



1973

ANNUAL REPORT

**ANNUAL REPORT
1973**

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INTERNATIONAL MONETARY FUND

ANNUAL REPORT

**OF THE
EXECUTIVE DIRECTORS FOR THE
FISCAL YEAR ENDED APRIL 30, 1973**

WASHINGTON, D.C.

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CONTENTS

	<i>Page</i>
Letter of Transmittal	xi
Chapter 1. DEVELOPMENTS IN THE WORLD ECONOMY	1
Foreign Exchange and Gold Markets	2
Growth and Inflation	8
International Trade and Payments	15
Growth in World Trade	16
Current Account and Overall Payments Positions of the Industrial Countries	18
Developments in the Primary Producing Countries	24
More developed primary producing countries	25
Less developed countries	27
Recent International Monetary Developments and the Developing Countries	28
Trade Impact of the Early 1973 Realignment	28
Changes in Valuation of Reserve Assets	29
Impact of the Early 1973 Realignment on Debt	30
Implications of Greater Exchange Rate Flexibility	31
Chapter 2. DEVELOPMENTS IN INTERNATIONAL LIQUIDITY	34
Reserve Changes in 1972	34
Reserve Growth and Composition	34
Country Distribution	38
Factors Affecting the Adequacy of Reserves	41
Recent Developments in the Need for Reserves Compared with the Supply	42
Manifestations of Changes in Reserve Ease	44
Chapter 3. ACTIVITIES OF THE FUND	46
Reform of the International Monetary System	46
Exchange Rates	47
Special Drawing Account	48
Transactions and Operations Between Participants and the General Account	49
Transactions by Agreement Between Participants	49
Transactions with Designation	50
Reconstitution	50
Changes in the Distribution of SDR Holdings	51
General Account	51
Use of Fund Resources	54
Repurchases	55
Transactions and Operations in Gold	56
Income, Expenditures, and Reserves	56
Consultations with Member Countries	57
Training and Technical Assistance	57

	<i>Page</i>
Relations with Other International Organizations	59
Membership, Quotas, and Participation in the Special Drawing Account	61
Executive Directors, Management, and Staff	62
 APPENDICES	
I. The Fund in 1972/73	65
Exchange Rate Developments	65
Special Drawing Account	67
General Account	68
Repurchases Under Article V, Section 7(b)	68
Gold	69
Income and Expenditures	69
Article VIII	69
Publications	69
II. Principal Policy Decisions of the Executive Board and Reports to the Board of Governors	94
A. Size and Structure of the Executive Board	94
Report of the Executive Directors to the Board of Governors	94
Resolution Submitted to the Board of Governors	95
B. Special Drawing Account: The Rules for Reconstitution	95
Report of the Executive Directors to the Board of Governors	95
Resolution Submitted to the Board of Governors	97
C. Reconstitution: Amendment of Rules P-2 and P-3	97
D. Special Drawing Account: Review of Designation	98
E. Exchange Rates for Computations by the Fund	98
F. Buffer Stock Financing Facility: International Cocoa Agreement	98
III. Executive Directors and Voting Power	100
IV. Changes in Membership of Executive Board	103
V. Administrative Budget	107
VI. Comparative Statement of Income and Expenditure	109
VII. Financial Statements	110
International Monetary Fund	110
Staff Retirement Fund	118
Indexes	123

LIST OF TABLES

1. Growth of World Output, 1960-72	9
2. Price Increases in Industrial Countries, 1960-72	10
3. Growth of Output in Less Developed Countries and Related Indicators, 1969-72	11

	<i>Page</i>
4. Price Increases in Less Developed Countries, 1965–72	11
5. Volume of World Trade: Imports, 1960–72	16
6. Volume of World Trade: Exports, 1960–72	18
7. Industrial Countries: Balance of Payments Summaries, 1970–72	19
8. Balance of Payments Summary, 1970–72	26
9. Reserves, Credit Tranche Positions, and Other Unused Credit Facilities, End of Years, 1953–72	35
10. Sources of Reserve Change, 1963–72	36
11. Composition of Adjusted Global Reserves, End of 1950, 1960, and 1969–First Quarter 1973	37
12. U. S. Balance of Payments and Its Financing, 1968–72	38
13. Official Holdings of Euro-Dollars and Unidentified Foreign Exchange Reserves, End of Years, 1964–72	39
14. Countries' Official Reserves, Adjusted, 1953, 1960, and 1969–March 1973 ..	40
15. Selected Countries with Major Reserve Increases, 1972	41
16. Changes in the Distribution of SDR Holdings, Fiscal Year Ended April 30, 1973	52
I.1. Exchange Rates, July 16, 1973	70
I.2. Par Values Established or Changed, Fiscal Year Ended April 30, 1973 ..	74
I.3. Central Rates Established or Changed in Accordance with Executive Board Decision No. 3463-(71/126), Fiscal Year Ended April 30, 1973	75
I.4. Transfers of Special Drawing Rights, January 1, 1970–April 30, 1973 ..	76
I.5. Summary of Transactions and Operations in Special Drawing Rights, Fiscal Year Ended April 30, 1973	77
I.6. Currencies Transferred for Special Drawing Rights, January 1, 1970–April 30, 1973	80
I.7. Transfer of Special Drawing Rights by the General Account, Fiscal Year Ended April 30, 1973	81
I.8. Purchases of Currencies and Special Drawing Rights from the Fund, Fiscal Year Ended April 30, 1973	82
I.9. Fund Stand-By Arrangements for Members, Fiscal Year Ended April 30, 1973	83
I.10. Summary of Stand-By Arrangements That Became Effective During the Fiscal Years Ended April 30, 1953–73	84
I.11. Purchases and Repurchases Under the Decision on Compensatory Financing of Export Fluctuations, February 27, 1963–April 30, 1973	85
I.12. Repurchases of Currencies from the Fund, Fiscal Year Ended April 30, 1973	86
I.13. Total Repurchase Obligations Incurred in Accordance with Article V, Section 7(b), and Amounts Payable Forthwith by Members, as of April 30, 1972 ..	87
I.14. Currencies and Special Drawing Rights Obtained from the Fund by Members in Purchases for Their Own Currencies; Currencies, Gold, and Special Drawing Rights Used by Members in Repurchases, Fiscal Year Ended April 30, 1973	88
I.15. Summary of Members' Purchases and Repurchases, Years Ended April 30, 1948–73	89
I.16. Gold Transactions and Operations by the Fund, Fiscal Year Ended April 30, 1971–73	91
I.17. Income and Expenditure, Fiscal Years Ended April 30, 1964–73	91

	<i>Page</i>
I.18. Charges on Transactions Effected After May 1, 1963	92
I.19. Countries That Have Accepted Article VIII, April 30, 1973	92
I.20. Publications Issued, Fiscal Year Ended April 30, 1973	93

LIST OF CHARTS

1. Spot Exchange Rates, December 22, 1971–July 25, 1973	4
2. Spot Exchange Rates, December 22, 1971–July 25, 1973	5
3. Gold: Prices in London, 1968–July 1973	6
4. Three-Month Forward Exchange Rates: Margins from Spot Rates, December 22, 1971–July 25, 1973	7
5. Changes in Output of Industrial Countries, 1953–First Half 1973	8
6. Overall Price Increases in Industrial Countries, 1953–First Half 1973	14
7. Growth of World Trade, 1953–First Half 1973	17
8. Short-Term Money Market Rates, August 1971–July 18, 1973	23
9. Level and Composition of Reserves, End of Period, 1962–First Quarter 1973	37
10. Ratio of Aggregate Reserves to Aggregate Imports of 60 Countries, 1954–72	42
I.1. Use of Fund Resources, April 30, 1964–73	90

The following symbols have been used throughout this Report:

- (...) indicate that data are not available;
- (—) indicates that the figure is zero or less than half the final digit shown, or that the item does not exist;
- (–) is used between years or months (e.g., 1969–72 or January–June) to indicate the years or months covered, including the beginning and ending years or months;
- (/) is used between years (e.g., 1972/73) to indicate a fiscal year.

“Billion” means a thousand million.

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

The classification of countries employed in the Report is indicated in Table 1 on page 9.

INTERNATIONAL MONETARY FUND

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Deputy Managing Director

Executive Directors

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P. S. N. Prasad
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Erik Brofoss
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The Economic Counsellor
Administration Department
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Central Banking Service
European Department
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Fiscal Affairs Department
IMF Institute
Legal Department
Middle Eastern Department
Research Department
Secretary's Department
Treasurer's Department
Western Hemisphere Department
Bureau of Language Services
Bureau of Statistics
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Jean-Paul Sallé, Director
Edgar Jones, Director
Roger V. Anderson

July 25, 1973

¹ Anwar Ali, Director (on leave).

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LETTER OF TRANSMITTAL
TO THE BOARD OF GOVERNORS

July 25, 1973

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, 1973.

Yours sincerely,

/s/

PIERRE-PAUL SCHWEITZER

Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

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Chapter 1

Developments in the World Economy

WORLD economic developments in 1972 and the first half of 1973 were dominated by a strong cyclical upsurge in activity, high rates of price inflation, and currency crises and unrest punctuated by another realignment of major currencies in February–March 1973. With key elements of the Bretton Woods system no longer observed, the work of reforming the international monetary system continued in the Fund through the Committee of Twenty. (See Chapter 3.)

The present chapter, intended as a general survey of world-wide economic developments, comprises four sections.

(1) *Foreign Exchange and Gold Markets* provides a synopsis of the critical exchange market developments through which the current structure of exchange rates emerged and the prevailing situation with respect to international currency relationships came into existence. These developments were characterized by greater flexibility of exchange rate relationships. This became evident, for example, in the adoption of temporary wider margins for official intervention, in the resort to floating in special circumstances, and in the demonstrated willingness of major countries, including the United States, to make a change in par value when appropriate. Another feature of prevailing currency relationships is their lack of firm foundation in an internationally agreed set of rules or code of conduct. In this respect, despite continuing consultation and a substantial degree of cooperation among national monetary authorities, the current situation is not consistent with one of the prime conceptions in the founding of the Fund—that exchange rates are intrinsically a matter of international concern. The need to bring exchange rate policies and practices under the framework of a system founded on international agreement and commanding general support—whatever may prove to be the particular characteristics of that system—is an important aspect of international monetary reform. Meanwhile, it is to be stressed that, even though exchange rate relationships are not on a *de jure* basis, member countries have

a responsibility to continue their cooperative efforts and to remain mindful of international considerations, i.e., of the interests of other countries, in conducting their policies in the exchange field.

(2) *Growth and Inflation* attempts to trace and characterize the main current trends in economic activity. It depicts, *inter alia*, the serious difficulties being encountered by the industrial countries in reconciling their objectives for growth and employment with those in the field of prices. These difficulties, which have prevailed generally during the period since the mid-1960s, are at present manifested chiefly in persistently high rates of price inflation, occurring in a general climate of rapid expansion in total output and rising capacity-utilization rates. Among the difficult tasks of economic management facing most members of the Fund, and notably the major industrial countries, none is more urgent, or of greater significance for the longer run, than that of finding a solution to the problem of controlling and reducing inflation.

(3) *International Trade and Payments* describes the boom in world trade now in progress, provides an overview of current account and overall payments positions of the industrial countries, and discusses recent trade and payments developments in the primary producing countries. In this context, a central question relates to the prospects for reduction and elimination of the large disequilibrium in current account balances of the major industrial countries—a development constituting at once the main objective of the 1971 and 1973 currency realignments and the essential prerequisite for an effective functioning of the international adjustment process. On the basis of projections by the Fund staff, with due allowance for the inevitable margins of error, it appears that, if countries follow reasonably satisfactory policies in managing their domestic economies, some alleviation of the current account disequilibrium should become apparent in 1973 but that substantial progress toward adjustment is not

to be expected until 1974 because of the lags involved in the impact of exchange rate changes on trade flows. Such a finding, it may be added, is consistent with the broad agreement expressed last March by Ministers of Finance and others that the effective depreciation of the U. S. dollar that had emerged from the second currency realignment was realistic and adequate. The marked changes that occurred in the relationships among major currencies from mid-May to the latter part of July, featuring a further depreciation of the U. S. dollar against major European currencies, raise two related questions concerning (a) the extent to which floating rates can be relied upon to reflect underlying trends, and thus to achieve a realistic pattern of exchange rates, and (b) the extent to which spot rates in the exchange markets should, as a matter of policy, be allowed to deviate from rates considered to be appropriate in the longer term.

(4) *Recent International Monetary Developments and the Developing Countries* offers a preliminary and general discussion of the effects of currency realignments and greater exchange rate flexibility on a group of countries that constitute the overwhelming number of Fund members. Study of the effects of changes in the international monetary system on the developing countries must of necessity be carried out in stages, as the significance of the changes becomes clearer.

Foreign Exchange and Gold Markets

The foreign exchange crises of the past two years have led to profound changes in both the structure of exchange rate relationships among currencies and the nature of the exchange rate system itself. These changes, described in Chapter 3 and Appendix I, were partly attributable to the high degree of mobility with which funds could be switched from one market to another and the reluctance or inability of the authorities to prevent such movements of funds. These movements occurred against a background of enlarged imbalances in the basic external accounts of several key countries and were induced to a considerable extent by expectation of exchange rate adjustments to correct those imbalances. However, some of the ensuing changes in exchange

rates had the effect of injecting still further uncertainties into the foreign exchange markets. In this atmosphere, continued functioning of the international monetary system under the main previous arrangements did not prove feasible.

Exchange rates and arrangements remain in a state of flux. Restoration of more stable rates will be contingent on the development of market confidence that the necessary balance of payments adjustments are in progress, and restoration of more stable arrangements *de jure* must await fruition of the negotiations on international monetary reform. It is possible, however, to take stock of the profound changes in the exchange system that have come to be reflected in current practice. By the beginning of 1972, the system had changed from one in which most countries maintained the exchange rates for their currencies within relatively narrow margins—by reference to the U. S. dollar, the pound sterling, or the French franc—to a system in which the permitted margins of fluctuation around parities and central rates were widened. Subsequently, in the early part of 1973 eight European industrial countries made arrangements to maintain stable rates for their currencies within agreed margins only in terms of their respective currencies; the other industrial countries and a number of primary producing countries decided or continued to float, that is, not to ensure the maintenance of exchange rates within announced margins; and still others—including almost all the developing countries—decided to maintain relatively stable rates for their currencies with respect to a single currency, usually the U. S. dollar, the pound sterling, or the French franc. These developments—details of which are described in Chapter 3 and Appendix I—have brought major changes in the manner, extent, and purpose of official intervention in exchange markets, as well as in the forms of official settlements between countries; such changes, in turn, have considerably altered the functioning of the exchange markets in a number of countries.

As described in last year's Annual Report, the period immediately following the Smithsonian Agreement of December 1971 yielded little evidence that confidence in the system of fixed par values had been restored. The widely expected reflux of speculative capital to the United States

did not materialize to any substantial extent in the first quarter of 1972, and the continuing basic deficit in the U. S. balance of payments resulted in further additions to foreign official dollar holdings, augmented, indeed, by a revival of speculative flows of funds into the major continental European countries and Japan. By February 1972, currencies of most industrial countries had appreciated sharply within the wider margins of permissible fluctuation that had been recently agreed and were quoted at varying premiums against the U. S. dollar during most of the remainder of 1972 (Charts 1 and 2). The comparative calm that characterized the foreign exchange markets in the second quarter was associated with a relative decline in European interest rates and a substantial shift of both long-term and short-term capital movements toward the United States, but it may also have reflected an increased effectiveness of measures to control the movements of short-term funds into certain strong currencies.

Then, toward midyear, there was a massive speculative attack against the pound sterling. On June 23 the U. K. authorities decided not to maintain margins for that currency in the exchange markets and withdrew from the narrow-margins arrangement of the European Economic Community (EEC). Sixteen non-European currencies followed sterling in floating downward in the exchange markets. This first major crisis after the Smithsonian Agreement was followed by large-scale speculative sales of U. S. dollars, as well as of Italian lire and Danish kroner. As a consequence, further ad hoc adaptations were made: Italy was authorized to settle its indebtedness under the EEC arrangement in U. S. dollars rather than in proportion to its holdings of various reserve media; Denmark temporarily withdrew from the EEC narrow-margins arrangement;¹ and further controls on short-term capital flows among the EEC countries were imposed. The midyear strains in the exchange markets were reflected not only in exchange rate movements and official intervention (to a major extent by European central banks and the Bank of Japan, and to some extent also by the Federal Reserve System), but also in the price of gold on the private markets, which increased from about \$50 an ounce in early

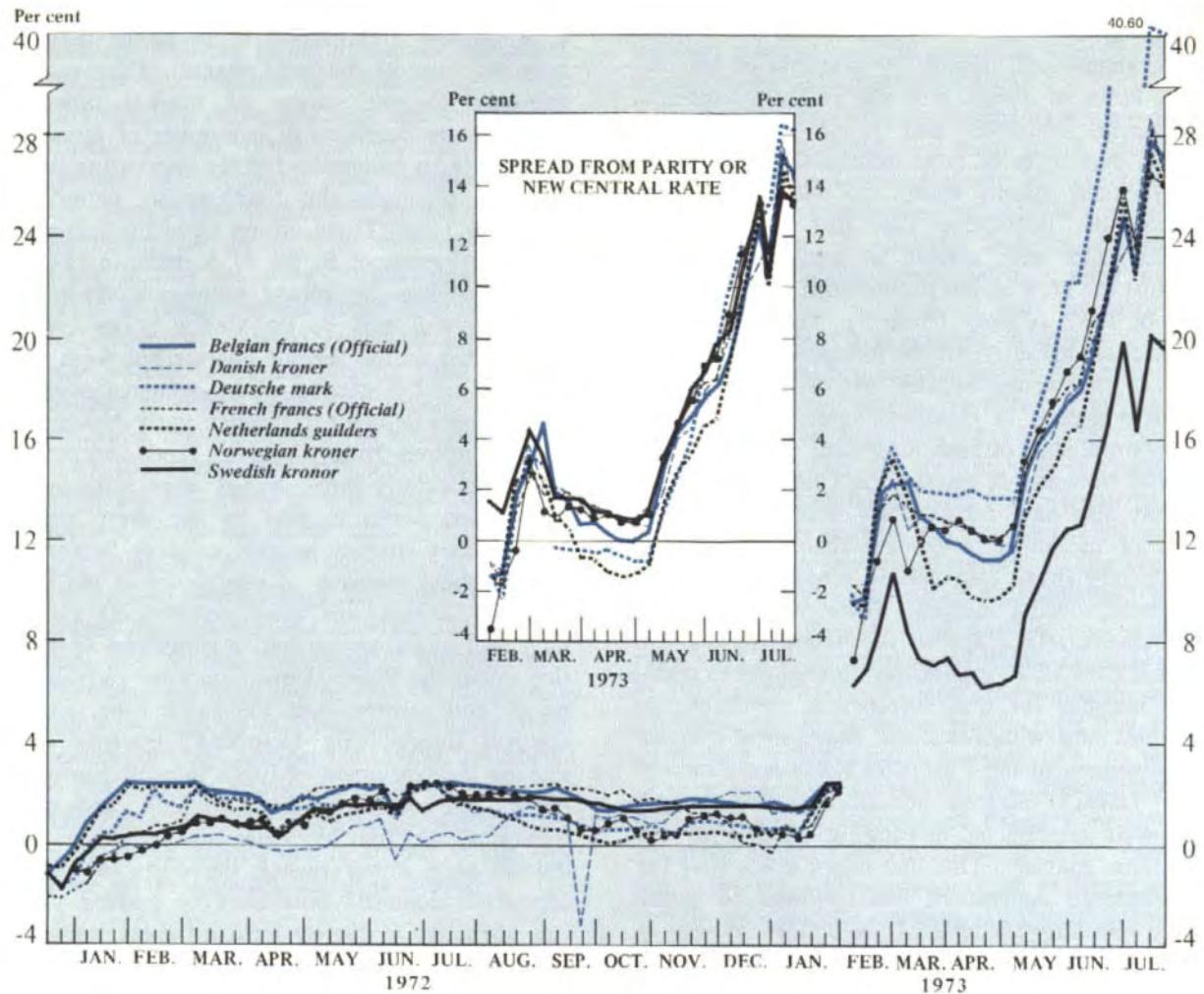
May to \$70 in early August (Chart 3), compared with an official price of \$38.

The second half of 1972, however, witnessed a progressive stabilization of exchange markets, reflected also in the gold market. Factors contributing to this easing of market pressures included the decisions of a number of monetary authorities to undertake further supporting measures to maintain the Smithsonian pattern of exchange rates. These efforts were buttressed by some improvement in the U. S. balance of payments position. Significant reflows of short-term funds from Europe to the United States (which had started in the second quarter but were then curtailed by the sterling crisis) occurred over the period from September through early November, when outflows from Germany and Switzerland were particularly large. Funds were attracted to the United States in part by the sharp rise in U. S. money market interest rates in September and by some recovery of confidence in the U. S. economy, which was then experiencing both a high rate of expansion and a slowdown of inflation under the Phase II machinery for restraint of prices and incomes. At the same time, capital controls imposed by European countries were making the placement of funds in most European money markets increasingly difficult, and other measures adopted by such countries to deter inflows were either raising the costs of foreign capital to domestic borrowers or making yields less attractive to the lenders. All these measures tended to encourage a liquidation, rather than a roll over, of holdings built up during the sterling crisis. Under these circumstances, the U. S. dollar strengthened against some leading currencies—and particularly against the deutsche mark and the Netherlands guilder—during the latter part of 1972. However, most of the major European currencies continued to be quoted at premiums against the dollar as central banks reduced their foreign exchange holdings rather than permitting the value of their currencies to fall. Sterling remained weak, and the Italian lira was under domestic selling pressure generated by large-scale outflows of capital. The strong position of the Japanese yen reflected continuation of relatively sizable short-term capital flows into Japan, as well as that country's large trade surplus.

The apparent gains made during the latter part

¹ Upon rejoining the narrow-margins arrangement in October, Denmark was authorized to make EEC settlements in U. S. dollars.

CHART 1. SPOT EXCHANGE RATES, DECEMBER 22, 1971–JULY 25, 1973
(*Spread from parity or central rate agreed December 1971¹*)

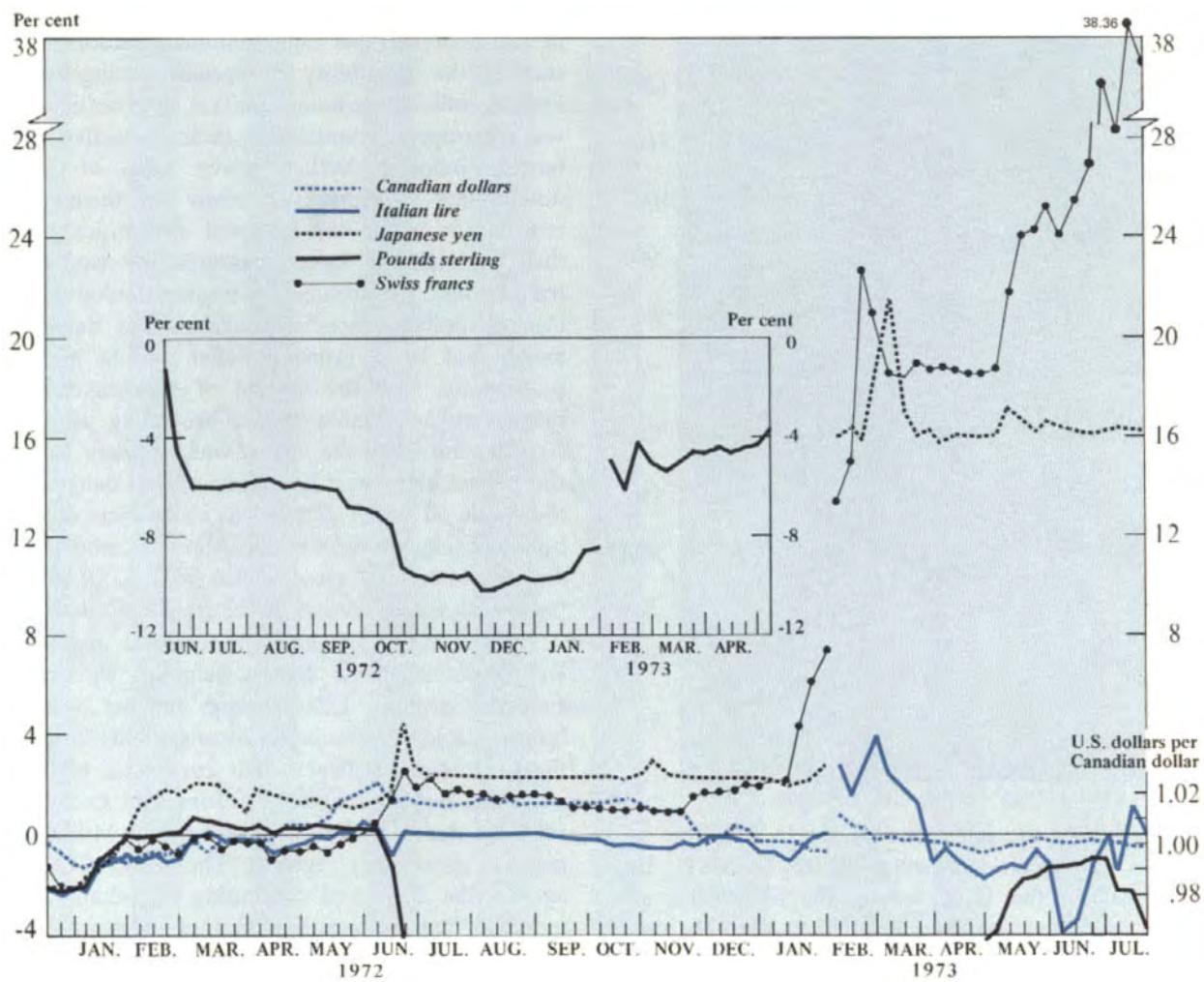


¹ Based on Wednesday noon quotations in New York.

of 1972 in the restoration of confidence and more stable conditions in the exchange markets were not consolidated after the turn of the year. On the contrary, a succession of new developments shattered confidence and precipitated a severe international monetary crisis. These included, inter alia, fears of a revival of inflationary pressures in the United States following the termination of Phase II of the U. S. price-wage control program in January 1973, together with market reaction to the severe deterioration of the U. S. external current account from 1971 to 1972 and the continuation of balance of payments surpluses in Japan and elsewhere. Moreover, short-term interest rates in Europe began to rise sharply in the

closing months of 1972, with strong upward movements continuing into 1973. (See Chart 8.) This development reflected a general shift in the stance of European monetary policy, induced by growing concern over intensification of inflationary pressures. It reduced considerably the incentives for investment of funds in U. S. dollar assets, even though U. S. short-term interest rates continued to advance. Another factor that militated against strengthening of the dollar in some foreign exchange markets toward the end of 1972 was its use as a vehicle currency for outflows of funds from Italy. (Through November the comparative weakness of sterling may have exerted a similar influence on the exchange markets.) In the latter

CHART 2. SPOT EXCHANGE RATES, DECEMBER 22, 1971-JULY 25, 1973
(*Spread from parity or central rate agreed December 1971*¹⁾)



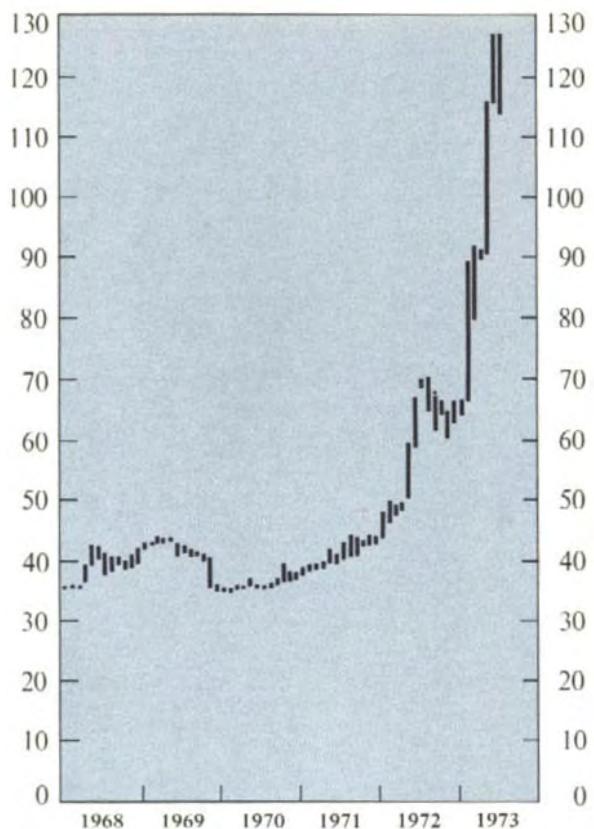
¹Except for Canadian dollars. All data based on Wednesday noon quotations in New York.

part of January 1973, the Italian authorities announced the establishment of a two-tier exchange market for the lira in order to stem the outflow of capital and the loss of reserves. This arrangement, while resulting in a sharp depreciation of the rate for the capital lira and easing pressure on the rate for the commercial lira, did not prevent an acceleration of capital outflows through the newly established exchange market for capital transactions. The outflows of funds from Italy were directed largely to Switzerland, where they threatened to increase difficulties in the management of domestic liquidity, despite the partial blocking of the domestic counterparts of capital inflows. In the face of these problems, the

Swiss National Bank announced that it was temporarily withdrawing from the foreign exchange markets. As a result, the rate for the Swiss franc appreciated to a premium of about 6 per cent over the rate established at the time of the Smithsonian Agreement.

Following these actions, heavy speculative sales of U. S. dollars occurred during the last week of January and early February, and most major currencies appreciated sharply against the dollar. In the first ten days of February the flow of dollars into official reserves of European countries and Japan approached \$10 billion. On February 12 the U. S. authorities announced that the President would ask Congress to authorize a 10 per cent

CHART 3. GOLD: PRICES IN LONDON, 1968-JULY 1973
(*Monthly high and low quotations: U. S. dollars
a fine ounce*)



reduction in the par value of the U. S. dollar in terms of special drawing rights (SDRs). In response to the U. S. action, the authorities of most industrial countries decided to keep the par values or central rates for their respective currencies unchanged in terms of SDRs or gold, thus allowing the proposed devaluation of the U. S. dollar to be fully reflected in their exchange rates. The three major currencies that were already floating—the pound sterling, the Canadian dollar, and the Swiss franc—continued to do so, and the Japanese and Italian authorities allowed their currencies to float.

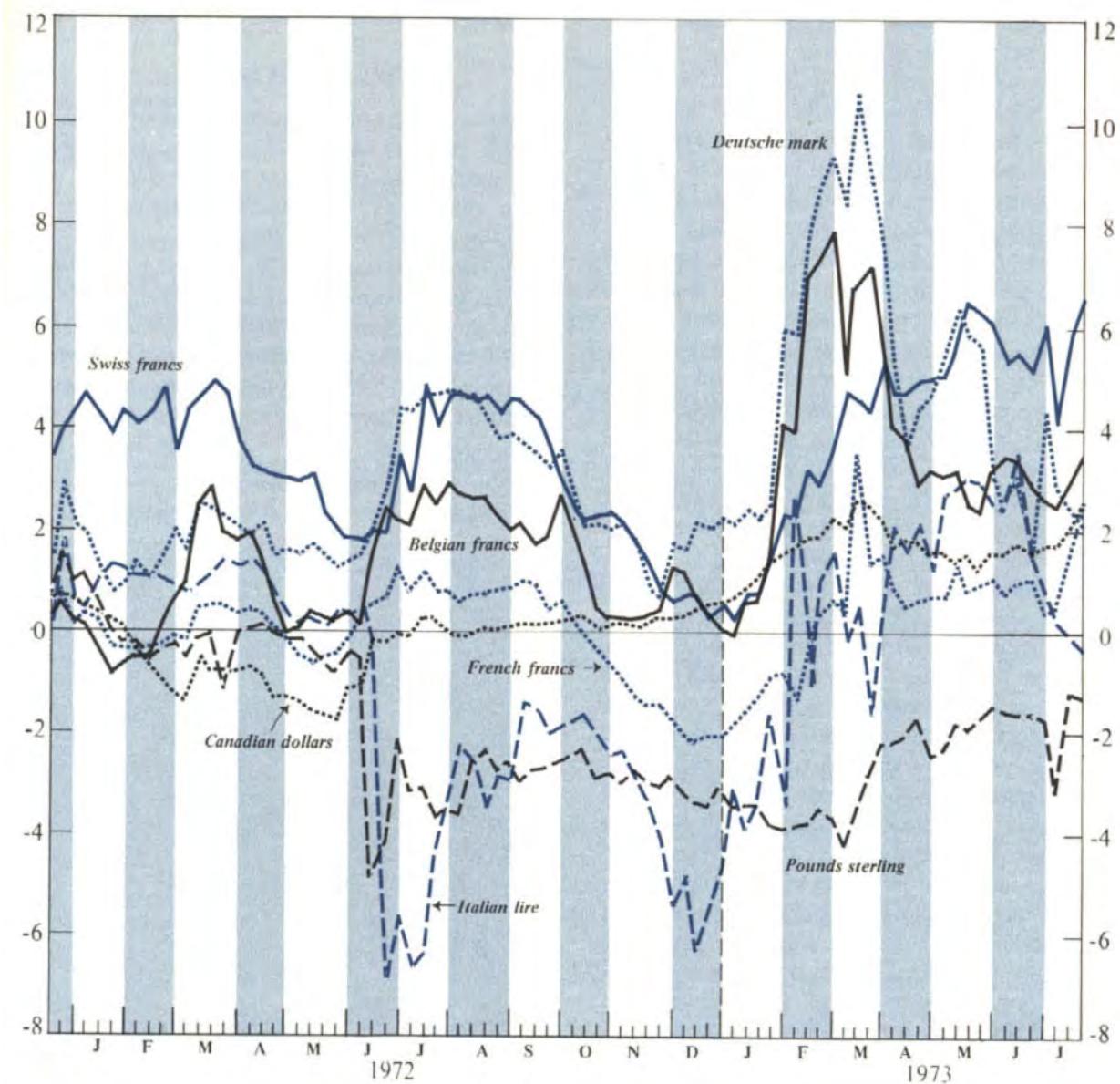
During the second half of February 1973, trading in currencies remained highly unsettled and exchange rates fluctuated rather widely. No large-scale unwinding of speculative positions materialized, as expectations of further changes in exchange rate relationships outweighed the technical considerations that might otherwise have induced shifts back into dollars by investors holding temporary positions in other currencies. More-

over, intense speculative activity was apparent in the gold markets as the price on the London market rose to more than \$90 an ounce. Speculation in the gold markets and continued rumors concerning the possibility of special arrangements limiting official exchange market intervention by some European countries to their respective currencies induced further heavy sales of U. S. dollars late in February, chiefly for those currencies for which the national authorities were then maintaining agreed margins for exchange transactions. Confronted by unprecedented offerings of dollars, especially against the deutsche mark, and by a growing belief among market participants that the system of fixed exchange rates was not viable under prevailing circumstances and that the crisis was unlikely to be short-lived, the major European central banks and the Bank of Japan decided to close their official foreign exchange markets on March 2, and these markets remained closed until March 19 while the search for a solution of the crisis continued.

After a series of intergovernmental meetings, six members of the EEC—Belgium, Denmark, France, Germany, Luxembourg, and the Netherlands—decided to maintain arrangements limiting the fluctuations between their currencies to 2.25 per cent, but no longer to ensure that exchange rates for the U. S. dollar would be kept within the margins previously agreed. The EEC Council agreed that close and continuing consultation on monetary matters would be maintained among the national authorities involved. To assist in the orderly adjustment of exchange markets to the new circumstances, the German authorities decided to revalue the deutsche mark in terms of SDRs by 3 per cent. The special arrangement among the above six EEC members was soon joined by Norway and Sweden. Three EEC members—the United Kingdom and Italy, which were still permitting their currencies to float outside the arrangement, and Ireland, whose currency remained linked to the pound sterling—expressed the intention of associating themselves with the arrangement as soon as circumstances allowed.

From the middle of March to early May, speculative activity was minimal, and both the foreign exchange and the gold markets were comparatively quiet. However, with the exception of Japan, which experienced a substantial outflow

CHART 4. THREE-MONTH FORWARD EXCHANGE RATES: MARGINS FROM SPOT RATES, DECEMBER 22, 1971-JULY 25, 1973¹
(*Per cent per annum*)



¹ Based on Wednesday noon quotations in New York.

of funds from mid-March to early May, no significant net reflow of funds indicative of an unwinding of the speculative positions built up earlier in the year appeared to take place. Then, from the middle of May to the end of June, renewed weakness of the U.S. dollar against most European currencies became evident in the foreign exchange markets. During this period, the currencies in the EEC narrow-margins arrangement appreciated sharply against the U.S. dollar,

but diverging currency values brought the agreed margins under considerable tension. The desire to preserve the EEC group arrangements, together with considerations relating to recent and prospective German balance of payments trends, led to a further revaluation of the deutsche mark by 5.5 per cent on June 29.

On July 10 the Federal Reserve System announced an increase of \$6.25 billion in the reciprocal currency swap arrangements that it

maintains with 14 other central banks and the Bank for International Settlements. This increase raised the total amount potentially available under the swap network to nearly \$18 billion.

By mid-July the currencies in the EEC narrow-margins agreement, the Swiss franc, and the Austrian schilling had appreciated against the dollar by amounts ranging from 9 per cent to 18 per cent in comparison with early May rates. Sterling and the Italian lira appreciated only slightly, on balance, over the same period, while the Japanese yen and the Canadian dollar showed comparatively little change. The sharp depreciation of the U. S. dollar in the foreign exchange markets was reflected (as in earlier episodes of attack against the reserve currencies) in widespread speculative activity in the international gold markets; in London the price for gold reached \$127 an ounce in early June and again in early July before receding to the range of \$114-126 an ounce in the middle weeks of July.

The succession of recent currency crises, the continued instability in spot exchange markets, and the imposition of increasingly tight controls on capital movements were all reflected in the forward exchange markets (Chart 4), both in terms of forward rate quotations and with respect to the functioning of those markets in the provision of forward cover for international financial transactions. Most forward rates against the U. S. dollar were at premiums over the corresponding spot rates, largely in reflection of persisting uncertainty as to the near-term stability of exchange rate relationships. During certain critical periods of the past two years, however, it became temporarily impossible to obtain from dealers the usual quotations of forward rates for some currencies.

With short-term interest rates generally lower in the United States than in other major industrial countries (Canada and Switzerland being the main exceptions), the forward rate structure prevailing during much of 1972 and the first half of 1973 resulted in covered interest rate differentials that tended to favor capital movements away from the United States. Particularly in the middle of 1972 and again in February and March 1973, the addition of a large forward premium on the deutsche mark to the sizable spread between uncovered short-term interest rates in

Germany and in the United States brought extraordinary increases in the covered short-term interest rate differential between these two countries.

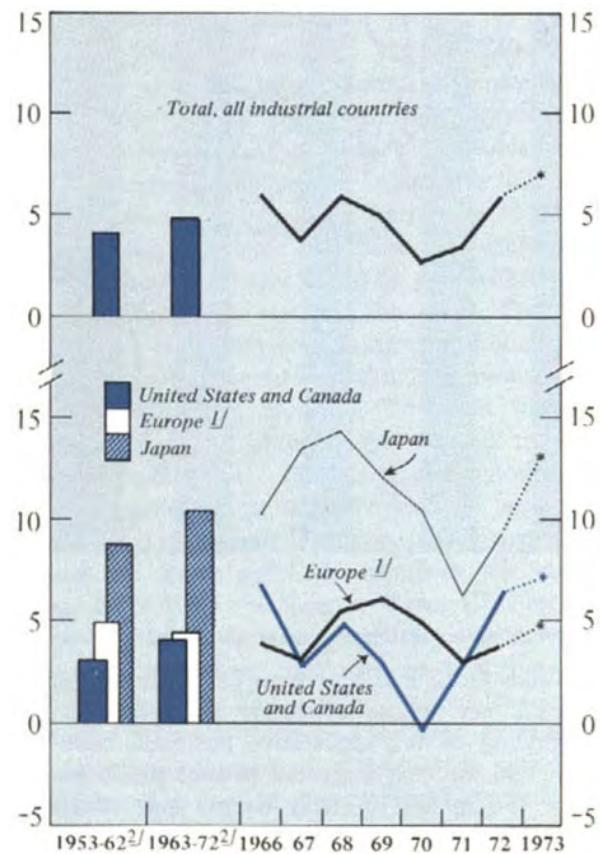
Growth and Inflation

On a world-wide basis, total output increased by 5½ per cent from 1971 to 1972—much above the average annual growth of only 3¾ per cent from 1969 to 1971 and markedly higher than the trend over the 1960s (Table 1).

At the beginning of 1972, following a two-year period of economic slowdown, the degree of slack in utilization of resources in the industrial world was on average greater than at any previous time since 1958; among the larger industrial countries, it was especially marked in the United

CHART 5. CHANGES IN OUTPUT OF INDUSTRIAL COUNTRIES, 1953-FIRST HALF 1973

(Percentage changes in real GNP from preceding year)



* Change from first half of 1972 to first half of 1973.

¹ Austria, Belgium, Denmark, France, Germany, Italy, Luxembourg, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom.

² Compound annual rates of change.

TABLE 1. GROWTH OF WORLD OUTPUT, 1960-72
(Percentage changes in real GNP)

	Annual Average ¹			Change from Preceding Year				
	1960-70	1960-65	1965-70	1968	1969	1970	1971	1972
Industrial countries	4.8	5.2	4.5	5.7	4.8	2.5	3.5	5.5
Canada	5.2	5.6	4.8	5.9	5.3	2.6	5.8	5.8
United States	4.0	4.8	3.2	4.7	2.7	-0.4	3.2	6.1
Japan	11.1	10.1	12.1	14.2	12.1	10.3	6.2	9.2
France	5.8	5.8	5.8	5.0	7.7	5.9	5.0	5.7
Germany, Fed. Rep. of	4.8	5.0	4.6	7.3	8.2	5.8	2.7	2.9
Italy	5.7	5.3	6.1	6.4	5.7	4.9	1.6	3.2
United Kingdom	2.8	3.4	2.2	3.3	2.2	2.4	1.6	2.2
Other industrial countries ²	4.8	5.0	4.6	4.7	6.3	5.2	3.2	3.9
Primary producing countries	5.7	5.6	5.8	5.9	7.0	6.4	5.6	5.9
More developed areas ³	6.4	7.1	5.6	5.1	7.2	5.7	5.2	5.4
Less developed areas ⁴	5.5	5.1	5.8	6.2	6.9	6.6	5.7	6.1
World⁵	5.0	5.3	4.7	5.7	5.4	3.5	3.9	5.6

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

¹ Compound annual rates of change.

² Austria, Belgium, Denmark, Luxembourg, the Netherlands, Norway, Sweden, and Switzerland.

³ Comprise Australia, Finland, Greece, Iceland, Ireland, Malta, New Zealand, Portugal, South Africa, Spain, Turkey, and Yugoslavia.

⁴ Comprise Fund member countries not listed above as "Industrial countries," or as being in "More developed areas" (footnote 3, above).

⁵ Fund member countries (listed in Appendix Table I.1) plus Switzerland.

States, Canada, the United Kingdom, Japan, and Italy. However, national policies designed to stimulate economic recovery were beginning to take hold in many countries—especially in the United States. In the two halves of 1972, overall growth of the industrial countries, as measured by real gross national product (GNP), reached annual rates averaging some 6 per cent, with the pace of activity accelerating during the year.

Efforts in the industrial countries to stimulate and support economic recovery through monetary and fiscal policies took place in a setting of high price inflation, which carried over into 1972 in stubborn resistance to the prior easing of demand pressures (Table 2). Besides these efforts, another stabilizing factor was the staggered phasing of cyclical developments in the main countries. Industrial economies in Europe, as well as the Japanese economy, were in an expansionary phase during the recession in the United States and did not reach their respective cyclical troughs until 1971—considerably after the upturn in the United States (Chart 5).

In reflection of this phasing pattern, increases in total output from 1971 to 1972 were well

below the average for the 1960s in Japan, Germany, and Italy, as well as in Belgium, the Netherlands, and Sweden. In the United Kingdom, the 1971-72 rise in real GNP was also below the medium-term rate, despite a very sharp upswing during the course of the latter year, whereas in France the growth of total output, which had eased moderately in 1971, was back on track in 1972.

The resurgence of domestic demand in the United States in 1972 was quite strong, accounting for most of the acceleration in the pace of economic activity in the industrial world taken as a whole. Over the five quarters to the end of 1972, real GNP rose at an annual rate exceeding 7 per cent—narrowing the substantial gap between potential and actual GNP. In Canada the pace of expansion intensified toward the end of 1972, following a brief slowdown around the middle of the year; the growth rate for 1972 as a whole, at 5 3/4 per cent, was the same as that achieved in 1971.

In contrast to the marked slowdown and pick-up of activity in the major industrial countries during recent years, the overall cyclical pattern

TABLE 2. PRICE INCREASES IN INDUSTRIAL COUNTRIES, 1960-72
(Percentage changes in GNP deflators)

	Annual Average ¹			Change from Preceding Year				
	1960-70	1960-65	1965-70	1968	1969	1970	1971	1972
Canada	3.0	1.9	4.1	3.2	4.4	4.6	3.1	4.6
United States	2.7	1.4	4.1	4.0	4.8	5.5	4.7	3.2
Japan	4.8	5.0	4.7	3.8	4.1	6.6	4.8	4.8
France	4.4	4.1	4.8	4.7	7.9	5.5	5.0	5.6
Germany, Fed. Rep. of	3.5	3.6	3.4	1.6	3.5	7.1	7.7	6.1
Italy	4.4	5.4	3.4	1.5	4.1	6.6	6.6	5.9
United Kingdom	4.0	3.4	4.7	4.0	5.0	7.1	9.0	6.3
Other industrial countries ^{2,3}	4.4	4.1	4.8	3.1	4.1	6.1	7.1	7.6
All industrial countries ³	3.3	2.5	4.1	3.5	4.8	6.0	5.5	4.5

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

¹ Compound annual rates of change.

² Austria, Belgium, Denmark, Luxembourg, the Netherlands, Norway, Sweden, and Switzerland.

³ Weighted average of percentage changes for individual countries, with their respective GNPs, converted to U.S. dollars at 1970 exchange rates, used as weights.

in the primary producing countries was not very pronounced. Nor did it apply to a number of important countries and areas. Real GNP in most of the primary producing countries in Europe (e.g., Finland, Greece, Portugal, and Spain) increased at a faster rate from 1971 to 1972 than from 1970 to 1971. On the other hand, a slowdown took place in Australia, and New Zealand's real GNP continued to grow very slowly. Growth of total output in the less developed countries during recent years paralleled the direction of changes in the developed countries, and the transmission of cyclical impulses through the volume of exports from developing countries is fairly clear (Table 3). On the whole, however, the trend of economic activity in the developing countries appears to have been relatively well sustained during 1970 and 1971—a feature that may be attributable at least in part to the continuing strength of their overall balance of payments position (as discussed below); the acceleration in economic growth now recorded for 1972 was apparently quite modest.² This was accounted for

mainly by countries in Africa and in Latin America. Following the distinctive pattern of developments in the petroleum industry, growth of real GNP in the Middle East from 1971 to 1972 was sustained at a high rate, while the total output of countries in Asia increased at approximately the same rate in 1972 as in 1971 (about 4 per cent). The increase of real GNP in India was very low for the second consecutive year.

While economic growth in the developing countries as a whole proceeded rather steadily from 1971 to 1972, the rate of price inflation appears to have picked up sharply. GNP deflators are not available for most such countries, but data on consumer prices suggest that this acceleration was widespread though not universal; it was particularly marked among the developing countries in the Western Hemisphere (Table 4). An important factor behind these 1971-72 increases was the extraordinary inflation of import prices in terms of many local currencies, attributable in part to the December 1971 realignment of exchange rates.

Recent annual changes in economic activity and prices on a calendar-year basis give an incomplete impression of the dynamics of the current situation. From the second half of 1972 to the first half of 1973, total real GNP of the industrial countries is estimated to have increased at an annual rate of more than 7 per cent, and

² As shown in Table 1, real GNP growth for the less developed countries as a group averaged well over 6 per cent in the last several years. This was appreciably higher than the 5½ per cent average annual rate for the decade of the 1960s, when (as pointed out in last year's Annual Report) growth rates in the developing world tended to be particularly low for countries with relatively low levels of per capita GNP and accounting for two thirds of the population.

TABLE 3. GROWTH OF OUTPUT IN LESS DEVELOPED COUNTRIES AND RELATED INDICATORS, 1969-72
(In percentage changes from the preceding year)

	1969	1970	1971	1972
Import-weighted real GNP of developed countries ¹	6.7	5.4	4.0	5.3
Less developed countries				
Volume of exports to developed countries	10.1	8.9	6.4	6.7
Real GNP	6.9	6.6	5.7	6.1 ²

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

¹ Weights are proportionate to each developed country's imports from less developed countries.

² Based on estimates for some 50 countries, accounting for about 80 per cent of the total output of less developed countries.

the growth of world output may not have been far short of that figure. While the expansion in the United States continued at a high rate,³ economic activity accelerated markedly (in comparison with growth rates from 1971 to 1972) in Canada, Germany, the United Kingdom, and in a number of the smaller industrial countries. In Japan also, the cyclical upsurge that occurred late in 1972 was continued in the early months of 1973.

No single factor appeared to be at the root of this powerful boom. By the latter part of 1972, the conditions for a broad cyclical upswing had been widely established by expansionary fiscal and monetary policies. In recent quarters, as the prevailing slack in utilization of resources was being reduced, the cyclical pattern was highlighted by sharp increases in real investment; this development apparently was associated with an upsurge in the volume of foreign trade, especially among the European countries. Stockbuilding, which tends to be cyclically related both to investment and to foreign trade, probably contributed importantly to the expansion in Germany, Japan, and Canada. The pattern of growth in real consumption was steadier and more uniform, but at generally high rates.

The broad upward surge of real economic

³ The advance in U.S. real GNP was exceptionally rapid in the first quarter of 1973 but moderated in the second quarter.

activity in recent quarters coincided with a faster rate of price inflation. As anticipated in last year's Annual Report, inflation in some of the major industrial countries moderated in 1972 (Table 2) because of such factors as the lagged effects on unit costs of increased productivity (characteristic of the early stages of cyclical recovery) and some contribution by incomes policy, especially in the United States. This favorable trend was not continued in the early part of 1973. GNP deflators for the industrial countries are estimated to have increased on average by more than 6 per cent at an annual rate in the first half of 1973, compared with 4 1/4 per cent from the first to the second half of 1972. While this acceleration was attributable in large part to developments in the United States, it also occurred in Japan, Germany, Italy, and a number of other countries; and in few industrial countries was there evidence that further progress was being made in the containment of price increases.

It is not clear how far the accelerated price increases can be ascribed to "overheating" in the usual sense of excessive aggregate demand. Levels of capacity utilization, as measured by available (and admittedly imperfect) indicators, were not abnormally high by historical standards in most industrial countries in early 1973. However, the rapid changes in such levels, and the fair degree of unanimity among countries in the direction of such changes, undoubtedly were contributory influences. To a considerable extent, the renewed acceleration of price increases has to be under-

TABLE 4. PRICE INCREASES IN LESS DEVELOPED COUNTRIES, 1965-72
(Percentage changes in consumer prices)¹

	Annual Average 1965-70	Change from Preceding Year			
		1969	1970	1971	1972 ²
All less developed countries	11.8	9.1	10.5	10.2	14.7
in Africa	5.7	6.0	4.5	5.2	5.0
in Asia	10.7	6.1	9.3	6.6	8.2
in the Middle East	3.0	3.4	4.0	6.2	7.2
in the Western Hemisphere	18.8	15.8	17.0	18.0	29.4

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

¹ Averages of changes in indices expressed in terms of local currency. Weights are proportional to imports (in U.S. dollars) in 1968.

² Partly estimated.

stood in more particular terms: e.g., supply shortages underlying the problem of food prices both in Europe and in the United States, the weakening of restraints on inflation and changing of price expectations occasioned by the move from Phase II to Phase III of the U.S. price and incomes policy, and the sharp increase in prices of non-food agricultural commodities that reflected not only the general strengthening of industrial activity but also stock replenishment and speculative buying.

The rise in food prices was an especially important factor in a number of countries because of its direct impact on consumer expenditures and wage demands. Cost-push forces were almost universally in evidence, reflecting higher costs of social programs, as well as increasing wages. In some countries, moreover, rising prices of imports associated with exchange rate depreciation gave special impetus to cost pressures. An opposite influence of exchange appreciation on domestic prices in other countries does not appear to have been reflected to the same extent in recent price movements, because of the downward rigidities in most markets.

Public policies have been adapted in varying ways and degrees to the cyclical and inflationary impulses now impinging on the major industrial economies.

—By the first part of 1973, emerging demand pressures in the *United States* were apparently contributing—along with the shift from mandatory controls toward greater reliance on voluntary compliance with wage-price standards—to an upturn in the rate of price inflation. Renewed focus on the problem of inflation in the United States was prompted in particular by rapid advances in wholesale prices during the first five months of 1973, and on June 13 the President declared a temporary freeze on almost all prices, to permit time for the development of a new control program. On July 18 it was announced that the freeze would be lifted in stages and replaced by a thoroughgoing program involving tighter standards and more reliance on mandatory controls over prices and incomes than in the period immediately preceding the freeze. The federal budget for the fiscal year 1974, announced in January 1973, envisaged a reduction in fiscal stimulus, the implementation of which would rein-

force the tightening of monetary policy that occurred in the first two quarters of the year. In view of the uncertainties in the situation, the authorities face an exceptionally difficult task of guiding the U.S. economy back to its potential growth path, avoiding either overheating or recession.

—In *Canada* the pace of economic recovery accelerated sharply in the last quarter of 1972 and the first quarter of 1973, when real GNP increased at an annual rate of about 12 per cent. Wage increases, which hardly moderated in 1972, are likely in the absence of official policies of direct restraint to remain high in 1973. The present challenge to Canadian economic policy is to adapt to the situation that has recently emerged, so that the growth of real GNP later in 1973 and in 1974 may be reduced to a more sustainable rate as the gap between potential and actual output is being closed.

—Attitudes toward overall economic policy in *Japan* shifted considerably during the first half of 1973, following enactment at the beginning of the year of a strongly expansionary budget for the fiscal year 1973/74. As in Canada, it soon became apparent that economic activity was advancing at an unexpectedly rapid pace, with real GNP increasing at an annual rate of 15 per cent in the first quarter of 1973. Moreover, a resurgence of inflation, originating partly in import price increases starting in the latter part of 1972, emerged as a dominant economic issue. These developments were expected to lead to a cautious implementation of the new budget, and the Bank of Japan adopted an increasingly restrictive stance in the first part of 1973—one that seemed likely to continue for some time despite the cost-stabilizing impact of the February 1973 exchange rate appreciation and of the rapid growth in productivity.

—Economic activity in *France* has risen quite strongly in the recent period. The labor situation improved after a lag, and concern over the level of unemployment gave way to concern over pressures on the labor market as shortages of skilled workers began to emerge toward the end of 1972 and in early 1973. Although the budget is expected to remain in balance, the Government is using chiefly monetary and credit measures to keep the current expansion within bounds. The

increase in credit to the private sector is being managed closely through the use of penalty reserve requirements on loans exceeding specified norms, coupled with further guidelines on certain types of credit; and the growth of the money supply is now expected to be moderated to approximate that of nominal GNP by the last quarter of 1973. Official efforts to restrain price increases were directly assisted in the first part of 1973 by the reduction in value-added tax rates, and the French authorities believe that, as a consequence of both this action and the tighter monetary policy, price expectations may change and lead to some moderation in wage increases.

—In *Germany* the cyclical upturn of the economy was unexpectedly strong in early 1972, because of the coincidence of several favorable (though transitory) factors, but it proceeded at a rather subdued pace during the rest of the year. Toward the end of 1972, however, there was a new upsurge in export demand that led to a definite recovery in the private propensity to invest and, as a result, the upswing gathered considerable strength. In the first few months of 1973, with overall demand picking up rapidly and with little, if any, margin of unused resources, the rate of price inflation worsened. Then, early in May the authorities announced a stabilization program that embodied a restrictive swing in fiscal policy, complementing the very tight monetary policy already in force.

—Of the major European countries, *Italy* is furthest from a stage of cyclical overheating (despite some revival of activity in the second half of 1972), but overall price increases are among the highest. On present plans, fiscal policy in 1973 may be expected to be mildly expansionary, in part because of a temporary shortfall in tax receipts resulting from introduction of the value-added tax in January 1973. Unit labor costs accelerated recently, against a background of social unrest that inhibited industrial growth in the first few months of 1973, while the substantial effective depreciation of the (floating) lira that has occurred so far in 1973 is exposing the Italian consumer and producer to exceptionally high increases in import prices. In such a situation and in the absence of a wider range of policy measures, pursuit of an easy monetary policy, with low interest rates to stimulate invest-

ment, may encounter certain constraints.

—In the *United Kingdom* the Government's efforts in 1972 to stimulate the economy resulted in a substantial rise in demand and activity that has continued in 1973. There were further rapid increases in prices and wages after mid-1972, although this trend has been moderated by the Government's Counter-Inflation Program that came into effect in November 1972. Under Stage 2 of this program (which in April 1973 succeeded the temporary "standstill" decreed in November 1972), both pay and price increases are strictly limited; this system is scheduled to be maintained until late in 1973, with details of the next stage still to be announced. Given this situation, monetary expansion is expected to be broadly accommodating to the growth target of about 5 per cent. As to fiscal policy, an important consideration is that government current expenditures, after increasing rapidly in the first half of 1973, should tend to decelerate in line with agreed programs.

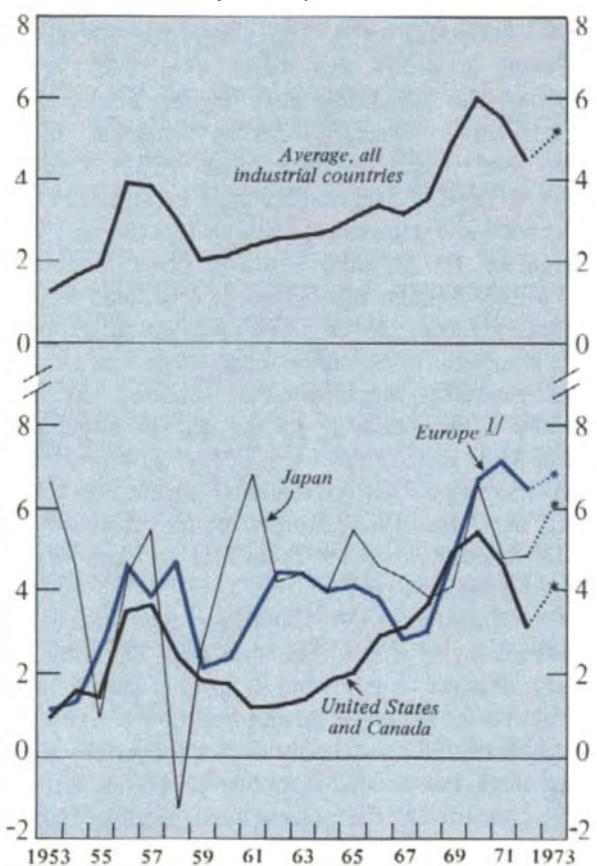
Two statistics cited above for the industrial countries as a group—the increases (at annual rates) of over 7 per cent in output and 6 per cent in prices from the second half of 1972 to the first half of 1973⁴—vividly depict the nature and severity of the economic policy problems facing those countries at the present time. Both of these figures are extraordinarily high, as may be readily seen by comparison with data for the 1960s and recent years shown in Tables 1 and 2. (For prices, see also Chart 6.) In the main, national authorities face the challenge of controlling and slowing down the present rapid pace of expansion, so that it gives way to sustainable growth in line with productive potential while inflationary pressures are moderated.

During the interval of "stagflation" that afflicted every industrial country for some substantial part of the period 1970–72, the policy task confronting national authorities was both to improve the rate of utilization of resources and to reduce the rate of price inflation. This task still remains. However, the problem of inflation has come to the fore by reason of the fact that in almost all

⁴ In part because of these developments in the first half of the year, it seems clearly indicated that increases in both output and prices in 1973 (over 1972) will be larger than those in 1972 throughout the industrial world.

CHART 6. OVERALL PRICE INCREASES IN INDUSTRIAL COUNTRIES, 1953-FIRST HALF 1973

(Percentage changes in GNP deflators from preceding year)



* Change from first half of 1972 to first half of 1973.

¹ Austria, Belgium, Denmark, France, Germany, Italy, Luxembourg, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom.

the industrial countries utilization rates have increased and growth of output is cutting into the remaining slack. To an increasing degree, further improvement in the rate of resource utilization is dependent on specific measures addressed to structural elements, rather than on demand expansion alone.

The problem of controlling and reducing price inflation in the industrial countries—however obvious and important—is by no means easy to resolve. Several considerations are relevant in this regard.

—The present cyclical situation is generally not favorable, or conducive, to an abatement of price inflation. With rates of resource utilization generally increasing rather rapidly, efforts to bring

down the prevailing high rates of price increase and to temper inflationary expectations are being conducted in an expansionary economic environment that may well continue through 1973 and into 1974.

—The role of fiscal and monetary policies is a crucial but difficult one. National authorities need to regulate these policies carefully so as first to minimize the risk of reviving excess demand pressures while slack is still being absorbed and then to shift toward restraint in an endeavor to steer the economy on to a path approximating its capacity growth rate—without overshooting the mark and raising the level of unemployment, which in most industrial countries appears to be higher than might have been expected at this stage of the cycle. Obviously, pursuit of such a course of policy, the phasing of which will differ from country to country, is complicated by the inadequacy not only of the policy instruments themselves but also of the requisite knowledge to apply them with sufficient certainty regarding the timing and magnitude of their effects.

—In any case, there seems to be a growing belief that the task of dealing effectively with inflation will require national governments to use a wide range of policy instruments—to buttress fiscal and monetary policies with other policy measures, such as incomes (including prices) policy, regional policies, manpower policies, and the like, depending on the particular circumstances. Such a viewpoint reflects (a) the disappointing experience that many countries had in relying solely on fiscal and monetary policies to handle the problem of inflation in the past several years and (b) an increasing recognition that the problem may stem, at least in part, from specific features of the economic structure or economic process not clearly related to the level of aggregate demand. Many countries have in particular been making use of incomes policy as a supplement to the instruments of demand management; this seems generally sensible and appropriate since it provides a possible way for countries to achieve a better reconciliation of their aims with respect to resource utilization and price stability than otherwise would be realized.

Although the foregoing general comments are relevant to an assessment of the problem of inflation, the point chiefly deserving emphasis is the

nced for national authorities—and especially those of the main industrial countries—to give this problem a very high priority in the formulation and conduct of economic policies. The paramount considerations, of course, are that high rates of inflation impair economic performance and create economic and social inequities, currently affecting populations throughout the world. Beyond this, high rates of inflation—which tend to be more variable or uneven—are likely to have the additional serious effect of hampering the international adjustment process and complicating the reconciliation of domestic and external objectives.

International Trade and Payments

Certain aspects of the international trade and payments situation during 1972 and the first half of 1973 were closely interrelated with the succession of currency crises summarized above. Other salient developments, however, appear to have been relatively little affected by the currency difficulties.

In the first category was the unsatisfactory pattern of current account positions of industrial countries; the imbalance worsened substantially in 1972 and was only beginning to show signs of mitigation in the early part of 1973. Also tending to sustain uneasiness over international payments problems was the fact that the prevailing pattern of capital flows to or from major industrial countries did not facilitate the financing of current account balances. Indeed, capital outflows from the United States compounded the problem of financing the large U. S. deficit on current account in 1972, while capital inflows further swelled the reserves of some countries whose current accounts were in substantial surplus. These inconsistencies played an important part in the outbreaks of severe foreign exchange market pressures that occurred intermittently from about mid-1972 to mid-1973.

Nevertheless, the expansion of world trade was remarkably well sustained throughout this period of difficulty in the management of currency relationships. The volume of world trade increased by more than 8 per cent from 1971 to 1972, approximating its average growth rate of the 1960-70 decade, and the expansion appears to

be proceeding at an accelerated pace in 1973. A notable feature of the 1972-73 expansion is the recovery of upward momentum in the exports of primary producing countries, which had been adversely affected by the 1970-71 slowdown of economic activity in the industrial countries. An upsurge of commodity prices during the latter part of 1972 and the early part of 1973 supplemented volume gains in boosting export earnings of the primary producing countries. However, the purchasing power of these enlarged export earnings was eroded to a considerable extent by rising import prices, reflecting inflation in the industrial countries and, for many of the primary producing countries, the effects of currency adjustments on the prices paid by their residents for imports. On balance, the terms of trade of the primary producing countries, which had deteriorated somewhat in 1971, showed little change for 1972 as a whole, although they improved toward the end of that year and were apparently improving substantially in the first part of 1973.

Despite the volatility of capital flows among the industrial countries during the past year or so, the combined net outflow of financial resources from those countries to the primary producing countries displayed considerable strength and stability in 1972. As reported in balance of payments statistics of countries in the primary producer group, this net flow—including official transfers as well as capital movements—amounted to an estimated \$20 billion in 1972, compared with about \$18 billion in 1971. This enlarged net flow in 1972 coincided with a marked reduction in the combined current account deficit of the primary producing countries to bring about an unusually sizable addition to their international monetary reserves. For this whole group, the aggregate overall balance of payments surplus of some \$16 billion in 1972 was approximately twice as large as the corresponding surplus for 1971—when it was already large by historical standards. The reserves built up through these recent surpluses provide for many primary producing countries a potential cushion to support continued expansion of imports in the event of a reduction in capital inflows because of the recent trend toward tightening of monetary conditions in the industrial countries.

Growth in World Trade

The increase in world trade volume from 1971 to 1972, although of average size in the perspective of the previous decade, represented a sharp upturn in comparison with the rate of growth recorded in 1971, when it had been limited to 5½ per cent by slack demand in the industrial countries (Table 5). Rising import demand in those countries, generated by recovery from the economic recessions or slowdowns of the 1970–71 period, was the principal factor in the 1972 acceleration of world trade growth. Imports into the industrial countries as a group continued to accelerate in the first several months of 1973, notwithstanding the fact that this was a period of marked deceleration, in terms of year-over-year changes, in the growth of imports into the largest importing country, the United States. In volume terms, world trade in the first half of 1973 is estimated to have been about 12 per cent higher than in the same period of 1972 (Chart 7).

Imports of the developing countries as a whole did not contribute to the faster growth of world trade volume in 1972. The aggregate volume of these imports rose by only about 3 per cent, apparently reflecting a lagged response to the earlier sag in developing countries' exports of most products other than petroleum. Among the more developed primary producing countries, import trends in 1972 were mixed. There was some contraction of import volume for the developed primary producers of the Southern Hemisphere, reflecting lower levels of activity in their domestic economies, but imports of the European primary producers rose at a higher rate in 1972 than in 1971. In 1973 marked acceleration of import volume growth seems likely in all the major groups of primary producing countries, in line with the expected faster pace of economic activity in most of those countries. The acceleration of primary producers' imports will be supported not only by the buoyancy of their export proceeds during 1972 and the bullish export prospects confronting them in 1973 but also by the

TABLE 5. VOLUME OF WORLD TRADE: IMPORTS, 1960-72
(Percentage changes, except as noted)

	Relative Magnitude in 1972 ¹	Annual Average 1960-70 ²	Change from Preceding Year				
			1968	1969	1970	1971	1972
World ³	100	8.3	12.7	10.7	9.2	5.7	8.2
Industrial countries	73	9.2	14.2	11.8	9.1	6.0	10.6
Canada	5	7.4	11.2	12.0	-3.1	10.0	16.3
United States	15	8.4	22.2	5.3	3.5	8.5	13.7
Japan	6	14.7	13.0	15.9	20.4	1.7	10.2
France	7	11.2	16.3	22.3	6.4	8.0	13.5
Germany, Federal Republic of	10	10.5	18.4	18.0	14.1	10.9	9.2
Italy	5	11.1	4.2	20.3	16.3	-3.3	12.0
United Kingdom	7	4.5	10.3	2.0	5.2	4.0	8.9
Other industrial countries ⁴	17	9.2	10.9	14.1	12.0	3.9	6.8
Primary producing countries	27	6.4	9.2	7.9	9.5	5.1	2.3
More developed areas ⁵	8	8.7	7.6	10.5	12.7	2.7	0.7
Less developed areas ⁶	19	5.5	9.9	6.8	8.1	6.2	3.1
Oil exporters ⁷	4	4.4	12.5	7.5	7.5	11.5	8.2
Other less developed countries	15	5.8	9.4	6.6	8.3	4.7	1.7

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

¹ Based on U.S. dollar values of imports (c.i.f., customs basis).

² Compound annual rates of change.

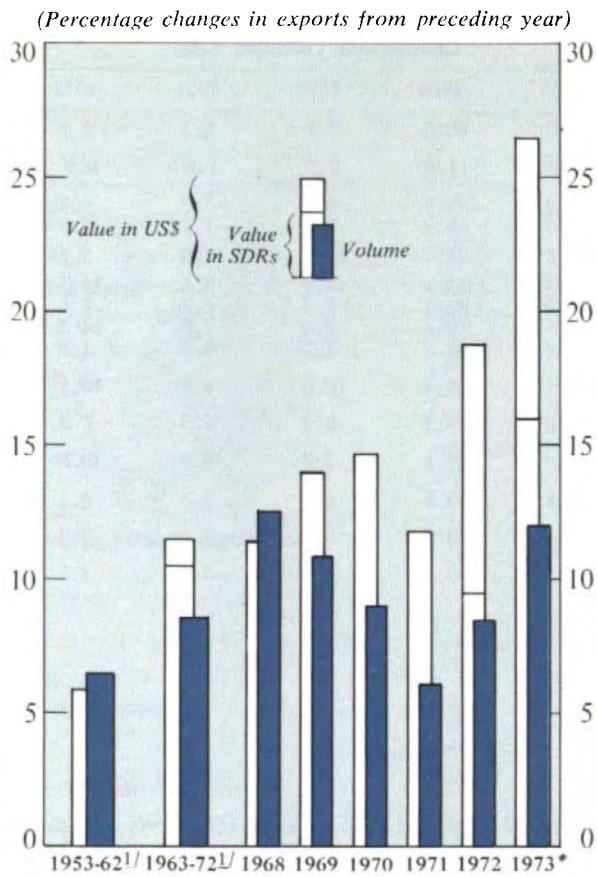
³ For coverage, see footnote 5, Table 1.

⁴ For coverage, see footnote 2, Table 1.

⁵ For coverage, see footnote 3, Table 1.

⁶ For coverage, see footnote 4, Table 1.

⁷ The oil exporters included here are Iran, Iraq, Kuwait, Saudi Arabia, Bahrain, Oman, Qatar, the United Arab Emirates, Algeria, Indonesia, the Libyan Arab Republic, the Netherlands Antilles, Nigeria, Trinidad and Tobago, and Venezuela.

CHART 7. GROWTH OF WORLD TRADE,
1953-FIRST HALF 1973

* Change from first half of 1972 to first half of 1973.
¹ Compound annual rates of change.

relatively strong reserve and overall payments positions resulting from improved current account balances and historically high inflows of capital in 1972.

In terms of export gains, the more developed primary producing countries were among the first beneficiaries of the renewed acceleration of economic activity in the industrial world after the 1970-71 slowdown. The exports of these countries rose by 11 per cent in volume from 1971 to 1972 (Table 6). Moreover, strong world demands for such goods as wool and meat, coupled with the recent sharp increases in commodity prices, seem to assure strength in export sales of the more developed primary producing countries in 1973.

Exports from the developing countries also reflected rising commodity prices in 1972, but

the volume of these exports rose only moderately in that year. It may be expected to advance more strongly during 1973 as the cyclical upswing in the industrial countries progresses, and the recent soaring of commodity prices will contribute substantially to the resultant earnings of foreign exchange. Although the rise in such earnings during 1972 and early 1973 was much more broadly based than it was in 1971, with exporters of industrial raw materials and foods sharing in the advance to a greater extent, the largest increases in export proceeds that accrued in 1972 were again those of the oil exporting countries, whose export prospects for 1973 also appear to be brighter than those of most other developing countries.

Among the industrial countries, only Japan and the United Kingdom experienced export volume growth appreciably below the respective historical averages in 1972. Both relatively sluggish expansion of Japanese markets and a much lower-than-usual gain in Japan's market share, probably attributable in considerable part to the appreciation of the yen, contributed to the slowing of Japan's export volume growth. It should be noted, however, that the rise in the U. S. dollar value of Japanese exports from 1971 to 1972, because of the effect of the yen revaluation on dollar prices, was fully equal to the average export value increase (in terms of dollars) for all industrial countries. The poor showing of U. K. exports in 1972 (when their volume scarcely increased) stemmed partly from relatively weak growth in foreign markets for British products in that year, but mainly from large losses of U. K. export market shares, possibly reflecting several years of diminishing price competitiveness.

The volume of exports from the United States, which had declined in 1971, expanded in 1972 by more than 9 per cent—in contrast to the 5½ per cent average annual increase over the 1960-70 decade. U. S. exports thus kept pace with market growth in volume terms after many years of progressive losses of market shares, including a large loss in 1971. Agricultural supply shortages in other countries contributed to the U. S. export expansion in 1972 and early 1973, but part of it is believed to have reflected the impact of the 1971 depreciation of the dollar on the competitive position of U. S. exporters. How-

TABLE 6. VOLUME OF WORLD TRADE: EXPORTS, 1960-72
(*Percentage changes, except as noted*)

	Relative Magnitude in 1972 ¹	Annual Average 1960-70 ²	Change from Preceding Year				
			1968	1969	1970	1971	1972
World ³	100	8.3	13.0	10.6	9.0	6.1	8.5
Industrial countries	74	8.7	14.2	11.0	9.3	5.9	8.9
Canada	6	9.8	15.2	6.6	9.9	5.7	9.8
United States	13	5.6	8.0	6.3	8.0	-1.2	9.3
Japan	8	16.4	24.1	18.0	14.5	17.5	5.5
France	7	8.6	12.7	15.9	14.9	8.6	14.3
Germany, Federal Republic of	13	9.6	16.0	12.1	8.5	6.7	8.6
Italy	5	12.8	17.6	10.4	8.4	7.0	14.2
United Kingdom	7	4.8	14.2	10.8	2.7	6.1	1.5
Other industrial countries ⁴	16	9.1	13.4	15.4	10.0	6.7	10.1
Primary producing countries	26	6.8	10.0	9.5	8.3	6.5	7.3
More developed areas ⁵	7	7.4	10.4	11.8	7.8	6.5	10.8
Less developed areas ⁶	19	6.6	9.8	8.8	8.5	6.5	6.1
Oil exporters ⁷	8	8.8	9.1	12.9	9.0	8.5	7.2
Other less developed countries	11	5.8	10.1	7.6	6.2	4.8	5.1

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

¹ Based on U.S. dollar values of exports (f.o.b., customs basis).

² Compound annual rates of change.

³ For coverage, see footnote 5, Table 1.

⁴ For coverage, see footnote 2, Table 1.

⁵ For coverage, see footnote 3, Table 1.

⁶ For coverage, see footnote 4, Table 1.

⁷ For coverage, see footnote 7, Table 5.

ever, with unit values in dollar terms rising much less for U.S. exports than for those of other industrial countries, the 1971-72 increase in the dollar value of U.S. exports was only about two thirds as large in percentage terms as the average increase for all industrial countries as a group.

Rates of export growth from 1971 to 1972 were above the average for the 1960s, in terms of both volume and U.S. dollar value, in France, Italy, and several of the smaller European industrial countries. For a number of these countries, the export gains represented large increases in their market shares. Germany, whose export volume growth in 1972 was somewhat below its longer-term average, recorded a small market-share decline (on a volume basis), in contrast to the moderately rising trend of the German share during the 1960s. Other industrial countries whose shares declined in volume terms in 1972 included Denmark, Sweden, and Switzerland. For the last, a particularly sizable market share decline was probably a direct result of the effective appreciation of the Swiss franc during 1971.

Current Account and Overall Payments Positions of the Industrial Countries

Throughout 1972 the underlying pattern of current account balances among the industrial countries remained unsatisfactory. Indeed, the degree of imbalance in the structure of those balances was substantially greater, on the whole, in 1972 than in 1971. By far the outstanding single change was a further sharp deterioration in the position of the United States, whose current account deficit rose to about \$6 billion in 1972, compared with less than \$1 billion in 1971 (Table 7). The U.K. current account also showed a substantial decline, from a surplus of \$3 billion in 1971 to one of just over \$½ billion in 1972; and Canada's current account swung from surplus to deficit by about \$1 billion in the same period. Most of the changes for other industrial countries were in the direction of larger surpluses or smaller deficits, but the largest of these changes were in the \$1-1½ billion range.

Although the underlying course and degree of the deterioration in the U.S. current account

TABLE 7. INDUSTRIAL COUNTRIES: BALANCE OF PAYMENTS SUMMARIES, 1970-72
(In billions of U.S. dollars)

		Balance on					
		Trade	Services and private transfers	Current account	Capital Account Balance ¹	Allocation of SDRs	Overall Balance ²
Canada	1970	2.9	-1.9	0.9	0.5	0.1	1.6
	1971	2.3	-2.1	0.3	0.6	0.1	1.0
	1972	1.5	-2.2	-0.6	0.9	0.1	0.3
United States	1970	2.2	—	2.1	-12.9	0.9	-9.8
	1971	-2.7	2.0	-0.7	-29.7	0.7	-29.8
	1972	-6.9	0.7	-6.2	-4.9	0.8	-10.3
Japan	1970	4.0	-1.8	2.2	-1.1	0.1	1.2
	1971	7.8	-1.8	6.0	4.3	0.1	10.5
	1972	9.0	-2.0	7.0	-4.2	0.1	2.9
France	1970	0.3	-0.3	0.1	1.9	0.2	2.1
	1971	1.1	-0.2	0.9	2.4	0.2	3.4
	1972	1.3	-0.2	1.2	0.5	0.2	1.9
Germany, Federal Republic of	1970	5.9	-4.1	1.7	4.3	0.2	6.3
	1971	6.4	-5.0	1.3	2.9	0.2	4.4
	1972	8.2	-6.0	2.1	2.7	0.2	5.0
Italy	1970	-0.4	1.7	1.3	-0.9	0.1	0.5
	1971	0.3	2.0	2.3	-1.3	0.1	1.1
	1972	—	2.4	2.4	-3.3	-0.1	0.7
United Kingdom	1970	—	2.0	2.0	0.7	0.4	3.2
	1971	0.8	2.2	3.0	3.0	0.3	6.3
	1972	-1.7	2.3	0.6	-4.3	0.3	-3.4
Other industrial countries ³	1970	-3.9	3.6	-0.3	2.3	0.3	2.2
	1971	-3.8	4.1	0.3	3.1	0.3	3.6
	1972	-2.5	5.4	2.9	0.1	0.3	3.3
Total, industrial countries	1970	10.9	-0.8	10.1	-5.1	2.3	7.2
	1971	12.2	1.2	13.4	-14.7	2.0	0.6
	1972	8.9	0.6	9.4	-12.5	2.1	-0.8

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

¹ This balance is computed residually, as the difference between the overall balance (less SDR allocations) and the current account balance; it includes official transfers and net errors and omissions, as well as recorded capital movements. Because of asymmetries in national balance of payments statistics resulting from placements of official reserves in the Euro-currency market, the net outflow of capital from industrial countries is understated by the following amounts (according to estimates given in Table 10): \$7.4 billion in 1970, \$5.4 billion in 1971, and \$10.6 billion in 1972. See note to Table 8 for further explanation.

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

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

were obscured by special disturbances, it had become clear by the end of 1972 that the unprecedentedly large deficit was not mainly a reflection of temporary and reversible factors, nor of the adverse terms of trade effects of the 1971 changes in exchange rates, but rather that the underlying U. S. trade position was probably much worse than had been realized before the end of 1971. This was the principal consideration out of which agreement was reached, early in 1973, that a further reordering of currency relationships would be appropriate.

The (proposed) devaluation of the U. S. dollar in February 1973 thus should not be viewed primarily as compensation for any evident failure of the December 1971 currency realignment to have the effects that could reasonably have been expected of it. Indeed, analysis shows that from early 1972 to early 1973 there was substantial improvement in the U. S. trade balance—an improvement that, as was to be expected, was much greater on a volume basis than on a current-value basis because of the initially adverse terms-of-trade effects of the exchange rate changes.

The extent of the volume improvement over that period was not inconsistent with effects that might be attributed to those changes.

The deterioration in the U.S., U.K., and Canadian current account positions from 1971 to 1972 was accompanied not only by positive shifts in the current accounts of most of the continental European industrial countries and Japan, but also by a marked reduction in the aggregate current account surplus of the whole group of industrial countries in their transactions with other parts of the world. That aggregate surplus dropped from about \$13½ billion in 1971 to \$9½ billion in 1972, reflecting cyclical influences as well as the upsurge of commodity prices in the latter year.

Overall payments imbalances in 1972, although very large by pre-1971 standards, generally remained far below the 1971 magnitudes, chiefly because of a subsidence of speculative capital flows. International movements of funds during the year following the Smithsonian Agreement were, with brief exceptions, much less volatile than during the preceding period of breakdown in long-standing arrangements for international settlements. Basic movements of developmental capital were well sustained; indeed, as noted above, the aggregate of net capital flows from the industrial to the primary producing countries continued to increase from the already very high level reached in 1971. (See Table 8.)

It should be noted that both the aggregate of net capital outflows from industrial countries in 1972 and the increase in such outflows from 1971 to 1972, as recorded in the balance of payments statistics of the industrial countries themselves (Table 7), are seriously understated because of asymmetries in the reporting of deposits of official reserves in the Euro-currency market or directly in currencies other than the traditional reserve currencies. As explained in the general "Note" to Table 8, such deposits are treated as capital inflows by the receiving countries, even though they are not registered as capital outflows by the countries placing their reserves in the nontraditional forms indicated. If these deposits were treated by the receiving countries as means of financing their overall payments balances, rather than as capital inflows, the classifications of capital movements and net reserve changes for the industrial countries as a group

would be brought into closer correspondence with the balance of payments records of the primary producing countries, and the understatement of the total net outflow of capital from the industrial countries would be corrected.⁵ On the basis of the rough estimates of the understatement given in the notes to Tables 7 and 8, the adjusted net outflow of capital and official transfers from the industrial countries would appear to have approximated \$23 billion in 1972, compared with \$20 billion in 1971 and about \$12½ billion in 1970. Private capital movements accounted for most of the increase after 1970, while the net outflow of official development assistance showed a considerably more moderate rise (and was little higher in real terms).

The sustained growth of total net capital outflows from the whole group of industrial countries in 1972 was accompanied by substantial shifts in the roles of individual countries as sources or destinations of international capital movements. Net outflows of capital from the United States contracted sharply in 1972, when they approximated \$5 billion, compared with nearly \$30 billion in 1971. This movement was accompanied by greatly increased net outflows from, or reduced inflows into, other industrial countries. A group of those countries comprising Belgium, Italy, Japan, the Netherlands, and the United Kingdom supplied net outflows aggregating more than \$13 billion, in contrast to net inflows of \$6 billion for the same group in the preceding year, while total net inflows into the remaining industrial countries contracted from about \$9 billion in 1971 to some \$5½ billion in 1972.

The 1972 outflows from the United Kingdom, totaling \$4 billion, occurred mainly during the period of the sterling crisis. Large net outflows from Italy (over \$3 billion) also reflected substantial speculative sales of lire, in addition to the persistence in outward movements of Italian funds that have been observed for many years. In Japan liberalization of transactions involving outward capital movements and other measures implemented by the authorities to stimulate Japanese foreign investment and to deter inflows of

⁵ Consistent balance of payments accounting would produce a corresponding adjustment of overall payments surpluses, for reasons explained in the notes to Table 8.

funds were responsible in considerable part for a total net capital outflow in excess of \$4 billion. Similarly, the net outflow for Belgium (over \$1 billion) reflected policies designed to promote investment abroad and prevent destabilizing inflows. The only industrial countries receiving large net inflows of short-term capital in 1972 were Germany, France, and Switzerland; most of these inflows accrued during the sterling crisis. In the case of Germany, however, the net capital inflow for the year as a whole, amounting to some \$2.7 billion, included about \$1.8 billion in long-term forms and apparently reflected flows induced by interest rate differentials and comparatively tight credit conditions, as well as investments motivated by exchange rate expectations.

An important element in the pattern of capital movements during 1972 was the further substantial expansion of flows channeled through the Euro-currency market. According to estimates of the Bank for International Settlements, based on reports covering banks in nine European countries,⁶ the growth of foreign currency liabilities of those banks to nonresidents of the countries in which they are situated amounted to some \$34 billion in 1972, compared with about \$20 billion in each of the three preceding years. The acceleration of this growth in 1972 reflected a rapid expansion of deposits in U. S. dollars and in deutsche mark, coupled with a considerably slower rise in deposits denominated in other currencies. At the end of 1972, the proportion of deutsche mark in the reported total of Euro-currency deposits was about the same (some 15 per cent) as a year earlier, but nearly twice as high as it had been at the end of 1969; the proportion of U. S. dollars, which had dropped from 82 per cent at the end of 1969 to 72 per cent at the end of 1971, rose somewhat during 1972, to 74 per cent at year-end. More than half of the large increase in dollar deposits in 1972 took place during the fourth quarter, when the dollar was relatively strong in the exchange markets. A special factor in the growth of non-dollar (notably deutsche mark) deposits in the Euro-currency markets was the intensification of

restrictions by some European countries on the direct placement of nonresident deposits with their commercial banks.

The principal net suppliers of funds to the Euro-currency market in 1972 were the Middle East and the European primary producing countries. The largest net borrowers from the Euro-banking institutions during the same period were residents (including banks) of the reporting European industrial countries, Japan, the United States, and Eastern Europe. As noted below, residents of developing countries were substantial gross borrowers in 1972, and additional Euro-currency funds probably reached developing countries indirectly through financial institutions in various industrial countries.

Canadian and Japanese banks, although not included in the Euro-currency aggregates discussed above, also have very large deposit liabilities denominated in currencies other than their own. The Japanese banks increased their foreign currency liabilities to nonresidents by \$0.9 billion in 1972, but expanded their foreign currency claims on nonresidents by about \$3 billion. In this process, they raised substantial funds (net) from banks in the nine reporting European countries, as well as from Japanese sources, and increased their net foreign currency investment position in the United States and elsewhere. The Canadian banks increased their foreign currency indebtedness by \$1.7 billion and their foreign currency assets by \$1 billion, raising funds (net) mainly in the United Kingdom and the United States for use in Canada and in the sterling area outside the United Kingdom.

After the partial subsidence of U. S. capital outflows during 1972, the exchange crisis of early 1973 brought another bulge in capital outflows from the United States, with corresponding inflows mainly to other industrial countries but apparently not confined to them. U. S. balance of payments data for the first quarter of 1973 indicate a net capital outflow of about \$10 billion, of which about one third can be traced to identified flows of private liquid capital. Official foreign exchange holdings of industrial countries other than the United States showed a combined increase of \$10½ billion in the first quarter, but part of that increase is believed to have stemmed from a continuing current account surplus for these countries

⁶ Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Sweden, Switzerland, and the United Kingdom.

as a group. The available data thus suggest that the primary producing countries may have received additional net capital inflows amounting to several billions of dollars in the first quarter of 1973.

When attention is turned to the short-run outlook for external payments in the industrial countries, a primary consideration is the probability that a number of major countries will continue to experience large imbalances in their current account positions in 1973. Positive effects of the 1970-71 and early 1973 exchange rate changes should in the course of 1973 bring some alleviation of the large disequilibrium that has characterized major current account positions in recent years, notably including the U.S. deficit; but not until 1974, as noted earlier, can one expect to observe a substantial measure of adjustment toward the intended pattern—an adjustment whose speed and scale will depend on the domestic policies of the countries concerned.

Given the prospect that several major industrial countries will continue to have large imbalances in their external current accounts in 1973, the avoidance of excessive overall payments surpluses or deficits—or of strong pressures on exchange rates under a regime in which the relationships among currencies are not fixed—now depends greatly on the emerging pattern of capital flows. That pattern itself may depend in considerable part, of course, on the policies pursued by national monetary authorities with respect to exchange market intervention, as well as on the more general characteristics of national financial policies and conditions. Hope for minimizing pressures on exchange rates or reserves, or on both, lies to a considerable extent in at least a partial reversal of the capital flows that created such massive disturbances over the past two years. As of mid-1973, the possibilities for substantial reflows of funds previously moved for speculative or hedging purposes appeared to hinge chiefly on three factors: (1) the expectations of market participants with respect to exchange rates; (2) the underlying influence of comparative national monetary conditions and policies on the placement of mobile funds; and (3) special measures directed specifically toward stimulation or deterrence of certain capital movements.

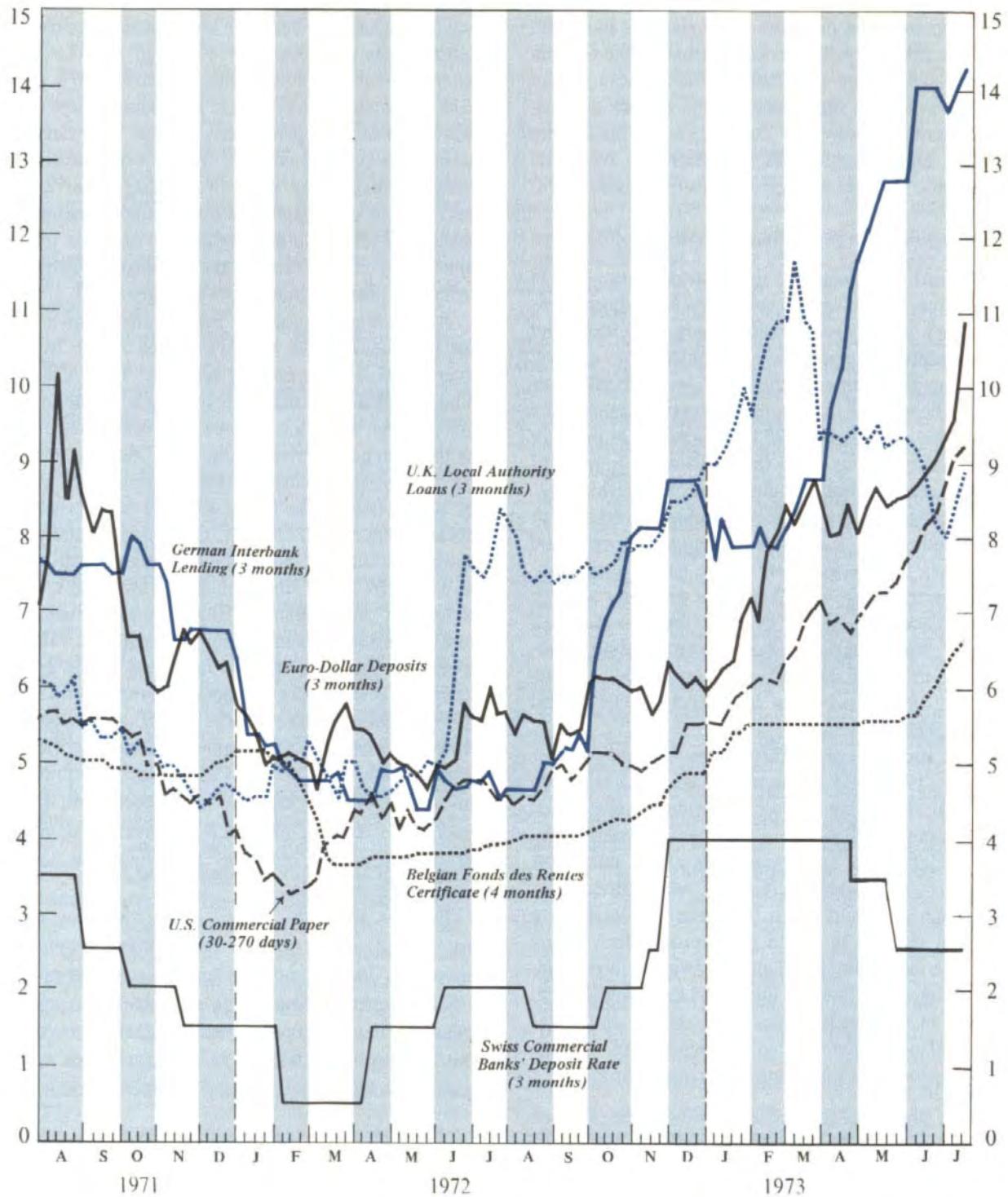
Recent experience has shown that ordinary yield

considerations cannot override strong expectations of early changes in exchange rates. Such expectations undoubtedly played an important part (although not an exclusive one) in the failure of large-scale reflows to materialize soon after either the Smithsonian Agreement or the early 1973 realignment. However, the very fact that large additional changes in exchange rates have taken place during 1973, generally in the same direction (for the key countries) as the Smithsonian changes, should narrow the ground for expectations of still further changes in that direction.

With respect to comparative monetary conditions, the shifts that took place in the United States and in Europe during the closing months of 1972 and the early part of 1973 were not propitious from the standpoint of inducing reflows of capital to the United States. Although U.S. interest rates continued to rise sharply through the first half of 1973 as monetary policy was tightened in response to the development of powerful upward momentum in the domestic economy, demand expansion was also gaining momentum in Europe, as well as in Japan, and national authorities in those areas were turning progressively toward monetary restraint—rather than fiscal restraint—to check the upsurge. The result was a rise in short-term interest rates considerably faster than that in the United States, reopening a wide spread between European and U.S. money market yields (Chart 8) and impeding reflows of mobile funds. At the same time, however, it seems unlikely that nominal interest rate differentials alone can draw substantial amounts of liquid funds away from the United States in a period of stringent credit conditions there. Also noteworthy is the recent reduction of reserve requirements on external borrowing by U.S. banks through their foreign branches; this may enhance the effects of generally tight credit on liquid capital inflows into the United States, especially if changes in exchange rate expectations for the dollar should materialize.

Some of the industrial countries whose current account balances are now in surplus have been traditional net importers of capital. They may face strong pressures on exchange rates or reserves, or on both, unless they find themselves in position to stimulate capital outflows through monetary policies or through changes in their controls over

CHART 8. SHORT-TERM MONEY MARKET RATES, AUGUST 1971–JULY 18, 1973
(In per cent per annum)



capital flows. However, the potential for greatly affecting capital account balances through the network of new or intensified controls that has been built up over the past two years remains in doubt, despite the measure of success attributable to such controls to date. The future effectiveness of the controls will be influenced by the degree of pressure to which they are exposed, and thus by the credit environment that is generated by basic economic conditions and monetary policies.

Developments in the Primary Producing Countries

Recent economic and financial developments in the primary producing countries have been conditioned by several broad factors of widespread applicability. These have included the cyclical upswing in the main industrial areas, the resultant intensification of inflationary pressures emanating from those areas, the 1972-73 upsurge in primary commodity prices, and the continuing impact of recent realignments of currency relationships.

The vigor of the cyclical upswing in progress in the industrial countries greatly strengthened demands for the products of the primary producing countries during 1972, and it promises to keep those demands strong at least through most of 1973.⁷ Such circumstances present a sharp contrast to the slack demand conditions facing exporters of primary products as recently as 1971 and early 1972.

The spurt in commodity prices during the latter part of 1972 and the first part of 1973 reflected not only the strengthening of demand in the industrial countries, but also a number of specific factors relating to supply conditions in particular markets. The sharp increase of wheat prices, for example, stemmed to an important extent from a general setback in world grain production, giving rise to unusual import demands from such producing areas as the Soviet Union and mainland China. Prices in the markets for meat, cocoa, and sugar were also influenced by deficiencies of current global production in relation to rising demands.

⁷ The strength of the boom in process during the first half of 1973 (Chart 5) was such as to assure substantially higher imports by the industrial countries for the year as a whole, even if the average rate of demand expansion in those countries is reduced in the second half by the effects of restrictive policy measures and other factors. In the past, exports of developing countries have usually responded to changes in the pace of activity in the industrial countries only with some time lag.

A special factor contributing to the rise in commodity prices expressed in U. S. dollars, or in the local currencies of a great many primary producing countries, has been the succession of currency adjustments that began in 1971. In addition, the international monetary crisis of early 1973 gave rise to unusual incentives for commodity purchases, which represented—under the circumstances prevailing at that time—one means of hedging against the risks of holding a particular currency or of engaging in outright speculation on exchange rate changes. Demands of these types apparently contributed to the upward pressure on prices of many commodities in early 1973.

Altogether, commodity prices other than those for petroleum rose from 1971 to 1972 by an average of 13 per cent in terms of U. S. dollars. The increase was centered mainly in agricultural goods, and especially in the nonfood component of that category. Prices of nonfood items increased by 30 per cent—an exceptional gain after years of weakness—while prices of food items rose by about 12 per cent. Overall, there was virtually no change in the average price of metals from 1971 to 1972. In 1973, however, prices of metals have shared in the advance. Export unit values for primary commodities, which are directly related to export earnings, showed increases in 1972 and early 1973 that were considerably more moderate than those in market price quotations, although they followed a broadly similar course.⁸ For petroleum, which is not covered in the cited commodity price figures, the increase in export unit value from 1971 to 1972 exceeded the average for other primary products, and the 1973 increase seems likely to do so again.

Benefits from the recent price increases were not spread evenly among the primary producing countries. Indeed, one major consequence of the 1971-72 price changes was a broad tendency for the more developed countries to benefit more than the developing countries from export unit value gains. In particular, primary producing countries'

⁸ Movements of export unit value indices usually differ substantially from those of indices based on market price quotations for a variety of reasons, including time lags between purchase commitments and export shipments, differences in coverage and weighting, and the importance of trade conducted under long-term bulk contracts at prices not quoted in commodity markets.

supplies of wheat, wool, and meat—which were among the commodities most strongly affected by especially favorable price trends—come largely from the more developed group. The situations in the sugar and petroleum markets were the major exceptions to this general tendency. In those markets, a number of developing countries gained substantially from higher prices. Price increases for some commodities came too late in the year to have much effect on 1972 trade values. For example, although cocoa prices rose strongly in 1972, the usual practice of negotiating sales of cocoa well in advance of shipment meant that the recent favorable price changes for that commodity were not yet fully reflected in the values of shipments reported by the exporting countries.

The pattern of price movements in late 1972 and in the first half of 1973 suggested that the developing countries would gain a somewhat larger share of the export proceeds generated by price increases in 1973. The strengthening of prices in the metal markets around the turn of the year contributed to this general tendency.

As noted above, the payments positions of many primary producing countries in 1972 were bolstered not only by the buoyancy of their export markets and the upsurge of primary commodity prices but also by a large net inflow of capital, which in 1972 was some \$6 billion higher than in 1970 for primary producers as a group (Table 8). They have reflected a wide variety of factors. International credits were generally more plentiful, and interest rates lower, during most of 1972 than in the two immediately preceding years. At the same time, credit demands from traditionally large borrowers in the Euro-currency markets were somewhat depressed by the cyclical weakness of investment activity in some of the main industrial countries. Another factor working in the same direction was the intensification by several industrial countries of measures to curtail foreign borrowing by their residents. Demands for funds for speculative purposes were only sporadic in 1972, and of much smaller magnitude than in 1971. Under these conditions, less developed countries in Latin America, Africa, and the Far East were able to increase substantially their borrowing in the Euro-currency markets. In some of the primary producing countries, their own

exchange rate policies or domestic credit conditions, as well as various special factors, also contributed importantly to the strength of capital inflows.

Banks engaged in Euro-currency business have recently played an important role in channeling funds to the developing countries—funds raised in many parts of the world (including some developing countries themselves) through relatively short-term deposits and placed to an increasing extent in medium-term loans, often of a revolving or renewable character. Fragmentary data indicate that credits of this type were even larger in the first quarter of 1973 than a year earlier. However, the tightening of monetary conditions in most of the industrial countries during the latter part of 1972 and the first half of 1973 may impede further increases in the flow of funds to borrowers in the primary producing countries, whether through Euro-banking channels or in other forms.

More developed primary producing countries. For these countries as a group, the capital inflow in 1972, while large, was roughly the same as the inflow of the previous year. As in 1971, Australia was the principal net recipient, accounting for more than one third of the group total. The size of Australia's inflow reflected, apart from the movements of private long-term capital in traditional forms, a very high level of short-term or medium-term borrowings by companies in Australia. During 1972 the expectation that the Australian dollar would be revalued also contributed to the higher volume of capital inflow. After this expectation was realized in December 1972, many of the previous positions which traders and investors had taken in Australian dollars were unwound in the early months of 1973. Relatively large net capital inflows were also received by Greece, South Africa, Spain, and Turkey. The Greek and Turkish flows included large proportions of short-term funds, particularly into exchange guarantee accounts paying comparatively high rates of interest, while the inflows reported for South Africa and Spain were mainly in long-term forms, including sizable amounts of foreign direct investment in those countries.

Despite the absence of further increase in their aggregate net capital inflows from 1971 to 1972, the more developed primary producing countries

TABLE 8. BALANCE OF PAYMENTS SUMMARY, 1970-72
(In billions of U.S. dollars)

		Balance on					
		Trade	Services and private transfers	Current account	Capital Account Balance ¹	Allocation of SDRs	Overall Balance ²
Industrial countries	1970	10.9	-0.8	10.1	-5.1	2.3	7.2
	1971	12.2	1.2	13.4	-14.7	2.0	0.6
	1972	8.9	0.6	9.4	-12.5	2.1	-0.8
Primary producing countries	1970	-6.1	-5.3	-11.3	14.6	1.1	4.3
	1971	-6.6	-4.7	-11.2	18.4	1.0	8.2
	1972	-1.1	-4.7	-5.8	20.4	1.1	15.7
More developed areas	1970	-5.7	2.7	-3.1	4.1	0.3	1.3
	1971	-6.5	4.2	-2.3	6.1	0.2	4.0
	1972	-4.1	5.5	1.4	5.8	0.3	7.4
Less developed areas	1970	-0.3	-8.0	-8.3	10.5	0.8	3.0
	1971	-0.1	-8.9	-8.9	12.3	0.7	4.2
	1972	3.0	-10.2	-7.2	14.6	0.8	8.2
In the Western Hemisphere	1970	—	-3.1	-3.1	4.1	0.3	1.3
	1971	-1.2	-3.2	-4.4	4.6	0.3	0.5
	1972	-1.4	-3.5	-4.9	7.3	0.3	2.7
In the Middle East	1970	1.1	-2.0	-0.9	0.9	0.1	0.1
	1971	3.8	-2.9	0.9	1.3	0.1	2.4
	1972	5.1	-3.1	2.0	1.2	0.1	3.3
In Africa	1970	2.3	-2.7	-0.4	1.3	0.1	1.1
	1971	1.3	-2.6	-1.2	1.9	0.1	0.8
	1972	2.3	-3.3	-1.0	1.7	0.1	0.8
In Asia	1970	-3.7	-0.2	-3.9	4.2	0.3	0.6
	1971	-4.0	-0.2	-4.3	4.5	0.2	0.5
	1972	-2.9	-0.3	-3.3	4.4	0.3	1.4
Total, all countries	1970	4.8	-6.1	-1.3	9.5	3.4	11.6
	1971	5.6	-3.5	2.1	3.7	2.9	8.8
	1972	7.8	-4.2	3.6	8.0	3.2	14.7
Memorandum:							
Oil exporters ³	1970	5.5	-5.3	0.3	0.4	0.1	0.8
	1971	8.8	-6.7	2.1	1.0	0.1	3.3
	1972	10.2	-8.4	1.7	1.7	0.1	3.6
Other less developed countries	1970	-5.8	-2.7	-8.6	10.1	0.7	2.2
	1971	-8.9	-2.2	-11.0	11.3	0.6	0.9
	1972	-7.2	-1.8	-8.9	12.9	0.6	4.6

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

¹ This balance is computed residually, as the difference between the overall balance (less SDR allocations) and the current account balance; it includes official transfers and net errors and omissions, as well as recorded capital movements.

² Overall balances are measured by changes in official gold holdings, in SDRs, in reserve positions in the Fund, in foreign exchange assets, in use of Fund credit, and, where data are available, in liabilities to foreign monetary authorities.

³ The oil exporters included here are Algeria, Indonesia, Iran, Iraq, Kuwait, the Libyan Arab Republic, the Netherlands Antilles, Nigeria, Saudi Arabia, Trinidad and Tobago, and Venezuela.

Note: Attention should be called to the large excess of surpluses over deficits in the global summation of overall payments balances shown above for the years 1970-72. For all countries regularly reporting balance of payments statistics to the Fund, the estimated net total of overall surpluses in 1972 (apart from SDR allocations, which give rise to reserve gains of recipient countries unmatched by declines in reserves of any other countries) reached some \$11½ billion. Similarly, the global summation of estimated capital movements for 1972 shows an excess of reported inflows over outflows amounting to approximately \$8 billion. These large positive totals for balance of payments items that should add globally in each case to zero, apart from statistical errors and asymmetries in reporting, are believed to reflect primarily a large rise in currency reserves held in forms other than direct claims on the traditional reserve currency countries. For reasons explained below, placements of official reserve holdings in the Euro-currency market generate asymmetries in both overall balances and capital flows; and similar asymmetries arise from growth in official reserve holdings of currencies other than U.S. dollars or pounds sterling. The large magnitude of the 1972 growth in reserves held outside the United States or the United Kingdom can be inferred not only from the balance of payments asymmetries noted here, but also from the excess of the total change in countries' reported currency reserves over the change in combined U.S. and U.K. liabilities to foreign official agencies. This excess amounted to about \$10½ billion in 1972, compared with some \$7½ billion in 1970 and \$5½ billion in 1971, suggesting that accumulation of currency reserves in the Euro-markets or in currencies other than U.S. dollars or sterling was even larger in 1972 than in 1970 or 1971. Prior to 1969, accumulations of reserves in such forms had not been a significant factor in the pattern of payments balances. (See Table 10.)

The reason why placements of official reserves in the Euro-currency market generate asymmetries in balance of payments statistics is that any given transaction of this type is treated differently by the two countries involved. The placing country treats

as a group had a very strong overall payments position in the latter year. It reflected a marked positive shift in their combined current account balance, stemming mainly from sharp upward swings in the trade balances of Australia and South Africa plus a sizable expansion of net receipts from service transactions, and especially from workers' remittances and tourism, by a number of the European primary producers. For the latter group, a strong increase in the value of exports in 1972 was more than matched by expansion in the value of their imports, generally reflecting the growth of domestic output and demand, so that changes in trade balances were not, on the whole, a factor in the strength of current account and overall payments positions. In Australia and South Africa the upswings in trade balances were attributable mainly to dramatic increases in major commodity prices, to a sustained rise in the volume of exports, and to the cyclically low level of imports resulting from a slowdown in the domestic economy. For the entire group of more developed primary producing countries, both in Europe and in the Southern Hemisphere, the combined overall payments surplus rose to \$7½ billion in 1972, compared with about \$4 billion in 1971 and less than \$1½ billion in 1970.

Less developed countries. This group of countries, like the more developed primary producers, experienced a positive swing in their combined trade balance from 1971 to 1972. With exports rising on average by 15½ per cent in terms of U.S. dollar value and imports increasing somewhat more moderately (by an average of 12½ per cent), these countries showed a collective export surplus estimated at about \$3 billion for 1972, compared with an approximately balanced position in 1971. The aggregate current account deficit of the developing countries was thus reduced by some \$2 billion, to an estimated \$7 billion, despite some further increase in net service payments (including investment income payments). Within these aggregates, the trade and

current account positions of the oil exporting countries differed greatly from those of the other developing countries. In 1972 the oil group had a trade surplus of about \$10 billion and a current account surplus of nearly \$2 billion, while the other group had a trade deficit of \$7 billion and a current account deficit of \$9 billion (Table 8). However, the nonpetroleum group accounted for more than half of the net change from 1971 to 1972 in the combined trade balance of all developing countries and for the entire net change in their aggregate current account balance.

The reduced current account deficit of the whole group of developing countries in 1972 was accompanied by an enlarged inflow of capital, generating an unprecedented overall payments surplus of more than \$8 billion. About \$4½ billion of this amount accrued to countries primarily exporting commodities other than petroleum; their overall surplus in the previous year had been less than \$1 billion. For the oil exporting countries, the overall surplus of some \$3½ billion in 1972 was slightly above the previous year's figure. Net capital inflows into the oil exporting countries increased somewhat, despite continued net outflows of short-term funds from some of these countries. Kuwait, Saudi Arabia, and the Libyan Arab Republic accounted for the bulk of this enlarged short-term outflow, representing—along with increases in official reserves—the disposition of funds acquired through large current account surpluses of the countries concerned.

Preliminary estimates suggest that net capital flows into developing countries other than the major oil exporters rose from about \$11 billion in 1971 to \$13 billion in 1972. The rise was due chiefly to growth of private capital movements, as net transfers of official aid and credits (as recorded in the balance of payments statistics reported by the developing countries) were only slightly larger in 1972 than in 1971. It now appears that net short-term capital inflows to the nonpetroleum countries accounted for about half of the \$2 billion increase in their total capital

an increase in its official holdings of Euro-currency claims as an addition to its reserve assets and thus as an element in the financing of its overall payments balance, while the receiving country treats the same deposit as an increase in external liabilities of a resident (nonofficial) financial institution, and thus as a capital inflow. The same difference in classification occurs when official reserves are placed in direct claims on countries other than the traditional reserve currency countries. Any summation of balance of payments statistics for the countries involved in either Euro-currency placements or other nontraditional reserve placements will therefore include both reserve gains (overall surpluses) not matched by reserve reductions (overall deficits) elsewhere and capital inflows not matched by any capital outflows from other countries. *Mutatis mutandis*, all of these observations apply equally, of course, to withdrawals of official reserves held in the Euro-currency market or directly in currencies other than U.S. dollars or pounds sterling.

inflow from 1971 to 1972. The total in 1972 was also boosted by a sizable rise in net inflows of private capital in long-term forms. This rise was in part a direct reflection of efforts by some developing countries to lengthen the maturity structure of their external debt through steps to stimulate receipt of long-term funds and to reduce dependence on short-term credits.

Brazil was both the leading example of successful official efforts to lengthen the term of external debt and the recipient of by far the largest capital inflow going to any developing country in 1972. At \$3.8 billion in that year, Brazil's net capital imports were, in U. S. dollar terms, more than twice the previous year's total. This sharp increase was attributable mainly to exchange rate developments that reduced the effective costs of borrowing abroad and to relatively tight credit conditions resulting from efforts to restrain domestic demand. Other developing countries with relatively large net capital (and aid) inflows in 1972 (ranging from \$0.3 billion to \$1.2 billion) included Colombia, Mexico, and Venezuela in the Western Hemisphere; Egypt, Iran, and Israel in the Middle East; and Indonesia, Korea, Singapore, and Vietnam in Asia. While government aid and credits represented the bulk of the inflows received by some of these countries, private credits were predominant in the flows to Indonesia, Mexico, Singapore, and Venezuela. For the last two, the net flows were mainly in short-term forms; but the major part of the inflows into Indonesia and Mexico consisted of foreign direct investments and long-term funds raised abroad for development financing in accordance with government policies of seeking external credits to supplement domestic saving.

Within the large and diversified group of developing countries, widely different experiences with respect to balance of payments developments were recorded in 1972, and further sharp differences are doubtless emerging in 1973. The unusually large rise in the overall payments surplus for the whole group in 1972 was especially marked for the Western Hemisphere countries (because of particularly large increases in capital inflows, as noted above) and was shared, to a lesser extent, by the Asian and Middle Eastern countries. It was not shared, however, by the countries of the African region, whose combined

overall payments surplus, after declining in 1971, remained unchanged in 1972, despite an improvement of the trade balance. In the Middle East and northern Africa, of course, the experience of the oil exporting countries diverged sharply from that of most other developing countries.

Recent International Monetary Developments and the Developing Countries

The realignment of major currencies that took place in 1971 and 1973, together with the decisions made by developing countries regarding their own exchange rate policies, have significantly modified some of the major factors and considerations underlying the trading patterns of the developing countries. International financial assets and liabilities of these countries have also undergone appreciable alteration, both in nominal terms and—to a lesser extent—in real terms. Moreover, the environment of greater exchange rate flexibility that has emerged appears to confront the less developed countries with more uncertainties and some new problems of adaptation, quite apart from the changes in the structure of exchange rates that have actually taken place.

The 1972 Annual Report summarized staff estimates of the impact of the 1971 currency realignment on the trade, reserve assets, and long-term debt of developing countries. Similar estimates with respect to the early 1973 changes in the exchange rate structure are reviewed briefly in the first three subsections below, while a fourth subsection examines some of the implications for developing countries of greater exchange rate flexibility as such.

Trade Impact of the Early 1973 Realignment

The order of magnitude of the effective U. S. dollar depreciation was roughly the same in the February–March 1973 realignment as in the 1971 realignment, and the pattern of changes in the exchange rates of other industrial countries against the dollar was also broadly similar on the two occasions, notwithstanding some differences of importance to individual countries. Against this background of rough parallels in the effective adjustments of exchange rates among the industrial countries, the great majority of developing

countries also followed similar courses of action in adjusting their own exchange rates against some of the major currencies. However, somewhat fewer developing countries maintained their rates against the U. S. dollar during the early 1973 realignment, and the average appreciation of all developing countries' currencies against the dollar was a little larger on that occasion than it had been in the Smithsonian round of adjustments—somewhat more than 5 per cent, on the basis of combined export and import weights, versus less than 4 per cent in the 1971 realignment. The average depreciation of developing countries' currencies in relation to those of European industrial countries and Japan was about 2 percentage points less in 1973 than in 1971. In relation to the currencies of all developed countries combined, the average effective depreciation of developing countries' currencies amounted to approximately 2 per cent in the later round, compared with about 4½ per cent in the Smithsonian round.

The foregoing estimate of the average effective depreciation implies that a slightly adverse shift in the average terms of trade for developing countries might be expected. However, the realignment-related terms of trade deterioration—perhaps amounting to less than ½ per cent—would be small in relation to the average terms of trade gain of the less developed countries resulting from the 1972–73 upsurge of commodity prices. This average gain doubtless encompasses widely divergent experiences for individual countries, including adverse changes in the terms of trade for some of them.

The estimated export and import price changes underlying the realignment-related portion of the projected shift in the terms of trade in 1973 would imply some expansion in the volume of developing countries' exports and some contraction in the volume of their imports—each, perhaps, of the order of 1 per cent or a little less. Taken together, the indicated volume and price changes would imply an eventual realignment-induced improvement of something like \$1 billion in the collective trade balance of the developing countries, before allowance for any indirect or secondary effects. Such an estimate is within the range of about 1 or 2 per cent of their combined exports; it would relate to a hypothetical full year beginning after all the lagged adaptations of producers, traders,

and consumers to the new exchange rate structure had been made.

Most realignment-related changes in trade variables for the developing countries are likely to be somewhat smaller in connection with the early 1973 exchange rate adjustments than with the 1971 adjustments (essentially because the average effective depreciation of developing countries' currencies was smaller). However, this will not be true of export and import prices expressed in U. S. dollars (or of such prices in terms of local currencies that were not appreciated against the dollar). As far as dollar prices of exports and imports are concerned, the greater average change in nominal exchange rates of developing countries against the dollar in 1973 than in 1971 will slightly more than offset the smaller size of the estimated average price changes in terms of local currencies. In the early 1973 realignment, as in the previous one, therefore, directly induced increases in U. S. dollar prices of developing countries' exports and imports are calculated to average approximately 7 per cent, with the rise in import prices exceeding that in export prices by a small margin.

For many developing countries, shifts over time in the orientation of trade resulting from the currency realignments may be more striking than the realignment-induced effects on their export or import totals. Difficulties in diverting trade from established channels will limit or delay shifts in the direction of trade in many cases. However, there will be strong price inducements for such shifts. Procurement of imports in the United States, for example, should be much more attractive than at any time for many years, while the converse is true of procurement in Japan, Germany, or other industrial countries with sharply appreciated currencies. At the same time, price factors may tend in some instances to encourage diversion of primary product exports toward the appreciating countries. In addition, certain developing countries that are capable of expanding output of manufactured goods for export markets and whose currencies have depreciated against those of most industrial countries may find their competitive positions in world markets enhanced.

Changes in Valuation of Reserve Assets

The early 1973 realignment of major currency

relationships, like the one provided for in the Smithsonian Agreement, had an immediate impact upon the relative values of different kinds of reserve assets. Holdings of U. S. dollars became less valuable in relation to SDRs, reserve positions in the Fund, gold, or other major currencies held as reserves, while all the latter types of reserve assets increased in value relative to U. S. dollars. The overall value of countries' total reserves, as measured in U. S. dollars, increased from \$164 billion to \$173 billion, or by 5½ per cent, as a result of the February depreciation of the U. S. dollar. Measured in terms of SDRs, the same total stock of reserves was reduced from SDR 151 billion to SDR 143 billion.

For both the industrial countries and the less developed countries, the increase in dollar value of reserves resulting from the early-1973 realignment averaged about 5 per cent; it was considerably higher for the more developed primary producing countries, which held relatively large proportions of their reserves in forms other than U. S. dollars. If U. S. dollar prices of imports rise by approximately 7 per cent as a result of the recent currency realignment (as the estimates noted above would suggest), the deterioration in "purchasing power" of reserves will thus exceed the realignment-related increase in their U. S. dollar value by about 1½ per cent. For developing countries alone, the net loss in real terms may have slightly exceeded 2 per cent on average, compared with an average real loss of just under 2 per cent for industrial countries. (Only for the more developed primary producing countries does the average revaluation gain on non-dollar reserves appear to have outweighed the estimated effects of price increases on the purchasing power of the whole stock of reserves.)⁹

Further changes in the value of reserves—upward in terms of U. S. dollars and downward in terms of certain other currencies—are implied by the additional changes in exchange rates after March 1973. However, in the absence of recent information on the currency composition of

⁹ The foregoing changes in "purchasing power" of reserves would be the same if the estimates were based on changes in nominal values of reserves expressed in SDRs, since allowance would have to be made for the decrease in "SDR prices" implied by the moderate revaluation of the SDR in terms of currencies in general.

reserves, quantitative estimates of these implications are not available.

Impact of the Early 1973 Realignment on Debt

With respect to external debt, as with respect to reserve assets, the developing countries have been exposed to changes in both the nominal values and the "real" values of amounts outstanding at the time of the 1973 currency realignment. The U. S. dollar equivalents of most of the non-dollar debt (or debt service payments) have been raised, while the rise in U. S. dollar prices expected to result from the realignment will tend to reduce in real terms the significance of both the dollar-denominated debt (or service payments) and the dollar equivalent of most other outstanding debt (or service payments). On the basis of IBRD data for 70 developing countries, covering their external public and publicly guaranteed debt (with maturity of more than one year) outstanding on December 31, 1971, Fund staff estimates indicate that the difference between a valuation in U. S. dollars (as the unit of account) at exchange rates prevailing on March 30, 1973 and a valuation at the exchange rates prevailing on December 31, 1972 would be some \$2.3 billion, or a little less than 5 per cent of the amount of debt outstanding.¹⁰ With allowance for dollar price increases (for developing country exports) arising from the currency realignment, it is estimated that the total debt was reduced in real terms by 1½–2 per cent.

Among regional groups of developing countries, the largest debt revaluation, amounting to some 6½ per cent in terms of U. S. dollars, was that for Africa, where only about 25 per cent of the outstanding external debt at the end of 1971 was denominated in dollars. At the other extreme was the Latin American region, where more than three fifths of the debt was denominated in U. S. dollars and the size of the debt revaluation averaged only about 4 per cent in dollar terms.

Preliminary estimates suggest that the U. S. dollar value of debt service payments by developing countries during 1973 may have risen by nearly 5 per cent as a result of the early 1973

¹⁰ These figures thus make no allowance for revaluation of short-term debt, for which corresponding information on amounts outstanding and currency composition is not available.

currency adjustments. In real terms, however, after allowance for realignment-related price changes, this would be tantamount to a reduction of a little more than 1½ per cent in annual debt service payments.¹¹

Implications of Greater Exchange Rate Flexibility

The considerably greater flexibility of exchange rate relationships that has evolved over the recent period—as depicted at the beginning of this chapter—raises the question of the implications of such flexibility for the developing countries. In consideration of this issue, it seems useful to abstract from (a) the question of the viability of the particular set of exchange rates for major countries that emerged in the markets during the May–July period of substantial rate movements and (b) the fact that currency relationships at the present time do not conform to international agreement—a matter of particular importance to the developing countries in view of their vulnerability in this regard. One aspect of this vulnerability is that highly variable relationships among the major currencies are likely to have a destabilizing impact on the developing countries. For example, wide or erratic fluctuations of exchange rates for major currencies under conditions of floating will affect the exchange rates of developing countries in ways generally unrelated to their own adjustment needs, and uncertainties regarding the course of rates for major currencies will make an appropriate exchange rate response on the part of developing countries particularly difficult.

Even if one sets aside the abnormalities of the current situation, it is apparent, as mentioned earlier, that exchange rate flexibility in the major industrial countries confronts the less developed countries with an assortment of new uncertainties. Prior to a consideration of these uncertainties, it should be emphasized that, in any comprehensive assessment of the impact of greater exchange rate flexibility on the developing countries, the central issue would relate to the question of whether or not an exchange rate regime involving greater

flexibility would contribute to an improvement in the functioning of the international adjustment mechanism—an improvement in which the developing countries have an important stake.

The increased risk exposure associated with the uncertainties inherent in a regime of greater exchange rate flexibility is properly regarded by many developing countries as an additional burden. At the same time, it should be noted that some of the problems commonly envisaged as arising from greater exchange rate flexibility may also have a positive aspect. One example relates to concern about the possibility that the export interests of the developing countries may suffer injury through depreciation of foreign currencies in which sales contracts have been invoiced. It is true, of course, that the scope for losses of this kind may be greater under a regime of more flexible rate adjustments. But it is also true—especially if in the period ahead there should be a better balance of appreciations and depreciations among major currencies than in recent years—that exporters in developing countries will sometimes experience gains through appreciation of the currencies in which large proportions of their foreign sales are invoiced.¹² Similar considerations apply to the question of the impact of exchange rate flexibility on the values of currencies in which foreign financial assets are held, or external debts incurred, by developing countries. Also, the greater uncertainty inherent in flexibility of rates might inhibit or delay transactions and in that respect can be considered a negative factor in the area of external trade. But in the present context, the additional risk of generally minor fluctuations in exchange rates under a more flexible regime would have to be weighed against the reduced risk of major adjustments that could occur under a more rigid regime.

Fluctuating exchange rates may have more of an impact on the budgets of developing countries than on those of developed countries. Budgetary revenues of the former are often highly dependent on export levies and import duties and could be affected by exchange rate fluctuations, introducing another element of uncertainty into the process of

¹¹ As in the case of reserve asset values, the changes in exchange rates since March 1973 imply further changes in the dollar value of non-dollar debt, or in the value of dollar debts expressed in terms of other currencies.

¹² The gains or losses in question may not balance out, of course, for the export sector of any given country, and the experience of individual countries in this respect could differ greatly.

economic management and planning. At the same time, the qualification noted at the end of the preceding paragraph is also relevant here.

A particular aspect of exchange rate uncertainty that might well involve new cost burdens for developing countries arises from the possibility that greater scope for short-term exchange rate fluctuations may increase the need for protection against certain short-term exchange risks through hedging transactions in forward markets. Meeting this need may require development of forward market facilities that are now nonexistent or rudimentary in many less developed countries, either through provision of new services by their own financial institutions or through improved access to forward market facilities in the main financial centers, or both. In any case, the real costs of the new or expanded hedging facilities, which for some countries may take years to acquire, will fall at least in considerable part on residents of the developing countries.

Changes in exchange rate relationships among the trading partners of a developing country, even when they yield no net gain or loss for that country, create exchange rate uncertainty that is bound, in some degree, to complicate business and government planning for an improvement in foreign trade performance. Also, such changes will inevitably generate conflicts of interest among different groups of domestic residents, such as exporters and consumers. Political pressures are likely to be felt primarily from the injured interests, rather than from those who gain from the exchange rate adjustment in question. The problem of the authorities will be that of balancing the opposing domestic interests in such fashion as to produce optimum results in the particular circumstances.

In the context of national economic policy considerations, the impact of exchange rate adjustments may more frequently in the future be a factor supplementing or countering other influences to be taken into account. For example, as recent experience demonstrates, price increases associated with currency changes in the industrial countries can exacerbate domestic inflationary pressures in many developing countries. One way in which the latter countries can endeavor to counter such pressures is by appreciating their own effective exchange rates, or at least keep-

ing them unchanged; currency appreciation in the developing countries can help to relieve inflationary pressures mainly by restraining the rise in domestic prices of imported goods, although the effects of such an exchange rate response to rate changes in the industrial world will differ among countries according to the commodity composition and geographic orientation of their imports. In reacting to the 1971 and 1973 realignments of major countries, the overwhelming majority of less developed countries chose—for a variety of reasons—not to exercise the option of effective exchange rate appreciation. Perhaps the broadest reason for following such a course was that exchange appreciation was considered disadvantageous by the many developing countries in which the balance of payments is a principal constraint on development, and in which special effort must be made to maximize export earnings and to minimize imports of consumer goods.

The possibility of more frequent occasions for decision-making in the field of exchange rate policy might be cited as one of the special problems with which a more flexible system of exchange rate adjustments is likely to confront the authorities of developing countries. Those authorities would need to adjust exchange rates perhaps rather often on the basis of exchange rate changes occurring in the developed countries. However, the relevant decision-making process may not prove to be more onerous. The burden of making more frequent decisions in this field may tend to be lessened because of the presumably less critical nature of each decision under arrangements featuring relatively small adjustments of exchange rates, rather than large and disruptive ones. Moreover, the accumulation of experience in making such decisions should contribute in itself to some easing of difficulty with the process. Also noteworthy is the opportunity that such a process may afford to make exchange rate adjustments in a calmer atmosphere relatively free of political inhibitions.

With respect to almost all the foregoing problems of uncertainty and exchange rate policy decisions, the less developed countries doubtless suffer a comparative disadvantage in relation to the larger industrial countries. Because of such factors as institutional deficiencies, short-

ages of technically skilled personnel, limitations of information and communications facilities, and remoteness from major financial centers, many developing countries seem likely to be under some handicap in dealing with the problems reviewed above, as well as with certain additional problems

of a more technical character—such as the negotiation of more complex arrangements in commodity agreements—that are likely to be generated by the prevalence of more flexible exchange rates.

Chapter 2

Developments in International Liquidity

Reserve Changes in 1972

Reserve Growth and Composition

INTERNATIONAL reserves during 1972 continued their very rapid expansion for the third consecutive year (Table 9). The combined official holdings of all countries, which had amounted to the equivalent of SDR 75.5 billion at the end of 1969, increased to SDR 144.6 billion by the end of 1972, a rise of 91 per cent during the three-year span.¹ Although the gain in 1972 did not match the record increment of the preceding year, it nonetheless added some SDR 23.1 billion to total reserves and accounted for one third of the growth that occurred after the end of 1969. During the first half of 1973, transactions of monetary authorities added a further amount, estimated to have been in excess of SDR 10 billion, to their foreign exchange holdings. However, the devaluation of the U. S. dollar, together with other changes in the value of currencies relative to the SDR, substantially reduced the value of such holdings in terms of SDRs; reserves thus showed little net change during that period.

The upsurge in total reserves during 1972 once again reflected very largely an increase in countries' holdings of foreign exchange (Table 10 and Chart 9). The net expansion of other reserves was slower, and their proportion of total reserves fell to only a little over 35 per cent by the end of 1972 (Table 11), compared with over 60 per cent in 1969.

¹ As in previous Annual Reports, the concept of official reserve holdings used in this chapter covers SDRs, reserve positions in the Fund, and official holdings of gold and foreign exchange except for the foreign exchange holdings of the United States. These are mainly the counterpart of the use of swaps by other countries and could not generally be drawn upon to finance U. S. deficits. Such holdings had in any event been reduced to very low levels by the end of 1971, so that adjusted world reserves on and after that date did not differ significantly from the unadjusted figure.

The main change in countries' gold holdings during 1972 resulted from transactions with the Fund. The Fund, at the request of the U. S. Government, liquidated its gold investment in U. S. securities and reacquired the equivalent of SDR 400 million in gold from the United States. The Fund also withdrew the remainder of the gold, equivalent to almost SDR 170 million, that had been held on general deposit with the United Kingdom and the United States. Other transactions in gold by members with the Fund, mainly subscription payments and repurchases of currencies, added another SDR 68 million to the Fund's holdings. On the other hand, countries increased their gold holdings by about SDR 125 million through operations with the Bank for International Settlements and the European Fund. Net transactions of official holders with the private sector added about SDR 240 million to the world's official gold reserves, which essentially represented a rise in South Africa's holdings reflecting the official acquisition of a part of that country's new gold production.

The third and final annual allocation of special drawing rights (SDRs) for the first basic period increased the world's stock of this reserve asset by SDR 2,952 million on January 1, 1972. Cumulative allocations as of that date came to SDR 9,315 million, of which about SDR 629 million was held by the Fund's General Account at the end of 1972, representing a net increase of some SDR 140 million during the year.

Member countries' aggregate reserve positions in the Fund were virtually the same at the beginning and end of 1972. This result reflected a decrease of more than SDR 250 million in the net use of Fund credit, offset almost entirely by an increase in Fund holdings of SDRs and gold in the General Account.

The expansion of countries' official holdings of gold, SDRs, and reserve positions in the Fund thus came to the equivalent of SDR 2.5 billion

TABLE 9. RESERVES, CREDIT TRANCHE POSITIONS, AND OTHER UNUSED CREDIT FACILITIES, END OF YEARS, 1953-72

End of Year	Gold	SDRs	Reserve Positions in Fund	Foreign Exchange Adjusted ¹	Total Reserves Adjusted ¹	Credit Tranche Positions in Fund	Other Unused Credit Facilities ²
<i>(In billions of SDRs)</i>							
1953	34.3	—	1.9	17.0	53.2	7.1	—
1954	34.9	—	1.9	18.1	54.9	8.0	—
1955	35.4	—	1.9	18.5	55.8	7.8	—
1956	36.1	—	2.3	19.5	57.9	7.5	—
1957	37.3	—	2.3	18.8	58.4	7.1	—
1958	38.0	—	2.6	18.8	59.4	7.2	—
1959	37.9	—	3.2	17.8	59.0	12.8	—
1960	38.0	—	3.6	20.2	61.8	13.6	—
1961	38.9	—	4.2	20.8	63.8	12.8	1.7
1962	39.3	—	3.8	21.4	64.4	13.3	1.4
1963	40.2	—	3.9	23.7	67.9	13.5	2.0
1964	40.8	—	4.2	25.0	70.0	13.9	5.8
1965	41.9	—	5.4	24.4	71.6	12.4	3.8
1966	40.9	—	6.3	24.6	71.8	17.0	4.5
1967	39.5	—	5.8	26.7	72.0	18.1	5.3
1968	38.9	—	6.5	28.5	73.9	17.0	13.1
1969	39.1	—	6.7	29.7	75.5	16.8	14.4
1970	37.2	3.1	7.7	44.1	92.1	25.0	14.2
1971	36.1	5.9	6.4	73.1	121.5	27.2	11.1
1972	35.8	8.7	6.3	93.7	144.6	27.7	12.3
<i>Annual percentage changes</i>							
1954	1.9	—	-2.4	6.5	3.2	13.1	—
1955	1.4	—	1.9	2.2	1.7	-2.3	—
1956	1.8	—	21.0	5.1	3.6	-4.3	—
1957	3.5	—	1.5	-3.5	1.1	-4.7	—
1958	1.9	—	10.6	-0.2	1.6	1.4	—
1959	-0.3	—	26.5	-5.1	-0.7	76.7	—
1960	0.3	—	10.3	13.2	4.8	6.6	—
1961	2.2	—	16.4	2.9	3.2	-6.4	³
1962	1.1	—	-8.7	2.8	1.0	4.2	-16.2
1963	2.4	—	3.8	11.0	5.3	1.0	39.2
1964	1.5	—	5.5	5.6	3.2	2.6	193.4
1965	2.5	—	29.4	-2.4	2.3	-10.6	-35.3
1966	-2.3	—	17.7	0.7	0.2	37.4	18.4
1967	-3.4	—	-9.2	8.6	0.2	6.2	17.7
1968	-1.4	—	12.9	6.7	2.7	-5.8	149.3
1969	0.5	—	3.7	4.3	2.2	-1.4	9.3
1970	-5.0	³	14.4	48.4	21.9	48.8	-1.0
1971	-2.9	88.1	-17.6	66.0	31.9	9.0	-21.8
1972	-0.8	47.8	-0.4	28.2	19.0	1.9	10.5
Annual compound rate, 1953-72	0.2	³	6.5	9.4	5.4	7.4	³

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

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

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

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

during 1972. Excluding the allocation of SDRs, the other holdings fell by some SDR 450 million. In contrast, the foreign exchange element in reserves registered a gain of SDR 20.6 billion.

The main factor contributing to the rise in foreign exchange reserves was once again the financing of the U.S. deficit on an official settlements basis (Table 12). However, both the

absolute size of that deficit and the percentage of total foreign exchange growth that it explains were very much reduced from 1971. In the earlier year, the U.S. official settlements deficit, excluding the allocation of SDRs, reached the equivalent of SDR 30.4 billion, and the portion which had its counterpart in U.S. liabilities to foreign official holders equaled over 94 per cent of the rise in

TABLE 10. SOURCES OF RESERVE CHANGE, 1963-72¹
(In billions of SDRs)

Annual Changes in	Outstanding Totals at the										
	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	End of 1972
1. Gold Reserves											
Monetary gold	0.8	0.7	0.2	—	-1.6	-0.7	0.1	0.3	-0.1	0.2	
Gold transactions (acquisitions —) by IMF, BIS, and European Fund	0.1	-0.1	0.8	-0.9	0.2	0.1	0.1	-2.2	-1.0	-0.5	
Countries' gold reserves	1.0	0.6	1.0	-1.0	-1.4	-0.6	0.2	-2.0	-1.1	-0.3	35.8
2. Special Drawing Rights											
Allocation of SDRs	—	—	—	—	—	—	—	3.4	3.0	3.0	
IMF holdings of SDRs (increase —)	—	—	—	—	—	—	—	-0.3	-0.2	-0.1	
Countries' SDR holdings	—	—	—	—	—	—	—	3.1	2.8	2.8	8.7
3. Reserve Positions in the Fund											
Use of IMF credit	0.1	0.4	1.6	—	-0.5	1.2	0.3	-0.8	-1.9	-0.3	
IMF gold transactions (inflow +) ²	0.1	-0.1	-0.3	1.0	0.1	-0.4	—	1.6	0.4	0.1	
IMF transactions in SDRs (inflow +)	—	—	—	—	—	—	—	0.3	0.2	0.1	
IMF surplus (increase —)	-0.1	—	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	—	—	
Reserve positions in the Fund	0.2	0.2	1.2	1.0	-0.6	0.7	0.2	1.0	-1.4	—	6.3
4. Foreign Exchange Holdings											
a. U.S. dollars											
U.S. deficit on official settlements ³	1.9	1.5	1.3	-0.2	3.4	-1.6	-2.8	10.8	30.4	10.2	
U.S. reserve assets (including foreign exchange) used in transactions with countries	-0.4	-0.2	-1.2	-0.8	-0.1	0.9	1.3	-3.0	-3.1 ⁴	-0.2	
(i) Official claims on United States ⁵	1.5	1.4	0.1	-1.1	3.4	-0.8	-1.5	7.7	27.4 ⁴	10.0	56.6
(ii) Identified official holdings of Euro-dollars ⁶	—	—	—	0.5	0.2	1.5	1.0	5.3	0.8 ⁴	4.6	14.6
b. Official sterling claims on United Kingdom	0.4	0.5	-0.9	-0.1	-1.3	-0.5	0.8	0.5	1.5	0.7	7.9
c. Official deutsche mark claims on Germany	—	0.1	—	0.1	—	0.1	—	0.8	0.4 ⁴	0.1	1.1
d. Official French franc claims on France	—	-0.1	—	0.1	—	-0.1	-0.2	0.2	0.2	—	0.8
e. Foreign exchange claims arising from swap credits and related assistance	—	0.4	-0.3	0.7	0.9	1.2	-0.1	-2.2	-0.7	—	—
f. Correction for effect of realignment on stock of reserves ⁷	—	—	—	—	—	—	—	—	—	—	—
g. Unidentified Euro-currencies and residual ⁸	0.4	-1.0	0.5	—	-1.1	0.4	1.2	2.1	4.6 ⁴	5.2	12.7
Countries' holdings of foreign exchange	2.3	1.3	-0.6	0.2	2.1	1.8	1.2	14.4	29.1	20.6	93.7
Total reserve change	3.4	2.2	1.6	0.2	0.1	2.0	1.7	16.5	29.4	23.1	144.6

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

¹ Adjusted reserves. See footnote 1, Table 9.

² Variations in IMF gold investments and gold deposits are excluded because they do not give rise to net creditor positions in the Fund.

³ Unlike the other components of reserve growth, the deficit is already in a flow dimension and therefore is not expressed as a change from the previous year. The U.S. deficit is shown before allocations of SDR 0.9 billion in 1970 and SDR 0.7 billion in both 1971 and 1972.

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

⁵ Includes claims on the United States denominated in the claimant's own currency, i.e., Roosa bonds. Excludes SDR 0.4 billion in respect of reduction in IMF gold investment in 1970 and SDR 0.6 billion in respect of reductions in IMF gold investments and gold deposits in 1972.

⁶ See Table 13 for more details concerning these Fund staff estimates.

⁷ For explanation see page 25, footnote 2, of the *Annual Report, 1972*.

⁸ Includes asymmetries arising from the fact that data on U.S. and U.K. currency liabilities are more comprehensive than data on official foreign exchange holdings shown in *International Financial Statistics*.

TABLE 11. COMPOSITION OF ADJUSTED GLOBAL RESERVES, END OF 1950, 1960, AND 1969-FIRST QUARTER 1973¹
(In per cent)

	1950	1960	1969	1970	1971	1972	First Quarter 1973
Gold	69.0	61.6	51.8	40.4	29.7	24.8	24.4
SDRs	—	—	—	3.4	4.8	6.0	6.0
Reserve positions in the Fund	3.4	5.8	8.9	8.4	5.2	4.4	4.3
Foreign exchange	27.6	32.6	39.3	47.9	60.2	64.9	65.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: *International Financial Statistics*.

¹ For the nature of the adjustments, see footnote 1, Table 9.

countries' total foreign exchange reserves. The U. S. deficit in 1972, measured on the same basis, was reduced to SDR 10.2 billion. The use of reserve assets by the United States in financing this deficit was on a very limited scale, the only sizable transaction being a purchase of sterling from the Fund, which reduced the U. S. gold tranche position in the Fund by SDR 0.2 billion; this special transaction was undertaken to assist the United Kingdom in discharging its repurchase obligation to the Fund. Therefore, the U. S. deficit had a counterpart of almost SDR 10 billion in an increase in U. S. liabilities. This development accounted for less than one half of the overall increase recorded for official foreign exchange holdings of all types.

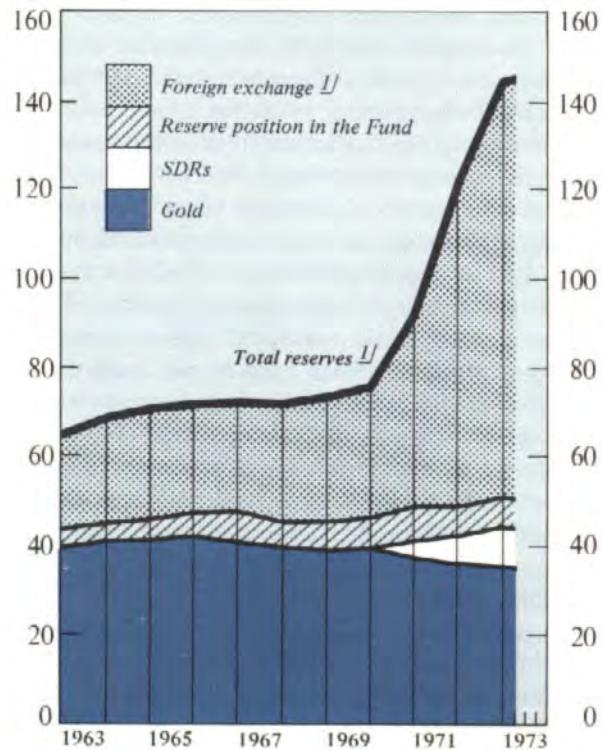
Foreign exchange assets taking a form other than that of direct claims on the United States continued to expand at a rapid rate. The amount of such assets outstanding at the end of 1969 may be estimated roughly to have been no more than the equivalent of SDR 14 billion, of which over SDR 5 billion represented traditional sterling claims on the United Kingdom (excluding claims on that country arising from swap credits and related assistance). While sterling claims went up by some 50 per cent during the next three years, other foreign exchange holdings, excluding direct claims on the United States, more than tripled in value during this same period of rapidly rising total reserves. In 1972 alone, countries added about SDR 10 billion to their holdings in these other forms.

The data available on official foreign exchange other than direct claims on the United States and the United Kingdom are too fragmentary to allow a detailed description of recent developments. Nevertheless, a few major features are rather apparent and can be sketched in broad outline. A renewed interest in the Euro-dollar market on

the part of official holders in the primary producing countries was noted during 1972 (Table 13). The identified Euro-dollar component in the reserves of the primary producing countries increased by two thirds during 1972, bringing the amount held by those countries at the end of the year to the equivalent of SDR 11 billion, of which SDR 8.5 billion was held by the developing countries in the group. Euro-dollar holdings of the industrial countries, however, remained virtually unchanged during 1972, as the central banks of many of these countries continued the

CHART 9. LEVEL AND COMPOSITION OF RESERVES, END OF PERIOD, 1962-FIRST QUARTER 1973

(In billions of SDRs)



¹ Adjusted reserves; see Table 9.

TABLE 12. U.S. BALANCE OF PAYMENTS AND ITS FINANCING, 1968-72
(In billions of SDRs)

	1968	1969	1970	1971 ¹	1972
Balance on goods and services	2.5	1.9	3.6	0.8	-4.3
Transfers and long-term capital	-3.9	-4.9	-6.7	-10.3	-4.8
Basic balance	-1.4	-3.0	-3.1	-9.5	-9.1
Short-term capital (including banking liabilities) ²	3.0	5.8	-7.7	-20.9	-1.1
Official settlements balance	1.6	2.8	-10.8	-30.4	-10.2
Financed by					
Reserve liabilities (decrease -)	-0.8	-1.5	7.3	27.4	9.4
Reserve assets (increase -)					
Gold	1.2	-1.0	0.8	0.9	0.5
SDRs	—	—	—	0.5	—
IMF gold tranche	-0.9	-1.0	0.4	1.4	0.2
Foreign exchange	-1.2	0.8	2.2	0.4	—
Total reserve asset transactions	-0.9	-1.2	3.4	3.1	0.7
Memorandum item: SDR allocation (-)	—	—	-0.9	-0.7	-0.7
Reserve asset change including SDR allocation (increase -)	-0.9	-1.2	2.5	2.3	—

Source: U.S. Department of Commerce, *Survey of Current Business*.

¹ The U.S. dollar value of these transactions has been used throughout 1971 as an approximation of their value in terms of SDRs.

² Official settlements balance less basic balance.

policy of not increasing their holdings in the Euro-currency market and of reducing them when prudent in the light of market conditions.

The discrepancy between reported foreign exchange assets and the corresponding liabilities that have been identified—the residual item in section 4 of Table 10—once again showed a substantial rise during 1972. Increases in errors, asymmetries, and the unidentified counterparts of reported foreign exchange reserves have been observed in each of the last five years. A good part of the explanation for this development undoubtedly lies in the diversification of official foreign exchange holdings, with greater attention being given to claims on countries whose currencies had not previously been used to any large extent for reserve purposes. Such direct information as is available suggests that an important component is claims in the Euro-currency market denominated in currencies other than the U. S. dollar, among which the deutsche mark has been especially prominent.

The recent tendency to broaden the types of foreign exchange held as reserves has been confined largely to the primary producing countries. At the end of 1969 the holdings of these countries consisted mostly of direct claims on the United States and the United Kingdom, but such claims are estimated to have accounted for only SDR 5

billion out of a total growth in their foreign exchange reserves of some SDR 23 billion during the following three years. Other types of foreign exchange holdings thus comprised well over half of the holdings of these countries by the end of 1972. In contrast, the industrial countries made a net addition of no more than SDR 1 billion to their nontraditional holdings of all kinds during the same three-year period, so that the proportion of these forms in total foreign exchange had been reduced to 13 per cent by the end of that period.

Country Distribution

The rapid buildup of reserves in both 1970 and 1971 was concentrated heavily in industrial countries other than the United States. The proportion of the global expansion accruing to those countries amounted to over 80 per cent in 1970 and almost 85 per cent in 1971, bringing their share in world reserve holdings at the end of the latter year to nearly 63 per cent, compared with 50 per cent at the end of 1969. Even within the group, this result was strongly influenced by the performance of a few countries: France, Germany, Japan, and Canada accounted for 63 per cent of the world increase in 1970, while the first three of those countries, together with the

TABLE 13. OFFICIAL HOLDINGS OF EURO-DOLLARS AND UNIDENTIFIED FOREIGN EXCHANGE RESERVES, END OF YEARS, 1964-72
(In billions of SDRs)

	1964	1965	1966	1967	1968	1969	1970	1971 ¹	1972
Identified official holdings of Euro-dollars									
Ten industrial countries ²	0.6	0.6	1.0	0.7	1.7	1.7	4.3	2.6	2.7
Other industrial countries ³	0.4	0.3	0.4	0.5	0.6	0.5	0.8	0.8	0.9
Total, industrial countries	1.0	0.9	1.4	1.2	2.3	2.2	5.1	3.4	3.6
Primary producing countries									
More developed areas	0.3	0.2	0.2	0.2	0.4	0.5	1.4	1.6	2.5
Less developed areas	0.3	0.4	0.4	0.7	1.0	1.9	3.6	5.0	8.5
Western Hemisphere	0.1	0.1	0.1	0.3	0.2	0.5	1.1	1.5	3.7
Middle East	—	—	0.1	0.2	0.1	0.4	0.6	1.1	1.9
Asia	0.1	0.1	0.1	0.1	0.2	0.5	0.8	0.9	1.2
Africa	0.1	0.1	0.2	0.1	0.4	0.5	1.1	1.5	1.7
Total, primary producing countries	0.6	0.6	0.7	0.9	1.4	2.5	5.0	6.6	11.0
Grand Total	1.5	1.5	2.0	2.2	3.7	4.7	10.0	10.0	14.6
Unidentified official holdings of Euro-currencies and residual sources of reserves⁴									
	-1.0	-0.5	-0.5	-1.6	-1.2	—	2.1	7.5	12.7

Sources: Fund staff information and estimates.

¹ Includes the change in the level of holdings owing to the effect of the realignment in December.

² Belgium, Canada, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, and the United Kingdom.

³ Austria, Denmark, and Norway.

⁴ See footnote 8, Table 10.

United Kingdom, accounted for almost 70 per cent of a much larger total gain in 1971.

Reserve growth during 1972 followed a pattern that was notably different in some respects (Table 14). The share of the industrial countries other than the United States in the increase was less than 38 per cent. The same three countries in the industrial group—France, Germany, and Japan—were again among the countries whose holdings increased by very large amounts, their combined increase in that year being equal to almost 40 per cent of the world total. The holdings of the United Kingdom and Italy showed substantial declines and those of the remaining countries in the group for the most part registered only moderate increases in absolute amounts. By the end of the year the aggregate holdings of the group (excluding the United States) had been reduced to slightly under 59 per cent of the world total.

The group to experience the fastest rise in its combined reserves during 1972 was that of the more developed primary producing countries. These countries had begun to forge ahead in the previous year, when their reserves went up by 42 per cent, and the rate accelerated to 59 per cent in 1972. Each of the countries in the group made

at least some gain over the course of the year, with the increases recorded by Australia, Greece, South Africa, Spain, Turkey, and Yugoslavia being notably large in absolute amounts.

The less developed countries taken as a group increased their reserves very rapidly during 1972. Those countries had gradually built up their holdings during the 1960s to a high point of 20.8 per cent of world reserves at the end of 1969, but in the first two years of the rapid growth that ensued their share slipped back to 17.6 per cent, in spite of a continuing increase in the value of their holdings. Moreover, only the unusually large reserve increase of the oil exporting countries in this category during 1971 prevented the proportion for the whole group from falling still more, as the reserves of the remaining countries were virtually unchanged in absolute amount during that year. However, during the course of 1972, less developed countries other than the oil exporters added no less than 36 per cent to their reserves, while the oil exporters increased their holdings by 29 per cent. As a result, the combined reserves of the less developed countries were up again to one fifth of the world total by the end of the year. The overall increase in 1972 was very unevenly distributed by individual

TABLE 14. COUNTRIES' OFFICIAL RESERVES, ADJUSTED, 1953, 1960, AND 1969-MARCH 1973¹
(In billions of SDRs)

	Total at End of Period						Composition of Reserves at End of March 1973			
	1953	1960	1969	1970	1971	1972	March 1973	Gold	SDRs	Reserve positions in the Fund
										Foreign exchange
Industrial countries										
United States	23.5	19.4	14.2	13.9	11.9	11.9	11.9	9.7	1.8	0.4
United Kingdom	4.0	5.1	2.5	2.8	8.1	5.2	5.0	0.7	0.6	0.1
Total	27.5	24.5	16.7	16.7	20.0	17.1	16.9	10.4	2.4	0.5
Belgium	1.1	1.5	2.4	2.8	3.2	3.6	4.0	1.5	0.5	0.5
France	0.8	2.3	3.8	5.0	7.6	9.2	9.3	3.5	0.6	0.4
Germany, Federal Republic of	1.8	7.0	7.1	13.6	16.6	21.3	26.3	4.1	0.8	1.1
Italy	0.8	3.3	5.0	5.4	6.3	5.6	5.2	2.9	0.3	0.3
Netherlands	1.2	1.9	2.5	3.2	3.5	4.4	5.0	1.9	0.6	0.5
Switzerland	1.8	2.3	4.4	5.1	6.4	6.9	6.5	2.9	—	3.6
Other industrial Europe ²	1.2	1.8	3.4	3.8	4.9	6.0	6.2	1.0	0.4	0.4
Total, continental industrial Europe	8.8	20.1	28.7	39.0	48.5	57.0	62.6	17.9	3.3	3.3
Canada	1.9	2.0	3.1	4.7	5.3	5.6	5.1	0.8	0.5	0.3
Japan	0.9	1.9	3.7	4.8	14.1	16.9	15.0	0.7	0.4	0.6
Total, industrial countries	39.1	48.5	52.2	65.2	87.9	96.6	99.6	29.8	6.6	4.7
Primary producing countries										
More developed areas										
Other European countries ³	1.8	2.3	4.9	5.7	8.1	11.9	11.5	1.9	0.3	0.4
Australia, New Zealand, and South Africa	2.0	1.3	2.8	2.8	4.0	7.4	7.0	0.9	0.3	0.3
Total, more developed areas	3.8	3.7	7.6	8.5	12.1	19.3	18.5	2.8	0.6	0.7
Less developed areas										
Western Hemisphere ⁴	3.4	3.0	4.5	5.6	6.1	9.5	9.2	1.1	0.6	0.4
Middle East ⁵	1.3	1.4	3.0	3.1	4.8	7.0	7.4	1.0	0.1	0.2
Asia ⁶	3.7	3.1	4.9	5.3	5.5	6.7	6.6	0.7	0.5	0.2
Africa ⁷	1.8	2.1	3.1	4.2	5.1	5.5	5.3	0.4	0.3	0.2
Total, less developed areas ⁸	10.1	9.6	15.7	18.4	21.4	28.7	28.5	3.2	1.5	0.9
of which selected oil exporting countries ⁹	1.8	2.5	4.0	4.8	7.7	9.9	9.7	1.2	0.3	0.3
Grand Total	53.2	61.8	75.5	92.1	121.5	144.6	146.5	35.8	8.7	6.2
										95.7

Source: *International Financial Statistics*.

¹ For the nature of the adjustments, see footnote 1, Table 9. Totals may not add because of rounding and because some totals include unpublished data for component areas.

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

³ Finland, Greece, Iceland, Ireland, Malta, Portugal, Spain, Turkey, Yugoslavia, and, beginning in 1972, Romania's reserve position in the Fund.

⁴ Argentina, Bolivia, Brazil, Central America, Chile, Colombia, the Dominican Republic, Ecuador, Guyana, Haiti, Jamaica, Mexico, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, Venezuela, and, beginning in 1970, Barbados.

⁵ Cyprus, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Saudi Arabia, the Syrian Arab Republic, and, beginning in 1965, the People's Democratic Republic of Yemen.

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

⁷ Excluding Egypt and South Africa.

⁸ Includes residual.

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

TABLE 15. SELECTED COUNTRIES WITH MAJOR RESERVE INCREASES, 1972¹
(In billions of SDRs)

	Increase in Ad-justed Reserves ²	Current Account Surplus (Defi-cit →) ³	Net Capital Inflow (Out-flow →) ⁴
Germany, Fed. Rep. of	4.7	0.5	4.0
Japan	2.8	6.1	-3.6
Australia	2.6	0.4	2.2
Brazil	2.2	-1.4	3.5
France	1.6	0.4	1.1
Spain	1.6	0.6	0.9
Saudi Arabia	1.0	1.3	-0.1
Netherlands	0.9	0.9	-0.2
Turkey	0.6	0.1	0.5
South Africa	0.5	-0.1	0.7
Total 10 countries	18.6	8.9	9.0
All countries	23.1		

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

¹ The difference between current and capital transactions and the increase in adjusted reserves mainly comprises allocations of SDRs. Other elements include the use (or repayment) of Fund credit and other conditional liquidity, changes in official monetary assets not included in the reserves, and changes in liabilities to foreign official holders.

² For the nature of the adjustments, see footnote 1, Table 9.

³ Balance on goods, services, and official and private transfers.

⁴ Recorded movements of capital (excluding official reserves and related assets and liabilities) plus net errors and omissions.

country and geographic subgroup. Countries in the Western Hemisphere led with a rise of 56 per cent. Although most countries in the area showed increases, some of which were very substantial in percentage terms, almost two thirds of the gain in absolute amount was attributable to Brazil. The Middle Eastern countries as a group augmented their holdings by 46 per cent. Here again, increases were almost universal but the increase for one country, Saudi Arabia, was especially notable, accounting for nearly 45 per cent of the total in absolute terms. On the other hand, Asian countries recorded an increase of about 23 per cent, while African countries were even lower with only some 8 per cent. In these latter two groups, the experience of individual countries was quite diverse, with a few substantial holders of reserves showing increases somewhat greater than the average while others reported little change or even moderate declines.

The balance of payments structure of a few selected countries whose reserve increases were

exceptionally large gives some indication of the types of transaction that were associated with the increase in world reserves during 1972 (Table 15). The combined holdings of the ten countries showing the largest increase rose by an amount equal to over 80 per cent of the net increase for all countries.

Factors Affecting the Adequacy of Reserves

This section contains the review of the adequacy of global reserves that the Executive Directors are required to make under Section 10 of the By-Laws of the International Monetary Fund. To assess the effect of developments in official reserve holdings on the adequacy of reserves, or on the degree of reserve ease that prevails generally among countries, two approaches are used below.

The first approach compares actual reserve holdings with the volume of reserves that might be judged to be appropriate on the basis of statistical estimation procedures, and the difference between the two amounts serves as an indicator of the degree of reserve ease. This approach is characterized by the extrapolation from a base period of relationships—either global or country by country—between reserve holdings and other economic magnitudes that are considered indicative of changes in the need for reserves. The base period is selected, as much as possible, so as to comprise a time span during which the degree of reserve ease is judged to have been satisfactory, at least on average. The result of the purely statistical extrapolation is modified, when necessary, to allow for the effects of changes in relevant circumstances that may have occurred between the base period and the year for which the degree of reserve ease is being determined. This requirement introduces considerable uncertainty into this method of assessment.

Under the second approach, changes in the degree of reserve ease are inferred from the policies of countries that are presumed to be responsive to them. Although this method avoids some of the difficulties that beset the first approach, it has drawbacks of its own, apart from the fact that it cannot by nature yield any quantitative estimate of reserve excess or inadequacy.

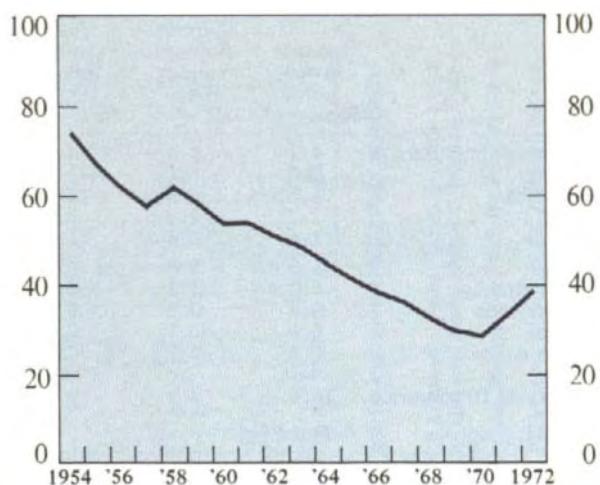
These drawbacks include mainly the following: (i) countries' policies respond to various requirements of the economy and not merely to the degree of reserve ease; and (ii) when some countries have experienced increased reserve ease and others increased stringency, the assessment of global changes in reserve ease presents a problem of weighting the changes observed in various countries.

Recent Developments in the Need for Reserves Compared with the Supply

Various statistical methods of projecting the need for reserves were developed in connection with the special drawing rights facility. These consist of the extrapolation of relationships observed in the past between reserve holdings and certain other aggregates, such as imports, to which reserve needs are thought to be related—though not necessarily proportionally. One such indicator of developments in the need for reserves, the ratio of reserves to imports, is shown in Chart 10 for a group of 60 countries for which data are available for the period 1954–72. The ratio declined steadily from 1961 to 1969, leveled off in the following year, and rose substantially between 1970 and 1972. In 1972 it reached approximately the level (about 38 per cent) to which it had fallen in 1966. During the 1950s and the early 1960s the decline in the ratio of reserves to imports was accompanied by a redistribution of reserves from the United States, which started the period with very large reserve holdings, to other countries. Through this redistribution a volume of transactions growing much faster than the volume of world reserves could be supported without any significant reduction in the degree of global reserve ease until some time in the early 1960s. The continued decline until the end of the decade of the global ratio of reserves to imports signified a reduction in the degree of reserve ease. The rise in this ratio from 1970 to 1972, and its return in 1972 to the level of 1966, may be taken as an indication of an increase in reserve ease to a level somewhat beyond that experienced in the mid-1960s.

Statistical estimates of the need for reserves were made with the help of past trends, calculated country by country for the period 1954–70, of the volume of reserves and of the ratios of

CHART 10. RATIO OF AGGREGATE RESERVES TO AGGREGATE IMPORTS OF 60 COUNTRIES, 1954–72
(In per cent)



¹ Reserves are annual averages of monthly data.

reserves to imports and to the domestic money supply. These calculations, which reflect the longer-run tendencies in the need for reserves but not its shorter-run fluctuations, indicate an excess of reserves over reserve needs in the range of SDR 20–27 billion on average during 1972 and in the range of SDR 23–31 billion at the end of 1972. A somewhat different calculation of excess reserves—defined for each of a sample of 65 countries simply as the excess of reserves over 50 per cent of annual imports—yields roughly similar results by suggesting an amount of excess reserves of SDR 30 billion at the end of February 1973.

This purely statistical approach to the assessment of changes in reserve ease must be supplemented by several qualitative and quantitative considerations.

Although there was broad participation in the recent increase in global reserves, excess reserves are by no means uniformly distributed. In the second calculation described above, in which reserves of more than 50 per cent of annual imports are considered to be in excess of need, it was estimated that at the end of February 1973 well over half of the total of excess reserves could be ascribed to 4 developed countries (Australia, Germany, Japan, and Switzerland); almost one fourth, to 5 oil exporting countries (Iraq, Kuwait, the Libyan Arab Republic, Saudi Arabia, and

Venezuela); and the last fourth, to 16 countries (among which Brazil, Portugal, and Spain were prominent). The 40 remaining countries of the sample showed no excess reserves. This means that even though total calculated excess reserves were quite high—more than one fifth of total reserves—the majority of countries did not have excess reserves by the criterion used in this calculation. An uneven distribution of reserves lowers the degree of global reserve ease compared with that which the same volume of world reserves would afford if it were more evenly distributed. This is generally true because low-reserve countries may be subject to pressures whose effect is not fully compensated for by the corresponding reserve ease of high-reserve countries.

The second consideration has to do with the increase in the international mobility of capital that has been observed in recent years. This increase implies improved access to international borrowing facilities and may, to that extent, reduce the need for owned liquid balances held by the private sector; it is less likely, however, to reduce the demand for official reserves. Indeed, the high mobility of private liquid funds subjects official reserves to potential sudden drains, the magnitude and timing of which are difficult to foresee, and for this reason requires reserve holdings or access to readily available credit sufficiently large to withstand expected or potential losses with a substantial safety margin. In particular, the monetary authorities of a country receiving speculative short-term capital flows that can be expected sooner or later to be reversed may prudently wish to hold the proceeds of the inflow as part of their reserves. In these circumstances, an allowance for the capital flow may have to be made in the statistical measure of the global need for reserves. At the same time, however, a capital reflow may rectify the uneven distribution of reserves and its negative effect on the degree of reserve ease described above. A large addition of this sort to global reserve needs had arisen in 1971, when the total outflow of short-term capital from the United States amounted to SDR 21 billion. In 1972 short-term capital flows among industrial countries diminished, but in the first quarter of 1973 there occurred another large outflow of short-term funds from the United

States. Subject to what is said below with respect to the significance in this context of fluctuating exchange rates, large accumulated stocks of liquid foreign capital held in many industrial countries justify corresponding large official reserve holdings and thus require at least a partial allowance in the statistical estimate of reserve needs.

An important example of the effects of short-term capital flows on the need for reserves is provided by the movements in private balances of international reserve currencies. There are several relevant relations between official and private balances:

- (i) The monetary authorities of some countries have at times offered arrangements under which private banks can profitably make temporary investments in foreign exchange assets. These assets would automatically revert to the central bank, but the authorities could, through renewal arrangements, affect the rate of outflow and return flow of official reserves. Private holdings of this kind should be considered along with official holdings for the purpose of assessing the adequacy of countries' reserves. However, they are difficult to separate from other private holdings.
- (ii) Even where reserve assets have not been temporarily transferred to the private sector by the central bank, the authorities might have access to existing private balances of such assets if private transactions are subject to exchange control. Under present circumstances in most countries, however, these private balances would not be countable as reliable reserve substitutes.
- (iii) Certain transactions undertaken at the initiative of the private sector and involving changes in private balances of liquid foreign assets may entail changes in official reserves. In particular, when private non-U. S. residents exchange balances of U. S. dollars for their local currency, aggregate official reserves rise *pro tanto*. From the beginning of 1970 to the end of 1972, U. S. dollar liabilities to private foreign holders declined by some \$8.5 billion (SDR 7.8 billion). This movement contributed to the large increase in foreign official holdings of U. S. dollar balances in the United States but was small in comparison with the aggregate

U. S. deficit on an official settlements basis during the same period (1970-72) of more than SDR 51 billion and the global increase in official foreign exchange holdings of about SDR 64 billion. Moreover, the effect on reserve ease of the transactions here described, which are recorded as short-term capital movements, would already have been taken into account in an assessment of global reserve needs to the extent that an allowance was made for changes in these needs resulting from reversible short-term capital flows.

Because several major currencies have been floating during recent months, the countries concerned have had less occasion to use reserves and, for as long as they expect their exchange rates to continue floating, their reserve needs are correspondingly reduced. A similar reduction in reserve needs had already been effected by the use of wider exchange rate margins and prompter par value changes. It is difficult, however, to gauge the extent to which global reserve needs may have been affected by the use of floating rates. The reduction in need is related to the volume of transactions of countries with floating rates and also to the characteristics and expected duration of the individual floats. The reserve need of a country whose exchange rate is pegged on a floating currency may not be reduced at all, and it could even be increased if the floating exchange rate tended to move so as to increase the country's payments imbalances. Again, if movements in exchange rates are controlled through official intervention in exchange markets, the reduction in the need for reserves would be smaller than it would be if freely floating rates were being introduced.

Finally, the large rise during 1972 and the first half of 1973 in the market price of gold relative to the official price has caused central banks to be reluctant to part with gold at the official price. However, it is at this time difficult to judge the effect of these developments on reserve ease.

The statistical estimation procedures that are part of the first method of assessing the degree of reserve ease indicate that the excess of reserves over calculated reserve needs was higher at the end of 1972 than it had been at the end of 1971. Other factors, such as those discussed in the preceding paragraphs, also need to be considered.

For example, the uneven distribution among countries of reserves and reserve growth, the increase in capital mobility, and the occurrence of large reversible short-term capital flows have all been elements offsetting the effect on global reserve ease of the rapid rise in the supply of reserves in recent years. In the first half of 1973, some increase in reserve ease has, for the time being, been brought about by the floating of major currencies, which relieved pressure on reserves and to that extent reduced the need for reserves while the global supply, measured in terms of SDRs, showed very little net change.

Manifestations of Changes in Reserve Ease

When the degree of reserve ease is judged in accordance with the second approach, i.e., by its apparent influence on countries' policies affecting the balance of payments and the level of reserves, the general impression obtained from using the first approach is either confirmed or at any rate not contradicted. The policies examined in this context include those relating to restrictions on the freedom of trade and payments, the use of balance of payments credits, exchange rate policies, and domestic stabilization policies.

In 1972 the volume of world trade grew at a rate approximately equal to that recorded on average for the years 1960-70 (somewhat more than 8 per cent), after expanding by 6 per cent from 1970 to 1971. On the whole, restrictions on outpayments were reduced in 1972 and in some countries restrictions on capital inflows were introduced or intensified. Measures to control imports tended to be liberalized in industrialized and other developed countries, which accounted for over 80 per cent of total world trade in 1972, while they may have been intensified in some developing countries other than oil exporting countries. Measures to reduce capital inflows were taken in a number of industrial countries, in other developed countries, and even in some developing countries, particularly during the second half of 1972. Although the experience in the area of trade and exchange restrictions was thus not all in the same direction, perhaps partly in view of the uneven distribution of reserves already noted in the preceding section, the symptoms of substantial reserve ease predominated over those of stringency.

Developments with respect to the tying of foreign aid offer little evidence of change in reserve ease during 1972. Negotiations toward multilateral untying have remained suspended since the latter part of 1971. The share of total gross disbursements of official development assistance from member countries of the Development Assistance Committee (DAC) that is free of procurement restrictions (about one third) does not appear to have changed substantially since then, although some donor countries individually took steps to ease tying restrictions and mitigate the adverse affects of continued tying.

Reliance on balance of payments credits was reduced in 1972 compared with 1971. Drawings from the Fund's General Account amounted to SDR 1.6 billion, the lowest level since 1967, and in the first six months of 1973 they were even smaller. As was shown in Table 10, foreign exchange claims arising from swap credits and related assistance did not change appreciably in 1972. The low level of Fund drawings and utilization of swap arrangements, like the reduced use of SDRs, may in part reflect the rapid and widely dispersed increase in reserves, and the rise in the degree of reserve ease, in 1972 and the first half of 1973.

Broadly speaking, the exchange rate pattern set by the Smithsonian Agreement remained in effect during 1972. However, at midyear the pound sterling and a number of other currencies in the sterling area were allowed to float and, initially, depreciated. On the other hand, in

December the Australian dollar was revalued. Exchange rate policies during 1972 do not, therefore, provide much evidence on either side with respect to any change in the degree of reserve ease. The same is true for the first half of 1973, when reserve ease provided by revaluations and upward floating of some currencies was offset by the depreciation of the U. S. dollar and a number of other currencies.

As described in Chapter 1, demand management policies in the main industrial countries were on the whole at least as expansionary in 1972 as they had been in the previous year and in some instances more so. The sharp increase of economic activity in the United States cannot, for present purposes, be counted as an indication of reserve ease. In the industrial countries of Europe and in Japan, however, expansionary demand policies were pursued during most of 1972. Prices advanced rapidly in these countries, despite the appreciation of their currencies. On the whole, demand policies in many industrial countries seem to have been more expansionary than would have been appropriate in view of the domestic situation. Although inflation had started before reserve ease had become pronounced, and indeed at a time when reserves were still deemed to be inadequate, the substantial degree of reserve ease in a large part of the world can be taken as an important element in the lack of success of many governments in checking inflationary developments during 1972.

Chapter 3

Activities of the Fund

IN the two-year period following the August 1971 decision of the United States to suspend the convertibility of the U. S. dollar into gold or other reserve assets, the foreign exchange markets experienced their most severe and sustained series of crises since the end of World War II. As noted in Chapter 1 (page 2), the former system of fixed par values and relatively narrow margins has been transformed into several types of arrangements, including individual floating, maintenance of margins only with respect to a single currency, and mutual maintenance of margins by a group of countries. This development has brought changes in the functioning of the exchange markets, in settlement procedures between countries, and in the operations of the Fund. In particular, the continued inconvertibility of the U. S. dollar, the high price of gold in the private markets, and a comparatively large number of major currencies that float in the exchange markets have raised issues regarding the future role and value of gold, special drawing rights (SDRs), and reserve positions in the Fund and the use of these assets in international settlements. Indeed, official transactions in gold have virtually ceased during the past year and transactions in SDRs and members' use of the Fund's resources diminished. It is likely that, in addition to the uncertainty about the valuation of these assets, there have also been important other factors explaining the reluctance of members to use reserve assets, for example, the ample supplies of international liquidity and the use of exchange rate adjustments, rather than reserves, to meet balance of payments difficulties.

Reform of the International Monetary System

Against this background of uncertainty and change, the Committee of the Board of Governors on Reform of the International Monetary System

and Related Issues (the Committee of Twenty) pursued its work. Established by a Resolution adopted by the Board of Governors on July 26, 1972,¹ the Committee and its Deputies both held inaugural meetings at the time of the Annual Meeting in September 1972. The Deputies then met in November 1972 and in January and March 1973. At a Committee meeting which followed that of the Deputies in March, a report on the Deputies' discussions to date was received from their Chairman, and the Deputies were instructed to proceed urgently with the preparation of a draft outline of the reform, in which the major issues would be presented to the Committee for decision.²

The Deputies' consideration of the draft outline on reform began at their meeting on May 21–25, 1973 and continued in mid-July. The main issues that had arisen from the Deputies' work on the draft outline were presented to the Committee for its working meeting on July 30–31. It is anticipated that the Committee will hold a further meeting immediately preceding the Annual Meeting of the Board of Governors to be held on September 24–28 in Nairobi, and that an outline of reform will be submitted to the Governors at the Annual Meeting.

As provided for in the Resolution establishing the Committee, the Managing Director participated in its meetings. The Executive Directors, their Alternates, and staff members attended meetings of the Deputies.

Under the Resolution "the Managing Director and the Chairman of the Deputies shall establish appropriate arrangements to bring about an effective coordination of the work of the Executive Directors in connection with reform of the international monetary system pursuant to Resolution

¹ See *Annual Report, 1972*, pages 37 and 92–93.

² International Monetary Fund, Press Release No. 964, March 27, 1973.

No. 26-9³ and the work of the Deputies." On August 18, 1972 the Executive Directors transmitted to the Board of Governors a report in response to Resolution No. 26-9.⁴ Since then they have continued their work on various aspects of the reform, and a number of studies have been transmitted to the Deputies after consideration by the Executive Directors.

Exchange Rates

Following the Smithsonian Agreement of December 18, 1971 on the realignment of exchange rates, the Fund adopted a decision entitled "Central Rates and Wider Margins: A Temporary Regime."⁵ This decision was designed to enable members to observe the purposes of the Fund to the maximum extent possible in the prevailing circumstances. Within a short period of time after the adoption of the decision, members informed the Fund of their intentions in the exchange rate field. Before the establishment of a new par value for the U. S. dollar on May 8, 1972, the following system of exchange rates had resulted.

Thirty-two members (and the Netherlands Antilles) communicated central rates to the Fund, 10 members (and Surinam and the Bahamas) changed the par values of their currencies, while 22 members maintained their exchange rates in terms of the U. S. dollar. The remainder of the Fund membership maintained unchanged the par values of their currencies (24 members), maintained unchanged their exchange rates in terms of currencies other than the U. S. dollar (20 members), or continued to permit their currencies to float in the exchange markets (11 members). Of the members that maintained effective par values or communicated central rates to the Fund, 49 also availed themselves of wider margins.

With the establishment of a new par value for the U. S. dollar, 20 other members also established new par values; of these, 13 had earlier

³ Resolution 26-9 was adopted by the Board of Governors on October 1, 1971. See *Annual Report, 1972*, page 36, footnote 1.

⁴ *Reform of the International Monetary System: A Report by the Executive Directors to the Board of Governors*, released to the public on September 6, 1972.

⁵ Executive Board Decision No. 3463-(71/126), adopted December 18, 1971 and reproduced in the *Annual Report, 1972*, pages 85-87.

communicated central rates to the Fund and 6 had maintained unchanged their exchange rates with the U. S. dollar since December 18, 1971.

Following the announcement by the United Kingdom on June 23, 1972 that it would not for the time being maintain exchange rates for sterling within agreed limits, 16 members (almost all of which were maintaining effective par values or central rates) decided to allow their currencies to float with sterling, and one member decided to allow its currency to float independently.⁶ During the latter half of 1972 and early 1973, 5 of these members and 5 others proposed new par values for their currencies with which the Fund concurred. By the beginning of 1973, all the industrial countries, except Canada, the United Kingdom, and the United States, maintained rates for their currencies in terms of an intervention currency within agreed margins. As a result of the August 1971 decision of the United States to suspend official transactions in gold, it was no longer assured that exchange transactions in the United States between the U. S. dollar and the currencies of other members would take place within the prescribed limits around parity. A large proportion of the rest of the Fund membership maintained stable rates either for the U. S. dollar or for currencies that themselves had stable relationships with the U. S. dollar.

As described in Chapter 1, the foreign exchange markets were again subject to growing speculative pressures toward the end of 1972 and in early 1973. In January 1973 the Italian authorities decided to establish a two-tier exchange market for the lira, with the exchange rate for commercial transactions maintained within permitted margins and the rate for financial transactions fluctuating freely. Shortly afterward, the Swiss National Bank decided not to intervene in the exchange markets for the time being. On February 12, 1973 the United States announced that it intended to propose a reduction of 10 per cent in the par value of the U. S. dollar. These developments and the continued instability and speculative pressures in the foreign exchange markets, particularly toward the end of February 1973, led to further major changes not only in currency relationships but also in the system of maintain-

⁶ See *Annual Report, 1972*, pages 39-40.

ing orderly and relatively fixed exchange rate arrangements. Two members—Italy and Japan—in addition to those members that were already floating, decided that they would not for the time being observe agreed margins for exchange transactions in their exchange markets;⁷ 35 members (and 5 nonmetropolitan territories) notified the Fund that they had decided to maintain the exchange rate for their currencies in terms of the U. S. dollar; most of the other Fund members maintained unchanged their par values, central rates, or rates in terms of currencies other than the U. S. dollar.

In view of the continued large-scale speculative activity in the exchange markets, especially during the last week of February, the major central banks in Europe and Japan suspended dealing in their foreign exchange markets on March 2, 1973. Official foreign exchange trading was resumed on March 19, and by that time important measures in the exchange field had been announced. The German authorities communicated to the Fund a new central rate expressed in SDRs which represented a 3 per cent revaluation over the previous central rate. Six members of the European Economic Community (EEC)—Belgium, Denmark, France, Germany, Luxembourg, and the Netherlands—decided to maintain a maximum margin of 2.25 per cent for rates in exchange transactions in their official markets between their currencies and the currencies of each of the other countries, but would no longer undertake to maintain margins against the U. S. dollar. Norway and Sweden later became associated with this arrangement. The other EEC members (Ireland, Italy, and the United Kingdom) continued to permit their currencies to float, as did Canada and Japan; the Irish pound floated with sterling. Austria and Portugal informed the Fund that for the time being they would not ensure the maintenance of agreed margins.

In the following weeks, a number of members (Cyprus, Finland, Iceland, Malaysia, Morocco, Singapore, and Yugoslavia) informed the Fund that the exchange rates for their currencies would be determined in the light of exchange rate developments for the currencies of their major trading partners. South Africa, while not altering the par

value of the rand, communicated to the Fund a middle rate for the U. S. dollar. Kenya, Tanzania, and Uganda communicated central rates for their currencies, and New Zealand discontinued the fixed relationship between the New Zealand and the U. S. dollars.

On June 29 the German authorities communicated a new central rate to the Fund expressed in SDRs, which represented a further revaluation of 5.5 per cent. Following this action taken by the Federal Republic of Germany, Austria communicated a new rate expressed in terms of SDRs, which represented an appreciation of 4.8 per cent on the previous rate that had been advised on March 29.

In the latter part of July 1973, seven industrial countries—Austria, Canada, Italy, Japan, the United Kingdom, the United States, and also Switzerland—did not ensure the maintenance of rates for exchange transactions within announced margins, while the other industrial countries—Belgium, Denmark, France, Germany, Luxembourg, the Netherlands, Norway, and Sweden—maintained margins for exchange transactions among their currencies. A large proportion of the remainder of the Fund membership maintained stable rates of exchange for their currencies in terms of a single intervention currency—usually the U. S. dollar, the pound sterling, or the French franc. Thus, a change in the relationship between the currencies of major countries might have as a consequence direct changes in relationships among the currencies of a large number of members.

Special Drawing Account

The use of SDRs by participants during the fiscal year 1972/73 was at a markedly lower level than in the two preceding fiscal years. The total of such use was SDR 518 million, compared with SDR 1,178 million in 1971/72 and SDR 1,056 million in 1970/71. Further, some 91 per cent of transfers by participants resulted from use by nine participants—the United Kingdom (SDR 298 million), Chile (SDR 55 million), Argentina (SDR 32 million), Egypt (SDR 20 million), Pakistan (SDR 19 million), Jamaica (SDR 12 million), the Netherlands (SDR 12 million),

⁷ As a result of the Italian action, the rate for commercial transactions was also permitted to float.

Yugoslavia (SDR 12 million), and Uruguay (SDR 11 million). This diminution of use can be attributed to the fact that a relatively large number of participants had no balance of payments need to use SDRs to obtain foreign exchange, as well as to a widespread desire to retain SDRs during a period of uncertainty as to the future value of currencies, the absence of a new allocation, and the increasing need for participants to retain SDRs in order to meet the reconstitution requirement.

Transfers of SDRs from the General Account to participants totaled SDR 401 million, of which SDR 292 million was transferred to the United Kingdom as part of a gold tranche purchase; transfers were thus substantially higher than the amounts of SDR 120 million and SDR 151 million in the two previous fiscal years. Receipts of SDRs were SDR 108 million, and the General Account's holdings declined from SDR 910 million to SDR 617 million during 1972/73.

Prior to the end of the first basic period on December 31, 1972, the Fund conducted required reviews of two major aspects of the SDR facility—the rules for designation and the rules for reconstitution—and made no major changes. (See below.) The Executive Directors also agreed that no change would be made in the decision under which participants are able to use SDRs without limitation in repurchases other than those under Article V, Section 7(b), and in the payment of charges due to the General Account.⁸

On June 26, 1972 the Managing Director, after informing the Executive Directors, reported to the Board of Governors that there was an insufficient basis for him to submit a proposal at that time for an allocation of SDRs in the second basic period, which would commence on January 1, 1973.⁹ Since mid-1972 the Managing Director has had further discussions with participants on the possible duration of the second basic period and on possible allocations of SDRs during that period but has been unable to present a proposal that had broad support among participants. The Managing Director continues to be obliged to make a proposal whenever he is satisfied that it

could be made consistently with the Articles. Such a proposal could include a change in the duration of the second basic period; in the absence of any decision as to its length, the period is of five years' duration.

Transactions and Operations Between Participants and the General Account

During the fiscal year 1972/73 a total of SDR 68 million was used by participants to repurchase their currencies from the General Account; this compares with amounts of SDR 501 million and SDR 357 million used in the two preceding fiscal years. Apart from a sharp decline in total repurchases during 1972/73, the reduction partly reflected an increased preference for using currencies to effect repurchases. SDRs used in repurchases other than those under Article V, Section 7(b), represented 18 per cent of the total of such repurchases in 1972/73, compared with 26 per cent in the previous fiscal year.

A total of SDR 30 million was used to pay charges to the General Account, almost exactly the same figure as in 1971/72. However, this amount represented over 95 per cent of charges paid in 1972/73, against about 50 per cent the year before. This increase in proportion resulted from a general reluctance on the part of countries to settle these charges in gold, which is usually the alternative medium of payment.

As noted, a total of SDR 401 million was transferred from the General Account to participants. Of this amount, SDR 292 million represented one half of a gold tranche purchase by the United Kingdom, SDR 107 million was transferred to 16 participants that took the initiative to obtain SDRs under the reconstitution provisions, and SDR 2 million was disbursed in payment of remuneration on net creditor positions in the General Account to participants choosing to receive SDRs rather than gold. Data on these transfers are set out in Appendix Tables I.4 and I.7.

Transactions by Agreement Between Participants

Participants used SDRs in transactions by agreement with other participants only twice during the year. On each occasion these transactions redeemed balances of the user's currency. The

⁸ Executive Board Decision No. 2901-(69/122) G/S, adopted December 18, 1969. See *Annual Report, 1970*, pages 176-77.

⁹ See *Annual Report, 1972*, page 41.

SDR 292 million received by the United Kingdom on July 31, 1972, in its gold tranche purchase, was transferred on the same day to Belgium, France, Germany, the Netherlands, and Norway to redeem balances of sterling that had been acquired by those countries in supporting sterling within the arrangements of the European Economic Community for maintaining narrower margins. These sterling balances had been accumulated during the period before the floating of sterling in June 1972. In a similar transaction in November 1972, the Netherlands transferred SDR 12 million to Belgium to redeem balances of Netherlands guilders acquired by Belgium under an agreement between the two countries to maintain margins of not more than 1.5 per cent between their currencies for spot transactions.

Transactions with Designation

In the fiscal year 1972/73 only eight participants used SDRs to obtain foreign exchange through the designation procedures, under which participants with strong balance of payments and reserve positions are designated by the Fund to provide currency in exchange for SDRs. The SDR 117 million transferred in this way was less than half the total of similar transactions in 1971/72. Eight participants were designated to receive the SDRs; the United Kingdom received SDR 88 million out of the total of SDR 117 million.

Prior to the end of 1972, the Executive Directors reviewed the rules and procedures for designation. It was concluded that these had generally operated satisfactorily during the first basic period; for this reason and in view of the fact that the designation mechanism would need to be discussed in the context of the reform of the international monetary system, it was decided not to adopt any new rules for designation.¹⁰ The rules in Schedule F of the Fund Agreement embody the so-called excess holdings principle, under which the Fund designates participants "for such amounts as will promote over time equality in the ratios of the participants' holdings of special drawing rights in excess of their net

cumulative allocations to their official holdings of gold and foreign exchange." The implementation of this principle had tended to lead to a concentration of designation on participants whose SDR holdings were below their allocations. It had been the practice, when the balance of payments and reserve positions of such countries had become sufficiently strong to enable them to be designated, to aim at the reversal of their previous use of SDRs over a period of several quarters, provided that their balance of payments and reserve positions continued to justify designation. In their review of designation the Executive Directors concluded that there would be advantages in reducing the concentration of designation on relatively few participants. Certain procedural changes were introduced in 1973 to broaden the list of participants actually included in the quarterly designation plans, thus placing less emphasis on the restoration of participants' holdings to the level of their allocations. However, only one, rather small, use of SDRs took place through the designation procedure during the first four months of 1973.

Reconstitution

The rules for reconstitution require participants, over successive five-year periods, to maintain their holdings of SDRs at an average of 30 per cent of the average of their daily net cumulative allocations. Since December 31, 1971 the Fund has been making monthly calculations to provide an indication of whether and to what extent each participant would need to acquire SDRs to achieve the required average of 30 per cent. These calculations require assumptions to be made with respect to allocations over coming years. The Executive Directors decided that for the sole purpose of these calculations the assumption should be that no allocations would be made after January 1, 1972. This assumption was applied only to the procedures associated with reconstitution and in no way prejudiced any future proposals or decisions on allocations or cancellations.¹¹ The calculations made under these assumptions showed that a number of participants had a need to reconstitute; this need is rising

¹⁰ Executive Board Decision No. 3834-(72/146) S, adopted December 20, 1972 and reproduced in Appendix II.

¹¹ See *Annual Report, 1972*, page 43.

rapidly as time proceeds and apparently made some participants more reluctant to use SDRs.

Throughout the fiscal year, those participants with a need to obtain SDRs to meet the 30 per cent average were permitted to obtain the necessary amounts from the General Account, either against gold or currency acceptable to the Fund or as part of a purchase from the General Account in accordance with the Fund's policies on the use of its resources. Participants with a need to reconstitute took the initiative to obtain voluntarily a total of SDR 107 million from the Fund during 1972/73, of which SDR 71 million was obtained against other members' currencies and SDR 36 million in purchases from the General Account. These participants, and the amounts they acquired, are listed in Appendix Table I.7.

On April 30, 1973 the reconstitution calculations showed that 23 participants had a need to reconstitute their holdings of SDRs. At that date the calculations showed that these participants were permitted to acquire amounts totaling SDR 147 million, which represented, on average, some 19 per cent of their allocations of SDR 768 million. For a few participants, however, the amounts were well above this average, and the need to reconstitute had reached, or was close to, the level at which the participants concerned would be subject to designation for that reason and in that way be obliged to acquire SDRs to promote the reconstitution of their holdings.¹² As the end of the first five-year reconstitution period draws closer, the amounts of SDRs that these participants need to acquire to meet the required averages are tending to rise rather rapidly.

Before the end of the first basic period, on the basis of a report by the Executive Directors, the Board of Governors resolved to make no change in the existing rules for reconstitution. The report to the Governors indicated that there was a widespread opinion among Executive Directors that the abrogation of the requirement to maintain 30 per cent of average allocations over five-year periods would enhance the character of SDRs as a reserve asset, but they considered that in the prevailing circumstances a decision on abrogation

or modification of the rules on reconstitution should be postponed.¹³

Changes in the Distribution of SDR Holdings

The principal changes in the distribution of SDRs during 1972/73 were the reduction in the General Account's holdings and the increase in the holdings of continental European countries that received SDRs in the transactions with the United Kingdom. The holdings of the United Kingdom increased by SDR 75 million, mainly through designation. The United States, Canada, and Japan experienced only the relatively small changes in their holdings that resulted from the crediting of interest on their holdings and the debiting of charges on their allocations. The SDR holdings of the less developed countries declined by SDR 85 million, reflecting use of SDRs totaling SDR 209 million and receipts of SDR 124 million, mainly in transactions to promote reconstitution. These various changes are summarized in Table 16.

General Account

Net use of the Fund's financial resources—i.e., the excess of purchases over repurchases—increased during the fiscal year 1972/73 by SDR 635 million, compared with declines in the two previous years. However, the amount of both purchases and repurchases fell in 1972/73. The volume of purchases at SDR 1,175 million was about the same as in 1970/71, but was only slightly more than half of the total in 1971/72. Further, about half of total purchases came in one large gold tranche transaction with the United Kingdom. A further 18 per cent of the total resulted from purchases under the compensatory financing and buffer stock facilities.

The decline in the volume of purchases during the year may be attributed to a number of factors. First, most members experienced another year of relative reserve ease, because of current

¹² See *Articles of Agreement*, Schedule G, and *By-Laws, Rules and Regulations*, Rule P-4.

¹³ The report of the Executive Directors, dated November 15, 1972, and Resolution No. 28-2, adopted by the Board of Governors on December 18, 1972, are reproduced in Appendix II, which also contains Executive Board Decision No. 3829-(72/144) S, adopted December 15, 1972, entitled "Reconstitution: Amendment of Rules P-2 and P-3."

TABLE 16. CHANGES IN THE DISTRIBUTION OF SDR HOLDINGS, FISCAL YEAR ENDED APRIL 30, 1973
(In millions of SDRs)

	Net Cumulative Allocations	Holdings		April 30, 1972–April 30, 1973		
		April 30, 1972	April 30, 1973	Use	Receipt	Net change
Industrial countries	6,178	6,202	6,581	321	701	380
United States	2,294	1,803	1,796	7	—	—7
United Kingdom	1,006	525	600	302	377	75
Continental Europe	2,141	2,984	3,293	12	321	309
Canada	359	465	467	—	2	2
Japan	377	424	425	—	1	1
Primary producing countries						
More developed areas	789	642	641	14	13	—1
Less developed areas	2,348	1,561	1,476	209	124	—85
Western Hemisphere	879	643	593	133	83	—50
Middle East	239	132	119	27	14	—13
Asia	765	505	485	34	14	—20
Africa	465	280	280	13	13	—
General Account	—	910	617	402	109	—293

account surpluses (in part a reflection of comparatively high commodity prices) and the ease of borrowing in both the long-term and short-term international financial markets. Second, a large number of Fund members permitted their exchange rates to float through the course of the year or continued earlier policies of adjusting their exchange rate more frequently, thereby easing the problem of financing balance of payments deficits. In addition, uncertainty as to the outcome of the ongoing debate about the future price of monetary gold and gold-denominated assets (SDRs and Fund positions) tended to affect the willingness of some members to make purchases from the Fund, as indebtedness to the Fund is fixed in terms of gold. However, the techniques used in valuing Fund assets do not seem to have inhibited members in the use of the Fund's resources.

The volume of repurchases during 1972/73, at the equivalent of SDR 540 million, was also markedly lower than in the previous fiscal year, partly a reflection of the large volume of repurchases made in the previous year (SDR 3,122 million) and of the comparatively low level of outstanding drawings. Compared with earlier years, a large proportion (over half) of total repurchases in 1972/73 were the result of mandatory repurchases that accrued under Article V, Section 7(b), voluntary repurchases, and repurchases made in advance of due dates. This volume of "advance" repurchases not only reflected the

rise in members' reserves and improved balance of payments positions but might also be partly explained by the uncertainty about the future value of monetary gold and gold-type assets, which led members to reduce their indebtedness to the Fund.

At the end of April 1973, outstanding purchases amounted to the equivalent of SDR 3.59 billion, a net increase of SDR 0.65 billion over the fiscal year. Members' net creditor positions in the Fund increased by only half of the rise in outstanding purchases during the year, to the equivalent of SDR 1.9 billion on April 30, 1973, as a result of the sale of SDRs from the General Account in connection with purchases by some members.

As noted in last year's Annual Report, in view of the fact that many members were not maintaining rates for their currencies within the margins prescribed by the Articles of Agreement or by Executive Board Decision No. 904-(59/32), the Executive Directors decided that, in a Fund transaction with a member involving the currency of another member, the latter currency should be valued at rates derived from market exchange rates—i.e., the representative rate for the currency as established under Rule O-3—rather than on the basis of par values or central rates.¹⁴ For those currencies for which the rates

¹⁴ Executive Board Decision No. 3637-(72/41) G/S, adopted May 8, 1972 and reproduced in the *Annual Report*, 1972, pages 88–89.

were maintained within the margins prescribed in the Articles and Executive Board Decision No. 904-(59/32), the Fund continued to operate on the basis of par values.

The U. S. authorities announced on February 12, 1973 that legislative action would be sought as the basis for a reduction in the par value of the U. S. dollar. The new par value would not be established with the Fund until after appropriate Congressional action.¹⁵ Market rates promptly reflected the prospective change in the par value of the U. S. dollar. Consequently, the Executive Directors decided to apply Rule O-3 so that calculations, other than those for the U. S. dollar, would be made on the basis of a value for the U. S. dollar which reflected its prospective par value (US\$1 = SDR 0.828948) instead of its present par value (US\$1 = SDR 0.921053).¹⁶ The valuation and adjustment of the Fund's holdings of a currency, which were made on the basis of a representative rate, would, as a result of the decision, be made on the basis of the new "effective parity relationship" between the currency involved and the U. S. dollar. Calculations for transactions in the Special Drawing Account would be made on the same basis, again excepting those for the U. S. dollar.

During the course of the year, the selection of currencies for transactions was based largely on the principles that had governed the use of currencies in the past. The amounts of currencies to be used in purchases and repurchases were determined on a quarterly basis in proportion to mem-

¹⁵ This was similar to the situation that prevailed between the realignment of exchange rates following the Smithsonian Agreement of December 1971 and the establishment of the new par value for the U. S. dollar with the Fund on May 8, 1972. In order to facilitate the resumption of the orderly conduct of the operations of the Fund, the Executive Directors adopted a decision that suspended Rule O-3 and enabled the Fund to adjust its holdings of a currency used in a transaction on the basis of the ratio of the representative rate for the member's currency in the exchange market to the effective parity relationship between that currency and the member's intervention currency. See Executive Board Decision No. 3537-(72/3) G/S, adopted January 4, 1972. This decision was replaced by Executive Board Decision No. 3637-(72/41) G/S, adopted May 8, 1972, following the establishment of a new par value for the U. S. dollar with the Fund, which terminated the suspension of Rule O-3. See *Annual Report, 1972*, pages 44-46 and 87-89.

¹⁶ These rates correspond to US\$42.2222 and US\$38.00 a fine ounce of gold, respectively. The text of this decision (Executive Board Decision No. 3865-(73/12) G/S, adopted February 16, 1973) is reproduced in Appendix II.

bers' gold and foreign exchange holdings and to reserve positions in the Fund, respectively; members purchasing currencies from the Fund normally converted these currencies into U. S. dollars and acquired currencies in which to make repurchases by selling U. S. dollars. The same list of currencies was proposed for use both in purchases and repurchases, thereby tending to even out the effects of Fund transactions on the composition of members' reserves. Currencies used in transactions were confined to those having Article VIII status in the Fund, as Article XIV currencies cannot be accepted by the Fund in repurchase. Further, the use of Belgian francs and Netherlands guilders in repurchase was, to a large extent, balanced by Fund sales of those currencies; the Mexican peso was included for use in transactions on the same basis. During the period March 2-18, 1973, when the major European and Japanese official foreign exchange markets were closed, Fund transactions were carried out in Canadian dollars and, to a lesser extent, in Australian dollars. The official exchange markets for these currencies remained open and the Fund was able to continue transactions on the basis of the representative rate for the Canadian dollar and of the par value for the Australian dollar.

During the year, the Executive Directors took two ad hoc decisions, pursuant to Article XXV, Section 7(f), agreeing to the requests of two members, the United Kingdom and Bangladesh, to purchase SDRs from the General Account in connection with their purchases. The SDRs so acquired were for specific purposes other than in connection with reconstitution.

The Executive Directors adopted a decision on April 23, 1973 permitting the use of the Fund's resources by members in connection with their loans to the International Cocoa Council solely for the purpose of the buffer stock's acquisition of cocoa stocks, other than stocks involved in diversion to nontraditional uses.¹⁷ The use of the Fund's resources for this purpose was determined to be consistent with requirements that the Fund considers appropriate to international commodity agreements for which Fund assistance may be given. This was the second occasion on which the Fund agreed to provide financial assistance in

¹⁷ Executive Board Decision No. 3933-(73/42), adopted April 23, 1973 and reproduced in Appendix II.

connection with an international buffer stock, the first being the decision of June 1971 to provide financial assistance to the Fourth International Tin Agreement. Purchases from the Fund for the purpose of buffer stock financing may be made up to an amount equal to 50 per cent of a member's quota, providing that combined drawings outstanding at any time under this facility and under the Fund's compensatory financing facility do not exceed 75 per cent of a member's quota.

Use of Fund Resources

Purchases of currencies and special drawing rights by 26 members during the fiscal year 1972/73 amounted to the equivalent of SDR 1,175 million, a decline of SDR 853 million from the total of SDR 2,028 million purchased by 30 members in 1971/72, but slightly higher than total purchases in 1970/71. The largest amount, equivalent to SDR 584 million and nearly one half of the total, was purchased by the United Kingdom in a gold tranche transaction. Argentina purchased the second largest amount, equivalent to SDR 110 million, in a credit tranche transaction. Both countries purchased a combination of currencies and SDRs. Almost 75 per cent of the year's total purchases were made in the first three months of the fiscal year.

Three members—Bangladesh, Equatorial Guinea, and Zaïre—used the Fund's resources for the first time.

Over half the total amount purchased during the fiscal year was comprised of gold tranche purchases¹⁸ by 11 members. Purchases under stand-by arrangements declined slightly from SDR 220 million by 13 members in 1971/72 to SDR 213 million by 10 members in 1972/73, the smallest amount purchased under such arrangements in 12 years. The total amount of stand-by arrangements approved in 1972/73, SDR 322 million, was only slightly larger than the amount of SDR 314 million approved in the previous

year, which had been the smallest in any fiscal year since 1955/56. (See Appendix Tables I.9 and I.10.) As in the preceding fiscal year, all stand-by arrangements in effect in 1972/73 were for primary producing countries.

Purchases under the compensatory financing facility by primary producing countries increased by SDR 39 million to a total of SDR 206 million in 1972/73. Eight members, the same number as in the previous year, made use of the facility. The largest amount, SDR 62.5 million, was purchased by Bangladesh. This was the first time that a single purchase equivalent to 50 per cent of the member's quota was made under the policy of allowing purchases under the compensatory financing facility up to 50 per cent of quota in a 12-month period in circumstances of disaster or major emergency. The first member country to use the Fund's resources under this policy was Zambia with two purchases, each equivalent to SDR 19 million or 25 per cent of quota, in December 1971 and August 1972.¹⁹

The Fund's buffer stock facility was used by three members in 1972/73 in purchases totaling SDR 5 million in connection with the financing of contributions under the Fourth International Tin Agreement. Of this amount, the equivalent of SDR 0.7 million was purchased in the gold tranche by one member that requested that the purchase be regarded as a purchase under the buffer stock financing facility. The facility, approved in 1969, had been used for the first time in 1971/72 by five tin producing members to a total of SDR 20 million.²⁰ The only credit tranche purchase not under a stand-by arrangement or special facilities was that equivalent to SDR 110 million by Argentina.

¹⁸ The Articles of Agreement define a gold tranche purchase as "a purchase by a member of the currency of another member in exchange for its own currency which does not cause the Fund's holdings of the member's currency to exceed one hundred percent of its quota, provided that for the purposes of this definition the Fund may exclude purchases and holdings under policies on the use of its resources for compensatory financing of export fluctuations."

¹⁹ See *Annual Report, 1971*, pages 44 and 210, and *Annual Report, 1972*, pages 47 and 83.

Of the total amount of purchases made during the fiscal year, SDR 328 million was in special drawing rights and the remainder, equivalent to SDR 848 million, was in 13 currencies (Appendix Table I.14). With the exception of the purchases of SDRs by Bangladesh (which acquired SDRs to pay the service charge on the transaction) and the United Kingdom (which acquired them for transfer to other participants), all purchases of special drawing rights from the General Account were made to promote reconstitution under Article XXV, Section 6(a), and Schedule G, paragraph 1(a), of the Articles of Agreement, in accordance with Executive Board Decision No. 3457-(71/121) G/S, adopted December 3, 1971,²¹ or that decision as amended by Executive Board Decision No. 3829-(72/144) S, adopted December 15, 1972.²²

Repurchases

During the past fiscal year, repurchases amounted to SDR 540 million, compared with the record SDR 3,122 million repurchased in 1971/72. The total represented the smallest amount repurchased in any year since 1966/67. The concentration of repurchases in April 1973, equivalent to about SDR 99 million, 18 per cent of the total, was the result of payments of SDR 77 million by members before their obligations were actually due.

Repurchases equivalent to SDR 231 million, 43 per cent of the total, were made in accordance with schedules approved by the Fund, which provided for repurchase within five years from the date of purchase. (See Appendix Table I.12.)

The sum of SDR 179 million, 33 per cent of total repurchases, was in discharge of obligations incurred under Article V, Section 7(b), of the Fund Agreement. Of this amount, SDR 2 million and SDR 50 million related to obligations incurred as of April 30, 1970 and April 30, 1971, respectively, which, due to the limitation of Article V, Section 7(c)(iv), fell to be discharged in subsequent financial years. The remainder, SDR 127 million, was in discharge of obligations incurred as of April 30, 1972.²³

²¹ Reproduced in the *Annual Report, 1972*, pages 84-85.

²² Reproduced in Appendix II.

²³ Article V, Section 7(b), provides that, subject to

Repurchases equivalent to SDR 95 million, 18 per cent of the total, were made in respect of purchases under stand-by arrangements in accordance with the repurchase provisions of the arrangements.

Voluntary repurchases were SDR 11 million and included SDR 7 million relating to gold tranche purchases and SDR 4 million in respect of purchases under the Buffer Stock Financing and Compensatory Financing Decisions.

Repurchases made under other provisions amounted to SDR 24 million and included repurchases by 22 members of SDR 6 million relating to currency payments in excess of 75 per cent of the increase in quotas in accordance with paragraph 5 of Board of Governors Resolution No. 25-3 on "Increases in Quotas—Fifth General Review."²⁴ Also included were more than SDR 15 million in respect of gold tranche purchases.

The Executive Directors agreed to the requests of 14 members to schedule their repurchases for payment over periods up to five years from the date of purchase; for one of these members they also agreed to substitute a new schedule of repurchases for the remaining portion of that previously approved.

During the fiscal year, member countries used SDR 3 million in gold, all of which was in discharge of repurchase obligations incurred under Article V, Section 7(b), and Schedule B. A total of SDR 68 million in special drawing rights was used, almost all of which was in discharge of repurchases outside of Article V, Section 7(b). By far the most actively used currency in repurchases was the deutsche mark, to a total of SDR 166 million. (See Appendix Table I.14.)

certain limitations, a member shall repurchase an amount of the Fund's holdings of its currency equivalent to one half of any increase in the Fund's holdings of its currency that has occurred during the Fund's financial year, plus one half of any increase, or minus one half of any decrease, in the member's monetary reserves during the same period, or, if the Fund's holdings of the member's currency have decreased, one half of any increase in the member's monetary reserves minus one half of the decrease in the Fund's holdings of the member's currency. While 9 members incurred obligations as of April 30, 1972 totaling the equivalent of SDR 140 million, Article V, Section 7(c)(iv), limited the amount to be discharged forthwith to SDR 101 million. (See Table I.13 and further information in Appendix I.)

²⁴ See *Annual Report, 1970*, pages 177-84.

Transactions and Operations in Gold

During the fiscal year 1972/73 the Fund received gold equivalent to SDR 68 million and disbursed gold equivalent to SDR 28.5 million. (See Appendix Table I.16.) These transactions and operations were primarily a consequence of gold subscriptions of new members and payments of remuneration to creditor members as specified in Article V, Section 9, of the Fund Agreement.²⁵ On April 30, 1973 the Fund's gold holdings were equivalent to SDR 5,370 million, compared with SDR 5,331 million a year earlier.

Income, Expenditures, and Reserves

The Fund's income is mostly derived from charges paid by members. These include charges on the Fund's holdings of members' currencies in excess of quotas, the service charge on purchases of currencies and SDRs from the General Account, and stand-by charges. Receipts also include interest on special drawing rights held by the General Account (treated as income) and the assessments to cover the expenses of conducting the business of the Special Drawing Account, levied under Article XXVI, Section 4, on all participants in proportion to their net cumulative allocations (treated as a deduction from expenditure); these amounts are payable in SDRs to the General Account.

All charges are payable in gold or SDRs, with the exception that, at the member's option, the stand-by charge may be paid in U. S. dollars. However, under the provisions of Article V, Section 8(f), a member may pay charges partially in its own currency if that member's monetary reserves equal less than one half of its quota.

The present schedule of charges on the Fund's holdings of members' currencies in excess of their

quotas, set forth in Appendix Table I.18, has been in effect since May 1, 1963. It has remained unchanged in accordance with the conclusions reached by the Executive Directors in annual reviews, the last of which took place in April 1973. The amount earned from these charges was SDR 28.2 million during the fiscal year 1972/73. This represented a decline of 55 per cent from the preceding fiscal year, mainly as a result of a large repurchase by the United Kingdom and the fact that more than one half of purchases were made within members' gold tranches which are not subject to charges. The earnings of SDR 62 million from this source in 1971/72 showed a decline of 52 per cent from the maximum earnings of SDR 128 million in 1970/71.

The remainder of the Fund's income (SDR 13.4 million in 1972/73) stemmed mainly from charges on purchases from the Fund and on stand-by arrangements, and from interest payments received on holdings of SDRs by the General Account. The latter, amounting to SDR 10.2 million, showed an increase for the third consecutive fiscal year since the first allocation of special drawing rights in 1969/70, while the charges were at about the same level as in the two preceding fiscal years. Assessments to cover the expenses of operating the Special Drawing Account amounted to SDR 0.7 million.

In 1972/73 operational expenditures, amounting to SDR 29.3 million, consisted entirely of payments of remuneration to creditor members as specified in Article V, Section 9, of the Fund Agreement. In 1971/72 these payments totaled SDR 30.5 million.

For the fiscal year 1972/73 the Fund's net operational income was SDR 12.2 million, a decrease of SDR 28.3 million from 1971/72 as a result of the sharply reduced income from charges. Budgetary and fixed property expenditures were SDR 34.0 million.²⁶ The net expenditure of SDR 21.7 million was charged to the Special Reserve, reducing that balance to SDR 388.9 million on April 30, 1973.

A summary of income and expenditure over the past ten fiscal years is given in Appendix Table I.17.

²⁵ In accordance with Rule I-9 of the Fund's Rules and Regulations, remuneration is payable in gold to the extent that receipts of gold, during the financial year, in payment of charges under Article V, Section 8(f), exceed payments of gold during that year as transfer charges and interest on borrowings. Rule I-9 provides that any remuneration due to each member and not payable in gold shall be paid in that member's currency. However, in accordance with Executive Board Decision No. 3033-(70/38), the Fund shall offer to pay participants, at their option, in special drawing rights for any amount of gold or currency payable as remuneration, provided that the General Account's holdings of SDRs at the end of the financial year exceed the amount of remuneration payable for that year.

²⁶ This figure would have been SDR 55.2 million had it not been reduced by SDR 21.2 million, the SDR equivalent of the proceeds of sale of the Fund's former headquarters building.

Consultations with Member Countries

During 1972/73 the Fund completed 85 regular consultations with member countries, an increase from 77 consultations in the previous year. These consultations are formally of two kinds, although they generally cover much the same ground. Members maintaining restrictions on current international payments are required to consult annually with the Fund under Article XIV. Over the years the consultation procedure has come to involve full consideration of all relevant aspects of the economic situation of the member. In 1972/73, 59 Article XIV consultations were completed. During the same period the Fund held 26 consultations with countries that have accepted the obligations of Article VIII, Sections 2, 3, and 4. For these members, consultations are not mandatory, but they have been held regularly for a number of years.

These periodic exchanges of views are of key importance to both the Fund and the members and serve as a valuable instrument of international monetary collaboration. They provide opportunities for detailed review by the Fund of the economic and financial problems and policies of its individual members and enable the Fund to deal more expeditiously with members' requests for financial assistance or proposals for changes in exchange rates or other practices. The members' authorities not only have the benefit of an independent appraisal of their policies but can also raise with the Fund any special difficulties resulting from the actions and policies of other members. Consultations have placed increasing emphasis on the international implications of members' economic and financial policies to help to make these policies more responsive to the aims of the international community.

In recent years, the annual consultations have given particular attention to the exchange rate policies of countries that have not maintained their exchange rates within the prescribed margins. The regular consultations have at times been supplemented by special consultations for this purpose.

During the fiscal year Fiji and Bahrain accepted the obligations of Article VIII, Sections 2, 3, and 4, bringing to 37 the number of member countries with Article VIII status. These members are listed

in Appendix Table I.19. After the end of the fiscal year, Qatar notified the Fund that it also accepted these obligations.

Training and Technical Assistance

The demand for technical assistance from member countries expanded sharply in the past fiscal year. In addition to those countries that were in the process of strengthening their financial institutions and improving their techniques of economic management, a number of countries took the opportunity to review their situation in the light of international monetary developments, calling upon the Fund for technical assistance where appropriate.

During the fiscal year, 25 staff members were on assignments of six months or more in 22 countries as Fund representatives or as advisors in other capacities, and 110 outside experts were on long-term assignment in 44 countries under Fund technical assistance. Taking into account the shorter-term technical assistance missions and the training of officials by the IMF Institute, about two thirds of the Fund's membership benefited from the Fund's technical assistance and training programs last year. This was in addition to the general advisory services and technical assistance made available through the Fund's regular procedures under the Article VIII and Article XIV consultations.

The training facilities offered by the IMF Institute to officials of member governments and their financial organizations continued to expand in the past fiscal year. The Institute, which now has had more than nine years of experience in training over 1,000 officials from 116 countries, inaugurated in March 1973 new facilities enabling it to hold three courses simultaneously. As a result of this expansion, the Institute plans to conduct 10 courses with a total of 250 participants in the fiscal year 1973/74, compared with 8 courses and 200 participants in the previous year.

The main course offered by the Institute continues to be that on Financial Analysis and Policy, conducted for 20 weeks in English and for 24 weeks in French and Spanish. This course is being progressively reoriented so as to place more emphasis on experience and practice, particularly on

experience accumulated by the Fund. The principal aims of the course are to consider the modern tools of economic analysis and their application to policy problems; to survey the instruments of monetary, fiscal, and balance of payments policies; and to examine their effectiveness in achieving chosen policy objectives in varying economic conditions. Special emphasis is placed on the problems of developing countries, drawing on the Fund's experience in helping to solve such problems. In this way, the policies and procedures of the Fund are studied in the context of actual case histories, thereby contributing to a better understanding of the Fund's operations and to continued improvement of collaboration between the Fund and its member countries.

The Institute is continuing to provide two shorter courses, which are also given in English, French, or Spanish as required. One, an 8-week course on Balance of Payments Methodology, is held in collaboration with the Balance of Payments Division of the Research Department. This course concentrates on balance of payments concepts and definitions used in the Fund and is aimed at assisting member countries in improving their balance of payments statistics. The other course, a 10-week one on Public Finance, is organized in cooperation with the Fiscal Affairs Department and covers the objectives, instruments, and procedures of public finance, with special emphasis on the fiscal problems of the developing countries.

Responding to increased demand from member countries, the assistance provided by the Central Banking Service expanded in the past fiscal year. A total of 45 countries and one regional organization received assistance in 1972/73, compared with 37 countries and one regional organization that received such assistance in the fiscal year ended April 30, 1972. As in the past, the assistance took two forms: the provision, usually by Fund staff members, of advisory services to study specific problems and to recommend solutions; and the assignment of outside experts to member countries, usually for one year or more, to serve in central banks or similar monetary institutions. Subjects on which advisory services were sought included the setting up of new central banks or similar institutions, central banking legislation, banking reform, and banking administration and

management. The services of the experts assigned during the year covered general management, administration, banking operations, foreign exchange operations, and a wide range of other banking activities.

Since its inception in 1964, the Central Banking Service has been the principal source for meeting the needs of developing countries for technical assistance in central banking. Over the years it has provided such assistance in the field to a total of 76 member countries and one regional organization. A great deal of the work of the Central Banking Service has been concentrated in African countries, which have accounted for more than half the total services of experts used during the period.

Experience tends to suggest that there is a discernible pattern in the changing demand for the services of experts, and that completion of all phases of such assistance for a single country may extend over a period of years. While initial assignments to a newly established central bank may be to top management positions, the subsequent demand for the services of experts gradually shifts toward the more specialized or technical functions.

This change in the nature of the demand for experts, together with the growth in the overall need for such services, has over the years strained the available supply of suitable candidates. Only the large central banks can generally afford to make manpower available to a requesting country without seriously impairing their own staff efficiency. It has, therefore, been most encouraging that a number of the smaller central banks have been able to cooperate. In some instances, central banks have been able to participate simultaneously as a donor of an expert in one field and a receiver of an expert in another field. By such cooperative efforts, the delays in meeting requests for experts have been reduced to a minimum.

The size and scope of the technical assistance of the Fiscal Affairs Department also grew considerably in the past fiscal year. A total of 32 countries received fiscal technical assistance during the period, an increase of 2 countries over the previous fiscal year. There was a sharper increase in the total amount of manpower employed, reflecting a corresponding increase in

the services of the panel of experts. During the year panel members filled 32 individual long-term field assignments, while in addition 11 assignments were filled by Fund staff members.

The principal fields in which assistance was given during the year covered tax policy (including reviews of tax systems), tax administration, budget systems and budget preparation, government accounts, audit, and expenditure control. A number of countries requested advice on drafting fiscal legislation, which was provided with the cooperation of the Legal Department. In addition, general fiscal advisors were on assignment in several countries.

The continued growth in long-term assistance activities, and the consequent greater use made of panel members, has caused strain on the available supply of experts. Since the inception of its work in 1964, the Fiscal Affairs Department has provided technical assistance to 63 countries and has called upon the services of 75 experts, chiefly active or retired government officials. Member governments are often understandably reluctant to part with experts of the caliber and seniority required for fiscal technical assistance. The Fund has, however, been able to obtain the services of retired officials to fill many assignments.

In order to make the best use of the limited number of panel members available, the Fiscal Affairs Department has taken great care to clarify the precise nature of the technical assistance needed, often by undertaking preliminary surveys. It has also sought to ensure that its own activities do not duplicate fiscal technical assistance that is provided by other international agencies or under bilateral arrangements.

During the past year new projects in 13 member countries were undertaken by the Bureau of Statistics under its technical assistance for the establishment and improvement of central bank bulletins. Over its four years of operation, these activities have covered most of the countries of the developing world, providing assistance in the compilation and presentation of statistics for publication in central bank bulletins in 59 countries.

When the project began, 71 of the world's central banks published statistical bulletins, of which 42 were issued monthly and 29 were quarterly. Under the project, 14 additional central banks

have established bulletins, 2 of the quarterly bulletins have become monthly, and at the end of the fiscal year preparations were well advanced for the establishment of 8 more bulletins. An important contribution has thus been made in improving, enlarging, and presenting the statistical data needed for analysis and policy formation in the area of monetary and balance of payments problems.

In the current fiscal year, the Bureau is placing greater emphasis on reviewing and consolidating the progress already achieved, on assuring continuity of publication, and on implementing previously planned improvements to existing bulletins.

In addition to the regular technical assistance provided under the central bank bulletin project, the Bureau provided assistance in the compilation of statistics to 12 countries. In cooperation with the Fiscal Affairs Department, the Bureau is also reviewing national government finance statistics at disaggregated levels with a view to organizing them in standard form.

Relations with Other International Organizations

Besides the International Bank for Reconstruction and Development (IBRD), with which the Fund has had a special relationship from the time of their establishment, the Fund has continuing contacts with the United Nations (UN) and its relevant organs, the Organization for Economic Cooperation and Development (OECD), the General Agreement on Tariffs and Trade (GATT), the European Economic Community (EEC), and the Bank for International Settlements (BIS).

Continuous liaison with these organizations is provided by the Fund's offices in Paris and Geneva, exchange of pertinent data, and direct contact by headquarters staff and their attendance at meetings, at both plenary and working levels. At the invitation of the Committee of Twenty and its Deputies, officers of the IBRD, the United Nations Conference on Trade and Development (UNCTAD), the OECD, the GATT, the EEC, and the BIS attended meetings of those bodies. They also attended the Annual Meeting of the

Board of Governors of the Fund, held jointly with those of the IBRD and its affiliates, in company with representatives of other organizations with which the Fund has common interests.

The Managing Director, as customary, addressed the 53rd Session, resumed, of the UN Economic and Social Council, at which he presented the Fund's 1972 Annual Report. He or the Deputy Managing Director took part, along with heads of other specialized agencies and major UN organs, in meetings of the Administrative Committee on Coordination and its joint meeting with the Committee for Program and Coordination, while staff members attended preparatory and other meetings of subsidiary bodies. The Managing Director also participated in Ministerial Meetings of the OECD; the Group of Ten; the Group of Ten and the EEC, which met jointly on March 9 and 16, 1973; and the Intergovernmental Group of Twenty-Four on International Monetary Affairs, which met immediately before both the Annual Meeting and the March meeting of the Committee of Twenty. Staff members took part in a number of meetings of Deputies of these bodies.

The range of meetings, study groups, and seminars in which the staff participated reflects the variety of Fund interests and responsibilities. These meetings included those of bodies of the UN: the General Assembly, the Economic and Social Council, the Trade and Development Board of the UNCTAD, the UN Development Program's Governing Council and its Working Group, the Statistical Commission, the Commission on International Trade Law, and the regional UN economic commissions; and the International Labor Organization's International Labor Conference and its interagency meeting on evaluation of comprehensive employment missions.

Fund staff also cooperated with various bodies of the OECD and made arrangements for joint work in compiling government revenue statistics. An OECD mission came to Washington to discuss with Fund and IBRD staff problems in connection with the growth of export credits. On that subject, the Fund has continued to attend meetings of the Union d'Assureurs des Crédits Internationaux (Berne Union). Cooperation with

the CONTRACTING PARTIES to the GATT, including the provision of Fund documentation, continued with respect to GATT consultations on import restrictions and import surcharges imposed for balance of payments reasons, and Fund representatives also attended meetings of the 28th GATT Session and the Council of Representatives.

At the regional level the Fund cooperated with the African Development Bank, the Asian Development Bank, the Caribbean Development Bank, and the Inter-American Development Bank, and staff members attended the annual meetings of their respective Boards of Governors. The staff provided technical assistance on the request of the Economic Commission for Asia and the Far East (ECAFE) to the Intergovernmental Committee on the Establishment of an Asian Reserve Bank and to the ECAFE Meeting of Senior Officials of Governments and Central Banks for the Establishment of an Asian Clearing Union. Following the earthquake in Managua, Fund staff participated in a special session of the Committee of the Whole of the Economic Commission for Latin America to discuss the Nicaraguan economic situation and in a special meeting called by the Central American Bank for Economic Integration on assistance to Nicaragua. The Fund was also represented at a meeting of experts for the preparation of the African Ministerial Conference on Trade, Development, and Monetary Problems convened by the African Development Bank; a Study Seminar on Integration and Regional Plan Coordination in East Africa, sponsored by the East African Community; an Arab Conference for Bank Management; a seminar on Financial Programming of Central American Central Banks, sponsored by the Central American Monetary Council; and meetings of the Central Banks of Signatory States of the Andean Sub-regional Integration Agreement and their Working Group on Statistical Bulletins. In addition, staff attended the meeting of the Organization of American States' Inter-American Economic and Social Council and maintained liaison with the Inter-American Committee on the Alliance for Progress in connection with its annual country reviews and other matters of mutual concern.

The Fund's assistance to developing countries with respect to coordination of aid and debt rene-

gotiation efforts involved participation of staff at meetings on rescheduling Chile's external debt, convened by the French Government; of Ghana's creditor countries, convened by the Government of the United Kingdom; and on debt renegotiation and contributions to the Exchange Support Fund of the Khmer Republic, under the chairmanship of France. Fund representatives also participated in the IBRD-sponsored India and Pakistan Consortia, Consultative Groups for Korea, the Phillipines, Tanzania, Thailand, and Tunisia, and the Sri Lanka Aid Group; the OECD-sponsored Consortium on Turkey; and the aid meeting convened by the Government of Bangladesh. As before the Fund provided background material for and took part in a meeting of the Inter-Governmental Group on Indonesia, held under the chairmanship of the Netherlands Government, to review Indonesia's economic developments and to consider its foreign aid requirements.

Commodity problems of primary producing countries also occupy the Fund's attention. Staff representatives participated in meetings of the International Coffee Organization; the International Tin Council; the UN Conference on Olive Oil; the UNCTAD meetings to negotiate an International Cocoa Agreement, in connection with which it has been noted above that the Fund's buffer stock facility may be used; the Food and Agriculture Organization's Committee on Commodity Problems and its Intergovernmental Group on Rice; and the International Rubber Study Group.

An important factor in the Fund's cooperation with certain other international organizations having related interests is the procedure for making available its reports on Recent Economic Developments prepared in connection with the Fund's Article XIV and Article VIII consultations with members common to the Fund and the requesting organization. When it is considered in the interest of the Fund, and with the approval of the members concerned, the Executive Directors have authorized the transmittal of these reports to appropriate officials of the requesting organizations for official use. From time to time, these reports are also made available to aid coordination and debt renegotiation groups in which the Fund is a participant.

Membership, Quotas, and Participation in the Special Drawing Account

Five countries became members of the Fund during 1972/73, bringing total membership to 125 on April 30, 1973. Bahrain became a member on September 7, 1972 with a quota of SDR 10 million; Bangladesh on August 17, 1972 with a quota of SDR 125 million; Qatar on September 8, 1972 with a quota of SDR 20 million; Romania on December 15, 1972 with a quota of SDR 190 million; and the United Arab Emirates on September 22, 1972 with a quota of SDR 15 million. In addition, on July 3, 1973 the Board of Governors approved terms and conditions for the admission of the Bahamas to membership. Three of the five new members—Bahrain, Bangladesh, and Romania—also became participants in the Special Drawing Account, bringing participation at the end of April 1973 to 116 members, with quotas equivalent to 98.5 per cent of the Fund total.²⁷

Nepal paid the third of five installments of the increase in its quota in accordance with the Board of Governors Resolution No. 25-3 on "Increases in Quotas of Members—Fifth General Review,"²⁸ increasing its quota from SDR 11.6 million to SDR 12.4 million. The aggregate of quotas of Fund members on April 30, 1973, including the quotas of new members and reflecting the payment by Nepal, was SDR 29,169 million, compared with SDR 28,809 million a year earlier.

The period for the receipt of consents to quota increases under paragraph 4 of Board of Governors Resolution No. 25-3 was not extended beyond December 31, 1972. However, the Fund will give sympathetic consideration to any ad hoc request by any member for a quota increase up to the maximum amount that could have been obtained under the Resolution. Only one member has not consented to any increase in its quota under the Resolution; four members have consented to increases to less than the authorized maximum quotas.

²⁷ The 9 members of the Fund that have not deposited instruments of participation in the Special Drawing Account are Ethiopia, Kuwait, Lebanon, the Libyan Arab Republic, Portugal, Qatar, Saudi Arabia, Singapore, and the United Arab Emirates.

²⁸ See *Annual Report, 1970*, pages 177-84.

Executive Directors, Management, and Staff

Pursuant to the intention expressed in their report to the Board of Governors on the rules for the 1970 regular election of Executive Directors, the Directors continued to give attention to the problems of the size and structure of the Executive Board. Prior to the September 1972 regular election, the Executive Directors submitted to the Board of Governors a report reflecting, in particular, widespread support for the view that it was desirable that groups of countries in Africa should have the opportunity to elect two Executive Directors. The Board of Governors resolved to take note of this report.²⁹ A list of Executive Directors and their voting

power on April 30, 1973 is given in Appendix III. The changes in membership of the Executive Board during 1972/73 are shown in Appendix IV.

On March 30, 1973 the Managing Director, Mr. Pierre-Paul Schweitzer, informed the Executive Directors that his tenure of office would definitively end when his contract ran its course on August 31, 1973. On April 24 the Deputy Managing Director, Mr. Frank A. Southard, Jr., gave notice of his intention to resign within a reasonable time after a Managing Director had been appointed and had assumed his duties.

In the year ended April 30, 1973, there were 171 appointments to the Fund's regular staff and 93 separations. At the end of the fiscal year, the staff numbered 1,253, not including Advisors and assistants to Executive Directors numbering 67. Staff members at the end of the year were drawn from 89 countries.

²⁹ The report and Resolution No. 27-12, adopted by the Board of Governors on August 31, 1972, are reproduced in Appendix II.

APPENDICES

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Appendix I. THE FUND IN 1972/73

The tables and chart in this appendix supplement the information given in Chapter 3 on the activities of the Fund during the past year. For some aspects of its operations, data covering longer periods are included. Apart from Table I.1 on exchange rates, the data in the tables and chart do not go beyond April 30, 1973, the end of the Fund's fiscal year. The unit of value employed in most of the tables and in the chart is the special drawing right (SDR), which is equivalent to 0.888671 gram of fine gold. This, in turn, is equivalent to one U. S. dollar of the weight and fineness in effect on July 1, 1944, the unit of value that was employed in Annual Reports prior to 1972. The SDR equivalent of the currencies of Fund members is set out in or may be derived from Table I.1.

Exchange Rate Developments

Exchange rate developments from the beginning of May 1972 to mid-July 1973 may be summarized as follows:

May 8–30, 1972

The Fund noted or concurred in new par values proposed by the Republic of China, the Dominican Republic, El Salvador, Greece, Guatemala, Honduras, Iceland, Israel, Jordan, Liberia, Mexico, Nepal, Nicaragua, Pakistan, Somalia, Thailand, and the United States and agreed to the initial par value proposed by Mauritius.

June 23–29

Leading official European foreign exchange markets were closed on June 23, and the Japanese market was closed on June 24. The London and Scandinavian markets reopened on June 27; those in the EEC countries reopened on June 28, and Swiss and Japanese markets on June 29.

June 23–Aug. 3

The Fund noted the circumstances that led the United Kingdom to the decision temporarily not to maintain exchange rates for sterling within announced limits.

The Fund noted the circumstances that led Botswana, Fiji, The Gambia, Guyana, India, Ireland, Jamaica, Lesotho, Malawi, Mauritius, Sierra Leone, South Africa, Sri Lanka, Swaziland, Trinidad and Tobago, and a number of nonmetropolitan territories in respect of which the United Kingdom had accepted the Articles of Agreement to allow their currencies to float with the pound sterling.

The Fund noted the circumstances that led Malta to the decision temporarily not to maintain the exchange rate for the Malta pound within prescribed margins.

Sept. 26–Oct. 3

The Danish official foreign exchange market was closed on September 26 and reopened on October 3.

Appendix I (*continued*). THE FUND IN 1972/73

July 31, 1972–Jan. 16, 1973

The Fund noted or concurred in new par values proposed by Australia, Bolivia, Burundi, Iceland, Iran, Jamaica, South Africa, and by the United Kingdom for Bermuda and noted that the South African rand continued to be the currency of Botswana, Lesotho, and Swaziland.

Jan. 22–23

The Fund noted the circumstances that led Italy to the introduction of a dual exchange market, with the establishment of an official market for current account transactions and a financial market for capital account transactions. The exchange rate in the financial market would be determined by supply and demand.

The Swiss National Bank announced that until further notice it would not intervene in exchange markets in order to ensure the maintenance of specified margins in exchange transactions.

Feb. 10–15

The Tokyo foreign exchange market was closed on February 10. Apart from the Canadian and Swiss markets, all other major official foreign exchange markets were closed on February 12. The London and New York markets reopened on February 13, those on the European continent and in Tokyo on February 14, and in Scandinavia on February 15.

Feb. 12–Mar. 9

The United States informed the Fund that the President was requesting that the Congress authorize a proposal to the Fund of a 10 per cent reduction in the par value of the U. S. dollar.

The Fund concurred in new par values proposed by Kenya, Tanzania, Uganda, Yugoslavia, and by the United Kingdom for the Bahamas and Bermuda.

The Fund noted new central rates communicated by Bolivia, the Republic of China, the Dominican Republic, Ecuador, Finland, Greece, Haiti, Iceland, Israel, Jamaica, Nepal, the Netherlands Antilles, Nigeria, Panama, Portugal, Surinam, Sweden, Turkey, and Zaïre.

The Fund noted the circumstances that led Japan temporarily to allow the yen to float and Italy temporarily not to maintain exchange rates for the lira in the official market within announced limits.

Mar. 2–19

Official foreign exchange markets in the major European countries except France were closed from March 2; those in France and Japan closed during March 2; these markets reopened on March 19.

Mar. 16–21

The Fund noted the new central rate communicated by the Federal Republic of Germany.

The Fund noted the common action communicated by Belgium, Denmark, France, the Federal Republic of Germany, Luxembourg, the Netherlands, Norway, and Sweden whereby these countries would maintain a maximum margin of 2.25 per cent for rates in exchange transactions in their official market between their currency and the currencies of each of the other countries.

Mar. 16-21 (continued)

The Fund noted the decision of Austria that it would not, for the time being, ensure rates being kept within the margins for spot transactions between the Austrian schilling and other currencies and the decision of Portugal not to keep the rates for the escudo within margins hitherto observed.

Mar. 30-June 29

The Fund noted a rate communicated by Austria.

The Fund agreed to the initial par values proposed by Bahrain and Qatar and concurred in the new par value proposed by Thailand.

The Fund noted the new central rate communicated by Iceland, and later noted the circumstances that led Iceland to the decision not to maintain the exchange rate for the Icelandic króna within announced limits.

The Fund noted the middle rate for the U. S. dollar communicated by South Africa.

The Fund noted the exchange rate actions by Finland, Malaysia, Morocco, and Singapore not to maintain exchange rates within specified margins.

June 29-July 20

The Fund noted the new central rate communicated by the Federal Republic of Germany and the new rate communicated by Austria.

The Fund noted that the South African rand continued to be the currency of Botswana, Lesotho, and Swaziland.

The Fund noted central rates communicated by Kenya, Tanzania, and Uganda.

The Fund noted the circumstances that led Cyprus and Yugoslavia to the decisions not to maintain the spot exchange rates for their currencies within margins hitherto observed. It also noted the circumstances that led New Zealand to discontinue the fixed relationship between the New Zealand and the U. S. dollars.

The Fund concurred in the new par value proposed by Thailand and agreed to the initial par value proposed by Algeria.

The structure of exchange rates of member countries as it existed on July 16, 1973 is shown in Table I.1. Fund action in 1972/73 with respect to par values and central rates is recorded in Table I.2 and Table I.3, respectively.

Special Drawing Account

Summary data on transactions and operations in SDRs from the first allocation on January 1, 1970 through April 30, 1973 are shown in Table I.4. The transactions and operations by individual participants during the fiscal year ended April 30, 1973 are summarized in Table I.5. Table I.6 shows the currencies transferred between participants for special drawing rights in the fiscal year and Table I.7 the amounts of SDRs transferred to individual participants by the General Account. These matters are described in Chapter 3.

Net transfers between participants and the General Account during the fiscal year resulted in the decline of the General Account's holdings from SDR 910 million on April 30, 1972 to SDR 617 million on April 30, 1973.

General Account

Tables I.8 to I.15 and Chart I.1 present data on member countries' purchases of currencies and SDRs from the General Account of the Fund, on their repurchases of balances of their currencies held by that Account, and on stand-by arrangements approved for members by the Fund. Summary data covering the period since the Fund's inception are shown for stand-by arrangements and for purchases and repurchases in Tables I.10 and I.15, respectively. Tables I.11 and I.14 also show data on both purchases and repurchases, the former related to the Fund's compensatory financing facility and the latter to the media involved in the transactions. Details on the activities behind the results shown in the tables and chart are in Chapter 3.

Repurchases Under Article V, Section 7(b)

On April 30, 1972 the Fund's holdings of the currencies of 65 member countries exceeded 75 per cent of their quotas. Repurchase obligations pursuant to Article V, Section 7(b), were calculated for 10 of these members; one member disagreed with the calculation and submitted additional information. Repurchase obligations by the 9 members that agreed with the calculations totaled the equivalent of SDR 140 million, payable in gold, SDRs, and convertible currencies as indicated in Table I.13.

The outstanding balance of repurchase obligations incurred as of April 30, 1970 and April 30, 1971 payable in subsequent financial years amounted to SDR 62 million.¹

Article V, Section 7(c)(iv), limits the amounts to be repurchased under Article V, Section 7(b), in any year to 25 per cent of the quota of the member concerned. This limitation applied to the obligations of two members incurred as of April 30, 1972 and to the outstanding balance of obligations of two members incurred as of April 30, 1970 and 1971, thus reducing the total amount to be discharged as of April 30, 1972 to SDR 145 million—SDR 101 million in respect of obligations incurred as of April 30, 1972 and SDR 44 million in respect of outstanding balances of obligations incurred as of April 30, 1970 and April 30, 1971. In August 1972 Iraq agreed with the revised calculation of its repurchase obligation incurred as of April 30, 1971. The member, however, requested and the Fund agreed to postponement of the discharge of part of this repurchase obligation, equivalent to SDR 3 million, and part of the April 30, 1972 repurchase obligation, equivalent to SDR 7 million, to not later than August 25, 1973. Israel, which in accordance with Article V, Section 7(c)(iv), discharged the equivalent of SDR 32.5 million of its repurchase obligation, also subsequently discharged the balance of its obligation incurred as of April 30, 1972. The outstanding balance of repurchase obligations incurred as of April 30, 1971 and April 30, 1972 amounted to SDR 35 million, of which SDR 16 million was payable as of April 30, 1973, SDR 10 million not later than August 25, 1973, and SDR 9 million in subsequent financial years.

During the fiscal year 1972/73, repurchases in discharge of obligations incurred under Article V, Section 7(b), totaled SDR 179 million. Of this total the equivalent of SDR 3 million was payable in gold, SDR 3 million in special drawing rights, and SDR 174 million in convertible currencies (Table I.14). Of the amount payable in convertible currencies, the equivalent of SDR 100 million was calculated in currencies that the Fund could not accept or could accept only up to a limited amount

¹ *Annual Report, 1972*, page 59.

Appendix I (*continued*). THE FUND IN 1972/73

in repurchases as of April 30, 1971 and April 30, 1972; this resulted from the limitation imposed by Article V, Section 7 (c) (iii), providing that repurchases shall not be carried to a point at which the Fund's holdings of any currency required to be used are above 75 per cent of the quota of the member concerned. In accordance with Schedule B, paragraph 1(d), of the Fund Agreement and paragraph 1 of Executive Board Decision No. 3049-(70/44),² other convertible currencies were selected in substitution for these currencies.

Gold

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

Income and Expenditures

Income and expenditures of the General Account over the last ten fiscal years are summarized in Table I.17 and discussed in Chapter 3.

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

The administrative budget approved by the Executive Directors for the period May 1, 1973 to April 30, 1974 is presented in Appendix V. Comparative income and expenditure figures for the fiscal years ended April 30, 1971, 1972, and 1973 appear in Appendix VI. Appendix VII gives the Opinions of the Audit Committee, together with the Audited Balance Sheets of the General Account and the Special Drawing Account as at April 30, 1973, the Statement of Income and Expenditure, the Statement of Reserves, the Statement of Source and Use of Special Drawing Rights, and the Audited Balance Sheet of the Staff Retirement Fund as at April 30, 1973.

Article VIII

A list of the member countries that had accepted the obligations of Article VIII, Sections 2, 3, and 4, by April 30, 1973 is presented in Table I.19.

Publications

Table I.20 lists publications issued by the Fund during the past fiscal year.

² Decision adopted May 20, 1970 and reproduced in *Selected Decisions of the International Monetary Fund and Selected Documents* (Sixth Issue, Washington, 1972), pages 64-66.

TABLE I.1. EXCHANGE RATES, JULY 16, 1973
(Currency units per unit listed)

Member	Currency	Par	Central	Member Maintains Exchange			Market	
		Value	Rate	U.S.	Pound	French		
		SDRs	SDRs	dollar	sterling	franc	Other	U.S.
Afghanistan ²	afghani			45.00				
*Algeria	dinar	4.93706 ³						
Argentina ²	peso			5.00				
Australia	dollar	0.851544						
Austria	schilling			⁴				17.42
*Bahrain	dinar	0.476190						
Bangladesh	taka				18.9677			
Barbados	dollar				4.80			
*Belgium ^{2,5}	franc		48.6572					
*Bolivia	peso		24.1270					
Botswana	rand			0.671141				
Brazil ^{2,6}	cruzeiro			6.08				
*Burma	kyat		5.80717					
*Burundi	franc	95.0000					50.0000	
Cameroon ²	franc							
Canada	dollar			⁴				1.00055
Central African Republic ²	franc				50.0000			
Chad ²	franc				50.0000			
Chile ²	escudo			65.0000				
*China, Republic of	new Taiwan dollar		45.8413					
Colombia ^{2,6}	peso			23.35				
Congo, People's Republic of the ²	franc				50.0000			
Costa Rica ²	colón			6.63500				
Cyprus	pound			⁴				0.344828
Dahomey ²	franc				50.0000			
*Denmark ⁵	krone	7.57831						
Dominican Republic	peso	1.20635						
Ecuador ²	sucre	30.1587						
Egypt ²	pound			0.392479				
El Salvador	colón			2.50000				

Equatorial Guinea	peseta	2.50000		1.00 ⁷	
*Ethiopia	dollar				
Fiji	dollar				
Finland	markka				
*France ^{2,5}	franc	5.55419			3.631
Gabon ²	franc				
Gambia, The	dalasi				
*Germany, Federal Republic of ⁶	deutsche mark	3.21979			
Ghana	cedi		1.15385		
*Greece	drachma	36.1905			
Guatemala	quetzal		1.00000		
Guinea	syli				
Guyana	dollar				
Haiti	gourde		5.2114		0.036 ⁸
Honduras	lempira	6.03176			
Iceland	króna				
India	rupee				
Indonesia ^{2,6}	rupiah		415.000		86.80
Iran	rial	82.2425			
*Iraq	dinar	0.357143			
Ireland	pound			1.00	
*Israel	pound	5.06665			
Italy ²	lira				
Ivory Coast ²	franc				
*Jamaica	dollar	1.09668			
Japan	yen				
*Jordan	dinar	0.387754			
Kenya	shilling	8.32377			
Khmer Republic ^{2,6}	riel		230.000		265.05
Korea ⁶	won		398.900		
*Kuwait	dinar	0.357143			
Laos ²	kip		600.000		
Lebanon	pound				
Lesotho	rand		0.671141		2.34
Liberia	dollar		1.00000		
*Libyan Arab Republic	dinar	0.357143			
*Luxembourg ^{2,5}	franc				
Malagasy Republic ²	franc	48.6572			
Malawi	kwacha			50.0000	
Malaysia	dollar			2.00	
					2.32558

TABLE I.1 (concluded). EXCHANGE RATES, JULY 16, 1973
(Currency units per unit listed)

Member	Currency	Par	Central	Member Maintains Exchange			Market	
		Value	Rate	U.S.	Pound	French		
		SDRs	SDRs	dollar	sterling	franc	Other	U.S.
Mali ²	franc					100.000		
Malta	pound					10.0000		0.377358
Mauritania ²	ouguiya							
Mauritius	rupee				13.3333			
Mexico	peso			12.5000				
Morocco	dirham							4.02
*Nepal	rupee		12.7390					
*Netherlands ⁵	guilder		3.52282					
New Zealand	dollar				0.729767 ⁹			
Nicaragua	cordoba				7.00000			
Niger ²	franc					50.0000		
*Nigeria	naira		0.793648					
*Norway ⁵	krone		7.21500					
Oman	rial Omani						2.13281 ⁸	
*Pakistan	rupee	11.9428						
Panama	balboa		1.20635					
Paraguay ²	guaraní			127.260				
Peru ²	sol			38.70				
Philippines ⁶	peso			6.78				
Portugal	escudo							22.4719
*Qatar	rial	4.76190						
Romania	leu						0.148112 ⁸	
*Rwanda	franc	100.000						
Saudi Arabia	rial	4.50000						
Senegal ²	franc					50.0000		
Sierra Leone	leone				2.0			
Singapore	dollar							2.32558
*Somalia	shilling	7.51881						
South Africa	rand							
*Spain	peseta	70.0000		0.671141				

Sri Lanka ²	rupee		15.60	
Sudan ²	pound	0.348242		
Swaziland	rand	0.671141		
*Sweden ⁵	krona			
Syrian Arab Republic ²	pound	5.50094	4.025	
*Tanzania	shilling	8.32377		
*Thailand	baht	24.1270		
Togo ²	franc		50.0000	
Trinidad and Tobago	dollar		4.80	
*Tunisia	dinar	0.525000		
*Turkey ²	lira	16.8889		
Uganda	shilling	8.32377		
United Arab Emirates ¹⁰	—			
United Kingdom	pound			
United States ¹¹	dollar	1.08571		0.392696
Upper Volta ²	franc		50.0000	
Uruguay ^{2,6}	peso	872.50		
Venezuela ²	bolívar	4.285		
Viet-Nam ^{2,6}	piastre	475.000		
*Western Samoa	tala	0.719193 ¹²		
Yemen Arab Rep.	rial			
Yemen, People's				4.575
Dem. Republic of	dinar			
Yugoslavia	dinar		2.13281 ⁸	16.6667
*Zaire	zaïre			
*Zambia	kwacha	0.603176		
		0.775509		

* Member is availing itself of wider margins of up to 2½ per cent on either side of parity relationship based on par values or central rates.

¹ As notified to the Fund. Members having par values and central rates may also maintain their exchange rates against another currency or other currencies.

² Member maintains multiple currency practice and/or dual exchange market.

³ Initial par value agreed to July 20, 1973.

⁴ The member has notified the Fund that its currency is floating.

⁵ Belgium, Denmark, France, Germany, Luxembourg, the Netherlands, Norway, and Sweden maintain maximum margins of 2½ per cent for exchange rates in transactions in the official markets between their currencies and those of the other countries in this group.

⁶ Member periodically adjusts exchange rate.

⁷ Peseta per Spanish peseta.

⁸ Grams of fine gold per currency unit.

⁹ Rate adjusted daily.

¹⁰ The Bahrain dinar and the Qatar/Dubai riyal have circulated in the United Arab Emirates; a new currency, the dirham, has recently been introduced.

¹¹ The United States has announced that the President is requesting Congress to authorize a proposal to the Fund to reduce the par value of the U.S. dollar to the equivalent of US\$1.20635 per SDR.

¹² Effective July 26, 1973.

TABLE I.2. PAR VALUES ESTABLISHED OR CHANGED,
FISCAL YEAR ENDED APRIL 30, 1973

Member	Currency	From		To		Date
		Grams of gold per unit	Units per SDR	Grams of gold per unit	Units per SDR	
Australia	dollar	0.995310	0.892857	1.04360	0.851544	12/22/72
Bahrain	dinar		(Initial par value)	1.86621	0.476190	3/31/73
Bolivia	peso		(not in effect)	0.0409256	21.7143	10/31/72
Botswana	South African rand	1.09135	0.814286	1.04550	0.849996	10/24/72
Burundi	franc	0.0101562	87.5000	0.00935443	95.0000	11/2/72
China, Rep. of	new Taiwan dollar	0.0222168	40.0000	0.0204628	43.4286	5/8/72
Dominican Republic	peso	0.888671	1.00000	0.818513	1.08571	5/9/72
El Salvador	colón	0.355468	2.50000	0.327405	2.71429	5/8/72
Greece	drachma	0.0296224	30.0000	0.0272838	32.5714	5/19/72
Guatemala	quetzal	0.888671	1.00000	0.818513	1.08571	5/10/72
Honduras	lempira	0.444335	2.00000	0.409256	2.17143	5/15/72
Iceland	króna	0.0100985	88.0000	0.00930128	95.5429	5/9/72
		0.00930128	95.5429	0.00830471	107.008	12/19/72
Iran	rial	0.0117316	75.7500	0.0108055	82.2425	9/6/72
Israel	pound	0.211588	4.20000	0.194884	4.56000	5/17/72
Jamaica	dollar	1.06641	0.833333	0.900364	0.987013	1/17/73
Jordan	dinar	2.48828	0.357143	2.29184	0.387754	5/8/72
Kenya	shilling	0.114592	7.75509	0.103133	8.61675	2/19/73
Lesotho	South African rand	1.09135	0.814286	1.04550	0.849996	10/24/72
Liberia	dollar	0.888671	1.00000	0.818513	1.08571	5/8/72
Mauritius	rupee		(Initial par value)	0.159961	5.55555	5/24/72
Mexico	peso	0.0710937	12.5000	0.0654810	13.5714	5/10/72
Nepal	rupee	0.0877700	10.1250	0.0808408	10.9929	5/13/72
Nicaragua	córdoba	0.126953	7.00000	0.116930	7.60003	5/8/72
Pakistan	rupee	0.186621	4.76190	0.0744103	11.9428	5/11/72
Somalia	shilling	0.124414	7.14286	0.118193	7.51881	6/1/72
South Africa	rand	1.09135	0.814286	1.04550	0.849996	10/24/72
Swaziland	South African rand	1.09135	0.814286	1.04550	0.849996	10/24/72
Tanzania	shilling	0.114592	7.75509	0.103133	8.61675	2/19/73
Thailand	baht	0.0427245	20.8000	0.0393516	22.5828	5/8/72
		0.0393516	22.5828	0.0354164	25.0921	4/10/73
Uganda	shilling	0.114592	7.75509	0.103133	8.61675	2/23/73
United States	dollar	0.888671	1.00000	0.818513	1.08571	5/8/72
Yugoslavia	dinar	0.0481478	18.4571	0.0433330 ¹	20.5080	2/23/73
Separate Currencies of Nonmetropolitan Areas						
United Kingdom	dollar	0.843828	1.05314	0.736662	1.20635	2/15/73
Bahamas	dollar	0.888671	1.00000	0.818513	1.08571	7/31/72
Bermuda		0.818513	1.08571	0.736662	1.20635	2/13/73
British Solomon Islands Protectorate, Gilbert and Ellice Islands Colony, and New Hebrides	Australian dollar	0.995310	0.892857	1.04360	0.851544	12/22/72
Cayman Islands	dollar		(new monetary unit)	1.06641	0.833333	5/1/72
Turks and Caicos Islands	Jamaica dollar	1.06641	0.833333	0.900364	0.987013	1/17/73

¹ This was a central rate, February 14-22, 1973.

TABLE I.3. CENTRAL RATES ESTABLISHED OR CHANGED IN ACCORDANCE WITH
EXECUTIVE BOARD DECISION NO. 3463-(71/126), FISCAL YEAR ENDED APRIL 30, 1973

Member	Currency	From		To		Date
		Grams of gold per unit	Units per SDR	Grams of gold per unit	Units per SDR	
Bolivia	peso	0.0409256 ¹	21.7143	0.0368331	24.1270	2/13/73
China, Rep. of	new Taiwan dollar	0.0204628 ¹	43.4286	0.0193858	45.8413	2/16/73
Dominican Republic	peso	0.818513 ¹	1.08571	0.736662	1.20635	2/16/73
Ecuador	sucre	0.0355468 ¹	25.0000	0.0294665	30.1587	2/26/73
Finland	markka	0.199637 ²	4.45143	0.188888	4.70475	2/15/73
Germany, Fed. Rep. of	deutsche mark	0.253999 ²	3.49872	0.261615	3.39687	3/19/73
Greece	drachma	0.0272838 ¹	32.5714	0.0245554	36.1905	2/14/73
Haiti	gourde	0.163703 ¹	5.42856	0.147332	6.03176	2/20/73
Iceland	króna	0.00830471 ¹	107.008	0.00747424	118.898	2/15/73
		0.00747424 ²	118.898	0.00792269	112.168	4/30/73
Israel	pound	0.194884 ¹	4.56000	0.175396	5.06665	2/17/73
Jamaica	dollar	0.900364 ¹	0.987013	0.810328	1.09668	2/20/73
Nepal	rupee	0.0808408 ¹	10.9929	0.0697597	12.7390	2/20/73
Netherlands						
Netherlands Antilles	guilder	0.471230 ²	1.88585	0.411543	2.15936	2/15/73
Surinam	guilder	0.457587 ¹	1.94208	0.411828	2.15787	2/19/73
Nigeria	naira	1.24414 ^{1,3}	0.714286	1.11973	0.793648	3/9/73
Panama	balboa	0.818513 ²	1.08571	0.736662	1.20635	2/23/73
Portugal	escudo	0.0300372 ²	29.5857	0.0288887	30.7619	2/14/73
Sweden	krona	0.170066 ²	5.22545	0.161549	5.50094	2/15/73
Turkey	lira	0.0584652 ²	15.2000	0.0526187	16.8889	2/16/73
Zaïre	zaïre	1.63703 ²	0.542856	1.47332	0.603176	2/14/73
Separate Currencies of Nonmetropolitan Areas						
United Kingdom						
Hong Kong	dollar	0.146631 ¹	6.06061	0.144869	6.13431	7/6/72
Turks and Caicos Islands	Jamaica dollar	0.900364 ¹	0.987013	0.810328	1.09668	2/20/73

¹ Par value.

² Central rate.

³ The initial par value of the Nigerian pound was established in April 1963 and remained unchanged. A new currency unit, the naira, was introduced on January 1, 1973 on the basis of 1 Nigerian pound equals 2 naira, and the figure shown has been adjusted.

Appendix I (*continued*). THE FUND IN 1972/73

TABLE I.4. TRANSFERS OF SPECIAL DRAWING RIGHTS,
JANUARY 1, 1970-APRIL 30, 1973

(In millions of SDRs)

	Fiscal Years				Total
	Jan. 1, 1970- Apr. 30, 1970	May 1, 1970- Apr. 30, 1971	May 1, 1971- Apr. 30, 1972	May 1, 1972- Apr. 30, 1973	
Transfers between participants					
Transactions with designation	155	348	267	117	886
Transactions without designation	20	286	380	303	989
	175	633	647	420	1,875
General Account					
Transfers from participants					
Repurchases (net)	183	357	501	68	1,109
Charges (net)	29	66	30	30	155
Assessments	1	1	1	1	4
Interest received on General Account holdings	—	4	7	10	22
	213	429	540	108	1,290
Transfers to participants					
Purchases	—	—	—	292	292
Replenishment of participants' currencies	—	123	21	—	145
Reconstitution	—	—	46	107	154
Remuneration	—	18	15	2	35
Restoration of participants' holdings ¹	—	—	29	—	29
Distribution of net income	—	9	8	—	17
Other ²	—	1	—	—	1
	—	151	120	401	673
Total transfers	388	1,213	1,307	929	3,837
General Account holdings at end of period	213	490	910	617	617

¹ Under Article XXV, Sections 2(b)(ii) and 7(e).

² Under Article XXVI, Section 5.

TABLE I.5. SUMMARY OF TRANSACTIONS AND OPERATIONS IN SPECIAL DRAWING RIGHTS,
FISCAL YEAR ENDED APRIL 30, 1973

(In thousands of SDRs)

Holders Participants	Total Holdings on May 1, 1972	Transactions and Operations						Positions at April 30, 1973			
		Between participants			Between participants and the General Account		Interest, Charges, and Assess- ment(Net)	Total holdings	Net cumulative allocations	Holdings as per cent of net cumulative allocations	
		Received	Received	Used ¹	Used	Received					
Afghanistan	4,476		3,000		347	-151	977	12,753	7.7		
Algeria	41,827					+20	41,847	40,290	103.9		
Argentina	29,063		30,000	57,334	2,201	-1,778	52,418	152,520	34.4		
Australia	234,606					+117	234,724	225,645	104.0		
Austria	85,762					+129	85,891	76,745	111.9		
Bangladesh					313	313					
Barbados	2,768						2,768	2,769	100.0		
Belgium	477,981		45,131				527,589	209,346	252.0		
Bolivia	5,216				1,206	5,357	+4,477	920	12,753	7.2	
Botswana	1,569						-146	1,568	1,569	100.0	
Brazil	157,031							157,087	152,520	103.0	
Burma	6,066					625	-228	5,213	20,844	25.0	
Burundi	3,728					83	-44	3,601	6,567	54.8	
Cameroon	10,510						-1	10,509	10,513	100.0	
Canada	465,304						+1,573	466,878	358,620	130.2	
Central African Republic	1,346					140	-46	1,159	4,365	26.6	
Chad	1,320					720	-49	550	4,449	12.4	
Chile	55,027			54,914	2,000	311	-710	1,093	54,654	2.0	
Colombia	20,085				3,047	5,285	-566	17,280	54,441	31.7	
Congo, People's Republic of the	2,669					93	-28	2,549	4,449	57.3	
Costa Rica	3,989						-106	3,883	11,016	35.3	
Cyprus	10,426						+22	10,448	8,898	117.4	
Dahomey	4,448							4,447	4,449	100.0	
Denmark	72,179						-165	72,014	82,764	87.0	
Dominican Republic	289					6,859	231	-136	6,782	14,535	46.7
Ecuador	6,714						1,035	-69	5,610	11,229	50.0
Egypt	22,430		8,800			11,345	-749	1,536	65,244	2.4	
El Salvador	3,705				351	209	-119	3,728	11,655	32.0	
Equatorial Guinea	2,711			843			-8	1,860	2,712	68.6	
Fiji	1,378							1,378	1,378	100.0	
Finland	67,205				248		+85	67,538	61,470	109.9	
France	527,368		53,253				+1,199	581,820	484,980	120.0	
Gabon	4,758					31	-1	4,726	4,791	98.6	
Gambia, The	2,254					76	-2	2,177	2,331	93.4	
Germany, Federal Republic of	636,250		186,137				+3,463	825,850	542,400	152.3	

TABLE I.5 (concluded). SUMMARY OF TRANSACTIONS AND OPERATIONS IN SPECIAL DRAWING RIGHTS,
FISCAL YEAR ENDED APRIL 30, 1973

(In thousands of SDRs)

Holders Participants	Total Holdings on May 1, 1972	Transactions and Operations						Positions at April 30, 1973		
		Between participants			Between participants and the General Account		Interest, Charges, and Assess- ment (net)	Total holdings	Net cumulative allocations	Holdings as per cent of net cumulative allocations
		Received Through designation	Other	Used ¹	Received	Used				
Ghana	9,999						-304	9,695	30,123	32.2
Greece	23,720	1,843					-327	25,236	46,194	54.6
Guatemala	11,623				3,886	3,998	-27	11,484	11,868	96.8
Guinea	2,551				395	90	-83	2,773	8,304	33.4
Guyana	4,241					146	-40	4,056	6,780	59.8
Haiti	3,057						-53	3,004	6,567	45.7
Honduras	5,453						-47	5,407	8,517	63.5
Iceland	6,362						-16	6,344	7,419	85.5
India	246,478						-1,221	245,257	326,220	75.2
Indonesia	34,441				6,304	4,800	-830	35,116	90,156	38.9
Iran	20,896	13,500					-455	33,941	61,896	54.8
Iraq	23,213						-2	23,211	23,217	100.0
Ireland	39,226				64		-2	39,288	39,213	100.2
Israel	30,470	500				2,879	-200	27,891	42,810	65.2
Italy	340,105				1,384		+328	341,816	318,000	107.5
Ivory Coast	15,282						+14	15,297	14,268	107.2
Jamaica	18,399		11,500				-81	6,819	17,673	38.6
Japan	424,460						+678	425,138	377,400	112.6
Jordan	7,563						14	-1	7,547	7,587
Kenya	17,074						+21	17,096	15,600	109.6
Khmer Republic	4,285						110	-65	4,111	8,517
Korea	26,088						38	+56	26,106	22,230
Laos	1,341						-47	1,295	4,449	29.1
Lesotho	958						95	-10	853	1,569
Liberia	2,048				2,794	1,425	-116	3,301	9,537	34.6
Luxembourg	7,343						-1	7,342	7,345	100.0
Malagasy Republic	8,727						-1	8,727	8,730	100.0
Malawi	4,843						240	-6	4,597	5,085
Malaysia	63,087				10		+33	63,129	60,618	104.1
Mali	2,440				93	112	-77	2,344	7,542	31.1
Malta	5,087							5,087	5,088	100.0
Mauritania	2,285						125	-34	2,127	4,449
Mauritius	7,312						-1	7,311	7,374	99.1
Mexico	127,577						142	+44	127,762	124,170
Morocco	14,049	2,500					-360	16,189	39,189	41.3

Nepal	2,214							2,214	2,215	100.0
Netherlands	649,803		11,518	11,692			+6,225	655,855	236,460	277.4
New Zealand	52,809	5,500			1		-184	58,126	69,402	83.8
Nicaragua	6,418					260	-41	6,117	8,943	68.4
Niger	4,437					11	-1	4,425	4,449	99.5
Nigeria	45,541						3,083	-4	42,453	45,555
Norway	80,399		7,448				+139	87,986	76,320	115.3
Oman	742							742	742	100.0
Pakistan	37,083				210	18,980	-804	17,509	81,639	21.4
Panama	2,750					23	-146	2,582	12,372	20.9
Paraguay	6,566						-1	6,566	6,567	100.0
Peru	41,431						439	+5	40,997	40,479
Philippines	15,898				6,023	869	-469	20,583	51,495	40.0
Rwanda	1,394			1,000			-89	306	6,567	4.7
Senegal	6,011						300	-84	5,626	11,442
Sierra Leone	5,743						-32	5,711	7,845	72.8
Somalia	4,607					46	-30	4,531	6,567	69.0
South Africa	33,712	4,500			7		-796	37,423	88,920	42.1
Spain	128,629				65		+29	128,722	126,135	102.1
Sri Lanka	13,656				1,470	1,440	-314	13,372	33,978	39.4
Sudan	703				6,694	703	-336	6,358	24,912	25.5
Swaziland	836				180	86	-29	902	2,712	33.2
Sweden	107,047						-8	107,039	107,025	100.0
Syrian Arab Republic	6,664					2,849	-189	3,627	17,034	21.3
Tanzania	6,717						-115	6,602	14,322	46.1
Thailand	28,537						-2	28,535	28,542	100.0
Togo	5,083							5,083	5,085	100.0
Trinidad and Tobago	13,790		6,500				-159	7,132	20,811	34.3
Tunisia	7,952					232	-104	7,617	14,713	51.8
Turkey	38,172	500				402	-187	38,082	50,307	75.7
Uganda	13,826					200	-4	13,623	13,896	98.0
United Kingdom	524,887	87,714		291,795	291,795	5,781	-6,451	600,369	1,006,320	59.7
United States	1,803,068				15		-7,536	1,795,547	2,293,980	78.3
Upper Volta	4,429						-1	4,429	4,449	99.5
Uruguay	95				12,181	11,147	-269	860	23,937	3.6
Venezuela	118,098						+79	118,176	112,290	105.2
Viet-Nam	19,752						-2	19,751	19,758	100.0
Western Samoa	212							212	212	100.0
Yemen Arab Republic	2,130							2,129	2,130	100.0
Yemen, People's Dem. Rep. of	7,826						-31	7,795	9,873	79.0
Yugoslavia	12,757				38	11,833	-925	37	69,291	0.1
Zaïre	7,497				1	141	-480	6,876	39,189	17.5
Zambia	412				392	429	-367	8	24,588	—
Total Participants	8,404,875	116,557	303,487	420,043	405,501	101,729	-10,902	8,697,746	9,314,835	93.4
General Account	909,960				101,729	405,501	+10,902	617,090	—	
Total	9,314,835							—	9,314,835	9,314,835

¹ With the exception of the amounts for the Netherlands and the United Kingdom, the uses shown in this column were made in transactions to acquire currency through designation. The transfers by the Netherlands and the United Kingdom are discussed in Chapter 3.

Appendix I (*continued*). THE FUND IN 1972/73

TABLE I.6. CURRENCIES TRANSFERRED FOR SPECIAL DRAWING RIGHTS,
JANUARY 1, 1970-APRIL 30, 1973
(*In millions of SDRs*)

	Fiscal Years				Total
	Jan. 1, 1970- Apr. 30, 1970	May 1, 1970- Apr. 30, 1971	May 1, 1971- Apr. 30, 1972	May 1, 1972- Apr. 30, 1973	
Transactions with designation					
Belgian francs					
Provided directly to participants	1.0	—	—	—	1.0
French francs					
Provided directly to participants	—	3.5	22.3	—	25.8
Converted to pounds sterling	—	8.0	—	—	8.0
Converted to U. S. dollars	—	14.0	21.0	—	35.0
—	—	25.5	43.3	—	68.8
Italian lire					
Provided directly to participants	—	4.0	—	—	4.0
Pounds sterling					
Provided directly to participants	—	27.4	56.3	59.9	143.6
Converted to French francs	—	6.7	1.3	—	8.0
Converted to U. S. dollars	—	45.8	53.4	5.4	104.6
—	—	79.9	111.0	65.3	256.2
U. S. dollars					
Provided directly to participants	148.9	227.1	112.5	51.2	539.7
Converted to French francs	5.1	3.6	—	—	8.7
Converted to pounds sterling	—	7.5	—	—	7.5
—	154.0	238.2	112.5	51.2	555.9
Total	155.0	347.6	266.8	116.6	886.0
Transactions without designation					
Netherlands guilders	—	—	—	11.7	11.7
Pounds sterling	20.0	—	25.0	291.8	336.8
U. S. dollars	—	285.5	355.0	—	640.5
Total	20.0	285.5	380.0	303.5	989.0

Appendix I (*continued*). THE FUND IN 1972/73

TABLE I.7. TRANSFER OF SPECIAL DRAWING RIGHTS BY THE GENERAL ACCOUNT,
FISCAL YEAR ENDED APRIL 30, 1973
(In thousands of SDRs)

Participant	Reconstitution	Payment of Remuneration	Purchases
Argentina	57,289	45	—
Bangladesh	—	—	313
Bolivia	1,206	—	—
Chile	2,000	—	—
Colombia	3,047	—	—
Dominican Republic	6,859	—	—
El Salvador	351	—	—
Finland	—	248	—
Guinea	395	—	—
Indonesia	6,302	—	—
Ireland	—	64	—
Italy	—	1,384	—
Liberia	2,790	—	—
Malaysia	—	10	—
Mali	93	—	—
Mexico	—	142	—
New Zealand	—	1	—
Philippines	6,023	—	—
South Africa	—	7	—
Spain	—	65	—
Sri Lanka	1,470	—	—
Sudan	6,650	—	—
Swaziland	180	—	—
United Kingdom	—	—	291,795
United States	—	15	—
Uruguay	12,181	—	—
Zaïre	—	1	—
Zambia	392	—	—
Total	107,229	1,982 ¹	292,107

¹ Includes amounts of less than SDR 500 each paid to an additional nine participants.

Appendix I (*continued*). THE FUND IN 1972/73

TABLE I.8. PURCHASES OF CURRENCIES AND SPECIAL DRAWING RIGHTS FROM THE FUND,
FISCAL YEAR ENDED APRIL 30, 1973
(In millions of SDRs)

Member Purchasing	Within Credit Tranches			Under Decision on Compensatory Financing	Under Decision on Buffer Stock Financing	Total Purchases		
	Within Gold Tranche	Under stand-by arrangements	Other ¹			Currencies	Special drawing rights ²	Total
Argentina	—	—	110.00	—	—	90.00	20.00 ³	110.00
Bangladesh	—	—	—	62.50 ⁴	—	62.19	0.31	62.50
Bolivia	0.12	18.05	—	—	2.79	19.75	1.21 ⁵	20.96
Burma	—	13.50	—	—	—	13.50	—	13.50
Chile	1.50	—	—	39.50	—	39.00	2.00 ⁶	41.00
Ecuador	0.65	14.50	—	—	—	15.15	—	15.15
El Salvador	—	8.75	—	—	—	8.75	—	8.75
Equatorial Guinea	1.00 ⁴	—	—	—	—	1.00	—	1.00
Indonesia	—	—	—	—	1.77	1.77	—	1.77
Jamaica	13.25	—	—	—	—	13.25	—	13.25
Jordan	—	—	—	2.85	—	2.85	—	2.85
Khmer Republic	—	—	—	6.25	—	6.25	—	6.25
Liberia	1.31	1.48	—	—	—	—	2.79 ⁵	2.79
Nigeria	—	—	—	—	0.74 ⁶	0.74	—	0.74
Pakistan	—	84.00	—	—	—	84.00	—	84.00
Peru	30.75	—	—	30.75	—	61.50	—	61.50
Philippines	—	35.00	—	—	—	35.00	—	35.00
Rwanda	2.07	—	—	—	—	2.07	—	2.07
Sudan	—	17.50	—	—	—	13.00	4.50 ³	17.50
Swaziland	0.18	—	—	—	—	—	0.18 ⁶	0.18
Trinidad and Tobago	6.58	—	—	—	—	6.58	—	6.58
United Kingdom	583.59	—	—	—	—	291.79	291.79	583.59
Uruguay	—	5.00	—	17.25	—	17.25	5.00 ³	22.25
Yugoslavia	—	15.00	—	—	—	15.00	—	15.00
Zaïre	—	—	—	28.25	—	28.25	—	28.25
Zambia	—	—	—	19.00	—	19.00	—	19.00
Total	641.00	212.78	110.00	206.35	5.30	847.64	327.78	1,175.43

¹ In accordance with Executive Board Decision No. 102-(52/11), adopted February 13, 1952. (See *Selected Decisions of the International Monetary Fund and Selected Documents* (Sixth Issue, Washington, 1972), pp. 22-25.)

² In accordance with Article XXV, Section 7(f), of the Articles of Agreement.

³ In accordance with Executive Board Decision No. 3457-(71/121) G/S, adopted December 3, 1971, to promote reconstitution under Article XXV, Section 6(a), and Schedule G, paragraph 1(a), of the Articles of Agreement. (See *Selected Decisions*, p. 127.)

⁴ Transaction prior to the establishment of an initial par value in accordance with Executive Board Decision No. 1687-(64/22), adopted April 22, 1964. (See *Selected Decisions*, p. 56.)

⁵ In accordance with Executive Board Decision No. 3457-(71/121) G/S, as amended by Executive Board Decision No. 3829-(72/144) S, adopted December 15, 1972 and reproduced in Appendix II.

⁶ Gold tranche purchase to be regarded as a purchase made under paragraph 1 of the Decision on the Problem of Stabilization of Prices of Primary Products. (See *Selected Decisions*, pp. 47-48.)

Appendix I (*continued*). THE FUND IN 1972/73

TABLE I.9. FUND STAND-BY ARRANGEMENTS FOR MEMBERS, FISCAL YEAR ENDED APRIL 30, 1973
(*In millions of SDRs*)

Member	Total Number of Stand-Bys Approved for Member	Date of Inception	Date of Expiration	Amount Approved 1971/72	Amount Not Purchased at Expiration	Amount Approved 1972/73	Amount Not Purchased April 30, 1973
Bolivia	12	Jan. 17, 1973	Jan. 16, 1974			27.30	9.25
Brazil	10	Mar. 3, 1972	Mar. 2, 1973	50.00	50.00		
Burma	2	Feb. 2, 1973	Feb. 1, 1974			13.50	—
Colombia	14	May 1, 1972	Apr. 30, 1973			40.00	40.00
Ecuador	9	July 3, 1972	July 2, 1973			16.50	2.00
El Salvador	11	Sep. 8, 1972	Sep. 7, 1973			8.75	—
Guatemala	8	Mar. 29, 1972	Mar. 28, 1973	9.00	9.00		
Guyana	6	May 3, 1971	May 2, 1972	4.00	1.81		
		May 15, 1972	May 14, 1973			2.80	2.80
Haiti	12	June 29, 1971	June 28, 1972	3.00	3.00		
		July 6, 1972	July 5, 1973			4.00	4.00
Honduras	12	June 1, 1971	May 31, 1972	15.00	15.00		
		June 7, 1972	June 6, 1973			15.00	15.00
Indonesia	7	Apr. 17, 1972	Apr. 16, 1973	50.00	50.00		
Korea	9	Jan. 1, 1972	Dec. 31, 1972	30.00	30.00		
		Apr. 2, 1973	Dec. 31, 1973			20.00	20.00
Liberia	9	Mar. 1, 1972	Feb. 28, 1973	4.00	2.52		
Mali	5	July 29, 1971	July 28, 1972	4.50	—		
Nicaragua	10	Feb. 9, 1972	Feb. 8, 1973	10.75	6.75		
Pakistan	4	May 18, 1972	May 17, 1973			100.00	16.00
Panama	6	June 22, 1972	June 21, 1973			9.00	9.00
Philippines	10	May 11, 1972	May 10, 1973			45.00	10.00
Sudan	4	Mar. 29, 1972	Mar. 28, 1973	40.00	7.50		
Uganda	1	July 22, 1971	July 21, 1972	10.00	—		
Uruguay	6	June 27, 1972	June 26, 1973			20.00	15.00
Yugoslavia	5	July 30, 1971	July 29, 1972	83.50	—		
Total				313.75	175.58	321.85	143.05

Appendix I (*continued*). THE FUND IN 1972/73

TABLE I.10. SUMMARY OF STAND-BY ARRANGEMENTS THAT
BECAME EFFECTIVE DURING THE FISCAL YEARS ENDED
APRIL 30, 1953-73¹

(*In millions of SDRs*)

	Number	Amount
1953	2	55.00
1954	2	62.50
1955	2	40.00
1956	2	47.50
1957	9	1,162.28
1958	11	1,043.78
1959	15	1,056.63
1960	14	363.88
1961	15	459.88
1962	24	1,633.13
1963	19	1,531.10
1964	19	2,159.85
1965	24	2,159.05
1966	24	575.35
1967	25	591.15
1968	32	2,352.36
1969	26	541.15
1970	23	2,381.28
1971	18	501.70
1972	13	313.75
1973	13	321.85
Total	332	19,353.17

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

Appendix I (*continued*). THE FUND IN 1972/73

TABLE I.11. PURCHASES AND REPURCHASES UNDER THE DECISION ON
COMPENSATORY FINANCING OF EXPORT FLUCTUATIONS,
FEBRUARY 27, 1963-APRIL 30, 1973¹
(In millions of SDRs)

Member	Date	Purchases		Related Repurchases		Outstanding Balance April 30, 1973
		Amount	Total	Under paragraph (7) of amended decision		
Afghanistan	June 5, 1968	4.80	4.80	—	—	—
Argentina	Mar. 3, 1972	64.00	—	—	—	64.00
Bangladesh	Dec. 15, 1972	62.50	—	—	—	62.50
Brazil	June 7, 1963	60.00 ²	60.00	—	—	—
Burma	Nov. 21, 1967	7.50	7.50	—	—	—
Burundi	Sept. 21, 1971	6.50	—	—	—	6.50
Chile	June 9, 1970	2.50	2.50	0.80	—	—
Colombia	Dec. 14, 1971	39.50	—	—	—	39.50
Colombia	Dec. 22, 1972	39.50	—	—	—	39.50
Dominican Republic	Mar. 22, 1967	18.90	18.90	7.70	—	—
Ecuador	Apr. 19, 1968 ³	0.95 ³	0.95	0.95	—	—
Egypt	Apr. 19, 1968 ³	0.95 ³	0.95	0.95	—	—
El Salvador	Dec. 6, 1966	6.60	6.60	3.30	—	—
Ghana	Oct. 15, 1969 ³	3.50 ³	3.50	—	—	—
Guatemala	Oct. 15, 1969 ³	2.75 ³	2.75	—	—	—
Haiti	Oct. 15, 1963	16.00 ²	16.00	—	—	—
Haiti	Mar. 18, 1968	23.00	23.00	—	—	—
India	Dec. 16, 1969	6.25	6.25	4.30	—	—
Iraq	Dec. 20, 1966	17.25	17.25	0.75	—	—
Jordan	Feb. 5, 1968 ³	3.00 ³	3.00	1.60	—	—
Jordan	Feb. 5, 1968 ³	3.25 ³	3.25	—	—	—
Khmer Republic	Aug. 11, 1967	1.30	1.30	0.12	—	—
Khmer Republic	Dec. 6, 1967	1.00	1.00	0.20	—	—
Iceland	Nov. 10, 1967	3.75	3.75	3.75	—	—
Iceland	Nov. 26, 1968	3.75	3.75	3.75	—	—
India	Dec. 28, 1967	90.00	90.00	80.00	—	—
Iraq	Nov. 8, 1967 ³	17.50 ³	17.50	—	—	—
Jordan	Nov. 15, 1971	4.50	—	—	—	4.50
Jordan	Jan. 3, 1973	2.85	—	—	—	2.85
New Zealand	Mar. 14, 1972	6.25	—	—	—	6.25
New Zealand	Apr. 18, 1973	6.25	—	—	—	6.25
Peru	May 10, 1967	29.20	29.20	—	—	—
Sri Lanka	June 20, 1972	30.75	—	—	—	30.75
Sri Lanka	Mar. 21, 1967	19.50	19.50	—	—	—
Sri Lanka	Apr. 17, 1968	19.30	19.30	—	—	—
Sudan	Jan. 24, 1972 ³	4.70 ³	—	—	—	4.70
Sudan	Jan. 26, 1972	14.75	—	—	—	14.75
Syrian Arab Republic	June 1, 1965	11.25 ²	11.25	—	—	—
Syrian Arab Republic	Sept. 18, 1967	9.50	9.50	—	—	—
Uruguay	Jan. 25, 1972	12.50	—	—	—	12.50
Zaire	Feb. 7, 1968	9.50	9.50	5.00	—	—
Zambia	May 17, 1972	17.25	—	—	—	17.25
Zambia	July 5, 1972	28.25	—	—	—	28.25
Zambia	Dec. 14, 1971	19.00	—	—	—	19.00
Zambia	Aug. 7, 1972	16.00	—	—	—	16.00
Zambia	Aug. 8, 1972	3.00	—	—	—	3.00
		770.80	392.75	113.17	—	378.05

¹ All items are under the decision as amended by Executive Board Decision No. 2192-(66/81), adopted September 20, 1966, except where noted.

² Under Executive Board Decision No. 1477-(63/8), adopted February 27, 1963.

³ Date and amount of reclassification of previous purchases.

Appendix I (continued). THE FUND IN 1972/73

TABLE I.12. REPURCHASES OF CURRENCIES FROM THE FUND, FISCAL YEAR ENDED APRIL 30, 1973
(In millions of SDRs)

Member Repurchasing	Repurchases in Respect of					
	Purchases under stand-by arrangements	Schedules approved by Fund	Article V, Section 7(b)	Voluntary Repurchases	Other Repurchases	Total
Afghanistan	—	4.0	—	—	—	4.0
Bolivia	—	10.0	—	—	—	10.0
Burma	—	10.0	—	—	—	10.0
Burundi	—	—	—	2.0	0.1	2.1
Central African Republic	—	—	—	—	0.1	0.1
Chad	—	0.5	—	—	0.1	0.6
Chile	— ¹	—	1.5 ²	—	—	1.5
Colombia	47.0	—	—	—	—	47.0
Congo, People's Rep. of the	—	—	—	—	0.1	0.1
Dominican Republic	—	2.0	—	—	—	2.0
Ecuador	14.5	—	6.2 ²	—	0.7	21.3
Egypt	—	36.0	—	—	0.2	36.2
El Salvador	6.2	—	—	—	2.0	8.2
Gabon	—	—	—	—	— ¹	— ¹
Gambia, The	—	—	—	—	0.1	0.1
Ghana	—	12.0	—	—	0.7	12.7
Guatemala	—	—	6.0	—	—	6.0
Guinea	—	0.7	—	—	—	0.7
Guyana	0.7	—	—	1.8	0.1	2.6
Haiti	—	0.9	—	—	0.2	1.1
Iceland	—	—	— ¹	—	—	— ¹
Indonesia	—	37.0	—	—	1.0	38.0
Iran	—	—	34.7	—	—	34.7
Iraq	—	—	17.2 ³	—	—	17.2
Israel	—	—	65.0	—	—	65.0
Lesotho	—	—	—	—	0.1	0.1
Liberia	1.4	—	—	—	0.4	1.8
Malawi	—	—	—	0.2	—	0.2
Mali	—	0.5	—	—	0.2	0.7
Mauritania	—	—	—	—	0.1	0.1
Morocco	18.2	—	—	—	—	18.2
Nicaragua	—	—	6.8 ²	—	—	6.8
Niger	—	—	—	—	— ¹	— ¹
Nigeria	—	3.1	—	—	—	3.1
Pakistan	—	25.0	—	—	0.9	25.9
Peru	—	—	25.9 ²	—	—	25.9
Philippines	—	31.0	—	—	—	31.0
Senegal	—	—	—	—	0.3	0.3
Somalia	—	—	—	—	— ¹	— ¹
Sri Lanka	—	27.8	—	—	1.0	28.8
Sudan	—	15.0	—	—	0.6	15.6
Swaziland	—	—	—	—	0.1	0.1
Syrian Arab Republic	—	4.8	—	—	—	4.8
Thailand	—	—	—	2.1	—	2.1
Tunisia	—	—	14.6 ²	—	—	14.6
Upper Volta	—	—	0.6	—	—	0.6
Uruguay	7.3	5.7	—	—	9.4	22.4
Yemen Arab Republic	—	—	1.0	—	—	1.0
Yugoslavia	—	5.0	—	4.7	5.3	15.0
Total	95.4	230.9	179.4²	10.9	23.8	540.3

¹ Less than SDR 50,000.

² Total includes SDR 2.4 million and SDR 50.5 million relating to Article V, Section 7(b), repurchase obligations incurred as of April 30, 1970 and April 30, 1971, respectively, as follows: 1970—SDR 1.5 million by Chile and SDR 0.9 million by Nicaragua; 1971—SDR 6.1 million by Ecuador, SDR 4.1 million by Iraq, SDR 5.9 million by Nicaragua, SDR 25.9 million by Peru, and SDR 8.5 million by Tunisia.

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

Burma	2.5	Haiti	0.4
Burundi	2.0	Sri Lanka	17.3
Egypt	23.0	Syrian Arab Republic	2.4
El Salvador	2.0	Uruguay	2.3
		Total	51.8

Appendix I (*continued*). THE FUND IN 1972/73

TABLE I.13. TOTAL REPURCHASE OBLIGATIONS INCURRED IN ACCORDANCE WITH ARTICLE V, SECTION 7(b), AND AMOUNTS PAYABLE FORTHWITH BY MEMBERS, AS OF APRIL 30, 1972
(In thousands of SDRs)

Member	Total Repurchase Obligation Incurred				Amount Payable Forthwith			
	Gold	Special drawing rights	Convertible currencies	Total	Gold	Special drawing rights	Convertible currencies	Total
Guatemala	—	112	5,865	5,977	—	112	5,865	5,977
Iceland	—	2	6	8	—	2	6	8
Iran	—	—	34,743	34,743	—	—	34,743	34,743
Iraq	10	—	19,995	20,005	10	—	19,995	20,005 ¹
Israel ²	2	2,244	62,727	64,973	1	1,123	31,376	32,500
Nicaragua	—	84	6,950	7,034	—	—	—	— ³
Tunisia	13	199	5,877	6,089	13	199	5,877	6,089
Upper Volta	—	—	600	600	—	—	600	600
Yemen Arab Republic	—	—	998	998	—	—	998	998
Total ⁴	25	2,641	137,761	140,427	24	1,436	99,460	100,920

¹ Member discharged the equivalent of SDR 13,138,000 with convertible currencies; payment of balance equivalent to SDR 6,867,000 postponed to not later than August 25, 1973.

² Member discharged the equivalent of SDR 32.5 million of its repurchase obligation, which was payable forthwith in accordance with paragraph 2(c) of Executive Board Decision No. 3049-(70/44). (See *Selected Decisions of the International Monetary Fund and Selected Documents* (Sixth Issue, Washington, 1972), pp. 64-66.) Due to the limitation of Article V, Section 7(c)(iv), the balance of the repurchase obligation incurred as of April 30, 1972 was payable at the end of the subsequent financial year or years. However, member discharged the balance of the obligation on April 9, 1973.

³ Member discharged the balance of its repurchase obligation incurred as of April 30, 1970 and a portion of its repurchase obligation incurred as of April 30, 1971, totaling the equivalent of SDR 6,750,000, which was payable as of April 30, 1972. Due to the limitation of Article V, Section 7(c)(iv), the repurchase obligation incurred as of April 30, 1972 and the balance of the April 30, 1971 obligation will be payable at the end of the subsequent financial year or years.

⁴ Not including the amount for one member that has disagreed with the calculation.

Appendix I (*continued*). THE FUND IN 1972/73

TABLE I.14. CURRENCIES AND SPECIAL DRAWING RIGHTS OBTAINED FROM THE FUND BY MEMBERS IN PURCHASES FOR THEIR OWN CURRENCIES; CURRENCIES, GOLD, AND SPECIAL DRAWING RIGHTS USED BY MEMBERS IN REPURCHASES,
FISCAL YEAR ENDED APRIL 30, 1973

(In millions of SDRs)

Medium	Currencies and SDRs Obtained by Members			Currencies, Gold, and SDRs Used by Members in Repurchases		
	Purchases			Under Article V, Section 7(b)	Other	Total
	United Kingdom	Other countries	Total			
SDRs	291.8	36.0	327.8	3.0 ¹	64.8	67.8
Gold	—	—	—	2.8 ¹	—	2.8
Australian dollars	—	0.6	0.6	—	0.6	0.6
Austrian schillings	—	14.0	14.0	0.2	9.1	9.3
Belgian francs	33.4	11.0	44.4	0.7	47.7	48.4
Canadian dollars	—	55.2	55.2	12.0 ¹	38.7	50.6
Danish kroner	—	—	—	— ²	—	— ²
Deutsche mark	186.1	169.3	355.5	101.9 ¹	64.1	166.1
French francs	53.3	53.6	106.8	33.6 ¹	30.2	63.8
Irish pounds	—	8.0	8.0	—	—	—
Italian lire	—	45.6	45.6	13.3 ¹	18.2	31.5
Japanese yen	—	162.3	162.3	10.7 ¹	40.1	50.8
Mexican pesos	—	—	—	— ²	—	— ²
Netherlands guilders	11.5	10.5	22.0	1.1 ¹	30.6	31.7
Norwegian kroner	7.4	6.0	13.4	0.1 ¹	4.8	4.8
Pounds sterling	—	10.0	10.0	—	10.0	10.0
Saudi Arabian riyals	—	—	—	— ²	—	— ²
Swedish kronor	—	9.8	9.8	0.1	2.0	2.1
Total	583.6	591.9	1,175.4	179.4 ¹	360.9	540.3

¹ Total includes SDR 2.4 million and SDR 50.5 million relating to Article V, Section 7(b), repurchase obligations incurred as of April 30, 1970 and April 30, 1971, respectively, as follows: 1970—SDR 0.3 million in deutsche mark, SDR 0.9 million in French francs, and SDR 1.2 million in Japanese yen; 1971—SDR 0.4 million in SDRs, SDR 2.8 million in gold, SDR 4.7 million in Canadian dollars, SDR 21.9 million in deutsche mark, SDR 6.0 million in French francs, SDR 5.1 million in Italian lire, SDR 9.3 million in Japanese yen, SDR 0.1 million in Netherlands guilders, and SDR 0.1 million in Norwegian kroner.

² Less than SDR 50,000.

Appendix I (*continued*). THE FUND IN 1972/73

TABLE I.15. SUMMARY OF MEMBERS' PURCHASES AND
REPURCHASES, YEARS ENDED APRIL 30, 1948-73

(*In millions of SDRs*)

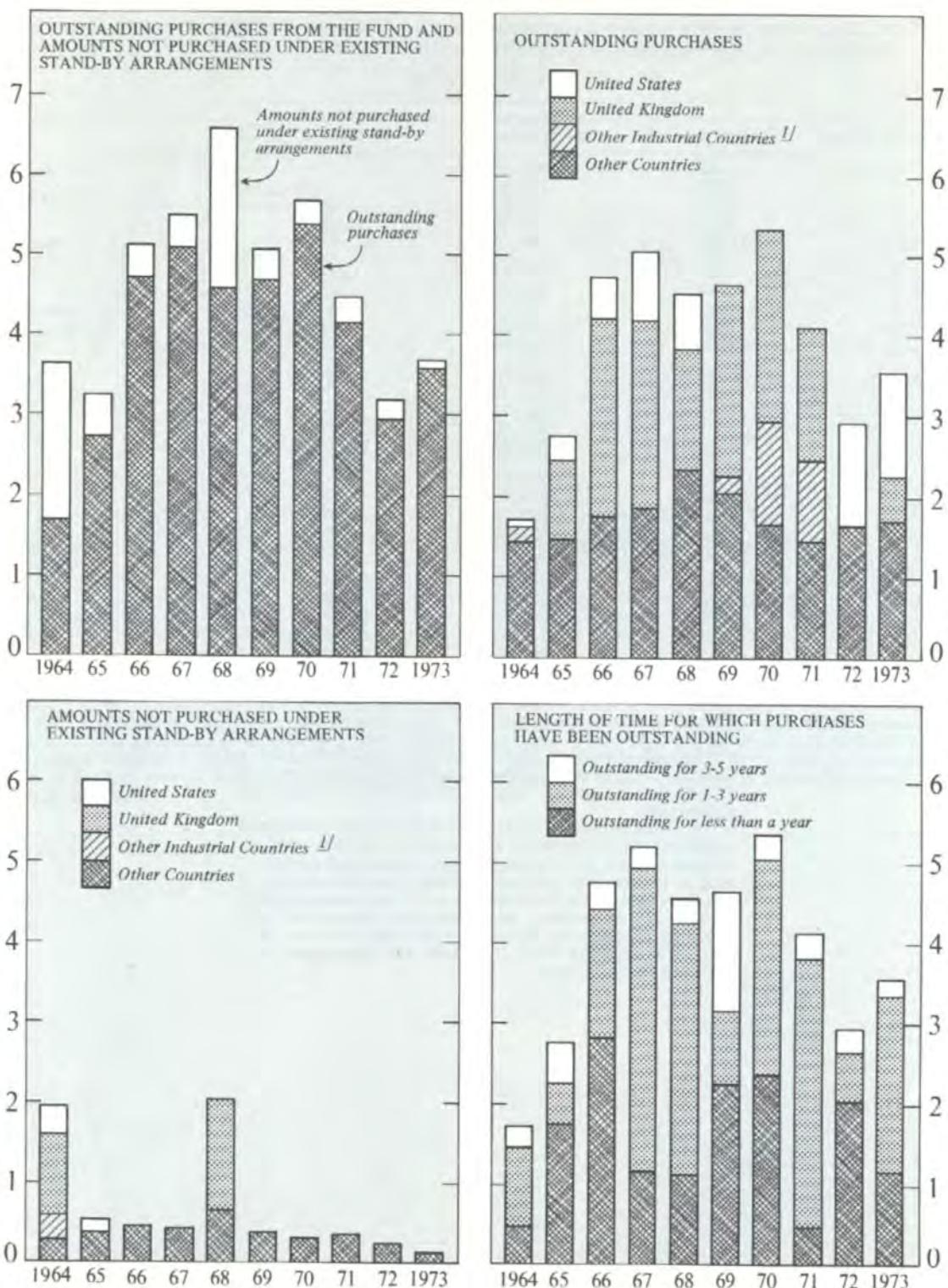
	Total Purchases by Members	Total Repurchases by Members
1948	606.04	—
1949	119.44	—
1950	51.80	24.21
1951	28.00	19.09
1952	46.25	36.58
1953	66.12	184.96
1954	231.29	145.11
1955	48.75	276.28
1956	38.75	271.66
1957	1,114.05	75.04
1958	665.73	86.81
1959	263.52	537.32
1960	165.53	522.41
1961	577.00	658.60
1962	2,243.20	1,260.00
1963	579.97	807.25
1964	625.90	380.41
1965	1,897.44	516.97
1966	2,817.29	406.00
1967	1,061.28	340.12
1968	1,348.25	1,115.51
1969	2,838.85	1,542.33
1970	2,995.65	1,670.69
1971	1,167.41	1,656.86
1972	2,028.49	3,122.33
1973	1,175.43	540.30
Total	24,801.43 ¹	16,196.82 ²

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

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

Appendix I (continued). THE FUND IN 1972/73

CHART I.1. USE OF FUND RESOURCES, APRIL 30, 1964-73
(In billions of SDRs)



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

Appendix I (continued). THE FUND IN 1972/73

TABLE I.16. GOLD TRANSACTIONS AND OPERATIONS BY THE FUND, FISCAL YEARS ENDED APRIL 30, 1971-73
(In millions of SDRs)

	1971	1972	1973
Increase in gold holdings due to			
Subscriptions	1,807.8	81.6	60.9
Repurchases of currency by members	15.4	506.2	2.8
Charges paid by members	71.2	46.4	3.9
Reacquisition from United States	400.0	400.0	—
Purchases under Article V, Section 6(a) ¹	389.6	105.0	—
Total increase	2,684.0	1,139.2	67.6
Decrease in gold holdings due to			
Sales under Article VII, Section 2(ii)	1,085.8	121.2	—
of which sales in connection with Fifth General Review of Quotas	564.1	7.5	—
Interest on Fund borrowing	14.3	2.7	—
Remuneration paid to members	8.8	22.7	28.5
Total decrease	1,108.9	146.6	28.5
Net increase	1,575.1	992.6	39.1

¹ All of these purchases were from South Africa.

TABLE I.17. INCOME AND EXPENDITURE, FISCAL YEARS ENDED APRIL 30, 1964-73
(In millions of SDRs)

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Operational income										
Service and stand-by charges, etc.	4.8	11.8	15.6	7.1	7.4	14.6	13.0	3.2	3.0	3.2
Charges on balances in excess of quotas	31.5	35.9	65.7	82.5	82.0	107.4	124.7	128.1	62.0	28.2
Interest on holdings of special drawing rights	—	—	—	—	—	—	0.4	4.3	7.2	10.2
Total operational income ¹	36.3	47.7	81.3	89.6	89.4	122.0	138.1	135.6	72.2	41.6
Deduct: operational expenditure										
Remuneration	—	—	—	—	—	—	27.2	37.4	30.5	29.3
Other	—	4.6	16.1	17.8	11.9	22.3	19.1	11.8	1.2	—
Net operational income	36.3	43.1	65.2	71.8	77.5	99.7	91.8	86.3	40.5	12.2
Budgetary expenditure	10.9	13.0	15.0	18.1	21.3	24.4	28.6	33.2	37.1	39.4
Deduct: expenses assessed participants for cost of operating the Special Drawing Account	—	—	—	—	—	—	0.9	0.9	1.0	0.7
Fixed property expenditure	2.2	4.6	5.7	3.3	0.5	4.5	6.5	7.5	17.7	-4.8 ²
Net valuation adjustment	—	—	—	—	—	—	—	—	—	0.1
Total budgetary and fixed property expenditure and net valuation adjustment	13.1	17.6	20.7	21.4	21.8	28.9	34.2	39.9	53.7	34.0
Net income or expenditure (—) ³	23.2	25.5	44.5	50.4	55.7	70.8	57.6	46.4	-13.3	-21.7

¹ Excludes income from investments transferred to the Special Reserve until February 15, 1972.

² Represents sale of Fund's former headquarters building for the equivalent of SDR 21.2 million from which fixed property expenditure of SDR 16.4 million has been deducted.

³ Net income was transferred to the General Reserve until the fiscal year ended April 30, 1968. Of the SDR 55.7 million SDR 70.8 million, SDR 57.6 million, and SDR 46.4 million net income in 1968, 1969, 1970, and 1971, respectively, SDR 18.1 million, SDR 38.9 million, SDR 40.0 million, and SDR 33.9 million were transferred to the General Reserve and SDR 37.1 million, SDR 31.9 million, SDR 17.5 million, and SDR 12.5 million were distributed under the provisions of Article XII, Section 6(a) and (b), of the Fund Agreement. The net expenditures for the fiscal years ended April 30, 1972 and 1973 have been charged against the Special Reserve.

Appendix I (*continued*). THE FUND IN 1972/73

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

More than But not more than	0	50	100
	50	100	
Service charge ²	0.5	0.5	0.5
0 to 3 months	0.0	0.0	0.0
3 to 6 months	2.0	2.0	2.0
1/2 to 1 year	2.0	2.0	2.5
1 to 1 1/2 years	2.0	2.5	3.0
1 1/2 to 2 years	2.5	3.0	3.5
2 to 2 1/2 years	3.0	3.5	4.0 ³
2 1/2 to 3 years	3.5	4.0 ³	4.5
3 to 3 1/2 years	4.0 ³	4.5	5.0
3 1/2 to 4 years	4.5	5.0	
4 to 4 1/2 years	5.0		

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

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

³ Point at which the Fund and the member consult.

TABLE I.19. COUNTRIES THAT HAVE ACCEPTED
ARTICLE VIII, APRIL 30, 1973

Member	Effective Date of Acceptance
Argentina	May 14, 1968
Australia	July 1, 1965
Austria	August 1, 1962
Bahrain	March 20, 1973
Belgium	February 15, 1961
Bolivia	June 5, 1967
Canada	March 25, 1952
Costa Rica	February 1, 1965
Denmark	May 1, 1967
Dominican Republic	August 1, 1953
Ecuador	August 31, 1970
El Salvador	November 6, 1946
Fiji	August 4, 1972
France	February 15, 1961
Germany	February 15, 1961
Guatemala	January 27, 1947
Guyana	December 27, 1966
Haiti	December 22, 1953
Honduras	July 1, 1950
Ireland	February 15, 1961
Italy	February 15, 1961
Jamaica	February 22, 1963
Japan	April 1, 1964
Kuwait	April 5, 1963
Luxembourg	February 15, 1961
Malaysia	November 11, 1968
Mexico	November 12, 1946
Netherlands	February 15, 1961
Nicaragua	July 20, 1964
Norway	May 11, 1967
Panama	November 26, 1946
Peru	February 15, 1961
Saudi Arabia	March 22, 1961
Singapore	November 9, 1968
Sweden	February 15, 1961
United Kingdom	February 15, 1961
United States	December 10, 1946

Appendix I (*concluded*). THE FUND IN 1972/73

Table I.20. PUBLICATIONS ISSUED, FISCAL YEAR ENDED APRIL 30, 1973

Reports and Other Documents

Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1972 (English, French, German, and Spanish). Free
By-Laws, Rules and Regulations, Thirty-First Issue (English, French, and Spanish). Free
Reform of the International Monetary System: A Report by the Executive Directors to the Board of Governors (English, French, and Spanish). Free
Selected Decisions of the International Monetary Fund and Selected Documents, Sixth Issue (English, French, and Spanish). Free
Summary Proceedings of the Twenty-Seventh Annual Meeting of the Board of Governors. Free
Twenty-Third Annual Report on Exchange Restrictions. Free

Subscription Publications

Balance of Payments Yearbook

Volume 23, 1966-70 (clothbound). US\$6.00

Volume 24, 1967-71 (monthly, loose-leaf). US\$7.50 (binder available for US\$3.50)

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

International Financial Statistics, monthly (English and a combined English, French, and Spanish edition), and annual supplement. US\$20.00 a year

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

University libraries, faculty members, and students may obtain the four subscription publications listed above at the reduced rates of US\$12.00 for all four publications or US\$5.00 for *International Financial Statistics* and US\$3.00 each for the other publications.

Books

Voting and Decisions in the International Monetary Fund: An Essay on the Law Practice of the Fund by Joseph Gold. US\$6.50

Volume 3 of the *Surveys of African Economies*, which had already been published in English, was issued in French during the fiscal year. US\$5.00 a volume, or available to university libraries, faculty members, and students at the reduced price of US\$2.50 a volume.

Pamphlet Series

Translations of the following Pamphlets appeared during the fiscal year. All four pamphlets were already available in English and Nos. 14 and 15 were published in Spanish in the fiscal year ended April 30, 1972.

No. 13 *Special Drawing Rights* (Second Edition) by Joseph Gold, in French and Spanish. Free

No. 14 *The Fund's Concepts of Convertibility* by Joseph Gold, in French. Free

No. 15 *Special Drawing Rights: The Role of Language* by Joseph Gold, in French. Free

No. 16 *Some Reflections on the Nature of Special Drawing Rights* by J. J. Polak, in French and Spanish. Free

Other

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

IMF Survey, twice monthly. Private firms and individuals are charged for delivery. Began publication August 14, 1972

International Financial News Survey, weekly. Free. Ceased publication June 1972

Appendix II. PRINCIPAL POLICY DECISIONS OF THE EXECUTIVE BOARD AND REPORTS TO THE BOARD OF GOVERNORS

A. Size and Structure of the Executive Board

Report of the Executive Directors to the Board of Governors

1. In the course of the preparation of the Rules for the Conduct of the 1970 Regular Election of Executive Directors, questions were raised relating to the size and structure of the Executive Board. One of the questions was the optimal size of the Executive Board. Under Article XII, Section 3(b) of the Articles of Agreement, when countries not listed in Schedule A enter the Fund, the Board of Governors, by a four-fifths majority of the total voting power, may increase the number of executive directors to be elected. In the course of the discussion, it was observed that each increase in the number of executive directors to be elected in the past had been based on the acceptance of membership by countries that had, as a minimum, the number of votes considered appropriate for an increase in the circumstances then prevailing. In 1970 the application of that test would not have justified an increase in the size of the Executive Board to 21, and the same is true in 1972. It was also pointed out, however, that the approach followed in the past was not mandatory under the Articles, and that it was proper to take other factors into account, including the effect of the size of the Board on the dispatch of its business, in establishing the number of executive directors to be elected.

2. Another question that was discussed in 1970 stemmed from a request that the rules of election make provision for two seats for groups of countries in Africa. It was pointed out that the two additions, in 1963 and 1964, to the number of elected executive directors were based principally on the entry into the Fund during the early 1960s of a large number of countries in Africa. As a result, at present one executive director had been elected by 15 members and another by 18 members, all but one of which are in this area. There was broad support for the view that, if the large number of countries in this area were to elect only one executive director, the burden on him would be excessive, and he would be unable to give adequate attention to the interests of all members that elected him. Concern was expressed that this result would hinder the efficient conduct of the business of the Executive Directors, particularly when the interests of these members were involved. There was widespread support for the view that it was desirable that this large number of countries should have the opportunity to elect two executive directors under the present Articles.

3. It was not intended to reach any conclusions on these questions before the 1970 election. It was felt that these and other questions related to the question of the size and structure of the Executive Board deserved further study. Accordingly, paragraph 7 of the Report of the Executive Directors to the Board of Governors on the rules for the 1970 election stated that:

The Executive Directors consider it desirable to continue to give attention to the problems of the size and structure of the Executive Board. They intend to complete a study of these matters within 2 years, bearing in mind the recurrent need to prepare for the biennial elections of Executive Directors.

Appendix II (*continued*). PRINCIPAL POLICY DECISIONS AND REPORTS

4. Since the 1970 election, the Executive Board has discussed the following topics connected with the size and structure of the Executive Board:

- a. The consequences of the potential membership of numerous small states.
- b. Geographical and other patterns of distribution of directorships.
- c. Basic votes under Article XII, Section 5(a) and their relation to the election of executive directors.
- d. Additional assistance to executive directors.
- e. The possibility of new election rules for nominees of large groups of members.

5. As a first result of these discussions, in 1971 the Fund's administrative rules were changed by the Executive Directors to provide for the appointment of an Advisor to Executive Director, to assist each executive director who has been elected by more than ten members.

6. The Executive Board believes that, for the time being at least, the size of the Executive Board and the procedures for electing executive directors should continue as in the past. The Executive Board continues to be concerned, however, with the problem referred to in paragraph 2 above, and will consider it promptly and propose immediate action should the necessity arise.

7. In view of the foregoing, the Executive Board recommends that the Board of Governors adopt the following Resolution.

July 24, 1972

Resolution Submitted to the Board of Governors

The Board of Governors hereby resolves to take note of the Report of the Executive Directors on the Size and Structure of the Executive Board and in particular paragraphs 2 and 6 of the Report.

*Board of Governors Resolution No. 27-12
Adopted August 31, 1972*

B. Special Drawing Account: The Rules for Reconstitution *Report of the Executive Directors to the Board of Governors*

1. Under Article XXV, Section 6(b) of the Fund's Articles of Agreement the rules for reconstitution set out in Schedule G must be reviewed before the end of the first and each subsequent basic period. In accordance with Article XXVII, Section (a)(i) these reviews are to be conducted by the Board of Governors. As a result of such a review the Fund may modify existing rules, or adopt new rules, or take a decision to abrogate all rules for reconstitution. The adoption of new or modified rules, or the abrogation of existing rules, requires a majority of 85 per cent of the total voting power of participants in the Special Drawing Account.

Appendix II (*continued*). PRINCIPAL POLICY DECISIONS AND REPORTS

2. The review under Article XXV, Section 6(b) must be completed by December 31, 1972, when the first basic period ends. The Executive Directors have considered the rules for reconstitution set out in Schedule G and are submitting this report to the Board of Governors. The Executive Directors recommend the adoption of the resolution set forth in paragraph 7 below.

3. Under paragraph 1(a)(i) of Schedule G a participant's net use of its special drawing rights must be such that the average of its daily holdings over a five-year period will not be less than 30 per cent of the average of its daily net cumulative allocation of special drawing rights over the same period. Under paragraph 1(b) of Schedule G participants are also required to pay due regard to the desirability of pursuing over time a balanced relationship between their holdings of special drawings rights and their holdings of other reserve assets.

4. In accordance with Schedule G, paragraph 1(a)(ii), the Fund has been making monthly calculations for each participant since December 31, 1971 so as to ascertain whether and to what extent it has a need to obtain special drawing rights in order to maintain the required average holding of 30 per cent. As a result of a decision by the Executive Directors taken on December 3, 1971, a participant with a need to reconstitute its holdings of special drawing rights pursuant to Schedule G, paragraph 1(a) has been permitted to obtain from another participant, or from the General Account against gold or currency acceptable to the Fund, the full amount of special drawing rights indicated by the calculations as necessary to achieve the required average. Moreover, the Executive Directors decided that any participant that needs to reconstitute its holdings under this provision may obtain special drawing rights from the Fund when making a purchase in the General Account in accordance with the Fund policies on the use of its resources. A number of participants have taken the initiative to obtain special drawing rights from the General Account, and by October 31, 1972 a total of SDR 96.7 million had been obtained by participants to promote reconstitution under these procedures, of which SDR 38.0 million was obtained against the currencies of other members and SDR 58.7 million against participants' own currencies in connection with purchases in the General Account. It has not proved necessary for any participant to be made subject to designation to promote reconstitution pursuant to Article XXV, Section 5(a)(ii).

5. Reconstitution was incorporated in the provisions relating to the Special Drawing Account to discourage the prolongation of balance of payments deficits which allocations of special drawing rights might otherwise permit, the use of special drawing rights for longer-term financing, and the disproportionate use by participants of special drawing rights because of a preference for the retention of other reserve assets. A contrasting view advanced at the time of the drafting of the amendment of the Articles was that a legal obligation to reconstitute could not easily be reconciled with the view that special drawing rights should be endowed with the character of a reserve asset. Experience with the operation of the Special Drawing Account in general, and with the reconstitution provisions in particular, has been relatively short and has been affected by exceptional developments in the international monetary system, including marked increases in other reserves for a wide range of participants. Thus, it is difficult to draw firm conclusions from experience as to whether or not an obligation to reconstitute is an important element in safeguarding the special drawing rights scheme.

6. There is a widespread opinion among Executive Directors that, as the requirement to maintain average holdings of special drawing rights at a level of 30 per cent of

Appendix II (*continued*). PRINCIPAL POLICY DECISIONS AND REPORTS

average allocations over five-year periods constitutes a constraint on the use of special drawing rights, its abrogation would enhance their character as a reserve asset. It is, however, the view of the Executive Directors that, under the prevailing uncertainty as to the nature of the reform of the international monetary system and the future role of the various assets in reserves, a decision whether to abrogate or modify the rules of Schedule G should better be postponed. At the time this Schedule was adopted it was envisaged that the first basic period would cover five years, which would have allowed longer experience, even under the present system. Under Article XXV, Section 6(b) the rules for reconstitution must be reviewed again before the end of the next basic period and it is expected that at that stage the future role of special drawing rights in a reformed monetary system will have become clearer, thus providing a firmer basis for consideration of the modification or abrogation of the rules of reconstitution.

7. In the light of these considerations, the Executive Directors recommend that the Board of Governors adopt the following resolution.

November 15, 1972

Resolution Submitted to the Board of Governors

The Board of Governors, having received a report from the Executive Directors on the rules for reconstitution set out in Schedule G of the Articles of Agreement, and having reviewed the rules for reconstitution in accordance with Article XXV, Section 6(b) and Article XXVII(a)(i), hereby resolves to make no changes at this time in the rules set forth in Schedule G of the Articles of Agreement.

*Board of Governors Resolution No. 28-2
Adopted December 18, 1972*

C. Reconstitution: Amendment of Rules P-2 and P-3

1. Rule P-2 shall be amended to read as follows:

“The calculations for each participant under Schedule G, paragraph 1(a)(ii), shall be based on the assumptions that the Executive Board makes from time to time with respect to allocations or cancellations during the remainder of any reconstitution period and on the assumption that a participant will make no use of special drawing rights during the remainder of the reconstitution period for which the calculation is made.”

2. Rule P-3 shall be amended by deleting the word “quarterly” and by adding the following sentence: “This amount shall be expressed both

- (i) as a single amount assumed to be acquired on the last day of the calendar month following the date for which the calculation is made; and
- (ii) as a series of equal quarterly amounts assumed to be acquired on the fifteenth day of each full calendar quarter remaining in the reconstitution period.”

Appendix II (*continued*). PRINCIPAL POLICY DECISIONS AND REPORTS

3. Calculations under Schedule G-1(a)(ii) shall continue to be based on the assumption set forth in paragraph 1 of Executive Board Decision No. 3457-(71/121) G/S,¹ adopted December 3, 1971, that no further allocations or cancellations of special drawing rights will be made, but this assumption shall be reviewed immediately after the date on which the Managing Director makes a proposal under Article XXIV, Section 4.

4. The second sentence of paragraph 2 of Decision No. 3457-(71/121) G/S is hereby amended to read as follows: "The maximum amount that may be obtained in this way shall be the single amount most recently notified to the participant under Rule P-3 less the amount of any special drawing rights acquired subsequent thereto other than by way of allocations."

5. This decision shall be reviewed not later than June 30, 1974.

Decision No. 3829-(72/144) S
December 15, 1972

D. Special Drawing Account: Review of Designation

The Executive Directors, having reviewed the rules for designation in Schedule F of the Articles of Agreement pursuant to Article XXV, Section 5(c), hereby decide not to adopt any new rules for designation.

Decision No. 3834-(72/146) S
December 20, 1972

E. Exchange Rates for Computations by the Fund

Effective today and until further notice, for the purpose of valuing currencies other than the U. S. dollar under Rule O-3, the par value of the U. S. dollar will be regarded as if it were one U. S. dollar equals 0.828948 special drawing right.

Decision No. 3865-(73/12) G/S
February 16, 1973

F. Buffer Stock Financing Facility: International Cocoa Agreement

1. The Fund, having considered the text of the International Cocoa Agreement as adopted at the U. N. Cocoa Conference on October 20, 1972, finds that the terms of

¹ *Annual Report, 1972*, pages 84-85.

Appendix II (*concluded*). PRINCIPAL POLICY DECISIONS AND REPORTS

this Agreement relating to the international cocoa buffer stock to be established thereunder are consistent with Executive Board Decision No. 2772-(69/47),² adopted June 25, 1969. For this purpose, that Decision and the principles referred to in it are understood as permitting the use of the Fund's resources in connection with loans to the International Cocoa Council under Article 37(5) of the Agreement by members participating in the Agreement in order to finance the operations of the cocoa buffer stock.

2. The Fund notes that under the arrangements pursuant to Articles 37, 38 and 39 of the Agreement, a part of the financial burden of the buffer stock operations would be assumed by members themselves by acceptance of phased payments for stocks delivered by them to the buffer stock and by any contributions that may be charged on cocoa under the Agreement. The Fund expects that, in order to maintain an adequate degree of self-financing throughout the period of the Agreement, provision would be made for the generation of resources from sources other than the Fund.

3. In view of paragraphs 1 and 2 above, the Fund will meet, subject to the provisions of Executive Board Decision No. 2772-(69/47), a member's requests for purchases for financing the member's loan to the International Cocoa Council under Article 37(5) of the Agreement solely for the purpose of the buffer stock's acquisition of cocoa stocks from members other than stocks involved in diversion to nontraditional uses.

4. Repayment of the loan for the financing of which the member made purchases from the Fund shall be treated as "distributions in currency to the member" for the purpose of repurchases under paragraph 5 of Executive Board Decision No. 2772-(69/47). Moreover, the Fund expects that a member's loan to the Council financed by purchases from the Fund will be repaid by the Council *pari passu* with reductions in the buffer stock.

5. The staff will keep the Executive Directors informed on the operation of the buffer stock and other developments in connection with the International Cocoa Agreement by reports that will be made at least once a year, and the Fund may make such review of this Decision as is appropriate in the light of these reports.

Decision No. 3933-(73/42)
April 23, 1973

² *Annual Report, 1970*, page 175.

**Appendix III. EXECUTIVE DIRECTORS AND VOTING POWER
on April 30, 1973**

Director <i>Alternate</i>	Casting Votes of	Votes by Country	General Account		Special Drawing Account	
			Total votes ¹	Per cent of total	Total votes ¹	Per cent of total
APPOINTED						
William B. Dale <i>Charles R. Harley</i>	United States	67,250	67,250	21.35	67,250	21.81
Anthony K. Rawlinson <i>Peter J. Bull</i>	United Kingdom	28,250	28,250	8.97	28,250	9.16
Guenther Schleiminger <i>Lore Fuenfgelt</i>	Germany	16,250	16,250	5.16	16,250	5.27
Marc Viénot <i>Claude Beaupain</i>	France	15,250	15,250	4.84	15,250	4.95
Kaichi Kawaguchi <i>Koichi Satow</i>	Japan	12,250	12,250	3.89	12,250	3.97
ELECTED						
Francesco Palamenghi-Crispi (Italy) <i>Carlos Bustelo (Spain)</i>	Italy Malta *Portugal Spain	10,250 410 1,420 4,200	16,280	5.17	14,860	4.82
Robert Bryce (Canada) <i>George Reynolds (Ireland)</i>	Barbados Canada Ireland Jamaica	380 11,250 1,460 780	13,870	4.40	13,870	4.50
Nazih Ahmed Deif (Egypt) <i>Vacant</i>	Afghanistan Bahrain Egypt Iraq Jordan *Kuwait *Lebanon *Libyan Arab Rep. Oman Pakistan *Qatar *Saudi Arabia Somalia Syrian Arab Rep. *United Arab Emirates Yemen Arab Rep.	620 350 2,130 1,340 480 900 340 490 320 2,600 450 1,590 440 750 400 350	13,550	4.30	9,380	3.04
Byanti Kharmanan (Indonesia) <i>Nguyễn Huu Hanh (Viet-Nam)</i>	Burma Fiji Indonesia Khmer Rep. Korea Laos Malaysia Nepal Philippines *Singapore Thailand Viet-Nam	850 380 2,850 500 1,050 380 2,110 374 1,800 620 1,590 870	13,374	4.25	12,754	4.14

Appendix III (*continued*). EXECUTIVE DIRECTORS AND VOTING POWER
on April 30, 1973

Director <i>Alternate</i>	Casting Votes of	Votes by Country	General Account		Special Drawing Account	
			Total votes ¹	Per cent of total	Total votes ¹	Per cent of total
ELECTED (continued)						
Lindsay B. Brand (Australia) <i>R. van S. Smit (South Africa)</i>	Australia New Zealand South Africa Swaziland Western Samoa	6,900 2,270 3,450 330 270	13,220	4.20	13,220	4.29
P. S. N. Prasad (India) <i>W. M. Tilakaratna (Sri Lanka)</i>	Bangladesh India Sri Lanka	1,500 9,650 1,230	12,380	3.93	12,380	4.02
André van Campenhout (Belgium) <i>Heinrich G. Schneider (Austria)</i>	Austria Belgium Luxembourg Turkey	2,950 6,750 450 1,760	11,910	3.78	11,910	3.86
Erik Brofoss (Norway) <i>Sven Lampe (Sweden)</i>	Denmark Finland Iceland Norway Sweden	2,850 2,150 480 2,650 3,500	11,630	3.69	11,630	3.77
Pieter Lief tinck (Netherlands) <i>Tom de Vries (Netherlands)</i>	Cyprus Israel Netherlands Yugoslavia	510 1,550 7,250 2,320	11,630	3.69	11,630	3.77
S. B. Nicol-Cole (Sierra Leone) <i>H. R. Monday, Jr. (The Gambia)</i>	Botswana Burundi *Ethiopia Gambia, The Guinea Kenya Lesotho Liberia Malawi Nigeria Sierra Leone Sudan Tanzania Trinidad and Tobago Uganda Zambia	300 440 520 320 490 730 300 540 400 1,600 500 970 670 880 650 1,010	10,320	3.28	9,800	3.18
Guillermo Bueso (Honduras) <i>Alfredo Phillips O. (Mexico)</i>	Costa Rica El Salvador Guatemala Honduras Mexico Nicaragua Venezuela	570 600 610 500 3,950 520 3,550	10,300	3.27	10,300	3.34
Alexandre Kafka (Brazil) <i>Basilio Martins (Brazil)</i>	Brazil Colombia Dominican Republic Guyana Haiti Panama Peru	4,650 1,820 680 450 440 610 1,480	10,130	3.22	10,130	3.29

Appendix III (*concluded*). EXECUTIVE DIRECTORS AND VOTING POWER
on April 30, 1973

Director <i>Alternate</i>	Casting Votes of	Votes by Country	General Account		Special Drawing Account	
			Total votes ¹	Per cent of total	Total votes ¹	Per cent of total
ELECTED (concluded)						
Mohammed Yeganeh (Iran) <i>Costa P. Caranicas (Greece)</i>	Algeria Ghana Greece Iran Morocco Tunisia Yemen, People's Dem. Rep. of	1,550 1,120 1,630 2,170 1,380 730 540	9,120	2.89	9,120	2.96
Carlos Massad A. (Chile) <i>Ricardo H. Arriazu (Argentina)</i>	Argentina Bolivia Chile Ecuador Paraguay Uruguay	4,650 620 1,830 580 440 940	9,060	2.88	9,060	2.94
Antoine W. Yaméogo (Upper Volta) <i>Samuel Nana-Sinkam (Cameroon)</i>	Cameroon Central African Rep. Chad Congo, People's Rep. of the Dahomey Equatorial Guinea Gabon Ivory Coast Malagasy Rep. Mali Mauritania Mauritius Niger Rwanda Senegal Togo Upper Volta Zaire	600 380 380 380 380 380 330 400 770 510 470 380 470 380 440 590 400 380 1,380	9,020	2.86	9,020	2.93
		315,044 ²	100.00	308,314 ²	100.00	

* Not a participant in the Special Drawing Account.

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

² This total does not include the votes of China, which did not participate in the 1972 Regular Election of Executive Directors, and Romania, which joined the Fund after that election.

Appendix IV. CHANGES IN MEMBERSHIP OF EXECUTIVE BOARD

Changes in the membership of the Executive Board between May 1, 1972 and April 30, 1973 were as follows:

P. Y. Hsu (China) resigned as Executive Director for China, Korea, the Philippines, and Viet-Nam, effective June 15, 1972.

Placido L. Mapa, Jr. (Philippines) was elected Executive Director by China, Korea, the Philippines, and Viet-Nam, effective June 16, 1972. He completed his term of service October 31, 1972.

Nguyễn Huu Hanh (Viet-Nam), formerly Alternate Executive Director to P. Y. Hsu (China), was appointed Alternate Executive Director to Placido L. Mapa, Jr. (Philippines), effective June 16, 1972. He was appointed Alternate Executive Director to Byanti Kharmawan (Indonesia), effective November 1, 1972.

R. H. Gilchrist (United Kingdom) resigned as Alternate Executive Director to Derek Mitchell (United Kingdom), effective July 8, 1972.

Peter J. Bull (United Kingdom) was appointed Alternate Executive Director to Derek Mitchell (United Kingdom), effective July 9, 1972. He was appointed Alternate Executive Director to Anthony K. Rawlinson (United Kingdom), effective December 18, 1972.

Léon M. Rajaobelina (Malagasy Republic) resigned as Alternate Executive Director to Antoine W. Yaméogo (Upper Volta), effective August 15, 1972.

Samuel Nana-Sinkam (Cameroon) was appointed Alternate Executive Director to Antoine W. Yaméogo (Upper Volta), effective October 15, 1972.

Sigurgeir Jónsson (Iceland) completed his term of service as Alternate Executive Director to Erik Brofoss (Norway), October 31, 1972.

S. S. Marathe (India) completed his term of service as Alternate Executive Director to P. S. N. Prasad (India), October 31, 1972.

Donald Owen Mills (Jamaica) completed his term of service as Alternate Executive Director to Robert Bryce (Canada), October 31, 1972.

Maurice P. Omwony (Kenya) completed his term of service as Executive Director for Botswana, Burundi, Ethiopia, The Gambia, Guinea, Kenya, Liberia, Malawi, Nigeria, Sierra Leone, the Sudan, Tanzania, Trinidad and Tobago, Uganda, and Zambia, October 31, 1972.

Hideo Suzuki (Japan) resigned as Executive Director for Japan, effective October 31, 1972.

Luis Ugueto (Venezuela) completed his term of service as Executive Director for Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Venezuela, October 31, 1972.

Guillermo González (Costa Rica) completed his term of service as Alternate Executive Director to Luis Ugueto (Venezuela), October 31, 1972.

Appendix IV (*continued*). CHANGES IN MEMBERSHIP OF EXECUTIVE BOARD

Lindsay B. Brand (Australia), formerly Executive Director for Australia, Lesotho, New Zealand, South Africa, and Swaziland, was elected Executive Director by Australia, New Zealand, South Africa, Swaziland, and Western Samoa, effective November 1, 1972.

Erik Brofoss (Norway) was re-elected Executive Director by Denmark, Finland, Iceland, Norway, and Sweden, effective November 1, 1972.

Sven Lampe (Sweden) was appointed Alternate Executive Director to Erik Brofoss (Norway), effective November 1, 1972.

Robert Bryce (Canada), formerly Executive Director for Canada, Ireland, and Jamaica, was elected Executive Director by Barbados, Canada, Ireland, and Jamaica, effective November 1, 1972.

George Reynolds (Ireland) was appointed Alternate Executive Director to Robert Bryce (Canada), effective November 1, 1972.

Guillermo Bueso (Honduras) was elected Executive Director by Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Venezuela, effective November 1, 1972.

Nazih Ahmed Deif (Egypt), formerly Executive Director for Afghanistan, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Pakistan, Saudi Arabia, Somalia, the Syrian Arab Republic, the Yemen Arab Republic, and the People's Democratic Republic of Yemen, was elected Executive Director by Afghanistan, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, the Libyan Arab Republic, Oman, Pakistan, Qatar, Saudi Arabia, Somalia, the Syrian Arab Republic, the United Arab Emirates, and the Yemen Arab Republic, effective November 1, 1972.

Muhammad Al-Atrash (Syrian Arab Republic) was reappointed Alternate Executive Director to Nazih Ahmed Deif (Egypt), effective November 1, 1972. His service terminated on January 5, 1973.

Alexandre Kafka (Brazil) was re-elected Executive Director by Brazil, Colombia, the Dominican Republic, Guyana, Haiti, Panama, and Peru, effective November 1, 1972.

Kaichi Kawaguchi (Japan) was appointed Executive Director by Japan, effective November 1, 1972.

Koichi Satow (Japan), formerly Alternate Executive Director to Hideo Suzuki (Japan), was appointed Alternate Executive Director to Kaichi Kawaguchi (Japan), effective November 1, 1972.

Byanti Kharmawan (Indonesia), formerly Executive Director for Algeria, Ghana, Greece, Indonesia, the Khmer Republic, the Libyan Arab Republic, Morocco, and Tunisia, was elected Executive Director by Burma, Fiji, Indonesia, the Khmer Republic, Korea, Laos, Malaysia, Nepal, the Philippines, Singapore, Thailand, and Viet-Nam, effective November 1, 1972.

Pieter Lieftinck (Netherlands) was re-elected Executive Director by Cyprus, Israel, the Netherlands, and Yugoslavia, effective November 1, 1972.

Tom de Vries (Netherlands) was reappointed Alternate Executive Director to Pieter Lieftinck (Netherlands), effective November 1, 1972.

Carlos Massad A. (Chile) was re-elected Executive Director by Argentina, Bolivia, Chile, Ecuador, Paraguay, and Uruguay, effective November 1, 1972.

Appendix IV (*continued*). CHANGES IN MEMBERSHIP OF EXECUTIVE BOARD

Ricardo H. Arriazu (Argentina) was reappointed Alternate Executive Director to Carlos Massad A. (Chile), effective November 1, 1972.

S. B. Nicol-Cole (Sierra Leone), formerly Alternate Executive Director to Maurice P. Omwony (Kenya), was elected Executive Director by Botswana, Burundi, Ethiopia, The Gambia, Guinea, Kenya, Lesotho, Liberia, Malawi, Nigeria, Sierra Leone, the Sudan, Tanzania, Trinidad and Tobago, Uganda, and Zambia, effective November 1, 1972.

H. R. Monday, Jr. (The Gambia) was appointed Alternate Executive Director to S. B. Nicol-Cole (Sierra Leone), effective November 1, 1972.

Francesco Palamenghi-Crispi (Italy) was re-elected Executive Director by Italy, Malta, Portugal, and Spain, effective November 1, 1972.

Carlos Bustelo (Spain) was reappointed Alternate Executive Director to Francesco Palamenghi-Crispi (Italy), effective November 1, 1972.

P. S. N. Prasad (India), formerly Executive Director for India, was elected Executive Director by Bangladesh, India, and Sri Lanka, effective November 1, 1972.

W. M. Tilakaratna (Sri Lanka) was appointed Alternate Executive Director to P. S. N. Prasad (India), effective November 1, 1972.

André van Campenhout (Belgium) was re-elected Executive Director by Austria, Belgium, Luxembourg, and Turkey, effective November 1, 1972.

Antoine W. Yaméogo (Upper Volta) was re-elected Executive Director by Cameroon, the Central African Republic, Chad, the People's Republic of the Congo, Dahomey, Equatorial Guinea, Gabon, Ivory Coast, the Malagasy Republic, Mali, Mauritania, Mauritius, Niger, Rwanda, Senegal, Togo, Upper Volta, and Zaïre, effective November 1, 1972.

Mohammed Yeganeh (Iran) was elected Executive Director by Algeria, Ghana, Greece, Iran, Morocco, Tunisia, and the People's Democratic Republic of Yemen, effective November 1, 1972.

Costa P. Caranicas (Greece), formerly Alternate Executive Director to Byanti Khar-mawan (Indonesia), was appointed Alternate Executive Director to Mohammed Yeganeh (Iran), effective November 1, 1972.

Alfredo Phillips O. (Mexico) was appointed Alternate Executive Director to Guillermo Bueso (Honduras), effective November 13, 1972.

Derek Mitchell (United Kingdom) resigned as Executive Director for the United Kingdom, effective December 17, 1972.

Anthony K. Rawlinson (United Kingdom) was appointed Executive Director by the United Kingdom, effective December 18, 1972.

Appendix IV (*concluded*). CHANGES IN MEMBERSHIP OF EXECUTIVE BOARD

The following served at certain times during 1972/73 as Temporary Alternate Executive Directors to the Executive Directors indicated:

Temporary Alternate Executive Director	Executive Director for whom Temporary Alternate Served
Vittorio Barattieri (Italy)	Francesco Palamenghi-Crispi (Italy)
Miss C. J. Batliwalla (India)	P. S. N. Prasad (India)
Burghard Brock (Germany)	Guenther Schleiminger (Germany)
John C. Coleman (Canada)	Robert Bryce (Canada)
Jaime Adolfo Crosby (Peru)	Alexandre Kafka (Brazil)
Miss Anne Doizé (Belgium)	André van Campenhout (Belgium)
Bun Phor Eap (Khmer Republic)	Byanti Kharmawan (Indonesia)
Mehdi Garadaghipour (Iran)	Mohammed Yeganeh (Iran)
Francisco García-Palacios (Venezuela)	Guillermo Bueso (Honduras)
Mrs. Leonor F. González (Venezuela)	Luis Ugueto (Venezuela)
Maurice Horgan (Ireland)	Robert Bryce (Canada)
Fouad K. Hussein (Egypt)	Nazih Ahmed Deif (Egypt)
Kaj Kjaer (Denmark)	Erik Brofoss (Norway)
Ernest Leung (Philippines)	P. Y. Hsu (China)
Samuel Nana-Sinkam (Cameroon)	Placido L. Mapa, Jr. (Philippines)
Marc S. Nan Nguema (Gabon)	Antoine W. Yaméogo (Upper Volta)
Hernán Oyarzábal (Venezuela)	Antoine W. Yaméogo (Upper Volta)
Chike C. Ozumba (Nigeria)	Luis Ugueto (Venezuela)
Aldo Pelosio (Italy)	Maurice P. Omwony (Kenya)
Olafur Pétursson (Iceland)	Francesco Palamenghi-Crispi (Italy)
Adelio Pipino (Chile)	Erik Brofoss (Norway)
Ian Plenderleith (United Kingdom)	Carlos Massad A. (Chile)
Arturo Seminario (Peru)	Derek Mitchell (United Kingdom)
Maung Shein (Burma)	Alexandre Kafka (Brazil)
Carlos Rafael Silva (Venezuela)	Byanti Kharmawan (Indonesia)
Francisco Suárez (Mexico)	Luis Ugueto (Venezuela)
Jean R. Vallet (France)	Guillermo Bueso (Honduras)
John C. C. Yuan (China)	Marc Viénot (France)
J. B. Zulu (Zambia)	Placido L. Mapa, Jr. (Philippines)
J. P. Th. Zwartjes (Netherlands)	Maurice P. Omwony (Kenya)
	S. B. Nicol-Cole (Sierra Leone)
	Pieter Lieftinck (Netherlands)

Appendix V. ADMINISTRATIVE BUDGET

Letter of Transmittal

July 25, 1973

My dear Mr. Chairman:

The administrative budget of the Fund approved by the Executive Board for the Fiscal Year ending April 30, 1974 is presented herewith, in accordance with Section 20 of the By-Laws. The presentation also shows actual expenditures for the past two fiscal years.

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

Yours sincerely,

/s/

P.-P. SCHWEITZER

Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

Appendix V (*concluded*)

ADMINISTRATIVE BUDGET AS APPROVED BY THE EXECUTIVE BOARD FOR THE FISCAL YEAR ENDING
APRIL 30, 1974 COMPARED WITH ACTUAL EXPENDITURES FOR THE FISCAL YEARS ENDED
APRIL 30, 1972 AND 1973

(Values expressed in special drawing rights)¹

Category of Expenditure	Fiscal Year Ending Apr. 30, 1974	Fiscal Year Ended Apr. 30, 1973		Fiscal Year Ended Apr. 30, 1972
	Budget	Revised Budget	Actual Expenditures	Actual Expenditures
I. BOARD OF GOVERNORS.....	2,636,054	1,353,957	1,335,825	702,431
II. EXECUTIVE DIRECTORS				
Salaries.....	2,123,027	1,991,848	1,990,991	2,056,868
Other compensations and benefits.....	601,448	581,406	552,089	522,944
Travel.....	491,842	583,948	525,775	469,422
Total.....	3,216,317	3,157,202	3,068,855	3,049,234
III. STAFF				
Salaries.....	19,497,771	16,507,188	16,485,537	15,912,463
Other compensations and benefits.....	7,221,977	6,160,411	6,108,397	5,910,002
Travel.....	4,195,396	3,799,344	3,718,389	3,792,608
Total.....	30,915,144	26,466,943	26,312,323	25,615,073
IV. SPECIAL SERVICES TO MEMBER COUNTRIES.....	4,036,054	3,529,474	3,304,520	2,822,059
V. OTHER ADMINISTRATIVE EXPENSES				
Communications.....	1,242,501	1,294,121	1,248,412	1,390,346
Office occupancy expenses.....	1,225,000	1,102,738	1,032,770	998,501
Books and printing.....	890,658	815,940	792,202	643,706
Supplies and equipment.....	783,816	727,987	652,064	648,287
Data processing services.....	782,895	755,263	740,313	543,126
Miscellaneous.....	985,527	893,431	877,294	644,007
Total.....	5,910,397	5,589,480	5,343,055	4,867,973
TOTAL ²	46,713,966	40,097,056	39,364,578	37,056,770

¹ The administrative budget is expressed in terms of U. S. dollars and converted to SDR equivalents. For the fiscal year ended April 30, 1972, US\$1 = SDR 1. For the fiscal year ended April 30, 1973 the effective rates were US\$1 = SDR 1 for the period May 1-8, 1972 and US\$1 = SDR 0.921053 for the period May 9, 1972 through April 30, 1973. The administrative budget for the fiscal year ending April 30, 1974 has been established at the rate of US\$1 = SDR 0.921053. The prospective rate of US\$1 = SDR 0.828948 will be applied effective from the date the Fund receives formal notification from the U. S. Government of the devaluation of the U. S. dollar which was announced on February 12, 1973.

² Net administrative expenditures for fiscal year ended April 30, 1973 totaled SDR 38,665,963 after deduction of SDR 698,615 reimbursed to the General Account by assessments levied on the net cumulative allocations of participants in the Special Drawing Account. The comparable figures for fiscal year ended April 30, 1972 were SDR 36,032,141 and SDR 1,024,629, respectively.

Appendix VI. COMPARATIVE STATEMENT OF INCOME AND EXPENDITURE

(Values expressed in special drawing rights)

	Fiscal Year Ended		
	Apr. 30, 1971	Apr. 30, 1972	Apr. 30, 1973
OPERATIONAL INCOME¹			
Operational charges			
Received in gold.....	2,241,375	534,053	731,368
Received in special drawing rights.....	568,592	2,241,564	2,299,694
Received in members' currencies.....	360,980	251,769	174,684
Total.....	<u>3,170,947</u>	<u>3,027,386</u>	<u>3,205,746</u>
Charges on balances in excess of quotas			
Received in gold.....	82,419,165	22,231,592	2,221,503
Received in special drawing rights.....	40,940,747	36,261,254	23,090,633
Received in members' currencies.....	4,779,761	3,532,644	2,862,716
Total.....	<u>128,139,673</u>	<u>62,025,490</u>	<u>28,174,852</u>
Interest on holdings of special drawing rights.....	<u>4,255,698</u>	<u>7,181,322</u>	<u>10,203,011</u>
Total Operational Income.....	<u>135,566,318</u>	<u>72,234,198</u>	<u>41,583,609</u>
Deduct: Operational expenditure			
Remuneration			
Paid in gold.....	22,681,219	28,532,536	3,621,247
Paid in special drawing rights.....	14,745,672	1,981,750	20,393,635
Paid in members' currencies.....	15,912	5,040	5,318,696
Total.....	<u>37,442,803</u>	<u>30,519,326</u>	<u>29,333,578</u>
Transfer charges and interest on indebtedness			
Paid in gold.....	11,801,925	1,193,849	—
Paid in U. S. dollars.....	7,395	19,593	—
Total.....	<u>11,809,320</u>	<u>1,213,442</u>	<u>—</u>
Other.....	<u>12,887</u>	<u>26,669</u>	<u>5,083</u>
Total Operational Expenditure.....	<u>49,265,010</u>	<u>31,759,437</u>	<u>29,338,661</u>
NET OPERATIONAL INCOME.....	<u>86,301,308</u>	<u>40,474,761</u>	<u>12,244,948</u>
BUDGETARY EXPENDITURE	<u>32,331,800²</u>	<u>36,032,141²</u>	<u>38,665,963²</u>
FIXED PROPERTY EXPENDITURE	<u>7,547,370</u>	<u>17,710,950</u>	<u>16,354,269</u>
NET VALUATION ADJUSTMENT	<u>—</u>	<u>—</u>	<u>138,438</u>
TOTAL BUDGETARY AND FIXED PROPERTY EXPENDITURE AND NET ADJUSTMENT	<u>39,879,170</u>	<u>53,743,091</u>	<u>55,158,670</u>
NET INCOME OR EXPENDITURE (—) BEFORE DEDUCTION OF EXTRAORDINARY ITEM	<u>46,422,138</u>	<u>—13,268,330</u>	<u>—42,913,722</u>
Deduct: Proceeds from the sale of Headquarters Building.....	<u>—</u>	<u>—</u>	<u>21,171,914</u>
NET INCOME OR EXPENDITURE (—).....	<u>46,422,138</u>	<u>—13,268,330</u>	<u>—21,741,808</u>

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

² After deduction of SDR 890,853 for fiscal year 1971, SDR 1,024,629 for fiscal year 1972, and SDR 698,615 for fiscal year 1973 reimbursed to the General Account by assessments levied on the net cumulative allocations of participants in the Special Drawing Account.

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

Letter of Transmittal

July 25, 1973

My dear Mr. Chairman:

In accordance with Section 20(b) of the By-Laws of the Fund, I have the honor to submit for the consideration of the Board of Governors the audited financial statements of the General Account, the Special Drawing Account, and the Staff Retirement Fund for the year ended April 30, 1973, together with two memoranda from the Audit Committee, which include the audit opinions.

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, Germany, Ghana, and Singapore nominated auditors to serve on this Committee. They respectively nominated Mr. Walter Scholz, Member of the Board of Directors of Treuarbeit AG—Wirtschaftsprüfungsgesellschaft—Steuerberatungsgesellschaft; Mr. E. S. Okunor, Deputy Auditor General of Ghana; and Mr. Chee Keng Soon, Auditor-General of Singapore. The auditors thus nominated were confirmed by the Executive Directors.

It will be noted that, in the year under review for the General Account, operational income amounted to SDR 41,583,609 and operational expenditure amounted to SDR 29,338,661 resulting in net operational income of SDR 12,244,948. Budgetary and fixed property expenditure and a net valuation adjustment amounted to SDR 55,158,670 before the deduction of SDR 21,171,914 realized from the sale of the Fund's former headquarters building which resulted in net expenditure of SDR 21,741,808 for the fiscal year. Pursuant to Executive Board Decision No. 708-(57/57), adopted November 27, 1957, this net expenditure has been charged against the Special Reserve.

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

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

Chairman of the Board of Governors
International Monetary Fund

MEMORANDUM BY THE AUDIT COMMITTEE

June 26, 1973

To the Managing Director
and the Executive Directors
International Monetary Fund

Our report, dated June 26, 1973, submitted through you to the Board of Governors, on the audit of the financial records, operations and transactions of the International Monetary Fund, for the fiscal year ended April 30, 1973, includes the following paragraphs relating to the scope of the audit and the audit opinion given:

SCOPE OF THE AUDIT

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

AUDIT OPINION

We have examined the Balance Sheet of the General Account of the International Monetary Fund as at April 30, 1973, the Statement of Income and Expenditure and the Statement of Reserves for the year then ended, and the schedules related thereto; and the Balance Sheet of the Special Drawing Account of the International Monetary Fund as at April 30, 1973, the Statement of Source and Use of Special Drawing Rights and the schedules related thereto. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these Statements together with the notes appearing thereon, present fairly the financial position of the International Monetary Fund as at April 30, 1973, and the results of the operations and transactions in the General Account and the Special Drawing Account for the year then ended, in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

AUDIT COMMITTEE:

/s/ Walter H. Scholz, Chairman (Germany)
/s/ E. S. Okunor (Ghana)
/s/ Chee Keng Soon (Singapore)

Appendix VII (continued)
Exhibit A (General Account)

	GENERAL BALANCE as at April	Amounts expressed in (one SDR is equivalent to
ASSETS		
GOLD WITH DEPOSITORIES (See Note 1)	SDR 5,370,043,630	
SPECIAL DRAWING RIGHTS	617,089,690	
CURRENCIES AND SECURITIES (See Note 2)		
With depositaries		
Currencies	SDR 5,887,313,016	
Securities	17,624,660,441	
(<i>nonnegotiable, noninterest-bearing demand obligations, payable at face value by members in their currencies</i>)		
Add: Currency adjustments receivable (net)	<u>SDR 23,511,973,457</u>	23,742,360,156
(<i>In accordance with Article IV, Section 8</i>)	<u>230,386,699</u>	
SUBSCRIPTIONS TO CAPITAL—RECEIVABLE		
Balances of initial quotas—not due	SDR 217,354,650	
Balance of an increase in quota—not due (Contra)	<u>1,600,000</u>	218,954,650
OTHER ASSETS (See Note 3)	10,182,982	
TOTAL ASSETS	<u>SDR 29,958,631,108</u>	

NOTES:

- 1 Excludes gold held under earmark for members equivalent to SDR 366,313.
- 2 Total outstanding purchases of members amount to SDR 3,593 million. Currency holdings in excess of members' quotas subject to Fund charges amount to SDR 961 million. Total creditor positions of members amount to SDR 1,930 million.

Currencies and securities held by the Fund have been valued at parity rates, but in some cases at either rates agreed for the payment of quota increases, or rates agreed pursuant to Article IV, Section 8 (b) (ii), or representative rates pursuant to Executive Board Decisions No. 3637-(72/41) and 3865-(73/12), or rates agreed on the basis of Membership Resolutions for the payment of initial currency subscriptions in accordance with Executive Board Decision No. 1687-(64/22) in respect of exchange transactions prior to the establishment of initial par values. Since February 12, 1973 the values of those currencies for which representative rates have been calculated in terms of SDRs are based on their parity relationships to the prospective par value of the U. S. dollar which is equivalent to SDR 0.828948 (corresponding to US\$42.2222 per troy ounce of fine gold) compared with SDR 0.921053 (corresponding to US\$38 per troy ounce of fine gold), the present par value at which the Fund holds U. S. dollars. When the par value of the U. S. dollar is officially changed the Fund's holdings of U. S. dollars will be increased by a payment by the United States to maintain the value of the Fund's holdings of U. S. currency and securities in terms of gold and SDRs.

ACCOUNT
SHEET
30, 1973

special drawing rights
0.888671 gram of fine gold

CAPITAL, RESERVES, AND LIABILITIES

CAPITAL			
Subscriptions of members		SDR 29,169,400,000	
RESERVES (Exhibit C)			
Special reserve	SDR 388,896,827		
General reserve	<u>365,579,703</u>		754,476,530
SUBSCRIPTION IN RESPECT OF AN INCREASE IN QUOTA CONSENTED TO BUT NOT YET EFFECTIVE			
Balance not due (Contra)		1,600,000	
PROVISION FOR POTENTIAL REFUNDS OF STAND-BY CHARGES (See Note 4)		245,156	
OTHER LIABILITIES (See Note 3)		32,909,422	
TOTAL CAPITAL, RESERVES, AND LIABILITIES		<u>SDR 29,958,631,108</u>	

3. The assets and liabilities of the Staff Retirement Fund are not included in this Balance Sheet.
4. The charge for a stand-by arrangement is credited against the service charge for funds drawn under the arrangement. A member that cancels a stand-by arrangement will be paid a refund, which will be the proportionate portion of the remaining stand-by charge.

/s/ W. O. HABERMEIER
Treasurer

/s/ P.-P. SCHWEITZER
Managing Director

Appendix VII (*continued*)
Exhibit B (General Account)

GENERAL ACCOUNT
STATEMENT OF INCOME AND EXPENDITURE
for the year ended April 30, 1973

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

OPERATIONAL INCOME			
Operational charges.....	SDR 3,205,746		
Charges on balances in excess of quotas.....	28,174,852		
Interest on holdings of special drawing rights.....	10,203,011		
Total Operational Income.....	SDR 41,583,609		
Deduct Operational Expenditure:			
Remuneration.....	SDR 29,333,578		
Other.....	5,083		
Total Operational Expenditure.....	29,338,661		
NET OPERATIONAL INCOME.....	SDR 12,244,948		
BUDGETARY EXPENDITURE			
Board of Governors.....	SDR 1,335,825		
Executive Directors			
Salaries.....	SDR 1,990,991		
Other compensations and benefits.....	552,089		
Travel.....	525,775		
		3,068,855	
Staff			
Salaries.....	SDR 16,485,537		
Other compensations and benefits.....	6,108,397		
Travel.....	3,718,389		
		26,312,323	
Special services to member countries.....		3,304,520	
Other expenses			
Communications.....	SDR 1,248,412		
Office occupancy expenses.....	1,032,770		
Books and printing (See Note 1).....	792,202		
Supplies and equipment.....	652,064		
Data processing services.....	740,313		
Miscellaneous (See Note 2).....	877,294		
		5,343,055	
Total Budgetary Expenditure.....	SDR 39,364,578		
Deduct: Assessments levied on participants for estimated costs of operating the Special Drawing Account.....	698,615		
Net Budgetary Expenditure.....	SDR 38,665,963		
FIXED PROPERTY EXPENDITURE.....	16,354,269		
NET VALUATION ADJUSTMENT.....	138,438		
TOTAL BUDGETARY AND FIXED PROPERTY EXPENDITURE AND NET VALUATION ADJUSTMENT.....	SDR 55,158,670		
DEDUCT: PROCEEDS FROM SALE OF HEADQUARTERS BUILDING.....	21,171,914		
NET EXPENDITURE.....	SDR 21,741,808		
(Charged against the Special Reserve pursuant to Executive Board Decision No. 708-(57/57), adopted November 27, 1957)			

NOTES:

1. After deduction of SDR 91,476 for sales of Fund publications.
2. After deduction of SDR 369,159 for food service sales and SDR 49,725 for miscellaneous administrative income.

Appendix VII (*continued*)
Exhibit C (General Account)

GENERAL ACCOUNT
STATEMENT OF RESERVES
for the year ended April 30, 1973

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

SPECIAL RESERVE (See Note)

Balance, April 30, 1972.....	SDR 410,638,635
Deduct Net expenditure (Exhibit B).....	21,741,808
Balance, April 30, 1973.....	SDR 388,896,827

GENERAL RESERVE

Balance, April 30, 1973.....	365,579,703
TOTAL RESERVES (per Balance Sheet).....	SDR 754,476,530

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

Appendix VII (*continued*)
Exhibit A (Special Drawing Account)

SPECIAL DRAWING ACCOUNT

BALANCE SHEET

as at April 30, 1973

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

ALLOCATIONS

Net cumulative allocations of special drawing rights to participants (See Note 1).....	<u>SDR 9,314,835,400</u>
--	--------------------------

HOLDINGS

Holdings of special drawing rights (See Note 2) (Exhibit B)

Participants

Holdings above allocations

Allocations.....	<u>SDR 3,831,122,000</u>
Received (net).....	<u>1,362,957,692</u>

Holdings below allocations

Allocations.....	<u>SDR 5,483,713,400</u>
Used (net).....	<u>1,980,047,382</u>

General Account.....

617,089,690

SDR 9,314,835,400

NOTES:

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

/s/ W. O. HABERMEIER
Treasurer

/s/ P.-P. SCHWEITZER
Managing Director

SPECIAL DRAWING ACCOUNT
SOURCE AND USE OF SPECIAL DRAWING RIGHTS
for the year ended April 30, 1973

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

	Participants	General Account	Total
Total Holdings as at April 30, 1972.....	8,404,875,288	909,960,112	9,314,835,400
Source of Special Drawing Rights Received			
Transactions with Designation (Article XXV, Sections 2(a) and 3(a)).....	116,556,572		116,556,572
Transactions without Designation			
Under Article XXV, Section 2(b) (i).....	303,486,629		303,486,629
Net Interest.....	19,071,778	10,203,011	29,274,789
Transfers Between Participants and the General Account			
Purchases.....	292,107,478		292,107,478
Repurchases.....	3,886,000	71,639,283	75,525,283
Charges.....	296,670	30,089,484	30,386,154
Reimbursement of Special Drawing Account Expenses.....		698,615	698,615
Remuneration.....	1,981,750		1,981,750
Reconstitution.....	107,228,917		107,228,917
	<hr/> 844,615,794	<hr/> 112,630,393	<hr/> 957,246,187
Use of Special Drawing Rights			
Transactions with Designation (Article XXV, Sections 2(a) and 3(a)).....	116,556,572		116,556,572
Transactions without Designation			
Under Article XXV, Section 2(b) (i).....	303,486,629		303,486,629
Net Charges.....	29,274,789		29,274,789
Transfers Between Participants and the General Account			
Purchases.....	292,107,478		292,107,478
Repurchases.....	3,886,000	71,639,283	75,525,283
Charges.....	30,089,484	296,670	30,386,154
Reimbursement of Special Drawing Account Expenses.....		698,615	698,615
Remuneration.....	1,981,750		1,981,750
Reconstitution.....	107,228,917		107,228,917
	<hr/> 551,745,372	<hr/> 405,500,815	<hr/> 957,246,187
Total Holdings as at April 30, 1973 (per Balance Sheet).....	<hr/> 8,697,745,710	<hr/> 617,089,690	<hr/> 9,314,835,400

Appendix VII (*continued*)

STAFF RETIREMENT FUND

MEMORANDUM BY THE AUDIT COMMITTEE

June 26, 1973

To the Managing Director
and the Executive Directors
International Monetary Fund

Our report, dated June 26, 1973, submitted through you to the Board of Governors, on the audit of the financial records and transactions of the International Monetary Fund for the fiscal year ended April 30, 1973, includes the following paragraphs relating to the scope of the audit, and the audit opinion given with respect to the Staff Retirement Fund:

SCOPE OF THE AUDIT

We have examined the accounts and financial statements of the Staff Retirement Fund for the year ended April 30, 1973. In the course of the examination, we referred to the Articles of the Staff Retirement Plan and to the decisions of the Pension, Administration, and Investment Committees created under the Plan. We made what we consider to be an adequate test check of the transactions, taking into account the audit carried out by the Internal Auditor.

AUDIT OPINION

In our opinion, the Balance Sheet, Statement of Source and Application of Funds, and the related schedules—Realized Gains and Losses on Investments, Amortization of Realized Gains and Losses on Bonds, Recognized Appreciation on Stocks, Participants' Account, Accumulation Account, and Retirement Reserve Account—present fairly the financial position of the Staff Retirement Fund as at April 30, 1973, and the results of its transactions for the year then ended, in conformity with generally accepted accounting principles which, except for the change, with which we concur, in the method of valuing the investments as described in the Note to the Balance Sheet, have been applied on a basis consistent with that of the preceding year.

AUDIT COMMITTEE:

/s/ Walter H. Scholz, Chairman (Germany)
/s/ E. S. Okunor (Ghana)
/s/ Chee Keng Soon (Singapore)

Appendix VII (*concluded*)
Exhibit I

STAFF RETIREMENT FUND

BALANCE SHEET

as at April 30, 1973

(See Note)

Amounts expressed in U. S. dollars

ASSETS

CASH AT BANKS.....	\$ 41,508
INVESTMENTS	
Bonds	
Amortized cost (<i>market value, \$15,765,813</i>)	
Notes insured by U. S. Government.....	\$ 2,796,475
International development banks.....	8,282,344
Corporate.....	5,685,459
Total amortized cost.....	\$16,764,278
Add: Net realized losses.....	2,221,106
Funds originally invested.....	\$18,985,384
Deduct: Amortized net realized losses.....	—222,116
Adjusted book value of bonds.....	\$18,763,268
Stocks (Common)	
Cost (<i>market value, \$33,992,212</i>).....	\$32,630,784
Deduct: Net realized gains.....	—3,992,238
Funds originally invested.....	\$28,638,546
Add: Recognized appreciation.....	1,010,000
Adjusted book value of stocks.....	29,648,546
Total Investments.....	48,411,814
ACCRUED INTEREST ON BONDS, AND CONTRIBUTIONS FROM PARTICIPANTS AND EMPLOYER	
TOTAL ASSETS.....	425,918
	<u>\$48,879,240</u>

LIABILITIES AND RESERVES

PARTICIPANTS' ACCOUNT.....	\$10,282,342
ACCUMULATION ACCOUNT.....	30,487,228
RETIREMENT RESERVE ACCOUNT.....	8,108,623
ACCOUNTS PAYABLE.....	1,047
TOTAL LIABILITIES AND RESERVES.....	<u>\$48,879,240</u>

NOTE: Compared with financial statements for prior fiscal years, the valuation of investment holdings has been modified, pursuant to a decision taken by the Pension Committee on August 1, 1972, to recognize a portion of the accumulated unrealized appreciation on stocks and to amortize over a period of ten years the accumulated net losses realized on bonds.

/s/ W. O. HABERMEIER
Treasurer

/s/P.-P. SCHWEITZER
Managing Director

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INDEXES

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Index A: International Monetary Fund

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

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

ARTICLES OF AGREEMENT CITED

- Article IV, Par Values of Currencies
 - Section 8, Maintenance of gold value of the Fund's assets, 112
- Article V, Transactions with the Fund
 - Section 6, Purchases of currencies from the Fund for gold, 91*
 - Section 7, Repurchase by a member of its currency held by the Fund, 49, 52, 55, 68, 86*, 87*, 88*
 - Section 8, Charges, 56
 - Section 9, Remuneration, 56
- Article VII, Scarce Currencies
 - Section 2, Measures to replenish the Fund's holdings of scarce currencies, 91*
- Article VIII, General Obligations of Members, 53, 57, 61, 69, 92*
- Article XII, Organization and Management
 - Section 3, Executive Directors, 94
 - Section 5, Voting, 95
 - Section 6, Reserves and distribution of net income, 91*(fn), 115*(fn)
- Article XIV, Transitional Period, 53, 57, 61
- Article XXV, Operations and Transactions in Special Drawing Rights
 - Section 2, Transactions between participants, 76*(fn), 117
 - Section 5, Designation of participants to provide currency, 96, 98
 - Section 6, Reconstitution, 55, 82*(fn), 95, 96, 97
 - Section 7, Operations and transactions through the General Account, 53, 82*(fn)
- Article XXVI, Special Drawing Account Interest and Charges
 - Section 4, Assessments, 56
 - Section 5, Payment of interest, charges, and assessments, 76*(fn)
- Article XXVII, Administration of the General Account and the Special Drawing Account, 95, 97
- Article XXX, Termination of Participation, 116(fn)
- Article XXXI, Liquidation of the Special Drawing Account, 116 (fn)
- Schedule A, Quotas, 94
- Schedule B, Provisions with Respect to Repurchase by a Member of Its Currency Held by the Fund, 55, 69
- Schedule F, Designation, 50

Schedule G, Reconstitution, 51 (fn), 55, 82*(fn), 95, 96, 97, 98

BALANCE SHEETS

- General Account, 114
- Special Drawing Account, 116
- Staff Retirement Fund, 119

BOARD OF GOVERNORS

- Membership Resolutions approved, 61

Resolutions cited

- Resolution No. 25-3, Increases in Quotas of Members—Fifth General Review, 55, 61

Resolution No. 26-9, International Monetary System, 47

Resolution No. 27-10, Establishment of a Committee on Reform of the International Monetary System and Related Issues, 46

Resolution No. 27-12, Size and Structure of the Executive Board, 62, 95

Resolution No. 28-2, Review of Reconstitution Pursuant to Article XXV, Section 6(b) of the Articles of Agreement, 51(fn), 97

BUDGET

Administrative, 107, 108

Income and expenditure, 56, 91*, 109

See also FINANCIAL STATEMENTS

BUFFER STOCK FINANCING, 51, 53, 54, 55, 61, 82*, 98

BY-LAWS CITED

Section 10, Report of Executive Directors, 41

Section 20, Budget and Audits, 110, 111

CENTRAL RATES OF MEMBERS

Established or changed, 6, 7, 47, 48, 66, 67, 75*

List of rates as of July 16, 1973, 70-73

See also EXCHANGE RATES OF MEMBERS; PAR VALUES OF MEMBERS

CHARGES, GENERAL ACCOUNT, 49, 56, 92*

COMMITTEE OF TWENTY, 46, 59

COMPENSATORY FINANCING, 51, 54, 55, 82*, 85*, 86*(fn)

CONSULTATIONS WITH MEMBERS, 57, 61

DEPUTY MANAGING DIRECTOR

Notice of intention to resign, 62

EFFECTIVE PARITY RELATIONSHIP, 53

EXCHANGE RATES OF MEMBERS

Changes in system, 1-8, 46-48, 65-67

List of rates as of July 16, 1973, 70-73*

EXECUTIVE BOARD DECISIONS CITED
102-(52/11), Use of Fund's Resources and Repurchases, 82* (fn), 112*(fn)

708-(57/57), Fund's Investment Program, 110, 114, 115*(fn)

904-(59/32), Exchange Dealings and Margins Under Conditions of Increasing Convertibility, 52, 53

1477-(63/8), as amended, Compensatory Financing of Export Fluctuations, 54(fn), 85*

1687-(64/22), Exchange Transactions Prior to the Establishment of Initial Par Value, 82* (fn), 112*(fn)

2192-(66/81), *see* 1477-(63/8)

2772-(69/47), The Problem of Stabilization of Prices of Primary Products, 99

2901-(69/122)G/S, Use of Special Drawing Rights in Repurchases and Payment of Charges, 49 (fn)

3033-(70/38), Use of Special Drawing Rights in Payment of Remuneration, 56(fn)

3049-(70/44), Effects of Amended Articles on Calculation of Monetary Reserves and Repurchase Obligations Pursuant to Article V, Section 7(b), 69, 87*(fn)

3457-(71/121)G/S, Principles and Procedures for Reconstitution, 55, 82*(fn), 98

3463-(71/126), Central Rates and Wider Margins: A Temporary Regime, 47(fn), 75*

3537-(72/3)G/S, Adjustment of the Fund's Holdings of Currencies and Exchange Rates for Transactions Between Participants in Special Drawing Rights, 53(fn)

3637-(72/41)G/S, Rates for Computations and Adjustment of the Fund's Holdings of Currencies, 52(fn), 53(fn), 112* (fn)

3829-(72/144) S, Reconstitution: Amendment of Rules P-2 and P-3, 51(fn), 55, 82*(fn), 98

3834-(72/14)S, Special Drawing Account: Review of Designation, 50(fn), 98, 112*(fn)

3865-(73/12)G/S, Exchange Rates for Computations by the Fund, 53(fn), 98

3933-(73/42), Buffer Stock Financing: International Cocoa Agreement, 53(*fn*), 99

EXECUTIVE DIRECTORS
 List and voting power, 100–102
 Membership changes, 103–106
 Reports to Board of Governors
 Reform of the International Monetary System, 47
 Size and Structure of the Executive Board, 62, 94
 Special Drawing Account: The Rules for Reconstitution, 95
 Reviews and studies, 47, 56, 98

FINANCIAL STATEMENTS, 69, 110–19

GENERAL ACCOUNT TRANSACTIONS
 Holdings of special drawing rights, 34, 49, 51, 52*, 67, 76, 112, 116, 117
 Net use of resources, 51, 52
 Purchases by members, 45, 54, 55, 56, 68, 82*, 85*, 89*, 90†, 91*
 Repurchases by members, 49, 51, 52, 55, 68, 86*, 87*, 88*, 89*, 90†, 91*
 Transfers of special drawing rights, 48, 49, 51, 52, 53, 55, 56, 81*, 82*, 88*, 109, 117
 Use of currencies, 53, 88*

GOLD
 Holdings, 34, 56, 112

Investments, 34, 115
 Transactions, 56, 69, 87*, 88*, 91*

INCOME AND EXPENDITURE, 56, 69, 91* *See also* BALANCE SHEETS; FINANCIAL STATEMENTS

INTERNATIONAL MONETARY SYSTEM
 Developments, effect on Fund operations, 46, 49, 52
 Reform of, 1, 46, 59

INTERNATIONAL ORGANIZATIONS, 59–61

MANAGING DIRECTOR
 Addresses, etc., 60
 Procedure for proposing SDR allocations, 49
 Tenure of office, 62

MEMBERS AND PARTICIPANTS, 61

PAR VALUES OF MEMBERS
 Established or changed, 5, 47, 48, 53, 65, 66, 67, 74*
See also CENTRAL RATES OF MEMBERS; EXCHANGE RATES OF MEMBERS

PUBLICATIONS, 93

QUOTAS, 61–62

RECONSTITUTION, 49, 50–51, 76*, 81*, 95–98, 117

REMUNERATION, 49, 56, 91*, 109, 114, 117

REPRESENTATIVE RATE, 52, 53

RESERVE POSITIONS IN FUND, 34, 35*, 36*, 37

RULES AND REGULATIONS
 Rule I, Repurchases and Charges in Respect of General Account Transactions, 56 (*fn*)
 Rule O, Transactions Involving Special Drawing Rights, 52, 53, 98
 Rule P, Reconstitution, 51(*fn*), 97, 98

SPECIAL DRAWING RIGHTS
 Allocations, 34, 49, 52*, 77–78*, 116
 Currencies transferred for, 50, 80*
 Designation, 49, 50, 76*, 78–79*, 98
 Distribution of holdings, 51, 52*
 Holdings by General Account, 34, 49, 51, 52*, 67, 76*, 112, 116, 117
 Transactions and operations, 48–51, 67, 76*, 77–79*

STAND-BY ARRANGEMENTS, 54, 55, 56, 68, 82*, 83*, 84*, 86*, 90†

STAFF APPOINTMENTS, 62

TECHNICAL ASSISTANCE AND TRAINING, 57–59

UNIT OF VALUE, 65

Index B. Countries, Organizations, and Subjects

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

References to the tables pertain mostly to information on members' exchange rates and to the transactions and operations of the Special Drawing Account and the General Account. The principal tables on these subjects appear in Appendix I. The following indication of the subjects covered and the page numbers of the tables may be a useful guide to this index.

Exchange rates as of July 16, 1973 (Table I.1), pages 70-73

Par values and central rates established or changed during the fiscal year (Tables I.2 and I.3), pages 74 and 75

Transactions and operations of the Special Drawing Account during the fiscal year (Table I.5), pages 77-79

Purchases and repurchases from the General Account (Tables I.8, I.11, and I.12), pages 82, 85, and 86

AFGHANISTAN, 70*, 77*, 85*, 86*

AFRICAN DEVELOPMENT BANK, 60

ALGERIA, 67, 70*, 77*

ARGENTINA, 48, 54, 70*, 77*, 81*, 82*, 85*, 92*

ASIAN DEVELOPMENT BANK, 60

AUSTRALIA

- Balance of payments, 25, 27, 41*
- Economic growth, 10
- Exchange rate, 45, 66, 70*, 74*
- IMF relations, 77*, 92*
- International reserves, 39, 40*, 41*, 42

AUSTRIA, 48, 67, 70*, 77*, 92*

BAHAMAS, 47, 61, 66, 74*

BAHRAIN, 61, 67, 70*, 74*, 92*

BALANCE OF PAYMENTS, 1, 2, 15, 18-29

- See also* individual countries

BANGLADESH, 54, 55, 61, 70*, 77*, 81*, 82*, 85*

BANK FOR INTERNATIONAL SETTLEMENTS (BIS), 8, 21, 34, 59

BARBADOS, 70*, 77*

BELGIUM

- Capital movements, 20, 21
- Economic growth, 9
- Exchange rate, 6, 7†, 48, 66, 70*
- IMF relations, 51, 77*, 92*
- Interest rates, 23†
- International reserves, 40*

BERMUDA, 66, 74*

BOLIVIA

- Exchange rates, 66, 70*, 74*, 75*
- IMF relations, 77*, 81*, 82*, 83*, 86*, 92*

BOTSWANA, 65, 66, 67, 70*, 74*, 77*

BRAZIL, 28, 41, 43, 70*, 77*, 83*, 85*

BRITISH SOLOMON ISLANDS PROTECTORATE, 74*

BURMA, 70*, 77*, 82*, 83*, 85*, 86*

BURUNDI, 66, 70*, 74*, 77*, 85*, 86*

CAMEROON, 70*, 77*

CANADA

- Balance of payments, 18, 19*, 20, 21
- Economic situation, 8, 9, 11, 12
- Exchange rate, 4†, 7†, 47, 48, 70*
- Foreign trade, 16*, 18*
- IMF relations, 51, 52*, 77*, 92*
- International reserves, 38, 40*
- Prices, 10*, 14†

CAPITAL MOVEMENTS, 3, 4, 5, 6, 8, 20-24, 44

- See also* EURO-CURRENCY MARKET and individual countries

CARIBBEAN DEVELOPMENT BANK, 60

CAYMAN ISLANDS, 74*

CENTRAL AFRICAN REPUBLIC, 70*, 77*, 86*

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION, 60

CHAD, 70*, 77*, 86*

CHILE, 48, 61, 70*, 77*, 81*, 82*, 85*, 86*

CHINA, REPUBLIC OF, 65, 66, 70*, 74*, 75*

COLOMBIA, 28, 70*, 77*, 81*, 83*, 85*, 86*

COMMODITIES, PRIMARY, 15, 17-18, 24-25, 29

CONGO, PEOPLE'S REPUBLIC OF THE, 70*, 77*, 86*

COSTA RICA, 70*, 77*, 92*

CYPRUS, 48, 67, 70*, 77*

DAHOMEY, 70*, 77*

DENMARK

- Exchange rate, 3, 4†, 48, 66, 67, 70*
- Foreign trade, 18
- IMF relations, 77*, 92*

DOMINICAN REPUBLIC

- Exchange rate, 65, 66, 70*, 74*, 75*
- IMF relations, 77*, 81*, 85*, 86*, 92*

ECUADOR

- Exchange rate, 66, 70*, 75
- IMF relations, 77*, 81*, 82*, 83*, 85*, 86*, 92*

EGYPT, 28, 48, 70*, 77*, 85*, 86*

EL SALVADOR

- Exchange rate, 65, 70*, 74*
- IMF relations, 77*, 82*, 83*, 85*, 86*, 92*

EQUATORIAL GUINEA, 54, 71*, 77*, 82*

ETHIOPIA, 61 (fn), 71*

EURO-CURRENCY MARKET, 20, 21, 23†, 25, 36*, 37, 38

- See also* CAPITAL MOVEMENTS

EUROPEAN ECONOMIC COMMUNITY (EEC), 34, 59, 60

See also EXCHANGE RATES, EEC arrangements

EXCHANGE MARKETS

- Closure of markets, 6, 48, 65, 66
- Developments, 1-8, 45-48

EXCHANGE RATES

- Currency realignments, 1, 2, 3, 5, 19, 20, 22, 28, 29, 30, 45, 46, 53 (fn)
- EEC arrangements, 2, 3, 6, 7, 8, 48, 50, 67, 73*(fn)
- Floating, 5†, 6, 45, 46, 47, 48, 65, 66, 67, 70-73
- Forward rates, 7†, 8
- Impact of realignments on Adjustment process, 19-22, 28-32
- Capital movements, 22
- Debt and debt servicing, 30-31
- Developing countries, 2, 24, 28, 29, 31-33
- International reserves, 28, 29, 30, 34
- Trade flows, 1, 19, 28, 29
- Implication of greater flexibility, 31-33
- Margins specified for, 2, 3, 6, 7, 8, 46, 48, 66, 70-73
- Spot quotations, 4†, 5†
- See also* Index A

FIJI, 65, 71*, 77*, 92*

FINLAND, 10, 48, 66, 67, 71*, 75*, 77*, 81*

FOOD AND AGRICULTURE ORGANIZATION, 60, 61

FRANCE

- Balance of payments, 19*, 21, 41*
- Economic situation, 9, 12-13
- Exchange rate, 4†, 6, 7†, 48, 66, 71*
- Foreign trade, 16*, 18
- IMF relations, 50, 77*, 92*
- International reserves, 36*, 38, 39, 40*, 41*
- Prices, 10*, 13

GABON, 71*, 77*, 86*

GAMBIA, THE, 65, 71*, 77*, 86*

GENERAL AGREEMENT ON TARIFFS AND TRADE, 59, 60

GERMANY, FEDERAL REPUBLIC OF

- Balance of payments, 3, 7, 19*, 21, 41*
- Economic situation, 9, 11, 13
- Exchange rate, 3, 4†, 6, 7, 48, 66, 71*, 75*

Foreign trade, 16*, 18
 IMF relations, 50, 77*, 92*
 Interest rates, 8, 23†
 International reserves, 36*, 38, 39,
 40*, 41*, 42
 Prices, 10, 11, 13
GHANA, 61, 71*, 78*, 85*, 86*
GOLD, 4†, 6, 34, 35*, 36*, 73
GREECE
 Capital movements, 25
 Economic growth, 10
 Exchange rate, 65, 66, 71*, 74*,
 75*
 IMF relations, 78*
 International reserves, 39
GROUP OF TEN, 60
GROUP OF TWENTY-FOUR, 60
GUATEMALA
 Exchange rate, 71*, 74*
 IMF relations, 65, 78*, 83*, 85*,
 86*, 87*, 92*
GUINEA, 71*, 78*, 81*, 86*
GUYANA, 65, 71*, 78*, 83*, 86*, 92*
HAITI, 66, 71*, 75*, 78*, 83*, 85*,
 86*, 92*
HONDURAS, 65, 71*, 74*, 78*, 83*,
 92*
HONG KONG, 75*
ICELAND
 Exchange rate, 48, 65, 66, 67, 71*,
 74*, 75*
 IMF relations, 78*, 85*, 86†, 87*
INCOMES POLICY, 11, 12, 13, 14
INDIA, 10, 61, 65, 71*, 78*, 85*
INDONESIA, 28, 61, 71*, 78*, 81*,
 82*, 83*, 86*
INDUSTRIAL COUNTRIES
 Balance of payments, 1, 2, 4, 19–
 24, 26*
 Capital movements, 2, 3, 4, 6, 7,
 8, 15, 20–21, 25, 43
 Economic situation, policy, and
 prospects, 8–15
 Euro-currency holdings, 39*
 Foreign trade, 16, 18
 IMF relations, 51, 52*, 90†
 International reserves, 21, 30, 37,
 38, 39, 40†
 Prices and wages, 1, 4, 8–15
INFLATION, 1, 4, 8–15, 22, 32, 45
INTER-AMERICAN DEVELOPMENT BANK,
 60
INTEREST RATES, 3, 4, 8, 22, 23†
 See also CAPITAL MOVEMENTS;
 EURO-CURRENCY MARKET; and
 individual countries
**INTERNATIONAL BANK FOR RECON-
 STRUCTURE AND DEVELOPMENT**,
 59, 60
**INTERNATIONAL COFFEE ORGANI-
 ZATION**, 60
INTERNATIONAL LABOR ORGANIZATION,
 60
INTERNATIONAL MONETARY SYSTEM
 Committee of Twenty, 46, 59
 Reform of, 1, 46, 59
INTERNATIONAL RESERVES
 Adequacy, 41–45, 46
 Credit facilities, 35*
 Developments, 15, 34–41
 Euro-market holdings, 37, 38, 39*
 Foreign exchange, 21, 34, 35, 36*,
 37, 38, 44
 Gold, 34, 35*, 36*, 37†, 44
 Impact of
 Currency realignment, 30, 34
 U.S. balance of payments deficit,
 35, 58
 Industrial countries, 38, 39, 40*
 Measurement, 30, 38
 Pattern of distribution, 38–41
 Primary producing countries, 39,
 40*
 Private balances, 43
 Ratio of reserves to imports, 42–43
 Reserve positions in the Fund, 34,
 35*, 36*, 37†
 Sources of reserve change, 36
 Special drawing rights, 34, 35*,
 36*, 37
 Swap credits, 36*, 37
 Total, 34, 35*, 37†, 40*
INTERNATIONAL TIN COUNCIL, 61
IRAN, 28, 66, 71*, 74*, 78*, 86*, 87*
IRAQ, 42, 68, 71*, 78*, 85*, 86*, 87*
IRELAND, 6, 48, 65, 71*, 78*, 81*,
 92*
ISRAEL
 Capital inflow, 28
 Exchange rate, 65, 66, 71*, 74*,
 75*
 IMF relations, 78*, 86*, 87*
ITALY
 Balance of payments, 4, 5, 19*, 20
 Economic situation, 9
 Exchange rate, 3, 4, 5, 6, 7, 48, 66,
 71*
 Foreign trade balance, 16*, 18
 IMF relations, 78*, 81*, 92*
 International reserves, 4, 39, 40*
 Prices, 10*, 11, 13
IVORY COAST, 71*, 78*
JAMAICA, 48, 65, 66, 71*, 74*, 75*,
 78*, 82*, 92*
JAPAN
 Balance of payments, 3, 4, 6, 19*,
 20, 21, 41*
 Economic situation, 7†, 9, 11, 12
 Exchange rate, 4†, 48, 66, 71*
 Foreign trade, 16*, 18*
 IMF relations, 51, 52*, 78*, 92*
 International reserves, 38, 39, 40*,
 41*, 42
 Prices, 10*, 11, 12, 14†
JORDAN, 65, 71*, 74*, 78*, 82*, 85*
KENYA, 48, 66, 67, 71*, 74, 78*
KHMER REPUBLIC, 61, 71*, 78*, 82*,
 85*
KOREA, 28, 71*, 78*, 83*
KUWAIT, 27, 42, 61(fn), 71*, 92*
LAOS, 71*, 78*
LEBANON, 61(fn), 71*

LESOTHO, 65, 66, 67, 71*, 74*, 78*,
 86*
LIBERIA, 65, 71*, 74*, 78*, 81*, 82*,
 83*, 86*
LIBYAN ARAB REPUBLIC, 27, 42, 61
 (fn), 71*
LUXEMBOURG, 6, 48, 66, 71*, 78*,
 92*
MALAGASY REPUBLIC, 71*, 78*
MALAWI, 65, 71*, 78*, 86*
MALAYSIA, 48, 67, 71*, 78*, 81*, 92*
MALI, 72*, 78*, 81*, 83*, 86*
MALTA, 65, 72*, 78*
MAURITANIA, 72*, 78*, 86*
MAURITIUS, 65, 72*, 74*, 78*
MEXICO, 28, 65, 72*, 74*, 78*, 81*,
 92*
MOROCCO, 48, 67, 72*, 78*, 86*
NEPAL, 61, 65, 66, 72*, 74*, 75*,
 79*
NETHERLANDS
 Balance of payments, 20, 41*
 Economic growth, 9
 Exchange rate, 3, 4†, 6, 48, 66,
 72*, 75*
 IMF relations, 48, 50, 79*, 92*
 International reserves, 40*, 41*
NETHERLANDS ANTILLES, 47, 66, 75*
NEW ZEALAND, 10, 40*, 48, 67, 72*,
 79*, 81*, 85*
NICARAGUA, 65, 72*, 74*, 79*, 83*,
 86*, 87*, 92*
NIGER, 72*, 79*, 86*
NIGERIA, 66, 72*, 75*, 79*, 82*, 86*
NORWAY, 4†, 6, 48, 50, 66, 72*, 79*,
 92*
OMAN, 72*, 79*
**ORGANIZATION FOR ECONOMIC COOP-
 ERATION AND DEVELOPMENT**,
 59, 60
ORGANIZATION OF AMERICAN STATES,
 60
PAKISTAN
 Exchange rate, 65, 72*, 74*
 IMF relations, 48, 61, 79*, 82*,
 83*, 86*
PANAMA, 66, 72*, 75*, 79*, 83*, 92*
PARAGUAY, 72*, 79*
PERU, 72, 79*, 82*, 85*, 86*, 92*
PETROLEUM, 24
PHILIPPINES, 61, 72*, 79*, 81*, 82*,
 83*, 86*
PORTUGAL, 10, 43, 48, 61, 66, 67, 72*,
 75*
PRIMARY PRODUCING COUNTRIES
 Balance of payments, 1, 15, 17,
 25, 26*, 27
 Capital movements, 15, 20, 21, 24,
 25, 27
 Debt and debt servicing, 28, 30
 Economic growth, 9*, 10, 11*
 Euro-currency holdings, 37, 39*

Exchange rates
Effective devaluation of U.S. dollar, 29
Effect of flexibility, 31-32
Foreign trade, 11*, 15, 16, 17, 25
IMF relations, 52*, 54, 90†
International reserves, 15, 30, 37, 38, 39, 40*
Prices, 10, 11*, 15, 17, 22, 25
Terms of trade, 15, 24, 28-29
See also PRIMARY PRODUCING COUNTRIES—LESS DEVELOPED; PRIMARY PRODUCING COUNTRIES—MORE DEVELOPED; and individual countries

PRIMARY PRODUCING COUNTRIES—LESS DEVELOPED
Africa, 10, 11*, 16*, 26*, 28, 39*, 40*, 41, 52*
Asia, 9*, 10*, 11*, 26*, 28, 39*, 40*, 41, 52*
Middle East, 10, 11*, 18*, 21, 26*, 28, 39*, 40*, 41, 52*
Petroleum producers, 10, 16*, 17, 18*, 26*, 27, 28, 39, 52*
Western Hemisphere, 10, 11*, 26*, 28, 39*, 40*, 41
See also individual countries

PRIMARY PRODUCING COUNTRIES—MORE DEVELOPED
Balance of payments, 25, 26*, 27
Economic growth, 9, 10
Foreign trade, 16, 17, 18*, 25, 27
International reserves, 39, 40*, 52*
See also individual countries

PRODUCTION
World output, 8, 11

QATAR, 61, 67, 72*

ROMANIA, 61, 72*

RWANDA, 72*, 79*, 82*

SAUDI ARABIA, 27, 41*, 42, 61(*fn*), 72*, 92*

SENEGAL, 72*, 79*, 86*

SIERRA LEONE, 65, 72*, 79*

SINGAPORE, 28, 48, 61(*fn*), 67, 72*, 92*

SOMALIA, 65, 72*, 74*, 79*, 86*

SOUTH AFRICA
Balance of payments, 25, 27, 41*
Exchange rate, 48, 65, 66, 67, 72*, 74*
Gold holdings, 34
IMF relations, 79*, 81*
International reserves, 39, 40*, 41*
SPAIN, 25, 39, 41*, 43, 72*, 79*, 81*

SRI LANKA, 61, 65, 72*, 79*, 81*, 85*, 86*

SUDAN, 72*, 79*, 81*, 82*, 83*, 85*, 86*

SURINAM, 47, 66, 75*

SWAZILAND
Exchange rate, 65, 66, 67, 72*, 74*
IMF relations, 79*, 81*, 82*, 86*

SWEDEN
Economic growth, 9
Exchange rate, 4†, 48, 66, 72*, 75*
Foreign trade, 18
IMF relations, 79*, 92*

SWITZERLAND
Capital movements, 3, 5, 21
Exchange rate, 4†, 5, 7†, 47, 66
Foreign trade, 18
Interest rates, 23†, 81
International reserves, 40*, 42

SYRIAN ARAB REPUBLIC, 72*, 79*, 85*, 86*

TANZANIA, 48, 61, 66, 67, 73*, 74*, 79*

THAILAND, 61, 65, 67, 73*, 74*, 79*, 86*

TOGO, 73*, 79*

TRINIDAD AND TOBAGO, 65, 73*, 79*, 82*

TUNISIA, 61, 73, 79*, 86*, 87*

TURKEY, 25, 39, 41*, 61, 66, 73*, 75*, 79*

TURKS AND CAICOS ISLANDS, 74*, 75*

UGANDA, 48, 66, 67, 73*, 74*, 79*, 83*

UNITED ARAB EMIRATES, 61, 73*

UNITED KINGDOM
Balance of payments, 18, 19*, 20, 21
Economic situation, 9, 11, 13
Exchange rate, 3, 4†, 7†, 47, 48, 65, 73*
Foreign trade, 16*, 17, 18*
IMF
Article VIII status, 92*
Gold deposit, 34
General Account transactions, 51, 53, 54, 55, 82*
SDR transactions, 48, 49, 50, 51, 52†, 53, 79*, 81*, 88*
Use of resources, 90†
Interest rates, 23†
International reserves, 39, 40†
Official claims in pounds sterling, 36*, 37, 38

Prices, 10*, 13

UNITED NATIONS, 59, 60

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT, 59

UNITED STATES
Balance of payments, 2, 3, 4, 15, 18, 19, 20, 21, 22, 35, 36*, 38*, 44
Capital movements, 3, 4, 15, 21, 43
Dollar convertibility, suspension of, 46
Economic situation, 3, 4, 8†, 9, 11
Exchange rate, 19, 34, 47, 73*, 74*
Foreign trade, 16, 17
Incomes policy, 11, 12
Interest rates, 3, 4, 8, 22
IMF
Article VIII status, 92*
Gold transactions with, 34, 91*
General Account transactions, 38*
SDR transactions, 38*, 50, 52*, 79*, 81*
Use of resources, 90†
Interest rates, 23†
International reserves, 40*
Official claims in dollars, 2, 5, 35, 36*, 37, 38, 43
Prices and wages, 3, 4, 10*, 11, 12, 14†
Swap arrangements, 7, 36*, 45

UPPER VOLTA, 73*, 79*, 86*, 87*

URUGUAY, 48, 73*, 79*, 81*, 83*, 85*, 86*

VEZUELA, 28, 43, 73*, 79*

VIET-NAM, 28, 73*, 79*

WESTERN SAMOA, 73*, 79*

WORLD TRADE, 11, 15, 16, 17†, 18*, 44
See also individual countries

YEMEN ARAB REPUBLIC, 73*, 79*, 87*

YEMEN, PEOPLE'S DEMOCRATIC REPUBLIC OF, 73*, 79*, 86*, 87*

YUGOSLAVIA
Exchange rate, 48, 66, 67, 73*, 74*
IMF relations, 48, 79*, 82*, 83*, 86*
International reserves, 39

ZAIRE, 54, 66, 73*, 75*, 79*, 81*, 85*

ZAMBIA, 54, 73*, 79*, 81*, 82*, 85*