foreign exchange reserves in the form of sterling amounted to about $8 billion. Since 1950, the sterling reserves of the monetary authorities have declined. The recent rise in official holdings of sterling, as reported at the end of March 1968, is the counterpart of swap operations and should be regarded as reserve credit to the United Kingdom rather than true holdings of sterling reserves. There is no practical possibility of a further growth of sterling as reserves. The more urgent problem is to avoid a flight from sterling reserves by sterling area countries.

The growth of reserves since 1950 has been primarily in the form of dollars. In the past 19 years, the dollar reserves of foreign monetary authorities have increased from $3 billion at the beginning of 1950 to over $17 billion in mid-1968, including non-marketable Treasury obligations. Without this steady rise in dollar reserves, it would not have been possible to provide for the reserve needs of the world economy. Since the beginning of 1950, the gold and foreign exchange reserves of all countries, excluding the Communist countries, have increased from just over $45 billion to about $67 billion. Excluding the recent increase in holdings of sterling acquired in swaps, the growth of gold and foreign exchange reserves since the beginning of 1950 has been at an average annual rate of less than 2 per cent. About four-fifths of the increase in reserves has been in the form of foreign exchange, and about 85 per cent of the foreign exchange has been in dollars.

This vast creation of foreign exchange reserves was the result of the U.S. balance of payments deficit, which has been particularly large since 1958. Obviously, it is not possible for the United States to continue a payments deficit, on a reserve transactions basis, on the scale of the past 10 years. There is an understandable reluctance on the part of some countries to underwrite a large and continuing U.S. payments deficit by acquiring all the dollars that would accrue to their monetary authorities. Under extreme conditions, this would mean that other countries would be severely limited in managing their own monetary policy. Nor is the creation of dollar reserves in indefinite amount in the interests of the United States, particularly if its gold reserves cannot increase. The steady building up of reserve liabilities to foreign monetary authorities exposes the United States to the danger of massive conversions of dollars into gold in a period of economic or political crisis.

Reserve credit.—The need for reserves in the postwar period has also been met by an enormous increase in reserve credit facilities. The IMF makes resources available to its members under prescribed conditions. The total quotas of the IMF, which are an indication although not a true measure of the resources it has for extending reserve credit, amounted to just over $9 billion at the end of 1958. The total exchange transactions of the IMF to the end of 1958, which is the gross reserve credit extended by the IMF in the first 12 years of its operations, amounted to $3.2 billion.

Since the end of 1958, the quotas of the IMF have been increased twice and now amount to over $21 billion. To assure the liquidity of the IMF—its capacity to extend reserve credit in the currencies of the surplus countries—it has entered into General Arrangements to Borrow up to an aggregate of $6 billion in the currencies of the 10 large industrial countries (the Group of Ten). In the past ten years, the IMF has engaged in exchange transactions amounting to $11.5 billion. The access of its members to the resources of the IMF has made it possible to expand the use of other forms of reserve credit because of the assurance that such credits could be repaid by drawings from the IMF.

The other important form of reserve credit was the creation of a network of reciprocal currency arrangements among the large central banks and with the Bank for International Settlements. The United States, which is the center of these arrangements, has swap facilities amounting to $10 billion with 14 countries and the BIS. These swap facilities have been extensively used by the United States and other countries to meet sudden pressures in the exchange market. Apart from the reciprocal currency arrangements, reserve credits have been extended by central banks to each other, notably to the United Kingdom, on an *ad hoc* basis. As already noted, drawings on the IMF have been used from time to time to repay reserve credits extended through swaps and on an *ad hoc* basis.

The enormous use of reserve credit facilities in recent years is an indication of their importance to the international monetary system. Nevertheless, reserve credit can be only a limited substitute for reserves. The swaps are actually short-period credits, and although they can be renewed, their usefulness depends upon reversing them in a relatively short period, so that they may be available again