EUROPEAN COMMUNITIES

Monetary Committee

Monetary policy in the countries of the European Economic Community

Institutions and Instruments

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GENERAL SUMMARY

PREFACE

In 1962 the European Economic Community published a study on the instruments of monetary policy in the countries of the EEC. This work has been widely used, both by the EEC and national monetary authorities, and in university, banking and financial circles.

The Community, which at that time had just passed to the second stage of the transitional period, entered the final phase on 1 January 1970.

The experience gained during the twelve years of the transitional period, the need for increasing integration in the final phase, and the prospect of economic and monetary union decided upon at the Hague Conference in December 1969, highlighted the importance, for a satisfactory development of the Community, of the coordination of national monetary policies and the harmonization of the instruments employed.

The Monetary Committee therefore considered it appropriate to undertake a new study of the instruments of monetary policy in the Community countries, and a group of experts was given the task of examining, at a practical level, how instruments could be harmonized.

As in 1962, the Monetary Committee, which entrusted the examination of the means of monetary action to its alternate members, was able to lean heavily on the cooperation of the Commission's Directorate-General for Economic and Financial Affairs, and of national monetary authorities. It would like to take this opportunity of thanking them.

The technical analyses of the instruments of monetary policy in each country provided by the national authorities, and which are the subject of Parts II to VII, were drawn up as of 30 June 1971, and the statistical appendices as of 31 December 1970. Obviously the many measures taken by the member countries since 30 June 1971 — notably in the field of external financial relations — have not been included in the analysis. This could not have been otherwise, since the events of the summer of 1971 led the member countries' monetary authorities to adopt arrangements which were bound to be exceptional, some of which have since been revoked, and which, it is to be hoped in any case, will be only temporary. The Monetary Committee has in mind besides to update the study at intervals.

The chapters about the different member countries were discussed fully in the Group of alternate members of the Monetary Committee, so as to allow them to be presented on comparable lines. This contributed to a better mutual understanding of the respective means of action and facilitated the formulation of the synopsis contained in the first part of the study.

It seemed desirable to present a general view of the range and development of instruments of monetary policy from two points of view, firstly in the light of the experience of the member countries and of the progress that had been made in monetary coordination and collaboration in the Community, and secondly and more important with the prospect in mind of a gradual convergence of member countries' policies, which will be required during the establishment by stages of economic *and monetary union. The first part thus serves as both an introduction and a conclusion to the study.*

Greater emphasis has been given than in 1962, to a comparison of instruments within the framework of an analysis of the institutional and structural features of national financial systems. The method decided upon led the Committee to tackle problems which were in many cases only touched upon in the previous study.

"Liquidity", seen both from the point of view of the general liquidity of the economy and from the more technical angle of the liquidity of the banking system, was examined in terms of the various ways in which it is defined — in relation to monetary policy — of the different sources contributing to its creation, of its structure and of its development in each of the member countries. This broader approach makes it possible to produce a better overall picture of the role of the various instruments of monetary policy.

Another aspect which, although sensitive, could not be omitted from the field of investigation concerns the objectives of monetary policy. Although official documents, and, in some respects, scientific literature, have relatively little to say on this point, it is nevertheless of basic importance for those countries aiming at a common monetary policy within an economic and monetary union. The analysis presented is a first attempt to formulate the general objectives of monetary policy and to compare the objectives actually pursued in the different Community countries. It shows the road which has to be covered in order to make these objectives mutually compatible and to harmonize the instruments by which they can be attained.

Comparison of the instruments used by the member countries is the last point dealt with in Part One. It attempts, as objectively as possible, to bring out the similarities and differences which exit at present in this field. There is a large variety of instruments, and it seemed advisable for the sake of clarity, to distinguish between those which have a general effect and those which operate in a more specific way. The means by which these are used often reveal particular structural and institutional characteristics which will make their gradual harmonization in the Community framework more difficult. This harmonization is nevertheless a necessary precondition for arriving at a monetary policy which can lead to the achievement of economic and monetary union.

All those who have worked on this study have tried to contribute towards this progress in a Community spirit. They hope that, in addition to its immediate practical use, it may be the starting-point for further study and research, both in circles responsible for monetary policy and in the academic world.

The Monetary Committee

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Part one

OVERALL VIEW OF THE FRAMEWORK, THE OBJECTIVES AND THE INSTRUMENTS OF MONETARY POLICY IN THE EEC COUNTRIES

CHAPTER ONE

INSTITUTIONAL AND STRUCTURAL ASPECTS OF THE NATIONAL MONETARY SYSTEMS

Section I - The institutions

Para. I: *The Monetary Authorities*

1. Responsibilities in the matter of monetary policy are divided in the Community countries between the central bank, the government and other institutions in ways which differ to a marked extent from one member country to another.

As regards the financial operations of the public authorities, especially of the central government, and more particularly their consequences for the creation of liquidity, the means of action at the disposal of the central banks vary from country to country, but are generally limited. The action of the central banks hinges moreover on credit policy and on the monetary effects of movements of funds to and from foreign countries. As to the control of banking, which does not amount to an instrument of monetary policy, this is exercised by different organization according to the country concerned.

In certain countries, the action of the bank of issue in monetary matters is closely tied up with decisions by the public authorities, who hold the responsibility in the last resort in this field; in other countries the central bank occupies a de jure or de facto position which leaves it great liberty of action. But the policy applied is always the outcome of close collaboration between government and central bank. In other respects, other organizations are often competent in the matter; these are more numerous and their associations more complex in certain states than in others.

The legal provisions governing the relations, often very complex, between government, central bank and other organizations, moreover, only give an incomplete view of the true situation. The possibilities offered by these provisions are not always made use of in fact by the government, when they confer on it the power of participating in the elaboration of the policy of the central bank or of intervening in that field; and on the other hand a very large measure of autonomy by the central bank by no means excludes the possibility that the government may require its own views to be taken into consideration. For this reason, in the present conduct of monetary policy, the degree and methods of collaboration between government and central bank depend to a large extent on the personalities involved. Furthermore, coordination between the various organizations responsible is the result of well-established traditions and in many cases of the exercise by certain personalities of responsibilities within several organizations that are legally distinct. As monetary policy is only one of the ways, though certainly an essential one, of controlling the economy, it is right that the central bank, whatever the importance of its role, should integrate its policy in a wider whole, or at least adapt it to situations in which the simultaneous action of different organizations plays a part. For this reason the coordination of policies is of the first importance and is particularly desirable in cases of economic difficulty. In fact the latter could not be effectively solved if monetary policy were not incorporated in a corpus of coherent economic and financial measures.

Germany

2. In Germany, the fields of action of the government and the central bank are clearly demarcated. The Bundesbank has the primary responsibility in the matter of credit policy, and exercises it to a large extent autonomously vis-à-vis the public authorities. As far as the policy regarding monetary relations with foreign countries is concerned, this comes primarily under the jurisdiction of the government; foreign exchange operations are within the province of the Bundesbank.
The coordination of the policies of the government and the central bank results from the following arrangements: the *Bundesbank* is required to advise the Federal Government and to provide any clarification asked for concerning any essential monetary question. It must, in the field in which it has prerogatives of its own, support the government's economic policy, subject only to the express requirement that such support must be compatible with its task of "protecting the currency".
In fact, the demarcation of powers between monetary authorities does not prevent decisions on monetary policy from being the subject of frequent consultation, and they are arrived at in general by agreement between the two parties.
Coordination is organized more particularly on the institutional plane, for the Federal Government is required to invite the Governor of the Bundesbank to its deliberations on monetary matters. Conversely, the members of the Federal Government can participate in the meetings of the Central Bank Council (Zentralbankrat); there they may present proposals and obtain the deferment of decisions for up to two weeks.
Finally, as regards the control of banking, the relative powers are exercised by the Federal Supervisory Office for Banks (Bundesaufsichtsamt für Kreditwesen) in close collaboration with the Bundesbank.

Netherlands

3. In the Netherlands, as in Germany, the powers of the Government and of the central bank are in principle separate. Credit policy comes within the province of the *Nederlandsche Bank*; if monetary relations with foreign countries form part of the government's responsibilities, the execution of policy in this field is nevertheless in the hands of the Nederlandsche Bank. It is certainly laid down that the Minister of Finance can under certain conditions issue directives to the Board of Management of the Bank, when he considers it necessary, to ensure coordination of monetary and financial policy; but this power has not been exercised so far and is to be considered altogether exceptional.
Cooperation between the Minister of Finance and the central bank is in reality very close. Important decisions are only taken in fact after consultation between them. In addition regular coordination is ensured by weekly meetings of the Minister of Finance and the Treasurer General with the Governor of the Nederlandsche Bank. It is to be noted that the general coordination of economic

policy is effected by the Council of Economic Affairs (Raad voor Economische Aangelegenheden - REA), of which the Governor of the Nederlandsche Bank is a member.
If the Nederlandsche Bank is legally invested with very extensive powers in the matter of control of credit, in fact it acts in concert with the organizations representing the banks regarding the measures it desires to take (gentleman's agreement). This is an essential characteristic of the exercise of monetary policy in the Netherlands; the principle is also enshrined in the law on the control of credit, and its satisfactory application has so far absolved the Bank from taking unilateral decisions which would then have had to receive the approval of the Minister of Finance.
The control of banking is also exercised by the central bank.

Belgium

4. The organization of monetary power in Belgium is somewhat different from that in force in Germany and the Netherlands. Responsibility for monetary policy, more especially as regards credit policy, is assumed by the *National Bank of Belgium* in conjunction with the government. The latter, together with other organizations, are in possession however of certain powers of their own in the matter of monetary policy. Unity of action is ensured by the manifold links existing between the government and the National Bank, which are both represented moreover in various organizations for the regulation or protection of financial activity, as well as in certain public credit institutions.
This distribution of powers, principally between the central bank and the government, is reflected moreover in a wider form in the Council of Regency (Conseil de Regence) of the National Bank which is composed, apart from the Board of Management (comité de direction) of the Bank, of persons proposed respectively by the Minister of Finance, the organizations representing industry, commerce, agriculture and labour, and the managing authorities of the financial institutions of public interest.
Four other legally distinct organizations play a role in monetary policy:
— the *Securities Stabilization Fund* (Fonds des Rentes), managed jointly by representatives of the Minister of Finance and the National Bank, has the task of regulating the market in government securities (at short and long term), and the money market at very short term;
— the *Institut de Réescompte et de Garantie* (IRG) a parastatal organization in which the National Bank is represented, is the principal rediscounting organization of first resort;
— the *Institut Belgo-Luxembourgeois du Change* (IBLC), of which the Governor and a member of the Board of Management of the National Bank are members, is responsible for the exchange control regulations and their implementation; the influence it exercises in the field of monetary policy is principally the result of the measures taken to protect the official reserves;
— the *Banking Commission*, which includes in particular a representative of the National Bank, is entitled among other things to apply banking ratios on the recommendation of the National Bank or in consultation with it; it is also entrusted with the control of banking.

France

5. In France also the powers in the monetary sector are distributed among the

government, the Bank of France and other organizations (in which the government and the Bank are represented) which work in close cooperation. The government's powers are however more important, in fact, than in Belgium. The government's predominance arises first and foremost from the organization of the institutions. The *Treasury* plays a particularly important role: it directly or indirectly manages part of the currency and centralizes the balances of the public authorities. By its budgetary policy it exercises a special influence over the development of liquidity in the economy.

As in the case of Belgium, no legal prescriptions lay down in a systematic manner the tasks that fall to the Bank of France, but the Bank's statutes define its credit operations, and particular texts prescribe specified responsibilities together with the instruments necessary for their fulfilment. This is the case in particular as regards the management of the Exchange Stabilization Fund which devolves upon the Bank of France, in accordance with general instructions given by the Minister of Finance. The powers of the Bank of France in monetary matters are in short very extensive. The day to day management is in principle conducted quite independently; in practice the Minister of Finance and the Governor of the Bank consult one another frequently on all important questions concerning the Bank's field of activities. The coordination is reinforced when economic difficulties necessitate the adoption of a recovery programme.

The managing authorities of the Bank have extensive powers that go beyond the field of action proper of the Bank. The Governor is vice-chairman ex officio of the National Credit Council, and he usually presides at its meetings in place of the Minister of Finance; he also presides over the *Banking Control Commission* (Commission de Contrôle des Banques) which is responsible for the supervising of the banks.

The National Credit Council is invested with powers for the regulation of credit policy, the execution of which is left to the Bank of France; and it is also required to consult the public authorities. The very close liaison between the government and the Bank comes out very plainly in the way in which the latter operates. The majority of its members are appointed by various ministries from among representatives of economic and social groups on the one hand, and of the public authorities and organizations on the other; while others are selected from among representatives of the banks.

Italy

6. The Italian organization is different from that existing in the other countries. The initiative and the supreme power in the field of monetary policy lie in principle with the government. In accordance with the guiding lines laid down by the *Interministerial Committee for Economic Programming* (Comitato Interministeriale per la Programmazione Economica - CIPE), which decides on the distribution of the flow of money for different purposes on lines laid down annually in the national economic programme the *Interministerial Committee for Credit and Saving* (Comitato Interministeriale per il Credito e il Risparmio - CICR), formulates the monetary policy to be adopted in conformity with the general economic policy of the government. Such unity of purpose certainly represents an original element within the Community. The *Bank of Italy*, which is subject to the control of the Minister for the Treasury, to some extent performs functions delegated to it, and is obliged to observe the decrees that this Minister, after consulting the Interministerial Committee, sees fit to issue.

The government's powers to lay down general guidelines for monetary policy do not prevent the Bank of Italy from filling a role of great importance.
First of all, wide discretionary powers have been conferred on it for the application to the banking system of ministerial directives, and it enjoys almost complete autonomy as regards the way in which it controls the banks. More especially, the Governor of the Bank of Italy, who participates as of right in the deliberations of the Interministerial Committee for Credit and Saving is the government's adviser and can propose to the Minister for the Treasury that changes should be made by decree in the official discount rate. He is the President of the Administrative Council of the *Italian Foreign Exchange Office* (Ufficio Italiano dei Cambi) an institution which enjoys a separate legal existence from the Bank of Italy and which is responsible for the control of foreign exchange operations, for ensuring that the foreign exchange regulations introduced are observed, and for the management of the foreign exchange reserves.

Luxembourg

7. Luxembourg has no central bank of its own. The role usually filled by such an institution is performed either by the National Bank of Belgium, under the treaty inaugurating the Belgian-Luxembourg Economic Union, or by the *State Savings Bank* (Caisse d'epargne de l'Etat), the importance of which, judged by the volume of deposits received, is far greater than that of the other banks in the country. It largely plays the part of a state bank and bankers' bank.
The government can play an important role in monetary policy through the intermediary of the State Savings Bank and of the *Commissioner for the Control of Banks* who in addition to the supervision of the banks can take measures for the regulation of the volume of credit and bank liquidity.

General characteristics compared

8. Having reviewed the arrangements in the various countries individually, it is now possible to set out the principal resemblances and differences that distinguish them as regards the organization of powers in the monetary sector.
The fields of action of the government and the central bank are more clearly demarcated in Germany and the Netherlands than elsewhere. In both those countries credit policy, and in Germany foreign exchange operations, are essentially within the province of the central bank.
In the other countries the apportionment of responsibility for monetary matters is more complex. In Italy the government enjoys prerogatives which make it preeminent in principle and which enable it to impose its requirements and exercise its right to take decisions in the last resort. Nevertheless, it is clear that the Bank of Italy wields considerable authority in the determination of monetary policy and in relation to the banking system.
In France and Belgium, the relative powers are distributed among a larger number of bodies, whose connections moreover are very close on the legal and personal plane. One important difference emerges, however, between these two countries: in France the organization of monetary power gives a clear predominance to the government, not only de facto but also de jure; whereas in Belgium the organization depends on a very delicate balancing of powers brought about by detailed legal provisions and regulations based on numerous and complex relations between the various institutions involved.

One feature is common to all the countries: whatever form the demarcation of the respective fields of action of the various monetary authorities takes, there is always a network of relations between them and the government permitting the coordination of the policies for the orientation of the economy adopted by the different authorities, according in each case to the particular forms of action in use. This collaboration is secured in particular by the participation of the representatives of one organization in the deliberations conducted by another. In this way, according to the country concerned, the issuing authority is represented in the government when the latter is dealing with matters concerning monetary policy, or the government may participate in the deliberations of the central bank. Similarly, in certain countries (Belgium, France) representatives of the government and of the central bank together participate in the activities of special institutions. The same result is achieved by the allocation to the governmental authorities of more or less extensive powers relating to the appointment of the managing bodies of the central bank and other organizations.

Para. II: *The monetary and financial system*

9. The overall organization of the monetary and financial system is of great importance in relation to the study of monetary policy. It is essential, in fact, having examined the monetary authorities, to know to which institutions the instruments they utilise apply, and to know the workings of the markets in which various liquid or negotiable assets are bought and sold.
It is by no means necessary to study all the institutions exhaustively at this point; they will only be examined to the extent necessary to obtain a through grasp of monetary policy and of the instruments it uses. A brief outline of the workings of the money markets (and of their links with the financial markets) will complete the picture of the financial structures on which monetary policy operates.

Para. II-1: *The monetary and financial institutions*

i) *General*

10. The structural differences between the member countries of the Community and the divergencies between the national concepts on the subject, combined with the complexity of the organization in the matter, make it difficult to establish a line of demarcation between monetary and financial institutions that would be valid for the Community as a whole.[1]

Criterion of classification into monetary and financial institutions

If it is sought to establish a distinction between these institutions the most useful criterion is that of the nature of the commitments shown on the liabilities side of their balance sheets. On this basis, the designation of monetary institutions is here taken to apply to the institutions (other than the central banking authorities) whose liabilities consist of items which to a large extent have the character of means of payment or liquid funds.

[1] On this subject it should be noted that the European System of Integrated Economic Accounts (SEC - Système Européen de comptes Economiques Intégrés published by the Statistical Office for the European Communities, 1970) gives an analysis of the monetary and financial institutions on a harmonized basis on the Community plane.

Difficulties of application

This distinction admittedly raises numerous difficulties, even if it is applied in a flexible manner. Ideas on the subject differ considerably in fact from one country to another; and the divergencies will be set out below. Furthermore it is difficult to draw a clear line of demarcation between monetary and financial institutions; in fact, to a varying extent according to the country, beside organizations of an essentially monetary nature, many others have a mixed structure; they take in both liquid funds (having more or less the character of money) and savings. It has been decided to class as financial institutions for these purposes the establishments whose liabilities consist in large part of items that do not have the character of money (or liquidity in the Netherlands).
It is precisely this difficulty of classification that results in Germany in the distinction between monetary and financial institutions being hardly regarded as of any practical value, any more than the classifications made within the monetary organizations. The banking system is there considered in its entirety. This is understandable in view of the diversity of the resources and operations of the German organizations. The same reasons limit the extent and rigidity of this distinction in other countries, in the Netherlands notably. That country nevertheless considers the distinction necessary in the application of monetary policy.
The problems of terminology are numerous. The same terms (banks, savings banks credit establishments, etc.) mask very different realities between one country and another. They are sometimes difficult to handle within the scope of the present work, although in current use elsewhere, in that they are applied to both monetary and financial institutions.

ii) *The principal institutions and their characteristics in the various countries* (see Table 1)

11. In this section the general distinction drawn between institutions according to the nature of their liabilities will be supplemented by a more detailed analysis according to the types of operation effected. This analysis will bring out the differences of structure and concept in the member countries. Some similarities in certain fields can nevertheless be pointed out at the outset.

Postal Services

12. In all cases the *Postal Cheque Services* are state organizations coming under the Postal Administration and more or less directly under the Treasury. They operate on the basis that out of the deposits received from private customers funds are provided to the Treasury or the Post Office (though in the Netherlands only to a certain extent). They are considered as monetary institutions, for they handle the monetary resources of the public. In all the countries there also exist savings services operating through the intermediary of the Post Office.

Public and semi-public institutions

13. Furthermore, in all cases, though to a lesser extent in the Netherlands, there are public or semi-public monetary and financial institutions. In the monetary sector, state intervention is relatively highly developed in France and Italy. As regards the monetary and financial system as a whole, the parastatal institutions play an important role in all cases. They are governed by different statutes from

TABLE 1

Monetary and financial institutions entering into the field of application of monetary policy, Community countries 1971 (other than the Central Bank and the Treasury)

	Germany (1)	France	Italy	Netherlands	Belgium	Luxembourg
A. Monetary Institutions						
1. *General*	*Credit Institutions,* including: – commercial banks, comprising • large banks • regional & other commercial banks • "private" banks – savings banks – central giro institutions – credit cooperatives and mutual loan funds – central institutions of credit cooperatives and loan associations	– deposit banks – merchant banks ("banques d'affaires") – long and medium-term credit banks (2)	– *Banks,* including • establishments constituted under public law • banks of national interest • ordinary credit banks • popular cooperative banks – Savings banks – Specialized central institutions	*Banking institutions* including: – commercial banks – rural credit banks – savings banks	– deposit banks	– state savings banks – banking and savings institutions – credit establishments (specialized institutions for consumer credit)
2. *Others*	– Post Office giro & postal savings bank offices – Hire purchase finance houses	– Establishments with a special legal status, including: • the French Bank for Foreign Trade • agricultural credit institutions • mutual loans • loans to small & medium-sized firms ("crédit populaire") – postal cheque service	– postal cheques & Post Office banks (attached to the Cassa Depositi Prestiti Section of the Treasury)	– postal cheques & giro services	– Institut de Réescompte et de Garantie (partim) (3) – Securities Stabilization Fund (Fonds des Rentes) – Crédit Communal (partim) (3) – Postal cheque office	– Postal cheque office

(1) For Germany, analysis into monetary institutions and financial institutions is not feasible in principle. The diversity of the resources and activities of most of the institutions makes their classification particularly hazardous.

(2) These banks are included in the statistics among the monetary institutions in spite of the nonliquid character of their resources.

(3) The splitting of these two institutions into a monetary part and a financial part corresponds to a concept inspired by other criteria than those of the classification on an institutional basis adopted in principle.

TABLE 1 (continued)

	Germany (1)	France	Italy	Netherlands	Belgium	Luxembourg
B. Financial Institut-tions (4)						
1. *Private institutions*	– building societies – private mortgage credit banks – specialized private credit institutions	– financial institut-ions, including: – hire purchase fi-nance houses – finance companies – real estate credit institutions	– specialized credit institutions (of lit-tle importance in the private sector)	– mortgage credit banks – hire purchase fi-nance companies	– hire purchase credit institutions – private savings banks – mortgage credit companies	– financial institut-ions
2. *Public or semi-pub-lic institutions*	– building societies – public real estate credit institutions – specialized public credit institutions	– National Savings Institution (Caisse Nationale d'Epar-gne) – savings banks – Caisse des Depots et Consignations – specialized credit institutions, includ-ing: • Crédit National • Crédit Foncier (real estate credit) • Caisse Nationale des Marchés de l'Etat	– Specialized credit institutions	– State postal sav-ings bank – Bank for Nether-lands Municipali-ties ("Bank voor Nederlandse Geme-enten") (5)	– Institut de Rées-compte et de Ga-rantie (partim) – Caisse Generale de Epargne et de Re-traite (General Sav-ings & Pension Fund) – Credit communal (partim) – National Institut-ion for Credit to Industry – Other specialized credit institutions	

(4) Only the principal financial institutions that enter most directly into the field of action of monetary policy are shown here. Other organizations sometimes come into this field of action, for example the insurance companies and the social security institutions, particularly in the Netherlands.

(5) The Bank voor Nederlandse Gemeenten is not an autonomous financial institution, but an extension of the local authorities.

country to country, but they have this in common, that they were created to serve the general interest in particular fields; this is particularly true of the savings banks and of the mortgage credit and industrial credit institutions.
As regards the public savings banks, these receive an appreciable volume of funds in all cases. The funds are utilized to meet the requirements of all sectors of the economy, except in France. In that country the savings banks in fact channel the major part of their resources into the public or para-public sector or into economic sectors of a priority nature.
After these general remarks, attention can be directed to the national characteristics of financial organization.

Germany

14. In Germany all the monetary and financial institutions are regarded as banks, with the exception of insurance companies and the social security institutions. In this country the universal type of bank predominates which can undertake all types of banking operations, that is to say accept sight, time and savings deposits and long-term funds, and grant credits at short, medium and long term.
This universal type of credit institution is usually classified under three heads: *joint-stock banks of various types; savings banks and central giro institutions* (*Girozentralen*) which effect all banking operations, but with a traditional preponderance of financing at long term; and *agricultural or commercial cooperative credit banks* (*Kreditgenossenschaften*) which as a general rule exercise their activities in the local sphere (this is also true of the savings banks and the small "private" banks) and which receive assistance in their operations from the central institutions to which they are attached (Zentralkassen).
It should be pointed out that the savings banks (like the cooperative banks) have achieved the status of real banks. It is for this reason that they are subject in Germany, in contrast to the position in the other countries in the Community, to the regulations regarding compulsory reserves.
Apart from the banking establishments of a universal character, there are other banks which have come to *specialize* in the role of financial intermediaries. This category includes in particular the mortgage credit institutions, the public real estate credit institutions, and certain specialized establishments (Kreditinstitute mit Sonderaufgaben).

Luxembourg

15. The Luxembourg banks are not subject to any legislative requirements regarding the nature of their operations: they may at their own discretion be deposit banks, merchant banks, or mixed banks.
In practice, in Luxembourg as in Germany, the banks are for the most part of the universal type. Although many of them have specialized in international financial operations or in industrial or mortgage credit, they are distinguished more by their legal form than by their particular activities.

Netherlands

16. The main body of *credit institutions* (*Kredietinstellingen*) in the Netherlands corresponds in essence to that of the credit institutions in the Federal Republic of Germany in the sense that it incorporates a variety of institutions whose par-

ticular powers are not always specified and which, in every case, effect operations not specifically prescribed for them.
The *commercial banks* (*Handelsbanken*), the first group of credit institutions, are general or universal banks, for they can perform, and in fact do perform all banking operations. Another group consists of the *rural credit banks*, whose activities are very similar to those of the commercial banks.
The *savings banks* are also taking on the same shape as the commercial banks, with the exception of the State postal savings bank. They have for some time been of importance on the monetary plane, for they have opened for private customers accounts used in the same way as current accounts. In consequence the authorities have brought them into the field of application of monetary policy in the same way as the banks.[1]
The whole of the institutions enumerated above constitute the category of registered credit establishments subject to the control provided for in the law on banking institutions.

Belgium

17. The banks in Belgium are deposit banks: the banking legislation of 1935, given a more flexible shape in 1967, in effect split up the mixed banks into holding companies (sociétés de portefeuille) and deposit banks. The latter may not hold shares in non-banking commercial companies beyond a specified period necessary for placing them with the public; their portfolio of bonds in private companies is correspondingly small.
The legal concept of a bank is thus strictly applicable only to banks of deposit defined as undertakings habitually receiving deposits of funds repayable in not more than two years, to the exclusion in particular of private savings banks. The banks are essentially concerned with short-term credit; for a dozen years they have been engaging more extensively in credit at medium and long term, as the relative importance of their time deposits has increased.
The activities that have devolved elsewhere upon the merchant banks and the mortgage credit banks are exercised in Belgium by holding companies or financial companies, private savings banks and mortgage credit companies, as well as by parastatal organisations. The Caisse Générale d'Epargne et de Retraite, the only public savings bank with branches throughout the country, has considerably centralised the collection of savings; it is the principal institutional investor in the public sector.
Reference should again be made to the *Institut de Réescompte et de Garantie*, which establishes by its operations a link of an original type between the National Bank and the money market. This institution promotes the circulation of funds in the market, inter alia by facilitating by its rediscount operations access by the banks to the liquid funds available; and on the other hand it helps to replenish liquidity in the market by its refinancing operations at the National Bank.

Italy

18. In principle, the Italian banking law establishes a clear distinction between

[1] It will be seen, however, in the following chapter that for practical reasons it has not yet been possible to include the liquid part of their liabilities in the statistics of liquidity.

credit institutions according to the terms of their operations. This distinction has in fact been established by reference to the aggregate of their resources, the structure of which is reflected in the use to which they are put, and should make it possible to trace a clear line of demarcation between monetary and financial institutions. In practice, however, things are not so simple and certain institutions receive at the same time liquid funds and savings deposits and effect operations at short, medium and long term.

Under the general designation of "credit institutions" it is possible to distinguish in Italy the banking establishments ("aziende di credito": banks and savings banks), the specialized credit institutions and the insurance companies.

The two latter groups consist exclusively of financial intermediaries of a non-monetary nature.

Among the banking establishments, the development of *savings banks* brings them closer and closer to the *banks*. All these establishments receive liquid funds and should therefore be classed as monetary institutions. They perform a wide variety of operations, of which those concluded at short term, however, enjoy a clear predominance at the banks; as for the savings banks, their loans still go for the most part to the public sector.

There have still to be included in the banking system the four "leading central institutions" which lend their technical and financial assistance to the institutions associated with them. They also perform a normal credit function, but this, except for one of them, is of limited importance.

It is to be noted that a sizeable part of the capital of the specialized credit institutions at medium and long term is held by the "aziende di credito", which reinforces the relationship between the two categories of institution.

France

19. In France, a particularly sharp distinction is drawn between on the one hand the *banks* and "establishments with a special legal status", handling resources of a monetary or quasi-monetary nature, and on the other hand, the *specialized financial institutions*, whose resources come from savings or the banking system.

The deposit banks, the merchant banks and the long and medium-term credit banks together make up the category of "registered" banks dependent on the authority of the National Credit Council. The difference between deposit banks and merchant banks has disappeared as regards the term of the deposits and has diminished sharply as regards the nature of the uses to which their funds are put. On the other hand, since 1965 a deep and complex integration movement has been developing, together with agreements to work together, implying among other things overlapping participations by banks of different types. The long and medium term credit banks, which are few in number, are at present the only banks that have not been authorized to accept sight deposits, and they are not strictly speaking monetary institutions. In the French statistics, however, they are included in the category of banks.

Also to be classed as monetary institutions are a certain number of *special status establishments* whose resources have a monetary or quasi-monetary character (notably the "popular" banks, the agricultural credit funds and the mutual credit institutions). Their activities are very similar to those of the registered banks, but are aimed at special sectors. In contrast to the banks they are not subject to the National Credit Council: they come under the supervision of the Minister of Finance, who subjects them to the same measures of monetary policy as the

registered banks when the decisions of the Council or the Bank of France do not apply directly to them.
The whole of the monetary institutions in France (the "banking system" with the exception of the postal cheque centres), mainly grant short-term credits, but a tendency has arisen in recent years towards an increase in medium and long-term credits. The funds of a quasi-monetary nature that those institutions handle play for their part an expanding role in relation to monetary resources.
As for the *financial institutions*, these consist of two quite distinct categories. The private financial establishments can only finance their operations out of their own resources or those supplied to them by the banking system. They are therefore very dependent on the banks, to which moreover they are often linked legally. The role of financial intermediaries gathering in the public's savings is performed by public or semi-public institutions, among which should be mentioned the *Caisse des Dépôts et Consignations*. This has an important role; in particular it has the task of managing the bulk of the funds that flow into the savings banks. The latter have only a limited discretion in the way they employ the funds, but their liberty of action in this respect tends to increase progressively.

Degree of specialization in the various countries

20. From what has been said above it is clear that in practice specialization among the monetary institutions and the various categories of financial institution has gone furthest in France, even if in that country as elsewhere there is a movement towards the diversification of the assets and liabilities of the various types of institution and less rigid separation between the categories. Specialization is on the other hand much less in Germany and Luxembourg, where the majority of the institutions accept liquid and non-liquid funds (to the point that it is difficult to isolate the monetary institutions from the financial intermediaries) and conduct a wide range of operations of a banking nature. The structures in the Netherlands, Belgium and Italy occupy an intermediate position in this respect.

Para. II-2: *The money and financial markets*

21. The money market serves essentially to promote a better utilization of liquidity and to adjust the supply and demand for it. The market can be provided with fresh funds by action on the part of the central bank.
The money markets in the six countries display fairly marked differences, although the situation is developing in every case in the direction of an expansion and diversification of the markets from the point of view of the number and variety of the participants, of the operations handled, and of the securities which are generally used to support them.
In every country in the Community, except the Netherlands, the money market is limited essentially to the banks. A wider money market open to participation by enterprises, institutional investors and the local authorities, and in which these institutions can replenish their liquidity, hardly exists except in the Netherlands.
Thus in the *Netherlands* the banks and the exchange brokers are flanked as purchasers of open market securities by the savings organizations, the "funds" [1] and the enterprises, and as sellers by the local authorities.

[1] The "funds" embrace the insurance companies, the pension funds and the social security funds.

The short-term assets negotiated in the money market are Treasury bonds and certificates and short-term loans (kasgeldleningen). Important transactions are also effected in call-money (with or without guarantee). The banks meet their current requirements for liquid funds mainly by recourse to the central bank and the international markets.
In this country, where the policy prevails of the direct quantitative restriction of credit and where the authorities thus have no interest in acting on the money market in order to control the volume of liquidity created through the banks (the use of funds in the market by the banks, in so far as they are aimed at the private sector, in fact comes within the scope of the restriction of credits), the central bank is nevertheless concerned to supervise the market on the one hand for the purpose of regulating the way it operates and on the other hand in order to influence the rates of interest. The trend of interest rates acts in fact on the operation of direct credit between enterprises (near banking) which, in certain circumstances, can assume a considerable volume in the country.

22. In *Belgium*, the money market includes the day-to-day money market, the market in public certificates with a currency of up to one year, and the market in bank and commercial acceptances, controlled respectively by the Securities Stabilization Fund, by this Fund and the National Bank, and by the Institut de Réescompte et de Garantie. Access to the market is on the whole limited principally to the public and private monetary institutions, to the other public credit organizations, to private non-banking credit organizations and to certain institutional investors. The interdependence of the three parts of the market results from the identity of the participants and the links connecting the controlling institutions.

23. Similarly in *France* the group of participants in the market is limited, with minor exceptions, to the monetary institutions and the public and semi-public institutions, these last intervening only as lenders; the enterprises have no access to the money market. The operations handled consist almost exclusively of loans secured on public and private effects and so only include to a limited extent firm transfers of financial assets.

24. In *Germany*, the enterprises have not been excluded from the money market since the regulation of interest rates was suspended, but their participation has been relatively modest. In the same way the money market paper which the Bundesbank offers not only to the banks, but which it has been offering for some time in particular to the public institutions, has so far only been bought by other investors to a very limited extent.

25. In *Italy*, money market securities are also bought by other institutions than banks. The control of the money market by regulation of the sources of the monetary base, combined with the management of the compulsory reserves, provides the Bank of Italy with the means of controlling the whole of the banking reserves and the volume of deposits. Knowing in this way the demand for the employment of bank funds, in particular the part devoted to the granting of credits, the Bank of Italy can determine the demand for securities by the banks.

Links between the money markets and the financial markets

26. Links more or less close according to the country exist between the monetary and financial markets, whether the financial market takes the form of direct

relations between those seeking credit and investors or the form of a market in the true sense of the word. Such connections between the markets establish links between the rates formed in each of them, more particularly because a hardening occurring in one of them may prompt economic agents to turn to the other.
These links arise in particular from the fact that the same institutions participate in both markets and do business for preference in one or the other according to the conditions prevailing in each. The result can be arbitrage in securities in one market against those in the other.

27. It is only in *France* that a relatively clear separation has existed between the two markets up to the present time, by reason of the fact that the banks hold little of their assets in the form of negotiable securities. Nevertheless, access to the money market by certain semi-public organizations holding large portfolios of long-term funds establishes a measure of communication between the two markets. This connection has widened since 1967, at least as regards the formation of rates of interest, when the collective savings institutions (notably the insurance companies) were authorized to participate in money market operations, which has enabled them to obtain the terms ruling in this market for the return on the funds that they deposit in fact at the banks.

28. In the *Netherlands*, the relationship between the money and financial markets, relatively limited in extent, does not result from the employment of financial effects in the money market but from the participation of savings banks and of "funds" in both markets at the same time (although the "funds" operate principally in the financial market).
The banks can certainly deal in short-term and long-term effects. The latter however have hardly been dealt in so far, for the system of drawings by lot renders their maturity dates uncertain and largely deprives them of their quality of potential liquidity.[1]

29. In *Belgium* and *Italy* and especially in *Germany*, the interdependence of the two markets is very marked and the control exercised by the monetary authorities over the money market influences the financial market.
In Germany, besides short-term effects such as Treasury bonds, Treasury certificates without coupons and certain rediscountable effects, the Bundesbank is able to influence the money market by transactions in long-term securities. On the other hand it will be seen below that the action by the Bundesbank on bank liquidity may considerably effect intervention by the banks in the financial market.
In Italy the banks have increased their portfolios of long-term securities with the object of supplying resources to the specialized credit institutions with which they have links. The possibility of employing certain long-term securities to constitute compulsory reserves has only served to strengthen the links between the financial market and the money market.

Connection between monetary policy and capital market

Participation by the banks in the financial markets

30. The expression "financial markets" is here used in the limited sense of the term and only relates to the markets in securities.

[1] The issue, since the second half of 1969, of medium-term loans repayable on a prescribed maturity date could change this situation to some extent.

Monetary policy in each of the Community countries is not influenced to the same extent by developments in the national financial market, or vice versa. In fact, in the different countries, the banks do not enjoy by statute or tradition the same liberty of action in the capital market. By reason of these differences the degree of autonomy of the banks in the face of directives by the monetary authorities, as well as the effect produced in the financial market by measures of a monetary nature, can be very different. Thus, if the banks are very involved in the capital market, the adoption by the central bank of a policy of restriction of liquidity will have the effect to a greater or less extent of slowing down purchases by the banks, which will endeavour on the other hand to maintain their activities in the matter of credits. Monetary policy can then, on these assumptions, have a rapid and marked effect on the financial market.

Financial markets and banks in the various countries

31. In Germany and Luxembourg the banks as a whole adopt more generally than elsewhere a proper policy of investment in securities. A large part of the credit institutions there are in fact general banks in the sense that they can effect all sorts of operations at short and long term, including the purchase of bonds.
The banks in the *Federal Republic of Germany* are hardly subject to restrictions in this field. They have often intervened to an amount of over half in national purchases of bonds; nevertheless the volume of their purchases has proved to be very variable from one period to another.
The effects of the banks' strong influence on the financial market are further accentuated by the advisory role that the credit institutions perform, as in all countries, in relation to the savers and enterprises whose orders they execute in the market, by the modest intervention — in comparison with the situation in the Federal Republic's partner countries — of the insurance companies and the pension funds in financial transactions, and finally by the outstanding part played by the German banks in international capital movements.
In principal the situation is similar in the *Netherlands*: portfolio investment by the banks is authorized; but in a period of quantitative limitation of credits it is only allowed as long as the growth in their long-term assets does not exceed that in their long-term liabilities. The savings banks also effect investments of some importance. Intermediaries as they are for security transactions in the stock market, the commercial banks also constitute a new-issue consortium and participate in international syndicates for placing issues of securities.
What has been said above relates particularly to the "public" capital markets. In fact, in the Netherlands, the bulk of the new issues (about three quarters) are dealt with in the private ("onderhandse") market, where direct transactions are effected between the seekers of capital and institutional investors.
Luxembourg forms part of the group of countries in which the monetary institutions hardly face any restictions on their activities in the financial market.
Italy occupies an intermediate position among the Community countries. The banks and savings banks are forbidden to make any investments in shares. They make the investments of their choice in fixed interest securities and are large purchasers of bonds. They buy securities issued or guaranteed by the State and bonds of specialized credit institutions which at present represent an important part of the securities in circulation. It is principally by the purchase of bonds in specialized institutions that the "aziende di credito", which cannot grant credits

at long term, intervene to a considerable extent in the financing of private industry.
The *Belgian* and *French* banks also act as intermediaries between the public and the financial market. By the services that they render to issuers in the various sectors of the economy, notably in the public sector (although to a lesser extent in France), by the public offers whereby the loans are eventually taken up firm, they both play a part in the capital market. It should be noted that, if in both countries they intervene in the placing of new issues, their positions differ in the two countries as regards the amount they retain of the various types of securities at long term. The French banks retain little, while the Belgian banks hold on to a considerable quantity of each new issue.
Generally speaking, the banks have less influence in the financial market in Belgium and France than elsewhere, but the authorities in the two countries are trying to promote by appropriate measures a limited extension of the role of the banks in this field.

Section II - Liquidity

General Introduction: concepts

32. Monetary policy is aimed principally at influencing liquidity in the economy, most often by action affecting banking liquidity.

Liquidity of the economy

33. When one speaks of the liquidity of the economy, that is to say the liquidity of private individuals and enterprises, of the non-monetary financial intermediaries and the local authorities, one is referring to their scope for acquiring real assets by means of monetary assets and financial assets enjoying a high degree of convertibility into money.
Under current practice, all the countries in the Community use the word "liquidity" in a relatively limited sense. In principle the term covers *assets which have a specific nominal value, and which either represent claims payable on demand and directly employable in the markets for goods and services (money) or are convertible into such claims* without material delay and without loss (or with a negligible risk of loss) of capital value (if such conversion is effected without a reduction in purchasing power of the other economic agents). It is thus a question of assets the variations in which are capable of exercising an influence on national expenditure.
The practical field of application of the concept of the liquidity of the economy, thus understood, varies from country to country according to the financial structures and traditions in each of them; this explains why the national notions regarding liquidity are not always in harmony. It should be noted that the assets taken into consideration for the application of monetary policy, as shown in particular in the statistics utilized for the purposes of monetary analysis, do not always embrace all the assets easily convertible into money.
In Germany, the expression "liquidity" of the economy is hardly used. A distinction is made there between the money volume in the narrow sense (Geldvolumen = M1) and the money volume in the wider sense (Geld- und Quasigeldbestände = M2); the latter only includes the money and deposits for terms of less than 4 years of residents. The Netherlands and Italy on the other hand include

a fairly wide range of assets in the liquidity subject to monetary policy. In France and Belgium, besides the money and quasi-monetary liquidity at the banks (and in addition at the Treasury in France) which constitute the liquidity the counterparts of which are shown in the statistics, other short-term assets held by financial intermediaries are also considered; together with near-money these assets make up what in France is called liquid savings.

Bank liquidity

34. As applied to the whole of the banking sector, the term "liquidity" denotes the assets of the banking sector in central bank money (and in divisional currency issued by the Treasury), together with the assets of the banks capable of being converted into such money without delay or material loss of capital value. The level of and variations in their available liquidity determine the possibilities for expansion of the banks' operations in the form of credits and investment in securities.
The expression "bank liquidity", used without elaboration in this general portion of the work, denotes the whole of the liquid assets of the banks, whether blocked or free, and whether they are in the nature of liquid cash or potential liquidity.[1]

Money base

35. The authorities can still bring immediate action to bear on the money base, a complex aggregate including elements of liquidity in the economy and bank liquidity. This concerns a point of view which, in the Community, has received particular attention in Italy, where it forms the basis of action by the monetary authorities (cf. Point 62).
The money base is formed by the fiduciary currency circulation and any other assets immediately convertible into fiduciary currency with the monetary authorities. It is held partly by the monetary institutions, partly by the public. Action by the issuing authority on bank liquidity thus enables it to influence the expansion of credit and of deposits.

Para. I: *Liquidity of the economy*

Para. I-1: *Definition, structure and evolution of liquidity in the economy*

36. In the present section, after comparing the different national conceptions of liquidity gleaned from the analyses made by the monetary authorities, an attempt will be made to trace the global evolution of liquidity in relation to the national revenue and the changes that have occurred over a period in the composition of liquidity in each country.

Primary liquidity

i) *Comparison of national concepts*

37. All the central banks differentiate between various elements of liquidity. But

[1] For the different elements constituting bank liquidity see Point 46. It should be noted that in Italy the terminology is different. The term "bank reserves" refers to the whole of the banks' liquid assets, whether free or blocked. The term "bank liquidity" denotes only the portion of the reserves that is immediately available.

the terminology they use varies. Italy and the Netherlands distinguish primary and secondary liquidity; in Belgium the terms used are money and near-money, but the latter is still known by the names of secondary liquidity or short-term non-monetary financial assets; in Germany the volume of money in the narrow sense denotes money, the volume of money in the wider sense includes money and near-money; in France the distinction is drawn between money and liquid savings, of which near-money is one component. On practical grounds, a single terminology will be used here, that of primary and secondary liquidity (see Table 2).

As regards *primary liquidity* all the countries include the fiduciary currency circulation and money of account: the fiduciary currency consisting of the notes issued by the central bank, excluding the cash holdings of the banks, and the divisional currency (and small coinage in Belgium) issued by the Treasury; money of account consisting of the sight deposits, in the national currency, of residents [1] other than the banks with any institution that creates or manages money. As is shown in Table 2, the differences between countries are relatively limited. In Belgium bank deposits at one month are included, and in Germany deposits at less than one month. Primary liquidity only includes sight deposits at the savings banks in Germany, Italy and Luxembourg, where these institutions are true banks; elsewhere these deposits are excluded from the statistics of primary liquidity, either because they do not possess the true character of means of payment (France) or because they have this character but practical considerations have not yet made it possible to adapt the statistics to a recent development (Netherlands and Belgium).

Secondary liquidity

38. As regards *secondary liquidity*, more substantial differences are to be noted between the Community countries.

Secondary liquidity is usually taken to include the following elements: time deposits, savings deposits, the foreign exchange deposits of residents in Belgium, the Netherlands and Luxembourg,[2] and short-term claims on the Treasury to the extent that such claims are held by the non-banking sector. However, in the statistics relating to the formation of liquidity the different countries do not include the whole of these assets.

In this respect *Germany* constitutes a somewhat special case, for the statistics in that country only show as secondary liquidity (under the name of near-money) deposits for terms of less than 4 years; deposits for more than 4 years and all savings deposits are regarded as capital formation, that is to say as elements increases in which have a contracting effect on liquidity. In fact, the German monetary authorities consider that such deposits are more rarely mobilized than other deposits by their holders. The short-term claims of the non-banking sector on the public sector do not play an important part in Germany, these claims being almost exclusively held by the banks.

For the *other countries*, the following plan can be given. Representing the main element constituting secondary liquidity, time deposits (for over one month in Belgium and Luxembourg) are always included in secondary liquidity, whether they are held at the banks or at the Treasury as in France.

[1] In Germany and Italy residents' deposits in the national currency and in foreign exchange are included; in Germany the sight deposits of the public authorities at the Bundesbank are excluded. Furthermore the global French statistics do not distinguish between deposits of residents and non-residents, in national currency and in foreign exchange.

[2] See the previous note with regard to France.

Saving deposits at the banks and savings banks are regarded as secondary liquidity. In the Netherlands, however, savings deposits at the banks are only included as to a small part, since their velocity of circulation is relatively low. The situation is identical as regards balances at the savings banks, but for practical reasons the corresponding fraction has not yet been included in the liquidity statistics.
As for *short-term claims on the State* (and the other public authorities), these are included in almost all cases in the statistics of liquidity formation, but they only represent an important volume in the Netherlands and France, where they are widely distributed among the public. In the Netherlands this applies not only to Treasury bonds, but also to cash deposits with the local authorities and day-to-day loans both to the Treasury and to the local authorities. The monetary analysis of the National Bank of Belgium does not treat short-term Treasury bonds as liquidity items, as these do not come into the hands of the public.

Liquidity ratio and its meaning

ii) *Evolution of the liquidity of the economy and its composition in the member countries*

39. The liquidity of the economy is understood as a relative notion measured by a comparison between, on the one hand, the average amount of liquidity in absolute terms, and on the other hand an economic magnitude sufficiently representative of the level of incomes and transactions, such as the national income. Nevertheless, no simple criterion, such as this relationship, will serve to size up perfectly the appropriate level of liquidity in the economy according to the objectives aimed at. A whole series of factors in fact comes into the reckoning.
Table 2 gives an overall idea of the evolution of liquidity and of its components in the Member States, between 1960 and 1970. The lines of demarcation between the assets regarded as forming part of the liquidity of the economy are shown in the table at different levels according to the country.
To clarify the comparisons between countries, two points should be made in particular. In its analyses of the volume of money in the wider sense of the term, the Bundesbank includes monetary assets and time deposits for less than 4 years. In France, within the field of secondary liquidity, one distinguishes near-money and the rest of the liquid or short-term savings (that is to say deposits at savings banks and Treasury bonds).

Global & structural evolution

40. During the period 1960-1970, the total volume of the holdings which are actually regarded as having a liquid character (line G in the table) has increased in all cases during the period more rapidly than the national income, except in the Netherlands where the liquidity ratio has fallen and in Belgium where it has not changed.
It is to be noted, moreover, that between 1960 and 1970 certain changes have occurred in the structure of liquidity. Increases in liquidity have occurred mainly in secondary liquidity, the items of which appear in lines C, D, E & F.[1] In fact, the relationship between primary liquidity and national income has generally re-

[1] It will be recalled that the distinction between primary liquidity and secondary liquidity is not made in German monetary analysis.

TABLE 2

Elements constituting primary and secondary liquidity in the economy in the Member States classified according to the institutions that issue them (1)

Money-creating Institutions	Germany	France	Italy	Netherlands	Belgium (5)	Luxembourg
Central bank (2)	Notes & sight deposits	Notes & sight deposits	Notes & sight deposits	Notes & sight deposits	Notes & sight deposits	Notes & sight deposits
Banks and assimilated institutions	– *sight deposits* – time deposits for less than 4 years	– *sight deposits* – time deposits – bank-book deposits – certificates of deposit – housing savings deposits	– *sight deposits* – time deposits – savings deposits – foreign exchange deposits by residents	– *sight deposits* – time deposits for less than 3 years (4) – savings deposits (to the extent they are liquid) – foreign exchange deposits by residents – day-to-day loans	– *sight deposits* – *deposits at not more than 1 month* – *deposits at sight & at not more than 1 month* at parastatal institutions – deposits at not more than 1 year – bank-book deposits – foreign exchange deposits by residents	– *sight deposits* (up to 30 days) – time deposits – savings deposits – foreign exchange deposits by residents
Savings banks (3) (and savings at the Post Office)	– *sight deposits* – time deposits for less than 4 years	– savings book deposits – housing savings deposits – savings certificates	– *sight deposits* – time deposits – savings deposits – Postal deposits		– various deposits at not more than 1 year	– *sight deposits* (up to 30 days) – savings deposits – foreign exchange deposits by residents
Postal cheques (or giro service)	– *sight deposits*	– *sight deposits*	– *sight deposits*	– *sight deposits*	– *sight deposits*	– *sight deposits*
Treasury	– *divisional currency*	– *divisional currency* – *sight deposits* – time deposits – Treasury bonds	– *divisional currency* – *sight deposits* – short-term Treasury bills	– *divisional currency* – deposits – short-term loans – Treasury bonds	– *divisional currency & small coin*	– *divisional currency*
Local authorities				– cash deposits – day-to-day loans – advances on current accounts		

(1) Primary liquidity items are underlined.
(2) Excluding notes held by the banks.
(3) In Germany the savings banks are credit institutions like the banks.
(4) In certain cases, deposits for not more than 2 years or 1 year.
(5) The statistics published by the National Bank of Belgium mainly concern the stock of money and quasi-monetary liquidity, the latter being limited to time deposits and foreign exchange deposits at the banks. Sometimes, however, and this is the case with that part of the present work which concerns Belgium, quasi-monetary liquidity is extended to take in holdings at savings institutions.

TABLE 3

Primary & secondary liquidity (a)

In milliards of national monetary units (Italy: 1,000 milliards)

	Germany		France		Italy		Netherlands		Belgium		Luxembourg (i)	
	1960	1970	1960	1970	1960	1970	1960	1970	1960	1970	1960	1970
A. *Fiduciary currency circulation*	20.8	36.9	39.5	75.9	2.4	6.5	5.1	10.0	126.8	190.7	5.9	7.1
B. *Money of account*	33.7	71.3	55.3(h)	158.2(h)	4.9	24.3	6.2	16.0			6.6	11.8
sight deposits (b)									93.6	227.8		
deposits at sight and up to one month												
C. *Time & foreign exchange deposits*	(e)	65.1	9.6	79.9	(f)	(f)	3.3	7.8	19.1	89.6	6.4(g)	26.9(g)
time deposits • at the banks (c) (d)												
• for 4 years & more (in Germany)	(e)	94.7										
• at parastatal credit institutions									4.4	26.6		
foreign exchange deposits			(h)	(h)	(f)	(f)	0.2	1.0	7.2	11.4	(g)	(g)
D. *Treasury bonds and deposits at the Treasury*			19.4	33.7	0.2	...	1.4	1.1				
E. *Claims on local authorities*							0.5	2.6				
F. *Savings deposits & holdings*												
savings deposits at the banks			1.4	30.9	7.7	21.2	01	0.7	15.6	76.0	9.3	16.5
– liquid	(e)	208.7					0.9	4.6				
– non-liquid	(d)	(d)										
deposits at the savings banks			29.5	113.8	(d)	(d)	9.9	29.6	107.7	213.2	(d)	(d)
G. *Total of the items considered to be of a liquid nature*												
– in milliards of units (Italy in 1,000 milliards of units)	...	173.3	154.7	492.4	15.2	52.0	16.8	39.2	374.4	835.3	2.82	62.3
– as a percentage of the national income	...	33.0	67.0	78.0	85.7	111.5	41.8	36.1	81.8	82.0	12.99	166.1

(a) For each country, everything is considered to be primary or secondary liquidity that appears in this table above the horizontal dividing lines. The various items in the table are presented in this way for practical reasons, to permit regrouping on roughly similar lines for the different countries.

(b) All countries: including postal cheque deposits and at central giro institutions.

(c) Germany: deposits for less than 4 years.

(d) Germany, Italy, Luxembourg: the savings banks form part of the banking sector.

(e) Germany: in 1960 the total of time deposits and savings holdings was DM 72.4 mrd.

(f) Italy: the total of time, savings and foreign exchange deposits at the credit institutions and deposits at the Post Office are included in savings at the banks.

(g) Luxembourg: in time deposits are included the sight and time foreign exchange deposits of residents.

(h) France: foreign exchange deposits are included in sight deposits.

(i) Luxembourg: estimates.

Sources: Monthly reports of the Deutsche Bundesbank, Tables 1 & 2.
Monthly statistics of the National Credit Council, Tables 1 & 4.
Report on the Situation of the Country, 1970, Table 60.
Quarterly Report of the Nederlandsche Bank, Table 3-1.
National Bank of Belgium Bulletin, in particular Tables XIII-2d, XIV-5b, XIV-6.
Statistics furnished by the State Savings Bank in Luxembourg.

mained constant or has declined. The only exception to this has occurred in the case of Italy, where the relationship has increased considerably owing to a very special factor: sight deposits are largely used for savings because under the interbank agreement in force, the return on them is greater than that on savings deposits.

The proportion between the fiduciary currency circulation and the national income, a structural factor which has a considerable influence on the banks' needs for liquid funds, has fallen particularly sharply in Belgium and France (the countries in which this ratio was the highest), and in the Netherlands. The proportion ranged in 1970 from 7 % in Germany to 15 % in Belgium.

The biggest changes in structure have occurred in France, where secondary liquidity, notably savings bank deposits and certificates, as well as bank time deposits and certificates of deposit, have assumed a relatively much greater importance than in the past.

Para. 1-2: *Sources of creation of liquidity and their relative importance*

41. The majority of the Member States prepare and publish periodically a monthly analysis showing on the basis of the consolidated balance sheet of the credit institutions (central bank included) on the one hand the variations in the volume of internal liquidity, and on the other hand the origins and counterparts of the variations. As has been seen above, the definitions of the notion of liquidity vary according to the country. Germany, for example, interprets it in a narrower sense than the other countries; similarly one finds differences in the delimitation of the counterparts. Among the latter, a distinction can reasonably be made between those originating inside the country (comprising credits to the private sector and credits to the public sector) and those originating outside the country (balance of operations with foreign countries).

42. In all the Member States *the granting of credits to the private sector* usually heads the list of sources of creation of liquidity. In this respect, a distinction should be made between short-term credits and medium and long-term credits. From the point of view of the analysis of the causes of the creation of liquidity, medium and long-term credit operations are included in some countries, if sometimes only in part; in others it is considered that the granting by the banks of longer-term assistance merely represents a transfer of savings and not a creation of money.

43. *The creation of liquidity is similarly effected in favour of the public authorities.* The counterparts of such liquidity also appear in the monetary analysis, as claims by the banking system on public authorities; in certain countries (France and the Netherlands) private persons and enterprises can also have claims on public authorities.

In Germany, this source of creation of liquidity has been relatively insignificant. In the Netherlands, the recourse of the central government and the local authorities to the creation of liquidity has considerably increased in the course of the 1960s, while in France the policy of budgetary restraint has made it possible, having regard to the economic situation, to reduce sharply (except in 1968-1969) recourse by the Treasury to monetary financing. In Italy and Belgium recourse by the public authorities to monetary financing has traditionally been fairly considerable.

44. Finally, *the creation of liquidity may be of foreign origin.* One foreign source regarded as a factor in changes in liquidity is the balance of payments with foreign countries, defined as the net result of sales and purchases of foreign exchange by private persons, enterprises and the State effected with the monetary institutions. The internal and foreign causes of the creation of liquidity cannot be put on the same plane to the extent that the internal sources of liquidity are more directly under the control of the monetary authorities than changes in liquidity emanating from abroad, which depend on the whole body of factors which affect the trend of the balance of payments.

If one examines the contribution of the balance of payments with foreign countries to the growth in liquidity in the economy, it appears that this contribution fluctuates considerably from one period to another. In the second half of the 1960s it was very substantial in Germany, but negative in France owing to the large deficits in the balance of payments recorded in 1968 and 1969. In the other countries the balance of transactions with foreign countries for the whole of the period has constituted a relatively important source of creation of liquidity.

The international flows of capital not only directly replenish internal liquidity but, by the expansion of bank liquidity that they bring if no measures are taken to counter it, they may also prompt the banks to develop their internal credit operations and thus indirectly promote an additional creation of liquidity.

The analysis of the various sources of creation of liquidity makes it possible to determine the origin of any disequilibria in the evolution of liquidity in the economy. Certainly, having regard to the manifold interdependence of the various sources of creation of liquidity, one should refrain from interpreting variations in one counterpart or another taken in isolation. Nevertheless, the analyses of the short-term variations in the counterparts have proved very useful in assessing the monetary situation with a view to determining the direction that should be given to monetary policy and the choice of instruments to be employed.

Para II - *Liquidity of the banking system*

Definition

45. Banking liquidity has been defined above (see introduction to the chapter on liquidity), as being formed by the holdings in the banking system of central bank money (and divisional currency issued by the Treasury) and by bank assets capable of being converted into such money without delay or material loss of capital value.

Their liquid holdings enable the banks to face their cash requirements in relation to their customers and the central bank. The margins at their disposal for recourse to the issuing authority constitute an essential element in this.

Composition

46. Traditionally, bank liquidity is classified according to the availability more or less immediate of its elements, and these are grouped into cash (or immediate) liquidity and potential liquidity. The need to earn a return prompts the banks to reduce the former to the utmost in favour of holdings that are both liquid and remunerative.

The composition of *cash liquidity* differs little from one country to another. It is made up of the holdings of the banks in cash and on current (sight) accounts at the central bank and in the postal cheque system and at the Treasury. The composition of *potential liquidity* varies more from country to country, according to the financial structure; it is also connected with the methods of credit utilized. Generally speaking it comprises the banks' holdings that are capable of conversion into central bank money. The detailed composition of the potential liquidity in each country is set out in Table 4.

The central banks can immobilize a greater or lesser part of the banks' assets possessing a liquid character by manipulating their compulsory reserves, by which means it is sought to act directly on the banks' liquidity with a view to influencing the distribution of credits and the creation of deposits that results. This technique is employed at present in Germany, France and Italy.

In Germany, the Bundesbank distinguishes between *non-available liquidity* (or minimum reserves) and the *free liquid reserves* of the banks. The free reserves of liquid funds are composed of the following elements: balances at the central bank in excess of the amount of the minimum reserves,[1] domestic money market securities, short-term investments abroad, re-discount quotas not utilized; from this total, advances against security (Lombard loans) are deducted. The total of these free reserves provides the basis of possible expansion of banking activities.

The same distinction is made in France and Italy, where it forms the basis of the analysis of bank liquidity, but with variations arising from the characteristics of monetary policy in those countries. In France, special importance is attached to the possibility of the banks' indebtedness, in respect of which a distinction is made between assistance at fixed rates and variable rates. In Italy, the liquidity of the credit institutions consists to a very large extent of the margins available on accounts for advances against securities. On the other hand, specific recourse is not had to this distinction in Belgium and the Netherlands, were the monetary authorities do not make current use of the principal instrument aimed at the direct control of bank liquidity, that is to say the manipulation of the compulsory reserves.

It should be noted that in principle the compulsory reserves of the banks on accounts at the central bank, where they exist, may not be drawn on. Nevertheless, except in Italy,[2] the banks are only required to maintain the stipulated amount of the reserves as a monthly average. Consequently, a portion of the reserves can be utilized to cover temporary cash requirements and serves in fact as cash liquidity. The banks' reserves in cash and on current account "available at the central bank" (that is to say in excess of the compulsory reserves) can thus be kept at a very low level.

Factors influencing bank liquidity

47. The central banks highlight certain variables that they consider of strategic importance. In Germany these variables are the "*free bank reserves*", in France the "*central bank assistance to the banks*", in Italy the "*monetary base*" subdivided into the base in the hands of the public and the base held by the banks, in the Netherlands the "*expansion or restriction of the money market*" (otherwise called the free reserves of the banks and central bank assistance); in Belgium the

[1] Account is taken of the average of these balances and this amount calculated according to a certain number of reference days.

[2] And in Belgium, when the system of compulsory reserves was in force.

TABLE 4

Composition of the potential liquidity of the banks (1)

	Germany	France	Italy	Netherlands	Belgium	Luxembourg
– Assets in the internal market	Domestic money market securities (less: "Lombard" loans); rediscount quotas not utilized	Margins available against the rediscount ceiling; bills eligible for discount without a ceiling; other assets eligible on the open market in virtue of decisions by the Bank of France	Margins available on ordinary advance accounts at the Bank of Italy; bills and current accounts representing stocking	Assets capable of being sold or pledged to the Nederlandsche Bank; cash deposits granted to the State	Net day-to-day loans; commercial bills and acceptances rediscountable at the National Bank; certificates of the Treasury and the Securities Stabilization Fund (less: advances against security from the National Bank)	Bank balances (especially holdings with Belgian banks); securities receivable at short term; rediscountable effects; mobilizable public securities
– Claims on foreign countries	Short-term investments abroad: short-term claims on foreign banks excluding sight claims denominated in foreign currencies (regarded as working capital); foreign bills (including Treasury bills) at short term	Short and medium-term effects mobilizable at the Bank of France; short-term investments abroad	Convertible foreign exchange (sight funds and short-term investments) to the extent to which they are accepted for conversion by the monetary authorities	Net balances of the banking system vis-à-vis foreign countries	Spot foreign exchange position (exluding participations)	

(1) The terminology employed is that in use in each country.

monetary analyses (cf. lower down Table 7 in Part 6 concerning Belgium) cast light on the "*banks' liquid resources*" (equivalent to their free reserves), and a group of items which taken together correspond to the notion of the monetary base utilized more generally in other countries.

The causes of variations in bank liquidity are split up into:

— factors of an economic or monetary order operating on the level of liquid assets of the banks: *external factors* or factors connected with the market;
— *intervention* by the monetary authorities with a view to modifying the banks' powers of recourse to the central bank (to which should be added, to a variable extent according to the country, those which aim at acting on the external position of the banks and the method of financing the public sector).

External factors

48. External factors are generally taken to include the factors connected with the development of the market over which the policy applied by the authorities only has an indirect influence or only operates after a certain time-lag. The principal factors of this type are of three kinds:

— movements of fiduciary currency between the banks and the public;[1]
— payments in favour of or emanating from the public sector;
— the balance of external operations by the non-monetary sector shown in the balance of payments.

Movements of fiduciary currency

The volume of bank liquidity is influenced in particular by the demand for notes and coin on the part of the public, which depends on the public's payment habits and the trend of disposable incomes. According to whether the proportion of payments normally effected in notes and coin is high or low, any creation of money by the banks will lead to a more or less substantial drain on their cash reserves.

Payment habits only change slowly. For structural and historical reasons they are very different from one country to another, and in consequence the proportion of notes and coin in the total money supply differs likewise. However, seasonal and adventitious factors influence the proportion and impose particular requirements on the banks in the matter of liquidity.

The trend of disposable income also influences the demand for notes and coin, although the relationship is not proportionate (cf. next paragraph). Income normally increases each year, but very irregularly from one year to the next. This is a factor making for fairly sizeable variations in the requirements of bank cash reserves.

In fact, it is found that if the volume of notes and coin held by the public has increased each year in absolute figures in all the countries (with rare exceptions), the proportion of fiduciary currency in the total money stock has declined steadily, thus contributing to reducing the "flights" of liquidity on the occasion of the creation of money.

[1] It should be recalled that the Bank of Italy applies its actions to the monetary base rather than to banking liquidity. The movements of fiduciary currency between the banks and the public do not affect the volume of the monetary base overall.

Operations by the public authorities

The second factor which affects the liquidity of the banks is the movement of receipts and expenditure of the public authorities. The creation of liquidity in this way depends generally speaking on the financial policy followed and the methods of financing budget deficits and allocating surpluses.
The effect of the financial operations of the public authorities on bank liquidity is also conditional on the rules and practices in use in the different countries as regards the management of the holdings of the public sector and the tapping by the Treasury of the financial circuits. According to whether the Treasury can deal freely and directly enough with the banks and the public or whether the central bank intervenes in these relations, the effects of the operations of the public authorities on bank liquidity are more or less direct and more or less susceptible of being influenced by corrective action by the central bank.[1]
In Italy, intervention by the monetary authorities is considered to have a particular influence on the potential effects of this source of liquidity. In the other countries it is considered that the means of action of the issuing authority in this field are relatively limited.

Operations with foreign countries

Movements in the reserves of the official sector and the banks are a third external factor affecting variations in bank liquidity. This is affected by the sum total of the operations of the non-monetary sector with foreign countries as reflected in the balance of payments. It is to be noted that in so far as the elements of liquidity in the hands of the banks are located partly inside the country and partly abroad, and that the regulations do not prevent the credit establishments from transferring them from one centre to another, they do so without affecting their total liquidity; this is the case for instance in Germany and the Netherlands. On this point is must be pointed out that as the definitions of bank liquidity vary from country to country the impact of movements of funds by the banks is not the same in all cases.

Instruments for intervention by the authorities into bank liquidity

49. The monetary authorities seek to correct the effect of external factors on bank liquidity by deliberate intervention for the purpose of influencing the volume of liquidity in the direction desired. For this purpose they make use of various instruments.[2]
The principal instrument in Germany and France, that of compulsory reserves, has a very direct quantitative effect; in normal circumstances this instrument is particularly well suited to a monetary policy that seeks to promote internal and external equilibrium by acting on bank liquidity, as is the case in these countries. Other techniques for the control of liquidity are employed in Germany (changes in rediscount ceilings; open market operations by the Bundesbank in short-term negotiable securities in relation to residents other than the banks; and operations in long-term securities) and in France (rediscount ceilings; minimum levels for

[1] See below the chapters concerning each country for detailed descriptions of the very complex relations between public authorities, central bank, the banks and the public.
[2] For a detailed study of these instruments see below in the chapter on the instruments of monetary policy.

effects representing rediscountable medium-term credits; changes in the conditions of access to refinancing at the central bank).

The position in Italy approaches that of these two countries but with important differences of detail. The authorities in that country exercise on the one hand a quantitative control of the money base (and not only of bank liquidity) by corrective intervention regarding the development of the external factors conducive to the creation of this. On the other hand the manipulation of the compulsory reserves is intended to control the ratio of credit and deposits, once the basic monetary volume and its distribution between the public and the credit institutions is known.

Belgium now employs, with a similar object, rediscount and certification ("visa") ceilings and, occasionally, ceilings on the external debtor position of the banks.

As regards the Netherlands, the authorities also have means of influencing bank liquidity: compulsory reserves, open market operations and changes in the provisions governing refinancing possibilities. Nevertheless, the policy has been to make only occasional use of these instruments since action has been applied direct to the liquidity in the economy.

As lending and borrowing abroad by the banks have assumed growing importance in all countries, the monetary authorities have tried to act on this source of liquidity. To this end, they have in particular the possibility of imposing on the banks limitations on their external indebtedness (regulation of their external position in all cases except Germany) or of concluding with them (in all cases, but this power is not used in practice in the BLEU) forward foreign exchange (swap) operations, sometimes with the object in particular of promoting international movements of capital considered desirable from the point of view of the exchange reserves, sometimes for the purpose of acting mainly on internal liquidity.

CHAPTER TWO

THE OBJECTIVES OF MONETARY POLICY

Para. I: The general objectives and the relationship between methods of control of the economy

50. In all the countries, the general objectives allotted to the authorities, under one formula or another, are as follows: economic growth and stability of prices, a high level of employment, and external equilibrium of the economy.
Certainly differences appear in the way these objectives are formulated and in the specific attitudes of the authorities in the face of given situations; and in particular circumstances, the monetary authorities, or one of them, may assign to certain of these objectives a higher or lower order of priority. Particular attention has thus often been paid to the movement of prices and the balance of payments during the 1960s by reason of the tendency to disequilibrium that has often developed in these fields.

Regulation of the economy and assessing recourse to the various instruments of economic policy (« policy-mix »)

In the pursuit of economic objectives, it is necessary to combine the use of the various means available, of which the principal ones in the short-term economic field are monetary policy and the policy governing public finances.[1] The efficient implementation of these policies in conjunction calls for close coordination by the authorities concerned (essentially the government bodies and the central bank) in combination with the social partners.
If the value of a combination of the various means of controlling the economy is generally recognised, it is none the less true that the place allotted to monetary policy in the countries of the Community has often been an important one, especially as regards the use of instruments intended to operate on the volume of liquidity.
Various reasons may be cited for giving monetary policy a particularly important role in practice, notably a lack of flexibility in budgetary policy: in cases of difficulty in the correct and rapid application of budget policy the authorities will have a tendency to accentuate recourse to the means of action offered by monetary policy.

[1] The line of demarcation between the fields of application of monetary policy and public financial policy cannot be drawn in advance in accordance with universally accepted norms. The principal questions in this respect concern the financing of budget balances and the management of the public debt. It will be agreed here to give to the term "monetary policy" the restrictive meaning of credit policy and the regulation of monetary and financial transactions with foreign countries.

It is fairly generally admitted after all that monetary policy is particularly useful when employed for restrictive purposes, but that where it is a question of stimulating an economy judged to be too depressed the accent must be placed more on budget policy.

Para. II: Elaboration of the objectives on the monetary plan

The global liquidity of the economy

51. The liquidity of the economy constitutes the principal aggregate on which the action taken by the monetary authorities to assist the realization of the global objectives of economic policy bears.
The choice of means put in train by such action must take account of the various elements of the structure of the economy concerned, the most important of which will be indicated below.
In addition, the authorities must take into consideration other, more changeable, factors which result from the economic and social development in each country and from external influences.
In this connection, it should be noted in particular that the central banks, in order to influence the trend of global liquidity in the manner desired, must take account of the incidence of the operations of the public authorities on the monetary situation. Certainly the governments themselves pay attention to the monetary effects of the volume of public expenditure and the size of the budget outturn, having regard to the means of financing to which it is possible to turn, but the margin for manoeuvre by the issuing authorities may be reduced by the limitations resulting from these factors.
To attain in the monetary field the objective aimed at as regards the regulation of liquidity in the economy, the central banks must therefore endeavour, in collaboration with the other monetary authorities, to reconcile the various financial effects of the application of the general economic policy and take account of the constraints imposed by the economic and social situation.
Faced with these factors, the diversity of which can be very great, the authorities endeavour to provide them with a reference basis worked out in more or less detail according to the country, which enables them to assess in an orderly manner the modulations they should adopt in their action. The Netherlands and Italy are the countries in which the reference basis is most elaborate. Certain objectives of monetary policy are transmuted in those countries into quantitative terms which are the subject of publication.

Para. III: The principal criteria for selecting the means of action

52. Although the objectives of the monetary authorities are fairly similar in the various countries, the approach to these objectives, the variables on which it is sought to bring the action to bear, and the instruments used to influence the liquidity of the economy directly or indirectly are sometimes very different from one country to another, and depend on economic and financial structures, on institutional characteristics and on tradition.
Among the factors which intervene in the choise of the orientation and the methods of monetary policy, certain of them have analogous, although varying, effects in the various countries of the Community; others present fairly marked

differences according to the country. Among these factors as a whole, certain of them influence the general orientation of monetary policy, while others determine the choice of instruments to which recourse is had.

a) *Variations in openness of economies*

53. Considerable differences exist between the Member countries as regards the degree to which the economies concerned are open to foreign countries, and consequently as regards the monetary effects of relations with foreign countries. Although to a varying extent, all the countries in the common market have had in the last few years to face problems the effect of which has tended to increase with the increase in the international mobility of capital, especially at short term (see under d. below); particularly serious difficulties have ensued in the attempts to achieve internal and external equilibrium.

b) *Principles observed in intervention by the authorities*

54. For reasons of tradition — a reflection of which is found in the institutional framework and in the distribution of powers among the monetary authorities — the national authorities attach to the principles that inspire their action a weight that is not the same for all the countries concerned. In some of them preference is given to the market mechanisms; in others, on the other hand, more importance may be attached to direct intervention that imposes more or less constraint on the authorities. In the latter case a predominant part is played by the direct relations between central banks and commercial banks in proportion to the whole range of market relations.

c) *Financial behaviour of enterprises & private persons*

55. It is a question here of a whole set of attitudes of the public concerning the distribution of income between consumption and saving, and as regards the latter of preferences for amassing money and/or certain forms of investment, together with the habits of economic agents as regards the forms in which liquidity is maintained (proportion of money of account to the total volume of money), and finally of the stability of the demand for money.

These factors are tied up with the degree of development of the financial channels. The differences of situation between countries on these points introduce an element of greater or lesser uncertainty into the simultaneous pursuit of the objectives of stability, equilibrium and growth and can be at the root of appreciable shifts in ratios of liquidity in the economy and the banks. Considerable differences can consequently appear in the intensity of recourse of the economic sectors to internal or foreign financing and in the dependence of the banking system on the various forms of refinancing by the central bank.

It appears that the monetary authorities are in each country anxious to improve the possibilities for investors, private and public, to finance themselves out of savings. In certain countries particular emphasis is laid on the fact that monetary policy should contribute as a matter of priority to the realization of this objective, subject only to the requirements resulting from the economic situation. This is the case in France, Italy and Belgium.

Particular importance is attached to this objective when it is estimated that the flow of savings is not sufficient. The monetary authorities then take steps to prevent excessive recourse by the enterprises to bank assistance from compromising the objectives in the matter of global liquidity in the economy, and to direct the available funds to the desired uses. This latter result can be achieved either by a selective policy in the true sense of the term applied to bank credits and the refinancing of banks, or by the specific employment of instruments the range of which is in principle comprehensive (compulsory reserves for example).

d) *Degree of liquidity of the banks*

56. From this point of view the differences are sharp between one country and another, even if the most frequent situation is the indebtedness of the banks to the issuing authority. It is clear in particular that the Dutch banks are generally very liquid and that the French banks are permanently obliged to resort to financing by the central bank; the same is true of the banks in Italy, where the central bank can employ effective means of guiding the banks' use of funds.
These widely different situations necessarily influence the general trend and the methods of application of monetary policy. Thus, confronted by a very liquid banking system, action to check bank liquidity encounters many difficulties and needs to be reinforced by more direct intervention as regards the credits distributed (Netherlands).
Whatever may be the relationship of cause and effect between the degree of liquidity of the banks and the results of quantitative action on credits a situation of very tight liquidity leaves the banks heavily dependent on the central bank and means that any action by the issuing authority has severe effects on prices and volume in the money market.
It should be added that a very important phenomenon — which poses similar problems in all the Community countries — made its appearance with the introduction of convertibility of the currencies, and has grown in importance constantly since 1958. This is the impetus achieved by international movements of capital and the development of Euromarkets. This trend has appreciably reduced the relative autonomy of the various countries in respect of the monetary impulse coming from abroad, notably in the matter of interest rates. The monetary authorities of all the member States are therefore faced with the same problem, which is to maintain *control of the internal monetary situation* affected by international movements of funds both by the banks and the big enterprises.

e) *Structures of the markets and the banking system*

57. The organization of the money and financial markets, the structures of the banking system and the degree of competition prevailing are all factors capable of guiding the choice of monetary policy. Among many others, two factors deserve attention in this connection.
When the majority of banking activity is concentrated among a small number of big banks, it is relatively easy to control fairly precisely the essentials of that activity. Such a situation is characteristic of Italy and the Netherlands. In the latter country the control is effected in a flexible manner by personal contact and in the form of "gentlemen's agreements".
Another aspect of the problem, the diversification of their activity, very pronounced in Germany, gives the different categories of institution plenty of flexibility and possibilities of varied reactions both to external impulses and to intervention by the authorities. In such a situation, monetary policy pays particular at-

tention to this factor and attains its objectives in a more indirect manner than in other cases.

Para. IV: Points of application (or intermediate objectives) and ways of implementing monetary policy

58. The factors that have just been mentioned, and others besides, give monetary policy in each country a characteristic slant. In fact, differences stand out in the general concepts concerning the methods of operation of monetary policy, in the formulation of the immediate objectives (sometimes taking the form of "variable targets" expressed in figures), in the precise points of application of the policy instruments, and in the estimates of the desired effects of the action taken.
These subjects are dealt with in the present section, country by country, while the enumeration of the principal instruments used in each country will be left until the beginning of the following chapter.

Germany

59. Monetary policy in *Germany* relies essentially on the orientation of the market mechanisms by the central bank rather than on direct controls.
It operates by pressure on *bank liquidity* and *interest rates* to the extent that market trends do not move them spontaneously in the desired direction; these two factors are moreover interconnected and exert a mutual influence on one another.
It should be noted that, if the liquidity of the banks is the only aggregate directly influenced by the Bundesbank, the latter does not set out to lay down a precise ratio of liquid assets as a norm; it confines itself to influencing the volume of liquid assets and the disposition of the banks to hold liquid funds.
The effects of such action on the liquidity of the economy and global expenditure are indirect and complex, and must be regarded in the light of their influence on the *supply of and demand for credit.* As regards the supply of credit, if a contraction in bank liquidity is postulated, the first effect will normally be to reduce purchases of long-term securities by the banks, by reason of the close ties between monetary and financial markets in Germany. The contraction in the supply of funds and the rise in interest rates in the financial market will have the result, more or less quickly, of reducing long-term credits for capital investment purposes. As regards medium and short-term credits, the effects may be slower. Interest rates, however, will end up feeling the influence of the trend of long-term rates and in this way a tendency will develop towards a decline in the demand for credit. The impact of the rise in the rates of interest will be minimal, however, at the outset, in a period of prosperity, on the demand for funds. Only gradually will the difficulties of obtaining credit, the rise in costs and the effect of interest rates on these costs change the general business climate and the volume of credit distributed.
It is still not possible, however, on the basis of the trend of credits to predict with any certainty the movements in the volume of money and in global demand, for it is considered that relations are not stable between these three elements and private saving is capable of varying appreciably.
It is therefore difficult for monetary policy to set itself ultimate objectives expressed in quantitative terms. But its action on bank liquidity is capable of finally achieving the desired result, especially if it is combined with the employment of

other means of regulating the economy, more particularly with a view to guarding against undesirable economic influences from abroad. With such a combination, the accent can be placed more on monetary policy when it is a question of checking excessive economic expansion and safeguarding price stability. The accent would not be so heavily placed on monetary policy when it is a question of reviving the economy.

France

60. In *France*, the general objective is to reconcile a sufficiently high rate of economic development with stability of prices and exchange rates. This double objective raises intricate problems, for in the face of the considerable needs for financing in the economy it has proved difficult to maintain a thoroughly satisfactory flow of savings. Recourse to financing from monetary sources is consequently very important, and whatever the trend of economic activity, monetary policy must most often be restrictive, especially with regard to the expansion of credits.

In their endeavours to master the creation of liquidity in the economy, the monetary authorities are led to *lay down quantitative limits for the increase in the volume of money.* The latter is to be understood in the wider sense of the term, embracing not only means of payment but also to a certain extent near-money.

The optimum rate of growth in the supply of money is determined in relation to the trend of internal production and of the liquidity requirements of the various categories of economic agents. The assessment of the liquidity requirements to be satisfied depends on the public's behaviour as regards cash, which determines the extent to which means of payment are amassed or restored to trade channels.

Limits to the growth in the volume of money being thus laid down with some flexibility, particular norms are assigned to the *accepted increases in bank assistance to the economy* in relation to the other sources of money creation, that is to say essentially to the position of the balance of payments and the Treasury. From this point of view, budget policy and monetary policy are considered to be closely linked. In this respect, the neutrality of the Treasury operations in relation to money creation constitutes a principle which, despite temporary difficulties of application connected with the prevailing economic conditions, has been respected for some years.

The policy aimed at obtaining quantitative effects on the liquidity of the economy is applied principally by means of *action on bank liquidity* (its development is not given quantitative expression as it is not regarded as an intermediate objective but as a means) and in case of need by the *restriction of credit*, the most rigorous form of action on the progress of banking assistance to the economy.

In addition, action in the field of *interest rates*, an essential instrument of government policy, also assists the attainment of specific objectives. These are aimed at the improvement of the financial and savings channels, selective orientation of credits and the control of movements of short-term capital. In the last few years, this quest has assumed great importance.

Belgium

61. To assist the realization of the general objectives of economic policy, particularly the maintenance of internal and external stability, the *Belgian* authorities act

on the flows of expenditure and consequently of savings and on the movement of funds with foreign countries. It is within this field that they make their contribution to the correct financing of government expenditure, an element that influences the policy followed in the matter of rates.
Operations with foreign countries are the subject of special attention. As regards current operations, the impact of the policy adopted can only be indirect, and therefore limited. As regards action taken on movements of capital, it is aimed not only at preserving external equilibrium — notably with the help of a special foreign exchange system — but also at ensuring that these movements do not conflict with the credit policy adopted for the public sector and the enterprises.
It should also be pointed out that beside the pursuit of general objectives separate action is taken in individual sectors, when the need arises to stimulate or check activity in one or another of them.
To attain their ultimate objectives the authorities show themselves to be flexible and pragmatic in the choice of their means of action and of intermediate objectives that they may decide on. They do not adopt a preconceived theoretical plan and do not regard as constraints either the realization of a specified rate of expansion of the quantity of money, nor the rigorous adjustment of the expansion to the anticipated trend of the national product, nor the maintenance of a predetermined degree of liquidity.
To ensure that the level and structure of the commitments and claims of the various economic agents evolve in the manner desired, the National Bank may act in two ways: either *indirectly* by influencing the rates charged to borrowers or the liquidity of the banks, or *directly* by restriction of credit. The National Bank may also act on deposit rates to influence the volume of savings and its distribution between real investments and placings of various types. This action on the rates modifies the conditions and consequently the volume of credits; it may moreover be completed by more direct action on the granting of credits.

Italy

62. If the *Bank of Italy* employs a very elaborate scheme of monetary analysis it nevertheless sets its face against any a priori attitude as regards the choice and precise delimitation of an intermediate financial objective (such as the quantity of money). It is bent on preserving the possibility of recourse to numerous means of attaining varied ends, more particularly as regards the activities of the banking sector.
The Italian authorities are concerned not only about the evolution of the liquid assets in the economy and their counterparts, but about the sum total of financial assets, liquid and non-liquid, and the whole of the finance granted to foreign countries, to the Treasury and to the economy.
To control the liquid assets and the level of interest rates, monetary policy is applied to influencing the cost and the conditions of credit by acting on the *volume and the channels of creation of the monetary base*. This is composed of the legal currency and short-term financial assets created by the monetary authorities and eligible without limit for constituting the compulsory reserves or freely convertible into cash at the Bank of Italy; it is held in part by the public, in part by the credit institutions. To the extent to which there is a known relationship between the demand for the monetary base on the part of the public and income, it is possible to establish the portion of the base which accrues to the banks and which, after constitution of the compulsory reserves, modifies their means of

action. The central bank can then control the possibilities open to the banks for increasing credit, as well as interest rates, according to the current level of demand for credits, thanks to its policy in the matter of refinancing.
It is thus easy to see the great importance in Italy of the control of the bank reserves by the central bank.[1] As regards the refinancing of the banks, the bank of Italy prefers to work on its volume rather than on the rates of interest applied to it. The effect on short-term rates of these two methods of intervention is for the rest considered the same: in each case the measures of restriction give rise to a raising of the rates of interest in the market.
Generally speaking, the control of certain financial aggregates and action on the rates are considered to lend material support to one another for the purpose of control of credits and liquidity.
The consideration of external equilibrium and of the medium-term objectives in the matter of savings and investments adds a further dimension to the problem of monetary equilibrium. With regard to the objectives in the matter of savings, a particular feature of Italian policy is the accent placed on the desire to keep the long-term rates stable. However, the principles of Italian monetary policy in this matter and as regards a not frequent recourse to changes in the rate of discount are liable to run up against limits by reason of the trend of interest rates abroad and movements of capital resulting from considerable margins between rates ruling in Italy and abroad. This explains the activation of the discount rate instrument in 1969-1970.

Netherlands

63. Monetary policy in the *Netherlands* based on the control of credits put at the disposal of the economy is conducted in accordance with the following principles. Credit policy is shaped in the light of the trend it is desired to give to the evolution of the *liquidity ratios*, a concept understood in this country to indicate the volume of liquidity (primary and secondary) expressed as a percentage of the national income. At the basis of this policy is the idea that in the short run, in the absence of exceptional circumstances, there is an equilibrium relationship between the internal liquidity volume and the national income; changes in this relationship set off reactions which tend to restore the equilibrium position. Thus a restrictive policy for example, on the assumption that there is a deficit in the current balance of payments, will aim at slowing down the growth of expenditure by allowing free play to the restrictive effect imputable to the decline in the reserves and by making the creation of liquidity of internal origin less than the liquidity requirements corresponding to the nominal growth in income. The necessary flexibility in the system is assured primarily by changes in the velocity of circulation of money; it can also stem from other factors: recourse by undertakings to the capital market (this must be seen in relation to what is said below on the role of the Treasury), and possible international movements of funds. A supplementary flexibility factor arises from the possibility the banks have of overstepping temporarily the norms allotted to them in the matter of the expansion of credits, if they are prepared to face the ensuing penalties.
Under the system of control of the global quantity of liquidity particular attention

[1] With regard to terminology in the matter of bank liquidity and the particular case of Italy from this point of view cf. Points 32 and 55.

is paid to the creation of liquidity of internal origin; this notion is comparable to that of "domestic credit expansion" which has been utilised for several years by the IMF. In addition the Nederlandsche Bank prefers, as has been seen, to give free rein to the monetary effects of the current balance of payments. As regards the flows of capital between the country and foreign countries it only has limited means of action, which arise from special instruments of control. On the other hand, if the activities of the public authorities are of major importance in the matter, the control of their monetary behaviour is for the government to handle: the principle adopted is that the impact of Treasury operations on the monetary plane must be neutral, that is to say the Treasury must finance its deficits in the capital market. The application of this principle has its limits, however, when monetary policy is applied in a restrictive sense; in this case it may be that the enterprises are under the necessity of resorting to the capital market (which is not subject to the credit ceilings) and the combination of public demand and a surplus of private demand in this market could drive up interest rates beyond what is considered desirable having regard to the possibilities of an influx of capital from abroad. The Treasury could then be moved to finance itself by monetary means.

The main emphasis of the monetary policy of the central bank thus falls on the private demand for credits. In the event, the Dutch policy has been conducted over the last few years in a mainly *restrictive* direction, given the existence of frequent heavy strains posing a threat to both internal and external equilibrium. To limit private demand for bank credits, the authorities resort in particular to *direct quantitative action regarding them*. This method had been chosen at the beginning of the 1960s, mainly to avoid an influx of foreign exchange to the Nederlandsche Bank, influxes to be avoided because of the action taken to reduce the liquidity of the banks; these were at that time able in fact to draw on large reserves of liquidity abroad. In 1968, intensive consultations between the Nederlandsche Bank and the banks indicated a preference for the adoption of direct quantitative action, by reason in particular of the big differences noted between the banks as regards their degree of liquidity and because of the extent of the seasonal and adventitious influences emanating from the public finances, the fiduciary currency circulation and transactions with foreign countries.

Luxembourg

64. Monetary policy in Luxembourg is fairly limited in scope, in view of the absence of an issuing authority proper in this country. The authorities accordingly adhere to methods which do not require the intervention of a central bank, notably the limitation of bank credits adopted since the beginning of 1970.

Chapter three

THE INSTRUMENTS OF MONETARY POLICY

Introduction

65. The present chapter sets out to review the techniques for the utilization of instruments of monetary policy and to examine how their use is combined. Having regard to the description in the previous chapters of the institutional framework and the financial structures of the Community countries, and of the general direction of the policy of the monetary authorities, this description will enable an appreciation to be made of the range of these instruments and will bring out the differences and similarities of their employment in the different countries.
First an enumeration will be made, country by country, of the principal instruments used to influence economic activity and the level of liquidity. This will help to establish the role of each of them in the whole field of monetary policy. It goes without saying that the choice of the methods of action and the points of application of monetary policy (see previous chapter) determines to a large extent the choice of the means selected for preference. However, the authorities do not limit themselves to the use of the instruments enumerated below; according to circumstances they can modify or extend the range of their means of action.

Germany

66. The Bundesbank normally uses a wide range of instruments.
— For the purpose of *acting on bank liquidity* the most important and most frequently used procedure is to make changes in the minimum reserve coefficients. The bank of issue also has recourse to open market operations in long-term securities, open market operations in short-term securities with the non-banking sector, and changes in the re-discount quotas.
— As far as *direct action on interest rates* is concerned, the Bundesbank changes the discount rate, the rate for advances against securities, the rates for its open market operations, and when circumstances lead it to resort to this technique, the rates applied by it to forward cover in the foreign exchange markets (swaps).

It should be noted that the fixing of rates for open market operations does not imply that the Bundesbank undertakes formally to deal in securities with the banks. In fact it has at times limited transfers of money market securities to effects maturing shortly or has even stopped such sales completely.

France

67. In *France* the permanent feature of the policy is based on the action applied to *bank liquidity.*

This action may be exercised by the *manipulation of interest rates* (discount rate, rate for advances and the rates applied to open market operations). This type of action is still of great importance in spite of the increasing use made of other instruments. Among these, *compulsory reserves* play a leading part.
Reference must also be made to quantitative action on bank liquidity effected, within the framework of a classical refinancing policy, by *rediscount ceilings* in particular, or in the form of open market operations (the latter assumed a predominant role in 1971).
When circumstances require, the authorities exercise direct action on credit itself by means of *credit ceilings*, which are regarded as instruments of last resort. It will also be noted that the *selective control of credit* remains, in spite of certain relaxations, a traditional feature of French monetary policy; it supplements the general monetary policy.

Belgium

68. In *Belgium* manipulation of *discount rate* is regarded as exercising an effective influence on the cost of credit, but much less on its volume, which depends on bank liquidity and the elasticity of demand for credit. This technique is intended in particular for the control of international movements of funds. As for open market operations, these have a limited importance. The same is true in fact of the monetary reserve coefficient.
Besides these traditional methods recourse has developed to the rediscount and certification ceiling, which operates effectively on the lending capacity of the banks. The Belgian monetary authorities also have the possibility of fixing *ceilings for credits*. They consider however that use of this instrument must be kept flexible and cannot be permanent.
Finally, regulation of the foreign positions of the banks and of the return on deposits and funds placed in the money market by foreigners are used in Belgium for the purpose of controlling international movements of capital and have the effect, often sought after, of influencing internal liquidity.

Italy

69. In *Italy*, since action to regulate the money base is principally directed at the *volume* (rather than the price) of *refinancing* of the banks at the central bank, the authorities use the quantitative instruments of *limits on rediscount and advances against securities* in conjunction with compulsory reserves.
On the other hand, discount rate has a very restricted use, except when in 1969-70 it was needed to bring the Italian rates of interest in line with the rates ruling abroad so as to limit the outflow of capital. Similarly, recourse is hardly ever had to the quantitative control of bank credits, except for the recommendations which the Bank of Italy may make to the banks to this effect.
Finally, the Italian authorities attach great importance to the *regulation of the net position of the banks vis-à-vis foreign countries*, when they are proposing to act on the liquidity of the banking system.

Netherlands

70. Until the end of 1971, the Nederlandsche Bank has resorted almost exclusively to *quantitative instruments acting directly on the volume of monetary resources in*

the economy. This confers a strategic role on *credit ceilings*. Moreover it is forbidden for the banks to maintain a debtor position with foreign countries (except for a small free margin) and the private sector may not, subject to certain exceptions, borrow abroad.
The Nederlandsche Bank had until recently largely renounced open market operations in the domestic market and changes in discount rate were hardly more than an indication of the policy being followed; on the other hand, the Nederlandsche Bank was beginning to intervene in the forward foreign exchange market.

Section I - General purpose instruments

Para. I: *Refinancing policy*[1]
Para. I-1: *Introduction*

Scope of refinancing policy

71. Refinancing policy embraces the various forms of direct assistance which the central bank can furnish to the monetary institutions, either by buying from them public or private effects (rediscount in the strict sense of the term), or by granting advances to them (*advances against securities* or against public or private short or medium-term effects).[2]
Whether it takes the form of management of interest rates or imposition of quantitative limits rediscount policy in the different countries of the Community varies in importance and effectiveness according to the traditions and organization of the banking system and the practices of the central bank.

Structural conditions

72. In all the Community countries the central bank imposes certain conditions and limits on the assistance it will grant to the banks by way of rediscount of bills and advances against securities. The relative importance of bank credit in the form of discounting depends to a certain extent on the policy adopted by the central bank itself to promote or restrict certain forms of credit, and also on the practices of the banks, notably on their disposition more or less marked to borrow at the central bank.
This last-named factor depends on the abundance or shortage of liquid funds which the banks receive from other sources and on the distribution of liquidity in the economy among the institutions which manage them (bank of issue, banks, specialized credit institutions, and the Treasury); these two factors are closely interwoven. Thus in the Netherlands and Belgium, an easy cash position generally saves the banking sector from recourse on a large scale and for long periods to central bank assistance (in Belgium thanks in part to the rediscounting institutions of first resort, notably the Institut de Réescompte et de Garantie).
On the other hand, in France, because of the insufficiency of liquid funds, the banks are permanently involved with the Bank of France (at a fixed rate or the

[1] The term "refinance" is used here to denote the process whereby banks obtain funds from the central bank by rediscounting eligible paper or receiving advances against eligible collateral.
[2] For simplicity's sake, the term "advances against securities" will be used.

rate ruling in the money market). Germany and Italy occupy an intermediate position in this respect.

Principal methods of refinancing

73. Calls by the banks on the central bank principally take the form in Germany and Belgium of rediscounts (see Table below). In these countries, advances against securities, which are charged a higher rate than the discount rate, are rather the exception. The Bundesbank and the National Bank of Belgium, moreover, consider that advances against securities should only be granted if they serve to overcome passing stringency. In Italy on the other hand, despite the relative importance of bank credits granted to the economy by discounts of commercial bills, the liquidity requirements of the banks are only secondarily covered by rediscounts. In fact the Italian banks prefer to resort to advances against securities, the rate of interest for which is normally the same as the official discount rate. In the Netherlands, to the extent to which recourse is had to rediscounting at the Nederlandsche Bank, this has been spread fairly equally recently over rediscounts and advances; the latter are, as in Germany and Belgium, in principle very short term. In France, rediscounting, of predominant importance until recent times, has become a secondary method of refinancing for the banks. These are now obtaining their requirements of liquid funds essentially by the deposit "en pension" (i.e. under an agreement to buy them back) at the Bank of France, at the money market rate, of public effects and of the private bills which were formerly presented for rediscount.

Para. I-2: *Essential technical elements of rediscounting*

Paper accepted

74. Rediscounts provided by the central bank for the banking system do not always apply to the same range of effects in all the Community countries.
Generally speaking, short-term commercial bills are accepted in all the countries. Besides these bills there are often bills for the financing of stocks of agricultural produce and certain short-term State securities. In the Netherlands, where rediscounting is very little used, it mainly concerns Treasury bills.
Financial paper is generally accepted for rediscount except in Belgium and Germany; in France it is only accepted if it has previously been the subject of a mobilization agreement on the part of the central bank.

Rates

75. Besides discount rates, certain central banks quote *preferential rates* (lower ones) to encourage certain economic sectors or operations (in France and Italy) and *higher rates* to discourage excessive recourse by the banks to refinancing (Italy) or to make discounting certain bills more costly (France and Belgium).
However, in practice, neither in France nor in Belgium do the banks resort to refinancing at a higher rate. In Italy, the extent of this technique is considerable. As the Bank of Italy follows a general policy of stability in the discount rate (see above), it applies an increase of 1·5 points for rediscounts above specified ceilings, when it wishes to check demands for refinancing considered excessive.

TABLE 5

Bank credits & refinancing of the banks at the Central bank

(situation at end 1970)

(in milliards of national monetary units)

	Germany	France (c)	Italy	Nether-lands	Belgium
1. Credits granted (or financed) by the banking system at short, medium & long-term (a)	481.2	262.2	27,683	37.9	518.0
2. Refinancing of the banks at the central bank					
– rediscount	16.3	30.3	664	0.2	0.4
– advances	1.7	–	817	0.0	–
– total	18.0	30,3	1,481	0.2	0.4
– pro mem.: other forms of refinancing (b)	0.7	15.7	–	1.4	–

(a) In Item (1) are included all the credits distributed at short, medium and long term, including the financing of export operations. The securities portfolio is excluded except for short-term Treasury bonds.

(b) Germany and France: money market.

(c) Situation at 5 January 1971.

Sources: Germany: Deutsche Bundesbank, Monthly Reports, tables II.1 & III.5.
France: National Credit Council, Monthly Reports, table III.A.
Italy: Bank of Italy Bulletin, tables 3, 4, 26.
Netherlands: Nederlandsche Bank Quarterly Report, tables 1.1 & 2.1.
Belgium: National Bank of Belgium Bulletin, tables XIII.6 and 12.

Rediscounting institutions of first resort

76. In certain countries, rediscounting institutions of first resort act as intermediaries between the banking institutions and the central bank. Sometimes these institutions operate in both the money market and the financial market.

It is in Belgium and France that these institutions play the biggest part; they have much less importance in Germany and the Netherlands and none at all in Italy.

In Belgium the role of rediscounter of first resort, filled principally by public credit institutions, and among them primarly by the Institut de Réescompte et de Garantie, covers the whole field of short-term operations. An idea of the importance of these rediscounting institutions is gleaned from the fact that in 1969-70, according to the statements at the end of each quarter, the Institut de Réescompte et de Garantie alone was responsible for more than half the rediscount total of the deposit banks, while direct rediscounts by the banks at the National Bank were much lower and in some cases minimal.

In France, the specialized credit institutions play a more limited part than in Belgium; their role concerns the rediscount of effects representing medium-term credits and consists above all in examining the records prior to any grant of a mobilization agreement and in furnishing their guarantee.

Para. I-3: *Essential technical elements of advances against securities*

77. The technical forms for advances against securities at present employed in the Community countries are advances on current account and advances for fixed periods.

Advances on current account

Current account advances consist of a credit opened for an amount equal to a certain quota of state securities or other securities provided as security, at a rate of interest normally equal to the discount rate in Italy and a higher rate in the other countries.[1]

Advances for a fixed period

Advances for a fixed period — only used in Italy — are distinguished from advances on current account by the fact that they are drawn immediately to their full amount and by the fixed period laid down for their repayment (8, 15 or 22 days). This type of advance is usually provided at a rate of interest equal to discount rate if the facility is required only once in six months; on each subsequent occasion recourse is had to it, the rate increases progressively by 0·5 points to a maximum increase of 1·5 points. Recourse to advances for fixed periods in Italy has risen in the past to amounts comparable to those for advances on current account, but their relative importance declined sharply in 1970.

Para. I-4: *Discretionary powers of the central bank as regards refinancing and the policy of overall and selective control*

Scope of discretionary powers

78. In practice the exercise of powers by the central banks is obviously more effective if the banking sector is obliged to resort to refinancing at the bank of issue. Thus the effective exercise of their powers is clearly more important in France, Germany and Italy than in the Netherlands. In Belgium, where rediscounting is principally effected through the Institut de Réescompte et de Garantie, central bank action also extends to the control of the operating conditions of that institution.

The central banks are invested in particular with fairly wide discretionary powers as regards both the *volume of credit* that they decide to extend to the banking sector and the *conditions* they impose on the banks for access to it. In every country there exist minimum conditions which bills must satisfy if they are to be presented for rediscount or lodged as security, but in the various countries the central bank has greater or lesser powers of discretion in the matter of acceptance or refusal of applications for refinancing.

Ways of exercising them

The volume of refinancing is controlled globally by means of rediscount ceilings (and sometimes by ceilings on advances against securities) imposed individually on

[1] From 0.1 to 1 point in the Netherlands, from 1 to 1.5 points in Belgium, from 1 to 2 points in France, and from 0.5 to 3 points in Germany.

the banks. It is within these limits, which can be modified at the will of the authorities, that the banks have recourse to refinancing. These rediscount ceilings constitute in France, Germany and Belgium a very important instrument for influencing bank liquidity.
Within these global limits, but very much more effectively still beyond them, the central banks of other rediscount institutions can practise a *selective* policy for providing their assistance. Recourse to selective control to supplement global control is practised frequently in a desire to mitigate certain effects of global control on specified sectors or categories of operation.

a) *Instruments of global control*

79. Global control is effected by prescribing ceilings for rediscounts or advances against securities. Its effectiveness depends on three factors:
— the level at which the ceilings are set;
— the frequency and amount of changes therein;
— the abundance of cash in the hands of the banks.
In *Germany* and *Belgium* the rediscount ceilings play an important part in monetary policy. Their level is adjusted according to the requirements of credit policy. It is to be noted that in these two countries the ceilings can be temporarily lowered by an amount corresponding to part of the liabilities of the banks to other countries.
In *France* the level of the ceilings is relatively low and has only been adjusted rarely.
In *Italy*, although formally distinct from the ceilings, there exist limits on rediscount above which the banks pay a higher penal rate; the same sort of limit exists for advances against securities for a fixed period, but not for advances on current account. The increases in all the forms of refinancing depend in fact on the wishes of the Bank of Italy.
In the *Netherlands*, the central bank has never set global limits within which it agrees to finance the banking sector.

b) *Instruments of selective control*

80. The refinancing techniques can be employed on a selective basis. In that case their incidence may only be of secondary importance from the point of view of global monetary policy.
Various instruments are used for this purpose: selective policy regarding the securities eligible for presentation by the banks, acceptance "outside the ceiling" by the central bank of certain types of paper (France, Germany, Belgium) or within particular ceilings (Germany), previous rediscount agreements (Belgium, France) and preferential or increased rates (France, Italy).
In France particularly certain types of effects can be rediscounted without being imputed to the ceilings. Certain selective action is also effected under the system of mobilization agreements which constitute a prior condition for refinancing by the central bank by way of rediscount under "en pension" arrangements.

Para. I-5: *Connection between discount rate, rates charged by the banks and money market rates*

At the present time, in all the Community countries, the fixing of *rates charged*

to borrowers is left to the discretion of the credit institutions. If no automatic relationship exists between central bank discount rates and the rates charged by the banks, it nevertheless seems that these short-term rates settle down within a fairly uniform distance of the official discount rate (in France, the practice has arisen of paying increasing attention to the rate for Bank of France assistance in the money market), above it. In Germany, however, since the liberalization of rates in 1967 this margin has proved less stable. With the exception of the Netherlands and Belgium, where the banking sector, as has been seen, is fairly independent of financial support by the central bank, this de facto link results from the need of the banks to resort frequently to possibilities of refinancing at their central bank.
As regards the banks' *short-term deposit rates*, these are fixed freely by the credit institutions in the Federal Republic and the Netherlands. In France, Italy and Belgium, the maximum rates payable on short-term deposits are fixed according to different procedures; these are, respectively, administrative arrangements,[1] agreements between banks, and agreements between banks and the central bank.[2] As for sight deposits (as distinct from savings deposits), interest on them is forbidden in France, minimal in Germany and Belgium, high in the Netherlands and very high in Italy.

Para. I-6: *Incidence of refinancing policy*

Discount rate

81. As regards the rate of discount, changes in the rate are regarded as a means of more or less rapidly and effectively influencing recourse by the economy to credit. Because of the links that exist between the central bank discount rate and the interest rates that the banks charge their customers, this rate in fact largely determines the cost of credit and changes in the discount rates have a like effect on the banks' deposit rates. Changes in bank rate consequently have a direct or indirect influence on the trend of rates in the financial market.
The impact of changes in the discount rate on the demand for credit varies considerably from country to country, and consequently from one given situation to another. Nevertheless, generally speaking, the central banks in the member countries consider that a change in the cardinal rate in the market, that is to say in the discount rate and the rate for advances against securities (in France, to a certain extent, since 1971, in the rate for assistance at variable rates by the Bank), is a measure which normally exercises an influence on recourse to credit. The incidence of variations in the interest rate depends largely on the expectations of the entrepreneurs, subject to the influence of the decisions taken in the monetary field. Banking circles and enterprises also consider with some justice that a change in the discount rate is not only a factor affecting the cost of liquid funds but also a pointer to the general direction of monetary policy in the near future. The "warning" aspect and, to a varying extent, the "cost" aspect tend to have repercussions on the decisions by enterprises, notably in the fields of capital investment and stocks.

[1] Deposit rates are nevertheless free in France for deposits to an amount or for a period exceeding a specified minimum.

[2] In Belgium, the rate for "big deposits" for fixed periods in free.

Refinancing as a whole

The effects of "refinancing" policy as a whole, that is to say changes in the official rates and ceilings, often seem to be fairly limited unless the policy is supplemented by other measures directly affecting the funds available to the banks. The principal additional element generally used to supplement refinancing policy is the adoption of compulsory reserves; the combination of these two means of action, and others as well, improves their effectiveness.

Policy of rates and international movements of funds

82. One development which has increased in importance in recent years affects the efficacy of national policies in the matter of refinancing, and in fact the whole field of monetary policy. Since the return to currency convertibility and since international payments and movements of capital were to a large extent liberalized, the external aspect of refinancing policy has assumed greater and greater importance. The central banks are now more obliged than in the past to conduct their monetary policy, and in particular their discount rate policy, in the light of developments in certain foreign money markets and international markets. Recent developments show in particular that the central banks are encountering great difficulty in maintaining the level of interest rates they consider suitable to the economic situation, for undesirable movements of capital can counteract the hoped for effects of internal monetary policy.

Para. II: *Operations in the money market*

General

83. Independently of the means of regulation at their disposal, central banks combine direct refinancing of the credit establishments with operations in the money market (which, in the Community, is principally an inter-bank market); these operations influence the degree of liquidity in the market and the rates of interest ruling in it.
Generally speaking, these central bank operations (open market operation) consist technically in buying or selling, in receiving or giving "en pension", a wide range of securities: public or private effects, mainly short term, but also in some cases medium or long term.
In the Community, open market operations for monetary policy purposes are mainly effected between the central bank and the banks, perhaps through the intermediary of specialized houses. The Bundesbank effects transactions in short-term securities direct with public bodies, and since May 1971 it has done so also with other non-banking bodies.

General objectives

84. The effects that the authorities seek to produce in the money market differ according to the country and the circumstances. Their main object may be to influence either the interest rates ruling in the market or the volume of bank liquidity.[1] In this respect it will be seen below that the scope of open market

[1] Besides its use within the framework of general monetary policy, open market policy may be used for the technical regulation of the market. In the Netherlands, until 1971, it was used for this purpose alone.

policy differs from country to country according to the market structures and the possibilities open to the banks of converting short-term securities into central bank money; in consequence, the quantitative action of the authorities in the market by means of short-term securities will affect as the case may be the global volume or the composition of bank liquidity. It should be noted, however, that the pursuit by a central bank of a particular objective in the field of interest rates limits the possibilities for it to achieve a precise quantitative result in the matter of liquidity.

85. In Germany and the Netherlands, to the extent that short-term money market securities can be sold at any time to the note-issuing authority, the central banks consider that open market operations with the banks, effected by means of these securities, influence the composition of bank liquidity, rather than its overall volume. In fact the volume of bank liquidity does not change when the central bank intervenes to convert short-term securities into money of account in its books or vice versa, since they both constitute liquid reserves for the banks. In this case, action on interest rates is of special importance in the broad context of open market policy.
It is different when it comes to operations in long-term securities, which the banks cannot convert into balances at the central bank as in the case of short-term securities; in consequence, any purchase or sale of long-term securities effected by the authorities with the banks changes the volume of liquidity in the hands of the latter.

86. *In the other Community countries (France, Italy, Belgium)*, it is considered that open market operations in short-term securities can change the volume of liquidity at the disposal of the banks. In fact, in Italy, the purchase or sale by the monetary authorities of securities which they had undertaken to negotiate at any time are not regarded as open market operations; open market intervention only occurs in the case of quantitative changes in the money base. In France, in principle the banks have the possibility of converting into central bank money the short or longer-term securities they hold only to the extent that the issuing authority itself is prepared to agree. In that case, the central bank, by accepting the money market securities, permits a change in the volume of immediate liquidity at the disposal of the banks.
In Belgium also, the monetary authorities (Securities Stabilization Fund & National Bank) have the possibility of changing the volume of bank liquidity by intervention in short-term securities. For this purpose the Securities Stabilization Fund can issue certificates with a view to mopping up liquidity, and it also has a line of credit at the National Bank; though it only uses such facilities in the last resort. It should be pointed out that in Belgium open market operations are sometimes effected also in long-term securities.
It goes without saying that in these last three countries the aim of open market interventions can also be to influence the level of interest rates.

Connection with external money markets

87. In all the countries, open market policy is connected with the regulation of short-term capital movements to and from foreign countries.
This latter aspect of open market policy has assumed great importance since the national money markets have found themselves more and more closely linked with other national markets and international markets. The rates in the national

markets cannot be established without reference to the level of rates abroad. And the regulation of international movements of funds has become an important element in the policy concerning liquidity and rates, in particular by means of direct foreign exchange transactions between the monetary authority and the banks (swaps). The operations of central banks in the money market with a view to influencing these international movements will be considered later on in the section "regulation of operations with foreign countries".

Importance and characteristics of open market policy

88. The importance and characteristics of open market policy among the instruments at the disposal of the monetary authorities differ according to the country, and have varied in the course of time for each one.

One characteristic however is common to most of the countries, and concerns action on the rates of interest. To judge by the considerable relative weight of interventions by the central bank, it appears in general that the "prices" in the money market are largely dependent on decisions by the issuing authority regarding the rate of their interventions. This is not however the case in the Netherlands, when open market policy is applied in that country, because of the relatively large extent of the market and the participation in it of the non-banking sector.

For the rest, the differences are more important. In Germany, open market policy has for a long time played a big part; it mainly concerns the rates of interest. Open market intervention by the Bundesbank consists essentially in adjusting the rates for sales and repurchases of the various categories of money market securities, according to the way in which the market develops and its own intentions in the matter of interest rate policy.

Moreover, apart from its interventions concerning short-term securities with the banks, which only affect the composition of bank liquidity, the Bundesbank has sometimes carried out open market operations with a view to changing the total volume of bank liquidity. This was the case when in 1967 it bought for its own account in the financial market, bonds issued by the State; or when it effects open market operations with the non-banking sector — a factor specifically dealt with in the current analysis of the evolution of banking liquidity in Germany, but until now of relatively small importance.

In the *Netherlands*, after having pursued a systematic open market policy between 1952 and 1964, the Nederlandsche Bank has abandoned operations on the internal market in favour of intervention in the foreign exchange market, which has proved more efficacious in view of the importance of this market. In June 1971, when the florin rate was floating, open market policy was resumed.

In *Belgium*, where intervention has been practised on a regular basis for some time, it is aimed in general at smoothing out the erratic market fluctuations as regards both the rates and the volume of bank liquidity; it only plays a relatively minor part in monetary policy as a whole.

In *Italy*, operations for the purchase and sale of securities in large quantities in order to change the volume of bank liquidity have been effected according to need. Recently intervention by the Bank of Italy with regard to Treasury bonds has become more frequent, but it is of minor importance and is only aimed at smoothing out fluctuations in the cash holdings of the banks. In Italy only operations which affect the volume of the money base are regarded as open market operations.

In *France*, intervention in the money market has assumed growing importance in monetary policy. For several years, intervention by the Bank of France has been intended essentially to maintain the market rates at levels comparable to the levels of rates ruling abroad, in order to avoid undesirable movements of capital. The central bank has thus come to supplement the liquidity of the banks by purchases or acquisitions "en pension" of public or private effects. Since the beginning of 1971 these operations — effected at rates below the discount rate — have played a predominant part in the refinancing of the banks, so that recourse to rediscounting is now regarded as of secondary importance.

Para. III: *Compulsory reserves and other banking coefficients*

Definition and scope

89. In all the Community countries rules exist whereby the banks are required to maintain specified ratios between certain assets and certain liabilities or between certain liabilities and the banks' own funds.
This method of control enables the central banks in the majority of the member States to exert pressure directly on the volume of the banks' liquid funds and thus represents a very useful supplement to the refinancing and open market policies. In fact, the requirement that certain ratios be observed between elements in the balance sheet, in particular the system of compulsory reserves, represents a particularly effective way of limiting the possibilities for granting bank credits by imposing by regulation a contraction in the banks' liquidity.

Banking coefficients and ratios between elements in the balance sheet

90. Certain banking coefficients establishing ratios between elements in the balance sheet are based in essence on the need to safeguard the solvency of the banks. These coefficients, which are in force everywhere except in Italy, will not be discussed here in view of the small part they play in monetary policy.
Apart from their role in the sound conduct of the banks, coefficients for bank liquidity can be used for purposes of monetary policy. This is not in practice the case in the Community. In France and Belgium, however, coefficients have existed or still exist which are aimed at directing or containing the use of bank funds within certain limits and which also have an effect on banking liquidity from the point of view of monetary policy. Cases in point are, in France, the old cash ratio or the ratios still in force for medium and long-term credits and, in Belgium, the old reinvestment ratio.

Compulsory reserves: types & use

91. As regards the system of compulsory reserves, this is at present used in the Community in two different ways corresponding to two quite distinct requirements:
— an obligation on the banks to maintain deposits at the central bank in proportion to certain liabilities (*compulsory reserve deposits*). This requirement is designed to neutralize some of the banks' liquid funds and so to reduce the credit multiplier; the reserves constituted in Italy in the form of one-year Treasury bonds serve the same purpose;
— an obligation on the banks to observe prescribed ratios between certain holdings of securities and certain liabilities (*compulsory reserves in long-term securities in Italy*). This requirement induces the banks to invest part of their resources in securities to finance sectors of the economy regarded as of first

priority (principally the public sector). Other countries have different coefficients, but they are more or less related to reserves in the form of securities; they will be dealt with in the succeeding section.
Compulsory reserves in the form of deposits have proved to be an effective means of controlling bank liquidity, to the extent that they sterilize part of the banks' operating resources. Even when the coefficients are held at the same level the system produces a regular withdrawal of bank liquidity, thus reducing the rate of the credit multiplier (that is to say the possibilities for development of credits), since the constant growth of liabilities gives rise to the constitution of reserves. As the expansion of the fiduciary currency circulation in the hands of the public also gives rise to a regular drain on bank liquidity, the determination of the coefficient for the reserves must take account of the more or less high percentage, according to the country, of fiduciary currency in the total money supply.

Para. III-1: *Regulation of the compulsory reserve deposits*

Present utilization of the reserve deposits

92. All the Community countries have this instrument but at present it is only being used in Germany, Italy and France.
In the Netherlands, the system of compulsory reserves has not been used since 1963, since when the Dutch authorities have preferred to reduce the coefficient to zero, to prevent the banks from reacting to stringency in the money market (by sales of foreign exchange to the Nederlandsche Bank. It is to be noted however that the Bank is empowered in certain circumstances to demand that the banks should maintain interest-free deposits in its books. It is to support the policy of restriction of credit that the Bank frequently imposes this requirement as a penality on the banks which have overstepped the norms laid down in the matter of credits. This system comprises an element similar to one in the new system introduced in France in 1971, which permits more systematically the imposition of compulsory reserves according to the volume of credits granted.
In Belgium this instrument was only employed for one year, between July 1964 and August 1965. In this section a comparison will be made however between the regulations existing both in the countries in which the instrument is used and in those in which the compulsory reserve coefficient is for the time being nil.
In Germany and France the reserves on deposit account are made active use of by *varying* the coefficients fairly frequently. In Italy, on the other hand, it is not usual to change the rate of the reserve deposits, flexibility in the compulsory reserve policy being achieved in this country by varying the composition of the compulsory reserves as a whole (on deposit and in the form of securities).

Use of the reserves as working capital

93. In all the countries except Belgium and Italy the amount of the compulsory deposits to which the banks are subject need only be observed as a monthly average, which enables them in the interval to use the reserves to cover temporary cash deficits, on condition that they make up the deficiency by inflating their reserves on other days in the month. But if the required monthly average is not attained, the German and French banks, unlike the Dutch banks, are subject to a penal interest payment related to the shortfall in the reserves.

TABLE 6

Compulsory reserve deposits

(position at end 1970)

	Germany	France	Italy	Netherlands	Belgium
Description	Minimum reserves	Compulsory reserves	Compulsory reserves	Cash reserves	Monetary reserve
Maximum rates applicable (%)					
sight deposits (a)	30				20
time deposits	20	10	10	10 (b)	7
savings deposits	10				7
deposits of non-residents	100	—	10	—	—
Rates in force	8.4 (average)	7.5 sight deposits 2.5 time deposits	10	—	—
Numerator	total deposits	total deposits	total deposits	total deposits	total deposits
Denominator	short and medium-term liabilities	liabilities payable in up to 3 years	short & medium-term liabilities	short-term liabilities	liabilities payable in up to 2 years
Institutions liable	short, medium & long-term credit institutions (including savings banks)	banks handling money and near-money	banks	short and medium-term credit institutions (excluding savings banks but including giro services)	deposit banks
Volume in milliards of currency units	7.0	1.8	5.2	—	—

(a) Deposits at sight and up to 30 days.

(b) In special circumstances the rate may be raised to 15% after consultation with the banks.

Institutions affected

94. Table 6 sets out the principal features of the requirements regarding compulsory reserve deposits in the various Member States. The credit institutions are subject to the compulsory reserve requirements to the extent that their liabilities are of a monetary or quasi-monetary nature. The savings banks however are exempt from these requirements, except in Germany.

Basis

95. The basis of calculation for determining the amount of the compulsory reserves is provided, although with variations from country to country, by the total of short and medium-term deposit (sight deposits, time deposits and savings deposits). At the beginning of 1971, France also introduced reserves based on the amount of credits granted by the banks and the financial establishments.[1]
The maximum coefficient, below which the central bank can generally vary the coefficient in force, is determined by an authority outside the Bank.[2] It is considered in fact that such a decision should be taken by a body with statutory powers.
The system of compulsory reserves in force in Germany and France provides for the application of different coefficients to the deposits of residents and non-residents. In Germany the Bundesbank can also fix particular reserve coefficients for increases in liabilities in relation to a certain date.
In all the countries in which the compulsory reserve system is employed, a distinction is made between small and large banks. This is done by allowing more or less sizable rebates on the liabilities subject to reserves and/or by applying different coefficients so as to ease the burden for the small establishments. With regard to Italy, the high level of the coefficient imposed is made easier to bear by paying interest on reserve deposits, contrary to the practice in other countries.

Para. III-2: *Reserves in the form of securities and the relative coefficients*

96. Italy stands alone in having introduced for its global reserve coefficient a distinction between reserves to be held on deposit accounts and reserves to be held in the form of securities. Among the latter a distinction must also be made between the reserves represented by 1-year Treasury bonds and those consisting of private or public long-term securities. The reserves in the form of Treasury bonds are comparable as to their purpose and impact on liquidity to reserve deposits, for their counterpart is immobilized. On the other hand, the object of reserves in the form of long-term securities is to channel a portion of bank resources into the financing of the public debt or of certain sectors of the economy.
Variations in the reserves in the form of long-term securities in Italy are made by providing that increases in reserves should be effected in particular categories of securities, according to the case for financing one sector or another.

[1] In France, since 1971, the central bank has in fact been delegated powers by the National Credit Council to impose compulsory reserves simultaneously on deposits and the volume of credits granted. This new system has been introduced to provide the central bank with means of acting on the distribution of credit that is sufficiently effective but less rigid than the restriction of credit. This new regulation also imposes compulsory reserves for credits on certain non-banking financial intermediaries whose resources are principally provided by the banks.
From one point of view one can liken to the reserves the compulsory deposits, on which no interest is paid, proportionate to the increase in credits beyond the ceilings prescribed in the credit restrictions which the banks have been required to constitute in France and the Netherlands.

[2] In the Netherlands, the maximum coefficient is laid down in the gentleman's agreement between the central bank and the banks, which governs the system of compulsory reserves.

In France and Belgium there exist coefficients which can be related to the Italian system in that they provide for particular uses for the funds but which differ from it as regards the methods of utilization on the one hand their purpose and effects on the other hand. It is a question in France of the minimum portfolio of effects representing medium-term credits which limits the banks' possibilities of mobilizing these effects at the Bank of France, and in Belgium of the monetary reserve in the form of holdings of public effects, a form which has not yet been put to use.

Para. IV: *Quantitative global action on credit*

General

97. Action to adjust bank liquidity is not always sufficient to limit an expansion of credits, especially in a situation of strong inflationary pressure. In fact, raising interest rates may have no effect on the operations of the banks, which in a period of inflation easily find customers prepared to pay high rates; raising interest rates may also attract an influx of capital from abroad which will increase bank liquidity. Similarly, variations in the compulsory reserves may prove insufficient. Finally, action by the monetary authorities to contain bank liquidity cannot be isolated from the creation of money coming from the public sector or from abroad.
In these circumstances the monetary authorities in certain countries resort to the restriction of bank credits. This is an instrument the introduction of which is aimed at limiting the rate of expansion of credits. The method consists in limiting for a certain time the growth in the volume of bank credits to the private sector to a specified percentage in relation to a base date or period.

Methods of employment

98. This technique is only employed, regularly or occasionally, by the central banks in France, the Netherlands and Belgium; the Luxembourg authorities have also resorted to it since 1970. In the Netherlands its employment results from a "gentleman's agreement" between the issuing authority and the banking sector. In Belgium and France the restriction applies in principle not only to short-term credits but also to medium and long-term credits for which different growth rates may possibly be fixed. In the Netherlands, the limitations on credits are aimed, apart from the whole field of short-term credits which are subject to ceilings, at the total long-term use of funds, including investment in securities; in periods of restriction, the increase in long-term assets may not exceed the increase in long-term liabilities, unless the ceilings applicable to short-term credits are not reached. Normally, the institutions subject to the placing of their credits are the banks; in Belgium it also applies to the public credit institutions, the private savings banks and the life assurance companies. In the Netherlands it applies also to the agricultural credit banks, since 1969 to the savings banks, and since 1970 to the postal giro service.
In countries in which the restriction of credit has not been applied on a permanent basis (France, Belgium), it has been applied strictly but for limited periods. In the Netherlands inflationary pressure was of frequent occurrence during the 1960s and led the authorities to apply the system of quantitative restrictions from 1961 onwards with only short interruptions. Because of the regular and general way in which this instrument has been employed in that country, its method of application has tended to be more flexible there.
Sanctions are provided to ensure the observance of the relative regulations. In

France since 1970, and in the Netherlands, banks which have exceeded the limits have been required to deposit at the central bank, in a special account bearing no interest, an amount equal to or proportionate to that by which the ceiling is exceeded. In Belgium, overstepping the limits prescribed gives rise to a reduction of at least equal amount in the rediscount ceilings; a similar rule was also applied in France until 1970.

Restriction of credits has been used — by reason of its very nature — under difficult conditions, characterised by severe and at times persistent inflationary pressures. It has had to be applied in a pragmatic fashion and with a certain amount of flexibility, making relatively frequent adjustments according to the trend of assets and liabilities at the banks. In addition it has been applied in certain cases in such a way as to allow the banks to select from among several base dates for the calculation of the growth of the credits they grant, in order to ensure that the arbitrary choice of a base date or period by the central bank does not work to the disadvantage of certain banking establishments. Finally, the monetary authorities can use a certain amount of discrimination regarding the credits granted to the different economic sectors, thus favouring foreign trade and the financing of investment, for example.

As a general rule, the French and Belgian authorities consider that the use of credit restriction is to be recommended especially in a period of severe inflationary pressure, when the effectiveness of the other instruments proves inadequate or requires time to operate. In the long run, in fact, the restriction of credit hampers the normal play of competition between the banks and affects their profit-earning capacity unequally. The Netherlands' point of view in the matter is more complex, however, as was seen in the previous chapter in considering the monetary policy of that country.

Section II - Instruments for specific purposes

99. The instruments to be examined below are classed as having a specific purpose. That does not mean that they are of secondary importance, but simply that they are aimed at controlling a particular source of liquidity or are designed to achieve particular objectives.

Consideration will be given in turn to:
— the regulation of relations with foreign countries;
— the selective control of domestic credits;
— the instruments of control of the local authorities.

Para. I: *Regulation of relations with foreign countries*

Para. I-1: *General*

Importance of the problem

100. Recent years have been marked by short-term capital movements[1] of increasing volume prompted by considerations of yield and sometimes by speculation on changes in rates. These movements have not only affected the effectiveness of the

[1] Long-term capital movements do not come within the scope of the present study (except to the extent to which they are linked with short-term movements) and so are not dealt with here.

monetary policy pursued by the national authorities, but they have also occasioned or aggravated serious crises which have rocked the international monetary system. Several structural factors, running parallel to the incidence of cyclical factors on the balance of payments, have contributed to increases in movements of capital. Particular features are:
— the increasing internationalization of the economies; this finds reflection in a considerable expansion of international trade which is an important source of short-term capital movements owing to shifts in the terms of payment,
— the development of multinational enterprises,
— the extension of banking networks beyond the frontiers, giving the enterprises easier access to foreign credit resources,
— the development of the Euro-currency market, especially of the volume of liquid funds which pass through this market.

The market in Euro-currencies is one which the authorities find it hard to control and in which are invested short-term funds which can be shifted very easily from one national market to another in search of the highest return.

For this reason, differences of economic trend between two or more countries — which are reflected particularly in a difference in interest rates or the weakening or appreciation of the currency of one country in relation to that of another — are liable to set off unlooked for movements of funds from one market to another, so affecting the autonomy of national monetary policies.

It must be added that even when two economies develop on parallel lines, failure to harmonize the use of the instruments of monetary policy can also provoke movements of capital. In fact if two countries follow a restrictive policy, but one of them does it by raising rates of interest and the other by exercising a quantitative control of credit while maintaining lower rates than those ruling in the other country, movements of capital may occur despite the similar trend of monetary policies.

Problems and means of action of the monetary authorities

101. These movements of short-term funds may set the monetary authorities problems of two kinds:
— undesirable variations in the level of the foreign currency reserves,
— disturbance of control of liquidity creation (both as regards the quantity of liquidity and in the matter of interest rates).

It is to be noted however that in certain circumstances, to the extent that these movements can be controlled by the authorities, they are capable, not of upsetting the policy followed, but of reinforcing it as regards the objectives of the moment. Several means of action are available to the monetary authorities to enable them to influence the flows of short-term capital in a more or less flexible manner. In this connection, the controls aimed at containing international movements of funds are not the same for residents and non-residents.

102. *Non-residents* (bank and non-banks) in all the Community countries enjoy complete liberty, thanks to the external convertibility of the currencies, to effect movements of capital and it is to them — particularly the multi-national companies — that the bulk of the movements of capital which escape all control must be attributed. A very important instrument at the disposal of the authorities for limiting these movements of capital consists in reducing or even forbidding the payment of interest on deposits of non-residents. In Belgium, besides the prohibi-

tion to pay interest, the existence of a parallel foreign exchange market produces the same result as regards the limitation of capital movements; the fluctuation of rates in the free market serves according to circumstances to discourage the inflow or outflow of funds.

103. The transfers of *residents* can be controlled by the monetary authorities either under regulations promulgated by the exchange control authority or by means of instruments which operate in an indirect and flexible manner. As between residents, the regulations make a distinction between the banks on the one hand and corporate bodies and private persons on the other.
As far as *non-banking* residents are concerned, a distinction must be made between the Federal Republic and the BLEU on the one hand, and the other countries on the other. In the case of the first two there is complete liberty for foreign exchange operations; in the BLEU, however, short-term capital transactions must be effected in a free market in which rates may fluctuate beyond the limits laid down in the international monetary agreements.
In France, Italy and the Netherlands, under the exchange control regulations private parties may, as in the other countries, effect movements of funds connected with international trade transactions, which includes the possibility of granting or receiving short and medium-term credits connected with the operations.[1] For movements of capital, the control may be more or less liberal from country to country. In case of need, the authorities in certain countries consider that resort to a strict exchange control is a necessary instrument for limiting movements of funds and supporting their policy.
As for the *banks*, these are in principle free in all the Community countries to effect any kind of transaction with foreign countries. However, the authorities in the various countries have means of influencing the flows of capital which pass through the banks or the impact they have on liquidity, even if, for one reason or another they allow international margins in interest rates to continue.
Certain central banks may seek first of all to offset flows of capital themselves by encouraging or compelling the banks — as the case may be — to effect transfers in the opposite direction to those which occur spontaneously (regulation of the net external position of the banks). They can also try to control these flows or neutralize their impact on domestic liquidity by means either of quantitative instruments (open market policy, restriction of credits) or of various specific measures: imposition of particular compulsory reserves on non-resident deposits, imputation to rediscount ceilings of net resources borrowed abroad, restrictions on interest payment on deposits. These measures will be reviewed below. An examination will be made of their use and their methods of application in the different Community countries, though it is pointed out that the present text was published on 30 June 1971 and takes no account of the numerous amendments made subsequently as a result of the currency crisis in the summer of 1971.

Para. I-2: *Regulation of the net external positions of the banks*

104. As has been seen, in all the Community countries the banks are authorized

[1] This last possibility opens the door to the by-passing of exchange control — which provides for authorization of purely monetary transactions with foreign countries — and to transfers of short-term funds by the acceleration or slowing down of payments connected with commercial transactions. These "leads and lags" can assume substantial proportions.

to maintain assets and liabilities in relation to non-residents in foreign exchange and the national currency. At the end of 1970, the entire banking system in the Community countries had a total amount of about $ 34 milliard of assets abroad and $ 38 milliard of liabilities (Table 7).
According to whether the monetary authorities in the member countries wish to prevent inflows and/or outflows of short-term capital or, on the other hand, to promote the one or the other, they have endeavoured to equalize the net external positions of the banks[1] and have in turn:
— imposed a balanced net position;
— permitted, encouraged of forbidden a creditor position;
— permitted or forbidden a debtor position.
For this purpose the central bank can proceed by means of *directives* and by indirect means in the form of "swaps".

TABLE 7
External short-term positions of the commercial banks
(end year positions)

(in million dollars)

	GERMANY			FRANCE			ITALY		
	Assets	Liabilities	Net	Assets	Liabilities	Net	Assets	Liabilities	Net
1965	1,480	1 986	— 506	2,349	2,462	—113	2,458	2,651	—193
1966	1,521	1,884	— 363	3,108	3,301	—193	3,272	3,077	+195
1967	3,023	2,181	+ 842	3 781	4,343	—562	3,577	3,562	+ 15
1968	3,902	3,674	+ 228	5'403	5,464	— 61	5,160	4,423	+737
1969	4,553	5,510	— 958	7,526	8,152	—626	7,240	7,164	— 76
1970	4,527	7 647	—3,120	7,667	8,132	—465	10,118	10,101	+ 17

	NETHERLANDS			BELGIUM LUXEMBOURG		
	Assets	Liabilities	Net	Assets	Liabilities	Net
1965	1,218	1,185	+ 33	967	1,497	—530
1966	1,517	1,563	— 46	1,329	2,035	—706
1967	1,485	1,640	—155	1,591	2 407	—816
1968	1,986	2,076	— 90	2,548	3,208	—660
1969	3,290	3,291	— 1	3 951	4,526	—575
1970	4,808	4,969	—161	6,483	7,331	—848

Source: Statistics of the Secretariat of the European Monetary Agreement.

[1] By the net external positions of the banks is understood the net spot position in national currency and in foreign exchange with foreign countries.

i) *Regulation of the net external positions of the banks by means of directives*

105. Italy and the Netherlands have for several years been operating an exchange control the principles of which are identical but the methods of which are somewhat different.

In *Italy*, this instrument permits the active and flexible regulation of internal liquidity. It can have rapid effects, for it is applied to a limited number of banks which are the only ones authorized to maintain a position vis-à-vis foreign countries.

In the *Netherlands*, the regulation of the banks' net external positions (which also include the external long-term positions) is regarded in particular as an instrument of a structural nature. Its principal object is to limit the banks' possibilities of offsetting by funds from abroad the effect on bank liquidity of a persistent deficit in the balance of payments. Since July 1964, the date of their introduction, these provisions have laid down that the banks cannot maintain a net debtor position with foreign countries (with an exemption limit of Fl. 5 million per bank). In addition, after the banks had effected large exports of capital in 1969 and were thus in a strong net creditor position, thanks in particular to assistance obtained from the Nederlandsche Bank, the latter imposed reduction quotas on this net position.

In *France*, by virtue of powers conferred on it to issue legislative provisions and regulations, the central bank controlled the net external positions of the bank for a certain period. A directive issued at the beginning of 1969 and with-drawn on 1st July 1970 required the banks to balance their net foreign exchange positions or to maintain a debtor position with a view to replenishing the official reserves (in the event of a creditor position being maintained deposits would have to be constituted with the Exchange Stabilization Fund) rather than to influence internal liquidity.

In *Belgium* a similar control, introduced for the same purpose, has been in force since 1969; its effect has been to contain or reduce the net creditor position of the banks. On the other hand the recommendation made to the banks in March 1971 to reduce their net debtor positions is aimed at reducing an excessive expansion of internal liquidity; holdings in excess of the authorized position incur the penalty that non-interest-bearing deposits have to be constituted at the National Bank.

ii) *Control of the net external positions of the banks by intervention in the forward foreign exchange market*

106. Intervention in the forward foreign exchange market, generally in the form of "swaps" (spot sales of foreign currencies against simultaneous forward purchases, or vice versa), for the purpose of influencing short-term movements of bank funds has been effected more especially in Germany, Italy and the Netherlands. In France and Belgium there has also been intervention, which is known in France as "mises ou prises en report". In Belgium intervention is rare. In France it has been more frequent, but of minor importance and intented mainly to reduce bank liquidity; at times the banks have also been required to place foreign exchange deposits with the Exchange Stabilization Fund.

The operations described in the preceding paragraph represent a very flexible and very rapid means of influencing or promoting movements of funds. This form of intervention has assumed particular importance in the Federal Republic, where the law has not invested the central bank with the power to act directly on the net external positions of the banks by means of precise directives.

The intervention operations have generally taken the form of dollar "swaps" concluded between the monetary authority and the commercial banks. Most often they have been for the purpose of exporting funds, so that the monetary authority has sold dollars spot and has repurchased them forward sometimes at par (Italy, Germany and the Netherlands), sometimes at rates above those ruling in the market (Germany and the Netherlands), and sometimes at a lower rate (Germany).
The central banks consider however that operations of this nature have their limits, since they help to provide funds to the international market which risk being returned subsequently to the domestic market.
In the Netherlands the monetary authorities have also concluded "swaps" at par with the commercial banks with a view to avoiding excessive increases in the rate of interest in the domestic money market in a period of a temporary shortage of liquidity. In this case the "swaps" are arranged the other way round: the monetary authorities buy dollars spot and resell them forward, thus guaranteeing the banks an interesting forward rate.

Para. I-3: *Other instruments for the control of short-term movements of funds applicable to the banks*

107. Certain instruments of monetary policy already considered above in connection with the instruments for general purposes are of particular use in influencing short-term movements of funds by reason of their flexibility and the possibility they offer for applying discriminatory treatment either as between currencies or as between residents and non-residents.
From this point of view three means of action may be considered: compulsory reserves, control of interest-payments on bank deposits, and rediscount ceilings. It is in Germany that these techniques are the most highly developed; their use being aimed essentially at preventing funds from entering the country rather than sending them out.
Compulsory reserves have been used for this purpose in Germany (and this measure has recently been made possible in France) by imposing specific coefficients on the totals or increases in the totals of non-resident deposits and/or of the banks' loans abroad. The level of this type of coefficient can be raised as high as 100 % of the total liabilities of the banks to non-residents.
In Germany, on several occasions, *interest payments on non-resident deposits* have been made subject to prior authorization (a measure applied in such a way as almost to amount to a prohibition), in order to discourage imports of capital; France had a similar control from 1963 to 1966. Belgium has introduced one recently.
The *rediscount ceilings* have been employed in the Federal Republic to combat an influx of capital through the banks; for this purpose the ceilings are lowered by the amount of capital borrowed abroad that is not subject to the constitution of compulsory reserves. In this context, the ceilings are sometimes reduced according to the amount of securities made available by the banks to non-residents "en pension".
In the BLEU the existence of a *free foreign exchange market* reserved for capital operations, in which rates can fluctuate beyond the margins authorized under international monetary agreements, has made it possible to check sometimes outflows of capital, and sometimes (since May 1971) inflows.

Para. II: *Selective control of domestic credits*

108. Among the instruments considered, some lend themselves to employment in a selective manner. In this case, the monetary authorities may make specified categories of credits subject to a particular regime.
Selective control is considered to be tied up with general monetary policy to the extent that it tends to reinforce it or to mitigate certain of its effects. Selectivity can be applied to certain sectors of utilization, to certain operations and to certain monetary and financial institutions. It can operate in a qualitative or a quantitative manner.
Any of the countries in the Community may resort to selective application of certain instruments, but there are appreciable differences in the importance attached in each country to this policy. A selective orientation of monetary policy is given some importance, especially in France and Belgium.
The instruments of selective control over the distribution of domestic credits operate essentially by differentiating between the conditions of access to credit. This may come out in a preferential or restrictive sense as regards the term of the credits or the conditions on which they may be granted (in favour of certain sectors in certain forms or through certain institutions).
A policy for the restriction of credit lends itself readily to selectivity taking the form of a preference accorded to one credit rather than another according to the requirements of particular sectors or regions or other considerations. The selectivity may also take the form of differentiation in the conditions and cost of refinancing. It is for this purpose that increased rates are employed in Belgium, France and Italy, and preferential rates in Italy and to a limited extent in France. The monetary authorities can finally take action in the form of individual examinations of the records or prior mobilization agreements, and by a procedure for the approval of credits by the central bank in France (medium-term credits) and in Belgium (certification applicable to certain foreign trade bills). It is clear that it is to the differentiation and variation of rates and the fixation of ceilings that recourse is most generally had.
Among the different sectors that are the subject of selective action by the monetary authorities, mention should be made of instalment sales and investments in fixed capital.
Most countries resort more or less frequently to measures tending to change the terms of *instalment credit* by varying, according to the requirements of the economic situation, the amount of the initial deposit, the period of the credit, its cost, and even the overall volume of the credits that may be granted.
As regards the *financing of capital investment*, the system of medium-term credits for the financing of purchases of plant and equipment that can be mobilized at the central bank makes it possible in France to operate on a selective basis by giving priority to certain applications.

Para. III: *Instruments of control by the local authorities*

General

109. From the point of view of monetary policy, importance is attached to the management of the cash resources of the local authorities (also referred to as lower or regional authorities according to the terminology in use in particular countries) and to recourse by them to the capital market. The interest takes different forms however according to the country.

The institutions contemplated here are the local authorities invested with a measure of financial autonomy, that is to say the Länder and the "local authorities" in Germany,[1] the regions, provinces and local authorities (communes) in Italy, the provinces and local authorities (communes) in Belgium and the Netherlands, and the local authorities (communes) in Luxembourg. In France the local authorities come under the Treasury's financial jurisdiction.
The liquid funds of the local authorities are treated as part of the liquidity in the economy, except when they are centralized in the Treasury; thus they are excluded completely from it in France, where they are wholly centralized and managed by the Treasury. Nor are they included in Germany to the extent that they are deposited at the Bundesbank. When they are included in the liquidity of the economy their apportionment among the banking sector on the one hand and the central bank and the Treasury on the other hand give rise to a modification of bank liquidity.

Local authority deposits

110. To the extent that the liquid holdings of the local authorities form part of the liquidity of the economy, it is important to know where they are held. This is subject to regulation in all countries except the Netherlands; but besides the regulations in the matter it is also necessary to indicate where in practice the bulk of these funds are held.
Not including their balances at the Treasury the local authorities hold their deposits with the following bodies. In *Italy* they are held at the big banks. In *Belgium* the deposits must be held with the National Bank, the Caisse Nationale d'Epargne et de Retraite or the Crédit Communal; in fact the major part is held with this institution, just as in the *Netherlands* the majority of the deposits is effected with the Bank voor Nederlandsche Gemeenten (which is itself a part of the lower authorities). In *Germany*, by virtue of the Law on the Deutsche Bundesbank, the Länder (like the Federal Government) must deposit their funds at the Bundesbank; deposit with other institutions requires the consent of the central bank; the local authorities (communes) on the other hand are free as regards the deposit of their funds. In *Luxembourg* the local authorities generally deposit their funds at the State Savings Bank.

Credits

111. To the extent that a monetary policy, in the strict sense of the term, is applied in relation to the local authorities, it is concerned principally with the possibilities of this sector's undertaking borrowing operations both at short and at medium and long term.

Short-term credits

The *short-term financing* of the local authorities is effected in all the countries at the banks or possibly the central bank, except in *France*, where, as the cash resources of these institutions are handled by the Treasury, all their short-term

[1] The budgets of the Länder hold a considerable place in the sum total of public finances. They are integrated in the central public budgets (see below in the section concerning Germany).

financing requirements are controlled and eventually supplied by the Treasury itself.

In *Germany*, credits can be granted by the Bundesbank to the Länder, and by the banks to the Länder and the local authorities. A ceiling has been fixed by legislation up to which the Bundesbank can provide assistance in the form of cash credits or of credits against Treasury bonds. It is to be noted that even below the ceiling limit the Bundesbank is not obliged to provide credits.

In *Belgium*, cash credits are provided particularly by the Crédit Communal, and the law provides for no quantitative limits on the borrowing powers of the local authorities. Their loans both at short and long term, however, are subject to approval by the higher administrative authorities.

As regards their short-term financing, the local authorities in the *Netherlands* represent a special case, since they can borrow at short term from the private sector. Their indebtedness is subject to a permanent ceiling related to their current receipts ("cash norm"). Since 1967, the Nederlandsche Bank, in order to reinforce control in this sector, has set limits, in accordance with the provisions relating to the quantitative restrictions on credit, to the assistance which the banks can grant to the local authorities.

Long-term credits

The long-term financing of the local authorities is effected by the banks and savings banks, by specialized financial intermediaries or public bodies, and by direct recourse to the capital market. The control of long-term borrowing by the local authorities is rather a question of supervision of sound business management, and is exercized directly by the government or governmental bodies appointed for the purposes. It should be pointed out that in the Netherlands the government can direct, if excessive stringency develops in the capital market, that the local authorities' requirements in this market are centralized at the Bank voor Nederlandsche Gemeenten in order to avoid disturbances in the market and excessive fluctuations in interest rates.

Part two

MONETARY POLICY IN THE FEDERAL REPUBLIC OF GERMANY

Chapter one

BASIC FACTS OF MONETARY POLICY

Section I - Institutional framework and structural aspects

Para. I: *Institutional framework*

Statutory bases

1. In the Federal Republic of Germany, the main statutory bases of monetary policy are the Deutsche Bundesbank Act (*Gesetz über die Deutsche Bundesbank*) of 1957, the Act to Promote Economic Stability and Growth (*Gesetz zur Fördering der Stabilität und des Wachstums der Wirtschaft*) of 1967 and the External Trade and Payments Act (*Aussenwirtschafts gesetz*) of 1961. The functions of monetary policy dealt with in these Acts are the responsibility of either the *Deutsche Bundesbank* or the Federal Government. The basic provisions on the supervision of the banking system are to be found in the Act on the Credit System which entered into force at the beginning of 1962.

Para. I-1: *The Deutsche Bundesbank Act*

Duties and powers of the Bundesbank

2. Section 3 of the Bundesbank Act assigns to the Bundesbank the task of "safeguarding the currency". The Bundesbank's main powers are those of fixing interest and discount rates, fixing minimum reserve ratios up to the limits set out in the Act, and laying down the principles of its credit and open-market operations. In exercising these powers, the Bundesbank is independent of instructions from the Federal Government. While performing its duty it is, however, required to support the general economic policy of the Government.

Co-operation between Government and Bundesbank

Section 13 of the Bundesbank Act lays down the following rules on co-operation between the Government and the Central Bank:

a) The Bundesbank shall advise the Federal Government in monetary policy matters of substantial importance and furnish it with information at its request.
b) The members of the Federal Government have the right to participate in the discussions of the Central Bank Council, the decision-taking body of the Bundesbank. They have no right to vote, but may propose motions. If they so request, a decision will be deferred for up to two weeks.
c) The Federal Government must associate the President of the Deutsche Bundesbank with its discussions on important matters affecting monetary policy.

Members of the Central Bank Council

The Central Bank Council, the supreme body of the Bundesbank, is composed of the President and the Vice-President of the Bundesbank, the other members of the Directorate (no more than eight, at present six) and the 11 Presidents of the Land Central Banks (the main branches of the Bundesbank in the Länder, including West Berlin). The members of the Directorate are nominated by the Federal Government and the Presidents of the Land Central Banks by the Federal Council ("*Bundesrat*") (the latter on proposals from the appropriate authority of the individual Länder), after consulting the Central Bank Council.
They are appointed by the President of the Federal Republic for a term of office of not more than eight and not less than two years; they may not be removed before the expiry of their term for reasons other than personal ones, the initiative being their own or that of the Central Bank Council. The President of the Deutsche Bundesbank, who presides over the Directorate, also takes the chair at meetings of the Central Bank Council, which usually meets once a fortnight.

Para. I-2: *The Act to Promote Economic Stability and Growth*

Statutory basis for overall control of the economic process

3. The Act is based on the recognition that in present and future conditions the efficiency of the system of the free market economy can be safeguarded only if it is supplemented by overall control of the major aggregates of the economy. The Act sets up the necessary institutional machinery. It supplements and improves the traditional instruments of short-term economic and monetary policy and hence widens the Federal Government's and the Bundesbank's freedom of action in the economic policy field. The Act is at the same time designed to create the conditions necessary for achieving balanced development of the economy, which, avoiding undue conjunctural fluctuation, help to secure adequate economic growth for the longer term too.

General objectives of economic policy

4. Section 1 of the Act defines general economic policy objectives. All economic and financial policy measures taken by the Federal Government and the Länder must accordingly be designed to "contribute, in the framework of the free market economy, at the same time to price stability, to a high level of employment and to external equilibrium, along with steady and adequate economic growth". Compliance with these objectives is required not only of the Federal Government and the Länder, but also of the Federal Railways, the Federal Post Office, the E.R.P. Special Fund and the public boards and corporations directly controlled by the Federal Government. The local authorities and local authority associations must also take account of these basic objectives of economic policy in their budget policy.

Principles and measures for overall control

5. The principles and measures for which the Act provides to safeguard pursuit of these objectives have sometimes a direct but sometimes only an indirect relevance for monetary policy; examples of the latter type include in particular the provision under the Act for the preparation of a "subsidy report" at intervals of

two years, and for the forward planning of the revenue and expenditure of the Federal Government and the Länder for a period of five years.
The measures laid down in the Act relate to the following four main fields:

i) *Information*

A definition of the basic aims of economic policy is given in the Act itself. The annual economic report of the Federal Government, submitted in January, sets out and explains the economic and financial aims envisaged for the current year and the proposed economic and financial policy. The report also contains a statement of the Federal Government's views on the annual opinion on the general economic trend rendered by the Council of Experts. The report on subsidies submitted every two years, similarly throws more light on economic and financial policy.
To enable the Government's economic policy and the autonomous decisions of the parties to collective agreements to be co-ordinated, the Federal Government, if a basic objective of economic policy is endangered, makes available target figures for "concerted action" by the regional and local authorities, trade unions and employers' associations. In practice, these target figures are discussed in advance with the parties concerned. The Deutsche Bundesbank also takes part in these discussions.

ii) *Financial planning*

The Act introduces forward planning, for a period of several years, of the revenue and the expenditure of the Federal Government and the Länder.

iii) *Coordination among the public authorities*

To improve coordination of the measures taken by the Federal Government, the Länder and the local authorities in matters of economic and financial policy, the Act introduces elements of a cooperative federalism into financial policy, in particular by the establishment of a Council on Economic Trends and, more recently, a Financial Planning Council. The Bundesbank may take part in the discussions of either body.

iv) *Creation of new instruments of short-term economic policy*

These include the provisions for influencing private demand by tax measures and for influencing the public authorities' investment policy, measures to widen the Bundesbank's room for manoeuvre in liquidity policy, provision for anti-cyclical equalization reserves of the Federal Government and the Länder, rules for the borrowing and debt redemption operations of the public authorities, and provisions for the management of the public authorities' demand for credit.

Para. I-3: *The External Trade and Payments Act*

6. The Act empowers the Federal Government to control and restrict by regulation the various sectors of foreign trade and payments, in certain circumstances. Under the Act, the governing principle is freedom of foreign trade and payments, but there is a proviso enabling restrictions to be introduced.

The Act itself and the Foreign Trade and Payments Regulation based on it already include a number of such restrictions. When issuing statutory regulations in the fields of capital movements, payments and transactions in foreign securities and gold, the Federal Government must act in agreement with the Bundesbank. The issue of authorizations in these fields is the responsability of the Bundesbank.

Para. I-4: *The Act on the Credit System*

Cooperation between the Federal Supervisory Office for the Credit System and the Bundesbank

7. In the field of bank supervision, this Act provides for cooperation between the Federal Supervisory Offices for the Credit System and the Bundesbank. In some fields, particularly that of large-scale loans, the Bundesbank has its own duties of supervision. The Federal Government, after consulting the Bundesbank, nominates the President of the Federal Supervisory Office, the appointment being made by the President of the Federal Republic. The Federal Supervisory Office, after consulting the central associations of the credit institutions, prescribes rules for the capital resources and the liquidity of the banks, in agreement with the Bundesbank. Where the Federal Minister of Economics or the Federal Supervisory Office fixes terms on which loans may be granted and deposits accepted, the appropriate statutory regulations may be issued only with the cooperation of the Bundesbank. These conditions must be so determined as to support the measures taken by the Bundesbank in the field of credit policy.

Para. II: *Structural aspects*

Para. II-1: *Structure of the financial institutions*

Structure of banking system

8. In the Federal Republic of Germany, the predominant type of bank is the 'all-purpose' bank (*Universalbank*), which engages in all types of banking business. Besides accepting sight, time and savings deposits it takes up longer-term funds; conversely, it grants not only short-term but also medium and long-term credits and loans. Even the savings banks, which in the past had largely concentrated on savings deposit business and the corresponding long-term lending business, have made increasing inroads into the short-term deposit and credit business. Although specializing primarily in lending to medium and small-sized industry and craftsmen, the larger among the savings banks and more particularly their central organizations in the shape of the central giro institutions, are in substantial measure also doing large-scale lending business, providing finance to industry and taking part in issuing syndicates. For the credit cooperatives, the central institutions of the credit cooperatives render services similar to those rendered by the central giro institutions for the savings banks. The private and public mortgage banks finance their lending — the bulk of it long term — almost exclusively through issuing debentures and raising long-term loans. The groups of institutions that belong to the banking sector and the volume of business done by them are listed in Table 1.

Building societies and the insurance system as institutional investors

9. In the Federal Republic, building societies, insurance companies and social

insurance funds play an important role as institutional investors, in addition to the credit institutions mentioned.
On the liabilities side, building societies primarily receive deposits from their savers, and on the assets side grant building loans to the same group of customers. In the post-war period, building societies have been among the most successful institutions of the German credit system, the reasons for their rapid growth lying in the urgent need for housing and substantial government assistance. Insurance institutions primarily provide medium and long-term finance for residential construction and also for industry. The forms of investment are governed by the investment rules of the authority supervising the insurance system.

Para. II-2: *The banking system and the securities markets*

Unregulated capital market

10. In the Federal Republic of Germany, the securities markets, i.e. the market for fixed-interest securities and the equity market, are free from any restrictive provisions limiting access to the market, either generally or for certain categories of issuer. Where there are legal provisions, they are primarily on points of organisation. Under sections 795 and 808a of the German Civil Code, for instance, all domestic issues of bearer bonds and registered bonds except for those of the Federal Government, the Länder, the Federal Post Office and the Equalization of Burdens Fund, are subject to government authorization. However, the rule requiring authorization is intended in particular, to allow an examination of the borrower's credit standing; its main purpose is therefore to protect the saver. Only by way of exception did the Federal Ministry of Economics make use of these rules in 1965 and 1966 to achieve a better spacing of issues, the object being to safeguard the ability of the market to function.

Issuing syndicates and the Central Capital Market Committee

11. In the Federal Republic, share and loan issues are as a rule placed through banking syndicates, the only exception being issues of mortgage bonds and 'communal' bonds, which the respective issuing institutions distribute themselves. For a specified commission (the so-called '*Bonifikation*') the banking syndicate underwrites the whole of the issue at a fixed underwriting price and then places it with the public or, in the case of an issue of shares, offers it for subscription to existing shareholders. In doing so, the banks forming the syndicate bear the issuing risk, i.e. if the issue is not successful they are obliged to take the unsold portion into their own portfolios. Timing, amount and terms of share and debenture issues are negotiated with the respective issuers. Loan issues of the Federal Government, the Federal Railways and the Federal Postal Administration are floated by the Federal Loan Consortium, which consists of some 80 credit institutions led by the Bundesbank. In the negotiations on the time of issue, the amount of the loan and the terms, the Consortium is represented by the so-called Inner Committee. The Central Capital Market Committee, which the major issuing banks set up in 1957 on a voluntary basis, meets at intervals of several weeks inviting representatives of the Bundesbank and sometimes also the Government to discuss the situation on the bond market and, in the light of the market situation makes recommendations on the order and timing of loan issues with a view to preventing any undue bunching of issues and consequent excessive strain on the market. For public

sector issues, the Council on Economic Trends set up under the Act to Promote Economic Stability and Growth may, if necessary, order that the timing of the issues be staggered. The Bundesbank is entitled to take part in these discussions. Under section 20(2) of the Bundesbank Act, loans of the Federal Government, its Special Funds and the Länder are to be floated primarily by the Bundesbank; in all other cases, the Bundesbank must give its agreement to the issue being floated.

Position of the banks on the securities market

12. The credit institutions not only help to place issues of other borrowers but also play an important role as issuers of their own debentures and as purchasers of such securities. Of a total of DM 158,000 million worth of fixed-interest securities issued by domestic borrowers in circulation at the end of December 1970, some DM 118,000 million or about three-quarters were debentures issued by banks. At the same date the credit institutions held DM 68,000 million worth of domestic fixed-interest securities (mainly bank bonds). The scale on which they act as buyers on the securities market depends on their liquidity situation and the current demand for direct credits. The general principle is that the banks are free to decide whether or not to buy securities. For individual banking groups, however, there may be restrictions under law or by-laws, mainly in respect of the investment of funds in specified types of security. The savings banks' choice of securities is restricted by the rule that the investments must be in securities of trustee status. Under their by-laws, savings banks are forbidden to purchase shares for their own account, but they have recently been authorized to buy investment fund certificates on a limited scale.

Price support

13. Intervention on the capital market to regulate and support security prices, mainly with a view to preventing unduly violent chance fluctuations, is, as a rule a matter for the banks forming the syndicate, i.e. the same banks which floated the securities involved and arranged for their admission to stock exchange dealing. Price support, the extent and timing of which is normally laid down in the underwriting agreement, is the responsibility of the issuer, the only exception being shares, where it is only possible for the banks forming the underwriting syndicate to give price support at their own cost, in view of the basic prohibition of acquisition by a company of its own shares.
On the bond market, price support for public authority loans is a particularly important feature. The prices of loan issues of the Federal Government and its Special Funds are supported by the Bundesbank, which acts by order and for account of the issuer. From August 1967 to the beginning of February 1969, however, the Bundesbank also carried out open-market operations, for its own account, in loan issues of the Federal Government, the Federal Railways and the Federal Post Office.

Statutory provisions regulating the capital market

14. Under the Act to Promote Economic Stability and Growth of 1967, the Federal Government, acting by statutory decree and with the approval of the *Bundesrat*, may *inter alia* restrict borrowing — and therefore also the floating of

loans — by the public authorities and fix the terms and maximum amounts of these loans; the validity of the relevant statutory decrees must be limited to one year. Section 22 of the Foreign Trade and Payments Act empowers the Government to restrict the acquisition of foreign securities by residents in the case of a balance-of-payments disequilibrium; the same applies to public offers, in the Federal Republic of Germany, of loans by foreign borrowers if the capital market is thereby seriously endangered. Article 73 of the EEC Treaty, however, restricts the autonomous exercise of these rights.

Dependence of capital market on money market

15. With the banks and savings banks heavily committed on the bond market, the Bundesbank's credit policy measures, which are primarily aimed at changing the liquidity situation of the banks, usually have a prompt and comparatively sharp impact on the bond market. Where the measures restrict liquidity, the banks first cut down their securities purchases while seeking for a time to maintain their direct credit business at its current level or even to expand it, given earlier promises to grant credit and the growth in demand for credit.

With the banks largely withdrawing as purchasers of securities, a substantial part of the previous demand for securities disappears, entailing a rapid rise in yields as demand for capital on the bond market usually takes some time to react to the fall in the supply of capital. Conversely, if the Bundesbank's policy is expansionary, the revival of buying by the banks also contributes to a comparatively rapid fall in the rate of interest on capital.

Para II-3: *Structure of monetary wealth formation*

Predominance of institutional saving

16. In its financial accounting, the Bundesbank gives data on monetary wealth formation for the economy as a whole, the structure of which reflects the investment habits of the various sectors. Table 2 shows the substantial share of institutional saving in monetary wealth formation by the domestic non-financial sectors. In the period 1966 to 1970, about 30% of monetary wealth formation was accounted for by an increase in savings deposits. The second largest contribution came from time deposits, whose share in monetary wealth formation during the same period fluctuated widely and averaged some 17%. Funds placed with the insurance system accounted for 11%, contributing almost twice as much as funds placed with building societies. The share of saving through securities in the increase in claims by the domestic sectors was 14½%. The upward trend in cash holdings and sight deposits was by no means an even one: their share in monetary wealth formation was 3% in 1966, rising to to 17% in 1967 and falling again to 10% in 1968; it was 14% in 1969 and, in 1970, almost 19% (also see Section II, Para. I, of this Chapter).

Para. II-4: *Importance of financial transactions with abroad*

Strong economic links with abroad

17. The strength of the economic links between the Federal Republic of Germany and abroad is shown clearly by Table 3, where column 6 gives the value of exports of goods and services as a percentage of the gross national product.

After falling appreciably in the wake of the DM revaluation of 1961, the share of exports of goods and services in the gross national product steadily rose again in the period up to 1969. In 1970, after the second revaluation of the DM in October 1969, it declined slightly.

Capital movements liberalized

18. Movements of money and capital across the frontiers of the Federal Republic are almost fully liberalized. However, from time to time, restrictions become necessary to ward off speculative inflows of foreign currency. At present, the payment of interest on assets in non-residents' accounts in monetary institutions in the Federal Republic and the acquisition of money market paper by non-residents and the conclusion of 'en pension' operations with them are subject to approval.

Section II - Liquidity

Liquidity of non-banks and of the banking system

19. For the purpose of monetary policy, a distinction must be made between two forms of 'liquidity': *the liquidity of the domestic non-banking sector* and the *liquidity of the banks*. When reference is made to the 'liquidity policy' of the Central Bank in the strict sense of the term, what is understood in the Federal Republic is always the influencing of the liquidity of the banks by measures of credit policy.

Para. I: *The liquidity of the economy*

Definition of the volume of money

20. The expression 'liquidity of the economy' is little used in the Federal Republic. The concept commonly employed is 'volume of money' (*Geldvolumen*) or 'money supply' (*Geldversorgung*). However, the exact delimitation fluctuates, since short-term time deposits are sometimes included in the volume of money and sometimes left out. An endeavour by the Bundesbank to dispel this uncertainty by including in a general way in the volume of money time deposits with a maturity *of less than three months* had to be abandoned when it became evident that under particular conditions (definite expectations of a reduction of interest rates) pronounced shifts would occur in this term category, so that the delimitation no longer yielded any reliable information concerning monetary development. Recently the Bundesbank has therefore included in the volume of money in the narrow sense (M_1) only:

— Notes and coin in circulation (excluding cash balances held by credit institutions);
— Sight deposits of domestic non-banks, excluding public authority deposits with the Bundesbank (which are not treated as part of the volume of money since they are often subject to special influences).

Besides this the Bundesbank considers all time deposits of domestic non-banks for periods of less than four years as near-money amounts. Money and near-money amounts taken together are considered as volume of money in the widest sense (M_2). Savings accounts on the other hand, despite their formal short-term character, are not considered as near-money, since their character from the economic angle is to be judged predominantly different from that of time deposits.

Sources of money supply

21. Statistical information on money and near-money supply in the Federal Republic of Germany is based on the consolidated balance-sheet of the banks and the Bundesbank. The trend of the money supply is reflected in the balance of changes in all balance-sheet items which do not fall under the concept of money and near money and are grouped according to specified criteria. The most important *sources of money supply* are, lending by the banking system as a whole (the Bundesbank included) to domestic non-banks, and domestic business enterprises' and private individuals' foreign transactions, which statistically are reflected as an overall increase or decrease in net claims of the banking system on non-residents (see Table 4). The expansionary effect which, depending on the circumstances, lending and foreign exchange movements may have, is counteracted by the reduction in volume of money caused by the simultaneous formation of monetary capital with the banks. Formation of monetary capital with the banks from domestic sources includes the increase in savings and time deposits made by non-banks for periods of four years or more, the proceeds of sales of bank bonds to buyers other than credit institutions, and additions to the banks' and the Bundesbank's own capital and reserves. A further determining factor in the trend of the volume of money and near-money is the change in sight deposits of public authorities with the Bundesbank. (Any increase in Central Bank balances of the public authorities arising out of domestic cash transactions tends to reduce the volume of money, and vice versa.)
The consolidated balance-sheet of the banks and the Bundesbank, published regularly in the Monthly Reports of the Deutsche Bundesbank, shows directly the level of the volume of money: it also provides information on the credit institutions' holdings of time and savings deposits of non-banks. Short-term claims of non-banks on the public authorities (Treasury bills, Treasury bonds, etc.), which in some countries are regarded as forming a part of the secondary liquidity of the economy, alongside time deposits, play no significant role in the Federal Republic.

Para. II: *Bank liquidity*

Bank liquidity

22. By 'Bank liquidity' is meant the credit institutions' holdings of Central Bank money (balances with the Central Bank) and other short-term assets which can be used to gain access to Central Bank money, less compulsory minimum reserves and advances taken against security. Short-term assets eligible for rediscounting at the Central Bank include trade bills within the rediscount quota limits, short-term funds employed abroad, and money-market paper. The justification for taking such assets into account in considering the liquidity position is that the Central Bank itself is ready — and, indeed, in some cases obliged — to take them over and, in exchange, to make Central Bank money available. These assets are therefore sometimes referred to as constituting 'potential liquidity' while the amounts of Central Bank money actually held by the banks are considered as 'actual' or 'cash liquidity', irrespective of the fact that they are immobilized under the minimum reserve requirement. It is, however, more appropriate to distinguish between 'immobilized liquidity' and 'free liquidity reserves' of the banks and to apply the term 'bank

liquidity' only to the latter. This is the practice followed by the Bundesbank in its analyses.

Central Bank balances and free liquidity reserves

23. The amount of the Central Bank balances of the banks is, as noted before, almost exclusively determined by the obligation to hold minimum reserves with the Bundesbank. As the minimum reserve requirement needs to be satisfied only as a monthly average, the banks need not maintain balances for the purpose of making current payments in addition to the minimum reserve balances; the reserve balances are in fact also working balances (see point 48).
The *liquidity of the banking system or the free liquidity reserves* consist of:
1. Excess balances, i.e. balances held with the Central Bank in excess of minimum reserve requirements;
2. Domestic money-market paper in the portfolios of the banks, i.e. all paper bought by the Bundesbank on the open market or by way of rediscounting, yet not reckoned against officially fixed rediscount quotas, i.e. Treasury bills and non-interest-bearing Treasury bonds of the Federal Government, of the Federal Government's Special Funds and of the Länder Storage Agency bills, prime acceptances, Export Credit Company bills (B-ceiling), and medium-term notes (*Kassenobligationen*) within 18 months of their maturity date, which, in accordance with an undertaking given by the Bundesbank at the time of issue, have been included in the arrangements to regulate the money market;
3. Short-term claims on foreign credit institutions, excluding claims denominated in foreign currency and payable at sight (which are regarded as working balances), and foreign bills, foreign Treasury bills and non-interest-bearing Treasury bonds acquired as money-market investments;
4. Unused rediscount quotas, i.e. officially fixed rediscount quotas less bills held by the Bundesbank to be reckoned against these quotas;
5. Less advances on securities, obtained from the Bundesbank to offset short-term fluctuations in liquidity and constituting a charge on the liquidity reserves since they must be repaid.

Determinants of bank liquidity

24. In analysing bank liquidity, use is mainly made of the weekly returns of the Bundesbank, the foreign position of the credit institutions and data from their reports for the balance-sheet statistics. For the purposes of its analyses, the Bundesbank groups the determinants of bank liquidity according to whether they arise predominantly from market factors or predominantly from credit policy.
Changes in bank liquidity itself are brought about by the combined influence of market factors and credit policy factors.
The predominantly market factors are:
- Changes in the note and coin circulation;
- Changes in the net foreign exchange reserves of the Bundesbank and in money-market investments of the credit institutions abroad;
- Changes in the net balances of non-banks (particularly public authorities) with the Bundesbank;
- Changes in the public authorities' money-market indebtedness to the banking system (including the Bundesbank).

The predominantly credit policy factors are:

— Changes in minimum reserve requirements;
— Open-market operations in domestic money-market paper with non-banks and in domestic long-term securities;
— Cuts in rediscount quotas.

Table 5 shows the determinants of bank liquidity for 1969 and 1970.

Liquidity of the individual credit institutions

25. The definitions used here relate to the banking system as a whole. On the other hand, in dealing with the liquidity of individual banks or of banking groups, we may also include those assets which a single institution (though not the banking system as a whole) can use to obtain Central Bank balances. These include credit balances with other credit institutions, securities which are negotiable in the capital market or can serve as collateral for advances, bills not eligible for discount at the Central Bank provided that they can be placed with other credit institutions, etc. However important these liquid assets may be for individual banks or single groups of banks, in considering the liquidity policy of the Central Bank they are of no great significance. From the standpoint of liquidity policy they are a means of evening out liquidity between individual members of the banking system.

Para. III: *Liquidity and public finance*

Obligation on Federal and Länder to deposit funds with the Bundesbank

26. Section 17 of the Bundesbank Act, which is entitled 'Deposit Policy', binds the Federal Government, the Special Assets Equalization Fund, the E.R.P. Special Assets Fund and the Länder to deposit their liquid funds with the Bundesbank. Funds may not be deposited or invested elsewhere without the consent of the Bundesbank. In deciding on applications for authorization to deposit funds elsewhere, the Bundesbank is guided by considerations of monetary and credit policy, but under the Bundesbank Act it must also take into account the interest of the Länder in maintaining their State and Land banks. On application, the Länder were therefore granted overall quotas for the liquid funds which they may deposit with these institutions. Additional provisions on the obbligation to deposit public funds with the Bundesbank are to be found in the Act to Promote Economic Stability and Growth of 1967, some of these provisions having been amended in the meantime.

In detail, these provisions relate to the placing of liquid funds of the social pension insurance funds [1] and the Federal Labour Office (*Bundesanstalt für Arbeit*) [2] in mobilisation and liquidity paper, and to the formation and liquidation of anti-cyclical equalization reserves provided for under Secs. 5 to 8, 13 to 15, and 26, of the Act to Promote Economics Stability and Growth (see points 82 and 83).

Liquidity effect of public cash transactions

27. The depositing of public cash balances and redemption of debts with the Central Bank have the effect of reducing the liquidity of the commercial banks,

[1] Amended 1383b(2) of the Reich Insurance Code (*Reichsversicherungsordnung*) and of 110b(2) of the Employees' Insurance Act (*Angestelltenversicherungsgesetz*).

[2] Amended 220(3) of the work Assistance Act (*Arbeitförderungsgesetz*).

while drawings on the credit balances maintained with the Central Bank and the utilization of cash advances increase bank liquidity. In the Federal Republic, cash surpluses or deficits of the public authorities, in addition to directly influencing demand in the economy as a whole, have a direct effect on the liquidity of the banking system, to the extent that they lead to changes in credit balances and in indebtedness at the Central Bank. Bank liquidity may also be influenced by purely financial transactions which do not affect the cash position of the public authorities. Long-term borrowing, for instance, the proceeds of which are immobilised with the Central Bank, or the consolidation of shorter-term instruments of public indebtedness held by the banks have the effect of reducing bank liquidity.

Bundesbank lending to the public authorities

28. The rules governing the granting of cash advances to the public authorities by the Central Bank are contained in Sec. 20 of the Bundesbank Act. This section gives the Bundesbank authority to grant to the Federal Government, the Länder and specified public Special Funds 'short-term credits in the form of current account advances or advances against Treasury bills (cash advances)' up to the limits which are laid down in the Act. In the case of the Federal Government, the ceiling is DM 6,000 million. The ceilings which the Act fixes for the Länder and the Special Funds are considerably lower. From the standpoint of liquidity policy, two considerations are important:

a) The establishment of a ceiling does not, itself, mean that the administrations concerned have a claim to Central Bank credit up to this amount; there is no 'automatic' right to borrow. The statutory ceilings represent rather the utmost limit to which the Bundesbank may go, at its discretion, in granting credit to the public authorities. It may, for reasons of monetary policy, decline to go as far as that limit. Furthermore, the ceilings may only be used for 'cash advances', that is, advances for meeting temporary difficulties, but not for covering permanent budgetary deficits.

b) The credit ceilings can be drawn upon in the form of current account or Treasury bill advances. (Where the Treasury bills are accompanied by a Bundesbank promise to rediscount them, the volume of these in circulation in the market must, under Sec. 20 of the Bundesbank Act, be regarded as utilization of the credit ceiling granted by the Bundesbank; this applies in principle to all Treasury bills issued by the Federal Government.) In this way the Central Bank is largely able to cover the central authorities' need for short-term credit through the money market, within the limits of the ceiling, since it handles the placing of bills on the market. It should be noted that the non-interest-bearing Treasury bonds ('U-Schätze') with maturities of 6 to 24 months issued by the Federal Government and other public authorities to cover their financial requirements are not reckoned against the credit ceiling.

Claims on the public authorities shown in the Central Bank balance sheet

29. The items of the Central Bank balance sheet under which claims on the public authorities are entered are:

3.1. Cash credits (book credits)
  3.1.1. The Federal Government
  3.1.2. Federal Government special funds
  3.1.3. Länder

3.2. Treasury bills and non-interest-bearing Treasury bonds
    3.2.1. The Federal Government
    3.2.2. Federal Government special funds
    3.2.3. Länder
3.3. Equalization claims and non-interest-bearing bonds
    3.3.1. Equalization claims arising from conversions of own balance sheets
    3.3.2. Equalization claims purchased
    3.3.3. Non-interest-bearing bonds
3.4. Claims on the Federal Government in respect of the acquisition of claims resulting from post-war economic aid
4. Securities.

For details of these items in the Bundesbank return see 'The weekly return of the Deutsche Bundesbank', in Bundesbank Monthly Reports Volume 21, No 1, January 1969 p. 13. Since this date, however, there have been certain regroupings.

Total indebtedness of public authorities

30. The Bundesbank reports on the indebtedness of the public authorities under section VII ('Public finance') of the statistical part of its Monthly Report, in special articles (see Monthly Report August 1970, p. 13) and its Annual Reports. Table 6, taken from the April 1971 Monthly Report of the Deutsche Bundesbank shows the trends in total indebtedness and in the different types of debt of the various public authorities over a number of years. Details of the types of paper offered (Treasury bills, non-interest-bearing Treasury bonds and loan issues) — especially their maturities, rates of interest and placing on the market — were discussed in points 10, 11, 13, 14 and 28. Here, it should be added that medium-term notes, which normally have maturities of 3, 3½ and 4 years, are issued by the Bundesbank, acting by order and for account of the issuers, by tender. The final issuing prices are fixed in accordance with the bids received; allotment is made at a uniform price by first satisfying all bids under which the bidder's price limit is higher than the issue price fixed. Bids under which the prices offered match the issue prices fixed, are scaled down, if necessary.

Creditors of the public authorities

31. A breakdown of indebtedness of the public authorities by groups of creditors is only available for the public authorities as a whole (see Table 7).

Detailed comments on changes, partly a function of business fluctuations, in the revenue and expenditure of the public authorities can be found in the Annual Reports of the Deutsche Bundesbank. In 1970 (1969) the taxation load quota (*Steuerbelastungsquote*), (i.e., the ratio of tax receipts to gross national product at current prices) was 22·7% (24·1%); total expenditure by the public authorities over the same period amounted to easily 38% (39%) of the gross national product.

Chapter two

INSTRUMENTS OF MONETARY POLICY

Introduction

Instruments under the Bundesbank Act

32. For the execution of its tasks the Deutsche Bundesbank is armed by the Bundesbank Act not only with the traditional central bank instrument of discount policy (Bank rate) but also a number of additional instruments of credit policy. These are:

a) The power to change the minimum reserve obligation of the banks;
b) Open-market operations (changing the terms of sale and purchase of money-market paper, and buying and selling certain long-term securities on the bond market with the object of regulating the money market);
c) The power to influence the holdings of public balances, in particular their allocation between the central bank and the commercial banks, and also to influence the manner in which public cash deficits are financed;
d) The right to lay down conditions for access to rediscount credit from the central bank (qualitative requirements applicable to rediscountable paper, quantitative limitations by way of rediscount quotas);
e) The right to fix the rate for advances on securities;
f) Engage in intervention in the foreign exchange market, for example by offering favourable terms to cover exchange risks (swap policy).

The Act to Promote Economic Stability and Growth of 1967 provided a further extension of the instruments available to the Bundesbank (cooperation of the Deutsche Bundesbank in the public authorities' Council on Economic Trends, the right of the bank to propose to the Federal Government that the social security funds be required to immobilize funds with the Bundesbank).

Indirect effect of instruments of the Bundesbank

33. With the instruments available to it, the Bundesbank endeavours to influence demand in money terms, on the one hand by influencing bank liquidity and on the other hand by acting on the interest rates charged or paid in the banks' credit and deposit business and on the money and capital markets. In their lending policy, the banks are above all guided by their liquidity position and by the interest that can be earned by alternative investment, while the behaviour of bank customers can only be influenced through the Central Bank instrument of interest manipulation. The instruments of liquidity policy (minimum reserves, rediscount quotas, open-market operations with non-banks) always affect interest rates as well, since they change the supply-demand relationship on the money market. Some instruments of interest rate policy (such as Bank rate and the rate for advances on securities, open-market operations in money-market paper), on the other hand,

also exert a certain influence on bank liquidity, in that the cost of converting liquid reserves into Central Bank money is raised or lowered.
Given the indirect method of operation of Central Bank policy, it is of great importance that the Act to Promote Economic Stability and Growth should have broadened the basis for the support which monetary policy may receive from the way the public authorities handle their finances. The German Parliament has thus drawn the practical conclusion from the realisation that if the Bundesbank acts on its own towards the aim of safeguarding the currency this can often only be at the expense of other equally important economic policy aims.

Section I - Refinancing policy [1]

Para. I: *General background*

Policy on discount rate and on the rate for advances on securities

34. Under Section 15 of the Bundesbank Act, the Bank is authorized, 'in order to influence the amount of money in circulation and the volume of credit granted', to fix 'such rates of interest and discount as are appropriate to the business undertaken'. Changing interest rates (mainly Bank rate and the rate for advances on securities) is, however, not the only way in which the Bundesbank may influence recourse to refinance credit. Under Section 15 of the Bundesbank Act it may also restrict or extend recourse to its refinance facilities by changing other terms.
Only credit institutions may apply to the Bundesbank for rediscount credit and advances on securities (Sec. 19 of the Bundesbank Act). The banks have no general claim to refinancing by the Bundesbank. Particularly in lending on securities, the granting of advances is always made dependent on the situation of the individual borrower; the fact that securities have been entered in the Bundesbank's List of Securities Eligible as Security for Advances does not in itself give the banks holding such securities a claim to advances on them.

Para. II: *Discount credit*

Minimum requirements to be met by rediscountable (qualitative rediscount policy)

35. Section 19 of the Bundesbank Act authorizes the Bundesbank in dealings with the banks, to buy and sell bills at its fixed discount rate (see Table 8) including Treasury bills issued by the Federal Government, the Länder and the Federal Government's Special Funds (Federal Railways, Federal Post Office, Equalization of Burdens Fund, E.R.P. Special Fund), providing that these satisfy the conditions prescribed in the Act. The Bundesbank Act does no more than lay down minimum requirements for rediscountable bills (bills maturing in not more than three months and with three good names); but within the framework of its general conditions of business the Bundesbank can state which bills it will discount. It has for example frequently refused to discount bills relating to certain classes of business. This happened *inter alia* with bills for hire purchase finance, for bridging, finance of building projects and with bank acceptances to the extent that these were not intended to provide short-term finance for particular transactions.

[1] For the exact meaning of this term, refer to Part I, point 71.

The Bundesbank's refusal to rediscount bills relating to certain classes of business makes business of this sort more difficult, at least to the extent that the cost of credit to the ultimate borrower will be higher in the absence of a rediscounting facility. From the standpoint of credit policy, the refusal to discount certain classes of bills is generally of only minor importance; in most cases the banks have other bills at their disposal which they can, if necessary, present to the Bundesbank for rediscounting.
Bank rate is also normally charged on advances made to public authorities within the statutory ceilings (see point 28).

Since 1956 no discounting on preferential terms

36. Before the Bundesbank was established in the Federal Republic, the former Bank Deutscher Länder applied, until May 1956, special rates for rediscounting foreign bills and bills to finance exports.
Initially, the preferential discount rate was uniformly fixed at 3 % p.a. Later, differing rates were charged, fixed in accordance with the rediscount rates of the foreign central banks concerned. Since then, preferential discount rates have no longer been granted as the Bank must apply its measures globally if it is to ensure that credit policy is effective.

Rediscount quotas and their calculation (quantitative rediscount policy)

37. For liquidity policy, the fact that the total volume of rediscount credit at the disposal of each bank is limited by rediscount quotas is more important than the qualitative limits placed on the bills bought by the Bundesbank. All bills which are rediscounted at the Bundesbank are as a rule reckoned against this quota. Purchases by the Bundesbank do not count towards rediscount quotas if they relate to promissory notes drawn within the limits of the rediscount quota B ceiling (to finance export business), granted by the Bundesbank to the A.K.A. Export Credit Company or drawn within the limits of the rediscount quota II ceiling granted to the *Gesellschaft zur Finanzierung von Industrienlagen mbH* (to finance business with the German Democratic Republic) or to prime acceptances that have passed through the money market and when bought have no more than 29 days to run.
The level of the so-called standard quotas depends as a rule on the 'liable funds' of the credit institutions (capital including published reserves) and the 'multiplier' applicable at the time; the 'multiplier' may however vary for different groups of banks. The rediscount quotas are calculated individually, on the basis of the standard quotas, and notified individually to the banks.

Regular global reductions

38. In past years, several global reductions were made in the standard quotas; such was the case in 1957, 1959, 1960, 1965, 1966, 1969 and 1971. In addition, to stem inflows of funds the rediscount quotas set were for a time cut by the amounts by which foreign borrowings of the banks or *en pension* transactions done by the banks with foreigners exceeded a specified initial figure. General cuts in the standard quotas appear necessary from time to time, even irrespective of the direct requirements of credit policy, because the own funds of the banks increase continually with increases in their own capital and reserves; if the mul-

tiplier for calculating the standard quota remained unchanged, the refinance limit would rise too sharply.

39. As pointed out already in point 24, the determinants of bank liquidity include changes in the rediscount quotas. Any rise in the rediscount ceiling tends to expand the unused rediscount quotas and therefore contributes to an increase in the free liquidity reserves of the banking system; reductions in the rediscount ceilings have the opposite effect.

Para. III: *Advances on securities*

Type of securities eligible as collateral and limits for purposes of lending

40. Under sec. 19 of the Bundesbank Act the Bundesbank may grant 'Lombard credits', i.e. interest-bearing loans against the pledge of specified securities and debt-register claims, the lending limit varying with the type of pledge offered. The securities that may be pledged are specified in the 'List of Securities Eligible at the Deutsche Bundesbank as Security for Advances' (*Lombardverzeichnis*). In principle, the Bundesbank may grant advances against the security of:

a) Bills of exchange which satisfy the conditions for the purchase of domestic bills, for not more than nine-tenths of their nominal value;
b) Treasury bills issued by the Federal Republic of Germany, the Federal Railways, the Federal Post Office the Special Equalization Fund, the E.R.P. Special Fund or a Land of the Federal Republic of Germany, and maturing within three months from the date the advance is granted, for not more than nine-tenths of their nominal value;
c) Non-interest-bearing Treasury Bonds issued by one of the public authorities listed under b) and maturing within one year from the date the advance is granted, for not more than three-quarters of their nominal value;
d) Fixed-interest-bearing debentures and debt-register claims where the issuer or debtor is one of the public administrations listed under b), for not more than three-quarters of their quoted value;
e) Other fixed-interest-bearing bonds and debt-register claims from the List of Securities Eligible at the Deutsche Bundesbank as Security for Advances, for not more than three-quarters of their quoted value;
f) Equalization claims entered in the debt register under sec. 1 of the Act on the Redemption of Equalization Claims, for not more than three-quarters of their nominal value.

If no stock exchange quotation is available for the securities mentioned under d) and e), the Bundesbank assesses the scope for realizing them and accordingly fixes the value that is to serve as a basis for lending.

Principles governing lending

41. Whether an advance on securities is granted depends on the general credit situation and the situation of the individual borrower. In principle the Bundesbank grants advances on security only when they are required to bridge temporary liquidity difficulties, and when it has no objection to the purposes for which the advance is to be applied. Advances on securities, calculated as a daily average over a month should not exceed about 20 % of the rediscount quota. Advances on securities should be utilized on a current account basis; they must be repaid within 30 days. The rate for advances on securities has always been higher than

the discount rate; for a long period the difference was never more than 1 % p.a., but of late it has widened to up to 3 % p.a. (see Table 8).

Para. IV: *Effects of the discount rate and the rate for advances on securities*

Influence on the level of interest rates

42. The fixing of the discount rate and of the rate for advances on securities is the central element in the interest rate policy of the Bundesbank. In the Federal Republic, the interest rates which banks charge on advances to non-bank customers and the interest rates they pay on deposits from these customers are no longer by official intervention directly related to the discount rate. While before April 1967, when bank interest rates were liberalized, the maximum rates for the various types of credit had been automatically revised with every change in the discount rate, their actual level has since been determined by the market situation and by competition, which themselves are strongly dependent on the liquidity situation. In general, however, the interest rates charged to borrowers move with the current level of the discount rate since the interest rate policy and the liquidity policy of the Bundesbank are as a rule closely related. Similarly, the creditor interest rates applied in deposit business which previously had also been subject to an upper limit, have also been formed by the free play of market forces since interest rates were liberalized. Deposit interest rates therefore do not escape the influence exerted by the yields on funds employed in the capital market, with which placings on deposit accounts have to compete. But deposit rates and rates for one-month and in particular, three-month money on the money market still continue to be determined to some extent by the level of Bank rate. As against this, the call money rate can fall well below Bank rate since the banks can only run down the discount credits they have taken up as and when the bills fall due. The rate for advances on securities has greater importance for the formation of money market rates. In times of comparatively abundant bank liquidity, when little or no use has been made of advances on securities, the rate for such advances constitutes a sort of *upper limit* for the call money rate, since no bank will normally be prepared to pay on the money market rates that are higher than the rates it would have to pay for very short-term recourse to Central Bank advances on securities. When, on the other hand, bank liquidity is very tight and banks have already taken up a substantial volume of advances on securities, call money rates may very well rise beyond the rate for advances on securities since some banks may no longer be able to switch to advances on securities, for instance, because they are short of securities that are eligible as collateral. In such a situation the rate for advances on securities becomes for a time the *lower limit* for the call money rate, since any increase supply of funds available on the money market will be fully absorbed by those banks which wish to repay the debts they have contracted in the form of advances on securities. (In a similar way, Bank rate forms the lower limit for interest rates on money market transactions of longer duration whenever the banks are more deeply in debt to the Bundesbank for discount credit.)
Changes in the Bundesbank's discount rate and in its rate for advances on securities usually entail a shift in the pattern of interest rates in the Federal Republic. The tendency is for interest rates to change much more in short-term business than in longer-term business, i.e. more vigorously on the money market than on the capital market, and more vigorously for short-term lending than for long-term lending. This is, however, less true of the banks' creditor interest rates,

mainly because of the limited flexibility of interest rates on savings deposits with the shortest term, i.e. the savings deposits subject to statutory periods of notice; the leading banks in the savings deposit business (the savings banks) maintain this rate, often referred to as the 'basic' interest rate for savings deposits (*Spareckzins*), at as constant a level as possible and it is traditionally fairly low. At present it still applies to just on 60% of all savings deposits, but this percentage is steadily declining.

External limitations on interest rate policy

43. Since the restrictions on international capital movements were lifted, the interdependence of the world's main financial centres has grown steadily. The effects of changes in Central Bank rates and changes in domestic interest levels on international movements of short-term capital have constantly gained in importance. For the interest rate policy of the Central Bank, this has introduced new elements which in certain circumstances may make it more difficult if not impossible to pursue a given course even though such a course would be in line with domestic economic requirements.

Section II - Minimum reserve policy

Para. I: *Legal requirements*

Historical background

44. Compulsory minimum reserves were first introduced in Germany in 1948, when the *Bank Deutscher Länder* was founded. It is true that the 1934 Act on the Credit System contained a general provision to the effect that the banks should keep balances at the Central Bank sufficient to cover a certain unspecified percentage of their customers' deposits. But the purpose of this provision was to ensure the liquidity of customers' deposits rather than to further any particular credit policy: moreover, it was never implemented.

Legal bases of current minimum reserve regulations

45. The minimum reserve requirements laid down in 1948 in the Act on the *Bank Deutscher Länder* were incorporated into the Bundesbank Act of 26 July 1967 in a modified form. Sec. 16(1) of the Deutsche Bundesbank Act as amended on 22 July 1969 provides:
'In order to regulate the volume of money in circulation and of credit granted, the Deutsche Bundesbank may require that credit institutions shall maintain with it balances on current account (minimum reserve) representing a fixed percentage of their liabilities in respect of sight deposits, time deposits and saving deposits and also short- and medium-term borrowing with the exception of liabilities to other credit institutions which are subject to minimum reserve regulations. The percentage fixed by the Bank shall not exceed 30 % for sight deposits, 20 % for time deposits and 10 % for savings deposits; for liabilities to non-residents (Section 4 (1, point 4) of the Foreign Trade and Payments Act) the Bank may, however, fix a percentage of up to 100 %. Subject to these limits, the Bank may, according

to general considerations, fix differential ratios, particularly for certain types of institutions, and may exclude certain liabilities from the basis of calculation. For credit institutions within the meaning of Section 53 of the Act on the Credit System, liabilities in respect of sight deposits within the meaning of the first sentence include debit balances on clearing account'.
Based on the minimum reserve requirements of the Bundesbank Act, the Bundesbank issue Minimum Reserves Orders fixing the details of the reserve obligation and of the maintenance of reserves. The Bundesbank publishes the currently valid Minimum Reserves Order in its annual reports. Changes are always announced immediately in the Federal Government Gazette (*Bundesanzeiger*).

Para. II: *Structure of the minimum reserve system*

Credit institutions subject to minimum reserve resolutions

46. In the Federal Republic, the vast majority of credit institutions are subject to minimum reserve requirements. The first sentence of Section 16(1) of the Bundesbank Act establishes the principle that all banks must maintain minimum reserves. The Bundesbank may, however, fix differential ratios, particularly for certain categories of institutions, according to general considerations. Acting under Section 1(2e) of the Minimum Reserves Order, the Bundesbank, for instance, exempted the institutions specializing in long-term business from the minimum reserve requirement for one year at a time, provided the share of the long-term debit items in the volume of business averaged at least 90 % during a specified reference period.

Calculation of minimum reserve requirement and of actual reserves

47. The basis of calculation for the minimum reserves which the banks have to maintain with the Bundesbank in the form of balances on current account is the banks' 'liabilities subject to the reserve regulations', that is all liabilities maturing in less than four years vis-à-vis:
— Non-banks,
— Credit institutions which are not subject to minimum reserve regulations,
— Banks abroad,
in respect of deposits and borrowed money.
The following liabilities are excluded: those to the Bundesbank, those in respect of borrowings earmarked for some specific purpose and certain deposits referred to in the Bundesbank's Minimum Reserves Order.
Among the liabilities which are subject to the reserve requirements, a distinction is made between:
— Sight liabilities (liabilities with a term or period of notice of less than 30 days or one month);
— Time liabilities (liabilities for a fixed period or at notice of at least 30 days or a month), and
— Saving deposits.
The minimum reserve requirement (*Mindestreserve-Soll*) is determined by applying the percentage rates (reserve ratios) fixed by the Bundesbank to the average amount of the credit institution's liabilities subject to the regulation over a period of a month. The banks have the alternative of calculating this average either on the basis of the figures at the end of each day, including non-working days, from the

16th of the previous month to the 15th of the current month, or uniformly for all types of liabilities subject to the reserve requirement on the position at the 23rd and last day of the previous month and the 7th and 15th of the current month.
The actual reserve (*Ist-Reserve*) is the average of the balances maintained with the Bundesbank per calendar day.

Flexible reserve holding

48. This method of calculation allows the banks considerable flexibility in the management of their minimum reserve holdings. As the minimum reserve requirements must be complied with only on the basis of a monthly average, they can use their Central Bank balances to make payments and, if necessary, can draw on them freely so long as the reserves are correspondingly increased on other days of the relevant period. The banks therefore need not maintain at the Central Bank any other special balances for the purpose of making current payments. The balances which the banks keep with the Bundesbank to meet the minimum reserve requirements thus also serve as working balances, although the average balances which the banks need for this purpose could as a rule be lower. Consequently 'excess' reserves — that is to say balances held at the Bundesbank beyond minimum reserve requirements — are, as a rule, very small. They are in some cases due to unavoidable errors in forecasting, and they generally amount to no more than 1 % to 2 % of the actual requirement; only during a few months of heavy speculative inflows from abroad have they been substantially higher.

Differentiation in minimum reserve ratios according to...

49. The third sentence of Section 16(1) of the Bundesbank Act gives the Bundesbank the right to introduce a further differentiation, within the maximum limits laid down, in the minimum reserve ratios for the various types of liability subject to the reserve requirement according to general considerations but not for special reasons related to an individual case (for the degree of differentiation in minimum reserve ratios, see Table 9).

... 'Bank places' and 'non-Bank places'

50. For example, the ratios for sight liabilities and savings deposits are differentiated according to 'Bank places' (*Bankplätze*) and 'non-Bank places' (*Nebenplätze*). A 'Bank place' for the purposes of the minimum reserve regulations is a place in which the Bundesbank has an office or branch. For banks in 'non-bank places' (*Nebenplätze*), the reserve ratios for sight liabilities and savings deposits are set lower than for banks in 'Bank places' since the former are as a rule obliged to keep more till money, in particular for their savings account business, as a considerable proportion of the savings deposits can be withdrawn without notice.

... amount of liabilities subject to the reserve requirements

51. The minimum reserve ratios for sight and time liabilities are in addition differentiated according to the size of the credit institutions; the institutions are divided into various reserve classes, according to the amount of their liabilities (including savings deposits) subject to the reserve requirements (see Table 9a).

...deposits of residents and non-residents

52. Furthermore where necessary for credit policy reasons, the Bundesbank makes liabilities towards non-residents subject to higher reserve ratios than liabilities towards residents, in order to stem the flow of foreign money into German banks. The Bundesbank introduced such higher reserves for the first time from May 1957 to March 1959, and then again from February 1961 to January 1962, from April 1964 to January 1967 and, most recently, from June to October 1969. In the periods 1961/62 and 1964/67 the maximum ratios that applied to the minimum reserves on foreign liabilities ranged from 10 % to 30 % according to the type of liability. They were in part also designed to provide an additional incentive for the export of money, since from May 1961 to December 1966 banks had been allowed to deduct the amount of balances (whether sight or time deposits) and money-market investments held abroad from the liabilities to non-residents subject to the reserve requirement ("offsetting privilege"). The more this relieved them of their minimum reserve requirement on foreign liabilities, the more the banks naturally made use of this concession.
By virtue of the amendment to Section 16 of the Bundesbank Act, in force since 23 July 1969, the Bundesbank may now raise up to 100 % the minimum reserve ratio applying to the entire foreign liabilities.

Reserves for increase in liabilities

53. Lastly, the Bundesbank has from time to time fixed special minimum reserve ratios for any *increase* in liabilities subject to the reserve requirement, especially non-resident deposits. These were first applied during the period of restraint of 1959/60. Special reserve ratios in respect of the increase in liabilities to foreigners subject to the reserve requirement applied from January 1960 to April 1961, from December 1968 to October 1969, from April to August 1970, and have currently been if force since December 1970. From July to November 1960 and from September to November 1970, the Bundesbank imposed reserve requirements on increases in domestic liabilities.

Special rate of interest

54. If a bank fails to maintain with the Bundesbank the full balance required under the minimum reserve regulations, interest is charged on the amount by which the actual reserves of the credit institution fall short of the minimum reserve requirements, at a penal rate of 3 % above the current Bundesbank rate for advances against securities for periods of 30 days at a time (see Table 8).

No interest on reserves

55. It is not the practice of the Bundesbank to pay interest on minimum reserve balances. The result is that the credit institutions subject to the minimum reserve requlations suffer a loss of earning power varying directly with the minimum reserve ratio. Minimum reserve policy has therefore not only a purely quantitative effect on bank liquidity but also influences the level of interest rates. When minimum reserve percentages are raised the banks try to offset the deterioration in their profitability by putting up their charges to borrowers, there being little scope in such a situation for passing on the burden to depositors e.g. by reducing deposit interest.

Para. III: *How the system operates*

56. As an instrument of policy, minimum reserve regulations are used by the Bundesbank when the trend in bank liquidity calls for a corrective, to prevent either a major rise in liquid reserves or a drain on reserves. At times the Bundesbank also uses the minimum reserve policy to counter very short-term fluctuations in liquidity. In December 1969, for instance, it lowered the minimum reserve ratios by 10 %, for that one month only.

Quantitative effect

57. With minimum reserve ratios remaining unchanged, the steady rise in the credit institutions' liabilities subject to minimum reserve regulations suffices by itself to immobilize liquidity. The real importance of the minimum reserve weapon, however, lies in the power of the Bundesbank to alter the reserve ratios. From the date of introduction of minimum reserves (1 July 1948) to the middle of 1970, the Bundesbank and its predecessor, the *Bank Deutscher Länder*, made 50 changes in the minimum reserve ratios. (The various changes in reserve ratios for the period since 1 January 1961 and the current level of minimum reserve ratios are shown in Table 9.) A 1 % increase (reduction) in the average minimum reserve ratio (reserve requirements as a percentage of liabilities subject to the reserve requirement) would entail a corresponding immobilization or release of liquidity of some DM 3,000 million in terms of the situation at the beginning of 1971. The minimum reserve ratios in force in March 1971 meant that some DM 26,900 million or 8·4 % of the liabilities subject to the reserve requirement had to be maintained as reserve balances with the Central Bank, while at the peak of the 1959/60 credit restrictions, the reserves required of the credit institutions had averaged 12·6% of the liabilities subject to the reserve requirement.

Influence on free liquidity reserves

58. To meet an increase in minimum reserve obligations for which there is no counterpart in the shape of simultaneous liquidity inflows the banks as a whole can only convert their interest-bearing free liquidity reserves (see point 23) into balances at the Central Bank, where they are immobilized. On the other hand, when minimum reserve ratios are reduced, immobilized balances are set free and are reconverted by the banks into interest-bearing liquid assets. In either case the liquidity of the banking system is affected. Whether the banks acquire the necessary additional Central Bank balances mainly by drawing on their domestic open-market paper or by presenting bills at the Central Bank for rediscounting will depend on circumstances (e.g. relative rates of interest).
The important point is that the financing of increased minimum reserves is done at the expense of the free liquidity reserves of the banks. They will, as a result sooner or later feel obliged to exercise greater restraint in lending.

Section III - Open market policy

Para. I: *Institutional framework*

The money market as a market for Central Bank balances...

59. The Bundesbank's open market policy is closely related to the special features

of the German money and capital market. The money market in the Federal Republic comprises, firstly, dealing in Central Bank funds, mainly between banks. On this market, credit institutions make surplus Central Bank funds available to other banks; according to the periods involved, distinctions are made between the markets in call money, in money at one day's notice, and in loans for one month, three months etc. Until 1967, the Agreement on Creditor Interest Rates (*Habenzinsabkommen*) and/or the Regulation on interest rates (*Zinsverordnung*) kept non-banks away from this market, the idea being to prevent non-banks from enjoying the terms available to banks. Of late, however, sellers and buyers on the money market have included some non-banks, especially large industrial firms, although their share in the market as a whole is very small. The Bundesbank does not operate on this market.

... and as a market for money-market paper

60. The money market comprises, secondly, dealings in money-market paper, i.e. in Treasury bills, non-interest bearing Treasury bonds, Storage Agency bills, and prime acceptances.

Dealings in money-market paper take place mainly between the Bundesbank and the credit institutions. There are also transactions between the Bundesbank and certain public authorities (especially the Federal Post Office, the E.R.P. Special Fund and the social security funds). Business undertakings and private individuals were unable to acquire money-market paper as long as the agreement on creditor interest rates was in force; they placed their liquid or temporarily idle balances as sight, time or savings deposits with the banks. There are practically no dealings in money-market paper among banks or between banks and non-banks, i.e. without the participation of the Bundesbank. The interest rates on this market are therefore determined solely by the Bundesbank, which fixes the terms on which it sells or buys money-market paper. The volume of sales and purchases, on the other hand, is determined by the extent to which the other partners in the market take up the paper offered by the Bundesbank.

Open market transactions on the capital market

Under Section 21 of the Bundesbank Act, the Bundesbank may also, in order to regulate the money market, deal in long-term securities. It first started with this type of open market business in 1967, though limiting its dealings to buying and selling fixed-interest-bearing securities issued by public authorities. In contrast to the sales and repurchases of money-market paper, the Bundesbank, in these transactions, takes a direct decision on what amounts to purchase or sell, while the consequent effects on prices and hence on the long-term interest rate only appear indirectly.

Para. II: *Open market transactions on the money market*

Varying interest rates for money-market paper

61. As mentioned before, money-market paper comprises Treasury bills and so-called non-interest-bearing Treasury bonds — ("U-Schätze" - discounted like Treasury bills) of the Federal Government, the Federal Post Office, the Federal Railways and the Länder, and Storage Agency bills and prime acceptances. The Bundesbank

fixes buying and selling rates (discounts) for this type of paper,[1] varying them according to the trend on the money market and the aims of its credit policy. The rates at which money-market paper is repurchased before maturity are not published. They are fixed at a certain margin above the published selling rates. These margins may vary according to the state of the money market, the way in which the Bundesbank wishes to influence the market and the type of security concerned; but the margins between selling and repurchase rates are narrow and often remain unchanged for fairly long periods so that the rates at which the Bundesbank will repurchase — although somewhat higher — vary in accordance with its selling prices. Table 11 shows the changes in selling rates for the various classes of money-market securities since the beginning of 1958.

Differences in ways money-market paper of the Federal Government is created

62. Treasury bills and non-interest bearing Treasury bonds of the Federal Government can be created in various ways in the Federal Republic. One method is for the Federal Government to decide, in agreement with the Bundesbank, to cover part of its borrowing requirements through the issue of short-term securities (other things being equal, this leads to an increase in bank liquidity since the buyers are mainly banks; conversely, a decline in the volume of such paper reduces bank liquidity).
In addition to this "normal" method of creating such paper there are two other possibilities. To enable the Bundesbank to sell Treasury bills and Treasury bonds irrespective of the financing requirements of the public authorities, Section 42 of the Bundesbank Act provides that the Bundesbank may ask the Federal Government to convert all or part of the Bank's equalization claim on the Government, which totals DM 8,000 million and arose during the currency reform in 1948, into Treasury bills or non-interest-bearing Treasury bonds. The securities thus created are referred to as "mobilization paper". The Bundesbank is under an obligation to the Federal Government to meet all liabilities arising out of mobilization paper. In practice, therefore, this type of paper represents issues by the Bundesbank rather than by the Federal Government.

Liquidity paper

63. To put the Bundesbank in a position to sell Treasury bills and non-interest-bearing Treasury bonds even beyond the limits set by the amount of the equalization claim, a clause was added to the Bundesbank Act (Section 42 a) under the Act to Promote Economic Stability and Growth of 1967, requiring the Federal Government, once mobilization paper has been put into circulation up to the amount of the equalization claim, to make available to the Bundesbank, at its request, additional Treasury bills and non-interest bearing Treasury bonds up to a maximum of DM 8,000 million. The Act calls this type of paper "liquidity paper". Under this procedure, the Bundesbank does not surrender assets; it shows the nominal amount in a special account among its liabilities. The counter-value may only be used to redeem the paper at or before maturity.

[1] But see Point 70 below.

Treasury bills and non-interest-bearing Treasury bonds of other public authorities

64. Unlike mobilization paper and liquidity paper, in respect of which the Federal Government figures only formally as debtor while the actual debtor is the Bundesbank, Treasury bills and non-interest-bearing Treasury bonds of the Länder and the Federal Railways and non-interest-bearing Treasury bonds of the Federal Post Office are put into circulation only in connection with actual borrowing operations of these authorities. Issue of Treasury bills are governed by the ceiling which Section 20(1) of the Bundesbank Act places on cash advances and in addition they must be made through the Bundesbank. Non-interest-bearing Treasury bonds of these authorities likewise must be issued through or in agreement with the Bundesbank, failing which the Bundesbank way refuse to include them in its arrangements to regulate the money market. Since, other things being equal, a rise in the circulation of such paper increases bank liquidity (and since a decline in circulation reduces it), the control thus exercised by the Bundesbank is of considerable importance.

Storage Agency bills and prime acceptances

65. The Bundesbank also regulates the market in "Storage Agency bills"; these are issued by the Import and Storage Agencies within the ceiling of the credits granted to them by banking syndicates, and up to a limit agreed with the Bundesbank, in the form of Government-guaranteed promissory notes, for the purpose of financing stocks of certain basic foodstuffs (cereals, fats, meat, etc.). The Bundesbank is prepared to take up these securities up to the limit to which it has promised to buy them (currently DM 850 million) and also to sell such securities if it holds them in its portfolio. In addition, there is a "prime acceptance" market in the Federal Republic. Dealings on it are confined to bank acceptances of a special type, "prime acceptances", the market in which the Bundesbank has promised to support. The period to maturity must not exceed 90 days. The ceiling currently applying to Bundesbank purchases of prime acceptances is DM 1,500 million.

Medium term notes

66. In 1967 the range of money-market paper was also enlarged when the Bundesbank declared during the recession that it was prepared, until further notice, to include in its money market regulation arrangements, medium-term notes of the Federal Government, the Federal Post Office, the Federal Railways and the Länder, provided these securities had a remaining life of less than 18 months. Medium-term notes issued since 1969 are no longer covered by this arrangement. In contrast to the practice followed in open-market transactions in Treasury bills and non-interest-bearing Treasury bonds, interest rates are not fixed in advance for eventual purchases and sales of medium-term notes on the open market.

Money-market paper a form of investment for liquid funds

67. Money-market paper is suitable as a form of investment for banks' liquid Central Bank balances not needed at the particular moment, because of its comparatively short maturity period (the maximum period to maturity for money-

market paper is 24 months) and because it can at any time (even before maturity)[1] be returned to the Central Bank and thus exchanged for Central Bank money. In the case of Treasury bills there is a promise to discount. No such formal promise is attached to non-interest bearing Treasury bonds, but the Bundesbank has always taken up such bonds when offered, at its currently fixed price. The Bundesbank is, however, not always prepared to sell paper of all maturities as desired by the banks. In a period of easier credit, for instance, it may wish to ensure that the increase in bank liquidity (resulting, for example, from cuts in minimum reserves) exerts an influence on the money market also. In such cases the Bundesbank may either confine the sale of money market paper to securities with a short life or discontinue sales altogether. Conversely, in periods of credit restraint the Bundesbank has often sold only Treasury bonds running for a longer period and bearing a higher rate of interest.

Scale of open-market transactions in short-term securities

68. Since 1955, when open-market operations began, a substantial amount of surplus funds, mainly arising from the heavy foreign exchange inflows into the Federal Republic, have at times been placed in "mobilization paper". In August 1958, the circulation of such paper reached a temporary peak of nearly DM 7,200 million. During a second period of open-market policy, from 1959 to 1967, these open-market operations lost somewhat in importance again, mainly because from the beginning of 1959 onwards the credit institutions no longer kept their free liquidity reserves at home only but maintained them increasingly abroad in the shape of short-term investments ("exports of money). By the beginning of 1967, the circulation of mobilization paper with the banks had dropped to some DM 1,500 million. In the following years little if any mobilization paper has been made available to the banks; initially, this was intended to help increase liquidity on the money market and contribute to the downward tendency of interest rates for short-term economic policy reasons. In the periods of foreign currency speculation — until the 1969 revaluation — selling mobilization paper would have run counter to efforts to channel as far as possible out of the country the amounts of foreign exchange which had come in. Since July 1970 mobilization paper has again been sold to the banks. As the margin for the issue of this paper had been exhausted by the beginning of January 1971, a start was made also with the issue of liquidity paper. At the end of April 1971, the total of mobilization and liquidity paper in circulation was around DM 9,000 million.

Para. III: *Open market policy on the capital market*

Open market transactions with public loan issues

69. In the middle of 1967, open-market policy entered a new phase. During the recession of the first half of 1967, the Bundesbank considerably increased bank liquidity by reducing minimum reserve requirements and by taking other measures. Surpluses on payments transactions with abroad further added to the increase in liquidity. It soon emerged, however, that instead of placing this increase in their liquid funds on the domestic money market (where it would have tended to bring interest rates down), the banks mainly invested it on foreign money markets with

[1] However, see Point 70 below.

the result that the level of domestic interest rates did not fall in the way that credit policy would have required. In August 1967 the Bundesbank therefore decided to ease the situation on the money market by buying for its own account, bonds of the Federal Government and its Special Funds on the open market. By the end of the year, the Bundesbank had siphoned DM 1,300 million worth of fixed-interest securities off the market. This resulted in a further increase in bank liquidity and brought about a further fall in interest rates. The tendency for interest rates to decline continued during 1968, although from 1967 to 1968 the net calls of domestic and foreign issuers on the German capital market rose by some DM 6,000 million to nearly DM 22,000 million. In January 1968 the Bundesbank was already in a position to begin selling securities again to the market. By the end of 1970, it had been able to scale down its holdings, with certain fluctuations, to less than one fifth of the peak level.

Para. IV: *Effects of open market policy*

Open market policy and bank liquidity

70. The impact of the Bundesbank's open market transactions on bank liquidity varies. Money-market paper forms part of the credit institutions' liquidity reserves (see point 23). When the credit institutions acquire money-market paper from the Bundesbank or return such paper, these transactions merely lead to a change in the *pattern* of the banks, liquidity reserves; the banks' Central Bank balances fall and their holdings of money-market paper increase accordingly, or vice-versa. However, if the Bundesbank engages in open market transactions in money-market paper with non-banks or generally in mobilization and liquidity paper (non-interest-bearing Treasury bonds) which it refuses to take back before maturity [1] and in long-term securities, this results in a change in the banks' liquid resources. For example, if the Bundesbank sells non-interest-bearing Treasury bonds to the social security funds, the latter will shift the counterpart from the credit institutions to the Bundesbank, and this will entail a reduction in bank liquidity.[2]

Open market policy and interest rate policy

71. The Bundesbank's open market transactions with credit institutions in instruments of short-term indebtedness must be considered as relating to interest rate policy rather than to liquidity policy. Just as the Central Bank's official discount rate influences the whole level of interest rates, changes in the Bundesbank's selling and repurchase rates also have far-reaching effects that make themselves felt mainly on the market in Central Bank funds described above. For instance, if the Bundesbank offers Treasury bills with a currency of 90 days at the fixed selling rate, nobody on the market in three-month loans will be content to accept a lower interest rate. Open market sales of money-market paper by the Bundesbank tend to reduce supply on the market for Central Bank funds, and the money market situation is affected accordingly. Returning money-market paper, on the other

[1] Since April 1971 the Bundesbank has also been offering — for the time being only to social security funds — liquidity and mobilization paper (non-interest-bearing Treasury bonds) which, contrary to previous practice, are not accepted back before maturity. To compensate for the reduced degree of liquidity, a somewhat higher interest rate is paid on these securities.

[2] This effect is independent of the way in which the money-market paper sold or bought by the Bundesbank was created; it is therefore the same for genuine Treasury bills and non-interest-bearing Treasury bonds as for mobilization and liquidity paper.

hand, represents for the banks an alternative to obtaining Central Bank money by rediscounting bills. Through its selling and repurchase rates, the Bundesbank also influences the extent to which the banks employ liquid reserves in money-market investments abroad. An element that must also be taken into consideration when comparing yields obtainable at home and abroad is the cost of forward cover for the foreign currency involved (cf. Section IV).

Section IV - Policy governing intervention on the forward foreign exchange market

Changeover to convertibility

72. At the end of December 1958, the Dm was made convertible again, together with the currencies of important European O.E.E.C. countries. While most partner countries only moved to non-resident convertibility for current transactions, the Bundesbank made the DM almost fully convertible, extending convertibility to residents and capital movements. In the preceding years, the changeover to convertibility had been prepared by the gradual introduction of liberalization measures; since the autumn of 1957, short-term international capital movements had been almost fully liberalized.

Growing interdependence of international credit markets

73. With the DM freely convertible, communication between the German and foreign credit markets strengthened. Externally this was reflected in the fact that the German banks increasingly engaged in international money and credit business. Their investments abroad from "money exports", for instance, rose some DM 2,500 million (at the end of 1959) to almost DM 7,000 million (at the middle of 1967), and continued to nearly DM 12,000 million by the middle of 1970. This growth in interdependence forced the Bundesbank, in its monetary policy — and particularly in interest rate policy — to take more account than before of developments in other countries.

Use of swap policy

74. At the beginning of October 1958, the Bundesbank for the first time offered domestic credit institutions the possibility of concluding with is "swap" transactions in U.S. dollars for up to three months, and in some cases even six months. Since that period, the Bundesbank has used this instrument over longer or shorter periods. When making a swap transaction, the Bundesbank sells dollars spot to the credit institutions and buys them back forward at a fixed rate. The forward rate has, as a rule, been lower than the spot rate, i.e. the Bundesbank has charged a forward discount for covering the exchange risk. Sometimes, however, the Central Bank has also waived its right to charge the cost of covering the exchange risk by executing swap transactions with the banks at par, i.e. free of charge — as for instance in late 1959/early 1960 — or has even allowed the banks a forward rate at a premium over the spot rate (Autumn/Winter 1960-1961).

Encouragement of money exports

75. The Bundesbank's swap policy has so far always been aimed at encouraging

domestic credit institutions to export money. When the Bundesbank began to intervene in the forward foreign exchange market at the end of 1958, its intention was to get the German credit institutions off to a good start in building up an adequate holding of short-term foreign investments by which means the banks could take a part in holding the country's foreign exchange reserves. At the same time this influenced the development of the domestic money market, where as a result of the increased attractiveness of external money markets the supply of funds on the domestic money market tended to fall. Later, however, when the higher interest rates obtaining on foreign money markets sufficed by themselves to attract the liquidity reserves of German banks, the Bundesbank gradually switched over to charging a forward discount in its swap transactions, raising this step by step to the level of the market rate, and at the same time withdrawing from the market. Its swap commitment, which in 1960 had risen to over DM 4,000 million, was gradually run down completely. With some fluctuations it was eliminated altogether by May 1963. Whenever the Bundesbank undertook new commitments during the years 1960 to 1963 it endeavoured to keep in check in this way the influences on international money markets exerted by the repatriation of money by the commercial banks. In March 1964, the banks were again offered exchange risk cover at reduced cost, though only for the acquisition of U.S. Treasury bills. The restriction of cover to U.S. money-market paper only was an attempt to limit the repercussions on the international money market as far as possible and to avoid providing additional encouragement to the Euro-money market. In the spring of 1965 the Bundesbank again withdrew from the forward exchange market; it was not until November 1967, after the devaluation of sterling, that the Bundesbank resumed its forward cover operations, endeavouring to strengthen confidence in the dollar parity and thereby to contribute to an easing of conditions on the Euro-currency markets. These operations were therefore not designed to influence the domestic money market. In contrast with previous practice, the Bundesbank did not require the foreign exchange sold to be used for specific purposes; the banks were therefore also enabled to conclude with the Central Bank forward cover operations in respect of foreign investments already made or in respect of foreign claims of their customers. The objective of restoring quieter conditions in the international monetary situation was also predominant when the Bundesbank again entered into heavy swap commitments from the end of August 1968 onwards. After 15 November 1968 the Bundesbank offered to cover the exchange risk only in respect of money market investments abroad; in September 1969 it discontinued its swap operations in connection with the temporary floating of the DM exchange rate. From 7 May to 20 May 1969 the Bundesbank had already withdrawn from the market as it realised that the credit policy objective of the swap operations, to channel speculative foreign exchange inflows back to foreign money markets and keep them there, was being undermined by "Roundabout" transactions ("*Karussellgeschäfte*") by means of which the banks were able, without using their own funds, to secure a profit corresponding roughly to the difference between the forward discount of the market and that of the Bundesbank.

Outright intervention on the forward market

76. At the beginning of June 1970 the floating of the Canadian dollar rate and the consequent unrest on the foreign exchange markets touched off a fresh rise in the inflow of foreign exchange into the Federal Republic, and on 15 June 1970

the Bundesbank began temporarily to engage in outright intervention on the forward market in U.S. dollars. (Such transactions had last been effected at the end of November 1968 to counteract current speculation on a revaluation.) At the beginning of April 1971 the Bundesbank for a time bought three-months forward dollars at its lower intervention point with the aim of countering speculative currency movements.

Section V - Instruments of the Act to Promote Economic Stability and Growth

Indirect and direct incidence on monetary policy

77. As noted above in the description of the institutional framework of monetary policy, the 1967 Act to Promote Economic Stability and Growth defines the general objectives of economic policy in the Federal Republic and sets out a number of principles and measures to be employed in the event that one or more of these objectives should be endangered. Some of these instruments have an indirect and others a direct significance for monetary policy. The following is an account of the full range of these instruments although some of them have already been discussed in the preceding chapters in the relevant context.

Para. I: *Instruments indirectly significant for monetary policy*

Tasks of the Council on Economic Trends and the Financial Planning Council

78. The public authorities' Council on Economic Trends was set up as an advisory body to help co-ordinate the economic and financial policy of the Federal Government and Länder and in particular to harmonize the ways in which the various regional and local authorities manage their budgets. Members of the Council are the Federal Minister of Economics, the Federal Minister of Finance, one representative of each Länd, and four representatives of the local authorities and local authority associations. The Deutsche Bundesbank has a right to participate. The public authorities' Council on Economic Trends considers all measures of short-term economic policy necessary to attain the objectives of the Act and also examines ways and means of meeting the borrowing requirements of the public authorities (sec. 18 of the Act). The decisions of the public authorities' Council on Economic Trends are not binding; the Federal Government may, however, give force of law to the Council's recommendations on the formation of a compulsory anti-cyclical equalization reserve (sec. 15 of the Act) or — with the agreement of the *Bundestag* or the *Bundesrat* — on credit limits for public borrowers (sec. 20 of the Act).
In practice, however, considerable importance attaches to the Council's decisions, given the political weight of its members.
In addition to the Council on Economic Trends a Financial Planning Council was set up to harmonize the financial plans covering a period of several years which the Federal Government and the Länder are required to draw up under Section 9 read with Section 14 of the Act.

Instruments of tax policy

79. Aggregate demand, incomes and liquidity may also be influenced by other measures of taxation policy. If there is danger of the economic climate overheating, the Federal Government may suspend, for a maximum period of one year, declining-balance depreciation and also the right to special depreciation allowances and to accelerated depreciation (sec. 26 of the Act). In periods when economic activity shows signs of flagging, on the other hand, the income tax and corporation tax liability for the particular assessment period may be cut by up to 7·5% of the purchase or manufacturing cost of the assets involved (sec. 26 of the Act). The Federal Government may also increase or reduce income and corporation tax by up to 10 % for a period of one year (sec. 26 and 27 of the Act). For all these measures, the relevant statutory decree must be approved by the *Bundestag* and the *Bundesrat*. The approval of the legislative bodies is not required if advance payments towards income tax, corporation tax and trade tax are adjusted to meet the prospective tax liability, a move which under secs. 26 and 28 of the Act may still be made in the calendar year following the assessment period.

Public investment policy as an element of control

80. Section 6 of the Act to Promote Economic Stability and Growth provides that in the event that the expansion of demand exceeds the capacity of the economy, the Federal Minister of Finance may be authorized to make building and construction starts and the acceptance of commitments extending into future financial years dependent on his approval. Any funds thus saved must, after the end of the financial year, be used for supplementary redemption of debt with the Bundesbank (see point 84) or for payment into the anti-cyclical equalization fund (see point 83). If, on the other hand, the general economic trend weakens dangerously, the planning of suitable investment projects by the Federal Government must be accelerated so that work on them can be started at short notice (sec. 11 of the Act).

Para. II: *Instruments directly significant for monetary policy*

Combating disruptions from foreign trade and payments

81. To deal with disruptions that might be caused by the increasing interdependence of the national economies and by the diverging trends in prices and costs in the various economies, the Act to Promote Economic Stability and Growth places certain obligations on the Federal Government. Where general economic equilibrium is being disrupted by developments in foreign trade and payments which cannot be dealt with by means of domestic economic measures or which can be dealt with only at the expense of other basic aims of economic policy, Section 4 of the Act requires the Federal Government to make use of the opportunities presented by international coordination. Should this prove inadequate, the Federal Government is to safeguard external equilibrium by using the available instruments of economic policy. These and similar measures of economic policy (for instance exchange rate modifications) can, however, be taken only within the limits set by existing international obligations.

Widening the Bundesbank's room for manoeuvre in open-market policy

82. In the course of the 1948 currency reform, some DM 8,000 million worth

of claims on the public authorities (equalization claims) accrued to the German central banking system by means of balance-sheet adjustments. The revision of Sec. 42 of the Bundesbank Act affected by Sec. 29 of the Act to Promote Economic Stability and Growth, gives the Central Bank the unrestricted right to mobilize all of its equalization claims on the Federal Government up to their nominal value. There were, however, doubts as to whether the amount of some DM 8,000 million of money-market paper would be sufficient in all circumstances. Sec. 29 of the Act to Promote Economic Stability and Growth therefore requires the Federal Government to make available to the Bundesbank an additional amount of up to DM 8,000 million worth of Treasury bills or non-interest-bearing Treasury bonds (liquidity paper) once the operatin fund of mobilisation paper has been exhausted. The sale proceeds of this paper are immobilised by the Bundesbank. They may be used only to redeem liquidity paper falling due or repurchased before maturity by the Central Bank. The Bundesbank's room for manoeuvre in open-market policy has thus been widened considerably.

Immobilization of funds of the wage and salary earners' pension insurance funds and of the Federal Labour Office

83. Sec. 30 of the Act to Promote Economic Stability and Growth originally authorized the Federal Government to require, for the period of one year, that the wage-and salary-earners' pension insurance funds and the Federal Labour Office[1] place a certain proportion of their funds in mobilization and liquidity paper. Under the third Act to Modify the Pension Insurance System (*Rentenversicherungsänderungsgesetz*) and the Work Promotion Act (*Arbeitsförderungsgesetz*) the Federal Government and the Bundesbank may, to the extent they deem necessary for reasons of short-term economic and monetary policy, order those institutions to place a specific proportion of their liquid funds in money-market paper. No statutory decree is required for this purpose. The Bundesbank is under an obligation to take back this paper before maturity if this is necessary to ensure the solvency of the pension insurance funds or of the Federal Labour Office.

The instrument of the anti-cyclical equalization reserve

84. For credit policy, an immobilization of excess tax revenues or of Federal Government and Länder funds released through cuts in expenditure by transferring them to a reserve account at the Bundesbank means a reduction in bank liquidity. Conversely, the subsequent mobilization of such reserves and their expenditure will entail an increase in bank liquidity. As the establishment or running down of such anti-cyclical equalization reserves also has a direct influence on the demand potential of the regional and local authorities concerned and therefore directly influences demand in the economy in general, this is an effective way of supporting the Central Bank's credit policy.
The Act to Promote Economic Stability and Growth provides that the anti-cyclical equalization reserve is to be created exclusively at the Bundesbank. The reserve may be built up on a voluntary or a compulsory basis. Section 5 of the Act specifies that if demand is expanding too rapidly for the capacity of the economy, *provision should* be made, in drawing up the budget, to earmark funds for the redemption

[1] *Bundesanstalt für Arbeit*; before 1 July 1969, *Bundesanstalt für Arbeitsvermittlung und Arbeitslosenversicherung* (Federal Labour Exchange and Unemployment Insurance Office).

of debt (point 85) or for "transfer into an anti-cyclical equalization reserve". If the Federal Minister of Finance, acting under Section 6(1) of the Act makes the use of certain appropriations, certain building and construction starts and the acceptance of commitments extending into future fiscal years subject to his approval, he is *bound* to use the funds thus released either for the redemption of debt or for payment into the anti-cyclical equalization reserve. These provisions also apply to the Länder, *mutatis mutandis* (sec. 14 of the Act). If it is necessary to prevent a disruption of general economic equilibrium, the Federal Government with the approval of the *Bundesrat* may order the *compulsory* payment, within specified limits, of Federal Government and Länder funds into the reserve (sec. 15(1) of the Act). Section 15(4) of the Act also binds the Federal Government and the Länder to make payments into the anti-cyclical equalization reserves out of the tax receipts that have accrued to them through the increase in the rates of income tax and corporation tax (see point 79).
The funds paid into the compulsory anti-cyclical equalization reserves may be released only through statutory decree by the Federal Government with the agreement of the *Bundesrat* and only for the purpose of preventing a slackening of general economic activity that would endanger the basic aims of economic policy (sec. 15(5) of the Act). Nor may the reserves built up on a voluntary basis be used for purposes other than for promoting a revival in economic activity [sec. 7(1) read with secs. 5(3) and 6(2) of the Act to Promote Economic Stability and Growth].

Public debt policy

85. Together with the anti-cyclical equalization reserve, the most important instrument of an anti-cyclical budget policy is to ensure that the borrowing or debt repayment operations of the public authorities are appropriate to the current economic trend. Where the general level of economic activity weakens in a way that endangers the general basic aims of economic policy (sec. 1 of the Act to Promote Economic Stability and Growth), the Federal Government may order that additional funds be spent (sec. 6(2) of the Act). This additional expenditure is subject to approval by the *Bundestag* (sec. 8 of the Act). If the funds from the anti-cyclical equalization reserve are not sufficient, the Federal Minister of Finance may raise additional loans of up to DM 5,000 million, over and above the borrowing powers conferred under the Budget Act. Where appropriate, the loans are to be raised through issues of money-market paper (sec. 6(3) of the Act).

Limits on public demand for credit

86. Under the Act to Promote Economic Stability and Growth the Federal Government has been empowered on the basis of statutory decrees adopted with the approval of the *Bundesrat*, to curtail borrowing by the Federal Government, the Länder, the local authorities and communal associations, and also the public special funds and the administrative associations of local authorities (sec. 19 of the Act).

87. Sec. 20 of the Act authorizes the Federal Government to do this by placing an upper limit on the amount that may be borrowed. This ceiling must be such that the authority or body involved is still entitled, per budget years, to take a minimum volume of credit equalling 80 % of the average annual borrowing during the past five years, with specified credits (such as cash advances and loans to

provide working funds) not counting towards the ceiling. In the case of the local authorities, the ceiling may be lowered to 70%. The Länder must allocate the amounts thus released to such local authorities as have to make particularly urgent investments.

88. Within the upper limit placed on borrowing, the authorities may stipulate that borrowings of a certain type and amount (particularly loan issues and loans against promissory notes) may be raised only in conformity with a time-table and only on certain terms. This time-table is drawn up by the Council on Economic Trends, taking account of the situation on the capital market.

89. The validity of a statutory decree curtailing borrowing may not exceed one year. The Federal Government is required to inform the *Bundestag* of the adoption of the statutory decree and if asked to revoke it (within 6 weeks of the promulgation of the decree) must do so immediately.

STATISTICAL TABLES

TABLE 1

Banking groups and volume of business done by them

End of 1970

Banking group	Volume of business (1) DM million	Volume of business (1) as a percentage of all banking groups
Commercial banks	203,609	24.8
Large banks	83,565	10.2
Regional banks and other commercial banks	99,196	12.1
Private bankers	20,848	2.5
Central giro institutions (including *Deutsche Girozentrale*)	129,965	15.8
Savings banks	187,608	22.9
Central institutions of credit cooperatives (including *Deutsche Genossenschaftskasse*)	31,375	3.8
Credit cooperatives (*Schulze-Delitzsch*)	34,853	4.3
Credit cooperatives (*Raiffeisen*)	28,189	3.4
Memorandum item		
Credit cooperatives (*Raiffeisen*) including those not required to submit returns	(46,100)	(5.5)
Mortgage banks	111,583	13.6
Private mortgage banks	53,666	6.5
Public mortgage banks	57,917	7.1
Instalment credit institutions	8,919	1.1
Banks with special functions	68,957	8.4
Postal Giro and Postal Savings Bank offices	15,680	1.9
All banking groups (2)	820,738	100.–

Source: Monthly Reports of the Deutsche Bundesbank.

(1) Items: Balance-sheet total plus the following items: own drawings in circulation discounted and credited to the borrowers in account, endorsement liabilities on rediscounted bills of exchange, bills from bill holdings sent out before maturity for collection.

(2) All institutions furnishing returns for bank statistics.

TABLE 2

Financial asset formation by domestic non-financial sectors (1)

Item	DM '000 million					%				
	1966	1967	1968 (p)	1969 (p)	1970 (p)	1966	1967	1968	1969	1970
1. Cash holdings and sight deposits	1.42	9 64	6.45	10.48	16.99	3.1	17.2	10.2	13.6	18.6
2. Time deposits (2)	7.38	7.46	14.25	14.64	12.96	16.3	13.3	22.5	19.0	14.2
3. Savings deposits	17.25	18.41	21.95	20.94	20.43	38.0	32.8	34.6	27.2	22.4
4. Funds placed with building and loan associations	4.66	2.81	2.69	4.30	5.90	10.3	5.0	4.2	5.6	6.5
5. Funds placed with the insurance system (3)	6.12	6.72	7.56	8.28	8.23	13.5	12.0	11.9	10.8	9.0
6. Acquisition of money-market paper	0.58	0.12	0.16	–0.15	1.21	1.3	0.2	0.3	–0.2	1.3
7. Acquisition of securities (4)	5.46	4 79	7.83	13.03	15.25	12.0	8.5	12.3	16.9	16.7
8. Other claims	2.54	6.24	2.54	5.48	10.17	5.6	11.1	4.0	7.1	11.2
Total	45.40	56.19	63.43	77.00	91.14	100.0	100.0	100.0	100.0	100.0

Source: Tables and explanatory notes on the capital finance account of the Deutsche Bundesbank for 1960 to 1969, July 1970; Monthly Report of the Deutsche Bundesbank, May 1971.

(1) Households, enterprises (including housing but excluding banks and other institutional investors) and public authorities; discrepancies in the totals are due to rounding.

(2) Including funds channelled through banks and public authority holdings in banks incorporated under public law.

(3) Including pension funds.

(4) Fixed-interest securities and shares.

(p) Provisional.

TABLE 3

Gross national product and exports of goods and services in the Federal Republic of Germany

Period	Gross national product at current market prices million DM '000	Trade balance Exports (1) (fob) DM '000 million	Balance of service transactions Receipts DM '000 million	Exports Total of columns 3 and 4 DM '000 million	Exports as a percentage of GNP Column 5 / Column 2
1	2	3	4	5	6
1960	302.3	47.9	13.0	60.9	20.1
1961	332.6	51.0	12.9	63.9	19.2
1962	360.1	53.0	14.3	67.3	18.7
1963	384.0	58.3	15.0	73.3	19.1
1964	420.9	64.9	16.5	81.4	19.3
1965	460.4	71.7	18.1	89.8	19.5
1966	490.7	80.6	20.4	101.0	20.6
1967	494.6 (p)	87.0	22.2	109.2	22.1
1968	538.9 (p)	99.6	23.6	123.2	22.9
1969	602.8 (p)	113.6	26.3	139.9	23.2
1970	679.0 (p)	125.3	29.5	154.8	22.8

Source: Monthly Reports of the Deutsche Bundesbank; Statistical Supplements to the Monthly Reports of the Deutsche Bundesbank, Series 3, Balance of payments statistics.

(1) Special trade (i.e. excluding trade in free ports and bonded warehouses) according to official export statistics.

(p) Provisional figures.

TABLE 4

Money stock and its determinants

Increase (+) or decrease (—)

(in DM million)

Item	1963	1964	1965	1966	1967	1968	1969	1970
I. Bank lending to domestic non-banks	+ 26,844	+ 30,194	+ 34,165	+ 28,203	+ 32,892	+ 39,990	+ 53,394	+ 50,761
II. Net external claims	+ 3,264	+ 2,002	— 210	+ 3,241	+ 5,123	+ 11,249	— 3,208	+ 14,653
III. Monetary capital formation with banks from domestic sources (1)	+ 24,021	+ 26,078	+ 28,743	+ 30,494	+ 26,577	+ 41,877	+ 37,968	+ 36,049
IV. Central Bank deposits of German public authorities	— 607	— 851	— 1,111	— 529	+ 285	+ 1,189	+ 443	+ 4,089
V. Other influences	— 1,820	— 913	— 824	— 964	+ 373	— 951	— 574	— 8,768
VI. Money and near-money	+ 5,962	+ 6,427	+ 6,124	+ 6,468	+ 14,185	+ 18,150	+ 14,548	+ 16,508
Currency in circulation and sight deposits (= money stock)	+ 4,874	+ 6,056	+ 5,499	+ 515	+ 11,526	+ 7,222	+ 11,201	+ 8,790
of which: Currency in circulation (2)	+ 1,269	+ 2,376	+ 1,767	+ 1,224	+ 631	+ 959	+ 2,102	+ 2,200
Sight deposits	+ 3,138	+ 3,023	+ 3,805	— 130	+ 7,671	+ 4,572	+ 3,861	+ 6,590
Near-money (time deposits of less than four years)	+ 467	+ 657	— 73	— 579	+ 3,224	+ 1,691	+ 5,238	+ 7,718

Source: Monthly Reports of the Deutsche Bundesbank.

(1) Excluding time deposits for a period of less than four years.

(2) Excluding banks' cash holdings.

TABLE 5

Bank liquidity

(in DM '000 million)

Item	1969	1970	1970			
			1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
I. Market factors	Changes during period, calculated from the averages of the four bank week return dates in the month					
1. Currency in circulation (increase: —)	— 2.2	— 1.8	+ 1.7	— 0.7	— 0.7	— 2.2
2. Non-banks' net balances with Bundesbank (increase: —)	+ 0.9	— 3.0	— 2.0	— 1.0	— 1.5	+ 1.5
of which:						
Cash balances (net) of Federal Government, Länder, Equalization of Burdens Fund	+ 0.6	+ 2.6	— 1.2	+ 0.1	+ 0.0	+ 3.7
Special deposits in respect of anti-cyclical reserve, anti-cyclical surcharge and Federal education loan	— 0.1	— 4.9	— 0.9	— 1.3	— 1.0	— 1.7
3. Public authorities' money-market indebtedness to banks and Bundesbank (increase: +)	— 4.9	— 0.8	— 0.8	+ 0.1	+ 0.1	— 0.2
4. Net foreign exchange holdings (1)	— 6.0	+20.2	— 2.9	+ 4.6	+ 8.2	+10.3
5. Other factors	+ 2.4	+ 2.4	+ 1.5	+ 0.7	— 0.2	+ 0.4
Total	— 9.8	+16.9	— 2.5	+ 3.7	+ 5.9	+ 9.8
II. Credit policy factors						
1. Minimum reserve required of banks (2) (increase: —)	— 0.5	— 9.8	— 2.1	— 0.3	— 6.2	— 1.2
2. Open-market operations with domestic non-banks (3) (purchases by Bundesbank: +)	— 1.2	— 2.3	+ 0.1	— 0.5	— 0.6	— 1.3
3. Cuts in rediscount quotas	— 3.0	— 0.7	— 0.4	— 0.3	—	—
Total	— 4.7	—12.8	— 2.4	— 1.1	— 6.8	— 2.5

TABLE 5 (*Continued*)

III. Increase (+) or decrease (—) in bank liquidity, total (I plus II) = change in free liquidity reserves	—14.5	+ 4.1	— 4.9	+ 2.6	— 0.9	+ 7.3
1. Excess balances (4)	— 0.3	— 0.4	— 0.7	+ 0.2	— 0.5	+ 0.6
2. Domestic money-market paper (5)	— 7.4	+ 2.2	— 0.6	+ 0.2	+ 0.5	+ 2.1
3. Money-market investments abroad (6)	+ 3.3	+ 0.3	— 1.3	— 0.2	+ 0.8	+ 1.0
4. Unused rediscount quotas	— 8.2	+ 1.7	— 1.9	+ 0.4	— 0.2	+ 3.4
5. Advances on securities (utilisation: —)	— 1.9	+ 0.3	— 0.4	+ 2.0	— 1.5	+ 0.2
	Position at end of period					
IV. Banks' free liquidity reserves (7)						
in DM '000 million	19.8	25.4	15.2	18.5	19.4	25.4
as % of total deposits (8)	6.8	7.8	5.3	6.3	6.4	7.8

Source: Report of the Deutsche Bundesbank for the Year 1970, page 48.

(1) Net monetary reserves of Bundesbank and other banks' short-term money-market investments abroad.

(2) Excluding Federal Post Office.

(3) Including Federal Post Office.

(4) Difference between minimum reserve requirement and banks' total Central Bank balances on the average of the four bank week return dates.

(5) Domestic Treasury bills and discountable Treasury bonds, Storage Agency bills, prime acceptances, B-ceiling bills of the Export Credit Company and mediumterm 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 at sight), foreign Treasury bills and other foreign bills acquired as money-market investments (mainly bankers's acceptances).

(7) Excluding investments by the Post Office.

(8) Sight, time and savings deposits (excluding deposits for periods of four years and over) of nonbanks and foreign banks.

TABLE 6

Indebtedness of the public authorities (*)

End of month	Total	Bundesbank credits		Treasury bills	Discountable Treasury bonds	Tax reserve certificates	Medium-term notes
		Current account advances	Special credits (1)				
Public authorities, total							
1965 Dec.	82,981	1,408	2,314	523	805	51	1,168
1966 Dec.	92,291	1,164	2,505	1,196	2,447	51	1,259
1967 Dec.	107,175	2,220	1,578	204	7,678	51	3,189
1968 Dec.	115,870	1,344	783	150	8,603	47	4,044
1969 Dec.	116,141	1,974	722	—	2,360	47	3,659
1970 Dec. (e)	123,209	2,334	387	—	1,700	50	3,250
Federal Government							
1965 Dec.	33,017	921	2,314	523	670	—	1,017
1966 Dec.	35,581	667	2,505	1,196	2,272	—	1,210
1967 Dec.	43,468	2,062	1,578	204	7,475	—	2,625
1968 Dec.	47,192	1,344	783	150	8,317	—	3,240
1969 Dec.	45,360	1,790	722	—	2,360	—	3,163
1970 Dec.	47,323	1,915	387	—	1,700	—	2,900
Equalization of Burdens Fund							
1965 Dec.	6,154	154	—	—	—	—	152
1966 Dec.	6,358	54	—	—	—	—	11
1967 Dec.	6,828	—	—	—	—	—	111
1968 Dec.	7,079	—	—	—	—	—	211
1969 Dec.	7,122	114	—	—	—	—	200
1970 Dec.	6,824	108	—	—	—	—	100

Source: Monthly Report of the Deutsche Bundesbank, April 1971.

(*) Excluding public authorities' mutual indebtendness. For data on the years 1950 to 1964 see Monthly Report of the Deutsche Bundesbank, April 1967, p. 24.

(1) Special credits to, and claims on, Federal Government.

(e) Partly estimated. Discrepancies in the totals are due to rounding.

(*in DM million*)

Loan issues (2)	Bank credits	Loans of domestic non-banks: Social security funds (3)	Loans of domestic non-banks: Other	Commutation and compensation debt (5)	Equalization claims	Covering claims	Foreign debt (4), (5)
11,195	24,749	6,591	6,339	1,006	20,489	3,035	3,309
12,092	29,519	7,245	7,868	997	20,336	3,238	2,376
14,230	34,114	3,387	8,690	973	20,175	3,391	2,296
16,074	42,536	6,957	9,221	926	19,902	3,331	1,951
16,266	50,051	6,101	9,884	904	19,585	3,116	1,473
17,473	56,991	5,715	10,938	865	19,332	2,819	1,356
6,274	758	4,259	410	1,006	11,802	—	3,065
6,667	676	4,879	535	997	11,808	—	170
7,284	750	6,102	535	973	11,790	—	1,091
7,911	5.421	4,891	751	926	11,703	—	1,755
8,324	9,853	4,223	1,066	904	11,653	—	1,302
9,240	11,800	4,019	1,680	865	11,605	—	1,213
1,697	456	262	382	—	—	3,035	17
1,809	501	287	423	—	—	3,238	34
1,795	758	275	461	—	—	3,391	37
1,862	957	223	460	—	—	3,331	35
1,709	1,274	167	507	—	—	3,116	34
1,755	1,337	105	567	—	—	2,819	33

(2) Excluding items in the issuers' portfolios; including Federal savings bonds.

(3) Including debt-register claims.

(4) Claims of foreign creditors, and debt denominated in foreign currency.

(5) Since end-1969 excluding items in the Federal Government's own portfolio.

TABLE 6 (Continued)

End of month	Total	Bundesbank credits		Treasury bills	Discount-able Treas-ury bonds	Tax reserve certificates	Medium-term notes
		Current account advances	Special credits (1)				
	E.R.P. Special Fund						
1965 Dec.	565	—	—	—	—	—	—
1966 Dec.	560	—	—	—	—	—	—
1967 Dec.	706	—	—	—	—	—	—
1968 Dec.	1,075	—	—	—	—	—	—
1969 Dec.	1,227	—	—	—	—	—	—
1970 Dec.	1,296	—	—	—	—	—	—
	Länder Governments						
1965 Dec.	17,401	333	—	—	135	51	—
1966 Dec.	20,328	442	—	—	175	51	38
1967 Dec.	24,188	158	—	—	203	51	453
1968 Dec.	26,339	—	—	—	286	47	593
1969 Dec.	25,771	70	—	—	—	47	296
1970 Dec. (e)	27,767	311	—	—	—	50	250
	Local authorities						
1965 Dec.	25,844	—	—	—	—	—	—
1966 Dec.	29,465	—	—	—	—	—	—
1967 Dec.	31,986	—	—	—	—	—	—
1968 Dec.	34,186	—	—	—	—	—	—
1969 Dec.	36,663	—	—	—	—	—	—
1970 Dec. (e)	40,000	—	—	—	—	—	—

Loan issues (2)	Bank credits	Loans of domestic non-banks		Commutation and compensation debt (5)	Equalization claims	Covering claims	Foreign debt (4), (5)
		Social security funds (3)	Other				
—	65	—	500	—	—	—	—
—	60	—	500	—	—	—	—
—	206	—	500	—	—	—	—
—	591	—	483	—	—	—	—
—	777	—	450	—	—	—	—
—	879	—	417	—	—	—	—
2,646	3,514	836	1,031	—	8,687	—	168
3,052	5,592	823	1,504	—	8,528	—	122
4,452	7,593	820	1,949	—	8,385	—	123
5,515	8,762	735	2,083	—	8,199	—	119
5,477	9,067	673	2,108	—	7,932	—	101
5,776	10,775	616	2,182	—	7,727	—	80
578	19,957	1,232	4,017	—	—	—	60
563	22,689	1,257	4,906	—	—	—	50
699	24,806	1,191	5,245	—	—	—	45
786	26,806	1,108	5,444	—	—	—	42
756	29,080	1,037	5,754	—	—	—	35
702	32,200	975	6,093	—	—	—	30

TABLE 7

Indebtedness of the public authorities by groups of creditors

Claims on the public authorities at the end of the year

Creditors	DM '000 million			
	1967	1968	1969	1970 (e)
1. Banking system				
a) Bundesbank	13.1	11.2	12.0	11.6
b) Banks	57.4	68.5	70.1	75.0
2. Domestic non-banks				
a) Social security funds	9.8	8.6	6.8	6.3
b) Other (1)	24.5	25.5	25.6	28.7
3. Foreign creditors (e)	2.4	2.1	1.6	1.6
Total	107.2	115.9	116.1	123.2

Creditors	as a percentage of total indebtedness			
	1967	1968	1969	1970 (e)
1. Banking system				
a) Bundesbank	12.2	9.7	10.3	9.4
b) Banks	53.6	59.2	60.4	60.9
2. Domestic non-banks				
a) Social security funds	9.1	7.4	5.9	5.1
b) Other (1)	22.9	21.9	22.0	23.3
3. Foreign creditors (e)	2.2	1.8	1.4	1.3
Total	100.0	100.0	100.0	100.0

Source: Annual Reports of the Deutsche Bundesbank.

(1) Public and private creditors (residual).

(e) Partly estimated.

TABLE 8

Rates for discounts and advances of Deutsche Bundesbank (*)
and special interest charged for failure to meet minimum reserve requirement

Applicable from	Discount rate (1), (2) % p.a.	Rate for advances on securities % p.a.	Special rate of interest charged to banks for failure to meet minimum reserve requirement % p.a. above rate for advances
1948 July 1	5	6	1
Dec. 1	5	6	3
1949 May 27	4½	5½	3
July 14	4	5	3
1950 Oct. 27	6	7	3
Nov. 1	6	7	1
1951 Jan. 1	6	7	3
1952 May 29	5	6	3
Aug. 21	4½	5½	3
1953 Jan. 8	4	5	3
June 11	3½	4½	3
1954 May 20	3	4	3
1955 Aug. 4	3½	4½	3
1956 March 8	4½	5½	3
May 19	5½	6½	3
Sep. 6	5	6	3
1957 Jan. 11	4½	5½	3
Sep. 19	4	5	3
1958 Jan. 17	3½	4½	3
June 27	3	4	3
1959 Jan. 10	2¾	3¾	3
Sep. 4	3	4	3
Oct. 23	4	5	3
1960 June 3	5	6	3
Nov. 11	4	5	3
1961 Jan. 20	3½	4½	3
May 5	3	4 (3)	3
1965 Jan. 22	3½	4½	3
Aug. 13	4	5	3
1966 May 27	5	6¼	3
1967 Jan. 6	4½	5½	3
Feb. 17	4	5	3
April 14	3½	4½	3
May 12	3	4	3
Aug. 11	3	3½	3
1969 March 21	3	4	3
April 18	4	5	3
June 20	5	6	3
Sep. 11	6	7½	3
Dec. 5	6	9	3
1970 March 9	7½	9½	3
July 16	7	9	3
Nov. 18	6½	8	3
Dec. 3	6	7½	3

Source: Monthly Reports of the Deutsche Bundesbank.

(*) Until July 31, 1957 rates of Bank deutscher Länder or Land Central Banks.

(1) Also the rate for cash advances.

(2) Until May 1956 lower rates also applied to foreign bills and bills to finance exports; fixed special rates were charged on certain credits to the Reconstruction Loan Corporation, which ran out at the end of 1958 (for details see footnotes to this table in the Monthly Report of the Deutsche Bundesbank, Vol. 15, No 3, March 1963, p. 62).

(3) An allowance of ¾ % per annum was granted in respect of the advances on securities utilized by banks between December 10, 1964 and December 31, 1964.

TABLE 9
Reserve ratios (*)

Applicable from	Sight liabilities – Bank places 1	2	3	4	Sight liabilities – Non-Bank places 1	2	3	4	Time liabilities 1	2	3	4
	Liabilities to residents subject to the reserve requirement (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	96	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
	Liabilities to non-residents subject to the reserve requirement (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

Source: Monthly Reports of the Deutsche Bundesbank.

(*) Reserve ratios applying until end-January 1961 were last published in the Monthly Report for May 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 respective reserve ratio for time liabilities.

(2) Since the coming into force of the External Trade and Payments Act, residents within the meaning of section 4 of that Act.

(3) These ratios had to be applied subject to the proviso that a bank's total minimum reserves (reserve for the total of liabilities plus reserve for their increase) do not exceed 30% in the case of sight liabilities, 20% in the case of time liabilities

% of liabilities subject to the reserve requirement

avings deposits		Increase in liabilities			Notes on reserve requirements for increase in liabilities	Applicable from
ank ces (1)	Non-Bank places	Sight liabilities	Time liabilities	Savings deposits		
.7	7.25					1961 Feb. 1
.1	6.75					March 1
.8	6.5					April 1
.2	6					June 1
.9	5.75					July 1
.6	5.5					Aug. 1
.3	5.25					Sep. 1
	5					Oct. 1
	5					Dec. 1
.6	5.5					1964 Aug. 1
.6	5·5					1965 Dec. 1
.6	5.5					1966 Jan. 1
.6	5.5	no special ratios				Dec. 1
.94	4.95					1967 March 1
.61	4.68					May 1
.15	4.3					July 1
.8	4					Aug. 1
.25	3.55					Sep. 1
.7	3.9					1969 Jan. 1
.4	4.5					June 1
.95	4.95					Aug. 1
.35	4.45					Nov. 1
.8	4					Dec. 1
.35	4.45					1970 Jan. 1
.15	5.15					July 1
.15	5.15	40		20	Additional reserve ratios for increase over the average level of the months April to June 1970 (3)	Sep. 1
.05	5.9	no special ratios				Dec. 1
9	7.5	30	20	10	Reserve ratios for increase over the level of November 30, 1959 (6)	1961 Feb. 1
	10					May 1
	5					1962 Feb. 1
	10					1964 April 1
.6	5.5					1967 Feb. 1
.94	4.95	no special ratios				March 1
.61	4.68					May 1
.15	4.3					July 1
.8	4					Aug. 1
.25	3.55					Sep. 1
.25	3.55		100		Reserve ratio for increase over the level of November 15, 1968 (3)	1968 Dec. 1
.7	3.9		100			1969 Jan. 1
.7	3.9		100		Reserve ratio for increase over the level of November 15, 1968 or January 15, 1969 (3)	Feb. 1
.7	3.9		100		Reserve ratio for increase over the level of April 15 or 30, 1969 (3)	May 1
.1	5.9		100			June 1
.8	6.5		100			Aug. 1
.35	4.45	no special ratios				Nov. 1
.8	4					Dec. 1
.35	4.45					1970 Jan. 1
.35	4.45		30		Additional reserve ratio for increase over the level of March 6, 1970 or the average level of the return dates February, 7, 15, 23 and 28, 1970	April 1
.15	5.15		30			July 1
.15	5.15	40		20	Additional reserve ratios for increase over the level of the months April to June 1970 (3)	Sep. 1
.05	5.9		30		Additional reserve ratio for increase over the level of the return dates October 23 and 31, and November 7 and 15, 1970	Dec. 1

and 10% in the case of savings deposits. This regulation applied to the reserve for the increase in liabilities to non-residents until end-August 1969 only.
(4) Since the coming into force of the External Trade and Payments Act, non-residents within the meaning of section 4 of that Act.
(5) These ratios only applied to liabilities up to the basic level listed in the column "Notes on the reserve requirements for increase in liabilities".
(6) From July 1960 to end-January 1962 these ratios also applied to the increase over the level of May 31, 1960 in customers' drawings on credits opened with third parties abroad. Up to this level the liabilities in question remained exempt from the reserve requirement during the period mentioned.

TABLE 9a

Minimum reserve classes (*)

From August 1959 to June 1968		Since July 1968	
Reserve class	Banks with liabilities subject to the reserve requirement (including savings deposits)	Reserve class	Banks with liabilities subject to the reserve requirement (including savings deposits)
1	of DM 300 million and over	1	of DM 1,000 million and over
2	of DM 30 to under 300 million	2	of DM 100 to under 1,000 million
3	of DM 3 to under 30 million	3	of DM 10 to under 100 million
4	under DM 3 million	4	under DM 10 million

Source: Monthly Reports of the Deutsche Bundesbank.

(*) The reserve class into which any bank is to be placed is determined by the amount of its liabilities subject to the reserve requirement in the preceding month.

TABLE 10

Public authorities money-market paper in circulation (*)

(*in DM million*)

Position at end of year	Total	Public authorities								Federal Railways and Federal Post Office				Memo item: Earmarked Treasury bonds (2)
		Total	Treasury bills			Discountable Treasury bonds			Tax reserve certificates (1)	Total	Treasury bills	Discountable Treasury bonds		
			Total	Federal Government	Länder	Federal Government	Total	Länder	Länder		Federal Railways	Federal Railways	Federal Post Office	
1958	1,834	545	—	—	—	311	—	311	234	1,289	399	590	300	382
1959	1,727	716	65	65	—	394	230	164	256	1,012	297	445	270	429
1960	1,987	1.151	—	—	—	986	881	106	164	837	199	445	192	442
1961	1,578	541	—	—	—	441	408	34	100	1,037	182	590	264	521
1962	1,523	533	—	—	—	480	479	1	53	990	187	571	232	585
1963	1,541	452	—	—	—	401	401	—	51	1,089	344	445	300	619
1964	1,748	598	—	—	—	547	547	—	51	1,150	400	450	300	522
1965	2,463	1,378	523	523	—	805	670	135	51	1,084	342	450	292	634
1966	4,687	3,693	1,196	1,196	—	2,447	2,272	175	51	994	256	450	288	708
1967	8,684	7,933	204	204	—	7,678	7,475	203	51	751	1	450	300	740
1968	9,327	8,800	150	150	—	8,603	8,317	286	47	527	1	226	300	665
1969	3,308	2,407	—	—	—	2,360	2,360	—	47	900	200	400	300	743
1970	2,750	1,750	—	—	—	1,700	1,700	—	50	1,000	300	400	300	492

Source: Monthly Reports of the Deutsche Bundesbank.

(*) Excluding mobilisation and liquidity paper, Storage Agency bills, and Federal Railways' trade bills.

(1) Land of Bavaria.

(2) Treasury bonds of the Federal Railways deposited as security for loans. Discrepancies in the totals are due to rounding.

TABLE 11

Rates of the Deutsche Bundesbank applying to sales of money-market paper in the open market

(% p.a.)

Applicable from	Treasury bills of Federal Government and Federal Railways running for		Discountable Treasury bonds of Federal Government, Federal Railways and Federal Post Office running for				Storage Agency bills running for	
	30 to 59 days	60 to 90 days	6 months	12 months	18 months	24 months	30 to 59 days	60 to 90 days
1958 Jan. 2	3 3/8	3 1/2	3 3/4	4	4 1/4	4 1/2	3 1/2	3 5/8
Jan. 6	3 1/4	3 3/8	3 5/8	3 7/8	4 1/8	4 3/8	3 3/8	3 1/2
Jan. 17	3 1/8	3 1/4	3 1/2	3 3/4	4 1/8	4 3/8	3 1/4	3 3/8
April 15	3 1/8	3 1/4	3 1/2	3 5/8	3 7/8	4 1/8	3 1/4	3 3/8
May 30	3 1/8	3 1/4	3 1/2	3 5/8	3 3/4	4	3 1/4	3 3/8
June 27	2 5/8	2 3/4	3	3 1/8	3 1/4	3 1/2	2 3/4	2 7/8
July 11	2 1/2	2 5/8	2 7/8	3	3 1/8	3 3/8	2 5/8	2 3/4
Aug. 11	2 3/8	2 1/2	2 3/4	3	3 1/8	3 3/8	2 1/2	2 5/8
Oct. 28	2 1/4	2 3/8	2 5/8	2 7/8	3	3 1/4	2 3/8	2 1/2
1959 Jan. 10	2 1/8	2 1/4	2 1/2	2 5/8	2 7/8	3 1/8	2 1/4	2 3/8
April 9	2	2 1/8	2 3/8	2 1/2	2 3/4	3	2 1/8	2 1/4
April 15	1 7/8	2	2 1/4	2 3/8	2 5/8	2 7/8	2	2 1/8
Sep. 4	2 3/8	2 1/2	2 3/4	3	3 1/4	3 1/2	2 1/2	2 5/8
Sep. 23	2 1/2	2 5/8	2 7/8	3	3 1/4	3 1/2	2 5/8	2 3/4
Sep. 30	2 5/8	2 3/4	3	3 1/8	3 3/8	3 5/8	2 3/4	2 7/8
Oct. 16	2 1/2	2 5/8	2 7/8	3 1/8	3 3/8	3 5/8	2 5/8	2 3/4
Oct. 23	3 1/2	3 5/8	3 7/8	4 1/8	4 1/4	4 1/2	3 5/8	3 3/4
Oct. 28	3 1/2	3 5/8	3 7/8	4 1/8	4 1/4	4 3/8	3 5/8	3 3/4
Dec. 21	3 5/8	3 3/4	4	4 1/4	4 3/8	4 1/2	3 3/4	3 7/8
1960 Feb. 29	3 3/4	3 7/8	4 1/8	4 3/8	4 1/2	4 5/8	3 7/8	4
March 3	3 7/8	4	4 1/4	4 1/2	4 5/8	4 3/4	4	4 1/8
June 3	4 3/4	4 7/8	5 1/8	5 1/4	5 3/8	5 1/2	4 7/8	5
Nov. 2	4 5/8	4 3/4	5	5 1/8	5 1/4	5 3/8	4 3/4	4 7/8
Nov. 3	4 3/8	4 1/2	4 3/4	4 7/8	5	5 1/8	4 1/2	4 5/8
Nov. 11	3 7/8	4	4 1/4	4 3/8	4 1/2	4 5/8	4	4 1/8
Dec. 20	3 5/8	3 3/4	4	4 1/8	4 1/4	4 3/8	3 3/4	3 7/8
1961 Jan. 20	3 1/8	3 1/4	3 1/2	3 5/8	3 3/4	3 7/8	3 1/4	3 3/8
Feb. 9	3	3 1/8	3 3/8	3 1/2	3 5/8	3 3/4	3 1/8	3 1/4
Feb. 14	2 7/8	3	3 1/4	3 3/8	3 1/2	3 5/8	3	3 1/8
March 3	2 3/4	2 7/8	3 1/8	3 1/4	3 3/8	3 1/2	2 7/8	3
March 8	2 5/8	2 3/4	3	3 1/8	3 1/4	3 3/8	2 3/4	2 7/8
March 17	2 1/2	2 5/8	2 7/8	3	3 1/8	3 1/4	2 5/8	2 3/4
March 23	2 3/8	2 1/2	2 3/4	2 7/8	3	3 1/8	2 1/2	2 5/8
April 26	2 1/4	2 3/8	2 5/8	2 3/4	2 7/8	3	2 3/8	2 1/2
May 5	2 1/8	2 1/4	2 1/2	2 5/8	2 3/4	2 7/8	2 1/4	2 3/8
Oct. 4	2	2 1/8	2 3/8	2 1/2	2 5/8	2 3/4	2 1/8	2 1/4
Oct. 20	1 7/8	2	2 3/8	2 1/2	2 5/8	2 3/4	2	2 1/8
1962 Jan. 4	1 3/4	1 7/8	2 1/4	2 3/8	2 5/8	2 3/4	1 7/8	2
March 30	1 7/8	2	2 3/8	2 1/2	2 3/4	2 7/8	2	2 1/8
April 13	2	2 1/8	2 1/2	2 5/8	2 7/8	3	2 1/8	2 1/4
June 6	2 1/8	2 1/4	2 5/8	2 3/4	3	3 1/8	2 1/4	2 3/8
July 16	2 1/4	2 3/8	2 3/4	2 7/8	3 1/8	3 1/4	2 3/8	2 1/2
Aug. 1	2 3/8	2 1/2	2 7/8	3	3 1/4	3 3/8	2 1/2	2 5/8
Oct. 3	2 1/2	2 5/8	3	3 1/8	3 3/8	3 1/2	2 5/8	2 3/4
1963 Nov. 25	2 1/2	2 5/8	3	3 1/8	3 1/4	3 3/8	2 5/8	2 3/4
1965 Jan. 22	3	3 1/8	3 5/8	3 3/4	4	4 1/8	3 1/8	3 1/4
Aug. 13	3 3/4	3 7/8	4 3/8	4 1/2	4 5/8	4 3/4	3 7/8	4
1966 Jan. 7	3 7/8	4	4 7/8	5	5 1/8	5 1/4	4	4 1/8
Feb. 23	3 7/8	4	5	5 1/8	5 1/4	5 3/8	4	4 1/8
March 4	3 7/8	4	5 1/8	5 1/4	5 3/8	5 1/2	4	4 1/8
May 27	4 7/8	5	5 5/8	5 3/4	5 7/8	6	5	5 1/8
Dec. 30	4 5/8	4 3/4	5 3/8	5 1/2	5 5/8	5 3/4	4 3/4	4 7/8
1967 Jan. 6	4 3/8	4 1/2	5 1/8	5 1/4	5 3/8	5 1/2	4 1/2	4 5/8
Jan. 17	4 1/4	4 3/8	5	5 1/8	5 1/4	5 3/8	4 3/8	4 1/2
Jan. 20	4	4 1/8	4 3/4	4 7/8	5	5 1/8	4 1/8	4 1/4
Feb. 17	3 5/8	3 3/4	4 3/8	4 1/2	4 5/8	4 3/4	3 3/4	3 7/8
April 14	3 1/4	3 3/8	3 7/8	4 1/8	4 3/8	4 5/8	3 3/8	3 1/2
May 8	3 1/4	3 3/8	3 5/8	3 7/8	4 1/4	4 1/2	3 3/8	3 1/2
May 10	3 1/4	3 3/8	3 5/8	3 7/8	4 1/8	4 3/8	3 3/8	3 1/2
May 12	2 7/8	3	3 3/8	3 5/8	3 7/8	4 1/8	3	3 1/8
June 2 (1)	2 5/8 (1)	2 3/4	3 3/8	3 5/8	3 7/8	4 1/8	2 3/4	2 7/8
1969 April 18	3 5/8	3 3/4	4 3/8	4 1/2	4 5/8	4 3/4	3 3/4	3 7/8
June 20	4 5/8	4 3/4	5 1/8	5 1/4	5 3/8	5 1/2	4 3/4	4 7/8
Sep. 12	5 5/8	5 3/4	6	6 1/8	6 1/4	6 1/4	5 3/4	5 7/8
Dec. 8	5 5/8	5 3/4	6 1/4	6 3/8	6 1/2	6 5/8	5 7/8	6
1970 March 9	6 7/8	7	7 3/4	7 5/8	7 1/2	7 3/8	7 1/8	7 1/4
July 16	6 5/8	6 3/4	7 3/4	7 5/8	7 1/2	7 3/8	6 7/8	7
Aug. 4	6 5/8	6 3/4	7 7/8	7 3/4	7 5/8	7 1/2	6 7/8	7
Sep. 9	6 5/8	6 3/4	7 3/4	7 5/8	7 1/2	7 3/8	6 7/8	7
Nov. 18	6 1/8	6 1/4	7 1/2	7 3/8	7 1/4	7 1/8	6 3/8	6 1/2
Dec. 1	6 1/8	6 1/4	7 1/4	7 1/8	7	6 7/8	6 3/8	6 1/2
Dec. 3	5 5/8	5 3/4	7	6 7/8	6 3/4	6 5/8	5 7/8	6
Dec. 30	5 5/8	5 3/4	6 3/4	6 5/8	6 1/2	6 3/8	5 7/8	6

Source: Monthly Reports of the Deutsche Bundesbank.

(1) To facilitate banks' liquidity arrangements for December 1967, as from October 25 Federal Government Treasury bills falling due by the end of December were sold at the following rates: from October 25: 2%, from November 9: $1\frac{3}{4}$ %, from November 10: $1\frac{1}{2}$ %.

TABLE 12

Rates of Deutsche Bundesbank for U.S. dollar swaps with domestic banks (*)

Applicable from	Minimum and maximum period (months)	Discount (—) premium (+) in % p.a.
1958 Oct. 6	1–3	at par
1959 Jan. 23	1–3	—1/8
Feb. 12	1–3	—1/4
March 6	1–3	—3/8
June 1	1–3	—1/2
July 8	1–3	—5/8
July 11	1–3	—3/4
July 17	1–3	—7/8
Oct. 24	1–6	—1/2
Oct. 29	1	—1/2
	2–6	—1/4
Nov. 3	1	—1/2
	2–6	—1/8
Nov. 18	1	—1/2
	2–6	at par
Dec. 1	1–6	at par
1960 Jan. 11	2–6	at par
Jan. 14	3–6	at par
Aug. 24 (1)	1/2–6	+1
Sep. 26	1/2–6	+1 1/2
1961 Jan. 20	1/2–6	+1
Feb. 3	1/2–6	+1/2
Feb. 9	1/2–6	+1/4
Feb. 13	1/2–6	at par
Aug. 14	1–6	—1/4
Dec. 15	1–6	at par
1962 Jan. 2	1–6	—1/4
Jan. 8	1–6	—3/8
Jan. 10	1–6	—1/2
Feb. 14	2–6	—1/2
March 8	1–6	—1/2
March 30	1–2	—1/2
	over 2–6	—1/4
July 16	over 1–2	—3/4
	over 2–6	—1/2

Applicable from	Minimum and maximum period (months)	Discount (—) premium (+) in % p.a.
Aug. 1	over 1–2	—1
	over 2–6	—3/4
Sep. 24	over 1–2	—3/4
	over 2–6	—1/2
1963 Jan. 7	over 1–2	—1
	over 2–6	—3/4
1964 March 10 (2)	3–6	—1/2
July 13	3–6	—1/4
1967 Nov. 27 (3)	up to 3 months (not before Jan. 2 1968)	—1 3/4
Nov. 29	from Jan. 2 to Jan.	—2 1/4
	31, 1968 up to 3	—2
Dec. 1	months from Jan 2	—2 1/2
	to Jan. 31, 1968 up	—2 1/4
Dec. 28	to 3 months 1–3	—3 1/2
1968 March 8	1–3	—2
March 11	1–3	—2 1/2
March 12	1–3	—3
March 15	1–3	—4
March 22	1–3	—3 1/4
May 24	2–3	—3 3/4
June 28	2–3	—4
Aug. 29	2–3	—3
Aug. 30	2–3	—2 1/2
Sep. 3	1–3	—2 1/2
Sep. 11	1–3	—2 3/4
Oct. 2	30–89	—3
	90	—2 3/4
Oct. 10	30–80	—3
	81–90	—2 1/4
Oct. 11	30–80	—3 1/4
	81–90	—2 3/4
Nov. 7	30–60	—3 1/4
	61–90	—2 1/2

Applicable from	Minimum and maximum period (months)	Discount (—) premium (+) in % p.a.
Nov. 12	61–90	—2 3/4
Nov. 13	61–90	—3
Nov. 15 (4)	61–90	—3 1/2
Nov. 25 (5)	61–90	—3
Dec. 2	30–90	—2 3/4
Dec. 30	30–60	—3
	61–90	—3 1/4
1969 Jan. 2	30–90	—3 1/4
Jan. 3	30–79	—3 1/2
	80–90	—3 1/4
Jan. 7	30–79	—3 3/4
	80–90	—3 1/2
Jan. 27	30–79	—4
	80–90	—3 7/8
Feb. 12	30–90	—4 1/8
March 3	80–90	—4 1/2
April 22	80–90	—4
April 24	60–79	—4 1/2
	80–90	—4
May 7	60–79	—5 1/2
	80–90 (6)	—5 (6)
May 21	60–79	—6
	80–90	—5 1/2
June 2	60–90	—6
June 10	60–90	—7
June 11	60–90	—7 1/2
July 17	60–90	—5 1/2
July 21	60–90	—5
July 25	60–90	—4 5/8
July 28	60–90	—4 1/4
Aug. 5	60–90	—4
Aug. 14	60–90	—5
Aug. 29	60–90	—4
Sep. 1	60–90	—3 3/4
Sep. 18	60–90 (7)	—4 (7)

(*) The fixing of swap rates does not necessarily mean that the Bundesbank regularly concluded swaps at these rates; it also happened that the Bank discontinued such operations for a time. Unless stated otherwise, the rates applied only to money-market investments abroad.
(1) From August 24 to November 11, 1960 also to facilitate financing of import and transit transactions.
(2) From March 10, 1964 to November 26, 1967 only for acquisition of U.S.$ Treasury bills.
(3) From November 27, 1967 to November 14, 1968 on earmarking for specific purposes.
(4) From November 15 to November 22, 1968 only for acquisition of U.S.$ Treasury bills.
(5) From November 25, 1968 to September 29, 1969 only for money invested abroad.
(6) From May 7 (13.00 hrs) to May 20, 1969 the Bundesbank was not in the market.
(7) From September 29, 1969 (11.30 hrs) to March 31, 1971 swaps were suspended.

Part three

MONETARY POLICY IN FRANCE

Chapter one

BASIC FACTS OF MONETARY POLICY

1. The aim of monetary policy — more particularly as it applies to the granting of credit — is to control the process by which the economy is supplied with means of payment, to the maximum extent compatible with achievement of the economic and social objectives set by the public authorities. In France this policy makes use of a wide range of instruments.

However, the procedures utilized can be fully understood only if the organization — both structural and institutional — of the French monetary and financial system has first been described.

The action taken bears on liquidity in both its aspects: the liquidity of the banking system and the liquidity of the economy. Some indication of the concepts of liquidity as applied by the monetary authorities seems therefore to be needed too.

These preliminary comments are intended to facilitate analysis of the means brought to bear to guide or limit the monetary activities of the banks and, in this way, to control the conditions for the financing of the economy in general. In order to increase the effectiveness of their action the monetary authorities have in recent years supplemented and perfect the instruments used to control bank liquidity; more recently, by restricting the scope of rediscounting and extending their money market intervention policy, they have tried to give more flexibility to the methods for providing the banks with liquidity.

In the interim, at times of severe inflationary strain, they have had to experiment with direct action on the volume of credit supplied by the banks to the economy.

Section I - Institutional framework and structural aspects

2. In order to bring out the institutional and structural features of the French banking and monetary system, the bodies responsible for implementing credit policy must be distinguished from the banking or financial institutions whose business it is to allocate loans to or manage the deposits and savings of individuals, businesses, etc.

Para. I: *Institutional framework*

3. In accordance with the general line laid down by the public authorities, credit policy is implemented by the Bank of France ("Banque de France") and the National Credit Council ("Conseil National du Crédit") with the aid of the Banking Control Commission ("Commission de Contrôle des Banques").

Para. I-1: *The Bank of France*

4. The Bank of France has very wide responsibilities for the supervision and control of money and credit. Its authority and independence are guaranteed by its Statute. The President of the Republic appoints the Governor and the two Deputy-Governors by decree adopted in the Cabinet. Following reforms made from 1936 onwards, the members of the General Council of the Bank, with the exception of the one member elected by the staff, are appointed by law or chosen by the authorities on the strength of offices they hold or responsibilities they bear at national level. The Law of 2 December 1945 conferred on the Bank the status of a nationalized establishment by transferring the ownership of its capital to the State.
The Bank keeps in constant touch with the Government in carrying out its mission, particularly as regards its participation in the management of the Government accounts and of the official foreign exchange reserves. In addition, it is closely associated with the National Credit Council; its Governor is Deputy Chairman of the Council and its various departments lend their assistance to the latter. In the same way, the Bank of France seconds secretarial staff and inspectors to the Banking Control Commission, over which, moreover, its Governor presides.

5. In the credit field the Bank of France employs two kinds of intervention, inseparable in their application but different in nature and basis.
In the first place, it plays the traditional role of rediscounting institution and, more generally, supplier of liquidity, with which it is invested by its Statute. The facilities it provides are confined to bank and financial institutions and take the form either of discounting on predetermined conditions or — at present, predominantly — of flexible intervention on the money market. The Bank thus regulates liquidity by general or selective measures concerned both with the volume of resources made available to the banking system and with interest rates.
In the second place, the Bank of France has regulatory functions, in clearly defined fields, which are delegated to it by the National Credit Council or the public authorities. It has indeed the powers to implement the technical procedures of the rules adopted and make the necessary adjustment with the frequency and speed which circumstances sometimes demand. It is thus the Bank which, for instance, specifies the ratios and terms of application of the minimum reserve system or of the minimum holdings of medium-term credit paper. By virtue of the decree of 5 February 1970, it can also set a limit to the volume of loans to the economy or require banks, particularly those which have exceeded their lending ceilings, to place special interest-free deposits with it.

6. The Bank's contribution to the management of public finance is subjected to very strict rules, and is mainly of two kinds:
— Loans and advances to the Government, the ceiling for which must be fixed by agreements ratified by law.
— Discounting of so-called pledged bonds ("obligations cautionnées"), which are certificates representing debts to the Government on account of turnover tax and indirect taxes.

In addition, the acquisition or taking "en pension" [1] of short-term Treasury bills

[1] Under an agreement to sell back to the former owner.

which the Bank carries out as part of its intervention on the money market helps the management of the Government accounts to the extent that it facilitates the banks' tendering for Treasury bills. These operations are nevertheless part of the general context of the Bank's intervention in the money market and do not differ fundamentally from the mobilization of commercial paper.

7. In the sphere of external finance, the Bank's role is to manage the Exchange Stabilization Fund ("Fonds de Stabilisations des Changes") on behalf of the Government and in accordance with general instructions given by the Minister of Finance.
The fluctuations in the gold and foreign exchange reserves of the Bank of France, the trend of advances to the Exchange Stabilization Fund or of the latter's franc holding, and the variations in short-term liabilities to non-residents, constitute one of the basic facts of domestic monetary policy and, more particularly, credit policy.

Para. I-2: *National Credit Council*

8. The National Credit Council, set up by the law of 2nd December 1945, has been invested with very wide powers giving it, on the one hand, a consultative and initiatory role in everything concerning money and credit and, on the other, the right to take decisions in matters affecting credit control and banking organization.
The Council is presided over by the Minister of Economic Affairs and Finance and its Deputy Chairman is the Governor of the Bank of France, who, in fact, generally takes the chair at meetings. It has a further 45 members representing Government Departments, banking and financial bodies, users of credit and trade union organizations. The principality of Monaco is represented in the Council for any particular discussions of decisions of concern to it.

9. In the exercise of its powers of control the National Credit Council takes individual decisions. The most important of these concern inscription on the list of banks and registration of financial establishments.
In monetary policy matters it acts through decisions of a general nature prepared in close liaison with the Bank of France and the public authorities. These decisions apply in various spheres, for example, the system of interest rates, the control of bank liquidity (minimum reserves and minimum portfolio of medium-term paper) or, again, the rules governing of consumer credit.

Para. I-3: *The Banking Control Commission*

10. By the law of 13 June 1941, which set it up, the Banking Control Commission was given the task of supervising the implementation of the rules and regulations governing banking and of penalizing any infringements noted. The Commission, whose chairman is the Governor of the Bank of France, normally includes four other permanent members, of whom two are senior civil servants, one a representative of the banks and one a representative of their staffs. A representative of the financial establishments also takes part when the business in hand concerns this category of institution.

11. As part of its supervisory function, the Commission has been vested with certain regulatory powers. It is, in particular, responsible for determining the

conditions for implementing the banking ratios provided for in the regulations in force to ensure the banks' solvency, only one of which had actually been applied until recently: this is the liquidity ratio which is a minimum ratio between liquid and mobilizable assets on the one hand and short-term liabilities on the other. Since 30 September 1969 the banks have been required to observe a ratio described as that for "granting non-rediscountable medium and long-term credits". From the same date they have also had to calculate — although without any maximum having yet been imposed on them — a ratio known as the "stable resources investment ratio", the principle of which was established in March 1966. The implementing procedures have since been recast. The new rules make it possible to identify certain forms of immobilization and to avoid excesses in this field.
The Commission also has very wide powers of investigation. In the main, it exercises these by examining documents which the credit establishments under its jurisdiction are required to submit at regular intervals and, as a further check, by on-the-spot controls carried out by inspectors of the Bank of France.
In its judicial role the Commission may impose sanctions extending as far as the closure of banks and financial estabishments found guilty of grave infringements of the rules and regulations applicable to them.

Para. II: *Structural conditions*

Para. II-1: *Structure of the financial intermediaries*

12. The key feature of the French financial system is the distinction applied, in law and in practive, between banks, which administer deposits of a monetary nature, and the specialised financial institutions, which operate with resources provided by savings or by the banking system. In addition, the Treasury plays a part as a collector of capital and distributor of loans. In this respect it has a function similar to that of the specialized institutions.

1) *Banks*

13. The first category of financial intermediaries comprises what one may call "common law" banks, whether private or nationalized, and certain banking establishments described as having special legal status and directly dependent on the authorities.

Deposit banks, merchant banks, long and medium term credit banks

14. With the exception of the "special legal status" establishments (see below), banks must be "inscribed" by the National Credit Council on a list of approved establishments and divided, in accordance with the law, into three categories: deposit banks, merchant banks ("banque d'affaires") and long and medium-term credit banks. In law, enterprises whose normal activity is to receive funds from the public and employ them for loan operations are regarded as banks.
The distinction between deposit banks and merchant banks has become much less marked since a decree of 25 January 1966 laid down that both categories of establishment may receive sight deposits or time deposits of any duration. A few differences still exist in respect of the employment of funds, where the deposit banks are still subject to more severe quantitative restrictions concerning participa-

tion in companies' capital. For the long and medium-term credit banks, which, in fact, are few in number, the rule is that they may not accept deposits having a maturity of less than two years. The breakdown of the banks between the three legal categories is therefore of little consequence from the monetary policy angle.

Establishments with special legal status

15. To the "inscribed" banks must be added those of the special legal status establishments which accept funds of a "monetary" or "near-money" nature. Their activity is concentrated on particular sectors: the financing of external trade (French Foreign Trade Bank: "Banque Française du Commerce Extérieur"); loans to small and medium-sized firms (popular banks: "banque populaires"); credit to agriculture (agricultural credit institutions: "caisses de crédit agricole"); mutual credit. These institutions, which are usually semi-public, are under the direct control of the authorities, which in general apply to them the same obligations as those governing the activities of the "inscribed" banks. They are furthermore subject to the influence which the Bank of France exerts over all establishments which call on its help.

The special legal status banks carry out operations similar to those of the "inscribed" banks. However, some of them — in the main, the agricultural credit institutions — also engage in long-term operations (bond issues and loans), which are excluded to some extent from the data for analysis of the trend of money or near-money.

The channelling of resources to the economy

16. The role of the banking system in the channelling of resources to the economy assumes different aspects according to the duration of the loans and credits it provides.

Following ancient tradition, sanctified by the liquidity rules of the Control Commission, the bulk of bank assets consists of short-term credits (i.e. not exceeding two years) to firms and individuals. Part of these credits may find its way into the assets of the Bank of France, either as a result of rediscounting within the limits of the ceilings, or outside these for certain categories of credit considered deserving of selective encouragement, or through the money market. Among short-term investments must also be mentioned acquisitions of Treasury bills — generally one-year — offered to the banks under the periodical tender procedure. Since 1967, when the obligation to invest in Treasury bills was abolished altogether, banks have been subscribing to them at interest rates determined by market forces.

Medium term assets

17. The banks' medium-term assets largely consist of paper representing credits rediscountable in accordance with a procedure which is one of the special features of the French system for financing the economy.

In the interests of promoting housebuilding, installation of productive equipment and expansion of exports on deferred payment terms, the Bank of France will, provided its agreement has been secured beforehand, accept for rediscount outside the ceilings paper financing these activities; alternatively, since January 1971, it will admit them as eligible for its own money market transactions. Medium-term credits represented by renewable three-month bills are involved; and these may

accrue to the assets of the Bank of France through the intermediary of one or more first-stage rediscounting institutions.
Until the end of 1965 this procedure was reserved for credits of a maximum period of five years eligible for rediscount in full. Since then it has been adjusted with the aim of enabling the banks to provide longer-term finance while at the same time limiting the extent of the Bank of France's rediscount commitment (see point 76).
Since 1 August 1968, the mobilization channels for medium-term credits have been simplified by eliminating the intervention of the Caisse des Dépôts et Consignations, which was formerly required in most cases. Only one intermediary institution — Crédit National, Crédit Foncier de France or National Agricultural Credit Fund ("Caisse Nationale de Crédit Agricole") — is now interposed between the bank of origin and the Bank of France. But the endorsement of the French Foreign Trade Bank or of the Caisse Nationale des Marchés de l'Etat is still required to back certain operations, in accordance with the respective jurisdiction of these institutions.

Long term assets

18. Funds employed in loans for periods of more than seven years or in negotiable securities account for only a small fraction of bank assets; and it is more especially the merchant banks an the long and medium-term credit banks that handle operations of this type.
However, since the recent establishment of a mortgage loan market controlled by the Crédit Foncier de France, the banks' granting and financing or long-term loans for housing construction have increased appreciably and this trend seems likely to continue.

Liabilities

19. Practically the whole of the bank's liabilities consists of deposits, and these, for the most part, are sight deposits in cheque or current accounts. However, for some years now, a new trend has become apparent, broadly determined by official policy on interest rates and taxation: the growth of sight deposits has slowed down and that of "near-money" deposits has accelerated.
Growing importance has been assumed — particularly since 1967 — by savings-book deposits (payable on demand, but in fact relatively stable), housing savings deposits, and even more by time deposits in the form of blocked accounts or certificates of deposit ("bons de caisse"). At the end of 1970 these three categories accounted for nearly half of all deposits administered by the banks.

2) *Financial institutions which do not manage deposits of a monetary nature*

20. This heading embraces two categories of establishment very different in kind and importance: on the one hand, those financial establishments which are in the nature of initiators of credit and whose activities are complementary to banking, and, on the other, public or semi-public institutions specializing in medium or long-term lending operations.

Financial establishments

21. Financial establishments must be registered by the National Credit Council,

and they come under its authority. But they are distinct from the banks because they may finance their operations only from their own resources, or from those they obtain from the banking system, to the exclusion of direct contributions from the public. As they are not empowered to receive deposits from the public, these establishments are largely dependent on the banks and other financial institutions, which refinance nearly 90 % of the loans they grant. The dependence of the financial establishments on the banks is frequently reinforced by legal links; the banks often find it advantageous to set up separate undertakings or enter into legal relationships with them, endowing them with an appropriate organization to handle operations of a particular type.
As regards their lending, the financial establishments are concerned chiefly with medium and long-term lending and with financing instalment sales ("ventes à tempérament"). Their share of the aggregate volume of the operations of the financial intermediaries (banks and financial institutions of all categories) is still relatively small.

22. The institutions engaged in collecting and redistributing capital outside the banking circuit proper are therefore essentially public or semi-public bodies lending at medium or long term. They include the Caisse des Dépôts et Consignations, the Crédit National and the Crédit Foncier de France. To these should be added the National Agricultural Credit Funds, already mentioned for its banking activity, and also the savings banks ("caisses d'épargne"), although the latter do not directly grant credit.

Savings Banks

23. The savings banks play an important part in the French financial system. Most of them were set up early in the 19th century and their traditional function is to collect small savings. Although the differences between their customers and those of the banking sector proper are tending to become blurred, particularly now that interest rates payable to depositors have been harmonized and the savings banks offer a wider range of facilities for investment, the social purpose of their operations is brought out by the exemption from tax of interest accruing to holder of savings book accounts (known as "livres A"), which are limited to 20,000 francs.
Interest on other saving books, where there is no deposit maximum, attract normal tax. The savings banks do not manage any deposits of a monetary character. The power of the French savings banks to decide on the investment of their resources is strictly limited. Both the National Saving Institution ("Caisse Nationale d'Epargne") (attached to the Post Office administration) and the ordinary savings banks must entrust the funds they collect to the Caisse des Dépôts et Consignations. Nevertheless, they are entitled to propose the grant of loans to local authorities and even, within a rather narrow set of rules, to make certain loans to individuals, namely loans, for building and personal loans, particularly of a "social" nature.

The Caisse des Dépots et consignations

24. The Caisse des Dépôts et Consignations holds a particularly important place in the French financial structure, because of the source of the funds it employs as much as by reason of the volume and the nature of its operations.
Drawing the major part of its resources from deposits gathered by the savings

banks, the Caisse des Dépôts participates in the circuit of semi-liquid investments. On the other side, it lends at medium or long term and invests in negotiable securities. The purpose of all these operations is to finance the capital equipment of local authorities (departments and communes), housing construction and, to a lesser extent, investments in industry. It also uses a proportion of its resources to lend to the Treasury in various ways.

The contribution of the Caisse des Dépôts to the collection of semi-liquid savings and the financing of the economy confronts the public and monetary authorities with two apparently conflicting types of problem: on the one hand, how to supply the Caisse des Dépôts with abundant funds in order to sustain the development of the priority financing it undertakes, and on the other, how to promote the growth of deposits with the banks that are less volatile than sight accounts. It is with these aims in view that efforts to harmonize terms for deposits, particularly as regards interest rates and liability to tax, have been made in recent years.

The Caisse des Dépôts also acts as the first-stage rediscounting institution for loans for subsidized housing (known as special loans); their maximum amount at any time is fixed by agreement between the Ministry of Finance, the Crédit Foncier de France and the Bank of France.

After passing through the portfolio of the Crédit Foncier de France, virtually all the bills representing these loans are accepted for rediscount by the Caisse des Dépôts. Within agreed limits the Caisse des Dépôts retains the bills in question or mobilizes them at the demand and for the benefit of the Treasury. For the rest it obtains refinance, if necessary, by recourse to the Bank of France.

Lastly, the Caisse des Dépôts places its temporarily spare funds in the money market, thus exerting a direct influence on the liquidity of the banks.

Other financial organizations

25. The Crédit National and the Crédit Foncier de France, which specialize respectively in the financing of industrial or commercial equipment and in mortgage loans for the building or purchase of dwellings, obtain the major part of their funds by issuing long-term bonds. They also employ public money earmarked for certain types of operation and the proceeds of selling to the banks their medium-term paper, which is négotiable in the market.

The National Agricultural Credit Fund is also important in this connection inasmuch as its loans to finance farm equipment are largely drawn from savings.

3) *The role of the Treasury as a financial intermediary*

26. Through its borrowing and lending operations, the Treasury plays an important part in the financing of the economy which is separate from its administration of Government finances in the strict sense.

27. The French Treasury participates in the management of book money by virtue of the large volume of depositors' balances it holds, either directly, by way of "private fund" accounts opened with its agents, or indirectly through the postal cheque service. Through these institutions the Treasury manages substantial funds representing about 14 % of total monetary claims and 20 % of book money. It also takes in large deposits from correspondents (local authorities, public boards, etc.).

28. The Treasury also has a hand in the collection of semi-liquid saving through the certificates ("bons sur formule") it sells to the public. Issued at one, two or five years' maturity, they can nevertheless be repaid after three months on the sole condition that the holder accepts a rate of interest lower than he would enjoi if he kept the certificate until normal maturity.
In addition, the Treasury's agents, like the banks, are now empowered to open time accounts for individuals and firms Deposits on these accounts are still relatively small, whereas the outstanding amount of the Treasury certificates represents nearly 15 % of all semi-liquid savings.

29. Apart from sight deposits, calls on "near-money" resources now account for the bulk of Treasury borrowing. Nevertheless, at varying intervals, there have also been long-term loans, the proceeds of which have either been absorbed in general Government funds or been earmarked for specific purposes, as was the case in 1965, 1966 and 1967, when the Government issued bonds to increase its contribution to the financing of industrial equipment and exports. These calls on the capital market have generally remained small. The emergence of a considerable budget deficit in 1968 led the authorities to increase Government borrowing of liquid and short-term savings, although without basically changing their desire to reserve the largest possible share of the issues market for industrial or commercial firms, both nationalized and private. The year 1969 marked a rapid return to budgetary equilibrium, and this was consolidated in 1970.
As counterpart to the funds it collects the Treasury grants loans which, because of the risks involved or because of social and regional considerations, are held to justify special terms outside the scope of lending by the banking system and the specialized institutions. Loans from public funds are granted chiefly through the Economic and Social Development Fund ("Fonds de Développement Economique et Sociale"), for operations concerning industrial, agricultural or commercial enterprises, or though the Fund for Lending to Moderate Rent Housing Institutions ("Caisse de Prêts aux Organismes d'Habitations à Loyer Modéré"), for operations concerning subsidized housing.
Although the Treasury's activities in this field are not directly linked with monetary policy, they nevertheless exert an indirect influence on the liquidity of the economy and on that of the banking system. They are, therefore, one of the basic factors determining the conditions in which monetary equilibrium is maintained.

4) *Changes in the banking system in the past ten years*

30. For ten years or so the French banking system has been adjusting to the new circumstances of the economy while retaining its most characteristic features. Its development, while flexible and steady, has largely been determined by reforms in the relevant body of regulations.

a) *Principles and objectives*

31. One of the main aims of official policy has been to fit the banks to manage a greater volume of savings by enabling them to offer the public a wider range of investment opportunities than in the past. To achieve this result it seemed necessary to make the banks more competitive, not only with each other, but also with other French financial institutions and even with foreign banks.

A characteristic feature of the French financial system is the way in which the various financial circuits have continued to be kept too separate. Various measures have therefore been taken to promote interpenetration of the markets.
Finally, the banks have been encouraged to take a greater part in the provision of medium and long-term finance (particularly for new housing) in proportion as their resources have assumed more of the character of savings.

b) *Measures taken*

32. The chief reforms have been adopted and implemented mainly since 1965. Despite their diversity, they have a common feature: to give a more liberal slant to the existing regulations.

33. Concentration in banking, which had got off to a good start soon after the war, was speeded up by the fixing of a minimum level of capital, which has since been raised several times. The need to modernise administration, which was still too expensive for small establishments, was a further incentive to the banks to concentrate.
This movement took various forms: pure and simple takeovers of small banks, mergers, acquisition of holdings, cooperation agreements between groups of banks of different categories.
At the same time, control of the opening of new branches, which required prior authorization by the National Credit Council was relaxed and eventually, in 1967, abolished. The banks are therefore now free to determine the number and geographical ditsribution of their branches. They have made much use of their new opportunities, but mainly by setting up small establishments requiring little in the way of staff.

34. Decrees issued in 1966 and 1967 appreciably reduced the distinctions that used to exist between deposit banks and merchant banks. The same rules are now applied to both categories as regards the funds they may accept. As regards their assets, the restrictions on participations by deposit banks in the capital of manufacturing or trading companies have been eased.
The deposit banks have made quite extensive use of the recently granted facility of accepting deposits for terms above two years, mainly by issuing certificates of deposit ("bons de caisse"). The merchant banks for their part have developed their branch network or have sought closer ties with deposit banks already having widespread branches. At the cost of shedding a few excess holdings or splitting their operation, some have opted to become deposit banks.

35. In 1965 a policy was adopted of harmonizing the interest rates which the various categories of institution collecting liquid or short-term savings may pay their depositors.
The banks have thus been able to align the deposit interest rates on those applied by the Treasury or certain financial institutions.
Arrangements for taxing interest paid have themselves been modified. The exemption from tax of the interest on a first savings book (the amount of which is in any case limited) is now the only exception made in favour of savings banks compared with savings book accounts with ordinary banks.
The legal ceiling on rates paid by banks on time deposits (i.e. of at least one

month's maturity) has been gradually relaxed. It is now restricted to deposits of 100,000 francs or less and, among these, only to those committed for a year at the most. At the same time, the maximum rates have been gradually raised. On the other hand, payment of interest on sight deposits has been forbidden.
The banks have taken advantage of all there changes to increase their customers and improve their position with regard to the other deposit networks.

36. Finally, there have been a number of measures bearing on the granting of credit.
Since April 1966 banks have been free to fix their own lending terms; these previously could not fall below a minimum linked to the Bank of France's discount rate.
A new formula for short-term credit has been introduced, which is intended to replace, at least in part, the discounting of paper representing commercial drafts.[1] This "commercial claims mobilization credit", as it is called, has the characteristic of separating the credit operation in the strict sense from the collection of the claim.
The longer maturities of credits, which are necessitated by the volume of requirements for finance, and which the increase in the banks' stable resources should make possible, has been achieved, on the one hand, by increasing (from five to seven years) the maximum duration of medium-term credits rediscountable with the Bank of France and on the other, setting up a mortgage market enabling housing loans of over ten years' maturity to be mobilized. Finally the granting of credit by way of leasing ("crédit bail") has expanded rapidly since 1967.

Para. II-2: *Banking system and capital market*

37. French banks have only very small holdings of negotiable securities.
Despite more active participation in the placing of bonds with the public and with institutional investors, particularly since the recent introduction of the technique of firm acceptance, their portfolio of securities has remained unchanged in relative value (2 % of total loans and investment).

38. The rapid development of open-ended funds in the form of Variable Capital Investment Companies ("Société d'Investissement à Capital Variable" or "SICAV") has nevertheless enchanged the role of the banks on the capital market, for it is mainly the banks which have set up these institutions and manage their funds.
In France there is no institution whose specific function is to regulate the capital market.

Para. II-3: *Habits of the public as regards investment and liquidity*

39. This question is discussed in Section II of this chapter.

Para. II-4: *Volume of financial transactions with non-residents*

40. Exports of goods and services accounted for about 15 % of Gross National

[1] The new feature is that paper representing the original claims is discounted, whereas the former system involved the discounting of the underlying financial instrument itself.

Product in 1970. This percentage was appreciably higher than those of preceding years.

41. Capital movements had been very substantially liberalised early in 1967. Since November 1968 they have been again subject to control. The repercussions of these reuglations on the operations of the banks are analysed in the following section.

Section II - Liquidity

42. Liquidity has to be considered from both its aspects: liquidity of the economy and liquidity of the banking system. After defining the concepts of liquidity in the light of this distinction, this section will aim at showing how the management of the Treasury's accounts and the conditions in which liquidity itself is formed can interact.

43. The liquidity of the economy comprises the totality of instruments of payment or even of liquid or short-term savings held by the various sectors of the economy. The liquidity of the banking system is basically concerned with balances held at the central bank. These two concepts are, however, closely linked in the sense that in France, as in most other countries, the monetary authorities aim at controlling the liquidity of the economy mainly by adjustment the liquidity of the banking system.

Para. I: *Liquidity of the economy*

Definition

44. As regards the range of factors entering into calculations of the liquidity of the economy, the definition currently accepted in France occupies a middle position between a narrow concept confined to purely monetary assets and a wide concept embracing not only assets and claims of relatively distant term but also certain borrowing rights.

Constituent elements

Though acknowledging that any distinction is bound to be arbitrary to some extent, the National Credit Council, in its annual reports, takes liquidity to mean assets held in the form of and short-term investments of a maximum duration of two years, and, indeed, investments of two to five years' duration if they can be repaid in advance. These investments, which are generally know as "liquid or short-term savings", can be transformed rapidly into money according to the wish or requirements of their holders, without risk or loss on the value of the capital. They comprise near-money assets managed by the banks (bank-book accounts, time deposits, certificates of deposit), time accounts with the Treasury, saving banks deposits and bills issued to the public by the Treasury and the National Agricultural Credit Fund.

Relationship between liquidity and other economic variables

45. Changes in liquidity are fully meaningful only if they are seen in relation to particular economic data. Thus "liquidity of the economy" is undestood in France as a relative concept, measured by comparing the average amount of liquidity in absolute terms, as defined above, with an economic aggregate giving a fair indication of the level of incomes and transactions - the Gross National Product.
As regards money supply in the strict sense, by relating it to Gross National Product and examining the indices of velocity of circulation of the different types of money, it is possible to form an idea of the proportion of money spent and the proportion saved up or placed in reserve for later spending. This distinction has proved useful in analysing the trend of liquidity, for it sheds light on the public's attitude to money.

46. The monetary authorities watch changes in the liquidity of the economy and investigate their meaning, for experience has shown that the behaviour of holders of cash and the channelling of savings towards less liquid forms of investment largely determine monetary equilibrium. The analysis of the liquidity of the economy, to which a special chapter is devoted in the annual report of the National Credit Council, covers both the general trend and that of the various components.
As regards the overall equilibrium, the trend and level of the liquidity of the economy are not always easy to interpret. The indications they yield are therefore linked with other aspects of the monetary situation, such as movements of prices or wages and the balance of payments position. Despite these difficulties, the meaning to trends in the liquidity of the economy can guide the actions of the monetary authorities. The choice of an appropriate policy will depend on the explanation provided for, e.g., a rapid increase in liquidity: was this due to a deliberate propensity on the part of the public to increase its cash holdings, or to excessive creation of money?
Furthermore, the threat posed by a high level of liquidity in the economy — namely that in some circumstances it may hamper or reduce the effectiveness of central bank action to control spending — largely depends on the actual composition of the liquidity. This is why, in recent years, and particularly since 1965, French policy on interest rates has tended to encourage the formation of relatively stable investments and the partial funding of means of payment. This policy has yielded results, since the proportion of investments with the character of savings rose from 39 % to 52 % of total liquidity between 31st December 1964 and 31st December 1970.

Sources of liquidity

47. The attention paid to the level of liquidity of the economy must obviously not involve neglect of the movements and sources of the creation of money, whether it be a matter of variations in foreign exchange reserves, credit to the Government and local authorities or lending to industry and commerce.
The trend of these three main sources of finance for the economy is traced in the reports of the National Credit Council in the table "Contra-items of money and near-money supply" ("Contreparties des disponibilités monétaires et quasi monétaires").
The amount of the foreign exchange reserves shown by the net balance of those

items in the balance sheet of the Bank of France which reflect gold and foreign currency movements. Problems of statistical harmonization in particular make it impossible for the present to quote the foreign exchange claims and commitments of the banks. However, although not worked into the overall statement, the external position of the banks is closely watched by the monetary authorities along with fluctuations in the balance of payments.

Claims of the banking system on the Treasury comprise direct facilities provided by the Bank of France (loans and advances to the Government, discounts of pledged bonds), current account balances with the Post Office, and the coin and inscribed Treasury bill holdings among the assets of the Bank of France and the banks. Claims on the Treasury held by private persons and companies include three categories of asset regarded as forming part of the money supply: current accounts with the Post Office, claims on Treasury agents (so-called "private funds"), and coin in circulation.

The credits to the economy among the contra-items to the supply of money and near-money are those which are financed by the Bank of France and the banks. To obtain an overall picture of the credits of a monetary nature made available to the economy, one should add the proportion of short and medium-term lending which is financed by the specialized institutions from savings and which, being rediscountable at the Bank of France, can lead to the creation of money.

The inter-dependent nature of these various sources of money supply makes it necessary for their analysis to be carefully shaded and precludes any isolated interpretation of the variations affecting a particular contra-item of the money supply.

48. On 31 December 1970, liquidity was divided almost equally between liquid or semi-liquid savings and cash resources. For liquidity as a whole, the share of the Bank of France, the banks and the postal cheque system was 70%, as against 30 % for savings banks deposits and Treasury bills.

A look at past trends reveals that the public is tending to shift its liquidity or savings preference away from cash holdings in banknotes to balances in bank accounts and Post Office current accounts, or even to savings deposits (bank-book accounts, certificates of deposit and time accounts). This has been partly a spontaneous development and partly the result of official measures, particularly with regard to interest rates.

Thus, although the proportion of notes and coin is still high, it nevertheless fell between 1958 and 1970 from 46% to 32% of total money supply, while the share of bank deposit money rose from 54 % to 68 %. At the same time a relative increase in the supply of near-money managed by the banks (bank-book accounts, certificates of deposit and time accounts) could be observed in relation to the total of sight and time deposits with banks (from 12 % at the end of 1958 to 44 % at the end of 1970). In like manner, over the past ten years or so, the share of liquid savings has expanded and that of money supply in the strict sense has contracted (52 % and 48 % respectively, as against 34 % and 66 % in 1958).

Relationship between liquidity and G.N.P.

49. In the course of the years 1958 to 1970 the ratio of liquidity to the Gross National Product in France rose sharply from 44 % to 56 %. It nevertheless remains a lower proportion than in most Western countries.

The same is not true of the ratio of money supply in the strict sense to the Gross

National Product. At 33 % in 1968, it was among the highest in the countries considered. For this reason, despite the successful reduction of this ratio to 27 % in 1970, the monetary authorities consider that further progress must yet be made in developing liquid or semi-liquid forms of saving.

Para. II: *Bank liquidity*

Constituent elements

50. The cash resources of the banking system, considered in absolute terms, comprise the banks' holdings of bank notes and their balances in Post Office current accounts and with the central bank. Before the minimum reserve regulations were introduced, the amount of these liquid holdings was very low, being kept at or near the minimum level necessary for the day-to-day running of the banks.
Since January 1967 banks have been required to hold balances at the central bank to an amount calculated in proportion to their liabilities. This rule was supplemented in February 1971 by a system of reserves based on credits granted. Arrangements based on calculations of averages (see point 89) make this system sufficiently flexible for the banks to have ready cash available when they have to meet peak demand.

51. As the banks do not normally, on average, hold excess reserves, their liquidity reserves are basically "potential", i.e. they consist mainly of paper negotiable on the money market or rediscountable at the Bank of France: public and commercial bills, and financial bills representing short or medium-term credits covered by a rediscount agreement.

52. In a general way the expression "liquidity of the banking system" is associated in France with a relative concept which involves both the position of the banks with regard to their reserve obligations and the extent to which they can call on the facilities of the Bank of France.
Fluctuations of bank liquidity are measured by the trend of the banks' indebtedness to the Bank of France, as shown in the first instance by the total amount of this indebtedness, but also with due regard to the breakdown between facilities obtained at fixed rates (rediscounting) and those provided at variable rates (intervention on the money market).

Factors affecting bank liquidity

Various factors act on banking liquidity i.e., they determine the expansion or contraction of the liquid assets of the banks and the possibilities of recourse to the central bank. Some of these factors result from the influence on the banks of autonomous forces: inward or outward movements of notes, movements of gold and foreign exchange, Treasury operations. The other factors are determined by the monetary authorities by means of rules for the direct control of bank liquidity: minimum reserves, rediscount ceilings and minimum holdings of bills representing rediscountable medium-term credits.

Movements in fiduciary circulation

53. Although it has been tending to decline for many years now use of the banknote as a vehicle for payment and a medium for hoarding remains relatively

widespread in France, so that the public's demand for notes is still one of the chief limitations affecting the banks' cash reserves and their power to create money. Quite apart from the basic trends determined by economic and psychological conditions which have an influence on the liquidity held by individuals and firms, the circulation of notes is also subject to specific monthly or seasonal movements.

Outflows of notes, chiefly due to wage payments, exert heavy pressure on the banks' cash reserves at the end of each month. Conversely, inflows of notes in the course of the month are a factor tending to expand bank liquidity. These fluctuations become greater at certain times of the year, for example, at the quarterly tax maturities or the holiday periods. But the flexible application of the reserves system obtained by basing the calculations on averages has cushioned the effects of movements of notes on bank liquidity.

Movements of gold and currencies

54. Foreign exchange transactions can have a bearing on franc liquidity within the banking system as a result of the buying and selling operations of the Bank of France on the market through the Stabilization Fund.

At times of liberalization banks are authorized to vary their foreign exchange investments and commitments as they think best. In fact their anxiety to avoid speculative positions, except for very small amounts, has always led them to operate with forward cover.

55. Exchange Control, which was re-established in November 1968, forbids the banks to engage in operations which are tantamount to speculation against the franc, whether for their own account or on behalf of customers or correspondents. Such operations include increases in net foreign currency claims, lending abroad in francs, and purchases of foreign currency against francs on a swap basis. These operations can lead to temporary outflows from the official exchange reserves, in particular for the benefit of non-residents anxious to borrow in France in order to reconstitute or increase their foreign exchange holdings. Such outflows have a restrictive effect on the franc liquidity of the banking system.

Exchange control on the other hand does not prevent French banks from procuring francs by borrowing foreign currency abroad for a specific period and lending it, on a swap basis, to another foreign correspondent against francs. These foreign currency/franc swaps with foreign correspondents have a directly expansionary effect on franc liquidity to the extent that the correspondents are obliged to sell foreign currency on the exchange market to procure the funds necessary for their franc deposit.

In a general way forward covering of swaps of foreign currencies for francs is arranged by banks with their foreign correspondents when, after taking account of the discount or premium quoted on the foreign exchange market, disparities appear between French money market rates and those ruling on foreign markets. Although market forces keep the incentives thus produced within narrow limits, the control of money market rates has nevertheless become one of the factors in the control of bank liquidity by the central bank. This is still the case to some extent despite the reintroduction of exchange control.

Operations by the treasury

56. Lastly, operations by the Treasury — which does not keep accounts at the

banks — are a third factor affecting bank liquidity, since all transfers of funds between the Treasury and the banks have an effect on their accounts at the bank of issue. Bank liquidity will therefore react to budget policy and the Government's cash position. It will also vary according to the methods of financing adopted to meet Treasury requirements.

57. Thus movements of notes and foreign exchange and variations in the Government's cash holdings, exerting influences that reinforce or offset each other according to the season, broadly constitute the money market data on which the central bank must base its methods and its decisions.

Monetary authority interventions

58. Discount policy was for a long time the main instrument of monetary policy, enabling the central bank to exert a general influence by varying the cost and consequently the volume of rediscounting. The rediscounting process also provided an opportunity for selective scrutiny, case by case, of bank lending to the economy. In the post-war years French monetary policy has tended to lean towards direct action on bank liquidity for purposes of quantitative and even selective control of the granting of credit.
The instruments by which the Bank of France influences bank liquidity — studied in detail in the second chapter — have thus been perfected and differentiated.
Interest rate policy has been broadened to take account of both internal and external considerations. Quantitative control has been strengthened by the establishment of rediscount ceilings — and also by "floors" ("planchers") for investment in Government securities (these were subsequently relaxed and eventually abolished in 1967). It had been supplemented in 1960 by the introduction of a "liquid assets ratio" ("coéfficient de trésorerie"), a milder form of which still survives today, provisionally, in the form of the minimum portfolio of bills representing medium-term credits.
Since January 1967 the arrangements in force have largely rested on the minimum reserves system, which has been applied in practice in such a way as to regularize the daily movements in the banks' cash situation brought about by the influence of autonomous factors.
Lastly, by its intervention on the money market, the Bank of France suits its action to the day-to-day situation by supplying the liquidity needed for the proper balance of the market or, more rarely, by mopping up excess liquidity at rates corresponding to the internal and external objectives that have been fixed. Since the beginning of 1971, the Bank of France has mainly concentrated on action through the money market, at rates which have fallen below Bank rate (see point 80 below).

Para. III: *Liquidity and public finance*

59. Through a large number of widely varied activities the French Treasury exerts a predominant influence on the formation, level and composition of liquidity.
In the first place, as in all countries, the management of the public finances as required by the budget policy adopted partly determines how the economy is supplied with liquidity and is hence one of the essential factors of monetary policy, according to whether the strategy chosen aims at strict balancing of revenue and expenditure or allows a deficit to emerge.

In addition, the Treasury participates in the working of the various channels for payments within the economy through its management of "private fund" deposits and postal cheque accounts.
Lastly, the Treasury plays an important rôle in the money market and, more generally, in determining the trend of liquidity of the banking system.

Para. III-1: *Fiscal policy and financing of the deficit*

60. As the agent responsible for execution of the budget, the Treasury influences the formation of liquidity by varying its position of more or less indebtedness towards the banking system according to the trend of Government revenues and expenditure.
It is true that a budget deficit mainly due to expenditures which are the final responsibility of the Government has not the same significance and scope as one that derives from the assumption by the Treasury of responsibility for investment expenditure of an economic nature (loans and advances for housing, loans from the Economic and Social Development Fund to nationalized and private enterprises). For about fifteen years now, the French budget for current Government revenue and expenditure has only rarely been in deficit. From 1963 to 1966 it even showed surpluses.
Nevertheless, it is clear that the monetary financing of Treasury expenditures, whatever the justification for them, may run counter to action to control credit in periods of strong inflationary pressure. That is why, in the stabilization programme introduced in 1963, the principle of strict neutrality on the part of the public finances with respect to the creation of money was adopted and applied for several years. Through this policy the Treasury undertook not only to avoid having overall recourse to credit from the Bank of France and the banks, but also to offset, by reducing its indebtedness to the banking system, funds placed at its disposal by private persons and firms holding postal cheque accounts or "special fund" accounts.
Although, for economic policy reasons, this attitude was modified in 1967, and particularly in 1968, it highlighted the complementary nature of budgetary action and action on credit. Since then, the 1970 and 1971 Finance Acts have marked a return to principles of strict budget orthodoxy.

Para. III-2: *Monetary functions of the Treasury in the economy*

61. As in most countries, the Treasury is responsible in France for the minting of coin, which is then put into circulation by the Bank of France for account of the State. In addition, in contrast with the practice frequently noted elsewhere, the French Treasury has a large volume of funds deposited with it, particularly through the postal cheque system (see point 27 above).

62. Apart from its role in the management of the currency, the Treasury has a direct, if small, part in actual money creation.
On the internal plane the Treasury creates money when, to pay a supplier, a civil servant or a pensioner, it credits a Post Office current account or a "private fund" account.
In external relations the influence of the Treasury on the creation of money has diminished because of the rules now governing its relations with the Exchange Stabilization Fund ("Fonds de Stabilisation des Changes") and the principles on

which the monetary agreements of France with the countries of the Franc Area have been based for some years.
As regards transfers of funds between France and abroad, the action needed for adjustment of foreign exchange supply and demand is the responsibility of the Exchange Stabilization Fund, which is managed by the Bank of France and has no direct accounting relationship with the Treasury. In earlier days, prior to a reform in 1949, the surplus or deficit on the balance of payments involved a payment from or to the Treasury. Subsequently, and up to May 1962, complementary arrangements transferred to the books of the Bank of France all those operations representing the counterpart of dealings with the International Monetary Fund, whether these were the payment of that portion of the French quota subscribed in gold, franc drawings made within the limits of the quota or under the "general arrangements to borrow" or, conversely, French drawings on the Fund.
In the same way, changes in France's monetary relationships with several countries of the Franc Area have reduced the Treasury's action in this field. However, it continues to supply the banks of issue of the countries or territories linked by "operation account" agreements (overseas departments and territories, states of Africa and Madagascar) with the metropolitan francs they need for settlements in that currency or purchases of foreign exchange. In return the institutions in question must provide the Treasury with any funds which may be required to make transfers in to their own currency.

63. The Treasury's function in the processes in which liquidity is created in the economy is not limited to purely monetary assets. It is also involved in the collection of semi-liquid savings by placing with the general public Treasury certificates ("bons sur formules") of one, two or five years' currency (redeemable after three months) and by the facilities it offers for opening time accounts in its books (see point 28 above). These certificates were for a long time exempt from tax and became the channel for a privileged flow of funds in favour of the Treasury. In 1965 the terms of remuneration and taxation of liquid or short-term investments offered by all financial intermediaries were harmonized, and at present subscribers to Treasury certificates do not enjoy any special advantages.

Para. III-3: *Bank liqiudity and Treasury operations*

64. The Treasury is not only the agent for implementation of the Finance Acts and the administrator of funds deposited by the public; it also pools the cash resources of the local authorities, thus playing the part of banker to a number of public authorities and establishments classified as "correspondents". It must therefore be able on a day to day basis to ensure that the transfers between its own complex system of monetary activities and the banking system take place smoothly. It makes the necessary settlements through its current account with the Bank of France, the only banking institution empowered to keep Treasury accounts in its books.
Because of this centralization, almost all the operations which affect the Government's accounts have repercussions on the banks' balances at the central bank.
In view of its borrower position, the Treasury is practically never in credit on its current account. Thanks to the advances the Bank of France makes to the Government, the ceiling of which is fixed by law, the Treasury can always adjust its receipts and its payments. As soon as a surplus of receipts emerges it is used to pay off earlier drawings on the advances account. Like those of the banks, the

Treasury's resources are thus essentially "potential", consisting of the opportunities for direct recourse to the Bank of France through the unutilized margin for drawing on the advances account and the right to mobilize its holdings of pledged bonds. The volume of the Treasury's requirements of "central bank" money and, in the final analysis, the incidence of its operations on bank liquidity depend at the same time on the general balance of budget revenue and expenditure, the trend of the different components of money supply, the scope for borrowing outside the banking system (in particular by long and short-term loans placed with the general public) and, finally, on the contributions or requirements of its "correspondents". The latter, who have large sums of money to deal with, place their surplus cash temporarily at the disposal of the Treasury, either directly in the form of deposits on account or by subscribing to Treasury paper. The consequent movements of funds — often subject to not easily foreseeable swings — bring a large element of irregularity into the fluctuations of the Treasury's accounts.
Greater flexibility has recently been introduced into the relations of the Treasury with some of its chief correspondents (in particular the Caisse des Dépôts et Consignations and the National Agricultural Credit Fund) in order to allow them greater latitude in the management of their current resources. These establishments have thus been able to increase their direct participation in the money market.
In the course of a budget year the requirements of the Treasury are prone to seasonal fluctuation resulting to a great extent from poor timing of Government revenue and expenditure. Despite staggering of the dates on which taxes are due, the variations in the Government's accounts during the year are still very marked. When the Treasury's operations affect bank liquidity in the same direction as movements of notes or foreign exchange, they either bring the cash position of the banks under strong pressure or help to make the money market too liquid. Either way the central bank has to take regulatory action to redress the situation.

65. The Treasury also exerts direct influence on the money market by issues of Treasury bills offered to the banks.
For many years, the system of minimum holdings ("planchers") of Government securities, which obliged the banks to hold a volume of Treasury bills calculated in proportion to their liabilities, meant that the requirements of the Treasury were to some extent covered automatically at interest rates independent of market forces. From 1960, the operation of the liquid assets ratio ("coefficient de trésorerie"), which had extended the compulsory holding requirement to assets other than Treasury bills, made it possible gradually to reduce the quota of minimum portfolios of Government securities in line with the improvement of Government finances. Then, following reforms in 1963 and 1964, a distinction was drawn between the liquid asset certificates ("certificats de trésorerie") eligible for the minimum holding and available on tap at fixed rates, and the Treasury bills allotted by tender on market conditions. However, because of the difficulties experienced by banks in procuring assets eligible for the numerator of this ratio, Treasury bills remained in brisk demand and the allotment rates remained very close to discount rate.
This is no longer the case. In January 1967, the minimum reserve system replaced the liquid assets ratio system. Government securities, which banks are no longer obliged to hold now compete with other possible forms of investment, so that tender rates how depend wholly on money market conditions.
On the other hand, Treasury bills have regained a predominant place as the basis

of money market operations both in inter-bank transactions and in interventions by the central bank.

66. The Treasury's indebtedness to the bank of issue is recorded in the following items of the weekly statement of the Bank of France:

— Coin: the entries under this head represent coin the equivalent of which has been credited to the Treasury's account and which is still held in the Bank's tills.
— Post Office current accounts: this head comprises the balances on the postal current accounts opened in the Post Office's books in the name of the Bank. This is a technical advance corresponding to the time necessary to settle the Bank's claim on the postal cheque system by the debit of the Treasury's account.
— Loans to the Government: this item results from the grouping of various earlier loans into a single credit line. The ceiling of these loans was fixed at 6,500 million francs by an agreement concluded between the Bank of France and the Government on 29 October 1959 but was reduced to 5,450 million francs by an agreement of 3 May 1962.

On that date, the financing of France's participation in the International Monetary Fund, previously borne by the Treasury, was transferred to the Exchange Stabilization Fund. In this way, the Treasury recovered the use of funds which, to the round amount of 1,050 million francs, were used to help repay loans previously granted by the Bank of France.

— Advances to the Government: the ceiling of these advances has been fixed at 3,452 million since 31 January 1969 under an agreement concluded on 4 December 1969 between the Bank and the Government. The amount outstanding changes daily in consequence of movements in the Treasury's position.
— Pledged bonds ("obligations cautionnées"): these are classed under the subheading of the portfolio of paper representing short-term credits, and are mobilized with the Bank of France by the Treasury. They are short-term notes, backed by guarantee, made out to the order of the Treasury, and generally bought by those liable to pay customs duties and indirect taxes of which the Government agrees to defer collection.
— Government securities: that part of the items "Bills discounted" and "Bills bought on the money market" corresponding to the Treasury bills in current account purchased or taken "en pension" by the Bank on the money market.

On the liabilities side the credit balance of the Treasury's current account appears in the subheading "other credit accounts".
The Treasury has no accounts with the commercial banks. Its current account with the Bank of France is fed by payments of all kinds made by the public agents and the Treasury's correspondents. It is debited with all the settlements made in cash or by book transfer on the instructions of the public agents. Credits to the account also include the proceeds of discounting or the cashing of pledged bonds. Finally, debits and credits can be the counterpart of entries on the account "Advances to the Government" where the Treasury uses its receipts to reduce these or, conversely, where it borrows within the limits fixed, to cover liquidity requirements. The credit balance of the Treasury's current account is, in fact, generally very small.

67. In twelve years, from the end of 1958 to the end of 1970, the national debt (including the debt of the annexed Post Office budget but excluding sight bills held by certain international organizations) rose from 105,000 to 166,000 millions francs. However, the rate of growth was not constant and the movement of the individual constituents in particular did not coincide.

a) As regards the increase of the debt, a period of relatively strong growth up to 1963 was followed, from 1964 to 1966, by a much slower advance. Between 1967 and 1969 the rise was again appreciable, but it flattened out in 1970.

b) During this period, the structure of the Treasury's debt underwent considerable changes.

A glance at the general picture will show that the deposits of Treasury correspondents increased more rapidly than the other headings of public debt. At the end of 1970, these deposits, which included in particular the countervalue of Post Office current accounts, amounted to some 64,000 million francs, against less than 25,000 million twelve years earlier. They represented 39 % of the Treasury's debt compared with 22 %. Conversely, the rest of the public debt, represented by securities placed with private persons and banks and by loans and advances from the Bank of France, increased by only 28 % over the same period, rising from 81,000 million to 103,000 million francs, and bringing its ratio to the total debt down from 77 % to 62 %.

Examination of this second part of the public debt reveals a clear tendency for the duration of Treasury borrowings to shorten.

Chapter two

THE INSTRUMENTS OF MONETARY POLICY

Introduction

68. Bank rate was for a long time the main instrument of monetary control in France. However, after the second world war, the economy was subjected at various times and over long periods to strong inflationary strains which it would not have been possible to combat by the traditional means without an increase in interest rates considered incompatible with reconstruction and development objectives. The monetary authorities therefore endeavoured to improve and diversify the instruments available to them for keeping the granting of credit within bounds. Nevertheless, action through interest rates has remained one of the main weapons in the armoury, but it has assumed various forms and has been extended with varying degrees of stringency to lending and deposit terms (cost of credit and remuneration of deposits).

Monetary policy has been supplemented by the introduction of procedures designed to influence total bank liquidity. These procedures have been utilized to prevent money creation from playing an excessive part in the financing of the economy. They have gradually been extended to cover all the methods by which banks can procure liquidity from the central bank. The introduction of the minimum reserve system in January 1967 aimed at simplifying the controls over bank liquidity and putting them on a new basis, with an eye to imparting more flexibility and efficiency to the operations of the Bank of France.

Furthermore, direct influence has been brought to bear on the granting of credit by procedures of various kinds.

In the first place, the monetary authorities have used selective action to encourage the development of the priority sectors of the economy in conformity with the general guidelines of the Plan, or, conversely, to control more closely the growth of vertain categories of credit or of the financing of certain branches of activity. Various methods have been used for this purpose: differential rates, specific regulations, such as those applying to consumer credit, individual scrutiny of applications prior to the granting of large credits or mobilization agreements.

Secondly, during periods of restraint and where a rapid slow-down of the creation of money was needed, experiments have been made in limiting the growth of outstanding credit with a view to strengthening the other, now traditional, methods.

Section I - Refinancing policy [1]

Para. I: *General*

Different types of financing by the Bank of France

69. It is the duty of the Bank of France, which has the privilege of issuing legal tender money, to stand ready in the last resort to refinance the whole banking system.
This refinancing takes place according to the law and internal regulations governing the operations of the bank of issue.
Aside from purchases of foreign exchange, the Bank of France keeps the banking system directly supplied with money by means of three refinancing techniques: rediscounting, intervention on the money market and — though the sums involved here are relatively very small — advances on securities.
These techniques are used to implement monetary policy, for they make it possible to influence, directly or otherwise, the cost, nature and total amount of the banks' lending.

Discount houses

70. The Bank of France maintains direct banker-customer relations with the banks, particularly as regards rediscounting of short-term credits. On the other hand, for a considerable proportion of its credit facilities it deals with the specialized financial institutions.
In this way, its contributions to the money market involve discount houses ("maisons de réescompte"), whose function is the initial offsetting of the banks' liquidity surpluses and requirements.
Paper representing medium-term credit reaches the portfolio of the Bank of France through the first-stage rediscounting institutions (see 17 above). But the role of these institutions is mainly to examine dossiers and study the advisability of loans from both the economic and the financial point of view. Their contribution to the actual financing is of relatively little importance. On the whole, the first-stage rediscounting institutions retain hardly more than 6 % of the total amount of credits which pass through their portfolios.
The Bank of France refinances in all a varying proportion of the credits distributed by the banks. At the end of December 1970 the figure was about 20 %.

Para. II: *Refinancing*

71. Apart from two specific rules which require it to discount Treasury certificates having less than three months to run and held by private persons, and paper representing the financing of stocks of certain specified cereals, the Bank of France is completely free to decide whether or not to provide facilities by way of rediscount, purchases, "en pension" operations or advances.

Para. II-1: *Rediscount*

72. The bank of issue accepts in its portfolio only bills offering every guarantee of solvency and liquidity, i.e., under the terms of the legal instruments which

[1] For the exact meaning of this term, refer to Part I, point 71.

govern its operation, commercial paper of at most three months tenor, guaranteed by at least three signatures, or two of known soundness, according to the case.
Apart from this statutory requirement concerning the characteristics of the paper, and in the light of the economic nature of the credits refinanced, the Bank of France makes certain of its facilities subject to prior mobilization agreements and the observance of liability ceilings.
These arrangements make it possible to limit and to channel credits which the bank of issue provides, through rediscounting, at fixed rates on terms which, up to January 1971, were traditionally lower than those of its interventions on the money market. Since then the cost of placing bills at the Bank "en pension" has remained below the discount rate.

Charging of higher rates

73. Independently of the discount rate charged in most instances, higher rates have been or are still charged for certain types of facility. In the past (in 1947 and 1948) the ordinary rate was reserved for discounting commercial bills and public securities, financial paper being accepted at a half point more. This distinction was no longer appropriate when rediscount ceilings became general, and was never re-established. On the other hand, as part of the 1965 reform of the rediscount system for medium-term credits, an extra ½ % has been applied since October 1970 to the discounting of paper corresponding to the second rediscountable annuity.
Finally, since 1951, there has been provision for higher rates when the banks, having reached their rediscount ceilings, make further call on the Bank of France. Until recently, two rates — generally described professionnally as "enfer" and "super-enfer" — were applied, the first to refinancing granted within the limit of one-tenth of the ceilings, and the second above this limit. This distinction was dropped in December 1967, and now there is only a single system — practically never used — of recourse to "en pension" operations above the ceilings; the rate for these has been fixed at 2 ½ points above Bank rate.

Charging of lower rates

Conversely, a rate lower than Bank rate was applied between 1957 and 1969 to the discounting of external claims. There have been increases since then which have brought the rate of discount of short-term external claims into line with the ordinary rate, while, however, maintaining a lower rate for medium-term claims on countries other than those of the European Community.

74. Financial paper representing short or medium-term credit can be accepted in the portfolio of the Bank of France only when a "mobilization agreement" has been concluded following a case-by-case study.
However, credits for the mobilization of external claims of less than six months' maturity and of hire purchase sales, along with the credits to finance cereals stocks backed by an endorsement of the National Cereals Office ("Office National Interprofessionnel des Céréales") are not considered case-by-case but are governed by special rules.
Introduced in 1947, at the time when a liquidity ratio was imposed on the banks, the mobilization agreement procedure provides the bank of issue with an effective instrument of selective credit policy.

Rediscount ceilings

75. For the purposes of general control of bank liquidity, rediscount ceilings are fixed for each bank. Before 1948 their main purpose was to ensure that each establishment resorted to rediscount only to an extent justified by the volume of its business and, more especially its own resources. These ceilings were therefore based on considerations of safety and did not apply to the big banks, which in any case did little rediscounting at that time. Since then, the ceilings have been changed several times in the light of monetary or economic policy objectives. Thus, in the course of 1957, the Bank of France decided to reduce them, first by 20 % in two stages of 10 %, and then again by 15 %, in view of the very strong inflationary pressures in evidence at that time. Subsequently, individual increases were granted to keep in step with changes of structure at certain banks, but these increases remained relatively limited. In October 1970, shortly before the abolition of the credit restriction measures, the rediscount ceilings were again lowered, by 10 % for those below 30 million francs and 20 % for those above.
In order to make the system less rigid the banks were in 1951 given the facility of obtaining extra liquidity above the ceilings allotted to them by placing paper "en pension" at rates higher than Bank rate. Under its interest rate policy, the Bank of France aimed at adapting the level of these rates to the trends of the money market.
The system of rediscount ceilings does not apply to all rediscountable paper held by the banks. Certain categories of paper are eligible for rediscount outside the ceiling, for reasons of selective policy.

Paper eligible for rediscount

76. Taking into account these various rules, the paper eligible for the discount portfolio of the Bank of France may be listed as follows:

1 - Short-term credits

a) The following are rediscountable at the ordinary discount rate, within the limits of the ceiling allotted to each establishment:
   - Commercial drafts ("tirages commerciaux") within three months of maturity and in principle drawn for three months at most, subject to the observance of the normal usances as fixed by the Bank of France;
   - Notes representing a group of commercial claims, made out by the creditor to the order of his banker and rediscountable under the mobilization credits procedure for commercial claims briefly described in Part one. These notes bear only two signatures;
   - Three-month financial bills ("effets financiers"), renewable up to two years, provided an agreement for their rediscount has been concluded beforehand.

b) The following are accepted outside the ceiling:
   - Promissory notes ("billets à ordre") of at most three months tenor, subscribed by approved stocking agencies, representing stocks of cereals, and endorsed by the National Cereals Office;
   - Renewable three months commercial bills ("effets de commerce"), representing external claims of a duration of eighteen months or less. A rediscount agreement for the mobilizable amount of the credit is required only for the proportion not due until after six months.

2 - Medium-term credits
The Bank of France accepts for rediscount outside the ceiling paper representing medium-term credits covered by a mobilization agreement. The rediscounting facility, which originally covered all outstanding credits, has been gradually reduced by a phased reform begun in January 1966.
Credits for equipment and construction, granted for a maximum duration of seven years, may now be mobilized only in respect of that portion having at most two years to run.
Mobilization credits for medium-term external claims could, until 30 June 1971, be refinanced during period of five years, irrespective of the original duration of the credit. Since 1st July, the mobilisation facility has depended on the total duration of the credits. It is available at most for the three nearest annual maturity dates, when the credits are granted for five years or longer, but not exceding seven years.

3 - The discount portfolio of the Bank of France also includes pledged bond (see point 66 above) presented by the Treasury.
With the exception of the Treasury certificates sold by private persons, the Bank of France no longer discounts Government securities ("effets publics") at a fixed rate. It acquires these where necessary via the money market.
Submissions of short and medium-term credit paper for discount have dwindled since the intervention rate of the Bank of France on the money market fell below Bank rate (see point 72 above).

Para. II-2: *Advances on Securities*

77. This heading covers advances granted on current account to individuals, firms or banks against collateral which may consist of:

— French Government securities, or
— Negotiable securities against which the Bank of France is authorized by its statutes or later instruments to grant advances; however, for these securities to be accepted as collateral a decision of the General Council is needed for each issue.

The General Council also fixes the proportionate amount of the loan and determines the rate to be applied to these transactions, a rate which is generally a point or a point and a half above the official discount rate.
The banks do not make much use of this form of recourse to the Bank of France. Thus, at 31 December 1970, advances on securities to them amounted to some 2·6 million francs, whereas the total of the discount portofolio and of paper bought on the money market approached 52,000 million francs. Advances on securities are also made to firms and individuals; at the end of 1970 the total was close on 60 million francs.
As part of their borrowing against securities, banks for a long time made use of the five to thirty-day facilities on Government securities introduced in 1935.
These advances, guaranteed by Government securities with less than two years to run and held in excess of the "bills ceilings" imposed on the banks from 1948 to 1967, were granted within the limits of an individual ceiling at a rate which, since 1965, had become identical with Bank rate.
Their place among the operations of the bank of issue was always a rather modest

one. In December 1967 the Bank of France put an end to this form of fixed-rate advance.

Para. III: *Effectiveness of refinancing policy and of action through interest rates*

78. Interest-rate policy has to take account of ocnsiderations that sometimes conflict, making its conduct difficult and even, in certain circumstances, obliging the monetary authorities to set limits to its use.
Internally, market forces practically always tend to push rates upward because of the heavy capital requirements that are not fully covered by savings. Financing of investment by firms already heavily in debt and with a reduced capacity for self-financing calls for low interest rates particularly when the business climate is slack, while at the same time money creation has to be kept under control in order to contain inflation.
The return to external convertibility of the franc in 1959 and, even more, the abolition of almost all obstacles to financial dealings with foreign countries — a measure decided on in 1967 — had magnified the influences exerted from abroad on the formation of interest rates, in particular those of the Paris money market. Interest-rate policy had therefore to take account of external trends even where they conflicted with the internal objectives of monetary policy.
The reintroduction of exchange control in November 1968 did not completely free the market from these influences and official interest rate policy since then has been determined both by internal considerations and by the problems connected with external relations.

Para. III-1: *Discount rate and intervention by the Bank of France*

79. In France, the use of Bank rate ("le taux d'escompte") still has an important place among the instruments of monetary policy. First, it has force as an indicator of the direction of official action on money market rates. Futhermore, as long as rediscounting is used as a refinancing procedure, its efficacy stems from the high level of indebtedness of the banks, so that variations of this rate and money market rates have immediate repercussions on the banks' profit and loss conditions and, indirectly, on the cost of bank credit to the economy.
It is true that when the economy is under relatively severe strain, a moderate increase in the cost of credit has only a limited influence on the decision of firms and interest rate policy needs to be reinforced by more directly effective measures. Nevertheless, the changing of Bank rate is still a valuable pointer or warning signal. It tells, in unambiguous terms, the direction in which monetary policy is moving. The Bank of France has been induced, for selectivity reasons or to supplement quantitative control measures, to make use of special discount rates. These rates are above or below Bank rate according to the nature of the operations or the objectives fixed.

80. Apart from the variation in the rates charged on discounts, in its operations on the money market the Bank of France adjusts its interest rate policy to circumstances.
Until recently, the rates for dealings on this market, where the main business is liquidity exchanges between banks, were closely dependent on the rediscount rates of the Bank of France and the first-stage rediscounting institutions. When liquidity was plentiful on the money market, banks which had not exhausted their redis-

count potential would avoid borrowing on the market at a rate higher than the Bank of France charged. Those temporarily in possession of excess liquidity would prefer to use it to reduce their rediscount position whenever the market rate tended to be below the official discount rate. When, on the other hand, a tightening of their cash positions obliged all the banks to use up their rediscount margins market rates would rise above Bank rate, but without for long going beyond the higher rate charged for "en pension" accommodation in excess of the ceilings.

In a general way, the Bank of France allowed market trends to develop freely up to 1964, while controlling them indirectly by its discount policy. Apart from facilities provided at the same rate as discount rate and kept within narrow limits fixed bank by bank, its intervention on the money market remained marginal and aimed only at facilitating the balancing of operations there.

Since 1964, and particularly from January 1967 onwards, the relaxation of controls on external financial operations has made it necessary for the Bank of France to intensify its intervention in the money market in order to keep rates under control and thus regulate the flows of short-term capital between France and abroad.

By dissociating Bank rate, considered more as a guide-line for the internal cost of credit (see point 81 below), from call money or one month money rates, maintained at a different level to allow for foreign rates, the Bank of France has been able to limit external influences on French interest rates as a whole. Thanks to the rapid easing of interest rates on international markets that appeared in the early months of 1971, this objective has consequently induced the Bank to maintain the rate for its intervention in the money market at a level below Bank rate. The result of this policy has been a considerable reduction in rediscounting and, simultaneously, an increase in the facilities provided at variable rates. This should, it would seem, lead to some modification of the reference data used by banks for determining the cost of their lending.

Para. III-2: *Lending rates*

81. Until 1966, under rules laid down by the National Credit Council, the minimum terms applied to bank lending to firms and individuals remained directly or indirectly linked to the discount rates of the Bank of France. The links with Bank rate, at first very strict, were made less so in 1959 when, to prevent the Bank's decisions in this matter being fully reflected in the cost of credit, to the economy, the Council established a reference rate which varied less widely than Bank rate.

Since April 1966 lending terms have no longer been subject to specific regulations. On the other hand, the general legislation on restrictive practices is an obstacle to rate-fixing agreements between establishments. In practice, the banks continue to take more or less close account of changes in Bank rate, or, in a more general way, the average cost of refinancing at the central bank.

The monetary authorities have not stopped keeping a careful watch on the cost of bank credit in the light of their general objectives. Since the rules on minimum terms were dropped, their influence has made itself felt mainly through the banks' need to have recourse to the central bank. In addition, the authorities have endeavoured to mitigate the causes of dear money, partly by bringing about a reduction in commissions charged by the public and semi-public institutions which act as first-stage rediscounters (Crédit National, Crédit Foncier de France) or as gua-

rantors (Caisse Nationale des Marchés de l'Etat) and partly by encouraging the streamlining and improvement of financing circuits.
The authorities have also aimed at bringing about an improvement in the terms — felt to be too severe — for certain loans. For example, a law of 28th December 1966 on usury and money lending sets maximum interest charges to borrowers.

Para. III-3: *Deposit rates*

82. The terms of remuneration for sight and short-term deposits and savings accounts are regulated by the National Credit Council for the banks subject to its authority, and by the Minister of Economy and Finance, in accordance with specific procedures, where other financial or banking institutions (savings banks, popular banks, agricultural credit institutions, public agents) are concerned.

83. Until 1965 the use of preferential rates of interest and of special tax systems favoured the channelling of savings towards the Treasury and public financial institutions. The aim of these arrangements was to facilitate Treasury financing, while at the same time responding to social considerations.

84. However, it became apparent — particularly during preliminary work on the Fifth Plan — that by trying to channel savings such arrangements could hinder their growth. In 1965, therefore, a harmonization policy was adopted as regards deposit interest, which was designed to stimulate saving and improve the conditions for financing investment. Without achieving an absolute equality, which would have run counter to the social nature of traditional savings bank deposits, the new arrangements brought more uniformity into the real terms of remuneration on short-term saving and widened the range of choice between the various collection channels.
Harmonization was made possible by new tax rules. Subject to exemptions of a limited scope (first savings bank book with a ceiling of 20,000 francs, housing savings accounts), tax equality was reintroduced by the 1966 Finance Act and the ministerial order ("arrêté") of 23 December 1965. The saver now has the option of accepting a standard levy of 25 %, exempting him from income tax, rather than be taxed at the latter's progressive rates.
By alignment on the yields offering the saver the best return the reform led to an increase in the majority of short-term deposit rates and in particular those paid on deposit and time accounts at the banks, while at the same time bringing greater differentiation than previously, according to the degree of liquidity of the funds deposited.
In 1967, new measures were adopted to facilitate the adjustment of supply and demand for caiptal. At present the rates payable on certificates of deposit and time accounts in excess of 100,000 francs or for periods of over a year have been completely liberalized, while eanings on other deposits have been increased. At the same time, the payment of interest on sight deposits of a monetary nature has been forbidden in a effort to influence the pattern of liquidity and encourage the partial funding liquid assets, while cushioning the repercussions of the other measures on the profitability of the banks.

Section II - Control of bank liquidity

General remarks

85. Since it was introduced early in 1967, the minimum reserve system has been one of the instruments used to control bank liquidity in France. Its effectiveness is promoted by supplementary arrangements tending to restrict the scope for bank recourse to the Bank of France.
Thus, the system of rediscount ceilings — applied to short-term credit paper — has been maintained, and the monetary authorities have allowed a modified form of the old "liquid assets ratio" to survive by requiring the banks to freeze among their assets a proportion of their holdings of medium-term credit paper.
In the framework of these general arrangements and taking due account of the daily influences on bank liquidity, the Bank of France operates on the money market to promote the adjustment of the banks' cash situation and influence market rates as required by internal and external considerations.

Para. I: *Minimum reserve policy*

86. The system of minimum reserves ("réserves obligatoires"), which is applied in various forms in many countries, was introduced in France in January 1967.
Previously, the main instrument for control of bank liquidity was the liquid assets ratio ("coefficient de trésorerie") which required the banks to hold among their assets cash, Government securities and rediscountable medium-term paper to an amount calculated as a proportion of demand liabilities. The effectiveness of this ratio derived particularly from the fact that the components of the numerator either entailed some constraint in the management of their liquid assets or could not be created without the agreement of the Bank of France. Well suited to the circumstances prevailing at the time it was introduced, it operated satisfactorily for several years. Subsequently, disadvantages — connected particularly with changes in the composition of bank assets — gradually appeared and made it necessary for the liquid assets ratio to be replaced by a device less dependent on the lending techniques in force and better adapted to objectives of a purely monetary nature.

Para. I-1: *Legal basis of the reserve system*

87. The minimum reserve system was introduced by a decree of 9 January 1967 which applies, not only to the French and foreign banks under the authority of the National Credit Council, but also to all the special status establishments — French Foreign Trade Bank, popular banks, agricultural credit institutions, mutual credit institutions, maritime credit institutions, cooperative credit establishments — which receive deposits from the public, given that, by their lending, they participate in the creation of money. For convenience, some of these establishments have been authorized, by ministerial orders, to put up their reserves through their central institutions. The system, originally based exclusively on the demand liabilities of the banks, was extended by decree of 23 February 1971 to the credits granted both by the banks and by financial establishments (the latter as defined by the law of 14 June 1941).
The decrees of 9 January 1967 and 23 February 1971 laid down the basic principles of the system, leaving it to the National Credit Council and the Bank of France the responsibility for fixing the practical details. Thus, a decision of a

general nature by the National Credit Council, dated 26 February 1971, superseding that of 10 January 1967, specified the factors to be taken into consideration in calculating the reserves and delegated to the Bank of France the power to fix — subject to maxima — the actual reserve ratios and the penalty rate of interest to be charged in the event of shortfalls. These details were embodied in instructions of 26 February and 25 March 1971.

Para. I-2: *Calculation of the reserves*

1 - Bases of calculation

a) Reserves against demand liabilities.

88. The basis of the calculation, i.e. the *denominator* of the reserve ratio, is made up of the demand liabilities shown on the liabilities shown on the liabilities side of the metropolitan balance sheets of the establishments concerned, under the following heads:

1) *Customers' accounts*: cheque accounts, current accounts and certain miscellaneous deposit accounts, on the one hand, and bank book accounts (except housing savings accounts, which are subject to special investment obligations), certificates of deposit and accounts with fixed maturities whose initial term is less than three years, on the other.

2) *Accounts of non-banking firms admitted to the money market.*

3) *Accounts in the name of banks established abroad* (including branches abroad).

For the purposes of the calculation, all the establishments are permitted to enter liabilities of less than or equal to 10 million francs at half the actual amount, giving a maximum abatement of 5 million francs, chargeable without distinction to any category of liability.
The reserves themselves, i.e. the *numerator* of the minimum ratio, consist exclusively of liquid funds put up in the form of non-interest bearing deposits at the Bank of France and credited to the ordinary current accounts opened for banking establishments.

b) Reserves against credits granted.

The calculation of reserves against credits granted is based, in the first place, on lending of all kinds (with the exception of guarantees and endorsements) the beneficiaries of which are not themselves required to set aside reserves, and, in the second place on the granting of credit, by way of leasing ("crédit-bail).
Under the present rules, these loans are taken into account only for that part in excess of 80% of their amount on 5 January 1971.

2 - Methods of calculation

89. Calculation of the reserves is based on the principle of monthly averages. This average, which applies solely to the amounts to be kept in account, is calculated arithmetically in the light of the number of calendar days in a period extending from the 21st of each month to the 20th of the following month.
This method of calculation enables the banks to meet their commitments flexibly and cushions the impact a sudden money market tightness can have on their cash

situation. The reserves are not blocked in a special account and can be utilized in accordance with the banks' requirements. Thus, during the first part of the monthly control period, when their cash position is under strain because of outflows of notes, the banks can allow their reserve account to fall below the required minimum, at the cost of building up excess balances a little later when liquidity is more plentiful.

Para. I-3: *Minimum reserves ratio*

90. The National Credit Council has set at 15 % for liabilities and 10 % for lending the maximum level at which the Bank of France may fix the reserve ratio requirement without reference back to it. Since 18 May 1971 this power has been raised to 100 % for liabilities on non-residents' accounts.
Within these limits, the Bank of France has fixed differential rates. In the first place, a higher ratio (9 ¼ %) is required for sight liabilities — these being in the nature of money supply — than for bank book accounts and time accounts (4 ¼ %).
In the second place, franc accounts opened on behalf of banks or branches established abroad are, according to the circumstances, exempt from the reserve obligation or subjected to it at a specific rate. At present it is the highest rate (9 ¼ %) which is applied to them.
In the third place, banks' foreign currency liabilities are not at present subject to the reserve obligation. However, for a short period from 10 July to 20 September 1968, liabilities in foreign currency to residents were made subject to the requirement at the rate of 10 % to cope with an exceptional situation.
Finally, the rate applying to credits granted by the banks and financial establishments has been fixed at ½ % (for that part in excess of 80 % of their amount on 5 January 1971).

Para. I-4: *Control and penalties*

91. The fact that the reserves are recorded in its books gives the central bank the means of exercising continuous control over the observance of the rules. Where the required minimum reserve is not formed within the prescribed period, the Bank of France automatically, after notification, charges penalty interest on the amount of the deficiency.
The Bank of France has been empowered by the National Credit Council to fix this rate within the limit of a maximum of 3 points above Bank rate. The Bank decides the actual rate in the light of the conditions obtaining on the money market, so that banks may not find it to their advange to maintain reserves below the required level. The rate of penalty interest, initially fixed at 2 points above discount rate, was raised with effect from 15 March 1968 to the maximum level permitted by the National Credit Council.

Para. 1-5: *Effectiveness of minimum reserve policy*

92. By obliging the banks to part with assets in order to form the required balances, the minimum reserve system first has the effect of associating the central bank with every fresh injection of money. It thus reinforces the hold the central bank already has on the whole of the banking system through its role as bankers' bank and its monopoly of the issue of legal tender.

However, despite a continuous downward trend over the past 25 years, notes in circulation are a relatively high proportion of the aggregate money supply, and the monetary authorities have therefore fixed the minimum reserve ratio, at least initially, at a level lower than in most countries where a similar system is operated.
In the overall set of instruments for the control of bank liquidity, the role of the reserves is to effect a general adjustment of the cash position of the banks to the requirements of monetary balance in the prevailing economic situation. To cope with daily or seasonal fluctuations of bank liquidity, which cannot be entirely corrected by the machinery of periodical averages used for the control of reserves, the central bank makes use of other means, including, in particular, its operations on the money market.

93. By fixing the minimum reserve ratio on liabilities at different rates according to the nature or origin of the balances, the monetary authorities can also nudge the composition of bank deposits in the right direction to suit internal or external objectives. For example, the formation of liquid or semi-liquid savings is promoted by applying the lowest rate to the fixed deposits of banks.
The reserves required in respect of bank lending provide an additional means of checking the expansion of credit, and one with an efficacy enhanced by the fact that the effort to find additional liquid funds is directly demanded of the initiating establishment itself.
Under the powers delegated by the National Credit Council, the Bank has considerable scope for raising the rate (from ½ to 10 %), making much more restrictive action on its part possible in case of need.

Para. II: *Other banking ratios*

94. In order to be in a position to pursue a flexible interest rate policy, the Bank of France reserves the power to ensure at any time an appropriate division between the fixed rate facilities available to the banks through rediscounting and the variable rate accommodation they can get on the money market.
For this reason, not only have the rediscount ceilings been maintained (see 75 above), but a ratio known as the "minimum portofolio of paper representing medium-term credits" has also been introduced in order to limit the refinancing of this category of lending. Independently of the ratios mentioned above (minimum reserves and minimum portfolio of paper representing medium-term credits), which are a matter of monetary policy, the Banking Control Commission for its part has imposed on the banks certain ratios related to risks, deposits or capital and reserves, and prompted by the desire for sound banking practice.
The most important and oldest of the rules laid down concerns the minimum liquidity ratio ("coefficient de liquidité"). It has been supplemented more recently by other provisions which help to guard against the risk of excessive immobilization of bank assets (see 97 below). The National Credit Council has extended this latter regulation to the financial establishments.

Para. II-1: *The minimum portofolio of paper representing medium-term credits*

95. The so called liquid asset ratio, introduced in 1960 and kept in force until 1966, was intended to avoid the danger of massive resort to the Bank of France's rediscount facilities. With this in view, it aimed at freezing, in the assets

of the banks, a large part of the paper held outside the ceiling and allowing it to be rediscounted only within limits fixed by the Bank of France.

After the abolition of the cash ratio, on the introduction of the minimum reserve system, two categories of paper fully recovered the right of rediscount: short-term export drafts and bills guaranteed by the National Cereals Office. Mobilization of these enabled the banks to procure on advantageous terms part of the liquid resources needed to form their reserve accounts. On the other hand, banks were required to observe a new set of rules concerning the paper resulting from mobilization of medium-term credits.

Thus, in order to facilitate the gradual transition from the cash ratio to the minimum reserve system and to be in a position to limit the assistance which the Bank of France grants at fixed rates, the monetary authorities, in January 1967, introduced as a temporary measure the rule of the "minimum portofolio of paper representing medium-term credits".

The reform, a year earlier, of the conditions for rediscounting medium-term credits had already established a limitation of discount facilities for new lending. But a large volume of medium-term rediscountable credits remained outstanding from the old system, which provided the banks with wide scope for immediate mobilization and which it was important to keep under control.

Like the cash ratio, of which it is a simplified form, the new instrument requires the banks to maintain a minimum ratio between components of their mobilizable assets and components of their sight and term liabilities, as specified in the general decision of the National Credit Council of 10 January 1967.

The liabilities entering into the denominator are the same as those used in the calculation of the reserve ratio with the exception, however, of accounts opened for banks and correspondents established abroad. Moreover, an abatement of 50 million francs is applied to the total liabilities thus defined. The effect of this is to exempt the smaller banks from any requirement to hold these assets. As they do little medium-term lending, these banks would have had difficulties in observing the rule imposed.

The numerator comprises paper discounted, purchased or accepted "en pension", drawn in connection with medium-term credit and mobilizable under the terms laid down by the Bank of France. In addition, banks were authorized, until 20 October 1967, to include in it, on a degressive basis, a proportion of their portfolio of medium-term credit paper not rediscountable until the later maturity dates.

The minimum portfolio ratio, currently 16 %, was chosen in order to fix limits to facilities for mobilization without forcing the banks into excessive purchase of the necessary assets on the money market on unfavourable terms.

Para. II-2: *Liquidity ratio and ratios for medium and long-term credits*

96. The liquidity ratio was introduced by a Control Commission decision of 1948. It concerns deposit banks and, since 1966, merchant banks, but does not apply to the medium and long-term credit banks. Under the rules laid down by the Commission, the ratio of liquid and realizable assets to sight or short-term commitments must be at least 60 %.

In fact this ratio, designed to protect the interests of bank customers, is generally exceeded — and by a wide margin — in current banking practice.

97. The expansion of medium and long-term credits has recently led to the rules

in force being supplemented by specific measures to ensure satisfactory balance between, on the one hand, the holding of medium and long-term assets not eligible for the portfolio of the Bank of France, and, on the other, deposit resources considered as durable.
For this purpose two ratios have been laid down.
The first, called "ratio for granting non-rediscountable medium and long-term credits", introduces the rule of a maximum commitment in relation to a bank's own funds and to its time deposits. It is particularly important for the medium and long-term credit banks, but it also applies to the others.
As a general rule, and subject to a few special adjustments, the asset concerned are limited to three times the amount of the durable resources.
The second ratio, known as the "stable resources investment ratio", establishes a relationship between the volume of non-rediscountable three-month or longer credits and fixed assets, on the one hand, and total durable resources, as defined by the Control Commission, on the other. Although the banks have been called upon to supply the relevant figures, no maximum ratio has been laid down so far.

Section III - Control of the money market and links with foreign money markets

Para. I: *Money market intervention policy*

Para. I-1: *The money market*

98. The expression "money market" has two connotations, one broad and "economic", the other narrow and technical.
In the broader meaning, the market comprises all operations in which the various economic agents lend to or borrow from banks against sight or relatively short-term claims. We are dealing here with a market which might better be described as a short-term money market. The money market in the narrow sense has a different purpose. It is not a mere compartment of the short-term money market as defined above. It enables the banks, the Treasury and certain financial institutions, to effect among themselves, or with the bank of issue, such exchanges of claims against balances on the accounts with the central bank as may be necessary to meet cash surpluses or deficits arising from transactions with their customers. This functional definition covers two categories of operations which are distinct in practice: on the one hand, rediscounting at a fixed rate by the bank of issue and, on the other, operations varying rates on the market, including intervention by the bank of issue.

99. In France, the National Credit Council, with its general decision of 28 June 1967, defined the money market for the purposes of the regulations as consisting of the institutions which have access to it.
Authorized operators on the money market are considered to be, on the one hand, the banks, establishments whose main activity is registered as financial, and public or semi-public establishments of a financial nature, and, on the other, stock brokers ("agents de change"), investment companies and insurance institutions in the wide sense (in particular providence and pensions).

The scope of this decision needs clarification. Since some of these undertakings actually have no liquid funds on accounts with the central bank, they are not in a position to supply additional cash to the money market in the strict sense. On the other hand, the very fact that they are considered as authorized to lend on the market enables them to obtain interest rates close to the market level for the remuneration of their credit balances at the banks.

100. The working of the market is facilitated by brokers ("courtiers"), who bring lenders and borrowers together, and six discount houses ("maisons de réescompte") acting as a sort of clearing bank for the participants by carrying out borrowing and lending operations of varying duration for their own account. Intervention by the Bank of France keeps the market in balance at interest rates considered consonant with the objectives of monetary policy.

101. As defined and described above, the money market is essentially a capital market in which the securities exchanged form the basis of the transfers. However, in some cases, it is the desire to acquire securities that motivates transactions by suppliers of funds. There is thus a section of the market which deals in mobilizable medium-term credit paper. This paper is bought by banks — particularly deposit banks — which are not able to satisfy the minimum portfolio rule with their own lending. As the credits or portions of credits concerned are mobilizable without limit at the bank of issue the rates charged on the market necessarily stay very close to the Bank of France's discount rate as long as this rate remains below money market rates.
Money transfers are made by various methods: unsecured transactions, firm buying or selling of paper, and — chiefly — the placing of securities "en pension".
The mortgage market is a special one on which banks and various financial institutions exchange negotiable paper created to back credits for financing building and secured by mortgages.

102. The Treasury intervenes in the money market proper by offering bills — uusally of one year's maturity — for tender every ten days. But, apart from these particular operations, the management of the public finances as a whole indirectly influences the liquidity of the banking sector, since all Treasury operations are centralized in its account at the bank of issue (see above 59).

Para. I-2: *Intervention on the money market*

General remarks

103. Intervention by the Bank of France on the money market was authorized by a decree-law of 17 June 1938, which empowered the Bank "with a view to influencing the volume of credit and regulating the money market, to buy on the free market, within the limits and on the terms fixed by the General Council of the Bank, negotiable short-term Government securities and private securities eligible for discount and to resell, without endorsement, paper previously acquired".
In this way, and according to the provisions of the law itself, the operations of the central bank on the free market do not concern long-term securities. Moreover, in view of the nature of their deposits, French banks, for reasons of prudence and by tradition, avoid investments in long-dated securities. This traditional

cautiousness of the banking system towards the long-term securities market tends to separate the money and capital markets. The interdependence of the two markets is not very marked in France.

Paper eligible for the money market

104. Moreover, by virtue of the decisions of its General Council, the Bank of France's money market operations are confined to strictly limited types of short-term paper. An order of the General Council dated 21 January 1971 extended the list of these securities. Those eligible for the Bank's operations on the money market are now: Treasury bills in current account, bills issued by the Crédit Foncier and the Crédit National, and all the commercial paper (known as "private paper") eligible for discount subject to a minimum amount. Nevertheless, in the last named category a distinction continues to be drawn between what is more properly to be regarded as financial paper representing short or medium-term credits and mobilizable foreign trade claims on the one hand, and paper of a commercial nature payable in France on the other.
The first category includes paper representing credits covered by a rediscount agreement, mobilizable foreign trade claims, paper guaranteed by the Caisse Nationale des Markés de l'Etat) or by the Nationals Office, as well as promissory notes issued by the National French Railways Company.
The second category consists of paper representing credits for mobilizing trading claims or credit sales and of other commercial paper drawn on France (drafts by a supplier on a purchaser).
This division into two categories takes on practical significance from the fact that commercial paper belonging to the second category is discountable only when there is not enough paper of the first category. Furthermore, under the same order of January 1971 which gives the Governor full freedom to diversify the rates of intervention not only in accordance with the duration of the facility, but also in accordance with the nature of the paper presented, the "en pension" facilities granted on paper of the second category have so far been at a rate slightly higher than that applied to similar operations on paper of the first category.
Securities held by the Bank as a result of its operations on the money market are shown in the balance sheet under the heading "Paper bought on the money market".

History of interventions on the money market

105. For a fairly long period prior to 1964, the activity of the Bank of France on the money market was somewhat marginal.
Its intervention on the Treasury bill market, which was narrowly limited by the application of the "floor" and "liquid assets ratio" rules, took place mainly by firm purchases, and its purpose was chiefly to make it easier for banks to re-arrange the maturities within their portfolio. It generally applied a fixed rate to bills with less than three months to run and a market rate to the longer ones. In addition, five to thirty-day advances on Government paper not more than two years from maturity were granted up to a maximum fixed bank by bank.
On the market so-called private paper (commercial paper) the intervention of the Bank of France was limited to "en pension" operations of very short duration granted at a fixed rate (in fact at Bank rate). These "pensions" had been introduced gradually between 1948 and 1951 to give more flexibility to the policy of limiting

rediscount. In October 1951, fearing that the new facilities might be misused to circumvent the regulations in force, the Bank of France fixed "limits" to the recourse of each establishment.

However, by techniques similar to rediscounting and at the preferential rate of 3%, the Bank would buy outside the limit paper mobilizing export claims maturing in less than two years.

The Bank's operations on the money market at that time thus aimed merely at supplementing the primary technique it employed for controlling the volume of bank liquidity, by the traditional means of rediscounting commercial paper.

Before 1970

106. From 1964 onwards the Bank's operations became more far-reaching and systematic. In this period, when the French domestic economy was under fairly heavy inflationary strain, money market rates tended to rise above those prevailing abroad. In order to keep a tight rein on the short-term capital movements which this difference in rates might have triggered off, the Bank was compelled to intervene constantly on the market at rates which allowed for the terms obtainable on foreign markets. Subsequently, and in particular since the liberalization of French financial relations with abroad, the Bank maintained this policy with the aim of avoiding unwanted movements of funds between France and other countries. With this objective it was most of the time supplying extra resources to the banks in order to adjust the volume of bank liquidity. When, however, under the influence of seasonal or fortuitous factors, the banks' requirements could be met purely by resort to the Bank of France's fixed-rate facilities and the money market rate thus tended to approximate to the official discount rate, the Bank would claim the right to intervene as a borrower in order to maintain market terms at the desired level.

Since the second half of 1968 the balance of payments situation and the internal monetary position have made it necessary to raise Bank rate gradually from 3 ½ % to 8 %. Simultaneously, persistent strain on foreign markets has led the Bank of France to raise the rates at which it intervenes on the money market.

As the year 1969 was marked by the spread of inflationary trends throughout the world and as restrictive action was taken concurrently in various countries, the internal objectives of monetary policy did not conflict with the external ones. The outstanding feature of the policy followed by the French monetary authorities was the rapid increase, and then the maintenance at a high level, of the volume and rates of intervention by the Bank of France on the money market, in conjunction with large outflows of foreign exchange on the one hand, and rising rates on the international markets on the other.

After 1970

The trend was more complex in 1970 and in the early months of 1971.

While the French monetary authorities were anxious to proceed cautiously with the lifting of the restrictions imposed by the recovery plan on bank financing of the company sector, the downward movement of international market rates which became apparent in January 1970 led them to reduce rates of intervention on the market to avoid undesirable inflows of hot money. At the end of December, the aggregate fall amounted to about three points in relation to the level at the beginning of the year, thus bringing the rate of intervention on the money market

back into the immediate neighbourhood of Bank rate (7 %), which had been cut by only one point in the course of the same period.
The continuing fall in international rates led the Bank, from January 1971, to operate on the money market at rates below Bank rate. The latter was reduced by half a point on 8 January 1971, and then raised by a quarter of a point on 13 May 1971, so that the gap is between half a point and a little more than one point, according to the category of paper. At the same time the variable rates have fallen by one to about one and a half points since the beginning of the year. The banks are therefore now able to find on the money market most of the liquid funds they need to adjust their cash positions.
At the end of June 1971, the discount portfolio in the strict sense accounted for only a fifth of the total facilities extended by the Bank of France to the banks; and this fraction was chiefly made up of medium-term export credit paper, which qualifies for mobilization rates lower than the money market rates.

107. As regards technical procedures, the introduction of the minimum reserve system and the abolition of the requirement for minimum investment in Government securities and of the liquid assets ratio provided an opportunity to improve the Bank of France's money market techniques.
The Bank ceased, on 25 January 1967, to apply the limits — in any case, not very high — within which it supplied the banks with liquidity at the Bank rate. Similarly 5 to 30 day advances on Government securities were discontinued in December 1967.
Furthermore, the abolition of any obligation to invest in Treasury bills has restored these bills to their place among the instruments of money market transactions, both inter-bank and between banks and the Bank of France. Moreover, the technique of holding Government securities on current accounts lends great flexibility to the practical execution of operations against Treasury bills.
The diversification of the categories of paper admissible to the money market helps the Bank to differentiate the rates it applies and thus makes for greater flexibility in its intervention.

108. For a long time merely an adjunct in the supplying of the banks, cash requirements, the central bank's interventions on the money market have now become an important part of the machinery for controlling bank liquidity. They provide the necessary counterpart for the operation of the minimum reserve system and give the Bank of France the means of conducting an appropriate interest rate policy.

Para. II: *Action on international flows of short-term capital*

109. The monetary authorities can influence movements of capital to and from abroad by using statutory powers or by acting through the markets.

A - In France the control of capital movements provided for when exchange control was reintroduced (see 52 above) comprises a general prohibition on the export of capital, supplemented, as regards the banks, by special arrangements concerning their franc and foreign exchange positions.

1) The arrangements proper to the banks, introduced from December 1968, forbid them to take up on their own account a speculative position against the franc or

to provide customers or correspondents — particularly foreign — with the means of doing so. On the one hand, the banks' net holdings of foreign exchange — i.e. the excess of their claims over their commitments in respect of their spot and forward position in foreign exchange — were restricted to the position as at 3 September 1968; and, on the other hand, franc lending abroad was prohibited.

110. 2) These measures have repercussions on internal bank liquidity which arise from the restrictions on the increase of the banking system's external claims.
The control of franc claims on non-residents combined with the regulation of foreign exchange holdings sets limits to the banks' scope for short-term investments abroad, and thus avoids net exports of French capital which would have a contractive effect on bank liquidity (see 52 above).

111. 3) By virtue of specific exchange control provisions, the Bank of France has the means of regulating the foreign position of the banks. A directive issued in 1969 and rescinded on 1 July 1970 had ordered the banks to level off their net foreign exchange positions or to maintain net debtor positions. While they were being applied the purpose of these measures was to secure a better distribution of foreign exchange reserves between the Bank of France and the banks.

112. 4) As regards interest rates, the market is not insulated from the influence of the international market. Any variation in rates abroad not suitably taken into account in France would give rise to short-term capital movements which might be judged inopportune. This situation thus brings into play considerations of an external nature which combine with internal factors to determine the direction of policy on money market rates.

113. B - Apart from the responsibilities allotted to the Bank of France by the regulations in force, it makes it a rule not to intervene in the forward market; nor does it normally provide or accept foreign exchange in the form of swaps with the banking system.

Section IV - Direct action on lending

114. However effective a combination the policy of manipulating interest rates and quantitatively controlling bank liquidity may be, the need has appeared for direct action on lending. This is either to round off general arrangements by selective measures of stimulation or restraint according to the branches of activity or the degree of advisability of providing finance, or else, in times of heavy strain, to reinforce the policy already being applied.

Legal Basis

115. The Bank of France is responsible for implementing the arrangements concerning direct action on lending.
The procedure of fixing a maximum for the expansion of outstanding credits, applied until recently by a simple recommendation from the Governor of the

Bank to the whole of the banking system, is now based on an official regulation (the decree of 5 February 1970).

116. Selective action is mainly exerted by the Bank through its ability, as a rediscounting institution, to determine the eligibility for its portfolio of the paper presented.

Para. I: *Quantitative control of credit*

Role

117. Direct action on the volume of bank lending was seen to be necessary once it had become clear that the traditional machinery, acting on bank liquidity, did not allow the desired objectives to be attained rapidly and accurately. But it is an inelastic method which hampers normal competition between banks and its use, confined to periods of severe inflationary strain, is therefore by way of being exceptional.

History

118. The arrangements for direct action where first adopted, on 7 February 1958, in a particularly drastic form, since they then included the principle of a halt to the growth of outstanding bank credit, apart from a few exceptions in favour of export financing. These arrangements were rescinded on 5 February 1959, as soon as monetary recovery had begun.

119. This system — sometimes described as credit constraint ("encadrement") — was again brought into use from 1 March 1963. This time the control was much less severe than the previous measure had been, since it allowed outstanding lending to be increased by a proportion fixed initially at 12 % a year and later, in September 1963, reduced to 10 %. These limits were set in two successive letters addressed by the Governor of the Bank of France, Vice-President of the National Credit Council, to the President of the Association of Banks. The rule was suspended in June 1965, but for some time afterwards the Bank of France maintained very close supervision of each bank's transactions. The control was lifted altogether early in 1967.

120. In November 1968, as part of a general policy of credit restraint, the monetary authorities, for the third time, placed a limit on the banks' lending. The measures adopted were more stringent for short-term credit and non-mobilizable medium and long-term credit than for mobilizable medium-term credit subject to the control of rediscounting institutions. For 1969 they authorized an increase of less than 3% in short-term lending and non-mobilizable medium and long-term credits. For mobilizable medium-term credits the increase could be 10 % or 12 %. Similar rates of increase were adopted for 1970. However, from the very first quarter selective relaxations were made in favour of types of lending considered essential to the development of the economy, especially export credits and mobilizable medium-term equipment credits. These concessions were confirmed in the restrictive measures taken in June for the second half-year. In particular, the mobilizable medium-term equipment credits and credits granted in the context of housing savings were no longer subject to regulation.
The restriction of credit expansion was abolished at the end of October 1970.

Para. II: *Selective control of credit*

121. Ever since the early days after the last war, selective action on lending has been considered a necessary prop of economic policy, at first with an eye to speeding reconstruction and then to attaining the objectives of economic expansion and full employment that the authorities set themselves, while at the same time keeping a close watch on the suitability of the financial resources used.
This action, envisaged initially as basic, gradually lost its systematic character and became mainly an adjunct to quantitative controls as applied in practice. From this angle, it is still one of the outstanding features of French credit policy and, more particularly, of the role played by the Bank of France.

Inventory of risks

122. From its very beginnings, the National Credit Council has been concerned to see that the information necessary to implement selective action on credit should be available. For this reason, by a decision dated 7 March 1946 and amended several times since, it imposed on banks and financial establishments the obligation to report regularly to the Bank of France the risks assumed by their lending to customers and, where appropriate, to supply the Bank with any information or explanations which might seem called for.
The inventory of risks is made monthly and is supplemented by quarterly returns giving a more detailed breakdown of certain items. Leaving aside operations of small amount, it covers about three-quarters of total bank credit. The Central Risks Department ("Service Central des Risques") of the Bank of France, which is responsible for this inventory, is thus in a position to learn — and to communicate to the establishments making returns — the total amount of credit obtained by each borrower. In addition, it acquires a statistical instrument which furnishes the groundwork for detailed analysis of lending by branches of economic activity.

123. The arrangements for the centralization of risks have provided the National Credit Council with the means of requiring the largest bank credits to be made subject to a system of approval known as the prior authorization procedure (decisions of 9 January 1947 and 29 September 1948) affecting companies that use credit on a large scale.
However, application of this prior authorization procedure was suspended as from 1 July 1970. It has been replaced by a subsequent control applied by the Bank of France. This is based on accounting documents which have to be submitted by the banks providing the main funds, in respect of firms which have borrowed more than 25 million francs.
In addition, the Bank of France reserves the right to require bankers to provide any supporting evidence concerning credits notified to the Central Risks Department even where the commitments of an individual firm fall short of 25 million francs.

124. Information on the trend of bank lending analysed by economic sectors, has led the Bank of France, on several occasions, temporarily to guide the operations of the banks by recommendations to restrict or expand their lending to certain categories of borrower.

Criterion

125. Lastly, as regards medium-term credit with the cooperation of the specialized institutions, the Bank of France has far-reaching powers of selection based on study of the documents submitted in support of applications for mobilization agreements. In accordance with long-established practice, only short-term commercial bills representing merchandise sales are accepted for rediscount at the Bank of France without prior agreement other than a general authorization. On the other hand, the Bank makes the acceptance of financial bills for rediscount, and their admission to money market operations, conditional upon its prior consent. Because of the importance attached by the banks to their ability to mobilize such paper, this system provides the means of assessing bank lending individually, from the angle of its economic advisability.

In fields where social or regional considerations come into play, the procedure for loans financed from public funds or from the resources of the specialist institutions enable the authorities to channel credit very accurately towards the objectives set by the Government. This is the case in particular with the building loans granted under the system of "special loans", and with the action of the Economic and Social Development Fund.

Instalment credit

126. Finally, the expansion of instalment credit sales has led the National Credit Council to lay down fairly strict rules on consumer credit.

The Council's decisions in this field are motivated particularly by the desire to moderate demand for credit loans on account of the general monetary situation or, on the contrary, to stimulate the activity of one or more specific sectors by more liberal measures when changes in the economic climate justify this. They have also been dictated by the aim to avoid the application of interest levels that are considered excessive. However, on this last point, the entry into force of the new general law on usury and money-lending has made it unnecessary for the National Credit Council to issue particular regulations.

In order to act on the growth credit in the field of instalment sales the Council applies three rules. First, it has established a maximum ratio between the volume of consumer credit granted by banks or financial establishments and their capital and reserves. Secondly, it regulates the duration of loans by fixing maximum periods for repayment adapted to the various categories of goods. Lastly, it lays down the maximum amount of loans expressed as a proportion of the total cost, prescribing differentiated ratios according to categories of consumer goods. These last two rules apply, not only to all lending bodies, but also — in pursuance of a decision by the authorities — to all sellers.

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STATISTICAL TABLES

TABLE 1

Liquidity of the economy

(in FF ' 000 million)

As at 31 December	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969 old Series	1969 new Series	1970
SUPPLY OF MONEY AND NEAR-MONEY														
a) Notes in circulation	33.88	34.14	38.40	43.32	48.88	54.31	58.14	62.63	65.35	68.51	70.25	69.58	70.12	73.39
b) Coin in circulation	0.78	0.76	1.13	1.28	1.48	1.77	1.99	2.11	2.27	2.33	2.46	2.53	2.53	2.49
c) Sight deposits	40.26	48.21	55.34	65.00	79.14	92.21	100.44	110.92	121.66	127.48	141.45	142.81	138.34	158.26
of which: (i) bank	(30.80)	(37.57)	(42.67)	(50.38)	(61.57)	(72.15)	(78.58)	(87.12)	(96.34)	(100.11)	(111.20)	(110.45)	(106.07)	(124.64)
(ii) Post Office, Bank of France, Treasury	(9.46)	(10.64)	(12.67)	(14.62)	(17.57)	(20.06)	(21.86)	(23.80)	(25.32)	(27.37)	(30.25)	(32.36)	(32.27)	(33.62)
Total money supply	74.92	83.11	94.87	109.60	129.50	148.29	160.57	175.66	189.28	198.32	214.16	214.92	210.99	234.14
Savings-book accounts at banks	—	0.85	1.43	2.04	2.92	3.94	5.09	6.14	8.38	15.40	19.52	21.64	22.92	24.64
Housing savings accounts at banks	—	—	—	—	—	—	—	—	1.14	2.23	2.63	2.81	2.81	6.40
Time deposits-Treasury	5.38	5.43	7 58	9,66	10.96	10.63	12.09	13.81	15.79	23.90	28.78	40.31	40.69	55.08
National Agricultural	—	—	—	—	—	—	—	—	—	0.43	0.54	0.56	0.55	0.59
Credit Fund certificates	—	1.27	1.93	2.74	3.81	5.02	6.58	8.83	11.46	15.34	19.60	22.39	22.39	24.78
Total supply of near-money	5.38	7.55	10.94	14.44	17.69	19.59	23.76	28.78	36.77	57.30	71.07	87.71	89.36	111.49
Money and near-money supply	80.30	90.66	105.81	124.04	147.19	167.88	184.33	204.44	226.05	255.62	285.23	302.63	300.35	345.63
Liquid savings														
Near-money supply	5.38	7.55	10.94	14.44	17.69	19.59	23.76	28.78	36.77	57.30	71.07	87.71	89.36	111.49
Savings banks	21.50	25.31	28.74	32.64	37.85	43.38	51.95	59.05	67.96	77.19	84.74	97.70	97.70	113.54
Treasury certificates	12.16	15.85	19.41	23.30	26.90	28.90	29.44	29.53	28.52	29.36	30.87	32.92	32.92	33.13
Total	39.04	48.71	59.09	70,38	82.44	91.87	105.15	117.36	133.25	163.85	186.68	218.33	219.98	258.16

Source: National Credit Council.

TABLE 2

Contra-items of money and near-money supply

(in FF '000 million)

As at 31 December	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969 old Series	1969 new Series	1970
a) Gold and foreign exchange (net)	-0.07	7.16	10.48	15.27	20.06	24.22	28.02	31.35	33.18	34.36	18.64	9.29	9.29	23.00
b) Claims on the Treasury	32.71	33.40	36.03	38.29	42.29	47.22	47.79	49.82	51·37	56.63	59.89	63.40	63.29	61.87
c) Credits financed by the banks and the *Bank of France*	48.39	53.30	61.91	73.47	87.97	99.55	111.59	125.48	143.58	168.62	204.57	227.56	231.08	275.20
d) Miscellaneous	-0.73	-3.20	-2.61	-2.99	-3.13	-3.11	-3.07	-2.21	-2.08	-3.99	2.13	2.38	-3.31	14.44
Total contra-items of the supply of money and near-money	80.30	90.66	105.81	124.04	147.19	167.88	184.33	204.44	226.05	255.62	285.23	302.63	300.35	345.63

Source: National Credit Council.

TABLE 3

Liquidity of the economy and gross national product

(in FF '000 million)

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969 old Series	1969 new Series	1970
1. Gross National Product (basis 1962)	242.00	272.60	301.60	328.30	367.20	411.90	456.70	489.80	532.50	573.20	628.50	731.70	731.70	819.60
2. Money supply (1)	72.46	78.62	88.99	102.23	119.55	138.90	154.43	168.12	182.47	193.80	206.24	214.54	210.61	222.56
3. Liquid and short-term savings (1)	36.63	43.78	53.90	64.74	76.41	87.16	98.51	111.25	125.31	148.55	175.27	202.49	204.04	239.14
4. Total liquidity (1)	109.09	122.40	142.89	166.97	195.98	226.06	252.94	27.937	307.78	342.35	381.51	417.03	414.84	461.70
Ratios (expressed as percentage)														
2 : 1		28.8	29.5	31.1	32.6	33.7	33.8	34.3	34.3	33.8	32.8	29.3	28.8	27.2
3 : 1		16.1	17.9	19.7	20.8	21.2	21.6	22.7	23.5	25.9	27.9	27.7	27.9	29.2
4 : 1		44.9	47.4	50.8	53.4	54.9	55.4	57.0	57.8	59.7	60.7	57.0	56.7	56.3

Source: National Credit Council.

(1) Arithmetical average of total at the beginning and end of the period.

TABLE 4

Velocity of circulation of the main components of money supply

Annual average (1958 = 100)	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
I. INDEX OF VELOCITY OF CIRCULATION OF THE COMPONENTS OF MONEY SUPPLY													
a) Notes and coins	100	105.8	105.9	103.6	106.9	105.9	98.4	92.1	91.9	93.0	100.9	106.1	107.3
b) Sight deposits at banks	100	93.8	88.8	83.8	79.0	76.5	78.4	77.4	77.0	77.2	83.2	95.6	117.7
c) Deposits at Post Office	100	95.9	90.7	87.7	85.6	82.4	75.7	70.2	69.1	68.9	66.5	67.8	67.5
II. WEIGHTED INDEX OF VELOCITY OF CIRCULATION OF TOTAL MONEY SUPPLY	100	99.5	96.5	92.6	91.2	88.8	85.9	82.1	81.6	81.9	87.4	95.6	107.5

TABLE 5

Liquidity of the banking system

(in FF '000 million)

As at 31 December (after end of year settlement)	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969 old Series	1969 new Series	1970
I. CASH LIQUIDITY														
Liquid balances banks [1]	1.94	1.96	2.32	2.50	2.96	3.28	3.41	3.43	3.85	6.20	8.82	9.52	6.83	8.57
II. POTENTIAL LIQUIDITY														
Possible recourse by banks to the bank of France	2.32	6.36	5.04	3.33	3.75	2.96	3.59	4.13	3.78	2.35	2.60	4.06	4.18	4.57
of which: 1. Margin of rediscount ceilings still available	0.35	0.63	0.49	0.34	0.50	0.49	0.68	0.36	0.41	0.82	1.06	1.93	1.93	1.86
2. Outside ceilings	1.97	5.73	4.55	2.99	3.25	2.47	2.91	3.77	3.37	1.53	1.54	2.13	2.25	2.71
a) Short-term credits										(0.20)	(0.29)	(1.10)	(1.10)	(1.83)
b) Paper of the National Cereals Office	(1.97)	(5.73)	(4.55)	(2.99)	(3.25)	(2.47)	(2.91)	(3.77)	(3.37)	(1.33)	(0.84)	(0.85)	(0.85)	(0.88)
c) Mobilizable medium-term credits (in excess of the minimum holdings)										(—)	(0.41)	(0.18)	(0.30)	(—)
Total I + II	4.26	8.32	7.36	5.83	6.71	6.24	7.00	7.56	7.63	8.55	11.42	13.58	11.01	13.14
Pro-memoria														
III. POTENTIAL RECOURSE OF THE SPECIALIZED INSTITUTIONS	1 36	2.11	3.64	3.62	2.57	2.38	3.20	4.29	6.52	8.24	5.22	4.70	1.22	0.99
IV. POTENTIAL RECOURSE OF THE TREASURY	1.08	4.45	6.16	4.75	4.12	4.44	4.34	6.16	3.53	1.21	2.39	2.16	6.95	9.11
Total potential recourse to the bank of France (II + III + IV)	4.76	12.92	14.84	11.70	10.44	9.78	11.13	14.58	13.83	11.80	10.21	10.92	12.35	14.67

Source: National Credit Council.

(1) Including credit balances at the Bank of France, the monthly average of which must be at least equal to a minimum requirement.

TABLE 6a

Trend of the factors determining the liquidity of the banking system (1958-1966)

(Factors preceded by the sign + increase bank liquidity, those preceded by — reduce it)

(end-of-year figures in '000 million)

	1958	1959	1960	1961	1962	1963	1964	1965	1966
FACTORS ACTING ON THE BANKS' CASH SITUATION									
I. Notes in circulation	—34.39	—34.95	—39.32	—44.35	—50.08	—55.78	—59.54	—64.17	—67.37
II. Relations with abroad	— 0.07	+ 8.50	+11.75	+18.28	+23.01	+27.15	+29.62	+33.89	+35.38
III. Treasury operations	+20 22	+15.52	+12.41	+12.75	+13.68	+14.85	+15.16	+12.82	+14.18
IV. Persons and Companies (accounts, the Bank of France)	— 0.95	— 0.81	— 0.95	— 0.87	— 1.08	— 1.30	— 1.28	— 1.22	— 1.19
V. Miscellaneous	— 0.98	— 1.22	— 0.89	— 0.90	— 0.74	— 0.54	+ 0.36	+ 0.23	— 0.25
Total I to V	—16.17	—12.96	—17.00	—15.09	—15.21	—15.62	—15.68	—18.45	—19.25
Recourse to rediscounting									
VI. Bank of France	+15.64	+12.33	+16.31	+14.53	+14.82	+15.25	+15.31	+18.00	+18.31
VII. Specialized institutions	+ 0.53	+ 0.63	+ 0.69	+ 0.56	+ 0.39	+ 0.37	+ 0.37	+ 0.45	+ 0.94
Total VI and VII	+16.17	+12.96	+17.00	+15.09	+15.21	+15.62	+15.68	+18.45	+19.25

Source: National Credit Council.

TABLE 6b

Trend of the factors determining the liquidity of the banking system (1967-1969)

(Factors preceded by the sign + increase bank liquidity, those preceded by — reduce it)

(in annual averages and FF '000 million)

	21.1.1967 20.1.1968	21.1.1968 20.1.1969	Variations	21.1.1969 20.1.1970	Variations	21.1.1970 20.1.1971	Variations
I. *Origin of the banks' liquidity requirements*							
1. Notes in circulation	—6.752	—69.61	— 2.09	—71.16	— 1.55	—72.03	— 0.87
2. Balances of banks at the Bank of France	— 3.15	— 5.10	— 1.95	— 6.27	— 1.17	— 8.32	— 2.05
3. Foreign exchange operations	+33.41	+25.27	— 8.14	+ 9.56	—15.71	+18.00	+ 8.44
4. Direct lending by the Bank of France to the Treasury	+12.98	+12.53	— 0.45	+12.01	— 0.52	+10.76	— 1.25
5. Lending by the Bank of France to the specialized institutions	+2.41	+ 4.57	+ 2.16	+ 5.78	+ 1.21	+ 5.48	— 0.30
a) Special loans rediscounted by the Bank of France (Caisse des Dépôts et consignations)	(+ 2.35)	(+ 4.51)	(+ 2.16)	(+ 5.43)	(+ 0.92)	(+ 5.09)	(— 0.34)
b) Government paper (Caisse des Dépôts et consignations)	—	—	—	—	—	(+ 0.01)	(+ 0.01)
c) Crédit Foncier de France	(+ 0.06)	(+ 0.03)	(— 0.03)	(+ 0.10)	(+ 0.07)	(+ 0.23)	(+ 0.13)
d) Comptoir des entrepreneurs	—	(+ 0.03)	(+ 0.03)	(+ 0.25)	(+ 0.22)	(+ 0.15)	(— 010)
6. Lending by the Bank of France to the Financial establishments	+ 0.09	+ 0.40	+ 0.31	+ 1.93	+ 1.53	+ 2.38	+ 0.45
7. Miscellaneous	+ 0.40	+ 0.11	— 0.29	— 1.14	— 1.25	— 1.40	— 0.26
Total	—21.38	—31.83	—10.45	—49.29	—17.46	—45.13	+ 4.16
II. *Adjustment of the banks' liquidity positions*							
Lending by the Bank of France to the banks							
(i) At fixed rates	+18.77	+24.31	+ 5.54	+30.42	+ 6.11	+29.38	— 1.04
(ii) At variable rates	+ 2.61	+ 7.52	+ 4.91	+18.87	+11.35	+15.75	— 3.12
Total	+21.38	+31.83	+10.45	+49.29	+17.46	+45.13	— 4.16

Source: National Credit Council.

TABLE 7

Short-term Treasury debt

(Situation at end of year in FF '000 million)

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Internal debt													
a) Treasury certificates ("sur formules")	11.46	14.76	18.16	21.87	25.32	27.58	28.25	28.36	27.86	28.22	29.64	31.10	32.06
b) Government securities on current account													
(i) Banking sector	8.94	11.46	13.08	11.35	10.81	11.50	8.61	9.37	5.51	15.02	17.85	18.43	16.97
(ii) Others	8.27	8.47	8.29	8.74	11.66	11.84	12.59	11.95	9.63	11.32	13.56	16.11	15.67
c) Commitments to the Central Bank	10.85	9.14	7.40	8 86	8.67	8.77	9.00	7.13	8.88	8.60	8.82	8.35	7.10
d) Loans matured	0.31	0.26	0.28	0.38	0.33	0.22	0.18	0 18	0.27	0.28	0.18	0.18	(2)
Total internal debt	39.83	44.09	47.21	51.20	56.79	59.91	58.63	56.99	52.15	63.44	70.05	74.17	71.80
Treasury correspondents	23.74	28.32	31.71	35.36	39 71	45.42	48.97	51.67	57.37	53 31	60.12	61.46	63.84
External sight debt (1)	3.51	3.27	31.7	2.06	1.89	1.76	1.45	0.85	1.33	1.31	3.78	4.19	6.65
Total short-term indebtedness of the Treasury	67.08	75.68	82.09	88.62	98.39	107.09	109.05	10951	110.85	118.06	133.95	139.82	142.29

(1) Certificates underwritten by Treasury correspondents or by International Institutions (I.M.F., I.D.A. ...).

(2) Because of the modifications in the method of presenting the Treasury's statistical documents, the amount of (loans) ma t ed and not yet redeemed is added from 1970 to the outstanding capital of the loans concerned.

TABLE 8

Long-term government debt

(Situation at end of year in FF '000 million)

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Internal debt													
a) Perpetual debt	0.74	0.55	0.55	3.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
b) Redeemable debt	25.32	25.29	23.96	22.97	21.62	23.24	23.19	22.57	22.55	22.01	19.83	18.57	16.80
Total internal debt	26.06	25.84	24.51	23.52	22.17	23.79	23.74	23.12	23.10	22.56	20.38	19.12	17.35
External debt													
a) Redeemable debt	4.04	5.07	4.80	0.76	3.29	3.13	2.96	2.79	2.27	2.20	2.14	2.33	2.10
b) Credits or advances from foreign governments	6.28	5.75	5.10	4.74	2.12	1.19	1.19	1.19	1.19	1.10	1.01	1.03	0.90
Total external debt	10.32	10.82	9.90	8.50	5.41	4.32	4.15	3.98	3.46	3.30	3.15	3.36	3.00
Special debt of the annexed Post Office Budget	1.30	1.40	1.28	1.35	1.99	2.42	2.81	3.10	3.42	3.68	3.97	4.22	4.55
Total long-term Government debt	37.68	38.06	35.69	33.37	29.57	30.53	30.70	30.20	29.98	29.54	27.50	26.70	24.90

TABLE 9

Breakdown by categories of institution on total investments
(long-term public and private securities of financial intermediaries) (1)

(end-of-year figures in FF '000 million)

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
1. Inscribed banks													
Securities and participations	1.08	1.29	1.57	1.92	2.24	2.76	3.14	3.23	3.45	4.11	4.32	5.11	6.42
Balance sheet total	51.76	64.19	79.04	92.85	105.31	115.24	126.78	139.42	158.03	184.25	211.06	231.00	292.43
2. Popular Banks													
Securities and participations	0.02	0.02	0.02	0.02	0.03	0.05	0.06	0.07	0.07	0.13	0.19	0.24	0.25
Balance sheet total	2.27	2.83	3.20	3.89	4.62	5.42	6.10	7.30	8.53	10.31	12.11	13.89	16.36
3. Agricultural Credit Institutions													
Securities and participations	0.01	0.01	0.01	0.01	0.02	0.02	0.03	0.03	0.04	0.03	0.07	0.02	0.01
Balance sheet total	12.57	15.19	18.45	22.35	27.69	33.30	40.27	47.49	54.55	61.45	72.38	78.49	93.33

(1) The statistics available do not allow bonds or other fixed-interest securities to be singled out. The above figures are estimated of the investment portfolios comprising both participations and securities and, among the latter, both shares and bonds. The total investment in securities remains low in relation to the balance-sheet totals.

Source: National Credit Council.

TABLE 10

Central Bank portfolio of rediscounts and advance on securities

(in FF '000 million)

End-of-year figures	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
I. Discount portfolio of the Bank of France	22.22	16.39	18.85	18.68	20.60	20.01	18.60	19.06	16.14	24.60	36.62	38.82	35.43
A. Mobilization of claims on France													
1. Paper representing short-term credits	7.19	4.93	6.00	6.65	7.53	7.61	6.84	7.54	8.19	11.36	14.66	13.28	9.93
of which: a) Pledged bonds	(2.07)	—	—	—	—	—	—	—	(0.92)	(2.32)	(1.11)	(2.07)	(0.10)
b) Paper guaranteed by the National Cereals office	(0.48)	(0.70)	(0.88)	(0.80)	(1.22)	(0.58)	(0.67)	(0.61)	(0.12)	(1.79)	(2.94)	(2.92)	(2.71)
c) Other claims on France	(4.64)	(4.23)	(5.12)	(5.85)	(6.31)	(7.03)	(6.17)	(6.93)	(7.14)	(7.35)	(10.61)	(8.29)	(7.12)
2. Paper mobilizing medium-term credits	14.42	10.80	11.73	10.53	10.91	9.87	8.72	8.12	5.25	4.52	8.96	11.04	9.06
of which: a) Special housing loans	(7.27)	(6.78)	(5.69)	(6.33)	(7.37)	(7.44)	(6.82)	(6.19)	(4.85)	(2.60)	(4.72)	(4.68)	(4.77)
b) Other medium-term credits	(7.15)	(4.02)	(6.04)	(4.20)	(3.54)	(2.43)	(1.90)	(1.93)	(0.40)	(19.2)	(4.24)	(6.36)	(4.29)
B. Mobilization of claims on abroad													
Paper representing short-term credits (1)	—	—	—	—	—	—	—	—	—	4.32	7.79	7.66	8.43
Paper mobilizing medium-term claims	0.61	0.66	1.12	1.50	2.16	2.53	3.04	3.40	2.70	4.31	5.21	6.84	8.01
II. Advances on securities	0.32	0.25	0.28	0.26	0.24	0.14	0.12	0.09	0.10	0.30	0.15	0.15	0.06
of which: a) 30-day advances	(0.22)	(0.17)	(0.21)	(0.19)	(0.17)	(0.07)	(0.03)	—	—	(0.21)	—	—	—
b) Others	(0.10)	(0.08)	(0.07)	(0.07)	(0.07)	(0.07)	(0.09)	(0.09)	(0.10)	(0.09)	(0.15)	(0.15)	(0.06)
III. *Pro-memoria:* Negotiable paper bought in France (Open Market)	2.61	2.83	3.55	2.88	2.41	3.22	4.55	6.18	8.17	3.12	10.99	21.47	16.42
Total I+II+III	25.15	19.47	22.68	21.82	23.25	23.37	23.27	25.33	24.41	28.02	47.76	60.44	51.91

(1) It was in October 1967 that paper representing claims on abroad mobilized by the Bank was first listed in the discount portfolio. Previously, it had been acquired, by way of operations on the money market and appeared under "Negotiable paper purchased in France".

TABLE 11

Rediscount portfolio of the intermediary rediscounting institutions

(at 31 December in FF '000 million)

End-of-year figures	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
"Crédit Foncier de France" (medium-term)	0.03	0.01	0.07	0.06	0.06	0.06	0.06	0.08	0.09	0.07	0.05	0.06	0.05
"Crédit National" and "Caisse des Dépôts et Consignations"	0.27	0.26	0.47	0.34	0.30	0.31	0.31	0.37	0.85	3.19	2.81	4.71	5.72
of which: a) Placed "en pension"/short-term	(0.09)	(0.11)	(0.09)	(0.13)	(0.09)	(0.13)	(0.25)	(0.28)	(0.77)	(1.92)	(2.36)	(4.18)	(5.38)
b) Placed "en pension"/Government securities	—	—	(0.02)	—	—	—	—	—	—	(0.66)	(0.26)	(0.35)	—
c) Sales or placings "en pension" (medium-term)	(0.18)	(0.15)	(0.36)	(0.21)	(0.21)	(0.18)	(0.06)	(0.09)	(0.08)	(0.10)	(0.11)	(0.06)	(0.02)
d) "en pension"/bills of the "Crédit Foncier de France" and of the "Crédit National"	—	—	—	—	—	—	—	—	—	(0.51)	(0.08)	(0.12)	(0.32)
Total	0.30	0.27	0.54	0.40	0.36	0.37	0.37	0.45	0.94	3.26	2.86	4.77	5.77
Pro-memoria:													
Other bodies	0.23	0.36	0.15	0.16	0.03	—	—	—	—	0.19	0.79	1.06	1.08
Bank of France	16.29	13.14	17.25	15.46	15.81	16.09	15.96	18.34	18.46	23.12	43.25	51.12	45.88

Source: National Credit Council.

TABLE 12

Open market portfolio of the Central bank

(end-of-year figures in FF '000 million)

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Negotiable paper purchased in France	2.61	2.83	3.55	2.88	2.41	3.22	4.55	6.18	8.17	3.12	10.99	21.47	16.42
a) Treasury bills	1.35	1.57	1.45	0.61	0.23	0.16	0.60	0.43	0.05	2.64	5.19	8.43	7.77
b) Drafts and bills of exchange	0.66	0.76	1.42	1.54	1.67	2.06	2.48	3.23	3.28	—	—	—	—
c) Other paper	0.60	0.50	0.68	0.73	0.51	1.00	1.47	2.52	4.84	0.48	5.80	13.04	8.65
of which medium-term bills of the Crédit Foncier de France	—	—	—	—	—	—	—	—	—	—	(1.30)	(1.72)	(1.62)

TABLE 13

Rates applied to refinancing operations by the bank of issue

End-of-year figures	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Bank rate	4.5	4	3.5	3.5	3.5	4	4	3.5	3.5	3.5	6	8	7
Discount rate "en pension" A	7	5	4.5	4.5	4.5	5	5	4.5	4.5	–	–	–	–
Discount rate "en pension" B	10	6	6	6	6	6	7.5	6	6	–	–	–	–
30-day advances	3	3	3	3	3	3	4	3.5	3.5	–	–	–	–
Purchase of Government securities of less than three months' maturity	3	3	3	3	3	3	3	3	3	3	4	4	4
Fixed rate "pensions" (Regulation of 14 December 1967)	–	–	–	–	–	–	–	–	–	6	8.5	10.5	9.5
Mobilization of export drafts													
a) short-term	–	–	–	–	–	–	–	—	–	3	2	4 or 8	7
b) medium-term (*)	–	–	–	–	–	–	–	–	–	3	2 or 3	4*	4.5*
Exceptional cash advances	–	–	–	–	–	–	–	–	–	–	3.5	3.5	–
Advances on securities	7	5.5	5	5	5	5	5	5	5	5	7.5	9.5	8.5

Source: Annexes to report of the National Credit Council. Trend of interest rates on the money market.

(*) In February 1970 the rate mobilization of medium-term drafts connected with exports to EEC countries was raised to 8%.

TABLE 14a
Minimum reserve ratios on banking institutions

Date of entry into force		LIABILITIES				Credit granted
		in francs			in foreign currencies	
		On sight deposits	On other liabilities	On banks and corre-spondents	On foreign correspond-ents	
21 January	1967	1.5 %	0.5 %	0.5 %		
21 April	1967	2.5 %	1.—%	1.—%		
21 July	1967	3.5 %	1.5 %	1.5 %		
21 October	1967	4.5 %	2.—%	2.—%		
10 July	1968	4.5 %	2.—%	2.—%	3.5—%	
21 September	1968	4.5 %	2.—%	2.—%		
15 October	1968	4.7 %	2.1 %	2.1 %		
15 November	1968	5.5 %	2.5 %	2.5 %		
21 June	1969	5.5 %	0.5 %	0.5 %		
21 January	1970	5.5 %	0.5 %			
5 June	1970	6.5 %	1.5 %			
10 July	1970	7.5 %	2.5 %			
1 April	1971	7.25 %	2.25 %			0.25 %
6 May	1971	8.25 %	3.25 %			0.25 %

TABLE 14b

Amount of the minimum reserve requirements on institutions

(in FF '000 million)

Monthly periods	On sight deposits	On other liabilities and correspondents	Total
January-February 1967	1.35	0.13	1.48
February-March 1967	1.32	0.13	1.45
March-April 1967	1.31	0.13	1.44
April-May 1967	2.19	0.28	2.47
May-June 1967	2.24	0.28	2.52
June-July 1967	2.22	0.28	2.50
July-August 1967	3.16	0.42	3.58
August-September 1967	3.17	0.45	3.62
September-October 1967	3 10	0.48	3.58
October-November 1967	4.01	0.71	4.72
November-December 1967	3.99	0.75	4.74
December 1967-January 1968	3.90	0.76	4.66
January-February 1968	4.17	0.79	4.96
February-March 1968	4.02	0.82	4.84
March-April 1968	3.98	0.84	4.82
April-May 1968	3.98	0.88	4.86
May-June 1968	2.21	0.50	2.71
June-July 1968	3.82	0.92	4.74
July-August 1968	3.48	0.82	4.30
August-September 1968	4.30	1.—	5.30
September-October 1968	4.25	0.88	5.13
October-November 1968	4.58	0.94	5.52
November-December 1968	5.40	1.13	6.53
December 1968-January 1969	5.31	1.12	6.43
January-February 1969	5.68	1.11	6.79
February-March 1969	5.47	1.14	6.61
March-April 1969	5.48	1.14	6.62
April-May 1969	5.50	1.17	6.67
May-June 1969	5.61	1.18	6.79
June-July 1969	5.51	0.24	5.75
July-August 1969	5.59	0.23	5.82
August-September 1969	5.66	0.24	5.90
September-October 1969	5.57	0.24	5.81
October-November 1969	5.70	0.25	5.95
November-December 1969	5.60	0.25	5.85
December 1969-January 1970	5.54	0.25	5.79
January-February 1970	5.63	0.25	5.88
February-March 1970	5.49	0.26	5.75
March-April 1970	5.46	0.26	5.72
April-May 1970	5.42	0.28	5.70
May-June 1970	6.06	0.56	6.62
June-July 1970	6.86	1.01	7.87
July-August 1970	7.67	1.42	9.09
August-September 1970	7.70	1.46	9.16
September-October 1970	7.67	1.48	9.15
October-November 1970	7.89	1.51	9.40
November-December 1970	8.21	1.55	9.76
December 1970-January 1971	8.31	1.58	9.89
January-February 1971	9.02	1.61	10.63
February-March 1971	8.78	1.66	10.44

TABLE 15a

Rates of the various banking ratios

	Minimum ratio of Government paper included among the "minimum holding of bills" (1)	Liquid assets ratio (2)
31 December 1958	25 %	—
31 December 1959	25 %	—
23 December 1960	20 %	30%
29 June 1961	17.5%	30%
17 January 1962	17.5%	32%
9 March 1962	15 %	32%
27 February 1963	15 %	35%
6 May 1963	15 %	36%
22 January 1964	13 %	36%
20 May 1964	10 %	36%
4 June 1964	10 %	34%
25 June 1964	10 % (0% end-June maturity)	33%
	10 % (0% end-July maturity)	34%
17 July 1964	10 %	36%
9 October 1964	10 %	34%
14 October 1964	7.5%	34%
8 December 1964	7.5%	33%
6 January 1965	7.5%	36%
14 April 1965	7.5%	34%
13 May 1965	7.5%	35% for end May
	7.5%	34% for end June
28 June 1965	7.5%	34% for end July
31 August 1965	7.5%	36%
30 September-30 November 1965	7.5%	34%
27 December 1965	5.–%	32%
13 January 1966	5 %	35%
31 March 1966	5 %	32%
30 April 1966	5 %	33%
31 May 1966	5 %	32%
30 June 1966	5 %	31%
31 July 1966	5 %	31% maturity
		34% end-July
31 October 1966	5 %	32%
30 November 1966	5 %	32%
31 December 1966	5 %	32%

(1) The "Minimum holding" of Government paper was abolished in September 1967.

(2) Treasury bills are among the assets eligible for the liquid assets ratio.

TABLE 15b

Changes in the ratios of the minimum portfolio of paper representing medium-term credits

Date of publication	Date of entry into force	Rate of the minimum portfolio (1)	Texts	Abatement on liabilities
10 January 1967	21 January 1967	20% (2)	B. of F. Instruction N° 65	20 million
19 May 1967	19 May 1967	19%	B. of F. Instruction N° 67	20 million
21 June 1967	21 June 1967	18%	B. of F. Instruction N° 68	20 million
19 July 1967	19 July 1967	17%	B. of F. Instruction N° 70	20 million
21 November 1967	21 November 1967	16%	B. of F. Instruction N° 71	20 million
20 June 1968	21 June 1968	14%	B. of F. Instruction N° 73	20 million
19 July 1968	21 July 1968	13%	B. of F. Instruction N° 75	20 million
12 November 1968	15 November 1968	14%	B. of F. Instruction N° 79	20 million
8 October 1969	10 October 1969	15%	B. of F. Instruction N° 81	20 million
22 April 1970	27 April 1970	16%	B. of F. Instruction N° 84	20 million
25 June 1970	22 April 1970	16%	B. of F. Instruction N° 87	50 million

(1) In relation to liabilities in French francs up to 22.12.1969. In relation to liabilities in French francs and of francs legal tender in the Overseas Departments and Territories (except Dijbouti) since 23.12.1969 (B. of F. Instruction N° 83).

(2) B. of F. Instruction N° 66 of 31.1.67: 10% for banks with head office in Monaco and having no branches in French territory.

TABLE 16

Range of money market rates

End-of-year figures	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Yield of Treasury bills on current account at 2 yeats	3.84	3.84	3.62	3.62	3.42	3.28	3.28	3.28	3.28	—	—	—	—
Rates for allocations of 1-year Treasury bills (highest and lowest)	—	—	—	—	—	—	3.23 3.66	3.17 3.50	3.14 3.17	4.61 5.125	5.01 7.75	7.86 9.50	7.172 9.234
Rates for call-money against private sector paper (highest and lowest for December)	4.50 10.5	3.875 4.75	3.50 4.25	3.50 3.875	3.375 4.25	3.875 7.00	4.00 5.50	3.750 4.875	5.625 5.875	4.625 5.00	8.125 8.500	9.750 11.00	7.125 7.75
Rates for call money against Government paper	3.00 4.250	2.500 3.750	3.500 4.250	3.375 3.500	3.375	2.750 3.375	2.875 3.875	3.250 3.500	2.500 2.875	4.625 4.875	8.00 8.250	9.375 10.750	6.875 7.625
Cost of mobilization of paper representing medium-term credits	5.05	4.45	3.95	3.95	3.95	4.45	4.45	3.95	3.95	3.95	6.20	8.20 equipment	7.20
Penalty interest rates for shortfalls in minimum reserves	—	—	—	—	—	—	—	—	—	5.50	9.00	11.00	10.00

Source: Annex to the Annual Report of the National Credit Council (Trend of interest rates on the money market).

TABLE 17

Banks short-term external claims and liabilities

(in $ millions, units of account)

End-of-year figures	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
A. FOREIGN EXCHANGE												
1. Claims	797	984	1 188	1 383	1 572	1 803	2 268	2 883	3 489	5 008	7 305	8 744
2. Liabilities	504	643	906	1 133	1 471	1 642	1 893	2 483	3 268	4 761	7 582	9 147
3. Net position	+293	+341	+282	+250	+101	+161	+375	+400	+221	+247	—277	—403
B. FRANCS												
1. Claims	—	—	—	—	—	20	81	225	292	395	221	228
2. Liabilities	—	—	—	—	—	547	569	818	1 075	703	570	900
3. Net position	—226	—292	—340	—396	—449	—527	—488	—593	—783	—308	—349	—672
C. OVERALL NET POSITION	+ 67	+ 49	— 58	—146	—348	—366	—113	—193	—562	— 61	—626	—1 750

Part four

THE MONETARY POLICY IN ITALY

Chapter one

BASIC FACTS OF MONETARY POLICY

Section I - Institutional framework and structural aspects

Para. I: *Institutional framework*

CIPE

1. The Inter-ministerial Economic Planning Committee (*Comitato Interministeriale per la Programmazione Economica* - CIPE), set up under Law No. 48 of 27 February 1967, is the body in charge of formulating the country's economic and financial policy and laying down guidelines. It indicates the general lines of the national economic programme and the Government's budget estimates and the basic directives for implementing the economic programme. It also examines the general economic situation for the purpose of adopting short-term economic measures and harmonizing domestic economic policy with that of the other EEC countries.
The CIPE is presided over by the Prime Minister and consists of the Minister for the Budget and Economic Planning, who is a standing member of the committee and Vice-President, and normally of a further thirteen ministers.
The following may be invited to attend CIPE meetings: the Governor of the Banca d'Italia, the President of the General Statistical Office, the Secretary for Programming.

CICR

2. The Inter-ministerial Credit and Saving Committee (*Comitato Interministeriale per il Credito e il Risparmio* - CICR) is concerned with finance in general and credit in particular. It is the body which is responsible for deciding the guidelines of monetary, credit and exchange policy. In carrying out its functions the CICR follows "the general lines laid down by the CIPE for the overall distribution of monetary flows according to destination, in conformity with the lines of development set out in the national economic programme" (Presidential Decree No. 626 of 30 March 1968).
The CICR was set up by Decree-Law of the Provisional Head of State No. 691 of 17 July 1947 to replace the Committee of Ministers established by the Banking Law (Royal Decree-Law No. 375 of 12 March 1936) and abolished in 1944. The CICR, whose meetings the Governor of the Banca d'Italia is entitled ex officio to attend, is composed of the Minister for the Treasury, who chairs the meetings, and the Ministers for Public Works, Agriculture and Forests, Industry and Commerce, Foreign Trade, the Budget and Economic Programming, and State Holdings. The Banking Law stipulates that for supervision of matters within its province

and for the implementation of its decisions the CICR shall work through the Banca d'Italia. Within the limits of the guidelines laid down by the CICR, the Bank plays a fundamental role in the choice of the most suitable ways and means to achieve the aims selected; in addition, the Governor may take steps to promote measures decided by the CICR.

Banca d'Italia

3. The Banca d'Italia, established by Law No. 449 on 10 August 1893 and the sole bank of issue since 1926 (Law No. 1362 of 25 May 1926), underwent substantial changes as a result of the Banking Law. It was transformed from a joint-stock company subject to private law, with the right to carry out banking operations even with private individuals, into a public-law institution (Article 20), with its activity almost exclusively limited to dealings with credit institutions. Its capital, subdivided into 300,000 registered "participations" of Lit. 1,000 each, may be held only by savings banks, public-law credit institutions, banks of national interest, social security agencies and insurance companies.

The Bank is subject to supervision by the State because it performs functions of public interest and administers services on behalf of the State. This supervision is exercised by a standing commission, presided over by the Treasury Minister, (Article 110 of the Consolidation Law on banks of issue and the circulation of bank notes), which, if so requested by the Minister, renders opinions on measures concerning bank notes (Article 111 of the Consolidation Law), on amendments to the Charter of the Banka d'Italia and on the implementation of laws concerning the Bank of Issue. Other controls are exercised by the inspectorate-general of the Ministry of the Treasury, which examines the Bank's annual statement and is represented by certain officials at the General Meeting and at the meetings of the Board. Article 123 of the Consolidation Law stipulates that every three years the inspectorate must undertake extra inspections to examine the form and substance of operations: in addition, general or special inspections may be made at any time.

Besides the practical application of monetary policy as described above, the Bank has a supervisory function over all public and private-law institutions collecting savings from the public and providing credit, whether operating in the short term (banks) or the medium and long term (special credit institutions). This function, which was initially conferred upon the Bank by Royal Decree-Law No. 1511 of 7 September 1926, was confirmed after the last war when the CICR was set up.

The main powers given by the Law to the Banka d'Italia are to authorize the setting up or merger of banks, to undertake a prior vetting of their articles of association and amendments thereto from the angle of their conformity with the law, to approve the appointment of the executives of certain categories of bank and to issue regulations on the presentation of balance sheets. For the purpose of supervising credit operations, the Banca d'Italia is also empowered to give instructions on:

a) The maximum deposit and lending rates and commissions on banking services;
b) The ratio between various forms of investment;
c) The limits on the size of loans;
d) The ratio of own funds to deposits and how deposits in excess of this ratio should be employed;
e) Measures to prevent the increased risk arising from the application of one borrower to several banks.

In the exercise of the powers conferred on it by the law, the Banca d'Italia may require the institutions subject to its supervision to submit their balance sheets, regular statements and any other useful information, and also may carry out inspections on the spot.
In connection with the power referred to under item e), the Bank has a centralized service, which it set up early in 1964, for obtaining information on recourse to the credit system (Central Risk Office); this makes it possible to know whether customers have obtained multiple loans from various institutions and on various markets. This system enables those responsible for decisions to assess clientele as acculrately as possible as regards the potential risk in making the loan.

Italian Exchange Office

4. The Italian Exchange Office (*Ufficio Italiano dei Cambi* - UIC), set up by Decree-Law of the Lieutenant General of the Realm No. 331 of 17 May 1945, is responsible for ensuring the observance of exchange control regulations, controlling the foreign exchange market and administering the country's foreign exchange reserves.
The Office is legally separate from the Banca d'Italia but cooperates closely with it both in decision-making, since the Governor directs the UIC and is the Chairman of its Board, and operationally. The initial endowment capital of Lit. 100 million was provided by the Banca d'Italia and funds for the purchase of foreign exchange are furnished by the bank through a special current account.
The Bank is, moreover, subordinate to the UIC, as it is subject to the exchange control regulations in its capacity as an exchange dealer.

Para. II: *Structural aspects*

Para. II-1. *Structure of financial intermediaries*

The financial intermediaries operating in Italy may be subdivided into: credit institutions, treasury and "*Cassa Depositi e Prestiti*". social security institutions.

Credit Institutions

5. Besides the Banca d'Italia and the UIC, which have already been dealt with in the preceding section, the credit institutions embrace: *a*) banks, *b*) special credit institutions and *c*) insurance companies. The latter are not subject to control by the Central Bank.
The Banking law authorizes the separation of ordinary credit from credit secured by personal property, thus supplementing the rules under the 1926 legislation intended to safeguard bank solvency and liquidity. The experience of the years following the first world war, when the industrial conversion crisis of the twenties and the world depression from 1930 to 1932 led to the bankruptcy of some ordinary credit banks which had contributed largely to the development of the Italian industrial apparatus, suggested that the all-purpose bank system then current should be abandoned.
It is the banks that provide the working funds, which firms need to undertake production, whereas the special credit institutions grant investment credit, i.e. they finance the fixed capital of such firms.
This distinction is not so clear in practice, not least because in certain phases of

the business cycle difficulty in obtaining funds on the capital market may induce firms to have recourse to banks in order to finance fixed capital too.
In addition, there are channels linking the short-term with the medium and long-term systems and many banks have holdings in special credit institutions, or administer medium and long-term credit through their own specialized sections, which they supply with considerable funds.
Article 5 of the Banking Law lists the various types of bank authorized to collect short-term savings. The distinction made by the law between short-term and medium and long-term is in respect of the collection of funds, the structure of which is reflected in that of the lending and investment operations for which these are used. The time limits and rates for short, medium and long-term deposits were laid down by a decision of the CICR in January 1963.
The short-term collection of saving consists of time-deposits not exceeding 18 months, medium-term between 18 and 60 months, and long-term above 60 months; banks may not collect savings of a maturity exceeding 18 months and specialized credit institutions of less than 18 or more than 60 months. Exceptionally, banks may, with prior authorization and within closely defined limits, accept deposits for periods of up to 60 months by issuing interest-bearing certificates. In practice the collection of funds for periods exceeding 60 months takes form of issuing bonds.

Banks

5 a. At the end of 1970, there were 1,179 banks operating in Italy with 10,807 branches. From the angle of legal status the credit establishments are subdivided into six classes shown in the accompanying table.
This picture of the Italian banking system is completed by the Central Institutions for classes of banks (Istituti centrali di categoria), whose functions are to provide their members with technical and financial assistance and to coordinate their activity as far as possible. They are: the Istituto di Credito delle Casse di Risparmio Italiane (ICCRI), Istituto Centrale delle Banche Popolari Italiane (Istpopolbank), Istituto Centrale di Banche e Banchieri (Istbank) and Istituto di Credito delle Casse Rurali e Artigiane (ICCREA). The first two also perform the function of centralizing their associates' cheque-issuing services.
The classification of banks adopted by the Banking Law on the basis of legal status [1] does not correspond today to an equally clear distinction as regards function, except for savings banks and the central institutions for classes of banks. With the exception of the limitations imposed on certain operations by law or artciles of association, it may be said in general that nowadays the most important variable affecting a bank's activities is its size. The small banks by comparison with the medium-sized, and the latter as compared with the big ones, are limited in their activities by their more restricted opportunities for making large loans: further, size is associated with the level and type of services that the banks provide, for example, in the fields of foreign trade. The very large banks, moreover operate throughout the whole national territory, while the medium-sized and small ones are confined to a regional or provincial setting. This obviously involves a different degree of stability as regards the flow of funds collected and of lending

[1] See the accompanying table.

and investment transactions, and hence the adoption of different management policies.
Of the 1,179 banks in operation, 339 — which account between them for 97% of deposits — regularly make full returns on their operations to the Central Bank. The banks covered by this "census" are divided into five classes ("very large", "large", "medium", "small", "very small") according to size. By way of example, to give an idea of the degree of concentration attained by the system, the group of the "largest" banks (i.e. those where the total of the items of resources taken into consideration exceeds Lit 1,000,000 million) embraced, at the end of 1970, five banks which accounted for 59 % of the total liquidity of the banks furnishing returns, 35 % of lending and investment transactions, over 80 % of borrowing from abroad and about one-third of deposits. The 217 "very small banks" (level of resources considered to be under Lit. 50,000 million) account for only 7% of total liquidity, 9 % of lending and investment operations and 9 % of deposits.
The institutional differences between savings banks and other banks are reflected in the different roles played by the two categories as regards the major items of lending and investment operations and resources of the banking system. For example, 73 % of medium and long-term lending and investment, but only 12 % of short-term operations, are accounted for by the 87 savings banks supplying returns. As regards deposits, the savings banks show a distinct preponderance of savings deposits over current accounts, while for the other banks the situation is the opposite. Of funds collected by savings banks, 57 % consists of savings deposits, as against 35 % for the other banks.

Special Credit Institutions

5 b. The special credit institutions operate in the medium and long-term credit sector, in which public-law institutions and bodies of a public nature predominate; these have their own personality but are subject to control by the Government, to which, furthermore, they are often indebted for their endowment capital.
Savings are collected principally through issues of bonds and, to a more limited extent, through time deposits and interest-bearing certificates with maturities from 18 months to five years, and also through long-term funds from abroad. The funds thus collected are used for granting long-term loans, mostly for periods of five to twenty years.

According to the sector of the economy to which they grant loans, the specialized institutions may be subdivided into:

1) Special institutions financing industrial and commercial firms. The most important is the Istituto Mobiliare Italiano (IMI), which grants five to twenty-year loans, generally secured by a mortgage. Another group of special institution (Mediobanca, Efibanca, Centrobança and Interbanca) operates in the medium and long-term credit sector, providing funds by discounting Italian or foreign bills of exchange or through mortgage loans. The task of certain institutions of a regional nature (ISVEIMER, IRFIS and CIS), with endowment capital provided chiefly by the public authorities, is to encourage the setting up and strengthening of enterprises in southern Italy by granting loans on particularly favourable terms.
The Mediocredito Centrale operates as a central institution rediscounting medium-term credits granted by the specialized institutes to medium-scale and small enterprises and/or to exporters.

Category	Number of banks and names of the principal ones	Legal status
Banks		
Public-law banks	6 banks Banco di Sicilia Monte dei Paschi di Siena Ist. Banc. S. Paolo di Torino Banca Nazionale del Lavoro Banco di Sardegna Banco di Napoli	Public-law bodies
Banks of national importance	3 banks Banca Commerciale Italiana Credito Italiano Banco di Roma	Joint-stock companies belong-ing to IRI (Istitute for In-dustrial Reconstruction)
Ordinary credit banks	180 banks Banca Naz. dell'Agricoltura Banca d'America e d'Italia Banco di Santo Spirito	Companies and individual firm
Cooperative banks	195 banks Banca Popolare di Novara Banca Popolare di Milano	Cooperative society with limite liability
Casse di Risparmio (Savings Banks) and Monti di credito su pegno di 1ª cat. (1st-class pledge banks)	90 banks Cassa di Risparmio delle Provincie Lombarde	Public-law bodies (foundation or corporations)
Rural and craft banks	705 banks	Cooperative societies (with lim-ited or unlimited liability) the nature of a mutual ben-efit society
Central institutions for classes of banks (*istituti centrali di categoria*)	4 banks Istpopolbank Istbank ICCREA ICCRI	Joint-stock companies (Istpopolbank, Istbank, ICCREA) Body corporate

(1) Percentage of deposits and utilizations of each category compared with the total volume of deposits and utilizat

Types of medium and long-term operations and terms	Principal features	Branches	deposits (1)	utilizations (1)
			(at 31 Dec. 1970)	
- Medium-term, guaranteed by credits with the Government and other public authorities - Through autonomous sections for special credit operations	– The profits are used for charitable purposes or increasing reserves – The top management is appointed by the Treasury Minister; the Board of Directors and the Supervisory Board by the Government or public bodies	1,557	21.0	22.7
– Prior authorization from the Banca d'Italia – Holding of capital in Mediobanca, which grants medium-term credits through their networks	– Appointment of directors is subject to approval by the Supervisory Board – Banks of national importance are those incorporated as joint stock companies with branches in at least 30 provinces	811	17.6	21.4
– Prior authorization from the Banca d'Italia	– The establishment of new ordinary credit banks is allowed only in the form of joint-stock companies or companies limited by shares, but having one or more general partners	2,586	22.4	20.7
– Prior authorization from the Banca d'Italia	– The capital is broken down among numerous shareholders – Carry out all banking operations for members and non-members	1,913	11.0	9.9
– Medium and long-term investment operations either direct or through autonomous sections	– These are public-law bodies with the characteristics of foundations or corporations, set up for philanthropic purposes	3,115	26.0	20.6
	– Collect savings from members and non-members but must use at least 60% of liquid assets for the benefit of members	825	1.8	1.3
	– Must assign at least 9/10ths of profits to the reserves		0.2	3.4
			100.0	100.0

banks and central institutions for classes of banks.

A further group of institutions and autonomous sections finances public works; the most important among these is the CREDIOP, which also grants loans to the Treasury to implement multi-annual schemes (Green Plan, farm building, etc.).

2) Special institutions for credit for real estate and housing. These finance the purchase and formation of rural and urban property by granting mortgage-secured loans.

A feature of these institutions is the link between the grant of loans and the issue of land bonds (cartelle fondiarie); the latter are issued continuously as loans are granted, and their redemption must coincide with that of the loans.

3) Agricultural credit institute; unlike the other specialized institutions, these are authorized to operate in the short-term credit sector too in order to finance working capital for agriculture; in this case credit is granted by discontinuing agricultural bills (cambiale agraria). Further, these institutions grant longer term funds for agricultural improvement schemes.

Insurance Companies

5 c. There are numerous private insurance companies and one public body (Istituto Nazionale delle Assicurazioni - INA). Besides operating in their own field of life assurance and insurance against other hazards, they are also highly active as investors of actuarial reserves.
Their investments in financial assets are concentrated mainly on the purchase of fixed- and variable-interest securities and to a lesser extent on lending. The volume of collecting operations generally exceeds that of lending and investment transactions because the insurance companies invest heavily in real estate (but not so much, however, as in financial assets).

Treasury and Cassa Depositi e Prestiti

6. The Treasury may be looked upon as having a double role: on the one hand it acts as the financial operator undertaking credit transactions for the Government, and on the other it is at the receiving end of such transactions; in the former role it, too, may be considered a financial intermediary.
Its liabilities are made up mainly of short and long-term fixed interest securities and credits from the Banka d'Italia, and also of the notes and coin it issues. Only part of the funds collected is used for financial investments in the form of loans and endowment capital; the rest goes to finance public works and, more generally, the budget deficit.
The Cassa Depositi e Prestiti (Cassa DD.PP.) is a Department of the Treasury, which, though it has its own budget and Board of Directors, operates under the aegis of the Treasury Ministry (the Board of Directors, for instance, is presided over by the Minister).
Its main source of funds consists of money collected through the Post Office savings bank and the sums flowing into Post Office current accounts.
The most important lending and investment operations are long-term loans to local and regional authorities and purchase of fixed-interest securities. The bulk of the latter consists of bonds issued by special credit institutions in which the Cassa Depositi e Prestiti also has a modest holding.

Social Security Institutions

7. Social Security is provided in Italy by a large number of public institutions. Investments of any existing actuarial reserves in financial assets consist chiefly of fixed-interest securities and loans to private individuals, companies and local and regional authorities.

Financial Intermediaries and Monetary Policy

8. Only a small part of the financing process takes the form of direct relations between the ultimate users of resources and the sectors with surplus savings; this has necessitated ever-increasing recourse to credit institutions. On the average about 50 % of saving by the economy (i.e. household and firms) goes to the banks. The remainder is collected by the special credit institutions (about 10 %), by insurance companies and social security institutions (about 7 %) and by Post Office savings banks (about 5 %). The share of savings collected by the Treasury is less stable because it depends not only on transactors' preferences, but also on the size of Government security issues, which are decided in the light of the public authorities needs and monetary policy requirements. In 1970 the flow of savings showed a different distribution, with the banks' relative share on the increase.

In more recent years the chief method used by firms for medium and long-term financing has been loans from the special institutions, often obtained on easier terms because of a contribution from the State.

The special credit institutions have in this way made available the past few years about 30% of the external financing of the economy, while the banks, mainly with short-term credit, have provided between 40 and 50 %, according to the rate of expansion of economic activity.

In the 60's, bonds issued by the special institutions were largely subscribed by the banks. The transfer of funds between the two classes of intermediary made possible a vigorous expansion of the capital market and offered forms of financing suited to investment requirements, while allowing financial assets consonant with the structure of income desired by savers to be maintained.

The public's preference for holding its savings largely in the form of money or near-money (principally bank deposits) influence the efficacy of monetary policy in opposite ways. On the one hand, the large volume of deposits tends to reinforce this policy inasmuch as the monetary authorities can direct the savings channelled through the banking system towards the various sectors of the market, while on the other hand it tends to weaken monetary policy because this volume of savings may in part neutralize variations in the monetary base. In the short run a credit squeeze may be counterbalanced by the activation of idle balance; conversely, an expansionary policy requires longer time to influence demand for other financial assets and hence demand for goods.

The expansion of the capital market in the 60's was reflected in the structure of firms' liabilities inasmuch as the difference between their investments and savings was covered by long-term indebtedness, which took the place of risk capital, and marginally by short-term credit. The banks therefore increasingly financed fixed asset formation, directly or indirectly (through the special institute) thus reducing their capacity to adapt to monetary policy measures. Since, moreover, banks purchase issues of fixed-interest securities when demand for commercial credit is smaller than the potential expansion of bank credit, the creation of a more limited monetary base provokes strains on the capital market by affecting long-term interest rates, whereas monetary policy aims at maintaining these fairly stable, at least in the interval between changes of level.

In the past few years the conduct of monetary policy has been influenced by the lack of a better organized system of financial intermediaries operating on the capital market in accordance with savers' preferences. Exports of capital in recent years are in part accounted for by these institutional shortcomings. As a result, monetary policy has been constrained, on the one hand, by the possibility of an unacceptable external disequilibrium and, on the other hand, by the need to intervene more widely through open-market operations in order to ensure adequate financing of economic activities, at a price that does not discourage investment.

Para. II-2: *Banking system and capital market*

Role of the Banking system in the issue of securities

9. Article 45 of the Banking Law forbids banks to belong to syndicates placing securities other than those issued or guaranteed by the State or to help place such securities if their issue has not received prior authorization from the Banca d'Italia. The banks play a role in the issue of securities by making a firm bid for a whole loan or a part thereof and then placing it with the public, or by collecting investors' subscriptions without acquiring the securities for their own account. Their role in the floating of loans is particularly necessary on the Italian market, which is short of non-banking financial intermediaries and institutional investors, and where the individual saver plays an important part. In the last few years the banks have helped to maintain equilibrium between capital demand and supply by being very active in placing securities with the public and also by purchasing large quantities of bonds for their own portfolios.

Holding of securities by the banks

10. There is no limit on the holding of fixed-interest securities by banks, including savings banks (Table 1), as long as the issues have been authorized by the Banca d'Italia. The holding of shares is allowed within the limits of needs connected with transactions on behalf of customers. However, the Banca d'Italia may authorize the acquisition of holdings, particularly in the capital of medium and long-term credit institutions, bodies set up or promoted by the State, and financial consortia or institutions serving the public interest.

Intervention bodies and rules on new issues

11. The bodies that regulate the capital market are: the Interministerial Credit and Savings Committee (CICR), the Ministry of the Treasury, the Banca d'Italia and the Chambers of Commerce.

The CICR examines the terms of loans and increases of capital in relation to the general situation of the market in order to ensure its smooth working.

The Treasury Ministry and the Banca d'Italia see to the coordination of security issues, in both the public and private sectors, so as to establish priorities and ensure that access to the market is spaced out in time, and keep an eye on loan terms in order to protect savers; the Ministry of the Treasury also takes any steps necessary to ensure the regular functioning of the official stock exchanges. The Chambers of Commerce decide which securities may be quoted officially, except in the case of public securities, which are quoted as of right.

In view of the contrasting institutional features of the supply and demand for funds — in the case of the former, a relatively small number of large issues, and of the latter, the important role of investment by individuals — the monetary authorities try to encourage the participation of banks in syndicates floating new issues, to that they can then gradually place these securities on the market. The aim is to increase individual savers' capacity to absorb securities; this is achieved both by varying the features of new loans so as to offer a wider choice and by a high level of efficiency in the issuing machinery, which in practical terms means that the public must be kept well informed and that the banks belonging to the syndicate must be able to make contact with investors easily.

Relations between the money and capital market

12. The links between the money market and the capital market have become very close because of the banks' role, as described above, in the issue of securities and the increasing volume of their investments in bonds (Table 2). The banks' purchases, which are made partly to provide funds for their own special credit sections, generally vary inversely with other lending operations and are considerable in periods of abundant liquidity. The acceptance of certain classes of security to gaurantee advances from the Central Bank and the possibility, in recent years, of placing long-term securities in minimum reserves to replace short-term securities, have made relations between the money and capital markets even closer.

Para II-3: *The public's preferences as to securities and liquidity*

Volume and flows of financial assets

13. The Banca d'Italia publishes in its annual reports, and works out monthly, a table showing a breakdown of the total financial assets of the economy [1] (Table 3) arising from the differences between the economy's total savings and investments (by definition equal to the net indebtedness of the public sector and to the balance of the current items in the balance of payments), and from direct indebtedness within it.
The table also shows the distribution of financial wealth and savings among the various forms of assets.
From the structure of the economy's financial wealth at the end of 1969 it is seen that 53 % was composed of liquid assets, 13 % of fixed-interest securities, about 9 % of foreign assets and 18 % of shares, valued at market prices. Although the figures showing the composition do not represent an exact point of equilibrium, they do roughly reflect the public's preferences. But from the financial flows in the last year or two — which can be interpreted as an effect of the balancing process in the wealth structure — a tendency can be seen for the share of foreign assets to increase.
However, this slowed down appreciably in 1970 after the noteworthy acceleration in the previous year (14% and 25% respectively of the economy's gross financial saving). Investment in Italian shares accounted on the average for only 4 %, confirming that the increase in foreign securities has occurred at the expense of domestic securities. This process has also affected fixed-interest securities, which,

[1] Here and elsewhere in discussing sectoral flows, "the economy" means the private sector or households and firms.

after accounting for about 15 % of the economy's financial saving in 1968, dropped to less than 11 % of newly-created financial assets in 1969 and to 7 % in 1970.
In 1970 the economy continued to accumulate large quantities of liquid assets; this was encouraged on the demand side by the gradual reduction in the gap between the rates of yield from fixed-interest securities and from bank deposits, but it was also the result of the money and capital markets. On the supply side, the expansion of liquid assets was made possible by the financial circuit described above, by which the banking system transforms into short-term liquid assets credit instruments suitable for financing investments. In the past few years liquid assets have represented on the average over 55 % of total new financial assets.

Para. II-4: *Volume of external financial transactions*

Ratio of exports to GNP

14. In 1970 exports of goods and services accounted for just under a quarter of gross national resources produced in the country and supplied abroad has been increasing constantly, so that it has quadrupled in the twenty-year period to which the table refers.

Degree of liberalization of capital movements
Investments of foreign capital in Italy

15 a. The first liberalization measure adopted in Italy regarding foreign capital goes back to Legislative Decree No. 211 of 2 March 1948, by virtue of which prior authorization from the Treasury Ministry was no longer required for inward investments by means of sale through official channels of convertible currencies. The decree permitted the transfer abroad, in the same currency as that originally imported, of up to 6 % of income from investments and also capital not exceeding that originally transferred, provided the operation affected less than two years after the investment and the sums did not exceed 50 %, for every two-year period, of the amount invested in Italy.
The matter was elaborated further by Law No. 43 of 7 February 1956 and Presidential Decree No. 758 of 6 July 1956, which distinguish between investments in "productive enterprises" and "other investments". "Productive enterprises" are those whose object is the production of goods and services and which require investments in plant and machinery in order to operate. For this type of investment the following arrangements are permitted:

a) Retransfer abroad at any time of the original capital;
b) Transfer of any capital gains;
c) Transfer of income without any limitation.

For other investments the following are permitted:

a) Retransfer abroad of original capital provided that two years have passed since the date of transfer of the foreign exchange;
b) Transfer of income up to 8 % per annum.

The investments may take the form of machinery to be used in the firm and imported in accordance with the current regulations.

However, the legal restrictions on the transfer abroad of profits and the repatriation of capital are now outdated, since administrative rules permit conversion into foreign exchange, after transition through "capital" and "foreign" accounts, of income and capital in excess of the limits fixed for retransfers.
Loans from abroad must be authorized by the Treasury Ministry in conjunction with the Foreign Trade Ministry, except for long-term loans with the participation of residents in OECD countries, ECSC loans to iron and steel firms having their head offices in Italy, loans from residents in EEC countries (for up to five years only and not exceeding Lit. 250 million), and lastly loans from residents in OECD countries to members of their families in Italy (up to Lit. 10 million).

Italian investments

15 b. A Ministerial Decree of 28 July 1959 enabled legal persons to acquire holding of capital and to buy shares and bonds of foreign companies having the same objects as Italian ones. Further progress was made in 1960, when the UIC was authorized to give instructions, in connection with the acceptance by the Member States of directives issued by the EEC Council, on the liberalization of some capital movements to and from member countries. As a result the following were liberalized: direct investments, real estate investments, capital movements of a personal nature, short and medium-term credits for commercial transactions by residents, securities and other guarantees, liens and related transfers.

In pursuance of Article 2 of the first EEC directive on the liberalization of capital movements, the Ministerial Decree of 22 February 1961 was issued liberalizing the portfolio investments of financial institutions, companies and other bodies.

Subsequently, the Ministerial Decree of 8 March 1963 extended liberalization to all residents.

As a result of this latter measure, residents are authorized to purchase or sell abroad, through the agency of a bank, shares and bonds issued or payable abroad, provided that they are listed on foreign stock exchanges or bodies connected with these. Residents are obliged to deposit in their own names, with the authorized banks, any foreign securities of which they have become the holders by whatever manner.

The liberalization measures contained in Articles 1 and 2 of the EEC directive were subsequently extended to all OECD countries.

Lending to non-residents must be authorized by the Foreign Trade Ministry in conjunction with the Treasury Ministry except for long-term loans in the nature of participation in OECD countries, loans to residents in EEC countries (for up to five years and not exceeding Lit. 250 million), and loans to family members residing in OECD countries (the maximum is Lit. 10 million).

Liberalization of purchases of investment trusts unit initially took a similar form to that of other portfolio securities, the only requirement being that closed-end trusts should be quoted on official foreign stock exchanges and that open-end trusts should hold in their portfolios securities quoted on foreign exchanges.

In April 1969 the rules were amended to that residents may buy only units issued by funds which have invested in Italian securities at least a half of their portfolios and have obtained the required authorization from the Foreign Trade Ministry.

Circular A-232 of the Italian Exchange Office, dated 1 Otober 1970 made the purchase of shares issued by foreign financial establishments subject to the condition that such securities should be quoted on at least three leading foreign exchanges. This arrangement was rescinded in January 1971 by Circular A-237, laying down that purchase of the abovementioned securities by residents shall be conditional upon prior scrutiny of applications by the Exchange Office.

Section II - Liquidity

The Banca d'Italia's method of monetary analysis

16. The method of monetary analysis adopted by the Banca d'Italia (Table 5) shows both the external factors which act directly and immediately on the liquidity of the banking systems, and hence of the market, and the instruments which the monetary authorities use to control the effects of these factors for the purpose of maintaining monetary equilibrium.
The combined actions and reactions of exogenous factors and measures taken by the monetary authorities bring about changes in the volume and composition of the "monetary base", that is of notes and coin and the short-term financial assets created by the abovementioned authorities which can be deposited without limitation in minimum reserves or freely converted into cash at the Central Bank.
Demand for monetary base from the public (chiefly notes and coin and Post Office savings) is correlated with the growth of income, of which it represents in the short-term a near-stable function. Consequently, given a certain money supply, the share accruing to the banks can be estimated fairly closely. Since the absorption of money supply by minimum reserves can also be estimated accurately enough in relation to the expected growth of deposits, the monetary authorities can, given a certain level of demand for credit, control possibilities of expansion of credit by the banking system and interest rates.
Taken together, the pattern of analysis of monetary base and the operations of credit establishments provide the "Consolidated account of liquidity-creating bodies" (Table 6), which makes it possible to examine the formation of the total liquid assets of the economy, of non-banking credit institutions (special credit institutions and insurance companies), and of the public sector (public authorities and public corporations) as the outcome of the operations of the monetary institutions as a whole (Banca d'Italia and UIC, Treasury and Cassa Depositi e Prestiti, credit establishments).

Para. I: *Liquidity of the economy*

Liquid assets of the economy and their counterparts

17. Credits granted by the monetary institutions are subdivided in the "Consolidated account" (Table 6) according to whether they concern the economy, special credit institutions and insurance institutions, the foreign sector (corresponding to monetary movements in the balance of payments), or the public sector.[1]

[1] In order to calculate the total credits granted by the liquidity-creating bodies to the public sector, the subsectors receiving finance are listed rather than the financing sectors.
The share of the Government's requirements financed by short-term funds is calculated by subtracting from the total deficit — the indebtedness of the State includes that of the Cassa Depositi e Prestiti and autonomous corporations — the sum of the long-term Government securities subscribed by operators outside the liquidity-creating bodies.

As a counterpart of credits granted, the table shows how the monetary institutions' liabilities (sight and short-term debts) are made up. These liabilities, which constitute the liquidity of the economy (and of the other sectors referred to above), embrace notes and coin, deposit money (current accounts), sight deposits with Post Office or Treasury, savings deposits and other sight and short-term assets, readily convertible into cash without capital loss and without high transaction costs. The definition of liquidity also embraces some financial instruments such as "assegni circolari" and "vaglia cambiari",[1] and some minor items which, although they modify the volume of liquid assets, are difficult to allocate as counterparts to the various sectors.

Composition of the liquidity of the economy

18. Between the end of 1958 and 1970 gross national income expanded at an average rate of 9·3 % and total liquid assets went up by an average of 13·6 %. The growth rate of notes and coin in circulation, which averaged out at 10·2 %, was only slightly higher than that of income. The increase in savings deposits with the banks (12·3 %) and in particular current accounts (17·3 %) was distinctly higher. On the other hand, the expansion of Post Office deposits and interest-bearing certificates was less sharp - an average of 9·8 % over the same period.
Nearly three-quarters of the economy's demand for liquidity is accounted for by current accounts, which represented 74·2 % of liquid assets at the end of 1969. With regard to the economy's newly-formed liquidity, these accounts equalled 81% of liquidity accumulated in 1967, 83·6% in 1968, 76·6% in 1969 and 88·5 % in 1970.
The expansion of notes and coin in the hands of the economy was more restrained than that of other means of payment (current accounts) and was approximately proportionate to the growth of income, except where fortuitous factors or considerable changes in the distribution of income were registered.
The rest of the economy's liquid assets in made up of Post Office savings deposits, the creation of which has been hit by the considerable switch to bank deposits, caused in part by the difference between rates of yield and in part by a drift from Post Office deposits as a consequence of the gradual evolution of capital markets. The decision taken in April 1970 to raise the interest rates on Post Office accounts — the effects of which were not felt, however, before October — made the collection of savings through these accounts more competitive in relation to collection through the banks. Postal deposits represented 11·1 % of liquid assets at the end of 1969 and their share of newly formed liquidity went down from 9·1 % in 1967 to 2·7 % in 1970.

Liquidity income ratio

19. The ratios of primary and secondary liquidity to gross national income reflect the various growth rates referred to above (Table 7).
The ratio of the moving average, at mid-year, of primary liquidity to gross

[1] "Assegni circolari" are drafts issued by certain banks against payments in cash of their countervalue. These drafts are payable in principle at branches of the bank that issued them; in practice they may be cashed at any bank. "Assegni circolari" are peculiar to Italy and constitute a widely-used means of payment. As they form part of the banks' sight liabilities they are counted as liquidity. The two former banks of issue — Banco di Napoli and Banco di Sicilia — and the Banca d'Italia also issue a similar instrument of payment, the "vaglia cambiari", which performs the same function as the "assegni circolari".

national income has shown a tendency to increase, which was interrupted only in the credit speeze period and has become more marked in recent years. This trend was determined by current accounts with banks, since the velocity of circulation of notes and coin remained reasonably stable, with a slight tendency to decrease, mainly as a result of the changes in the distribution of income.

The rising trend of the ratio of current accounts to gross national product is chiefly due to the fact that this means of payment is also sought after by the economy as a form of financial saving (both because of the shortage of alternative instruments of investment and because current accounts bear interest), so that it must be considered in relation not only to gross national product but also to the wealth of the sector.

The relation between demand for deposit money on the one hand and an index of total transactions, interest rates and the wealth of the economy on the other, explains why it is possible in Italy to have a high, growing ratio of current accounts to gross national product by comparison with other countries without this signifying the existence of inflationary pressures.

The ratio of total savings deposits (secondary liquidity) to gross national products is tending upwards. The reversal of the trend observed over the past two years is due to a transfer of funds towards current accounts because of the different treatment of these two sorts of assets.

Optimum level of liquidity

20. Any simple criterion, such as the ratio of the various forms of liquidity to gross national product proves to be inadequate for the purpose of assessing the optimum level of the economy's liquidity, in view of what has been said regarding the velocity of circulation of current bank accounts in Italy.

Another reason why simple criteria may be of little help in assessing this optimum level derives from the nature of the categories of assets that are classified as liquid. In various situations, and with equal liquid assets in the strict sense, the degree of liquidity of the economy may differ greatly according to the opportunities for converting other forms of financial assets into money without capital loss.

It is, however, possible to establish synthetic indicators of the trend of preferences shown by households and firms, such as the share of liquid assets in the creation of total financial assets, the marginal level of the velocity of circulation of current accounts, the ratio of the change in the various savings deposits to gross national income.

Para. II: *Liquidity of the banking system*

Items constituting liquidity of the banking system

21. Table 8 gives the components of the liquidity of the 339 banks and the three central "category" institutions making up the statistical sample used in the surveys by tho Banca d'Italia (see point 5 a.).

Liquidity, that is to say the share of monetary base held by the banks in free balances, is made up of the following items:

— *Cash in hand*: Banca d'Italia notes and Treasury notes and coin.

— *Deposits at the Banca d'Italia*: sight or very short-term deposits (8 and 15 days), from which the Bank, at the request of the depositing banks, makes transfers of funds from one centre to another within the country.

Sight deposits attract 0·5 % interest and 8 and 15-day deposits 1·5 and 2 % respectively:

— *Deposits with the Treasury and the Post Office.*
— *Unused facilities on ordinary advance accounts at the Banca d'Italia.*
— *Treasury Bills (BOT) freely available* (until April 1969, from which date Treasury Bills no longer represent an item of bank liquidity for reasons given below; see point 41).
— *Bills and current accounts* relating to grain storage years up to 1963/64. Their inclusion in liquidity is justified by the fact that the bills in question can be unconditionally rediscounted at the Central Bank and that the current accounts are mobilizable by means of equally discountable bills.
— *Convertible currencies.* That part of liquid assets in foreign convertible currency which is freely available.

Factors affecting the liquidity of the system

22. As already pointed out, the monetary base at a given moment is the outcome of the interaction of autonomous factors and measures taken by the monetary authorities. The autonomous factors, i.e. those that can be modified only indirectly by the policy of the monetary authorities after a lapse of time, consist potentially of the balance-of-payments situation and the Treasury's total cash requirements. The monetary authorities' counterbalancing measures, which in fact transform these potential effects into actual effects, are put into operation through three basic channels: foreign transactions, Treasury, banks.
In the foreign sector the creation of absorption of liquidity necessitated by the balance of payments situation may be controlled by regulating the foreign operations of banks.
As regards the Treasury, an important instrument is the choice of means to cover its total cash requirements. In fact, the expansionary effect of these requirements is neutralized to the extent that public debt is sold to banks and individuals, whether through market issues effected directly by the Treasury or through sales of securities by the Banca d'Italia (i.e. open market operation - though in this case the relationship with the Treasury deficit is less direct, since the Bank can also sell securities at periods other than those during which the Treasury is in need of liquidity).
As to the banks, monetary base is controlled by regulating the volume of last resort credit granted to the banking system.

Other components of Liquidity at the level of the Banks

23. At the level of the individual banks, in addition to the items of liquidity discussed above there is the surplus on the interbank deposits and current accounts which banks have with each other and with the special institutions.
As regards relations with the latter, banks may only have credit balances in correspondence accounts for services; they are not permitted to built up deposits with such institutions. Normally, it is the small banks, of limited territorial range, which deposit liquid assets with the larger ones. The latter, because of their greater operating capacity and their wider geographical coverage, are able to carry out lending and investment operations on more advantageous terms and therefore to offer the smaller banks, which deal chiefly with the collection of funds, attractive rates of yield in view of the degree of liquidity of this form of investment.

It should be noted that the level of free reserves varies from one bank to another in relation with the differing degrees of stability of deposits or the development of other sources of funds. The liquidity ratio is rather low in savings banks, as their deposits are more stable than those of the other banks. But a higher ratio is to be found in establishments which administer public funds — since they are subject to sharp cash movements — and in those which have considerable recourse to interbank funds. To give an example, the liquidity ratio at the end of 1970, excluding interbank accounts, was 2·0 % for savings banks and 4·2 % for other banks. For the latter, the ratio was over 5·9 % in the group of larger banks and 2·8 % in that of smaller banks. However, in order to interpret these percentages correctly for particular banks, allowance must be made for the fact that both savings banks and the smaller banks are particularly active on the interbank market. If credit balances on interbank accounts are added to liquid assets in the strict sense (sight claims on the monetary authorities), it is seen that liquidity — for individual banks — is higher for the small banks than for the large ones. At the end of 1970 the smalles banks had in fact transferred nearly 10 % of their deposits through interbank channels. The interbank market thus enables the whole system to save liquidity and to increase the deposits coefficient.

Para. III: *Liquidity and public finances*

Management of cash operations of the Governement and local authorities; role of the Treasury

24. The Treasury looks after the Government's cash operations; it does this through the Treasury offices run by the Banca d'Italia's branches in all the provincial capitals and through the Post Office for operations in less important centres. Operations affected directly by the Treasury through its central office are on a smaller scale. The Treasury is responsible not only for implementing the national budget but also for managing the Government's accounts in the strict sense, that is all operations relating basically to:

1) The floating debt, consisting in particular of Treasury bills, Banca d'Italia advances and deposits with the Cassa Depositi e Prestiti, that is those items of the State debt which are not included among budget receipts (where only long-term debts are entered);
2) Current accounts, in which are deposited the liquid assets of autonomous government departments whose cash operations are carried out by the Treasury itself;
3) Special accounts, for funds which departments or officials may use to make payments;
4) What are known as "Treasury credits" which, in the majority of cases, are merely book-keeping items offset in the treasury office itself, and save for a few exceptions, not representing actual financial assets.

The provincial accounts of the State, which are managed by the Banca d'Italia, embrace not only the collection, custody and movement of public funds, but also the actual execution of payments and collection of receipts under the budget and all the management of State accounts. At the head office of the Banca d'Italia there is a current account for State accounts, which gives a daily picture of the situation when all operations carried out by the provincial sections are taken into account.

It is important to note that, as there is no machinery in Italy to neutralize automatically the effects produced regularly on the liquidity of the economy by the two-monthly instalments of direct taxes paid into the Treasury, the monetary authorities are obliged to intervene from time to time to ensure a suitable level of the monetary base.

Some distinctions must be made regarding public and semi-public bodies. The local and regional authorities keep their accounts with banks, at which any assets they may have are held. Sometimes the authorities contract the collection of taxes out to private persons. Their cash movements therefore do not influence the monetary base.

The social security institutions collect contributions and pay out benefits through Post Office branches and banks. Only in the latter case, therefore, do their cash operations have no effect on the monetary base.

Among public departments a special place is occupied by the Post Office (one of the autonomous public corporations), which through its branches:

a) collects postal savings (in the form of savings certificates and savings book accounts), to be used by a special department of the Treasury Ministry (Cassa Depositi e Prestiti) for loans to local and regional authorities and autonomous State corporations, the remainder being paid into the Treasury;
b) receives and makes payments on behalf of the State, social security institutions, firms and private individuals, making use in some circumstances of funds advanced by the Treasury. In both cases, consequently, movements of funds through Post Office branches have a direct effect on the Treasury's cash situation.

It must be noted that public entities, excluding public corporations and local and regional authorities, to which sums are allocated under the central Government's budget, are required to deposit these sums with the Treasury until they are put to definitive use.

The Treasury's other functions

25. Besides looking after the State's cash operations, chiefly through the Banca d'Italia, the Treasury plays an important role in implementing the government budget and those of the public corporations. In order to collect the revenue budget for and, in particular, in order to put into effect the expenditure approved, a complex technical and administrative procedure is necessary, in which the individual departments concerned and the Treasury itself each play a part. In the past few years there has been a continual increase in underspending — nearly Lit. 5,800 million at the end of 1970 — corresponding to the difference between the authorized revenue and expenditure budgeted for and the sums actually paid out. This has made it possible to maintain actual public expenditure and the resulting need for financial cover at an appreciably lower level than if the expenditure budgeted for had been undertaken in full immediately. It must be noted that the existence of "residui passivi" (outstanding expenditure) cannot, however, be considered the effect of deliberate action by the Treasury to achieve an elastic policy of expenditure, but is chiefly bound up with the capacity of the administrative machinery to function in practice, for of late it has been more and more overtaken by the growing volume of the items of expenditure authorized in the budget.

Methods of covering the Treasury's requirements

26. Among the Treasury's functions, the one which most influences the economy's

liquidity is obviously activity to seek means of covering Government spending. Such funds can be obtained by recourse to short-term credit from the Central Bank or short and long-term credit from the banks and the economy.
Recourse to the Central Bank takes the form of:
— Borrowing on the current account which the Treasury has at the Banca d'Italia for accounting purposes. Recourse to this form of credit is automatic and reflects the accumulation of deficits in the day-to-day management of the Treasury's accounts; obviously there may also be a surplus, in which case the current account shows a Treasury claim on the Bank. By law such Treasury borrowing may not exceed a ceiling equal to 14 % of the amount of Government expenditure laid down in the original estimates and subsequent amendments;
— Purchase by the Central Bank of Treasury bills, multi-annual Treasury bonds and other government or government-guaranteed securities;
— Rediscounting of Storage Agency bills (see Ch. II, Sec. I, II);
— Extraordinary advances, which have not been granted since the 1947 stabilization measures. At present the Banca d'Italia could grant them only on the strength of a special law adopted by Parliament and fixing their amount;
— Foreign currency credits from the UIC to finance imports on Government account.

Table 9 shows the movement of the Treasury's short-term debts for 1958-70.
The banking system and the economy (households and firms), in their turn, make a considerable contribution to the financing of the Treasury through government securities, Post Office deposits and notes and coin.
The banks make investments in government securities either voluntarily or to comply with minimum reserve obligations.
As already mentioned, the total cash requirements of the Treasury (and also of the Cassa Depositi e Prestiti and the public corporations) are considered an "autonomous factor" creating monetary base because they produce a corresponding expansion of this base where they are not covered by medium and long-term market borrowing. The instrumental variable taken as representative of intervention by the monetary authorities consists of securities issued on the market, for such issues are the result of public debt policy, through which it is possible to regulate the repercussions of the requirements of the sector on monetary basis and thus to make of the budget an instrument which can be used, *inter alia*, to control liquidity in general.
Long-term financing of the Government's requirements takes the form of offering long-term securities for subscription by the banks and the economy in general. The most widespread of such securities are:
a) nine-year Treasury bonds (BTN);
b) bonds issued on behalf of the Treasury and public corporations by CREDIOP (Green Plan, State Railways, other government action, etc.);
c) credit certificates (i.e. securities with a limited circulation issued by the Treasury to finance specific expenditure);
d) other redeemable securities, at present composed chiefly of the School-building Loan.

Recourse to the issue of long-term loans has grown in the past few years, especially in connection with the need to finance big public works programmes. At the end of 1970 the volume of long-term government securities and bonds issued on behalf of the Treasury and held by banks, other financial intermediaries and the economy at large totalled Lit. 6,800,000 million. Nearly half this sum was held by the banks. At the end of 1970 there should be added to these amounts nearly 130,000 million of Treasury bonds for free investment, of which about half were held by the banks.

All the other means of covering the Government's requirements involve the creation of a monetary base. The main ones are:

— recourse to Central Bank credit, in whatever form. As has been said above, such recourse is limited by law in so far as concerns indebtedness on current account for financial requirements and extraordinary and temporary advances, while it is left to the discretion of the Central Bank for purchases of government or government-guaranteed securities;
— issues of ordinary Treasury bills (see point 41);
— funds collected by the Post Office, and managed by the Cassa Depositi e Prestiti; these are considered monetary base because a Post Office deposit, created by the Treasury at the request of the depositor, is always convertible into cash.

Chapter two

THE INSTRUMENTS OF MONETARY POLICY

Section I - Refinancing policy[1]

Para. I: *General*

Forms of refinancing with the Central Bank

27. The control of recourse to Central Bank credit by banks is one of the most important instruments used by the Banca d'Italia to regulate the monetary base. Its importance increases as the contribution to monetary base coming from the other two main channels (balance of payments and Treasury) diminishes. Financing available to the banking system (for further details see this section under II) takes the following technical forms:
— rediscounting of ordinary bills;
— advances against securities, on current account and with fixed maturity;
— deferred payments through the bankers' clearing-houses.
Table 10 shows how their volumes compared in 1958-70.
The power of the Banca d'Italia to effect such credit operations has its legal basis in, and is regulated by, the various rules setting the limits within which the Bank may carry out credit and debit operations. Over a time these rules have reflected the historical development of the Bank of Issue, which has progressively given up every characteristic of an ordinary bank whilst creating a specialized mode of operation more suited to the ends of monetary control.
At present the Banca d'Italia cannot carry out real estate credit operations, grant the opening of credit on current account, purchase securities unless issued or guaranteed by the State, or real estate, except for use by itself as offices or for other purposes. The Banking Law of 1936 also took away the right of the Banca d'Italia to discount bills of exchange for private individuals, but left it the possibility of granting the latter advances against securities. In practice, the Bank nowadays does hardly any business with private persons (Table 10).
The great bulk of recipients of Central Bank credit is therefore made up of the banks ("aziende di credito") appearing on the register required by Article 29 of the Banking Law, to a very limited degree, of specialized medium- and long-term credit institutions. In the Italian system there are no refinancing bodies acting as intermediaries between the Central Bank and the other banks.
For normal financing needs the banks have recourse chiefly to advances on current account because this form offers a high degree of elasticity, so that banks can at any time reduce their debt to the Banca d'Italia and hence the cost of financing,

[1] For the exact meaning of this term, refer to Part I, point 71.

which is not the case for operations involving the rediscounting of ordinary bills. It must also be pointed out that the growth of the banks' security portfolios has helped in recent years to increase the relative importance of this type of indebtedness towards the Central Bank.

Para. II: *Refinancing*

Bank's power of discretion in lending and cost of lending

28. Unlike other countries, where recourse to Central Bank credit is automatic, and where restrictive or expansionary action is taken by varying the credit ceiling or rate of interest, the Italian system is based chiefly on the power of discretion of the Banca d'Italia in dealing with requests for finance. Applications for credit are examined case by case in the light of the reasons for the request (in particular day-to-day cash requirements) and the liquidity situation of the market and of the applicant firm. Even the listing of the securities against which advances may be made (Article 41 of the Charter and Article 29 of the Consolidation Law on Banks of Issue) does not contradict the principle of discretionary power, since it lays no obligation on the Bank to accept them, but only indicates the limits to one of its powers.
The official discount rate, which is applied to all the Central Bank's financing operations, remained unchanged from 1958 to 1969 (3·5 %). Whilst keeping this rate unchanged the monetary authorities, as explained below; decided in the first half of 1969 to introduce supplementary rates (up to 1·5 points) for discount operations and fixed-term advances taking into account, respectively, the volume and the frequency of requests for refinancing. The basic rate was raised to 4 % from 14 August 1969 and to 5·5 % from 9 March 1970, the supplementary rates referred to above remaining unchanged. During the early months of 1971 the basic rate was reduced to 5 %, with effect from 11 January for advances (both on current account and at fixed maturity) and from 5 April for ordinary rediscount operations. The 1969 increases in the basic rates were maintained.

Ordinary rediscounting

29 a. Rediscounting may be applied to bills of exchange, domestic cheques, Treasury bills, coupons of government and government-guaranteed securities, and warrants. Bills presented for rediscount must bear at least two signatures of persons known to be solvent (including the signature of the bank presenting them) and may not have more than four months to run.
As for the rate applied to these operations' from July 1969 a supplement of 1·5 points to the official rate was introduced in respect of those banks for which, in the preceding calendar half-year, these operations represented an average volume of liquidity exceeding 1/20 of the statutory minimum reserve in the middle of that half-year. The decision as to which banks shall be subject to the supplement is made at the beginning of each half-year in accordance with the criteria mentioned. At the end of 1970, bills rediscounted with the Central Bank amounted to Lit. 59,000 million, nearly all of which had been presented by banks (Table 10).

Preferential rediscounting

29 b. The power of discretion which the Banca d'Italia reserves to itself in grant-

ing rediscount takes the place of the various forms of preferential rediscount to be found in countries where the Central Bank is automatically obliged to allow credit on the terms it has fixed. The sole cases of preferential treatment consist of the rediscounting of Storage Agency bills and current agricultural bills, for which, however, the rate is 3.5 %.
The Storage Agency bills are bills issued to finance the stocking of agricultural products decided on by the Government, but which ceased with the 1963/64 agricultural year. The bills, which exclusively represent losses incurred in storage management for which the State is financially responsible, can be rediscounted automatically and are classed as credits granted to the Treasury rather than to the banks.
The requirement that rediscounted bills should bear two signatures and the fact that one of them may be that of the firm financed means that there is no formal difference between commercial and financial paper.

Ordinary advances against securities

30 a. Advances against securities, which at the end of 1970 totalled Lit. 841,000 million, fall into two categories: ordinary and fixed-term.
The former may be used on current account and are granted for a maximum of four months but are renewable; credit opened may be increased at any time if the Bank allows additional securities to be deposited. Withdrawals and repayments are recorded in a single debit account, for the technique of making the entire amount of the credit opened available in a current account is not used. The interest rate applied is equal to the official discount rate without any supplement. The only exception was the period between 11 January and 5 April 1971, during which the rate of interest on advances was one half-point below Bank rate (see point 28).

Fixed-term

30 b. Fixed-term advances, which were introduced in July 1967 to cater better for the short-term financial requirements of banks, must be used in one operation and redeemed according to an established schedule (7, 15 and 22 days). In May 1969 a system of progressively increasing rates was introduced for banks that use this form of financing more than once in a period of six months. The supplement is half a point for the second operation, one point for the third, and one-and-a-half for the fourth and following operations. At the end of 1970 the banks' debt for these advances amounted to Lit. 87,000 million.
The securities accepted by the Banca d'Italia to guarantee both ordinary and fixed-term advances are:

1) public debt certificates and Treasury bills;
2) government-guaranteed securities or those bearing government-guaranteed interest;
3) Land bonds (cartelle fondiarie) issued by real estate credit institutions and securities having the same legal status.

Although permitted by the Charter of the Banca d'Italia, other kinds of pledge, such as gold currency, warehouse receipts and silk, have now fallen into disuse.
Securities deposited as a guarantee are valued at current stock exchange prices, less a margin of 15 % for ordinary Treasury bills and multi-annual Treasury bonds and 20 % for all other securities.

As was pointed out with reference to the Bank's power of discretion in granting credit, advances are made on the basis of considerations concerning the general liquidity conditions of the market and, at microeconomic level, in the light of assessment of the reason for the request, which must be connected with a temporary financial imbalance and not with a financial requirement of structural nature.

Deferred payments

31. Deferred payment operations, another form of refinancing available in Italy, are connected with the management by the Banca d'Italia of the bankers' clearing-house; they are used for the temporary end-of-day balancing of accounts against the deposit of securities approved for advances, for a maximum period of four days, at the official discount rate.

Para. III: *Effectiveness of refinancing policy and of action through interest rates*

Discount rate and market rates

32. The effectiveness of adjustment of the official discount rate depends on the links between it and market rates. It is left to the banks to decide freely on the latter; in the past they did this through an "interbank agreement", freely entered upon by them without the intervention of the Central Bank, by which they undertook to observe maximum rates of interest on deposits and minimum rates to borrowers. Until the July 1969 measures, the minimum rates were arrived at by adding a fixed supplement to the official discount rate. This established an automatic link between the rates applied by the banks and that of the Central Bank. When, in July 1969, there ceased to be a single rate applicable to refinancing operations, the interbank agreement was amended so as to abolish the application of fixed supplements. The minimum rate of interest charged to borrowers was decided without direct reference to the official rate.
It must be pointed out that the existence of administrative rules governing rates has not prevented competition in the banking sector and savings and investment conditions from determining the level of interest rates realistically in relation to supply and demand rather than to the provisions of the interbank agreement, which in some cases have consequently been disregarded.
As regards rates of interest on deposits no agreement had been reached between the banks by the beginning of 1970. It was only at the end of July that a group of 13 large banks undertook not to exceed certain limits in the rates on new savings deposits (6 %) and current accounts (7 %) of annual average amount of Lit. 250 million or more. Twelve other large banks subsequently joined in this agreement. Talks between the Banking Association and the other banks have led to a more formal agreement accepted by more than 300 establishments which collect nearly 95 % of all deposits. The new agreement provides for rates to be graduated in accordance with the average amount of the deposits.
The rates fixed have been revised downwards on several occasions. At present they vary between a minimum of 4 % for savings deposits of more than Lit. 20 million but less than 50 million and a maximum of 5·5 % for deposits on current account of Lit. 250 million or over.
As regards rates to borrowers, 14 large banks have agreed to reduce these by one-half per cent.

Adjustment of official rate

33. For the same reasons as we have just recounted, adjustment of the discount rate has not been used in Italy as an instrument of monetary policy for many years. Instead of acting on the price of lending to banks, the Banca d'Italia has made use of its power to vary the quantity. The two policies have substantially the same effect on the economic system, for if used with a restrictive aim, that is by increasing the rate or reducing the volume, both cause market interest rates to rise. The amount of lending necessary to produce a certain level of market interest rates is not, however, equal in the two cases. It seems evident that lending must be more severely restricted when the discount rate is left unchanged. Adjustment of the discount rate also has a general psychological effect which variations in the quantity of supply do not have.

The recent abandonment of the policy of a stable discount rate was not accompanied, of course, by renunciation of use of the other instruments of monetary policy, in particular power of discretion in lending.

The increases in discount rate made in 1969 and early 1970 had various purposes. First of all they represented an adjustment of discount rate, and of the interest rates most closely connected with it, to a structure of rates which, in the preceding two years, had changed considerably, both in Italy, through the use of the power of discretion as an instrument of monetary policy, and abroad.

Secondly, through their effected on demand, these increases backed up the restrictive policy pursued by the Central Bank, which otherwise would have had to implement it wholly by using its power of discretion. The existence, at the current discount rate, of a greater demand for credit by the banks than the quantity that the Central Bank is disposed to grant them is a necessary precondition for the use of the power of discretion instrument. For any given quantity of credits offered by the Central Bank, however, the excess of demand increases as the banks' interest rates to borrowers go up and decreases as discount rate is raised.

Lastly, in as much as they made money dearer on the market, increases in the discount rate have helped to close the gap which had become established between interest rates abroad and those current in Italy, thus reducing the incentive for capital to flow out of the country. Progress in the direction of external currency convertibility and liberalization of capital movements have made it necessary to take stronger action to coordinate conditions on the domestic and international markets. This means that intervention by the monetary authorities must be wider-ranging and more flexible.

Section II - Control of bank liquidity

As pointed out earlier control of bank liquidity, and hence of the possible expansion of the banks' credits and the liquidity of the economy, is achieved principally by regulating the flow of monetary base. This flow is influenced by the whole battery of measures that can be taken by the monetary authorities: action to implement public debt policy, open-market operations, regulation of lending of last resort, control of foreign positions. Bank liquidity is affected more directly by the level and composition of the minimum reserves that banks are obliged to constitute as their deposits increase.

Para. I: *Compulsory reserve policy*

Para. I-1: *Organization of the system*

The first regulations in this field were introduced in 1926 to protect the interests of depositors. The banks were obliged, when customers' deposits rose to over twently times the amount of their own capital and reserves, to place a sum equal to the excess on interest-bearing deposit with the Central Bank. Alternatively, they could invest this sum wholly or partly in fixed-interest government securities to be deposited with the Central Bank.

In 1947 the rules were thoroughly overhauled. From then on the reserve came to be one of the Central Bank's monetary policy instruments. In September 1958 the savings banks (casse di risparmio) and first class pledge banks (monti di credito su pegno di 1ª categoria) were also subjected to special rules.

Recent developments concerning the reserve rules have been a change in the upper limit of the reserve, which in fact has been altered once only — from 25 to 22·5 %, in January 1962 — and permission to deposit certain types of long-term securities to comply with the statutory obligation. In a situation in which such securities were abundant in the banks' portfolios this measure was the equivalent of a real reduction in the coefficient and had the expansionary effects which customarily accompany such a reduction.

Legal basis

34. The compulsory reserve system has its legal basis in the Banking Law (Article 32 f), which obliges banks to follow instructions relating to the "ratio of net assets to liabilities and to the possible ways of investing the deposits collected in excess of the amount determined by that ratio". These instructions are given by the Banca d'Italia in accordance with the deliberations of the Interministerial Credit and Savings Committee. All the banks described in Chapter I are subject to the reserve obligation.

System of Calculation

35. The deposits subject to reserve are calculated by subtracting from the sight, time and savings deposits of non-banking customers and special credit institutions, and from foreign-held lira accounts, any funds not available for financial purpose and deposits securing the issue of bank cheques with guaranteed cover.[1] The banks' capital and reserves are also taken into account; these consist of paid-up share or endowment capital, ordinary reserves and reserves not earmarked for specific purposes.

The amount of the compulsory minimum reserve is calculated differently, for the banks proper, the savings banks and first class pledge establishments respectively. Any necessary adjustment to the reserve must be made in the course of the month following the reference month.

For the banks proper the present system of calculation is as follows:

— No reserve obligation so long as the ratio of deposits to capital and reserves does not exceed 10:9;

— 10 % of deposits until the amount thus calculated equals 40 % of the amount by which deposits exceed ten times capital and reserves;

[1] These are cheques with cover guaranteed up to a certain amount by a deposit in a special account.

— 40 % of deposits exceeding ten times capital and reserves until the amount resulting from this calculation reaches 22·5 % of deposits;
— 22·5 % of deposits, this being the ceiling.

At the end of 1970 the reserve stood at an average of 22·2% of bank deposits.
Savings banks and first-class pledge establishments must set aside for the compulsory reserve 20 % of the monthly increase in deposits subject to reserve rules, calculated as for other banks. Initially [1] it was laid down that the reserve could be deposited with the central credit institute of the savings banks "ICCRI" (Istituto di Credito delle Casse di Risparmio), but the latter was obliged to deposit 50 % of it with the Banca d'Italia; the remainder could be freely invested by ICCRI in long-term securities.
For the rural and craft banks (casse rurali e artigiane) the current rules involve the obligation to invest in government or government-guaranteed securities, land-bonds (cartelle fondiarie) and securities having the same legal status, to be deposited with the Banca d'Italia or authorized credit institutions, 10 or 20 % of their deposits according to whether the bank is a cooperative society with limited or unlimited liability.

Composition

36. The rules on the composition of reserves are not the same for the savings banks as for the others.
In 1962 it was laid down that for banks other than savings banks compulsory reserves would consist of cash for at least 10 % of the excess of deposits over capital and reserves and that the Treasury bills used for the remainder would be frozen at the time of issue and be released only on maturity, whereas previously the split between cash and Treasury bills had been left to the discretion of the banks. In October 1965, September 1967 and early 1968 the banks were successively authorized — though the minimum cash reserve was still required to place in the reserve an increasingly wider range of longer-term securities (land bonds - cartelle fondiarie, securities issued by institutions authorized to provide agricultural improvement credit, School-building Loan bonds, bonds issued by CREDIOP, the credit consortium for public works, on behalf of the Treasury), either to offset the increase in savings deposits or to replace long-term securities deposited before 1953 and still in the reserve. These changes were made in order to support the prices of certain securities and, consequently, the sectors of economic activity financed by them.
In order to ensure an additional flow of funds for building activity it was decided, in January 1970, that long-term securities to be used as a reserve to offset an increase in savings deposits must consist solely of cartelle fondiarie and agricultural improvement bonds; the obligation stands that the cash deposit must in any case be not less than 10% of the difference between deposits and capital and reserves.
By a CICR decision of 16 September 1970 the Banca d'Italia was given power to authorize banks also to invest a part of their reserves in government and government-guaranteed securities and in bonds of certain special credit institutions (Istituti di credito mobiliare).
Following these changes the share of the banks' reserves made up of long-term securities increased notably (from Lit. 49,000 million at the end of 1965 to Lit.

[1] For present arrangements see below.

1,246,000 million at the end of 1970, out of a total reserve of Lit. 6,425,000 million) (Table 11).
Uu to September 1964 the savings banks' reserves which ICCRI was required to pay into the Banca d'Italia, had to be made up of cash or Treasury bills; from that date ICCRI was authorized to hold the share to be paid into the bank of issue, and even to withdraw wholly or in part the amount already deposited with it for the purpose of investing these assets, with the maturities and in the manner established case by case by the Banca d'Italia, in other government or government-guaranteed securities and in land and agricultural bonds. The possibility of using such bonds for the reserve up to the proportion due in the light of the increase in savings deposits was made automatic — in line with the decision taken for the banks (other than savings banks) — from October 1965. The successive instructions regarding the share of reserves that may be invested in School-building Loan bonds and CREDIOP bond issues on behalf of the Treasury also apply to the savings banks.
In January 1970 new rules were issued on the use of the share of the reserves that ICCRI had originally been obliged to pay into the Banca d'Italia. Half of this share must now be invested in government or government-guaranteed securities or in bonds issued by the special credit institutions; the other half must go exclusively into land and agricultural bonds, according to set proportions.
The result was that, as the obligation to hold a minimum percentage in cash does not apply to the savings banks, their reserves, which at the end of 1963 were entirely invested in Treasury bills (Lit. 222,000 million), were at the end of 1970 almost completely composed of long-term securities (Lit. 825,000 million out of Lit. 860,000 million) (Table 11).

Reserve Obligation: remuneration and procedure

37. Since October 1970 the balance deposited as a reserve with the Treasury has borne interest at 5·5 %, equal to that paid in advance on Treasury bills which have been deposited for this purpose. The Banca d'Italia has the power to invest, wholly or in part and generally in Treasury bills, the share of the reserves in cash deposited with it; interest on Treasury bills thus purchased is returned by the Bank to the Treasury. The bank's returns from reserves have increased appreciably of late as the share invested in long-term securities has grown.
An assessment of the reserve is made monthly by the banks on special forms, which are sent to the Banca d'Italia. The latter verifies that these have been completed correctly and may also carry out checks in the form of inspections at the banks. In the case of non-compliance the establishment is asked to put matters right as soon as possible, otherwise the penalties specified by the Banking Law (Articles 57 and 58) are applied. These consist of fines, except in serious cases, when the dissolution of the banks' administrative bodies and introduction of the "extraordinary administration procedure" are required. It must be noted that such penalties are applied generally in cases of non-compliance with statutory or Banca d'Italia rules.

Para. I-2: *Functioning of the system*

Reserve as an instrument of monetary policy

38. The fact that only once since the war has there been a change of coefficient

does not mean that reserve control has been neglected as an instrument for intervention by the monetary authorities. This instrument has been used rather for the specific support of certain sectors of the capital market and economic activity than for the purpose of a generalized quantitative control.

Para. II: *Other bank ratios*

Cover for bank drafts

39. Banks are bound, in order to counterbalance the issue of bank drafts ("assegni circolari"),[1] to form a reserve equal to 40 % of these drafts in circulation at the end of the preceding month. If the value of the bank drafts in circulation exceeds that of the capital and statutory reserves standing in the balance sheet of the preceding financial year, the surplus must be 100 % covered.
The deposit may be made in cash, in Treasury bills for free investment, in other government securities or in land bonds and securities of equal status.

Section III - Control of the money market and links with foreign money markets

Para. I: *Open-market policy*

Para. I-1: *The money market*

Structural characteristics

40. The Italian system lacks a money market in which private operators and financial institutions can ensure a speedy distribution of liquid funds between surplus and deficit sectors by means of an intricate network of short-term operations. This task is left to the credit establishments, which carry it out mainly through interbank accounts. In part the lack of direct involvement of private operators in very short-term deals is linked with the fact that the Italian system provides interest even on current account deposits with the banks, for which reason operators' cash surpluses tend to flow to the banking system. Another factor to be borne in mind is the policy of stabilizing long-term interest rates that has been pursued by the monetary authorities in recent years; this offers the public financial instruments essentially on a par with deposits but with a higher level of return and thus reduces the demand for other shorter-term financial assets. Such is the case of the Treasury bill, a security which in the past was offered at the official rate and in unlimited quantities according to demand and thus did not possess the features required to become an efficient monetary market instrument.
In recent years the monetary authorities have made various attemps to create a short-term market as described above, since it is particularly important for the pursuit of a monetary policy to dispose of an indicator of the market liquidity situation, such as a short-term interest rate, which reacts promptly to the variable conditions of liquidity. Consequently, various steps have been taken to improve

[1] See footnote point 17.

money market instruments in Italy (Treasury bills and interbank accounts) which for various reasons are unsuitable for this function.

Reform measures

41. In 1962 the system of issuing Treasury bills was reformed. Up to that time they had been issued on tap at a fixed rate for different maturities, without any distinction between bills to be placed in the compulsory reserve and others. Since November 1962, bills have been issued for a standard period of one year, by monthly tender. A clear distinction was also established between Treasury bills to be placed in the reserve and those for free investment. Applications for the former type of bill had to be allotted in full at the rate of 3·5%.[1] Bills for free investment were offered up to a predetermined amount at the lowest price offered. But while the competitors in the tender which offered a lower price received a *pro rata* allotment, those who offered a higher price received a full allotment. Bills issued for reserves could not be mobilized before maturity.

The thinking behind this reform was to limit the issue of bills to the Treasury's cash requirements, to remove an institutional cause of rigid short-term rates and, lastly, to prevent the banks from being able to change the composition of the minimum reserve by switching from cash to Treasury bills and vice versa.

Alongside this reform, ceilings were placed on interest rates for interbank deposits in order to limit the advantage for the smaller banks of transferring their own assets to the larger ones, and hence to encourage the direct investment of such assets.

These measures, however, did not have the desired effects. The rate on ordinary Treasury bills remained unchanged for a long time because the undertaking by the Banca d'Italia to negotiate these securities without price changes encouraged the banks to deal in them independently of any consideration of the liquidity situation. Furthermore, it proved difficult to verify and supervise observance of the rules on interbank accounts.

In April 1969 two further measures were taken.

In the first place, the procedure for the issue of Treasury bills was again modified. In particular, the Treasury now determines the amount of bills to be issued in relation to its own requirements. This amount is broken down as follows:

— bills to be placed to reserves, on which the interest rate is fixed at a constant level of 3·75% per annum[2] (raised to 5·5% in October 1970);
— bills for free investment, on which the rates is fixed case by case by the same Ministerial Decree authorizing the issue.

Bills for reserve are allocated at the basic rate but are allotted *pro rata* if the requests from the banks exceed the amount of the current issue. Free Treasury bills are offered under the system already in force. The undistributed part is allocated to the Banca d'Italia, at the basic rate, up to the amount it has requested.

Secondly, the Banca d'Italia ceases to negotiate unlimited quantities of bills without anly change of price and reserves the right of discretion in this connection.

[1] A supplement of 0.25% is applied in order to align the yield on ordinary Treasury bills with that on cash deposited in the compulsory reserve at the rate referred to above.

[2] Rate paid in advance.

These measures promote the formation of quotations and yields corresponding to the market liquidity situation. Since, furthermore, dealings with the Bank take place at its discretion and at variable prices, ordinary Treasury bills can no longer be considered monetary base instruments.
The removal of the link between the official discount rate and the basic rate of Treasury bills offered for free investment, for example, confers greater freedom of action upon the Central Bank in managing discount rate. The rates for inter-bank accounts ceased to be regulated at the beginning of 1970. (See Table 13 for the main rates on the money and capital markets.)

Para. I-2: *Open-market intervention*

Features and functions of open-market operations

42. The particular nature and shortcomings of the money market in Italy, on the one hand, and the policy pursued by the Government and the Treasury in fixing the volume and methods of financing public spending, on the other, have determined the features of open-market intervention by the Banca d'Italia in recent years (Table 12).
In recent years recourse to the issue of long-term loans has gained considerable importance, especially in relation to the financing requirements of big public works programmes. Long-term indebtedness has more than doubled in the past five years and exceeded Lit. 10,600,000 million at the end of 1970.
The scale of the public sector's indebtedness has aggravated the problem of choosing the most suitable times for issues, thus calling for greater coordination between Treasury and Central Bank.
On occasion the Central Bank has itself absorbed large slices of new issues, pending a more suitable moment to offer them to the market. In other cases the Treasury has brought forward the dates of issues in order to absorb part of market liquidity, or, in order to increase liquidity, has redeemed securities that have reached maturity rather than renew them. In January 1963, for example, the Treasury considered it advisable not to renew Lit. 190,000 million of multi-year bonds that had reached maturity, while in late 1968, as in the preceding year, a large issue of securities for the School-building Loan (Lit. 250,000 million) was temporarily absorbed by the Banca d'Italia with the intention of gradually offering it to the market.
Central Bank intervention on the fixed-interest market, which has become more frequent in recent years, forms part of an open-market and price support policy.
Price support measures are aimed at reducing short-term fluctuations in prices in order to attract a large share of funds into the capital market, provided that the other variables are not working in the opposite direction.
The policy of intervention on the long-term securities market is pursued by the Central Bank by participating in issuing syndicates, making firm bids for public loans or portions thereof and subsequently selling them to banks or other investors, and also through open-market transactions in the strict sense, that is purchases and sales on the market made through stockbrokers and banks.
In selecting the technical form of intervention the Bank takes account of the situation of the money and capital markets and the need to create monetary base: in this way the prices which should be supported and the amount of intervention are decided in advance case by case.
Since May 1969 it has also been possible to undertake open-market operations in

money market securities (ordinary Treasury bills), because, as has already been pointed out, the new rules relating to these securities have deprived them of their character as monetary base. Consequently, purchases or sales of Treasury bills on the market do not merely, as in the past, involve changes in the composition of monetary base (cash and Treasury bills) but also influence its volume.
Regarding the latest trend of the Central Bank's dealing in securities, it should be pointed out that in the summer of 1969 the growing strains on the capital market and accelerating outflow of capital pursuaded the monetary authorities to encourage a general raising of interest rates to the levels prevailing on foreign markets. The adjustment of prices and rates, though gradual, reduced the propensity of the public — long accustomed to price stability — to subscribe directly to security issues. Even the banks, faced with reduced liquidity, limited their purchases. Consequently, the Banca d'Italia had to absorb into its own portfolio, with a corresponding creation of monetary base, a very large volume of public securities. A judicious mix of other intervention measures and, in particular, the considerable elimination of liquidity resulting from the balance of payments, have, however, made it possible to contain the expansion of monetary base within the desired limits.
Total monetary base created in 1970 was around Lit. 1,250,000 million (a figure fairly close to that observed in 1968). In 1970 the volume of securities sold on the market by the Banca d'Italia was roughly equal to that of the preceding year (Lit. 300,000 million). By contrast, the volume of purchases was well down (Lit. 130,000 million, as against Lit. 600,000 million in 1969), so that, in the aggregate, open-market operations made a modest contribution to reducing the liquidity of the economy.

Para. II: *Action aimed at international flows of short-term capital*

After the declaration of lira convertibility in December 1958, the rules governing the Italian banks' foreign assets effectively became an instrument for controlling bank liquidity.

Extensions of the banks' operations on foreign money markets

43. In view of the considerable payments surpluses in the late fifties, the monetary authorities encouraged firms to have recourse to foreign currency for their financing, using for this purpose the foreign assets accumulated by the UIC (Italian Exchange Office). The banks were authorized, in November 1959, to hold liquid assets in foreign currency (by purchasing dollars against lire from the UIC). The purchase of spot dollars and their simultaneous forward selling, with the possibility of renewal at maturity, were as a rule effected at the same exchange rate. The ceiling for these operations, originally fixed at $ 150 million, was gradually raised until it reached a maximum of $ 2,148 million in January 1969.
The measures described here enabled the credit establishments to carry out lending and borrowing transactions in foreign currency with both residents and non-residents. In this way, they began to work in dollars as well as in lire, and this helped to extend the sphere of their foreign operations and supply the international Eurodollar market with funds.

Measures to regulate the banks' foreign currency position

44. In August 1960, in view of the large payments surpluses and the growing

strains in international liquidity, it was decided that by the end of the year — deadline which was then extended for a month — the Italian banks should eliminate their short foreign currency portions abroad by drawing on the UIC's reserves by means of swaps.

In 1961 the monetary authorities, in order to satisfy the growing need of the credit establishments for liquidity due to the rapid growth of production, made dollar deposits with the major banks from the UIC's reserves.

This form of supplying bank liquidity was shortlived, however, and instead the banks were again allowed — from October 1962 onwards — to be in a position of net indebtedness with abroad. This measure, which was preceded by an appreciable reduction (from $ 302 to 118 million) of UIC deposits in foreign currency with the banks, was reflected in both increased foreign currency financing at home and greater bank liquidity in lire because of the cancellation of dollar swaps with the UIC. Between November 1962 and August 1963 net indebtedness abroad grew by $ 1,082 million, to which must be added an increase in lira liabilities equal to $ 136 million, while the total balance of payments deficit was equal to $ 918 million. The collection of funds which caused the increase in the Italian banks' net liabilities in foreign currency was concentrated almost exclusively on the Eurodollar market.

The progressive expansion of bank borrowings abroad was interrupted in September 1963, when a growing inflationary pressure built up within the country. The banks were asked not to increase, and if possible to reduce, their debit position abroad as it stood at the end of the preceding month.

In the course of 1964 these measures were rendered more incisive by formal instructions given to the banks: in January it was laid down that the debit position in foreign currency and lire *vis-à-vis* abroad could not exceed the lowest level between the end of November and the end of December 1963; in July instructions were given that net indebtedness should be kept below the lower level of those recorded on 15 and 30 June 1964. Between September 1963 and June 1964 the banks' net foreign liabilities were reduced by $ 434 million.

The subsequent favourable payments trend gradually enabled the banks' foreign currency positions to become flat and later to be long (October 1965).

In January 1966 sales of dollars at a guaranteed rate of exchange were limited to banks still having net external liabilities in foreign currency, and with the proviso that the dollars thus obtained were used to bring their external positions into balance. The aim was to prevent interest rates rising at home as they were abroad. Banks in surplus were left free to do dollar swaps in the market within the limits fixed for each bank, but had themselves to bear the cost of the premium on the forward lira. However, dollars could be sold to the UIC on the payment of a premium varying in relation either to the difference between interest rates at home and abroad or to the liquidity policy pursued by the Italian authorities.

These rules remained in force until March 1969 and were reflected in flows of bank capital which depended on external factors, it is true, but were controlled by the monetary authorities; the possibility cannot be excluded, however, that these flows may have been in line with the choices that the banks would have made spontaneously. The monetary authorities thus allowed the banks' external positions to evolve without any decisive changes occurring in the premium on the forward lira.

At the beginning of 1969, with overall external deficits caused by the outflow of private capital, the monetary authorities required increasing premiums (up to 5 %) for forward dealings with the UIC in lire against dollars, and called on the banks

to reduce their net asset position in foreign currency and lire until a balance was achieved, the deadline being June 1969 except for special cases.
Consequently, current contract between the UIC and the credit establishments for the allocation of dollars against lire at a guaranteed rate of exchange gradually fell from a peak of \$ 2,148 million in January 1969 to \$ 1,503 million at the end of 1970; at the same time the banks' net external credit position went down to \$ 36 million, the reduction being \$ 687 million in the year, equal to just under half the deficit on the balance of payments. In 1970 the banks' net external assets continued to contract and were down to \$ 17 million at year's end. However, in March of the same year, the credit establishments were authorized to maintain a net debit position abroad of an amount not in excess of the increase, in relation to the position at the end of February, of export credits in foreign currency granted to residents.
This instrument for controlling liquidity has facilitated the pursuit of other, connected objectives in the course of the last few years. In particular, it has helped to facilitate the financing of international trade and to regulate the cyclical fluctuations in domestic interest rates, alternately provoking inflows and outflows of banking funds while respecting the long-term links between domestic and foreign rates. (For the situation at the end of the period see Table 14.)

Section IV - Direct action to influence credit distribution

For a description of the institutions responsible for credit control and for information on the legal basis of their activity see the first part of this paper.

Para. I: *Quantitative control of credit*

Instruments and control of credit volume

45. In Italy the policy of quantitative control of credit is pursued not through the imposition of specified limits or ceilings on bank credit but, as already explained, mainly through regulation of the flow of monetary base. In certain cyclical phases, however, this generalized action is accompanied by recommendations addressed to the individual banks regarding their credit policy. These instructions are based on the Banking Law, which gives the Banca d'Italia the power to issue directives on "the ratio of the various classes of investment under consideration either to liquidity or to the various branches of economic activity to which the investments refer" (Article 32 d). Another power enjoyed by the Banca d'Italia under the Banking Law, and one which may be used for the purpose of quantitative control of credit, is that of "establishing the ceilings to loans that may be granted" (Article 35 b). This power, however, has hitherto been used more to prevent an excessive concentration of loans in favour of certain customers than to control the overall volume of credit allocated by the different banks. The banks may not extend to the same client, except with authorization from the Banca d'Italia, advances exceeding one fifth of their capital and reserves unless the advances are entirely backed by real guarantees.

Para. II: *Selective credit control*

Opportunities for selective control

46. The abovementioned articles of the Banking Law also offer the Banca d'Italia the possibility of exercising a selective control of bank credit. The second part of Article 32 d, in particular, enables it to direct the flow of credit towards particular branches of economic activity; under Article 35 selective action could be taken in cases where the underlying reasons for a decision to authorize or prohibit the granting of loans exceeding a fifth of capital and reserves depended more on the financial requirements of the sectors of economic activity in which the application for the loans operated than on the inherent risks in the operations. In fact, the Banca d'Italia has never yet implemented these rules for the above purpose.
Instead, a selective control of the financing flow is achieved through the procedure of bond issues and the institution of subsidized credit facilities.

Bond issue

47. The setting up of companies, increases of capital requiring payment and bond issues exceeding Lit. 500 million must be authorized by the Treasury Ministry after consultation with the Interministerial Credit and Savings Committee. It is, in particular, the business of the Banca d'Italia to grant the authorization, without which no public or private issues can be made through banks subject to bank control or quoted on stock exchanges. In these provisions the qualitative and quantitative aspect of credit control overlap.

Subsidized credit

48. The second form of selective control, which however, does not come within the ambit of the Central Bank's operations, consists of the arrangements for subsidized credit, under which special rates are applied to certain loans. Here, the State plays a part by providing interest rebates and, in special cases, by supplying funds to the special credit institutions concerned. The particular rules relating to interest rebates lay down that these institutions may carry out credit operations at special rates established by law or by the decision of specific administrative bodies.
If need be, "basic rates", i.e. maximum interest rates considered sufficiently remunerative for the financing institutions, are established by the bodies prescribed by law (as a rule the Interministerial Credit and Savings Committee) in order to enable the institutions in question to apply to their customers the established reduced rates. The difference between the basic rates and reduced rates is covered by the State. The beneficiaries of the reduced rate are defined by law on the basis of various criteria. There is above all a geographical criterion according to which the easier terms are granted to economic activities in the south of Italy and other areas considered economically depressed. In the second place, these rates are applied to small and medium-scale firms having less than a given number of employees or amount of capital. Lastly, there is a criterion by economic sector, according to which some productive activities, such as agriculture, enjoy this favourable treatment.
The Banca d'Italia exercises only indirect control over this type of credit by supervision of the institutions responsible for granting subsidized credit and by regulatin the collection of savings and of market liquidity conditions.

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STATISTICAL TABLES

TABLE 1
Volume of securities by groups of investors

Investors	Fixed-interest		
	Govt. Securities	Bonds on behalf of Treasury	Local and regional authorities
December 1955			
Banco d'Italia	126.6	5.0	—
Banks	413.7	79.6	—
Cassa Depositi e Prestiti	76.2	25.1	—
Special institutions	5.6	1.0	—
Social Security institutions	35.1	3.8	—
Insurance companies	23.6	2.1	1.6
Private individuals and companies	876.8	80.4	6.7
Total	1,557.6	197.0	8.3
December 1956			
Banca d'Italia	146.7	6.9	—
Banks	507.1	75.4	—
Cassa Depositi e Prestiti	76.1	23.9	—
Special institutions	10.5	6.1	—
Social security institutions	38.4	3.7	—
Insurance companies	25.5	2.1	1.6
Private individuals and companies	959.0	73.4	6.6
Total	1,763.3	191.5	8.2
December 1957			
Banca d'Italia	182.5	7.0	—
Banks	523.9	72.2	—
Cassa Depositi e Prestiti	76.0	22.6	—
Special institutions	6.8	1.6	—
Social security institutions	41.4	3.6	—
Insurance companies	27.5	2.0	1.5
Private individuals and companies	1,020.1	76.0	6.5
Total	1,878.5	185.0	8.0
December 1958			
Banca d'Italia	191.3	6.6	—
Banks	539.3	68.2	—
Cassa Depositi e Prestiti	75.9	21.3	—
Special institutions	7.3	1.9	—
Social security institutions	31.8	3.5	—
Insurance companies	27.2	2.0	1.5
Private individuals and companies	1,030.4	74.3	6.3
Total	1,903.2	177.8	7.8

(in Lit. '000 million)

Fixed-interest					Total
Special institutions		ENEL ENI IRI	Enterprises	Foreign	
"mobiliari"	"immobiliari"				
Volume					
2.6	1.2	0.4	—	—	135.8
165.2	54.5	56.5	7.8	—	777.3
0.4	0.1	30.9	—	—	132.7
7.2	7.9	1.3	0.3	—	23.3
52.6	47.3	20.1	4.2	—	162.5
15.2	14.3	4.8	5.9	—	67.5
267.3	139.2	87.9	200.6	—	1,658.9
509.9	264.5	201.9	218.8	—	2,958.0
3.7	2.0	0.4	—	—	159.7
166.4	71.1	59.8	12.3	—	892.1
0.4	0.1	30.1	—	—	130.6
8.6	9.3	1.8	0.2	—	36.3
60.8	56.0	20.6	1.8	—	181.3
20.3	17.0	5.9	6.0	—	78.4
338.1	172.7	132.0	227.3	—	1,909.1
598.3	328.2	250.6	247.6	—	3,387.7
4.5	2.3	0.4	—	—	196.7
175.0	85.5	67.6	13.4	—	937.6
0.4	0.1	29.3	—	—	128.4
16.7	9.9	2.6	0.1	—	37.7
66.0	68.2	24.2	1.0	—	204.4
25.2	20.1	6.6	6.4	—	89.3
392.1	219.2	191.6	263.5	—	2,169.3
679.9	405.3	322.3	284.4	—	3,763.4
5.4	2.6	5.6	—	—	211.5
205.4	103.4	118.5	19.5	—	1,054.3
17.3	0.1	18.5	1.0	—	134.1
16.0	13.0	3.3	0.1	—	41.6
62.4	76.0	33.7	3.7	—	211.1
24.7	19.8	8.4	6.3	—	89.9
500.3	278.2	298.8	317.2	—	2,505.5
831.5	493.1	486.8	347.8	—	4,248.0

TABLE 1 (Continued)

Investors	Fixed-interest		
	Govt. Securities	Bonds on behalf of Treasury	Local and regional authorities
December 1959			
Banco d'Italia	217.4	7.0	—
Banks	612.1	101.2	—
Cassa Depositi e Prestiti	75.9	25.9	—
Special institutions	8.3	2.4	—
Social Security institutions	32.4	6.4	—
Insurance companies	29.9	2.2	1.6
Private individuals and companies	1,234.8	84.8	11.1
Total	2,210.8	229.9	12.7
December 1960			
Banca d'Italia	228.8	6.8	—
Banks	594.4	100.2	—
Cassa Depositi e Prestiti	74.4	27.2	—
Special institutions	17.0	3.2	—
Social security institutions	33.1	5.9	—
Insurance companies	36.8	2.4	1.6
Private individuals and companies	1,370.0	124.2	10.7
Total	2,354.5	269.9	12.3
December 1961			
Banca d'Italia	243.7	25.2	—
Banks	599.2	157.8	3.1
Cassa Depositi e Prestiti	73.6	30.6	—
Special institutions	17.5	6.9	—
Social security institutions	33.3	8.9	—
Insurance companies	38.2	5.3	1.6
Private individuals and companies	1,358.6	182.7	19.1
Total	2,364.1	417.4	23.8
December 1962			
Banca d'Italia	192.6	107.5	—
Banks	622.6	148.8	3.1
Cassa Depositi e Prestiti	31.3	133.5	—
Special institutions	12.1	3.2	—
Social security institutions	33.4	11.5	—
Insurance companies	40.1	6.9	1.6
Private individuals and companies	1,335.3	181.9	18.7
Total	2,267.4	593.3	23.4

(*in Lit. '000 million*)

Fixed-interest					Total
Special institutions		ENEL ENI IRI	Enterprises	Foreign	
"mobiliari"	"immobiliari"				
Volume					
7.4	2.7	6.5	—	—	241.0
259.7	127.0	172.6	19.6	—	1,292.2
26.6	0.1	17.5	4.5	—	150.5
20.7	19.1	3.9	—	—	54.4
64.0	77.9	30.9	3.4	—	215.0
30.9	23.6	8.6	8.8	—	105.6
600.9	343.1	335.4	341.8	—	2,951.9
1,010.2	593.5	575.4	378.1	—	5,010.6
12.8	2.6	6.3	—	—	257.3
361.2	195.7	196.3	44.6	—	1,492.4
44.9	0.1	16.6	4.9	—	168.1
19.4	21.0	4.3	0.7	—	65.6
76.4	74.2	27.8	6.0	—	223.2
44.0	36.0	10.1	9.2	—	140.1
736.8	409.3	374.1	511.2	—	3,536.3
1,295.2	738,9	635.5	576.6	—	5,882.9
14.8	3.0	6.3	—	2.1	295.1
492.0	208.6	216.8	33.1	9.1	1,719.7
61.2	0.1	15.6	4.9	—	186.0
18.8	28.4	5.1	0.8	0.2	77.7
92.7	88.3	26.0	6.9	—	256.1
46.5	55.4	45.5	13.0	—	175.5
865.3	596.5	465.6	644.5	3.6	4,135.9
1,591.3	980.3	750.9	703.2	15.0	6,846.0
18.8	2.9	11.3	0.2	19.9	353.2
749.2	333.4	296.5	72.7	16.7	2,243.0
92.8	25.2	14.5	4.8	—	302.1
20.1	48.2	3.2	0.9	5.3	93.0
142.3	116.4	24.2	9.9	—	337.7
76.0	65.0	14.8	14.0	—	218.4
958.7	687.8	446.4	810.6	3.1	4,442.5
2,057.9	1,278.9	810.9	913.1	45.0	7,989.9

TABLE 1 (*Continued*)

Investors	Fixed-interest		
	Govt. Securities	Bonds on behalf of Treasury	Local and regional authorities
December 1963			
Banco d'Italia	174.4	116.2	—
Banks	590.5	144.5	3.1
Cassa Depositi e Prestiti	21.3	283.9	—
Special institutions	11.7	3.1	—
Social Security institutions	28.9	10.9	—
Insurance companies	37.8	7.2	1.5
Private individuals and companies	1,211.9	164.4	18.3
Total	2,076.5	730.2	22.9
December 1964			
Banca d'Italia	229.9	246.8	—
Banks	588.4	143.4	3.1
Cassa Depositi e Prestiti	82.3	245.6	—
Special institutions	11.5	2.9	—
Social security institutions	28.6	10.3	—
Insurance companies	36.8	7.7	1.5
Private individuals and companies	1,173.5	242.0	17.8
Total	2,151.0	898.7	22.4
December 1965			
Banca d'Italia	243.1	286.2	—
Banks	724.1	441.2	3.1
Cassa Depositi e Prestiti	82.3	257.1	—
Special institutions	18.2	11.5	—
Social security institutions	28.4	13.8	—
Insurance companies	36.9	11.2	1.5
Private individuals and companies	1,196.8	410.8	17.4
Total	2,329.8	1,431.8	22.0
December 1966			
Banca d'Italia	384.4	337.4	—
Banks	1,054.3	849.4	3.1
Cassa Depositi e Prestiti	74.3	247.6	—
Special institutions	24.7	20.0	23.0
Social security institutions	44.3	13.6	—
Insurance companies	43.2	15.7	1.4
Private individuals and companies	1,441.8	834.8	16.5
Total	3,067.0	2,318.5	44.0

(*in Lit. '000 million*)

Fixed-interest					Total
Special institutions		ENEL ENI IRI	Enterprises	Foreign	
"mobiliari"	"immobiliari"				
	Volume				
18.5	2.8	11.2	6.2	26.4	355.7
973.4	439.4	352.9	91.9	20.7	2,616.4
126.4	46.4	167.6	8.7	—	654.3
24.0	45.7	4.0	0.5	5.8	94.8
180.1	145.6	23.1	16.0	—	404.6
87.0	73.7	15.4	16.8	—	239.4
1,145.4	860.7	527.9	869.7	13.4	4,811.7
2,554.8	1,614.3	1,102.1	1,009.8	66.3	9,176.9
29.9	2.7	10.8	7.4	38.6	566.1
1,082.2	541.6	645.1	97.7	20.5	3,122.0
238.4	98.0	295.9	8.6	—	968.8
27.8	49.2	6.9	6.8	5.0	110.1
311.7	199.6	75.4	25.7	—	651.3
96.7	74.8	17.9	16.5	—	251.9
1,284.2	925.7	563.7	884.6	14.1	5,105.6
3,070.9	1,891.6	1,615,7	1,047.3	78.2	10,775.8
28.7	2.6	10.3	8.4	37.7	617.0
1,290.5	648.9	1,035.3	139.7	23.9	4,306.7
235.6	94.3	286.4	13.5	—	969.2
41.2	36.4	15.9	6.8	5.0	135.0
308.6	208.0	72.4	25.1	—	656.3
105.7	81.0	25.7	16.8	—	278.8
1,484.8	1,123.9	761.1	933.5	25.5	5,953.8
3,495.1	2,195.1	2,207.1	1,143.8	92.1	12,916.8
29.8	2.4	10.3	8.4	61.1	833.8
1,478.0	887.5	1,190.4	146.4	59.3	5,668.4
227.8	91.0	276.4	13.3	—	930.4
43.2	24.0	19.9	13.7	5.0	173.5
303.3	204.6	70.4	23.9	—	660.1
129.6	84.0	39.2	22.2	—	335.3
1,814.1	1,315.8	929.4	922.6	50.1	7,325.1
4,025.8	2,609.3	2,536.0	1,150.5	175.5	15,926.6

TABLE 1 (Continued)

Investors	Fixed-interest		
	Govt. Securities	Bonds on behalf of Treasury	Local and regional authorities
December 1967			
Banco d'Italia	694.3	193.2	—
Banks	1,198.9	1,015.8	4.1
Cassa Depositi e Prestiti	66.3	237.1	—
Special institutions	34.2	22.4	31.8
Social Security institutions	44.1	12.7	—
Insurance companies	45.9	17.8	1.4
Private individuals and companies	1,454.5	1,403.6	15.1
Total	3,538.2	2,902.6	52.4
December 1968			
Banca d'Italia	883.0	229.4	—
Banks	1,676.6	1,409.1	14.9
Cassa Depositi e Prestiti	58.3	230.1	—
Special institutions	63.1	42.3	52.0
Social security institutions	42.1	13.8	—
Insurance companies	45.7	61.9	1.4
Private individuals and companies	1,627.3	1,414.8	33.2
Total	4,396.4	3,401.4	101.5
December 1969			
Banca d'Italia	1,274.7	1,136.4	—
Banks	1,802.0	1,504.9	21.7
Cassa Depositi e Prestiti	50.3	219.7	—
Special institutions	109.7	40.2	52.3
Social security institutions	39.2	13.0	—
Insurance companies	45.0	51.8	5.3
Private individuals and companies	1,645.2	1,549.6	24.9
Total	4,966.1	4,519.6	104.2
December 1970			
Banca d'Italia	2,007.5	1,779.4	—
Banks	1,790.2	1,620.3	22.7
Cassa Depositi e Prestiti	42.3	208.6	—
Others	1,830.4	1,633.1	76.3
Total	5,670.4	5,241.4	99.0

(in Lit. '000 million)

Fixed-interest					Total
Special institutions		ENEL ENI IRI	Enterprises	Foreign	
"mobiliari"	"immobiliari"				
Volume					
28.5	2.2	8.3	8.4	68.0	1,002.9
1,692.2	1,187.5	1,370.9	185.2	62.2	6,716.8
222.2	87.3	265.8	13.1	—	891.8
48.2	26.2	19.0	10.0	1.3	193.1
294.1	214.7	70.7	23.7	—	660.0
160.6	95.1	53.8	30.9	—	405.5
2,241.2	1,422.4	1,010.9	1,042.7	65.9	8,656.3
4,687.0	3,035.4	2,799.4	1,314.0	197.4	18,526.4
27.1	2.2	8.3	8.6	68.0	1,226.6
1,877.6	1,475.6	1,574.0	231.2	68.9	8,327.9
212.6	83.4	254.5	12.8	—	851.7
59.0	31.1	12.2	10.0	1.9	271.6
301.2	222.4	61.7	24.2	—	665.7
161.1	131.3	64.6	20.6	2.0	491.9
2,828.8	1,621.6	1,248.5	1,124.0	101.6	9,999.7
5,470.7	3,567.5	3,223.8	1,431.4	242.4	21,835.1
45.9	12.4	8.2	7.5	64.7	2,549.8
2,335.3	1,740.3	1,907.5	231.8	75.2	9,618.7
204.2	79.5	243.1	12.6	—	809.4
59.8	51.2	10.4	7.9	7.4	338.9
291.7	237.9	58.1	22.9	—	662.8
383.8	137.8	74.4	20.7	2.2	521.0
3,219.6	1,855.8	1,418.4	1,163.8	102.6	10,979.9
6,340.3	4,114.9	3,720.1	1,467.2	252,1	25,480.5
77.1	22.1	8.0	7.0	71.3	3,972.4
3,000.3	1,917.8	1,976.6	229.1	77.7	10,634.7
196.6	75.9	231.9	20.5	—	775.8
3,926.5	2,910.9	1,615.7	1,150.4	108.5	13,251.8
7,200.5	4,926.7	3,832.2	1,407.0	257.5	28,634.7

TABLE 2

Net issues of securities by groups of investors

Investors	Fixed-interest		
	Govt. Securities	Bonds on behalf of Treasury	Local and regional authorities
December 1956			
Banco d'Italia	14.0	1.6	—
Banks	84.0	— 4.8	—
Cassa Depositi e Prestiti	—	— 1.1	—
Special institutions	4.5	4.8	—
Social Security institutions	3.3	— 0.1	—
Insurance companies	1.9	—	—
Private individuals and companies	92.2	— 5.9	—0.1
Total	199.9	— 5.5	—0.1
December 1957			
Banca d'Italia	34.2	0.1	—
Banks	16.4	— 2.7	—
Cassa Depositi e Prestiti	— 0.1	— 1.1	—
Special institutions	— 3.5	— 4.3	—
Social security institutions	2.8	— 0.1	—
Insurance companies	1.9	— 0.1	—0.1
Private individuals and companies	63.5	1.7	—0.1
Total	115.2	— 6.5	—0.2
December 1958			
Banca d'Italia	8.7	— 0.4	—
Banks	18.9	— 2.9	—
Cassa Depositi e Prestiti	— 0.1	— 1.2	—
Special institutions	0.5	0.3	—
Social security institutions	— 9.0	— 0.2	—
Insurance companies	— 0.3	—	—
Private individuals and companies	— 6.1	— 2.8	—0.2
Total	12.6	— 7.2	—0.2
December 1959			
Banca d'Italia	25.3	0.5	—
Banks	75.1	33.4	—
Cassa Depositi e Prestiti	—	4.6	—
Special institutions	1.1	0.5	—
Social security institutions	0.6	2.9	—
Insurance companies	2.6	0.2	0.1
Private individuals and companies	200.3	8.9	4.6
Total	305.0	51.0	4.7

(in Lit. '000 million)

Fixed-interest					Total
Special institutions		ENEL ENI IRI	Enterprises	Foreign	
"mobiliari"	"immobiliari"				
Net issues					
1.0	0.7	—	—	—	17.3
1.9	14.4	2.6	4.2	—	102.3
—	—	— 0.7	—	—	— 1.8
1.2	1.3	0.4	— 0.1	—	12.1
8.4	7.8	0.5	— 2.4	—	17.4
4.8	2.5	1.5	0.1	—	10.4
62.4	26.9	42.4	26.0	—	243.9
79.7	53.5	46.3	27.8	—	401.6
0.8	0.3	—	—	—	35.4
7.7	12.5	7.0	0.9	—	41.8
—	—	— 0.7	—	—	— 1.9
7.6	0.4	0.8	—	—	1.0
4.8	10.5	3.4	— 0.7	—	20.7
4.6	2.8	0.6	0.4	—	10.1
47.7	38.5	57.3	34.6	—	243.2
73.2	65.0	68.4	35.2	—	350.3
0.9	0.2	4.4	—	—	13.8
30.0	16.1	48.8	6.0	—	116.9
15.5	—	— 9.9	1.0	—	5.3
— 0.2	3.0	0.6	—	—	4.2
— 3.0	6.9	9.0	2.6	—	6.3
— 0.5	— 0.3	1.6	— 0.1	—	0.4
97.4	49.1	100.9	51.6	—	289.9
140.1	75.0	155.4	61.1	—	436.8
1.9	0.1	0.9	—	—	28.7
55.0	23.8	53.7	0.7	—	241.7
9.1	—	— 0.9	3.5	—	16.3
4.7	6.1	0.6	— 0.1	—	12.9
1.9	1.8	— 3.1	— 0.3	—	3.8
5.8	3.5	0.2	2.4	—	14.8
93.6	55.5	31.8	23.5	—	418.2
172.0	90.8	83.2	29.7	—	736.4

TABLE 2 (Continued)

Investors	Fixed-interest		
	Govt. Securities	Bonds on behalf of Treasury	Local and regional authorities
December 1960			
Banco d'Italia	11.8	— 0.1	—
Banks	— 14.7	— 0.6	—
Cassa Depositi e Prestiti	— 0.3	1.5	—
Special institutions	8.7	0.8	—
Social Security institutions	0.3	— 0.3	—
Insurance companies	7.5	0.2	—
Private individuals and companies	130.4	37.8	— 0.4
Total	143.7	39.3	— 0.4
December 1961			
Banca d'Italia	16.4	17.9	—
Banks	7.5	55.9	2.8
Cassa Depositi e Prestiti	— 0.8	3.2	—
Special institutions	0.5	3.7	—
Social security institutions	0.2	2.7	—
Insurance companies	1.2	2.6	—
Private individuals and companies	— 15.4	57.4	8.6
Total	9.6	143.4	11.4
December 1962			
Banca d'Italia	— 47.1	75.6	—
Banks	28.7	— 9.1	—
Cassa Depositi e Prestiti	— 42.3	97.8	—
Special institutions	— 5.3	— 3.8	—
Social security institutions	0.2	2.5	—
Insurance companies	1.9	1.6	—
Private individuals and companies	— 32.8	6.0	— 0.4
Total	— 96.7	170.6	— 0.4
December 1963			
Banca d'Italia	— 15.6	6.9	—
Banks	— 30.7	— 5.5	—
Cassa Depositi e Prestiti	— 10.1	144.0	—
Special institutions	— 0.2	— 0.2	—
Social security institutions	— 4.4	— 0.6	—
Insurance companies	— 2.1	0.1	— 0.1
Private individuals and companies	—127.8	— 17.3	— 0.4
Total	—190.9	127.4	— 0.5

(*in Lit. '000 million*)

Fixed-interest					Total
Special institutions		ENEL ENI IRI	Enterprises	Foreign	
"mobiliari"	"immobiliari"				
Net issues					
5.3	—	—	—	—	17.0
100.9	67.6	25.5	24.4	—	203.1
17.3	—	— 0.8	0.4	—	18.1
— 1.2	1.9	0.4	0.7	—	11.3
11.8	— 3.7	— 3.1	2.3	—	7.3
12.9	11.8	1.5	0.4	—	34.3
128.7	58.7	35.8	168.2	—	559.2
275.7	136.3	59.3	196.4	—	850.3
2.0	0.3	—	—	2.1	38.7
127.4	14.3	21.2	— 10.8	9.5	227.8
15.4	—	— 0.9	—	—	16.9
— 0.6	7.2	0.8	0.1	0.2	11.9
16.0	12.7	— 1.7	0.9	—	30.8
2.4	18.0	5.2	3.6	—	33.0
121.3	177.1	90.8	132.2	3.0	575.0
283.9	229.6	115.4	126.0	14.8	934.1
3.6	— 0.1	4.8	0.2	16.2	53.2
250.0	177.4	75.2	36.7	7.1	506.0
31.2	23.8	0.4	— 0.1	—	110.8
1.2	19.3	— 1.9	0.1	5.0	14.6
47.5	25.4	— 1.8	2.7	—	76.5
28.1	8.9	— 0.7	1.0	—	40.8
84.3	83.9	— 17.0	165.3	1.3	290.6
445.9	278.6	59.0	205.9	29.6	1,092.5
— 0.4	— 0.1	— 0.3	5.3	6.4	2.2
212.3	95.2	49.4	17.5	3.5	341.7
30.4	19.1	145.7	3.9	—	333.0
3.5	— 3.3	0.8	— 0.4	— 0.2	—
35.8	27.3	— 1.0	5.6	—	62.7
10.5	8.1	0.5	2.7	—	19.7
177.7	158.6	79.6	59.8	11.2	341.4
469.8	304.9	274.7	94.4	20.9	1,100.7

TABLE 2 (Continued)

Investors	Fixed-interest		
	Govt. Securities	Bonds on behalf of Treasury	Local and regional authorities
December 1964			
Banco d'Italia	56.8	111.6	—
Banks	— 1.4	— 1.7	—
Cassa Depositi e Prestiti	59.0	— 36.1	—
Special institutions	— 0.4	— 0.2	—
Social Security institutions	— 0.3	— 0.4	—
Insurance companies	— 1.1	0.5	—
Private individuals and companies	— 43.8	85.1	— 0.5
Total	68.8	158.8	— 0.5
December 1965			
Banca d'Italia	13.8	37.9	—
Banks	136.7	282.2	—
Cassa Depositi e Prestiti	—	9.9	—
Special institutions	6.8	8.2	—
Social security institutions	0.1	3.2	—
Insurance companies	0.1	3.2	—
Private individuals and companies	20.3	156.1	— 0.4
Total	177.8	500.7	— 0.4
December 1966			
Banca d'Italia	139.7	57.8	—
Banks	329.4	384.6	—
Cassa Depositi e Prestiti	— 8.0	— 8.5	—
Special institutions	6.3	8.1	21.5
Social security institutions	15.6	— 0.1	—
Insurance companies	6.3	4.8	— 0.1
Private individuals and companies	246.1	385.6	— 0.3
Total	735.4	832.3	21.1
December 1967			
Banca d'Italia	303.0	— 134.0	—
Banks	140.1	163.5	1.0
Cassa Depositi e Prestiti	— 8.0	— 10.1	—
Special institutions	9.4	2.4	8.3
Social security institutions	— 0.1	— 1.0	—
Insurance companies	2.4	1.9	—
Private individuals and companies	10.3	531.7	— 1.3
Total	457.1	554.4	8.0

(in Lit. '000 million)

Fixed-interest					Total
Special institutions		ENEL ENI IRI	Enterprises	Foreign	
"mobiliari"	"immobiliari"				
Net issues					
10.4	—	— 0.5	1.2	12.1	191.6
95.0	88.5	274.7	3.9	— 0.8	438.2
106.1	45.8	108.9	— 0.1	—	283.6
2.7	2.4	2.6	6.0	— 0.1	13.0
124.9	48.1	48.4	9.0	—	229.7
9.1	0.8	2.3	— 0.2	—	11.4
131.4	55.5	32.4	13.2	0.7	274.0
479.6	241.1	468.8	33.0	11.9	1,461.5
— 0.8	— 0.1	— 0.3	1.0	— 1.0	50.5
195.3	94.4	373.0	40.9	3.3	1,125.8
— 0.6	— 3.3	— 8.6	4.9	—	2.3
12.8	— 12.4	8.0	—	—	23.4
— 3.4	7.5	— 2.5	— 0.6	—	4.3
8.5	5.9	7.6	0.2	—	25.5
176.1	166.5	180.2	43.1	11.0	752.9
387.9	258.5	557.4	89.5	13.3	1,984.7
1.2	— 0.2	—	—	22.9	221.4
183.0	222.4	151.2	6.6	33.7	1,340.9
— 6.7	— 3.1	— 9.1	— 0.2	—	— 35.6
1.7	— 10.7	3.9	6.2	—	37.0
— 5.1	— 3.8	— 1.8	— 1.1	—	3.7
22.7	2.4	12.4	5.2	—	53.7
305.1	151.8	157.3	— 13.8	24.0	1,255.8
501.9	358.8	313.9	2.9	80.6	2,846.9
— 1.3	—	— 1.5	—	6.9	173.1
205.1	279.8	173.7	36.7	3.0	1,002.9
— 5.9	— 3.4	— 9.6	— 0.2	—	— 37.2
5.3	2.1	— 0.7	— 3.5	— 3.7	19.6
— 8.8	9.1	0.1	— 0.2	—	— 0.9
29.5	10.2	14.1	8.3	—	66.4
396.4	68.5	70.3	115.4	15.3	1,206.6
620.3	366.3	246.4	156.5	21.5	2,430.5

TABLE 2 *(Continued)*

Investors	Fixed-interest		
	Govt. Securities	Bonds on behalf of Treasury	Local and regional authorities
December 1955			
Banco d'Italia	183.5	36.1	—
Banks	472.3	377.9	10.2
Cassa Depositi e Prestiti	— 8.0	— 10.1	—
Special institutions	27.4	18.7	18.6
Social Security institutions	— 1.7	— 0.9	—
Insurance companies	0.2	19.4	—
Private individuals and companies	156.9	26.1	18.1
Total	830.6	466.2	46.9
December 1956			
Banca d'Italia	366.4	833.6	—
Banks	111.8	77.6	6.2
Cassa Depositi e Prestiti	— 8.0	— 10.3	—
Special institutions	39.4	— 2.9	— 2.7
Social security institutions	— 3.0	— 0.8	—
Insurance companies	— 2.8	— 0.1	0.4
Private individuals and companies	34.2	125.1	— 1.7
Total	538.0	1,022.2	2.2
December 1957			
Banca d'Italia	696.3	567.2	—
Banks	— 37.8	75.7	0.5
Cassa Depositi e Prestiti	— 8.0	— 11.1	—
Others	15.0	— 0.2	— 5.7
Total	665.5	631.6	— 5.2

(in Lit. '000 million)

Fixed-interest					Total
Special institutions		ENEL ENI IRI	Enterprises	Foreign	
"mobiliari"	"immobiliari"				
Net issues					
— 1.3	—	—	0.2	— 0.1	218.1
179.0	256.0	198.7	44.4	5.9	1,541.4
— 6.3	— 3.5	— 10.1	— 0.3	—	— 38.3
9.8	4.3	— 6.1	0.1	0.6	73.4
4.9	9.7	— 3.7	0.9	—	9.2
20.2	27.3	13.1	2.0	0.2	81.1
521.9	166.6	211.3	65.7	37.1	1,203.7
723.2	460.1	403.2	113.0	43,7	3,092.2
17.4	9.2	— 0.1	— 0.8	— 3.8	1,221.9
414.3	230.9	295.3	— 1.9	2.5	1,136.7
— 7.4	— 3.5	— 10.7	— 0.2	—	— 40.1
0.3	17.9	— 1.7	— 2.0	5.5	53.8
— 10.5	15.0	— 1.8	—	0.2	— 0.3
10.2	13.9	11.7	— 0.3	—	33.0
391.0	185.5	172.8	34.0	4.7	945.6
815.3	468.9	465.5	28.8	9.1	3,350.0
24.5	8.9	— 0.1	— 0.6	7.0	1,303.2
687.5	125.2	49.5	2.6	— 1.4	801.8
— 7.6	— 3.6	— 11.2	7.7	—	— 33.8
195.3	553.6	56.0	— 69.9	— 0.2	743.9
799.7	684.1	94.2	— 60.2	5.4	2,815.1

Items	Volume at 31 Dec. 1968	1958	1959	1960	1961
FINANCIAL ASSETS					
Domestic					
1. Liquid assets	45,048	1,295.0	1,749.8	1,739.2	2,304.2
a) notes and coin (2)	5,896	152.8	183.8	197.0	359.9
b) sight deposits (2)	17,281	366.5	749.7	664.7	762.5
c) savings deposits and short-term securities	21,871	775.7	816.3	878.5	1,181.8
2. Other deposits and interest-bearing certificates	1,434	26.8	61.5	43.1	76.4
3. Fixed-interest securities	10,802	284.0	415.9	565.4	563.7
a) Government securities	3,173	— 12.3	209.4	166.0	39.7
b) bonds-special institutions	5,075	145.7	149.1	196.4	298.7
c) bonds-industrial and other	2,554	150.6	57.4	203.0	225.3
4. Shares and participations	15,134	89.4	— 9.1	165.0	152.0
5. Other	5,139	168.0	197.2	157.9	221.4
Total domestic	77,557	1,863.2	2,415.3	2,670.6	3,317.7
Foreign					
6. Short-term lendings (net)	729	— 13.7	— 4.8	4.3	83.4
7. Loans	715	4.3	— 2.2	— 2.2	30.6
8. Fixed-interest securities and shares	2,148	— 4.0	13.0	73.9	53.4
9. Other	4,310	4.3	39.0	115.8	195.6
Total foreign	7,902	— 9.1	45.0	19.18	363.0
Total	85,459	1,854.1	2,460.3	2,862.4	3,680.7
BEING COUNTERPARTS OF LENDING TO: ECONOMY (1)					
From domestic sources					
10. Short-term indebtedness	19,856	131.1	615.7	1,164.0	1,242.6
11. Medium and long-term indebtedness	20,946	658.0	602.9	948.4	1,040.3
a) loans	15,812	443.1	492.5	693.4	805.0
b) bonds	5,134	214.9	110.4	255.0	235.3
12. Shares and participations	17,658	124.9	76.9	258.1	282.4
Total domestic	58,460	914.0	1,295.5	2,370.5	2,565.3
From foreign sources					
13. Medium and long-term indebtedness	1,000	— 8.3	— 3.4	— 19.6	72.3
14. Shares and participations	4,095	117.1	182.8	287.2	294.2
Total foreign	5,095	108.8	179.4	267.6	366.5
Total	63,555	1,022.8	1,474.9	2,638.1	2,931.8
FOREIGN SECTOR (3)	5,577	347.1	465.7	176.9	296.4
PUBLIC SECTOR	17,731	520.0	575.7	360.3	303.4
Treasury (4)	9,763	249.7	248.3	73.9	26.0
Local and regional authorities and social insurance institutions	7,968	270.3	327.4	286.4	277.4
UNCLASSIFIABLE (5)	— 1,404	— 35.8	— 56.0	—312.9	149.1
Total	85,459	1,854.1	2,460.3	2,862.4	3,6807
Economy's financial surplus (+) / deficit (—)					
Liquidity surplus (6)	26,626	1,190.7	1,195.6	618.3	1,138.0
Medium and long-term surplus	— 4,722	— 359.4	— 210.2	— 394.0	— 389.1
Total surplus/deficit	21,904	831.3	985.4	224.3	748.9

(1) Households and firms.
(2) Figures adjusted to discount fortuitous movements in late 1967.
(3) Current surplus or deficit in the balance of payments on a transaction basis.

assets and their counterparts (1)

(Changes in Lit. '000 million)

1962	1963	1964	1965	1966	1967	1968	1969	1970
2,943.5	2,420.7	1,986.8	3,707.6	3,887.3	3,811.4	4,592.5	4,675.4	6,305.1
390.0	440.8	270.6	343.1	378.1	328.2	359.4	694.2	488.0
1,125.0	745.2	590.6	1,506.4	1,453.7	1,570.1	2,220.8	2,549.4	6,166.8
1,428.5	1,234.7	1,125.6	1,858.1	2,055.5	1,913.1	2,012.3	1,431.8	—349.7
75.0	135.0	45.6	88.8	160.2	185.0	285.9	119.0	163.8
287.8	332.9	268.8	729.4	1,235.0	12,04.6	1,156.0	944.2	646.6
— 25.2	—144.5	34.3	172.6	630.9	517.1	193.4	155.1	— 15.1
172.7	340.6	191.9	345.1	461.1	474.5	683.3	585.7	678.6
140.3	136.8	42.6	211.7	143.0	212.9	279.3	203.4	— 16.9
216.7	—141.5	236.9	105.7	305.6	35.3	176.7	323.7	539.6
253.8	310.5	344.7	346.2	471.1	509.5	525.1	548.6	552.2
3,776.8	3,057.6	2,882.8	4,977.7	6,059.2	5,745.8	6,736.2	6,610.9	8,207.3
14.3	— 26.3	106.1	256.2	158.4	— 49.1	226.2	245.5	283.9
83.5	60.2	60.0	60.4	129.5	76.9	— 50.8	78.5	57.3
131.1	118.4	96.1	117.7	154.6	185.6	366.5	461.5	359.5
461.3	906.9	348.6	177.9	332.8	489.7	704.5	1,411.0	596.1
690.2	1,059.2	610.8	612.2	775.3	703.1	1,246.4	2,196.5	1,296.8
4,467.0	4,116.8	3,493.6	5,589.9	6,834.5	6,448.9	7,982.6	8,807.4	9,504.1
1,741.5	2,056.5	65.9	657.2	1,675.0	20,47.6	1,450.9	2,539.4	2,410.8
1,346.1	1,529.6	1,630.6	1,480.8	1,530.7	19,70.2	2,333.2	2,446.8	2,131.0
1,089.0	1,162.3	1,132.5	844.3	1,216.8	15,55.8	1,832.6	1,953.9	2,100.9
257.1	367.3	498.1	636.5	313.9	414.4	500.6	492.9	30.1
323.2	— 57.7	282.3	300.8	375.2	249.5	535.7	591.6	710.3
3,410.8	3,528.4	1,978.8	2,438.8	3,580.9	4,267.3	4,319.8	5,577.8	5,252.1
59.5	162.1	217.3	164.5	— 15.4	— 32.0	85.0	—106.8	497.5
465.0	581.3	333.0	148.6	132.4	213.1	222.5	243.8	377.6
524.5	743.4	550.3	313.1	117.0	181.1	307.5	137.0	875.1
3,935.3	4,271.8	2,529.1	2,751.9	3,697.9	4,448.4	4,627.3	5,714.8	6,127.2
147.2	—465.9	387.3	1,380.7	1,323.3	999.5	1,641.8	1,462.3	508.5
516.2	362.8	583.8	1,713.6	2,112.0	1,556.1	1,996.2	1,570.7	3,640.5
180.6	145.4	141.9	820.9	1,068.4	396.4	798.2	766.2	2,308.0
335.6	217.4	441.9	892.7	1,043 6	1,159.7	1,198.0	804.5	1,332.5
— 131.7	— 51.9	— 6.6	—256.3	—298 7	—555.1	—282.7	59 6	—772.1
4,467.0	4,116.8	3,493.6	5,589.9	6,834.5	6,448.9	7,982.6	8,807.4	9,504.1
1,277.0	499.2	1,966.5	3,129.2	2,372.5	1,948.8	3,427.5	2,255.0	4,058.1
— 745.3	— 654.2	-1,002.0	— 301.2	764.1	51.7	— 72.2	837.6	—681.2
531.7	—155.0	964.5	2,838.0	3,136.6	2,000.5	3,355.3	3,092.6	3,376.9

(4) Including Treasury, Cassa DD. PP. and public corporations.
(5) Including discrepancies.
(6) Excluding (net) foreign short-term commercial credit.

TABLE 4

Gross national product and exports of goods and services

(in Lit. '000 million at constant prices)

	Gross national product	Exports	Exports expressed as percentage of GNP
1951	15,816	1,012	6.4
1952	16,523	999	6.0
1953	17,769	1,227	6.9
1954	18,408	1,337	7.3
1955	19,633	1,489	7.6
1956	20,565	1,750	8.5
1957	2,1677	2,142	9.9
1958	22,734	2,418	10.6
1959	24,241	2,864	11.8
1960	25,763	3,404	13.2
1961	27,911	3,957	14.2
1962	29,662	4,445	15.0
1963	31,261	4,753	15.2
1964	32,164	5,306	16.5
1965	33,335	6,371	19.1
1966	35,304	7,211	20.4
1967	37,709	7,696	20.4
1968	40,117	8,879	22.1
1969	42,495	10,105	23.8
1970	44,671	10,714	24.0

TABLE 5

Principal factors determining bank liquidity: "Monetary base"

(changes in Lit. '000 million)

Items	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
I. SOURCES												
1. Foreign sector	629.9	– 38.4	389.9	607.4	–718.0	293.6	627.0	234.7	242.9	122.6	–648.4	319.1
autonomous factors	536.1	269.6	365.5	43.5	–780.6	483.9	994.0	416.9	202.4	393.3	–869.7	222.9
action by monetary authorities	93.8	–308.0	24.4	563.9	62.6	–190.3	–367.0	–182.2	40.5	–270.7	221.3	96.2
2. Treasury	216.0	221.0	240.3	582.3	978.7	794.9	932.4	480.5	404.6	921.8	1,500.3	2,992.2
autonomous factors	512.9	382.4	357.1	570.3	768.3	816.5	1,544.6	1,823.0	1,226.4	2,021.5	1,692.2	3,230.5
action by monetary authorities	–296.9	–161.4	–116.8	12.0	210.4	– 21.6	–612.2	–1,342.5	–821.8	–1,099.7	–191.9	–238.3
3. Banks: financing by Banca d'Italia (UIC)	– 0.2	26.6	261.0	71.6	474.7	–164.2	–165.4	562.3	626.6	220.5	475.9	–1,274.9
4. Other sectors	– 41.3	18.6	– 31.9	– 8.4	– 6.6	6.6	– 55.1	– 38.8	– 57.9	– 23.7	– 82.5	118.1
Total	804.4	227.8	859.3	1,252.9	728.8	930.9	1,338.9	1,238.7	1,216.2	1,241.2	1,245.3	2,154.5
autonomous factors	1,049.0	652.0	722·6	613.8	– 12.3	1,300.4	2,538.6	2,239.9	1,428.8	2,414.8	822.5	3,453.4
action by monetary authorities	–244.6	–424.2	136.7	639.1	741.1	–369.5	–1,199.7	–1,001.2	–212.6	–1,173.6	422.8	–1,298.9
II. USES (Liquidity absorbed by)												
1. Public and non-bank intermediaries	327.4	405.7	641.8	698.2	751.8	545.6	802.1	831.2	1,017.6	576.9	1,153.1	985.6
— Public	365.2	408.2	642.2	673.5	767.1	549.0	780.3	811.4	951.0	518.5	1,095.7	770.0
• Notes and coin	183.8	197,0	359.9	390.0	440.8	270.6	343.1	377.3	486.2	207.2	706.9	504.8
• Treasury bills and deposits at Treasury	– 17.5	1.0	13.7	– 87.2	– 93.2	– 40.8	30.0	– 0.3	18.3	– 43.5	15.4	27.0
• Liquid assets at Post Office	198.9	210.2	268.6	370.7	419.5	319.2	407.2	434.4	446.5	354.8	373.4	238.2
— Special credit institutions	– 37.8	– 2.5	– 0.4	24.7	– 15.3	– 3.4	21.8	19.8	66.6	58.4	57.4	215.6
2. Banks	477.0	–177.9	217.5	554.7	– 23.0	385.3	536.8	407.5	198.6	664.3	92.2	1,168.9
— Compulsory reserve and backing for drafts	221.3	295.7	295.1	192.3	307.6	126.3	463.3	314.4	249.6	402.9	415.5	782.1
• Cash	– 57.1	– 99.7	103.4	149.9	322.1	151.9	276.6	217.6	217.5	273.6	346.3	529.2
• Treasury bills	278.4	395.4	191.7	42.4	– 14.5	– 25.6	–186.7	– 96.8	– 30.4	109.3	69.2	– 16.6
• Special reserve in bonds	—	—	—	—	—	—	—	—	62.5	20.0	—	269.5
– Bank liquidity	255.7	–473.6	– 77.6	362.4	–330.6	259.0	73.5	93.1	– 51.0	261.4	–323.3	386.8

Items	Volume at 31 Dec. 1969	1958	1959	1960	1961
LIQUID ASSETS					
Economy (households and firms)	45,048	12,95.0	1,749.8	1,739.2	2,304.2
Notes and coin	5,896	152.8	183.8	197.0	359.9
Current accounts at: banks (1)	16,606	359.9	719.9	647.6	727.2
Post Office	589	9.8	23.3	13.9	25.6
Treasury	86	— 3.2	6.5	2.2	9.7
The economy's primary liquidity	23,177	519.3	933.5	860.7	1,122.4
Bank savings deposits	16,841	684.6	666.1	685.8	932.7
Post Office savings accounts and certificates	5,018	131.2	175.6	196.3	243.0
Short-term securities	12	— 40.1	— 25.4	— 3.6	6.1
The economy's secondary liquidity (a)	21,871	775.7	816.3	878.5	1,181.8
Non-banking financial intermediaries:	1,247	76.6	32.7	64.2	— 13.2
Current accounts at: banks	793	39.7	22.0	— 67.3	99.3
Treasury	138	16.9	— .0	— 5.8	— 16.3
Other bank deposits (b)	316	20.0	16.7	137.3	— 96.2
Public sector (2):	2,338	— 23.6	— 55.0	92.6	202.4
Current accounts at: banks	1,115	— 22.5	—105.5	14.6	71.7
Treasury	1,223	— 1.1	50.5	78.0	130.7
Unclassifiable:	— 17	6.9	0.6	— 1.1	— 33.8
Other current accounts at Treasury	89	—	—	—	—
Bank drafts ("assegni circolari" and "vaglia cambiari"), less net balance of coupons to be paid and cashed	— 106	6.9	0.6	— 1.1	— 33.8
Total liquidity: primary	26,429	559.2	895.1	879.1	1,374.0
secondary (a)+(b)	22,187	795.7	833.0	1.015.8	1,085.6
Total liquid assets	48,616	1,354.9	1,728.1	1,894.9	2,459.6
BEING COUNTER-ITEMS TO FINANCE TO:					
Economy (households and firms)	26,487	326.3	889.5	1,405.6	1,546.9
Banca d'Italia - UIC	70	2.4	— 0.6	— 0.5	5.7
Banks	23,756	259.0	781.5	1,271.7	1,394.0
Treasury and Cassa Depositi e Prestiti	2,661	64.9	108.6	134.4	147.2
Non-banking financial intermediaries:	6,433	177.8	115.3	204.2	239.2
Banca d'Italia - UIC	101	7.5	2.0	4.5	0.3
Banks	4,895	124.7	89.1	187.1	215.4
Treasury and Cassa Depositi e Prestiti	1,437	45.6	24.2	12.6	23.5
Foreign sector:	3,353	680.2	595.3	— 65.6	415.1
Banca d'Italia	3,331	594.9	565.7	102.0	390.3
Banks	22	85.3	29.6	—167.6	24.8
Public sector:	14,873	403.0	266.8	79.1	286.5
Net indebtedness of Treasury, Cassa Depositi e Prestiti and public corporations	9,762	249.7	248.3	73.9	26.0
Minor Treasury items (increase in deposits +)	1,827	— 19.4	42.9	— 22.1	98.2
Government securities with public (—)	3,264	— 12.5	88.3	176.8	53.5
Loans to local and regional authorities, social security institutes and other Central Government bodies	6,548	160.2	163.9	204.1	215.8
Discrepancies or unclassifiable items	—2,530	—232.4	—138.8	271.6	— 28.1
Total	48,616	1,354.9	1,728.1	1,894.9	2,459.6

(1) Including residents' foreign currency accounts and current accounts with Storage Agencies.
(2) Bank current accounts of the public corporations are taken into account in calculating the net indebtedness of the "Treasury, Cassa Depositi e Prestiti and Public corporations" sector.

(*Changes in Lit. '000 million*)

1962	1963	1964	1965	1966	1967 (*)	1968 (*)	1969	1970
2,943.5	2,420.7	1,986.8	3,707.6	3,887.3	3,811.4	4,592.5	4,675.4	6,305.1
390.0	440.8	270.6	343.1	378.1	328.2	359.4	694.2	488.0
1,037.6	684.9	586.3	1,464.3	1,391.2	1,519.3	2,163.5	2,472.8	6,101.2
68.0	79.8	18.6	31.0	51.3	49.7	65.3	52.5	70.6
19.4	— 19.5	— 14.3	11.1	11.2	1.1	— 8.0	24.1	— 5.0
1,515.0	1,186.0	861.2	1,849.5	1,831.8	1,898.3	2,580,2	3,243.6	6,654.8
1,135.4	1,012.6	837.6	1,484.1	1,667.6	1,566.4	1,674.6	1,107.6	—518.6
302.7	339.7	300.6	376.2	383.1	346.8	339.5	320.9	167.6
— 9.6	—117.6	— 12.6	— 2.2	4.8	— 0·1	— 1.8	3.3	1.3
1,428.5	1,234.7	1,125.6	1,858.1	2,055.5	1,913.1	2,012,3	1,431.8	—349.7
96.7	117.5	92.0	232.7	176.5	82.8	60,4	3.0	606.2
7.2	— 11.0	71.2	73.4	105.9	89.7	65.5	159.3	222.3
10.0	30.7	20.0	59.5	2.9	26.3	— 27.6	0.1	66.2
79.5	97.8	0.8	99.8	67.7	— 33.2	22.5	—156.4	317.2
49.5	206.8	7.6	370.8	143.8	271.0	221.9	199.5	—260.5
80.9	156.1	8.8	109.4	100.3	107.5	129.8	91.9	— 2.8
— 31.4	50.7	— 1.2	261.4	43.5	163.5	92.1	107.6	—257.7
— 8.3	35.8	72.7	— 48.8	0.4	—153.4	77.0	— 9.8	—156.3
—	—.	46.1	3.5	5.1	5.4	1.6	27.0	— 46.9
— 8.3	35.8	26.6	— 52.3	— 4.7	—158.8	75.4	— 36.8	—109.4
1,573.4	1,448.3	1,032.7	2,304.4	2,084.8	2,131.9	2,917.0	3,592.7	6,527.0
1,508.0	1,332.5	1,126.4	1,957.9	2,123.2	1,879.9	2,034.8	1,275.4	— 32.5
8,081.4	2,780.8	2,159.1	4,262.3	4,208.0	4,011.8	4,951.8	4,868.1	6,494.5
2,051.7	2,511.1	704.8	1,354.5	2,236.8	2,537.5	2,196.0	3,372.1	3,112.2
5.9	14.5	6.8	1.4	13.4	5.3	7.2	— 1.9	2.7
1,974.0	2,224.8	473.4	1,161.5	2,075.4	2,353.4	1,863.3	3,161.6	2,882.5
71.8	271.8	224.6	191.6	148.0	178.8	325.5	212.4	227.0
554.5	376.7	414.7	511.5	538.7	761.3	945.0	990.2	836.9
3.1	17.9	11.9	— 7.7	6.3	— 12.5	11.4	50.2	29.6
486.9	293.4	238.2	391.4	433.8	656.1	630.2	778.3	677.7
64.5	65.4	164.6	127.8	98.6	117.7	303.4	161.7	129.6
581.9	31.6	— 68.9	200.8	194.5	202.4	393.3	—869.5	222.4
312.9	—374.5	207.5	597.4	161.7	324.5	— 36.7	—440.4	234.5
269.0	406.1	—276.4	—396.6	32.8	—122.1	430.0	—429.1	— 12.1
575.5	776.9	754.1	1‘616.4	1,182.9	1,000.4	1,748.8	1,665.5	2,878.7
180.6	145.4	141.9	820.9	1,068.4	396.4	798.2	766.2	2,308.0
29.6	61.3	134.3	384.9	64.5	265.5	192.5	271.2	—401.2
— 31.6	—174.1	24.8	194.7	636.0	541.2	248.6	189.3	12.3
333.7	396.1	502.7	605.3	686.0	879.7	1,006.7	817.4	984.2
—682.2	—915.5	354.4	579.1	55.1	—489.8	—331.3	—290.2	—555.7
3,081.4	2,780.8	2,159.1	4,262.3	4,208.0	4,011.8	4,951.8	4,868.1	6,494.5

(*) Figures adjusted to discount fortuitous movements in late 1967.

TABLE 7

Primary and secondary liquidity as a percentage of gross national product

	Primary liquidity	Secondary liquidity	Bank current accounts	Notes and coin
1958	25.07	28.86	14.23	9.40
1959	27.39	31.02	16.25	9.65
1960	29.07	32.31	17.83	9.64
1961	29.78	33.14	18.60	9.59
1962	31.12	33.86	19.78	9.74
1963	31.81	34.11	20.11	10.10
1964	31.26	34.32	19.66	10.00
1965	32.71	35.75	21.18	9.95
1966	34.85	38.00	23.08	10.09
1967	35.91	39.07	24.28	9.86
1968	37.77	40.28	25.96	9.94
1969	39.51	39.87	27.83	9.82
1970	43.15	36.46	31.35	9.95

N.B. The ratios are calculated on the basis of moving averages for 13 periods.

TABLE 8

Bank liquidity

(in Lit. '000 million)

Year	Cash in hand	Deposits at Banca d'Italia	Deposits at Treasury and Cassa Depositi e Prestiti	Unused credit facilities at Banca d'Italia	Free holdings of Treasury bills	Storage Agency bills and current accounts	Convertible currency	Total
1958	105.3	86.7	17.1	242.8	371.2	98.4	125.2	1,046.7
1959	109.6	61.2	10.7	236.6	580.2	114.7	189.4	1,302.4
1960	116.3	55.5	32.1	249.2	221.4	105.3	49.0	828.8
1961	121.7	63.6	16.4	263.1	131.3	106.5	48.6	751.2
1962	193.5	110.1	11.6	283.7	32.3	138.9	343.5	1,113.6
1963	225.8	75.1	13.6	349.5	55.9	63.1	—	783.0
1964	181.6	113.8	24.1	461.3	123.3	51.8	86.1	1,042.0
1965	217.3	102.7	15.3	505.2	113.6	45.7	115.7	1,115.5
1966	196.1	109.8	15.0	514.0	139.8	45.6	188.3	1,208.6
1967	252.7	129.0	24.3	503.0	89.8	52.1	106.7	1,157.6
1968	323.3	140.0	16.0	511.1	108.0	54.0	266.0	1,418.4
1969	337.7	149.3	22.0	486.7	—	42.0	58.0	1,095.7
1970	364.0	224.8	23.2	698.7	—	29.4	142.4	1,482.5

TABLE 9

Analysis of Treasury's short-term debts

(in Lit. '000 million)

Year	Treasury bills (Banca d'Italia) excluded)	Banca d'Italia					Post Office (collection)			Transactions with credit and social security institutions	Treasury notes and coins	Grand Total
		Long-term securities	Treasury bills and interest-bearing certificates Cassa Depositi e Prestiti	Treasury current account (1)	Other	Total	Interest-bearing certificates	Savings accounts	Current accounts			
1958	1,225.7	182.8	325.5	136.8	1,071.7	1,716.8	1,439.7	254.0	116.4	215.8	49.6	5,018.0
1959	1,697.6	208.6	131.3	–162·4	1,070.1	1,247.6	1,573.6	295.7	140.2	217.5	61.8	5,234.0
1960	1,741.6	220.9	27.6	–159.0	1,098.3	1,187.8	1,723.0	342.6	154.5	227.1	78.5	5,455.0
1961	1,840.2	256.2	3.1	–262.9	1,067.3	1,063.7	1,903.4	405.2	183.1	211.1	83.6	5,695.3
1962	1,968.8	283.3	136.2	–320.3	1,154.6	1,253.8	2,103.8	502.5	251.3	196.1	96.3	6,277.6
1963	1,737.3	274.5	81.6	506.1	1,157.5	2,019.7	2,327.7	623.3	333.4	110.1	104.7	7,256.2
1964	1,809.4	442.9	241.6	558.5	1,202.1	2,445.1	2,529.7	721.9	353.2	75.9	115.8	8,051.0
1965	2,018.0	494.5	108.0	912.6	1,223.4	2,738.5	2,796.9	830.9	382.9	89.0	125.7	8,981.9
1966	2,109.2	692.0	141.5	537.2	1,289.3	2,668.0	3,070.7	940.5	435.2	71.3	168.2	9,455.1
1967	2,097.2	861.0	153.5	165.9	1,337.5	2,517.9	3,325.1	1,032.6	543.6	138.1	182.0	9,836.5
1968	2,170.7	1,080.3	254.8	286.7	1,395.9	3,017.7	3,560.5	1,136.5	552.2	126.0	195.4	10,759.0
1969	2,024.2	2,280.3	512.0	–112.7	1,455.0	4,134.6	3,762.8	1,255.1	606.7	93.3	207.3	12,084.0
1970	2,023.3	3,543.5	175.0	1,591.6	1,566.9	6,877.0	3,783.0	1,402.5	680.3	178.9	219.8	15,164.8

(1) Figures preceded by minus sign indicate a Treasury credit.

TABLE 10

Banca d'Italia - UIC Lending to banks, special institutions and private individuals

(in Lit. '000 million)

Year	Ordinary rediscounts (1)			Advances (2) and deferred payments				Other lending	Total
	Banks	Special institutions	Total	Banks	Special institutions	Individuals	Total		
	1	2	3	4	5	6	7	8	9
1958	0.9	2.7	3.6	28.2	0.9	4.8	33.9	18.7	56.2
1959	0.9	2.2	3.1	42.3	0.7	3.2	46.2	14.7	64.0
1960	2.9	2.2	5.1	68.2	0.6	2.8	71.6	10.8	87.5
1961	16.1	1.9	18.0	109.1	0.9	3.3	113.3	194.2	325.5
1962	24.2	3.3	27.5	267.4	1.1	3.8	272.3	177.2	477.0
1963	321.2	4.6	325.8	376.0	0.5	2.1	378.6	183.0	887.4
1964	112.3	8.7	121.0	333.0	1.0	1.9	335.9	190.9	647.8
1965	36.2	4.2	40.4	401.2	1.4	1.4	404.0	24.7	469.1
1966	205.9	4.5	210.4	756.9	0.8	1.4	759.1	25.7	995.2
1967	461.4	5.5	466.9	1,207.6	1.0	0.9	1,209.5	23.6	1.700,0
1968	497.2	5.5	502.7	1,331.6	2.7	3.2	1,337.5	36.7	1,876.9
1969	734.5	12.8	747.3	1,623.9	16.9	2.0	1,642.8	37.4	2,427.5
1970	54.3	4.4	58.7	817.2	21.3	2.6	841.1	37.5	937.3

(1) Including rediscounts of Treasury bills.
(2) Ordinary and fixed-term.

TABLE 11

Compulsory reserves and backing for bank drafts

(in Lit. '000 million)

Year	In monetary base instruments			In long-term securities				Total
	Deposit (1) at Banca d'Italia	Treasury bills	Total	Government securities	Special institutions bonds	Other bonds	Total	
1958	856.6	614.1	1,470.7	80.8	0.3	—	81.1	1,551.8
1959	799.5	892.5	1,692.0	77.4	0.2	—	77.6	1,769.6
1960	699.8	1,287.9	1,987.7	75.7	...	—	75.7	2,063.4
1961	803.2	1,479.6	2,282.8	74.4	...	—	74.4	2,357.2
1962	953.1	1,522.0	2,475.1	62.3	...	—	62.3	2,537.4
1963	1,275.2	1,507.5	2,782.7	60.7	126.2	—	186.9	2,969.6
1964	1,427.1	1,481.9	2,909.0	54.4	141.5	119.0	314.9	3,223.9
1965	1,703.7	1,668.6	3,372.3	66.0	145.9	233.9	445.8	3,818.1
1966	1,921.3	1,765.4	3,686.7	80.5	329.3	339.2	749.0	4,435.7
1967	2,138.8	1,735.0	3,873.8	151.5	532.4	475.4	1,159.3	5,033.1
1968	2,412.4	1,844.3	4,256.7	318.7	607.7	589.3	1,515.7	5,772.4
1969	2,758.7	1,912.5	4,671.2	453.0	646.4	712.5	1,811.9	6,483.1
1970	3,287.8	1,896.1	5,183.9	465.3	983.7	803.5	2,252.5	7,436.4

(1) Up to December 1961, including the special "M" accounts in which were deposited the compulsory reserves against lira deposits of non-residents.

TABLE 12

Banca d'Italia - UIC: securities held (*)

(Changes in Lit. '000 million balance-sheet prices)

Year	Government securities or Government guaranteed securities			Other bonds open-market operations	Total
	Purchased on issue (1)	Open-market operations	Total		
1958	15.4	— 5.8	9.6	5.6	15.2
1959	13.2	12.6	25.8	2.0	27.8
1960	0.7	11.6	12.3	5.3	17.6
1961	18.8	16.5	35.3	5.8	41.1
1962	14.2	12.9	27.1	6.0	33.1
1963	— 1.3	— 7.5	— 8.8	5.5	— 3.3
1964	158.4	10.0	168.4	10.1	178.5
1965	60.6	— 9.0	51.6	—	51.6
1966	436.9	—239.4	197.5	1.9	199.4
1967	475.4	—306.4	169.0	— 1.1	167.9
1968	643.0	—423.7	219.3	—	219.3
1969	1,229.8	267.8	1,497.6	—	1,497.6
1970	1,098.4	—172.2	926.2	—	926.2

(*) Excluding Treasury bills up to 1968.

(1) Net of redemption.

TABLE 13

Money and capital market rates in Italy

(average for the period-percentage)

Period	Basic official rate (1)	Rediscount ordinary portfolio (2)	Fixed-term advances (3)	Treasury bills (4)	Commercial Banks' rates (5)		Interbank accounts (5) (6)	Multi-year Treasury bonds	Bonds of certain credit institutions (Istituti credito mobiliare)
					Borrowers	Creditors			
1958	3.50	3.50	—	3.50	—	—	—	6.19	6.74
1959	3.50	3.50	—	3.50	—	—	—	5.42	5.79
1960	3.50	3.50	—	3.50	—	—	—	5.26	5.56
1961	3.50	3.50	—	3.50	—	—	—	4.97	5.53
1962	3.50	3.50	—	3.35	—	—	3.47	5.05	5.92
1963	3.50	3.50	—	3.46	—	—	3.59	5.19	6.21
1964	3.50	3.50	—	3.50	—	—	3.63	5.74	7.26
1965	3.50	3.50	—	3.50	—	—	3.63	5.39	6.86
1966	3.50	3.50	—	3.45	—	—	3.58	5.49	6.55
1967	3.50	3.50	3.50	3.45	—	—	3.58	5.59	6.66
1968	3.50	3.50	3.50	3.43	—	—	3.56	5.61	6.78
1969	3.50–4.00	4.34	4.58	3.77	—	—	4.41	5.80	7.06
1970	4.00–5.50	6.57	6.26	6.50	—	—	6.85	7.73	9.05
1970 - January	4.00	5.18	5.34	—	—	—	—	6.59	7.79
February	4.00	5.41	5.37	6.50	—	—	—	7.07	8.09
March	4.00–5.50	6.96	6.56	6.50	8.22	—	6.54	7.52	8.58
April	5.50	6.85	6.65	—	—	—	—	7.55	8 54
May	5.50	6.97	6.27	—	—	—	—	7.76	9.07
June	5.50	6.98	6.62	—	9.15	6.71	7.36	8.01	9.78
July	5.50	6.90	6.79	—	—	—	—	8.10	10.19
August	5.50	6.50	6.95	—	—	—	—	8.13	9.77
September	5.50	6.95	6.99	—	9.58	6.49	7.78	8.03	9.22
October	5.50	6.88	6.50	—	—	—	—	8.06	9.38
November	5.50	7.00	5.50	—	—	—	—	8.08	9.28
December	5.50	6.25	5.59	—	9.54	5.54	5.72	7.90	8.92

(1) Valid for all rediscounting operations with the Banca d'Italia. Since 9 January 1971 the basic rate for ordinary advances has been 5%. The increase in August 1969 did not apply to the rediscounting of Storage Agency bills or agricultural bills of exchange, for which the 3.5% rate continues to be applied.

(2) From 1 July 1969 average rate weighted in relation to the 1.5% supplement applied to:
(a) the rediscounting of ordinary bills of exchange for the banks wherever the average total discounted under the ordinary portfolio in the preceding calendar half-year equalled 5% or more of the minimum reserves at 31 March or 30 September;
(b) all rediscounting for the central institutions for classes of banks (istituti centrali di categoria).

(3) From 24 March 1969, average rate weighted in relation to the supplement of 0.5% for each new operation in the course of the calendar half-year up to a maximum of 1.5% of the official rate.

(4) Discount rate applicable to Treasury bills for free investment. Issues since May 1969 have been subject to separate maxima for bills to be placed to reserves and for those intended for free investment. The discount rate applicable to the first has been raised from 3.75% to 5.50%; the public tender rate applies for the second.

(5) Indicative rates reported by the Central Risk Office.

(6) For amounts of at least 40 millions.

TABLE 14

Banks' external position

(end-of-year situation in Lit. '000 million)

Year	Assets							Liabilities				Net position
	Sight liquid			Non-liquid assets			Total	Foreign currency		Lire	Total	
	Assets and short-term investments	Total: In liquidity	Total: Blocked by the monetary authorities	Foreign currency	Lire	Total		Deposits	Short-term debts			
1957	140.0	140.0	—	13.5	13.4	26.9	166.9	188.5	72.7	42.5	303.7	—136.8
1958	125.2	125.2	—	34.1	15.7	49.8	175.0	276.0	52.5	68.6	397.1	—222.1
1959	189.4	189.4	—	71.1	22.6	93.7	283.1	358.4	77.5	98.9	534.8	—251.7
1960	212.1	49.0	163.1	232.9	26.6	259.5	471.6	391.3	52.8	111.6	555.7	— 84.1
1961	254.4	48.6	205.8	330.8	26.7	357.5	611.9	498.5	45.8	176.5	720.8	—108.9
1962	343.5	343.5	—	523.5	43.8	567.3	910.8	981.2	112.4	195.1	1,288.7	—377.9
1963	392.1	—	392.1	354.3	56.0	410.3	802.4	1,214.4	134.3	237.7	1,586.4	—784.0
1964	369.0	86.1	282.9	452.5	77.6	530.1	899.1	1,076.4	139.4	190.9	1,406.7	—507.6
1965	324.2	115.7	208.5	1,125.5	96.1	1,221.6	1,545.8	1,214.4	168.6	273.8	1,656.8	—111.0
1966	482.4	188.4	294.0	1,460.5	124.2	1,584.7	2,067.1	1,505.4	115.2	302.7	1,923.3	143.8
1967	528.4	106.7	421.7	1,589.2	130.1	1,719.3	2,247.7	1,734.4	144.8	346.8	2,226.0	21.7
1968	530.4	266.0	264.4	2,499.2	195.3	2,694.5	3,224.9	2,215.6	154.4	403.2	2,773.2	451.7
1969	555.1	58.0	497.1	3,683.0	286.8	3,969.8	4,524.9	3,775.5	239.1	487.9	4,502.5	22.4
1970	583.5	142.4	441.1	5,513.4	226.7	5,740.1	6,323.6	5,688.6	253.5	370.7	6,313.0	10.6

Part five

MONETARY POLICY IN THE NETHERLANDS

Chapter one

BASIC FACTS OF MONETARY POLICY

Section I - Institutional framework and structural aspects

Para. I - *Institutional framework*

Policy machinery

1. In the Netherlands, monetary policy (in the narrow sense, that is to say excluding budgetary and tax policy) is a matter, in the first instance, for the Central Bank, which has responsibilities under Dutch Law ensuring it a considerable degree of independence from the Government. Ultimate responsibility lies with the Government — the Bank Law of 1948 gives the Finance Minister conditional power to give instructions to the Central Bank if he feels that they are necessary to coordinate the Government's monetary and financial policy with the policy of the Bank. However, the accepted view is that this provision is to be used only in the last resort and no such instructions have ever been issued.

Task and activities of the Central Bank

2. The Bank Law of 1948 was enacted when the Central Bank was nationalized and governs its objectives, working methods and organization. The task of the Central Bank is to regulate the value of the Netherlands monetary unit in such a way as is deemed most conducive to the welfare of the country and to keep its value as stable as possible (Article 9 (1)). Maintenance of the domestic purchasing power of the currency and balance of payments equilibrium have thus been laid down as the specific purposes of the monetary policy.
In the monetary policy framework, the Central Bank is responsible for supervising the credit system. Apart from the scope for engaging in discount and open market policy, the powers available to it in this connection are laid down in a specific law, the law on supervision of the credit system which instructs the Central Bank to endeavour, in the first instance, to work out an agreed approach, in consultation with the representative organizations of the credit system, on the action which it should take when it discerns signs that the situtation is shaping in such a way as to constitute an actual or potential threat to its task of maintaining the value of the Dutch currency. This provision is a further development of the traditional method — already in existence before the war — of implementing policy on the basis of gentlemens' agreements between the Central Bank and the banking system. This method had always worked satisfactorily but the law nevertheless provides scope — subject to restrictions as regards duration of validity and ratification by Parliament — for the issue of general directives if consultation should prove abortive. Such directives can impose minimum reserve or liquidity ratios and

quantitative or selective credit restrictions. This statutory power has never been used.
Apart from its activities in the credit field — where it acts as lender of last resort among other functions — the Central Bank is the holder of the official gold and foreign exchange reserves [1] the issuer of bank notes, the sole fiscal agent and banker to the Government and the banker for the banking system (commercial banks and agricultural credit institutions). Relationships between local authorities and the Central Bank are, in general, of lesser significance although the Bank for Netherlands Municipalities (Bank voor Nederlandsche Gemeenten), which is included in this sector and also the municipalities themselves, have access to Central Bank facilities; they hold most of their cash resources with the banking system, however. The private sector — including the savings banks and other financial institutions — has virtually no direct contact with the Central Bank.

Relations between the Central Bank and the Government

3. As regards relations between the Central Bank and the Government, the law sets a low ceiling of Fl. 150 million on the interest-free advances which the Treasury is entitled to take up from the Bank. These advances may only be used to cover temporary requirements (1948 Bank Law, Article 20). Above this limit, the Bank can decide freely and is not obliged to make advances to the Treasury. Since the enactment of the Bank Law, the idea has gained ground in the Netherlands that the monetary influence of the authorities is not solely a function of the extent to which the Treasury resorts to Central Bank advances for its financing requirements but is also determined by the extent to which all public authorities — the Government and local authorities together — place floating debt with the money-creating institutions or the public to meet their financing requirements. In the Dutch view, it follows that all responsibility for the monetary behaviour of public authorities should lie with the Government, as regards the influence exerted by the finances of both the Government and the local authorities, which the Government is empowered to supervise by the Public Institutions' Capital Expenditure Law of 1963. The Central Bank can exercise only a limited direct influence on the behaviour of the authorities in this area. But it can — and considers this to be its duty as the main monetary adviser of the Government — issue warnings if it feels that the monetary behaviour of the authorities is not on the appropriate lines.

Impact and scope of monetary policy

4. As Chapter II will show in more detail, the purpose of monetary policy in the Netherlands is to influence the liquidity of the economy by influencing domestic sources of new liquidity: the money-creating institutions and the authorities. In practice, all financial institutions classed as 'money-creating' because their liabilities constitute liquidity (partly or wholly) can be controlled by monetary policy under the relevant legislation. These institutions are the two giro transfer services, which are formally under public surveillance (*de facto* the Postal Cheque Office and Giro Transfer Service has been subject to the general economic surveillance of the Central Bank since September 1970), and the credit institutions (commercial banks, agricul-

[1] The Central Bank is also responsible for the implementation of the foreign exchange legislation.

tural credit institutions, security credit institutions and savings institutions) which have been brought under the supervision of the Central Bank by the Law on Supervision of the Credit System. The Central Bank also monitors the business management of the institutions and has issued liquidity and solvency directives in this connection.[1]

Para. II - *Structural aspects*

Para. II-1: *Structure of the financial institutions*

Relative importance of financial institutions

5. The last decade has seen some changes in the relative importance of the various categories of financial institutions. The Central Bank's share in the combined balance-sheet total of these institutions has declined; that of the other money-creating institutions has increased, mainly owing to the relatively large increase in the foreign business of the commercial banks. Similarly, and more particularly in recent years, the activities of the money-creating institutions (excluding the Central Bank) have been expanding faster than those of the "funds" (see Table below) and savings banks. There has been no net change in the share of the other financial institutions.
It should be remembered that there is some double counting here, since a large proportion of these other institutions, more particularly the Bank for Netherlands Municipalities, are financed to a considerable extent by long-term borrowings from "funds" savings institutions and money-creating institutions.

Money-creating institutions

a) Commercial banks

6. In terms of size, the commercial banks are by far the most important category of money-creating institution (excluding the Central Bank). The commercial banks account for 75 to 80 % of the combined balance-sheet total of these institutions, while the giro transfer services represent 10 to 15 % and the agricultural credit institutions account roughly for the remainder.[2] From the outset, the commercial banks mainly concerned themselves with providing short-term loans to commerce and industry. Since the mid-fifties they have also gone in for medium-term lending, for which most other financial institutions showed little if any interest. At the same time they have actively sought to attract public savings to finance these loans as well as their investments on the capital market and debt-certificate loans. At the end of 1970 long-term investments accounted for 18 % of the commercial banks' balance-sheet total and balances on savings accounts just under 10 % (Table 2).
Since the end of the fifties, particularly after the guilder was restored to convertibility at the end of 1958, the commercial banks have built up a substantial foreign business — not only as an investment outlet for funds from surpluses on the balance of payments but also as international credit intermediaries, reinvesting

[1] Its general economic supervisory powers are extended to the Postal Savings Bank and giro transfer services by the new draft version — tabled in the Second (Lower) Chamber in December 1970 — of the current Law on Supervision of the Credit System.

[2] Apart from the three aforementioned groups there are a number of small institutions such as the security credit institutions (effectenkredietinstellingen), but they are not large enough to be of any great significance.

in other countries funds raised abroad. At the end of 1970 claims on non-residents made up 38 ½ % of the balance-sheet total, and liabilities 37 %.
Finally in recent years the commercial banks have also engaged extensively in "family bank" activities, by providing personal loans, hire-purchase credits, guaranteed-payment cheques and so forth. They are tending to develop as multipurpose institutions.

b) Giro transfer services

7. The Postal Cheque Office and Giro Transfer Service, accounting for about 90 % of the balance-sheet total of the giro transfer system holds its liquid funds — which, in accordance with the regulations, must amount to at least 10 % of the sight deposits entrusted to it — at the Treasury. It places the rest on the capital market. Amsterdam's municipal giro transfer service pays all funds it receives from account holders into the municipal account.

c) Agricultural credit institutions

8. Finally, the agricultural credit institutions, a group which accounts for virtually all the other money-creating institutions, are included among both the money-creating and the savings institutions, on the basis of the overall ratio between liquid liabilities and other long-term resources. Their business is mainly local, and on a cooperative basis, and virtually all of them are affiliated to two central institutions, which act as central policy-making bodies. The volume of savings bank operations is four to five times as large as that of short-term business, the latter mainly comprising short-term advances to the private sector. Such advances

Relative importance of financial institutions
(% share in combined balance-sheet total)

	1960	1963	1966	1968	1970
1. Central Bank	11	9	8	6	6
2. Other money-creating institutions	23	22	24	26	30
3. Funds (1) and savings banks	48	50	50	49	46
4. Bank for Netherlands Municipalities	10	10	10	11	10
5. Other financial institutions (2)	8	9	8	8	8 (3)
6. Total	100	100	100	100	100
(Total, in Fl. '000 million)	(64.7)	(87.8)	(118.5)	(151.7)	(197.2)
(Total, as % of GNP)	(151)	(166)	(157)	(166)	(174)

(1) Funds: Life insurance companies, pension funds, social security funds.
(2) Mortgage banks and investment companies account for about two-thirds of this item.
(3) Estimate.

account fairly constantly for 17 to 18 % of short-term advances by commercial banks to the private sector.

Non-money-creating institutions

9. Like the bulk of the other non-money-creating institutions, "funds" and savings institutions are typical capital market institutions by their very nature. Apart from recent developments in the case of the General Savings Banks (see item 10 below), they accept only long-term funds, of which about 90 % (savings institutions) to 95 % ("funds") are reinvested on a long-term basis. The short-term investments are mainly liquid (balances with banks and investments in short-term Government and local-authority securities); short-term investments in the private sector (cash loans, often used as bridging credits pending the grant of long-term loans) have always remained limited to a maximum of 1 ½ % of the balance-sheel total. They have never exceeded 9 % of short-term advances made by the money-creating institutions to the private sector. With one exception, the non-money-creating institutions provide little or no medium-term credit to the private sector.
Of the non-money-creating institutions, the Bank for Netherlands Municipalities (B.N.M.), which acts as the central money-collecting institution for the municipalities, takes up a limited amount of short-term money — including temporarily available municipality funds — and makes it available to other munipalities. In Dutch monetary and financial analyses, however, the B.N.M. is not treated as a money-creating institution but as the arm of the local authorities which it in fact is.
The group "other financial institutions" includes those hire-purchase finance companies which are not subsidiaries of money-creating institutions. The lending of subsidiaries is included in the short-term advances of the parent institutions to the private sector. The latter accounts for more than half of hire purchase loans, which in general are fairly short-term. The total amount of hire purchase credit in the Netherlands has always been limited. At the end of 1970 it amounted to about Fl. 1,300 million, or approximately 1 % of GNP.

Change in the character of the general savings banks

10. The savings institutions were not classed as money-creating institutions till 1969, because their liabilities coud not be regarded as liquid resources. Like the other non-money-creating financial institutions, in principle they merely channelled savings, that is to say they transferred purchasing power from one economic group (savers) to another (investors). But recent years have seen a change in the character of the general savings banks, which account for about a third of the combined balance-sheet total of the savings institutions, in that they have sought to develop into family banks, by opening wage and pension accounts which can be drawn on by cheque and used for transfers, by issuing-guaranteed-payment cheques and so forth. Owing to the resultant increasing monetary significance of these institutions, they were brought within the scope of monetary policy in 1969.

Para. II-2: *Banking system; the money and capital markets*

Issuing operations — placing possibilities

11. In the Netherlands bonds and shares are generally issued through banks, which

provide their counters for this purpose (counter issues) or take issues firm; in the latter case they retain any unsubscribed part of the issue in their own portfolios.
There is no general quantitative limitation on the size of the investment portfolio of banks (commercial banks and agricultural credit institutions), apart from any stemming from the Central Bank's solvency rules for investments in securities not issued for the account of Dutch public authorities. Monetary policy can influence the investment trend during a credit squeeze, when the expansion of all long-term assets has to be limited to the increase of long-term funds (see Chapter II, Section IV). The capital market investments of commercial banks — including an increasing proportion of debt certificate loans to local authorities in the sixties — accounted for 6 ½ % of their assets at the end of 1970 (Table 2).
The general savings banks, like the other savings institutions, invest most of their funds on the capital market. They are subject, as regards the quality of these investments, to guidelines issued by the Central Bank. The issuing of such guidelines' for the savings bank business of the agricultural credit institutions has been delegated by the Central Bank to the central institutions. The Postal Savings Bank (Rijkspostspaarbank), finally, operates within the framework of rules and regulations, issued by the authorities. Annex 3 surveys the capital market investments of the financial institutions.

Capital market policy

12. In 1954 the Central Bank and the Nederlandse Bankiersvereniging (Netherland' Bankers' Association), acting as the representative of the commercial banks, concluded a gentlemen's agreement whereby the banks undertook to approach the Central Bank before making public issues of Fl. 10 million or more. On the basis of this agreement, designed to maintain order on the capital market, the Central Bank has regularly acted to postpone issues temporarily — especially in recent years when the capital market has been under fairly severe pressure. There is no regulation of the debt-certificate loan market, where the danger of congestion is generally smaller, partly because issue dates are usually staggered.
As noted in Para. II-4, major capital flows into or out of the Netherlands can give rise to capital market intervention on monetary grounds, the instrument being the authorization of non-residents' issues in the Netherlands and of residents' issues abroad. No other action is taken on the capital market — interest rate policy implemented through open market transactions is unknown in the Netherlands.

Relations between money and capital markets

13. The capital and money markets are fairly clearly separated in the Netherlands, mainly because there is virtually no paper that is transferred from one market to the other as it mover towards maturity, owing to the practice of redeeming bond loans by annual drawings. The remaining life of paper is therefore uncertain, so that even paper fairly close to maturity can hardly fulfil a specific liquidity function, as is the case with Treasury paper and cash and call-money loans to the Government and local authorities, for instance. In practice bonds are generally bought as a long-term investment, considered as such and held till they mature. The picture might change as a result of the recent development of medium-term bond issues which are not redeemable in advance. There is narrow but lively dealing in debt-certificate loans (onderhandse leningen), which have accounted for more than half the calls on the capital market in recent years.

The character of those operating on the market also leads to a fairly sharp division between the money and capital markets. Normally, the authorities only resort to the money market in order to cover seasonal fluctuations in their finances. Banks and undertakings operate primarily on the money market while the "funds" and savings banks are typical capital market institutions, which only switch from one market to the other if marked interest rate differences arise or are expected.

Money market investments versus lending

14. The tie up between money market and lending activities is also fairly loose, owing to differences between operators and rate formation on the two markets.

As regards market operators, private enterprise resorts to only a relatively small extent to the non-banking section of the money market in order to cover its current financing needs, while the non-money-creating financial institutions which supply this market — "funds" and savings institutions in particular — make very limited advances to the private sector (as has already been seen). The upshot is that the domestic money market is tapped mainly by the Government and local authorities, and supplied by the banks and to a smaller extent the other financial institutions and business concerns. In addition, in recent years business concerns have lent not inconsiderable amounts to each other when circumstances have been unusual, for instance when credit has been very tight as a result of credit squeezes or when lending and money-market rates have differed sharply.

As regards the formation of rates, the interest on short-term bank loans to the private sector is generally about 1·5 % above the promissory note discount rate of the Central Bank. On the money market short-term Treasury paper is not, in practice, sold at a rate higher than Bank rate since it can be rediscounted if it has not more than 105 days to run to maturity.[1] The Central Bank's rate for advances, usually half a percent — but since August 1969 one percent — above Bank rate, normally more or less establishes a ceiling for call money. Cash loans to local authorities, which have a smaller liquidity value because they are not rediscountable or eligible as collateral at the Central Bank, carry a rate of interest which is fairly closely linked with the net yield obtainable on the Eurodollar market.

Tendencies for funds to be shifted between the money and credit markets emerge if the difference between the Central Bank's rates — to which interest rates for short-term advances to the private sector are thus related — and the net yield on the Eurodollar market exceeds a certain margin. This occurred, for instance, in the closing months of 1970 and the first quarter of 1971, when the net yield on the Eurodollar market plunged but Central Bank rates were not lowered owing to persisting cyclical stresses and a current external payments deficit. As a result, the interest rate on the money market dropped so far below that on short-term bank loans that business concerns began to borrow heavily on the money market, to a large extent from each other, at rates based on those obtained on this market (near banking).

Relationship between lending and the capital market

15. There is admittedly a fairly close relationship between bank lending to the

[1] Cf. items 28 and 29 below, and Chapter II, Section I, item 42.

private sector and the capital market, in the sense that relative interest rate levels, actual and expected, will often influence the private sector when choosing between these two sources of finance. The link is very marked during a credit squeeze, when the capital market, which falls outside the scope of monetary policy, forms the main alternative form of finance (business concerns also use the money market to a limited extent; borrowing abroad has to be authorized). The trend of interest rates on the capital market is therefore in general fairly closely in line with that of liquidity strains in the economy. The trend of interest rates on the money market is not always a reliable guide here, owing to the relationship described above.

Para. II-3: *The investment habits of the general public*

16. To a considerable extent, personal savings are held with "funds" or deposited in savings accounts with savings and commercial banks. Individuals also invest directly in stocks and shares, to an increasing extent in recent years through investment institutions.
Individuals hold their liquid funds mainly in sight deposits with banks or giro transfer institutions. Business concerns hold theirs primarily in sight and time deposits with money-creating institutions. In addition, cash loans are made to the Government and local authorities; Treasury paper is only bought to a limited extent, owing to the size of the denominations used (minimum Fl. 100,000).

Personal saving
(percentage breakdown)

	1958	1960	1963	1966	1968	1969
Through life insurance companies	15	15	18	14	10	11
Through pension funds	21	19	28	33	35	31
Through savings banks	27	28	40	25	24	24
Through commercial banks	4	10	6	4	7	11
Sundry	33	28	8	24	24	23
Total	100	100	100	100	100	100
(idem, in Fl. '000 mill.)	(3,294)	(4,047)	(4,303)	(7,184)	(9,500)	(11,240)
(idem, as % of GNP)	(9.2)	(9.5)	(8.1)	(9.5)	(10.3)	(11.0)

Para. II-4: *Foreign payments*

Openness of the economy

17. Relatively speaking visible and invisible exports and imports are very substantial in the Netherlands, being equal to 40-50 % of GNP. On the export side, invisibles are undergoing a structural decline which is not being offset by an increase in visible exports.
The Dutch economy is very open and is therefore extremely sensitive to economic trends abroad, and the prospects for its international competitive position have always been a major factor in the determination of policy. A wage and price rise which is excessive when measured by foreign standards is liable to impair the balance of payments seriously in the short-term and employment just as much in the medium-term. This has two implications for monetary policy. Firstly, is underlines the need to establish monetary conditions which preclude inflationary developments as far as possible. Secondly, it makes it easier to re-establish external equilibrium, since excessive domestic spending normally tends to build up a relatively large deficit on the balance of payments and thereby sharply reduces the liquidity of both the banking system and the economy as a whole.

Visible and invisible exports
(as percentage of GNP)

	1958	1960	1963	1966	1968	1970
Visible	35	37	35	34	34	38
Invisible	13	13	11	10	9	10
Total	48	50	46	44	43	48

Regulation of capital transactions with other countries for monetary reasons

18. To meet the requirements of monetary policy, the Nederlandsche Bank uses certain powers — provided by the Foreign Exchange Decree of 1945 — control capital transactions with other countries:

a) Borrowing abroad by Dutch residents and by other than authorized banks has to be authorized by the Central Bank; this enables the Central Bank to counter any undesired inflow of foreign capital which is liable to frustrate a restrictive credit policy. No authorization is required for suppliers' and buyers' credits or for loans below a certain ceiling (since 1967, Fl. 100,000 per foreign lender).
b) Issues by residents abroad and by non-residents in the Netherlands have to

be approved by the Central Bank, whose policy in this respect is always concerted with the Finance Minister.

c) A regulation issued in July 1964 specifies that the foreign liabilities of an authorized bank may not exceed its realizable foreign assets. The regulation covers assets and liabilities in both foreign currencies and guilders; each bank has an allowance of Fl. 5 million.[1]

The regulation is intended to limit the sums which Dutch banks can obtain abroad to finance a deficit on the balance of payments. The argument is that it would be undesirable if a chronic deficit on the balance of payments were to have virtually no impact on the liquidity of the banking system, since this would hamper forces making for a re-establishment of equilibrium. For psychological reasons, too, it is desirable that such a deficit should be reflected in official gold and foreign currency reserves in the long run.

As a result of the regulation mentioned above, since 1964 the *net* foreign assets of the banking system have reflected the maximum sum which the banks can add to their domestic liquidity by borrowing abroad or disposing of foreign assets as the case may be. This is why the annual reports of the Nederlandsche Bank, when calculating the banking system's liquidity, have in recent years consistently shown net foreign assets as a separate item.

Section II - Liquidity

Para. I: *The liquidity of the economy*

The concept of the liquidity of the economy

19. Since 1951 the Central Bank, in its periodic surveys, has been applying a concept of liquidity that is partly at variance with that of the other EEC countries. By liquid assets of the economy the Bank understands not only the money supply (primary liquidity) but also certain other claims on money-creating institutions and public authorities in so far as they can be converted in large amounts into money at relatively short notice without much expense or heavy losses on the transaction (secondary liquidity).[2] In line with the internationally accepted definition of money supply, such claims are not included in secondary liquids assets if they are held by money-creating institutions or the Government.

For the purposes of the Bank's periodic surveys, the components of secondary liquidity are the following:

— Time deposits and foreign currency balances, and any money lent at call to money-creating institutions by intitutional investors and others;

— Short-term claims on the Government, mainly in the form of Treasury papers, cash loans and freely available balances at the Treasury;

[1] Following a substantial increase in the net foreign assets of the banks under the influence of the trend of interest rates on the international money market, a supplementary ceiling was laid down in July 1969 for repatriation of these assets. This new arrangement has been amended several times.

[2] Definition given in the Annual Reports of the Nederlandsche Bank, which add.: "or which can be used at their par value to make payments in satisfaction of current tax assessments". The latter phrase was relevant in the fifties but has now lost all practical significance, though it remains correct in principle.

— Short-term claims on local authorities (provincial and municipal governments) and the Bank for Netherlands Municipalities mainly in the form of cash loans, day-to-day loans and to a smaller extent credits on current account.

Personal savings balances at commercial banks technically satisfy the definition of secondary liquidity, but from the holder's point of view they frequently do not differ materially from savings balances held at the traditional savings institutions, which are not counted among total liquid assets. So the Central Bank does not consider these savings balances as liquidity but as long-term liabilities, provided they can be deemed "true" savings. The rate of turnover [1] has been selected as the criterion here. If this rate is 0·5 or less (average period held two years) the savings balances are counted in full as "true" savings. As the rate of turnover rises, an increasing part is counted as "titular" savings and therefore included among secondary liquidity. This part is determined by interpolation, the principle being that if the rate of turnover is about two (average period held six months) the balances are wholly "titular" savings.[2] According to this calculation method, at the end of 1970 14 % of savings balances at commercial bank were "titular".

Annex 4 divides total domestic liquid assets into primary and secondary liquidity, and gives the distribution of liquidity over the most important sectors.

Sources of liquidity

20. The Dutch monetary survey distinghuishes between the domestic causes of changes in the liquidity of the economy (total domestic liquid assets) and those lying in foreign payment transactions (Table 5). Domestic causes include advances to the Government (including drawing on balances at the Central Bank), local authorities [3] and the private sector, and the placing of floating debt by public authorities outside the money-creating institutions. In addition (net), purchases of capital market securities by the money-creating institutions are deemed to generate new liquidity unless financed by an increase in capital and reserves or other long-term funds of "true" savings.

Method of analysis

21. As explained in more detail in Chapter II, the Central Bank's monetary policy is designed to influence the relationship between the liquidity of the economy and the national income, that is to say the liquidity ratio (total domestic liquid assets as a percentage of the national income at market prices). To be able to determine how far the creation of liquidity for the various sectors has conformed to what must be regarded as desirable in this respect, the monetary survey expresses changes in total liquid assets by sector as a percentage of total liquid assets at the beginning of the year, and compares this with the liquidity absorption due to the percentage increases due to production growth and increases due to higher prices (Table 6). Here, liquidity absorption is equated with the increase in liquidity requirements resulting from the increase in national income where the liquidity ratio remains constant. In terms of relative increase, it is thus exactly the same as the increase

[1] The rate of turnover is defined as repayments on savings balances during the previous four quarters divided by the average level of savings balances at the end of each of the previous five quarters.

[2] This criterion was introduced at the beginning of 1969, it replaced the figure of 2.4, which had been provisionally treated as the limit.

[4] Including the Bank for Netherlands Municipalities and the Netherlands Polder Boards Bank.

in national income. The difference between the actual increase in liquidity and the increase that would have resulted from the liquidity absorption occasioned by a growth of national income is reflected in changes in the liquidity ratio — a reduction indicating liquidity activation and an increase the converse.

Structure of total liquid assets

22. Since the war the liquidity ratio has tended to decline. This tendency was very pronounced in the early years but persisted in the first half of the fifties although economic conditions had reverted to approximately normal conditions. From 1958 — when ratio showed a strong freak increase owing to a very substantial influx of liquidity from abroad — the contraction of primary and secondary liquidity ran virtually parallel, the net trend in the second case being entirely caused by changes in the secondary liquidity of public authorities (Table 4). Greater liquidity of the economy between the end of 1966 and the end of 1968, after the authorities abandoned in the first half of 1967 the restrictive monetary policy which had been pursued for more than 3 ½ years, was reflected entirely in the secondary liquidity ratio. The money supply continued to contract, owing to the trend of notes and coin; apart from short-term economic factors, this trend was affected by the introduction by the banking system of new giro transfer payment methods and bank facilities which provided an additional incentive to participation in the giro transfer system by individuals. As a result, the proportion of total money supply accounted for by notes and coins — which had always been fairly stable — declined markedly after 1967 (Table 7).

Optimum liquidity ratio

23. The optimum liquidity ratio is the ratio at which holders of liquidity seek neither to increase nor to decrease their liquidity holdings. When this is the case, monetary factors exert no inflationary or deflationary influence on the economic trend (See Chapter II - Introduction). The optimum liquidity ratio is apparently partly a function of alterations in interest rates and payment habits.

Para. II: *Bank liquidity*

Institutions concerned

24. The following discussion of bank liquidity relates primarily to commercial bank liquidity.
The liquidity held by the agricultural credit institutions, mainly with their central institutions, has the same structure. As already noted, the giro transfer institutions hold their liquidity mainly in the form of claims on public authorities; the security credit institutions (effectenkredietinstellingen) hold theirs principally in the form of claims on other money-creating institutions (exluding the Central Bank).

Structure of bank liquidity

25. Bank liquidity (Table 8) can be divided into:
a) "Cash liquidity", that is to say their cash balances with the Central Bank;
b) Potential cash liquidity, that is to say:
— Assets which can be rediscounted or easily borrowed on at the Central Bank, such as Treasury paper, money lent at call to discount brokers on

the security of Treasury paper and commercial bills that can be rediscounted at the Central Bank;[1]
- Cash loans to the Government (mainly for periods of 1 to 3 months). These claims are not rediscountable or eligible as collateral as such but since the Treasury holds all its balance at the Central Bank, their repayment automatically increases bank cash liquidity;
- For individual banks: claims on other money-creating institutions.

c) Foreign liquid assets.

Foreign liquidity is equated with the net balance of bank foreign assets. This method of calculating arises from the Central Bank's 1964 instruction banning banks from having a net foreign debt. The *net* foreign assets thus represent the maximum sum to which the banks can increase their domestic liquidity by taking up short-term foreign loans or disposing of their foreign assets.

Governing factors

26. Autonomous factors governing the trend of bank liquidity — and in a broader sense that of the money-creating institutions — are (Table 9):

a) Changes in notes and coin in circulation;
b) Changes in the domestic floating debt position (the liquidity deficit) of the Government;
c) The balance-of-payments results of the non-monetary sectors, as expressed in changes in total official gold and foreign exchange reserves and in the net foreign assets of the banking system.

Bank liquidity can be influenced by the following policies:
- Open-market policy. The sole instrument used in the Netherlands for this is Treasury paper, of which the banks are holding a larger and larger proportion (Table 11). The result is that the policy affects the relationship between cash and other liquid assets rather than the level of liquidity as a whole;
- Minimum reserve policy;
- Requirements imposed upon the banks to maintain non interest-earning deposits as part of a credit ceiling policy;
- Any liquidity regulations and provisions which may exist as to the discountability and the eligibility for collateral of certain banks assets, such as Treasury certificates and export bills.

Finally, liquidity is influenced by Central Bank lending to local authorities and the private sector and by changes in the public's holdings of short-term claims on the Government (secondary liquidity). The first factor is generally of small significance. The Central Bank publishes in its annual report a table headed "Easing and tightening of the money market", giving the factors determining bank cash liquidity (Table 10).

Para. III: *Liquidity and finance*

Para. III-1: *Government*

Relations with the Central Bank

27. Article 19(2) of the 1948 Bank Law (Bankwet) makes the Central Bank the Treasury's fiscal agent and banker.

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[1] The amount involved is small. The graphs published by the Central Bank in its annual reports do not include such securities in bank liquid assets.

The Treasury's current-account balance fluctuates considerably, owing to the irregularity of expenditure and tax receipts and other factors. These fluctuations are often offset by borrowing and debt redemption on the money market.
Article 20 of the 1948 Bank Law authorizes the Finance Minister to obtain an interest-free advance of up to Fl. 150 million (cf. Sect. I, point 3) whenever he consider that the Treasury's cash position needs temporary strengthening; this advance is recorded separately in the Bank's weekly balance-sheet.
There is an understanding between the Central Bank and the Treasury that in general, apart from seasonal factors, the Bank will not grant credit for current budget expenditure. However, the Bank may review its position if cash deficits arise from inability to renew short-term debt on the money market. For instance, it gave considerable help to the Treasury in 1951, when difficulty was encountered in placing new Treasury paper as old issues natured (the concept of secondary liquidity stems incidentally from the experience of this time). The credit in question was recorded in the weekly returns under the head "Domestic bills, Treasury paper and bonds discounted", and amplified by the note "including Treasury paper directly discounted by the Bank". There has been no such operation since the redemption in January 1952.
In the summer months or thereabouts — up to 1 October — from 1968 to 1970, the Treasury was authorized to place a specific quantity of Treasury bills with the Central Bank in anticipation of temporary difficulties in covering part of its seasonal deficits by recourse to the money market.
The bills — which had to be redeemed by 1 November at the latest — acquired under this arrangement were recorded in the balance-sheet under the above mentioned head "Domestic bills, Treasury paper and bonds purchased by the Bank (Article 15(4), 1948 Bank Law)". Together with Treasury paper obtained as a result of IMF transactions,[1] this paper forms part of the open-market holdings, which also include the Treasury paper taken over from the State to finance early repayment of consolidated foreign debt. The Central Bank retains the right to sell this Treasury paper on the money market.
A calculation from the weekly returns of the Treasury's net position with the Central Bank, even disregarding the Treasury paper acquired on the basis of the aforementioned foreign transactions, does not provide a full picture of the development of the Government's finances since it does not show the extent to which fluctuations are caused by ordinary income or expenditure or are attributable to financing transactions. The figures for outstanding Treasury paper are published weekly and changes in consolidated outstanding Government debt are known approximately, but no weekly data are available on the extent to which the Government obtains money temporarily from other sources. As regards the latter, reference should be made *inter alia* to the cash loans and the moneys accruing to the Treasury as a result of its function as fiscal agent and Treasurer for the State corporations. Here, the cash resources of the Postal Cheque and Giro Transfer Service (part of the State post-office corporation) in particular can vary considerably.

[1] Claims on the International Monetary Fund are held by the State (while special drawing rights [SDRs] are held by the Central Bank). These claims are increased by gold payments to and guilder drawings by the Fund, this being matched by a decrease in the reserves of the Central Bank. On the other hand, the Central Bank takes over Treasury paper for an equivalent amount from the State; this is entered under the balance-sheet heading "Domestic bills, Treasury paper and bonds purchased by the Bank (Article 15(4), 1948 Bank Law)". Treasury paper fluctuations resulting from IMF transactions are dealt with in a special commentary in the weekly return.

Significance of the Treasury for the money market

28. The centralization of the Treasury's cash resources at the Central Bank is an important factor determining the short-term movement of liquidity on the money market, particularly as the Treasury is by far the biggest receiver of tax proceeds. Apart from local taxes of minor yield, the Finance Ministry is the only collector of taxes. Since fairly regular expenditure contrasts with a considerable bunching of tax payments — mainly from mid-September to the end of October — bank liquidity is severely squeezed in the autumn as a result of payments by business concerns to the Treasury. For a number of years the Central Bank took account of the resultant trend on the money market by pursuing a flexible open-market policy. In 1962 the Treasury tailored the maturity dates of Treasury bills to coincide with this period of tightness on the money market. In more recent years it has also covered its seasonal liquidity requirements to a considerable extent by cash loans.

Treasury paper forms and placing methods

29. In the Netherlands, Treasury paper is issued in the form of Treasury bills (schatkistpromessen) and Treasury bonds (biljetten). The former are order instruments with a life of up to a year issued on a discount basic. The latter are bearer instruments with a maturity of one to five years. Half-yearly interest coupons are attached to these bonds. Apart from open-market transactions by the Central Bank, Treasury paper is placed exclusively by the Agent of the Finance Ministry. In recent years it has been nearly entirely placed over the counter, the Agent determining the current rate at which applicants can buy.

In the second quarter of 1971 the Agent sold Treasury bills by public tender. This had not been done for some considerable time, though in the past, in particular from 1957 up to and including 1963, the Agent had often sold Treasury bills by this method. When selling by public tender, the Agent offers the market Treasury bills with fixed periods to maturity without specifying an amount in advance: the dealers on the market announce the rates at which they are prepared to take up given amounts; the Treasury determines the rate in the light of the tenders received. All applicants who tender at a lower rate receive a full allocation at the higher rate which has been fixed; those who tender at the rate agreed by the Treasury have their applications allotted in full or in part, as appropriate.

Before 1962 Treasury bills were usually dated 3, 6, 9 and 12 months. Since then the Treasury has batched maturity dates mainly with the seasonal pattern of its tax receipts (these being heaviest in the autumn) so that other currencies are now common.

Treasury bills are dealt in by telephone through discount brokers, who give quotations for the various periods to maturity. The function of these brokers can best be understood from historical developments. Before 1926 they functioned only as intermediaries in money market and exchange business. They were brokers who held no stocks of money-market paper for their own account. In 1926, however, the Central Bank recognized them as discount brokers and also accorded them special facilities for borrowing against securities. Since then the discount brokers have held their own stocks of bills and Treasury paper. They finance stocks, which since 1945 have consisted mainly of Treasury bills, by taking up call-money (mainly at the banks). If liquidity difficulties oblige the lenders to call in their loans the discount brokers can obtain cash from the Central Bank by discounting Treasury

bills or Treasury bonds with it or by taking up an advance in current account from it. The Central Bank has given the discount brokers the special facility of discounting a given proportion of their bill holdings at the old rate on the day of any increase in Bank rate.
The brokers act on a modest scale as a buffer between the banks and the Central Bank. But they have nothing like the importance of the discount houses in England, which are the only institutions in that country having access to rediscount credit at the Bank of England.

Placing of short-term securities with the banking system and the public: monetary behaviour

30. From the table in Annex 11 — "Short- and medium-term Treasury paper outstanding" it will be seen that by far the greater part of money-market paper consists of Treasury bonds with original currencies of one to five years. Treasury paper is bought not only by banks but also by official and semi-official bodies, institutional investors and business concerns. The share of the latter sectors has declined considerably since 1956, when it reached a peak of 50 %. There is no obligation on the banks or the public to hold Treasury paper.
For a number of years prior to 1964 and more recently in 1970 Treasury borrowing was designed to reduce the liquidity of the economy, which had been increased considerably by substantial balance of payments surpluses. To this end, it floated long-term loans beyond its current need for funds and applied the proceeds to redeeming foreign debt or consolidating the floating debt at home, or deposited them with the Central Bank.
But from 1964 to the end of 1969 Treasury financing tended to increase the liquidity of the economy, since the Treasury covered part of its financing requirement at short term. This was done partly by drawing down its balances at the Central Bank, to the benefit of the cash liquidity of the banks. The Treasury balance at the Central Bank increased appreciably in 1970. The aggregate debt of public authorities is analysed in the table 12.

Para. III-2: *Supervision of the monetary behaviour of local authorities*

Basis in law

31. It has already been seen that the liquidity of the economy can also be influenced by the financing transactions of local authorities: an increase in the net floating debt of this sector held by the public leads to a rise in total liquid assets and vice versa. Mainly in order to ensure sound financing by local authorities, policy in the Netherlands, since even before the war, has been to minimize their short-term borrowing. The Government, which had already brought out ad hoc financing provisions affecting the municipalities, decided in 1952 that the net floating debt of a municipality should not exceed 25 % of ordinary revenue ("Short-term borrowing standard"). An increase in the floating debt proportional to the expansion of the budget was thus allowed. This principle was retained in later schemes of regulation. The 1963 Public Bodies' Capital Expenditure law stipulates that the total net floating debt of any municipality or province, plus that part of prospective capital expenditure in the next twelve months for which no definite financing arrangement has yet been made, is not to exceed 25 % of ordinary revenue. The

Minister is entitled to take measures to cancel out any excess of more than 50 % over this ceiling.

Trend of the floating debt

32. Since 1963, the floating debt of local authorities has often risen far faster than the short-term borrowing standard and thus made a major contribution to increases in the liquidity of the economy. Initially, this trend was mainly due to incomplete control of investment activity by local authorities owing to the difficulties encountered initially in implementing the new Public Bodies Expenditure law (1963). This law specifies, as regards the financing of new capital expenditure projects to be put through in the first fifteen months (twelve months prior to 1 April 1971), that such projects cannot be begun till their financing is definitely covered. If the economy is overheated or liable to become so, the Government can limit the available long-term funds by imposing a ceiling on loans. Similarly, if the capital market is under excessive strain, the Government can specify that capital borrowing by local authorities is to be channelled exclusively through the Bank for Netherlands Municipalities, which takes advantage of the opportunities afforded by the capital market.[1]

The municipalities' floating debt rose very sharply in 1969 and 1970, mainly owing to a decline in their ordinary revenue and in their borrowing on the capital market (Table 12).

[1] The aim here is to prevent the municipalities and other authorities from forcing interest rates up further under such circumstances, by bidding against each other on the capital market. Under the central financing system, the polder boards and similar bodies obtain their capital market loans from the relatively small Netherlands Polder Board Bank.

CHAPTER TWO

THE INSTRUMENTS OF MONETARY POLICY

Introduction

Para. I: *General*

33. In their endeavours to influence the liquidity of the economy, the monetary authorities are faced with domestic and foreign causes of liquidity changes. The balance of payments outturn is beyond the control of authorities to a large extent; the instruments available for this purpose have already been discussed in the last chapter (item 18). The responsibility of the public authorities for their own recourse to liquidity creation and the scope they have for pursuing their own monetary policy have also been dealt with (item 3 and 30-32). This chapter considers the instruments used by the Central Bank to influence domestic liquidity creation by money-creating institutions other than for the Treasury, which is the pivot of monetary policy. By way of introduction, we begin with a survey of the basics of monetary policy.

Para. II: *Development of instruments and the basis of the policy pursued*

The instruments in the fifties

34. In the early post-war years the Central Bank applied selective credit controls to a considerable extent, but as conditions returned to normal this method became more and more unsatisfactory. The regulations giving the Central Bank extensive control over advances made by the commercial bank were dropped at the end of 1950 and temporarily replaced by general quantitative credit controls (in force till the end of March 1952).
In the rest of the fifties, the emphasis of the Central Bank's monetary management was mainly on discount rate policy, backed up by the open-market and the minimum reserve instruments. The last two instruments had to be used to strengthen discount rate policy, the banking system being liquid.
As a consequence of extensive short-term borrowing by the Treasury during the war period and the years immediately after, the banks had considerable liquid assets, which consisted almost entirely of Treasury paper to begin with. In 1952 and 1953, furthermore, cash liquidity was swollen by heavy balance of payments surpluses. To prevent the banks being forced to step up their lending actively to dispose of a surplus of cash holdings which they were unable to invest, the Central Bank offered Treasury paper from its open-market holdings. But this was not enoough on its own. And since, furthermore, the Central Bank possessed no long-

term securities, cash liquidity could be transformed into another form of liquidity but not neutralized permanently. An extensive consolidation operation was therefore undertaken in 1954. The Treasury placed Fl. 1,200 million of 8, 10 and 12 years Treasury certificates with the banks, while the Central Bank reached agreement with the banks on the introduction of a minimum reserve system, also designed to absorb liquid assets. This operation mopped up the infra-liquidity of the banks, but their liquidity position remained easy.
But the Bank could still not be certain that the existing instruments would always suffice to drain off enough bank liquidity to force the banks to limit their lending to business concerns. The maximum level of the minimum reserve ratio (which was 10 % and could be increased to 15 % under certain circumstances) was too low for this. A quantitative credit restriction was therefore drafted in 1954 as an additional instrument, but did not have to be applied. But a quantitative credit limitation was imposed, from September 1957 to April 1958, in the over-consumption period of 1956/1957.
The banks began to build up substantial net foreign assets when substantial balance-of-payments surpluses reappeared after 1958 and differences between domestic and foreign interest rates made this an attractive proposition. But this meant that they could hence-forward frustrate limitations imposed on their cash liquidity by transferring to the Central Bank foreign currency yielded by these assets. In the early sixties the Central Bank decided that it would be desirable, mainly for international reasons, to reduce this inflow to a minimum. The result was that the minimum reserves system lost much of its value as a monetary instrument, so that the authorities came to rely exclusively on quantitative methods.

Basis of policy and instruments since 1960

35. The set of instruments for influencing the liquidity of the economy which has been gradually built up since 1960 has been developed in close conjunction with the method used by the Central Bank to calculate the admissible liquidity supply of the economy in a given practical situation. The basis of the system is the existence in the short term, except in special circumstances, of a fairly constant correlation between the size of total domestic liquid assets and the net national income. The liquidity requirements resulting from a given growth of national income will thus normally be satisfied if the total domestic liquid assets increase, overall, by the same percentage as the national income in monetary terms, that is to say, if there is no change in the liquidity ratio (total domestic liquid assets as a percentage of the net national income).
In normal circumstances monetary policy in the Netherlands is directed to creating and maintaining more or less normal liquidity conditions, so as to ensure that monetary factors do not have an inflationary or deflationary impact on spending. In periods of over-consumption such as the years from 1964 to 1966 and 1970, when relatively sharp increases in costs and prices are associated with a current-account payments deficits, monetary policy seeks to check the growth of expenditure by letting the tightening effect of an outflow of liquidity to other countries work through the economy and by allowing the supply of new domestic liquidity to lag behind the liquidity requirements entailed by the growth of income (in monetary terms). To be specific, the standard adopted for domestic liquidity creation in the years from 1964 to 1966 was that which could overall, satisfy the liquidity requirements of the expected increase in production (the liquidity ratio

remaining unchanged), that is to say the *real* growth of the national income.[1] With the situation as it was, both the price increases and the deficit on the balance of payments led to a tighter money situation and this effect had to be offset, in the first instance, by activating existing liquidity reserves (i.e. putting money back into circulation, engendering an increase in rate of turnover). These liquidity reserves can be considered as a cushion in the adjustment process which expenditure must eventually undergo under the influence of a monetary policy directed to the re-establishment of balance. If the strains resulting from the tighter monetary situation increased too sharply, the standards for domestic liquidity creation were exceeded and there was an inflow of hot money from abroad in so far as it was not precluded by the foreign exchange controls still in force. But these reactions did not induce the Central Bank to put more bite into the monetary policy, provided they did not prevent a continuing tightening of the monetary situation; in this case they are to be considered as secondary cushions in the adjustment process, which reduce the danger of irregular movements in the economic trend. In May 1971, however, the Netherlands suspended their official intervention rates, in company with Federal Germany, and floated the guilder. This was done after the inflow of foreign capital reached an excessive level (in 1970 and the early months of 1971 it had already been large enough to present a serious threat to the restrictive monetary policy).

The way in which what was considered to be admissible domestic liquidity creation could take place was nearly always determined on the basis that public authorities as a whole, in accordance with what had been decided, should have only limited recourse to liquidity creation: since 1952 the Treasury's policy has been to limit the issue of Treasury paper basically to the replacement of paper maturing. So it has been possible to assign to the banks the bulk of what is deemed the acceptable creation of new liquidity, for lending to the private sector. Originally, the Central Bank had limited the quantitative controls to short-term lending to the private sector — on the implicit assumption that on balance the other activities of the banking system would not make for an increase in liquidity. After some time had elapsed, medium-term lending to the private sector turned out to be rising sharply, faster than countervailing long-term funds, and in 1965 the Central Bank made another (informal) arrangement with the banks regulating long-term credits. In July 1967 the two schemes of regulation were terminated because the domestic economy had emerged from the period of strain.

There was intensive consultation in 1968 between the Central Bank and the organizations representing the banking system on the appropriate credit restriction method to be adopted if the economic trend should call for reintroduction of a restrictive monetary policy. A possible changeover to indirect credit restriction, based on manipulation of bank liquidity, was considered in detail. The feasibility of this had been improved by the substantial reduction since the early sixties in bank liquidity as a ratio of the banks' domestic liabilities. This decline was reflected in full in net foreign assets, which at the end of 1967 left hardly any room for an increase in domestic liquidity. What was envisaged was a system of minimum cash or liquidity reserve balances, yielding the same results as a direct credit

[1] Since early 1969 there have been signs of a shift in emphasis. In the light of experience in 1964 to 1966, when a ratio of less than 35% was found to have a markedly restrictive influence, policy has since been directed primarily to reducing the liquidity ratio to a level approaching 35 %, the figure which is deemed restrictive. But the correlation between the domestic supply of liquidity and real production growth continues to.

restriction. The final outcome of the discussions was a preference for the direct method because: *a*) the individual banks operate with very different liquidity ratios owing to the differing character of their business; *b*) the overall liquidity of the banking system is constantly, and often strongly influenced by seasonal and fortuitous changes in public finances, notes and coin in circulation and foreign exchange transactions.

Attention was also paid to the aspects of the direct credit restriction policy which had been criticized by the banks. The main issue here was the combination of the policy directive for short-term lending to the private sector with the arrangement regulating long-term business, allowing the banks to use, as they saw fit, an increase in their long-term funds to increase their long-term assets or for short-term advances. From the monetary angle it does not matter which choice is made, since all that is relevant is the ultimate creation of liquidity. After considering the possible consequences, the banks finally found that the combination of the two systems was not necessary. It was feared that competition for long-term business might increase unduly and also that the conditions of competition might be disrupted by the wide discrepancies in the relative scale of short and long-term business as between groups of banks and individual banks. When over-consumption threatened to reappear towards the end of 1968, the previous system of separate arrangements was reintroduced with hardly any change, with effect from 1 January 1969.

Early in 1969 the Central Bank consulted the Netherlands Association of Savings Banks (Nederlandse Spaarbankbond) on an extension of the scope of the restrictive monetary policy to cover the general savings banks. The reason for this was the fact that these banks were increasingly operating as money-creating institutions by channelling wage, salary and pension payments of their customers through accounts having the character of current accounts but still included in the figures for savings balances. The consultation led to the introduction, on 1 July 1969, of rules governing long-term operations in line with those applicable to commercial banks and agricultural credit institutions.

In 1970 a monetary restrictions agreement was reached with the Postal Cheque and Giro Transfer Service, involving periodic establishment of a standard for the admissible growth of its long-term assets and short-term lending to the domestic private sector.

Early in 1967 a ceiling was introduced for short-term lending to the local authorities, which had substantially exceeded the short-term debts deemed acceptable by the law, more especially by resorting more heavily to short-term bank credit. This measure was intended to support the government drive to improve the financing behaviour of local authorities, which the Government had been authorised to conduct by the 1963 Public Bodies Capital Expenditure law. Initially the ceiling likewise only applied to commercial and agricultural credit banks. It was extended to general savings banks in 1969 and to the Postal Cheque and Giro Transfer Service in 1970.

Money-market policy

36. The changeover to direct credit restriction reduced the monetary relevance of the liquidity of the banking system (and of the other money-creating institutions). The instruments used in the fifties, which had served both to regulate the money market and to manipulate the liquidity of the economy indirectly, were subsequently employed exclusively to control money market behaviour.

In recent years the Central Bank has begun, as part of its money-market policy, to intervene on the foreign exchange market, which has been considerable enlarged by the substantial increase in international money and capital transactions.

Section I - Discount policy

Para. I: *General*

Forms of recourses, legal foundations

37. When banks, brokers and others [1] wish to have recourse to the Central Bank, they can do so by discounting short-term money-market securities (Treasury paper, commercial bills of exchange and bank acceptances) or by taking up credits in current account agains the collateral of Treasury paper or — to a small extent — other security.
Within the framework of its credit policy on lending to the Treasury,[2] the Central Bank is free to decide whether or not to discount suitable paper or to accept it as security for an advance. It regards access to its credit as a privilege and not as a right, and considers that its facilities should only be used to tide over *temporary* difficulties.

Discounting and Advances

38. The Central Banks discount rate for promissory notes [3] and the rate charged to banks for credits in current account against pledging of securities or other paper is normally ½ % above the discount rate for bills of exchange, also collected Bank rate. Since August 1969, however, it has been 1 % above this rate. In the case of discounting, a rates for at least ten days is charged while interest on advances is calculated day by day.
As the banks often have recourse to the Central Bank for only very short periods, advances against securities are asked for more often than rediscount credits (Table 13).

Para. II: *Technical data*

Eligible paper

39. The Central Bank provides discounting facilities or advances mainly for Treasury paper, which is fully discountable (provided it has no more than 105 days to run to maturity) and eligible as collateral (apart from a small marginal value). Short-term paper issued by local authorities can also be declared discountable or eligible as security at the application of the Bank for Netherlands Municipalities

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[1] In practice, in recent years the Bank for Netherlands Municipalities, in particular, has also had recourse to the Central Bank fairly regularly.

[2] See Ch. 1, Items 3 and 27.

[3] The discount rate for promissory notes is charged for promissory notes other than Treasury bills, which are discounted at the official discount rate. In practice, no discounting is done on the basis of the discount rate for promissory notes. The rate is, however, relevant to the establishment of charged to borrowers interest rates by the banks (see item 42 below).

or the issuing authority. In this connection the Central Bank has adopted, since before the war, the practice of establishing a limit as well as certain conditions: promissory notes of a province or municipality can be declared discountable up to a ceiling of 15 % of the ordinary revenue shown in the last budget of these authorities. At the beginning of 1964 the conditions laid down were brought into line with the provisions of the Public Bodies Capital Expenditure law, which came into force on 1 November 1963. They specified that the borrowing body must have a balanced budget and that its net floating debt, plus the capital expenditure of the next twelve months for which no firm financing coverage is as yet available, may not exceed 25 % of ordinary revenue.

In the Netherlands, in contract to Germany, France and Belgium, the discounting of bank acceptances is of minor importance and commercial bills are virtually never discounted. Under an agreement concluded between the Central Bank and a number of other banks as far back as 1922, however, certain bills used to finance foreign trade are automatically declared discountable if they satisfy certain conditions (initial currency of no more than four months, etc.) and are notified to the Central Bank. Furthermore, in March 1967 the Central Bank entered into an export financing arrangement with the banks to meet the high interest costs of the credits with a total period to maturity of five years or more granted by Dutch exporters. Under this arrangement, the bills of exchange and promissory notes relating to these credits can in principle, under certain conditions, be declared eligible as collateral and discountable by the Central Bank (this enables the banks to apply a lower interest rate for the bills and promissory notes in question). The discountability of bills increases the liquid assets of banks; at the same time it increases the scope for negotiating them on the money market, though this is hardly ever done.

The Royal Decree of 25 June 1968 extended the discount policy powers available to the Central Bank, under the Bank Law of 23 April 1948, by authorising it to provide advance against the collateral of debt certificates. The banks have considerably increased their holdings of such certificates. The new power is intended to enable the Central Bank to increase liquidity in special cases where this is desirable in the general interest but the bank in need of credit does not possess sufficient other securities acceptable to the Central Bank as eligible collateral.

40. In September 1957, when credit expansion was particularly strong, the Central Bank announced the introduction of a penal interest rate, at least 1 % above its normal rates, to be paid by banks having recourse to it when they had not, in its view, exercised sufficient restraint in granting credit. In actual fact this penal interest rate never had to be charged, and the rule was scrapped in April 1958, in view of the economic trend.

Restriction of recourse to the Central Bank

41. There has never been any clearly defined limit to the extent of recourse by the banking system to the Central Bank. But in 1969, when a sharp increase in the net foreign assets of the banks was coupled with purchase of foreign exchange from the Central Bank and much greater recourse to it, the Central Bank has nevertheless repeatedly considered it necessary to remind the banks that its facilities must be used only to remedy temporary difficulties and, in particular, should not

be used for interest arbitrage. The assessment of what is admissible and what not is a matter for the Central Bank. In September 1969 the Central Bank accepted that — over and above the amount deemed admissible — the banks should be able to meet "temporary peak financing" needs by obtaining accomodation it up to the amount of the non-interest-earning deposits they are required to hold under the credit restrictions. This concession has never been allowed to lapse.

Para. III: *The functioning of discount policy*

Connection between discount rate and interest rate structure

42. Any change in the discount rate of the Central Bank generally affects the debtor and creditor interest rates fixed by the banks. Although the banks have a free hand in fixing their interest rates (the law on supervision of the credit system is silent on this matter) the rates they charge to borrowers are usually 1 ½ % higher than the discount rate for promissory notes.

In the Netherlands the money market interest rate level does not always follow Bank rate. The very substantial bank liquidity in the first half of the fifties, for instance, completely or almost completely insulated money market interest rates from increases in the official discount rate. To prevent money-market funds, cheap under these circumstances, from finding their way to the capital market and thus frustrating the attempts to check the expansion of credit by discount policy, the Central Bank used open-market policy and the minimum reserve system to ensure that Bank rate effectively influenced the money market.

The money-market interest rate, level now determined mainly by the net yield obtainable on foreign money markets, was nearly always higher than Bank rate from 1966 or thereabouts to the end of 1970.[1] The fact that during this period the banks did not go in to any great extent for interest arbitrage with funds taken up from the Central Bank is attributable to the refusal of the Central Bank to allow permanent recourse to its credit facilities. The difference between the money-market interest rate level and the discount rate made it difficult for the Treasury to place short-term Treasury paper discountable at the Bank, which was carrying a lower rate than Bank rate. One of the results was that in the summer months the Treasury was forced to cover its heavy liquidity needs in this season by taking up cash loans (which are not rediscountable or eligible as collateral) at rates well above Bank rate.

Effectiveness of discount policy

43. In general, it is fair to say that changes in the cost of credit have only a limited impact on credit supply and demand. Furthermore, it is true to say that from the end of the war till recently the Dutch banking system always had enough liquid assets to ensure that it had little if any need to fall back on the Central Bank.[2]

The result was that as far back as the early fifties the emphasis of monetary policy shifted from manipulating the cost of credit to limiting its availability. In this

[1] The interest rate level on the domestic money market dropped below Bank rate again early in 1971, owing to a marked decline in the net yield on the Eurodollar market which was coupled with heavy selling of dollars to the Central Bank.

[2] See items 33 and 34 of this chapter.

connection use was mainly made to begin with of instruments affecting bank liquidity, and later of direct credit ceilings. Since then, the main monetary significance of changes in the discount rate has been their value as a possible pointer to an impending tightening or easing of monetary policy.

Section II - Minimum reserve policy

Para. I: *Description of the minimum reserve system*

Genesis of the system

44. The Central Bank pursued an active minimum reserve policy from 1954 till the end of 1963. The basis for this was established in early 1954 when the Central Bank concluded a "gentlemen's agreement" with the main commercial banks and the two central institutions of the agricultural credit banks, by which these banks under-took to maintain minimum non-interest-earning balances at the Central Bank at a level to be determined by the Central Bank. The agreement was needed to provide a means for absorbing some of the banks' cash liquidity, which had increased sharply as a result of the substantial balance-of-payments surpluses of the previous years. The open-market holdings of the Central Bank had turned out to be too small to absorb all this liquidity — despite total sales by the Central Bank and the Treasury of Fl. 2,500 million of Treasury paper in 1952 and 1953, the market discount rate for one-year bills had dropped to 0·4 % in 1953.
With the introduction of the minimum reserve system, the banking system participated in financing the Central Bank's gold and foreign exchange reserves, which had increased to a level appreciably above the note and coin circulation. This was stated in the explanatory memorandum, which also specified that at the monthly fixing of the minimum reserve ratio allowance should be made for the trend of the gold and foreign exchange reserves and its causes. This wording made it clean that the Central Bank would not regard itself as obliged to fix the ratio solely in the light of the trend of its foreign exchange reserves but was also to allow for other considerations.
The banks' were all the more ready to accept a voluntary minimum reserve obligation since they were allowed to convert some of their short and medium-term Treasury paper into longer-dated, higher-yelding Government bonds. The banks that were party to the agreement coud take 8, 10, or 12 year certificates (*schatkistcertificaten*) yielding interest at 2 5/8 %, 2 3/4 % or 2 7/8 % respectively in return for their very low-yielding Treasury paper. They had to undertake, however, not to sell or pledge these certificates other than to the Central Bank or banks participating in the agreement. The restriction on the sale or pledging of these securities ceased if the Central Bank acquired and re-sold them.
The Central Bank declared its readiness to grant advances, if needed, to the parties to the agreement against the collateral of Treasury certificates under certain circumstances and up to certain limits. When the loans taken up in this way run without interruption for more than a year, the borrowing bank could sell the paper to the Central Bank.

Subsequent developments

45. When they fell due, the 8 and 10 year certificates were renewed for 10 years (with adjustment of their interest rate) on the same conditions. On 1 March 1966 the 12 year certificates were converted into eight tranches of 3, 4, 5, 6, 7, 8, 9 and 10 years. It was decided that the restrictions on negotiability and eligibility as collateral, together with the right to pledge with the Central Bank, were to remain in force for tranches with more than six years to run. The restrictions have been dropped for tranches with less than six years to run.
In 1963, the minimum reserve agreement was amended by dropping participation in financing the Central Bank's foreign exchange reserves (which now only slightly exceeded total notes and coin in circulation and dropped below this aggregate in the following years) as the reason for holding minimum reserves and by scrapping the requirement that adjustment of the reserve ratio should be related, in principle, to these reserves. Since 1963 there has been a right to terminate the agreement if the Central Bank and the banking system no longer agree on the desirability of retaining this instrument or on its handling. This right of termination has not so far been invoked.

The legal basis

46. Article 10, paragraph 5 a. of the law of 18 January 1952 on the supervision of the credit system — passed to implement Article 9 of the Bank Law of 23 April 1948 — gives the Central Bank the right to require the banks registered with it to hold balances on current account with it in a given proportion to the deposits accepted by them.
The Central Bank could have imposed a minimum reserve system on this basis, but would then have been obliged to respect the conditions of the law as to duration of validity and the need for ratification by parliament. The Central Bank therefore preferred to conclude with the banks a gentlemen's agreement of indefinite duration on the holding of minimum reserves.
The right to impose a reserve system is retained (in Article 10, paragraph 7 a.) in the law as amended on 21 June 1956. The new version explicitly states, however, (Article 10, paragraph 1) that the Central Bank should first seek to achieve agreement on measures affecting the credit system by *consultation* with the banks if it discerns signs of an actual or potential threat to the accomplishment of its task.

The participating institutions

47. The agreement on the maintenance of minimum reserves was concluded with 39 commercial banks and the two central institutions of the agricultural credit banks. Deposits at these 39 banks at the end of 1954 accounted for 97 % of all deposits held at commercial banks, while the other 80 or so commercial banks shared the remaining 3 %. The Postal Cheque and Giro Transfer Service became a party to the agreement on 1 July 1957.
The agricultural credit banks affiliated to the two central institutions participating in the agreement are indirectly involved in the minimum reserve system via the reserves kept by the central institutions. The security credit institutions were not included in the system because of their relatively low total deposits. As they accept only savings deposits, the savings banks were left outside the system.

Calculation of minimum reserves

48. The basis for the calculation of the required minimum reserves is the total of "funds of third parties" held with the participating institutions, namely:
— customers' sight and time deposits;
— sight and time deposits of credit institutions not participating in the agreement;
— other short term liabilities in the nature of deposits.
Foreign currency liabilities and savings deposits do not come under the minimum reserve obligation.
In calculating the minimum reserves of the two central institutions of the agricultural credit banks, the balances held with them by their member banks are reduced by an amount corresponding to the proportion of savings deposits in the total deposits held by those banks. The savings deposits of the agricultural credit banks are thus excluded from all minimum reserve obligations, direct or indirect.
The minimum reserve to be held is computed on the basis of the end-month balances subject to the system.
The minimum reserve commitment thus calculated must be discharged by the commercial banks over a period beginning on the first business day after the 21st of the month and ending on the 21st of the following month (if, for instance, the volume of deposits subject to minimum reserve obligation is determined at the end of March, average minimum reserve balances calculated on this basis must be held at the Central Bank from 22 March to 21 April). The corresponding period for the central institutions of the agricultural credit banks is the following calendar month (April in the example just given).
For the benefit of institutions with relatively low total deposits, the first Fl. 15 million of liabilities subject to the minimum reserve obligation are exempted and a further Fl. 50 million are subject to only half the current minimum reserve ratio.
Minimum reserves have to be held on a monthly *average* basis. This enables the banks to compensate for falling short of the minimum reserve requirements on some days by exceeding them on others. The minimum reserves can thus be used to some extent to cover short-term liquidity requirements within the monthly period.

The size of the ratio

49. The agreement lays down a ceiling of 15 % for the minimum reserve ratio. The Central Bank announced, when the agreement was concluded, that it would not raise the ratio above 10 % without first selling a considerable part of its open-market holdings and consulting the banks. The question of such an increase to above 10 % has never arisen.

Remuneration of balances; penal interest rates

50. The balances held as minimum reserves on current account at the Central Bank — like other balances held at this institution — bear no interest. On the other hand there is no provision in the Dutch minimum reserve regulations for a penalty interest rate for failing to meet minimum reserve obligations.

Para. II: *The functioning of the minimum reserve policy.*

Structural factors

51. The operation of the minimum reserve policy in the Netherlands in the fifties

must mainly be seen in the light of the relatively large amount of national expenditure which goes abroad. As a result, any excessive credit expansion in the Netherlands soon led to a deficit on the balance of payments and consequently to an outflow of domestic liquid assets from the country. This was coupled with a relatively sharp reduction in the liquidity of the banks, whose deposits increased less than their lendings (in 1956 an 11 % increase in lending was actually coupled with an 8 % reduction in deposits. This situation enabled the Central Bank to reduce the minimum reserve ratio in periods when there was a deficit on the balance of payments, as in 1956-1957, to raise it again in periods of balance of payments surplus (which increased the liquidity of the banks and also that of the economy) and to maintain it at a high level in periods of more or less balanced development.

Development in the sixties

52. After mid-1961, which saw the end of a period of heavy balance-of-payments surpluses, the minimum reserve was gradually lowered to offset the tightening of the money market caused by the steady increase in notes and coin in circulation. This was mainly done to prevent the tightening of liquidity from inducing the banks to transfer foreign exchange to the Central Bank and thus force the latter to convert dollars into gold — which was deemed undesirable in the international context. The minimum reserve ratio was lowered to zero in September 1963 and has remained unchanged ever since.
On balance, since 1963 the banks have financed the increase in notes and coin in circulation mainly by drawing on their net foreign assets. In 1969 and 1970 they also financed this increase by transferring to the Central Bank foreign exchange accruing from the substantial inflow of foreign liquidity in those years (cf. Tables 5 and 8).

Application in practice

53. As can be seen from Annex 14, the Central Bank in every case but one has increased the minimum reserve ratio by 1 % only, but often reduced it by larger percentages. As, for technical reasons, the minimum reserve ratio can only be altered once a month, this device is not suitable for evening out short-term fluctuations. But it can be used to skim off or inject a certain amount of liquidity, beyond which more flexible instruments, such as open market policy or forward interventions in the foreign exchange market, can be used.

Section III - Money-market policy and relations with foreign money markets

Para. I: *Open-market policy*

Para. I-1: *Money market*

54. It is impossible to give a clear-cut definition of the money market in the Netherlands. In the narrower sense, this is the market in cash assets held at the

Central Bank, dealings being between the banks (and brokers) on the one hand and the Treasury on the other, and also between banks. In the broader sense, the money market also includes other short-term transactions such as cash loans to local authorities and between business concerns.
The working and main features of the money market are described in Chapter I (items 13-14 and 28-30). The law does not limit the number of market members, and this can vary with the circumstances. It thus happens that private concerns toke up cash loans from non-money-creating institutions, sometimes in competition with local authorities, in periods of credit restriction or when the interest rate on the money market is significantly below that for short-term bank loans.

Para. I-2: *Intervention in the open market*

The application of the instrument

55. The Central Bank used the open-market instrument from 1952-1964 [1] to stengthen Bank-rate policy and in conjunction with the minimum reserve policy. For the purposes of its open-market transactions it used Treasury paper. The Bank Law of 1948 also authorizes the purchase and sale of Government or Government-guaranteed bonds quoted on the stock exchange, but this facility has never been used. The Central Bank has no stock of such securities anyway.

Legal foundations

56. The right of the Central Bank to conduct open-market business is governed by the Bank Law of 23 April 1948, in which the bank is authorized to buy and sell the following securities:
— Bills accepted by banks and bankers established in the Netherlands provided they do not exceed the customary time limits;
— Treasury paper;
— Dutch Government bonds, or bonds for which the Dutch Government has guaranteed payment of interest and redemption, provided that they are officially quoted on the Amsterdam stock exchange.
Although the Central Bank has been empowered to conduct open-market transactions since 1937 (on the basis of the earlier Bank Law), it has to apply this policy itself only since 1952. Previously the Treasury, acting through its agent in Amsterdam, automatically took up all the funds offered on the money market even when the Government's cash balances did not fall short of current financial needs.
In the 1952 agreement between the Treasury and the Central Bank, responsibility for open-market policy was transferred to the Central Bank. Since then Treasury policy has been to limit the issue of Treasury paper basically to replacement of paper falling due, at least in so far as the need to maintain a reasonable credit balance at the Central Bank allows.

Composition and replenisment of open-market portfolio

57. At the time when the 1952 agreement was concluded, the Central Bank had

[1] The Central Bank operated on the market again in the summer of 1971, when the guilder was floating.

claims totalling Fl. 2,100 million on the Treasury, arising from the transfer of its old Reichsmark balances — built up in the war — to the Treasury, Fl. 800 million of which was in the form of Treasury paper while the rest was a book claim. In the course of its first open-market operations, the Central Bank had already sold a large part of its stock of Treasury paper; it was able to continue its open-market operations thanks to the Government's readiness to convert the remaining book debt into Treasury paper as and when the Central Bank needed it. But in 1956 the Treasury discharged the rest of its debt to the Central Bank by using counterpart funds from Marshall Aid. The Central Bank's operating stock of paper was supplemented in subsequent years by the transfer of its consolidated claims on the EPU and Argentina to the State (cf. Table 15).

Since 1962 the new paper in the open-market holdings owes its origin to the financing of international monetary transactions by the State. In August 1962 it was agreed that the State can, when necessary, place Treasury paper with the Central Bank to the amount of non-interest bearing notes encashed for the IMF. This paper is to be bought back if repayments in guilders are received from the IMF or if a drawing is compensated by a Dutch drawing on the IMF.

On the basis of such agreements, the State financed, by placing Treasury paper at the Central Bank: *a*) part of debt repayment made ahead of schedule to the United States and Canada; *b*) a gold payments to the IMF, resulting from increases in the Netherlands quota; *c*) guilder drawings by the United Kingdom and France, under the General Arrangements to Borrow (GAB).

The Central Bank is entitled to use paper obtained under these agreements for open-market transactions.

Functioning of open-market policy

58. The Central Bank has mostly pursued a passive open-market policy, in the sense that it has aligned its issue rates for money-market paper on free market rates. From 1952 to 1955 and in 1958, for instance, it mopped up much of the cash liquidity resulting from its purchases of foreign exchange. Such temporary shortages on the money market as arose during these long periods of abundant liquidity were covered by the Central Bank's purchase of short-term securities.

In order to alleviate short-term liquidity difficulties on the money market — resulting, for instance, from seasonal fluctuations in tax movements and payments falling due at the end of the accounting year — the Central Bank has also, since 1956, taken up money-market securities under "repurchase agreements" whereby banks sell securities to it with the commitment to buy them back at the same rate after a predetermined period.

In the early sixties the Central Bank did its utmost to keep money-market interest rates low by international standards, so as to minimize the need to buy foreign exchange. In this connection, the open-market policy was directed to cushioning short-term disturbances on the market. From mid-1961 to the end 1963, the tightening influence of the generally rising level of notes and coin in circulation was offset, on balance, by a gradual reduction in the minimum reserve ratio (cf. item 20).

After 1963, when the minimum reserve ratio had been reduced to zero, the banks had to cushion the reduction in their cash liquidity caused by the upward trend of notes and coin in circulation mainly by selling foreign exchange to the Central Bank. As the net yield obtainable on the international money market — which had expanded considerably in the meantime — was higher than that obtainable from

domestic investments, up to 1970, the money market became increasingly tight as a result and its interest rate level rose to above Bank rate.
This development sharply reduced activity on the Treasury paper market, and thus made it difficult to fix at a satisfactory level the rates for repurchase agreements to tide over periods of short-term tightness. In combination with the fact that the banks added to liquid assets by selling foreign exchange, this led the Central Bank, after 1964, to intervene on the appreciably more active foreign exchange market — by buying spot dollars and simultaneously selling in the forward market — at times of temporary shortage. The Central Bank again sold Treasury paper on the open market in the summer of 1971, when the guilder was floating, to skim off excessive bank liquidity.

Para. II: *Intervention on the forward foreign exchange market*

International activities of the banking system

59. Although under the 1954 gentlemen's agreement the banks had been authorized to invest freely abroad, they largely confined themselves until about 1957 — partly owing to the limited capacity of the forward foreign exchange market — to holding working balances, mainly to finance foreign trade. The Dutch banks expanded their foreign operations sharply when, after the return to convertibility at the end of 1958, the international money market began to grow at a rapid rate. The investment of liquid assets abroad increased rapidly, above all in the early years of increasing national foreign exchange reserves. The policy of the Central Bank in these years was aimed at ensuring that the relationship of domestic to foreign interest rates encouraged such investment. Furthermore, the banks steadily expanded, on the sharply growing international money market, the build-up of foreign business by which funds obtained abroad are reinvested in other countries (Table 16). These developments led to emergence of a fairly large and busy foreign exchange market, on which it is easy to transfer short-term funds to and from abroad. The Central Bank intervenes on this market to prevent major fluctuations in parity rates, which can be caused, among other factors, by developments on the domestic money market.

Intervention by the Central Bank

60. The post-1963 tightening of the money market, which persisted till 1970, induced the banks, which held much of their liquidity abroad, to sell dollars to the Central Bank. The intervention of the Central Bank on the forward exchange market often had the purpose of facilitating these spot sales.
In periods of sharp temporary strains on the domestic money market and heavy spot sales of dollars, the banks have often increased their demand for forward dollars so as to keep their dollar risk in balance. The resultant decrease in the discount or increase in the premium on the forward market for dollars has led to an increase in the net yield (gross yield less costs of forward cover) obtainable abroad, which in turn has resulted in a tendency for domestic money rates to rise. In this connection the Central Bank, between 1965 and the end of 1967, apart from making spot sales and purchases, intervened in times of temporary tightness on the money market by swaps (resale for up to three months forward delivery to the banks by the Central Bank of dollars bought from the banks) and thus averted the aforementioned impact on the money rate of the domestic free market.

The Central Bank again made such swaps in October 1970 and the early months of 1971, partly in order to obtain exchange rate cover for the dollars in its possession.
In the sixties, too, the Central Bank intervened on the forward foreign exchange market in order to reduce liquidity on the domestic money market, by making spot sales of dollars and simultaneous forward repurchases. These transactions were carried out in periods of foreign exchange speculation when the guilder was in demand and the associated heavy spot sales of dollars to the Central Bank led to an excessive increase of liquidity on the domestic money market. A number of times the Central Bank also made outright purchases of dollars for forward delivery so as to prevent spot dollar sales and the associated easing of the money market.

Regulation of banks net foreign assets

61. In July 1964 the Central Bank, for monetary reasons, directed that authorized banks were not — apart from an allowance of Fl. 5 million — to have a net foreign debt. This regulation has already been discussed in item 18.
In 1969 conditions on the money market induced the Central Bank to impose a temporary ceiling on the expansion of the net foreign assets of the banking system. The reason for this was a sharp increase in rates on the Eurodollar market, which induced the banks to buy funds for investment abroad from the Central Bank and thus increase their recourse to the Central Bank. A maximum figure was agreed in early July, and in September it was agreed to reduce the net foreign assets to the average figure for the first nine months of 1968, in order to reverse through repatriation the increase in the net foreign assets of the banks which had taken place in the first half of 1969 at the expense of central reserves. After a few adjustments, the arrangements were suspended in April 1970 when the special situation resulting from the exceptionally high — and to some extent artificial — level of interest rates on the Eurodollar market had disappeared. The Central Bank has retained the right to reactivate the arrangements as soon as it feels this advisable.

Section IV - Direct credit restrictions

Introduction

General survey

62. In May 1960 the Central Bank concluded an agreement with the banks on a system of quantitative restrictions for short-term lending to the private sector. This agreement has been in force since the summer of 1961, with a brief interruption in 1963 and a longer break from mid-1967 to 1 January 1969. In 1965 the system was supplemented by an (informal) agreement governing the long-term domestic operations of the banks. Quantitative restrictions have also been applied since mid-1969 to general savings banks and since September 1970 to the Postal Cheque and Giro Transfer Service.

Short-term lending to local authorities has been subject to a ceiling since early 1967. The criteria differ somewhat from those for the private sector.
As regards selective restrictions, in February 1969 the Central Bank asked the agricultural credit institutions and banks to limit their personal loans.

The legal basis

63. The agreements with the banking system and the savings banks on quantitative credit restrictions were concluded pursuant to the Law on the Supervision of the Credit System (Article 10). As already stated, this law assumes that the Central Bank will first attempt to reach agreement directly with the representative organisations of the banks on the course to be adopted by latter. Only if agreement proves impossible can the Central Bank issue general directives, and they must have the approval of the Finance Minister and be presented to Parliament for ratification within three months. Their maximum validity is limited to a year and the may be extended once only by the Central Bank for the same period as their original validity. Further extensions, each time for a maximum of one year, always have to be approved by the Minister and ratified by Parliament. It has never been necessary to issue such general directives.
As the law on selective credit restrictions now stands, the Central Bank can issue instructions with regard to major categories or forms of credit only (for example lending to the private sector or local authorities).

Para. I: *Quantitative credit restrictions*

Participating institutions

64. The agreements mentioned in item 62 apply to commercial banks and agricultural credit institutions which, together, account for nearly all short-term lending to the private sector. Among the other money-creating institutions, the security credit institutions are not covered by the restriction agreements because of the relatively limited extent of their business. The savings institutions were left out of account till 1969, because of their neutral monetary impact.
The Postal Cheque and Giro Transfer Services, which does not come under the control of the Central Bank, remained outside the scope of the agreements till September 1970.[1]

Para. I-1: *The policy directive for short-term lending*

Scope of the provisions

65. The Central Bank, acting under the agreement, can decide that during a specific period commercial and agricultural credit banks are not to allow their short-term lendings to rise by more than a given percentage above the figure for a reference period.
Short-term advances are defined as loans with an average initial term of less than two years (counting from the date of the first taking up).
A bank remains within the standard established by the Central Bank if the average

[1] The new draft Law on Supervision of the Credit System brings the Postal Cheque and Giro Transfer Service under the general economic control of the Central Bank.

total of its outstanding short-term loans, calculated from the last three monthly balance sheets submitted to the Central Bank, does not rise by more than a given percentage above the corresponding figure for the reference period. Under the restrictions applied till mid-1967, it was held that the standard had also been complied with if the relevant lending did not rise by more than a given percentage above the average outstanding lendings of the corresponding months of a reference year.

The arrangements in force since 1 January 1969 replace the alternative standard by the right to deduct from any excess:

a) The amount by which lending fell short of the standard in one or more of the three immediately preceding monthly balance sheets, with the proviso that once such an amount has been deducted it cannot be used again for this purpose;

b) A sum, fixed by the institution which has exceeded the standard, which is then added to average lending in one or more of the three-month periods terminating at the end of each of the next three months, with the proviso that once this has been done any excess recorded at the end of the aforementioned months — including the sum carried over — cannot be "rolled over" again to the end of a subsequent month.

Penalties

66. If the banks that are parties to the agreement do not as a whole keep to the standards, the Central Bank can require those of them which have failed to observe the standard to hold with itself a non-interest-bearing balance in addition to any minimum reserve which may have to be held. Like the minimum reserve, this balance is elastic, that is to say the obligation to hold a deposit need only be satisfied on the average over the deposit period. The amount of the balance is fixed as a percentage of the sum by which the standard is exceeded, after allowing for any offset (till mid-1967 the balance was a percentage of the smallest amount by which one of the standards had been exceeded); the percentage has never been more than 100.

How the non-interest-bearing balance is calculated: allowances

67. The way in which the non-interest-bearing balance is calculated has been revised repeatedly. Since the beginning of 1969, the amount to be deposited for the first Fl. 500,000 in excess has been nil. A 50 % balance has to be held for the next Fl. 500,000 and a 100 % balance for the excess amount thereafter.[1] These reduced or zero rates for limited overstepping are mainly designed as a concession for the small banks; more generally, they ensure that relatively small excesses are penalised to only a limited extent, if at all.

With effect from September 1969 an amendment was introduced in order to reduce the balance requirement in the running-in period. A maximum reduction of 50 % in the balance was conceded, with the proviso that the total reduction granted to an individual credit institution, calculated over the entire period in which the credit restriction was in force, was not more than 4 % of the reference amount.

[1] Like the minimum reserve system, the policy directive makes no provision for a penalty interest rate for failure to keep the non-interest-bearing balance at the required level.

It was agreed in September 1969 that in view of the current state of the money market, Central Bank credit facilities could be obtained to finance a non-interest-bearing balance. This agreement has never been allowed to lapse.
As a measure against protracted overstepping of the standards, it was decided in 1966 to limit the allowances of any banks which were required to hold a balance for three successive months or for four months in any period of six months, if the bank in question had overstepped the standards by more than in the corresponding months of the previous year. Furthermore, in such cases the Central Bank could withdraw the element of flexibility whereby a deposit obligation was held to be satisfied as long as the required balance was maintained on the average during a month. These provisions were suspended halfway through 1967.
Under special circumstances, the policy directive allows the Central Bank to adjust the reference period of individual banks. Furthermore, it can reduce the required balance in the event of freak fluctuations in lending by a bank.

Adjustment for increase in capital resources

68. On the grounds that the credit restriction bore relatively hard on banks which were in a phase of rapid development and which in view of this had increased their capital resources in the previous years, in 1965 the Central Bank granted individual banks an additional margin for lending to the extent of 2 ½ times the amount which, between 1961 and the end of 1964, their surplus solvency [1] had increased owing to growth of capital resources. The maximum amount of such additional margin for lending was fixed, for each individual bank, at Fl. 20 million.
Under the arrangements in force since 1 January 1969, it was decided — at the request of the Nederlandse Bankiersvereniging (Netherlands Bankers Association) — that in 1970 part of the admissible increase in commercial bank lending should be divided between the individual commercial banks, in proportion to the growth of their capital resources in the period from the end of 1965 to the end of 1969. This special lending margin was not granted to banks which had failed to comply with the current solvency directives at the end of both 1969 and April 1970. For each bank, the special lending margin was limited to 2 % of its average short-term lending in the reference period. The total amount of this special credit margin was deducted from the increase in commercial bank lending allowed by the policy directive in 1970, bringing this increase down from 9·5 % to 9·15 %.
In 1971, provision was again made for part of the admissible increase in commercial bank lending to the divided between the commercial banks in proportion to the growth of their capital resources.

Termination

69. In the policy directive agreement, the Central Bank has undertaken to discuss with the banks the possibility of terminating its application if total lending within a period of three months does not exceed the standards established.

[1] The surplus over and above the solvency required by the Central Bank in connection with supervision of credit to enterprises.

Para. I-2: *Scheme of regulation for long-term business*

Reasons for introduction

70. In the second half of 1964 and in 1965 the long-term domestic operations of the banks did much to increase the liquidity of the economy, since long-term domestic investments increased significantly more than long-term resources. This induced the Central Bank, after consulting the representative organizations, to ask the banks to try to stop their long-term assets from increasing by more than their long-term liabilities. This was to be done with effect from 30 April 1965 or from 31 December 1964, the choice being left to the discretion of each individual bank. It was agreed that penalties would not be envisaged unless it was found that the request had been disregarded. The scheme was therefore considered informal. Like the policy directive for short-term lending, it was not applied from the summer of 1967 to 1 January 1969. When it was reintroduced on the latter date, the individual banks were left free to choose, as the reference sum, the average figure for long-term liabilities less long-term assets at the end of the last four months of 1968, or at the end of November 1968.
The informal scheme is based on the view that the banking system can be deemed neutral in the monetary sense in so far as it — like the traditional savings institutions — merely channels savings to other destinations.

Scope

71. Long-term assets are deemed to comprise:
— Debt-certificate loans grated to the Government;
— Domestic securities and foreign guilder bonds quoted in Amsterdam;
— Lendings to local authorities with an original term of more than one year;
— Lendings to the private sector with an average original term of at least two years;
— Participations, syndicate holdings and real property.
Long-term liabilities comprise:
— Capital, reserves and time deposits with three years or more to run;
— True savings balances ("true" savings are defined in chapter I, item 19);
— Time deposits with an original term of two years or more (in certain cases one year) and less than three years to run;[1]
— Borrowings with an original term of at least two years, provided they cannot be called in earlier.
In principle the schemes of regulation for short and long-term domestic operations are kept completely separate, but since 1966 the Central Bank has been prepared, when assessing overstepping in the long-term business of individual banks, to allow for any margin which a bank may have on the short-term side.

Para. I-3: *Functioning of the two credit control schemes*

Application of the schemes

72. The policy directive for short-term lending to the private sector was applied for the first time in the summer of 1961 in view of a sharp increase in bank advances. It is now in force again, after breaks from January to September 1963

[1] Up to the end of 1969, the banks did not have to include these items if they did not wish to.

and from June 1967 to January 1969. The reference figure for the establishment of the standard in the first period was the total lendings of the fourth quarter of 1960; for the second period it was the average level of short-term lending in the first half of 1963; for the current period it is the average of short-term loans at the end of the last four months of 1968. When establishing the level of the standard, allowance is made for reasonal flutuations in lending. The table of Annex 17 gives the changes in the principal standard, the alternative standard and actual lending according to the definition in the policy directive; it also indicates the amount of obligatory balances. The table shows that lending initially exceeded the standard in 1964 but did not outstrip in any further in the period ending in June 1967. On balance, the standard was also respected in 1969 and in 1970, after being overstepped for a time. It was not exceeded in the first half of 1971.

In principle, a new lending policy directive is agreed for each period of four months. When fixing standards in the period to June 1967, the Central Bank always worked on the principle that total liquidity creation from domestic sources should not exceed the increase in liquidity requirements corresponding to the expected real growth in production. The primary aim in the current period — in the light of experience in 1963-1967 of the practical scope for reducing the liquidity ratio — is to bring down the liquidity ratio to a level which can be considered relatively low and consequently restrictive. The Central Bank does not seek to compensate any liquidity flows to or from abroad. It always works on the principle that the public authorities, in line with existing plans, will not on balance put more than a limited quantity of liquidity into circulation. This, incidentally, is only part of the reason why the authorised percentage increases for short-term lending to the private sector have normally been about twice as large as the percentage increases deemed desirable for total liquid assets, which have coincided with the expected rates of increase in production. The additional and relatively important factor is that in recent years official gold and foreign exchange reserves and the net foreign assets of banks have accounted for 30 to 40 % of the counterpart of total domestic liquid assets (the rest being represented by domestic lending to the public authorities and the private sector.[1] The policy directive was tightened up somewhat

[1] This can be illustrated from the consolidated balance sheet figures of the money-creating institutions for the end o 1965 and 1970:

	Fl. '000 million		%	
	1965	1970	1965	1970
Loans to public authorities (net)	6,000	11,070	25	28.5
Short-term loans to the private sector (policy directive)	7,040	14,190	29.5	36
Other loans to private sector, Capital market investments less long-term liabilities and miscellaneous (net)	1,240	2,030	5	5
Official gold and foreign exchange reserves and net foreign assets of banks	9,670	11,950	40.5	30.5
Total = counterpart of total domestic liquid assets	23,950	39,240	100	100

when it was found, in 1966, that public authorities were resorting heavily to inflationary financing (cf. Table 6).
In view of the increasingly slack economic trend, the policy directive provisions were gradually eased in the first half of 1967 and finally — in June — completely suspended. Towards the end of 1968 the banking system was consulted on reintroduction of the credit restriction arrangements, given the renewed threat of economic overheating in a period when the performance of the balance of payments on current account was still unsatisfactory. This consultation led to reintroduction of the policy directive for short-term lending to the private sector on 1 January 1969. Since this date, the Central Bank has mainly sought to gear the admissible increase in lending to what is held to be the desirable reduction in the liquidity ratio. In this connection, the desirable increase in total liquid assets no longer necessarily coincides with the foreseeable growth of production. The two did coincide in 1969, but there was a certain difference in 1970.
The standard laid down in the scheme of regulation for long-term business was exceeded fairly considerably to begin with, partly owing to the honouring of long-term loan undertakings entered into before the date of application. The commercial and agricultural credit banks as a group eliminated this excess in 1966. The scheme of regulation for long-term business was also suspended in June 1967 and reintroduced at the beginning of 1969. The standard was exceeded to a limited extent for a time at the end of 1969 and at the end of 1970.

Results

73. The reduction in liquidity brought about by the quantitative credit restrictions of the Central Bank is reflected *inter alia* in the changes of the liquidity ratio (total national liquid assets expressed as a percentage of net national income), which indicate a virtually unbroken tightening of liquidity from 1961 till the end of 1966. The increasing pressures associated with this greater tightness led *inter alia* to a sharp rise in interest rates. As a result, and partly owing to the measures to restrict the inflow of capital taken or envisaged in the Federal Republic of Germany and Switzerland, the second half of 1964 saw an inflow of foreign capital onto the capital market — an inflow which persisted in 1965 and 1966. The inflow cushioned the impact of the domestic restrictive monetary policy. As noted in Chapter I, item 18, direct borrowing by the private sector abroad is subject to exchange controls.
The increased liquidity strains are seen as one of the causes of the swing in the economic trend which began half way through 1966 and led to the easing of the restrictions and then to their suspension in the first half of 1967. The subsequent endeavours by business concerns to re-establish more normal liquidity conditions partly accounted for the very sharp increase in lending in 1967 and 1968. In 1969 and 1970 the liquidity ratio dropped significantly less than intended, owing to substantial balance-of-payments surpluses resulting from capital imports and inflationary financing by public authorities.

Para I-4: *Control of lending to local authorities*

Scope

74. A request by the Central Bank to the commercial banks and agricultural credit institutions not to allow short-term lending to local authorities — which had risen

sharply in 1966 — to exceed a given ceiling has been in effect since 1966, to back up the Government's policy of improving the financial management of this sector. A ceiling was agreed with the savings banks in mid-1969, and with the Postal Cheque and Giro Transfer Service in September 1970.
The arrangement cannot prevent local authorities from taking up cash loans from the private sector. But it does shut them off from a significant financing source and this can help to ensure that the local authorities — mainly the municipalities — resort for their further short-term financing needs, primarily to the Bank for Netherlands Municipalities, which then at its turn will have to fall back on the Government. This makes it possible to increase central supervision of short-term borrowing.

Seasonally adjusted liquidity ratios (1)

End of month	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
March	43.5	42.8	41.2	40.8	38.6	37.8	34.8	35.8	36.4	37.5	36.9
June	42.9	42.6	41.8	40.6	37.2	37.1	35.0	35.5	36.6	36.7	36.8
September	43.1	42.4	41.3	40.9	37.3	37.0	34.8	35.9	37.2	36.8	36.7
December	42.6	41.9	41.6	40.3	37.8	36.2	35.6	36.2	37.4	36.8	36.3

(1) Data also corrected for fluctuations in items in transit.

Application

75. The initial ceiling for commercial banks and agricultural credit institutions was 105 % of the figure at the end of July 1966 of 95 % of average short-term lending to local authorities in the first half of 1966. To make some allowance for the seasonal pattern of individual banks, two alternative standards were later added. Each credit institution is free to choose the most favourable of these four standards each month. The various percentages have been raised a number of times over the years. The standards and the successive increases in percentages are given in Table 20.
In mid-1969 it was agreed that short-term lending to the local authorities by savings banks should not exceed 2 % of the balance-sheet total at the end of the previous year. Savings banks which were had already above this ceiling at the end of September 1969 were requested to make no further increase in the total amount of such loans. In September 1970 agreement was reached with the Postal Cheque and Giro Transfer Service on a ceiling for short-term lending to local authorities. This ceiling was fixed at 105 % of the figure at the end of 1969. In March 1971 a 10 % increase was made in the ceiling of all institutions.
The banks and the Postal Cheque and Giro Transfer Service have complied with this arrangement.

Para. I-5: *The restriction agreement with the general savings banks*

Reason for restrictions

76. In early 1969 the Central Bank entered into consultations with the organization representing the general savings banks on an extension of the scope of the monetary restrictions to cover these institutions. The reason was the increasing activity of these savings banks in the field of wage, salary and pension payments through accounts which the customers can draw on by transfers or by writing cheques. The character of these accounts hardly differs from that of current account at commercial banks and agricultural credit institutions; they are (still) not given separately in the balance sheets, but are included in the savings balance figures. Their growth is revealed by the sharp increase in the rate of turnover of savings balances, which rose between the end of 1963 and the end of 1970 from 0·52 to 0·96 after marking time in the previous five years (Table 19).

Scope

77. The agreement came into effect on 1 July 1969. In principle, it is the same as that governing for long-term domestic business of commercial banks and agricultural credit institutions. Long-term assets may thus not increase more quickly than long-term liabilities, the latter including only "true" savings deposits. The savings banks can choose between one of two reference figures: long-term liabilities minus long-term assets at the end of June 1969 or the average at the end of March and the end of June 1969. The sum calculated for "titular" savings is likely to be overestimated (and consequently the "true" savings underestimated), since the rate of turnover of wage, salary and pension payments is generally substantially larger than two. A transitional arrangement was therefore worked out for establishing the amounts of "true" savings. Under this arrangement, the rate of turnover is calculated after deducting:
1) 90 % of monthly wage, salary and pension payments from sums withdrawn from savings balances, and
2) 35 % of these monthly sums from savings balances at the end of the quarter (only quarterly figures are notified).

These adjustments are based on a random survey indicating that on average about 90 % of transfers to wage, salary and pension accounts are withdrawn within 30 days of the end of the month. The general savings banks are to reorganize their administrative methods as soon as possible to allow separate recording of savings and other accounts. So far, the savings banks have complied with the standard laid down by the Central Bank.

The agreement with the general savings banks specifies that, as has always been customary, short-term lending to the private sector is not to increase by more than a modest amount. As stated in item 74; a ceiling has been laid down for their short-term lending to local authorities.

Para. I-6: *The restriction agreement with the Postal Cheque and Giro Transfer Service*

Reason for restrictions

78 a. After the credit control arrangements for banks had come into effect in January 1969, the Central Bank drew the attention of the Ministers for Finance

and for Transport and Waterways [1] to the advisability of subjecting the Postal Cheque and Giro Transfer Service to such regulation as well. The argument was that in principle investments by this body have the same monetary impact at bank lending and investment, so that regulation seemed necessary in order to ensure the maximum effectiveness of monetary policy in the broadest sense of the term; and also because the banks were entitled to expect a public body with the character of a money-creating institution to comply with requirements identical for all practical purposes to those which they had accepted in the public interest.
As a result, the Director General of the State Postal corporation and the Central Bank began negotiations on a monetary regulation scheme for the Postal Cheque and Giro Transfer Service. Agreement was reached in September 1970. As stated in item 74, it was also agreed to impose a ceiling on short-term lending to local authorities by the Postal Cheque and Giro Transfer Service.

Scope

78 b. Under the agreement, a standard is established periodically for the permissible growth of long-term assets and short-term lending to the domestic private sector (in terms of the sums involved, the latter is of little importance). As in the case of the banks, this standard relates to the average level of relevant assets in a three-month period. For the remaining months of 1970, the standard for the admissible growth of items covered by the agreement was fixed at 7 1/8 % of their average level in the first quarter of 1970. In annual terms this is equivalent to 9 1/2 %, that is to say, the percentage agreed with the commercial and agricultural credit banks for short-term lending to the private sector in 1970.
In line with the restriction arrangements for the banks, the standard for the period from January to the end of August 1971 was fixed at 5 % of the average admissible figure in the last quarter of 1970.

Para. II: *Selective credit restrictions*

79. As regards selective credit restrictions, it is considered in the Netherlands that the complete agreement on general policy aims needed to make selective restrictions acceptable exists only under special conditions, for instance in wartime or in a period of reconstruction. Such complete agreement rarely exists under normal conditions.
As the law now stands, the Central Bank can issue selective restriction directives only for the major categories or forms of credit (for example for the private sector or local authorities). The Central Bank has nevertheless asked the banks on several occasions to exercise moderation with regard to hire purchase financing and personal loans. It did so at the end of 1955 and again in February 1969, when it called on the commercial banks and agricultural credit institutions to limit the increase in personal loans to 112 % of the figure for the previous calendar year. The Central Bank did not do this on its own initiative but at the request of the Finance Minister in order to help avert distortions of competitions between the banks and financial institutions subject to the loans law, after the latter institutions had been subjected in January 1969 by the public authorities to restrictions with regard to

[1] Article 7 of the 1954 Post Law empowers these two ministers to lay down rules for the monetary policy of the Postal Cheque and Giro Transfer Service.

hire purchase transactions and personal loans. The Central Bank repeated its request in 1970.
In early 1971, it asked the banks to restrict personal loans in 1971 to 108 % of the admissible total of personal loans in 1970.

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STATISTICAL TABLES

TABLE 1

Relative importance of the money-creating institutions (1) "funds" and saving banks

(in percentage of the sum of the balances of all institutions)

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
1. Commercial banks	24	25	26	25	24	24	24	25	26	26	28	30	32
(of which: domestic assets)	(21)	(18)	(18)	(18)	(18)	(17)	(19)	(19)	(19)	(20)	(21)	(20)	(20)
2. Other money-creating institutions	7	7	7	7	7	7	7	7	7	7	7	7	7
3. Savings banks	23	23	23	24	24	24	24	24	23	23	22	22	21
4. "Funds"	46	45	44	44	45	45	45	44	44	44	43	41	40
5. Total	100	100	100	100	100	100	100	100	100	100	100	100	100
(total in millions of guilders)	(37,140)	(41,490)	(46,050)	(50,910)	(56,410)	(63,710)	(70,620)	(79,220)	(87,950)	(99,020)	(113,110)	(130,650)	(150,460)

Short-term investments by "funds" and savings institutions (2) in private sector, as percentage of short-term loans to private sector by all money-creating institutions (3)

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
	3	8	6	6	9	8	5½	6½	6½	5	4	4½	5½

(1) Excluding Nederlandsche Bank.
(2) Excluding agricultural credit institutions.
(3) Including Nederlandsche Bank.

Figures calculated from data compiled by Nederlandsche Bank.

TABLE 2

Commercial banks balance-sheet Structure

(as a percentage of the total)

	1958	1960	1963	1966	1968	1970
ASSETS						
1. Cash and claims on money creating institutions	8½	8	5	3½	3	3½
2. Claims on public authorities	38½	24	18	17½	15½	11
3. Short-term loans to private sector	30	32½	35	31½	34½	26½
4. Medium-term loans to private sector	1	1	4½	9½	8½	11½
5. Investments on the domestic capital market	5	4½	8½	7½	10	6½
6. Foreign assets	14½	28	27	27½	26	38½
7. Sundry domestic assets	2½	2	2	3	2½	2½
Total	100	100	100	100	100	100
LIABILITIES						
8. Liabilities counting as liquidity	66	61	56	46½	48	35
9. True savings balances	3½	7½	9½	9	10½	9½
10. Debts to money-creating institutions	2	2½	3	3	3½	3
11. Capital and reserves + long-term funds	13½	11½	12	12½	10	12½
12. Foreign liabilities	8½	11	14½	25	24	37
13. Sundry domestic liabilities	6½	6½	5	4	4	3
Total	100	100	100	100	100	100
(Total in million of guilders)	(8,977)	(11,684)	(15,163)	(22,706)	(31,612)	(48,568)
(Total as % of GNP)	(25)	(27½)	(28½)	(30)	(34½)	(43)

Figures calculated from data compiled by the Nederlandsche Bank.

TABLE 3

Capital market investments by money-creating institutions "funds" and savings banks
(End-of-year figures, in millions of guilders)

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968
1. Claims on public authorities	15,861	17,209	18,688	20,243	21,428	23,086	24,905	27,165	28,914	31,596	34,131
– Commercial banks	245	276	286	554	608	788	870	1,197	1,071	1,547	2,428
– Other money-creating institutions	898	945	1,145	1,252	1,309	1,458	1,742	1,869	1,980	2,063	2,159
– Savings banks	4,665	5,198	5,725	6,122	6,256	6,878	7,206	7,770	8,154	8,606	8,956
– "Funds"	10,053	10,790	11,505	12,315	13,255	13,962	15,087	16,329	17,709	19,380	20,588
2. Claims on private sector	10,180	11,828	13,369	15,677	18,713	21,899	25,474	28,897	33,059	37,715	43,477
– Commercial banks	169	201	231	328	493	432	547	442	466	441	573
– Other money-creating institutions	94	108	109	157	219	266	366	452	596	699	748
– Savings banks	2,494	2,985	3,498	4,249	5,303	6,501	7,791	9,099	10,434	12,059	14,158
– "Funds"	7,423	8,534	9,531	10,943	12,698	14,700	16,770	18,904	21,563	24,516	27,998
3. Foreign claims	1,162	1,333	1.536	1,917	2,172	2,370	2,407	2,484	2,509	2,427	2,693
Total capital market investments	27,203	30,370	33.593	37,837	42,313	47,355	52,786	58,546	64,482	71,738	80,301
of which debt-certificate loans:											
– to public authorities	(8,764)	(9,459)	(10,122)	(11,316)	(12,270)	(13,292)	(15,147)	(17,325)	(19,129)	(21,485)	(23,540)
– to private sector	(8,701)	(10,041)	(11,475)	(13,623)	(16,181)	(19,099)	(22,457)	(25,578)	(29,417)	(33,365)	(38,644)

Note: The figures for money-creating institutions are calculated from data compiled by the Nederlandsche Bank. The savings bank and "funds" figures are, unlike those in Table 1, taken from data published by the Central Bureau of Statistics.

TABLE 4

Domestic liquid assets (amounts at end of year)

Description	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
	(in millions of guilders)												
COMPOSITION (1)													
1. Domestic money supply (primary liquid assets)	4,580	4,680	5,090	5,470	5,950	6,420	7,170	7,870	8,460	8,720	8,840	9,430	9,950
Notes and coin													
Sight deposits	4,090	4,390	4,400	4,680	4,850	5,280	5,620	6,260	6,390	6,970	8,580	9,200	10,840
– at banks	1,470	1,520	1,810	2,020	2,290	2,590	2,650	2,860	3,310	3,600	4,060	4,590	5,160
– at giro transfer institutions													
Total	10,140	10,590	11,300	12,170	13,090	14,290	15,440	16,990	18,160	19,290	21,480	23,220	25,950
2. Secondary liquid assets													
Claims on the Government	1,350	1,440	1,370	1,490	1,340	1,410	1,260	1,110	980	1,220	1,250	1,210	1,150
Claims on the local authorities	1,330	910	530	360	460	600	990	910	1,230	1,320	1,520	1,950	2,580
Claims on money-creating institutions													
– Time deposits and day-to-day loans	2,300	2,830	3,300	3,150	3,530	3,790	4,150	4,020	4,090	5,420	6,410	7,320	7,840
– Foreign currency balances of residents	230	280	240	220	260	280	320	470	420	510	770	950	990
– "Titular" liquid savings balances at commercial banks	20	30	50	170	170	210	400	450	500	540	690	860	730
Total	5,230	5,490	5,490	5,390	5,760	6,290	7,120	6,960	7,220	9,010	10,640	12,290	13,290
3. Total domestic liquid assets (1 + 2)	15,370	16,080	16,790	17,560	18,850	20,580	22,560	23,950	25,380	28,300	32,120	35,510	39,240
HOLDERS OF (2):													
1. Primary liquid assets													
– Personal and business sector	9,840	10,320	10,930	11,790	12,710	13,920	14,950	16,470	17,580	18,580	20,840	22,520	25,100
– "Funds"	150	130	140	150	150	120	190	180	230	300	260	290	410
– Savings banks	60	70	90	110	130	120	180	190	210	230	200	240	260
– Local authorities	90	70	140	120	100	130	120	150	140	180	180	170	180
Total	10,140	10,590	11,300	12,170	13,090	14,290	15,440	16,990	18,160	19,290	21,480	23,220	25,950
2. Secondary liquid assets (quasi-money)													
– Personal and business sector	3,460	3,570	3,700	3,380	3,690	4,120	5,090	4,800	5,010	6,240	7,840	8,790	9,110
– "Funds"	740	770	710	790	780	930	830	830	690	910	1,100	1,520	2,020
– Savings banks	850	930	910	880	1,120	1,010	1,040	1,020	1,180	1,430	1,240	1,570	1,630
– Local authorities	180	220	230	340	170	230	160	310	340	430	460	410	530
Total	5,230	5,490	5,550	5,390	5,760	6,290	7,120	6,960	7,220	9,010	10,640	12,290	13,290
3. Domestic liquid assets (1 + 2)													
– Personal and business sector	13,300	13,890	14,630	15,170	16,400	18,040	20,040	21,270	22,590	24,820	28,680	31,310	34,210
– "Funds"	890	900	850	940	930	1,050	1,020	1,010	920	1,210	1,360	1,810	2,430
– Savings banks	910	1,000	1,000	990	1,250	1,130	1,220	1,210	1,390	1,660	1,440	1,810	1,890
– Local authorities	270	290	370	460	270	360	280	460	480	610	640	580	710
Total	15,370	16,080	16,850	17,560	18,850	20,580	22,560	23,950	23,380	28,300	32,120	35,510	39,240
Not included above:													
Savings balances at savings banks	7,680	8,800	9,930	11,190	12,630	14,360	15,990	17,780	19,560	21,880	24,140	26,890	29,610
"True" savings balances at money-creating instit.	310	470	810	1,050	1,250	1,470	1,640	1,810	2,030	2,770	3,290	3,710	4,610
Balances and money-market investments held directly abroad by the private sector	150	390	200	230	340	290	130	290	350	330	430	600	870

(1) The domestic money supply includes the notes and coin held by non-residents.

(2) The "funds" group includes: the General Civil Pension Fund, the private pension funds, the life insurance companies, the Old Age Pension Fund, the Widows and Orphans Pension Fund and other social funds. The saving bank are the Postal Savings Bank, the general savings banks and the savings department of agricultural credit banks.

Description	(as percent of gross national product)												
	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
COMPOSITION (1)													
1. Domestic money supply (primary liquid assets)													
Notes and coin	12.7	12.2	11.9	12.1	12.3	12.1	11.5	11.4	11.2	10.5	9.6	9.2	8.8
Sight deposits													
– at banks	11.4	11.4	10.3	10.3	10.0	10.0	9.0	9.0	8.5	8.4	9.4	9.0	9.6
– at giro transfer institutions	4.1	3.9	4.5	4.2	4.7	4.9	4.3	4.1	4.4	4.3	4.4	4.5	4.5
Total	28.2	27.5	26.4	26.9	27.0	27.0	24.8	24.5	24.1	23.2	23.4	22.7	22.9
2. Secondary liquid assets													
Claims on the Government	3.8	3.8	3.2	3.3	2.7	2.7	2.0	1.6	1.3	1.5	1.4	1.2	1.0
Claims on the local authorities	3.7	2.4	1.3	0.8	1.0	1.1	1.6	1.3	1.6	1.6	1.7	1.9	2.3
Claims on money-creating institutions													
– Time deposits and day-to-day loans	6.4	7.3	7.7	6.9	7.3	7.2	6.7	5.8	5.4	6.5	7.0	7.2	6.9
– Foreign currency balances of residents	0.7	0.7	0.6	0.5	0.5	0.5	0.5	0.7	0.6	0.6	0.8	0.9	0.9
– "Titular" liquid savings balances at commercial banks	—	0.1	0.1	0.4	0.3	0.4	0.7	0.6	0.7	0.7	0.7	0.8	0.6
Total	14.6	14.3	12.9	11.9	11.8	11.9	11.5	10.0	9.6	10.9	11.6	12.0	11.7
3. Total domestic liquid assets (1+2)	42.8	41.8	39.3	38.8	38.8	38.9	36.3	34.5	33.7	34.1	35.0	34.7	34.6
HOLDERS OF (2):													
1. Primary liquid assets													
– Personal and business sector	27.4	26.8	25.6	26.0	26.2	26.4	24.0	23.7	23.3	22.4	22.7	22.0	22.1
– "Funds"	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4
– Savings banks	0.2	0.2	0.2	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.2	0.2	0.2
– Local authorities	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total	28.	27.5	26.4	26.9	27.0	27.0	24.8	24.5	24.1	23.2	23.4	22.7	22.9
2. Secondary liquid assets (quasi-money)													
– Personal and business sector	9.7	9.3	8.5	7.5	7.5	7.7	8.2	6.9	6.7	7.5	8.5	8.6	8.0
– "Funds"	2.1	2.1	1.7	1.8	1.6	1.8	1.3	1.2	0.9	1.2	1.2	1.5	1.8
– Savings banks	2.3	2.4	2.1	1.9	2.3	1.9	1.7	1.5	1.6	1.7	1.4	1.5	1.4
– Local authorities	0.5	0.5	0.6	0.7	0.4	0.5	0.3	0.4	0.4	0.5	0.5	0.4	0.5
Total	14.6	14.3	12.9	11.9	11.8	11.9	11.5	10.0	9.6	10.9	11.6	12.0	11.7
3. Domestic liquid assets (1+2)													
– Personal and business sector	37.1	36.1	34.1	33.5	33.7	34.1	32.2	30.6	30.0	29.9	31.2	30.6	30.1
– "Funds"	2.5	2.4	2.0	2.1	1.9	2.0	1.6	1.5	1.2	1.5	1.5	1.8	2.2
– Savings banks	2.5	2.6	2.3	2.2	2.6	2.1	2.0	1.8	1.9	2.0	1.6	1.7	1.6
– Local authorities	0.7	0.7	0.9	1.0	0.6	0.7	0.5	0.6	0.6	0.7	0.7	0.6	0.7
Total	42.8	41.8	39.3	38.8	38.8	38.9	36.3	34.5	33.7	34.1	35.0	34.7	34.7
Not included above:													
Savings balances at savings banks	21.4	22.9	23.2	24.7	26.0	27.2	25.7	25.6	25.9	26.4	26.3	26.3	26.1
"True" savings balances at money-creating instit.	0.9	1.2	2.0	2.3	2.6	2.8	2.6	2.6	2.7	3.3	3.6	3.6	4.1
Balances and money-market investments held directly abroad by the private sector	0.4	1.0	0.5	0.5	0.7	0.5	0.2	0.4	0.5	0.4	0.5	0.6	0.8

The liquid assets of the personal and business sector are calculated as residual items.

Figures calculated from data compiled by the Nederlandsche Bank. In some cases they are based on estimates.

TABLE 5

Causes of changes in total domestic liquid assets

(in millions of guilders)

Description	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
1. Creation of liquidity for the Government													
a) Money creation													
(1) Net recourse (+) to the Nederlandsche Bank (1)	–878	537	–1,000	235	409	–340	44	636	500	–695	1,107	–470	–197
(of which as the result of open market transactions)	(607)	(–44)	(174)	(–178)	(34)	(–79)	(–207)	(–)	(–)	(–)	(–)	(–)	(–)
(2) Net recourse (+) to the other money-creating institutions (1)	1,045	–944	145	99	–73	40	371	261	459	739	757	509	61
(3) Special transactions mentioned in 6.a	–557	–421	107	–664	55	–241	–217	–331	–197	222	–762	207	–361
Total	–390	–828	–748	–330	391	–541	198	566	762	266	1,102	246	–497
b) Placing (+) of floating debt counting as secondary liquidity	309	93	–69	71	–149	59	–150	–165	127	240	35	–113	–65
Total	–81	–735	–817	–259	242	–482	48	401	635	506	1,137	133	–562
2. Creation of liquidity for the local authorities													
a) Lending (+) by:													
(1) Nederlandsche Bank	–77	29	–46	–	58	–58	8	–4	–	–4	4	19	–22
(2) Other money-creating institutions	103	46	–62	–120	242	272	29	328	419	146	–46	211	597
Total	26	75	–108	–120	300	214	37	324	419	142	–42	230	575
b) Placing (+) of floating debt counting as secondary liquidity	254	–418	–378	–166	102	133	387	–106	323	91	197	432	630
Total	280	–343	–486	–286	402	347	424	218	742	233	155	662	1,205
3. Creation of money for the private sector													
Lending (+) by:													
(1) Nederlandsche Bank	–14	–2	2	9	–13	3	–3	7	–1	91	–69	15	–34
(2) Commercial banks	–210	483	614	720	615	768	947	1,090	1,011	1,917	2,279	2,377	2,343
(3) Agricultural credit institutions	–4	97	45	68	98	84	132	14	120	354	216	140	349
(4) Other money-creating institutions	37	14	12	–15	29	51	3	33	–48	–11	–25	–12	–7
Total	–191	592	673	782	729	906	1,079	1,144	1,082	2,351	2,401	2,520	2,651
(of which at medium term)	–	–	(25)	(147)	(353)	(105)	(310)	(486)	(535)	(268)	(282)	(1,395)	(1,286)
4. Miscellaneous sources of money creation													
a) Net transactions of money-creating institutions on the capital market (purchases +)													
(1) Public market	18	67	90	208	254	129	52	60	–107	–21	288	21	–463
(2) Debt certificate loans market	34	48	141	293	78	247	481	435	202	586	850	241	513
b) Increase (—) of "true" savings balances at money-creating institutions	–121	–163	–400	–212	–198	–221	–178	–162	–226	–738	–520	–414	–900

(1) Includes drawing down of credit balances.

(2) Otherwise than through issues of shares, bonds, etc., which are included in item 4a) (1) as sales; the capital and reserves have been reduced by the amounts at which the real estate is valued.

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
c) Increase (—) of capital, reserves and other long-term funds (2) of the money-creating institutions	–52	–96	–105	–138	–141	–84	–72	–179	–349	–166	–165	–586	–648
d) Transitory items and statistical discrepancies	–163	–39	–82	25	–214	12	35	–108	–281	–141	–242	–103	240
Total	–284	–183	–356	176	–221	83	318	46	–761	–480	211	–841	-1,258
(of which money creation by giro transfer institutions, so far as included under a)	(34)	(53)	(194)	(162)	(120)	(185)	(393)	(205)	(272)	(191)	(142)	(312)	(464)
5. Domestic creation of liquidity (totals of items 1 to 4)	–276	–669	–986	413	1,152	854	1,869	1,809	1,698	2,610	3,904	2,474	2,036
6. Net purchase of foreign exchange by the money-creating institutions from the private sector and public authorities — used for:													
a) Special transactions of the Government													
(1) Transactions with the IMF	261	131	67	420	–145	–	226	338	198	–222	525	–207	361
(2) Increase (+) of net consolidated claims arising from payment agreements	296	119	–174	39	–18	–12	–9	–7	–1	–	–	–	–
(3) Accelerated repayment of external Government debt	–	171	–	205	108	253	–	–	–	–	237	–	–
Total	557	421	–107	664	–55	241	217	331	197	–222	762	–207	361
b) Increase (+) of gold and foreign exchange holdings of:													
(1) Nederlandsche Bank	1,595	–497	1,514	–199	94	616	678	–71	–46	839	-1,133	437	1,882
(2) authorised banks	52	893	–303	–661	38	–91	–627	–898	–382	–457	130	382	-1,408
c) Lending (+) by authorised banks to non-residents	20	445	552	538	46	157	–35	542	28	–5	275	–67	1,209
d) Increase (+) of other net claims on non-residents (3)	60	119	45	–76	14	–45	–118	179	–66	153	–107	318	–355
Total	2,284	1,381	1,701	266	137	878	115	83	–269	308	–73	863	1,689
7. Changes in domestic liquid assets (Total of 5 and 6)													
a) Domestic money supply	1,087	451	715	865	918	1,201	1,154	1,701	1,166	1,130	2,198	1,726	2,729
b) Secondary liquid assets (quasi-money)													
(1) Claims on money-creating institutions	358	586	447	–91	415	322	593	462	67	1,457	1,401	1,292	431
(of which "titular" (liquid) savings balances at commercial banks)	(6)	(9)	(21)	(102)	(2)	(34)	(191)	(53)	(51)	(40)	(150)	(162)	(–128)
(2) Claims on the public authorities	563	–325	–447	–95	–47	192	237	–271	196	331	232	319	565
Total	2,008	712	715	679	1,289	1,732	1,984	1,892	1,429	2,918	3,831	3,337	3,725

(3) Including foreign bonds in foreign currency, and statistical discrepancies. The figures have been calculated (from data compiled by the Nederlandsche Bank.

TABLE 6

Monetary survey

(Percentages of total domestic liquid assets at the beginning of the year)

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
1. Flow of liquidity from abroad	17.1	9.0	10.6	1.6	0.8	4.7	0.6	0.4	–1.1	1.2	–0.3	2.7	4.8
2. Domestic liquidity creation for or by													
a) Public sector	1.5	–7.0	–8.1	–3.2	3.7	–0.7	2.3	2.7	5.8	2.9	4.6	2.5	1.8
b) Private sector	–1.5	3.8	4.1	4.6	4.2	4.8	5.2	5.1	4.5	9.3	8.4	7.8	7.4
(of which, medium-term)	(–)	(–)	(0.2)	(0.9)	(2.0)	(0.6)	(1.5)	(2.2)	(2.2)	(1.0)	(1.0)	(4.3)	(3.6)
c) Capital-market transactions by money-creating institutions and sundry items	–2.1	–1.2	–2.2	1.1	–1.3	0.4	1.6	0.2	–3.2	–1.9	0.8	–2.6	–3.5
Total	–2.1	–4.4	–6.2	2.5	6.6	4.5	9.1	8.0	7.1	10.3	13.8	7.7	5.7
3. Increase in total domestic liquid assets (1+2)	15.0	4.6	4.4	4.1	7.4	9.2	9.7	8.4	6.0	11.5	13.5	10.4	10.5
4. Liquidity absorption through rise of national income in the course of the year due to:	3.5	10.5	9.3	5.1	9.1	11.8	16.0	11.5	8.8	9.6	10.5	12.0	10.9
a) Rise of production	1.5	7.5	6.8	2.1	4.3	6.2	6.8	5.3	3.3	5.1	6.3	5.5	5.0
b) Rise of prices	1.9	2.7	2.4	2.9	4.6	5.3	8.6	5.8	5.3	4.3	4.0	6.2	5.7
5. Liquidity activation (4—3)	–11.5	5.9	4.9	1.0	1.7	2.6	6.3	3.1	2.8	–1.9	–3.0	1.6	0.4

TABLE 7

Percentage breakdown of the money supply

(in %)

	Notes and coin	Sight deposits at banks	Sight deposits at giro transfer institutions
1958	45.2	40.3	14.5
1959	44.2	41.4	14.4
1960	45.0	39.0	16.0
1961	45.0	38.4	16.6
1962	45.4	37.1	17.5
1963	44.9	37.0	18.1
1964	46.4	36.4	17.2
1965	46.3	36.8	16.9
1966	46.6	35.2	18.2
1967	45.2	36.1	18.7
1968	41.2	39.9	18.9
1969	40.6	39.6	19.8
1970	38.3	41.8	19.9

Source: Nederlandsche Bank.

TABLE 8 Liquidity holdings of the money-creat

	1958		1959		1960		1961	
1. *Commercial banks*								
a) Cash liquidity		80		185		123		1
1. Notes and coin and balances at Nederlandsche Bank	563		543		597		388	
2. Compulsory balances (—) (2)	–525		–415		–519		–394	
3. Recourse (—) to Nederlandsche Bank	–2		–3		–		–15	
4. Net claims on other money-creating institutions	44		60		45		136	
b) Net liquid claims on Government (3)		2,114		1,241		1,304		1,1
c) Net foreign assets		536		1,750		2,019		1,7
d) (Idem, according to "5 million guilder regulation")		(395)		(1,530)		(1,834)		(1,68
Total		2,730		3,176		3,446		3,0
Idem (a + b + d) – amounts		(2,589)		(2,956)		(3,261)		(2,96
– as percentage of domestic liabilities		(37.9)		(37.5)		(37.2)		(32.
2. *Other money-creating institutions*								
a) Cash liquidity		–14		–4		–24		–1
1. Notes and coin and balances at Nederlandsche Bank	186		161		187		149	
2. Compulsory balances (—) (2)	–151		–119		–145		–123	
3. Recourse (—) to Nederlandsche Bank	–1		–		–1		–4	
4. Net claims on other money-creating institutions	–48		–46		–65		–38	
b) Net liquid claims on Government (3)		417		346		410		51
c) Net foreign assets		–33		–17		30		2
d) (Idem, according to "5 million guilder regulation")		(–24)		(–7)		(39)		(4
Total		370		325		416		51
Idem (a + b + d) – amounts		(379)		(335)		(425)		(54
– as percentage of domestic liabilities		(18.2)		(14.9)		(16.8)		(19.
3. Total for money-creating institutions (1 + 2)		3,100		3,501		3,862		3,57

(1) Commercial banks, security credit institutions, giro transfer services and agricultural credit institutions, in so far as they are not investors of savings.
(2) Minimum reserve and non-interest-bearing balances.
(3) Including net claims on brokers and after deduction of Government balances, included solely under 2.

institutions (1) (figures at end of year in million guilders)

	1962	1963	1964	1965	1966	1967	1968	1969	1970
	171	377	370	188	4	38	–195	–704	413
	340	250	316	247	230	195	233	226	477
	–276	–	–208	–107	– 76	–	–	–107	–
	– 12	– 32	– 4	– 79	–165	–101	–444	–546	– 39
	119	159	266	127	15	– 56	16	–277	– 25
	1,017	1,024	1,527	1,556	1,923	2,565	2,822	2,745	2,786
	1,833	1,865	1,136	1,009	631	304	669	1,168	739
	(1,781)	(1,891)	(1,207)	(1,131)	(958)	(569)	(979)	(1,537)	(1,410)
	3,021	3,266	3,033	2,753	2,558	2,907	3,296	3,209	3,938
	(2,969)	(3,292)	(3,104)	(2,875)	(2,885)	(3,172)	(3,606)	(3,578)	(4,609)
	(30.2)	(30.6)	(26.3)	(22.1)	(21.1)	(19.5)	(18.2)	(16.2)	(18.4)
	–3	–23	–3	104	144	191	201	329	348
	167	41	55	102	113	134	148	165	191
	–110	–	– 12	–	–	–	–	–	–
	– 2	– 1	– 2	– 18	– 7	– 12	– 18	– 26	– 12
	– 58	– 63	– 44	20	38	69	71	190	169
	623	620	455	508	700	745	1,186	1,460	1,893
	64	56	6	–43	–83	–60	–47	4	–109
	(96)	(89)	(52)	(18)	(–25)	(–11)	(7)	(18)	(–92)
	684	653	458	569	761	876	1,340	1,793	2,132
	(716)	(686)	(504)	(630)	(819)	(925)	(1,394)	(18,07)	(2,149)
	(22.7)	(19.8)	(13.7)	(15.5)	(17.7)	(17.7)	(22.8)	(25.7)	(25.9)
	3,705	3,919	3,491	3,322	3,319	3,783	4,636	5,002	6,070

Note: The 5 million guilder regulation provides that a bank may not hold net foreign liabilities without approval of the Nederlandsche apart from an allowance of fl. 5 million. The domestic liabilities are debts to domestic custcmers and sundry domestic liabilities.

Source: Nederlandsche Bank.

TABLE 9

Causes of changes in liquidity holdings of money-creating institutions (1)

(yearly changes in million guilders)

	1959	1960	1961	1962	1963	1964
Autonomous factors						
1. Increase (—) of money supply in form of notes and coins	—102	—405	—381	—477	—474	—753
2. Liquidity deficit (+) of Government	—735	—817	—259	242	—482	48
3. National liquidity surplus (+)	1,381	1,701	266	137	878	115
Factors associated with monetary policy						
4. Increase (—) in minimum cash reserves and non-interest-bearing balances (2)	142	—130	147	131	386	—220
5. Deblocking (+) of Treasury certificates (3)	—	—	—	—	—	—
Other causes						
6. Increase (—) of Treasury paper in hands of public and statistical differences	—285	12	—60	97	— 94	382
7. Total	401	361	—287	130	214	—428

(1) The differences between the figures of item 7 and the change in the totals of Table 8 are due to renewals of the series at the end of 1965, in September 1967 and in October 1969.

(2) Held end of 1963: minimum reserve; from 1964: non-interest-bearing balances to be held under quantitative credit restrictions.

TABLE 9 (continued)

	1965	1966	1967	1968	1969	1970
Autonomous factors						
1. Increase (—) of money supply in form of notes and coins	—770	—592	—254	—129	—590	—517
2. Liquidity deficit (+) of Government	401	635	506	1,137	133	—562
3. National liquidity surplus (+)	83	—269	308	— 73	863	1,689
Factors associated with monetary policy						
4. Increase (—) in minimum cash reserves and non-interest-bearing balances (2)	113	31	76	—	—107	107
5. Deblocking (+) of Treasury certificates (3)	—	200	50	50	50	50
Other causes						
6. Increase (—) of Treasury paper in hands of public and statistical differences	134	— 8	—195	—132	88	301
7. Total	— 39	— 3	491	853	437	1,068

(3) Ch. II, item 45.

Causes of change in the average [1] ease or tightness of the money market easing (+) / tightening (—)	Comparison between monthly periods ending on the 21st (till end of 1963) or 14th (after 1963) of each month				
	1956 Jan. 1957 compared with Jan. 1956	1957 Jan. 1958 compared with Jan. 1957	1958 Jan. 1959 compared with Jan. 1958	1959 Jan. 1960 compared with Jan. 1959	1960 Jan. 1961 compared with Jan. 1960
1. Autonomous factors					
a) Excess of expenditure of the Government (+) [2]	+ 70	—160	+450	—640	—970
b) Expansion (—) of notes and coin in circulation	— 90	—110	—220	— 90	—360
c) Rise (—) in compulsory cash reserves because of rise in deposits	+ 50	+ 20	— 80	— 80	— 50
d) Compulsory deposit pursuant to policy directive concerning credit restriction					
e) Sundry causes	— 20	+470	—490	— 20	+ 10
Total	+ 10	+220	—340	—830	—1,370
2. Purchase (+) of gold and foreign exchange by the Nederlandsche Bank [3]	—760	—350	+2,120	+150	+1,360
3. Government transactions in the money market [4]	+470	+270	—750	+790	+180
4. Minimum reserve policy	+150	+ 90	—370	+ 10[5]	— 80
5. Open-market policy	— 10	— 60	—560	— 80	— 60
6. Easing/tightening of the money market (= 1 to 5) reflected in:	—140	+170	+100	+ 40	+ 30
a) Increase (+) of the banks' average freely available balances	—	— 10	—	+ 50	+ 10
b) Decrease (+) in the average extent of recourse to the Nederlandsche Bank by:					
(1) banks	— 40	+170	+ 10	— 10	+ 10
(2) others	—100	+ 10	+ 90	—	+ 10

Average ease or tightness of the money market	Monthly periods ending on 21st (till end 1963) or 14th (after 1963) of month				
	January 1957	January 1958	January 1959	January 1960	January 1961
Average level of the surplus (+) / deficit (—) on the money market reflected in:	—280	—110	— 10	30	60
a) The banks' average freely available balances	10	—	—	50	60
b) Average extent of recourse (—) to the Nederlandsche Bank by:					
(1) banks': discounts	—180	— 10	—	— 10	—
advances	—180	— 10	—	—	—
(2) others: discounts	—110	—100	—	—	—
advances	—110	—100	— 10	— 10	—

Supplementary data	Calendar year				
	1956	1957	1958	1959	1960
A. National liquidity surplus (+)	—990	—280	+2,280	+1,380	+1,700
B. Increase (+) in net foreign assets of banking system	—160	+140	+120	+1,440	+320
C. Purchase (+) of gold and foreign exchange by Nederlandsche Bank (= A — B)	—830	—420	+2,160	— 60	+1,380

(1) The averages are daily averages for the obligatory-deposit period.
(2) Excluding expenditure and receipts arising from transactions with IMF, special government transactions with other countries and money-market transactions.
(3) Excluding the changes in gold and foreign exchange reserves due to the special external transactions (including those

the money market (in million guilders)

Comparison between monthly periods ending on the 21st (till end of 1963) or 14th (after 1963) of each month

1961 Jan. 1962 compared with Jan. 1961	1962 Jan. 1963 compared with Jan. 1962	1963 Jan. 1964 compared with Jan. 1963	1964 Jan. 1965 compared with Jan. 1964	1965 Jan. 1966 compared with Jan. 1965	1966 Jan. 1967 compared with Jan. 1966	1967 Jan. 1968 compared with Jan. 1967	1968 Jan. 1969 compared with Jan. 1968	1969 Jan. 1970 compared with Jan. 1969	1970 Jan. 1971 compared with Jan. 1970
—370	+250	—680	+370	+500	+490	+570	+830	+110	—760
—350	—520	—480	—660	—730	—530	—300	—270	—520	—480
— 60	— 60	— 40	—	—	—	—	—	—	—
		— 10	—220	+110	+ 40	+ 70	—	—110	+110
— 10	—	— 10	—	— 10	— 40	— 50	+ 10	— 30	— 40
—790	330—	—1,220	—510	—130	— 40	+290	+570	—550	—1,170
+510	+ 20	+770	+860	+210	+170	+560	—340	+190	+2,090
—130	+140	+230	—280	—210	—200	—940	—550	—240	—240
+210	+190	+430	—	—	—	—	—	—	—
+110	— 30	— 70	—100	—	—	—	—	—	—
— 90	— 10	+140	— 30	—130	— 70	— 90	—320	—600	+680
— 30	— 10	+100	— 30	— 50	— 10	+ 20	— 30	—	+ 20
— 50	+ 30	—	+ 10	— 40	— 80	— 80	—190	—500	+510
— 10	— 30	+ 40	— 10	— 40	+ 20	— 30	—100	—100	+150

Monthly periods ending on 21st (till end 1963) or 14th (after 1963) of month

January 1962	January 1963	January 1964	January 1965	January 1966	January 1967	January 1968	January 1969	January 1970	January 1971
— 30	— 40	100	70	— 60	—130	—220	—540	—1.140	—460
30	20	120	90	40	30	50	20	20	40
— 40	—	—	—	— 10	— 50	—130	—110	—340	—150
— 10	— 20	— 20	— 10	— 40	— 80	— 80	—290	—560	—240
—	—	—	—	—	— 10	—	— 70	— 30	— 10
— 10	— 40	—	— 10	— 50	— 20	— 60	— 90	—230	—100

Calendar year

1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
+270	+140	+880	+120	+ 80	—270	+310	— 70	+860	+1,690
—190	+100	+ 20	—780	—180	—420	—300	+290	+640	—540
+460	+ 40	+860	+900	+260	+150	+610	—360	+220	+2,230

with the International Monetary Fund) mentioned in footnotes 2 and 5.
(4) Transactions in Treasury paper and cash loans.
(5) Purchase by the banking system of bonds of the International Bank for Reconstruction and Development (Fl. 210 million), coupled with a three point reduction in the minimum reserve ratio (Fl. 220 million).

TABLE 11

Short and medium-term Treasury Paper outstanding

(figures at end of year in millions of guilders)

	1958		1959		1960		1961		1962		1963		1964	
Treasury bills (Schatkistpromessen – dated one year)	2,031		446		228		434		132		92		455	
Treasury bonds (Schatkistbiljetten – dated one to five years) (1)	1,609		2,657		2,666		2,439		2,701		2,585		2,405	
Total	3,640		3,103		2,894		2,873		2,833		2,677		2,860	
Held by:														
Commercial banks	...		...		1,142	39 %	1,115	39 %	993	35 %	1,076	40 %	1,450	51 %
Agricultural credit banks	...		...		537	19 %	568	20 %	561	20 %	605	22 %	576	20 %
Nederlandsche Bank, under "repurchase agreements" (2)	...		...		64	2 %	—		281	10 %	203	8 %		
Banks	...		...		1,743	60 %	1,683	59 %	1,835	65 %	1,884	70 %	2,026	71 %
Public and semi-public bodies	...		...		282	10 %	362	12 %	357	13 %	330	12 %	304	11 %
Institutional investors	...		...		276	10 %	230	8 %	182	6 %	241	9 %	196	7 %
Others	...		...		593	20 %	598	21 %	459	16 %	222	9 %	334	11 %
Total	3,640		3,103		2,894	100 %	2,873	100 %	2,833	100 %	2,677	100 %	2,860	100 %
Treasury certificates (dated more than five years) (3)	1,200		1,200		1,200		1,200		1,200		1,200		1,200	
Held by:														
Commercial banks	1,129	94 %	1,127	94 %	1,125	94 %	1,125	94 %	1,131	94 %	1,131	94 %	1,134	95 %
Agricultural Credit Institutions	71	6 %	73	6 %	75	6 %	75	6 %	69	6 %	69	6 %	66	5 %

	1965		1966		1967		1968		1969		1970	
Treasury bills (Schatkistpromessen – dated one year)	295		355		240		308		68		6	
Treasury bonds (Schatkistbiljetten – dated one to five years) (1)	2,656		2,772		3,819		4,312		4,741		5,043	
Total	2,951		3,127		4,059		4,620		4,809		5,049	
Held by:												
Commercial banks	1,512	51 %	1,634	52 %	2,258	56 %	2,757	60 %	2,768	58 %	2,836	56 %
Agricultural credit banks	673	23 %	729	23 %	808	20 %	1,002	21 %	1,110	23 %	1,629	32 %
Nederlandsche Bank, under "repurchase agreements" (2)	—	—	—	—	—	—	—	—	—	—	—	—
Banks	2,185	74 %	2,363	75 %	3,066	76 %	3,759	81 %	3,878	81 %	4,465	88 %
Public and semi-public bodies	358	12 %	303	10 %	313	8 %	384	9 %	347	7 %	314	7 %
Institutional investors	188	6 %	193	6 %	186	4 %	106	2 %	86	2 %	116	2 %
Others	220	8 %	268	9 %	494	12 %	371	8 %	498	10 %	154	3 %
Total	2,951	100 %	31,27	100 %	4,059	100 %	4,620	100 %	4,809	100 %	5,049	100 %
Treasury certificates (dated more than five years) (3)	1,200		1,200		1,200		1,200 (4)		1,150 (4)		1,100 (4)	
Held by:												
Commercial banks	1,134	95 %	1,140	95 %	1,140	95 %	1,117	93 %	1,043	91 %	994	90 %
Agricultural Credit Institutions	66	5 %	60	5 %	60	5 %	60	5 %	65	9 %	62	10 %

(1) Generally 2, 3 and 5 years.
(2) See item 27.
(3) Subscribed by the banks under the *gentlemen's agreement* of 1954; dated 8, 10 or 12 years.
(4) Including Fl. 23 million (1968), Fl. 42 million (1969) and Fl. 44 million (1970) in discount portfolio of the Nederlandsche Bank.
Source: Nederlandsche Bank.

Description	1950	1951	1952	1953	1954	1955	1956
GOVERNMENT DEBT							
1. Consolidated debt							
a) Consolidated internal debt							
(1) Bonded loans	8,393	8,246	7,876	8,302	8,534	9,237	9,433
(2) Debt-certificate loans	25	347	347	347	416	414	412
(3) Treasury certificates	—	—	—	—	1,200	1,200	1,200
(4) Tax certificates	—	170	137	136	136	136	52
b) Pre-subscription accounts	286	134	249	323	388	321	357
c) Consolidated external debt	3,089	3,023	2,961	2,790	2,286	2,013	1,947
Total	11,793	11,920	11,570	11,898	12,960	13,321	13,401
2. Floating debt							
a) To the Nederlandsche Bank							
(1) Resulting from agreement of 26 February 1947	3,150	3,000	1,451	1,217	660	522	660
(2) Treasury paper bought by the Bank	—	214	—	—	—	—	—
b) Other domestic Treasury paper	5,317	4,097	5,400	4,583	3,169	3,086	2,694
c) Treasury paper placed abroad and other foreign debt	304	629	354	25	17	34	122
d) Currency notes in circulation	137	143	146	151	159	171	141
e) Short-term debt to local authorities (1)	—	463	245	267	227	97	115
f) Other short-term domestic debts	1,291	1,314	1,756	1,796	1,497	1,213	576
Total	10,199	9,860	9,352	8,039	5,729	5,123	4,308
3. Gross government debt (1+2)	21,992	21,780	20,922	19,937	18,689	18,444	17,709
4. Floating claims							
a) Liquid assets	511	521	1,360	1,167	714	669	458
b) Claims on local authorities	11	67	46	8	12	7	3
c) Claims on others	596	232	329	337	371	125	108
Total	1,118	820	1,735	1,512	1,097	801	569
5. Net government debt (3-4)	20,874	20,960	19,187	18,425	17,592	17,643	17,140
DEBT OF THE PROVINCES AND MUNICIPALITIES							
6. Consolidated debt							
a) Bonded loans	545	527	531	1,051	1,126	1,104	1,244
b) Debt-certificate loans	3,211	3,700	3,758	4,616	5,263	6,046	6,619
c) Loans made by the Government and provinces	871	869	859	848	774	660	614
Total	4,627	5,096	5,148	6,515	7,163	7,810	8,477
7. Floating debt							
a) Provinces and municipalities	615	1,107	359	282	330	399	809
b) Balances of the private sector at Amsterdam's municipal giro transfer service	51	51	56	64	76	89	95
Total	666	1.158	415	346	406	488	904
8. Gross debt (6+7)	5,293	6,254	5,563	6,861	7,569	8,298	9,381
9. Floating claims	119	173	578	337	316	281	181
10. Net debt (8-9)	5,174	6,081	4,985	6,524	7,253	8,017	9,200
DEBT OF ALL PUBLIC AUTHORITIES							
11. Consolidated debt (1+6-6c)	15,549	16,147	15,859	17,565	19,349	20,471	21,264
(*Idem as % of national income*)	(84.6)	(80.5)	(76.5)	(76.1)	(74.0)	(71.8)	(68.5)
12. Floating debt (2-2c+7)	10,865	10,555	9,522	8,118	5,908	5,514	5,097
(*Idem as % of national income*)	(59.1)	(52.6)	(45.9)	(35.2)	(22.6)	(19.3)	(16.4)
13. Floating claims (4-4b+9)	1.226	926	2.267	1.841	1.401	1.075	747
14. Total net debt (11+12-13)	25,188	25,776	23,114	23,842	23,856	24,910	25,614
(*Idem as % of national income*)	(137.1)	(128.4)	(111.4)	(103.3)	(91.2)	(87.4)	(82.5)
NOT INCLUDED IN ABOVE FIGURES							
15. Coins in circulation and at the Nederlandsche Bank	58	69	67	67	73	104	146
16. Taken over by the Nederlandsche Bank under payment agreements:							
a) Consolidated debts	—	—	—	—	—	—	—
b) Consolidated claims	—	—	—	—	—	—	—

(1) Items 2e and 4b are not included in the floating claims or floating debt, as the case may be, of the provinces and municipalities.

gures in millions of guilders)

1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
,204	9,472	9,988	10,516	10,143	9,965	10,557	10,751	10'716	10,686	11,002	11,256	12,115	12,780
411	409	408	806	1,401	1,784	2,331	2,455	3,098	4,217	5,826	7,329	7,989	9,582
,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,150	1,100
11	6	5	5	4	4	2	1	1	1	—	—	—	—
631	609	823	537	990	1,218	986	1,465	1,663	1,628	1,330	836	1,429	1,072
,823	1,721	1,426	1,321	974	770	463	419	367	345	345	108	108	98
,280	13,417	13,850	14,385	14,712	14,941	15,539	16,291	17,045	18,077	19,703	20,729	22,791	24,632
560	—	—	—	—	—	—	—	—	—	—	—	—	—
68	181	355	184	519	311	523	346	704	1,139	894	1,613	1,043	1,388
2,414	3,640	3,103	2,894	2,873	2,833	2,677	2,860	2,951	3,126	4,059	4,620	4,809	5,049
561	—	—	—	36	—	—	—	—	—	—	—	—	—
127	110	105	109	68	63	62	65	71	71	34	24	18	16
211	250	208	220	114	353	310	239	99	—	10	13	11	2
441	572	531	808	922	1,054	1,083	916	1,070	1,114	1,342	1,529	2,052	1,861
4,382	4,753	4,302	4,215	4,532	4,614	4,655	4,426	4,895	5,450	6,339	7,799	7,933	8,316
7,662	18,170	18,152	18,600	19,244	19,555	20,194	20,717	21,940	23,527	26,042	28,528	30,724	32,948
494	935	763	1,473	1,296	939	1,353	914	712	669	1,160	732	759	1,247
10	16	17	25	21	29	29	41	25	47	364	456	704	623
—	27	22	3	—	—	—	—	—	—	—	—	—	7
504	978	802	1,501	1,317	968	1,382	955	737	716	1,524	1,188	1,463	1,877
7,158	17,192	17,350	17,099	17,927	18,587	18,812	19,762	21,203	22,811	24,518	27,340	29,261	31,071
1,278	1,273	1,391	1,461	1,447	1,443	1,429	1,432	1,406	1,352	1,264	1,202	1,146	1,088
6,772	8,819	9,892	11,288	12,101	12,622	13,610	15,287	16,990	18,018	19,814	21,646	22,746	24,555
599	749	1,256	1,830	2,351	2,908	3,584	4,591	6,005	7,723	9,721	11,729	13,624	15,079
8,649	10,841	12,539	14,579	15,899	16,973	18,623	21,310	24,401	27,093	30,799	34,577	37,516	40,722
2,216	1,491	1,135	545	417	687	1,061	1,355	1,575	2,299	2,485	2,657	3,290	4,183
101	112	124	140	166	196	190	228	263	316	352	377	431	509
2,317	1,603	1,259	685	583	883	1,251	1,583	1,838	2,615	2,837	3,034	3,721	4,692
0,966	12,444	13,798	15,264	16,482	17,856	19,874	22,893	26,239	29,708	33,636	37,611	41,237	45,414
204	282	276	384	470	367	375	340	429	431	510	577	533	743
0,762	12,162	13,522	14,880	16,012	17,489	19,499	22,553	25,810	29,277	33,126	37,034	40,704	44,671
1,330 (66.3)	23,509 (70.7)	25,133 (68.4)	27,134 (67.6)	28,260 (67.0)	29,006 (63.0)	30,578 (59.4)	33,010 (55.3)	35,441 (53 2)	37,447 (51.7)	40,781 (51.4)	43,577 (49.7)	46,683 (47.4)	50,275 (48.5)
6,488 (20.2)	6,106 (18.3)	5,353 (14.6)	4,680 (11.6)	5,001 (11.8)	5,144 (11.2)	5,596 (10.9)	5,770 (9.7)	6,634 (10.0)	8,065 (11.1)	9,166 (11.5)	10,820 (12.3)	11,643 (11.8)	13,006 (12.6)
698	1,244	1,061	1,860	1,766	1,306	1,728	1,254	1,141	1,100	1,670	1,309	1,292	1,997
7,120 (84.4)	28,371 (85.3)	29,425 (80.1)	2,9954 (74.6)	31,495 (74.6)	32,844 (71.4)	34,446 (66.9)	37,526 (62.9)	40,934 (61.5)	44,412 (61.3)	48,277 (60.8)	53,088 (60.5)	57,034 (57.9)	61,284 (59.2)
178	214	235	260	306	326	351	378	412	441	458	531	580	646
—	—	236	207	—	—	—	—	—	—	—	—	—	—
67	63	418	215	47	29	17	8	1	—	—	—	—	—

The figures are mainly taken or calculated from data of the Finance Ministry and the Central Bureau of Statistics.

TABLE 13

Recourse by banks to the Nederlandsche Bank ([1])

(quarterly averages in millions of guilders)

		Discounting	Current account advances	Total
1958	1st quarter	2	3	5
	2nd quarter	2	11	13
	3rd quarter	6	4	10
	4th quarter	2	4	6
1959	1st quarter	—	3	3
	2nd quarter	—	3	3
	3rd quarter	—	2	2
	4th quarter	2	16	18
1960	1st quarter	1	3	4
	2nd quarter	—	7	7
	3rd quarter	—	3	3
	4th quarter	—	2	2
1961	1st quarter	—	1	1
	2nd quarter	—	1	1
	3rd quarter	—	4	4
	4th quarter	9	8	17
1962	1st quarter	19	12	31
	2nd quarter	27	15	42
	3rd quarter	2	7	9
	4th quarter	—	21	21
1963	1st quarter	4	8	12
	2nd quarter	7	9	16
	3rd quarter	10	16	26
	4th quarter	—	10	10
1964	1st quarter	—	16	16
	2nd quarter	11	26	37
	3rd quarter	36	22	58
	4th quarter	1	21	22
1965	1st quarter	—	24	24
	2nd quarter	4	34	38
	3rd quarter	19	21	40
	4th quarter	1	50	51
1966	1st quarter	19	58	77
	2nd quarter	86	108	194
	3rd quarter	82	60	142
	4th quarter	43	104	147
1967	1st quarter	26	119	145
	2nd quarter	28	180	208
	3rd quarter	108	136	244
	4th quarter	107	97	204
1968	1st quarter	45	57	102
	2nd quarter	29	113	142
	3rd quarter	46	124	170
	4th quarter	78	253	331
1969	1st quarter	59	299	358
	2nd quarter	28	279	307
	3rd quarter	128	446	574
	4th quarter	372	318	690
1970	1st quarter	221	290	511
	2nd quarter	213	263	476
	3rd quarter	219	213	432
	4th quarter	140	202	342

([1]) Commercial banks, central institutions of agricultural credit institutions, security credit institutions. Since 1967 also the agricultural loan banks affiliated in the central institutions and the general saving banks.

Transactions in Treasury concluded under sale-and-repurchase agreements with the object of accommodating the money market are not included in these figures.

Source: Annual reports of the Nederlandsche Bank.

TABLE 14

Minimum reserve ratio and balances

(in millions of guilders)

End of month	Deposits at banks (1)	Minimum reserve ratio (as %) (2)	Minimum reserve balances (3)	Reserve balances as % of deposits (4 = 3 : 1)
1954 February	5,259	—	—	—
March	5,330	5	222	4.2
April	5,388	6	270	5.0
May	5,517	7	319	5.8
June	5,720	8	373	6.5
July	5,806	9	439	7.6
August	5,683	10	493	8.7
September	5,642	10	481	8.5
October	5,688	10	478	8.4
November	5,761	10	487	8.5
December	5,641	10	495	8.8
1955 January	5,651	8	387	6.8
February	5,612	10	483	8.6
March	5,677	10	481	8·5
April	5,659	10	485	8.6
May	5,689	10	482	8.5
June	5,845	10	485	8.3
July	5,975	10	500	8.4
August	5,885	10	514	8.7
September	5,931	10	505	8.5
October	6,079	10	508	8.4
November	6,186	10	526	8.5
December	6,066	10	537	8.9
1956 January	5,975	10	525	8.8
February	5,975	10	516	8.6
March	6,014	10	516	8.6
April	5,914	8	415	7.0
May	6,066	9	459	7.6
June	5,947	9	460	7.7
July	5,951	9	461	7.7
August	5,935	9	457	7.7
September	5,783	9	446	7.7
October	5,652	7	338	6.0
November	5,622	7	334	5.9
December	5,664	7	338	6.0
1957 January	5,650	7	337	6.0
February	5,671	7	339	6.0
March	5,707	6	294	5.2
April	5,712	6	292	5.1
May	5,785	6	297	5.1
June	5,777	6	295	5.1
July	5,860	6	300	5.1
August	5,543	6	282	5.1
September	5,296	6	270	5.1
October	5,168	4	174	3.4
November	5,213	4	176	3.4
December	5,303	4	180	3.4
1958 January	5,487	4	187	3.4
February	5,744	5	247	4.3
March	5,832	6	302	5.2
April	5,797	6	301	5.2
May	5,892	7	353	6.0
June	5,837	8	402	6.9
July	6,040	9	467	7.7
August	6,143	10	534	8.7
September	6,030	10	522	8.7
October	5,880	10	506	8.6
November	6,200	10	537	8.7
December	6,303	10	547	8.7

TABLE 14 (continued)

(in millions of giulders)

End of month	Deposits at banks (1)	Minimum reserve ratio (as %) (2)	Minimum reserve balances (3)	Reserve balances as % of deposits (4 = 3 : 1)
1959 January	6,683	10	586	8.8
February	6,739	10	594	8.8
March	6,890	10	607	8.8
April	6,989	7	433	6.2
May	6,983	7	432	6.2
June	6,845	6	360	5.3
July	6,998	7	429	6.1
August	6,930	7	435	6.1
September	6,788	7	426	6.1
October	7,042	7	416	6.1
November	7,106	7	430	6.1
December	7,332	7	435	6.1
1960 January	7,290	7	451	6.2
February	7,455	7	450	6.2
March	7,482	7	463	6.2
April	7,460	7	464	6.2
May	7,506	7	458	6.1
June	7,686	7	463	6.2
July	7,920	8	543	7.0
August	7,790	8	561	7.1
September	7,680	8	550	7.1
October	7,659	8	543	7.1
November	7,630	8	549	7.1
December	8,111	8	540	7.1
1961 January	7,087	9	650	8.0
February	8,246	9	660	8.0
March	8,284	9	664	8.0
April	8,259	10	736	8.9
May	8,193	10	727	8.9
June	8,268	10	733	8.9
July	8,282	10	736	8.9
August	8,421	8	601	7.1
September	8,209	8	583	7.1
October	7,640	6	405	5.3
November	7,731	6	413	5.3
December	7,718	6	410	5.3
1962 January	8,154	8	582	7.1
February	8,446	8	602	7.1
March	8,139	6	434	5.3
April	8,084	8	576	7.1
May	8,113	8	578	7.1
June	8,374	8	599	7.2
July	8,548	8	610	7.1
August	8,806	7	552	6.3
September	8,426	6	452	5.4
October	7,971	6	424	5.3
November	8,223	5	363	4.4
December	8,127	4	289	3.6
1963 January	8,438	5	376	4.5
February	8,615	5	382	4.4
March	8,636	4	307	3.6
April	8,720	4	311	3.6
May	8,714	3	232	2.7
June	8,777	3	233	2.7
July	9,000	3	241	2.7
August	9,300	3	249	2.7
September	9,169	0 (1)	—	—

(1) The minimum reserve ratio has been zero since September 1963.

Source: Annual reports of the Nederlandsche Bank.

TABLE 15

Movements of the open-market portfolio of the Nederlandsche Bank (1)

(*in millions of guilders*)

	Treasury bills and bonds					Holdings of Treasury bills and bonds at end of year
	Bought from Treasury (2)	Redeemed by Treasury (—)	Bought on open market	Sold on open market	Total Changes	
1952	—	— 700	—	— 649	— 1,349	151
1953	+ 600	—	—	— 235	+ 366	517
1954	—	—	+ 98	— 255	— 157	360
1955	—	—	+ 141	— 179	— 38	322
1956	+ 275	—	—	— 135	+ 138	460
1957	+ 68	—	—	—	+ 68	528
1958	+ 156	— 52	+ 348 (3)	— 799	— 347	181
1959	+ 402	— 290	+ 296	— 234	+ 174	355
1960	+ 146	— 246	+ 55	— 126	— 171	184
1961	+ 451	— 343	+ 425	— 161	+ 336 (4)	520
1962	+ 332	— 732	+ 155	—	— 208 (4)	311
1963	+ 413	— 202	—	—	+ 211	523
1964	+ 420	— 498	+ 13	— 112	— 177	346
1965	+ 460	— 102	—	—	+ 358	704
1966	+ 927	— 493	—	—	+ 435	1,139
1967	+ 845	— 1,089	—	—	— 244	895
1968	+ 2,054	— 1,335	—	—	+ 719	1,613
1969	+ 3,341	— 3,911	—	—	+ 570	1,043
1970	+ 3,565	— 3,220	—	—	+ 345	1,388

(1) Excluding movements under repurchase agreements.

(2) Bank's purchases from Treasury:

(a) in pursuance of the agreement as to the taking-over by the Government of the consolidated claim on Argentina: 1957 Fl. 68 million, 1958: Fl. 56 million, 1959: Fl. 40 million, 1960: Fl. 20 million;

(b) the exchange of State books debt for Treasury bills in accordance with agreement of 26 February 1947; 1958: Fl. 100 million;

(c) the taking-over of consolidated net claims on EPU countries in accordance with an agreement: 1959: Fl. 362 million, 1960: Fl. 126 million, 1961: Fl. 161 million; the 1960 and 1961 figures refer to paper redeemed on maturity by the Treasury which the Central Bank had sold on the open-market from its own portfolio;

(d) for the partial financing of IMF drawing by Great Britain in guiders in 1961;

(e) since 1961: Treasury paper for financing the early redemption of external consolidated debt (in October 1962: Fl. 105 million, in July 1963: Fl. 250 million and in December 1968: Fl. 235 million); guilder drawings on the IMF by various countries and CAB drawings by the United Kingdom and France; replacing of matured Treasury paper.

(3) Including Fl. 100 million bought abroad.

(4) Included Fl. 36 millions worth of Treasury paper bought by foreign central banks for investment of guilder balances held with the Nederlandsche Bank in 1961 and redeemed by the Bank in 1962.

Source: Annual and quarterly reports of the Nederlandsche Bank.

TABLE 16

Net foreign assets of the commercial banks

(in millions of guilders)

End of year	Assets			Liabilities (1)	Net foreign assets	Idem, according to regulation of July 1964 (2)
	In foreign currency	Other assets	Total assets			
1958	731	579	1,310	774	536	395
1959	1,845	825	2,670	920	1,750	1,530
1960	1,823	1,478	3,301	1,282	2,019	1,834
1961	1,444	1,937	3,381	1,606	1,775	1,680
1962	1,669	1,974	3,643	1,810	1,833	1,781
1963	1,991	2,071	4,062	2,197	1,865	1,891
1964	2,024	2,046	4,070	2,934	1,136	1,207
1965	2,518	2,782	5,300	4,291	1,009	1,131
1966	3,647	2,642	6,289	5,658	631	958
1967	3,522	2,713	6,235	5,931	304	569
1968	5,260	2,915	8,175	7,506	669	979
1969	9,876	3,200	13,076	11,908	1,168	1,537
1970	14,792	3,936	18,728	17,989	739	1,410

(1) Mainly short-term liabilities.

(2) According to this regulation an authorized bank may not have a net foreign liability without the consent of the Nederlandsche Bank. When the foreign position is calculated for the purposes of this provision, all export bills are included in foreign assets; this is only the case in the monetary analysis if they are drawn by non-residents. As against this, permanent assets are disregarded for the purposes of the regulation.

Source: Nederlandsche Bank.

TABLE 17

Outstanding loans according to the definition in the policy directive for short-term lending to the private sector

At end of		Average figure at end of last three months	As % of average figure for 4th qu. 1960 (Fl. 3,981 million)			As % of average corresponding figure, 1 year earlier			Minimum balance (1)
			Standard	Actual	Excess	Standard	Actual	Excess	
1961	August	4,254.6	111	106.9	— 4.1	115	118.0	3.0	—
	September	4,298.7	112	108.0	— 4.0	115	117.4	2.4	—
	October	4,362.3	113	109.6	— 3.4	115	116.7	1.7	—
	November	4,425.2	114	111.2	— 2.8	115	115.1	0.1	—
	December	4,523.9	115	113.6	— 1.4	115	113.6	—1.4	—
						As % of average corresponding figure, 2 years earlier			
1962	January	4,603.8	115.5	115.7	0.2	121	132.5	11.5	73.8
	February	4,726.0	116	118.7	2.7	121	133.6	12.6	105.2
	March	4,776.1	116.5	120.0	3.5	121	134.4	13.4	143.8
	April	4,831.2	117	121.4	4.4	121	134.9	13.9	179.6
	May	4,812.1	117.5	120.9	3.4	121	134.4	13.4	146.6
	June	4,789.6	118	120.3	2.3	121	134.1	13.1	111.3
	July	4,727.5	118.5	118.8	0.3	121	132.1	11.1	81.5
	August	4,696.9	119	118.0	— 1.0	121	130.2	9.2	—
	September	4,684.0	119.5	117.7	— 1.8	122	127.9	5.9	—
	October	4,724.5	120	118.7	— 1.3	122	126.4	4.4	—
	November	4,740.7	121	119.1	— 1.9	122	123.3	1.3	—
	December	4,825.4	122	121.2	— 0.8	122	121.2	—0.8	—
			No credit restriction measures from January 1963 to October 1963						
			As % of average figure for 1st half 1963 (Fl. 5,132.8 million)			As % of average corresponding figure, 1 year earlier			
1963	October	5,412.7	106	105.5	— 0.5	112	114.6	2.6	—
	November	5,506.6	107	107.3	0.3	112	116.2	4,2	42.2
	December	5,593.7	108	109.0	1.0	112	115.9	3.9	106.1
1964	January	5,661.1	109.5	110.3	0.8	112	116.4	4.4	87.2
	February	5,736.8	111	111.8	0.8	112	115.4	3.4	95.6
	March	5,819.1	112	113.4	1.4	112	115.4	3.4	102.0
	April	5,913.5	113	115.2	2.2	112	114.8	2.8	108.4
	May	5,982.6	113.5	116.6	3.1	111.5	115.2	3.7	165.1
	June	6,021.2	114	117.3	3.3	111	115.3	4.3	176.4
	July	6,027.5	113.5	117.4	3.9	110.5	115.3	4.8	209.2
	August	6,045.2	113	117.8	4.8	110	114.6	4.6	162.8
						As % of average corresponding figure, 2 years earlier			
	September	6,090.7	114	118.7	4.7	122	130.0	8.0	230.2
	October	6,147.3	115	119.8	4.8	122	130.1	8.1	219.6
	November	6,181.4	116.5	120.4	3.9	122	130.4	8.4	192.7
	December	6,191.7	118	120.6	2.6	122	128.3	6.3	133.8
1965	January	6,233.4	119	121.4	2.4	122	128.1	6.1	67.3
	February	6,312.1	120	123.0	3.0	121.5	127.0	5.5	78.5
	March	6,407.3	121	124.8	3.8	121	127.0	6.0	130.6
	April	6,485.2	122	126.3	4.3	121	125.9	4.9	169.2
	May	6,528.8	122.5	127.2	4.7	121	125.7	4.7	202.4
	June	6,503.7	123	126.7	3.7	121	124.6	3.6	151.0
	July	6,458.8	123	125.8	2.8	121	123.5	2.5	110.8
	August	6,426.1	123	125.2	2.2	121	121.9	0.9	70.0
						As % of average corresponding figure, 3 years earlier			
	September	6,469.6	124.5	126.0	1.5	132	138.1	6.1	97.8
	October	6,549.1	126	127.6	1.6	132	138.6	6.6	107.1
	November	6,650.2	127.5	129.6	2.1	133	140.3	7.3	122.2
	December	6,744.1	129	131.4	2.4	133	139.8	6.8	112.9

(1) These minimum balances had to be held from the 15th of the next month: but one to the 14th of the next month but two inclusive. For instance, the minimum balance for the average figure at the and of November, December and January had to be held from the 15th of the following March to the 14th of the following April inclusive.
(2) Deposit requirement halved since the banks, taken together, had exceeded the standard by less than 2%.

TABLE 17 (continued)

At end of		Average figure at end of last three months	As % of 1.29 × av. figure for 1st half 1965 (Fl. 6,867.4 million)			As % of average corresponding figure, 3 years earlier			Minimum balance (1)
			Standard	Actual	Excess	Standard	Actual	Excess	
				(incl. mergers)					
1965	December	6,967.7	100	101.5	1.5	133	139.0	6.0	112.9
1966	January	7,048.8	101.5	102.6	1.1	133	139.5	6.5	58.1
	February	7,204.3	103	104.9	1.9	133	139.7	6.7	57.1
	March	7,395.7	104	107.7	3.7	133	141.4	8.4	129.2
	April	7,582.6	105	110.4	5.4	133	142.1	9.1	157.6
	May	7,611.0	105	110.8	5.8	132	141.5	9.5	211.1
	June	7,521.5	104.5	109.5	5.0	132	139.2	7.2	147.9
	July	7,387.5	104	107.6	3.6	132	135.9	3.9	89.8
	August	7,328.0	104	106.7	2.7	132	133.7	1.7	40.2
						As % of average corresponding figure, 4 years earlier			
	September	7,329.3	104.5	106.7	2.2	142	149.2	7.2	73.8
	October	7,406.5	105.5	107.6	2.4	142	149.4	7.4	75.6
	November	7,425.1	106.5	108.1	1.6	143	149.3	6.3	14.6(2)
	December	7,438.2	108	108.3	0.3	143	147.1	4.1	2.2(2)
1967	January	7,447.6	109	108.4	— 0.6	143	146.2	3.2	—
	February	7,576.0	110	110.3	0.3	143	145.9	2.9	—
	March	7,756.4	111	112.9	1.9	142	147.4	5.4	—
	April	7,900.8	112	115.0	3.0	142	147.2	5.2	—
			No credit restriction measures from June 1967 to December 1968						
			As % of average figure, last four months of 1968 (Fl. 11,414.1 million)						
1968	December	11,559.8	101.0	101.0	0.0				—
1969	January	11,627.5	102.5	101.6	— 0.9				—
	February	11,745.7	104.0	102.6	— 1.4				—
	March	11,703.9	105.5	102.3	— 3.2				—
	April	11,804.5	107.0	103.1	— 3.9				—
	May	11,972.6	107.0	104.6	— 2.4				—
	June	12,135.9	107.0	106.0	— 1.0				—
	July	12,313.9	107.0	107.6	0.6				144
	August	12,418.4	107.0	108.5	1.5				256
	September	12,528.4	108.0	109.5	1.5				282
	October	12,669.7	109.0	109.7 (3)	0.7				107
	November	12,687.3	110.0	109.8	— 0.2				—
	December	12,754.5	111.0	110.4	— 0.6				—
			As % of 1.11 × av. figure for September/December 1968 (Fl. 12,843 million)						
1970	January	12,923	101.5	100.6	— 0.9				
	February	13,174	103.0	102.6	— 0.4				
	March	13,439	104.0	104.6	0.6				130
	April	13,625	105.0	106.1	1.1				236
	May	13,725	106.0	106.9	0.9				231
	June	13,722	106.0	106.8	0.8				301
	July	13,704	106.0	106.7	0.7				269
	August	13,683	106.0	106.5	0.5				153
	September	13,650	107.0	106.3	— 0.7				—
	October	13,768	108.0	107.2	— 0.8				—
	November	13,880	109.0	108.1	— 0.9				
	December	14,055	109.5	109.4	— 0.1				

(3) In connection with consolidation as a result of mergers, at the end of October the outstanding loans were increased by Fl. 75 million and the reference amount by Fl. 107 million (to Fl. 11,551 million).

Source: Nederlandsche Bank.

TABLE 18

Money market rates

(December figures: monthly averages in per cent)

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Call money loans	1.50	2.18	1.13	1.32	1.88	1.61	2.09	3.47	3.68	4.05	4.96	7.13	6.73
Treasury paper with a remaining life of:													
3 months	2.26	2.57	1.54	1.34	2.02	2.29	3.77	4.40	5.06	4.63	4.77	6.18	6.08
1 year	2.83	2.75	2.07	1.58	2.11	2.34	3.98	4.55	5.48	4.92	5.01	6.54	6.62
2 years	3.01	2.97	2.45	1.82	2.55	2.84	4.19	4.59	5.71	5.06	5.09	6.72	6.66
3 years	3.29	2.88	2.72	2.15	2.86	2.98	4.31	4.53	5.74	5.18	5.24	6.74	6.89
5 years	3.39	—	3.17	2.73	3.25	3.10	4.54	4.90	6.06	5.45	5.49	7.01	6.85
Three month cash loans to local authorities	3.06	2.75	2.06	2.21	3.14	3.65	4.99	5.34	6.75	5.48	6.26	9.03	7.13
Three month Eurodollar deposits:													
Gross yield	—	—	—	—	4.00	4.44	4.77	5.46	6.75	6.43	7.19	11.22	7.30
Discount (—) of forward dollar	—	—	—	—	-0.43	-0.48	-0.17	-0.18	-0.19	-1.50	-0.80	-1.98	-0.44
Net yield	—	—	—	—	3.57	3.96	4.60	5.28	6.56	4.93	6.39	9.24	6.86
Nederlandsche Bank rates:													
Discount of bills of exchange	3.00	3.50	3.50	3.50	4.00	3.50	4.50	4.50	5.00	4.50	5.00	6.00	5.50
Discount of promissory notes	3.50	4.00	4.00	4.00	4.50	4.00	5.00	5.00	5.50	5.00	5.50	7.00	6.50
Advances in current account	4.00	4.50	4.50	4.50	5.00	4.50	5.50	5.50	6.00	5.50	6.00	7.50	7.00

TABLE 19

Rate of turnover of savings balances

(Repayments during a year divided by the average balance in that year)

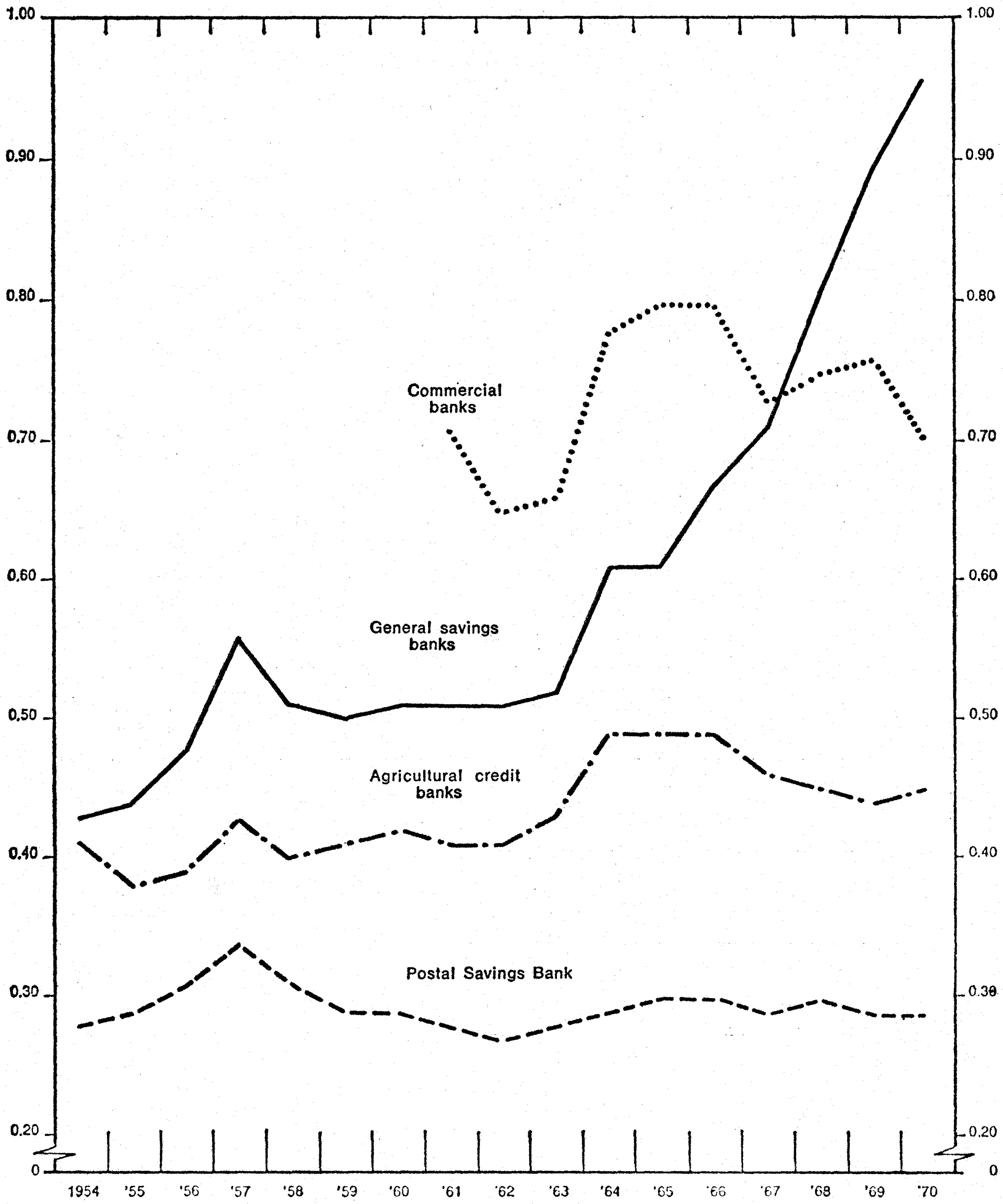

TABLE 20

Short-term lending to local authorities by commercial banks and agricultural credit institutions: standards since January 1967

Effective from (month)	Changes in percentage standards				
	Percentage of figure at end of July 1966	Percentage of average figure in first half of 1966	Percentage of figure at end of the corresponding month in period from July 1965 to end of June 1966	Percentage of monthly balance-sheet total at end of previous year	
January 1967	105	95	—	—	
April 1967	105	95	105	—	
January 1969	110	100	110	2	
December 1969	Percentage of figure at end of July, Aug. or Sept. 1966				
	110	100	110	2	
				Percentage of monthly balance-sheet total	
				at end of 1969	at end of 1970
November 1970	120	110	120	2.2	2
March 1971 (1)			Percentage of average figure for corresponding three-month periods terminating, successively, at the end of the months from Sept. 1965 to Aug. 1966		
	130	120	130	2.4	2.2

(1) Since March *average lending at the end of the previous three months* has been the reference figure for the standard, instead of lending at the end of the month.

Part six

THE MONETARY POLICY IN BELGIUM

CHAPTER ONE

BASIC FACTS OF MONETARY POLICY

Section I - Institutional framework and structural aspects

Para. I: *Institutional framework*

Distribution of power and relationship between monetary authorities

1. Monetary policy is one of the instruments of general economic policy, which is a Government responsibility, therefore has to conform with the general views set by the Government.
Moreover, while monetary policy is primarily the central bank's preserve, it does not have exclusive powers though it is the main institution responsible.
The Banque Nationale, under Government supervision, is responsible for interest rate policy, the fixing of rediscount terms and the control of bank credit. Banking ratios, as monetary policy instruments, are fixed jointly by the Banque Nationale and the Banking Commission, subject to Government approval. Open market operations and exchange control are handled by the Securities Stabilization Fund and the Belgo-Luxembourg Foreign Exchange Institute, institutions where the State and the National Bank are represented. The Rediscount and Guarantee Institute exercises control over the monetary market, as do the Banque Nationale and the Securities Stabilization Fund, with which it cooperates closely.
The decentralization of monetary policy powers is coupled with the fact that the Banque Nationale is represented in the various bodies controlling or acting as trustees for financial bodies (Banking Commission, Council of Public Credit Institutions, Central Office for Small Savings and in the governing bodies of public institutions, such as the Securities Stabilization Fund, the Rediscount and Guarantee Institute and the General Savings and Pension Fund). The Government is also represented in these institutions. There are moreover a large number and a wide variety of links between the Central Government and the Banque Nationale. The general set-up thus ensures that the principles of the Banque Nationale's monetary policy are applied over a whide area and that the measures adopted by the institutions assuming responsibilities in this field are properly coordinated.
In addition to its budgetary responsibilities, the government has wide powers in the field of monetary policy. These it exerts through its participation in the work of institutions operating in this area, through its role as trustee in public credit institutions and in certain classes of private financial intermediary, through the requirement that it must approve banking ratios and through its influence over certain classes of credit, notably hire purchase credit.
There are organizational links between the Government and the Banque Nationale reflected in the fact that the State owns half of the Bank's capital, although some of its rights as shareholder are limited. The law incorporation of the Banque Na-

tionale also invests specific powers of appointment — discussed below — in the King. Lastly the Minister of Finance has power to review all the Bank's operations through a government commissioner, who has the right of suspensive veto on any measure conflicting with the law or with the "interests of the State" and who may attend, though not vote at, the meetings of the various committees of the Bank. Where the commissioner uses his veto, the Minister of Finance must make a ruling within eight days, failing which the veto lapses.
This sharing of the responsibility for monetary policy between the State and the Bank resulted from a deliberate choice: the legislature did not want to see the policy escape Government control altogether nor did it want the government to have the sole responsibility for it.

The Banque Nationale de Belgique

2. The Banque Nationale is a special kind of limited company incorporated, in 1850, under a specific law; half its capital belongs to the State. It administers the exchange reserves of the Belgo-Luxembourg Economic Union, Belgium and the Grand Duchy of Luxembourg having formed an economic union in 1921. It is presided over by a governor — appointed by the King for five years — who takes the chair at meetings of the board of directors, Regency Council and general council, and at the annual general meeting of shareholders.
In addition to the governor, the board of directors has from three to six members, appointed by the King on proposals from the Council of Regency, for a period of six years. It considers and decides on all questions not explicitly reserved for the Regency Council. In emergencies, it has power to change rates for discounts and advances, but must refer the matter to the Recency Council at its next meeting.
The Regency Council comprises the governor, the directors and ten regents. The regents are elected for three years by the General Meeting of the shareholders. Two of them are chosen on proposals from the most representative workers' organizations, three on proposals from the most representative organizations of industry, trade and agriculture. Two regents are chosen from among persons having senior positions in certain institutions classified as "financial institutions of public interest". The three other regents are presented by the Minister of Finance. The Regency Council deliberates on general matters affecting the Banque Nationale, the currency, credit and the economic development of the country. It fixes rates and terms for discounting, advances and loans.
The college of censors has eight to ten members, elected by the general meeting, and has review powers only, except in so far as it participates in deliberations by the general council.
The general council comprises the governor, the directors, the regents and the censors; it is mainly concerned with questions of general organization of the Bank and of the remuneration of the governor and of the directors. The governor has power to suspend the execution of a Regency Council decision for reference to be general council.
As a limited company, the Bank has a general meeting of shareholders. However, its role as a public institution having gained in importance, the powers of the general meeting have been scaled down; in addition, since half of the capital has been owned by the State since 1948, the powers of the latter in the general meeting have been curbed, e.g. with regard to the amendment of the memorandum and articles of association, by special voting rules. The general meeting elects the regents and the censors, discusses matters placed on the agenda, hears the report

on the operations of the past year and approves or rejects the balance sheet when this has not been approved by a majority of at least six votes by the college of censors.
A full list of the operations which the Bank has power to carry out is included in the organic law. The parity of the currency unit can be changed only by statute of parliament.
The Bank has the monopoly right to issue banknotes of Bfrs. 100 and over and acts as State cashier. In this latter capacity, it is subject to supervision of the Cour des Comptes (State Auditors).
With regard to the implementation of banking law, the Banque Nationale also has powers to make proposals and submit opinions and the banks are required to file with it detailed balance sheets once a year and profit and loss accounts and assets and liabilities statements each month, as well as information concerning loans made and taken up. The Bank itself checks that its rules for the banks are properly complied with.
The Bank's information on credit matters has been increased through the Central Risks Office, which was set up by agreement in 1965 and whose operations were approved and extended by a Royal Decree of 9 October 1967. The banks are required to report credits granted, increases, reductions and deletions of credits where the individual sums involved exceed Bfrs. 1 million, with details of utilization. The Risks Office, which is now one of the departments of the Banque Nationale, pools this information with the information on the Bank's own operations and makes it available directly to participants on specific request. The same arrangement may be followed for comparable information which the Bank obtains from certain public credit institutions, private savings banks and other institutions accepting deposits.

Other public organizations

3. The Rediscount and Guarantee Institute, a semi-public institution, was set up in 1935 to mobilize at short or medium-term bank assets, which, because of their form or term, were not rediscountable with the Banque Nationale. The Institute's capital, which is Bfrs. 1,000 million, was subscribed by the Belgian banks. The Government guarantees the Institute's liabilities, which may not exceed Bfrs. 27,500 million. The Institute offers rediscount facilities, for use as and when occasion arises and on a strictly temporary basis. It also operates on the ex-bank market as purchaser, seller and broker of bank or commercial acceptances, thus assuming an important role in the financing of foreign trade. Normally, a director of the Banque Nationale is chairman of the Institute.
The control of the securities market and open market policy are the responsibilities of the Securities Stabilization Fund, a semi-public institution created in 1945. The Fund's liabilities are guaranteed by the State. It is entitled to intervene both on the money market and on the capital market. It is administered by a board comprising three representatives of the Minister of Finance, including the chairman, and three representatives of the Banque Nationale.
Small denomination currency — notes of less than Bfrs. 100 in value and coin — are issued on behalf of the Treasury through the Monetary Fund. The present ceiling for this issue is Bfrs. 9,000 million, save in respect of the smallest denomination (25 centimes) the issue of which is limited only by actual needs.
The Belgo-Luxembourg Foreign Exchange Institute is responsible for establishing and implementing exchange control. It was set up in 1944 and is administered by

a board comprising representatives of the Banque Nationale, the Banking Commission and the Belgian and Luxembourg Governments.
The Banking Commission is an independent agency set up by the Banking Law of 1935 to supervise the implementation of banking legislation, certain types of borrowing of savings and investment companies. It has a chairman and six other members appointed by Royal Decree for periods of office of six years. Two of the members are appointed from a list of three names of representatives of the banks, and two others from a list of three names submitted by the Banque Nationale and the Rediscount and Guarantee Institute.

Para. II: *Structural aspects*

Para. II-1: *Structure of financial institutions*

4. Under the banking law (Royal Decree 185 of 9 July 1935), the term "bank" is used only for firms "habitually receiving deposits of funds reimbursable on demand or within periods not exceeding two years, for use, on their own account, for banking, credit or investment operations". This definition excludes private savings banks, which are controlled by other legislation. The banks accept sight deposits, fixed deposits, savings deposits in "deposit savings books"; they also issue medium-term notes. Their main business is short and medium-term credit. At the end of 1970, their assets totalled Bfrs. 776,300 million.
The banks are usually classified by size. The liabilities of the three main banks — the Société Générale de Banque, the Banque de Bruxelles and the Kredietbank — accounted for 64·3 % of the liabilities of all the banks at the end of 1970, compared with 75 % at the end of 1965. In general, only a very small number of banks specialize to a substantial extent. There are, however, banks specializing in credit to certain industries, in hire purchase financing or, and to a growing extent, in international financial transactions. It should be stressed, none the less, that credit establishments are tending to specialize less and less. Arrangements for collecting funds are becoming more and general and, since the adoption of the "economic growth" laws of 1959 the banks, under this incentive, have moved strongly into the medium and long-term credit sector while at the same time stepping up the proportion of time deposits in overall liabilities.
The private savings banks, which legally are not banks at all, may accept funds in various forms, but they are mainly concerned with savings deposits, and most of their lending goes into mortgages or Government stocks; at the end of 1970, their total assets were Bfrs. 174,800 million.
However, it is a public credit institution, the General Savings and Pensions Fund, which handles the largest volume of savings deposits in the legal sense of the term.[1] This semi-public institution, whose resources are mainly savings deposits, has also been issuing savings bonds since 1968. By the yardstick of total lending, the Fund is the main medium and long-term credit institution in Belgium. Most of the funds go to building loans, to purchases of Government stock, and, to a lesser extent, to loans to industry and agriculture; it also contributes to the financing of exports and, recently, has begun granting hire-purchase credit. It is also very active on the money market, through subscriptions to Treasury certificates,

[1] By law only the General Savings and Pensions Fund, the private savings banks and the municipal savings banks are allowed to use the term "savings".

through purchases of acceptances and through loans on the call market. At the end of 1970, its total assets were Bfrs. 253,600 million.
Other semi-public specialized institutions grant medium and long-term credit to industry, agriculture, small business, home ownership and the local authorities. This assistance is generally financed through their own issues of medium-term notes and bonds and, to a far lesser extent, through deposits.
At the end of 1970, their assets totalled Bfrs. 473,400 million.[1] The special role of the Rediscount and Guarantee Institute has been noted above.
There is also (as we have seen) a control agency, the Securities Stabilization Fund, and a semi-public institution specializing in investments in companies, the National Investment Corporation, and there are also insurance institutions, ordinary pension funds, mortgage companies, management companies, capitalization companies, hire-purchase credit companies, and unit trusts.
The Postal Cheque Office is State owned; the deposits it accepts become a State debt payable on demand. The Office is none the less regarded as a financial intermediary, since it acts as if it were granting credit to the Treasury. At the end of 1970, its deposits totalled Bfrs. 49,600 million.
The Treasury is not regarded as a financial intermediary, since it devotes virtually all its borrowings to the financing of investment in the public sector.

Characteristics of the evolution of financial intermediaries

5. There have been two major trends in the activity of financial intermediaries during the last ten years. The first is a trend towards internationalization, led by the banks. The most obvious evidence of this is the relative size of the banks' assets and liabilities in foreign currencies: in 1970, the proportion of foreign exchange assets to total assets was 34·3 % on average at the end of each month, compared with 11·5 % in 1960; for liabilities, the two percentages were 33·4 and 9·3. The second important tendency, already mentioned, is for public and private financial intermediaries to abandon specialization; though already substantial, this trend seems to be gathering momentum. It entails an extension of the monetary activities of the "non-banks".
The growth of international banking has strongly reduced the influence of the normal instruments of traditional monetary policy and made necessary a greater international coordination. By way of example one can point out that the payment of interests on more than half of the total of term deposits denominated in Belgian francs is aligned with rates on the international money market. As regards the tendency for the financial intermediaries to abandon specialization this involves the extension of the field of application of monetary policy outside the strictly banking sector.

Para. II-2: *The banking system and the financial markets*

6. The Banking Law of 1935 confirmed the ban on mixed banks promulgated in 1934: the banks were not allowed to hold the shares or bonds of a trading com-

[1] This total is accounted for by the following institutions, in declining order of size: the Belgian Municipal Credit Institution, the National Industrial Credit Corporation, the National Housing Corporation, the National Fund for Credit to Trade and Industry, Rediscount and Guarantee Institute, the National Smallholders' Corporation, the National Institute for Agricultural Credit and the Central Office for Mortgage Credit.

pany other than a bank, except for a period of six months with a view to participating in a public placing. But the law of 3 May 1967 gave the banks complete liberty to purchase and hold company debentures. The same law raises the six-month limit to one year in respect of the holding of shares in the issue of which the banks have participated; the Banking Commission has authority to extend this limit twice by one year.
The banks therefore hold shares only long enough to place them with the public; their holdings of debentures of private companies are, however, also very small. None the less, they play a leading role in the underwriting and the placing of Government loans with the public. At the end of 1970, their holdings of public and private securities with more than a year to run accounted for 24 % of their total assets.
The legally authorized "definitive investments" of private savings banks consist in bonds of the Belgian State (and bonds having the same status) and of Belgian companies, and in shares in private savings banks, ordinary banks, insurance companies, mortgage credit companies, and institutions incorporated under specific laws; the Minister of Finance and the Central Office for Small Savings (a trusteeship agency) have power to authorize other investments; the relative scale of these categories of investment is subject to control.
Control of the capital market is exercised by the Securities Stabilization Fund, which deals, however, only in public-sector securities (see Chapter II, Section III, para. 1). The Banking Commission and the Minister of Finance have — admittedly limited — powers of control over use of the capital market by public authorities and agencies.

Para. II-3: *Habits of the public with regard to investment and liquidity*

Other structural characteristics

7. The constitution of financial assets by firms and individuals in the form of monetary cash holdings, fixed income non-monetary assets and shares reached Bfrs. 146,000 million in 1970, or about 11·5% of the gross national product (see Table 3). This proportion is tending to grow, particularly during periods in which the growth rate of economic activity is slower.
The constitution of short-term non-monetary financial assets is considered below (Section II, para. I of this Chapter).
The share of notes and coin in the total money supply and in total liquidity is relatively high in Belgium (see Table 4). The scale of the flight into banknotes following money creation tends to limit the efficiency of the monetary reserve ratio. The monetary authorities are attempting to encourage the use of sight deposits, in order to bring about a liquidity pattern matching more closely the patterns prevailing in other countries at a comparable stage of financial development.[1]

Para. II-4: *Scale of financial transactions with non-residents*

The value of Belgian exports of goods and services was about 64·8 % of the gross

[1] A Royal Decree of 10 November 1967 requires all persons engaged in commerce to maintain a postal or bank account and confers legal tender status on all payments through these accounts between such persons in sums of Bfrs. 50,000 and over.

national product in 1970. This is an aggregate which is steadily increasing: in 1960, it was only 34·9 %.
The growing influence of external relations and exchange control are considered below (Chapter II, Section III, para. II).

Section II - Liquidity

Para. I: *The liquidity of the economy*

Composition, volume and source of the liquidity of the economy

8. The components of the liquidity of the economy are the money supply and all the non-monetary short-term financial assets held by individuals and firms (other than financial intermediaries).
The money supply, as shown in the "Statistics" part of the Bulletin of the Banque Nationale, comprises:
— Notes and coin, viz. notes issued by the Banque Nationale and notes and coin issued by the Treasury;[1]
— Sight deposits held by firms and individuals in the form of current accounts with the Banque Nationale, balances with the Postal Cheque Office and deposits at sight and at terms of up to one month at most with the banks and certain semi-official establishments;
— Sight deposits held by the Treasury and the subordinate public authorities.
Secondary liquidity held by firms and individuals comprises deposits in foreign currencies with the Belgian banks, ordinary bank book deposits with the banks, savings banks and financial intermediaries in the public sector plus other deposits for terms not exceeding one year with the same institutions.
The total liquidity of the economy thus defined was Bfrs. 835,000 million at the end of 1970, i.e. 66·5 % of the gross national product. Cash holdings represented 50·1 % of total liquidity, foreign currency 1·4 %, bank book deposits and other deposits not exceeding one year 48·5 % (see Table 4). The share of notes and coin in the money supply was 45·6 % at the end of 1970, compared with 54·4 % at the end of 1965 and 57·5 % at the end of 1960.
Published data on velocity of turnover are available only for sight bank deposits, balances with the Postal Cheque Office and deposits with the General Savings and Pensions Fund (see Table 5). In the last ten years, there has been a fairly consistent tendency for the turnover of these classes of liquidity to accelerate. This tendency has been most pronounced in the last two years, particularly in respect of deposits with the General Savings and Pensions Fund.
As for the source of liquidity, integrated figures are available only for the counterpart of the money supply and near-money liquidity with the banks. In the last ten years, credit to firms and individuals has been the main counterpart to the increase in monetary and quasi-monetary liquidity, followed by the short-term financing of the public authorities and of external transactions. According to the definitions used in determining the counterparts of monetary and quasi-monetary liquidity,

[1] Not including notes and coin held by monetary institutions.

the external capital operations of the authorities are treated as "short-term financing of those authorities" and not as "external transactions". The latter therefore comprises the current balance and capital transactions of firms and individuals only.
In Belgium, the monetary authorities have never set a quantitative limit to the increase in liquidity. On the other hand, the Banque Nationale has stated, in its Annual Report for 1970 and elsewhere, that it wishes the terms for which financial assets are constituted to be related fairly closely, to those for loans made by financial intermediaries.[1]
As for the structure of total liquidity, the authorities have taken certain measures to encourage bank deposits and the constitution of balances in savings books. In 1969, they took steps to discourage Belgian residents from building up liquid assets abroad.

Para. II: *Bank liquidity*

Composition and sources of Bank liquidity

9. Bank liquidity may be defined as the sum of available assets or assets deemed easily realizable, minus certain liabilities which the banks are entitled to contract in order to put themselves temporarily in funds (see Table 6). The assets and liabilities of the banks concerned are the following: notes of the Banque Nationale, current accounts with the Banque Nationale, balances with the Postal Cheque Office, net lending at call in Belgian francs, commercial bills rediscountable with the Banque Nationale, Treasury certificates with a year or less to run, in Belgian francs, certificates of the Securities Stabilization Fund, and net foreign exchange position spot (not including participations), less advances against securities by the Banque Nationale.
The Banque Nationale does not publish specific statistics on the variations in bank liquidity and their causes. An overall view can, however, be obtained through information published periodically by the Banking Commission and the Banque Nationale on the overall situation of the banks and on the causes of variations in the supply of money and near-money.
Apart from the application of instruments of monetary policy, the main factors originating in the Banque Nationale and influencing bank liquidity are the net variations in foreign exchange reserves, in claims on firms and individuals, in net transactions by the Government and the Securities Stabilization Fund and in notes and coin in circulation (see Table 7). Bank credit refinancing by institutions other than the Banque Nationale, with which such institutions may, incidentally, refinance their lending, is on a considerable scale (see Table 11) and is therefore liable to affect bank liquidity very appreciably.
Certain monetary policy instruments, viz. the rediscount and certification ceiling fixed by the Banque Nationale, the monetary reserve ratio, open market policy, and the limits on the external debt position, have a direct impact on bank liquidity.

[1] See Annual Report, 1970, page XIV: "The requirements of funds, mainly for capital investment purposes, must be adequately covered, that is by contributions of stable financial savings, placed at sufficiently long term; if these contributions were to be insufficient, borrowing requirements would inevitably be covered, automatically, by money creation achieved by recourse to the money market, using either funds obtained from abroad, or direct bank credit, backed, as far as necessary, by the lender of last resort".

Para. III: *Liquidity and the public finances*

Public finances: size and nature of the Treasury's role

10. From 1960 to 1970 inclusive, the Treasury's total budget revenues rose from Bfrs. 108,400 million to Bfrs. 299,900 million and the corresponding expenditures from Bfrs. 134,900 million to Bfrs. 331,700 million. In the same period, the public debt rose from Bfrs. 396,100 million to Bfrs. 621,700 million, these figures representing 69·2 % and 49·5 % of the gross national product respectively; in these sums, the proportion of short-term debt (not exceeding one year) fell from 31·9 % to 26·5 %.

In a narrow practical sense, the task of the Treasury is to centralize the revenues and expenditures of the central authority and to ensure that cash deficits are covered. Despite the scale of the total settlements it makes, the Treasury has virtually no cash outside the Postal Cheque Office; the bulk of the revenue of the local authorities is centralized with the Belgian Municipal Credit Institute. Apart from its role as executive agent, in the broad sense, of the budget, the Treasury has money-creating powers as it issues notes and coin.

The Treasury settles almost all its payments through the Postal Cheque Office, which places at the disposal of the Treasury the deposits that it receives and plays a role of major importance in the Belgian payments mechanism. Corporate and individual balances with the Postal Cheque Office have represented on average, over the past few years, rather more than 10 % of the money supply.

Relations between public finance and liquidity

11. Transfers from private accounts to public accounts through postal cheques do not affect bank liquidity. However, bank liquidity is severely depleted at the main tax due-dates in January and July, when large sums are transferred to the public authorities by debiting bank accounts.

The central government's budget policy, in Belgium as elsewhere, has a direct influence on the volume and the pattern of liquidity in the economy. The budget deficit plays a key role not only because of its volume but also through the way in which it is financed: recourse to the central bank and the money market, issues of medium and long-term loans, resort to foreign markets or drawing on reserves. In recent years, the Treasury's net borrowing requirement has fluctuated between Bfrs. 23,000 and Bfrs. 34,000 million, the proportion financed by money market institutions (see Table 22) having also varied.

The Government has a line of credit available at the Banque Nationale to cover its cash deficits. This arrangement is at present governed by an agreement dated 30 March 1968, concluded between the Belgian State and the Banque Nationale after endorsement by the Bank's Regency Council in accordance with its "organic" law. This agreement fixes the ceiling of these advances at Bfrs. 16,000,[1] stipulating that the credit drawn, as shown in the recorded item "public securities" of the Bank's balance sheet, may not exceed on average, over a period of three years, two-thrids of the ceiling, which is itself reviewed every three years. A credit line of Bfrs. 533 million was allocated at the same time for the Luxembourg Government.

[1] The rule is that if special circumstances warrant this (notably should there be heavy withdrawals from the Postal Cheque Office or from the banks), the Banque Nationale will place a supplementary margin at the disposal of the Treasury.

The other forms of Banque Nationale credit to the Government are the consolidated interest-free claims on the State inherited from the war, the investment of an amount corresponding to the Bank's capital, reserves and depreciation accounts, its pension fund holdings and its holding (limited to Bfrs. 700 million) of notes and coin issued by the Treasury.

On 31 December 1970, these various sources of finance were shown as follows in the Banque Nationale's balance sheet: Bfrs. 13,300 million under (Belgian) "Public securities", Bfrs. 34,000 million under "Consolidated claim on the Government", Bfrs. 3,700 million under "Public long-term securities", Bfrs. 3,100 million under "Securities of the Staff Pensions Fund" and Bfrs. 300 million under "Treasury notes and coin".

In fact the Government also has other ways of raising central bank finance including in particular the sale of foreign exchange borrowed by the Treasury to the Bank, and the purchase of new Treasury certificates by the Securities Stabilization Fund, to the extent that the purchase is financed by drawing on the Fund's advance account at the Bank. At the end of 1970, the Treasury's short and medium-term foreign exchange borrowings stood at Bfrs. 40,400 million.[1]

The banking sector has access to virtually the entire range of Government stock, either through the money market, through sales mainly for placing with the public, or through the capital market. Since 1962, the banks have no longer been compelled to invest in Government securities, save temporarily (from 1963 to 1972) in connection with the maintenance of the cover ratio.[2] However, the re-employment ratio, introduced for a year in 1969, in effect compelled the banks to hold a certain amount of Treasury paper. Moreover, by an agreement between the Minister of Finance and the banks, the latter have undertaken to convert into Belgian franc bonds issued by the Belgian public sector half the increase in the March-November period of 1971 (in relation to the average for February of the same year) of their resuorces in Belgian francs deriving from "non-banks".

The Government stock offered to individuals and firms other than the banking sector in the broad definition is stock maturing in more than one year; some of the securities are drawn by lot or have multiple due-dates. The rate of interest is fixed by the Minister of Finance, by agreement with the banks placing the stock, as appropriate. There is no limit to the size of the issues, but the period during which stock may be taken up must always be announced in advance. The issues are placed with the public generally through the banks, but of late this has also been done through public credit institutions and private savings banks.[3]

[1] At the same date the long-term foreign exchange debt was Bfrs. 9,900 million.

[2] However, the Banking Law requires banks incorporated as limited companies, as partnerships limited by shares or as associations of persons with limited liability to place their statutory reserves in securities issued or guaranteed by the Government, the provinces or the municipalities.

[3] See inventory and classification of public-sector medium and long-term fixed-income securities (Information and Documentation Bulletin of the Banque Nationale de Belgique, March 1970).

CHAPTER TWO

THE INSTRUMENTS OF MONETARY POLICY

General observations on the instruments and their importance

12. The instruments of monetary policy available to the Belgian authorities are of two categories: those affecting the lending capacity of the banks and those concerned with the direct curtailment of credit. The banks' lending capacity is limited through refinance policy, the monetary reserve ratio, open market policy and limitation of the external debt position.
In the last ten years, much progress has been made in liberalizing the domestic market and its relations with foreign markets. This process, partly deliberate, partly self-impelled, has necessitated a strengthening of monetary policy so that its action can be at once prompter, firmer and more selective. Thus credit restraint arrangements and a monetary reserve ratio have been in use since 1964 and a ceiling on central bank refinancing was introduced in 1969.

Section I - Refinancing policy [1]

Para. I: *General*

13. Under Article 17 of its Statute, the Banque Nationale may discount bills or other paper which serve to finance trade and may make current-account advances against pledged Government securities (or securities ranking as such).
The terms on which these facilities are made available are determined either by the Statute in which case they are invariable, or by the Bank itself, in which case they may be varied. Apart from the rules contained in the Statute, credit thus made available by the Banque Nationale is provided at is discretion.
The banks mobilize their credits mainly with the Banque Nationale, the Rediscount and Guarantee Institute and other public credit institutions.
The relative scale of rediscounting with the Banque Nationale, the Rediscount and Guarantee Institute and other agencies varies widely but direct resort to the Banque Nationale is in any case on a relatively modest scale, although the Rediscount and Guarantee Institute relies heavily on the central bank for refinancing (see Table 11).

[1] For the exact meaning of this term, refer to Part I, point 71.

Discounting is main and often virtually all the credit provided by the Banque Nationale to the economy: its advances, being temporary and exceptional, normally reach only very small amounts (see Table 12).

Para. II: *The Refinance*

Para. II-1: *Discount credit*

14. Under Article 17 of its Statute; the Banque Nationale has power to discount bills of exchange and other securities covering commercial operations. Under Article 19, such commercial paper must be within 120 days of maturity and bear three signatures known to be sound; however, one signature may be replaced by a pledge (of Government securities or goods). Under Article 19(2) of the Statute, certain bills may be accepted for rediscount bearing only two signatures, on the basis of regulations adopted by the Banque Nationale and approved by the Minister of Finance. Other discounting terms, including the period of drawing the tenor and status of the bills presented, and the nature of the merchandise they cover, are determined solely by the Banque Nationale, which can use them with flexibility.

The Banque Nationale charges different discount rates for different types of paper. The rates vary according to the status of the securities or the use to which the funds concerned are to be put. Variable rules as regards eligibility may give preference to certain industries or products, for structural reasons, in connection with the general economic trend, or merely for practical reasons. Certain types of security may be excluded, and securities representing hire purchase sales or loans are barred. The rate for accepted drafts domiciled with a bank is the "official discount rate" or Bank rate; since 31 July 1969, there has been only one other rate (see Table 14).

An important example of preferential rediscounting is the "certification" (*visa*) procedure applied, on certain conditions, to bills drawn in connection with foreign trade operations of the Belgo-Luxembourg Economic Union: certification is a formal commitment by the Banque Nationale to discount the item as soon as it is within 120 days of maturity, provided it still offers the same guarantees as regards solvency. Until 31 July 1969, the rate charged for certified paper was preferential in respect of export bills. For bills drawn in respect of exports to the other EEC countries, the earlier certification procedure was replaced on 1 June 1970 by another certifying merely that the item complies with the Banque Nationale's general eligibility requirements, without any commitment on the part of the Bank to rediscount it. The Bank has since taken powers to substitute the second of these certification procedures for the first in respect of bills drawn in connection with exports to countries other than EEC countries and imports from any country.

The introduction of the procedure of certification without rediscount commitment aims at substantially easing the impact, on holders of bills, of the Bank's need to limit its certification (with rediscount commitment) in order to retain sufficient control over the scale of the assistance the banks obtain from it: the total amount of paper representing foreign transactions is increasing with trade itself, and much more rapidly than the normal facilities for recourse to the lender of last resort available to the banks taken as a whole.

The Rediscount and Guarantee Institute purchases certified paper at rates which are, for acceptances not exceeding 120 days, lower than Bank rate.

Para. II-2: *Advances against securities*

15. The Banque Nationale grants current-account advances on securities to banks, public agencies, various private institutions and individuals.
Article 17 of the Statute of the Banque Nationale stipulates as acceptable security for advances, short, medium or long-term stock issued or guaranteed by the Belgian or Luxembourg Governments, by the Belgian Municipal Credit Institute or by international financial institutions created under agreements to which Belgium is a party, or issued by agencies whose liabilities are guaranteed by the Belgian or Luxembourg Governments, together with bonds issued by the provinces and the municipalities, provided they are quoted on the stock exchange, and publicly-issued preference shares of the Belgian State Railways.
Advances to banks are intended to help them cope with cash needs: the banks use them failing assistance from the market, mainly to cover debt positions on their clearing account.
Credits are extended to manufacturers, dealers and individuals, to enable them to cope with exceptional and temporary cash needs, and to individuals in cases of hardship.
The rates differ with the nature of the security put up. In addition to the rates, the Bank publishes (see Table 14) the maximum percentage of the pledge which may be granted as an advance. This percentage or ratio also varies with the nature of the security lodged; the ceiling is 95 %.
Normally the credit facility is made available for an indefinite period, but it may be used for only short periods at a time. For individuals, the period of availability may not exceed eighteen months to start with, but may renewed.
The Banque Nationale also has authority to grant short-term loans against pledges of the same securities as for advances, and to make advances against deposits of gold or silver. These transactions are, however, unusual.

Para. II-3: *Rediscount and certification ceilings*

16. In 1969, the Banque Nationale introduced a new system of certification and rediscount ceilings for the banks. In contrast with the previous system, which was mainly concerned with solvency requirements, the aim of the new system is to adapt bank liquidity as required by the objectives of monetary policy; the immediate aim was to bring to a halt the exceptionally rapid expansion of the Bank's commercial portfolio.
The ceiling for each bank is fixed in relation to the average figure, over the previous twelve months, for its deposits in Belgian francs, bonds, medium-term notes and own funds. The ceilings are fixed as a proportion of the banks' resources chiefly because seasonal or accidental reductions in deposits are among the main factors liable to force the banks "into the Bank". When it is reached, a bank can no longer submit bills for discounting or certification by the Banque Nationale.
The ceiling applies both to total bills rediscounted and total bills certified. This takes account of the wide range of specialization among the banks in internal or external financing.
The following are set against the ceiling for each bank, thus reducing available margins:

1) The total of certified bills still having less than two years to run before maturity. In this way, since the certification system is a formal commitment by the Banque Nationale to rediscount, the bill is protected since the holder ap-

plying for rediscount is in no danger of being hampered by exhaustion of the margin available to the bank concerned;
2) The total of uncertified paper rediscounted at the Banque Nationale;
3) The total of uncertified paper rediscountable at the Banque Nationale and mobilized in the ex-bank market run by the Rediscount and Guarantee Institute. By charging certified bills to the ceiling of the bank granting the credit, the authorities ensure that, once they are mobilized, the purchasers are not prevented from rediscounting the paper because the bank concerned has meanwhile exhausted its available margin.

The rediscounting and certification ceiling was introduced by the fixing of the ceiling, on 1 May 1969, at the rate of 16 %, a rate high enough to avoid posing cash problems for the banks.

A subsequent reduction, staggered over a period of time to enable the banks to adjust their operations gradually, was effected to curb sales of commercial paper to the lender of last resort designed to offset bank cash losses due to deficits on certain classes of external payments. While the influx of funds from mid-September 1969 onwards was mainly due to other factors, the simultaneous lowering of the ceilings forestalled any undue increase in bank liquidity (see Table 18). In March 1970, the Bank lowered the ceiling to 9·5 % and to 9 % respectively at the end of June and September, while excluding from the ceiling certified export credit bills [1] with more than one year and at most two years to run. Finally, in March 1971, it cut the rate to 8 % for the end of May 1971, including two monthly reductions of 1·3 % in the interim.

The Banque Nationale reserves the right to change the ceiling of any bank as appropriate (solvency problems, failure to comply with credit restriction rules, etc.). In all cases, it remains free to assess the amount and status of the paper to be rediscounted or certified. In this connection, it should be recalled that the Bank never undertakes in advance to discount (save in respect of the certification) or certify bills.

Para. III: *Efficacy of refinancing policy and of action on interest rates*

Basic data and relations between interest rate and Bank rate

17. Variations in bank liquidity and the relatively high proportion of notes and coin in circulation compared with the total money supply (45·6 % at the end of 1970) often compel the banks to resort to the central bank and consequently are an incentive to them to ensure that the loans they make are a fully mobilizable as possible. Commercial paper plays a key role in the credit system in Belgium. At the year-ends 1966-1970 commercial bills outstanding corresponded to about 42 % of the amount drawn against credits originally granted by the banks to firms and individuals and abroad; at the same time, rediscounting by the Banque Nationale and other authorized institutions represented, on average, 9·4 % of this figure and 22·6 % of the total of commercial paper. Table 11 shows the total for all securities refinanced, broken down by main rediscounting agency.

Until the end of 1961, the key interest rates were more or less closely linked to Bank rate. As long as there was no real compulsory reserve system and the scope

[1] Paper representing export credit of at least Bfrs. 3 million for not more than two years, financed by a discount pool fed by banks and public credit institutions.

for open market operations was still limited, this link was of some importance in ensuring the efficacy of rediscounting policy. The reform of the Securities Stabilization Fund and of the money market (in 1959 and 1962 respectively), and the institution of a compulsory reserve system in 1961, have led to a looser relationship with Bank rate, particularly in respect of money market rates, and have brought interest rate trends into a closer relationship with actual market conditions.[1] There is no direct relationship between bank rate and medium and long-term capital market rates.

At present, Bank rate directly, though informally, influences two types of rate:

— As the Rediscount and Guarantee Institute obtain finance mainly by borrowing on the money market, but must always contemplate the possibility of having to rediscount as the central bank, its charges lie normally between the — usually low — call money rate and the Bank rate for the same type of paper.

— The interest rates charged by the banks for loans to firms and individuals are often fixed contractually by reference to Bank rate or the rediscount rate charged by the Rediscount and Guarantee Institute: the banks, too, must bear in mind the possibility of resort to these institutions. For investment loans, however, the banks generally align their rates on those of the National Industrial Credit Company, which are geared to those paid by the Company for the funds it borrows on the capital market.

However, independently of Bank rate, the Banque Nationale can influence several other rates, either through its role as Government adviser or through its powers with regard to money-market instruments, or again because of its membership of the boards of public financial institutions and supervisory or coordination agencies. At present, for example, the Governor of the Banque Nationale is chairman of the Council of Public Credit Institutions and — *de jure* — of the Central Office for Small Savings.

Moreover, since 1962, the maximum interest rates paid by the banks on Belgian-franc time deposits, previously tied to Bank rate, have been fixed by joint agreement between the Banque Nationale and the Belgian Bankers' Association, in the light of market conditions, the balance of payments and the business situation. The Banque Nationale is thus in a position to influence financial savings and movements of funds. Since September 1969, however, this arrangement no longer affects the rates for deposits of Bfrs. 5 million and over, which can now be fixed freely by the banks; at the end of 1970, these "heavy time deposits" accounted for 51 % of the banks' total Belgian-franc time deposits.

Conditions of efficacy of discounting policy

18. Bank rate changes have been very frequent in recent years: in 1969 there were no fewer than seven. This greater frequency is a measure of the growing influence in Belgium exerted by foreign market rates.

In conclusion, discounting policy in Belgium is an important monetary policy instrument, mainly because of the scale of discount credit granted by the banks and the total sums involved in their recourse [2] to the Banque Nationale's rediscount facilities. The efficacy of the instrument largely depends on the elasticity of credit

[1] See graph No 17 comparing Bank rate and money and capital market rates.

[2] Mainly indirect.

demand in relation to its cost; an elasticity which, of course, tends to weaken in an inflationary situation. Capital movements to and from abroad can also limit interest rate policy. Consequently, the efficacy of discount policy depends to a great extent on the simultaneous use of other instruments of monetary and economic policy.

Section II - Ratios and minimum reserve policy

General concept and history

19. Under the Banking Law, the Banking Commission may, through a regulation approved by the Minister of Finance and the Minister of Economic Affairs, determine from time to time what proportions must be maintained, for the various categories of banks:

a) between their liquid and mobilizable assets or certain parts of these assets, on the one hand and their sight and short-term liabilities, on the other.

b) between their capital and reserves, on the one hand, and the total either of deposits of or all their sight and short-term liabilities, on the other.

For the first category *a*), the rules must be made in consultation with the Banque Nationale; the latter may, of its own accord, submit to the Banking Commission reasoned proposal for adoption or amendment of such rules, where the Bank deems this necessary for monetary reasons. In this connection there are special rules for the monetary reserve ratio (see below I).

The rules on bank ratios apply to the "banks" [1] as defined by law (see Chapter I, Section I, paragraph II). Infringements are treated as penal offences. There are general supervisory rules to ensure compliance, providing for auditing by chartered accountants.

In 1946, for the first time, three bank ratios were introduced: a cash ratio (coefficient de trésorerie), a solvency ratio (coefficient de solvabilité), and a cover ratio (coefficient de couverture). The cash ratio and the cover ratio were discontinued in 1962; the solvency ratio was replaced in 1965 by an "own funds" ratio (coefficient de fonds propres). A monetary reserve ratio has been introduced in 1961 and was in force in 1964 and 1965. Only this ratio now has monetary policy implications. A re-employment ratio was instituted in 1969 for a period of one year.

Para. I: *Monetary reserve ratio*

20. Under a regulation issued by the Banking Commission in 1961,[2] this Commission may impose a monetary reserve ratio, thereby acting directly on the money supply by restricting banks' lending capacity.

The same regulation specified that the Banking Commission may impose this ratio

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[1] Since Royal Decree No 11 of 18 April 1967 (Article 13) (*Moniteur belge*, 20 April), the Central Office for Small Savings, the agency supervising private savings banks, has the power, in respect of private savings banks similar to that enjoyed by the Banking Commission, to lay down the same ratios through a regulation issued by Royal Decree.

[2] Regulation of 21 December 1961, *Moniteur belge*, 30 December 1961.

only on a proposal by the Banque Nationale motivated by the requirements of monetary policy and credit control. The monetary reserve ratio applies for three-month periods, renewable by the same procedure.
The monetary reserve takes the form of Belgain-franc balances on special sight deposit with the Banque Nationale; however, the Banking Commission may, on the basis of a reasoned proposal from the Banque Nationale, fix what proportion of the reserve may or must, according to circumstances, consist of current-account balances denominated in Belgian francs held with the Securities Stabilization Fund or public securities of a special type deposited with the central bank. The rules make no provision for remuneration of the reserve, but do not forbid this.
For the purposes of applying the ratio, the volume of money and near-money liabilished on the last working day of each month: this is the basis for calculating the monetary reserve for the monthly period beginning on the 15th of the following month. These liabilities consist of Belgian-franc commitments not covered by real pledges, for a contractual period not exceeding two years and, whatever their origin, having the nature of deposits, current-account liabilities, loans or securities payable at short term. There are three categories:
- Liabilities payable on demand or for a contractual period not exceeding one month (short-term liabilities);
- Liabilities for a contractual period of more than one month but less than two years;
- Liabilities in respect of deposit books opened on the withdrawal conditions approved by the Banking Commission.

For the purposes of applying the monetary reserve ratio, these categories may be taken together or separately; and they may be so taken either for their full amount, or for the increase in relation to a reference figure, or again by a combination of this latter figure and the increase noted.
The ratio may not exceed 20 % for liabilities on demand and not exceeding one month, and 7 % for liabilities at more than one month and for deposit books.
Only that part of the monetary reserve exceeding Bfrs. 20 million must actually be constituted; this figure may be increased by the Banking Commission when one at least of the ratios is fixed at a level higher than two-fifths of the maximum rates.
The obligation takes affect on the date fixed by the Banking Commission.
The monetary reserve ratio was applied by a Banking Commission Decree of 1 July 1964,[1] later extended until 15 July 1965. It was fixed at 1 % of overall money and near-money liabilities of the banks. The reserve was made up in the form of a special deposit with the Banque Nationale. The rules came into force on 17 August through a transitional system under wich the ratio was halved for the first two weeks.
The introduction of a monetary reserve ratio system was designed to strengthen anti-inflationary action taken by the Banque Nationale through the raising of its interest rates, the tightening of its criteria regarding eligibility for discount and its recommendations to banks to moderate the expansion of their lending to firms and individuals.
The monetary authorities fixed the reserve ratio at the low level of 1 % of money and near-money liabilities of banks because their aim was to achieve the desired

[1] *Moniteur belge,* 11 July 1964.

effect mainly through recommendations concerning the rate of growth of credit, adjusted according to the nature and the recipients of the loans granted; for the rest, the aim was merely to establish the arrangement so that the authorities could use it according to events, particularly should it be necessary to enforce credit restriction (see point 33). The specific effect of the experiment on banking liquidity has therefore not so far been substantial and it is consequently not yet possible to measure the impact of the ratio on the administration of liquidity by the banks. At all events, care has to be taken to ensure that the banks do not limit the effect of the ratio by reducing relatively the financing of the Treasury.

Para. II: *Own funds ratio*

21. In a regulation of 5 October 1965[1] the Banking Commission instructed the banks to comply with a minimum own funds ratio to replace the solvency ratio (see below).

The own funds ratio is the relationship between the total of a bank's own funds and the arithmetic average of the liabilities to be covered over twelve consecutive months; the liability to be covered is the total, at the end of the month, of liabilities, whether at term or notice, or not, denominated in Belgian francs or in foreign currencies, and consisting in deposits, balances, on current accounts, loans or securities payable at short-term.

The own funds ratio of each bank is established according to the classification ratio (fixed annually) of that bank, that is to say the relationship between the liabilities to be covered and the loans granted, each category of the latter being weighted in a different way. The minimum own funds ratio is 5 %, plus one percentage point per higher classification ratio category, with a maximum of 15 %. The banks must comply with the own funds ratio from the end of the seventh month following the date of closure of the preceding financial year.

When it established the own funds ratio, the Banking Commission aimed at affirming the obligation to ensure an amount in capital and in reserves properly related to the objective requirements created by the structure of each bank, the principle requirement being the degree of risk linked with the credits.

The own funds ratio is not used for monetary policy purposes.

Para. III: *Previous ratios*

22. In 1946 the Banking Commission introduced three new bank ratios: a cash ratio, a solvency ratio and a cover ratio. The rates differed for large banks, medium-sized banks and regional or specialized banks. A re-employment ratio was introduced in 1969 for a period of one year.

1) *Cash ratio*

The cash ratio, the aim of which is to safeguard the liquidity of the banks, is a minimum relationship between cash in hand liabilities payable on demand and at short-term. It was fixed at 4 % (for the large banks). It was discontinued in 1962 when preference was given to an arrangement under which the banks would voluntarily ensure maintenance of cash in hand as appropriate to the nature of their

[1] *Moniteur belge*, 26 October 1965.

main operations; moreover, the monetary reserve ratio henceforth served as an instrument enabling the authorities to influence the volume of liquidity held by the banking sector.

2) *Solvency ratio*

The solvency ratio was a minimum ratio fixed at 5 % (for the large banks) between own funds and funds borrowed or deposited. It was replaced in 1965 by the own funds ratio, a more elaborate system taking account of the risks associated with lending (see above).

3) *Cover ratio*

To avoid the large-scale monetization of public securities in the aftermath of the war (such securities accounted for a particularly high proportion of bank assets), the banks were required to maintain a minimum relationship between the volume of their Treasury certificates with terms up to one year, plus cash in hand and the total of liabilities demandable within two years. The ratio was fixed, for the large banks, at 65 %.

In a period of bank deposit growth, the main disadvantage of this system, which was adjusted in 1949, was that it automatically generated flows of funds into the Treasury. It was reformed in 1957: short-term debt lodged with the banks was converted into A certificates (maturing in one year) and B certificates (maturing in four months) of a special Government loan of a fixed amount; should their demand liabilities expand, the banks would supplement their partial cover by subscribing to certificates of the Securities Stabilization Fund instead of Treasury certificates.

The need to liberalize the Banks' lending operations and the fact that the Securities Stabilization Fund had built up what was felt to constitute an adequate "strategic reserve" led to the discontinuation, in 1962, of the obligation to hold cover in the form of public stock. The requirement was phased out over one year.

On 31 December 1962, the A certificates held by the banks were converted — the sum involved was Bfrs. 19,800 million — into a "special conversion loan" reimbursable in twenty years from 31 December 1972 onwards; since 1957, B certificates (four month certificates) cashed on maturity by the banks have been renewed by subscription from the Securities Stabilization Fund, which can retransfer them to the banks by auction.

4) *Re-employment ratio*

By a decree of 20 May 1969,[1] in force until 31 May 1970, the Banking Commission instructed the banks to increase gradually the ratio between their easily negotiable Belgain franc assets (cash, rediscountable trade bills, Belgian Government stock and securities) and their Belgian-franc liabilities maturing within two years.

For the application of the "minimum re-employment ratio", the banks are classified:

— Initially, in relation with their "reference ratio", which is the relationship between the arithmetic average of the assets and liabilities affected by the

[1] *Moniteur belge*, 7 June 1969.

obligation, as recorded at the end of February, March and April 1969;
— Next, from month to month, in relationship with their "normative" re-employment ratio.

For each of these categories there is a compulsory monthly increase: the rate is the number of points or fractions thereof which, each month (beginning at the end of June 1969), is added to the reference ratio to form the "normative" re-employment ratio.

The following table gives the figures:

Category	*Reference ratio or "normative" re-employment ratio*	*Monthly rate of increase*
I	below 20 %	5
II	from 20 % to less than 35 %	3
III	from 35 % to less than 45 %	1
IV	from 45 % to less than 55 %	0·3
V	from 55 % to less than 60 %	0·1
VI	60 % or more	0

The main objectives of the re-employment ratio were, on the one hand, to prevent the effect of the ceiling on rediscount and certification facilities with the Banque Nationale being neutralized by a reduction of the Bank' investments in the Belgian public sector and, secondly, to reverse the tendency for the proportion of assets not easily negotiable to increase as compared with liabilities maturing within two years.

The re-employment ratio regulations have been allowed to lapse, a change in money market condtions having made them unnecessary.

Section III - Control of the money market and transactions with foreign money markets

Para. I: *Open market policy*

Para. I-1: *The money market*

Concept and organization; participating institutions

23. The money market may be defined as the market for dealings between monetary institutions, other public and private financial intermediaries, the Treasury and the Securities Stabilization Fund in call money commercial bills and certificates of the Treasury and of the Securities Stabilization Fund.

The institutions organizing and supervising the money market are the Securities Stabilization Fund, the Banque Nationale and the Rediscount and Guarantee Institute.

The intermediaries dealing on the money market are, in addition to all the public

and private monetary institutions, the other public credit institutions,[1] private non-banking credit institutions and institutional investors;[2] some international organizations and a number of semi-public commercial institutions operate in certain sectors of the market.
The money market has three compartments: the very short-term money market, the market in public certificates maturing in one year at most, and the market in bank and commercial acceptances.

A. *The very short-term money market*

24. The very short-term money market is in fact concerned only with call money. By a protocol concluded between the participants on 16 November 1959, the clearing house (chambre de compensation) market and the non-clearing market were merged into a single market, on which transactions have since been negotiated more freely and, more important, under a guarantee. Indeed, in order to prevent differences in status and financial strength of borrowing institutions hampering the establishment of homogeneous rates, all borrowing operations must be secured either by general guarantee of the Government applicable to the liabilities of certain institutions or by a pledge of Government stock with the Banque Nationale.
Transactions are arranged bilaterally in the course of the day and the settlements have to be made through the clearing house. Transactions with could not be completed during day (either because the provisional closing of clearing arrangements prompted new bids and applications) are made at a single rate quoted at a special sitting in the light of supply and demand.
The guaranteed call money market was reorganized by a new protocol on 30 April 1969 designed to ensure that the working of the market was in line with its main objective, which is, in Belgium, to facilitate the financial administration of organizations which may have to cope with wide discrepancies between their daily revenues and expenditure on the one hand, and on the other hand to channel funds towards the financing of external trade and ensure control of the prices of public stock, through the Rediscount and Guarantee Institute and the Securities Stabilization Fund respectively. Accordingly, participation in the guaranteed call money market was reserved to financial establishments of the public or private sector which accept deposits of funds at sight, in savings or deposit books, or at maturities not exceeding three months, since these are the only organizations that have temporary cash surpluses or deficits the volume and size of which cannot easily be foreseen.
The participants undertook to comply with directives the Minister of Finance, the Banking Commission and the Central Office for Small Savings had issued shortly before in order to limit recourse to the guaranteed call money market to the covering of immediate cash needs, to the exclusion of any systematic support of lending or investing activity. These instructions require that averaged out for the calendar quarter, the participants lending to the market should at least match their borrowing from it. The call money rate is therefore not a reliable indication of the relationship between free supply and demand.

[1] National Industrial Credit Corporation, Central Office for Mortgage Credit, National Fund for Credit to Trade and Industry, National Institute for Agricultural Credit.
[2] General Savings and Pensions Fund, private savings banks, pension funds and life assurance companies.

The above undertaking of the participants is reinforced by the possibility of sanctions, since the Banque Nationale which has been made responsible for supervising enforcement has the power to suspend lending to any participant not complying with the rules.
The clause requiring participants to limit their borrowing from the market applies neither to the Rediscount and Guarantee Institute, which, by its nature, is in fact the prime borrower on the market, nor to the Securities Stabilization Fund, which must have power, as part of its control duties, to influence, for an indefinite period, both supply and demand.
In 1970, of the Bfrs. 8,600 million average daily call money dealings, the bank lent Bfrs. 3,800 million and the Securities Stabilization Fund Bfrs. 1,600 million, and the Rediscount and Guarantee Institute borrowed Bfrs. 6,700 million (Table 16).

B. *The market in public certificates*

25. The market in public certificates (and securities treated as such) is confined to the banks, the private savings banks, financial establishments of the public sector, certain semi-public utilities (Telephones and Telegraphs, Belgian State Railways), and to the Securities Stabilization Fund.
The certificates issued on this market are divided into the following categories:
1) Very short-term cash certificates (one, two and three months), subscribed and sold immediately by the Banque Nationale to the extent that it feels the market situation warrants this, at rates fixed by itself, to the banks, the private savings banks, public credit institutions and to public utilities.
2) Six, nine and twelve month cash certificates sold by tender on the same market as that of the very short-term certificates. The Minister of Finance and the Banque Nationale also decide on the acceptance of applications. The allotment is made at a single rate which is that of the highest rate accepted.
3) Tranche B four-month cash certificates, representing the conversion of about a third of the public debt, previously compulsorily lodged with the banks; these certificates are held by the banks and the Securities Stabilization Fund, which subscribes to B certificates held by the banks and reaching maturity. The Fund may sell the latter to the banks by tender, at the same rate as its own certificates.
4) The certificates of the Securities Stabilization Fund, also maturing at four months. These certificates are issued by weekly tender at a single rate, which is the rate of the highest bid accepted by the Fund. The proceeds of the sale of the certificates provide a facility which may, according to need, be sterilized in an account at the Banque Nationale or readmitted to circulation.
5) The certificates maturing at maximum one year which the Road Fund [1] has been authorized to issue since 1967. The timing and terms of issue of these loans are fixed by agreement between the Minister for Public Works and Finance and the Banque Nationale. The Securities Stabilization Fund subscribe to these certificates for subsequent placing on the market as part of its open market policy. So far, however, no such certificates have been issued, the Road Fund having used the money market by the other channel created at the same time,

[1] Public authority set up for the construction of motorways and the improvement of national roads.

namely the acceptance of bills of exchange with a term not exceeding 120 days drawn by contractors and discountable at the Banque Nationale according to the latter's own rules.

As regards the relative scale of transactions, most very short-term certificates and six, nine and twelve-month certificates have been taken up in recent years mainly by public credit organizations, especially the General Savings and Pensions Fund. The certificates of the Securities Stabilization Fund have been subscribed mainly by the banks.

Alongside the public-certificates market proper, other cash certificates are issued according to special agreements between the Ministry of Finance, on the one hand, and the banks and semi-public organizations on the other. This "special certificates" technique is very popular, so that as much — and even more — is placed in this way as in the form of ordinary cash certificates. This paper is placed mainly with the semi-public institutions (see Table 8).

C. *The market in bank and commercial acceptances*

26. Bank and commercial acceptances may be divided into three categories: acceptances certified by the Banque Nationale, non-rediscountable bank acceptances and domestic commercial acceptances.

1) Acceptances certified by the Banque Nationale: these are bank or commercial acceptances representing imports or exports, on which the Banque Nationale has placed its "visa" or certification as explained in Chapter II, Section I, para. II. The Rediscount and Guarantee Institute buys this paper at rates below Bank rate for acceptances not exceeding 120 days; it also sells them. A market, on which the Institute plays a key role, has therefore developed in these acceptances. In 1970, the Institute discounted Bfrs. 79,200 million worth of certified acceptances, the bulk of which was resold on the market or rediscounted at the Banque Nationale.
2) Non-rediscountable bank acceptances: most of these concern external trade operations, mainly imports. The Rediscount and Guarantee Institute acts as broker here, as it does for the third category below, and subsidiarily, to even out time-lags between supply and demand, as purchaser and/or seller. In 1970, it negotiated Bfrs. 19,700 million worth of paper in this way.
3) International commercial acceptances: as for certified acceptances, the paper dealt in is normally eligible for discount at the Banque Nationale; in practice it is so only by imputation at the time of the transaction, against the rediscount and certification ceiling of the selling bank (if this is not done, the dealing terms are the same as those for non-rediscountable bank acceptances). In 1970, the Institute negotiated Bfrs. 20,400 million worth of acceptances; the rate at which it buys them is below Bank rate.

The Rediscount and Guarantee Institute purchases these three types of security only from banks and sells them only to banks, public credit institutions, private savings funds, mortgage companies, foreign public credit institutions, international organizations and, to a much lesser extent, insurance companies. Access to the market is curtailed in this way because the Institute was set up mainly to help the banks and not to provide investment opportunities which would compete with the banks' collection of deposits.

At the end of 1970, the total of bank and commercial acceptances outstanding was Bfrs. 160,900 million (of which Bfrs. 31,700 million were certified acceptances).

The total was broken down as follows between the various groups of holders: Bfrs. 6,600 million with the Banque Nationale, Bfrs. 9,300 million with the Rediscount and Guarantee Institute, Bfrs. 122,000 million with the banks and Bfrs. 23,000 million with the other financial intermediaries.
The Rediscount and Guarantee Institute, which also deals in medium-term paper,[1] obtains funds by borrowing call money, by selling bills on the ex-bank market and by rediscounting at the Banque Nationale paper maturing in not more than 120 days.[2] Recourse to the money market enables the Institute to buy bills at lower rates of interest than those of the Banque Nationale. Table 22 throws light on how the bills negotiated by the Institute are financed; it shows that the Institute's use of the money market varies widely and that, in line with liquidity changes on the market, rediscounting at the central bank is often on a large scale.

Para. I-2: *Open market operations*

27. Open market transactions in public securities and funds are the responsibility of the Securities Stabilization Fund. However, the Banque Nationale also has an important role to play on this market because of its technical responsibilities with regard to several categories of public certificates and through its institutional and operational links with the Securities Stabilization Fund.
The Fund was set up in 1945 to control the market in medium and long-term Government stock;[3] the Banque Nationale agreed to stand aside from this control, though it retains its legal rights[4] in this field.
In 1959,[5] the range of action of the Securities Stabilization Fund was extended to the market in short-term public securities and to the market in very short-term funds. It operates on the latter market towards the close of business to offset net supply and demand and so prevent sharp fluctuations in rates; in addition, the Rediscount and Guarantee Institute, whose chief role is that of a borrower, seeks to adapt its requirements to market conditions.
To finance its operations, the Securities Stabilization Fund has at its disposal a capital stock of Bfrs. 2,800 million, very short-term loans from the market, the proceeds of issues of its own certificates (at four months) and a credit line (at present, Bfrs. 4,000 million) with the Banque Nationale, normally secured on tranche B cash certificates; the latter credit is independent of the margin granted to the Government (see Chapter I, Section II, para. III) and ranks ahead of it for repayment.
Table 13, which traces the movement of the main items in the Securities Stabilization Fund's balance sheet shows that its portfolio is mainly accounted for by medium and long-term securities but that, occasionally, it includes a small amount of short-term paper apart from the certificates B. At the end of each month in the years from 1967 to 1970 inclusive, the Fund had virtually no credit balance at the Banque Nationale, while its cash certificates portfolio (without the B certificates) and its very short-term lending ranged up to maxima of Bfrs. 6,300 million and

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[1] Paper maturing in not more than ten years covering industrial investment or exports of capital goods.

[2] The Institute is also entitled to issue medium-term notes or cash certificates maturing in not more than five years. This has however not been done since 1942.

[3] Decree Law of 18 May 1945, Art. 2 (*Moniteur belge*, 30 May 1945).

[4] Royal Decree of 24 August 1939, Art. 11(3) (*Moniteur belge*, 26 August 1939).

[5] Law of 19 June 1959, Art. 8 (*Moniteur belge*, 20 June 1959); Protocol of 16 November 1959, covering participation in the guaranteed call money market.

Bfrs. 3,500 million respectively. During the same period, the outstanding certificates issued by the Securities Stabilization Fund reached a maximum of Bfrs. 12,300 million, very short-term borrowing Bfrs. 5,100 million, and advances from the Banque Nationale Bfrs. 3,500 million. Where the accounts show simultaneous lending and borrowing on the very short-term market it is because the Fund engages in transactions with institutions not enjoying access to the official market. The Fund does not intervene on the acceptances market, which is controlled by Bank rate policy and the discount and sales policy pursued by the Rediscount and Guarantee Institute, which, in close association with the central bank, sponsors the ex-bank market.

The money market has three separate sectors, but there are many links between them. Dealers on the call money market may, after closure, either buy very short-term Treasury certificates, or use the refinancing facilities of the Banque Nationale. Normally, call money will be borrowed only if the rate falls short of Bank rate or of the rate of advances by the central bank. The Rediscount and Guarantee Institute, through its own transactions, ensures liaison between the acceptance market, the call money market and central bank policy, since it obtains finance by borrowing at call, by selling bills on the "outside" market and by using the Banque Nationale's rediscount facility. These functional bonds are strengthened by institutional links between the Banque Nationale, the Securities Stabilization Fund and the Institute.

Objectives of the operations

28. In addition to its original function as institution controlling the market in fixed-interest securities, the Fund has gradually been assigned other tasks, now enabling it to operate throughout the public stock market and on the very short-term money market. It contributes to the success of loans raised by the public authorities and helps to ease or eliminate any temporary strain engendered by cash operations on the money market. Thus, the large number of factors guiding the work of the Fund act in a complex pattern of interdependence, sometimes overlapping, sometimes clashing. At all events, the practical objective of the Fund is to speed up or slow down trend changes and to offset to some extent seasonal or fortuitous variations.

In general, the scope for an effective open market policy — be it in the short or in the long-term — is very limited.

In respect of the short-term, the difficulty is due to the lack of any genuine market. There are neither market sponsors nor brokers specializing in dealings in short-term public stock. Direct dealing between interested parties is feasible but apparently very rare: one reason for this may be that the institutions concerned can adjust their holdings of short-term public securities to liquidity needs merely by appropriate timing of subscription and redemption dates, since the range of maturities is wide and a good deal of latitude is given to subscribers with regard to the date of actual delivery of certificates subscribed and their real lifetimes.

With regard to the long-term, the constraints deriving from the obligation on the Securities Stabilization Fund to control the public stock market so as to facilititate the covering of Treasury needs often hamper the achievement of open market policy objectives. In Belgium budgetary spending consistently exceeds revenue with the result that the Treasury is continually having to resort to the money and capital markets.

Para. II: *Operations bearing on international capital flows*

Reasons and setting for these operations

29. The impact of international trends on national monetary policy has grown stronger in recent years, partly because of the tendency for banking operations to move more strongly into the international area: the banks have stepped up their transactions on external money markets considerably, as is evidenced by the growth, between the end of 1964 and the end of 1970, of the following two items as percentages of aggregate bank assets: during this period, foreign currency liabilities to foreign correspondents rose from 14·1 % to 25·7 % and foreign currency claims on these correspondents rose from 8 % to 18·2 %.
The result is that the liquidity of the domestic money market is coming to be influenced more and more by external factors, and to the same extent the effectiveness of the instruments available to the monetary authorities is being weakened. For example, the remuneration of certain financial assets in Belgium is aligned on rates prevailing on the international market.
In Belgium the control of capital movements is mainly the responsibility of the Belgo-Luxembourg Foreign Exchange Institute (IBLC). As part of its action to control bank liquidity and credit, the Banque Nationale must watch that banks do not obtain large sums abroad. To achieve this purpose, it may have to impose limits on the net external debtor position of the banks.

Para. II-1: *The two-tier exchange market*

30. In 1955, the Institute established a free market for capital representing purely financial transfers abroad. This was in addition to the payment arrangements on the official foreign exchange market, the "controlled" market, on which payments for exports of goods and services were to be made.
However, the IBLC did not forbid payments for imports of goods and services through the purchase of foreign exchange on the free market or the inflow of purely financial capital through the controlled market.
The fact that a choice existed between the two markets, in respect of certain categories of payments and the right to sell free claims on the controlled market, prevented the fluctuating rates on the free market from falling below those of the controlled market, which are fixed within the limits of the margins authorized by the International Monetary Fund. On the other hand, the free rates could move upwards under the pressure of undue demand for foreign exchange needed to finance the export of capital.
From the monetary policy point of view, exchange control could act therefore only as a curb on deflation, in so far as rising exchange rates on the free markets helped to discourage capital outflows. However that may be it is important to note that the rise in rates on the free market has never served monetary policy aims; it has merely been the consequence of the working of a system the sole purpose of which is to protect exchange reserves.
On 10 May 1971, the IBLC separated the controlled market from the free market completely. Imports of goods and services must now be paid for through the controlled market in the same way as exports; moreover, purely financial capital can now enter the BLEU only through the free market. These changes serve to switch any surplus supply of foreign exchange to negotiation on the free market at rates falling short of those on the controlled market, while, in other circumstan-

ces, as before 10 May 1971, an excessive demand for foreign exchange is channelled to the free market at rates higher than those on the controlled market.
Like the old system, the new system has no immediate monetary policy objectives. Nonetheless, it helps to curb inflation where the supply of foreign exchange is too heavy; where demand for foreign currencies is excessive, the effects of the new system are the same as those of the old.
The existence of a free foreign exchange market since 1955 has enabled BLEU residents and non-residents to make transfers of Belgian francs and foreign currencies into and out of the BLEU without restrictions.

Para. II-2: *Control of remuneration of deposits and investments made on the money market by non-residents*

31. When the IBLC separated completely the two foreign exchange markets, it instructed the banks at the same time to discontinue all interest payments on Belgian franc sight deposits owned by non-residents and held on "convertible" accounts.[1] The purpose of this rule was to stem the inflow of foreign currencies into Belgium. The Institute also forbade the banks to open deposit accounts in "convertible" francs for non-residents.

Para. II-3: *Control of the external position of banks*

32. In 1968 and in the first quarter of 1969, a number of Belgian and Luxembourg banks had appreciably increased their "controlled" foreign currency balances which should normally be held down to the amounts necessary for the financing of transactions in respect of which the banks are empowered to operate on the controlled foreign exchange market.
At the beginning of April 1969, the Belgo-Luxembourg Foreign Exchange Institute called on the banks to make the necessary arrangements to bring their spot position in controlled foreign exchange, increased by their Belgian or Luxembourg franc advances to non-residents on "convertible" accounts, below a ceiling related to the volume of their normal foreign exchange business for customers.
In exceptional cases, the Banque Nationale acted on behalf of banks requesting its assistance in order to be able to comply with the Institute's instructions; it purchased dollars spot for resale forward at the same rate.
These arrangements were later amplified and strengthened.
Early in 1971, a situation the opposite of that obtaining at the beginning of 1969 arose: the banks, borrowing heavily abroad and selling the foreign exchange to the central bank, were making excessive additions to domestic liquidity.
In March 1971, the Banque Nationale therefore called on the banks to exercise the greatest restraint in those of their external operations in foreign exchange and Belgian francs which lead to the creation or aggravation of an external debtor position in their books. It warned the banks that if it found that some establishments were not following its recommendations, it would be forced to envisage offsetting the increase in their resources by a severe cut in their rediscount and certification ceiling.
In May 1971, several banks advised the Banque Nationale of circumstances making it difficult for them to comply with the limits set on their net external indebted-

[1] Belgain-franc accounts opened for non-residents to record transactions in foreign currencies on the controlled market.

ness, because their increased debts were due to the constitution of Belgian-franc deposits by non-residents and not to their own foreign exchange borrowings. Reluctant to penalize banks receiving foreign funds they had not solicted, the Banque Nationale arranged that the banks in default should make special interest-free deposits with the Bank itself. The accounts are not blocked: if the position of the bank concerned recovers, it can withdraw the funds deposited, in appropriate amounts.

Section IV - Direct action on lending

Para. I: *Quantitative control*

Legal previsions and general characteristics of qualitative control of credit

33. The Banque Nationale determines policy on the direct control of credit; policy is implemented, with regard to the banks, by the Banque Nationale, and, for the other types of financial intermediary, though the appropriate trustee authorities.
Credit restraint can be quantitative or selective, general or specific. It has no explicit legal bases, but derives from the responsibilities for preserving monetary balance assured by the Banque Nationale, the Government and the specific trustee agencies. The rules are therefore enforceable through the powers these authorities possess; for example, the directives of the Banque Nationale are supported by its position as lender of last resort.
On several occasions since 1964, the Banque Nationale has adopted measures to curb credit to firms and individuals, either overall or through quotas, where other monetary policy measures had failed of their purpose, that of slowing down inflation.
So far as the banks are concerned, the credit restraint take the form of a quantitative restriction, for a given period, and in relation to a base date or period, of the expansion of credit drawn from each establishment; it is usually supplemented by recommendations encouraging the banks to be selective in the use of this reduced lending potential, preferring certain types of borrower to others.
Certain types of credit may escape general limitation. For example, the instructions issued on 30 April 1969 by the Banque Nationale concern only lending to firms and individuals, excluding cash lending abroad in foreign currency and discount credit to the Road Fund. Subsequently, export credit bills and certain investment credits were also exempted.
So far, where the credit limitation rules have been waived for certain institutions, this has been done for practical reasons only: for example, banks recently set up are allocated quotas adapted to their special situation. In any case, there is an absolute minimum amount for outstanding credit.

Recent application of restriction

34. The Banque Nationale introduced arrangements to restrain credit of last resort by a directive of 30 April 1969. The purpose of this was to curtail the expansion of credit drawn and, hence, credit granted during the last eight months of 1969.
It had become evident that the increase in domestic expenditure and in outflows

of funds was being facilitated by an expansion in lending to firms and individuals. The total bank credit drawn and subject to the policy of restraint had increased by 18·7 % in 1967 and by a further 19·4 % in 1968.

The directive covered the utilization (total figures) of all acceptance, discount, promissory note and cash credit granted at origin by each bank, except cash advances extended abroad in foreign exchange and discount credit to the Road Fund. To avoid specially favourable treatment of certain types of financing, and consequently privileged treatment for banks specializing in these fields, no other type of credit was excluded from the quota arrangement.

On the basis of the average outstanding credit in 1968, the amount of credit subject to a restriction for each bank was confined originally to the index rating of 118 on 30 June and 30 September 1969 and to the index rating of 122·5 on 31 December 1969, with the proviso that the increase could in any event reach Bfrs. 40 million on the first two of these dates and Bfrs. 50 million on the third. As a result of persistent outflows of private capital, the original limits were subsequently tightened: the index for the end of September was reduced on 18 August from 118 to 116 and the index for the end of December was reduced on 17 December from 122·5 to 119·5. At the same time, the restrictive arrangements were extended for the first six months of 1970.

In March 1970, the Banque Nationale abolished the limits which had previously been fixed for the end of March and the end of June 1970; they had ceased to be effective because the change in "leads and lags" and the repatriation of balances held abroad before the revaluation of the German mark had enabled a large number of firms to cut down their borrowing from the banks. The Banque Nationale set a new ceiling on the expansion of credit, fixed for the end os September 1970, but no longer applying to the credit granted through "Creditexport"; to encourage export on a large scale, export credits were excluded from the restraint. The general rule authorized an increase of the restricted credit by 6 % of the end-1969 position in the first nine months of 1970. The permitted growth rate was 8 %, after taking account of the effects of special arrangements made, as usual, for small and new banks, and of the general adjustment made in May 1970 in favour of banks which, for special reasons, had difficulty in complying with the norm fixed for the end of September.

In September 1970, the Banque Nationale prolonged the credit restraint and relaxed it at the same time, setting the authorized increase for the end of the year at 6 % of the norm fixed for the end of September; it also advised the banks to avoid increasing the amounts outstanding (at 30 September) of those funds lent to finance-instalment sales of services and consumer goods, personal instalment loans (save those for housing) and loans to finance companies, and to channel the resources released in this way and through the relaxation of the restraint as a matter of priority to the financing of industrial, agricultural or small commercial investment, to the manufacture of goods for export and to the implementation of other programmes particularly to growth or enhanced productivity.

In the following December, the credit limitation arrangements were again prolonged, the permitted increase by the end of March 1971 being fixed at 8 % over the norm for the end of September 1970, but a new category of credit was excluded from the scope of the rules, i.e. the drawings made on investment credits to residents opened before 9 December and reported to the Risk Office not later than 15 December. The banks were recommended to keep the increase in consumer credit to 5 % over the position at the end of September — a ban on any

increase had been imposed three months previously — and to ensure that their lending was not used to encourage speculation on price increases.
On 24 March 1971, at a time when the pressure from the supply side had abated a little, but cost inflation continued and the effects of the introduction of the VAT were being felt, the Banque Nationale renewed the credit limitation arrangements until 30 September 1971, setting the authorized increase at 4·5 % for the end of June and 6% for the end of September, over the norm fixed previously for 31 March; it maintained the exemption of cash advances abroad in foreign exchange, discount credits to the Road Fund, export credits and investment credits to residents (opened before 24 March and reported not later than the end of that month). In this way, it was forecast that total credit (credit subject to restraint plus the export credit bills and investment credit excluded from the restraint) could increase, apart from seasonal variations, at an annual rate of 15 %. While leaving, as usual, the distribution of lending within the quota to the discretion of the banks themselves, the Banque Nationale recommended that they should increase the volume of consumer credit outstanding at the end of September 1970 by only 9 % by end-June and 12 % by end-September 1971 and repeated its invitation that they should guard against the use of their loans for speculation on price increases.
In its instructions, the Banque Nationale stated that if quotas were exceeded, the certification and rediscount ceilings of the banks affected would be cut by at least the absolute amount by which the limitation was exceeded.
Table 23 shows the trend of actual utilization of bank credit subject to limitation, in relation with the limits set.
Directives similar to that issued by the Banque Nationale were made by the Minister of Finance and the Central Office for Small Savings to the other main classes of financial intermediary, namely the public credit institutions, the private savings banks and the life assurance companies; these rules, concerning the actual amount of credit allocated (whether used or not), were adapted to the ways in which these institutions work. For all these financial intermediaries new credit in 1969 and 1970 fell below the authorized maxima.

Para. II: *Selective control of credit*

35. Action on the volume of credit aims at providing the appropriate response to phenomena characterizing the economy as a whole. However, these phenomena or their causes, may sometimes be located in a particular sector: one of these is the building industry, where business fluctuates relatively independently of other areas of the economy; private consumers, expenditure is another. Although this circumstance warrants selective action by the monetary authorities, in Belgium it is not as elaborate as the comprehensive measures.
Apart from selective admission to discount and exemption from credit restraint, the selective action on credit is brought to bear through recommendations accompanying the credit restraint rules. On 3 November 1969, such recommendations included for the first time selective quota control of credit, the banks being called upon to keep the total credit extended, directly or through specialized companies, to finance the purchase and construction of buildings other than industrial, agricultural and small business buildings, together with instalment sales credit and personal loans, within the overall limits of the respective positions at the end of October 1969.
With regard to instalment credit (hire-purchase sales and personal loans), the bulk

of which is consumer credit, the Government also has statutory powers to fix a minimum down-payment, a maximum period for repayment of the loan, and maximum rates of interest; these powers have very often been used, but they involve no quota restriction.

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[1] The annual reports of the *Banque Nationale* are published in English as well as in French and Dutch.

STATISTICAL TABLES

TABLE 1

Money supply

(*in Bfrs. '000 million*)

End of period	Notes and coin			Sight deposits						Total money supply	Percentage of notes and coin in total money supply
					Held by firms and individuals (1)						
	Treasury notes & coin (2)	Notes of the Banque Nationale de Belgique (3)	Total notes & coin (3)	Held by the Treasury and the local authorities	Current accounts with the BNB (3)	With the Postal Cheque Office (3)	Deposits at sight and up to one month with banks and semi-public establishments (3)	Total	Total sight deposits		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9) = (4)+(8)	(10) = (3)+(9)	(11) = (3)+(10)
1960 December	5.2	124.1	126.8	7.3 (5)	0.7	26.9	58.7 (4)	86.3	93.6	220.4	57.5
1961 December	5.5	129.1	132.2	10.0	0.6	27.9	66.7	95.2	105.2	237.4	55.7
1962 December	5.8	138.5	141.7	10.6	0.5	30.4	71.3	102.2	112.8	254.5	55.7
1963 June (e)	5.9	146.2	149.6	12.8	0.4	32.2	78.2	110.8	123.6	273.2	54.8
New series (6)											
June	5.9	146.2	149.6	12.8	0.4	32.2	76.0	108.6	121.4	271.0	55.2
December	6.1	150.5	153.7	12.1	0.5	32.9	78.6	112.0	124.1	277.8	55.3
1964 December	6.4	160.3	163.7	10.8	0.6	35.9	86.4	122.9	133.7	297.4	55.0
1965 December	6.6	170.3	173.4	11.8	0.4	37.6	95.4	133.4	145.2	318.6	54.4
1966 December	6.9	175.3	178.7	14.9	0.5	41.5	104.1	146.1	161.0	339.7	52.6
1967 December	6.5	177.5	180.1	17.4	0.5	39.0	113.5	153.0	170.4	350.5	51.4
1968 December	6.6	183.2	185.4	20.8	0.8	46.2	123.3	170.3	191.1	376.5	49.2
1969 December	7.0	183.0	185.2	25.6	0.4	43.9	131.2	175.5	201.1	386.3	47.9
1970 December	7.5	188.2	190.7	25.2	0.4	49.6	152.6	202.6	227.8	418.5	45.6

(1) Including semi-public administrative organizations.
(2) Excluding the balances of the Banque Nationale.
(3) Less holdings of money-creating credit institutions.
(4) The deposits of Congolese residents with Belgian banks should not be included in the money supply. Statistical difficulties however, hamper the application of this principle. For example, until the end of July 1960, deposits up to one month of Congolese residents (non-banks) with Belgian banks were included in the money supply; they were excluded from it, up to a ceiling of Bfrs. 100 million in August and up to an extra Bfrs. 400 million in September, but these amounts were subsequently partly re-included, to the amount of Bfrs. 100 million in December 1960 and a further Bfrs. 100 million in January, a further Bfrs. 100 million in September and further Bfrs. 100 million in October 1961. The result is that changes in the figures in column 7 of the present table during the period from July 1960 to October 1961 are to some extent purely a matter of accounting.
(5) The figure for sight deposits owned by the Treasury and the subordinate public authorities at the end of December 1960 is abnormally low because of disruption caused by strikes. Had there been no strikes, the figure would certainly have been somewhere between Bfrs. 8,000 and 9,000 million.
(6) For an explanation of the discrepancies between the new and the old series, the reader should refer to Section 2 of the article "Chapitre XII, Gérances et dettes dans l'économie belge" and "Chapitre XIII, Organismes monétaires de la partie statistique" in the Information and Documentation Bulletin (BNB): XLIInd year, Volume I, Nº 1, January 1967.
(e) Estimation.

Source: Information and Documentation Bulletin of the Banque Nationale de Belgique (Table XIII-4).

TABLE 2

Sources of changes in money and near-money holdings of monetary institutions

(in Bfrs. '000 million)

Periods	Money supply	Near-money	Total money supply and near-money	External transactions (current) balance + capital transactions of firms and individuals)	Lending to firms and individuals (1)	Refinancing outside monetary institutions (increase: —) (2): of commercial claims on abroad	Refinancing outside monetary institutions (increase: —) (2): of credits to firms & individuals	Money-market financing of public authorities: Central Government	Money-market financing of public authorities: Other public authorities (3)	Realization of public securities: Purchases on the market by monetary institutions	Realization of public securities: Through the Securities Stabilization Fund	Credits to non-monetary financial intermediaries	Bank bonds	Miscellaneous
	(1)	(2)	(1)+(2)=(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1960	+ 4.4	+ 6.1	+10.5	— 1.6	+ 6.0	+0.5	—1.0	+ 6.5	+2.2	+0.1	+1.9	—0.1	—0.7	—3.3
1961	+16.7	+ 9.1	+25.8	+ 7.8	+ 9.9	—1.1	—1.7	+ 3.6	+2.0	+1.5	+0.4	+2.5	—1.1	+2.0
1962	+17.1	+ 4.3	+21.4	+ 4.7	+11.5	—0.2	+0.1	+ 0.8	+2.2	+0.5	+0.7	+2.4	—2.4	+1.1
1963	+25.6	+ 8.2	+33.8	— 1.4	+16.4	—0.1	+1.3	+23.4	—0.2	—1.6	—0.1	+1.4	—0.4	—4.9
1964	+19.6	+ 6.1	+25.7	+ 7.0	+11.0	...	—1.6	+12.4	+1.7	—2.2	—1.0	+0.2	...	—1.8
1965	+21.1	+11.6	+32.7	+13.2	+15.9	—1.2	—1.6	+ 4.9	+4.5	—1.1	—2.0	+1.3	...	—1.2
1966	+21.2	+12.8	+34.0	— 4.0	+20.2	+1.1	+2.2	+11.8	+3.2	—1.1	—0.6	+2.4	—0.6	—0.6
1967	+11.0	+21.6	+32.6	+17.1	+26.1	—2.7	—4.0	+ 1.4	—0.1	—2.0	—0.9	+1.5	—1.6	—2.2
1968	+26.1	+18.2	+44.3	— 8.1	+25.6	+0.8	...	+23.7	+3.1	—2.1	+0.7	+4.0	—3.0	—0.4
1969	+ 9.8	+29.4	+39.2	+12.6	+11.1	—2.8	+3.5	+20.1	+2.7	—2.1	—0.7	+4.9	—4.4	—5.7
1970	+32.2	+13.1	+45.3	+13.5	+25.0	—4.8	—2.5	+ 4.5	+8.6	—1.2	—1.2	+8.4	—4.6	—0.4
1969 1st quarter	— 4.4	+10.2	+ 5.8	— 0.7	+ 7.7	—1.0	—0.9	+ 6.5	—2.8	—1.8	—1.8	—0.6	—0.7	+1.9
2nd quarter	+21.7	+ 3.4	+25.1	+ 4.2	+ 6.9	—0.4	+2.1	+13.1	+3.3	+0.3	+1.3	+1.9	—1.7	—5.9
3rd quarter	—19.9	+ 9.4	—10.5	— 2.9	— 4.2	+0.9	+1.6	— 4.6	+1.3	—0.7	+0.9	+3.6	—1.3	—5.1
4th quarter	+12.4	+ 6.4	+18.8	+12.0	+ 0.7	—2.3	+0.7	+ 5.1	+0.9	+0.1	—1.1	...	—0.7	+3.4
1970 1st quarter	+ 3.8	+ 4.3	+ 8.1	+ 1.8	+ 3.0	—1.3	—1.6	+ 5.6	+0.9	—0.6	—1.2	+1.0	—1.4	+1.9
2nd quarter	+20.7	+ 2.8	+23.5	+ 4.5	+ 7.6	...	+1.8	+ 8.7	+1.3	—0.8	—2.3	—0.8	—1.0	+4.5
3rd quarter	—11.5	+ 7.4	— 4.1	+ 3.9	+ 0.3	—2.6	—0.6	— 9.9	+2.8	—0.2	+2.6	+3.7	—0.8	—3.3
4th quarter	+19.2	— 1.4	+17.8	+ 3.3	+14.1	—0.9	—2.1	+ 0.1	+3.6	—0.4	—0.3	+4.5	—1.4	—3.5

(1) Variation in the used outstanding amount of discount, advances and acceptances credit (except securities used for mobilization of commercial claims on abroad), originally granted by monetary institutions.

(2) This is net re-financing: credits granted at their origin by monetary organizations and refinanced by them with non-monetary organizations minus credits granted at their origin by the latter and refinanced by them with monetary organizations.

(3) Including pension funds.

Source: Information and Documentation Bulletin of the Banque Nationale de Belgique (Table XIII-3).

TABLE 3

Principal financial assets (1)

(Changes in Bfrs. '000 million)

	Belgian francs					Foreign currencies			Grand Total
	Cash holdings (2)	Non-monetary fixed-income assets (3)	Shares (4)	Less: Securities held by non-residents	Total	Deposits at Belgian banks	Securities (5)	Total	
1965	+20.1	+ 60.7	+2.6	—(+0.5)	+ 82.9	—0.7	+ 1.6	+ 0.9	+ 83.8
1966	+18.1	+ 61.0	+3.6	—(—0.2)	+ 82.9	+1.3	+ 6.1	+ 7.4	+ 90.3
1967	+ 8.5	+ 86.6	+4.6	—(+2.8)	+ 96.9	+2.7	+ 4.8	+ 7.5	+104.4
1968	+22.7	+ 80.6	+8.7	—(—0.5)	+112.5	+0.4	+12.6	+13.0	+125.5
1969	+ 4.9	+ 89.2 (p)	+6.8	—(—1.1)	+102.0 (p)	+5.9	+15.0	+20.9	+122.9 (p)
1970 (p)	+32.7	+100.9	+2.0	—(+1.3)	+134.3	—3.4	+14.9	+11.5	+145.8

(1) Held by individuals and enterprises (other than financial intermediaries), including public operating organizations and certain financial intermediaries which could not be excluded in 1970: life assurance companies, employers' liability insurance companies and pension funds.

(2) The cash holdings of the sectors described in footnote (1) have been calculated by adding together the total amount of notes and coin and the sight deposits held by individuals and enterprises.

(3) Deposits on ordinary or savings banks, other deposits at not more than one year; financial assets at medium and long terms.

(4) Belgian companies' public share issues: amounts paid in cash on issue or on calls for further funds.

(5) Net purchases by residents of the Belgo-Luxembourg Economic Union.

(p) Provisional figures.

Source: Banque Nationale de Belgique, annual reports.

TABLE 4

Money supply and short-term non-monetary financial assets held by individuals and firms (1), *and their proportion of GNP*

(in Bfrs. '000 million)

End of period	Money supply				Non-monetary short-term financial assets					Total liquidity of the economy	
	Notes and coin	Sight deposits	Total	Total as % of GNP	Deposits in foreign currencies with Belgian Banks	Deposits on ordinary or savings books	Deposits at not more than one year	Total	Total as % of GNP	Absolute figures	% of GNP
1964	163.7	133.7	297.4	38.2	5.2	169.7	43.8	218.7	28.1	516.1	66.3
1965	173.4	145.2	318.6	37.5	4.4	189.3	52.7	246.4	29.0	565.0	66.5
1966	178.7	161.0	339.7	37.2	5.7	207.9	61.7 (2) 63.5 (3)	275.3 (2) 277.1 (3)	30.1 30.3	615.0 (2) 616.8 (3)	67.3 67.5
1967	180.1	170.4	350.5	35.8	8.4	231.5	71.2	311.1	31.8	661.6	67.6
1968	185.4	191.1	376.5	36.3	8.8	258.8	76.9	344.5	33.2	721.0	69.5
1969	185.2	201.1	386.3	33.8	14.7	270.1	104.4	389.2	34.0	775.5	67.8
1970	190.7	227.8	418.5	33.3 (e)	11.4	277.5	127.9 (p)	416.8 (p)	33.2 (e)	835.3 (e)	66.5 (e)

(1) Other than financial intermediaries.
(2) Old series.
(3) New series.
(p) Provisional figures.
(e) Estimate.
Source: Banque Nationale de Belgique.

TABLE 5

Velocity of turnover of certain components of the liquidity of the economy

Monthly averages	Sight deposits at banks	Balances on Postal Cheque Accounts	Ratios of withdrawals on ordinary savings or deposit books (Caisse Général d'Epargne et de Retraite)
1960	2.06	3.04	Unknown
1961	2.18	2.96	Unknown
1962	2.23	2.89	0.24
1963	2.23	2.85	0.25
1964	2.46	3.08	0.28
1965	2.48	3.30	0.26
1966	2.67	3.47	0.29
1967	2.72	3.71	0.31
1968	2.74	3.83	0.32
1969	3.03	4.07	0.35
1970	3.33	4.13	0.39

Source: Banque Nationale de Belgique.

TABLE 6
Bank liquidity

(Bfrs. '000 million

	30.9. 1969	31.12. 1969	31.3. 1970	30.6. 1970	30.9. 1970	31.12. 1970
A. *Bank liquidity* (1)						
1. Notes of the Banque Nationale de Belgique	4.6	4.8	5.1	5.2	4.7	5.0
2. Current accounts with the Banque Nationale de Belgique	0.1	1.0	1.0	0.1	0.1	1.2
3. Balances at the Postal Cheque Office	0.7	5.7	2.8	0.7	0.6	3.1
4. Net lending of call money in Bfrs.	3.9	4.9	4.1	1.2	3.4	2.2
5. Commercial paper rediscountable at the Banque Nationale (2)	14.0	12.0	16.3	15.7	20.6	16.8
6. Treasury certificates maturing within not more than one year, in Bfrs.	10.3	7.8	12.5	16.0	16.1	10.1
7. Certificates of the Securities Stabilization Fund	3.8	5.4	4.2	6.2	8.2	6.4
8. Net cash position in foreign exchange (not including participations)	3.8	4.0	4.5	6.0	2.8	3.4
9. Less advances against securities of the Banque Nationale de Belgique	—0.2	—	—	—	—0.1	—
Total	41.0	45.6	50.5	51.1	56.4	48.2
B. *Indicators of the potential outgoings of the banks*						
1. Bfrs. sight liabilities (3)	119.0	127.4	129.0	137.3	132.1	143.9
2. Bfrs. liabilities maturing within not more than one year (4)	275.9	293.0	311.6	324.1	330.2	340.8
3. Bfrs. liabilities maturing within not more than one year and available balances of trade credit lines opened	447.7	468.2	501.6	518.7	531.8	553.8
C. *Liquidity ratio: Total of A as percentage*						
1. of B 1.	34.5	35.8	39.1	37.2	42.7	33.5
2. of B 2.	14.9	15.6	16.2	15.8	17.1	14.1
3. of B 3.	9.2	9.7	10.1	9.9	10.6	8.7

(1) While the re-employment ratio was applicable (i.e. from 30 June 1969 to 31 May 1970) it may have made some of the assets treated here as part of bank liquidity non-realizable, but its exact impact on bank liquidity is difficult, and indeed impossible to asses: for one thing, the numerator of the ratio, which included Government stock and all commercial paper definable in theory as rediscountable securities was defined somewhat differently from liquidity as given here; secondly, a decline in liabilities, which is one of the contingencies against which the banks hold easily realizable assets, would have had the effect of reducing the proportion of these assets which was blocked by the ratio.

(2) Taking into account rediscount and certification ceilings.

(3) Bankers, headquarters, branches and subsidiaries: loro sight balances minus the corresponding items of the Belgian franc assets: nostro sight balances (the reason why these asset items are deducted here rather than added to liquidity is that they probably largely correspond to the balances which the banks carrying out transactions among themselves must necessarily, because of delays, postal among other things, hold with each other and which accordingly cannot be used and are not likely to have to be repaid) deposits and current accounts — at sight; financial companies — at sight.

(4) Creditors covered by real collateral, minus the Banque Nationale's advances against securities (since these advance are deducted from liquidity, they would affect the ratio twice over if they were included here); bankers, headquarters, branches and subsidiaries, minus the corresponding items of Belgian franc assets (for the reason for this deduction see note (3) above, same items); other securities payable at short term; deposits and current accounts; at sight, at one month at most and at more than one month; deposit books; other deposits accepted on deposit books or bank books; financial companies — at sight, at one month at most and more than one month.

Source: Banque Nationale de Belgique.

TABLE 7

Factors stemming from Central bank operations and influencing bank liquidity

(Annual variations in Bfrs. '000 million)

Headings	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
1. Exchange reserves (1)	+12.2	— 3.1	+10.9	+12.4	+ 5.6	+ 0.8	+12.0	—20.2	+ 9.6	+19.3
2. Net claims on the public authorities	+ 0.6	— 1.3	+ 4.1	+ 0.7	— 0.6	+ 0.8	— 6.8	+12.5	+ 0.2	— 2.5
3. Claims on firms and individuals (2)	— 1.7	+ 5.0	— 0.8	— 2.3	+ 5.3	+ 3.2	— 1.7	+12.5	— 7.4	—11.6
4. Miscellaneous	— 3.1	+ 6.4	— 1.5	— 1.4	— 0.8	+ 0.1	— 0.3	— 0.6	— 2.4	—10.0
Total	+ 8.0	+ 7.0	+12.7	+ 9.4	+ 9.5	+ 4.9	+ 3.2	+ 4.2	—	— 4.8
5. Notes in circulation (Decrease: + / Increase: —)	— 5.0	— 9.2	—11.8	— 9.6	— 9.5	— 5.0	— 1.8	— 5.2	+ 0.7	+ 5.1
6. Balance blocked under the monetary reserve ratio (Decrease: + / Increase: —)	—	—	—	— 1.2	+ 1.2	—	—	—	—	—
Cash position of banks	+ 3.0	— 2.2	+ 0.9	— 1.4	+ 1.2	— 0.1	+ 1.4	— 1.0	+ 0.7	+ 0.3

(1) Excluding commercial acceptances in Bfrs. on exports, Bfrs. 400 million deriving from the DM revaluation in 1969 and Bfrs. 3,500 million from the allocation of Special Drawing Rights by the IMF in 1970.

(2) Including acceptances in Bfrs. arising from exports.

Source: Banque Nationale de Belgique.

TABLE 8

Short-term Treasury debt in Bfrs.: structure of short-term claims on the Treasury

(in Bfrs. '000 million)

End of period	Certificates placed with the Banque Nationale (agreements of 14/9/48 and 30/3/68)	Cash certificates												Balances of individuals on Postal Cheque Accounts (2)	Other	Total (3)
		Tranche B	At very short term					Sold by tender				Special certificates in the hands of the Belgian banks (1)	Special certificates in the hands of semi-public institutions (1)			
			1 month	2 months	3 months	4 months	Total	6 months	9 months	12 months	Total					
1960	6.0	9.1	0.3	0.3	0.6	0.3	1.5	0.5	2.1	1.1	3.7	0.1	14.1	30.2	1.8	66.5
1961	6.5	9.1	0.9	0.6	1.1	2.3	4.9	1.3	1.2	2.7	5.2	—	13.5	30.6	2.9	72.7
1962	5.1	9.1	0.2	0.3	1.9	—	2.4	1.7	1.9	3.6	7.2	—	11.0	34.2	0.3	69.3
1963	9.3	7.7	0.1	0.3	0.8	—	1.2	1.1	2.8	2.7	6.6	1.6	10.2	38.3	0.2	75.1
1964	9.8	9.1	0.4	0.5	1.6	—	2.5	1.0	0.9	0.7	2.6	2.5	6.4	44.7	0.2	77.8
1965	9.0	9.1	0.2	0.4	2.1	—	2.7	0.8	2.3	1.4	4.5	5.1	10.7	44.9	1.4	87.4
1966	9.6	9.1	0.1	1.1	3.2	—	4.4	1.1	0.7	0.7	2.5	6.0	7.2	48.0	3.4	90.2
1967	2.7	9.1	1.4	0.6	7.4	—	9.4	2.7	1.1	0.4	4.2	3.4	16.7	44.2	1.6	91.3
1968	14.7	9.1	—	0.5	5.1	—	5.6	4.9	0.7	0.3	5.9	—	13.6	52.0	1.5	102.4
1969	15.5	9.1	0.1	1.9	5.7	—	7.7	0.7	0.3	0.2	1.2	2.8	16.3	50.2	1.7	104.5
1970	13.3	9.1	0.4	1.2	14.0	—	15.6	1.8	0.2	1.7	3.7	4.0	18.3	54.7	1.6	120.3

(1) Not including swap certificates (banks - SNCI).
(2) Not including the "Schools Pact".
(3) Not including certificates deposited with the IMF.
Source: Banque Nationale de Belgique.

TABLE 9

Long and medium Bfrs. issues of the public sector (1)

(in Bfrs. '000 million)

		Securities accessible to all investors (2)					Securities not accessible to all investors (4)			Total net long and medium-term issues (more than one year) (1)	Net interventions of the Securities Stabilization Fund (5)	Total (including interventions of the Securities Stabilization Fund)
		Issues in large tranches			Net tap issues	Total net issues	Gross issues	Redemptions	Net issues			
		Gross issues	Redemptions (3)	Net issues								
		(1)	(2)	(3)=(1)—(2)	(4)	(5)=(3)+(4)	(6)	(7)	(8)=(6)—(7)	(9)=(5)+(8)	(10)	(11)=(9)+(10)
	1959	31.9	10.9	21.0	7.6	28.6	6.9	3.0	3.9	32.5	—0.6	31.9
	1960	35.9	20.7	15.2	8.8	24.0	7.5	2.3	5.2	29.2	—1.9	27.3
	1961 (6)	27.5	15.6	11.9	9.1	21.0	4.2	2.6	1.6	22.6	—0.3	22.3
Total	1962	36.2	22.3	13.9	13.1	27.0	13.5	4.0	9.5	36.5	—0.9	35.6
of Bfrs.	1963	27.6	18.5	9.1	6 7	15.8	7.1	5.5	1.6	17.4	—0.6	16.8
issues	1964 (7)	38.4	26.3	12.1	5.7	17.8	13.2	7.3	5.9	23.7	+1.6	25.3
of the	1965	46.2	22.5	23.7	8.8	32.5	12.8	6.3	6.5	39.0	+0.5	39.5
Belgian	1966	46.4	28.4	18.0	9.8	27.8	13.4	5.1	8.3	36.1	—0.1	36.0
public	1967	65.1	35.5	29.6	15.8	45·4	15.8	8.5	7.3	52.7	+0.5	53.2
sector	1968 (8)	66.0	29.5	36.5	21.9	58.4	15.6	9.0	6.6	65.0	—2.1	62.9
	1969	83.3	56.5	26.8	17.9	44.7	23.2	9.8	13.4	58.1	+0.1	58.2
	1970									71.6 (v)	+0.9	

(1) Issues in large tranches the period of subscription of which overlaps two years are divided between the two years according to the amounts actually subscribed to in each year. Until 1965, tap issues of short-term deposit receipts (one year at most) of the semi-public credit institutions and of the Belgian Municipal Credit Institute were included in the totals for net tap issues, since they could not be isolated. Since 1966, the figures in Column 4 have covered only net long and medium-term issues (more than one year); the total for net issues at one year at most for the years 1966, 1967 and 1968 ("Public Financial Intermediaries": nil, Bfrs. 300 million and Bfrs. 1,700 million respectively; "Local Authorities, E3 Inter-Municipal Road Fund and Municipal Credit Institute" Bfrs. 600 million, Bfrs. 1,600 million and Bfrs. 1,200 million respectively) is therefore no longer included in this table.
N.B. Net movement in Central Government short-term debt in Bfrs.: 1961: Bfrs. 2,700 million; 1962: Bfrs. 2,300 million; 1963: Bfrs. 8,800 million; 1964: Bfrs. 2,500 million; 1965: Bfrs. 7,400 million; 1966: Bfrs. 4,500 million; Bfrs. 5,600 million; 1968: Bfrs. 16,900 million; 1969: Bfrs. 400 million; and 1970: Bfrs. 15,200 million.

(2) The following are classified as securities available to all investors: those issued by public subscription, those quoted on the stock exchange or schedules for quotation on the stock exchange, those normally dealt in outside the stock exchange, together with bonds and deposit receipts issued on tap by the Belgian Municipal Credit Institute, the National Corporation for Credit to Industry, the National Agricultural Credit Institute, the Central Office for Mortgage Credit, the National Fund for Credit to Trade and Industry and the savings bonds issued by the General Savings and Pensions Fund.

(3) The securities bought back on the stock exchange by the fund for the Amortization of the Public Debt are included in Column 2 ("Redemptions") not at the time of the repurchases but at the time of cancellation.

(4) Normally in large tranches, but including tap issues of semi-public housing institutions.

(5) Variations (portfolio increase = (—), reduction = (+) of the portfolio of quoted securities of the (Securities Stabilization Fund expressed at face value).

(6) In 1961, the last tranche of EAM securities was released. This operation entailed the transfer of Bfrs. 1,400 million from the category of securities not accessible to all investors to that of securities accessible to all investors.

(7) The figures relating to the Veterans' Endowment Fund include, in gross issues, Bfrs. 2,844 million of consolidation (interest and redemption not reimbursed on maturity) and Bfrs. 1,561 million of redemption for the years 1961 to 1963.

(8) Not including Bfrs. 3,800 million of ONPTI securities cancelled following the transfer by the General Savings and Pensions Fund of the administration "Pensions for the Self-Employed" to the ONASTI.

Source: Information and Documentation Bulletin of the Banque Nationale de Belgique (Tables XVI-1 and XVI-4).

TABLE 10

Medium and Long-term securities held by financial intermediaries

(in Bfrs. '000 million)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Central Government (direct + indirect debt)	138.6	145.4	182.1	187.3	189.1	198.1	200.4	212.5	231.8	245.9	257.8
Provinces, towns, municipalities	5.6	5.6	5.7	6.4	6.7	8.1	10.2	12.4	16.5	20.0	25.5
Independent funds + administrative semi-public corporations	13.7	14.2	14.8	15.7	17.7	18.6	19.4	20.2	20.8	21.6	22.0
Semi-public utilities	15.7	15.9	16.8	18.0	18.0	19.7	20.9	23.0	27.0	29.8	35.6
Semi-public credit institutions	43.6	48.0	53.5	59.3	61.8	68.0	73.6	81.1	92.9	97.6	110.0
Public social security institutions	5.3	6.0	7.9	9.2	10.4	11.5	12.6	13.7	14.0	19.0	22.0
Total	222.5	235.1	280.8	295.9	303.7	324.0	337.1	362.9	403.0	433.9	472.9
Debentures (Belgian companies)	14.1	14.3	14.8	16.6	17.0	19.1	21.0	21.2	22.5	23.2	26.5
Foreign bonds	3.4	3.4	3.3	3.5	3.5	3.6	4.1	3.8	4.4	4.9	5.2
Total	240.0	252.8	298.9	316.0	324.2	346.7	362.2	387.9	429.9	462.0	504.6

Source: Banque Nationale de Belgique.

TABLE 11

Rediscounting by deposit banks

Annual averages at the end of each quarter

(in Bfrs. '000 million)

	Banque Nationale de Belgique	Rediscount and Guarantee Institute	Other public credit institutions (3)	Other national rediscounters (including the Belgian banks)	Abroad	Total	*Pro memoriam* rediscounting of the Rediscount and Guarantee Institute with Banque Nationale
1964	1.4	14.1	4.4	3.8	1.2	24.9	4.2
1965	0.7	14.8	5.3	3.8	1.4	26.0	5.1
1966	1.2	18.4	5.2	4.0	1.2	30.0	8.7
1967	1.2	20.3	5.3	3.9	2.8	33.5	6.7
1968	2.2	26.7	6.1	4.4	3.7	43.1	10.6
1969	8.3	29.5	6.2	5.0	2.8 (1)	51.8	16.1
1970	0.5	20.6	7.9	7.0	2.3 (2)	38.3	4.7

(1) Including Bfrs. 800 million in the Grand Duchy of Luxembourg.
(2) Including Bfrs. 1,100 million in the Grand Duchy of Luxembourg.
(3) Including their share in the financing of the Creditexport pools.

Source: Banque Nationale de Belgique.

TABLE 12

Rediscount portfolio and advances against securities of the Banque nationale de Belgique

(in Bfrs. '000 million)

End of year	Advances against securities	Rediscount with the Banque Nationale (1)
1960	51	5,333
1961	74	3,682
1962	3,022	9,188
1963	1,655	7,143
1964	625	5,290
1965	34	10,538
1966	338	13,642
1967	345	11,699
1968	572	24,737
1969	47	16,048
1970	189	4,122

(1) This is rediscounting by the semi-public institutions and the commercial banks.

Source: Banque Nationale de Belgique.

TABLE 13
Main assets and liabilities of the Securities stabilization fund

(in Bfrs. '000 million)

End of period		Assets					Liabilities		
		Portfolio							
		Securities quoted	Tranche B cash certificates	Other cash certificates	Loans of very short-term money	Credit balance with the Banque Nationale de Belgique	Certificates of the Securities Stabilization Fund	Borrowings of money at very short term	Overdraft with the Banque Nationale de Belgique
		Face value							
1960		6,661	1,403	1,200	15	6	5,812	...	...
1961		6,892	1,086	...	3,069	3,201	10,996	...	...
1962		7,759	2,226	...	50	...	6,440	...	589
1963		8,383	2,711	...	...	...	6,549	877	600
1964		6,827	4,099	...	...	...	7,357	...	389
1965		6,299	2,728	...	...	50	5,884	...	...
1966		6,426	3,269	...	...	...	4,524	1,563	320
1967		5,943	3,560	...	141	...	6,348	...	...
1968		7,959	5,124	...	432	...	8,892	1,256	...
1969		7,833	4,654	...	...	...	8,377	631	...
1970	January	7,873	4,314	...	878	...	9,465	...	...
	February	7,008	4,274	...	3,507	...	11,099	...	...
	March	7,102	4,344	...	...	...	7,699	221	...
	April	7,481	4,564	...	287	...	8,814	...	...
	May	7,273	4,214	...	2,931	...	10,873	...	...
	June	7,220	5,144	2,800	...	...	10,093	1,452	...
	July	6,757	4,214	400	2,228	...	10,103	...	...
	August	7,242	4,214	...	2,684	...	10,394	...	...
	September	7,319	4,214	1,000	230	1,670	10,902	...	...
	October	7,181	4,618	...	3,033	...	11,282	...	...
	November	6,939	4,248	...	3,351	448	11,387	...	...
	December	6,932	4,214	...	1,071	...	8,737	...	...

Source: Annual reports of the Securities Stabilization Fund.

TABLE 14

Bank rate and other Interest rates of the Banque nationale de Belgique

	Rates in force since:											
	1.1. 1969	6.2. 1969	6.3. 1969	10.4. 1969	29.5. 1969	31.7. 1969	18.9. 1969		1.6. 1970	22.10. 1970	10.12. 1970	25.3. 1971
Discount												
Acceptances domiciled with banks, warehouse receipts	4.50	4.50	5.00	5.50	6.00	7.00	7.50	Bills accepted by and payable at a bank, warrants and acceptances duly certified as representing foreign trade transactions				
Acceptances certified beforehand by the Banque Nationale de Belgique	—	—	—	—	—	—	—		7.50	7.00	6.50	6.00
imports	4.50	4.50	5.00	5.50	6.00	7.00	7.50					
exports (EEC countries)	4.50	4.50	5.00	5.50	6.00	7.00	7.50					
(other countries)	4.00	4.00	4.50	5.00	5.50	7.00	7.50					
Acceptances without domicile at a bank	5.25	5.25	5.75	6.25	6.75	9.00	9.50	Other bills and promissory notes	9.50	9.00	8.50	7.50
Non-accepted bills with domicile at a bank	5.75	5.75	6.25	6.75	7.25	9.00	9.50					
Non-accepted bills without domicile at a bank, promissory notes	6.25	6.25	7.00	7.50	8.00	9.00	9.50					
Advances in current account and loans on												
Cash certificates and certificates of the Securities Stabilization Fund with a currency not exceeding 130 days (limit 95%)	5.50	5.75	6.50	7.00	7.50	8.50	9.00		9.00	8.50	8.00	7.00
Cash certificates with a currency exceeding 130 days but not exceeding 366 days (limit 95%) (1)	5.75	6.00	6.75	7.25	7.75	8.75	9.25		9.25	8.75	8.25	7.25
Other public securities (limit 80%)	6.25	6.25	7.00	7.50	8.00	9.00	9.50		9.50	9.00	8.50	7.50

(1) 366 days maturity before 20 December 1967.

Source: Banque Nationale de Belgique.

TABLE 15

Monetary reserve: Ratio and amounts

(in Bfrs. '000 million)

		Ratio	Amounts			Ratio	Amounts
1964	July	—	—	1965	January	1%	1.3
	August	1%	1.1		February	1%	1.3
	September	1%	1.2		March	1%	1.3
	October	1%	1.2		April	1%	1.4
	November	1%	1.2		May	1%	1.4
	December	1%	1.3		June	1%	1.4
					July	—	—

Source: Banque Nationale de Belgique.

TABLE 16
Call money market *

(in Bfrs. '000 million)

Daily averages (1)		Capital lent by: Deposit banks (1)	Capital lent by: Securities Stabilization Fund (2)	Capital lent by: Other institutions (2) (3)	Capital borrowed by: Deposit banks (4)	Capital borrowed by: Securities Stabilization Fund (5)	Capital borrowed by: Rediscount and Guarantee Institute (6)	Capital borrowed by: Other institutions (3) (7)	Total (8)=(1)+(2)+(3) or (4)+(5)+(6)+(7)	Withdrawals of capital (9)
1960		2,415	1,107	1,664	1,025	10	3,104	1,047	5,186	37
1961		2,487	1,811	1,671	1,817	1	3,162	989	5,969	23
1962		1,518	943	1,703	1,517	1	1,375	1,271	4,164	307
1963		1,585	202	1,842	1,600	122	1,126	781	3,629	49
1964		1,879	6	2,743	1,310	480	1,690	1,148	4,628	11
1965		1,767	722	2,546	1,417	5	2,356	1,257	5,035	83
1966		1,905	264	2,658	1,222	805	1,696	1,104	4,827	...
1967		1,984	1,148	3,299	1,731	282	3,418	1,000	6,431	...
1968		2,135	1,448	2,974	2,346	19	3,089	1,103	6,557	...
1969		3,829	59	3,351	1,280	1,841	3,455	663	7,239	...
1970		3,757	1,631	3,198	1,350	58	6,737	441	8,586	...
1970	1st quarter	4,015	934	3,300	1,075	28	6,719	427	8,249	...
	2nd quarter	3,958	1,776	3,089	1,342	15	7,089	377	8,823	...
	3rd quarter	3,681	1,500	3,131	1,351	188	6,328	445	8,312	...
	4th quarter	3‘385	2,302	3,266	1,625	...	6,816	512	8,953	...
1971	1st quarter	4,050	524	3,397	1,456	282	5,849	384	7,971	...
1969	August	2,349	15	3,611	1,051	2,923	1,795	206	5,975	...
	September	5,592	...	2,800	564	5,595	1,818	415	8,392	...
	October	6,697	...	4,352	524	4,680	5,561	284	1,049	...
	November	3,985	2	3,439	970	2,413	3,573	470	7,426	...
	December	4,711	90	3,481	1,042	404	6,448	388	8,282	...
1970	January	5,382	168	3,669	908	74	7,828	409	9,219	...
	February	2,676	424	3, 91	1,241	...	5,424	226	6,891	...
	March	3,856	2,163	2,488	1,091	7	6,781	628	8,507	...
	April	4,017	1,247	2,687	1,125	...	6,514	312	7,951	...
	May	3,069	2,2 9	3,867	1,980	...	6,925	329	9,235	...
	June	4,817	1,764	2,690	901	48	7,833	489	9,271	...
	July	3,514	1,062	3,253	1,240	528	5,241	820	7,829	...
	August	2,958	2,313	3,407	1,554	...	7,018	106	8,678	...
	September	4,600	1,112	2,720	1,258	31	6,738	407	8,434	...
	October	2,738	2,992	2,776	2,084	...	5,703	719	8,506	...
	November	3,349	1,941	3,479	1,484	...	6,981	296	8,761	...
	December	4,068	1,961	3,556	1,302	...	7,767	516	9,585	...

(*) From 17 November 1959 to 30 April 1969, most of the dealings in call money were governed by the "Protocol drawn up with a view to participation in the guaranteed call money market". Since 1 May 1969, a new "Protocol governing the guaranteed call money market" was signed between the Securities Stabilization Fund, the Rediscount and Guarantee Institute and the public and private sector financial institutions accepting sight deposits, bank book deposits or savings deposits on notice not exceeding 3 months. The table also includes dealings outside these Protocols.

(1) Until 31 December 1964, the averages are calculated on the basis of the number of working days in the period. From 1965 onwards, the averages have been established on the basis of the total number of days in the period; this method of calculation is the same as that used by the Rediscount and Guarantee Fund in the presentation of its data.

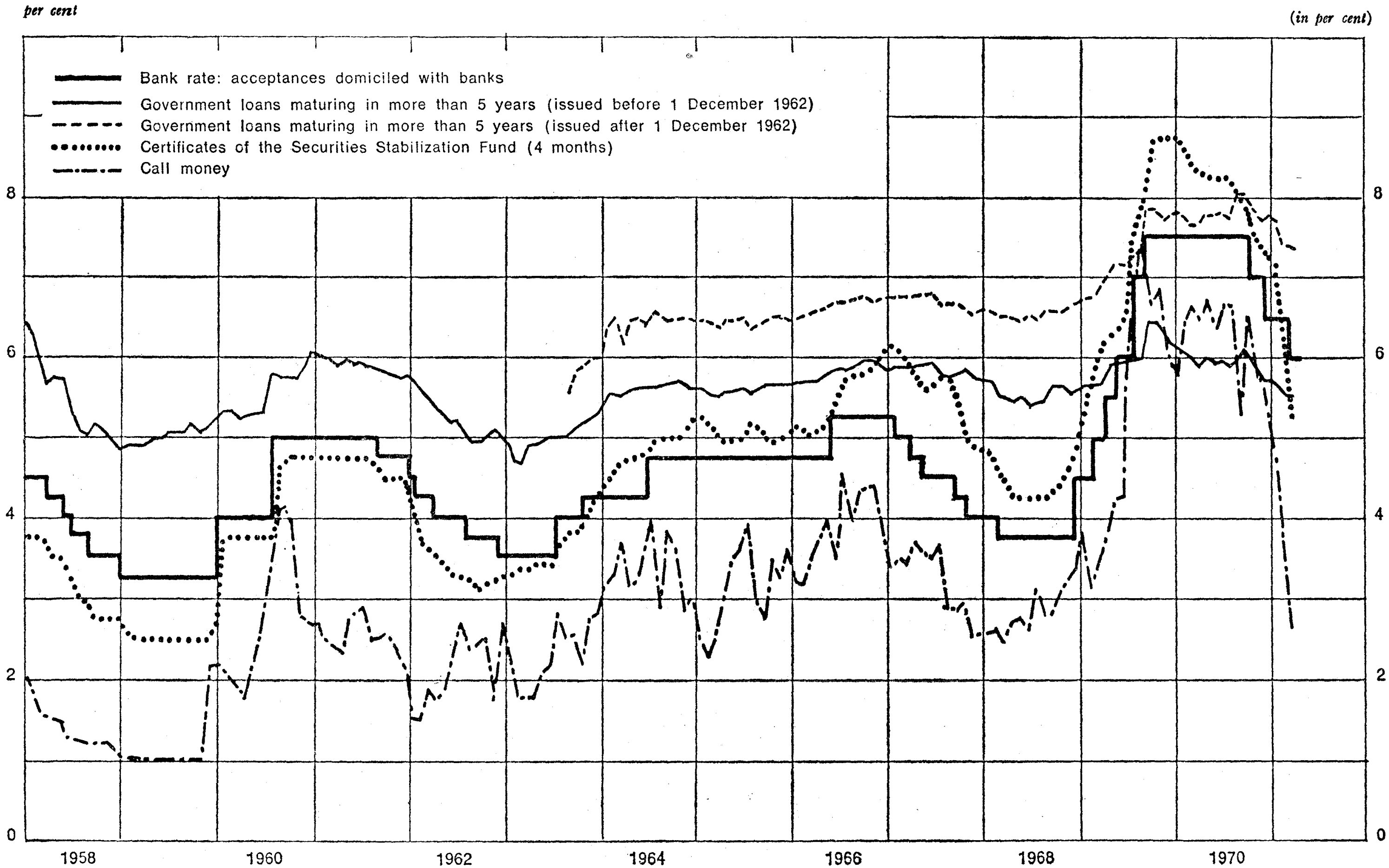
(2) This column includes the General Savings and Pensions Fund, the National Industrial Credit Corporation, the Belgian Municipal Credit Institute, the Belgian State Railways (until 30 April 1969) and since August 1960, miscellaneous "ex-Protocol" lenders.

(3) This column includes the National Del Credere Office, the National Fund for Credit to Trade and Industry, the National Industrial Credit Corporation, the Belgian Municipal Credit Institute, and the Belgian State Railways (until 30 April 1969).

Source: Information and Documentation Bulletin of the Banque Nationale de Belgique (Table XVIII-1).

TABLE 17

Discount and other rates on the money and capital markets



Source: Bulletin of the Banque Nationale de Belgique, Table XIX.

TABLE 18

Net short-term external liabilities of the banks

(in Bfrs. '000 million)

End of year	Short-term external liabilities *A*	Short-term external claims *B*	Net short-term external liabilities of the banks *C = A — B*
1960	17.7	9.9	7.8
1961	30.0	12.6	17.4
1962	29.0	15.3	13.7
1963	46.2	19.2	27.0
1964	58.2	25.5	32.7
1965	64.5	29.2	35.3
1966	89.5	45.3	44.2
1967	104.8	53.3	51.5
1968	128.5	74.5	54.0
1969	169.6	108.7	60.9
1970	248.2	149.4	98.8

Source: Banque Nationale de Belgique.

TABLE 19

Rediscount and certification ceilings of the banks with the Banque nationale de Belgique

Situation at end of month		Ceilings		Outstanding amount imputed		Available margin
		as per cent of funds covered (1) (general rule only)	amounts (general rule and flat-rate rule)	Bills certified (3)	Non-certified bills rediscounted (5)	
		(Bfrs. '000 million)				
		(1)	(2)	(3)	(4)	(5)=(2)-(3)-(4)
1969	May	16	54.5	31.1	8.9	14.5
	June	16	56.5	32.3	7.1	17.1
	July	16	56.5	33.6	8.6	14.3
	August	14	48.9	32.1	9.8	7.0
	September	14	50.0	32.6	6.6	10.8
	October	13 1/3	47.7	33.4	4.9	9.4
	November	13 1/3 (2)	47.7 (2)	32.0	4.0	11.7
	December	12	44.0	29.7	4.2	10.1
1970	January	11 1/3	41.5	28.5 (4)	3.1 (4)	9.9
	February	10 2/3	40.0	28.7 (4)	1.7 (4)	9.6
	March	10	37.6	27.2	1.1	9.3
	April	10	37.7	28.0	2.8	6.9
	May	10	38.6	28.4 (4)	2.8 (4)	7.4
	June	9 1/2	36.8	26.0	2.2	8.6
	July	9 1/2	38.1	23.5	3.5	11.1
	August	9 1/2	39.0	21.3	4.6	13.1
	September	9	37.1	20.5	4.3	12.3
	October	9	37.1	20.4 (4)	5.8 (4)	10.9
	November	9	38.0	21.0	6.3	10.7
	December	9	38.0	20.7	6.2	11.1
1971	January	9	38.0	20.2 (4)	6.4 (4)	11.4
	February	9	39.0	19.3 (4)	4.5 (4)	15.2
	March	8 2/3	37.5	19.4	5.1	13.0

N.B. For interpretation of this table, particularly Column (5), see Bulletin of the Banque Nationale de Belgique, XLVI, Volume 1, N° 1, January 1971, p. V.

(1) The funds covered consist of own funds, loans issued as bonds and deposit certificates and Bfrs. deposits received on sight, time and deposit book accounts, not including bank creditor accounts.

(2) On 1 December 1969, the ceilings fixed according to the general rule were lowered to 12⅔ % of the funds covered. On this date, the ceilings (general rule and flat-rate rule) totalled Bfrs. 46,500 million.

(3) Whether rediscounted or not, with less than two years to maturity (maximum of one year to maturity for export credit bills, since 31 March 1970).

(4) Minus bills reaching maturity on the last day of the month, but which, because this day was a Saturday or a holiday, were not collected until the beginning of the subsequent month.

(5) Including certified bills rediscounted and bills rediscountable at the Banque Nationale mobilized on the ex-bank market operated by the Rediscount and Guarantee Institute.

Source: Bulletin of the Banque Nationale de Belgique, Table XVIII-3.

TABLE 20

Rates charged by the Rediscount and guarantee institute on purchases of certified acceptances

(*31* December *1970*)

Term	Certified bills
60 days maximum	5.80
61 to 120 days	6.00
121 to 365 days	6.50
366 to 545 days	7.00 (1)
546 to 730 days	7.25 (1)

(1) Interest is calculated by six-monthly periods.
Source: Rediscount and Guarantee Institute.

TABLE 21

Outstanding amount of bills negotiated by the Rediscount and guarantee institute and how financed

(Daily averages)

(*in Bfrs. '000 million*)

	Amount outstanding	Financing (1)		
		Call money	Bills sold or placed on the market	Rediscount at the Banque Nationale de Belgique
1960	10,054	3,172	6,254	421
1961	11,171	3,301	7,289	384
1962	10,068	1,428	7,705	762
1963	12,257	1,217	8,415	2,452
1964	13,397	1,895	9,399	1,923
1965	13,514	2,583	8,486	2,367
1966	17,978	1,921	10,476	5,499
1967	20,677	3,663	12,917	3,996
1968	27,982	3,300	17,761	6,813
1969	32,947	3,554	14,967	14,254
1970	24,986	6,738	13,595	4,583

(1) A very small proportion of the amount outstanding is financed from the Institute's own resources. The financing does not take account of paper placed with bill-brokers on the market.
Source: Reports of the Rediscount and Guarantee Institute.

TABLE 22

Financing the government's net borrowing requirement

(in Bfrs. '000 million)

	1963	1964	1965	1966	1967	1968	1969	1970
1. Government recourse to the Belgian market:								
a) monetary institutions	+11.0	+11.5	+11.8	+ 6.9	+ 3.9	+27.4	+15.0	+16.0
b) other	— 0.2	+ 2.4	+15.1	+ 5.3	+21.6	+10.4	+ 8.0	+18.2
Total	+10.8	+13.9	+26.9	+12.2	+25.5	+37.8	+23.0	+34.2
2. Government recourse to foreign markets	+12.5	+ 1.1	— 4.8	+ 4.9	— 2.5	— 3.7	+5.1(1)	—10.4
Grand Total	+23.3	+15.0	+22.1	+17.1	+23.0	+34.1	+28.1	+23.8

(1) After elimination of Bfrs. 700 million (DM revaluation).

Source: Banque Nationale de Belgique.

TABLE 23

Bank credit subject to limitation (1)

(in Bfrs. '000 million)

Situation at end of period		Maxima fixed	Amounts used		
			Export credits bills	Other	Total
1966		—	4.8	162.3	167.1
1967		—	6.8	191.5	198.3
1968	1st quarter	—	6.9	198.1	205.0
	2nd quarter	—	7.1	207.–	214.1
	3rd quarter	—	7.2	208.–	215.2
	4th quarter	—	7.2	226.5	233.7
1969	1st quarter	—	7.4	234.1	241.5
	2nd quarter	257.5	7.9	243.2	251.1
	3rd quarter	253.6 (2)	8.5	237.4	245.9
	4th quarter	260.9 (3)	9.3	234.1	243.4
1970	1st quarter	— (4)	(10.6)	235.9	235.9
	2nd quarter	— (5)	(12.1)	245.1	245.1
	3rd quarter	253.9 (6)	(13.2)	246.0	246.0
	4th quarter	270.6 (6)	(13.3)	262.2	262.2
1971	1st quarter	245.0 (7)			
	2nd quarter	257.8 (8)			
	3rd quarter	262.0 (8)			

(1) In 1969, the credits limited were those to firms and individuals, plus those to non-residents other than in the form of foreign exchange advances. The external lending subject to limitation is mainly that connected with deferred payment facilities for exports which, like lending to firms and individual in the strict dense, strengthens the cash situation of these firms and individuals. In 1970, outstanding export credits were exempted from limitation.

(2) After the reduction made in August 1969.

(3) After the reduction made in September 1969.

(4) The limit of Bfrs. 263,200 million set in September 1969 was discontinued in March 1970.

(5) The limit of Bfrs. 271,400 million set in September 1969 was discontinued in March 1970.

(6) The limit set no longer covers export credits lending.

(7) The limit set no longer covers export credits, nor investment credit opened to residents before 9 December 1970 and reported to the Risk Office not later than 15 December 1970.

(8) The limit set no longer covers export credits, nor investment credit opened to residents before 24 March 1971 and reported to the Risk Office not later than 31 March 1971.

Source: Banque Nationale de Belgique.

Part seven

THE MONETARY POLICY IN LUXEMBOURG

CHAPTER ONE

BASIC FACTS OF MONETARY POLICY

Section I - Institutional framework and structural aspects

Para. I: *Institutional framework*

Legal basis

1. The monetary system in Luxembourg is governed by the special protocol relating to the system of monetary association with Belgium. This protocol is an essential part of the convention establishing an Economic Union between Belgium and Luxembourg (BLEU).
Owing to its rather special protocol, Belgium bank notes and coins are legal tender in the Grand Duchy; they constitute the main part of the fiduciary circulation in Luxembourg. The real Luxembourg issue of notes and coins cannot exceed, relative to the maximum issue of small coinage authorized by Belgian law, a limit corresponding to a relationship with the Belgium and Luxembourg population, rising to an absolute sum of 150 million francs. It represents, according to the best estimations, only 6 % of fiduciary circulation.

National Bank of Belgium

2. Due to these arrangements, Luxembourg does not have a central bank. The National Bank of Belgium which issues Belgian bank notes, is also the issuing authority for the majority of notes which circulate in Luxembourg. The Bank is permitted under Article 17 of its statutes to provide short-term financing against Luxembourg government security, but it is not permitted to discount either these security or Luxembourg trade bills. It is accepted that a change in Belgian Bank rate may have an impact on the structure of Luxembourg rates, in providing an incentive to the Luxembourg banks to bring their own interest rates into line and to adjust their activity on the Belgian monetary market accordingly. Also due to the fact that the official exchange reserves of the Economic Union (BLEU) are held by the National Bank of Belgium, Luxembourg surplus foreign exchange is automatically converted into Belgian currency.

Links between the State of Luxembourg and the National Bank of Belgium

3. There being no central bank in the accepted sense of the term, such monetary policy measures as can be implemented without a central bank are handled by the Government.
This does not, of course, affect the residual legislative powers or the requirements of the Economic Union Treaty. It follows that no complete monetary policy can be pursued by the Luxembourg authorities. With the exception of the methods

of creating money through refinancing, the other instruments of monetary policy are available to the Luxembourg Government. In all cases, only the Luxembourg authorities can take the initiative in the adoption of monetary policy measures.

The Bank Control Commissioner

4. The Government has delegated exercise of these powers to a Bank Control Commissioner appointed under a Luxembourg decree of 17 October 1945. The Commissioner, who is supervised by the Government, ensures enforcement of the laws, decrees and regulations relating to financial establishments and their transactions. Originally the implementing measures adopted by the Commissioner were mainly concerned with the protection of depositors, and they set out rules in this connection. In the same context, the Commissioner made recommendations to the banking sector concerning the maintenance of a minimum cash and liquidity ratio; in addition to this task he has, however, also the right to request the establishments supervised to supply all information necessary for the conduct of general financial policy.
In connection with this last objective the Luxembourg decree of 19 June 1965 entrusted to the Bank Control Commissioner the power to make agreements with the establishment supervised, subject to ministerial approval, on rules designed to ensure the orderly development of credit and the implementation of bank liquidity policy of the banking system.

The State Savings Bank

5. While the Bank Control Commissioner is therefore the central entity concerned with the implementation of monetary policy, the State Savings Bank, a public institution incorporated under a law dated 12 February 1856, must also be mentioned. Thanks to resources, it has considerable influence on the distribution of credit. In can play a role of some importance in implementing monetary policy, in that most of the banks match their interest rates with many of the lending and borrowing rates set by the Savings Bank. It should be noted that the Bank is subject to supervision by the Bank Control Commissioner.

The General State Fund

6. The General State Fund, which is a department of the State Savings Bank, issues Luxembourg currency in accordance the rules of the Economic Union Treaty. There is one other institution having monetary powers: the International Bank in Luxembourg, a limited company incorporated under Luxembourg law. It has the right to issue a fixed amount of currency, which is relatively small in comparison with the overall issue.

Para. II: *Structural aspects*

Para. II-1: *Structure of financial intermediaries*

Classification of financial intermediaries

7. In the strict definition the banking sector, all of which is subject to the supervision of the Bank Control Commissioner, comprises the banking and savings establishments. There is no differentiation between deposit banks, *banques d'affaires*

(investment banks) or long-term credit banks, and even the savings establishments are allowed to engage in all banking transactions. Thus the banking and savings establishments are covered by a single definition: they are enterprises habitually accepting sight or short-term deposits with a view to using them, on their own account, for credit or investment transactions. The rural savings banks, which are cooperative societies, do not operate outside the farm sector, however. It should also be noted that the State Savings Bank is more active in the field of medium and long-term real estate credit than most of the other banking establishments.

Although it is true that the banking system is not marked by distinctions arising from the application of the yardstick of deposits at call and deposits in near-money, the Luxembourg Parliament has on the other hand introduced the concept of credit establishment, defined as follows: "any individual or corporation other than a banking establishment that habitually engages, whether as a primary or as a subsidiary activity, in the lending of capital, or of purchasing power".

In the wide sense of the term the credit establishments, i.e. firms specializing in consumer credit, also belong to the banking system, and the decisions of the Bank Control Commissioner are enforceable on them also.

Most of the banks are companies incorporated under Luxembourg law, although some of them are subsidiaries of foreign banks. There are also a few branches of foreign bank in Luxembourg. The State Savings Bank constitutes the public banking sector; it carries out all banking operations.

In recent years the number of banks has increased sharply and a large number of business links have been created beyond the Luxembourg market, the result of which has been a heavy inflow of international capital.

The Bank Control Commissioner maintains a register of banking and savings establishments entitled to operate in the country pursuant to the Law of 2 June 1962, which lays down rules for the access to and pursuit of certain professions and rules for the establishment and administration of firms.

The Treasury

8. The Treasury also acts as a financial intermediary; it creates cash in Luxembourg currency the amount of which is decided pursuant to the rules of the Monetary Association Protocol. It is also the depository of the funds placed on postal cheque account, the surplus of which is transferred to the General State Fund. The latter pays over the assets in Belgian currency to the State Savings Bank.

The lack of a central bank is bound to raise special problems in connection with banking liquidity and the liquidity of the economy. Those in charge of monetary policy have been forced to work out procedures preventing the banks, should the need arise, from tying up their funds to an excessive extent, since refinancing opportunities are uncertain. Access to the Belgian monetary market is of definite value here, since it enables the Luxembourg banks to make certain rediscountable — or at least mobilizable — investments there.

Para. II-2: *Banking system and financial market*

Issue of securities and their holdings by the banks

9. The banking and savings establishments are free to acquire on their own account Luxembourg and foreign securities, and several banks are very active in the field of issues of international securities. At present ways and means are being considered

whereby the banking and savings establishments could incorporate, under certain conditions, Luxembourg government stock in their liquid investments.

Financial market regulation

10. There is no institution empowered to regulate the Luxembourg capital market, which is very narrow and upon which the institutional investors draw. The Treasury has intervened from time to time by buying back Government stock on the stock exchange, where the terms of issue of the loans allowed it to do so, thus regularizing the market by this procedure where necessary.

Para. II-3: *Importance of financial transactions with abroad*

Relation between exports and GNP

11. Net trade with abroad is an important source of money creation, since the value of exports of goods and services accounts for some three-quarters of the gross national product. Of late, this ratio has tended to increase, and this explains the high liquidity of the banking sector.

Degree of freedom of capital movements

12. Capital movements are relatively unrestricted: capital moves freely in both directions unhampered by exchange control. Nor are there administrative obstacles, except that foreign firms and resident establishments wishing to float public issues on the Luxembourg market must apply for authorization to the Bank Control Commissioner. The purpose of this rule is to protect the saver.

Section II - Liquidity

Para. I: *The liquidity of the economy*

Content

13. The liquidity of the economy is made up of its legal means of payment and its financial assets in near-money which represent claims against the banking sector. Money balances are composed of notes and coin, not including notes and coin held by banking and savings establishments, and sight deposits. The latter item is sub-divided into sight deposits with the banking sector and deposits with the Postal Cheque Office. Notes and coin in circulation are made up not only of Luxembourg currency but above all of Belgian currency, which is legal tender throughout Luxembourg.

The near-money assets of the economy are savings deposits, time deposits and foreign exchange deposits of residents.

Primary liquidity has apparently grown less rapidly than the gross national product, the ratio of the one to the other having fallen from 45·5 % at the end of 1963 to 41·6 % at the end of 1968. However, available data are not always reliable, since they include the Lfrs. sight deposits of non-residents. Any valid inferences must be based on the assumption that the proportion of foreign funds is low and remains

unchanged. Nor is the amount of Belgian money circulating in Luxembourg known. For lack of reliable information, an estimate has to be made based on the relationship of the Belgian gross national product to the Luxembourg gross national product. On this basis it may be assumed that the share in primary liquidity of notes and coin in circulation is about 42 % and that this ratio is tending to fall.
The liquidity of the economy is largely dependent on net transactions with abroad: this also explains why the liquidity of the banking sector is so high. A last point is that the economy has large semiliquid holdings which the banks can easily transform into money balances.

Para. II: *Bank liquidity*

Content

14. The liquidity of the banking system includes cash and potential liquidity or, simply, liquidity. According to the rules laid down by the Bank Control Commissioner, cash includes assets in hand and balances with the Postal Cheque Office, the State Savings Bank and the National Bank of Belgium. It will be noted that cash liquidity is neither compulsory, nor even mainly, made up of balances with the Belgian Central Bank.
A special feature of cash liquidity consists then in the fact that large sight deposits made by the banking and savings establishments with the State Savings Bank are regarded as primary liquidity, although this establishment is itself part of the banking system and is subject to the supervision of the Bank Control Commissioner.
Potential liquidity is made up of bank balances, short-dated securities, rediscountable securities and mobilizable public securities. The bank balances are mainly placings with Belgian banks.

Sources

15. Broadly speaking, bank liquidity is the outcome of the play of forces which are to a considerable extent independent: changes in liquidity are largely the result of changes in the volume and pattern of the financial assets which the banks create in response to demand from the other sectors of the economy and from abroad. These changes are effected, in respect of liquidity, through movements of notes and coin, of foreign exchange and of sight deposits through the postal cheque accounts of the banks and the accounts linking the Luxembourg banking sector with the Belgian banks. Thus, the liquidity of the banking system, while being relatively high and normally in line with the recommendations of the banking control authorities usually varies in relation with considerations alien to the requirements of monetary policy. The need for intervention by the public authorities has only recently become clear. Since the expansion of credit has to be contained within certain limits action has just begun with a view to controlling the distribution of credit. It is, however, unlikely that the authorities will use other instruments having a direct impact on banking liquidity.
Treasury transactions do not *a priori* affect the overall liquidity of the banking system, since the State Savings Bank, as depository of Treasury liquidity, is part of the banking system.
The liquidity of the banking system is measured by the arithmetic relationship between the bank assets regarded as liquid and its sight- and short-term liabilities.

The banking sector may acquire rediscountable or mobilizable commercial bills, bank acceptances and Belgian Government stock, which in fact constitute a substantial part of its potential liquidity.
Other components of bank liquidity may be taken into consideration when the banks are viewed in isolation. These are largely liquidity components relating to technical operations that do not affect the overall liquidity of the system: this is the case for example with interbank investments or the sale of claims among local banks.

Para. III: *Liquidity and public finance*

Treasury management

16. Treasury liquidity is invested in the banking sector. The General State Fund, which centralizes the moneys received, is part of the State Savings Bank, which has the rank of state accountant. Hovever, payments may also be made through the postal cheque service, with which the General Fund has an account. The latter keeps separate accounts from the State Savings Bank and deposits the available Treasury moneys with it. These moneys may also be placed with other banks, in bonds or certificates issued by the Central Government or the Luxembourg Communes or in foreign Government bonds and securities guaranteed by foreign Governments.

Treasury management effects on liquidity

17. The flow of liquidity between the public sector and the banking sector does not necessarily modify bank liquidity, as it does where public liquidity is administered by a Central Bank. Only when Treasury funds leave the banking sector is there any change in bank liquidity (operations involving postal cheque accounts, foreign countries, movements of cash).
The Treasury is the depository of funds deriving from the economy, through the Postal Cheque Office service. Net transactions on postal cheque account thus modify bank liquidity.
The financing of Treasury commitments is a third method of modifying bank liquidity. The Treasury has a credit line with the State Savings Bank and another with the International Bank in Luxembourg, this being the counterpart to the International Bank's right of issue. The bank sector can also acquire claims on the public sector (loan certificates, Treasury certificates). These are short- and medium-term public paper, freely assignable between the banks and issued on the basis of agreements negotiated between the banking sector and the Central Government, with facilities for extension. It is unlikely that the contribution of the bank sector to the financing of the Government's borrowing requirement hampers credit policy.
Lastly, under the Convention of 12 April 1968, the Luxembourg Government has, in the same way as the Belgian Government, a credit line with the National Bank of Belgium of an amount proportionate to the respective populations of the two countries. This facility is available for temporary deficiencies only, not exceeding 120 days, at Belgian bank rate, against the lodgment by the Luxembourg Government of a Luxembourg Treasury Bond denominated in Belgian francs.
The Treasury influences the liquidity of the economy through the issue of Luxembourg notes and coin, the amount of which is fixed contractually under the monetary association protocol.

The authorities can modify the liquidity of the economy through the issue of medium- and long-term public stock. The resulting change in liquidity is unlikely to be lasting, however.

Insofar as the Treasury uses the moneys placed on Postal Cheque Account, it can step up the liquidity of the economy. Again, the fact that the State General Fund places the available Treasury funds with the State Savings Bank enables the latter to use such funds to make loans within the framework of its own liquidity policy.

Lastly, the money-market loans raised by the Treasury to finance the budget deficit have so far been relatively small.

CHAPTER TWO

THE INSTRUMENTS OF MONETARY POLICY

Section I - Refinancing policy[1]

General background

18. The concept of refinancing policy must be understood in the context of the Luxembourg monetary system.
The absence of a central bank raises fundamental problems. The refinance policy of the National Bank of Belgium is not automatically applicable to the Luxembourg banking system. In this connection is should be noted that the banking sector is subject solely to the supervision of the Luxembourg banks' Control Commissioner.
Under the special Monetary Association Protocol "the Belgian Government shall make all contacts and negotiate all agreements with the National Bank of Belgium necessary to facilitate for the Luxembourg Government and the Luxembourg economy access to any credit that can be granted by the National Bank of Belgium, especially with a view to the establishment and maintenance in Luxembourg of an office of the National Bank with a discount counter".
In fact the liquidity of the banking system has so far posed few problems; on the contrary, the bank sector normally offers fairly substantial sums on the Belgian money market. Part of the claims which it thus acquires from the Rediscount and Guarantee Institute can be rediscounted with the same institution. These are, of course, credits granted by the Luxembourg banking system indirectly to the Belgian economy, some of which are backed by a right of rediscount. This is not refinancing in the strict sense of the word.

Rediscounting by the NBB

19. In addition to this special form of refinancing there is a right of mobilizing claims on the Luxembourg Government with the National Bank of Belgium. Under Article 17 of its Statute, the Belgian Central Bank may "discount, purchase and assign short- or medium-term paper issued or guaranteed by the Belgian Government or by the Luxembourg Government or issued by institutions whose liabilities are guaranteed by the Belgian Government or by the Luxembourg Government, ... make current-account advances and short-term loans against pledges: *a*) of public short-, medium- or long-term securities, issued or guaranteed by ... the Luxembourg Government ... *b*) of like securities issued by institutions the liabilities of which are guaranteed by the ... Luxembourg Government...".

[1] For the exact meaning of this term, refer to Part I, point 71.

Influence on the levels of interest rate

20. In fact, the scope for refinancing is very limited and the Luxembourg monetary authorities can, at the present time at any rate, exert hardly any influence at all on bank liquidity through this instrument. The terms governing rediscounting with the National Bank of Belgium, including bank rate, have very little monetary impact on the Luxembourg economy, except to the extent that they can in principle provide an incentive to the Luxembourg banking system to offer, through the Belgian Rediscount and Guarantee Institute, a greater or lesser volume of Luxembourg funds on the Belgian money market.
On the other hand, the Bank Control Commissioner can pursue a form of interest rate policy designed to influence the distribution of credit to the economy. Under Article 8 of the Luxembourg decree of 19 June 1965 concerning bank and credit transactions and securities issues the Control Commissioner has power to adopt, by agreement with the establishments subject to his jurisdiction, rules the purpose of which is the order development of credit and the pursuit of a liquidity policy for the banking system. When 90 % of the bank and credit establishments sign the agreement it becomes compulsory for all the banking sector.
This measure is now being negotiated, but as it has no precedent its effectiveness cannot be predicted.

Section II - The control of bank liquidity

21. A refinance policy presupposes the existence of a central bank, both for assignments of claims and secured advances, whereas the control of bank liquidity could be carried out by a non-bank acting as depository for compulsory reserves. Such an institution does not exist in Luxembourg, however, and, in general, no direct method of controlling the volume of bank liquidity is used. Public securities held by the banks do not constitute evidence of a measure of monetary policy but are issued under an agreement with the banking system to finance Treasury expenditure. Moreover they are freely assignable as between the local banks.
There is a cash ratio and a liquidity ratio which, under a recommendation from the Bank Control Commissioner, should be maintained at 6 % and 30 % respectively of certain categories of liabilities. However, these ratios are laid down with the aim of ensuring the technical solvency of the banks. As the rates have so far remained constant they have not changed the relative liquidity of the banking sector and have therefore not had an effect as an instrument of monetary policy. Moreover, the components of bank liquidity are at present largely made up of short-term claims on the Luxembourg economy and on the Belgian economy.

Section III - Supervision of the money market and of the links with international money markets

22. It is virtually impossible to study the Luxembourg money market separately

from the Belgian market. Since the Belgian franc is legal tender and acceptable in unlimited amounts in Luxembourg, transactions take place unhampered within the Economic Union, and the Luxembourg banking system has access to the Belgian money market, upon which it has traditionally been a lender.
The Luxembourg monetary authorities do not use open market policy to influence bank liquidity through the money market. Generally, the banks place part of their resources on the Belgian market and they repatriate these funds in accordance with needs, thus themselves contracting or expanding liquidity.
Article 17 of the Statute of the National Bank of Belgium establishes the principle of open market operations, which could apparently be applied to Luxembourg public stock. However, open market operations by the Belgian monetary authorities are effected through the Securities Stabilization Fund, which operates only in Belgium.

Section IV - Direct control of the distribution of credit

23. Among the different ways in which bank liquidity is controlled, only two require the intervention of a central bank: refinancing and the sterilization — to whatever extent — of bank liquidity through open market operations. The third method of intervention does not necessitate the assistance of a central bank; a non-bank could centralize the compulsory reserves of the banking sector. Nevertheless, the Luxembourg authorities have not so far used this device; they have preferred direct methods of controlling the distribution of credit, either through quantitative regulations or through selective control or qualitative control.
In view of the special organization of the Luxembourg monetary system in the framework of the Belgo-Luxembourg Economic Union, the Bank Control Commissioner has certain monetary powers. He centralizes information on the pattern of the resources and investments of the banking sector and he monitors the trend of credit. This process has revealed a need to curb consumer credit and to take certain measures at the same time to check credit in general.
For this reason a control system is envisaged combining quota restrictions and the reduction of the period for which consumer credit may be granted, with qualitative control of credit in general through adjustments in interest rates. To prevent this qualitative restriction having too general an impact, certain exceptions are provided for in the field of subsidised housing and productive investment.
It is to be noted that these control measures will require the agreement of 90 % of the banks and will be subject to ministerial approval. If 90 % of the banks give their approval the rules will become compulsory for the entire sector.
These control measures would remain in force for an initial period of six months, or one year at the outside.

STATISTICAL TABLES

TABLE 1

Primary liquidity

(in Lfrs. million)

	Notes and coin (2)			Deposit money			Primary liquidity	Share of notes and coin as a percentage of primary liquidity
	Luxembourg notes and coin	Belgian notes and coin (1)	Total	Sight deposits (2)	Postal cheque deposits (2)	Total		
1963	297	5,944	5,928	5,295	1,288	6,583	12,511	47
1964	317	6,491	6,358	6,314	1,213	7,527	13,885	45
1965	319	6,653	6,530	6,182	1,321	7,503	14,033	46
1966	345	6,678	6,551	6,380	1,268	7,648	14,199	46
1967	380	6,582	6,440	7,098	1,242	8,340	14,780	43
1968	423	6,778	6,674	7,860	1,367	9,227	15,901	42
1969	476	7,115	6,922	9,309	1,235	10,544	17,466	39
1970	433	7,319	7,123	10,522	1,275	11,798	18,921	37

(1) Estimate based on the ratio of the Luxembourg G.N.P. to the Belgian G.N.P.
(2) Minus cash in hand with banks and savings banks.

TABLE 2

Liquidity of the economy

(in Lfrs. million)

	Notes and coins (1) (2)	Deposit money	Total	Savings deposits	Time deposits (francs and foreign currencies)	Sight deposits in foreign currencies	Total (3)	Liquidity of the economy
1963	5,928	6,583	12,511	9,271	7,179	1,823	15,659	28,170
1964	6,358	7,527	13,885	10,476	7,910	2,680	18,020	31,905
1965	6,530	7,503	14,033	11,398	9,272	4,109	20,180	34,213
1966	6,551	7,648	14,199	12,153	11,999	4,013	22,124	36,323
1967	6,440	8,340	14,780	13,286	14,304	5,361	24,625	39,405
1968	6,674	9,227	15,901	14,263	17,546	6,302	27,719	43,620
1969	6,922	10,544	17,466	15,335	30,165	13,543	34,672	52,138
1970	7,123	11,798	18,921	16,467	41,875	13,116	43,346	62,267

(1) Estimate based on the ratio of the Luxembourg G.N.P. to the Belgian G.N.P.

(2) Minus cash in hand with banks and savings banks.

(3) Minus 80% of foreign currency deposits, which is the estimated share of non-residents' deposits.

TABLE 3

Liquidity of the economy and Gross National Product

(in Lfrs. million)

	GNP	Primary liquidity	Primary liquidity as a percentage of GNP	Secondary liquidity	Secondary liquidity as a percentage of GNP
1963	27,496	12,511	45.5	15,659	56.9
1964	31,596	13,885	43.9	18,020	57.0
1965	33,117	14,033	42.4	20,180	60.9
1966	34,665	14,199	41.0	22,124	63.8
1967	36,052	14,780	41.0	24,625	68.3
1968	38,251	15,901	41.6	27,719	72.5
1969	44,538	17,466	39.2	34,672	77.8
1970	49,770	18,921	38.0	43,346	87.1

TABLE 4
Bank liquidity

(in Lfrs. million)

	Cash			Potential liquidity					Total Bank liquidity
	Notes and coin	Deposit money	Total	Short-term security [1]	Banks [1]	Rediscountable commercial bills	Mobilizable public securities	Total	
1963	400	1,200	1,600	337	9,609	3,231	1,200	14,377	15,977
1964	522	1,291	1,813	292	11,219	4,539	3	16,053	17,866
1965	524	1,721	2,245	320	13,475	4,179	1,781	19,755	22,000
1966	562	1,981	2,543	462	17,571	4,863	2,712	25,608	28,151
1967	671	2,733	3,404	474	24,183	4,377	4,356	33,390	36,794
1968	914	3,218	4,132	816	38,925	3,947	5,282	48,970	53,102
1969	935	4,711	5,646	1,050	70,498	5,830	5,175	82,553	88,199
1970	947	5,427	6,374	1,447	105,316	6,068	4,588	117,419	123,793

(1) See point 14 in the text.

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