ANNUAL REPORT

1972

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INTERNATIONAL MONETARY FUND

ANNUAL REPORT

OF THE
EXECUTIVE DIRECTORS FOR THE
FISCAL YEAR ENDED APRIL 30, 1972

WASHINGTON, D.C.

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The following symbols have been used throughout this Report:

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

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

(–) is used between years or months (e.g., 1968–71 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

(/) is used between years (e.g., 1971/72) to indicate a fiscal year.

"Billion" means a thousand million.

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

The classification of countries employed in the Report is indicated in Table 1 on page 5.

INTERNATIONAL MONETARY FUND

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August 7, 1972

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

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LETTER OF TRANSMITTAL
TO THE BOARD OF GOVERNORS

August 7, 1972

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, 1972.

Yours sincerely,

/s/

PIERRE-PAUL SCHWEITZER

Chairman of the Executive Board

Chairman of the Board of Governors

International Monetary Fund

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Chapter 1

Developments in the World Economy

General Survey

THE main features of world economic developments in 1971 were a continuation of slow output growth coupled with inflation and the succession of currency crises, involving capital movements and foreign exchange reserve increases of unprecedented magnitude, that led to the December 18 realignment of major currencies. During the first half of 1972 the picture with respect to certain aspects of these problems improved significantly. However, the period around the middle of the year, marked by the floating of the pound sterling, was characterized by renewed unrest in the foreign exchange and gold markets and by an intensification of exchange controls as difficult problems of dealing with currency flows were faced by the authorities of a number of major countries. Further, it was abundantly clear that great challenges remained for the longer run.

Among the foremost of these challenges are the collective task of improving and reforming the international monetary system and the national tasks of improving the management and performance of the main industrial economies. The importance and urgency of international monetary reform were underscored by developments in the first half of 1972, when periodic outbursts of speculation signaled continued weakness of market confidence in the international monetary system, notwithstanding the major step toward restoration of international payments equilibrium that had been taken in December 1971 with the realignment of major currencies. Also fundamental is the consideration that reform of the system cannot prove effective unless it is accompanied by satisfactory policies in the larger industrial countries, which have had a record of economic instability since the mid-1960s and now must endeavor to control inflation while at the same time achieving satisfactory levels of employment and rates of economic growth. Enduring solutions of the problems in the fields of international monetary reform and national economic management would be to the benefit of all countries, developed and developing alike.

At the beginning of 1971 the international monetary system, already strained by conditions of fundamental imbalance in key currency relationships, was under additional pressures emanating from differences in the cyclical positions, financial policies, and credit conditions of the North American and European industrial centers. Yield-induced flows of short-term capital, occurring against a background of chronic basic deficit in the U. S. balance of payments and of continuing surplus in the external accounts of Germany, Japan, and several smaller industrial countries, were joined in the second quarter of 1971 by speculative movements in anticipation of possible changes in parities. The tremendous upsurge in capital flows led in early May to the floating of the deutsche mark and action in the exchange field also by four other members of the Fund.[1]

The respite provided by these changes in exchange rate policy proved brief. As the fundamental weakness of the U. S. balance of payments —and corresponding strength of other countries' positions—became more apparent during the next few months, speculation was resumed at an accelerating tempo. A widespread feeling that price inflation in the United States was not being brought under control, even at a time of high unemployment and sluggish economic growth, contributed to an ebbing of confidence in the dollar. On August 15, the U. S. Administration responded to this combination of adverse circumstances by initiating dramatic and far-reaching changes in its domestic and international economic policies.

The action taken by the United States on the external front removed one of the foundation stones of the international monetary system as it had operated since World War II under the Bret-

[1] These actions and related responses were described in the *Annual Report, 1971,* pages 37–38 and 133–41.

ton Woods Agreement. No longer were the U. S. authorities prepared to convert officially held dollars into gold or other reserve assets. In response to this action by the United States, nearly all countries ceased to ensure that exchange transactions would be related to par values. These moves set in motion a process of appreciation of most major currencies against the dollar in the weeks following August 15.

Generally, however, the extent of the appreciation was limited by official intervention in the exchange market or by measures taken to curb capital inflows. During this period, strong upward pressures on exchange rates and/or increases in reserves were sustained by the continuing basic deficit in the U. S. balance of payments, as well as by additional capital flows reflecting market sentiment that further exchange rate adjustments were probable. In these circumstances, further large accumulations of dollars in official holdings took place.

These increases in official foreign exchange reserves, like the capital flows underlying them, were unevenly distributed among countries.[2] For many national monetary authorities, however, severe difficulties were posed by the extraordinary expansion of reserves during 1971, immediately following the substantial increase that had taken place in 1970. Except where it could be adequately countered by neutralizing policy actions, the expansion tended to generate excessive domestic liquidity and thus to complicate the problems of containing inflationary pressures. The result was a proliferation of measures intended to discourage capital inflows or encourage outflows.

In view of the clearly unsatisfactory nature of the exchange rates, exchange arrangements, and related expedients introduced after August 15, consideration was soon given to their replacement by a more viable regime. The interim of about four months before negotiating efforts came to fruition was a period of general uncertainty and confusion. Although it was clear that most exchange rates were moving in the right direction, in view of the evident overvaluation of the dollar, judgment as to the suitability of the emerging exchange rate pattern was rendered difficult by such factors as varying degrees of official exchange market intervention, the temporary import surcharge that had been imposed by the United States on August 15, the various restrictions on capital movements instituted by other countries, and cyclical influences on trade positions. The unprecedented character of the situation presented serious problems not only for the major industrial countries most immediately involved but also for the developing and other primary producing countries, which were apprehensive of the adverse effects of exchange rate fluctuations, the accompanying uncertainties, and the U. S. surcharge.

By mid-November there was widespread concern that continuation of the prevailing situation would threaten to produce severe economic effects —that a prolonged period in which exchange rates continued to float without guidelines for their regulation or for reconciliation of conflicting national objectives, and in which restrictive practices increased, would breed hesitation in private and public planning, procurement, and investment, with deflationary consequences. The desire to avert such a constrictive development in the world economy was high among the considerations that led to the Smithsonian Agreement of December 18, 1971, providing for a realignment of exchange rate relationships among major currencies as the first essential move to eliminate the disequilibria in international payments. The most important aspects of this realignment were the depreciation of the U. S. dollar in terms of gold and of special drawing rights (SDRs) and the appreciation (in the same terms) of the Japanese yen and the deutsche mark, as well as the Netherlands guilder and the Belgian franc. There was little or no change in the gold or the SDR value of other major currencies, and the Canadian dollar continued to float.[3] This pattern of changes had the overall effect of leaving the value of the SDR (and of reserve positions in the Fund) approximately unchanged in relation to major currencies in general.

[2] Distributional aspects of the recent expansion of international reserves are discussed, along with compositional changes and other important characteristics, in Chapter 2.

[3] Although formal action establishing a new par value of the U.S. dollar, based on an official price of $38 an ounce for gold, was not completed until May 8, 1972, the U.S. Administration committed itself in the Smithsonian Agreement to seek—following negotiations on certain short-term issues relating to trade arrangements—congressional approval of a 7.89 per cent devaluation of the dollar against gold.

In addition to the pattern of exchange rate changes, the Smithsonian Agreement had several other important aspects. These included an understanding among the participants with respect to consideration of long-term reform or improvement of the international monetary system, a provision for temporary wider margins of exchange rate fluctuations, and agreement by the United States on an immediate removal of its temporary import surcharge. On the same day, December 18, the Executive Directors of the Fund adopted a decision providing for a temporary regime of wider margins and central rates. Under this, exchange rates in transactions between a member's currency and its intervention currency can move within margins of 2¼ per cent on either side of the parity relationship between them as indicated by par values or central rates, and as a result maximum margins of 4½ per cent are possible in relation to other currencies.

The realignment of exchange rates among the major countries was quickly followed by adaptations of the exchange rate policies of many other countries, whose authorities, in making their decisions about adjustments of their own exchange rates, had to weigh a number of complex considerations. The decisions actually made by developing countries resulted, on the average, in a moderate depreciation of their currencies in relation to those of the developed countries.

For several months after the realignment, market confidence remained vulnerable to even minor shocks emanating from the flow of economic and political news. Moreover, the reflux of speculative capital to the United States that was widely expected to follow the realignment was deterred by both international differences in interest rates and a variety of special factors, including the initial pattern of market exchange rates within the newly widened margins and lack of public appreciation of the lags with which the intended effects of exchange rate changes are felt. In the absence of such a reflux, the continuing basic deficit in the U. S. balance of payments resulted in further additions to foreign official dollar holdings in the first quarter of 1972. Nevertheless, a calmer exchange market atmosphere emerged toward the end of that period; it prevailed until mid-June, when the pound sterling came under downward pressure. Heavy outflows of short-term capital led to a large and accelerating loss of net U. K. reserves, precipitating the decision by the U. K. Government on June 23 that for the time being the pound sterling would be allowed to float. The U. K. authorities, in announcing that decision, expressed their view that there was nothing in the country's current economic situation to justify the short-term capital movements that had given rise to the floating, which they emphasized was temporary. As a result of subsequent exchange market developments, the pound fell from around US$2.58 just before the float to a range of US$2.42–2.45 in the first half of July.

In response to the action on sterling, 15 member countries that have close trading and financial ties with the United Kingdom and whose currencies were pegged to the pound decided to maintain that peg, thus allowing their currencies to float with sterling. (See Appendix Table I.1.) However, a number of other countries with currencies previously pegged to the pound sterling abandoned such a peg and maintained the existing relationship to gold or the U. S. dollar. Actions slightly variant from these were taken by a few other sterling area countries. Still other members of the area, having already pegged their currencies to gold or the U. S. dollar, maintained that relationship.

During the second quarter of 1972 the private market price of gold, after having risen from about $42 an ounce at the time of the Smithsonian Agreement to a range of about $48–49 an ounce from early February to the end of April, increased rapidly from early May to early June, when it briefly exceeded $65 an ounce. After falling back to somewhat above $60 an ounce in the middle weeks of June, the price rose again toward the end of the month and remained above $65 an ounce during the first half of July. These price movements appear to have reflected a variety of factors. On the supply side, where the level of current production was somewhat reduced, the marked improvement of South Africa's balance of payments after the end of 1971, together with changes in sales by some other suppliers, resulted in a substantially lower volume of gold sales on the free market. Demand, however, was strong, as the surge in speculative demands for gold during the first half of 1972—reflecting uncertainty about the future role of gold and uneasiness regarding the stability of currency relationships—was superimposed on a generally buoyant underlying trend of industrial, artistic, and traditional hoarding demands.

A new factor in the operation of exchange markets after December 1971 was the maintenance by a number of countries of wider margins within which their exchange rates could fluctuate. The rates emerging under these arrangements tended to deter or encourage capital movements in particular instances. However, the period since the introduction of wider margins has been too brief, and too strongly affected by special circumstances, to permit generalization about the impact of these margins on the management of capital flows by national monetary authorities. A development of even more recent origin (April–May 1972) was the agreement by members and prospective members of the European Economic Community to limit fluctuations of their currencies in relation to each other to 2¼ per cent, thus reducing by one half the maximum range that would be associated with maintenance by the countries concerned of margins of plus or minus 2¼ per cent in relation to the U. S. dollar.[4] This agreement, accompanied by special arrangements for intra-EEC settlements of balances resulting from official interventions, was an important step toward implementation of the plan for monetary union of the EEC countries.

An additional factor in the operation of exchange markets emerged toward the end of July, when it became known that the United States had intervened in its exchange market for its own account. The U. S. authorities indicated that they might from time to time initiate such intervention in circumstances where they considered it would produce useful effects and that foreign currencies needed for this purpose might be obtained through the swap arrangements between the United States and certain other industrial countries. It was emphasized, however, that no basic change in policy toward international monetary reform was involved.

In the nonfinancial sphere, expansion of output in the industrial countries during 1971 had proved unexpectedly weak. Economic recovery proceeded at a moderate pace in the United States, where demand management policy—in view of the substantial gap between output and productive capacity that had opened up in the endeavor to curb inflation—had turned expansionary during 1970; and the slowdowns in Japan and Europe were still running their course. This sluggishness of the industrial economies depressed the growth of world trade and had a particularly dampening influence on the prices of commodities exported by many primary producing countries.

At the same time, import costs of the primary producing countries were raised by the continuing inflation of prices in the industrial countries. Progress toward abatement of inflation in the latter countries was considerably less than had been expected by national authorities at the beginning of the year, even though the degree of slack and unemployment—while differing substantially from country to country—was on average probably greater by the latter part of 1971 than at any previous time since the early postwar period.

As of mid-1972 the short-run economic outlook appeared more hopeful than it had at the turn of the year. It indicated a sharp pickup in the overall rate of output growth in the industrial countries from 1971 to 1972, along with some subsidence in the average rate of inflation. Nevertheless, the reduced rate of inflation would still be high in comparison with past experience, and countries faced the prospect of continuing difficulties in reconciling their objectives for growth and employment with those in the field of prices.

The rest of this chapter reviews recent world economic developments in broad outline, focusing mainly on changes in output, prices, and world trade, and on the evolution of the balance of payments situation. It also includes a discussion of two important matters bearing on the international adjustment process: (1) principal aspects of the economic impact of the currency realignment and (2) the role of the major industrial countries in supporting the realignment while its intended effects emerge. The subject of international liquidity is dealt with in Chapter 2. This Report does

[4] With the floating of their currencies late in June, the United Kingdom and Ireland suspended their participation in this special EEC arrangement; at about the same time, Denmark also suspended its participation in the arrangement.

TABLE 1. GROWTH OF WORLD OUTPUT, 1960–71

(Percentage changes in real GNP [1])

	Annual Average [2]			Change from Preceding Year				
	1960–70	1960–65	1965–70	1967	1968	1969	1970	1971
Industrial countries								
Canada	5.2	5.7	4.7	3.5	4.9	5.1	3.3	5.4
United States	4.0	4.8	3.1	2.6	4.7	2.6	−0.7	2.7
France	5.8	5.8	5.8	5.0	4.6	7.7	5.9	5.2
Germany, Federal Republic	4.8	5.0	4.7	−0.2	7.3	8.0	5.5	2.8
Italy	5.6	5.3	5.9	6.9	6.3	5.8	4.8	1.5
United Kingdom	2.7	3.2	2.1	1.6	3.6	1.9	1.8	0.9
Japan	11.1	10.0	12.2	13.2	15.5	11.9	10.5	6.1
Total, seven major countries	4.8	5.2	4.4	3.5	5.9	4.6	2.2	3.2
Other industrial countries [3]	4.7	5.0	4.4	3.8	4.5	5.9	4.8	3.3
Primary producing countries								
More developed areas [4]	6.4	7.1	5.6	5.3	5.1	7.2	5.7	5.0
Less developed areas [5]	5.5	5.1	5.8	5.1	6.2	6.9	6.6	6.2
World [6]	5.0	5.3	4.7	3.9	5.8	5.2	3.3	3.8

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

[1] Or GDP.

[2] Compound annual rates of change.

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

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

[5] Comprise all countries not listed above as "Industrial countries," or as being in "More developed areas" (footnote 4 above), or as CMEA countries, mainland China, etc. (footnote 6 below).

[6] All countries except the following (not covered in this Report because of absence of data): Members of the Council for Mutual Economic Assistance—Albania, Bulgaria, Cuba, Czechoslovakia, Eastern Germany, Hungary, Mongolia, Poland, Rumania, the Union of Soviet Socialist Republics; mainland China; and North Korea and North Viet-Nam.

not address itself to the issues of improving and reforming the international monetary system, which will be the subject of a separate report by the Executive Directors to the Board of Governors.

Trends in Economic Activity

Growth of output on a world-wide basis [5] in 1971 was again markedly below the long-run average. According to available estimates, the increase in volume of total output both from 1969 to 1970 and from 1970 to 1971 was well inside the 3–4 per cent range, compared with the 5 per cent average annual rate of expansion that prevailed over the 1960–70 decade (Table 1).

Among the industrial countries the continuation of relatively slow growth of output in 1971 was compounded of a recovery in the United States and Canada and a deceleration almost everywhere else. On the continent of Europe, the overall increase of 3½ per cent was as much as 2 percentage points below the 1969–70 rise in real gross national product (GNP). For the United Kingdom the increase of only 1 per cent in 1971 followed two successive years of below-average growth in total output. In Japan the 6 per cent rise of real GNP in 1971, after a slowdown in the latter part of 1970, was quite low in historical perspective and brought recessionary conditions.

The primary producing countries as a group also sustained a reduction in the growth of total output from 1970 to 1971. This occurred in most of the 12 countries classified in "more developed areas" and in three of the four broad areas comprised of less developed countries. Among these areas, only the Middle East (where several of the major oil-producing countries are located) had a higher rate of economic growth in 1971 than in the preceding year. The growth rate moved distinctly lower in Africa, Asia, and the Western Hemisphere.

The rise in total output of the less developed countries in 1971, although somewhat below that in 1970, was still above the average for the decade of the 1960s. As shown in Table 1, output expan-

[5] For the coverage and the classification of countries used in this Report, see the list of countries and footnotes 3–6 in Table 1.

sion in the developing countries during the second half of the decade was considerably higher than in the first half, and lifted the overall decade average to 5½ per cent. However, growth rates over the decade were very uneven among this large and heterogeneous group of countries. Growth tended to be strongest for countries with relatively high levels of per capita GNP; for countries with relatively low levels, and accounting for two thirds of the population in the developing world, the average annual growth of real GNP during the 1960s was only about 4 per cent on an aggregate basis and 1½ per cent on a per capita basis.

Although in many individual countries production has been affected by special or localized developments, the general course of world output in recent years has been dominated by the combined growth rate of the seven major industrial countries represented in Chart 1. As may be seen, this growth rate declined from 1968 to 1970 and then, because of cyclical recovery in the United States and Canada, moved upward in 1971 and advanced sharply in the first half of 1972.

Throughout most of the world, output changes in 1971 were accompanied by strong inflationary pressures. Although of varying intensity, these pressures generally constituted a problem of some years' duration. Taken together, the industrial countries experienced a combined price rise (as measured by GNP deflators) of 5½ per cent from 1970 to 1971—not far below the exceptionally high rate of 6 per cent from 1969 to 1970 and more than double the average annual rate for the first part of the 1960s, before inflation became a serious problem (Table 2). In the primary producing countries, for which price performance can best be gauged by the available data on consumer prices, the increases in such prices from 1970 to 1971 averaged 9 per cent for both the more developed and the less developed groups and were markedly higher than the increases from 1969 to 1970.

Conditions of slow growth combined with inflationary tendencies were thus widely prevalent in 1971. With respect to the large industrial economies, underutilization of economic resources was particularly great in the United States, Canada, the United Kingdom, Japan, and Italy. In the other industrial countries, where the post-1967 boom generated inflationary pressures later than in North America, the drop in the rate of output growth from 1970 to 1971, in response to actions taken by the authorities to repress inflationary tendencies, served generally to eliminate excess demand, but the degree of economic slack that emerged was still comparatively small. Among the more developed group of primary producing countries, the recent phenomenon of depressed economic activity coincident with rising prices was evident in the Southern Hemisphere countries of Australia and New Zealand and in the European countries of Ireland, Finland, and Spain; in several other European countries, including Yugoslavia and Portugal, there was an intensification of inflationary pressures simultaneously with higher economic expansion.

Alleviation of the widespread problems of slow

CHART 1. CHANGES IN OUTPUT OF SELECTED GROUPS OF INDUSTRIAL COUNTRIES, FIRST HALF 1968–FIRST HALF 1972

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

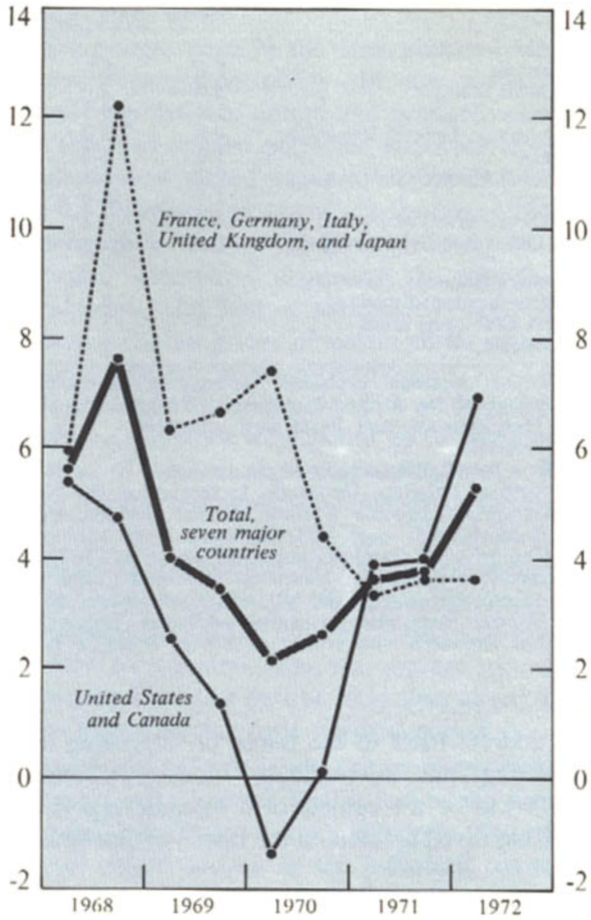


TABLE 2. PRICE INCREASES IN INDUSTRIAL COUNTRIES, 1960–71

(Percentage changes in GNP deflators)

	Annual Average [1]			Change From Preceding Year				
	1960–70	1960–65	1965–70	1967	1968	1969	1970	1971
Canada	3.1	1.9	4.1	3.4	3.5	4.8	4.1	3.5
United States	2.7	1.4	4.1	3.2	4.0	4.8	5.5	4.7
France	4.5	4.1	4.8	2.8	4.8	7.9	5.7	5.5
Germany	3.5	3.6	3.4	1.2	1.6	3.5	7.3	7.7
Italy	4.5	5.5	3.5	3.0	1.5	4.1	6.7	6.5
United Kingdom	3.7	3.1	4.2	3.7	2.8	3.5	7.8	11.0
Japan	5.0	5.4	4.7	5.3	2.8	4.1	6.7	4.4
Average, seven major countries [2]	3.2	2.4	4.1	3.2	3.5	4.7	6.0	5.5
Other industrial countries [2,3]	4.4	4.1	4.8	4.4	2.9	4.2	6.4	7.0
All industrial countries [2]	3.3	2.5	4.1	3.2	3.4	4.7	6.0	5.6

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

[1] Compound annual rates of change.

[2] Weighted average of percentage changes for individual countries, with their respective GNPs, converted to U. S. dollars at 1970 exchange rates, used as weights.

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

growth and price inflation will depend crucially on the trend of developments in the large industrial countries, and especially in the United States. Major shifts in domestic economic policy—in conjunction with the balance of payments decisions noted above—were launched by the U. S. Administration on August 15, 1971, when a comprehensive incomes policy was inaugurated with a 90-day freeze on wages, prices, and rents, and when a set of fiscal measures was proposed with the aim of stimulating more rapid expansion of the economy.

The current economic prospect in the industrial countries may be depicted briefly as follows.

—A substantial rise in the rate of output growth from 1971 to 1972 seems clearly indicated for these countries as a group. According to the pattern based on projections by national authorities, this result would stem primarily from sharp gains anticipated for the relatively depressed U. S., Canadian, and U. K. economies on the strength of expansionary policies in force.[6] In the other industrial countries (i.e., continental Western Europe and Japan), projected output expansion is below longer-term trends and, consequently, there would be a general tendency to build up slack in resource utilization—as happened during 1971. However, within this latter group of countries, conditions are by no means uniform. The degree of economic slack and the strength of inflationary forces vary considerably among the countries; in a few of them, even on the basis of present policies, the rate of GNP expansion may accelerate markedly in the latter part of 1972.

—Although the overall price rise in the industrial countries from 1970 to 1971 was almost as high as that in the preceding year, some lessening of price and cost increases in the course of 1971 can be discerned. During 1972 the continuing effort to abate inflation should be aided by a combination of several circumstances: the lagged effects of the reduction in demand and cost pressures achieved by restrictive financial policies, the rapid productivity gains that are characteristic of the earlier stages of cyclical recovery, and some contribution by incomes policy (especially in the United States) in moderating wage and price increases. According to the official economic projections of the industrial countries, better price performance is expected, particularly in three countries: the United States, Germany, and the United Kingdom. In these and all other industrial countries, the overall price increases expected for 1972 would still be above the rates generally typical in the past.

[6] For the United States, which accounts for one half of total GNP in the industrial countries, the output projection involves a real GNP growth of 6 per cent from 1971 to 1972 and of 7 per cent from the fourth quarter of 1971 to the fourth quarter of 1972 .

Industrial countries in general thus face a situation in which pressures of excess demand have been eliminated, unemployment has increased, and policies of renewed expansion are being pursued. At the same time, cost-push forces are still strong in a climate of deep-rooted inflationary psychology and widespread inflationary expectations based on the experience of recent years. The strength, or importance, of the foregoing elements differs markedly among countries, primarily because of prevailing differences with respect to the current stage of stabilization programs and to cyclical positions. Nevertheless, such a combination of elements poses a very difficult situation for the conduct of economic policy throughout the industrial world.

To help deal with this situation, many countries have made use of incomes policy [7] as a supplement to the instruments of demand management. The need that various countries have felt for measures of incomes policy—now and in the past—stems from the capacity of business firms and labor groups in many instances, because of imperfect competition, to push up money incomes at rates exceeding the economy's long-term productivity growth. This feature of current economic life often makes it very difficult for fiscal and monetary policies, used by themselves, to stop a strong wage-price spiral without costly economic and social effects. However, incomes policy has had a mixed record of effectiveness; and, indeed, it is most difficult to establish standards or criteria in this field, and to build up a body of doctrine. In part, the difficulty arises because of the very wide range of possibilities that exist with respect to the form and functioning of an incomes policy.[8] Also important in this regard are the constraints on incomes policy inherent in the social and political setting of individual countries—in the attitudes of labor and industry, the prevailing institutional arrangements, and the scope for government leadership in the determination of price and wage movements.

One reason why many countries turn to incomes policy, or come back to it, is their disappointing experience in relying solely on demand management policies. Since the mid-1960s, when inflation again became a problem in the industrial countries, serious difficulties have been found in the application of such policies. In the United States, Canada, the United Kingdom, and other countries, costs and prices have registered pronounced increases that showed only small response to the relatively high margin of unused resources in the economy. Analysis of the differences between country forecasts and actual developments in recent years indicates that relationships between demand/cost pressures and rates of price increase have been rather seriously misjudged in the formulation of economic policy.

Some types of problems that have often hampered demand management—such as the widespread failures to apply corrective policies promptly or to use the fiscal instrument more effectively—cannot be avoided through the adoption of incomes policy. But an increasing number of countries, particularly in the past year, have had recourse to incomes policy in the belief that it may be helpful in carrying out a task that fiscal and monetary policies proved incapable of handling alone.

The greater attention that incomes policy has been attracting under prevailing conditions is, in essence, part of an active re-examination of economic policies in general. At a time when early restoration of financial stability in the industrial countries would be highly desirable, following their record of financial instability since the mid-1960s, these countries face the new and difficult situation of resuming the pursuit of expansionary policies while the rate of price increase is still too high. An obvious question of importance is whether wider application of incomes policy—supplementing a careful adaptation of the fiscal and monetary instruments—could prove useful in preserving or extending the progress in the fight against inflation that countries have achieved during recent years by means of restrictive demand management policies.

World Trade

The development of world trade in 1971 was marked by a below-average rate of growth in volume, for the first time since 1967 (Table 3).

[7] Consisting of a wide variety of possible measures—ranging from moral suasion and voluntary guidelines to compulsory arbitration and direct controls—to affect the movement of wages and prices in the public interest.

[8] Including the question of whether and for what period of time such policy can be applied to advantage without engendering a risk of undue rigidities that hamper long-run efficiency and growth.

TABLE 3. WORLD TRADE, 1960–71

(*Percentage changes in U. S. dollar value and in volume*)

		Annual Average 1960–70 [1]	Change from Preceding Year			
			1968	1969	1970	1971
Imports						
World [2]	Value	9.5	11.5	13.9	14.6	11.5
	Volume	8.4	12.5	11.4	9.0	5.8
United States	Value	10.0	22.9	8.5	10.8	14.1
	Volume	8.4	21.6	5.3	3.5	8.3
Canada	Value	8.9	13.7	14.5	1.8	15.7
	Volume	7.5	9.1	11.7	−3.2	9.6
United Kingdom	Value	5.2	6.5	5.3	8.9	10.5
	Volume	4.6	10.6	2.2	5.8	3.5
Germany	Value	11.4	16.1	23.7	19.6	15.2
	Volume	10.5	18.3	18.0	14.1	10.9
Other industrial Europe [3]	Value	11.1	9.5	19.5	17.1	10.5
	Volume	10.1	10.4	17.9	11.3	2.7
Japan	Value	15.5	11.4	15.7	25.7	4.4
	Volume	14.7	13.0	15.9	19.5	1.8
Primary producing countries						
More developed areas	Value	10.0	4.8	13.8	18.8	9.1
	Volume	9.4	6.6	11.8	13.3	5.4
Less developed areas	Value	6.5	8.8	9.8	11.8	12.0
	Volume	5.4	9.9	6.7	7.7	7.0
Oil exporters [4]	Value	5.5	11.4	9.9	10.2	18.0
	Volume	4.5	12.5	6.8	6.2	12.9
Other countries	Value	6.8	8.3	9.7	12.3	10.5
	Volume	5.7	9.4	6.6	8.1	5.5
Exports						
World [2]	Value	9.5	11.9	14.6	14.8	11.6
	Volume	8.2	12.9	10.9	9.2	5.7
United States	Value	7.7	9.5	9.7	13.7	2.1
	Volume	5.6	7.9	6.3	7.5	−1.1
Canada	Value	11.2	19.4	9.4	16.6	8.8
	Volume	9.8	16.4	6.6	10.8	5.5
United Kingdom	Value	6.2	6.8	14.1	9.9	15.4
	Volume	4.8	14.5	10.3	3.6	5.2
Germany	Value	11.6	14.3	16.9	17.7	14.2
	Volume	9.5	16.0	12.1	8.4	6.7
Other industrial Europe [3]	Value	11.1	13.1	18.1	15.8	12.6
	Volume	9.7	14.1	14.6	10.8	6.5
Japan	Value	16.9	24.2	23.3	20.8	24.3
	Volume	16.4	24.1	18.0	14.0	17.0
Primary producing countries						
More developed areas	Value	8.9	4.9	15.5	12.3	9.7
	Volume	7.7	9.0	10.7	8.4	6.7
Less developed areas	Value	7.3	9.8	12.1	11.8	11.0
	Volume	6.9	9.8	8.9	8.7	5.0
Oil exporters [4]	Value	7.6	10.7	8.5	11.9	30.0
	Volume	8.9	9.1	13.3	11.4	9.9
Other countries	Value	7.4	9.1	14.3	11.5	1.5
	Volume	6.1	10.1	7.1	7.6	3.0

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

[1] Compound annual rates of change.

[2] For coverage, see Table 1, footnote 6.

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

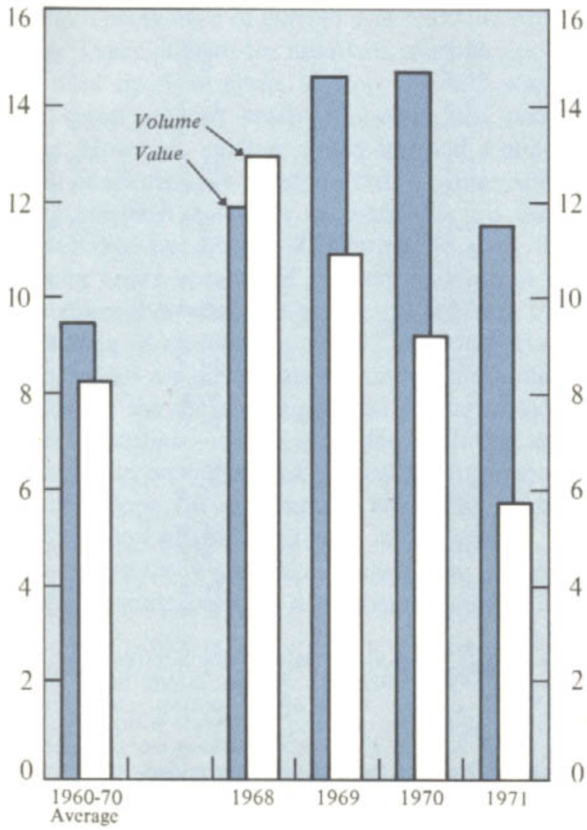
[4] The oil exporters included here are Iran, Iraq, Kuwait, Saudi Arabia, other producers in the Persian Gulf area, Algeria, Indonesia, the Libyan Arab Republic, the Netherlands Antilles, Nigeria, Trinidad and Tobago, and Venezuela.

The 1970–71 advance of roughly 5½ per cent was considerably lower than the average rate of increase over the decade of the 1960s, and it fell far short of the exceptional rates of expansion in 1968 and 1969. These facts are illustrated in Chart 2, which also shows the role of prices in maintaining the high rates of advance in the value of trade as the growth in volume terms decelerated steadily from its 1968 peak, broadly in line with the output changes described in the preceding section.

The acceleration of foreign trade prices in recent years reflected primarily the pervasiveness and intensity of inflationary forces in the main industrial countries. In contrast to the tendency from the mid-1950s to 1968 for average prices of internationally traded goods to rise only slightly, they showed a marked upturn in 1969 and advanced quite sharply in 1970. Their further advance from 1970 to 1971—by about 5½ per cent, measured in U. S. dollars—was even somewhat larger, but it included two special elements: (1) an unprecedented increase of more than one fifth in the average unit value of petroleum exports, on the basis of new agreements negotiated between the exporting countries and the international oil companies toward the end of 1970 and in the early months of 1971; and (2) the adaptation of prices to the appreciation of several major currencies in the period of floating during 1971. This latter influence may have accounted for as much as 2 percentage points of the increase in the average unit value of exports (expressed in U. S. dollars). The rise in export unit values in terms of SDRs was smaller in 1971 than in 1970—a result consistent with the occurrence of some easing in cost and price pressures in a number of the industrial countries, although these pressures still constituted a serious problem for policy.

CHART 2. GROWTH OF WORLD TRADE, 1960–71

(Percentage changes in exports from preceding year)



The principal reason for the slower growth of world trade in 1971 was undoubtedly the cyclical slowdown of economic activity in continental industrial Europe and in Japan; in this group of countries, accounting for almost one half of world trade, the total volume of imports rose by 4½ per cent in 1971 (over 1970), compared with a rise of 13 per cent in the previous year. Import expansion also fell off sharply in the more developed group of primary producing countries but (as discussed below) was well maintained in the less developed group. In addition, strikes at U. S. docks, the temporary surcharge on U. S. imports, and the general sense of uncertainty that pervaded the international community may in combination have been a significant deterrent to foreign trade in 1971 or at least may have caused a postponement of transactions until 1972. The main counterforce to the rather pervasive tendencies toward slower trade growth in 1971 was the resumption of a substantial rate of increase in import volume in the United States as domestic economic activity picked up after the 1969–70 recession.

Developments in 1971 were in line with the experience of prior years, when the course of world trade was also governed in important respects by cyclical changes in aggregate demand and imports in the main industrial countries. Following the 1966–67 recessions or slowdowns in a number of these countries, the generalized upswing in economic activity induced an unusually strong and sustained upsurge of import demand. This was attributable partly to the fact that differences among the industrial countries in the phasing of cyclical developments generated a tendency for them to succeed each other as principal sources of incremental demand for internationally traded goods. In its early stages, during 1968, this wave of import expansion reflected mainly the surge of demand in the United States. Subsequently, during 1969 and 1970, the principal impetus to growth of world trade emanated from European and Japanese import demand. Then, when the rise in such demand slumped in 1971, trade growth was supported by the renewal of sizable import expansion in the United States, as well as in Canada. The economic recovery currently proceeding in those two countries is still providing the main stimulus to the advance of world trade in 1972, as the increase of imports in most other parts of the industrial world continues at a below-average pace.

The easing of international trade growth in 1971 induced by cyclical developments in the industrial countries had widespread manifestations. The rate of export volume expansion fell substantially below the long-term average in the industrial countries as a group and in the less developed countries exclusive of the major oil exporters, whose experience in 1971 was extraordinarily favorable. In the group of more developed primary producing countries, export growth eased in 1971 but remained near the annual average for the 1960s.

Among the industrial countries, the sharpest contrasts in trade developments in 1971 were those recorded for the United States and Japan. U. S. exports increased by only 2 per cent in value (and declined somewhat in volume), whereas the value of U. S. imports went up by 14 per cent. Japanese exports continued to surge in 1971, with the advance of 24 per cent matching or exceeding the exceptionally high rates of the three preceding years. At the same time, Japanese imports rose by only 4 per cent in 1971, in contrast to the spurt of 26 per cent in 1970. Although these U. S. and Japanese trade results were affected by cyclical and special influences, the sharp deterioration in the already weakened U. S. position and the huge advance in the enlarged trade surplus of Japan reflected a major imbalance in the exchange rate structure.

The growth in value of exports from the more developed primary producing countries decelerated from about 12½ per cent in 1970 to 10 per cent in 1971, reflecting mainly a decline in the volume gain. The Southern Hemisphere group (Australia, New Zealand, and South Africa) experienced some acceleration of the rise in total export earnings, but there was a considerable reduction in the expansion of such earnings of the European group, despite maintenance of high export growth rates by Spain, Turkey, and Ireland. The expansion of imports into the more developed primary producing countries fell off substantially in 1971, when the rate of increase in value—9 per cent—was only half the previous year's rate.

For the less developed countries, 1971 was a year marked by generally weaker gains in export volume, sagging average prices for primary products other than petroleum, and a very uneven distribution of changes in export values and trade balances. One factor—operative only for about four months toward the end of 1971—that probably had a dampening effect was the temporary U. S. import surcharge. The inhibiting influence of this was felt chiefly, insofar as the less developed countries were concerned, by those whose exports include high proportions of manufactured products.

A major factor working in the opposite direction in 1971 was the influence, upon a number of oil exporting countries, of the unprecedentedly large increases in petroleum prices. Although there was a slight dip in the rate of growth in the volume of the oil exports from developing countries in 1971, the total value of such exports rose by some 30 per cent. The benefits of this exceptional rise in export proceeds were centered, of course, in a small number of countries, chiefly in the Middle East and in Africa.

Because of the lesser intensity in demands of the industrial countries for primary products, the average unit value of all nonpetroleum exports of the developing countries actually declined somewhat from 1970 to 1971; and the rate of expansion in the volume of such exports, already reduced from its 1968 peak, fell off sharply. In terms of total value, the exports of developing countries other than the oil exporters appear to have risen by only about 2 per cent in 1971—by far their smallest increase since 1967. Since in

1971 there was a further substantial rise in the prices of imports in dollar terms, the purchasing power of export earnings for less developed countries other than oil exporters apparently suffered an overall net decline—stemming from substantial decreases for countries primarily exporting metals or food and agricultural materials, partly offset by increases for countries exporting manufactured products.

The relatively unfavorable experience in 1971 for countries exporting food and agricultural materials—although not those exporting metals—was in line with comparative export performance over the 1960s. This showed that, in general, developing countries with the highest rates of export growth were exporters of petroleum, metals, or manufactures. Such trends were in conformity with the growth of world import demand during the period. However, factors other than external demand—including notably the character of national economic policies—would have to be taken into account in an assessment of the export performance of individual developing countries.

The trade balances of many less developed countries other than petroleum exporters, already deteriorating somewhat in 1971, may come under further pressure in 1972 because of the terms-of-trade effects of the realignment of currencies. (See the discussion below on "Impact of the Realignment.") Import unit values may rise faster than export unit values for developing countries that do not export petroleum or otherwise command a strong position in the formation of prices for internationally traded goods. Such a result would reflect the relative inelasticity of the demand for imports in those countries, in combination with the realignment-related rise in supply prices of the imported goods, expressed either in dollars or in the currencies of the importing countries. Most developing countries do not have adequate capacity, in the short run, to replace through domestic production any significant proportion of the imports of capital equipment and intermediate manufactured products that currently dominate their commodity imports. The actual extent to which the developing countries will suffer pressure on their trade balances in the short run will depend crucially on the extent of the pickup in demand for their exports occasioned by the current economic upswing in the industrial world.

Study of cyclical fluctuations in the external trade of less developed countries over the past dozen years or so yields two main findings. First, in light of the historical experience, the 1970–71 change in exports of developing countries other than oil exporters was broadly in line with what could have been expected on the basis of weakening economic activity in the developed countries. This is true of both the volume and the unit value of those exports. Second, despite this slowdown in exports, growth in the dollar value of imports into less developed countries was sustained at a historically high rate in 1971. Outside the Middle East, there was a general deterioration of trade balances from 1970 to 1971 in the major regional groupings of developing countries.

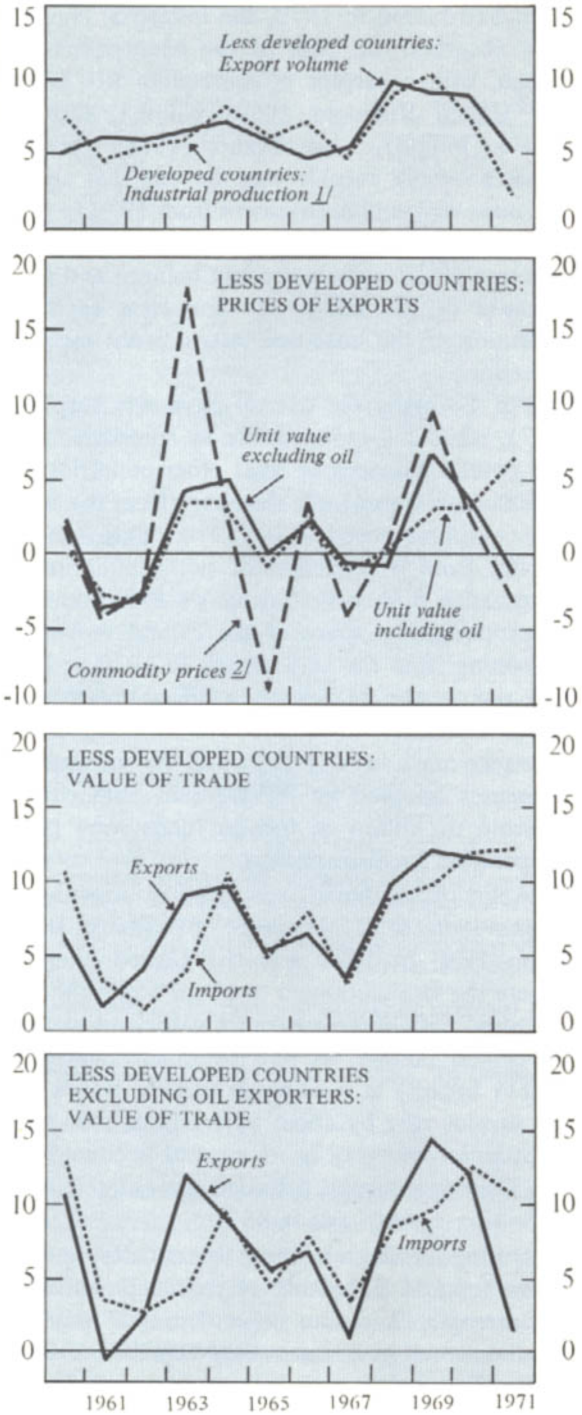
Most of the cyclical volatility in the total value of developing countries' exports over the years is attributable to fluctuations in the unit value. (See Chart 3.) In terms of percentage changes in annual data, variations in the industrial output of developed countries usually translate into concurrent but much larger variations in market prices of commodities. These, in turn, give rise to fluctuations of smaller amplitude—and sometimes with a lag, even in annual data—in the unit values of the exports of developing countries.[9] This process can be followed in the data shown in the first and second panels of the chart.

Rates of growth in the value of developing countries' imports have typically paralleled the corresponding changes in exports. Notable divergences between import and export growth occurred in 1963 and, to a lesser extent, in 1969 because of abnormal increases in commodity prices. But in 1971, when imports turned out to be exceptionally high, the "gap" between import growth and export growth for less developed countries excluding oil exporters had no precedent in the previous 12 years (fourth panel of the chart). Of particular note, in the 1962–65 export cycle the second year of deceleration in export earnings —that is, 1965—witnessed a parallel slowdown in import expansion as countries adjusted their

[9] Both characteristics—the smaller amplitude and the lag—stem largely from variations in the rate and timing of deliveries at particular prices, together with the importance in commodity trade of preferential arrangements and of contracts involving prices that differ from market quotations. These factors vary from one commodity to another.

CHART 3. LESS DEVELOPED COUNTRIES: MERCHANDISE TRADE AND RELATED VARIABLES, 1960–71

(Percentage changes from preceding year)



[1] Composite index, with individual countries weighted according to value of imports from less developed countries.
[2] From National Institute of Economic and Social Research; does not include petroleum.

spending to the external situation, whereas in 1971, also the second year of a slowdown in exports, a parallel import adjustment did not occur.

There are perhaps two main explanations for this difference. The first is that the real cost of adjustment would have been higher in 1971 than it was in 1965. Import prices, over which the developing countries have little influence, were rising in 1971 at a rate of 4–5 per cent, compared with only 1 per cent in 1965. Thus, if the less developed countries (excluding oil exporters) had adjusted the growth of their imports in value to that of their exports, their imports in volume in 1971 would have shown no increase, or perhaps a small decline.

The second explanation is that the financial need to adjust may well have been less strong in 1971. Official reserves provide some evidence to this effect. Largely because of the influence of short-term capital movements, the reserves of less developed countries other than the oil exporters (as defined in Table 3) increased from $10.4 billion at the end of 1968 to $13.5 billion at the end of 1970 (including the equivalent of $0.7 billion in SDR allocations), after having risen by an average of only $0.4 billion per annum over the ten-year period from 1958 to 1968. The spurt in reserves during 1969 and 1970 was a development that must have affected the stance of trade, exchange, and development policies in many of these countries as they faced a darker export picture in 1971.

Balance of Payments Developments

The currency crises that dominated international payments developments during 1971 had their roots in a long period of imbalances in payments relationships among major industrial countries. Although the proximate causes of the severe difficulties in managing reserve positions and exchange rates that erupted in May and again in August of that year could be found in explosive movements of capital, it was largely because these occurred against a background of chronic imbalances that they went beyond the scope of containment by internal means available to national financial authorities.

Evolution of Payments Situations in Major Industrial Countries

At the heart of the disequilibrium in international payments relationships has been the deficit in the basic external accounts of the United States. Prevailing for many years, it has long been accompanied by a deficit in the overall U. S. balance of payments except during periods of exceptionally tight U. S. monetary conditions, such as 1966 or 1969, when it was temporarily masked by favorable movements of short-term capital. For more than a decade, the balance of payments problem faced by the U. S. authorities had been one centered in a current account surplus much too small to cover the combined net outflow of long-term capital and government aid to other countries. From the mid-1960s onward, this problem was compounded by a progressive weakening of the U. S. current account, stemming mainly from deterioration of the trade balance. The deterioration became quite substantial after 1967, being interrupted only briefly in 1970 by an unusual combination of domestic and foreign cyclical conditions. Official programs of restraint on outflows of U. S. capital were utilized throughout these years in an endeavor to limit the overall balance of payments deficit of the United States.

The counterpart of the persistent U. S. deficit on external transactions was found during recent years in rather widespread surpluses of other countries. To a considerable extent, the distribution of these varied from year to year with shifts in economic conditions and in the trade and payments fortunes of particular countries. Among the major industrial nations, however, two stood out—even prior to 1971—for the size of their trade surpluses and the strength of their overall payments balances. These were Germany and Japan, both of which gained reserves very rapidly after about the end of 1969. Although their combined holdings at that time represented only some 28 per cent of total reserves held by industrial countries other than the United States, the two countries accounted for well over half of the extraordinary growth in that total over the next two years. Rising overall payments surpluses for the United Kingdom and France in 1970 and 1971 were also noteworthy (Table 4). For these two countries, however, the surpluses followed periods of severe balance of payments weakness.

With specific reference to 1971, when the overall U. S. balance of payments deficit on official settlements approximated $30 billion, compared with $10 billion in 1970, the industrial countries that absorbed the bulk of the counterpart were Japan, with a surplus of more than $10 billion, the United Kingdom ($6½ billion), Germany ($4½ billion), and France ($3½ billion). Japan's overall surplus was the one that showed the most striking improvement from 1970 to 1971. It rose by $9 billion, partly because of a $4 billion increase in the current account balance and partly because of the inflow of short-term capital in reflection of the unsettled international monetary situation.

For Germany the overall payments surplus in 1971, while still quite sizable by comparison with the overall balances of most other countries, represented an appreciable shrinkage from the $6 billion surplus recorded in 1970. This stemmed chiefly from a reduction of net capital inflows, contrasting both with Germany's absorption of a disproportionate share of the capital movements stemming from the U. S. deficit in 1970 and with the rise in capital inflows received by so many other countries in 1971. The floating of the deutsche mark in May 1971 and the succession of measures adopted by the German authorities to restrain the inflow of foreign funds were largely responsible for this contrast.

Apart from Japan, the country showing the largest increase in its balance of payments surplus from 1970 to 1971 was the United Kingdom, where the rise amounted to about $3½ billion. It reflected both current account gains and increases in capital inflows, as did the much smaller rise ($1¼ billion) in the French surplus. Italy's overall surplus rose by about $0.5 billion, reflecting a substantial recovery in its current account, while the Canadian surplus subsided somewhat in 1971, following a sharp rise in 1970.

During 1968 and 1969, the underlying weakness of the U. S. balance of payments, as well as the strength of various other countries' payments positions, had been camouflaged by the prevalence of credit conditions inducing abnormal flows of foreign capital into the United States. With the onset of recession in the U. S. economy, however, the previously tight U. S. monetary policy was relaxed early in 1970. U. S. credit conditions eased

TABLE 4. INDUSTRIAL COUNTRIES: BALANCE OF PAYMENTS SUMMARIES, 1969–71

(In billions of U. S. dollars)

		Balance on					
		Trade	Services and private transfers	Current account	Capital Account Balance [1]	Allocation of SDRs	Overall Balance [2]
Canada	1969	0.9	−1.6	−0.7	0.8	—	0.1
	1970	3.0	−1.7	1.3	0.2	0.1	1.6
	1971	2.3	−1.8	0.4	0.3	0.1	0.9
United States	1969	0.7	0.1	0.7	2.0	—	2.7
	1970	2.1	0.1	2.2	−12.9	0.9	−9.8
	1971	−2.9	2.1	−0.8	−29.7	0.7	−29.8
France	1969	−1.2	−0.5	−1.7	0.6	—	−1.1
	1970	0.7	−0.2	0.5	1.4	0.2	2.1
	1971	1.8	−0.7	1.2	2.1	0.2	3.4
Germany	1969	5.2	−2.4	2.7	−5.7	—	−3.0
	1970	5.8	−4.2	1.7	4.3	0.2	6.2
	1971	6.1	−4.8	1.3	3.0	0.2	4.5
Italy	1969	0.5	2.1	2.6	−3.1	—	−0.5
	1970	−0.4	1.7	1.3	−0.9	0.1	0.5
	1971	0.3	2.0	2.3	−1.3	0.1	1.1
United Kingdom	1969	−0.3	1.8	1.5	−0.3	—	1.2
	1970	—	1.9	1.9	0.8	0.4	3.1
	1971	0.7	2.0	2.8	3.4	0.3	6.5
Japan	1969	3.7	−1.4	2.3	−1.5	—	0.8
	1970	4.0	−1.8	2.1	−1.1	0.1	1.1
	1971	7.9	−1.8	6.1	4.1	0.1	10.3
Other industrial countries [3]	1969	−2.6	3.2	0.6	−0.3	—	0.3
	1970	−3.9	3.6	−0.3	2.3	0.3	2.2
	1971	−3.9	4.3	0.4	2.0	0.3	2.7
Total, industrial countries	1969	7.0	1.1	8.1	−7.6	—	0.5
	1970	11.3	−0.6	10.7	−5.9	2.3	7.1
	1971	12.3	1.3	13.7	−16.0	2.0	−0.3

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

[1] This balance is computed residually, as the difference between the overall balance (less SDR allocations) and the current account balance; it includes official transfers and net errors and omissions, as well as recorded capital movements. Because of asymmetries in national balance of payments statistics resulting from placements of official reserves in the Euro-currency market, the net outflow of capital from industrial countries is understated by the following amounts (according to estimates given in Table 7): $2.2 billion in 1969, $7.3 billion in 1970, and $5.4 billion in 1971. See *Annual Report, 1971*, page 82, footnote 1, for further explanation.

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

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

and U. S. interest rates fell sharply. These developments, occurring at a time when boom conditions and anti-inflationary monetary policies still prevailed in most Western European economies, as well as in Japan, brought a dramatic reversal of the 1968–69 capital flows, and international capital movements dominated changes in overall payments balances of the industrial countries during both 1970 and 1971.

Although current account changes in the payments balances of the major industrial countries in 1971 were generally dwarfed by huge movements of speculative capital, some of the current account changes themselves were larger and more disequilibrating than any of those occurring in 1970. This is true, in particular, of the 1970–71 swings in the U. S. and the Japanese current accounts. The former swing was negative by some $3 billion, while the latter was positive to a degree (about $4 billion) unprecedented in Japan's postwar experience. None of the changes in current account balances of other industrial countries from 1970 to 1971 even approached the order of magnitude of the Japanese and U. S. changes, and a number of them were smaller than corresponding changes a year earlier.

During 1970 and the early months of 1971, the flow of capital from the United States to other industrial countries, while abnormally large in comparison with any prior movements of funds, reflected primarily the responses of financial market participants to the shift in comparative monetary conditions and interest rate levels. The U. S. outflow took the form chiefly of repayments by U. S. banks of depository funds that they had borrowed abroad during 1968 and 1969. However, as these large flows proceeded against the background of underlying imbalance in the global payments structure, they were progressively reinforced by shifts of other types of capital in anticipation of, or hedging against, possible changes in exchange rates for major currencies. A contributing factor was the spreading realization that the modest improvement of the U. S. current account in 1970 had been a temporary manifestation of favorable conjunctural circumstances, and that the tapering off of the European boom, together with the commencement of a domestic economic upswing in the United States itself, was again exposing the fundamental weakness of the U. S. current account.

Both in the unprecedented movements of capital to the United States in 1969 and in the even more massive movements of funds out of that country in 1970 and 1971, as well as in the rising volume of flows among other countries, the mechanism of the Euro-currency market was an important factor in the fluidity of capital movements and the speed of responses to new influences or market expectations. Available evidence shows that the growth of the Euro-currency market during 1971, estimated by the Bank for International Settlements at some $14 billion, was about the same as that of the previous year. However, the rise of dollar deposits in the market slowed somewhat, while that of non-dollar currencies accelerated. As in 1970, the ease of U. S. monetary policy brought about a sharp reduction in the net indebtedness of U. S. banks and other residents to the Euro-currency market, whereas Euro-currency borrowing by Europe and other parts of the world increased. An important change in the operation of the market was the cessation by major industrial countries, early in 1971, of placements of official reserves in Euro-currency deposits. Such placements had previously contributed to the velocity of international movements of funds and had tended to pyramid reserve holdings based on a given volume of U. S. liabilities.[10] Although the monetary authorities of many primary producing countries apparently increased their placements of official reserves in the Euro-currency market in 1971, as indicated in Chapter 2, the overall net growth of official Euro-currency reserve holdings was substantially reduced in that year and shifted into non-dollar forms.

The acceleration of speculative international movements of funds in the second quarter of 1971 led to the floating of the deutsche mark and related changes in the exchange field in early May. Subsequently, when such movements were resumed on a far larger scale after only a brief lull, the mid-August suspension of convertibility of the U. S. dollar into gold or other reserve assets ensued, along with numerous other changes in national exchange rate policies. Continuing uncertainties about currency relationships caused further large movements of capital throughout the remainder of the third quarter and much of the fourth. However, because of the gradual emergence of a new exchange rate pattern and the eventual adoption of the December 18 agreement on realignment of exchange rates, as well as the spread of official restraints on capital movements, the shifts of funds in the fourth quarter of 1971 were a good deal less massive than those of the third quarter. They subsided further in the first five months of 1972, though not without an occasional revival of exchange market pressures, especially in early March. Shortly after the middle of June, a stronger revival of such pressures led to the floating of the pound sterling.

During the opening months of 1972, international interest rate differentials remained generally such as to discourage major reflows of funds to the United States, even if confidence factors had been more propitious than they were. Short-term security yields in the United States were lower than at any time since 1963; and U. S. interest

[10] For an explanation, see *Annual Report, 1971*, page 82, footnote 1.

rates on long-term bonds, while still relatively high by pre-1969 U. S. standards, were well below the corresponding long-term rates in most other major industrial countries. Around the turn of the first quarter, however, U. S. interest rates firmed somewhat, while a further easing of interest rates became evident in Europe, where there were reductions in the central bank discount rates of Germany, France, Italy, and several other countries. In April and May some firming of exchange rates for the dollar suggested a distinct abatement of earlier speculative pressures. However, evidence of any sizable reflux of speculative capital to the United States remained largely inferential, and the dollar was again weak in the exchange markets during the weeks immediately following the sterling float.

At mid-1972 the prospects for early achievement of better balance in the distribution of overall payments surpluses and deficits among major industrial countries appeared to rest very largely on the evolution of capital movements in the aftermath of the huge disturbances of the pre-realignment period. The realignment itself, as noted below in the discussion of the international adjustment process, could be expected to produce changes in countries' current account balances only gradually, with much of the impact extending considerably beyond 1972. Meanwhile, the cyclical positions of key economies were such as to exert disequilibrating influences on the current account balances of Japan, Italy, and the United States during 1972. Consequently, although there was a possibility that current account balances would begin to shift in appropriate directions before the end of the year, there was little prospect for redress of the large recent payments imbalances through changes in current accounts from 1971 to 1972. Instead, prospects for avoidance of further major overall payments imbalances in 1972 seemed to depend largely on partial reversal of the speculative capital flows that created such massive disturbances during 1971. Such a reversal would require an improvement in market confidence and the emergence of financial conditions in the United States and other major industrial countries that would not provide yield incentives for placement or retention outside the United States of funds that would otherwise tend to be held in that country.

External Payments of the Primary Producing Countries

In the main, the huge shifts in overall payments balances in 1971 occurred among the industrial countries. Some of the counterpart of the U. S. deficit, however, was to be found also among the primary producing countries. Both the more developed and the less developed members of that large group shared—though by no means evenly—in a substantial expansion of their combined balance of payments surplus (Table 5). Inclusive of SDR allocations totaling the equivalent of about $1 billion, it rose to roughly $8 billion in 1971, compared with $4 billion in 1970 (when SDR allocations were somewhat larger). The increase reflected an unusually sharp expansion of capital inflows, much of it in short-term or unidentified forms, as the current account deficit of the primary producing countries rose again in 1971. For the less developed countries other than oil exporters, the rise in their combined current account deficit exceeded that in their net capital inflow.

More developed primary producing countries. These countries accounted for nearly half of the combined surplus of the whole primary producing group in 1971 and for a considerably larger proportion of the annual increase in that surplus. Together, the more developed primary producers have now had a substantial overall balance of payments surplus in each of the past four years except 1969, when stringent credit conditions in international financial markets curtailed temporarily their use of foreign capital. In 1970 a resurgence of capital inflows to such countries was partly absorbed by the financing of an enlarged current account deficit, but the further substantial rise in capital inflows in 1971 coincided with some shrinkage of the combined current account deficit. It thus gave rise to an aggregate overall surplus of about $3½ billion for a group of countries whose combined payments surplus had not previously exceeded $1½ billion in any calendar year. The result was an unprecedented expansion in the international monetary reserves of a number of these countries.

For the more developed primary producing countries in the Southern Hemisphere, the 1971 improvements in overall balances stemmed largely or wholly from increases in net inflows of capital.

TABLE 5. BALANCE OF PAYMENTS SUMMARY, 1969–71
(*In billions of U. S. dollars*)

		Balance on					
		Trade	Services and private transfers	Current account	Capital Account Balance [1]	Allocation of SDRs	Overall Balance [2]
Industrial countries	1969	7.0	1.1	8.1	−7.6	—	0.5
	1970	11.3	−0.6	10.7	−5.9	2.3	7.1
	1971	12.3	1.3	13.7	−16.0	2.0	−0.3
Primary producing countries	1969	−3.2	−5.1	−8.3	9.8	—	1.5
	1970	−5.9	−5.2	−11.1	14.3	1.1	4.3
	1971	−6.8	−5.3	−12.2	19.4	1.0	8.2
More developed areas	1969	−3.9	1.8	−2.1	2.1	—	—
	1970	−5.8	2.7	−3.1	4.1	0.3	1.3
	1971	−6.5	4.0	−2.4	5.8	0.2	3.6
Less developed areas	1969	0.7	−6.8	−6.2	7.7	—	1.5
	1970	−0.2	−7.9	−8.0	10.2	0.8	3.0
	1971	−0.4	−9.4	−9.7	13.6	0.7	4.6
In the Middle East	1969	0.8	−1.6	−0.8	0.4	—	−0.4
	1970	1.2	−2.1	−0.9	0.9	0.1	0.1
	1971	3.5	−3.8	−0.3	2.5	0.1	2.3
In Africa	1969	2.6	−2.5	—	0.8	—	0.8
	1970	2.3	−2.5	−0.1	1.0	0.2	1.0
	1971	1.5	−2.2	−0.7	1.6	0.1	1.0
In Asia	1969	−3.4	0.3	−3.1	3.6	—	0.6
	1970	−3.8	−0.1	−3.9	4.2	0.3	0.6
	1971	−4.1	−0.3	−4.4	4.9	0.2	0.8
In the Western Hemisphere	1969	0.7	−3.0	−2.4	2.9	—	0.5
	1970	0.1	−3.2	−3.1	4.0	0.3	1.2
	1971	−1.2	−3.2	−4.4	4.6	0.3	0.5
Total, all countries	1969	3.7	−3.9	−0.2	2.2	—	1.9
	1970	5.4	−5.8	−0.4	8.4	3.4	11.4
	1971	5.5	−4.0	1.5	3.5	2.9	7.8
Memorandum:							
All countries in less developed areas excluding oil exporters [3]	1969	−3.9	−1.8	−5.8	7.0	—	1.2
	1970	−5.6	−2.7	−8.3	9.8	0.7	2.2
	1971	−8.5	−2.8	−11.2	11.7	0.6	1.1

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

[1] For definition, see Table 4, footnote 1. Because of asymmetries in national balance of payments statistics resulting from placements of official reserves in the Euro-currency market, the global summations of net capital inflows and overall balance of payments surpluses are overstated, and the net outflow of capital from industrial countries is understated, by the following amounts (according to estimates given in Table 7): $2.2 billion in 1969, $7.3 billion in 1970, and $5.4 billion in 1971. See *Annual Report, 1971*, page 82, footnote 1, for further explanation.

[2] For definition, see Table 4, footnote 2. See also footnote 1 above.

[3] The oil exporters covered in this table are Algeria, Indonesia, Iran, Iraq, Kuwait, the Libyan Arab Republic, the Netherlands Antilles, Nigeria, Saudi Arabia, Trinidad and Tobago, and Venezuela.

Such inflows were especially marked in the case of Australia, where, over the final three quarters of the year, a modest decline in the current account deficit under slack conditions of domestic demand also contributed to a sharp expansion of official reserves. There was a considerable further rise in South Africa's current account deficit in 1971, although the overall payments deficit, while still large, was a little lower in 1971 than in 1970. Reduction of the country's international reserves therefore continued during 1971 at a pace that gave rise to concern on the part of the authorities and led to imposition of quantitative restrictions on imports. Devaluation of the rand in December 1971 (by about 5 per cent in relation to the U. S. dollar) was followed by a turnaround in South Africa's reserve position in early 1972. Another change in South African exchange rate policy came in June, when the authorities allowed the rand to float with sterling in view of the close financial relationships with the United Kingdom, the uncertainties created by the sterling float, and the importance of maintaining a stable exchange rate between the two currencies.

The European primary producing countries also received larger net inflows of capital in 1971 than in 1970, but the improvement in their combined current account was a more important factor in raising their aggregate overall payments surplus. Spain accounted for the bulk of the current account improvement, as its exports and net receipts from tourism again rose sharply while its imports reflected slackened growth in domestic economic activity. Slower domestic expansion, however, was not invariably associated with current account improvement. In Finland, for example, it was associated with a current account deterioration and, indeed, was caused in considerable part by a drop in foreign demand for Finnish exports. Conversely, strong expansion of Turkish exports in 1971 contributed to the strength of domestic economic growth, as well as to the maintenance of a sizable balance of payments surplus.

Most of the other European countries in the primary producing group had current account deficits of some size, but all of them were able to obtain inflows of capital or aid (including unrecorded capital flows) large enough to provide ample financing of these deficits and to increase their overall payments surpluses from 1970 to 1971. The only European primary producer not showing a balance of payments surplus in 1971 was Yugoslavia, where a poor harvest resulted in a large current account deficit.

Less developed countries. For this group of countries, the overall surplus reached $4½ billion (including SDR allocations of the equivalent of $0.7 billion) in 1971, compared with $3 billion (including a slightly larger amount of SDR allocations) in 1970. These figures present a contrast to earlier annual surpluses, which totaled less than $1 billion in the middle 1960s and only a little over that amount as recently as 1968.

However, two features of the large overall payments surplus of the developing countries in 1971 deserve special emphasis. One is the degree to which it depended—in view of a substantial enlargement in the current account deficit—on an unusually sizable increase in inflows of capital, and especially of capital in short-term or unidentified forms. The second special feature, noted more fully below, is the extent to which the 1971 rise in the overall surplus was centered on a limited number of major oil exporting countries.

According to estimates still based in part on fragmentary and preliminary information, the current account deficit of the developing countries was about $9½ billion in 1971, compared with $8 billion in 1970 and $6–7 billion in each of the three preceding years. The rise in this aggregate deficit from less than $5 billion per annum in the middle 1960s reflected primarily an increase in net payments for international services, including earnings on foreign investments; there was little change in the combined trade balance of the developing countries as recorded for balance of payments purposes.

As in all other years since the mid-1960s, the overall current account deficit of the developing countries was more than covered in 1971 by net inflows of capital and aid. Indeed, such flows rose considerably faster than the current account deficit, as they did in 1970. However, recorded net inflows of private long-term capital rose only moderately from 1969 to 1971, and increases in receipts of official capital and aid accounted for less than one fourth of the apparent rise in total capital inflows during that period. The remainder stemmed from a sharp swing in movements of short-term funds and unidentified capital, which had been held back in 1969 by the prevalence of tight conditions in financial markets of major industrial countries.

This pattern of change in the financing of the current account deficit of the less developed countries contrasted with concurrent changes in the financing of the much smaller current account deficit of the more developed primary producing countries. For the latter group, the upswing in movements of short-term and unidentified capital formed only two fifths of the 1969–71 rise in the total flow of capital to these countries. Their collective net receipts of official capital and aid remained small, and three fifths of the rise in capital inflow to the more developed primary producing countries reflected a doubling of private long-term flows.

The aggregate rise in the overall payments surplus of developing countries in 1971 was unevenly distributed among regional groups. The great bulk of it was centered in the Middle East, which was the only region having a decrease in its current account deficit and the one with by far the largest rise in capital inflows. The other principal regional groups of developing countries showed comparatively small changes in their respective overall payments balances. It was in the Western Hemisphere that the sharpest deterioration of trade and current account balances occurred, and this deterioration was not matched by the increase in flows of capital and aid. For the Asian and African regions, the increases in current account deficits were smaller and were covered by increases in financial inflows. Receipts of SDR allocations have become important elements in the overall balances of many developing countries, especially in Asia and the Western Hemisphere.

The relatively favorable balance of payments experience of developing countries in the Middle East in 1971 stemmed mainly from the effect on their trade balances of the oil price increases noted above in the review of world trade developments. Several African and Western Hemisphere countries were also beneficiaries of renegotiated agreements between the international petroleum companies and the major oil exporting countries. Taken together, the whole group of developing countries in this category accounted for three fourths of the aggregate balance of payments surplus of all less developed countries in 1971, compared with only one fourth in 1970 and lower proportions in the late 1960s.

In general, developing countries not directly affected by revisions of the international petroleum arrangements fared much less well with respect to balance of payments changes over the past year or so. Their combined surplus of $1 billion in 1971 was substantially lower than that in 1970, and only the relatively favorable development of their capital accounts prevented more of them from slipping into overall payments deficit at a time of sagging demand for primary products in many of the industrial countries.

Certain less developed countries whose exports include relatively large proportions of metals were particularly affected by the sluggishness of economic expansion in the industrial areas. The overall payments position of these developing countries, after having been in surplus over a period of several years prior to the recent slowdown, swung into deficit in 1971. Asian, African, and Western Hemisphere countries whose principal reliance for export earnings is placed on food and agricultural materials did not have a much more favorable experience. Only through the support provided by SDR allocations were their combined reserve holdings prevented from declining. The balance of payments experience of less developed countries exporting substantial amounts of manufactured goods was more varied, depending on the distribution of their exports among principal markets in the industrial world, the character of those exports, and the domestic situations of the exporting countries.

Among the developing countries of the Western Hemisphere not exporting oil, Brazil accounted for disproportionately large shares of both the current account deterioration and the rise in capital inflows for the whole group in 1971. That country, whose economic programs have been supported by a flexible exchange rate policy, has for several years been in a phase of strong domestic growth and of accelerated inflows of capital. In late 1971 steps were taken to lengthen the maturity of this financing, much of which had been in the form of short-term and medium-term loans. Brazil's overall surplus in 1971, as in the two previous years, far exceeded that of any other developing country in the Western Hemisphere, where surpluses and deficits of the other countries not exporting oil totaled close to zero in 1971, after showing a moderate preponderance of surpluses in 1970. The payments situations of a number of Western Hemisphere countries were adversely affected by the price declines for important export products, such as coffee and certain metals, or by the impact of inflationary domestic demand conditions upon imports, augmented by rising import costs. In several instances, the prevalence of such demand conditions could be traced chiefly to application of excessively expansionary financial policies.

Other examples of weakness in balance of payments positions exacerbated by expansionary fiscal and monetary policies emerged in Africa. There, too, a number of countries were vulnerable to the cyclical downturn in world market prices for industrial raw materials, as well as to the drop in coffee prices. Aside from the very large surplus of the Libyan Arab Republic, which accounted for the bulk of the regional surplus in 1971, the collective balance of payments experience of African developing countries was thus not particularly favorable. Even with the supplement of SDR allocations, their combined reserve increases were smaller in both 1970 and 1971 than in 1969. Moreover, the two largest surpluses after that of the Libyan Arab Republic were those of Algeria and Nigeria, both of which were also beneficiaries of petroleum price developments. On balance, the payments positions of the remaining African countries were moderately in deficit for 1971, after having been substantially in surplus for the two previous years. This deterioration reflected larger increases in current account deficits than in capital inflows.

The developing countries of Asia, like those elsewhere, felt the impact of slack world demand and softening prices for primary products. In addition, some of them were strongly affected by natural calamities or active military hostilities, and a few found their imports subject to strong pressures of domestic demand. Their combined current account deficit rose considerably in 1971 for the second consecutive year, and their receipts of long-term capital and aid again changed little. Nevertheless, their overall balance of payments surplus was not only maintained, but somewhat enlarged, by considerable buoyancy of short-term capital inflows.

The overall payments surplus of the Asian region in 1971, as in 1970, was concentrated in Singapore, the Republic of China, India, and the Philippines. For India there was some decline in the payments surplus as the trade deficit rose again to meet the strains of refugee relief and defense requirements in a period of slackened growth in nonagricultural output, but the foreign exchange position remained generally satisfactory. Singapore's increasing overall surpluses in the past two years materialized despite a large increase in the current account deficit; they reflected very sharp expansion of capital inflows, almost entirely—on a net basis—in short-term or unidentified forms.

In the Middle East the spurt in receipts from petroleum exports raised the area's trade surplus to $3½ billion—several times the size of previous annual trade balances since 1965. However, there was also a very sharp deterioration of the net balance on international service transactions, strongly affecting the accounts of Saudi Arabia, Iran, Iraq, and Lebanon. Consequently, the 1970–71 improvement of the area's aggregate current account was fairly moderate, although it did interrupt an upward trend in the regional current account deficit from 1967 to 1970. Aside from the surge in export earnings, the major contribution to the increase in overall payments surpluses of Middle Eastern countries in 1971, according to the preliminary statistics available from national sources, came from a marked upswing in inflows of short-term or unidentified capital. These went particularly to Saudi Arabia, Lebanon, and Israel and may have reflected the influence of various currency developments upon incentives to repatriate funds.

International Adjustment Process

The preceding section of this chapter elaborated the well-known fact that the international adjustment process had functioned under difficulties for a number of years prior to the events of August 15, 1971 and the ensuing realignment of currencies in December. This section deals with two key aspects of the new situation that has now developed with respect to the adjustment process: (a) the economic impact of the 1971 currency realignment and (b) the role of national policies in supporting the realignment and rendering it effective under the general conditions that can presently be envisaged for the next year or so.

Impact of the Realignment

The effects of the 1971 currency realignment may be assessed with respect to (1) the trade and current accounts, and the balances of payments generally, of the major industrial countries that participated in the December 18 Smithsonian Agreement; (2) countries' official reserves; (3) the debt and debt service of developing countries; and (4) the trade of developing countries.

Studies by the Fund staff, summarized briefly below, cover the impact of realignment on major features of the external position for both the industrial and the developing countries. But for the latter group of countries it should be borne in mind that the really fundamental question in this context concerns the degree to which the realignment will be successful in causing economic policies in the main industrial countries to be less encumbered than heretofore by balance of payments difficulties—difficulties which in the past contributed to a financial instability that had distinctly adverse effects on the developing world.

1. The new currency values agreed upon in December 1971 were intended to be suitable for a situation in which the major industrial economies would have returned to conditions of high employment. The estimation of equilibrium exchange rates in an exercise such as the recent realignment is, of course, subject to a margin of error; however, it can be expected that the realignment will, in due course, lead to the restoration of international payments equilibrium—unless its intended effects are blunted or frustrated by inappropriate national policies.

The qualification "in due course" refers mainly to the inevitable lags in trade volume adjustments to be induced by the currency realignment. Because of these lags, not before 1973 can the equilibrating influence of the realignment make itself strongly evident, and its full impact will probably not be apparent until even later. In the interim, the terms-of-trade effects of the realignment, which precede its impact on trade volume, will be dominant; and these effects will be perverse because of their tendencies (a) to increase the current account surpluses of Japan, Germany, and other countries whose relative exchange rates appreciated (by raising the dollar prices of their exports more than the dollar prices of their imports) and (b) to increase the current account deficit of the United States (by raising its import prices more than its export prices). Furthermore, cyclical developments in 1972 can be seen to have a disequilibrating influence on major current account positions. Such developments, as reflected in the trends of GNP discussed earlier, will tend to bolster import growth in the United States relative to that of other major countries; in addition, the prevailing cyclical conditions—in general, relatively unfavorable to export expansion—may be expected to affect exports of the United States more severely than those of most other industrial countries, which will benefit from the pickup in the U. S. market itself. However, both the realignment effects and the cyclical influences should become more favorable in the period ahead. Insufficient public appreciation of this prospect, and of the period of time required for its realization, may have postponed the emergence of market confidence in the new exchange rates.

2. With the aid of special information supplied by member countries on their foreign exchange holdings by currency of denomination, it has been estimated that the overall value of countries' reserves increased from $125 billion to $131 billion —i.e., by about 5 per cent—because of the currency realignment. The world price level of international transactions, for which reserves provide the means of financing any net imbalances, could also be expected to increase in terms of U. S. dollars as a result of the realignment. Based on import prices, the average amount of that expected increase was calculated at 7.4 per cent over the level prevailing immediately before May 1971. After the occurrence of this price increase, reserves would have commensurately less potential for financing imbalances, and this loss of "purchasing power" because of the realignment outweighs the total revaluation gain, producing a net loss in real terms of 2.3 per cent of the total value of reserves.[11] Such calculations indicate that the net percentage loss in purchasing power of reserves was about the same for the developed areas and for the less developed areas.

3. The external debts of developing countries, like their reserve assets, have been subjected by the 1971 currency realignment to both a revaluation effect and a price effect. The former raised the U. S. dollar equivalent of most non-dollar debt or debt service payments, but did not affect the nominal value of dollar debt (in terms of the U. S. dollar as the unit of account). On the other hand, the increase in U. S. dollar prices resulting from the realignment tends to reduce in real terms both the dollar-denominated debt and the U. S. dollar equivalent of most other outstanding debt. Similar considerations apply to interest payments on external debt.

For the total of outstanding debts, as covered in basic data provided by the World Bank,[12] the revaluation effect is estimated at a little more than $2 billion, or about 4½–5 per cent (depending on assumptions made in cases of unknown currency composition of liabilities) of the outstanding

[11] This percentage would be the same if the calculations had been carried through in terms of gold, SDRs, or any other unit of account, rather than in U. S. dollars.

[12] These data for developing countries refer to the outstanding external public (or publicly guaranteed) debt with a maturity of more than one year.

debt. Further, the average increase in debt service payments (likewise valued in U. S. dollars) is also estimated at roughly 4½ per cent.

These nominal changes in debt and in debt service flows may be "deflated" to discount the average increase in prices of developing countries' exports expected to result from the 1971 currency realignment, and thus to gauge debt changes in real terms from the standpoint of the volume of exports necessary to meet external debt commitments. Accordingly, the outstanding long-term external public debt of developing countries as a group was reduced in real terms by an estimated 1–1½ per cent as a result of the currency realignment, and the real value of annual debt service payments was also reduced by about 1½ per cent.

The foregoing estimate of the net decline in outstanding debt in real terms attributable to the realignment—roughly $500 million—is of the same order of magnitude as the estimate (above) of the net loss in purchasing power of reserves held by developing countries as a group. Therefore, the combined external balance sheet position of these countries does not appear to have been greatly affected in real terms by the currency realignment. Also worth noting is the fact that the realignment, according to estimates of consequential changes in both debt items and export values in nominal terms, apparently did not have a substantial effect on the average ratios of either debt or debt service payments to the exports of developing countries.

4. The exchange rate decisions that were made by the developing countries in reaction to the 1971 realignment of major currencies reflected two main tendencies. One of these was a propensity to maintain traditional exchange rate relationships with the major industrial countries predominant in their respective combinations of trading partners. The other was a rather strong tendency for countries to resolve doubts in favor of maintaining exchange rates against the U. S. dollar, thus depreciating their currencies in relation to those of most industrial countries other than the United States and to currencies in general.

For the developing countries as a group, in their trade with all developed areas, the result was an average effective depreciation of roughly 4½ per cent. Since the changes, in terms of gold or SDRs, in the parities or central rates of the industrial countries, weighted by their shares in world trade, sum to very close to zero, it may be assumed that the weighted average effect of the same changes on the effective rates of the developing countries was also small, so that the effective depreciation they achieved was overwhelmingly the result of the depreciation of their currencies in terms of gold.

On the basis of reasonable (although necessarily uncertain) assumptions regarding such relevant factors as the price elasticities of demands for and supplies of goods traded by the developing countries, the effective depreciation of 4½ per cent may be expected to generate shifts in price relationships that involve a deterioration of roughly 1 per cent in terms of trade, but which may eventually bring about a larger rise in total export values than in total import values. The price changes stemming from the realignment may lead to an expansion of 1½–2 per cent in the volume of developing countries' exports and to a decline of somewhat more than 2 per cent in the volume of their imports. These estimated volume changes, in combination with the estimated price changes underlying them, would imply—before any allowance for indirect effects—an eventual improvement in the collective trade balance of the developing countries equivalent to about 2½–4 per cent of the group's combined exports. Such an improvement, amounting to roughly $1½–2 billion, would be fairly sizable when viewed in the perspective of past actual changes in the trade balance of the developing countries as a group.

Role of National Policies

The effectiveness of the adjustment process in the period ahead will be greatly influenced by the degree of success achieved by the main industrial countries in handling the problem, discussed earlier, of controlling inflation while fostering renewed economic growth. Beyond this basic proposition, the character of policies oriented more directly toward the external sector will also have an important bearing on the adjustment process.

Through the realignment of exchange rates, forces have been set in train to change the current account balances of some of the main industrial countries in such manner as to improve the structures of their balances of payments and to facilitate management of the overall positions. Hence, the short-term outlook for current account balances does not seem, in general, to call for major changes in national policies, even though the balances projected for 1972 in several important instances are clearly out of line, for cyclical or other temporary reasons, with medium-term national objectives. However, the short-range prospects do have certain policy implications, noted below, from the standpoint of the international adjustment process.

Since changes in current account balances from 1971 to 1972 are not expected to contribute materially to the alleviation of international payments disequilibrium, the immediate prospect for avoidance of further major overall imbalances depends on the evolution of capital flows, especially those to and from the United States. There is every likelihood that the United States will have a substantial payments deficit on the basic accounts in 1972; at the same time, analysis of the 1971 U. S. capital outflow, much of which was speculative, indicates the potentiality of a large reflow of short-term or unidentified funds to the United States, through a combination of interest rate and confidence factors. The conjuncture of cyclical forces indicated by the GNP projections discussed earlier is in fact conducive to an upward movement of U. S. rates relative to those in other major centers, and such a pattern has begun to develop in recent months. Depending on the evolution of these influences, a sizable U. S. payments deficit on an overall basis could be avoided in 1972.

But the fact remains that future developments with respect to short-term capital flows and to exchange market conditions cannot be predicted with any confidence. This was shown anew by the sudden outbreak of speculative pressures on sterling in June, and by the ensuing weakness of the dollar as exchange markets became disturbed once again after calm had returned to them during April and May. Therefore, it is imperative for policies of the major industrial countries to give attention to the international adjustment process and, more specifically, to support the realignment by seeking to ensure that the international payments situation develops satisfactorily over the short run. The implications with respect to national policies would appear to be as follows:

—Countries that have slack in resource utilization, large current account surpluses, and high reserves and that are projecting a near-term output growth below potential should earnestly consider the adoption of more expansionary policies. Within this group of countries (Japan and various continental European countries), the constraint upon adoption of such policies would stem mostly from a concern about exacerbating inflationary pressures. However, to the extent that the countries in question found it possible to follow a more expansionary course, this would be helpful—beyond its domestic effects—not only to the balance of payments situation among the industrial countries but also to the exports of the developing world. Insofar as feasible, policies of expansion in this group of countries should be so conducted as to bring down short-term interest rates.

—The current GNP projections of the United States for 1972 imply that expansion will be strong enough to absorb some of the present substantial slack and reduce unemployment at least moderately, but not so strong as to risk launching an excessive boom that would trigger a resurgence of inflation. Achievement of a satisfactory, non-inflationary rate of growth by the United States is, of course, in the interest of the rest of the world, and is a prime continuing U. S. responsibility with respect to the appropriate functioning of the international adjustment process. In the near future, it would be helpful to the adjustment process if U. S. monetary policy were to exert upward pressure on short-term interest rates without, however, incurring undue risks of affecting the general level of U. S. rates to such an extent as to have a retarding effect on economic growth.[13] Further, if at some point in the current expansion the U.S. authorities should feel a need to apply additional restraint, international considerations indicate that this should come at least in part through monetary policy.

—Pursuit of such policies by the main industrial countries—reflecting a concern for the effect of their policies on others and on the international system in general—would be likely to have a decisive positive effect on market confidence. This, indeed, is a major independent reason why these policies are needed.

[13] There should be, as indicated above, a natural tendency for U.S. short-term rates to rise in the course of 1972, under the influence of federal budget financing and a revival of private demand for goods and services.

Chapter 2

Developments in International Liquidity

Reserve Changes in 1971

Reserve Growth and Composition

INTERNATIONAL reserves increased in the course of 1971 by an even larger amount than in the previous year, when the increase was already exceptional by any previous standard (Table 6). During these two years, countries' aggregate official holdings went up from the equivalent of SDR 75 billion to SDR 121 billion, a gain of 61 per cent.[1] The accrual of the equivalent of over SDR 29 billion in 1971 greatly exceeded the increase of almost SDR 17 billion in 1970. Despite several months of relative stability, the strong upward trend in reserves continued in the first half of 1972 as a whole. Apart from the allocation of SDR 2.9 billion in January, reserves rose by the equivalent of SDR 4.3 billion in the first quarter and by some SDR 3–4 billion in the second quarter.

The measurement of reserve growth in 1971 is affected by the widespread realignment of currencies in December of that year, relative to gold and other assets with a fixed gold value held as reserves—special drawing rights (SDRs) and reserve positions in the Fund. In this chapter, the SDR is adopted as the unit of account for valuing both holdings and changes in holdings. Therefore, other components whose value remained fixed in terms of the SDR—gold, reserve positions in the Fund, and claims in currencies whose gold value was not changed or that had an exchange rate guarantee in terms of such currencies—were not affected by the realignment. Certain currencies held in reserves (mainly U. S. dollars) are deemed to have declined in value against SDRs as a result of the realignment by an amount estimated by the Fund staff at the equivalent of SDR 4.7 billion. Other currencies held in reserves are estimated to have risen in value against SDRs as a result of the realignment by the amount of SDR 0.4 billion.[2] Thus, the level of the foreign exchange component and hence of total reserves would have been higher by some SDR 4.3 billion, had it not been for the impact of the realignment.

The overall growth in international reserves during 1971 was confined almost entirely to the foreign exchange component, changes in assets in other forms being relatively small and largely offsetting (Table 7 and Chart 4).

The world's official gold holdings remained at SDR 41 billion, a level from which they have not greatly deviated since the end of 1968. The share of the international monetary institutions in this total, however, increased by SDR 1 billion in 1971, reducing the amount held by national authorities to SDR 36 billion. Gold transactions with member countries added a net amount of SDR 0.4 billion to the Fund's holdings. The Fund's acquisitions comprised SDR 0.5 billion obtained through members' repurchases of their currencies, SDR 0.1 billion in Fund purchases of gold with currency from South Africa, and a further SDR 0.1 billion received from gold subscriptions. Sales of gold by the Fund for replenishment (SDR 0.4 billion), together with minor transac-

[1] As in previous Annual Reports, this chapter is directed to official reserve holdings and not to private holdings (the effect of which on international liquidity may need further study). The concept of reserves used covers SDRs, reserve positions in the Fund, and official holdings of gold and foreign exchange, except for the foreign exchange holdings of the United States. These are mainly the counterpart of the use of swaps by other countries and could not generally be drawn upon to finance U. S. deficits. Such holdings had in any event been reduced to a very low level by the end of 1971, so that adjusted world reserves on that date did not differ significantly from the unadjusted figure.

[2] The impact of the realignment on the SDR value of currency holdings has been calculated by applying to the amount of such holdings at the time of the realignment the difference between the postrealignment and the prerealignment SDR equivalents of the currencies concerned. The postrealignment SDR equivalent was based, for the U. S. dollar, on the rate of $38 per fine ounce of gold and, for other currencies, on the postrealignment par values and central rates. The prerealignment SDR equivalents were based generally on prerealignment par values.

TABLE 6. RESERVES, CREDIT TRANCHE POSITIONS, AND OTHER UNUSED CREDIT FACILITIES, END OF YEARS, 1952–71
(In billions of SDRs)

End of Year	Gold	SDRs	Reserve Positions in Fund	Foreign Exchange Adjusted [1]	Total Reserves Adjusted [1]	Credit Tranche Positions in Fund	Other Unused Credit Facilities [2]
1952	33.9	—	1.9	15.7	51.5	7.0	—
1953	34.3	—	1.9	17.0	53.2	7.1	—
1954	34.9	—	1.8	18.1	54.9	8.6	—
1955	35.4	—	1.9	18.5	55.8	7.9	—
1956	36.1	—	2.3	19.5	57.9	7.7	—
1957	37.3	—	2.3	18.8	58.4	7.1	—
1958	38.0	—	2.6	18.8	59.4	7.2	—
1959	37.9	—	3.3	17.8	59.0	12.8	—
1960	38.0	—	3.6	20.2	61.8	13.6	—
1961	38.9	—	4.2	20.7	63.8	12.8	1.7
1962	39.3	—	3.8	21.3	64.4	13.3	1.4
1963	40.2	—	3.9	23.6	67.8	13.5	2.0
1964	40.8	—	4.2	25.0	70.0	13.9	5.8
1965	41.8	—	5.4	24.4	71.6	12.4	3.8
1966	40.9	—	6.3	24.6	71.8	17.0	4.5
1967	39.5	—	5.7	26.7	71.9	18.1	5.3
1968	38.9	—	6.5	28.4	73.8	17.0	13.1
1969	39.1	—	6.7	29.6	75.4	16.8	14.3
1970	37.2	3.1	7.7	43.9	91.9	25.0	14.2
1971	36.1	5.9	6.3	72.9	121.3	27.2	11.1
			Annual percentage changes				
1953	1.1	—	0.8	8.8	3.4	0.7	—
1954	1.9	—	−2.4	6.5	3.2	21.0	—
1955	1.4	—	2.1	2.2	1.7	−8.5	—
1956	1.8	—	22.8	5.1	3.6	−2.6	—
1957	3.5	—	−0.3	−3.4	1.0	−6.7	—
1958	1.9	—	10.6	−0.2	1.6	1.4	—
1959	−0.3	—	27.1	−5.0	−0.6	76.5	—
1960	0.3	—	9.8	13.1	4.7	6.7	—
1961	2.2	—	16.4	2.9	3.2	−6.4	[3]
1962	1.1	—	−8.7	2.8	1.0	4.2	−16.2
1963	2.4	—	3.8	10.8	5.3	1.6	39.2
1964	1.5	—	5.5	5.8	3.3	2.6	193.4
1965	2.5	—	29.4	−2.4	2.3	−10.6	−35.3
1966	−2.3	—	17.7	0.8	0.3	37.4	18.4
1967	−3.4	—	−9.2	10.8	0.9	6.2	17.7
1968	−1.4	—	12.9	6.4	2.6	−5.8	149.3
1969	0.5	—	3.7	4.2	2.2	−1.4	9.3
1970	−5.0	[3]	14.4	48.5	21.9	48.8	−1.0
1971	−2.8	88.1	−17.5	66.1	32.0	9.0	−21.8
Annual compound rate, 1952–71	0.3	[3]	6.5	8.4	4.6	7.4	[3]

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

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

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

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

tions, partly offset these acquisitions.[3] Countries' transactions with the Bank for International Settlements reduced country holdings by a net amount of SDR 0.6 billion, a considerably larger sum than in any other recent year.

The second allocation of special drawing rights at the beginning of 1971 added SDR 2.9 billion to countries' holdings. Net transfers of some SDR 0.2 billion to the General Account of the Fund during the year raised holdings in the General Account to about SDR 0.5 billion, leaving SDR 5.9 billion of the total allocated up to the end of 1971 in the hands of national authorities.

Reserve positions in the Fund fell by SDR 1.3 billion in 1971, canceling out the rise that had occurred over the previous two years. The decline

[3] These Fund transactions are described, on a fiscal-year basis, in Chapter 3 and Appendix Table I.16.

TABLE 7. SOURCES OF RESERVE CHANGE, 1962–71 [1]

(In billions of SDRs)

Annual Changes in	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	Memo Item Outstanding Totals at the End of 1971
1. Gold Reserves											
Monetary gold	0.4	0.8	0.7	0.2	—	−1.6	−0.7	0.1	0.3	−0.1	
Gold transactions by IMF, BIS, and European Fund (sales +)	0.1	0.1	−0.1	0.8	−0.9	0.2	0.1	0.1	−2.2	−1.0	
Countries' gold reserves	0.4	0.9	0.6	1.0	−0.9	−1.4	−0.6	0.2	−1.9	−1.1	36.1
2. Special Drawing Rights											
Allocation of SDRs	—	—	—	—	—	—	—	—	3.4	2.9	
IMF holdings of SDRs (increase −)	—	—	—	—	—	—	—	—	−0.3	−0.2	
Countries' SDR holdings	—	—	—	—	—	—	—	—	3.1	2.8	5.9
3. Reserve Positions in IMF											
Use of IMF credit	−0.4	0.1	0.4	1.6	—	−0.5	1.2	0.3	−0.8	−1.9	
IMF gold transactions (inflow +) [2]	0.1	0.1	−0.1	−0.3	1.0	0.1	−0.4	—	1.6	0.4	
IMF transactions in SDRs (inflow +)	—	—	—	—	—	—	—	—	0.3	0.2	
IMF surplus (increase −)	—	−0.1	—	−0.1	−0.1	−0.1	−0.1	−0.1	−0.1	—	
Reserve positions in IMF	−0.3	0.1	0.2	1.2	0.9	−0.6	0.7	0.2	1.0	−1.3	6.3
4. Foreign Exchange Holdings											
a. U. S. dollars											
U. S. deficit on official settlements [3]	2.7	1.9	1.5	1.3	−0.2	3.4	−1.6	−2.7	10.7	30.5	
U. S. reserve assets (including foreign exchange) used in transactions with countries	−1.5	−0.4	−0.2	−1.2	−0.8	−0.1	0.9	1.3	−3.0	−3.1 [4]	
(i) Official claims on United States [5]	1.1	1.5	1.4	0.1	−1.1	3.4	−0.8	−1.5	7.7 [6]	27.4 [4]	46.7
(ii) Identified official holdings of Euro-dollars [7]	. . .	. . .	. . .	0.1	0.7	0.4	1.2	0.7	4.9	0.2 [4]	9.3
b. Official sterling holdings	−0.1	0.4	0.5	−0.9	−0.1	−1.3	−0.5	0.8	0.5	1.5	7.2
c. Official deutsche mark holdings [8]	—	—	0.1	—	0.1	—	0.1	—	0.8	−0.4 [4]	1.0
d. Official French franc holdings [9]	−0.1	—	−0.1	—	0.1	—	−0.1	−0.2	0.2	0.2	0.8
e. Foreign exchange claims arising from swap credits and related assistance	—	—	0.4	−0.3	0.7	0.9	1.2	−0.1	−2.2	−0.7	—
f. Correction for effect of realignment on stock of reserves [10]	—	—	—	—	—	—	—	—	—	−4.3	—
g. Unidentified Euro-currencies and residual [11]	−0.4	0.4	−0.9	0.4	−0.2	−1.3	0.6	1.5	2.4	5.2	8.0
Countries' holdings of foreign exchange	0.6	2.3	1.4	−0.6	0.2	2.1	1.7	1.2	14.3	29.0	72.9
Total reserve change	0.6	3.4	2.2	1.6	0.2	0.1	1.9	1.6	16.5	29.4	121.3

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

[1] Adjusted reserves. See footnote 1, Table 6.

[2] Including gold subscriptions and effect of IMF gold deposits and gold investments.

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

[4] Excluding the estimated impact of the realignment on the value of amounts outstanding at the time of realignment.

[5] Includes claims on the United States denominated in the claimant's own currency, i.e., Roosa bonds.

[6] Excludes SDR 0.4 billion in respect of reduction in IMF gold investment.

[7] Fund staff estimates. See Table 10.

[8] Estimates of claims on the Deutsche Bundesbank and, for 1969–71, on German commercial banks, provided by the German authorities.

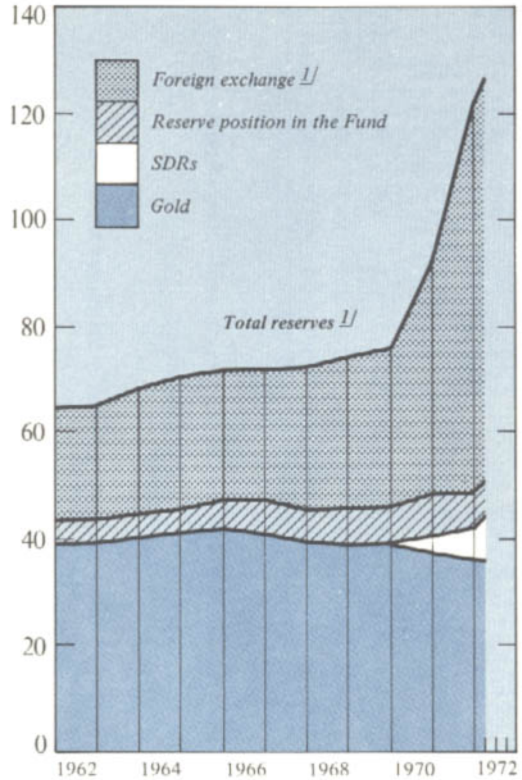
[9] Estimates provided by French authorities, supplemented in the earlier period by Fund staff estimates.

[10] For explanation see page 25.

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

CHART 4. LEVEL AND COMPOSITION OF RESERVES, END OF PERIOD, 1961–FIRST QUARTER 1972

(In billions of SDRs)



[1] Adjusted reserves; see Table 6.

resulted from a reduction of SDR 1.9 billion in the outstanding use of the Fund's resources in the credit tranches. This reduction predominantly reflected large repurchases of their own currencies by France and the United Kingdom. However, other transactions through the General Account, on balance, tended to limit the decline in members' reserve positions in the Fund.

Although gold, SDRs, and reserve positions in the Fund comprised slightly over one half of the world's stock of international reserves at the end of 1970 (Table 8), those elements made very little net contribution to the striking increase in the total stock that took place during 1971. The expansion was thus concentrated in the remaining component, foreign exchange holdings, which rose by SDR 29 billion. The magnitude of this increase was unprecedented, being double the previous record accrual of SDR 14 billion in 1970. It marked a rise of 66 per cent in currency claims and brought the proportion of such claims in total reserves up to 60 per cent.

The financing of the U. S. deficit on an official settlements basis (Table 9) played an even more dominant role in generating the expansion in 1971 than it had in 1970. This deficit, excluding the allocation of SDR 0.7 billion to the United States in special drawing rights, totaled SDR 30.5 billion in 1971 at the prerealignment equivalent. In financing the deficit, the U. S. authorities made net use of their holdings of reserve assets to the extent of SDR 3.1 billion, with virtually all the rundown occurring before August 15. The remainder of the deficit, equivalent to SDR 27.4 billion, had its counterpart in an increase in U. S. liabilities to foreign official holders and thus in an increase in world reserves, after allowing for the impact of the realignment.

The huge increment in official claims on the United States tends to overshadow developments in other kinds of foreign exchange holdings, which, by the standards of comparison prevailing before 1970, could otherwise be considered quite significant. Official holdings of the other principal reserve currency, sterling, continued the strong upward trend that they had shown in the previous two years, after the network of sterling agreements arrested their decline in 1968. Not only did the overseas sterling area countries, whose aggregate reserves continued to show strong growth, add SDR 1.1 billion to their sterling holdings but other countries also increased their holdings by more than SDR 0.4 billion. Official deutsche mark claims held in Germany, which had undergone a substantial expansion in 1970, were actually reduced in 1971 by almost SDR 0.4 billion, excluding the revaluation gain that accrued on them. Aggregate reserves denominated in

TABLE 8. PERCENTAGE COMPOSITION OF ADJUSTED GLOBAL RESERVES, END OF 1951, 1961, 1969, 1970, 1971, AND FIRST QUARTER 1972 [1]

	1951	1961	1969	1970	1971	First Quarter 1972
Gold	66.8	61.0	51.9	40.5	29.8	27.7
SDRs	—	—	—	3.4	4.8	6.9
Reserve positions in the Fund	3.4	6.5	8.9	8.4	5.2	4.9
Foreign exchange	29.8	32.5	39.2	47.8	60.1	60.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: *International Financial Statistics.*
[1] For the nature of the adjustments, see Table 6, footnote 1.

TABLE 9. U. S. BALANCE OF PAYMENTS AND ITS FINANCING, 1967–71

(In billions of SDRs)

	1967	1968	1969	1970	1971 [1]
Balance on goods and services	3.9	1.3	0.7	2.2	−0.8
Transfers and long-term capital	−7.1	−2.7	−3.6	−5.2	−8.5
Basic balance	−3.2	−1.3	−2.9	−3.0	−9.3
Short-term capital (including banking liabilities) [2]	−0.2	3.0	5.6	−7.6	−21.2
Official settlements balance	−3.4	1.6	2.7	−10.7	−30.5
Financed by					
Reserve liabilities (decrease −)	3.4	−0.8	−1.5	7.3	27.4
Reserve assets (increase −)					
Gold	1.2	1.2	−1.0	0.8	0.9
SDRs	—	—	—	—	0.5
IMF gold tranche	−0.1	−0.9	−1.0	0.4	1.3
Foreign exchange	−1.0	−1.2	0.8	2.2	0.4
Total reserve asset transactions	0.1	−0.9	−1.2	3.4	3.1
Memorandum item: SDR allocation (−)	—	—	—	−0.9	−0.7
Reserve change including SDR allocation (increase −)	0.1	−0.9	−1.2	2.5	2.3

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

deutsche mark, however, including those held in the Euro-currency market, increased over the year.

Available evidence suggests a substantial proliferation of holdings in forms that have not been usual in the past. The difference between official foreign exchange assets, as reported by the holders of these assets, and the identified liabilities that are their counterpart rose by some SDR 5.2 billion in 1971 after allowing for the impact of the realignment (see line 4.g of Table 7). Since this amount is derivable only as a residual, it is affected by any errors or asymmetries in the reported and estimated figures for other reserve assets and liabilities. Nevertheless, direct information, although incomplete, makes it apparent that the bulk of this increase took the form of claims on countries whose currencies were not widely held as reserves in previous years and Euro-market claims denominated in currencies other than the U. S. dollar, notably the deutsche mark.

In line with the greater emphasis given to holdings of currencies other than the U. S. dollar, virtually no further net placement of official funds in the Euro-dollar market took place in 1971 (Table 10). The expansion of holdings in that market, amounting to an estimated SDR 5 billion, had been one of the most notable developments affecting international reserves in 1970. In the second quarter of 1971, the central banks of the major industrial countries decided, for the time being, not to place additional funds in Euro-currency markets and to withdraw such funds when prudent in the light of market conditions. Over the year, these countries appear to have shifted into other assets some SDR 1.5 billion of Euro-dollar deposits, well over half of the amount of the placements they had made during 1970. Other countries, however, did not follow the same practice; their Euro-dollar holdings in fact increased by another SDR 1.6 billion.

Country Distribution

As might be expected when a single country had as large a payments deficit as that of the United States in 1971, countries recording reserve gains far outnumbered those experiencing losses. In fact, three fourths of the some 120 countries that report data to the Fund had gains in gross reserves (measured in terms of SDRs) over the course of the year. Nevertheless, the bulk of the increase was heavily concentrated in a few countries, namely, those countries with relatively large reserve holdings whose balance of payments experience was unusually favorable during 1971. (See Chapter 1.)

While reserve gains in particular countries tend to be related to balance of payments surpluses, the

Table 10. Official Holdings of Euro-Dollars and Unidentified Foreign Exchange Reserves, 1964–71

(In billions of SDRs)

	1964	1965	1966	1967	1968	1969	1970	1971
Identified official holdings of Euro-dollars [1]								
Ten industrial countries [2]	0.5	0.5	1.0	1.0	1.8	1.7	4.1	2.6
Other industrial countries [3]	0.3	0.2	0.3	0.5	0.5	0.5	0.8	0.9
Total, industrial countries	0.8	0.8	1.4	1.5	2.3	2.2	4.9	3.5
More developed areas	0.3	0.3	0.3	0.3	0.4	0.5	1.4	1.4
Less developed areas	0.2	0.4	0.4	0.7	0.9	1.6	2.9	4.4
Total, primary producing countries,	0.5	0.6	0.7	0.9	1.3	2.1	4.2	5.8
Total [1]	1.3	1.4	2.0	2.4	3.6	4.3	9.2	9.3
Unidentified official holdings of Euro-currencies and residual sources of reserves [4]	−0.6	−0.2	−0.4	−1.7	−1.1	0.4	2.8	8.0

Source: Fund staff information and estimates.
[1] Fund staff estimates based on information supplied by 58 countries
[2] Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, and the United Kingdom.
[3] Austria, Denmark, and Norway.
[4] Includes asymmetries in data on reserves and liabilities; see footnote 11 of Table 7.

correspondence—even outside the United States where surpluses are more likely to result in a decline in liabilities to official holders—is not necessarily very precise. Surpluses may be financed, for example, by a reduction in the use made of Fund credit or swap arrangements, rather than by an accrual of reserve assets. During 1971, French and U. K. repayments to the Fund and the U. K. settlement of its remaining indebtedness (equivalent to SDR 1 billion) under inter-central-bank arrangements were important instances of this kind of financing by major surplus countries.

Further, changes in a country's own liabilities, when held as reserve assets by other countries, may affect the relationship between reserve changes and the balance of payments. The large increase during 1971 in such liabilities of the United Kingdom, which has already been noted, augmented the increase in reserve assets that came about in the course of financing the surplus of that country. The allocation of SDRs is also a source of reserve growth that is not related to surpluses earned on current and nonreserve capital account. Finally, in 1971 the currency realignment had the effect of reducing, by the equivalent of SDR 4.3 billion, the level of reserves that would otherwise have been attained through balance of payments transactions.

The degree of concentration of gross reserve gains in a few countries is suggested in Table 11. An attempt is also made in that table to indicate the relative importance of current account transactions and nonreserve capital flows as sources of reserve growth during 1971. The increase in the combined reserve assets of the 11 countries listed amounted to over SDR 27 billion, equal to about 93 per cent of the global increase. While capital inflows, mainly in liquid forms, were the preponderant factor producing the surpluses in these countries as a group, several countries also recorded very large surpluses on current transactions. The experience of individual countries did not follow any single pattern. In some, notably Japan and the United Kingdom, large surpluses in both current and capital transactions combined to bring about very large reserve gains. However, instances in which the behavior of either the current or the capital account was the decisive element were perhaps even more common.

The emphasis given to the role of a few countries, and the fact that the reserve gains recorded by these countries virtually matched the total for the world as a whole, does not mean that these were the only countries that had balance of payments surpluses. For the more than 100 countries reporting balance of payments data to the Fund for 1971, the aggregate amount of overall surpluses (measured by changes in reserves and related assets inclusive of SDRs received through allocation, changes in the use of Fund credit, and changes in other official monetary liabilities) for those countries that showed a surplus was almost SDR 40 billion. On the other hand, apart from the U. S. deficit of SDR 30 billion, other coun-

TABLE 11. MAJOR RESERVE INCREASES BY PRINCIPAL SOURCE, 1971

(*In billions of SDRs*)

	Increase in Adjusted Reserve Assets [1]	Current Account Surplus (Deficit −) [2]	Net Capital Inflow (Outflow −) [3]	Reconciliation Items [4]
Japan	9.3	5.9	4.3	−0.9
United Kingdom	5.3	2.3	3.8	−0.9
Germany	3.3	0.2	4.1	−1.0
France	2.6	0.8	2.4	−0.6
Australia	1.4	−0.9	2.2	—
Switzerland	1.3	0.1	0.6	0.5
Spain	1.2	0.8	0.6	−0.2
Italy	0.9	1.8	−0.8	−0.1
Libyan Arab Republic	0.8	0.8	0.1	—
Saudi Arabia	0.7	0.1	0.7	−0.1
Canada	0.6	0.2	0.5	−0.2
Total 11 countries	27.3	12.1	18.6	−3.5
All countries	29.4			

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

[1] The concept of "adjusted reserve assets" is the one used in Table 6; see especially footnote 1 to that table.

[2] Balance on goods, services, and official and private transfers.

[3] Recorded movements of capital (excluding official reserves and related assets and liabilities) and net errors and omissions.

[4] Difference between the increase in adjusted reserve assets and the balance on current and capital account. The difference arises from the allocation of SDRs, the appreciation or depreciation of reserve asset stocks in terms of SDRs, the use (or repayment) of Fund credit and other conditional liquidity, changes in official monetary assets not included in the reserves, and changes in liabilities to foreign official holders.

tries reported overall deficits amounting to almost SDR 2.0 billion, with 6 countries contributing SDR 1.4 billion to this total. The net excess of recorded surpluses over recorded deficits, amounting to some SDR 8 billion, was mainly attributable to the allocation of SDRs (SDR 2.9 billion) and, as was indicated in Chapter 1, to the placement of official reserves in Euro-currency markets (SDR 5.4 billion).

Reserve growth during 1971 was concentrated, by and large, on the same few countries that had added large amounts to their reserves in 1970. The pattern of distribution among world areas was thus strongly affected by developments in these two years (Table 12). The proportion of world reserves held by industrial countries, other than the United States, grew from 50 per cent of the total at the end of 1969 to 63 per cent at the end of 1971. The proportion held by the United States, on the other hand, went down from nearly 19 per cent to 10 per cent. The reserves of the more developed primary producing countries as a group just about kept pace with the global trend, thus maintaining a constant share of 10 per cent. The less developed primary producing countries did not fare as well; their ratio declined, over this period, from nearly 21 per cent to just over 17 per cent. If the oil producing countries in this category are excluded, the decline was more marked—i.e., from over 15 per cent to 11 per cent.

Within these broad economic groups, the experience of geographic subgroups and of individual countries showed much diversity. The reduction in the proportion of world reserves held by the less developed primary producing countries was most marked in the Asian and Western Hemisphere areas. The Asian area, in fact, showed only a negligible increase from 1969 to 1971 in the absolute size of its holdings, an experience that was also rather widely prevalent among individual countries in the area. In the Middle East and Africa, strong reserve gains by the oil producing members, which as a group virtually doubled their reserves in the span of only two years, served to maintain the share of the world total held by these two areas.

Factors Affecting the Adequacy of Reserves

The rapid growth of international reserves since 1969 has altered the tendency toward the increasing scarcity of reserves that had characterized the period from 1964 to 1969. However, it is difficult to make any precise appraisal of the degree of reserve ease achieved in 1971, a time when international payments were in major disequilibrium, in which shifts of mobile capital played an important role, and the international monetary system was in a state of flux. Two methods of assessing changes in reserve adequacy may be considered: the first examines the supply of official reserves in relation to the need for them as evaluated by statistical procedures; the second points to certain symptoms and effects, chiefly effects on policies, from which changes in global reserve ease may be inferred.

TABLE 12. COUNTRIES' OFFICIAL RESERVES, ADJUSTED, 1960, 1964, AND 1969–FIRST QUARTER 1972 [1]

(In millions of SDRs)

	Total at End of Period						Composition of Reserves at End of March 1972			
	1960	1964	1969	1970	1971	March 1972	Gold	SDRs	Reserve positions in the Fund	Foreign exchange
Industrial Countries										
United States	19,359	16,240	14,183	13,858	11,891	12,058	9,662	1,810	586	—
United Kingdom	5,094	3,690	2,527	2,827	8,136	8,540	752	921	—	6,867
Total	24,453	19,930	16,710	16,685	20,026	20,598	10,414	2,731	586	6,867
France	2,272	5,724	3,833	4,960	7,602	7,800	3,523	527	449	3,302
Germany	7,033	7,882	7,129	13,610	16,940	18,186	4,077	635	1,091	12,384
Italy	3,251	3,824	5,045	5,352	6,251	6,129	2,884	340	356	2,549
Belgium and Netherlands	3,367	4,571	4,917	6,081	6,695	7,400	3,452	1,118	1,239	1,590
Switzerland	2,324	3,321	4,425	5,132	6,416	6,212	2,909	—	—	3,303
Other industrial Europe [2]	1,843	3,318	3,393	3,820	4,930	5,340	1,032	353	361	3,594
Total, industrial Europe	20,090	28,640	28,742	38,955	48,834	51,069	17,876	2,973	3,498	26,722
Canada	1,998	2,890	3,106	4,679	5,251	5,425	794	488	345	3,797
Japan	1,949	2,019	3,654	4,840	14,148	15,349	735	424	520	13,669
Total, industrial countries	48,490	53,479	52,212	65,159	88,259	92,441	29,819	6,617	4,949	51,057
Primary Producing Countries										
More developed areas										
Other European countries [3]	2,348	3,907	4,869	5,692	8,112	9,042	1,880	328	276	6,558
Australia, New Zealand, and South Africa	1,313	2,686	2,772	2,831	3,998	4,753	665	322	298	3,466
Total, more developed areas	3,661	6,593	7,641	8,523	12,110	13,794	2,545	650	575	10,024
Less developed areas										
Western Hemisphere [4]	2,962	2,843	4,470	5,642	5,895	6,296	1,013	654	369	4,260
Middle East [5]	1,414	2,321	3,037	3,118	4,715	5,297	1,008	134	89	4,066
Asia [6]	3,071	3,098	4,818	5,153	5,140	5,464	672	510	192	4,089
Africa [7]	2,058	1,583	3,095	4,174	4,715	5,056	401	285	161	4,209
Total, less developed areas [8]	9,601	9,915	15,569	18,211	20,930	22,225	3,205	1,583	812	16,625
Memorandum item:										
of which selected oil exporting countries [9]	2,463	2,644	4,023	4,760	7,535	7,707	1,180	299	238	5,992
Grand Total	61,752	69,989	75,422	91,893	121,299	128,460	35,570	8,848	6,336	77,706

Source: *International Financial Statistics.*

[1] For the nature of the adjustments, see footnote 1 to Table 6. Totals may not add because of rounding and because some area totals include unpublished data.

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

[3] Finland, Greece, Iceland, Ireland, Malta, Portugal, Spain, Turkey, and Yugoslavia.

[4] Argentina, Bolivia, Brazil, Central America, Chile, Colombia, the Dominican Republic, Ecuador, Guyana, Haiti, Jamaica, Mexico, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, and Venezuela.

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

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

[7] Excluding Egypt and South Africa.

[8] Includes residual.

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

Recent Development of the Supply of Official Reserves Compared with the Need

The development of the need for official reserves over time can be illustrated by the variation in ratios of reserves to various economic aggregates that are customarily thought to provide an indication of changes in the need for reserves. The ratio most commonly used for this purpose is that of reserves to imports. Chart 5 shows the development over the period 1954–71 of the ratio of reserves to imports for 60 countries combined. Following an almost continuous decline, there was a substantial increase from 1970 to 1971, bringing the ratio in 1971 to a level slightly higher than that of 1968, a year in which, as analyzed on page 27 of the 1969 Annual Report, global reserve ease was judged to have become less than adequate. At the end of 1971, reserves were some SDR 17 billion in excess of the amount that would be obtained by applying the 1968 ratio to the trend level of imports for the end of 1971.

The behavior of the ratio of reserves to imports suggests that the degree of reserve ease has recently stopped its decline and has thereafter increased considerably. However, these statistical comparisons leave out of account some important factors affecting the adequacy of global reserves in present circumstances. Four of these factors deserve special attention.

1. The degree of reserve ease experienced over the last two years was attributable not only to the level of reserves but also to the high rate of increase in reserves during these years.

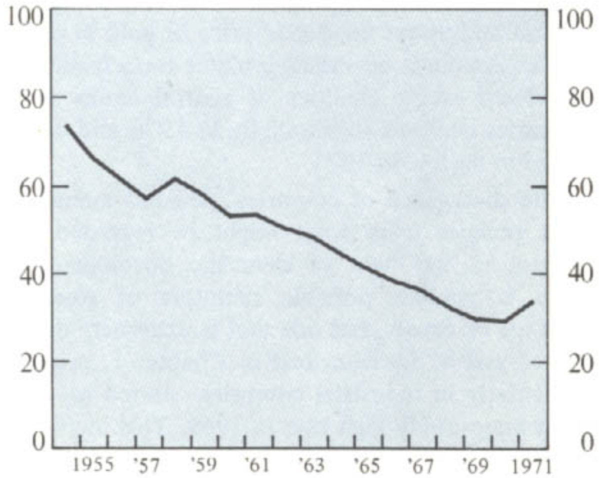
2. As already indicated, the major part of the reserve increases of 1970 and 1971 accrued to a small number of industrial countries, particularly Japan and Germany, that already had relatively large reserves. This concentration somewhat reduces the significance for global reserve ease of the expansion in world reserves for two reasons. First, the resulting unevenness in the distribution of world reserves itself tends to reduce the global reserve ease attributable to a given total. Second, the massive accumulation of reserves in the countries in question was to a large extent associated with an inflow of short-term funds, including a transfer of private balances previously held in the United States, which were at least partly of a speculative and hence reversible nature. The possibility of such a reflux must be regarded as a contingent charge on the reserves of those countries.

3. The international mobility of capital, particularly in the form of private short-term balances, has increased since the end of the 1950s—an increase that appears to have accelerated in recent years, partly as a result of the growth of Euro-currency markets. The growing mobility of capital may have somewhat improved countries' ability to finance balance of payments deficits by borrowing. However, this effect of capital mobility is likely to have been outweighed so far as global reserve ease is concerned by its effect in increasing potential payments deficits, and therefore the need for reserves (or for special credit facilities).

4. As at least a partial offset to this, enhanced flexibility of exchange rates may permit a certain economy in the use of reserves through inducing equilibrating and impeding disequilibrating movements of short-term funds. Apart from a possible increase in the tendency to allow exchange rates to float or to adjust exchange rates more promptly in response to market pressures, many countries utilize margins that are considerably wider than those that were customarily maintained before the exchange rate realignment of December 1971. At present, experience with the system of wider margins is not yet sufficient to make an adequate assessment of its effects on the need for reserves. The same conclusion holds for the effect on global

CHART 5. RATIO OF AGGREGATE RESERVES TO AGGREGATE IMPORTS OF 60 COUNTRIES, 1954–71 [1]

(In per cent)



[1] Reserves are annual averages of monthly data.

reserve ease of the tightening of capital controls observed in some industrial countries over the last two years.

Manifestations of Changes in Reserve Ease

The approach to the assessment of the adequacy of reserves pursued in the preceding subsection can be supplemented by one based on the observation of the manifestations of changes in reserve adequacy. As discussed in the 1971 Annual Report, an increase in global reserve ease would tend, over time, to bring about: (1) reduced reliance on restrictions on imports and payments, (2) an increase in the volume or a reduction in the tying of aid, (3) a reduced propensity for countries to devalue their currencies and an increased willingness to undertake revaluations, and (4) a reduced reliance on balance of payments credits. In the light of more recent circumstances, it would be appropriate to add, as one of the symptoms of an increase in reserve ease, the imposition of restrictions on capital inflows. Moreover, an increase in reserve ease may cause countries to pursue somewhat more expansionary demand policies than would be appropriate in the light of the domestic economic situation alone and a reduction in reserve ease would tend to induce somewhat more contractionary policies than would otherwise be called for.

In 1971 and the early part of 1972 there was only limited resort to increased use of restrictions on outward payments, although resort to multiple currency practices may have increased somewhat. In many instances where new restrictions were introduced or tightened, this was primarily related to a slowing of the growth of exports or to depressed or declining prices of primary products.[4] In several countries "reverse" restrictions, designed to reduce the inflow of capital, were introduced or strengthened during 1971 and the first half of 1972. Moreover, separate exchange rates for capital transactions were applied by Belgium and France during this period for the purpose of limiting capital inflows.

Official development aid from countries of the Development Assistance Committee has been declining as a percentage of GNP since the mid-1960s. This decline appears to have been arrested in 1971. While a number of aid donors have in the last three years introduced measures to mitigate the adverse effects on recipients of their tying practices, most official development assistance remains subject to tying restrictions. Negotiations aiming at a general untying of development loans were no longer pursued after mid-August 1971.

As regards the balance between devaluations and revaluations, the exchange rate appreciations or upward floats of Canada in 1970 and Austria, Germany, the Netherlands, and Switzerland in May 1971 followed by those of most other industrial countries after August 1971 provide evidence of an increase in reserve ease for these countries, while the suspension of convertibility by the United States, which may be regarded as analogous to downward floating, and a number of devaluations by developing countries, provide evidence in the opposite sense. In June 1972 the United Kingdom and a number of other countries in the sterling area had resort to a floating rate which resulted in a depreciation of their currencies.

Reliance on balance of payments credits was reduced in the course of 1970 and 1971. As was indicated in Table 7, net use of IMF credit (i.e., outstanding drawings in the credit tranches) declined in 1970 and even more in 1971. Partly responsible for this development were large repayments of outstanding drawings by France and the United Kingdom. However, new credit tranche drawings by all groups of countries also were unusually low, reflecting, at least in part, uncertainty about exchange rate developments in general and about the dollar price of gold in particular. Amounts outstanding under swap facilities or related credit facilities of central banks and treasuries declined substantially in 1970 and continued to decline in 1971.

The divergence of countries' demand management policies from what might be regarded as optimal in the light of domestic developments alone is another possible symptom of reserve shortage or excess, but one that is extremely difficult to assess. As described in Chapter 1, prices, particularly in industrial countries, started to rise at an undesirably high rate in 1969. This increase accelerated in 1970 and at the beginning of 1971, but lessened somewhat toward the end of 1971

[4] See *Twenty-Third Annual Report on Exchange Restrictions* (Washington, 1972), page 2.

and in the first few months of 1972, partly as a result of measures of price and incomes policy. In view of this sequence of events, compared with the timing of reserve increases, it is difficult to attribute primary responsibility for recent price movements to recent reserve developments, since the upward thrust of prices started at the end of a period of extremely slow reserve growth and preceded, rather than followed, the sharp rise in reserves in 1971. This does not preclude the possibility that conditions of reserve ease, where they existed, may have affected the strength of resistance against price changes. Policies tending to reduce inflationary pressures were acknowledged to be desirable for domestic reasons in most countries during this period. However, since unemployment tended to remain high or even to increase in many major countries, the design of policies had in some instances to achieve a compromise between the goals of price stability and full employment. Failure to counteract recent inflationary developments more effectively must be ascribed more to the conflict of the targets of price stability and full employment, as well as to the inadequacy of the available policy instruments, than to any lack of concern, caused by a high degree of reserve ease, over the goal of price stability.

Chapter 3

Activities of the Fund

THE disturbances to the international monetary system that culminated in and followed the decision by the United States on August 15, 1971 to suspend the convertibility of the U. S. dollar into gold and other reserve assets had a profound impact on the Fund's activities. Re-examination of the exchange rate structure was intensified, the conduct of the Fund's financial operations required new methods and procedures, and improvement or reform of the international monetary system gained added urgency. The importance of progress on each of these three areas was emphasized in a Resolution adopted by the Governors at the Fund's 1971 Annual Meeting.[1]

The Governors' Resolution reflected the dangers of instability and disorder in currency and trade relationships in the existing situation. Inter alia, it called for collaboration in efforts to bring about a reversal of the tendency to maintain and extend restrictive trade and exchange practices. Members were called upon to collaborate with the Fund and with each other in order, as promptly as possible, to establish a satisfactory structure of exchange rates, maintained within appropriate margins, for their currencies, together with the reduction of the restrictive practices.

In the Resolution, member countries were also called upon to collaborate with the Fund and with each other in order, as promptly as possible, to facilitate resumption of the orderly conduct of the operations of the Fund. It was possible to continue these operations, although serious problems arose in their conduct as a result of the uncertainty about currency relationships and the increasing likelihood that the dollar price of gold would be raised. This affected members' attitudes regarding transactions with the Fund. On the one hand, purchases of currencies from the Fund were less

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[1] Resolution No. 26-9, International Monetary System, adopted by the Board of Governors on October 1, 1971, reads as follows:

WHEREAS the present international monetary situation contains the dangers of instability and disorder in currency and trade relationships but also offers the opportunity for constructive changes in the international monetary system; and

WHEREAS it is of the utmost importance to avoid the aforesaid dangers and assure continuance of the progress made in national and international wellbeing in the past quarter of a century; and

WHEREAS prompt action is necessary to resume the movement toward a free and multilateral system in which trade and capital flows can contribute to the integration of the world economy and the rational allocation of resources throughout the world; and

WHEREAS consideration should be given to the improvement of the international monetary system and the adjustment process; and

WHEREAS the orderly conduct of the operations of the International Monetary Fund should be resumed as promptly as possible in the interest of all members; and

WHEREAS all members of the Fund should participate in seeking solutions of the aforesaid problems;

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

I. Members of the Fund are called upon to collaborate with the Fund and with each other in order, as promptly as possible, to
   (a) establish a satisfactory structure of exchange rates, maintained within appropriate margins, for the currencies of members, together with the reduction of restrictive trade and exchange practices, and
   (b) facilitate resumption of the orderly conduct of the operations of the Fund.

II. Members are called upon to collaborate with the Fund and with each other in efforts to bring about
   (a) a reversal of the tendency in present circumstances to maintain and extend restrictive trade and exchange practices, and
   (b) satisfactory arrangements for the settlement of international transactions which will contribute to the solution of the problems involved in the present international monetary situation.

III. The Executive Directors are requested:
   (a) to make reports to the Board of Governors without delay on the measures that are necessary or desirable for the improvement or reform of the international monetary system; and
   (b) for the purpose of (a), to study all aspects of the international monetary system, including the role of reserve currencies, gold, and special drawing rights, convertibility, the provisions of the Articles with respect to exchange rates, and the problems caused by destabilizing capital movements; and
   (c) when reporting, to include, if possible, the texts of any amendments of the Articles of Agreement which they consider necessary to give effect to their recommendations.

attractive because the resulting liabilities were fixed in terms of gold. On the other hand, countries felt it advantageous to repurchase outstanding drawings from the Fund with currencies, thereby reducing their liabilities expressed in terms of gold. But a number of countries with creditor positions in the Fund were reluctant to see them reduced by the use of their currencies in repurchases—as this would decrease assets valued in terms of gold and as the repurchasing member would be likely to seek to obtain the creditors' currencies by the exchange of U. S. dollars, for which convertibility had been suspended.[2] Similarly, participants in the Special Drawing Account were reluctant to reduce their holdings of special drawing rights (SDRs), the value of which is constant in terms of gold.

Part III of the Resolution of the Governors requested the Executive Directors to make reports to them without delay on the measures necessary or desirable for the improvement or reform of the international monetary system. The Executive Directors have continued their detailed examination of the various aspects of reform, and a separate initial report is being submitted to the Board of Governors.

In June 1972 the Executive Directors submitted to the Board of Governors a proposal for a Committee of the Board of Governors on Reform of the International Monetary System and Related Issues. The Resolution establishing the Committee was adopted by the Governors on July 26, 1972 and is reproduced in Appendix III. This Resolution is the result of extensive consideration on ways of providing a more effective forum for examination at a high policymaking level of the issues relating to reform of the international monetary system, with full participation by developed and developing member countries alike. The Committee's task will be to advise and report to the Board of Governors on all aspects of reform, including proposals for amendment of the Articles of the Fund. The members of the Committee will be appointed by each of the countries or groups of countries that appoint or elect an Executive Director of the Fund, resulting in a Committee of 20 members.

Other, more normal activities, of course, occupied much of the Fund's time in the period since the preparation of the 1971 Annual Report. As indicated above, it was possible to conduct financial transactions, which were on a relatively large scale. Consultations with member countries, technical assistance, and other work continued as in previous years. Policies were reviewed and new decisions were taken, affecting both the General Account and the Special Drawing Account. In the light of the experience gained in the operation of the Special Drawing Account and with the approach of the end of the three-year basic period for the allocation of SDRs agreed in 1969, policies in this area are receiving increasing attention.

Studies such as that on the size and structure of the Executive Board were continued during the year. Other studies were carried on in the broader context of reform. These covered work already begun on exchange rate flexibility and short-term capital movements. Examination of various proposals for a link between the issuance of SDRs and the financing of economic development also continued in the same context.

Following the realignment of exchange rates in December 1971, the Fund reviewed its accounting practices. In view of the fixed gold value of special drawing rights, their international character, and their role as an international reserve asset, the Executive Directors proposed to the Board of Governors that the Fund's By-Laws be changed to provide that the accounts of the Fund's General Account be summarized in SDRs, the unit of value of which is equivalent to 0.888671 gram of fine gold.[3] The Board of Governors agreed to this proposal effective March 20, 1972.

Exchange Rates

The exchange rate structure was already under severe strain at the opening of the fiscal year 1971/72, and five members of the Fund took action in the exchange field on May 9, 1971. The German authorities advised the Fund that they

[2] The U. S. dollar could not itself be used in repurchase as the Fund's holdings of that currency were in excess of 75 per cent of the U. S. quota following purchases by the United States in June and August 1971; these purchases raised the Fund's holdings to 91.5 per cent of the U. S. quota.

[3] Executive Board Decisions Nos. 3577-(72/16) and 3578-(72/16), adopted February 25, 1972 and reproduced in Appendix II.

TABLE 13. EXCHANGE RATE RELATIONSHIPS RESULTING FROM THE SMITHSONIAN AGREEMENT, DECEMBER 18, 1971

Member	Percentage Change in Terms of Par Value	Percentage Change in Terms of U. S. Dollar	Exchange Rate Action	Effective Date
Belgium	+2.76	+11.57	central rate	Dec. 21, 1971
Canada			floating rate continued	
France	—	+ 8.57	par value maintained	
Germany	+4.61	+13.58 [1]	central rate	Dec. 21, 1971
Italy	−1.00	+ 7.48	central rate	Dec. 20, 1971
Japan	+7.66	+16.88	central rate	Dec. 20, 1971
Netherlands	+2.76	+11.57 [1]	central rate	Dec. 21, 1971
Sweden	−1.00	+ 7.49	central rate	Dec. 21, 1971
United Kingdom	—	+ 8.57	par value maintained	
United States	−7.89	—	new par value	May 8, 1972

[1] Based on par value in effect prior to May 9, 1971.

would not, for the time being, maintain the exchange rates for the deutsche mark within the established margins, and the Netherlands authorities informed the Fund that they found it necessary to take similar action. On the same day Austria proposed an appreciation of 5.05 per cent in the par value of the schilling, and the dual foreign exchange market regulations of the Belgian-Luxembourg Economic Union were modified with a view to discouraging excessive capital inflows.[4]

Subsequent developments leading up to the August 15 suspension of the convertibility of the U. S. dollar into gold and other reserve assets are described in Chapter 1. The U. S. authorities notified the Fund that the United States no longer, in fact, freely bought and sold gold, for the settlement of international transactions. As a result, it was no longer assured that exchange transactions between the U. S. dollar and the currencies of other members would take place within the prescribed limits around parity in the territories of the United States.

The Fund noted the circumstances that had led the United States authorities to take this action. The Fund emphasized the undertaking of members to collaborate with it to promote exchange stability, to maintain orderly exchange arrangements with other members, and to avoid competitive exchange alterations. It therefore welcomed the intention of the United States authorities to act in accordance with this undertaking. The Fund stated that it would remain in close consultation with the authorities of the United States and the other members with a view to the prompt achievement of a viable structure of exchange rates on the basis of parities established and maintained in accordance with the Articles of Agreement.

In the weeks following the U. S. action, exchange rates fluctuated in the markets, and various trade and exchange measures were taken to deal with the new situation. Between August 15 and mid-December 1971, the Fund was called upon to take little formal action with respect to individual exchange rates. The only par value change was that by Israel, which with the Fund's concurrence devalued the pound by 16.7 per cent on August 21.

As was made abundantly clear at the Annual Meeting in late September and early October, there was broad agreement on the desirability of an early return to an orderly exchange system. Intensive work was, therefore, carried out both within the Fund and outside it to determine what exchange rate relationships among major currencies would give promise of stability in the foreseeable future, without recourse to restrictions and large-scale intervention in the markets by national authorities. At the same time, various aspects of the realignment of currencies were discussed in different forums, and on December 16 a joint meeting of Executive Directors of the Fund and Deputies of the Group of Ten was held to discuss the international monetary situation.

On December 17 and 18 the Ministers and Central Bank Governors of the Group of Ten met at the Smithsonian Institution in Washington and reached agreement on the realignment of the currencies of their countries.[5] The pattern of exchange rate relationships that emerged is set forth in Table 13.

[4] For details see *Annual Report, 1971,* pages 37–38. Switzerland announced a change in the parity of the Swiss franc on May 9, 1971.

[5] Other aspects of the Smithsonian Agreement are described in Chapter 1.

Immediately following the agreement on realignment, the Fund adopted a decision, entitled "Central Rates and Wider Margins: A Temporary Regime," to enable members to observe the purposes of the Fund to the maximum extent possible during the temporary period preceding the resumption of effective par values with appropriate margins in accordance with the Articles.[6] The decision indicated the practices that members could follow consistently with their obligations under the Articles to collaborate with the Fund to promote exchange stability, as well as with the call for collaboration in the Resolution adopted by the Board of Governors at the 1971 Annual Meeting.

The decision provided for a temporary regime under which members could permit their exchange rates against their intervention currencies to move within margins of 2¼ per cent either side of the parity relationship, calculated on the basis of par values or central rates (rates that might be communicated to the Fund under this decision by members temporarily not maintaining exchange rates for their currencies on the basis of par values). A member that maintained the rates for its currency within these margins in terms of its intervention currency could permit resulting exchange rates for its currency in relation to currencies other than its intervention currency to fluctuate within margins of 4½ per cent from parity, with further margins of 1 per cent in certain circumstances.

In the month following December 18, 1971, the Fund concurred in or noted changes in the par values of the currencies of 12 member countries and nonmetropolitan territories and formally took note of the establishment of 33 central rates. Other member countries advised the Fund that they were maintaining the par values of their currencies or that they were pegging their exchange rates to some other currency. By the end of January 1972 the Fund had noted that 51 members and nonmetropolitan territories were availing themselves of the wider margins under the decision of December 18. The 51 countries included all industrial member countries, except Canada and the United States, and most of the more developed primary producing countries, and included only members with a par value or a central rate. A listing of the exchange rates established (par values, central rates, and others) through July 31, 1972 and of the countries presently availing themselves of the wider margins is presented in Appendix Table I.1

After consultation with the Fund, the United States authorities proposed a new par value for the U. S. dollar of US$38 per troy ounce of fine gold, which became effective on May 8, 1972. The change fell within the terms of Article IV, Section 5(*c*)(i), of the Fund Agreement;[7] accordingly, the new par value was simply noted by the Fund. Between the passage of U. S. legislation to authorize and implement the change in the par value of the dollar and May 31, 1972, the Fund concurred in or noted new par values established by 21 members. Although most of these members had previously communicated central rates to the Fund, many others with central rates—including the larger countries that had established them—did not quickly propose new par values. On July 31 central rates were maintained by 18 member countries and one nonmetropolitan territory.

On June 23, 1972, the Fund was notified by the Government of the United Kingdom that for the time being the market rate for sterling would not necessarily be confined within announced limits either in respect of the U. S. dollar or in respect of EEC currencies. The Government of the United Kingdom expressed the intention to return as soon as conditions permitted to the maintenance of normal Fund margins around a parity and participation in the special EEC currency arrangements. The Fund was also advised that exchange control was being extended to capital transactions by U. K. residents with residents of the overseas sterling area except the Irish Republic.

The Fund noted the circumstances of the situation that had led the U. K. Government to take the actions described. The Fund welcomed the intention of the U. K. authorities to collaborate

[6] Executive Board Decision No. 3463-(71/126), adopted December 18, 1971 and reproduced in Appendix II.

[7] Article IV, Section 5(*c*)(i), of the Articles of Agreement is as follows:

(*c*) When a change is proposed, the Fund shall first take into account the changes, if any, which have already taken place in the initial par value of the member's currency as determined under Article XX, Section 4. If the proposed change, together with all previous changes, whether increases or decreases,

(i) does not exceed ten percent of the initial par value, the Fund shall raise no objection.

with it in accordance with the Articles of Agreement, and to resume as soon as conditions permitted the observance of margins around parity consistent with decisions of the Fund. The Fund also stated that it, and in particular the Managing Director, would remain in close consultation with the authorities of the United Kingdom on their resumption of margins around parity, and the Managing Director would take appropriate initiatives for those consultations.

Between June 23 and July 31, the Fund was informed by the authorities of 17 other member countries in the sterling area that they too had decided to allow the exchange rates for their currencies to float, with all but one of the currencies maintaining their relationships with the pound sterling. (See Appendix Table I.1.) Similar notification was received from the U. K. authorities with respect to the currencies of certain nonmetropolitan territories. The Fund's approach to the action by these countries and territories was similar to that with respect to the U. K. action on sterling, modified by special circumstances in the individual situations.

Special Drawing Account

Although the period since May 1, 1971 has been one of considerable disturbance in the international monetary system, the mechanism of the Special Drawing Account has remained fully operative, and participants have at all times been able to use their SDRs to obtain needed foreign exchange and to make repurchases from and to pay charges to the Fund's General Account. The movements of SDRs among participants and between participants and the General Account were naturally influenced by the major developments in the monetary system during this period.

In 1971/72 a relatively large number of countries experienced increases in gross reserves; as a result, fewer participants than in the previous fiscal year had balance of payments needs to use SDRs to obtain foreign exchange. Nevertheless, a small number of countries with balance of payments problems used substantial proportions of their SDR holdings to finance their deficits.

Under the Rules and Regulations of the Fund, the gold value of the special drawing right was translated into values in terms of currencies through the par value of the U. S. dollar and the market rates for other currencies against the U. S. dollar; as a consequence, an expectation of an increase in the official dollar price of gold, following the U. S. announcement of August 15, created a disincentive for participants to use their SDRs. In the absence of a change in the par value of the U. S. dollar, the amounts of currencies that could be obtained against SDRs continued to reflect the one-for-one relationship between the SDR and the dollar. This situation influenced participants to refrain from the use of SDRs, both to obtain currency and in transfers to the General Account. Following the agreement of December 18, 1971 on the general realignment of currencies, the Executive Directors took a decision in early January 1972 which enabled participants to obtain against SDRs amounts of foreign exchange that corresponded to the prospective change in the par value of the U. S. dollar.[8]

Another factor that affected the use of SDRs during the fiscal year was the need for participants to take account of the provisions for the reconstitution of their SDR holdings.[9] However, the overall effect of the provisions for reconstitution on the use of SDRs is difficult to assess, since there was considerable variation among the actions of participants affected.

The third and final allocation of SDRs in the first basic period was made on January 1, 1972. The amount of the allocation was SDR 2,952 million and 112 participants received amounts equivalent to 10.6 per cent of their respective Fund quotas. The total value of all transfers in SDRs during the period May 1, 1971 to April 30, 1972 amounted to SDR 1,306 million, compared with SDR 1,213 million in the previous fiscal year. A large proportion—some 61 per cent—of the total transferred in 1971/72 was the result of the use of SDRs by two participants; the United States transferred SDR 355 million in exchange for balances of dollars, and the United Kingdom used SDR 438 million largely in repurchasing sterling held in the General Account. Mainly as a result of the United Kingdom's use

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[8] Executive Board Decision No. 3537-(72/3) G/S, adopted January 4, 1972 and reproduced in Appendix II. This decision was terminated on May 8, 1972, when the United States established a new par value.

[9] See discussion of reconstitution, page 43.

of SDRs, receipts by the General Account exceeded transfers by SDR 420 million during the fiscal year and the General Account's holdings increased to SDR 910 million. Details of the various categories of transfers are shown in Appendix Table I.3.

The Articles of Agreement provide that the Managing Director must submit to the Board of Governors, not later than six months before the end of each basic period (i.e., by June 30, 1972 in respect of the current period), a proposal with respect to the allocation of special drawing rights in the next basic period, provided that, if he ascertains that there is no proposal consistent with the Articles that has broad support among participants, he must report to the Board of Governors and to the Executive Directors. On June 26, 1972 the Managing Director, after informing the Executive Directors, reported to the Board of Governors that the progress made so far, both in determining whether there was a need to supplement existing reserve assets and in ascertaining the views of the participants in the Special Drawing Account with respect to such an allocation, was not sufficient to provide the basis for a proposal before July 1, 1972. Further discussions, including consultations with participants, would be necessary before definite conclusions could be reached on the duration of the next basic period, on the question whether an allocation should be made, and, if so, on the rate at which it should be made. For these reasons, the Managing Director concluded that it was not possible to make a proposal by June 30. The Managing Director noted that he must make a proposal whenever he was satisfied that it could be made consistently with the Articles. Further discussions would be pursued actively in order to enable him to arrive as promptly as possible at a proposal consistent with the Articles.

Transactions Between Participants

Transfers of special drawing rights between participants in 1971/72 totaled SDR 647 million, about the same as the amount of SDR 633 million transferred in the previous fiscal year. The amounts used and received by individual participants are shown in Appendix Table I.4.

As part of the arrangements under which the Fund's holdings of pounds sterling were reduced by the equivalent of SDR 1,150 million on April 28, 1972,[10] the Fund prescribed that Canada could transfer SDR 25 million to the United Kingdom in exchange for currency. This transaction was possible under Article XXV, Section 2(*b*)(ii), which allows the Fund to prescribe transactions in which the SDR holdings of the two countries involved are brought closer to their net cumulative allocations. Under Article XXV, Section 3(*c*), the Fund exempted Canada from the expectation of balance of payments need for this transaction. All other transactions between participants during the period were subject to the requirement of need.

As in the previous fiscal year, the largest user of SDRs in transfers to other participants was the United States, which, as noted, used a total of SDR 355 million in five transactions arranged prior to August 15, 1971 to redeem balances of U. S. dollars from Belgium and the Netherlands. In such transactions the transfer takes place by agreement between the participants concerned after notification to the Fund; the user of SDRs is subject to the requirement of need but the receivers are not designated by the Fund.

Other transfers between participants, amounting to SDR 267 million, were in transactions to obtain currency through the designation procedures, under which the Fund designated participants to receive the SDRs being used and to provide currency to the users. The total of transactions with designation was SDR 81 million less than in the previous fiscal year, and the use of SDRs in this way involved a substantially smaller number of transactions and a much narrower range of users (Table 14); transfers by only four participants—Argentina (SDR 154 million), South Africa (SDR 25 million), Zaïre (SDR 32 million), and Zambia (SDR 26 million)—accounted for some 89 per cent of the total.

The balance of payments needs of a relatively small number of participants determined the timing and amount of use of SDRs to obtain currency through designation; such use did not follow a pattern that could be closely linked to major developments in the international monetary system. In the period prior to August 15, 1971 transactions with designation totaled SDR 50 million; from that date through the end of 1971,

[10] See page 46.

TABLE 14. TRANSFERS OF SPECIAL DRAWING RIGHTS BETWEEN PARTICIPANTS, JANUARY 1, 1970–APRIL 30, 1972

		Fiscal Years		Total
Particulars	Jan. 1, 1970– Apr. 30, 1970	May 1, 1970– Apr. 30, 1971	May 1, 1971– Apr. 30, 1972	Jan. 1, 1970– Apr. 30, 1972
Transactions with designation				
Number of users	20	39	15	48
Number of transactions	26	44	23	93
Total amount (SDR millions)	155	348	267	769
Number of recipients	20	25	14	40
Transactions without designation				
Number of users	1	1	2	3
Number of transactions	1	7	6	14
Total amount (SDR millions)	20	286	380	686
Number of recipients	1	3	3	5

in spite of the uncertainty over the gold price, a larger amount of SDR 101 million was used through the designation system. Although the decision of the Executive Directors on January 4, 1972 removed uncertainty as to the currency value of SDRs, and participants received additional SDRs through the third allocation on January 1, 1972, transactions with designation during the first four months of 1972 totaled only SDR 116 million, compared with SDR 212 million in the comparable period of 1971.

Designation

Participants are subject to designation to provide currency against SDRs if their balance of payments and reserve positions are sufficiently strong; the quarterly plans that were approved by the Executive Directors during the fiscal year included 31 participants whose positions were considered to meet this standard. However, only 14 participants, compared with 25 in the previous fiscal year, were actually designated. This smaller number of participants receiving SDRs through designation was partly the result of the smaller volume of transactions, but to a greater extent it resulted from the concentration of designation on participants that had made previous use of the facility. The present procedures for designation—which will be reviewed by the Executive Directors before the end of 1972—aim at the restoration of a participant's previous use of SDRs over a period of several quarters, provided that the participant's balance of payments and reserve position continues to justify designation. The achievement of this aim is, of course, affected by the volume of transactions involving designation. Since the first quarter of 1971, additional emphasis has been placed on the designation of participants with holdings below their net cumulative allocations in order to ensure some restoration of such holdings in periods in which the volume of designation was a small proportion of the total provided for in the quarterly plans.

Of the SDR 267 million received through designation during the fiscal year, SDR 202 million went to 10 participants that had previously made net use of SDRs, while only SDR 65 million was received by 4 participants with SDR holdings above their total allocations. The amounts for which each of the 14 participants were designated are shown in Appendix Table I.4. The United Kingdom, as the largest previous net user among participants subject to designation, was designated to receive SDR 161 million.

Transactions and Operations Between Participants and the General Account

Pursuant to a decision of the Executive Directors, participants have been able to use SDRs without limitation in repurchases other than those under Article V, Section 7(*b*), and in the payment of charges due to the General Account.[11] These transfers of SDRs are not subject to the

[11] Executive Board Decision No. 2901-(69/122) G/S, adopted December 18, 1969. See *Annual Report, 1970*, pages 176–77. This decision was reviewed in 1970 and is subject to further review before the end of 1972.

SDRs can be used in discharge of Article V, Section 7(*b*), repurchase obligations only to the extent that the obligation accrues in SDRs; they cannot be used in substitution of other media. During 1971/72, SDR 6.9 million was used to discharge repurchase obligations that accrued in special drawing rights. SDRs can be used to discharge voluntary repurchases only by Executive Board decision.

requirement of a balance of payments need and thus their volume is not directly affected by developments in participants' reserves. From May 1, 1971 to April 30, 1972, participants transferred a total of SDR 540 million to the General Account, of which SDR 501 million was in repurchases. A substantial proportion of this total resulted from the use of SDR 425 million in the repurchase by the United Kingdom on April 28, 1972. In the previous fiscal year repurchases in special drawing rights amounted to SDR 357 million, this figure having been heavily influenced by the use of a total of SDR 228 million by the United Kingdom and India. In payment of charges the Fund in 1971/72 received SDR 30 million, about half of total charges paid by members in that year.

During the fiscal year the Fund transferred to participants a total of SDR 120 million from the General Account; these transfers are described in Appendix I and shown by country and category in Table I.6.

Reconstitution

Under the reconstitution provisions set forth in Article XXV, Section 6(*a*), and Schedule G, Paragraph 1(*a*), a participant in the Fund's Special Drawing Account shall so use and reconstitute its holdings of SDRs that, five years after the first allocation and at the end of each calendar quarter thereafter, the average of its total daily holdings over the most recent five-year period will not be less than 30 per cent of the average of its daily net cumulative allocation of SDRs over the same period. The rules for reconstitution are subject to review before the end of 1972.

On December 31, 1971 the Fund started making monthly calculations, in accordance with Rule P-2 of the Rules and Regulations, to provide an indication of whether and to what extent each participant would need to acquire SDRs to achieve the required average of 30 per cent. In order to make the calculations, it is necessary for the Fund to make certain assumptions, in addition to those in Rule P-2, with respect to allocations or cancellations during the remainder of any reconstitution period. The Executive Directors took a decision, which will be reviewed before the end of 1972, that for the purposes of these calculations it should be assumed that no allocations or cancellations would be made after January 1, 1972.[12] This assumption has application only in respect of the procedures associated with the calculations and does not in any way prejudice any future proposals or decisions on allocations or cancellations of SDRs. The same decision permitted participants with a need to reconstitute to obtain SDRs from any other participant with a balance of payments need to use SDRs. It also enabled participants to obtain SDRs from the General Account to promote reconstitution, either against gold or currency acceptable to the Fund or as part of a normal purchase in accordance with the Fund's policies on the use of its resources.

The calculations made on December 31, 1971 showed that, under these assumptions, 16 participants had a need to reconstitute their holdings; in no case was this need sufficiently large for the participants to be obliged to take action to obtain SDRs. Nevertheless, during the first four months of 1972, 4 participants—Ceylon, Costa Rica, Indonesia, and the Sudan—voluntarily obtained a total of SDR 13.7 million from the General Account against currency; 3 participants—Argentina, the Syrian Arab Republic, and the Sudan—voluntarily acquired a total of SDR 32.7 million as part of purchases they made from the General Account. As a result of these transactions, 2 participants acquired amounts of SDRs that (under the assumptions) were sufficient to restore the average of their holdings to 30 per cent of the average of their daily net cumulative allocations. Nine participants were added to the reconstitution list on April 30, 1972 as a result of their use of SDRs during the first four months of the year.

Distribution of Holdings of Special Drawing Rights

On April 30, 1972 participants whose holdings of SDRs were below net cumulative allocations had made total net use of SDR 1,962 million, which was some 21 per cent of the SDR 9.3 billion in existence at that date; at the end of the previous fiscal year net use was just over 17 per cent of the total of SDRs then in existence.

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[12] See Executive Board Decision No. 3457-(71/121) G/S, adopted December 3, 1971, and reproduced in Appendix II.

Among the industrial countries, only three—the United States (SDR 491 million), the United Kingdom (SDR 481 million), and Denmark (SDR 11 million)—had made net use of SDRs. The fact that no other industrial country was a net user of SDRs at that date reflected the increases in reserves experienced by almost all these countries. As a group, the less developed countries had made net use of SDR 787 million.

The positions of groups of participants in the Special Drawing Account on April 30, 1972 are shown in Table 15. The main changes in the distribution of SDRs that took place over the year were a net shift of some SDR 250 million from the less developed areas to the industrial countries, a significant readjustment of holdings among the industrial countries, and the transfer of SDRs by the United Kingdom to the General Account.

General Account

Although the disruption of the international monetary system created serious difficulties for the functioning of the General Account in the course of 1971/72, aggregate amounts of purchases and repurchases by member countries exceeded those of the previous year—reflecting large purchases by the United States and repurchases by France and the United Kingdom. Repurchases equivalent to SDR 3.1 billion were almost double those of any previous year. Total purchases of currencies and special drawing rights from the Fund amounted to the equivalent of SDR 2.0 billion, and for the second year in succession repurchases exceeded purchases. This brought about a reduction of members' outstanding drawings from SDR 4.1 billion on April 30, 1971 to SDR 2.9 billion on April 30, 1972, the lowest level in seven years. Moreover, purchases were concentrated in the gold tranche, and on April 30, 1972 only 28 per cent of members' indebtedness to the Fund was the result of purchases in the credit tranches. Members' creditor positions in the Fund decreased slightly, from the equivalent of SDR 1.7 billion on April 30, 1971 to SDR 1.6 billion on April 30, 1972.

Until August 15, 1971 the currencies used in Fund transactions were selected on the basis of the principles set forth in the statement on currencies to be drawn and to be used in repurchases

Table 15. Summary of Positions of Participants in the Special Drawing Account, April 30, 1972

(In millions of SDRs)

	Number of Participants (1)	Net Cumulative Allocations (2)	Holdings April 30, 1972 (3)	Col. 3 as Per Cent of Col. 2 (4)	Net Use (−) Net Receipt (+) (5)	Net Use (−) Net Receipt (+) April 30, 1971 (6)
Industrial countries						
Net users	3	3,383	2,400	70.9	−983	−378
Net receivers	10	2,788	3,795	136.1	+1,007	+576
Nonusers [1]	1	7	7	99.9	—	—
	14	6,178	6,202	100.4	+24	+198
Primary producing countries						
More developed areas						
Net users	6	332	168	50.6	−164	−164
Net receivers	4	452	469	103.8	+17	+13
Nonusers [1]	1	5	5	99.9	—	—
	11	789	642	81.4	−147	−151
Less developed areas						
Net users	58	1,518	704	46.4	−814	−568
Net receivers	12	664	691	104.1	+27	+32
Nonusers [1,2]	18	166	166	99.9	—	—
	88	2,348	1,561	66.5	−787	−537
Total, all participants	113	9,315	8,405	90.2	−910 [3]	−490

[1] Nonusers are defined as participants that have neither received nor used special drawing rights except in payment of their shares in the annual assessment.
[2] Includes one participant that elected not to receive allocations.
[3] Holdings of the General Account on April 30, 1972.

approved by the Executive Directors in a decision adopted in July 1962.[13] The Fund's financial transactions were conducted on the basis of par values or provisionally agreed rates. Certain fluctuating currencies were valued at their market rates, including the Canadian dollar, from May 1970, and the deutsche mark and the Netherlands guilder, from May 1971.[14]

After August 15, 1971, as was noted earlier, the expectations that gold might increase in U. S. dollar value had an effect on members' attitudes toward their positions in the Fund. Certain members with super gold tranche positions became reluctant to have this primary reserve asset diminished through the use of their currency in repurchase, while members with liabilities to the Fund saw advantage in their discharge.

The normal currency policy of the Fund, based on the 1962 statement, was suspended for the time being. Transactions did not promote harmonization between members' reserve positions in the Fund and their holdings of gold and foreign exchange, the ratio between which the Fund had in practice taken into account.[15] Arrangements were made with three members—Canada, France, and Germany—for their currencies to be used in transactions with the Fund. Under these arrangements the three currencies might be used for repurchases to the extent of their prior use in drawings since August 15, 1971, provided that consultation with the member preceded each transaction—a so-called turnstile arrangement. Appropriate exchange rates for transactions in these currencies were determined by the Fund in accordance with the Articles of Agreement and under existing Executive Board decisions.[16] Repurchases were thus made that might otherwise have had to be postponed at the request of the member and by decision of the Executive Directors.

The realignment of December 18, 1971 did not resolve the operational problems of the Fund. While the new exchange rates of major currencies in the exchange markets expressed in terms of the U. S. dollar reflected the latter's prospective gold value, this was not so in the Fund because a new par value for the U. S. dollar had not been established. It became necessary to establish appropriate exchange rates in the Fund to permit transactions in currencies, other than the U. S. dollar, that reflected the realigned exchange rates in the market. Further, in accordance with the Fund's decision of December 18, 1971, exchange rates could fluctuate within 2¼ per cent of the parity relationships, based on par values or central rates, and in order to avoid difficulties in the Fund's operations with members it was necessary that transactions with the Fund be undertaken at rates derived from market exchange rates rather than on the basis of par values, as formerly, or central rates. Members' transactions with the Fund would not then be influenced by differences between the par value or the central rate of a currency and the exchange value of that currency in the market.

On January 4, 1972 the Executive Directors adopted a decision as a temporary measure to facilitate the resumption of the orderly conduct of the operations of the Fund.[17] That decision enabled the Fund to adjust its holdings of a currency used in a transaction on the basis of the ratio of the representative rate for the member's currency in the exchange market to the effective parity relationship between that currency and the member's intervention currency.

In the period following the realignment of exchange rates, Fund operations continued to be conducted on the basis of the turnstile arrangement in view of the inconvertibility of the U. S. dollar into gold and other reserve assets. As a means of further facilitating the resumption of Fund operations, the number of currencies included in the turnstile arrangement was increased in March 1972; Austrian schillings, Italian lire, and Japanese yen could be used in drawings and repurchases (in addition to Canadian dollars, deutsche mark, and French francs), while pounds sterling could be used in drawings. During the period August 15, 1971 to April 30, 1972, transactions under the turnstile arrangement resulted in a net cumulative excess of drawings equivalent to SDR 111 million, which was available for repurchase.

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[13] See *Annual Report, 1962,* pages 36–41.
[14] See *Annual Report, 1971,* pages 165 and 167.
[15] See *Annual Report, 1969,* pages 150 and 153.
[16] Executive Board Decision No. 321-(54/32), adopted June 15, 1954, as amended by Executive Board Decision No. 3337-(71/44), adopted May 19, 1971.
[17] Executive Board Decision No. 3537-(72/3) G/S, adopted January 4, 1972 and reproduced in Appendix II.

However, the repurchase by the United Kingdom on April 28, 1972 was effected by special arrangements which were outside the turnstile arrangement. These arrangements covered a gold tranche purchase of the equivalent of SDR 200 million in sterling by the United States; a sale by Canada to the United Kingdom of SDR 25 million in gold and of SDR 25 million in special drawing rights, both of which were paid by the United Kingdom to the Fund; the transfer to the Fund of slightly more than SDR 400 million from the U. K. holdings of special drawing rights; and the payment of the equivalent of SDR 500 million in eight currencies that the Fund could accept.

On May 8, 1972, following the change in the par value of the U. S. dollar, the Executive Directors adopted a new decision regarding rates for computations and adjustments of the Fund's holdings of currencies.[18] This decision applied to all currencies for which rates were not maintained within the margins prescribed by the Articles or by Executive Board Decision No. 904-(59/32) and terminated the decision taken on January 4, 1972.

Three decisions adopted by the Executive Directors during the year provided for wider use of SDRs held by the General Account. In September 1971 it was decided that participants in the Special Drawing Account could purchase SDRs held in the General Account for immediate use to acquire currencies through designated transactions.[19] It was also decided that any such purchases of SDRs would be subject to the same service charge as that levied on purchases of currencies from the General Account.[20] As has already been noted, the Executive Directors decided in December 1971 to permit participants in the Special Drawing Account to acquire SDRs from the General Account for purposes of reconstitution.

[18] Executive Board Decision No. 3637-(72/41) G/S, adopted May 8, 1972 and reproduced in Appendix II.
[19] Executive Board Decision No. 3414-(71/98) G/S, adopted September 10, 1971 and reproduced in Appendix II.
[20] Executive Board Decision No. 3415-(71/98) G/S, adopted September 10, 1971 and reproduced in Appendix II.

Borrowing by the Fund

During the past fiscal year the Fund repaid in full its outstanding indebtedness. (See Appendix Table I.15.) This was the first time since the initial activation of the General Arrangements to Borrow (GAB) in December 1964 that no borrowings were outstanding. The GAB had been activated seven times with borrowings totaling the equivalent of SDR 2,155 million.

The repayments in May 1971 were made following the discharge by France of its repurchase obligation incurred under Article V, Section 7(*b*), as of April 30, 1970. The repayment in August 1971 became possible because of the increase in the Fund's holdings of currencies of the GAB creditors beyond its working requirements. At the same time the Fund repaid to Japan the second half of the SDR 250 million claim on the Fund under the bilateral borrowing arrangement concluded with Italy in August 1966, which claim had been acquired by Japan from Italy in 1970.

Use of Fund Resources

During the fiscal year 1971/72 purchases of currencies and special drawing rights by 30 members amounted to the equivalent of SDR 2,028 million (Appendix Table I.7), a substantial increase over SDR 1,167 million purchased by 44 members in 1970/71. The largest amount, equivalent to SDR 1,312 million, was purchased by the United States in three gold tranche transactions. All other purchases were by primary producing countries. Argentina purchased the second largest amount, equivalent to SDR 179 million, in two gold tranche transactions and a purchase under the Compensatory Financing Decision. In value terms, purchases were concentrated in the period prior to August 15, 1971, when SDR 1,251 million or 62 per cent of the year's total occurred. This, however, largely reflected SDR 1,112 million purchased by the United States. In terms of the number of purchase transactions, 41 of the 59 (almost 70 per cent of the year's total) took place in the period after August 15. In 1971/72 a number of members (China, Guyana, the Khmer Republic, Malaysia, Thailand, Uganda, and Zambia) used the Fund's resources for the first time.

Over three fourths of the total amount purchased during the fiscal year, SDR 1,576 million, consisted of gold tranche purchases [21] by 11 members. Purchases under stand-by arrangements totaled only SDR 220 million by 13 member countries, the smallest amount in 11 years. Similarly, the total amount of stand-by arrangements approved in 1971/72 was the smallest in any fiscal year since 1955/56. (See Appendix Tables I.8 and I.9.) Since September 15, 1969, however, amounts that might be drawn in the gold tranche have been excluded from stand-by arrangements.[22]

All stand-by arrangements in effect in 1971/72 were for primary producing countries. While purchases under these arrangements declined by SDR 85 million from the previous year, this group of countries increased purchases under the compensatory financing facility by SDR 164 million to a total of SDR 167 million in 1971/72. In addition, the Fund agreed to Ceylon's request for a reclassification of SDR 4.7 million under the provision, representing part of a purchase made in July 1971 under a stand-by arrangement.[23] The fiscal year also brought the first use of the Fund's buffer stock facility approved in June 1969. Five tin producing members purchased the equivalent of SDR 20 million under this facility in connection with their contributions to the Fourth International Tin Agreement.[24] Of this amount the equivalent of SDR 10 million was purchased in the gold tranche by three members who requested that these purchases be regarded as purchases under the buffer stock financing facility.[25] Two primary producing countries made the only credit tranche purchases not under stand-by arrangements, to a total of SDR 44.5 million.

Repurchases

During the past year repurchases amounted to SDR 3,122 million, by far the largest sum in any fiscal year since the beginning of the Fund's operations. Repurchases totaling the equivalent of SDR 984 million by France and SDR 1,564 million by the United Kingdom accounted for 82 per cent of the total. (See Appendix Table I.11.)

Repurchases included a record equivalent to SDR 1,215 million, or 39 per cent of total repurchases, in discharge of obligations incurred under Article V, Section 7(*b*), of the Fund Agreement. Of this amount, SDR 714 million related to obligations incurred as of April 30, 1970, which, due to the limitation of Article V, Section 7(*c*)(iv), fell to be discharged in subsequent financial years. The remainder, SDR 501 million, was in discharge of obligations incurred as of April 30, 1971.[26]

The sum of SDR 814 million, or 26 per cent of the total, was repurchased in accordance with schedules approved by the Fund, which provided

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

A super gold tranche position is that part of a gold tranche position that is the difference between the Fund's holdings of a member's currency and 75 per cent of the member's quota when the holdings are less than 75 per cent. Argentina made a super gold tranche purchase equivalent to SDR 5.2 million and part of Malaysia's 1971/72 purchases, equivalent to SDR 4.4 million, fell within that member's super gold tranche; such purchases are not subject to repurchase.

[22] See *Annual Report, 1970,* pages 138 and 175–76.

[23] Total purchases and repurchases under the decision on compensatory financing of export fluctuations since the facility was introduced on February 27, 1963 are shown in Appendix Table I.10. During 1971/72, 11 members repurchased SDR 59 million in respect of drawings made under the facility. This included SDR 4.3 million repurchased following recommendations made under paragraph (7) of the decision, as a result of export excesses in years following the shortfall year on which the original need for compensatory financing was based.

[24] See Executive Board Decision No. 3179-(70/102), adopted November 25, 1970 and reproduced on page 210 of the 1971 Annual Report, and Executive Board Decision No. 3351-(71/51), adopted June 21, 1971 and reproduced in Appendix II.

[25] See Executive Board Decision No. 3386-(71/83), adopted August 6, 1971 and reproduced in Appendix II.

[26] Article V, Section 7(*b*), provides that, subject to certain limitations, a member shall repurchase an amount of the Fund's holdings of its currency equivalent to one half of any increase in the Fund's holdings of its currency that has occurred during the Fund's financial year, plus one half of any increase, or minus one half of any decrease, in the member's monetary reserves during the same period, or, if the Fund's holdings of the member's currency have decreased, one half of any increase in the member's monetary reserves minus one half of the decrease in the Fund's holdings of the member's currency. While 14 members incurred obligations as of April 30, 1971 totaling the equivalent of SDR 565 million, Article V, Section 7(*c*)(iv), limited the amount to be discharged forthwith to SDR 99.6 million. (See Table I.12 and further information in Appendix I.)

for repurchase within five years from the date of purchase.

Repurchases under stand-by arrangements were SDR 863 million, 28 per cent of the total, and voluntary repurchases were SDR 216 million (7 per cent). Other repurchases amounting to SDR 14 million included SDR 7 million relating to currency payments in excess of 75 per cent of the increase in quotas in accordance with paragraph 5 of Board of Governors Resolution No. 25-3.[27]

The Executive Directors agreed to the requests of 12 members to schedule their repurchases for payment over periods up to five years from the date of purchase.

During the fiscal year member countries used gold aggregating the equivalent of SDR 506 million and a total of SDR 501 million in special drawing rights in repurchases. Almost all of this use of gold was in discharge of repurchase obligations incurred under Article V, Section 7(*b*), and Schedule B. (See Appendix Table I.13.)

Transactions and Operations in Gold

During the fiscal year 1971/72 the Fund received gold in a gross amount equivalent to SDR 1,139 million and disbursed gold to members in an amount equivalent to SDR 147 million, of which amount SDR 121 million was sold in replenishment of its currency holdings. (See Appendix Table I.16.) On April 30, 1972 the Fund's gold with depositories was equivalent to SDR 5,331 million, compared with SDR 4,338 million a year earlier.

The transactions and operations during 1971/72 were in large measure a consequence of repurchase obligations incurred by members under Article V, Section 7(*b*), and termination of the Fund's investment in U. S. Government securities.

In February 1972 the Fund, at the request of the U. S. Government, terminated its investment in U. S. Government securities and reacquired the equivalent of SDR 400 million of gold from the United States. At the same time, the Fund liquidated the general deposits of gold, equivalent to SDR 143.9 million of gold held with the Federal Reserve Bank of New York and equivalent to SDR 25.8 million of gold held with the Bank of England.[28] The items "Investments" and "General deposits" under the general heading "Gold Account" were eliminated from the balance sheet of the Fund, with a consequential increase in bar gold held with depositories.

During the fiscal year 1971/72, the Fund purchased the equivalent of SDR 105 million of gold from South Africa under the decision adopted on December 30, 1969,[29] following the purchase of gold equivalent to SDR 32.6 million in January 1971. The Fund decided in July 1971 to sell SDR 135 million of gold to 14 members in replenishment of its holdings of their currencies; however, 3 members exercised an option to receive special drawing rights instead, and SDR 21.3 million was transferred to them. With this operation the Fund sold gold and SDRs equivalent to virtually all the gold it had acquired from South Africa under Article V, Section 6(*a*), during 1971.

During 1971/72, one member bought gold from Germany for the purpose of paying its increased gold subscription to the Fund equivalent to SDR 7.5 million, and the Fund, in accordance with Board of Governors Resolution No. 25-3 on "Increases in Quotas of Members—Fifth General Review" and Article VII, Section 2(ii),[30] replenished its holdings of deutsche mark by an equivalent sale of gold. By April 30, 1972, 76 members had bought gold from other members for this purpose equivalent to SDR 571.5 million, and the Fund had sold the same amount of gold in replenishment.

Income, Expenditures, and Reserves

Most of the income of the Fund is derived from charges paid by members. These are payable in gold or SDRs, but, at the member's option, the stand-by charge may be paid in U. S. dollars. However, the provisions of Article V, Section 8(*f*), of the Fund Agreement permit total or partial payment in a member's own currency, if that member's monetary reserves equal less than one half of its quota.

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[27] See *Annual Report, 1970,* pages 31–34 and 177–84.

[28] See *Annual Report, 1971,* pages 45–46, and Executive Board Decision No. 3573-(72/13), adopted February 14, 1972 and reproduced in Appendix II.

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

[30] See *Annual Report, 1971,* page 43.

The present schedule of charges on the Fund's holdings of members' currencies in excess of their quotas, set forth in Appendix Table I.18, has been in effect since May 1, 1963. The annual review of this schedule took place in April 1972, and the Executive Directors concluded that it should remain unchanged. Charges on balances of members' currencies held by the Fund in excess of their respective quotas during the fiscal year 1971/72 amounted to SDR 62 million, compared with SDR 128 million during the preceding fiscal year.

The remainder of the Fund's income (SDR 10 million in 1971/72) stemmed mainly from service charges on credit tranche purchases from the Fund and from interest payments received on holdings of SDRs by the General Account. Assessments to cover the expenses of the Special Drawing Account amounted to SDR 1 million.

Interest payments in gold, in accordance with paragraph 9(b) of the General Arrangements to Borrow and paragraph 3(b) of the bilateral borrowing arrangement, amounted to a total of SDR 1.2 million in 1971/72, much smaller than the amount of SDR 12 million for the preceding year as a result of the repayment of all Fund borrowing by August 1971. Since July 1969 operational expenditures have also included payments of remuneration to creditor members as specified in Article V, Section 9, of the Fund Agreement; in the past fiscal year these payments totaled SDR 30.5 million, compared with SDR 37.4 million in 1970/71.[31]

A summary of income and expenditure over the past ten fiscal years is given in Appendix Table I.17. These data exclude income from the Fund's investments in U. S. Government securities. From May 1, 1971 to February 15, 1972, the date of termination of these investments, this income totaled the equivalent of SDR 17.5 million, which was added to the Special Reserve, increasing it to SDR 424 million.

For the fiscal year 1971/72 the Fund's net operational income was SDR 40.5 million, sharply down from 1970/71 as a result of reduced income from charges following heavy repurchases, and budgetary and fixed property expenditures were SDR 53.7 million. The net expenditure of SDR 13.3 million was provisionally charged to the Special Reserve, reducing that balance to SDR 410.6 million as of April 30, 1972.

The Fund's net income earned in any month is transferred to the General Reserve at the end of that month on a provisional basis, pending action by the Board of Governors at the Annual Meeting. In October 1971 the Board of Governors approved the recommendations of the Executive Directors that, of the net income equivalent to SDR 46.4 million for the fiscal year 1970/71, (1) the equivalent of SDR 12.5 million be distributed to members in such amounts that the total of remuneration and net income received by each member would be equivalent to 2 per cent on the amount by which 75 per cent of a member's quota exceeded the average of the Fund's holdings of its currency during the fiscal year ended April 30, 1971, and (2) the remainder be allocated to the General Reserve. Payments were made to 18 members in their own currencies in accordance with the provisions of Article XII, Section 6(*b*), and to 21 members in SDRs in accordance with an option granted in August 1971.[32]

Consultations with Member Countries

In 1971/72 the Fund completed 77 regular consultations with member countries, 53 of which were under Article XIV and 24 with Article VIII countries. Consultations are required each year for any member country under Article XIV maintaining restrictions on current international payments. In these consultations such restrictions are viewed in the context of the overall economic situation and policies of the member country and the state of the world economy. Apart from assisting in the establishment and maintenance of a multilateral system of current payments substantially free from restrictions and promoting international monetary cooperation, the consultations facilitate quick action by the Fund on proposed changes in par values or exchange practices

[31] In accordance with Rule I-9 of the Fund's Rules and Regulations and Executive Board Decision No. 3033-(70/38), adopted April 29, 1970, remuneration is paid as of the end of the Fund's fiscal year in gold, special drawing rights, or the member's own currency at the member's option.

[32] Executive Board Decision No. 3383-(71/81) G/S, adopted August 2, 1971 and reproduced in Appendix II.

or on requests for the use of Fund resources by members. Because of these advantages, the consultation procedure has, for many years now, been extended by voluntary agreement to member countries that have accepted the obligations of Article VIII, Sections 2, 3, and 4, i.e., those that have undertaken to maintain the convertibility of their currencies and generally to avoid restrictions on current payments and transfers.

Although consultations are basically concerned with the problems and policies of the consulting member country, the authorities of the member can raise with the Fund any special difficulties stemming from the actions or policies of other members, and the discussion of the Executive Directors that concludes each consultation places increasing emphasis on the international repercussions of domestic economic and financial policies. As an outgrowth of its consultation experience, the Fund is now devoting attention to a number of problems affecting different groups of member countries, such as aid and credit practices, debt problems, and commodity policies.

During the year no additional member country accepted the obligations of Article VIII, Sections 2, 3, and 4. The 35 member countries that have notified the Fund that they have accepted such obligations are listed on page 156 of the 1971 Annual Report.

Training and Technical Assistance

Much of the advice and assistance provided by the Fund is made available to members through the consultation procedures described above and through the regular work of the Fund in helping members in their formulation and execution of general economic policies. In addition, in response to requests from members—particularly from the less developed countries—the Fund has in recent years expanded its training and technical assistance facilities in specific areas of economic management.

In this field, the training of member country officials by the IMF Institute has been of growing importance. During 1971/72 a total of 180 participants from 80 countries attended the 8 courses conducted by the Institute. The Institute plans to conduct the same number of courses in the current year, but an expansion of its facilities will permit 3 courses to be undertaken simultaneously for the first time in March 1973.

From its inception in 1964 to April 30, 1972, the Institute has conducted 40 courses, attended by 765 participants from 108 countries. The main course undertaken by the Institute is its 20-week course on Financial Analysis and Policy, which is offered each year in English, French, and Spanish. The principal aims of this course are to consider the modern tools of economic analysis and their application to policy problems, to present a survey of the instruments of monetary, fiscal, and balance of payments policies, and to discuss their effectiveness under different conditions and with reference to different policy objectives. In this context, special efforts are made to explore the relevance of the discussions to the problems of less developed countries, in the light of the Fund's experience with these problems. Another important aspect of this course is that it sets forth the positions taken by the Fund in respect of the matters discussed and explains the Fund's policies and procedures, thus contributing to an understanding of the Fund's operations and to the continued improvement of collaboration between the Fund and its member countries.

Two other shorter courses are provided by the Institute. One, an 8-week course on Balance of Payments Methodology, has been conducted in English, French, and Spanish in collaboration with the Balance of Payments Division of the Research Department. The other, a 10-week course on Public Finance, prepared with special emphasis on the fiscal problems of less developed countries, has been undertaken in English and French in collaboration with the Fiscal Affairs Department.

The Central Banking Service has continued to provide technical assistance on virtually all aspects of the organization, administration, and operation of central banks. Over the years such services, made available through the assignment of outside experts or visits by Fund staff members, have ranged from broad conceptual and institutional aspects of central banking to specific administrative and operational problems. Requests met in the past year covered evaluation and reform of financial systems, the establishment of new central banks and the reform of existing institutions, the development and strengthening of research services, reviews of money and capital markets, improvement of managerial and administrative structure, development of training and recruiting facilities, preparation of accounts and computerization, and development of bank inspection units.

Advisory services were made available through staff missions to 19 countries, including 9 of those in which experts were assigned. In addition, during the past year 85 executive or advisory positions in 27 countries and one regional organization were filled by experts assigned under the technical assistance activities of the Central Banking Service. As in previous years, the Fund has been dependent on the cooperation of the more experienced central banks to fill requests for the services of experts made by younger institutions. It has continued to be difficult to find suitably qualified experts to meet all the needs of member countries, but in recent years there has been an encouraging increase in the number of central banks and countries supplying experts.

Improved performance in the field of public finance is now widely recognized as being an essential complement to more effective monetary policies. Although the total effort in terms of man-years has leveled off, there has been a sharp increase in the number of advisory and technical assistance commitments undertaken by the Fiscal Affairs Department. During the fiscal year, 30 countries received advice and assistance, including 3 countries assisted at Fund headquarters. A group of experts continued to operate in Indonesia throughout the year, teams of 2 advisors undertook tax surveys in several other countries, and 8 countries requested and received assistance in more than one fiscal area.

The advice and assistance provided by the Fiscal Affairs Department during the year continued to cover all aspects of public finance. About the same number of countries were provided assistance in the fields of tax policy, tax administration (including training), and budget preparation and expenditure control; other major areas included government accounting and general financial administration. One notable development was the growth in long-term technical activities and a corresponding increase in the number of fiscal panel experts employed. There is every indication that this growth will continue in 1972/73.

Since 1969 the Bureau of Statistics has provided technical assistance to help member countries establish or improve central bank bulletins. The technical work is implemented by Bureau staff members and focuses on the development, improvement, and current publication of data relevant to the analysis of countries' monetary and payments problems. During the year the Bureau assisted 19 countries and, as an adjunct of the bulletin project, conducted a seminar in West Africa for the staff of the Central Bank of the West African States and for selected officials of the member states of the West African Monetary Union. In addition to assistance for central bank bulletins, the Bureau provided technical assistance to 3 countries in specialized areas of financial statistics.

In the three years of the central bank bulletin project, the Bureau has assisted 48 member countries. In 10 of these countries new bulletins have been established, and in 13 others major improvements in coverage and presentation have already been accomplished. Commitments for the current year cover 20 countries and will reflect the increased attention that is now being devoted to the assembly and publication of government financial statistics.

Relations with Other International Organizations

The Fund maintains close association both with the International Bank for Reconstruction and Development (IBRD) and with the United Nations (UN) and many of its organs, collaborating both generally and in areas of particular Fund interest and expertise. Relationships are reflected in attendance at meetings on various levels, exchange of documents and information, and informal staff contacts on matters of common concern. The Managing Director made his annual address to the UN Economic and Social Council in presenting the Fund's Annual Report and participated, with heads of other UN agencies, in meetings of the Administrative Committee on Coordination. Other Fund staff attended meetings of the General Assembly and UN bodies and working groups in the economic field. The joint Annual Meetings of the Boards of Governors of the Fund and the IBRD were, in turn, attended by representatives of the UN and other organizations with which the Fund and IBRD have common interests.

The Fund's work also brings it into active contact, formal and informal, with other related organizations—global, regional, and subregional. The Fund's competence in areas where it has primary concern or jurisdiction can help to serve the broader information needs of those organizations, and the Fund can gain a more balanced view of members' interests and problems from different perspectives. This cooperation also seeks to avoid duplication of effort by the organizations and the member countries alike. Thus, the Fund staff participates on a continuing basis in meetings and in the exchange of pertinent information with relevant bodies of the Organization for Economic Cooperation and Development (OECD); the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade, with which the Fund cooperates in consultations on import restrictions and import surcharges imposed for balance of payments reasons; the Organization of American States and its Inter-American Committee on the Alliance for Progress (CIAP); and the Bank for International Settlements. In 1972 arrangements for the exchange of information and appropriate contacts were concluded with the European Economic Community.

The staff attended annual meetings of the regional development banks (African, Asian, Inter-American, and Caribbean) and regional meetings of central bank officials. The Conference of Governors of Central Banks in South East Asia, held in Kuala Lumpur, was addressed by the Deputy Managing Director.

Discussions of the international monetary system by the Group of 10, the United Nations Conference on Trade and Development (UNCTAD) and its Trade and Development Board and other bodies, the Group of 77, and the Intergovernmental Group on Monetary Matters (Group of 24) took place in the same period as the discussions within the Fund. The Managing Director participated in Ministerial Meetings of the Group of 10 in London, Rome, and Washington and in the Ministerial Meeting of the Group of 24 in Caracas, April 6 and 7, 1972; he addressed the Third UNCTAD Conference in Santiago on April 25, 1972. As already noted, there was a joint meeting between Executive Directors and Deputies of the Group of 10 on December 16, 1971.

The Fund's concern with the economic positions of its members also requires its participation in intergovernmental meetings to coordinate the flow of aid, and during 1971/72 staff participated in meetings of the IBRD Consultative Groups and the India Consortium, the OECD-sponsored Turkey Consortium, the meetings of the Inter-Governmental Group on Indonesia held in Amsterdam under the chairmanship of the Netherlands Government, and the multilateral aid conference convened by the Government of the Khmer Republic on the establishment of an exchange support program for that country.

Parallel concern with debt servicing problems involved Fund participation in discussions on debt rescheduling held under the auspices of the French Government on Chile and Peru and on consolidation of the external debt of the Khmer Republic and in a meeting of creditor countries of Ghana convened by the United Kingdom. The Fund provided background information on the member's economic situation for many of these aid and debt meetings, and the Fund's series of studies on members' experience in multilateral debt negotiations was made available to the CIAP and to the Development Assistance Committee of OECD.

At the request of the African Development Bank, the Fund staff prepared a study on payments arrangements and the expansion of trade between Ghana and the members of the Conseil de l'Entente (Dahomey, Ivory Coast, Niger, Togo, and Upper Volta).

The Fund's attention to the problems of primary producing countries continued to bring the staff into working relationships with various intergovernmental commodity groups under the auspices of the Committee on Commodity Problems of the Food and Agriculture Organization of the United Nations; the commodity activities of the UNCTAD, including those relative to drafting an international cocoa agreement; and intergovernmental commodity agencies, including the International Tin Council, with which the Fund maintains close contacts in connection with the use of its buffer stock facility by tin producing members, and the International Coffee Organization, for which the Fund supplies information on exchange rates in connection with the Coffee Diversification Fund.

Membership, Quotas, and Participation in the Special Drawing Account

Since May 1, 1971, 3 countries joined the Fund and simultaneously became participants in the Special Drawing Account, bringing the total membership to 120 and the number of participants to 113.[33] Fiji joined the Fund and became a participant on May 28, 1971, with a quota of SDR 13 million; Oman, on December 23, 1971, with a quota of SDR 7 million; and Western Samoa, on December 28, 1971, with a quota of SDR 2 million. At the request of these members that they be included in the next allocation of special drawing rights, the Fund decided, pursuant to Article XXIV, Section 2(*d*), of the Articles of Agreement, that they would start to receive SDRs beginning with the allocation on January 1, 1972.

Applications for membership in the Fund have been received from 4 additional countries. The Board of Governors approved membership Resolutions for Bahrain, Qatar, Bangladesh, and the United Arab Emirates, on May 3, May 11, June 13, and July 24, 1972, respectively.

The Board of Governors Resolution No. 25-3 on "Increases in Quotas of Members—Fifth General Review" provided that members might consent to increases in their quotas up to the maximum amount listed in the Annex to the Resolution not later than November 15, 1971, unless the date was extended by the Executive Directors.[34] The Executive Directors extended the period for consent for increases in quotas under the Resolution, first, to June 30, 1972 and, then, to December 31, 1972.

During the fiscal year 1971/72, 7 members consented to increases in their quotas making a total of 114 members whose quotas have been increased under the Board of Governors Resolution, as amended. Only one member—Lebanon—has not consented to all or part of the increase. With the exception of Kuwait, the Libyan Arab Republic, Luxembourg, and Singapore, which consented to smaller increases, all increases were for the maximum quotas listed in the Annex to the Resolution.[35] The increases during the fiscal year are shown in Appendix Table I.2. The aggregate of quotas of Fund members on April 30, 1972, including those of the new members and increases during the year, was SDR 28,809 million, compared with SDR 28,478 million a year earlier.

Executive Directors, Management, and Staff

A list of Executive Directors and their voting power on April 30, 1972 is given in Appendix IV. Changes in membership of the Executive Board during 1971/72 are shown in Appendix V.

During the year under review, the Fund noted with sorrow the deaths of its first and second Managing Directors: Mr. Camille Gutt of Belgium, who served from May 1, 1946 to April 30, 1951, and Mr. Ivar Rooth of Sweden, who served from August 3, 1951 to October 3, 1956.

In May 1972, the term of Mr. Frank A. Southard, Jr., as Deputy Managing Director of the Fund, was extended for a period of four years from November 1, 1972.

In the year ended April 30, 1972, there were 156 appointments to the Fund's regular staff and 87 separations. At the end of the fiscal year, the staff numbered 1,175, not including Advisors and assistants to Executive Directors numbering 70. Staff members at the end of the year were drawn from 84 countries.

[33] The 7 members of the Fund that have not deposited instruments of participation in the Special Drawing Account are Ethiopia, Kuwait, Lebanon, the Libyan Arab Republic, Portugal, Saudi Arabia, and Singapore.

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

[35] Nepal has consented to an increase in its quota to SDR 14 million, to be paid in five installments; payments of the first and second installments have been made.

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APPENDICES

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Appendix I. THE FUND IN 1971/72

The tables and chart in this Appendix supplement the information given in Chapter 3 on the activities of the Fund during the past year. For some aspects of its operations, data covering longer periods are included. Apart from Table I.1 on exchange rate changes, the data do not go beyond April 30, 1972, the end of the Fund's fiscal year. The unit of value employed in the tables and chart is the special drawing right (SDR), which is equivalent to 0.888671 gram of fine gold. This in turn is equivalent to one U. S. dollar of the weight and fineness in effect on July 1, 1944, the unit of value that was employed in previous Annual Reports. The SDR equivalent of the currencies of Fund members is set out in Table I.1.

Exchange Rate Developments

The Fund concurred in the proposed par value for the new monetary unit, called the dalasi, introduced by The Gambia to replace the Gambian pound effective July 1, 1971. The par value of the new currency is dalasis 2.08333 = US$1, which compares with £G 0.416667 = US$1 for the currency replaced. On August 9 the Fund agreed with a proposal by Barbados for an initial par value for the East Caribbean dollar of EC$2.00000 = US$1. On September 1 the Libyan dinar replaced the Libyan pound. None of the changes involved appreciation or depreciation of the currencies affected.

Table I.1 lists changes in members' par values concurred in or noted by the Fund, as well as other exchange rate changes during the period August 13, 1971 to July 31, 1972.

Quotas

Increases in quotas, in accordance with the Board of Governors Resolution No. 25-3, as amended, on "Increases in Quotas of Members—Fifth General Review" [1] became effective for seven members during the fiscal year ended April 30, 1972; in addition, Nepal paid the second of five installments. Details are given in Table I.2.

Special Drawing Account

Data on transactions and operations in special drawing rights from the first allocation on January 1, 1970 through April 30, 1972 are presented in Tables I.3 to I.6. Table I.4 summarizes transactions and operations for individual participants in the Special Drawing Account; it also shows details on the third and final allocation on January 1, 1972, under Board of Governors Resolution No. 24-12, adopted on October 3, 1969 on the basis

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

of the Managing Director's proposal on the allocation of SDRs for the first basic period,[2] as well as details on the total allocations ("net cumulative allocations") of SDR 9.3 billion during that three-year period.[3]

The 272 transfers in the Special Drawing Account in 1971/72, totaling SDR 1,306 million and bringing the cumulative amount for the period January 1, 1970 to April 30, 1972 to SDR 2,907 million (Table I.3), are described in Chapter 3. The amounts of currencies transferred in transactions between participants and the extent to which currencies provided by designated participants needed to be converted into the currencies requested by the users are shown in Table I.5.

The amounts of SDRs transferred to individual participants by the General Account are shown in Table I.6. When in July 1971 the Fund proposed to replenish its holdings of members' currencies by sales of gold, 3 participants exercised the option to receive special drawing rights for amounts totaling SDR 21 million. In a similar manner the Fund also transferred some SDR 15 million to 16 participants in payment of remuneration on net creditor positions and SDR 8 million to 21 participants in a distribution of net income for the fiscal year ended April 30, 1971. Participants obtained SDR 46 million from the General Account in order to promote reconstitution, and 2 participants who needed to restore their SDR positions received SDR 29 million in exchange for currencies.

Net transfers between participants and the General Account raised the holdings of the latter from SDR 490 million on April 30, 1971 to SDR 910 million on April 30, 1972.

General Account

Tables I.7 to I.14 and Chart I.1 present data on member countries' purchases of currencies and SDRs from the General Account of the Fund, on their repurchases of balances of their currencies held by that Account, and on stand-by arrangements approved for members by the Fund. Summary data covering the period since the Fund's inception are shown for stand-by arrangements and for purchases and repurchases in Tables I.9 and I.14, respectively. Tables I.10 and I.13 also show data on both purchases and repurchases, the former related to the Fund's compensatory financing facility and the latter to the media involved in the transactions. Details on the activities lying behind the results shown in the tables and chart are in Chapter 3.

Repurchases

While the repurchases occurring in record amount in 1971/72 (Table I.11) are analyzed in Chapter 3, further information may be provided on repurchase obligations under Article V, Section 7(*b*), of the Fund Agreement.

On April 30, 1971 the Fund's holdings of the currencies of 64 member countries exceeded 75 per cent of their quotas. Repurchase obligations pursuant to Article V, Section 7(*b*), were calculated for 15 of these members; one member disagreed with the calculation and submitted additional information. Repurchase obligations by the 14 mem-

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[2] *Summary Proceedings of the Twenty-Fourth Annual Meeting of the Board of Governors* (Washington, 1969), pages 275–99 and 326–27.

[3] One participant, China, exercised its option not to receive its share of SDRs in each allocation.

bers that agreed with the calculations totaled the equivalent of SDR 565 million, payable in gold, SDRs, and convertible currencies as indicated in Table I.12.

The outstanding balance of obligations incurred as of April 30, 1970 payable in subsequent financial years amounted to SDR 717 million.[4]

Article V, Section 7(*c*)(iv), limits the amounts to be repurchased under Article V, Section 7(*b*), in any one year to 25 per cent of the quota of the member concerned. This limitation applied to the obligations of six members incurred as of April 30, 1971 and to the outstanding balance of obligations of three members incurred as of April 30, 1970, thus reducing the total amount to be discharged as of April 30, 1971 to SDR 560 million—SDR 100 million in respect of obligations incurred as of April 30, 1971 and SDR 460 million in respect of outstanding balances of obligations incurred as of April 30, 1970. All these obligations were discharged by April 30, 1972, except that of one member, which was settled on May 4, 1972. France repurchased an additional amount equivalent to SDR 609 million, thus completing the discharge of its repurchase obligations as of April 30, 1970 and April 30, 1971. Turkey also repurchased an additional amount equivalent to SDR 51 million. The balance payable by members in subsequent financial years was equivalent to SDR 62 million, of which SDR 44 million was payable as of April 30, 1972.

During the fiscal year 1971/72 repurchases in discharge of obligations incurred under Article V, Section 7(*b*), totaled SDR 1,215 million. Of this total the equivalent of SDR 481 million was payable in gold, SDR 7 million in special drawing rights, and SDR 727 million in convertible currencies (Table I.13). Of the amount payable in convertible currencies, the equivalent of SDR 639 million was calculated in currencies that the Fund could not accept or could accept only up to a limited amount in repurchases as of April 30, 1971; this resulted from the limitation imposed by Article V, Section 7(*c*)(iii), providing that repurchases shall not be carried to a point at which the Fund's holdings of any currency required to be used are above 75 per cent of the quota of the member concerned. The convertible currencies that the Fund could not accept or could accept only in limited amounts at that time were Costa Rican colones, Danish kroner, French francs, Guatemalan quetzales, Honduran lempiras, Nicaraguan córdobas, Peruvian soles, Salvadoran colones, Saudi Arabian riyals, pounds sterling, and U. S. dollars. In accordance with Schedule B, paragraph 1(*d*), of the Fund Agreement and paragraph 1 of Executive Board Decision No. 3049-(70/44),[5] other convertible currencies were selected in substitution for these currencies.

Fund Borrowing and Repayment

Table I.15 sets out data on borrowing by the Fund, the transfer of claims among creditors, and repayment by the Fund; the balances of these obligations were eliminated in 1971/72.

Gold

The Fund's transactions and operations in gold over the last three fiscal years are covered in Table I.16.

[4] *Annual Report, 1971*, page 161.
[5] Decision adopted May 20, 1970 and reproduced in the *Annual Report, 1971*, pages 205–206.

Income and Expenditures

Income and expenditures of the General Account over the last ten fiscal years are summarized in Table I.17 and discussed in Chapter 3. Further detail on the administrative budget, income and expenditures, and the audited financial statements are presented in Appendices VI–VIII.

The Fund's schedule of charges on balances in excess of quota is shown in Table I.18.

Publications

Table I.19 lists publications issued by the Fund during the fiscal year 1971/72.

TABLE I.1. EXCHANGE RATE CHANGES, AUGUST 13, 1971–JULY 31, 1972

(Expressed in terms of currency units per SDR)

		Rate on August 13, 1971		Rate Established December 18, 1971–May 8, 1972			Rate Established May 9–July 31, 1972			
Member	Currency	Par value	Other [1]	Par value	Central rate	Other	Par value	Central rate	Other	Date Central Rate or New Par Value Established
Afghanistan [2]	afghani	45.0000				48.8571 [3]		no change		
Algeria	dinar		4.93706			no change [4]				
Argentina [2]	peso		4.00000			[5]			[5]	
Australia *	dollar	0.892857				no change in par value				
Austria *	schilling	24.7500			25.2971			no change		12/22/71
Barbados	dollar	2.00000			no change in par value			floating [6]		
Belgium * [2]	franc	50.0000			48.6572			no change		12/21/71
Bolivia	peso		11.8750			12.8929 [3]		no change		
Botswana	rand	0.714286		0.814286				floating [6]		12/21/71
Brazil [2]	cruzeiro		5.25000			[5]			6.384 [5]	
Burma *	kyat	4.76190			5.80717			no change		12/27/71
Burundi *	franc	87.5000			95.0000			no change		12/30/71
Cameroon [2]	franc		277.710			no change [4]				
Canada	dollar				floating					
Central African Republic [2]	franc		277.710			no change [4]				
Ceylon [2]	rupee	5.95237				6.46259 [3]		floating [6]		
Chad [2]	franc		277.710			no change [4]				
Chile [2]	escudo		12.2100			17.1543 [5]			[5]	
China, Republic of *	new Taiwan dollar	40.0000		43.4286				no change		5/ 8/72
Colombia [2]	peso		18.5000			21.8771		no change		
Congo, People's Republic of the [2]	franc		277.710			no change [4]				
Costa Rica [2]	colón	6.62500				7.19286 [3]		no change		
Cyprus *	pound	0.416667				no change in par value				
Dahomey [2]	franc		277.710			no change [4]				
Denmark *	krone	7.50000			7.57828			no change		12/21/71
Dominican Republic	peso	1.00000			1.08571 [7]		1.08571			5/ 9/72
Ecuador [2]	sucre	25.0000				27.1429 [3]		no change		
Egypt [2]	pound	0.348242		[5]			[5]			
El Salvador	colón	2.50000		2.71429				no change		5/ 8/72
Equatorial Guinea	peseta		70.0000			no change [4]				

Table I.1 (*continued*). Exchange Rate Changes, August 13, 1971–July 31, 1972

(*Expressed in terms of currency units per SDR*)

Member	Currency	Rate on August 13, 1971		Rate Established December 18, 1971–May 8, 1972			Rate Established May 9–July 31, 1972			Date Central Rate or New Par Value Established
		Par value	Other [1]	Par value	Central rate	Other	Par value	Central rate	Other	
Ethiopia *	dollar	2.50000				no change in par value				
Fiji [1]	dollar					0.870836 [4]		floating [6]		
Finland *	markka	4.19997			4.45143			no change		12/20/71
France * [2]	franc	5.55419				no change in par value				
Gabon [2]	franc		277.710			no change [4]				
Gambia, The	dalasi	2.08333			no change in par value			floating [6]		
Germany, Federal Republic of *	deutsche mark		floating		3.49872			no change		12/21/71
Ghana *	new cedi	1.02041		1.97403			[5]			12/27/71
Greece *	drachma	30.0000			32.5714 [8]		32.5714			5/19/72
Guatemala	quetzal	1.00000				1.08571 [3]	1.08571			5/10/72
Guinea	franc		247.000			no change [4]				
Guyana	dollar	2.00000		2.17143	[9]			floating [6]		4/ 5/72
Haiti	gourde	5.00000		5.42856	[10]			no change		4/12/72
Honduras	lempira	2.00000			2.17143 [7]		2.17143			5/15/72
Iceland	krόna	88.0000			95.5429 [8]		95.5429			5/ 9/72
India	rupee	7.50000			7.90321			floating [6]		12/20/71
Indonesia [2]	rupiah		378.000						450.571	
Iran	rial	75.7500			82.2428			no change		4/29/72
Iraq *	dinar	0.357143				no change in par value				
Ireland	pound	0.416667			no change in par value			floating [6]		
Israel *	pound	3.50000			4.56000 [8]		4.56000			5/17/72
Italy *	lira	625.000			631.342			no change		12/20/71
Ivory Coast [2]	franc		277.710			no change [4]				
Jamaica	dollar	0.833333			no change in par value			floating [6]		
Japan *	yen	360.000			334.400			no change		12/20/71
Jordan *	dinar	0.357143		0.387754	[11]			no change		5/ 8/72
Kenya *	shilling	7.14286		7.75509				no change		12/22/71
Khmer Republic [2]	riel		55.5419			[5]			[5]	
Korea	won		255.000			[5]			[5]	
Kuwait	dinar	0.357143				no change in par value				

Laos [2]	kip		240.000			floating				651.428	
Lebanon	pound								floating [6]		12/21/71
Lesotho	rand	0.714286		0.814286					no change		5/ 8/72
Liberia	dollar	1.00000		1.08571							
Libyan Arab Rep. *	dinar	0.357143					no change in par value				
Luxembourg * [2]	franc	50.0000			48.6572				no change		12/21/71
Malagasy Republic [2]	franc		277.710				no change [4]				
Malawi	kwacha	0.833333			no change in par value				floating [6]		
Malaysia *	dollar	3.06122					no change in par value				
Mali [2]	franc		555.419				no change [4]				
Malta	pound	0.416667			0.406504				floating		12/26/71
Mauritania [2]	franc		277.710				no change [4]				
Mauritius	rupee		5.55555		5.55555 [12]				floating [6]		5/24/72
Mexico	peso	12.5000			13.5714 [9]			13.5714			5/10/72
Morocco *	dirham	5.06049					no change in par value				
Nepal *	rupee	10.1250				10.9929 [3]		10.9929			5/13/72
Netherlands *	guilder		floating		3.52281				no change		12/21/71
New Zealand *	dollar	0.892857					no change in par value				
Nicaragua	córdoba	7.00000		7.60003	[7]				no change		5/ 8/72
Niger [2]	franc		277.710				no change [4]				
Nigeria *	pound	0.357143					no change in par value				
Norway *	krone	7.14286			7.21500				no change		12/21/71
Oman [1]	rial Saidi										
Pakistan *	rupee	4.76190						11.9428			5/11/72
Panama	balboa	1.00000		1.08571	[13]				no change		4/ 5/72
Paraguay [2]	guaraní		126.000			136.800 [3]			no change		
Peru [2]	sol		26.8150			[5]				[5]	
Philippines [2]	peso	[5]				[5]				[5]	
Portugal *	escudo	28.7500			29.5857				no change		12/22/71
Rwanda *	franc	100.000					no change in par value				
Saudi Arabia	riyal	4.50000					no change in par value				
Senegal [2]	franc		277.710				no change [4]				
Sierra Leone	leone	0.833333			no change in par value				floating [6]		
Singapore *	dollar	3.06122					no change in par value				
Somalia *	shilling	7.14286			7.51881 [14]			7.51881			6/ 1/72
South Africa	rand	0.714286		0.814286					floating [6]		12/21/71
Spain *	peseta	70.0000					no change in par value				
Sudan [2]	pound	0.348242				0.378092 [3]			no change		
Swaziland	rand	0.714286		0.814286					floating [6]		12/21/71
Sweden *	krona	5.17321			5.22545				no change		12/21/71

TABLE I.1 (*concluded*). EXCHANGE RATE CHANGES, AUGUST 13, 1971–JULY 31, 1972

(*Expressed in terms of currency units per SDR*)

Member	Currency	Rate on August 13, 1971: Par value	Rate on August 13, 1971: Other [1]	Rate Established December 18, 1971–May 8, 1972: Par value	Rate Established December 18, 1971–May 8, 1972: Central rate	Rate Established December 18, 1971–May 8, 1972: Other	Rate Established May 9–July 31, 1972: Par value	Rate Established May 9–July 31, 1972: Central rate	Rate Established May 9–July 31, 1972: Other	Date Central Rate or New Par Value Established
Syrian Arab Rep. [2]	pound	2.19148				[5]			[5]	
Tanzania *	shilling	7.14286		7.75509				no change		12/22/71
Thailand	baht	20.8000		22.5828				no change		5/ 8/72
Togo [2]	franc		277.710			no change [4]				
Trinidad and Tobago	dollar	2.00000			no change in par value			floating [6]		
Tunisia *	dinar	0.525000				no change in par value				
Turkey * [2]	lira	15.0000			15.2000			no change		12/22/71
Uganda *	shilling	7.14286		7.75509				no change		12/22/71
United Kingdom	pound	0.416667			no change in par value			floating		
United States	dollar	1.00000		1.08571				no change		5/ 8/72
Upper Volta [2]	franc		277.710			no change [4]				
Uruguay [2]	peso	7.40000				[5]			[5]	
Venezuela [2]	bolívar		4.48500			[5]			[5]	
Viet-Nam [2]	piastre		80.0000			[5]			[5]	
Western Samoa [1]	tala									
Yemen Arab Rep.	rial					floating				
Yemen, People's Dem. Rep. of *	dinar		0.416667		0.416667			no change		1/12/72
Yugoslavia *	dinar	15.0000		18.4571				no change		12/21/71
Zaïre *	zaïre	0.500000			0.542856			no change		12/24/71
Zambia *	kwacha	0.714286		0.775509				no change		12/22/71

* Member is availing itself of wider margins of up to 2¼ per cent on either side of the parity relationship, based on par values or central rates.
[1] Exchange rate under membership resolution or provisional rate for Fund computations.
[2] Member maintains multiple currency practice and/or dual exchange market.
[3] Member maintained unchanged parity of exchange rate with U. S. dollar.
[4] Member maintained unchanged gold content of currency, or parity of exchange rate with French franc, pound sterling, or Spanish peseta.
[5] Exchange transactions in the market differ from par value, exchange rate under membership resolution, or provisional rate for Fund computations.
[6] Floating with the pound sterling; Botswana, Lesotho, and Swaziland continued to be linked with sterling as a result of their use of the South African rand as domestic currency.
[7] Central rate effective December 21, 1971.
[8] Central rate effective December 20, 1971.
[9] Central rate effective December 22, 1971.
[10] Central rate effective December 23, 1971.
[11] Central rate effective December 29, 1971.
[12] Central rate effective December 28, 1971.
[13] Central rate effective December 24, 1971.
[14] Central rate effective January 9, 1972.

TABLE I.2. INCREASES IN QUOTAS UNDER BOARD OF GOVERNORS RESOLUTION NO. 25-3, AS AMENDED, FISCAL YEAR ENDED APRIL 30, 1972

(*In millions of SDRs*)

	Quota on May 1, 1971	New Quota	Effective Date of Change
Austria	175	270	September 24, 1971
Korea	50	80	December 17, 1971
Luxembourg	19	20 [1]	November 29, 1971
Nepal	10.8	11.6 [2]	March 29, 1972
Portugal	75	117	August 16, 1971
Singapore	30	37 [1]	September 30, 1971
South Africa	200	320	July 15, 1971
Tunisia	35	48	December 7, 1971

[1] Luxembourg and Singapore consented to less than the permitted maximums, namely SDR 24 million and SDR 62 million, respectively, under Board of Governors Resolution No. 25-3.

[2] Nepal has consented to an increase in its quota to SDR 14 million, to be paid in five annual installments. The increase to SDR 11.6 million reflects payment of the second installment.

TABLE I.3. TRANSFERS OF SPECIAL DRAWING RIGHTS, JANUARY 1, 1970–APRIL 30, 1972

(*In millions of SDRs*)

		Fiscal Years		Total
	Jan. 1, 1970–Apr. 30, 1970	May 1, 1970–Apr. 30, 1971	May 1, 1971–Apr. 30, 1972	Jan. 1, 1970–Apr. 30, 1972
Transfers between participants				
Transactions with designation	155	348	267	769
Transactions without designation	20	286	380	686
	175	633	647	1,455
General Account				
Transfers from participants				
Repurchases (net)	183	357	501	1,041
Charges (net)	29	66	30	126
Assessments	1	1	1	3
Interest received on General Account holdings	—	4	7	12
	213	429	540	1,181
Transfers to participants				
Replenishment of participants' currencies	—	123	21	145
Reconstitution	—	—	46	46
Remuneration	—	18	15	33
Restoration of participants' holdings [1]	—	—	29	29
Distribution of net income	—	9	8	17
Other [2]	—	1	—	1
	—	151	120	271
Total use and receipts	388	1,213	1,306	2,907
General Account holdings at end of period	213	490	910	910

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

Table I.4. Summary of Transactions and Operations in Special Drawing Rights, Fiscal Year Ended April 30, 1972

(In thousands of SDRs)

Holders Participants	Total Holdings on May 1, 1971	Third Allocation Jan. 1, 1972	Transactions and Operations: Between participants: Received: Through designation	Other	Used [1]	Between participants and the General Account: Received	Used	Interest, Charges, and Assess-ment (Net)	Positions at April 30, 1972: Total holdings	Net cumulative allocations	Holdings as per cent of cumulative allocations
Afghanistan	5,828	3,922					5,184	−90	4,476	12,753	35.1
Algeria	28,029	13,780						+18	41,827	40,290	103.8
Argentina	107,401	46,640			154,000	30,380	320	−1,038	29,063	152,520	19.1
Australia	164,008	70,490						+108	234,606	225,645	104.0
Austria	57,017	28,620						+125	85,762	76,745	111.8
Barbados	1,391	1,378							2,768	2,769	100.0
Belgium	300,397	68,900		105,000				+3,685	477,981	209,346	228.3
Bolivia	5,607	3,922					4,234	−79	5,216	12,753	40.9
Botswana	1,039	530							1,569	1,569	100.0
Brazil	110,370	46,640				94	125	+52	157,031	152,520	103.0
Burma	4,887	6,360			4,500		466	−216	6,066	20,844	29.1
Burundi	1,958	2,014					202	−41	3,728	6,567	56.8
Cameroon	6,801	3,710						−1	10,510	10,513	100.0
Canada	348,795	116,600			25,000	23,080		+1,829	465,304	358,620	129.8
Central African Rep.	1,387	1,378			1,247		140	−32	1,346	4,365	30.8
Ceylon	32	10,388				3,864	279	−349	13,656	33,978	40.2
Chad	1,400	1,378			1,250		165	−43	1,320	4,449	29.7
Chile	38,725	16,748					448	+2	55,027	54,654	100.7
Colombia	16,443	16,642					12,618	−382	20,085	54,441	36.9
Congo, People's Rep. of the	1,410	1,378					93	−26	2,669	4,449	60.0
Costa Rica	63	3,392				648		−113	3,989	11,016	36.2
Cyprus	7,648	2,756						+22	10,426	8,898	117.2
Dahomey	3,070	1,378						−1	4,448	4,449	100.0
Denmark	45,072	27,560					290	−164	72,179	82,764	87.2
Dominican Republic	0	4,558					4,102	−166	289	14,535	2.0
Ecuador	3,593	3,498					311	−66	6,714	11,229	59.8
Egypt	8,795	19,928			3,800		1,919	−574	22,430	65,244	34.4
El Salvador	1,420	3,710	1,000				2,327	−97	3,705	11,655	31.8
Equatorial Guinea	1,863	848							2,711	2,712	100.0
Fiji	—	1,378							1,378	1,378	100.0
Finland	45,682	20,140				1,309		+74	67,205	61,470	109.3
France	350,496	159,000	25,347				7,804	+330	527,368	484,980	108.7
Gabon	3,200	1,590					31	−1	4,758	4,791	99.3
Gambia, The	1,589	742					76	−1	2,254	2,331	96.7
Germany, Fed. Rep. of	452,602	169,600	11,000			1,861		+1,187	636,250	542,400	117.3

Ghana	3,222	9,222					2,175	−270	9,999	30,123	33.2
Greece	4,483	14,628	5,000					−391	23,720	46,194	51.4
Guatemala	5,872	3,816	500				−1,446	−12	11,623	11,868	97.9
Guinea	1,155	2,544			1,000		65	−83	2,551	8,304	30.7
Guyana	2,176	2,120					17	−38	4,241	6,780	62.6
Haiti	1,096	2,014						−53	3,057	6,567	46.6
Honduras	2,850	2,650						−46	5,453	8,517	64.0
Iceland	1,461	2,438	2,500					−36	6,362	7,419	85.8
India	148,051	99,640						−1,214	246,478	326,220	75.6
Indonesia	1,089	27,560				8,960	2,239	−928	34,441	90,156	38.2
Iran	1,156	20,352						−613	20,896	61,896	33.8
Iraq	11,661	11,554						−3	23,213	23,217	100.0
Ireland	26,404	12,826						−4	39,226	39,213	100.0
Israel	550	13,780	4,000			13,000	603	−257	30,470	42,810	71.2
Italy	220,681	106,000	10,000			3,243		+181	340,105	318,000	107.0
Ivory Coast	9,757	5,512						+13	15,282	14,268	107.1
Jamaica	13,030	5,618					259	+11	18,399	17,673	104.1
Japan	276,473	127,200	19,000			1,332		+455	424,460	377,400	112.5
Jordan	5,148	2,438					23	−1	7,563	7,587	99.7
Kenya	11,966	5,088						+20	17,074	15,600	109.5
Khmer Republic	1,730	2,650					31	−63	4,285	8,517	50.3
Korea	17,628	8,480					76	+55	26,088	22,230	117.4
Laos	897	1,378			900			−33	1,341	4,449	30.2
Lesotho	531	530					95	−8	958	1,569	61.1
Liberia	3,551	3,074					4,500	−77	2,048	9,537	21.5
Luxembourg	5,223	2,120						−1	7,343	7,345	100.0
Malagasy Republic	5,972	2,756						−1	8,727	8,730	100.0
Malawi	3,494	1,590					240	−1	4,843	5,085	95.2
Malaysia	43,319	19,716				22		+30	63,087	60,618	104.1
Mali	1,305	2,332			1,100		35	−62	2,440	7,542	32.4
Malta	3,391	1,696						−1	5,087	5,088	100.0
Mauritania	1,064	1,378					125	−31	2,285	4,449	51.4
Mauritius	4,982	2,332						−2	7,312	7,374	99.2
Mexico	87,439	39,220				882		+35	127,577	124,170	102.7
Morocco	11,925	11,978					9,497	−357	14,049	39,189	35.9
Nepal	1,070	1,145							2,214	2,215	100.0
Netherlands	319,949	74,200		250,000				+5,655	649,803	236,460	274.8
New Zealand	21,733	21,412	10,000			1		−336	52,809	69,402	76.1
Nicaragua	3,841	2,862					248	−36	6,418	8,943	71.8
Niger	3,070	1,378					11	−1	4,437	4,449	99.7
Nigeria	31,236	14,310						−5	45,541	45,555	100.0
Norway	54,907	25,440						+52	80,399	76,320	105.3
Oman	—	742							742	742	100.0
Pakistan	14,625	24,910					1,797	−655	37,083	81,639	45.4
Panama	5,627	3,816					6,596	−97	2,750	12,372	22.2
Paraguay	4,552	2,014						−1	6,566	6,567	100.0
Peru	28,436	13,038					54	+10	41,431	40,479	102.4
Philippines	0	16,430						−532	15,898	51,495	30.9
Rwanda	2,465	2,014					3,038	−46	1,394	6,567	21.2
Senegal	2,786	3,604					300	−79	6,011	11,442	52.5

TABLE I.4 (*concluded*). SUMMARY OF TRANSACTIONS AND OPERATIONS IN SPECIAL DRAWING RIGHTS, FISCAL YEAR ENDED APRIL 30, 1972

(*In thousands of SDRs*)

Holders Participants	Total Holdings on May 1, 1971	Third Allocation Jan. 1, 1972	Transactions and Operations: Between participants: Received: Through designation	Other	Used [1]	Between participants and the General Account: Received	Used	Interest, Charges, and Assess-ment (Net)	Positions at April 30, 1972: Total holdings	Net cumulative allocations	Holdings as per cent of cumulative allocations
Sierra Leone	3,125	2,650						−32	5,743	7,845	73.2
Somalia	2,623	2,014						−30	4,607	6,567	70.2
South Africa	25,478	33,920			25,000			−685	33,712	88,920	37.9
Spain	80,766	41,870	6,000					−7	128,629	126,135	102.0
Sudan	1	7,632			5,000	1,196	2,833	−291	703	24,912	2.8
Swaziland	848	848			750		86	−24	836	2,712	30.8
Sweden	72,606	34,450				3		−11	107,047	107,025	100.0
Syrian Arab Republic	0	5,300				1,700	162	−174	6,664	17,034	39.1
Tanzania	6,329	4,452			4,000			−63	6,717	14,322	46.9
Thailand	14,336	14,204						−3	28,537	28,542	100.0
Togo	3,494	1,590						−1	5,083	5,085	100.0
Trinidad and Tobago	7,218	6,678						−106	13,790	20,811	66.3
Tunisia	1	5,088	3,000				10	−127	7,952	14,713	54.1
Turkey	1	16,006	8,000			16,000	1,448	−386	38,172	50,307	75.9
Uganda	9,653	4,240					65	−2	13,826	13,896	99.5
United Kingdom	482,301	296,800	161,463	25,000			438,330	−2,346	524,887	1,006,320	52.2
United States	1,442,732	710,200			355,000	11,971		−6,836	1,803,068	2,293,980	78.6
Upper Volta	3,070	1,378					18	−1	4,429	4,449	99.6
Uruguay	0	7,314			5,763		1,197	−259	95	23,937	0.4
Venezuela	82,873	34,980				172		+73	118,098	112,290	105.2
Viet-Nam	13,182	6,572						−2	19,752	19,758	100.0
Western Samoa	—	212							212	212	100.0
Yemen Arab Republic	1,070	1,060							2,130	2,130	100.0
Yemen, People's Dem. Rep. of	4,784	3,074						−31	7,826	9,873	79.3
Yugoslavia	7,162	21,942					15,665	−681	12,757	69,291	18.4
Zaïre	27,712	11,978			32,000			−194	7,497	39,189	19.1
Zambia	19,029	8,056			26,500		95	−79	412	24,588	1.7
Total Participants	5,873,437	2,951,549	266,810	380,000	646,810	119,718	531,621	−8,206	8,404,875	9,314,835	90.2
General Account	489,849					531,621	119,718	+8,206	909,960	—	
Total	6,363,287							—	9,314,835	9,314,835	

[1] With the exception of the amounts for Canada and the United States, the uses shown for participants in this column were made in transactions to acquire currency through designation. Canada transferred SDR 25 million to the United Kingdom against currency in a prescribed transaction under Article XXV, Sections 2(*b*)(ii), and 3(*c*). The use by the United States was under Article XXV, Section 2(*b*)(i), to obtain balances of its own currency from Belgium and the Netherlands; the amounts of SDRs received by these two participants were SDR 105 million and SDR 250 million, respectively.

TABLE I.5. CURRENCIES TRANSFERRED FOR SPECIAL DRAWING RIGHTS, JANUARY 1, 1970–APRIL 30, 1972

(*In millions of SDRs*)

		Fiscal Years		Total
	Jan. 1, 1970– Apr. 30, 1970	May 1, 1970– Apr. 30, 1971	May 1, 1971– Apr. 30, 1972	Jan. 1, 1970– Apr. 30, 1972
Transactions with designation				
Belgian francs				
Provided directly to participants	1.0	—	—	1.0
French francs				
Provided directly to participants	—	3.5	22.3	25.8
Converted to pounds sterling	—	8.0	—	8.0
Converted to U.S. dollars	—	14.0	21.0	35.0
	—	25.5	43.3	68.8
Italian lire				
Provided directly to participants	—	4.0	—	4.0
Pounds sterling				
Provided directly to participants	—	27.4	56.3	83.7
Converted to French francs	—	6.7	1.3	8.0
Converted to U.S. dollars	—	45.8	53.4	99.2
	—	79.9	111.0	190.9
U.S. dollars				
Provided directly to participants	148.9	227.1	112.5	488.5
Converted to French francs	5.1	3.6	—	8.7
Converted to pounds sterling	—	7.5	—	7.5
	154.0	238.2	112.5	504.7
Total	155.0	347.6	266.8	769.4
Transactions without designation				
Pounds sterling	20.0	—	25.0	45.0
U.S. dollars	—	285.5	355.0	640.5
Total	20.0	285.5	380.0	685.5

TABLE I.6. TRANSFER OF SPECIAL DRAWING RIGHTS BY THE GENERAL ACCOUNT, FISCAL YEAR ENDED APRIL 30, 1972

(*In thousands of SDRs*)

Participant	Reconstitution	Payment of Remuneration	Distribution of Net Income	Replenishment of Currencies	Restoration of Participants' Holdings [1]
Argentina	30,000	285	95	—	—
Brazil	—	70	23	—	—
Canada	—	3,885	1,295	17,900	—
Ceylon	3,864	—	—	—	—
Costa Rica	648	—	—	—	—
Finland	—	232	77	1,000	—
Germany	—	—	1,861	—	—
Indonesia	8,960	—	—	—	—
Israel	—	—	—	—	13,000
Italy		632	211	2,400	—
Japan	—	—	1,332	—	—
Malaysia	—	—	22	—	—
Mexico	—	662	221	—	—
Sudan	1,196	—	—	—	—
Sweden	—	—	3	—	—
Syrian Arab Rep.	1,700	—	—	—	—
Turkey	—	—	—	—	16,000
United States	—	8,978	2,993	—	—
Venezuela	—	—	172	—	—
Total	46,368	14,746 [2]	8,306 [3]	21,300	29,000
1970/71	—	*18,403*	*9,115*	*123,210*	—

[1] Transfer of SDRs under Article XXV, Sections 2(*b*)(ii) and 7(*e*).
[2] Includes amounts of less than SDR 500 each paid to an additional nine participants.
[3] Includes amounts of less than SDR 500 each distributed to an additional nine participants.

TABLE I.7. PURCHASES OF CURRENCIES AND SPECIAL DRAWING RIGHTS FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1972

(*In millions of SDRs*)

Member Purchasing	Within Gold Tranche	Within Credit Tranches: Under stand-by arrangements	Within Credit Tranches: Other [1]	Under Decision on Compensatory Financing	Under Decision on Buffer Stock Financing	Total
Argentina	115.24	—	—	64.00	—	179.24
Bolivia	—	—	—	—	6.01	6.01
Burma	—	—	—	6.50	—	6.50
Ceylon	—	17.50	—	14.75	—	32.25
Chile	38.00	—	—	39.50	—	77.50
China	59.86	—	—	—	—	59.86
Colombia	—	30.00	—	—	—	30.00
Costa Rica	6.00	—	—	—	—	6.00
Egypt	—	—	32.00	—	—	32.00
Guyana	1.81	2.19	—	—	—	4.00
Indonesia	—	—	—	—	3.81	3.81
Jordan	—	—	—	4.50	—	4.50
Khmer Republic	6.25 [2]	—	—	6.25	—	12.50
Korea	7.50 [2]	—	—	—	—	7.50
Liberia	—	1.00	—	—	—	1.00
Malaysia	4.37	—	—	—	7.29 [3]	11.66
Mali	—	4.50	—	—	—	4.50
Morocco	—	8.25	—	—	—	8.25
Nicaragua	—	4.00	—	—	—	4.00
Nigeria	—	—	—	—	0.79 [3]	0.79
Philippines	—	15.00	—	—	—	15.00
Sudan	—	15.00	—	—	—	15.00
Syrian Arab Republic	—	—	12.50	12.50	—	25.00
Thailand	—	—	—	—	2.15 [3]	2.15
Turkey	—	15.00	—	—	—	15.00
Uganda	6.47	10.00	—	—	—	16.47
United States	1,312.00	—	—	—	—	1,312.00
Uruguay	—	9.50	—	—	—	9.50
Yugoslavia	—	88.50	—	—	—	88.50
Zambia	19.00	—	—	19.00	—	38.00
Total	1,576.50	220.44	44.50	167.00	20.05	2,028.49

[1] In accordance with Executive Board Decision No. 102-(52/11), adopted February 13, 1952. (See *Selected Decisions of the Executive Directors and Selected Documents* (Fifth Issue, Washington, 1971), pp. 20–24.)

[2] Transaction prior to the establishment of an initial par value in accordance with Executive Board Decision No. 1687-(64/22), adopted April 22, 1964. (See *Selected Decisions of the Executive Directors and Selected Documents* (Fifth Issue, Washington, 1971), p. 54.)

[3] Gold tranche purchase to be regarded as a purchase made under paragraph 1 of the Decision on the Problem of Stabilization of Prices of Primary Products.

TABLE I.8. FUND STAND-BY ARRANGEMENTS FOR MEMBERS, FISCAL YEAR ENDED APRIL 30, 1972

(*In millions of SDRs*)

Member	Total Number of Stand-Bys Approved for Member	Date of Inception	Date of Expiration	Amount Approved 1970/71	Amount Not Purchased at Expiration	Amount Approved 1971/72	Amount Not Purchased April 30, 1972
Brazil	10	Feb. 4, 1971	Feb. 3, 1972	50.00	50.00		
		Mar. 3, 1972	Mar. 2, 1973			50.00	50.00
Burundi	6	June 8, 1970	June 7, 1971	1.50	—		
Ceylon	5	Mar. 18, 1971	Mar. 17, 1972	24.50	4.70 [1]		
Colombia	13	Apr. 21, 1971	Apr. 20, 1972	38.00	8.00		
Ecuador	8	Sep. 14, 1970	Sep. 13, 1971	22.00	12.00		
El Salvador	10	Dec. 22, 1970	Dec. 21, 1971	14.00	5.00		
Guatemala	8	Dec. 28, 1970	Dec. 27, 1971	14.00	14.00		
		Mar. 29, 1972	Mar. 28, 1973			9.00	9.00
Guyana	5	May 3, 1971	May 2, 1972			4.00	1.81
Haiti	11	June 29, 1970	June 28, 1971	2.20	2.20		
		June 29, 1971	June 28, 1972			3.00	3.00
Honduras	11	June 1, 1971	May 31, 1972			15.00	15.00
Indonesia	7	Apr. 22, 1971	Apr. 21, 1972	50.00	50.00		
		Apr. 17, 1972	Apr. 16, 1973			50.00	50.00
Korea	8	Jan. 1, 1971	Dec. 31, 1971	25.00	25.00		
		Jan. 1, 1972	Dec. 31, 1972			30.00	30.00
Liberia	9	June 1, 1970	May 31, 1971	2.00	—		
		Mar. 1, 1972	Feb. 28, 1973			4.00	4.00
Mali	5	July 29, 1971	July 28, 1972			4.50	—
Morocco	7	Mar. 18, 1971	Mar. 17, 1972	30.00	21.75		
Nicaragua	10	Aug. 12, 1970	Aug. 11, 1971	14.00	1.00		
		Feb. 9, 1972	Feb. 8, 1973			10.75	6.75
Panama	5	Mar. 23, 1971	Mar. 22, 1972	14.00	14.00		
Philippines	9	Mar. 16, 1971	Mar. 15, 1972	45.00	10.00		
Sudan	4	Mar. 29, 1972	Mar. 28, 1973			40.00	25.00
Turkey	10	Aug. 17, 1970	Aug. 16, 1971	90.00	—		
Uganda	1	July 22, 1971	July 21, 1972			10.00	—
Uruguay	5	May 28, 1970	May 27, 1971	13.75 [2]	—		
Yugoslavia	5	Feb. 22, 1971	Feb. 21, 1972 [3]	51.75	21.75		
		July 30, 1971	July 29, 1972			83.50	15.00
Total				501.70	239.40	313.75	209.56

[1] The stand-by was fully utilized, but SDR 4.7 million was reclassified under the compensatory financing facility.

[2] The stand-by, after being fully utilized, was augmented by SDR 6.75 million because of repurchase on October 30, 1970 and by SDR 7 million because of repurchase on November 2, 1970. The full amount of these augmentations was also utilized, and the stand-by was again augmented effective May 1, 1971 in respect of SDR 6.5 million repurchased on April 30 and by SDR 3 million on May 3, 1971. The reconstituted amount of SDR 9.5 million was purchased on May 13, 1971.

[3] Canceled by Yugoslavia on July 29, 1971.

TABLE I.9. SUMMARY OF STAND-BY ARRANGEMENTS THAT BECAME EFFECTIVE DURING THE FISCAL YEARS ENDED APRIL 30, 1953–72 [1]

(*In millions of SDRs*)

	Number	Amount
1953	2	55.00
1954	2	62.50
1955	2	40.00
1956	2	47.50
1957	9	1,162.28
1958	11	1,043.78
1959	15	1,056.63
1960	14	363.88
1961	15	459.88
1962	24	1,633.13
1963	19	1,531.10
1964	19	2,159.85
1965	24	2,159.05
1966	24	575.35
1967	25	591.15
1968	32	2,352.36
1969	26	541.15
1970	23	2,381.28
1971	18	501.70
1972	13	313.75
Total	319	19,031.32

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

TABLE I.10. PURCHASES AND REPURCHASES UNDER THE DECISION ON COMPENSATORY FINANCING OF EXPORT FLUCTUATIONS,[1] FEBRUARY 27, 1963–APRIL 30, 1972

(*In millions of SDRs*)

	Purchases		Related Repurchases		
Member	Date	Amount	Total	Under paragraph (7) of amended decision	Outstanding Balance April 30, 1972
Afghanistan	June 5, 1968	4.80	4.80	—	—
Argentina	Mar. 3, 1972	64.00	—	—	64.00
Brazil	June 7, 1963	60.00 [2]	60.00	—	—
Burma	Nov. 21, 1967	7.50	5.00	—	2.50
	Sept. 21, 1971	6.50	—	—	6.50
Burundi	June 9, 1970	2.50	0.50	0.50	2.00
Ceylon	Mar. 21, 1967	19.50	19.50		—
	Apr. 17, 1968	19.30	2.00		17.30
	Jan. 24, 1972 [3]	4.70 [3]	—	—	4.70
	Jan. 26, 1972	14.75	—		14.75
Chile	Dec. 14, 1971	39.50	—	—	39.50
Colombia	Mar. 22, 1967	18.90	18.90	7.70	—
	Apr. 19, 1968 [3]	0.95 [3]	0.95	0.95	—
	Apr. 19, 1968 [3]	0.95 [3]	0.95	0.95	—
Dominican Republic	Dec. 6, 1966	6.60	6.60	3.30	—
Ecuador	Oct. 15, 1969 [3]	3.50 [3]	3.50	—	—
	Oct. 15, 1969 [3]	2.75 [3]	2.75	—	—
Egypt	Oct. 15, 1963	16.00 [2]	16.00	—	—
	Mar. 18, 1968	23.00	—	—	23.00
El Salvador	Dec. 16, 1969	6.25	4.30	4.30	1.95
Ghana	Dec. 20, 1966	17.25	17.25	0.75	—
Guatemala	Feb. 5, 1968 [3]	3.00 [3]	3.00	1.60	—
	Feb. 5, 1968 [3]	3.25 [3]	3.25	—	—
Haiti	Aug. 11, 1967	1.30	1.30	0.12	—
	Dec. 6, 1967	1.00	0.63	0.20	0.37
Iceland	Nov. 10, 1967	3.75	3.75	3.75	—
	Nov. 26, 1968	3.75	3.75	3.75	—
India	Dec. 28, 1967	90.00	90.00	80.00	—
Iraq	Nov. 8, 1967 [3]	17.50 [3]	17.50	—	—
Jordan	Nov. 15, 1971	4.50	—	—	4.50
Khmer Republic	Mar. 14, 1972	6.25	—	—	6.25
New Zealand	May 10, 1967	29.20	29.20	—	—
Sudan	June 1, 1965	11.25 [2]	11.25	—	—
Syrian Arab Republic	Sept. 18, 1967	9.50	7.12	—	2.38
	Jan. 25, 1972	12.50	—	—	12.50
Uruguay	Feb. 7, 1968	9.50	7.20	5.00	2.30
Zambia	Dec. 14, 1971	19.00	—	—	19.00
		564.45	340.95	112.87	223.50

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

TABLE I.11. REPURCHASES OF CURRENCIES FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1972

(*In millions of SDRs*)

Member Repurchasing	Repurchases in Respect of: Purchases under stand-by arrangements	Schedules approved by Fund	Article V, Section 7(*b*)	Voluntary Repurchases	Other Repurchases	Total
Afghanistan	—	4.8	—	—	—	4.8
Bolivia	—	4.0	—	—	—	4.0
Burma	—	5.0	—	—	—	5.0
Burundi	4.5	—	—	0.5	0.1	5.1
Central African Republic	—	—	—	—	0.1	0.1
Ceylon	-	23.2	—	—	1.0	24.2
Chad	—	—	—	—	0.1	0.1
Chile	—	—	39.5 [1]	—	—	39.5
Colombia	13.2	—	20.3 [1]	—	—	33.5
Congo, People's Rep. of the	—	—	—	—	0.1	0.1
Costa Rica	—	—	—	—	0.3	0.3
Denmark	—	—	26.1	12.7	—	38.8
Dominican Republic	—	1.7	—	2.0	4.0	7.7
Ecuador	—	—	8.2 [1]	—	—	8.2
Egypt	—	27.0	—	—	0.2	27.2
El Salvador	1.3	—	1.7	—	2.0	5.0
France	—	—	983.8 [1]	—	—	983.8
Gabon	—	—	—	—	— [2]	— [2]
Gambia, The	—	—	—	—	0.1	0.1
Ghana	—	24.9	—	—	0.7	25.6
Guatemala	—	—	3.0	—	—	3.0
Guyana	—	—	—	—	0.1	0.1
Haiti	—	2.7	—	—	0.3	3.0
Indonesia	—	20.0	—	—	1.0	21.0
Iran	—	13.2	—	—	—	13.2
Jamaica	—	—	3.7	—	—	3.7
Korea	— [2]	—	—	—	—	— [2]
Lesotho	—	—	—	—	0.1	0.1
Liberia	3.9	—	—	—	0.4	4.3
Luxembourg	—	—	0.7	—	—	0.7
Malawi	—	—	—	0.2	—	0.2
Mali	5.0	—	—	—	0.2	5.2
Mauritania	—	—	—	—	0.1	0.1
Mauritius	—	—	0.6 [1]	—	—	0.6
Morocco	43.6	—	2.2	—	—	45.8
Nepal	—	—	— [2]	—	—	— [2]
Niger	—	—	—	—	— [2]	— [2]
Nigeria	—	3.1	—	—	—	3.1
Pakistan	—	—	—	—	0.9	0.9
Panama	5.2	—	—	—	1.4	6.6
Peru	—	—	30.7 [1]	—	—	30.7
Philippines	—	28.5	—	—	—	28.5
Rwanda	5.0	—	—	—	—	5.0
Senegal	—	—	—	—	0.3	0.3
Somalia	—	—	—	—	— [2]	— [2]
Sudan	—	15.0	—	—	0.6	15.6
Swaziland	—	—	—	—	0.1	0.1
Syrian Arab Republic	—	4.8	—	—	—	4.8
Tunisia	—	—	4.5	—	—	4.5
Turkey	28.6	—	88.6	—	—	117.3
United Kingdom	749.9	614.1	—	200.4	—	1,564.4
Upper Volta	—	—	1.1	—	—	1.1
Uruguay	3.0	2.2	—	—	—	5.2
Yugoslavia	—	20.0	—	—	—	20.0
Total	863.1	814.2	1,215.0 [1]	215.9	14.2	3,122.3

[1] Total includes SDR 714.1 million relating to Article V, Section 7(*b*), repurchase obligations incurred as of April 30, 1970 as follows: SDR 39.5 million by Chile, SDR 20.3 million by Colombia, SDR 1.9 million by Ecuador, SDR 629.1 million by France, SDR 0.6 million by Mauritius, and SDR 22.6 million by Peru.

[2] Less than SDR 50,000.

Note. Included in repurchases shown in the table are the following amounts related to purchases under the decision on compensatory financing of export fluctuations (amounts in millions of SDRs):

Afghanistan	4.8	El Salvador	2.0
Burma	5.0	Ghana	16.5
Burundi	0.5	Haiti	1.3
Ceylon	17.0	Syrian Arab Republic	4.8
Dominican Republic	1.7	Uruguay	2.2
Ecuador	3.2	Total	58.9

TABLE I.12. TOTAL REPURCHASE OBLIGATIONS INCURRED IN ACCORDANCE WITH ARTICLE V, SECTION 7(*b*), AND AMOUNTS PAYABLE FORTHWITH BY MEMBERS, AS OF APRIL 30, 1971

(*In thousands of SDRs*)

Member	Total Repurchase Obligation Incurred				Amount Payable Forthwith			
	Gold	Special drawing rights	Convertible currencies	Total	Gold	Special drawing rights	Convertible currencies	Total
Denmark	1,087	290	24,678	26,055	1,087	290	24,678	26,055
Ecuador [1]	1,644	5	10,836	12,485	—	—	6,335	6,335 [2]
El Salvador	221	—	1,527	1,748	221	—	1,527	1,748
France	—	6,057	348,631	354,688 [3]	—	—	—	—
Guatemala	—	—	3,002	3,002	—	—	3,002	3,002
Jamaica	—	259	3,486	3,745	—	259	3,486	3,745
Luxembourg	1	—	731	732	1	—	731	732
Morocco	1	—	2,215	2,216	1	—	2,215	2,216
Nepal	—	—	3	3	—	—	3	3
Nicaragua	3	118	13,704	13,825	—	—	—	— [4]
Peru [1]	1,260	470	32,290	34,020	171	54	7,893	8,118 [2]
Tunisia [5]	26	—	12,906	12,932	18	—	8,732	8,750
Turkey [1]	11,808	—	86,465	98,273	236	—	37,514	37,750
Upper Volta	—	18	1,104	1,122	—	18	1,104	1,122
Total [6]	16,051	7,217	541,578	564,846	1,735	621	97,220	99,576

[1] Elected to discharge the amount payable forthwith in accordance with paragraph 2(c) of Executive Board Decision No. 3049-(70/44), adopted May 20, 1970.

[2] Member discharged its April 30, 1970 repurchase obligation which was payable as of April 30, 1971 thus reducing the repurchase obligation payable forthwith to this amount.

[3] France discharged the equivalent of SDR 375 million of its April 30, 1970 repurchase obligation which was due as of April 30, 1971. Due to the limitation of Article V, Section 7(*c*)(iv), the entire repurchase obligation incurred as of April 30, 1971 was payable at the end of subsequent financial year or years. However, France discharged this obligation on August 9, 1971.

[4] Member discharged the part of the repurchase obligation incurred as of April 30, 1970 which was payable as of April 30, 1971 as well as a portion of the remainder of that obligation. Due to the limitation of Article V, Section 7(*c*)(iv), the repurchase obligation incurred as of April 30, 1971 and the balance of the April 30, 1970 obligation will be payable at the end of the subsequent financial year or years.

[5] Elected to discharge the amount payable forthwith in accordance with paragraph 2(a) of Executive Board Decision No. 3049-(70/44), adopted May 20, 1970.

[6] Not including one member which has disagreed with the calculation.

TABLE I.13. CURRENCIES AND SPECIAL DRAWING RIGHTS OBTAINED FROM THE FUND BY MEMBERS IN PURCHASES FOR THEIR OWN CURRENCIES AND FOR GOLD; CURRENCIES, GOLD, AND SPECIAL DRAWING RIGHTS USED BY MEMBERS IN REPURCHASES, FISCAL YEAR ENDED APRIL 30, 1972

(*In millions of SDRs*)

	Currencies and SDRs Obtained by Members				Currencies, Gold, and SDRs, Used by Members in Repurchases				
	Purchases				Not under Article V, Section 7(*b*)		Under Article V, Section 7(*b*)		
Medium	United States	Other countries	Sales of gold	Total	United Kingdom	Other countries	France	Other countries	Total
SDRs	—	32.7	—	32.7	425.2	69.1	6.1	0.9 [1]	501.3
Gold	—	—	—	—	25.0	—	473.0 [1]	8.2 [1]	506.2
Argentine pesos	—	—	—	—	—	—	—	— [2]	— [2]
Australian dollars	—	—	—	—	37.1	4.7	—	5.0 [1]	46.8
Austrian schillings	—	13.0	5.0	18.0	20.0	—	9.1	2.6	31.7
Belgian francs	565.0	—	—	565.0	202.0	3.3	222.8 [1]	31.5 [1]	459.6
Canadian dollars	—	125.9	—	125.9	209.0	65.3	21.2 [1]	37.2	332.7
Deutsche mark	—	239.0	70.0	309.0	150.0	65.6	2.0 [1]	82.0 [1]	299.6
Finnish markkaa	—	—	—	—	—	—	—	—	—
French francs	—	141.5	5.0	146.5	20.0	89.4	—	10.5	120.0
Irish pounds	—	5.0	—	5.0	—	—	—	—	—
Italian lire	—	49.4	20.0	69.4	50.0	—	0.1 [1]	5.0 [1]	55.0
Japanese yen	—	35.0	—	35.0	195.0	8.0	37.6 [1]	15.1 [1]	255.7
Kuwaiti dinars	—	5.0	—	5.0	5.0	—	—	—	5.0
Mexican pesos	—	—	—	—	—	3.9	10.0	3.5 [1]	17.5
Netherlands guilders	547.0	—	—	547.0	201.0	30.6	186.4 [1]	28.8 [1]	446.8
Norwegian kroner	—	—	—	—	25.0	1.9	0.1	— [2]	27.0
Pounds sterling	200.0	65.0	5.0	270.0	—	—	—	—	—
Spanish pesetas	—	5.0	—	5.0	—	—	—	—	—
Swedish kronor	—	—	—	—	—	1.2	8.1 [1]	1.0	10.2
U.S. dollars	—	—	—	—	—	—	7.3 [1]	—	7.3
Total	1,312.0	716.5	105.0	2,133.5	1,564.4	343.0	983.8 [1]	231.2 [1]	3,122.3

[1] Totals include SDR 714.1 million relating to Article V, Section 7(*b*), repurchase obligations incurred as of April 30, 1970 as follows: SDR 0.3 million in SDRs, SDR 477.5 million in gold, SDR 5 million in Australian dollars, SDR 115.4 million in Belgian francs, SDR 21.2 million in Canadian dollars, SDR 11.5 million in deutsche mark, SDR 0.3 million in Italian lire, SDR 52.6 million in Japanese yen, SDR 3.5 million in Mexican pesos, SDR 19.3 million in Netherlands guilders, SDR 0.1 million in Swedish kronor, and SDR 7.3 million in U.S. dollars.

[2] Less than SDR 50,000.

TABLE I.14. SUMMARY OF MEMBERS' PURCHASES AND REPURCHASES, YEARS ENDED APRIL 30, 1948–72

(*In millions of SDRs*)

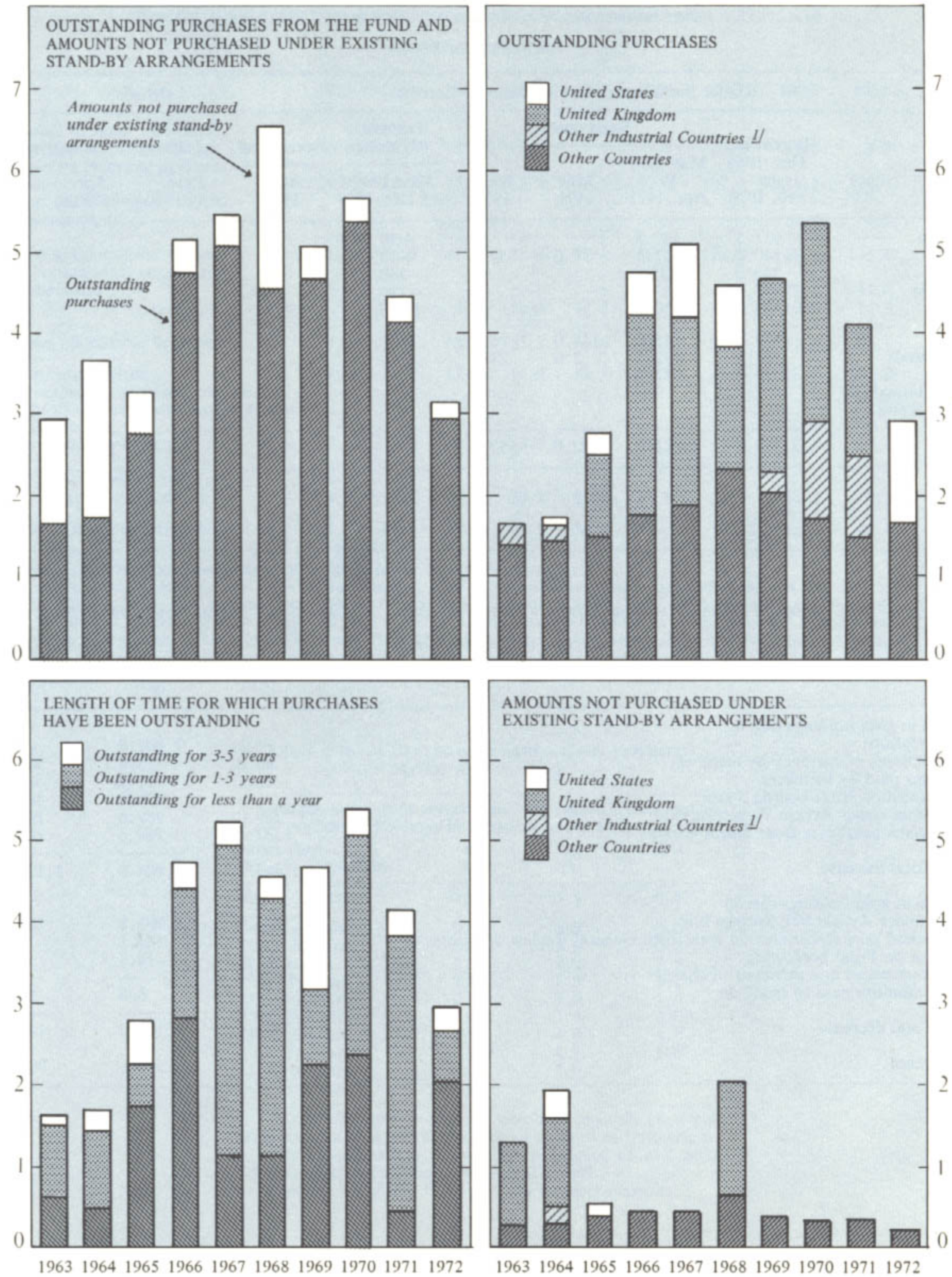
	Total Purchases by Members	Total Repurchases by Members
1948	606.04	—
1949	119.44	—
1950	51.80	24.21
1951	28.00	19.09
1952	46.25	36.58
1953	66.12	184.96
1954	231.29	145.11
1955	48.75	276.28
1956	38.75	271.66
1957	1,114.05	75.04
1958	665.73	86.81
1959	263.52	537.32
1960	165.53	522.41
1961	577.00	658.60
1962	2,243.20	1,260.00
1963	579.97	807.25
1964	625.90	380.41
1965	1,897.44	516.97
1966	2,817.29	406.00
1967	1,061.28	340.12
1968	1,348.25	1,115.51
1969	2,838.85	1,542.33
1970	2,995.65	1,670.69
1971	1,167.41	1,656.86
1972	2,028.49	3,122.33
Total	23,626.00 [1]	15,656.52 [2]

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

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

CHART I.1. USE OF FUND RESOURCES, APRIL 30, 1963–72

(*In billions of SDRs*)



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

TABLE I.15. FUND BORROWING AND REPAYMENT, OCTOBER 24, 1962–APRIL 30, 1972

(*In millions of SDRs*)

	Under the General Arrangements to Borrow					Other			
	Borrowing	Repayment			Transfer of claims	Borrowing	Transfer of claim	Repayment	
	Dec. 1964 to Feb. 1970	May 1967 to Apr. 1971	May 1971	Aug. 1971	June 1968 and Dec. 1969	Aug. 1966	June–July 1970	Apr. 1971	Aug. 1971
Belgium	137.5	147.5			+10.0	—			
Canada	140.0	111.0	6.0	53.0	+30.0	—			
France	240.0	100.0			−140.0	—			
Germany	897.5	767.5			−130.0	—			
Italy	335.0	440.0			+105.0	250.0	−250.0		
Japan	150.0	45.0	114.0	76.0	+85.0	—	+250.0	125.0	125.0
Netherlands	177.5	192.5	2.0	23.0	+40.0	—			
Sweden	77.5	77.5				—			
United Kingdom	—	—				—			
United States	—	—				—			
	2,155.0	1,881.0	122.0	152.0	—	250.0	—	125.0	125.0

TABLE I.16. GOLD TRANSACTIONS AND OPERATIONS BY THE FUND, FISCAL YEARS ENDED APRIL 30, 1970–72

(*In millions of SDRs*)

	1970	1971	1972
Increase in gold holdings due to			
Subscriptions	25.3	1,807.8	81.6
Repurchases of currency by members	80.8	15.4	506.2
Charges paid by members	68.1	71.2	46.4
Reacquisition from United States	—	400.0	400.0
Purchases under Article V, Section 6(*a*)	289.0	389.6	105.0
of which purchases from South Africa	*282.8*	*389.6*	*105.0*
Total increase	463.2	2,684.0	1,139.2
Decrease in gold holdings due to			
Sales under Article VII, Section 2(ii)	250.0	1,085.8	121.2
of which sales in connection with Fifth General Review of Quotas	—	*564.1*	*7.5*
Interest on Fund borrowing	17.0	14.3	2.7
Reimbursement and payment of charges	2.4	—	—
Remuneration paid to members	—	8.8	22.7
Total decrease	269.4	1,108.9	146.6
Net increase	193.7	1,575.1	992.6

TABLE I.17. INCOME AND EXPENDITURE, FISCAL YEARS ENDED APRIL 30, 1963–72

(*In millions of SDRs*)

	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Operational income										
Service and stand-by charges, etc.	6.6	4.8	11.8	15.6	7.1	7.4	14.6	13.0	3.2	3.0
Charges on balances in excess of quotas	24.4	31.5	35.9	65.7	82.5	82.0	107.4	124.7	128.1	62.0
Interest on holdings of special drawing rights	—	—	—	—	—	—	—	0.4	4.3	7.2
Total operational income [1]	31.0	36.3	47.7	81.3	89.6	89.4	122.0	138.1	135.6	72.2
Deduct: operational expenditure										
Remuneration	—	—	—	—	—	—	—	27.2	37.4	30.5
Other	—	—	4.6	16.1	17.8	11.9	22.3	19.1	11.8	1.2
Net operational income	31.0	36.3	43.1	65.2	71.8	77.5	99.7	91.8	86.3	40.5
Budgetary expenditure	9.4	10.9	13.0	15.0	18.1	21.3	24.4	28.6	33.2	37.1
Deduct: expenses assessed participants for cost of operating the Special Drawing Account	—	—	—	—	—	—	—	0.9	0.9	1.0
Fixed property expenditure	0.1	2.2	4.6	5.7	3.3	0.5	4.5	6.5	7.5	17.7
Total budgetary and fixed property expenditure	9.5	13.1	17.6	20.7	21.4	21.8	28.9	34.2	39.9	53.7
Net income or expenditure (−) [2]	21.5	23.2	25.5	44.5	50.4	55.7	70.8	57.6	46.4	−13.3

[1] Excludes income from investments transferred to the Special Reserve.

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

TABLE I.18. CHARGES ON TRANSACTIONS EFFECTED AFTER MAY 1, 1963

Charges in per cent per annum [1] for period stated and for portion of holdings in excess of quota by (per cent)			
More than	0	50	100
But not more than	50	100	
Service charge [2]	0.5	0.5	0.5
0 to 3 months	0.0	0.0	0.0
3 to 6 months	2.0	2.0	2.0
½ to 1 year	2.0	2.0	2.5
1 to 1½ years	2.0	2.5	3.0
1½ to 2 years	2.5	3.0	3.5
2 to 2½ years	3.0	3.5	4.0 [3]
2½ to 3 years	3.5	4.0 [3]	4.5
3 to 3½ years	4.0 [3]	4.5	5.0
3½ to 4 years	4.5	5.0	
4 to 4½ years	5.0		

[1] Except for service charge, which is payable once per transaction and stated as per cent of amount of transaction.

[2] No service charge is payable in respect of any gold tranche purchase effected after July 27, 1969.

[3] Point at which the Fund and the member consult.

TABLE I.19. PUBLICATIONS ISSUED, FISCAL YEAR ENDED APRIL 30, 1972

Reports and Other Documents

Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1971 (English, French, Spanish, and shorter German edition). Free

By-Laws, Rules and Regulations, Thirtieth Issue (English, French, and Spanish). Free

Selected Decisions of the Executive Directors and Selected Documents, Fifth Issue (English; French and Spanish editions in preparation). Free

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

Twenty-Second Annual Report on Exchange Restrictions. Free

Subscription Publications

Balance of Payments Yearbook

Volume 22, 1965–69 (clothbound). US$6.00 to subscribers to loose-leaf edition and US$12.50 to nonsubscribers
Volume 23, 1966–70 (monthly, loose-leaf). US$11.00 (including binder)

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

International Financial Statistics, monthly (English and a combined English, French, and Spanish edition); and annual supplement. US$10.00 a year

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

The four publications listed above are available to university libraries, faculty members, and students at the reduced subscription rate of US$10.00 a year for all four publications, or US$3.00 a year for any one of them.

Books

Surveys of African Economies. US$5.00 a volume

Volume 4: Democratic Republic of Congo (Zaïre), Malagasy Republic, Malawi, Mauritius, and Zambia (English; French edition in preparation)

The volumes in this series are available to university libraries, faculty members, and students at a reduced price of US$2.50 a volume.

Pamphlet Series

No. 6. *Maintenance of the Gold Value of the Fund's Assets*, Second Edition (English, French, and Spanish). Free

No. 15. *Special Drawing Rights: The Role of Language* (English and Spanish; French edition in preparation). Free

No. 16. *Some Reflections on the Nature of Special Drawing Rights* (English; French and Spanish editions in preparation).Free

Other

Catalogue of Publications, 1946–71. Free

Finance and Development, issued jointly with IBRD; quarterly (English, French, German, and Spanish, and an annual edition in Portuguese). Free

International Financial News Survey, weekly. Free

A. Buffer Stock Financing Facility: Contributions Under the Fourth International Tin Agreement

In applying the provisions of E. B. Decision No. 3179-(70/102),[1] dated November 25, 1970, the Fund decides that, for the purpose of determining the appropriate use of Fund resources under the Decision, any initial contribution made in the form of tin metal under Article 21(a)(ii) of the Fourth International Tin Agreement shall be regarded as equivalent to contributions in cash, valued at the floor price ruling on entry into force of the Agreement.

Decision No. 3351-(71/51)
June 21, 1971

B. Use of Special Drawing Rights in Distribution of Net Income, Fiscal Year 1970/71

Pursuant to Article XXV, Section 7(*f*) the Fund shall pay, at the option of a participant, an equivalent amount of special drawing rights in substitution for the amount of currency payable to it as a distribution of net income for the fiscal year ended April 30, 1971, provided that the Fund's holdings of special drawing rights in the General Account at the time of payment exceed the amount of distribution to which all such participants may be entitled.

Decision No. 3383-(71/81) G/S
August 2, 1971

C. Gold Tranche Purchases and Buffer Stock Financing Facility

The Executive Directors will not challenge a member's representation under Article V, Section 3(*a*)(i) made in connection with a request for a purchase under paragraph 1 of Executive Board Decision No. 2772-(69/47), adopted June 25, 1969[2] if the purchase is a gold tranche purchase.

Decision No. 3386-(71/83)
August 6, 1971

[1] *Annual Report, 1971*, page 210.
[2] *Annual Report, 1970*, page 175.

D. Transfer of Special Drawing Rights Held in the General Account to Participants Making Purchases from the Fund

a. Authorization

When a member which is a participant in the Special Drawing Account consults in accordance with Executive Board Decision No. 1371-(62/36), adopted July 20, 1962, on Currencies to Be Drawn and to Be Used in Repurchases,[3] the Managing Director may propose that the participant request the purchase of special drawing rights not in excess of the amount which he shall indicate, for immediate use by the participant in a transaction under Article XXV, Section 2(*a*).

Decision No. 3414-(71/98) G/S
September 10, 1971

b. Amendment of Rule I-2[4]

Rule I-2 shall be amended to read as follows:

1-2. The service charge payable by a member buying, in exchange for its own currency, the currency of another member or special drawing rights shall be ½ of 1 per cent, except that no service charge shall be payable in respect of any purchase to the extent that it is a gold tranche purchase. The service charge shall be paid at the time the transaction is consummated. The service charge shall be reviewed in connection with any review of charges under Rule I-4.[5]

Decision No. 3415-(71/98) G/S
September 10, 1971

E. Principles and Procedures for Reconstitution

1. For the purposes of Rule P-2 and without prejudice to any future decisions on allocations or cancellations of special drawing rights, it shall be assumed that an allocation of special drawing rights will be made on January 1, 1972, in accordance with Board of Governors Resolution No. 24-12,[6] and that no allocations or cancellations will be made thereafter. This assumption shall be subject to review at any time and shall be reviewed not later than December 31, 1972.

2. Pursuant to Article XXV, Section 2(*b*)(ii), the Fund prescribes that a participant may obtain special drawing rights from another participant in a transaction with that other participant that would promote reconstitution under Article XXV, Section 6(*a*), and Schedule G, paragraph 1(*a*). The maximum amount that may be obtained in this way in any calendar quarter shall be the single sum based on calculations by the Fund under

[3] *Annual Report, 1962*, pages 36–41 and 245.
[4] *By-Laws, Rules and Regulations* (Thirtieth Issue, Washington, March 20, 1972), page 30.
[5] *Ibid.*, pages 30–35.
[6] *Summary Proceedings of the Twenty-Fourth Annual Meeting of the Board of Governors* (Washington, 1969), pages 326–27.

Rule P-2 at the end of the previous month which will meet the participant's entire need to reconstitute for any reconstitution period covered by those calculations.

3. Pursuant to Article XXV, Section 7(*f*), a participant that makes a purchase from the Fund under Article V, Section 3, may obtain special drawing rights from the Fund through the General Account in that purchase to the extent of any need it has to acquire special drawing rights in order to promote reconstitution under Article XXV, Section 6(*a*) and Schedule G, paragraph 1(*a*).

Decision No. 3457-(71/121) G/S
December 3, 1971

F. Central Rates and Wider Margins: A Temporary Regime

Preamble

This decision is adopted by the Executive Directors in order to indicate practices that members may wish to follow in present circumstances consistently with Article IV, Section 4(*a*) and Board of Governors Resolution No. 26-9,[7] which called on all members to collaborate with the Fund and with each other in order to maintain a satisfactory structure of exchange rates within appropriate margins. The decision is intended to enable members to observe the purposes of the Fund to the maximum extent possible during the temporary period preceding the resumption of effective par values with appropriate margins in accordance with the Articles.

Paragraph 1. *Par Values and Wider Margins*

(a) A member will be deemed to be acting in accordance with Article IV, Section 4(*a*) and Resolution No. 26-9 if it takes appropriate measures, consistent with the Articles, to permit spot exchange transactions between its currency and the currencies of other members taking place within its territories only at rates within 2¼ per cent from the effective parity relationship among currencies as determined by the Fund, provided that these margins may be within 4½ per cent from the said relationship if they result from the maintenance by the member of rates within margins of 2¼ per cent from the said relationship for spot exchange transactions between its currency and its intervention currency.

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

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

Paragraph 2. *Central Rates*

(a) A member which temporarily does not maintain rates based on a par value for its currency in accordance with Article IV, Section 3 and Decision No. 904-(59/32) [8] but,

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

[8] *Selected Decisions of the Executive Directors and Selected Documents* (Fifth Issue, Washington, July 10, 1971), page 15.

by means of appropriate measures consistent with the Articles, maintains a stable rate as the basis for exchange transactions in its territories may communicate to the Fund a rate for its currency for the purposes of this decision. This rate or a rate subsequently communicated in accordance with this Paragraph shall take effect as the central rate for the purposes of this decision unless the Fund finds it unsatisfactory.

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

Paragraph 3. *Central Rates with Wider Margins*

A member that communicates a central rate under Paragraph 2(a) and avails itself of the wider margins of Paragraph 1(a) on the basis of its central rate shall notify the Fund, and if the Fund has not found the central rate unsatisfactory the member will be deemed to be acting in accordance with Article IV, Section 4(*a*) and Resolution No. 26-9 if it takes appropriate measures, consistent with the Articles, to permit spot exchange transactions between its currency and the currencies of other members taking place within its territories only at rates within 2¼ per cent from the central rate, provided that these margins may be within 4½ per cent from the central rate if they result from the maintenance by the member of rates within margins of 2¼ per cent from the central rate for spot exchange transactions between its currency and its intervention currency. In addition, Paragraphs 5 and 6 shall apply.

Paragraph 4. *Central Rates Without Wider Margins*

If a member that communicates a central rate under Paragraph 2(a) does not notify the Fund under Paragraph 3 that it avails itself of the wider margins of that Paragraph, the member shall take appropriate measures to ensure that the margins on either side of the central rate for exchange transactions between its currency and the currencies of other members taking place within its territories shall be no wider than the equivalent of the margins of Article IV, Section 3 and Decision No. 904-(59/32).

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

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

(i) a spread between the buying and selling rates for spot exchange transactions between its currency and the currencies of other members in excess of 2 per cent,

or

(ii) (1) a difference between buying or between selling rates for spot exchange transactions between its currency and the currency of another member, or

(2) a relationship among the buying rates, or among the selling rates, for the currencies of other members,

that the Fund regards as inconsistent with promotion of exchange stability, the maintenance of orderly exchange arrangements with other members, and the avoidance of competitive exchange alterations.

Paragraph 6. *Intervention*

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

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

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

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

Decision No. 3463-(71/126)
December 18, 1971

G. Adjustment of the Fund's Holdings of Currencies and Exchange Rates for Transactions Between Participants in Special Drawing Rights

The following decision is adopted as a temporary measure in order to facilitate the resumption of the orderly conduct of the operations of the Fund in present circumstances.

I.1. Within a reasonable period after a member establishes a central rate for its currency under Decision No. 3463-(71/126),[9] the Fund shall adjust its holdings of the member's currency under Article IV, Section 8 in accordance with the central rate.

2.(a) The Fund's holdings of the currency of a member which has informed the Fund that it avails itself of the wider margins of paragraph 1 of Decision No. 3463-(71/126) or has established a central rate under paragraph 2 of that decision shall be adjusted in accordance with paragraphs 3 and 4 below (i) whenever a transaction with the Fund involves the purchase or sale of that currency by another member and (ii) at such other times as the Fund may decide. The adjustment shall be based on the ratio of the representative rate for the member's currency of the type described in Rule O-3(ii)–(iv)[10] to the effective parity relationship between that currency and the member's intervention currency or, where appropriate, the intervention currency of the issuer of the member's intervention currency.

(b) In addition, the Fund's holdings of the currency to which Decision No. 3087-(70/64) adopted July 14, 1970 applied shall be adjusted in accordance with the provisions of the present decision. Decision No. 3087-(70/64) is terminated.

3. Whenever the Fund adjusts its holdings of a member's currency in accordance with paragraph 1 or 2 above, the Fund shall establish an account receivable or an account payable, as the case may be, in respect of the amount of the currency payable by or to the member under Article IV, Section 8. The amount shall be equal to the change in the gold value of the member's currency held by the Fund. Settlements of accounts receivable

[9] Reproduced above.
[10] *By-Laws, Rules and Regulations* (Thirtieth Issue, Washington, March 20, 1972), pages 50–51.

or payable shall be made as of April 30 and at other times when requested by the member or the Fund.

4. The representative rate for computations under Article V, Sections 7(*b*) and 8(*f*) shall be the rate of the day for which the computation is made. For computations relating to other transactions under paragraph 2 above, the representative rate shall be, whenever possible, the representative rate for that currency two business days before the value date of the transaction, and in other cases the day closest thereto that is practicable.

II. The operation of Rule O-3(i) is suspended until further notice. During the period of its suspension the amounts of French francs or pounds sterling to be provided against special drawing rights in transactions between participants shall be determined by the relationship between the gold value of special drawing rights and the par values of those currencies adjusted by the ratios of the representative rates for these currencies to their effective parity relationships to the intervention currency of the issuers of these currencies.

III. The Fund determines under Decision No. 3463-(71/126) that the effective parity relationship of a member's currency to the member's intervention currency (or to the intervention currency of the issuer of the member's intervention currency) is the exchange rate of the member's currency for the member's intervention currency (or, where appropriate, for the intervention currency of the issuer of the member's intervention currency) corresponding to the par value or central rate of the member's currency.

IV. The Fund shall review this decision in connection with the adoption of a designation plan pursuant to Rule O-14 or, as necessary, for any other reason connected with the orderly conduct of the operations of the Fund.

Decision No. 3537-(72/3) G/S
January 4, 1972

The above Decision was replaced on May 8, 1972 by the following Decision.

Rates for Computations and Adjustment of the Fund's Holdings of Currencies

The following decision is adopted in order to facilitate the conduct of the operations of the Fund involving currencies for which rates are not maintained within the margins under Article IV, Section 3 of the Articles or Executive Board Decision No. 904-(59/32).[11]

1. Computations by the Fund under the Articles of Agreement relating to a member's currency for which rates within the margins of Article IV, Section 3 or Executive Board Decision No. 904-(59/32) are not maintained will be made on the basis of the representative rate for that currency under Rule O-3 [12] whenever these calculations are made (i) for the purpose of a transaction with the Fund involving the purchase or sale of that member's currency by another member, and (ii) for such other purposes as the Fund may decide. Computations under this paragraph will be made on the basis of the representative rate for the currency on the day specified in paragraph 2 below.

2. For computations for the purpose of Article V, Sections 7(*b*) and 8(*f*) the rate shall be that at which the Fund values its holdings of the currency on the day for which

[11] *Selected Decisions of the Executive Directors and Selected Documents* (Fifth Issue, Washington, July 10, 1971), page 15.
[12] *By-Laws, Rules and Regulations* (Thirtieth Issue, Washington, March 20, 1972), pages 50–51.

the computation is made. For computations relating to other transactions, including computations involving currency substituted pursuant to Schedule B, paragraph 1(*d*) and paragraph 1 of Executive Board Decision No. 3049-(70/44),[13] the rate shall be that of two business days before the value date of the transaction and, if this is not possible, the rate of the day closest thereto that is practicable.

3. Whenever a computation relating to a member's currency is made on the basis of a representative rate in accordance with paragraph 1 above, the Fund will adjust all of its holdings of the currency on the basis of that rate, and such adjustment will take effect as of the day specified for the computation in paragraph 2 above.

4. Whenever the Fund adjusts its holdings of a member's currency in accordance with paragraph 3 above, the Fund shall establish an account receivable or an account payable, as the case may be, in respect of the amount of the currency payable by or to the member under Article IV, Section 8. For the purpose of applying the provisions of the Articles as of any date, the Fund's holdings of the currency will be deemed to be its actual holdings plus the balance in any such account receivable or minus the balance in any such account payable as of that date. Settlements of accounts receivable or payable shall be made promptly after each April 30 and at other times when requested by the Fund or the member.

5. The suspension of Rule O-3(i) pursuant to Paragraph II of Executive Board Decision No. 3537-(72/3) G/S is terminated. Executive Board Decision No. 3537-(72/3) G/S[14] and Executive Board Decision No. 321-(54/32), as amended,[15] are terminated.

6. This decision shall be reviewed as necessary.

Decision No. 3637-(72/41) G/S
May 8, 1972

H. Fund's Gold Investment and General Deposits of Gold: Liquidation

1. The Fund shall reacquire 11,428,329.237 fine ounces of gold from the United States on or before February 15, 1972, pursuant to Executive Board Decision No. 488-(56/5), adopted January 25, 1956 (as amended by Executive Board Decision No. 2844-(69/90), adopted September 19, 1969), Executive Board Decision No. 708-(57/57), adopted November 27, 1957, Executive Board Decision No. 905-(59/32), adopted July 24, 1959, and Executive Board Decision No. 1107-(60/50), adopted November 30, 1960.[16] The gold shall be reacquired with the U. S. dollar proceeds, excluding those proceeds credited to the Special Reserve as income, received on the maturity or by the sale of U. S. Government securities held for investment. The gold investment account maintained with the Federal Reserve Bank of New York shall be closed following the termination of the investment and the reacquisition of gold.

[13] *Annual Report, 1971*, pages 205–206.
[14] Reproduced above.
[15] *Selected Decisions of the Executive Directors and Selected Documents* (Fifth Issue, Washington, July 10, 1971), pages 7–10.
[16] *Ibid.*, pages 144–47.

2. The Fund shall request the Federal Reserve Bank of New York and the Bank of England to transfer to the Fund's gold bar holdings on or before February 15, 1972 the gold held on general deposit with them. The general deposit accounts maintained with these institutions shall be closed upon completion of the transfers.

3. The Managing Director shall make the necessary arrangements for the purposes of paragraph 1 and paragraph 2 above.

Decision No. 3573-(72/13)
February 14, 1972

I. General Account: Accounting in Special Drawing Rights

a. Amendment of Section 20(b) of the By-Laws

. . . .

1. Following the realignment of the exchange rates of members' currencies the Fund has reviewed its accounting practices. In view of the fixed gold value of special drawing rights, their international character, and their role as an international reserve asset, the Executive Directors have concluded that it would be appropriate for the accounts of the General Account to be summarized in special drawing rights.

2. Accordingly, the Executive Directors of the Fund have approved the submission of the following draft Resolution to the Board of Governors of the Fund for a vote without meeting pursuant to Section 13 of the By-Laws. . . .

DRAFT RESOLUTION [17]

Amendment of Section 20(b) of the By-Laws of the Fund

RESOLVED:

That the first sentence of the fifth paragraph of Section 20(b) of the By-Laws shall be amended, effective March 20, 1972, to read as follows:

"All accounts of the General Account shall be summarized in special drawing rights of the value prescribed in Article XXI, Section 2. The currencies of members shall be converted at their par values, or in accordance with decisions of the Fund."

. . . .

Decision No. 3577-(72/16)
February 25, 1972

[17] Adopted by the Board of Governors as Resolution No. 27-2, effective March 20, 1972.

b. Amendment of Rule J-1(a)[18]

Rule J-1(a) shall be amended, effective March 20, 1972, to read:

"The accounts of the General Account shall be kept in terms of the currencies held in the General Account and in terms of special drawing rights, except that administrative receipts and expenditures shall be recorded in terms of currencies and summarized in special drawing rights. For this purpose, currencies shall be converted at their par values or in accordance with decisions of the Fund."

Decision No. 3578-(72/16)
February 25, 1972

[18] *By-Laws, Rules and Regulations* (Thirtieth Issue, Washington, March 20, 1972), page 40.

Appendix III. Board of Governors Resolution on the Establishment of a Committee on Reform of the International Monetary System and Related Issues

WHEREAS there is an urgent need for a thorough review and reform of the international monetary system in the light of major international developments over the last several years; and

WHEREAS reform of the international monetary system should be considered in relation to existing or prospective arrangements among countries, including those involving international trade, the flow of capital, investment, or development assistance, that could affect attainment of the purposes of the Fund under the present or amended Articles; and

WHEREAS the reform should meet the present and future needs of the world economy; and

WHEREAS in order to bring about the necessary reform it is desirable to establish a committee, composed of governors of the Fund, ministers, or others of comparable rank, to advise and make recommendations to the Board of Governors; and

WHEREAS it is generally recognized that decisions relating to the reform should be taken with the full participation of both developed and developing member countries;

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

1. *Composition of the Committee*

(a) There shall be established an ad hoc Committee of the Board of Governors on Reform of the International Monetary System and Related Issues. The members of the Committee shall be appointed by the members of the Fund. Each member of the Fund that appoints an executive director and each group of members of the Fund that elected an executive director on or after the date on which the last regular election took place shall appoint one member of the Committee, who shall serve until a new appointment is made. Each member of the Committee shall appoint not more than two associates, who shall be entitled to participate in meetings of the Committee. If a member of the Committee does not attend a meeting of the Committee, he shall be entitled to designate another person to take his place at that meeting.

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

(c) The Committee shall determine the number of advisors that each member of the Committee may bring to its meetings.

(d) The Managing Director shall participate in the meetings of the Committee and may designate a representative to take his place at any meeting he does not attend.

2. *Terms of Reference of the Committee*

(a) The Committee shall advise and report to the Board of Governors with respect to all aspects of reform of the international monetary system, including proposals for amendments of the Articles of Agreement of the Fund, taking into consideration any reports and recommendations by the Executive Directors to the Board of Governors pursuant to Resolution No. 26-9 of the Board of Governors.

(b) In considering and reporting on the matters covered by (a) above, the Committee shall give full attention to the interrelation between these matters and existing or prospective arrangements among countries, including those that involve international trade, the flow of capital, investment, or development assistance, that could affect attainment of the purposes of the Fund under the present or amended Articles.

3. *Deputies*

(a) There shall be established the Deputies, who shall be composed of the deputies appointed by the members of the Committee, and who shall meet as often as necessary to prepare the work of the Committee. Each member of the Committee shall be entitled to have not more than two deputies.

(b) The Committee shall select the Chairman of the Deputies.

(c) Executive directors shall be entitled to participate in the meetings of the Deputies.

(d) The Managing Director shall designate not more than two members of the staff of the Fund to represent him at meetings of the Deputies.

(e) The Deputies shall determine the number of advisors who may attend the meetings of the Deputies.

4. *Arrangements for Work*

(a) The Managing Director and the Chairman of the Deputies shall establish appropriate arrangements to bring about an effective coordination of the work of the Executive Directors in connection with reform of the international monetary system pursuant to Resolution No. 26-9 and the work of the Deputies.

(b) The Chairman of the Committee or of the Deputies, after consulting the members of the Committee or the deputies as the case may be, shall make any arrangements that are considered necessary for studies by qualified persons or for furthering the work of the Committee or of the Deputies in any other way.

5. *Procedures*

(a) The Committee shall meet as often as is necessary for proceeding with its work. Meetings shall be convened by the Chairman after consulting the members of the Committee. The Chairman shall consult the members of the Committee if so requested by any member of the Committee.

(b) Meetings of the Committee and of the Deputies shall be held within the metropolitan area in which the Fund has its principal office or at such other places as the respective Chairmen determine after consulting the members of the Committee or the deputies as the case may be.

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

(d) The Committee and the Deputies may invite other persons to attend meetings and may determine any other aspect of their own procedures that is not established by this Resolution.

Resolution No. 27-10
July 26, 1972

Appendix IV. Executive Directors and Voting Power on April 30, 1972

Director / *Alternate*	Casting Votes of	Votes by Country	General Account: Total Votes [1]	General Account: Per Cent of Total	Special Drawing Account: Total Votes [1]	Special Drawing Account: Per Cent of Total
APPOINTED						
William B. Dale / *Charles R. Harley*	United States	67,250	67,250	21.72	67,250	22.10
Derek Mitchell / *R. H. Gilchrist*	United Kingdom	28,250	28,250	9.12	28,250	9.28
Guenther Schleiminger / *Lore Fuenfgelt*	Germany	16,250	16,250	5.25	16,250	5.34
Marc Viénot / *Claude Beaurain*	France	15,250	15,250	4.93	15,250	5.01
Hideo Suzuki / *Koichi Satow*	Japan [2]	12,250	12,250	3.96	12,250	4.03
P. S. N. Prasad / *S. S. Marathe*	India	9,650	9,650	3.12	9,650	3.17
ELECTED						
Francesco Palamenghi-Crispi (Italy) / *Carlos Bustelo (Spain)*	Italy	10,250				
	Malta	410				
	*Portugal	1,420				
	Spain	4,200	16,280	5.26	14,860	4.88
Nazih Deif (Egypt) / *Muhammad Al-Atrash (Syrian Arab Republic)*	Afghanistan	620				
	Egypt	2,130				
	Iran	2,170				
	Iraq	1,340				
	Jordan	480				
	*Kuwait	900				
	*Lebanon	340				
	Pakistan	2,600				
	*Saudi Arabia	1,590				
	Somalia	440				
	Syrian Arab Rep.	750				
	Yemen Arab Rep.	350				
	Yemen, People's Dem. Rep.	540	14,250	4.60	11,420	3.75
Robert Bryce (Canada) / *Donald Owen Mills (Jamaica)*	Canada	11,250				
	Ireland	1,460				
	Jamaica	780	13,490	4.36	13,490	4.43
Lindsay B. Brand (Australia) / *R. van S. Smit (South Africa)*	Australia	6,900				
	Lesotho	300				
	New Zealand	2,270				
	South Africa	3,450				
	Swaziland	330	13,250	4.28	13,250	4.35

Appendix IV (*continued*). EXECUTIVE DIRECTORS AND VOTING POWER on April 30, 1972

Director / *Alternate*	Casting Votes of	Votes by Country	General Account: Total Votes [1]	General Account: Per Cent of Total	Special Drawing Account: Total Votes [1]	Special Drawing Account: Per Cent of Total
ELECTED (continued)						
André van Campenhout (Belgium)	Austria	2,950				
Heinrich G. Schneider (Austria)	Belgium	6,750				
	Luxembourg	450				
	Turkey	1,760	11,910	3.85	11,910	3.91
Erik Brofoss (Norway)	Denmark	2,850				
Sigurgeir Jónsson (Iceland)	Finland	2,150				
	Iceland	480				
	Norway	2,650				
	Sweden	3,500	11,630	3.76	11,630	3.82
Pieter Lieftinck (Netherlands)	Cyprus	510				
Tom de Vries (Netherlands)	Israel	1,550				
	Netherlands	7,250				
	Yugoslavia	2,320	11,630	3.76	11,630	3.82
Luis Ugueto (Venezuela)	Costa Rica	570				
Guillermo González (Costa Rica)	El Salvador	600				
	Guatemala	610				
	Honduras	500				
	Mexico	3,950				
	Nicaragua	520				
	Venezuela	3,550	10,300	3.33	10,300	3.38
Byanti Kharmawan (Indonesia)	Algeria	1,550				
Costa P. Caranicas (Greece)	Ghana	1,120				
	Greece	1,630				
	Indonesia	2,850				
	Khmer Republic	500				
	*Libyan Arab Rep.	490				
	Morocco	1,380				
	Tunisia	730	10,250	3.31	9,760	3.21
Alexandre Kafka (Brazil)	Brazil	4,650				
Basilio Martins (Brazil)	Colombia	1,820				
	Dominican Republic	680				
	Guyana	450				
	Haiti	440				
	Panama	610				
	Peru	1,480	10,130	3.27	10,130	3.33

Appendix IV (*concluded*). EXECUTIVE DIRECTORS AND VOTING POWER on April 30, 1972

Director *Alternate*	Casting Votes of	Votes by Country	General Account: Total Votes [1]	General Account: Per Cent of Total	Special Drawing Account: Total Votes [1]	Special Drawing Account: Per Cent of Total
ELECTED (concluded)						
Maurice P. Omwony (Kenya)	Botswana	300				
S. B. Nicol-Cole (Sierra Leone)	Burundi	440				
	*Ethiopia	520				
	Gambia, The	320				
	Guinea	490				
	Kenya	730				
	Liberia	540				
	Malawi	400				
	Nigeria	1,600				
	Sierra Leone	500				
	Sudan	970				
	Tanzania	670				
	Trinidad and Tobago	880				
	Uganda	650				
	Zambia	1,010	10,020	3.24	9,500	3.12
P. Y. Hsu (China)	China	5,750				
Nguyên Huu Hanh (Viet-Nam)	Korea	1,050				
	Philippines	1,800				
	Viet-Nam	870	9,470	3.06	9,470	3.11
Carlos Massad A. (Chile)	Argentina	4,650				
Ricardo H. Arriazu (Argentina)	Bolivia	620				
	Chile	1,830				
	Ecuador	580				
	Paraguay	440				
	Uruguay	940	9,060	2.93	9,060	2.98
Antoine W. Yaméogo	Cameroon	600				
(Upper Volta)	Central African Rep.	380				
Léon M. Rajaobelina	Chad	380				
(Malagasy Republic)	Congo, People's Rep.	380				
	Dahomey	380				
	Equatorial Guinea	330				
	Gabon	400				
	Ivory Coast	770				
	Malagasy Republic	510				
	Mali	470				
	Mauritania	380				
	Mauritius	470				
	Niger	380				
	Rwanda	440				
	Senegal	590				
	Togo	400				
	Upper Volta	380				
	Zaïre	1,380	9,020	2.91	9,020	2.96
			309,590[2]	100.00	304,330[2]	100.00

* Not a participant in the Special Drawing Account.

[1] Voting power varies on certain matters pertaining to the General Account with use of the Fund's resources in that Account. In voting on matters relating exclusively to the Special Drawing Account, only the number of votes allotted to members which are participants may be cast.

[2] This total does not include the votes of Burma, Ceylon, Laos, Malaysia, Nepal, *Singapore, and Thailand, whose votes were not cast for any of the Executive Directors elected in the 1970 Regular Election of Executive Directors. These members have designated the Executive Director appointed by Japan to look after their interests in the Fund. The votes of Barbados, Fiji, Oman, and Western Samoa, which joined the Fund after the 1970 Regular Election of Executive Directors, are also not included.

Changes in the membership of the Executive Board between May 1, 1971 and April 30, 1972 were as follows:

G. P. C. de Kock (South Africa) resigned as Alternate Executive Director to Lindsay B. Brand (Australia), effective June 4, 1971.

B. K. Madan (India) resigned as Executive Director for India, effective June 4, 1971.

P. S. N. Prasad (India) was appointed Executive Director by India, effective June 5, 1971.

S. S. Marathe (India), formerly Alternate Executive Director to B. K. Madan (India), was appointed Alternate Executive Director to P. S. N. Prasad (India), effective June 5, 1971.

R. van S. Smit (South Africa) was appointed Alternate Executive Director to Lindsay B. Brand (Australia), effective June 5, 1971.

Robert Johnstone (Canada) resigned as Executive Director for Canada, Ireland, and Jamaica, effective September 30, 1971.

Robert Bryce (Canada) was elected Executive Director by Canada, Ireland, and Jamaica, effective October 1, 1971.

Donald Owen Mills (Jamaica), formerly Alternate Executive Director to Robert Johnstone (Canada), was appointed Alternate Executive Director to Robert Bryce (Canada), effective October 1, 1971.

Eduardo da S. Gomes Jr. (Brazil) resigned as Alternate Executive Director to Alexandre Kafka (Brazil), effective October 1, 1971.

Basilio Martins (Brazil) was appointed Alternate Executive Director to Alexandre Kafka (Brazil), effective October 2, 1971.

The following served at certain times during 1971/72 as Temporary Alternate Executive Directors to the Executive Directors indicated:

Temporary Alternate Executive Director	Executive Director for whom Temporary Alternate Served
Vittorio Barattieri (Italy)	Francesco Palamenghi-Crispi (Italy)
Anne Doizé (Belgium)	André van Campenhout (Belgium)
Bun Phor Eap (Khmer Republic)	Byanti Kharmawan (Indonesia)
Seitaro Hattori (Japan)	Hideo Suzuki (Japan)
Peter C. Hayward (United Kingdom)	Derek Mitchell (United Kingdom)
Maurice Horgan (Ireland)	Robert Bryce (Canada)
Fouad K. Hussein (Egypt)	Nazih Deif (Egypt)
Kaj Kjaer (Denmark)	Erik Brofoss (Norway)
Adrián Lajous (Mexico)	Luis Ugueto (Venezuela)
Ernest Leung (Philippines)	P. Y. Hsu (China)
Robert W. Ley (Australia)	Lindsay B. Brand (Australia)
John Muchinga (Zambia)	Maurice P. Omwony (Kenya)
Samuel Nana-Sinkam (Cameroon)	Antoine W. Yaméogo (Upper Volta)
Hernán Oyarzábal (Venezuela)	Luis Ugueto (Venezuela)
Chike Ozumba (Nigeria)	Maurice P. Omwony (Kenya)
Aldo Pelosio (Italy)	Francesco Palamenghi-Crispi (Italy)
Adelio Pipino (Chile)	Carlos Massad A. (Chile)
Masie M. Plummer (Jamaica)	Robert Johnstone (Canada)
Arturo Seminario (Peru)	Alexandre Kafka (Brazil)
Jonathan Sogo (Nigeria)	Maurice P. Omwony (Kenya)
Norio Tsukagoshi (Japan)	Hideo Suzuki (Japan)
Pablo Valdes (Chile)	Carlos Massad A. (Chile)
Jean R. Vallet (France)	Marc Viénot (France)
John C. C. Yuan (China)	P. Y. Hsu (China)
J. B. Zulu (Zambia)	Maurice P. Omwony (Kenya)

Letter of Transmittal

August 7, 1972

My dear Mr. Chairman:

The administrative budget of the Fund approved by the Executive Board for the Fiscal Year ending April 30, 1973 is presented herewith, in accordance with Section 20 of the By-Laws. The presentation also shows actual expenditures for the past two fiscal years.

I should like to point out that it is of course impossible to predict whether the amounts budgeted will, in fact, meet the requirements of the Fund's program. The amounts shown are estimates of requirements on the basis of the expected level of activities. Should contingencies arise or present plans change materially, the management would recommend appropriate amendments to the Executive Board.

Yours sincerely,
/s/
P.-P. Schweitzer
Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

Administrative Budget as Approved by the Executive Board for the Fiscal Year Ending April 30, 1973 Compared with Actual Expenditures for the Fiscal Years Ended April 30, 1971 and 1972

(Values expressed in special drawing rights) [1]

Category of Expenditure	Fiscal Year Ending Apr. 30, 1973 — Budget	Fiscal Year Ended Apr. 30, 1972 — Revised Budget	Fiscal Year Ended Apr. 30, 1972 — Actual Expenditures	Fiscal Year Ended Apr. 30, 1971 — Actual Expenditures
I. Board of Governors	737,763	760,000	702,431	897,940
II. Executive Directors				
Salaries	1,977,501	2,072,000	2,056,868	1,883,749
Other compensations and benefits	581,184	564,000	522,944	537,189
Travel	541,579	495,000	469,422	448,478
Total	3,100,264	3,131,000	3,049,234	2,869,416
III. Staff				
Salaries	16,674,744	16,024,000	15,912,463	14,029,376
Other compensations and benefits	6,241,055	6,233,000	5,910,002	5,565,504
Travel	3,610,528	3,830,000	3,792,608	3,185,885
Total	26,526,327	26,087,000	25,615,073	22,780,765
IV. Special Services to Member Countries	3,529,475	3,031,000	2,822,059	2,465,737
V. Other Administrative Expenses				
Communications	1,063,816	1,489,000	1,390,346	810,135
Office occupancy expenses	1,188,158	1,109,000	998,501	961,458
Books and printing	777,369	750,000	643,706	623,345
Supplies and equipment	695,395	719,000	648,287	682,784
Data processing services	723,027	650,000	543,126	481,668
Miscellaneous	836,316	774,000	644,007	649,405
Total	5,284,081	5,491,000	4,867,973	4,208,795
Total [2]	39,177,910	38,500,000	37,056,770	33,222,653

[1] For fiscal years ended April 30, 1971 and April 30, 1972, SDR 1 = US$1.00. For fiscal year ending April 30, 1973, SDR 1 = US$1.08571.

[2] Net administrative expenditures for fiscal year ended April 30, 1972 totaled SDR 36,032,141 after deduction of SDR 1,024,629 reimbursed to the General Account by assessments levied on the net cumulative allocations of participants in the Special Drawing Account. The comparable figures for fiscal year ended April 30, 1971 were SDR 32,331,800 and SDR 890,853, respectively.

Appendix VII. Comparative Statement of Income and Expenditure

(Values expressed in special drawing rights)

	Fiscal Year Ended		
	Apr. 30, 1970	Apr. 30, 1971	Apr. 30, 1972
OPERATIONAL INCOME [1]			
Operational charges			
Received in gold	9,221,576	2,241,375	534,053
Received in special drawing rights	822,427	568,592	2,235,779
Received in members' currencies	2,927,046	360,980	257,554
Total	12,971,049	3,170,947	3,027,386
Charges on balances in excess of quotas			
Received in gold	64,097,739	82,419,165	22,313,668
Received in special drawing rights	55,739,247	40,940,747	35,744,967
Received in members' currencies	4,891,406	4,779,761	3,966,855
Total	124,728,392	128,139,673	62,025,490
Interest on holdings of special drawing rights	413,883	4,255,698	7,181,322
Total Operational Income	138,113,324	135,566,318	72,234,198
Deduct: Operational expenditure			
Remuneration			
Paid in gold	8,766,334	22,681,219	28,532,536
Paid in special drawing rights	18,402,998	14,745,672	1,981,750
Paid in members' currencies	11,982	15,912	5,040
Total	27,181,314 [2]	37,442,803	30,519,326
Transfer charges and interest on indebtedness			
Paid in gold	19,139,984	11,801,925	1,193,849
Paid in U.S. dollars	20,932	7,395	19,593
Total	19,160,916	11,809,320	1,213,442
Other	−31,328	12,887	26,669
Total Operational Expenditure	46,310,902	49,265,010	31,759,437
NET OPERATIONAL INCOME	91,802,422	86,301,308	40,474,761
BUDGETARY EXPENDITURE	27,731,329 [3]	32,331,800 [3]	36,032,141 [3]
FIXED PROPERTY EXPENDITURE	6,518,615	7,547,370	17,710,950
TOTAL BUDGETARY AND FIXED PROPERTY EXPENDITURE	34,249,944	39,879,170	53,743,091
NET INCOME OR EXPENDITURE (−)	57,552,478	46,422,138	−13,268,330

[1] Excludes income from investments transferred to Special Reserve for fiscal year 1970 SDR 56,741,734; fiscal year 1971 SDR 40,145,807; and fiscal year 1972 SDR 17,537,157.

[2] For the period July 28, 1969 through April 30, 1970.

[3] After deduction of SDR 887,656 for fiscal year 1970, SDR 890,853 for fiscal year 1971, and SDR 1,024,629 for fiscal year 1972 reimbursed to the General Account by assessments levied on the net cumulative allocations of participants in the Special Drawing Account.

Appendix VIII. FINANCIAL STATEMENTS OF THE GENERAL ACCOUNT, SPECIAL DRAWING ACCOUNT, AND STAFF RETIREMENT FUND

Letter of Transmittal

August 7, 1972

My dear Mr. Chairman:

In accordance with Section 20(b) of the By-Laws of the Fund, I have the honor to submit for the consideration of the Board of Governors the audited financial statements of the General Account, the Special Drawing Account, and the Staff Retirement Fund for the year ended April 30, 1972, together with two memoranda from the Audit Committee, which include the audit certificates.

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, Canada, Germany and Nicaragua nominated auditors to serve on this Committee. They respectively nominated Mr. George R. Long, Assistant Auditor General of Canada; Mr. Walter Scholz, Member of the Board of Directors of the Deutsche Revisions-und Treuhand-Aktiengesellschaft Treuarbeit—Wirtschaftsprüfungsgesellschaft—Steuerberatungsgesellschaft; and Mr. Hilario Hooker A., Director, Financial Department, Banco Central de Nicaragua. The Auditors thus nominated were confirmed by the Executive Directors.

It will be noted that, in the year under review for the General Account, operational income amounted to SDR 72,234,198 and operational expenditure amounted to SDR 31,759,437 resulting in net operational income of SDR 40,474,761. However, budgetary and fixed property expenditure amounted to SDR 53,743,091 which resulted in net expenditure of SDR 13,268,330 for the fiscal year. In addition, income from the Fund's investment program, which was terminated during February 1972, amounted to SDR 17,537,157. Pursuant to Executive Board Decision No. 708-(57/57), adopted November 27, 1957, the income from investments has been credited to the Special Reserve and net expenditure was written off against the Special Reserve.

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

Yours sincerely,
/s/
P.-P. SCHWEITZER
Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

MEMORANDUM BY THE AUDIT COMMITTEE

June 28, 1972

To the Managing Director
and the Executive Directors
International Monetary Fund

Our report, dated June 28, 1972, submitted through you to the Board of Governors, on the audit of the financial records, operations and transactions of the International Monetary Fund, for the fiscal year ended April 30, 1972, includes the following paragraphs relating to the scope of the audit and the audit certificate given:

SCOPE OF THE AUDIT

The audit was conducted in accordance with the requirements of Section 20(b) of the By-Laws that the audit be comprehensive with respect to the examination of the financial records of the Fund; that it extend, insofar as practicable, to the ascertainment that operations and transactions conducted through the General Account or the Special Drawing Account during the period are supported by the necessary authority; and that it determine that there is adequate and faithful accounting for the assets and liabilities of the Fund and for special drawing rights. In the course of the audit, reference was made to the Articles of Agreement, the By-Laws, the Rules and Regulations, the Resolutions of the Board of Governors, the minutes of the Executive Board and the General Administrative Orders of the Fund. In determining our program of test examination, consideration was given to the adequacy of the system of accounting and internal control and to the work carried out by the Internal Auditor, as reported by him, and to the standard of his work as observed by the Committee.

AUDIT CERTIFICATE

We have examined the Balance Sheet of the General Account of the International Monetary Fund as at April 30, 1972, the Statement of Income and Expenditure and the Statement of Reserves for the year then ended, and the schedules related thereto; and the Balance Sheet of the Special Drawing Account of the International Monetary Fund as at April 30, 1972, the statement of Source and Use of Special Drawing Rights and the schedules related thereto. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Heretofore, the financial statements of the Fund have been presented in United States dollars with a gold equivalent of 0.888671 gram of fine gold. With effect from March 20, 1972 the accounts of the Fund have been summarized in Special Drawing Rights. One special drawing right is equivalent to 0.888671 gram of fine gold. Thus for the first time the annual financial statements of the Fund are stated in Special Drawing Rights.

In our opinion these Statements together with the notes appearing thereon, present fairly the financial position of the International Monetary Fund as at April 30, 1972, and the results of the operations and transactions in the General Account and the Special Drawing Account for the year then ended, in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

AUDIT COMMITTEE:

/s/ G. R. Long, Chairman (Canada)
/s/ W. H. Scholz (Germany)
/s/ Hilario Hooker A. (Nicaragua)

GENERAL

BALANCE

as at April

Amounts expressed in
(one SDR is equivalent to

ASSETS

GOLD WITH DEPOSITORIES (See Note 1)		SDR 5,330,969,285
(*152,313,408.151 fine ounces at SDR 35 per ounce*)		
SPECIAL DRAWING RIGHTS		909,960,112
CURRENCIES AND SECURITIES (See Note 2)		
With depositories		
Currencies	SDR 5,875,252,126	
Securities	17,333,854,713	
(*nonnegotiable, noninterest-bearing demand obligations, payable at face value by members in their currencies*)		
	SDR 23,209,106,839	
Deduct:		
Currency adjustments payable (net)	42,895,669	23,166,211,170
(*in accordance with Article IV, Section 8*)		
SUBSCRIPTIONS TO CAPITAL—RECEIVABLE		
Balances of initial quotas—not due	SDR 196,604,973	
Balance of an increase in quota—not due (Contra)	2,400,000	199,004,973
OTHER ASSETS (See Note 3)		15,361,877
TOTAL ASSETS		SDR 29,621,507,417

NOTES:

1. Excludes 7,267.638 fine ounces held under earmark for members.

2. Total outstanding purchases of members amount to SDR 2,948 million. Currency holdings in excess of members' quotas subject to Fund charges amount to SDR 833 million. The par value of the U. S. dollar was changed on May 8, 1972 from 0.888671 to 0.818513 gram of fine gold per U. S. dollar under Article IV, Section 5. The new par value of the U. S. dollar corresponds to 1.08571 U. S. dollars per special drawing right, or 38.0000 U. S. dollars per troy ounce of fine gold. Pursuant to Article IV, Section 8 (*b*), the United States paid to the Fund additional U. S. dollars on June 2, 1972 equal to the reduction in the gold value of the U. S. dollars held by the Fund on May 8, 1972. The change in the par value of the U. S. dollar resulted in an increase in the Fund's holdings of that currency but had no effect on the Fund's balance sheet as at April 30, 1972.

3. The assets and liabilities of the Staff Retirement Fund are not included in this Balance Sheet.

4. The charge for a stand-by arrangement is credited against the service charge for funds drawn under the arrangement. A member that cancels a stand-by arrangement will be paid a refund, which will be the prorated portion of the remaining stand-by charge.

ACCOUNT

SHEET

30, 1972

special drawing rights
0.888671 gram of fine gold)

CAPITAL, RESERVES, AND LIABILITIES

CAPITAL		
Subscriptions of members		SDR 28,808,600,000
RESERVES (Exhibit C)		
Special reserve	SDR 410,638,635	
General reserve	365,579,703	776,218,338
SUBSCRIPTION IN RESPECT OF AN INCREASE IN QUOTA CONSENTED TO BUT NOT YET EFFECTIVE		
Balance not due (Contra)		2,400,000
PROVISION FOR POTENTIAL REFUNDS OF STAND-BY CHARGES (See Note 4)		523,892
OTHER LIABILITIES (See Note 3)		33,765,187
TOTAL CAPITAL, RESERVES, AND LIABILITIES		SDR 29,621,507,417

/s/ W. O. HABERMEIER
Treasurer

/s/ P.-P. SCHWEITZER
Managing Director

General Account

Statement of Income and Expenditure

for the year ended April 30, 1972

Amounts expressed in special drawing rights
(one SDR is equivalent to 0.888671 gram of fine gold)

Operational Income			
Operational charges		SDR 3,027,386	
Charges on balances in excess of quotas		62,025,490	
Interest on holdings of special drawing rights		7,181,322	
Total Operational Income (See Note 1)			SDR 72,234,198
Deduct Operational Expenditure:			
Remuneration		SDR 30,519,326	
Interest on indebtedness		1,213,442	
Other		26,669	
Total Operational Expenditure			31,759,437
Net Operational Income			SDR 40,474,761
Budgetary Expenditure			
Board of Governors		SDR 702,431	
Executive Directors			
Salaries	SDR 2,056,868		
Other compensations and benefits	522,944		
Travel	469,422	3,049,234	
Staff			
Salaries	SDR 15,912,463		
Other compensations and benefits	5,910,002		
Travel	3,792,608	25,615,073	
Special services to member countries		2,822,059	
Other expenses			
Communications	SDR 1,390,346		
Office occupancy expenses	998,501		
Books and printing (See Note 2)	643,706		
Supplies and equipment	648,287		
Data processing services	543,126		
Miscellaneous (See Note 3)	644,007	4,867,973	
Total Budgetary Expenditure		SDR 37,056,770	
Deduct: Assessments levied on participants for estimated cost of operating the Special Drawing Account		1,024,629	
Net Budgetary Expenditure		SDR 36,032,141	
Fixed Property Expenditure		17,710,950	
Total Budgetary and Fixed Property Expenditure			53,743,091
Net Expenditure (Charged against the Special Reserve pursuant to Executive Board Decision No. 708-(57/57), adopted November 27, 1957)			SDR 13,268,330

Notes:

1. Excludes income from investments amounting to SDR 17,537,157 transferred to Special Reserve (Exhibit C).
2. After deduction of SDR 96,733 for sales of Fund publications.
3. After deduction of SDR 343,576 for food service sales and SDR 57,931 for miscellaneous administrative income.

General Account

Statement of Reserves

for the year ended April 30, 1972

Amounts expressed in special drawing rights
(one SDR is equivalent to 0.888671 gram of fine gold)

SPECIAL RESERVE (See Note 1)		
Balance, April 30, 1971	SDR 406,369,808	
Add		
Income from investments in U. S. Government securities	17,537,157	
	SDR 423,906,965	
Deduct		
Net expenditure (Exhibit B)	13,268,330	
Balance, April 30, 1972		SDR 410,638,635
GENERAL RESERVE		
Balance, April 30, 1971 (See Note 2)	SDR 378,060,637	
Deduct		
Distribution of net income for fiscal year 1971 in accordance with Board of Governors' Resolution No. 26-7	12,480,934	
Balance, April 30, 1972		365,579,703
TOTAL RESERVES (per Balance Sheet)		SDR 776,218,338

NOTES:

1. Income from investments in U. S. Government securities was placed to this reserve from November 1, 1957 until February 15, 1972 when the Fund's gold investment program was terminated. Pursuant to Executive Board Decision No. 708-(57/57) any administrative deficit for any fiscal year of the Fund must be written off first against this reserve. Under Article XII, Section 6 (*c*), of the Articles of Agreement, the Fund may make transfers from this reserve to the General Reserve.

2. Includes net income of SDR 46,422,138 for fiscal year ended April 30, 1971, transferred provisionally to the General Reserve pending action by the Board of Governors. In accordance with Board of Governors' Resolution No. 26-7, SDR 33,941,204 was allocated to the General Reserve and SDR 12,480,934 was distributed to members pursuant to Article XII, Section 6 (*b*).

Special Drawing Account

Balance Sheet

as at April 30, 1972

Amounts expressed in special drawing rights
(one SDR is equivalent to 0.888671 gram of fine gold)

Allocations

Net cumulative allocations of special drawing rights to participants (See Note 1)			SDR 9,314,835,400

Holdings

Holdings of special drawing rights (See Note 2) (Exhibit B)			
Participants			
Holdings above allocations			
Allocations	SDR 3,903,449,000		
Received (net)	1,052,042,514	SDR 4,955,491,514	
Holdings below allocations			
Allocations	SDR 5,411,386,400		
Used (net)	1,962,002,626	3,449,383,774	SDR 8,404,875,288
General Account			909,960,112
			SDR 9,314,835,400

Notes:

1. Under Articles XXX and XXXI of the Fund Agreement, which cover termination of participation in and the liquidation of the Special Drawing Account, respectively, a participant has an obligation to pay to the Fund an amount equal to its net cumulative allocation of special drawing rights and any other amounts that may be due and payable because of participation in the Special Drawing Account. The Fund also has an obligation to redeem special drawing rights in accordance with these Articles.
2. Special drawing rights allocated by the Fund do not constitute claims by holders against the Fund to provide currency, except as prescribed by the provisions of Articles XXX and XXXI relating to the termination of participation and liquidation. Participants may use their special drawing rights to obtain currency in accordance with the provisions of Article XXV, and under Section 5 of this Article they are entitled to request the Fund's assistance in the form of designation of participants to provide currency in exchange for special drawing rights. The obligation of a participant to provide currency for special drawing rights does not extend beyond the point at which its holdings of special drawing rights in excess of its net cumulative allocations are equal to twice its net cumulative allocation or such higher limit as may be agreed between a participant and the Fund. A participant may, however, provide currency in excess of the obligation limit or any agreed higher limit.

/s/ W. O. Habermeier
Treasurer

/s/ P.-P. Schweitzer
Managing Director

Special Drawing Account

Source and Use of Special Drawing Rights

Year Ended April 30, 1972

Amounts expressed in special drawing rights
(one SDR is equivalent to 0.888671 gram of fine gold)

	Participants	General Account	Total
Total Holdings as at April 30, 1971	5,873,437,419	489,849,181	6,363,286,600
Source of Special Drawing Rights Received			
Allocations	2,951,548,800		2,951,548,800
Transactions with Designation (Article XXV, Section 2(*a*))	266,809,680		266,809,680
Transactions without Designation			
Under Article XXV, Section 2(*b*) (i)	355,000,000		355,000,000
Under Article XXV, Section 2(*b*) (ii)	25,000,000		25,000,000
Net Interest	14,427,842	7,181,322	21,609,164
Payments Between Participants and the General Account			
Repurchases	15,445,728	516,728,889	532,174,617
Distribution of Net Income Settlements	8,306,171		8,306,171
Charges	423,962	30,765,397	31,189,359
Reimbursement of Special Drawing Account Expenses		1,024,629	1,024,629
Remuneration	14,745,672		14,745,672
Replenishment under Articles VII, Section 2 (ii), and XXV, Section 7(*f*)	21,300,000		21,300,000
Under Article XXV, Sections 2(*b*) (ii) and 7(*e*)	29,000,000		29,000,000
Reconstitution	46,367,773		46,367,773
	3,748,375,628	555,700,237	4,304,075,865
Use of Special Drawing Rights			
Transactions with Designation (Article XXV, Section 2(*a*))	266,809,680		266,809,680
Transactions without Designation			
Under Article XXV, Section 2(*b*) (i)	355,000,000		355,000,000
Under Article XXV, Section 2(*b*) (ii)	25,000,000		25,000,000
Net Charges	21,609,164		21,609,164
Payments Between Participants and the General Account			
Repurchases	516,728,889	15,445,728	532,174,617
Distribution of Net Income Settlements		8,306,171	8,306,171
Charges	30,765,397	423,962	31,189,359
Reimbursement of Special Drawing Account Expenses	1,024,629		1,024,629
Remuneration		14,745,672	14,745,672
Replenishment under Articles VII, Section 2 (ii), and XXV, Section 7(*f*)		21,300,000	21,300,000
Under Article XXV, Sections 2(*b*) (ii) and 7(*e*)		29,000,000	29,000,000
Reconstitution		46,367,773	46,367,773
	1,216,937,759	135,589,306	1,352,527,065
Total Holdings as at April 30, 1972 (per Balance Sheet)	8,404,875,288	909,960,112	9,314,835,400

Staff Retirement Fund

Memorandum by the Audit Committee

June 28, 1972

To the Managing Director
and the Executive Directors
International Monetary Fund

Our report, dated June 28, 1972, submitted through you to the Board of Governors, on the audit of the financial records and transactions of the International Monetary Fund for the fiscal year ended April 30, 1972, includes the following paragraphs relating to the scope of the audit, and the audit certificate given with respect to the Staff Retirement Fund:

Scope of the Audit

We have examined the accounts and financial statements of the Staff Retirement Fund for the year ended April 30, 1972. In the course of the examination, we referred to the Articles of the Staff Retirement Plan and to the decisions of the Pension, Administration and Investment Committees created under the Plan. We made what we consider to be an adequate test check of the transactions, taking into account the audit carried out by the Internal Auditor.

Audit Certificate

In our opinion, the Balance Sheet, Statement of Source and Application of Funds, and the related schedules—Participants' Account, Accumulation Account, Retirement Reserve Account and Reserve Against Investments—present fairly the financial position of the Staff Retirement Fund as at April 30, 1972, and the results of its transactions for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Audit Committee:

/s/ G. R. Long, Chairman (Canada)

/s/ W. H. Scholz (Germany)

/s/ Hilario Hooker A. (Nicaragua)

STAFF RETIREMENT FUND

BALANCE SHEET

as at April 30, 1972

Amounts expressed in U. S. dollars

ASSETS

CASH AT BANKS			$ 101,406
INVESTMENTS			
Bonds, at amortized cost			
Notes insured by United States Government	$ 2,462,546		
(*market value, $2,714,919*)			
International Bank for Reconstruction and Development and Inter-American Development Bank (See Note)	8,008,327		
(*market value, $7,493,810*)			
Corporate	6,171,188	$16,642,061	
(*market value, $5,326,648*)			
Stocks, at cost			
Preferred Convertible	$ 1,222,043		
(*market value, $1,408,000*)			
Common	24,945,678	26,167,721	42,809,782
(*market value, $29,478,342*)			
ACCRUED INTEREST ON BONDS, CONTRIBUTIONS FROM PARTICIPANTS AND EMPLOYER, AND MISCELLANEOUS RECEIVABLES			375,133
TOTAL ASSETS			$43,286,321

LIABILITIES AND RESERVES

PARTICIPANTS' ACCOUNT	$ 8,868,787
ACCUMULATION ACCOUNT	26,574,614
RETIREMENT RESERVE ACCOUNT	6,764,831
RESERVE AGAINST INVESTMENTS	1,020,358
ACCOUNTS PAYABLE	57,731
TOTAL LIABILITIES AND RESERVES	$43,286,321

NOTE: A commitment has been made for the purchase of $250,000 face amount of International Bank for Reconstruction and Development 8⅝ per cent bonds due August 1, 1995 at par on August 2, 1972.

/s/ W. O. HABERMEIER
Treasurer

/s/ P.-P. SCHWEITZER
Managing Director

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INDEXES

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Index A: International Monetary Fund

References to individual countries, other organizations, and subjects may be found in Index B

An asterisk (*) denotes a table, a dagger (†) denotes a chart

Index B. Countries, Organizations, and Subjects

An asterisk (*) denotes a table, a dagger (†) denotes a chart