Recent Monetary Policy Measures Abroad

During the last four months of 1962 and early in 1963, the monetary authorities in a number of foreign industrial countries reduced discount rates and relaxed other monetary restraints.[1] Like the numerous discount rate reductions earlier last year, the recent moves generally reflected the continued strengthening of the international positions of these countries. To an important extent, however, the easing of monetary restraints toward the year end also occurred against a background of slower growth in domestic economic activity. In some cases, moreover, the measures taken were not merely designed to stimulate economic activity in general but were deliberately intended to channel available savings from short-term investments into the capital market.

The lowering of the Belgian National Bank's discount rate on December 6 to 3.5 per cent from 3.75 per cent—the sixth such reduction in less than sixteen months—appears to have completed the process of aligning the Belgian rate with those of other Common Market countries. The move was also intended to bring about a further reduction of short-term rates relative to long-term rates, thus providing increased resources for longer term investment. This policy reflects the belief of the Belgian central bank that industrial investment, operating within a framework of appropriate monetary policies, should be the main factor in the achievement of a faster rate of Belgian economic growth.

The quick recovery in Canadian reserves since the financial crisis of last spring permitted some easing of the austerity measures introduced in June. The discount rate was reduced, in three steps, from the 6 per cent crisis rate to 4 per cent on November 13 (see table). These moves, which were made largely in response to the continued recovery of Canada's exchange reserves and to the authorities' desire to accommodate the growing demand for short-term credit, were reflected in a decline in Treasury bill rates from 5.47 to 3.91 per cent. The reductions may also have indicated official recognition that the pull of higher rates on foreign short-term capital was no longer needed now that an economic climate conducive to an inflow of longer term capital from abroad had been re-established.

The $731 million reserve gain since midyear owes much of its strength to the return flow of short-term funds and to the revival of foreign investment in longer term Canadian securities. The reserve gain, in turn, has facilitated

[1] For a discussion of the first eight months of 1962, see "Recent Monetary Policy Measures in Western Europe", this *Review*, April 1962, pp. 64-66 and "Recent Monetary Policy Measures Abroad", this *Review*, September 1962, pp. 125-27.

CHANGES IN FOREIGN CENTRAL BANK DISCOUNT RATES

In per cent

Date of change		Country	New rate	Amount of change
1962:	January 9	Philippines	6	+3
	January 18	Belgium	4¾	−¼
	March 8	United Kingdom	5½	−½
	March 22	Belgium	4	−¼
	March 22	United Kingdom	5	−½
	March 30	Finland	8	+1¼
	April 6	Sweden	4½	−½
	April 25	Netherlands	4	+½
	April 26	United Kingdom	4½	−½
	April 28	Finland	7	−1
	May 26	Rhodesia and Nyasaland	5	−½
	June 8	Sweden	4	−½
	June 13	South Africa	4	−½
	June 24	Canada	6	*
	August 9	Belgium	3¾	−¼
	September 7	Canada	5½	−½
	October 12	Canada	5	−½
	October 27	Japan	6.935†	−0.365
	October 29	Jamaica	5½	−½
	November 13	Canada	4	−1
	November 27	Japan	6.57†	−0.365
	November 27	South Africa	3½	−½
	December 6	Belgium	3½	−¼
1963:	January 3	India	4½	+½
	January 3	United Kingdom	4	−½
	January 5	Rhodesia and Nyasaland	4½	−½
	January 8	Netherlands	3½	−½

* From November 1956 through June 21, 1962, the discount rate of the Bank of Canada was set at ¼ per cent above the latest average tender rate for Treasury bills. The rate stood at 5.17 per cent on June 21, 1962.

† "Basic" rate for commercial bills.

the repayment of foreign credits obtained by Canada last June. By the end of December, the Bank of Canada had repaid the $100 million assistance from the Bank of England and the $250 million obtained through a swap with the Federal Reserve System.[2]

In Japan, the rise in official reserves since the tightening of credit in July 1961 has been large enough to permit a relaxation in monetary restraint. In view of the need for measures to relieve the continued sluggishness of the economy, the central bank reduced its basic discount rate on October 27 from 7.3 per cent to 6.935 per cent. It followed up a month later with a further cut to 6.57 per cent, the rate in effect prior to July 1961. The bank's other lending rates (except on export bills) were similarly reduced. In addition, the penalty rates applicable to borrowings from the Bank of Japan in excess of certain limits set for each commercial bank were reduced to their previous levels, and reserve requirements for the large banks were cut. In another move aimed at lessening the excessive dependence of the commercial banks on borrowing from the central bank, the latter broadened the scope for its open market operations. Henceforth, not only commercial paper but debt and equity securities of industrial firms and electric power companies, as well as bank debentures, will be eligible for purchases and sales by the central bank. This will give the Bank of Japan greater influence over the country's money supply, which until now has been regulated mainly by the Bank's lending policy.

The South African Reserve Bank on November 27 reduced its discount rate to 3½ per cent from 4, the third cut in a year. This was followed by reductions in the commercial banks' minimum overdraft rate and the rates paid on time deposits. These moves, which were facilitated by the continued improvement in the country's balance-of-payments position, reflected the authorities' recognition of the need for an expansionary monetary policy, particularly in view of the fact that the increase in general liquidity last year had failed to spark the desired rise in investment or consumption.

The Bank of England announced on November 29 that the remaining special deposits held with it by the commercial banks would be released. This move, together with the ending of the informal restraints on bank lending in October, apparently reflected a desire to overcome the recent sluggishness of bank credit expansion without exerting a downward influence on short-term rates that might jeopardize the country's external position. Subsequently, however, the continuing favorable balance-of-payments position also encouraged the Bank of England to lower its discount rate to 4 per cent from 4½. These steps coincided with a number of fiscal policy measures to stimulate activity, such as a cut in the purchase tax on cars, appliances, and cosmetics to 25 per cent from 45 per cent and significant tax concessions to encourage investment.

In the first discount rate reduction in four years, the Netherlands Bank on January 8 lowered its rate from 4 to 3½ per cent, thus aligning it with the rates in other Common Market countries. At the same time, the ceiling on commercial bank credit imposed in mid-1961 was removed. As in the United Kingdom, these measures were facilitated by the country's satisfactory balance of payments and by some lessening of pressures on the domestic economy.

The Italian authorities in late 1962 introduced a series of measures aimed both at increasing the liquidity of the banking system and at fostering the development of a short-term money market. As of November 1, Italian banks were no longer required to maintain a balanced position between short-term assets and liabilities denominated in convertible currencies.[3] The new measure is designed to improve the

[2] Canada and the Federal Reserve System still have a $250 million stand-by agreement.

[3] This reverses, at least temporarily, the policy inaugurated in August 1960 when the banks were instructed to achieve balance in their convertible-exchange position. That move had reduced the banks' liquidity and neutralized the inflationary effects of foreign exchange borrowed abroad. The banks, in fact, repaid such borrowing with convertible currencies obtained from the Italian Exchange Office in return for lire.

banks' liquidity by permitting them to increase their borrowing of foreign currencies. A further injection of liquidity will come from the government's decision to repay in cash, rather than roll over, the $310 million equivalent of nine-year government bonds maturing in early 1963.

At the same time, a new system of issuing Treasury bills was adopted in Italy. The previous "tap" issue of bills in unlimited quantities and with maturities ranging from two to twelve months was abandoned; henceforth, twelve-month bills will be issued according to the Treasury's cash needs and offered once a month at auction—except for the amount needed to meet the banks' minimum reserve requirements,[4] which will be sold at a fixed rate of 3.5 per cent. Apart from laying the groundwork for future open market operations by the Bank of Italy, this measure also is aimed at redirecting some funds into the capital market, since Treasury bills will no longer be available in unlimited quantities at a fixed rate as in the past.

Finally, the authorities took steps to reduce the substantial amount of interbank deposits that had become a conspicuous feature of the Italian financial landscape. Heretofore, smaller banks had been accustomed to deposit with the larger banks excess funds that they could not conveniently place directly in the market. The larger banks in turn used these funds to buy Treasury bills or make other investments, and competition among large banks to attract such funds tended to raise short-term deposit rates. The maximum rate payable on interbank deposits henceforth cannot exceed the latest auction rate for Treasury bills; moreover, banks can be directed to place funds received from other banks in special six-month deposits with the Bank of Italy. The Italian authorities hope that, by checking the competition for interbank deposits, the new measure will lower short-term interest rates and redirect savings deposited with small banks toward longer term investments, both public and private.

[4] Beginning in December, banks must hold at least 10 per cent of the total 22.5 per cent of required reserves in cash, as against the previous option of determining their own mix of cash and bills.