This table needs a few comments:

(1) The item "US gold sales", as it appears in the US Treasury gold statistics, includes a special transaction in 1964, which in reality was a triangular transaction between Italy, the US and Germany. During the Italian foreign exchange crisis in the spring of 1964 (when a special support operation for the Italian Lira was mounted, with the participation of the US and of the German Bundesbank), it was agreed that the Italian authorities would pay $200 mio in gold to the German authorities; for technical reasons this gold went first to the US Treasury and from there to the Bundesbank. Thus, you find in the US Treasury statistics a purchase of $200 mio of gold from Italy and a simultaneous sale to Germany to the same amount.

(2) The gold sales by the IMF were part and parcel of the two special support operations for the Pound by the "General Arrangements to Borrow" (Group of Ten). While the "Ten" put up altogether 903 mio $ in credits to the IMF as a means of partially refinancing the IMF loans to the UK, they also sold some of their currencies to the IMF for this same purpose against gold. The Bundesbank which contributed the largest part to the credits under the G.A.B., also got a proportionately large share of these IMF gold sales.

(3) As to the London Gold Pool, the contribution and receipts of the participating central banks follow an agreed schedule.

While it is true that we have welcomed these various accruals of gold to our reserves, as they have brought the proportion of gold to total reserves more nearly to the intended magnitude, we have carefully avoided large-scale conversions at the expense of the US Treasury, in order not to "upset the apple-cart" at an untoward moment. We have fully explained this reserve policy of ours, including our considerations of international solidarity and cooperation, in the last two Annual Reports of the Bundesbank.

I do not want, however, to be misunderstood. All the foregoing considerations do not imply that we would not believe it to be justified, under normal circumstances, to convert any surplus dollars which may accrue to us beyond the limits which we consider proper. If the dollar has such a universal attraction as a reserve currency, this is due, at least in part, to the fact that the US authorities stand ready to convert it into gold for any legitimate monetary purposes.

With my best regards,

(signed) OTMAR EMMINGER.

(Dr. Despres' response to the foregoing follows:)

OCTOBER 3, 1966.

Dr. OTMAR EMMINGER,
Mitglied des Direktoriums der Deutschen Bundesbank,
Frankfurt (Main), Germany.

DEAR DR. EMMINGER: I wish to acknowledge with thanks your letter of September 14. The interpretation which you placed upon my statement is alone sufficient to indicate that the statement needs clarification and elaboration, which I welcome the opportunity to provide.

Changes in German and French official reserves from the end of 1960 to the end of 1964, and from the end of 1964 to July 31, 1966 are given in Table 1 below. In Table 2, the percentage composition of German and French official reserves at each of these three dates is shown. These tables are derived from the figures on official reserves published in the September 1966 issue of the IMF's *International Monetary Statistics.*

Some of the significant points reflected in these tables are the following:

1. Total French reserves increased very substantially, while total German reserves showed only a moderate net increase during the period from the end of 1960 to the end of July 1966. This is ascribable to differences in the balance of payments positions of the two countries.

2. German official holdings of foreign exchange were steadily drawn down during the five and a half year period. French official holdings increased $0.9 billion from the end of 1960 to the end of 1964, and were drawn down $0.5 billion in the subsequent nineteen months. The decrease in French official holdings of foreign exchange in the latter period was slightly smaller than the reduction of German official holdings. The German decrease made possible a further increase in IMF and gold reserves in the face of a small payments deficit.

3. Taking the five and a half year period as a whole, the gain in French holdings of gold and IMF reserves has been ascribable primarily to the balance of payments surplus; the foreign exchange portion of French reserves has at all times