$7\frac{1}{2}$	3
1971	April	1	5	$6\frac{1}{2}$	3
	Oct.	14	$4\frac{1}{2}$	$5\frac{1}{2}$	3
	Dec.	23	4	5	3
1972	Feb.	25	3	4	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 $\frac{3}{4}$ % per annum was granted to banks in respect of the lombard advances 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 x				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
1971 June	1	15.85	14.65	13.4	12.2	12.2	11	9.75	8.55	11	9.75	8.55	7.3
Nov.	1	14.3	13.2	12.1	11	11	9.9	8.8	7.7	9.9	8.8	7.7	6.6
1972 Jan.	1	12.85	11.9	10.9	9.9	9.9	8.9	7.9	6.95	8.9	7.9	6.95	5.95
		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
1971 June	1	31.7	29.3	26.8	24.4	24.4	22	19.5	17.1	22	19.5	17.1	14.6
1972 March	1	31.7	29.3	26.8	24.4	24.4	22	19.5	17.1	22	19.5	17.1	14.6

* Reserve ratios applying until end-January 1961 were last published in the Report for the Year 1969. — **1** By way of divergence, 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 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 and 10 % in the case of savings deposits. This regulation applied to the growth reserve on liabilities to non-residents

Savings deposits: Bank places 1, x	Savings deposits: Non-bank places	Growth of liabilities: Sight liabilities	Growth of liabilities: Time liabilities	Growth of liabilities: Savings deposits	Explanatory 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 the average level of the months April to June 1970 **3**	Sep. 1
7.05	5.9					Dec. 1
8.1	6.75	no special ratios				1971 June 1
7.3	6.1					Nov. 1
6.55	5.45					1972 Jan. 1

Savings deposits: Bank places 1, x	Savings deposits: Non-bank places	Growth of liabilities: Sight liabilities	Growth of liabilities: Time liabilities	Growth of liabilities: Savings deposits	Explanatory notes on the growth reserve regulations	Applicable from
9	7.5	30	20	10	Reserve ratios for growth over 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 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 the level of November 15, 1968 or January 15, 1969 **3**	Feb. 1
4.7	3.9	100			Reserve ratio for growth over 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 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 the average level of the months April to June 1970 **3**	Sep. 1
7.05	5.9	30			Additional reserve ratio for growth over the average level of the return dates October 23 and 31, and November 7 and 15, 1970	Dec. 1
16.2	13.5	30				1971 June 1
16.2	13.5	40			Additional reserve ratio for growth over the average level of the return dates October 23 and 31, and November 7 and 15, 1971 or over the average level, diminished by 20 %, of the corresponding return dates of 1970	1972 March 1

until end-August 1969 only. — **4** Since the coming into force of the Foreign Trade and Payments Law, non-residents within the meaning of Art. 4 of that Law. — **5** These ratios applied only to liabilities up to the basic level listed in the column "Explanatory 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 credits availed of by customers with third parties abroad. Up to this level the liabilities in question remained exempt from the reserve requirement also during the period mentioned. — **x** "Bank places" are places at which there is an office or branch of the Deutsche Bundesbank.

III. Foreign exchange policy regulations

Foreign trade and payments

In order to ward off speculative foreign funds, the restrictions on the sale of domestic money market paper to foreigners and on "en pension" transactions in domestic bonds with foreigners (Art. 52, Foreign Trade and Payments Order) – which restrictions had been in force up to the end of 1969 – along with the obligation to obtain permission to pay interest on non-residents' credit balances (Art. 53, Foreign Trade and Payments Order) were reintroduced with effect from May 10, 1971 by the 20th Regulation to Amend the Foreign Trade and Payments Order. Article 52 of that Order was reintroduced in its original wording, Article 53 with the proviso that the payment of interest on savings deposits of non-resident natural persons also be made subject to approval whenever such deposits exceed the amount of DM 50,000.

No permits for the conclusion of security transactions under Art. 52, Foreign Trade and Payments Order, were granted and permission for the payment of interest on foreigners' accounts was given only in special cases.

By the Law to Amend the Foreign Trade and Payments Law of December 23, 1971 (Federal Advertiser I, page 2141) the Federal Government was authorised to stipulate by statutory order that residents have to deposit in Deutsche Mark a fixed percentage of their liabilities arising from direct or indirect borrowing from non-residents on a non-interest-bearing account with the Deutsche Bundesbank for a specified period (deposit requirement). The Federal Government made use of this authorisation by issuing the 21st Regulation to Amend the Foreign Trade and Payments Order of March 1, 1972. By statutory order of the same date the Deutsche Bundesbank fixed the deposit ratio at 40 % of the liabilities subject to the deposit requirement. The introduction of a cash deposit in respect of external liabilities is intended to impose a burden on that part of residents' foreign borrowing which is not subject to the minimum reserve obligation. From March 1 residents' liabilities towards non-residents over and above an exemption limit of DM 2 million are subject to the cash deposit requirement, except for such liabilities as are expressly exempted. Reports on the liabilities concerned and on the deposit amount computed therefrom are to be submitted to the Land Central Banks not later than the twentieth day of the calendar month following the reference month.

Interzonal trade

The annual turnover in intra-German clearing transactions and the balance resulting from the settlement of these transactions at December 31, 1971 are shown in Part B, page 139 (Annual accounts – Assets – Other claims).

Departing from the previous procedure, 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 1972 swing will again be equivalent to 25 % of all credit entries made in the clearing accounts with the Bundesbank in 1971, and will thus amount to 585 million units of account.

Section E, II, 6 of the Deutsche Bundesbank's general licence concerning trade and payments with the currency area of the Deutsche Mark (East) was modified (Bulletin No. 6001/71), to the effect that assignments of security and forfeitures are generally permitted only if periods for payment not exceeding 180 days are agreed for the claims assigned.

Part B: Notes on the Deutsche Bundesbank's annual accounts for 1971

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.

Classification of annual accounts

The classification of the annual balance sheet and the designation of the balance sheet items were largely brought into line with the modified classification scheme used for the weekly return from the beginning of the year under review. In view of the different purposes of the balance sheet, the individual asset items were not grouped as they are in the return.

In comparison with the 1970 balance sheet, the principal alteration on the assets side is that the equalisation claims are recorded gross; the Treasury bills and discountable Treasury bonds of the Federal Republic of Germany (mobilisation paper pursuant to Art. 42, Bundesbank Law) sold by the Bank are no longer deducted from the equalisation claims but are shown on the liabilities side together with the liquidity paper issued for the first time in the year under review in accordance with Art. 42 (a), Bundesbank Law (Federal Treasury bills and discountable Treasury bonds) in the new liability item 5

Liabilities for mobilisation
and liquidity paper sold.

On the liabilities side of the balance sheet, capital and reserves are no longer shown in first position, but at the end, in keeping with the order in the weekly return. First place is now taken by bank notes in circulation, followed by deposits and other liabilities. Deposits, with their various sub-items, fall into the following three groups:

Deposits of banks
Deposits of public authorities
Deposits of other German depositors.

Valuation

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

After the fixing of central rates (decision of the Federal Cabinet of December 21, 1971) the Bank's assets and liabilities in foreign currencies had to be valued anew. For the time being gold, drawing rights within the gold tranche and special drawing rights have been omitted from the new valuation; the depreciation to be expected in these positions once new gold parities have been fixed is covered by other reserves.

2. Conversion account

The combined conversion acount 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, 1971, the Bank's title to allocation of equalisation claims rose by DM 41,319.97 to DM 8,103,642,365.73; 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 notes on the annual accounts for 1971, which are attached as Appendix 2, will as usual follow 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 activities during 1971.

In order to make the balance sheets fully comparable, in the table below the mobilisation paper which was deducted from equalisation claims in 1970 is shown in the same way as it appeared for the first time in the balance sheet as at December 31, 1971.

In relation to the figures for December 31, 1970, as revised in the comparison of balance sheet figures, total assets at December 31, 1971 had increased by DM 13,249.3 million to DM 98,139.4 million.

Comparison of balance sheet figures

Millions of Deutsche Mark

	December 31			December 31	
Assets	1970	1971	Liabilities	1970	1971
Gold	14,340.0	14,688.3	Bank notes in circulation	36,479.7	39,493.8
Balances with foreign banks and money market investment abroad	28,362.1	37,637.6	Deposits of banks	26,250.0	32,609.2
Other investment abroad	2,200.0	2,000.0	Deposits of public authorities		
Reserve position in the International Monetary Fund and special drawing rights			Federal Government	32.2	69.3
Drawing rights within gold tranche position	3,356.8	3,917.5	Equalisation of Burdens Fund and ERP Special Fund	235.8	286.4
Loans under General Arrangements to Borrow	—	—	Länder Governments	1,030.1	510.0
Special drawing rights	942.9	1,663.3	Other public depositors	55.0	66.5
Loans and other claims on the rest of the world			Special deposits		
Loans to World Bank	1,925.2	2,183.8	Anticyclical reserves	2,936.5	4,131.2
Loans from liquidation of EPU	66.8	—	Anticyclical surcharge on income taxes	2,189.1	5,879.3
Other claims	139.2	124.7	Other (Federal education loan)	256.1	—
Foreign notes and coins	2.9	4.0	Deposits of other German depositors		
Foreign bills of exchange 1	2,907.8	1,612.2	Federal Railways	4.0	5.6
Domestic bills of exchange	14,151.8	15,802.0	Federal Post Office	1,629.6	1,735.2
Lombard advances	1,681.9	1,396.3	Other depositors	399.8	486.7
Cash advances (book credits)	2,433.7	2,348.7	Liabilities for mobilisation and liquidity paper sold	7,531.8	6,477.0
Treasury bills and discountable Treasury bonds	284.7	76.6	Liabilities in respect of foreign business	361.0	966.5
Equalisation claims on Federal Government and non-interest-bearing debt certificate in respect of Berlin			Contra-entry to special drawing rights allocated	737.9	1,364.4
Equalisation claims	8,135.6	8,135.7	Provisions	2,370.0	2,402.5
Non-interest-bearing debt certificate	547.2	547.2	Other liabilities	32.2	29.5
Claim on Federal Government in respect of acquisition of claims resulting from post-war economic aid	386.5	41.3	Deferred expenses and accrued income	423.1	256.4
Securities	759.8	587.8	Capital	290.0	290.0
German coins	162.6	251.0	Reserves	860.0	1,079.9
Balances on postal giro account	446.9	366.9	Net profit	786.2	—
Other claims	513.5	650.0			
Land and buildings	256.5	363.9			
Equipment	10.4	14.2			
Items in course of settlement	672.4	214.5			
Other assets	186.2	392.1			
Prepaid expenses and deferred income	16.7	18.7			
Compensatory amount required for new valuation of assets and liabilities in foreign currencies — balance sheet loss —	—	3,101.1			
Total	84,890.1	98,139.4	Total	84,890.1	98,139.4

1 In 1970 this item included foreign cheques; since March 1, 1971 they are only taken in for collection.

Assets

Gold The gold holding, at DM 14,688.3 million at December 31, 1971, is shown DM 348.3 million larger than at December 31, 1970. The new valuation of gold, drawing rights within the gold tranche and special drawing rights is still pending (see also page 129).

Balances with foreign banks and money market investment abroad

Balances with foreign banks and money market investment abroad amounted to DM 37,637.6 million at December 31, 1971 (DM 28,362.1 million at December 31, 1970).

Foreign exchange deals

The Bank's turnover in foreign exchange spot deals (foreign currency against Deutsche Mark) amounted to DM 47,612.0 million in the year under review, against DM 28,915.6 million in 1970; the number of deals increased from 5,093 in the previous year to 5,566. Such deals comprised

	1970		1971	
	Number	DM million	Number	DM million
Purchases	1,958	24,747.2	2,168	25,639.6
Sales	3,135	4,168.4	3,398	21,972.4
	5,093	28,915.6	5,566	47,612.0.

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

In addition, during the year under review the Bank effected 255 cross deals (one foreign currency against another foreign currency) totalling the equivalent of DM 1,565.9 million, as against 291 deals totalling the equivalent of DM 1,272.4 million in the previous year. Furthermore during the year 627 U.S. dollar inter-centre switch transactions amounting to US$ 83.0 million were concluded, as against 501 transactions amounting to US$ 58.3 million in the previous year.

In 1971 U.S. dollar swap deals to the amount of US$ 608.5 million were concluded with domestic banks; there were no commitments at the end of the year.

U.S. dollar forward transactions (outright) with German banks amounting to US$ 2,855.1 million were concluded in the year under review; at the end of the year there were commitments totalling US$ 202.4 million. A provision was formed to take account of the resultant losses.

Sale of foreign cheques

During 1971 2,945 (1970: 2,703) foreign cheques made out to order worth DM 150.5 million (1970: DM 116.7 million) were sold.

In the same period the Bank sold 16,835 traveller's cheques worth DM 2.4 million, compared with 15,547 worth DM 1.9 million in the year before.

Other investment abroad

After premature redemption of the U.K. Treasury bond denominated in Deutsche Mark, the claims recorded in this item diminished from DM 2,200 million to DM 2,000 million.

Reserve position in the International Monetary Fund and special drawing rights

Drawing rights within gold tranche

At December 31, 1971 the drawing rights within the gold tranche amounted to DM 3,917.5 million. This sum is the difference between the German quota of US$ 1,600 million (U.S. dollars of the weight and fineness in effect on July 1, 1944) = DM 5,856 million and the DM 1,811.8 million of resources at the disposal of the IMF; a payment of DM 126.7 million to the Bundesbank which will be explained in the following paragraph has also to be taken into account. Compared with the year before, the gold tranche drawing rights increased by DM 560.7 million: Deutsche Mark drawings by other member countries, gold purchases by the IMF and other transactions totalled DM 1,095.7 million, while Deutsche Mark repayments by other member countries and the raising of the IMF's Deutsche Mark holdings through gold sales to the Bundesbank came to DM 535.0 million.

On July 30, 1971 DM 126.7 million was paid out to the Bundesbank – following the floating of the dollar rate expressed in Deutsche Mark – in accordance with a decision of the IMF taken in 1954 on transactions in fluctuating currencies. On May 19, 1971 the IMF had resolved that the 1954 decision be applied to its operations and holdings in Deutsche Mark, whereas until the floating of the Deutsche

Mark exchange rate on May 10, 1971 all IMF transactions had been settled on the basis of the U.S. dollar parity of the Deutsche Mark. Since then all IMF transactions in Deutsche Mark, except certain technical settlements, have been carried out at the daily middle rate of the U.S. dollar as fixed on the Frankfurt foreign currency exchange; the IMF's Deutsche Mark holdings have been revalued accordingly after every transaction. This revaluation principle was not affected by the fixing of a central rate on December 21, 1971 (US$ 1 = DM 3.2225).

Credits granted under General Arrangements to Borrow

In 1971 no credit was granted to the International Monetary Fund under the General Arrangements to Borrow (GAB) of October 24, 1962.

Special drawing rights

Holdings of special drawing rights (SDRs) at December 31, 1971 amounted to DM 1,663.3 million. Of the DM 720.4 million increase in comparison with 1970, DM 626.6 million represented the second allocation of SDRs of January 1, 1971; the contra-entry on the liabilities side was raised correspondingly to DM 1,364.4 million; the balance consists of SDRs acquired by the Bank during the year under review.

Loans and other claims on the rest of the world

After repayment of DM 66.8 million, representing the balance of the loans from the liquidation of the EPU, this item now shows loans to the World Bank and other claims on the rest of the world.

Loans to World Bank

At DM 2,183.8 million, loans to the World Bank are shown DM 258.6 million higher than at the end of 1970. The principal reason underlying this increase was that new loans were extended to the World Bank to replace those IBRD obligations in the Bundesbank's portfolio which fell due in the year under review.

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 coins
Purchase and sale

At DM 4 million the holding of foreign notes and coins at the end of 1971 was DM 1.1 million larger than at December 31, 1970. During the year under review the Bank effected 45,205 purchases of foreign notes and coins (1970: 36,183) and 22,612 sales of foreign notes and coins (1970: 19,845).

Foreign bills of exchange
Purchase

At the close of 1971 the holding of foreign bills arising from purchase within Germany was DM 1,612.2 million, as compared with DM 2,905.2 million at December 31, 1970.

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

	1970		1971	
Land Central Bank	Number	DM mn	Number	DM mn
Baden-Württemberg	22,959	1,269.1	21,961	1,003.8
Bavaria	15,565	1,802.9	14,388	1,590.2
Berlin	1,142	445.8	709	327.9
Bremen	1,851	270.5	2,021	252.4
Hamburg	7,751	2,166.4	6,658	1,959.8
Hesse	16,489	3,000.1	13,848	2,414.1
Lower Saxony	4,251	591.3	3,623	346.9
North Rhine-Westphalia	27,011	2,773.3	23,841	2,172.6
Rhineland-Palatinate	5,028	294.4	5,484	305.5
Saarland	3,846	669.5	2,815	570.6
Schleswig-Holstein	1,082	237.1	984	89.7
Total	106,975	13,520.4	96,332	11,033.5

The share of Deutsche Mark bills in the total value of foreign bills purchased averaged about 74 % for 1971, against about 72 % for 1970.

Foreign commission business

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

	1970 Number	1971 Number
Bills, cheques, etc.	10,545	9,788
Foreign notes and coins	4,206	5,215
	14,751	15,003.

Domestic bills of exchange

In 1971 banks again made very great use of their rediscount facilities with the Bundesbank. As an average of all return dates, the volume of domestic bills rediscounted in 1971 came to DM 15,993 million, which was only a little below the exceptionally high average for 1970 (DM 16,145 million). After the middle of the year, in particular, purchases of domestic bills rose rapidly. At the end of 1971 the Bank held domestic bills worth DM 15,802.0 million, against DM 14,151.8 million at end-1970. In April and May 1971, however, the rediscount volume had shown a strong temporary decline owing to the inflow of liquidity caused by the international monetary crisis.

Similarly, recourse to the facility granted to the Export Credit Company for rediscounting bills within Limit B continued to be heavy.

	Dec. 31, 1970 DM million	Dec. 31, 1971 DM million
The domestic bill holding comprised		
Domestic bills purchased by way of discount	13,290.3	14,943.0
Prime bankers' acceptances taken in the course of open market operations	861.5	859.0
	14,151.8	15,802.0.

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

Land Central Bank	1970 '000	1970 DM mn	1971 '000	1971 DM mn
Baden-Württemberg	488	10,942.6	474	11,881.4
Bavaria	326	10,072.9	324	11,587.2
Berlin	26	1,913.0	25	2,515.2
Bremen	49	1,670.7	49	1,739.9
Hamburg	112	6,292.0	103	6,776.6
Hesse	372	24,140.2	317	23,789.6
Lower Saxony	195	5,425.2	176	6,388.5
North Rhine-Westphalia	639	21,960.4	605	24,407.7
Rhineland-Palatinate	109	2,733.0	90	2,729.5
Saarland	27	1,503.3	23	1,399.1
Schleswig-Holstein	74	1,832.6	65	1,943.9
Total	2,417	88,485.9	2,251	95,158.6

At DM 42,277 the average amount of the bills purchased in 1971 was above that of the previous year (DM 36,604).

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

	1970 Number	1970 DM million	1971 Number	1971 DM million
	8,612	37.5	6,684	32.7
as % of the total purchased	0.36	0.04	0.30	0.03.

Domestic commission business

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

	Number	DM million
1970	71,429	702.6
1971	64,940	694.2.

Discount rate

The Bundesbank's discount rate for domestic and foreign bills in the year under review stood at 6 % until March 31, at 5 % from April 1, at 4½ % from October 14 and at 4 % from December 23.

Storage Agency bills

During the year under review the Bank's open market operations with Storage Agency bills declined sharply, owing to the smaller amount of such paper outstanding. In 1971 as a whole the Bank purchased Storage Agency bills with a face value of DM 400.0 million (1970: DM 2,282.0 million) in the open market and resold DM 397.3 million nominal (1970: DM 2,168.2 million). No more than DM 2.7 million (1970: DM 224.5 million) was kept in the Bank's portfolio until redemption; at December 31, 1971 – as at the end of 1970 – no Storage Agency bills from open market operations were held by the Bank.

Prime bankers' acceptances

In 1971 the prime bankers' acceptance market again made extensive use of the liquidity assistance afforded by the Bank. The Bank purchased DM 4,630.5 million worth of bills from the Privatdiskont-Aktiengesellschaft (1970: DM 5,786.7 million), DM 1,641.4 million of which (1970: DM 1,271.8 million) were resold to the market via the broker and DM 2,991.6 million (1970: DM 4,736.7 million) presented for payment on maturity. At December 31, 1971 DM 859.0 million (end-1970: DM 861.5 million) of prime bankers' acceptances from open market operations were held by the Bank.

Lombard advances

As in 1970, the Bank's lombard advances (advances against securities) fluctuated very widely. The largest amounts were recorded in June, October and December. As an average of all return dates, lombard advances outstanding totalled DM 1,436 million (1970: DM 1,423 million).

Lombard advances in the Land Central Bank areas

	Lombard advances granted		Outstanding on	
	1970	1971	Dec. 31, 1970	Dec. 31, 1971
Land Central Bank	DM mn	DM mn	DM mn	
Baden-Württemberg	7,804.7	8,661.8	303.7	212.6
Bavaria	2,523.3	5,226.3	84.2	111.2
Berlin	1,081.9	1,489.3	51.8	30.8
Bremen	1,653.9	1,748.1	1.2	4.5
Hamburg	5,545.7	6,583.6	64.4	18.0
Hesse	64,413.7	74,107.8	368.8	368.0
Lower Saxony	4,512.6	5,198.7	340.6	207.4
North Rhine-Westphalia	22,695.7	24,098.0	370.5	303.1
Rhineland-Palatinate	2,956.9	3,188.6	88.3	108.4
Saarland	829.0	665.4	4.4	15.1
Schleswig-Holstein	1,626.3	1,930.2	4.0	17.2
Total	115,643.7	132,897.8	1,681.9	1,396.3

Lombard rate

Until March 31, 1971 the lombard rate was 7½ %; from April 1 it stood at 6½ %, from October 14 at 5½ % and from December 23 at 5 %.

Cash advances (book credit)

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

		DM million
Federal Government	for the Federal Government	6,000
	for the Federal Railways	600
Federal special funds	for the Federal Post Office	400
	for the Equalisation of Burdens Fund	200
	for the ERP Special Fund	50
Länder Governments	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, 1970 Book credit	Treasury bills	Total	Dec. 31, 1971 Book credit 1
Federal Government	1,914.8	—	1,914.8	1,716.8
Federal special funds				
Equalisation of Burdens Fund	107.9	—	107.9	24.8
Federal Railways	100.0	300.0	400.0	—
Länder Governments				
Berlin	134.7	—	134.7	142.7
Hamburg	—	—	—	120.1
Hesse	152.1	—	152.1	172.5
Rhineland-Palatinate	24.2	—	24.2	123.3
Schleswig-Holstein	—	—	—	48.5
Total	2,433.7	300.0	2,733.7	2,348.7

1 No Treasury bills were outstanding on the date indicated.

Interest rate

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

Treasury bills and discountable Treasury bonds
Federal Government
Federal special funds
Länder Governments

Treasury bills and discountable Treasury bonds of the Federal Government and its special funds continued to be used for the Bank's market regulating arrangements. In addition, the Bank conducted open market operations with mobilisation and liquidity paper (pursuant to Arts. 42 and 42 (a), Bundesbank Law), as discussed below.

In the year under review, as many discountable Treasury bonds of the Federal Government and the Federal Railways were issued as fell due for redemption, while the issuing of Treasury bills by the German Federal Railways decreased markedly on the year, coming to only two thirds of redemptions. New issues of discountable Treasury bonds of the German Federal Post Office were likewise smaller than redemptions. No Federal Treasury bills were issued in 1971; the same applies to discountable Treasury bonds of the Länder Governments. At December 31, 1971 the outstanding total of money market paper issued for the account of the Federal Government and its special funds was DM 2,274.1 million (end-1970: DM 2,700.0 million).

Of the money market paper shown in the following table as outstanding at December 31, 1971, DM 76.6 million was held in the Bank's portfolio at that date (end-1970: DM 284.8 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, 1970	in 1971 Issued	Redeemed	Outstanding on Dec. 31, 1971
Discountable Treasury bonds of the Federal Republic of Germany "B" 1	1,700.0	700.0	700.0	1,700.0
Treasury bills of the German Federal Railways	300.0	605.0	905.0	—
Discountable Treasury bonds of the German Federal Railways	400.0	400.6	400.6	400.0
Discountable Treasury bonds of the German Federal Post Office	300.0	106.8	232.7	174.1
Total	2,700.0	1,812.4	2,238.3	2,274.1

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

		Dec. 31, 1970 DM million	Dec. 31, 1971 DM million
Equalisation claims on Federal Government and non-interest-bearing debt certificate in respect of Berlin	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
Equalisation claims	Conversion of Berlin pre-capitulation balances	30.5	30.6
	Conversion of RM balances at banks in the Eastern Sector of Berlin	1.5	1.5
		8,135.6	8,135.7.

The slight increase, of DM 41,300, 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, 1971, 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, 1970, are inscribed in the government stock registers.

Non-interest-bearing debt certificate

In 1971 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

Following the scheduled repayment of a residual claim of DM 345.3 million, this item contains only a claim of DM 41.3 million acquired by the Bank in 1969 under the foreign exchange offset agreement.

Securities

The Bank's holding of securities at end-December 1971 amounted to DM 587.8 million (end-1970: DM 759.8 million). It mainly comprised bond issues and Treasury bonds (medium-term notes) of the Federal Republic of Germany, the German Federal Railways and the German Federal Post Office, a small amount of other domestic bonds, and World Bank obligations.

Issue of bonds

In 1971 the Federal Bond Consortium, of which the Bank is the manager, offered for public sale seven issues totalling DM 2,690 million (1970: nine issues amounting to DM 2,740 million). Out of these seven issues, an amount of DM 250 million (1970: DM 170 million) was reserved for the account of the issuers. These amounts were chiefly intended for appropriate long-term price support operations, as well as for placing with the issuers' own institutions (including social security institutions).

Bonds issued through the Federal Bond Consortium in 1971

Issuer	Total DM mn	of which sold through Federal Bond Consortium	Interest rate %	Issue price %	Start of sales 1971
German Federal Railways	300	270	8	99 1/4	Jan. 7
Federal Republic of Germany	550	500	7 1/2	99	Jan. 19
German Federal Post Office	385	350	7 1/2	99	Feb. 2
German Federal Railways	300	270	7 1/2	99	April 6
German Federal Post Office	385	350	8	98 1/2	Sep. 7
German Federal Railways	330	300	7 3/4	98 3/4	Oct. 20
Federal Republic of Germany	440	400	7 3/4	98 3/4	Dec. 1

Issue of Federal savings bonds

With the cooperation of the Bank, DM 1,098.9 million (gross) of Federal savings bonds were sold to private investors through banks in 1971 (1970: DM 381.7 million). In the year under review premature returns of savings bonds from former tranches to the issuer totalled DM 87.4 million (1970: DM 87.1 million). Net sales in 1971 thus amounted to DM 1,011.5 million (1970: DM 294.6 million). At the end of 1971 DM 1,589.4 million of Federal savings bonds were outstanding (end-1970: DM 577.9 million). During the year under review (on April 15, 1971) the issue of a particular type of Federal savings bond — type R — was discontinued; instead, for the new tranches of type B the period to maturity was extended from 6 years to 7. The interest rate on Federal savings bonds was temporarily reduced (for the tranches 1971/1 and 2), but was restored to its former level in the middle of the year, so that at the end of the year the yield on such bonds was 7.64 % for type A and 7.93 % for type B, as it had been a year before.

Gross sales of Federal savings bonds in 1971

Issues	Sales period 1971	Gross sales in millions of Deutsche Mark				Interest rate (%) in . . . year after issue						
		Federal savings bonds A 1	Federal savings bonds B 2	Federal savings bonds R 2	Total	1st	2nd	3rd	4th	5th	6th	7th 3
						Year						
1970/7 1970/8 1970/9	Jan. 2–Apr. 8	302.3	119.6	83.6	505.5	6.5	7	7.5	8	8.5	9	9
1971/1 1971/2	Apr. 15–June 30	60.8	40.8	—	101.6	6	7	7	7.5	8	9	9
1971/3 1971/4	July 1–Dec. 31	264.3	227.5	—	491.8	6.5	7	7.5	8	8.5	9	9

1 With yearly payment of interest. — **2** With accrual of interest. — **3** For issues 1970/9, 1971/2 and 1971/4 only.

Issue of medium-term notes

Through the intermediary of the Bank, DM 950.2 million of Treasury bonds (medium-term notes) running for 3 to 4 years of the Federal Republic of Germany and the German Federal Post Office were sold by tender during 1971. The tranches sold were: Federal Republic of Germany 7 %, 1st to 3rd Issues, and 7½ %, 4th and 5th Issues, and German Federal Post Office 7 %, 1st to 3rd Issues, 8 %, 11th and 12th Issues and 7½ %, 1st and 2nd Issues.

Moreover, with the agreement of 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 1.790 million were sold. These sales were not effected by tender (see table overleaf).

The Treasury bonds (medium-term notes) issued during the year under review were not included in the Bank's money market regulating arrangements. At December 31, 1971 DM 920.0 million of 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 (end-1970: DM 2,927.0 million). During 1971 DM 772.3 million of such paper was purchased by the Bank and DM 15.7 million resold. Owing to bonds falling due the Bank's holding diminished by DM 581.1 million, and totalled DM 395.3 million at December 31, 1971 (end-1970: DM 219.8 million).

Admission to stock exchange dealing

Apart from the issues mentioned before, which were launched through the Federal Bond Consortium, three bond issues of the Reconstruction Loan Corporation were introduced by the Bank for official dealings on all German stock exchanges, namely the 8 % issue of 1970 and the 8 % and 7¾ % issues of 1971.

In addition, the above-mentioned medium-term notes of the Federal Republic of Germany, the German Federal Railways and the German Federal Post Office, along with four series of medium-term notes of the Reconstruction Loan Corporation, were introduced by the Bank for regulated unofficial dealing on the Frankfurt stock exchange (and the medium-term notes of the German Federal Railways on the Rhenish-Westphalian stock exchange in Düsseldorf as well).

Treasury bonds (medium-term notes) sold in 1971

Issuer	Amount DM mn	Interest rate %	Running for . . . years	Selling price %	Month of sale
German Federal Railways	200	7	4	$98^{1}/_{2}$	January
Federal Republic of Germany 1st to 3rd Issues **1**	200	7	3, $3^{1}/_{2}$ and 4	$98^{1}/_{8}$–$98^{1}/_{2}$	February
German Federal Post Office 1st to 3rd Issues **1**	140	7	3, $3^{1}/_{2}$ and 4	$97^{3}/_{4}$–$98^{1}/_{4}$	March
German Federal Post Office 4th Issue	50	7	3	$98^{1}/_{2}$	April
German Federal Railways 2nd Issue	100	7	3	$98^{1}/_{2}$	April
German Federal Post Office 1st to 6th Issues	150	8	4	$97^{3}/_{4}$	August
German Federal Railways 1st and 2nd Issues	200	8	4	$98^{5}/_{8}$–$98^{3}/_{4}$	August
German Federal Post Office 7th to 10th Issues	100	8	4	$97^{3}/_{4}$	August
Federal Republic of Germany 1st to 5th Issues	195	8	3	$99^{1}/_{2}$	September
Federal Republic of Germany 6th Issue	30	8	4	$99^{3}/_{8}$	September
Federal Republic of Germany	75	$7^{1}/_{2}$	3	$98^{1}/_{4}$	September
German Federal Post Office 11th and 12th Issues **1**	170	8	3 and 4	$99^{3}/_{4}$–$99^{7}/_{8}$	October
German Federal Post Office 1st and 2nd Issues **1**	130	$7^{1}/_{2}$	3 and 4	98 – $98^{1}/_{2}$	October
German Federal Post Office 3rd and 4th Issues	100	$7^{1}/_{2}$	3 and 4	$98^{1}/_{2}$–$98^{7}/_{8}$	October
Federal Republic of Germany 2nd and 3rd Issues	200	$7^{1}/_{2}$	3 and 4	$98^{1}/_{2}$–$98^{7}/_{8}$	October
Federal Republic of Germany 4th and 5th Issues **1**	310.2	$7^{1}/_{2}$	3 and 4	$99^{1}/_{8}$–$99^{3}/_{8}$	November
German Federal Railways 3rd Issue	100	7	4	$97^{5}/_{8}$	November
German Federal Post Office 5th and 6th Issues	100	7	4	$97^{5}/_{8}$–98.10	December
German Federal Post Office 5th and 6th Issues	100	$7^{1}/_{2}$	4	99.30	December
German Federal Post Office 7th and 8th Issues	45	7	3 and 4	98.10–98.20	December
German Federal Post Office 7th and 8th Issues	45	$7^{1}/_{2}$	3 and 4	99.30–$99^{1}/_{2}$	December

1 Sales were effected by tender.

Price support operations

In the year under review, as in preceding years, the Bank undertook price support for the 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 11,051,164 interest coupons and matured bonds during 1971 (1970: 10,680,017).

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 185,440 interest coupons and matured bonds during the year under review (1970: 194,468); in 1971 688,197 interest coupons and matured bonds (1970: 707,334) were presented to foreign agents for redemption.

German coins

The Bank's holding of German coins amounted to DM 251.0 million at the close of 1971 (end-1970: DM 162.6 million). In 1971 the Federal Government was credited with DM 746.7 million for coins taken over from the Mints, and debited with DM 1.8 million for coins no longer fit for circulation. Altogether in the years 1948 to 1971 the Bank took over coins amounting to DM 4,070.5 million, and cashed, to the debit of the Federal Government, DM 154.3 million of coins which were no longer fit to circulate or had been called in.

The total amount of coins in circulation at the end of 1971 divided by the number of inhabitants of the Federal Republic of Germany including the Land of Berlin at September 30, 1971 (61.4 million) yields the figure of DM 59.69 per head of population (1970: DM 48.68).

Of the Federal coins in the denomination of 10 Deutsche Mark issued to mark the 1972 Olympic Games in Munich, the second and third motifs were put into circulation during the year under review.

Balances on postal giro account

The postal giro account balances at December 31, 1971, including the branches' transfers in transit to the postal giro account of the Bank (Central Office) at Frankfurt am Main, totalled DM 366.9 million (1970: DM 446.9 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

	1970				1971			
	Transfers received from third parties		Transfers made to third parties		Transfers received from third parties		Transfers made to third parties	
Area	Number	DM mn	Number	DM mn	Number	DM mn	Number	DM mn
Land Central Bank								
Baden-Württemberg	93,114	10,906.8	11,390	762.6	87,056	12,096.9	15,679	901.4
Bavaria	121,798	14,772.9	10,495	1,876.7	87,773	12,732.1	11,174	2,461.6
Berlin	24,571	2,389.2	7,444	441.5	20,124	2,102.6	5,946	454.6
Bremen	17,218	577.4	622	0.2	14,759	567.6	1,215	0.3
Hamburg	49,303	7,847.0	1,818	18.0	48,010	8,371.6	1,866	49.1
Hesse	59,504	9,041.7	4,176	1,069.5	51,372	7,292.3	3,970	1,314.3
Lower Saxony	89,708	6,332.8	5,297	335.7	70,774	5,352.0	6,690	510.6
North Rhine-Westphalia	179,671	16,429.8	15,753	3,176.6	169,960	17,133.2	16,683	3,676.3
Rhineland-Palatinate	49,025	2,578.9	4,810	36.1	43,390	2,531.5	5,446	45.9
Saarland	7,045	1,616.8	5,389	1.5	5,805	1,402.7	5,603	1.0
Schleswig-Holstein	9,122	249.9	2,747	26.8	5,166	131.7	2,421	11.8
Total	700,079	72,743.2	69,941	7,745.2	604,189	69,714.4	76,693	9,426.9
Bundesbank – Central Office –	13,024	1,365.6	3,877	1.8	12,464	1,543.5	3,324	1.8
Grand total	713,103	74,108.8	73,818	7,747.0	616,653	71,257.9	80,017	9,428.7

Other claims

The other claims of DM 650.0 million shown in this item (1970: DM 513.5 million) include, inter alia, the balance (DM 428.6 million, against DM 424.1 million in 1970) resulting from the settlement of interzonal payments.

Turnover on the relevant sub-accounts amounted to:

	1970 DM million	1971 DM million
West/East deliveries and services	2,089.8	2,458.4
East/West deliveries and services	1,933.1	2,455.0
	4,022.9	4,913.4.

Land and buildings; equipment

With additions of DM 120.0 million and depreciation of DM 12.6 million, land and buildings are shown at DM 363.9 million. Equipment increased to DM 14.2 million after additions of DM 11.5 million and depreciation of DM 7.8 million.

Items in course of settlement

The balance sheet item "Items in course of settlement" mainly comprises the intercity credit and debit 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, 1971, there was a net claim of DM 214.5 million, as against one of DM 672.4 million at the end of 1970.

Other assets

Of the DM 392.1 million (end-1970: DM 186.2 million) shown in the item "Other assets", DM 383.4 million (end-1970: DM 180.0 million) represents interest falling due in 1972, 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 1972.

Compensatory amount required for new valuation of foreign currency assets and liabilities — balance sheet loss —

See page 146 of this Report.

Liabilities

Bank notes in circulation

The circulation of bank notes rose from DM 36,479.7 million at the end of 1970 to DM 39,493.8 million at December 31, 1971.

Currency

Millions of Deutsche Mark

End of year	Bank notes	Federal coins	Currency, total
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
1971	39,493.8	3,665.3	43,159.1

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

In 1971 DM 13,680.2 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, being no longer fit for circulation or having been called in, are:

	1966	1967	1968	1969	1970	1971
Number (millions)	175.1	207.6	323.8	306.7	343.5	377.3
Value (DM million)	3,780.9	5,501.6	10,110.9	10,105.5	11,306.3	12,184.5.

The number and amount of counterfeit Deutsche Mark notes and Federal coins detained in payments during the year under review declined noticeably in comparison with 1970.

Counterfeits discovered

Year	Notes		Coins	
	Number	Thousands of DM	Number	Thousands of DM
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
1971	2,978	186.4	9,064	37.0

Deposits of banks

Banks' deposits on giro account principally comprise the minimum reserves to be maintained with the Bank. The sub-item "Other" contains deposits of domestic banks on U.S. dollar accounts, hitherto shown under "Liabilities in respect of foreign business". Compared with 1970, banks' deposits changed as follows:

Deposits of banks	Dec. 31, 1970 DM million	Dec. 31, 1971 DM million
On giro account	26,231.1	32,590.6
Other	18.9	18.6
	26,250.0	32,609.2.

Deposits of public authorities

The new item "Deposits of public authorities" comprises current balances and public authorities' special deposits. These deposits showed the following year-on-year changes:

	Dec. 31, 1970 DM million	Dec. 31, 1971 DM million
Federal Government	32.2	69.3
Equalisation of Burdens Fund and ERP Special Fund	235.8	286.4
Länder Governments	1,030.1	510.0
Other public depositors	55.0	66.5
Special deposits	5,381.7	10,010.5
	6,734.8	10,942.7.

The credit balances of the Federal Railways and the Federal Post Office, which in 1970 were shown together with the Equalisation of Burdens Fund and the ERP Special Fund as deposits of Federal special funds, are now recorded under "Deposits of other German depositors".

Special deposits

In detail, special deposits changed as follows:

	Dec. 31, 1970		Dec. 31, 1971	
	DM million	DM million	DM million	DM million
Anticyclical reserves				
of Federal Government	1,500.0		2,500.0	
of Länder Governments	1,436.5	2,936.5	1,631.2	4,131,2
Anticyclical surcharge on income taxes		2,189.1		5,879.3
Other (Federal education loan)		256.1		—
		5,381.7		10,010.5.

The proceeds of the Federal education loan, which were paid into a special account in 1970, were used by the Federal Government in December 1971.

Deposits of other German depositors

Deposits of other German depositors changed as follows:

	Dec. 31, 1970 DM million	Dec. 31, 1971 DM million
Federal Railways	4.0	5.6
Federal Post Office (incl. postal giro and postal savings bank offices)	1,629.6	1,735.2
Other depositors	399.8	486.7
	2,033.4	2,227.5.

Giro transactions

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

	Number	Amount
1970	99.57	97.61
1971	99.61	97.85.

Annual turnover on giro accounts of the Deutsche Bundesbank

Turnover	1970 Number of transactions '000	1970 Total amount DM million	1970 Average amount DM '000	1971 Number of transactions '000	1971 Total amount DM million	1971 Average amount DM '000
(a) Credits						
Cash payments	992	116,793	117.7	990	124,880	126.1
Settlement with account-holders	7,620	1,695,329	222.5	7,786	1,982,860	254.7
Local transfers	16,290	1,348,892	82.8	16,806	1,768,303	105.2
Intercity transfers	62,072	1,329,913	21.4	62,648	1,517,089	24.2
Cheque and debit transfer order collections (total lodged)	186,884	482,820	2.6	228,922	564,891	2.5
Total	273,858	4,973,747	—	317,152	5,958,023	—
(b) Debits						
Cash payments	1,301	120,346	92.5	1,379	130,950	95.0
Settlement with account-holders	4,273	1,687,956	395.0	4,423	1,972,389	445.9
Local transfers	16,290	1,348,892	82.8	16,806	1,768,303	105.2
Intercity transfers	61,903	1,319,139	21.3	61,326	1,510,391	24.6
Cheque and debit transfer order collections (total paid)	174,672	483,710	2.8	199,913	565,002	2.8
Total	258,439	4,960,043	—	283,847	5,947,035	—
(c) as % of total turnover (credits and debits)		%			%	
Cash payments		2.39			2.15	
Settlement with account-holders		34.06			33.22	
Local transfers		27.15			29.71	
Intercity transfers		26.67			25.43	
Cheque and debit transfer order collections (total lodged and paid)		9.73			9.49	
		100.00			100.00	

Liabilities for mobilisation and liquidity paper sold

This new liability item shows both the mobilisation paper which was deducted from equalisation claims in 1970 and the liquidity paper that was issued for the first time in the year under review.

For the purpose of regulating the money market the Bank again availed itself of the facility for selling Treasury bills and discountable Treasury bonds of the Federal Republic of Germany, which are handed to the Bank on request in accordance with Art. 42, Bundesbank Law (mobilisation paper). In addition, the Bank made use for the first time in the year under review of the provisions of Art. 42 (a), Bundesbank Law, in that it applied for the allocation of Treasury bills and discountable Treasury bonds — "liquidity paper" — in excess of its own equalisation claims (DM 8.1 billion), since the facilities granted under Art. 42, Bundesbank Law, were temporarily exhausted.

During the past year the Bank expanded the scope of its open market operations by declaring its readiness to sell discountable Treasury bonds (mobilisation and liquidity paper) to all domestic non-banks. At the same time the Bank started to sell paper of this type which yields a higher return but is not included in the money market regulating arrangements and hence cannot be resold to the Bank prior to maturity (marked "N" or "LN").

The total of mobilisation and liquidity paper outstanding at December 31, 1971 amounted to DM 6,477.0 million, against DM 7,531.8 million at end-1970.

Mobilisation and liquidity paper sold and redeemed

Millions of Deutsche Mark

Category of paper	1969 Outstanding on Dec. 31	1970 Sold	1970 Redeemed	1970 Outstanding on Dec. 31	1971 Sold	1971 Redeemed	1971 Outstanding on Dec. 31
Treasury bills of the Federal Government (running for up to 90 days)	1,282.4	7,126.0	6,530.7	1,877.7	10,240.3	10,928.3	1,189.7
Discountable Treasury bonds of the Federal Government (running for 6 to 24 months)	747.1	5,306.5	399.5	5,654.1	6,830.2	7,197.0	5,287.3
Total	2,029.5	12,432.5	6,930.2	7,531.8	17,070.5	18,125.3	6,477.0

Liabilities in respect of foreign business

The liabilities in respect of foreign business comprised

	Dec. 31, 1970 DM million	Dec. 31, 1970 DM million	Dec. 31, 1971 DM million	Dec. 31, 1971 DM million
Deposits of foreign depositors				
Banks	282.8		859.5	
Other depositors	60.0	342.8	81.6	941.1
Other				
Provision of cover for credits and guarantees by				
non-residents	1.5		1.3	
residents	15.2		21.8	
	16.7		23.1	
Miscellaneous liabilities	1.5	18.2	2.3	25.4
		361.0		966.5.

The deposits of domestic banks on U.S. dollar accounts were included in "Deposits of banks".

Contra-entry to special drawing rights allocated

The contra-entry to the special drawing rights allocated by the International Monetary Fund and shown on the assets side is equal to the allocations of SDRs to the Federal Republic of Germany on January 1, 1970 and 1971, totalling 372.8 million currency units = DM 1,364.4 million.

Provisions

The provision for pension liabilities is shown unchanged at DM 1,020 million; the amount of DM 58.5 million withdrawn for the payment of pensions and widows' and orphans' allowances was returned.

The provisions for other purposes rose to DM 1,382.5 million. To the debit of the compensatory amount required for the new valuation of foreign currency assets and liabilities, DM 32.5 million was transferred to the provisions in order to meet exchange losses suffered in connection with U.S. dollar forward transactions with domestic banks in the course of settlement at the end of the year. The provisions for other purposes otherwise serve to cover the losses to be expected after the fixing of new gold parities owing to the new valuation of gold and some other positions (see page 146) and to cover hazards inherent in foreign and domestic business.

Other liabilities

The "Other liabilities" are shown at December 31, 1971 at DM 29.5 million, against DM 32.2 million at the end of 1970.

Deferred expenses and accrued income

In the same way as previously, the deferred expenses and accrued income (DM 256.4 million for 1971; DM 423.1 million for 1970) mainly comprise interest received in the year under review but relating to the next year, on foreign and domestic commercial and Treasury bills.

Capital

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

Reserves

In accordance with the Central Bank Council's decision of March 31, 1971, out of the net profit for 1970 DM 157.3 million was added to the legal reserve and DM 62.6 million to the other reserves; accordingly, reserves rose from DM 860 million at end-1970 to DM 1,079.9 million.

Contingent liabilities and claims

The contingent liabilities and claims are shown at December 31, 1971 at DM 0.9 million, against DM 1.2 million at the end of 1970.

Profit and loss account

Comparison of expenditure and receipts

Millions of Deutsche Mark

Expenditure	1970	1971	Receipts	1970	1971
Interest on mobilisation and liquidity paper	583.3	298.4	Interest on money employed abroad	1,239.7	2,111.1
Other interest	3.6	4.0	Loans to domestic banks	1,437.1	1,069.7
	586.9	302.4	Equalisation claims	244.1	244.1
Administrative costs			Securities, Treasury bills and Treasury bonds	73.6	58.9
Personnel	278.7	332.9			
Materials	49.6	58.4			
Note printing	48.8	46.6	Other interest	51.6	35.9
				3,046.1	3,519.7
Depreciation on fixed assets	14.5	20.4	Fees	6.1	6.3
Transfers to provisions			Other receipts	15.7	241.2
Liabilities for pension payments	152.2	58.5		3,067.9	3,767.2
Other	1,100.0	—	Loss	—	3,101.1
Pension payments in respect of Reichsbank	33.5	35.4			
Other expenditure	17.5	17.4			
	2,281.7	872.0			
Compensatory amount required for new valuation of foreign currency assets and liabilities	—	5,996.3			
Net profit	786.2	—			
Total	3,067.9	6,868.3	Total	3,067.9	6,868.3

Receipts

Interest

	1970 DM million	1971 DM million
The interest received amounted to	3,046.1	3,519.7.
After deduction of the interest paid out, namely	586.9	302.4
receipts are shown in the profit and loss account at	2,459.2	3,217.3.

The interest received on funds employed abroad increased by DM 871.4 million to DM 2,111.1 million in 1971. Receipts from lending to German banks – domestic bills, lombard advances and foreign bills bought in Germany – amounted to DM 1,069.7 million in the year under review (1970: DM 1,437.1 million). Interest on equalisation claims remained unchanged at DM 244.1. Other interest income decreased by DM 30.4 million to DM 94.8 million.

Except for a fractional amount of DM 4.0 million (1970: DM 3.6 million), the interest paid out, at DM 302.4 million (1970: DM 586.9 million), was paid on Treasury bills and discountable Treasury bonds of the Federal Government (mobilisation and liquidity paper pursuant to Arts. 42 and 42 (a), Bundesbank Law).

Fees

DM 6.3 million of fees were received in the year under review (1970: DM 6.1 million).

Other receipts

"Other receipts" are shown at DM 241.2 million (1970: DM 15.7 million). This sum contains DM 226.4 million of extraordinary receipts, some of which stem from accumulated depreciation reserves.

Expenditure

Administrative costs
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 employees ("officials") and unestablished salary and wage earners; they amounted to DM 332.9 million in 1971 (1970: DM 278.7 million). The Bank's staff increased in number by 778 during 1971.

Number of persons employed in the Bundesbank

	Beginning of 1971					Beginning of 1972				
				of whom					of whom	
	Central Office	Land Central Banks	Total	male	female	Central Office	Land Central Banks	Total	male	female
Established officials	634	4,207	4,841	4,763	78	657	4,383	5,040*)	4,946	94
Salaried employees	1,341	5,700	7,041*)	2,748	4,293	1,405	6,244	7,649*)	2,927	4,722
Wage earners	143	806	949*)	143	806	135	822	957*)	141	816
Total	2,118	10,713	12,831	7,654	5,177	2,197	11,449	13,646	8,014	5,632

	1971	1972
* of whom, working part time		
Established officials, female		2
Salaried employees	131	168
Wage earners	719	738

The payments to serving members of the Directorate of the Bank and the Central Bank Council amounted to DM 4,551,815.97 in the year under review. Former members of those bodies and 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 totalling DM 2,800,177.63.

Changes in staff regulations

Pursuant to Art. 31, para. 6 of the Bundesbank Law, the Central Bank Council of the Deutsche Bundesbank decided on February 3, 1971 to adopt a revised version of the regulations relating to the prior training and careers of established employees of the Deutsche Bundesbank and to introduce regulations relating to established employees in fields demanding specialised knowledge within the Deutsche Bundesbank. After agreement had been expressed by the Federal Government, these regulations were published in the Federal Advertiser on April 30, 1971, and came into force as from February 1, 1971. The career regulations adopted by the Central Bank Council on June 23, 1960, as last amended by the decision of the Central Bank Council of October 21, 1965, ceased to apply as from the same date.

Pursuant to Art. 13 of the regulations relating to careers, the Central Bank Council, with the agreement of the Federal Minister of the Interior and the cooperation of the Federal staff council, adopted on July 21, 1971 a revised version of the training and examination regulations for careers in the administrative, executive and clerical classes. On September 1, 1971 these superseded the training and examination regulations as amended up to February 15, 1968; in the Federal Advertiser of August 10, 1971 attention was drawn to the fact that the revised training and examination regulations were published in the Bulletin of the Deutsche Bundesbank.

Under the terms of the Second Law to Amend Legislation on Established Government Employees' Pay of May 14, 1969 and in implementation of the First Law to Standardise and Amend Federal and Länder Legislation on Established Government Employees' Pay of March 18, 1971, and also on the basis of the Federal regulations applying to the supreme Federal authorities, the Central Bank Council adopted on January 20, March 3 and 31, and September 1, 1971 revised regulations on the staffing of the various career groups in the Central Office, the Main Offices and the branches. For its unestablished employees the Bank again concluded a number of pay agreements which brought their legal positions into line with those of the Federal Government's unestablished employees.

Administrative costs
Materials

The administrative costs in respect of materials rose from DM 49.6 million in 1970 to DM 58.4 million.

Note printing

The expenditure on note printing declined, as compared with 1970, by DM 2.2 million to DM 46.6 million.

Depreciation and transfers to provisions

The depreciation on land and buildings and on equipment, as well as the transfers to provisions, were discussed 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 35.4 million (1970: DM 33.5 million).

Other expenditure

"Other expenditure" is shown at DM 17.4 million (1970: DM 17.5 million).

Compensatory amount required for new valuation of foreign currency assets and liabilities
Revaluation loss

The new valuation of assets and liabilities in foreign currency due to the fixing of central rates resulted in a compensatory amount being required, in comparison with the book value, of		DM million 5,996.3.
This is shown in the profit and loss account. After the new valuation of gold and some other positions the revaluation loss is expected to rise by		1,031.9
to a total of		7,028.2.
	DM million	
Of this loss, an amount of	2,895.2	
was offset by the net result for 1971 (see page 144). A further	1,031.9	3,927.1
was covered by recourse to provisions for other purposes.		
The remaining loss of		3,101.1

is shown in the balance sheet, asset item 23, as the compensatory amount required for new valuation of foreign currency assets and liabilities – balance sheet loss.

Frankfurt am Main, April 1972

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

With the inclusion of the interest and redemption payments on equalisation claims that fell due at the end of the year, the Fund brought forward from 1970 liquid funds totalling DM 28.8 million to the 1971 accounting year. In the course of 1971 it received a further DM 40 million out of the Deutsche Bundesbank's 1970 net profit, DM 53.5 million of interest and redemption payments on equalisation claims by the debtors, and DM 1.5 million of interest from the short-term employment of the Fund's liquid resources.

In the 1971 accounting year an aggregate amount of DM 90.6 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 the general acquisition of equalisation claims pursuant to Art. 9, para. 3. Of this amount, only DM 5.4 million was applied to individual purchases, and DM 85.2 million to the general acquisition of equalisation claims. There was no need for purchases pursuant to Art. 9, para. 2, item 1 of the Law.

In 1971, as in previous years, by far the greater part of the DM 4.4 million of equalisation claims bought pursuant to Art. 9, para. 1 of the Law were taken from liquidating and merged banks and insurance companies, about half the amount coming from pension funds in liquidation. Purchases of small equalisation claims pursuant to Art. 9, para. 2, item 2 of the Law amounted to DM 1.0 million.

On June 30, 1971 DM 85.2 million was used for taking over from banks, insurance companies and building and loan associations one per cent of their equalisation claims on the Federal Government and the Länder Governments of Baden-Württemberg, Bavaria, Berlin, Bremen, Hamburg, Hesse and North Rhine-Westphalia and a further one per cent of their equalisation claims on the Länder Governments of Berlin and Bremen. This ended the fourth taking-over transaction started in 1970 and at the same time initiated the fifth taking-over transaction.

With the inclusion of the interest and redemption payments due at the end of 1971, at that time the Fund had at its disposal for the 1972 accounting year DM 33.1 million of liquid resources, DM 0.4 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

	Deutsche Mark initial capital			Deutsche Mark remaining capital
Interest rate	Holding at Dec. 31, 1970	Addition through purchase and general acquisition	Holding at Dec. 31, 1971	Holding at Dec. 31, 1971
%	Deutsche Mark			
0	78,227,186.78	4,395.65	78,231,582.43	28,163,369.67
3	494,103,049.30	52,308,443.05	546,411,492.35	435,248,751.35
3½	425,577,664.50	57,407,400.83	482,985,065.33	380,562,770.41
4½	162,545,480.32	3,586,918.27	166,132,398.59	127,807,388.47
Total	1,160,453,380.90	113,307,157.80	1,273,760,538.70	971,782,279.90

The report on the position of the Fund for the Purchase of Equalisation Claims at December 31, 1971, intended for publication in the Federal Advertiser, is attached as Appendix 3.

Frankfurt am Main, April 1972

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 1971, the combined conversion account of the institutions amalgamated to form the Deutsche Bundesbank, as shown by the books at December 31, 1971, and the Report on the Fund for the Purchase of Equalisation Claims as at December 31, 1971, 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 1971, the bookkeeping and the conversion account as shown by the books at December 31, 1971, are in accordance with legal provisions and that the Fund for the Purchase of Equalisation Claims has been properly administered.

The Central Bank Council approved the annual accounts for 1971 on April 12, 1972. 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, 1971, and approved the Report on the Fund for the Purchase of Equalisation Claims as at December 31, 1971.

Since the publication of the Report for the Year 1970 the following changes have taken place in the Central Bank Council and the Directorate of the Deutsche Bundesbank.

Retired from service

as at the close of January 31, 1972
the President of the Land Central Bank in Baden-Württemberg
Professor Dr. Otto Pfleiderer.

Reappointed

with effect from April 1, 1972

Dr. Leonhard Gleske
President of the Land Central Bank in Bremen.

Newly appointed

with effect from April 21, 1971
Herr Werner Gust
to be President of the Land Central Bank in Berlin,

with effect from July 1, 1971
Dr. Werner Tratzsch
to be Vice-President of the Land Central Bank in Berlin.

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 cooperation during the year 1971. The Council likewise wishes to record its appreciation of the excellent collaboration with the staff representative committees.

Frankfurt am Main, April 1972

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, 1970 DM	Changes in 1971 DM	as shown by the books at Dec. 31, 1971 DM
1. Cash [1]	1,133,326.07		1,133,326.07
2. Bills of exchange	211,524.63		211,524.63
3. Lombard advances (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	8,103,601,045.76	41,319.97	8,103,642,365.73
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
	8,736,369,237.71	41,319.97	8,736,410,557.68
13. Contingent claims	126,558.92		126,558.92

1 Relating to converted small money tokens.

	as shown by the books at Dec. 31, 1970 DM	Changes in 1971 DM	as shown by the books at Dec. 31, 1971 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 coins 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	5,630,757,877.37	41,319.97	5,630,799,197.34
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
	8,736,369,237.71	41,319.97	8,736,410,557.68
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, 1971 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, 1972

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

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

Balance sheet of the Deutsche Bundesbank as at December 31, 1971

Assets

	DM	DM
1. Gold		14,688,250,745.06
2. Balances with foreign banks and money market investment abroad		37,637,590,896.92
3. Other investment abroad		2,000,000,000.–
4. Reserve position in the International Monetary Fund and special drawing rights		
4.1. Drawing rights within gold tranche	3,917,478,493.39	
4.2. Loans under General Arrangements to Borrow	–	
4.3. Special drawing rights	1,663,334,891.10	5,580,813,384.49
5. Loans and other claims on the rest of the world		
5.1. Loans to World Bank	2,183,831,250.–	
5.2. Other claims	124,707,180.–	2,308,538,430.–
6. Foreign notes and coins		3,973,631.87
7. Foreign bills of exchange		1,612,155,679.48
8. Domestic bills of exchange		15,802,015,241.67
9. Lombard advances (advances against securities)		1,396,334,800.–
10. Cash advances (book credit)		
10.1. Federal Government	1,716,800,000.–	
10.2. Federal special funds	24,800,000.–	
10.3. Länder Governments	607,067,000.–	2,348,667,000.–
11. Treasury bills and discountable Treasury bonds		
11.1. Federal Government	–	
11.2. Federal special funds	76,600,000.–	
11.3. Länder Governments	–	76,600,000.–
12. Equalisation claims on Federal Government and non-interest-bearing debt certificate in respect of Berlin		
12.1. Equalisation claims	8,135,743,613.12	
12.2. Non-interest-bearing debt certificate	547,168,481.20	8,682,912,094.32
13. Claim on Federal Government in respect of acquisition of claims resulting from post-war economic aid		41,260,495.33
14. Securities of which Treasury bonds (medium-term notes) of Federal Government, Federal and Länder special funds with remaining life of up to 18 months DM 248,323,332.75		587,823,649.16
15. German coins		250,976,769.24
16. Balances on postal giro account		366,864,479.05
17. Other claims		650,059,571.29
18. Land and buildings		363,942,854.27
19. Equipment		14,172,958.–
20. Items in course of settlement		214,554,389.30
21. Other assets		392,155,248.02
22. Prepaid expenses and deferred income		18,684,255.86
23. Compensatory amount required for new valuation of foreign currency assets and liabilities – balance sheet loss –		3,101,096,778.09
Right of recourse in respect of contingent liabilities	938,944.91	
		98,139,443,351.42

	DM	DM	DM
1. Bank notes in circulation			39,493,761,925.—
2. Deposits of banks			
2.1. on giro account		32,590,577,079.32	
2.2. Other		18,646,080.94	32,609,223,160.26
3. Deposits of public authorities			
3.1. Federal Government		69,265,785.72	
3.2. Equalisation of Burdens Fund and ERP Special Fund		286,395,943.05	
3.3. Länder Governments		510,055,516.26	
3.4. Other public depositors		66,560,839.69	
3.5. Special deposits			
3.5.1. Anticyclical reserves			
3.5.1.1. of Federal Government	2,500,000,000.—		
3.5.1.2. of Länder Governments	1,631,186,130.—		
	4,131,186,130.—		
3.5.2. Anticyclical surcharge on income taxes	5,879,270,490.30	10,010,456,620.30	10,942,734,705.02
4. Deposits of other German depositors			
4.1. Federal Railways		5,609,512.30	
4.2. Federal Post Office (incl. postal giro and postal savings bank offices)		1,735,177,874.47	
4.3. Other depositors		486,692,301.57	2,227,479,688.34
5. Liabilities for mobilisation and liquidity paper sold			6,477,000,000.—
6. Liabilities in respect of foreign business			
6.1. Deposits of foreign depositors		941,102,959.71	
6.2. Other		25,384,793.85	966,487,753.56
7. Contra-entry to special drawing rights allocated			1,364,448,000.—
8. Provisions for			
8.1. Pension liabilities		1,020,000,000.—	
8.2. Other purposes		1,382,491,500.—	2,402,491,500.—
9. Other liabilities			29,554,944.76
10. Deferred expenses and accrued income			256,361,674.48
11. Capital			290,000,000.—
12. Reserves			
12.1. Legal reserve		847,300,000.—	
12.2. Other reserves		232,600,000.—	1,079,900,000.—
Contingent liabilities		938,944.91	
			98,139,443,351.42

Profit and loss account of the Deutsche Bundesbank for the year 1971

Expenditure

	DM	DM
1. Administrative costs		
1.1. Personnel	332,906,923.61	
1.2. Materials	58,417,548.48	391,324,472.09
2. Note printing		46,637,455.64
3. Depreciation		
3.1. on land and buildings	12,589,423.79	
3.2. on equipment	7,774,037.42	20,363,461.21
4. Transfer to provisions for pension liabilities		58,537,982.53
5. Pension payments in respect of Reichsbank		35,357,971.08
6. Other expenditure		17,390,398.70
7. Compensatory amount required for new valuation of foreign currency assets and liabilities		5,996,281,777.56
		6,565,893,518.81

Receipts

	DM
1. Interest	3,217,319,435.75
2. Fees	6,296,522.28
3. Other receipts	241,180,782.69
4. Loss	3,101,096,778.09
	6,565,893,518.81

Deutsche Bundesbank
The Directorate
Dr. Klasen Dr. Emminger
Dr. Benning Dr. Gocht Dr. Irmler Lucht Tüngler 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, 1972

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

As at December 31, 1971

	Equalisation claims (remaining capital) DM	Cash resources DM	Total assets of the Fund DM
As at December 31, 1970	903,459,798.30	28,783,260.73	932,243,059.03
Allocation from the Deutsche Bundesbank's 1970 net profit		40,000,000.–	40,000,000.–
Purchase and general acquisition of equalisation claims	90,632,778.63	./. 90,632,778.63	
Redemptions	./. 22,310,297.03	22,310,297.03	
Interest			
on equalisation claims		31,142,595.30	31,142,595.30
from temporary employment of the Fund's cash resources		1,523,140.28	1,523,140.28
As at December 31, 1971	971,782,279.90	33,126,514.71	1,004,908,794.61

Deutsche Bundesbank
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Returns of the Deutsche Bundesbank

Millions of Deutsche Mark

Date of return	Assets: Gold, external claims and other foreign assets: Total	Gold	Balances with foreign banks and money market investment abroad	Other investment abroad	Reserve position in the International Monetary Fund and special drawing rights: Total	Drawing rights within gold tranche	Loans under General Arrangements to Borrow	Special drawing rights	Loans and other claims on the rest of the world: Total	Loans to World Bank	Other claims	Foreign notes and coins 1	Lending to domestic banks: Total	Domestic bills of exchange	Foreign bills of exchange	Lombard advances (advances against securities)	Lending to …: Total	Cash: Total
1971																		
Jan. 7	51,820	14,337	28,210	2,200	4,936	3,366	—	1,570	2,131	1,925	206	6	16,750	13,546	2,676	528	11,856	2,502
15	51,741	14,338	28,077	2,200	4,990	3,421	—	1,569	2,131	1,925	206	5	20,050	14,861	2,662	2,527	11,199	1,895
23	51,774	14,338	28,052	2,200	5,047	3,448	—	1,599	2,131	1,925	206	6	22,969	15,991	2,720	4,258	9,336	32
31	52,779	14,338	29,048	2,200	5,058	3,459	—	1,599	2,131	1,925	206	4	20,851	16,566	2,705	1,580	10,593	1,400
Feb. 7	53,052	14,335	29,179	2,200	5,106	3,460	—	1,646	2,226	2,020	206	7	20,752	17,129	2,721	902	10,533	1,323
15	54,234	14,335	30,358	2,200	5,111	3,465	—	1,646	2,226	2,020	206	4	18,995	16,271	2,683	41	10,508	1,298
23	53,965	14,335	30,081	2,200	5,118	3,472	—	1,646	2,226	2,020	206	5	20,512	15,055	2,578	2,879	9,310	80
28	55,826	14,335	31,884	2,200	5,176	3,530	—	1,646	2,226	2,020	206	4	20,014	14,266	2,624	3,124	9,981	751
Mar. 7	56,470	14,332	32,533	2,200	5,176	3,530	—	1,646	2,226	2,020	206	3	19,863	16,539	2,721	603	9,964	864
15	59,418	14,332	35,482	2,200	5,176	3,530	—	1,646	2,226	2,020	206	2	18,426	15,626	2,716	84	9,100	—
23	59,394	14,332	35,457	2,200	5,176	3,530	—	1,646	2,226	2,020	206	3	18,624	15,793	2,540	291	9,100	—
31	59,353	14,332	35,343	2,200	5,250	3,604	—	1,646	2,226	2,020	206	2	18,407	14,868	2,415	1,124	9,236	136
Apr. 7	62,118	14,332	38,100	2,200	5,257	3,604	—	1,653	2,226	2,020	206	3	18,427	15,933	2,421	73	9,145	75
15	62,548	14,332	38,512	2,200	5,275	3,622	—	1,653	2,226	2,020	206	3	16,420	14,021	2,351	48	9,129	59
23	62,570	14,332	38,498	2,200	5,312	3,659	—	1,653	2,226	2,020	206	2	14,554	12,332	2,109	113	9,205	135
30	62,691	14,520	38,685	2,200	5,124	3,471	—	1,653	2,159	2,020	139	3	14,409	12,087	2,115	207	9,372	302
May 7	70,757	14,520	46,725	2,200	5,145	3,491	—	1,654	2,159	2,020	139	8	14,188	11,938	2,117	133	9,288	218
15	70,886	14,520	46,858	2,200	5,140	3,484	—	1,656	2,159	2,020	139	9	12,894	10,823	2,050	21	9,242	172
23	70,817	14,540	46,769	2,200	5,140	3,484	—	1,656	2,159	2,020	139	9	11,375	9,300	2,020	55	9,077	7
31	70,872	14,540	46,840	2,200	5,140	3,484	—	1,656	2,145	2,020	125	7	9,820	7,908	1,866	46	9,170	100
June 7	71,845	14,582	47,771	2,200	5,140	3,484	—	1,656	2,145	2,020	125	7	14,554	11,988	2,081	485	9,201	131
15	68,565	14,582	44,403	2,200	5,228	3,572	—	1,656	2,145	2,020	125	7	19,217	14,180	2,313	2,724	9,262	132
23	64,722	14,582	40,564	2,200	5,226	3,570	—	1,656	2,145	2,020	125	5	25,774	15,858	2,757	7,159	9,187	37
30	62,880	14,579	38,650	2,200	5,301	3,645	—	1,656	2,145	2,020	125	5	21,023	17,704	2,944	375	9,200	396
July 7	64,395	14,579	40,078	2,200	5,388	3,732	—	1,656	2,145	2,020	125	5	22,351	18,031	2,945	1,375	9,312	508
15	64,317	14,580	39,929	2,200	5,458	3,802	—	1,656	2,145	2,020	125	5	21,424	17,884	3,026	514	8,939	195
23	63,679	14,580	39,266	2,200	5,469	3,813	—	1,656	2,159	2,020	139	5	22,831	18,394	2,954	1,479	9,033	289
31	64,249	14,687	39,836	2,200	5,362	3,706	—	1,656	2,159	2,020	139	5	20,908	17,974	2,867	67	9,819	1,058
Aug. 7	63,166	14,687	38,550	2,200	5,383	3,727	—	1,656	2,340	2,200	140	6	21,535	18,149	2,910	476	10,492	1,674
15	63,327	14,687	38,692	2,200	5,404	3,748	—	1,656	2,340	2,200	140	4	20,803	17,855	2,881	67	10,360	1,542
23	63,537	14,687	38,869	2,200	5,437	3,781	—	1,656	2,340	2,200	140	4	21,552	18,065	2,810	677	8,825	7
31	63,471	14,687	38,802	2,200	5,437	3,781	—	1,656	2,340	2,200	140	5	21,509	17,897	2,704	908	9,685	884
Sep. 7	63,576	14,687	38,907	2,200	5,437	3,781	—	1,656	2,340	2,200	140	5	22,163	18,772	2,655	736	10,474	1,673
15	63,808	14,687	39,118	2,200	5,459	3,802	—	1,657	2,339	2,200	139	5	22,035	18,183	2,547	1,305	9,399	298
23	63,857	14,687	39,172	2,200	5,469	3,812	—	1,657	2,325	2,200	125	4	24,412	18,802	2,194	3,416	9,101	—
30	64,262	14,687	39,576	2,200	5,469	3,812	—	1,657	2,325	2,200	125	5	22,667	18,297	2,009	2,361	9,282	120
Oct. 7	64,514	14,687	39,812	2,200	5,485	3,828	—	1,657	2,325	2,200	125	5	21,741	18,081	1,802	1,858	9,451	289
15	64,875	14,687	40,174	2,200	5,485	3,822	—	1,663	2,325	2,200	125	4	24,452	18,392	1,821	4,239	8,962	100
23	64,969	14,687	40,236	2,200	5,517	3,854	—	1,663	2,325	2,200	125	4	26,969	19,435	1,750	5,784	8,862	—
31	65,005	14,687	40,472	2,000	5,517	3,854	—	1,663	2,325	2,200	125	4	22,151	19,748	1,760	643	9,020	158
Nov. 7	65,076	14,687	40,579	2,000	5,480	3,817	—	1,663	2,325	2,200	125	5	21,019	19,235	1,700	84	9,305	443
15	65,185	14,687	40,653	2,000	5,515	3,852	—	1,663	2,325	2,200	125	5	18,421	16,785	1,551	85	8,844	65
23	65,278	14,687	40,748	2,000	5,515	3,852	—	1,663	2,325	2,200	125	3	18,189	15,151	1,492	1,546	8,779	—
30	65,609	14,687	41,062	2,000	5,530	3,867	—	1,663	2,325	2,200	125	5	18,634	16,079	1,527	1,028	9,605	826
Dec. 7	66,030	14,687	41,489	2,000	5,525	3,862	—	1,663	2,325	2,200	125	4	21,722	16,998	1,543	3,181	10,172	1,393
15	66,424	14,687	41,824	2,000	5,584	3,921	—	1,663	2,325	2,200	125	4	20,467	16,813	1,629	2,025	9,965	1,186
23	61,199	14,687	36,620	2,000	5,580	3,917	—	1,663	2,309	2,184	125	3	22,110	16,259	1,584	4,267	8,839	95
31	62,219	14,688	37,638	2,000	5,580	3,917	—	1,663	2,309	2,184	125	4	18,810	15,802	1,612	1,396	11,150	2,349

1 Up to February 28, 1971 "Foreign notes and coins, and foreign cheques".

and claims on Federal Government, Federal special funds and Länder Governments											Securities								
advances (book credit)			Treasury bills and discountable Treasury bonds				Equalisation claims and non-interest-bearing debt certificate			Claim on Federal Government in respect of acquisition of claims resulting from post-war economic aid		of which						
Federal Government	Federal special funds	Länder Governments	Total	Federal Government	Federal special funds	Länder Governments	Total	Equalisation claims	Non-interest-bearing debt certificate		Total	Medium-term notes	German coins	Balances on postal giro account	Other assets	Compensatory amount required for new valuation of foreign currency assets and liabilities	Total	Date of return
																		1971
2,266	36	200	284	—	284	—	8,683	8,136	547	387	746	189	172	257	1,010	—	82,611	Jan. 7
1,854	—	41	234	—	234	—	8,683	8,136	547	387	731	179	194	207	1,153	—	85,275	15
—	—	32	234	—	234	—	8,683	8,136	547	387	729	179	208	161	936	—	86,113	23
903	266	231	123	—	123	—	8,683	8,136	547	387	728	179	206	562	1,649	—	87,368	31
1,080	82	161	140	—	140	—	8,683	8,136	547	387	535	80	214	207	1,159	—	86 452	Feb. 7
1,202	—	96	140	—	140	—	8,683	8,136	547	387	530	75	226	159	953	—	85,605	15
—	—	80	160	—	160	—	8,683	8,136	547	387	532	78	222	197	1,734	—	86,472	23
490	50	211	160	—	160	—	8,683	8,136	547	387	532	78	214	518	1,810	—	88,895	28
662	24	178	30	—	30	—	8,683	8,136	547	387	716	262	213	183	1,156	—	88,565	Mar. 7
—	—	—	30	—	30	—	8,683	8,136	547	387	810	357	217	173	1,030	—	89,174	15
—	—	—	30	—	30	—	8,683	8,136	547	387	808	357	216	174	1,147	—	89,463	23
—	100	36	30	—	30	—	8,683	8,136	547	387	807	357	207	516	2,307	—	90,833	31
—	—	75	—	—	—	—	8,683	8,136	547	387	865	419	192	177	1,390	—	92,314	Apr. 7
—	—	59	—	—	—	—	8,683	8,136	547	387	1,140	694	186	201	1,671	—	91,295	15
—	—	135	—	—	—	—	8,683	8,136	547	387	1,136	694	191	171	1,163	—	88,990	23
—	49	253	—	—	—	—	8,683	8,136	547	387	1,136	694	183	281	1,517	—	89,589	30
—	—	218	—	—	—	—	8,683	8,136	547	387	1,159	719	186	164	1,119	—	96,861	May 7
—	—	172	—	—	—	—	8,683	8,136	547	387	1,159	719	187	168	908	—	95,444	15
—	—	7	—	—	—	—	8,683	8,136	547	387	1,160	721	183	140	1,193	—	93,945	23
—	—	100	—	—	—	—	8,683	8,136	547	387	1,160	721	172	626	2,410	—	94,230	31
—	—	131	—	—	—	—	8,683	8,136	547	387	1,106	667	175	193	1,196	—	98,270	June 7
—	100	32	60	—	60	—	8,683	8,136	547	387	1,180	742	181	179	1,387	—	99,971	15
—	—	37	80	—	80	—	8,683	8,136	547	387	1,188	749	183	235	1,479	—	102,768	23
—	291	105	80	—	80	—	8,683	8,136	547	41	1,190	749	177	922	2,375	—	97,767	30
176	144	188	80	—	80	—	8,683	8,136	547	41	1,106	665	175	239	1,215	—	98,793	July 7
—	136	59	20	—	20	—	8,683	8,136	547	41	1,125	684	180	184	1,164	—	97,333	15
—	166	123	20	—	20	—	8,683	8,136	547	41	1,125	684	211	131	1,247	—	98,257	23
545	278	235	37	—	37	—	8,683	8,136	547	41	1,125	684	209	324	1,459	—	98,093	31
1,296	68	310	94	—	94	—	8,683	8,136	547	41	955	607	219	205	1,244	—	97,816	Aug. 7
1,341	75	126	94	—	94	—	8,683	8,136	547	41	955	607	230	213	1,018	—	96,906	15
—	7	—	94	—	94	—	8,683	8,136	547	41	957	609	235	140	952	—	96,198	23
634	151	99	77	—	77	—	8,683	8,136	547	41	956	609	224	505	1,933	—	98,283	31
1,556	37	80	77	—	77	—	8,683	8,136	547	41	939	592	219	197	1,098	—	98,666	Sep. 7
283	—	15	377	300	77	—	8,683	8,136	547	41	924	592	230	217	1,507	—	98,120	15
—	—	—	377	300	77	—	8,683	8,136	547	41	924	592	231	160	1,085	—	99,770	23
—	100	20	438	300	138	—	8,683	8,136	547	41	925	592	217	667	2,022	—	100,042	30
167	100	22	438	300	138	—	8,683	8,136	547	41	781	448	214	211	1,194	—	98,106	Oct. 7
—	100	—	138	—	138	—	8,683	8,136	547	41	781	448	206	164	1,251	—	100,691	15
—	—	—	138	—	138	—	8,683	8,136	547	41	781	448	203	144	1,398	—	103,326	23
—	30	128	138	—	138	—	8,683	8,136	547	41	781	448	201	470	1,938	—	99,566	31
242	—	201	138	—	138	—	8,683	8,136	547	41	780	448	210	189	1,434	—	98,013	Nov. 7
—	—	65	55	—	55	—	8,683	8,136	547	41	780	448	221	139	1,348	—	94,938	15
—	—	—	55	—	55	—	8,683	8,136	547	41	783	451	215	173	1,396	—	94,813	23
498	100	228	55	—	55	—	8,683	8,136	547	41	783	451	198	553	2,705	—	98,087	30
1,105	—	288	55	—	55	—	8,683	8,136	547	41	715	384	189	239	1,358	—	100,425	Dec. 7
1,173	—	13	55	—	55	—	8,683	8,136	547	41	715	384	211	167	1 552	—	99,501	15
—	—	95	20	—	20	—	8,683	8,136	547	41	699	384	221	203	1,957	5,998	101,226	23
1,717	25	607	77	—	77	—	8,683	8,136	547	41	588	248	251	367	1,654	5,996	101,035	31

Returns of the Deutsche Bundesbank (cont'd)

Millions of Deutsche Mark

Date of return	Liabilities: Bank notes in circulation	Deposits of banks: Total	Deposits of banks: on giro account	Deposits of banks: Other	Deposits of public authorities: Total	Federal Government	Equalisation of Burdens Fund and ERP Special Fund	Länder Governments	Other public depositors	Special deposits: Total	Anticyclical reserves: Total	Anticyclical reserves: of Federal Government	Anticyclical reserves: of Länder Governments	Anticyclical surcharge on income taxes	Other (Federal education loan)
1971 Jan. 7	35,197	25,275	25,257	18	6,466	13	423	576	37	5,417	2,936	1,500	1,436	2,225	256
15	34,517	27,592	27,574	18	7,595	17	574	1,433	38	5,533	2,936	1,500	1,436	2,337	260
23	32,749	28,020	28,001	19	9,382	891	561	2,152	45	5,733	2,936	1,500	1,436	2,537	260
31	35,659	26,830	26,809	21	7,682	21	538	1,259	32	5,832	2,936	1,500	1,436	2,636	260
Feb. 7	34,751	27,828	27,806	22	7,499	9	492	1,113	23	5,862	2,936	1,500	1,436	2,666	260
15	33,719	26,988	26,966	22	8,497	32	581	1,916	41	5,927	2,936	1,500	1,436	2,731	260
23	32,333	25,811	25,786	25	10,393	1,512	505	2,243	39	6,094	2,936	1,500	1,436	2,898	260
28	36,001	26,108	26,084	24	8,523	18	467	1,845	40	6,153	2,936	1,500	1,436	2,957	260
Mar. 7	35,473	28,064	28,041	23	8,248	12	357	1,653	29	6,197	2,936	1,500	1,436	3,001	260
15	34,401	27,909	27,887	22	10,488	128	454	3,520	36	6,350	2,936	1,500	1,436	3,154	260
23	32,379	25,429	25,405	24	15,728	3,705	442	4,766	46	6,769	2,936	1,500	1,436	3,573	260
31	36,150	25,526	25,502	24	11,350	1,276	289	2,800	42	6,943	2,936	1,500	1,436	3,747	260
Apr. 7	35,536	30,318	30,295	23	10,250	801	329	2,097	27	6,996	2,936	1,500	1,436	3,800	260
15	34,574	29,184	29,160	24	11,024	970	386	2,554	29	7,085	2,936	1,500	1,436	3,889	260
23	33,201	24,062	24,038	24	14,476	3,415	374	3,375	41	7,271	2,936	1,500	1,436	4,075	260
30	37,255	24,467	24,444	23	10,701	1,364	237	1,712	30	7,358	2,936	1,500	1,436	4,162	260
May 7	36,132	34,103	34,080	23	9,836	826	440	1,145	25	7,400	2,936	1,500	1,436	4,204	260
15	35,731	32,198	32,174	24	10,314	1,047	439	1,297	39	7,492	2,936	1,500	1,436	4,296	260
23	34,636	28,466	28,441	25	13,756	2,993	540	2,551	60	7,612	2,936	1,500	1,436	4,416	260
31	38,065	26,650	26,624	26	10,888	1,022	395	1,697	51	7,723	2,936	1,500	1,436	4,527	260
June 7	36,243	34,792	34,763	29	10,116	421	396	1,505	32	7,762	2,936	1,500	1,436	4,566	260
15	35,583	35,909	35,880	29	12,127	887	467	2,849	27	7,897	2,936	1,500	1,436	4,701	260
23	33,938	35,985	35,957	28	17,300	4,801	443	3,739	55	8,262	2,936	1,500	1,436	5,066	260
30	37,819	30,923	30,894	29	12,373	1,085	174	2,517	72	8,525	2,936	1,500	1,436	5,329	260
July 7	36,995	35,956	35,927	29	10,507	27	213	1,641	28	8,598	2,936	1,500	1,436	5,402	260
15	37,112	33,492	33,462	30	11,688	144	550	2,238	35	8,721	2,936	1,500	1,436	5,525	260
23	35,917	32,325	32,295	30	14,789	2,405	499	2,950	29	8,906	2,936	1,500	1,436	5,710	260
31	39,332	32,391	32,362	29	10,595	12	450	1,142	32	8,959	2,936	1,500	1,436	5,763	260
Aug. 7	38,161	34,503	34,470	33	10,274	13	408	836	42	8,975	2,936	1,500	1,436	5,779	260
15	37,608	33,590	33,559	31	10,791	21	380	1,352	35	9,003	2,936	1,500	1,436	5,807	260
23	35,655	31,995	31,962	33	13,960	1,807	390	2,712	39	9,012	2,936	1,500	1,436	5,816	260
31	38,682	32,392	32,362	30	11,062	21	350	1,644	32	9,015	2,936	1,500	1,436	5,819	260
Sep. 7	37,510	34,882	34,853	29	11,022	19	350	1,604	33	9,016	2,936	1,500	1,436	5,820	260
15	36,852	32,993	32,961	32	12,831	67	424	3,280	44	9,016	2,936	1,500	1,436	5,820	260
23	35,126	31,760	31,727	33	17,558	2,911	485	4,578	67	9,517	3,436	2,000	1,436	5,821	260
30	38,585	31,547	31,515	32	13,299	668	388	2,508	47	9,688	3,607	2,000	1,607	5,821	260
Oct. 7	37,397	32,796	32,766	30	12,335	14	479	2,119	35	9,688	3,607	2,000	1,607	5,821	260
15	37,048	34 534	34,504	30	13,520	569	500	2,722	36	9,693	3,607	2,000	1,607	5,826	260
23	35,199	36,579	36,548	31	16,023	2,377	437	3,458	56	9,695	3,607	2,000	1,607	5,828	260
31	38,651	33,212	33,181	31	11,643	419	279	1,219	31	9,695	3,607	2,000	1,607	5,828	260
Nov. 7	37,431	34,120	34,088	32	11,043	27	500	789	32	9,695	3,607	2,000	1,607	5,828	260
15	36,507	30,374	30,343	31	11,809	159	435	1,455	44	9,716	3,607	2,000	1,607	5,849	260
23	34,809	28,252	28,218	34	15,326	2,679	505	2,356	52	9,734	3,607	2,000	1,607	5,867	260
30	39,790	29,545	29,513	32	11,152	29	314	1,034	36	9,739	3,607	2,000	1,607	5,872	260
Dec. 7	39,606	33,480	33,448	32	11,109	23	381	917	46	9,742	3,607	2,000	1,607	5,875	260
15	39,140	31,736	31,704	32	12,351	156	231	2,180	39	9,745	3,607	2,000	1,607	5,878	260
23	38,744	31,677	31,658	19	13,804	567	380	2,779	68	10,010	4,131	2,500	1,631	5,879	—
31	39,494	32,609	32,590	19	10,943	69	287	510	67	10,010	4,131	2,500	1,631	5,879	—

Deposits of other German depositors				Liabilities for mobilisation and liquidity paper sold	Liabilities in respect of foreign business			Contra-entry to special drawing rights allocated	Provisions	Capital	Reserves	Other liabilities	Total	Memo item: Currency (bank notes and coin)	Date of return
Total	Federal Railways	Federal Post Office (incl. postal giro and postal savings bank offices)	Other depositors		Total	Deposits of foreign depositors	Other								
1,647	5	1,308	334	7,566	524	457	67	1,364	1,170	290	860	2,252	82,611	38,201	1971 Jan. 7
910	3	601	306	8,308	392	345	47	1,364	1,170	290	860	2,277	85,275	37,507	15
958	2	681	275	8,673	313	285	28	1,364	1,170	290	860	2,334	86,113	35,733	23
2,159	3	1,841	315	8,696	288	272	16	1,364	1,170	290	860	2,370	87,368	38,653	31
1,114	3	811	300	8,602	488	459	29	1,364	1,170	290	860	2,486	86,452	37,744	Feb. 7
1,021	3	699	319	8,822	362	325	37	1,364	1,170	290	860	2,512	85,605	36,709	15
2,175	6	1,857	312	9,229	335	305	30	1,364	1,170	290	860	2,512	86,472	35,332	23
2,462	4	2,142	316	9,194	394	374	20	1,364	1,170	290	860	2,529	88,895	39,011	28
1,025	4	723	298	9,127	337	311	26	1,364	1,170	290	860	2,607	88,565	38,488	Mar. 7
1,208	3	886	319	8,526	319	280	39	1,364	1,170	290	860	2,639	89,174	37,418	15
1,234	3	922	309	7,967	336	306	30	1,364	1,170	290	860	2,706	89,463	35,402	23
2,837	4	2,478	355	8,258	289	274	15	1,364	1,170	290	860	2,739	90,833	39,188	31
1,763	5	1,400	358	8,248	301	288	13	1,364	2,370	290	1,080	794	92,314	38,591	Apr. 7
1,362	4	970	388	8,761	431	416	15	1,364	2,370	290	1,080	855	91,295	37,639	15
1,658	4	1,283	371	9,169	430	388	42	1,364	2,370	290	1,080	890	88,990	36,266	23
1,710	3	1,301	406	9,033	407	376	31	1,364	2,370	290	1,080	912	89,589	40,336	30
1,237	2	837	398	9,063	845	833	12	1,364	2,370	290	1,080	952	95,444	39,216	May 7
1,176	4	809	363	8,947	627	610	17	1,364	2,370	290	1,080	936	96,861	38,818	15
1,321	5	936	380	8,878	782	761	21	1,364	2,370	290	1,080	1,002	93,945	37,729	23
2,788	8	2,388	392	9,105	630	596	34	1,364	2,370	290	1,080	1,000	94,230	41,177	31
1,375	3	988	384	8,900	629	616	13	1,364	2,370	290	1,080	1,111	98,270	39,357	June 7
1,733	3	1,345	385	7,784	571	557	14	1,364	2,370	290	1,080	1,160	99,971	38,699	15
1,639	3	1,268	368	6,889	643	622	21	1,364	2,370	290	1,080	1,270	102,768	37,057	23
3,319	5	2,877	437	6,157	623	593	30	1,364	2,370	290	1,080	1,449	97,767	40,950	30
1,887	4	1,494	389	6,299	596	585	11	1,364	2,370	290	1,080	1,449	98,793	40,130	July 7
1,655	4	1,259	392	6,241	641	585	56	1,364	2,370	290	1,080	1,400	97,333	40,249	15
1,765	3	1,405	357	6,377	548	509	39	1,364	2,370	290	1,080	1,432	98,257	39,210	23
2,338	5	1,943	390	6,359	536	516	20	1,364	2,370	290	1,080	1,438	98,093	42,642	31
1,686	5	1,316	365	6,114	409	373	36	1,364	2,370	290	1,080	1,565	97,816	41,473	Aug. 7
1,494	7	1,132	355	6,291	470	422	48	1,364	2,370	290	1,080	1,558	96,906	40,921	15
1,081	2	716	363	6,289	517	507	10	1,364	2,370	290	1,080	1,597	96,198	38,970	23
2,606	13	2,206	387	6,364	437	422	15	1,364	2,370	290	1,080	1,636	98,283	42,016	31
1,886	3	1,503	380	6,207	342	331	11	1,364	2,370	290	1,080	1,713	98,666	40,880	Sep. 7
1,785	16	1,400	369	6,400	426	391	35	1,364	2,370	290	1,080	1,729	98,120	40,228	15
1,541	3	1,181	357	6,412	545	501	44	1,364	2,370	290	1,080	1,724	99,770	38,510	23
3,122	4	2,738	380	6,171	455	423	32	1,364	2,370	290	1,080	1,759	100,042	41,987	30
2,037	5	1,653	379	6,165	446	429	17	1,364	2,370	290	1,080	1,826	98,106	40,810	Oct. 7
1,546	8	1,180	358	6,461	629	581	48	1,364	2,370	290	1,080	1,849	100,691	40,475	15
1,584	3	1,218	363	6,408	512	499	13	1,364	2,370	290	1,080	1,917	103,326	38,636	23
2,050	8	1,672	370	6,337	626	609	17	1,364	2,370	290	1,080	1,943	99,566	42,095	31
1,396	5	1,017	374	6,432	532	493	39	1,364	2,370	290	1,080	1,955	98,013	40,870	Nov. 7
1,239	3	812	424	7,353	634	600	34	1,364	2,370	290	1,080	1,918	94,938	39,944	15
1,174	3	786	385	7,694	516	506	10	1,364	2,370	290	1,080	1,938	94,813	38,258	23
2,563	5	2,149	409	7,367	587	576	11	1,364	2,370	290	1,080	1,979	98,087	43,284	30
1,249	4	845	400	7,259	586	581	5	1,364	2,370	290	1,080	2,032	100,425	43,122	Dec. 7
1,609	4	1,163	442	6,590	918	875	43	1,364	2,370	290	1,080	2,053	99,501	42,827	15
2,098	3	1,619	476	6,582	1,030	957	73	1,364	2,370	290	1,080	2,187	101,226	42,440	23
2,227	5	1,735	487	6,477	967	941	26	1,364	2,370	290	1,080	3,214	101,035	43,159	31

Turnover on the giro accounts of the Deutsche Bundesbank

Area	Debits				Credits			
	1970		1971		1970		1971	
	'000 1	DM million	'000 1	DM million	'000 1	DM million	'000 1	DM million
Land Central Bank								
Baden-Württemberg	35,477	478,694	40,817	560,629	42,600	480,277	51,248	562,027
Bavaria	46,783	540,075	46,438	639,340	42,069	542,329	47,063	640,812
Berlin	3,298	96,382	3,641	108,860	3,337	96,679	3,590	109,041
Bremen	5,093	61,622	5,420	72,085	5,927	61,885	6,236	72,208
Hamburg	10,105	490,483	11,577	615,674	17,695	491,237	25,489	616,614
Hesse	30,246	883,910	34,971	1,108,084	29,545	885,799	34,328	1,110,176
Lower Saxony	27,060	253,561	30,232	306,419	26,607	254,613	29,631	306,986
North Rhine-Westphalia	74,830	1,484,619	82,449	1,776,333	78,487	1,487,217	88,333	1,778,600
Rhineland-Palatinate	14,225	157,696	15,588	185,806	17,475	158,222	20,165	186,351
Saarland	3,254	38,431	3,799	46,491	2,986	38,651	3,413	46,605
Schleswig-Holstein	7,526	68,501	8,339	81,027	6,600	68,798	7,096	81,171
Total	257,897	4,553,974	283,271	5,500,748	273,328	4,565,707	316,592	5,510,591
Bundesbank — Central Office —	542	406,069	576	446,287	530	408,040	560	447,432
Grand total	258,439	4,960,043	283,847	5,947,035	273,858	4,973,747	317,152	5,958,023

1 Number of transactions

Simplified collection of cheques and debit transfer orders

Area	Lodged				Paid			
	1970		1971		1970		1971	
	'000	DM million	'000	DM million	'000	DM million	'000	DM million
Land Central Bank								
Baden-Württemberg	28,438	71,296	36,745	87,386	25,168	69,033	29,717	83,179
Bavaria	28,241	62,335	33,475	72,808	26,000	68,987	29,429	81,684
Berlin	2,379	9,364	2,605	10,078	2,116	8,169	2,251	9,039
Bremen	4,387	9,265	4,777	11,633	3,280	8,173	3,555	10,029
Hamburg	12,526	31,714	19,903	41,086	5,612	26,106	6,529	29,912
Hesse	20,716	59,530	24,994	68,891	22,763	66,018	27,045	79,620
Lower Saxony	18,308	41,386	21,169	47,840	20,159	44,352	22,731	51,314
North Rhine-Westphalia	54,440	159,764	64,108	179,475	52,873	153,014	59,682	172,790
Rhineland-Palatinate	11,777	25,329	14,525	29,860	9,546	25,414	10,663	29,370
Saarland	1,824	5,133	2,227	6,299	2,093	5,009	2,541	6,268
Schleswig-Holstein	3,830	7,641	4,363	9,443	5,055	9,407	5,758	11,778
Total	186,866	482,757	228,891	564,799	174,665	483,682	199,901	564,983
Bundesbank — Central Office —	18	63	31	92	8	28	12	19
Grand total	186,884	482,820	228,922	564,891	174,673	483,710	199,913	565,002

Simplified collection of foreign cheques*

Land Central Bank	1970		1971	
	Number	DM '000	Number	DM '000
Baden-Württemberg	19,801	47,441	18,377	50,370
Bavaria	72,565	91,320	65,707	76,731
Berlin	236	27	490	114
Bremen	—	—	91	213
Hamburg	—	—	58	6,257
Hesse	7,224	3,086	4,552	10,151
Lower Saxony	13,793	6,381	12,100	9,778
North Rhine-Westfalia	3,804	15,498	4,907	9,244
Rhineland-Palatinate	10,055	8,060	9,221	7,055
Saarland	5	820	1,191	82,263
Schleswig-Holstein	1,161	531	1,750	792
Total	128,644	173,164	118,444	252,968

* Up to February 28, 1971 purchase of foreign cheques.

Certified cheques

Land Central Bank	1970 Number	1970 DM million	1971 Number	1971 DM million
Baden-Württemberg	1,851	3,661	1,953	3,925
Bavaria	897	1,718	765	1,350
Berlin	61	14	100	12
Bremen	38	1	56	3
Hamburg	193	166	399	59
Hesse	1,573	2,291	1,399	2,210
Lower Saxony	399	15	331	14
North Rhine-Westphalia	8,674	20,297	8,280	22,013
Rhineland-Palatinate	302	312	384	465
Saarland	6	—	5	1
Schleswig-Holstein	222	172	312	293
Total	14,216	28,647	13,984	30,345

Telegraphic giro transactions

telegraphic giro transfers dispatched

Area	1970 '000	1970 DM million	1971 '000	1971 DM million
Land Central Bank				
Baden-Württemberg	45	87,184	44	101,041
Bavaria	45	98,504	44	109 686
Berlin	5	24,479	5	26,453
Bremen	4	8,178	4	9,859
Hamburg	18	56,012	18	61,175
Hesse	49	200,798	49	238,412
Lower Saxony	25	47,433	25	60,327
North Rhine-Westphalia	76	271,683	78	317,803
Rhineland-Palatinate	14	30,358	15	38,142
Saarland	3	6,112	3	6,428
Schleswig-Holstein	7	11,609	7	12,251
Total	291	842,350	292	981,577
Bundesbank – Central Office –	8	6,188	7	7,395
Grand total	299	848,538	299	988,972

Turnover in clearing transactions

	1970						1971					
	Bills, cheques, etc., lodged		Local transfers lodged		Total		Bills, cheques, etc., lodged		Local transfers lodged		Total	
Land Central Bank	'000	DM mn	'000	DM mn	'000	DM mn	'000	DM mn	'000	DM mn	'000	DM mn
Baden-Württemberg	31,094	102,833	14,699	30,173	45,793	133,006	35,172	120,122	17,201	37,319	52,373	157,441
Bavaria	32,538	108,337	22,210	32,692	54,748	141,029	36,190	128,655	25,849	40,012	62,039	168,667
Berlin	7,175	23,295	8,651	36,849	15,826	60,144	8,051	25,928	11,292	46,358	19,343	72,286
Bremen	5,737	15,805	6,971	13,351	12,708	29,156	6,519	17,850	7,691	15,744	14,210	33,594
Hamburg 1	13,835	45,035	40,141	485,062	53,976	530,097	15,938	51,711	45,288	534,153	61,226	585,864
Hesse	27,245	600,826	14,751	1,723,365	41,996	2,324,191	30,920	757,336	17,153	2,456,707	48,073	3,214,043
Lower Saxony	17,892	48,332	11,483	22,441	29,375	70,773	20,113	56,358	12,480	27,851	32,593	84,209
North Rhine-Westphalia	65,823	208,477	32,868	286,763	98,691	495,240	73,316	233,080	37,557	340,028	110,873	573,108
Rhineland-Palatinate	9,448	25,216	5,484	8,183	14,932	33,399	10,561	28,884	6,466	9,345	17,027	38,229
Saarland	2,543	8,294	2,737	11,201	5,280	19,495	2,969	10,001	3,115	13,483	6,084	23,484
Schleswig-Holstein	6,841	13,600	8,907	10,428	15,748	24,028	7,402	16,157	9,473	12,122	16,875	28,279
Total	220,171	1,200,050	168,902	2,660,508	389,073	3,860,558	247,151	1,446,082	193,565	3,533,122	440,716	4,979,204

1 The Hamburg clearing transactions, to which special arrangements apply, include:
1971: 1,877,000 intercity transfers worth DM 4,936 million (1970: 1,667,000 worth DM 4,628 million).

Bank notes in circulation

Position at end of year

Denomination in DM	1968 DM million	1968 %	1969 DM million	1969 %	1970 DM million	1970 %	1971 DM million	1971 %
1,000	1,773.73	5.46	1,949.00	5.63	2,194.65	6.01	2,756.81	6.98
500	1,452.24	4.47	1,670.64	4.83	1,929.58	5.29	2,303.90	5.83
100	16,897.53	51.99	18,162.43	52.47	19,366.67	53.09	21,203.16	53.69
50	7,917.25	24.36	8,166.20	23.59	8,212.35	22.51	8,360.71	21.17
20	2,662.04	8.19	2,773.66	8.01	2,836.96	7.78	2,900.80	7.35
10	1,582.92	4.87	1,677.38	4.84	1,727.76	4.74	1,774.39	4.49
5	213.27	0.66	217.24	0.63	211.72	0.58	193.99	0.40
Total	32,498.98	100.00	34,616.55	100.00	36,479.69	100.00	39,493.76	100.00

Coins in circulation

Position at end of year

Denomination in DM	1968 DM million	1968 %	1969 DM million	1969 %	1970 DM million	1970 %	1971 DM million	1971 %
10.— 1					96.75	3.22	455.51	12.43
5.—	806.84	33.02	885.81	33.33	998.21	33.18	1,131.13	30.86
2.—	389.17	15.93	422.56	15.90	457.10	15.19	501.76	13.69
1.—	617.64	25.27	668.07	25.14	717.11	23.83	767.38	20.94
—.50	285.07	11.67	309.42	11.64	337.78	11.23	360.80	9.84
—.10	213.20	8.72	229.77	8.64	249.22	8.28	282.13	7.70
—.05	69.34	2.84	74.63	2.81	79.81	2.65	86.97	2.37
—.02	22.27	0.91	25.31	0.95	27.87	0.93	31.88	0.87
—.01	40.12	1.64	42.30	1.59	44.86	1.49	47.73	1.30
Total	2,443.65	100.00	2,657.87	100.00	3,008.71	100.00	3,665.29	100.00

1 Issued under the Law on the Striking of an Olympic Games Coin of April 18, 1969 (Federal Law Gazette I, page 305).

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 Elmshorn	Lübeck	SH
284	2970 Emden	Oldenburg	N
358	4240 Emmerich	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-Mülheim	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 a. d. Ruhr	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	Appropriate 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 cf. Villingen-Schwenningen	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-Schwenningen	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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