INTERNATIONAL MONETARY FUND

ANNUAL REPORT
APRIL 30

1948

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INTERNATIONAL MONETARY FUND

ANNUAL REPORT OF THE EXECUTIVE DIRECTORS FOR THE FISCAL YEAR ENDED APRIL 30, 1948

WASHINGTON, U.S.A.

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INTERNATIONAL MONETARY FUND

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LETTER OF TRANSMITTAL

TO THE BOARD OF GOVERNORS

July 28, 1948

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, 1948.

Yours sincerely,

/s/

GUTT

Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

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I

THE WORLD ECONOMY AND THE FUND'S OBJECTIVES

IN previous reports the Executive Directors of the International Monetary Fund have stated that progress towards the Fund's objectives depends not only on the willingness of countries to support agreed exchange policies but also on their ability to develop strong national economies and balanced international economic relations.

During 1947 and in the early part of 1948 considerable progress was made in strengthening the economies that suffered devastation and dislocation as a result of the war. Over the world generally production rose and recovery continued, despite widespread political tension and conflict and the disturbances which this caused in many economies.

In nearly all countries, however, the need and demand for goods continued to be abnormally great and there were increasing difficulties in meeting international payments for import surpluses. Although loans and grants financed a major part of the balance of payments deficits, there was a further large drain on the gold and dollar assets of most countries of the world.

The European Recovery Program, inaugurated in April 1948, assured the continuance of assistance by the United States in financing imports required for European reconstruction, and thereby averted a threatened setback of recovery not only in Europe but all over the world. The restoration of international balance, however, still requires important and difficult adjustments in many national economies and for most of these adjustments the national authorities now have the main responsibility.

Progress in Recovery

The problems of making international payments have overshadowed the real progress which has been made in recovery. The last war destroyed a vast amount of equipment and facilities. It prevented the replacement of much equipment as it wore out. In most countries there was a stoppage of normal investment and development. Stocks were depleted and demands were deferred. These are the real deficiencies which the postwar world has to make good. They can only be made good by production. With regard to this basic factor, 1947 was a year of progress.

Although European production in 1947 was hampered by another unusually poor harvest and by shortages of coal and other vital materials, industrial production was about 10 per cent greater than in 1946. By the end of 1947 nearly all the European countries had reached or exceeded their pre-war outputs. This was a remarkable achievement for a group of economies which had so recently been devastated and dislocated by war.

The magnitude of the recovery effort made by Europe is shown not only in the increase in production but also by the large proportion of resources invested in reconstruction and the modernization of industry, notwithstanding the delay which this imposed upon the recovery of consumption from the low levels inevitable immediately after the war. Investment on the scale which prevailed would not have been possible without the large import surplus which was obtained from the United States and other Western Hemisphere countries.

German production, however, remained far below pre-war. The continued loss of the German market was a serious problem for some countries; in general, however, it is the German capacity to export which is of greater consequence for European and world recovery in the immediate future. The bulk of German pre-war exports went to Europe and consisted of coal, chemicals, metal manufactures, machinery and electrical equipment, the lack of which has retarded European reconstruction. If European countries could obtain needed goods from Germany and pay for them with their exports to Germany, the strain on dollar payments would be eased.

European countries made considerable progress in expanding exports also during 1947. Exports from the sixteen countries participating in the European Recovery Program appear to have been almost 30 per cent greater in volume than in 1946 and only 10 to 15 per cent less than in 1938. Some countries attained virtually their pre-war export volume. In the United Kingdom the index of export volume in 1947 was 8 per cent above 1938 and for the first quarter of 1948 stood at 126.

In the Western Hemisphere 1947 production exceeded the high levels of 1946. The industrial output of the United States was the largest ever attained in peacetime and was about two-thirds greater than in 1938. Its agricultural output exceeded the pre-war level by about one-third. Exports rose and were two-and-one-half times the pre-war volume. Canadian production also increased and was far greater than before the war. In most Latin American countries the output of 1947 rose above that of 1946 and also was substantially higher than before the war.

In other important areas production increased or was maintained at high levels. In Australia, New Zealand and South Africa the wartime development of production was by and large maintained. In the Middle East and India, however, recovery was retarded by shortages of equipment and facilities and in the Far East political strife and warfare continued to impede recovery.

International Payments

In 1947 most countries sought to augment their productive resources by enlarged imports and thus to speed recovery. Since ability to export could not keep pace with the needs and demands for imports, deficits in balances of payments continued and even increased. Although there were several kinds of payments problem in 1947, the most serious problem concerned dollar payments. Nearly all countries, including those in the Western Hemisphere, had current account deficits with the United States. Many had additional dollar deficits in their trade with other parts of the Western Hemisphere. Part of the trade among countries outside the Western Hemisphere also required payment in gold or dollars. Compared with 1946 most members of the Fund covered a smaller proportion of their foreign exchange expenditures by earnings. Despite the help of grants and credits, there was a further serious drain on reserves and a further deterioration in the international financial position of nearly all countries.

The net use of gold and short-term dollar assets by other countries to make payments to the United States in 1947 was $4.4 billion. In addition members of the Fund other than the United States subscribed $650 million in gold to the Fund. As the Executive Directors pointed out in their last Annual Report, the monetary reserves of most countries were seriously depleted by the war and its aftermath, and were already dangerously low at the beginning of 1947. If governments and monetary authorities had not sacrificed these reserves, drastic curtailments of imports would have been inevitable, with consequent breakdowns in production.

The magnitude of the payments problem is shown by the summary figures of the 1947 balance of payments of the United States on current account. The United States exported to the rest of the world goods and services valued at nearly $20 billion. Imports of goods and services by the United States enabled other countries to earn $8.5 billion and net private United States investment abroad and net remittances from the United States furnished an additional means of payment of $1.3 billion. This left the rest of the world with a deficit of more than $10 billion on its current purchases from the United States.

This deficit was financed in two ways: first, by loans and grants, and second, by the liquidation of gold and dollar assets. From net loans and grants by the United States Government about $5.7 billion was used in 1947. Of loans by the International Bank $300 million was disbursed. Over $450 million of dollar exchange was purchased from the Fund. Settlement of the balance required the rest of the world to liquidate $4.4 billion of gold and short-term dollar assets.

Of all areas Europe had the largest deficit; its deficit on current account with the Western Hemisphere was approximately $8 billion. The major portion was met by about $6 billion of loans and grants, of which the United States Government supplied $4.8 billion, Canada $580 million, the International Bank $300 million, and UNRRA over $200 million; the equivalent of about $250 million was furnished by Latin America in credits or by the accumulation of European currencies. In addition European countries purchased $430 million from the Fund. After meeting the remainder of the deficit and paying their gold subscriptions to the Fund, the gold and short-term dollar assets of these countries had declined by $2 billion. Besides the problem of meeting their dollar payments to the Western Hemisphere, the European countries had difficulty in settling the balances arising from trade among themselves and with other parts of the world, as many countries endeavored to obtain dollars or other hard currencies for part at least of their exports.

The sterling area outside the United Kingdom had a deficit on current account with the Western Hemisphere in 1947 of $750 million and an additional dollar deficit with some other countries. The members of the sterling area draw upon the central reserves held by the United Kingdom to meet most of their gold and dollar requirements and, therefore, their deficit affects the figure for the drain of gold and dollar assets from Europe. As a result of these drawings, as well as of the trade and capital movements within the sterling area, the sterling balances held by the members of the area, other than the United Kingdom, declined from the equivalent of $11,770 million to about $11,100 million at the end of 1947. In addition South Africa sold gold to meet the deficit in her trade with the United States and the Western Hemisphere.

Most Middle Eastern countries, including those within and outside the sterling area, had deficits on current account with the United States in 1947. The countries of the Far East also incurred deficits on current account with the Western Hemisphere and the United States. These were met in part by credits and grants from the United States and aid from UNRRA, which together amounted in 1947 to roughly $1.1 billion. In the case of China the deficit, excluding that portion which was covered by UNRRA, is estimated at about US $430 million and was financed mainly by the depletion of official and private gold and dollar holdings.

Within the Western Hemisphere nearly all countries had large deficits on current account with the United States and there was a consequent drain of reserves. Canada had a current account deficit with the United States of $1.1 billion and further had to make capital payments of $240 million. Of

Canada's surplus with the rest of the world of $1.2 billion, $600 million was financed by Canadian grants and loans. In these circumstances the deficit with the United States had to be met by the use of $740 million of Canada's gold and dollar assets. The deficit of the Latin American countries on current account with the United States was about $2.2 billion. Roughly one-third of this deficit appears to have been financed by net receipts of Latin America from transactions with countries outside the Western Hemisphere and roughly another third by receipts from capital transactions with the United States. To settle the balance, Latin American countries sold about $800 million of their gold and short-term dollar assets. A few Latin American countries—notably Cuba—added to their assets; these additions amounted to $170 million. Argentina suffered the largest drain: $635 million.

As the pressure on reserves increased a number of members found it necessary to draw upon the Fund. Aggregate exchange sales by the Fund for local currency amounted to over $460 million in 1947. While the sum is not large compared with the dollar deficits of the countries concerned, the aid from the Fund came at a time when other resources were sharply diminished and gold and dollar reserves were falling rapidly. The use of the Fund under these circumstances provided help in continuing international payments while solutions to the problem were sought.

The "Dollar Shortage"

The payments problem now confronting the world is generally described as a dollar shortage. It is important, however, to understand the true nature of this problem. Although common to all areas and to almost all countries except the United States, the problem as it relates to Europe deserves particular consideration, not only because the absolute dollar deficit there is so large, but also because of the repercussions in all other parts of the world.

Before the war most European countries had a surplus of imports from the Western Hemisphere. This was financed by earnings from services and by a surplus in their current transactions with other parts of the world, which in turn had an export surplus with the Western Hemisphere. Receipts, however, from services, including shipping, insurance, and the tourist trade, have now fallen very sharply and in many cases have been replaced by net payments. During and after the war, too, the principal creditor countries of Europe were obliged to liquidate a large part of their overseas investments and to incur large debts to cover current requirements. Europe's capacity to finance an import surplus has thus been greatly reduced. It has been further impaired by the disruption of the triangular trade which formerly assisted Europe to balance its international payments.

On the other hand, since the end of the war there has been an unprecedented need for imports in countries other than the United States. The resources of the countries of Europe and Asia which were devastated by the war have been found insufficient to enable them to complete recovery, and they have, therefore, had to depend to an appreciable extent on external resources for the purpose. At the same time, the capacity of these countries to export has been severely reduced. This has necessitated an unusually large import surplus.

The goods needed could in the main be acquired only in the United States and because that country was able and willing to assist in financing a large export surplus, world demand has been largely concentrated on exports from the United States. The payments difficulties of the countries severely dislocated by the war inevitably affect the areas closely dependent upon them, such as the countries of the Middle East, Asia, and the Western Hemisphere countries which traded extensively with Europe before the war. The exceptional demands on the part of these countries for the exports of the United States have been due in part to shortfalls in exports from Europe. They, too, have therefore experienced payments difficulties, in spite, in some instances, of large current exports or the accumulation of large reserves during the war.

International payments difficulties have been further intensified by the large rise in world prices, which has magnified exchange deficits. If there had been something approaching equality between Europe's imports and exports, the rise in world prices would not have seriously affected its international economic position. In fact, however, Europe's imports have been very much larger than its exports, and the rise of prices therefore appreciably widened the gap in its international payments. It has correspondingly reduced the purchasing power of grants and credits, accelerated the depletion of gold and dollar reserves, and diminished the real value of the remaining reserves.

The postwar shortage of dollars reflects primarily the great need for United States goods to raise the level of consumption and investment above that which other countries could reach within the limits set by their own resources. It does not reflect a decline in the United States demand for imports; the volume of imports into that country in 1947, though slightly below that of 1946, was nevertheless as great as in 1937 and considerably greater than in 1938. What is often described in financial terms as a "dollar shortage" is in reality a symptom of the present inadequacy of production in many parts of the world in relation to the continuing great need for goods resulting from the war.

The European Recovery Program

In last year's Report the Executive Directors stated that the lack of adequate exchange resources in certain key countries of Europe threatened a world-wide payments crisis with serious consequences for the world economy. Most important was the danger that the rebuilding of the economies of many countries in Europe would be interrupted and even set back.

To help meet the widening crisis, the United States Government in June 1947 took the initiative in proposing that the European countries cooperate in preparing a program of self-help and mutual aid which would be supplemented by financial assistance from the United States. In response to this invitation sixteen European countries, eleven of them members of the Fund, joined in preparing a four-year program. Following discussions between the United States authorities and these European countries and consideration of the program by Congressional Committees, the United States Congress authorized $5 billion of grants and loans to be made available to the sixteen countries and Western Germany during the year beginning April 1948 under the conditions laid down in the Economic Cooperation Act. At the same time a permanent body, the Organization for European Economic Cooperation, was set up by the sixteen European Governments and the Commanders in Chief of the three zones of Western Germany.

The European Recovery Program is intended to give the participating countries time to adjust their economies, to increase production and to restore their international position. The restoration of stability and balance in Europe is an essential step in the establishment of a strong and stable world economy. It is, therefore, of vital importance to all countries and requires the cooperation of all. For this reason the Fund and the Bank and other international organizations have a duty to facilitate the adoption of policies which will bring about the necessary adjustments in world production and trade. The task is not, however, primarily one which international organizations can perform. The main responsibility now rests with national authorities. The European countries must themselves place their economies on a self-sustaining basis and carry through the policies necessary to complete recovery.

Direction of European Exports

In 1947 it was the deficit with the Western Hemisphere which accounted for most of the over-all deficit in European balances of payments. Deficits with countries outside the Western Hemisphere were substantial in 1946, but the increase in production and exports in 1947 enabled Europe as a whole to bring its current payments with these regions nearly into balance. Progress in the restoration of equilibrium in European payments will be largely measured by the narrowing of the dollar gap during the next few years, and a decreasing need for American assistance will be the best test of success of the European Recovery Program.

European import requirements from the Western Hemisphere are likely to continue to be considerably greater than before the war, because of the increase in population and the need for increased raw material supplies if industrial production is to expand. On the other hand, investment income will, as a result of the loss of foreign assets by certain European countries, continue to be considerably less than before the war. The gap in Europe's dollar payments may be bridged in part, as it has been in the past, through the development of an export surplus with areas other than the Western Hemisphere, particularly Africa and Asia. For this to be possible, it will be necessary for these parts of the world, in turn, to develop an export surplus with the Western Hemisphere. These areas might also be further developed as alternative sources for certain European imports and this would diminish European demands for imports from the Western Hemisphere. Such developments, however, even if supplemented by American investment abroad and by increased expenditures by United States tourists, are unlikely completely to restore the dollar payments position of Europe. An expansion of European exports directly to the Western Hemisphere, therefore, appears essential if Europe's dollar shortage is to be eliminated by the end of the program of United States assistance.

Only a small part of the increases in European exports in 1947 went to the Western Hemisphere, though some countries have been steadily expanding their exports in that direction. It is not, however, a failure of demand for import goods in the Western Hemisphere which checks the expansion of European exports, for the volume of imports of Western Hemisphere countries in 1947 appears to have been in the neighborhood of 50 per cent above 1938. The difficulties involved in a substantial increase in Europe's export to the Western Hemisphere, should indeed not be underrated. Trade connections have been broken and require time to re-establish. For certain European products, Western Hemisphere countries have developed alternative sources of supply at home and abroad. A notable increase in Europe's exports to the Western Hemisphere will require a wider range of products and in certain cases this will involve investment and new production which can take place only gradually. The need of the European countries to retain a large share of their own output, their desire to restore customary trade connections, and their obligation to supply the overseas areas associated with them all have to be recognized. Some European exports to countries outside the Western Hemisphere have diminished the need for dollar imports and have therefore helped to relieve the dollar shortages of other countries.

A high level of demand in the Western Hemisphere will be a necessary condition for increasing exports to this region. A further relaxation of tariffs and import quotas in the Western Hemisphere countries applicable to primary commodities as well as to manufactured goods would be helpful in encouraging the necessary increase and redirection of world trade. But recognition of these considerations should not obscure the fact that Europe's need to increase its exports to the Western Hemisphere arises not only from the exceptional circumstances of the transitional period but also from more enduring changes in the world economic structure.

Production and Investment

For the restoration of international balance increased productive efficiency and expansion of output are clearly of basic importance. In some countries production can be expected to improve rapidly with the restoration of orderly conditions. To the extent that improved international political conditions permit the shift of manpower and other resources from non-productive to productive uses, recovery will be hastened. In many countries output and efficiency should steadily increase as new plant and equipment are brought into operation. In a number of countries output per manhour is below the standard of prewar. The record of investment indicates that practically all countries, and especially those whose capital equipment has been reduced by the war, have been making strenuous efforts to increase their production by increasing and improving their equipment and facilities. Such enlarged investment programs are indispensable in order to overcome the destruction and depletion caused by the war. By increasing the capacity to produce they should ultimately increase the capacity to export and hence reduce import surpluses.

Even with external assistance, however, it will not be possible to meet all of Europe's investment needs, including public construction and housing, during the next few years. Limitation of investment will therefore be necessary, and the greatest care will be needed to ensure that resources are allocated to investment purposes in a manner that will make the greatest possible contribution to the prompt recovery of Europe. This applies also to countries outside Europe where the resources are not adequate for the investment which is being attempted. In most cases excessive investment has been a factor in generating the current inflation, and some of the investment which takes place under inflationary conditions is of a low order of importance.

Where investment has to be limited, as in Europe, some projects whose effects upon production though large would be long-delayed will have to be postponed in favor of other types which promise quicker returns. Because of the critical problems of international payments, priority will have to be given to investments that will increase the production of goods for export, and particularly of goods which can be exported to the dollar area and to other regions for payment in gold or dollars. Special consideration will also have to be given to investment that will diminish the present dependence on imports from the dollar area. Now that much of the most urgent investment has been made, there is greater need to subject investment to careful scrutiny in order to make certain that it will promote recovery and not generate fresh inflationary pressure.

Inflation

During 1947 monetary authorities became increasingly concerned with the problem of inflation. The use of manpower and material for war purposes had inevitably brought in its wake inflationary forces. Incomes were increased as war expenditures were expanded, but the supply of goods available for purchase with these incomes could not be correspondingly increased and in fact was usually reduced. The effects of increased incomes and inadequate supplies were kept in check in many countries by wartime controls on consumption, investment, and prices. As a result of the repression of spending, much of the inflation in these countries was therefore latent rather than active. It was manifested to a considerable extent in an increase in liquid resources held by the public rather than in a rise of prices. The accumulated purchasing power, however, in many countries left a legacy of inflationary pressure that still remained to be dealt with after the war.

There were considerable differences between the approaches to this problem adopted by national governments when the war was over. In some countries, where wartime price controls had been reasonably effective, controls were removed and prices left free to rise. In the United States, for example, the level of prices responded quickly after the removal of price controls in June 1946 to the higher level of incomes and the accumulated purchasing power. While the rise was more moderate in 1947, the large export surplus, the record level of investment, and unusually high consumption demands continued to put pressure on prices. Because of the large volume of exports from the United States to the rest of the world, price movements in that country had special significance for many other economies.

In Canada price controls, which had also been effective during the war, could not afterwards be retained with the same rigor, particularly in view of the trends in the United States. While the appreciation of the Canadian dollar to parity with the United States dollar in 1946 limited to some extent the rise in Canadian prices, there was in 1947 a delayed response to the higher United States price level.

In Europe, where the degree of inflation varied widely, there were some countries where the control of prices and demand was limited and to a large extent ineffective. The inflation in these countries during and since the war therefore took the form almost entirely of a rise in prices. The continuance of inflation in France and Italy in 1947 was not, however, the result only of accumulated purchasing power; it was partly the result of failure to bring currently generated monetary demand into balance with available supplies, although in Italy a restraint was placed on this demand in the latter part of 1947 by the adoption of a more restrictive credit policy.

In a number of countries in northern Europe where wartime inflation had been kept in check by price control, rationing, and allocation, these controls were retained and have been more or less effective. Some of the accumulated purchasing power whose effects had been kept in check has, however, been activated, and this has led to considerable increases in prices and costs. The maintenance of effective controls is more difficult than it was during the war, and in certain instances they appear to have hampered production and weakened the incentive to work. Despite the costs involved, many countries believe, however, that in present circumstances these controls are the only alternative to the dislocation which would follow if controls were removed and a sharp increase of prices were permitted.

In certain countries attempts have been made to deal with latent inflation by monetary reforms designed to eliminate or insulate a part of the purchasing power held by the public.

Such reforms were undertaken, for example, in Belgium, Czechoslovakia, Denmark, the Netherlands, Norway and Yugoslavia, with varying degrees of success. In Belgium, as a consequence of the reduction of excess purchasing power achieved in the monetary reform of 1944 and of the strong measures taken to limit credit expansion, it was possible to eliminate most wartime controls.

In the Middle East and India, expenditures on behalf of Allied Forces brought about a large inflation which was manifested in higher prices, though not to the full extent in higher costs. Since the end of the war there has been some tendency for prices to fall, but the price levels in these regions are still on the whole relatively high.

In China the basic economic problem today is currency inflation. Its fundamental cause is military expenditure, financed by bank notes and government bank credit, which in the present condition of the country cannot be significantly reduced. In Japan the continuance of large budget deficits after the war has also resulted in steep price increases.

In Latin America the large export surplus to the United States during the war brought about some inflation. The inflationary forces, moreover, have been intensified since the war by public and private investment financed to a considerable extent by bank credit. While in some Latin American countries the rise in prices has not exceeded that in the United States, in most of this region it has been significantly greater. So long as imports were not obtainable the price inflation in Latin America did not cause an international payments problem, but as goods became more readily available in the United States the spending which took place to meet deferred needs and the spending resulting from the continued generation of inflation led to excessive demands for imports. The dollar reserves accumulated by these countries, while large in terms of pre-war purchasing power, were, like all reserves, diminished in value by the rise in world prices and turned out to be inadequate for meeting all these demands.

Inflation is a serious handicap to recovery and to the restoration of international economic equilibrium. Waste of resources and misdirection of production have resulted from rapidly rising prices. Much of the investment in some countries has been directed toward escaping the consequences of holding cash rather than toward expanding output and increasing efficiency. The excessive domestic demand that accompanies inflation adds to the difficulty of maintaining an appropriate flow of exports, for output that might have been available for export is otherwise absorbed and prices are pushed to non-competitive levels. Inflationary pressure also stimulates imports, including imports of goods which may not be necessary for essential consumption and investment. Rationing and allocation are not always sufficient to ensure an adequate diversion of goods from home to export markets, and even where official pressure does bring about an expansion of exports, the individual exporter often finds an advantage in selling in the higher-priced markets of Europe and the Middle East, rather than in the lower-priced markets of the Western Hemisphere.

A number of countries have to deal not only with the problem of current inflation but also with the latent inflation represented by the abnormal accumulation of liquid wealth. Where the latent inflation is moderate it might be gradually eliminated through a combination of import surplus, budgetary surplus, and expansion of production—although, unless some rise in prices is permitted, it would apparently be necessary in many countries to retain controls for a considerable period of time. Where the degree of latent inflation is very large it will not be possible to eliminate it except by extreme measures. Failing such elimination, the excess liquidity will in time in one way or another bring about a rise of prices. The measures that may be taken to eliminate a large degree of latent inflation will depend upon the magnitude of the problem, the distribution of the cash holdings between consumers and business units, and the institutional arrangements of each country.

If the countries concerned are to increase their exports of "dollar goods", they must be in a position to offer them at prices attractive to Western Hemisphere markets. The decline in productive efficiency resulting from unfavorable conditions in Europe is a handicap to exports which the progress of European recovery should remove, but if countries are to succeed in expanding exports they cannot permit their export position to be undermined by inflation. For these reasons an essential condition for the strengthening of the balance of payments position of deficit countries is to prevent the generation of new inflation.

Fiscal, Monetary and Exchange Policies

The solution of the balance of payments problem and the completion of recovery are thus seen to require a further expansion of production and improvement of productive efficiency, a further increase of exports in general, and an expanded flow of exports in the directions most likely to diminish dollar deficits. Investment, both private and public will have to be limited to available resources and preference given to investment which will have a relatively prompt effect upon the balance of payments.

These ends, however, cannot be achieved, and even vigorous efforts to accomplish them may be frustrated, unless government and monetary authorities take appropriate measures to prevent the generation of current inflation. There is no single program of fiscal, credit and monetary measures which is applicable to every country but the general policies which can be effective are well understood.

Fiscal policies should be directed as a minimum toward achieving a balance between government revenues and expenditures, including those of state enterprises, and, where possible, toward achieving a cash budgetary surplus. This will require the reduction of governmental expenditures and the maintenance of high tax rates. Savings should be encouraged by all appropriate measures. Investment should not be financed in such a way as to lead to an expansion of bank credit. An increase of money incomes should not be permitted unless accompanied by an expansion of output, particularly of consumer goods.

Investment and production, prices and exchange rates will require continuous scrutiny by the authorities of each country to ensure that international payments, and particularly dollar payments, are brought into a tolerable balance. A failure to make steady progress in restoring such a balance should require a reconsideration of a country's policies. If the failure is primarily due to the fact that a country's exports are not competitive in world markets, and if the country cannot bring its export prices to a competitive level in other ways, it will of necessity have to adjust its exchange rate. Important considerations of timing arise in this connection to which reference is made in the next chapter.

II

EXCHANGE RATES AND EXCHANGE RESTRICTIONS

Exchange Stability and Exchange Rigidity

ONE of the purposes of the International Monetary Fund is "to promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation." At the time the Bretton Woods Agreement was under discussion, fears were expressed in many countries that membership in the Fund might impose upon national authorities control by an organization which would make a fetish of exchange stability and would regard any changes from the agreed par value (outside the 10 per cent limit on the total of all changes—for which Fund approval is not necessary) as highly abnormal and to be sanctioned only reluctantly and in the most unusual circumstances. There was at no time any justification for this view. The Fund Agreement makes it clear that the provisions for the regulation of exchange rates are not intended to impose upon the Fund the duty of perpetuating in the name of stability exchange rates which have lost touch with economic realities.

Stability and rigidity are different concepts. The Fund has never insisted on the maintenance of an exchange rate which was not suited to a country's economy. On the contrary it has always recognized that an adjustment of exchange rates may be an essential element in the measures necessary to enable a country to pay for the goods and services it needs from abroad without undue pressure upon its international reserves. Stability implies that when exchange rate adjustments are necessary they should be made in an orderly manner and that competitive exchange depreciation should be avoided.

When the Fund was set up a major preoccupation of those who were concerned with international exchange policy was the avoidance of competitive exchange depreciation. This concern, which is reflected in the Fund Agreement, was based upon the conditions prevailing during that large part of the inter-war period which was characterized by unused resources and large-scale unemployment. During that period, countries not infrequently sought to protect themselves from the effects of deflation in other countries by exchange depreciation. At the present time, conditions are virtually the reverse and opinion has swung in the opposite direction. The major concern now is inflation and not deflation. Everywhere there is anxiety about the effects of rising living costs, and policies which appear to foster price increases meet with great social and political resistance. Nearly all countries are pressing on their resources and anxious to obtain their imports on the best terms of exchange.

Adjustment of Par Values

The tendency now is, therefore, to maintain exchange rates rather than to depreciate them. This has naturally led to a fear, which finds frequent public expression, that the prevailing level of exchange rates prevents certain countries from earning as much foreign exchange as they otherwise might and consequently increases the need for external assistance in order to maintain a given flow of imports. It is important, therefore, to consider the extent of the contribution to international equilibrium which might be made through adjustment in exchange rates. In this connection, one thing can be stated definitely at the outset. The countries which have been devastated by the war cannot be expected to balance their international payments at once, and no exchange depreciation, however severe, would enable them to achieve such a balance at a tolerable level of imports.

It is sometimes said that with so many countries of the world experiencing balance of payments difficulties, a solution could be found through simultaneous and widespread devaluation of currencies. This implies an oversimplified interpretation of present economic difficulties and attributes an exaggerated importance to exchange rate adjustment as a means of solving these difficulties. The unbalance of many economies throughout the world today is of too fundamental a nature to be corrected merely or even mainly by exchange rate adjustments. In countries where the primary cause of balance of payments deficits is the present limited export capacity, devaluation would not increase foreign exchange receipts, but would merely strengthen domestic inflationary forces. For some countries it is reasonable to expect that adjustments of other types will make it possible to maintain exchange equilibrium without any departure from the present rate. In others, an adjustment of the exchange rate may sooner or later be necessary. The proper course of action for each country will be determined by many different considerations, including the policies followed by other countries. Moreover, the question of timing of any change in exchange rates is all-important. The delicate problems of a satisfactory worldwide pattern of exchange rates cannot be solved by any mechanical rule, which would inevitably fail to take proper account of the special conditions of particular countries.

The appropriate timing of an exchange rate adjustment will depend upon a variety of factors. The relation to export opportunities, which was emphasized when the initial par values were announced, is still of great importance. So long as an exchange rate does not hamper a country's exports, there is little to be said in present world conditions for altering it. There are indications, however, that in some countries the exchange rate is becoming a restraining factor on exports and that it is adding to the difficulty of earning convertible currencies.

The question of revising par values cannot be divorced from a consideration of internal financial problems and policies. An exchange rate adjustment undertaken by a country suffering from inflation might temporarily correct a price relationship which had begun to hamper exports, but without effective anti-inflationary measures the benefits of the adjustment would soon evaporate. Premature exchange rate adjustment might itself aggravate internal tendencies toward inflation and frequent changes of exchange rates would create distrust in the currency and hamper the orderly development of a country's trade. In dealing with any concrete situation it will be necessary to take into account the necessity of restraining inflationary forces, particularly by achieving a balance or surplus in the national budget and bridging the gap between the volume of investment which is undertaken and the amount of its income the community is willing or able to save.

Although the Fund is not entitled to propose a change in the par value of a currency it has an obligation to keep the exchange rate situation constantly under review, and its views may properly find expression in its informal consultations with members. When an exchange rate is no longer appropriate the Fund will, of course, give prompt and realistic consideration to a member's request for adjustment in the par value of its currency.

Fluctuating Rates

In the present abnormal conditions of the world it is difficult for some countries to abandon certain exchange practices which do not conform to the long-term objectives of the Fund. Many countries find it necessary to impose restrictions on current transactions, and where exchange restrictions are not imposed, imports are usually held in check by restrictions of other types. The view has been expressed that the necessity for these restrictions would disappear and international equilibrium would be restored if exchange rates were permitted to respond freely to the market forces of supply and demand. The fundamental conditions which would make possible the abandonment of trade and exchange restrictions are, however, entirely absent today in most of the world, and in fact very few countries are prepared to establish a genuinely free exchange market. The so-called free rates now in use in a number of countries do not obviate the need for restrictions on payments and transfers for current international business, as a system of genuinely free exchange rates would be expected to do. Under these "free" systems, the exchange proceeds derived from exports must, by law, be sold, and the purchase of exchange for imports is by law limited to licensed buyers. Other restraints on international payments and transfers are also retained. The exchange system is free only in name, and the rates quoted in these markets are not necessarily any more "realistic" than those quoted in countries maintaining fixed exchange rates.

Systems of fluctuating rates may, nevertheless, be unavoidable when prices are highly unstable. In China and Greece, which have so far not agreed a par value with the Fund, the rates at which the most important currencies are bought and sold are permitted to fluctuate, with a continuing depreciation of the national currencies. By managing the demand for exchange, the monetary authorities seek to bring about a rate of exchange that enables exporters to sell abroad despite the continuous rise in prices.

Italy is another member which has not yet agreed a par value and which is maintaining a fluctuating rate system. This system was the subject of a public statement by the Fund on December 4, 1947, which is reproduced in Appendix I.

It would be an empty gesture to insist on formal stability in an exchange rate without reference to actual economic conditions. Exchange stability is quite impossible for a country whose prices are still rising at a rapid rate; when there is no prospect that such movements will be checked a progressive depreciation of the currency is unavoidable. So far as it lies within its competence the Fund will do its utmost to promote the emergence of internal economic and monetary conditions favorable to the maintenance of stable exchange rates and at the proper time will not be remiss in urging upon governments the desirability of agreeing upon a parity. In the meantime, however, it is recognized that in certain exceptional circumstances, such as those of China and Greece, the temporary use of a fluctuating exchange rate is necessary to enable a country to prevent a breakdown in its trade.

The Importance of Orderly Cross Rates

The experience of a few countries with so-called free rates has recently directed attention to one aspect of exchange rate policy which has assumed considerable importance at the present time when nearly all currencies are inconvertible—the maintenance of orderly cross rates. When currencies are freely interchangeable, their values, in terms of each other, whether fixed or fluctuating, will as a rule be the same in exchange markets throughout the world. Any temporary divergence which may appear will be quickly eliminated by arbitrage operations.

With inconvertible currencies, however, transactions must, in the absence of credit arrangements, be balanced bilaterally, unless one trading partner is willing and able to use gold or acceptable currencies to liquidate its adverse balances with the other. If countries with inconvertible currencies do not cooperate to maintain agreed exchange rates, but permit the rate for each currency to be affected by the special circumstances of localized supply and demand or unilateral controls, the resulting cross rates will have little relationship to the parities agreed with the Fund and made effective in other countries, and the rate quoted for a particular currency will fail to reflect the overall international position of the country concerned.

The practical effects of deviations from an orderly pattern of cross rates are, of course, particularly serious when the country concerned plays a major role in international trade. In any country where the cross rates place a premium on the dollar, there is an inducement for traders to purchase goods from other countries for resale in the United States, and thus divert part of the dollar receipts which would otherwise accrue to the countries of origin. Export and import restrictions may limit the scope of such transactions, but it will be difficult to check them entirely when the goods diverted are raw materials which can be converted into manufactured goods for which the United States offers a market. To avoid further inroads upon their dollar resources by operations of this kind countries may be obliged to impose still more stringent trade restrictions.

Changes in the direction of trade in response to the movements of disorderly cross rates are likely to be determined by short-run considerations and local peculiarities which have little to do with the fundamental influences by which a new pattern of world trade should be determined. They will therefore merely add to the difficulty of restoring orderly balances of payments and the convertibility of currencies. For these reasons the Fund attaches great importance to the maintenance of orderly cross rates as a means of protecting its members and encouraging the appropriate reorientation of trade on a multilateral basis.

Multiple Currency Practices

Multiple currency practices have been used for a variety of purposes, including the correction of balance of payments disequilibria. Certain countries, particularly in Latin America, have used them as a means of restricting imports without resort to complicated administrative machinery and without giving the recipients of import licenses opportunities for large windfall profits. They have also had fiscal significance in some countries in which governmental revenue is derived in large part from indirect taxes.

The Fund has worked out guiding principles with regard to multiple currency practices. These have been communicated to its members in a memorandum, reproduced in Appendix II, which describes in detail its policy and jurisdiction. The memorandum emphasizes in particular that multiple currency practices, besides being in most cases restrictive practices, also constitute systems of exchange rates and as such are of special concern to the Fund.

The Fund has advised those of its members which engage in multiple currency practices of its interest in the unification of exchange rate structures. During the past year some members have undertaken to simplify or modify their multiple currency practices in a way which will facilitate establishment at a later date of a unitary rate of exchange. A number of countries with balance of payments deficits, however, have felt obliged to continue their multiple currency practices together with other restrictions on payments and transfers for current international transactions. Under the economic conditions now prevailing in many of those countries it is difficult to foresee an early termination of multiple currency practices. The Fund, however, is encouraging its members to bring about the economic conditions which would facilitate the removal of these practices as soon as practicable.

At present, the most important consideration is the termination in the countries concerned of domestic inflation. Until the abnormal demand for imports can be checked by other means, some countries may have to use penalty rates of exchange for this purpose. When their domestic inflation is halted these countries will find that costs soon creep up on prices and that a new exchange rate is necessary to encourage exports. It is this halting of inflation and the adjustment of local costs to prices that would offer the most favorable opportunity for eliminating multiple currency practices and establishing a new rate of exchange.

In view of their special circumstances the Fund did not take exception to proposals by some member countries to introduce multiple currency practices or to adapt existing ones to changing circumstances. A statement issued by the Fund following consultations with Chile on modifications of its multiple rate system is set forth in Appendix III. In the case of Ecuador the Fund agreed to a modification of the existing multiple currency system, as described in last year's Annual Report. As a result of more satisfactory fiscal and credit conditions, the inflationary situation has shown a significant improvement and the demand for foreign exchange has been curbed, even though there is complete freedom to import and also to transfer capital at the effective exchange rates. If this improvement continues, conditions should eventually be established which would permit a unification of the exchange rate without the need for exchange restrictions.

Exchange Restrictions and the Convertibility of Currencies

All members of the Fund other than El Salvador, Guatemala, Mexico, Panama and the United States have notified the Fund that they are availing themselves of the provisions of Article XIV, Section 2 of the Fund Agreement, which provides that during the transitional period members may, subject to certain safeguards, maintain and adapt to changing circumstances exchange restrictions on payments and transfers for current international transactions.

In 1947 continuing balance of payments deficits forced many countries to impose or reinforce foreign exchange restrictions in order to deal with a persistent drain on reserves. Formerly, restrictions had in general been placed on imports of certain goods, i.e., luxury and non-essential items, rather than on imports from specific currency areas, but during the period under review the restrictions were imposed in most cases with the intention of reducing an existing or prospective United States dollar deficit, and safeguarding gold and United States dollar reserves. Under these circumstances, it has not been possible to effect any relaxation of exchange restrictions. However, the Fund is keeping the exchange control systems of member countries under review; wherever feasible, it will encourage the elimination of exchange restrictions on current transactions and may make representations to members for the withdrawal of particular restrictions whenever conditions appear favorable.

In 1947 a major attempt was undertaken to render convertible all sterling accruing from current transactions. By the terms of the Anglo-American Financial Agreement of 1945, the Government of the United Kingdom undertook, unless in exceptional cases an extension has been agreed with the Government of the United States, that after July 15, 1947 it would impose no restrictions upon payments and transfers for current transactions and would permit the current sterling receipts of sterling area countries to be used in any currency area without discrimination. During the months preceding that date the United Kingdom took a series of steps to extend the degree of transferability of sterling already existing and to fulfill its convertibility commitments; it announced from time to time the relaxation of certain wartime restrictions on the transferability of sterling. By July 15 these arrangements covered the greater part of the trading world, negotiations being unfinished with only a few countries. Convertibility for current sterling did not, of course, obligate the United Kingdom to remove all trade and exchange controls. Exports and imports were still subject to license and control was still exercised over capital movements and the large sterling balances which had accumulated during and immediately after the war.

From early July gold and dollar expenditure by the United Kingdom increased rapidly. In the two months July and August drawings by the United Kingdom on United States and Canadian credits were almost as large as in the preceding six months. But the acceleration in July was not wholly the result of the introduction of convertibility. Even prior to July the rate of dollar expenditure was rising sharply as a result of the growing deficit with the dollar area both of the United Kingdom and of the rest of the sterling area. For the year as a whole this deficit accounted for nearly 85 per cent of the net use of reserves and dollar credits by the United Kingdom, the greater part being attributable to the deficit of the United Kingdom itself.

So great was the drain on its exchange resources that the United Kingdom on August 21, 1947 withdrew the facility of freely transferring sterling from Transferable Accounts to American or Canadian Accounts, while at the same time eliminating Canadian Transferable Accounts. It may be noted that even after the suspension of the convertibility of sterling into dollars sterling remained transferable over a wide area.

The Government of the United Kingdom stated that the suspension of convertibility of sterling was of an emergency and temporary nature and was not to be interpreted as in any degree indicating a modification of its oft-expressed view as to the desirability of maintaining full and free convertibility of sterling for current transactions. As a long-run objective it was also stated that such convertibility is an indispensable element in British financial policy. The Government of the United Kingdom expressed its belief that it would be possible to work out in consultation with the Government of the United States and within the framework of the Anglo-American Financial Agreement and of the Fund Agreement a constructive policy which would be best suited to changes in the situation as they appear and which would lead towards the objectives laid down in both those Agreements.

The failure of the attempt to restore the convertibility of sterling does not in any way indicate that the free transferability of the proceeds of current international transactions cannot or should not in time be attained. The economic advantages for all trading countries of being able to use the proceeds from their exports to any part of the world to pay for their imports from any part of the world are so great that there should be no abandonment of the objective of restoring a system of multilateral payments. The British experience does show, however, that the establishment of convertibility of currencies can succeed only when the underlying conditions are favorable to a system of multilateral trade and payments. Until the great trading countries, whose currencies are used in international payments, have restored a reasonably satisfactory balance in their current international accounts they cannot undertake the obligation of permitting free transferability of their currencies for current transactions. The members of the Fund which have taken advantage of the transitional arrangements do not for the most part have reserves adequate to enable them to meet large current deficits for even a short period, or to meet persistent deficits, even of a moderate size, for an extended period.

Multilateral Clearing in Europe

Since the war a large part of intra-European trade has been carried on under a network of bilateral payments agreements. These arrangements served a useful purpose in helping to restart trade in Europe, but as time went on their limits became evident, and an effort was made in 1947 to modify their structure to permit an extension of multilateral trade in Europe. Considerable assistance was afforded to European trade by the common practice whereby each partner to a bilateral agreement undertook to hold a limited quantity of the currency of the other, and thereby in effect granted credit. Her trading position in relation to other European countries resulted in Belgium becoming the main creditor under these agreements. Under these agreements and by credit arrangements of a similar nature, Belgium's net creditor position vis-a-vis other European countries was increased during 1947 by about $170 million.

After the credit margins provided by the bilateral payments agreements were reached, however, balances had to be settled in gold or dollars. With the shortage of gold and dollar reserves in Europe, it was feared that trade would be forced more and more into bilateral balance by reduction of imports from the European surplus countries, and that this would adversely affect the flow of European goods essential for consumption and investment. Because of this danger, efforts were made in the latter part of 1947 under the auspices of the Committee on European Economic Cooperation to develop machinery for clearing European accounts. Belgium, France, Italy, Luxembourg and the Netherlands agreed in November 1947 to become regular members of a system of European multilateral compensation which would offset each month the balances arising from their mutual transactions, and thus reduce to a minimum payments in gold and convertible currencies. Other European countries have participated as "occasional" members and as such are entitled but not committed to take part in individual offsetting operations. The volume of transactions to which compensation machinery of this kind can be applied is dependent upon the balance of creditor-debtor relationships between the participants in the system. In view of the predominant creditor position of Belgium among European countries and the limited number of active participants in the scheme the scope for compensations has been narrow and the results actually recorded in the early months of the year have been meager.

Unless credit margins are increased or additional gold or dollars become available for settling balances in intra-European trade it will become increasingly necessary for certain European countries to seek to achieve a greater degree of bilateral balancing in their transactions with other European countries. This bilateral balancing can be attempted either by the deficit countries reducing imports from the surplus countries, even when such imports are urgently needed, or through pushing exports to the surplus countries, even when such exports are not essential for consumption or investment. Developments along these lines would inevitably either reduce essential production in the surplus countries or encourage the continuance or expansion of nonessential production in the deficit countries.

The necessity of preventing a sharp decline in intra-European trade is clear. Any halt in the flow of essential consumption and investment goods would impede European recovery. Moreover the ultimate restoration of Europe's payments position would be helped by substituting so far as is economically possible European sources of supply for goods that would otherwise have to be purchased in the Western Hemisphere. At the same time, while European trade is maintained and encouraged it should be gradually adapted to a pattern compatible with Europe's future position as well as its present needs. If European payments were placed on a multilateral basis each country could import from other European countries goods which are most essential to its economy; in this way the necessary shift of European resources toward production and trade compatible with over-all balance in European payments and the general convertibility of European currencies would be promoted.

The Fund has consulted with the European countries studying the problem of intra-European payments. It has informed them of the Fund's hope that an arrangement can be made for multilateralizing European payments and of its hope that a moderate rise in the credit margins of payments agreements can be made available by the European creditor countries as their further contribution to European recovery. The Fund has also indicated that it would not object to the use of its European currency resources in moderate amounts by ERP members eligible to draw on the Fund to assist in the multilateralization of European payments provided the conditions and purposes of the Fund Agreement relating to the use of its resources are met. In this connection the Fund referred to the decision on the use of its resources by ERP countries which is set out in Appendix IV. The Fund also indicated its willingness to place its advice and technical facilities at the disposal of its members in connection with the formulation and administration of any multilateral payments arrangements.

Par Values

Three members, namely, Lebanon, Syria and Australia notified the Fund during the past fiscal year of initial par values of their currencies which were agreed upon and published by the Fund. These par values were in conformity with the rates already prevailing in the countries concerned for some time previously. An initial par value for the Dominican Republic peso, which was introduced as the local circulating medium replacing at par the United States dollar notes which formerly circulated, was agreed with the Fund, and became effective on April 23, 1948.*

* The establishment of the initial par value for the Brazilian cruzeiro was announced by the Fund on July 18, 1948.

The only Fund member from whom an application was received during the year for a proposed change in par value was France. The proposed devaluation, however, was linked with the institution of a premium market for the dollar and certain other currencies readily saleable for dollars. This involved the introduction of a multiple currency practice and a discriminatory currency arrangement. The proposal was the subject of full and frank consultations between France and the Fund, at the end of which the Fund issued a statement which is reproduced in Appendix V.

The Fund agreed that a change in the par value of the franc was necessary and indicated that it was prepared to concur in a devaluation of the franc to a realistic rate which would be applicable to transactions in the currencies of all members of the Fund.

The Fund gave careful consideration to the proposed establishment of a market in United States dollars and certain other currencies, on which these currencies would be bought and sold at premium rates that would differ considerably from the new par value. The Fund explored various alternatives designed to meet, insofar as possible, the objectives of France, which were to reduce its dollar deficit by granting a premium on exports to, and by imposing a penalty on non-basic imports from, the dollar area, to encourage the repatriation of French assets held abroad, and to divert tourist receipts and other invisibles from the black into the "free" market.

The Fund could not agree, however, to the inclusion in a premium market limited to a few currencies, of any part of the proceeds of exports, as in its judgment this entailed the risk of serious adverse effects on other members without being necessary to achieve the trade objectives sought by France. The Fund felt there would be scope for competitive depreciation in the application by one country of a premium rate on exports to one area while other rates remained stable and other countries maintained the parities agreed with the Fund. Such a system, working in an important trading country, could lead to trade distortions by encouraging the diversion of dollar exports of other countries for re-export through France as a consequence of the disorderly cross rates and hamper the restoration of international payments based on multilateral trade. The Fund felt that a widespread adoption of such a system would result in exchange uncertainty and instability and produce a disrupted exchange situation from which all members of the Fund would suffer.

The French Government found that it could not accept the modifications suggested by the Fund and decided to go forward with its own proposals. Accordingly, the Fund considered that France had made an unauthorized change in its par value and had therefore become ineligible to use the Fund's resources.

The plan for exchange adjustment was put into operation on January 26, 1948. Under the program the parity of the French franc was changed from 119.107 francs to the dollar to a new official rate of 214.392 francs, a devaluation of 44.4 per cent. A so-called "free" market began to operate on February 2, 1948, which dealt in United States dollars and Portuguese escudos. Only dealers authorized by the French Foreign Exchange Office may deal on the "free" market. The purchase of these currencies is strictly controlled by the authorities and limited to holders of import licenses or exchange authorizations. The supply side of the market consists of the repatriation of assets held abroad, tourist receipts and other invisible items and half of the proceeds derived from French exports payable in United States dollars and escudos. The other half of such export proceeds must be surrendered to the French authorities at the new official rate. While foreign exchange for certain essential imports payable in these currencies is provided by the French authorities at the official rate, the whole of the exchange for other licensed imports had to be purchased on the "free" market until March 30, 1948, when the exchange system was modified to permit importers to acquire half of the needed exchange from the French authorities at the official rate. All the exchange for other authorized French remittances to the dollar and escudo areas and for the conversion of free accounts in francs (restricted to residents in certain specified countries) must be purchased on the "free" market.

The "free" market rate for the dollar was at first about 311 francs, but since the beginning of April, it has been maintained at a level of 305-306, no doubt owing to the willingness of the French monetary authorities to intervene. The new arrangements did not prevent the continued existence of a black market in foreign exchange in which rates higher than those of the "free" market have been quoted.

Subsequent to the devaluation of the franc and the introduction of the new exchange system, some of the payments agreements into which France had entered were revised. Separate financial agreements were made with Belgium, Italy and Switzerland during March 1948. A "free" market was created for the Swiss franc in Paris and is similar to that for dollars. With Italy, a new franc-lira rate was agreed with the understanding that it would be subject to monthly review and change in line with the fluctuations of the "free" dollar both in Paris and Rome. With Belgium the agreement was more limited. It aimed at giving Belgian tourists in France benefits equivalent to the dollar premium in the "free" market and thus providing the French monetary authorities with Belgian francs which would otherwise have been disposed of on the black market.

Consultations between France and the Fund have not been interrupted. Discussions have taken place of the problems which have arisen out of the application and extension of the French exchange system.

III

GOLD POLICY

External Sales at Premium Prices

THE Fund is pledged to the promotion of exchange stability as one of its primary objectives. The par values of the currencies of all members are expressed in terms of gold as a common denominator or in terms of the United States dollar of the weight and fineness in effect on July 1, 1944, and variations may only be made in accordance with the Fund Agreement. The Fund has, accordingly, been concerned over external gold transactions at prices in excess of the gold values of member currencies.

Private gold transactions consummated in United States dollars have been reported at various times at prices ranging up to US $50 per fine ounce and occasionally reports appear of transactions at even higher premia. International gold transactions for which high premia are quoted frequently take place in inconvertible currencies, particularly in countries where confidence in the future value of the national currency is lacking or where political conditions are disturbed. When a United States dollar price is quoted for such transactions in inconvertible currencies, it is merely the figure arrived at by converting the local currency price at the official rate of exchange, regardless of the fact that the local currency proceeds can only be converted into hard currency through black markets at substantial rates of discount.

On June 18, 1947, the Fund addressed to all members a statement, reproduced in full in last year's Annual Report, in which it deprecated external purchases or sales of gold at prices which directly or indirectly produce exchange transactions at depreciated rates. It was the Fund's view that this practice if not checked might become extensive and might as a consequence tend to undermine the exchange relationships among the members of the Fund. Moreover, transactions of this kind involve a wasteful use of gold since much of the metal goes into private hoards rather than into central holdings. In reply to a member's inquiry, the Fund has stated that its opposition to external gold transactions at premium prices extends not only to transactions between members of the Fund but also to transactions between members and non-members.

Some countries, including certain major gold producers, indicated that their practices were in accord with the Fund's policy. Others explained that their gold sales had been authorized before the Fund defined its policy but that they were ready to change their policy to conform to the Fund's views. Certain other countries revised their regulations in order to meet the Fund's policy.

Mexico informed the Fund that in compliance with the Fund's policy it had discontinued external sales of gold at premium prices. Canada's Minister of Finance stated that the policy of his Government was to prohibit exports of gold to "free markets" and to refuse to permit exports at prices above parity. Immediately after the receipt of the Fund's letter, the United States National Advisory Council on International Monetary and Financial Problems announced it was in full accord with the Fund's views. After a public hearing, the United States Treasury Department announced that its Provisional Regulations under the Gold Reserve Act of 1934 would be amended, effective November 24, 1947, with a view to curbing international gold transactions at premium prices in accordance with the Fund's request. The Bank of England advised bullion dealers that the prohibition on transactions at premium prices was extended to cover dealings as agents for non-residents. Transactions by London bullion dealers as principals had never been allowed except at prices within 1 per cent of US $35 per fine ounce.

In spite of the encouraging reaction of members to the Fund's letter of June 18, 1947, there is ample room left for greater support of the Fund's policy. There should be more vigorous enforcement of the gold regulations in certain countries, especially importing countries. It has been noted that international transactions in fabricated gold articles or jewelry with a fine gold content just below the minimum legal fineness of monetary gold have assumed increasing importance. Some countries have no legal basis for the effective supervision of trans-shipped gold; in most cases trans-shipped or bonded goods attract certain conditions and privileges which include freedom from import or export licensing, especially where it can be shown that the commodity is foreign-owned. In other instances, where exchange controls place little or no restrictions on gold dealings or shipments, a revision of existing gold regulations may be necessary in order that gold may be treated as a part of the potential national monetary reserves, rather than as an article of trade. Furthermore, some gold transactions at premium prices are being conducted by or through non-member countries or their nationals.

In order to enable the Fund to consider what further action may be called for, a letter has been sent to all members, requesting the text of their laws, decrees, and regulations (together with particulars of changes made since June 18, 1947), and a statement of the administrative practices they follow regarding international transactions in gold and in articles having a large content of gold, as well as data on international movements of gold.

Subsidies to Producers

The world production of gold (exclusive of Union of Soviet Socialist Republics) declined from a peak of about 37 million fine ounces in 1940 to about 21 million fine ounces in 1945, due largely to a deliberate shift of manpower and other resources from gold mining to industries more essential to the war effort. In 1946 world gold production recovered by about 500,000 fine ounces over the previous year and the increase in production continued in 1947, although production in the Union of South Africa declined, primarily as a result of labor difficulties. The postwar recovery in gold mining has been slow owing to substantial increases in mining costs, including the cost of labor, materials, and equipment which, taken in conjunction with the fixed price of gold, have reduced the profitability of gold mining. Wartime deterioration of mining equipment has had the dual effect of limiting output directly and of necessitating new investments at high prices which make production more costly. In some instances, the large-scale capital outlays which would have been required to rehabilitate the mines discouraged owners from reopening their mines after wartime shutdowns or caused them to resume operations on only a limited scale. Difficulties in recruiting efficient labor have been another retarding factor.

Countries in balance of payments difficulties have sought ways and means of encouraging gold production. After consultation with the Fund, Canada announced on December 11, 1947, its intention of instituting a new program to stimulate gold production. The Canadian proposal provides for a payment to individual gold mines, designed to assist the mines in defraying part of their increased costs of production. The subsidy payment will be determined by taking half of the amount by which the current cost of gold production of any mine exceeds $18 an ounce and applying this to the amount by which production in the current year exceeds two-thirds of the production in the base year July 1, 1946, to June 30, 1947. Assistance will be given for a three-year period, effective January 1, 1948.

The Fund issued a general policy statement regarding gold subsidies (*see* Appendix VI) and at the same time announced its views regarding the proposed Canadian measures (*see* Appendix VII). In its general statement the Fund asked member countries to consult with it prior to introducing any new measures to subsidize their gold production. The Fund took the position that a subsidy in the form of a uniform payment per ounce for all or part of the gold produced would constitute an increase in price which would not be permissible if the total price paid by the member for gold were thereby raised to any amount in excess of parity plus the prescribed margin of one quarter of one per cent. The Fund emphasized that other types of subsidy may constitute an increase in the price of gold and that each proposal for subsidy must be examined on its merits with regard to its specific provisions and in the light of surrounding circumstances. The Fund stated that any subsidy on gold production, regardless of its form, is inconsistent with Article IV, Section 4 (a) of the Fund Agreement if it undermines or threatens to undermine exchange stability. The Fund promised to study and review with its members their gold policies and any proposed changes with a view to determining if they are in accordance with the provisions of the Fund Agreement and conducive to a sound international policy regarding gold.

In March 1948, the Government of Australia, in conformity with the Fund's general policy statement, consulted the Fund regarding a proposal to grant temporary assistance to certain gold mines in desert areas in Western Australia which were threatened with abandonment. The measure was designed to enable some marginal and isolated mines to continue operations despite rising costs, so as to sustain the population of certain communities whose existence is wholly dependent on the gold mining industry. The proposed aid was to be determined for each gold mine individually according to its costs, ore reserves, values, and dependent population, and would not affect the price of gold. The plan was not intended to increase gold production. The measures proposed by Australia were deemed not to contravene the obligations of members under the Fund Agreement to engage only in gold transactions at prices based on the par values of members' currencies and to collaborate with the Fund in promoting exchange stability. Neither were the measures proposed by Australia considered to violate the policy enunciated by the Fund on December 11, 1947, regarding gold subsidies.

IV

EXCHANGE AND GOLD TRANSACTIONS

Exchange and Gold Transactions During the Past Year

During the 10 months fiscal period extending from July 1, 1947 to April 30, 1948*, the Fund completed 28 exchange transactions aggregating $544 million on behalf of 10 members. Three transactions, aggregating the equivalent of $62 million, were consummated on behalf of 2 members in the four months from the beginning of exchange transactions on March 1, 1947 to the end of the previous fiscal year on June 30, 1947. From March 1, 1947 to April 30, 1948, the Fund therefore effected exchange transactions totaling the equivalent of $606 million.

The following is a tabulation of these exchange transactions. Further details of these transactions are contained in Appendix VIII.

Currencies Purchased From the Fund
(in millions of United States dollars)

Purchased by	*In fiscal period ending April* 30, 1948.	*Beginning of operations to April* 30, 1948.
Belgium	33.0	33.0
Chile	8.8	8.8
Denmark	10.2	10.2
France	75.0	125.0
India	28.0	28.0
Mexico	22.5	22.5
Netherlands	56.5	68.5
Norway	5.0	5.0
Turkey	5.0	5.0
United Kingdom	300.0	300.0
	544.0	606.0

* Resolution No. 12, adopted at the Second Annual Meeting of the Board of Governors, changed the beginning of the fiscal year of the International Monetary Fund from July 1 to May 1. The fiscal year 1947-48 therefore covers the period from July 1, 1947 to April 30, 1948.

The transactions with Denmark, France, India and the United Kingdom had the effect of increasing the Fund's holdings of these members' currencies to amounts in excess of their quotas and in consequence these members became subject to the pertinent charges.

As a result of the payment of members' subscriptions, the increase in the quotas of Paraguay and Egypt, and the payment of service charges in gold, the Fund's gold holdings rose during the fiscal period under review from US $1,344 million to US $1,363 million.

At the request of one of its European members who wished to make an immediate sale of gold against United States dollars, the Fund delivered gold for the member's account out of the Fund's depository in New York and took delivery in Europe of an equivalent quantity. The member bore the cost of shipping the gold from Europe to New York.

Use of the Fund's Resources

The Executive Board recognized that in starting operations in a war-devastated world before relief and reconstruction requirements had been fully met, the Fund was running the risk that some of its resources might be used for other than temporary assistance and this was pointed out in the first Annual Report of the Executive Directors. It was thought desirable to assume this risk in order that the Fund might make a contribution to the maintenance of national economies and of exchange stability during the transitional period.

In considering applications for the use of the Fund's resources during this period, the Executive Board has endeavored to limit the risk involved to a minimum. The Board has kept under review the situation of its members and has examined the causes of balance of payments deficits, the use by members drawing on the Fund of their own gold and foreign exchange resources, and the bearing of the par values of their currencies on their balance of payments position and prospects. Views expressed in the course of these discussions have been communicated informally to the countries concerned and in certain cases where the Fund came to the conclusion that the existing situation was not conducive to the proper use of the Fund's resources, members have been asked to refrain from making further applications for exchange purchases pending consultations with the Fund. The Fund has emphasized to members that the purpose of the use of the Fund's resources is to give them time to make necessary readjustment and not to avoid the necessity of such readjustments.

There is no formula which can be used to ascertain the probable duration of a disequilibrium in a member's balance of payments. Inevitably, therefore, judgment is involved in attempting to determine whether any particular drawing on the Fund will be outstanding for a relatively short or a relatively long period of time. The Board has had, moreover, within the limits of the Fund Agreement, to weigh the advantages from both its own point of view and the point of view of its members of conserving the resources of the Fund for use in the post-transitional period against the advantages which members could derive from some immediate use of the Fund's resources. In the grave and unsettled conditions which prevailed, the Fund reached the conclusion that in some doubtful cases there were in general more disadvantages involved in denying members access to its resources than in allowing them such access.

In order to formulate the procedures the Fund would follow when it received requests for exchange transactions, the Executive Board reviewed the powers of the Fund to accept, refuse, postpone, or accept subject to conditions members' requests to purchase exchange. The decisions reached are set out in Appendix IX.

The Executive Board has given consideration to the bearing of the European Recovery Program on the monetary and balance of payments situation of its members and has reviewed its policy towards use of its resources in the light of this new and important development. It is obvious that the provision of large additional financial assistance under ERP introduces a new element into the situation which has an important bearing on the Fund's attitude towards drawings of United States dollars by participants in this program. As indicated above, international payments are now in disequilibrium mainly because of the need of European countries for United States dollars with which to buy the goods needed to complete their recovery. The availability of dollars under this program will naturally ease the general disequilibrium in the international balance of payments and should contribute substantially towards meeting the demand for this currency. Since ERP is to be handled year by year, related policies on use of the Fund's resources will be developed at similar intervals. With ERP assistance available for the first year, the Fund felt that it could proceed on the assumption that the minimum needs for consumption and investment goods in the countries participating in the ERP program would be met and that accordingly there would normally be no needs of an urgent character which could only be satisfied through purchases of United States dollars from the Fund. It is therefore to be expected that members of the Fund receiving ERP assistance will have less occasion than in the past to wish to purchase United States dollars from the Fund. For the first year the Fund takes the view that ERP members should request the purchase of United States dollars from the Fund only in exceptional or unforeseen circumstances.

The probability that the balance of payments difficulties of member countries will not be overcome completely by the end of the ERP period leads to the conclusion that during the ERP period the Fund's members participating in ERP should not encumber their access to the resources of the Fund to such an extent that they would be unable to secure help from the Fund thereafter. This conforms with the objective of Article XIV, Section 1 of the Fund Agreement which is not only to safeguard the resources of the Fund but also to prevent undue impairment of members' access to the Fund by purchase of exchange during the transition period.

In view of the balance of payments situation of some members it is possible that during the current fiscal year they may wish to purchase from the Fund currencies other than United States dollars, including the currencies of some countries participating in ERP. In this connection, it may be recalled that members are not entitled to veto or limit the Fund's sales of their currencies to other members. The Fund does recognize, however, that such sales should not have the effect of compelling a country to finance a large bilateral surplus with another country while it has to make net drawings on its gold and convertible currency reserves for current payments. Such circumstances would fall within the meaning of the exceptional or unforeseen cases mentioned above and would justify requests by a country participating in ERP to purchase United States dollars from the Fund to make to another member current payments or payments authorized by Article VI, Section 2 of the Fund Agreement but not to build up its monetary reserves. This is in fact the manner in which the Fund is intended to facilitate a system of multilateral payments.

The policies which will govern the use of the Fund's resources in the light of the European Recovery Program have been communicated to the members for their information and guidance and are set out in Appendix IV.

V

COLLABORATION WITH MEMBERS AND INTERNATIONAL ORGANIZATIONS

Consultation with Members

CONSULTATION between members and the Fund is the principal means through which cooperation is made effective. The main purposes of consultation are the exchange of views on matters falling within the scope of the Fund Agreement and the provision of technical advice to members. Through consultation, the Fund also gains valuable insight into the special problems of members which enables it in its work to take full account of the particular circumstances of individual countries.

In addition to this regular consultation with members, the Fund has, at the invitation of the members concerned, dispatched missions to a number of countries during the last year to study economic problems on the spot in close association with the national monetary authorities. Personal contacts will be expanded during the coming year and used increasingly as a means to keep its members informed of the development of Fund views.

Collection and Dissemination of Information

One of the duties of the Fund is the collection of basic information needed for the formulation and execution of policy. The Fund must also collate this information and, insofar as it is not confidential, make it available to members as well as to a wider public. With this objective in view, the first monthly bulletin on *International Financial Statistics* was published in January 1948.

The Fund has become a center for the collection of information on monetary and financial problems which is designed to assist members as well as the Fund. As fuller information is supplied by members, further publications will be prepared, including a series of statistical and analytical annual volumes on balance of payments. An informal meeting on balance of payments methodology was called by the Fund in Washington in September 1947. Experts from some 30 member and nonmember countries, as well as from the United Nations and specialized agencies, participated in these discussions and offered suggestions for the improvement of the forms which the Fund staff was developing for balance of payments reports. The exchange of ideas that occurred at these discussions influenced materially the Fund's comprehensive *Balance of Payments Manual* which was sent to all Fund members as the basis for reporting balance of payments data under Article VIII, Section 5 of the Fund Agreement. The *Manual* was also sent to selected nonmember countries with a request for similar balance of payments data.

Relations with Other International Organizations

The Fund has continued to maintain close and valuable relations with the International Bank for Reconstruction and Development. It has also cooperated in accordance with the terms of its Agreement with the United Nations and with other international organizations having responsibilities in fields related to the Fund's activities. The Agreement concluded with the United Nations in accordance with Article 57 of its Charter has proved satisfactory. The Fund has maintained close relations with the Economic and Social Council of the United Nations and its subsidiary organs, especially the Statistical Commission, the Economic and Employment Commission and the several regional economic commissions. The Fund has been represented at meetings of the Food and Agriculture Organization, and has participated in International Wheat Council meetings in London and Washington and in meetings of the International Labor Organization.

In response to an invitation from the Economic and Social Council, the Fund participated in the meetings at which the ITO Charter was drafted and contributed to the formulation of practicable arrangements for cooperation between the Fund and the ITO.

The Fund and the ITO are both primarily concerned with the external economic position of nations—with their balances of payments in the broadest sense. Whereas the Fund approaches the problem of achieving and maintaining a sound external economic position of members primarily from the financial side, the ITO approaches this problem from the viewpoint of commercial policy. The interdependence of these two approaches is obvious and makes full cooperation between the ITO and Fund imperative.

To ensure such cooperation the Havana Charter provides for full consultation with the Fund. Moreover, the Charter provides that the ITO, before reaching its final decisions on whether quantitative restrictions are consistent with the provisions of the Charter, shall accept the determination of the Fund as to what constitutes "a serious decline in a member's monetary reserves", "very low monetary reserves", and a "reasonable rate of increase in a member's monetary reserves", and in respect to "the financial aspects of other matters covered in consultation in such cases". Finally, the Charter provides that, in the consultations with the Fund, the ITO shall accept "all findings of statistical and other facts" presented by the Fund "relating to foreign exchange, monetary reserves and balance of payments".

It is anticipated that most members of the ITO will also be members of the Fund. However, such common membership is not required by the Charter. In order to prevent those ITO members who may not be members of the Fund from frustrating by exchange action the objectives of the Charter, such members would be required to enter into special exchange agreements with the ITO.

Under its Charter, the ITO will seek agreement with the Fund regarding procedures for consultation on monetary and related questions. A parallel provision is also contained in the General Agreement on Tariffs and Trade. Informal arrangements with the ITO of a temporary or administrative character will be made as necessary by the Executive Board. Any agreements of a permanent nature will be submitted for approval to the Board of Governors.

VI

ORGANIZATION AND ADMINISTRATION

Membership

AUSTRALIA accepted membership on August 5, 1947, and Finland, whose application was approved at the Second Annual Meeting of the Board of Governors, accepted membership on January 14, 1948. The total number of members was thus raised to 46.

Austria applied for membership on August 20, 1947; the application was approved by the Board of Governors in a vote without meeting and Austria has until August 31, 1948, to accept membership.

The Fund was notified by the United Kingdom that as a result of the passing of the Burma Independence Act, 1947, Burma no longer could be regarded as a Territory on whose behalf the United Kingdom had accepted the Articles of Agreement of the Fund. The passing of the Ceylon Independence Act of 1948 had a similar effect with regard to Ceylon.

A list showing the members of the Fund, their quotas, the Governor and Alternate Governor appointed by each member and the voting power of each member is attached as Appendix X. Changes in the membership of the Board of Governors since the Second Annual Report are shown in Appendix XI.

Quotas

At the First Annual Meeting, the Board of Governors resolved that the quota of Paraguay be increased from $2 million to $3.5 million providing that the adjustment should become effective when Paraguay applied for a proportionate increase in its subscription in the International Bank. On January 26, 1948, the Fund was officially informed that the Bank had received from Paraguay an application for an increase of $600,000 in its subscription to the capital stock of the Bank, that this increase had been authorized by the Board of Governors of the Bank and that Paraguay had paid to the Bank the 20 per cent of the increase which was payable pursuant to the resolution authorizing the increase. The quota of Paraguay in the Fund was accordingly adjusted as provided in the relevant resolution of the First Annual Meeting.

At the Second Annual Meeting, the Board of Governors adopted resolutions increasing the quota of Iran from $25 million to $35 million and the quota of Egypt from $45 million to $60 million. The increase in each case was contingent on application for a proportionate change in subscription in the Bank and on official notice of consent to the change on or before March 31, 1948. Egypt's notice of consent was duly received and the new quota for Egypt accordingly became effective. The Fund was requested by Iran to postpone the date set forth in the resolution adopted at the Second Annual Meeting. The Board of Governors voted without meeting to change the final date for notice of consent to July 31, 1948.

In taking cognizance, at the Second Annual Meeting, of a communication received from the Government of India transmitting a copy of the Indian Independence (International Arrangements) Order, 1947, the Board of Governors agreed that the original quota of India in the Fund should continue to be the quota of the Dominion of India.

A request was received from Honduras for a reduction in its quota; the Executive Directors are submitting their recommendation on this request to the Board of Governors in a separate document.

The aggregate quotas of members of the Fund were increased from $7,721.5 million as of June 30, 1947, to $7,976 million as of April 30, 1948. Of the total increase $200 million is accounted for by the quota of Australia, $38 million by the quota of Finland, $15 million by the increase in the quota of Egypt and $1.5 million by the increase in the quota of Paraguay. The quotas of all members of the Fund as of April 30, 1948, are shown in Appendix X.

Executive Directors

It is with deep regret that the Executive Directors record the death on March 22, 1948, of their colleague, Dr. Gijsbert W. J. Bruins, Executive Director elected by the Netherlands and the Union of South Africa. Dr. Bruins took a prominent part in the founding of the Fund and the wisdom and experience which he had gained through many years of participation in international and financial affairs had greatly benefited the Fund since its establishment. He always gave generously of his counsel, time and energy to the work of the Executive Board and in his death the Fund has lost one of its most valued counselors.

Pursuant to Article XII, Section 3 (f) of the Fund Agreement, an election was held to choose an Executive Director to serve the remainder of the term of office of Dr. Bruins. The members eligible to participate were the Netherlands and the Union of South Africa. Mr. Johan W. Beyen of the Netherlands was nominated and elected.

At the Second Annual Meeting, the Board of Governors adopted a resolution providing for the election of an additional Executive Director by those members who, as of December 31, 1947, were not entitled to appoint Directors and whose votes were not entitled to be cast by Directors holding office. The members eligible to participate in the election were Australia, Syria and Lebanon. Mr. Stuart G. McFarlane of Australia was elected.

The Executive Directors of the Fund and their voting power as of April 30, 1948, are shown in Appendix XII and changes in the membership of the Executive Board in the fiscal year in Appendix XIII.

Staff

Mr. Maurice H. Parsons, formerly Alternate Executive Director for the United Kingdom, was appointed Director of Operations in November 1947 replacing Mr. John L. Fisher who had resigned.

On April 30, 1948, the staff numbered 403 persons, 379 of whom held regular appointments. This represents an increase of 49 persons during the fiscal year. There are nationals of twenty-nine member countries on the staff. The distribution of the staff by salary and geographical area is shown in Appendix XIV.

The Executive Directors wish to record their appreciation of the high quality of the services rendered by the staff which has continued to demonstrate great competence and devotion to duty.

A contributory group health plan has been in effect since September 1, 1947. Participation is voluntary and 65 per cent of the eligible staff have joined. A staff retirement plan was approved to go into effect on July 1, 1948.

Rules and Regulations

There are submitted separately to the Board of Governors for their review certain modifications of the Rules and Regulations.

Silver

At the Second Annual Meeting, the Board of Governors adopted a resolution requesting member countries to submit, at their earliest convenience, data relating to silver and its uses pursuant to Resolution No. 3 adopted at the First Annual Meeting, and instructing the Fund to assemble whatever data might be submitted and make it available to all members not later than March 1, 1948. The requested data were not received from a sufficient number of members by March 1, 1948, and it was accordingly necessary to notify members that the report on silver would be delayed.

Financial Report

The Executive Directors requested Mexico, the Union of South Africa and the United States each to nominate a member for an Audit Committee to audit the accounts as required under Section 20 (b) of the By-Laws. These three countries nominated, respectively, Mr. Roberto Casas-Alatriste, Public Auditor, Mr. H. J. A. Bartie, Chief Inspector, Controller and Auditor-General's Department, and Mr. Gilbert L. Cake, Associate Commissioner of Accounts of the United States Treasury. The report of the Audit Committee is submitted separately.

The Auditors' certificate, with the audited balance sheet as of April 30, 1948, and audited statement of income and expense, with supporting Schedules, are presented in Appendix VIII.

Administrative Budget

An Administrative Budget for the period May 1, 1948, to April 30, 1949, as approved by the Executive Directors, is presented in Appendix XV.

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APPENDICES

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APPENDIX I

FUND'S STATEMENT ON EXCHANGE ARRANGEMENTS IN ITALY

(Press Release of December 4, 1947)

The International Monetary Fund was informed by the Italian Government of the measures taken by that Government in its foreign exchange control practices. Although Italy is a member of the Fund, no par value for the lira has yet been agreed with the Fund. This is also true of eight other members of the Fund.

Under the system prevailing in Italy up to November 27, all Italian recipients of foreign exchange were required to sell one half of their receipts to the monetary authorities at an official fixed rate of exchange (350 lire to the dollar since August). The other half might be sold at the free exchange rate through authorized banks. Thus those selling foreign exchange received a price which was the average of the official and the free rates. On November 27 the Italian Government modified the foregoing system to provide that the one half of all foreign exchange receipts sold to the monetary authorities will be sold at a rate established every month at the average of the free market rates in the previous month, with upper and lower limits of 650 and 350 lire to the dollar respectively.

Arrangements which, in fact, result in fluctuating exchange rates are not in accord with the long-term objectives of the Fund. The Fund recognizes, however, that in some cases members may be required, for temporary periods, to institute extraordinary measures in an attempt to meet particular difficulties. The Fund will look on such measures for temporary periods with sympathy. In the case of Italy, the Fund feels sure that the Government is fully in agreement with the long-run purposes of the Fund and will, as soon as possible, move toward the establishment of fixed and stable exchange rates.

The modifications in their exchange procedure instituted by the Italian Government bring the actual rate of exchange of the lira to the dollar nearer to the equilibrium of the internal and external price levels. They thus encourage Italy's ability to export. They narrow the gap between effective buying and effective selling rates and eliminate discrimination among different classes of commodity imports and exports.

APPENDIX II

COMMUNICATION SENT BY FUND TO MEMBERS ON MULTIPLE CURRENCY PRACTICES

December 19, 1947

To All Members:

During the past several months the Fund has been giving special consideration to multiple currency practices. I am writing to all of the members today in order to acquaint them with the results of our considerations. Enclosed is a memorandum containing the pertinent decisions taken by the Executive Board. These set forth the general lines of the Fund's policies toward multiple currency practices which the Fund has adopted to date, together with the obligations of the members and the jurisdiction of the Fund upon which the development of Fund policy will necessarily be based.

We intend, as rapidly as may be possible under the circumstances, to discuss with each member now engaging in a multiple currency practice how this general policy will be applied to its individual problems. In the meantime, all of the members are requested to be guided by the enclosed memorandum and to initiate with the Fund discussions of any pressing problems which may arise.

Sincerely yours,

/s/
Gutt
Managing Director

MULTIPLE CURRENCY PRACTICES

(Enclosure with above letter)

This memorandum contains the decisions the Fund has so far taken concerning its policies toward multiple currency practices and clarification of its jurisdiction with respect to such practices.

The exchange systems of the members who engage in multiple currency practices are frequently complex. For this reason various difficulties will be involved in the modification and removal of the practices, and the policy of the Fund in this regard must develop progressively as its consultations with the members concerned reveal problems which might otherwise be overlooked. The policies set forth below have been agreed as a basis for the initiation of discussions with the members affected:

I. Policies

A. *General*

1. *Consultation.* There should be continuing consultation on multiple currency practices between the Fund and the members concerned. Members should, as a minimum, consult the Fund before introducing a multiple currency practice, before making a change in any of the multiple rates of exchange, before re-classifying transactions subject to different rates, and before making any other type of significant change in their exchange systems.

2. *Stability and Restrictions.* In most cases multiple currency practices are both systems of exchange rates and restrictions on payments and transfers for current international transactions. Whenever it is inconvenient to deal with both aspects of such multiple currency practice simultaneously, priority should be

given to those features which affect exchange stability and orderly exchange arrangements among members.

3. *Removal.* Early steps should be taken toward the removal of multiple currency practices which are clearly not necessary for balance of payments reasons. In such cases, ample time should be provided for members to take the necessary steps and to install appropriate substitutes where necessary.

The Fund will encourage members engaging in multiple currency practices for balance of payments reasons to establish as soon as possible conditions which would permit their removal, with the general objective of seeking removal not later than the end of the transitional period.

Where complete removal by the end of the transitional period proves impossible, the Fund will assist the members concerned to eliminate the most dangerous aspects of their multiple currency practices and to exercise reasonable control over those retained.

B. *Specific Practices*

1. *Fixed Exchange Rates.* When a multiple currency system includes fixed exchange rates, members should consult with the Fund on any changes in their practices, whether such changes concern the rates of exchange or the classification of transactions subject to particular practices. Should the step contemplated by a member be a part of a program made in agreement with the Fund, the member could, of course, act without prior consultation.

When a multiple rate system is used for restrictions on current and capital transactions, the elimination of the restriction on current transactions would be highly commendable even though restrictions on capital transactions might have to be retained.

2. *Taxes on Exchange Drafts.* The use by members of taxes on exchange drafts resulting in an unusually large difference between buying and selling rates for a currency is not in accord with the objectives of the Fund Agreement and the Fund shall, in consultation with members concerned, seek the elimination of such practices as rapidly as practicable.

3. *Fluctuating Rates of Exchange.*

(a) *Free Markets.* When a multiple currency practice includes a free market with a fluctuating rate, the member should agree with the Fund on the scope of the transactions permitted to take place in that market. Any changes in the scope of these transactions should, of course, be subject to agreement with the Fund. The objective should be to eliminate the fluctuations in the free market as soon as such action is reasonably practicable. When it is not reasonably practicable to eliminate such fluctuations, the Fund will encourage members to exclude current transactions from the free market to the extent that this would be reasonable in the circumstances of each case.

(b) *The Auction System.*

(i) The purpose for which an auction system is to be used should be agreed with the Fund and any change in its scope should be agreed with the Fund. The fewer the transactions subject to the auction rate, and the less essential the goods involved, the better.

(ii) Depending upon the circumstances, the monetary authorities should undertake to keep the auction rate stable, or to maintain it within certain limits, or to make every effort to prevent brisk fluctuations.

(iii) Wherever auction rates exist or are proposed, the circumstances should be examined in order to determine whether a fixed rate should be substituted for the auction rate.

(iv) If, as is usually the case where an auction system exists, a reduction of the money supply is desirable, the proceeds of the auction market should be directed toward this end.

II. Jurisdiction of the Fund

Multiple currency practices, besides being in most cases restrictive practices, also constitute systems of exchange rates. Since exchange stability depends on effective rates, the general purposes of the Fund and the members' undertakings of 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" are fundamental considerations in an interpretation of the rights and obligations of members under Article XIV, Section 2 or Article VIII, Section 3 to maintain, introduce, or adapt multiple currency practices. Subject to these general principles, the following conclusions are agreed with respect to the Fund's jurisdiction and the obligations of members.*

A. *Practices Subject to Article VIII, Section 3*

1. *Maintenance.* A member maintaining multiple currency practices at the time the Agreement entered into force, if it

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* These conclusions concerning the Fund's jurisdiction and the obligation of members apply to all members including those for whose currencies par values have not been established.

does not take advantage of Article XIV, is required by Article VIII, Section 3, to consult with the Fund for their progressive removal or obtain the Fund's approval for their maintenance.

2. *Introduction.* Members that have not been occupied by the enemy and former enemy-occupied members which have not taken advantage of the transitional arrangements, whether or not they have existing multiple rate practices, may introduce a new practice only under Article VIII, Section 3, which provides expressly for the necessity of approval by the Fund.

3. *Adaptation.* If a multiple currency practice is in force by virtue of Article VIII, Section 3, the member may change or adapt such practice only after consulting with the Fund and obtaining its approval.

4. *Reclassification.* Members maintaining multiple currency practices under Article VIII, Section 3, may reclassify commodities subject to the practices only after consultation with the Fund and Fund approval.

B. *Practices Subject to Article XIV, Section 2*

1. *Restrictive Nature.* Multiple currency practices, when applied to current international transactions, constitute a type of restriction on payments and transfers for current international transactions for the purposes of Article XIV, Section 2.

2. *Representations by the Fund.* The following language in Article XIV, Section 4 of the Fund Agreement:

> "The Fund may, if it deems such action necessary in exceptional circumstances, make representations to any member that conditions are favorable for the withdrawal of any particular restriction or for the general abandonment of restrictions inconsistent with the provisions of any other article of this Agreement."

(a) applies at any time after the entry into force of the Fund Agreement and

(b) gives to the Fund the power to determine what is meant by "in exceptional circumstances".

3. *Maintenance.* Members may maintain multiple currency practices during the transitional period under the provisions of Article XIV, Section 2, but only if the maintenance of such practices is necessary for settling members' balance of payments in a manner which does not unduly encumber their access to the resources of the Fund. Members are under a duty to withdraw such practices as soon as they are able without them to settle their balance of payments in a manner which will not unduly encumber their access to the resources of the Fund. Moreover, under Section 4 of Article XIV, the Fund has certain powers to make representations in exceptional circumstances, of which it is the judge, that conditions are favorable for the withdrawal of any particular restriction. The Fund may exercise this power even if a particular restriction is justified for balance of payments reasons, if the conditions are favorable for the substitution of some practice which is not inconsistent with the purposes of the Agreement.

4. *Introduction.* Only former enemy-occupied members, which are availing themselves of the transitional provisions, and then whether or not they have existing multiple currency practices, may introduce a new multiple currency practice under Article XIV, Section 2, provided the Fund agrees with the member that the practice is necessary and does not find that it is inconsistent with the purposes of the Fund Agreement or with Article IV, Section 4 (a).

5. *Adaptation.* A member maintaining multiple currency practices under Article XIV may adapt the existing restrictions, provided such action is consistent with the obligations of Article IV, Section 4 (a) and the Fund is satisfied that the adaptation is dictated by "changing circumstances". A duty to consult with and obtain the approval of the Fund before changing the practice is implicit in both Article IV, Section 4 (a) and in Article XIV, Section 2. The Fund has the power under Article XIV, Section 4, to represent in exceptional circumstances that circumstances are favorable to withdrawal of a proposal to change an existing multiple currency practice.

6. *Reclassification.* A member maintaining multiple currency practices under Article XIV may reclassify commodities subject to such practices, under the power to adapt restrictions in Section 2 of Article XIV, and under the same conditions, provided, however, that under the existing restrictions the effective rates are other than parity.

C. *Exchange Taxes*

When a tax affects an obligation undertaken by the members of the Fund, the relationship between the tax and the obligation is of direct concern to the Fund and subject to its jurisdiction. Whenever exchange taxes are used to modify par values, create multiple currency practices, or introduce restrictive exchange controls, they are subject to the Fund's jurisdiction. The Fund has authority to deal with these exchange matters irrespective of the official device or procedure involved.

D. *Rates Differing from Parity by More than One Per Cent*

An effective buying or selling rate which, as the result of official action, *e.g.*, the imposition of an exchange tax, differs from parity by more than one per cent, constitutes a multiple currency practice.

APPENDIX III

STATEMENT ON CONSULTATIONS WITH THE GOVERNMENT OF CHILE

(Press Release of January 31, 1948)

The International Monetary Fund today announced the conclusion of consultations with the Government of Chile on matters connected with that country's foreign exchange budget for 1948.

As a result of these consultations Chile has proposed, and the Fund has agreed upon, a progressive program to be undertaken by Chile over the course of this year. This program is aimed at simplification of the existing multiple exchange rate system of that country, and it is anticipated that, from the beginning of next year, the bulk of Chile's foreign exchange transactions will take place within the revised system at a new rate of exchange to be established at a more realistic level.

Among the immediate steps to be taken is to eliminate the practice of private compensations, by which Chilean importers and exporters must directly match their foreign exchange demands and supply, and replace it by the orderly handling of these transactions through commercial banks. Chile has already taken steps towards balancing her budget and imposing selective restraints on bank credit which will help to arrive at the internal financial stability necessary to achieve and maintain external stability.

The Fund welcomes Chile's cooperation and support of the objectives of the Fund, as evidenced by this consultation. The Fund will work closely with Chile to assist her in meeting her present exchange difficulty along the lines which have now been mutually agreed upon.

APPENDIX IV

A

USE OF THE FUND'S RESOURCES—EFFECT OF EUROPEAN RECOVERY PROGRAM

(Press Release of April 20, 1948)

The following Executive Board decision of April 5, 1948, was communicated by the Fund to all members on April 20, 1948:

Although the Fund recognizes that a general rule is not sufficient basis for all cases, the Fund must, in examining requests for the use of its resources, take into account the European Recovery Program, especially with respect to members who participate in the Program. Since the ERP is to be handled year by year, related policies on use of the Fund's resources should be developed at similar intervals. For the first year the attitude of the Fund and ERP members should be that such members should request the purchase of United States dollars from the Fund only in exceptional or unforeseen cases. The Fund and members participating in ERP should have as their objective to maintain the resources of the Fund at a safe and reasonable level during the ERP period in order that at the end of the period such members will have unencumbered access to the resources of the Fund. This objective conforms with the intention of Article XIV, Section 1, that during the transitional period members should not impair the capacity of the Fund to serve its members or impair their ability to secure help from the Fund after the transitional period.

B

In connection with the above decision, the Executive Board considered the matter of requests by other members to buy from the Fund the currencies of members who are participating in ERP and recorded its opinion as follows:

> During the European Recovery Program members of the Fund may wish to use the Fund's holdings of the currency of a country participating in ERP. No member has the right to veto or limit the Fund's sales of its currency to other members for use in accordance with the Fund Agreement. The Fund recognizes, however, that such sales should not have the effect of compelling a country to finance a large bilateral surplus with some countries, while it has to make net drawings on its gold and convertible currency reserves for current payments. Such circumstances would fall within the meaning of the "exceptional or unforeseen cases" mentioned in the policy decision of April 5, 1948, made by the Fund concerning the use of the Fund's resources by ERP countries and would justify requests by a country to purchase foreign exchange from the Fund to make to other members current payments or payments authorized by Article VI, Section 2, but not to build up its monetary reserves. This is in fact the manner in which the Fund is intended to facilitate a system of multilateral payments.

APPENDIX V

FUND'S STATEMENT CONCERNING EXCHANGE ACTIONS TAKEN BY FRANCE COMMUNICATED TO ALL MEMBERS

(Press Release of January 25, 1948)

The French Government has engaged in full and frank consultations with the International Monetary Fund regarding a plan for exchange adjustment, which would require the approval of the Fund. The essential features of the plan were the following:

The par value of the French franc would be reduced by 44.444 per cent, which would result in a change in rate from approximately 119 francs per United States dollar to approximately 214.

At the same time, a discriminatory multiple currency practice would be introduced whereby United States dollars and certain other currencies which can be readily sold for dollars would be bought and sold in a market inside France at fluctuating rates which would differ considerably from the new par value.

French exporters would be permitted to sell in this market one half of their export proceeds in the designated currencies, the other half being sold to the French monetary authorities at the official par value. French importers would be permitted to buy in this market the designated currencies needed to pay for non-basic commodities. In addition various "invisible" transactions would be authorized to take place in this market, including exchange transactions of tourists, capital transfers and other non-commercial remittances.

The Fund agreed with the French Government that a change in the par value of the franc was necessary, and indicated that it was prepared to concur in a devaluation of the franc to a realistic rate which would be applicable to transactions in the currencies of all members of the Fund. In this connection, the Fund has noted with satisfaction the budgetary and fiscal measures directed at internal monetary stabilization which France has taken in recent months.

The Fund gave careful consideration to the proposal to establish a market in convertible currencies along the lines indicated above. The Fund had no desire to be rigid or doctrinaire in its approach to this matter, particularly in view of the abnormalities of the present situation. Despite serious reservations regarding a system involving fluctuating rates, the Fund explored various alternatives designed to meet insofar as possible the objectives of the French authorities. The Fund was not, however, able to agree to the inclusion in a market with fluctuating rates of any part of the proceeds of exports, as in its judgment this entailed the risk of serious adverse effects on other members of the Fund, without being necessary to achieve the trade objectives sought by the French authorities.

The Fund felt that there would be scope for competitive depreciation in the application by one country of a fluctuating rate on exports to one area while other rates remain stable and other countries maintain the parities agreed with the Fund. Such a system, operating in an important trading country, would encourage trade distortions and might cast unwarranted doubt on the real strength of many currencies through the apparent discount applied to them in the French system.

The Fund feared that the widespread adoption of such a system would result in exchange uncertainty and instability and produce a disorderly exchange situation from which all members of the Fund would suffer. While recognizing the difficulties of the French position, the Fund felt that the solution must be found through cooperative efforts to place currencies on a sound and stable basis.

The French Government found that it could not accept the modification of its proposal suggested by the Fund and has now informed the Fund that it has decided to go forward with its proposal notwithstanding the objections of the Fund. The Fund regrets this action by a country which collaborated so effectively in the Fund's establishment and whose cooperation has been a valuable asset.

The Fund will continue to work with France in seeking a modification of these exchange practices in order to meet French needs within the framework of the international monetary arrangements established by the Fund Agreement.

APPENDIX VI

STATEMENT ON GOLD SUBSIDIES COMMUNICATED TO ALL MEMBERS

(Press Release of December 11, 1947)

The International Monetary Fund has a responsibility to see that the gold policies of its members do not undermine or threaten to undermine exchange stability. Consequently every member which proposes to introduce new measures to subsidize the production of gold is under obligation to consult with the Fund on the specific measures to be introduced.

Under Article IV, Section 2 of the Articles of Agreement of the Fund members are prohibited from buying gold at a price above parity plus the prescribed margin. In the view of the Fund, a subsidy in the form of a uniform payment per ounce for all or part of the gold produced would constitute an increase in price which would not be permissible if the total price paid by the member for gold were thereby to become in excess of parity plus the prescribed margin. Subsidies involving payments in another form may also, depending upon their nature, constitute an increase in price.

Under Article IV, Section 4 (a) each member of the Fund, "undertakes to collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members, and to avoid competitive exchange alterations". Subsidies on gold production regardless of their form are inconsistent with Article IV, Section 4 (a) if they undermine or threaten to undermine exchange stability. This would be the case, for example, if subsidies were to cast widespread doubt on the uniformity of the monetary value of gold in all member countries.

Subsidies which do not directly affect exchange stability may, nevertheless, contribute directly or indirectly to monetary instability in other countries and hence be of concern to the Fund.

A determination by the Fund that a proposed subsidy is not inconsistent with the foregoing principles will depend upon the circumstances in each case. Moreover, the Fund may find that subsidies which are justified at any one time may, because of changing conditions and changing effects, later prove to be inconsistent with the foregoing principles. In order to carry out its objectives, the Fund will continue to study, and to review with its members, their gold policies and any proposed changes, to determine if they are consonant with the provisions of the Fund Agreement and conducive to a sound international policy regarding gold.

APPENDIX VII

FUND'S STATEMENT ON THE CANADIAN GOVERNMENT'S PROPOSED GOLD PRODUCTION SUBSIDY COMMUNICATED TO ALL MEMBERS

(Press Release of December 11, 1947)

The Canadian Government has consulted with the Fund regarding its proposed gold production subsidy and has today made an announcement on this subject. The Fund has examined the present Canadian proposal in the light of its own general statement of policy published today. The Fund has determined that in the present circumstances the proposed Canadian action is not inconsistent with the policy stated by the Fund.

APPENDIX VIII (i)

BALANCE SHEET, STATEMENT OF INCOME AND EXPENSE AND SUPPORTING SCHEDULES

Letter of Transmittal

July 28, 1948

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 a balance sheet and statement of income and expense of the Fund for the 10 months ending April 30, 1948, together with the Auditors' Certificate.

In conformity with the By-Law as amended by the Board of Governors at their last Annual Meeting, the external audit of Fund has been performed by an Audit Committee consisting of auditors nominated by three member countries. At the Fund's request, Mexico, the Union of South Africa and the United States nominated auditors to serve on this Committee. They respectively nominated Mr. Roberto Casas-Alatriste, Public Auditor, Mr. H. J. A. Bartie, Chief Inspector, Controller and Auditor-General's Department, and Mr. Gilbert L. Cake, Associate Commissioner of Accounts of the United States Treasury. The auditors thus nominated were confirmed by the Executive Directors.

It will be noted that during the period under review the excess of income over expenditure amounted to $1,558,380.34, as compared with an accumulated excess of expenditure over income of $1,703,410.12 as at June 30, 1947, and that the total excess of expenditure over income from inception to April 30, 1948, is thus reduced to $145,029.78.

The detailed report of the Audit Committee is being submitted separately to the Board of Governors.

Yours sincerely,

/s/ Gutt

Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

APPENDIX VIII (ii)

AUDITORS' CERTIFICATE

"We have made an independent examination of the Balance Sheet of the International Monetary Fund as at April 30, 1948, of the Statement of Income and Expenditure for the period July 1, 1947 to April 30, 1948, and of the schedules related to such financial statements. Our examination was made in accordance with generally accepted auditing standards and included all procedures which we considered necessary in the circumstances. In that connection we have examined or tested to the extent deemed appropriate the accounting records of the Fund and other supporting evidence of its financial transactions; we have ascertained generally and to the extent practicable, that financial transactions have been conducted in compliance with the Fund's requirements; and we have obtained from the Officers and staff of the Fund such information and representations as we have required in connection with the foregoing. We have also made a general review of the accounting methods and system of internal control concerning which certain views and suggestions have been made available to the appropriate authority.

"In our opinion, based on our examination, such Balance Sheet and related Statement of Income and Expenditure, together with the notes appearing thereon, present fairly the financial position of the International Monetary Fund as at April 30, 1948, and the results of its operations from July 1, 1947 to April 30, 1948, in conformity with generally accepted accounting principles applied on a basis consistent with that of the previous fiscal year ended June 30, 1947."

/s/ R. Casas-Alatriste
(Mexico)

/s/ H. J. A. Bartie
(Union of South Africa)

/s/ Gilbert L. Cake
(United States)

APPENDX

BALANCE

April 30

Values expressed in United State

except

ASSETS

Gold with Depositories[2]		$1,362,628,187.31
(38,932,233.923 fine ounces at U. S. $35.00 per ounce)		
Currency and Securities with Depositories		
Currency	$ 927,656,739.46	
(in Members' Currencies)		
Securities	4,514,711,092.63	5,442,367,832.09
(non-negotiable, non-interest bearing, demand obligations payable at face value by members in their currencies)		
Subscriptions to Capital—Receivable		
Balances Due	12,948,700.00	
(Members whose par values have been established)		
Balances not Due	1,157,888,000.00	1,170,836,700.00
(Members whose par values have not yet been established)		
Other Assets		280,048.14
(Other Cash, Receivables, etc.)		
TOTAL ASSETS		$7,976,112,767.54

(sgd.) C. M. Powell, *Comptroller*

NOTES:

[1] As from January 26, 1948, the French franc has, for bookkeeping purposes been computed at a provisional rate of 214.392 francs per U. S. dollar as compared with the previously established par value of 119.107 francs per dollar. Appropriate adjustment of the Fund's holdings of this currency has been made to sustain the value thereof at the provisional rate.

[2] Includes 6,971 gold bars, .995 fine or higher, with the U. S. depository of the Fund, which are not U. S. assay office unmutilated bars, for which a reserve is provided to meet the potential cost of turning the gold into U. S. assay office bars. The amount of gold shown in the balance sheet does not include 584.245 fine ounces with depositories which are earmarked by the Fund for certain members in respect of excess payments of charges on exchange transactions.

VIII (iii)

SHEET

1948

dollars on basis of established parities,
dicated in Note[1].

CAPITAL AND LIABILITIES

Capital		
Authorized Subscriptions of Members .... *(per established quotas)*[3]		$7,976,000,000.00
Deduction:		
Excess of Expenditure over Income, from inception to June 30, 1947............	$1,703,410.12	
Addition:		
Increment to Net Capital, July 1, 1947 to April 30, 1948[4]..................	1,558,380.34	145,029.78
NET CAPITAL..........................		$7,975,854,970.22
Reserves		
Reserves for Potential Cost of Turning Certain Gold into New Bars.................	62,469.11	
Reserves for Potential Cost of Converting Purchased Gold into Currency.............	64.76	62,533.87
Liabilities[5]......................... *(Accounts Payable, Accruals, and Staff contributions to contemplated Retirement System)*		195,263.45
TOTAL CAPITAL AND LIABILITIES............		$7,976,112,767.54

(sgd.) GUTT, *Managing Director*

[3] Includes $238,000,000.00 subscriptions from two new members and $16,500,000.00 representing increases in quota.

[4] The Fund has approved in principle a Staff Retirement Plan, which would have retroactive effect. The Fund's share of the contributions to this plan up to April 30, 1948, would on an estimated basis amount to $227,000.00. This amount is not reflected in the above statement.

[5] The By-Laws of the Fund provide that Governors, Directors, Alternates and staff shall, in addition to basic salaries and allowances, be compensated for national income taxation thereon. Provision has been made, as of April 30, 1948, for all known claimants. While certain liability is considered to exist with respect to unascertained claims, it is not practicable to estimate the amount thereof for balance sheet purposes.

APPENDIX VIII (iv)

STATEMENT OF INCOME AND EXPENDITURE

July 1, 1947 to April 30, 1948

Values expressed in United States dollars on basis of established parities, except as indicated in Note [1].

INCOME

Income from Operations			
Service Charges on Exchange Transactions..............	$4,080,000.00		
(116,571.427 ounces gold collected)			
Charges on Fund's holdings of members' currencies and securities in excess of quotas..	104,360.90	$4,184,360.90	
Other Income			
Sale of Fund's Publication....	810.00		
Miscellaneous Income........	528.90	1,338.90	
TOTAL INCOME......			$4,185,699.80

EXPENDITURES

Current Administration		
Personnel Outlays:		
Salaries and Wages........	$1,550,378.78	
Compensation for National Income Taxation........	128,462.18	
	1,678,840.96	
Expense Allowance for Managing Director......	8,333.33	
Installation Allowances.....	28,535.00	
(for establishment of residence by staff personnel)		
Fund's Contributions to Group Health Benefits for employees..........	5,887 54	$1,721,596.83
Travel [2]		
Travel for Fund's Business..	105,802.79	
Appointment Travel.......	44,473.33	
(bringing personnel to seat of Fund on appointment)		
Repatriation Travel........	2,844.68	153,120.80
(returning personnel to homeland on separation)		
Carried forward		1,874,717.63

APPENDIX VIII (iv) (*Continued*)

STATEMENT OF INCOME AND EXPENDITURE

July 1, 1947 to April 30, 1948

Values expressed in United States dollars on basis of established parities, except as indicated in Note [1].

TOTAL INCOME (brought forward)			$4,185,699.80
EXPENDITURES FOR CURRENT ADMINISTRATION (brought forward)		$1,874,717.63	
Communications			
Telegraph & Cable Services	$23,675.52		
Telephone Service	27,001 99		
Postage	11,291.65	61,969.16	
Office Occupancy Expense			
Space Rentals and Maintenance Services	243,539.96		
Building Alterations	49,907.67	293,447.63	
Books, Newspapers and Periodicals		18,339.61	
Printing, by Contract		30,938.78	
Equipment and Supplies [3] (*including rentals, repairs and maintenance*)			
Equipment	90,648.42		
Consumable supplies	49,050.10	139,698.52	
Miscellaneous Expenses			
Insurance	8,720.18		
External Audit [4]	4,455.01		
Other Miscellaneous Expense	5,078.09	18,253.28	
TOTAL EXPENDITURES FOR CURRENT ADMINISTRATION		2,437,364.61	
Meeting of Board of Governors			
Second Annual Meeting [5] (*Sept.* 11 *to* 17, 1947)		189,265.05	
TOTAL ADMINISTRATIVE EXPENSE		2,626,629.66	

APPENDIX VIII (iv) (*Continued*)
STATEMENT OF INCOME AND EXPENDITURE
July 1, 1947 to April 30, 1948

Values expressed in United States dollars on basis of established parities, except as indicated in Note [1].

TOTAL INCOME (brought forward)			$4,185,699.80
TOTAL ADMINISTRATIVE EXPENSE (brought forward)		$2,626,629.66	
Other Expenses			
Handling Charges of Depository in connection with Gold of Fund		4.11	
TOTAL EXPENDITURES			2,626,633.77
NET INCOME OF PERIOD			1,559,066.03
ADJUSTMENTS NOT RELATED TO NET INCOME OF PERIOD			
Deductions			
Expense of Earlier Meetings of Governors, paid this Period:			
Inaugural Meeting	$1,390.70		
First Annual Meeting	898.53	2,289.23	
Addition			
Exchange Adjustments—Net [6]		1,603.54	
NET ADJUSTMENT—DECREASE			685.69
INCREMENT TO NET CAPITAL, JULY 1, 1947 TO APRIL 30, 1948 (*Carried to Balance Sheet*)[7]			$1,558,380.34

NOTES:

[1] See Note [1] of Balance Sheet.

[2] Does not include expense for travel in connection with meetings of the Board of Governors which is included in the expense of such meetings.

[3] It has been and still is the policy of the Fund to write off the cost value of all furniture, office equipment, and automobiles purchased, by establishing full depreciation reserves against the asset accounts, and to charge the cost value of consumable supplies to expense of the period in which purchased.

[4] This expense relates exclusively to the audit for the fiscal year ended June 30, 1947.

[5] Expenditures for the Second Annual Meeting of Governors represent $79,530.78 for transportation, $74,159.75 for subsistence, and $35,574.52 for other expense.

[6] The net credit for exchange adjustments is the result of bookkeeping entries arising from the expression in U. S. dollar equivalent values of transactions in gold and members' currencies, which involves the use of fractional computations. The net credit does not represent a true gain such as may arise in dealing in foreign exchange at fluctuating rates.

[7] The Fund has approved in principle a Staff Retirement Plan, which would have retroactive effect. The Fund's share of the contributions to this plan up to April 30, 1948, would on an estimated basis amount to $227,000.00. This amount is not reflected in the above statement.

APPENDIX VIII (v)

GOLD WITH DEPOSITORIES

April 30, 1948

Valued at U. S. $35 per fine ounce

Depositories	Ounces (.995 Fine or higher)	Equivalent Value in U. S. Dollars	Distribution (Per cent)
Banque de France[1]	2,298,997.733	80,464,920.65	5.90
Reserve Bank of India	785,327.246	27,486,453.61	2.02
Bank of England	13,982,974.999	489,404,124.96	35.92
Federal Reserve Bank of New York[2]	21,864,933.945	765,272,688.09	56.16
	38,932,233.923	1,362,628,187.31	100.00

NOTES:

[1] Excludes .897 fine ounce of gold with the depository which is earmarked by the Fund for France in respect of excess payment of charges on exchange transactions.

[2] Excludes 583.348 fine ounces of gold with the depository which are earmarked by the Fund for the following members in respect of excess payment of charges on exchange transactions:

Chile, 29.385 ounces
Denmark, .006 ounce
Mexico, 234.435 ounces
Netherlands, 83,060 ounces
Norway, 127.074 ounces
Turkey, 109.388 ounces

Also see note [8] of Balance Sheet.

APPENDIXVIII (vi)

CURRENCIES AND SECURITIES WITH DEPOSITORIES—April 30, 1948

Values expressed in United States dollars on basis of established parities, except as indicated in Note [1]

Depositories	National Curren-cies	Amounts of Currency and Securities (In Units of National Currencies)			Exchange Rates [2]	Equivalent Values in U. S. Dollars
		Currency	Securities	Total		
Commonwealth Bank of Australia	Pounds	6,227,748.0.3	53,200,000.0.0	59,427,748.0.3	322.400*	191,595,059.59
Banque Nationale de Belgique, S. A.	Francs	992,530,520.76	7,849,500,000.00	8,842,030,520.76	43.8275	201,746,175.81
Bank of Canada	Dollars	30,996,107.17	194,000,000.00	224,996,107.17	1.00000	224,996,107.17
Banco Central de Chile	Pesos	1,547,286,110.66		1,547,286,110.66	31.0000	49,912,455.19
Banco de la Republica—Colombia	Pesos	65,623,596.13		65,623,596.13	1.74999	37,499,412.06
Banco Nacional de Costa Rica	Colones	26,217,116.71		26,217,116.71	5.61500	4,669,121.41
Tesoreria General De La Republica—Cuba	Pesos	4,990,637.30	32,500,000.00	37,490,637.30	1.00000	37,490,637.30
National Bank of Czechoslovakia	Koruny	625,116,469.26	5,552,378,996.00	6,177,495,465.26	50.0000	123,549,909.29
Danmarks Nationalbank	Kroner	81,591,377.45	267,172,231.34	348,763,608.79	4.79901	72,674,074.19
Banco Central de la Republica Dominicana	Pesos	3,750,000.00		3,750,000.00	1.00000	3,750,000.00
Banco Central del Ecuador	Sucres	50,619,477.13		50,619,477.13	13.5000	3,749,590.90
The Treasury, Ministry of Finance—Egypt	Pounds	1,451,612.719	10,821,067.250	12,272,679.969	413.300*	50,722,985.16
Banco Central de Reserva de El Salvador	Colones	4,686,523.19		4,686,523.19	2.5000	1,874,609.28
State Bank of Ethiopia	Dollars	1,491,504.78	13,377,375.30	14,868,880.08	40.250*	5,984,724.23
Banque de France	Francs	11,262,743,739.09	111,030,000,000.00	122,292,743,739.09	[1]	570,416,544.17
Banco de Guatemala	Quetzales	3,749,866.46		3,749,866.46	1.00000	3,749,866.46
The National Bank of Iceland	Kronur	4,864,322.59		4,864,322.59	6.48885	749,643.25

Reserve Bank of India	Rupees	224,987,954.2.10	1,099,970,000.0.0	1,324,957,954.2.10	30.2250*	400,468,541.65
Bank Melli Iran	Rials	81,620,344.50	522,931,120.30	604,551,464.80	32.2500	18,745,781.85
Rafidain Bank, Baghdad, Iraq	Dinars	199,897.670	1,785,000.000	1,984,897.670	403.000*	7,999,137.61
Banque de Syrie et du Liban, Beyrouth	Pounds	9,274,475.90		9,274,475.90	2.19148	4,232,060.48
Banque National de Belgique, S. A. (Luxembourg A/C)	Francs	43,841,370.05	380,150,000.00	423,991,370.05	43.8275	9,674,094.35
Banco de Mexico, S. A.	Pesos	436,944,778.28		436,944,778.28	4.85500	89,998,924.45
De Nederlandsche Bank N. V.	Guilders	73,988,618.47	655,000,000.00	728,988,618.47	2.65285	274,794,510.97
Banco Nacional de Nicaragua	Cordobas	7,499,121.67		7,499,121.67	5.00000	1,499,824.33
Norges Bank	Kroner	49,666,658.29	161,250,322.58	210,916,980.87	20.1500*	42,499,770.80
Banco Nacional de Panama	Balboas	49,976.00		49,976.00	1.00000	49,976.00
Banco del Paraguay	Guaranies	8,105,650.90		8,105,650.90	3.09000	2,623,188.00
Banco Central de Reserva del Peru	Soles	16,260,012.74	125,743,686.00	142,003,698.74	6.50000	21,846,722.88
Philippine National Bank	Pesos	22,498,737.80		22,498,737.80	2.00000	11,249,368.90
South African Reserve Bank	Pounds	2,482,022.17.3	16,126,410.17.4	18,608,433.14.7	403.000*	74,991,987.91
Banque de Syrie et du Liban, Damascus	Pounds	1,425,145.40	12,447,000.00	13,872,145.40	2.19148	6,330,035.14
Banque Centrale de la Republique de Turquie	Liras	26,047,966.35	78,250,000.00	104,297,966.35	2.80000	37,249,273.70
Bank of England	Pounds	32,290,915.1.5	310,975,000.0.0	343,265,915.1.5	403.000*	1,383,361,637.69
Federal Reserve Bank of New York	Dollars	280,285,218.85	1,178,000,000.00	1,458,285,218.85		1,458,285,218.85
Riggs National Bank [3]	Dollars	87,288.01		87,288.01		87,288.01
Banco Central de Venezuela	Bolivares	5,026,710.35	32,659,359.42	37,685,069.77	3.35000	11,249,573.06
TOTAL						5,442,367,832.09

SUMMARY

Currency and Securities with Depositories, per Balance Sheet, at Equivalent Value in U. S. Dollars

Currency	927,656,739.46
Securities	4,514,711,092.63
Total, as above	5,442,367,832.09

NOTES:

[1] See Note [1] of Balance Sheet.

[2] Exchange rates represent number of units of national currencies to the U. S. dollar except for items carrying asterisk (*) which represent number of U. S. cents to the related unit of national currency.

[3] A checking account is maintained with Riggs National Bank in Washington, D. C., for the purpose of making local payments for administrative expenditures.

APPENDIX VIII (vii)

STATUS OF SUBSCRIPTIONS TO CAPITAL—April 30, 1948

Values expressed in United States dollars on basis of established parities, except as indicated in Note [1].

MEMBERS	QUOTAS (In Millions of U. S. Dollars)	PAYMENTS ON SUBSCRIPTIONS TO CAPITAL			SUBSCRIPTIONS TO CAPITAL RECEIVABLE	
		1/100 of 1% Paid in U. S. Dollars [2]	Paid in Gold	Paid in National Currencies or Securities of Members [5]	Balances Due (Par Values of Currencies Established)	Balances not Due (Par Values of Currencies not Established)
Australia	200[3]		[6]8,404,843.20	191,595,156.80		
Belgium	225	22,500.00	56,227,500.00	168,750,000.00		
Bolivia	10	1,000.00			9,999,000.00	
Brazil	150	15,000.00				149,985,000.00
Canada	300	30,000.00	74,970,000.00	225,000,000.00		
Chile	50	5,000.00	[6]8,882,442.35	41,112,557.65		
China	550	55,000.00				549,945,000.00
Colombia	50	5,000.00	12,495,150.61	37,499,849.39		
Costa Rica	5	500.00	[6]328,871.67	4,670,628.33		
Cuba	50	5,000.00	12,495,386.36	37,499,613.64		
Czechoslovakia	125	12,500.00	[6]1,435,920.08	123,551,579.92		
Denmark	68	6,800.00	[6]5,518,722.65	62,474,477.35		
Dominican Republic	5	500.00	1,249,512.67	3,749,987.33		
Ecuador	5	500.00	1,249,612.81	3,749,887.19		
Egypt	60[4]	4,500.00	[6]9,276,529.44	50,718,970.56		
El Salvador	2.5	250.00	624,787.80	1,874,962.20		
Ethiopia	6	600.00	[6]14,000.18	5,985,399.82		
Finland	38[3]					38,000,000.00
France	525[4]	52,500.00	[6]79,527,420.66	445,420,079.34		
Greece	40	4,000.00				39,996,000.00
Guatemala	5	500.00	1,249,559.81	3,749,940.19		

Honduras	2.5	250.00			2,499,750.00	
Iceland	1	100.00	249,900.28	749,999.72		
India	400	40,000.00	[6]27,486,453.61	372,473,546.39		
Iran	25	2,500.00	6,251,573.79	18,745,926.21		
Iraq	8	800.00		[7]7,999,200.00		
Italy	180	18,000.00				179,982,000.00
Lebanon	4.5	450.00	[6]267,415.12	4,232,134.88		
Luxembourg	10	1,000.00	[6]324,821.25	9,674,178.75		
Mexico	90	9,000.00	22,491,205.14	67,499,794.86		
Netherlands	275	27,500.00	68,722,500.00	206,250,000.00		
Nicaragua	2	200.00	499,975.66	1,499,824.34		
Norway	50	5,000.00	12,495,054.90	37,499,945.10		
Panama	.5	50.00		50,000.00	449,950.00	
Paraguay	3.5[4]	200.00	875,496.47	2,624,303.53		
Peru	25	2,500.00	[8]3,149,921.00	21,847,579.00		
Philippine Republic	15	1,500.00	3,748,548.79	11,249,951.21		
Poland	125	12,500.00				124,987,500.00
Syria	6.5	650.00	[6]169,187.17	6,330,162.83		
Turkey	43	4,300.00	10,745,912.23	32,249,787.77		
Union of South Africa	100	10,000.00	24,994,519.20	74,995,480.80		
United Kingdom	1,300	130,000.00	[6]210,378,620.80	1,089,491,379.20		
United States	2,750	275,000.00	687,500,000.11	2,062,224,999.89		
Uruguay	15	1,500.00				14,998,500.00
Venezuela	15	1,500.00	3,748,541.96	11,249,958.04		
Yugoslavia	60	6,000.00				59,994,000.00
TOTALS	7,976.0	772,150.00	1,358,049,907.77	5,446,341,242.23	12,948,700.00	1,157,888,000.00

NOTES:

[1] See Note [1] of Balance Sheet.

[2] Pursuant to Article XX, Section 2 (d), of Fund Agreement.

[3] New Members.

[4] Quota as increased.

[5] Securities substituted for currencies represent non-negotiable, non-interest bearing, demand obligations payable at face value by members in their currencies.

[6] Fund has provisionally accepted member's payment in gold which is less than 25% of the member's quota.

[7] Fund has provisionally accepted payment of member's total subscription in member's national currency.

[8] Member's payment in gold, which is less than 25% of quota, is considered by Fund as final.

APPENDIX VIII (viii)

OTHER ASSETS

April 30, 1948

Values expressed in United States dollars on basis of established parities, except as indicated in Note[1].

CASH		
Imprest Funds.......................... *(Petty Cash and Postage)*	$ 1,026.89	
Special Bank Account.................... *(For voluntary contributions of employees to contemplated retirement system—full liability carried as offset)*	69,570.59	$ 70,597.48
ACCOUNTS RECEIVABLE (including accruals)		
Members' Accounts .... *(Accrued charges on Fund's holdings of members' currencies and securities in excess of quotas)*	104,360.90	
Commercial Accounts..................	20,571.36	
Travel and Staff Advances...............	81,214.82	206,147.08
DEFERRED CHARGES .... *(Unexpired insurance, etc.)*		3,003.58
EQUIPMENT *(Represents furniture, office equipment, and automobiles at cost value of* $292.040.69 *against which full reserves for depreciation are carried)*		
LIBRARY INVESTMENT................. *(Represents law library at cost value of* $7,110.90 *and investment at cost value of* $12,597.60 *in library owned jointly with International Bank for Reconstruction and Development, against which full reserves for depreciation are carried except for share of deposit of* $600.00 *in connection with Joint Library)*		300.00
TOTAL OTHER ASSETS, PER BALANCE SHEET......................		280,048.14

NOTE:

[1] See Note [1] of Balance Sheet.

APPENDIX VIII (ix)

LIABILITIES

April 30, 1948

Values expressed in United States dollars on basis of established parities, except as indicated in Note [1].

ACCOUNTS PAYABLE		
Members' Accounts *(Overpayments on capital subscriptions, reimbursable in member's currency)*		$ 4,898.27
Commercial Accounts:		
Vouchers Payable	$19,079.91	
Unvouchered invoices and accruals	93,412.10	112,492.01
Executive Directors and Staff [2] *(Amounts due or accrued for salaries and wages, compensation for national income taxation, travel and other claims)*		6,841.83
Total Accounts Payable and Accruals		124,232.11
UNEARNED INCOME		
Subscriptions on Fund's Publication		1,460.75
VOLUNTARY CONTRIBUTIONS OF EMPLOYEES TO CONTEMPLATED RETIREMENT SYSTEM *(Corresponding amount of funds on deposit in special bank account, carried under heading "Other Assets" in balance sheet)*		69,570.59
TOTAL LIABILITIES, PER BALANCE SHEET		195,263.45

NOTES:
[1] See Note [1] of Balance Sheet.
[2] See Note [2] of Balance Sheet.

APPENDIX VIII (x)

SUMMARY OF TRANSACTIONS

For the Period July 1, 1947 to April 30, 1948

Exchange Transactions	Amount in Currency	U. S. Dollar Equivalent [1]
Currency Sold		
U. S. Dollars	544,000,000.00	544,000,000.00
Currency Bought		
Belgian Francs	1,446,308,913.00	33,000,000.00
Chilean Pesos	272,800,000.00	8,800,000.00
Danish Kroner	48,949,799.97	10,200,000.00
French Francs	8,933,025,000.00	75,000,000.00
Indian Rupees	92,638,544-4-0	28,000,000.00
Mexican Pesos	109,237,500.00	22,500,000.00
Netherland Guilders	149,886,025.00	56,500,000.00
Norwegian Kroner	24,813,900.00	5,000,000.00
Turkish Liras	14,000,000.00	5,000,000.00
Pounds Sterling	74,441,687-7-1	300,000,000.00
		544,000,000.00

Gold Transactions	Fine Ounces	U. S. Dollar Equivalent at $35 per Fine Ounce
Currency Sold Against Gold		
U. S. Dollars	690.415	24,164.52
Currency Bought Against Gold		
Nil		

NOTE:

[1] Calculated at the agreed par value in force at the time the transactions were effected.

APPENDIX IX

SOME DECISIONS OF THE EXECUTIVE BOARD RELATING TO THE USE OF THE FUND'S RESOURCES

Executive Board Decision No. 284-2

Subject: Use of the Fund's Resources--Postponement Under Article XX, Section 4 (i)

The Fund has, in the case of a member which has had no previous exchange transaction with the Fund, the power to postpone exchange transactions with it if its circumstances are such that, in the opinion of the Fund, they would lead to the use of the resources of the Fund in a manner contrary to the purposes of the Agreement or prejudicial to the Fund or its members. This power did not lapse as of the date the Fund began exchange transactions. (Executive Board Meeting No. 284, March 10, 1948.)

Executive Board Decision No. 284-3

Subject: Use of the Fund's Resources—Limitation and Ineligibility Under Article V, Section 5

The Fund has, in the case of a member which has had a previous exchange transaction with the Fund, power to declare the member ineligible or limit its use of the resources of the Fund if the member is, in the opinion of the Fund, using the resources of the Fund in a manner contrary to the purposes of the Fund. (Executive Board Meeting No. 284, March 10, 1948.)

Executive Board Decision No. 284-4

Subject: Use of the Fund's Resources—Meaning of Article V, Section 3 (a) (i)

The word "represents" in Article V, Section 3 (a) (i), means "declares". The member is presumed to have fulfilled the condition mentioned in Article V, Section 3 (a) (i), if it declares that the currency is presently needed for making payments in that currency which are consistent with the provisions of the Agreement. But the Fund may, for good reasons, challenge the correctness of this declaration, on the grounds that the currency is not "presently needed", or because the currency is not needed for payment "in that currency", or because the payments will not be "consistent with the provisions of this Agreement". If the Fund concludes that a particular declaration is not correct, the Fund may postpone or reject the request, or accept it subject to conditions. The phrase "presently needed" cannot be defined in terms of a formula uniformly applicable to all cases, but where there is good reason to doubt that the currency is "presently needed", the Fund will have to apply the phrase in each case in the light of all the circumstances. (Executive Board Meeting No. 284, March 10, 1948.)

Executive Board Decision No. 284-5

Subject: Use of the Fund's Resources—Postponement Under Article XX, Section 4 (i)

The power of the Fund to postpone exchange transactions with any member under Article XX, Section 4 (i) does not continue in force with respect to a member after the member has purchased the currency of another member from the Fund in accordance with Article V, Section 3. (Executive Board Meeting No. 284, March 10, 1948.)

Executive Board Decision No. 286-1

Subject: Use of the Fund's Resources—Postponement and Limitation Under Article V, Section 5

If the Fund receives a request from a member to purchase exchange and either, (1) the Fund is considering sending the member a report pursuant to Article V, Section 5, or (2) the

Fund finds when the request is before it that action pursuant to that Section should be considered; then the Fund has the authority, pursuant to Article V, Section 5 of the Fund Agreement, to postpone the transfer as permitted under the provisions of Rules and Regulations G-3 for such time as may reasonably be necessary to decide the question of applying Article V, Section 5 and, if it decides to apply it, to prepare and send to the member a report and subject its use of the Fund's resources to limitations. Under such circumstances the limitations imposed will apply to the pending request for the purchase of exchange as well as to future requests. (Executive Board Meeting No. 286, March 15, 1948.)

Executive Board Decision No. 287-3

Subject: Use of the Fund's Resources—Meaning of "Consistent with the Provisions of this Agreement" in Article V, Section 3

The phrase "consistent with the provisions of this Agreement" in Article V, Section 3, means consistent both with the provisions of the Fund Agreement other than Article I and with the purposes of the Fund contained in Article I. (Executive Board Meeting No. 287, March 17, 1948.)

Executive Board Decision No. 292-3

Subject: Use of the Fund's Resources—Meaning of "Is Using" in Article V, Section 5

A member "is using" the resources of the Fund within the meaning of Article V, Section 5, where it is either actually disposing of the exchange purchased from the Fund, or, having purchased exchange from the Fund, the Fund's holdings of its currency are in excess of 75 per cent of its quota. (Executive Board Meeting No. 292, March 30, 1948.)

APPENDIX X

MEMBERSHIP, QUOTAS, GOVERNORS, AND VOTING POWER
as of April 30, 1948

Member	QUOTAS Amount (000,000s)	Per Cent of Total	Governor *Alternate*	VOTES Number[1]	Per Cent of Total
Australia	$200.0	2.51	Joseph B. Chifley *J. B. Brigden*	2,250	2.47
Belgium	225.0	2.82	Maurice Frere *C. Duquesne Wathelet de la Vinelle*	2,500	2.74
Bolivia	10.0	0.13	Rene Ballivian Calderon *Jaime Gutierrez Guerra*	350	0.38
Brazil	150.0	1.88	F. Alves dos Santos-Filho *Edgard de Mello*	1,750	1.92
Canada	300.0	3.76	Douglas Charles Abbott *Graham F. Towers*	3,250	3.56
Chile	50.0	0.63	Arturo Maschke *Fernando Illanes*	750	0.82
China	550.0	6.90	O. K. Yui *Te-Mou Hsi*	5,750	6.30
Colombia	50.0	0.63	Emilio Toro *Ignacio Copete Lizarralde*	750	0.82
Costa Rica	5.0	0.06	Julio Pena Morua *Angel Coronas Guardia*	300	0.33

Cuba	50.0	0.63	Guillermo Belt *Jose A. Rodriguez Dod*	750	0.82
Czechoslovakia	125.0	1.57	Jan Viktor Mladek *Julius Pazman*	1,500	1.64
Denmark	68.0	0.85	Carl Valdemar Bramsnaes *Einar Dige*	930	1.02
Dominican Republic	5.0	0.06	Jesus Maria Troncoso *Luis Julian Perez*	300	0.33
Ecuador	5.0	0.06	Guillermo Perez-Chiriboga *Homero Viteri Lafronte*	300	0.33
Egypt	60.0	0.75	Ahmed Zaki Bey Saad *Mahmoud Saleh El Falaki*	850	0.93
El Salvador	2.5	0.03	Catalino Herrera *Manuel Melendez V.*	275	0.30
Ethiopia	6.0	0.08	George A. Blowers *Vacant*	310	0.34
Finland	38.0	0.48	Sakari Tuomioja *Ralf Torngren*	630	0.69
France	525.0	6.58	Pierre Mendes-France *Emmanuel Monick*	5,500	6.03
Greece	40.0	0.50	Xenophon Zolotas *Alexander Couclelis*	650	0.71
Guatemala	5.0	0.06	Manuel Noriega Morales *Leonidas Acevedo*	300	0.33
Honduras	2.5	0.03	Julian R. Caceres *Jorge Fidel Duron*	275	0.30
Iceland	1.0	0.01	Asgeir Asgeirsson *Thor Thors*	260	0.28

APPENDIX X (*Continued*)

MEMBERSHIP, QUOTAS, GOVERNORS, AND VOTING POWER
as of April 30, 1948

Member	Quotas: Amount (000,000s)	Quotas: Per Cent of Total	Governor / *Alternate*	Votes: Number[1]	Votes: Per Cent of Total
India	$400.0	5.02	Sir Chintaman Deshmukh *N. Sundaresan*	4,250	4.66
Iran	25.0	0.31	A. H. Ebtehaj *Mocharraf Naficy*	500	0.55
Iraq	8.0	0.10	Ali Jawdat *A. M. Gailani*	330	0.36
Italy	180.0	2.26	Luigi Einaudi *Ugo La Malfa*	2,050	2.25
Lebanon	4.5	0.06	Charles Malik *George Hakim*	295	0.32
Luxembourg	10.0	0.13	Pierre Dupong *Hugues Le Gallais*	350	0.38
Mexico	90.0	1.13	Antonio Espinosa de los Monteros *Luciano Wiechers*	1,150	1.26
Netherlands	275.0	3.45	P. Lieftinck *M. W. Holtrop*	3,000	3.29
Nicaragua	2.0	0.03	Guillermo Sevilla Sacasa *Rafael A. Huezo*	270	0.30
Norway	50.0	0.63	Gunnar Jahn *Ole Colbjornsen*	750	0.82

Panama	0.5	0.01	Ernesto Jaen Guardia *Roberto Heurtematte*	255	0.28
Paraguay	3.5	0.04	Juan Plate *Ruben Benitez*	285	0.31
Peru	25.0	0.31	Francisco Tudela Varela *Emilio G. Barreto*	500	0.55
Philippine Republic	15.0	0.19	Joaquin M. Elizalde *Narciso Ramos*	400	0.44
Poland	125.0	1.57	Edward Drozniak *Janusz Zoltowski*	1,500	1.64
Syria	6.5	0.08	Faiz El-Khouri *Husni A. Sawwaf*	315	0.35
Turkey	43.0	0.54	Nurullah Esat Sumer *Bulent Yazici*	680	0.75
Union of South Africa	100.0	1.25	J. H. Holloway *M. H. de Kock*	1,250	1.37
United Kingdom	1,300.0	16.30	Sir Stafford Cripps *E. Rowe-Dutton*	13,250	14.52
United States	2,750.0	34.48	John W. Snyder *William L. Clayton*	27,750	30.41
Uruguay	15.0	0.19	Fermin Silveira Zorzi *Mario La Gamma Acevedo*	400	0.44
Venezuela	15.0	0.19	Carlos A. D'Ascoli *Jose Antonio Mayobre*	400	0.44
Yugoslavia	60.0	0.75	Obren Blagojevic *Lavoslav Dolinsek*	850	0.93
	$7,976.0	100.0[2]		91,260	100.00[2]

[1] Voting power varies on certain matters with use by members of Fund resources.

[2] These figures do not add to 100% because of rounding.

APPENDIX XI

CHANGES IN MEMBERSHIP OF THE BOARD OF GOVERNORS

Changes in the membership of the Board of Governors between June 30, 1947, and April 30, 1948, have been as follows:

Guillermo Perez-Chiriboga succeeded Esteban F. Carbo as Governor for Ecuador July 14, 1947.

Alexander Couclelis succeeded Nicholas B. Kaskarelis as Alternate Governor for Greece July 26, 1947.

Ignacio Copete Lizarralde appointed as Alternate Governor for Colombia July 28, 1947.

Leonardo Stagg appointed as Alternate Governor for Ecuador July 28, 1947.

Roberto M. Heurtematte appointed as Alternate Governor for Panama August 6, 1947.

Juan Plate succeeded Harmodio Gonzales as Governor for Paraguay August 20, 1947.

John A. Beasley appointed as Governor for Australia August 29, 1947.

James B. Brigden appointed as Alternate Governor for Australia August 29, 1947.

Ernest Rowe-Dutton succeeded Sir James Grigg as Alternate Governor for the United Kingdom September 2, 1947.

Homero Viteri Lafronte succeeded Leonardo Stagg as Alternate Governor for Ecuador September 5, 1947.

Obren Blagojevic succeeded Stane Krasovec as Governor for Yugoslavia September 9, 1947.

Lavoslav Dolinsek succeeded Vaso Srzentic as Alternate Governor for Yugoslavia September 9, 1947.

Fermin Silveira Zorzi appointed as Governor for Uruguay September 10, 1947.

Mario La Gamma Acevedo succeeded Hugo Garcia as Alternate Governor for Uruguay September 10, 1947.

Sir Stafford Cripps succeeded Hugh Dalton as Governor for the United Kingdom December 9, 1947.

Joseph Benedict Chifley succeeded John A. Beasley as Governor for Australia January 13, 1948.

Sakari Tuomioja appointed as Governor for Finland March 18, 1948.

Ralf Torngren appointed as Alternate Governor for Finland March 18, 1948.

John Edward Holloway succeeded Jan Hendrik Hofmeyr as Governor for the Union of South Africa April 19, 1948.

Ernesto Jaen Guardia succeeded Joaquin Jose Vallarino as Governor for Panama April 26, 1948.

Luis Julian Perez succeeded Jose Calzada as Alternate Governor for the Dominican Republic April 29, 1948.

APPENDIX XII

EXECUTIVE DIRECTORS AND VOTING POWER

As of April 30, 1948

Directors *Alternates*	Casting Votes of	Votes by Country	Total Votes[1]	Per Cent of Total
APPOINTED				
A. N. Overby *George F. Luthringer*	United States	27,750	27,750	30.62
G. L. F. Bolton *G. H. Tansley*	United Kingdom	13,250	13,250	14.62
Yee-Chun Koo *Yueh-Lien Chang*	China	5,750	5,750	6.34
Jean de Largentaye *P. P. Schweitzer*	France	5,500	5,500	6.07
J. V. Joshi *B. K. Madan*	India	4,250	4,250	4.69
ELECTED				
Francisco Alves dos	Bolivia	350		
Santos-Filho (Brazil)	Brazil	1,750		
Octavio Paranagua	Chile	750		
(Brazil)	Ecuador	300		
	Panama	255		
	Paraguay	285		
	Peru	500		
	Uruguay	400	4,590	5.06
Rodrigo Gomez	Colombia	750		
(Mexico)	Costa Rica	300		
Raul Martinez-	Cuba	750		
Ostos (Mexico)	Dominican Republic	300		
	El Salvador	275		
	Guatemala	300		
	Honduras	275		
	Mexico	1,150		
	Nicaragua	270	4,370	4.82
J. W. Beyen	Netherlands	3,000		
(Netherlands) *Willem Koster* *(Netherlands)*	Union of South Africa	1,250	4,250	4.69

APPENDIX XII (*Continued*)

EXECUTIVE DIRECTORS AND VOTING POWER

As of April 30, 1948

Directors *Alternates*	Casting Votes of	Votes by Country	Total Votes[1]	Per Cent of Total
Guido Carli (Italy)	Denmark	930		
Giorgio Cigliana-	Italy	2,050		
Piazza (Italy)	Turkey	680		
	Venezuela	400	4,060	4.48
Louis Rasminsky	Canada	3,250		
(Canada)	Norway	750	4,000	4.41
J. F. Parkinson				
(Canada)				
J. V. Mladek	Czechoslovakia	1,500		
(Czechoslovakia)	Poland	1,500		
Mihailo Kolovic	Yugoslavia	850	3,850	4.25
(Yugoslavia)				
Hubert Ansiaux	Belgium	2,500		
(Belgium)	Iceland	260		
Ernest de Selliers	Luxembourg	350	3,110	3.43
(Belgium)				
Ahmed Zaki Bey Saad	Egypt	850		
(Egypt)	Ethiopia	310		
Mahmoud Saleh El	Greece	650		
Falaki (Egypt)	Iran	500		
	Iraq	330		
	Philippine Republic	400	3,040	3.35
S. G. McFarlane	Australia	2,250		
(Australia)	Lebanon	295		
R. Wilson	Syria	315	2,860	3.16
(Australia)				
			90,630	100.00[2]

[1] Voting power varies on certain matters with use by members of Fund resources.

[2] These figures do not add to 100% because of rounding.

APPENDIX XIII

CHANGES IN MEMBERSHIP OF THE EXECUTIVE BOARD

Changes in the membership of the Executive Board between June 30, 1947, and April 30, 1948, have been as follows:

Andrew N. Overby was appointed Executive Director by the United States succeeding Harry D. White effective July 1, 1947.

Guy de Carmoy served as Temporary Alternate Executive Director to Jean de Largentaye July 31, 1947 to October 22, 1947.

Pierre P. Schweitzer was appointed Alternate Executive Director to Jean de Largentaye October 23, 1947.

Maurice H. Parsons, Alternate Executive Director to George L. F. Bolton, resigned November 18, 1947.

Geoffrey H. Tansley was appointed Alternate Executive Director to George L. F. Bolton, succeeding Maurice H. Parsons, November 18, 1947.

Thomas Basyn served as Temporary Alternate Executive Director to Hubert Ansiaux December 17, 1947 to January 29, 1948.

Fernando Mardones served as Temporary Alternate Executive Director to Francisco Alves dos Santos-Filho January 20, 1948 to January 30, 1948.

Stuart G. McFarlane was elected Executive Director for Australia, Lebanon and Syria on February 3, 1948.

Roland Wilson was appointed Alternate Executive Director to Stuart G. McFarlane February 27, 1948.

Johan W. Beyen was elected Executive Director for the Netherlands and the Union of South Africa succeeding the late Gijsbert W. J. Bruins on April 16, 1948.

Willem Koster was appointed Alternate Executive Director to Johan W. Beyen April 16, 1948.

APPENDIX XIV

DISTRIBUTION OF STAFF BY SALARY AND GEOGRAPHICAL AREA

As of April 30, 1948

Area	Total	Distribution of Staff by Salary			
		$10,000 & Above	$7,000–9,999	$4,000–6,999	Under $4,000
Total	403	9	46	78	270
U. S. A.	256	4	15	38	199
U. K.	27	1	5	6	15
China	7	0	3	3	1
France	12	1	4	1	6
India	4	0	2	1	1
Other European Members	41	2	8	19	12
Other Western Hemisphere Members	48	1	6	7	34
All Other Members	8	0	3	3	2

APPENDIX XV

ADMINISTRATIVE BUDGET

Letter of Transmittal

July 28, 1948

Dear Mr. Chairman:

The administrative budget of the Fund for the fiscal year ending April 30, 1949, as approved by the Board of Executive Directors, is reported herein for the information of the Board of Governors in accordance with Section 20 of the By-Laws.

The budget of $4,187,000 for the Fiscal Year 1949 includes an amount of $472,000 for contributions to staff benefits. Of this amount $462,000 represents the Fund's share of the cost of establishing, within the fiscal year, a joint-contribution retirement plan with retroactive effect. Provision for this retroactive effect was made in the budget for the Fiscal Year 1948. The retirement plan was approved in principle in April 1948, but since its formal establishment falls in the Fiscal Year 1949, the amount of $227,000 to cover the service of staff members prior to the beginning of the fiscal year is brought into the present budget, which would otherwise have totaled $3,960,000. The budget also includes the amount of $36,000 for the liquidation of prior-year commitments.

As in the case of last year, it must be remarked that it is impossible to predict that the needs of the Fund will require precisely the amounts budgeted. These amounts are an expression of present administrative plans without provision for unforeseen contingencies and after the exclusion by the Board of Executive Directors and the Management of projects which would have been useful but which were subordinated in the interest of economy. Should such contingencies arise or present plans change materially, the amounts now budgeted may have to be changed.

Yours sincerely,

/s/

Gutt

Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

ADMINISTRATIVE BUDGET
FISCAL YEAR ENDING APRIL 30, 1949

As Approved by the Executive Directors of the International Monetary Fund

Personal Services	$2,568,000
Contributions to Staff Benefits	472,000*
Travel	270,000
Communication Services	84,000
Rents (Real Property), Utilities and Building Alterations	383,300
Books and Printing	134,500
Supplies and Equipment	167,800
Meetings of the Board of Governors	74,000
Miscellaneous	33,400
TOTAL	$4,187,000

* This includes $227,000 reappropriated to cover the Fund's contributions under the Staff Retirement Plan for the service of staff members prior to the beginning of the Fiscal Year.

APPENDIX XVI (i)

SCHEDULE OF PAR VALUES—as of July 15, 1948

CURRENCIES OF METROPOLITAN AREAS

Member	Currency	Par Values In Terms of Gold		Par Values In Terms of U. S. Dollars	
		Grams of fine gold per currency unit	Currency units per troy ounce of fine gold	Currency units per U. S. dollar	U. S. cents per currency unit
AUSTRALIA	Pound	2.865 07	10.856 1	0.310 174	322.400
BELGIUM	Franc	0.020 276 5	1,533.96	43.827 5	2.281 67
BOLIVIA	Boliviano	0.021 158 8	1,470.00	42.000 0	2.380 95
BRAZIL	Cruzeiro	0.048 036 3	647.500	18.500 0	5.405 41
CANADA	Dollar	0.888 671	35.000 0	1.000 00	100.000
CHILE	Peso	0.028 666 8	1,085.00	31.000 0	3.225 81
CHINA	Yuan	Par Value not yet established			
COLOMBIA	Peso	0.507 816	61.249 5	1.749 99	57.143 3
COSTA RICA	Colón	0.158 267	196.525	5.615 00	17.809 4
CUBA	Peso	0.888 671	35.000 0	1.000 00	100.000
CZECHOSLOVAKIA	Koruna	0.017 773 4	1,750.00	50.000 0	2.000 00
DENMARK	Krone	0.185 178	167.965	4.799 01	20.837 6
DOMINICAN REPUBLIC	Peso	0.888 671	35.000 0	1.000 00	100.000
ECUADOR	Sucre	0.065 827 5	472.500	13.500 0	7.407 41
EGYPT	Pound	3.672 88	8.468 42	0.241 955	413.300
EL SALVADOR	Colón	0.355 468	87.500 0	2.500 00	40.000 0
ETHIOPA	Dollar	0.357 690	86.956 5	2.484 47	40.250 0
FINLAND	Markka	Par Value not yet established			
FRANCE [1]	Franc	No Par Value agreed with the Fund			

GREECE	Drachma	Par Value not yet established			
GUATEMALA	Quetzal	0.888 671	35.000 0	1.000 00	100.000
HONDURAS	Lempira	0.444 335	70.000 0	2.000 00	50.000 0
ICELAND	Krona	0.136 954	227.110	6.488 85	15.411 1
INDIA	Rupee	0.268 601	115.798	3.308 52	30.225 0
IRAN	Rial	0.027 555 7	1,128.75	32.250 0	3.100 78
IRAQ	Dinar	3.581 34	8.684 86	0.248 139	403.000
ITALY	Lira	Par Value not yet established			
LEBANON	Pound	0.405 512	76.701 8	2.191 48	45.631 3
LUXEMBOURG	Franc	0.020 276 5	1,533.96	43.827 5	2.281 67
MEXICO	Peso	0.183 042	169.925	4.855 00	20.597 3
NETHERLANDS	Guilder	0.334 987	92.849 8	2.652 85	37.695 3
NICARAGUA	Córdoba	0.177 734	175.000	5.000 00	20.000 0
NORWAY	Krone	0.179 067	173.697	4.962 78	20.150 0
PANAMA	Balboa	0.888 671	35.000 0	1.000 00	100.000
PARAGUAY	Guaraní	0.287 595	108.150	3.090 00	32.362 5
PERU	Sol	0.136 719	227.500	6.500 00	15.384 6
PHILIPPINE REPUBLIC	Peso	0.444 335	70.000 0	2.000 00	50.000 0
POLAND	Zloty	Par Value not yet established			
SYRIA	Pound	0.405 512	76.701 8	2.191 48	45.631 3
TURKEY	Lira	0.317 382	98.000 0	2.800 00	35.714 3
UNION OF SOUTH AFRICA	Pound	3.581 34	8.684 86 (or 173 shillings 8.367 pence)	0.248 139 (or 4 shillings 11.553 pence)	403.000
UNITED KINGDOM	Pound	3.581 34	8.684 86 (or 173 shillings 8.367 pence)	0.248 139 (or 4 shillings 11.553 pence)	403.000
UNITED STATES	Dollar	0.888 671	35.000 0	1.000 00	100.000
URUGUAY	Peso	Par Value not yet established			
VENEZUELA	Bolivar	0.265 275	117.250	3.350 00	29.850 7
YUGOSLAVIA	Dinar	Par Value not yet established			

[1] In January, 1948, the French Government made a proposal to the Fund which included a change in the par value of the franc. On January 26, 1948, the proposal of the French Government was put into effect without the approval of the Fund, and at the present time there is no par value for the French franc agreed with the Fund. The proposal of the French Government related to some but not all of the separate currencies in French non-metropolitan areas, but all of these separate currencies have been omitted from the Schedule at the request of the French Government.

APPENDIX XVI (ii)

SCHEDULE OF PAR VALUES—as of July 15, 1948

SEPARATE CURRENCIES IN NON-METROPOLITAN AREAS OF MEMBERS

Member and Non-Metropolitan areas	Currency and relation to Metropolitan Unit	Par Values In Terms of Gold		Par Values in Terms of U. S. Dollars	
		Grams of fine gold per currency unit	Currency units per troy ounce of fine gold	Currency units per U. S. dollar	U. S. cents per currency unit
BELGIUM					
Belgian Congo	Franc (Parity with Belgian franc)	0.020 276 5	1,533.96	43.827 5	2.281 67
NETHERLANDS					
Surinam and Curacao	Guilder (=1.406 71 Netherlands guilders)	0.471 230	66.004 9	1.885 85	53.026 4
Netherlands East Indies	Guilder	Par Value not yet established			
UNITED KINGDOM					
Gambia Gold Coast Nigeria Sierra Leone	West African Pound (Parity with sterling)				
Southern Rhodesia Northern Rhodesia Nyasaland	Southern Rhodesian Pound (Parity)				
Cyprus	Cyprus Pound (Parity)	3.581 34	8.684 86	0.248 139	403.000
Gibraltar	Gibraltar Pound (Parity)				
Malta	Maltese Pound (Parity)				
Bahamas	Bahamas Pound (Parity)				
Bermuda	Bermuda Pound (Parity)				
Jamaica	Jamaican Pound (Parity)				
Falkland Islands	Falkland Islands Pound (Parity)				

Kenya Uganda Tanganyika Zanzibar	East African Shilling (20 per pound sterling)	0.179 067	173.697	4.962 78	20.150 0
Barbados Trinidad British Guiana	British West Indian Dollar (4.80 per pound sterling)	0.746 113	41.687 3	1.191 07	83.958 3
British Honduras	British Honduras Dollar (4.03 per pound sterling)	0.888 671	35.000 0	1.000 00	100.000
Mauritius Seychelles	Mauritius Rupee (13⅓ per pound sterling) Seychelles Rupee (13⅓ per pound sterling)	0.268 601	115.798	3.308 52	30.225 0
Fiji	Fijian Pound (1.11 per pound sterling)	3.226 44	9.640 20	0.275 434	363.063
Tonga	Tongan Pound (1.2525 per pound sterling)	2.859 36	10.877 8	0.310 794	321.756
Hong Kong	Hong Kong Dollar (16 per pound sterling)	0.223 834	138.958	3.970 22	25.187 5
Malaya (Singapore and Malayan Union) Sarawak British North Borneo	Malayan Dollar (8.571 428 57 per pound sterling, or 2 shillings 4 pence per Malayan Dollar) The Sarawak and British North Borneo Dollars which circulate alongside the Malayan Dollar (which is legal tender) have the same value	0.417 823	74.441 7	2.126 91	47.016 7

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