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CENTRAL BANKING AND ECONOMIC DEVELOPMENT

The Record of Innovation

Remarks by

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Member
Board of Governors of the
Federal Reserve System

At the

Tenth Anniversary Celebration
of the
Bank of Jamaica

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Andrew F. Brimmer*

The ten-year life of the Bank of Jamaica coincides almost precisely with the "Decade of Development" proclaimed by the General Assembly of the United Nations in 1960. In fact, I understand that, when the organization of the Bank was being considered, serious thought was given to the possibility of combining central banking functions and responsibility for development financing in the same institution. However, that course was not followed, and the Bank of Jamaica has now accumulated a decade of experience in central banking.

Yet, it appears that the Bank has been concerned with problems of economic development almost as much as it has with the traditional functions of central banking. Of course, this is by no means surprising: while Jamaica has made significant economic progress in recent years, it still faces a difficult task in raising the standard of living of its citizens. And to this task, the Government of Jamaica has assigned a high priority.

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I am grateful to several members of the Board's staff for assistance in the preparation of these remarks. Mrs. Dorothy Helprin provided information on recent economic developments in Jamaica. Messrs. Robert F. Emery, Yves Maroni, and Michael D. O'Connor conducted the survey of central banking experiences in Asia, Latin America, and in Africa and the Middle East, respectively. Mr. Frank O'Brien was especially helpful in knitting together the diverse regional experiences.

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Thus, the celebration of the first ten years of achievement by the Bank of Jamaica is also a good occasion to review the role which central banks have generally played in promoting economic development in the last decade. It also provides a vantage point from which to look ahead to see what opportunities central banks in developing countries may have to encourage and assist the development process in the 1970's.

In focusing on the innovative steps that central banks have taken to help foster economic development, I am not overlooking the fact that virtually all of these institutions have performed most of the traditional central banking functions -- such as managing the note issue, serving as fiscal agent for the government, supervising the commercial banks, and managing the nation's foreign exchange reserves, including the operation of exchange controls in numerous countries. Moreover, many of the central banks have carried out these assignments with considerable skill.

Nor do I wish to ignore the crucial contribution that central banks can make to economic development by achieving -- and maintaining -- reasonable stability in domestic prices and equilibrium in the balance of payments. A central bank that uses its powers to discharge effectively these traditional central bank responsibilities makes a fundamental contribution to development because these are conditions that encourage and sustain growth. The converse of this is the fact that a central bank

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that does not pay adequate attention to creating and maintaining the climate for growth -- or one that does not have enough independence to do so -- is undercutting the cause of growth, or permitting it to be undercut by others. One of the basic conclusions from a survey of the actions of central banks in developing countries suggests that the nations that have prospered most are also the ones that have the best long-term records in maintaining internal stability and external balance. It is also significant -- and encouraging -- that in the last few years many, perhaps most, of the countries that embarked in the 1950's on development programs that were unrealistic in view of their resources and inflationary in their effects, have shifted to more realistic programs. Most of them have found the road back to economic realism discouragingly long, and some of them are far from reaching the end of it yet. Consequently, whatever additional responsibilities a central bank may acquire, its basic commitment to the maintenance of economic stability -- both domestically and externally -- should not be downgraded.

In assessing the role that central banks in developing countries have played in the 1960's, several questions should be raised:

- Have central banks in developing countries -- while not ignoring their traditional tasks -- taken innovative steps to encourage economic development?

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- Have these central banks been able to alter the flow of credit in favor of development needs?

- Have they assisted in creating institutions specifically designed to provide development finance?

- Have central banks in developing countries succeeded in efforts to encourage the mobilization of savings by private financial institutions?

- Have these banks used their proximity to the centers of political power to advise their governments as to the importance of monetary and fiscal stability in creating a climate conducive to investment and economic growth?

- Finally, what is the record of success -- and of disappointment -- harvested by these central banks in the struggle for economic development?

To answer these questions, a comprehensive survey was made of the special efforts made by central banks in developing countries to orient economic growth toward the goals of economic development. For the purpose of this discussion, these efforts can be grouped under four headings: the mobilization of savings, the fostering of development finance institutions, the allocation of credit for development, and advice on the development process.

Before proceeding further, I must explain the numerous references to particular countries in the comments below. In every instance, my purpose is to illustrate the general range and pattern of measures adopted by central banks to help promote economic development, and no country is singled out as a target for criticism or invidious comparison. The conditions mentioned are often widespread. However, without specific illustrations, we would be left with a collection of miscellaneous generalizations.

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Mobilization of Domestic Savings

While external capital, from either public or private sources, can speed the development effort, the developing country must depend primarily on its own resources. This being the case, the mobilization of domestic savings is of fundamental importance. To the extent domestic savings are made available for development purposes, the prospects for noninflationary financing or development are enhanced. Thus, the central bank can make a significant contribution through policies which encourage savings to remain at home and to flow to financial institutions and away from money lenders, real estate, and other speculative activity. Moreover, savers must be assured as to the liquidity of the instruments issued by financial institutions in return for their funds -- as well as about the soundness of the institutions themselves.

Once the question of safety is answered, savings are attracted by the promise of reasonable earnings. Thus, the interest rate on savings deposits must be competitive with alternative uses of funds. However, in the highly inflationary environment of many developing countries, savings will not flow to financial institutions -- that could make them available for productive investment -- unless interest rates are high enough to yield realistic earnings in the face of inflation. This means that the rate of interest should be "positive" in the sense that it exceeds the rate of inflation.

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Where deposit rates are negative in this sense, the flow of savings into financial institutions is restricted to a few special cases -- such as deposits by individuals with no other means of holding their funds, by those who use savings accounts for current transactions, and by those who deposit funds for special purposes, such as gaining access to bank credit. In the meantime, other institutions offer higher rátes, such as finance companies, credit cooperatives, mortgage banks and the mortgage departments of commercial banks. In this respect, one should note that the Jamaican authorities have taken a **positive** step by freeing interest rates on time deposits of six months or over.

In Africa and the Middle East central banks are generally strictly limited -- in terms both of time and amounts -- in the extent to which they can lend to governments. However, by specifying certain asset ratios, central banks in this part of the world have channeled a share of private savings to governments -- so that they could be used for the purpose of development. Included in the composition of almost all such ratios were short-term government obligations. Given the fact that in Africa private demand for credit is often quite slack, commercial banks might hold idle funds -- or invest abroad -- if they did not hold Treasury bills to satisfy such liquidity ratios.

While this has been a successful means of mobilizing savings that could be made available for development purposes, it would not be desirable under all circumstances. If the liquidity ratio becomes an instrument for ensuring a market for the obligations of governments, it can lose some of its usefulness as a

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monetary tool. Further, in an economy in which credit is tight, such mobilization of funds would squeeze the private sector from which the bulk of investment generally comes.

The Bank of Israel has encouraged the development of a wide variety of instruments attractive to savers. These measures include deposits denominated in dollars, deposits tied to the price index for value maintenance, and, recently, full removal of ceilings on interest rates. The result was an unusually high private savings rate. In Brazil and Chile, the value of financial instruments has frequently been linked to a price index to overcome the disabilities of low interest rates.

In Asia, several central banks in recent years have played a major role in the mobilization of savings for development through dramatic reform of archaic interest rate structures. The best example is that of Korea, where in 1965 interest rates on deposits were increased sharply -- from 15 to 26 per cent in the case of one-year bank deposits. Commercial bank loan rates were also raised substantially. This reform, supervised by the Bank of Korea, was followed by an increase in the national savings rate from 7 per cent in 1964 to 16 per cent in 1969, and inflationary pressures were simultaneously reduced. In this period also, Korea emerged as a country with an exceptionally high rate of economic growth, averaging 11 per cent per year from 1964 to 1969.

The lesson from this body of experience suggests that central banks might look to raising the real return that the banking

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system is able to provide to the orginary saver -- if more local resources are to be mobilized to finance the investment required for economic development.

One of the major obstacles to channeling potential savings to investment in developing countries is the lack of liquidity of financial assets. A number of countries have adopted measures to enable an investor to liquidate his holdings -- without incurring prohibitive capital losses. Mexico provides an outstanding example of action intended to assure the liquidity of savings. This involved a commitment by issuing institutions to repurchase their financial instruments at par at any time regardless of their maturity.

The Bank of Mexico, the Nacional Financiera, and, ultimately, the government, stood behind the financial institutions bidding for savings. In effect, this meant guaranteeing that these institutions would always be able to meet their obligations to savers.

Of course, the development of almost every type of capital market institution enhances the liquidity of financial instruments. Countries such as the Philippines, India, and Malaysia have rather advanced capital markets, where funds can be marshalled and channeled for development purposes. The Central Bank of the Philippines has played a major role in developing an open primary and secondary market in Treasury bills. Such action, of course, requires that governments be willing to pay the higher interest costs associated with a free Treasury bill market.

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The creation of efficient stock exchanges (where appropriate) would increase the liquidity of financial investments. However, where such exchanges do exist in some developing countries, inadequate public disclosure of financial data on listed firms is a principal holdback to the expansion of securities markets. In the case of the combined stock exchange of Malaysia and Singapore, extensive public disclosure has been a principal factor in making the exchange outstandingly successful. Other developing countries, and their central banks, pondering how to increase the availability of funds for investment, might well study this example. Other promising areas would appear to be development of a Treasury bill market and markets for commercial paper.

In addition to action to increase the attractiveness of savings and to ensure adequate liquidity, central banks may encourage saving in at least two other ways -- both aimed at reassuring savers as to the security of their deposits. One is by means of deposit insurance. The other is examination of banks with the objective of enforcing standards of sound banking.

Central Bank Assistance to Development Institutions

In some places -- the Latin American countries provide a rather widespread example -- central banks were founded to provide commercial banking, and some of them have even been given specific development banking assignments. Over time, however, there has been a separation of these functions, since experience indicated that their location in one institution tended to produce

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conflicts of interest and to interfere with the effective performance of central banking functions. But this separation does not mean that central banks have played no role in the growth of development banking institutions. Central banks -- with varying degrees of appropriateness and effectiveness -- have provided capital for development lending institutions, such as agricultural and industrial development banks. They have extended credit to them, purchased their securities, or helped to create a market for their securities.

In Colombia, Bolivia, Ecuador, Guatemala, Jamaica, Mexico, India, Afghanistan -- and quite generally in Africa -- central banks have subscribed to some part, usually a minor part, of the equity capital of developmental institutions. However, on the whole, this technique has had only limited use. This is as it should be, because heavy dependence upon central banks for provision of equity capital would have been inflationary. In general, it is best that development institutions be financed by noncentral bank sources, including governments, intergovernmental agencies, and private investors, whose funds represent savings.

Extension of credit to development institutions by central banks is subject to the same difficulty. To the extent that the loans are renewed, and are never repaid, they assume the characteristics of a capital contribution that does not come out of savings. Much the same can be said of the fairly widespread practice, particularly in Latin America, of direct purchase by central banks of the obligations issued by development finance institutions.

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In view of this inflationary potential, some central banks have turned to less direct -- and less inflationary -- methods of helping development finance institutions raise their capital. This has been done in El Salvador, Guatemala, Dominican Republic, Argentina, and Honduras. In all except one of these countries, the central bank has attempted to create a market for the securities of development finance institutions of various kinds. They have attempted to do so, in more or less noninflationary ways -- including the use of profits from the ordinary operations of the central bank. At various times over several decades, banks in Argentina, Guatemala, and Honduras have tried to increase the liquidity of investments through the use of repurchase commitments.

In general, it seems that central banks in developing countries have not exhausted their financial expertise in trying to make a contribution in this area. As an example, it appears that efforts to make markets for the securities of development institutions (which have been explored only tentatively) might be reopened, with greater determination and with more stress on ways to keep securities lodged in private hands. It might also be asked whether the guarantee instrument could be put to effective use here, without opening a line to central bank resources that would channel inflationary funds into the economy.

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Allocation of Credit for Development Purposes

In a substantial number of developing countries, the commercial banks are foreign-owned, and most of them traditionally have concentrated on financing foreign trade and domestic commerce. In the face of this situation, a number of central banks have attempted to influence the flow of commercial bank credit away from such traditional uses and toward capital development projects. The central banks of Latin America, Asia, and Africa have all made extensive, and varied, efforts in this direction. In fact, it is probably in this area that the greatest amount of central banking expertise and effort has been expended with the objective of promoting economic development.

With the allocation of credit in mind, differential discount rates have been used in a large number of countries. In Latin America, these include Argentina, Bolivia, Brazil, Colombia, Costa Rica, the Dominican Republic, Ecuador, Peru, and Venezuela. In the Middle East and Asia, Israel, India, Indonesia, Korea, Pakistan, the Philippines, the Republic of China, and Thailand have also employed differential discount rates. Ordinarily, the central bank charges a preferential rate on discounts or advances against favored types of paper to induce the commercial banks to increase their lending or to reduce the cost of funds to those activities in which this paper originates.

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Experience suggests that the use of differential rates has not been universally successful. The potential for effecting a change in the pattern of lending by the use of multiple discount rates would increase as recourse to central bank credit by the commercial banks became more extensive. But it could seriously frustrate efforts to pursue a restrictive credit policy at times when such a policy may be needed on overall economic grounds.

Several central banks have sought to allocate credit by the establishment of portfolio ceilings. This technique has been used in Costa Rica continuously since 1948, and to some extent in Colombia. It has also been used in the Philippines, Nigeria, and the Congo (Kinshasa). The Costa Rican regulations provide an overall ceiling for each bank with separate subceilings on loans for major economic sectors and on some subsectors. The system may have helped to change the pattern of credit flows, although the data are subject to questions as to the accurate classification of some of the commercial bank loans. The Colombian system, which was in use briefly in the early 1960's, may also have had some effect on the pattern of credit allocation. But the fact that it was discontinued suggests that the Colombian authorities were dissatisfied with the results, or that the difficulties of securing compliance were too great in view of the results achieved.

Central banks in developing countries have made extensive use of reserve requirements as a tool of monetary management. A number of these institutions have linked differential reserve requirements to the composition of commercial bank portfolios to

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influence the allocation of credit. This technique has been employed in an elaborate way in Mexico. Commercial banks are allowed to maintain a lower cash reserve ratio, provided that prescribed percentages of their portfolio consist of specified types of loans or investments. The prescribed percentages may be changed as the central bank shifts emphasis from one type of loan to another. Portfolio ratios associated with reserve requirements have also been used to some extent in Argentina, Brazil, Chile, Colombia, the Dominican Republic, and Peru. In Colombia, the system was combined with a secondary reserve requirement under which the banks were to hold specified bonds of the State Agricultural Industrial and Mining Bank.

The Mexican authorities appear to be satisfied with the results obtained under their system,which has been in use for over 20 years. They believe that the system was instrumental in inducing commercial banks to take an interest in types of productive loans which they had not made because of inertia or force of habit. Furthermore, there seems to be a feeling that, since banks have become accustomed to making such loans and have them to be remunerative, they may well continue such lending in the absence of the regulation.

The import deposit requirement technique (primarily intended to deal with balance of payments difficulties) has also been employed by some central banks to influence the allocation of commercial bank credit. Generally, the deposits are required

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to be held by the central bank. Alternatively, the commercial banks are required to hold with the central bank reserves equal to the deposits. Imports for development purposes and other essential needs may be favored with a low requirement, and a progressively higher requirement may be applied as the essentiality of the imports diminishes. The import deposit requirement technique (with differential rates) has been used in Argentina, Brazil, Chile, Colombia, Ecuador, Indonesia, Pakistan, Paraguay, the Philippines, Uruguay, and Vietnam.

As a technique to influence the allocation of credit under a policy of promoting economic development, the import deposit scheme may leave domestic producers of nonessential and luxury goods with ready access to credit. It may also provide domestic producers of all goods subject to the import deposit requirement with a degree of protection against imports that may not be needed in the long run.

Virtually all central banks in the African and Middle East regions have taken steps to influence the flow of bank loans to priority or favored activities within the private sector. Techniques used include credit guidelines, quantitative rediscount ceilings, direct approval of bank loans, and selective liquidity ratios. Countries using one or several of these techniques include Nigeria, the Ivory Coast, Tunisia, Congo (Kinshasa), and Israel. In general, the practice in the region is replete with direct and quantitative controls.

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The results of these efforts appear to be mixed. However, at least in the Congo (Kinshasa), direct and quantitative central bank controls seem to have been successful in increasing significantly the amount of credit extended to agriculture while reducing the amount intended to finance imports.

The Bank of Israel has probably gone as far as any institution in encouraging favorable terms for development lending. Controlled credit is extended at about 9 per cent, whereas ordinary bank credit costs about 17 per cent. In recent years, credit controlled by the Bank of Israel has represented about 30 per cent of all bank credit outstanding to the private sector. These controlled credits include rediscounts, specified loans which give the bank an exemption from liquidity requirements, and credits granted on the basis of deposits received under approved savings schemes.

In a number of instances, central banks have given specific -- and in some cases quite detailed -- guidance with respect to the desired composition of the commercial banks' loan portfolios. The Central Bank of the Philippines has followed such a practice since April 1957. All bank loans are classified into four priority categories, with those in the more essential loan categories being given preference in central bank rediscounting operations. In addition, maximum ceilings are imposed on loans in the two lowest, less essential categories.

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The conclusion reached on the basis of the foregoing discussion seems clear: a few attempts to allocate credit for development purposes seem to have been particularly successful. But, on the whole, the results have been rather mixed.

The Central Bank as Development Adviser

Serving as adviser to governments is one of the oldest and most widespread roles of central banking. In the context of economic development, this role takes on special significance. Advice is particularly needed in four areas: (1) policies for domestic stability, with particular emphasis on appropriate fiscal policies; (2) exchange rate policy, with the objective of maintaining external balance; (3) the formulation of development plans that are feasible in view of the country's economic and financial resources; and (4) the broad range of policies affecting the climate for investment -- both domestic and foreign.

How a central bank performs as a development adviser will turn on a variety of factors specific to particular countries. However, a survey of central bank experiences in this regard clearly suggests that the relative freedom from involvement in day-to-day debates on economic policy has been crucial. In general, where the central bank has been allowed to maintain a reasonable degree of detachment, its advice has tended to be objective -- and respected -- even if not always received with enthusiasm. As a rule, the central bank is likely to be a well-equipped institution --

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with respect to staff and financial resources -- to undertake the research and analysis on which a well conceived development plan must rest.

The opportunities open to a central bank to advise the government will also depend on the type of overall organization created to formulate and execute the plan. In countries with strong planning commissions or development ministries, the scope permitted to the central bank may not be very wide. But, on the whole, the evidence suggests that in many countries the central bank is a senior partner in the development enterprise.

Moreover, the particular role the central bank can play will be influenced by the type of development plan adopted by the government. Where, as in India, there is emphasis upon direct channeling of economic resources from both the private and the public sectors for the purpose of development, the central bank's advice is critical in every respect. Where, as in Korea, the development plan consists mainly of goals for the private sector to achieve, operating under a relatively free market system, the central bank's specific role may be focusing essentially on the adoption of measures to encourage private investment.

In conclusion, the evidence suggests that central banks have generally been a good source of advice to their governments on problems of economic development. However, in some countries -- especially where the overall planning machinery is quite elaborate -- the central bank may share the advisory role with other institutions.

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The method of sharing varies greatly from country to country, and it is hard to make an assessment of the overall results.

Central Banking and Economic Development in the 1970's

Having surveyed the role of central banks in developing countries during recent years, we should now try to look ahead to see what course they may be expected to follow in the current decade. It is my impression that expectations about the availability of foreign assistance are much less optimistic today than they were in 1960 when the General Assembly of the United Nations proclaimed a "Decade of Development." The Assembly stated that:

> ". . . the flow of international assistance and capital should be increased substantially so as to reach . . . approximately 1 per cent of the combined national incomes of the economically advanced countries."

This was a target for the total flow of resources, private and official. It was endorsed by the industrial nations in 1964, through the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development. In the five years before 1964, the target was exceeded. But in the concluding five years of the decade, net disbursements of official development aid by the DAC countries rose only slightly, in dollar terms, from just over $6 billion in 1964 to $6.7 billion in 1969. In terms of percentage of gross national product, this was a decline -- from approximately 0.5 per cent in 1964 to just over 0.3 per cent in 1969.

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In contrast, the flow of private resources rose substantially. Net disbursements of private investors, together with private export credits, nearly doubled in dollar terms -- rising from $3.2 billion in 1964 to slightly more than $6 billion in 1969. This was a rise, in terms of percentage of the aggregate gross national product of DAC countries, from 0.26 per cent in 1964 to about 0.33 per cent in 1969. This increase in the flow of private investment from the DAC nations was almost large enough to offset the shortfall in official transfers. Therefore, total financial resources moving to developing countries, as a percentage of gross national product, declined only slightly. Moreover, the rise in private flows accounted for two-thirds of the absolute increase -- from $9.14 billion in 1964 to $13.30 billion in 1969.

The reasons for the shortfall in official development assistance can be traced to a number of factors. Widespread inflationary pressures created by excess demand in industrialized countries -- while public resistance to higher taxes was becoming stronger -- seriously limited the amount of budget resources that could be made available. In addition, some of the principal donor countries were also plagued by balance of payments deficits, and reductions in foreign assistance were a visible means of registering improvements.

Expressed differently, there has emerged a worldwide shortage of capital, arising from a strong drive for economic and social advancement. The pressure for the use of capital to

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finance these improvements has become as intense in the industrialized countries as it is in the developing nations. This shortage of funds cannot be expected to disappear at any time soon, and it is forcing nearly all countries to reexamine priorities in the harsh light of political realities. In this light, home needs increasingly are registering the first -- and strongest -- claims on resources.

Against this background, the Pearson Commission, sponsored by the World Bank, recommended that the DAC governments nearly double their official assistance during the 1970's. Many countries have already pledged to do so. If the goal is achieved, it would raise official flows of development finance to the developing countries to 0.7 per cent of their GNP, and the increase would take place gradually during the decade ahead. Consequently, countries expecting a flow of development resources in the 1970's that exceeds the amounts obtained in the 1960's may have to do more to <u>attract</u> private capital.

If developing countries do concentrate more directly on efforts to attract private investment, their central banks will have an enlarged opportunity to contribute to the development process. The more influential they are with their governments, the more successful they will be in supporting this effort. The task of attracting scarce private capital to the developing countries requires an investment climate that both domestic and foreign investors find compatible. Here it must be emphasized

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that it is necessary to create conditions conducive to domestic investors as well as to owners of foreign capital. Undoubtedly, developing countries will want their own citizens to own a substantial share of privately financed enterprises. This means that domestic investors will have to provide a sizable proportion of the required resources.

Attracting scarce -- and expensive -- private capital to developing countries also requires that the firms and industries financed must be able to survive under the pressure of international competition. This means they must not be overly sheltered from the winds of competition behind excessively high tariff or other protective walls. To the extent that the industries of developing countries are able to export products that are competitive in price and quality, they will have a better chance of penetrating foreign markets.

As stressed earlier, efforts to attract private capital also call for the careful building of capital markets. This includes increasing the flow of savings to financial institutions -- as well as building institutions that provide liquidity to investment.

All of these -- the economic stability that provides a good climate for investment, policies that avoid oversheltering of industries and which make them fit to compete and earn in foreign trade, the building of capital markets -- all are the results of policies which central banks are particularly capable of influencing through their own actions and through their advice to governments.

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Concluding Observations

The answers to the series of questions posed at the outset have been given at several points in the discussion. However, the conclusions can be summarized briefly for greater emphasis:

Central banks in developing countries, while experimenting with innovations to promote economic development, have not neglected the main functions traditionally associated with central banking. In particular, they have tried to maintain domestic price stability and equilibrium in the balance of payments. While many of them have been fairly successful in pursuing this objective, a number of them have also found the results of their efforts disappointing.

Central banks have adopted a variety of innovative steps to encourage economic development. The mobilization of domestic savings has been of primary concern. Where measures were taken (such as lifting low interest rate ceilings) to assure that savers received a realistic rate of return in the face of sometimes serious inflation, the results were generally satisfactory. Numerous arrangements to enhance the liquidity of financial investment have been fostered -- including the organization of stock exchanges and the development of other capital market institutions.

In some countries, central banks were also authorized to conduct a commercial banking business, and some of them were given specific development assignments as well. However, most of these

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institutions have found such added functions to be incompatible with their basic missions.

Instead, a number of central banks have provided strong support to the formation of separate institutions to provide development finance. Some of them supplied capital for agricultural and industrial development banks; others extended credit to them, purchased their securities, or helped to create a market for their obligations. In general, it appears that most countries have recognized the inflationary potential of heavy reliance on central bank funds to finance development institutions, but in a few instances this apparently was not the case.

Perhaps the greatest amount of innovative effort by central banks has been concentrated on measures to influence the flow of commerical bank credit away from traditional uses (such as the finance of foreign trade and domestic commerce) and toward development projects. In pursuit of this objective, a wide range of instruments has been brought to bear. The most popular ones have included preferential discount rates, differential reserve requirements, guidelines on the composition of loan portfolios, and ceilings on specific kinds of credit. A few attempts to allocate credit seem to have been particularly successful -- but on the whole results have been rather mixed.

Central banks have generally been a good source of advice to their governments on problems of economic development. However,

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in some countries, the advisory role has been shared with other institutions. Since the method of sharing varies greatly from country to country, it is difficult to make an assessment of the overall results.

Looking ahead to the 1970's, it appears that the developing countries can expect a considerable expansion in the volume of official resources received from the industrial nations. However, it also seems evident that they will have to concentrate on attracting a substantial amount of private capital. Thus, they will have to create an investment climate that both domestic and foreign investors find compatible. If they adopt this course, central banks will have an excellent opportunity to enlarge their contribution to the development process.

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