Treasury and Federal Reserve Foreign Exchange Operations*

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During the period September 1966 through early March 1967, all outstanding drawings on the Federal Reserve swap network—both by foreign central banks and by the Federal Reserve—were repaid and the $4.5 billion of credit lines available under the network have thus been restored to a fully available standby basis (see Table I). Federal Reserve drawings of $235 million outstanding as of the end of August 1966 were fully liquidated, while subsequent Federal Reserve drawings of $100 million on the Bank of Italy and $140 million on the German Federal Bank were also repaid by early 1967.

By early March 1967, the Bank of England had completely liquidated its swap drawings on the Federal Reserve, which had reached a peak of $450 million last July, while also fully repaying further special credits in sizable amount received during the height of the sterling crisis from both the Federal Reserve and the United States Treasury. Drawings on the Federal Reserve of $233 million by the Bank for International Settlements (BIS) and a small amount by another central bank during the period have also been paid off.

Since the inception of the Federal Reserve swap network nearly five years ago, total drawings on the network have amounted to $7.7 billion, of which 91.3 per cent was repaid within six months and 98.5 per cent within nine months, while no drawing has been outstanding for as long as a year. Nor has there been any instance of unduly protracted use of other comparable central bank credit arrangements. The assurance of such integrity in the use of central bank credit facilities has been the foundation on which the Federal Reserve swap network and related credit arrangements have been built up into a solid defense line against international currency speculation.

Another significant development during the period under review was the joint endeavor of the Federal Reserve and several other central banks, together with the BIS, to minimize a potentially severe strain on the Euro-dollar market toward the close of 1966. The Euro-dollar market, which has become a multibillion dollar operation, functions as a truly international money market and consequently cannot rely, as can a national money market, on the support of any single central bank to relieve temporary stringencies or knots in the market.

There is a great deal which the central banks whose nationals use the Euro-dollar market can do in an ad hoc, informal way, however, to alleviate undesirable strains on the market. Such a seasonal stringency in the Euro-dollar market appeared on November 29, 1966, when year-end window-dressing activities abruptly pushed up the one-month Euro-dollar rate from 6½ per cent to 7⅜ per cent, while rates for other maturities reacted sympathetically. On the very same day, concerted action to deal with the situation was taken by several central banks and the BIS.

First, the Swiss National Bank announced that, as in previous years, it would be prepared to enter into swaps over the year-end with Swiss commercial banks. Under these swap contracts, the Swiss National Bank bought spot dollars against a forward resale contract. The dollars so acquired were immediately channeled back into the Euro-dollar market, either directly or via the BIS, thus preventing an abrupt contraction in the supply of Euro-dollars. The volume of such operations by the Swiss National Bank reached the record total of nearly $400 million during December. In addition, the Swiss National Bank placed

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Table I

FEDERAL RESERVE RECIPROCAL CURRENCY ARRANGEMENTS AND COMMITMENTS

February 28, 1967

Institution	Amount of facility	System drawings outstanding
	In millions of dollars equivalent	
Austrian National Bank	100	
National Bank of Belgium	150	
Bank of Canada	500	
Bank of England	1,350	
Bank of France	100	
German Federal Bank	400	0
Bank of Italy	600	
Bank of Japan	450	
Netherlands Bank	150	
Bank of Sweden	100	
Swiss National Bank	200	
Bank for International Settlements	400*	
Total	4,500	0

* Half is available in Swiss francs and half in other European currencies.

in the Euro-dollar market $75 million which it had purchased outright in November.

Second, the BIS, with the agreement of the Federal Reserve, began drawing upon a $200 million swap line with the System for the express purpose of channeling these dollars into the Euro-dollar market to counter year-end strains. During December, the BIS employed in such operations the full $200 million facility while also shifting $75 million of its own investment funds into the Euro-dollar market. These operations by the BIS supplemented its normal participation in the Euro-dollar market.

Third, the New York Reserve Bank immediately moved into the sterling market, where spot rates were beginning to sag as a result of the competitive pull on British funds by the Euro-dollar market, and executed a total of $88 million of one-month swap contracts, thereby helping to insulate sterling from the year-end strain.

During the closing weeks of the year, the Netherlands Bank also rechanneled some funds into the Euro-dollar market, while the German Federal Bank and the Bank of Italy took action to reduce the pullback of Euro-dollar placements by their banks. As a result of these coordinated actions, the one-month Euro-dollar rate fell back to 6⅝ per cent by December 12, 1966, and rates tended to soften further during the remainder of the month as the Euro-dollar market remained adequately supplied with funds. By thus averting an abrupt rise in Euro-dollar rates toward the end of the year, such central bank operations may also have facilitated to some extent the general easing of credit internationally during recent months.

STERLING

During the past six months, sterling has staged a strong recovery from the severe crisis of last summer. This has reflected a gradual strengthening of confidence in the pound, with consequent short covering. The easing of credit conditions internationally has also contributed to a reversal of earlier drains of short-term funds out of sterling to other markets. More fundamental has been the remarkable achievement of the British Government in securing public acceptance of perhaps the most drastic stabilization program ever to be put forward by a democratic government in peace time.

The wage-price freeze and other measures announced by Prime Minister Wilson on July 20 were so severe, in fact, that the market initially was skeptical of their political feasibility, and selling pressure on the pound continued unabated. In order to demonstrate United States Government support of the British Government's defense of sterling, this Bank for the System and Treasury moved into the market immediately following Prime Minister Wilson's announcement with massive bids for sterling to all major New York dealers and, despite continuing selling pressure, drove the rate up sharply to over $2.79. These operations were sustained for three days in sizable volume and seemed to exert a useful stabilizing influence in a badly demoralized market. But, as confidence remained at a low ebb and the competitive pull of other markets for short-term funds became even stronger, no significant amount of short covering developed and sterling was subject to pressure through most of August.

More generally, the world economy was confronted in the late summer of 1966 with seriously strained credit conditions in many national money markets. These tensions in domestic markets were naturally aggravated by widespread anxiety as to whether the British Government's battle to defend sterling would succeed. Against this background of dangerous unsettlement in the financial markets, the Federal Reserve announced on September 13 a generalized increase in its swap facilities from $2.8 billion to $4.5 billion, including a $600 million rise to $1,350 million in the line with the Bank of England. The Bank of England simultaneously announced that it had arranged additional facilities with other central banks. Initial wire-service reports of these large increases in international credit facilities were necessarily cryptic, and the market —unclear about their implications—responded with some nervous selling. In order to maintain orderly conditions and prevent any slippage in quotations, this Bank again entered the sterling market, making moderate purchases for both Federal Reserve and Treasury account, with the rate at about $2.7877. As it became clear to the market that the increased central bank credit facilities did not reflect an exhaustion of existing credit lines but were rather designed to provide a broad margin of safety against unforeseeable contingencies, sentiment in the sterling market began to improve.

Moreover, during the course of September, the British trade unions endorsed the Prime Minister's call for wage restraint and there was increasing evidence that the July 20 measures were beginning to take hold. By the end of the month, the spot rate was up to $2.7910 and sterling was in good demand as the oversold position of the market began to be reflected in a covering of short positions. For the first time in four months, the Bank of England was able to forego net recourse to central bank assistance.

In succeeding weeks, sterling continued to improve as further covering of short positions was encouraged by better trade figures as well as by the November 10 announcement that Britain would initiate top-level discussions aimed at membership in the Common Market. Also, during this period the level of interest rates on dollar investments receded from their August-September highs, and the drain on sterling from this source came to an end. In October and November, the Bank of England added $120 million to United Kingdom reserves, while making a start on repaying central bank assistance.

This pattern of gradual recovery was interrupted briefly at the end of November and in early December, both because of the mounting tensions surrounding Britain's impasse with Rhodesia and because of the usual year-end window-dressing preparations of commercial banks in several Continental centers. Such year-end window dressing led to large flows of funds across the exchanges, most notably outflows from London on a short-term covered basis—either directly to countries repatriating funds or to an increasingly stringent Euro-dollar market.

These covered outflows from London in turn brought about an appreciable narrowing in the discount for one-month sterling and, with United States money rates continuing to decline, incentives developed to move private funds from the United States into United Kingdom money market instruments. Such flows, while desirable from the point of view of sterling, would have had adverse consequences for the United States balance of payments. In order to avoid such a development, while at the same time bolstering sagging spot quotations for sterling, this Bank, in consultation with the Bank of England, engaged in market swaps for the Federal Reserve and the Treasury, purchasing $88 million of spot sterling against sales for delivery in January 1967. These operations complemented the coordinated action being taken by several other central banks and the BIS to relieve potentially disruptive year-end pressures in the Euro-dollar market.

During December, therefore, sterling was well insulated by concerted central bank action designed to cushion year-end short-term capital flows, and occasional Bank of England intervention in defense of the pound was only moderate. The announcement that Britain's seasonally adjusted trade balance had moved into surplus in November for the first time in the postwar period helped generate new demand for sterling and, as the year drew to a close, there was additional buying of sterling when some British corporations repatriated profits for the year-end. On balance, the Bank of England had a small reserve gain from exchange operations in December, even after further repayments of short-term central bank credits.

After the turn of the year, the progressive relaxation of monetary restraint in the United States, Germany, and other countries, combined with reflows of funds from the Continent, resulted in a sharp decline in Euro-dollar rates. Yields on British local-authority deposits also declined, but more slowly, so that for the first time in a year a significant incentive developed to shift funds from Euro-dollars to local-authority sterling deposits. The Bank of England on January 26 reduced its bank rate from the crisis level of 7 per cent to 6½ per cent. Central banks in several other financial centers also cut their discount rates, but the general lowering of interest rates left those in Britain still relatively attractive and short-term investment funds continued to be drawn to London. In addition, demand for sterling reflected the underlying improvement in the United Kingdom payments position and the beginning of the period of seasonal strength, including in particular substantial buying for oil royalty payments. Moreover, as confidence recovered still further, foreigners continued rebuilding their sterling balances. As dollars flowed back to the Bank of England, the bank continued its practice of devoting the bulk of such receipts to repayment of central bank debt while adding only modest amounts to its reserves.

As sterling moved through crisis to convalescence, the Bank of England made extensive use of the network of central bank credit facilities of various types that have been constructed during the past five years. In the case of the Federal Reserve swap line, Bank of England drawings rose to a peak of $450 million at the end of July, declined to $400 million by the end of September, to $350 million at the year-end, and were paid off completely by early March. In addition to drawings on the Federal Reserve swap line, the Bank of England made use of sizable special credits provided by the United States Treasury and, to a lesser extent (i.e., a maximum of $50 million), by the Federal Reserve. After rising to a peak during the midsummer months, such special credits declined to $175 million at the end of September, to $160 million at the year-end, and were fully liquidated during January 1967. During the height of the crisis, the Bank of England also secured credit assistance from other central banks with repayments being subsequently effected.

GERMAN MARK

The German balance of payments swung into sizable surplus in the second half of 1966. Official gold and convertible currency reserves rose by $578 million in the six-month period, resulting in a net reserve gain of $419 million for the year as against a loss of $617 million in 1965. The swing was largely related to cyclical factors. The German economy, which had been overheated through most of 1965 and early 1966, cooled off considerably in the second half of last year. With domestic pressures easing, the growth of German imports slowed and exports began to rise sharply. The resultant improvement on trade account was the major force behind the reemergence of a payments surplus, as other current-account items continued in deficit and the capital accounts were about in balance.

Starting late last year, monetary measures were taken to bring about renewed expansion in the German economy. After reducing reserve requirements in December, the German Federal Bank in January and February cut its discount rate in two steps from 5 per cent to 4 per cent per annum and further lowered commercial bank reserve requirements.

The balance-of-payments surplus was reflected during the period under review not only in rising official reserves but also in a strengthening of the German mark. After fluctuating slightly above par ($0.2500) in September, the spot rate advanced in October to about $0.2515 as the trade surplus widened. The tightening domestic money market, coupled with the onset of the usual year-end liquidity pressures, prompted German banks during November and December to repatriate funds normally held abroad in foreign currency assets. Despite the relaxation of reserve requirements in Germany, these demands carried the mark rate even higher and, as it approached its upper limit of $0.2518⅞, the German Federal Bank made very large purchases of dollars.

Under the circumstances, the Federal Reserve acted in cooperation with the German authorities in December to alleviate the exchange market pressures resulting from these flows of funds. In order to meet the demand for marks that spilled over into the New York market, the Federal Reserve sold $28.7 million equivalent of marks from its balances early in December. When the market began bidding strongly for marks on a one-month swap basis shortly before Christmas, the System shifted its intervention and sold $17.5 million equivalent of marks spot against repurchase one month later. In addition, the System absorbed $155 million of the dollar gains of the German Federal Bank, using $15 million of marks previously held outright and $140 million of marks drawn under the swap arrangement with the German central bank.

After the year-end, there was a substantial reflow of funds out of Germany. In addition to using existing mark balances, the Federal Reserve was able to acquire sufficient marks—from the maturing one-month swaps, from purchases in the New York market, from Spain following its drawing of marks from the International Monetary Fund (IMF), and through the German Federal Bank—to repay by mid-February its $140 million mark swap drawing. Nevertheless, the mark remained strong in the exchange market, as the German trade account continued in heavy surplus. With the reemergence of a German payments surplus, the United States Treasury was unable to make further progress in reducing its indebtedness in mark-denominated securities issued to the German authorities. The overall amount outstanding remained at $351 million at the end of February, compared with $602 million at the beginning of 1966.

SWISS FRANC

In April the Swiss franc began to strengthen after having declined steadily during the first quarter of 1966, and by early May it had reached its effective ceiling of $0.2317½. The franc remained at its ceiling in subsequent weeks as a result of repayments of Swiss franc borrowings by foreigners, attributable to a tightening of the domestic money and capital markets, and later because of capital repatriations in connection with midyear liquidity needs. Consequently, the Swiss National Bank purchased $200 million outright, and effected an additional $82 million in short-term swaps with Swiss commercial banks to help provide for their temporary midyear requirements.

In July, tensions associated with the pressures on sterling dominated the foreign exchange markets and the usual seasonal outflow of funds was converted into an actual inflow of $69 million. Accordingly, the Federal Reserve drew $75 million of francs from the Swiss National Bank and another $75 million of francs from the BIS, using these funds to absorb uncovered dollars from the Swiss central bank. In late July, however, Swiss francs gradually came on offer as the pressures on sterling began to subside and high interest rates abroad gave rise to extensive capital outflows. In early autumn, with funds continuing to move out of Switzerland, the spot rate declined to $0.2305¼ and the Swiss National Bank began selling dollars to the market. In addition, there were relatively heavy official requirements for dollars between September and November. The consequent reduction in its dollar holdings led the Swiss National Bank to buy $60 million against Swiss francs from the Federal Reserve during this period. The System used the Swiss francs so acquired to reduce its swap drawings from the Swiss National Bank to $15 million equivalent.

In November, the Swiss commercial banks began to repatriate large amounts of funds in connection with heavy year-end requirements and, when the spot rate moved to its ceiling, the Swiss National Bank purchased $75 million in the market. Then, at the end of the month, the Swiss National Bank—as it had done in previous years—announced that it would buy dollars from the Swiss commercial banks on a short-term swap basis and the spot rate immediately receded from the ceiling. The swaps eventually reached a record level of $398 million. In order to prevent these movements of funds from putting pressure on the Euro-currency markets, the Swiss National Bank, as usual, rechanneled the dollars so acquired into the Euro-dollar market.

After the year-end the Swiss franc eased further, and during January and February the spot rate was generally under $0.2310. Aside from the unwinding of the December market swaps, however, outflows of funds from Switzerland were smaller than usual because lower interest rates in other countries made short-term investments abroad somewhat less attractive. Consequently, while the Federal Reserve was able to reduce its swap drawing from the Swiss National Bank by $5 million to $10 million equivalent with francs purchased in New York, the $75 million drawn from the BIS in July remained outstanding. The United States authorities therefore decided to use some of their sterling balances to enter into a $75 million equivalent sterling-Swiss franc swap with the BIS, half each for the System and the Treasury accounts. The Federal Reserve then purchased the Treasury's share of the swap proceeds and thus acquired sufficient Swiss francs to liquidate completely its $75 million Swiss franc drawing from the BIS. Finally, at the end of February, the Federal Reserve repaid its remaining $10 million drawing from the Swiss National Bank with francs purchased from that bank.

ITALIAN LIRA

Italy registered a substantial balance-of-payments surplus during 1966, although on a decidedly smaller scale than in 1965. At first, reserve gains were moderate as Italian commercial banks made large short-term investments in the Euro-dollar market. About midyear, however, Italian payments moved into a period of seasonal strength, and there were short-term capital inflows resulting from growing speculation against sterling. Moreover, by then, most Italian banks had eliminated any net liability position vis-à-vis foreigners and the Bank of Italy was no longer prepared to shift dollars abroad through short-term swaps with those banks at preferential rates. Consequently, there was a marked rise in Italian official reserves, and the Federal Reserve reactivated its swap facility with the Bank of Italy, in July and August drawing lire to absorb a total of $225 million from the Italian authorities. These drawings were repaid on August 22, when the United States Treasury drew $250 million of lire from the IMF and sold the lire to the System. Using the remaining $25 million of lire, plus some balances, the System reduced to $14 million equivalent a sterling-lira swap with the BIS (originally $50 million at its inception in February 1966 but reduced to $40 million equivalent during the spring).

While these operations were under way, large amounts of dollars continued to flow into official Italian reserves during August. Accordingly, in early September the System again used its swap line, drawing lire to absorb $100 million from the Italian authorities. Shortly thereafter, however, Italian reserves began to decline, as strong seasonal inflows subsided, a tighter Euro-dollar market exerted a renewed pull on Italian bank funds, and the Italian authorities prepaid $145 million of postwar debt to the United States. Against this background, the System in late September purchased $13.9 million of lire from the Bank of Italy and, adding some lire on hand, unwound its remaining $14 million equivalent sterling-lira swap with the BIS.

In succeeding months, dollars were generally in demand in Italy in response to conversion of lira borrowings by foreign firms and outflows to the Euro-dollar market; as a result, lira quotations eased steadily, falling below par by mid-January. Offerings of lire in the market were sizable, and between October and January the Federal Reserve purchased sufficient lire in New York to repay in full its $100 million equivalent swap drawing from the Bank of Italy. The $600 million swap facility was thus fully restored to a standby basis.

Although the turn in Italy's balance of payments in late 1966 was sufficient to make possible the liquidation of System lira commitments, Italy's overall reserve position strengthened over the year as a whole. In particular, Italy's creditor position in the IMF increased by some $336 million. In view of the substantial surplus in their payments position, the Italian authorities at the year-end purchased $60 million of gold from the United States Treasury in order to replenish their gold holdings. Beginning in January, however, Italy's foreign exchange requirements increased, partly for seasonal reasons. As a result, the Italian lira remained below par and Italian official dollar holdings declined by about $200 million in January and February.

Federal Reserve and Treasury technical forward commitments in Italian lire, undertaken in 1965, were rolled over periodically during the course of 1966.

DUTCH GUILDER

The Netherlands money market tightened around midyear and, as mounting tensions in the sterling market led to additional inflows of funds, Dutch official reserves rose sharply. The Federal Reserve accordingly reactivated its swap facility with the Netherlands Bank—drawing a total of $65 million of guilders which it used, together with $2.5 million of guilder balances, to absorb dollars from that bank.

By mid-August, however, the Dutch money market had eased and, as increasingly attractive interest rates on dollar investments were exerting a pull on Dutch funds, the spot guilder rate began to decline, falling below par by mid-September. In order to moderate the decline, the Netherlands Bank sold some dollars to the market and later bought $10 million from the Federal Reserve against guilders. The System in turn used the guilders to reduce its swap commitment to $55 million equivalent as of September 16.

During the fall the guilder moved back above par, and subsequently fluctuated within a narrow range during the remaining weeks of 1966 as the Netherlands trade account was seasonally strong and the money market in Amsterdam firmed. During this period, the Netherlands Bank intervened only sporadically and then mainly to relieve money market pressures, which were particularly strong in early November and again in mid-December. In so doing, it used the technique of market swaps, buying dollars spot from Dutch commercial banks and selling them forward (in this instance for 1967 delivery). To help moderate year-end pressures in the Euro-currency markets, the Netherlands Bank reinvested its December dollar purchases in the Euro-dollar market.

At the end of 1966, foreign currency requirements of the Dutch government led the Netherlands Bank to buy $20 million against guilders from the Federal Reserve, and the Federal Reserve immediately used the guilders to reduce its swap commitment with that bank to $35 million equivalent. Then, in January, there was a flow of funds from the Netherlands into sterling (through dollars) and the central bank provided some support for the guilder. These dollar losses, coupled with the conversion into dollars of the guilder portion of Spain's multicurrency drawing from the IMF, reduced the Netherlands Bank's dollar holdings, and the bank purchased $35 million from the Federal Reserve against guilders. The System in turn repaid the remainder of its outstanding guilder swap drawing, restoring the $150 million arrangements fully to a standby basis. There were no further Federal Reserve or Treasury operations in guilders during the period covered by this report.

BELGIAN FRANC

During the early summer of 1966, Belgium's trade and service accounts moved into surplus and the Belgian franc began to strengthen. By late July, the Belgian franc had reached its ceiling and the National Bank of Belgium began buying fairly sizable amounts of dollars. In order to absorb some of these gains, the Federal Reserve in early August drew $30 million of francs under the $50 million standby portion of the reciprocal swap arrangement with the National Bank.

Belgium's current account swung into deficit later in August, and the National Bank then started supplying foreign exchange to the market, covering these losses by purchasing dollars from the Federal Reserve against Belgian francs. By late September, such purchases totaled $30 million and the System had fully repaid its swap drawing from the National Bank.

During the early fall the Belgian franc drifted somewhat below par as a result of a continued deterioration on the trade account, and in November the Belgian central bank again began to lose dollars. Because of these market losses, and exchange requirements of the Belgian Treasury, the National Bank again needed dollars in the last few weeks of 1966. The bank bought $30 million from the United States Treasury against Belgian francs, which the Treasury used to build up a balance for future contingencies. Thus, by the end of 1966 the Treasury had a fully covered position in Belgian francs, since its franc balances matched its Belgian franc-denominated bond indebtedness.

During the first two months of 1967 there was an improvement in the Belgian current account, and the franc moved somewhat above par after mid-January. Tighter Belgian money market conditions associated with a large Belgian government bond flotation contributed to the rise in the rate, but at no time were there any significant pressures in the market, and at the end of February Belgian official reserves were virtually unchanged.

CANADIAN DOLLAR

Although there were some large capital flows to Canada during the first half of 1966, seasonal weakness in the trade and tourist accounts early in the year and sizable covered conversions of domestic time deposits into United States dollar investments by Canadian banks accounted for net Canadian demand for foreign exchange. During the summer months, the Canadian dollar strengthened, but official gold and exchange reserves continued to decline as Canadian authorities purchased from United States residents nearly $141 million of Canadian government debt and some $25 million of IBRD (International Bank for Reconstruction and Development) bonds to adjust their total official reserve holdings to levels mutually agreed upon with the United States. Including those purchases and a $47 million gold payment to the IMF in connection with Canada's quota increase, Canadian gold and foreign exchange reserves fell $420 million during the first nine months of 1966.

During the fourth quarter the spot rate for Canadian dollars declined, as there were few new Canadian securities offerings in New York and Canada's balance of payments again entered a period of seasonal weakness. By early November spot quotations had fallen below the $0.9250 parity, and they remained below par in the remaining weeks of the year when there were large financial outflows associated with dividend payments to nonresidents and year-end repatriations of funds by foreigners. There was no significant selling pressure, however, and there was little net change in official Canadian gold and foreign exchange reserves during the final quarter. (Late in the year, the United States Treasury purchased $17 million of Canadian dollars from the Bank of Canada for resale to IMF members having repurchase obligations to the Fund. Earlier in 1966, the United States Treasury had drawn a total of $400 million equivalent of Canadian dollars from the IMF for sale to Fund members meeting repayment obligations.)

Seasonal factors continued to run against Canada in early 1967. With an easing in monetary conditions in the United States, however, there was a revival of Canadian borrowing in New York and some repatriation of Canadian funds from the Euro-dollar market. As a result, the spot Canadian dollar rose sharply during January. Once the borrowings in New York were completed, however, the spot rate tended to ease, and through mid-February it traded just above par in a quiet and balanced market. At the end of the month, there was a flurry of selling when the Royal Commission on Taxation made its report and the spot rate eased just below par.

INTERNATIONAL MONETARY FUND

The United States continued the practice initiated in February 1964 of drawing currencies from the IMF for sale to countries making repayments to the Fund. During the period under review, takedowns were made under the drawing of $100 million of Canadian dollars arranged on August 18 and the United States arranged an additional "technical" drawing for $30 million equivalent of German marks.

United States drawings from the Fund—both regular and technical—between February 1964 and February 1967 totaled $1,640 million. During the same period, other countries drew dollars from the Fund, thereby reducing the Fund's holdings of dollars and reducing this country's repayment obligation. Consequently, at the end of February 1967, net United States indebtedness to the IMF was $933.5 million.

The general Fund quota increase of 25 per cent adopted in 1964 by the Governors of the Fund was ratified by two more members during the period, bringing the number of ratifications to ninety-two; Fund resources were thereby increased to over $20.9 billion. As indicated in previous reports, a member must pay its quota increase to the Fund partly in its own currency and partly in gold. The quota increase arrangement provides that the Fund will deposit a total of up to $350 million of gold with the Federal Reserve Bank of New York and the Bank of England to compensate for any losses arising from other members' gold subscription payments to the Fund. As of February 28, 1967, the Federal Reserve Bank of New York held for United States Treasury account $213.4 million of gold so deposited by the IMF.

THE GOLD MARKET

Early estimates suggest that official gold reserves of the noncommunist world declined slightly over the course of 1966. Although private hoarding demand evidently declined somewhat, industrial and artistic use again rose and, with new gold supplies off sharply, total demand exceeded the volume of gold coming on to the market. This imbalance was reflected in higher prices on the London gold market and in the activity of the central bank gold pool, which for the first time since its inception closed the year with a net drain on its resources. In the past five months, however, the supply-demand relationship has improved, as South African sales have risen and hoarding demand has declined.

South Africa, the world's leading gold producer, had a payments surplus for the first half of the year and on balance absorbed into its own reserves slightly more than $200 million of gold from new production in 1966. In addition, the Soviet Union apparently sold no gold in 1966 for the first time in recent years. Commercial and artistic use of gold continued to rise, but private hoarding demand moderated. Tight monetary conditions in many countries increased the yields on alternative investments and undoubtedly cut down on speculative buying. On the other hand, speculative demand was encouraged by several factors during the year—the Vietnam conflict, the Rhodesian situation, and the repeated intimations on the part of French officials that the price of gold should perhaps be raised. In addition, the sterling crisis during the summer led to strong demand and a firm price throughout the third quarter.

During the period under review, the London gold price backed away from the high of $35.1940 reached in August and September and dipped below $35.15 on several occa-

Table II

UNITED STATES NET MONETARY GOLD TRANSACTIONS WITH FOREIGN COUNTRIES AND INTERNATIONAL INSTITUTIONS*

January-December 1966

In millions of dollars at $35 per fine troy ounce; United States net sales (−), net purchases (+)

Country	First half	Third quarter	Fourth quarter	Year
Canada	+150.0	+ 50.0		+200.0
France	−323.5	−277.3		−600.8
Italy			− 60.0	− 60.0
Switzerland	+ 18.0	− 20.0		− 2.0
United Kingdom	− 26.1	+126.0	− 20.1	+ 79.8
All other	− 19.6	− 22.2	− 5.7	− 47.5
Net sales	−201.2	−143.5	−85.8	−430.6

Note: Because of rounding, figures do not necessarily add to totals.

* Not reflected in this table are United States monetary gold transactions with foreign countries mitigated through special deposits by the IMF.

sions in October and early November. Demand was diminishing as the pressures on sterling eased, and at the same time the volume of South African supplies was picking up rapidly, following an adverse swing in South Africa's payments position. Nevertheless, with the approach of the year-end, demand became very strong once again, influenced partly by heightened tensions in the Middle East and by rumors that economic sanctions might be applied to South Africa in connection with the Rhodesian situation. As a result, the price rose to $35.1971 toward the end of December. Thereafter, the market eased once again in early 1967, although there were brief flurries of demand in response to renewed French official discussion of the role of gold in world monetary arrangements. The lifting of restrictions on French gold trading in Paris was taken in stride both in the London market and elsewhere on the Continent, and at the end of February the London fixing price had fallen to $35.1486.