BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
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CONFIDENTIAL(FR)
CLASS II FOMC

TO: Federal Open Market Committee

FROM: Arthur L. Broida

Attached for your information is a report by Mr. Solomon on the September 5 meeting of Working Party 3.

Attachment

Robert Solomon
September 11, 1975

Meeting of Working Party 3, September 5, 1975

The Working Party held a brief meeting on the last day of the Fund and Bank week. The main topic was the evolution, past and future, of the current account balance-of-payments positions of the OECD countries and of other groups of countries.

A new set of estimates prepared by the OECD Secretariat revised downward rather drastically the current deficit (goods and services plus private and official transfers) of the OECD countries--to $6-1/2 billion for 1975, compared with $35 billion in 1974. For the first half of 1975 an actual surplus ($2-1/2 billion annual rate) is estimated, to be followed by a deficit of $15-1/2 billion in the second half.

The big change in the OECD position in 1975--both from the actual outcome for 1974 and from earlier forecasts--is the result of the recession in the major OECD countries, which has caused the largest drop in world trade in the postwar period: the volume of imports into OECD countries fell almost one-fifth (annual rate) in the first half of 1975.

All of the reduction of the OECD deficit in the first half of 1975 was accounted for by the six largest countries; the United States alone showed a swing of $16 billion, at annual rates, from a current deficit of $3-1/2 billion in the second half of 1974 to a surplus of $12-1/2 billion in the first half of this year.

Only Germany, Canada, and Belgium failed to experience an "improvement" in the current balance.

A large portion, perhaps three-fourths, of the "improved" OECD position was reflected in a reduction in the surplus of OPEC countries. The remainder shows up as enlarged deficits of developing countries, which managed to maintain their imports in the face of sharply declining export volumes and prices. There are doubts about how long non-oil LDC's can sustain such deficits (estimated at more than $25 billion, over and above receipts of grant aid, in 1975).

The implications of these estimates were quite clear. Recovery from the recession will throw the OECD countries back into substantial deficit with OPEC (though not necessarily all the way, since OPEC imports are growing and oil demand in OECD countries may be reflecting not only the recession but also the high price of oil). Meanwhile, the developing countries and the smaller OECD countries have a serious financing problem.