ANNUAL REPORT
1954

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C.

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INTERNATIONAL MONETARY FUND

ANNUAL REPORT OF THE EXECUTIVE DIRECTORS FOR THE FISCAL YEAR ENDED APRIL 30, 1954

WASHINGTON, D.C.

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INTERNATIONAL MONETARY FUND

Ivar Rooth
Managing Director and Chairman of the Executive Board

H. Merle Cochran
Deputy Managing Director

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Louis Rasminsky	J. H. Warren
D. Crena de Iongh	H. M. H. A. van der Valk
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John M. Stevens	Director, European Department
Irving S. Friedman	Director, Exchange Restrictions Department
Andre van Campenhout	General Counsel
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Y. C. Koo	Treasurer
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Phillip Thorson	Director, Office of Administration
Roman L. Horne	Acting Secretary
J. V. Mladek	Director, European Office (Paris)

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LETTER OF TRANSMITTAL
TO THE BOARD OF GOVERNORS

July 1, 1954

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, 1954. As in previous years, the Report also includes references to developments that occurred and information that has become available between the end of the fiscal year and the date of this letter of transmittal.

Yours sincerely,

/s/

IVAR ROOTH

Chairman of the Executive Board

Chairman of the Board of Governors

International Monetary Fund

I

The Prospects for Convertibility

THE downward trend in the volume of world trade that had appeared early in 1952 was reversed in 1953, and in the last three quarters of that year the rate of both the volume and the value of world trade exceeded that of 1952. The pattern of recovery, moreover, was such as to ease substantially the balance of payments disequilibrium that, since the end of World War II, had been an occasion for continuing concern throughout the world. Increased production of certain agricultural and industrial commodities in non-dollar countries made them less dependent on dollar imports, and the volume of these imports tended to fall despite a considerable decline in the degree of discrimination applied against them. Even when U. S. Government economic aid is left out of account, the dollar receipts of countries outside the United States (including receipts from off-shore purchases) exceeded their dollar payments. The sterling area achieved an over-all surplus as well as a surplus with the dollar area; and several countries in Western Europe attained, or continued in, over-all payments surplus. The improvement in the international payments situation, which indicated the increasing ability of non-dollar producers to compete successfully with the production of the United States, was signalized by an expansion of gold and dollar reserves outside the United States and by stronger free market quotations for certain inconvertible currencies. Though the results were less impressive in some regions other than Western Europe and the sterling area, there were in 1953 comparatively few countries whose balance of payments difficulties were serious.

The improvement in the world payments position between 1952 and 1954—in contrast to the period after the outbreak of hostilities in Korea, when there had also been a rapid rise in the reserves of the non-dollar world—was associated with stable prices and a much greater freedom from inflationary pressures than in earlier years. Monetary policy was more widely used as a flexible instrument to steer national economies as closely as possible upon a course that would avoid both inflation and deflation. The improvement in the world payments position was not attributable to any excess demand in North America. It is true that activity in the United States was at a high level in the early part of the year, but from the middle of 1953 U. S. demand and economic activity began to flag, with adverse effects upon import demand. Slackness of demand, especially in the first half of the year, in certain non-dollar countries, particularly in Continental Europe, may have played some part in checking European import demand and thus helping to eliminate the deficit with the United States. By the end of the year, however, there had been a considerable recovery in Europe of production and demand, though in some countries they were still significantly below full employment levels. The more important factor underlying the strength of the European position was the genuine improvement in its competitive capacity in relation to the United States.

The general record of improvement was not without exceptions. The position of Continental Western Europe continued to improve rapidly throughout 1953 and into 1954, but difficulties persisted in several countries in Latin America and in Asia. For several of the raw material producing countries, the U. S. recession intensified the downward movement of the prices of their exports which had started in 1952, although some of them benefited from the simultaneous increase in production in Western Europe. Surpluses of some primary products had already developed before the onset of the U. S. recession. Stimulated by the high prices of 1951-52, an enlarged output of metals, rubber, certain textiles, and foods began in 1952-53 to reach world markets that were no longer expanding. The leveling off of defense production in several countries had some depressing effect on major metal markets in 1953. In some primary producing countries, payments difficulties were occasioned and intensified by the continuance of inflationary pressures, which in some countries have led to a curtailment of development programs.

Although the increase in sterling area reserves, which had begun in spite of the relaxation of import restrictions and some decline in U. S. activity, continued in the second half of 1953, the increase was at a slower rate. The exports of some outer sterling area countries showed the same sensitivity to movements in U. S. import demand as had been observed in earlier U. S. recessions, and some U. K. exports had to face stiffer competition in new markets, mainly from Continental Europe and Japan. After February 1954, however, the central reserves of the sterling area increased more rapidly, as a result of some short-term capital inflow to the United Kingdom and of some improvement in the sterling area current account balance with the rest of the world.

To some extent, the improvements in the payments position of Europe and of the sterling area in 1953 are attributable to fortuitous and possibly temporary factors, which were abnormally favorable to the achievement of international balance. The coincidence, up to the middle of the year, of a high level of business activity in the United States with slack demand conditions in parts of Europe has already been noted. Import demand in Europe was also affected by the low inventory accumulation which was the result of the excessive inventories that existed earlier in the year. Harvest conditions in some parts of the world were well above average, and Western Europe's terms of trade were favorable. The expansion of offshore purchases and other U. S. Government expenditures abroad also had important effects. While as a consequence of any further decline in U. S. activity, of the somewhat higher level of general activity in Europe, and of the stimulus to European import demand given by the liberalization of dollar imports, some readjustment of the strong European payments position might be expected, it would appear that any such reaction is likely to be limited in view of the fundamental improvements that have already occurred and are still continuing in the competitive position of Europe.

Much more important as causes of the improvement during 1953 have been the policies pursued in recent years by the governments concerned. These include not only the general enhancement of productivity and the expansion of dollar-competing supplies in Europe and in the sterling area, which are the fruit of earlier investment and reconstruction policies, but also the adjustment of Europe's relative cost levels following the devaluations of 1949. Moreover, disinflationary monetary and fiscal policies, widely applied in recent years, have had the effect of eliminating or reducing excess demand situations and checking price and wage increases.

Thus far in 1954 the decline in economic activity in the United States has done comparatively little to weaken the payments position of the non-dollar world. The rate of improvement in the reserves of Europe and of the sterling area has, in fact, been fairly well maintained. The generally satisfactory position that was still developing in early 1954 was, in large part, a result of the comparative strength of many primary product prices, which in turn is related to the expansion of European demand, to the comparatively modest raw material inventories at the onset of the decline, and to such adventitious factors as tight supply conditions for coffee, cocoa, and tea, and the resumption of some U. S. stockpile purchases of certain metals, especially tin. In part it serves to demonstrate the element of exaggeration in the ideas that have been widely held about the international impact to be expected from even a minor decline in U. S. business. But in part, also, it reflects the strength of the underlying trends toward better equilibrium which were already operative in 1953. The reconstruction and development efforts undertaken since the end of the war, whether financed from external assistance or from domestic savings, have to a large extent had the effect originally intended. These efforts have laid the foundation for economic production so firmly that further substantial measures for reducing and eventually eliminating the restrictive supports which balance of payments disequilibrium has required can now be contemplated in many countries without risk of serious disturbance to the domestic economy.

In the favorable atmosphere created by the fairly general mitigation of payments difficulties, important steps have been taken in several countries—in particular, in Belgium-Luxembourg, Germany, the Netherlands, and the United Kingdom—to introduce greater freedom in international transactions and to reduce the degree of restriction previously imposed, for balance of payments reasons, on imports, on currency transfers, and on dealings in foreign exchange. The movement in these countries has not been uniform, but the steps taken during the last year to remove restrictions on dollar imports and on payments for invisibles, or to free exports of domestic capital, all indicate an increasing reliance on the regulative forces of the price mechanism. Other countries, too, which have shared in the general improvement of world conditions, have adopted some measure of liberalization.

The establishment of a wider convertibility for sterling is often regarded as a necessary condition for the introduction of further measures by other countries where economic conditions are already favorable. Accordingly, the successive steps taken by the Government of the United Kingdom with a view to freeing international trade and payments from government regulation are of special interest. These steps have included the gradual relaxation of import restrictions and of internal rationing controls, the restoration of many commodities to private trade, the gradual reopening at different dates of metal and other commodity markets in the United Kingdom, the permission for the authorized banks to deal first in spot and then in forward exchange at market rates, the extension of the transferable account area to include practically all non-sterling countries outside the U. S. dollar account area and Canada, and the extension to individuals and corporations of facilities for holding transferable sterling. The reopening of the London gold market is described in Chapter VI of this Report.

This movement in the direction of liberalizing international transactions is not merely a reaction to a currently favorable trend in the payments position, but is part of a general policy of contracting the sphere of operation of government controls. The goals of complete liberalization and convertibility are being approached gradually and with caution, and it may be expected that a similar attitude will characterize the further steps that are likely to be taken in this direction. The premature attempt to restore the convertibility of sterling in 1947, when indeed conditions were much less favorable than in 1953 and 1954, had shown that to try to achieve such goals at a single stroke, without appropriate preparations in the main markets, and without assurance that the underlying payments position was sufficiently strong, might provoke reactions that would seriously delay the attainment of the desired end.

In some countries, indeed, where because of inflation or for other reasons balance of payments difficulties persist, restrictions have been intensified or additional complexities introduced into the exchange system. Everywhere, however, countries are becoming increasingly aware of the necessity of achieving internal stability and also of the burden of costs, however hidden, imposed by the use of such restrictions.

The widespread improvement in economic conditions and the fundamental policies adopted in many countries have carried the world economy so far toward the elimination of the "dollar gap" that even the U. S. recession, which set in during the latter part of 1953, has thus far done little to slow down the extension of measures of liberalization. Several governments have added to the measures already taken by them for the liberalization of trade and payments, though in estimating future developments they continue to be influenced by the possibility of a further decline in U. S. economic activity and by uncertainties about the direction of U. S. external economic policy. On neither of these questions is any confident prediction at present possible. With regard to the former question, however, the U. S. Government has expressed its intention to act rapidly and decisively should the domestic economic situation tend to deteriorate further. And in the field of external economic policy, the Customs Simplification Act of 1953 has removed a number of administrative obstacles to imports into the United States. In his Message to the Congress on the foreign economic policy of the United States, the President emphasized the need for the United States to take the initiative in lowering barriers to the movements of trade and the flow of funds, including further simplification of the administration and rate structure of the U. S. tariff, and recommended acceptance of many of the proposals made by the U. S. Commission on Foreign Economic Policy (the Randall Commission) for this purpose. Congressional consideration of part of the President's commercial policy program has been deferred until 1955, and this may affect the attitude of other countries toward further liberalization of trade and payments.

Formal statements made by several Fund members in recent months have indicated a widespread interest in the possibility of more rapid movement in the direction of currency convertibility and the further removal of restrictions. The Commonwealth Finance Ministers' Conference at Sydney on January 15, 1954 reaffirmed the objectives, agreed at earlier Commonwealth conferences, to strengthen the position of each country and of sterling as a currency and to establish with other countries a wider and freer system of trade and finance of which sterling convertibility is an essential part.

On January 23, 1954, the report of the Randall Commission stated that the general economic conditions prerequisite to currency convertibility were more nearly in prospect at that time than at any previous time since the war. The decisions, the methods, the timetable, and the responsibility for introducing currency convertibility should rest with the countries concerned; the Commission believed, however, that its recommendations on commercial policy and other matters, if carried out, would encourage and assist foreign countries in removing restrictions on trade and payments as rapidly as prudence permits. The Commission's recommendations for cooperation in strengthening the gold and dollar reserves of countries that have prepared themselves for convertibility by sound internal and external policies were subsequently approved by the President of the United States in his Message to the Congress on U. S. foreign economic policy on March 30, in which he welcomed the initiative already taken for the introduction of currency convertibility by the countries concerned.

On March 16, 1954, the report of the Joint United States-Canadian Committee on Trade and Economic Affairs stated that, while it was for countries whose currencies were not convertible to decide when and under what circumstances they might wish to make them convertible, enlightened economic policies in the United States and Canada would contribute materially to establishing and maintaining broader freedom of trade and payments throughout the world. The U. S. and the Canadian Ministers who were members of the Committee welcomed the evidence of a desire in many countries to take decisive steps toward the restoration of a broad area of convertibility, and expressed a willingness to do their part to help in making such a movement successful.

On February 22, 1954, the Governor of the National Bank of Belgium, after emphasizing that convertibility required strict financial discipline, stated that, within the limits of its function, the National Bank believed that during recent years it had created the necessary prior conditions for introducing a real convertibility of the Belgian franc, based on fixed exchange rates and implying the liberalization and therefore the development of international trade.

On April 14, the Board of Governors of the Bank deutscher Länder described the measures taken during the year in Germany as important milestones in the gradual approach to convertibility, which had come to be more and more recognized as the only practicable method of establishing a free monetary system resting on a sound foundation. It was stated that in fact convertibility of the deutsche mark had already in large measure been established. The Board expressed the opinion that the conditions for changing over to a fully convertible system of payments in Europe had approached nearer in 1953 than at any other time since the war, and urged that any monetary decisions taken at the present time should be taken as part of the process of smooth transition to such a system.

At the end of April the President of the Netherlands Bank also stated that, from the technical monetary point of view, the Netherlands could be regarded as standing on the threshold of convertibility, though this certainly did not mean that the Netherlands could cross that threshold alone.

The interest taken in concrete measures that might be applied in the near future was further indicated by the report of the Managing Board of the European Payments Union (EPU) to the Council of the Organization for European Economic Cooperation (OEEC) in April 1954 on the problems which would arise for intra-European trade and payments in the event of one or more European currencies being made convertible, and the methods which might be adopted for ensuring an orderly transition, in such circumstances, from the present form of the Union to a wider multilateral system of trade, payments, and credits. The Council appointed a ministerial committee which is to report to it before November 1 on the problems which will arise if a number of member countries re-establish convertibility.

From all these facts and considerations, it can be seen that significant progress toward convertibility and the removal of restrictions has been made possible both by a general improvement in economic conditions and by the general trend of opinion in regard to policy. There are indications of further favorable developments. It is reasonable that net dollar earnings should be used in part to strengthen reserves, which, for several important countries, were still not satisfactory in 1953. On the assumption that U. S. business activity is maintained at an adequate level, and without taking account of the possible consequences of unpredictable changes in the international political situation, important steps should be possible in some countries for the further removal of restrictions on imports imposed for balance of payments reasons, and for the restoration of convertibility of currencies on current account. The volume of dollar imports actually excluded by the discriminatory restrictions still maintained cannot be estimated accurately. There are reasons for believing that in some countries the formal act of removing restrictions would have no great effect on the payments balance, though in others the relaxation of restrictions has been followed by a somewhat larger flow of imports than had been expected. The virtual disappearance of price premiums for non-dollar supplies of primary products is evidence that the practical effect of these restrictions has diminished, and the diminished relative scarcity of dollar imports in most countries is one of the factors which help to explain the smallness of the premiums paid for dollars against European currencies in the New York free market in 1953 and early 1954. Transferable account sterling rates, for example, which had been quoted abroad at around $2.70 in May 1953, had risen by the end of April 1954 to within less than 1 per cent of the sterling par value, $2.80. The stringency of the measures adopted to prevent unauthorized conversion has been relaxed; and the extension of transferability for sterling and the deutsche mark to practically the whole non-dollar world may be interpreted as indicating that stringent controls are thought to be less urgently needed.

The Fund welcomes both the general trend of opinion and the policy decisions made by individual countries or groups of countries. It is aware of the difficulties which may be encountered by different countries as they take further steps toward full convertibility. Its procedures and practices have now evolved in such a way as to make possible through the machinery of stand-by credits the assurance of effective support to members that have concrete programs for dealing with these difficulties. In the meantime, while the nature and timing of measures that would more definitely establish convertibility are under discussion, restrictions are being relaxed further in several countries, particularly on imports involving dollar payments. Additional steps in this direction are to be welcomed and would help to prepare for the more competitive conditions which more general convertibility would entail.

Among the questions that have to be faced as further steps are taken in the direction of convertibility is the problem of controlling capital movements. Unless a declaration of convertibility is merely the legal recognition of a *de facto* situation that has existed for some time, its establishment is likely to subject exchange markets and reserves to some pressure, at least in the short run, if balances held in formerly inconvertible currencies are drawn down. Nor can the possibility of movements of "hot money" be safely neglected. It may for some time be necessary to maintain controls to deal with various types of capital movement. The Fund's Articles of Agreement permit members to "exercise such controls as are necessary to regulate international capital movements, but no member may exercise these controls in a manner which will restrict payments for current transactions or which will unduly delay transfers of funds in settlement of commitments."

Pressure on reserves may also arise as a result of increased demands from residents. In some countries there may still be a pent-up demand for various types of dollar consumers' goods, of which neither the extent nor the duration can be easily estimated. Countries that have achieved a payments surplus before embarking on the restoration of convertibility will be in a relatively good position to meet these temporary deteriorations in current payments. The Fund can be expected to play one of the main roles for which it was created by making its resources available to members that have to deal with these pressures.

It is to be hoped that countries restoring convertibility will not seek to meet these pressures by imposing or intensifying restrictions on imports from weaker countries whose currencies, for the time being, remain inconvertible, and that the latter will not aggravate these pressures by intensifying restrictions on imports from the former in order to increase or create balances available for conversion into dollars. Those countries with inconvertible currencies which tend to have a payments deficit with countries restoring convertibility are likely to have some additional payments difficulties as a result of the change; on the other hand, those which tend to have a payments surplus will be able to dispose of this surplus on a multilateral and nondiscriminatory basis and will thus in their turn be helped toward convertibility.

The full benefits of a system of multilateral trade will not be realized if the movement toward convertibility is limited to those countries whose balance of payments positions have strengthened so markedly during the last year or two. Their full realization also requires that countries whose positions are still weak should shape their economic policies so that they can progressively dispense with the supports afforded by discriminatory import restrictions, bilateral arrangements, and other special exchange devices. It requires, too, that countries for which balance of payments problems have not been a matter of any serious concern should adopt policies appropriate to the strength of their positions. In determining the pace of their movement toward convertibility, few countries can afford to ignore the extent to which other countries with which they have important economic links are likely to move in the same direction. Nevertheless, the primary responsibility for effective action rests squarely upon the individual country directly concerned. If convertibility is to be achieved and maintained, and import restrictions are no longer to be regarded as the main instrument for keeping external payments and receipts in balance, this balance will have to be maintained in other and better ways. In some situations, this means the timely adjustment of exchange rates, and above all it requires the application of domestic monetary and fiscal policies that will ensure internal financial stability.

II

International Payments Developments, 1952-54

International Exchange Reserves

AS a result of the changes in the international pattern of trade and payments described in more detail below, there were important shifts in the distribution of international monetary reserves in 1953. The total official gold holdings of central banks, treasuries, and other governmental institutions[1] rose by about $425 million, to a total of $33.9 billion. Total world gold output is estimated to have been approximately $850 million. Some gold previously held in private hoards has returned to official reserves, and part of the gold sold by Eastern European countries in the latter part of the year also has gone into official reserves elsewhere. U. S. gold holdings fell by $1.2 billion, to $22.1 billion, and the holdings of other countries rose by $1.6 billion, to $11.8 billion.

At the same time, official U. S. dollar holdings increased by $850 million, to about $6.0 billion. In addition, official holdings of sterling and other non-dollar currencies by countries other than the United States increased by approximately $230 million, to about $7.9 billion. Of this increase, about $200 million was in the form of an increase in credits extended to EPU by its

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[1] All figures in this section are exclusive of the gold holdings of the U.S.S.R. and the countries associated with it.

members. An increase of about $760 million in sterling balances held by all countries was approximately offset by a decrease in holdings outside the United States of currencies other than U. S. dollars, sterling, and EPU credits. The total gross gold and foreign exchange reserves held in all forms by countries other than the United States increased by $2.7 billion, or 12 per cent, to a total of about $25.8 billion.

Some improvement of gold and dollar reserves was recorded in 1953 in almost every country outside the United States (see Table I and Chart I). Canada's reserves, indeed, were slightly less at the end of the year than in December 1952, when, however, the total was the highest recorded up to that time. More important exceptions to the general trend were some countries in the Far East—such as Indonesia, and later Japan—and in Latin America—such as Mexico and, in the second half of the year, Cuba. Of the total increase, more than nine tenths accrued

Table I. Holdings of Gold and Dollar Assets by Central Banks, Stabilization Funds, and Other Governmental Institutions in Countries Other than the United States, 1951-54[1]

(In billions of U.S. dollars)

	1951	1952		1953		1954
	December	June	December	June	December	March
Continental OEEC countries	5.1	5.5	6.1	6.6	7.7	7.9
Sterling area	3.1	2.4	2.6	3.2	3.3	3.5
United Kingdom[2]	*2.3*	*1.7*	*1.8*	*2.4*	*2.5*	*2.7*
Other sterling area countries[3]	*0.8*	*0.7*	*0.8*	*0.8*	*0.8*	*0.8*
Canada	1.8	1.8	1.9	1.8	1.8	1.8
Latin America	2.6	2.6	2.7	3.0	2.9	3.0
All others	2.0	2.3	2.1	2.1	2.2	1.9
Total	14.6	14.6	15.4	16.7	17.9	18.1

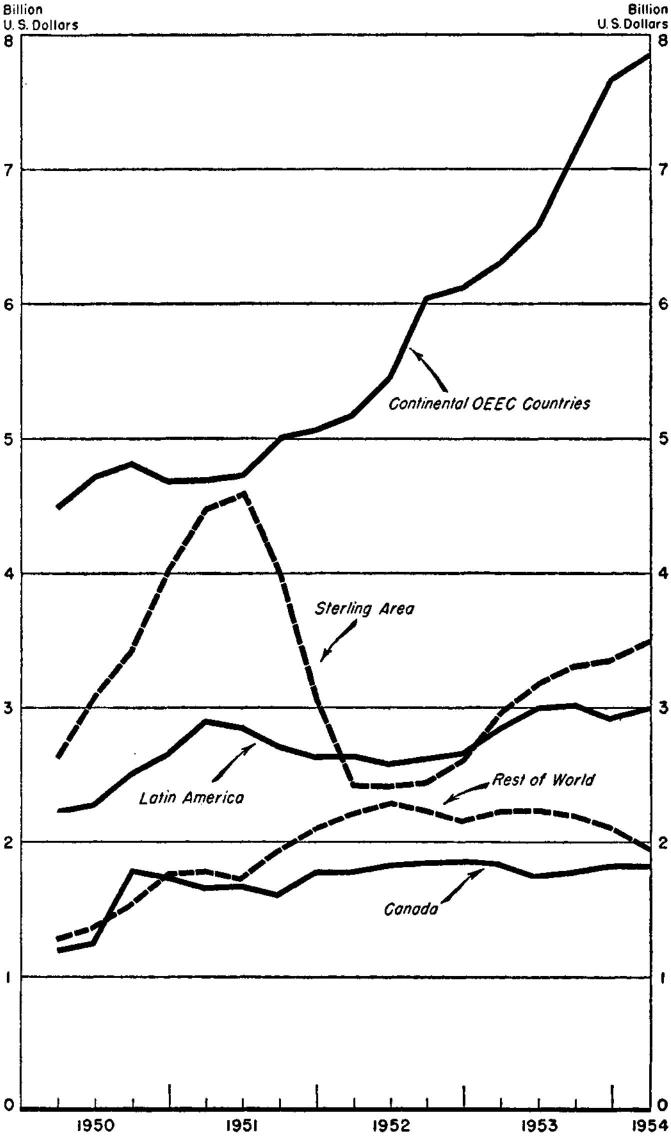
Source: International Monetary Fund, *International Financial Statistics*, May 1954.

[1] Data as of end of month.

[2] U.K. official reserves of gold, U.S. dollars, and Canadian dollars.

[3] Excluding Colonies.

CHART I. OFFICIAL GOLD AND DOLLAR HOLDINGS BY AREAS, FIRST QUARTER 1950-FIRST QUARTER 1954



to Continental Western Europe and to the sterling area. In Continental Western Europe reserves rose steadily throughout 1953; in all other regions the rate of increase slackened considerably during the year.

In some countries the increase in gold and dollar reserves[2] was very large; one half of the large rise in Continental Western European reserves accrued to Germany, Austria, and the Netherlands. The gold and dollar holdings of Germany increased by over 80 per cent, and of Austria even more. The reserves of the Netherlands increased by 30 per cent. The reserves of Italy, Portugal, and Sweden also improved substantially during 1953, while the reserves of France showed a marked recovery in the second half of the year. Among the European countries, gold and dollar reserves were less unevenly distributed at the end of 1953 than a year earlier, in contrast to Latin America where the distribution appears to have become somewhat more uneven. The gold and dollar holdings of Belgium increased by only 4 per cent and of Switzerland by 6 per cent—both countries whose ratio of reserves to imports had been among the highest in Europe at the end of 1952. In Austria, Germany, Sweden, and Italy, on the other hand, where reserves increased rather sharply during 1953, the reserves-import ratio at the end of 1952 had been below the European average.

The gold and dollar holdings of the sterling area increased substantially during the year. But in contrast to Continental Europe as a whole, this increase was a recovery from a very low level, in comparison both with the postwar peak and with the value of sterling area imports. The repercussions of the collapse of the post-Korean boom affected the sterling area more severely

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[2] In contrast to the figures in Table I, the figures for dollar holdings on which the following paragraphs are based are the holdings by residents of each country, as reported in the *Federal Reserve Bulletin.* They include not only official holdings, but also the holdings of commercial banks and businesses and individuals.

than any of the other major trading areas. While Continental European reserves were much greater at the end of 1953 than at mid-1951, those of the sterling area, alone among the major trading areas, were still, even after their substantial recovery in 1953, considerably less than at mid-1951.

In Latin America, the largest proportionate increases of gold and dollar reserves were in Argentina, Venezuela, and Uruguay, each of which is a country whose reserves-import ratio in 1952 had exceeded the Latin American average. Of the two countries with a low reserves-import ratio in 1952, Mexico and Brazil, the former had its reserves reduced in 1953 while Brazil showed only a moderate increase.

The largest changes in official reserves in other countries outside the Western Hemisphere, Europe, and the sterling area were in Japan and Indonesia. Indonesian reserves declined rapidly from the middle of 1952. Japanese reserves began to fall late in 1952. The reserves of Thailand fell during 1953, by nearly 15 per cent, the decline being most marked in holdings of sterling.

The Development of World Trade

During the greater part of 1952, world trade had shown a tendency to decline from the peak attained after the outbreak of hostilities in Korea. Primary producing countries and others closely dependent upon them were forced by dwindling reserves to curtail their imports in accordance with their diminished export earnings, and there was a flagging demand for certain types of consumers' goods, particularly textiles. In 1953, by contrast, world trade recovered. There was substantially greater production and demand, and the strengthening of the reserve positions of many countries previously under pressure permitted a widespread relaxation of import restrictions, which in turn helped to foster the expansion of world trade. For the year as a whole, the value of world trade (excluding U. S. military aid

TABLE II. WORLD TRADE DEVELOPMENTS, 1952-54

	Value (billion U.S. dollars)					Volume (1952 = 100)[1]
	1952		1953		1954	
	1st half	2nd half	1st half	2nd half	1st quarter[2]	1953
World trade[3]	36.7	34.4	34.5	35.6	35.3	103–04
Trade between						
U.S. and Canada	2.5	2.7	2.8	2.7	2.4	106
All other countries	22.9	21.8	21.7	23.1	23.5	105–07
Trade of U.S. and Canada with rest of world						
Exports from U. S. and Canada	6.5	5.3	5.1	5.3	4.8	88–90
Imports of U.S. and Canada	4.7	4.6	4.9	4.6	4.6	105

Sources: International Monetary Fund, *International Financial Statistics;* Organization for European Economic Cooperation, Statistical Bulletins; United Nations, *Monthly Bulletin of Statistics;* and statistics from various countries.

[1] Based on data for both volume and unit values.

[2] Semiannual rate.

[3] Export data, excluding U.S. special category exports and Canadian military aid exports.

and shipments) was slightly less than in 1952; but, since prices in international trade were generally some 4 to 5 per cent lower, the volume of trade was about 3 to 4 per cent greater than in the preceding year (see Table II). The exports of the dollar area, particularly the United States and Canada, to the rest of the world were an exception to the general expansive trend.

One outstanding development in international trade in 1953, which had already begun in the second half of 1952, was a generally diminished dependence of non-dollar countries on supplies from the United States and Canada and therefore a decline in exports from these countries to the rest of the world. Exports in all other directions increased, whether between the United States and Canada, between the countries outside North America, or from the latter countries to the United States and Canada. Over-all imports into the United States and Canada together from all other countries rose by a higher percentage than imports into the rest of the world.

U. S. Exports

U. S. exports to all of the major regions outside North America declined between 1952 and 1953; U. S. investment, however, helped to maintain the flow of exports to Canada, which exceeded their 1952 value by $200 million. The decline in export trade was concentrated primarily in the food and raw materials sector, especially wheat, cotton, coal, steel, and petroleum products (Table III).

TABLE III. CHANGE FROM 1952 TO 1953 IN U.S. EXPORTS TO REGIONS OTHER THAN CANADA

(In millions of U.S. dollars)

	Western Europe[1]	Latin America	Other Areas	Total
Grains and preparations	−172	−110	−138	−420
Cotton	−179	−13	−158	−350
Coal	−129	−5	−1	−135
Iron and steel products	−73	−16	−16	−105
Petroleum products	−18	−1	−51	−70
Machinery	−11	−87	+18	−80
Automobiles	−3	−89	+12	−80
Other exports	+105	−102	+81	+84
Total	−480	−423	−253	−1,156

Source: U.S. Department of Commerce, Business Information Service, International Trade Statistics Series.

[1] In this table and elsewhere where the figures are taken from U.S. official sources, Western Europe means the members of the Organization for European Economic Cooperation plus Finland, Spain, and Yugoslavia.

U. S. exports of grain had been exceptionally high in 1952; the sharp decline in 1953 was due not only to the expansion of output in importing areas but perhaps even more to the recovery of production and exports in Argentina and other countries.

The decline in cotton exports to both Western Europe and the Far East—primarily India, where domestic cotton production is growing steadily—was a continuation of the steady downward movement of previous years. The effects of this decline have been more than offset in the importing countries by expanding imports from other sources made possible by a considerable expansion in cotton output.

The decline in exports of petroleum products reflects to some degree the increase in refining activity in Europe. The decline in exports of coal, on the other hand, results mainly from reduced consumption in Europe, associated in particular with reduced activity in the steel industry. Demand for steel products in Europe fell off because of some decline in demand for the products of the engineering industries. This decline also affected demand for imported iron and steel products from the United States. The decline in coal exports has to some extent been checked by a steep fall in the price of U. S. coal at European ports, largely on account of reduced freight rates. Nearly all of the decline in exports of machinery and automobiles was caused by import restrictions imposed by Brazil and by other non-dollar countries in Latin America.

Whatever specific influences may have affected particular commodities, it is clear that many countries outside North America were able to moderate their demands for imports from the United States and Canada either because competing supplies were more readily available elsewhere or because of increased domestic output of both industrial and primary products. These countries had attained a stronger competitive position, which in the course of 1953 and 1954 has permitted a broad movement toward the reduction of import restrictions and of discrimination.

U. S. Imports

U. S. imports (Table IV), like U. S. production and real expenditure, reached an all-time peak in the first half of 1953, but showed a more than seasonal decline in the second half, reflecting the recession in the country's business activity.

The impact was strongest on industrial raw materials, imports of foodstuffs and of other consumers' goods remaining high

TABLE IV. DEVELOPMENT OF U.S. IMPORTS, 1952-54

(In millions of U.S. dollars)

	1952		1953		1954
	1st half	2nd half	1st half	2nd half	Jan-April[1]
Industrial areas					
Continental OEEC	657	702	796	816	686
United Kingdom	239	246	271	275	240
Japan	100	130	127	135	98
	996	1,078	1,194	1,226	1,024
Canada	1,156	1,230	1,229	1,233	1,110
Raw materials areas					
Outer sterling area	790	586	638	519	525
Latin America					
Dollar countries	1,062	955	1,149	946	1,233
Other	600	795	687	660	612
Rest of world	802	667	734	660	682
	3,254	3,003	3,208	2,785	3,052
Total U.S. imports	5,406	5,311	5,631	5,244	5,186

Source: U.S. Department of Commerce, Business Information Service, International Trade Statistics Series.

[1] Semiannual rate.

throughout the year. Consequently, the countries most adversely affected by the reduced import demand were the raw material suppliers of the outer sterling area and some Latin American countries, such as Chile and Mexico. Imports from Canada remained stable. The industrial countries of Western Europe demonstrated their growing competitive strength by expanding their exports to the United States through the second half of 1953, a decline in capital goods being more than offset by increases in other manufactures. Late in the year, however, U. S. imports from the United Kingdom began to flag, and early in 1954 the downward trend extended to Continental OEEC exporters.

Developments in Prices and the Terms of Trade

Movements in commodity prices and in the terms of trade during 1953 have in general been moderate in comparison with the sharp changes in the preceding years. The general price trend appeared to be a mild continuation of the downward adjustment that followed the post-Korean peak, gradually tapering off in the latter part of the year. Both primary products and manufactured goods shared in the decline, with considerable variations in the price movements of individual commodities. There was no clearly discernible general shift in the terms of trade in favor of either primary producing or manufacturing countries. Within each of these groups the contrast between the gains and losses of individual countries has been sharper than any difference between the positions of exporters of primary products on the one hand and of exporters of manufactures on the other, though the position of countries for which receipts from exports such as tin and rubber are especially important was seriously weakened.

Among the industrial countries of Continental Europe, the most striking improvement in the terms of trade was in Germany, the improvement continuing throughout the year in spite of a steady reduction in export prices. In Belgium, on the other hand, a sharp fall in export prices for steel brought a substantial deterioration in the terms of trade. The terms of trade of the United Kingdom improved in 1953. However, in estimating the significance for the balance of payments of movements of the terms of trade calculated by reference to c.i.f. prices, it is important for countries such as the United Kingdom and the Scandinavian countries, for which shipping is an important activity, to take account also of the movement of freight rates. In 1953 freight rates fell much more sharply than import prices, and this affected these countries, both as providers of most of the shipping for their own import trade and as exporters of shipping services. For the United States, whose export prices did not change, a minor decline in import prices in 1953 brought a small improvement in the terms of trade.

The development in the terms of trade of primary producing countries showed similar variations, differences between the movements of major export prices being generally more important than any differences in import prices. In the outer sterling area the wool exporting countries gained, as wool prices in 1953 were considerably higher than in 1952. On the other hand, the sustained decline in rubber prices throughout 1953 and into 1954 and the decline in tin prices caused a considerable deterioration in the terms of trade of Malaya. Ceylon and India benefited from high and rising tea prices, but the decline in burlap prices had an unfavorable effect upon India's export receipts. For Pakistan, the export price of cotton was substantially lower than in 1952, but the price of jute recovered late in 1953.

In Latin America, coffee exporting countries gained considerably, and Venezuela and Colombia benefited from rising petroleum prices. For Cuba, however, lower prices for sugar brought the terms of trade down; this movement was checked, at least temporarily, as a result of the International Sugar Agreement, which came into force at the beginning of 1954. Bolivia and Mexico were affected by the decline in tin, lead, and zinc prices. In some countries with diversified exports the effects of divergent price movements tended to offset each other. Thus Mexico and the Dominican Republic profited from rising coffee prices, while the Brazilian gain on account of both coffee and cocoa was offset in part by the decline in cotton prices. The price trends were favorable for all the major exports of Colombia, Venezuela, and Ecuador.

The export prices of most of the other raw material countries fell during 1953. Rubber and tin were important for Indonesia and Thailand, and cotton for Egypt and the Sudan. The position of the Philippines, however, was improved by higher prices for coconut products.

Among the European raw material exporters, the Scandinavian countries were affected adversely by the decline in the prices of timber products, but the effect on their terms of trade was modified by the simultaneous decline in import prices. Turkey was adversely affected by the decline in prices for wheat and cotton, but gained from rising tobacco prices.

Improved Price Relationships Between the Dollar and Non-Dollar Areas

One of the most significant developments in international prices during 1953 was the reduction in the prices charged by many non-dollar suppliers relative to those charged by U. S. and Canadian exporters for the same or competing products. The trend was, for the most part, due to reduced relative production costs or increased supplies of the relevant commodities in the non-dollar area. Where the adjustment in dollar and non-dollar prices affected raw materials, it helped, in however small a degree, to reduce the relative cost of producing manufactures in the non-dollar world.

The decline in cotton prices outside the United States was an important incentive in 1953 for the replacement of U. S. cotton exports by supplies from other sources. The return to private trade in the United Kingdom of nonferrous metals and the subsequent reopening of the London metal market were associated with a considerable decline in metal prices there. The removal of U. S. price ceilings had the opposite effect on metal prices in the United States.

Perhaps the most important example of improvement in the competitive position of European exporters is with respect to manufactured products. Between the first half of 1952 and the second half of 1953, the average unit value of manufactured exports from major European countries (based on the official unit value indices of exports of manufactured goods of Belgium, France, Germany, the Netherlands, and the United Kingdom) fell by about 8 per cent, while the unit value index of U. S. exports of finished manufactures rose slightly. The largest declines affected textile exports. In the Netherlands and Germany, unit values of other manufactured exports in general also fell, while in France and the United Kingdom there were comparatively small changes except for textiles. (The sharp drop in Belgian export unit values was in part a special phenomenon, as it was to a large extent the consequence of the disappearance of shortages in the markets to which Belgium exports steel.) These movements paralleled the generally downward movement in 1953 of most Western European domestic prices, which was also more marked in Germany and the Netherlands than in the United Kingdom and France.

U.S. Balance of Payments

The most abrupt and the largest change in the payments relations between the United States and the rest of the world within the last two years was the sharp fall of $1.3 billion (or nearly 20 per cent) in the value of U. S. commercial exports between the first and the second half of 1952. In the first half of 1952 other countries very nearly achieved balance in their total private and governmental transactions (including aid) with the United States; in the three following half years they acquired from the United States reserves amounting to $1.1 billion, $1.2 billion, and $1.2 billion. Though, under the influence of the decline of economic activity in the United States, U. S. private imports in the second half of 1953 were less by about $400 million than in the first half of the year, the increase in the net total of government expenditures abroad and the revival of U. S. private capital outflow (mainly to Canada), which had been abnormally low in the first half of the year, were sufficient to enable other countries to add to their gold and dollar assets at about the same rate throughout the year.

This record was the more significant inasmuch as the net outflow of U. S. private capital, which in 1952 had been approximately $1.1 billion, was about $700 million smaller in 1953. Of this total decrease, more than $200 million was, in effect, merely the substitution of official U. S. credits, such as the $300 million credit granted by the Export-Import Bank to Brazil, for certain short-term obligations. The remainder of the decline was the result of the tapering off of direct investments in Latin America and in the Middle East, as the construction of oil producing facilities approached completion, of the rapid repayment of private obligations by European and Canadian borrowers, and of a temporary reduction of new Canadian issues in New York at mid-1953, when U. S. interest rates rose more than those in other countries.

In the first quarter of 1954, both U. S. imports and U. S. exports continued to decline, with some recovery of both in April. The surplus on current private transactions in the first quarter of the year (calculated at a semiannual rate) exceeded the surplus in the second half of 1953 by only $100 million. This was more than offset by the continued expansion of the private capital outflow, which was large enough also to offset the decline in government nonmilitary aid. U. S. direct foreign investment continued to decline, but the outflow of U. S. private portfolio capital, especially to Canada, revived, and the total outflow of private capital during the quarter was large enough to finance nearly one half of the private current account surplus. The rest of the world was thus able to acquire gold and dollars from the United States at much the same rate as in 1953.

In the condensed balance of payments statement for the United States in Table V, private transactions are shown separately from U. S. Government transactions. While there has been a tendency for the composition of U. S. Government payments abroad to change, their total has been fairly constant, and they are still an

TABLE V. SUMMARY OF U.S. BALANCE OF PAYMENTS, 1952-54[1]

(In billions of U.S. dollars)

	1952		1953		1954
	1st half	2nd half	1st half	2nd half	1st quarter[2]
Private transactions					
Current account[3]	2.5	1.1	1.0	1.2	1.3
Capital account (including errors and omissions)[4]	−0.2	−0.2	—	−0.1	−0.6
U.S. Government transactions					
Current expenditures abroad[5]	−0.8	−0.9	−1.1	−1.3	−1.2
Nonmilitary aid (grants and loans)[6]	−1.4	−1.1	−1.1	−1.0	−0.6
Net acquisition abroad of gold and dollar assets from U.S.[7]	−0.1	1.1	1.2	1.2	1.1

[1] Based on data from U.S. Department of Commerce, *Survey of Current Business*, and Business Information Service, International Trade Statistics Series. The separation of private from government transactions is based on Fund staff estimates, except for the fourth quarter of 1953 and the first quarter of 1954, data for which are drawn from the *Survey of Current Business*, June 1954. No sign indicates credit; minus sign indicates debit.

[2] Semiannual rate.

[3] Includes merchandise exports less military-aid financed shipments, recorded (customs) merchandise imports (with minor adjustments, and including U.S. Government stockpile imports), net balance of private services, and private donations.

[4] Net U.S. private capital, and net foreign long-term capital other than transactions in U.S. Government securities.

[5] Includes estimated net government purchases of merchandise abroad not physically imported (except for fourth quarter of 1953 and first quarter of 1954, which include all government imports), and net balance on government services.

[6] Economic aid grants *plus* U.S. Government capital (net).

[7] Including change in holdings of international institutions and, in dollar assets, both long-term U.S. Government securities and short-term foreign assets held officially and privately.

extremely favorable element in the payments situation of the rest of the world. U. S. nonmilitary aid in the form of grants and loans declined in 1953. As economic conditions improved, appropriations for aid to Austria, Denmark, Iceland, the Netherlands, and Norway ceased, just as in 1952 aid had been discontinued to Belgium, Luxembourg, Ireland, Portugal, Sweden, and Japan. On the other hand, the U. S. Government current expenditures abroad (including offshore purchases, which rose from $75 million in 1952 to $200 million in 1953, and expenditures of U. S. armed forces abroad, but excluding stockpile purchases) increased, and they now exceed nonmilitary aid.

By 1953 total U. S. nonmilitary aid was in fact smaller than the net acquisition of gold and dollars by other countries from the United States. Thus, if the "dollar gap" is measured by the balance of all private and non-aid government transactions, it had disappeared in 1953. Even in the fourth quarter of the year, when private imports, influenced by the U. S. recession, declined, and the net acquisition of gold and dollars by other countries from the United States had fallen to an annual rate of $1.5 billion, the annual rate for the "dollar gap," so measured, was no larger than $150 million.

In the total U. S. current account balance, government expenditures abroad have become as large as the surplus on private transactions. They are expected to rise further in the current year (while foreign aid is to decline), thus acting as a buffer against any further reduction which might occur in the private dollar earnings of the rest of the world.

Payments Position of Continental Europe

Continental Western Europe has shown an almost exact balance on all private transactions with the United States since the middle of 1952, so that it has been able to add to its gold and dollar reserves an amount almost equal to the full amount of U. S. Government current expenditure and economic aid. In the course of 1952 its balance of payments underwent an adjustment whereby a deficit (excluding aid) in relation to the United States of some $480 million in the first half of the year was followed by a surplus of $260 million in the second half, and a surplus in relation to the rest of the world of $120 million was followed by a deficit of $230 million. Thus, in the over-all balance of the region, the deficit, which in the first half of 1952 had been $200 million, was only $40 million in the second half of the year. This improvement continued in 1953, and Continental Europe not only increased its surplus with the United States but achieved a substantial surplus with the rest of the non-European world (Table VI).

The marked improvement in the balance of Continental

TABLE VI. ESTIMATED PAYMENTS AND CHANGES IN RESERVE POSITIONS OF CONTINENTAL WESTERN EUROPEAN COUNTRIES AND DEPENDENCIES, 1952-53

(In millions of U.S. dollars)

	1952		1953	
	1st half	2nd half	1st half	2nd half
	(European deficit −)			
1. Payments balances (excluding aid)				
a. With United States[1]	−485	265	258	435
Private	*−681*	*−80*	*−112*	*−64*
Government	*196*	*345*	*370*	*499*
b. With sterling area[2]	174	−70	−227	−20
c. With rest of world[3]	120	−232	−47	453
Total	−191	−37	−16	868
2. U.S. nonmilitary aid (grants and loans)[4]	692	456	412	310
Total (1 + 2)	501	419	396	1,178
	(decrease −)			
3. Reserve movements				
a. Gold and dollar asset holdings[5]	330	680	433	1,097
b. Sterling balances[6]	−168	−78	−48	3
c. Credit position vis-à-vis EPU[7]	339	−183	11	78
Total	501	419	396	1,178

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[1] From U.S. Department of Commerce, *Survey of Current Business*, June 1953 and March 1954. Data cover balance on goods, services, and private donations, private U.S. capital, and long-term foreign capital other than transactions in U.S. Government long-term securities.

[2] From *United Kingdom Balance of Payments, 1946 to 1953*, No. 1 (Cmd. 8976) and No. 2 (Cmd. 9119). Data cover balances on current and investment accounts, excluding aid.

[3] Residual, estimated by subtracting items 1a, 1b, and 2 from item 3 (total). Thus it includes transactions settled only in gold and dollars, sterling, and through EPU.

[4] For source, see footnote 1.

[5] Changes in official gold holdings (estimates of Board of Governors of Federal Reserve System, from *Federal Reserve Bulletin*, March 1953 and March 1954) *plus* changes in dollar asset holdings (net short-term foreign U.S. capital and net transactions in U.S. Government long-term securities, from U. S. balance of payments) *less* change in EPU gold and dollar assets (from EPU balance sheet in *International Financial Statistics*, International Monetary Fund).

[6] Change in U.K. sterling liabilities as officially published, i.e., including privately held sterling balances. For source, see footnote 2.

[7] From International Monetary Fund, *International Financial Statistics*. Changes in balance of "credit extended to" over "credit received from" EPU.

Western Europe with the United States during 1953 is accounted for by two very substantial changes. First, its deficit on private transactions was reduced sharply, from $760 million in 1952 to $175 million in 1953, the value of its commercial exports to the United States increasing by $350 million (or 13 per cent) and the value of its commercial imports from the United States falling by $520 million (or 12 per cent). Second, the estimated value of U. S. Government net current expenditures abroad (including offshore purchases) increased from $540 million to $870 million. The decline of $425 million in U. S. economic aid offset less than half this improvement in Europe's balance on private and public transactions combined.

The expansion of European exports to the United States in 1953 was attributable partly to the expansion of U. S. income and expenditure in the first half of the year, but also to the improved availability of European supplies. Some of the reasons for the contraction of European imports from the United States have already been mentioned. When European demand recovered in the second half of 1953, a stronger competitive position also helped to prevent any expansion of imports of U. S. manufactures, despite the reduction of discriminatory restrictions against dollar imports.

The deterioration in the course of 1952 in Continental Europe's balance with the rest of the world, including the sterling area, was attributable largely to the import restrictions imposed by sterling area countries and to reduced demand in many primary producing countries, following an earlier price decline for their exports, reinforced by import restrictions imposed under the pressure of payments difficulties. The subsequent recovery in this balance in 1953 was mainly the result of the relaxation of these restrictions. But other factors were also at work. The terms of exchange between the Continent's industrial exports and its imports of food and materials continued to improve, partly at the expense of shipping interests both inside and outside Continental Europe. The competitive strength of Continental European, and especially of German, exporters increased in relation to U. S. and U. K. exporters, in terms both of price and of the availability of supplies. They were thus able to increase their share in the primary producing countries' total imports of manufactures. Finally, the substitution in Europe of non-dollar for dollar supplies affected not only U. S. exports but also those of Canada and of most of the Latin American dollar countries. It is particularly noteworthy that Europe's balance of payments strengthened, despite some apparent increase in the ratio of the volume of imports to industrial production, and despite the recession in the United States in the second half of 1953.

Continental Western Europe's receipts of U. S. aid fell steadily throughout 1952 and 1953. Nevertheless, the increase in Europe's over-all payments surplus, and in particular its surplus with the United States, more than offset the decline in U. S. aid, and its gold and dollar reserves, which had increased by $1,010 million in 1952, went up by $1,530 million in 1953. The increase in 1953 exceeded by more than $100 million the balance on transactions (including aid) with the United States alone (see Table VI). Even after taking into account the effects of some gold dishoarding and of sales of gold by the U. S. S. R., this indicates that Continental Western Europe was able to obtain dollars for part of its increasing surplus with such areas as Japan, Indonesia, and the dollar countries in Latin America and the Middle East.

The complete elimination of nonmilitary aid would have reduced the accumulation of gold and dollar reserves by Continental Western Europe in 1953 by only some 45 per cent; even without U. S. Government current expenditures abroad, the reserves of the area would not have declined in 1953. Even with a wide definition of the term, therefore, the statistical "dollar gap" of Western Europe disappeared in 1953.

While most countries in Continental Western Europe were in over-all payments surplus in 1953 (excluding U. S. economic aid by way of grants and loans), several, notably France and Italy, remained in deficit. But even if current receipts from U. S. Government expenditures were also excluded, several European countries would still have shown a surplus. The balance of payments of the great majority of the countries of Western Europe showed an improvement from 1952 to 1953.

In the early months of 1954, with the terms of trade becoming rather less favorable, the over-all trade balance of Continental Western Europe also developed slightly less favorably. It was not possible to maintain the high rate at which official gold and dollar holdings had increased in the second half of 1953, but the rate of increase was not much less than that recorded for the first half of that year. While U. S. exports were practically unchanged in the first quarter of 1954, the decline in U. S. imports from Continental Western Europe was rather greater than the increase in U. S. Government expenditure other than foreign aid. Total net U. S. Government expenditures in Western Europe during the quarter were at a semiannual rate of about $700 million. With substantial government loan repayments to the United States, the rate of net aid from the United States was about one half of what it had been in the second half of 1953, while gold and dollar earnings from third areas appear to have fallen substantially. Net gold and dollar acquisitions from the United States in the first quarter of 1954 were thus at a semiannual rate of a little more than $500 million.

Perhaps the most outstanding feature of 1953 was the large and growing surplus of Western Germany. A rapidly improving competitive position made possible a substantial expansion of exports. Export prices, like industrial prices generally, were lower than in 1952; with the rapid expansion of productive capacity, output could be increased with falling profit margins, rising real wages, and only moderate increases in money wages. Despite the export expansion of recent years, Germany, even in 1953, still had not fully recovered its prewar (1936) share of foreign markets, whether inside or outside Europe. The balance of payments improved—apart from the support of U. S. aid—

mainly because of the exceptionally favorable terms of trade which Germany, as an exporter of capital goods, has enjoyed in the postwar period. Another important factor has been the high ratio of investment, where mainly domestic resources are used, to consumption, which draws to a greater extent on imported supplies. The effects upon import demand of this allocation of productive activity have compensated for the fact that Germany is now obliged to import foodstuffs formerly obtained from Eastern Germany.

The Netherlands also continued in 1953 to run a substantial balance of payments surplus, but smaller, particularly in relation to the EPU area, than in 1952. Here too productivity advanced rapidly while money wage rates remained practically stable. Exports in 1953 were nearly 15 per cent greater than in 1952. Imports rose even more as domestic demand, employment, and production recovered from the recession of the previous year.

In Austria, a combination of exchange rate adjustment, wage stability, and disinflation made possible an increase in 1953 of some 30 per cent in the volume of exports, and a payments deficit was succeeded by a very large surplus. The disinflationary policy, however, involved some temporary increase in unemployment.

The exports of France in 1953 were still hampered by the disparity between French and foreign price levels, a legacy from the inflation of 1951. There was some recovery, however, under the influence of rebates of certain taxes and social security charges given to exporters and a slight downward price movement. As a result of this recovery, and also of improving terms of trade, continued stringent import restrictions, and increased receipts from U. S. Government expenditure, France's payments deficit was smaller in 1953 than in 1952. Direct U. S. aid continues to be substantial, but is given largely on account of the drain on French resources caused by the hostilities in Indo-China. The special measures that have been taken to support the French balance of payments cannot easily be removed unless the levels of money costs of production in France and in competing manufacturing countries can be brought into line.

Italy's over-all deficit declined in 1953, in part because of higher U. S. Government expenditures, though its EPU deficit increased. Italian imports have been rising, influenced by a rapid expansion of domestic output combined with a high degree of import liberalization. Imports from OEEC countries are virtually free of restrictions, but Italian exports, though also rising, continue to suffer from the import restrictions of other European countries. Italy still has a serious unemployment problem, whose solution requires difficult structural adjustments that will themselves impose a strain on the balance of payments.

The over-all trade deficit of Yugoslavia deteriorated further in 1953, primarily as a result of the 1952 drought which created a need for large net imports of foodstuffs.

Turkey's total imports fell somewhat in 1953, and its exports rose. The trade deficit, however, which was mainly with OEEC countries, continued to be high, and the problem of arrears in commercial payments remained difficult. Much of Turkey's exported wheat has been disposed of through bilateral arrangements outside the OEEC region.

The trade of Western Europe with the U. S. S. R. and the countries associated with it remains low. The value of Western Europe's imports from these countries in 1953 was about $900 million, and of its exports to them about $800 million.

On the whole, as a result of developments in intra-European payments in 1953 and the early months of 1954, both the extreme debtor and the extreme creditor positions within the EPU tended to be further intensified, though in most cases at a slower rate than in 1952. This tendency has created difficult problems regarding the means of settlement to be employed in the future.

Among the major members, the United Kingdom reduced the volume of EPU credit extended to it, and Italy ceased to be a creditor and became a debtor to the Union. Over the last three years, Germany has had EPU surpluses; by the end of April 1954 its cumulative creditor position exceeded $1 billion, or twice the amount of its EPU quota. The Netherlands and Austria also increased their creditor positions in 1953. The French debtor position has remained since November 1952 at the point where further additions have to be settled fully in gold. By April 30, 1954, the countries which at that time were debtors had used 84 per cent of the total credit automatically available to them under their quotas; the credit extended by Austria, Belgium, Germany, and Switzerland had exceeded the limits set by their quotas, and the Netherlands quota was also almost fully utilized.

Such a polarization into extreme creditors and extreme debtors may be difficult to avoid in the long run; the payments position of an individual country with any single region is often likely to be unbalanced. In fact, however, the EPU situation in 1953 was due largely to differences in the over-all strengths of the different currencies. In general, the countries with the most favorable EPU balances were also those with the most favorable balances in other areas, and similarly for the countries with unfavorable balances. Only the receipt of significant amounts of dollar aid from the United States enabled France and Italy to sustain without a deterioration of their reserves the drain of gold to the EPU involved in the continuation of their intra-European deficits. The EPU has been extended for another year, until June 30, 1955.

Payments Position of the Sterling Area

The transactions of the whole sterling area with the rest of the world, including both current and investment accounts, were in deficit to the extent of about £200 million in the first half of 1952. In the next two half years there were substantial surpluses, but the over-all current and investment account was practically in balance in the second half of 1953 (Table VII). This pattern of improvement up to the middle of 1953 with some deterioration thereafter characterized the balances of the United Kingdom and the rest of the sterling area separately with each of the main non-sterling regions, the dollar area, and the OEEC countries. A similar movement is also to be seen in the balance of payments of the rest of the sterling area with the United Kingdom.

The radical improvement in the course of 1952 and the first half of 1953 in the balance of the rest of the sterling area with all areas, including the United Kingdom, is to be accounted for by the delayed effect on imports of the heavy slump in export earnings in the second half of 1951, reinforced by intensified import restrictions and disinflationary domestic financial policies. The dwindling of the over-all surplus in the second half of 1953, on the other hand, reflects mainly a decline in export earnings following almost two years of stability, together with some tendency for imports to recover as restrictive policies were relaxed.

The adverse effects of the recessionary tendencies in the United States upon export earnings were felt more rapidly and more severely in the outer sterling area countries than in other primary producing areas. Malaya, Ceylon, and Pakistan suffered from the decline in rubber, tin, jute, and cotton prices. Australia, New Zealand, and the Union of South Africa obtained somewhat higher prices in 1953 than in 1952 for their exports of wool, meat, and butter, though the position of wheat was less satisfactory. Another factor of strength was the continued expansion of oil exports from Iraq and Kuwait, which have filled the gap in the world market caused by the cessation of exports from Iran.

In India, despite a decline in export earnings, the balance of payments position improved, largely because of the reduction in imports of food and raw materials. Export earnings in 1953

TABLE VII. SUMMARY OF STERLING AREA BALANCE OF PAYMENTS (Current Account Balances and Net Investment Accounts), 1952-53[1]

(In millions of pounds sterling)

	1952[2]		1953[3]	
	1st half	2nd half	1st half	2nd half
U.K. transactions				
Outer sterling area				
Current account	293	72	22	157
Investment account[4]	−64	−29	−59	−99
	229	43	−37	58
Non-sterling area				
Current account[5]	−238	21	−9	−47
Investment account[6]	38	−66	11	−60
	−200	−45	2	−107
OEEC countries	*−47*	*−8*	*49*	*13*
Other non-dollar countries	*32*	*51*	*−37*	*−20*
Dollar area	*−185*	*−88*	*−10*	*−100*
Total United Kingdom	29	−2	−35	−49
Outer sterling area transactions				
United Kingdom	−229	−43	37	−58
Non-sterling areas	3	156	173	101
OEEC countries[7]	*−15*	*33*	*32*	*−6*
Other non-dollar countries[8]	*1*	*31*	*61*	*31*
Dollar area[9]	*17*	*92*	*80*	*76*
Total outer sterling area	−226	113	210	43
Total sterling area transactions				
OEEC countries	−62	25	81	7
Other non-dollar countries	33	82	24	11
Dollar area	−168	4	70	−24
Total sterling area[10]	−197	111	175	−6

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[1] No sign indicates surplus; minus sign indicates deficit.

[2] Unrevised data from *United Kingdom Balance of Payments, 1946 to 1953*, No. 1 (Cmd. 8976). Revised half-yearly data for 1952 have not been published, though Cmd. 9119 contains revised figures for 1952 as a whole.

[3] Derived from data in *United Kingdom Balance of Payments, 1946 to 1953*, No. 2 (Cmd. 9119).

[4] Total overseas investment, borrowing, etc.

[5] Current account, excluding defense aid, net.

[6] Total overseas investment, borrowing, etc., less aid in form of U.K. Government borrowing or lending.

[7] Outer sterling area transfers via London to (−) or from OEEC countries.

[8] Outer sterling area transfers via London to (−) or from other non-dollar countries.

[9] Outer sterling area net sales of gold and dollars to United Kingdom.

[10] For reconciliation with the official U.K. "Total sterling area balance with non-sterling countries," as published, e.g., in the *Economic Survey, 1954* (Cmd. 9108), Table 1, the U.K. non-sterling area investment account given here (fifth line of figures) should be subtracted from, and U.S. defense aid received by the United Kingdom (amounting in the four half years under review to £58 million, £63 million, £55 million, and £47 million), should be added to, "Total sterling area" in this table. "Total sterling area balance with non-sterling countries" then becomes −£177 million, £240 million, £219 million, and £101 million.

were about 18 per cent lower than in 1952, exports to the United States and Canada falling to a similar extent. But increased domestic production of food and raw materials made it possible to cut down total imports by about 24 per cent, and imports from the dollar area by more than 50 per cent. Though the trade position in relation to the rest of the sterling area and to Continental Western Europe deteriorated, the over-all trade deficit of Rs 356 million was little more than one third of what it had been in 1952. If, in addition to trade, account is taken of services, private donations and capital movements, contractual official payments, and official receipts for development, there was an over-all payments deficit of Rs 414 million in 1952 and an over-all surplus of Rs 498 million (US$104.6 million) in 1953. India's foreign exchange assets, which had declined by $133.6 million in 1952, increased by $59.6 million in 1953, and India made a net contribution to the central gold and dollar reserves of the sterling area.

The improvement in the U.K. balance on current and investment account with non-sterling countries, which took place in the course of 1952 and continued at a slackened pace in the first half of 1953, reflected the maintenance of the severe curtailment of imports initiated in 1951, which had already had considerable effect by the first half of 1952. The main factors underlying the movement of the non-sterling balance in the second half of the year were an increased capital outflow and a decline in invisible earnings. Exports to non-sterling countries remained rather stable throughout 1952 and 1953. While the United Kingdom benefited from the general increase in imports of manufactures by the United States and dollar countries in Latin America, its share in these markets tended to decline in favor of Continental Europe and Japan. The United Kingdom was also affected more than other suppliers by the decline of imports into non-dollar Latin American countries.

In contrast to the improvement in the U.K. balance of payments on current and investment account with non-sterling countries between the first half of 1952 and the corresponding period in 1953, the U.K. balance with the rest of the sterling area moved in the opposite direction. Similarly, between the two halves of 1953, while the U.K. balance with the rest of the sterling area improved, a deficit appeared in relation to non-sterling countries. The various factors, including import restrictions, responsible for the decline and subsequent recovery of the imports of the rest of the sterling area affected exports from the United Kingdom as well as from other supplying areas. The entry of exports from the rest of the sterling area, however, was not restricted by the United Kingdom, so that the movements of these U.K. imports did not show the same fluctuations as U.K. imports from other areas. The two U.K. balances—with non-sterling countries and with the rest of the sterling area—therefore tended to move in opposite directions. When the movements in both current and investment transactions with all parts of the world are taken into account, the over-all U.K. position moved from a surplus in 1952 of £27 million to a deficit in 1953 of £84 million (Table VIII). The current account surplus declined only slightly in 1953, but overseas investment increased, in response to easier monetary policies, the more ready access to the London capital market afforded to sterling area countries, and willingness to authorize some increase in capital exports elsewhere.

The sterling area's favorable balance of payments of £286 million from mid-1952 to mid-1953, supplemented by receipts from U.S. aid, permitted not only a substantial accumulation of gold and dollar reserves (which rose by £240 million from their mid-1952 position), but also a decline in sterling balances held outside the sterling area and some repayment of U.K. indebtedness to the EPU. The decline in holdings of sterling balances by non-sterling countries, which had begun in the second half of

TABLE VIII. SUMMARY OF U.K. BALANCE OF PAYMENTS ON CURRENT AND INVESTMENT ACCOUNT AND ITS FINANCING, 1952-53[1]

(In millions of pounds sterling)

	1952		1953	
	1st half	2nd half	1st half	2nd half
Balance on current and investment account (excluding defense aid and aid in form of U.K. Government borrowing or lending), total	29	−2	−35	−49
Current account	55	93	13	110
Investment account	−26	−95	−48	−159
Financing accounts, total	−29	2	35	49
Extraordinary aid receipts, net	75	72	55	47
Gold and dollar reserves (increase −)	232	−57	−186	−54
Movement in other foreign liabilities (decrease −) or assets (increase −), total	−336	−13	166	56
EPU debit and holdings of non-dollar currencies	64	−37	−5	14
Sterling balances, total	−400	24	171	42
Held in: Outer sterling area	*−226*	*113*	*210*	*43*
Dollar area	*−19*	*15*	*8*	*20*
OEEC countries	*−60*	*−27*	*−17*	*1*
Other non-sterling countries	*−97*	*−76*	*−29*	*35*
International institutions	*2*	*−1*	*−1*	*−57*

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[1] Derived from data in *United Kingdom Balance of Payments, 1946 to 1953*, No. 1 (Cmd. 8976) and No. 2 (Cmd. 9119). See footnotes 2, 4, 5, 6, and 10 to Table VII.

1951, ceased after mid-1953, and the sterling holdings of countries outside the OEEC increased. This, together with continuing U.S. aid, made it possible for the central gold and dollar reserves of the sterling area to continue to expand despite the fact that in the second half of 1953 U.K. overseas investment exceeded its surplus on current account.

The liquidity position of the United Kingdom, taken by itself, has developed somewhat less favorably. As a result of the tendency for net overseas investment to exceed the U.K. current surplus, there was in 1953 an expansion of £213 million in sterling liabilities (all, and more, of the expansion accruing to sterling area holders, particularly in the Colonies), which was nearly equal to the increase of £240 million in U.K. gold and dollar reserves.

In March, April, and May 1954 the central reserves of the sterling area increased rapidly, reaching $2,985 million by May 31, the highest figure recorded since September 1951; and in April and May the United Kingdom also earned large surpluses in the EPU. These movements have been attributed to ordinary commercial and financial transactions, and it appears likely that they are due in part to the building up of working balances in connection with the London gold and commodity market arrangements and to the covering of future sterling commitments, the effect of these influences perhaps being strengthened by the existence in London of money rates higher than in other centers. To the extent that purely short-term factors are responsible for the recent movements, the strength of sterling in foreign exchange markets associated with them is connected only indirectly with the sterling area's basic trade and long-term capital position.

Over the seven years from end-1946 to end-1953, total U.K. sterling liabilities have risen from £3,755 million to £4,173 million. Balances other than those held by nonterritorial organizations have fallen in the same period from £3,729 million to £3,708 million. At the end of 1946, these balances had been equivalent to more than four times the value of U.K. exports in that year but, by the end of 1953, they were only one and a half times the value of 1953 exports. The ownership of the balances has also altered considerably. The share of non-sterling holders has fallen from 35 per cent to 21 per cent; the share of the independent members of the sterling area also fell slightly, from 52 per cent to 48 per cent, while the share of the Colonies has risen from 13 per cent to 31 per cent.

Payments Positions of Other Areas

The Canadian balance of payments on current account, which was in surplus to the extent of Can$160 million in 1952, showed a deficit of some Can$470 million in 1953, mainly on account of a change from a trade surplus of Can$490 million in the former year to a trade deficit of Can$50 million in the latter. Though it fluctuated during the year, the net inflow of long-term capital for direct and portfolio investment was much the same as in 1952, and the reserve position was practically unchanged. The main balancing factor was again the movement of short-term capital, which showed a much smaller outflow in 1953 than in 1952 (see Table IX).

TABLE IX. SUMMARY OF CANADIAN BALANCE OF PAYMENTS, 1952-53

(In millions of Canadian dollars)

	1952	1953[1]
1. Exports[2]	4,337	4,152
2. Imports	−3,846	−4,207
3. Trade balance (1 + 2)	491	−55
4. Net services and donations	−334	−412
5. Current account balance (3 + 4)	157	−467
6. Long-term capital, net	478	486
7. Private short-term capital,[3] net	−654	−144
8. Official loan repayments	56	87
9. Official holdings of gold and foreign exchange (increase −)	−37	38
10. Total (6 through 9)	−157	467

Source: Dominion Bureau of Statistics.

[1] Preliminary.

[2] Excluding NATO Mutual Aid shipments (Can$200 million in 1952 and Can$246 million in 1953).

[3] Including net transactions in outstanding securities.

The Canadian trade deficit in 1953 was largely the result of an increase in imports (by Can$360 million, or 9 per cent), which reflected the continued rise in domestic activity in the first half of 1953. Following some retardation of domestic activity later, imports ceased to rise in the third quarter, and in the fourth were less than a year earlier. Imports from the United Kingdom accounted for one third of the increase for the year; the rest came from the United States. Canadian exports were nearly $200 million less in 1953 than in 1952. Shipments to countries other than the United States—especially of wheat, wood pulp, and a number of manufactured products—fell by a fairly considerable amount, and the Canadian surplus with countries other than the United States appears to have declined substantially. Exports to the United States, on the other hand, were somewhat greater than in 1952. Newsprint exports reached a new peak, and shipments of metals other than lead and zinc rose; but exports of farm machinery fell in response to the reduction of U.S. farm income.

The sharp fluctuations in the capital account in the Canadian balance of payments, their connection with the movements of rates of interest in Canada and the United States, and their effects on the Canadian exchange rate are discussed in Chapter V.

The great diversity of conditions in Latin America makes it difficult to generalize concerning the region as a whole, or even substantial sections of it. The information available indicates

TABLE X. LATIN AMERICA: SUMMARY OF PAYMENTS WITH THE UNITED STATES, 1952-54[1]

(In millions of U.S. dollars)

	1952		1953		1954
	1st half	2nd half	1st half	2nd half	1st quarter[2]
Private transactions					
Goods and services (net)	−458	−93	106	−251	150
U.S. private capital (net)	360	25	−16	−108	−42
Transactions with U.S. Government	47	77	174	238	78
Multilateral dollar settlements (including errors and omissions)	14	161	29	98	−4
Net acquisition (−) of gold and dollar assets from U.S.	37	−170	−293	23	−182

[1] For source and description of data, see footnote 1, Table V. No sign indicates credit; minus sign indicates debit.
[2] Semiannual rate.

that the trade balance of the twenty Latin American Republics as a whole with the United States improved quite sharply from the first half of 1952 to the first half of 1953 (Table X). As a consequence of the decline in export earnings in 1952, Latin American imports had already fallen in the latter part of that year. The decline continued in the first half of 1953, and the payments position in general was also strengthened by a steady expansion of exports to the United States. More than half of the effect of this improvement was, however, offset by the cessation and, indeed, reversal of private capital exports from the United States to Latin America—a reversal which was attributable partly to a decline in U.S. private direct investment in Latin America and partly to a reflux of short-term funds. In the second half of 1953, particularly in the last quarter, Latin American imports from the United States recovered, and simultaneously U.S. imports from Latin America declined fairly sharply with the decline in U.S. business activity. This deterioration in the trade balance of Latin America with the United States was accompanied by a continued deterioration in the investment account. Despite a considerable expansion in U.S. Government financial assistance, associated with the settlement by Brazil of outstanding obligations to U.S. citizens, the deterioration in private transactions was sufficient in the second half of 1953 to stop the acquisition of gold and dollar assets from the United States, which had been growing steadily up to the first half of the year. In the first quarter of 1954, U.S. imports from Venezuela and the coffee exporting countries increased. Though U.S. imports from Argentina, Chile, and Uruguay fell as sharply as in the first quarter of 1953, Latin America as a whole was again able to add to its gold and dollar reserves.

With certain exceptions such as Mexico, the countries with convertible currencies in Central America and the northern part of South America improved their payments positions between

1952 and 1953, particularly in relation to the United States and Canada. This was largely the result of an increased volume of exports of petroleum products and of coffee to North America. Increases in the prices of these products led to a further increase in the value of these exports. Both Venezuela and Colombia benefited from that development; Mexico, on the other hand, suffered a sharp setback in the second half of 1953, largely on account of reduced North American purchases of zinc and lead at lower prices.

This improvement in the balance of Latin American dollar countries with the United States and Canada was accompanied by some deterioration in their balance with Western Europe and Japan. There were two reasons for this deterioration. Exports to Europe declined as non-dollar supplies were substituted for dollar supplies in that region. And imports from Western Europe, particularly from Western Germany, expanded steadily in 1953, as they had in 1952, in consequence of the improved competitive position of European producers in dollar Latin American markets. Some Latin American dollar countries have been spending in Western Europe an increasing amount of the income they earn in the North American market.

The payments positions of Latin American countries with inconvertible currencies (non-dollar Latin America) remained in 1953 under considerable strain from the effects of past, and in several countries, of continuing, inflation. Export proceeds, however, showed some improvement, particularly from exports to Europe. Argentina and Uruguay, in particular, increased their exports of wheat and meat to Europe, mainly to the United Kingdom. In the first half of 1953 wool exports to both Europe and the United States, fed from previously accumulated stocks, were abnormally high and served to bring about a considerable improvement of the foreign exchange reserve position of each of these countries. Higher coffee prices in the second half of 1953 offset the effect of a reduction in the volume of Brazilian coffee shipments. In the second half of the year, Brazil also succeeded by means of price and exchange rate adjustments in resuming the export of cotton. The value of tin shipments from Bolivia to the United States was higher than in 1952, but Chile's metal exports fell in value, with adverse effects on its dollar earnings.

After the first half of 1952 imports from all sources into non-dollar Latin American countries were sharply curtailed by restrictions. During 1953, however, in countries other than Brazil, imports from Europe and Japan began to expand once more, under bilateral payments arrangements, in consequence of the expansion of export earnings in those regions.

The progress achieved in recent years by some of the non-dollar industrial countries in finding markets in competition with U.S. exports of manufactures in various parts of Latin America is indicated in Table XI. While U.S. exports of manufactures to

TABLE XI. EXPORTS OF MANUFACTURES FROM INDUSTRIAL COUNTRIES TO LATIN AMERICA, 1952-53

(In millions of U.S. dollars)

	United States	United Kingdom	Continental OEEC	Japan	Total
Dollar Latin America					
1952: 1st half	1,030	74	176	12	1,292
2nd half	900	74	217	13	1,204
1953: 1st half	960	78	225	29	1,292
2nd half	960	82	246	26	1,314
Brazil					
1952: 1st half	325	88	240	8	661
2nd half	150	60	186	4	400
1953: 1st half	130	27	134	3	294
2nd half	150	23	198	13	384
Other Latin America					
1952: 1st half	238	78	208	9	533
2nd half	208	52	134	5	399
1953: 1st half	164	41	151	5	361
2nd half	180	63	206	15	464

Source: Statistical Office of the United Nations, International Monetary Fund, and International Bank for Reconstruction and Development, *Direction of International Trade.*

Table XII. Selected Non-Sterling Countries:[1] Summary of Payments with the United States, 1952-54

(In millions of U.S. dollars)

	1952		1953		1954
	1st half	2nd half	1st half	2nd half	1st quarter[2]
Net private transactions	−493	−426	−377	−488	−524
Transactions with U.S. Government					
Current U.S. Government foreign expenditures	427	448	446	492	414
U.S. Government aid (grants and loans)	361	275	227	268	158
Multilateral dollar settlements (including errors and omissions)	−135	−311	−280	−318	−144
Net acquisition (−) of gold and dollar assets from U.S.	−160	14	−16	46	96

[1] Includes independent countries outside Europe, the sterling area, and the Western Hemisphere. For sources and description of data, see footnote 1, Table V. No sign indicates credit; minus sign indicates debit.

[2] Semiannual rate.

Latin American dollar countries were practically the same in 1953 as in 1952, the exports of Continental European countries increased by about 21 per cent. To other Latin American countries exports from Continental European countries fell by 10 per cent, but at the same time the decline in U.S. exports was 32 per cent.

In the aggregate, the position of the independent non-sterling countries in the Middle East, Far East, and Africa, whose combined payments with the United States are shown in Table XII, worsened in 1953. There was a small decline in their deficit on private transactions; U.S. Government expenditures other than nonmilitary aid rose. But the reduction thus effected in the direct deficit of this group of countries with the United States was more than offset by an increase in its dollar deficit with third areas. In addition, there was a decline in receipts of nonmilitary aid from the United States. In the first quarter of 1954, U.S. private imports and offshore purchases from these countries declined further and there was a considerable reduction in U.S. nonmilitary aid. Though their dollar position in relation to other areas improved, their gold and dollar reserves declined by a further $200 million.

In Japan, which accounts for between one third and one quarter of the trade of this group of countries with the United States, and for one half of the non-aid expenditure made there by the U.S. Government, the rapid rise of industrial production and consumption raised imports in 1953 so that by the first quarter of 1954 they were more than 25 per cent greater than a year earlier. The reconstruction of the Japanese economy has made possible rapid advances in productivity. The expansion of exports has been hampered, however, by the high costs which are a consequence of the inflationary pressures operative since 1950 and by restrictions on imports from Japan, which have made it difficult for Japan to earn the means to pay for the food and raw materials necessary for industrial recovery. The prewar markets and sources of supply on the mainland of China are for the most part closed to Japan; and while exports expanded to neighboring countries and to Latin America, exports to the outer sterling area and to the United Kingdom fell off seriously after the imposition of stricter import controls in 1952. Even when some of these restrictions were removed late in 1953, exports failed to recover to any substantial extent. Exports to the United States also declined in the second half of 1953. An increased import surplus thus developed—over-all as well as with the United States.

Japan's sterling deficit became pressing at the end of 1953. Japanese holdings of sterling declined seriously, and dollar funds were drawn on to finance sterling imports. In January 1954 new arrangements were concluded with the United Kingdom providing for an increase in U.K. and colonial import quotas for Japanese goods, and for temporary sterling accommodation of Japanese financial requirements through commercial channels in London. Japan at the same time made certain import concessions to the

United Kingdom and the Colonies. The full effects of these arrangements cannot yet be observed in published trade returns.

Japan has been heavily dependent on U.S. Government expenditures associated with the Korean war, and the reduction of this support would make the restoration of equilibrium more difficult. With more effective control of inflation in Japan and more liberal import policies elsewhere there should be an improvement in the balance of payments of Japan, whose economy, because of the character both of its imports and of its exports, is particularly sensitive to any discriminatory obstacles to the expansion of exports.

Thailand's trade balance in 1953 showed a deficit for the first time since 1948, partly as a result of the appreciation of the baht in 1952 and early 1953, and its current account deficit was nearly twice the 1952 deficit. Exports were slightly less, both in volume and in value, than in 1952. Imports rose by 12 per cent.

The decline in rubber and tin prices reduced the value of Indonesia's exports in 1953. The position in relation to the United States, however, improved toward the end of the year, and the trade deficit with the United States in the fourth quarter of 1953 was the lowest of any quarter in 1952 or 1953. The Indonesian arrangements with the Netherlands for the settlement of Indonesia's transactions with EPU countries required considerable dollar transfers to the Netherlands. Indonesia's gold and dollar reserves have continued to fall rapidly.

The Philippine over-all trade deficit was somewhat smaller in 1953 than in the year before. The trade deficit with the United States also fell slightly, Philippine exports to the United States increasing rather more than U.S. exports to the Philippines.

Egypt's deficit with the United States was considerably higher in 1953 than in 1952, because of a sharp drop in U.S. imports, to approximately one third of what they had been in 1952. But its trade balance with other areas improved so markedly, as a result of recovery in certain exports and curtailment of imports, that the trade deficit with all areas fell to half its 1952 amount.

The payments position of most other non-sterling countries in the Middle East was strong during 1953 and early 1954. The monetary reserves of Syria, Lebanon, and Ethiopia increased. Despite the continuance of the dispute which has caused stoppage of oil exports, Iran had only a small payments deficit in the first half of 1953, as a result of the imposition of import restrictions, and in the second half of the year foreign financial assistance made possible an increase in imports. The position of Saudi Arabia remained practically unchanged in 1953, as oil production was only slightly greater than in 1952.

III

The Current International Trade and Payments Position

SUBSTANTIAL progress was made in 1953 toward the establishment of a more satisfactory payments equilibrium between countries with convertible currencies on the one hand, and those with inconvertible currencies, particularly the European countries, on the other.

There were, however, several weak spots in the world economy in 1953, only some of which appeared to have been removed, and perhaps only temporarily, by the beginning of 1954. A few industrial countries still have special difficulties, which have already been discussed briefly, but the proportion of primary producing countries which are still struggling with payments difficulties is considerably higher. In several Latin American and Far Eastern countries, these difficulties compelled some intensification of trade restrictions in 1953 at a time when the general world trend was toward more adequate external reserves and less stringent restrictions. While the difficulties of these countries were not exclusively, or even mainly, due to the deterioration of their export prices or of their terms of trade, they would certainly be aggravated by any future decline in the output or prices of primary commodities.

No precise forecast is possible of the development of agricultural prices, partly because they depend so much on crop variations and on the level of economic activity maintained in industrial countries. Current prospects are also affected by the existence of large and increasing stocks of certain agricultural products, which in some circumstances tend to accumulate in connection with the policies widely adopted in many countries for maintaining farm incomes. The most important commodities of which abnormally large stocks are held are wheat, cotton, and dairy products and, to a lesser extent, other grains and certain edible oils. The largest surplus stocks are in the United States, but problems of a similar kind have also appeared in other countries. In a few such countries balance of payments difficulties may have been intensified by reluctance to accept world market prices for their exports. The policies followed by the main surplus countries will be an important factor in determining the future course of prices and markets for these products, with the repercussions that these movements may have on the payments positions of both exporting and importing countries.

In Canada, a succession of favorable crops has resulted in an abnormally large carry-over of wheat. The Canadian Wheat Board, which is the sole purchaser of Western wheat, sells, on behalf of the producers, at the same price on the foreign and the domestic market, this price being adjusted from time to time in the light of the world market position.

In the United States during the past year, the Government has authorized transactions in certain surplus stocks in connection with the Foreign Aid Program. During the fiscal year 1953-54, purchase authorizations have totaled nearly $250 million for the financing of such sales against payment in the receiving country's currency. It has been required that the prices at which surpluses are sold should be consistent with world prices as far as possible, that precautions should be taken to ensure that normal marketing channels should not be disturbed, and that the foreign exchange earnings of recipient countries should not be diminished as a result of the use made by the

United States of the local currency receipts from these sales. Legislation authorizing the use of additional funds—$1 billion over the next three years—for the disposal abroad of government-owned surpluses is now before Congress.

The direct subsidization of commercial exports from the United States was at first confined to subsidies in fulfillment of international obligations under the International Wheat Agreement. Late in 1953, however, subsidization was extended to all wheat exports, and in the late spring of 1954 to exports of other grain. A number of other commodities held by the Commodity Credit Corporation are offered for export at world market prices, which are below domestic prices.

Wheat prices, although they have fallen substantially in recent months, and are well below the maximum provided in the International Wheat Agreement, have been held above the minimum price set by that Agreement. Cotton prices have actually gained in strength as supplies outside the United States have declined, while U. S. cotton has continued to be taken off the market through government purchases and loan operations under the support program.

It has been announced that during the crop year starting August 1, 1954 the U. S. policy of not paying an export subsidy on cotton will be maintained. Thus U. S. cotton will not be exported at prices below the domestic level for which, in turn, the support program provides a floor. If the support program is maintained, surplus stocks of cotton are unlikely to affect prices on international markets in 1954-55.

To date, the effects of U. S. disposal measures have not been great. Any developments which were likely to cause a decline in prices would, however, occasion concern in primary producing countries dependent on exports of the commodities affected.

Apart from any special problems affecting particular countries or areas, there remains the question of how far the general improvement in 1953 in the international payments position has been dependent on factors which are temporary and of uncertain duration. Moreover, to the extent that balance was maintained by any slackness of demand in the importing countries which kept their imports down, it could not be regarded as satisfactory.

In 1953, the rest of the world received $2.1 billion from the United States in the form of nonmilitary aid, and it earned $2.4 billion as a result of current foreign expenditures by the U. S. Government, including offshore purchases and troop expenditures (see Table V). Receipts on account of economic aid have been declining, and they are likely to decline further in 1954, but payments for offshore purchases in 1954, especially in Western Europe, are expected to increase to a considerably greater extent. In the immediate future, therefore, the aggregate dollar receipts of the rest of the world from official U. S. sources may increase, though in the course of time this must be expected to become a much less important element in the balance of payments. The maintenance of a strong dollar payments position for the rest of the world will eventually require further adjustments in the demand of the rest of the world for dollar goods, in the inflow of private imports of goods and services into the United States, or in private U. S. foreign lending.

Other exceptional factors in 1953, which helped to keep down the deficit of the rest of the world in private transactions with the United States, have already been noted. Some non-dollar countries will not always have such excellent grain harvests as those of last year. Though the decline in inventories outside the United States in the first part of 1953 was reversed later in the year, inventory building was probably less than normal in a world of rising output and income. Another element, which particularly affects the dollar balance of the sterling area, is the fact that during the greater part of 1953 countries in the outer sterling area applied import restrictions to a degree that was not likely to be maintained, particularly with sterling reserves expanding at the rate which some of them were able to attain. Some increases in the imports, including dollar imports, of these countries are therefore to be expected, unless their export receipts decline.

Perhaps the most important element of uncertainty with respect to the maintenance of satisfactory equilibrium between the United States and the rest of the world—as well as a satisfactory balance between primary producing and manufacturing countries in general—arises from uncertainty about the course of economic activity in the United States. From the second quarter of 1953 to the first quarter of 1954, U. S. industrial production fell by 8.8 per cent and gross national product by 3.7 per cent. The corresponding decline in national expenditure affected mainly private inventories, as final sales of goods and services were maintained throughout the year. Within the government sector, expenditure on goods and services remained practically unchanged throughout 1953. Military expenditure declined while government civilian expenditure increased, and a decline in federal government purchases as a whole was partly offset by increased State and local government outlays. In the first quarter of 1954, however, a further decline of $4.4 billion in the annual rate of federal government expenditure was not completely offset by the slowly rising State and local government purchases of goods and services; and the annual rate of total government expenditure fell by $3.5 billion, or a little more than 4 per cent. Personal consumption, however, supported by the income tax reductions of 1954, was maintained.

If the experience of earlier recessions could be accepted as a safe guide, this decline and change in the composition of U. S. national expenditure might have been expected to be accompanied by a decline in the value of U. S. imports, leading to a deterioration in the balance of payments of the rest of the world with the United States. For example, from the fourth quarter of 1948 to the third quarter of 1949, when the rate of decline in gross national product and industrial production in the United States was almost exactly the same as it was from the second quarter of 1953 to the first quarter of 1954, the volume of U. S. imports declined by over 13 per cent, their average unit value fell by 7½ per cent, and the value of imports by 20 per cent.

The 1948-49 movement in the volume of U. S. imports was reproduced almost precisely during the 1953-54 recession; imports of crude food and raw materials fell less during the second than during the first recession (crude food imports actually rose in 1953-54), but imports of semimanufactures, especially metals, fell more sharply during the second, and the decline in imports of manufactures was much the same. However, the movements of U. S. import unit values in 1953-54 and in 1948-49 were quite different. In 1953-54 average import unit values scarcely moved at all, though prices of materials fell slightly and those of foodstuffs rose. This contrast was no doubt due partly to the fact that by the second quarter of 1953 the downward adjustment of prices after the 1951 boom was already completed, for the most part. In the second recession, moreover, world prices were supported by expanding European demand, together with market developments affecting coffee, cocoa, and tea. As a result, the dollar value of U. S. imports declined from the second quarter of 1953 to the first quarter of 1954 by only 12 per cent, compared with the decline of almost 20 per cent in 1948-49.

The proportionate decline in the value of imports in 1953-54 was rather more evenly distributed over the main supplying areas than in 1948-49. On the earlier occasion the decline in imports from Continental Europe, the United Kingdom, and the outer sterling area had been particularly severe, that from Canada moderate, and that from Latin America and other primary producing areas relatively mild. In 1953-54 the decline in imports from the United Kingdom and Continental Europe was only about half as severe as in 1948-49, partly because of the upward trend in manufactured imports into the United States. The effects upon Canada were similar to those in 1948-49. Other primary producing countries were affected more severely. As a result of the special circumstances affecting coffee and petroleum, the value of Latin American exports to the United States actually increased in 1953-54.

In the circumstances of 1953-54, the expansion of production and real expenditure outside the United States, and particularly in Europe, might have been expected to cause an increase in demand for U. S. nonmilitary exports. In fact, however, these exports declined slightly, both in volume and in value, from the second quarter of 1953 to the first quarter of 1954. There is no indication that this was due to intensification of restrictions against dollar imports. On the contrary, such discrimination has continued to decrease since mid-1953. The fact that U. S. exports fell must be attributed mainly to the persistence of a trend outside the United States toward the substitution of nondollar for dollar goods. The comparatively small deterioration in the trade balance of the rest of the world with the United States from the second quarter of 1953 to the first quarter of 1954 was, moreover, largely offset by the expansion of U. S. Government expenditures abroad, even when account is taken of some decline in economic aid. A resumption of the outflow of U. S. private capital, largely to Canada, motivated by the decline of interest rates from the second half of 1953 in the United States relative to other countries, was also a factor of some importance in maintaining the world's supply of U. S. dollars in the face of recessionary tendencies. This movement, however, was little more than the reversal of a previous decline.

As a result of these factors, from the second quarter of 1953 through the first quarter of 1954, a period of recession in the United States, not only was there no substantial deterioration, but actually there was some improvement in the balance of payments, inclusive of aid, of the rest of the world with the United States. By contrast, the 1948-49 recession was accompanied by a shift from a surplus, at an annual rate of $600 million in the fourth quarter of 1948, to a deficit, at an annual rate of $400 million in the third quarter of 1949. In the fourth quarter of 1948, moreover, at the outset of the first recession, the annual rate of the surplus, including aid, of the rest of the world with the United States was only $600 million; the corresponding surplus in the second quarter of 1953 was $1.6 billion. This contrast is another important element in explaining the difference between the effects of the two recessions upon the general payments position of the rest of the world. The annual rate of surplus during the next three quarters did not fall below $1.6 billion, and in the first quarter of 1954 it slightly exceeded $2 billion.

At the beginning of the second quarter of 1954 the decline in U. S. domestic economic activity appeared to have ceased. Since March the volume of production in the United States has remained approximately stable. Some of the factors already mentioned as maintaining the dollar supply of the rest of the world during 1953 are likely to continue to operate in 1954, viz., the rise of U. S. Government overseas expenditures, the tight supply conditions for certain foods imported by the United States, and the trend toward substitution of non-dollar for dollar manufactures. A recovery of U. S. business activity would improve the prospects for establishing and maintaining a satisfactory equilibrium between convertible and inconvertible currencies.

All the purposes of the International Monetary Fund have as their background the objective of such orderly growth in the world economy as will ensure a steady improvement in average income levels and the adequate development of the productive resources of all the Fund's members. After the catastrophic disturbances of World War II, far-reaching action of an extraordinary kind was clearly necessary to place the world in a position where such steady improvement would be possible. For the most part, the more important initiatives had to be taken in fields other than those in which a responsibility has been assigned to the Fund, though the adoption of appropriate exchange and monetary policies was also likely to make postwar recovery easier and smoother. Earlier Annual Reports have more than once referred to the profound structural adjustments that were necessary if equilibrium in international economic relations was to be restored. In the nature of things, structural adjustments of this kind can never be finally completed. A growing economy will always be faced with the necessity of making them. In some parts of the world the low standards of income and production that are still prevalent are in part a result of the difficulties of making the adjustments required by the war and its aftermath. In general, however, the picture presented above of the world's payments relationships during the past year suggests important progress for the world as a whole, despite the deficiencies and uncertainties that still remain. Economic activity has been maintained at a high level, many of the difficult structural adjustments that were needed are already well under way, and the postwar reconstruction efforts are paying substantial dividends in terms both of increased production and of improved balance of payments. It would obviously be unwise to assume that in the immediate future everything will be plain sailing. Even if the more threatening aspects of the world's political situation are left out of account, there are still many abnormalities in the world's economic situation, which will not be brought under control without much careful thought and well-considered action. Already, however, even under very difficult conditions, there has been substantial progress. If satisfactory economic policies are adopted in the major countries, and if there is no recurrence of either serious depression or acute inflation, it is reasonable to expect that progress in the next few years may be more speedy. In the progress that can be reported in the last year or two the Fund has played some part, and it is prepared to collaborate still more actively in the effort to ensure that the best use is made of the opportunities for further progress.

IV

Monetary, Fiscal, and Development Policies

IN 1953 and early 1954 a number of countries relaxed the anti-inflationary monetary and fiscal policies which they had adopted after the outbreak of hostilities in Korea in mid-1950. These changes reflected a recognition that an expansion of home demand for both consumer goods and investment could be safely allowed and, in some countries, that an increase in demand was in fact needed to combat unemployment.

The easing of credit restrictions marked a new phase of the more active monetary policy which many countries had adopted in 1950 and 1951 as a brake on inflation. In the circumstances of that time, an active monetary policy was generally considered as meaning the abandonment of so-called cheap money. Actions in 1953-54 showed that this was only one facet of such a policy. Monetary measures were again widely accepted as flexible instruments which may help to safeguard economic stability against either inflationary or deflationary pressures.

In the years immediately after the war, the main financial instruments used in most countries to assure full employment and economic stability had been the receipts and expenditures in the government budget. To the extent that it was used, monetary policy was in most countries designed primarily to keep down interest rates and thus to ensure at the same time the maintenance of effective demand and cheap government borrowing. In countries with well-developed capital markets, where other monetary policy decisions can be assumed to be consistent with changes in the central bank discount rate, the frequency and the direction of changes in central bank discount rates are an indication of the objectives which at any given time are thought appropriate for monetary policy. The fact that in many countries, including the United Kingdom, Canada, the Netherlands, and Sweden, discount rates remained unaltered after the war until 1950 or 1951 shows the importance generally attached in that period to the maintenance of effective demand and cheap government borrowing. Belgium, however, raised its discount rate as early as 1946, and France and Italy in 1947. Norway, on the other hand, has not changed its rate at any time since the end of the war. Even in the serious exchange crisis of 1949, none of the devaluing countries raised its discount rate to strengthen the position of its currency.

Faced in the middle of 1950 with a threat of revival or intensification of inflationary pressures, many countries resorted to monetary action as well as to tax increases and direct controls. In an attempt to restrict increasing demands on domestic resources, discount rates were raised during the second half of 1950 in Denmark, the United States, Belgium, the Netherlands, Canada, Germany, Finland, and Sweden. The movement continued in 1951, when France, the United Kingdom, India, and Austria raised their central bank discount rates. Most of these countries also increased taxes substantially in order to curb private spending. Export duties were imposed on certain goods in Sweden, Norway, and Finland, and some governments devised special new fiscal measures intended to supplement credit restrictions as a means of limiting investment. For example, Sweden limited the income tax depreciation deductions previously allowed and imposed a tax on new investment. Canada also deferred on certain types of new investment the depreciation allowances normally allowed for income tax assessment.

By the middle of 1952 the almost universal need for restrictive monetary and fiscal policies tended to recede. The post-Korean payments crisis had to a large extent run its course. As the balance of payments positions of countries improved, and their international reserves increased, it became possible to allow greater freedom of action in the monetary field.

The decline in international demand following the end of the Korean boom in fact presented many countries with a new set of problems. Demand weakened in many lines, particularly for consumer goods and, for the first time since the end of the war, the need for a somewhat expansionary policy appeared in a number of countries. In the latter half of 1952, the Netherlands, Germany, and Belgium accordingly lowered their discount rates. This trend became more general during 1953. Central bank discount rates were reduced in Germany, Austria, the Netherlands, France, Denmark, Belgium, Sweden, and the United Kingdom. The United States was the only industrial country to raise its discount rate in 1953. This was done in January. By the middle of the year, however, conditions in the United States were deemed to warrant a reduction of reserve requirements for member banks of the Federal Reserve System; and early in 1954 the discount rate was lowered in two steps to 1.5 per cent, the rate which had prevailed from 1948 until August 1950.

Several countries also shifted toward a more expansionary or less restrictive budget policy. In order to stimulate production and demand, the United Kingdom budget for 1953-54 provided for substantial reductions in income and profits taxes and in purchase tax. This budget also reinstated initial allowances for capital expenditures for purposes of profits tax and income tax assessment. The 1954-55 budget incorporated only minor tax reductions, but replaced the initial allowances by more liberal investment allowances, with the objective of encouraging reequipment of private industry. In France, in order to encourage investment and to lighten the burden of taxation on prices, purchases of capital goods for new investment were exempted from several indirect taxes in August 1953 and April 1954. In Canada, the 1953-54 budget reduced personal income tax to the 1950 level and also cut corporation tax and excise and sales taxes on certain items. Germany reduced income tax and several excise taxes in the summer and fall of 1953. The Australian budget for 1953-54, which was introduced in September 1953, reduced income taxes on individuals and companies and cut sales tax rates. Tax reductions also became effective in early 1954 in the Netherlands, Austria, and the United States.

Recent experience has shown the flexibility with which both monetary and fiscal policies may be applied. Several countries have been able to adjust their financial policies rather promptly to changing conditions, shifting as necessary from restrictive to expansionary measures. In the Netherlands, institutional reforms were adopted in February 1954 by agreement between the Netherlands Bank and the private banks, which should facilitate the quicker and more efficient application of a disinflationary policy if the need for such action should again arise. This entailed the consolidation of a large part of the floating debt held by the banks, the introduction of flexible bank reserve requirements, and agreement on the techniques of quantitative credit control to be applied in case of need. In view of the long period during which monetary policy was quiescent, the readiness of countries with highly developed financial systems to make frequent adjustments in discount rates and reserve requirements has been of special significance. The adjustments in European monetary policy in 1952-53 did not lead to any return of serious inflationary pressures, such as would have been indicated by an intensification of balance of payments difficulties. Together with other developments, they helped to check unemployment, which had increased in some countries, without inducing excesses in the direction of overemployment and inflation. This experience offers support for the belief that flexible financial policies, together with appropriate wage and exchange rate policies, contribute greatly to the maintenance of satisfactory equilibrium in the domestic accounts and in the balance of payments. The appropriate timing of necessary adjustments of course remains a delicate task.

When the world economy is subjected to powerful general stresses, such as those imposed by the Korean boom in 1950-51, monetary and fiscal policies are likely to be applied in the same direction in most countries. In present conditions, however, with world production generally high, expansionary factors may predominate in some countries and contractionary factors in others. Closer links are developing between the main capital markets of the world, as a result of an increased flow of international short-term capital, and this tendency is likely to become stronger. But for some time to come the need for a satisfactory balance may lead different countries to adjust their policies in different directions. Such a difference in phasing was evident, for instance, in the first half of 1953 between the United States and many European countries.

Late in 1952 and in the first few months of 1953, U. S. monetary and fiscal policies were directed to stemming the continuing inflationary pressure. In January, the President requested, and the Congress enacted, an extension of certain emergency tax increases that were scheduled to expire in 1953 and 1954, while the Federal Reserve Banks raised their discount rates from 1¾ to 2 per cent. Additional bank reserves to meet the growing credit demands during 1952 had been obtained in large part by member banks through borrowing from the Federal Reserve. The restraining effect of this need to borrow was continued in the early months of 1953, when the usual seasonal decline in reserve needs was partly offset by a gold outflow and by a moderate reduction in Federal Reserve holdings of government securities. However, credit demands by business, State and local governments, and consumers continued to exceed the flow of savings, and this necessitated a further growth in bank loans. The pressure of heavy credit demands and the restricted availability of bank reserves produced sharp advances in interest rates.

In part because of this evidence of tighter conditions in money markets, and in part in anticipation of seasonally larger credit needs, the Federal Reserve Banks began, in May, to increase their holdings of government securities. Security purchases increased further in June, and member bank reserve requirements were reduced in July. Subsequent debt operations by the Treasury—i. e., the discontinuance of previous efforts to lengthen the maturity of the public debt—contributed to easing the credit situation. When, later in the year, business loans failed to show their normal seasonal expansion, and as the system continued to add to its government security holdings, bank liquidity was further increased and interest rates fell substantially. Thus, operations which had begun as a technical adjustment had become an anti-deflationary measure. Further easing of bank reserves continued in the early months of 1954; Federal Reserve discount rates were reduced in February and April to keep pace with declining market rates; and a further reduction of reserve requirements was announced in June.

In the United Kingdom, on the other hand, the budget presented in April 1953 reduced taxes. During 1953 the assets of the Bank of England expanded slightly; so also did those of the clearing banks, with the result that there was some increase in the money supply and therefore some expansionary pressure on the economy. The formal lowering of the discount rate in September 1953 was in one sense not an effective change, but it did have its traditional effect on interest rates. But, despite some decline in practically all interest rates, loans by the banks to privately owned business and to individuals rose only slightly during the year. There was, however, an increase of about £300 million in the holdings of government debt by the banking system, reflecting fairly closely the Government's over-all cash deficit. These changes may be compared to developments in 1952 when there was a considerable decline in loans to the private sector of the economy and an increase of £500 million in government debt holdings by the banking system. Thus, in the United Kingdom there was some expansion of money supply that may have contributed to the decline in unemployment and the increase in industrial production. In May 1954 the Bank of England's discount rate was again lowered, from 3½ per cent to 3 per cent.

The movements of bond yields in the two countries also reflected the two different phases in the application of monetary policy. In the United States, they rose steadily until June; thereafter they started to decline, and in early 1954 were lower than at any time in 1952. In the United Kingdom, on the other hand, they fell steadily throughout the year, although they did not reach the low levels existing prior to 1952.

In a number of Continental Western European countries where the central bank discount rate was lowered, the trends of money supply and interest rates were in broad outline similar to those of the United Kingdom. The money supply tended to increase in 1953 at about the same rate as in 1952, but on the whole less rapidly than in earlier years. Though there were some increases in interest rates in the early months of 1953, the general trend was downward for the year as a whole.

In Canada the course of monetary policy was somewhat different from that adopted in either the United States or the United Kingdom. The authorities continued the rather restrictive policies of 1952 until the last quarter of 1953. While the Bank of Canada's discount rate remained unchanged at 2 per cent, the fairly steady slow rise in interest rates on government securities initiated as early as 1950 was allowed to continue until October 1953. At that time the downward movement of interest rates that still continued at the end of April 1954 began. Over the year 1953 as a whole, the Bank of Canada increased its assets; while government deposits with the Bank rose almost to the same extent, the average monthly cash reserves of the Chartered Banks rose from December 1952 to December 1953. During the year their total assets expanded by about 5 per cent.

In the underdeveloped countries, special problems arise in the application of stabilizing monetary and fiscal policies. Both actual developments in the monetary field and the institutional frameworks within which these developments take place vary widely, and there is no uniform pattern into which the majority of these countries can be fitted. The determination of monetary conditions, however, is usually less subject to the effective control of discount rate movements, bank reserve requirements, and other instruments of a highly organized banking system.

The risk that government fiscal policy may produce a budgetary deficit, with expansive effects upon the money supply, is especially great when, as in many underdeveloped countries, development has become the main objective of economic policy. The authorities in some of these countries have become increasingly aware in recent years of the unsatisfactory results which are likely if the attempt is made to push development forward by inflationary financing. Even when foreign capital is available, there is a risk, which is not always fully appreciated, that it may be sought on a scale that will require associated domestic expenditure, the financing of which is beyond the capacity of the economy without resort to inflation. In relation to general development programs, the responsibility for ensuring stability rests mainly with the government. The banking system cannot be expected, and often is not permitted, to counteract the inflationary pressures arising from a budgetary deficit by means which would, in effect, run counter to the government's policy. Credit extension by the banking system to the government was substantially reduced in several underdeveloped countries in 1953. Nonetheless, inflationary development financing remains an important problem in some countries.

The extension of credit to the private sector of the economy has at times been the main source of inflationary increases of the money supply in some underdeveloped countries. Here too government and banking policies are often closely related, but in such a situation there are greater opportunities for the banking system to exert effective control on its own initiative.

In addition to the government's budgetary policy and the credit policy applied to the private sector of the economy, changes in foreign balances may have an important influence on the money supply. During the Korean boom many underdeveloped countries suffered from inflation generated in part by large increases in export earnings resulting from higher prices for primary products. Such increases, if wisely used, are obviously advantageous to the economy, but it is dangerous to treat such windfall earnings in the same way as normal income. Various measures were taken by some countries—for example, the imposition of new or higher export taxes in Ceylon, India, Pakistan, and certain Latin American countries—to counteract these inflationary pressures. But the effort in these circumstances to offset all inflationary pressures completely would have imposed more severe stresses upon the economy than most governments were prepared to contemplate, and in some countries such measures as were taken did not go very far.

In many underdeveloped countries, the intimate relation between the external payments position and the fiscal position showed itself in 1953 and early 1954 in a variety of ways. Most of these countries depend for revenue to a considerable extent on taxes related to foreign trade, that is, import duties and export taxes, or income taxes based mainly on export earnings. If, for any reason, export earnings fell off, imports also had to be reduced. This, in turn, impaired the revenue position of the government and necessitated increased financing through the banking system, which intensified any other inflationary pressures that may otherwise have been at work. Conversely, the improvement in the terms of trade and export receipts of some of the coffee producing countries in northern Latin America improved their fiscal positions. Some of these countries had engaged in inflationary deficit financing in the postwar years and even during the Korean boom, but in 1953 they were able to balance their budgets. Others, which had balanced their budgets in the past, increased government expenditures for development and other purposes without appreciable recourse to borrowing.

In general, the maintenance of satisfactory monetary conditions requires a clear understanding, by both the government and the monetary authorities, of the conditions which will ensure stable economic development. Their policies and procedures should also be coordinated in such a way as will ensure that each can effectively discharge its proper responsibilities.

Problems of Development

The questions that relate to the monetary policy of underdeveloped countries—a policy that should aim at reconciling the twin objectives of economic development and stability—have continued to receive attention from the Fund in the past year. A Fund mission was invited by the Government of India, which was anxious to organize economic development without endangering the stability of the economy, to examine the related problems of development and finance in that country in 1953; its report, *Economic Development with Stability,* was published by the Government of India and by the Fund in February 1954.

If development could be assured by creating purchasing power, the growth of income in the countries still underdeveloped would not be the slow and difficult process which it has usually proved to be. Experience, especially during the last decade, has shown both the limits and the possibilities of monetary policy for promoting development. It is becoming more and more clear that the creation of an overabundance of money, whether it is to be used by private investors or for government investment programs, does not call forth the real resources needed for investment. The creation of excessive money, by its effect in increasing prices, undermines the rate of development from two sides. It tends to reduce the rate of money saving, thus making it difficult to finance the domestic costs of development projects and hampering any effort to create a domestic capital market; and it tends to divert too large a proportion of investment into assets that are expected to be a good hedge against inflation rather than in those that will contribute effectively to the expansion of productive activity. The limitation of credit extension to the financing of "productive activity" is no safeguard against the creation of an excessive quantity of money. Nor are the increased "needs of business" for credit necessarily a good criterion for the expansion of credit, unless they reflect a careful judgment that business needs more money because physical national output is increasing, or because the scope of the monetary sector of the economy is expanding, or because of a stronger desire to hold cash balances. Only those business needs which pass these tests and which can be satisfied without inflationary effect should be met by credit expansion. The need for a moderate expansion of credit of this kind would normally arise in any country in which development is making headway. It is then incumbent upon the monetary authorities to ensure the needed increase in the quantity of money lest the effort to develop should be retarded.

Another aspect of development policy has received attention during the last year or two in several countries where measures intended to encourage the inflow of foreign investment have been introduced. These measures have varied from the expansion of existing facilities to the adoption of new investment laws which guarantee specially favorable transfer conditions for foreign investment and the repatriation of the capital and earnings thereon.

In addition to ensuring foreign exchange privileges, some of these measures have also offered other forms of preferential treatment for foreign investments, e.g., exemption from income taxation or from customs duties on imported capital equipment. In some countries a system of registration for approved investments has been established, such registration being confined to projects approved by the authorities as "economically useful." Registration can be made as soon as approval has been obtained and the investment has actually entered the country. Registration ensures that foreign exchange will be forthcoming to remit interest and dividends and to make amortization payments up to the limits prescribed in the law. Investment may take the form either of foreign exchange sold to exchange authorities or their agents or of the import of capital equipment (usually machinery) without immediate return payment, in which case the value of the import is registered as the amount of the foreign investment.

The extent to which such regulations are of practical value as incentives to investment will, of course, depend in large part on many factors, including the prospects for stability in the country where investment is to be made, and any special taxation conditions, whether favorable or unfavorable, that may be applied to nonresident enterprises. The adequacy of the flow of capital to underdeveloped countries will, in general, be influenced by the attitude of the business world in countries where investment capital is being sought, and the view taken by investors, in the light of previous experience, of the climate of opinion in which they are being invited to operate.

V

Exchange Restrictions and Exchange Policy

Article XIV Consultations

BEGINNING in 1952, the Fund has each year consulted with member countries that are applying transitional arrangements under Article XIV, Section 2, of the Fund Agreement. During the second series of consultations, beginning April 1, 1953, 41 member countries who maintain exchange restrictions have consulted the Fund concerning the further retention of their restrictive practices. Twenty-three of these consultations were held in Washington, the remainder being undertaken by Fund staff missions in the capitals of member countries. Since March 1952, exchanges of views and discussions have taken place twice with most of the Fund members, and a great part of the Fund's activity has been devoted to this work. Member countries have cooperated effectively with the Fund in these consultations, in which careful consideration has been given to their policies in the field of exchange restrictions, and to the conditions that are held to justify their maintenance.

By the spring of 1954 there was a general trend toward the removal of barriers on trade and payments, and restrictive practices had been considerably reduced and modified. The first stage in this trend was the reduction of over-all restrictions that had been imposed during periods of balance of payments difficulties and declining reserves. In Western Europe and in most of the sterling area countries, the liberalization of trade was extended considerably in 1953 and the early months of 1954. The application of liberalization was not limited to the countries covered by any regional agreement, but frequently involved also the relaxation of restrictions on imports from dollar countries. Further, each step was usually intended to be permanent, and to constitute a move toward general convertibility. Moreover, some of the restrictions which had been retained since the war and had almost come to be regarded as permanent features of the economy were relaxed, and replaced in part by exchange and trading arrangements more in harmony with the objective of general convertibility.

The second stage was an important reduction, particularly in Western Europe and the sterling area, of discrimination against dollar goods. The initial relaxations were cautious and generally took the form of freer import licensing or of allowing the importation under ordinary licensing procedure of goods hitherto permitted only under retention quotas. As reserves continued to rise, some countries proceeded to more fundamental steps which formed part of their long-term economic and trading policies. Thus, in the United Kingdom the policy of reopening traditional commodity markets and of allowing trade to revert to private channels was no longer limited to the markets for raw materials procurable within the sterling area. The importation through organized markets of raw materials from outside the sterling area entailed freedom to trade on a completely nondiscriminatory basis. The lead, zinc, copper, foodstuffs, and wheat markets were reopened in turn, the exchange control regulations being adapted in each case to meet the particular trading problems of the market. In this way, discriminatory restrictions were substantially reduced. The reduction will be carried still further in September 1954 when restrictions on imports of dollar cotton will be lifted. Belgium-Luxembourg, Germany, and the Netherlands also have moved in the same direction. The Benelux countries have made substantial progress toward eliminating discrimination against the dollar area and established, as of May 31, 1954, a common free list for dollar imports, which, with some exceptions, is the same as the free list for imports from OEEC countries. In Germany, several measures of relaxation have been taken; it is intended to proceed further in the reduction of discrimination after the impact of these measures on the balance of payments can be seen more clearly. The pace and scope of the relaxation of restrictions in countries outside Western Europe have varied considerably. In accordance with the strength of their balance of payments positions, the outer sterling area countries have reduced many of the restrictions imposed in 1951 and 1952; South Africa introduced on January 1, 1954 a policy of importation completely free from exchange discrimination.

This movement toward the elimination of exchange restrictions has also affected many restrictions on invisible payments and capital transfers. In March 1954 the United Kingdom, along with other sterling area countries, extended the multilateral transferability of sterling. With a few minor temporary exceptions, all categories of nonresident sterling account, other than American, Canadian, and Registered sterling accounts, were unified as "transferable account sterling." All restrictions on transfers of sterling, whether for current or capital purposes, from one transferable account to another were lifted, and facilities for holding transferable sterling were extended to individuals and corporations as well as banks. At the same time, the London gold market was reopened. These measures were introduced at a time when the free market gold premium had disappeared, and when the different varieties of sterling had appreciated to a range very close to the official parity. Germany concentrated at first on the liberalization of its OEEC imports, but later in the year made rapid progress in the general reduction of restrictions. By April 1954 Germany allowed the release of all the then existing blocked DM balances, permitted greater transferability of DM balances between non-dollar countries, and removed most restrictions on invisible payments. In the Netherlands also, exchange restrictions on invisibles and capital transfers were relaxed.

Measures which run counter to the general trend toward greater freedom of trade and payments and which have been taken by certain countries still suffering from internal financial instability and balance of payments difficulties are described elsewhere in this Report. There are wide differences between the practices of these countries, some of which have made frequent changes in their exchange systems. In general, however, progress toward removal of restrictions has been rather slow in countries which, for the regulation of their trade, rely mainly on exchange control systems operating through multiple exchange rates. Some countries have found it necessary to provide export premiums in one form or another in order to maintain their exports.

Although some major European countries have attempted to reduce the number of their bilateral payments agreements with underdeveloped countries outside Europe, the number of such agreements, with their attendant restrictive effects, has in general increased. However, the more liberal trade policy being followed in Western Europe has made less acceptable the artificial and noncompetitive prices which might be paid under the terms of bilateral agreements. Some raw material producing countries have sought by bilateral arrangements to expand their exports and to protect their balance of payments positions. Some manufacturing countries, especially where the cost structure is too high to permit effective competition, have initiated bilateral payments agreements.

In spite of these retrogressive steps, the facilities for multilateral trading in general have been greatly extended. As stated in the Fund's *Fifth Annual Report on Exchange Restrictions,* the exchange restrictions effectively applied were by the beginning of 1954 probably less restrictive than in any year since the end of World War II. Furthermore, many countries now seem prepared to make further substantial progress toward the establishment of a multilateral system of payments and the elimination of exchange restrictions.

In its efforts to further this movement, the Fund, in its consultation discussions with member countries and in the decisions based on the consultations, has continued to emphasize the importance of firm anti-inflationary policies for the achievement of internal economic stability and the strengthening of the balance of payments position, both of which are prerequisites for the relaxation of restrictions. Where effective policies of this kind have been applied, the Fund has welcomed the measures taken by its members and has urged that their efforts should not be relaxed. Where the policies were not pursued with sufficient energy or there was some danger that they would be discontinued, the attention of members has been directed to the consequences of the resurgence of inflationary pressures.

The Fund has made a careful examination of the restrictive system of each member country which still avails itself of the protection of Article XIV. Where the Fund has raised no objection to the maintenance of existing restrictions, its view that restrictive practices should be of a temporary character and its intention to pursue the matter further in later consultations have been noted. In such cases the Fund has urged serious consideration of measures that would facilitate the elimination of the restrictive practices. For certain countries, the Fund has taken the view that the present exchange reserves, the generally favorable balance of payments position, and satisfactory domestic conditions were such as to justify the gradual relaxation of restrictions and, in certain circumstances, it has suggested to the member countries concerned that their cautiousness in regard to liberalizing their trade was probably excessive. Some countries that are reducing their restrictions by granting import licenses more freely, while still retaining a system of exchange allocations, have had their attention drawn to the desirability of giving formal expression to their policy by making public the commodities whose importation has been "liberalized" to permit purchases from dollar and non-dollar sources alike.

The discriminatory elements in member countries' policies have also been scrutinized carefully by the Fund. The Fund has expressed the view that certain countries were in a position to take further steps for the removal of discrimination against dollar payments, and that in other countries the continuation of the trend toward a stronger reserve position would subsequently permit some reduction of discrimination. On the other hand, the Fund has agreed that the reduction of discrimination by some members was not feasible at present, or that the measures already adopted were appropriate if the member's reserve position was not to be endangered. For some countries it has been indicated that increases of monetary reserves should proceed concurrently with further relaxation of restrictions.

The Fund has continued to concern itself with the reduction of multiple currency practices and of discriminatory currency arrangements. It has welcomed the progress made by certain countries toward the simplification and unification of their rate structures; it has also invited attention to the multiple currency practices that still remain, and expressed the hope that in subsequent consultations more decisive progress toward further simplification or removal would be found feasible. For example, countries introducing or maintaining multiple export rates have been made aware of the Fund's concern at the possible subsidization effects of these rates. Special reference has been made to the likely adverse consequences for other countries and to the extent to which subsidies, if they were considered justifiable, might be more appropriately given by other means. The Fund has urged the elimination of exchange taxes and surcharges, although agreeing to their use in special cases on a temporary basis. The Fund has also encouraged the abolition of the differential import rates imposed in some countries for certain transactions.

The Fund has continued to examine the problem of the free exchange markets, which in certain countries were originally established for invisible and capital transactions, but where subsequently certain trade transactions were also brought into the market. In judging the merits of these developments, as well as of other policies that permit increased sales of exchange at fluctuating rates, the Fund has been guided by the criteria of progress toward unification of the rate structure and avoidance of administrative controls.

The discussions during the last year between the Fund and some of its members on retention quotas and similar practices have been noted in the *Fifth Annual Report on Exchange Restrictions*. In general, these practices do not appear to present such an acute problem as they did a year or two ago, although some countries complain that they are still causing damage and distorting international trade.

In 1953, as in previous years, the Fund consulted with the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade with respect to their consultations on import restrictions. At their Eighth Session in September-October 1953, the CONTRACTING PARTIES conducted consultations with eight countries on the continuance of discrimination, on the intensification or modification of import restrictions, or on both of these subjects. Representatives of the Fund participated in all these consultations, and in each case the CONTRACTING PARTIES took into account and used the results of the Fund's Article XIV consultations with the countries concerned and also the background material which had been prepared in connection with the Fund's consultations. During the Eighth Session the CONTRACTING PARTIES agreed to adopt, for the conduct of consultations on the continuance of discrimination initiated in 1954, the same procedures that were used in 1952 and 1953.

Par Values and Exchange Policy Developments

Initial Par Values in 1953-54

During the fiscal year 1953-54 initial par values were agreed with four countries which have become members of the Fund since the beginning of 1952. The establishment of 360 yen per U. S. dollar as the par value for the currency of Japan was noted in the 1953 Annual Report.

An initial par value of 4.76190 kyats per U. S. dollar for the currency of *Burma* was agreed by the Fund on August 7, 1953. This value is identical with the exchange rate in effect in Burma (where the rupee was replaced by the kyat on July 1, 1952) since the devaluation of September 22, 1949.

An initial par value of 0.357143 dinars per U. S. dollar for the currency of the *Hashemite Kingdom of the Jordan* was agreed by the Fund on October 2, 1953. This value is in conformity with the relationship of parity which had been maintained between sterling and the Jordan currency by the devaluations of September 1949. The Jordan dinar, which replaced the Palestinian pound, was first put into circulation on July 1, 1950.

An initial par value of 5 gourdes per U. S. dollar for the currency of *Haiti* was agreed by the Fund on April 9, 1954. This par value is identical with the exchange rate maintained by Haiti since 1919 without the use of any exchange restrictions. Accordingly, Haiti also notified the Fund that it did not intend to avail itself of the transitional arrangements in Article XIV, Section 2, of the Fund Agreement.

Changes in Par Values

During the fiscal year 1953-54 changes were made in agreement with the Fund in the par values of four members.

On October 2, 1953, the Fund concurred in a proposal by the Government of *Chile* for a change in the par value of the Chilean peso, from 31 pesos to 110 pesos per U. S. dollar. The establishment of the new par value was a further and formal step following modifications in the exchange system effected in July 1953 within the framework of a program of economic stabilization which was adopted after discussion in Chile with members of the Fund staff. The measures adopted in July consolidated a number of preferential selling rates with the banking free market rate so that most private transactions with the dollar area were subject to the parity rate of 110 pesos per U. S. dollar. For transactions with other currency areas, however, the banking free market rate continued as a fluctuating rate with increasing premiums over the stabilized U. S. dollar rate that tended to increase. The banking free market rate had already been extended to most export transactions, and in early 1954 a number of special rates and mixing arrangements applicable to certain minor exports were eliminated. Legislation has also been introduced in the Chilean Congress to eliminate the special buying rate of 19.37 pesos per dollar applicable to the large copper mining companies, to bring such transactions under the 110 peso rate, and to apply a new system of taxation to these companies. The adoption of this legislation would be a further significant step in the unification of the exchange system. During the period under review, there has been a considerable depreciation of the fluctuating free brokers' rate which is applicable primarily to invisibles. This depreciation reflects a deterioration in Chile's external position and continuing inflationary pressures. Chile's external and internal financial position depends to a considerable extent on the world market for Chilean copper. In 1953 Chile was no longer able to realize the increased price at which it had marketed its copper for some time after the Korean outbreak. Accordingly, both exchange earnings and fiscal receipts declined, and a large government deficit was financed by the Central Bank. The efforts made to restrain the pace of inflation were ineffective, and import demand continued high. To help finance its payments deficit, Chile drew on the Fund in September 1953 to the extent of 25 per cent of its quota, as recorded elsewhere in this Report. The attainment of a more balanced position in Chile depends not only on external conditions, particularly marketing conditions for copper, but also on the implementation of further budgetary, fiscal, and credit measures, such as were envisaged in the economic stabilization program of July 1953.

On December 24, 1953, the Fund concurred in a proposal by the Government of *Paraguay* for a change in the par value of the Paraguayan guaraní from 6 guaraníes to 15 guaraníes per U. S. dollar, effective January 1, 1954. The new parity is the basic rate underlying Paraguay's multiple exchange rate system. The essential structure of the system was maintained during the year, though there were some changes in the applicability of the various effective rates and, in particular, a trend toward increased subsidy rates for certain exports. Following the temporary use of an auction system, four new effective selling rates ranging from 49.50 guaraníes to 54 guaraníes per U. S. dollar were introduced, applicable to certain nonessential imports. There appears to have been a moderate improvement in the Paraguayan economic situation during 1953, and in the latter part of the year there were signs of greater stability and confidence. The upward trend of prices seemed to have slowed down somewhat, partly because import goods were more readily available. Nevertheless, as a result partly of credit expansion and partly of the operation of the Paraguayan exchange system, inflation continued to be a serious problem and the money supply increased at roughly the same rate as in 1952.

On the proposal of the Government of *Mexico,* in which the Fund concurred, the par value of the Mexican peso was changed on April 19, 1954 from 8.65 pesos to 12.50 pesos per U. S. dollar. The new par value represented a devaluation of 30.8 per cent from the previous rate, which had been in effect since June 17, 1949. At the same time, the Fund concluded a stand-by agreement under which Mexico may draw up to $50 million to serve as a second line of reserve during the period of adjustment to the new par value. The Government of Mexico proposed an exchange devaluation for several reasons. There had been a deterioration on ordinary balance of payments account, and a significant recovery was not considered likely in the absence of marked improvement in world demand and price conditions for many of Mexico's leading export products, especially minerals. Moreover, as export earnings declined, the business community became more cautious in its appraisal of future developments. The Mexican Government was determined to neutralize through compensatory fiscal policies the decline in private economic activity which had manifested itself before the devaluation. Without an exchange devaluation, such fiscal policies would have tended to place renewed pressure on the monetary system and on the country's balance of payments. Finally, the gradual reduction from 1951 onward of the gold and foreign exchange reserves of the Bank of Mexico had impaired its ability to cope with deficits on ordinary balance of payments account or with recurrent sizable outflows of short-term capital similar to the outflows in the middle of 1951 and the middle of 1952. A new wave of speculation against the peso developed in March 1954, when the period was approaching at which Mexico's exchange earnings are normally seasonally low. The Government, therefore, decided that it should act without delay in order to avoid a serious depletion of the international reserves of the Bank of Mexico. The devaluation of April 1954 was expected to restrain imports and to give a stimulus to foreign tourist receipts. At the same time the Government announced the imposition of higher export taxes, to absorb a large part of the profits that would otherwise accrue to exporters from devaluation. In spite of the increased public spending involved in the fiscal policies to which the Government of Mexico is for the time being committed, any considerable expansion in tax collections, mainly as a result of the new export taxes, was likely, also, to tend to insure a sounder fiscal position for the Federal Government.

The change in par value from 60 bolivianos to 190 bolivianos per U. S. dollar, made by *Bolivia* in May 1953 as part of a program directed to economic stabilization, and Bolivia's drawing on the Fund were recorded in last year's Report. During the year following the devaluation continued pressures have been evident in the Bolivian economy. For the greater part of the year, depressed tin prices affected the Bolivian balance of payments adversely, and difficulties arising from the resulting loss of government revenue were aggravated by rapid domestic monetary expansion and rising domestic costs and prices. Central Bank financing of budget deficits and advances to the government mining institutions have been the most potent factors in this expansion. In these circumstances, Bolivia's international payments position continued to be in deficit. Bolivia is engaged in efforts to diversify its economy and, in particular, to expand agricultural production so as to lessen its dependence on imported foodstuffs. In 1954, however, and until these programs begin to bear fruit, the imports required for development purposes will mean an additional strain on the balance of payments. On the other hand, the payments position is being made easier by substantial U. S. grants in the form of imports of food and equipment that are being received in 1954. In the free market, which was legally established concurrently with the measures mentioned above, there has been a substantial depreciation of the boliviano.

Other Changes in Official Exchange Rates

The exchange rate of the piastre of *Indo-China,* for which no par value has yet been established, was changed on May 10, 1953 from 17 French francs to 10 French francs per 1 Indo-Chinese piastre. The upward movement of prices in Indo-China had resulted in an overvaluation of the piastre at the old rate of exchange, and one purpose of the devaluation was to check the speculative gains made possible by the divergence between the official and the black market rates.

On June 1, 1953, the Government of *Czechoslovakia* changed the par value of its currency, the koruna, from 0.0177734 grams of fine gold per koruna, or 50 korunas per U. S. dollar, which had been agreed with the Fund on December 18, 1946, to 0.123426 grams of fine gold per koruna, or the equivalent of 7.20 korunas per U. S. dollar. This change was made by Czechoslovakia without consulting the Fund or seeking its concurrence. Czechoslovakia subsquently informed the Fund that, in the opinion of the member, the concurrence of the Fund in this change was not required because Czechoslovakia had taken the action in accordance with the provisions of Article IV, Section 5 (e), under which a member may change the par value of its currency without the concurrence of the Fund if the change does not affect the international transactions of members of the Fund.

The action of Czechoslovakia was discussed by the Executive Directors at a number of meetings, and the member was given the opportunity to express its views both orally and in writing. Having considered the arguments offered by Czechoslovakia and such information as was made available, the Executive Directors concluded on December 16, 1953 that the change of par value by Czechoslovakia did not come under Article IV, Section 5 (e).

Fund Members Not Availing Themselves of the Transitional Arrangements of Article XIV

In addition to Haiti, to which reference has been made in connection with its initial par value, two other members of the Fund, the Dominican Republic and Cuba, which had originally informed the Fund that they availed themselves of the transitional arrangements under Article XIV, Section 2, of the Fund Agreement, notified the Fund during the past year that they were prepared to accept the obligations of Article VIII, Sections 2, 3, and 4.

The formal step of notifying the Fund that it was prepared to accept the obligations of Article VIII was taken on August 1, 1953 by the *Dominican Republic,* which had for some time applied no exchange restrictions. The Dominican Republic is heavily dependent on sugar exports but, notwithstanding the uncertain state of the sugar market, its economic position has been strong. Efforts have been made in recent years to diversify the economy, and the higher price of coffee has helped to compensate for the decrease in income from sugar. Cautious financial and credit policies have been consistently pursued.

Cuba made a similar notification on December 29, 1953, at the conclusion of the 1953 consultations. During the year internal adjustments were being made in the Cuban economy to the rather unstable world sugar situation. By adopting appropriate policies, Cuba was able to bring its payments position to a satisfactory balance. The Fund has not objected to the temporary continuation of the 2 per cent exchange tax in effect in Cuba.

Multilateral Exchange Arbitrage

Reference was made in the 1953 Annual Report to the introduction of multilateral arbitrage for spot exchange transactions on May 18, 1953 by the exchange control authorities of eight Western European countries, as a result of which authorized banks in those countries were able to trade with each other in any of the currencies of the group. These arrangements have continued to operate satisfactorily during the period under review, and have been extended to include the Norwegian krone. On October 5, 1953, the extension of multilateral arbitrage dealings to forward transactions for periods not exceeding normal spot usance by more than three months was authorized. While the exchange rates for spot transactions have been maintained at or between the official limits, no official rate limitations have been placed on forward quotations. The consequent premiums and discounts, which, in practice, have been moderate, are freely determined by market forces to the extent permitted by the exchange control regulations of the individual countries concerned. Although dealings under these arrangements have worked smoothly and no particular difficulty seems to have been observed in keeping the spot rates within the prescribed margin either side of parity, the actual volume of transactions is to some extent conditioned by the limitations on free capital movements which remain in force in most of the countries concerned.

Other Developments in Exchange Rates and Exchange Policies

Several Fund members have not yet agreed a par value with the Fund, or have decided that temporarily the exchange rate cannot be maintained within the specified margins of the par value agreed with the Fund.

In *Canada* the fluctuating exchange rate of the dollar, which was introduced in September 1950, moved during 1953 within a range of about 3 per cent. After reaching a postwar high of Can$1 = US$1.042 in September 1952, the rate declined to US$1.002 in May 1953 and then rose steadily to US$1.031 in December. During the early months of 1954 the rate again tended to be somewhat lower, and on April 30, 1954 it was US$1.014. The comparative stability of the Canadian exchange rate during

1953 and early 1954 was due largely to the compensatory effects of short-term capital movements. The decline in the rate through May 1953 reflected primarily a deterioration in the current account position, as a surplus of Can$87 million in the second half of 1952 was followed by a deficit of Can$379 million in the first half of 1953. Long-term capital receipts also fell during the second quarter of 1953; the flow of direct investment capital was well maintained, but a relative increase in U. S. interest rates led to a liquidation of Canadian Government bonds by U. S. residents and a decline in Canadian bond flotations in the U. S. market. The adverse effect of these forces on the exchange rate was limited, however, by a cessation of the short-term capital outflow which had characterized the earlier period of exchange appreciation; a short-term outflow of Can$276 million in the second half of 1952 was followed in the first half of 1953 by a small net inflow of Can$10 million, all of which took place in the second quarter. The period during which there was a net inflow coincided with the period during which the exchange rate reached its lowest point. The movement was also stimulated, perhaps, by the narrowing of the interest rate differential between Canada and the United States. During the second half of 1953 the current account deficit was reduced to Can$88 million, and long-term capital receipts increased during the fourth quarter with the relative decline in U. S. interest rates. This improvement in the trade and capital position appears to have been maintained through the first quarter of 1954. As the exchange rate rose, however, there was a resumption on a moderate scale of the outflow of short-term funds. During the period such monthly changes as occurred in Canadian official holdings of gold and U. S. dollars were in the same direction as the movements in the exchange rate of the Canadian dollar expressed in terms of U. S. dollars. Toward the middle of 1953 the Canadian Government repurchased Can$75 million of its bonds in New York, and announced that official gold and dollar holdings were permitted to fall by a corresponding amount as a result of this transaction. For the year as a whole Canada's official reserves fell by US$42 million; at the end of April 1954 they amounted to US$1,810 million.

Peru has maintained the system of two separate exchange markets which was established in 1948. The depreciation of the rates for the sol which was noted during the fiscal year 1952-53 was accelerated, with the certificate rate moving from S/. 16.47 per U. S. dollar at the end of April 1953 to S/. 19.89 at the end of the calendar year and to the low point of S/. 22 per dollar in January 1954. This movement was associated with a moderate weakening of Peru's payments position. As a result of lower prices for some of the leading export commodities, export receipts declined somewhat, while export volume increased. Imports, on the other hand, remained high; in fact, with some pressure being exerted by an expanding money supply, they showed some increase. The Central Bank's net reserves declined by about $7 million during 1953. In the early part of the year there was a significant expansion of commercial bank credit, which subsided later, however, when the authorities imposed more stringent reserve requirements. At the same time, Central Bank credit expanded, primarily in order to finance government requirements arising from increased investment expenditures. Faced with this situation, the Peruvian Government in February formulated a program for stabilizing the country's fiscal position, which involved a slowing down of some investment projects already under way and the postponement of additional investment expenditures, and at the same time entered into a stand-by arrangement with the Fund, which is described in detail in Chapter VI. Under the terms of the arrangement, Peru may draw from the Fund up to $12.5 million in any currency held by the Fund. The stand-by credit facilities were to be used, if necessary, by the Central Bank of Peru to intervene in the exchange market, so as to smooth out exchange fluctuations and discourage speculative transactions that would undermine confidence in the currency. The exchange rate would not be fixed but the authorities expected that, as a result of the reduction of inflationary pressures, the rate would, with a minimum of intervention, find a stable level which would maintain equilibrium in the balance of payments. The Government also stated its intention to maintain the policy of avoiding direct exchange restrictions.

By the time these arrangements were announced the exchange rate had recovered to roughly S/. 20 per dollar, a movement which reflected some restoration of confidence. Following some further recovery after the middle of February, the market rate of the sol remained comparatively stable, the certificate rate at the end of April 1954 being S/. 19.20 per U. S. dollar.

Throughout the year reviewed in this Report, *France* and *Italy* have maintained the same official exchange rates as had been applied since shortly after the devaluations of September 1949. The rate for the French franc has been 349.95-350.00 per U. S. dollar, and the rate for the Italian lira, 625 per dollar.

In *Greece,* the unification of the exchange structure, which the devaluation of the drachma on April 9, 1953 had made possible, was followed shortly thereafter by the temporary introduction of export taxes and exchange import subsidies in connection with a limited number of essential goods important for the cost of living. These measures were intended to protect the cost of living from the immediate impact of the exchange adjustment, and they were gradually abolished as general conditions appeared to warrant their discontinuance. By the end of March 1954 the only special exchange practices which remained were a subsidy on imported cotton and taxes on exports of cotton and rice and their by-products, olive oil, and scrap iron. These practices produced effective exchange rates ranging at the end of the fiscal year from 25,000 drachmas to 28,500 drachmas per U. S. dollar (compared with the official rate of 30,000 drachmas), and were applied to a very small part of total foreign exchange transactions. On May 1, 1954, Greece changed its U. S. dollar exchange rate from 30,000 drachmas to 30 drachmas per U. S. dollar, all other rates, prices, and claims being simultaneously adjusted in the same ratio. This technical change was made for reasons of convenience and has not affected either economic conditions in general or the price structure in particular.

In *Uruguay,* the free market, which is confined to capital and invisible transactions without any restrictions, has, to some extent under the influence of seasonal factors and of some speculative activity, shown rather wide fluctuations. Over the period as a whole, the peso tended to depreciate in the free market, where the rate for the U. S. dollar rose from 2.93 pesos at the end of April 1953 to a high of 3.40 pesos in the middle of February 1954. Later in February, after the Bank of the Republic intervened in the market, announcing that it would meet all demands for U. S. dollars, the rate recovered and by the end of April was quoted at 3.12 pesos. The pronounced depreciation of the free market rate in January-February was attributed mainly to speculation arising from the expected establishment of a higher official rate for certain luxury imports. The weakening trend over the entire period, however, seems to reflect some monetary expansion. During 1953 Uruguay, by selling accumulated stocks, was able to attain a high volume of exports, while imports were running at a reduced rate so that there was an unusually large trade surplus, and international reserves increased substantially. Among the various influences which helped to intensify inflationary pressures were policies designed to stimulate economic activity, particularly in industry, an expansion of commercial bank credit, and the growth of the foreign assets of the banking system. The policy of applying ad hoc exchange measures involving rate "mixing" and compensation arrangements has been maintained, primarily in an effort to adjust to the changing relations between domestic costs and the foreign prices of particular commodities. The effective rate applicable to export proceeds from wool tops was reduced from 2.15 pesos per U. S. dollar to 2.06 and finally to 1.967 pesos in January 1954. The privilege of retaining 5 per cent of the dollar proceeds from wool exports has been extended successively, but in the case of wool tops it is now applied only to exports to countries other than the United States for which payment is made in dollars. A tax of 6 per cent has been applied throughout the year to most import payments.

The free market rate in *Costa Rica* has been maintained unchanged at 6.65 colones per U. S. dollar. This has involved considerable support by the Central Bank, which has been able to draw for this purpose on the substantial surplus realized in the official market and during the year has been able to increase official reserves. Costa Rica has made further progress in stabilizing its domestic economy and increasing production with the support of prudent fiscal and monetary policies.

In *Lebanon* the appreciation of the pound in the free exchange market in terms of dollars and some other currencies, which was noted in last year's Report, continued in 1953. Whereas the free market U. S. dollar rate had fluctuated between LL 3.46 and LL 3.66 in the second half of 1952 and early 1953, it fell to LL 3.19 by the end of the year and ranged between LL 3.19 and LL 3.23 in the first four months of 1954. The free market rates apply to all exchange transactions, except a few governmental transactions. During 1953 and early 1954, the exchange authorities purchased some gold and foreign exchange on the market in order to strengthen monetary reserves.

In *Syria* in the first half of 1953 there was a similar tendency for the Syrian pound to appreciate. However, in June 1953 the Exchange Office began a policy of stabilizing free market rates. After the U. S. dollar rate, which averaged about LS 3.70

in December 1952, had moved to LS 3.56-3.57 in June 1953, it was held at that level by the operations of the Exchange Office. During 1953 and early 1954, there has been a considerable improvement in Syria's monetary reserves.

In *Thailand* the Bank of Thailand's selling rate for U. S. dollars for eligible essential imports was changed on March 5, 1954 from 16.75 baht to 16.07 baht per U. S. dollar, a rate which hitherto had applied only to petroleum products, while the selling rate for sterling remained the same, 45 baht per pound. The number of essential import categories to which these rates applied was reduced from 19 to 4, namely, milk, essential textiles, medicine and pharmaceuticals, and petroleum products, exchange for other items previously classified as essential being transferred to the free market. The change of rate established a parity cross rate between sterling and the dollar in the official exchange market. At the same time an arrangement was made whereby the Bank of Thailand would sell exchange to commercial banks at the free market rates. By the end of February, just before these changes were made, the free market rates had risen from 45.42 baht per pound sterling and 17.08 baht per U. S. dollar in January 1953 to 57.26 baht and 20.99 baht, respectively, giving a cross rate in the free market of £1 = $2.73. By the end of April, the free market rates were 63.62 baht and 22.97 baht, with a cross rate of £1 = $2.77.

The *Fifth Annual Report on Exchange Restrictions* records more fully the changes in exchange policies and practices in other countries in 1953. Some of these developments are of sufficient general interest to be noted here.

Though *Brazil* has been subjected to continued strong inflation during the past year, its payments position improved in 1953 and considerable progress was made in liquidating commercial arrears. These results were obtained with the continued application of rather stringent restrictions. Despite the lower volume of coffee exports, higher prices resulted in increased export earnings. The reduction of dollar arrears was accomplished largely by utilization of a $300 million loan granted by the Export-Import Bank of Washington, while arrangements for settlement of the major inconvertible currency arrears were also advanced. Within the framework of an agreement for liquidating commercial arrears due to U. K. exporters, their initial reduction was facilitated by Brazil's purchase of £10 million from the Fund in October 1953. Experience of the operations of the free exchange market, the initiation of which was reported in last year's Report, convinced the Brazilian authorities that its use should not be extended. Around the turn of the year a new system was inaugurated by which the free market was limited exclusively to invisible and capital transactions and which, at the same time, was to provide a mechanism for minimizing the possibility of future accumulation of payment arrears. The system was also designed to eliminate the prevailing practice of individual specific licensing of imports and to help absorb inflationary profits accruing to importers. Exporters are required to surrender the full value of their exports at the official rate plus a bonus of 5 cruzeiros per U. S. dollar for exchange proceeds from coffee, and of 10 cruzeiros per U. S. dollar for all other exports. Imports of newsprint and government imports of wheat are transacted at the official rate. Other government imports and private imports of petroleum products are subject to surcharges of 7 and 12 cruzeiros per U. S. dollar in addition to the official rate. All other imports are divided into five categories to each of which exchange is allocated separately and distributed to importers at varying rates through the medium of "exchange certificates" which are sold at auction. The average auction premiums in Rio de Janeiro for such certificates (not including the official selling rate of 18.82 cruzeiros per U. S. dollar plus 8 per cent tax where applicable) were reported as follows for U. S. dollar certificates on the last trading day of April 1954: Category I, Cr$28.07; Category II, Cr$24.21; Category III, Cr$50.59; Category IV, Cr$80.20; and Category V, Cr$120.25. The new system means greater reliance on the price mechanism as a means of restricting imports, though the legislation under which it was instituted at the same time extended the authority for the allocation of exchange and for import licensing. Import licenses, however, are granted automatically to successful bidders for exchange certificates.

In *Colombia* the progressive monthly devaluation of the buying rate of exchange, applicable to coffee proceeds, which had begun in October 1951, was temporarily suspended on January 19, 1954, when it had reached 2.3845 pesos per U. S. dollar, compared with the buying rate for other products of 2.50 pesos. The list of prohibited imports was eliminated a month later. The latter step reflects the improvement in Colombia's exchange position and the success of the program of progressive elimination of exchange restrictions adopted in 1951. Goods previously on the prohibited list may now be imported subject to a special import tax of 40 per cent or, alternatively, through the use of the negotiable warrants mentioned in last year's Annual Report. The importation of some of these goods is also subject to certain minimum price requirements. The suspension of the progressive devaluation of the coffee buying rate was considered necessary in the face of a continued rise in the international price of coffee, to prevent inflationary pressures from growing and thus to help assure exchange stability.

In *Iran* the free market in exchange certificates relating to most commercial transactions was eliminated in June 1953 and for most imports an effective rate (i.e., official rate plus certificate rate) of Rls 100.50 per U. S. dollar was fixed. This rate has been appreciated by stages and was fixed at Rls 90.50 in December. With the elimination of the free market in certificates, orderly cross rates were re-established. The distinction between

Category I (essential) and Category II (less essential) imports has been virtually eliminated. Otherwise, the principal features of the exchange system, including the use of exchange certificates, multiple rates for noncommercial transactions, and a fluctuating rate for Category III imports, have been maintained for the time being.

The continuation of exports at a high level and increasing monetary reserves made it possible for *Ethiopia* to adopt a liberal import policy, so that by the end of 1953 exchange was being granted freely for all imports, subject to the limitation that hard currency is not provided in payment for soft currency imports. In addition, the proportion of the proceeds from exports of coffee and goat skins that has to be obtained in part in U. S. dollars has been reduced.

In *China* (Taiwan) a 20 per cent defense tax on private imports was introduced in September 1953 in order to divert to the Government the windfall profits accruing to private importers when 100 per cent advance deposits were no longer required on imports. However, further steps were taken at the beginning of 1954 toward simplification of the exchange rate structure. The only remaining "mixing" rate of NT$14.49 per U. S. dollar (20 per cent at the Bank of Taiwan rate and 80 per cent at the exchange certificate rate), previously applied to export proceeds from sugar and rice, was eliminated. All foreign exchange receipts and payments have since been settled at the certificate rates, which at the end of April 1954 were NT$15.55 buying and NT$15.65 selling. The certificate rates for sterling and the Hong Kong dollar were adjusted on April 14 to produce orderly cross rates with the U. S. dollar. The certificate rates for the Malayan dollar were similarly adjusted in May.

In *Indonesia* further cuts were made during the year under review in the additional duties on certain exports, and on some products these duties were abolished. The advance compulsory payments for imports of certain raw materials and capital goods for industrial enterprises were reduced, effective October 1, 1953, from 75 per cent to 50 per cent. As of January 1, 1954, the dollar export certificate system, which was first introduced in February 1952, was abolished. Consequently, the exchange differential applicable to dollar trade transactions, which since August 1952 had been insignificant, disappeared altogether. On the other hand, on October 12, 1953 a system of inducement certificates was introduced whereby exporters of certain Indonesian native products, including small-holder rubber, automatically receive foreign exchange for a certain proportion, ranging between 5 per cent and 10 per cent, of the value of their export proceeds, which can be utilized for certain luxury and semi-luxury imports. In view of the worsening of the balance of payments situation, more stringent regulations were introduced on January 1, 1954 to control transfers abroad by foreigners employed in Indonesia, and on March 3 a levy of 66⅔ per cent was imposed on invisible payments with certain exceptions, including transfers of savings and various other payments made by individual foreign nationals employed in Indonesia, transfers of profits earned by foreign companies set up in Indonesia after 1953, transfers on government account, and all freight charges. However, the limitation of company profit transfers to 40 per cent of gross profits, which was introduced on July 27, 1953, was removed in respect of the profit transfers of all foreign companies (except, presumably, those that are set up after 1953, since their profit transfers are not subject to the new tax).

On January 1, 1954 *Israel* substituted a single official rate of I£1 per U. S. dollar for the multiple rates of exchange for the Israel pound (US$1.00, US$1.40, and US$2.80) which had been made effective in February 1952. However, the system of premiums and surcharges on the rate of US$1.00, which had been applied to most transactions since May 1953, was continued with some modifications. A premium of 80 per cent is given on all purchases of exchange, except that there is no premium for the proceeds of diamond exports and the premium on exchange purchased from certain charitable and similar organizations is 30 per cent. A surcharge of 80 per cent is payable on all sales of exchange, except exchange for highly essential imports, such as food and fuel, or for the authorized expenditures of students abroad.

In the Republic of *Korea,* the continuous inflation after the currency reform of February 1953 resulted in the new currency becoming overvalued. An agreement was reached in June 1953 between the United Nations and the Korean Government to raise the exchange rate of the Korean hwan from 60 to 180 per U. S. dollar for dealings between the Korean Government and the UN Forces. A formal devaluation was finally declared in December 1953, which fixed the official exchange rate at 180 hwan per U. S. dollar.

Argentina's payments position improved considerably in 1953, and the official balance of payments computation shows a surplus equivalent to about $350 million. There was a substantial recovery of exports from the depressed level of 1952, made possible by bumper crops and the incentive to production given by high domestic prices which the Instituto Argentino de Promoción del Intercambio has maintained since the crop year 1951-52. Stricter import restrictions were also maintained during the first three quarters of the year. The prices of some major export products, such as wheat and other grains, tended to weaken, however, and some export surpluses appeared to be accumulating. During the period under review, the Argentine Government adopted a series of exchange measures designed to improve the competitive position of certain exports, mainly by shifting them to higher effective rates of exchange. Some of these measures also had as a consequence the creation of broken cross rates. Thus the export proceeds of cattle hides were given the preferential rate of 7.50 pesos per U. S. dollar, instead of the basic 5 peso rate previously applied to them. Several other export products were shifted from the official market (5 and 7.50 peso rates) to the controlled free market, where the rate has been pegged at 13.95 pesos per U. S. dollar, or were given the benefit of rate "mixing" arrangements, with effective rates ranging from 10.08 pesos to 12.16 pesos per U. S. dollar. In connection with its policy of establishing closer economic relations with neighboring countries, specified annual quantities of certain major products were freed from licensing requirements for trade with Chile, and a preferential system was established whereby exchange derived from certain exports to Paraguay is subject to more favorable rates than are applicable to similar products exported to other countries.

VI

Monetary Reserves, the Fund's Resources, and Gold

THE general strengthening of the payments position of most members of the Fund, and the inducement given by this movement to Fund members to consider more seriously than hitherto steps that would enable them to restore convertibility within a framework of sound internal and external policies, have been discussed in earlier sections of this Report. The success of any movement in this direction necessitates monetary reserves sufficient to enable members to finance temporary current deficits and to counteract such speculative pressures as might arise from time to time. If reserves are inadequate, it might become necessary to abandon convertibility and to reintroduce exchange restrictions. Notwithstanding the remarkable improvement recently recorded, fears still prevail that present monetary reserves may not be adequate to cope with such contingencies.

Methods for supplementing reserves to strengthen the currencies of members that wish to make them convertible and to maintain confidence in their strength have been under consideration for some time. The Commonwealth Economic Conference of December 1952 had expressed the view that the availability of adequate financial support through the International Monetary Fund or otherwise was one of the fundamental conditions for the achievement of sterling convertibility. In his Message to the Congress on March 30, 1954, on the foreign economic policy of the United States, the President stated that the United States would "support the use of the resources of the International Monetary Fund as a bulwark to strengthen the currencies of countries which undertake convertibility," and added that a study was being made of the possibility of stand-by credits from the Federal Reserve System. The activities of the Fund during the fiscal year 1953-54 have shown its willingness to make its resources available to members, either to meet special temporary balance of payments difficulties or in association with a program to ensure exchange stability and the avoidance of restrictions. During the year the Fund has also given further consideration to the development of a consistent and well-defined policy on the use of its resources that will aid members in making their own policy decisions.

The Fund's Policy

The Fund's Annual Report for 1952 (pp. 39-43) set forth in detail the decision of the Executive Board of February 13, 1952 concerning the use of the Fund's resources and the principles underlying that decision. The Fund's policy is directed toward protecting the revolving character of its resources by applying the principle that currency purchased from the Fund should not remain outstanding beyond the period reasonably related to the payments problem in respect of which it had been purchased from the Fund. The decision of February 1952 provided that as a general rule this period should be three to five years. It was also agreed that, for drawings within the so-called "gold tranche," members could expect to receive the overwhelming benefit of any doubt that might arise in connection with a request for such a drawing. This decision was made effective until December 31, 1953.

The policy embodied in this decision has worked satisfactorily during its first experimental period, and the general principles underlying it appear still to be applicable to present conditions. In its decision of December 23, 1953, the Executive Board accordingly reaffirmed the decision of February 13, 1952, subject to review by the Executive Board from time to time as circumstances require. This extension of the Fund's policy without a definite expiration date establishes a more permanent arrangement that gives members reasonable assurance of continuity in the Fund's policy.

The Fund's policy on stand-by arrangements, which was adopted on October 1, 1952, was outlined in the Annual Report for 1953 (pp. 49-53). As the decision of the Executive Board which had established this policy was effective only until December 31, 1953, it was necessary during the intervening period to scrutinize thoroughly the general principles embodied in the stand-by policy and the experience gained by the Fund since the inception of this policy. While the mechanism of stand-by arrangements had been utilized by members only to a small extent, it had been favorably received both by members and by the public in general, and there was reason to believe that the stand-by arrangements had brought a considerable improvement in the attitude of members toward the possibility of help from the Fund. It was desirable that the stand-by arrangements should be maintained as part of the Fund's technique for dealing with members' payments requirements, and that members should thus be given an assurance that they could count on the Fund's assistance in circumstances where access to its resources would further the attainment of the Fund's objectives. The Executive Board, therefore, in the same decision by which the general policy governing the use of the Fund's resources was indefinitely extended, also continued in effect its policy on stand-by arrangements. There had been some misunderstanding of the general limitation of stand-by arrangements to a period of six months. In reformulating the Fund's policy, it seemed appropriate to reassure members of the Fund's sympathetic attitude in special cases where a stand-by arrangement for a longer period appeared to be justified—for example, in connection with positive programs for maintaining or achieving convertibility—and this principle was accordingly embodied in the restatement of policy adopted by the Executive Board on December 23, 1953 (see Appendix I). This decision will also continue in effect without expiration date, subject, of course, to review by the Executive Board. It should give members added confidence in the flexibility of Fund policy and in its readiness to give individual consideration to special needs for line-of-credit requirements.

At the same time, in the decision of December 23, 1953, the Fund provided for an offset of the charge paid for the stand-by arrangement against the service charge payable on subsequent drawings under the stand-by arrangement. It was further provided that the so-called "gold tranche" portion of a credit covered by a stand-by arrangement would be exempted from the stand-by charge, while a member who wished to cancel a stand-by arrangement before its expiration was entitled to a proportionate refund of the charge which had been paid.

The Executive Board's decision of December 23, 1953 also revised the Fund's schedule of charges. On November 20, 1951, a schedule had been adopted that revised the original charges set forth in the Fund's Articles of Agreement. The revision of November 1951 had reduced the cost of short-term use of the Fund's resources and increased the cost of extended continuous use. The revised scale was originally adopted for a period expiring on December 31, 1952, and subsequently extended until December 31, 1953. Some Fund members had expressed the view that the rates applied in the revised scale were too low in comparison with those paid by borrowers in prime markets or with charges for alternative sources of financing for stabilization purposes. Others felt that the current rates for money in the principal money markets were not a proper test for the Fund's charges and that the Fund's policy on charges should be directed toward facilitating the maintenance of international transactions at a high level consistent with equilibrium. The desirability of increasing the Fund's income was stressed by some, while others advocated that the Fund's lending policy should not be linked to its budgetary needs, since it was not the purpose of the Fund to earn money.

In the new revised schedule, the scale of charges was simplified by consolidating the first two brackets, and thus applying the same series of charges to all holdings of a member's currency that exceed its quota by not more than 50 per cent. The new schedule applies to transactions that take place and balances of members' currencies that accumulate during the calendar year 1954. In the meantime a general study of Fund charges has been undertaken by the Fund staff and will be considered by the Executive Board during the course of 1954. A table showing the old scale of charges on balances in excess of quota and the first and second revisions will be found in Appendix II.

During the last year the Fund has, for the first time, made use of the waiver provision in Article V, Section 4, of its Articles of Agreement, which allows the Fund to permit a member to draw more than the normal amount that it can draw within a twelve-month period. The first waiver was granted in August 1953 in connection with a transaction with Turkey, when the currencies of three members were purchased. Waivers were also granted in connection with the stand-by arrangements with Peru and Mexico. The use of the waiver indicates the increased flexibility with which the Fund now feels that it can carry on its operations, and shows that the Fund is an instrument that may be used effectively for helping its members to deal with their extraordinary problems, whether individual or general.

On September 4 and October 19, 1953, Czechoslovakia was informed of various complaints against it and that the Executive Directors would meet to consider whether, in view of these complaints, Czechoslovakia should be declared ineligible to use the Fund's resources. At a meeting on November 4, 1953, at which Czechoslovakia was represented and stated its case, the Executive Directors found that Czechoslovakia had failed to fulfill its obligations under the Fund Agreement (1) to furnish to the Fund the minimum information necessary for the effective discharge of the Fund's duties, as prescribed in Article VIII, Section 5 (a), and (2) to consult the Fund in accordance with Article XIV, Section 4, as to the further retention of restrictions inconsistent with Article VIII, Sections 2, 3, and 4, particularly in the light of failure to provide the minimum information essential to such consultation. Therefore, in accordance with Article XV, Section 2 (a), Czechoslovakia was declared ineligible to use the resources of the Fund.

Fund Transactions

During the fiscal year 1953-54 there has been a considerable widening of the scope and variety of the Fund's transactions. The first uses of its power to grant waivers under Article V, Section 4, and thus to permit a member to make use of more than the normal yearly increment of drawings, have already been commented on. Moreover, stand-by credits have been arranged as part of the plans of the members concerned to stabilize their currencies. Drawings by some members have gone well beyond their "gold tranches." There has been a disposition to draw, and in substantial amounts, currencies other than the U. S. dollar, and the number of voluntary repurchases indicates a desire on the part of members to ensure the revolving character of the Fund's resources. Both the Fund's aggregate sales of currency to its members and members' aggregate repurchases of their own currencies from the Fund were greater in 1953 than in any previous year since 1947. The fact that the volume of transactions increased at a time when world trade was being maintained at a high level and reserves, in general, were increasing indicates that the transactions were mainly a response to the special problems of individual countries rather than the result of any general cyclical trend.

As of April 30, 1954, stand-by arrangements were in effect with three Fund members. The stand-by arrangement with Belgium described in earlier Annual Reports has been renewed, but so far no drawings have been made.

On February 18, 1954, a stand-by credit arrangement with the Government of Peru was announced, whereby Peru may draw up to $12.5 million in any currency held by the Fund. Peru's quota in the Fund is $25 million, so that this was the first stand-by arrangement involving a waiver of the normal limitation upon the amount which a member may draw during the period of a year. It was also the first Fund transaction with a member with a fluctuating exchange rate. Any transactions would be carried out at the exchange rate determined by the Fund from time to time under Article IV, Section 8. Repayment is to be made within three years from the date of any drawing. At the time this arrangement was entered into, Peru also concluded a similar stabilization credit arrangement with the U. S. Treasury for $12.5 million and secured a line of credit of $5 million from the Chase National Bank of New York. Thus, by these combined operations, Peru was assured access to resources of $30 million for stabilization purposes. In announcing its stabilization agreement with Peru, the U. S. Treasury Department stated that operations under it would be closely coordinated with the activities of the Fund.

On April 16, 1954, when the Fund agreed to a change in the par value of the Mexican peso, it also made a stand-by arrangement whereby the Government of Mexico might purchase up to $50 million from the Fund within a period of six months. Since $50 million is about 55 per cent of Mexico's quota, this arrangement also required the granting of a waiver, pursuant to Article V, Section 4, of the Articles of Agreement, of the normal limitation on annual drawings. Mexico, which subsequently drew upon the Fund in terms of this arrangement, also has available up to an amount of $75 million under its stabilization agreement with the U. S. Government.

A summary of stand-by arrangements in the fiscal year 1953-54 is shown in Table XIII.

TABLE XIII. SUMMARY OF STAND-BY ARRANGEMENTS, YEAR ENDED APRIL 30, 1954

(In millions of U.S. dollars)

Member	Amount Not Drawn at May 1, 1953	New Stand-By Arrangements During Year	Drawings During Year	Amount Not Drawn at April 30, 1954
Belgium	50.0		—	50.0
Finland	3.0		3.0	—
Mexico		50.0	22.5	27.5
Peru		12.5	—	12.5
Total	53.0	62.5	25.5	90.0

During the 1953-54 fiscal year, seven members (Brazil, Bolivia, Chile, Finland, Japan, Mexico, and Turkey) purchased currencies from the Fund, amounting to the equivalent of US$231,290,000. Finland purchased $3,000,000 for markkas in May 1953 in accordance with the stand-by arrangement referred to in last year's Annual Report; Bolivia purchased $2,500,000 for bolivianos in May; Turkey purchased DM 18,480,000, £2,000,000, and $10,000,000 against Turkish liras in August; Brazil purchased against cruzeiros $18,750,000 in August and £10,000,000 in December; Chile purchased $12,500,000 against Chilean pesos in September; Japan purchased £5,000,000 in September, £13,000,000 in November, and £4,300,000 and £22,000,000 in December, all against yen; and Mexico purchased $22,500,000 against Mexican pesos under the stand-by agreement of April 16, 1954.

The first drawing by Brazil during this fiscal year and the drawings by Bolivia, Chile, and Mexico were within the member's "gold tranche"; Japan's first three drawings in September, November, and December, totaling £22,300,000, were within the "gold tranche"; after Japan's repurchase of $61,600,000, the drawing of an equivalent amount in sterling in December was also within the "gold tranche."

During the year eight members repurchased amounts of their currency from the Fund for gold and dollars equivalent to $145,106,208.24.

Syria, which paid less than 25 per cent of its quota subscription in gold, repurchased its own currency with gold and dollars, reducing the Fund's holdings of its currency to 75 per cent of its quota, and thus discharged the repurchase obligation reported in last year's Annual Report. Brazil repurchased the equivalent of $18.75 million, thereby discharging an undertaking given when it drew on the Fund in February 1952. Finland repurchased the equivalent of $4.5 million that had been purchased in December 1952, and also repurchased the equivalent of $2 million out of the total of $5 million drawn in January and May 1953.

Japan made a voluntary repurchase equivalent to $61.6 million, reducing the Fund's holdings of its currency to 75 per cent of its quota, prior to a drawing of an equal amount in sterling. Australia made two repurchases equivalent to $18 million. India made a voluntary repurchase equivalent to $36.22 million.

Turkey made a provisional payment of $3 million on a repurchase obligation prior to the determination either of the total amount due or of the distribution of the obligation between gold and convertible currencies. Subsequently, a repurchase obligation under Article V, Section 7 (b), amounting to $7.5 million, was computed, and Turkey advised the Fund of its agreement with the Fund's computation. The provisional payment of $3 million was accepted as part payment. The balance is to be paid in one installment of $3 million before the end of November 1954 and the remainder before the end of January 1955. The Netherlands discharged a small repurchase obligation of $84.73. The Fund computed a repurchase obligation amounting to $41.7 million on the basis of Germany's monetary reserves as of April 30, 1953, and Germany agreed with the Fund's computation. A formal request for payment was sent before the end of the financial year and payment was effected on May 20, 1954.

Between March 1, 1947 when the Fund commenced operations and April 30, 1954, the Fund effected exchange transactions equivalent to US$1,148.9 million on behalf of 24 members. A summary of Fund transactions is shown in Table XIV, and a detailed statement will be found in Appendix III.

Of the total of $1,148.9 million drawn from the Fund, $386.4 million has been repaid to the Fund through repurchases by members that had drawn upon the Fund and $203.1 million through drawings by other members of the currencies of members that had previously purchased from the Fund. Of the remaining $559.4 million, $427.1 million falls within the "gold tranches" of the members concerned. Seven members whose local currency subscriptions to the Fund exceeded 75 per cent of their quotas have incurred repurchase obligations which exceeded any previous transactions they had had with the Fund. The total of their repurchases in excess of any previous transactions has amounted to $23.5 million.

The Fund's holdings of gold increased during the fiscal year from $1,692.6 million to $1,718.5 million, as the combined result of payments by Austria, Haiti, and Indonesia of that part of their

Table XIV. Summary of Fund Transactions from the Beginning of Operations to April 30, 1954

(In millions of U.S. dollars)

Member	Currencies Purchased by Fund	Currencies Sold by Fund	Repurchases by Members
Australia	50.0		18.0
Belgium	33.0	11.4	21.6
Bolivia	2.5		
Brazil	168.5		103.0
Chile	21.3		12.5
Costa Rica	1.2		2.1
Czechoslovakia	6.0		
Denmark	10.2		
Egypt	3.0		8.5
Ethiopia	0.6		0.6
Finland	9.5		6.5
France	125.0		
Germany		4.4	
India	100.0		36.2
Iran	8.8		
Japan	124.0		61.6
Lebanon			0.9
Mexico	45.0		22.5
Netherlands	75.4		75.4
Nicaragua	0.5		0.5
Norway	9.6		9.6
Paraguay	0.9		
Peru			3.1
Sweden			8.0
Syria			1.4
Turkey	35.0		8.0
Union of South Africa	10.0		10.0
United Kingdom	300.0	191.7	
United States		941.5	
Yugoslavia	9.0		
	$1,148.9[1]	$1,148.9[1]	$409.9[1]

[1] Total does not equal sum of items because of rounding.

subscriptions payable in gold, of the settlement by one member (Syria) of a repurchase obligation payable in gold, and of payments by other members of various Fund charges.

On April 30, 1954, the Fund's holdings of currencies, including non-negotiable, non-interest bearing notes, amounted to the equivalent of $6,232.5 million, of which $1,408.45 million was in U. S. dollars. Of the other Fund holdings of convertible currencies totaling US$365.5 million, the largest was in Canadian dollars, equivalent to US$225 million. Therefore the Fund's total holdings of gold and convertible currencies amounted to US$3,492.5 million.

At various points of time since the Fund started operations, exchange transactions have raised the Fund's holdings of the currencies of fourteen members above their quotas. These members therefore became subject to the appropriate charges prescribed in the Fund Agreement. On April 30, 1954, eight members were currently paying such charges to the Fund. Three members with monetary reserves lower than one half of their quota availed themselves of the opportunity provided in the Fund Agreement to pay in their own currencies all or part of the Fund's charges that are normally payable in gold.

The total of the charges on balances in excess of quota amounted to the equivalent of US$3.6 million in the fiscal year ended April 30, 1953. In the year ended April 30, 1954, which is covered by this Report, the total was about $3.8 million.

Computation of Monetary Reserves

Monetary reserves data as of April 30, 1953 have been received from 48 members. Of the six which have not yet submitted the necessary reports, five cannot have a repurchase obligation. For the remaining member, Paraguay, the submission of monetary reserves data is indispensable to determine whether there is a repurchase obligation as of April 30, 1953, and efforts to obtain the data are continuing. The information submitted by one member required further clarification, and pending the receipt of the additional information the Fund is not in a position to complete the monetary reserves calculation for this member.

Gold Production

Total world production of gold was about the same in 1953 as in 1952. Valued at $35 per fine ounce, total output (excluding that of the U. S. S. R. and the countries associated with it) was approximately $850 million in 1953, compared with $851 million in 1952, $827 million in 1951, and $845 million in 1950.

In Canada, total production fell from about $156.5 million in 1952 to about $142.4 million. Labor difficulties which caused a temporary closure of several mines were the primary reason for this decrease. Production in Chile declined by the equivalent of $1.5 million and in India by $1 million. In some other gold producing countries there were moderate increases of ouput. Total sterling area production increased from approximately $512 million to $520 million. In the Union of South Africa total output rose by approximately $4.2 million, to about $418 million, the highest since 1945. The output of the Transvaal mines declined by about $3 million, to $402.7 million, while the Orange Free State output increased by $7.2 million, to $15.1 million. The South African Minister of Mines has stated that by 1957 all of the 13 mines that have been opened in the Free State should be in full production. If an adequate supply of labor can be assured, this will mean a very substantial increase in South Africa's output. In 1953 production increased by about $3.4 million in Australia, $2.2 million in the United States, $1.4 million in the Gold Coast, and about $1 million each in Japan and in Mexico.

The gold mining industry in most major gold producing countries has been concerned with labor problems and the continuation of high production costs. As a result of these factors a number of marginal mines have been closed, and others have shifted from the mining of lower grade ore to that of higher grade ore. The Canadian Government, after consultation with the Fund in December 1953, extended its gold subsidy system without change, for a period of one year beginning January 1, 1954.

Gold Reserves

The total stock of gold in the possession of monetary authorities in the world (excluding the U. S. S. R. and the countries associated with it, but including the Fund, the Bank for International Settlements, and the European Payments Union) is estimated at $35,950 million at the end of 1953. The increase during the year was approximately $450 million, compared with an increase of $350 million in 1952 and of $200 million in 1951. Part of this increase can probably be attributed to sales of gold by the U. S. S. R. to other European countries during the last few months of 1953 and to some dishoarding. A considerable percentage of newly mined gold, however, continues to go into hoards, the arts, and the industries, though probably less than in recent years. During the last quarter of 1953 there was a considerable decline in the sale of newly mined gold in free markets. The major shifts in the distribution of gold reserves during 1953 have been described in an earlier section of this Report.

Gold Sales and Gold Prices in World Markets

Subsequent to the issuance of the Fund's statement of September 28, 1951, which modified the Fund's gold policy statement of June 1947 on external transactions in gold at premium prices, there has been a gradual easing of restrictions and a growing tendency on the part of many countries to grant more freedom for the sale of gold in free markets and the movement of gold from country to country. The earlier stages of this development have been described in the last two Annual Reports of the Fund. Sales of semiprocessed gold, i.e., gold in various forms with a fineness of 22 carats or less, were first permitted by a number of gold producing countries under certain prescribed conditions. Initially, gold producers derived considerable profits from these premium sales. But more marketing facilities were created by the relaxation of the import-export requirements of other countries and, as more newly mined gold became available for free markets, competition became keener, and several countries then permitted the sale of fine gold bars in order to eliminate the cost of debasing the metal.

On July 22, 1953 Colombia established free trade in gold within its territory, and freedom to export at parity prices. Exports were permitted without any authorization other than previous registration at the Office of Exchange Registration. Exporters are required to deposit the foreign exchange proceeds of their exports in the Banco de la República or in an authorized bank, and may negotiate these proceeds freely without any obligation to sell to the Banco de la República. By an arrangement, which was announced by the South African authorities on October 26, 1953 and maintained until the reopening of the London gold market, approved purchasers were permitted to buy gold from the Chamber of Mines for export in any form (including fine gold bars) to any consignee, provided that payment for such exports was made in U. S. dollars. The requirement for the submission of affidavits and import permits for Treasury approval of each export was withdrawn. The Government of Hong Kong, in October 1953, authorized the transshipment of gold not owned by residents of Hong Kong, or of gold imported for re-export within a limited period to approved destinations, provided that the transaction complied with any import licensing requirements of the country of destination. In December 1953, the Canadian Government announced that gold producers who chose to sell their output on the premium market would be permitted to export gold in the form of fine bars. Previously, Canadian sales on the free market had been restricted to 22 carat gold. The authorities also announced that Canadian producers electing to sell on the free market would be entitled to revert to the gold mining assistance program after an interval of six months, instead of a year.

During the last quarter of 1953 and the first quarter of 1954, the U. S. S. R. sold substantial amounts of gold in several free markets of Western Europe and consigned a considerable amount of gold to London. These sales, together with the potential supplies of fine gold bars available from South Africa and other gold producing countries at a time when the demand for gold for hoarding purposes appeared to be declining, brought the free market price of gold in November 1953 slightly below the official price of $35 per fine ounce. As a result of low prices, a number of producers were reported to have ceased to sell in the free market.

Since 1952 London firms had been permitted to act as agents for the sale against U. S. dollars of newly mined gold from the British Commonwealth to buyers outside the sterling area, but they were restrained from engaging in the general buying and selling of gold in free markets. By this means London firms maintained contact with the free markets of the world, and when the premium price of gold declined, and at the same time the position of sterling improved, a situation developed which was suitable for the reopening of the London gold market.

The London gold market was reopened on a restricted basis on March 22, 1954 after a closure of almost fifteen years. The Fund was informed that "the reopening of a London gold market should not be taken as implying that Her Majesty's Government question the wisdom of the principle that gold should, as far as possible, be canalized into monetary reserves where it would readily serve balance of payments purposes. Her Majesty's Government have, however, arrived at the conclusion that the continued closure of the London market would serve no useful purpose internationally and would be damaging to the interests of the United Kingdom and the sterling area. While permitting the reopening of a gold market in London, Her Majesty's Government remain mindful of their obligations under Section 2 of Article IV of the Articles of Agreement of the International Monetary Fund," according to which the Fund shall prescribe a margin above and below par value for transactions in gold by members, and no member shall buy gold at a price above par value plus the prescribed margin, or sell gold at a price below par value minus the prescribed margin.

The London market operates under the general supervision of the Bank of England, and dealings in gold in the market are confined to authorized dealers. These comprise the Bank of England, all Authorized Banks, and four specialized bullion firms. Representatives of these four firms and two other bullion firms (which are also authorized banks) meet daily and fix the price of gold in terms of sterling in accordance with supply and demand. The sources of gold purchased by authorized dealers are not restricted; however, purchases from residents of the sterling area may be made only against payment to resident sterling accounts; purchases from residents in the American Account Area and Canada only against payment to American or Canadian account sterling accounts; and purchases from other nonresidents against payment to transferable sterling accounts or to Registered sterling accounts. (Registered sterling accounts, which may be held only in the names of persons resident outside the sterling and dollar areas, are a new type of account introduced under the regulations governing the reopening of the London gold market. They may be credited or debited in connection with sales or purchases of gold or dollars in London, and may be used for making payments to practically any other type of sterling account.) Sales of gold by authorized dealers may be made to other authorized dealers or to manufacturers and other sterling area residents who obtain a special license from the Bank of England, payment being required from a Resident account; or to residents of countries outside the sterling area against sterling from an American, Canadian, or Registered account, or against sterling resulting directly from a simultaneous sale of U. S. or Canadian dollars to an authorized bank in the United Kingdom.

Since the Bank of England ceased to publish an official buying price for gold as from March 22, 1954, the effective sterling price for gold is now the market price. Purchases and sales against foreign currencies require specific permission from the Bank of England. Only spot dealings are permitted. Overbought or over-sold positions in gold may be carried only within limits specifically authorized by the Bank of England. Gold sold to nonresidents may be set aside on their behalf with authorized dealers in gold for account of any person resident outside the sterling area, or exported to destinations outside the sterling area. Gold may be traded on the market in either coin or bullion form. It is expected that the principal suppliers of gold to the London market will be the Commonwealth gold producing countries.

When the London market reopened on March 22, 1954, the price was fixed at 248s. 6d. per ounce, equivalent at the day's dollar rate to $34.98. There have since been small fluctuations, the highest fixed price recorded in April (on April 28) being 249s. ld., equivalent to $35.11.

After the reopening of the London market, the South African Minister of Finance announced that South African gold producers would no longer be permitted to sell part of their output in free markets, and that all future sales would be effected through the South African Reserve Bank. While reserving its freedom to sell elsewhere, the Reserve Bank would sell as much gold as possible on the London market.

A Belgian Royal Decree of March 30, 1954 freed transactions in gold by authorized dealers from the requirement hitherto imposed that the price must not deviate from the official rate by more than ¼ per mille. Gold transactions, however, remain subject to license by the National Bank of Belgium.

During the year under review, premium prices have continued to fall to new post-World War II lows in nearly all gold markets. A notable exception is Bombay, where the downward trend was reversed in November 1953. In addition to the general influences which were indicated in last year's Annual Report as affecting the relation between the official and the free market prices of gold, free prices have been brought much more closely into line with the official price, especially since October 1953, by the further decline in hoarding demand – since the fear of war and of further inflation diminished after the Korean truce – the prospect of increased market supplies of newly mined gold, and substantial sales by the U.S.S.R. in Western Europe.

The price at which gold was traded in various markets directly for U. S. dollars gradually declined, by about $2.00 per fine ounce, from $36.88 on May 4, 1953 to $34.90 on November 25, 1953. Subsequently there were minor fluctuations, and during the period February–April 1954 the price ranged between $34.95 and $35.13. On April 30 it was $35.13.

The U. S. dollar equivalent prices for bar gold in Beirut, Brussels, Hong Kong, Milan, and Paris tended to follow the same general trend as the price at which gold was traded directly for U. S. dollars. In Paris, the price of bullion declined by almost 100,000 francs per kilogram, from 513,000 francs on May 7, 1953 to 414,000 francs on April 30, 1954, the lowest quotation since 1947. When converted into U. S. dollars at the parallel market franc–dollar rate, which has improved considerably, the price of bullion per fine ounce was equivalent to $38.08 on May 7, 1953 and to $35.87 on April 30, 1954.

The Bombay gold market is still, to a large extent, isolated from the world market by the rigid restrictions imposed on Indian imports and exports of gold. Such a market is particularly subject to speculative influences. The price of bar gold in Bombay dropped from Rs 92 - 14 per tola (equivalent to $52.01

per fine ounce at the official rate of exchange) on June 16, 1953 to a low for the year of Rs 79 - 13 ($44.69 per fine ounce) on October 26, 1953. As commodity and security prices, which are always important factors in determining the price of gold in Bombay, began to rise toward the end of 1953, the price of gold also recovered, being quoted at the end of April at Rs 93 - 13 ($52.54 per fine ounce). By June 18, however, the price had fallen to Rs 83 - 11 ($46.85 per fine ounce).

There was also a general downward trend in the prices of gold coins in most free markets during the year under review. The most notable declines were recorded for the napoleon, which dropped in Paris by the equivalent of about $11.00, to $40.00 per fine ounce. There was a similar movement in Milan, and in Beirut the price fell by the equivalent of about $8.00, to $37.66 per fine ounce.

The movements of the prices of the sovereign and of bar gold in several free markets during the past three years are shown in Table XV. (Changes in the free price of gold in Europe and

TABLE XV. FREE MARKET PRICES OF BAR GOLD AND OF SOVEREIGN, 1951-54

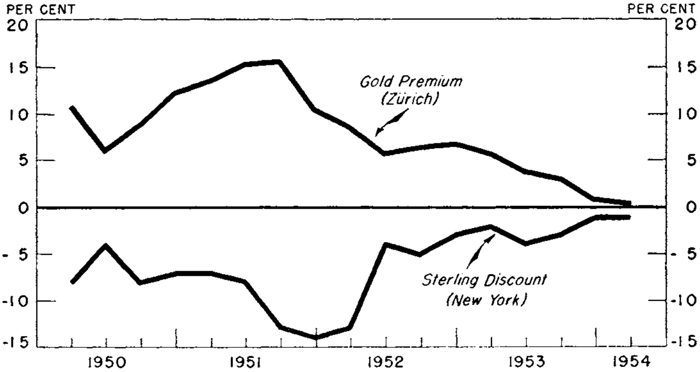
(In U.S. dollar equivalents per fine ounce at free market exchange rates)

Market	End of April 1951	End of April 1952	End of April 1953	End of April 1954
		Bar Gold		
Bombay[1]	65.20	53.06	48.54	52.54
Hong Kong	45.65	40.08	39.94	37.67
Paris	43.50	39.24	38.26	35.87
Zürich[2]	41.50	37.00	36.81	35.13
		Sovereign		
Beirut	52.05	48.79	43.74	39.96
Brussels	55.09	50.78	46.31	40.92
Milan	53.58	51.17	45.46	40.73
Paris	55.20	51.08	46.90	40.70

[1] Computed at official rate of exchange.
[2] Direct quotation in U.S. dollars.

in the rate of transferable sterling in New York are indicated by Chart II.)

CHART II. PREMIUM IN FREE GOLD MARKET, ZÜRICH, AND DISCOUNT ON TRANSFERABLE STERLING, NEW YORK, FIRST QUARTER 1950 - FIRST QUARTER 1954



Gold Transaction Service

During a large part of the year under review, there was a continuous demand to purchase gold through the facilities of the Fund, which were described in the Annual Report for 1952, but the Fund was not successful in finding sufficient offers of gold to meet total requirements. Demand for gold from monetary authorities have been met to a great extent by the United States, which sold the equivalent of approximately $1,164 million during 1953, and to a smaller extent by the Union of South Africa and reportedly by the U. S. S. R. However, the Fund was able to facilitate the completion of eight transactions between member governments, amounting in all to the equivalent of approximately $79 million (compared with 24 transactions, amounting to the equivalent of about $219 million, during the previous year).

VII

Membership, Organization, and Administration

Membership and Organization

HAITI became a member of the Fund on September 8, 1953, with a quota of $2 million, and Indonesia on April 15, 1954, with a quota of $110 million. The number of members is now fifty-six and the aggregate of quotas is $8,848.5 million.

Terms and conditions for the membership of Israel were approved by the Board of Governors on January 11, 1954.

The members of the Fund, their quotas, voting power, Governors, and Alternate Governors are shown in Appendix IV. Changes in membership of the Board of Governors during the year are shown in Appendix V.

The Executive Directors of the Fund and their voting power as of April 30, 1954 are shown in Appendix VI. Changes in membership of the Executive Board during the year are shown in Appendix VII.

Relations with Members

In its relations with its members the Fund has always sought to offer its collaboration in as practical, objective, and constructive a way as possible, based upon a thorough analysis and understanding of a member's position and the developments that are likely to affect it. Collaboration in the monetary field is necessarily a matter of patience, understanding, and mutual confidence. The fact that the Fund's views have been increasingly sought and that requests for its technical advice have increased in number reflects, it is believed, the soundness of the groundwork of confidence which has been laid in the past several years. The advice and assistance which the Fund can give on any problem may not offer an immediate solution, but the direction in which a solution is to be found may thus be indicated. The knowledge and experience gained in the numerous meetings with the monetary authorities and technicians of member countries make the Fund an increasingly useful consultant; they also enable it to lend its support by prompt and informed decisions.

During the past year there have been visits by 54 staff members to 41 member countries for informal exchanges of views on current problems and policies, for consultations under Article XIV, for exchange of information, and for the furnishing of technical assistance. Members of the staff have given assistance in the formulation and improvement of exchange policies, served as advisers in the field of exchange control and bank administration, supervised statistical work, and advised on the preparation of information on monetary reserves. Members of the staff have also been assigned on loan for extended periods of time to two member countries, to one nonmember country, and to the UN Technical Assistance Administration, and have participated in two missions of the International Bank for Reconstruction and Development.

In the field of technical assistance close relations have been maintained with other international agencies, especially through the Technical Assistance Board of the United Nations. Information has been exchanged regularly with representatives of the specialized agencies concerned in order to assure coordination and the best utilization of available resources.

Training Program

Among its services to its members in the field of technical assistance, the training program of the Fund plays an important part. It is now four years since the program was begun and it is believed that it has provided a valuable experience for junior career officers.

Fourteen participants from as many member countries completed a year's training under the revised program inaugurated in May 1953. The revised program includes a study of the objectives, operations, and organization of the Fund, training in research techniques, and courses in the economies of appropriate countries and regional areas. Each participant also specializes in a selected field of work, such as balance of payments techniques, financial statistics, or exchange controls. So far, 63 nationals of 42 member countries have taken part in the program. The next training period will begin in late September 1954. The Fund has continued to receive visiting officers from central banks and ministries of finance and from other specialized agencies for varying periods of study.

Information

Publications during the past year included the Eighth Annual Report of the Executive Directors, the *Fourth Annual Report on Exchange Restrictions,* and Volume III, Nos. 2 and 3 of *Staff Papers.*[1] In discussions with experts from a number of member countries, several recommendations were made regarding the form of presentation of balance of payments data. Among the recommendations adopted was the issue of Volume V of the *Balance of Payments Yearbook* in loose-leaf sections in order to minimize delays in the transmission of data to correspondents and subscribers. When the series of loose-leaf sections is completed, all the material will be consolidated in a single bound volume. Distribution of the monthly *International Financial Statistics* and the weekly *International Financial News Survey* continues to increase. *Direction of International Trade* is pub-

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[1] *Fifth Annual Report on Exchange Restrictions* was published in July 1954.

lished jointly with the International Bank for Reconstruction and Development and the Statistical Office of the United Nations. The report of the Fund Mission to India, *Economic Development with Stability,* which was also published by the Government of India, and *The Revival of Monetary Policy,* prepared for the Eighth Annual Meeting of the Board of Governors, have been made available to the public.

Relations with Other International Organizations

During the year the Fund continued to maintain close relations with the United Nations and other international organizations, particularly with the International Bank for Reconstruction and Development. Fund consultations with the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade have been noted in Chapter V. In addition to the informal contacts maintained with the United Nations Secretariat and the Technical Assistance Administration of the United Nations, the Fund has been represented at the General Assembly of the United Nations and has participated in meetings of the Economic and Social Council, the Economic Commissions for Asia and the Far East, for Europe, and for Latin America, the Administrative Committee on Coordination, and the Technical Assistance Board. At the 16th Session of the Economic and Social Council, the Fund submitted its report on *The Adequacy of Monetary Reserves,* and at the 17th Session the Managing Director presented a report on the Fund's Activities for the preceding year. Close relations have been maintained with the Organization for European Economic Cooperation. Through the machinery of its European Office in Paris, the Fund has been represented regularly at meetings of the Ministerial Council, the Managing Board of the European Payments Union, the Trade and Payments Committee, and some Working Groups of the Organization. The Fund has also been represented at meetings of the Bank for International Settlements, the Council of Europe, and the Food and Agriculture Organization. The Fund has submitted papers on Balance of Payments Statistics to the Statistical Commission of the Economic and Social Council, and on the Dollar Problem with Special Reference to Agricultural Commodities to the Food and Agriculture Organization.

Administration

At the end of the fiscal year, the total number of staff was 438, including nationals of 42 countries. The total includes 15 temporary appointments, 7 on leave without pay, and 3 on military leave. During the year, 60 appointments were made of nationals of 23 countries, and there was a net increase of 4 in the staff. The importance of maintaining a proper nationality balance is being kept constantly in mind. During the last four years the number of countries whose nationals are employed on the Fund staff has increased by 12.

An administrative budget approved by the Executive Directors for the period May 1, 1954 to April 30, 1955 is presented in Appendix VIII. A tabulation comparing the budget with actual expenditures for the fiscal year 1954 is attached. A comparative statement of the Fund's income is also presented in Appendix VIII. In the last fiscal year the Fund's income very nearly equaled its costs of operation. Actual administrative expenditures during the year were less than the approved budget by approximately $131,000.

The Executive Board requested the Governments of Chile, Turkey, and the United Kingdom to nominate members of the Audit Committee. The following nominations were made and confirmed: Mr. Alfredo Phillips, Assistant Manager and former Accountant of the Central Bank, Chile; Mr. Kemal Kurdas, Assistant General Director of the Treasury, Turkey; and Mr. W. S. J. Thornington, Deputy Director of Audit in the Comptroller and Auditor General's Office, United Kingdom. The Government of Turkey subsequently notified the Fund that Mr. Kurdas was unable to serve and Mr. Munir Mostar, Financial Counselor in the Turkish Embassy in Washington, was nominated in his place. The report of the Committee is submitted separately. The Auditors' Certificate, together with the audited Balance Sheet as of April 30, 1954, the audited Statement of Income and Expenditure, with supporting schedules, and audited financial statements of the Fund's Retirement Fund are presented in Appendix IX.

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APPENDICES

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Appendix I

DECISION ON USE OF FUND RESOURCES AND REPURCHASES, STAND-BY ARRANGEMENTS, AND CHARGES

I. *Use of Fund Resources and Repurchases*

The decision taken at Meeting 52/11 on February 13, 1952,[1] relating to use of the Fund's resources and repurchases, shall continue in effect subject to review by the Executive Board from time to time as circumstances warrant.

II. *Stand-by Arrangements*

The Fund is prepared to consider requests by members for stand-by arrangements designed to give assurance that, during a fixed period of time, transactions up to a specified amount will be made whenever a member requests and without further consideration of its position, unless the ineligibility provisions of the Fund Agreement have been invoked. The following paragraphs set forth the general framework for stand-by arrangements:

1. Stand-by arrangements will be limited to periods of not more than six months. They can be renewed by a new decision of the Executive Board. If a member believes that the payments problems it anticipates (for example, in connection with positive programs for maintaining or achieving convertibility) can be adequately provided for only by a stand-by arrangement of more than six months, the Fund will give sympathetic consideration to a request for a longer stand-by arrangement in the light of the problems facing the member and the measures being taken to deal with them. With respect to stand-by arrangements for periods of more than six months, the Fund and the member might find it appropriate to reach understandings additional to those set forth in this decision.

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[1] *Annual Report,* 1952, p. 87.

2. In considering the request for a stand-by arrangement or renewal of a stand-by arrangement, the Fund will apply the same policies that are applied to requests for immediate drawings, including a review of the member's position, policies and prospects in the context of the Fund's objectives and purposes. The Fund will agree to a stand-by arrangement only for a member that is in a position to make purchases of the same amount of exchange from the Fund.
3. There will be specified in each stand-by arrangement the transactions which may be made under that arrangement.
4. A member having a stand-by arrangement will have the right to engage in the transactions covered by the stand-by arrangement without further review by the Fund. This right of the member can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions either generally (under Article XVI, Section 1 (ii)) or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of the member.
5. (a) A charge of ¼ of 1 per cent per annum will be payable to the Fund for stand-by arrangements. The charge will be payable in advance for each six months' period that the arrangement or any renewal is in effect.

   (b) Charges for stand-by arrangements will be payable in gold, or U.S. dollars in lieu of gold, or in the member's currency as specified for other charges by Article V, Section 8 (f).

   (c) There will be credited against the service charge payable for a transaction under a stand-by arrangement the charges paid for that part of the stand-by arrangement (or renewal of it) for the six months' period in which the transaction takes place and for the preceding six months' period; provided that the amount of charge paid for a stand-by arrangement (or renewal of it) for any six months' period will not be credited more than once in that period and the succeeding six months' period.

(d) In order to effect a credit against a service charge, the Fund will repay the portion of the charge paid for a stand-by arrangement that is to be credited under (c) above and collect the service charge in full.

(e) If a member notifies the Fund that it wishes to cancel a stand-by arrangement, the Fund will repay to the member a portion of the charge. The portion repaid will represent the charge paid for the period remaining unexpired at the time of cancellation with respect to the maximum amount of the stand-by arrangement that has never been drawn.

(f) Repayment under (d) or (e) above of a charge paid for a stand-by arrangement will be made in gold, U.S. dollars, and the member's currency in the same proportions as the charge was paid.

6. The Fund will not levy the charge set forth in paragraph 5 above with respect to that part of the stand-by arrangement covering "gold tranche" transactions.
7. This decision shall continue in effect subject to review by the Executive Board from time to time as circumstances warrant.

III. *Charges*

1. Section I-2 of the Rules and Regulations is amended by changing the date "December 31, 1953" to read "December 31, 1954."

2. Section I-4(f) of the Rules and Regulations is replaced by the following subsections (f) and (g):

" (f) With respect to each segment of the holdings of a member's currency to the extent that it represents the acquisition of that currency by the Fund from January 1, 1954 through December 31, 1954:

(i) The charge to be levied on each segment to the extent that it is within the first bracket of 50 per cent in excess of the quota shall be nil for the first three months, 2 per cent per annum for the next fifteen months, and an additional ½ per cent per annum for each subsequent six months.

(ii) The charge to be levied on each segment to the extent that it is within the second bracket of more than 50 per cent and not more than 75 per cent in excess of the quota shall be nil for the first three months, 2 per cent per annum for the next nine months, and an additional ½ per cent per annum for each subsequent six months.

(iii) The charge to be levied on each segment to the extent that it is within the third bracket of more than 75 per cent and not more than 100 per cent in excess of the quota shall be nil for the first three months, 2 per cent per annum for the next three months, and an additional ½ per cent per annum for each subsequent six months.

(g) The Fund and the member shall consider means by which the Fund's holdings of the currency can be reduced whenever the Fund's holdings of a member's currency are such that:

(i) (e) above applies and the charge applicable to any segment for any period has reached the rate of 3½ per cent per annum, or

(ii) (f) above applies and the charge applicable to any segment for any period has reached the rate of 4 per cent per annum.

Failing agreement, the Fund may impose such charges as it deems appropriate when the charge levied under (e) or (f) above has reached 4 per cent per annum; provided that the charges imposed by the Fund shall not exceed the charges prescribed by (e) and (f) above until the rate of 5 per cent per annum has been charged for six months."

December 23, 1953

Appendix II

SCHEDULES OF CHARGES ON USE OF FUND RESOURCES

Charges on Fund Holdings of a Member's Currency in Excess of the Member's Quota

Charges for Each Period in Which Fund Holdings of a Member's Currency Exceed Its Quota by:					Average Effective Rates[1] for Stated Periods on Fund Holdings of a Member's Currency That Exceed Its Quota by:				
	0/25 per cent	25/50 per cent	50/75 per cent	75/100 per cent		0/25 per cent	25/50 per cent	50/75 per cent	75/100 per cent
(Per cent per annum excluding service charge)[2]					*(Per cent per annum including service charge)*				
SCHEDULE III: CHARGES RESULTING FROM TRANSACTIONS EFFECTED AFTER JANUARY 1, 1954									
Service charge: one half of one per cent									
0 to 3 months.	0.0		0.0	0.0	3 months	2.00		2.00	2.00
3 to 6 months.	2.0		2.0	2.0	6 months	2.00		2.00	2.00
½ to 1 year	2.0		2.0	2.5	1 year	2.00		2.00	2.25
1 to 1½ years	2.0		2.5	3.0	1½ years	2.00		2.17	2.50
1½ to 2 years	2.5		3.0	3.5	2 years	2.12		2.38	2.75
2 to 2½ years	3.0		3.5	4.0[3]	2½ years	2.30		2.60	3.00[3]
2½ to 3 years	3.5		4.0[3]	4.5	3 years	2.50		2.83[3]	3.25
3 to 3½ years	4.0[3]		4.5	5.0[4]	3½ years	2.71[3]		3.07	3.50[4]
3½ to 4 years	4.5[4]		5.0[4]		4 years	2.94[4]		3.31[4]	
4 to 4½ years	5.0[4]				4½ years	3.17[4]			
SCHEDULE II: CHARGES RESULTING FROM TRANSACTIONS EFFECTED FROM DECEMBER 1, 1951 THROUGH DECEMBER 31, 1953									
Service charge: one half of one per cent									
0 to ½ year	0.0	1.0	1.5	2.0	½ year	1.00	2.00	2.50	3.00
½ to 1 year	1.0	1.5	2.0	2.5	1 year	1.00	1.75	2.25	2.75
1 to 1½ years	1.5	2.0	2.5	3.0	1½ years	1.17	1.83	2.33	2.83
1½ to 2 years	2.0	2.5	3.0	3.5[3]	2 years	1.38	2.00	2.50	3.00[3]
2 to 2½ years	2.5	3.0	3.5[3]	4.0	2½ years	1.60	2.20	2.70[3]	3.20
2½ to 3 years	3.0	3.5[3]	4.0	4.5[4]	3 years	1.83	2.42[3]	2.92	3.42[4]
3 to 3½ years	3.5[3]	4.0	4.5[4]	5.0[4]	3½ years	2.07[3]	2.64	3.14[4]	3.64[4]
3½ to 4 years	4.0	4.5[4]	5.0[4]		4 years	2.31	2.88[4]	3.38[4]	
4 to 4½ years	4.5[4]	5.0[4]			4½ years	2.56[4]	3.11[4]		
4½ to 5 years	5.0[4]				5 years	2.80[4]			

SCHEDULE I: CHARGES RESULTING FROM TRANSACTIONS EFFECTED PRIOR TO DECEMBER 1, 1951

Service charge: three fourths of one per cent

0 to ½ year....	.25[5]	1.0	1.5	2.0	½ year.........	1.75	2.50	3.00	3.50
½ to 1 year....	0.5	1.0	1.5	2.0	1 year.........	1.12	1.75	2.25	2.75
1 to 1½ years...	1.0	1.5	2.0	2.5	1½ years........	1.08	1.67	2.17	2.67
1½ to 2 years...	1.0	1.5	2.0	2.5	2 years........	1.06	1.62	2.12	2.62
2 to 2½ years...	1.5	2.0	2.5	3.0	2½ years........	1.15	1.70	2.20	2.70
2½ to 3 years...	1.5	2.0	2.5	3.0	3 years........	1.21	1.75	2.25	2.75
3 to 3½ years...	2.0	2.5	3.0	3.5	3½ years........	1.32	1.86	2.36	2.86
3½ to 4 years...	2.0	2.5	3.0	3.5	4 years........	1.41	1.94	2.44	2.94
4 to 4½ years...	2.5	3.0	3.5	4.0[3]	4½ years........	1.53	2.06	2.56	3.06[3]
4½ to 5 years...	2.5	3.0	3.5	4.0	5 years........	1.62	2.15	2.65	3.15
5 to 6 years...	3.0	3.5	4.0[3]	4.5	6 years........	1.85	2.38	2.87[3]	3.38
6 to 7 years...	3.5	4.0[3]	4.5	5.0	7 years........	2.09	2.61[3]	3.11	3.61
7 to 8 years...	4.0[3]	4.5	5.0		8 years........	2.33[3]	2.84	3.34	

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[1] Aggregate charges payable by the member, expressed as a percentage and divided by the number of years of the period.

[2] The service charge is payable once per transaction and is stated as per cent of amount of transaction.

[3] Point at which consultation between Fund and member becomes obligatory.

[4] Maximum charges. Fund has discretion to make lower charges.

[5] No charge for first three months; 0.5 per cent thereafter.

Appendix III

SUMMARY OF FUND TRANSACTIONS

from the beginning of operations to April 30, 1954

(In millions of U.S. dollars)

Member (1)	Currency Purchased by Member Against Own Currency (2)	Member's Currency Sold by Fund to Other Members for Their Currency or Gold (3)	Member's Currency Repurchased by Member with Convertible Currency or Gold (4)	Member's Currency Used for Repurchases by Other Members (5)	Effect of Operations on Fund's Currency Holdings (columns 2 & 5 minus 3 & 4) (6)	Fund's Holdings of Members' Currencies on April 30, 1954, Expressed as Percentage of Quota (7)
Australia	50.0		18.0		32.0	112
Austria						90
Belgium	33.0	11.4	21.6		0.0	75
Bolivia	2.5				2.5	100
Brazil	168.5		103.0		65.5	119
Burma						97
Canada						75
Ceylon						95
Chile	21.3		12.5		8.8	100
China						—
Colombia						75
Costa Rica	1.2		2.1		−0.9	75
Cuba						75
Czechoslovakia	6.0				6.0	103
Denmark	10.2				10.2	106
Dominican Republic						75
Ecuador						75
Egypt	3.0		8.5		−5.5	75
El Salvador						75
Ethiopia	0.6		0.6		0.0	99
Finland	9.5		6.5		3.0	118

France	125.0				125.0	103
Germany, Federal Republic of		4.4			−4.4	89
Greece						—
Guatemala						75
Haiti						75
Honduras						75
Iceland						75
India	100.0		36.2		63.8	109
Indonesia						—
Iran	8.8				8.8	100
Iraq						100
Italy						—
Japan	124.0		61.6		62.4	100
Jordan						97
Lebanon			0.9		−0.9	75
Luxembourg						95
Mexico	45.0		22.5		22.5	100
Netherlands	75.4		75.4		0.0	75
Nicaragua	0.5		0.5		0.0	75
Norway	9.6		9.6		0.0	75
Pakistan						96
Panama						75
Paraguay	0.9				0.9	100
Peru			3.1		−3.1	75
Philippines						75
Sweden			8.0		−8.0	75
Syria			1.4		−1.4	75
Thailand						—
Turkey	35.0		8.0		27.0	138
Union of South Africa	10.0		10.0		0.0	75
United Kingdom	300.0	191.7			108.3	90
United States		947.7		323.7	−624.0	51
Uruguay						—
Venezuela						75
Yugoslavia	9.0				9.0	102
	1,148.9[1]	1,155.1[2]	409.9[3]	323.7	−92.4[1]	

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[1] Total does not equal sum of items because of rounding.

[2] $1,148.9 million sold for currency and $6.2 million for gold. See also footnote 1.

[3] $323.7 million repurchased with convertible currency and $86.3 million with gold. See also footnote 1.

Appendix IV

MEMBERSHIP, QUOTAS, GOVERNORS, AND VOTING POWER

as of April 30, 1954

	QUOTA			VOTES	
Member	Amount (000,000's)	Per Cent of Total	Governor *Alternate*	Number[1]	Per Cent of Total
Australia	$200.0	2.26	Sir Arthur William Fadden *Sir Percy Claude Spender*	2,250	2.20
Austria	50.0	0.57	Eugen Margaretha *Franz Stoeger-Marenpach*	750	0.73
Belgium	225.0	2.54	Maurice Frere *Joseph Vanheurck*	2,500	2.44
Bolivia	10.0	0.11	Franklin Antezana Paz *Alfredo Oporto Crespo*	350	0.34
Brazil	150.0	1.70	Eugenio Gudin *Octavio Bulhoes*	1,750	1.71
Burma	15.0	0.17	U Tin *U Kyaw Nyun*	400	0.39
Canada	300.0	3.39	Douglas Charles Abbott *Graham F. Towers*	3,250	3.17
Ceylon	15.0	0.17	Sir Oliver Goonetilleke *N. U. Jayawardena*	400	0.39
Chile	50.0	0.57	Arturo Maschke *Felipe Herrera*	750	0.73
China	550.0	6.22	Chia Kan Yen *Pao-hsu Ho*	5,750	5.61
Colombia	50.0	0.57	Hernan Jaramillo Ocampo *Eduardo Arias Robledo*	750	0.73
Costa Rica	5.0	0.06	Angel Coronas *Mario Fernandez*	300	0.29
Cuba	50.0	0.57	Joaquin Martinez Saenz *Bernardo Figueredo Antunez*	750	0.73

Czechoslovakia	125.0	1.41	Julius Hajek *Antonin Braidl*	1,500	1.46
Denmark	68.0	0.77	Svend Nielsen *Einar Dige*	930	0.91
Dominican Republic	5.0	0.06	S. Salvador Ortiz *Pedro Pablo Cabral B.*	300	0.29
Ecuador	5.0	0.06	Guillermo Perez-Chiriboga *Hernan Escudero-Moscoso*	300	0.29
Egypt	60.0	0.68	Abdel Galeel El Emary *Mustapha El Kouni*	850	0.83
El Salvador	2.5	0.03	Catalino Herrera *Manuel Melendez-Valle*	275	0.27
Ethiopia	6.0	0.07	Ato Makonnen Habte Wolde *S. Kirkor*	310	0.30
Finland	38.0	0.43	Sakari Tuomioja *Reino Rossi*	630	0.61
France	525.0	5.93	Pierre Mendes-France *Wilfrid Baumgartner*	5,500	5.37
Germany, Federal Republic of	330.0	3.73	Wilhelm Vocke *Hans Karl von Mangoldt-Reiboldt*	3,550	3.46
Greece	40.0	0.45	Xenophon Zolotas *Charalambos Theodoropoulos*	650	0.63
Guatemala	5.0	0.06	Manuel Noriega Morales *Carlos Leonidas Acevedo*	300	0.29
Haiti	2.0	0.02	Christian Aime *Edmond Policard*	270	0.26
Honduras	2.5	0.03	Marco Antonio Batres *Roberto Ramirez*	275	0.27
Iceland	1.0	0.01	Bjorn Olafsson *Thor Thors*	260	0.25
India	400.0	4.52	Sir Chintaman D. Deshmukh *Sir B. Rama Rau*	4,250	4.15
Indonesia	110.0	1.24	Vacant *Vacant*	1,350	1.32

Appendix IV *(continued)*

MEMBERSHIP, QUOTAS, GOVERNORS, AND VOTING POWER

as of April 30, 1954

	QUOTA		VOTES		
Member	Amount (000,000's)	Per Cent of Total	Governor *Alternate*	Number[1]	Per Cent of Total
Iran	$ 35.0	0.40	Ali Asghar Nasser *Ebrahim Kachani*	600	0.59
Iraq	8.0	0.09	Abdul Kerim Al-Uzri *Abdul Ghani Al-Dalli*	330	0.32
Italy	180.0	2.03	Giuseppe Pella *Ugo La Malfa*	2,050	2.00
Japan	250.0	2.83	Sankuro Ogasawara *Hisato Ichimada*	2,750	2.68
Jordan	3.0	0.03	Abdul Monem Rifa'i *El Sayed Abdel Karim El Hamoud*	280	0.27
Lebanon	4.5	0.05	Nasr Harfouche *Farid Solh*	295	0.29
Luxembourg	10.0	0.11	Pierre Werner *Hugues Le Gallais*	350	0.34
Mexico	90.0	1.02	Antonio Carrillo Flores *Rodrigo Gomez*	1,150	1.12
Netherlands	275.0	3.11	M. W. Holtrop *E. van Lennep*	3,000	2.93
Nicaragua	2.0	0.02	Guillermo Sevilla Sacasa *Leon DeBayle*	270	0.26
Norway	50.0	0.57	Gunnar Jahn *Christian Brinch*	750	0.73
Pakistan	100.0	1.13	Mohamad Ali *Anwar Ali*	1,250	1.22
Panama	0.5	0.01	Roberto Heurtematte *Jose D. Crespo*	255	0.25

Paraguay	3.5	0.04	Hermogenes Gonzalez Maya *Augusto Urbieta Fleitas*	285	0.28
Peru	25.0	0.28	Clemente de Althaus *Emilio G. Barreto*	500	0.49
Philippines	15.0	0.17	Miguel Cuaderno, Sr. *Emilio Abello*	400	0.39
Sweden	100.0	1.13	M. H. Lemne *T. L. Hammarskiold*	1,250	1.22
Syria	6.5	0.07	Izzat Trabulsi *Awad Barakat*	315	0.31
Thailand	12.5	0.14	Prince Viwat *Kajit Kasemsri*	375	0.37
Turkey	43.0	0.49	Hasan Polatkan *Burhan Ulutan*	680	0.66
Union of South Africa	100.0	1.13	Nicolaas Christiaan Havenga *Daniel Hendrik Steyn*	1,250	1.22
United Kingdom	1,300.0	14.69	Richard Austen Butler *Sir George Bolton*	13,250	12.93
United States	2,750.0	31.08	George M. Humphrey *Samuel C. Waugh*	27,750	27.08
Uruguay	15.0	0.17	Miguel B. Rognoni *Carlos Sanguinetti*	400	0.39
Venezuela	15.0	0.17	J. J. Gonzalez Gorrondona *Francisco Alfonso Ravard*	400	0.39
Yugoslavia	60.0	0.68	Nenad Popovic *Mirko Mermolja*	850	0.83
	$8,848.5	100.00[2]		102,485	100.00[2]

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

[2] This total is not equal to the sum of the items because of rounding.

CHANGES IN MEMBERSHIP OF THE BOARD OF GOVERNORS

Changes in the membership of the Board of Governors between May 1, 1953 and April 30, 1954 have been as follows:

Sankuro Ogasawara succeeded Tadaharu Mukai as Governor for Japan, May 29, 1953.

U Kyaw Nyun succeeded U Hla Maung as Alternate Governor for Burma, June 5, 1953.

Anwar Ali succeeded M. A. Mozaffar as Alternate Governor for Pakistan, June 8, 1953.

Felipe Herrera was appointed Alternate Governor for Chile, June 24, 1953.

Guillermo Sevilla Sacasa was reappointed Governor for Nicaragua, June 24, 1953.

Leon DeBayle was reappointed Alternate Governor for Nicaragua, June 24, 1953.

Hermogenes Gonzalez Maya succeeded Juan R. Chaves as Governor for Paraguay, June 25, 1953.

Augusto Urbieta Fleitas succeeded Hermogenes Gonzalez Maya as Alternate Governor for Paraguay, June 25, 1953.

Miguel B. Rognoni was appointed Governor for Uruguay, July 3, 1953.

Carlos Sanguinetti was appointed Alternate Governor for Uruguay, July 3, 1953.

Alfredo Oporto Crespo was appointed Alternate Governor for Bolivia, July 7, 1953.

Franz Stoeger-Marenpach was reappointed Alternate Governor for Austria, July 15, 1953.

Nenad Popovic succeeded Sergej Kraigher as Governor for Yugoslavia, July 15, 1953.

N. U. Jayawardena succeeded John Exter as Alternate Governor for Ceylon, July 16, 1953.

Hasan Polatkan succeeded Mehmet Izmen as Governor for Turkey, July 18, 1953.

Mirko Mermolja succeeded Isak Sion as Alternate Governor for Yugoslavia, July 25, 1953.

Samuel C. Waugh was appointed Alternate Governor for the United States, August 4, 1953.

Hernan Jaramillo Ocampo succeeded Emilio Toro as Governor for Colombia, August 14, 1953.

Eduardo Arias Robledo succeeded Ignacio Copete-Lizarralde as Alternate Governor for Colombia, August 14, 1953.

El Sayed Abdel Karim El Hamoud succeeded Omar Dajany as Alternate Governor for Jordan, August 18, 1953.

E. B. Richardson succeeded L. G. Melville as Alternate Governor for Australia, September 2, 1953.

Octavio Bulhoes succeeded Octavio Paranagua as Alternate Governor for Brazil, September 3, 1953.

Christian Aime was appointed Governor for Haiti, September 3, 1953.

Edmond Policard was appointed Alternate Governor for Haiti, September 3, 1953.

Ali Asghar Nasser succeeded Mohammad Nassiri as Governor for Iran, September 5, 1953.

Reginald Maudling succeeded Richard Austen Butler as Governor for the United Kingdom, September 8, 1953.

Richard Austen Butler succeeded Reginald Maudling as Governor for the United Kingdom, September 14, 1953.

Sir Oliver Goonetilleke succeeded J. R. Jayawardene as Governor for Ceylon, November 9, 1953.

S. Salvador Ortiz succeeded Jose Ernesto Garcia Aybar as Governor for the Dominican Republic, November 15, 1953.

Pierre Dupong, Governor for Luxembourg, died December 22, 1953.

Abdul Monem Rifa'i succeeded Yusuf Haikal as Governor for Jordan, December 24, 1953.

Mustapha El Kouni succeeded Mahmoud Saleh El Falaki as Alternate Governor for Egypt, February 1954.

Abdul Kerim Al-Uzri succeeded Ibrahim Shabandar as Governor for Iraq, February 3, 1954.

Wilfrid Baumgartner was reappointed Alternate Governor for France, February 9, 1954.

J. J. Gonzalez Gorrondona was reappointed Governor for Venezuela, February 23, 1954.

Francisco Alfonso Ravard succeeded Felix Miralles as Alternate Governor for Venezuela, February 23, 1954.

Sir Arthur William Fadden succeeded Sir Percy Claude Spender as Governor for Australia, February 25, 1954.

Sir Percy Claude Spender succeeded E. B. Richardson as Alternate Governor for Australia, February 25, 1954.

Reino Rossi succeeded Klaus Waris as Alternate Governor for Finland, March 18, 1954.

Ato Makonnen Habte Wolde was appointed Governor for Ethiopia, March 25, 1954.

S. Kirkor was appointed Alternate Governor for Ethiopia, March 25, 1954.

Pierre Werner was appointed Governor for Luxembourg, April 11, 1954.

Clemente de Althaus was reappointed Governor for Peru, April 14, 1954.

Appendix VI

EXECUTIVE DIRECTORS AND VOTING POWER

as of April 30, 1954

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Per Cent of Total
APPOINTED				
Frank A. Southard, Jr. *John S. Hooker*	United States	27,750	27,750	27.93
Sir Edmund Hall-Patch *F. J. Portsmore*	United Kingdom	13,250	13,250	13.33
Beue Tann *Kuo-Hwa Yu*	China	5,750	5,750	5.79
Jean de Largentaye *Andre de Lattre*	France	5,500	5,500	5.54
P. S. Narayan Prasad *V. G. Pendharkar*	India	4,250	4,250	4.28
ELECTED				
Octavio Paranagua (Brazil) *Joaquim Candido Gouvea Filho (Brazil)*	Bolivia	350		
	Brazil	1,750		
	Chile	750		
	Dominican Republic	300		
	Ecuador	300		
	Panama	255		
	Paraguay	285		
	Peru	500		
	Uruguay	400	4,890	4.92
Ahmed Zaki Saad (Egypt) *Albert Mansour (Egypt)*	Egypt	850		
	Ethiopia	310		
	Iran	600		
	Iraq	330		
	Jordan	280		
	Lebanon	295		
	Pakistan	1,250		
	Philippines	400		
	Syria	315	4,630	4.66

EXECUTIVE DIRECTORS AND VOTING POWER

as of April 30, 1954

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Per Cent of Total
Enrique Delgado (Nicaragua)	Colombia	750		
Alejandro Baca-Munoz (Nicaragua)	Costa Rica	300		
	Cuba	750		
	El Salvador	275		
	Guatemala	300		
	Honduras	275		
	Mexico	1,150		
	Nicaragua	270		
	Venezuela	400	4,470	4.50
Otmar Emminger (Germany, Federal Republic of)	Germany, Federal Republic of	3,550		
Otto Donner (Germany, Federal Republic of)	Yugoslavia	850	4,400	4.43
Carlo Gragnani (Italy)	Austria	750		
Costa P. Caranicas (Greece)	Greece	650		
	Italy	2,050		
	Turkey	680	4,130	4.16
Takeo Yumoto (Japan)	Burma	400		
W. Tennekoon (Ceylon)	Ceylon	400		
	Japan	2,750		
	Thailand	375	3,925	3.95
Alf Kristian Eriksen (Norway)	Denmark	930		
S. T. G. Akermalm (Sweden)	Finland	630		
	Iceland	260		
	Norway	750		
	Sweden	1,250	3,820	3.84
L. H. E. Bury (Australia)	Australia	2,250		
B. B. Callaghan (Australia)	Union of South Africa	1,250	3,500	3.52

Appendix VI *(continued)*

EXECUTIVE DIRECTORS AND VOTING POWER

as of April 30, 1954

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Per Cent of Total
Louis Rasminsky (Canada) *G. Neil Perry* *(Canada)*	Canada	3,250	3,250	3.27
D. Crena de Iongh (Netherlands) *H.M.H.A. van der Valk* *(Netherlands)*	Netherlands	3,000	3,000	3.02
Hubert Ansiaux (Belgium) *Jean C. Godeaux* *(Belgium)*	Belgium Luxembourg	2,500 350	2,850	2.87
			99,365[2]	100.00[3]

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

[2] This total differs from that shown in Appendix IV since it does not include either the votes of Czechoslovakia, which did not participate in the last Regular Election of Executive Directors held in September 1952, or the votes of Haiti and Indonesia, which were not members at that time.

[3] This total is not equal to the sum of the items because of rounding.

Appendix VII

CHANGES IN MEMBERSHIP OF THE EXECUTIVE BOARD

Changes in the membership of the Executive Board between May 1, 1953 and April 30, 1954 have been as follows:

C. W. Conron served as Temporary Alternate Executive Director to L. G. Melville, May 13, 1953.

Frank A. Southard, Jr. was reappointed Executive Director for the United States, June 11, 1953.

C. A. Annis served as Temporary Alternate Executive Director to Louis Rasminsky, July 24, August 24-28, and December 4, 1953.

Otto Pfleiderer resigned as Executive Director for the Federal Republic of Germany and Yugoslavia, August 1, 1953.

D. W. Rajapatirana resigned as Alternate Executive Director to Takeo Yumoto, August 14, 1953.

W. Tennekoon was appointed Alternate Executive Director to Takeo Yumoto, effective August 15, 1953.

Otmar Emminger was elected Executive Director by the Federal Republic of Germany and Yugoslavia, August 21, 1953.

Otto Donner, formerly Alternate Executive Director to Otto Pfleiderer, was appointed Alternate Executive Director to Otmar Emminger, August 21, 1953.

Thomas Basyn served as Temporary Alternate Executive Director to Ernest de Selliers, October 2-9 and 14-23, 1953 and as Temporary Alternate Executive Director to Hubert Ansiaux, April 2-16, 1954.

L. G. Melville resigned as Executive Director for Australia and the Union of South Africa, effective October 31, 1953.

Manuel F. Chavarria resigned as Alternate Executive Director to Enrique Delgado, effective October 31, 1953.

L. H. E. Bury, formerly Alternate Executive Director to

L. G. Melville, was elected Executive Director by Australia and the Union of South Africa, effective November 1, 1953.

Alejandro Baca-Munoz was appointed Alternate Executive Director to Enrique Delgado, effective November 1, 1953.

H. A. Fuller was appointed Alternate Executive Director to L. H. E. Bury, November 13, 1953.

W. R. Natu resigned as Executive Director for India, November 30, 1953.

B. R. Shenoy resigned as Alternate Executive Director to W. R. Natu, November 30, 1953.

P. S. Narayan Prasad was appointed Executive Director for India, effective December 1, 1953.

V. G. Pendharkar was appointed Alternate Executive Director to P. S. Narayan Prasad, effective December 1, 1953.

Gabriel Ferras resigned as Alternate Executive Director to Jean de Largentaye, December 13, 1953.

L. F. Crick resigned as Alternate Executive Director to Sir Edmund Hall-Patch, December 30, 1953.

F. J. Portsmore was appointed Alternate Executive Director to Sir Edmund Hall-Patch, effective December 31, 1953.

H. A. Fuller resigned as Alternate Executive Director to L. H. E. Bury, February 10, 1954.

L. R. W. Soutendijk served as Temporary Alternate Executive Director to D. Crena de Iongh, February 10, 1954.

B. B. Callaghan was appointed Alternate Executive Director to L. H. E. Bury, effective February 11, 1954.

Andre de Lattre was appointed Alternate Executive Director to Jean de Largentaye, effective February 17, 1954.

Ernest de Selliers resigned as Executive Director for Belgium and Luxembourg, March 22, 1954.

Hubert Ansiaux was elected Executive Director by Belgium and Luxembourg, April 2, 1954.

Jean C. Godeaux, formerly Alternate Executive Director to Ernest de Selliers, was appointed Alternate Executive Director to Hubert Ansiaux, April 3, 1954.

G. Neil Perry resigned as Alternate Executive Director to Louis Rasminsky, April 30, 1954.

Appendix VIII (i)

ADMINISTRATIVE BUDGET

Letter of Transmittal

July 1, 1954

My dear Mr. Chairman:

The administrative budget of the Fund for the Fiscal Year ending April 30, 1955, as approved by the Board of Executive Directors, is presented for the information of the Board of Governors in accordance with Section 20 of the By-Laws.

The presentation includes the actual experience for the Fiscal Year 1952-53, and the budget and actual expenditures for the Fiscal Year 1953-54 as compared with the administrative budget for the Fiscal Year 1954-55.

I should like to repeat again this year that previous experience has shown that it is impossible to predict whether the amounts budgeted will, in fact, meet the requirements of the Fund's program. The amounts estimated are an expression of present administrative plans without provision for unforeseen contingencies or inauguration of extraordinary programs. Should such contingencies arise or present plans change materially, the management may have to recommend an appropriate amendment to the Executive Board.

Yours sincerely,
/s/
IVAR ROOTH
Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

Appendix VIII (ii)

ADMINISTRATIVE BUDGET

As Approved by the Executive Board for the Fiscal Year Ending April 30, 1955, Compared with Actual Expenditures for the Fiscal Years 1952-53 and 1953-54

Category of Expenditure	Budget F. Y. 1954-55	F. Y. 1953-54		Actual Expenditures F. Y. 1952-53
		Budget	Actual Expenditures	
I. BOARD OF GOVERNORS	$ 160,000	$ 139,100	$ 139,066.10	$ 220,573.44
II. OFFICE OF EXECUTIVE DIRECTORS				
Salaries	$ 583,000	$ 578,700	$ 551,077.73	$ 514,672.37
Other compensations and benefits	80,000	88,300	82,435.05	83,087.19
Travel	101,000	98,000	96,563.64	79,493.81
Total	$ 764,000	$ 765,000	$ 730,076.42	$ 677,253.37
III. STAFF				
Salaries	$ 2,543,700	$ 2,487,000	$2,463,594.86	$2,370,940.41
Other compensations and benefits	572,800	624,200	619,844.20	590,204.52
Travel	254,000	320,000	281,803.56	227,878.62
Total	$ 3,370,500	$ 3,431,200	$3,365,242.62	$3,189,023.55
IV. OTHER ADMINISTRATIVE EXPENSES				
Communications	$ 116,000	$ 119,700	$ 119,521.25	$ 106,234.04
Office occupancy expenses	453,500	454,500	450,063.68	470,004.35
Books and printing	123,300	114,700	105,537.09	106,760.82
Supplies and equipment	70,800	71,800	63,732.71	70,885.77
Miscellaneous	41,000	44,500	35,919.08	42,917.24
Total	$ 804,600	$ 805,200	$ 774,773.81	$ 796,802.22
TOTAL	$ 5,099,100[1]	$ 5,140,500[2]	$5,009,158.95	$4,883,652.58

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[1] Includes $16,600 for liquidation of prior year commitments.

[2] Includes $3,000 for liquidation of prior year commitments.

Appendix VIII (iii)

COMPARATIVE STATEMENT OF INCOME

(Values expressed in U.S. dollars on basis of established parities)

	Year ended Apr. 30, 1952	Year ended Apr. 30, 1953	Year ended Apr. 30, 1954
INCOME			
Operational charges			
Service charges on transactions received in gold	$ 236,718.75	$ 330,625.00	$1,156,450.00
Charges on stand-by arrangements	—	131,250.00	[1]
Charges on gold transactions between members	6,250.14	130,809.12	49,654.92
Total	$ 242,968.89	$ 592,684.12	$1,206,104.92
Charges on Fund's holdings of members' currencies and securities in excess of quotas			
Received in gold	$2,284,996.09	$2,633,573.65	$3,258,252.18
Received in members' currencies	709,599.90	902,701.95	414,924.48
Outstanding	—	19,395.25[2]	91,208.10[2]
Total	$2,994,595.99	$3,555,670.85	$3,764,384.76
Other income			
Sales of Fund's publications	$ 14,412.05	$ 14,052.40	$ 14,297.18
Miscellaneous income	216.20	328.43	412.91
Total	$ 14,628.25	$ 14,380.83	$ 14,710.09
TOTAL INCOME	$3,252,193.13	$4,162,735.80	$4,985,199.77
TOTAL ADMINISTRATIVE EXPENDITURE	$4,770,342.58	$4,883,652.58	$5,009,158.95

[1] $42,091.77 was received during the year and transferred to the Stand-by Charge Reserve.

[2] See Appendix IX (vi), footnote 2.

Appendix IX (i)

BALANCE SHEET, STATEMENT OF INCOME AND EXPENDITURE, AND SUPPORTING SCHEDULES

Letter of Transmittal

July 1, 1954

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 Balance Sheet and the audited Statement of Income and Expenditure of the Fund for the year ended April 30, 1954, together with the Auditors' Certificate, as well as audited financial statements of the Staff Retirement Fund.

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, Chile, Turkey, and the United Kingdom nominated auditors to serve on this Committee. They respectively nominated Mr. Alfredo Phillips, Assistant Manager of the Banco Central de Chile, Santiago; Mr. Munir Mostar, Financial Counselor of the Turkish Embassy in Washington, D.C.; and Mr. W. S. J. Thornington, Deputy Director of Audit in the Comptroller and Auditor General's Office. The auditors thus nominated were confirmed by the Executive Directors.

It will be noted that, in the period under review, expenditure exceeded income (after excluding from the latter $42,091.77 transferred to Stand-by Charge Reserve) by $24,815.01, and that the total excess of expenditure over income from inception to April 30, 1954 is thus increased to $7,989,773.37.

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

Yours sincerely,

/s/

IVAR ROOTH

Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

Appendix IX (ii)

AUDITORS' CERTIFICATE

We have made an independent examination of the Balance Sheet of the International Monetary Fund as at April 30, 1954, of the Statement of Income and Expenditure for the fiscal year then ended, and of the schedules related to such financial statements. As required by Section 20 of the Fund's By-Laws, our examination was made in accordance with generally accepted auditing standards and included all procedures which we considered necessary in the circumstances. We have examined or tested, to the extent deemed appropriate, the accounting records of the Fund and other supporting evidence of its financial transactions; we have ascertained generally and to the extent practicable that financial transactions have been conducted in compliance with the Fund's requirements; and we have obtained from the officers and staff of the Fund all such information and representations as we have required in the conduct of our audit. We have also reviewed the accounting methods and system of internal control.

In our opinion, based on our examination, such Balance Sheet and related Statement of Income and Expenditure, together with the notes appearing thereon, present fairly the financial position of the International Monetary Fund as at April 30, 1954, and the results of its operations for the fiscal year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of previous fiscal years.

/s/ ALFREDO PHILLIPS (Chile)

/s/ MUNIR MOSTAR (Turkey)

/s/ W. S. J. THORNINGTON (United Kingdom)

Appendix
BALANCE
April 30,

Values expressed in United States dollars

ASSETS

GOLD WITH DEPOSITORIES (See Note 2)		$1,718,548,249.47
(49,101,378.556 fine ounces at US$35.00 per ounce)		
CURRENCY AND SECURITIES WITH DEPOSITORIES		
Currency	$ 856,605,168.52	
Securities	5,375,910,248.59	6,232,515,417.11
(non-negotiable, non-interest bearing demand obligations payable at face value by members in their currencies)		
SUBSCRIPTIONS TO CAPITAL—RECEIVABLE		
Balances not due		888,796,461.16
(members whose par values have not yet been established)		
OTHER ASSETS (See Note 4)		977,296.42
(other cash, receivables, etc.)		
TOTAL ASSETS		$8,840,837,424.16

NOTES:

1. With the exception of French francs and Peruvian soles which, for bookkeeping purposes, are computed at provisional rates of 349.600 francs and 15.0000 soles per U. S. dollar.
2. Excludes 2,750.123 fine ounces earmarked for members.
3. A stand-by charge has, under certain circumstances, to be credited against the service charge for a drawing under the stand-by arrangement. The maximum amount on April 30, 1954, is $42,091.77. A portion of the stand-by charge is refundable to a member if the arrangement is cancelled. The maximum amount on April 30, 1954, is $36,174.64.
4. The assets and liabilities of the Staff Retirement Fund are not included in this Balance Sheet.

IX (iii)
SHEET
1954

on the basis of established parities (See Note 1)

CAPITAL, RESERVES, AND LIABILITIES

CAPITAL		
Authorized subscriptions of members		$8,848,500,000.00
Less: Excess of expenditure over income		
From inception to April 30, 1953	$7,964,958.36	
For year ended April 30, 1954	24,815.01	7,989,773.37
Net capital		$8,840,510,226.63
RESERVES		
Reserve for potential cost of turning certain gold into new bars	$ 69,646.42	
Reserve for potential cost of converting purchased gold into currency	21,438.91	
Stand-by charge reserve (See Note 3)	42,091.77	133,177.10
LIABILITIES (See Note 4) *(accruals, accounts payable, deferred income, etc.)*		194,020.43
TOTAL CAPITAL, RESERVES, AND LIABILITIES		$8,840,837,424.16

/s/ Y. C. Koo
Treasurer

/s/ Charles M. Powell
Comptroller and
Assistant Treasurer

/s/ Ivar Rooth
Managing Director

Appendix IX (iv)

STATEMENT OF INCOME AND EXPENDITURE

for the year ended April 30, 1954

INCOME

Income from operations		
Operational charges	$1,206,104.92[1]	
Charges on balances in excess of quota	3,764,384.76	$4,970,489.68
Other income		
Sales of Fund's publications	$ 14,297.18	
Miscellaneous income	412.91	14,710.09
TOTAL INCOME		$4,985,199.77

EXPENDITURE

Board of Governors		$ 139,066.10	
Office of Executive Directors			
Salaries	$ 551,077.73		
Other compensations and benefits	82,435.05		
Travel	96,563.64	730,076.42	
Staff			
Salaries	$2,463,594.86		
Other compensations and benefits	619,844.20		
Travel	281,803.56	3,365,242.62	
Other administrative expenses			
Communications	$ 119,521.25		
Office occupancy expenses	450,063.68		
Books and printing	105,537.09		
Supplies and equipment	63,732.71		
Miscellaneous	35,919.08	774,773.81	
TOTAL ADMINISTRATIVE EXPENDITURE		$5,009,158.95	
Gold handling charges	$ 859.24		
Exchange adjustments	Cr. 3.41	855.83	
TOTAL EXPENDITURE			5,010,014.78
EXCESS OF EXPENDITURE OVER INCOME (carried to Balance Sheet)			$ 24,815.01

[1] Excludes $42,091.77 transferred to Stand-By Charge Reserve.

Appendix IX (v)

GOLD WITH DEPOSITORIES

April 30, 1954

Valued at US$35 per fine ounce

	Fine Ounces	U.S. Dollar Equivalent
Gold with depositories	49,101,378.556	$1,718,548,249.47

The gold shown above does not include 2,750.123 fine ounces earmarked by the Fund for the following members:

	Fine Ounces		Fine Ounces
Australia	.055	Japan	.381
Bolivia	38.776	Lebanon	.784
Brazil	.978	Mexico	57.524
Chile	37.885	Netherlands	154.540
Czechoslovakia	96.931	Nicaragua	8.026
Denmark	396.986	Norway	369.864
Egypt	20.282	Paraguay	.552
Ethiopia	8.247	Syria	.019
Finland	326.956	Turkey	173.945
France	.115	United Kingdom	250.097
India	206.964	Yugoslavia	14.466
Iran	585.750		
		Total	2,750.123

Appendix IX (vi)

CURRENCIES AND SECURITIES WITH DEPOSITORIES

April 30, 1954

Depositories	National Currencies	Amounts in Members' Currencies				Exchange Rates[1]	U.S. Dollar Equivalents
		Securities	No. 1 Accounts	No. 2 Accounts	Total		
Commonwealth Bank of Australia	Pounds	76,575,000.0.0	23,230,466.14.1	633.6.0	99,806,100.0.1	224.000#	223,565,664.01
Austrian National Bank	Schillings	1,156,973,903.54	13,000,000.00	19,383.22	1,169,993,286.76	26.0000	44,999,741.79
Banque Nationale de Belgique, S.A.	Francs	8,324,889,561.24	111,940,000.00	65,610.26	8,436,895,171.50	50.0000	168,737,903.43
Banco Central de Bolivia	Bolivianos	1,405,612,388.60	494,000,000.00	190,000.00	1,899,802,388.60	190.000	9,998,959.94
Superintendencia da Moeda e do Credito (Brazil)	Cruzeiros		3,292,909,442.50	14,851.30	3,292,924,293.80	18.5000	177,995,907.77
Union Bank of Burma	Kyats	68,328,575.53	701,285.71	2,630.09	69,032,491.33	21.0000#	14,496,823.18
Bank of Canada	Dollars	243,400,000.00	4,087,200.00	1,028.10	247,488,228.10	1.10000	224,989,298.28
Central Bank of Ceylon	Rupees	67,100,000.00	725,332.90	6,354.65	67,831,687.55	21.0000#	14,244,654.38
Banco Central de Chile	Pesos		5,499,478,426.20	575,073.10	5,500,053,499.30	110.000	50,000,486.36
Banco de la República (Colombia)	Pesos		73,110,041.17	1,921.27	73,111,962.44	1.94998	37,493,698.63
Banco Central de Costa Rica	Colones		21,035,457.46	7,812.75	21,043,270.21	5.61500	3,747,688.38
Banco Nacional de Cuba	Pesos		37,487,613.64	654.73	37,488,268.37	1.00000	37,488,268.37
Czechoslovak State Bank[2]	Korunas	5,552,378,996.00	886,981,311.80	30,694.20	6,439,391,002.00	50.0000	128,787,820.04
Danmarks Nationalbank	Kroner	479,623,010.92	19,757,450.06	5,761.34	499,386,222.32	6.90714	72,300,000.05
Banco Central de la República Dominicana	Pesos	3,248,000.00	500,987.33	876.00	3,749,863.33	1.00000	3,749,863.33
Banco Central del Ecuador	Sucres		56,232,752.37	10,012.48	56,242,764.85	15.0000	3,749,517.65
National Bank of Egypt	Pounds	15,460,170.375	208,245.660	254.321	15,668,670.356	287.156#	44,993,527.05
Banco Central de Reserva de El Salvador	Colones		4,681,405.50	997.90	4,682,403.40	2.50000	1,872,961.36
State Bank of Ethiopia	Dollars	13,377,375.30	1,363,385.33	2,449.74	14,743,210.37	40.2500#	5,934,142.18
Bank of Finland	Markkas	8,474,898,839.00	779,670,000.00	119,433.00	9,254,688,272.00	230.000	40,237,775.10
Banque de France	Francs	187,540,000,000.	1,838,335,464.	2,784,977.	189,381,120,441.	349.600*	541,708,010.41
Bank deutscher Länder	D. Marks	1,215,000,000.00	13,866,863.70	4,644.62	1,228,871,508.32	4.20000	292,588,454.36

Banco de Guatemala	Quetzales		3,744,940.19	2,096.25	3,747,036.44	1.00000	3,747,036.44
Banque Nationale de la République d'Haiti	Gourdes	7,394,945.10	100,000.00	5,000.00	7,499,945.10	5.00000	1,499,989.02
Banco Central de Honduras	Lempiras	3,647,881.12	100,000.00	1,496.42	3,749,377.54	2.00000	1,874,688.77
National Bank of Iceland	Krónur		12,183,211.65	13,777.91	12,196,989.56	16.2857	748,938.62
Reserve Bank of India	Rupees	1,786,600,000.0.0	290,468,335.13.0	1,730.9.3	2,077,070,066.6.3	21.0000#	436,184,713.93
Bank Melli Iran	Rials	1,116,877,569.30	11,287,500.00	22,489.50	1,128,187,558.80	32.2500	34,982,559.96
National Bank of Iraq	Dinars	2,569,125.000	287,022.319	22.614	2,856,169.933	280.000#	7,997,275.82
Foreign Exchange Department, The Bank of Japan	Yen	66,596,400,000.00	23,378,400,000.00	3,540,775.00	89,978,340,775.00	360.000	249,939,835.48
Ottoman Bank (Jordan)	Dinars	1,025,350.896	10,714.286	494.750	1,036,559.932	280.000#	2,902,367.81
Banque de Syrie et du Liban, Beirut, Lebanon	Pounds		7,377,572.00	1,581.55	7,379,153.55	2.19148	3,367,200.96
Caisse d'Epargne de l'Etat (Luxembourg)	Francs	470,886,334.80	5,000,000.00	6,769.34	475,893,104.14	50.0000	9,517,862.08
Banco de México, S.A.	Pesos		1,124,043,034.64	10,919.36	1,124,053,954.00	12.5000	89,924,316.32
De Nederlandsche Bank N.V.	Guilders	773,000,000.00	10,741,504.18	2,430.57	783,743,934.75	3.80000	206,248,403.88
Departamento de Emisión, Banco Nacional de Nicaragua	Córdobas		7,486,941.32	5,912.03	7,492,853.35	5.00000	1,498,570.67
Norges Bank	Kroner	263,848,315.10	3,964,941.41	4,330.66	267,817,587.17	14.0000#	37,494,462.21
State Bank of Pakistan[3]	Rupees	315,892,652.0.0	3,358,520.0.0	4,903.5.0	319,256,075.5.0	3.30852	96,495,132.36
Banco Nacional de Panama	Balboas	369,000.00	4,999.75	863.30	374,863.05	1.00000	374,863.05
Banco Central del Paraguay	Guaranies		52,455,572.40	16,008.58	52,471,580.98	15.0000	3,498,105.39
Banco Central de Reserva del Peru	Soles	277,468,706.50	3,750,000.00	17,193.27	281,235,899.77	15.0000*	18,749,059.99
Central Bank of the Philippines	Pesos	22,000,000.00	494,902.42	1,520.88	22,496,423.30	2.00000	11,248,211.65
Sveriges Riksbank	Kronor		387,966,594.61	2,632.40	387,969,227.01	5.17321	74,995,839.53
Banque de Syrie et du Liban, Damascus, Syria	Pounds	10,447,000.00	233,734.01	2,378.12	10,683,112.13	2.19148	4,874,838.99
Carried forward (in U.S. dollar equivalents)					$3,441,845,438.98		$3,441,845,438.98

Appendix IX (vi) *(continued)*

CURRENCIES AND SECURITIES WITH DEPOSITORIES

April 30, 1954

Depositories	National Currencies	Amounts in Members' Currencies				Exchange Rates[1]	U.S. Dollar Equivalents
		Securities	No. 1 Accounts	No. 2 Accounts	Total		
Brought forward (in U.S. dollar equivalents)					$3,441,845,438.98		$3,441,845,438.98
Banque Centrale de la République de Turquie	Liras	78,250,000.00	87,634,264.33	1,900.27	165,886,164.60	2.80000	59,245,058.79
South African Reserve Bank	Pounds	26,405,574.8.7	376,889.11.7	512.5.6	26,782,976.5.8	280.000#	74,992,333.60
Bank of England	Pounds	415,175,000.0.0	4,664,213.3.1	2,688.7.7	419,841,901.10.8	280.000#	1,175,557,324.29
Federal Reserve Bank of New York	Dollars	1,378,000,000.00	30,136,270.05	239,420.42	1,408,375,690.47	100.000#	1,408,375,690.47
Riggs National Bank of Washington, D.C.[4]	Dollars			79,155.75	79,155.75	100.000#	79,155.75
Banco Central de Venezuela	Bolivares	32,659,359.42	5,011,000.00	2,002.40	37,672,361.82	3.35000	11,245,481.14
Banque Nationale de la République Fédérative Populaire de Yougoslavie	Dinars		18,352,321,800.00	158,427.00	18,352,480,227.00	300.000	61,174,934.09
TOTALS (in U.S. dollar equivalents)		$5,375,910,248.59	$856,216,660.25	$388,508.27	$6,232,515,417.11		$6,232,515,417.11

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[1] Parity rates, except for those marked * which are provisional rates for bookkeeping purposes. Rates marked # represent U.S. cents per currency unit; all other rates represent currency units per U.S. dollar. [2] With reference to Czechoslovakia's unilateral action of June 1, 1953 in regard to a change in the par value of the koruna, the Fund was advised by Czechoslovakia that a provisional account has been opened in "new currency" and that various entries have been made therein to reflect currency payments due to or from the Fund in connection with charges on balances in excess of quota. Since this method of settlement has not been approved by the Fund, no entries have been made in our koruna accounts here in respect of these items, which are carried on the Fund's books as Accounts Receivable and Payable at the rate of 50 korunas per U.S. dollar, the par value agreed with the Fund on December 18, 1946. [3] The 315,892,652 rupees shown above for Securities includes 50,000 rupees in respect of which the State Bank of Pakistan, at April 30, 1954, awaited a Treasury Note from the Ministry of Finance. The Note has since been received by the State Bank of Pakistan. [4] Checking accounts are maintained with the Riggs National Bank of Washington, D.C., for the purpose of making local payments for administrative expenditures.

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Appendix IX (vii)

STATUS OF SUBSCRIPTIONS TO CAPITAL

April 30, 1954

(expressed in U.S. dollars)

Members	Quotas	Payments on Subscriptions to Capital			Subscriptions to Capital Receivable	
		1/100 of 1% Paid in U.S. Dollars[1]	Paid in Gold	Paid in Member's Currency	Balances Due (Par Values Established)	Balances not Due (Par Values not Established)
Australia	200,000,000.00		8,404,843.20	191,595,156.80		
Austria	50,000,000.00		5,000,003.72	44,999,996.28		
Belgium	225,000,000.00	22,500.00	56,227,500.00	168,750,000.00		
Bolivia	10,000,000.00	1,000.00	2,500,040.06	7,498,959.94		
Brazil	150,000,000.00	15,000.00	37,485,030.14	112,499,969.86		
Burma	15,000,000.00		500,369.14	14,499,630.86		
Canada	300,000,000.00	30,000.00	74,970,000.00	225,000,000.00		
Ceylon	15,000,000.00		751,010.09	14,248,989.91		
Chile	50,000,000.00	5,000.00	8,813,013.93	41,181,986.07		
China	550,000,000.00	55,000.00				549,945,000.00
Colombia	50,000,000.00	5,000.00	12,495,150.61	37,499,849.39		
Costa Rica	5,000,000.00	500.00	373,700.09	4,625,799.91		
Cuba	50,000,000.00	5,000.00	12,495,386.36	37,499,613.64		
Czechoslovakia	125,000,000.00	12,500.00	2,361,151.14	122,626,348.86		
Denmark	68,000,000.00	6,800.00	5,934,983.32	62,058,216.68		
Dominican Republic	5,000,000.00	500.00	1,249,512.67	3,749,987.33		
Ecuador	5,000,000.00	500.00	1,249,612.81	3,749,887.19		
Egypt	60,000,000.00	4,500.00	9,484,075.69	50,511,424.31		
El Salvador	2,500,000.00	250.00	624,787.80	1,874,962.20		
Ethiopia	6,000,000.00	600.00	61,752.22	5,937,647.78		
Finland	38,000,000.00		760,222.44	37,239,777.56		
France	525,000,000.00	52,500.00	108,056,306.15	416,891,193.85		

Germany	330,000,000.00		33,009,651.50	296,990,348.50		
Greece	40,000,000.00	4,000.00				39,996,000.00
Guatemala	5,000,000.00	500.00	1,249,559.81	3,749,940.19		
Haiti	2,000,000.00		500,010.98	1,499,989.02		
Honduras	2,500,000.00	250.00	624,809.44	1,874,940.56		
Iceland	1,000,000.00	100.00	249,900.28	749,999.72		
India	400,000,000.00	40,000.00	27,486,453.61	372,473,546.39		
Indonesia	110,000,000.00		15,500,030.70			94,499,969.30
Iran	35,000,000.00	2,500.00	8,764,707.14	26,232,792.86		
Iraq	8,000,000.00	800.00		7,999,200.00		
Italy	180,000,000.00	18,000.00				179,982,000.00
Japan	250,000,000.00		62,500,000.15	187,499,999.85		
Jordan	3,000,000.00		97,617.49	2,902,382.51		
Lebanon	4,500,000.00	450.00	267,415.12	4,232,134.88		
Luxembourg	10,000,000.00	1,000.00	479,995.96	9,519,004.04		
Mexico	90,000,000.00	9,000.00	22,491,205.14	67,499,794.86		
Netherlands	275,000,000.00	27,500.00	68,722,500.00	206,250,000.00		
Nicaragua	2,000,000.00	200.00	499,975.66	1,499,824.34		
Norway	50,000,000.00	5,000.00	12,495,054.90	37,499,945.10		
Pakistan	100,000,000.00		3,500,607.22	96,499,392.78		
Panama	500,000.00	50.00	124,950.25	374,999.75		
Paraguay	3,500,000.00	200.00	875,496.47	2,624,303.53		
Peru	25,000,000.00	2,500.00	3,149,921.00	21,847,579.00		
Philippine Republic	15,000,000.00	1,500.00	3,748,548.79	11,249,951.21		
Sweden	100,000,000.00		17,000,086.78	82,999,913.22		
Syria	6,500,000.00	650.00	169,187.17	6,330,162.83		
Thailand	12,500,000.00		3,125,008.14			9,374,991.86
Turkey	43,000,000.00	4,300.00	10,745,912.23	32,249,787.77		
Union of South Africa	100,000,000.00	10,000.00	24,994,519.20	74,995,480.80		
United Kingdom	1,300,000,000.00	130,000.00	236,135,323.70	1,063,734,676.30		
United States	2,750,000,000.00	275,000.00	687,500,000.11	2,062,224,999.89		
Uruguay	15,000,000.00	1,500.00				14,998,500.00
Venezuela	15,000,000.00	1,500.00	3,748,541.96	11,249,958.04		
Yugoslavia	60,000,000.00	6,000.00	7,896,966.11	52,097,033.89		
TOTALS	8,848,500,000.00	759,650.00	1,607,452,408.59	6,351,491,480.25	-0-	888,796,461.16

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

Appendix IX (viii)

OTHER ASSETS

April 30, 1954

Cash		
On hand	$ 1,100.00	
With European Office	5,306.35	$ 6,406.35
Sundry debtors		
Deposits	$ 1,520.00	
Commercial accounts	16,700.73	
Salary advances	48,177.00	
Travel advances	7,315.00	
Other receivables	12,656.02	86,368.75
Prepayments		
Postage	$ 4,863.55	
Insurance	6,183.23	
Travel	16,051.17	
Other	4,171.68	31,269.63
Accounts receivable—Members (*mainly charges on Fund's holdings of currencies in excess of quotas*)		853,251.69
Furniture, equipment, and automobiles		
Furniture and equipment at cost	$516,493.04	
Automotive equipment at cost	6,842.07	
	$523,335.11	
Less: Reserve	523,335.11	—
Libraries		
Cost of books for Law Library	$ 25,640.62	
Investment in Joint Library	31,805.98	
	$ 57,446.60	
Less: Reserve	57,446.60	—
TOTAL OTHER ASSETS (carried to Balance Sheet)		$977,296.42

LIABILITIES

April 30, 1954

Accruals (*mainly personal services and office occupancy*)	$185,108.75
Accounts payable	3,782.42
Deferred credits (*subscriptions to Fund's publications for periods after April 30, 1954*)	5,129.26
TOTAL LIABILITIES (carried to Balance Sheet)	$194,020.43

Appendix IX (ix)

SUMMARY OF TRANSACTIONS

for the year ended April 30, 1954

1. EXCHANGE TRANSACTIONS

(a) Currency sold by Fund	*U.S. dollar equivalent*
56,300,000.0.0 pounds sterling	$157,640,000.00
69,250,000.00 U.S. dollars	69,250,000.00
18,480,000.00 deutsche marks	4,400,000.00
Total sold by Fund	$231,290,000.00

(b) Currency purchased by Fund, from		
Bolivia:	475,000,000.00 bolivianos	$ 2,500,000.00
Brazil:	864,875,000.00 cruzeiros	46,750,000.00
Chile:	387,500,000.00 pesos	12,500,000.00
Finland:	690,000,000.00 markkas	3,000,000.00
Japan:	44,654,400,000.00 yen	124,040,000.00
Mexico:	281,250,000.00 pesos	22,500,000.00
Turkey:	56,000,000.00 liras	20,000,000.00
Total purchased by Fund		$231,290,000.00

2. REPURCHASES

(a) Currency repurchased from Fund, by		*U.S. dollar equivalent*
Australia:	8,035,714.5.9 pounds	$ 18,000,000.00
Brazil:	346,875,000.00 cruzeiros	18,750,000.00
Finland:	1,495,000,000.00 markkas	6,500,000.00
India:	172,476,190.7.7 rupees	36,220,000.00
Japan:	22,176,000,000.00 yen	61,600,000.00
Netherlands:	321.99 guilders	84.73
Syria:	2,270,643.95 pounds	1,036,123.51
Turkey:	8,400,000.00 liras	3,000,000.00
Total repurchased from Fund		$145,106,208.24

(b) Currency and gold paid to Fund	
U. S. dollars	$144,609,134.53
Gold: 14,202.106 fine ounces	497,073.71
Total currency and gold paid to Fund	$145,106,208.24

Appendix IX (x)

STAFF RETIREMENT FUND
AUDITORS' CERTIFICATE

We have made an independent examination of the accounts of the Staff Retirement Fund of the International Monetary Fund for the year ended April 30, 1954. Our examination was made in accordance with generally accepted auditing standards and included all procedures which we considered necessary in the circumstances. In that connection, consideration was given to the authority and other requirements governing transactions of the Staff Retirement Fund.

The examination did not include a verification of the individual participants' accounts as at April 30, 1954, except for inquiry into certain of such accounts as a consequence of the application of auditing procedures to the other accounts of the Staff Retirement Fund. We ascertained, however, that the Internal Auditor of the International Monetary Fund had made a detailed audit of all participants' individual accounts as at April 30, 1954, and we satisfied ourselves that application of the auditing procedures adopted by him would be adequate to insure the correctness of such individual accounts with regard for eligibility, contributions, and interest allowed.

In our opinion, the Balance Sheet and related Statements of the Participants' Accounts, Accumulation Account, Retirement Reserve Account, Reserve against Corporate Stock Investments Account, and of the Sources and Application of Funds, together with the notes appearing thereon, present fairly the financial position of the Staff Retirement Fund of the International Monetary Fund as at April 30, 1954, and the results of operations for the year ended that date, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of previous fiscal years.

/s/ ALFREDO PHILLIPS (Chile)
/s/ MUNIR MOSTAR (Turkey)
/s/ W. S. J. THORNINGTON (United Kingdom)

Appendix IX (xi)

STAFF RETIREMENT FUND

BALANCE SHEET

April 30, 1954

ASSETS

Cash in bank			
The Riggs National Bank, Washington, D. C.		$ 5,212.51	
The Chase National Bank of the City of New York, N. Y.		5,040.01	$ 10,252.52
Investments (Book Value) (See page 178, and Note 1, page 182.)			
Bonds			
United States Government	$1,396,324.63		
International Bank for Reconstruction and Development (market value, $398,110.00)	396,751.67		
Commercial (market value, $479,265.00)	494,265.16	$2,287,341.46	
Corporate stocks			
Common (market value, $834,608.88)		688,768.13	
		$2,976,109.59	
Less: Reserve against Corporate Stock Investments (See Note 2, page 182.)		23,969.00	2,952,140.59
Accrued interest on bonds			14,513.36
Accrued contributions receivable from International Monetary Fund			3,699.89
TOTAL ASSETS			$2,980,606.36

LIABILITIES AND RESERVES

Participants' Account (See page 172.)	$ 787,520.41
Accumulation Account (See page 173.)	2,093,383.56
Retirement Reserve (See page 174.)	99,702.39
TOTAL LIABILITIES AND RESERVES	$2,980,606.36

/s/ Y. C. Koo
Treasurer

/s/ Ivar Rooth
Managing Director

/s/ Charles M. Powell
Comptroller and
Assistant Treasurer

See Notes, Appendix IX (xix), which are an integral part of this Statement.

Appendix IX (xii)

STAFF RETIREMENT FUND

STATEMENT OF PARTICIPANTS' ACCOUNT

for the year ended April 30, 1954

	Prior Service	Participating Service	Additional Contributions
BALANCE, April 30, 1953....	$ 9,021.48	$643,613.02	$6,572.90
Add			
Participants' contributions	689.66	166,360.21	2,465.00
Interest credited to participants................	1,034.08	17,478.28	185.39
Transfers from prior service contributions..........		5,089.41	
Transfers from Retirement Plan of International Bank for Reconstruction and Development......		1,927.21	
	$10,745.22	$834,468.13	$9,223.29
Less			
Refunds upon participants' withdrawals...........		38,043.06	182.93
Transfers to participating service contributions....	5,089.41		
Refunds on death (prior to retirement)............		3,042.58	
Transfers to Retirement Reserve..............		13,174.98	
Transfer to Retirement Plan of International Bank for Reconstruction and Development......		1,727.46	
Refunds of prior service contributions which were not fully paid before July 1, 1953...........	5,655.81		
	-0-	$778,480.05	$9,040.36
TOTAL (carried to Balance Sheet)..		$787,520.41	

See Notes, Appendix IX (xix), which are an integral part of this Statement.

Appendix IX (xiii)

STAFF RETIREMENT FUND

STATEMENT OF ACCUMULATION ACCOUNT

for the year ended April 30, 1954

BALANCE, April 30, 1953			$1,753,802.92
Add			
Employer's contributions			
Participating service			328,278.42
Transfers from Retirement Plan of International Bank for Reconstruction and Development			4,163.98
Income from investments			
Interest on bonds		$59,862.73	
Dividends on stocks		30,859.99	
Other		197.75	90,920.47
Interest received from participants on unpaid prior service contributions			108.11
Profit on sale or redemption of investments (net)			3,627.40
Profits			
Bonds	$5,103.22		
Corporate stocks	879.01	$ 5,982.23	
Less losses			
Bonds	$ 2,354.77		
Corporate stocks	.06	2,354.83	
		$ 3,627.40	
Transfer from Retirement Reserve			87.00
			$2,180,988.30
Less			
Transfers to Retirement Reserve		$30,734.42	
Withdrawal benefits		6,197.53	
Death benefits (prior to retirement)		13,737.42	
Interest credited to Participants' Account		18,697.75	
Interest on Retirement Reserve		2,151.66	
Amortization of premiums, less accumulation of discounts on investments		280.48	
Transfer to Retirement Plan of International Bank for Reconstruction and Development		1,942.02	
Transfer to Reserve against Corporate Stock Investments		13,863.46	87,604.74
TOTAL (carried to Balance Sheet)			$2,093,383.56

See Notes, Appendix IX (xix), which are an integral part of this Statement.

Appendix IX (xiv)

STAFF RETIREMENT FUND

STATEMENT OF RETIREMENT RESERVE ACCOUNT

for the year ended April 30, 1954

BALANCE, April 30, 1953		$ 56,419.93
Add		
Transfers from Participants' and Accumulation Accounts		43,909.40
Interest on Retirement Reserve		2,151.66
		$102,480.99
Less		
Pension payments to retired participants	$2,691.60	
Transfer to Accumulation Account	87.00	2,778.60
TOTAL (carried to Balance Sheet)		$ 99,702.39

See Notes, Appendix IX (xix), which are an integral part of this Statement.

Appendix IX (xv)

STAFF RETIREMENT FUND STATEMENT OF RESERVE AGAINST CORPORATE STOCK INVESTMENTS ACCOUNT

for the year ended April 30, 1954

BALANCE, April 30, 1953	$10,105.54
Add: Transfer from Accumulation Account	13,863.46
TOTAL (carried to Balance Sheet)	$23,969.00

See Notes, Appendix IX (xix), which are an integral part of this Statement.

Appendix IX (xvi)

STAFF RETIREMENT FUND

STATEMENT OF SOURCES AND APPLICATION OF FUNDS

for the year ended April 30, 1954

FUNDS PROVIDED

Participants' contributions		
Prior service	$ 689.66	
Participating service	166,360.21	
Additional voluntary contributions	2,465.00	$ 169,514.87
Employer's contributions		328,278.42
Sales of investments (book value)		
U.S. Treasury bills	$ 76,779.36	
U.S. Treasury bonds	407,688.28	
Commercial bonds	53,775.00	
Corporate stocks	30,235.51	
	$568,478.15	
Add: Profits from sale of securities (net)	3,627.40	572,105.55
Income from investments	$ 94,221.09	
Less: Interest on bonds purchased	3,300.62	90,920.47
Interest on unpaid prior service contributions of participants		108.11
Transfers from Retirement Plan of International Bank for Reconstruction and Development		6,091.19
Difference in working capital between 1953 and 1954 (See page 177.)		28,266.03
TOTAL FUNDS PROVIDED		$1,195,284.64

FUNDS APPLIED

Purchase of investments	$1,122,064.23
Payments to former participants on withdrawal	44,423.52
Payments on death prior to retirement	16,780.00
Refunds of prior service contributions (including interest) which were not fully paid before July 1, 1953	5,655.81
Pension payments to retired participants	2,691.60
Transfers to Retirement Plan of International Bank for Reconstruction and Development	3,669.48
TOTAL FUNDS APPLIED	$1,195,284.64

See Notes, Appendix IX (xix), which are an integral part of this Statement.

Appendix IX (xvii)

STAFF RETIREMENT FUND

STATEMENT OF CHANGES IN WORKING CAPITAL

	April 30, 1954	April 30, 1953	Increase (Decrease–)
CURRENT ASSETS			
Cash	$10,252.52	$27,066.64	–$16,814.12
Accrued interest on bonds	14,513.36	9,570.73	4,942.63
Accrued contributions receivable from International Monetary Fund	3,699.89	20,094.43	–16,394.54
	$28,465.77	$56,731.80	–$28,266.03
CURRENT LIABILITIES	—	—	—
WORKING CAPITAL	$28,465.77	$56,731.80	–$28,266.03

See Notes, Appendix IX (xix), which are an integral part of this Statement.

Appendix IX (xviii)

STAFF RETIREMENT FUND
SCHEDULE OF INVESTMENTS

April 30, 1954

	Interest Rate—%	Maturity	Face Value	Book Value	
BONDS					
United States Savings, Series G	2½	1960	$250,000.00	$250,000.00	
United States Savings, Series G	2½	1961	100,000.00	100,000.00	
United States Savings, Series G	2½	1962	100,000.00	100,000.00	
United States Savings, Series G	2½	1963	65,000.00	65,000.00	
United States Savings, Series K	2.76	1966	160,000.00	160,000.00	
United States Treasury	2¾	1980	203,000.00	200,668.86	
United States Treasury	3¼	1983	501,000.00	520,655.77	$1,396,324.63
International Bank for Reconstruction and Development	3½	1969	50,000.00	$ 50,000.00	
International Bank for Reconstruction and Development	3	1972	276,000.00	271,751.67	
International Bank for Reconstruction and Development	3	1976	50,000.00	50,000.00	
International Bank for Reconstruction and Development	3¼	1981	25,000.00	25,000.00	396,751.67
Commercial					
Allied Chemical and Dye Corporation — Debentures	3½	1978	25,000.00	$ 24,760.83	
American Telephone and Telegraph Company —Debentures	2¾	1980	38,000.00	38,096.49	
Commonwealth Edison Company—1st Mortgage, Series "P"	3⅝	1983	20,000.00	20,048.88	
Connecticut Light and Power Co.—1st & Refunding Mortgage, Series "L"	2¾	1984	12,000.00	12,243.40	
Consolidated Edison Company of New York, Inc.—1st & Refunding Mortgage, Series "E"	3	1979	38,000.00	39,606.88	
Carried forward				$134,756.48	$1,793,076.30

Appendix IX (xviii) *(continued)*

STAFF RETIREMENT FUND
SCHEDULE OF INVESTMENTS
April 30, 1954

	Interest Rate—%	Maturity	Face Value	Book Value	
Brought forward				$134,756.48	$1,793,076.30
Commercial (continued)					
Duke Power Company—1st & Refunding Mortgage	2⅞	1979	13,000.00	13,577.51	
Illinois Bell Telephone Company—1st Mortgage, Series "A"	2¾	1981	25,000.00	25,350.82	
Kansas City Power & Light Company—1st Mortgage	3¼	1983	15,000.00	15,193.61	
New York Telephone Company—1st & Refunding Mortgage, Series "D"	2¾	1982	37,000.00	37,540.15	
New York Telephone Company — Refunding Mortgage, Series "G"	3⅞	1984	26,000.00	27,150.68	
Pacific Gas and Electric Company — 1st and Refunding Mortgage, Series "S"	3	1983	45,000.00	46,882.70	
Pennsylvania Power & Light Company—1st Mortgage	3	1975	38,000.00	39,527.60	
Philadelphia Electric Company—1st & Refunding Mortgage	2¾	1974	24,000.00	24,282.40	
Potomac Electric Power Company—1st Mortgage	2¾	1985	44,000.00	44,303.26	
Public Service Electric and Gas Company—1st & Refunding Mortgage	2⅞	1979	40,000.00	41,454.13	
Standard Oil Company (New Jersey) — Debentures	2¾	1974	30,000.00	30,121.40	
United Gas Corporation—1st Mortgage & Collateral Trust	2¾	1970	14,000.00	14,124.42	494,265.16
TOTAL BONDS (carried forward)					$2,287,341.46

Appendix IX (xviii) *(continued)*

STAFF RETIREMENT FUND

SCHEDULE OF INVESTMENTS

April 30, 1954

TOTAL BONDS (brought forward)................................ $2,287,341.46

CORPORATE STOCKS, Common	No. of Shares	Book Value	
Abbott Laboratories	200	$11,063.00	
Aluminum Company of America	200	8,509.48	
American Can Company	440	11,086.00	
American Natural Gas Company	440	12,823.14	
Atlantic Refining Company	250	7,558.53	
Atlas Powder Company	100	4,135.50	
Bankers Trust Company of New York	100	4,987.50	
Caterpillar Tractor Co.	404	19,523.58	
Coca-Cola Company	176	19,956.97	
Consolidated Natural Gas Company	100	5,581.55	
Consumers Power Company	440	15,883.20	
Continental Insurance Company	200	13,965.90	
Corn Products Refining Company	200	13,903.34	
Crown Zellerbach Corporation	100	3,708.38	
Dow Chemical Company	437	12,652.43	
Du Pont (E.I.) de Nemours and Company	100	11,058.51	
Eastman Kodak Company	200	11,018.44	
Fidelity-Phenix Fire Insurance Co.	100	7,617.58	
Firestone Tire & Rubber Co.	100	7,067.03	
General Electric Company	200	10,637.58	
General Mills, Inc.	300	17,082.49	
Goodrich (B.F.) Company	200	14,066.00	
Guaranty Trust Company of New York	200	13,287.50	
Gulf Oil Corporation	217	8,616.00	
Hanover Bank of New York	169	14,196.88	
Hartford Fire Insurance Company	125	13,125.00	
Hercules Powder Company	200	12,389.33	
Idaho Power Company	400	17,321.21	
International Harvester Company	300	10,368.95	
International Nickel Company of Canada, Limited	300	11,738.25	
International Paper Company	440	19,148.03	
Libby-Owens-Ford Glass Company	400	14,612.50	
Lone Star Cement Corporation	400	10,278.44	
May Department Stores Company	400	12,062.32	
Merck & Co., Inc.	700	17,923.75	
Minnesota Mining and Manufacturing Company	200	11,619.04	
Monsanto Chemical Company	100	8,922.39	
Montgomery Ward & Co., Incorporated	200	14,153.59	
National Distillers Products Corporation	500	15,062.19	
National Lead Company	600	18,464.08	
Ohio Edison Company	297	10,517.53	
Carried forward........................		$497,693.11	$2,287,341.46

Appendix IX (xviii) *(continued)*

STAFF RETIREMENT FUND

SCHEDULE OF INVESTMENTS

April 30, 1954

	No. of Shares	Book Value	
Brought forward.		$497,693.11	$2,287,341.46
Peoples Gas Light and Coke Company	120	13,537.50	
Pfizer (Chas.) & Co., Inc.	300	10,456.89	
Phillips Petroleum Company	100	5,856.83	
Pittsburgh Plate Glass Company	400	18,872.75	
Sears, Roebuck and Company	100	6,141.10	
Sherwin-Williams Company	200	14,389.82	
Socony-Vacuum Oil Company, Incorporated	600	17,833.26	
Standard Oil Company (New Jersey)	200	14,829.26	
Texas Company	300	16,043.95	
Texas Utilities Company	400	17,747.32	
Union Carbide and Carbon Corporation	100	6,332.30	
United Gas Corporation	710	18,701.64	
United States Fidelity and Guaranty Company	121	5,615.80	
Westinghouse Electric Corporation	400	15,705.65	
Woolworth (F.W.) Co.	200	9,010.95	688,768.13
TOTAL INVESTMENTS (carried to Balance Sheet)			$2,976,109.59

Appendix IX (xix)

NOTES TO FINANCIAL STATEMENTS OF STAFF RETIREMENT FUND OF THE INTERNATIONAL MONETARY FUND

for the year ended April 30, 1954

1. The rules regarding investment under the Staff Retirement Plan adopted by the Pension Committee in the fiscal year ended April 30, 1953, and referred to in the Report on Audit for that year, remain in force. The following table shows the approved limiting percentages for various bonds and corporate stocks and the percentages and amounts (book value) of the actual investments as at April 30, 1954:

	Authorized Percentage	Actual Percentage	Book Value
Bonds			
U.S. Government......	Minimum 40	46.92	$1,396,324.63
International Bank for Reconstruction and Development.......	Maximum 20	13.33	396,751.67
Corporate............	Maximum 25	16.61	494,265.16
Corporate stocks........	Maximum 25	23.14	688,768.13
		100.00	$2,976,109.59

In accordance with the decision of the Investment Committee, the maximum amount invested in any one corporate stock has not exceeded $20,000.00. All corporate stocks have been selected from a list prepared by the Investment Commitee on the recommendation of the Investment Consultant (Chase National Bank of the City of New York, N. Y.).

2. Corporate stock income received during the fiscal year, in excess of 3 per cent of the weighted average corporate stock investment held during that period, is transferred to the account "Reserve Against Corporate Stock Investments." It has also been decided that, beginning with the fiscal year under review, all profits and losses resulting from sales of corporate stocks during the year should be credited or charged to this account.

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Appendix X (i)

SCHEDULE OF PAR VALUES—as of June 30, 1954

CURRENCIES OF METROPOLITAN AREAS

		Par Values In Terms of Gold		Par Values In Terms of U. S. Dollars	
Member	Currency	Grams of fine gold per currency unit	Currency units per troy ounce of fine gold	Currency units per U. S. dollar	U. S. cents per currency unit
Australia	Pound	1.990 62	15.625 0	0.446 429	224.000
Austria	Schilling	0.034 179 6	910.000	26.000 0	3.846 15
Belgium	Franc	0.017 773 4	1,750.00	50.000 0	2.000 00
Bolivia	Boliviano	0.004 677 22	6,650.00	190.000	0.526 316
Brazil	Cruzeiro	0.048 036 3	647.500	18.500 0	5.405 41
Burma	Kyat	0.186 621	166.667	4.761 90	21.000 0
Canada[1]	Dollar				
Ceylon	Rupee	0.186 621	166.667	4.761 90	21.000 0
Chile	Peso	0.008 078 83	3,850.00	110.000	0.909 091
China	Yuan	Par Value not yet established			
Colombia	Peso	0.455 733	68.249 3	1.949 98	51.282 5
Costa Rica	Colón	0.158 267	196.525	5.615 00	17.809 4
Cuba	Peso	0.888 671	35.000 0	1.000 00	100.000
Czechoslovakia[2]	Koruna				
Denmark	Krone	0.128 660	241.750	6.907 14	14.477 8
Dominican Republic	Peso	0.888 671	35.000 0	1.000 00	100.000
Ecuador	Sucre	0.059 244 7	525.000	15.000 0	6.666 67
Egypt	Pound	2.551 87	12.188 5	0.348 242	287.156
El Salvador	Colón	0.355 468	87.500 0	2.500 00	40.000 0
Ethiopia	Dollar	0.357 690	86.956 5	2.484 47	40.250 0
Finland	Markka	0.003 863 79	8,050.00	230.000	0.434 783
France	Franc	No Par Value agreed with the Fund			
Germany, Federal Republic of	Deutsche Mark	0.211 588	147.000	4.200 00	23.809 5
Greece	Drachma	Par Value not yet established			
Guatemala	Quctzal	0.888 671	35.000 0	1.000 00	100.000
Haiti	Gourde	0.177 734	175.000	5.000 00	20.000 0
Honduras	Lempira	0.444 335	70.000 0	2.000 00	50.000 0
Iceland	Króna	0.054 567 6	570.000	16.285 7	6.140 36
India	Rupee	0.186 621	166.667	4.761 90	21.000 0
Indonesia	Rupiah	Par Value not yet established			

Iran	Rial	0.027 555 7	1,128.75	32.250 0	3.100 78
Iraq	Dinar	2.488 28	12.500 0	0.357 143	280.000
Italy	Lira	Par Value not yet established			
Japan	Yen	0.002 468 53	12,600.0	360.000	0.277 778
Jordan	Dinar	2.488 28	12.500 0	0.357 143	280.000
Lebanon	Pound	0.405 512	76.701 8	2.191 48	45.631 3
Luxembourg	Franc	0.017 773 4	1,750.00	50.000 0	2.000 00
Mexico	Peso	0.071 093 7	437.500	12.500 0	8.000 00
Netherlands	Guilder	0.233 861	133.000	3.800 00	26.315 8
Nicaragua	Córdoba	0.177 734	175.000	5.000 00	20.000 0
Norway	Krone	0.124 414	250.000	7.142 86	14.000 0
Pakistan	Rupee	0.268 601	115.798	3.308 52	30.225 0
Panama	Balboa	0.888 671	35.000 0	1.000 00	100.000
Paraguay	Guaraní	0.059 244 7	525.000	15.000 0	6.666 67
Peru[3]	Sol				
Philippines	Peso	0.444 335	70.000 0	2.000 00	50.000 0
Sweden	Krona	0.171 783	181.062	5.173 21	19.330 4
Syria	Pound	0.405 512	76.701 8	2.191 48	45.631 3
Thailand	Baht	Par Value not yet established			
Turkey	Lira	0.317 382	98.000 0	2.800 00	35.714 3
Union of South Africa	Pound	2.488 28	12.500 0 (or 250 shillings)	0.357 143	280.000
United Kingdom	Pound Sterling	2.488 28	12.500 0 (or 250 shillings)	0.357 143	280.000
United States	Dollar	0.888 671	35.000 0	1.000 00	100.000
Uruguay	Peso	Par Value not yet established			
Venezuela	Bolivar	0.265 275	117.250	3.350 00	29.850 7
Yugoslavia	Dinar	0.002 962 24	10,500.0	300.000	0.333 333

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[1] The initial par value of the Canadian dollar, established on December 18, 1946, was 100.000 U. S. cents per Canadian dollar. On September 19, 1949, following consultation with the Fund, the par value of the Canadian dollar was changed to 90.909 1 U. S. cents per Canadian dollar. On September 30, 1950, Canada introduced a new exchange system under which the exchange value of the Canadian dollar will be allowed to fluctuate, so that for the time being Canada will not ensure that exchange transactions within its territories will be based on the par value established on September 19, 1949. No new par value has been proposed to the Fund.

[2] On June 1, 1953, Czechoslovakia changed the par value of the koruna from 0.017 773 4 grams of fine gold per koruna, or 50 korunas per U. S. dollar, which had been agreed with the Fund, to 0.123 426 grams of fine gold per koruna, or 7.20 korunas per U. S. dollar. This change was made by Czechoslovakia without consulting the Fund or seeking its concurrence, on the ground that the change came under Article IV, Section 5(e) of the Fund Agreement because it did not affect the international transactions of members of the Fund. The Fund has concluded that the change of par value does not come under this provision.

[3] The initial par value of the sol, established on December 18, 1946, was 15.384 6 U. S. cents per sol. In November 1949, Peru introduced a new exchange system, but no agreement on a new par value has been reached.

Appendix X (ii)

SCHEDULE OF PAR VALUES—as of June 30, 1954

SEPARATE CURRENCIES IN NONMETROPOLITAN AREAS OF MEMBERS

		Par Values In Terms of Gold		Par Values In Terms of U. S. Dollars	
Member and Nonmetropolitan Areas	Currency and Relation to Metropolitan Unit	Grams of fine gold per currency unit	Currency units per troy ounce of fine gold	Currency units per U. S. dollar	U. S. cents per currency unit
BELGIUM					
Belgian Congo	Franc (parity with Belgian franc)	0.017 773 4	1,750.00	50.000 0	2.000 00
FRANCE					
French Indo-China	Piastre	Par Value not yet established			
French Possessions in India	Rupee	0.186 621	166.667	4.761 90	21.000 0
French Somaliland	Djibouti Franc	0.004 145 07	7,503.73	214.392	0.466 435
ITALY					
Somaliland	Somalo	Par Value not yet established			
NETHERLANDS					
Surinam	Guilder (=2.015 Netherlands guilders)	0.471 230	66.004 9	1.885 85	53.026 4
Netherlands Antilles	Guilder (=2.015 Netherlands guilders)				
Netherlands New Guinea	Guilder	Par Value not yet established			
UNITED KINGDOM					
Gambia Gold Coast Nigeria Sierra Leone	British West African Pound (parity with sterling)	2.488 28	12.500 0	0.357 143	280.000
Southern Rhodesia Northern Rhodesia Nyasaland	Southern Rhodesian Pound (parity with sterling)				
Cyprus	Cyprus Pound (parity with sterling)				
Gibraltar	Gibraltar Pound (parity with sterling)				
Malta	Maltese Pound (parity with sterling)				

Bahamas	Bahamas Pound (parity with sterling)	2.488 28	12.500 0	0.357 143	280.000
Bermuda	Bermuda Pound (parity with sterling)				
Jamaica	Jamaican Pound (parity with sterling)				
Falkland Islands	Falkland Islands Pound (parity with sterling)				
Aden	British East African Shilling (20 per pound sterling)	0.124 414	250.000	7.142 86	14.000 0
British Somaliland					
Kenya					
Uganda					
Tanganyika					
Zanzibar					
Barbados	British West Indian Dollar (4.80 per pound sterling)	0.518 391	60.000 0	1.714 29	58.333 3
Trinidad					
British Guiana					
Leeward Islands					
Windward Islands					
British Honduras	British Honduras Dollar (4.00 per pound sterling)	0.622 070	50.000 0	1.428 57	70.000 0
Mauritius	Mauritius Rupee (13-1/3 per pound sterling)	0.186 621	166.667	4.761 90	21.000 0
Seychelles	Seychelles Rupee (13-1/3 per pound sterling)				
Fiji	Fiji Pound (1.11 per pound sterling)	2.241 69	13.875 0	0.396 429	252.252
Tonga	Tongan Pound (1.250 00[1] per pound sterling)	1.990 62	15.625 0	0.446 429	224.000
Hong Kong	Hong Kong Dollar (16 per pound sterling)	0.155 517	200.000	5.714 29	17.500 0
Malaya (Singapore and Federation of Malaya)	Malayan Dollar (8.571 428 57 per pound sterling, or 2 shillings 4 pence per Malayan dollar)	0.290 299	107.143	3.061 22	32.666 7
British North Borneo					
Brunei					
Sarawak					

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[1] The relation of 1.252 5 Tongan pounds per pound sterling, as initially communicated and confirmed on September 18, 1949, was corrected on August 2, 1950 to 1.250 00.

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