1974

ANNUAL REPORT

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1974

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INTERNATIONAL MONETARY FUND

ANNUAL REPORT

OF THE

EXECUTIVE DIRECTORS FOR THE FISCAL YEAR ENDED APRIL 30, 1974

WASHINGTON, D.C.

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The following symbols have been used throughout this Report:

(. . .) indicate that data are not available;

(—) indicates that the figure is zero or less than half the final digit shown, or that the item does not exist;

(–) is used between years or months (e.g., 1969–74 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

(/) is used between years (e.g., 1973/74) to indicate a fiscal year.

"Billion" means a thousand million.

Minor discrepancies between constituent figures and totals are due to rounding.

The classification of countries employed in the Report is indicated in Table 1 on page 4.

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H. Johannes Witteveen
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William B. Dale
Deputy Managing Director

Executive Directors	Alternate Executive Directors
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Anthony K. Rawlinson	Peter J. Bull
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Lindsay B. Brand	R. van S. Smit
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Jacques de Groote	Heinrich G. Schneider
Per Åsbrink	Knut J. M. Andreassen
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The Economic Counsellor	J. J. Polak
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African Department	Mamoudou Touré, Director
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IMF Institute	Gérard M. Teyssier, Director
Legal Department	Joseph Gold, Director
Middle Eastern Department	John W. Gunter, Acting Director [1]
Research Department	J. J. Polak, Director
Secretary's Department	W. Lawrence Hebbard, Secretary
Treasurer's Department	Walter O. Habermeier, Treasurer
Western Hemisphere Department	Jorge Del Canto, Director
Bureau of Language Services	J. S. Haszard, Director
Bureau of Statistics	Earl Hicks, Director
Office in Europe (Paris)	Leo Van Houtven, Director
Office in Geneva	Edgar Jones, Director
Information Office	Jay H. Reid, Director
Chief Editor	Norman K. Humphreys

August 5, 1974

[1] Anwar Ali, Director (on leave).

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LETTER OF TRANSMITTAL
TO THE BOARD OF GOVERNORS

August 5, 1974

My dear Mr. Chairman:

In accordance with Section 10 of the By-Laws of the International Monetary Fund, I have the honor to present to the Board of Governors the Annual Report of the Executive Directors for the fiscal year ended April 30, 1974.

Yours sincerely,

/s/

H. JOHANNES WITTEVEEN

Chairman of the Executive Board

Chairman of the Board of Governors

International Monetary Fund

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Chapter 1

Developments in the World Economy

AT mid-1974, the world economy was in the throes of a virulent and widespread inflation, a deceleration of economic growth in reaction to the preceding high rate of expansion, and a massive disequilibrium in international payments. This situation constitutes perhaps the most complex and serious set of economic problems to confront national governments and the international community since the end of World War II.

After more than a decade of generally rising rates of price increase, inflation accelerated rapidly in the past two years. This acceleration was compounded by the upsurge of most primary commodity prices in the wake of the widespread economic boom and by the recent sharp escalation in the price of oil. The average annual rate of inflation in industrial countries, already 7 per cent in 1973, reached 12 per cent (in terms of GNP deflators) in the first half of 1974, when even those countries with the lowest rates of price increase were experiencing inflation on a scale considered unacceptable. This course of developments, marked by the formation of a deeply embedded inflationary psychology, has brought into focus the need for countries—especially the largest ones—to pursue a strategy to curb inflation before it leads to serious and prolonged damage to the world economy.

Such an essential strategy must be instituted at a time of marked economic slowdown in the industrial countries. Under the impact of cyclical influences and of developments relating to oil, the volume of total output in the industrial countries suffered an outright (though small) decline in the first half of 1974, and the effects of this unusual development were in process of spreading to the primary producing countries. Notwithstanding a general expectation that expansion of the main industrial economies will be resumed in the second half of 1974, diagnosis of the balance of expansionary and contractionary forces in the world economy is uncommonly difficult and the pursuit of anti-inflation programs centering on policies of financial restraint involves, of necessity, the incurrence of certain risks.

Severe balance of payments problems are arising from the overlay of higher oil prices upon an international payments situation still characterized by some sizable imbalances at the end of 1973, despite the marked improvement that had occurred in the position of the United States. Unusually large changes are occurring in the current account balances of individual countries and in the whole structure of balance of payments relationships between oil importing and oil exporting countries. These changes, together with the associated—but still highly uncertain—shifts in capital flows, may tax the capacity and adaptability of the financial institutions and arrangements available for the necessary channeling of funds from countries with current account surpluses to those with current account deficits. Already clearly evident is the urgent need—magnified by years of decline in the relative magnitude of official development assistance—for a greater flow of capital on concessional terms and of grant assistance to the numerous developing countries that have been severely affected by the higher prices of oil and other commodities.

The unprecedented combination of circumstances sketched above calls for international cooperation of a quality rarely achieved in the past. In its absence, the pursuit of unduly nationalistic policies in disregard of their impact on other countries could greatly exacerbate the problems now confronted; taking such forms as competitive exchange depreciation and trade restrictions, such policies could cause an international recession and make the eventual adjustments much more costly to all concerned. Resolute and effective cooperation, on the other hand, could minimize those costs and avert the risks of precipitate and short-sighted actions. Appeals for international cooperation and mutual understanding have been made in previous Annual Reports, but never with greater urgency than at the present time.

In light of the appearance of such grave uncertainties on the world economic and financial scene, the Committee of Twenty shifted the priority of its work on international monetary reform to the reaching of agreement on numerous important aspects of reform affecting the immediate interests of both developed and developing countries. Furthermore, although the results of the Committee's work on longer-term reform were less comprehensive than had been hoped for when the Committee began its work in September 1972, a substantial measure of agreement has been achieved on the broad objectives of a reformed system; and the program of action initiated at the final meeting of the Committee in June 1974—as described in Chapter 3—provides the basis for an evolutionary process of reform which could be of great help in dealing with current international payments problems, and which could prove, in itself, a significant step in the evolution of the international monetary system.

Particular comment is called for regarding developments over the past year in the exchange rate field. In an environment of continuing flexibility of exchange rate arrangements, progress has been made toward fulfillment of the need—emphasized in the 1973 Annual Report—"to bring exchange rate policies and practices under the framework of a system founded on international agreement and commanding general support." A major step in that direction is part of the Committee of Twenty's program of immediate action, and is reflected in the recent decision of the Executive Directors (summarized in Chapter 3) recommending that members should endeavor to observe certain guidelines for the management of floating exchange rates. These guidelines will help to ensure that countries conduct their exchange policies in the light of an internationally agreed code of behavior and will provide a framework for a continuing international dialogue on the appropriateness of countries' balance of payments policies.

The three following sections of the present chapter, under the headings of Problems of Domestic Policy, World Trade and Payments, and External Policies and Adjustment, trace the sequence of developments that have led up to the current situation, analyze its key features, and discuss the economic and financial policy issues with which the authorities of member countries are contending.

Problems of Domestic Policy

Trends in Growth and Inflation

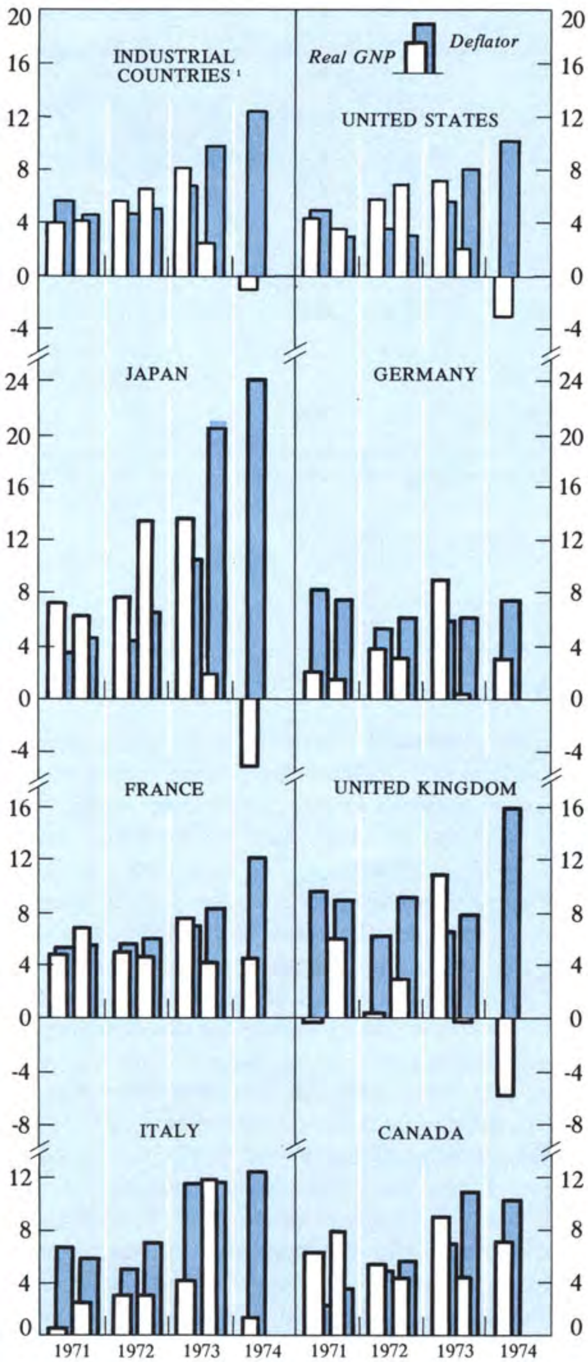
Even before the abrupt change in the oil situation late in 1973, a marked slowing of output expansion in the industrial countries was clearly under way and was expected to extend into the first half of 1974. In most of these countries, absorption of the slack in resource utilization that developed during the 1970–71 slowdown had progressed far enough by mid-1973 to force a tapering of the rate of growth in total output toward closer conformity with the longer-run growth rate of productive capacity. Moreover, the high rates of price inflation that accompanied the expansion of economic activity during the latter part of 1972 and early 1973 had led the authorities of many industrial countries to introduce or tighten policies of financial restraint, and the impact of such policy actions on real activity had clearly begun to take effect in some of the larger countries.

For the industrial countries as a group, the growth of real GNP dropped from an annual rate of 8 per cent in the first half of 1973 to about 3 per cent in the second half (Chart 1). The increase for the year as a whole over 1972—6½ per cent—was still unusually large; and, indeed, 1973 was a year of high economic growth throughout most of the world (Table 1). Total output in the less developed areas is estimated to have expanded by 7½ per cent from 1972 to 1973, compared with a 5½ per cent average annual rate of increase over the 1960s.

The counterinflationary policies that have been widely adopted in the industrial countries did not slow the advance of prices in 1973. Under con-

CHART 1. SEMIANNUAL CHANGES IN OUTPUT AND PRICES IN INDUSTRIAL COUNTRIES, FIRST HALF 1971–FIRST HALF 1974

(Percentage changes in real GNP and GNP deflators from preceding half year, seasonally adjusted, at annual rates)



[1] Include, in addition to the countries shown separately in the chart, Austria, Belgium, Denmark, Luxembourg, the Netherlands, Norway, Sweden, and Switzerland.

ditions of mutually reinforcing booms, shortfalls in agricultural production, and a steep upsurge in primary commodity prices fueled by these and other factors, the upward movement of prices was accelerating on a broad scale in the second half of 1973. As measured by the comprehensive GNP deflators, the annual rate of price increase in that period (over the first half of 1973) averaged 10 per cent for the industrial countries—a level of inflation that was extremely high in historical perspective (Table 2 and Chart 2).

The inflationary upsurge in 1973 was by no means confined to the industrial countries. The average rate of price increase in the more developed primary producing countries also rose sharply in 1973, to twice the rate in 1970 (Table 2). In the developing countries, the acceleration of price advances was sharp and pervasive; as measured by consumer price indices, the increase in these countries' domestic prices from 1972 to 1973 amounted, on average, to about 25 per cent, which was more than double the average annual increase over a period of years through 1971 (Table 3). This acceleration of price inflation took place against the background of a remarkable expansion of the developing countries' export earnings, sharp increases in the foreign currency costs of their imports, and an effective depreciation (on average) of their currencies since 1971.[1]

The international economic situation and outlook were strongly affected by a sequence of developments relating to oil late in 1973. These developments featured (a) limitations on oil production imposed during October and November by members of the Organization of Arab Petroleum Exporting Countries (OAPEC); (b) a tripling of average export prices for oil, reflecting sharp increases in posted prices of crude oil in October and, particularly, in December by members of the Organization of Petroleum Exporting Countries (OPEC); (c) the easing of cutbacks in oil production that was announced by OAPEC in December 1973 and the further lifting of embargo

[1] This last factor tended to exacerbate the rise of import costs in terms of local currency. The recent association of higher domestic price increases with effective exchange rate depreciation in the developing countries should not be taken to mean that the latter development caused the former, or that the exchange rate actions were unwarranted. In many cases, the causation undoubtedly ran in the opposite direction, with high degrees of domestic inflation being a principal determinant of exchange rate policy decisions.

TABLE 1. GROWTH OF WORLD OUTPUT, 1960–73

(Percentage changes in real GNP)

	Annual Average [1]			Change from Preceding Year				
	1960–70	1960–65	1965–70	1969	1970	1971	1972	1973
Industrial countries	**4.8**	**5.1**	**4.5**	**4.8**	**2.6**	**3.7**	**5.6**	**6.4**
Canada	5.2	5.6	4.8	5.3	2.5	5.6	5.8	6.8
United States	4.0	4.9	3.2	2.7	−0.4	3.3	6.2	5.9
Japan	11.1	10.1	12.1	12.1	10.3	6.8	8.9	10.5
France	5.9	5.8	5.9	7.7	6.0	5.5	5.4	6.1
Germany, Fed. Rep. of	4.9	5.0	4.8	8.2	5.8	2.7	3.0	5.3
Italy	5.6	5.3	5.9	5.7	4.9	1.6	3.1	5.9
United Kingdom	2.7	3.3	2.1	1.6	1.8	2.3	2.3	6.0
Other industrial countries [2]	4.9	5.0	4.7	6.1	5.6	3.2	4.6	4.2
Primary producing countries	**5.6**	**5.3**	**5.8**	**7.0**	**6.4**	**5.6**	**5.7**	**7.1**
More developed areas [3]	5.8	5.9	5.8	7.3	6.0	5.7	5.6	6.3
Less developed areas [4]	5.5	5.1	5.8	6.9	6.6	5.6	5.7	7.5
World [5]	**5.0**	**5.1**	**4.8**	**5.2**	**3.4**	**4.1**	**5.6**	**6.5**

Sources: National economic reports, secretariat of the Organization for Economic Cooperation and Development, secretariat of the United Nations, U.S. Agency for International Development, International Bank for Reconstruction and Development, and Fund staff estimates.

[1] Compound annual rates of change.

[2] Austria, Belgium, Denmark, Luxembourg, the Netherlands, Norway, Sweden, and Switzerland.

[3] Comprise Australia, Finland, Greece, Iceland, Ireland, Malta, New Zealand, Portugal, South Africa, Spain, Turkey, and Yugoslavia.

[4] Comprise Fund member countries not listed above as "Industrial countries," or as being in "More developed areas" (footnote 3, above). In some of the other tables in this chapter, the less developed countries are subdivided to distinguish the "major oil exporters" (Algeria, Indonesia, Iran, Iraq, Kuwait, the Libyan Arab Republic, Nigeria, Saudi Arabia, and Venezuela) and "other developing countries."

[5] Fund member countries (listed in Appendix Table I.1) plus Switzerland.

restrictions against the sale of oil to certain countries in March–April 1974; and (d) a host of measures to conserve oil and otherwise curtail the demand for it, undertaken by virtually all countries dependent on foreign sources of oil, in reaction initially to the prospect of an extended period of acute oil shortage and subsequently to problems of adjusting to the new level of oil prices.

The emergence in October–November 1973 of constraints on the supply of oil occurred at a time when, for other reasons, the economic prospects of the industrial countries for 1974 entailed the combination of a slowdown in growth and an average rate of inflation at least as serious as in 1973. The overlay of the oil cutbacks implied that 1974 might be a year of negligible average growth, or even decline, of GNP in the industrial countries. The significance of the late-December announcements by OPEC countries with respect to oil pricing and production was thus two sided: on the one hand, a worsened outlook for inflation; on the other hand, an easing of widespread fears of protracted international recession due to a shortage of oil. With the further easing of oil supply restrictions in the early part of 1974, and with increases in oil production by certain countries clearly under way, it appeared (a) that OPEC oil supplies might average, for the year as a whole, roughly the same as for 1973 and (b) that this should be enough to sustain some year-to-year growth in overall economic activity in the oil importing countries (given the oil-economizing measures already taken in these countries), provided that the increase in oil prices did not itself have a substantial deflationary impact.

Because of declines of real GNP in the United States, Japan, and the United Kingdom, along with a subnormal rate of increase in Germany, total output in the industrial countries as a group is estimated to show a small decrease in the first half of 1974—by contrast to a "normal" growth rate of 4½–5 per cent and the unsustainable 8 per cent rate of expansion that occurred in the first part of 1973 at the peak of the recent boom (Chart 1). Notwithstanding this change with

TABLE 2. PRICE INCREASES IN DEVELOPED COUNTRIES, 1960–73

(Percentage changes in GNP deflators)

	Annual Average [1]			Change from Preceding Year				
	1960–70	1960–65	1965–70	1969	1970	1971	1972	1973
Industrial countries [2]	**3.4**	**2.6**	**4.2**	**4.7**	**5.9**	**5.4**	**4.8**	**7.2**
Canada	3.0	1.9	4.2	4.5	4.8	3.1	4.8	7.6
United States	2.7	1.4	4.0	4.8	5.4	4.5	3.4	5.6
Japan	4.8	4.9	4.7	4.1	6.7	4.5	5.1	12.1
France	4.3	4.1	4.4	6.6	5.5	5.4	5.7	7.2
Germany, Fed. Rep. of	3.5	3.6	3.4	3.6	7.1	8.0	6.0	6.0
Italy	4.5	5.5	3.5	4.3	6.6	6.6	5.8	10.5
United Kingdom	4.2	3.5	5.0	5.4	7.3	8.9	7.7	7.5
Other countries [2,3]	4.4	4.3	4.5	4.3	5.9	7.2	7.3	8.3
More developed primary producing countries [2]	**4.8**	**4.7**	**4.9**	**4.4**	**6.2**	**9.0**	**9.4**	**13.2**
Australia	2.9	2.2	3.6	3.9	4.6	6.6	7.9	11.6
Spain	5.8	6.6	5.0	3.5	4.9	7.4	8.9	10.7
Other countries [2,4]	5.2	5.0	5.4	4.9	7.4	10.6	10.2	15.0

Sources: National economic reports, secretariat of the Organization for Economic Cooperation and Development, and Fund staff estimates.

[1] Compound annual rates of change.

[2] Average of percentage changes for individual countries weighted by the U.S. dollar value of their GNPs at current prices in the preceding year.

[3] Austria, Belgium, Denmark, Luxembourg, the Netherlands, Norway, Sweden, and Switzerland.

[4] Finland, Greece, Iceland, Ireland, Malta, New Zealand, Portugal, South Africa, Turkey, and Yugoslavia.

respect to output, the overall rate of price inflation in the industrial countries, as already mentioned, accelerated to an annual rate of 12 per cent in the first half of 1974. Only in Germany, among the largest countries, was the inflation rate appreciably less than 10 per cent in that period, and the rates for Japan and the United Kingdom were substantially higher than the average.

Price inflation in the industrial countries has accelerated almost steadily since the mid-1960s. The overall rate of 12 per cent in the first half of 1974 was far above the average price increase of about 2½ per cent experienced by these countries in the early 1960s, but the main change occurred quite recently. In 1972, when inflation was already considered a worrisome problem, GNP deflators in the industrial countries rose on the average by some 5 per cent from 1971.

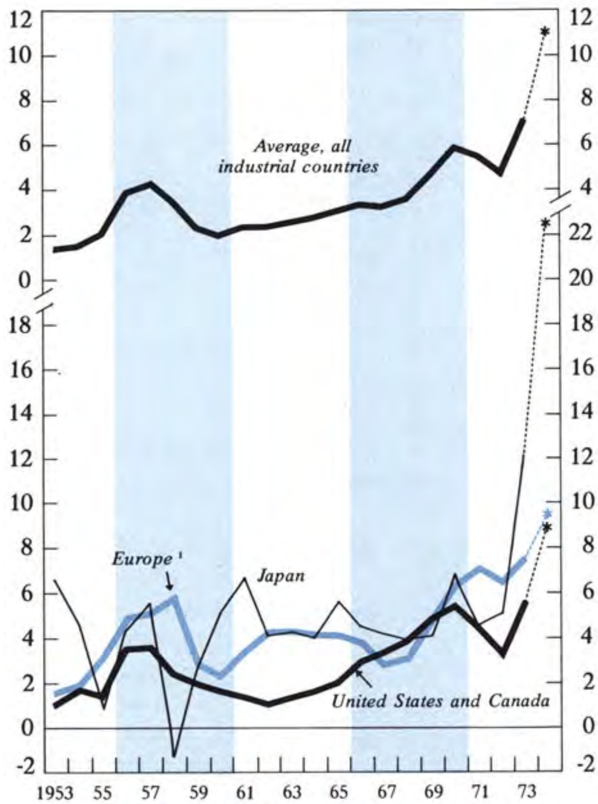
It is only in the past few years that rising costs of primary commodities and fuels have become significant elements in the inflationary trend. From 1965 to 1970, the average annual rate of increase in the prices of primary commodities other than petroleum was about 2 per cent, and the prices of petroleum moving in international trade were stable or declining. Manufactured goods and various services thus accounted for the bulk of the increase in GNP prices.

The record of sharply accelerated inflation in the industrial countries over the past ten years has not been accompanied by any step-up in the growth of real GNP or by any improvement in the utilization of economic resources. On the contrary, the shifting policies intended to cope with recurring problems of overexpansion and slowdown left most industrial countries with higher-than-usual rates of unemployment and/or slack in industrial capacity when the latest boom peaked in the first half of 1973.

For the primary producing countries the statistical picture of the situation evolving in 1974 is much less complete. However, the available price figures show that the rate of domestic inflation increased sharply during 1973 and the first months of 1974 in both the more developed and the less developed primary producing countries. For example, the approximately 25 per cent rise of consumer prices in the developing countries from 1972 to 1973 was far exceeded by the upsurge of nearly 40 per cent that occurred over the year ending with the first quarter of 1974 (Table 3). With respect to both periods, these

CHART 2. PRICE INCREASES IN INDUSTRIAL COUNTRIES, 1953–FIRST HALF 1974

(Percentage changes in GNP deflators from preceding year)



* Change from first half of 1973 to first half of 1974.
[1] Austria, Belgium, Denmark, France, Germany, Italy, Luxembourg, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom.

overall averages reflected relatively high inflation rates in the Western Hemisphere region, as well as in Asia, and considerably more moderate rates in Africa and the Middle East. In a broader time perspective, however, a noteworthy feature of the record is that inflation has developed on a substantial scale in many primary producing (as well as industrial) countries where low or moderate rates of price increase had been customary.

Growth-depressing influences evidently are at work in many of the primary producing countries. Because of slower expansion in the industrial world and other factors, this year's rise in export volume for non-oil developing countries seems bound to be sharply reduced, following increases averaging more than 8 per cent in recent years. Many of these countries—particularly the ones whose own export prices have not shared in the general upswing—are also being hit by a deterioration in the terms of trade; and growth in the volume of imports essential for development is being inhibited by the upsurge of prices for oil, foodgrains, fertilizer, and many types of manufactured goods.

The major oil exporters are in a very different position by reason of the sharp improvement that has occurred in their terms of trade since 1973. But in these countries, too, inflation looms as a serious problem because of the steadily rising prices of imported goods and the pressures on resources that may emerge in the process of using part of the expanded foreign exchange earnings to accelerate the pace of domestic development.

TABLE 3. PRICE INCREASES IN LESS DEVELOPED COUNTRIES, 1965–FIRST QUARTER 1974

(Percentage changes in consumer prices)[1]

	Annual Average 1965–70	Change from Preceding Year			First Quarter 1973 to First Quarter 1974
		1971	1972	1973	
All less developed countries	13	10	13	24	37
In Africa	4	6	5	7	14
In Asia	18 [2]	5	7	19	31
In the Middle East	3	5	6	10	16
In the Western Hemisphere	15	15	21	36 [2]	48 [2]

Sources: IMF Data Fund and Fund staff estimates.
[1] Averages of changes in indices expressed in terms of local currency. Weights are proportional to GNP (in U.S. dollars) in 1972.
[2] Excluding one high-inflation country, the Asian figure in the first column would be 7 per cent; with a similar exclusion, the Western Hemisphere figures in the last two columns would be 21 per cent and 19 per cent, respectively.

In the period ahead, trends of prices and activity in the world economy will depend largely on developments in industrial countries. Unfortunately, it is difficult to form a confident judgment as to the balance of contractionary and expansionary forces in those countries. Following, however, are a few of the factors that such a judgment must take into consideration.

—One key question concerns the significance that should be attached to the fact that a slowing down of economic expansion in most industrial countries was already in process in the course of 1973, prior to the sudden emergence of energy problems later in the year.

—The tripling of petroleum prices that took place late in 1973 is adding to inflation through its cost-raising effects. At the same time, this price rise could have a deflationary effect stemming from the much greater increase of imports than of exports (discussed below) that is occurring in the trade of oil importing countries with the oil exporting countries. A deflationary effect will be felt to the extent that larger payments for oil may be financed through diversion from other expenditures; this effect will be averted to the extent that such payments are financed out of current saving, although the resultant incurrence of additional debt or liquidation of financial assets might in various ways affect the behavior of consumers and business enterprises over some uncertain period of time. Some observers view the possible deflationary influence of higher oil prices, superimposed on the cyclical slowdown, as a serious threat to economic expansion. Others believe that expansionary forces, both autonomous and government-induced, will prove sufficiently strong to offset it. Views also differ as to the probable timing of any deflationary impact of higher oil prices—whether occurring quickly or taking a good many months to show up.

—Perhaps as a broader aspect of the difficulty in judging the economic impact of the oil price increases, a larger-than-usual degree of uncertainty surrounds the outlook for private spending. Current rates of price inflation represent an essentially new situation in the postwar period, and it is thus difficult to judge on the basis of past experience how various groups within the private economy will react to them. Also, the comparative newness of the situation creates added difficulties in the area of government policy, both in its formulation and in the assessment of its effects.

—Related to the above points, and partly overlapping them, is the difficulty in gauging how severe an impact the industrial countries' recent financial policies will have, with an uncertain lag, on the level of real activity; these policies have for many months been generally on the side of restraint in the endeavor to combat inflation. Moves toward more restrictive fiscal positions have recently been made by the governments of several major countries, and monetary policies are almost universally tight. In several countries, notably Italy and the United Kingdom, restrictive financial policies are directed toward overcoming severe balance of payments problems, as well as domestic inflation. However, postures of restraint have generally not been assumed in disregard of considerations relating to employment and growth objectives. The German authorities, for example, acted in December 1973 to forestall the risk of a recession emanating from the cutbacks in oil supply by lifting most of the stabilization measures introduced in the previous May and by taking additional steps to assist sectors experiencing difficulties; and German monetary policy in recent months, while still tight, has not been so restrictive as it was in 1973. Similarly, several of the smaller industrial countries adopted measures designed to maintain the upward momentum of demand in real terms, generally by giving specific relief from adverse effects of price increases or from adverse side effects of counterinflationary actions with respect to domestic credit conditions.

Despite the uncertainties in the picture, most senior officials of industrial countries recently engaged in consultations with the Fund have expressed the view that inflation is the dominant problem of economic policy, and deserving of the highest priority; that the slowdown in economic activity during the first half of 1974 is traceable to the effects of a shift to more restrictive policies during the 1972–73 period, to the emergence of shortages and bottlenecks, and to the impact of the oil situation on particular sectors, rather than to any generalized weakening of demand; and that the underlying demand situation at mid-1974 still appeared to be expansionary. However, there were significant variations around this general viewpoint, involving questions about the probable trends in global economic activity and the degree and timing of the restrictive effect on real output that might be necessary and appropriate for conducting effective anti-inflation policies. There was an awareness, with differing shades of emphasis, that the possibility of international recession could not be ruled out, even though signs of it had not yet appeared.

At mid-1974, economic policy in the industrial countries was being guided predominantly by the view that provision of stimulus was not needed and would dim the prospects for achieving a deceleration in the rate of inflation. Indeed, national forecasters in most industrial countries (including the three largest ones: the United States, Germany, and Japan) were projecting an upturn of real GNP in the second half of 1974. However, in the forecasts of both national governments and international organizations, cognizance of the uncertainties inherent in the short-term international outlook was reflected in some opinion that performance with respect to total output might well turn out to be weaker than was being generally projected.

Factors in the Current Inflation

While the inflation problem is thus being widely addressed at the national level, as indeed is essential, the origins and continuing dynamics of the present inflation must to a great extent be understood in a global framework. The rapid inflation of prices now in process is world-wide and appears to differ from most prior experience in several important respects. Both its overall scale and the nature of its causes and constituent elements are without close parallel since World War II.

Clearly, one relevant factor was the unusually high degree of coincidence in the phasing of business expansion in many countries during 1972 and 1973. In practically all the developed countries, economic activity accelerated sharply and aggregate demand rose to high levels during this period. Nonetheless, it would be difficult to explain the marked excess of the current inflation rate over earlier rates primarily in terms of a difference in effective levels of real resource utilization. These, as measured by available (and admittedly imperfect) indicators, were not abnormally high by historical standards in most industrial countries, even at the crest of the boom in the first half of 1973.

It is also relevant to recall that the 1972–73 upsurge of global demand was marked by failures or miscalculations in the conduct of monetary and fiscal policies. In relation to the buoyancy of private demand that materialized during the boom period, fiscal policies proved insufficiently restrictive in a number of instances, and rates of monetary and credit expansion permitted by prevailing monetary policies would have to be characterized as excessive from the standpoint of controlling inflation. However, since broadly parallel judgments are applicable also to the boom phases of other major postwar business cycles, it cannot be taken as a certainty that laxity of monetary and fiscal policies contributed more to the excesses of the latest boom than it did to those of previous upswings.

Several distinctive features of the recent boom *do* appear to offer grounds for an explanation of the differential rate of inflation. Among these were the high rates of price increase sustained through the previous slowdown and the upward momentum thus already prevailing at the beginning of the 1972–73 upswing. The cyclical record of price fluctuations over a long run of years is broadly suggestive of an asymmetrical response pattern in which the rate of inflation seems to subside less markedly with deceleration of growth than it rises with acceleration. This pattern has apparently had a cumulative effect on business and consumer expectations, helping to generate the momentum so readily visible in the record of annual inflation rates over the past ten years or so. Such momentum doubtless reflects the evolution of public attitudes and institutional practices that have become geared to an assured expectation of continuing advances in costs, prices, and rates of remuneration.

Another distinctive feature of the recent boom was the magnitude of the increase in many primary commodity prices (even apart from oil). As described in the next section of this chapter, the upsurge of commodity prices since 1972 has no parallel with earlier peacetime experience—a fact suggesting that to some extent these big increases were independent of the general process of inflation in the world economy. Shortages attributable to crop failures resulting from drought or flood were in that category, as were changes in stock positions emanating from agricultural policy shifts in key countries. In important respects, however, the escalation of commodity prices must be seen as responsive to the boom itself. Commodity prices reacted strongly to the main wave of demand pressures in the industrial countries that reached its crest in the first half of 1973; and these prices also were pushed up erratically—especially during the latter part of 1973 and the early months of 1974—by anticipatory buying in a climate of inflationary expectations, of real or threatened shortages of various materials, and of uncertainties concerning the future values of currencies. Furthermore, it is clear that the shortages of 1972–73 might have produced less dramatic results if they had not occurred in the context of cyclically buoyant demand in the industrial world.

Oil developments, especially the incidence of their cost-raising influences, have affected many price movements since October 1973. The relatively low elasticity of demand for oil and its pervasive use in productive processes throughout the world imply (given also the short-run limitations of supply) that a price increase of the magnitude witnessed at the turn of 1974 will be translated into an escalation of the costs and prices of goods and services produced through use of petroleum as a source of either energy or materials.

For many individual countries, the recent increases in oil and primary commodity prices—like the continuing increases in prices of imported capital goods—represent a form of imported cost inflation that is very difficult to influence or control. Moreover, these elements of cost, in addition to those that are initially generated by internal demand pressures, are in some measure likely to be extended and built into the cost structure through the process of linking wages to prices, both in formal contractual arrangements and in *de facto* patterns of labor market adjustments. As final-product prices rise, the escalator clauses of existing wage agreements in some countries, together with the cost of living considerations that enter less formally into wage negotiations on a much wider scale, tend to generate largely automatic increases in wage rates to cover the accelerated advances in consumer prices. Moreover, producers usually continue raising their prices to cover at least the additional costs; and they are able to raise them by larger amounts in the many situations permitting imperfectly competitive pricing practices. These processes mean that if incomes policies are absent or ineffectual, and if financial policies are permissive, strong secondary repercussions of the oil and primary commodity price increases must be expected.

Clearly, factors such as those enumerated above are mutually supporting and reinforcing in their effects on prices. Their combined strength has recently reached such proportions, and has become so deeply embedded in public attitudes and expectations, that inflationary pressures are likely to persist for some time, even if the stance of financial policies in all the larger countries were presumed to be wholly appropriate in the light of all legitimate domestic concerns. The problem of retarding the present momentum of price advances is greatly complicated by the ease—as suggested by the phrase "imported inflation"—with which impulses originating in one area are transmitted to other parts of the world. The recent rise in oil prices is only one example—though a major one—of the many changes that tend, through their influence on the cost of living, wage demands, and business costs, to be widely generalized among all the countries concerned, quickly spreading in each of them to many prices not directly affected by the initiatory changes. The price explosion that has occurred in international trade is indicated by the fact that, following a long period of near stability, foreign trade prices went up by 13 per cent from 1972 to 1973 and by no less than 40 per cent from the first quarter of 1973 to the first quarter of 1974.[2]

Adaptation of Policies

Inflation is a world-wide problem that must be dealt with before it gets further out of hand. Its economic and social effects were already a source of widespread concern several years ago, when the rate of increase in prices was less than half the present rate. Those effects now loom much larger.

Since the inflation problem is world-wide, all countries should be expected to contribute to its solution. But because of their sheer weight in the world economy, the chief responsibility in this regard falls on the industrial countries. However, the rate of price increase in these countries has not shown signs of quickly retreating to an acceptable level—a situation which the public is aware

[2] As measured by import unit values of industrial countries in terms of local currency. (See Table 4.)

TABLE 4. INFLATION AND COST INDICATORS PERTAINING TO INDUSTRIAL COUNTRIES, 1960–FIRST QUARTER 1974

(In percentage changes,[1] based on data expressed in terms of local currencies)

	Annual Average 1960–70 [2]	Change from Preceding Year			First Quarter 1973 to First Quarter 1974
		1971	1972	1973	
Unit values of imports	1	3	1	13	40
Labor costs in manufacturing					
Average hourly earnings	8	11	11	13	14
Adjusted for changes in consumer prices	5	5	6	6	3
Unit labor costs	2	7	4	6	10
Wholesale prices	2	3	4	12	21
Consumer prices	3	6	4	7	11
Unit values of exports	2	3	2	10	24

Sources: National economic reports, *International Financial Statistics*, and Fund staff estimates.
[1] Averages of changes for individual industrial countries weighted by total trade in 1972.
[2] Compound annual rates of change.

of and which has contributed to the development of a strong inflationary psychology. Maintenance or extension of the recent price declines in many primary commodities would bring some easing of inflationary pressures in the industrial countries; but other elements in the inflationary process remain strong, with price-induced pressures for larger nominal wage increases threatening to become a particularly active force.

Governments in the industrial world, and elsewhere, are profoundly disturbed by the prevailing rates of price increase and, as mentioned earlier, view inflation as the most serious problem of economic policy. The efforts already being made to combat this problem are greatly to be welcomed, and these must be transformed into a clear-cut strategy of policy.

The fundamental need is to bring about and to sustain a better balance between demand and supply—between the growth of aggregate expenditure and the capacity to produce. Although the policy stance may vary from country to country, it will generally be necessary for the industrial countries, over an indefinite period, to maintain a somewhat lower pressure of demand on resources than has been customary. During this cooling-off period, demand management policy should aim for a progressively lower rate of price inflation and—to support this aim—should become less ambitious on the growth side. In addition, complementary measures to improve supply conditions, to strengthen productive capacity and productivity, and to alleviate cost pressures are also clearly called for; without such measures, including those directed specifically to achieving higher levels of saving and investment, the task of general demand management would be rendered considerably more difficult.

Keeping the growth of aggregate expenditure within appropriate bounds will require a new and different approach in national economic policies. Throughout the period since the mid-1960s, the industrial countries have tended to shade policy risks on the side of growth and employment and to push their short-term objectives in those areas beyond a point that was prudent. It is clear that policy decisions must now place more emphasis on controlling inflation and maintaining a climate of financial stability; despite the correspondingly lesser emphasis on growth and employment objectives, such an approach may be expected to make for a better growth and employment record over the longer run.

Persistent application of this approach, despite the setbacks that could occur, would be a very demanding task, requiring strength and continuity of political will over a period of years. In order to change inflationary expectations, policies would have to show results so as to earn and retain the confidence of the public.

Given all the uncertainties involved, governments must be careful to avoid policies that might inadvertently lead to severe recession and stagnation. This important consideration is in line with the resolve of member countries, as expressed in the Committee of Twenty's communiqué after its January 1974 meeting, to "pursue policies that would sustain appropriate levels of economic activity and employment, while minimizing inflation."

Implementation of the demand management policy suggested above requires elaboration, in part to bring out some of the problems and difficulties entailed.

—Because the prevailing rates of price inflation are so steep and inflationary expectations are so deeply embedded, there is only limited room for maneuver and error in the conduct of fiscal and monetary policies in the industrial countries. In order to avoid triggering still more trouble on the inflation front, the authorities will need to regulate their policies with considerable caution for some time to come. One important requirement will be to absorb economic slack gradually, rather than quickly, and to avoid overestimation of the capacity or potential growth rates of the industrial economies. In this regard, allowance should be made for the likelihood that potential growth rates in industrial countries have been reduced, at least temporarily, by the dislocations in specific sectors of the economy caused by higher oil prices, environmental considerations, and other factors.

—In setting their target rates of aggregate demand expansion, it will be necessary for countries to shade decisions in this area on the conservative side as part of the anti-inflation effort. In this context, growth rates somewhat lower than those aimed for in the past might well have to be accepted. Similarly, unemployment might have to be somewhat higher—as it recently has been in most industrial countries—in relation to the traditional targets.[3]

—In addition to the growth of real GNP, the other element in the target rate of aggregate demand expansion—the price factor—would need to be based on a careful policy decision as to how much the rate of price inflation could and should be reduced in a given period. This assessment would have to take account of special factors operating on prices, as well as the basic influence of fiscal and monetary policies; special influences may be quite important, of course, with respect to the prices of primary commodities. Widespread expectations that any increase in the price level will be accommodated by the authorities will have to be eliminated.

—Of the many issues involved in the question of how fiscal and monetary policies should be deployed in carrying out an effective demand management policy, perhaps most important is the need for governments to secure better control over the national budget. In the past, fiscal policy has sometimes been so inadequate that it worked at cross-purposes from monetary policy, adding to problems of achieving economic stabilization. Also of importance is the growing need to focus the incidence or impact of fiscal measures. In the industrial countries this year, such selectivity in the implementation of fiscal policy may be called for by circumstances in which tight supply conditions may be present in certain sectors while other sectors have idle capacity and manpower. Of course, care would have to be taken to avoid impeding needed intersectoral adjustments.

—One special problem of demand management at the present time is to assess and deal with the possibly deflationary effect of higher oil prices. Despite the international attention this phenomenon has attracted, it is not possible to make global generalizations about the appropriate reaction of national governments to it. Depending on their differing situations, some may need to offset it while others may welcome it for its disinflationary value.

With respect to the complementary measures referred to above, there undoubtedly are numerous areas in which policy actions could help to increase the supply of goods and services and thereby contribute to the dampening of inflationary pressures. Such actions typically yield their full impact only after some time, but this should not diminish the interest in seeking to remove artificial restraints on production and generally to increase the scope for operation of competitive forces. The recent upsurge of interest in supply conditions, because of the onset of widespread shortages, provides an opportunity to spur renewed activity in this neglected area of economic policy.

In some, but not necessarily all, countries, the present circumstances also call for renewal of the

[3] In many of the industrial countries, the recently higher levels of unemployment are attributable in large part to structural factors, such as mismatches between the skills and aptitudes of the unemployed and those required by employers. To improve the employment situation, primary emphasis should thus be placed on specific measures; strong expansion of overall demand would serve mainly to fuel inflation and would be relatively ineffective in reducing unemployment. In several Western European countries, a feature of the situation is that unemployment is accompanied by the employment of large numbers of immigrant workers.

search for effective approaches to incomes policy—for efforts to exert direct influence upon the movement of wages and prices in the public interest. Such measures are difficult to devise and implement, and they would have to be geared in each country to its own institutions, traditions, and situation. In their absence, however, it may prove very difficult to limit the effects of cost pressures on prices and to achieve price moderation except at the expense of greater slack and unemployment. By helping to counter the forces of imperfect competition so prevalent in modern industrial economies, appropriate incomes policies could serve as useful adjuncts to fiscal and monetary policies, which must bear the main brunt of the anti-inflation effort.

Although the foregoing discussion of domestic economic policy issues has been oriented toward conditions in the industrial world, the relevance of key points to current problems of developing countries is obvious. One reason is that any significant improvement in the management of economic policy by the industrial countries would ease the inflationary pressures on developing countries and facilitate the handling of their own problems. Because of demand, price, and cost factors influenced partly by developments in the industrial centers, an important share of the inflationary pressure felt by many developing countries in recent years has been external in origin.

Nevertheless, developing countries are also contending, in varying degrees, with inflationary pressures of domestic origin. In some parts of the world, these pressures have arisen from droughts or other catastrophes. But in many developing countries inflation is attributable in large measure to insufficient restraint of aggregate demand, often stemming from an understandable desire to push economic development as rapidly as physically possible or from an inadequate control of the expansionary domestic effects of sharp rises in export earnings. In these cases, some of long-standing character, stress must be laid on the avoidance of unduly expansionary monetary and fiscal policies, which have frequently proved counterproductive for developmental purposes in the longer run.

The broad approach to stabilization policy discussed above is thus as applicable to most developing countries as it is to the industrial countries. But in the application of economic policy principles, of course, account must be taken of the special circumstances faced by the developing countries. For example, constraints on the total labor supply—though not those with respect to particular skills—are frequently less severe in developing countries than in the developed countries, while rigidities due to supply bottlenecks are often more intractable.

There are important differences among developing countries with respect to the problem of dealing with the current inflation and related economic difficulties. In general, those countries that do not now suffer a balance of payments constraint—notably the major oil exporting countries—are the ones that can afford to press hardest for maximum growth. Their ability to draw on foreign resources should provide both added scope for development and a margin of safety. Even these countries, however, must exercise care to control the pace of development so as to minimize such problems as intensification of inflation, generation of bottlenecks, and misallocation of resources.

Among the non-oil developing countries, those that have in recent years achieved both rapid growth and balance of payments surpluses may to a large extent be able to absorb the burden of additional import costs through some moderation of growth rates or of gains in real income and the forgoing of further reserve accumulations. In formulating their economic policies, these countries will have to give high priority to non-inflationary budgetary and monetary policies. They may have to pay particularly careful attention to their effective exchange rates, being cautious about effective depreciation in present circumstances and bearing in mind the possible contribution of a stable or appreciating effective rate to avoidance of strains on domestic resources.

For countries whose income levels are among the lowest and whose capacity for adjustment of trade and production is very limited, cutbacks of either imports or output for domestic use would be both painful and harmful. In these cases, the inadequacy of the economic base underscores a need for both supply and demand measures to minimize strains on overall capabilities. However, maintenance of the imports of fuels, fertilizer, capital equipment, and essential consumer goods that are necessary to maintain supplies and mitigate pressure on prices will be impossible without increased flows of foreign aid and concessional loans.

World Trade and Payments

International trade and payments developments during the period since the previous Annual Report have been dominated by exceptionally large changes in foreign trade prices and values, bringing substantial shifts in the payments situations and prospects of many countries. Some of the changes in trade prices and values have stemmed from the major currency realignments of early 1973 and subsequent fluctuations of exchange rates under a regime characterized by widespread floating. In addition, important sources of increases in foreign trade prices have included the accelerated inflation in the industrial world, the abrupt increases of oil prices in the last quarter of 1973, and the rise in primary commodity prices that began much earlier and continued into 1974.

The recent price increases of internationally traded goods were largely attributable to the powerful expansion of demand in the industrial countries. Suppliers of many products were not able to meet this surge of demand in the short run, and rapid emergence of an inflationary psychology added to the resultant impact on prices.

Under the impetus of prevailing demand forces, the volume of world trade increased by some 12½ per cent from 1972 to 1973, compared with 9 per cent—a rate of growth close to the long-term average—in the previous year (Table 5). Since about the middle of 1973, however, a tapering of the expansion in world trade has

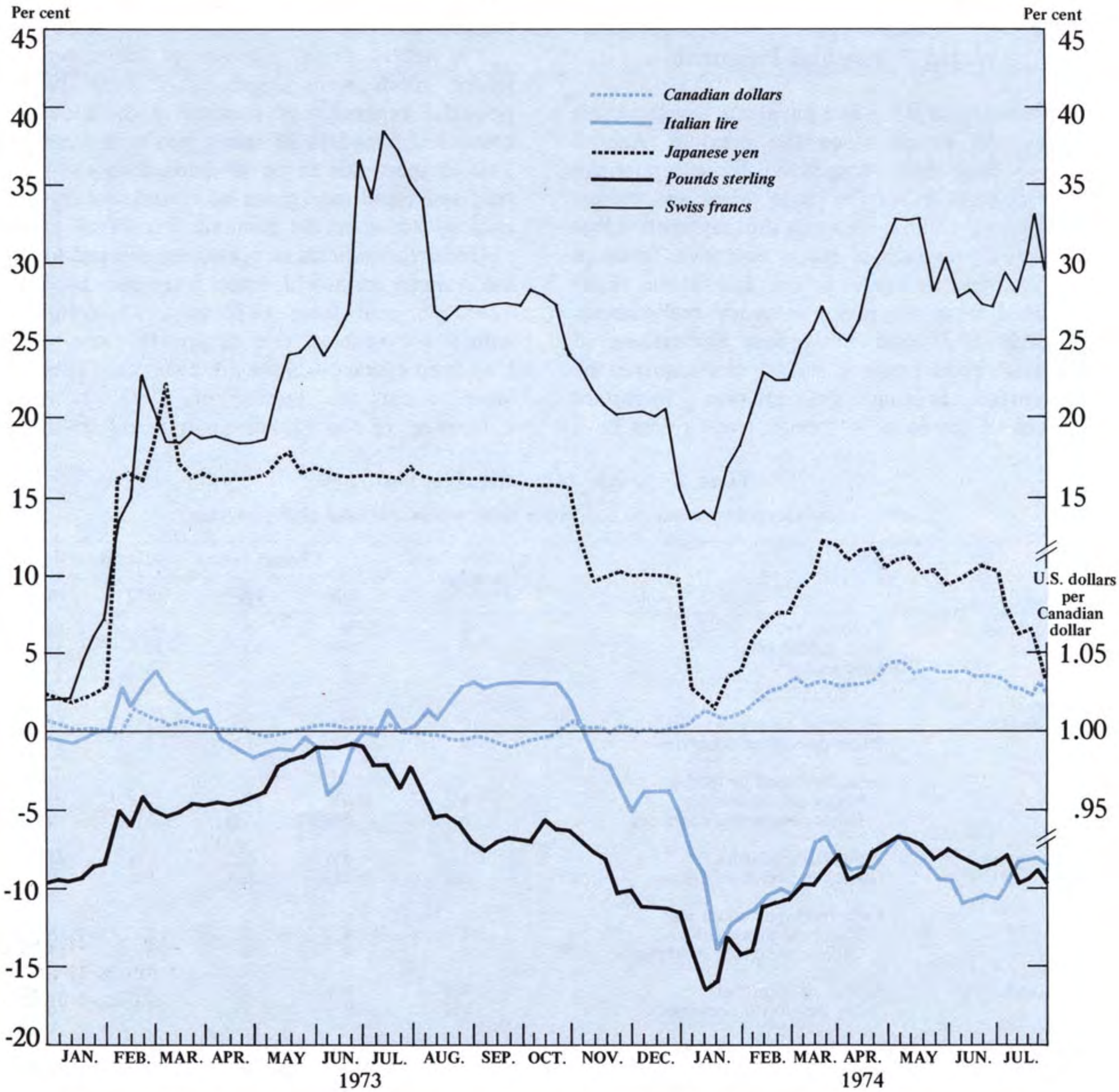
TABLE 5. WORLD TRADE SUMMARY, 1960–73 [1]

(Percentage changes in volume, in U.S. dollar value, and in unit value of foreign trade)

		Annual Average 1960–70 [2]	Change from Preceding Year			
			1970	1971	1972	1973
World Trade [3]	Volume	9	9	6	9	12½
	U. S. dollar value	10	14½	12	18	37
	Unit value [4]	1	5	5½	8	22
Imports						
Volume	Industrial countries	10	9	6	11½	11½
	Other developed countries	9	13	3½	1	17
	Less developed countries					
	Major oil exporters	4½	6½	12	12	20
	Other developing countries	6	8½	6½	1½	9½
Unit value [4]	Industrial countries	1	5½	5½	7½	22½
	Other developed countries	1½	5½	6½	8½	20
	Less developed countries					
	Major oil exporters	1	4	5	8	18½
	Other developing countries	1	4	6	8	19½
Exports						
Volume	Industrial countries	9½	9½	6½	9½	13½
	Other developed countries	7½	8	5½	11	16
	Less developed countries					
	Major oil exporters	9	11	8	7	12½
	Other developing countries	6	6½	5½	9½	7
Unit value [4]	Industrial countries	1½	6	5	8	19½
	Other developed countries	2	4	4	13	25
	Less developed countries					
	Major oil exporters	−1	2	22½	11	39
	Other developing countries	1½	5	−1	8½	27½

Sources: National economic reports, IMF Data Fund, and Fund staff estimates.
[1] For classification of countries in groupings shown here, see Table 1 (and especially footnotes 2–4).
[2] Compound annual rates of change.
[3] Fund member countries (listed in Appendix Table I.1) plus Switzerland. Based on approximate averages of growth rates for world exports and world imports.
[4] Based on indices in U.S. dollar terms.

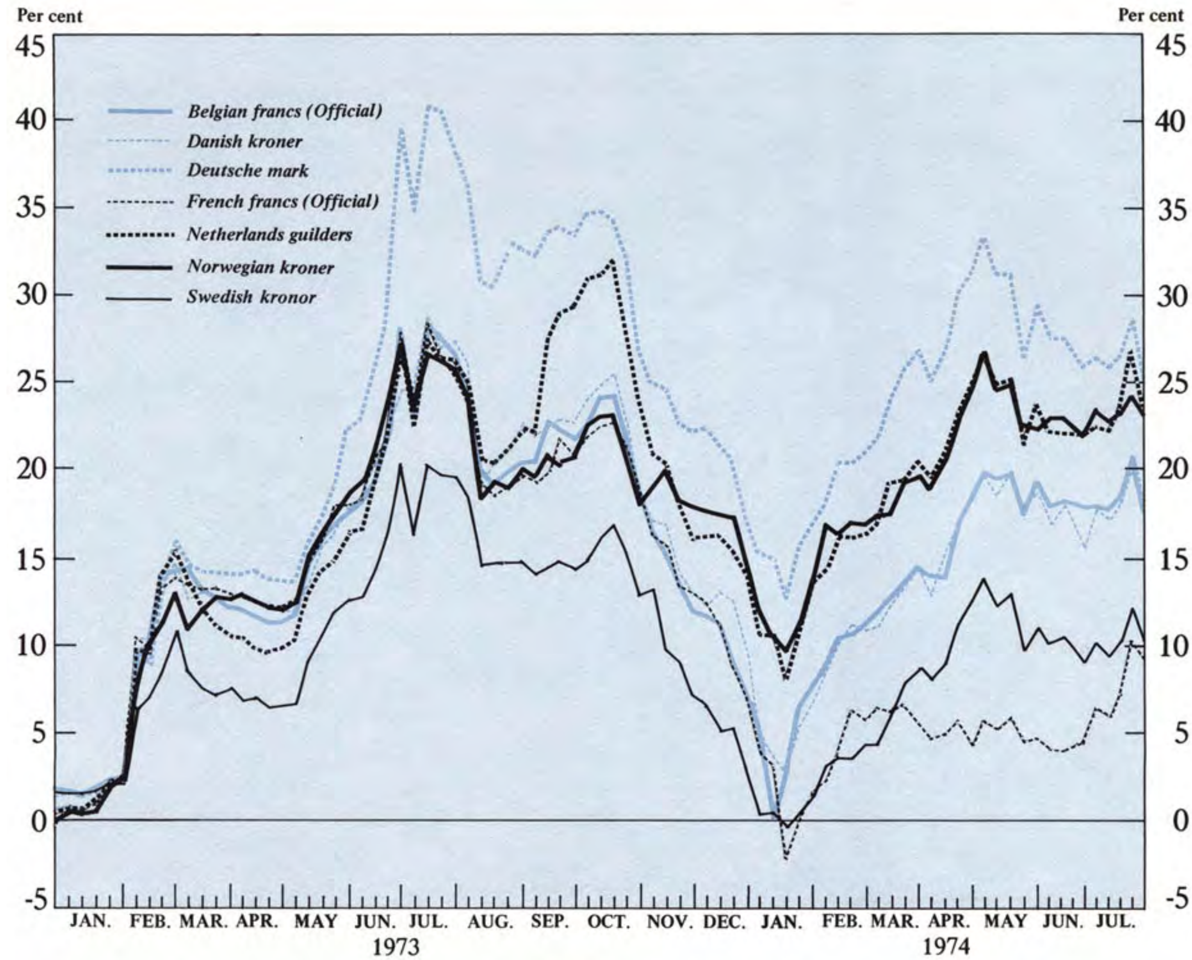
CHART 3. SPOT EXCHANGE RATES, JANUARY 1973–JULY 1974
(Spread from parity or central rate agreed December 1971)[1]



accompanied the slowdown of real economic activity in the industrial countries. For a number of primary products moving in international trade, limitations of current supply—including those stemming from droughts and other natural forces—also appear to have been a factor in this deceleration (as well as a factor contributing to the upward pressure on prices). The rate of expansion of world trade in real terms in the first half of 1974 was probably much below the trend rate, in sharp contrast to the experience in 1973.

Changing currency relationships, varying movements of commodity prices, and differences in domestic demand conditions and in supply capabilities all contributed to substantial shifts in the

CHART 3 (*concluded*). SPOT EXCHANGE RATES, JANUARY 1973–JULY 1974
(*Spread from parity or central rate agreed December 1971*)[1]



[1] Except for Canadian dollars. All data based on Wednesday noon quotations in New York.

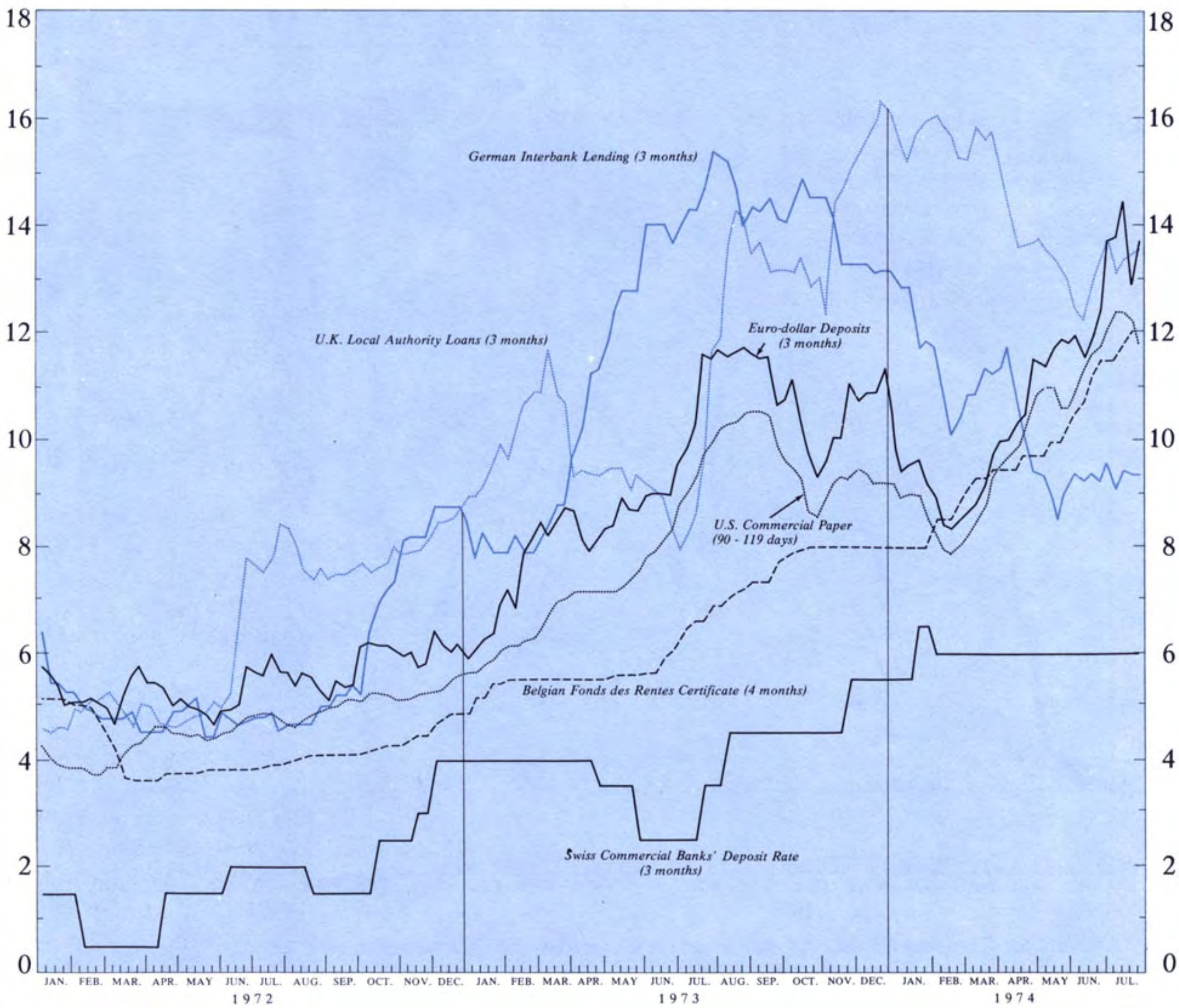
external current account balances of individual countries from 1972 to 1973. Moreover, much larger shifts are taking place in 1974, especially because of the sharply higher level of oil prices. These developments, in combination with differences among countries with respect to monetary conditions and interest rates, and against a background of wide swings in financial market attitudes and expectations, have produced major changes in the magnitude and direction of international capital flows. Despite the absorption of many of the resultant exchange market pressures through fluctuations in floating rates, there have also been large shifts in overall payments balances and reserve positions of many countries. These shifts are discussed below, following reviews of the exchange-rate, commodity-price, and terms-of-trade developments that have underlain most of them.

Exchange Rate Developments

An important feature of the past year's international trade and payments developments has been the interaction between balance of payments flows and exchange rates under the prevailing situation of flexible currency values. External current account transactions and international capital flows not only have exerted a variety of pressures on exchange markets but also, in turn,

CHART 4. SHORT-TERM MONEY MARKET RATES, JANUARY 1972–JULY 1974

(Per cent per annum)



have been affected by the succession of exchange rate fluctuations since early 1973.

The exchange market turbulence in the opening months of 1973, the ensuing major currency realignments, and the mid-1973 outbreak of renewed speculative pressures were described in the 1973 Annual Report. It may be recalled that currencies in the European narrow margins arrangement or closely associated with those currencies appreciated against the U. S. dollar from early May to mid-July of 1973 by amounts ranging from 9 per cent to 18 per cent. (See Chart 3.) For some time thereafter, through most of October, the exchange markets were much calmer, with the U. S. dollar first recovering part of its depreciation against most European currencies and then showing a gradual and moderate decline from about mid-August to late October. From the end of October through mid-January of 1974, however, the dollar firmed quite sharply against most leading currencies, appreciating by some 14 per cent against the continental European currencies and by about 10 per cent against the pound sterling and the Japanese yen (Chart 3). Both sterling and the yen thus rose somewhat in relation to the continental currencies after having depreciated considerably against them during the middle months of 1973.

The October–January appreciation of the dollar was in large part a result of improvement in the U. S. balance of payments on current account and an unwinding of currency positions built up during earlier periods of speculative activity. Such unwinding was facilitated and reinforced by a late-1973 firming of U. S. money market conditions and interest rates (Chart 4) coinciding with easier financial conditions in some continental European countries, and particularly in Germany. Following the December 1973 announcement of oil price increases, exchange markets were for several weeks dominated by the view that overall payments positions of most industrial countries would be much more adversely affected by the new situation than would the position of the United States, where disproportionate shares of the funds accumulated by oil surplus countries were expected to be invested. This expectation, coupled with an apparent reluctance of central banks to intervene on the foreign exchange markets to stabilize rates, led to a rapid appreciation of the dollar in trading that was at times hectic. Under the exchange market pressures of that period, the Bank of Japan discontinued support of the yen early in January (although, following a depreciation of the yen by some 7 per cent, it later resumed intervention, as deemed necessary); and the French authorities suspended foreign exchange market interventions under the European narrow margins arrangement, thus permitting an initial decline of about 5 per cent in the value of the French franc in terms of other major currencies. This development put pressure on the Italian lira, which was permitted to undergo a roughly parallel depreciation.

Toward the end of January 1974, exchange market trends were reversed again as a number of steps were taken to ease controls on capital flows and thus to facilitate the financing of prospective external payments balances. In particular, the United States eliminated its interest equalization tax, its controls on direct foreign investments by U. S. residents, and its voluntary restraints on foreign lending by U. S. financial institutions. At about the same time, several continental European countries, including Germany, removed controls on capital inflows or liberalized deterrents to foreign borrowing by their residents. These actions contributed to a substantial alteration of both short-term and long-term capital flows during the early months of 1974, and they were reinforced initially (in February) by a relative easing of liquidity conditions and interest rates in the U. S. money market, widely interpreted as presaging further relaxation of U. S. monetary policy in subsequent months. Such expectations were not borne out, as tighter liquidity and strongly rising interest rates in the United States after mid-March contrasted with an opposite trend in some of the major continental centers and the United Kingdom. However, by the time the latter tendencies had become apparent, a re-evaluation of the probable impact of higher energy costs on the various industrial countries had led market participants to the view that the strengthening of the U. S. dollar during January had been exaggerated.

Primarily because of the factors suggested above, the period from late January through early May of 1974 was one of renewed appreciation of most other major currencies against the U. S. dollar. It was also marked by the termination, in March, of the dual exchange markets in France and Italy. During the second half of May, another partial reversal of immediately preceding exchange rate movements occurred. A moderate firming of the U. S. dollar in that period was followed by relatively steady exchange rates during June and July.

The changes in currency relationships sketched above can be meaningfully summarized for each currency in terms of effective exchange rate indices. There are various such indices in use, each having somewhat different characteristics and showing somewhat different numerical measures of effective exchange rate change. However, among the indices most frequently applied, there is broad similarity as to the direction and general magnitude of movements. With respect to the U. S. dollar, these calculations indicate that the effective rate in June 1974 was about the same as that in April 1973 (just before the pattern of the second major currency realignment was disrupted), despite the intervening swings in both directions. Over the same 14-month period, the pound sterling, the French franc, the Italian lira, and the Japanese yen all showed cumulative effective depreciations, though they started at different levels in relation to pre-1973 rates and followed rather different time paths. On the other hand, the effective rate for the deutsche mark in June was significantly above its April 1973 level, after movements upward, downward, and back up again.

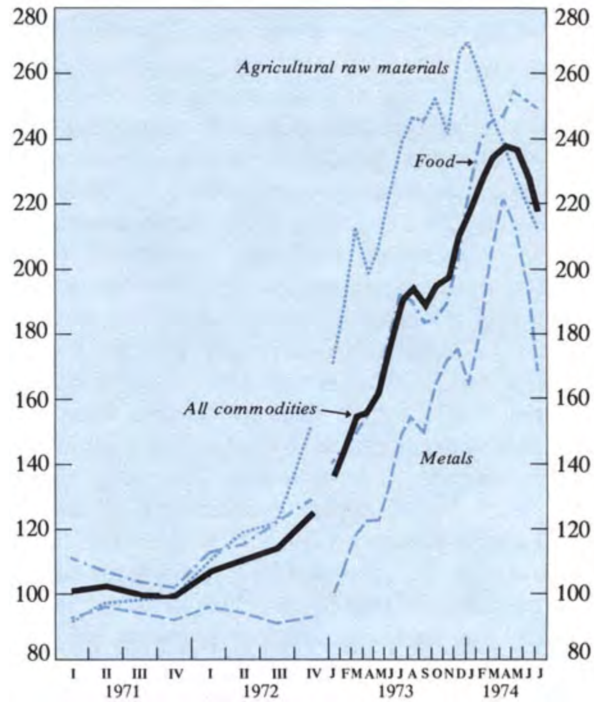
Movements of Commodity Prices

The period since about the end of 1972 has been marked by an extraordinary succession of increases in prices of primary commodities. By far the largest of these, in terms of both percentage change and the magnitude of the affected international trade flows, was the approximate tripling of the average export price of crude petroleum from September 1973 to January 1974.[4] However, focus on the oil price rise should not be permitted to overshadow the fact that exceptionally large price increases occurred throughout a wide range of commodity categories during 1973 and early 1974. While no single one of these involved a trade magnitude approaching that of oil, many are nevertheless highly important in themselves, and some (e.g., zinc, sisal, rice, wheat, and free-market sugar) have been subject to price increases of an order resembling or exceeding that of oil prices. Some of the largest increases were particularly significant not only as factors in the growth of export earnings of the producing countries but also as elements of the increased costs confronted by importing countries in all major regions.

The recent period has thus witnessed large price rises in many primary commodities produced by countries throughout the world—by industrial countries, as well as by those classified as primary producing countries in this report. From the beginning of 1973 to April 1974, market prices of commodities (excluding oil) exported by primary producing countries rose, on average, by about 70 per cent in U. S. dollar terms (Chart 5). No increase of remotely similar magnitude had previously been recorded during such a short period without the influence of major wars or fears of war, as in the 1950–51 upsurge. In recent months, however, prices of a number of primary commodities—particularly agricultural raw materials and certain metals—have receded from earlier levels; and there were declines in the

CHART 5. INDEX OF PRICES OF COMMODITIES EXPORTED BY PRIMARY PRODUCING COUNTRIES, 1971–JULY 1974

(1968–70 = 100)



all-commodity index in June and July, with speculative selling apparently a factor of some importance.

The upsurge in prices and trading activity during 1973 was highly pervasive, being tempered only to a minor extent by relative stability in prices for a few products. Among broad categories, foods were the ones subject to the most sustained and vigorous upward movement, reflecting critical deficiencies in supplies for some major commodities and the emergence of pronounced changes in demand-supply relations for others. Agricultural materials prices rose very rapidly until about the turn of the year, but underwent a marked downward adjustment during the first half of 1974. Prices of metals, which had shown a delayed response to the 1972–73 expansion of industrial demand, continued to rise steeply through April 1974 but turned downward in May after about six months during which market trading often appeared to be subject to intensified speculative activity. However, the recent reversals of earlier upward movements came too late to prevent another sizable increase in the all-

[4] This stemmed from a larger increase in "posted" or "tax reference" prices, which for major types of crude petroleum averaged more than 3½ times as high in January 1974 as in the previous September.

commodity index in the first half of 1974; for that period, market prices were about 30 per cent above the 1973 average.

These fluctuations in commodity prices have generated difficult problems for many developing countries. Uncertainties and increased inflationary pressures were widely associated with the upswing, while the subsequent reversal has raised the familiar specter of declining export earnings at a time when their purchasing power is being eroded by the continuing rise in prices of imported manufactured goods. Clearly, the longer-term interests of developing countries would, in general, be better served by a steadier and more sustainable improvement of their external trade positions.

In part, the current situation in primary commodity markets can be regarded as one reflecting changed relationships likely to persist for some time. For example, the change in the food situation reflects the impact of higher incomes on per capita consumption of meat products, as well as population growth and the exhaustion of surplus stocks of grains previously available to supplement current production. More generally, cost structures have shifted; competitive relationships among raw materials have been altered; and a number of products have moved into cyclical positions of serious supply imbalance.

Other elements in the recent commodity boom, however, seem potentially reversible when more settled conditions emerge in the world economy and the international financial system. Commodity markets appear to have been subjected to considerable disturbance through speculative trading, partly in reaction to inflation and to exchange rate fluctuations; this was evident even before the advent of the oil crisis, which injected new elements of disturbance, particularly with respect to cost factors. Moreover, in a climate of rapid economic change, the sensitivity of commodity market behavior to the flow of new information has been heightened, as attested by highly unstable short-term movements in prices and much greater trading "velocity."

Market price quotations are not closely or simultaneously reflected in actual returns for exports, and the volatility of such quotations since early 1973 makes the impact of prices on recent foreign trade values particularly difficult to ascertain with any precision. In general, however, it can be assumed that unit values in foreign trade, as discussed below, are reflecting the price changes just noted only with a time lag and probably with lessened amplitude; for many commodities, market quotations are "spot" prices that cover only a small proportion of transactions and are likely to exhibit greater volatility than unit values.

Changes in the Terms of Trade

The interacting elements of general inflation, oil price increases, and soaring primary commodity prices have strongly influenced recent movements of export and import unit values. Such movements are summarized, for recent years through 1973, in Table 5. In addition, Table 6 traces the evolution of the terms of trade for major groups of countries over the same years. Although corresponding data are not yet available on a comprehensive basis for much of 1974, some inferences about terms of trade shifts beyond the end of 1973 can be drawn from what is known about changes in some principal relevant prices.

The increases in unit value of oil since 1970 loom large in the overall picture, especially with respect to the first half of 1974. The resultant large improvement in the terms of trade for the oil exporting countries since 1970 followed a decade of rather steady deterioration, as brought out in Table 6. For 1974, the terms of trade seem almost certain to shift against all major groups of countries except the oil exporters, and

TABLE 6. TERMS OF TRADE DEVELOPMENTS, 1960–73 [1]

(Percentage changes)

	Annual Average 1960–70 [2]	Change from Preceding Year			
		1970	1971	1972	1973
Industrial countries	½	½	−½	—	−2½
Other developed countries	½	−1½	−2¼	4¼	4¼
Less developed countries					
Major oil exporters	−2	−2	16¾	2¾	17¼
Other developing countries	½	−1	−6½	½	6

Sources: National economic reports, IMF Data Fund, and Fund staff estimates.

[1] For classification of countries in groupings shown here, see Table 1 (and especially footnotes 2–4).

[2] Compound annual rates of change.

particularly against those industrial countries whose oil imports are large and whose exports consist predominantly of manufactured goods. Highly adverse changes in terms of trade are also in prospect for certain developing countries whose own export prices have not shared in the general upward trend. In contrast, the terms of trade of the major oil exporting countries can be expected, despite the moderating influence of significant non-oil exports from such countries as Indonesia and Nigeria, to improve in broad parallel with the increase in the global unit value of oil in relation to that of manufactured goods.

During 1973 and early 1974, unit values of food, like those of oil, were rising substantially faster than unit values of manufactured goods. A similar, though less marked, differential may be noted with respect to other primary commodities (metals and agricultural products other than food). Such differential movements can be seen as broadly favorable, apart from changes in oil prices, to the terms of trade of the non-oil developing countries over the whole period since 1972.

In the end, however, the current year's record for developing countries other than the oil exporters, as well as for the more developed primary producing countries, could prove to be one of initial gains quickly eroded. The recent terms of trade gains of these countries were concentrated in the movement from 1972 to 1973, and would be partly reversed from 1973 to 1974 if there should be a continuation of both the present level of oil prices and the recent declines in other commodity prices. Such a development would provide for the industrial countries a partial counterweight, in the form of some gain in their non-oil terms of trade, to the rise in their oil import costs.

International Payments Developments in 1973

The various factors noted above were instrumental in producing a number of important shifts in payments balances from 1972 to 1973. Apart from a rise in the surplus of the oil exporting countries, the main changes in both current account balances and net capital flows were those among individual industrial countries (Table 7), rather than changes in the structure of payments relationships between major groups of countries.

The current account balance of the United States swung sharply upward, from a deficit of \$7 billion in 1972 to a surplus of \$3½ billion in 1973, while the Japanese surplus, amounting to \$7 billion in 1972, virtually disappeared and the U. K. and Italian current accounts both showed swings of some \$3–3½ billion from surplus to deficit. The other principal change was a rise of about \$4 billion in the current account surplus of Germany, to almost \$7 billion.

The 1972–73 shifts in the U. S. and Japanese current account balances were clearly helpful to the international adjustment process, being broadly consistent with the intent of the 1971 and 1973 currency realignments. Both shifts, however, were much larger than had generally been anticipated —in part because of special efforts undertaken to modify the Japanese-U. S. bilateral balance of trade. The change in that bilateral balance from 1972 to 1973, reflecting both an adjustment of the yen-dollar exchange rate and various special measures, accounted for well over one third of the total change in the U. S. position and more than two fifths of the Japanese shift. Another major element in the improvement of the U. S. trade balance was the spectacular rise in both the prices and volume of U. S. agricultural exports. For Japan, a contributing factor, despite the appreciation of the yen, was a deterioration of the terms of trade, reflecting that country's particular exposure to the boom in commodity prices.

With respect to the German, Italian, and U. K. current account balances, the 1972–73 changes can scarcely be characterized as welcome from the standpoint of the international adjustment process. Both Italy and the United Kingdom relied heavily on international borrowing by official or semiofficial agencies or enterprises to finance adverse shifts, which stemmed to a large extent in each case from sharp deterioration of the terms of trade. In Italy, major strikes that impeded exports during the early part of 1973 were an important additional factor. The unexpectedly large rise in Germany's current account surplus reflected comparatively favorable cyclical conditions; under these conditions, the boom in German export market areas raised demand for German products and absorbed potentially competitive outputs, while moderation of domestic demand expansion enhanced Germany's export supply capabilities and curbed the growth of

TABLE 7. INDUSTRIAL COUNTRIES: BALANCE OF PAYMENTS SUMMARIES, 1971–73

(In billions of U.S. dollars)

		Balance on					
		Trade	Services and private transfers	Current account	Capital Account Balance [1]	Allocation of SDRs	Overall Balance [2]
Canada	1971	2.6	−2.3	0.3	0.5	0.1	0.9
	1972	1.7	−2.4	−0.7	0.9	0.1	0.3
	1973	2.2	−2.7	−0.5	—	—	−0.5
United States	1971	−2.7	1.5	−1.2	−29.2	0.7	−29.8
	1972	−7.0	−0.1	−7.1	−4.1	0.8	−10.4
	1973	0.6	2.7	3.3	−8.6	—	−5.3
Japan	1971	7.8	−1.8	6.0	4.3	0.1	10.4
	1972	9.0	−2.0	7.0	−4.1	0.1	3.0
	1973	3.7	−3.6	0.2	−6.5	—	−6.3
France	1971	1.1	−0.1	1.0	2.3	0.2	3.4
	1972	1.3	−0.3	1.0	0.6	0.2	1.8
	1973	1.6	−1.1	0.5	−2.5	—	−2.0
Germany, Federal Republic of	1971	6.7	−4.6	2.0	2.2	0.2	4.4
	1972	8.2	−5.5	2.8	2.0	0.2	5.0
	1973	14.4	−7.8	6.6	2.5	—	9.2
Italy	1971	0.1	2.2	2.3	−1.4	0.1	1.1
	1972	—	2.4	2.4	−3.2	0.1	−0.7
	1973	−4.0	2.6	−1.3	1.1	—	−0.3
United Kingdom	1971	0.7	2.3	3.0	3.1	0.3	6.5
	1972	−1.7	2.4	0.7	−4.0	0.3	−3.0
	1973	−5.8	3.5	−2.3	2.5	—	0.2
Other industrial countries [3]	1971	−3.2	3.6	0.4	2.4	0.3	3.0
	1972	−1.2	4.3	3.1	−0.4	0.3	3.0
	1973	−1.9	5.6	3.7	−0.7	—	3.0
Total, industrial countries	1971	13.1	0.7	13.8	−15.9	2.0	−0.1
	1972	10.4	−1.2	9.2	−12.2	2.1	−0.9
	1973	11.0	−0.8	10.2	−12.1	—	−1.9

Sources: Data reported to the International Monetary Fund and Fund staff estimates.
[1] This balance is computed residually, as the difference between the overall balance (less SDR allocations) and the current account balance; it includes official transfers and net errors and omissions, as well as recorded capital movements.
[2] Overall balances are measured by changes in official gold holdings, in SDRs, in reserve positions in the Fund, in foreign exchange assets, in use of Fund credit, and, where data are available, in liabilities to foreign monetary authorities, including those arising from "swap" transactions.
[3] Austria, Belgium-Luxembourg, Denmark, the Netherlands, Norway, Sweden, and Switzerland.

imports, which was slower in 1973 than in either of the two preceding years. The structure of German exports, involving a high proportion of capital and other durable goods subject to relatively low price elasticities of demand, facilitated the maintenance of sales volume despite the sharp increase in foreign currency prices of German goods associated with appreciation of the deutsche mark. In addition, and especially in combination with the other factors noted, the sharp effective appreciation of the deutsche mark in the first half of 1973 had an upward impact on the terms of trade that worked against reduction of the current account surplus in the period immediately following the appreciation.

For the United States, the United Kingdom, and Italy, swings in capital movements softened or offset the effects of the 1972–73 current account shifts on overall balances, so that the changes in the latter were smaller or more favorable than those on current account alone. For Japan, however, a rise in net capital outflows compounded the effect of the shrinkage in the current account surplus, throwing the overall balance deeply into deficit and bringing rapid liquidation of reserves built up in previous years. Net capital outflows also pushed the overall balance of France from surplus into deficit.

Despite the large shifts of payments balances among individual industrial countries from 1972 to 1973, the combined balance of the whole group with other countries remained relatively steady, both on current account and on capital account. The traditional current account surplus of the industrial countries rose moderately to some $10 billion, compared with $9 billion in 1972 and $14 billion in 1971. With the net outflow of capital from the industrial countries about the same in 1973 as in 1972, their collective overall balance was carried somewhat further into deficit by the nonrecurrence of the SDR allocations received in 1972.

The current account and overall balances of other large groups of countries were almost equally stable from 1972 to 1973 (Table 8). The main exception to pattern was a rise of about $3 billion in the current account surplus of the oil exporting countries. The current account deficit of non-oil developing countries was virtually unchanged (in the $8–8½ billion range), and the

TABLE 8. BALANCE OF PAYMENTS SUMMARY, 1971–73

(In billions of U.S. dollars)

		Balance on					
		Trade	Services and private transfers	Current account	Capital Account Balance [1]	Allocation of SDRs	Overall Balance [2]
Industrial countries [3]	1971	13.1	0.7	13.8	−15.9	2.0	−0.1
	1972	10.4	−1.2	9.2	−12.2	2.1	−0.9
	1973	11.0	−0.8	10.2	−12.1	—	−1.9
Major oil exporters [3]	1971	10.6	−8.4	2.2	1.0	0.1	3.3
	1972	12.5	−10.6	2.0	1.4	0.1	3.5
	1973	20.4	−15.7	4.8	−0.8	—	4.0
Other primary producing countries [3]	1971	−14.0	0.4	−13.6	18.2	0.8	5.4
	1972	−8.2	1.2	−7.0	19.8	0.9	13.7
	1973	−9.4	2.8	−6.6	16.0	—	9.5
More developed areas	1971	−5.6	3.2	−2.4	6.1	0.2	4.0
	1972	−2.7	4.3	1.6	5.7	0.3	7.6
	1973	−4.7	6.1	1.3	0.7	—	2.0
Less developed areas	1971	−8.4	−2.9	−11.2	12.1	0.6	1.4
	1972	−5.5	−3.1	−8.6	14.1	0.6	6.1
	1973	−4.7	−3.2	−7.9	15.4	—	7.5
In the Western Hemisphere	1971	−2.0	−2.5	−4.5	4.5	0.2	0.2
	1972	−1.2	−3.2	−4.4	7.4	0.3	3.2
	1973	−0.5	−3.6	−4.1	7.9	—	3.8
In Asia	1971	−4.1	0.3	−3.8	4.5	0.2	1.0
	1972	−2.5	0.4	−2.1	3.7	0.2	1.9
	1973	−2.0	0.8	−1.3	3.7	—	2.4
In Africa	1971	−0.4	−1.3	−1.7	1.4	—	−0.2
	1972	0.1	−1.4	−1.3	1.4	0.1	0.3
	1973	0.7	−1.3	−0.6	0.8	—	0.2
In the Middle East	1971	−1.8	0.6	−1.2	1.7	0.1	0.5
	1972	−1.9	1.1	−0.8	1.5	0.1	0.8
	1973	−2.9	0.9	−2.0	3.0	—	1.0
Total, all countries	1971	9.7	−7.3	2.5	3.3	2.9	8.6
	1972	14.8	−10.6	4.2	8.9	3.2	16.3
	1973	22.0	−13.6	8.4	3.2	—	11.6

Sources: Data reported to the International Monetary Fund and Fund staff estimates.

[1] This balance is computed residually, as the difference between the overall balance (less SDR allocations) and the current account balance; it includes official transfers and net errors and omissions, as well as recorded capital movements.

[2] Overall balances are measured by changes in official gold holdings, in SDRs, in reserve positions in the Fund, in foreign exchange assets, in use of Fund credit, and, where data are available, in liabilities to foreign monetary authorities.

[3] For classification of countries shown here, see Table 1 (and especially footnotes 2–4).

small surplus of the more developed primary producing countries that had emerged in 1972 was well sustained in 1973. For this latter group, the salient balance of payments change was a sharp drop in net capital inflows; this centered mainly in Australia and reflected not only reversals of earlier speculative movements in the wake of the revaluation of the Australian dollar in December 1972 but also measures taken by the Australian authorities to restrain overseas borrowing by resident companies.

Inflows of capital and aid received by the non-oil developing countries continued to rise in 1973, when they totaled $15½ billion, compared with $14 billion a year earlier and $12 billion in 1971. This increased capital inflow in a year of stability for the current account deficit of these countries as a group raised their combined overall balance of payments surplus by about $1½ billion, to $7½ billion. Both the rise from 1972 to 1973 and the surplus in the latter year, however, were centered mainly in the Latin American and Far East Asian regions. For non-oil countries of the African region, which together had recorded only a very small surplus in 1972, the change in the overall balance in 1973 was negligible. The net inflow of capital to these African countries dropped markedly in that year, but so did their current account deficit, as a result of improved trade balances.[5] For the oil exporting countries (predominantly in the Middle East), only a minor part of the 1972–73 rise in their current account surplus appears to have been reflected in any further growth of their overall balance of payments surplus. The latter surplus rose by $½ billion, to nearly $4 billion, but the bulk of the increment in current account earnings was apparently absorbed by financial flows other than reserve accumulation (i.e., debt retirement, capital investment abroad, or official transfers to other developing countries). An outward flow of capital (or aid) from this group of countries totaling almost $1 billion in 1973 contrasted with an inflow of $1½ billion in the previous year.

The Current Account Picture

For 1974, the prospect for current account balances is one of startling changes, dwarfing those recorded for 1973. Barring some unforeseen major development in the international economy, these changes will involve not only large swings in the balances of a great many individual countries but also a massive shift in the global structure of balance of payments relationships among broad groups of countries.

On the central working hypothesis that the level of oil export prices prevailing in the first half of 1974 will be maintained throughout the year, the combined current account surplus of the major oil exporting countries will go up very sharply—to perhaps $65 billion as an order of magnitude. The increase of some $60 billion over the enlarged 1973 surplus would have its counterpart in a deterioration of similar magnitude for all other countries combined.[6] According to the illustrative estimates shown in Table 9, about two thirds of this total deterioration would be incurred by the industrial countries and one third by the non-oil primary producing countries.[7] Within these two large groups, the impact of recent developments is shaping up as a very uneven one and thereby is creating for many individual countries serious problems of payments adjustment and financing extending well beyond 1974, as discussed in the following section.

Among the major industrial countries, all except Canada face sizable adverse swings in the oil component of their current accounts in 1974. For the United Kingdom, Italy, France, and Japan, these swings are being superimposed on current account positions that were already weak or deteriorating in the first part of 1974. On the other hand, early 1974 was a period of strength in current account balances on non-oil transactions for Germany in particular, but also for the United States and some of the smaller industrial countries in Europe.

[5] As in other regions, this combined result comprised a variety of different experiences on the part of individual countries.

[6] The full counterpart cannot be expected to appear in reported balance of payments statistics of the importing countries in the same calendar year, chiefly because of the time lags mentioned in footnote 2 to Table 9. For present purposes, however, it is more suitable to base the analysis on a symmetrical recording of oil trade flows (incorporated in the "adjusted" columns of Table 9) consistent with an accrual concept of international payments transactions.

[7] Changes in basic balances occasioned by the higher oil export prices will, of course, be smaller, and perhaps substantially smaller, as they will also reflect (inter alia) the oil exporting countries' long-term capital investments, such as those flowing under commitments recently announced by the Iranian authorities.

The collective current account balance of the more developed primary producing countries seems certain to move back into deficit in 1974, following two unusual years of surplus. In addition to a large adverse swing in the oil component of the collective balance, some deterioration in the balance on other current account transactions of this group of countries may result from influences evident in early 1974. These included a significant slowing of the rise in export volume, continuing expansion of import volume, and some deterioration of the average terms of trade, even apart from the rise in oil costs.

The large and heterogeneous group of non-oil developing countries faces the prospect of an adverse current account shift of perhaps $13 billion in 1974, raising their combined deficit to some $21 billion (Table 9).

Most developing countries are net importers of oil. For them, the impact of the rise in oil costs will vary not only with the role of oil in the economy but also with the structure and adaptability of domestic production and foreign trade, as well as with access to external capital. Fortunately, many of these countries entered the period of adjustment to higher oil prices with recently improved terms of trade and relatively high reserves, owing to the 1972–73 upsurge of primary commodity prices. Despite rising prices of imports, the collective terms of trade of the non-oil developing countries are estimated to have improved by some 6–7 per cent from 1972 to 1973. (See Table 6.)

The terms of trade gains for developing countries in 1973, although widespread, were by no means universal, and a list of exceptions would have to include the exporters of tea, jute, bananas, bauxite, and manufactures. Also to be noted in this context is the fact that the 1973 and 1974 price increases for cereals, while boosting export prices for some developing countries (as well as for the developed countries that are the predominant exporters), represented an important negative factor in the terms of trade of other developing countries. Major foodgrains accounted for a larger portion of the rise in the value of imports into developing countries in 1973 than did oil, reflecting the fact that their use of oil, though

TABLE 9. SUMMARY OF PAYMENTS BALANCES ON CURRENT ACCOUNT [1, 2]

(In billions of U.S. dollars)

			Adjusted for Asymmetries Due to Oil [3]		Change from 1973 to 1974	
	1973	1974	1973	1974	Total [4]	Oil component [5]
Major oil exporters	5	65	5	65	60	60
Industrial countries	10	−22	9	−31	−40	−53
Other developed countries	1	−6	1	−7	−8	−6
Other developing countries	−8	−20	−8	−21	−13	−7
Total [6]	8	17	7	6	−1	−6

Sources: Data reported to the International Monetary Fund and Fund staff estimates.

[1] Goods, services, and private transfers.

[2] For classification of countries in groups shown here, see Table 1 (and especially footnotes 2–4).

[3] Chiefly because of time lags between exports as reported by the exporting countries and the corresponding imports as recorded by their trading partners, a global summation of reported trade balances yields an excess of surpluses over deficits when trade values are rising. This asymmetry (as reflected in the first two columns of this table) has increased very sharply in the past few years of high inflation and greatly accelerated advances in nominal values of world trade flows. For 1974, the increase in this asymmetry will reflect the particular impact of the major increases in oil prices that occurred, from the standpoint of the exporting countries, just at the turn of the year but that were reflected in the trade statistics of most importing countries only with a lag. Insofar as this timing discrepancy relates to oil, its estimated growth from 1973 to 1974 has been eliminated (along with certain other oil trade asymmetries of a more technical character) from the data shown in columns 3 and 4 of this table. The resultant figures impute larger deficits to the importing countries than they would in fact report on an unadjusted basis, but have the merit of putting oil deficits and surpluses on a symmetrical basis, in accordance with an accrual concept of balance of payments accounting.

[4] Based on the data after adjustment for asymmetries due to oil.

[5] Defined for this purpose as changes in the net value of trade in oil (vis-à-vis all partner countries), together with net changes in other current transactions in which the oil exporting countries are participants.

[6] Reflects balances of countries covered here with nonreporting countries, plus (quantitatively more important) statistical errors and asymmetries. (See footnote 3, above.)

vital, was in many cases relatively low in comparison with that of the developed countries, while their needs for imported food were in some cases relatively high. Unusual shortfalls of crops because of adverse weather increased such needs in 1973 and the first half of 1974.

Among countries whose prospective increases in the cost of oil imports loom especially large in relation to reserves or total imports, a number are net importers of cereals. Most of these face adverse non-oil terms of trade shifts from 1973 to 1974, and only a few of them (e.g., Korea) have a recent history of buoyant exports. Although some of these countries may find access to international credit markets to cushion the initial impact of the combined increases in their oil and cereals import bills, it is within this group that some of the most severe problems of readjustment seem likely to arise in 1974. Such problems may be especially acute for countries (e.g., India, Bangladesh, and Sri Lanka) whose own export earnings include relatively substantial amounts from commodities that have not shared strongly in the recent primary commodity price upsurge.

External Policies and Adjustment

There are two well-known reasons why the establishment of higher oil prices during the fourth quarter of 1973 has had such a dominant impact on the international payments situation.

First, as noted earlier, there is the fact of the low elasticities of both demand for and supply of oil in the short run. On the side of demand, the higher prices now prevailing will undoubtedly bring about a reduction in the use of oil from the rate that otherwise would have obtained, but this will be a gradual process. The new level of oil prices will also provide substantial incentives for the development of alternative supplies of energy resources but, again, this will take time, and important new sources of supply are unlikely to become available in the next year or two.

Second, the major oil exporting countries will be unable in the short run to raise imports by an amount approaching the prospective buildup in their export earnings. Although the capacity to absorb additional imports differs greatly among major oil exporters, it probably will require a period of years for import growth of these countries as a group to narrow substantially the export surplus that is now envisaged for them in 1974. In this regard, changes in exchange rates between some of the oil exporting countries and other countries might come under consideration from time to time; however, any adjustment of this nature is likely to be of limited significance in the general picture because of the desires of the oil countries to diversify their economies and to obtain earning assets abroad, as against providing the strong stimulus to consumption of imported goods that would result from substantial appreciation of the currency.

Given the increase in oil prices that took place late in 1973, these two factors have perforce led to the emergence of an enormous disequilibrium in international payments on current account—comprising, as discussed above, a surplus for the oil exporting countries estimated at some $65 billion for 1974 and a matching deficit for the rest of the world. This disequilibrium, wholly unprecedented in size and character, requires particular types of policy response on the part of the oil consuming countries as a group; lack of such an internationally cooperative response could seriously damage the world economy. Furthermore, this new disequilibrium also poses problems with respect to capital movements. Funds will flow in huge volume from the oil exporting countries as they dispose of their enlarged current account surpluses; but the question at issue is whether, in the nature of things, these funds may be expected to flow in such a way as to prevent the occurrence of severe payments imbalances or strong exchange rate pressures in many countries.

Policy Implications of the Oil Situation

Adjustment. Oil importing countries may be expected to do what they can to reduce their combined current account deficit through measures relating to the price, supply, and conservation of oil and other sources of energy. However, as indicated just above, such measures will probably yield substantial results only gradually.

In a note presented to the Committee of Twenty at its Rome meeting in January 1974, the Managing Director of the Fund examined the new situation created by the raising of oil prices and drew three main conclusions with respect to the appropriate policy reaction of the oil importing countries: (1) in the short run that group of countries would have to accept the deterioration of the current account in its balance of payments, since attempts to eliminate the additional current deficit caused by higher oil prices through deflationary demand policies, import restrictions, and general resort to exchange rate depreciation would serve only to shift the payments problem from one oil importing country to another and to damage world trade and economic activity; (2) individual oil importing countries would have to make adjustments in relation to each other that took account of the new situation (including the ability to attract capital) and of imbalances previously in evidence—with countries affected more strongly by oil price increases being expected to initiate adjustments through currency depreciation and internal measures, and countries in a relatively more favorable situation having to accept the consequent deterioration in their current accounts; and (3) it was essential in this process that countries strive to achieve close and effective coordination of their external policies. As discussed later, the second conclusion on the need for oil importing countries to make adjustments in relation to each other implies unusually difficult decisions regarding the relative importance to be assigned to financing through private and official capital flows and to adjustment through exchange rate policy and internal measures.

These three policy aspects have, in the new situation, become guidelines of behavior. In its communiqué following the January 1974 meeting, the Committee of Twenty stated that in the present difficult circumstances countries "must not adopt policies which would merely aggravate the problems of other countries" and emphasized the importance of international cooperation and consultation in this context.

To some extent, the distinction between "oil" and "non-oil" current account deficits is not clear in principle, and it will become increasingly blurred over time. Although this point has considerable validity, the distinction in question has been of analytical and practical significance and can continue to serve as an important datum in the determination of balance of payments policy throughout the current year and, perhaps, in 1975 as well.

Statistical projections of the "oil deficit," and of current account balances in general, are necessarily subject to considerable margins of error. However, in view of the problems encountered in shaping balance of payments policy, such projections do not have to be precise in order to be useful. A quantitative approach involving particular focus on oil transactions should be of assistance in preventing the adoption of inappropriate policies in the present unique and difficult situation.

Financing. After oil prices had been raised in December 1973 and the implications of the impending enlargement of the current account positions of the oil exporting countries were being analyzed, it was widely believed that the reflow of funds from those countries would, especially in the short run, take a relatively liquid form and be placed predominantly in the international capital markets. It was presumed that most of this flow, at least initially, would be directed toward the Euro-currency market, with perhaps substantial amounts going into the U. S. market as well. In broad outline, these expectations seem to have been borne out during the past few months in which the increase in oil prices was for the first time fully reflected in oil payments and capital flows.

Although financial markets appear to have operated reasonably well in the early stages of these flows, an immediate question is whether or not the Euro-currency market will prove adequate over an extended period to the financing task that is envisaged. With the volume of potential flows so great as possibly to strain the market's feasible limits of expansion, intermediation over any protracted period could prove to be more difficult if the oil surplus countries preferred to invest mainly at short term, since the borrowing countries have a need for at least medium-term finance. For this and other reasons, including judgments regarding creditworthiness, Euro-banks may become increasingly reluctant to accept short-term deposits or to make new or additional investments in some countries badly in need of finance. In these circumstances, some private financial institutions may encounter problems with respect to their capital structure and the relationship between the maturity distributions of their asset portfolios and of their liabilities. Another important question, mentioned earlier, concerns the possibility that capital flows in the new situation might become disruptive, contributing either to the intensification of overall payments imbalances or to the pushing of exchange rates into ranges considered undesirable (or to both).

If such concerns are valid, they suggest that the major industrial countries should consider possible ways and means of minimizing the hazards mentioned above and assuring the maintenance of orderly conditions in the Euro-currency market. Although industrial countries have in the past been reluctant to coordinate their financial policies in any formal way, the exigencies of the current situation call for careful watch over the operation of international financial markets and constant readiness to extend, if necessary, the areas of informal cooperation to prevent the eruption of volatile capital flows.

The concerns expressed above also suggest a need—and this is of prime importance—to promote alternative channels of finance, through which capital can flow from the surplus to the deficit countries. [8] The Fund's recently established oil facility is one such channel. Other official facilities or arrangements for the purpose of providing short-term balance of payments financing include the regular or traditional facilities of the Fund; inter-central bank swap arrangements, which for the industrial countries involved are not suitable for the direct financing of oil deficits but could serve to bridge over a period in which such financing was being arranged; and a heterogeneous variety of programs involving the provision of assistance, through both institutional and bilateral arrangements, to the less developed countries.

The extent to which the available official credit facilities, supplementing recourse to private markets, will prove to be adequate for the needs of the developed countries is uncertain, especially when one looks beyond the current year. But in the case of the developing countries, official financing facilities and arrangements are clearly not adequate, even with the Fund's new oil facility. The main lack relates to the provision of capital on concessional terms or outright grant assistance to those less developed countries—mostly with extremely low income levels—that have been affected most severely by recent international economic developments. The problem is both serious and urgent.

[8] Such a need has been pointed up in recent months by the development of an apparently widespread and growing concern with respect to the viability of commercial financing of large and persistent payments deficits.

Despite the efforts being made by international and regional financial organizations, the United Nations, and the major oil exporting countries, the needs for concessional capital and grant assistance remain very large, particularly in terms of the prospects for the next few years. In the case of the oil countries, it is apparent that their capital flow to the non-oil developing countries, in the absence of major policy shifts, will rise only slowly because of the time involved in working out organizational procedures and conducting project appraisals in the institutions being established for the purpose. Although these institutions can make a growing contribution to development finance, much of their lending is for projects whereas the main current need is for balance of payments financing. Some nonproject financing, however, is being provided by oil exporting countries outside existing institutional arrangements. Certain proposals have also been made for institutionalizing balance of payments financing on concessional terms.

Current Functioning of the Adjustment Process

As was discussed above, oil importing countries as a group have to accept a sharp deterioration of their current account in 1974, and a large deficit can be expected to persist for at least the next several years. Thus, the main question pertaining to adjustment in the period ahead concerns the distribution of this deficit among individual countries. The aggregate current account deficit of oil importing countries *will* be distributed or shared, in one way or another, and the pursuit of consistent, mutually agreed policies in this sphere could have a profoundly beneficial influence on world economic and financial developments. Adjustment issues for the oil exporting countries—discussed briefly below—are naturally very different, but also are of great importance in the current setting.

Issues facing the oil importing countries. Any examination of the working of the adjustment process, as determined primarily by the industrial countries, must of course start with an assessment of the macroeconomic setting in which it is to take place. There is general agreement on the need for a certain flexibility of exchange rates to facilitate adjustment, but it is also recognized that such flexibility needs to be complemented by appropriate domestic demand policies. In the past, it has often been thought that countries in a relatively strong external position ought to provide some extra stimulus to domestic demand while those in a relatively weak external position ought to restrain domestic expenditure. However, such a prescription presupposes that there is a fair balance between the forces tending to push up prices and those tending to create unemployment. In the present circumstances of high inflation, it is evident that the customary ground rules are less applicable.

It cannot be argued, for example, that countries must subject themselves to rapid rates of price inflation in the interest of international adjustment. Clearly, countries ought not to be expected to endure price increases of the order of magnitude prevailing in the recent past for the sake of such adjustment. In the Fund's recent consultations with members, there was general agreement that policies in respect of external adjustment had to be viewed in the context of measures employed to deal with the problem of rising prices; it was felt that countries—especially the largest industrial countries—have an international responsibility, in addition to that arising from their domestic objectives, to make appropriate contributions to the easing of price pressures in the world economy.

Such a view may mean that countries, in deciding on ways to adjust their balance of payments positions, should lean toward choices consistent with the global demand situation and conducive to the abatement of inflation both nationally and internationally. At times of generally high demand pressure, more emphasis on adjustment (restraint) of domestic demand and relatively little reliance on exchange rate adjustment [9] might thus typically be implied for countries in externally weak positions, while an opposite emphasis might be useful for countries in externally strong positions. According to these criteria, oil importing countries in a relatively strong balance of payments position would be expected to go as far as they felt was reasonable in expanding demand without weakening the fight against inflation, and thereby to provide support to the growth of world trade and activity. In the externally weaker countries, demand would be restrained enough to shift domestic resources to the balance of payments by dampening imports and facilitating exports.

Besides the macroeconomic setting, more specific elements to be considered in the examination of adjustment problems in present circumstances include the size of non-oil deficits on current account (including those carried over from the period before the oil situation changed), the relative impact of oil, and the ability of countries to attract capital. The assessment of current positions depends critically on the picture for international capital flows. The volume of such flows will probably be much larger than in the past, and their pattern might be quite different, as the oil exporting countries seek investment outlets. To a certain extent the movement of capital will of course be governed by market forces, but recent developments indicate that a sizable portion of the flows may reflect official policies in respect of foreign borrowing.

The evident willingness of countries to borrow in order to cover oil and other deficits suggests that there may be some danger that official financing will bulk too large compared with adjustment, referring here to both exchange rate changes and demand policy adaptations. [10] Unduly heavy official borrowing enables countries to sustain currency values and domestic expenditures higher than they otherwise would be; and, in the current situation of rapid inflation and high capacity utilization on a rather wide scale, the result may be to place undue pressures on the resources of other countries. However, there is also an opposite danger that some countries, reacting to the pressure or prospect of mounting indebtedness, may seek to adjust their current account positions at an unduly rapid pace, to the disadvantage of their trading partners. Thus, a key policy question at present concerns the relative weights to be assigned to adjustment and financing (including special incentives for capital inflows).

It is essential that the various issues pertaining to external adjustment and financing be sorted out

[9] The appropriate role of exchange rates in the current adjustment process must be considered in the light of (inter alia) the substantial extent to which the effective exchange rates of major currencies have changed during the past few years.

[10] This point is particularly relevant to the major industrial countries. Many developing countries have incurred a substantial amount of debt in the recent past, and they might well find that additional borrowing would not be in their interest, at least on the terms available. For such countries, the substantive and urgent need, as emphasized earlier, is for capital on concessional terms or outright grant assistance.

and resolved within an international framework. Discussions in the Fund and other international organizations have for some months been directed to this end. However, it is not apparent that countries are in agreement on the policies to be considered appropriate for a satisfactory working of the international adjustment process in the coming period, or on the magnitude and speed with which individual country positions should be adjusted. This situation is perhaps not surprising. In the past, it has been a naturally difficult task for surplus and deficit countries to agree on their responsibilities in the adjustment process; and this time the range of relevant issues confronting the stronger and weaker groups of oil importing countries is even more complex, varied, and difficult to diagnose. But this time, too, the stakes involved in the achievement of a successful adjustment are unusually high.

In present circumstances, for example, it would be a matter of serious concern if failure of the desired shifts in payments positions to materialize caused deficit countries to resort to measures restricting current transactions. Some reactions of this type have already occurred, and generalization of such developments could have grave consequences. It is for this reason that the Committee of Twenty has stressed the importance of avoiding a proliferation of restrictions on trade and payments for balance of payments purposes, and that the Committee made provision, as part of the program of immediate action announced in its communiqué of June 13, 1974, for countries to pledge themselves on a voluntary basis to give effect to that recommendation.

Adjustment issues for the oil exporting countries. On the assumption that present levels of oil prices and production are sustained, comparatively little external adjustment by the oil exporting countries is feasible in the short or medium run. The main general problem they face immediately is how to invest the counterpart of huge current account surpluses outside their countries in ways that are prudent from their standpoint and that do not have undesirable repercussions on others. Beyond the medium run, however, the oil exporting countries differ substantially with respect to the prospects for, and nature of, adjustment.

Approximately one half of governmental revenues from petroleum exports is concentrated in countries which for the most part have small populations, have high ratios of foreign reserves to imports, and in the past have exported some capital—all characteristics which signal the difficulty of their employing domestically any sizable volume of investable resources. These countries with relatively low absorptive capacities may be expected to accumulate large foreign claims over the coming years, as they transform a depletable resource into financial assets or real assets abroad, including those originating in concessionary lending to less developed countries.

However, most of the other oil exporting countries have large populations, have made use of foreign credits in the past to support their domestic investment efforts, and generally can be regarded as having a relatively large potential for domestic economic development. It seems likely that, in time, these countries with relatively high absorptive capacities will be spending a high proportion of their sharply expanded volume of foreign exchange earnings. But, for some time to come, they too will have larger reserves and should be in a position to provide loans or assistance to others, as well as to repay debt contracted in the past. The main task of these countries is to raise the rate of development spending effectively, without intensifying domestic inflation.

Chapter 2

Developments in International Liquidity

Reserve Changes in 1973

Reserve Growth and Composition

THE stock of international reserves increased during 1973 by the equivalent of SDR 6.9 billion, after growing by more than SDR 70 billion during the previous three-year period (Table 10). Aggregate holdings of all countries reached the equivalent of SDR 153 billion at the end of 1973, which was slightly more than twice their level at the beginning of 1970.[1] The rise of 4.7 per cent in this latest year was quite small in the context of recent experience; viewed in longer perspective, it was comparable with the growth rates of 3 to 6 per cent reached during 5 of the 10 years before 1964. For the first half of 1974, preliminary indications are that official holdings increased by some SDR 12 billion or more. The reserves of the major oil exporting countries as a group appear to have more than doubled, while the net change for all other countries combined is likely to have been quite small. In particular, complete reports for the industrial countries show that this group's reserves, which account for a substantial share of the world total, were much the same at the end of June 1974 as they had been six months earlier. Partial data for the developing countries other than the oil exporters suggest some increase in the holdings of that group during the period.

The net expansion in official reserves in 1973 came about in spite of a devaluation of the U. S. dollar that considerably reduced the value of the reserve stock in terms of special drawing rights (SDRs), the unit in which the reserve statistics have been expressed.[2] In February, the value of the U. S. dollar was reduced *de facto* by 10 per cent in terms of gold and of other assets held as reserves that had a fixed gold value, notably special drawing rights and reserve positions in the Fund. As a result, official U. S. dollar holdings—including both dollars held in the United States and Euro-dollar holdings—have declined in value against SDRs. The reduction in the SDR value of such assets—and hence the reduction in the total reserve stock—has been estimated by the Fund staff at the equivalent of some SDR 8.6 billion.

Countries' net use or acquisition of reserve components other than foreign exchange, which from 1970 onward had tended to become only a minor factor in explaining overall reserve developments, played an even less important role in 1973 (Table 11 and Chart 6). Central banks engaged in few gold transactions, either between themselves or with the Fund, because of the wide disparity between the official gold price and the price on the private market.[3] No further allocation and

[1] As in previous Annual Reports, a gross concept of official reserve holdings is used in this chapter; no account is taken of reserve liabilities, which for some countries constitute an offset to reserve assets, although the question of the best measure of reserves for various purposes in the light of recent developments is under study. Reserve assets in this chapter cover SDRs, reserve positions in the Fund, and official holdings of gold and foreign exchange except for the foreign exchange holdings of the United States. In the years when U. S. holdings were substantial, they were mainly the counterpart of the use of swaps by other countries and could not be used to finance U. S. deficits. Such holdings had in any event been reduced to very low levels by the end of 1971, so that adjusted world reserves on and after that date did not differ significantly from the unadjusted figures.

[2] The impact of the devaluation of the U. S. dollar on the SDR value of the portion of foreign exchange holdings denominated in U. S. dollars has been calculated as affecting such holdings in mid-February 1973, when the U. S. Government announced that it was seeking congressional approval for a devaluation of the U. S. dollar by 10 per cent. Any impact of fluctuations in exchange market rates for the U. S. dollar relative to other currencies is not reflected in the statistics on reserve holdings.

[3] The gold component of reserves is expressed at its official equivalence in terms of SDRs, which remained unchanged throughout the period.

TABLE 10. RESERVES, CREDIT TRANCHE POSITIONS, AND OTHER UNUSED CREDIT FACILITIES, END OF YEARS, 1954–73

	Gold	SDRs	Reserve Positions in Fund	Foreign Exchange Adjusted [1]	Total Reserves Adjusted [1]	Credit Tranche Positions in Fund	Other Unused Credit Facilities [2]
			In billions of SDRs				
1954	34.9	—	1.9	18.1	54.9	7.8	—
1955	35.4	—	1.9	18.5	55.9	7.8	—
1956	36.1	—	2.3	19.5	57.8	7.5	—
1957	37.3	—	2.3	18.8	58.5	7.1	—
1958	38.0	—	2.6	18.8	59.4	7.2	—
1959	37.9	—	3.3	17.8	59.0	12.9	—
1960	38.0	—	3.6	20.2	61.8	13.6	—
1961	38.9	—	4.2	20.8	63.8	12.8	1.7
1962	38.9	—	3.8	21.3	64.0	13.3	1.4
1963	40.2	—	3.9	23.7	67.8	13.4	2.0
1964	40.8	—	4.2	25.0	70.0	13.8	5.8
1965	41.8	—	5.4	24.4	71.6	12.3	3.8
1966	40.9	—	6.3	24.6	71.8	17.0	4.5
1967	39.5	—	5.7	26.7	71.9	18.1	5.3
1968	38.9	—	6.5	28.5	73.9	17.0	13.1
1969	39.1	—	6.7	29.6	75.5	16.8	14.3
1970	37.2	3.1	7.7	44.1	92.1	25.0	14.2
1971	36.1	5.9	6.4	73.8	122.1	27.2	11.1
1972	35.7	8.7	6.3	95.2	145.9	27.7	12.3
1973	35.8	8.8	6.2	102.1	152.8	27.9	19.6
			Annual percentage changes				
1955	1.4	—	1.9	2.3	1.7	0.5	—
1956	1.8	—	21.2	5.1	3.6	−4.3	—
1957	3.5	—	1.5	−3.5	1.1	−4.7	—
1958	1.9	—	10.6	−0.3	1.6	1.4	—
1959	−0.3	—	27.0	−5.0	−0.6	77.6	—
1960	0.3	—	9.9	13.1	4.7	6.1	—
1961	2.2	—	16.5	2.9	3.2	−6.4	[3]
1962	—	—	−8.7	2.9	0.4	4.3	−16.2
1963	3.5	—	3.8	11.0	6.0	0.8	39.2
1964	1.5	—	5.4	5.6	3.2	2.8	193.4
1965	2.5	—	29.4	−2.3	2.4	−10.7	−35.3
1966	−2.3	—	17.8	0.7	0.3	38.3	18.4
1967	−3.4	—	−9.2	8.6	0.2	6.1	17.7
1968	−1.4	—	12.9	6.7	2.7	−5.8	149.3
1969	0.5	—	3.7	4.0	2.1	−1.3	9.3
1970	−5.0	[3]	14.4	48.9	22.0	48.8	−1.0
1971	−3.0	88.1	−17.5	67.3	32.5	9.0	−21.8
1972	−0.9	47.8	−0.5	28.9	19.5	1.9	10.5
1973	—	1.4	−2.5	7.3	4.7	0.6	59.9
Annual compound rate, 1954–73	0.1	[3]	6.5	9.5	5.5	6.8	[3]

Sources: *International Financial Statistics* and, for "other unused credit facilities," Fund staff estimates.

[1] Excluding U. S. holdings of foreign exchange and including throughout the period amounts incorporated in published U. K. reserves in 1966 and 1967 from proceeds of liquidation of U. K. official portfolio of dollar securities. The figures for 1971 include the U. K. official assets "swapped forward" with overseas monetary authorities, as reported in U. K. Central Statistical Office, *Economic Trends*. The figures for 1973 include official French claims on the European Monetary Cooperation Fund.

[2] Unutilized drawing facilities under swap arrangements and related credit arrangements between central banks and treasuries.

[3] A percentage change cannot be calculated, the base number being zero.

no cancellation of SDRs took place after the first basic period ended in 1972, although participants' holdings of SDRs increased by SDR 121 million as the result of transfers from the Fund's General Account, mostly because of purchases for purposes of reconstitution. The resulting increase in the General Account's holdings of currencies, together with a small net reduction in the use of

TABLE 11. SOURCES OF RESERVE CHANGE, 1964–73 [1]

(In billions of SDRs)

Annual Changes in	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	Outstanding Totals at the End of 1973
1. Gold Reserves											
Monetary gold	0.7	0.2	—	−1.6	−0.7	0.1	0.3	−0.1	0.2	—	
Gold transactions (acquisitions −) by IMF, BIS, and European Fund	−0.1	0.8	−0.9	0.2	0.1	0.1	−2.2	−1.0	−0.5	—	
Countries' gold reserves	0.6	1.0	−0.9	−1.4	−0.6	0.2	−2.0	−1.1	−0.3	—	35.8
2. Special Drawing Rights											
Allocation of SDRs	—	—	—	—	—	—	3.4	3.0	3.0	—	
IMF holdings of SDRs (increase −)	—	—	—	—	—	—	−0.3	−0.2	−0.1	0.1	
Countries' SDR holdings	—	—	—	—	—	—	3.1	2.8	2.8	0.1	8.8
3. Reserve Positions in the Fund											
Use of IMF credit	0.4	1.6	—	−0.5	1.2	0.3	−0.8	−1.9	−0.3	−0.1	
IMF gold transactions (inflow +) [2]	−0.1	−0.3	1.0	0.1	−0.4	—	1.6	0.4	0.1	—	
IMF transactions in SDRs (inflow +)	—	—	—	—	—	—	0.3	0.2	0.1	−0.1	
IMF surplus (increase −)	—	−0.1	−0.1	−0.1	−0.1	−0.1	−0.1	—	—	—	
Reserve positions in the Fund	0.2	1.2	1.0	−0.6	0.7	0.2	1.0	−1.3	—	−0.2	6.2
4. Foreign Exchange Holdings											
a. Official claims on United States [3]											
U. S. deficit on official settlements [4]	1.5	1.3	−0.2	3.4	−1.6	−2.7	10.7	30.5	10.2	4.9	
U. S. reserve assets (including foreign exchange) used in transactions with countries	−0.2	−1.2	−0.7	−0.1	0.9	1.3	−2.9	−3.0 [5]	−0.2	−0.2	
Official claims on United States [3]	1.4	—	−1.0	3.3	−0.8	−1.5	7.8	27.4 [5]	10.0	4.7 [6]	55.4
b. Official sterling claims on United Kingdom	−0.1	−0.4	−0.1	−0.5 [7]	−0.5	0.8	0.5	1.7	0.6	0.2	6.5
c. Official deutsche mark claims on Germany	0.1	—	0.1	—	0.1	0.1	0.8	−0.4 [5]	0.1	−0.7	0.6
d. Official French franc claims on France	−0.1	—	0.1	—	0.1	−0.2 [8]	0.2	0.2	0.3	0.2	1.3
e. Foreign exchange claims arising from swap credits and related assistance	0.4	−0.3	0.7	0.9	1.2	−0.1	−2.2	−0.7	—	0.5 [9]	0.5 [9]
f. Correction for effect of valuation changes on stock of reserves [10]	—	—	—	−0.8	—	−0.1	—	−4.4	—	−8.6	—
g. Identified official holdings of Euro-dollars [11]	...	−0.1	0.5	0.2	1.6	1.0	5.6	1.1 [5]	6.8	2.0 [6]	17.8
h. Identified official holdings of other Euro-currencies	−0.4	0.2	−0.2	−1.0 [7]	0.1	1.1 [8]	1.8	4.7 [5]	1.9	1.7	5.3
i. Residual sources of reserves [12]									1.6	7.0 [6]	14.9
Countries' holdings of foreign exchange	1.3	−0.6	0.2	2.1	1.8	1.2	14.5	29.7	21.3	7.0	102.1
Total reserve change	2.2	1.7	0.2	0.1	2.0	1.6	16.6	30.0	23.8	6.9	152.8

Sources: *International Financial Statistics* and Fund staff information and estimates.

[1] Adjusted reserves. See footnote 1, Table 10.

[2] Variations in IMF gold investments and gold deposits are excluded because they do not give rise to net creditor positions in the Fund.

[3] Covers only claims of countries, including those denominated in the claimants' own currency.

[4] Unlike the other components of reserve growth, the deficit is already a flow concept and therefore is not expressed as a change from the previous year. The U. S. deficit is shown before allocations of SDR 0.9 billion in 1970 and SDR 0.7 billion in both 1971 and 1972.

[5] Excluding the estimated impact of the December realignment on the value of amounts outstanding at that time.

[6] Excluding the estimated impact of the February devaluation of the U. S. dollar on the amounts outstanding at that time.

[7] Excluding the estimated impact of the November devaluation of the pound sterling on the amounts outstanding at that time.

[8] Excluding the estimated impact of the August devaluation of the French franc on the amounts outstanding at that time.

[9] Comprises official claims on the European Monetary Cooperation Fund.

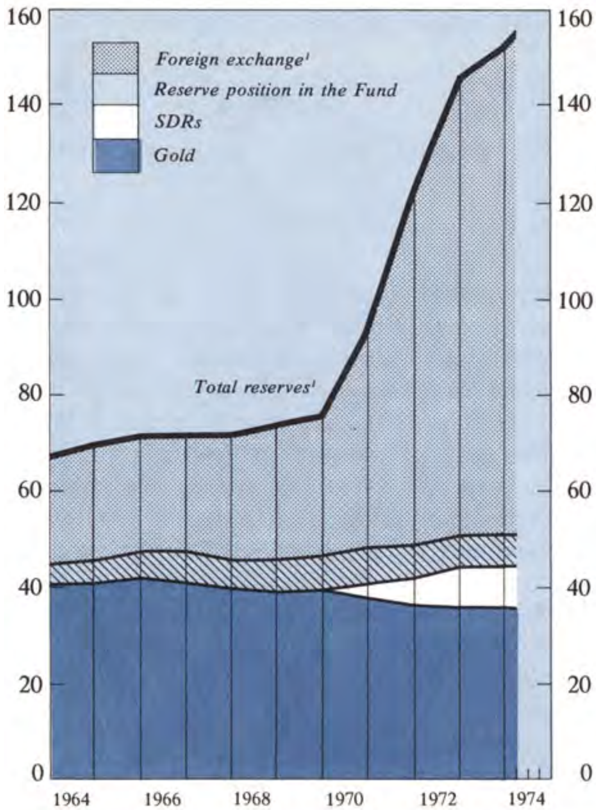
[10] For explanation, see page 30 above and page 25, footnote 2, of the *Annual Report, 1972.*

[11] See Table 15 for more details concerning these Fund staff estimates.

[12] Includes asymmetries arising from the fact that data on U. S. and U. K. currency liabilities are more comprehensive than data on official foreign exchange holdings shown in *International Financial Statistics*. Table 15 provides more details.

CHART 6. LEVEL AND COMPOSITION OF RESERVES, END OF PERIOD, 1963–FIRST QUARTER 1974

(In billions of SDRs)



[1] Adjusted reserves; see Table 10.

Fund credit and some other minor transactions, reduced members' reserve positions in the Fund by SDR 157 million. Virtually the whole rise in countries' reserves was thus directly attributable to the foreign exchange element, which by the end of 1973 accounted for as much as two thirds of the total stock (Table 12).

The net accrual of foreign exchange reserves during 1973 was very unevenly spread over the course of the year. Changes in holdings from month to month or even from quarter to quarter are not necessarily indicative of significant trends because movements over these short periods are often greatly distorted by factors that prove to be temporary or reversible. These factors include seasonal strength or weakness in the balance of payments, especially in the trade and services items; swaps between the monetary authorities and the commercial banks at certain accounting dates, undertaken for such purposes as window dressing or adjustment to domestic liquidity requirements; sporadic official borrowings; and exchange market intervention to counter speculative capital flows, together with arrangements made between monetary authorities for financing such intervention. Nevertheless, the pattern for 1973 clearly suggests a definite slackening in the rate of reserve growth and, indeed, a reversal during the year from a very high rate in the first months to a negative rate toward the end. An accumulation of over SDR 11 billion in foreign exchange holdings occurred in the first quarter, the greater part being offset by the reduction in value of the dollar-denominated portion of those holdings that resulted from the devaluation of that currency in February. The second and third quarters saw a further increase in foreign exchange reserves totaling just over SDR 7 billion. In the final quarter, however, a decline set in that reduced the aggregate by more than SDR 3 billion.

This sequence of events was to some extent paralleled by developments in the "official settlements" balance of the United States and its financing (Table 13). Of those sources that can be identified, the financing of the imbalance between the United States and other countries made the largest contribution to reserve change during 1973, but its influence diminished greatly compared with previous years. During the three-year period 1970–72, the global financing of all countries' overall payments imbalances (that is, all sources other than valuation changes) had added an average of SDR 23.3 billion annually to countries' foreign exchange stock, of which 65 per cent was in the form of U. S. dollar and other claims on the United States. Yet in 1973, when the aggregate addition from the financing of imbalances had fallen to SDR 15.6 billion, less than one third of that amount had a counterpart in the corresponding U. S. liabilities. Moreover, the net increase in world reserves during the year from the financing of imbalances with the United States was due entirely to developments in the first quarter, when the increase approached the equivalent of SDR 9 billion. Beginning in the second quarter, reductions in official claims on the United States began to take place at an accelerating rate; these reductions accumulated to a total of SDR 4 billion for the remainder of the year.

TABLE 12. COMPOSITION OF ADJUSTED GLOBAL RESERVES, END OF 1950, 1960, AND 1970–FIRST QUARTER 1974[1]

(In per cent)

	1950	1960	1970	1971	1972	1973	First Quarter 1974
Gold	68.9	61.6	40.4	29.5	24.5	23.4	23.1
SDRs	—	—	3.4	4.8	6.0	5.8	5.7
Reserve positions in the Fund	3.5	5.8	8.4	5.2	4.3	4.0	4.0
Foreign exchange	27.6	32.6	47.9	60.5	65.2	66.8	67.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: *International Financial Statistics.*
[1] For the nature of the adjustments, see footnote 1, Table 10.

The value of these claims that are officially held, expressed in terms of SDRs, was slightly lower at the end of 1973 than it had been at the beginning of the year, because the impact of the devaluation of the dollar on existing holdings outweighed the moderate net new accumulation that took place over the year.

Claims on the United States continued both to constitute the bulk of foreign exchange holdings and to form the largest single type of official reserves. Other kinds of foreign exchange claims in aggregate, however, are not notably smaller (Table 14). Despite the considerable dampening of reserve expansion that characterized global reserve developments in 1973, the increase in officially held claims other than those on the United States nearly matched the exceptionally large increase that had occurred in the previous year. During 1973, they rose by almost SDR 11 billion through transactions to settle payments imbalances and, even after making allowance for the reduction in the SDR value of the dollar-denominated portion because of the devaluation, reached a stock total that is estimated at about SDR 47 billion at the end of the year. At that level, they were considerably larger than the world's holdings of gold valued at the official price.

TABLE 13. U. S. BALANCE OF PAYMENTS AND ITS FINANCING, 1968–73

(In billions of SDRs)

	1968	1969	1970	1971[1]	1972	1973
Balance on goods and services	2.0	1.3	2.9	−0.2	−6.0	3.8
Transfers and long-term capital	−3.4	−4.9	−6.7	−10.4	−4.3	−4.5
Balance on goods, services, transfers, and long-term capital	−1.4	−3.6	−3.8	−10.6	−10.3	−0.7
Short-term capital, and errors and omissions, net	3.0	6.3	−6.9	−19.9	0.1	−4.2
Official settlements balance	1.6	2.7	−10.7	−30.5	−10.2	−4.9
Financed by						
Reserve liabilities (decrease −)	−0.8	−1.5	7.3	27.4	9.4	4.6
Reserve assets (increase −)						
Gold	1.2	−1.0	0.8	0.9	0.5	—
SDRs	—	—	—	0.5	—	—
IMF gold tranche	−0.9	−1.0	0.4	1.4	0.2	—
Foreign exchange	−1.2	0.8	2.2	0.4	—	0.2
Total reserve asset transactions	−0.9	−1.2	3.4	3.1	0.7	0.2
Memorandum item: SDR allocation (−)	—	—	−0.9	−0.7	−0.7	—
Reserve asset change including SDR allocation (increase −)	−0.9	−1.2	2.5	2.3	—	0.2

Source: U. S. Department of Commerce, *Survey of Current Business.*
[1] The U. S. dollar value of these transactions has been used throughout 1971 as an approximation of their value in terms of SDRs.

TABLE 14. OFFICIAL HOLDINGS OF CLAIMS ON THE UNITED STATES AND OTHER FOREIGN EXCHANGE, END OF YEARS, 1969–73 [1]

	Claims on the United States	Other Foreign Exchange Adjusted [2]	Total Foreign Exchange Adjusted [1]
	In billions of SDRs		
1969	16.0	13.6	29.6
1970	23.8	20.3	44.1
1971	46.7	27.1	73.8
1972	56.7	38.5	95.2
1973	55.4	46.7	102.1
	In per cent		
1969	54.1	45.9	100.0
1970	54.0	46.0	100.0
1971	63.3	36.7	100.0
1972	59.6	40.4	100.0
1973	54.3	45.7	100.0

Source: *International Financial Statistics.*
[1] Adjusted holdings. See footnote 1, Table 10.
[2] Comprises the types of claims shown in Table 11, lines 4.b–e and 4.g–i; it should be noted that 4.i is the residual item.

The growth of foreign exchange other than dollar claims in the United States was widely dispersed over a variety of forms, some of them traditional but most of rather recent origin (Table 15). A detailed review of developments in this area must be approached cautiously, since the data that the Fund staff has been able to compile are not as complete or as reliable as could be desired. Thus, the composition of only just over two thirds of the stock of these other claims at the end of 1973 has been identified from the side of either the claimants or the debtors, and the remainder, which is derived as a residual, also contains all the errors, omissions, and asymmetries in the recorded reserve statistics, partially on an offsetting basis. Furthermore, not much more than half of the aggregate growth in claims in this group through transactions during 1973 can as yet be attributed to a specific category of claims.

In spite of these reservations about the estimates, Euro-dollar claims are clearly the most prevalent form, next to direct dollar claims, in which foreign exchange is now held. Identified Euro-dollar holdings at the end of 1973 accounted for almost two fifths of foreign exchange other than

TABLE 15. IDENTIFIED OFFICIAL HOLDINGS OF EURO-CURRENCIES AND RESIDUAL SOURCES OF FOREIGN EXCHANGE RESERVES, END OF YEARS, 1969–73

(*In billions of SDRs*)

	1969	1970	1971 [1]	1972	1973 [2]
1. Identified official Euro-currency holdings					
Euro-dollars					
Industrial countries	2.2	5.1	3.4	5.7	5.1
Primary producing countries					
More developed areas	0.5	1.4	1.9	2.9	3.0
Less developed areas	2.0	3.8	5.3	8.7	9.6
Western Hemisphere	*0.6*	*1.2*	*1.5*	*3.4*	*3.7*
Middle East	*0.4*	*0.6*	*1.1*	*1.9*	*2.4*
Asia	*0.5*	*1.0*	*1.0*	*1.8*	*2.5*
Africa	*0.5*	*1.1*	*1.6*	*1.7*	*1.0*
Total, primary producing countries	2.5	5.2	7.2	11.6	12.6
of which, major oil producers	*0.8*	*1.5*	*2.8*	*3.9*	*4.0*
Grand Total	4.7	10.3	10.6	17.4	17.8
Other Euro-currencies	...	...	1.7	3.6	5.3
2. Residual sources of reserves					
Identified direct claims on IBRD and IDA	0.5	0.7	0.6	0.6	0.6
Identified direct claims on other central monetary institutions [3]	...	...	0.8	0.7	1.1
Unidentified residual [4]	−0.5	1.1	4.4	6.0	13.3

Sources: Fund staff information and estimates. For area and group coverage, see notes to Table 17.
[1] Includes the change in the level of holdings owing to the effect of the realignment in December.
[2] Includes the change in the level of holdings owing to the effect of the U. S. dollar devaluation in February.
[3] That is, on central monetary institutions other than those in the United States, the United Kingdom, France, or Germany.
[4] See footnote 12, Table 11. Before 1971, this line includes holdings of non-dollar Euro-currencies and claims on other central monetary institutions, which were not then separately identified.

claims on the United States, and this proportion could actually be much higher, depending on what part of the unidentified residual as well may consist of Euro-dollar holdings. Euro-dollars were also the largest identifiable component (besides U. S. dollars) contributing to reserve expansion in 1973, when the devaluation loss in the stock is excluded from consideration. Although the indicated increase in such holdings was much below that of the previous year, this finding must be appraised in the light both of the slower rise in reserves in general and of the large increase in the residual for 1973 that is as yet unidentified. The increment in Euro-dollar assets appears to have been quite widely distributed over the primary producing countries, although here again the defects in the data make such a conclusion rather tenuous.

Identified Euro-currencies other than the Euro-dollar have been emerging as significant media in which reserves are held. Such holdings more than trebled over the past two years, reaching an aggregate amount in excess of SDR 5 billion at the end of 1973. The favored currency of denomination was overwhelmingly the deutsche mark, although occasional use was made of other major European currencies.

Claims on countries other than the United States in their own currencies have for some time been declining in importance relative to dollars and Euro-currencies as instruments for holding reserves. Nevertheless, the known stock of such claims has continued to show a steady enlargement and is estimated at the equivalent of SDR 9.5 billion at the end of 1973. Over two thirds of this total comprises sterling, followed by much smaller amounts for the French franc, the deutsche mark, and a few other European currencies.

TABLE 16. SELECTED COUNTRIES WITH MAJOR RESERVE CHANGES, 1973[1]

(In billions of SDRs)

	Change in Adjusted Reserves[2]	Current Account Surplus (Deficit −)[3]	Net Capital Inflow (Outflow −)[4]
Major increases			
Germany, Fed. Rep. of	5.6	5.6	2.1
Brazil	1.5	−1.1	3.1
Netherlands	1.0	1.4	−0.8
Spain	1.0	0.4	0.4
Saudi Arabia	0.9	2.6	−1.1
Argentina	0.7	0.6	0.1
Belgium	0.7	1.4	−0.8
Sweden	0.6	1.1	−0.4
Yugoslavia	0.6	0.3	0.2
Algeria	0.5	−0.5	1.0
Turkey	0.5	0.5	0.1
Total of 11 countries with major reserve increases	13.4	12.2	3.9
Major declines			
Japan	−6.8	0.2	−5.4
France	−1.9	0.5	−2.1
Libyan Arab Republic	−0.9	0.1	−1.0
Canada	−0.8	−0.4	—
Australia	−0.6	0.7	−1.2
Total of 5 countries with major reserve declines	−11.0	1.0	−9.6

Sources: *International Financial Statistics* and Fund staff information and estimates.

[1] The difference between current and capital transactions and the increase in adjusted reserves results from the use (or repayment) of Fund credit and other conditional liquidity, changes in official monetary assets not included in the reserves, changes in liabilities to foreign official holders, and changes in the valuation of reserves, most of which arose from the devaluation of the U. S. dollar in February 1973.

[2] For the nature of the adjustments, see footnote 1, Table 10.

[3] Balance on goods, services, and private transfers.

[4] Government transfers and recorded movements of capital (excluding official reserves and related assets and liabilities) plus net errors and omissions.

Country Distribution

As was to be expected in a year when global reserve growth was tapering off sharply, large changes in the reserves of some countries in 1973 represented not only overall payments surpluses but also deficits (Table 16). However, all five of the countries showing major declines in their reserves had experienced major increases in at least two of the three preceding years. This drawing down of recent accumulations was not general, since the five countries with the largest increases in 1973, namely, Germany, Brazil, the Netherlands, Spain, and Saudi Arabia, had made major gains in reserves in at least two of the previous three years. Six other countries recorded major increases during 1973 for the first time in the 1970–73 period, with the exception of Turkey, which had an increase of comparable size in 1972.

Changes in the gross reserve assets of individual countries or groups, however, are not necessarily indicative of the overall strength or weakness of their balance of payments positions. In particular, reserve holdings may be increased or their decline limited through borrowing abroad, which is sometimes undertaken specifically for those purposes; similarly, the repayment of previous borrowing will tend to hold down reserve increases or to reduce asset holdings. The listing of countries with major declines in gross reserve assets, for example, includes some countries whose overall payments position was actually quite strong. Conversely, some countries whose position was comparatively weak are not included in the table. These balance of payments developments are discussed in Chapter 1.

The less developed of the primary producing countries as a group continued to add to their reserves at a rapid rate, as had also been the case in the previous year (Table 17). The addition to gross reserves in 1973 amounted to the equivalent of SDR 7.0 billion, compared with SDR 8.0 billion in 1972, the main factor underlying this apparent slowdown being the reduction in value of the stock caused by the devaluation of the U. S. dollar. This latest increase brought the share of this group in total world reserves to 23.9 per cent, a proportion well above the previous high of 20.7 per cent that had been attained at the end of 1969. Nearly three fourths of the overall improvement for the group in 1973 was accounted for by the growth in the reserves of the major oil exporters other than the Libyan Arab Republic, together with Argentina and Brazil. The pattern for individual geographic areas showed increases of 18 per cent for Asia, 29 per cent for the Western Hemisphere, and 34 per cent for the Middle East. In Africa, however, an aggregate decrease of 2 per cent was recorded, reflecting the substantial decline in the holdings of the Libyan Arab Republic; the increase for all other African countries taken together came to 30 per cent.

The more developed of the primary producing countries as a group had shared to an extraordinary degree in the global reserve accumulation that occurred in 1971 and 1972, much more than doubling their official holdings in this short span of only two years. This experience was not repeated for a third consecutive year. These countries in the aggregate, however, did not undergo any attrition of their total stock during 1973, despite the devaluation of the dollar, and in fact increased their holdings by almost 6 per cent.

The industrial countries were the only group to experience an actual decline in their reserves during 1973. Although the reduction was little more than 1 per cent, it was noteworthy because it succeeded three annual increases on a hitherto unprecedented scale. This lack of notable change in the aggregate was the net outcome of very large movements in one direction or the other recorded for a number of the individual countries in the group. Japan's official reserve holdings declined by SDR 6.8 billion while Germany's holdings rose by SDR 5.6 billion, both changes being of a magnitude that has rarely been encountered in preceding years. In fact, individual instances of large change during 1973 were considerably more prevalent than those of comparative stability; the latter include Italy, Switzerland, the United Kingdom, and the United States.

Factors Affecting the Adequacy of Reserves

This section contains the review of the adequacy of global reserve holdings that the Executive Directors are required to make under Section 10 of the By-Laws of the International Monetary Fund. The review this year is being made against the background of a number of exceptional developments: (1) the realignment of parities and widespread adoption of floating exchange rates; (2) developments relating to gold; and (3) the changes in balance of payments prospects as a result of developments in the markets for essential commodities, particularly oil. All of these developments may well have had a major impact on reserve ease, but to an extent that is still highly uncertain. The section therefore starts by analyzing the individual impact on reserve ease that might be expected from each of these developments.

This is followed by the presentation of two tentative approaches to assessment of the degree of global reserve ease, on the lines that have been developed in previous annual reviews. The first compares actual reserve holdings with the volume of reserves that might be judged appropriate on the basis of statistical extrapolation procedures. The extrapolation is based on the estimation of relationships between reserve holdings and other economic variables to which reserve needs are

Table 17. Countries' Official Reserves, Adjusted, 1950, 1960, and 1970–March 1974 [1]

(In billions of SDRs)

	Total at End of Period							Composition of Reserves at End of March 1974			
	1950	1960	1970	1971	1972	1973	March 1974	Gold	SDRs	Reserve positions in the Fund	Foreign exchange
Industrial countries											
United States	24.3	19.4	13.9	11.9	11.9	11.9	12.1	9.7	1.8	0.6	—
United Kingdom	3.4	5.1	2.8	8.1	5.2	5.4	5.3	0.7	0.6	0.1	3.9
Total	27.7	24.5	16.7	20.0	17.1	17.3	17.4	10.4	2.4	0.7	3.9
Belgium	0.8	1.5	2.8	3.2	3.6	4.2	4.0	1.5	0.6	0.5	1.4
France	0.8	2.3	5.0	7.6	9.2	7.4	6.7	3.5	0.1	0.3	2.7
Germany, Federal Republic of	0.2	7.0	13.6	17.2	21.9	27.5	27.3	4.1	1.4	1.2	20.6
Italy	0.7	3.3	5.4	6.3	5.6	5.3	5.5	2.9	0.3	0.3	2.0
Netherlands	0.5	1.9	3.2	3.5	4.4	5.4	5.0	1.9	0.4	0.2	2.4
Switzerland	1.6	2.3	5.1	6.4	6.9	7.1	6.6	2.9	—	—	3.7
Other industrial Europe [2]	0.5	1.8	3.8	4.9	6.0	6.9	6.5	1.0	0.4	0.4	4.6
Total, continental industrial Europe	5.2	20.1	39.0	49.1	57.6	63.8	61.6	17.9	3.3	3.0	37.5
Canada	1.8	2.0	4.7	5.3	5.6	4.8	5.1	0.8	0.5	0.3	3.5
Japan	0.6	1.9	4.8	14.1	16.9	10.2	10.3	0.7	0.4	0.5	8.6
Total, industrial countries	35.4	48.5	65.2	88.5	97.2	96.0	94.4	29.8	6.6	4.5	53.5
Primary producing countries											
More developed areas											
Other European countries [3]	1.6	2.3	5.7	8.1	11.8	13.6	13.3	1.9	0.3	0.3	10.7
Australia, New Zealand, and South Africa	2.1	1.3	2.8	4.0	7.4	6.7	6.6	0.9	0.3	0.3	5.1
Total, more developed areas	3.7	3.7	8.5	12.1	19.2	20.3	19.9	2.8	0.6	0.6	15.8
Less developed areas											
Western Hemisphere [4]	2.8	2.8	5.6	6.1	9.7	13.0	13.7	1.0	0.6	0.4	11.6
Middle East [5]	1.5	1.4	3.3	4.9	7.1	9.7	11.7	1.0	0.2	0.2	10.3
Asia [6]	4.1	3.1	5.2	5.4	7.2	8.4	9.1	0.6	0.5	0.2	7.7
Africa [7]	0.8	2.1	4.2	5.1	5.5	5.4	6.4	0.4	0.3	0.2	5.5
Total, less developed areas [8]	9.8	9.6	18.4	21.5	29.5	36.5	40.8	3.2	1.6	1.1	35.0
of which, major oil exporting countries [9]	*1.3*	*2.4*	*4.9*	*7.6*	*9.9*	*11.8*	*15.5*	*1.2*	*0.3*	*0.3*	*13.7*
Grand Total	48.9	61.8	92.1	122.1	145.9	152.8	155.1	35.7	8.8	6.2	104.3

Source: *International Financial Statistics.*

[1] For the nature of the adjustments, see footnote 1, Table 10. Totals may not add because of rounding and because some totals include unpublished data for component areas.

[2] Austria, Denmark, Luxembourg, Norway, and Sweden.

[3] Finland, Greece, Iceland, Ireland, Malta, Portugal, Spain, Turkey, Yugoslavia, and, beginning in 1972, Romania's reserve position in the Fund.

[4] Argentina, Bolivia, Brazil, Central America, Chile, Colombia, the Dominican Republic, Ecuador, Guyana, Haiti, Jamaica, Mexico, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, Venezuela, and, beginning in 1970, SDRs and reserve position in the fund for Barbados.

[5] Cyprus, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Saudi Arabia, the Syrian Arab Republic, and, beginning in 1965, the People's Democratic Republic of Yemen, and in 1970, Oman.

[6] Afghanistan, Burma, the Republic of China, India, Indonesia, Korea, Malaysia, Nepal, Pakistan, the Philippines, Singapore, Sri Lanka, Thailand, and Viet-Nam and, for the Khmer Republic and Laos, SDRs and reserve positions in the Fund.

[7] Excluding Egypt and South Africa

[8] Includes residual.

[9] Algeria, Indonesia, Iran, Iraq, Kuwait, the Libyan Arab Republic, Nigeria, Saudi Arabia, and Venezuela.

thought to be related, taking as the base a period in which reserve ease is judged to have been satisfactory. The results of these extrapolations require modification to allow for the effects of changes in the underlying structure that have occurred since the period of observation. Because there have recently been many important structural changes, and the adjustments required by these are so uncertain, it is considered that, at least in present circumstances, this approach should be regarded as supplementary to the second approach.

The second approach seeks to draw conclusions regarding the degree of reserve ease from countries' use of such policy instruments as exchange rates, aid, trade and exchange controls, demand management, and international borrowing. This approach has the advantage, in principle, which is particularly important in the present context, of permitting inferences to be drawn about the net impact of several conflicting factors. Its difficulties are that it is often questionable as to whether policy measures can legitimately be interpreted as reflections of reserve ease or stringency; that it cannot yield any quantitative estimate of reserve excess or inadequacy; and that contradictory manifestations of reserve ease or stringency in different countries require weighting before conclusions as to global reserve ease can be reached.

The Impact on Reserve Ease of Certain Recent Developments

(1) *The move to widespread floating.* It has generally been taken for granted that greater flexibility in adjusting exchange rates would reduce the extent to which countries use reserves in intervention. This would suggest that one of the major motives for holding reserves would have been weakened so far as an important group of countries are concerned, and therefore that the global need for reserves would have declined.

There appear, however, to be several reasons for questioning whether the need for reserves has declined as much as is sometimes assumed. First, even where currencies are floating independently their exchange rates are being managed rather than being allowed to float without intervention. Second, there are other motives for holding reserves in addition to their use in financing payments imbalances, such as the need to preserve confidence and to serve as a basis for foreign borrowing. Third, countries whose currencies are presently floating may be anxious to preserve the option of returning to a par value system when circumstances permit, and this would require the maintenance of a level of reserves appropriate to such a system. Fourth, the present system is one of limited floating in that the majority of countries still peg their currencies, either to a single intervention currency, to a composite of currencies, or to a number of other currencies in the context of joint intervention arrangements. It seems likely that most countries which peg their currency to a floating currency will increase their use of reserves above the level experienced under a par value system, because the fluctuation of the exchange rates of third currencies in terms of their intervention currency will tend to add to the variability of their payments balance.

There is not as yet any statistical evidence of a reduction in the utilization of reserves by countries that have allowed their currencies to float. However, experience of the operation of a system of widespread floating is still too limited to permit assessment of the existence or magnitude of economies in reserve use as a result of floating, especially in view of the many other disturbing factors that have been present since March 1973. Without the absorption of market pressures through exchange rate changes, the strains on individual countries' reserves in 1973 and early 1974 might have been much greater.

(2) *Gold.* There have been several important developments relating to gold in the past year. The price on the private market, which has remained extremely volatile, rose substantially over the period, from an average of about $100 per ounce in the second quarter of 1973 to over $160 per ounce in the corresponding quarter of 1974. (The price was $154 at the end of July 1974.) The Washington arrangements of March 1968, whereby the Governors of the central banks of the United States and six European countries agreed not to sell gold on the private market, were terminated in November 1973. This was followed in December 1973 by termination of the December 1969 Fund decision regarding purchases of South African gold by the Fund. Since December 1973 there have been a number of informal discussions on the future pricing and use of officially held gold, including the conclusion of the Ministers of the Group of Ten in June 1974

that gold could be used as collateral at a price different from the official gold price.

As long as the Washington arrangements were in force, any significant premium of the price on the private market over the official gold price reinforced the reluctance of many countries to use their gold holdings, which tended to reduce the level of effective liquidity. If termination of the Washington arrangements had led central banks to be willing to sell their gold holdings on the private market, the central banks that hold substantial quantities of gold would have experienced a major increase in their effective liquidity, which would have been further reinforced by the strong rise in the price of gold on the private market. But it is not clear just how large the increase in effective liquidity—i.e., the expectation of the authorities involved regarding the sum that could be realized in the event of need—would have been.

It appears, however, that termination of the Washington arrangements did not result in central banks being any more willing to sell gold on the private market, perhaps because of the expectation that such action would precipitate a price decline, or that prices were likely to rise further. It remains to be seen whether the opportunity of using gold as collateral at a price different from the official gold price will provide a channel by means of which countries will once again become willing to use their gold holdings. In any event, it would clearly be inappropriate to ignore the implications of developments in the private market for an assessment of the effective liquidity of gold holding countries, and it is probable that the combined effect of the developments of the past year has been to increase this effective liquidity, possibly by a substantial sum.

(3) *Developments in the oil market.* The third set of recent developments with major potential implications for reserve ease are those relating to the market for oil. From the standpoint of importers the increase in the price of oil has been paralleled by increases in the prices of some other essential commodities. The distinctive problem stemming from the oil price increase is that—because of the limited absorptive capacity of a number of oil exporting countries in the medium run—there is virtually no prospect of current account adjustment leading to an end to large reserve accumulation by the oil exporters in aggregate. This raises a number of complex issues, which require discussion at some length, particularly concerning the probable capital account effects of the prospective imbalances.

Although greater supply stringency in the early 1970s led to a decline in the extension of credit on favorable terms to oil importers by the oil companies, and the production cuts by some countries late in 1973 resulted in important temporary disturbances, the major development in the oil market has been the large price increases of late 1973. This led to a dramatic shift in the balance of payments outlook, with many oil importing countries faced with the prospect of substantial current account deficits in place of traditional outcomes of near balance or of surplus. It is not of course true that these current account deficits will lead to a *pari passu* reduction in the collective reserves of the oil importing countries, because, either directly or through the Euro-currency markets, much of the volume of funds acquired by the oil exporters will tend to return to some of the oil importers on capital account. However, even if the current account deficits of the oil importers led to no reduction in their collective reserves, it might be expected that their reserve ease would decline as a result of an increased demand for reserves, occasioned by uncertainty as to their future success in securing capital inflows for financing their current deficits, and by an increased need to hold reserves as security for borrowing.

Since the oil exporters in aggregate are receiving reserves in excess of their medium-run needs, and in a number of cases reserve holdings are intended to generate a permanent flow of interest earnings, reserve increases accruing to them are likely to have a minimal impact on global reserve ease. Consequently an examination of the impact of changes in the supply of reserves on the degree of reserve ease should concentrate on the impact on the collective reserves of the oil importers, rather than on the global supply of reserves (including the reserves of net exporters).

If the oil exporters were to hold their reserves in the same market and with the same composition as the countries that were losing reserves, whether this be in the form of primary reserve assets, foreign exchange held in the country of issue, or foreign exchange held in an offshore (i.e., Euro-currency) market, and if the oil importers were not induced to undertake additional borrowing, the transfer of reserves would leave the world total of reserves unchanged and therefore would reduce the collective reserves of the oil importers by an amount equal to the surplus of the oil exporters. In other cases, however, the world total of reserves will tend to change. The size of this change, and therefore the impact on the collective reserves of the oil importers, will depend on the extent to which the initial transfer enables the oil importers to recoup their reserve losses through increased borrowing, whether directly from oil exporters, through the medium of the offshore markets, or via the financial markets of a reserve center.

In the case (which appears to be important in practice) where the oil importers transfer foreign exchange that they have held in the issuing country and the oil exporters place these funds in the offshore markets, the transfer could be expected to increase world liquidity, since the funds placed in the offshore markets by the oil exporters would provide a source from which the oil importers could replenish their reserves by borrowing, either directly on government account or indirectly on private account. Provided there were such replenishment the increase in world reserves would approximate the surplus of the oil exporters, and so leave the collective reserves of the oil importers largely unchanged. In the converse case, if the oil importers used reserves previously held in offshore markets and the oil exporters placed these in the country of issue, there would be a decline in world reserves and a magnified decline in the reserves of the oil importers, except to the extent that the latter were prompted to borrow in the reserve center. In aggregate both oil exporters and oil importers spread their reserve holdings between the issuing country and the offshore market, but the oil exporters tend to hold a higher proportion of their reserves in the latter,[4] so the probable outcome is that world reserves will tend to increase while the reserve holdings of the oil importers will tend to decline.[5]

The impact on reserves of the investment policies of the countries gaining and losing reserves will be reduced to the extent that capital is mobile. For example, a decision by the oil exporters to deposit additional reserves in the U. S. market rather than the Euro-dollar market would not reduce the reserves of the oil importers to the extent that the latter were to borrow more in the United States. The chance of this occurring was increased by the abolition of controls on capital outflows by the United States in January 1974. However, imperfections in capital mobility, coupled with a U. S. policy of at least partially sterilizing capital inflows with a view to domestic monetary management, imply that the extent of borrowing by oil importers will be smaller the greater the proportion of their funds that the oil exporters place in the United States. In any event, this analysis would seem to reinforce the previous conclusion that the oil developments are likely to cause a decline in the collective reserves of the oil importers but by less than the size of their oil deficit. Taking account of the facts that the demand for reserves by the oil importers is likely to rise and that the bulk of the oil exporters' reserve increases are in excess of their short-run needs, there is therefore a presumption that—despite the expected increase in total reserves—the oil developments will tend to reduce reserve ease, even without allowing for any effect of the increasing indebtedness of the oil importers.

Quantitative Assessment of Reserve Ease

As already pointed out, recent developments in the international monetary system make it difficult to rely to any great extent on measures of reserve ease based on data predating these developments. Such measures nevertheless remain worth examining as very rough indicators, even though their interpretation must be based on particular assumptions.

The projections of the need for reserves developed in connection with the SDR facility were based on extrapolation of relationships observed in the past between reserve holdings and other aggregates to which reserve needs are thought to

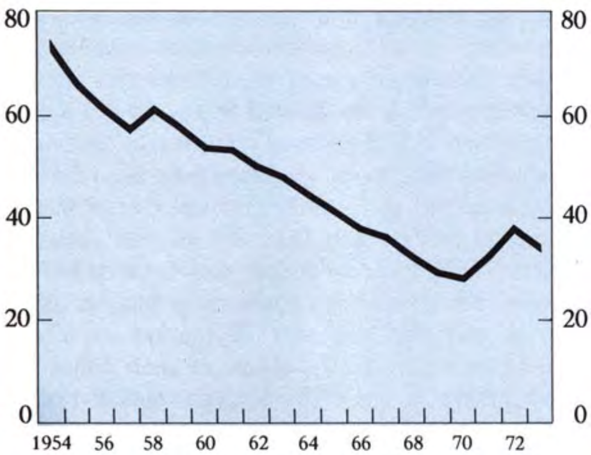
[4] One reason for this is that the Group of Ten and Switzerland have agreed to refrain from adding to their reserves held in the Euro-currency markets.

[5] There is also the possibility of oil importers with reserve currency status paying the oil exporters by an increased issue of liabilities rather than by a transfer of reserve assets, which would tend to increase the world supply of reserves. As long as the reserve currency so acquired was held by the oil exporter in the country of issue, world gross reserves would expand in line with the oil exporters' surplus, and oil importers' reserves would remain constant. However, placement of the reserve currency in the offshore market could actually result in an increase in the gross reserves of the oil importers.

be related. Chart 7 shows the development of one such indicator, the ratio of reserves to imports, for a sample of 60 countries taken over the period 1954–73. Apart from the years 1958 and 1961, this ratio declined continuously until 1970. In the following two years it rose substantially, reaching a level of 38 per cent in 1972 compared with 28 per cent in 1970. In 1973, however, it declined to about 34 per cent, thus indicating a reduction in reserve ease.

CHART 7. RATIO OF AGGREGATE RESERVES TO AGGREGATE IMPORTS OF 60 COUNTRIES, 1954–73 [1]

(In per cent)



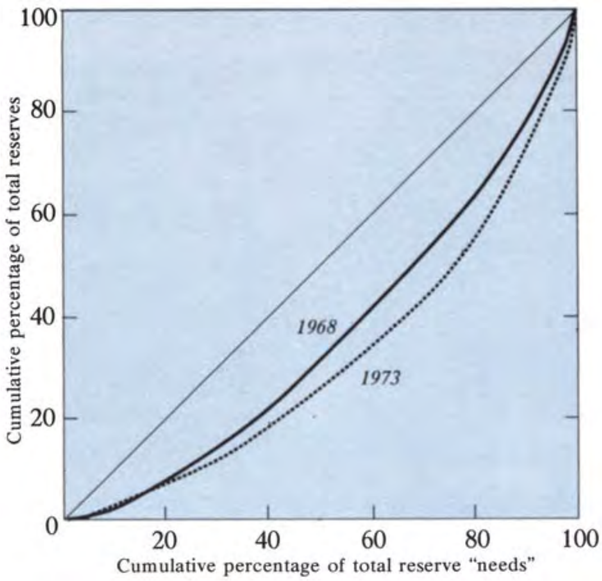
[1] Reserves are annual averages of monthly data. Reserves are measured gross, and the sample of 60 countries includes the United States.

The statistical estimates of reserve needs reported in last year's review suggested that during the period 1971–72 there was a build-up of excess reserves, and that at the beginning of January 1973 this excess, which was heavily concentrated in a limited number of countries, was in the vicinity of SDR 20–30 billion. The realignment of exchange rates in early 1973 had the immediate result of decreasing the real value of the reserve stock. The strong inflationary trends that continued throughout 1973 and the abatement of reserve growth tended to reduce excess reserves through the remainder of 1973. Estimates for the end of 1973, constructed on lines similar to those made last year, range from an excess of reserves of SDR 5 billion to a deficiency of SDR 5 billion.

The unqualified application of quantitative analysis previously developed therefore suggests that by early 1974 the increasing need for reserves was overtaking the stagnating supply. This conclusion is, however, dependent on the legitimacy of extrapolating previous relationships despite the major developments discussed in the preceding section. Any effect that the widespread adoption of floating exchange rates may have had in reducing the global need for reserves means that the use of previous relationships tends to overestimate reserve stringency. Second, to the extent that the effective liquidity provided by gold exceeds its balance sheet value at the official price, reserve stringency is again less than suggested by the quantitative estimates. This factor would become even more important if further actions intended to mobilize gold were adopted. Third, the oil developments work in the opposite direction and suggest that reserve stringency is greater than would be indicated by the comparison of global reserves (including the reserves of the oil exporters) with estimates of reserve needs. This factor was still small in the early part of 1974, although it can be expected to grow rapidly as oil exporters accumulate larger reserves.

Reserve ease is influenced by the distribution, as well as the level, of reserve holdings. During the early 1970s reserves became increasingly concentrated, and this concentration reduced global reserve ease for a given level of global reserves. The concentration of reserve holdings in relation to a measure of reserve need is depicted for the years 1968 and 1973 by the two curves shown in Chart 8. A measure of reserve need was constructed by taking into account, with approximately equal weights (whose exact values were determined by a regression equation), the two variables that have been found empirically to be important determinants of the demand for reserves: imports, and export variability. The diagonal 45-degree line in this diagram indicates reserve "needs," based on these two factors (but without taking account of other factors that may be relevant), and the curved line indicates the actual distribution of reserves. Hence the bulge between the curve and diagonal indicates the difference between the actual distribution of reserves and a distribution in proportion to "need," and the area between the curve and the diagonal measures the extent of inequality (relative to "need") in reserve distribution. It will be observed that the chart shows a substantial increase in inequality in reserve distribution between 1968

CHART 8. COMPARATIVE DISTRIBUTION OF ACTUAL RESERVES AND RESERVE "NEEDS," 1968 AND 1973



Note. The curved lines in the chart were constructed by ranking countries in order of their ratios of actual reserves to the measure of reserve need. The country with the lowest ratio was plotted from the origin; the country with the next lowest ratio, and therefore contributing the next flattest segment to the curve, was cumulated at the upper right-hand end of the first country's segment; and so on, until the country with the highest ratio of holdings to need was plotted at the upper right-hand corner of the diagram.

and 1973; the area between the curve and the diagonal in fact increased by 32 per cent over this period.[6] This increase was concentrated in the period 1970–72; in the last year there was a marginal reduction in inequality. It also appears that the increased inequality is to a significant extent associated with the decrease in reserves, relative to "need," of the United States.

It has been traditional to assess reserve adequacy solely with reference to official reserve holdings, but substantial private holdings of internationally liquid assets also exist. The concept of private international liquidity refers to holdings of assets by the private sector which can be realized readily to settle international debts, analogously to the concept of domestic liquidity as embracing assets which can be realized readily to settle domestic debts. To qualify as a part of private international liquidity, an asset should be convertible, liquid (i.e., short term or readily marketable), and denominated in a unit which does not fluctuate too much in value in terms of the unit in which the debts to be settled are denominated. There are serious problems in giving operational content to such a concept. It seems clear that foreign holdings of short-term claims in convertible currencies, whether held in the country of issue or in the Euro-markets, are a part of private international liquidity. Table 18 shows an attempt to estimate such claims for the years 1964–73, although it is incomplete in that claims held in the country of issue are included only for what are thought to be the two principal issuing countries for direct claims, the United States and the United Kingdom. It might also be argued that private holdings of gold should be included, but this has not been done in view of the difficulty of determining the extent to which private gold holdings are held with a view to liquidity considerations. In addition, there is a difficulty arising from the fact that holdings of a currency with resident convertibility also provide a domestic holder with international liquidity: it is impractical to allow for this factor. Finally, it should be noted that an attempt has been made to net interbank deposits in Table 18.

There are two reasons for believing that private international liquidity may influence reserve ease. The first is that official and private holdings of internationally liquid assets are to some extent substitutes from the standpoint of the authorities, since there are often possibilities of mobilizing private assets to help finance a payments deficit. The second is that there is some tendency for private holders to switch between domestic and foreign currency assets, and when this occurs under a system of fixed exchange rates it results in offsetting variations in official reserve holdings that do not reflect underlying imbalances.

The figures shown in Table 18 indicate that the growth in private liquidity was strong in a period when official liquidity stagnated (1964–69). In 1970 and 1971, the stock of official liquidity grew substantially, but growth in private liquidity abated. In 1972 both private and official international liquidity grew strongly, at rates of 25 per cent and 19 per cent, respectively. The deceleration of the growth in official liquidity in 1973 was accompanied by continued strong growth in

[6] An alternative possible measure of inequality in distribution is the sum of the absolute deviations of actual reserve shares from the shares in global reserve "need." This measure increased by 46 per cent between 1968 and 1973.

TABLE 18. ESTIMATED PRIVATE INTERNATIONAL LIQUIDITY AND OFFICIAL RESERVE HOLDINGS, 1964–73

(In billions of SDRs)

	Estimated Private Liquidity Holdings							
				Other estimated Euro-currency liabilities [4]				
Year	U. S. external dollar liabilities [1] (1)	U. K. external sterling liabilities [2] (2)	Estimated Euro-dollar liabilities [3] (3)	Deutsche mark (4)	Swiss franc (5)	Other (6)	Estimated Private International Liquidity [5] (7)	Official Reserve Holdings [6] (8)
1964	11.1	4.7	6.8	0.5	0.6	0.7	24.4	70.0
1965	11.5	4.9	8.8	0.6	0.7	0.8	27.3	71.6
1966	14.2	4.7	11.4	0.7	0.9	1.0	32.9	71.8
1967	15.8	3.8	14.2	1.2	1.0	0.9	36.9	71.9
1968	19.4	3.5	21.5	2.2	1.7	1.2	49.5	73.9
1969	28.2	3.4	33.6	2.8	2.5	1.1	71.6	75.5
1970	21.8	4.0	37.8	5.2	3.8	1.8	74.4	92.1
1971	13.9	5.7	37.1	7.3	4.2	2.4	70.6	122.1
1972	18.2	5.5	46.6	9.7	4.9	3.6	88.5	145.9
1973	19.7	4.4	55.5	12.6	7.5	4.8	104.5	152.8

Sources: *International Financial Statistics* (*IFS*); Bank for International Settlements (BIS), *Annual Reports;* and Fund staff estimates.

[1] Taken from *IFS*, U. S. country pages, line 4b. It includes short-term liabilities to nonresidents other than central banks, governments, and international agencies.

[2] Taken from *IFS*, U. K. country pages, line 4c. It includes assets not held for central monetary purposes, or by international agencies, and excludes British Government bonds.

[3] This series is based on Euro-dollar liabilities to nonresidents, as reported by the BIS, but adjusted for identified official Euro-dollar holdings (and the "unidentified residual item" since 1971), and interbank deposits as estimated by the BIS.

[4] These series are based on liabilities presented in the BIS *Annual Reports*, adjusted for identified official Euro-currency holdings, and interbank deposits, as estimated by the BIS. The same adjustment factor was used for interbank deposits for each of the three components for any given year, although the adjustment factor varied from year to year.

[5] This column is the sum of columns 1–6. To the extent that Euro-banks hold dollars with U. S. banks, and these deposits are already counted in the U. S. liabilities column, this figure includes some double counting. To the extent that external liabilities of countries other than the United States and the United Kingdom are not covered, and the Euro-currency liabilities exclude liabilities in foreign currencies to residents, this figure will underestimate private international liquidity holdings.

[6] See Table 10, page 31.

private international liquidity, measured in SDRs, which increased by 18 per cent. These figures provide an additional possible reason for believing that the quantitative estimates of reserve ease presented above may overstate the extent to which reserve stringency has recently been increasing, although they make no allowance for distributional effects.

All of the assets shown in Table 18 are matched by corresponding debts. Presumably increased liabilities by a debtor country have some effect in reducing its reserve ease, in which case increased holdings of private liquidity make a net addition to reserve ease only to the extent that there is an asymmetry between the impacts on the creditor and debtor countries. It is not altogether clear that such an asymmetry is likely to persist in the changed circumstances following the oil developments. Borrowing which is undertaken in order to finance oil deficits, especially—though not exclusively—when it is done by public sector borrowers, seems likely to reduce the effective liquidity of the borrowing countries in a way that was not true of borrowing for productive investment. Such borrowing has been extensive in recent months, and further accumulation of liabilities must be expected to reduce reserve ease even if the official reserves of the borrowing countries remain constant.

Manifestations of Reserve Ease

The extent to which exchange rate changes consist predominantly of either revaluations or devaluations can provide a useful indication of excess reserves or reserve stringency, respectively, although experience in this respect has to be interpreted in the light of current attitudes toward exchange rate adjustment. Resort to floating is less clear, since it is necessary to infer from other evidence whether the intention of the float is to prevent further gains or losses of reserves. There were a series of exchange rate actions in mid-1973, whose avowed objective was in most cases that of combating inflation, which were consistent with the view that liquidity was ample. The main events in the first half of 1974 were the floating of the French franc and the Spanish peseta in January; the *de facto* revaluation of the Austrian schilling in May; and the floating of the South African rand in June. These moves do not reflect a consistent pattern such as was present in mid-1973.

There are a number of policy instruments other than the exchange rate mechanism that are used to affect countries' balance of payments, and although the connection between these instruments and the desired payments position is more tenuous, examination of their use may also assist in making a judgment of the degree of reserve ease. These additional policy instruments can be divided into two main groups: the first group covers a wide variety of measures directly affecting international transactions, while the second group influences balance of payments outturns by affecting domestic economic developments.

As was true in 1972, developments with respect to the volume of foreign aid flows and the tying of these flows offer little evidence of changes in reserve ease during 1973. The flow of aid under bilateral arrangements was somewhat reduced in value, at least partly on account of inflation. The share of total gross disbursements of official development assistance from members of the Development Assistance Committee that is free of procurement restrictions has remained at a level of roughly one third.

There were a considerable number of examples of limitations, prohibitions, or taxes on exports during 1973. In a number of cases these policies were adopted as anti-inflationary measures, or to protect domestic supplies of scarce commodities. Such instances suggest that the countries imposing the restrictions felt sufficiently liquid to be able to place the interests of domestic consumers ahead of those of foreign consumers despite the resulting reduction in foreign exchange earnings. Although a number of measures to promote exports were adopted by both developed and developing countries, the restrictions imposed on exports would seem more significant in the context of assessing reserve ease.

As regards import restrictions, a number of industrialized countries and more developed primary producing countries continued to relax their restrictions in 1973. Many developing countries also relaxed restrictions, but a large number maintained restrictions and the overall picture for this group is less clear cut. After the oil developments in October, however, there was a reversal in developed countries of the earlier trend toward a liberalization of import restrictions. The most conspicuous examples of this came in May 1974 with the actions of Italy in imposing a 50 per cent import deposit requirement, and of Denmark in imposing surtaxes on a range of consumer goods with a high import content. Up to the present time, however, restrictive actions have been confined to countries with severe payments problems, and there is no evidence of countries whose external position is close to balance participating in a trend in this direction.

The general pattern found in policies affecting capital flows is consistent with the pattern found in measures affecting imports, suggesting reserve ease during most of 1973, but with a sharp decline at the end of the year. Measures to curb inflows and liberalize outflows were widely introduced in developed countries in the early part of 1973, but they were modified or even reversed in the latter part of 1973 and early in 1974. In fact, early in 1974, measures were increasingly taken in developed countries, excluding the United States, to stimulate inflows and curb outflows, including large-scale foreign borrowing by public sector institutions in a substantial number of countries. Developing countries generally maintained efforts to attract capital inflows during 1973, and some of them intensified these efforts in early 1974.

The linkage between reserve ease and demand management policies is particularly controversial. Following a slowdown in economic activity in 1970 and 1971, strong economic expansion took place in the following two years in the main industrial countries. This expansion appeared to be cresting during 1973, but this was at least partially because of the emergence of supply constraints. During this boom, inflation has emerged as an increasingly important world-wide problem, with annual rates of overall price increases ranging between 7 per cent and 16 per cent in the industrial countries even before the impact of the oil price increases was felt. Although inflation has many and complex causes, the lack of success in curbing global inflation may in part reflect the effect of reserve ease in relaxing the pressure on countries to pursue anti-inflationary policies, and in intensifying expansionary influences from trading partners.

The use of conditional liquidity and reserve borrowing might provide additional evidence on developments in reserve ease. Use of Fund credit remained minimal during 1973, but started to rise during the first half of 1974. Swap arrangements with the Federal Reserve System were increased by almost 50 per cent in mid-1973, in response to speculative movements in the foreign exchange markets and the use of swap drawings was greater in 1973 than in 1972, although still modest by previous standards. Early in 1974, swap arrangements were increased further, although outstanding drawings actually fell. In contrast, the credit facilities available within the Fund remained unchanged from 1970 until the introduction of the oil facility in August 1974. The desirable level of conditional liquidity through the Fund is currently under review in connection with the general review of quotas. Since the last review was undertaken, both the level of reserves and the nominal value of trade have come close to doubling.

Concluding Remarks

The factors discussed above suggest that a situation of global reserve ease prevailed during most of 1973. However, there are a number of indications that the degree of reserve ease, which was already declining as a result of the reduction in the real value of reserves through the depreciation of reserve currencies and inflation during the course of 1973, was further reduced by the oil developments that occurred toward the end of the year. The symptoms of greater reserve stringency in 1974 include an increased tendency for deficit countries to resort to import restrictions; a sharp increase in official encouragement to foreign borrowing designed to curtail reserve decreases; a widespread wish to maximize access to the oil facility; and an evident desire by some gold holding countries to mobilize their gold reserves at the highest possible price. On the other hand, there is as yet no evidence of inappropriate deflationary policies being dictated by reserve stringency (except in a few small developing countries); inflation continues to be the most serious global problem, and has led a number of countries to use reserves on a large scale to prevent the depreciation of their currencies; import restrictions have not spread to countries that are not suffering from unusually large non-oil deficits in the balance of payments; and the exchange rate realignment of recent years may have reduced the size of future payments disequilibria and therefore the need for reserves of a number of countries.

It is, however, a widely held view that the situation has been changing in the direction of reserve stringency. It is, of course, possible that reserve stringency may not emerge because of a renewed growth of foreign exchange holdings, which are not under international management. A second possible source of increased reserve ease would be a development which increased the effective liquidity of gold holdings. Neither of these developments, however, would promote the agreed aim of increasing the role of the SDR as the main international reserve asset.

The third possible source of supply of reserves is the Fund. It is a matter for consideration as to the role which the Fund could play in meeting any emerging reserve stringency, including the increasing difficulty which countries might find in financing their oil deficits through private borrowing. In addition to the possibility of a new allocation of SDRs, the Fund could play an important role through increased use of conditional liquidity, which has as a by-product the creation of additional reserves. The use of conditional liquidity may be expanded by the utilization of facilities such as the oil facility and the Extended Fund Facility; there is also the possibility of a large expansion in the size of the Fund on the occasion of the impending general review of quotas. In view of the evidence that reserve distribution has worsened in recent years, and the facts that conditional liquidity can be directed to those countries which have a particular need for additional liquidity and be used to support programs of adjustment to changed circumstances, there might be a case for substantial emphasis at the present time on this aspect of the Fund's potential contribution to the provision of liquidity.

Chapter 3

Activities of the Fund

TOWARD the end of 1972 and early in 1973 the foreign exchange markets were again subject to growing speculative pressures and to an intensification of large-scale short-term capital flows. This situation led to further changes in the structure of exchange rate relationships among currencies and in the nature of the exchange rate system. Major developments in this period were the announcement by the U. S. Government in February 1973 that it was seeking congressional approval for a 10 per cent devaluation of the U. S. dollar and a move to a more general floating of currencies. The intensification of inflationary pressures during the year, especially in the industrial world, and the substantial increases in the price of petroleum and petroleum-related products toward the end of 1973, brought about a dramatic change in the prospects for the balance of payments and reserves positions of members and in the prospects for the working of the international money and capital markets.

These developments led, in turn, to a change in emphasis in the work of the Committee of the Board of Governors on Reform of the International Monetary System and Related Issues (the Committee of Twenty). In mid-June 1974 the Committee presented its final report, together with an Outline of Reform, indicating the general direction in which the international monetary system could evolve and proposing that a number of steps be taken immediately. At the same time, working in cooperation with the Committee, the Executive Directors adopted on June 13, 1974 a set of important decisions that constituted a significant change in the bases on which Fund operations and practices are carried out. These decisions are described in detail later in this chapter.

As noted in last year's report, the U. S. authorities announced in February 1973 that legislative action was being sought for a devaluation of the U. S. dollar by 10 per cent. Market rates promptly reflected the prospective change in the par value of the U. S. dollar, although the new par value was not established with the Fund until passage of the relevant U. S. legislation had been completed later in the year. Consequently, the Executive Directors took a decision on February 16 applying Rule O-3 so that calculations, other than those for the U. S. dollar, would be made on the basis of a value for the U. S. dollar that reflected its prospective par value (US$1 = SDR 0.828948), instead of its par value (US$1 = SDR 0.921053). As a result of the decision, the valuation and adjustment of the Fund's holdings of a currency were made on the basis of the new "effective parity relationship" between the currency involved and the U. S. dollar. Calculations for transactions in the Special Drawing Account, again except those for the U. S. dollar, were made on the same basis. The decision remained in effect until the new par value for the U. S. dollar was established with the Fund in October 1973.

Although the prospective value of the U. S. dollar had immediately been reflected in the exchange markets, strong pressures re-emerged in mid-May 1973 which led to a further appreciation of continental European currencies, in terms of U. S. dollars, and those countries adhering to the European narrow margins arrangement became reluctant to use SDRs in intra-EEC settlements on the basis of Rule O-3. In November 1973 the Executive Directors decided to permit participants in the Special Drawing Account that engage in transactions by agreement, in which the user of SDRs purchases balances of its own currency held by another participant, to employ the par value or central rate of the currency involved as an alternative to the valuation method of Rule O-3. The decision of the Executive Directors involved the suspension, for these transactions, of the equal value provision of the Articles of Agreement for a period of 120 days. All transfers of SDRs, other than those in the one category covered, continued to take place at exchange rates based on market rates in accordance with Rule O-3. The suspension was subsequently extended by a Board of Governors Resolution for an additional period of 240 days.

In view of the evident need to preserve international monetary cooperation in a period marked by rapid economic developments and frequent changes in currency relationships, the Executive Directors gave renewed attention to the role of the Fund's consultations with members and initiated toward the end of 1973 a new procedure for special consultations with countries whose external policies are of major international importance. A second round of these special consultations in the first half of 1974 included several of the larger developing countries.

In November 1973 the Executive Board decision "Central Rates and Wider Margins: A Temporary Regime" was revised to permit a member that maintains a stable rate for its currency in terms of an intervention currency, which is itself floating, to declare that rate to the Fund as a central rate (see Appendix II).

At a meeting in Rome in January 1974, the Committee of Twenty issued a communiqué stressing the importance, inter alia, of members avoiding competitive exchange depreciation and the escalation of restrictions on trade and payments. Subsequently, the Executive Directors took a decision that called on all members to collaborate with the Fund in accordance with Article IV, Section 4(*a*), with a view to attaining the objectives outlined by the Committee. The Executive Directors also stated in their decision that the consultations of the Fund on the policies that members were following in present circumstances would be conducted in the light of these objectives.

In a decision taken on June 13, 1974, the Executive Directors reached agreement on a memorandum recommending that members use their best endeavors to observe certain guidelines for the management of floating rates. The guidelines, and the accompanying commentary, are described in greater detail later in this chapter and are reproduced in full in Appendix II.

The agreement with regard to official gold transactions reached in Washington on March 17, 1968 between the Governors of seven central banks was abolished in November 1973. This was followed by a request from South Africa to terminate the Fund decision "South Africa: Policy on Sales of Gold to the Fund," which had been adopted toward the end of 1969. The Executive Directors terminated the decision on December 7, 1973. In other developments related to gold, the Fund approved requests for the postponement of repurchase obligations under Article V, Section 7(*b*), incurred in gold, in view of the uncertainty about the future international role of gold; the Bahamas was permitted to become a member of the Fund without paying a portion of its subscription in gold; [1] and, upon the request of Nepal, the Executive Directors recommended and the Board of Governors agreed that the fourth and fifth installments of the increase in Nepal's quota be postponed until April 30, 1976—each of those installments included the equivalent of SDR 200,000 in gold.

A major consideration of the Executive Directors in the first half of 1974 was to establish a new facility in the Fund to assist members in financing the initial impact of the increase in the cost of their oil imports. This facility, which was established in June, was first discussed with the Executive Directors on the initiative of the Managing Director, who recommended it to the Committee of Twenty at its meeting in Rome in January. The establishment of the facility was accompanied by, and was in large part dependent upon, the settlement of other related issues, including new borrowing arrangements.

In July 1974 the Executive Directors continued with their consideration of another special facility, the Extended Fund Facility, designed to provide longer-term financial assistance for countries with structural balance of payments problems. At the same time, they were also working on the preparation of draft amendments to the Articles of Agree-

[1] Board of Governors Resolution No. 28-3, adopted on July 3, 1973 on Membership for the Bahamas, provided for the subscription to be paid wholly in Bahamian dollars, and for the Bahamas to repurchase, within 60 days of having paid the subscription, an amount equivalent to 25 per cent of its quota in gold, SDRs, or convertible currencies acceptable to the Fund.

ment for later consideration by the Interim Committee and for submission to the Board of Governors.

Reform of the International Monetary System

The Committee of the Board of Governors on Reform of the International Monetary System and Related Issues (the Committee of Twenty) presented its final report, together with an Outline of Reform, on June 14, 1974. On the previous day, consistent with a number of the Committee's recommendations for immediate action, the Executive Directors adopted a series of interrelated decisions. The outcome of the Committee's work and the decisions adopted by the Executive Directors are summarized below.

The Committee of Twenty

After its establishment by a Resolution adopted by the Board of Governors on July 26, 1972, the Committee of Twenty held 6 meetings and its Deputies met 12 times. In addition, seven technical groups were established to deal with particular aspects of reform. Following its inaugural meeting in September 1972, the Committee met in Washington in March and July 1973 and in Nairobi late in September at the time of the Annual Meeting. At that meeting the Chairman of the Committee submitted to the Board of Governors an interim report on the work of the Committee, together with a First Outline of Reform that had been prepared by the Chairman and the Vice Chairmen of the Deputies.

Subsequently, at a meeting of the Committee and the Deputies in Rome in January 1974, the Committee expressed serious concern at the abrupt and significant changes that were in prospect for the world balance of payments structure and agreed that, in the light of developments that had taken place in the world economy, certain important aspects of reform affecting the interests of both developed and developing countries should be given priority, with a view to their early implementation. Other aspects of the reform could be agreed and implemented at a later date. The Committee established a timetable for completing its work on the reform at a meeting to be held in Washington in June 1974.

Accordingly, following further meetings of the Deputies in Washington in March and in Paris in May, both the Committee and the Deputies met in Washington in June 1974 to make a number of recommendations for immediate action, as set out in a final report and an accompanying Outline of Reform.[2] In its final report, the Committee noted that the Outline was in two parts. Part I, "The Reformed System," recorded the outcome of the Committee's discussion of international monetary reform and indicated the general direction in which the Committee believed that the system could evolve in the future. It is envisaged that there should be more effective and symmetrical adjustment procedures, which, while leaving the choice of particular policies as far as possible to the country concerned, would nevertheless ensure, through a process of assessment supported by reserve indicators and by graduated pressures, that appropriate action would be taken where necessary; that the system of convertibility should promote the better management of global liquidity and the avoidance of uncontrolled growth of reserve currency balances, and that the SDR should become the principal reserve asset, with the role of gold and of reserve currencies being reduced; and that there should be arrangements to give positive encouragement to economic development and to promote an increasing net flow of real resources to developing countries. The arrangements envisaged in Part I of the Outline involve an enlargement of the scope of international surveillance and management in a number of important areas, and consequently a larger role for the Fund.

The Committee recognized in its report that, in view of present uncertainties, it would not be appropriate to attempt at that time to determine the full details of all aspects of the system, and noted that a number of areas in which agreement has not been reached were considered in Annexes prepared by the Chairman and Vice Chairmen of the Deputies that accompanied the Outline. It was envisaged that arrangements in these areas, as they were agreed, should be implemented as and when the Fund judged it feasible to do so, and that the Fund might in some cases introduce such arrangements initially on an experimental basis

[2] See *International Monetary Reform: Documents of the Committee of Twenty* (Washington, 1974).

with a view to subsequent agreement on full implementation.

The immediate steps on which the Committee agreed were set out in Part II of the Outline and in a detailed statement by the Committee attached to the communiqué. These included the following recommendations: the establishment of an Interim Committee of the Board of Governors and subsequently of a Council; the strengthening of Fund procedures for close international consultation and surveillance of the adjustment process; the adoption of appropriate guidelines for the management of floating rates during the present period of widespread floating; the establishment of a facility in the Fund to assist members in meeting the initial impact of increased oil import costs; provision for countries to pledge themselves on a voluntary basis not to introduce or intensify trade or other current account measures for balance of payments purposes without a finding by the Fund that there is a balance of payments justification for such measures; improvement of procedures in the Fund for management of global liquidity; further international study in the Fund of arrangements for gold in the light of agreed objectives of reform; the adoption of an interim method of valuing the SDR in transactions against currencies; measures of special interest to developing countries, including the Extended Fund Facility, as well as reconsideration of the possibility and modalities of establishing a link between development assistance and SDR allocation, and arrangements for carrying forward the study of the broad question of the transfer of real resources to developing countries; and the preparation of draft amendments of the Articles of Agreement, for further examination by the Interim Committee and for possible recommendation at an appropriate time to the Board of Governors.

Related Decisions of the Executive Directors

After its meeting in Rome in January 1974, the Committee of Twenty issued a communiqué, inter alia, inviting the Executive Directors to prepare for the Board of Governors a draft Resolution to create an Interim Committee, to cooperate with the Deputies on the formulation of rules for floating, to work out for an interim period the details of a method for basing the value of the SDR on a basket of currencies, and to explore with urgency the feasibility of establishing a new facility in the Fund to help members to finance the initial impact of the increase in oil import costs. Decisions on these matters, as well as the interest rate on SDRs and new rates of remuneration and charges in the General Account, were adopted on June 13, 1974. On June 26, 1974 the Executive Directors also took a decision inviting members of the Fund to subscribe to a Declaration on trade and other current account measures for balance of payments purposes. The full text of these decisions, which are summarized below, are reproduced in Appendix II.

INTERIM COMMITTEE OF THE BOARD OF GOVERNORS

The Executive Directors adopted a decision [3] approving for submission to the Board of Governors at the 1974 Annual Meeting a draft Resolution recommending the establishment of an Interim Committee of the Board of Governors on the International Monetary System. The Committee would advise the Board of Governors in supervising the management and adaptation of the international monetary system, including the continuing operation of the adjustment process, and in this connection, reviewing developments in global liquidity and the transfer of real resources to developing countries; considering proposals by the Executive Directors to amend the Articles of Agreement; and dealing with sudden disturbances that might threaten the system.

The members of the Committee would be Governors of the Fund, ministers, or others of comparable rank. Each member country of the Fund that appointed an Executive Director and each group of member countries that elected an Executive Director on or after the date on which the last regular election took place would appoint one member of the Committee and not more than seven associates. In addition, Executive Directors, or in their absence their Alternates, would be entitled to attend meetings of the Committee. The Managing Director would be entitled to participate in all the Committee's meetings.

The Interim Committee would serve until a Council of Governors with decision-making powers

[3] Executive Board Decision No. 4231-(74/67), adopted on June 13, 1974 and reproduced in Appendix II.

could be established through amendment of the Articles of Agreement.

GUIDELINES FOR THE MANAGEMENT OF FLOATING RATES

After discussion of a memorandum [4] entitled "Guidelines for the Management of Floating Rates," the Executive Directors decided to recommend, pursuant to Article IV, Section 4(*a*), of the Articles of Agreement, that in present circumstances members of the Fund should use their best endeavors to observe the guidelines set forth and explained in the memorandum. The guidelines were intended to provide criteria that members would observe in performing their undertakings and that the Fund would observe in exercising surveillance in present circumstances.

The guidelines were based on the assumption that in any situation of floating it may be desirable (a) to smooth out very short-run fluctuations in market rates, (b) to offer a measure of resistance to market tendencies in the slightly longer run, particularly when they are leading to unduly rapid movements in the rate, (c) to the extent that it is possible to form a reasonable estimate of the medium-term norm for a country's exchange rate, to resist movements in market rates that appear to be deviating substantially from the norm, and (d) to take account of members' reserve positions in the operation of the guidelines covered by (b) and (c). The guidelines also recognize the interest countries have in intervention conducted in their currencies by other countries.

The guidelines also take into account (a) that national policies, including those relating to domestic stabilization, should not be subjected to greater constraints than are necessary in the international interest; (b) that a degree of uncertainty attaches to any estimate of a medium-term normal exchange rate and that on occasion the market view may be more realistic than any official view; and (c) that in view of the strength of short-term market forces it may at times be unavoidable to forego or curtail official intervention that would be desirable from the standpoint of exchange stability.

The guidelines were intended to provide the basis for a meaningful dialogue between the Fund and member countries with a view to promoting international consistency during a period of widespread floating. They were termed guidelines rather than rules to indicate their tentative and experimental character. They should be adaptable to changing circumstances, and they would be reviewed from time to time in order to make any adjustments that might be appropriate.

THE VALUATION AND INTEREST RATE OF THE SDR, REMUNERATION, AND CHARGES

On June 13, 1974 the Executive Directors adopted a decision [5] amending Rule O-3 and giving effect, as from July 1, 1974, to the standard basket system of valuation for an interim period. The decision will be reviewed two years from the date of its adoption. For the purpose of determining the exchange rates of currencies in terms of special drawing rights, one SDR will be deemed to be equal to the sum of the following amounts of currencies:

U. S. dollar	0.40
Deutsche mark	0.38
Pound sterling	0.045
French franc	0.44
Japanese yen	26
Canadian dollar	0.071
Italian lira	47
Netherlands guilder	0.14
Belgian franc	1.6
Swedish krona	0.13
Australian dollar	0.012
Danish krone	0.11
Norwegian krone	0.099
Spanish peseta	1.1
Austrian schilling	0.22
South African rand	0.0082

The currencies included in the SDR basket are those of the 16 countries that had a share in world exports of goods and services in excess of 1 per cent of average over the five-year period 1968–72. The amounts were determined in such a way that the relative weights for these currencies were broadly proportionate to the share of these countries in international transactions, using as proxy for this purpose average exports of goods and services in the period 1968–72 but modified, particularly with respect to the United States, in recognition that the proxy does not necessarily

[4] Attached to Executive Board Decision No. 4232-(74/67), adopted on June 13, 1974 and reproduced in Appendix II.

[5] Executive Board Decision No. 4233-(74/67) S, adopted on June 13, 1974 and reproduced in Appendix II.

provide an adequate measure of a currency's real weight in the world economy in all cases. Accordingly, the U. S. dollar was assigned a weight of 33 per cent. The Fund will collect exchange rates of the basket currencies daily in order to calculate a daily rate of the SDR in terms of each currency for which a representative rate has been established.

The Executive Directors also adopted a decision [6] establishing the rate of interest on the SDR at 5 per cent per annum. The interest rate on the SDR will be the same as the basic rate of remuneration on super gold tranche positions. After an initial period of six months, unless the Executive Directors decide otherwise, both rates will be subject to adjustment in relation to a weighted average of short-term market interest rates in the United States, Germany, the United Kingdom, France, and Japan. If the weighted average market rate is below 9 per cent, the rates will be reduced below 5 per cent by three fifths of the difference between the weighted average market rate and 9 per cent. If the weighted average market rate is above 11 per cent, the rates will be increased above 5 per cent by three fifths of the difference between the combined market rate and 11 per cent.

However, in order to bring the Fund's income and expenses into balance without raising the Fund's charges to undesirably high levels, it has been agreed that, for the next two years, a lower rate of remuneration will be paid on the segment of the super gold tranche corresponding to the Fund's holdings of currency between 75 and 50 per cent of quotas, during any periods when the basic rate of remuneration is above 3¼ per cent; the lower rate will then be 2½ per cent or half the basic rate of remuneration, whichever is the higher. Moreover, the lower rate will be increased to the extent that the Fund's net income permits. These provisions for a split rate of remuneration will be reviewed after two years and will lapse in the absence of a further decision.

Prior to July 1, 1974 the rate of interest on the SDR and the rate of remuneration had been 1½ per cent. These two rates are closely linked under Article XXVI, Section 3, of the Fund Agreement, which provides that the SDR interest rate shall not be greater than two per cent or the rate of remuneration, whichever is higher, or smaller than one per cent or the rate of remuneration, whichever is lower.

The Executive Directors also adopted a decision [7] establishing a revised schedule of charges on use of the Fund's resources. The revised charges, except those resulting from purchases under the oil facility, range from 4 per cent on amounts outstanding up to one year, to 6 per cent for amounts outstanding from four to five years (see Appendix Table I.20).

THE OIL FACILITY

The Fund established a special facility to assist members in meeting the initial impact of the increase in oil costs. Resources made available under this decision will be supplementary to any assistance that members may obtain under other policies on the use of the Fund's resources.

Requests for purchases under the Fund decision will be met by the Fund, subject to certain limits, [8] if the Fund is satisfied that the member needs assistance because of the increases in the cost of its imports of petroleum and petroleum products and because it has a balance of payments need. The Fund will assess each request in order to determine whether, and the extent to which, the member has such a balance of payments need. A member that has made a purchase under this decision will be expected to cooperate with the Fund to find appropriate solutions for its balance of payments problems.

A further condition for access to the facility is that the member represents that it is following policies not inconsistent with the undertakings set forth in paragraph 2 of the Rome Communiqué of the ad hoc Committee of Twenty [9] and in Executive Board Decision No. 4134-(74/4), adopted January 23, 1974 (see Appendix II).

Use of the Fund's resources under this facility would be repurchased as soon as the balance of payments problem for which the purchase had been made was overcome, and in any event in 16 equal quarterly installments to be completed not later than seven years after the purchase.

[6] Executive Board Decision No. 4235-(74/67), adopted on June 13, 1974 and reproduced in Appendix II.

[7] Executive Board Decision No. 4238-(74/67), adopted on June 13, 1974 and reproduced in Appendix II.

[8] See Executive Board Decision No. 4241-(74/67), adopted June 13, 1974, pages 122–23.

[9] See *International Monetary Reform: Documents of the Committee of Twenty* (Washington, 1974).

Charges on transactions effected under the oil facility are set out in Appendix Table I.21.

The facility will be financed, at least initially, from borrowing by the Fund from oil producing countries. Calls under these borrowing arrangements can be made up to December 31, 1975. Lenders will make available either their own currencies, which they will convert into U. S. dollars on request, or U. S. dollars and a loan to the Fund will be evidenced by a nonnegotiable instrument expressed in terms of SDRs. Interest will be paid quarterly by the Fund at an annual rate of 7 per cent and repayment will be completed within an outside period of 3 to 7 years from the date of borrowing; provision is also made for early repayment under certain circumstances.

Various major oil exporters, including Abu Dhabi, Iran, Kuwait, the Libyan Arab Republic, Oman, Saudi Arabia, and Venezuela, have provisionally agreed to make resources available to the Fund in connection with the facility. Canada has also agreed to participate in this financing. The resources being made available to the Fund from these countries total initially the equivalent of about SDR 3 billion. Discussions are being held with other members, both oil and non-oil producers, with a view to increasing the reserves available under the facility.

Not later than September 15, 1974, the Executive Directors of the Fund will review developments since the adoption of this decision in the light of the Fund's existing and prospective liquidity. A further review will be conducted not later than December 31, 1974.

VOLUNTARY DECLARATION ON TRADE MEASURES

In a communiqué issued at the end of its final meeting on June 13, 1974, the Committee of Twenty stressed the importance of avoiding the escalation of current account restrictions for balance of payments purposes and invited members of the Fund "to subscribe on a voluntary basis to the Declaration concerning trade and other current account measures for balance of payments purposes." The Declaration was annexed to the Committee's statement. On June 26, 1974 the Executive Directors took a decision [10] associating themselves with the invitation and concurring in the transmission to members of a letter from the Managing Director requesting that members inform the Fund whether they subscribe to the Declaration.

In subscribing to the Declaration, a member would represent that, in addition to observing its obligations with respect to payments restrictions under the Articles of Agreement, it would not on its own discretionary authority introduce or intensify trade or other current account measures for balance of payments purposes that are subject to the jurisdiction of the GATT, or recommend them to its legislature, without a prior finding by the Fund that there was balance of payments justification for such measures. In arriving at its findings, the Executive Directors would take into account the special circumstances of developing countries.

The Declaration will become effective among subscribing members when members having 65 per cent of the total voting power of members of the Fund have accepted it, and shall expire two years from the date on which it becomes effective unless it is renewed.

[10] Executive Board Decision No. 4254-(74/75), adopted June 26, 1974 and reproduced in Appendix II, together with the Managing Director's letter to members and the text of the Declaration.

Sixth General Review of Quotas

The Fund's Articles of Agreement require a general review of members' quotas at intervals of not more than five years. The Executive Directors meeting as a Committee of the Whole held their first meeting on April 15, 1974 relating to the Sixth General Review of Quotas. Any Resolution of the Board of Governors relating to the Sixth General Review of Quotas has to be adopted by February 8, 1975.

Exchange Rates

After the announcement by the U. S. Government in February 1973 that it was seeking congressional authority for a reduction of 10 per cent in the par value of the U. S. dollar, a large number of member countries notified the Fund of new arrangements for their currencies. Two countries (Italy and Japan) decided that for the time being they would not ensure the maintenance of specified margins for their currencies in exchange transactions, thus joining three other countries (Canada, the United Kingdom, and Switzerland) that had earlier permitted their currencies to float. In March six members (Belgium, Denmark, France, Germany, Luxembourg, and the Netherlands) of the European Economic Community, joined later by two countries (Norway and Sweden) that were not members of the EEC, decided to maintain fluctuations between their currencies within margins of 2¼ per cent, but no longer to ensure that quotations for the U. S. dollar in their markets remained within specified limits (referred to as the European narrow margins arrangement); at the same time, the deutsche mark was revalued by 3 per cent in terms of SDRs. From late March 1973 to mid-May 1974 Austria maintained a maximum margin of 2¼ per cent between the schilling and the currencies of the countries participating in the European narrow margins arrangement, although not formally participating in that arrangement.[11] After May 17, 1974 this margin was increased to 4½ per cent. Thirty-five members notified the Fund that they had decided to maintain the exchange rates of their currencies in terms of the U. S. dollar; most of the other Fund members maintained unchanged their par values, central rates, or market rates in terms of currencies other than the U. S. dollar.

After a period of comparatively quiet trading in foreign exchange markets, strong pressures re-emerged in mid-May 1973 leading to a sharp appreciation of continental European currencies in terms of U. S. dollars and to marked tension among the currencies participating in the European narrow margins arrangement. On June 29, 1973 the German authorities communicated to the Fund a new central rate that revalued the deutsche mark by a further 5.5 per cent. Later in the year, the Netherlands and Norway also revalued their currencies by 5 per cent to facilitate the operation of the European narrow margins arrangement; new central rates were communicated to the Fund by the Netherlands, effective September 17, and by Norway, effective November 16.

In view of the effects on their balance of payments of the sharp movements in exchange rates of the currencies of major industrialized countries, a number of other member countries found it necessary during the fiscal year to adjust their par values or central rates or to adopt more flexible exchange market arrangements.[12] In the third quarter of 1973, the Fund concurred in par value changes proposed by Thailand (July), Saudi Arabia (August), and Australia (September); all these changes revalued the currencies of these countries in terms of SDRs. After approval by the U. S. Congress, the United States proposed and the Fund concurred in a change of the par value of the U. S. dollar effective October 18, 1973, thereby formalizing the devaluation proposed in February. The par values of nine other member countries—the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Liberia, Mexico, Nicaragua, and Panama—were changed similarly in the following weeks. In addition, initial par values were established by Algeria, the Bahamas, Qatar, and the United Arab Emirates.

Kenya, Tanzania, and Uganda notified the Fund of the adoption of central rates in June 1973 that appreciated their currencies from the par value; in January 1974 their central rates were again changed, reversing the earlier appreciation. Another member—Rwanda—notified the Fund of a new central rate that involved a depreciation of its currency. Fiji replaced the exchange rate maintained under its membership resolution by a central rate involving an appreciation of the currency. Western Samoa adopted a central rate unchanged from the exchange rate it maintained under its membership resolution.

A number of countries discontinued the fixed relationship that they had been maintaining between their currency and a reserve currency because these relationships were causing excessive movements in their effective exchange rates. Members indicating that they would no longer maintain exchange rates within previously applicable margins included Cyprus (July), Finland (June), Greece (October), Iceland (June), Malawi (November), Malaysia (June), Morocco (May), New Zealand (July), Singapore (June), and Yugoslavia (July).

Exchange rate trends and relationships began to shift fairly markedly as early as the third quarter of 1973 and particularly toward the end of the year, reflecting the sharp turnaround in the

[11] The Austrian schilling was revalued by 2.25 per cent in terms of SDRs in March 1973 and by 4.8 per cent in July 1973.

[12] These changes are summarized in Appendix I.

current account balance of the United States in 1973 and market expectations of relative changes in the balance of payments positions of the major industrial countries as a result of world oil developments. By mid-January 1974 the currencies of the countries participating in the European narrow margins arrangement had fallen to a discount of 6 to 8 per cent of parity or central rates expressed in terms of the U. S. dollar, in comparison with a premium as high as 18 to 20 per cent in July 1973. France notified the Fund that owing to the balance of payments uncertainties that would be affecting the international monetary system, it had decided that from January 21, for a period of six months and on a provisional basis, the exchange rate between the French franc and certain other currencies in the official market would not necessarily be confined within predetermined margins, but that during this period orderly conditions would be maintained in the exchange market. Spain similarly discontinued from January 22 observance of specified margins in exchange transactions between the peseta and the U. S. dollar. On March 21, 1974 France abolished the separate market for financial transactions that had been established in August 1971; the changes in the structure of the balance of payments and the floating of the franc in the exchange market had rendered unnecessary the complex administrative procedures required by the dual market system. Similarly, Italy unified the exchange markets for the commercial and financial lira, effective March 22, 1974. In the context of a reform of its exchange system, Costa Rica adopted a new par value, effective April 25, 1974.

In June 1974 the situation was that most major industrial countries (e.g., Canada, France, Italy, Japan, the United Kingdom, and the United States) were not maintaining exchange rates within specified margins, while other industrial countries within the European narrow margins arrangement were maintaining a maximum margin in the rates for exchange transactions between their currencies only among themselves. A large number of other countries, developed and less developed, were endeavoring to maintain the exchange rates for their currencies roughly unchanged in terms of the currencies of their major trading partners taken as a group; most remaining Fund members were maintaining stable exchange rates for their currencies in terms of a single intervention currency —usually the U. S. dollar, the pound sterling, or the French franc.

Special Drawing Account

During the fiscal year 1973/74 the total use of SDRs by participants was SDR 1,123 million. The major part of this total—SDR 996 million—was used in transactions by agreement (that is to say, without designation by the Fund) involving only five participants. The amounts of SDRs transferred in this way were substantially in excess of the totals of SDR 303 million and SDR 380 million transferred in similar transactions in the two previous fiscal years. However, transactions with designation (SDR 60 million) and the use of SDRs to make repurchases in the General Account (SDR 29 million) were at low levels compared with previous years. The General Account transferred a total of SDR 185 million to participants, of which SDR 157 million was acquired by participants needing to reconstitute their SDR holdings. The totals of the different categories of SDR transfers are shown in Appendix Table I.4.

The large increase in transactions by agreement between participants resulted from the use of SDRs by EEC members in settlement of obligations arising from intervention in foreign exchange markets under the European narrow margins arrangement. The reduction in other forms of SDR use cannot be attributed to any single cause; the increasing need for some participants to retain SDRs in order to meet the reconstitution requirements probably acted as a brake on SDR use, and the continued uncertainty as to the future value of SDRs in terms of currency during the period under review may also have encouraged participants to retain their SDRs.

No proposal was made on future allocations of SDRs during the fiscal year. The Managing Director continues to be obliged to make a proposal whenever he is satisfied that it could be made consistently with the Articles.

Exchange Rates for SDRs in Transactions by Agreement

From the outset of operations in the Special Drawing Account, the valuation of currencies in terms of SDRs has been determined by Rule O-3 of the Fund's Rules and Regulations. Prior to the amendment of Rule O-3 on July 1, 1974,[13] the exchange rate of the U. S. dollar in terms of SDRs was its par value or prospective par value; the exchange rate of other currencies in terms of SDRs continued to be determined by the market exchange rate of these currencies against the U. S. dollar. The methods of valuation, which applied to all transactions in SDRs between participants as well as to conversions associated with such transactions, gave effect to the "equal value" principle set out in Article XXV, Section 8(*a*). This principle requires that "the exchange rates for operations or transactions between participants shall be such that a participant using special drawing rights shall receive the same value whatever currencies might be provided and whichever participants provide those currencies."

In March 1973 the EEC members of the European narrow margins arrangement agreed that SDRs would be used as one of the media for settlement of obligations resulting from intervention to maintain the agreed margins. Toward the middle of 1973, the market rates of the currencies of several EEC members appreciated strongly against the U. S. dollar. As a result, although these members wished to transfer SDRs among themselves to settle obligations arising from intervention in the foreign exchange markets, they felt seriously inhibited from doing so under the method for the valuation of currencies in terms of SDRs set out in Rule O-3, since the use of this method had the effect of diminishing the value of their SDR holdings in terms of their own currencies. As mentioned earlier, the "equal value" principle was suspended for certain transactions on November 5, 1973.

All transactions by agreement between participants that took place in the period under review were in settlement of obligations incurred under the European narrow margins arrangement. The users of SDRs in these transactions were Belgium (SDR 37 million), Denmark (SDR 5 million), France (SDR 588.5 million), Germany (SDR 100.5 million), and the Netherlands (SDR 264.9 million); and the recipients of SDRs were Belgium (SDR 103.2 million), Denmark (SDR 72.3 million), France (SDR 108.4 million), and Germany (SDR 712 million). These transfers of SDRs resulted in a significant redistribution of SDR holdings among these countries; on April 30, 1974 the SDR holdings of Belgium and Germany were 289 and 268 per cent of their respective allocations, whereas the SDR holdings of France were reduced to about 21 per cent of its allocation.

Of the total of SDR 996 million transferred in this way, SDR 131 million was transferred in May 1973. Thereafter, as a consequence of the valuation difficulties mentioned earlier, there were no further transactions by agreement until the Executive Directors took the decision that enable the amounts of currencies transferred against SDRs in these transactions to be based on their par values or central rates. Following this decision in November 1973, par values or central rates were used in all transactions by agreement that took place during the remainder of the fiscal year.

Transactions with Designation

During the fiscal year there were only six transactions with designation, in which a total of SDR 60 million was used to obtain currency from participants designated by the Fund (see Table 19). As a result of this low level of transactions and the procedures followed in designation, only nine participants were actually designated, although many more were included in the

TABLE 19. USE AND RECEIPT OF SDRs IN TRANSACTIONS WITH DESIGNATION, FISCAL YEAR ENDED APRIL 30, 1974

(In thousands of SDRs)

	Use	Receipt
Argentina	—	21,400
Colombia	—	7,500
Greece	—	2,213
Haiti	900	—
Indonesia	—	10,500
Iran	—	3,000
Khmer Republic	3,500	—
Malagasy Republic	8,500	—
Philippines	—	6,000
Sierra Leone	1,213	—
South Africa	37,000	1,000
Turkey	—	1,000
Uganda	9,000	—
Yugoslavia	—	7,500
Total	60,113	60,113

[13] See page 51, above.

quarterly designation plans. The plans agreed by the Executive Directors for the third and fourth calendar quarters of 1973 and the first quarter of 1974 each made provision for possible designation of SDR 100 million; this limitation of amount resulted in the inclusion in the plans only of those participants considered sufficiently strong to be designated whose holdings of SDRs were below their allocations. In order to spread designation over a broader list of participants at a time when widespread reserve losses were expected to give rise to greater use of SDRs, the designation plan agreed for the second quarter of 1974 provided for possible designation of SDR 300 million covering 26 participants, including the United States whose balance of payments and reserve position was considered sufficiently strong to justify it being subject to designation for the first time since mid-1970. As mentioned later, it was not necessary for any participant to be designated to receive SDRs under the rules for reconstitution.

Transactions and Operations Between Participants and the General Account

Transfers of SDRs to the General Account in settlement of repurchases totaled SDR 29 million, which was less than half the amount of SDRs used in this way during the previous fiscal year and represented less than 5 per cent of total repurchases during the fiscal year. Participants also used a total of SDR 29 million in settlement of charges in the General Account; this high level, amounting to over 94 per cent of total charges, presumably reflected the fact that the principal alternative medium of payment was gold.

The General Account transferred a total of SDR 185 million to participants. Of this total, SDR 20 million was transferred in payments to 26 participants that exercised their option to accept SDRs rather than currency in part settlement of remuneration on their net creditor positions in the General Account and SDR 157 million was transferred to participants that needed to reconstitute their SDR holdings.[14] As a result of these receipts and transfers, the General Account's holdings of SDRs declined from SDR 617 million to SDR 499 million during the fiscal year.

Reconstitution

The rules for reconstitution require participants, over successive five-year periods, to maintain their average holdings of SDRs at not less than 30 per cent of the average of their net cumulative allocations. The first five-year period ends on December 31, 1974. In accordance with the provisions of the Articles of Agreement, since the end of 1971, the Fund has been making monthly calculations to determine whether and to what extent each participant has a need to obtain SDRs to achieve the required average holding of 30 per cent. Participants are permitted to obtain the amounts of SDRs shown by these calculations to be necessary to meet the reconstitution requirement. The SDRs may be obtained either from another participant with a balance of payments need to use SDRs or from the Fund's General Account against gold or currencies acceptable to the Fund or as part of a purchase from the General Account in accordance with the Fund's policy on the use of its resources. All acquisitions of SDRs for purposes of reconstitution that have taken place in the past fiscal year have involved transfers by the General Account. The total of SDRs acquired for reconstitution since January 1, 1972 was SDR 310.8 million, as shown in Table 20.

At the start of the fiscal year 23 participants needed to reconstitute their SDR holdings in amounts totaling SDR 147 million. During the fiscal year, as participants obtained and used SDRs, the composition of the list of participants with a need to reconstitute, and the amounts they needed to acquire, varied from month to month. On October 31, 1973, after a period in which SDR 124 million had been obtained from the General Account, the list had been reduced to 19 participants, needing to obtain a total of only SDR 57 million. However, by the end of the fiscal year, the list had expanded to include 24 participants and the needed amounts totaled SDR 143 million. By making acquisitions of SDRs during the year, 8 participants eliminated their need to reconstitute and 17 others substantially reduced the amounts they needed to acquire. During the year the General Account transferred a total of

[14] The balance of SDR 7 million was transferred in purchases of SDRs from the General Account to Romania (SDR 6 million) and Bangladesh (SDR 1 million).

TABLE 20. ACQUISITION OF SDRs FOR RECONSTITUTION FROM THE FUND'S GENERAL ACCOUNT, JANUARY 1, 1972–APRIL 30, 1974

(In millions of SDRs)

	1972		1973		1974 Jan. 1–Apr. 30		Total	
	Amount	Number of Transactions	Amount	Number of Transactions	Amount	Number of Transactions	Amount	Number of Transactions
Against currency acceptable to Fund	39.3	27	140.0	60	18.7	15	198.0	102
In purchases	64.2	8	38.0	9	10.6	4	112.8	21
Total	103.5	35	178.0	69	29.3	19	310.8	123

SDR 157 million to 24 participants needing to reconstitute their holdings. Details of the participants and the amounts they acquired are given in Appendix Table I.7. In all cases, participants acquiring SDRs took the initiative to do so, although for a few participants the need to reconstitute had reached the level at which they were subject to designation to promote the reconstitution of their holdings; in these latter cases, voluntary acquisitions made actual designation unnecessary.[15]

It is difficult to form a judgment as to how far the rules for reconstitution have affected the use of SDRs. With few exceptions, however, participants for which the calculations have shown a need to reconstitute have rarely made further use of SDRs except in the payment of charges in the General Account. Other participants have also appeared to limit their use of SDRs in such a way that their holdings have remained above 30 per cent of their allocation; at the end of April 1974, of the 89 participants with holdings below their allocations, only 13 had holdings below 30 per cent of allocation, while 39 participants had holdings in the range from 30 to 60 per cent of allocation.

Changes in the Distribution of SDR Holdings

The main changes in the distribution of SDR holdings during 1973/74 were the movements of SDRs among the five EEC countries participating in the European narrow margins arrangement described earlier; the decline in the General Account holdings by SDR 118 million; and the net increase of SDR 90 million in the holdings of less developed countries, which was mainly the result of the acquisition of SDRs to promote reconstitution but also partly reflected net receipts through designation. Among the industrial countries, the holdings of the United States, the United Kingdom, Canada, and Japan were little changed. The principal changes in SDR holdings are summarized in Table 21.

BIS Prescribed as Holder of SDRs

By a Resolution of the Board of Governors, adopted on January 21, 1974, by a majority in excess of the required 85 per cent of the total voting power of participants, the Fund prescribed the Bank for International Settlements (BIS) as a holder of SDRs. The text of the Resolution is reproduced in Appendix II. Under the Resolution, a participant in the Special Drawing Account may use SDRs to obtain currency from the BIS with the assurance that the BIS would use the same amount of SDRs to obtain currency from the participant within a period not exceeding six months. The Resolution requires that the Executive Directors discuss the operation of this Resolution in their Annual Report as part of their review of the operation of the Special Drawing Account. During the fiscal year no transactions in SDRs took place between the BIS and participants.

General Account

As in 1972/73 purchases exceeded total repurchases during the fiscal year ended April 30, 1974. Total purchases were equivalent to SDR 1,058 million, the smallest amount in any

[15] The Fund calculates participants' needs to reconstitute in two ways: (i) in terms of a single amount that may be obtained in the month following the date of the calculation, and (ii) as a series of quarterly amounts to be obtained in each full calendar quarter remaining in a five-year period. When the quarterly amount reaches 10 per cent of a participant's net cumulative allocation, that participant is subject to designation to promote reconstitution.

TABLE 21. CHANGES IN THE DISTRIBUTION OF SDR HOLDINGS, FISCAL YEAR ENDED APRIL 30, 1974

(In millions of SDRs)

	Net Cumulative Allocations	Holdings		April 30, 1973–April 30, 1974		
		April 30, 1973	April 30, 1974	Use	Receipt	Net Change
Industrial countries	6,178	6,581	6,607	1,011	1,037	26
United States	*2,294*	*1,796*	*1,788*	*8*	—	*−8*
United Kingdom	*1,006*	*600*	*594*	*6*	—	*−6*
Belgium	*209*	*528*	*604*	*37*	*113*	*76*
Denmark	*83*	*72*	*140*	*5*	*73*	*68*
France	*485*	*582*	*100*	*590*	*108*	*−482*
Germany, Fed. Rep. of	*542*	*826*	*1,454*	*100*	*728*	*628*
Netherlands	*236*	*656*	*400*	*265*	*9*	*−256*
Other continental Europe	*586*	*630*	*632*	—	*2*	*2*
Canada	*359*	*467*	*469*	—	*2*	*2*
Japan	*377*	*425*	*426*	—	*1*	*1*
Primary producing countries	3,137	2,117	2,209	135	226	91
More developed areas	789	641	642	51	52	1
Less developed areas	2,348	1,476	1,567	84	174	90
Western Hemisphere	*879*	*593*	*623*	*21*	*51*	*30*
Middle East	*239*	*119*	*151*	*6*	*38*	*32*
Asia	*765*	*485*	*505*	*27*	*47*	*20*
Africa	*465*	*280*	*288*	*30*	*38*	*8*
Total participants	9,315	8,698	8,816			118
General Account	—	617	499			−118

year since 1963/64. Nearly 60 per cent of all purchases were made within the gold tranche,[16] including purchases by France, Germany, and the Netherlands totaling SDR 438 million related to settlement of liabilities under the European narrow margins arrangement. The larger part of these settlements, equivalent to SDR 349 million, took place after the suspension for certain transactions of the equal value principle under Article XXV, Section 8(*a*), in November 1973. Purchases under the compensatory financing facility amounted to the equivalent of SDR 212 million, or 20 per cent of total purchases, little changed from the previous year.

On April 10, 1974 the Executive Board approved a stand-by arrangement for Italy, the first one for this member, which authorized purchases equivalent to SDR 1 billion over a 12-month period.

Repurchases amounted to the equivalent of SDR 672 million during 1973/74, an increase of 24 per cent over the previous year; more than one half was made in discharge of obligations incurred under Article V, Section 7(*b*). Voluntary repurchases accounted for SDR 138 million (21 per cent of the total), compared with SDR 11 million (2 per cent) the previous year. The increase reflected mainly the repurchase by the United States, equivalent to SDR 110 million, made in accordance with a decision of the Executive Board, accepting repurchases up to the equivalent of SDR 400 million.

Although purchases exceeded repurchases during the fiscal year by SDR 385 million, members' creditor positions were reduced by SDR 283 million because of compensating or offsetting use of creditor positions by EEC members of the European narrow margins arrangement, sales of U. S. dollars rather than use of the currency of a creditor member, purchases of SDRs from the General Account by members using their own currencies, and members' acquisitions of SDRs with currencies acceptable to the Fund.

Currencies of members not maintaining rates for their currencies within the margins prescribed by the Articles of Agreement or by Executive Board Decision No. 904-(59/32) continued to be valued on the basis of representative rates

[16] The Articles of Agreement define a gold tranche purchase as "a purchase by a member of the currency of another member in exchange for its own currency which does not cause the Fund's holdings of the member's currency to exceed one hundred percent of its quota, provided that for the purposes of this definition the Fund may exclude purchases and holdings under policies on the use of its resources for compensatory financing of export fluctuations."

established under Rule O-3 [17] when used in Fund transactions. Following the establishment of the new par value for the U. S. dollar with the Fund, on October 18, 1973, Executive Board Decision No. 3865-(73/12) G/S lapsed and the provisions of Rule O-3 applied in the usual way. This decision was adopted on February 16, 1973, after the U. S. authorities announced the proposed reduction in the par value of the U. S. dollar, and amended Rule O-3(i) so that all calculations involving currencies other than the U. S. dollar would be made on the basis of the prospective par value for the U. S. dollar.

At the beginning of 1973 the procedures for the selection of currencies for use in Fund transactions was modified to take account of the reluctance of some members to permit reductions in their creditor positions in the Fund in exchange for increases in their holdings of foreign exchange. It was in recognition of this situation that the Fund's selection of currencies during 1972 had aimed at an equitable distribution of changes in net creditor positions; this entailed limiting the selection of currencies usable in purchases to those that were acceptable by the Fund in repurchases, and advising members that currencies used in Fund transactions should normally be converted into or out of U. S. dollars. This procedure meant that less emphasis had been placed on equalizing the reserve positions in the Fund of creditor members in relation to their holdings of gold and foreign exchange.

During 1973, however, when it became apparent that purchases were exceeding repurchases, the procedure was resumed of determining the amounts of currencies to be used in purchases in accordance with the member's holdings of gold and foreign exchange, and the amounts of currencies for use in repurchases (except for Belgian francs, Mexican pesos, and Netherlands guilders) in accordance with the member's reserve position in the Fund. This procedure tended to equalize, for the currencies to which it was applied, the cumulative use of members' currencies relative to their holdings of gold and foreign exchange.

In January 1974 the United States offered and the Fund agreed that over a period of three months (subsequently extended) the United States could repurchase up to the equivalent of SDR 400 million. It was expected that the United States would acquire currencies for the major part of such repurchases in the course of market operations. Actual repurchases from the Fund during the remainder of the fiscal year amounted to only SDR 110 million.

In accordance with Article XXV, Section 7(*f*), the Executive Board permitted two members, Bangladesh and Romania, to purchase SDRs from the General Account for purposes other than reconstitution; Bangladesh purchased SDRs in four gold tranche transactions in order to pay charges on balances in excess of quota arising from use of the compensatory financing facility. In connection with a transaction in the first credit tranche, Romania purchased an amount of SDRs to be held and used solely for the payment of charges in connection with that transaction.

On January 30, 1974 the Executive Board adopted a decision amending Rules E-2 and E-3 of the Fund's Rules and Regulations permitting a reduction in the minimum balance of a member's currency held by the Fund in its No. 1 Accounts from 1 per cent to ¼ of 1 per cent of quota.

Use of Fund's Resources

During the year purchases of currencies and special drawing rights by 24 members amounted to the equivalent of SDR 1,058 million (Appendix I, Table I.9), a decline of SDR 118 million from the previous year. The equivalent of SDR 280 million was purchased by the Netherlands in five separate gold tranche transactions. France and India each made purchases of SDR 138 million; France made two gold tranche purchases and India a gold tranche purchase and another purchase under the compensatory financing facility.

Romania made its first use of the Fund's resources with a purchase in the gold tranche in May 1973; it made its first credit tranche purchase in November.

Use of their gold tranche positions by 13 members, for a total amount of SDR 607 million, accounted for more than half the total purchases in 1973/74. Purchases in the gold tranche included SDR 438 million by France, Germany, and the Netherlands, in connection with the settlement of liabilities under the European narrow margins arrangement. Developing countries

[17] Executive Board Decision No. 3637-(72/41) G/S, adopted May 8, 1972.

accounted for 28 per cent of total gold tranche transactions in 1973/74, compared with 9 per cent in 1972/73.

Purchases under stand-by arrangements during the year declined from SDR 213 million in 1972/73 to SDR 179 million, the smallest amount purchased under such arrangements in 13 years. The total amount of stand-by arrangements approved in 1973/74, equivalent to SDR 1,394 million, was SDR 1,072 million above last year's figure (see Appendix Tables I.10 and I.12). The increase was accounted for largely by the stand-by arrangement approved for Italy. With this exception, all other stand-by arrangements in effect in 1973/74 were with primary producing countries.

Use of the compensatory financing facility was made by 8 members for a total of SDR 212 million. This amount, which was slightly higher than the previous year, represented the second largest amount purchased under the facility in any one year. The largest amount, SDR 220 million, was purchased in 1967/68, when 12 members used the facility. The largest single purchase under the facility during 1973/74 was made by India for SDR 62 million.

Credit tranche purchases other than under stand-by arrangements or special facilities totaled SDR 60 million, of which Nicaragua and Romania purchased SDR 12 million and SDR 48 million, respectively.

The currency most used in purchases was the deutsche mark for the equivalent of SDR 415 million, followed by French francs for SDR 126 million. Those two currencies together constituted over half of total purchases, reflecting the use made of them in settlements under the European narrow margins arrangement.

Repurchases

Repurchases amounted to SDR 672 million, compared with SDR 540 million in 1972/73. The largest repurchase during 1973/74, equivalent to SDR 110 million (16 per cent of the total), was made by the United States.

Repurchases equivalent to SDR 381 million, or 57 per cent of the total, were in discharge of obligations incurred under Article V, Section 7(*b*), of the Fund Agreement, rather more than twice as much as in 1972/73; SDR 8 million and SDR 30 million related to obligations incurred as of April 30, 1971 and 1972, respectively; and the remainder, amounting to SDR 343 million, was in discharge of obligations incurred as of April 30, 1973 [18] (see Appendix Table I.15).

Voluntary repurchases amounted to SDR 138 million, or 21 per cent of the total. In addition to the repurchase of SDR 110 million relating to the U. S. gold tranche purchase, they included SDR 14 million in respect of a purchase under the Compensatory Financing Decision and SDR 7 million each relating to a credit tranche purchase and to a gold tranche purchase that was regarded as having been made under the Buffer Stock Financing Decision.

The sum of SDR 102 million, or 15 per cent of the total, was repurchased in accordance with schedules of amounts, approved by the Fund, for repurchase within five years from the date of purchase. Repurchases in respect of purchases under stand-by arrangements amounted to SDR 34 million, or 5 per cent of the total.

Other repurchases totaled SDR 17 million, including SDR 6 million by 21 members in respect of currency payments in excess of 75 per cent of the increase in quotas in accordance with paragraph 5 of Board of Governors Resolution No. 25-3 on "Increases in Quotas of Members—Fifth General Review"; [19] SDR 5 million by the Bahamas under paragraph 4 of Board of Governors Resolution No. 28-3 on Membership; [20] and SDR 4 million by Bolivia in accordance with paragraph 5(ii) of the Decision on the Problem of Stabilization of Prices of Primary Products,

[18] Article V, Section 7(*b*), provides that, subject to certain limitations, a member shall repurchase an amount of the Fund's holdings of its currency equivalent to one half of any increase in the Fund's holdings of its currency that has occurred during the Fund's financial year, plus one half of any increase, or minus one half of any decrease, in the member's monetary reserves during the same period, or, if the Fund's holdings of the member's currency have decreased, one half of any increase in the member's monetary reserves minus one half of the decrease in the Fund's holdings of the member's currency. While 19 members had incurred obligations as of April 30, 1973 totaling the equivalent of SDR 482 million, Article V, Section 7(*c*)(iv), limited the amount to be discharged forthwith to SDR 271 million (see Appendix Table I.14).

[19] See *Annual Report, 1970*, pages 177–84.

[20] The Membership Resolution for the Bahamas provided for a quota of SDR 20 million to be paid in currency, with the provision that SDR 5 million would be repurchased within 60 days after the currency subscription had been paid.

which states that a member shall repurchase to the extent that the international buffer stock makes a distribution in currency.

The Executive Board approved scheduling of repurchases over periods up to five years from the date of purchase for 14 members. The Board also agreed that 4 members postpone the discharge of repurchase obligations under Article V, Section 7(*b*), incurred in gold, subject to a review by October 31, 1974.

Three member countries used SDR 3 million of gold in the discharge of obligations incurred under Article V, Section 7(*b*), and Schedule B, payable as of April 30, 1973. Use of SDRs totaled SDR 29 million, of which SDR 4 million was in discharge of repurchase obligations incurred as of April 30, 1973.

In addition to being the currency most used in purchases, the deutsche mark was the currency most used in repurchases for SDR 248 million, or 37 per cent of the total (see Appendix Table I.16). Net use of deutsche mark amounted to some SDR 168 million.

Income, Expenses, and Reserves

The largest part of the Fund's income is derived from charges on Fund holdings of currencies in excess of quota, from service payments on purchases of currency and SDRs from the General Account other than those in the gold tranches, and from charges on stand-by arrangements. The Fund's income is also augmented by interest payments on SDRs held by the General Account and from assessments to defray the cost of conducting the business of the Special Drawing Account that is levied, under Article XXVI, Section 4, on all participants in proportion to their net cumulative allocations (this item is treated as a deduction from expenses).

All charges are payable in gold or at the member's option in SDRs, but charges on stand-by arrangements may be paid in U. S. dollars. In accordance with the provisions of Article V, Section 8(*f*), however, a member may settle its charges partially in its own currency if its monetary reserves are equivalent to less than one half of its quota.

The schedule of charges on balances in excess of quota that was in effect during 1973/74 (see Appendix Table I.19) produced earnings of SDR 28.2 million during the fiscal year. The highest earnings, SDR 128.1 million, were in 1970/71.

The schedule of charges is reviewed annually by Executive Directors and, as described earlier, a new schedule was introduced effective July 1, 1974. This was the first change in the schedule of charges since May 1, 1963.

The remainder of the Fund's income, equivalent to SDR 10.3 million during 1973/74, came mainly from interest payments received on holdings of SDRs by the General Account and, to a lesser extent, from charges in connection with purchases from the Fund and stand-by arrangements. Interest payments on holdings of SDRs were equivalent to SDR 7.8 million, which showed a decrease for the first time since the allocation of special drawing rights in 1969/70 because of lower average amounts held by the Fund; charges amounted to SDR 2.5 million, a decrease of 22 per cent compared with the previous year. Assessments to cover the expenses of operating the Special Drawing Account amounted to SDR 1.0 million.

Operational expenses, amounting to SDR 27.2 million, again consisted entirely of payment of remuneration to creditor members as specified in Article V, Section 9, of the Fund Agreement. In 1972/73 these payments totaled SDR 29.3 million.

The Fund's net operational income was SDR 11.2 million, a decrease of SDR 1.0 million from the previous year. Compared with SDR 34 million,[21] in 1972/73, budgetary and fixed property expenses increased by SDR 14.4 million in 1973/74. Net expenses of SDR 37.2 million were charged to the Special Reserve, reducing that balance to SDR 351.7 million on April 30, 1974.

A summary of income and expenses over the past ten fiscal years is given in Appendix Table I.18.

Transactions and Operations in Gold

During the past fiscal year, the Fund received gold equivalent to SDR 3.4 million and disbursed gold equivalent to SDR 3.6 million (see Appendix Table I.17). These transactions and operations were connected primarily with repurchase

[21] This figure would have been SDR 55.2 million had it not been reduced by SDR 21.2 million, the SDR equivalent of the proceeds of sale of the Fund's former headquarters building.

obligations incurred by members under Article V, Section 7(*b*), and payment of remuneration to creditor members as specified in Article V, Section 9, of the Fund Agreement.[22] On April 30, 1974 the Fund's gold with depositories was equivalent to SDR 5,369.9 million, only fractionally changed from last year.

At the request of South Africa, the Fund terminated its decision entitled "South Africa: Policy on Sales of Gold to the Fund" [23] on December 7, 1973. Under this decision, which had been adopted at the end of 1969, South Africa had been entitled to sell gold to the Fund, inter alia, to meet current foreign exchange needs when the price of gold in the markets fell to or below the equivalent of the parity price and, regardless of the market price, when South Africa had a need for foreign exchange over a semiannual period beyond that which could be satisfied by the sale of all current production of newly mined gold on the private markets or by sales to the Fund when the market price fell to or below the parity price.

South Africa's gold sales to the Fund in the framework of the decision had amounted to the equivalent of SDR 639.75 million in 1970 and SDR 137.55 million in 1971; no sales had taken place after 1971.

The decision permitted a review when requested because of a major change in circumstances, and in any event after a period of five years. In the request for termination of the decision, South Africa indicated its view that the termination in November 1973 of the agreement reached in Washington in March 1968, which had brought into existence the two-tier gold marketing arrangements, constituted a major change in circumstances.

During the year the Executive Directors permitted four members—Colombia, Iraq, the Philippines, and Turkey—to postpone the discharge of portions of repurchase obligations, under Article V, Section 7(*b*), of the Fund Agreement, that were payable in gold.[24] The total amount involved was equivalent to SDR 13.2 million. In permitting these postponements, the Executive Directors took note of the statements by the members that gold payments under present circumstances presented difficult problems and acted pending clarification of the future role of gold in connection with the reform of the international monetary system. The respective decisions are subject to review not later than October 31, 1974.

In November 1973 the Executive Directors took note of the difficulties faced by members in settling gold with the Fund in amounts of less than one standard bar, also in connection with repurchases incurred under Article V, Section 7(*b*). The Executive Directors decided that such small amounts shall not be collected.[25]

Consultations with Member Countries

In 1973/74 the Fund completed 89 regular consultations with member countries, of which 61 were under Article XIV and 28 with Article VIII countries. Member countries maintaining restrictions on current international payments and transfers under Article XIV are required to consult annually with the Fund. For members that have accepted the obligations of Article VIII, Sections 2, 3, and 4, the consultations are held regularly on a voluntary basis.

Consultations are a continuing and an important element in the work of the Fund. They not only provide the opportunity for reviewing in detail the economic and financial situation and policies of member countries but also establish a singularly effective setting for furthering international monetary cooperation. Over the years, consultations have placed increasing emphasis on the implications of members' domestic economic and financial policies in the context of international monetary stability. They help the Fund to deal quickly with members' requests for the use of

[22] In accordance with Rule I-9 of the Fund's Rules and Regulations, remuneration is payable "in gold to the extent that receipts of gold, during the financial year, in payment of charges under Article V, Section 8(*f*), exceed payments during that year of gold as transfer charges and interest on borrowings." Rule I-9 provides that "any remuneration due to each member and not payable in gold shall be paid in that member's currency." However, in accordance with Executive Board Decision No. 3033-(70/38), the Fund shall offer to pay participants, at their option, in special drawing rights for any amount of gold or currency payable as remuneration, provided that the General Account's holdings of SDRs at the end of the financial year exceed the amount of remuneration payable for that year.

[23] See *Annual Report, 1970,* pages 34–35 and 184–89.

[24] These members repurchased an equivalent amount of the Fund's holdings of their currencies with SDRs.

[25] Executive Board Decision No. 4087-(73/105), adopted on November 9, 1973 and reproduced in Appendix II.

Fund resources and proposals for changes in exchange rates and exchange practices. Also, for the individual member country, the consultations provide an independent appraisal of policy and enable the member to discuss with the Fund any special difficulties arising from the actions or policies of other countries.

In recent years the regular consultations have at times been supplemented by special consultations, and toward the end of 1973 the Fund initiated a new procedure for special consultations with members whose external policies were of major importance to the world economy. The first round of these consultations was held in November 1973 with nine member countries whose balance of payments developments and policies have had a major impact on international currency relationships. A second round of discussions, with ten members, including several of the larger developing countries, took place in April and May 1974.

During the fiscal year Qatar, South Africa, the Bahamas, and the United Arab Emirates accepted the obligations of Article VIII, Sections 2, 3, and 4, bringing to 41 the number of member countries with Article VIII status. These members are listed in Appendix Table I.22.

Training and Technical Assistance

The Fund has continued to provide member countries with a wide range of technical services in the fields of fiscal, monetary, and payments policy, banking, government finance, and statistics. The assistance has been made available in a variety of forms—through Fund representatives and advisors, training at headquarters, staff missions, and the assignment of outside experts—and has again covered about two thirds of the Fund's membership. In 1973/74, 35 Fund representatives or advisors were on assignment of six months or more in 23 countries; 240 government officials from 101 countries attended the IMF Institute; 72 staff members visited 29 countries on technical assistance missions; and 119 outside experts were on assignments of six months or more in 51 countries. This assistance was in addition to the general advisory services and technical assistance made available through the Fund's regular procedures under Article VIII and Article XIV consultations.

The IMF Institute's training facilities were increased in 1973/74 when, for the first time, the Institute was able to conduct three courses simultaneously. During the year the Institute offered ten courses to 240 officials of member governments and their financial institutions, an expansion of 25 per cent over the previous year. The course on Financial Analysis and Policy continues to be the principal course provided by the Institute, offered for 20 weeks in English, and for 24 weeks each in French and Spanish. This course, which places special emphasis on the problems of less developed countries, surveys the instruments of monetary, fiscal, and payments policy and examines their effectiveness in achieving policy objectives. It also includes a discussion of the purposes and operations of the Fund directed toward promoting a continued improvement in monetary cooperation among members and in their relations with the Fund. The Institute offers two shorter courses, also in English, French, and Spanish, as required. One is an 8-week course in Balance of Payments Methodology, held in conjunction with the Balance of Payments Division of the Research Department; the other is a 10-week course in Public Finance, conducted jointly with the Fiscal Affairs Department.

The Central Banking Service provided technical assistance to 51 member countries during the year. As in the past, this assistance took two forms: the provision of advisory services to deal with specific problems, usually undertaken by staff members but in some cases also by outside consultants; and the assignment of resident experts in countries, usually for one year or more, to serve in central banks or similar monetary institutions. The services provided included assistance in the setting up of new central monetary institutions; the drafting of central banking, general banking, and deposit insurance legislation; reviews of the financial and banking systems of members; and a computer feasibility study for a central bank. During the year the Central Banking Service and the Legal Department, in cooperation with the area departments concerned, prepared draft banking legislation in 6 countries and helped in the revision of draft legislation in 5 other countries. The Central Banking Service manned technical assistance missions to 15 countries and sent consultants to 8 countries in 1973/74. In the course of 1973/74, 78 outside experts and 14 consultants provided technical assistance to 45 countries. At the end of the year 61 outside experts and 1 consultant were on assignment from the Central Banking Service in 38 countries.

The Fiscal Affairs Department maintained its assistance to member countries at the substantially higher level to which it had increased in the previous year. A total of 31 countries received fiscal technical assistance during the year in the form of staff missions, staff assignments in the field, use of the services of members of the panel of fiscal experts, and work on fiscal projects undertaken at headquarters. The principal fields in which assistance was given were tax policy, tax and customs administration, budgetary systems and procedures, government accounting and auditing, and general financial management. In cooperation with the Legal Department, advice on drafting fiscal legislation was given in five countries. At the end of 1973/74, 24 members on the panel of fiscal experts were on long-term assignments in 15 member countries, and groups of long-term advisors were continuing to operate in 2 countries.

The Bureau of Statistics has continued to provide technical assistance in statistics to member countries, principally for establishing or improving central bank bulletins. This assistance has emphasized the development and inclusion in bulletins of financial and general statistics prepared in accordance with classifications and definitions that help to make such data useful for monetary authorities and others concerned with monetary and payments problems. During the past year, the Bureau's technical assistance on central bank bulletins covered 10 countries and also included brief review visits to assess progress made in central bank bulletins of 25 countries that had been assisted by the Bureau in previous years. The Bureau helped to inaugurate new central bank bulletins in 5 countries in 1973/74, and at the end of the period work was well advanced on the establishment of statistical bulletins in 7 other countries. Since technical assistance began in this field five years ago, the Bureau has helped to establish 18 central bank bulletins and to bring about substantial improvements in 16 existing bulletins.

In separate short-term staff missions during the year, the Bureau assisted 2 countries in the area of financial statistics and conducted a statistical seminar for Central African officials and technicians. The Bureau also continued to work with member governments on the compilation of disaggregated data on government finance according to the conceptual framework and classification standards developed in the Fund.

Relations with Other International Organizations

The Fund's cooperation with other international organizations, particularly those in the economic and financial area, was brought into sharp focus during 1973/74 as world events emphasized the need for coordination in dealing with common interests. In addition to its special relationship with the International Bank for Reconstruction and Development (IBRD), the Fund continued to have frequent contacts with the United Nations (UN) and its relevant organs, the Organization for Economic Cooperation and Development (OECD), the General Agreement on Tariffs and Trade (GATT), the European Economic Community (EEC), and the Bank for International Settlements (BIS). This liaison is maintained by the Fund's offices in Paris and Geneva and the office of its Special Representative to the United Nations, by exchange of pertinent data, and by attendance of headquarters staff at meetings at both the plenary and working levels. Representatives of these organizations attended the Annual Meeting of the Board of Governors of the Fund, held jointly with those of the IBRD and its affiliates in Nairobi, Kenya in September 1973, along with representatives of other organizations with which the Fund has related interests. Furthermore, officers of the IBRD, the United Nations Conference on Trade and Development (UNCTAD), the OECD, the GATT, the EEC, and the BIS attended meetings of the Committee of Twenty and its Deputies.

The Managing Director, Mr. Pierre-Paul Schweitzer, addressed the 55th Session of the UN Economic and Social Council (ECOSOC) in Geneva on July 5, 1973, while the new Managing Director, Mr. H. Johannes Witteveen, addressed the 55th Session, Resumed, in New York on

October 16, 1973, when he presented the Fund's Annual Report. The Managing Director or his Deputy attended meetings of the Administrative Committee on Coordination (ACC), while other staff attended preparatory and related interagency meetings. The Managing Director also attended the meeting of the OECD Ministerial Council and a monthly meeting of the BIS during the year under review. Coinciding with meetings of the Committee of Twenty, the Managing Director also attended meetings of the Ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs and a meeting of ministers and governors of central banks of the Group of Ten; staff representatives also attended meetings of these groups at the Deputies' level.

The Fund was also represented at other meetings of UN bodies, including sessions of the General Assembly in New York and of the ECOSOC, as well as its regional commissions and other specialized bodies. Fund staff also cooperated with various bodies of the OECD, and attended relevant meetings in the EEC, monthly meetings and the Annual Meeting of the BIS, as well as a meeting of the Economic and Consultative Committee of the International Chamber of Commerce, the UN, and the GATT.

The Fund's long-standing cooperation with the GATT with regard to import restrictions imposed for balance of payments reasons involved staff participation and the provision of pertinent documentation for GATT consultations with certain members common to both organizations. During the fiscal year Fund staff attended the 29th Session of the CONTRACTING PARTIES, meetings of the Council of Representatives, and both the preparatory meeting in Geneva and the Ministerial Meeting in Tokyo relating to the forthcoming multilateral trade negotiations.

Cooperation with members with respect to debt renegotiation and aid coordination involved staff participation and provision of relevant documentation to multinational meetings of creditors on Chile, Ghana, and the Khmer Republic, as well as a meeting of the Pakistan Consortium. Fund representatives continued their participation in the periodic meetings of the Inter-Governmental Group on Aid to Indonesia, and in meetings held jointly by the IBRD and the Asian Development Bank on the reconstruction and development of Indochina. Fund staff attended a multilateral conference to consider economic aid for the Khmer Republic in 1974, an exploratory meeting of potential donor countries for Ghana, and meetings of the IBRD Consultative Groups on aid coordination for Colombia, Ethiopia, East Africa (Kenya), Korea, Morocco, Peru, the Philippines, the Sudan, Thailand, and Zaïre, as well as meetings of the IBRD-sponsored Consortium for India and the OECD-sponsored Consortium on Turkey. Fund staff also attended the Annual Meetings of the Boards of Governors of the African Development Bank, the Asian Development Bank, and the Inter-American Development Bank, and participated in a conference held by the Arab Fund for Economic and Social Development on the expansion and flow of investment funds in the region and in the Annual Meeting of that Fund. In Latin America, Fund staff attended the Annual Meeting of the Inter-American Economic and Social Council of the Organization of American States (OAS) and continued to cooperate and to provide documentation in connection with the OAS Committee on the Alliance for Progress' annual country reviews and other matters of mutual interest. In Africa, the Fund was represented at the 3rd meeting of the Association of African Central Banks in Lagos, Nigeria, and a fact-finding team from the Association later visited the Fund.

The experience of Fund staff in economic and financial matters occasioned participation in, and in some instances the provision of organizational assistance to, a number of seminars, including a Seminar on the Problems, Ways, and Means of Promoting West African Entrepreneurship, organized by the Bank of Sierra Leone in Freetown, for the West African Sub-Regional Committee of the Association of African Central Banks; a statistical seminar in Yaoundé, Cameroon, held for the five members of the Bank of Central African States (Banque des Etats de l'Afrique Centrale (BEAC)); a Seminar on Investment Policies for Surplus Funds for Arab Oil Producing Countries in Kuwait; a Seminar on Monetary Policy and Public Debt Administration, held by the Brazilian Capital Market Institute and the National Association of Open Market Institutions, in Rio de Janeiro; a Seminar on Capital Markets, under the joint auspices of the Central Bank of Uruguay and the OAS Capital Markets Program in Montevideo; a Seminar on Capital Markets, sponsored by the Government of Bolivia and the OAS in La

Paz; a Seminar on Employment, convened by the Government of Mexico and the International Labor Office, in Mexico City; a special technical meeting on inflation held by the Monetary Policy Committee of the Central American Monetary Council in San José, Costa Rica, which was followed a month later by a Seminar on Inflation in San Salvador, El Salvador. A Fund staff member also delivered a technical paper and chaired a round-table discussion at the 7th Annual General Assembly of the Inter-American Center of Tax Administrators (CIAT) in Guatemala City and another staff member participated in a meeting for international coordination for the development of financial markets held in Geneva under the auspices of the International Finance Corporation and the International Savings Banks Institute.

In the area of commodities, staff attended meetings of the International Cocoa Organization's Council and the International Tin Council, with which the Fund has special relationships in connection with its buffer stock facility; the World Grain Seminar, held by the Canadian Grains Council in Winnipeg; an International Seminar on Commodity Forecasting Techniques, held by the IBRD in Oxford, United Kingdom; the 16th Session of the Food and Agriculture Organization Committee on Commodity Problems' Intergovernmental Group on Grains, in Rome; and various meetings of the UNCTAD Committee on Commodities in Geneva.

Reflecting the Fund's interest in export credits, staff representatives attended the 30th annual general meeting of the Union d'Assureurs des Crédits Internationaux (Berne Union) and its extraordinary general meeting in South Africa, and an ad hoc Group for Fund/Bank cooperation from the Berne Union visited Fund headquarters for an informal exchange of views on statistics and matters relating to external debt.

Membership, Quotas, and Participation in the Special Drawing Account

The Bahamas became a member of the Fund on August 21, 1973 with a quota of SDR 20 million, bringing total membership on April 30, 1974 to 126 members and aggregate quotas to SDR 29,189 million. The Bahamas also became a participant in the Special Drawing Account, bringing the number of participants to 117, with quotas equivalent to 98.5 per cent of the Fund total.[26] An application from Papua New Guinea for membership in the Fund, after it has attained independence, was before the Executive Directors at the end of the fiscal year.

In early April 1974, Nepal requested postponement to not later than April 30, 1976 of payments relating to the fourth and fifth installments of the increase in its quota to which it had consented in accordance with paragraph 6 of the Board of Governors Resolution No. 25-3 on "Increases in Quotas of Members—Fifth General Review." [27] The fourth and fifth installments, each equivalent to SDR 800,000, are due not later than April 27, 1974 and April 27, 1975, respectively. For each installment, an amount equivalent to SDR 200,000 is payable in gold. In requesting postponement, the Nepalese authorities stated that payment of gold in present circumstances presented serious problems, especially in view of the uncertainty as to the future role of gold in connection with the reform of the international monetary system. The Executive Board accepted Nepal's proposal and recommended that Board of Governors Resolution No. 25-3, "Increases in Quotas of Members —Fifth General Review," adopted February 9, 1970 be amended to permit Nepal to pay the fourth and fifth installments of its quota increase not later than April 30, 1976. The amendment was adopted by the Board of Governors on June 24, 1974.

Executive Directors, Management, and Staff

A list of Executive Directors and their voting power on April 30, 1974 is given in Appendix III. The changes in membership of the Executive Board during 1973/74 are shown in Appendix IV.

Mr. H. Johannes Witteveen, a former Minister of Finance and Deputy Prime Minister of the Netherlands, was appointed Managing Director and Chairman of the Board of Executive Direc-

[26] The 9 members of the Fund that have not deposited instruments of participation in the Special Drawing Account are Ethiopia, Kuwait, Lebanon, the Libyan Arab Republic, Portugal, Qatar, Saudi Arabia, Singapore, and the United Arab Emirates.

[27] See *Annual Report, 1970*, pages 177–84.

tors and assumed office on September 1, 1973. He succeeded Mr. Pierre-Paul Schweitzer, of France, whose second term of office expired on August 31, 1973.

Mr. William B. Dale, formerly Executive Director of the Fund for the United States, was appointed Deputy Managing Director and assumed his duties on March 1, 1974. He succeeded Mr. Frank A. Southard, Jr., who had served as Deputy Managing Director from November 1, 1962.

In the year ended April 30, 1974, there were 153 appointments to the Fund's regular staff and 110 separations. At the end of the fiscal year, the staff numbered 1,296 and were drawn from 88 countries. These figures do not include Advisors (4) and Assistants (74) to Executive Directors.

APPENDICES

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Appendix I. The Fund in 1973/74

The tables and chart in this appendix supplement the information given in Chapter 3 on the activities of the Fund during the past year. For some aspects of the Fund's operations, data covering longer periods are included. Apart from Table I.1 on exchange rates and Tables I.19, I.20, and I.21 setting out the charges on the use of the Fund's resources, the data in the tables and chart do not go beyond April 30, 1974, the end of the Fund's fiscal year. The unit of value employed in most of the tables and in the chart is the special drawing right (SDR), which is equivalent to 0.888671 gram of fine gold. This, in turn, is equivalent to one U. S. dollar of the weight and fineness in effect on July 1, 1944, the unit of value that was employed in the Annual Reports prior to 1972.[1]

Exchange Rate Developments

Exchange rate developments from May 1973 to early May 1974 may be summarized as follows:

May 17–June 21, 1973

The Fund agreed to the initial par value proposed by Qatar.

The Fund noted (i) the middle rate for the U. S. dollar communicated by South Africa; (ii) that the South African rand continued to be the currency of Botswana, Lesotho, and Swaziland, and (iii) the exchange rate actions by Finland, Iceland, Malaysia, Morocco, and Singapore not to maintain exchange rates within specified margins.

June 29–August 10, 1973

The Fund noted (iv) the new central rate communicated by the Federal Republic of Germany and the new rate communicated by Austria; (v) central rates communicated by Kenya, Tanzania, Uganda, and Western Samoa; (vi) the circumstances that led Cyprus and Yugoslavia to the decisions not to maintain the spot exchange rates for their currencies within margins hitherto observed; and (vii) the circumstances that led New Zealand to discontinue the fixed exchange rate relationship between the New Zealand and U. S. dollars.

The Fund agreed to the initial par value proposed by Algeria, and concurred in the new par values proposed by Saudi Arabia and Thailand.

September 9–17, 1973

The Fund concurred in the new par value proposed by Australia; it noted (viii) the exchange rate action by New Zealand to appreciate the market rate for the New Zealand dollar by 10 per cent; (ix) the exchange rate action communicated by Fiji to appreciate the Fiji dollar by 5.3 per cent; and (x) the new central rate communicated by the Netherlands.

[1] For the interim method of valuing the SDR, effective July 1, 1974, see page 51.

October 18, 1973–January 14, 1974

The Fund concurred in the new par values proposed by the United States, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Liberia, Mexico, Nicaragua, and Panama.

The Fund noted (xi) the circumstances that led Greece to the decision not to maintain the exchange rate for the drachma within margins hitherto observed; (xii) the decision of Malawi to cease to maintain the fixed exchange rate relationship between the kwacha and the pound sterling; and (xiii) the new central rates communicated by Norway, Kenya, Rwanda, Tanzania, and Uganda.

The Fund agreed to the initial par value proposed by the Bahamas.

January 21–23, 1974

The Fund noted (xiv) the circumstances that led France to the decision not to maintain during the next six months and on a provisional basis the exchange rates between the French franc and certain other currencies in the official market within margins hitherto observed; (xv) the circumstances that led Spain to the decision not to maintain for the time being the rate between the peseta and the U. S. dollar within margins hitherto observed; and (xvi) the decision of Tunisia to set the rate between the Tunisian dinar and the French franc by taking account of the daily quotations of the deutsche mark in terms of the commercial franc in the Paris exchange market.

January 21–22, 1974

Foreign exchange markets in Austria, Belgium, Denmark, Finland, Germany, Japan, Luxembourg, the Netherlands, Norway, Spain, and Sweden were closed on January 21, reopening the following day. Exchange markets were open on January 21 in France, Italy, and the United Kingdom.

January 28–April 30, 1974

The Fund agreed to the initial par value proposed by the United Arab Emirates. It concurred in the new par value proposed by Costa Rica.

The Fund noted (xvii) the new central rate communicated by Fiji, and by the United Kingdom for the Cayman Islands; and (xviii) the decisions taken by France and Italy to terminate the dual exchange markets.

The structure of exchange rates of member countries as it existed on July 12, 1974 is shown in Table I.1. Fund action in 1973/74 with respect to par values and central rates is recorded in Tables I.2 and I.3, respectively.

Special Drawing Account

Summary data on SDR transactions between participants and SDR transactions and operations conducted through the Fund's General Account for the period from the first allocation on January 1, 1970 to April 30, 1974 are shown in Table I.4. Movements in the SDR holdings for individual participants during the fiscal year ended April 30, 1974 are summarized in Table I.5. In addition, Table I.6 shows the currencies transferred against SDRs in transactions between participants, and Table I.7 sets out the amounts of SDRs transferred to individual participants from the General Account. The operations and transactions in SDRs during the fiscal year ended April 30, 1974 are discussed in Chapter 3.

Net transfers between participants and the General Account during the fiscal year resulted in a reduction of the General Account's holdings from SDR 617 million on April 30, 1973 to SDR 499 million on April 30, 1974.

General Account

Tables I.8 to I.16 and Chart I.1 show data on members' use of the Fund's resources, on their repurchases of balances of their currency held by the General Account, and on stand-by arrangements approved for members by the Fund.

Table I.8 provides a comparative statement of members' creditor positions, presented both by amounts and as percentages of quotas. The table includes 24 members with creditor positions amounting to more than SDR 50,000 on April 30, 1974; during the year the positions of 4 members increased, while those of 11 decreased and 7 remained unchanged. Kenya and New Zealand were added to the list at the end of 1973/74.

Details on members' purchases and repurchases under the Fund's compensatory financing facility are set out in Table I.11. Summary data on stand-by arrangements and on members' purchases and repurchases, since the inception of the Fund, are shown in Table I.12 and Table I.13, respectively. The transactions and operations of the General Account during the fiscal year ended April 30, 1974 are discussed in Chapter 3.

Repurchases Under Article V, Section 7(b)

Article V, Section 7(*b*), provides that, subject to certain limitations, a member shall repurchase an amount of the Fund's holdings of its currency equivalent to one half of any increase in the Fund's holdings of its currency that has occurred during the Fund's financial year, plus one half of any increase or minus one half of any decrease in the member's monetary reserves during the same period, or, if the Fund's holdings of the member's currency have decreased, one half of any increase in the member's monetary reserves minus one half of the decrease in the Fund's holdings of the member's currency.

On April 30, 1973 the Fund's holdings of currencies of 62 member countries exceeded 75 per cent of their quotas. Repurchase obligations pursuant to Article V, Section 7(*b*), were calculated for 19 of these members. Repurchase obligations by the 19 members totaled the equivalent of SDR 482 million payable in gold, SDRs, and convertible currencies as indicated in Table I.14.

The outstanding balance of repurchase obligations incurred as of April 30, 1971 and April 30, 1972 payable in subsequent financial years amounted to SDR 35 million, of which SDR 16 million was payable as of April 30, 1973, SDR 10 million not later than August 25, 1973, and SDR 9 million in subsequent financial years.[2]

Article V, Section 7(*c*)(iv), limits the amounts to be repurchased under Article V, Section 7(*b*), in any year to 25 per cent of the quota of the member concerned. This limitation applied to the obligations of seven members incurred as of April 30, 1973 and to the outstanding balance of the obligations of one member incurred as of April 30, 1971 and 1972, thus reducing the total amount to be discharged as of April 30, 1973 to SDR 287 million—SDR 271 million in respect of obligations incurred as of April 30, 1973, and SDR 16 million in respect of outstanding balances of obligations incurred as of April 30, 1971 and April 30, 1972. In August 1973

[2] *Annual Report, 1973,* page 68.

Nigeria agreed with the revised calculation of its repurchase obligation incurred as of April 30, 1972. The obligation payable in convertible currencies equivalent to SDR 20.1 million was discharged in November 1973. Also in August 1973, Iraq discharged the part of its April 30, 1971 and 1972 repurchase obligations payable in convertible currencies equivalent to SDR 6.9 million that was scheduled to be repurchased not later than August 25, 1973.[3] The member requested and the Fund agreed to further postponement of the discharge of the balance, equivalent to SDR 3.1 million payable in gold.

During the year four members (Colombia, Iraq, the Philippines, and Turkey) requested postponement of the discharge of that part of their repurchase obligations that was payable in gold, totaling the equivalent of SDR 13.2 million. In permitting the postponements the Executive Directors took note of the reasons advanced by the respective authorities of the members concerned that a payment of gold in present circumstances would present them with serious problems and that they would appreciate postponement pending the clarification of the future role of gold in connection with the reform of the international monetary system. These decisions are subject to further review before October 31, 1974.

In November 1973 the Executive Directors also decided that if a payment due under Article V, Section 7(*b*), includes an amount of gold equal to less than one standard bar, such amount shall not be collected.

Five members, which in accordance with Article V, Section 7(*c*)(iv), discharged amounts equivalent to 25 per cent of their respective quotas, also subsequently discharged additional amounts. Indonesia and Peru discharged the balance of their obligations incurred as of April 30, 1973; Nicaragua repurchased the equivalent of SDR 4.25 million, which discharged the balance of the April 30, 1971 repurchase obligation and part of the repurchase obligation incurred as of April 30, 1972; the Philippines repurchased the equivalent of SDR 17.25 million and El Salvador the equivalent of SDR 6,245, which discharged part of the balance of their obligations incurred as of April 30, 1973.

The outstanding balance of repurchase obligations incurred as of April 30, 1971, 1972, and 1973 amounted to SDR 156 million, of which SDR 81 million was payable as of April 30, 1974, SDR 13 million after expiry of postponement, and SDR 62 million in subsequent financial years.

During the fiscal year 1973/74, repurchases in discharge of obligations incurred under Article V, Section 7(*b*), totaled SDR 381 million. Of this total, SDR 3 million was payable in gold, SDR 4 million in special drawing rights, and SDR 374 million in convertible currencies (Table I.15). Of the amount payable in convertible currencies, the equivalent of SDR 297 million was calculated in currencies that the Fund could not accept or could accept only up to a limited amount in repurchases as of April 30, 1972 and April 30, 1973; this resulted from the limitation imposed by Article V, Section 7(*c*)(iii), providing that repurchases shall not be carried to a point at which the Fund's holdings of any currency required to be used are above 75 per cent of the quota of the member concerned. In accordance with Schedule B, paragraph 1(d), of the Fund Agreement and paragraph 1 of Executive Board Decision No. 3049-(70/44),[4] other convertible currencies were selected in substitution for these currencies.

The sum of SDR 381 million repurchased in discharge of obligations incurred under Article V, Section 7(*b*), of the Fund Agreement represented 57 per cent of total repurchases during the fiscal year 1973/74. Of this amount, SDR 8 million and

[3] *Annual Report, 1973,* page 68.
[4] Decision adopted May 20, 1970 and reproduced in *Selected Decisions of the International Monetary Fund and Selected Documents* (Sixth Issue, Washington, 1972), pages 64–66.

SDR 30 million related to obligations incurred as of April 30, 1971 and April 30, 1972, respectively; the remainder, SDR 343 million, was in discharge of obligations incurred as of April 30, 1973.

Gold

The Fund's transactions and operations in gold over the last three fiscal years are covered in Table I.17.

Income and Expenses

Table I.18 shows a summary of income and expenses of the General Account over the last ten fiscal years. Details are provided in Chapter 3.

The Fund's schedule of charges on balances in excess of quota that was in effect from May 1, 1963 to June 30, 1974 is shown in Table I.19. New schedules of charges that came into effect on July 1, 1974 are shown in Tables I.20 and I.21.

Administrative Budget and Audit

The administrative budget approved by the Executive Directors for the period May 1, 1974 to April 30, 1975 is presented in Appendix V. Comparative income and expense figures for the fiscal years ended April 30, 1972, 1973, and 1974 appear in Appendix VI. Appendix VII gives the Opinions of the Audit Committee, together with the audited Balance Sheets of the General Account and Special Drawing Account as at April 30, 1974, the Statement of Income and Expenses, the Statement of Reserves, the Statement of Source and Use of Special Drawing Rights, and the audited Balance Sheet of the Staff Retirement Fund as at April 30, 1974.

Article VIII

A list of the member countries that had accepted the obligations of Article VIII, Sections 2, 3, and 4, by April 30, 1974 is presented in Table I.22.

Publications

Table I.23 lists publications issued by the Fund during the past fiscal year.

Table I.1. Exchange Rates, July 12, 1974

(*Currency units per unit listed*)

		Member Maintains Exchange Rate Against [1]					Market Rates [2]
Member	Currency	U. S. dollar	Pound sterling	French franc	Spanish peseta	Other currencies in group [3]	U. S. dollar
Afghanistan [4]	afghani	45.00					
Algeria [4]	dinar			[5]			3.92157
Argentina [4]	peso	5.00					
Australia	dollar	0.672272					
Austria	schilling			[5]			18.17
*Bahamas [4]	dollar	1.00					
*Bahrain	dinar	0.394737					
Bangladesh [4]	taka		18.9677				
Barbados	dollar		4.80				
*Belgium [4]	franc					48.6572	37.945
*Bolivia	peso	20.00					
Botswana	rand			[5]			0.666667
Brazil [4]	cruzeiro	6.865					
*Burma	kyat	4.8138					
*Burundi	franc	78.7501					
Cameroon	franc			50.00			
Canada	dollar			[5]			0.9756
Central African Republic [4]	franc			50.00			
Chad	franc			50.00			
Chile [4]	escudo	750.00					
*China, Republic of	new Taiwan dollar	38.00					
Colombia [4]	peso	25.68					
Congo, People's Republic of the	franc			50.00			
Costa Rica [4]	colón	8.57					
Cyprus	pound			[5]			0.344828
Dahomey	franc			50.00			
*Denmark	krone					7.57831	5.9550
Dominican Republic [4]	peso	1.00					
Ecuador	sucre	25.00					
Egypt [4]	pound	0.391305					

El Salvador	colón	2.50					
Equatorial Guinea [4]	peseta				1.00		
*Ethiopia	dollar	2.07237					
*Fiji	dollar	0.80					
Finland	markka			[5]			3.6707
France	franc			[5]			4.8138
Gabon	franc			50.00			
Gambia, The	dalasi		4.00				
*Germany, Federal Republic of	deutsche mark					3.21979	2.5570
Ghana [4]	cedi	1.15385					
Greece	drachma			[5]			30.03
Guatemala	quetzal	1.00					
Guinea [4]	syli	20.4628					
Guyana	dollar		5.2114				
Haiti	gourde	5.00					
Honduras	lempira	2.00					
Iceland	króna			[5]			95.40
*India	rupee		18.9677				
Indonesia	rupiah	415.00					
*Iran	rial	68.1747					
*Iraq	dinar	0.296053					
Ireland [4]	pound		1.00				
*Israel	pound	4.20					
Italy	lira			[5]			644.475
Ivory Coast	franc			50.00			
*Jamaica	dollar	0.909091					
Japan	yen			[5]			292.80
*Jordan	dinar	0.321428					
*Kenya	shilling	7.14286					
Khmer Republic [4]	riel	375.00					
Korea	won	398.90					
*Kuwait	dinar	0.296053					
Laos [4]	kip	600.00					
Lebanon	pound			[5]			2.275
Lesotho	rand			[5]			0.666667
Liberia	dollar	1.00					
*Libyan Arab Republic	dinar	0.296053					
*Luxembourg [4]	franc					48.6572	37.945
Malagasy Republic	franc			50.00			
Malawi	kwacha			[5]			0.8000
Malaysia	dollar			[5]			2.4242

TABLE I.1 (*concluded*). EXCHANGE RATES, JULY 12, 1974

(*Currency units per unit listed*)

		Member Maintains Exchange Rate Against [1]					Market Rates [2]
Member	Currency	U. S. dollar	Pound sterling	French franc	Spanish peseta	Other currencies in group [3]	U. S. dollar
Mali	franc			100.00			
Malta	pound	----------	----------	[5]	----------	----------	0.3636
Mauritania	ouguiya			10.00			
Mauritius [4]	rupee		13.3333				
Mexico	peso	12.50					
Morocco [4]	dirham	----------	----------	[5]	----------	----------	4.255
*Nepal [4]	rupee	10.56					
*Netherlands	guilder					3.35507	2.6330
New Zealand	dollar	----------	----------	[5]	----------	----------	0.6867
Nicaragua [4]	córdoba	7.00					
Niger	franc			50.00			
Nigeria	naira	----------	----------	[5]	----------	----------	0.588235
*Norway	krone					6.87145	5.4050
*Oman	rial Omani	0.345395					
*Pakistan	rupee	9.90					
Panama	balboa	1.00					
Paraguay [4]	guaraní	126.00					
Peru [4]	sol	38.70					
Philippines	peso	6.78					
Portugal	escudo	----------	----------	[5]	----------	----------	25.1889
*Qatar	riyal	3.94737					
Romania [4]	leu	14.38 [6]					
*Rwanda	franc	92.84					
*Saudi Arabia	riyal	3.55001					
Senegal	franc			50.00			
Sierra Leone	leone		2.00				
Singapore	dollar	----------	----------	[5]	----------	----------	2.4876
*Somalia [4]	shilling	6.23270					
South Africa	rand	----------	----------	[5]	----------	----------	0.666667
Spain	peseta	----------	----------	[5]	----------	----------	57.0470

Sri Lanka [4]	rupee		15.60			
Sudan [4]	pound	0.348242				
Swaziland	rand			[5]		0.666667
*Sweden	krona				5.50094	4.3880
Syrian Arab Republic	pound	3.675				
*Tanzania	shilling	7.14286				
*Thailand	baht	20.00				
Togo	franc			50.00		
Trinidad and Tobago	dollar		4.80			
Tunisia	dinar			[5]		0.4167
Turkey [4]	lira	13.50				
*Uganda	shilling	7.14286				
*United Arab Emirates	dirham	3.94737				
United Kingdom [4]	pound			[5]		0.4193
United States	dollar					
Upper Volta	franc			50.00		
Uruguay [4]	peso	1,125.00				
Venezuela [4]	bolívar	4.285				
Viet-Nam [4]	piastre	620.00				
*Western Samoa	tala	0.596174				
Yemen Arab Republic	rial			[5]		4.396
*Yemen, People's Democratic Republic of [4]	dinar	0.345395				
Yugoslavia [4]	dinar			[5]		14.8148
*Zaïre	zaïre	0.50				
*Zambia	kwacha	0.642856				

* The member is availing itself of wider margins in accordance with Executive Board Decision No. 3463-(71/126), as amended by Executive Board Decision No. 4083-(73/104), adopted November 7, 1973.

[1] Rates other than market rates as notified to the Fund.

[2] Representative rates for the currencies of Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Norway, South Africa, Spain, Sweden, and the United Kingdom. Other rates are selling rates in New York.

[3] Belgium, Denmark, Germany, Luxembourg, the Netherlands, Norway, and Sweden maintain maximum margins of 2¼ per cent for exchange rates in transactions in the official markets between their currencies and those of the other countries in this group. Rates shown are central rates established under Executive Board Decision No. 4083-(73/104), expressed in terms of SDRs.

[4] Member maintains multiple currency practice and/or dual exchange market.

[5] The member has notified the Fund that its currency is not being maintained within specified margins.

[6] The rate at which the Fund computes its holdings of lei.

TABLE I.2. PAR VALUES ESTABLISHED OR CHANGED, FISCAL YEAR ENDED APRIL 30, 1974

		From		To		
Member	Currency	Grams of gold per unit	Units per SDR	Grams of gold per unit	Units per SDR	Date
Algeria	dinar	(initial par value)		0.180000	4.93706	7/18/73
Australia	dollar	1.04360	0.851544	1.09578	0.810994	9/9/73
Bahamas	dollar	(initial par value)		0.736662	1.20635	12/17/73
Costa Rica	colón	0.134139	6.62500	0.0859580	10.3384	4/25/74
Dominican Republic	peso	0.818513	1.08571	0.736662 [1]	1.20635 [1]	10/27/73
El Salvador	colón	0.327405	2.71429	0.294665	3.01587	10/18/73
Guatemala	quetzal	0.818513	1.08571	0.736662	1.20635	10/18/73
Haiti	gòurde	0.163703	5.42857	0.147332 [2]	6.03176 [2]	10/26/73
Honduras	lempira	0.409256	2.17143	0.368331	2.41270	10/19/73
Liberia	dollar	0.818513	1.08571	0.736662	1.20635	10/18/73
Mexico	peso	0.0654810	13.5714	0.0589330	15.0793	10/17/73
Nicaragua	córdoba	0.116930	7.60003	0.105237	8.44447	10/18/73
Panama	balboa	0.818513	1.08571	0.736662 [3]	1.20635 [3]	11/16/73
Qatar	riyal	(initial par value)		0.186621	4.76190	6/14/73
Saudi Arabia	riyal	0.197482	4.50000	0.207510	4.28255	8/10/73
Thailand	baht	0.0354164	25.0921	0.0368331	24.1270	7/15/73
United Arab Emirates	dirham	(initial par value)		0.186621	4.76190	2/23/74
United States	dollar	0.818513	1.08571	0.736662	1.20635	10/18/73

[1] This was a central rate, February 16 to October 26, 1973.
[2] This was a central rate, February 20 to October 25, 1973.
[3] This was a central rate, February 23 to November 15, 1973.

Table I.3. Central Rates Established or Changed in Accordance with Executive Board Decision No. 3463-(71/126), as Revised by Decision No. 4083-(73/104), Fiscal Year Ended April 30, 1974

Member	Currency	From: Grams of gold per unit	From: Units per SDR	To: Grams of gold per unit	To: Units per SDR	Date
Fiji	dollar	(no par value or central rate)		0.920828	0.965078	2/25/74
Germany, Fed. Rep. of	deutsche mark	0.261615 [1]	3.39687 [1]	0.276003	3.21979	6/29/73
Kenya	shilling	0.103133 [2]	8.61675 [2]	0.106763	8.32377	6/20/73
		0.106763 [1]	8.32377 [1]	0.103133	8.61675	1/14/74
Netherlands	guilder	0.252265 [1]	3.52282 [1]	0.264874	3.35507	9/17/73
Norway	krone	0.123170 [1]	7.21500 [1]	0.129328	6.87145	11/16/73
Rwanda	franc	0.00888671 [2]	100.000 [2]	0.00793456	112.000	1/7/74
Tanzania	shilling	0.103133 [2]	8.61675 [2]	0.106763	8.32377	7/2/73
		0.106763 [1]	8.32377 [1]	0.103133	8.61675	1/14/74
Uganda	shilling	0.103133 [2]	8.61675 [2]	0.106763	8.32377	7/2/73
		0.106763 [1]	8.32377 [1]	0.103133	8.61675	1/14/74
Western Samoa	tala	(no par value or central rate)		1.23565	0.719193	7/26/73
		Separate Currency of Nonmetropolitan Area				
United Kingdom Cayman Islands	dollar	1.06641 [2]	0.833333 [2]	0.883994	0.994737	1/28/74

[1] Central rate.
[2] Par value.

TABLE I.4. TRANSFERS OF SPECIAL DRAWING RIGHTS, JANUARY 1, 1970–APRIL 30, 1974

(*In millions of SDRs*)

	Jan. 1, 1970–Apr. 30, 1970	Fiscal Years Ended April 30				Total
		1971	1972	1973	1974	Jan. 1, 1970–Apr. 30, 1974
Transfers between participants						
Transactions with designation	155	348	267	117	60	946
Transactions without designation	20	286	380	303	996	1,985
	175	633	647	420	1,056	2,931
General Account						
Transfers from participants						
Repurchases (net)	183	357	501	68	29	1,138
Charges (net)	29	66	30	30	29	184
Assessments	1	1	1	1	1	5
Interest received on General Account holdings	—	4	7	10	8	30
	213	429	540	108	67	1,357
Transfers to participants						
Purchases	—	—	—	292	7	299
Replenishment of participants' currencies	—	123	21	—	—	144
Reconstitution	—	—	46	107	157	311
Remuneration	—	18	15	2	20	56
Restoration of participants' holdings [1]	—	—	29	—	—	29
Distribution of net income	—	9	8	—	—	17
Other [2]	—	1	—	—	—	1
	—	151	120	401	185	857
Total transfers	388	1,213	1,307	929	1,308	5,145
General Account holdings at end of period	213	490	910	617	499	499

[1] Under Article XXV, Sections 2(*b*)(ii) and 7(*e*).
[2] Under Article XXVI, Section 5.

Table I.5. Summary of Transactions and Operations in Special Drawing Rights, Fiscal Year Ended April 30, 1974

(In thousands of SDRs)

Holders Participants	Total Holdings on May 1, 1973	Transactions and Operations: Between participants: Received: Through designation	Received: Other	Between participants: Used	Between participants and the General Account: Received	Between participants and the General Account: Used	Interest, Charges, and Assess-ment (Net)	Positions at April 30, 1974: Total holdings	Net cumulative allocations	Holdings as per cent of net cumulative allocations
Afghanistan	977				5,500	2,260	−149	4,069	12,753	31.9
Algeria	41,847						+19	41,866	40,290	103.9
Argentina	52,418	21,400			2,737	3,675	−1,417	71,463	152,520	46.9
Australia	234,724						+112	234,836	225,645	104.1
Austria	85,891						+129	86,020	76,745	112.1
Bangladesh					1,066	1,066				
Barbados	2,768							2,768	2,769	100.0
Belgium	527,589		103,166	37,048	4,603		+5,878	604,187	209,346	288.6
Bolivia	920				2,500	344	−156	2,919	12,753	22.9
Botswana	1,568							1,568	1,569	100.0
Brazil	157,087				95		+53	157,235	152,520	103.1
Burma	5,213				5,085	582	−205	9,512	20,844	45.6
Burundi	3,601						−45	3,556	6,567	54.1
Cameroon	10,509						−1	10,508	10,513	100.0
Canada	466,878				390		+1,591	468,859	358,620	130.7
Central African Republic	1,159					140	−49	969	4,365	22.2
Chad	550				2,408	1,310	−57	1,591	4,449	35.7
Chile	1,093				5,000	1,447	−805	3,841	54,654	7.0
Colombia	17,280	7,500			421	148	−525	24,528	54,441	45.1
Congo, People's Republic of the	2,549					93	−29	2,426	4,449	54.5
Costa Rica	3,883						−108	3,775	11,016	34.3
Cyprus	10,448						+22	10,470	8,898	117.7
Dahomey	4,447						−1	4,447	4,449	99.9
Denmark	72,014		72,296	4,970			+275	139,614	82,764	168.7
Dominican Republic	6,782				40	51	−118	6,654	14,535	45.8
Ecuador	5,610					42	−86	5,482	11,229	48.8
Egypt	1,536				30,500	1,255	−632	30,150	65,244	46.2
El Salvador	3,728				220	101	−120	3,728	11,655	32.0
Equatorial Guinea	1,860						−13	1,847	2,712	68.1
Fiji	1,378							1,378	1,378	100.0
Finland	67,538				244		+88	67,870	61,470	110.4
France	581,820		108,382	588,531			−1,193	100,478	484,980	20.7
Gabon	4,726					31	−2	4,693	4,791	98.0
Gambia, The	2,177					76	−3	2,098	2,331	90.0
Germany, Federal Republic of	825,850		712,080	100,463	8,816		+7,233	1,453,517	542,400	268.0

TABLE I.5 (*concluded*). SUMMARY OF TRANSACTIONS AND OPERATIONS IN SPECIAL DRAWING RIGHTS, FISCAL YEAR ENDED APRIL 30, 1974

(*In thousands of SDRs*)

		Transactions and Operations						Positions at April 30, 1974		
		Between participants			Between participants and the General Account					
		Received								
Holders Participants	Total Holdings on May 1, 1973	Through designation	Other	Used	Received	Used	Interest, Charges, and Assess-ment (Net)	Total holdings	Net cumulative allocations	Holdings as per cent of net cumulative allocations
Ghana	9,695				19		−309	9,404	30,123	31.2
Greece	25,236	2,213					−312	27,136	46,194	58.7
Guatemala	11,484						−7	11,477	11,868	96.7
Guinea	2,773				2,140	1,383	−94	3,436	8,304	41.4
Guyana	4,056					45	−42	3,969	6,780	58.5
Haiti	3,004			900	119	681	−63	1,479	6,567	22.5
Honduras	5,407					4	−48	5,355	8,517	62.9
Iceland	6,344						−17	6,327	7,419	85.3
India	245,257					310	−1,250	243,697	326,220	74.7
Indonesia	35,116	10,500			3,172	3,319	−786	44,683	90,156	49.6
Iran	33,941	3,000					−411	36,530	61,896	59.0
Iraq	23,211					3,140	−30	20,041	23,217	86.3
Ireland	39,288				136		−1	39,423	39,213	100.5
Israel	27,891						−228	27,663	42,810	64.6
Italy	341,816				1,061		+338	343,216	318,000	107.9
Ivory Coast	15,297						+14	15,310	14,268	107.3
Jamaica	6,819					509	−169	6,141	17,673	34.7
Japan	425,138						+676	425,813	377,400	112.8
Jordan	7,547					18	−2	7,528	7,587	99.2
Kenya	17,096				1		+21	17,117	15,600	109.7
Khmer Republic	4,111			3,500		204	−87	320	8,517	3.8
Korea	26,106					1	+56	26,161	22,230	117.7
Laos	1,295						−48	1,247	4,449	28.0
Lesotho	853					195	−12	646	1,569	41.2
Liberia	3,301					26	−95	3,179	9,537	33.3
Luxembourg	7,342						−1	7,341	7,345	99.9
Malagasy Republic	8,727			8,500			−9	217	8,730	2.5
Malawi	4,597						−8	4,590	5,085	90.3
Malaysia	63,129					2,511	+13	60,631	60,618	100.0
Mali	2,344					105	−80	2,159	7,542	28.6
Malta	5,087				1		−1	5,087	5,088	100.0
Mauritania	2,127						−35	2,092	4,449	47.0
Mauritius	7,311						−2	7,309	7,374	99.1
Mexico	127,762				80		+42	127,884	124,170	103.0
Morocco	16,189						−349	15,840	39,189	40.4

Nepal	2,214							2,214	2,215	100.0
Netherlands	655,855			264,912	4,874		+4,506	400,323	236,460	169.3
New Zealand	58,126				1		−177	57,950	69,402	83.5
Nicaragua	6,117					515	−48	5,553	8,943	62.1
Niger	4,425					11	−1	4,414	4,449	99.2
Nigeria	42,453					−3,082	−31	45,505	45,555	99.9
Norway	87,986						+167	88,153	76,320	115.5
Oman	742							742	742	100.0
Pakistan	17,509				11,757	3,497	−853	24,916	81,639	30.5
Panama	2,582					23	−148	2,411	12,372	19.5
Paraguay	6,566						−1	6,565	6,567	100.0
Peru	40,997					3,760	−20	37,217	40,479	91.9
Philippines	20,583	6,000			3,052	4,705	−447	24,483	51,495	47.5
Romania					6,200	238	+38	6,000		
Rwanda	306				2,120		−64	2,362	6,567	36.0
Senegal	5,626					300	−90	5,236	11,442	45.8
Sierra Leone	5,711			1,213			−39	4,459	7,845	56.8
Somalia	4,531					46	−32	4,453	6,567	67.8
South Africa	37,423	1,000		37,000	8		−967	465	88,920	0.5
Spain	128,722				75		+26	128,824	126,135	102.1
Sri Lanka	13,372				1,959	1,836	−314	13,182	33,978	38.8
Sudan	6,358				14,448	3,435	−193	17,178	24,912	69.0
Swaziland	902				459	373	−29	959	2,712	35.4
Sweden	107,039						−11	107,028	107,025	100.0
Syrian Arab Republic	3,627				5,011	582	−144	7,912	17,034	46.4
Tanzania	6,602						−117	6,485	14,322	45.3
Thailand	28,535						−3	28,532	28,542	100.0
Togo	5,083						−1	5,082	5,085	100.0
Trinidad and Tobago	7,132						−207	6,925	20,811	33.3
Tunisia	7,617						−108	7,509	14,713	51.0
Turkey	38,082	1,000				9,624	−273	29,185	50,307	58.0
Uganda	13,623			9,000		257	−44	4,322	13,896	31.1
United Kingdom	600,369				9		−6,197	594,180	1,006,320	59.0
United States	1,795,547						−7,723	1,787,824	2,293,980	77.9
Upper Volta	4,429						−1	4,428	4,449	99.5
Uruguay	860				10,539	4,362	−218	6,819	23,937	28.5
Venezuela	118,176						+76	118,253	112,290	105.3
Viet-Nam	19,751						−2	19,748	19,758	100.0
Western Samoa	212							212	212	100.0
Yemen Arab Republic	2,129							2,129	2,130	100.0
Yemen, People's Dem. Rep. of	7,795						−32	7,763	9,873	78.6
Yugoslavia	37	7,500			33,959	1,545	−566	39,385	69,291	56.8
Zaïre	6,876						−489	6,387	39,189	16.3
Zambia	8				14,045	942	−348	12,764	24,588	51.9
Total Participants	8,697,746	60,113	995,925	1,056,038	184,872	58,040	−8,774	8,815,804	9,314,835	94.6
General Account	617,090						+8,774	499,031	—	5.4
Total	9,314,835						—	9,314,835	9,314,835	100.0

TABLE I.6. CURRENCIES TRANSFERRED FOR SPECIAL DRAWING RIGHTS, JANUARY 1, 1970–APRIL 30, 1974

(*In millions of SDRs*)

	Jan. 1, 1970–Apr. 30, 1970	Fiscal Years Ended April 30 1971	1972	1973	1974	Total Jan. 1, 1970–Apr. 30, 1974
Transactions with designation						
Belgian francs						
Provided directly to participants	1.0	—	—	—	—	1.0
Deutsche mark						
Converted to U. S. dollars	—	—	—	—	3.0	3.0
French francs						
Provided directly to participants	—	3.5	22.3	—	—	25.8
Converted to pounds sterling	—	8.0	—	—	—	8.0
Converted to U. S. dollars	—	14.0	21.0	—	—	35.0
	—	25.5	43.3	—	—	68.8
Italian lire						
Provided directly to participants	—	4.0	—	—	—	4.0
Pounds sterling						
Provided directly to participants	—	27.4	56.3	59.9	—	143.6
Converted to French francs	—	6.7	1.3	—	—	8.0
Converted to U. S. dollars	—	45.8	53.4	5.4	3.0	107.6
	—	79.9	111.0	65.3	3.0	259.2
U. S. dollars						
Provided directly to participants	148.9	227.1	112.5	51.2	54.1	593.9
Converted to French francs	5.1	3.6	—	—	—	8.7
Converted to pounds sterling	—	7.5	—	—	—	7.5
	154.0	238.2	112.5	51.2	54.1	610.0
Total	155.0	347.6	266.8	116.6	60.1	946.1
Transactions without designation						
Belgian francs	—	—	—	—	37.0	37.0
Danish kroner	—	—	—	—	5.0	5.0
Deutsche mark	—	—	—	—	100.5	100.5
French francs	—	—	—	—	588.5	588.5
Netherlands guilders	—	—	—	11.7	264.9	276.6
Pounds sterling	20.0	—	25.0	291.8	—	336.8
U. S. dollars	—	285.5	355.0	—	—	640.5
Total	20.0	285.5	380.0	303.5	995.9	1,984.9

TABLE I.7. TRANSFER OF SPECIAL DRAWING RIGHTS BY THE GENERAL ACCOUNT, FISCAL YEAR ENDED APRIL 30, 1974

(*In thousands of SDRs*)

Participant	Reconstitution	Payment of Remuneration	Purchases
Afghanistan	5,500	—	—
Argentina	2,737	—	—
Bangladesh	—	—	1,066
Belgium	—	4,603	—
Bolivia	2,500	—	—
Brazil	—	95	—
Burma	5,085	—	—
Canada	—	390	—
Chad	2,408	—	—
Chile	5,000	—	—
Colombia	421	—	—
Dominican Republic	40	—	—
Egypt	30,500	—	—
El Salvador	220	—	—
Finland	—	244	—
Germany, Federal Republic of	—	8,816	—
Ghana	19	—	—
Guinea	2,140	—	—
Haiti	119	—	—
Indonesia	3,172	—	—
Ireland	—	136	—
Italy	—	1,061	—
Kenya	—	1	—
Malta	—	1	—
Mexico	—	80	—
Netherlands	—	4,874	—
New Zealand	—	1	—
Pakistan	11,757	—	—
Philippines	3,052	—	—
Romania	—	—	6,200
Rwanda	2,120	—	—
South Africa	—	8	—
Spain	—	75	—
Sri Lanka	1,959	—	—
Sudan	14,448	—	—
Swaziland	459	—	—
Syrian Arab Republic	5,011	—	—
United Kingdom	—	9	—
Uruguay	10,539	—	—
Yugoslavia	33,959	—	—
Zambia	14,045	—	—
Total	157,213	20,394[1]	7,266

[1] Includes amounts of less than SDR 500 each paid to an additional 11 participants.

TABLE I.8. CREDITOR POSITIONS, FISCAL YEARS ENDED APRIL 30, 1973 AND 1974[1]

Member	April 30, 1973		April 30, 1974		Change from Previous Year	
	Creditor position (*Million SDRs*)	Per cent of quota	Creditor position (*Million SDRs*)	Per cent of quota	Million SDRs	Per cent of quota
Australia	1.2	0.2	7.1	1.1	+5.9	+0.9
Austria	60.9	22.6	56.5	20.9	−4.4	−1.7
Belgium	339.0	52.2	298.5	45.9	−40.5	−6.3
Brazil	6.3	1.4	6.3	1.4	—	—
Canada	25.2	2.3	5.5	0.5	−19.7	−1.8
Denmark	0.1	—	76.7	29.5	+76.6	+29.5
Ethiopia	0.1	0.4	0.1	0.4	—	—
Finland	16.3	8.6	16.3	8.6	—	—
France	64.1	4.3	4.5	0.3	−59.6	−4.0
Germany, Federal Republic of	679.6	42.5	795.1	49.7	+115.5	+7.2
Ireland	12.1	10.0	10.1	8.3	−2.0	−1.7
Italy	64.0	6.4	26.9	2.7	−37.1	−3.7
Japan	244.8	20.4	223.0	18.6	−21.8	−1.8
Kenya	—	—	0.4	0.8	+0.4	+0.8
Kuwait	4.5	6.9	3.5	5.4	−1.0	−1.5
Mexico	5.3	1.4	5.3	1.4	—	—
Netherlands	358.7	51.2	69.7	10.0	−289.0	−41.2
New Zealand	—	—	0.1	—	+0.1	—
Norway	7.2	3.0	2.8	1.2	−4.4	−1.8
Singapore	0.1	0.3	0.1	0.3	—	—
South Africa	0.5	0.2	0.5	0.2	—	—
Spain	5.0	1.3	5.0	1.3	—	—
Sweden	5.7	1.8	3.2	1.0	−2.5	−0.8
Venezuela	28.6	8.7	29.0	8.8	+0.4	+0.1
Total	1,929.7		1,646.3		−283.4	

[1] Excluding amounts of SDR 50,000 and less. A creditor or super gold tranche position corresponds to the difference between the Fund's holdings of a member's currency and 75 per cent of quota. Balances on No. 2 Accounts have been included.

TABLE I.9. PURCHASES OF CURRENCIES AND SPECIAL DRAWING RIGHTS FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1974

(*In millions of SDRs*)

Member Purchasing	Within Gold Tranche	Within Credit Tranches: Under stand-by arrangements	Within Credit Tranches: Other [1]	Under Decision on Compensatory Financing	Total Purchases: Currencies	Total Purchases: Special drawing rights [2]	Total Purchases: Total
Afghanistan	—	7.50	—	—	4.00	3.50 [3]	7.50
Bangladesh	1.07 [4]	—	—	—	—	1.07	1.07
Burma	—	—	—	15.00	15.00	—	15.00
Chile	—	39.50	—	—	34.50	5.00 [3]	39.50
Ecuador	0.65	2.00	—	—	2.65	—	2.65
Egypt	—	—	—	47.00	24.00	23.00 [3]	47.00
France	138.00	—	—	—	138.00	—	138.00
Germany, Fed. Rep. of	19.65	—	—	—	19.65	—	19.65
Guinea	—	—	—	6.00	3.86	2.14 [3]	6.00
Guyana	0.58	4.00	—	5.00	9.58	—	9.58
Haiti	3.66	—	—	—	3.66	—	3.66
India	76.20	—	—	62.00	138.20	—	138.20
Israel	32.50	—	—	—	32.50	—	32.50
Jamaica	5.46	13.25	—	13.25	31.96	—	31.96
Netherlands	280.38	—	—	—	280.38	—	280.38
Nicaragua	—	—	12.00	—	12.00	—	12.00
Pakistan	—	60.00	—	—	58.26	1.74 [3]	60.00
Philippines	—	—	—	38.75	38.75	—	38.75
Romania	47.50 [4]	—	47.50 [4]	—	88.80	6.20 [3]	95.00
Sri Lanka	—	—	—	24.50	24.50	—	24.50
Sudan	—	19.00	—	—	10.50	8.50 [3]	19.00
Swaziland	0.46	—	—	—	—	0.46 [3]	0.46
Uruguay	1.36	15.00	—	—	16.36	—	16.36
Zambia	—	19.00	—	—	18.91	0.10 [3]	19.00
Total	607.47	179.25	59.50	211.50	1,006.02	51.70	1,057.72

[1] In accordance with Executive Board Decision No. 102-(52/11), adopted February 13, 1952. (See *Selected Decisions of the International Monetary Fund and Selected Documents* (Sixth Issue, Washington, 1972), pp. 22–25.)
[2] In accordance with Article XXV, Section 7(*f*), of the Articles of Agreement.
[3] In accordance with Executive Board Decision No. 3457-(71/121) G/S, as amended by Executive Board Decision No. 3829-(72/144) S, adopted December 15, 1972.
[4] Transaction prior to the establishment of an initial par value in accordance with Executive Board Decision No. 1687-(64/22), adopted April 22, 1964. (See *Selected Decisions*, p. 56.)

TABLE I.10. FUND STAND-BY ARRANGEMENTS FOR MEMBERS, FISCAL YEAR ENDED APRIL 30, 1974

(*In millions of SDRs*)

Member	Total Number of Stand-Bys Approved for Member	Date of Inception	Date of Expiration	Amount Approved 1972/73	Amount Not Purchased at Expiration	Amount Approved 1973/74	Amount Not Purchased April 30, 1974
Afghanistan	5	June 18, 1973	June 17, 1974			10.00	2.50
Bolivia	12	Jan. 17, 1973	Jan. 16, 1974	27.30	9.25		
Burma	2	Feb. 2, 1973	Feb. 1, 1974	13.50	—		
Chile	12	Jan. 30, 1974	Jan. 29, 1975			79.00	39.50
Colombia	15	May 1, 1972	Apr. 30, 1973	40.00	40.00		
		June 6, 1973	June 5, 1974			20.00	20.00
Ecuador	9	July 3, 1972	July 2, 1973	16.50	—		
El Salvador	11	Sep. 8, 1972	Sep. 7, 1973	8.75	—		
Guyana	7	May 15, 1972	May 14, 1973	2.80	2.80		
		May 15, 1973	May 14, 1974			4.00	—
Haiti	13	July 6, 1972	July 5, 1973	4.00	4.00		
		July 6, 1973	July 5, 1974			4.00	4.00
Honduras	12	June 7, 1972	June 6, 1973	15.00	15.00		
Indonesia	8	May 4, 1973	May 3, 1974			50.00	50.00
Italy	1	Apr. 10, 1974	Apr. 9, 1975			1,000.00	1,000.00
Jamaica	2	June 1, 1973	May 31, 1974			26.50	13.25
Korea	9	Apr. 2, 1973	Dec. 31, 1973	20.00	20.00		
Liberia	10	May 17, 1973	May 16, 1974			4.00	4.00
Pakistan	5	May 18, 1972	May 17, 1973	100.00	16.00		
		Aug. 11, 1973	Aug. 10, 1974			75.00	15.00
Panama	7	June 22, 1972	June 21, 1973	9.00	9.00		
		Aug. 3, 1973	Aug. 2, 1974			9.00	9.00
Philippines	11	May 11, 1972	May 10, 1973	45.00	10.00		
		May 16, 1973	May 15, 1974			45.00	45.00
Sri Lanka	6	Apr. 30, 1974	Apr. 29, 1975			24.50	24.50
Sudan	5	Aug. 9, 1973	Aug. 8, 1974			24.00	5.00
Uruguay	6	June 27, 1972	June 26, 1973	20.00	—		
Zambia	1	May 4, 1973	May 3, 1974			19.00	—
Total				321.85	126.05	1,394.00	1,231.75

TABLE I.11. PURCHASES AND REPURCHASES UNDER THE DECISION ON COMPENSATORY FINANCING OF EXPORT FLUCTUATIONS, FEBRUARY 27, 1963–APRIL 30, 1974[1]

(In millions of SDRs)

Member	Purchases: Date	Purchases: Amount	Related Repurchases: Total	Related Repurchases: Under paragraph (7) of amended decision	Outstanding Balance April 30, 1974
Afghanistan	June 5, 1968	4.80	4.80	—	—
Argentina	Mar. 3, 1972	64.00	—	—	64.00
Bangladesh	Dec. 15, 1972	62.50	—	—	62.50
Brazil	June 7, 1963	60.00[2]	60.00	—	—
Burma	Nov. 21, 1967	7.50	7.50	—	—
	Sep. 21, 1971	6.50	—	—	6.50
	Feb. 1, 1974	15.00	—	—	15.00
Burundi	June 9, 1970	2.50	2.50	0.80	—
Chile	Dec. 14, 1971	39.50	—	—	39.50
	Dec. 22, 1972	39.50	—	—	39.50
Colombia	Mar. 22, 1967	18.90	18.90	7.70	—
	Apr. 19, 1968[3]	0.95[3]	0.95	0.95	—
	Apr. 19, 1968[3]	0.95[3]	0.95	0.95	—
Dominican Republic	Dec. 6, 1966	6.60	6.60	3.30	—
Ecuador	Oct. 15, 1969[3]	3.50[3]	3.50	—	—
	Oct. 15, 1969[3]	2.75[3]	2.75	—	—
Egypt	Oct. 15, 1963	16.00[2]	16.00	—	—
	Mar. 18, 1968	23.00	23.00	—	—
	Aug. 14, 1973	47.00	—	—	47.00
El Salvador	Dec. 16, 1969	6.25	6.25	4.30	—
Ghana	Dec. 20, 1966	17.25	17.25	0.75	—
Guatemala	Feb. 5, 1968[3]	3.00[3]	3.00	1.60	—
	Feb. 5, 1968[3]	3.25[3]	3.25	—	—
Guinea	Mar. 26, 1974	6.00	—	—	6.00
Guyana	Mar. 26, 1974	5.00	—	—	5.00
Haiti	Aug. 11, 1967	1.30	1.30	0.12	—
	Dec. 6, 1967	1.00	1.00	0.20	—
Iceland	Nov. 10, 1967	3.75	3.75	3.75	—
	Nov. 26, 1968	3.75	3.75	3.75	—
India	Dec. 28, 1967	90.00	90.00	80.00	—
	Feb. 19, 1974	62.00	—	—	62.00
Iraq	Nov. 8, 1967[3]	17.50[3]	17.50	—	—
Jamaica	Mar. 20, 1974	13.25	—	—	13.25
Jordan	Nov. 15, 1971	4.50	4.50	—	—
	Jan. 3, 1973	2.85	1.25	—	1.60
Khmer Republic	Mar. 14, 1972	6.25	—	—	6.25
	Apr. 18, 1973	6.25	—	—	6.25
New Zealand	May 10, 1967	29.20	29.20	—	—
Peru	June 20, 1972	30.75	30.75	—	—
Philippines	May 18, 1973	38.75	—	—	38.75
Sri Lanka	Mar. 21, 1967	19.50	19.50	—	—
	Apr. 17, 1968	19.30	19.30	—	—
	Jan. 24, 1972[3]	4.70[3]	—	—	4.70
	Jan. 26, 1972	14.75	—	—	14.75
	June 22, 1973	18.60	—	—	18.60
	Feb. 15, 1974	5.90	—	—	5.90
Sudan	June 1, 1965	11.25[2]	11.25	—	—
Syrian Arab Republic	Sep. 18, 1967	9.50	9.50	—	—
	Jan. 25, 1972	12.50	—	—	12.50
Uruguay	Feb. 7, 1968	9.50	9.50	5.00	—
	May 17, 1972	17.25	—	—	17.25
Zaïre	July 5, 1972	28.25	—	—	28.25
Zambia	Dec. 14, 1971	19.00	—	—	19.00
	Aug. 7, 1972	16.00	—	—	16.00
	Aug. 8, 1972	3.00	—	—	3.00
Total		982.30	429.25	113.17	553.05

[1] All items are under the decision as amended by Executive Board Decision No. 2192-(66/81), adopted September 20, 1966, except where noted.
[2] Under Executive Board Decision No. 1477-(63/8), adopted February 27, 1963.
[3] Date and amount of reclassification of previous purchases.

TABLE I.12. SUMMARY OF STAND-BY ARRANGEMENTS THAT BECAME EFFECTIVE DURING THE FISCAL YEARS ENDED APRIL 30, 1953–74[1]

(In millions of SDRs)

	Number	Amount
1953	2	55.00
1954	2	62.50
1955	2	40.00
1956	2	47.50
1957	9	1,162.28
1958	11	1,043.78
1959	15	1,056.63
1960	14	363.88
1961	15	459.88
1962	24	1,633.13
1963	19	1,531.10
1964	19	2,159.85
1965	24	2,159.05
1966	24	575.35
1967	25	591.15
1968	32	2,352.36
1969	26	541.15
1970	23	2,381.28
1971	18	501.70
1972	13	313.75
1973	13	321.85
1974	15	1,394.00
Total	347	20,747.17

[1] Includes renewals and extensions for one year or less, except the renewals each six months of the stand-by arrangement for Belgium granted in June 1952 until that member purchased the full amount of the equivalent of SDR 50 million in April 1957.

TABLE I.13. SUMMARY OF MEMBERS' PURCHASES AND REPURCHASES, YEARS ENDED APRIL 30, 1948–74

(In millions of SDRs)

	Total Purchases by Members	Total Repurchases by Members
1948	606.04	—
1949	119.44	—
1950	51.80	24.21
1951	28.00	19.09
1952	46.25	36.58
1953	66.12	184.96
1954	231.29	145.11
1955	48.75	276.28
1956	38.75	271.66
1957	1,114.05	75.04
1958	665.73	86.81
1959	263.52	537.32
1960	165.53	522.41
1961	577.00	658.60
1962	2,243.20	1,260.00
1963	579.97	807.25
1964	625.90	380.41
1965	1,897.44	516.97
1966	2,817.29	406.00
1967	1,061.28	340.12
1968	1,348.25	1,115.51
1969	2,838.85	1,542.33
1970	2,995.65	1,670.69
1971	1,167.41	1,656.86
1972	2,028.49	3,122.33
1973	1,175.43	540.30
1974	1,057.72	672.49
Total	25,859.16[1]	16,869.32[2]

[1] Includes purchases that raised the level of the Fund's holdings of the drawing members' currencies to no more than 75 per cent of quota. These purchases are not subject to repurchase.

[2] Includes repurchases that reduced the Fund's holdings of members' currencies below the amounts originally paid on subscription account and repurchases of members' currencies paid in settlement of charges. Excludes sales of currencies of members held by the Fund in excess of 75 per cent of quota, as a result of previous purchases, and adjustments due primarily to settlement of accounts with countries that have withdrawn from the Fund; these sales and adjustments have the effect of repurchase.

TABLE I.14. TOTAL REPURCHASE OBLIGATIONS INCURRED IN ACCORDANCE WITH ARTICLE V, SECTION 7(*b*), AND AMOUNTS PAYABLE FORTHWITH BY MEMBERS, AS OF APRIL 30, 1973

(In thousands of SDRs)

	Total Repurchase Obligations Incurred				Amounts Payable Forthwith			
Member	Gold	Special drawing rights	Convertible currencies	Total	Gold	Special drawing rights	Convertible currencies	Total
Colombia	148	—	32,196	32,344	148	—	32,196	32,344 [1]
Ecuador	—	—	7,599	7,599	—	—	7,599	7,599
El Salvador	61	24	13,210	13,295	—	8	8,742	8,750 [2]
Honduras	2	—	6,245	6,247	2	—	6,245	6,247 [3]
Indonesia	23	244	103,480	103,747	14	153	64,833	65,000 [4]
Jamaica	—	296	5,167	5,463	—	296	5,167	5,463
Jordan	102	28	7,204	7,334	—	—	5,750	5,750
Korea	6	1	7,493	7,500	6	1	7,493	7,500 [5]
Malawi	—	—	1,850	1,850	—	—	1,850	1,850
Malaysia	—	—	228	228	—	—	228	228
Mauritius	—	—	3,035	3,035	—	—	3,035	3,035
Nicaragua	—	—	1	1	—	—	—	— [6]
Nigeria	—	1	736	737	—	1	736	737
Peru	3,034	3,252	41,572	47,858	1,346	1,443	27,961	30,750 [7]
Philippines	788	1,759	112,450	114,997	258	575	37,917	38,750 [8]
Sierra Leone	—	—	1,217	1,217	—	—	1,217	1,217
Tanzania	—	—	3,600	3,600	—	—	3,600	3,600
Upper Volta	—	—	147	147	—	—	147	147
Yugoslavia	14	—	125,233	125,247	6	—	51,744	51,750 [9]
Total	4,178	5,605	472,663	482,446	1,780	2,477	266,460	270,717

[1] Member discharged the equivalent of SDR 32,196,000 with convertible currencies; payment of balance accrued in gold equivalent to SDR 148,000 postponed.

[2] Member discharged the equivalent of SDR 8.75 million of its repurchase obligation, which was payable forthwith in accordance with paragraph 2(c) of Executive Board Decision No. 3049-(70/44). (See *Selected Decisions of the International Monetary Fund and Selected Documents* (Sixth Issue, Washington, 1972), pp. 64–66.) Owing to the limitation of Article V, Section 7(*c*)(iv), the balance of the repurchase obligation incurred as of April 30, 1973 was payable at the end of the subsequent financial year or years. However, member discharged a portion of the balance of the obligation equivalent to SDR 6,245 on January 10, 1974.

[3] Member discharged the equivalent of SDR 6,245,000 with convertible currencies; balance accrued in gold being less than one standard bar was not collected in accordance with Executive Board Decision No. 4087-(73/105), adopted November 9, 1973.

[4] Member discharged the equivalent of SDR 65 million of its repurchase obligation which was payable forthwith in accordance with paragraph 2(a) of Executive Board Decision No. 3049-(70/44). Owing to the limitation of Article V, Section 7(*c*)(iv), the balance of the repurchase obligation incurred as of April 30, 1973 was payable at the end of the subsequent financial year or years. However, member completed discharge of the balance of the obligation incurred in special drawing rights and in convertible currencies on March 15, 1974; in accordance with Executive Board Decision No. 4087-(73/105), balance accrued in gold being less than one standard bar was not collected.

[5] Member discharged the equivalent of SDR 7,494,000 payable with special drawing rights and convertible currencies; balance accrued in gold being less than one standard bar was not collected.

[6] Member discharged the portion of its repurchase obligation incurred as of April 30, 1971 equivalent to SDR 6,750,000, which was payable as of April 30, 1973. Member also repurchased the equivalent of SDR 4,253,156 during 1972/73, discharging the balance of the April 30, 1971 repurchase obligation and a portion of the repurchase obligation incurred as of April 30, 1972. Owing to the limitation of Article V, Section 7(*c*)(iv), the repurchase obligation incurred as of April 30, 1973 and the balance of the April 30, 1972 obligation will be payable at the end of the subsequent financial year or years.

[7] Member discharged the equivalent of SDR 30,750,000 of its repurchase obligation, which was payable forthwith in accordance with paragraph 2(c) of Executive Board Decision No. 3049-(70/44). Owing to the limitation of Article V, Section 7(*c*)(iv), the balance of the repurchase obligation incurred as of April 30, 1973 was payable at the end of the subsequent financial year or years. However, member completed the discharge of the balance of the obligation on January 10, 1974.

[8] Member discharged the equivalent of SDR 38,492,000 payable forthwith in special drawing rights and convertible currencies in accordance with paragraph 2(c) of Executive Board Decision No. 3049-(70/44); the amount payable forthwith in gold equivalent to SDR 258,000 was postponed. The member also discharged a portion of the balance of the obligation equivalent to SDR 17,250,000 in convertible currencies. Owing to the limitation of Article V, Section 7(*c*)(iv), the balance of the repurchase obligation incurred as of April 30, 1973 will be payable at the end of the subsequent financial year or years.

[9] Member discharged the equivalent of SDR 51,744,000 payable forthwith in convertible currencies in accordance with paragraph 2(c) of Executive Board Decision No. 3049-(70/44); the amount payable forthwith in gold being less than one standard bar was not collected. Owing to the limitation of Article V, Section 7(*c*)(iv), the balance of the repurchase obligation incurred as of April 30, 1973 will be payable at the end of the subsequent financial year or years.

TABLE I.15. REPURCHASES OF CURRENCIES FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1974

(In millions of SDRs)

Member Repurchasing	Repurchases in Respect of			Voluntary Repurchases	Other Repurchases	Total
	Purchases under stand-by arrangements	Schedules approved by Fund	Article V, Section 7(*b*)			
Afghanistan	—	5.0	—	—	—	5.0
Bahamas	—	—	—	—	5.0	5.0
Bolivia	—	—	—	—	3.6	3.6
Burma	—	8.5	—	—	—	8.5
Burundi	1.5	—	—	—	0.1	1.6
Central African Republic	—	—	—	—	0.1	0.1
Chad	—	1.1	—	—	0.1	1.2
Colombia	7.1	—	32.2	—	—	39.3
Congo, People's Republic of the	—	—	—	—	0.1	0.1
Dominican Republic	—	6.0	—	7.5	—	13.5
Ecuador	—	—	7.6	—	—	7.6
Egypt	—	4.5	—	—	0.2	4.7
El Salvador	—	—	8.8	—	—	8.8
Gabon	—	—	—	—	—[1]	—[1]
Gambia, The	—	—	—	—	0.1	0.1
Ghana	—	6.0	—	—	0.7	6.7
Guinea	—	1.9	—	—	—	1.9
Guyana	2.0	—	—	—	0.1	2.1
Haiti	—	0.8	—	—	0.2	0.9
Honduras	—	—[1]	6.2	—	—	6.2
Indonesia	—	—	103.7	—	—	103.7
Iraq	—	—	6.9[2]	—	3.1	10.0
Jamaica	—	—	5.5	—	—	5.5
Jordan	—	—	5.8	—	—	5.8
Korea	—	—	7.5	—	—	7.5
Lesotho	—	0.1	—	—	0.1	0.2
Liberia	1.0	—	—	—	0.4	1.4
Malawi	—	—	1.8	—	—	1.8
Malaysia	—	—	0.2	7.0	—	7.2
Mali	—	1.0	—	—	0.2	1.2
Mauritania	—	—	—	—	0.1	0.1
Mauritius	—	—	3.0	—	—	3.0
Nicaragua	—	—	11.0[2]	—	—	11.0
Niger	—	—	—	—	—[1]	—[1]
Nigeria	—	−3.1[3]	20.8[2]	—	—	17.7
Pakistan	—	40.0	—	—	0.9	40.9
Panama	—	1.0	—	—	—	1.0
Peru	—	—	47.9	13.6	—	61.5
Philippines	0.3	—	55.7	—	—	56.0
Senegal	—	—	—	—	0.3	0.3
Sierra Leone	—	—	1.2	—	—	1.2
Somalia	—	—	—	—	—[1]	—[1]
Sri Lanka	—	12.3	—	—	1.0	13.3
Sudan	—	7.5	—	—	0.6	8.1
Swaziland	—	0.3	—	—	0.1	0.4
Syrian Arab Republic	—	4.8	—	—	—	4.8
Tanzania	—	—	3.6	—	—	3.6
Turkey	9.6	—	—	—	—	9.6
United States	—	—	—	110.1	—	110.1
Upper Volta	—	—	0.1	—	—	0.1
Uruguay	12.1	4.4	—	—	—	16.5
Yugoslavia	—	—	51.7	—	—	51.7
Total	33.5	102.0	381.3[2]	138.3	17.3	672.5

[1] Less than SDR 50,000.
[2] Total includes SDR 8 million and SDR 30 million relating to Article V, Section 7(*b*), repurchase obligations incurred as of April 30, 1971 and April 30, 1972, respectively, as follows: 1971—SDR 8 million by Nicaragua; 1972—SDR 6.9 million by Iraq, SDR 3 million by Nicaragua, and SDR 20.1 million by Nigeria.
[3] Reversal of amount repurchased in 1972/73, which was included in repurchase data for that year.

NOTE. Included in the table are repurchases equivalent to SDR 5.8 million by Jordan and SDR 30.8 million by Peru relating to purchases under the decision on compensatory financing of export fluctuations.

TABLE I.16. CURRENCIES AND SPECIAL DRAWING RIGHTS OBTAINED FROM THE FUND BY MEMBERS IN PURCHASES FOR THEIR OWN CURRENCIES; CURRENCIES, GOLD, AND SPECIAL DRAWING RIGHTS USED BY MEMBERS IN REPURCHASES, FISCAL YEAR ENDED APRIL 30, 1974

(*In millions of SDRs*)

	Currencies and SDRs Obtained by Members			Currencies, Gold, and SDRs Used by Members in Repurchases			
	Purchases						
Medium	For EEC settlements by France, Germany, and the Netherlands	Other countries	Total	United States	Other countries	Under Article V, Section 7(*b*)	Total
SDRs	—	51.7	51.7	—	25.0	4.5[1]	29.5
Gold	—	—	—	—	—	3.1	3.1
Australian dollars	—	30.1	30.1	—	7.5	13.7[1]	21.2
Austrian schillings	—	17.5	17.5	—	12.3	8.5[1]	20.8
Belgian francs	5.7	31.8	37.5	19.1	8.8	38.9[1]	66.7
Canadian dollars	—	30.4	30.4	—	8.0	30.0[1]	38.0
Danish kroner	87.6	2.0	89.6	—	8.0	5.0	13.0
Deutsche mark	235.0	180.5	415.5	87.2	34.6	125.8[1]	247.6
French francs	109.7	16.0	125.7	—	10.7	22.0	32.6
Guatemalan quetzales	—	—	—	—	—	—[2]	—[2]
Irish pounds	—	2.0	2.0	—	4.0	—	4.0
Italian lire	—	18.8	18.8	—	9.5	35.3	44.8
Japanese yen	—	80.5	80.5	3.9	30.9	53.9[1]	88.6
Kuwaiti dinars	—	—	—	—	—	1.0	1.0
Mexican pesos	—	—	—	—	—	—[2]	—[2]
Netherlands guilders	—	43.5	43.5	—	9.5	34.9[1]	44.4
Norwegian kroner	—	2.0	2.0	—	3.6	2.9	6.5
Swedish kronor	—	8.5	8.5	—	8.5	2.0	10.5
U. S. dollars	—	104.4	104.4	—	—	—	—
Total	438.0	619.7	1,057.7	110.1	181.0	381.3[1]	672.5

[1] Total includes SDR 8 million and SDR 30 million relating to Article V, Section 7(*b*), repurchase obligations incurred as of April 30, 1971 and April 30, 1972, respectively, as follows: 1971—SDR 0.1 million in SDRs, SDR 2.7 million in Australian dollars, SDR 1.2 million in Austrian schillings, SDR 2 million in Belgian francs, and SDR 2 million in Netherlands guilders; 1972—SDR 6.9 million in Canadian dollars, SDR 10 million in deutsche mark, and SDR 13.1 million in Japanese yen.
[2] Less than SDR 50,000.

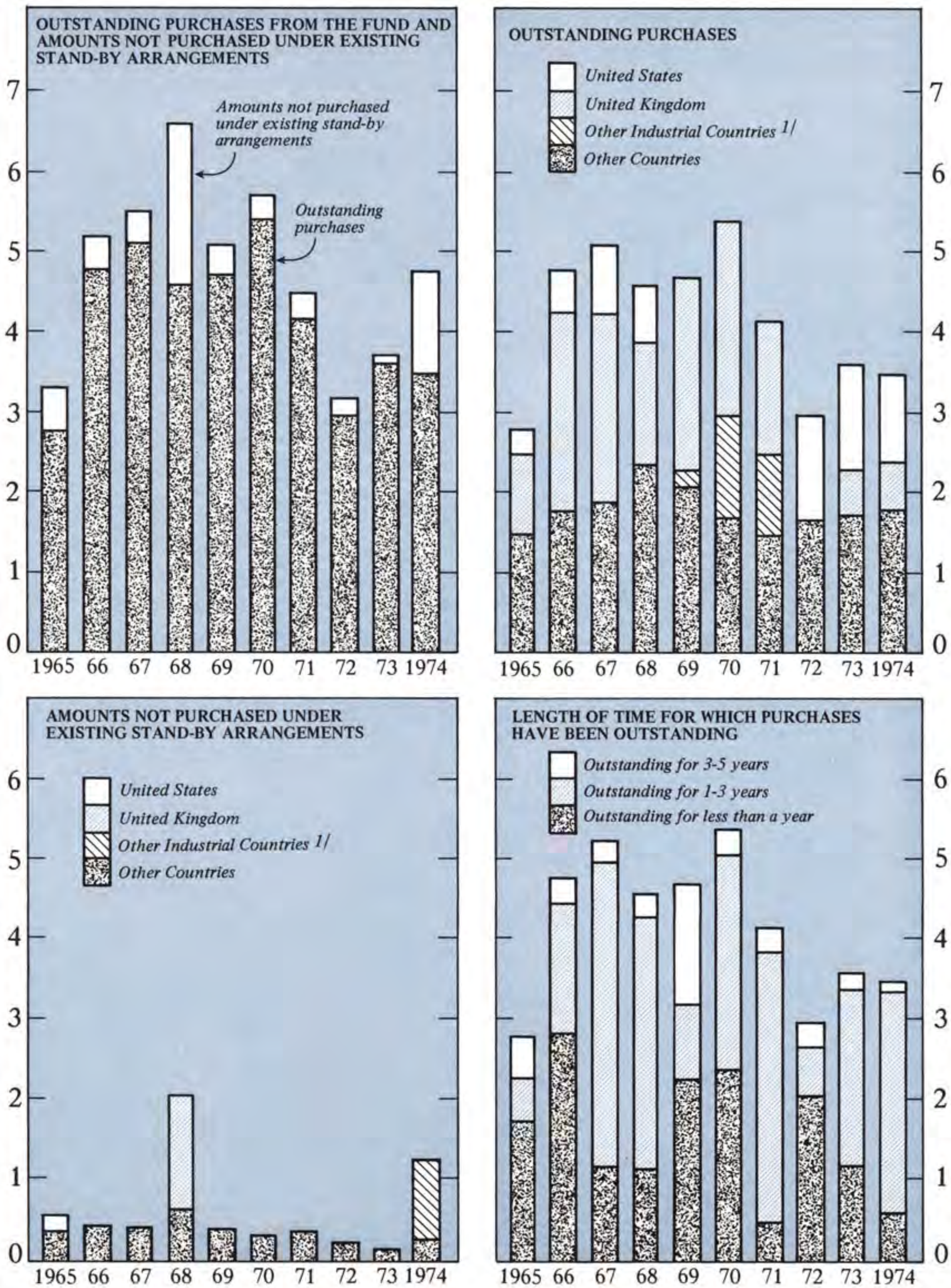
TABLE I.17. GOLD TRANSACTIONS AND OPERATIONS BY THE FUND, FISCAL YEARS ENDED APRIL 30, 1972–74

(*In millions of SDRs*)

	1972	1973	1974
Increase in gold holdings due to			
Subscriptions	81.6	60.9	—
Repurchases of currency by members	506.2	2.8	3.0
Charges paid by members	46.4	3.9	0.4
Reacquisition from United States	400.0	—	—
Purchases under Article V, Section 6(*a*)[1]	105.0	—	—
Total increase	1,139.2	67.6	3.4
Decrease in gold holdings due to			
Sales under Article VII, Section 2(ii)	121.2	—	—
of which sales in connection with Fifth General Review of Quotas	7.5	—	—
Interest on Fund borrowing	2.7	—	—
Remuneration paid to members	22.7	28.5	3.6
Total decrease	146.6	28.5	3.6
Net increase or decrease (−)	992.6	39.1	−0.2

[1] All these purchases were from South Africa.

Chart I.1. Use of Fund Resources, April 30, 1965–74
(In billions of SDRs)



[1] Belgium, Canada, Denmark, France, Italy, Japan, the Netherlands, and Norway.

TABLE I.18. INCOME AND EXPENSES, FISCAL YEARS ENDED APRIL 30, 1965–74

(*In millions of SDRs*)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Operational income										
Service and stand-by charges, etc.	11.8	15.6	7.1	7.4	14.6	13.0	3.2	3.0	3.2	2.5
Charges on balances in excess of quotas	35.9	65.7	82.5	82.0	107.4	124.7	128.1	62.0	28.2	28.2
Interest on holdings of special drawing rights	—	—	—	—	—	0.4	4.3	7.2	10.2	7.8
Total operational income [1]	47.7	81.3	89.6	89.4	122.0	138.1	135.6	72.2	41.6	38.5
Deduct: operational expenses										
Remuneration	—	—	—	—	—	27.2	37.4	30.5	29.3	27.2
Other	4.6	16.1	17.8	11.9	22.3	19.1	11.8	1.2	—	—
Net operational income	43.1	65.2	71.8	77.5	99.7	91.8	86.3	40.5	12.2	11.2
Administrative budget expenses	13.0	15.0	18.1	21.3	24.4	28.6	33.2	37.1	39.4	43.5
Deduct: assessments levied on participants for estimated expenses of operating the Special Drawing Account	—	—	—	—	—	0.9	0.9	1.0	0.7	1.0
Fixed property expenses	4.6	5.7	3.3	0.5	4.5	6.5	7.5	17.7	−4.8 [2]	5.9
Net valuation adjustment loss	—	—	—	—	—	—	—	—	0.1	0.1
Total administrative budget and fixed property expenses and net valuation adjustment loss	17.6	20.7	21.4	21.8	28.9	34.2	39.9	53.7	34.0	48.4
Net income or expenses (−) [3]	25.5	44.5	50.4	55.7	70.8	57.6	46.4	−13.3	−21.7	−37.2

[1] Excludes income from investments transferred to the Special Reserve until February 15, 1972.

[2] Represents sale of Fund's former headquarters building for the equivalent of SDR 21.2 million from which fixed property expenses of SDR 16.4 million have been deducted.

[3] Net income was transferred to the General Reserve until the fiscal year ended April 30, 1968. Of the SDR 55.7 million, SDR 70.8 million, SDR 57.6 million, and SDR 46.4 million net income in 1968, 1969, 1970, and 1971, respectively, SDR 18.3 million, SDR 38.9 million, SDR 40.0 million, and SDR 33.9 million were transferred to the General Reserve and SDR 37.5 million, SDR 31.9 million, SDR 17.5 million, and SDR 12.5 million were distributed under the provisions of Article XII, Section 6(*a*) and (*b*), of the Fund Agreement. The net expenses for the fiscal years ended April 30, 1972, 1973, and 1974 have been charged against the Special Reserve.

TABLE I.19. CHARGES ON TRANSACTIONS EFFECTED AFTER MAY 1, 1963 AND UP TO JUNE 30, 1974

Charges in per cent per annum[1] for period stated and for portion of holdings in excess of quota by (per cent)

More than But not more than	0 50	50 100	100
Service charge[2]	0.5	0.5	0.5
0 to 3 months	0.0	0.0	0.0
3 to 6 months	2.0	2.0	2.0
½ to 1 year	2.0	2.0	2.5
1 to 1½ years	2.0	2.5	3.0
1½ to 2 years	2.5	3.0	3.5
2 to 2½ years	3.0	3.5	4.0[3]
2½ to 3 years	3.5	4.0[3]	4.5
3 to 3½ years	4.0[3]	4.5	5.0
3½ to 4 years	4.5	5.0	
4 to 4½ years	5.0		

[1] Except for service charge, which is payable once per transaction and stated as per cent of amount of transaction.
[2] No service charge is payable in respect of any gold tranche purchase effected after July 27, 1969.
[3] Point at which the Fund and the member consult.

TABLE I.20. CHARGES ON TRANSACTIONS EFFECTED AFTER JULY 1, 1974

Charges in per cent per annum,[1] payable on holdings in excess of quota, for period stated:

Service charge	0.5
Up to 1 year	4.0
1 to 2 years	4.5
2 to 3 years	5.0
3 to 4 years	5.5[2]
4 to 5 years	6.0

[1] Except for service charge, which is payable once per transaction and stated as per cent of amount of transaction.
[2] Point at which the Fund and the member consult.

TABLE I.21. CHARGES ON TRANSACTIONS EFFECTED UNDER THE OIL FACILITY AFTER JULY 1, 1974

Charges in per cent per annum,[1] payable on holdings in excess of quota arising from drawings under the Oil Facility for the period stated:

Service charge	0.5
Up to 3 years	6.875
3 to 4 years	7.000[2]
5 to 7 years	7.125

[1] Except for service charge, which is payable once per transaction and stated as per cent of amount of transaction.
[2] Point at which the Fund and the member consult.

TABLE I.22. MEMBERS THAT HAVE ACCEPTED ARTICLE VIII, APRIL 30, 1974

Member	Effective Date of Acceptance
Argentina	May 14, 1968
Australia	July 1, 1965
Austria	August 1, 1962
Bahamas	December 5, 1973
Bahrain	March 20, 1973
Belgium	February 15, 1961
Bolivia	June 5, 1967
Canada	March 25, 1952
Costa Rica	February 1, 1965
Denmark	May 1, 1967
Dominican Republic	August 1, 1953
Ecuador	August 31, 1970
El Salvador	November 6, 1946
Fiji	August 4, 1972
France	February 15, 1961
Germany	February 15, 1961
Guatemala	January 27, 1947
Guyana	December 27, 1966
Haiti	December 22, 1953
Honduras	July 1, 1950
Ireland	February 15, 1961
Italy	February 15, 1961
Jamaica	February 22, 1963
Japan	April 1, 1964
Kuwait	April 5, 1963
Luxembourg	February 15, 1961
Malaysia	November 11, 1968
Mexico	November 12, 1946
Netherlands	February 15, 1961
Nicaragua	July 20, 1964
Norway	May 11, 1967
Panama	November 26, 1946
Peru	February 15, 1961
Qatar	June 4, 1973
Saudi Arabia	March 22, 1961
Singapore	November 9, 1968
South Africa	September 15, 1973
Sweden	February 15, 1961
United Arab Emirates	February 13, 1974
United Kingdom	February 15, 1961
United States	December 10, 1946

TABLE I.23. PUBLICATIONS ISSUED, FISCAL YEAR ENDED APRIL 30, 1974

Reports and Other Documents

Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1973 (English, French, German, and Spanish). Free

Summary Proceedings of the Twenty-Eighth Annual Meeting of the Board of Governors. Free

Twenty-Fourth Annual Report on Exchange Restrictions. Free

Subscription Publications

Balance of Payments Yearbook

Volume 24, 1967–71 (clothbound). US$6.00

Volume 25, 1968–72 (monthly, loose-leaf). US$7.50 (binder available for US$3.50)

Direction of Trade, issued jointly with IBRD; monthly with annual supplement. US$10.00 a year

International Financial Statistics, monthly (English and a combined English, French, and Spanish edition), and annual supplement. US$20.00 a year

Staff Papers, three times a year. US$6.00 a year

University libraries, faculty members, and students may obtain the four subscription publications listed above at the reduced rates of US$12.00 for all four publications, or US$5.00 for *International Financial Statistics* and US$3.00 each for the other publications.

For users of Fund publications that have access to a computer, tape subscriptions to *International Financial Statistics, Direction of Trade,* and the *Balance of Payments Yearbook* are available at US$1,000 a year per tape subscription. This price includes the book version of the publication. Universities may obtain the tape subscription for US$300 a year.

Books

Instruments of Monetary Policy in the United States: The Role of the Federal Reserve System, by Ralph A. Young. US$1.25

Surveys of African Economies. US$5.00 a volume

Volume 4, covering Democratic Republic of Congo (Zaïre), Malagasy Republic, Malawi, Mauritius, and Zambia, was issued in French during the fiscal year.

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Appendix II. Principal Policy Decisions of the Executive Board

A. Procedures for Reviews of External Policies

The Executive Directors concur in the statement of the Managing Director on procedures for reviews of external policies . . . .

Decision No. 4076-(73/101)
October 31, 1973

Managing Director's Statement

On August 29, 1973 the Executive Directors considered a staff memorandum reviewing procedures for special consultations on exchange rate policies. At that meeting there was general agreement on the importance of Fund reviews of exchange rate policies and the need to develop appropriate procedures for such reviews. The staff had proposed that special consultations be held, in between the annual consultations, with members whose exchange rate policies have a major impact on the international monetary system. This proposal was supported by a number of Directors. Others preferred a more informal approach with ad hoc arrangements to be made by the Managing Director. An alternative suggested by one Executive Director envisaged "multicountry" consultations based on a staff report reviewing current exchange market and exchange policy matters in a number of countries. In concluding the meeting, the Acting Chairman had said that the staff would follow up suggestions made by Executive Directors and the subject would be brought back to the Board as soon as practicable after the Annual Meeting.

I have carefully considered the views expressed by the Executive Directors at the above meeting and in subsequent private discussions. I am mindful of the degree of consensus arrived at in the Committee of Twenty on the subject of special procedures in connection with adjustment in the reformed system. I strongly believe that we need to develop new procedures in the interim to ensure that exchange policies in general and exchange rate developments in particular are consistent with the general objectives of the Fund. I also believe that there are advantages at this time in following an approach that allows a measure of flexibility but that also is sufficiently broad-based to lead to a general review of exchange rate developments.

In the light of these considerations I propose, as a preliminary step, to ask senior staff members to hold, under my direction, informal discussions for two or three days with high officials of each of a number of countries that have a major impact on international currency relationships. There would not be a fixed list but in the first round of discussions I would consider including Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, the United Kingdom, and the United States. The discussions would be centered on balance of payments developments and policies having an important impact on exchange markets. Immediately upon their return to headquarters the staff would advise me of the results of these discussions and I would then consider what further action might be useful at that stage. In any event, with due care to safeguard the confidentiality of information and views on matters of a particularly sensitive nature, I would arrange for the Executive Directors to receive as soon as possible a unified account of developments and policies.

I believe that discussion of this subject by the Executive Directors should take place in the context of the review of general developments and prospects of the world economy deriving from the periodic exercise on the world economic outlook which should henceforth be undertaken three times each year, though not always on as elaborate a scale as in the past.

As a conclusion of the discussion by the Executive Directors, I envisage a statement by the Chairman summing up the views of the Directors on overall foreign exchange developments and policies.

If the Executive Directors agree with this procedure, I would propose that informal staff visits be arranged to begin in mid-November. This would allow Board discussion of the report to be scheduled before the meeting of the Deputies of the Committee of Twenty in January.

B. Exchange Rates for the SDR in Transactions Between Participants

1. In view of the development of unforeseen circumstances threatening the operations of the Fund with respect to the Special Drawing Account, the operation of Article XXV, Section 8(*a*) is suspended, pursuant to Article XXIX, Section 1, with respect to transactions under Article XXV, Section 2(*b*)(i) for a period of 120 days starting November 6, 1973.

2. The earliest practicable date for a meeting of the Board of Governors pursuant to Article XVI, Section 1(*b*), is the date of the 1974 Annual Meeting of the Board of Governors of the International Monetary Fund.

Decision No. 4078-(73/102) S
November 5, 1973

C. Central Rates and Wider Margins: A Temporary Regime—Revised Decision [1]

Preamble

This decision is adopted by the Executive Directors in order to indicate practices that members may wish to follow in present circumstances consistently with Article IV, Section 4(*a*) and Board of Governors Resolution No. 26-9,[2] which called on all members to collaborate with the Fund and with each other in order to maintain a satisfactory structure of exchange rates within appropriate margins. The decision is intended to enable members to observe the purposes of the Fund to the maximum extent possible during the temporary period preceding the resumption of effective par values with appropriate margins in accordance with the Articles.

Paragraph 1. *Par Values and Wider Margins*

(a) A member will be deemed to be acting in accordance with Article IV, Section 4(*a*) and Resolution No. 26-9 if it takes appropriate measures, consistent with the Articles, to permit spot exchange transactions between its currency and an intervention currency, the issuer of which operates on the basis of a par value or a central rate, only at rates within 2¼ per cent from the parity between the two currencies. If a central rate

[1] For original decision, No. 3463-(71/126), see *Annual Report, 1972,* pages 85–87.

[2] *Summary Proceedings of the Twenty-Sixth Annual Meeting of the Board of Governors* (Washington, 1971), pages 331–32.

is in effect for the intervention currency, parity for the purpose of this paragraph shall be deemed to refer to the relationship between the par value of a member's currency and such central rate.

(b) A member that avails itself of wider margins under (a) above shall notify the Fund. Paragraphs 5 and 6 of this decision shall then apply to the member.

(c) A member's intervention currency means a currency which the member represents to the Fund that it stands ready to buy and sell in order to perform its obligations regarding exchange stability.

Paragraph 2. *Central Rates*

(a) A member which temporarily does not maintain rates based on a par value for its currency in accordance with Article IV, Section 3 and Decision No. 904-(59/32)[3] but, by means of appropriate measures consistent with the Articles, maintains a stable rate in terms of an intervention currency as the basis for exchange transactions in its territories may communicate to the Fund a rate for its currency for the purposes of this decision. This rate or a rate subsequently communicated in accordance with this paragraph shall take effect as the central rate for the purposes of this decision unless the Fund finds it unsatisfactory.

(b) A central rate for a member's currency may be communicated in gold, units of special drawing rights, or another member's currency.

Paragraph 3. *Central Rates with Wider Margins*

A member that communicates a central rate under paragraph 2(a) and avails itself of the wider margins of paragraph 1(a) on the basis of its central rate shall notify the Fund, and if the Fund has not found the central rate unsatisfactory the member will be deemed to be acting in accordance with Article IV, Section 4(*a*) and Resolution No. 26-9 if it takes appropriate measures, consistent with the Articles, to permit spot exchange transactions between its currency and an intervention currency only within margins of 2¼ per cent of the central rate in terms of the intervention currency. In addition, paragraphs 5 and 6 shall apply.

Paragraph 4. *Central Rates without Wider Margins*

If a member that communicates a central rate under paragraph 2(a) does not notify the Fund under paragraph 3 that it avails itself of the wider margins of that paragraph, the member shall take appropriate measures to ensure that spot exchange transactions within its territories between its currency and an intervention currency shall take place only within margins of 1 per cent of the central rate in terms of the intervention currency.

Paragraph 5. *Multiple Currency Practices and Discriminatory Currency Arrangements*

Notwithstanding paragraphs 1 and 3 above, no member shall permit, except as approved or authorized under Article VIII, Section 3 or Article XIV, Section 2:

a difference in excess of 2 per cent between any two buying or any two selling rates for spot exchange transactions between its currency and the currencies of other members; or

a spread in excess of 2 per cent between a buying and a selling rate for spot exchange transactions between its currency and the currency of another member.

[3] *Selected Decisions of the International Monetary Fund and Selected Documents* (Sixth Issue, Washington, 1972), page 11.

Paragraph 6. *Intervention*

Appropriate measures for the purposes of paragraphs 1(a), 2(a), and 3 above shall include intervention by a member's authorities in the exchange markets within the member's territories in order to maintain rates for spot exchange transactions in accordance with this decision. In their intervention in exchange markets members shall refrain from actions incompatible with the purposes of the Fund.

Paragraph 7. *Members Maintaining Narrow Margins Against an Intervention Currency*

(a) A member will be deemed to be acting in accordance with Article IV, Section 4(*a*) and Board of Governors Resolution No. 26-9, if (a) the rate for its currency is maintained consistently with the Articles or the member's Membership Resolution *and* (b) the member permits transactions between its currency and *an* intervention currency only within margins of 1 per cent of the said rate in terms of the intervention currency.

(b) Subparagraph (a) shall apply to a member in respect of the separate currency of a territory under Article XX, Section 2(*g*) for which margins of 1 per cent are maintained for transactions between the separate currency and the metropolitan currency.

Paragraph 8. *Review*

This decision shall be reviewed from time to time as necessary.

Decision No. 4083-(73/104)
November 7, 1973

D. Gold Payments Under Article V, Section 7(*b*) Amounting to Less Than One Bar

If a payment due under Article V, Section 7(*b*) includes an amount of gold equal to less than one standard bar, such amount shall not be collected.

Decision No. 4087-(73/105)
November 9, 1973

E. Bank for International Settlements: Draft Resolution to Become Holder of SDRs

I. The Bank for International Settlements, by a letter dated September 12, 1973, applied to be permitted to accept, hold, and use special drawing rights under Article XXIII, Section 3, of the Articles of Agreement of the Fund, and pursuant to Section 25 of the By-Laws, the Executive Directors have consulted with the representatives of that Bank and have agreed upon the terms and conditions which, in the opinion of the Executive Directors, the Board of Governors may wish to prescribe for permitting that Bank to accept, hold, and use special drawing rights.

II. The Board of Governors is requested to vote without meeting pursuant to Section 13 of the By-Laws. Pursuant further to this By-Law, the Executive Directors waive the requirement that Governors shall not vote on any motion presented by the Executive Directors until seven days after the dispatch of the motion.

III. The Secretary is authorized and directed to send to each member of the Fund by rapid means of communication, on or before November 30, 1973, the Explanatory Notes and Appendix thereto together with the following communication:

> The Bank for International Settlements by a letter dated September 12, 1973 applied to be permitted under Article XXIII, Section 3 to accept, hold, and use special drawing rights. The Executive Board, after consultation with representatives of the Bank for International Settlements, has taken note of the Explanatory Notes and Appendix thereto, which is sent to Governors for their information, and approved the following Resolution for submission to the Board of Governors for a vote without meeting pursuant to Section 13 of the By-Laws of the Fund. If the Resolution is adopted while the suspension under Executive Board Decision No. 4078-(73/102) S is still in effect, the Executive Directors intend to decide under paragraph 9 to permit the Bank to engage in transactions.[4] The exchange rates for transactions under the Resolution would be determined under Rule O-3.

DRAFT RESOLUTION[5]

Prescription of the Bank for International Settlements as a Holder of Special Drawing Rights

WHEREAS the Bank for International Settlements, by a letter dated September 12, 1973, applied to be permitted under Article XXIII, Section 3, of the Articles of Agreement of the International Monetary Fund to accept, hold, and use special drawing rights in certain transactions with participants; and

WHEREAS pursuant to Section 25 of the By-Laws of the Fund, the Executive Directors, after consultation with the Representatives of the Bank for International Settlements, have recommended that the Bank for International Settlements be prescribed as a holder on the terms and conditions set forth in this Resolution; and

WHEREAS the Bank for International Settlements has indicated its concurrence in the proposed terms and conditions;

NOW, THEREFORE, the Board of Governors, having considered the recommendations of the Executive Directors, hereby RESOLVES that: The Bank for International Settlements is prescribed as a holder of special drawing rights on the following terms and conditions:

1. *Definitions:* As used in this Resolution:
   - (a) "Fund" means the International Monetary Fund.
   - (b) "Bank" means the Bank for International Settlements.
   - (c) "Participant" means a participant in the Special Drawing Account of the Fund.
   - (d) "Articles" means the Articles of Agreement of the Fund.
   - (e) "Article" refers to an identified provision of the Articles.
   - (f) "Need to use special drawing rights" means need as defined in Article XXV, Section 3(*a*).
2. *Application of General Provisions:* The provisions of the Articles, By-Laws, Rules and Regulations, and decisions of the Fund that apply to all holders shall apply under this Resolution.

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[4] See Decision No. 4159-(74/10) S, pages 109–10.

[5] Adopted by the Board of Governors as Resolution No. 29-1, effective January 21, 1974.

3. *Acceptance, Holding, and Use by the Bank:*
   (a) Acceptance: The Bank may accept special drawing rights and provide currency in a transaction in agreement with a participant, which agreement includes an undertaking by the Bank and participant that the Bank will use the same amount of special drawing rights to obtain currency from that participant within a period of up to six months.
   (b) Holding: The Bank may hold special drawing rights accepted in accordance with (a) above or received from the Fund as interest on its holdings of special drawing rights.
   (c) Use: The Bank may use special drawing rights to obtain currency in a transaction in agreement with a participant:
      (i) to fulfill the Bank's undertaking assumed in accordance with paragraph 3(a) above; or
      (ii) after consultation with the Fund, to dispose of special drawing rights when the Bank finds that a participant has failed to carry out the agreement referred to in paragraph 3(a) above; and
      (iii) to dispose of special drawing rights received from the Fund as interest on the Bank's holdings of special drawing rights.

   The Bank shall return special drawing rights to a participant which is required to accept them in accordance with paragraph 4(a)(ii).

   (d) Exchange rates: In all transactions under this Resolution the rules which determine the exchange rates applicable to participants under the Articles at the time of each transfer of special drawing rights shall also apply to the Bank.

4. *Use and Acceptance by Participants:*
   (a) Use:
      (i) A participant that represents to the Fund that it has a need to use special drawing rights may enter into a transaction in accordance with paragraph 3(a) above by giving notice to the Fund.
      (ii) The Fund shall not challenge the representation in (a)(i) above. The Fund, however, may require the participant to accept special drawing rights from the Bank, for currency acceptable to the Bank, to the extent the Fund later finds that the participant did not have a need to use special drawing rights.
   (b) Acceptance: A participant may accept special drawing rights in accordance with paragraph 3(c) above. A participant shall accept special drawing rights from the Bank and provide currency as required under (a)(ii) above.

5. *Information and Recording:* The Fund shall inform the Bank of all matters relevant to the acceptance, holding, and use of special drawing rights by the Bank. The Bank and the participant shall inform the Fund promptly of the facts necessary to record any transaction in which the Bank accepts or uses special drawing rights.

6. *Consultation and Review:* The Bank and the Fund will remain in close consultation with respect to this Resolution. The Executive Directors shall review this Resolution at least once every three years and submit any recommendation that they consider appropriate to the Board of Governors.

7. *General Undertaking of Bank:* The Bank undertakes, in its acceptance, holding, and use of special drawing rights, to collaborate with the Fund in order to facilitate the effective functioning of the Special Drawing Account and the proper use of special drawing rights in accordance with the Articles and this Resolution.

8. *Annual Report:* The Executive Directors shall discuss the operation of this Reso-

lution in their annual report as part of their review of the operation of the Special Drawing Account.

9. *Suspension:* During any period in which a suspension under Article XXIX, Section 1, is in effect, transactions under this Resolution shall be suspended unless the Executive Directors decide otherwise.
10. *Termination:* The prescription hereunder may be terminated either by the Bank, or by the Fund on the decision of the Executive Directors, by transmitting a notice in writing to the Fund or the Bank at its principal office. Termination shall become effective on the date the notice is received. After termination the Bank may hold, receive, and use special drawing rights only in accordance with paragraphs 3(b), (c), and (d), above, and participants may accept special drawing rights from the Bank under paragraph 4(b) above.
11. *Adherence to Terms and Conditions:*
    (a) The Bank may adhere to this Resolution [6] within six months of the effective date of this Resolution, which date shall be the date of its adoption by the Board of Governors.
    (b) Adherence hereunder shall be in the form of a letter to the Fund, acknowledging these terms and conditions and bearing signatures which legally commit the Bank.

Decision No. 4096-(73/110) S
November 26, 1973

F. Consultations on Members' Policies in Present Circumstances

1. The Committee on Reform of the International Monetary System and Related Issues on January 18, 1974 reviewed important recent developments and agreed that, in the present difficult circumstances, all members, in managing their international payments, must avoid the adoption of policies which would merely aggravate the problems of other members. Accordingly, the Committee stressed the importance of avoiding competitive depreciation and the escalation of restrictions on trade and payments; and emphasized the importance of pursuing policies that would sustain appropriate levels of economic activity and employment, while minimizing inflation. It was also recognized that recent developments would create serious payments difficulties for many developing countries. The Committee agreed that there should be the closest international cooperation and consultation in pursuit of these objectives.

2. The Executive Directors call on all members to collaborate with the Fund in accordance with Article IV, Section 4(*a*), with a view to attaining these objectives. The consultations of the Fund on the policies that members are following in present circumstances will be conducted with a view to the attainment of these objectives.

Decision No. 4134-(74/4)
January 23, 1974

G. Exchange Rates for the SDR in Transactions Between Participants: Extension of Suspension of Article XXV, Section 8(*a*)

I. The Board of Governors is requested to vote without meeting pursuant to Section 13 of the By-Laws of the Fund upon a draft resolution extending the period of the

[6] The Bank for International Settlements adhered to this Resolution by letter dated January 30, 1974.

suspension of the operation of Article XXV, Section 8(*a*) with respect to transactions under Article XXV, Section 2(*b*)(i).

II. The Secretary is authorized and directed to send a communication substantially as follows to each member of the Fund, by airmail or other rapid means of communication, on or before February 5, 1974:

1. In view of the development of unforeseen circumstances threatening the operations of the Fund with respect to the Special Drawing Account, the Executive Directors of the Fund decided on November 5, 1973 to suspend the operation of Article XXV, Section 8(*a*), with respect to transactions between participants conducted pursuant to Article XXV, Section 2(*b*)(i), for the maximum period of 120 days for which the Executive Directors can adopt a suspension. This period will end on March 5, 1974. As this threat to the operations of the Fund with respect to the Special Drawing Account continues to exist and the period of suspension may be extended beyond March 5, 1974 only by the Board of Governors, the Executive Directors have concluded that they should recommend to the Board of Governors the extension of the suspension.
2. Accordingly, the Executive Directors of the Fund have approved the submission of the following draft resolution to the Board of Governors of the Fund for a vote without meeting pursuant to Section 13 of the By-Laws, and waive the requirement that Governors shall not vote on any motion presented by the Executive Directors until seven days after the dispatch of the motion:

DRAFT RESOLUTION [7]

Extension of Suspension of Operation of Article XXV, Section 8(*a*)

RESOLVED:

That the suspension of the operation of Article XXV, Section 8(*a*) with respect to transactions under Article XXV, Section 2(*b*)(i), which was decided by the Executive Directors on November 5, 1973 for a period of 120 days ending on March 5, 1974, shall be extended for an additional period of 240 days ending on October 31, 1974.

Decision No. 4145-(74/6) S
February 1, 1974

H. Bank for International Settlements: Adherence to Resolution No. 29-1 and Termination of Suspension

I. In accordance with Paragraph 9 of Board of Governors Resolution No. 29-1, the Executive Directors decide that, during any period in which the operation of Article XXV, Section 8(*a*) is suspended pursuant to Article XXIX, Section 1 with respect to transactions under Article XXV, Section 2(*b*)(i), transactions under Resolution No. 29-1 shall not be suspended.

[7] Adopted by the Board of Governors as Resolution No. 29-2, effective March 4, 1974.

II. The Secretary is authorized to transmit to the Bank for International Settlements decisions of the Fund that apply to all holders and affect the acceptance, holding, and use of special drawing rights by the Bank.

Decision No. 4159-(74/10) S
February 19, 1974

I. Draft Resolution on Establishment of an Interim Committee of the Board of Governors on the International Monetary System

The Executive Board approves for submission to the Board of Governors at the 1974 Annual Meeting the following draft Resolution on Establishment of an Interim Committee of the Board of Governors.

Decision No. 4231-(74/67)
June 13, 1974

DRAFT RESOLUTION

WHEREAS the Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues has recommended that it would be desirable to establish by amendment of the Articles of Agreement a permanent and representative Council with appropriate powers; and

WHEREAS it is desirable, pending the establishment of the Council, to establish an Interim Committee of the Board of Governors on the International Monetary System with an advisory role, and with a composition similar to that of the Council; and

WHEREAS it is desirable that the Interim Committee shall come into existence when the Committee on Reform of the International Monetary System and Related Issues ceases to exist;

NOW, THEREFORE, the Board of Governors hereby RESOLVES that:

1. *Composition of the Interim Committee*

(a) There shall be established an Interim Committee of the Board of Governors on the International Monetary System. The members of the Committee shall be governors of the Fund, ministers, or others of comparable rank. Each member of the Fund that appoints an executive director and each group of members of the Fund that elected an executive director on or after the date on which the last regular election took place shall appoint

(i) one member of the Committee, and not more than
(ii) seven associates.

Each member of the Committee and each associate shall serve until a new appointment is made.

(b) Members of the Committee, associates, and executive directors or in their absence their alternates, shall be entitled to attend meetings of the Committee, unless the Committee decides to hold a more restricted session. Each member of the Fund that appoints an executive director and each group of members of the Fund referred to in (a) above may designate an alternate to participate in the place of the member of the Committee at any meeting when he is not present. Participation in respect of each item on the agenda of a meeting shall be limited to one person, who shall be a member of the Committee, an associate, or an executive director.

(c) The Committee shall select a Chairman, who shall serve for such period as the Committee determines. The Chairman of the Board of Governors, or a governor designated by him, shall convene the first meeting of the Committee and shall preside over it until a Chairman has been selected.

(d) The Managing Director shall be entitled to participate in all meetings of the Committee, and may designate a representative to participate in his place at any meeting when he is not present. The Managing Director or his representative may be accompanied normally by not more than two members of the staff, unless the Committee decides to hold a restricted session.

2. *Representation of members not entitled to appoint a member of the Committee*

A member of the Fund not entitled to appoint a member of the Committee may send a representative to participate in any meeting of the Committee when a request made by, or a matter particularly affecting, that member is under consideration. The Committee shall determine, upon request by the member, whether a matter under consideration particularly affects the member.

3. *Terms of reference*

The Committee shall advise and report to the Board of Governors with respect to the functions of the Board of Governors in:

(i) supervising the management and adaptation of the international monetary system, including the continuing operation of the adjustment process, and in this connection reviewing developments in global liquidity and the transfer of real resources to developing countries;

(ii) considering proposals by the Executive Directors to amend the Articles of Agreement; and

(iii) dealing with sudden disturbances that might threaten the system.

In addition, the Committee shall advise and report to the Board of Governors on any other matters on which the Board of Governors may seek the advice of the Committee.

In performing its duties, the Committee shall take account of the work of other bodies having specialized responsibilities in related fields.

4. *Procedures*

(a) The Committee shall meet ordinarily three or four times a year. The Chairman may call meetings after consulting the members of the Committee, and shall consult the members of the Committee on calling a meeting if so requested by any member of the Committee.

(b) A quorum for any meeting of the Committee shall be two thirds of the members of the Committee.

(c) Meetings of the Committee shall be held within the metropolitan area in which the Fund has its principal office, or at such other places as the Committee may provide or, in the absence of such provision, as the Chairman shall determine after consulting the members of the Committee.

(d) Appropriate arrangements shall be made for the effective coordination of the work of the Committee and of the Executive Directors. The Secretary of the Fund shall serve as the Secretary of the Committee.

(e) In reporting any recommendations or views of the Committee, the Chairman shall seek to establish a sense of the meeting. In the event of a failure to reach a unanimous view, all views shall be reported, and the members holding such views shall be identified. Reports of the Committee shall be made available to the Executive Directors.

(f) The Committee may invite observers to attend during the discussion of an item on the agenda of a meeting, and may determine any aspect of its procedure that is not established by this Resolution.

J. Guidelines for the Management of Floating Exchange Rates

The Executive Directors have discussed the attached memorandum entitled "Guidelines for the Management of Floating Exchange Rates." They recommend, pursuant to Article IV, Section 4(*a*), that, in present circumstances, members should use their best endeavors to observe the guidelines set forth and explained in the memorandum. Consultations with members with floating currencies will be based on the memorandum. These guidelines will be reviewed from time to time in order to make any adjustments that may be appropriate.

Decision No. 4232-(74/67)
June 13, 1974

Guidelines for the Management of Floating Exchange Rates

INTRODUCTION

There is widespread agreement that the behavior of governments with respect to exchange rates is a matter of international concern and a matter for consultation and surveillance in the Fund. This is no less true when rates are floating than when they are contained within fixed margins and are changed by par value and central rate adjustments.

The Fund cannot legally authorize floating but it can exercise surveillance over the manner in which members fulfill their undertaking, under Article IV, Section 4(*a*), "to collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members, and to avoid competitive exchange alterations." The following guidelines, though not exhausting the possibilities of action by the Fund under this Article, are intended to provide criteria that members would observe in performing their undertaking and that the Fund would observe in exercising surveillance in present circumstances.

These guidelines are based on the assumption that in any situation of floating it may be desirable (a) to smooth out very short-run fluctuations in market rates and (b) to offer a measure of resistance to market tendencies in the slightly longer run, particularly when they are leading to unduly rapid movements in the rate, and (c) to the extent that it is possible to form a reasonable estimate of the medium-term norm for a country's exchange rate, to resist movements in market rates that appear to be deviating substantially from that norm. Guidelines of this kind are necessary, inter alia, in order to arrive at a clear conception of what competitive exchange alteration is, and to provide safeguards against it.

The guidelines also take into account:

(a) that national policies, including those relating to domestic stabilization, should not be subjected to greater constraints than are clearly necessary in the international interest;

(b) that a degree of uncertainty necessarily attaches to any estimate of a medium-term normal exchange rate, that this uncertainty is particularly great in present circumstances, and that on occasion the market view may be more realistic than any official view whether of the country primarily concerned or of an international body; and

(c) that in view of the strength of short-term market forces it may at times be unavoidable to forego or curtail official intervention that would be desirable from the standpoint of exchange stability if such intervention should involve an excessive drain on reserves or an impact on the money supply which it is difficult to neutralize.

The guidelines are intended to provide the basis for a meaningful dialogue between the Fund and member countries with a view to promoting international consistency during a period of widespread floating. They are termed guidelines rather than rules to indicate their tentative and experimental character. They should be adaptable to changing circumstances. No attempt is here made to indicate the precise procedures through which they would be implemented. These will be considered later, but they must essentially rest on an intensification of the confidential interchange between the member and the Fund.

In the application of the guidelines it is to be expected that, in view of the emphasis laid by the Committee of Twenty at their fifth (Rome) meeting on the importance in present circumstances of avoiding competitive depreciation, particular attention would be attached to departures from the guidelines in the direction of depreciation. Special consideration will also be given to the manner in which the guidelines should be applied by developing countries, taking account of the stage of evolution of their exchange markets and intervention practices.

The guidelines should be understood in the light of the commentary which follows.

THE GUIDELINES

(1) A member with a floating exchange rate should intervene on the foreign exchange market as necessary to prevent or moderate sharp and disruptive fluctuations from day to day and from week to week in the exchange value of its currency.

(2) Subject to (3)(b), a member with a floating rate may act, through intervention or otherwise, to moderate movements in the exchange value of its currency from month to month and quarter to quarter, and is encouraged to do so, if necessary, where factors recognized to be temporary are at work. Subject to (1) and (3)(a), the member should not normally act aggressively with respect to the exchange value of its currency (i.e., should not so act as to depress that value when it is falling, or to enhance that value when it is rising).

(3) (a) If a member with a floating rate should desire to act otherwise than in accordance with (1) and (2) above in order to bring its exchange rate within, or closer to, some target zone of rates, it should consult with the Fund about this target and its adaptation to changing circumstances. If the Fund considers the target to be within the range of reasonable estimates of the medium-term norm for the exchange rate in question, the member would be free, subject to (5), to act aggressively to move its rate towards the target zone, though within that zone (2) would continue to apply.

(b) If the exchange rate of a member with a floating rate has moved outside what the Fund considers to be the range of reasonable estimates of the medium-term norm for that exchange rate to an extent the Fund considers likely to be harmful to the interests of members, the Fund will consult with the member, and in the light of such consultation may encourage the member, despite 2 above, (i) not to act to moderate movements toward this range, or (ii) to take action to moderate further divergence from the range. A member would not be asked to hold any particular rate against strong market pressure.

(4) A member with a floating exchange rate would be encouraged to indicate to the Fund its broad objective for the development of its reserves over a period ahead and to discuss this objective with the Fund. If the Fund, taking account of the world reserve situation, considered this objective to be reasonable and if the member's reserves were relatively low by this standard, the member would be encouraged to intervene more strongly under Guideline (2) to moderate a movement in its rate when the rate was rising than when it was falling. If the member's reserves were relatively high by this standard it would be encouraged to intervene more strongly to moderate a movement in its rate when the rate was falling than when it was rising. In considering target exchange rate zones under (3), also, the Fund would pay due regard to the desirability of avoiding an increase over the medium term of reserves that were recognized by this standard to be relatively high, and the reduction of reserves that were recognized to be relatively low.

(5) A member with a floating rate, like other members, should refrain from introducing restrictions for balance of payments purposes on current account transactions or payments and should endeavor progressively to remove such restrictions of this kind as may exist.

(6) Members with a floating rate will bear in mind, in intervention, the interests of other members including those of the issuing countries in whose currencies they intervene. Mutually satisfactory arrangements might usefully be agreed between the issuers and users of intervention currencies, with respect to the use of such currencies in intervention. Any such arrangements should be compatible with the purposes of the foregoing guidelines. The Fund will stand ready to assist members in dealing with any problems that may arise in connection with them.

COMMENTARY

General

Certain of the terms used in the guidelines may be defined as follows:

(i) "A member with a floating exchange rate" means a member whose currency is floating independently in the sense that it is not pegged, within relatively narrow margins, to any other currency or composite of currencies. Members whose currencies are pegged to particular floating currencies, or to composites of such currencies, within these margins would be exempt from these guidelines, though not from any general principles relating to adjustment. Members which, though their currencies are pegged to another currency, change the peg frequently in the light of some formula relating, e.g., to price indices, would be expected to discuss this formula and any changes therein with the Fund. Members whose currencies are pegged to a composite of other currencies (e.g., members whose effective rates are fixed) would likewise be expected to discuss with the Fund the composite in question and any changes therein. Members whose currencies are floating jointly under mutual intervention arrangements with relatively narrow margins would be exempted from the intervention guidelines so far as intervention in each other's currencies is concerned, but would be held responsible to the Fund for their exchange market intervention vis-à-vis the rest of the world. As regards capital controls, official financing, and other measures to influence capital flows, each member belonging to such a group would be responsible for its measures judged in relation to its overall balance of payments situation.

(ii) "Exchange market intervention" would normally be measured by the movement of reserves, adjusted as appropriate for compensatory official borrowing. Consideration might also be given to including in the concept of intervention changes in official foreign exchange positions other than reserves.

(iii) "Action to influence an exchange rate" includes, besides exchange market intervention, other policies that exercise a temporary effect on the balance of payments and hence on exchange rates, and that have been adopted for that purpose. Such policies may take the form of official forward exchange market intervention, official foreign borrowing or lending, capital restrictions, separate capital exchange markets, various types of fiscal intervention, and also monetary or interest rate policies. Monetary or interest rate policies adopted for demand management purposes or other policies adopted for purposes other than balance of payments purposes would not be regarded as action to influence the exchange rate.

(iv) Where the terms "exchange rate" or "exchange value" are employed with respect to any currency it is assumed that these would normally be expressed in terms of effective rates, i.e., the value of the currency would be measured relative to a representative set of currencies rather than relative to its intervention currency alone. The set chosen for this purpose should, in principle, vary from country to country, and the currencies in the set should be weighted according to their importance to the country in question. The composition of the set might be based on trade and financial relationships or on trade relationships alone. If trade-weighted, it might be derived from the Multilateral Exchange Rate Model, or based on bilateral trade relationships. In some cases the basket used for the valuation of the SDR might be satisfactory for this purpose also. In some cases, finally, the rate vis-à-vis a single currency might provide a satisfactory approximation to an effective rate.

On Guideline (1)

Known large once-for-all or reversible transactions would be largely offset and their effects spread over time. In addition, intervention would be undertaken to moderate large day-to-day or week-to-week movements in rates due to speculative or other factors. Such intervention, if properly conducted, should tend to net out over time.

It is unlikely to be necessary for the issuer of the principal intervention currency itself to intervene from day to day in the manner described in this guideline.

On Guideline (3)

(i) The concept of a medium-term norm for an exchange rate is employed explicitly in (a) and implicitly in (b) of Guideline (3). By this is meant a rate that would tend to bring about equilibrium in the "underlying" balance of payments, i.e., in the overall balance in the absence of cyclical and other short-term factors affecting the balance of payments, including government policies which are, or, on internationally accepted principles, ought to be temporary. If the member concerned so proposes and the Fund agrees, "equilibrium" could allow for an internationally appropriate rate of increase or decrease in the member's reserves. The "medium-term" might be considered to refer to a period of about four years. Seasonal, speculative, and cyclical factors whose effects were reversible over such a period would be ignored.

(ii) An advantage of conceiving medium-term norms or target zones in terms of effective rates is that so long as the effective rate remains constant the balance of trade or currency payments of the floating country would not be greatly affected by changes in the relative exchange rates of the currencies of other countries. This should reduce the frequency with which it would be necessary to change zone boundaries, or the magnitude of the changes involved. It would be open to a member if it so desired to express its target rate or zone not as one that is constant over time but as one that is rising or falling at a certain rate or at a rate dependent, for example, on an index of relative price or cost levels.

(iii) Under Guideline (3)(b) the Fund would be authorized to take the initiative in situations where it considered that a member's rate was likely to become harmful to the interests of members whether as a result of market forces or of action by the member. Recommendations to a member under this provision would be made by the Executive Directors, on a proposal by the Managing Director, but the Managing Director would not make such a proposal except after consultation with the member.

(iv) The greater the degree of uncertainty regarding the balance of payments situation and prospects of a country the wider would be the range of reasonable estimates of the medium-term norm for its exchange rate, and the wider would be the deviation beyond this range which would occur before the Fund would make any suggestions under Guideline (3)(b). The Fund's right to make suggestions under this guideline will, in any case, be exercised with restraint.

(v) In any suggestions the Fund might make under Guideline (3)(b), it would give a preference to liberalizing as opposed to restricting ways of exercising a given effect on exchange rates, but would bear in mind the distinction between capital controls applied for temporary balance of payments reasons and those applied for other economic and social reasons.

On Guideline (6)

This guideline would imply that in their use of their customary reserve currencies members with a floating rate, while recognizing the need of issuing countries for reasonable freedom of exchange rate movement, should not be precluded from intervening in a manner conformable with the guidelines. Among the problems that might arise regarding the use of intervention currencies, in the resolution of which the Fund might be of service, are those regarding the circumstances in which a member might intervene in a currency other than its customary reserve currency, the problem of interventions that move the value of the currency of intervention in an undesirable direction, and the problem of mutually offsetting interventions.

K. Interim Valuation of the SDR: New Rule O-3 and Method of Determining and Collecting Exchange Rates

(a) New Rule O-3

1. Effective July 1, 1974, and subject to the addition of the amount of each currency listed in paragraph (a), which will be calculated in the manner set out in SM/74/142, dated June 13, 1974, on the last business day before this decision becomes effective, Rule O-3 of the Fund's Rules and Regulations entitled "Exchange Rates" shall be amended to read as follows:

(a) For the purpose of determining the exchange rate in terms of special drawing rights for a currency provided in a transaction between participants or involved in a conversion associated with such a transaction one special drawing right shall be deemed to be equal to the sum of:

U. S. dollar	0.40
Deutsche mark	0.38
Pound sterling	0.045
French franc	0.44
Japanese yen	26
Canadian dollar	0.071
Italian lira	47
Netherlands guilder	0.14
Belgian franc	1.6
Swedish krona	0.13
Australian dollar	0.012
Danish krone	0.11
Norwegian krone	0.099
Spanish peseta	1.1
Austrian schilling	0.22
South African rand	0.0082

(b) One special drawing right in terms of the United States dollar shall be equal to the sum of the equivalents in United States dollars of the amounts of the currencies specified in (a) above, calculated on the basis of exchange rates established in accordance with procedures decided from time to time by the Fund.

(c) One special drawing right in terms of a currency other than the United States dollar shall be determined on the basis of the rate of the special drawing right in terms of the United States dollar as established in accordance with (b) above and an exchange rate for that currency determined as follows:

(i) for the currency of a member having an exchange market in which the Fund finds that a representative rate for spot delivery for the United States dollar can be readily ascertained, that representative rate;

(ii) for the currency of a member having an exchange market in which the Fund finds that a representative rate for spot delivery for the United States dollar cannot be readily ascertained but in which a representative rate can be readily ascertained for spot delivery for a currency as described in (i), the rate calculated by reference to the representative rate for spot delivery for that currency and the rate ascertained pursuant to (i) above for the United States dollar in terms of that currency;

(iii) for any other currency, a rate determined by the Fund.

2. Rule O-3 as amended by this decision shall be reviewed two years from the date of this decision.

Decision No. 4233-(74/67) S
June 13, 1974, as amended by
Decision No. 4261-(74/78) S
July 1, 1974

(b) Method of Determining and Collecting Exchange Rates for the Purposes of Rule O-3

1. The determination under Rule O-3(b) of the equivalents in United States dollars of the amounts of currencies listed in Rule O-3(a) shall be based on the following spot

exchange rates for the United States dollar: against the yen, the representative rate under Rule O-3(c); against other currencies, the middle rates between buying and selling rates quoted at noon in the London exchange market.

2. If, for any reason, the rate for any currency cannot be obtained in accordance with 1. above, the rate shall be the rate quoted at noon in the New York exchange market or, if not available there, the rates at the fixing in the Frankfurt exchange market. If rates against the United States dollar cannot be obtained directly in any market, the rates shall be calculated by use of appropriate cross rates.

3. If on any day the rate for a currency cannot be obtained in accordance with 1. or 2. above, calculations shall be made on the basis of the rate for the previous business day unless the Fund decides otherwise.

Decision No. 4234-(74/67) S
June 13, 1974

L. Remuneration and Interest Rate on Special Drawing Rights

(a) Remuneration

The following shall be adopted as Rule I-10:

(a) For the six-month period July 1 to December 31, 1974, the rate of remuneration shall be 5 per cent per annum.

(b) Unless the Executive Board, after review in accordance with (e) below, decides otherwise, the rate of remuneration for each subsequent six-month period shall be 5 per cent per annum minus three fifths of the amount by which 9 per cent exceeds, or plus three fifths of the amount by which 11 per cent is exceeded by, the combined market interest rate as determined in (d) below. The rates of remuneration calculated under this (b) shall be rounded to the nearest ¼ per cent.

(c) Notwithstanding (a) and (b) above, for the six-month period ending December 31, 1974, and for any of the three subsequent six-month periods in which the rate of remuneration under (b) above is more than 3¼ per cent per annum, the rate of remuneration on the amount by which the Fund's holdings of a member's currency are less than 75 per cent but more than 50 per cent of the member's quota shall be the higher of 2½ per cent per annum or one-half of the rate in effect under (a) or (b) above; provided, however, that the rate for any six-month period under this (c) shall be increased to the nearest ¼ per cent to the extent that this would have been possible with the net income recorded by the Fund for the previous six-month period on the basis of the amount by which 75 per cent of members' quotas exceeded the Fund's average daily holdings of the currencies of these members, up to a maximum equal to the rate in effect under (a) or (b) above. The provisions in this (c) shall be reviewed not later than two years after the adoption of this decision.

(d) The combined market interest rate shall be the average of the daily interest rates for the obligations, combined in accordance with the weights listed below, for the three-month period ending on the fifteenth day of the last month before the six-month period for which the rate of remuneration is determined:

	Per cent
Market yields for three-month U. S. Treasury bills	47
Three-month interbank deposits rate in Germany	18
Market yields for three-month U. K. Treasury bills	13
Three-month interbank money rate against private paper in France	11
Call money market rate (unconditional) in Japan	11
	100

(e) The Fund will review the rates of remuneration during each six-month period beginning on July 1 and January 1 of each year.

(f) Net income of the Fund, for the purposes of (c) above, shall mean the excess of the Fund's total income over all expenditures by the Fund during the review period.

Decision No. 4235-(74/67)
June 13, 1974

(b) Interest Rate on Special Drawing Rights

1. Rule Q-1 shall be amended as follows:

(a) Interest and charges in respect of special drawing rights shall accrue daily at the rate referred to in (b) below and shall be paid promptly as of the end of each financial year of the Fund. The accounts of participants shall be credited with the excess of interest due over charges or debited with the excess of charges over the interest due. The accounts of holders that are not participants shall be credited with the interest due.

2. There shall be added Rule Q-1(b) as follows:

(b) The interest rate on holdings of special drawing rights shall be equal to the rate of remuneration in effect pursuant to Rule I-10(a) or (b).

Decision No. 4236-(74/67) S
June 13, 1974

(c) Review

Executive Board Decisions No. 4235-(74/67) and No. 4236-(74/67) S, adopted June 13, 1974, shall be reviewed not later than two years after their adoption.

Decision No. 4237-(74/67) G/S
June 13, 1974

M. Charges

(a) Charges—Schedules

1. The following shall be adopted as Rule I-4(h):

(h) The calculations under (b)(i) and (c) of Rule I-4 shall be made separately in respect of the part of the Fund's holdings of a member's currency subject to (f)(3)(i) and (f)(3)(ii) below.

2. Rule I-4(f) is amended by the addition of:

(3) With respect to each segment of the holdings of a member's currency to the extent that it represents the acquisition of that currency by the Fund from July 1, 1974:

(i) The charge to be levied on each segment that is in excess of 100 per cent of quota and is not subject to (ii) below shall be 4 per cent per annum for the first 12 months, and an additional ½ per cent per annum for each subsequent 12 months.

(ii) The charge to be levied on each segment that is in excess of 100 per cent of quota and represents currency acquired by the Fund pursuant to Executive Board Decision No. 4241-(74/67),[8] adopted June 13, 1974 shall be 6⅞ per cent per annum for the first three years, and an additional ⅛ per cent per annum for each subsequent 12 months.

3. Rule I-4(g) shall be amended as follows:

The Fund and the member shall consider means by which the Fund's holdings of the currency can be reduced whenever the Fund's holdings of a member's currency are such that

(1) the charge under (f)(2) above applicable to any segment for any period has reached the rate of 4 per cent per annum. Thereafter, the charges shall rise in accordance with (f)(2) above, provided that the rate shall not increase beyond 5 per cent per annum when agreement is reached under this provision for repurchase within three to five years after a drawing in accordance with Executive Board Decision No. 102-(52/11).[9] In the case of agreements on means to reduce the Fund's holdings beyond five years, the Fund may adopt higher maximum rates. In the absence of agreement on means to reduce the Fund's holdings, the Fund may impose such charges as it deems appropriate after the rate of 5 per cent is reached. When an agreement for repurchase within three to five years after a drawing is not reached or observed, the charges to be imposed shall rise in accordance with (f)(2) above, provided that when the charges payable on any segment have reached 6 per cent, the Fund will review the charges to be imposed thereafter. In the case of nonobservance, if 5 per cent is payable on any segment at the date of nonobservance, it shall continue to be payable only for that part of a period of six months for which it has not yet been payable; and when the repurchases to which the nonobservance relates are made or a new agreement for repurchase not later than five years after the drawing is made all charges in excess of 5 per cent shall be reduced to 5 per cent;

(2) the charge under (f)(3)(i) above applicable to any segment for any period has reached the rate of 5.5 per cent per annum. Thereafter the charges shall rise in accordance with (f)(3)(i) above, provided that the rates shall not increase beyond 6 per cent per annum when agreement is reached under this provision for repurchase within three to five years after a drawing in accordance with Executive Board Decision No. 102-(52/11). In the case of agreements on means to reduce the Fund's holdings

[8] See pages 122–23.

[9] *Selected Decisions of the International Monetary Fund and Selected Documents* (Sixth Issue, Washington, 1972), pages 22–25.

beyond five years, the Fund may adopt higher maximum rates. In the absence of agreement on means to reduce the Fund's holdings, the Fund may impose such charges as it deems appropriate after the rate of 6 per cent per annum is reached. When an agreement for repurchase within three to five years after a drawing is not reached or observed, the charges to be imposed shall rise in accordance with (f)(3)(i) above provided that when the charges payable on any segment have reached 6.5 per cent per annum, the Fund will review the charges to be imposed thereafter. In the case of nonobservance, if 6 per cent is payable on any segment at the date of nonobservance, it shall continue to be payable only for that part of a period of 12 months for which it has not yet been payable; and when the repurchases to which the nonobservance relates are made, or a new agreement for repurchase not later than five years after the drawing is made, the charges under (f)(3)(i) in excess of 6 per cent shall be reduced to 6 per cent;

(3) the charge under (f)(3)(ii) above applicable to any segment for any period has reached the rate of 7 per cent per annum. Thereafter, the charges shall rise in accordance with (f)(3)(ii) above, provided that the rate shall not increase beyond 7⅛ per cent per annum when agreement is reached under this provision for repurchase within seven years after a drawing in accordance with Executive Board Decision No. 4241-(74/67), adopted June 13, 1974. In the absence of agreement on means to reduce the Fund's holdings, the Fund may impose such charges as it deems appropriate after the rate of 7⅛ per cent is reached. When an agreement for repurchase within seven years after a drawing is not reached or observed, the charges to be imposed shall rise in accordance with (f)(3)(ii) above; provided that when the charges payable on any segment have reached 7¼ per cent, the Fund will review the charges to be imposed thereafter. In the case of nonobservance, if 7⅛ per cent is payable on any segment at the date of nonobservance, it shall continue to be payable only for that part of a period of 12 months for which it has not yet been payable; and when the repurchases to which the nonobservance relates are made, or a new agreement for repurchase not later than seven years after the drawing is made, all charges in excess of 7⅛ per cent shall be reduced to 7⅛ per cent.

Decision No. 4238-(74/67)
June 13, 1974

(b) Future Changes in Charges on Fund's Holdings of Members' Currencies in Excess of Quota

Changes in any schedule of charges levied under Article V, Section 8(*c*), (*d*), and (*e*) shall apply to all holdings subject to the schedule that are obtained by the Fund after the date of this decision.

Decision No. 4239-(74/67)
June 13, 1974

(c) Timing of Changes in Schedules of Charges

The following shall be adopted as Rule I-4(i):

Changes in any schedule of charges levied under Article V, Section 8(*c*), (*d*), and (*e*) shall apply from the first day of the month following the month during which a change is made.

Decision No. 4240-(74/67)
June 13, 1974

N. Facility to Assist Members in Payments Difficulties Resulting from Initial Impact of Increased Costs of Imports of Petroleum and Petroleum Products

1. For a period ending on December 31, 1975, the Fund will be prepared to make resources available to members in accordance with this decision in order to assist them to meet the impact on their balances of payments of increases in the prices of petroleum and petroleum products. Resources made available under this decision will be supplementary to any assistance that members may obtain under other policies on the use of the Fund's resources.

2. (a) Requests for purchases under this decision by a member will be met by the Fund, subject to the limits in (b) and (c) below, if the Fund is satisfied (i) that the member needs assistance because of increases in the cost of its imports of petroleum and petroleum products in 1974 and because it has a balance of payments need, and (ii) that the member is following policies not inconsistent with the understandings set forth in Paragraph 2 of the Rome Communiqué of the ad hoc Committee of the Board of Governors on Reform of the International Monetary System and Related Issues and in Executive Board Decision No. 4134-(74/4).[10] The Fund shall assess each request in order to determine whether, and the extent to which, the member has such a balance of payments need. In making this assessment the Fund shall take into account the ability of the member to reduce this need, particularly through an inflow of capital, including an increase in aid on concessionary terms, or by increased exports to oil exporting countries, or to meet this need by some use of its reserves. For the purposes of this decision, any assistance made available to a member other than under this decision shall be deemed to finance first the part of the member's deficit that is not attributable to the increased cost of imports of petroleum and petroleum products.

(b) The total of a member's purchases outstanding under Paragraph 2 of this decision shall not exceed the smaller of (i) the increase in the cost of the member's net imports of petroleum and petroleum products over the cost of its imports of these commodities in 1972, calculated in accordance with Paragraph 1 of the Attachment to this decision, minus an amount equivalent to 10 per cent of the member's reserves at the end of 1973, adjusted for variability of exports in accordance with Paragraph 2 of the Attachment to this decision, and (ii) 75 per cent of the member's quota.

(c) The total of a member's purchases outstanding under Paragraph 2 of this decision shall not exceed 35 per cent of the amount referred to in (b) above prior to any decision that the Fund may take under Paragraph 8.

3. On the request of a member, the Fund may make an appropriate adjustment in the total amount of outstanding purchases that a member may make under Paragraph 2(b) above if the Fund is satisfied that this amount should be higher because the member's imports of petroleum and petroleum products in 1972 were abnormally low because of exceptional circumstances.

4. In order to carry out the purposes of this decision, the Fund will be prepared to grant any waiver of the conditions of Article V, Section 3(*a*)(iii) when necessary to permit purchases under this decision or to permit purchases under other policies that would raise the Fund's holdings of a member's currency above the limits referred to in that provision because of purchases outstanding under this decision. In addition, the Fund will apply its tranche policies to requests by a member for purchases other than gold tranche purchases as if the Fund's holdings of the member's currency did not include holdings resulting from any purchases outstanding under this decision.

[10] See page 108.

5. (a) A member that has made a purchase under this decision will be expected to cooperate with the Fund in order to find appropriate solutions for its balance of payments problem. For this purpose the member will consult with the Fund during the year and subsequently during the period in which it has purchases outstanding under this decision, thereby affording the Fund an opportunity to ascertain whether the member's policies are conducive to balance of payments adjustment and to repurchase in accordance with (d) below.

(b) Before submitting a request for a purchase under this decision for 1975, a member will be expected to consult the Fund on its balance of payments prospects and policies, including the effect on the balance of payments of the policies it has adopted or intends to adopt in relation to the oil problem.

(c) A member requesting a purchase under this decision will be expected to represent that it is following policies consistent with the understandings set forth in Paragraph 2 of the Rome Communiqué of the ad hoc Committee of the Board of Governors on Reform of the International Monetary System and Related Issues and that, while the purchase is outstanding, it will refrain (i) from imposing new, and from intensifying existing, restrictions on current international payments inconsistently with its obligations under the Fund's Articles of Agreement and (ii) from imposing new, or intensifying existing, restrictions on current international transactions without prior consultation with the Fund.

(d) A member requesting a purchase under this decision will be expected to represent that it will make a repurchase corresponding to the purchase, to the extent that it is still outstanding, as soon as the balance of payments problem for which the purchase was made has been overcome and, in any event, in sixteen equal quarterly installments to be completed not later than seven years after the purchase, and that it will make repurchases under this decision, other than those accruing under Article V, Section 7(*b*), in the media specified by the Fund at the time of the repurchase. The Fund will specify the media of repurchase consistently with the Articles and after consultation with members. The Fund will pay due regard to these consultations and will be guided by a policy of specifying for repurchase the media in which it will make repayments in accordance with the terms of borrowing agreements.

6. The Fund will indicate in an appropriate manner which purchases by a member are made pursuant to this decision.

7. The Fund will levy charges on holdings of a member's currency resulting from purchases outstanding under this decision in accordance with Executive Board Decision No. 4238-(74/67)[11] of June 13, 1974.

8. Not later than September 15, 1974, the Executive Directors will review developments since the adoption of this decision in order to decide, in the light of the Fund's existing and prospective liquidity, (i) whether purchases under the decision in excess of the limit specified in 2(c) above shall be permitted and (ii) on any adaptations that should be made in the provisions of this decision, including changes in the period that is taken as the basis for calculating the amount of imports of petroleum and petroleum products and in the amount representing the increase in the cost of these products. A further review will be conducted not later than December 31, 1974 in order to decide whether and on what terms to permit purchases with respect to the impact on the balance of payments of the increased cost of imports of petroleum and petroleum products in 1975. The Executive Directors will review this decision at any other time if they consider it appropriate to do so.

Decision No. 4241-(74/67)
June 13, 1974

[11] See pages 120–21.

Attachment

1. The increase in the cost of a member's net imports of petroleum and petroleum products referred to in Paragraph 2(b)(i) of the decision will be taken to be equal to the SDR equivalent of US$5.50 (at 1 SDR equals US$1.20635) multiplied by the volume in barrels of the member's net imports (i.e., imports less exports) of these commodities in 1972.

2. The adjustment for variability of exports referred to in Paragraph 2(b)(i) of the decision will be made by deducting from the member's reserves at the end of 1973 an amount equal to twice the root mean squared proportional deviation of export values from a centered five-year moving average (using export series generally covering the period 1955–71), multiplied by the SDR value of exports in 1972. If the deduction results in a negative figure, the maximum amount that the member could purchase under Paragraph 2(b)(i) of the decision would equal the increase in the cost of its imports of petroleum and petroleum products, calculated in accordance with paragraph 1 of this attachment.

O. Borrowing in Connection with Oil Facility

1. The International Monetary Fund deems it appropriate in accordance with Article VII, Section 2(i) to replenish its holdings of currencies by borrowing to the extent that resources are needed in respect of purchases under the facility established by Executive Board Decision No. 4241-(74/67),[12] adopted June 13, 1974.

2. A number of members, or institutions within their territories, have indicated their intention to lend to the Fund for the purposes of the facility. In order to enable the Fund to borrow in accordance with these intentions, the draft letter set out in the Annex to this Decision is adopted as the basis for terms and conditions to be incorporated in the agreement with each lender under Article VII, Section 2(i) of the Articles of Agreement. The terms and conditions may be adapted for good reason, such as domestic legal requirements or the character of the lending institution. Each letter setting forth the terms and conditions to be proposed shall be submitted to the Executive Directors for their approval.

3. In determining the amounts to be called, the Fund will take into account the proportion of the unutilized balance of each lender's commitment to the total of unutilized balances under the agreements and the balance of payments and reserve position and prospects of a lender or of the member country in which it is situated.

4. If the Fund decides to make repayments in accordance with Paragraph 5(b)(i) (B) of the draft letter set out in the Annex to this Decision, repayments will be made to lenders in proportion to the amounts the Fund is committed to repay to each lender.

5. The Fund shall use its best efforts to ensure that currencies borrowed in accordance with this Decision will be transferred on the same day to purchasers under the facility referred to in Paragraph 1 above and that amounts corresponding to repurchases identified in accordance with Paragraph 5(b)(i) (A) of the draft letter set out in the Annex to this Decision will be repaid to lenders on the same day as the repurchase.

Decision No. 4242-(74/67)
June 13, 1974

[12] See pages 122–23.

Annex

[Your Excellency] [Dear Sir]

In accordance with Article VII, Section 2(i) of the Articles of Agreement of the International Monetary Fund, hereinafter referred to as "the Articles," and pursuant to Executive Board Decision No. 4241-(74/67), adopted June 13, 1974, Executive Board Decision No. 4242-(74/67), adopted June 13, 1974, and Executive Board Decision No. [borrowing-individual lender], adopted ______________, I have been authorized to propose on behalf of the International Monetary Fund, hereinafter referred to as "the Fund," that [the lender] agree to lend to the Fund at call during the period ending December 31, 1975 [currency of the lender] [United States dollars] in amounts that in total do not exceed the equivalent of ______________ million special drawing rights (SDR __________) on the following terms and conditions:

1. All amounts under this agreement shall be expressed in terms of special drawing rights. For all the purposes of this agreement, the value of a currency in terms of special drawing rights shall be calculated at the rate for the currency as determined by the Fund in accordance with Rule O-3 of the Fund's Rules and Regulations in effect when the calculation is made, unless Paragraph 7 applies.

2. (a) Calls under this agreement shall be made only (i) in respect of purchases under the facility established by Executive Board Decision No. 4241-(74/67), adopted June 13, 1974, hereinafter referred to as "the facility," or (ii) in order to repay a borrowing by the Fund from another lender in connection with the facility when repayment is requested by that lender because of a balance of payments need.

(b) When a call is made, [the lender] shall transfer to the Fund's account with [the lender] [the depository for the currency of the lender] [the Federal Reserve Bank of New York] within two business days after the call an amount of [its currency] [United States dollars] equivalent to the amount of the call at the rate for the currency as determined by the Fund in accordance with Rule O-3 of the Fund's Rules and Regulations. [On request, [the lender] shall convert its currency when sold by the Fund into United States dollars at the rates for the two currencies as determined by the Fund in accordance with Rule O-3 of the Fund's Rules and Regulations.]

3. The Fund shall issue to [the lender] on its request a nonnegotiable instrument evidencing the amount, expressed in special drawing rights, that the Fund is committed to repay under this agreement. Upon repayment of the amount of any instrument and all accrued interest, the instrument shall be returned to the Fund for cancellation. If less than the amount of any such instrument is repaid, the instrument shall be returned to the Fund and a new instrument for the remainder of the amount shall be substituted with the same maturity date as in the old instrument.

4. The Fund shall pay interest quarterly at an annual rate of seven per cent on the amount it is committed to repay under this agreement.

5. (a) Subject to the other provisions of this Paragraph 5, the Fund shall repay [the lender] an amount equivalent to any transfer pursuant to a call under Paragraph 2(b) in eight equal semi-annual installments to commence after three years and to be completed not later than seven years after the date of the transfer.

(b) The Fund may repay [the lender] in advance of the repayments required by Paragraph 5(a): (i) to the extent that (A) a repurchase is identified as made in respect of a purchase under the facility for which the Fund has borrowed from [the lender], or (B) repayment is necessary in the opinion of the Fund in order to enable repurchases to be made by members with currency, or (C) [the lender] agrees to receive repayment; or (ii) before a decision to make uniform proportionate changes in the par values of the currencies of all members becomes effective.

(c) If at any time [the lender] represents that there is a balance of payments need for repayment of part or all of the amount the Fund is committed to repay under this agreement and requests such repayment, the Fund, in deciding whether to make repayment, shall give the overwhelming benefit of any doubt to the representation.

(d) Repayments under Paragraph 5(b) and (c) shall discharge the installments prescribed by Paragraph 5(a) in the order in which they become due.

6. The Fund shall consult [the lender] in order to agree the means in which payment of interest and repayment will be made, but, if agreement is not reached, the Fund shall have the option to make payment or repayment in the currency of the lender, the currency borrowed, or [special drawing rights or United States dollars, or both].

7. If the Fund decides to make a change in the way in which the value of the unit of special drawing rights is determined, (i) [the lender] shall have the option to have the unit of value of the special drawing right in effect under Rule O-3 before the change continue to apply for the purposes of this agreement; (ii) the Fund shall have the option to repay any amounts it is committed to repay, and to make repayment on the basis of the unit of value of the special drawing right in effect under Rule O-3 before the change.

8. [The lender] may transfer all or part of its claim to repayment under this agreement with the prior consent of the Fund and on terms and conditions acceptable to the Fund.

9. [If [the lender] withdraws from the Fund, [the lender's] agreement to lend shall terminate and the amount that the Fund is committed to repay under this agreement shall be repaid in accordance with the terms of this agreement, provided that repayment shall be made, at the option of the Fund, in the currency of [the lender] or in United States dollars, or in such other currency as may be agreed with [the lender].] [If the member country in which [the lender] is situated withdraws from the Fund, [the lender's] agreement to lend shall terminate, and the amount that the Fund is committed to repay under this agreement shall be repaid in accordance with the terms of this agreement, provided that repayment shall be made, at the option of the Fund, in the currency of that member or in United States dollars, or in such other currency as may be agreed with [the lender].]

10. In the event of liquidation of the Fund the amounts the Fund is committed to repay to [the lender] shall be immediately due and payable as liabilities of the Fund under Paragraph 1 of Schedule E of the Articles. For the purpose of Paragraph 1(a) of Schedule E the currency in which the liability is payable shall be, at the option of the Fund, [the currency borrowed] [the currency of the lender if it differs from that currency] or United States dollars or any other currency agreed with [the lender].

11. Any question of interpretation of this agreement that does not fall within the purview of Article XVIII of the Articles shall be settled to the mutual satisfaction of [the lender] and the Fund.

If the foregoing proposal is acceptable to [the lender], this communication and your reply shall constitute an agreement between [the lender] and the Fund, which shall enter into force on the date on which the Fund receives your reply.

Very truly yours,
H. JOHANNES WITTEVEEN
Managing Director

P. Voluntary Declaration on Trade and Other Current Account Measures

1. The ad hoc Committee of the Board of Governors on Reform of the International Monetary System and Related Issues, in the detailed statement issued at the end of its

sixth and final meeting in Washington on June 12–13, 1974, stressed the importance of avoiding the escalation of restrictions on trade and payments for balance of payments purposes and invited members to subscribe on a voluntary basis to the Declaration concerning trade and other current account measures for balance of payments purposes annexed to its statement. The Executive Directors associate themselves with this invitation.

2. The letter from the Managing Director to members requesting them to inform the Fund whether they subscribe to the Declaration concerning trade and other current account measures for balance of payments purposes, as set forth [below], shall be sent without delay to all members.

Decision No. 4254-(74/75)
June 26, 1974

Letter to Members

Sir:

The ad hoc Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues, in a statement issued at the end of its sixth and final meeting in Washington on June 12–13, 1974, has stressed the importance of avoiding the escalation of restrictions on trade and payments for balance of payments purposes and has invited members of the Fund "to subscribe on a voluntary basis to the Declaration concerning trade and other current account measures for balance of payments purposes" annexed to the Committee's statement.

The Executive Directors of the Fund associate themselves with the invitation of the ad hoc Committee and have asked that I send the text of the Declaration for consideration by the authorities of all members.

The text of the Declaration is enclosed with this letter.

I shall be grateful if members will consider subscribing to this Declaration and will inform me whether they do subscribe to it.

Very truly yours,
H. JOHANNES WITTEVEEN
Managing Director

Declaration

A. A member of the Fund that subscribes to this Declaration represents thereby that, in addition to observing its obligations with respect to payments restrictions under the Articles of Agreement of the Fund, it will not on its own discretionary authority introduce or intensify trade or other current account measures for balance of payments purposes that are subject to the jurisdiction of the GATT, or recommend them to its legislature, without a prior finding by the Fund that there is balance of payments justification for trade or other current account measures.

B. A member that subscribes to this Declaration will notify the Fund as far in advance as possible of its intention to impose such measures. If circumstances preclude the Fund from making the finding referred to in A above promptly after such notification, the member may nevertheless impose such measures, but will withdraw the measures, within such a period as may be fixed by the Fund in consultation with the member concerned, if the Fund finds that there is no balance of payments justification for trade or other current account measures.

C. In arriving at the findings referred to above, the Executive Directors are requested to take into account the special circumstances of developing countries.

D. In connection with this Declaration arrangements will be made for continuing close coordination between the Fund and the GATT.

E. This Declaration shall become effective among subscribing members when members having 65 per cent of the total voting power of members of the Fund have accepted it, and shall expire two years from the date on which it becomes effective unless it is renewed.

Appendix III. EXECUTIVE DIRECTORS AND VOTING POWER on April 30, 1974

Director *Alternate*	Casting Votes of	Votes by Country	General Account: Total votes [1]	General Account: Per cent of total	Special Drawing Account: Total votes [1]	Special Drawing Account: Per cent of total
APPOINTED						
Vacant *Charles R. Harley*	United States	67,250	67,250	21.35	67,250	21.81
Anthony K. Rawlinson *Peter J. Bull*	United Kingdom	28,250	28,250	8.97	28,250	9.16
Guenther Schleiminger *Lore Fuenfgelt*	Germany	16,250	16,250	5.16	16,250	5.27
Jacques Henri Wahl *Claude Beaurain*	France	15,250	15,250	4.84	15,250	4.95
Kaichi Kawaguchi *Mikio Wakatsuki*	Japan	12,250	12,250	3.89	12,250	3.97
ELECTED						
Francesco Palamenghi-Crispi (Italy)	Italy	10,250				
José Luis Mora (Spain)	Malta	410				
	*Portugal	1,420				
	Spain	4,200	16,280	5.17	14,860	4.82
Robert Bryce (Canada)	Barbados	380				
George Reynolds (Ireland)	Canada	11,250				
	Ireland	1,460				
	Jamaica	780	13,870	4.40	13,870	4.50
Nazih Ahmed Deif (Egypt)	Afghanistan	620				
Mohamed Finaish (Libyan Arab Republic)	Bahrain	350				
	Egypt	2,130				
	Iraq	1,340				
	Jordan	480				
	*Kuwait	900				
	*Lebanon	340				
	*Libyan Arab Rep.	490				
	Oman	320				
	Pakistan	2,600				
	*Qatar	450				
	*Saudi Arabia	1,590				
	Somalia	440				
	Syrian Arab Rep.	750				
	*United Arab Emirates	400				
	Yemen Arab Rep.	350	13,550	4.30	9,380	3.04
Byanti Kharmawan (Indonesia)	Burma	850				
Nguyên Huu Hanh (Viet-Nam)	Fiji	380				
	Indonesia	2,850				
	Khmer Rep.	500				
	Korea	1,050				
	Laos	380				
	Malaysia	2,110				
	Nepal	374				
	Philippines	1,800				
	*Singapore	620				
	Thailand	1,590				
	Viet-Nam	870	13,374	4.25	12,754	4.14
Lindsay B. Brand (Australia)	Australia	6,900				
R. van S. Smit (South Africa)	New Zealand	2,270				
	South Africa	3,450				
	Swaziland	330				
	Western Samoa	270	13,220	4.20	13,220	4.29

Appendix III (*continued*). EXECUTIVE DIRECTORS AND VOTING POWER on April 30, 1974

			General Account		Special Drawing Account	
Director *Alternate*	Casting Votes of	Votes by Country	Total votes [1]	Per cent of total	Total votes [1]	Per cent of total
ELECTED (continued)						
P. S. N. Prasad (India)	Bangladesh	1,500				
W. M. Tilakaratna (Sri Lanka)	India	9,650				
	Sri Lanka	1,230	12,380	3.93	12,380	4.02
Jacques de Groote (Belgium)	Austria	2,950				
Heinrich G. Schneider (Austria)	Belgium	6,750				
	Luxembourg	450				
	Turkey	1,760	11,910	3.78	11,910	3.86
Per Åsbrink (Sweden)	Denmark	2,850				
Knut J. M. Andreassen (Norway)	Finland	2,150				
	Iceland	480				
	Norway	2,650				
	Sweden	3,500	11,630	3.69	11,630	3.77
Pieter Lieftinck (Netherlands)	Cyprus	510				
Tom de Vries (Netherlands)	Israel	1,550				
	Netherlands	7,250				
	Yugoslavia	2,320	11,630	3.69	11,630	3.77
S. B. Nicol-Cole (Sierra Leone)	Botswana	300				
H. R. Monday, Jr. (The Gambia)	Burundi	440				
	*Ethiopia	520				
	Gambia, The	320				
	Guinea	490				
	Kenya	730				
	Lesotho	300				
	Liberia	540				
	Malawi	400				
	Nigeria	1,600				
	Sierra Leone	500				
	Sudan	970				
	Tanzania	670				
	Trinidad and Tobago	880				
	Uganda	650				
	Zambia	1,010	10,320	3.28	9,800	3.18
Guillermo Bueso (Honduras)	Costa Rica	570				
Francisco Suárez (Mexico)	El Salvador	600				
	Guatemala	610				
	Honduras	500				
	Mexico	3,950				
	Nicaragua	520				
	Venezuela	3,550	10,300	3.27	10,300	3.34
Alexandre Kafka (Brazil)	Brazil	4,650				
Basilio Martins (Brazil)	Colombia	1,820				
	Dominican Republic	680				
	Guyana	450				
	Haiti	440				
	Panama	610				
	Peru	1,480	10,130	3.22	10,130	3.29
Jahangir Amuzegar (Iran)	Algeria	1,550				
Costa P. Caranicas (Greece)	Ghana	1,120				
	Greece	1,630				
	Iran	2,170				
	Morocco	1,380				
	Tunisia	730				
	Yemen, People's Dem. Rep. of	540	9,120	2.89	9,120	2.96

Appendix III (*concluded*). EXECUTIVE DIRECTORS AND VOTING POWER on April 30, 1974

Director *Alternate*	Casting Votes of	Votes by Country	General Account Total votes [1]	General Account Per cent of total	Special Drawing Account Total votes [1]	Special Drawing Account Per cent of total
ELECTED (concluded)						
Carlos Massad A. (Chile)	Argentina	4,650				
Ricardo H. Arriazu (Argentina)	Bolivia	620				
	Chile	1,830				
	Ecuador	580				
	Paraguay	440				
	Uruguay	940	9,060	2.88	9,060	2.94
Antoine W. Yaméogo (Upper Volta)	Cameroon	600				
Samuel Nana-Sinkam (Cameroon)	Central African Rep.	380				
	Chad	380				
	Congo, People's Rep. of the	380				
	Dahomey	380				
	Equatorial Guinea	330				
	Gabon	400				
	Ivory Coast	770				
	Malagasy Rep.	510				
	Mali	470				
	Mauritania	380				
	Mauritius	470				
	Niger	380				
	Rwanda	440				
	Senegal	590				
	Togo	400				
	Upper Volta	380				
	Zaïre	1,380	9,020	2.86	9,020	2.93
			315,044 [2]	100.00	308,314 [2]	100.00

* Not a participant in the Special Drawing Account.

[1] Voting power varies on certain matters pertaining to the General Account with use of the Fund's resources in that Account. In voting on matters relating exclusively to the Special Drawing Account, only the number of votes allotted to members which are participants may be cast.

[2] This total does not include the votes of China, which did not participate in the 1972 Regular Election of Executive Directors, and of the Bahamas and Romania, which joined the Fund after that election.

Changes in the membership of the Executive Board between May 1, 1973 and April 30, 1974 were as follows:

Alfredo Phillips O. (Mexico) resigned as Alternate Executive Director to Guillermo Bueso (Honduras), effective May 19, 1973.

Francisco Suárez (Mexico) was appointed Alternate Executive Director to Guillermo Bueso (Honduras), effective May 20, 1973.

M. M. Ahmad (Pakistan) was appointed Alternate Executive Director to Nazih Ahmed Deif (Egypt), effective June 8, 1973. He resigned, effective August 28, 1973.

Koichi Satow (Japan) resigned as Alternate Executive Director to Kaichi Kawaguchi (Japan), effective June 14, 1973.

Mikio Wakatsuki (Japan) was appointed Alternate Executive Director to Kaichi Kawaguchi (Japan), effective June 15, 1973.

Marc Viénot (France) resigned as Executive Director for France, effective June 30, 1973.

Jacques Henri Wahl (France) was appointed Executive Director for France, effective July 1, 1973.

Claude Beaurain (France), formerly Alternate Executive Director to Marc Viénot (France), was appointed Alternate Executive Director to Jacques Henri Wahl (France), effective July 1, 1973.

Mohammed Yeganeh (Iran) resigned as Executive Director for Algeria, Ghana, Greece, Iran, Morocco, Tunisia, and the People's Democratic Republic of Yemen, effective August 7, 1973.

Jahangir Amuzegar (Iran) was elected Executive Director by Algeria, Ghana, Greece, Iran, Morocco, Tunisia, and the People's Democratic Republic of Yemen, effective August 8, 1973.

Costa P. Caranicas (Greece), formerly Alternate Executive Director to Mohammed Yeganeh (Iran), was appointed Alternate Executive Director to Jahangir Amuzegar (Iran), effective August 8, 1973.

Mohamed Finaish (Libyan Arab Republic) was appointed Alternate Executive Director to Nazih Ahmed Deif (Egypt), effective August 29, 1973.

Erik Brofoss (Norway) resigned as Executive Director for Denmark, Finland, Iceland, Norway, and Sweden, effective October 31, 1973.

André van Campenhout (Belgium) resigned as Executive Director for Austria, Belgium, Luxembourg, and Turkey, effective October 31, 1973.

Per Åsbrink (Sweden) was elected Executive Director by Denmark, Finland, Iceland, Norway, and Sweden, effective November 1, 1973.

Sven Lampe (Sweden), formerly Alternate Executive Director to Erik Brofoss (Norway), was appointed Alternate Executive Director to Per Åsbrink (Sweden), effective November 1, 1973. He resigned, effective January 31, 1974.

Jacques de Groote (Belgium) was elected Executive Director by Austria, Belgium, Luxembourg, and Turkey, effective November 1, 1973.

Heinrich G. Schneider (Austria), formerly Alternate Executive Director to André van Campenhout (Belgium), was appointed Alternate Executive Director to Jacques de Groote (Belgium), effective November 1, 1973.

Carlos Bustelo (Spain) resigned as Alternate Executive Director to Francesco Palamenghi-Crispi (Italy), effective November 16, 1973.

José Luis Mora (Spain) was appointed Alternate Executive Director to Francesco Palamenghi-Crispi (Italy), effective December 17, 1973.

Knut J. M. Andreassen (Norway) was appointed Alternate Executive Director to Per Åsbrink (Sweden), effective February 1, 1974.

William B. Dale (United States) resigned as Executive Director for the United States, effective February 28, 1974.

The following served at certain times during 1973/74 as Temporary Alternate Executive Directors to the Executive Directors indicated:

Temporary Alternate Executive Director	Executive Director for whom Temporary Alternate Served
Vittorio Barattieri (Italy)	Francesco Palamenghi-Crispi (Italy)
Luis Barrios (Uruguay)	Carlos Massad A. (Chile)
Miss C. J. Batliwalla (India)	P. S. N. Prasad (India)
Geoffrey F. Carmody (Australia)	Lindsay B. Brand (Australia)
J. A. Crosby (Peru)	Alexandre Kafka (Brazil)
Miss Anne Doizé (Belgium)	André van Campenhout (Belgium)
	Jacques de Groote (Belgium)
Roberto Gálvez (Honduras)	Guillermo Bueso (Honduras)
Mehdi Garadaghipour (Iran)	Mohammed Yeganeh (Iran)
	Jahangir Amuzegar (Iran)
Francisco García-Palacios (Venezuela)	Guillermo Bueso (Honduras)
Paolo Giorgieri (Italy)	Francesco Palamenghi-Crispi (Italy)
Fouad K. Hussein (Egypt)	Nazih Ahmed Deif (Egypt)
Thomas Leddy (United States)	William B. Dale (United States)
Gérard de Margerie (France)	Jacques Henri Wahl (France)
Marc S. Nan Nguema (Gabon)	Antoine W. Yaméogo (Upper Volta)
Ólafur Pétursson (Iceland)	Erik Brofoss (Norway)
	Per Åsbrink (Sweden)
Adelio Pipino (Chile)	Carlos Massad A. (Chile)
Carlo Polpettini (Italy)	Francesco Palamenghi-Crispi (Italy)
Roberto Recalde (Argentina)	Carlos Massad A. (Chile)
Fabrizio Saccomanni (Italy)	Francesco Palamenghi-Crispi (Italy)
Edward W. Shann (Australia)	Lindsay B. Brand (Australia)
Maung Shein (Burma)	Byanti Kharmawan (Indonesia)
Jorge Tersoglio (Argentina)	Carlos Massad A. (Chile)
Jean R. Vallet (France)	Marc Viénot (France)
	Jacques Henri Wahl (France)
Jan M. G. Vanormelingen (Belgium)	Jacques de Groote (Belgium)
Mohamed A. Wasfy (Egypt)	Nazih Ahmed Deif (Egypt)
J. B. Zulu (Zambia)	S. B. Nicol-Cole (Sierra Leone)

Letter of Transmittal

August 5, 1974

My dear Mr. Chairman:

The administrative budget of the Fund approved by the Executive Board for the Fiscal Year ending April 30, 1975 is presented herewith, in accordance with Section 20 of the By-Laws. The presentation also shows actual expenses for the past two fiscal years.

I should like to point out that it is of course impossible to predict whether the amounts budgeted will, in fact, meet the requirements of the Fund's program. The amounts shown are estimates of requirements on the basis of the expected level of activities. Should contingencies arise or present plans change materially, the management would recommend appropriate amendments to the Executive Board.

Yours sincerely,
/s/
H. JOHANNES WITTEVEEN
Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

Appendix V (*concluded*)

ADMINISTRATIVE BUDGET AS APPROVED BY THE EXECUTIVE BOARD FOR THE FISCAL YEAR ENDING APRIL 30, 1975 COMPARED WITH ACTUAL EXPENSES FOR THE FISCAL YEARS ENDED APRIL 30, 1973 AND 1974

(Values expressed in special drawing rights)[1]

Category of Expense	Fiscal Year Ending Apr. 30, 1975	Fiscal Year Ended Apr. 30, 1974		Fiscal Year Ended Apr. 30, 1973
	Budget	Revised Budget	Actual Expenses	Actual Expenses
I. BOARD OF GOVERNORS	1,402,580	2,660,791	2,659,848	1,335,825
II. EXECUTIVE DIRECTORS				
Salaries	2,074,028	2,023,252	2,008,003	1,990,991
Other compensations and benefits	655,698	563,681	514,894	552,089
Travel	547,105	472,492	469,338	525,775
Total	3,276,831	3,059,425	2,992,235	3,068,855
III. STAFF				
Salaries	19,913,818	18,151,376	18,150,850	16,485,537
Other compensations and benefits	7,893,243	6,747,165	6,669,006	6,108,397
Travel	4,401,714	3,969,393	3,914,663	3,718,389
Total	32,208,775	28,867,934	28,734,519	26,312,323
IV. SPECIAL SERVICES TO MEMBER COUNTRIES	3,854,608	3,358,289	3,280,388	3,304,520
V. OTHER ADMINISTRATIVE EXPENSES				
Communications	1,347,870	1,320,576	1,246,850	1,248,412
Office occupancy expenses	1,318,027	1,254,141	1,247,104	1,032,770
Books and printing	934,224	795,950	762,664	792,202
Supplies and equipment	827,290	809,176	802,788	652,064
Data processing services	891,119	759,643	741,401	740,313
Miscellaneous	898,580	1,061,768	1,020,975	882,377
Total	6,217,110	6,001,254	5,821,782	5,348,138
TOTAL[2]	46,959,904	43,947,693	43,488,772	39,369,661

[1] The administrative budget is expressed in terms of U. S. dollars and converted to SDR equivalents. For the fiscal year ended April 30, 1973 the effective rates were US$1 = SDR 1 for the period May 1–8, 1972 and US$1 = SDR 0.921053 for the period May 9, 1972 through April 30, 1973. For the fiscal year ended April 30, 1974 the effective rates were US$1 = SDR 0.921053 for the period May 1, 1973 through October 17, 1973 and US$1 = SDR 0.828948 for the period October 18, 1973 through April 30, 1974. The administrative budget for the fiscal year ending April 30, 1975 has been established at the rate of US$1 = SDR 0.828948.

[2] Net administrative expenses for the fiscal year ended April 30, 1974 totaled SDR 42,488,355 after deduction of SDR 1,000,417 reimbursed to the General Account by assessments levied on the net cumulative allocations of participants in the Special Drawing Account. The comparable figures for the fiscal year ended April 30, 1973 were SDR 38,671,046 and SDR 698,615, respectively.

Appendix VI. Comparative Statement of Income and Expenses

(Values expressed in special drawing rights)

	Fiscal Year Ended		
	Apr. 30, 1972	Apr. 30, 1973	Apr. 30, 1974
OPERATIONAL INCOME			
Operational charges			
Received in gold	534,053	731,368	10,000
Received in special drawing rights	2,241,564	2,299,694	2,341,284
Received in members' currencies	251,769	174,684	102,622
Total	3,027,386	3,205,746	2,453,906
Charges on balances in excess of quotas			
Received in gold	22,231,592	2,221,503	366,042
Received in special drawing rights	36,261,254	23,141,725	25,900,120
Received in members' currencies	3,532,644	2,811,624	1,968,637
Total	62,025,490	28,174,852	28,234,799
Interest on holdings of special drawing rights	7,181,322	10,203,011	7,773,651
Total Operational Income	72,234,198 [1]	41,583,609	38,462,356
Deduct: Operational expenses			
Remuneration			
Paid in gold	28,532,536	3,621,247	315,071
Paid in special drawing rights	1,981,750	20,393,635	6,394,055
Paid in members' currencies	5,040	5,318,696	20,520,305
Total	30,519,326	29,333,578	27,229,431
Transfer charges and interest on indebtedness			
Paid in gold	1,193,849	—	—
Paid in U. S. dollars	19,593	—	—
Total	1,213,442	—	—
Total Operational Expenses	31,732,768	29,333,578	27,229,431
NET OPERATIONAL INCOME	40,501,430	12,250,031	11,232,925
EXPENSES [2]			
Administrative budget expenses	36,058,810 [3]	38,671,046 [3]	42,488,355 [3]
Fixed property expenses	17,710,950	16,354,269	5,862,331
Net valuation adjustment loss	—	138,438	92,493
TOTAL EXPENSES [2]	53,769,760	55,163,753	48,443,179
EXCESS OF EXPENSES OVER INCOME BEFORE DEDUCTION OF EXTRAORDINARY ITEM	13,268,330	42,913,722	37,210,254
Deduct: Proceeds from the sale of headquarters building	—	21,171,914	—
EXCESS OF EXPENSES OVER INCOME	13,268,330	21,741,808	37,210,254

[1] Excludes income from investments of SDR 17,537,157 transferred to Special Reserve.
[2] Excludes operational expenses which have been deducted from operational income.
[3] After deduction of SDR 1,024,629 for fiscal year 1972, SDR 698,615 for fiscal year 1973, and SDR 1,000,417 for fiscal year 1974 reimbursed to the General Account by assessments levied on the net cumulative allocations of participants in the Special Drawing Account.

Appendix VII. Financial Statements of the General Account, Special Drawing Account, and Staff Retirement Fund

Letter of Transmittal

August 5, 1974

My dear Mr. Chairman:

In accordance with Section 20(b) of the By-Laws of the Fund, I have the honor to submit for the consideration of the Board of Governors the audited financial statements of the General Account, the Special Drawing Account, and the Staff Retirement Fund for the year ended April 30, 1974, together with two memoranda from the Audit Committee, which include the audit opinions.

In conformity with the By-Laws, the external audit of the Fund has been performed by an Audit Committee consisting of auditors nominated by three member countries. At the Fund's request, Ghana, Korea, and the United States nominated auditors to serve on this Committee. They respectively nominated Mr. E. S. Okunor, Deputy Auditor-General of Ghana; Mr. Chong Jik Ahn, Deputy Superintendent of Banks, Office of Bank Supervision and Examination, Bank of Korea; and Mr. Steve L. Comings, Assistant Commissioner, Comptroller, Bureau of Government Financial Operations, U. S. Treasury. The auditors thus nominated were confirmed by the Executive Directors.

It will be noted that, in the year under review for the General Account, operational income amounted to SDR 38,462,356 and operational expenses amounted to SDR 27,229,431 resulting in net operational income of SDR 11,232,925. Administrative budget and fixed property expenses and a net valuation adjustment loss amounted to SDR 48,443,179 which resulted in an excess of expenses over income of SDR 37,210,254 for the fiscal year. Pursuant to Executive Board Decision No. 708-(57/57), adopted November 27, 1957, this excess of expenses over income has been charged against the Special Reserve.

The detailed report of the Audit Committee is being submitted separately to the Board of Governors.

Yours sincerely,
/s/
H. Johannes Witteveen
Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

MEMORANDUM BY THE AUDIT COMMITTEE

June 28, 1974

To the Managing Director
and the Executive Directors
International Monetary Fund

Our report, dated June 28, 1974, submitted through you to the Board of Governors, on the audit of the financial records, operations and transactions of the General Account and the Special Drawing Account of the International Monetary Fund, for the fiscal year ended April 30, 1974, includes the following paragraphs relating to the authority for the audit, the scope of the audit, and the audit opinion:

AUTHORITY FOR THE AUDIT

The audit for the fiscal year ended April 30, 1974, was carried out pursuant to and in accordance with the requirements of Section 20(b) of the By-Laws of the International Monetary Fund. In accordance with the provisions of the By-Laws, Ghana, Korea, and the United States were each invited to nominate a member to serve on an external audit committee. The appointments of the three members nominated were confirmed by the Executive Board.

SCOPE OF THE AUDIT

We have examined the Balance Sheet of the General Account of the International Monetary Fund as at April 30, 1974, the Statement of Income and Expenses, and the Statement of Reserves for the fiscal year then ended, and the schedules related thereto; and the Balance Sheet of the Special Drawing Account of the International Monetary Fund as at April 30, 1974, the Statement of Source and Use of Special Drawing Rights for the fiscal year then ended, and the schedules related thereto. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records, giving consideration to the extent of internal control and the internal audit work performed by the Internal Auditor, and such other auditing procedures as we considered necessary in the circumstances. In the course of our audit, reference was made to the Articles of Agreement, the By-Laws, the Rules and Regulations, the Resolutions of the Board of Governors, the minutes of the Executive Board, and the General Administrative Orders of the International Monetary Fund.

AUDIT OPINION

In our opinion, these Statements, together with the notes appearing thereon, present fairly the financial position of the International Monetary Fund as at April 30, 1974, and the results of the operations and transactions in the General Account and the Special Drawing Account for the fiscal year then ended, in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

AUDIT COMMITTEE:
/s/ E. S. Okunor, Chairman (Ghana)
/s/ Chong Jik Ahn (Korea)
/s/ Steve L. Comings (United States)

INTERNATIONAL

GENERAL

BALANCE

as at April

Amounts expressed in
(one SDR is equivalent to

ASSETS

GOLD WITH DEPOSITORIES (See Note 1)		SDR 5,369,854,618
SPECIAL DRAWING RIGHTS		499,031,271
CURRENCIES AND SECURITIES (See Note 2)		
With depositories		
Currencies	SDR 6,279,402,892	
Securities (*nonnegotiable, noninterest-bearing demand obligations, payable at face value by members in their currencies*)	17,577,704,502	
	SDR 23,857,107,394	
Add: Currency valuation adjustments receivable (net) (*in accordance with Article IV, Section 8*)	59,009,142	23,916,116,536
SUBSCRIPTIONS TO CAPITAL—RECEIVABLE		
Balances of initial quotas—not due	SDR 146,105,479	
Balance of an increase in quota—not due (Contra)	1,600,000	147,705,479
OTHER ASSETS (See Note 3)		10,201,183
TOTAL ASSETS		SDR 29,942,909,087

NOTES:

1. Excludes gold held under earmark for members equivalent to SDR 333,104.

2. Total outstanding purchases of members amount to SDR 3,469 million. Currency holdings in excess of members' quotas subject to Fund charges amount to SDR 1,052 million. Total creditor positions of members amount to SDR 1,646 million.

MONETARY FUND

ACCOUNT

SHEET

30, 1974

special drawing rights
0.888671 gram of fine gold)

CAPITAL, RESERVES, AND LIABILITIES

CAPITAL		
Subscriptions of members		SDR 29,189,400,000
RESERVES (Exhibit C)		
Special reserve	SDR 351,686,573	
General reserve	365,579,703	717,266,276
SUBSCRIPTION IN RESPECT OF AN INCREASE IN QUOTA CONSENTED TO BUT NOT YET EFFECTIVE		
Balance not due (Contra)		1,600,000
PROVISION FOR POTENTIAL REFUNDS OF STAND-BY CHARGES (See Note 4)		3,079,375
OTHER LIABILITIES (See Note 3)		31,563,436
TOTAL CAPITAL, RESERVES, AND LIABILITIES		SDR 29,942,909,087

3. The established policy of the Fund is to write off against income the total expenditures incurred during the year for fixed property, furniture, and equipment (including automotive equipment). The assets and liabilities of the Staff Retirement Fund are not included in this Balance Sheet.

4. The charge for a stand-by arrangement is credited against the service charge for funds drawn under the arrangement. A member that cancels a stand-by arrangement will be paid a refund, which will be the prorated portion of the remaining stand-by charge.

/s/ W. O. HABERMEIER
Treasurer

/s/ H. JOHANNES WITTEVEEN
Managing Director

INTERNATIONAL MONETARY FUND

GENERAL ACCOUNT

STATEMENT OF INCOME AND EXPENSES

for the year ended April 30, 1974

Amounts expressed in special drawing rights
(one SDR is equivalent to 0.888671 gram of fine gold)

OPERATIONAL INCOME			
Operational charges		SDR 2,453,906	
Charges on balances in excess of quotas		28,234,799	
Interest on holdings of special drawing rights		7,773,651	
Total operational income		SDR 38,462,356	
Deduct: Operational expenses–remuneration		27,229,431	
NET OPERATIONAL INCOME			SDR 11,232,925
EXPENSES (See Note 1)			
Administrative budget expenses:			
Board of Governors		SDR 2,659,848	
Executive Directors			
Salaries	SDR 2,008,003		
Other compensations and benefits	514,894		
Travel	469,338	2,992,235	
Staff			
Salaries	SDR 18,150,850		
Other compensations and benefits	6,669,006		
Travel	3,914,663	28,734,519	
Special services to member countries		3,280,388	
Other			
Communications	SDR 1,246,850		
Office occupancy expenses	1,247,104		
Books and printing (See Note 2)	762,664		
Supplies and equipment (See Note 3)	802,788		
Data processing services	741,401		
Miscellaneous (See Note 4)	1,020,975	5,821,782	
Subtotal		SDR 43,488,772	
Deduct: Assessments levied on participants for estimated expenses of operating the Special Drawing Account		1,000,417	
Net administrative budget expense		SDR 42,488,355	
Fixed property expenses (See Note 3)		5,862,331	
Net valuation adjustment loss		92,493	
TOTAL EXPENSES (See Note 1)			48,443,179
EXCESS OF EXPENSES OVER INCOME (Charged against the Special Reserve pursuant to Executive Board Decision No. 708-(57/57), adopted November 27, 1957)			SDR 37,210,254

NOTES:

1. Excludes operational expenses which have been deducted from operational income.
2. After deduction of SDR 116,870 for sales of Fund publications.
3. The established policy of the Fund is to write off against income the total expenditures incurred during the year for fixed property, furniture, and equipment (including automotive equipment).
4. After deduction of SDR 423,455 for food service sales and SDR 70,001 for miscellaneous administrative income.

INTERNATIONAL MONETARY FUND

GENERAL ACCOUNT

STATEMENT OF RESERVES

for the year ended April 30, 1974

Amounts expressed in special drawing rights
(one SDR is equivalent to 0.888671 gram of fine gold)

SPECIAL RESERVE (See Note)		
Balance, April 30, 1973	SDR 388,896,827	
Deduct Excess of expenses over income (Exhibit B)	37,210,254	
Balance, April 30, 1974		SDR 351,686,573
GENERAL RESERVE		
Balance, April 30, 1974		365,579,703
TOTAL RESERVES (per Balance Sheet)		SDR 717,266,276

NOTE: Income from investments in U. S. Government securities was placed to this reserve from November 1, 1957 until February 15, 1972, when the Fund's gold investment program was terminated. Pursuant to Executive Board Decision No. 708-(57/57) any administrative deficit for any fiscal year of the Fund must be written off first against this reserve. Under Article XII, Section 6(*c*), of the Articles of Agreement, the Fund may make transfers from this reserve to the General Reserve.

INTERNATIONAL MONETARY FUND

SPECIAL DRAWING ACCOUNT

BALANCE SHEET

(See Note 1)

as at April 30, 1974

Amounts expressed in special drawing rights
(one SDR is equivalent to 0.888671 gram of fine gold)

ALLOCATIONS			
Net cumulative allocations of special drawing rights to participants (See Note 2)			SDR 9,314,835,400
HOLDINGS			
Holdings of special drawing rights (See Note 3) (Exhibit B)			
Participants			
Holdings above allocations			
Allocations	SDR 3,388,427,000		
Received (net)	1,780,183,085	SDR 5,168,610,085	
Holdings below allocations			
Allocations	SDR 5,926,408,400		
Used (net)	2,279,214,356	3,647,194,044	SDR 8,815,804,129
General Account			499,031,271
			SDR 9,314,835,400

NOTES:
1. This statement of the Special Drawing Account is a summary of net cumulative allocations of special drawing rights by the Fund to participants and the corresponding holdings of such special drawing rights by participants and the General Account.
2. Under Articles XXX and XXXI of the Fund Agreement, which cover termination of participation in and the liquidation of the Special Drawing Account, respectively, a participant has an obligation to pay to the Fund an amount equal to its net cumulative allocation of special drawing rights and any other amounts that may be due and payable because of participation in the Special Drawing Account. The Fund also has an obligation to redeem special drawing rights in accordance with these Articles.
3. Special drawing rights allocated by the Fund do not constitute claims by holders against the Fund to provide currency, except as prescribed by the provisions of Article XXX and XXXI relating to the termination of participation and liquidation. Participants may use their special drawing rights to obtain currency in accordance with the provisions of Article XXV, and under Section 5 of this Article they are entitled to request the Fund's assistance in the form of designation of participants to provide currency in exchange for special drawing rights. The obligation of a participant to provide currency for special drawing rights does not extend beyond the point at which its holdings of special drawing rights in excess of its net cumulative allocations are equal to twice its net cumulative allocation or such higher limit as may be agreed between a participant and the Fund. A participant may, however, provide currency in excess of the obligatory limit or any agreed higher limit.

/s/ W. O. HABERMEIER
Treasurer

/s/ H. JOHANNES WITTEVEEN
Managing Director

International Monetary Fund

Special Drawing Account

Source and Use of Special Drawing Rights

for the year ended April 30, 1974

Amounts expressed in special drawing rights
(one SDR is equivalent to 0.888671 gram of fine gold)

	Participants	General Account	Total
Total Holdings as at April 30, 1973	8,697,745,710	617,089,690	9,314,835,400
Source of Special Drawing Rights Received			
Transactions with Designation			
(Article XXV, Sections 2(*a*) and 3(*a*))	60,113,000		60,113,000
Transactions without Designation			
(Article XXV, Section 2(*b*) (i))	995,924,632		995,924,632
Net Interest	21,723,948	7,773,651	29,497,599
Transfers Between Participants and the General Account			
Purchases	7,266,003	—	7,266,003
Repurchases	3,083,333	32,604,392	35,687,725
Charges	92,613	28,611,437	28,704,050
Reimbursement of Special Drawing Account Expenses		1,000,417	1,000,417
Remuneration	20,393,635		20,393,635
Reconstitution	157,212,732		157,212,732
	1,265,809,896	69,989,897	1,335,799,793
Use of Special Drawing Rights			
Transactions with Designation			
(Article XXV, Sections 2(*a*) and 3(*a*))	60,113,000		60,113,000
Transactions without Designation			
(Article XXV, Section 2(*b*) (i))	995,924,632		995,924,632
Net Charges	29,497,599		29,497,599
Transfers Between Participants and the General Account			
Purchases	—	7,266,003	7,266,003
Repurchases	32,604,392	3,083,333	35,687,725
Charges	28,611,437	92,613	28,704,050
Reimbursement of Special Drawing Account Expenses	1,000,417		1,000,417
Remuneration		20,393,635	20,393,635
Reconstitution		157,212,732	157,212,732
	1,147,751,477	188,048,316	1,335,799,793
Total Holdings as at April 30, 1974 (per Balance Sheet)	8,815,804,129	499,031,271	9,314,835,400

Staff Retirement Fund

Memorandum by the Audit Committee

June 28, 1974

To the Managing Director
and the Executive Directors
International Monetary Fund

Our report, dated June 28, 1974, submitted through you to the Board of Governors, on the audit of the financial records, operations and transactions of the Staff Retirement Fund of the International Monetary Fund for the fiscal year ended April 30, 1974, includes the following paragraphs relating to the authority for the audit, the scope of the audit, and the audit opinion:

Authority for the Audit

The audit of the Staff Retirement Fund of the International Monetary Fund for the fiscal year ended April 30, 1974, was carried out pursuant to and in accordance with the requirements of Section 20(b) of the By-Laws of the International Monetary Fund. All assets and income of the Staff Retirement Fund, in accordance with Article 9, Section 1, of the Staff Retirement Plan, are the property of the International Monetary Fund and are held and administered by it separately from its other property and assets.

Scope of the Audit

We have examined the Balance Sheet of the Staff Retirement Fund of the International Monetary Fund as at April 30, 1974, the Statement of Changes in Financial Position for the fiscal year then ended, and the schedules related thereto. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records, giving consideration to the extent of internal control and the internal audit work performed by the Internal Auditor, and such other auditing procedures as we considered necessary in the circumstances. In the course of our audit, reference was made to the Articles of the Staff Retirement Plan and to the decisions of the Pension, Administration, and Investment Committees created under the Plan.

Audit Opinion

In our opinion, these Statements, together with the notes appearing thereon, present fairly the financial position of the Staff Retirement Fund of the International Monetary Fund as at April 30, 1974, and the results of its operations and the changes in its financial position for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Audit Committee:
/s/ E. S. Okunor, Chairman (Ghana)
/s/ Chong Jik Ahn (Korea)
/s/ Steve L. Comings (United States)

INTERNATIONAL MONETARY FUND

STAFF RETIREMENT FUND

BALANCE SHEET

as at April 30, 1974

Amounts expressed in U. S. dollars

ASSETS

CASH AT BANKS			$ 52,876
INVESTMENTS			
Bonds			
Amortized cost (*market value, $13,918,100*)			
Notes insured by U. S. Government	$ 2,768,696		
International development banks	8,308,248		
Corporate	5,701,824		
Total amortized cost	$16,778,768		
Add: Net realized losses	2,226,408		
Funds originally invested	$19,005,176		
Deduct: Amortized net realized losses	−444,758		
Adjusted book value of bonds		$18,560,418	
Stocks (Common)			
Cost (*market value, $33,296,367*)	$39,001,823		
Deduct: Net realized gains	−4,255,932		
Funds originally invested	$34,745,891		
Add: Recognized appreciation	2,088,000		
Adjusted book value of stocks		36,833,891	
Total Investments			55,394,309
ACCRUED INTEREST ON BONDS, AND ACCRUED CONTRIBUTIONS RECEIVABLE FROM PARTICIPANTS AND INTERNATIONAL MONETARY FUND			461,339
TOTAL ASSETS			$55,908,524

LIABILITIES AND RESERVES

PARTICIPANTS' ACCOUNT	$11,671,183
ACCUMULATION ACCOUNT	33,771,832
RETIREMENT RESERVE ACCOUNT	10,465,128
ACCOUNTS PAYABLE	381
TOTAL LIABILITIES AND RESERVES	$55,908,524

/s/ W. O. HABERMEIER
Treasurer

/s/ H. JOHANNES WITTEVEEN
Managing Director

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An asterisk (*) denotes a table; a dagger (†) denotes a chart.