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*INTERNATIONAL MONETARY FUND*

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**ANNUAL REPORT  
OF THE  
EXECUTIVE DIRECTORS**

WASHINGTON, D. C.  
SEPTEMBER 1946

# LETTER OF TRANSMITTAL TO THE BOARD OF GOVERNORS

SEPTEMBER 27, 1946.

SIRS: Section 10 of the Bylaws of the International Monetary Fund provides that "the Executive Director shall have prepared for presentation at the annual meeting of the Board of Governors an annual report in which shall be discussed the operations and policies of the Fund and which shall make recommendations to the Board of Governors on the problems confronting the Fund." Because of the short time that has elapsed since the Inaugural Meeting of the Board of Governors, the present report is limited in scope and content.

The first major task of the Fund, the agreement with member countries concerning the initial par values for the currencies, has been undertaken. The Fund's transactions will begin after the required number of par values has been agreed, as provided in the Fund Agreement.

The major considerations of policy which have occupied the Executive Board in the recent period are contained in the Rules and Regulations, which are presented with this report for review by the Board of Governors. It is believed they provide a sufficient basis for preliminary work.

In submitting this report to the Fund, I wish to make two brief comments.

The first is that the work of the Fund has been, to a very high degree, a work of mutual cooperation and understanding. In their concise form, the Rules and Regulations may seem to be a mere formulation of simple and indisputable principles. However, a good many are the result of long discussions concerning the organization as well as the initial policies and operations of the Fund.

During these discussions, delicate and important questions have been solved in a unanimous desire for agreement. It is true that some important problems have not yet been touched, but the short experience which we have just gone through allows us to look forward hopefully to the times ahead.

My second comment concerns the apprehensions which have been voiced in some quarters as to the future of the Fund. The difficult economic and political conditions under which the Fund is starting its operations have been emphasized. Some have wondered whether it would not be better to delay until greater stability prevails.

We have not thought so today in Washington, any more than we did in 1944 at Bretton Woods. Then, as today, we knew that the world would require time to recover from the terrible crises which have upset it since 1914. But we have thought that an effort should be made as soon as possible toward righting it again. It would, of course, have been highly desirable to make such efforts simultaneously in all fields: economic, political, monetary. These would have been the ideal conditions. Should the fact that these conditions do not prevail for the time being deter the Fund from starting its activities? Such has not been our opinion. Immobility is not a policy. To act entails risks. Not to act often entails greater risks. It is with open eyes, conscious of the possible dangers, conscious, too, of the constructive element that the Fund may be able to constitute in the reestablishment of a more stable world, that we enter the path indicated in the report. We know that our work can only be a beginning, that other elements will be needed to complete it. But we hope that the very fact of initiating it will have favorable effects, and that it will constitute both an example and an incentive.

Sincerely,

CAMILLE GUTT,  
*Chairman of the Executive Board  
and Managing Director.*

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# INTERNATIONAL MONETARY FUND

## ANNUAL REPORT OF THE EXECUTIVE DIRECTORS

### SEPTEMBER 1946

#### I. ESTABLISHMENT OF THE FUND

This report, prepared in accordance with Section 10 of the Bylaws, covers the operations and policies of the International Monetary Fund in the period from May 6, 1946, when the Executive Directors held their first meeting in Washington, through early September 1946. In this period, the Fund was creating an organization and laying down the necessary rules for its operations. Since it is intended that in future years the annual report of the Executive Directors will cover the operations of the Fund in the preceding fiscal year, such figures as are here presented deal mainly with the period ending June 30, 1946.

#### *Entry Into Force*

The Articles of Agreement of the International Monetary Fund entered into force on December 27, 1945, when representatives of 30 countries met and participated in a ceremony of signature held in Washington, D. C. By December 31, 1945, 35 countries had signed and otherwise indicated their intention to become members. These were:

Belgium	India
Bolivia	Iran
Brazil	Iraq
Canada	Luxembourg
Chile	Mexico
China	Netherlands
Colombia	Norway
Costa Rica	Paraguay
Cuba	Peru
Czechoslovakia	Philippine Commonwealth
Dominican Republic	Poland
Ecuador	Union of South Africa
Egypt	United Kingdom of Great Britain and Northern Ire- land
Ethiopia	United States of America
France	Uruguay
Greece	Yugoslavia
Guatemala	
Honduras	
Iceland	

Instruments of Acceptance have been deposited with the United States Government, as required by Article XX, Section 2 (a) of the Fund Agreement, on behalf of all the above countries.

### ***Inaugural Meeting of the Board of Governors***

In accordance with the provisions of Article XX, the Government of the United States called the first meeting of the Board of Governors of the Fund to meet jointly with the Board of Governors of the International Bank for Reconstruction and Development at Savannah, Ga., on March 8, 1946.

During the meeting, the Board adopted a resolution which extended from December 31, 1945, to December 31, 1946, the period in which countries listed in Schedule A of the Fund Agreement could join as original members. Under this resolution representatives of Cuba, El Salvador, Nicaragua, and Panama signed the articles in the course of the meeting. Denmark, with a quota fixed at \$68,000,000 by the Board of Governors, likewise acquired membership under the authority of this resolution on March 30, 1946.

This meeting took the necessary preliminary steps to organize the Fund. Bylaws were adopted to establish procedures for the meetings of the Board of Governors and to govern the operations. A number of special tasks were assigned to the Executive Directors. The Board of Governors appointed a temporary secretary, Mr. Roman L. Horne, to make the arrangements for the first meeting of the Executive Directors, and fixed the date of the first meeting at the beginning of May.

### ***First Executive Directors***

The Executive Directors, who were appointed or elected in accordance with the provisions of the Fund Agreement, were as follows:

#### **Appointed Executive Directors**

	<i>Votes</i>
George Bolton.....United Kingdom.....	13, 250
J. V. Joshi.....India.....	4, 250
Yee-Chun Koo.....China.....	5, 750
Pierre Mendes-France.....France.....	4, 750
Harry D. White.....United States.....	27, 750

#### **Elected Executive Directors**

G. W. J. Bruins.....Netherlands.....	3, 000
.....Union of South Africa.....	1, 250
	<hr/> 4, 250 <hr/>

<b>Elected Executive Directors—Continued</b>		<i>Votes</i>
Rodrigo Gomez-----	Colombia -----	750
	Costa Rica-----	300
	Cuba -----	750
	Dominican Republic-----	300
	El Salvador-----	275
	Guatemala -----	300
	Honduras -----	275
	Mexico -----	1, 150
	Nicaragua -----	270
	<hr/>	4, 370
	<hr/>	
Camille Gutt-----	Belgium -----	2, 500
	Iceland -----	260
	Luxembourg -----	350
	<hr/>	3, 110
	<hr/>	
J. V. Mladek-----	Czechoslovakia -----	1, 500
	Poland -----	1, 500
	Yugoslavia -----	850
	<hr/>	3, 850
	<hr/>	
Louis Rasminsky-----	Canada -----	3, 250
	Norway -----	750
	<hr/>	4, 000
	<hr/>	
Ahmed Zaki Bey Saad-----	Egypt -----	700
	Ethiopia -----	310
	Greece -----	650
	Iran -----	500
	Iraq -----	330
	Philippine Commonwealth	400
	<hr/>	2, 890
	<hr/>	
Francisco Alves dos Santos-Filho----	Bolivia -----	350
	Brazil -----	1, 750
	Chile -----	750
	Ecuador -----	300
	Panama -----	255
	Paraguay -----	270
	Peru -----	500
Uruguay -----	400	
	<hr/>	4, 575

### **Interim Period**

The necessary arrangements for the first meetings in Washington of the Executive Directors were made by the Temporary Secretary, Mr. Horne who, with the assistance of a small staff, found and equipped quarters, collected, edited, and published the documents of the Inaugural Meeting and carried on the necessary correspondence.



## ***Selection of the Managing Director***

At their first meeting on May 6, 1946, the Executive Directors selected as Managing Director Mr. Camille Gutt of Belgium, who, upon accepting, resigned as Executive Director. On this date the Managing Director assumed the chairmanship of the Executive Directors and the responsibility for organizing and directing the staff.

## ***Organization of the Operating Staff***

The Executive Directors, as a first order of business, discussed the general organization of the staff. By mid-June a general plan of organization had been agreed. Reporting to the Managing Director, the staff is divided into five primary departments and offices, as follows:

- Operations Department.
- Legal Department.
- Research Department.
- Office of the Comptroller.
- Office of the Secretary.

Each of those departments and offices has a director or head who is responsible to the Managing Director. The departments and offices are further subdivided into divisions under chiefs. It is intended that the organization should be simple and flexible.

By the beginning of September, the Managing Director had appointed the head or acting head of each of the major staff units of the Fund and these officials had assumed their duties in Washington. They are:

- Mr. John L. Fisher (U. K.), Director  
Operations Department.
- Mr. Edward M. Bernstein (U. S.), Assistant Director, Acting in Charge  
Research Department
- Mr. A. van Campenhout (Belgium), Director  
Legal Department
- Mr. Charles M. Powell (Canada), Assistant Comptroller  
Office of the Comptroller
- Mr. Frank Coe (U. S.), Secretary  
Office of the Secretary

That portion of the Fund's operating staff which had reported for duty numbered approximately 100 persons, recruited from 15 countries. Equipment and supplies had been procured and necessary procedures had been established to direct the work of the staff through the early period.

The Fund has adopted for its employees the salary scale and grades of the United Nations.

In appointing the staff, the Managing Director has, as required by the Fund Agreement, "subject to the paramount importance of securing the highest standards of efficiency and of technical competence," paid "due regard to the importance of recruiting personnel on as wide a geographical basis as possible." It has proved difficult and time-consuming to negotiate with and select prospective staff members who are scattered all over the world. In most countries there is a shortage of the kinds of skilled financial and economic personnel that the Fund and other international organizations are seeking. Because of this shortage, the treasuries, central and private banks and exchange departments of many countries are unable or reluctant to release their personnel. Of those who can be released, a considerable number are reluctant to give up established positions to undertake new work in another country.

### ***Financial Statement***

Section 20 of the Bylaws requires that the Executive Directors shall have an audit of the accounts of the Fund made at least once each year and on the basis of this audit submit a balance sheet and statement of operations of the Fund to be considered by the Board of Governors at their annual meeting.

Since operations have not yet commenced, the financial presentation in this instance is in the form of a Statement of Receipts and Payments from inception to June 30, 1946, which is annexed to this report (Appendix D). It will be seen that the Receipts are solely subscriptions of one one-hundredth of 1 percent of quotas of member countries as provided for by Section 2 (d) of Article XX of the Fund Agreement, while the payments are limited to administrative expenses. As required, the Executive Directors have had an audit of the accounts made for the fiscal year which ended on June 30, 1946. Although plans are going forward for an independent audit, this one was conducted by the Assistant Comptroller, Mr. C. M. Powell. The Statement of Receipts and Payments, based on this audit, was prepared under the supervision of the Managing Director and approved by the Executive Directors for submission to the Board of Governors.

### ***Administrative Budget***

It has not proved possible during the period covered by this report to prepare an administrative budget for submission to the Board of Governors. The Fund's major operations have not begun and will not begin until the required number of par values has been agreed. The amount and number of the Fund's transactions cannot be determined now, and therefore the basis for estimating the staff and other administrative requirements for these transactions is lacking. Similarly, the volume of work which will be necessary in connection with

exchange rates, exchange restrictions, and the other obligations of members, cannot be foreseen at this time. For these reasons the Managing Director has not considered it desirable to define the detailed organization of the various departments and offices, which are being operated by nuclear staffs.

The Financial Statement presented in Appendix D shows that administrative expenditures through June 30, 1946, covering a period of approximately 3 months, amounted to approximately \$97,000. In July and August, administrative expenditures were at a higher rate and a total of approximately \$150,000 was spent. Of this, about half, or \$74,000, was for salaries and wages and slightly more than one-third, or \$54,000, was for supplies and equipment. The remainder was expended principally on offices, travel, communication, and expenses for the meeting of the Board of Governors.

## **II. STATUS OF THE FUND**

### ***Applications for Membership***

At its Inaugural Meeting the Board of Governors received applications for membership from the Governments of Italy, Lebanon, Syria, and Turkey, which were referred to the Executive Directors for consideration and recommendations. In conformity with Section 21 of the Bylaws, the recommendations of the Executive Directors are being separately submitted to the Board of Governors.

### ***Revision of Quotas***

At the Inaugural Meeting the Governor of Paraguay requested that the quota of Paraguay in the Fund should be increased. The Board of Governors referred this request to the Executive Directors for consideration and recommendations. The report to the Board of Governors on this matter is separately submitted.

On September 6, 1946, the Government of France requested the Fund to consider an increase in its quota. On September 18 the Government of China made a similar request. The reports of the Executive Directors on these requests are being submitted separately.

### ***Relations With Other International Organizations***

The Fund and the Bank have maintained close relations throughout the period of organization. The Managing Director of the Fund and the President of the Bank and their subordinates have worked together on common problems, and joint committees of the two Boards of Executive Directors have been utilized as a device for effecting necessary coordination. Steps have been taken to ensure that the policies and operations of the Fund and the Bank will complement each other.

As permitted by the Fund Agreement, informal arrangements for cooperation with other international organizations have been initiated. The Fund was represented at the UNRRA conference held in Geneva in August 1946 and the FAO conference held in Copenhagen in September. Liaison has been established between the Fund and the United Nations on public information. Similarly, representatives of the Fund have participated in meetings with the Secretariat of the United Nations on problems of personnel, travel, and pensions. The Fund looks forward to continuing cooperation with the United Nations and the various specialized agencies and expects these relations to develop on many fronts during the next few years.

As requested by the Board of Governors at its Inaugural Meeting, the Fund, together with the Bank, has conferred with representatives of the Economic and Social Council concerning collaboration. No recommendations to the Governor have been prepared, since it is not believed that a formal agreement is required at this time. The correspondence is reported in Appendix C.

### **III. POLICIES**

#### ***Rules and Regulations***

The Executive Directors have during the past few months devoted a large part of their time to the preparation of the Rules and Regulations which are presented with this report for review by the Board of Governors (Appendix A). During the course of this work, the purposes and functions of the Fund have been carefully analyzed and an effort made to establish those procedures and rules of conduct which will facilitate the Fund's operations and create practical working relationships with the members. Emphasis has been placed on the principal problems which will face the Fund in the coming year, and the procedures and rules of conduct concerning these matters have been worked out in greater detail than those which deal with problems unlikely to arise until a later date.

Some of the provisions of the Rules and Regulations are procedural in nature and others embody decisions of policy which, in the opinion of the Executive Directors, should be made before operations begin. In view of the fact that they have been drafted without benefit of the knowledge which will be gained by experience with the Fund's operations, modifications and additions will have to be made as new problems are encountered. Many of these problems cannot be foreseen at this time. Others have been considered by the Executive Directors, but their solution has been postponed wherever practicable in order that the formulation of the Rules and Regulations to handle them may reflect the experience of the Fund. The modifications and additions will be presented for review at future meetings of the Board of Governors.

## **Interpretations**

Under the Fund Agreement one of the functions of the Executive Directors is to make interpretations of the Agreement. At their Inaugural Meeting, in Resolutions Nos. 5, 6, and 7, the Board of Governors requested the Executive Directors to make interpretations on points raised by the Governors for the United Kingdom, the United States, and India. The interpretations requested and made are presented in Appendix B.

## **IV. OPERATIONS**

### **Initial Par Values**

The first major task of the International Monetary Fund is the initial determination of par values. Article XX, Section 4 (a) states that "when the Fund is of the opinion that it will shortly be in a position to begin exchange transactions, it shall so notify the members and shall request each member to communicate within 30 days the par value of its currency based on the rates of exchange prevailing on the sixtieth day before the entry into force of this Agreement."

In their early meetings, the Executive Directors considered that from the standpoint of its organization the Fund should be far enough advanced by September to warrant undertaking this task. This goal was realized and, accordingly, on September 12, the following cable was sent to all member governments (with minor variations in the last paragraph):

Cable to Member Governments

To -----

Pursuant to a decision of the Executive Directors of the International Monetary Fund on September 4, 1946, and in accordance with the Fund Agreement, I have the honor to inform your Government that:

(1) In accordance with Article XX, Section 4 (a) of the Agreement, the Fund "will shortly be in a position to begin exchange transactions."

(2) Your Government is requested, pursuant to Article XX, Section 4 of the Agreement, to communicate within 30 days the par value of its currency based on the rates of exchange prevailing on October 28, 1945, which is the sixtieth day before the entry into force of the Agreement.

(3) Your Government is requested to acknowledge receipt of this communication by cable, and to state in such acknowledgment the date on which this communication is received.

(4) The provisions of Article XX, Section 4 (b), apply to Gov-

ernments whose metropolitan territory has not been occupied by the enemy. .

(5) The provisions of Article XX, Section 4 (b), apply to Governments whose metropolitan territory has been occupied by the enemy.

(6) If separate currencies exist in the territories in respect of which your Government has accepted the Agreement, the provisions of Article XX, Section 4 (g) apply in respect of the communication of par values.

(7) The Fund is prepared to discuss with your Government all matters related to the initial determination of par values. If your Government wishes to make any special arrangements for discussion, the Fund would like to be so informed at an early date.

(8) A signed copy of this communication is being sent to your Legation in Washington for transmittal to you. It will be appreciated if you will notify all interested agencies or persons in your Government of the contents of this communication.

CAMILLE GUTT,  
*Managing Director.*

## **V. PROBLEMS FACING THE FUND**

### ***Initial Parities***

As a result of the call for the communication of par values, the Fund will seek agreement with 39 countries in the next few months on the structure of exchange rates which will govern most of the foreign transactions of the world. This is a formidable task, especially for an international organization which is still in its infancy.

In deciding to proceed to the active phase of the Fund's work, the Executive Directors were mindful of a number of reasons which could be advanced for postponement. Many countries have only begun to recover from the devastation of war; and the reconstruction of their economic and monetary systems will take several years. The wartime economic controls of many members of the Fund are still in force. Inflation, in varying degrees of intensity, is in progress throughout much of the world. International trade and international investment are only partially restored. Concrete measures for international economic cooperation, in spheres other than the financial, are not as far advanced as had earlier been hoped. International political cooperation leaves much to be desired.

These and other factors undoubtedly make it more difficult to determine what is an appropriate structure of exchange rates. Nevertheless, it is the opinion of the Executive Directors that it is desirable to proceed with the establishment of initial par values. When the Bretton Woods Agreements were signed, it was generally foreseen that the Fund would have to begin its work in a period of disorder and devas-

tation, and allowance for these conditions was made in a number of provisions of the Fund Agreement. One of the major purposes of the governments that established the Fund was to ensure the maximum of monetary cooperation in the transition period from war to peace. In adjusting their economies to new postwar conditions, many countries will have to continue to control their exchanges, and some countries may also need to adjust the foreign-exchange value of their currencies. These conditions emphasize the difficulty of the task of restoring a healthy world economy.

A number of countries, particularly in Europe and the Far East, find their international economic position seriously deteriorated as a result of the war. Their first task is to restore agricultural and industrial production on a modern and efficient basis and to bring it into line with the new requirements of the market. In the Far East, the restoration of production has just begun. On the European continent, members of the Fund as a group have in the past year succeeded in raising their industrial output, but it still remains considerably below the prewar level. Agricultural production in Europe has also risen and this year will be not far below prewar. Nevertheless, in some countries recovery still lags, and in all countries there are difficulties in reaching and surpassing the 1938 level of output.

The road ahead is not an easy one. Although foreign aid has been of great assistance, it is important to recognize that recovery in the occupied countries has depended and will continue to depend primarily on their own efforts. In order to raise agricultural and industrial production to levels commensurate with the technical progress of the past decade, reconstruction must be given priority above all other economic needs with the exception of maintaining consumption essential to the health and efficiency of the people. The countries that suffered destruction and devastation are still short of equipment, transport, raw materials and, in certain cases, food and shelter. These shortages must be made good before their labor efficiency and productive power can be fully realized.

The countries which suffered from enemy occupation still need considerable external assistance to help them in restoring production. The countries that can provide capital in significant amount out of their present resources are limited in number. Even so, there has been a gratifying willingness on the part of some countries, themselves in need, to provide to others the moderate credits they are in a position to offer. But the only substantial sources of foreign capital are the countries whose large domestic output and strong international economic position enable them to maintain an export surplus. In the past year, the United States and Canada have made capital available on a very large scale for urgent reconstruction needs. Since the end of the war the United States Government has authorized credits in

excess of \$8 billion and the Canadian Government has authorized credits of \$2 billion. A number of countries in Europe have also helped by making credits available for trade and reconstruction. The provision of additional foreign capital remains, nevertheless, of the greatest importance to the restoration of the world economy.

Efforts to maintain and to restore production and international investment cannot have anything like their full effect without a reasonable degree of monetary and exchange stability. In fact, only few countries have succeeded in maintaining even moderate stability of prices. In some countries inflation has been extreme. In others, it has previously been held in check, although in a few cases controls have recently been weakening. The inflationary forces generated during the war are being augmented by a continuation of budgetary deficits and the further expansion of money. Almost every country is spending far more for military purposes than was anticipated. With these inflationary forces superimposed on the disruption of world economic relations caused by the war, it is not surprising that the present pattern of exchange relationships contains a number of grave distortions. The elimination of these distortions and the promotion of currency stability and expanding trade are among the important tasks facing the Fund.

### ***Exchange Controls***

During the war exchange controls and restrictions were essential to mobilize and conserve foreign exchange resources; their continuance now reflects the inadequacy of a country's foreign exchange resources relative to its needs and the importance of guarding against disturbing capital movements. In most countries there is a severe shortage of goods of all kinds that must be obtained from abroad. In such countries, exchange restrictions are unavoidable for a time in order to assure that the most essential requirements for consumption and reconstruction will be met out of their limited foreign exchange resources. Then, too, there is the ever-present danger of capital flight, particularly in periods of adjustment. The Fund Agreement recognizes that many countries will have to continue to use the machinery of exchange control to prevent the dissipation of their exchange resources and the weakening of their international economic position through capital flight.

These considerations should not discourage rapid progress toward the elimination of unnecessary exchange restrictions on current transactions. The more currencies become convertible, the easier will be the task of freeing the remaining currencies from such restrictions. It is fortunate that there is now every prospect for an early resumption of the convertibility of sterling in connection with current transactions. The credits made available to the United Kingdom by the United States and Canada will enable Britain to buy essential imports and to



pay for them with convertible sterling. The British Government has also expressed its intention to make agreements with the countries concerned, varying according to the circumstances of each case, for an early settlement covering the sterling balances accumulated by sterling area and other countries. These developments will help in restoring convertibility of currencies and freedom in current transactions in accordance with the provisions of the Fund Agreement.

### **Exchange Rates**

In ordinary times, the pattern of exchange rates has an historical continuity which gives it an element of strength and stability. A great war radically alters the established position of currencies. In some respects our problems at present are less extreme than after the last war. There has been a greater realization of the need to keep prices and costs in hand and to keep the balance of payments in order. But we must frankly face the fact that currency systems of some countries have completely broken down and that they must be rehabilitated before they can be stabilized. There are other currencies in which some change in the present foreign exchange values may be necessary. While a start toward orderly exchange arrangements can be made by establishing initial par values for many currencies that already have an element of stability, there will remain the great task of rehabilitating weak currencies and integrating them in the world structure of exchange rates. For such countries, the Fund can extend the period of consultation, and an agreement on the initial par values can be postponed until their economic and monetary situation becomes more stable. In the meantime, the fact that initial par values have been established for other currencies will enable these countries to see more clearly the problem of fitting their currencies into the structure of exchange rates.

We recognize that in some cases the initial par values that are established may later be found incompatible with the maintenance of a balanced international payments position at a high level of domestic economic activity. Because the entire world is in need of goods, some countries may maintain foreign exchange values for their currencies which are not for the time being a great handicap to the sale of their exports, but which prove to be too high when production is revived all over the world and the immediate shortage of import goods is in large part met. Such countries may later find difficulty in selling sufficient exports to pay for needed imports. When this occurs, the Fund will be faced with new problems of adjustment and will have to recognize the unusual circumstances under which the initial par values were determined. It is just at such times that the Fund can be most useful in seeing that necessary exchange adjustments are made in an orderly manner and competitive exchange depreciation is avoided.

## ***Use of the Fund's Resources***

The Fund provides facilities to countries that require temporary help in meeting balance of payments deficits. There are limitations on the use of the Fund's resources by members. The use of the Fund's resources must be consistent with the stated purposes of the Fund. Members must not use the Fund's resources for a large and sustained outflow of capital, nor is the Fund intended to provide facilities for relief and reconstruction. In this connection a certain misunderstanding exists regarding the use of the Fund's resources which should be cleared up at the beginning of its operations.

The Executive Directors do not think that it follows from the relevant provisions of the Fund Agreement that a member is necessarily debarred from using the Fund's resources, because it is importing "relief-type" goods, i. e., goods of a type hitherto supplied by UNRRA, or because it is importing machinery and equipment to replace what was destroyed or worn out during the war. The Fund will not operate by examining the specific use which is made by members of each parcel of foreign exchange they purchase from it. Indeed, it would be futile to attempt this, as members will also be using their own exchange resources, and a member can allocate a particular outlay of exchange to one or the other source. What is significant is the magnitude of the use which a member makes of the Fund's resources and the prospective balance of payments position of that member.

It is from this point of view that the avoidance of use of the Fund's resources for relief and reconstruction must be regarded. The Fund will clearly not serve as a relief agency like UNRRA: it cannot give foreign exchange away. Nor would it sell foreign exchange to a member when there is no reasonable prospect that the member will be able to repay the Fund. Members could not properly use the Fund to finance long-term reconstruction plans which involve sustained use of the Fund's resources to meet a continuing deficit in their balance of international payments. The Fund is not empowered to provide financing of that sort. The essential test of the propriety of use of the Fund's resources is not the character of the goods imported, but rather whether the prospective balance of payments position of the country concerned (including long-term capital movements) will be such that its use of the Fund's resources will be of relatively short duration.

It is clear that in starting operations at a time when much remains to be done in reconstructing the war-devastated economies, the Fund runs the risk that some of its resources may be used for other than temporary assistance. There will at times be differences of opinion as to whether a member is making proper use of the Fund's resources. There are certain to be disappointments because of the restraints placed on use of the Fund's resources by some members. And there

will, no doubt, be errors of judgment in assuming risks of one kind or another. The Executive Directors consider it their duty to bring to the attention of the Board of Governors the fact that in the early period of its operations the Fund may take risks that would not be justified under normal circumstances.

For a variety of reasons, the risks involved may not, however, be as great as might appear at first sight. First, certain creditor countries in a position to do so have already made substantial loans to aid in reconstruction. Second, the International Bank for Reconstruction and Development will supplement what reconstruction loans are made available directly by governments and through the private capital market. Third, as indicated above, the Executive Directors will exercise the power to limit or postpone exchange operations with countries whose economies are so out of balance that their use of the Fund's resources would be contrary to the purposes of the Fund Agreement or prejudicial to the Fund or the members. Finally, the Executive Directors will have the situation under constant review and will take appropriate action if the situation warrants.

### ***Limited Scope of the Fund***

It would be a serious mistake to regard the Fund as capable by itself of solving the economic problems the world now faces. It has neither the power nor the resources to do this, nor was it designed for this purpose. The function of the Fund is to aid members in maintaining arrangements that promote the balanced expansion of international trade and investment and in this way contribute to the maintenance of high levels of employment and real income. While the Fund can be of help in this direction, the attainment of these ultimate objectives—high levels of employment and production—must in the end depend upon the pursuit of appropriate national economic policies and upon the solution of other international economic and political problems. No monetary organization, however ably devised, can be a substitute for wise policies in the national and international sphere.

A balanced and expanding world economy cannot be attained without adequate production. Until countries are again producing on an efficient basis, they cannot export enough to pay for their essential imports. This is the fundamental condition for achieving a sustained balance in international payments in the long run. It is important, therefore, that in all countries in which output has been reduced by the war, special efforts should be made to increase production and to raise productive efficiency.

Monetary stability is also essential for maintaining orderly exchange arrangements. The primary sources of inflation or deflation are found in national policies. There is not a great deal that the Fund can do to eliminate the instability of domestic prices where the chief

sources and price fluctuation are in domestic arrangements. But the Fund can help to minimize the effects of monetary instability by preventing it, to some extent, from spreading to other countries.

On the international side, too, important conditions will have to be fulfilled to achieve a balanced and expanding world economy. The Fund was conceived as one element in a many-sided approach to the task of reestablishing a functioning world economic system. Other elements were the solution of the immediate postwar problems of relief and rehabilitation, means for encouraging and regulating the flow of international investment, including financial provision for meeting the emergency requirements of countries most adversely affected by the war, liberal commercial policy arrangements of a multilateral character, and some provision for mitigating excessive fluctuations in the prices of primary products, including foodstuffs. Progress along some of these lines has been more rapid than along others. The accomplishments of UNRRA are well known, though it is not yet clear what measures will be adopted to take care of such continuing needs as there may be for relief without expectation of ultimate repayment. But much remains to be done in other fields of international economic cooperation.

All countries have shown an appreciation of the important role that international investment can play in reconstructing and developing the world economy. The members of the International Bank for Reconstruction and Development, by their subscriptions, are assuming much of the risk involved in international lending, and they are giving effective encouragement to the revival and expansion of sound and productive investment. Although large reconstruction loans have been made, there is a continuing need for foreign capital for productive purposes. It is expected that the International Bank will soon be in a position to carry some of this load.

The organization of international collaboration on commercial policy has proceeded less rapidly than might have been hoped. But the initial preparatory conference on world trade and employment is to be held in London next month. The Fund has clearly a very great interest in the successful outcome of the commercial policy discussions and in the achievement of trading arrangements among its members which are conducive to a high level of exchange of goods on a multilateral basis.

We have thought it well to give this brief review of some of the problems facing the Fund in order to indicate at the outset the perspective in which we see our work. We do not underestimate the difficulties facing us. But we feel that the Fund can make an important contribution to the solution of the economic problems confronting the world. The work of the Fund will be facilitated by appropriate

domestic and international economic policies. Above all, it is imperative that the grave international political problems now restraining world recovery be progressively solved. An indispensable element in a prosperous world economy is cooperation among all countries for establishing and maintaining an enduring peace.

## APPENDIX A

### REPORT TO THE BOARD OF GOVERNORS CONCERNING RULES AND REGULATIONS

*September 27, 1946.*

MY DEAR MR. CHAIRMAN:

On behalf of the Executive Director, I am submitting the attached Rules and Regulations adopted September 25, 1946. In accordance with Section 16 of the Bylaws, the Rules and Regulations are subject to review by the Board of Governors at its annual meeting.

As pointed out in the Annual Report, these Rules and Regulations, adopted before operations begin, are necessarily provisional. Modifications and additions will have to be made as new problems are encountered. Such changes will be presented for review at future meetings of the Board of Governors.

Sincerely,

[s] CAMILLE GUTT,  
*Managing Director.*

### INTERNATIONAL MONETARY FUND RULES AND REGULATIONS

#### A—SCOPE OF RULES AND REGULATIONS

A-1. These Rules and Regulations supplement the Fund Agreement and the Bylaws adopted by the Board of Governors. They are not intended to replace any provision of either the Agreement or the Bylaws. The Rules and Regulations attempt to provide such operating rules, procedures, regulations and interpretation as are necessary and desirable to carry out the purposes and powers contained in the Agreement, as supplemented by the Bylaws. If any provision in the Rules and Regulations is found to be in conflict with any provision in the Agreement or in the Bylaws, the Agreement and Bylaws shall prevail and an appropriate amendment should be made to these Rules and Regulations.

A-2. Additions to, and changes of, the Rules and Regulations will be made as experience brings to light new problems or suggests modifications in procedures already adopted.

#### B—TERMS, DEFINITIONS, AND SYMBOLS EMPLOYED IN THIS DOCUMENT

B-1. Executive Director, except where otherwise specified, shall include the Alternate.

B-2. Executive Board refers to the Executive Directors presided over by the Chairman.

B-3. Chairman, except where otherwise specified, shall refer to the Chairman or Acting Chairman of the Executive Board.

B-4. Agenda ordinarily refers to both the list of items to be considered at a meeting and the supplementary documents pertinent thereto.

B-5. Fund Agreement refers to the Articles of Agreement of the International Monetary Fund and, where the context is clear, Agreement shall also refer to the Articles of Agreement.

B-6. FA refers to the Fund Agreement.

BL refers to the Bylaws of the International Monetary Fund as adopted by the Board of Governors.

RR refers to these Rules and Regulations.

B-7. Executive Session refers to a Meeting of the Executive Directors in which no person is present except the Executive Directors, Managing Director, and, with the approval of the Board granted separately for each Executive Session, the Secretary of the Board.

## C—MEETINGS OF THE EXECUTIVE BOARD

### *Meetings*

C-1. Meetings of the Executive Directors shall be called by the Chairman as the business of the Fund may require. Except in special circumstances the Chairman shall notify all Executive Directors of meetings at least two work days in advance.

C-2. The Chairman shall call a meeting at the request of any Executive Director.

C-3. Except by consent of the Executive Directors present, meetings shall be open to attendance only by Executive Directors, the Managing Director, the Secretary and such members of the secretariat as the Chairman indicates.

C-4. The Executive Directors shall meet at the principal office of the Fund unless it is decided that a particular meeting shall be held elsewhere.

C-5. In the absence of the Managing Director, the Executive Director selected by the Executive Board shall act as chairman. An Executive Director shall retain his right to vote when serving as acting chairman.

### *Agenda*

C-6. The Agenda for each meeting shall be prepared by the Chairman. The Agenda shall include any item requested by an Executive Director.

C-7. Except in special circumstances the Chairman shall notify Executive Directors of new items on the agenda at least the full working days before their consideration in meetings. Additional advance notice shall be given at the discretion of the Chairman before the consideration of new items of especial importance which may require consultation with members or the return to the seat of the Fund of Executive Directors who are absent.

C-8. Matters not on the agenda for a meeting may be considered at that meeting only by unanimous consent of the Executive Directors present.

C-9. Any item of the agenda for a meeting, consideration of which has not been completed at that meeting, shall, unless the Executive Directors decide otherwise, be automatically included in the agenda of the next meeting.

### *Voting*

C-10. The Chairman will ordinarily ascertain the sense of the meeting in lieu of a formal vote. Any Executive Director may require a formal vote to be taken with votes cast as prescribed in Article XII, Section 3 (i).

C-11. There shall be no formal voting in committees and subcommittees. The chairman of the committee or subcommittee shall determine the sense of the meeting (including alternative points of view) which shall be reported.

C-12. No Executive Director may vote at any meeting by proxy or by any other method than in person.

### *Language*

C-13. The working language of the Fund will be English. The discussion, documents, and reports of meetings will ordinarily be in English. Speeches or papers presented in other languages shall be translated into English.

### *Minutes*

C-14. Under the direction of the Managing Director, the Secretary shall be responsible for the preparation of a summary record of the proceedings of the Executive Board.

C-15. Verbatim records will be taken only if the Chairman, the Executive Board or an Executive Director so requests. In such case, the Secretariat shall be given advance notice of the desire for verbatim recording.

C-16. Draft minutes will be circulated to all Executive Directors as quickly as possible after meetings. Unless corrections are returned to the Secretary within the ensuing work day, the draft minutes will be prepared in final form for approval at the next meeting.

### D—APPLICATION FOR MEMBERSHIP AND QUOTAS

D-1. When a country applies for membership in the Fund, and the application is placed before the Executive Board, the Chairman shall announce a reasonable time to be allowed for discussion and preliminary investigation by the Executive Board before a decision is reached to proceed with the formal investigation. If this decision is in the affirmative the Fund may proceed to obtain all relevant information and discuss with the applicant any matters relating to its application. Any Executive Director may request such information to be added to the list requested of the applicant as in his opinion is relevant to the decision to be made. The Executive Board shall then decide whether to submit an application for membership with its views to the Board of Governors for a telegraphic vote or hold the application until the next meeting of the Board of Governors. (FA II-2; BL 21.)

D-2. When a member requests an adjustment of its quota, the Executive Board, after consulting the member, shall submit a written report on the request to the Board of Governors at its next meeting. If the request is for an increase in the quota, and the member is not obligated to pay 25 percent of the increase in gold, the report shall contain a recommendation on the amount to be paid in gold. (FA III-2 and 4.)

D-3. At least one year prior to the time when a review of quotas must be undertaken by the Fund, the Executive Board shall appoint a committee to study the problem and to prepare a written report. (FA III-2.)

### E—SUBSCRIPTIONS

E-1. Gold depositories of the Fund shall be established in New York, London, Shanghai, Paris, and Bombay. The gold of the Fund shall be held with the depositories designated by the members in whose territories they are located. A member may pay its gold subscription to the Fund at one or more of the specified gold depositories, within the terms of Article XIII, Section 2. (FA XIII-2.)

E-2. A member shall pay its currency subscription to the Fund at the designated depository. Each member is authorized to substitute in accordance with Article III, Section 5, nonnegotiable, noninterest bearing notes payable to the Fund on demand for that part of the currency holdings of the Fund which exceed 10 per cent of the member's quota, and the depository shall hold such notes for the account of the Fund. Such notes shall not be accepted until the Fund is satisfied that they are in proper form and that their issue has been authorized. (FA III-5.)



E-3. The Executive Board may agree to alter the 10 per cent requirement in the case of any member, should circumstances in the opinion of the Executive Board warrant a different percentage.

E-4. The member is allowed 24 hours in which to deposit the currency necessary to maintain the amount required under E-2 and E-3.

E-5. For purposes of Article III, Section 3, initial gold payments in excess of the minimum shall be accepted on the same basis as the minimum payment.

#### F—PAR VALUES

F-1. The Fund shall arrange through the fiscal agencies of members that frequent and regular information as to the market rates of members' currencies bought and sold in their territories is made available to the Fund.

F-2. Members shall notify the Fund whether for the settlement of international transactions they, in fact, freely buy and sell gold within the prescribed limits of price and shall notify the fund of any changes in such policy. (FA IV-4 (b).)

F-3. A member desiring to change the par value of its currency shall give the Fund as much notice as the circumstances allow, and shall submit a full and reasoned statement why, in its opinion, such a change is necessary so correct a fundamental disequilibrium. (FA IV-5.)

#### G—FUND TRANSACTIONS

##### *General*

G-1. Each member shall designate a fiscal agency for its transactions with the Fund, in accordance with Article V, Section 1, before its subscription becomes due, and may change the agency after notifying the Fund. (FA V-1)

##### *Foreign Exchange*

G-2. The Fund shall sell foreign exchange for gold or currency only on an authenticated request from the designated agency, and the agency, in its operations on behalf of the Fund, will act only on instructions in such form as may be agreed upon.

G-3. Requests for the purchase of foreign exchange in accordance with Article V, Section 3, shall be dealt with by the Fund with a delay of two working days from the date of their reception.

G-4. When a member expects to purchase from the Fund, in a single transaction or a series of transactions, an unusually large sum of any other member's currency (unusually large relative to the quota of that other member), the member shall give the Fund as much notice of the proposed transaction or transactions as can reasonably be effected.

#### H—EXCHANGE CONTROLS, CURRENCY PRACTICES AND AGREEMENTS

H-1. The Fund shall keep all exchange controls under review and shall consult with members with a view to the progressive removal of exchange restrictions in accordance with the Fund Agreement. (FA XIV-2.)

H-2. If a member complains to the Executive Board that another member is not complying with its obligations concerning exchange controls, discriminatory currency arrangements, or multiple currency practices, the complaint shall give all facts pertinent to an examination. (FA VIII-2 and 3.)

H-3. Upon receipt of a complaint from a member, the Executive Board shall make arrangements promptly for consultation with the members directly involved.

H-4. All requests by a member under Article VIII, sections 2 and 3, that the Fund approve the imposition of restrictions on the making of payments and

transfers for current international transactions, or the use of discriminatory currency arrangements or multiple currency practices, shall be submitted to the Executive Board in writing, with a statement of the reasons for making the request. (FA VIII-2 and 3.)

H-5. The Executive Board shall decide each request for approval expeditiously.

### I—REPURCHASES AND CHARGES

I-1. The first time that a member has to make a gold payment to the Fund it shall deliver gold of designated weight and fineness at least sufficient in value to meet the payment. Any surplus balance of gold shall be held by the Fund under earmark at the disposal of the member and may be used to meet other payments incurred in the future.

I-2. The service charge payable by a member buying the currency of another member in exchange for its own currency shall be paid at the time the transaction is consummated. (FA V-8 (a).)

I-3. Gold due to the Fund may be delivered at any gold depository of the Fund. The Fund may accept gold situated elsewhere and in such cases shall levy an appropriate charge to cover the cost of moving the gold to its nearest gold depository. (FA V-8 (b) and (f).)

I-4. At quarterly intervals the Fund shall notify each member of the charges due to the Fund pursuant to Article V, Section 8 (c) or (d) on the balance of its currency held by the Fund in excess of its quota. These charges shall be paid within ten days after receipt of such notice. (FA V-8 (c) and (d).)

I-5. A member wishing to pay in its own currency part of any charges due shall submit to the Fund a statement giving the necessary justification. (FA V-8 (f).)

I-6. At the end of each financial year of the Fund each member shall furnish to the Fund the data necessary to calculate its repurchase obligations pursuant to Article V, Section 7. All repurchases shall be made within thirty days after the receipt of notice from the Fund of the amount of its currency to be repurchased by the member and the extent to which payment is to be made in gold and in each convertible currency. (FA V-7 and Schedule B.)

### J—ACCOUNTS AND REPORTS

J-1. The accounts of the Fund shall be kept in terms of the currencies held by the Fund, and United States dollars on the basis of the established parities. (FA IV-1; B1-20.)

J-2. The accounts of the Fund shall be kept in a manner that will show clearly the nature of each transaction, the position of the Fund, and results of its operations.

J-3. A summary statement of the Fund's transactions and its holdings of gold and currencies of members shall be issued at intervals of three months or less, and a monthly statement of balances shall be sent to all members. (FA XII-7.)

J-4. The Managing Director shall prepare an annual administrative budget for presentation to the Executive Board for approval not later than June 1 of each year. (BL-20.)

J-5. Not later than June 30 of each year, the Managing Director shall present to the Executive Board a summary of the matters which in his opinion should be included in the annual report to the Board of Governors. At least one month before the annual meeting of the Board of Governors, the Managing Director shall submit to the Executive Board for its consideration, a draft of the annual report. (BL-10.)

J-6. At least one month before the annual meeting of the Board of Governors, the audited accounts of the Fund shall be submitted to the Executive Board for its consideration. (BL-20.)

## K—LIMITATION AND INELIGIBILITY

K-1. The Managing Director shall report to the Executive Board any case in which it appears to him that a member is not fulfilling its obligations under the Fund Agreement.

K-2. Whenever the Executive Board would be authorized to declare a member ineligible to use the resources of the Fund it may refrain from making the declaration and indicate the circumstances under which, and/or the extent to which, the member may make use of the resources. (FA V-5, VI-1, XV-2 (a))

K-3. When a member has changed the par value of its currency despite the objection of the Fund, in cases where the Fund is entitled to object, the Executive Board may determine the circumstances under which, and the extent to which, a member may use the resources of the Fund.

K-4. Before any member is declared, pursuant to Article XV, Section 2 (a), ineligible to use the resources of the Fund, the matter shall be considered by the Executive Board, who shall inform the member in reasonable time of the complaint against it and allow the member an adequate opportunity for stating its case both orally and in writing. (FA XV-2 (a), BL-22)

K-5. When any member that is ineligible to use the resources of the Fund, or whose use of the resources has been limited, according to K-1 or K-2 above, requests the Executive Board to permit the resumption of exchange transactions with or without special limitations and the Executive Board decides not to permit such resumption, a written report shall be made to the member stating what further action is required before such resumption will be permitted.

## L—CAPITAL TRANSFERS

L-1. If there is taking place a large or sustained outflow of capital from a member country:

(a) that member or any other member may notify the Fund, presenting such information as it deems necessary, and may request the Fund's views with respect to such capital movement; and

(b) the Fund may present to the member or members concerned a report setting forth its views, and may request the member or members to report on the situation within a suitable time.

L-2. Whenever the Fund has requested a member to exercise controls to prevent use of the resources of the Fund to meet a large or sustained outflow of capital, the Fund shall request the member to notify it promptly and in detail of the measures taken. (FA VI-1 (a).)

L-3. Each member shall inform the Fund in detail of the measures it is taking to regulate international capital movements and of changes made in such measures.

L-4. If the Fund is of the opinion that the controls exercised by a member to regulate international capital movements are restrictive of payments for current transactions, or unduly delay transfers of funds in settlement of commitment, the Fund shall, subject to the provisions of Article VII, Section 3 (b) and Article XIV, Section 2, consult with the member on the manner in which the controls are exercised. If, after consultation, the Fund is not satisfied that the controls are exercised in a manner consistent with the Fund Agreement, it shall so inform the member in a written report and request it to modify the controls. (FA VI-3.)

## M—RELATIONS WITH NON-MEMBERS

M-1. The Fund may request the cooperation of any member with a view to the application of appropriate measures to prevent transactions with non-members

or with persons in their territories, contrary to the provisions of the Agreement or the purposes of the Fund. (FA XI-1 (iii).)

M-2. When the Fund finds that a member or any of its fiscal agencies referred to in Article V, Section 1, engages in any transaction with or cooperates in practices with a non-member or with persons in a non-member's territory, contrary to the provisions of the Agreement or the purposes of the Fund, it shall present to the member a report setting forth its views and may request the cessation or modification of the transactions or practices. (FA XI-1 (i) and (ii).)

M-3. A member shall inform the Fund promptly and in detail of any restrictions which it imposes on exchange transactions with non-members or with persons in their territories. (FA VIII-5 (a) (xi).)

M-4. Any member may notify the Fund of restrictions imposed by a member on exchange transactions with non-members or with persons in their territories which are deemed to prejudice the interests of members and to be contrary to the purposes of the Fund. (FA XI-2.)

M-5. When the Fund finds that the restrictions imposed by a member on exchange transactions with non-members or with persons in their territories are prejudicial to the interests of members and contrary to the purposes of the Fund, it shall present to the member a report setting forth its views and may request the abolition or modification of the restrictions. (FA XI-2.)

## N—STAFF REGULATIONS

### *Personnel*

N-1. The employment, classification, promotion and assignment of personnel in the Fund shall be made without discriminating against any person because of sex, race or creed.

N-2. Persons on the staff of the Fund shall be nationals of members of the Fund unless the Executive Board authorizes exceptions in particular cases.

N-3. In the discharge of their functions, the persons on the staff shall owe their duty entirely to the Fund and to no other authority.

N-4. All persons on the staff must avoid any action, and in particular any kind of pronouncement, which may reflect unfavorably upon their position as employees of an international organization, either in their own country or elsewhere. They should always bear in mind the reserve and tact incumbent upon them by reason of their international functions, and they are required to exercise the utmost discretion in regard to matters of official business. At no time should they in any way use to private advantage information known to them by reason of their official position.

N-5. Except in the course of his official duties or by express authorization of the Managing Director, no person on the staff may, during the term of his appointment of service, publish, cause to be published, or assist in the publication of any book, pamphlet, article, letter, or other document relative to the policies or activities of the Fund or to any national political questions; deliver any speech, lecture, or radio broadcast, or grant any press interview on such policies, activities, or questions; or communicate to any person any unpublished information known to him by reason of his official position. After termination of his period of service with the Fund, a person formerly on the staff may not, without the express authorization of the Managing Director, disclose any confidential information he has received during his service with the Fund by reason of his official position.

N-6. No person on the staff shall hold other public or private employment or engage in any occupation or profession which in the Fund's opinion is incompatible with the proper performance of his official duties.

N-7. A person on the staff may retain reemployment rights or pension rights acquired in the service of a public or private organization.

N-8. Any person on the staff who accepts a public office of a political character shall immediately resign from the Fund.

N-9. No person on the staff may accept any honor, decoration, favor, gift, or bonus from any government, or from any other authority or person external to the Fund, for services rendered during the period of his appointment or service with the Fund.

N-10. Upon appointment, each person on the staff will subscribe in writing to the following affirmation:

I solemnly affirm:

That, to the best of my ability, I will carry out my responsibilities in a manner that will further the purposes of the International Monetary Fund;

That I will refrain from communicating confidential information to persons outside the Fund;

That I will not use to private advantage information known to me by reason of my official position; and

That I will accept no instruction in regard to the performance of my duties from any government or authority external to the Fund.

N-11. All persons appointed to permanent positions on the staff shall be classified by grades or positions according to the nature of their duties and responsibilities. Salary increases within each grade will be progressively available upon the successful completion of successive periods of work or upon the recommendation of supervisors.

N-12. The salary scale for permanent employees of the Fund shall, so far as practicable, conform to the salary scale of United Nations.

N-13. The Managing Director shall inform the Executive Board at least two weeks in advance of any action to appoint or initiate the dismissal of the Directors and Assistant Directors of departments and offices of the Fund, the heads of divisions within departments and offices, and all persons to be paid 8,000 dollars or more per year. All other appointments to the staff shall be made by the Managing Director or his designated representative.

N-14. The Managing Director is authorized to issue General Orders, with the approval of the Executive Board, concerning the general personnel policies which shall apply to the operating staff of the Fund.

#### *Travel*

N-15. Official travel will be undertaken by staff members only with the approval of the Managing Director or officials designated by him. Official travel outside the continental limits of the United States will be undertaken only with the further approval of the Executive Board.

Adopted by the Executive Directors of the International Monetary Fund, September 25, 1946.

## **APPENDIX B**

### **INTERPRETATIONS**

In Resolutions 5, 6, and 7 the Board of Governors, at their Inaugural Meeting, requested interpretations of the Fund Agreement by the Executive Directors.

1. In Resolution No. 5 of the Inaugural Meeting the Board of Governors requested an interpretation of Articles of Agreement as to Question of Fundamental Disequilibrium. The Resolution reads as follows:

**RESOLVED:**

That the Executive Directors of the International Monetary Fund are invited, at the request of the Governor for the United Kingdom, pursuant to Article XVIII (a), to interpret Article IV, Section 5 (f), as to whether, having regard to the intention of the Government of the United Kingdom to maintain full employment and to the terms of Article I (ii) and (v) of the Articles of Agreement, steps necessary to protect a member from unemployment of a chronic or persistent character, arising from pressure on its balance of payments, shall be measures necessary to correct a fundamental disequilibrium.

This interpretation had not been made when one Annual Report was prepared.

2. In Resolution No. 6 of the Inaugural Meeting the Board of Governors requested an interpretation of Articles of Agreement as to Authority of Fund to Use its Resources. The Resolution reads as follows:

**RESOLVED:**

That the Executive Directors of the International Monetary Fund are invited, at the request of the Governor for the United States of America, to interpret the Articles of Agreement, pursuant to Article XVIII (a), as to whether the authority of the Fund to use its resources extends beyond current monetary stabilization operations to afford temporary assistance to members in connection with seasonal, cyclical, and emergency fluctuations in the balance of payments of any member for current transactions, and whether the Fund has authority to use its resources to provide facilities for relief, reconstruction, or armaments, or to meet a large or sustained outflow of capital on the part of any member.

This interpretation had not been made when one Annual Report was prepared.

3. In Resolution No. 7 of the Inaugural Meeting the Board of Governors requested an interpretation of Articles of Agreement as to Appointment of Executive Director. The Resolution reads as follows:

**RESOLVED:**

That the following point of interpretation raised by the Governor for India in regard to Article XII, Section 3 (b) 1 and Section 3 (f) be referred to the Executive Directors for their decision in pursuance of Article XVIII (a) of the Articles of the International Monetary Fund namely:

That with reference to the Ad Hoc Committee's report on the position of the Executive Director for India adopted by your Governors at their meeting on the 15th of March and in view of the inconsistency between Section 3 (b)1 and Section 3 (f) of Article XII that these sections be interpreted to mean that any member having one of the five largest quotas at the date of a regular election or at any date between regular elections shall be entitled to appoint an Executive Director who shall hold office until the next regular election without prejudice to the right of a subsequently admitted member to appoint a Director if it has one of the five largest quotas.

In accordance with Article XVIII of the Fund Agreement, the Executive Directors made the following interpretation on May 8:

Sections 3 (b) 1 and 3 (f) of Article XII should be interpreted to mean that any member having one of the five largest quotas at the date of the regular election or at any date between regular elections shall be entitled to appoint an Executive Director who will hold office until the next regular election without prejudice to the right of a subsequently admitted member to appoint a Director if it has one of the five largest quotas.

## APPENDIX C

### RELATIONS WITH UNITED NATIONS

There is given below the text of a letter dated March 12, 1946, from the President of the Economic and Social Council of the United Nations to the Chairman of the Board of Governors of the International Monetary Fund, which led to discussions and correspondence between the two organizations looking toward a formal agreement. There is also given the text of the letter of September 10 from the Managing Director to the Secretary-General of the United Nations, which states the Fund's views on this matter.

MARCH 12, 1946.

FRED M. VINSON, Esq.,

*President, Board of Governors, International Monetary Fund,  
General Oglethorpe Hotel, Savannah, Ga.*

DEAR SIR: As you are aware, the Charter of the United Nations provides that intergovernmental organizations may be brought into relationship with the General Assembly of the United Nations through the Economic and Social Council. The Council at its meeting in February appointed a committee called the Negotiating Committee to enter into negotiations with certain intergovernmental organizations, and prepared an agreement for submission to the General Assembly at its next session in September.

Among the organizations which the Economic and Social Council desires to establish relationship with, are the International Monetary Fund and the Bank. The Secretary General of the United Nations will shortly be sending you a communication indicating the points which the Negotiating Committee of the Economic Council would like to discuss with the authorities of the Fund and Bank.

I am anxious that these negotiations should take place at the next session of the Economic and Social Council, which will be held in New York from the 25th of May to probably the 20th of June. It is highly desirable that the negotiations should be completed during that period, as the Council will then be in a position to report to the September session of the General Assembly when the agreement may be adopted. Otherwise, the draft agreement will have to be held over till the second session of the Assembly in September of the following year, 1947. I would, therefore, request you as Chairman and your Board to consider the desirability of authorizing an individual or a committee to meet the Negotiating Committee and discuss with them the terms of an agreement on the nature of the relationship between your organization and the General Assembly. I would also like to have an indication of the time when your Committee can meet the Negotiating Committee so that I can arrange that the Committee is convened for that date.

I shall be thankful for a reply at your convenience.

Yours sincerely,

(S) A. RAMASWAMI MUDALIAR,  
*President, Economic and Social Council.*

SEPTEMBER 10, 1946.

DEAR MR. LIE: In the course of the past few months representatives of the International Monetary Fund have had an opportunity of exploring with the Assistant Secretary General in charge of the Economic Department and his colleagues certain of the problems involved in the relationship between the United Nations and the International Monetary Fund. These exchanges of views have

been very useful in clarifying the issues involved and they have revealed a wide measure of agreement on the practical methods by which this relationship can be strengthened.

In addition to these discussions the Fund has had the further advantage of frequent participation in activities of the United Nations. We were represented by an observer at the meeting of the Economic and Social Council in New York last June, and propose to be similarly represented at the next meeting of the Council. We were pleased to have an observer from the Economic and Social Council present at the inaugural meeting of the Board of Governors of the Fund last May, and hope that the United Nations will be similarly represented at the first annual meeting of Governors to be held in Washington later this month.

Moreover, in various specific fields a large measure of practical cooperation has already been established between the Fund and the United Nations. Representatives of the Fund attended the United Nations Conference with Specialized Agencies on Personnel Matters last month, and have also on numerous occasions conferred separately with officials of the United Nations on these problems. Informal discussions have already taken place regarding statistical information and methods of dealing with public information.

The Fund is desirous of continuing close cooperation with the United Nations and will take all practical steps, consistent with the Fund Agreement by which its activities are governed, to broaden and intensify the working relationships already established.

The Fund recognizes that the Economic and Social Council is responsible under the authority of the General Assembly for the discharge of the functions set forth in Article IX of the Charter, and that it has for this purpose the powers set forth in Article X of the Charter. For its part the International Monetary Fund is a specialized agency with wide international responsibilities as defined in its basic instrument, and is responsible to its appropriate authorities for the discharge of the functions set forth in that instrument.

The governments which have signed the United Nations charter and the Articles of Agreement of the International Monetary Fund have clearly expressed their intention that whilst the authority and full responsibility of each of the respective organizations for the discharge of its functions under its basic instrument should be maintained and safeguarded, the organizations should consider it their duty to combine their efforts for the attainment of the common aims of the United Nations and for establishing the broad lines of concerted policies and actions.

The International Monetary Fund is fully prepared to collaborate with the United Nations along these lines. We have given careful thought to the question whether this collaboration can best be furthered by the negotiation of a legal instrument such as the Economic and Social Council has negotiated with certain other specialized agencies. As the result of these deliberations we have reached the conclusion that the precise nature of the collaboration to be established and the modalities which should govern it can only be determined in the light of practical experience and that it would therefore be premature to attempt to crystallize these relationships into the form of a legal contract at the present time. In reaching this conclusion we have had in mind the fact that the Fund is at the very beginning of its work and that the precise character of its working relationships with the United Nations is necessarily unknown. Moreover, in view of the fact that membership in the Fund is so largely co-terminous with membership in the United Nations we feel that there is little likelihood of insuperable conflicts of interest arising which can only be settled by reference to a legal contract.

As I have indicated above, the Fund wishes to strengthen in every practical way the effective working relationships with the United Nations. Steps have already been taken to arrange for reciprocal representation at certain meetings



and it is our hope that these steps will be continued. The Fund believes that detailed discussions should take place regarding the avoidance of duplication in the collection and analysis of statistical information and is prepared to accept responsibility for the statistics within its special sphere while recognizing the United Nations as the central agency for the collection and analysis of statistics serving the general purposes of international organizations. The Fund is prepared to continue the consultations which have already been negotiated with the United Nations concerning the recruitment and employment of staff including conditions of service, salary scales and allowances, staff regulations and rules, etc., with a view to securing as much uniformity in these matters as is practical. In general the Fund is prepared to collaborate with the United Nations to achieve the common purposes of the two organizations through such consultations and arrangements as seem necessary from time to time to the appropriate authorities of the United Nations and the International Monetary Fund.

If, in the course of time, it appears desirable to the appropriate authorities of the two institutions to place their relationship on a more formal and legalistic basis, the Fund will, of course, be prepared to give renewed consideration to this question. For the reasons indicated, however, it would appear to us that for the time being a more expedient course is to concentrate on the working relationships and not attempt to negotiate a legal contract.

Yours very truly,

CAMILLE GUTT,  
*Managing Director.*

Mr. TRYGVE LIE,  
*Secretary General, United Nations, Lake Success, N. Y.*

## APPENDIX D

### REPORT TO THE BOARD OF GOVERNORS CONCERNING FINANCIAL STATEMENT

In accordance with Section 20 of the Bylaws I am submitting, on behalf of the Executive Directors, the attached Statement of Receipts and Payments for the International Monetary Fund from its inception to June 30, 1946. This statement is for the consideration of the Board of Governors at its annual meeting in September.

Since Operations have not yet commenced, the financial presentation which is being made at this time is limited to the receipts from member countries as provided in Section 2 (d) of Article XX of the Fund Agreement and to payments for administrative expenses.

As required by Section 20 of the Bylaws, an audit of the accounts of the Fund to June 30, 1946, was made by the Assistant Comptroller, Mr. C. M. Powell. The attached Statement of Receipts and Payments was prepared on the basis of this audit, certified correct by the Assistant Comptroller, Mr. C. M. Powell, approved by the Managing Director and ordered by the Executive Directors to be submitted to the Board of Governors.

(S) CAMILLE GUTT,  
*Managing Director.*

## International Monetary Fund

*Statement of receipts and payments from inception to June 30, 1946*

Receipts	U. S. dollars	Payments	U. S. dollars
Subscriptions from member for meeting administrative expenses.	\$737,250.00	1. Personal services ..... <ul style="list-style-type: none"> <li>Salaries and wages ..... \$47,060.80</li> <li>Expense allowances ..... 1,000.00</li> </ul> 2. Travel ..... <ul style="list-style-type: none"> <li>Travel on orders ..... \$341.95</li> <li>Removal travel ..... 3,993.31</li> </ul> 3. Freight ..... <ul style="list-style-type: none"> <li>Freight on personal effects ..... \$68.00</li> </ul> 4. Communication ..... <ul style="list-style-type: none"> <li>Postage ..... \$247.00</li> <li>Telephone ..... 385.98</li> <li>Telegraph ..... 91.46</li> </ul> 5. Rents and utilities ..... <ul style="list-style-type: none"> <li>Rents, maintenance and building alterations ..... \$6,874.00</li> </ul> 6. Books and printing ..... <ul style="list-style-type: none"> <li>Books, newspapers and periodicals ..... \$4.00</li> <li>Printing and binding ..... 2,007.58</li> </ul> 7. Supplies and equipment ..... <ul style="list-style-type: none"> <li>Expendable supplies ..... \$1,470.34</li> <li>Office equipment ..... 33.50</li> <li>Office furnishings ..... 3,160.58</li> </ul> 8. Miscellaneous ..... <ul style="list-style-type: none"> <li>..... 0</li> </ul> 9. Pension provisions ..... <ul style="list-style-type: none"> <li>..... 0</li> </ul>	\$48,060.80 4,335.26 68.00 724.44 6,874.00 2,011.58 4,664.42 0 0
		Total 1 to 9 .....	66,738.50
		10. Meeting of Governors .....	30,643.38
		11. Suspense account.....	-308.53
		Total 1 to 11 .....	97,073.35
		Balance carried forward .....	640,176.65
	737,250.00		737,250.00

### REMARKS

1. Net receipts in Suspense Account made up as follows:	
Taxes withheld .....	\$837.95
Less: Petty cash imprest fund .....	\$63.62
Advances against traveling expenses.....	465.80
	529.42
Net receipts .....	308.53
2. Cash balance deposited in following banks:	
Federal Reserve Bank of New York .....	618,957.40
Riggs National Bank of Washington .....	21,219.25
	640,176.65
3. Obligations outstanding on June 30, 1946:	
Office Supplies and Equipment .....	54,000.00
Alterations to office building.....	9,000.00
	\$63,000.00

4. Subscriptions from Member Countries exclude the sum of \$2,500.00 due from Peru, which amount was not credited by the Federal Reserve Bank of New York until July 1, 1946.

Certified correct:

(s) C. M. POWELL,  
*Assistant Comptroller.*

## APPENDIX E

### CHANGES OF GOVERNORS AND EXECUTIVE DIRECTORS

#### 1. GOVERNORS

Changes in the composition of the Board of Governors since the Inaugural Meeting have been as follows:

Einar Dige appointed as Alternate Governor for Denmark March 30, 1946.

N. Sundaresan succeeded Sir A. Ramaswami Mudaliar as Alternate Governor for India April 22, 1946.

Hugh Dalton succeeded the late Lord Keynes as Governor for the United Kingdom April 30, 1946.

Maurice Frere succeeded Camille Gutt who resigned as Governor for Belgium on May 6, 1946.

Carlos P. Romulo vacated the Philippine Commonwealth Alternate Governorship July 26, 1946.

Manuel Melendez V. appointed as Alternate Governor for El Salvador June 27, 1946.

Federico Vides S. appointed as Governor for El Salvador June 27, 1946.

John W. Snyder succeeded Fred Vinson as Governor for the United States July 2, 1946.

Sir James Grigg succeeded R. H. Brand as Alternate Governor for United Kingdom July 4, 1946.

Joaquin M. Elizalde succeeded Jaime Hernandez who resigned as Governor for the Philippine Republic on July 26, 1946.

Luis Ocampo Crespo vacated the Bolivian Alternate Governorship August 14, 1946.

Franklin Antezana Paz vacated the Bolivian Governorship August 14, 1946.

Dr. Nicholas B. Kaskarelis succeeded Alexander Loverdos, Alternate Governor for Greece August 31, 1946.

Composition of the Board of Governors in September 1946 was therefore, as follows:

Country	Governor	Alternate Governor
Belgium	Maurice Frere	Vacant.
Bolivia	Vacant	Vacant.
Brazil	Francisco Alves dos Santos-Filho.	Edgard de Mello.
Canada	James L. Ilsley	Graham F. Towers.
Chile	Arturo Maschke	Luis Davila.
China	O. K. Yui	Te-Mou Hsi.
Colombia	Emilio Toro	Vacant.
Costa Rica	Julio Pena Morua	Angel Coronas Guardia.
Cuba	Joaquin E. Meyer	Vacant.

Country	Governor	Alternate Governor
Czechoslovakia.....	Jan Viktor Mladek.....	Julius Pazman.
Denmark.....	Carl Valdemar Bramsnaes.....	Einar Dige.
Dominican Republic.....	Jesus Maria Troncoso.....	Jose Calzada.
Ecuador.....	Esteban F. Carbo.....	Vacant.
Egypt.....	Ahmed Zaki Bey Saad.....	Mahmoud Saleh El-Falaki
El Salvador.....	Federico Vides S.....	Manuel Melendez V.
Ethiopia.....	George A. Blowers.....	Vacant.
France.....	Pierre Mendes-France.....	Emmanuel Monick.
Greece.....	Xenophon Zolotas.....	Dr. Nicholas B. Kaskarelis.
Guatemala.....	Manuel Noriega Morales.....	Leonidas Acevedo.
Honduras.....	Julian R. Caceres.....	Jorge Fidel Duron.
Iceland.....	Asgeir Asgeirsson.....	Thor Thors.
India.....	Sir Chintaman Deshmukh.....	N. Sundaresan.
Iran.....	A. H. Ebtehaj.....	Dr. Taghi Nassr.
Iraq.....	Ali Jawdat.....	A. M. Gailani.
Luxembourg.....	Pierre Dupong.....	Hugues Le Gallais.
Mexico.....	Antonio Espinosa de los Monteros.	Luciano Wiechers.
Netherlands.....	P. Lieftinck.....	A. M. de Jong.
Nicaragua.....	Guillermo Sevilla Sacasa.....	Rafael A. Huezco.
Norway.....	Gunnar Jahn.....	Ole Colbjornsen.
Panama.....	Dr. Joaquin Jose Vallarino.....	Vacant.
Paraguay.....	Harmodio Gonzales.....	Ruben Benitez.
Peru.....	Francisco Tudela Varela.....	Emilio Barreto.
Philippine Republic.....	Joaquin M. Elizalde.....	Vacant.
Poland.....	Edward Drozniak.....	Janusz Zoltowski.
Union of South Africa.....	Jan Hendrik Hofmeyr.....	M. H. de Kock.
United Kingdom.....	Hugh Dalton.....	Sir James Grigg.
United States.....	John W. Snyder.....	William L. Clayton.
Uruguay.....	Vacant.....	Hugo Garcia.
Yugoslavia.....	Lavoslav Dolinsek.....	Ivan Randic.

## 2. EXECUTIVE DIRECTORS

Changes in the composition of the Executive Board since the First Meeting have been as follows:

Jean de Largentaye was appointed Executive Director by France July 1, 1946, succeeding Pierre Mendes-France.

Hubert Ansiaux was elected Executive Director by Belgium, Iceland, and Luxembourg June 19, 1946, succeeding Camille Gutt who resigned May 6, 1946.

Ernest de Selliers was appointed Alternate Executive Director to Mr. Ansiaux June 24, 1946, succeeding Louis Goffin.

B. K. Madan was appointed Alternate Executive Director to Mr. Joshi August 10, 1946, succeeding N. Sundaresan.

George F. Luthringer was appointed Alternate Executive Director to Mr. White June 17, 1946.

Mihailo Kolovic was appointed Alternate Executive Director to Mr. Mladek June 27, 1946.

Mahmoud Saleh El-Falaki was appointed Alternate Executive Director to Mr. Saad September 5, 1946.

T. de Clermont-Tonnerre was appointed Alternate Executive Director to Mr. de Largentaye on September 17, 1946.

Composition of the Executive Board on September 1 was therefore, as follows:

CAMILLE GUTT (Belgium), Chairman

*Executive Director*

HUBERT ANSIAUX (Belgium)  
G. L. F. BOLTON (United Kingdom)  
G. W. J. BRUINS (Netherlands)  
JEAN DE LARGENTAYE (France)  
RODRIGO GOMEZ (Mexico)  
JANGANNATH VISHWANATH JOSHI (India)  
YEE-CHUN KOO (China)  
J. V. MLADEK (Czechoslovakia)  
LOUIS RASMINSKY (Canada)  
AHMED ZAKI BEY SAAD (Egypt)  
FRANCISCO ALVES DOS SANTOS-FILHO  
(Brazil)  
HARRY D. WHITE (United States  
of America)

*Alternate Executive Director*

ERNEST DE SELLIERS (Belgium)  
A. P. GRAFFTEY-SMITH (United King-  
dom)  
D. CRENA DE IONGH (Netherlands)  
T. DE CLERMONT-TONNERRE (France)  
RAUL MARTINEZ-OSTOS (Mexico)  
B. K. MADAN (India)  
Vacant  
MILHAULO KOLOVIC (Yugoslavia)  
Vacant  
M. S. EL-FALAKI (Egypt)  
OCTAVIO BULHOES (Brazil)  
GEORGE F. LUTHRINGER (United States  
of America)

