INTERNATIONAL MONETARY FUND

ANNUAL REPORT

APRIL 30

1949

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INTERNATIONAL MONETARY FUND

ANNUAL REPORT

OF THE EXECUTIVE DIRECTORS FOR THE FISCAL YEAR ENDED

APRIL 30, 1949

WASHINGTON, U.S.A.

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LETTER OF TRANSMITTAL
TO THE BOARD OF GOVERNORS

July 15, 1949

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, 1949.

Yours sincerely,

/s/

GUTT

Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

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I

THE INTERNATIONAL PAYMENTS PROBLEM

THE unbalanced conditions which have characterized the world economic situation since the end of the war still prevail. In many countries there remains a striking discrepancy between demand and productive capacity, and an even greater discrepancy between need for imports and capacity to pay for them. Until effective measures are taken to meet these closely related problems, there can be little hope of achieving the expansion of world trade on a multilateral basis, which is one of the Fund's objectives.

Even before the war, international economic relations had become excessively restrictive. In many instances the maintenance of a precarious balance in international payments depended largely upon the support of high tariffs, import restrictions, and exchange controls. The war added the even greater difficulties arising from destruction and disruption, the loss of overseas resources, and the rupture of long-established trade connections. Moreover, in many countries, the urgency of the international payments problem was overshadowed by the inadequacy of postwar production to meet greatly increased needs. Nearly everywhere, the problem was accentuated by monetary policies which encouraged relatively excessive consumption and investment.

The difficulties of the postwar period are greater than foreseen at the time of the Bretton Woods Conference. That is all the more reason for the Fund and its members to make special efforts to ensure that these times of change and adjustment are marked by progress toward the purposes for which the Fund was established. In many countries directly affected by the war, great efforts have been made to restore and to increase productive capacity. Foreign aid generously given has made it possible for them, by supplementing their own resources with imports, to undertake large-scale reconstruction and development. In other countries substantial progress has been made without much external assistance. The effects of these measures on production and trade are now beginning to be clearly seen.

The immediate task of the postwar period was to restore production and productive efficiency in the countries whose economies were devastated and disrupted by the war. The most urgent task today is to establish better trade and payments relations. The resources made available through increased production and disinflated home demand must now be used to increase exports to earn the means to pay for imports. This has to be done on the basis of efficiency and economy in providing export goods at competitive prices.

Expansion of international trade on a multilateral basis can contribute to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all countries. In fact, however, dependence on bilateral trade and inconvertible currencies is far greater now than before the war. Unless positive steps are taken to secure a better balance in international payments, such restrictions may be intensified as foreign aid declines, resulting in a shrinkage and further distortion of world trade.

Progress in Production

In the immediate postwar period, the restoration of both internal stability and external balance was hampered in many countries by the temporary inadequacy of production. The years since the end of the war have seen some notable achievements in the expansion of output. The progress noted in last year's Annual Report was generally continued in 1948 and in the first half of 1949.

In most European countries, wartime damage to basic productive equipment has been repaired, and the working stocks required for a smoothly operating economy have been largely restored. The effects of the extensive postwar programs of investment are gradually becoming apparent. In nearly all of Europe industrial production is now considerably above the 1937 level. Agricultural production, on the other hand, in parts of Europe and the Middle East is still below that of prewar years, and the difficulties thus created are especially acute where there has been a rapid growth of population.

In some areas which labor under unusual difficulties, even the preliminary task of restoring production and productive efficiency has only begun. The economies of Germany and Japan, for example, were to a large extent undermined and destroyed by the war; and though rapid progress has been made in Western Germany in the last twelve months, production is still well below prewar. A large part of the Far East has been troubled by civil conflict, and the economic consequences of these disturbances affect the whole world.

Not only in the areas disrupted by the war is an expanding volume of production essential for a better balanced world economy. The maintenance and expansion of production in the areas not disrupted by the war are no less important. Most of the countries whose production was actively stimulated by wartime demands have since been able to maintain a high level of economic activity. In the United States and Canada, in particular, industrial employment and production in 1948 were at record peacetime levels. In the first half of 1949, however, some falling off in industrial production in the United States has been apparent. The effects are already being felt by other countries.

As productive efficiency reaches and exceeds the prewar level, the pace of any further expansion of production is likely to be slower, depending on the maintenance of investment and the wider application of the most efficient techniques. In any event, it becomes less and less possible to expect a further increase in production by itself to solve the major problems of internal and external balance. Where the emphasis in production has hitherto been directed primarily toward restoring consumption standards and expanding productive facilities, it should now in greater part be directed toward increasing exports. Countries must reduce their dependence on extraordinary external assistance by devoting more resources to the production of goods which can be offered at competitive prices in those markets where the means of paying for their imports can be earned.

The Inflation Problem

Inflation has created economic difficulties everywhere, but its effects have been most serious in Europe, the Middle East, and the Far East. In these regions, the consequences of inflation have been superimposed upon inadequate production and have, therefore, had a more serious effect in limiting exports and in increasing the demand for imports.

Though the fundamental forces of inflation had their origin in the war, the effects of inflation became more apparent after the war. The public, long deprived of the goods to which it had been accustomed, had expectations far beyond the capacity of war-depleted economies; and large-scale investments to restore and increase productive capacity further limited the supply of goods available for consumers. Public expenditure was expanded on an unprecedented scale, and in many countries the extension of credit to finance investment was much too generous.

The price structure did not at once reveal the effects of these inflationary forces. In many countries, of course, prices and costs rose rapidly. But elsewhere price movements were checked by price controls and rationing, and the real inflationary situation was often disguised by subsidies at a heavy cost to the budget. The effects on prices of the tendency toward excessive private and public expenditure could be temporarily repressed by such measures, but a difficult problem of accumulated spending power was left for the future.

In the past two years there has been progress in dealing with inflation in many countries, both in Europe and elsewhere. Increased production, the completion of the more urgent reconstruction tasks, and, in many instances, an import surplus have helped to establish more satisfactory relations between supply and demand. In the past year, prices have been relatively stable in many countries, and in some there has been a modest decline. Even where prices have continued to rise, this has probably been due more to the spending of the savings of the past than to new inflation. The widespread relaxation of rationing is a striking indication of the progress made.

Many countries are now in a relatively good position to prevent new inflation. The necessity of budgetary and credit policies which would restrain inflation has been increasingly recognized, and these policies have, at least in part, been put into effect. The rapid increases in the money supply so characteristic of previous years have been halted. Indeed, in some countries budgetary surpluses and the local currency proceeds from foreign aid have made possible a small reduction in the money supply. The pressure of excess liquidity on prices and costs is still apparent, however, so that the inflationary danger is by no means over.

The inflation problem in Western Europe cannot be regarded as finally solved as long as many countries are dependent on a large import surplus financed with foreign aid. Inflation may recur unless home consumption and investment relative to output are restrained as extraordinary foreign assistance is reduced. And it is still urgent to cast off the burden of high costs and prices, left by past inflation, which seriously weakens the competitive position of many countries in the markets of the less inflated surplus countries.

The Volume and Pattern of World Trade

The development of a satisfactory balance in international payments has presented much more serious difficulties. The volume of world trade in 1948 was probably somewhat greater than in 1938, though still smaller than in 1937; and much of it was dependent upon extraordinary financing. Even so, the volume of trade is still well below the reasonable requirements of a world with growing population and production. The restoration of the prewar volume and pattern of trade is not a good standard for measuring progress toward a balanced world economy. For the first years after the war, however, recovery may be provisionally measured in this way.

In 1948 the dollar value of the exports of all countries, although not the volume, was about 12 per cent greater than in 1947 and 60 per cent greater than in 1946. There has also been since 1947 a significant readjustment of the shares of different regions in the total. In 1938 the United States and Canada together supplied about 18 per cent, and the Western Hemisphere as a whole about 27 per cent, of total exports. By 1946 these shares had about doubled, being respectively 36 and 51 and these proportions were not significantly different in 1947. In 1948, however, as exports from other regions expanded, the share of the United States and Canada fell to just under 30 per cent and that of the Western Hemisphere to 42 per cent. United States exports were, indeed, $2.7 billion less in 1948 than in 1947. There was, of course, a movement in the opposite direction in the shares of other regions in world exports. By 1946 the share of Europe, including the United Kingdom, which had been 50 per cent of the total in 1938, had fallen to 32 per cent. In 1948 it recovered to 37 per cent. The shares of the Middle East and the Far East together in these three years were 16, 10, and 13 per cent. This broad classification, of course, does not reveal the wide differences in the recovery of individual countries.

As might be expected, changes in the distribution of world trade have been less striking on the side of imports. Of the total dollar value of imports in 1938, Europe accounted for about 57 per cent. Since the war, with greatly reduced nontrade earnings and a smaller share of exports, Europe's proportion of world imports has fallen to around 46 per cent. The share of world imports going to the Middle East and Far East has been about 14 to 15 per cent of the total, slightly less than in 1938. Even these reduced shares could not have been maintained without aid from abroad and the use of declining exchange reserves.

Intra-European trade in 1948, though still only 69 per cent of the 1938 volume, was 25 per cent greater than in 1947. The volume of trade among the countries of Western Europe other than Germany and Austria was practically the same as before the war, but had not expanded to compensate for the gap left by the decline of trade with Germany and Austria. The trade of Eastern European countries with Western Europe, though greater in 1948 than in 1947, was 42 per cent of the 1938 volume, and if Eastern European trade with Germany and Austria were excluded, it would still be only 63 per cent. With their complementary production, the expansion of East-West European trade would strengthen the payments position of Europe as a whole.

For most sterling area countries, exports to other parts of the sterling area have expanded more rapidly than exports to the Western Hemisphere. In 1948 United Kingdom exports to the sterling area were larger both in volume (150 per cent of 1938) and as a proportion of total exports than in either 1947 or 1938. The expansion of trade within the sterling area has helped reduce its dependence on imports from the Western Hemisphere; the need to provide increased exports within the sterling area has, however, increased the difficulty of expanding dollar exports. The reduced dependence in 1948 on imports from the Western Hemisphere was, moreover, only in part offset by increased supplies from within the sterling area. The volume of United Kingdom imports, for example, from the sterling area was lower in 1948 than in prewar years, though it accounted for 37 per cent of total United Kingdom imports, contrasted with 31 per cent in 1938.

One factor adversely affecting the volume of trade and its distribution has been the greatly reduced role of some important trading countries in world trade. Four years after the war, Germany and Japan are still unable to participate on a scale commensurate with their productive capacity. Their reintegration in the world economy would reopen accustomed sources of imports and markets for exports. Although the exports of some countries may be adversely affected by this competition, for the world as a whole there would be substantial gains from the further expansion of trade.

The growth in the volume of world trade since the end of the war has contributed to the moderate progress that has been made toward a better balance in international payments. The shifts in the regional distribution of trade have generally been along the lines necessary to solve the payments problem. Some of the changes in the pattern of trade in the past two years have been the result of desirable adjustments to world price-cost relations. In other cases, they have been the result of more rigid trade and payments restrictions and discriminations. The gradual disappearance of the sellers' market, particularly in the Western Hemisphere, now emphasizes the immediate importance of having such adjustments in world trade as will conform to competitive price and cost conditions and thus contribute to meeting the widespread payments difficulties.

The Payments Problem

The present international payments problem manifests itself in several forms. Some countries have large deficits financed through extraordinary assistance. In others an uncertain balance is maintained at a relatively low level of exports and imports. And there are still others with a great export capacity that have difficulty in making dollar payments, partly because of their excessive import demand, partly because some of their exports are not paid for in convertible currencies.

Although some countries still have to give special attention to financing deficits in currencies other than the U. S. dollar, the much more urgent problem is dollar payments. In 1947 the United States surplus which required financing (use of U. S. Government grants and credits, aid from UNRRA, financing by the Fund and the International Bank, and drawings on reserves) was $11.3 billion; in 1948 it was still about $6.7 billion. The surplus with Europe was $6.1 billion in 1947 and $3.4 billion in 1948; with the Middle East and Far East together, the surplus was $1.2 billion in 1947 and $800 million in 1948. The deficit of Latin America with the United States was substantially reduced in 1948, largely, however, because steps necessary to restrict imports were taken. For Canada, the U. S. dollar position was much easier in 1948 than in 1947, reserves being restored to a more normal level. Relatively large U. S. dollar payments were made by other regions to Canada and many Latin American countries. This is indicative of the wider scope of the U. S. dollar payments problem.

To the large postwar deficits sustained by the rest of the world on trade account with Western Hemisphere countries have been added considerable deficits on nontrade account, particularly with the United States. The foreign exchange receipts of Europe, particularly those which accrued in the form of income from foreign investments, have been seriously diminished. For most European countries, however, the loss of net receipts from nontrade account has been less significant than the increase in their imports relative to their exports. Except for the United Kingdom and, possibly, France, the deterioration in their payments position has been quantitatively larger on trade account than on nontrade account.

The dollar payments problem may be met in part by the diminution of the present extraordinary dependence on dollar imports. The greater part of the solution should, however, come from expanding dollar receipts. For a few countries there may still be a modest improvement in their service accounts, particularly from shipping and the tourist trade. But for most deficit countries, net payments on nontrade account must be expected to increase when debt obligations to the United States and Canada have to be met. Whatever the cause of the deterioration in balances of payments, trade adjustments must be the principal means of restoration for nearly all deficit countries.

Some countries may earn more dollars from their trade with regions outside the Western Hemisphere; but at best this could solve for a few countries only a small part of their dollar payments problem. In any event, for dollars to be earned in this way presupposes an expansion of United States imports from other regions. Even if the most liberal estimates are made for indirect dollar earnings in other regions, the gap left to be filled by the expansion of exports of the deficit countries to the Western Hemisphere will still be so large as to justify its being regarded as the crux of the dollar payments problem.

The Western Hemisphere now offers a larger market for imports than before the war. It has, however, become a much larger supplier of its own import requirements, and other regions have maintained only slightly more than half of their prewar shares in Western Hemisphere import markets. Of the nearly $5 billion of imports of Western Hemisphere countries in 1938, about 31 per cent came from Europe and 14 per cent from the Middle East and the Far East. Of their aggregate imports of $12 billion in 1946, only 14 per cent came from Europe and 9 per cent from the Middle East and the Far East. By 1948, of their aggregate imports of $18 billion, 16 per cent came from Europe and 9 per cent from the Middle East and the Far East. The principal aim of the deficit countries should be to increase their exports to the Western Hemisphere, and particularly to the United States. This would help them meet their own dollar payments problem. It would also help to meet the dollar payments problem of other countries in the Western Hemisphere that are compelled by the difficulty of getting supplies from other regions to depend on the United States for an undue proportion of their imports.

Any quantitative estimate of the increase in exports to the Western Hemisphere which will be necessary to meet the dollar payments problem of other regions would inevitably be rough and arbitrary. If Europe's 1948 deficit with the Western Hemisphere had had to be eliminated by increased exports to the Western Hemisphere, these exports would have had to be 2.8 times as large as they were. Similarly, if the 1948 deficit of the Middle East and Far East with the Western Hemisphere had

had to be eliminated in the same way, their exports to the Western Hemisphere would have had to be about 1.6 times as large. Clearly, a quick expansion of exports to the Western Hemisphere on such a scale cannot be expected. There will, therefore, remain a residual that may have to be met by shifting or restricting imports.

In several Latin American countries, the current payments position still requires a cautious import policy, and it is important that their foreign exchange resources should be used in ways which will favor the development of their economies. It will be easier for them to increase their imports from countries outside the Western Hemisphere if at the same time they can expand their exports.

A satisfactory solution to the dollar payments problem will require further increases in the volume of world trade, in the proportion of total imports that go to the Western Hemisphere, and in the proportion of total exports supplied by other regions. The questions which are now of immediate importance are whether the pattern of trade is to be changed mainly by increasing the exports of the deficit countries or by reducing their imports from the surplus countries; and whether the necessary shifts are to be made on the basis of relative efficiency and economy or by restrictions and discriminations. It is in the general interest that international payments should be restored by the expansion of exports on the basis of relative prices and costs rather than by the contraction of imports through restrictions and discriminations.

The Role of the Deficit Countries

The primary responsibility for restoring the international payments position of the deficit countries rests with themselves. Until their domestic economies are adjusted to make more of their output available for export, so as to reduce their dependence on an excess of imports, their payments difficulties will continue. The starting point for any policy designed to improve their position is the gradual reduction of the present proportion of investment and consumption compared with their own output. The establishment of a better pattern of international payments is in part a problem of monetary policy, involving limitation of domestic demand, and especially of demand for investment, although, of course, investment which will improve the balance of payments should be continued. Inflation is not compatible with a satisfactory international balance of payments.

In their own and in the general interest, it would be preferable for the deficit countries to make the greater part of the adjustment which is necessary by expanding exports to the dollar region. The difficulties to be overcome in increasing such exports involve every aspect of production, marketing, and prices. The necessary increase will not be forthcoming unless home demand is limited by avoiding inflation, unless production is shifted to goods which offer prospects for export sales in the Western Hemisphere, and unless facilities are provided to market and service these goods. Above all, if exports are to be increased on a large enough scale, the goods will have to be offered at prices competitive with both domestic output and other imports in the markets of Western Hemisphere countries.

Any considerable increase of exports to the Western Hemisphere is likely to require the opening up of new demands. For exports to the United States, this means at least that the export prices of the deficit countries must be competitive with United States domestic prices, taking the tariff also into account. For exports to other Western Hemisphere countries, it means that the export prices of the deficit countries must be competitive with export prices from alternative sources of supply, and especially from the United States. Even had prices in the United States and in some other markets not declined recently, the maintenance of the present level of export prices and costs in the deficit countries would have made unlikely the necessary improvement in their competitive position. The shift from a sellers' market means that importing countries now have a wider range from which to select the commodities they wish and the source from which they draw their supplies. Further progress in reducing dollar deficits through larger exports is not likely unless export prices to Western Hemisphere markets are reduced.

While the United States wholesale price index for manufactures was about 175 (1937 = 100) in May 1949, the indexes of export prices in dollars of the principal Western European countries exporting manufactured goods ranged around 210. The difficulty of exporting manufactures on an adequate scale to the United States is apparent from these figures. In other Western Hemisphere markets, where exports of European manufactures have to meet the competition of United States producers, relative export prices were perhaps less unfavorable to Europe, although not far different. Comparison of the costs of producing export goods in the Middle East and Far East with Western Hemisphere prices for raw materials also shows the great difficulty to be overcome in expanding exports from those regions.

These high export prices impose a serious handicap on deficit countries as they endeavor to expand their exports to the Western Hemisphere. There may be some scope for price reduction by a lowering of profit margins, although these possibilities are necessarily limited. The ultimate limit to price reduction is set by production costs. A reduction in costs through greater efficiency is at best a slow process, although the investment already undertaken and in prospect may offer hope in this direction. Many cost elements are notoriously rigid, and any general deflationary program for lowering costs and prices would encounter formidable resistance. Where a price reduction of the magnitude indicated above is necessary to expand exports, it would in many cases seem possible only through an adjustment in the exchange rate.

Countries with dollar payments difficulties are faced with the question whether an exchange rate adjustment can help solve their problem. The immediate purpose of an exchange adjustment is to increase substantially the foreign exchange receipts and particularly the dollar receipts from exports. If this is to be achieved, the exchange rate adjustment must make possible a reduction in their dollar export prices and the demand for their products must be such that this reduction will make an adequate addition to sales. In some cases, it would also be important that the increased profitability of exporting would encourage a larger production of exportable commodities.

For exchange adjustment to be successful, it is essential that the expected benefits should not be dissipated by an offsetting rise in local prices and costs. It must, therefore, have public support and be accompanied by appropriate fiscal and credit policies. If the public recognizes that an expansion of exports is necessary to maintain the flow of imports, and is prepared to accept higher import prices without insisting on corresponding changes in incomes, exchange adjustments in the deficit countries should involve only a relatively small rise in the cost of living. If, however, the public is insistent on offsetting by higher incomes even a moderate rise in the cost of living, the result will be the almost complete dissipation of the benefits of exchange adjustment. Even if an exchange adjustment is accomplished without a significant rise in prices and costs, it would be futile if the greater demand abroad were not matched by an equivalent supply of exports. Unless home demand is restrained, the expansion of exports, which alone can justify an exchange adjustment, will not be achieved.

Even when the parity of a country's currency does not seriously impair its total exports, the existence of inflation and inappropriate exchange rates elsewhere may hamper its efforts to direct a greater part of its exports to Western Hemisphere markets. The inflated prices in non-dollar markets are one of the major reasons why exporters in Europe, the Middle East, and the Far East do not offer their exports in larger part to Western Hemisphere countries. This difficulty can be overcome only as the general pattern of exchange rates is adjusted to relative prices and demand. Every country with a payments problem—and this includes both surplus and deficit countries—has a direct interest in the establishment of exchange rates in other countries that will encourage a pattern of trade conducive to a better balance in international payments.

The Role of the Surplus Countries

The restoration of international payments is not exclusively the responsibility of the deficit countries. It is no less important for the attainment of this objective that surplus countries should keep their economies operating at a high level and minimize the trade barriers that restrain imports. Indeed, the surplus countries have a positive interest of their own in finding a solution for the international payments problem. It would not be enough for them merely to refrain from action which might hamper the efforts of the deficit countries. Even the best conceived and the most vigorously executed plans for expanding the exports of other countries would necessarily fail if substantial increases in imports by surplus countries were now to be prevented by a large or persistent decline in business activity or by restrictive import policies.

The decline in the level of business activity in the United States from the extremely high postwar peak has added a new element to the payments problem. If this recession should prove to be no more than the end of the postwar restocking boom, it may help to establish a more satisfactory structure of prices on which to resume production and employment at a high level. However, even the decline that has already occurred is beginning to intensify the dollar payments problem and may threaten further restrictions and discriminations. If the decline in United States business activity, and hence in United States imports, should persist and intensify, it would be a serious setback to the deficit countries in their efforts to increase dollar earnings. It would necessitate a reduction of imports from the United States, which for many countries would be serious and for some critical, and would inevitably delay for an extended time the establishment of a world economy trading on a multilateral basis. Many countries might find it necessary to offset their reduced imports from the United States by discriminatory arrangements for larger imports from other areas.

The decrease in United States imports and the consequent decrease in incomes in other Western Hemisphere countries increase the difficulty of expanding exports to that region. For the deficit countries, this emphasizes the urgency for their taking bold measures to improve their dollar position. For the United States, the need is to avoid such a reduction in demand as will threaten an enduring and large contraction of world trade and necessitate over wide areas greater restrictions and new discriminations against imports from that country.

Apart from maintaining a high level of demand, the surplus countries can help expand exports by the deficit countries by lowering trade barriers and simplifying customs procedures. A reduction of tariffs, moreover, would have the advantage of reducing import prices without diminishing the exchange receipts which the deficit countries would receive for each unit of their exports. Much has already been done to reduce tariffs through cooperative action. But it is of great importance that no new tariff barriers should obstruct the efforts made by deficit countries to improve their payments position, and, wherever possible, further reductions in tariffs should be undertaken. If the payments position of deficit countries is likely to be improved by exchange depreciation, the improvement would be enhanced by a reduction of tariffs by surplus countries. While reduction of tariffs in other Western Hemisphere countries would not change the competitive position of deficit countries relative to the United States, it would help secure for them the maximum benefits from any reduction in their export prices. The process of tariff reduction, however, is always slow, and it will not be realistic to count on it as a solution to the immediate dollar problem.

In the establishment of a better balance in international payments, an important part must be played by international investment. An adequate flow of capital, particularly to under-developed countries, can have a generally beneficial effect in expanding world trade. It can help the deficit countries to increase their exports in the favorable environment of a larger volume of world trade. The assurance of fair treatment to foreign investors is a basic condition for the revival of international investment. The greatest encouragement to the resumption of a satisfactory flow of international capital would be an indication that the deficit countries themselves are taking effective steps to place their international payments in order.

Conclusion

In the years since the end of the war, much has been accomplished to increase production and trade. Despite this, dollar payments difficulties persist and many countries remain dependent on foreign aid. Even with this help, the payments position of some countries is so precarious that a moderate decline in their U. S. dollar receipts threatens their capacity to maintain essential imports. Under such conditions, even mild economic disturbances, at home or abroad, seem to call for drastic measures to meet an emergency situation.

Further measures of restriction and discrimination offer no permanently satisfactory solution to payments difficulties. Nevertheless, at a time like this it is natural that countries should think first of the effectiveness of measures to protect their critical dollar position. The deficit countries cannot be asked to forego even extreme measures which are necessary to prevent a breakdown in their dollar payments. But they can reasonably be asked at the same time to adopt positive measures which will increase their ability to meet their payments problems. Measures of restriction and discrimination, even if intended to be temporary, may foster the formation of exclusive economic blocs which might seriously threaten the strength and independence of the weaker economies, without assurance that they could offer their members a satisfactory way out of their difficulties.

A constructive solution to the payments problem requires the deficit countries to do all that they can to make more of their output available for export and to offer these exports at prices which will call forth much greater demand in dollar markets. The world is now tending to divide into high-price markets of countries dealing mainly in inconvertible currencies and low-price markets of countries dealing mainly in convertible currencies. The dollar payments problem will persist at least as long as these price differences continue. Prolonged dependence on restrictions and discrimination would be likely to divide the world economy into economic blocs, each with its own price structure, each tending increasingly to insulate itself from the rest of the world by the necessity of protecting its own inconvertible currency system by trade restrictions and exchange controls.

The task of increasing dollar exports cannot be delayed in the hope that it can be quickly completed by some extraordinary effort at the eleventh hour. The magnitude of the dollar payments problem requires that every constructive means should be used to meet it. For the creditor countries, this means maintaining high levels of national income, reducing the barriers to trade, and facilitating the flow of international capital. For the deficit countries, it means the reduction of their export prices to a competitive level, in order to meet as much as possible of their payments problem through the expansion of trade on a multilateral basis.

Neither surplus nor deficit countries can afford to neglect to do their part to meet this problem. Even if creditor countries do less than they should, this would not relieve the deficit countries from the necessity of doing all that they can to relieve the situation. Their people will be the principal sufferers if they should find it necessary to impose further restrictions on essential imports. In their own interest they cannot afford to forego any suitable instrument, including any necessary exchange adjustment, that could expand their dollar exports and thus provide their people with imports. The risks and difficulties in adopting appropriate measures are undeniable; but with public understanding and support, the risks can be assumed, and the difficulties can be overcome. The deficit countries will then have done all in their power to deal with the payments problem.

II

EXCHANGE POLICY AND PAR VALUES

Exchange Policy

THE establishment of the Fund was an indication of the general acceptance of the principle that the exchange policy of one country affects the well-being of all others. In the difficult times of the past three years, the Fund has served as a center for continuous consideration of exchange policy. The cooperation of members through the Fund is the most effective means of obtaining and maintaining a pattern of exchange rates suitable to the world economy.

As was indicated in the Annual Report of 1948, stability of exchange rates does not mean rigidity of exchange rates. A fixed exchange rate is desirable as long as a country is able to adjust its economy to changes in its real international economic position. But when the adjustments needed in face of a radical change in a country's international economic position cannot be made through home prices and costs, it may be necessary to change the exchange rate. Such a change should not be regarded as meaning the abandonment of the policy of exchange stability but rather the focusing of this policy on a different parity better suited to the new conditions.

The Fund Agreement recognizes that changes in exchange rates can, and under appropriate conditions should, be an instrument of economic policy. It may be preferable for a country to change an unsuitable exchange rate through the machinery of Fund consultation rather than to subject its economy to the risks of serious deflation and unemployment or to impose restrictions that keep imports so low as to endanger its well-being and efficiency.

Orderly Cross Rates

For the reasons stated in last year's Annual Report, the Fund attaches great importance to the maintenance of orderly cross rates as an essential element in a foreign exchange policy based on a realistic pattern of par values.

Disparate cross rates now exist in some countries on a legal basis, and in many instances on an illegal or tolerated basis. These practices impair the capacity of certain countries to maintain and expand their U. S. dollar earnings, and diminish the inducement for other countries to make the fullest effort to increase their direct U. S. dollar earnings. The emergence of disparate cross rates results from the operation of real economic forces. They are particularly an indication of the great difficulty that some countries have in earning U. S. dollars. They are an indication too of the difficulties which arise in attempting to maintain a strict bilateral trade balance that goes beyond the economic interests of the trading partners. Relative prices and exchange rates which are not appropriately adjusted strengthen the pressure to depart from the pattern of orderly cross rates. The conditions which have given a stimulus to practices incompatible with orderly cross rates are likely to persist until a better equilibrium in international accounts has been established and there is some relaxation of extreme restrictions and bilateralism.

The members of the Fund have a duty to cooperate in establishing conditions which will enable the pattern of orderly cross rates to be maintained. In some important instances, effective steps have been taken during the past year to assure the maintenance of orderly cross rates. The Fund welcomed, as an appropriate step in the direction of an agreed par value for the French franc, the arrangements whereby, in October 1948, the French Government eliminated, except for a few special cases, the differential exchange rates which had prevailed since January 1948 and which had been one of the main objections of the Fund to the system proposed at that time by the French Government. The Government informed the Fund that its objective remained the agreement of a new and stable parity as soon as conditions permitted, and consultations with the Fund have continued with this purpose in view. The Fund's statement is given in Appendix IV.

A further important step was taken in November 1948, when the Fund was notified of an agreement between Italy and the United Kingdom which ensured that sterling-lira quotations would in future be pegged to the dollar quotations at the cross rate of 4.03.

Multiple Currency Practices

The Fund is interested in multiple rates not only because they may be restrictions but also because they are effective exchange rates, and the manner in which they are administered may have important consequences on exchange stability. The wide extension of differential rates to nearly all categories of payments is indeed much the same as a partial *de facto* depreciation or appreciation, and may in the course of time leave the official par value with merely a nominal status. During the year, the Fund has consulted with several members on this subject, and has approved certain modifications of their current practice. During the year there has, however, on the whole been little significant change in the extent to which Fund members have resorted to multiple currency practices. Statements issued by the Fund after consultations with Colombia and Peru are set forth in Appendices III and V.

At least until inflationary forces have been eliminated, countries with multiple currencies will face difficulties in unifying their exchange systems. In several of the countries where multiple currency practices are in operation, some progress has been made in getting inflation under control, but monetary stability is still far from being fully assured. The problem of controlling credit expansion often presents serious political and social difficulties, especially where the inadequacy of domestic savings leads to the use of inflation as an instrument for financing development. In an inflationary situation, delays in the adjustment of costs to rising prices may make it difficult to determine a single exchange rate which will effectively serve the dual purpose of providing an adequate incentive to exporters and placing a sufficient restraint upon imports.

In countries where the tax system is not very advanced and little reliance can be placed on corporation and personal income taxes, there may be great difficulty in correcting by taxation the distortions which would follow if exporters or importers were allowed to enjoy the windfall profits arising from the establishment of a uniform rate at a time when costs and prices are still out of line. In these countries the interest of the government in maintaining the revenue which flows from multiple currency practices also strengthens the resistance to proposals for their termination.

The Fund has continued to give advice and technical assistance to member countries to help make possible the removal of those conditions which seem to make these practices necessary, as well as to eliminate the more objectionable features of multiple rate systems, such as discrimination between countries of destination or of origin.

Par Values

On July 14, 1948, a par value was announced for the Brazilian cruzeiro at the rate of 18.5 cruzeiros = US$1. There were, therefore, at the end of the fiscal year eight members of the Fund—Austria, China, Finland, Greece, Italy, Poland, Uruguay, and Yugoslavia—for whom a par value had not yet been agreed.[1]

During the year only two members made application to the Fund for a change in the par values which—as for most members—had been established at the end of 1946. The changes proposed by the Colombian Government in the par value of the Colombian peso and by the French Government in the par value of the Djibouti franc are recorded in detail in Appendices I and II.

In July 1948, the Mexican Government informed the Fund that loss of reserves compelled the Bank of Mexico temporarily to interrupt its normal foreign exchange transactions and that it had to allow the Mexican peso to fluctuate and find its level in the free market. The Mexican Government has since that time been in continuous consultation with the Fund with a view to establishing a new par value for the peso.[2]

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[1] The establishment of an initial par value of 50 dinars = US$1 for the Yugoslav dinar was announced by the Fund on May 24, 1949.

[2] A new par value for the Mexican peso of 8.65 pesos = US$1 was announced on June 17, 1949.

III

EXCHANGE RESTRICTIONS

The twelve months under review in this Report have shown no general trend toward the relaxation of exchange restrictions. No member of the Fund which originally availed itself of the provisions of Article XIV, Section 2, of the Fund Agreement, permitting exchange restrictions in the transitional period, has subsequently felt itself able to renounce the rights provided in this Section. El Salvador, Guatemala, Mexico, Panama, and the United States are still the only members who have accepted in full the general obligation to avoid restrictions on current payments and discriminatory currency practices. In a few other countries, such as Cuba and Venezuela, the retention of transitional period rights has little significant effect upon the flow of trade. The Fund has not yet deemed that circumstances justified a suggestion to any member that these rights should be renounced. Other countries have, however, relaxed certain restrictions. For example, the United Kingdom extended the scope of "administrative transferability" of sterling held in nonresident accounts; several countries increased the amounts of foreign exchange granted to residents for tourist expenditure; and exchange restrictions in connection with bank notes were relaxed in Belgium, the Netherlands, and France. Furthermore, Belgium allowed increased utilization of certain restricted accounts held by residents of the United States and Switzerland. Balances in these accounts outstanding as of March 1, 1949 were made available for all payments to Belgian residents, including payments for exports. These rights were later extended to accounts held by residents of other countries. In Italy, facilities were introduced to provide for the free transfer abroad, within certain limits, of amortization payments and earnings in respect of foreign investments made with convertible exchange. In French Somaliland, restrictions were eliminated as part of the institution of a new monetary system mentioned in Appendix II. These changes, however, are not significant enough to indicate any general trend.

In a number of countries, new exchange restrictions have been imposed or existing restrictions expanded. The Union of South Africa, for example, on November 5, 1948, introduced new legislation entitled "Exchange Quota Regulations." As the incidence of restriction on current payments in the existing Exchange Control was in practice negligible, the Fund took the view that the new legislation represented the introduction of new restrictions. Having regard to the circumstances of the case, the Fund approved the introduction of the Exchange Quota Regulations. These had the effect of rationing exchange for payments for goods from outside the sterling area for the twelve months ending June 30, 1949. Individual importers are allowed a global amount of non-sterling area exchange equal to 50 per cent of the value for customs duty purposes of goods imported by them from outside the sterling area during 1947, and their total imports from the non-sterling area are restricted to this amount. Importation for use of machinery, plant, or equipment lies outside the terms of this arrangement, and foreign exchange needs for these purposes are matters for special application to the exchange control authorities. The Exchange Quota Regulations were, however, a temporary measure, and it has been announced that they would be replaced after June 30, 1949 by an import-licensing scheme applicable to nearly all imports. At the end of the period covered by this Report, the Fund was in consultation with the Contracting Parties to the General Agreement on Tariffs and Trade concerning the South African import restrictions.

Many of the exchange and other restrictions upon trade have been enforced as a means of preventing serious disorders in the international payments position of the countries which use them. Any significant relaxation will be difficult unless there is at the same time a strengthening of the payments position of these countries. Their indefinite retention would be contrary to the principles of the Fund; even their temporary maintenance presents a problem because, almost inevitably, they tend to encourage the creation of a pattern of trade widely different from that which ought to be established if the best use is to be made of the world's productive resources and the maximum benefits derived from international trade.

A Fund communication on the Unenforceability of Certain Exchange Contracts is referred to in Appendix XIV.

Convertibility of Currencies

The imposition of exchange controls means a limitation upon the convertibility of the controlled currencies. Convertibility involves the right in fact to obtain, directly or indirectly, gold or a currency of unrestricted use in exchange for holdings of the convertible currency. This right need not be without limit and may even be restricted to payments for current transactions.

When a country accepts inconvertible currencies in payment for exports, it must use the proceeds for imports for which payment can be made in such currencies. Otherwise it will be extending credit even though this may be contrary to its general economic interests. Countries holding or earning inconvertible currencies are, therefore, likely to be more generous in admitting imports that can be paid for with inconvertible currency. Where earnings of dollars and other convertible currencies are inadequate, restrictions will often be imposed on imports for which payment has to be made in convertible currencies, even when similar imports are admitted from other sources. Many of these restrictions and the trade discriminations which are their consequence are an inevitable concomitant of the inconvertibility of currencies.

The assumption of the obligations of convertibility by a major trading country presupposes that under such conditions it could achieve an approximate over-all balance in its payments position. A country would have to be assured that the settlement of any net payment surpluses it might have with other major trading countries would be made in convertible currencies. While it would be helpful for a country undertaking convertibility to have a very strong reserve position to take care of temporary fluctuations in its receipts, a country whose prospects for a strong payments position under widespread convertibility were good might assume the risks of convertibility even with a moderate reserve.

To secure a satisfactory over-all balance in its payments under a system of general convertibility, a country must be prepared to provide export goods at prices sufficiently attractive to enable it to meet the competition of other countries and to cover its import requirements. Furthermore, it is essential that other countries should have sufficiently restored their own capacity to earn dollars directly to ensure that they will not be tempted to restrict their imports from the country establishing convertibility and to convert into dollars the proceeds from their exports to that country. Both a country's own competitive position and the capacity of other countries to earn dollars directly can be assured only if there is an appropriate pattern of exchange rates and satisfactory trade connections based on such exchange rates have been established.

The adoption of convertibility before sufficient progress has been made toward establishing the necessary conditions carries a risk that the economic pressures thereby generated would compel the abandonment of the system with serious consequences. On the other hand, there is no reason why the extension of convertibility should be postponed until it can be established in its completest form; countries should at all times consider carefully what steps, however small, might gradually be taken to increase the extent to which their currencies are made convertible. At the same time, countries may usefully extend the area or extent of transferability of inconvertible currencies, pending the resumption of convertibility. If the effect is temporarily to increase the discrimination suffered by other countries, all feasible measures should be taken to reduce to a minimum the necessity for discrimination.

Transitional Period Restrictions

The members of the Fund have the obligation to put into effect as soon as possible such measures as are likely at the same time to improve their payments position and make possible the gradual reduction and ultimate elimination of restrictions on payments and transfers for current international transactions. There are evident risks of various kinds in accepting the more competitive conditions that must follow such a policy; but unless these risks are accepted, the improvement in the world economic situation made thus far may be replaced by deterioration.

If the earliest reasonable opportunity is not seized to modify restrictive policies, the difficulty of resuming trade on an economic basis under more normal conditions will be greatly increased and world trade will tend more and more to be conducted with inconvertible currencies on the basis of bilateral bargains. It would in these circumstances be increasingly difficult to maintain the uniform pattern of exchange rates which is an essential element in Fund policy. The revival of the flow of private international capital, which is essential if the best use is to be made of the world's productive resources, is moreover scarcely to be expected if more elaborate exchange restrictions increasingly limit the uses to which earnings from foreign investments can be put.

The Fund is required by the Articles of Agreement to report to members not later than three years after the date on which it began operations, i.e., by March 1, 1950, on the restrictions still in force at that time under the transitional period provisions in the Articles of Agreement.

Payments Arrangements between OEEC Countries

In last year's Annual Report, it was pointed out that, unless the credit margins in the payments agreements under which a large part of intra-European trade was carried on could be increased or additional gold and dollars became available for settling balances, many Western European countries would have to resort to a stricter bilateral balancing of their transactions with each other. It was feared that this trend would result in a decline of trade, involving the elimination even of some imports regarded as essential by the deficit countries. At the beginning of 1948, European recovery was thus faced with the threat of a substantial setback in intra-European trade.

A partial and temporary remedy for this difficulty was found in the second half of 1948 for the countries which were recipients of aid under the European Recovery Program. An Agreement for Intra-European Payments and Compensations, signed on October 16, 1948 by the OEEC countries, was designed, with the help of American funds, to facilitate the financing of trade between these countries during the period July 1, 1948–June 30, 1949. It was provided in the Agreement that certain balances outstanding between the Central Banks or monetary authorities of the participating countries were to be automatically offset each month by the so-called "first category" compensations, and that the deficits remaining after compensation would be financed by the use of "drawing rights" opened to the prospective deficit countries by each surplus country. In association with these grants of drawing rights, each surplus country was to receive as procurement authorizations from ECA equivalent sums of "conditional aid" in dollars as part of its basic dollar allocation the rest of which was independent of grants to other participating countries. In this manner the equivalent in European currencies of $810.4 million was put at the disposal of the participating countries to cover their prospective deficits with each other during the period July 1, 1948–June 30, 1949.

These measures undoubtedly served to maintain Western European trade at a level higher than would otherwise have been the case, even though the actual volume of offsets has been a very small fraction of total transactions and the pattern of trade and payments has not become appreciably more multilateral than before. In some individual cases, the drawing rights have proved inadequate to cover the actual deficits with certain countries, whereas other drawing rights have been used only in part or not at all. Such discrepancies were to be expected, but it has proved very difficult to correct them by reallocating drawing rights or in other ways, and in some cases stringent bilateral trade restrictions could not be avoided. The essentially bilateral character of the financing agreement and its dependence upon funds provided by the United States have limited its effectiveness in putting European trade upon a permanently satisfactory basis. Changes embodied in the plan for 1949-50 are intended to introduce a more satisfactory degree of multilateralism into the payments scheme.

IV

GOLD POLICY

Sales at Premium Prices

During the past year, the Fund reviewed and decided to maintain the policy concerning external transactions in gold at premium prices, communicated to its members by letter dated June 18, 1947. In that letter, the Fund expressed its concern about such transactions on the grounds that they directly or indirectly involve exchange dealings at depreciated rates and thereby threaten to disturb exchange relationships among its members, and that they encourage evasion of measures designed to conserve monetary reserves. The Fund requested its members to take steps to prevent such transactions.

In the past year there has been an extension of premium markets for semi-processed gold. The Fund has made every effort in applying its policy to avoid interfering with the bona fide use of gold in the industries, professions, and arts. It has, however, recognized the ease with which semi-processed gold can be diverted from legitimate uses to hoarding, and has asked its members to limit or otherwise control the marketing of semi-processed gold so that it should not become a significant medium for hoarding, particularly in countries where the gold inflow is contrary to law and will result directly or indirectly in leakage or diversion of foreign exchange earnings.

It is expected that the satisfactory effort made by many members of the Fund to observe the policy announced in 1947 will be continued and that, where possible, the application of controls which discourage undesirable international transactions in gold will be strengthened. Some members have not yet succeeded in implementing fully the Fund's policy. The Fund's facilities for consultation and its technical assistance are available to them to help in devising effective means of implementing the Fund's policy.

The Fund has, on several occasions, recommended to members certain steps which are believed to afford adequate protection against the unauthorized diversion of gold to private hoards. The principal exporting countries have adopted practices which, if effectively administered, should avoid such diversion. Exports of gold from these countries are screened by the monetary authorities in order to ensure that those on private account are in fact for legitimate use in the industries, professions, and arts.

Further steps might also be taken by members with respect to the importation of gold for re-export, a practice which complicates the supervision of sales by exporting countries. In some of the countries where there is still a significant hoarding demand for gold, more effective controls over imports would assist in cutting down the international traffic at premium prices. While for many of them smuggling is not easy to control, there are some which could, without encountering serious administrative problems, take further steps to make it more difficult for dealers to import gold for hoarding. In countries with legal internal gold markets, the problem is to avoid unauthorized exports or imports of gold at premium prices by way of these internal markets.

Several members have consulted with the Fund on the implementation of its policy on sales of gold at premium prices. The

Government of the Union of South Africa has sought to find a means of permitting its gold producers to benefit from premium prices for gold for legitimate industrial, professional, and artistic purposes while avoiding external transactions for unauthorized or illegitimate purposes, particularly hoarding. After an initial experimental sale of semi-processed gold to a bullion dealer, the Union Government agreed with the Fund on a series of protective steps which are intended to secure these ends. The Union Government will keep the Fund fully informed of developments in this practice. The Statement issued by the Fund at the conclusion of these negotiations is reproduced in Appendix VI.

For many years there has been a free gold market in Hong Kong, an area in respect of which the Government of the United Kingdom accepted the obligations of Fund membership. In order to implement the Fund's policy, it was announced by the Government that, as of April 15, 1949, dealings in gold in Hong Kong were prohibited and the possession of gold without permission forbidden. The purpose was to eliminate the undesirable international transactions at premium prices for which the free market had become a center. The conditions of the market, however, make it extremely difficult to enforce these regulations.

Belgium has also consulted the Fund with respect to a plan for benefiting gold producers in the Belgian Congo by permitting them to sell their gold in Belgium at premium prices in Belgian francs. The initial proposal involved a free market in Belgium. Following comments made by the Fund on this proposal, Belgium, during May 1949, announced a program which eliminates the free market, restricts sales at premium prices to those who are customary and legitimate consumers of gold, and is accordingly designed to prevent any external sales of gold at premium prices.

Subsidies to Producers

Subsidies by members to gold producers, like some of the external sales of gold at premium prices, have been a means whereby certain countries have sought to protect their gold mining industries against increases in the cost of production. It is the view of the Fund that subsidies on the production of gold regardless of their form are undesirable if they undermine or threaten to undermine exchange stability. A subsidy in the form of a payment by a member of a uniform amount per ounce for all or part of the gold produced would constitute an increase in the price of gold and is therefore not permissible. Any proposal for a subsidy in any other form must be examined on its merits. On several occasions in the year under review, members have consulted with the Fund on subsidy proposals designed to benefit gold producers without contravening the Fund Agreement.

The Government of Canada has consulted the Fund concerning possible changes in the application of the gold subsidy introduced in December 1947. The original subsidy provided assistance to mines whose production exceeds two thirds of their production during the year ended June 30, 1947. The contemplated change would apply the subsidy to not less than one third of the gold produced each year and thus permit assistance to a few mines producing at levels substantially below that of the base year. The Fund concluded that in the circumstances this proposal would be consistent with its statement on gold subsidies.

During 1948, a gold subsidy was introduced in Southern Rhodesia. This is a territory in respect of which the United Kingdom has accepted the obligations of Fund membership. After consultation with the Fund, the Governments of the United Kingdom and of Southern Rhodesia agreed that the subsidy was not in a form that was acceptable to the Fund. The Southern Rhodesian Government thereupon undertook to modify its legislation so as to conform with the Fund's policy. Shortly after the close of the financial year under review, the Southern Rhodesian Government, through the Government of the United Kingdom, consulted the Fund concerning modifications in its subsidy legislation which the Fund found to be consistent with its statement on gold subsidies.

Gold Production and Hoarding

Total gold production outside the Soviet Union declined from a peak of nearly $1,300 million in 1940 to less than $750 million in 1945. During the war, resources in some gold producing countries had been diverted away from gold mining. Moreover, the war and postwar inflation of prices and costs reduced the profitability of gold production, which was doubtless the major reason why production did not return to the prewar level. Since 1945 there has been a slow recovery, and in 1948 world gold production was approximately $795 million. The decline in the volume and value of newly mined gold has intensified the payments problems of some countries. In real terms, newly mined gold could pay for less than one third as much import goods as in each of the years from 1938 to 1940.

Instead of being added to the gold reserves of many countries, most of the newly mined gold has had to be used, since the war, and, indeed, in the decade before the war, directly or indirectly to cover part of the payments deficits of the rest of the world with the United States. A significant part has also been absorbed since the war by hoarding demands in various parts of the world. On account of the disturbed conditions in international payments, the lack of confidence in some currencies, and administrative deficiencies, the monetary authorities of some countries with exchange controls have not been successful in checking the diversion of considerable sums in foreign exchange to finance the hoarding of foreign currencies or gold. It appears that a sum equivalent to not less than $200 million now finds its way annually from newly mined gold and central holdings into private hoards. The habit of hoarding has been particularly widespread in certain countries whose payments position is unusually weak, and the payment of premium prices has increased the loss of exchange resources to a figure considerably above the official value of the hoarded gold.

The Price of Gold

An increase in the dollar price of gold is sometimes suggested as a means of helping to meet the payments problem. The price paid by the United States Government is of unusual importance because the United States is by far the largest buyer of gold, is the major creditor country with its currency in general international demand and fully convertible, and freely buys and sells gold at $35 per ounce for the settlement of international transactions.

Presumably any change in the dollar price of gold would be part of a general and simultaneous change in the price of gold in all currencies. A uniform proportionate change in par values is permitted by Article IV, Section 7, of the Fund Agreement, if it is approved by a majority of the total voting power of the Fund, including every member which has ten per cent or more of the total of the quotas. The change would not, however, be binding on a member which did not wish the price of gold in its own currency to be altered.

Provided that there was no offsetting effect through higher prices, a uniform change in par values would increase the purchasing power of existing reserves and perhaps encourage some private dishoarding of gold. For some countries this would afford a temporary respite in their current international payments difficulties. The effect upon gold producing countries would be more far-reaching, since the measure would increase the profitability of gold production. Countries whose exports to gold producing countries are a significant part of their total trade would also benefit. Other effects of an increase in the price of gold in all currencies would be more complex and more difficult to estimate precisely.

Under present conditions, the predictable effect of such a measure upon the United States would merely be increased exports in exchange for further additions to its gold supply which is already about two thirds of the world's reserves. Insofar as the United States is prepared to maintain a large export surplus to facilitate world recovery, it can do this more effectively through its foreign aid program than through an increase in exports to gold producing and gold holding countries. A rise in the dollar price of gold could have no positive effect in correcting the maldistribution of gold, unless and until the present payments difficulties have been met. A general increase in the price of gold cannot be a substitute for the measures in the sphere of exchange and payments policy which have to be taken if international balance is to be restored.

V

MONETARY RESERVES AND FUND RESOURCES

Movements of Monetary Reserves

THE payments difficulties of the postwar period have caused a continuous and serious depletion of the monetary reserves of many countries. For some of the countries actively engaged in the war, there had already been a large deterioration during the war years, and since the war there has been further widespread decline of reserves which has not yet been halted.

Total gold reserves outside the United States and the Soviet Union (calculated in 1934 dollars) were estimated at $10.8 billion in 1929 and $12.4 billion in 1937, and had risen to approximately $13.7 billion at the end of 1945. By the end of 1947, reserves outside the United States and the Soviet Union, and excluding the gold holdings of the Fund, had fallen to about $10.3 billion, and by the end of 1948 to a little more than $9 billion.

At the end of 1937, the gold holdings of Europe, excluding the Soviet Union, amounted to approximately $10.9 billion. At the end of 1945, their gold holdings had fallen to about $7 billion, and at the end of 1948 to approximately $5.1 billion. The proportionate decline since 1945 in European gold reserves has indeed been a little less than that in the reserves of non-

European countries, excluding the United States and the Soviet Union. At the end of 1948, however, the latter were still twice as large as before the war. Of course, the reserve histories of individual countries both inside and outside Europe diverge widely from the trends revealed in these regional averages, and for some countries any further decline of reserves would create a difficult situation. On the other hand, United States gold holdings, which in 1929 were $6.6 billion and in 1937 $12.8 billion, had risen to $20 billion in 1945 and amounted to $24.4 billion at the end of 1948.

The gold reserves of most countries other than the United States and the Soviet Union have thus declined very sharply. In real terms the decline has been much greater than indicated by the dollar figures as the price level of international trade goods has more than doubled. Their present inadequacy in relation to world trade is indicated by the fact that they have declined in amount while the dollar value of world exports has more than doubled.

This decline in aggregate gold reserves does not take account of official holdings of short-term dollar assets in the United States, which for some countries are a significant supplement to gold holdings. After falling from $4.2 billion at the end of 1945 to $1.8 billion at the end of 1947, they amounted to $2.9 billion on March 31, 1949. The common reserve in gold, dollars, and other foreign exchange held by the Fund should also be taken into account.

The problem of inadequate reserves is of special importance now that dollar earnings are threatened by recession in the United States. Restrictions on imports, because of the lack of means to pay for them, would intensify and spread the difficulties of recession.

Use of the Fund's resources can mitigate to some extent the effects of depression on deficit countries. It would not, however, even if the resources were much larger, be an effective means of combating depression. There is no country without some measure of responsibility for the maintenance of economic stability; but the national policies of the great industrial countries are of predominant importance both in preventing depression and in applying remedies for any depression tendencies which appear. The Fund will have given whatever financial help it can, if it relieves the strain on the payments position of its members in accordance with the Fund Agreement, while suitable corrective measures are instituted by the national authorities.

In the longer run any general program for restoring international balance must take into account the accumulation of adequate reserves. A major step in strengthening the reserve position of countries is to place their internal economies on a stable basis and to restore their payments position so that confidence in their currencies will be established. If these conditions are satisfied and there is a reasonable assurance of political security, it should be possible to avoid further flight of capital and even to encourage the repatriation of capital now held abroad. As stability and confidence are restored and countries place their international payments in order, any additional exchange resources that might then come to them would be available to strengthen their reserve position. As payments conditions improve, cooperative steps to strengthen reserve positions in general will be necessary.

Exchange and Gold Transactions

During the fiscal year ended April 30, 1949, the Fund completed 18 purchases and sales of foreign exchange, aggregating the equivalent of $119.5 million, with 10 members. In the previous fiscal period, which extended over 10 months, the total of the Fund's exchange transactions had been $544 million.

The use of the Fund's resources continues to be governed by the general policies set forth in the Annual Report for 1948 (pp. 46-50) and in earlier Annual Reports. The decline in the volume of exchange transactions in 1948-49 is to be explained in part in terms of the Fund's policy governing the use of its resources in the light of the European Recovery Program. The considerations justifying the Fund's view that, as a general rule, ERP countries should request the purchase of U. S. dollars from the Fund only in exceptional or unforeseen cases were set forth in last year's Annual Report. The possibility was, however, also foreseen that these countries might wish to purchase from the Fund currencies other than U. S. dollars, including those of some countries participating in ERP, and during the year under review two members, the Netherlands and Norway, have purchased from the Fund 300,000,000 and 200,000,000 Belgian francs, respectively. The equivalent of these amounts, $11 million, is included in the total of $119.5 million referred to above.

In addition to exchange transactions, one transaction was effected involving the sale of approximately $6 million by the Fund against gold.

Between March 1, 1947, when the Fund commenced operations, and April 30, 1949, the Fund effected exchange transactions totaling the equivalent of $725.5 million on behalf of 17 members and gold transactions totaling $6.2 million.

As a result of the payment of Brazil's subscription, adjustments in the subscriptions already paid in gold by other members, and the payment of service and other charges in gold, the Fund's holdings of gold increased during the year ended April 30, 1949 from $1,362.6 million to $1,439.3 million. On April 30, 1949, its holdings of currencies, including non-negotiable, non-interest bearing notes, amounted to the equivalent of $5,526.7 million, of which $1,340.5 million was in U. S. dollars.

The following is a tabulation of Fund transactions. Further details are contained in Appendix XVI.

CURRENCIES PURCHASED FROM THE FUND

(in thousands of U. S. dollars)

Purchased by	*During Fiscal Year Ended April 30, 1949*	*Beginning of Operations March 1, 1947 to April 30, 1949*
Belgium		33,000
Brazil	15,000	15,000
Chile		8,800
Costa Rica	1,250	1,250
Czechoslovakia	6,000	6,000
Denmark		10,200
Egypt	3,000	3,000
Ethiopia	300	300
France		125,000
India	71,980	99,980
Mexico		22,500
Netherlands	6,845	75,390
Nicaragua	500	500
Norway	4,563	9,563
South Africa	10,000	10,000
Turkey		5,000
United Kingdom		300,000
	119,438	725,483

CURRENCY SOLD AGAINST GOLD

(in thousands of U. S. dollars)

Currency	*During Fiscal Year Ended April 30, 1949*	*Beginning of Operations March 1, 1947 to April 30, 1949*
U. S. Dollars	6,136	6,160

Exchange transactions raised the Fund's holdings of the currencies of nine members above their quotas at various points of time in the last two years. These members have therefore become subject to the pertinent charges prescribed in the Fund Agreement.

During the course of the year, some members with monetary reserves lower than their quotas have availed themselves of the opportunity provided in the Fund Agreement to pay in their own currencies a portion of the Fund's charges which are normally payable in gold. These payments have been accepted provisionally and may require adjustment after agreement is reached on the amount of the monetary reserves of the members involved.

Repurchases

At the end of each financial year of the Fund, members have, in certain circumstances stipulated in Article V, Section 7, and Schedule B of the Fund Agreement, an obligation to use part of their monetary reserves to repurchase part of the Fund's holdings of their currencies. The amount of monetary reserves to be used in this way is equal to one half of any increase which has occurred during the year in the Fund's holdings of the currency of the member with the repurchase obligation, plus one half of any increase, or minus one half of any decrease, that has occurred during the year in the member's monetary reserves.

Repurchases are not required where the member's monetary reserves as of the end of the financial year are below its quota or to the extent that repurchase would reduce those monetary reserves to an amount less than the member's quota. This provision is intended to help members preserve a minimum reserve corresponding to the amount of each member's quota. Further, there is no repurchase obligation where the Fund's holdings of the currency of a member are, at the end of the financial year, below 75 per cent of the member's quota, or where the Fund's holdings of any currency required to be used in repurchase are in excess of 75 per cent of the quota of the member concerned. Repurchases, moreover, are not required to the extent that they would result in the Fund's holdings of the repurchasing member's currency being reduced below 75 per cent of the member's quota as of the end of the financial year, or to the extent that the Fund's holdings of the currency of a member which is being used in repurchase would be increased above 75 per cent of that member's quota.

The fundamental aims of the repurchase provisions in the Fund Agreement are to protect the liquidity of the Fund by restoring or establishing a desirable level of its holdings of currencies, and to ensure that its resources will be a secondary line of reserves and that members will not use the resources of the Fund, directly or indirectly, to build up their independent monetary reserves.

Although the Fund Agreement provides that a member shall repurchase at the end of the financial year of the Fund, it is impossible that this obligation should be discharged precisely at the prescribed date, since the state of the member's monetary reserves at the end of the year is one of the determinants of the obligation. Data on monetary reserves cannot be ascertained and communicated to the Fund immediately, so that an appreciable interval of time will necessarily elapse before repurchase obligations can be computed and carried out, although the repurchases are made as of the end of the financial year. The interpretations of the pertinent provisions which were adopted in order to reconcile the intent of the Fund Agreement with the administration of repurchase are set out in Appendix XIII.

Monetary reserves data have been reported by 27 members, of whom one has been computed to have had a repurchase obligation as of April 30, 1948.[1] Eleven members, the holdings of whose currencies by the Fund were above 75 per cent of their respective quotas, had no repurchase obligation because their monetary reserves were less than their quotas or had decreased during the year by more than the Fund's holdings of their currencies had increased. Eight members, the holdings of whose currencies were above 75 per cent of their quotas on April 30, 1948, have not yet reported their monetary reserves data at all or have reported inadequate data.

[1] The first repurchase transaction of the Fund took place on May 26, 1949 with Costa Rica.

VI

MEMBERSHIP, ORGANIZATION, AND ADMINISTRATION

Membership and Organization

THE admission of Austria on August 27, 1948, brought the total number of Fund members to forty-seven.[1] Austria's quota of $50 million brought aggregate quotas, as of April 30, 1949, to $8,034 million, allowing for the increase of $10 million in the quota of Iran and the reduction of $2 million in the quota of Honduras, which became effective on July 21, 1948 and November 4, 1948, respectively.

Liberia applied for membership on June 7, 1948; the application was approved by the Board of Governors in a vote without meeting. The period in which Liberia may accept membership has been extended by the Executive Directors to October 1, 1949.

The members of the Fund, their quotas and voting power, and the Governor and Alternate Governor appointed by each member are shown in Appendix VII. Changes in the membership of the Board of Governors in the period under review are shown in Appendix VIII.

The Second Regular Election of Executive Directors took place at the Third Annual Meeting of the Board of Governors in Washington in September 1948. The Executive Directors of the Fund and their voting power as of April 30, 1949 are shown

[1] Raised to forty-eight when Thailand accepted membership on May 3, 1949.

in Appendix IX, and changes in the membership of the Executive Board in the period under review are shown in Appendix X.

Mr. A. N. Overby, formerly Executive Director for the United States, was appointed on February 9, 1949 to serve as Deputy Managing Director and as Acting Chairman of the Executive Board in the absence of the Chairman.

Consultation with Members

With the Executive Board continuously available and meeting frequently, the Fund and its members are in consultation at all times. Information on developments is exchanged and reviewed and members are constantly advised of the changing situation. This is supplemented by direct consultation, formal or informal, with each member. There are few monetary problems which do not have both a national and an international aspect, as well as a short-term and a long-term significance, and knowledge at first hand of the member's position and point of view is essential. In this respect, the interests of the Fund as a whole and of individual members have been well served by the many missions and visits of the past year.

By the very nature of these activities, much of what has been accomplished remains unpublicized. Representatives of the Fund have visited most member countries in the past year and have discussed with the appropriate authorities their current and anticipated problems. The last Annual Report stated that personal contacts with members would be increased. These contacts have proved their value; the Fund stands ready at all times to send its representatives to member countries, or to meet with members' representatives in Washington, for the discussion of monetary problems and the formulation of solutions to them. The stationing of staff members in Paris, Cairo, and Bombay is expected to facilitate closer working contacts between the

Fund and the technicians of member countries and of any international economic organizations in those areas.

By supplementing in this way the permanent conference of the Executive Board, the machinery for consultation is being steadily improved. But it is not enough merely to provide the machinery. The Fund will do all that lies within its initiative, but the opportunities for constructive consultation must to a great extent be supplied by members. Furthermore, there must be full participation and support of the Fund by all concerned. The Fund cannot make its full contribution on problems which are brought before it after positions have crystallized. There will be difficulties enough in any case; nothing less than the combined best efforts of the Fund and all its members can realize the purposes for which the Fund was established.

Relations with Other International Organizations

Cooperation with other international organizations is an obligation under the Fund Agreement. Even were it not, the interdependence of their activities with those of the Fund and the effects in one field of responsibility of actions taken in another make cooperation a practical necessity and require increasing attention to improving the machinery for coordination. The Fund's primary interest in the exchange and financial field necessarily brings it into closest relationship with the International Bank for Reconstruction and Development; coordination with the Interim Commission of the International Trade Organization (ITO) and with the Contracting Parties to the General Agreement on Tariffs and Trade is also continuous. Much of the work of the economic secretariat of the United Nations, of the Economic Commissions for Europe, Asia and the Far East, and Latin America, and of most other specialized agencies has equally immediate and important significance for the Fund. Members of the staff have attended and participated in their meetings, and in joint working parties, missions, and study groups, and have prepared studies in the financial and monetary field for their use. Inevitably the primary interests of these related international organizations tend to create some differences in emphasis and some conflict in priorities. These it is the task of constant liaison to bring into the best order.

The Fund looks forward to close relations with the ITO. The Fund's participation in the meetings at which the ITO Charter and the General Agreement on Tariffs and Trade (GATT) were drafted has been described in previous Annual Reports. At the Second Session of the Executive Committee of the Interim Commission of ITO in August 1948, a Draft Agreement on Relations between the Fund and the ITO was approved; this will be submitted to the first conference of the ITO and to the Board of Governors of the Fund.

At the Second Session of the Contracting Parties to GATT in August 1948 their Chairman was authorized, when the Contracting Parties are not in session, to initiate requests for consultation with the Fund. An informal arrangement designed to serve as a basis for cooperation and consultation between the Contracting Parties and the Fund was concluded by exchange of letters between the Chairman of the Contracting Parties and the Managing Director of the Fund.[1]

Prior to the Third Session which convened on April 8, 1949, a Committee on Special Exchange Agreements of the Contracting Parties met in November 1948 to draft a special exchange agreement designed to ensure that certain safeguards of exchange stability and orderly exchange arrangements would be respected by those Contracting Parties who are not members of the Fund. At the conclusion of the period under review, this draft agreement was under discussion by the Contracting Parties.

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[1] For the text of these letters, *see* Appendix XI.

The Fund also participated in interagency discussions, initiated in March 1949 by the United Nations, on expanded programs of technical assistance for economic development. In these discussions it was pointed out that the Fund's technical assistance to its members was a major and continuing activity which would be expanded as members required and as the availability of competent technicians permitted. The text of a statement issued by the Fund at the conclusion of these discussions is contained in Appendix XII.

Information

Subject to confidential considerations, the flow of information to the public continues to be an important activity. The publication of the monthly bulletin *International Financial Statistics* was reported last year. This bulletin has been steadily expanded and is widely circulated throughout the world. Within the past year the Fund has issued *International Financial News Survey,* a weekly summary of material published in newspapers and other publications which bears directly on the business of the Fund.

To these two publications there was added in July 1949 the first *Balance of Payments Yearbook,* containing data on a uniform basis for 51 countries and for two regions, Europe and Latin America. In general, the data cover the years 1938, 1946, and 1947, with, for certain countries, preliminary information for 1948. The volume also presents some new concepts on the most effective presentation of the balance of payments from the standpoint of international exchange problems. In future issues, the Fund expects to broaden the coverage and expand the detail of the balance of payments information shared with the public. In the preparation of its publications, the Fund has had a gratifying measure of cooperation from the statistical authorities of member and other countries and of other international organizations.

Silver

At the Second Annual Meeting, the Board of Governors adopted a resolution requesting member countries to submit 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 them available to all members. In accordance with this resolution, a report entitled "Information on Silver as Submitted by Member Countries" was circulated to the members.

Administration

On April 30, 1949, the staff numbered 421, of whom 378 held regular appointments. This represents an increase of 18 persons during the fiscal year. There were nationals of 29 member countries on the staff.

The Staff Retirement Plan became effective July 1, 1948. It provides for retirement, total disability, death, and withdrawal benefits. Participants are required to contribute to the Plan six per cent of their remuneration. The remainder of the cost and expenses of the Plan is contributed by the Fund. Based on actuarial computations the Fund's contribution, exclusive of administrative expenses, is slightly less than two thirds of the cost of operating the Plan. The normal retirement age is 65. As of April 30, 1949, approximately $605,100 had been paid to the Retirement Fund by the Fund and participants, of which approximately $354,900 was in respect of services prior to the inception of the Plan; approximately $594,100 had been applied to the purchase of investments. Audited financial statements of the Staff Retirement Fund are presented in Appendix XVI.

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

An Administrative Budget for the period May 1, 1949 to April 30, 1950, as approved by the Executive Directors, is presented in Appendix XV.

Upon the request of the Executive Directors, Mr. Zaki Bey Hassan, Chartered Accountant, Mr. P. J. Curtis, Deputy Director of Audit in the Exchequer and Audit Department, and Mr. Gilbert L. Cake, Associate Commissioner of Accounts, were nominated by Egypt, the United Kingdom, and the United States, respectively, to serve as members of the Audit Committee. The report of the Audit Committee is submitted separately. The Auditors' certificate, with the audited balance sheet as of April 30, 1949, and audited statement of income and expense, with supporting schedules, are presented in Appendix XVI.

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APPENDICES

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APPENDIX I

STATEMENT ON CHANGE IN THE PAR VALUE OF THE COLOMBIAN PESO

(Press Release of December 17, 1948)

The Government of Colombia has proposed, and the International Monetary Fund has concurred in, the change of the par value of the Colombian currency from the previous rate of approximately 1.75 pesos to the U. S. dollar to approximately 1.95 pesos to the U. S. dollar. The change in par value will be accompanied by certain modifications in the existing multiple currency system of Colombia, which should have the effect of curbing imports and thereby tend to lessen the drain on Colombia's foreign exchange reserves. The measures should assist in the solution of Colombia's balance of payments and exchange problems and will remove some of the features of the existing system which had been deemed to be in conflict with the policies of the Fund, such as the export premium on basic export commodities.

Colombia and the Fund will continue consultations with a view to the adoption of measures in the financial and monetary field designed to lead toward further unification, simplification and strengthening of the exchange system.

APPENDIX II

STATEMENT ON CHANGE IN THE PAR VALUE OF THE CURRENCY OF FRENCH SOMALILAND

(Press Release of March 22, 1949)

The International Monetary Fund today announced its concurrence in a proposal by the Government of France to change the par value of the currency of French Somaliland. The new par value of the Djibouti franc is: one franc equals 0.00414507 gram of fine gold, which, expressed in terms of U. S. dollars, is Djibouti francs 214.392 per U. S. dollar.

The par value for this currency which was initially established in agreement with the Fund was 70 Djibouti francs per U. S. dollar. When the Government of France instituted its new exchange system on January 25, 1948, the exchange rate of the Djibouti franc was fixed at 126 to the U. S. dollar.

The parities for the Djibouti franc in terms of gold and in terms of U. S. dollars are:

(1) 0.00414507 gram of fine gold per Djibouti franc
(2) 7,503.73 Djibouti francs per troy ounce of fine gold
(3) 214.392 Djibouti francs per U. S. dollar
(4) 0.466435 U. S. cents per Djibouti franc.

The new Djibouti franc will be freely convertible into dollars. Exchange restrictions will be abolished in French Somaliland.

APPENDIX III

STATEMENT ON REVISIONS IN THE EXCHANGE SYSTEM OF COLOMBIA

(Press Release of June 16, 1948)

The International Monetary Fund today released the following statement on the exchange system revisions recently announced by the Colombian Government.

At its meeting of June 11th, the International Monetary Fund, at the request of the Colombian Government, considered the revisions of Colombia's exchange system, which included, among other things, provision for a system of exchange taxes on imports and exchange premia for exports and was intended to meet the present monetary situation in Colombia.

Note was taken by the Fund, in considering the matter, of the emphasis laid by Colombia on the temporary nature of the newly announced regulations.

The Fund, however, has withheld its approval of the proposal, since, in its present form, it contains features which are in conflict with the policies of the Fund. Colombia has asked for further consultation with the Fund, looking toward finding other ways of meeting her problems which would be acceptable to the Fund, and the Fund has agreed to such consultation.

APPENDIX IV

STATEMENT ON CHANGES IN THE EXCHANGE SYSTEM OF FRANCE

(Press Release of October 16, 1948)

The Managing Director of the Fund today announced that the French Government has consulted the Fund on changes which it proposes to make in the French exchange system in order to reduce the multiplicity of exchange rates and to unify the procedure applicable to commercial transactions.

In summary, the proposals are:

(1) All trade transactions in dollars, Swiss francs and escudos will take place on the basis of the average of the French official rate of 214 to the dollar (or the equivalent for other currencies) and the "free" market rate in Paris.

(2) The "free" market rate will continue to be applicable to nontrade transactions in dollars, Swiss francs and escudos.

(3) Transactions in other currencies will be effected at rates corresponding to average rates for the dollar as determined under (1) above.

The new exchange system does not result in the establishment of a new official par value for the franc. However, the Fund considers that the proposals constitute a significant step toward restoring a unitary exchange system for France.

The new exchange system differs in important respects from that introduced by France in January 1948. At that time one of the main objections of the Fund was directed against what it considered the disorderly cross rates involved in this system. Since then the Fund and France have worked together to seek a modification of these exchange practices in order to meet French needs within the framework of the Fund Agreement. As a result of such consultations, various measures were introduced in recent months which have already resulted in some simplification in the French exchange system.

With the adoption of the new proposals, differential exchange rates for trade transactions of France will be eliminated. All such transactions will be based on the effective rate for the dollar, and the cross rates for the currencies of other members will conform closely with the parities agreed with the Fund. Differential rates will still continue only for financial transactions in dollars, Swiss francs and escudos.

The Fund welcomes this evidence of the desire of the French Government to restore an orderly system of exchange rates in fulfillment of the principles agreed at Bretton Woods. While the French Government has not proposed to the Fund the fixing of a new par value which would govern all transactions, it has stated to the Fund that its objective remains the agreement of a new and stable parity as soon as conditions permit. It is the intention of the Fund and of France to continue consultations for this purpose.

Note: The system described in (3) above was not applied to the lira. The lira rate stood at 220 lire = 100 francs, subject to revision in accordance with variations in the dollar rates on the official free markets in Paris and in Rome. In March 1949 the basic rate was changed from 220 lire to 180 lire = 100 francs, the provision for revision remaining as before.

As from June 10, 1949, "free" market arrangements were also applied in France to the Belgian franc on the same lines as had been already applied to transactions in United States dollars, Swiss francs, and Portuguese escudos (*see* Annual Report for 1948, pp. 37-38).

APPENDIX V

STATEMENT ON REVISIONS IN THE EXCHANGE SYSTEM OF PERU

(Press Release of September 7, 1948)

The Government of Peru has been consulting with the International Monetary Fund regarding measures which that Government proposes to take with a view to restoring its international payments position. Peru has been faced with a difficult problem of limiting imports because of domestic inflation and of maintaining exports because of rising domestic costs. The measures proposed by the Government of Peru include the creation of a surcharge on imports of non-essential and luxury goods to reduce the demand for foreign exchange and to obtain a revenue which will be used to repay the Government's debt to the Central Bank and to avoid the necessity for inflationary borrowing. Exporters will be given a higher return, thus encouraging an expansion of exports.

These proposed measures will add to the number of effective exchange rates in Peru. It is the expectation of the Government of Peru that these measures will give it time to take the further steps necessary to stabilize the financial situation and to balance Peru's international payments with a unified exchange system.

After careful consideration the Fund has approved the proposals with certain recommendations which the Fund understands the Government of Peru will follow. At the same time, the Fund has emphasized that the exchange measures can be effective only if they are accompanied by determined efforts on the part of the Government of Peru to halt inflation, to secure additional revenue from sources other than exchange taxes, and to limit the expansion of bank credit.

The consultations between Peru and the Fund have been conducted in a spirit of complete cooperation and will continue with a view to achieving the desired aim of financial stability and unification of the exchange system as soon as possible.

The exchange measures are put into effect through a decree which is being issued in Lima, Peru today.

APPENDIX VI

STATEMENT BY THE MANAGING DIRECTOR ON CONSULTATIONS WITH THE UNION OF SOUTH AFRICA

(Press Release of May 11, 1949)

I came to Capetown at the invitation of the South African Government primarily to discuss questions relating to the sale of semi-processed gold. As has been made clear on previous occasions, the policy of the International Monetary Fund is to prevent sales of gold in this form from becoming a means of feeding the demand for gold for hoarding purposes and thus diminishing the production of newly mined gold which finds its way into monetary reserves. The Fund is also concerned about the fact that an increasing amount of gold in premium markets serves to aggravate the difficulties of countries that are trying to prevent the illicit import of gold into their territories.

Our discussions have taken place in a very cordial atmosphere, and I have been impressed by the evident desire of the South African Government to reach an agreement with the Fund on the methods of achieving the policy referred to, while at the same time permitting the South African gold mining industry to have a share in the legitimate business in semi-fabricated gold.

As a result of our discussions, certain safeguards will be adopted to secure that semi-fabricated gold is sold only to manufacturers for purposes of genuine manufacture and that the importer of the gold has the prior permission of his own authorities to make the purchase for this purpose. Moreover, the South African Government will keep a careful watch on the business and will reserve the right to decline permission for export in any case in which they are not satisfied that the demand is for the purpose of genuine manufacture.

Certain safeguards will also be adopted in the case of the manufacture in South Africa of gold articles for export in order to avoid such articles becoming a device solely for feeding the markets which the Fund desires to limit.

The Fund will of course continue to keep this whole matter of premium gold sales under review with all its members.

APPENDIX VII

MEMBERSHIP, QUOTAS, GOVERNORS, AND VOTING POWER

as of April 30, 1949

Member	QUOTA Amount (000,000's)	QUOTA Per Cent of Total	Governor *Alternate*	VOTES Number[1]	VOTES Per Cent of Total
Australia	$200.0	2.49	Joseph B. Chifley *N. J. O. Makin*	2,250	2.44
Austria	50.0	0.62	Hans Rizzi *Franz Stoeger-Marenpach*	750	0.81
Belgium	225.0	2.80	Maurice Frere *C. Duquesne Wathelet de la Vinelle*	2,500	2.71
Bolivia	10.0	0.12	Hector Ormachea Zalles *Jaime Gutierrez Guerra*	350	0.38
Brazil	150.0	1.87	Francisco Alves dos Santos-Filho *Octavio Paranagua*	1,750	1.90
Canada	300.0	3.73	Douglas Charles Abbott *Graham F. Towers*	3,250	3.53
Chile	50.0	0.62	Arturo Maschke *Fernando Illanes*	750	0.81
China	550.0	6.85	Kan Hsu *Te-Mou Hsi*	5,750	6.24
Colombia	50.0	0.62	Emilio Toro *Ignacio Copete-Lizarralde*	750	0.81
Costa Rica	5.0	0.06	Julio Pena *Angel Coronas*	300	0.33

Cuba	50.0	0.62	Guillermo Belt	750	0.81
			Jose A. Rodriguez Dod		
Czechoslovakia	125.0	1.56	Jozef Goldmann	1,500	1.63
			Ladislav Biel		
Denmark	68.0	0.85	Carl Valdemar Bramsnaes	930	1.01
			Einar Dige		
Dominican Republic	5.0	0.06	Jesus Maria Troncoso	300	0.33
			Ambrosio Alvarez Aybar		
Ecuador	5.0	0.06	Guillermo Perez-Chiriboga	300	0.33
			Pedro L. Nunez		
Egypt	60.0	0.75	Ahmed Zaki Bey Saad	850	0.92
			Mahmoud Saleh El Falaki		
El Salvador	2.5	0.03	Catalino Herrera	275	0.30
			Manuel Melendez V.		
Ethiopia	6.0	0.07	George A. Blowers	310	0.34
			Vacant		
Finland	38.0	0.47	Sakari Tuomioja	630	0.68
			Klaus Waris		
France	525.0	6.53	Pierre Mendes-France	5,500	5.97
			Wilfrid Baumgartner		
Greece	40.0	0.50	Xenophon Zolotas	650	0.71
			Alexander Couclelis		
Guatemala	5.0	0.06	Manuel Noriega Morales	300	0.33
			Leonidas Acevedo		
Honduras	0.5	0.01	Julian R. Caceres	255	0.28
			Jorge Fidel Duron		
Iceland	1.0	0.01	Asgeir Asgeirsson	260	0.28
			Thor Thors		

APPENDIX VII *(Continued)*

MEMBERSHIP, QUOTAS, GOVERNORS, AND VOTING POWER

as of April 30, 1949

	QUOTA			VOTES	
Member	Amount (000,000's)	Per Cent of Total	Governor *Alternate*	Number[1]	Per Cent of Total
India	400.0	4.98	Sir Chintaman Deshmukh *N. Sundaresan*	4,250	4.62
Iran	35.0	0.44	Abol Hassan Ebtehaj *Mocharraf Naficy*	600	0.65
Iraq	8.0	0.10	Ahmed Izzet Mohammed *Amin Mumayiz*	330	0.36
Italy	180.0	2.24	Gustavo Del Vecchio *Ugo La Malfa*	2,050	2.23
Lebanon	4.5	0.06	Charles Malik *George Hakim*	295	0.32
Luxembourg	10.0	0.12	Pierre Dupong *Hugues Le Gallais*	350	0.38
Mexico	90.0	1.12	Carlos Novoa *Luciano Wiechers*	1,150	1.25
Netherlands	275.0	3.42	P. Lieftinck *M. W. Holtrop*	3,000	3.26
Nicaragua	2.0	0.02	Guillermo Sevilla Sacasa *Rafael Angel Huezo*	270	0.29
Norway	50.0	0.62	Gunnar Jahn *Ole Colbjornsen*	750	0.81
Panama	0.5	0.01	Octavio Vallarino *Aquilino Vallarino*	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	0.54
Philippine Republic	15.0	0.19	Joaquin M. Elizalde *Miguel Cuaderno*	400	0.43
Poland	125.0	1.56	Edward Drozniak *Janusz Zoltowski*	1,500	1.63
Syria	6.5	0.08	Faiz El-Khouri *Husni A. Sawwaf*	315	0.34
Turkey	43.0	0.54	Nurullah Esat Sumer *Bulent Yazici*	680	0.74
Union of South Africa	100.0	1.24	John Edward Holloway *Michiel Hendrik de Kock*	1,250	1.36
United Kingdom	1,300.0	16.18	Sir Stafford Cripps *Ernest Rowe-Dutton*	13,250	14.39
United States	2,750.0	34.23	John W. Snyder *William L. Clayton*	27,750	30.13
Uruguay	15.0	0.19	Fermin Silveira Zorzi *Mario La Gamma Acevedo*	400	0.43
Venezuela	15.0	0.19	J. J. Gonzalez Gorrondona *Felix Miralles*	400	0.43
Yugoslavia	60.0	0.75	Vacant *Dragoslav Avramovic*	850	0.92
	$8,034.0	100.00[2]		92,090	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 VIII

CHANGES IN MEMBERSHIP OF THE BOARD OF GOVERNORS

Changes in the membership of the Board of Governors between May 1, 1948, and April 30, 1949, have been as follows:

Gustavo Del Vecchio succeeded Luigi Einaudi as Governor for Italy May 27, 1948.

Yun-wu Wang succeeded O. K. Yui as Governor for China July 6, 1948.

Octavio Vallarino succeeded Ernesto Jaen Guardia as Governor for Panama July 15, 1948.

Jozef Goldmann succeeded J. V. Mladek as Governor for Czechoslovakia August 9, 1948.

Ladislav Biel succeeded Julius Pazman as Alternate Governor for Czechoslovakia August 9, 1948.

N. J. O. Makin succeeded J. B. Brigden as Alternate Governor for Australia August 17, 1948.

Ambrosio Alvarez Aybar succeeded Luis Julian Perez as Alternate Governor for the Dominican Republic September 2, 1948.

Aquilino Vallarino succeeded Roberto Heurtematte as Alternate Governor for Panama September 2, 1948.

Miguel Cuaderno succeeded Narciso Ramos as Alternate Governor for the Philippine Republic September 13, 1948.

Dragoslav Avramovic succeeded Lavoslav Dolinsek as Alternate Governor for Yugoslavia September 14, 1948.

Hans Rizzi appointed as Governor for Austria September 14, 1948.

Franz Stoeger-Marenpach appointed as Alternate Governor for Austria September 14, 1948.

Ahmed Izzet Mohammed succeeded Ali Jawdat as Governor for Iraq September 18, 1948.

Amin Mumayiz succeeded A. M. Gailani as Alternate Governor for Iraq September 18, 1948.

Carlos Novoa succeeded Antonio Espinosa de los Monteros as Governor for Mexico September 20, 1948.

Pedro L. Nunez succeeded Homero Viteri Lafronte as Alternate Governor for Ecuador September 20, 1948.

Hector Ormachea Zalles succeeded Rene Ballivian Calderon as Governor for Bolivia September 21, 1948.

N. J. O. Makin appointed as Governor for Australia September 22, 1948.

S. G. McFarlane appointed as Alternate Governor for Australia September 22, 1948.

Octavio Paranagua succeeded Edgard de Mello as Alternate Governor for Brazil September 23, 1948.

J. B. Chifley appointed as Governor for Australia October 11, 1948.

N. J. O. Makin appointed as Alternate Governor for Australia October 11, 1948.

The appointment of Obren Blagojevic as Governor for Yugoslavia was terminated December 1, 1948.

Kan Hsu succeeded Yun-wu Wang as Governor for China December 29, 1948.

Wilfrid Baumgartner succeeded Emmanuel Monick as Alternate Governor for France January 19, 1949.

J. J. Gonzalez Gorrondona succeeded Carlos A. D'Ascoli as Governor for Venezuela March 17, 1949.

Felix Miralles succeeded Jose Antonio Mayobre as Alternate Governor for Venezuela March 17, 1949.

Klaus Waris succeeded Ralf Torngren as Alternate Governor for Finland March 18, 1949.

APPENDIX IX

EXECUTIVE DIRECTORS AND VOTING POWER
as of April 30, 1949

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Per Cent of Total
APPOINTED				
Frank A. Southard, Jr. *Henry J. Tasca*	United States	27,750	27,750	30.13
G. L. F. Bolton *G. H. Tansley*	United Kingdom	13,250	13,250	14.39
Yee-Chun Koo *Tsoo Whe Chu*	China	5,750	5,750	6.24
Jean de Largentaye *Bernard de Margerie*	France	5,500	5,500	5.97
B. K. Madan *D. S. Savkar*	India	4,250	4,250	4.62
ELECTED				
Octavio Paranagua	Bolivia	350		
(Brazil)	Brazil	1,750		
Walter Blomeyer	Chile	750		
(Brazil)	Dominican Republic	300		
	Honduras	255		
	Nicaragua	270		
	Paraguay	285		
	Peru	500		
	Uruguay	400	4,860	5.28
Carlos A. D'Ascoli	Colombia	750		
(Venezuela)	Costa Rica	300		
Hector Santaella	Cuba	750		
(Venezuela)	Ecuador	300		
	El Salvador	275		
	Guatemala	300		
	Mexico	1,150		
	Panama	255		
	Venezuela	400	4,480	4.86

APPENDIX IX *(Continued)*

EXECUTIVE DIRECTORS AND VOTING POWER

as of April 30, 1949

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Per Cent of Total
Bohumil Sucharda (Czechoslovakia) *Mihailo Kolovic (Yugoslavia)*	Czechoslovakia	1,500		
	Finland	630		
	Poland	1,500		
	Yugoslavia	850	4,480	4.86
Ernest de Selliers (Belgium) *Vacant*	Belgium	2,500		
	Denmark	930		
	Luxembourg	350	3,780	4.10
Ahmed Zaki Bey Saad (Egypt) *Mahmoud Saleh El Falaki (Egypt)*	Egypt	850		
	Ethiopia	310		
	Iran	600		
	Iraq	330		
	Lebanon	295		
	Philippine Republic	400		
	Syria	315		
	Turkey	680	3,780	4.10
J. W. Beyen (Netherlands) *Willem Koster (Netherlands)*	Netherlands	3,000		
	Norway	750	3,750	4.07
Louis Rasminsky (Canada) *J. F. Parkinson (Canada)*	Canada	3,250		
	Iceland	260	3,510	3.81
S. G. McFarlane (Australia) *J. M. Garland (Australia)*	Australia	2,250		
	Union of South Africa	1,250	3,500	3.80
Guido Carli (Italy) *Giorgio Cigliana-Piazza (Italy)*	Austria	750		
	Greece	650		
	Italy	2,050	3,450	3.75
			92,090	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 X

CHANGES IN MEMBERSHIP OF THE EXECUTIVE BOARD

Changes in the membership of the Executive Board between May 1, 1948, and April 30, 1949, have been as follows:

George F. Luthringer resigned as Alternate Executive Director to A. N. Overby, effective July 2, 1948.

P. P. Schweitzer resigned as Alternate Executive Director to Jean de Largentaye July 15, 1948.

Bernard de Margerie was appointed Alternate Executive Director to Jean de Largentaye, succeeding P. P. Schweitzer, October 1, 1948.

J. V. Mladek resigned as Executive Director for Czechoslovakia, Poland and Yugoslavia October 17, 1948.

Henry J. Tasca was appointed Alternate Executive Director to A. N. Overby October 21, 1948.

Hubert Ansiaux, Executive Director for Belgium, Iceland and Luxembourg, completed his term of office October 31, 1948.

Rodrigo Gomez, Executive Director for Colombia, Costa Rica, Cuba, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico and Nicaragua, completed his term of office October 31, 1948.

J. V. Joshi resigned as Executive Director for India October 31, 1948.

Francisco Alves dos Santos-Filho, Executive Director for Bolivia, Brazil, Chile, Ecuador, Panama, Paraguay, Peru and Uruguay, completed his term of office October 31, 1948.

J. W. Beyen completed his term of office as Executive Director representing the Netherlands and the Union of South Africa October 31, 1948, and was elected Executive Director by the Netherlands and Norway, effective November 1, 1948.

Willem Koster was reappointed Alternate Executive Director to J. W. Beyen November 1, 1948.

Guido Carli completed his term of office as Executive Director representing Denmark, Italy, Turkey and Venezuela October 31, 1948, and was elected Executive Director by Austria, Greece and Italy, effective November 1, 1948.

Giorgio Cigliana-Piazza was reappointed Alternate Executive Director to Guido Carli November 1, 1948.

Carlos A. D'Ascoli was elected Executive Director by Colombia, Costa Rica, Cuba, Ecuador, El Salvador, Guatemala, Mexico, Panama and Venezuela, effective November 1, 1948.

Eduardo Montealegre was appointed Alternate Executive Director to Carlos A. D'Ascoli November 1, 1948.

B. K. Madan, formerly Alternate Executive Director, was appointed Executive Director for India, succeeding J. V. Joshi, November 1, 1948.

D. S. Savkar was appointed Alternate Executive Director to B. K. Madan November 1, 1948.

S. G. McFarlane completed his term of office as Executive Director representing Australia, Lebanon and Syria October 31, 1948, and was elected Executive Director by Australia and the Union of South Africa, effective November 1, 1948.

Roland Wilson was appointed Alternate Executive Director to S. G. McFarlane November 1, 1948.

Octavio Paranagua, formerly Alternate Executive Director, was elected Executive Director by Bolivia, Brazil, Chile, Dominican Republic, Honduras, Nicaragua, Paraguay, Peru and Uruguay, effective November 1, 1948.

Louis Rasminsky completed his term of office as Executive Director representing Canada and Norway October 31, 1948, and was elected Executive Director by Canada and Iceland, effective November 1, 1948.

J. F. Parkinson was reappointed Alternate Executive Director to Louis Rasminsky November 1, 1948.

Ahmed Zaki Bey Saad completed his term of office as Executive Director representing Egypt, Ethiopia, Greece, Iran, Iraq and the Philippine Republic October 31, 1948, and was elected Executive Director by Egypt, Ethiopia, Iran, Iraq, Lebanon, Philippine Republic, Syria and Turkey, effective November 1, 1948.

Mahmoud Saleh El Falaki was reappointed Alternate Executive Director to Ahmed Zaki Bey Saad November 1, 1948.

Ernest de Selliers, formerly Alternate Executive Director, was elected Executive Director by Belgium, Denmark and Luxembourg, effective November 1, 1948.

Bohumil Sucharda was elected Executive Director by Czechoslovakia, Finland, Poland and Yugoslavia, effective November 1, 1948.

Mihailo Kolovic was appointed Alternate Executive Director to Bohumil Sucharda November 1, 1948.

Thomas Basyn served as Temporary Alternate Executive Director to Hubert Ansiaux between July 22, 1948 and October 29, 1948, and to Ernest de Selliers between November 1, 1948 and February 25, 1949.

Yueh-Lien Chang resigned as Alternate Executive Director to Y. C. Koo December 31, 1948.

Tsoo Whe Chu was appointed Alternate Executive Director to Y. C. Koo, succeeding Yueh-Lien Chang, January 2, 1949.

Eduardo Montealegre resigned as Alternate Executive Director to Carlos A. D'Ascoli January 31, 1949.

Hector Santaella was appointed Alternate Executive Director to Carlos A. D'Ascoli, succeeding Eduardo Montealegre, February 1, 1949.

A. N. Overby resigned as Executive Director for the United States February 8, 1949.

Frank A. Southard, Jr., was appointed Executive Director for the United States, succeeding A. N. Overby, February 8, 1949.

Roland Wilson resigned as Alternate Executive Director to S. G. McFarlane February 28, 1949.

J. M. Garland was appointed Alternate Executive Director to S. G. McFarlane, succeeding Roland Wilson, March 1, 1949.

Walter Blomeyer was appointed Alternate Executive Director to Octavio Paranagua April 1, 1949.

Willem Koster resigned as Alternate Executive Director to J. W. Beyen May 1, 1949.

APPENDIX XI

EXCHANGE OF LETTERS BETWEEN THE FUND AND THE CONTRACTING PARTIES TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE

Palais des Nations
GENEVE

9 September 1948

The Managing Director,
International Monetary Fund,
1818 "H" Street,
Washington 6, D. C.,
U. S. A.

Dear Sir,

The General Agreement on Tariffs and Trade, which has now been put into provisional application by all but one of the countries participating in the negotiation thereof, provides in paragraph 1 of Article XV as follows:

"The CONTRACTING PARTIES shall seek co-operation with the International Monetary Fund to the end that the CONTRACTING PARTIES and the Fund may pursue a co-ordinated policy with regard to exchange questions within the jurisdiction of the Fund and questions of quantitative restrictions and other trade measures within the jurisdiction of the CONTRACTING PARTIES."

Throughout the Agreement various provisions call for consultation or agreement between the CONTRACTING PARTIES, that is, the contracting parties to the General Agreement acting jointly, and the International Monetary Fund on matters of common concern. In particular, paragraph 2 of Article XV calls for a wide range of consultation, and paragraph 3 of Article XV provides:

"The CONTRACTING PARTIES shall seek agreement with the Fund regarding procedures for consultation under paragraph 2 of this Article."

In view of the fact that the General Agreement on Tariffs and Trade has been given only provisional rather than definitive application, it is the view of the CONTRACTING PARTIES that an elaborate agreement to implement paragraph 3 quoted above is not necessary at this time. However, questions may arise in the interim which would require the CONTRACTING PARTIES to seek the co-operation of the Fund.

Under such circumstances it is proposed by the CONTRACTING PARTIES that the Fund agree to co-operate with the CONTRACTING PARTIES in carrying out the provisions of the General Agreement in accordance with the terms thereof and, in particular, to consult, at the request of the CONTRACTING PARTIES, on matters as contemplated by the General Agreement. If such cases arise, the Chairman of the CONTRACTING PARTIES will notify the Managing Director of the Fund of each particular instance in which the CONTRACTING PARTIES desire consultation and will furnish the Fund with all information available which may assist the Fund in considering the question. Since various provisions of the General Agreement call for consultation between the CONTRACTING PARTIES and the Fund, it might be necessary in particular cases to await a meeting of the contracting parties before formal consultation could be undertaken. However, the CONTRACTING PARTIES have authorized their Chairman to initiate requests, either at the direction of the CONTRACTING PARTIES or on the Chairman's own initiative if the contracting parties are not in session, for the Fund to consult with the CONTRACTING PARTIES in accordance with the provisions of the General Agreement. This arrangement should make it possible for the Fund to undertake with a minimum of delay such studies as may be necessary and should afford the Fund opportunity to become familiar with the subject matter involved in advance of consultation with the CONTRACTING PARTIES in particular cases.

The Fund may from time to time wish to request consultation with the CONTRACTING PARTIES on matters of common interest, and, in such cases, the CONTRACTING PARTIES will be prepared to consult upon such requests.

Any request for consultation by either the Fund or the CONTRACTING PARTIES shall be accompanied by available information which would contribute to the effectiveness of the consultation. In such cases, due regard shall be paid to the need to safeguard confidential information and to any special obligations of the Fund and the CONTRACTING PARTIES in this respect.

The particular procedures in implementation of these arrangements can be worked out case by case until sufficient experience has been acquired on the basis of which more formal procedures can be developed if necessary.

If the foregoing arrangements are acceptable to the Fund, a reply to that effect would be appreciated.

Yours faithfully,

/s/

L. D. WILGRESS
Chairman of the Contracting Parties
to the General Agreement on Tariffs
and Trade

INTERNATIONAL MONETARY FUND

September 28, 1948

Dear Sir:

I beg to acknowledge receipt of your letter of September 9, 1948, concerning the future cooperation between the International Monetary Fund and the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade in carrying out the provisions of the General Agreement.

The Fund agrees with you that an elaborate agreement on cooperation is not necessary at this time and that this informal arrangement of an administrative character constitutes a satisfactory basis for consultation and cooperation between the International Monetary Fund and the CONTRACTING PARTIES.

I take pleasure in agreeing on behalf of the International Monetary Fund to the provisions of your letter of September 9, 1948.

Yours faithfully,

/s/

GUTT
Managing Director

Mr. L. D. Wilgress
Chairman of the Contracting Parties
to the General Agreement on Tariffs and Trade
European Office of the United Nations
Palais des Nations
Geneva, Switzerland

APPENDIX XII

STATEMENT ON TECHNICAL ASSISTANCE FOR ECONOMIC DEVELOPMENT OF UNDER-DEVELOPED COUNTRIES

(Press Release of June 2, 1949)

In a joint statement released at Lake Success today, nine international agencies set forth a cooperative, expanded program of technical assistance for economic development of under-developed countries. Six of these agencies estimate that their part of the program might run to $35.9 million the first year and $50.1 million the second year.

The International Monetary Fund, while participating actively in this program, does not expect to ask for any special funds from its member governments to carry on its plans for technical assistance. Those activities will be a continuation and intensification of already existing Fund programs and will be financed out of the Fund's income and existing resources.

A major part of the Fund's work over the course of its three-year existence has been in the field of technical assistance, in providing advice to and in consultation with its members. During this period, forty of its forty-eight member countries have received visits from Fund technical experts, Fund missions or officials from its Board or staff. These visits have been, in some cases, for the purpose of gathering information, but in many cases have also assisted in analyzing a country's monetary and exchange difficulties and have recommended steps to meet those difficulties. On some occasions, Fund missions have helped government officials draft legislation or administrative regulations aimed at correcting conditions.

In view of the confidential relations with member countries, there has seldom been any publicity given to these visits at the time. However, it was made known today that Fund missions and experts have in the past visited, among others, such countries as Brazil, Chile, China, Colombia, Czechoslovakia, Ecuador, India, Lebanon, Mexico, Netherlands, Nicaragua, Norway, Peru, Syria and South Africa.

The Fund's budget last year was approximately $4 million, a large part of which was spent in support of its program for technical assistance. It proposes in the current and future years to increase these activities as the availability of trained technical personnel permits.

APPENDIX XIII

REPURCHASE OBLIGATIONS

Executive Board Decision No. 419-1

Subject: Repurchase Obligations—Article V, Section 7(c)

In the application of the repurchase obligations of the Fund Agreement the limits specified in Article V, Section 7(c), apply solely as of the end of the financial year for which repurchase obligations are calculated.

Executive Board Decision No. 447-5

Subject: Repurchase Obligations—Article V, Section 7(b)(i) or (ii)

Whenever a member uses its monetary reserves to repurchase its currency from the Fund in accordance with the provisions of Article V, Section 7(b)(i) or (ii), the resulting reduction in its monetary reserves and in the Fund's holdings of its currency must be regarded as having occurred, for the purpose of calculating subsequent repurchase obligations under the same provisions of the Fund Agreement, at the end of the financial year of the Fund in respect of which the obligation to make the repurchase arose. Members shall be informed of the foregoing.

APPENDIX XIV

LETTER TO MEMBERS ON UNENFORCEABILITY OF EXCHANGE CONTRACTS

The Fund has addressed the following letter to its members relating to Article VIII, Section 2 (b) of the Articles of Agreement:

June 14, 1949

Dear Sir:

The Board of Executive Directors of the International Monetary Fund has interpreted, under Article XVIII of the Articles of Agreement, the first sentence of Article VIII, Section 2 (b), which provision reads as follows:

> "Exchange contracts which involve the currency of any member and which are contrary to the exchange control regulations of that member maintained or imposed consistently with this Agreement shall be unenforceable in the territories of any member."

The meaning and effect of this provision are as follows:

1. Parties entering into exchange contracts involving the currency of any member of the Fund and contrary to exchange control regulations of that member which are maintained or imposed consistently with the Fund Agreement will not receive the assistance of the judicial or administrative authorities of other members in obtaining the performance of such contracts. That is to say, the obligations of such contracts will not be implemented by the judicial or administrative authorities of member countries, for example, by decreeing performance of the contracts or by awarding damages for their non-performance.
2. By accepting the Fund Agreement members have undertaken to make the principle mentioned above effectively part of their national law. This applies to all members, whether or not they have availed themselves of the transitional arrangements of Article XIV, Section 2.

An obvious result of the foregoing undertaking is that if a party to an exchange contract of the kind referred to in Article VIII, Section 2 (b) seeks to enforce such a contract, the tribunal of the member country before which the proceedings are brought will not, on the ground that they are contrary to the public policy *(ordre public)* of the forum, refuse recognition of the exchange control regulations of the other member which are maintained or imposed consistently with the Fund Agreement. It also follows that such contracts will be treated as unenforceable notwithstanding that under the private international law of the forum, the law under which the foreign exchange control regulations are maintained or imposed is not the law which governs the exchange contract or its performance.

The Fund will be pleased to lend its assistance in connection with any problem which may arise in relation to the foregoing interpretation or any other aspect of Article VIII, Section 2 (b). In addition, the Fund is prepared to advise whether particular exchange control regulations are maintained or imposed consistently with the Fund Agreement.

Yours very truly,

/s/

A. N. Overby
Acting Chairman of the Executive Board
and
Acting Managing Director

APPENDIX XV

ADMINISTRATIVE BUDGET

Letter of Transmittal

July 15, 1949

Dear Mr. Chairman:

The administrative budget of the Fund for the fiscal year ending April 30, 1950, as approved by the Board of Executive Directors, is presented for the information of the Board of Governors, in accordance with Section 20 of the By-Laws.

Experience in previous years has shown that it is impossible to predict that the Fund will require precisely the amounts budgeted. These amounts are an expression of present administrative plans without provision for unforeseen contingencies, inauguration of extraordinary programs or expansion of existing programs. 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

APPENDIX XV *(Continued)*

ADMINISTRATIVE BUDGET FISCAL YEAR ENDING APRIL 30, 1950

As Approved by the Executive Directors
of the International Monetary Fund

Personal Services	$2,739,500
Contributions to Staff Benefits	270,500
Travel	348,000
Communications	97,200
Office Occupancy Expense	413,500
Books and Printing	148,300
Supplies and Equipment	137,500
Meetings of the Board of Governors	80,000
Miscellaneous	28,900
TOTAL	$4,263,400*

*Includes $35,400 for liquidation of prior-year commitments.

APPENDIX XVI (i)

BALANCE SHEET, STATEMENT OF INCOME AND EXPENSE AND SUPPORTING SCHEDULES

Letter of Transmittal

July 15, 1949

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 year ended April 30, 1949, together with the Auditors' Certificate, as well as audited financial statements of the Staff Retirement Fund which was established on July 1, 1948.

In conformity with the By-Laws, the external audit of the Fund has been performed by an Audit Committee consisting of auditors nominated by three member countries. At the Fund's request, Egypt, the United Kingdom and the United States nominated auditors to serve on this Committee. They respectively nominated Mr. Zaki Bey Hassan, Chartered Accountant, Mr. P. J. Curtis, a Deputy Director of Audit in the Exchequer and Audit Department of His Majesty's Treasury, 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, in the period under review, expenditure exceeded income by $2,014,349.60, and that the total excess of expenditure over income from inception to April 30, 1949, is thus increased to $2,159,379.38.

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 XVI (ii)

AUDITORS' CERTIFICATE

"We have made an independent examination of the Balance Sheet of the International Monetary Fund as at April 30, 1949, of the Statement of Income and Expenditure for the fiscal year ended that date, 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.

"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, 1949, and the results of its operations for the year ended that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the previous fiscal period from July 1, 1947 to April 30, 1948."

/s/ Z. Hassan
(Egypt)
/s/ P. J. Curtis
(United Kingdom)
/s/ Gilbert L. Cake
(United States)

APPENDIX
BALANCE
April 30,

Values expressed in United States dollars

ASSETS

Gold with Depositories.........	$1,439,312,252.46	
(*Fine ounces 41,123,207.213 at $35 per ounce*)		
Deduct:		
Gold received from prospective member toward payment on capital subscription....................	3,125,008.14	$1,436,187,244.32
(*Fine ounces 89,285.947 at $35 per ounce*)		
Currency and Securities with Depositories		
Currency.................	1,147,357,988.06	
(*In members' currency*)		
Securities.................	4,379,383,987.09	5,526,741,975.15
(*Non-negotiable, non-interest bearing demand obligations payable at face value by members in their currencies*)		
Subscriptions to Capital—Receivable		
Balances due..............	10,823,890.80	
(*Members whose par values have been established*)		
Balances not due..........	1,057,903,000.00	1,068,726,890.80
(*Members whose par values have not yet been established*)		
Other Assets....................................		467,400.19
(*Other cash, receivables, etc.*)		
TOTAL ASSETS.......................		8,032,123,510.46

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

See notes on page 90, which are an integral part of this Statement.

on the basis of established parities

CAPITAL, RESERVES, AND LIABILITIES

Capital		
Authorized Subscriptions of Members:		
Subscriptions at April 30, 1948	$7,976,000,000.00	
Additional subscription due to increased quota of a member	10,000,000.00	
Subscription of a new member	50,000,000.00	
	8,036,000,000.00	
Reduction of subscription to decreased quota of a member	2,000,000.00	$8,034,000,000.00
Excess of Expenditure over Income:		
From inception to April 30, 1948	145,029.78	
For Year ended April 30, 1949	2,014,349.60	2,159,379.38
NET CAPITAL		8,031,840,620.62
Reserves		
Reserve for potential cost of turning certain gold into new bars	62,469.11	
Reserve for potential cost of converting purchased gold into currency	21,438.91	83,908.02
Liabilities (*Accounts payable, deferred income, etc.*)		198,981.82
TOTAL CAPITAL, RESERVES, AND LIABILITIES		8,032,123,510.46

(sgd.) GUTT, *Managing Director*

NOTES TO BALANCE SHEET

[1] The established parities for members' currencies represent par values in relation to the United States dollar as agreed to by the Fund and the members concerned, with exception of the French franc which has, from October 18, 1948, been computed, for bookkeeping purposes, at a provisional rate of 261.701 French francs per U. S. dollar. From January 26 to October 18, 1948, the provisional rate in effect was 214.392 francs per dollar as compared with the original par value of 119.107 francs per dollar. Appropriate adjustments of the Fund's holdings of this currency were made to sustain the value thereof at the successive provisional rates.

[2] Gold with the United States depository of the Fund includes 7,432 bars, .995 fine or higher, which are not U. S. Assay Office unmutilated bars. A reserve is provided to meet the potential cost of turning certain of these bars into U. S. Assay Office bars. The amount of gold shown in this balance sheet does not include 1,297.309 fine ounces with the United States depository which are earmarked by the Fund for certain members in respect of excess payments of charges.

[3] A determination is required at the end of each financial year of the Fund regarding the obligation, if any, which exists on the part of each member to repurchase from the Fund a portion of its currency under Article V, Section 7, of the Fund Agreement. A repurchase obligation of Costa Rica amounting to the equivalent of $874,000 was determined in respect of the first financial year of the Fund, ended April 30, 1948, and has been effected. In respect of the same financial year, determinations will be necessary for eight other members when the required information regarding those members' monetary reserves is obtained.

[4] 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, at April 30, 1949, for all known claims. While a certain liability is considered to exist for unascertained claims it is not practicable to estimate the amount for balance sheet purposes. In addition, the Fund has a substantial contingent liability with respect to prospective claimants whose claims will not arise until they are required to make their tax payments under existing laws.

APPENDIX XVI (iv)

STATEMENT OF INCOME AND EXPENDITURE

Year ended April 30, 1949

Values expressed in United States dollars on basis of established parities

INCOME

Income from Operations			
Service charges on exchange transactions	$ 895,787.88		
Charges on Fund's holdings of members' currencies and securities in excess of quotas	897,871.50	$1,793,659.38	
Other Income			
Sale of Fund's publication	6,490.52		
Miscellaneous income	806.71	7,297.23	
TOTAL INCOME			$1,800,956.61

EXPENDITURES

Current Administration		
Personnel Outlays:		
Salaries and wages	$2,188,726.77	
Compensation for national income taxation	101,036.39	
	2,289,763.16	
Expense allowance for Managing Director	10,000.00	
Installation allowances (*for establishment of residence by staff personnel*)	19,766.74	
Fund's contributions for staff benefits:		
Staff Retirement Fund	438,288.91	
Health and hospitalization	11,806.29	
Carried forward		$2,769,625.10

See notes on page 94, which are an integral part of this Statement.

STATEMENT OF INCOME AND EXPENDITURE

Year ended April 30, 1949

Values expressed in United States dollars on basis of established parities

TOTAL INCOME (brought forward)			$1,800,956.61
CURRENT ADMINISTRATION CONTINUED (brought forward)		$2,769,625.10	
Travel:			
Travel for Fund's business	159,676.38		
Appointment travel *(bringing personnel to seat of Fund on appointment)*	45,623.66		
Repatriation travel *(returning personnel to homeland on separation)*	39,346.09		
Home leave travel	11,753.52	256,399.65	
Communications:			
Telegraph and cable services	16,063.95		
Telephone services	34,108.34		
Postal services	26,865.73	77,038.02	
Office Occupancy Expense:			
Space rentals and maintenance services	359,625.96		
Building alterations	40,154.52	399,780.48	
Books, newspapers and periodicals		17,489.15	
Printing, by contract		60,477.41	
Equipment and supplies: *(including rentals, repairs and maintenance)*			
Equipment	85,028.17		
Consumable supplies	37,613.45	122,641.62	
Carried forward		3,703,451.43	

STATEMENT OF INCOME AND EXPENDITURE

Year ended April 30, 1949

Values expressed in United States dollars on basis of established parities

TOTAL INCOME (brought forward)			$1,800,956.61
CURRENT ADMINISTRATION CONTINUED (brought forward)		$3,703,451.43	
Miscellaneous expenses:			
Insurance	7,193.69		
External Audit	5,968.98		
Actuarial expense regarding Staff Retirement Fund	2,889.69		
Other miscellaneous expense	14,193.31	30,245.67	
TOTAL EXPENDITURE FOR CURRENT ADMINISTRATION		3,733,697.10	
Meeting of Board of Governors:			
Third Annual Meeting (*Sept. 27 to Oct. 1, 1948*)		81,049.06	
TOTAL ADMINISTRATIVE EXPENSE		3,814,746.16	
Other Expenses:			
Handling charges of depository in connection with gold of Fund		2.60	
TOTAL EXPENDITURES			3,814,748.76
EXCESS OF EXPENDITURE OVER INCOME FOR PERIOD			2,013,792.15

ADJUSTMENTS NOT RELATED TO INCOME AND EXPENDITURE OF PERIOD

Addition		
Expense of Second Annual Meeting of Board of Governors, paid this year	689.91	
Deduction		
Exchange adjustments—Net	132.46	
NET ADJUSTMENT		557.45
DECREASE IN NET CAPITAL FOR YEAR ENDED APRIL 30, 1949 (*carried to Balance Sheet*)		$2,014,349.60

NOTES TO STATEMENT OF INCOME AND EXPENDITURE

[1] The established parities for members' currencies represent par values in relation to the U. S. dollar as agreed to by the Fund with the members concerned, with exception of the French franc which for bookkeeping purposes is computed at a provisional rate of 261.701 francs to the dollar. *See also* note [1] to Balance Sheet.

[2] Income from operations represents charges levied against members. Such charges are payable in gold except under certain conditions specified in Article V, Section 8(f) of the Fund Agreement.

[3] Expenditure under the heading of "Travel" does not include that in connection with meetings of the Board of Governors included in the expense of such meetings.

[4] It continues to be the policy of the Fund to write off the cost value of all furniture, office equipment, and automobiles by establishing full depreciation reserves against the assets and to charge the cost value of consumable supplies to expense of the fiscal year in which purchased.

[5] Expense of external audit relates exclusively to the audit for the fiscal period ended April 30, 1948.

[6] The net credit for exchange adjustments is the result of bookkeeping entries due to the expression in U. S. dollar 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.

APPENDIX XVI (v)
GOLD WITH DEPOSITORIES
April 30, 1949
Valued at U. S. $35 per fine ounce

Depositories	Ounces (*.995 fine or higher*)	Equivalent Value *in U. S. Dollars*
Banque de France..........	2,308,663.998	80,803,239.93
Reserve Bank of India......	785,327.246	27,486,453.61
Bank of England...........	14,816,879.176	518,590,771.16
Federal Reserve Bank of New York...............	23,212,336.793	812,431,787.76
	41,123,207.213	1,439,312,252.46
Less: Gold with Federal Reserve Bank of New York held in suspense by the Fund, having been paid by Thailand in anticipation of completion of formalities of membership.	89,285.947	3,125,008.14
	41,033,921.266	1,436,187,244.32

NOTE:

See note [2] of the Balance Sheet regarding gold with the Federal Reserve Bank of New York. The gold shown above with that depository does not include 1,297.309 fine ounces which are earmarked by the Fund for the following members in respect of excess payments of charges:

Brazil	.727	Mexico	234.435
Chile	29.385	Netherlands	225.972
Costa Rica	.005	Nicaragua	5.443
Denmark	321.368	Norway	369.864
Ethiopia	.722	Turkey	109.388

APPENDIX XVI (vi)

CURRENCIES AND SECURITIES WITH DEPOSITORIES—April 30, 1949

Equivalent values in United States dollars are based on exchange rates for established par values

Depositories	National Currencies	Amounts of Currency and Securities (In Units of National Currencies)			Exchange Rates	Equivalent Values in U. S. Dollars
		Currency	Securities	Total		
Commonwealth Bank of Australia	Pounds	6,226,044.6.3	53,200,000.0.0	59,426,044.6.3	322.400*	191,589,566.86
Banque Nationale de Belgique, S. A.	Francs	992,438,187.96	7,349,500,000.00	8,341,938,187.96	43.8275	190,335,706.75
Superintendencia da Moedo e do Credito	Cruzeiros	2,358,750,250.50		2,358,750,250.50	18.500	127,500,013.54
Bank of Canada	Dollars	30,993,809.16	194,000,000.00	224,993,809.16	1.00000	224,993,809.16
Banco Central de Chile	Pesos	1,549,446,451.53		1,549,446,451.53	31.0000	49,982,143.59
Banco de la Republica de Colombia	Pesos	73,121,874.21		73,121,874.21	1.94998	37,498,781.63
The Issue Department—Banco Nacional de Costa Rica	Colones	32,978,775.98		32,978,775.98	5.61500	5,873,334.99
General Treasury of the Republic, Cuba	Pesos	4,989,232.50	32,500,000.00	37,489,232.50	1.00000	37,489,232.50
National Bank of Czechoslovakia	Koruny	925,080,286.70	5,552,378,996.00	6,477,459,282.70	50.0000	129,549,185.65
Danmarks Nationalbank	Kroner	81,587,319.98	267,172,231.34	348,759,551.32	4.79901	72,673,228.71
Banco Central de la Republica Dominicana	Pesos	501,865.33	3,248,000.00	3,749,865.33	1.00000	3,749,865.33
Banco Central del Ecuador	Sucres	50,618,535.13		50,618,535.13	13.5000	3,749,521.12
The Treasury of Egypt	Pounds	2,179,443.681	10,767,067.250	12,946,510.931	413.300*	53,507,929.67
Banco Central de Reserva de El Salvador	Colones	4,685,752.11		4,685,752.11	2.5000	1,874,300.84
State Bank of Ethiopia	Dollars	2,236,626.69	13,377,375.30	15,614,001.99	40.250*	6,284,635.80
Banque de France	Francs	13,747,450,599.84	135,530,000,000.00	149,277,450,599.84	*See* Note[1]	570,412,228.46
Banco de Guatemala	Quetzales	3,749,367.31		3,749,367.31	1.00000	3,749,367.31
National Bank of Iceland	Kronur	4,864,276.71		4,864,276.71	6.48885	749,636.18
Reserve Bank of India	Rupees	463,113,763.9.10	1,099,970,000.0.0	1,563,083,763.9.10	30.2250*	472,442,067.55
Bank Melli Iran	Rials	113,870,344.50	732,132,569.30	846,002,913.80	32.2500	26,232,648.49

Rafidain Bank, Iraq	Dinars	199,909.570	1,785,000.000	1,984,909.570	403.000*	7,999,185.56
Banque de Syrie et du Liban (Beyrouth)	Pounds	9,274,185.40		9,274,185.40	2.19148	4,231,927.92
Banque Nationale de Belgique, S. A. (Luxembourg Account)	Francs	43,841,220.05	380,150,000.00	423,991,220.05	43.8275	9,674,090.92
Banco de Mexico, S. A.	Pesos	436,941,043.11		436,941,043.11	4.85500	89,998,155.12
De Nederlandsche Bank N. V.	Guilders	73,139,625.81	674,000,000.00	747,139,625.81	2.65285	281,636,589.26
Department of Emission—Banco Nacional de Nicaragua	Cordobas	10,011,477.92		10,011,477.92	5.00000	2,002,295.58
Norges Bank	Kroner	72,307,071.04	161,250,322.58	233,557,393.62	20.1500*	47,061,814.81
Banco Nacional de Panama	Balboas	49,947.20		49,947.20	1.00000	49,947.20
Bank of Paraguay	Guaranies	8,105,396.52		8,105,396.52	3.09000	2,623,105.67
Banco Central de Reserva del Peru	Soles	16,260,697.63	125,743,686.00	142,004,383.63	6.50000	21,846,828.25
Central Bank of the Philippines	Pesos	22,498,630.62		22,498,630.62	2.00000	11,249,315.31
South African Reserve Bank	Pounds	4,962,481.0.5	16,126,410.17.4	21,088,891.17.9	403.000*	84,988,234.31
Banque de Syrie et du Liban (Damascus)	Pounds	1,424,786.60	12,447,000.00	13,871,786.60	2.19148	6,329,871.41
Banque Centrale de la Republique de Turquie	Liras	26,047,867.40	78,250,000.00	104,297,867.40	2.80000	37,249,238.36
Bank of England	Pounds	32,301,212.14.0	304,625,000.0.0	336,926,212.14.0	403.000*	1,357,812,637.18
Federal Reserve Bank of New York	Dollars	277,381,438.55	1,063,000,000.00	1,340,381,438.55		1,340,381,438.55
Riggs National Bank[3]	Dollars	120,494.17		120,494.17		120,494.17
Banco Central de Venezuela	Bolivares	5,026,805.40	32,659,359.42	37,686,164.82	3.35000	11,249,601.44
TOTAL						5,526,741,975.15

SUMMARY

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

Currency	1,147,357,988.06
Securities	4,379,383,987.09
Total, as above	5,526,741,975.15

NOTES:

[1] Par values for members' currencies are established in relation to the U. S. dollar as agreed to by the Fund and the members concerned with the exception of the French franc, which for bookkeeping purposes is computed at a provisional rate of 261.701 francs to the dollar. (*See also* note [1] to 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 expenditure.

STATUS OF SUBSCRIPTIONS TO CAPITAL—April 30, 1949

Values expressed in United States dollars on basis of established parities (See 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 Member's Currency	Balances Due (Par Values Established)	Balances not Due (Par Values not Established)
Australia	200		8,404,843.20	191,595,156.80		
Austria	50[3]					50,000,000.00
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	37,485,030.14	112,499,969.86		
Canada	300	30,000.00	74,970,000.00	225,000,000.00		
Chile	50	5,000.00	8,813,013.93	41,181,986.07		
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	373,700.09	4,625,799.91		
Cuba	50	5,000.00	12,495,386.36	37,499,613.64		
Czechoslovakia	125	12,500.00	1,435,920.08[6]	123,551,579.92		
Denmark	68	6,800.00	5,518,722.65[6]	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	4,500.00	9,484,075.69	50,511,424.31		
El Salvador	2.5	250.00	624,787.80	1,874,962.20		
Ethiopia	6	600.00	14,000.18[6]	5,985,399.82		
Finland	38					38,000,000.00
France	525	52,500.00	79,527,420.66[6]	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	.5[4]	250.00	124,809.20		374,940.80	
Iceland	1	100.00	249,900.28	749,999.72		
India	400	40,000.00	27,486,453.61	372,473,546.39		
Iran	35[5]	2,500.00	8,764,707.14	26,232,792.86		
Iraq	8	800.00		7,999,200.00[7]		
Italy	180	18,000.00				179,982,000.00
Lebanon	4.5	450.00	267,415.12[6]	4,232,134.88		
Luxembourg	10	1,000.00	324,821.25[6]	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	200.00	875,496.47	2,624,303.53		
Peru	25	2,500.00	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	169,187.17[6]	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	236,135,323.70	1,063,734,676.30		
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	8,034.0	772,150.00	1,424,112,529.61	5,540,388,429.59	10,823,890.80	1,057,903,000.00

NOTES:

[1] The established parities for members' currencies represent par values in relation to the United States dollar as agreed to by the Fund and the members concerned for the payment of their subscriptions. *See also* Balance Sheet regarding note on subsequent provisional rates established for the French franc for bookkeeping purposes.

[2] As per Article XX, Section 2(d), of the Articles of Agreement.

[3] New Member.

[4] Quota as reduced.

[5] Quota as increased.

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

[7] Member's payment exclusively in currencies is considered by Fund as final.

APPENDIX XVI (viii)

OTHER ASSETS

April 30, 1949

Values expressed in United States dollars (*See* Note[1])

CASH		
Imprest Funds........................... (*petty cash and postage*)	$ 931.59	
Cash with technical representatives overseas. (*See Note*[2])	1,807.65	$ 2,739.24
ACCOUNTS RECEIVABLE (including accruals)		
Members Accounts....................... (*accrued charges against members*)	316,454.56	
Commercial Accounts.....................	64,739.52	
Travel and Staff Advances................	67,936.92	449,131.00
DEFERRED CHARGES (unexpired insurance, etc.).........		15,529.95
EQUIPMENT (*represents furniture, office equipment, and automobiles at cost value of $381,968.50 against which full reserves for depreciation are carried*)		
LIBRARY INVESTMENT (*represents law library at cost value of $13,002.63 and investment at cost value of $20,813.58 in library owned jointly with International Bank for Reconstruction and Development, against which full reserves for depreciation are carried*)		
TOTAL OTHER ASSETS, PER BALANCE SHEET..		467,400.19

NOTES:

[1] The rates used for the expression of other currencies in U. S. dollars are explained in Note [1] to the Balance Sheet.

[2] Cash with technical representatives overseas consists of U. S. dollars 400, French francs 7,499, and Egyptian pounds 334.890.

APPENDIX XVI (ix)

LIABILITIES

April 30, 1949

Values expressed in United States dollars (*See* Note)

ACCOUNTS PAYABLE		
Members Accounts		$ 386.36
(*overpayments on capital subscriptions, reimbursable in member's currency*)		
Commercial Accounts:		
Vouchers Payable	$62,902.45	
Unvouchered invoices and accruals	99,058.72	161,961.17
Executive Directors and Staff		31,772.92
(*amounts due or accrued for salaries and wages, travel, etc.*)		
Total Accounts Payable and Accruals		194,120.45
UNEARNED INCOME		
Subscriptions to Fund's publication		4,861.37
TOTAL LIABILITIES, PER BALANCE SHEET		198,981.82

NOTE:

The rates used for the expression of other currencies in U. S. dollars are explained in Note [1] to the Balance Sheet.

APPENDIX XVI (x)

SUMMARY OF TRANSACTIONS

For the Year ended April 30, 1949

Exchange Transactions	Amount in Currency	U. S. Dollar Equivalent
Currency Sold		
U. S. Dollars	108,030,000.00	108,030,000.00
Belgian Francs	500,000,000.00	11,408,380.91
		119,438,380.91
Currency Bought		
Indian Rupees	238,147,229.1.10	71,980,000.00
Netherland Guilders	18,158,843.78	6,845,028.55
Norwegian Kroner	22,646,910.02	4,563,352.36
Ethiopian Dollars	745,341.61	300,000.00
Czechoslovakian Korunas	300,000,000.00	6,000,000.00
Costa Rican Colones	7,018,750.00	1,250,000.00
Nicaraguan Cordobas	2,500,000.00	500,000.00
South African Pounds	2,481,389.11.7	10,000,000.00
Brazilian Cruzeiros	277,500,000.00	15,000,000.00
Egyptian Pounds	725,864.989	3,000,000.00
		119,438,380.91

Gold Transactions	Fine Ounces	U. S. Dollar Equivalent at $35 per Fine Ounce
Currency Sold Against Gold		
U. S. Dollars	175,301.264	6,135,544.24
Currency Bought Against Gold		
Nil		

NOTE:

Par values used for exchange transactions involving Belgian Francs and Netherland Guilders are in terms of gold in relation to these currencies instead of in terms of U. S. Dollars. This required certain bookkeeping exchange adjustments whereby the accounts of the Fund reflect the Belgian Francs sold as amounting to $11,408,362.34 and the Netherland Guilders purchased as amounting to $6,845,032.24.

APPENDIX XVI (xi)

STAFF RETIREMENT FUND
AUDITORS' CERTIFICATE

"We have made an independent audit of the accounts of the Staff Retirement Fund of the International Monetary Fund from July 1, 1948, the date of its establishment, to April 30, 1949. 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, consideration was given to the authority and other requirements governing transactions of the Staff Retirement Fund.

"The audit did not include a verification of the individual participants' accounts as at April 30, 1949, except for inquiry into certain of such accounts as a consequence of the application of auditing procedures to the other accounts of the Staff Retirement Fund. We ascertained, however, that the Internal Auditor of the International Monetary Fund had made a detailed audit of all participants' individual accounts as at April 30, 1949, and we satisfied ourselves that application of the auditing procedures adopted by him would be adequate to insure the correctness of such individual accounts with regard for eligibility, contributions, and interest allowed.

"With regard to the note appearing on the financial statements concerning the income reported on certain investments, we believe that more satisfactory results would be obtained by employing the accounting method which would provide for deferring a portion of the interest received on United States Savings Bonds, Series G, on the basis of the redemption values of such bonds under conditions existing April 30, 1949. We recognize, however, that the accounting method used by the International Monetary Fund in relation to these securities is sometimes followed in practice.

"In our opinion, based on our examination and subject to the foregoing comment, the Balance Sheet and related statements of the Accumulation Account, Participants' Account, and Application of Funds, together with the notes appearing thereon, present fairly the financial position of the Staff Retirement Fund of the International Monetary Fund as at April 30, 1949 and the results of operations from July 1, 1948 to April 30, 1949, in conformity with generally accepted accounting principles."

/s/ Z. Hassan
(Egypt)

/s/ P. J. Curtis
(United Kingdom)

/s/ Gilbert L. Cake
(United States)

APPENDIX XVI (xii)

STAFF RETIREMENT FUND
BALANCE SHEET
April 30, 1949

ASSETS

CASH IN BANK			
Riggs National Bank Washington, D. C.		$ 5,123.46	
INVESTMENTS (At Cost)			
United States Savings Bonds, Series G (non-marketable)			
Due July 1, 1960	$250,000.00		
Due January 1, 1961	32,000.00		
Due February 1, 1961	24,000.00		
Due March 1, 1961	26,000.00		
Due April 1, 1961	18,000.00		
	350,000.00		
International Bank for Reconstruction and Development 3% Bonds, due July 15, 1972 (Market value $251,450.00)	244,176.25	594,176.25	
ACCRUED INTEREST ON INVESTMENTS		2,187.50	
ACCOUNTS RECEIVABLE		18.85	
TOTAL ASSETS			$601,506.06

LIABILITIES AND FUNDS

ACCOUNTS PAYABLE	$ 1,582.26	
PARTICIPANTS' ACCOUNT	153,256.22	
ACCUMULATION ACCOUNT	446,667.58	
TOTAL LIABILITIES AND FUNDS		$601,506.06

See Notes on page 109, which are an integral part of this Statement.

STAFF RETIREMENT FUND

STATEMENT OF ACCUMULATION ACCOUNT

July 1, 1948 (inception) to April 30, 1949

INCOME		
CONTRIBUTIONS OF EMPLOYER		
For Employees' Prior Service	$279,389.70	
For Employees' Participating Service	164,746.69	
Total Contributions	$444,136.39	
INCOME FROM INVESTMENTS		
Interest Earned	7,235.51	
OTHER INCOME		
Interest on unpaid prior service contributions of participants	256.65	
TOTAL INCOME		$451,628.55
OUTGO		
BENEFITS		
Withdrawal Benefits (to former Participants)	$ 1,313.92	
TRANSFERS TO PARTICIPANTS' ACCOUNT		
For Interest credited to participants	3,647.05	
TOTAL OUTGO		4,960.97
EXCESS OF INCOME OVER OUTGO		
Representing balance of accumulation account as at April 30, 1949, per Balance Sheet		446,667.58

See Notes on page 109, which are an integral part of this Statement.

APPENDIX XVI (xiv)

STAFF RETIREMENT FUND

STATEMENT OF PARTICIPANTS' ACCOUNT

July 1, 1948 (inception) to April 30, 1949

INCOME

CONTRIBUTIONS OF EMPLOYEES			
Prior Service	$ 75,506.41		
Participating Service	82,995.49		
Additional Voluntary Contributions	2,490.00	$160,991.90	
TRANSFERS FROM ACCUMULATION ACCOUNT			
Interest credited to participants in respect of:			
Prior Service	2,802.50		
Participating Service	825.88		
Additional Voluntary Contributions	18.67	3,647.05	
TOTAL INCOME			$164,638.95

OUTGO

REFUNDS		
To former participants who have withdrawn (contributions and interest)		11,382.73
EXCESS OF INCOME OVER OUTGO		
Representing balance of participants' account at April 30, 1949, per Balance Sheet		153,256.22
Consisting of:		
Partial payments on prior service contributions	$ 6,870.28	
Participating contributions, fully paid prior service contributions, and interest credited	143,877.27	
Additional voluntary contributions and interest credited	2,508.67	
Balance of Participants' Account, as above	153,256.22	

See Notes on page 109, which are an integral part of this Statement.

APPENDIX XVI (xv)

STAFF RETIREMENT FUND

STATEMENT OF APPLICATION OF FUNDS

July 1, 1948 (inception) to April 30, 1949

FUNDS PROVIDED		
Contributions of Employer:		
Prior service	$279,389.70	
Participating service	164,746.69	$444,136.39
Contributions of Employees:		
Prior service	75,506.41	
Participating service	82,995.49	
Additional voluntary contributions	2,490.00	160,991.90
Income on Investments		7,235.51
Interest on unpaid prior service contributions of participants		256.65
Total Funds Provided		612,620.45
FUNDS APPLIED		
Purchase of investments		$594,176.25
Refunds to former participants with interest		11,382.73
Withdrawal benefits to former participants		1,313.92
Creation of working capital (as below)		5,747.55
Total Funds Applied		612,620.45

Analysis of Working Capital

CURRENT ASSETS	
Cash in Bank	$5,123.46
Accrued Interest on Investments	2,187.50
Accounts Receivable	18.85
Total Current Assets	7,329.81
CURRENT LIABILITIES	
Accounts Payable	1,582.26
Working Capital	5,747.55

See Notes on page 109, which are an integral part of this Statement.

APPENDIX XVI (xvi)

NOTES TO FINANCIAL STATEMENTS OF STAFF RETIREMENT FUND

[1] Income on investments includes interest on United States Savings Bonds, Series G, currently paid at the rate of 2½ per cent per annum on the condition that the bonds will be held to maturity which is 12 years after issue. If such a bond should be redeemed, at the option of the owner, prior to maturity, the interest previously received at the rate of 2½ per cent is subject to adjustment (or refund) resulting in a lower yield on the investment at a rate depending on the length of time the investment is held. A different method of accounting would not so treat the interest currently received as fully earned but would regard as deferred income that portion representing the necessary interest adjustment required on the basis of the present redemption values of the bonds at April 30, 1949.

[2] Interest credited to Participants' Accounts was at the regular rate provided for in the approved Staff Retirement Plan. While such interest amounting to $3,647.05 was charged to Accumulation Account, this account was credited with $256.65 for interest received from certain participants in respect of unpaid prior service contributions.

APPENDIX XVII (i)

SCHEDULE OF PAR VALUES—as of July 1, 1949

CURRENCIES OF METROPOLITAN AREAS

		Par Values In Terms of Gold		Par Values In Terms of U. S. Dollars	
Member	Currency	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
AUSTRIA	Shilling	Par Value not yet established			
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	0.455 733	68.249 3	1.949 98	51.282 5
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
ETHIOPIA	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	0.102 737	302.750	8.650 00	11.560 7
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
THAILAND	Baht	Par Value not yet established			
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	0.017 773 4	1,750.00	50.000 0	2.000 00

[1] Since January 26, 1948, there has been no agreed par value with the Fund for the French franc, nor for separate currencies in French non-metropolitan areas except for those listed in the second part of the present Schedule.

APPENDIX XVII (ii)

SCHEDULE OF PAR VALUES—as of July 1, 1949

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: Grams of fine gold per currency unit	Par Values In Terms of Gold: Currency units per troy ounce of fine gold	Par Values In Terms of U. S. Dollars: Currency units per U. S. dollar	Par Values In Terms of U. S. Dollars: 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
FRANCE					
New Caledonia New Hebrides French Possessions of Oceania	CFP Franc	0.017 906 7	1,736.97	49.627 8	2.015 00
French Possessions in India	Rupee	0.268 601	115.798	3.308 52	30.225 0
French Somaliland	Djibouti Franc	0.004 145 07	7,503.73	214.392	0.466 435
NETHERLANDS					
Surinam	Guilder (=1.406 71 Netherlands guilders)	0.471 230	66.004 9	1.885 85	53.026 4
Netherlands Antilles	Guilder (=1.406 71 Netherlands guilders)	0.471 230	66.004 9	1.885 85	53.026 4
Indonesia	Guilder	Par Value not yet established			
UNITED KINGDOM					
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

Gambia	West African Pound (Parity with sterling)				
Gold Coast					
Nigeria					
Sierra Leone					
Southern Rhodesia	Southern Rhodesian Pound (Parity)				
Northern Rhodesia					
Nyasaland					
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)				
British Honduras	British Honduras Dollar (4.03 per pound sterling)	0.888 671	35.000 0	1.000 00	100.000
Mauritius	Mauritius Rupee (13⅓ per pound sterling)	0.268 601	115.798	3.308 52	30.225 0
Seychelles	Seychelles Rupee (13⅓ per pound sterling)				
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 Federation of Malaya)	Malayan Dollar (8.571 428 57 per pound sterling, or 2 shillings 4 pence per Malayan Dollar)				
Sarawak	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
British North Borneo					

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