INTERNATIONAL SITUATION AND EVENTS SIX-MONTHLY REVIEW

INTERNATIONAL ECONOMIC DEVELOPMENTS: SUMMARY

The past year has been a period of slower economic growth in the industrial countries, with higher rates of inflation and rising imbalances in the external current accounts of each of the main groups of countries.

For the OECD countries in aggregate, real gross national product (GNP) increased 3.4 per cent in 1979 against growth of nearly 4 per cent the previous year. The slowdown was largely a reflection of developments in the United States and the United Kingdom where annual gains in real output were sharply lower than in 1978. In Western Europe as a whole, and in Japan, rates of increase of real GNP continued to strengthen moderately but generally remained below the average rate for the ten year period 1966/67 — 1976/77. Activity during the year was, however, more buoyant than had been expected due mainly to strong fixed investment in the major seven industrial countries[1] and the fall to an unprecedented level, in the personal savings ratio in the United States. As a result, growth in the second half of the year held up to levels recorded for the first half with the exceptions of the United Kingdom and Canada.

Signs of industrial activity slowing are becoming more widespread as a number of important deflationary factors increasingly affect the OECD economies. The most obvious depressive force is the rise of more than 140 per cent in the price of imported oil since the end of 1978. This has already had an effect on inflation but will also have a contractionary impact on demand and output. The OECD Secretariat estimates that the effects of the oil price rises that occurred between December 1978 and March 1980, (given a number of technical assumptions with respect to policy, volume, wage and price responses), will lead to a cumulative effect on the GNP level of about 5 percentage points by 1981. The other major deflationary forces stem from policy. Monetary policy in most member countries has been progressively tightened since the end of last year and real money supply, which fell in the OECD economy in the final quarter of 1979, may become negative this year if monetary targets are adhered to. Fiscal policy too has become, or is becoming, more restrictive.

Output in the first half of 1980 is expected to be weaker, with GNP for the OECD area projected to grow 1.5 per cent at an annual rate, half the previous period's growth. For the current year as a whole, both the United Kingdom and United States are projected to record a real decline in output levels with growth slowing in the other major economies and most of the smaller OECD countries.

Unemployment in the OECD area remained broadly unchanged during the second half of 1979, but resumed its upward trend in the early months of 1980. Amongst the major countries, the increase has been most evident in the United States and the United Kingdom. The labour force has continued to grow strongly. The OECD labour force expanded 1.5 per cent in 1979, and in North America exceeded 2.5 per cent. The growth experienced is the result of demographic and social factors such as the effect of high post-war births on the population of working age and a trend to higher female participation rates.

The greater than expected resilience of output and continued poor productivity performance led to the employment growth in OECD countries as a whole reaching an annual rate of 1.3 per cent in the second half of 1979. Among the smaller countries average employment growth was more modest at some 0.6 per cent a year. In the first six months of this year, however, the rise in employment is expected to weaken considerably, and to decline in the second half. Unemployment is forecast to worsen also in response to recessionary forces.

Inflation worldwide has seriously intensified during the past 18 months. As in 1973/74, the disturbances derived partly from international sources, reflecting sharp increases in the prices of primary commodities, notably oil and facilitated by a general cyclical strengthening of global demand. From less than 8 per cent in 1978, the rise in consumer prices in the OECD area jumped to an annual rate of some 17 per cent by the first quarter of 1980. Nominal wages, on the other hand, have risen only modestly in relation to consumer price changes in most countries.

The policy stance of most countries has now shifted from one of expanding activity to one giving high priority to controlling inflation. Given this, the outlook for inflation in the OECD community depends on the degree to which the slowdown in economic activity and the policies of restraint hold down the secondary effects of price rises.

In February 1980, the energy component of the CPI for the seven largest countries as a group had risen over 30 per cent from its year-earlier level. As a result, the 2 percentage point direct contribution of energy to the rise in the total CPI matched the intensity of the 1974 experience even though the oil price rise was proportionately smaller and less abrupt than in 1973/74.

Although the current situation of slowing industrial growth and record high oil stocks should lessen demand pressures, the outlook for oil market balance and prices remains uncertain. Aside from political developments, OPEC pricing unity is precariously balanced at present, and production cutbacks could lead to supply pressures.

The steep upward movement of oil prices last year and, to a lesser extent, the rise in other primary commodity prices resulted in a market deterioration in the industrial countries' and non-oil developing countries' terms of trade. This, together with strong import demand in the major economies, led to an abrupt reversal in their current accounts. From a surplus of US$30 billion in 1978, the industrial countries as a group recorded a current account deficit in 1979 of US$10 billion.

The non-oil developing countries similarly experienced a renewed deterioration in their external position. The counterpart of these deficits was the oil-exporting countries' surplus which expanded to US$68 billion in 1979

1. United States, Japan, Federal Republic of Germany, France, United Kingdom, Canada and Italy.
Of the OECD countries only Japan, Finland and Norway are forecast to achieve real growth of any magnitude in 1980.

after being reduced almost to balance in 1978. Furthermore, the OPEC surplus is likely to double in value this year. How quickly this surplus is reduced depends on the extent to which the volume of imported goods and services by OPEC increase in response to their increased purchasing power. In the meantime, however, the impact of such a large surplus on the rate of growth of world trade relies substantially on the extent to which funds can be recycled through the international banking system to deficit countries.

The remainder of this review is given over to a more detailed analysis of developments in output, prices, employment, trade and financial relations in the world economy. It ends with a brief review of matters currently under consideration by the International Monetary Fund.

GROWTH

Although real GNP in the United States declined from an average growth of 4.4. per cent in 1978 to 2.3 per cent in 1979 economic activity held up at a higher level than had been generally anticipated, particularly after negative growth in the second quarter. The unexpected strength in the economy was attributed largely to sustained consumer expenditure in the second half of the year. Consumers ran savings to an unprecendented low, while also expanding their indebtedness in an effort to maintain their standard of living in the face of an erosion of real income and to buy in advance of inflation. Industrial production, which peaked in March 1979, flattened for the rest of the year, but has since declined sharply, notably in the building and automobile sectors.

Aggregate economic growth slowed to an annual rate of 1.2 per cent in the first three months of 1980 indicating the long-expected weakening in the economy had begun. OECD forecasts predict a US GNP fall of 0.4 per cent in real terms in 1980 followed by a weak upturn in the latter part of 1981. Demand has been depressed by the progressive and significant introduction since late 1979 of numerous anti-inflation policy measures.

Economic activity in Japan expanded steadily in 1979, although the 6 per cent real growth was still below the average for the pervious ten years. Buoyant business capital expenditure, together with strong consumer spending in the first half of the year, and a significant recovery in exports from their year-long decline in the second half, were the main components supporting activity. The economy remained strong in the March 1980 quarter (growing 1.8 per cent in real terms) with exports and private investment providing the main impetus.

The outlook for the current year is favourable except for the sharp advance in wholesale prices. More rapid inflation of consumer prices is expected to slow consumer spending and, given the Government's priority for price stability, the policy stance will be markedly less expansionary in 1980 than in 1979.

Stimulated by fiscal measures at the end of 1978, real GNP in the Federal Republic of Germany grew 4.4 per cent in 1979 against growth of 3.5 per cent the previous year. Investment, including stockbuilding, accounted for over half the rise. The high propensity to invest was due to increasing capacity utilisation and moderate wage settlements. Consumption expenditure, which was strong during the first half of 1979, was restricted in the second half by the rapid rise in the cost of living but overall contributed 1.6 percentage points to the real GNP growth for the year. As with the other major industrial economies, however, the outlook is for a slowdown in growth to 1.8 per cent in 1980, although the carryover of investment and export demand from 1979 resulted in a strong advance in the first quarter of this year.

Increasing North Sea oil and gas activity accounted for half the United Kingdom's real economic growth in 1979. Aggregate output however, has declined from its peak in the second quarter of 1979, largely due to a drop in private consumption. Both monetary and fiscal policies are projected to remain highly restrictive throughout 1980 leading to a forecast fall in real GDP this year of 2.3 per cent. All the main components of demand are expected to be weak, but notably capital investment by the corporate sector as the sector faces a severe financial squeeze and high nominal interest rates.

GROWTH OF REAL GNP
(% change)

	Average	*From Previous Year*			
	1968/67-1976/77	*1977*	*1978*	*1979*	*1980 (est)*
United States	2.8	4.9	4.4	2.3	−0.4
Japan	7.8	5.4	6.0	6.0	4.9
Federal Republic of Germany	3.6	2.6	3.5	4.4	1.8
France[1]	4.6	3.3	3.3	3.5	2.5
United Kingdom[1]	2.1	1.2	3.5	1.7	−2.3
Italy[1]	3.9	2.0	2.6	5.0	2.5
Canada	4.7	2.7	3.4	2.9	0.3
Australia[1]	4.6	1.2	2.9	2.9	2.2
New Zealand[1]	2.9	−1.8	−1.9	−0.4	0.9
Austria	4.6	3.7	1.5	5.2	1.8
Belgium	4.5	1.2	2.5	3.4	1.5
Denmark[1]	3.6	2.0	1.0	3.0	−0.3
Finland[1]	4.4	0.3	1.4	6.5	5.5
Greece[1]	6.0	3.7	6.2	3.5	0.2
Iceland	3.8	4.8	4.2	3.0	1.1
Ireland[1]	4.3	5.5	6.1	3.1	1.2
Netherlands[1]	4.4	2.3	2.4	3.1	0.2
Norway[1]	4.6	3.5	3.0	3.7	4.4
Portugal[1]	5.5	5.8	3.2	3.4	2.8
Spain[1]	5.2	2.4	2.5	1.0	1.9
Sweden[1]	2.4	−2.1	2.4	3.8	2.5
Switzerland	2.1	2.7	0.2	0.7	0.9
Turkey	6.7		3.0	1.0	3.1
Total OECD	4.1	3.7	3.9	3.4	1.6

Source: OECD
[1] GDP

PRICES

There has been a sharp and widespread rise in international inflation. Consumer prices in the major industrial countries accelerated from an annual rate of less than 7 per cent at the end of 1978 to one of 13 per cent one year later. The upturn is attributed to a number of factors, including increased prices for oil and other commodities; pressures on resources accompanying the rapid pace of demand growth in some countries; the lagged effects of generally excessive rates of monetary expansion; and specific causes such as increases in excise or sales taxation.

Non-oil commodity prices rose sharply in the first half of 1979, but levelled off later in the year as the imminent downturn in economic activity resulted in a more cautious approach. Prompted by speculative pressure in the precious metals markets over-flowing into the commodity markets prices turned upward again late in 1979 followed by a shakeout in March 1980. Further weakening in non-oil raw material prices is likely this year due to slow demand and some destocking.

It is oil price developments, however, that have dominated price movements. The disturbances in Iran and the consequent output shortfalls touched off large price increases in the free oil markets, closely followed by higher official prices. At the end of 1979, oil prices were twice as high as twelve months earlier and further price rises have occurred this year. Despite the moderating influences of continued high Saudi Arabian production and weak overall demand conditions, the market remains subject to uncertainties.

Wage increases on the whole have remained modest in relation to price rises. In the United States there was a substantial decline in real wages in 1979 and in the other major industrial countries real wages have on average been increasing at about a third of the pace of the early and mid-1970's.

Current Government policy in the industrial countries is aimed at dampening inflationary pressures. Monetary policies in most countries have been progressively tightened during the past year and fiscal policies also are becoming more restrictive, particularly in the United Kingdom and United States. This policy stance represents risks on the side of growth and employment but, given no further rises in the real price of oil, (an assumption that is proving increasingly tenuous), the rate of increase in consumer prices is forecast to peak in the current year, followed by a marked deceleration in late 1980 and 1981.

CONSUMER PRICES
(% Change, Annual Rates)

	Average				*12 months to March*
	1961-70	*1971-6*	*1978*	*1979*	*1980*
United States	2.8	6.6	7.7	11.3	14.7
Japan	5.8	11.1	3.8	3.6	8.0
Federal Republic of Germany	2.7	5.9	2.7	4.1	5.8
France	4.0	9.0	9.1	10.8	13.7
United Kingdom	4.1	13.6	8.3	13.4	19.8
Canada	2.7	7.4	9.0	9.1	9.3
Italy[1]	3.9	12.2	12.1	14.8	20.5
Australia	2.5	10.8	7.9	9.1	10.5
New Zealand	3.8	11.3	12.0	13.8	18.4
Total OECD	3.4	8.6	7.7	9.7	13.9

Source: OECD
[1] Break in series in 1977

EMPLOYMENT

Despite differing trends among the OECD countries, the overall rate of unemployment remained unchanged at 5.1 per cent of the total labour force throughout 1979.

In West Germany total employment numbers grew by 400,000 during 1979 and unemployment reached its lowest levels since 1974. Similarly, the sustained improvement in business activity in Japan led to a better employment situation in that country although the production increase was largely achieved by greater overtime work. In both the United Kingdom and United States, however, unemployment worsened. The United Kingdom's rate of unemployment turned upward in the fourth quarter of 1979 after two years of decline whilst the United State's rate registered sharp rises in the first half of 1980. Prior to that the US unemployment rate had been stable at 5.7 — 5.9 per cent for the past year.

In the OECD area as a whole, employment growth reached an annual rate of 1.3 per cent in the second half of 1979. With the OECD countries expected to move into recession this year, however, the outlook is for all the larger countries, except Japan, to experience employment declines. Unemployment, particularly youth unemployment, is also forecast to worsen despite a projected small fall in the labour force growth in 1980.

INTERNATIONAL TRADE

The value of world trade rose 25 per cent in 1979 and in volume terms grew almost 7 per cent. This compares with average real trade growth of 4.5 per cent in the second half of the 1970's. The industrial countries' trade volumes, especially imports, rose rapidly during early 1979, decelerating towards the end of the year. Volumes were boosted by strong growth in private consumption and non-residential investment, and, in the first half of the year, substantial stockpiling of imported raw materials.

The industrial countries' terms of trade fell 3 per cent last year due to greater increases in prices of primary products than in manufactures. With import price increases this year continuing to be dominated by oil, no improvement in the terms of trade is anticipated until 1981.

As a result of the volume and price developments there were marked swings in the payments in balances on current account for the main country groups in 1979 and these are likely to persist in 1980. The surplus of the oil exporting countries expanded sharply, from US$5 billion in 1978 to US$68 billion, while the industrial countries registered a turnaround in their combined current account balance from a US$30 billion surplus in 1978 to a deficit of US$10 billion in 1979. Of the smaller industrial countries nearly all had existing current account deficits further aggravated by the rising oil prices. The combined current account deficit of the non-oil producing developing countries also deteriorated from US$36 billion in 1978 to US$55 billion last year. Unlike the smaller industrial countries, however, these countries are likely to experience increasing difficulties financing their deficits as their external indebtedness is still large from the first 'oil shock'.

Although current account deficits are widespread among OECD countries, the distribution of the balances is considered to be more evenly balanced than when the first OPEC price hike occurred in 1973/74. The U.S. current account balance has shifted from deficit to approximate balance while the Japanese and German balances have swung into deficit after prolonged periods in surplus.

The U.S. current account surplus in 1979 of $3.2 billion was a substantial improvement on the previous year's $10.3 billion deficit, and reflects a sharp increase in the surplus on net service transactions (notably overseas profits of U.S. oil companies) and a modest reduction in the trade deficit. Rising oil import costs, however, are having an increasingly adverse effect on the external balance and in the first quarter of this year the current account deficit was US$2.6 billion. The OECD forecasts that the downturn in the current account will reverse later this year as import volumes fall in line with declining economic activity and receipts continue to advance.

CURRENT ACCOUNT BALANCES[1]
(Billions of U.S. Dollars)

	1976	*1977*	*1978*	*1979*	*1980[2]*
United States	7.8	-11.3	-10.3	3.2	- 1.5
Japan	3.9	11.1	16.8	-7.9	-13.8
Federal Republic of Germany	7.3	8.4	13.2	1.0	- 8.0
France	-5.1	- 2.1	5.2	4.0	- 2.2
United Kingdom	-0.7	1.6	4.6	-0.9	2.8
Italy	-1.6	4.2	9.2	6.4	1.1
Canada	-3.9	- 4.0	- 4.6	-4.4	- 5.2
Australia	-0.9	- 1.9	- 2.9	-1.1	- 1.0
New Zealand	-0.7	- 0.6	- 0.5	-0.7	- 0.7

Source: IMF
[1] Goods, services, private transfers
[2] IMF Estimates

Japan recorded a dramatic turnaround in its external balance in 1979. Despite renewed growth in export volumes, soaring prices for imports of crude oil, petroleum products, non-ferrous metals, timber and other industrial raw materials reduced Japan's trade surplus from US$25 billion in 1978 to US$2 billion in 1979. Accordingly, the current account moved from a US$17 billion surplus in 1978 to a record deficit of US$8 billion in 1979 and in the first four months of this year recorded a deficit adjusted to an annual rate of nearly US$20 billion.

The steady depreciation of the yen during 1979, coupled with large increases in international commodity prices (notably in oil which accounts for 40 per cent of Japan's total import bill), brought a massive deterioration in the country's terms of trade. Although further worsening in the terms of trade this year should be partially offset by slower import growth and the continued recovery in exports, the deficit on current account is forecast to worsen this calendar year to US$14 billion.

In West Germany, buoyant demand from trading partners together with a much better price performance than in competing countries led to a marked rise in export volumes in 1979. Strong investment expenditure and exceptionally large stockpiling of raw materials, however, boosted import volumes by almost 10 per cent while the terms of trade deteriorated 6 per cent. As a result the current account balance (including official transfers) moved into deficit for the first time since 1965. As with the other industrial countries, the deficit is forecast to worsen significantly this year before showing any signs of improvement later in the year. The hitherto strong export growth is expected to weaken as growth in other industrial countries, and world trade in general slows, and although import volumes are also anticipated to decelerate in response to destocking and slower growth in consumer demand, the adverse terms of trade movement implies continued high import payments.

The rise in the value of the pound during the past eighteen months, coupled with the sharp increase in the United Kingdom's inflation rate relative to that of most foreign competitor countries, has adversely influenced that country's external position. The volume of the United Kingdom's exports rose by only 3.6 per cent in 1979 while import volumes grew 11.6 per cent. In addition, the traditional surplus on invisibles transactions was sharply eroded.

The United Kingdom is forecast to become self-sufficient in oil this year and a net exporter thereafter. Subsequently, it is expected that an improving oil

GLOBAL STRUCTURE OF CURRENT ACCOUNT BALANCE[1]
(Billions of US Dollars)

	1967-73 Average	*1976*	*1977*	*1978*	*1979*	*1980[2]*
Major Oil Exporting Countries	1.5	40.0	31.7	5.0	68.4	115.0
Industrial Countries	11.2	- 2.8	- 6.6	29.6	-10.0	-47.5
Other Non-Oil	-9.9	-32.1	-28.0	-36.2	-54.9	-68.0

Source: IMF
[1] Goods, services, private transfers
[2] IMF estimates

balance will offset the poor performance of manufactured exports, growth of which has been adversely affected by the sharp erosion of international price competitiveness. Import volumes plateaued mid-year before falling almost 2 per cent in the first quarter of this year and payments are expected to continue to grow more slowly in response to the depressed level in economic activity. Taken together, the current account is forecast to show some improvement, albeit weak.

INTERNATIONAL CURRENCY MARKETS

The improvement in the distribution of current account balances and the tendency on the part of the major industrial nations to use monetary policy for the purposes of exchange rate stabilisation led to a period of relative stability for a number of key rates during 1979 and early 1980. The two major exceptions to this greater stability were the pound sterling, which appreciated sharply, and the Japanese yen, which depreciated sharply.

The international currency markets during 1979 were dominated by the impact of the oil developments on the balance of payments position of each country. The United Kingdom's prospective self-sufficiency in oil led to strong demand for sterling, appreciating the currency by 10 per cent in effective terms in 1979, whilst Japan's high dependence on imported oil for 75 per cent of its total energy requirements resulted in a sharp deterioration in its external payments position. Under this pressure, the yen declined in value by 20 per cent.

Substantial intervention by central banks during the year had a stabilising effect on the exchange rates of the dollar and E.E.C. currencies other than sterling. In terms of IMF's MERM-weighted index[2] the U.S. dollar appreciated 2.5. per cent over 1979 (against a decline of 9.1 per cent in 1978), the deutsche mark rose 4.9 per cent, the French franc 2.8 per cent, and the Swiss franc 2.1 per cent.

The U.S. dollar which had strengthened following the monetary measures of October 1979 showed considerable resilience in the following months, and resumed a strong upward trend in the first quarter of this year. In the first three months of 1980 the dollar firmed against all the major currencies, effectively appreciating 6.7 per cent. The dollar's strength reflected relative interest rate differentials vis-a-vis the other major convertible currencies favouring investment in dollar-denominated assets.

2. Based on the Fund's Multilateral Exchange Rate Model in which the implicit weighting structures takes account of the relative importance of a country's trading partners in its direct bilateral relationships with them, of competitive relationships with 'third countries' in particular markets, and of (estimated) elasticities affecting trade flows.

Although interest rates were lifted abroad, the differential was maintained as domestic U.S. interest rates rose to record levels in response to tightening monetary policy. Heavy central bank intervention was resorted to in an effort to moderate the dollar's appreciation but it was not until a sharp turnaround in April and May that the pressure was reduced on other authorities, notably the West German and Japanese, to defend their own currencies. Again the dollar's movement was related to interest rates which fell sharply in response to increasing evidence that the U.S. economy had at last entered the long-forecasted recession.

Despite adverse economic developments in the United Kingdom, the pound sterling continued to be underpinned on exchange markets by the nation's status as an oil producer and the existence of high domestic interest rates. In the first three months of this year sterling firmed a further 3.4 per cent in effective terms, and buoyed by the recent May round of world oil price increase, rose to $2.37, its highest level against the dollar for five years.

There was a second realignment of currencies in the European Monetary System (EMS) late last year. In the face of chronic external payments and debt problems, the Danish Government devalued the krone 5 per cent against participating currencies on 30th November. Between the commencement of the EMS on 13th March 1979 and 31st December 1979, the European Currency Unit appreciated by 7 per cent in terms of the U.S. dollar but depreciated 10 per cent during the first three months of 1980 to yield a cumulative depreciation of 4 per cent since the inception of the EMS. The Belgian franc has generally been the weakest EMS currency, necessitating support by the Belgian authorities on several occasions and some tightening of monetary policy.

Political tension and accelerating world-wide inflation resulted in an upsurge in speculative trading in 1979. Gold prices rose steadily from levels of $220 per fine ounce at the beginning of the year to $450 by November. Heightened uncertainties with regard to developments in Afghanistan and the Middle East led to an unprecendented advance in prices in December and early 1980 with prices peaking at an all-time high in London of $850 an ounce on 21st January. Volatile trading conditions persisted during the next few days, but on balance the price of gold declined sharply in response to a number of legislative measures and reports, notably the restrictions on speculation in silver futures on U.S. futures exchanges, which prompted profit-taking and widespread speculative liquidation.

Prices continued to decline in subsequent weeks and by the end of March had fallen back to $495 an ounce before stabilising around $520 on subdued trading during April and May. The decline resulted from a substantial liquidation of speculative positions due mainly to three factors: the adoption on 14th March of additional anti-inflation measures by the U.S. authorities, the continuing rise in U.S. interest rates, and the dramatic fall in silver prices.

THE INTERNATIONAL MONETARY FUND

The main issues discussed at the International Monetary Fund's Interim Committee meeting in April 1980 were the world economic outlook, the role of the Fund in financing external payments imbalances, and the Substitution Account.

Two aspects dominated the discussion on the world economic outlook; world-wide inflation and the payments imbalances. The Committee agreed that the major economic objective this year should be to reduce the very high rates of inflation currently persisting in most countries. But while it was recognised that monetary policy has been important with respect to this goal, it was felt that interest rate trends had been too high and that more effective use should be made of fiscal policy, particularly the reduction of excessive budget deficits and goverment consumption expenditures.

With regard to the payments imbalances, the Committee felt that while the world's banking system seemed able to cope with the estimated OPEC external surplus of US$115 billion this year, continuing large surpluses in 1981 could create problems. The Committee was particularly concerned with the increasing payments deficits of the non-oil developing countries and agreed that the Fund should be prepared to pay a growing role in the adjustment and financing of external imbalances. As a result an attempt to organise a new borrowing facility with full conditionality (requiring borrowing countries to meet I.M.F.- imposed conditions in their economic policies) was suggested.

The proposal to establish a Substitution Account (an account to be administered by the Fund that would accept deposits of foreign exchange from members on a voluntary basis in exchange for an equivalent amount of Special Drawing Rights denominated claims) was discussed further, but continued to be unacceptable in its present form to the majority of Fund members. The most serious unresolved question centred on how to maintain the value of the Account's financial assets during its lifetime. Also, the package outlined by the developing countries for their acceptance of the Account was considered by the industrial countries to be too demanding. The Committee plans to continue work on the Account, discussing it next at the Fund's annual meeting in September, but until these main differences are reconciled progress is likely to be limited.

A number of steps taken lately to widen the use of SDRs were noted by the Committee. SDRs can now be used in swaps, forward operations and in making donations. Furthermore, recent decisions have allowed an increased number of official institutions other than those of Fund members to hold and deal in SDRS.