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Growth of Foreign Dollar Assets Slows as U.S. Payments Position Strengthens

by
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Global Survey

Total (public and private) gold and dollar holdings of foreign countries 1/ increased nearly $700 million the first half of 1961, much less than a $1.7 billion rise the last 6 months of 1960. On June 30, 1961, foreign holdings amounted to $39.8 billion. Holdings of international institutions, mainly the International Monetary Fund and the International Bank for Reconstruction and Development also increased $169 million, to reach a new high of $7.5 billion.

The total increase in gold and dollar assets in this period represents the smallest half-year gain since 1957. The improvement of the U.S. payments position was the main reason for this slowdown in the accumulation of gold and dollars. Part of the improvement was due to large non-repetitive transactions, such as the advance debt payments by West Germany, Netherlands, and the Philippines totaling near $650 million. Thus, most of the net reserve gain by foreign countries represented the acquisition of newly-mined gold or gold sales by the USSR.

Although virtually all the aggregate increase in gold and dollar assets accrued to the more industrialized countries, only five countries of the group of 17 reported large gains. They were France, Canada, Sweden, West Germany, and Japan. The others recorded varying gains or losses. The less developed countries in general continued to draw down reserves, which were already at low levels. In this group, however, Argentina, Malaya, (whose reserves are mainly held in Sterling), Spain and Thailand all showed significant gains.

The gold and dollar assets of industrialized countries from December 31, 1957, to June 30, 1961, increased over 50 percent, to $31.4 billion from $20.3 billion. In the same period total holdings of other countries, mainly less developed, declined 10 percent, to $8.4 billion from $9.4 billion. This reverse trend indicates the need for sales for local currency

1/--Excludes gold reserves of the Soviet Bloc.

Economic Research Service U. S. Department of Agriculture

under Public Law 480. This export program releases in many countries a like amount of dollar and gold assets for buying needed capital goods and materially assists the countries' development programs.

Foreign Countries'1/ Gold and Dollar Assets

	Dec.31 1957	Dec.31 1958	Dec.31 1959	Dec.31 1960	June 30 1961
			Million dollars		
Industrialized countries2/	20,296	24,219	26,927	30,501	31,360
Other countries	9,350	8,953	9,085	8,576	8,416
Total foreign countries	29,646	33,172	36,012	39,077	39,776

1/--Excludes gold holdings of Soviet Bloc.
2/--Includes Class I membership countries of the International Development Association and non-members who would otherwise be classified in this group.

U.S. Agriculture and the World Payment Situation

A principal factor limiting the export of U.S. agricultural products in the early part of the post World War II period was a dollar shortage accompanied by such factors as quantitative trade restrictions, high tariffs, exchange controls, and bilateral balancing of trade and payments. Now, however, the dollar shortage, at least in the more advanced countries, has ceased to exist. Exchange controls are, for the most part, gone and trade controls are reduced.2/ Under these conditions, the magnitude of agricultural imports by the more advanced countries should be determined by supply and demand factors. Similarly, except where trade discrimination is still practiced, the U.S. share of this market depends on overall competitiveness with other supplying countries.

2/--In some countries trade controls are still prevalent affecting products, such as grain, fruits, vegetables, and vegetable oils.

Import demand also can be reduced in industrialized countries over the short run by fiscal and monetary measures taken to correct deterioration in the balance of payments position. These controls, in general, are designed to slowdown, within limits, economic activity within a country. In many instances controls are not selective and hence reduce import demand for all goods, including agricultural products.

Currently, both Japan and the United Kingdom are using monetary restraint to correct balance of payments difficulties arising from the rapid investment taking place in their economies. These two countries, for example, buy large quantities of agricultural commodities from the United States. During the period of retrenchment by such means as credit restraint, U.S. agricultural exports to these two countries will likely decline. Further, it can be expected that users and importers of agricultural commodities will draw first on existing stocks, and then import only on a hand-to-mouth basis until the credit restraining period ends.

In most of the underdeveloped countries low reserve levels and foreign exchange earnings are inadequate to finance both economic development goods and consumer items such as food and fibers. In the short run, many of these countries will probably continue to depend on special programs, such as Public Law 480, for much of their agricultural import requirements, and allocate a large part of their foreign exchange earnings for the import of capital goods.

Since this form of import financing clearly has limits, the aim is a gradual shifting of trade to the dollar payment basis wherever this is feasible. The current balance of payments situation in a number of underdeveloped countries offers encouragement for modest progress toward this objective. In the long run, commercial agricultural market import opportunities will likely develop commensurate with the ability of the underdeveloped countries to earn foreign exchange.

U.S. Balance of Payments

The U.S. balance of payments in the first quarter of 1961 recorded a deficit of $329 million and in the second quarter a surplus of $96 million. Thus, the U.S. payments position in the first 6 months of 1961 amounted to a net deficit of $233 million compared with a deficit of $1,509 million in the same period of 1960.

The improvement in 1961 and in particular the second quarter was due mainly to extraordinary repayments of loans, totaling $722 million. Germany paid $587 million, the Netherlands almost $40 million, and the Philippines $20 million. In addition, other countries paid advance

United States: Balance of payments with foreign countries
First and second quarters 1960 and 1961[1/] (non-adjusted)

	1960 I and II Qtrs	1961 I Qtr	1961 II Qtr	1961 I and II Qtrs
	----------Million dollars----------			
Dollars paid by foreign countries				
U.S. exports of goods and services				
Merchandise	9,601	5,009	4,910	9,919
Services and other transactions	3,714	1,889	2,115	4,004
Foreign long-term investment in U.S.	274	199	248	447
Errors, omissions, and unaccounted (net)	49	---	---	---
Total payments	13,638	7,097	7,273	14,370
Dollars received by foreign countries				
U.S. imports of goods and services				
Merchandise	7,687	3,407	3,469	6,876
Services and other transactions	3,044	1,366	1,638	3,004
Private capital outflow (net)	1,375	980	934	1,914
U.S. Government spending				
Offshore military expenditures	1,523	759	748	1,507
Economic grants and loans (net)	1,409	910	115	1,025
Errors, omissions, and unaccounted (net)	128	9	282	291
Total receipts	15,166	7,431	7,186	14,617
Increase (+) or decrease (-) in foreign gold and liquid dollar assets, resulting from transactions with the U.S.	+1,528	+334	-87	+247

1/--Excludes military grant aid.

Source: Survey of Current Business, September 1961 loans of $75 million not due until the third quarter. The payments deficit would have amounted to $957 million in the first half of 1961[3] without these transactions.

The merchandise trade balance which increased to a surplus of a little over $3.0 billion from $2.0 billion also contributed to the improvement in January-June 1961 over the same period of 1960. This reflected expanding exports and declining imports. U.S. exports were spurred by the European economic boom while U.S. import demand was dampened by the reduced economic activity in the United States. Starting in the second quarter, however, U.S. exports began to decline while imports picked up; and trade data available for July show this trend is continuing. The rise in imports started in response to expansion of U.S. domestic business activity, which also contributed in part to the slowdown in exports.

Highlights in the Industrialized Countries

Reflecting the general leveling off in the rate of foreign accumulation of gold and dollar holdings during the first half of 1961, total reserves of the industrialized countries rose by only $859 million. This included an extreme increase of $701 billion by France; without France, the rise totaled but $158 million. Financial policy in several of the leading countries, however, is aimed at maintaining payments equilibruim, not at striving for additional surpluses. The major changes in gold and dollar assets during January-June were as follows.

France continued to gain reserves; gold and dollars on June 30 totaled a record $2,866 million. The reserve gain of $701 million would have been even larger if France had not made sizeable repayments of overseas loans and credits. Moreover, because of the continued improvement in the reserve position in July--$188 million surplus--the French Government decided to repay in August, ahead of schedule, the whole of the outstanding foreign debts, medium and short-term, contracted with other European countries. These debts totaled $303 million. The remaining external debt, all long-term, will amount to nearly $1.8 billion, of which some $1.4 billion is due the United States. Favorable trade developments and increased receipts from invisibles, such as tourism, are responsible in large measure for the uninterrupted growth of French reserves.

3/--The U.S. balance of payments deficit for the year 1961--omitting the extraordinary transactions--is estimated at $1.9 billion, on the basis of the second quarter results, seasonally adjusted. This would represent a considerable improvement from adverse balances of the years 1958 to 1960, which ranged between $3.5 and $3.9 billion.

Estimated Gold Reserves and Dollar Holdings of Foreign Countries and International Institutions

Area and country	Dec.31,1957	Dec.31,1958	Dec.31,1959	Dec.31,1960	June 30,1961p	Change since Dec.31,1960
			Million U.S. Dollars			
Western Europe:						
Austria	460	612	630	539	483	-56
Belgium	1,053	1,391	1,279	1,318	1,311	-7
Denmark	149	206	232	116	112	-4
Finland	104	105	110	87	114	27
France	944	1,294	1,980	2,165	2,866	701
Germany (Federal Republic of)	4,113	4,407	4,640	6,450	6,591	141
Greece	167	143	212	139	136	-3
Italy	1,533	2,209	3,119	3,080	3,053	-27
Netherlands	957	1,399	1,634	1,783	1,737	-46
Norway	243	293	266	259	263	4
Portugal	603	656	687	637	547	-90
Spain	128	96	157	328	353	25
Sweden	484	517	505	479	625	146
Switzerland	2,813	2,853	2,991	2,957	2,937	-20
Turkey	162	164	164	152	150	-2
United Kingdom	3,080	3,917	3,813	4,887	4,548	-339
Other 1/	770	899	648	569	658	89
Total	17,763	21,161	23,067	25,945	26,484	539
Canada	3,180	3,438	3,610	3,770	4,025	255
Latin America:						
Argentina	263	210	393	420	476	56
Brazil	457	464	479	483	476	-7
Chile	116	140	228	180	171	-9
Colombia	215	241	288	237	203	-34
Cuba	525	452	296	79	59	-20
Guatemala	92	69	61	68	83	15
Mexico	569	565	587	541	475	-66
Panama, Republic of	137	148	132	124	79	-45
Peru	88	96	111	114	119	5
Uruguay	236	262	242	232	231	-1
Venezuela	1,556	1,215	932	797	827	30
Other 2/	290	261	265	370	339	-31
Total	4,544	4,123	4,014	3,645	3,538	-107
Asia:						
India	330	324	361	342	294	-48
Indonesia	190	145	173	237	143	-94
Iran	193	184	187	152	178	26
Japan	716	1,095	1,566	2,169	2,265	96
Philippines	186	189	184	220	185	-35
Thailand	270	246	246	290	331	41
Other	1,052	1,068	1,291	1,034	1,055	21
Total	2,937	3,251	4,008	4,444	4,451	7
All Other:						
Australia	211	241	264	235	238	3
Egyptian Region--U.A.R.	228	190	194	196	190	-6
Union of South Africa	256	242	288	207	192	-15
Other 3/	527	526	567	635	658	23
Total	1,222	1,199	1,313	1,273	1,278	5
Total foreign countries 4/	29,646	33,172	36,012	39,077	39,776	699
International Institutions	2,919	3,371	6,225	7,294	7,463	169
Grand total 4/	32,565	36,543	42,237	46,371	47,239	868

p. Preliminary
1/ Includes other Western European countries, unpublished gold reserves, gold to be distributed by the Tripartite Commission, E.P.U., E.F., B.I.S.; the figures for the gold reserves of the B.I.S. represent the Bank's net gold assets.
2/ Includes other Latin American republics and the Inter-American Development Bank.
3/ Includes unspecified countries in Africa, Oceania, and Eastern Europe, and all Western European dependencies located outside Europe and Asia.
4/ Excludes gold reserves of the U.S.S.R., other Eastern European countries, and China Mainland.

Source: Federal Reserve Board and U.S. Treasury Bulletin

Sweden also experienced a large proportional increase in reserves to $625 million from $479 million. This improvement is attributable to an increased recourse to foreign credits because of the monetary contraction and relatively high interest rates in Sweden.

A large part of Canada's increase in reserves, amounting to $255 million, was due to a greatly reduced trade deficit and a continued inflow of capital.

West Germany's already large reserves increased $141 million in spite of large debt repayments to the United States. Most of this gain, as in previous years, reflected Germany's exceptionally large trade surplus and capital inflows. The Netherlands, because of a $40 million repayment to the United States, did achieve near equilibrium in balance of payments.

Japan's reported gold and dollar assets show a gain of $96 million. But during the same period dollar liabilities went to $1,277 million from $807 million, a rise of $470 million. Hence, Japan's position actually worsened by about $374 million. This deterioration was brought about by the import demand generated by a booming domestic economy.

The United Kingdom lost large amounts of gold and dollar assets--$339 million--in the January-June period. In July reserves fell further, the largest month's loss since December 1951. Most of the decline was attributed to a massive outflow of short-term capital. Also, heavy speculative liquid capital movements from sterling to other European currencies caused the Bank of England to draw on reserves to keep the exchange rate steady. On July 25, 1961 the monetary authorities introduced stringent economic measures in an effort to reverse the flow of funds. The bank rate, which governs most other interest rates, was increased to 7 from 5 percent. The U.K. also drew from the International Monetary Fund $1.5 billion in various currencies and an additional $500 million standby, to be used if necessary. These measures met with success; the outflow of capital stopped; the pound sterling consistently gained strength and on August 2, reached par with the U.S. dollar ($2.80) for the first time since mid-April. These gains permitted an easing of the bank rate to 6½ from 7 percent in October.

Austria and Italy experienced declines of $56 million and $27 million, respectively. In both instances, the fall was due to the vigorous expansion in the domestic economy which stimulated imports. Tourist receipts during the summer months likely helped offset the widening trade deficit.

Highlights in the Less Developed Countries

Reserves increased among only a few of the less developed countries and decreased slightly for the group as a whole. Although the increase of activity in industrialized countries benefited the less developed countries' exports, mainly primary products, imports rose faster than exports. Principally economic development programs and in some instances inflationary pressures brought about by policies financing the programs increased import demand. Trade deficit of the less developed countries as a group more than offset capital receipts and aid from industrialized countries. The outstanding changes during January-June were as follows.

Four countries registered notable reserve gains. Argentina's gold and dollar assets rose $56 million reaching a total of $476 million at the end of June. This continued the improvement brought about by a stabilization program adopted in January 1959. Since 1959 reserves have more than doubled and stability has been attained in most sectors of the economy. Thus once again substantial foreign investment is attracted. Although imports have steadily been trending upward, the trade deficit was more than offset by the receipt of foreign investment capital.

Thailand's reserves increased $41 million to a new high of $331 million mainly because of a substantial trade surplus. Exports of most commodities registered gains and, in particular, earnings from rubber, tin, rice, tapioca, and teak rose substantially. Imports also increased, but at a far lesser rate than exports. In October, Thailand inaugurated a 6-year development program to diversify production in industry, and in the agricultural sector which provides a livelihood for 80 percent of the population. The cost will be met by substantial inflow of foreign capital, both private and governmental assistance, from industrialized countries.

Malaya's external financial position, like its neighbor Thailand, also improved as a result of increased earnings from rubber and tin. There was, however, a substantial increase in imports, mainly capital goods, causing the trade surplus to be smaller than during the same period of 1960. The larger import volume was facilitated by a trade climate almost entirely free from restrictions since June 1960.

As of June 30, Spain's gold and dollar assets amounted to $343 million. In addition, Spain held over $300 million in other convertible foreign currencies (mainly sterling). Since the start of a stabilization program in July 1959, total foreign exchange reserves have grown more than sevenfold. Reserve increases would have been even larger except that Spain repaid a total of $74 million to the International Monetary Fund and the Organization for European Economic Co-operation. The rapid accumulation of reserves should slacken off in the remainder of 1961, however, because of an expected upsurge of imports.

Mexico, among the countries losing gold and dollar reserves, experienced a decrease of $66 million. Part of the fall was accounted for by contributions to the Inter-American Development Bank and the International Development Association; other factors were smaller tourist receipts, reduced private capital inflow, and smaller coffee exports. Total exports, however, will be assisted greatly by the pick up in U.S. business activity and by larger sugar sales to the U.S. Foreign credits made available to Mexico but not yet utilized, including an International Monetary Fund standby arrangement of $90 million, will greatly assist continued development in both the agricultural and industrial sectors. These credits also will ensure the stability of the peso.

Panama experienced some balance of payments deterioration resulting in a reserve decline of $45 million. This was, in part, because of a widened trade deficit and the withdrawal of foreign-owned liquid funds from Panamanian banks.

Indonesia lost $94 million, or almost 35 percent of the country's gold and dollar holdings. Stimulated largely by inflationary pressures, imports have continued to rise while reported exports have declined steadily. Trade controls have been tightened on a number of commodities.

Economic difficulties, resulting in a $90 million reserve loss by Portugal, were closely related to disturbances in overseas possessions. The problem in Angola not only reduced export earnings but also brought about some capital flight. Reserves on June 30 were reduced to $547 million but even at this lower level, they will cover import requirements for over 1 year.

India's gold and dollar assets, already extremely low, declined by $48 million; in addition, sterling holdings declined by almost a like amount. Most of this decrease was due to increased import payments generated by its economic development program. Other factors were disappointing export earnings and a small decline in invisible receipts. Early in 1961 general price levels tended upward; but selective credit controls plus prospects of increased food supplies contributed toward halting the advance by mid-year.

The Philippines' gold and dollar assets dropped $35 million, but most of this was because of repayment of debts to the United States and the International Monetary Fund.

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