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Strengthened U.S. Balance of Payments Slows Rise in Foreign Dollar Reserves

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Summary

The gold and dollar assets (public and private) of foreign countries 1/ amounted to \$39.4 billion on March 31, 1961. This was a record high, but the gain during January-March was only \$355 million compared with an increase of \$724 million in the preceding quarter. International institutions increased their gold and dollar assets by \$119 million. Three industrialized countries, West Germany, France, and Japan, accounted for most of the gold and dollar increase. Other countries showing relatively sizeable gains included Sweden, Argentina, Venezuela, and Thailand.

The major development of the quarter was the strengthening of the U.S. balance of payments. The payments deficit amounted to \$288 million, compared with nearly \$1.2 billion in the last 3 months of 1960. The marked slowdown in the accumulation of foreign-held reserves is the counterpart of the reduction in the U.S. balance of payments deficit.

Another important development was the declaration by 9 West European countries plus Peru and Saudi Arabia of full convertibility of their currencies. For the most part, this move formalized de facto currency convertibility which began with the "external" convertibility measures taken in December 1958.

During the quarter, substantial movements in gold and dollar balances occured in a number of countries, but many of these mirrored seasonal or temporary influences. The movements also, in part, reflected shifts between dollar assets and sterling assets.

Ups and downs of exchange reserves during quarterly periods do not necessarily reflect longer term trends because of such factors as: seasonality in export earnings and tourism; temporary reserve deposits or withdrawals,

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

as a result of drawings or repayments to the International Monetary Fund; delay in payment for imports; and fluctuations in the movement (inward and outward) of short-term capital.

U.S. Balance of Payments

The U.S. balance of payments deficit during January-March amounted to $288 million (seasonally adjusted) or $1.1 billion on an annual rate basis. This was much smaller than the deficits of $3.9 and $3.8 billion in 1959 and 1960, respectively, and was the smallest since the third quarter of 1957. This marked improvement was chiefly due to a greatly reduced outflow of capital, both recorded and unrecorded, and to a continued large trade surplus.

U.S. exports totaled $5,044 million, while imports dropped slightly to $3,361 million. Expressed on an annual rate basis, exports were $20.2 billion, imports were $13.4 billion, and the trade surplus was $6.8 billion. A continued high level of U.S. agricultural exports, particularly to the commercial markets of Western Europe, contributed substantially to the trade surplus.

A shift in the capital account was the most significant factor favorably affecting the improved payments position. Net recorded capital outflow amounted to $939 million, down $600 million from the last quarter of 1960. Moreover, capital outflow as reflected in errors and omissions (unrecorded) changed from a net outflow of $327 million in the October-December quarter to a net inflow of $53 million. Also, there was a resumption of foreign long-term investment in U.S. securities, amounting to $119 million.

Currency Convertibility

In March, eleven countries, including some of the principal foreign markets for U.S. agricultural products, made their currencies fully convertible. The countries were Belgium, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Sweden, United Kingdom, Peru, and Saudi Arabia.

As a result, practically all currencies used to finance international trade and payments are now convertible. This reinforces trends toward multilateral trade and payments and the removal of exchange restrictions. It also facilitates drawings and borrowings from the IMF and the World Bank under economic stabilization and development programs.

The progressive elimination of exchange controls has facilitated the movement of capital between major financial centers. During 1960 and the early months of 1961, shifts in the movement of short-term capital emerged as a powerful influence on the equilibrium of the world's payments situation. Large movements of speculative capital, for example, can adversely affect

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

Area and country	Dec. 31, 1959	Mar.31,1960	Dec. 31,1960	Mar.31,1961p	Change since Dec. 31,1960
			Million U.S. Dollars		
Western Europe:					
Austria	630	563	539	494	-45
Belgium	1,279	1,345	1,319	1,286	-33
Denmark	232	209	116	120	4
Finland	110	124	87	85	-2
France	1,980	2,078	2,165	2,480	315
Germany (Federal Republic of)	4,640	4,698	6,450	6,755	305
Greece	212	186	139	143	4
Italy	3,119	3,053	3,080	2,901	-179
Netherlands	1,634	1,664	1,783	1,734	-49
Norway	266	270	259	254	-5
Portugal	687	675	637	616	-21
Spain	157	192	328	317	-11
Sweden	505	467	479	531	52
Switzerland	2,991	2,795	2,957	2,812	-145
Turkey	164	163	152	158	6
United Kingdom	3,813	4,084	4,887	4,820	-67
Other 1/	643	654	568	643	75
Total	23,062	23,220	25,945	26,149	204
Canada	3,610	3,792	3,770	3,779	9
Latin America:					
Argentina	393	444	420	497	77
Brazil	479	451	483	482	-1
Chile	228	193	180	177	-3
Colombia	288	277	237	240	3
Cuba	296	250	79	64	-15
Guatemala	61	77	68	77	9
Mexico	587	578	541	477	-64
Panama, Republic of	132	131	124	96	-28
Peru	111	101	114	112	-2
Uruguay	242	242	232	228	-4
Venezuela	932	900	797	893	96
Other 2/	265	285	370	360	-10
Total	4,014	3,929	3,645	3,703	58
Asia:					
India	361	361	342	301	-41
Indonesia	173	184	236	160	-76
Iran	187	176	152	173	21
Japan	1,566	1,646	2,169	2,310	141
Philippines	184	193	220	216	-4
Thailand	241	249	284	313	29
Other	1,290	1,289	1,034	1,031	-3
Total	4,002	4,098	4,437	4,504	67
All Other:					
Australia	264	272	235	230	-5
Egyptian Region--U.A.R.	194	207	196	195	-1
Union of South Africa	288	300	207	227	20
Other 3/	566	582	636	639	3
Total	1,312	1,361	1,274	1,291	17
Total foreign countries 4/	36,000	36,400	39,071	39,426	355
International institutions	6,225	6,462	7,293	7,412	119
Grand total 4/	42,225	42,862	46,364	46,838	474

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1/-- Includes other Western European countries, unpublished gold reserves of certain Western European countries, gold to be distributed by the Tripartite Commission for Restitution of Monetary Gold, EPU/EF, and the BIS; the figures for the gold reserves of the BIS 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 an otherwise sound basic payments position of the country from which it originates; likewise, the recipient country can also feel the disruptive effects which the additional pressure of capital inflow places on an already strained economy. Recent shifts in capital have brought about increased emphasis by central banking authorities on monetary policy cooperation.

Problems of Economic Expansion

In the early months of 1961, economic expansion continued in most of the major industrial countries. In some, the continued boom has been exerting considerable strain on real resources with a consequent rise in price levels. To counter these pressures, efforts have been made to increase the supply of goods available for local markets through facilitating larger imports and in some instances reducing incentives to export. In March, both Germany and Netherlands increased the value of their currencies by 5 percent. France liberalized most of its remaining quantitative import controls on industrial goods from the United States, Canada, and Western Europe. These and other developments suggest some shift in emphasis among the industrial countries from the continued accumulation of gold and dollar reserves toward maintenance of a reasonable balance of payments equilibrium.

In general, the less developed countries have tended to spend foreign exchange earnings rather than accumulate them in the form of reserves; the quarter showed no important change in this respect. This commonly reflects the pressure of internal requirements for both raw materials and consumption goods, as well as expenditures resulting from economic development programs.