

ANNUAL REPORT 1975
INTERNATIONAL MONETARY FUND



ANNUAL REPORT
1975

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INTERNATIONAL MONETARY FUND

ANNUAL REPORT

OF THE
EXECUTIVE DIRECTORS FOR THE
FISCAL YEAR ENDED APRIL 30, 1975

WASHINGTON, D.C.

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The following symbols have been used throughout this Report:

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

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

(–) is used between years or months (e.g., 1969–75 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

(/) is used between years (e.g., 1974/75) 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 3.

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International Monetary Fund

H. Johannes Witteveen
Managing Director and Chairman of the Executive Board

William B. Dale
Deputy Managing Director

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Office in Geneva	Edgar Jones, <i>Director</i>
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Chief Editor	Norman K. Humphreys

July 25, 1975

¹ Effective August 1, 1975.

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LETTER OF TRANSMITTAL
TO THE BOARD OF GOVERNORS

July 25, 1975

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, 1975.

Yours sincerely,

/s/

H. JOHANNES WITTEVEEN

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

By traditional standards, the performance of the world economy during 1974 and the first half of 1975 was poor. But by reference to the serious and complex range of problems that had to be confronted, this performance can be characterized as mixed. The slowdown of economic growth in the industrial world that was in process around the beginning of 1974 developed into an unexpectedly severe and widespread recession, featuring exceptionally high rates of unemployment. On the other hand, expansionary policies have been adopted in a number of industrial countries to foster resumption of economic growth; essentially because of the international recession, progress on the inflation front has been better than anticipated; and the problems of financing the external current account deficits associated with the oil price increase have proved—partly because of the recession—less intractable than initially feared.

During the first half of 1975, unemployment and slack in utilization of productive capacity in the large industrial countries reached levels not witnessed for several decades. The effects of the downturn in the industrial world had spread progressively to other areas after mid-1974, making it difficult for many developing countries to maintain satisfactory rates of growth in their real incomes.

However, the downward momentum of late 1974 and early 1975 seems to have diminished or disappeared in very recent months. By the second quarter, the authorities of most major industrial countries had instituted fiscal and monetary policies designed to spur recovery, and the stage appeared to be set for renewed acceleration of economic activity. Although such an upturn was not yet clearly in evidence at mid-1975, it was generally expected to begin during the second half of the year.

Because of the virulence of the inflation that had developed during the 1972–73 boom, the expansionary fiscal and monetary measures adopted to combat the subsequent recession have remained generally cautious.

While rates of inflation have generally been subsiding during the recession, prices are still rising in most countries at a pace that is extremely high by historical standards, and cost-push pressures remain a widespread problem. The danger that unduly stimulative policies might reactivate an inflationary psychology cannot be ignored by national authorities.

These circumstances, given the difficulties and uncertainties of economic forecasting, call for watchfulness with respect to evolving trends and for flexibility in the adaptation of national policies. The risks of an excess of caution that could prolong the wasteful underutilization of manpower and capital facilities must be continually weighed against those of an overly rapid expansion of demand that could generate renewed instability of prices.

The massive disequilibrium in international payments that arose from the overlay of higher oil prices on a situation already characterized by sizable imbalances among the industrial countries remains a serious problem, but has assumed an altered form. To date, investment of the surpluses of oil exporting countries in national and international financial markets—together with the expansion of official financing (through both bilateral arrangements and multilateral facilities)—has resulted in a satisfactory channeling of funds into the financing of the current account deficits of the oil importing countries. The process of international reserve creation that takes place when reserves transferred to the oil exporting countries are replenished through borrowing in the United States or the Eurocurrency market has meant that a substantial accrual of reserves by the oil countries could proceed without serious reduction of the reserves held by the majority of oil importing countries.

However, a crucial problem looms for the period ahead inasmuch as the cyclical downturn in the industrial countries has resulted in a marked shift of current account deficits from those countries toward the primary producing countries. For the latter, con-

siderable erosion of earlier gains in the terms of trade was already evident in 1974; and severe further declines in their terms of trade, coupled with loss of buoyancy in their export markets and the urgent need to maintain essential imports, are tending to raise their current account deficits even higher in 1975 than in 1974. Their need for external financing thus remains high; and many of the non-oil developing countries have already strained their debt-servicing capacity to finance the greatly enlarged current account deficits confronted in 1974.

At best, the non-oil developing countries may have to contemplate some considerable reduction of their net reserve positions to finance the even larger current account deficits in prospect for 1975. For countries with the most severely strained borrowing capabilities, the need for larger flows of concessional aid is urgent; and maintenance of the net inflow of private capital at its high 1974 level will require both care on the part of the borrowing countries to follow policies that defend their creditworthiness and cooperative efforts by capital exporting countries to encourage the needed flows of financial assistance.

To obtain a satisfactory share of the expanded export markets that should materialize when the expected upturn of economic activity in the industrial world takes place, developing countries will require ready access to such markets. In this context, it is heartening to note that the spirit of the Rome communiqué of January 1974 has been observed by most Fund members; with some exceptions, they have avoided the imposition or intensification of restrictions notwithstanding enlarged current account deficits and the impact of recession. It is important that vigilance be maintained in this field because of the damage to the world economy that would result from any widespread resort to restrictions.

Domestic Economic Activity

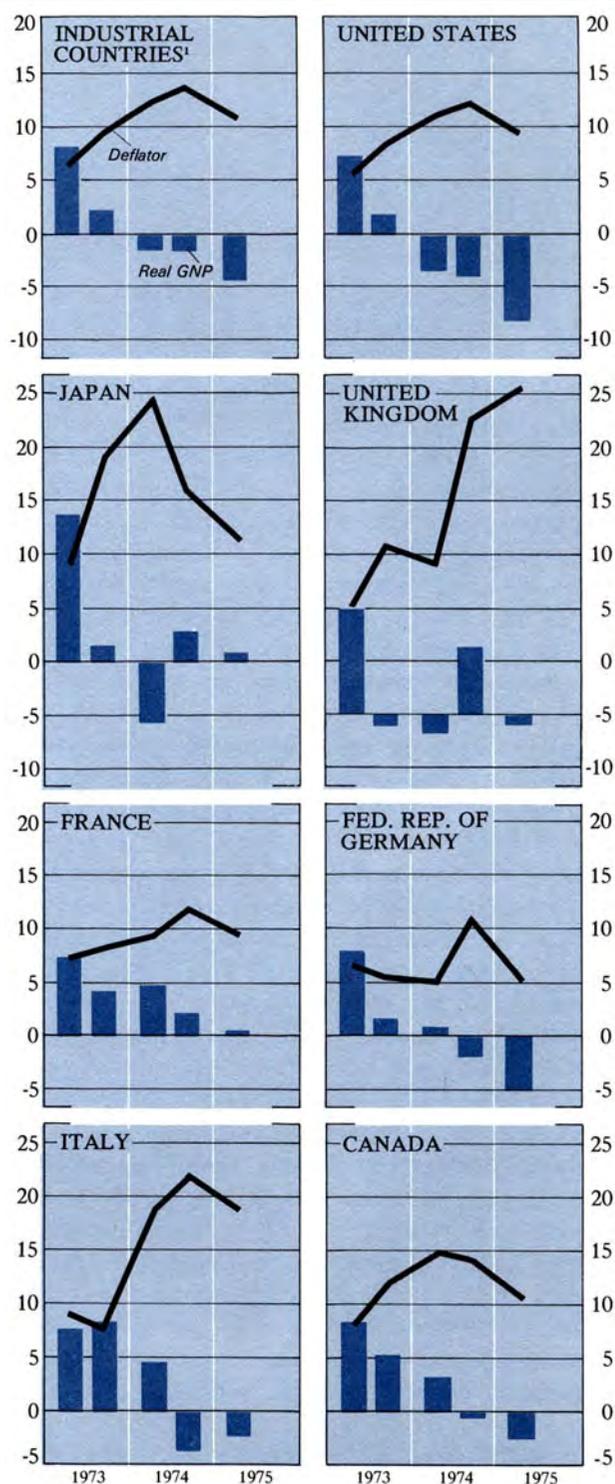
Trends in Output and Inflation

After the 1970–71 economic slowdown, growth of real gross national product (GNP) in the industrial countries accelerated and reached an unsustainably high rate of 8 per cent in the first half of 1973; the rate of increase then fell off sharply in the second half of that year and became negative in both halves of 1974 (Chart 1). These wide fluctuations were in contrast to the growth rate of 4½–5 per cent registered by the industrial countries over the decade of the 1960s (Table 1).

Despite the developing weakness in real activity, price increases grew larger in 1973 and 1974 (Table 2).

Chart 1. Semiannual Changes in Output and Prices in Industrial Countries, First Half 1973–First Half 1975

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



¹ Include, in addition to the countries shown separately in the chart, Austria, Belgium, Denmark, Luxembourg, the Netherlands, Norway, Sweden, and Switzerland.

Table 1. Growth of World Output, 1960–74

(Percentage changes in real GNP)

	Annual Average ¹			Change from Preceding Year				
	1960–70	1960–65	1965–70	1970	1971	1972	1973	1974
Industrial countries	4.8	5.1	4.5	2.6	3.7	5.7	6.2	-0.2
Canada	5.2	5.6	4.8	2.5	5.8	6.0	6.9	2.8
United States	4.0	4.9	3.2	-0.4	3.3	6.2	5.9	-2.1
Japan	11.2	10.2	12.1	10.3	6.8	8.7	10.2	-1.8
France	5.7	5.7	5.6	5.8	5.3	5.7	6.0	3.9
Germany, Fed. Rep. of	4.9	5.0	4.8	5.8	3.0	3.4	5.3	0.4
Italy	5.6	5.3	5.9	4.9	1.6	3.1	6.3	3.4
United Kingdom	2.7	3.2	2.2	2.1	2.2	3.4	5.4	0.3
Other industrial countries ²	4.9	5.0	4.7	5.6	3.2	4.7	4.2	2.7
Primary producing countries	5.6	5.3	5.8	6.6	5.4	5.7	7.1	5.6
More developed ³	5.8	5.9	5.8	6.0	5.7	5.6	6.1	3.5
Less developed ⁴	5.5	5.1	5.8	6.9	5.2	5.7	7.6	6.4
World ⁵	5.0	5.1	4.8	3.4	4.0	5.7	6.4	1.0

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 "More developed" (footnote 3, above). In some of the other tables in this chapter, the less developed countries are subdivided to distinguish the "major oil exporters" (Algeria, Bahrain, Indonesia, Iran, Iraq, Kuwait, the Libyan Arab Republic, Nigeria, Oman, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela) and "other developing countries" (or "non-oil developing countries").

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

The overall rate of price inflation in the industrial countries—as measured by the comprehensive GNP deflators—accelerated to an annual rate of more than 13 per cent in the second half of 1974 (Chart 1). In that period, exceptionally rapid rates of price inflation, together with low or negative rates of growth in output, were widely prevalent among these countries—a situation unprecedented in postwar history.

During 1974, the extent of weakness in real activity and of strength in price pressures was, in general, not foreseen by national officials, or by private and international forecasters. At mid-1974, as noted in last year's Annual Report, inflation was widely regarded as the dominant problem of economic policy; the underlying demand situation still appeared to be expansionary; and most of the major countries were expecting an upturn of real GNP during the second half of the year, although the possibility of international recession was not ruled out. As matters developed, judgments about the trend of real activity were wide of the mark for many of the industrial countries, including the three largest: the United States, the Federal Republic of Germany, and Japan.

This unsatisfactory experience of the industrial countries with respect to output became even worse in early 1975. For these countries as a group, real GNP is estimated to have fallen at an annual rate of 4 per cent from the second half of 1974 to the first half of

1975; the declines were widespread, the largest being that for the United States, estimated at 8 per cent. However, the spreading of recession during 1974 and the early months of 1975 has had the effect of bringing about some noticeable success on the inflation front, and the weighted-average increase of GNP deflators for the industrial countries is estimated to have declined from the peak annual rate of more than 13 per cent in the second half of 1974 to a rate of about 10 per cent in the first half of 1975—still far above the average price increase of about 2½ per cent experienced by the industrial countries in the early 1960s. Although price inflation has accelerated almost steadily over the past ten years, the main change occurred after 1972; in that year, when inflation was already considered a worrisome problem, GNP deflators rose on the average by "only" about 5 per cent.

Compared with the semiannual GNP figures, a somewhat sharper perspective on recent and current developments is afforded by monthly data on industrial production and on consumer prices. The production data, as summarized in Chart 2, indicate that there have been substantial declines of activity in the industrial sectors of most industrial countries. These declines have been in the neighborhood of 19 per cent for Japan, 13 per cent for the United States, 11 per cent for France and Italy, and 9 per cent for the Federal Republic of Germany, while the downward tendency of industrial

Table 2. Price Increases in Developed Countries, 1960-74

(Percentage changes in GNP deflators)

	Annual Average ¹			Change from Preceding Year				
	1960-70	1960-65	1965-70	1970	1971	1972	1973	1974
Industrial countries ²	3.4	2.6	4.2	5.9	5.4	4.8	7.0	11.7
Canada	3.0	1.9	4.2	4.7	3.2	4.9	8.4	13.8
United States	2.7	1.4	4.1	5.5	4.5	3.4	5.6	10.3
Japan	4.8	4.9	4.7	6.7	4.6	5.0	11.1	20.9
France	4.3	4.1	4.4	5.5	5.6	6.0	7.2	9.6
Germany, Fed. Rep. of	3.5	3.6	3.4	7.1	7.9	5.9	5.9	6.6
Italy	4.4	5.5	3.5	6.6	6.6	5.9	10.3	16.3
United Kingdom	4.3	3.6	5.0	7.3	8.9	7.7	7.4	12.6
Other industrial countries ^{2, 3}	4.5	4.4	4.5	5.9	7.2	7.3	7.9	9.8
More developed primary producing countries ²	4.8	4.7	4.9	6.2	9.0	9.4	14.0	16.5
Australia	2.9	2.2	3.6	4.6	6.5	7.6	11.8	16.2
Spain	5.8	6.6	5.0	4.9	7.4	8.9	13.8	12.9
Other countries ^{2, 4}	5.2	5.0	5.4	7.4	10.6	10.2	16.8	19.5

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

¹ Compound annual rates of change.

² Average of percentage changes for individual countries weighted by the U. S. dollar value of their GNPs at current prices in the preceding year.

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

⁴ Finland, Greece, Iceland, Ireland, Malta, New Zealand, Portugal, South Africa, Turkey, and Yugoslavia.

production in Canada and the United Kingdom has been less marked.¹ Meanwhile, there has been a widespread easing of consumer price increases except in the United Kingdom. From December 1974 to May 1975 (the latest month for which consumer price data are presently available), increases averaged about 9 per cent at an annual rate, down from the rate of 14 per cent recorded for the third and fourth quarters of 1974.

The economic slowdown or recession that has developed in all the industrial countries since 1973 has produced an extraordinary degree of economic slack. This is directly evident from officially reported unemployment figures, but is measured most comprehensively in terms of the gap between actual GNP and "potential" GNP.² This broad measure of underutilization of resources is subject to a number of conceptual and statistical difficulties that prevent its serving as a precise guide to policy. For recent periods, it is especially difficult to make adequate allowances for the impact of changes in costs of energy, for the existence of obsolete plant capacity, and for the inhibiting influence of bottlenecks in particular sectors. Nevertheless, with due

caution regarding such deficiencies, the "gap" measure can be of some use as a general indication of comparative economic conditions in the present circumstances. According to "gap" estimates of the Fund staff drawing on national sources to the extent possible, the degree of slack prevailing in the seven major industrial countries during the first half of 1975 was generally substantial both in absolute terms and in relation to prior periods; the indicated underutilization of resources was much larger in the United States and Japan (some 12-14 per cent) than in Canada, the Federal Republic of Germany, and Italy (7-8 per cent) or in France and the United Kingdom (around 5 per cent).

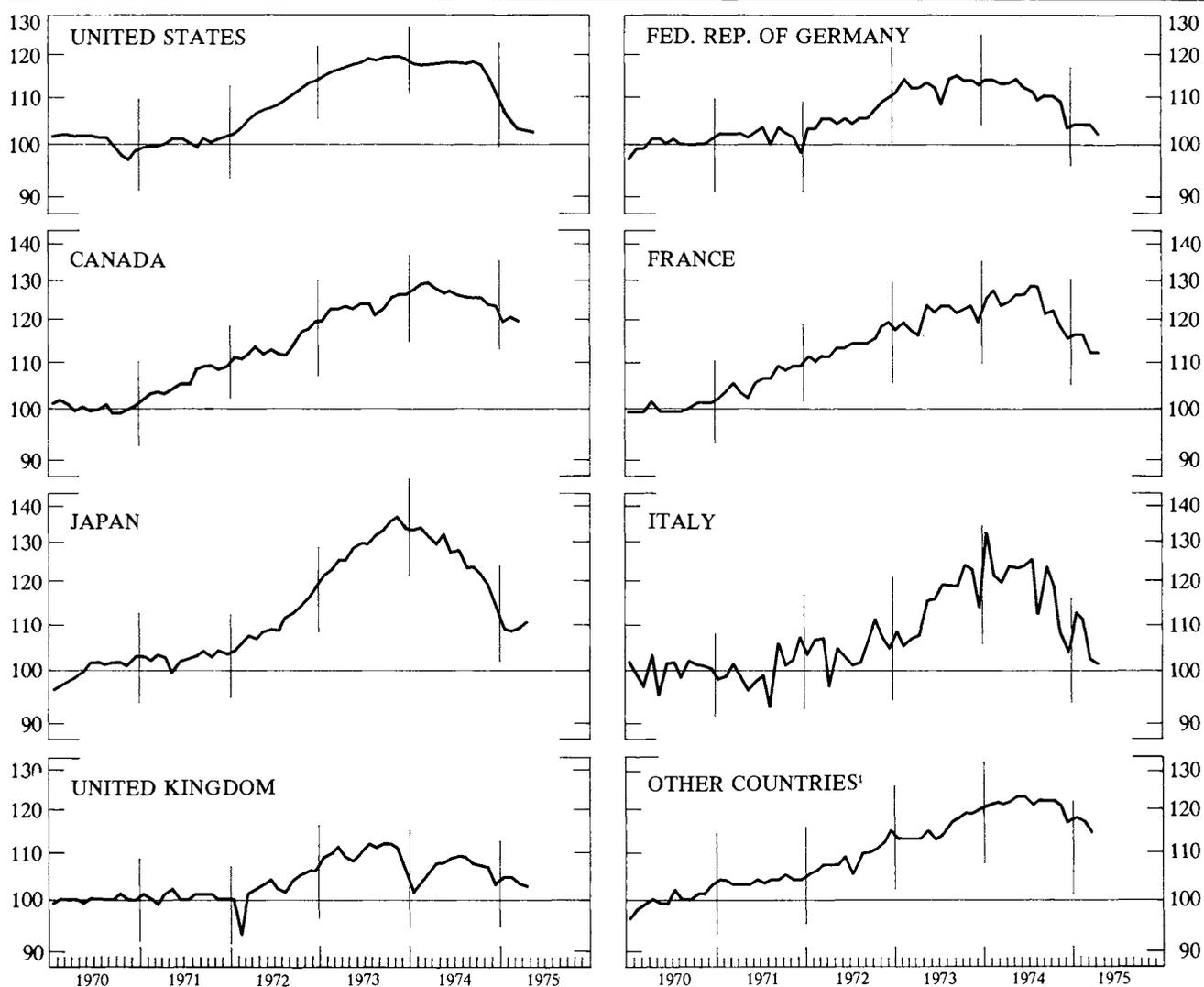
The statistical picture of the current economic situation is much less adequate for the primary producing countries than for the industrial countries. However, the available figures for the more developed primary producing countries indicate that the average rate of growth in real GNP slowed down from about 6 per cent in 1973 to some 3½ per cent in 1974 (Table 1). While a majority of the more developed primary producing countries experienced slower real growth in 1974 than in 1973, economic activity in some of them (e.g., South Africa and Turkey) expanded at substantially higher rates. The overall price increase reached the high rate of 17 per cent in 1974 in the more developed primary producing countries (Table 2), with almost all the countries comprising this group experiencing double-digit inflation. In 1973, the rate of inflation in these countries, averaging 14 per cent, had been

¹ The figures are based on comparison of the latest three months for which data are available with the three months embracing the previous peak (which in each instance occurred in 1974 or in late 1973).

² Potential GNP purports to measure what an economy would produce in a given period if all its resources were "fully" utilized, in a sense more or less consistent with reasonable price stability, given the technology and institutional arrangements existing at the time. The measurement of GNP gaps, therefore, is an attempt to quantify a concept that, by its nature, cannot be closely defined.

Chart 2. Industrial Production in Industrial Countries, 1970–May 1975

(Indices adjusted for seasonal variation; 1970 = 100)



¹ Austria, Belgium, the Netherlands, Norway, and Sweden.

about twice as high as that recorded in the industrial countries.

Total real output in the less developed primary producing countries seems to have risen in 1974 by about 6½ per cent—not far from the average for the past ten years. Growth rates for the oil exporting countries were relatively high (about 9 per cent, on average), reflecting the effects of stepped-up domestic expenditures made possible by increased oil revenues. In the other (non-oil) developing countries, the volume of both domestic demand and imports maintained a high rate of increase from 1973 to 1974, broadly similar to that from 1972 to 1973; however, a sharply reduced rate of growth in foreign demand apparently resulted in some slowing of

overall output growth from 1973 to 1974. Moreover, trade indicators suggest that the pace of economic activity slowed considerably in the course of 1974.

The available data on consumer prices for the less developed countries show that domestic price inflation, after accelerating sharply in 1973, leveled off at a very high rate during 1974 (Table 3). In line with the experience of recent years, inflation in the oil exporting countries in 1974 tended to be lower (about 20 per cent, on average) than in the non-oil countries (more than 30 per cent). In each of four broad regions, the rate of inflation of consumer prices increased markedly from 1973 to 1974, to rates of some 17 per cent in Africa and the Middle East, and to rates of

Table 3. Price Increases in Less Developed Countries, 1965–Fourth Quarter 1974(Percentage changes in consumer prices)¹

	Annual Average 1965–70 ²	Change from Preceding Year			Fourth Quarter 1973 to Fourth Quarter 1974	
		1971	1972	1973	1974	
Less developed countries	13	10	12	21	29	29
In Africa	6	6	5	9	17	17
In Asia	16 ³	6	8	18	31	28
In the Middle East	4	5	6	10	17	17
In the Western Hemisphere	15	15	20	29 ³	36 ³	36 ³

Sources: IMF Data Fund and Fund staff estimates.

¹ Calculated from weighted geometric means of country indices expressed in terms of local currency. Weights are proportional to GDP (in U. S. dollars) in 1970.² Compound annual rates of change.³ Excluding one high-inflation country, the Asian figure in the first column would be 7 per cent; with a similar exclusion, the Western Hemisphere figures in the last three columns would be 20 per cent, 25 per cent, and 27 per cent, respectively.

over 30 per cent in Asia and the Western Hemisphere. By the fourth quarter of 1974 and the early months of 1975, however, rates of inflation had generally stabilized in developing countries and were beginning to come down in some of them.

GNP estimates for the first half of 1975, or projections for the year, are not available for the primary producing countries, but it is nonetheless clear that growth-depressing influences are at work. Because of the slowdown or recession in industrial countries and other factors, the volume of exports of both the more developed primary producers and the non-oil developing countries is unlikely to show any increase at all in 1975 (over 1974) even if, as is generally expected, demand and output in the industrial countries show an upturn in the second half of the year. In 1974, both groups of primary producing countries experienced a partial reversal of the gains in terms of trade realized in the 1972–73 boom, and the non-oil developing group is also being hit by a sharp deterioration of the terms of trade in 1975. Although the growth of import volume of this latter group was maintained surprisingly well in 1974, the associated impairment of external financial positions—through heavy foreign borrowing and a decline in the real purchasing power of reserves—is expected to lead to a considerable decline of import volume in 1975; this would inevitably affect domestic growth rates and development plans. For the more developed primary producers also, a decline of import volume from 1974 to 1975 is likely, and a further slowing of real GNP growth is in prospect, as many of these countries undertake to reduce their still high rates of inflation and to deal with increasingly severe balance of payments problems.

The major oil exporting countries are in a very different position by reason of the large improvement that has occurred in their terms of trade since late in 1973. Without exception, the governments of those countries

are endeavoring to bring about a faster rate of economic growth and development. In a number of cases the rapid increases in domestic liquidity, together with rising import costs, are exerting strong pressures on domestic prices and wages, as domestic demand surges upward while local productive resources are insufficient to meet the added demands associated with the overall boom in spending.

Factors in the Current Inflation and Recession

Any review of factors responsible for the steep acceleration of inflation in the period 1973–74, and for the onset of the severe 1974–75 recession, must start with the unusually high degree of coincidence in the phasing of business expansion in many countries during 1972 and 1973. In practically all the developed countries, economic activity advanced sharply and aggregate demand rose to new high levels during this period.

The 1972–73 upsurge of global demand was to some extent attributable to miscalculations in the conduct of monetary and fiscal policies. In relation to the buoyancy of private demand that materialized, these policies proved excessively expansionary from the standpoint of controlling inflation. They fueled a widespread investment boom that was further driven, during its later stages, by emerging limitations on productive capacity.

As was pointed out in last year's Annual Report, several distinctive features of the boom help to explain why a sharply higher rate of price inflation developed in 1973 and 1974. Among these were the high rates of price increase sustained through the 1970–71 economic slowdown and the upward momentum thus already prevailing at the beginning of the 1972–73 upswing—a momentum doubtless reflecting the evolution of public attitudes and institutional practices that, particularly since the mid-1960s, have become geared to an assured

expectation of continuing advances in costs, prices, and rates of remuneration.

A second distinctive feature of the recent boom was the magnitude of the increase in many primary commodity prices, even apart from oil (Chart 3). The upsurge of commodity prices from the beginning of 1972 through the early months of 1974 had no parallel with earlier peacetime experience—a fact suggesting that this upsurge may have stemmed in part from factors essentially independent of the general process of inflation in the world economy. Such factors included shortages attributable to crop failures resulting from drought or flood, as well as changes in stock positions emanating from earlier shifts of agricultural policy in key countries. In important respects, however, the escalation of commodity prices must be seen as responsive to the boom itself; a special aspect of this response—especially during the latter part of 1973 and the early months of 1974—was anticipatory buying in a climate of inflationary expectations, real or threatened shortages of various materials, and uncertainties regarding the future values of currencies.

The cost-raising influences of the oil price rise and temporary embargo of late 1973 and early 1974 comprised another special feature of the recent boom that contributed to inflation. Because of the relatively low elasticity of demand for oil and its pervasive use in productive processes (given also the short-run limitations of supply), an increase in the price of petroleum of the magnitude witnessed inevitably became an additional element in the ongoing inflationary process.

Still another distinctive feature of the recent inflationary upsurge was the way in which increases in the prices of oil, primary commodities, and capital goods became a form of imported cost inflation in many countries that was very difficult to influence or control. These elements of import cost tended to enter into the domestic cost structure through the process of linking wages to prices, both in formal contractual arrangements and in *de facto* patterns of labor market adjustment. Moreover, producers usually continued raising their prices to cover at least the additional costs, and were able to raise them by larger amounts in the many situations permitting imperfectly competitive pricing practices. In a more general sense, it became increasingly apparent during 1973 and 1974 that the problem of retarding the momentum of price advances was greatly complicated by the ease with which impulses originating in one area were transmitted to other parts of the world through their influence on the cost of living, wage demands, and business costs. Following a long period of near stability, foreign trade prices³

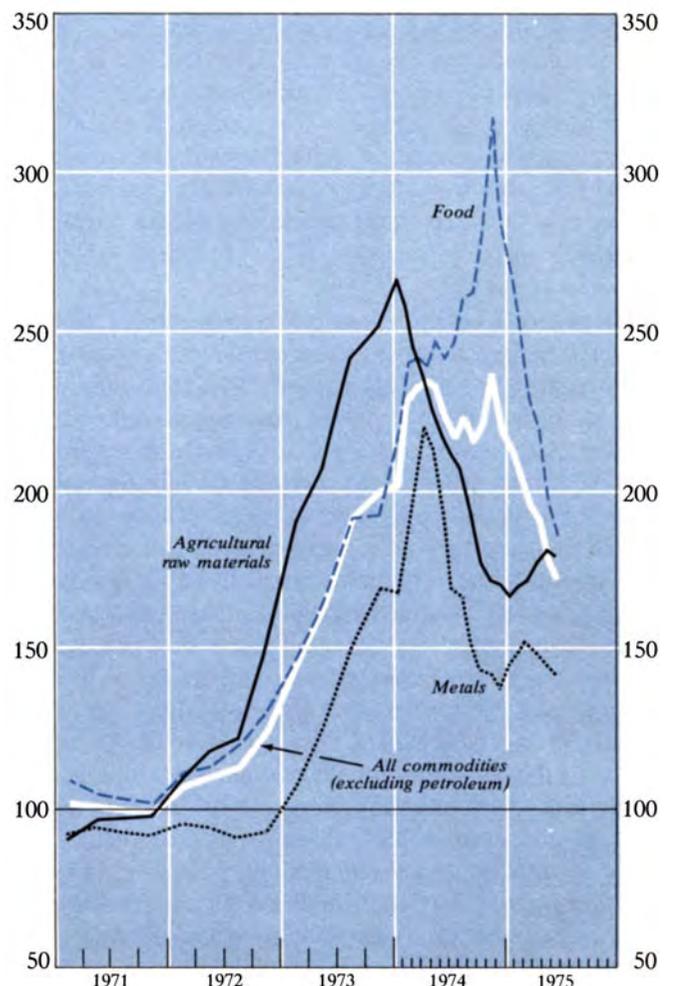
³ As measured by world export unit values in terms of SDRs.

went up by 12 per cent from 1972 to 1973 and by more than 50 per cent (at an annual rate) in the first half of 1974.

During the first two or three quarters of 1974, policies pursued in the industrial countries generally reflected the continuance of very high rates of price inflation and the indications that aggregate demand remained strong. While expansionary fiscal measures were adopted in some countries (e.g., the Federal Republic of Germany, the Netherlands, and Sweden) in late 1973 or early 1974, the fiscal posture in most industrial countries through at least the first half of 1974 either remained moderately restrictive (as, e.g., in the United States) or was further tightened (as, e.g., in Denmark, France, and Japan). Concurrently, the thrust of monetary policy became more generally

Chart 3. Indices of Prices of Commodities Exported by Primary Producing Countries, 1971–June 1975

(Expressed in U. S. dollars; 1968–70 = 100)



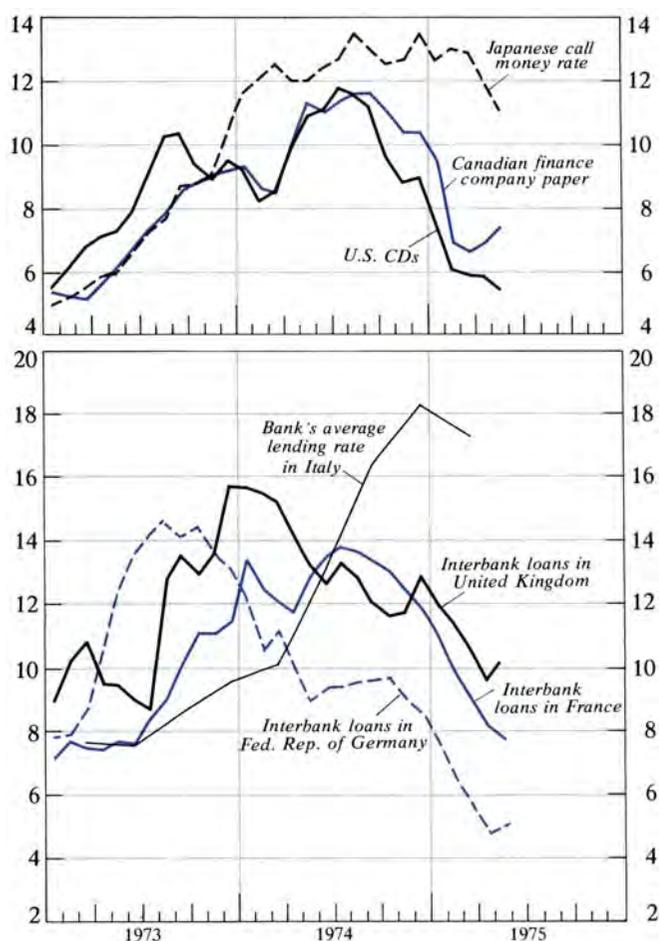
restrictive because of apprehensiveness over inflation and in some cases also because of the need to induce capital inflows to finance the large current account deficits that emerged because of the oil price rise. In the Federal Republic of Germany, Switzerland, and several other countries, rates of monetary expansion had already been sharply reduced during 1973, and the tendency toward a tightening of monetary conditions became more general in 1974; this was reflected not only in reduced rates of increase in monetary aggregates during much of the year, but also in a heightening of interest rates in a number of countries (Chart 4).

Apart from the effects of steeply higher petroleum costs, a factor that clouded perception of the demand situation in the first half of 1974 was a sharp increase in the volume of exports from the industrial countries to the rest of the world. Not only did the imports of the oil exporting countries expand rapidly, as was to be expected in view of their enlarged export earnings, but the volume of imports into other primary producing countries also continued to increase at an exceptional rate. Moreover, anticipatory buying and speculative inventory accumulation associated with inflationary expectations appear to have been a significant influence helping to sustain the rise of domestic demand in early 1974. Capital spending plans and orders for durable goods showed continued strength in some countries, and certain elements of demand—for example, for steel and raw materials—remained quite buoyant. International prices of metals—which normally are sensitive to changes in business cycle conditions in the industrial countries—rose to a peak in the first half of 1974 (Chart 3).

In general, however, major components of private demand in key countries were considerably weaker in the first two or three quarters of 1974 than they were judged to be at the time. In the unexpectedly sharp decline of economic activity that occurred in several of the major industrial countries during the closing months of 1974 and the early part of 1975 (Chart 2), one important element was a weakening of consumer outlays in real terms, and especially of those for consumer durable goods. This development touched off a process of unplanned inventory accumulation and of subsequent liquidation, with sharply adverse impact on industrial output. The slower pace of real consumer spending seems to have reflected a fairly general loss of confidence in the prospects for maintenance of employment levels and real purchasing power. Also, the persistence through the second half of 1974 of extremely high rates of increase in consumer prices, following a period of rather active buying stimulated by expectations of such price increases, was probably a factor underlying the subsequent slowing of real spending in a number of

Chart 4. Major Industrial Countries: Selected Short-Term Interest Rates, 1973–May 1975

(In per cent)



Note: All series are monthly averages except for Italy where the final month in each quarter is used.

countries. The further deceleration or decline in the volume of private investment during the latter part of 1974 and early 1975 was the most direct and obvious manifestation of monetary restraint, which bore especially heavily in a number of countries on residential construction (reflecting the familiar chain of association running from tight credit and high interest rates to scarcity of funds for home building, and hence to a drop in such activity).

Mention might be made of three other contributing elements in the 1974–75 weakening of economic activity in the industrial countries: the reaction to oil deficits, the squeeze on profits, and the downturn in exports.

The increase of petroleum prices not only would add to inflation through its cost-raising effects but also could be expected, in the absence of offsetting changes,

to have a deflationary effect stemming from the much greater increase of imports than of exports that would occur in the trade of oil importing countries with the oil exporting countries.⁴ A deflationary effect would be felt to the extent that larger payments for oil were financed through diversion from other expenditures; this effect would be averted to the extent that such payments were financed out of consumer or business saving, or to the extent that government measures of expansion provided an offset. In the event, it would appear that, by and large, the deflationary effect of the oil price increase was not averted by autonomous and government-induced forces of expansion in 1974; monetary and fiscal policies were generally restrictive because of the severity of the inflation problem.⁵

In many industrial countries the profit picture seems to have worsened during 1974 and early 1975, casting a depressing influence on investment plans. Intensification of the process of wage-push inflation was a principal factor underlying this development. The rise in food prices, which peaked only near the end of 1974, combined with rapidly adjusting internal prices of energy and with other factors to keep consumer prices in most countries on a steep upward path through the end of 1974. Reactions of labor groups to this inflation of consumer prices tended to counteract, at least in the short run, any tendencies for wages to slacken in response to the weakening demand for labor. In the second half of 1974, escalation of nominal wages, combined with the downturn in productivity, was reflected in sharp increases of unit labor costs in the industrial countries, at a time when the onset of recession was cutting into sales volumes.

Also important in the evolution of recession in the industrial world was the weakening of foreign demand. Growth in import volume of the non-oil primary producing countries, although strong in the first half of 1974, was virtually halted in the second half. The total volume of imports of the industrial countries fell off in the latter period, and the decline intensified in the first half of 1975. Imports of the oil exporting countries, however, accelerated dramatically during 1974. Overall, the volume of world trade ceased growing in the second half of 1974 and declined considerably—by perhaps 5 per cent—in the first half of 1975; the impact of this

⁴ The maximum potential effect was appreciable, ranging as a percentage of GNP from 5½ in Italy and 4 in Japan, to 2½–3½ in several other industrial countries, and to 1½ in the United States. (These figures relate to the change in the balance of trade in oil from 1973 to 1974 as a percentage of nominal GNP in 1973.)

⁵ In most industrial countries, it may be noted, there was a substantial increase in personal direct taxes from 1973 to 1974. This reflected mainly the effect of steep inflation rates, which pushed taxpayers into higher brackets and thus, perversely, brought about effective tax increases at a time of economic slowdown.

unusual development on the exports of individual countries was quite uneven, depending (inter alia) on a country's trade position in the expansive market of the major oil exporters and on the capacity to supply goods for export, as well as on the general composition of the country's exports.

Among the many influences that contributed to the 1974–75 international recession, one deserving particular attention—indeed, it would appear in retrospect to have been the proximate cause of this recession—is the unexpected strength of price pressures that developed in the course of 1974. Demand management policies had not allowed for the full strength of such pressures inasmuch as they were geared to lower price expectations.⁶ In the circumstances, output growth might have continued with a higher degree of monetary expansion, but such a course of policy probably would have exacerbated the already severe problem of inflation and made the inevitable—postponed—adjustment still more costly.

The period 1973–74, as discussed earlier, was one of general monetary tightening in the industrial world in reaction to the excessive monetary expansion of 1971–72—an expansion that evidently was a powerful force propelling prices upward during 1973 and 1974.⁷ During 1974 monetary policy was restrained because of concern over inflation, notwithstanding the potentially deflationary effect of the higher oil prices.

These observations regarding inflation as a causal factor in the current recession are intended to flag the importance of bringing the current inflation down to acceptable levels and of avoiding overly expansionary policies that might lead to its continuance or resurgence. Unfortunately, this clear lesson of recent experience cannot readily be translated into precise guidelines for current policy, inasmuch as the present situation is so different from that in previous postwar periods—more economic slack and more inflation—as to make it very difficult to judge the degrees of monetary or fiscal expansion that might prove sufficient to restore adequate levels of resource utilization at a satisfactory pace without touching off new difficulties regarding inflation; the issues involved are controversial, among both economists and the general public. Moreover, the scope for generalizations on this matter is limited because of the fact that the major industrial countries differ markedly

⁶ In general, authorities in the industrial countries were optimistic at the beginning of 1974, expecting both a fairly satisfactory rate of economic growth and a decline in price inflation. Their projections of nominal GNP expansion—like those of forecasters generally—often proved rather accurate, but the projected growth and price elements were badly in error.

⁷ The time lags involved in the effects of monetary policy are believed to be considerably longer with respect to prices than with respect to output.

as to the degree of economic slack and price inflation that currently prevail, as well as to balance of payments positions. In a number of countries, one inhibiting influence in the formulation of demand management policies to reverse recessionary trends and to foster sustained recovery is the inflexibility of the budget instrument—the lack of any assurance that, in the upward phase of the cycle, taxes could be raised or expenditures cut.

It is now widely expected that, on the basis of expansionary shifts in fiscal and monetary policies during recent months, together with the working of corrective forces in the cyclical process, an economic upturn will occur in the industrial countries during the second half of 1975 and extend into 1976. This prospect—and some of the policy issues involved—is discussed later.

World Trade and Payments

During the year that has elapsed since the preparation of the 1974 Annual Report, world trade developments have been dominated by the onset and deepening of the current international recession. First in the industrial countries and later in the primary producing countries (other than the oil exporters), the previous upward momentum of import volume gave way to a pervasive weakness of import demand. The total volume of world trade appears to have stopped growing in the second half of 1974 and to have turned downward in the first half of 1975. The slowing of growth in trade was accompanied by deceleration of the earlier increases in foreign trade prices. Because the changes in price movements varied sharply in timing and degree among different types of products, they resulted in marked shifts in the terms of trade for various groups of countries. The uneven character of both the volume changes and the terms of trade shifts was reflected, of course, in altered patterns of current account balances and external financing problems.

Volume of Trade

The impact of the recession on world trade volume is clearly evident even in the annual data summarized in Table 4. Total world trade rose in real terms by 5 per cent in 1974, after having expanded by 13 per cent in 1973 and by an annual average of 8½ per cent over the decade of the 1960s. The only segment still expanding vigorously in 1974 and early 1975 was the flow of imports into the oil exporting countries. These imports increased by nearly 40 per cent in 1974, and continued to expand rapidly in the first half of 1975. The industrial countries as a group, despite their role as principal suppliers to the oil exporters, experienced a sharp drop in the rate of increase in export volume during 1974, and the incomplete data available indicate an outright decline in the first half

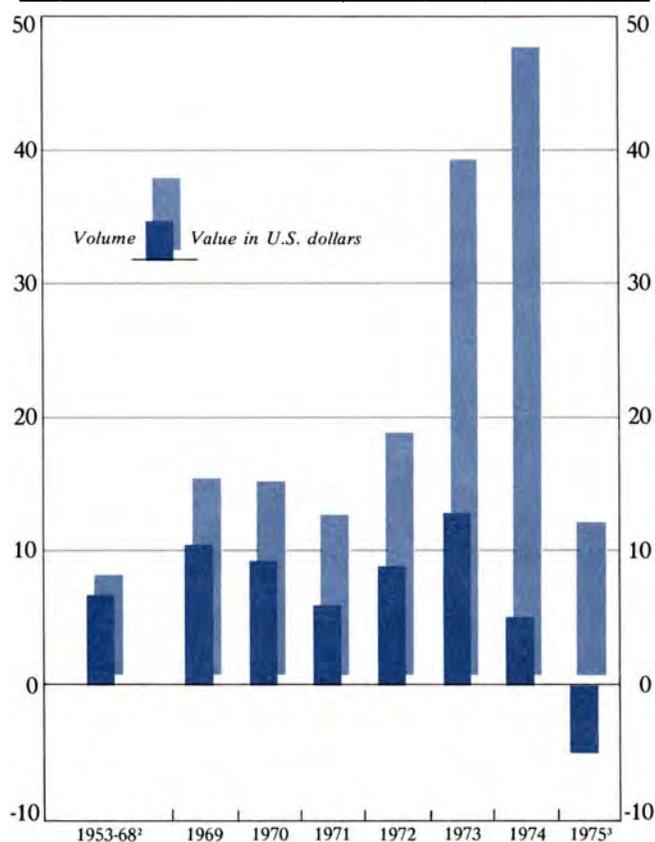
of 1975. Even weaker trends were evident during 1974 and early 1975 in the imports of the industrial countries and, correspondingly, in the volumes of exports of all groups of primary producing countries (including the oil exporters).

The last major segment of world trade to be affected by the recession in the industrial world was the flow of imports into the non-oil primary producing countries; this flow was strongly sustained—to the detriment of the external financial positions of many of the countries concerned—through about the middle of 1974. By early 1975, however, maintenance of these imports in real terms would appear to have been no longer feasible.

Chart 5 depicts the recent changes in volume of world trade in a broad historical perspective. Also indicated in the chart are the wide fluctuations in value of world trade in recent years—attributable to the sharp variations in foreign trade prices that have accompanied the volume changes.

Chart 5. Growth of World Trade, 1953–First Half 1975

(Percentage changes from preceding year)¹



¹ Based on approximate averages of growth rates for world exports and world imports.

² Compound annual rates of change.

³ Estimated change from first half of 1974 to first half of 1975.

Table 4. World Trade Summary, 1960-74¹

(Percentage changes in volume, in U. S. dollar value, and in unit value of foreign trade)

		Annual Average 1960-70 ²	Change from Preceding Year				1974
			1970	1971	1972	1973	
World Trade ³	Volume	8½	9½	6	9	13	5
	U. S. dollar value	10	14½	12	18	38½	47
	Unit value ⁴	1	5½	5½	8	22½	40
Imports							
Volume	Industrial countries	10	9	6	11½	12	½
	Primary producing countries						
	More developed countries	9	13	3½	1½	16	9½
	Major oil exporters	4½	6½	10½	12	18	37
	Non-oil developing countries	6	8½	6½	1	13	12
Unit value ⁴	Industrial countries	1	5½	5½	7½	22½	41
	Primary producing countries						
	More developed countries	1½	5	6	9	21½	42
	Major oil exporters	1	4	5	8	18½	25½
	Non-oil developing countries	1	4	6	8	19½	38½
Exports							
Volume	Industrial countries	9½	9½	6½	9½	13½	7½
	Primary producing countries						
	More developed countries	7½	8	5½	13	2	-½
	Major oil exporters	9	11	8	7	12	-1
	Non-oil developing countries	6	6½	8	10½	14½	2
Unit value ⁴	Industrial countries	1½	6	5	8	20	25
	Primary producing countries						
	More developed countries	2	4	4	12½	36	27
	Major oil exporters	-1	2	22½	13	38½	186
	Non-oil developing countries	1½	5	-3½	8½	27	33

Sources: National economic reports, IMF Data Fund, and Fund staff estimates.

¹ For classification of countries in groupings shown here, see Table 1 (and especially footnotes 2-4).² Compound annual rates of change.³ Fund member countries (listed in Appendix I, Table I.1) plus Switzerland. Based on approximate averages of growth rates for world exports and world imports.⁴ Based on indices in U. S. dollar terms.

Foreign Trade Prices

Movements of foreign trade prices, after having been dominated in the first half of 1974 by the oil price increase and the upsurge of many primary commodity prices to peak levels, were much smaller and less uneven in the second half of 1974. Further upward movements in the latter period and in the early months of 1975 were primarily reflections of the continuing momentum of inflation, especially in the industrial countries, and of the lags between changes in market prices of primary commodities and the ensuing changes in unit values of goods moving in international trade. Although the average of such market prices had turned downward before the middle of 1974, the corresponding export unit values continued to rise in the second half of that year. Nevertheless, average rates of increase in export unit values of all the primary producing areas were greatly diminished after mid-1974; this was particularly true of the oil exporting countries, whose oil export prices were raised only slightly further during

the subsequent months. To a lesser extent, rates of increase in export unit values for industrial goods were also subsiding in the course of 1974.

Despite the slowing of foreign trade price increases during 1974, the average of such prices for the year as a whole exceeded the corresponding average for the previous year by an extraordinarily wide margin, reflecting the high rates of inflation in the industrial countries during the second half of 1973 and early 1974, the steep rise in primary commodity prices over the same period, and the tripling of oil export prices at the beginning of 1974. In terms of U. S. dollars, world trade prices (i.e., unit values) rose by an average of some 40 per cent from 1973 to 1974.

By the second half of 1974, however, the average annual rate of increase in world trade prices (in U. S. dollars) had receded to about 20 per cent (by comparison with the immediately preceding half year), and a further drop, to about 12 per cent, is suggested by the available data for the first half of 1975. The estimated average for the latter period comprises an actual

decline in export unit values for primary commodities (non-oil), as well as a considerably reduced rate of inflation in prices of industrial goods.

The movements of foreign trade prices in recent years have resulted in sizable changes in the terms of trade for major groups of countries. With respect to the industrial group, whose composite terms of trade had declined slightly in 1973 and then fell sharply in 1974 (chiefly because of the oil price increase), there was some rise in the terms of trade during the first half of 1975. For the two groups of non-oil primary producing countries shown in Table 5, deterioration of the terms of trade from 1973 to 1974 reversed most of the upward movement of their terms of trade that had occurred from 1972 to 1973; the deterioration accelerated in the latter part of 1974 and the first half of 1975 for the non-oil developing group. Factors in this accelerated decline include not only the downward movements of raw material and food prices but also continuing price increases for many imported industrial products. The other major group of countries—the oil exporters—experienced negative terms of trade changes in the latter part of 1974 and the first half of 1975; these declines represented a fraction of the rise in the oil exporters' terms of trade that resulted from the increases in oil prices late in 1973 and at the beginning of 1974.

Balance of Payments Developments in 1974

Changes in payments balances and in the structure of the underlying transactions from 1973 to 1974 were strongly conditioned by three major influences. These were the prevalence, since the first quarter of 1973, of generalized floating of major currencies; the cresting of the boom in economic activity in the industrial countries; and the sudden increase in the price of oil at the beginning of 1974.

The oil price rise in 1974 produced a radical transformation of the global pattern of balance of payments relationships. The major oil exporters, whose combined

balance of payments was already in surplus in 1973, were able to raise their collective surplus on current account to an estimated \$70 billion in 1974, compared with \$6 billion in 1973. A significant part of this unprecedented total (as recorded on the accrual basis customary for balance of payments statistics) represented export credits (in the nature of accounts receivable) for oil shipped out of the producing countries during 1974 and valued in their balance of payments statistics at the new prices that went into effect at the beginning of that year, but not yet received or paid for by the importers within the same period. However, the oil exporters also added an amount estimated at more than \$50 billion to their net international financial positions, including \$37 billion of net additions to their official reserve assets.

The counterpart of the increase in current account surpluses of the oil countries from 1973 to 1974 was spread widely among the oil importing countries, all major groups of which were left in substantial deficit (Table 6). Their combined deficit, based upon their own balance of payments statistics (in which the higher-priced oil imports were reported appreciably later than in the statistics of the exporting countries), amounted to about \$51 billion in 1974, compared with a small surplus in 1973. Considerably more than half of the adverse shift in this aggregate balance was absorbed by the primary producing countries, and especially by the non-oil developing countries, many of which had to pay substantially higher prices for food, fertilizers, and other essential imports, as well as for oil. These developing countries, being characteristically importers of capital, already had a combined current account deficit of \$9 billion in 1973; in 1974, it soared to about \$28 billion—the financing of which required very heavy borrowing. In contrast to the build-up of reserves in 1973, there was virtually no reserve accumulation in 1974.

The availability of such large amounts of credit for

Table 5. Terms of Trade Developments, 1960-74¹

(Percentage changes)

	Annual Average 1960-70 ²	Change from Preceding Year				
		1970	1971	1972	1973	1974
Industrial countries	½	½	-½	½	-2	-11½
Primary producing countries						
More developed countries	½	-1	-1½	3½	12	-10½
Major oil exporters	-2	-2	17	5	16½	128
Non-oil developing countries	½	-1	-9	½	6½	-4

Sources: National economic reports, IMF Data Fund, and Fund staff estimates.

¹ For classification of countries in groupings shown here, see Table 1 (and especially footnotes 2-4).

² Compound annual rates of change.

Table 6. Global Balance of Payments Summary, 1972-74

(In billions of U. S. dollars)

		Balance on			Capital Account Balance ¹	Overall Balance ²
		Trade	Services and private transfers	Current account		
Industrial countries ³	1972	11.2	-0.9	10.3	-11.0 ⁴	-0.7
	1973	11.0	-0.8	10.2	-10.6 ⁴	-0.3
	1974	-10.0	-1.6	-11.5	-4.5 ⁴	-16.1
Major oil exporters ³	1972	13.0	-10.4	2.6	1.3	3.9
	1973	21.6	-16.0	5.6	-1.3	4.3
	1974	83.4	-13.4	70.0	-33.6	36.8
Other primary producing countries ³	1972	-9.6	2.2	-7.4	21.7	14.3
	1973	-11.3	3.7	-7.7	18.4	10.7
	1974	-40.8	1.0	-39.8	36.3	-3.5
More developed areas	1972	-2.9	4.6	1.7	6.2	7.9
	1973	-5.0	6.3	1.3	1.1	2.4
	1974	-18.5	6.6	-12.0	7.3	-4.7
Less developed areas	1972	-6.7	-2.4	-9.1	15.5	6.4
	1973	-6.3	-2.6	-8.9	17.3	8.4
	1974	-22.3	-5.5	-27.8	29.0	1.2
In Africa	1972	0.1	-1.6	-1.5	1.7	0.2
	1973	0.9	-1.9	-1.1	1.5	0.4
	1974	0.5	-2.4	-1.9	2.1	0.1
In Asia	1972	-3.3	0.8	-2.5	4.8	2.3
	1973	-2.5	0.9	-1.6	4.1	2.5
	1974	-9.6	0.9	-8.7	10.0	1.3
In the Middle East	1972	-2.3	1.7	-0.6	1.4	0.7
	1973	-4.1	2.1	-2.0	3.1	1.1
	1974	-5.9	1.5	-4.4	4.6	0.3
In the Western Hemisphere	1972	-1.2	-3.2	-4.4	7.6	3.1
	1973	-0.5	-3.8	-4.3	8.7	4.4
	1974	-7.3	-5.5	-12.8	12.3	-0.5
Total, all countries ⁵	1972	14.6	-9.1	5.5	12.0	17.5
	1973	21.3	-13.2	8.2	6.5	14.7
	1974	32.6	-13.9	18.7	-1.4	17.2

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

¹ This balance is computed residually as the difference between the overall balance and the current account balance; it includes net errors and omissions, as well as reported capital movements, government transfers, and, for 1972, allocations of SDRs.² Overall balances are measured by net changes in official gross reserve assets (gold, SDRs, reserve positions in the Fund, and foreign exchange assets) and in certain reserve-related liabilities (such as Fund credit and various liabilities to foreign official institutions). In Table 7, the conventionally measured overall balances of the industrial countries are disaggregated into their asset and liability components. Some deficiencies of the overall balance concept under present circumstances are noted in the accompanying text.³ For classification of countries shown here, see Table 1 (and especially footnotes 2-4).⁴ See footnote 5.⁵ Global balance of payments aggregations inevitably contain many asymmetries arising from discrepancies of coverage or classification, timing, and valuation in the recording of individual transactions by the countries involved. A major area of asymmetrical classification during recent years concerns the recording of official claims placed in Euro-currency markets. These transactions, although treated as changes in reserve assets by the investing countries, are recorded as capital inflows by the recipient industrial countries. Had such transactions been recorded symmetrically, the global summations would show both a larger net capital outflow and a lower aggregate of overall surpluses. If identified Euro-currency reserve placements (shown in terms of SDRs in Table 14 of this Report) are excluded from the recorded net capital account balances of the industrial countries, their adjusted net capital outflows amount to \$21.3 billion, \$18.3 billion, and \$19.8 billion over the years 1972, 1973, and 1974, respectively. This adjustment alone would reduce the net asymmetry in global overall balances to \$7.1 billion, \$7.0 billion, and \$2.0 billion for the same years.

developing countries, at a time when both the industrial countries and the more developed primary producing countries were also in need of net capital inflows to finance their respective current account deficits, was in large measure an outgrowth of the investment of surplus funds (including official reserve deposits) by the oil exporting countries. Direct loans

and grants from the latter to non-oil developing countries, although making a substantial contribution to the needed financing, did not comprise a very large proportion of the total. The remainder was supplied to the developing countries, in a direct sense, by investors, financial institutions, or governments in the industrial countries.

The industrial countries, however, were direct recipients of large placements of surplus funds by the oil exporting countries. Although the industrial countries themselves were substantial net international borrowers, because of their sizable collective deficit on external current account, the amounts placed in their capital and credit markets by the oil exporting countries in 1974 greatly exceeded the current account deficit of the industrial countries. Indirectly, therefore, the oil exporting countries must be viewed as the ultimate source of a considerable part of the movement of capital and credit from the industrial countries to the non-oil developing countries, as well as to the more developed primary producing countries, in 1974.

The buildup of foreign currency claims in the hands of the oil exporting countries during 1974 took the form, in the main, of enlarged holdings of official reserves by the national monetary authorities. On balance, however, the rise in reserve holdings of the oil exporting countries did not occur through net transfers of existing reserves of oil importing countries. As explained in Chapter 2, new reserves were created on a large scale—chiefly through processes involving official placements of reserve deposits in the Euro-currency markets or the United States by some countries and borrowing from those markets by other countries. In the circumstances of 1974, it was thus possible for reserves paid out by deficit countries to be fully replenished through borrowing, so that the entire growth of reserves of the oil surplus countries could come from creation of new reserves, rather than transfer of reserve assets held by other countries.

The absence of sizable shifts in reserve asset holdings among oil importing countries was due in large part to the prevalence of general floating of exchange rates for major currencies. With exchange rate fluctuations being permitted to absorb high proportions of the exchange market pressures that arose during 1974, shifts of outstanding reserve assets were generally small. However, reserve asset holdings of some countries were maintained only through heavy borrowing by or on behalf of the monetary authorities. Among industrial countries, the outstanding cases in point were the United Kingdom and Italy. (See Table 7, where the amounts thus obtained from foreign official agencies are indicated in the sixth column.)⁸

A rise in obligations traditionally treated in the balance of payments statistics as official liabilities also was the principal means by which an \$8½ billion "overall deficit" of the United States was financed in

1974. The \$10 billion rise in U. S. liabilities to foreign official agencies, however, was due to placements of funds in the United States by the major oil exporting countries. In present circumstances, the greatly increased holdings of those countries might be viewed as having the character, at least in considerable part, of investments rather than of reserves in the usual sense, even though many of the financial claims held are liquid. These considerations, among others, create ambiguities of interpretation with respect to the conventional concept of the overall balance of payments deficit. If the 1974 flows of oil surplus funds to the United States were treated as inflows on capital account in the U. S. balance of payments, rather than as a means of financing, the payments balance of the United States would show a small surplus (as indicated in the last column of Table 7), instead of an \$8½ billion deficit. Such a result would be more consistent with the behavior of the effective exchange rate for the U. S. dollar (as described in Chapter 2).

The main influences of cyclical developments upon changes in the global pattern of current account balances have been outlined earlier, in the discussion of world trade volume and price movements. In addition, cyclical developments exerted strong influences upon capital flows, chiefly through their impact on monetary and credit conditions and comparative yields on financial claims held in different countries. For example, the relative stringency of monetary policy in the Federal Republic of Germany during much of 1973 and early 1974, of U. S. monetary conditions in the middle quarters of 1974, and of Italian policy in the second half of that year all exerted important influences on short-term capital movements and exchange rate developments, as did the rapid easing of U. S. monetary conditions in late 1974 and early 1975 and the earlier easing of monetary policy in the Federal Republic of Germany. Without such a shift in the Federal Republic of Germany, the short-term capital outflows essential to balance that country's large 1974 current account surplus at the prevailing average exchange rate for the deutsche mark would not have been forthcoming.

Unlike the Federal Republic of Germany and the United States, but like the United Kingdom and Italy, the other three major industrial countries all had sizable current account deficits in 1974. France financed its deficit chiefly through maintenance of monetary conditions that induced exceptionally large inflows of private short-term capital, and Canada's enlarged current account deficit in 1974 was also financed mainly through an inward shift of private short-term capital. For Japan, short-term inflows during 1974 were large enough to cover both the current account deficit and a

⁸ For some countries, additional amounts borrowed by government agencies from private foreign lenders under special inducements from the monetary authorities are included in the fourth column of Table 7.

Table 7. Industrial Countries: Balance of Payments Summaries, 1972-74

(In billions of U.S. dollars)

		Balance on				Capital Account Balance ¹	Overall Balance ²	Change in Liabil- ities to Foreign Official Agencies	Balance Financed by Trans- actions in Reserve Assets
		Trade	Services and private transfers	Current account					
United States	1972	-6.4	-0.6	-7.0	-3.3	-10.4	10.3	—	
	1973	1.0	2.0	3.0	-8.3	-5.3	5.1	-0.2	
	1974	-5.5	8.1	2.5	-10.9	-8.4	9.8	1.4	
United Kingdom	1972	-1.6	2.4	0.8	-3.7	-2.9	-0.1	-3.1	
	1973	-5.7	3.6	-2.1	2.8	0.7	-0.1	0.5	
	1974	-12.3	4.1	-8.2	3.9	-4.4	4.7	0.2	
Canada	1972	1.9	-2.3	-0.5	0.8	0.3	—	0.3	
	1973	2.7	-2.7	—	-0.5	-0.5	—	-0.5	
	1974	1.6	-3.3	-1.7	1.7	—	—	—	
France	1972	1.3	-0.3	1.0	0.8	1.8	—	1.8	
	1973	0.8	-0.8	-0.1	-1.7	-1.7	0.1	-1.7	
	1974	-3.9	-0.9	-4.8	4.7	-0.1	—	-0.1	
Germany, Federal Republic of	1972	8.2	-5.5	2.8	2.2	5.0	—	5.0	
	1973	14.4	-7.8	6.6	2.5	9.2	-0.4	8.7	
	1974	22.7	-10.5	12.2	-12.7	-0.5	0.1	-0.4	
Italy	1972	0.1	2.9	3.0	-3.7	-0.7	—	-0.7	
	1973	-3.9	2.8	-1.1	0.9	-0.2	0.3	0.1	
	1974	-8.2	1.0	-7.2	2.6	-4.6	5.0	0.4	
Japan	1972	9.0	-2.0	7.0	-3.8	3.1	—	3.1	
	1973	3.7	-3.6	0.1	-6.2	-6.1	—	-6.1	
	1974	1.4	-5.9	-4.5	5.8	1.3	—	1.3	
Other industrial countries ³	1972	-1.2	4.4	3.2	-0.2	3.0	—	3.0	
	1973	-1.9	5.7	3.8	-0.1	3.6	0.5	4.2	
	1974	-5.7	5.9	0.2	0.4	0.5	-0.7	0.2	
Total, industrial countries	1972	11.2	-0.9	10.3	-11.0 ⁴	-0.7	10.2	9.4	
	1973	11.0	-0.8	10.2	-10.6 ⁴	-0.3	5.5	5.1	
	1974	-10.0	-1.6	-11.5	-4.5 ⁴	-16.1	19.0	3.0	

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

¹ See Table 6, footnote 1.² See Table 6, footnote 2.³ Austria, Belgium-Luxembourg, Denmark, the Netherlands, Norway, Sweden, and Switzerland.⁴ See Table 6, footnote 5.

sizable net outflow of long-term capital and aid. (See Table 7.)

The course of the international business cycle also played a part, along with the direct and indirect investment of oil surplus funds, in the financing of the extraordinary current account deficits incurred by non-oil primary producing countries in 1974. In most of the industrial countries, relaxation of monetary and credit conditions accompanied or quickly followed the downturns in aggregate demand and production. This relaxation, resulting in appreciable declines of both short-term and long-term interest rates, facilitated the international borrowing by primary producing countries that was necessary to finance their enlarged current account deficits during the latter part of 1974 and early 1975.

Broad Picture of Current Accounts in 1975

The year 1974 was one of startling changes in current account balances, involving large swings in the

balances of many individual countries. Further substantial changes in current account balances are in prospect for 1975; these are indicated, for four groups of countries, by the estimates provided in Table 8. Following are the main points to which attention should be drawn.

—The projected drop in the overall current account surplus of the major oil exporting countries—from \$70 billion in 1974 to about \$50 billion in 1975—is attributable chiefly to two assumptions: that the volume of imports by this group of countries will expand by some 30 per cent in 1975 (over 1974), following a rise of nearly 40 per cent in 1974; and that the volume of their exports will decline by about 10 per cent under the impact not only of the adverse cyclical position but also of demand responses to the 1974 oil price increase and of other factors.

—The main counterpart of the decline in the projected 1975 oil surplus is to be found in the accounts

of the industrial countries. The estimated shift from substantial deficit to approximate balance in the overall current account position of those countries includes the prospect of considerably smaller—though still sizable—deficits for France, Italy, and the United Kingdom, and of a continued large surplus for the Federal Republic of Germany. Thus, the 1975 current account balance of the industrial countries shown in Table 8 still encompasses a very uneven distribution of deficits and surpluses among individual countries of the group.

Table 8. Summary of Payments Balances on Current Account^{1, 2}

(In billions of U. S. dollars)

	1973	1974	1975 (Pro- jection) ³
Major oil exporters	6	70	50
Industrial countries	10	-12	1
Non-oil primary producing countries			
More developed	1	-12	-12
Less developed	-9	-28	-35
Total ⁴	8	19	4

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

¹ Goods, services, and private transfers.

² For classification of countries in groups shown here, see Table 1 (and especially footnotes 2-4).

³ The 1975 projections are subject to considerable uncertainty and should be viewed as rough orders of magnitude.

⁴ Reflects balances of countries covered here with non-reporting countries, plus (quantitatively more important) statistical errors and asymmetries.

—For the more developed primary producing countries, the estimated current account deficit of \$12 billion for 1975 is the same as the 1974 deficit and thus remains in striking contrast to the surplus of about \$1 billion realized by that group of countries in 1973. In the case of the (non-oil) less developed primary producing countries, the combined current account deficit is projected to rise from \$28 billion in 1974 to \$35 billion in 1975—about four times as large as the \$9 billion deficit incurred in 1973. On the basis of studies made within the Fund on an individual country basis, a pattern of widespread increases in current account deficits among the non-oil developing countries is indicated for 1975.

—The projection of a \$35 billion current account deficit for this group of countries is based on the implicit assumption that the necessary financing will be available. However, the sheer size of the aggregate deficit inevitably raises questions as to the actual ability and willingness of the countries concerned to finance it. A possible pattern of financing is suggested in the last

section of this chapter, but it is clear—even on assumptions that could prove optimistic in several respects—that many of the non-oil developing countries are likely to find themselves in financial difficulty in 1975 and beyond, with severe problems obviously facing the group of developing countries classified by the United Nations as the “most seriously affected.”

—The estimates of current account balances for 1975 shown in Table 8 are strongly affected by cyclical influences emanating from the recession in the industrial world.⁹ Among the projected consequences are (1) an elimination of the deficit for the industrial countries, in part because of the easing of demand for oil; (2) a lowering of the surplus of the oil exporting countries for the same reason; and (3) a raising of the deficit for the non-oil developing countries, because of the impact of the recession on those countries' export earnings. Thus, in an economic situation of fuller utilization of resources than that embodied in the estimates for 1975, strengthening of demand for oil and other primary products by the industrial countries would be expected to restore a deficit in the combined accounts of those countries, shore up the oil exporters' surplus, and reduce the deficit of the (non-oil) primary producing countries.

Economic and Financial Issues

Domestic Policy

Any assessment of the current economic situation and outlook, with a primary focus on the industrial countries because of their heavy weight in the world economy, must address itself to two broad issues. The first relates to the general trend of economic activity—to the objective of ending the recession and launching a solid and sustained recovery, while reducing upward pressures on the levels of costs and prices. The second issue has to do with the use and limitations of policy instruments to meet such an objective over the course of the next year or two.

Officials of numerous industrial countries with which the Fund has recently held consultations are of the belief that, in all probability, the trough of the recession either has been passed or soon will be. Such judgment has had to rely on the analysis of current trends and of various forward-looking indicators; an upturn is not yet clearly in evidence, and thus remains in the nature of a forecast.

Although the actual timing of an upturn is uncertain, it is generally expected to occur during the second half of 1975. In the recent consultations, it was the general

⁹ These influences are dominated by the severe recession in the first half of the year, even though an upturn of economic activity is assumed for the second half of 1975.

view that, after the upturn, demand could at some point expand rapidly and become difficult to moderate unless flexible adjustments of policy were effected. Guarded optimism was expressed on prices, but continuing concern over inflation clearly remains a dominant influence on policy formulation and planning in the industrial countries.

Those who expect an early revival of economic activity in the industrial world—including not only national officials but also forecasters generally—base this view on consideration both of the expansionary policy measures that have been taken in many countries and of the stimulus to an economic turnaround that may be expected from the more or less automatic functioning of cyclical forces. As a result of overt policy moves and of the slump in economic activity, monetary and credit conditions have shifted considerably away from the stringency prevailing through much of 1974; and the recent widespread adoption of expansionary fiscal measures supports the near-term prospect. Price inflation is being reduced markedly, helping to strengthen real incomes, and inventory-sales relationships are being brought into better alignment. Also, the groundwork has been laid for an evolution of somewhat longer-run relationships—among wages, productivity, profits, and interest rates—that should help to bring renewed expansion of fixed investment as demand prospects improve.

Important fiscal changes were initiated by numerous industrial countries in the latter part of 1974 and the first half of 1975. These budgetary moves include shifts in both tax and spending plans of the Federal Republic of Germany and the United States, as well as of Canada, Denmark, and the Netherlands. In addition, a number of other countries—including Austria, Japan, Belgium, and France—have recently adopted selective fiscal measures to counter economic slack. Among continental European countries, steps have been taken to bring about shifts in budgetary balances from 1974 to 1975 amounting to 2–5 per cent of GNP—4–5 per cent for the large economy of the Federal Republic of Germany. In the United States, the tax measures adopted in March 1975, together with the expenditure plans currently taking shape in the Congress, are estimated to bring about a budgetary shift equivalent to some 4–5 per cent of GNP.¹⁰ In Japan, fiscal measures to date consist mainly of an acceleration in government spending. In the United Kingdom, a sharp fiscal expansion in 1974 was followed in April 1975 by a budget that set out a fairly restrictive program of demand management for the next two years, aimed at creating

enough spare capacity to allow the U. K. economy to take advantage, from early 1976 onward, of the expected upturn in world trade.

Easing of monetary conditions during recent months is one of the forces expected to encourage a recovery of demand in the United States. In Canada, too, monetary conditions are now considerably easier than during the early and middle quarters of 1974. In Japan, where the countering of inflation is still a paramount objective of economic policy, together with the ensuring of a steady recovery, a relatively moderate relaxation of monetary policy has taken place since about the beginning of 1975. In Europe, the monetary situation is mixed but most countries are now pursuing expansionary, or less restrictive, monetary policies, generally accommodative of the stimulative fiscal programs that have been introduced.

For most industrial countries, the generally expected turnaround of aggregate output in the second half of 1975 hinges mainly on an increase in real consumption (deriving from fiscal and monetary stimulus and from lower rates of price inflation) and on the adjustment of business inventory positions, involving progressively smaller liquidation of inventories, pending the resumption of accumulation. Fixed investment is subject to short-run weakness stemming from the current excess supply of productive capacity, and is not expected to rebound until aggregate demand becomes stronger. Moreover, since the pervasiveness of the current recession has severely curtailed the capacity to import in most parts of the world, foreign demand is unlikely to be a leading source of stimulus for many countries in the early stages of recovery.

Thus, it would seem that prospects for a sustained economic recovery in the industrial world depend to a great extent on consumer spending to lead the upturn and on business fixed investment to cease declining, or to pick up momentum, after some lag. This general pattern is not very different from that of earlier postwar recoveries, but the underlying economic situation from which the recovery must begin is one of considerably greater economic slack as a result of the most protracted and severe recession in the postwar period. The extent of idle capacity and manpower has led some observers to fear that private spending and investment may be more subdued than in earlier postwar recoveries—that they may not respond as quickly or as fully to government measures of stimulus, or to declines in rates of price increase from the current exceptional levels, as past relationships would suggest.

At any rate, there would be general agreement that economic forecasting and policy formulation at the present time are unusually difficult. Because of the pre-

¹⁰ Measured as the change in the high-employment fiscal balance, in order to exclude cyclical effects, the shift toward stimulus would be equivalent to about 2½ per cent of GNP.

vailing uncertainties, and of the large scope for error, projections could prove to be significantly wrong at the present critical juncture when world trade and activity are in a slump and price inflation remains a problem.

The situation calls for national authorities, as a matter of prudence, to maintain a close watch over evolving trends and to be prepared to alter their policies as promptly as possible if these trends should point to a substantive change in the outlook. Such flexibility could be of crucial importance. Policies that permitted an overly rapid expansion of demand could obviously make for new and serious instabilities, given the fact that inflation in the industrial countries is still running at very high rates. However, policies that were overly cautious could prolong the underutilization of resources, lead to widespread pressures for a rapid shift to expansionary measures, and forgo the beneficial price effects of gains in productivity stemming from the resumption of solid economic growth and the absorption of slack.

Flexibility in the stance of policy—a willingness to adopt new measures in conformity with changing circumstances—will be hampered unless supported by the availability of effective instruments. With respect to fiscal policy, the main problem concerns the relative inflexibility of the budget instrument, as reflected in the frequent inability to introduce timely increases in taxation or cuts in expenditures. In some countries, notably the United States, there is concern that stimulus provided by the budget may not be rolled back fast enough in relation to the expected recovery of private demand during 1976 and 1977. The inadequacy of the budget instrument is a problem of long standing in industrial countries; in the past, fiscal policy has sometimes been so inadequate that it worked at cross-purposes from monetary policy, greatly complicating the task of economic stabilization.

On the subject of incomes policy, the prevalence of adverse wage-price trends in a number of member countries continues to pose questions about the need for new initiatives in this field. Without these, it may prove very difficult in some countries to limit the effects of cost pressures on prices and to achieve price moderation except at the expense of greater slack and unemployment. Of course, incomes policies are difficult to devise and implement, and must be geared in each country to its own institutions, traditions, and other aspects of the social and political setting.

Other significant problems facing governments in the forthcoming recovery period include a need for inter-related measures to improve supply conditions, to strengthen productive capacity and productivity, and to alleviate cost pressures. In large part, such measures must be directed specifically to the elimination of structural imbalances, such as mismatches between the

skills and aptitudes of the unemployed and those required by employers. Because of the growth of structural rigidities and bottlenecks, business expansions in the postwar period have topped off at successively higher levels of unemployment.

External Policy

As discussed earlier, payments balances are now being affected markedly by cyclical influences. Coming on top of changes in current and capital account positions set into motion by the oil price rise, these influences make it difficult to ascertain whether recent developments and current prospects represent progress toward the reduction of disequilibria among the major industrial countries.

To arrive at judgments whether payments positions are sustainable, it is necessary not only to remove cyclical and special influences from actual positions but also to take a view of capital flows. At this juncture, the main questions on capital flows concern prospects for the oil exporters' surpluses and the distribution among countries of the capital movements related to such surpluses; substantial uncertainty prevails as to how such factors should be taken into account. Research is going forward in this area within the Fund, in the endeavor to examine the principal elements involved in an assessment of the underlying payments positions of major countries.

For the present, judgments about the working of the adjustment process must be quite general and based mainly on the actual experience of countries in coping with their balance of payments situations. From the Fund's recent consultations with members, it would appear that, with certain exceptions, industrial countries are less worried about their short-run balance of payments prospects than they were during much of 1974. Some of the largest current account deficits have been, or are in the process of being, reduced considerably. Even though in certain instances the reductions stem from a change in cyclical conditions, they have the immediate effect of lowering payments pressures. Furthermore, most of the industrial countries that have had a strained payments position in the recent past do not seem doubtful as regards their capacity to obtain capital sufficient to meet their prospective needs. A potential additional factor—still awaiting enabling actions by participating governments—is the OECD Support Fund (the "safety net"), which has been devised to provide assistance on external financing supplementary to that available from other sources, including the Fund. Also, the situation in the Euro-currency market has improved markedly since mid-1974, evolving from what might be termed a climate of concern to

one of cautious optimism. Finally, the existence of floating rates has increased the flexibility of adjustment, notwithstanding the short-run drawbacks seen by some countries to adjustment through exchange rate changes.

For many of the nonindustrial oil importing countries, payments prospects have worsened over the past year, and the deteriorating external position may be expected to exercise considerable restraint on economic growth in 1975. Particularly with respect to the developing countries, as already indicated, it is questionable whether flows of capital and aid will be sufficient to permit sharply higher current account deficits, and thus obviate a need for new measures to effect adjustment. In some cases, such a need may also be indicated by the growth of external debt in the light of past borrowing and prospective foreign exchange earnings. To the extent that balance of payments problems of the non-oil developing countries may be resolved through limitation of their imports, rather than through provision of needed financing, a dampening influence on the export markets of the industrial countries—and hence on their cyclical recovery prospects—will be felt.

Adjustment for the major oil exporters involves bringing domestic expenditure more into line with their sharply higher level of income. Despite wide differences among them with respect to domestic absorptive capacity, the oil exporting countries—like other developing countries—are generally constrained as regards the speed at which domestic expenditure can be raised without causing undue pressures on domestic resources. Serious bottlenecks are already being encountered. Although the currencies of certain oil exporting countries have appreciated, most such countries have not used currency appreciation as a method of adjustment because, while it would help in dealing with inflation, it would tend to hamper the development of certain domestic sectors, as well as the flow of non-oil exports. However, measures adopted by the oil exporting countries to deal with inflation and its effects on the distribution of income have included reductions in import duties and other actions to reduce the landed costs, and facilitate the growth, of imports.

With respect to the means for promoting adjustment, certain differences in viewpoint continue among the major countries notwithstanding the change in the economic situation—prevalence of greater slack—that has taken place since the 1974 Annual Report. Countries in relatively weak balance of payments positions generally would like to see greater demand expansion by countries in relatively strong positions. However, the latter—still concerned about inflation—consider that the steps they have already taken to deal with the recession are adequate, and that further stimulative actions at the present time, given the probable lags in

their impact, could endanger the stability of the recovery at a later stage. There is general agreement that countries with relatively weak external payments situations should position themselves, through maintenance of adequate restraint on domestic demand and of appropriate exchange rates, to take advantage of the cyclical upswing in global demand when it comes.

Insulation from external influences, particularly external cyclical weakness, is very difficult for countries that are highly dependent on foreign trade. In many of them, the capacity for compensatory domestic demand policies is quite limited, and they therefore have a vital interest in the kinds of countercyclical policies pursued by their main trading partners.

Attention generally focuses in this connection on the demand policies of the United States, the Federal Republic of Germany, and Japan. Because these countries have such a big weight in the world economy and their external payments positions are comparatively favorable, it is quite natural that other countries should expect them to take the lead in promoting recovery from the international recession. It seems reasonable to ask these countries to do everything possible, as discussed earlier, to assure the effectiveness of their policies in restoring solid economic growth; but it would not be reasonable to expect them to push expansionary measures to the point that would run the risk of evoking new inflationary pressures.

Differences also persist among industrial countries in respect of exchange rate policy, with some countries engaging in a substantial amount of intervention while others limit themselves to no more than the smoothing of very short-run fluctuations in market rates. Although it is difficult to generalize in this area, countries with the strongest payments positions have tended to intervene rather moderately, and appear to have been willing to allow their currencies to appreciate. Reserve holdings of countries in weaker payments positions have also been relatively steady. Some of the countries with large current account deficits have permitted their currencies to depreciate, but private or official capital inflows have averted or mitigated in varying degrees the downward pressures on exchange rates that might otherwise have emerged. As noted in Chapter 2, the exchange rate changes that have taken place during the period (since early 1973) of generalized floating of major currencies appear to have largely offset sizable differences in relative rates of inflation among the larger industrial countries.

A noteworthy feature of exchange rate experience in the last two years has been the powerful effect of changes in relative monetary conditions on rates. The influence of monetary policy on exchange rates has led

some to argue for the coordination of such policies among the major countries to achieve some particular set of exchange rate aims. Any concerted effort of this type would require both agreement on a suitable pattern of exchange rates and understandings on how monetary policies would be aligned among countries to serve internationally agreed external aims, while not contradicting high-priority domestic objectives. The formidable difficulties encountered in meeting either requirement suggest that, even though countries may be expected to continue using monetary policy to influence their exchange rates, effective multinational coordination of monetary policy for balance of payments purposes cannot be an immediate goal.

Differences of view among countries in the area of exchange rates still constitute an important unsettled issue. These differences relate to the extent of influence that countries should exercise over exchange rates, through intervention or other policies, and have implications with respect to the appropriate nature of the exchange rate regime.

For many countries, particularly those that peg to a single currency or to some basket of currencies, issues in respect of adjustment are not significantly different from those posed in the past. The main question for them is whether the simultaneous achievement of a sustainable balance of payments position and a satisfactory level of domestic economic activity is feasible at the existing exchange rate. Countries in this group generally see floating rates as troublesome insofar as they affect price relationships and cause variations in the purchasing power of their foreign reserves. At the other extreme are countries that see floating rates as the principal external adjustment mechanism, and are generally reluctant to interfere directly in the operation of exchange markets, although exchange rates are influenced indirectly, of course, by policies in other fields. A number of countries allow their currencies to float but engage in substantial intervention to influence exchange rates.

In general, the larger, the more diversified, and the less dependent on foreign trade the country concerned, the more it inclines to free floating; and the smaller, less diversified, and more dependent on trade it is, the more it inclines to pegging. Countries with floating currencies and a record of substantial intervention tend to comprise a middle group.

Despite the issues that are outstanding in respect of demand adjustment and exchange rates, sight should not be lost of the accomplishments of the past year. Soon after the upsurge in oil prices, the concept of accepting and financing the aggregate oil deficit was developed as a basic principle of behavior for countries

in the new situation. As discussed in the 1974 Annual Report, this principle was not intended to absolve individual countries from paying attention to adjustment, but was aimed at avoiding more adjustment than was collectively possible for the oil importing countries and at establishing standards for adjustment. Such standards, as enunciated by the Committee of Twenty at its Rome meeting in January 1974, included the avoidance of deflation, restrictions, and competitive depreciation as inappropriate responses to the balance of payments changes that stemmed from the rise in the price of oil; observance of these standards has been generally good to date, although it has become increasingly difficult for many Fund members, particularly among the developing countries.

During the period since the Rome meeting, the industrial countries have followed policies that contributed to a downturn in economic activity, but these policies were adopted primarily because of strong inflationary pressures, rather than balance of payments considerations (with which, however, the measures adopted were also consistent in a number of cases). With regard to exchange rates, initiatives to depreciate currencies proved to be much less evident than had been feared; even in countries that might appropriately have taken such initiatives, the existence of inflationary pressures was a deterrent. Restrictions have been introduced by some countries, but resort to such measures to date has been neither widespread nor, in most instances, of quantitative importance.

With respect to restrictions, perhaps the outcome up to now has been reasonably satisfactory because of an awareness by countries of the inappropriateness of policy actions not allowing sufficiently for the interests of others. Yet, many countries—some with burdensome debt positions—face the problem of financing greatly enlarged current account deficits, and there are growing pressures for restrictions. Because of the dangers that any trend toward restrictions would involve, policy-makers have the difficult task of devising suitable alternative means for adjustment. Also, the situation points up the importance of providing concessional finance to those countries not in a position to borrow funds on commercial terms.

The Situation of the Non-Oil Developing Countries

In view of the difficult situation of the non-oil developing countries, this section examines their position on external current account and then discusses some of the main economic and financial problems confronting them.

Current Account Developments and Prospects

The overall picture of developments and prospects on current account for the non-oil developing countries is one of sharp deterioration. After rising from \$9 billion in 1973 to an estimated \$28 billion in 1974, as noted earlier, the combined current account deficit of these countries is projected to reach about \$35 billion in 1975. Because of the recession in the industrial countries, the volume of exports rose by only 2 per cent in 1974 (over 1973), compared with an average of 12 per cent per annum in the two preceding years, and is projected to decline slightly in 1975. Expansion of import volume by the non-oil developing countries was sustained at the high rate of 12 per cent in 1974 through heavy foreign borrowing and cessation of reserve accumulation, but a drop of 7 per cent is expected for 1975 in view of their weak prospects for export earnings, the continuing rise in their import prices, and the reduced purchasing power of their reserves in real terms.

Estimates for individual countries and regional groups indicate widely diffused increases in current account deficits for 1975. Proportionately the largest regional increase projected is that for Africa, where a doubling of the 1974 deficit seems to be in prospect and the level of indebtedness could become critical in the absence of concessionary capital flows. Relatively sizable increases are also indicated for Middle Eastern countries (non-oil) and for the Asian group. Non-oil developing countries of the Western Hemisphere are not as a group expected to move further into deficit on current account; but their 1975 deficit will probably remain the highest for any of the regions indicated, notwithstanding an estimated substantial drop in Brazil's large deficit.

Some Major Problems

Important issues currently facing the non-oil developing countries include the impact of the international recession, containment of inflation, efforts to deal with higher costs of oil and other essential imports, and the financing of greatly increased current account deficits. These problems are to a large extent of external origin, although some of them have been compounded by domestic action or inaction on the part of the developing countries themselves, or have been affected by the constraints under which these countries operate.

The *impact of the recession in the industrial world* on the economies of non-oil developing countries appears to be falling mainly on the volume of goods and services available to them through importation and on their domestic growth rates and development targets.

Although external balances are also being adversely affected, an enlargement of current account deficits sufficient to maintain import expansion commensurate with previous growth rates is clearly not possible. The many countries whose export earnings have leveled off or declined at a time of rising costs of essential imports have little choice but to forgo some imports; during this period of difficulty, the impact on the pace of development has tended to be especially severe where urgent requirements for imported food, fuel, or fertilizers have forced disproportionate cutbacks in other categories of imports. The principal means of limiting imports have been measures of fiscal or monetary restraint intended also to deal with domestic inflationary pressures; relatively few countries have considered it necessary to invoke import restrictions in order to provide immediate defense of the balance of payments.

The apparent effects of comparatively slack export earnings in the face of major cost increases are quite serious in many developing areas.

—The non-oil countries of Latin America and the Caribbean, for example, are expected to undergo in 1975 a drop of several percentage points in their average growth rate, which amounted to about 7 per cent in 1974. Only the Caribbean sugar/bauxite exporting countries seem likely to be able to maintain or increase the pace of their economic expansion.

—In Africa, where adverse movements in the terms of trade are taking place, growth prospects for 1975 seem to be impaired in a substantial majority of the non-oil developing countries of the area. The principal exceptions are likely to be found among the exporters of iron ore, uranium, bauxite, and phosphorus.

—Among non-oil developing countries of Asia, policy emphasis has shifted from the countering of inflation, which until at least mid-1974 was the foremost problem almost throughout the area, toward avoidance or mitigation of the impact of the recession. For most of the Asian countries, the recession, rising import prices, and effective depreciation of exchange rates will tend to hold down the growth of imports.

—Only with respect to non-oil countries of the Middle East can it be said that the recession in the industrial world does not seem to be playing a very important role in current economic developments. In most of this area, proximity to the fast-rising demands of the major oil exporting countries, together with financial assistance from them, appears to provide an adequate cushion for any local impact of the international recession.

During the 1972–73 boom in the industrial world, *containment of inflation* was difficult for the non-oil developing countries. As a group, they experienced an extraordinary bulge in export earnings, with volume

rising by 14 per cent and average export unit values (in U. S. dollars) by 27 per cent in 1973. The result was a rapid buildup in international monetary reserves despite a substantial rise in the volume of imports. For many countries, the unaccustomed external surpluses created unusual problems of domestic financial management, but they also permitted acceleration of investment outlays and development projects long inhibited by balance of payments constraints. In some countries, however, a considerable proportion of the unprecedented rise in foreign exchange receipts was directed toward increased outlays for consumption. In the course of 1974, and especially in the second half, an increasing number of countries adopted stabilization measures that contributed to the easing of price pressures; these stabilization measures included, in addition to monetary and fiscal restraint, upward floating or revaluation of exchange rates by several Asian and African countries, liberalization of import restrictions and tariff reductions to temper the rise in costs, and application of export quotas to avert shortages of essential goods. The outlook for many non-oil developing countries in 1975, in line with world-wide trends, is for some decline in the rates of price inflation from the exceptionally high levels reached in 1974.

The widespread tightening of financial policies during 1974 was facilitated in many developing countries by the cessation of international reserve gains. This development, although unwelcome in certain other contexts, removed one of the previous sources of excess liquidity in the banking systems of the countries concerned. Avoidance of excessive monetary expansion thus became technically much less difficult than it had been at the crest of the commodity export boom.

In those developing countries where imported oil provides a large and vital proportion of total energy requirements, *efforts to deal with higher costs of oil and other essential imports* have included compensatory adjustments of non-oil transactions, emergency financing (including use of the Fund's oil facility), and borrowing on international credit markets—an option available to a limited group of countries in 1974, and to even fewer in 1975 because of less favorable export positions and strained external debt-carrying capacities. Countries with relatively low dependence on oil were generally confronted with less pressing problems of adjustment during 1974, but even in that year some of them faced similar problems because of sharp increases in costs of other essential imports, such as foods; and in 1975 an excess of increases in import costs over gains in export earnings seems likely to be pervasive.

An initial reaction of some developing countries to the upsurge of import prices was to attempt to insulate domestic consumers and wage trends from these devel-

opments through subsidies or reductions of tariffs on essential consumer goods. Insulating measures of these types, however, tended to place heavy burdens on government budgets and to generate new domestic inflationary pressures. In some cases, the efforts to cushion the impact of import-cost increases were soon abandoned in favor of greater reliance on price mechanisms to regulate demands for imported goods.

With respect to oil, the great majority of developing countries sooner or later allowed a full or partial pass-through of import prices to domestic prices of petroleum products, sometimes with exceptions for products (such as kerosene) of particular importance to low-income residents. Conservation measures were widely introduced (with indifferent success in some areas), and countries in position to do so turned toward coal or hydroelectric power for greater portions of their energy requirements. Programs of oil exploration were also stepped up by a number of countries and met with some success in a few, particularly in Latin America.

External financing looms as a critical problem for many non-oil developing countries. According to Fund staff estimates, it seems improbable that—in the ordinary course of events—any substantial further increase in the aggregate flow of capital and aid to this group will be forthcoming in 1975. Countries whose needs for real resources from abroad exceed the financial flows available to them, and whose reserves are too low for significant use in external financing, will be compelled to cut back imports. For the entire group of non-oil developing countries, some considerable reduction of net reserve positions—probably involving both use of gross reserves and related borrowing on a sizable scale—appears necessary for the financing of a combined current account deficit of about \$35 billion.

Within this group, problems of external financing are likely to be particularly acute among countries classified by the United Nations as the “most seriously affected.” For these and numerous other non-oil developing countries, the incurrence of additional indebtedness in 1975 could severely strain their debt-servicing capabilities, and there is urgent need for sizable flows of capital on concessionary terms or of outright grant assistance. Even to maintain the net inflow of private capital near its 1974 level—as assumed in the staff estimates—will require domestic financial policies that do not encourage residents to hold financial claims abroad or discourage nonresidents from extending credit, and that contribute generally to confidence of both residents and nonresidents in a country's creditworthiness. By the same token, policies and attitudes in capital exporting countries will need to be such as to encourage the required flows of financial resources.

Chapter 2

Exchange Rates and International Liquidity

In addition to the usual analysis of international liquidity, Chapter 2 includes this year a section dealing with the development and functioning of exchange rate arrangements. Section A reviews both the exchange rate policies adopted in member countries and develop-

ments in major currency relationships over the period since the adoption of widespread floating. Section B contains the customary review of developments in international liquidity and of the adequacy of global reserve holdings.

A. Developments in Exchange Rate Arrangements

Exchange Rate Practices

When the central rate arrangements that had been established following the Smithsonian agreement of December 1971 ceased to be effective in March 1973, member countries adopted a variety of exchange regimes, depending on their particular circumstances and needs. Although the majority of countries have continued to adhere to the exchange rate regime they adopted early in 1973, there have been a number of changes. The exchange rate practices prevailing early in 1975 can be classified roughly under the following categories:

- (i) independent floating
- (ii) pegging to a single currency
- (iii) pegging to a composite (or basket) of currencies (including the special drawing right)
- (iv) pegging to a single currency, with frequent changes in the peg according to a predetermined formula, e.g., based on relative inflation rates
- (v) joint floating under mutual intervention arrangements

A few countries that initially retained a peg for their currency have notified the Fund that they are now floating independently; and several others have abandoned the practice of pegging to a single intervention currency in order to peg to a composite of currencies. Certain countries with rapid rates of inflation have continued the practice, adopted prior to 1973, of changing the peg for their currency at frequent intervals in the light of movements in their domestic prices relative to those abroad. One country, France, departed

from the mutual intervention arrangements of the European narrow margins arrangement¹ and floated independently for a time, although it resumed participation in these arrangements on July 10, 1975.²

Table 9 shows the number of countries in each of the above categories (as at June 30, 1975) and the percentage of trade of member countries accounted for by the countries in each category. These numbers and percentages are approximate, since in a few cases the precise regime being applied is uncertain or difficult to classify. Category (ii) is subdivided according to the particular currency used in intervention; and category (iii) is divided into those currencies that have elected to peg on the SDR and those that employ some other composite.

As a broad generalization, it may be observed that, over the past two years, the larger countries, whose economies are more diverse and whose dependence on foreign trade is less, have mostly inclined to floating. On the other hand, smaller countries, with relatively larger foreign trade sectors or with a less diversified production structure, have mostly inclined to a pegging system.

¹ Ireland, the United Kingdom, and Italy had earlier participated in the narrow margins arrangement. Ireland and the United Kingdom withdrew in June 1972 and Italy withdrew in February 1973. The participants as at June 30, 1975 were Belgium/Luxembourg, Denmark, the Federal Republic of Germany, the Netherlands, Norway, and Sweden.

² The South African authorities, which had been following a policy of independent managed floating, announced on June 27, 1975 that the rate for the rand would in future be held constant in terms of the U. S. dollar, subject to adjustment in the event of a change in basic economic conditions.

All the industrialized countries fall under either category (i) or category (v) in the table. The member countries participating in the European narrow margins arrangement are floating as a group, while the other industrial countries are floating independently. Non-industrial countries for the most part have elected to peg their exchange rates, and thus come under categories (ii), (iii), and (iv). The majority of developing countries have maintained a fixed link with the currency in which they traditionally intervene in the exchange market. This arrangement has the advantage of administrative simplicity, since it involves no more than a continuation of existing practice in the foreign exchange market. It avoids the process of continuous decision making that would be necessary under a system of managed floating. In addition, it ensures that trade denominated in the intervention currency—frequently the currency of the major trading partner—is conducted at a stable exchange rate. Whenever a number of countries use the same intervention currency as a peg, there is the further consequence of stable cross rates between these countries.

There can, however, be other consequences for smaller countries in pegging to a single currency. The most important is that movements in their exchange rate will be dominated by factors affecting the exchange rate of their partner currency, which may not necessarily coincide with their own external adjustment needs or with considerations of domestic demand management.

As long as exchange rates among major currencies are varying, other countries cannot avoid the variations

in the domestic currency price of particular traded commodities caused by exchange rate changes. It is possible, however, for countries to reduce the overall impact of these changes by expressing their exchange rate in terms of some average or composite of major currencies, as a number of countries have done. For the most part, these composites have been chosen to reflect the particular pattern of bilateral trade of the country concerned. However, within this group of countries using composite pegs, five—Burma, Iran, Malawi, Qatar, and Saudi Arabia—have chosen to link the value of their currency to the transactions value of the special drawing right. Although the SDR does not precisely reflect the pattern of trade of any single country, for most members the SDR conforms more closely to an import-weighted composite than does the alternative of a peg to a single currency. Furthermore, in contrast to other composites the SDR has a readily identifiable value, which is published daily in terms of all major currencies.

For countries that have rates of inflation substantially above the average, a system of pegging can operate only if there is provision for frequent changes in the peg. In these countries (mostly in South America) the central decision for the authorities is the criterion according to which changes in the peg are made, rather than the currency or basket of currencies in terms of which the peg is fixed. In fact, all countries that have adopted this type of exchange regime have chosen to define their currency in terms of the U. S. dollar, and to change the peg broadly in the light of relative movements in domestic and foreign prices.

Table 9. Exchange Rate Practices of Fund Members, June 30, 1975¹

	Number of Currencies	Percentage Share of Trade of Fund Members ²
(i) Currencies that float independently	11	46.4
(ii) Currencies pegged to a single currency, ³ of which:	81	14.4
(a) Pegged to U. S. dollar	54	12.4
(b) Pegged to French franc	13	0.4
(c) Pegged to pound sterling	10	1.6
(d) Pegged to Spanish peseta	1	—
(e) Pegged to South African rand	3	—
(iii) Currencies pegged to a composite of other currencies, of which:	19	12.4
(a) SDR	5	5.0
(b) Other	14	7.4
(iv) Currencies pegged to others but that change the peg frequently in light of some formula	4	2.0
(v) Currencies that are floating jointly	7	23.2
Total	122	98.4

Sources: Currency classification: Fund staff assessment; trade shares: *International Financial Statistics*.

¹ The numbers and percentages in the table should be regarded as approximate, since not all cases fit precisely into the categories noted. In the case of four members (representing 1.6 per cent of world trade) the regime being applied is particularly difficult to classify, and these cases are omitted from the table.

² Imports plus exports, 1974.

³ Cases where one member uses the currency of another are classified as pegged to the currency in question.

Developments in Exchange Rates

Although the majority of member countries of the Fund continue to peg their currencies in some fashion, the most noteworthy feature of exchange rate arrangements over the past two years has been the floating of the currencies of major industrial countries. These members account for the bulk of world trade, and their currencies play the dominant role in international financial transactions. The following analysis therefore concentrates on developments in the exchange rates of the principal floating currencies. Chart 6 shows movements in market exchange rates for major currencies against the U. S. dollar from 1973 until June 1975.

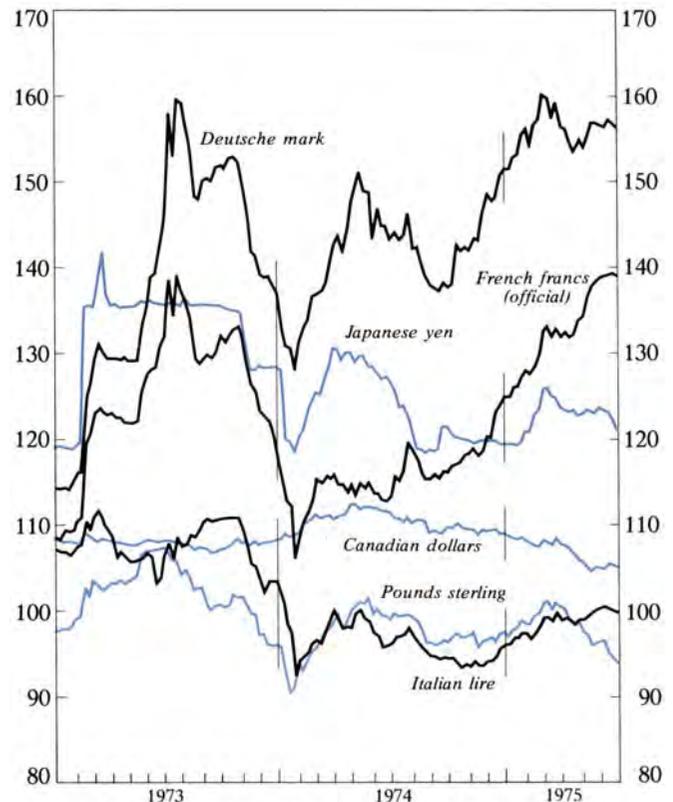
The only announced margins that have been observed by industrial countries since early 1973 have been those established in the context of the European narrow margins arrangement (the "snake"). The currencies of all other industrial countries have, at least formally, floated independently of each other and of the "snake" currencies. In the event, some have tended to move fairly closely either with the snake (Austria, Switzerland) or with the U. S. dollar (Canada). Despite the widespread absence of margins, the period since early 1973 has not been one of free flexibility: all floating currencies have been subject to varying degrees of official intervention.

The desirability of avoiding disorderly fluctuations in exchange rates has been recognized throughout the floating period, and found expression in the "Guidelines for the Management of Floating Exchange Rates" adopted by the Executive Directors in June 1974.³ The guidelines reflect a general agreement that the behavior of governments with respect to exchange rates is a matter for consultation and surveillance in the Fund. They are based on the assumption that in any situation of floating it may be desirable (a) to smooth out very short-run fluctuations in market rates; (b) to offer a measure of resistance to market tendencies in the slightly longer run, particularly when they are leading to unduly rapid movements in the rate, and (c), to the extent that it is possible to form a reasonable estimate of the medium-term norm for a country's exchange rate, to resist movements in market rates that appear to be deviating substantially from that norm. In implementing the guidelines, it is provided that account be taken of members' reserve positions. Furthermore, the guidelines recognize the interest countries have in intervention conducted in their currency by other countries, and emphasize the responsibility of all members, whether or not they are floating, to avoid introducing restrictions for balance of payments purposes on current account transactions.

³ See *Annual Report, 1974*, pages 112–16.

Chart 6. Spot Exchange Rates Against the U. S. Dollar, January 1973–June 1975

(May 1970 = 100)¹



¹ All data based on Wednesday noon quotations in New York.

Guidelines of this kind are necessary, inter alia, in order to arrive at a conception of what a competitive exchange alteration is and to provide protection against it. Although experience with the guidelines is limited, owing to the short time for which they have been in effect, they are nevertheless helpful in assessing the manner in which exchange rate arrangements are working.

The following analysis reviews the functioning of the floating system in three main areas:

(1) The stability of exchange markets in the very short term (i.e., day-to-day and week-to-week fluctuations).

(2) Fluctuations in exchange rates over periods of several months or quarters.

(3) The adjustment of effective exchange rates to underlying changes in balance of payments positions.

Although the guidelines were adopted in June 1974, it is convenient to review developments over the whole period since the introduction of generalized floating in March 1973. The focus in the following analysis will

be on the functioning of the exchange system in the light of the particular criteria noted above.

Day-to-Day Movements

With respect to day-to-day and week-to-week movements in the exchange market, it is widely accepted that members should act to prevent the emergence of disorderly market conditions. The potential for such conditions was revealed relatively early in the floating period, in June and July 1973, when sharp speculative pressure developed in exchange markets, in the course of which there was a formal change in the central rate of the deutsche mark. Some European currencies appreciated against the U. S. dollar by as much as 4 per cent in a single day, and by as much as 10 per cent in little more than a week. In response to this situation, central bank governors meeting in Basle announced that they were ready, in principle, to intervene to facilitate the maintenance of orderly market conditions. Following the announcement, the rates for the major European currencies declined sharply against the dollar.

Despite this declaration by central banks and despite intervention that has been heavy at times, movements in rates have been sharp and erratic on a number of occasions since mid-1973. Early in January 1974, for example, the U. S. dollar appreciated by more than 6 per cent against certain European currencies over the span of a week, only to depreciate quite rapidly thereafter. Late in 1974 and early in 1975, when the dollar was weakening, two notable up-and-down movements took place during which dollar/snake exchange rates fluctuated by as much as 4 per cent in the space of a week.

As may be seen from Table 10, daily changes of significant size continued to take place throughout the period of floating. These changes reflect mainly movements that are reversed over a relatively short period, but also include the influence of tendencies that are of longer duration.

An initial consequence of the greater short-term volatility of exchange rates that has characterized the floating period was an increase in the spread between buying and selling rates for currencies. Subsequently, the situation seems to have improved in these respects, although for most currencies spreads remain wider than before the adoption of generalized floating. For example, the spread between quoted buying and selling rates in New York for spot sterling in terms of the dollar was approximately twice as wide during March–April 1975 as it was in June 1971. A similar tendency can be observed, in greater or lesser degree, for most other major currencies that had been observing par values in June 1971. It should be noted, however, that the wider spread in spot quotations is a trivial element in the cost of financing international trade, and probably has its main effect on financial flows of a reversible character.

Evidence on the efficiency with which the forward market is functioning is much harder to come by, although the increase in the number of schemes under which official institutions guarantee private exporters against exchange risks (see recent Annual Reports on Exchange Restrictions) would seem to indicate that authorities feel there are some deficiencies in the services offered by private markets. In the case of developing countries, for whose currencies forward exchange markets are, at best, thin, it is generally felt by the authorities concerned that the adoption of widespread floating tended to heighten the difficulty of obtaining adequate forward cover.

Short-Term Swings

Of more significance for the balance of payments than day-to-day or week-to-week rate fluctuations have been movements in relative currency values over somewhat longer periods. Since the adoption of widespread floating among the industrial countries, there have been several recognizable swings in the exchange rates

Table 10. Average Daily Changes in Selected Currency Rates Against the U. S. Dollar, 1973–First Quarter 1975¹

(In per cent)

Country	1973				1974				1975
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter
Canada	0.14	0.06	0.07	0.15	0.11	0.11	0.12	0.08	0.12
France	0.54	0.45	0.86	0.56	0.76	0.41	0.27	0.29	0.45
Germany, Fed. Rep. of	0.47	0.52	0.82	0.47	0.64	0.64	0.32	0.47	0.48
Italy	0.26	0.46	0.40	0.24	0.47	0.31	0.17	0.20	0.33
Japan	0.53	0.10	0.09	0.09	0.49	0.28	0.29	0.07	0.28
United Kingdom	0.29	0.21	0.29	0.21	0.64	0.29	0.17	0.21	0.27

¹ Average percentage change from previous day in spot exchange rate against U. S. dollar (New York noon quotation).

of major currencies, each of which has lasted for several months or quarters. It is not always easy to identify with confidence the reasons for these oscillations, since a number of factors combined to influence the trend of the exchange rate, and it is difficult to distinguish their relative importance.

Changes in current account transactions exert a pressure in the exchange market that tends to push the rate in one direction or another. However, changes in the current balance are normally small in relation to potential changes in capital flows, so that it is the latter that exert the most significant influence on exchange rate movements in the short run. Moreover, current account transactions do not respond quickly to price influences because of the lags that are at work. Thus, the current balance does not provide much resistance to exchange rate movements resulting from tendencies in the capital account. It is the capital account itself that provides the equilibrating influence when rates have moved far enough in one direction.

Capital flows are likely to be influenced by two major factors: the relative yields available on assets held in different countries, and expectations with regard to future exchange rate developments. These two factors combine to produce the effective yield that is of primary interest to asset holders. Current nominal yields in national currencies tend to vary, in the short term, with changes in cyclical and monetary conditions. The resultant changes in interest rate differentials were a frequent cause of capital movements under fixed exchange rates (when they led to reserve changes) and have given rise to pressures on exchange rates in a floating system. However, if such changes in interest differentials were seen to be essentially the product of variations in cyclical position, their influence on effective yields could be expected to be offset by a temporary movement in exchange rates of relatively minor proportions. In practice, shifting expectations concerning the longer-run evolution of exchange rates seem to have also played an important role in the movements that have occurred.

Exchange rate expectations are influenced by a number of factors, including recent and anticipated balance of payments trends and interest rate developments. Among the most important of these factors during the recent period have been expectations with respect to capital flows following the oil price increase, and the differing degrees of success with which individual countries appeared to be tackling the problem of inflation.

The currency relationship that has attracted the most attention over the past two years has been that between the U. S. dollar, on the one hand, and the currencies of countries participating in the European

narrow margins arrangement, on the other. The following discussion therefore begins with an analysis of developments in the rate between the dollar and the snake currencies. It should be noted that this may tend to exaggerate the significance for the balance of payments of some of the exchange rate movements that have occurred, since the countries involved have important payments relationships in currencies that have fluctuated less widely against their own. To assess the implications for trade flows of the exchange rate movements that have occurred, indices of effective exchange rates need to be employed, and this is done later in this section.

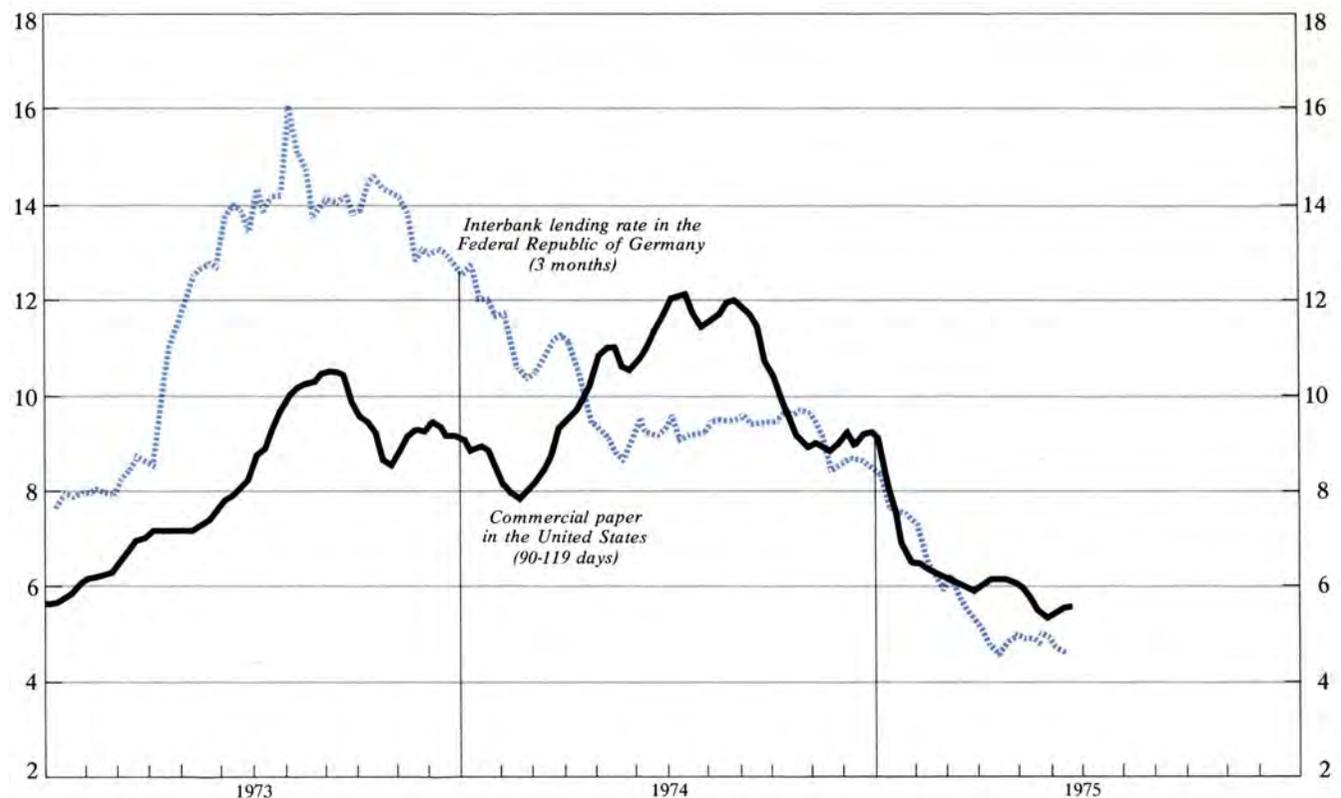
The exchange rate between the U. S. dollar and the currencies of countries participating in the European narrow margins arrangement has experienced a series of up and down movements since the adoption of generalized floating in early 1973, each of which lasted for from three to six months.

Following a short period of rate stability after the introduction of floating, the European currencies began to move up, owing partly to the very tight monetary policy applied by the authorities of the Federal Republic of Germany for anti-inflationary reasons. (See Chart 7.) Because of the mutual intervention arrangements among the European central banks, tendencies affecting a major participating currency, particularly the deutsche mark, often generate a similar movement on the part of the other currencies. On this occasion the movement was, however, encouraged by uncertainty about the intentions of central banks with regard to intervention.

The easing of the liquidity squeeze in the Federal Republic of Germany and some further rise in U. S. interest rates, together with more favorable U. S. trade figures, combined to produce a rising rate for the dollar against the European currencies after July 1973. This upward movement gathered momentum as a result of the Middle East war and subsequent developments in the international oil market. These developments were seen as being relatively favorable to the balance of payments position of the United States. To begin with, this trend in exchange rates was seen as reversing what was considered an excessive movement in the other direction earlier in the year. As a result, there was initially little intervention to check the rise of the dollar. However, when the appreciation of the U. S. currency carried it a substantial way back toward its Smithsonian relationship with the snake currencies, more substantial intervention was undertaken, both by European authorities and by the United States. Despite this, the dollar continued to rise until January 1974, when the rate against the deutsche mark was 20 per cent above its level six months earlier.

Chart 7. Short-Term Money Market Rates, January 1973–May 1975

(In per cent per annum)



Early in 1974, the relative prospects of the dollar and the snake currencies were reassessed by the market. This reassessment lasted some four months, and carried the dollar down by some 15 per cent against the deutsche mark. Once again, the early stages of this movement were not impeded by any substantial intervention, but when the trend continued beyond a certain point, more determined intervention was undertaken.

In mid-1974, monetary conditions became exceptionally tight in the United States, opening up a substantial interest differential with European centers. This led to some rise of the dollar against European currencies, although not sufficient to do more than partially offset the previous decline. Later in the year, the earlier tendency was resumed, as monetary conditions eased in the United States, and interest differentials narrowed substantially. On this occasion the upward movement of European currencies against the dollar continued for about five months, and resulted in a change in snake/dollar rates of about 15 per cent. After touching a high point in early March 1975, the European currencies dropped moderately against the dollar over the ensuing two months, and then started to rise again.

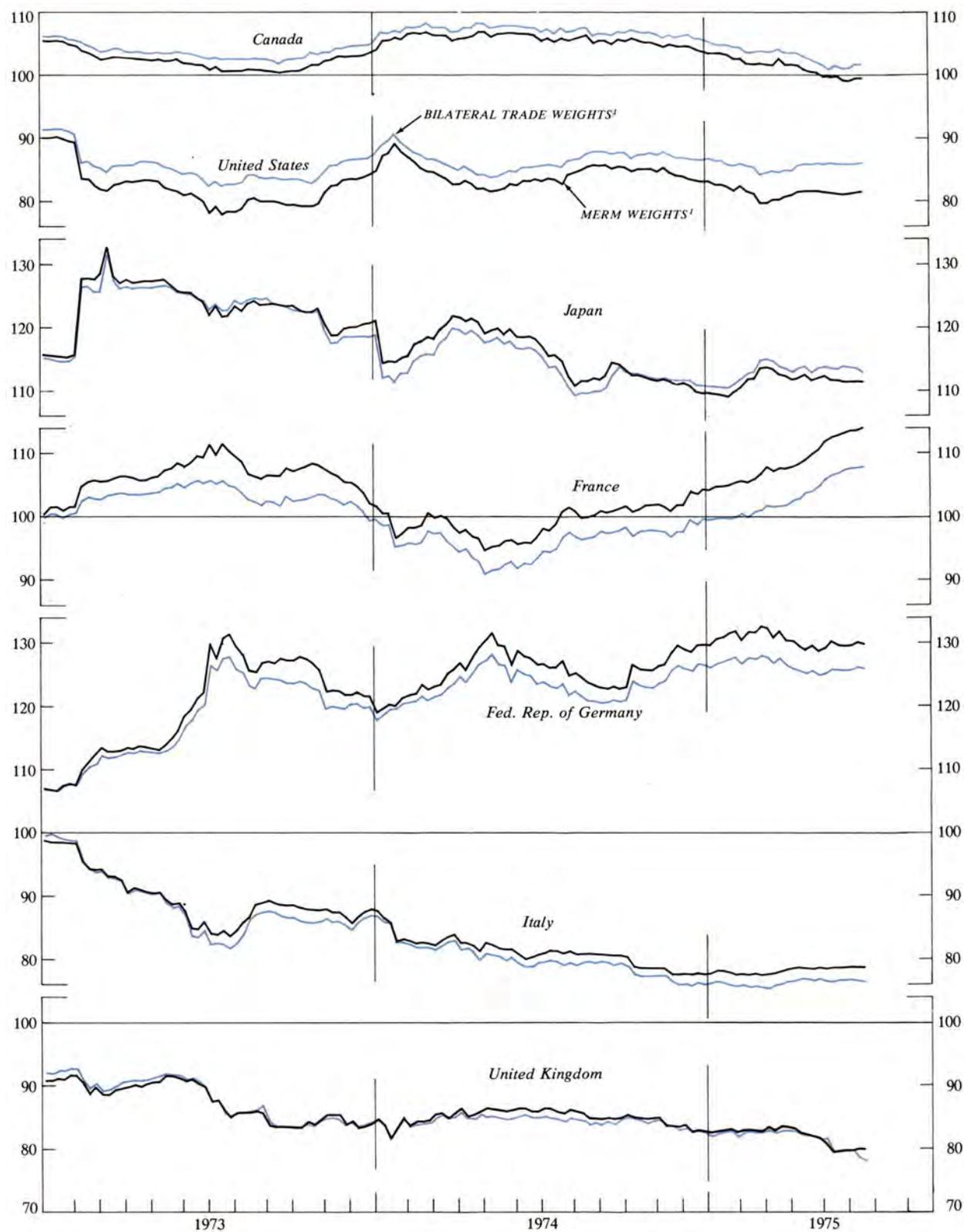
Fluctuations in exchange rates between the dollar and the snake currencies tend to exaggerate the

changes in overall exchange rates of the several countries involved. This is so because both the United States and the European countries have important trading relations with countries whose currencies either are pegged to their own or at least fluctuate more moderately against their own currency. In order to provide a more useful indication of the implications of exchange rate fluctuations for competitiveness, it is helpful to refer to the concept of an effective exchange rate, which computes such fluctuations in terms of a suitable average of other currencies. Various criteria have been used to determine the weights for such an average. Chart 8 shows the development of effective exchange rates during the floating period using two possible weighting schemes. The first is derived from the multilateral exchange rate model developed by the Fund staff.⁴ This model embodies assumptions that attempt to take into account in the calculation of a country's effective exchange rate the commodity composition of its trade, and the relative importance of other countries as trading partners and as competitors in third markets. The second weighting scheme is derived by calculating the relative importance of 27 countries in the bilateral

⁴ See Jacques R. Artus and Rudolf R. Rhomberg, "A Multilateral Exchange Rate Model," *Staff Papers*, Vol. 20 (November 1973), pages 591–611.

Chart 8. Indices of Effective Exchange Rates of Major Industrial Countries, 1973–June 1975

(Weekly data, May 1970 = 100)

¹ See text, page 28.

trade of each of the countries for which an effective exchange rate is computed.

Movements in the effective rates for the U. S. dollar and deutsche mark were generally in the same direction as movements in their market rates against each other, although the amplitude of the swings, as can be seen from a comparison of Chart 8 with Chart 6, was only about half as great. This reflects the fact, noted earlier, that each country carries out a significant part of its trade with countries whose currencies are linked to its own or that follow an independent course.

For the other countries participating in the European narrow margins arrangement, movements in the effective rates for their currencies have been much less than for the deutsche mark. This is so because the pattern of their trade is dominated more by relations with trading partners within Europe, and thus influenced less by fluctuations in their rate against the dollar. The *Swiss franc* and *Austrian schilling*, although moving independently during the floating period, have generally followed the trend of market rates for the currencies in the European narrow margins arrangement.

Turning to the other major currencies, the *French franc* remained within the European narrow margins arrangement until January 1974. Then, under pressure of potential reserve losses, the French authorities allowed the franc to float independently. The exchange market measures that accompanied the move to a floating rate held the initial depreciation to relatively small proportions. However, political uncertainties in the period preceding the presidential election produced renewed weakness that prevented the franc from moving up against the dollar in line with the other European currencies. After touching a low point in May 1974, the effective rate for the franc began a period of appreciation that was sustained, with relatively minor interruptions, into the beginning of 1975. This appreciation was related to the firm stand taken by the Government in its anti-inflationary measures, which aimed at equilibrium in the current account of the balance of payments within 18 months. In the latter part of the year, monetary policy became very tight, and the resulting high interest rates gave rise to an inflow of private capital that, added to the direct official borrowing that the Government was undertaking, was sufficient to cause a rise in the rate. From late 1974 onward, movements in the rate for the franc against the dollar were related closely to those of the snake currencies. A gradual appreciation of the franc against the other European currencies permitted the French authorities to resume participation in the narrow margins arrangement on July 10.

The *pound sterling* was permitted to float in June 1972. Its effective rate declined quite sharply in the

first half of 1973, after which it remained little changed for nearly two years. This stability was achieved with relatively minor changes in reserves. There has been a very large balance of payments deficit on current account, but the United Kingdom has benefited from a substantial inflow of oil surplus funds, which has been augmented by a policy of substantial foreign borrowing by public sector agencies. Until early 1975, the inflow from these two sources was such as to avoid substantial changes in the effective rate for sterling. Thereafter, the effective rate for the pound declined by about 8 per cent between the end of March and the end of June 1975.

Apart from a slight interruption in late 1973, the effective rate for the *Italian lira* has declined in a fairly steady manner, while the Italian authorities supported their currency almost continuously in the face of a large balance of payments deficit. In 1973 the external value of the lira seemed to move more in sympathy with the dollar than with the currencies of Italy's trading partners in Europe, but subsequently the effective rate has been quite stable around its trend value.

The *Canadian dollar* has had the longest history of floating among the major currencies. The Canadian authorities do not intervene directly to affect the general level of their rate, confining their intervention policy to the maintenance of orderly market conditions. The most notable development in the exchange rate for the Canadian dollar against the U. S. dollar during the floating period was a gradual appreciation of about 5 per cent during the first half of 1974, followed by a somewhat more pronounced decline in the second half of the year and into 1975. The initial appreciation probably resulted from a relatively favorable assessment by market participants of the potential impact of higher oil prices on Canada's current account, and more particularly from expectations of capital inflows to finance the exploration and recovery of natural resources. Later in the year, however, the sharp widening in the Canadian current account deficit caused a re-assessment of the situation. Reflecting the dominance of the United States in Canada's external trading relations, movements in the effective rate for the Canadian dollar were most of the time broadly similar to developments in its market rate against the U. S. dollar.

From the time when widespread floating was adopted in March 1973 until October of that year, the rate for the *yen* was effectively maintained at ¥ 265 per U. S. dollar. Although this resulted in a declining effective rate for the yen, rapid price increases in Japan and continuing weakness in the balance of payments meant that considerable official support was needed to maintain the rate at this level. With the added pressure in exchange markets resulting from the expected

adverse consequences of the oil situation for the Japanese balance of payments, the rate fell by about 12 per cent against the dollar (to ¥ 300) over the period October 1973–January 1974. This downward movement in the rate against the dollar was accompanied by further substantial reserve losses, and in January the Japanese authorities began to let the rate respond more freely to market pressures. For a while developments broadly paralleled those for the deutsche mark: in the opening months of 1974, there was a substantial appreciation against the dollar (and a more modest appreciation in the effective rate). This was followed by a decline in the middle part of the year, when monetary conditions in the United States became very tight and the demand for dollars to settle sharply increased usance bills for oil imports made itself fully felt in the market. When the European currencies began to appreciate strongly against the dollar later in 1974, the yen rate initially remained relatively stable around ¥ 300 against the dollar. Only in January 1975 did the yen begin to move up, and in the ensuing months movements in its rate against the dollar were similar to those of the European countries.

Exchange Trends and Competitiveness

Over the longer run, trends in the pattern of exchange rates depend on changes in underlying competitiveness and in conditions governing capital flows. Such changes are influenced by a number of factors, some of which are specific to particular countries or commodities—for example, shifts in demand patterns, the changing availability of substitute goods and factors of production, natural resource discoveries, and so on. Perhaps the most important systematic factor affecting competitiveness, however, has been the rate of price inflation in different national economies. Although the direction of causation has not always been evident, it is clear that divergent trends between countries in the price of goods that can be traded internationally have not been able to persist for very long without being accompanied by movements in exchange rates.

To facilitate examination of interrelationships between prices and exchange rates over the period since the onset of widespread floating of major currencies, Chart 9 is presented. It permits ready comparisons among the seven major countries with respect to relative movements in the wholesale prices of manufactured goods. For each country, the price line plotted is the price level of the country in question relative to the weighted average of the seven countries taken as a group. The weights used are derived from relative shares in world trade in manufactures. The effective exchange rate index employed in the chart is the first of the two

alternatives described on page 28, and the base date is March 1973, reflecting exchange rates prevailing following the realignment of the previous month.

The chart indicates wide differences in relative inflation rates, as measured by price increases for manufactured goods. Over the period shown, three countries (Italy, the United Kingdom, and Japan) experienced price increases considerably faster than the average for all major industrial countries, while one country (the Federal Republic of Germany) had a markedly lower rate of domestic inflation. Price movements in the other three major industrial countries (the United States, France, and Canada) were clustered more closely about the average over the two years as a whole.

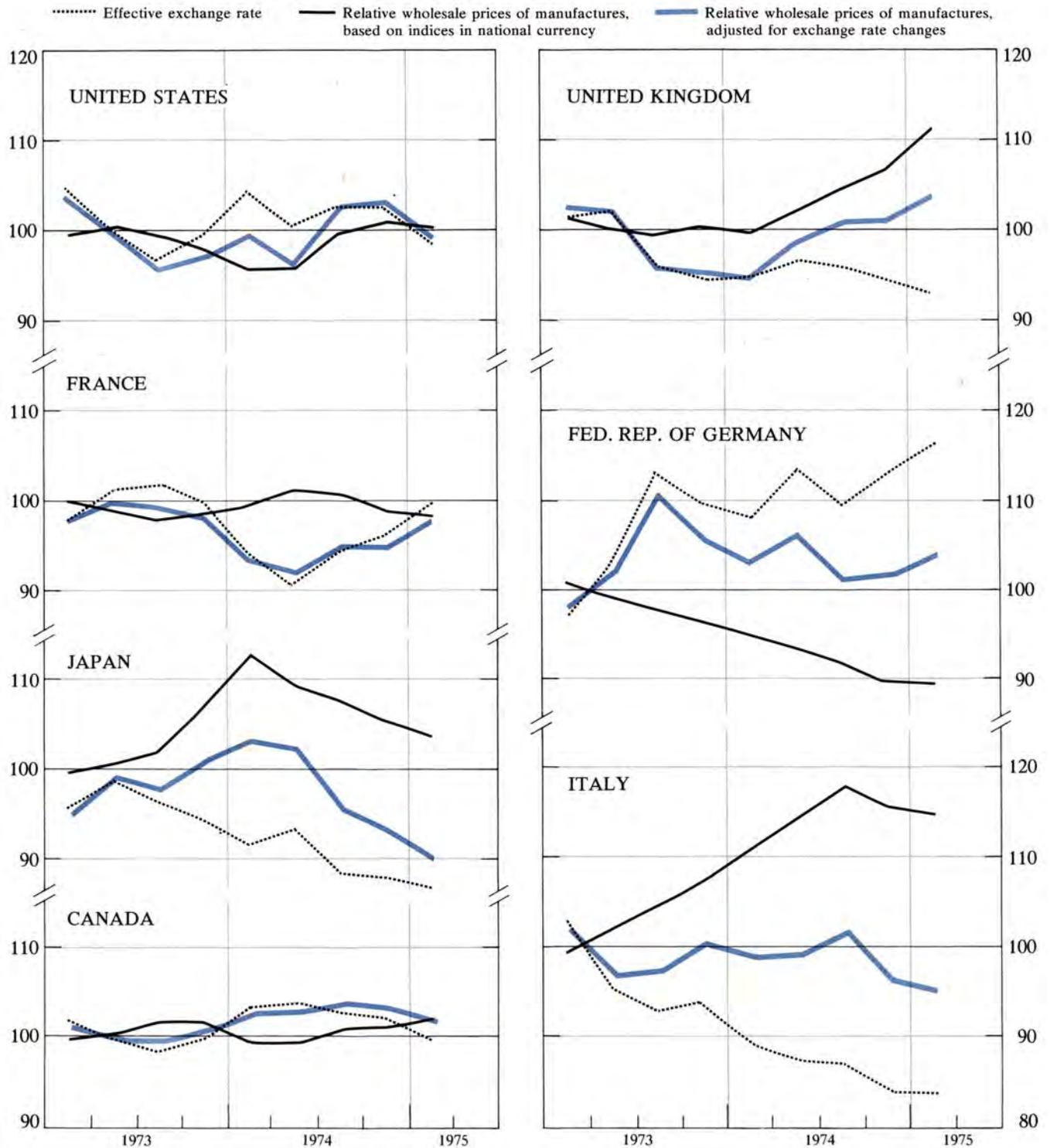
Over the period considered, these differentials in comparative price movements appear to be associated with changes in exchange rates, although this conclusion is to some extent affected by the choice of base date, and, as noted earlier, a direct causal connection cannot necessarily be imputed. The two countries with the fastest rates of advance in domestic wholesale prices of manufactures both experienced a significant depreciation in the effective rate for their currency; the same was true of Japan during the period when its relative price level was rising rapidly; indeed, in the case of Japan (and to some extent for Italy) the decline in the exchange rate seems to have been more than sufficient to offset differences in price trends. After adjustment for exchange rate changes, only the United Kingdom among these countries had a relative price level that was significantly higher in the first quarter of 1975 than in March 1973—and this differential has been considerably reduced by subsequent exchange rate developments.

For the Federal Republic of Germany, exchange rates have fluctuated considerably since the adoption of floating rates. However, the effective appreciation from the first quarter of 1973 to the first quarter of 1975 can be seen to have approximately compensated for the differential price trend between the Federal Republic of Germany and its major competitors over the same period. With respect to the United States also, fluctuations in the effective exchange rate left the adjusted relative wholesale price index for manufactures little changed in the first quarter of 1975 from March 1973.

It may thus be seen that the exchange rate changes that have taken place have largely offset differences in relative inflation rates, substantial though the latter have been. Japan is the only major country to show an appreciable degree of cumulative change in its price level relative to that of its competitors, with an apparent improvement of more than 10 per cent in its competitiveness, as measured in the chart. In this case, however, it must be recalled that the index used is based in March 1973, immediately following a substantial

Chart 9. Effective Exchange Rates and Relative Wholesale Prices of Manufactures, First Quarter 1973–First Quarter 1975

(Indices, March 1973 = 100)



reevaluation of the yen in terms of all other currencies.

* * *

Any general assessment of the effectiveness of the system of managed floating exchange rates inevitably requires taking a view on how authorities would have coped with the turbulent developments of the past two years under alternative arrangements. In this connection it can be noted that exchange markets have continued to function, and that crises of the type that bedeviled the later years of the par value system have been avoided. Fluctuations in rates have at times been erratic, but there is little evidence thus far that this factor has seriously impeded the growth of world trade. On the whole, exchange rate flexibility appears to have enabled the world economy to surmount a succession of disturbing events, and to accommodate divergent trends in costs and prices in national economies with less disruption of trade and payments than a system of par values would have been able to do.

But the question also needs to be asked whether present arrangements could have been managed better, and whether they will continue to be appropriate in a

calmer period for the world economy. The rate fluctuations that have occurred in the past two years—both day-to-day and of somewhat longer duration—are in some cases much greater than could be justified on the basis of changes in underlying economic conditions. It is admittedly difficult to distinguish a temporary movement from a trend, but the record of the floating period is not wholly satisfactory in this respect. A reduction in such swings would help to diminish uncertainty and thus tend to decrease the risks attached to international trade and investment.

For the developing countries that have continued to peg their exchange rates, floating of the major currencies has introduced a new type of uncertainty into their exchange rates and balances of payments, against which they find it difficult to protect themselves. In circumstances such as those of the recent past, however, uncertainty with respect to exchange rate movements is unavoidable, and the particular uncertainties associated with floating are not necessarily greater than those that would be involved under a par value system.

B. Developments in International Liquidity

Reserve Changes in 1974

The value of international reserves of member countries and Switzerland, expressed in special drawing rights (SDRs), rose in 1974 by almost SDR 27 billion, to SDR 178 billion at the end of the year (Table 11).⁵ With this increase of 18 per cent, official reserve holdings resumed growth at a rate similar to that recorded in 1972 (19 per cent) and substantially higher than that in 1973 (4 per cent). During the first quarter of 1975, however, the rate of reserve growth appears to have slowed again as, according to preliminary data, reserves rose by SDR 4 billion, at an annual rate of 9 per cent.

Additions to foreign exchange holdings accounted for nine tenths of the total increase in reserves in 1974 and also dominated the reserve increase in the first quarter of 1975. The remainder consisted of an increase in reserve positions in the Fund. The rise by SDR 2.7 billion in 1974 was by far the largest annual growth in these reserve positions and the first annual advance since 1970. Moreover, reserves in this form continued to increase

rapidly in the first quarter of 1975, when they rose by SDR 1.1 billion. Holdings of gold and of SDRs changed only insignificantly in 1974 and in the first quarter of 1975 (Chart 10).

Almost the entire reserve increase recorded in 1974 accrued to a group of countries that are major net exporters of petroleum products—hereinafter referred to as “major oil exporting countries” (Table 12). Reserves of industrial countries as a group showed an increase of SDR 2 billion and those of the more developed primary producing countries declined by SDR 2.7 billion. Less developed primary producing countries excluding major oil exporting countries accounted for the remaining reserve increase of SDR 1.3 billion, which accrued mainly to countries in Asia; other less developed countries, grouped by continent, recorded smaller changes, which were mutually offsetting.

The distribution of reserves among industrial countries was not altered as much in 1974 as it had been in most previous years. The outstanding shifts in 1974 were a

⁵ The term “reserves” used in this chapter refers to countries’ official holdings of gold, SDRs, and foreign exchange and their reserve positions in the Fund. A country’s reserve position in the Fund is the excess, if positive, of its quota over the Fund’s (adjusted) holding of its currency. Gold is valued at SDR 35 per ounce; foreign exchange balances are valued in SDRs by converting them at parity or central rates for end-1973 and earlier dates (except for floating currencies, for which market rates were used) and at SDR transactions values based on market rates thereafter (see introductory pages of *International*

Financial Statistics for further explanation). In recent Annual Reports foreign exchange holdings of the United States had been excluded from the total of countries’ foreign exchange holdings on the grounds that they were mainly the counterpart of the use of swaps by other countries and could not be used to finance U.S. deficits. In 1973 and 1974 U.S. foreign exchange holdings were negligibly small. Since there are no grounds for excluding these holdings in present circumstances, even if they ceased to be negligible, they have been left in the total for all years. At their peak in 1969, U.S. official holdings of foreign exchange amounted to SDR 3.8 billion.

Table 11. Official Reserves, End of Years 1955-74 and End of March 1975¹

(In billions of SDRs)

	Gold	SDRs	Reserve Positions in Fund	Foreign Exchange ¹	Total ¹
1955	35.4	—	1.9	18.5	55.8
1956	36.1	—	2.3	19.5	57.8
1957	37.3	—	2.3	18.8	58.5
1958	38.0	—	2.6	18.8	59.5
1959	37.9	—	3.3	17.9	59.1
1960	38.0	—	3.6	20.2	61.8
1961	38.9	—	4.2	20.9	64.0
1962	39.3	—	3.8	21.5	64.6
1963	40.2	—	3.9	24.0	68.1
1964	40.8	—	4.2	25.4	70.3
1965	41.8	—	5.4	25.2	72.4
1966	40.9	—	6.3	26.0	73.2
1967	39.5	—	5.7	29.0	74.3
1968	38.9	—	6.5	32.0	77.4
1969	39.1	—	6.7	32.2	78.1
1970	37.2	3.1	7.7	44.5	92.5
1971	36.1	5.9	6.4	73.9	122.2
1972	35.8	8.7	6.3	94.9	145.6
1973	35.8	8.8	6.2	100.7	151.4
1974	35.7	8.9	8.9	124.7	178.2
March 1975	35.7	8.8	10.0	127.8	182.3

Source: *International Financial Statistics*.

¹ Official reserves of Fund members and Switzerland. 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*. The figures for 1973 include official French claims on the European Monetary Cooperation Fund. In contrast to previous Annual Reports, U. S. holdings of foreign exchange are included. See page 33, footnote 5.

decline of SDR 1 billion in the reserves of the Federal Republic of Germany, which was, however, reversed in the first quarter of 1975, and increases of SDR 1.2 billion in those of the United States and of SDR 0.9 billion in Japan. Reserves of most other industrial countries changed by no more than a few hundred million SDRs during 1974. Except for the rise in reserves of the Federal Republic of Germany already noted, the stability in the pattern of reserve holdings among industrial countries continued in the first quarter of 1975. For most industrial countries this stability is to be explained by the absence of substantial intervention in the exchange markets. For some countries, chiefly France, Italy, and the United Kingdom, public borrowing from abroad contributed to a considerable extent to the financing of balance of payments deficits and to maintaining official reserves. In Japan, large borrowing from abroad by the commercial banks during the first half of the year aided the authorities in financing the deficit on current and long-term capital account without loss of reserves.

The reserves of the major oil exporting countries as a group continued to rise in the first quarter of 1975, although at a slower rate than in 1974, by about SDR 3 billion. However, large reserve increases in some of these countries, notably Saudi Arabia and Venezuela, were partly offset by reserve declines in other countries of the group, for instance, Algeria, Iraq, and the Libyan Arab Republic. Reserves of the industrial countries also

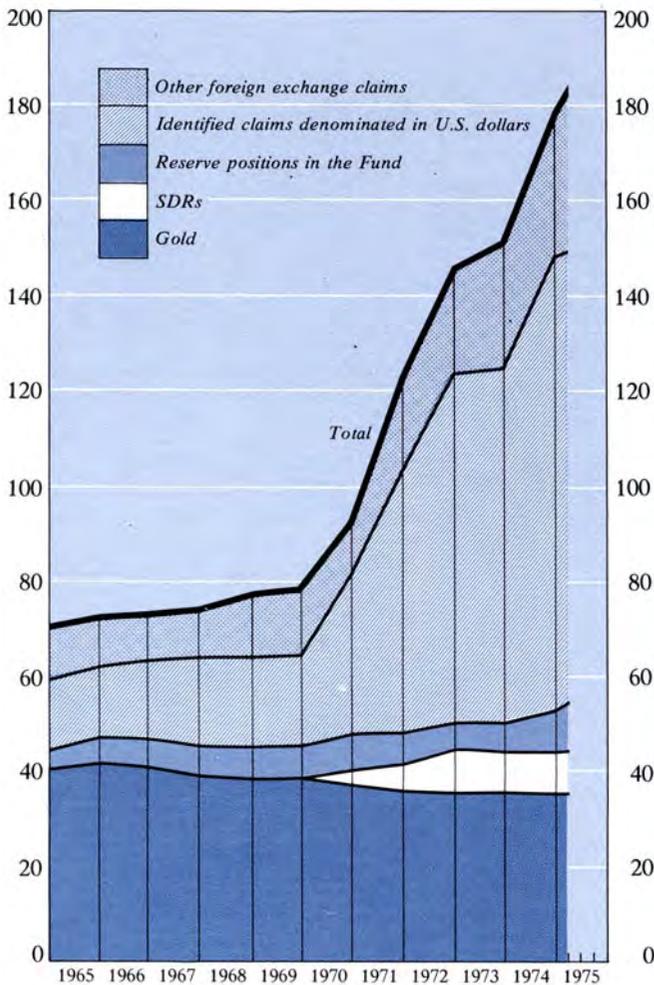
advanced by about SDR 2 billion in the first quarter of 1975, those of the more developed primary producing countries declined by SDR 1 billion, and those of other less developed countries appear to have shown little change.

The change in the value of reserves during 1974 resulted mainly from transactions that created (or destroyed) reserves; to a minor extent, however, the net effect of these transactions was offset by a small decline in the SDR value of existing reserves owing to changes in the SDR value of currencies in which foreign exchange balances were held. Estimated valuation changes of countries' foreign exchange holdings in 1974 amounted to a loss of SDR 0.8 billion; the change in reserves stemming from net reserve creation in the form of foreign exchange during 1974 was therefore larger by this amount than the change in the value of foreign exchange holdings of SDR 24.0 billion.⁶

⁶ The need to adjust movements in the stocks of official reserve holdings during 1974, to reflect the value of transactions in these reserve assets over this period, arises from changes in the SDR value of currencies between the end of 1973 and the end of 1974. As from end-July 1974, foreign exchange is converted to U.S. dollar equivalents at end-of-month market rates or, in the absence of market rate quotations, at other prevailing official rates. The U.S. dollar equivalents are then converted into SDR equivalents by the U.S. dollar/SDR transactions value. Prior to July 1974, the valuation of official reserve holdings was based primarily on official parities or central rates. (See introductory pages of *IFS* for further explanation.)

Chart 10. Level and Composition of Reserves, End of Period, 1964–March 1975

(In billions of SDRs)



Asset Composition of Reserve Growth

Nearly the entire increase in official reserves accrued to the major oil exporting countries, and decisions by the authorities of these countries on the placement of their official liquid holdings largely determined the form in which the total increment in official reserves was held. This is illustrated in Table 13, which classifies reserve changes during 1974 by type of asset and by ownership. The United States is shown separately to identify the passive character of the small increase of SDR 1.2 billion in its reserves, which occurred as a result of Fund drawings made in U.S. dollars and designation of the United States to accept SDRs in exchange for currency. Members of the country groups shown, i.e., industrial and more developed primary producing countries (other than the United States), major oil exporting countries, and other less developed countries,

did not engage in SDR transactions on a sufficiently large scale in 1974 to record significant net changes in the SDR holdings of any of these groups. Major oil exporting countries acquired reserve positions in the Fund equivalent to SDR 1.5 billion, which constituted claims arising in connection with the Fund's oil facility. From the end of 1973 to the end of 1974, official gold holdings of most countries changed very little, if at all; small net reductions of official holdings occurred in Mexico, South Africa, and Zaïre, while the holdings of Kuwait rose somewhat. The most important component of the reserve increase in 1974 was the acquisition by major oil exporting countries of foreign exchange claims equivalent to SDR 24.8 billion, reduced by an estimated valuation loss of SDR 0.3 billion to a net accumulation of SDR 24.5 billion. By far the largest part of this addition to foreign exchange holdings, at least SDR 18.7 billion, was denominated in U.S. dollars, either in the form of identified Euro-dollar deposits (SDR 12.5 billion) or of identified direct claims on the United States (SDR 6.2 billion). Other placements, amounting to the equivalent of SDR 6.1 billion, may also have contained claims denominated in U.S. dollars but consisted chiefly of direct claims on the United Kingdom and on other countries and of Euro-currency deposits other than Euro-dollars.

The concentration of reserve growth in a relatively small group of nonindustrial countries during 1974 was a new feature of the developments in international liquidity; but the fact that it took the form largely of an increase in foreign exchange holdings, which were mainly denominated in U.S. dollars, was in conformity with tendencies apparent over a number of past years (Table 14). The distribution of official placements in U.S. dollars between claims on the United States and holdings of Euro-dollars has been subject to various influences over recent years, including interest rate tendencies in the U.S. and Euro-dollar markets and variations in currency preferences among countries gaining and losing foreign exchange reserves.

The increase equivalent to SDR 8.2 billion in foreign official claims on the United States in 1974 was larger than in 1973 but smaller than in 1971 and 1972. Holdings of sterling claims on the United Kingdom rose by a record SDR 2.6 billion in 1974. The interpretation of the causes of these accumulations has shifted somewhat in accordance with changing views of the motivation of the transactors, with less emphasis being placed on the supply of foreign exchange through payments deficits of reserve currency countries and more on the demand for reserve currencies on the part of the authorities of many countries intending to prevent an appreciation of their currencies or to hold capital assets abroad in liquid form.

Table 12. Distribution of Reserves, End of Years 1950, 1960, and 1970-74 and End of March 1975¹

(In billions of SDRs)

	1950	1960	1970	1971	1972	1973	1974	March 1975
Industrial countries								
United States	24.3	19.4	14.5	12.1	12.1	11.9	13.1	13.3
United Kingdom	4.8	5.1	2.8	8.1	5.2	5.4	5.7	5.9
Subtotal	29.1	24.5	17.3	20.3	17.3	17.3	18.8	19.2
Belgium	0.8	1.5	2.8	3.2	3.6	4.2	4.5	4.9
France	0.8	2.3	5.0	7.6	9.2	7.4	7.2	7.5 ²
Germany, Federal Republic of	0.2	7.0	13.6	17.2	21.9	27.5	26.5	27.6
Italy	0.7	3.3	5.4	6.3	5.6	5.3	5.7	5.4
Netherlands	0.5	1.9	3.2	3.5	4.4	5.4	5.7	5.8
Switzerland	1.6	2.3	5.1	6.4	6.9	7.1	7.4	7.2
Other industrial Europe ³	0.5	1.8	3.8	4.9	6.0	6.9	6.6	6.6
Subtotal, continental industrial Europe	5.2	20.1	39.0	49.1	57.6	63.8	63.5	65.0
Canada	1.8	2.0	4.7	5.3	5.6	4.8	4.8	4.7
Japan	0.6	1.9	4.8	14.1	16.9	10.2	11.0	11.3
Total, industrial countries	36.8	48.5	65.8	88.8	97.4	96.0	98.1	100.2
Primary producing countries								
More developed countries								
Other European countries ⁴	1.6	2.3	5.7	8.1	11.8	13.6	12.4	11.4
Australia, New Zealand, and South Africa	2.1	1.4	3.0	4.2	7.6	6.5	5.0	5.0
Subtotal, more developed primary producing countries	3.7	3.7	8.7	12.2	19.5	20.1	17.4	16.4
Less developed countries								
Major oil exporting countries ⁵	1.3	2.4	5.1	7.8	10.1	12.0	38.1	41.2
Other Western Hemisphere ⁶	2.4	2.2	4.4	4.3	7.4	9.8	9.3	8.9
Other Middle East ⁷	1.1	0.7	1.6	2.0	2.6	3.5	3.9	4.5
Other Asia ⁸	3.7	2.7	4.9	5.3	6.7	7.7	9.1	9.0
Other Africa ⁹	0.6	1.3	2.0	1.7	1.9	2.2	2.4	2.1
Subtotal, less developed countries ¹⁰	9.8	9.6	18.0	21.1	28.8	35.3	62.7	65.6
Total	50.3	61.8	92.5	122.2	145.6	151.4	178.2	182.3

Source: *International Financial Statistics*.¹ Some minor differences between these data and those published in *IFS* are noted in Table 11, footnote 1. Totals may not add because of rounding and because some totals include unpublished data for component areas.² The value of the official French reserve stock, at end-March 1975, as shown in this table, differs from that published in official French statistics because, since January 1975, France has adopted a system of valuing gold based on market prices.³ Austria, Denmark, Luxembourg, Norway, and Sweden.⁴ Finland, Greece, Iceland, Ireland, Malta, Portugal, Spain, Turkey, Yugoslavia, and, beginning in 1972, Romania's reserve position in the Fund and holdings of SDRs.⁵ Algeria, Indonesia, Iran, Iraq, Kuwait, the Libyan Arab Republic, Nigeria, Saudi Arabia, Venezuela, and, beginning in 1968, Bahrain and, in 1970, Oman.⁶ Argentina, Bolivia, Brazil, Central America, Chile, Colombia, the Dominican Republic, Ecuador, Guyana, Haiti, Jamaica, Mexico, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, and, beginning in 1970, SDRs and reserve position in the Fund for Barbados.⁷ Cyprus, Egypt, Israel, Jordan, Lebanon, the Syrian Arab Republic, and, beginning in 1965, the People's Democratic Republic of Yemen.⁸ Afghanistan, Burma, the Republic of China, India, 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.⁹ African Fund members other than Algeria, Egypt, the Libyan Arab Republic, Nigeria, and South Africa.¹⁰ Includes residual.

The increase in reserves in the form of Euro-dollar holdings accelerated sharply in 1974 compared with earlier years and accounted for almost one half of the total reserve increase in 1974. It consisted entirely of placements of surplus earnings of major oil exporting countries in the Euro-dollar market. A small amount of additional placements in that market by monetary authorities of other less developed countries was more than offset by a reduction in official Euro-dollar holdings of industrial and more developed primary producing countries. Claims in national currency on issuing countries other than the United States and the United King-

dom and Euro-currency holdings other than those denominated in U.S. dollars seem to have remained virtually stationary during 1974. The double deposit arrangement between the Deutsche Bundesbank and the Bank of Italy added \$2 billion (equivalent to SDR 1.7 billion at the time that the arrangement came into effect) to total reserves, since the claim on Italy is counted here as part of the reserves of the Federal Republic of Germany; in March 1975, this claim was reduced by SDR 0.5 billion.

As has been the case for a number of years (except 1971-72), roughly one half of total official foreign

Table 13. Composition of Reserve Change by Area, 1974¹

(In billions of SDRs)

	Industrial and More Developed Primary Producing Countries		Less Developed Primary Producing Countries		Total
	United States	Other countries	Major oil exporting countries	Other countries ²	
Net transactions in reserves					
Gold	—	—	—	-0.1	-0.1
SDR holdings	0.1	-0.1	—	—	0.1
Reserve positions in Fund	1.1	0.2	1.5	-0.1	2.7
Official foreign exchange holdings ³	—	-1.6	24.8	1.5	24.8
Official claims on United States ⁴	—	0.7	6.2	1.3	8.2
Official sterling claims on United Kingdom	—	-1.1	4.2	-0.5	2.6
Identified official holdings of Euro-dollars	—	-1.2	12.5	1.2	12.5
Residual holdings of foreign exchange ⁵	—	—	1.9	-0.5	1.5
Effect of valuation changes on stock of reserves ⁶	—	-0.4	-0.3	-0.1	-0.8
Total reserve change	1.2	-2.0	26.1	1.3	26.7

Sources: *International Financial Statistics* and Fund staff information and estimates.¹ Table 14 provides more detailed information on the composition of changes in official reserves of all countries, including comparable data for earlier years.² The transactions values of the components of foreign exchange shown for this group were derived as residuals and therefore include any omissions, errors, and asymmetries included in the transactions values estimated for the other groups.³ Area details are based on data provided by those holders of these claims that report this information to the Fund.⁴ Covers only claims of countries, including those denominated in the claimant's own currency.⁵ More details of this residual are provided in Table 14.⁶ For explanation, see page 34, footnote 6.

exchange assets outstanding at the end of 1974 were held as claims on the United States (Table 15). Somewhat more than one half of the remainder took the form of identified Euro-dollar holdings. Except for some increase in sterling claims on the United Kingdom, there has been little diversification of foreign exchange holdings by currency in 1974. This is even more striking when it is remembered that certain components shown without reference to currency in Table 15 are also denominated in U.S. dollars, such as most claims on the IBRD and IDA, the amount of SDR 1.6 billion (the year-end SDR equivalent of \$2 billion) arising from the double deposit arrangement mentioned above, and doubtless some part of the residual.

Factors Affecting the Adequacy of Reserves

This subsection contains the review of the adequacy of global reserve holdings that the Executive Directors are required to make under Section 10 of the By-Laws of the International Monetary Fund. Besides surveying the development of the global volume of reserves and its distribution, this review must concern itself with changes in the need for reserves.

Under the par value system reserves were needed mainly to finance prospective payments imbalances that might arise at given exchange rates. Global reserve needs were assessed in the light of the desirability of enabling countries to finance *temporary* payments disequilibria rather than control them through restrictions or react to them through policies suitable for dealing

with underlying disequilibrium, such as par value changes. At the same time, financing of disequilibria was not to be made so easy, through a surfeit of reserves, as to discourage adjustment to *underlying* disequilibria. Adjustment of the volume of global reserves to reserve needs assessed in accordance with these principles would contribute to economic stability and help to "avoid economic stagnation and deflation as well as excess demand and inflation in the world."⁷

In present circumstances of widespread managed floating of exchange rates, the choice between allowing exchange rates to vary in accordance with market pressures and the financing of imbalances arises continuously rather than merely from time to time, as it did under the par value system. This affords some economy in the holding of reserves, but the extent to which the two exchange rate regimes differ with respect to reserve needs should not be overestimated. In principle, proper exchange rate management would seem to require, for a country with a floating rate, not to let the exchange rate take all the strain of a temporary, self-reversing payments disequilibrium and, for a country adhering to a par value regime, not to use reserves to finance an underlying disequilibrium. In practice, however, the two systems are likely to differ substantially with regard to patterns of reserve use. On the one hand, it has often been noted that under the Bretton Woods system countries tended to delay necessary par value changes, sometimes at the cost of having to impose payments restrictions or maintaining inappropriate levels of demand, but

⁷ Article XXIV, Section 1(a), of the Articles of Agreement.

Table 14. Composition of Reserve Change, 1968-74¹

(In billions of SDRs)

	1968	1969	1970	1971	1972	1973	1974
Net annual transactions in reserves							
Gold							
Monetary gold	-0.7	0.1	0.3	-0.1	0.2	—	—
Gold transactions (acquisitions -) by IMF, BIS, and European Fund	0.1	0.1	-2.2	-1.0	-0.5	—	—
Countries' gold reserves	-0.6	0.2	-1.9	-1.1	-0.3	—	-0.1
Special drawing rights							
Allocation of SDRs	—	—	3.4	3.0	3.0	—	—
IMF holdings of SDRs (increase -)	—	—	-0.3	-0.2	-0.1	0.1	0.1
Countries' SDR holdings	—	—	3.1	2.8	2.8	0.1	0.1
Reserve position in the Fund							
Use of Fund credit	1.2	0.3	-0.8	-1.9	-0.3	-0.1	2.7
IMF gold transactions (inflow +) ²	-0.4	—	1.6	0.4	0.1	—	—
IMF transactions in SDRs (inflow +)	—	—	0.3	0.2	0.1	-0.1	-0.1
IMF surplus (increase -)	-0.1	-0.1	-0.1	—	—	—	—
Reserve positions in the Fund	0.7	0.2	1.0	-1.3	—	-0.2	2.7
Official foreign exchange holdings							
Official claims on United States ³	-0.8	-1.5	7.8	27.4	10.0	4.6	8.2
Other official claims	3.7	1.8	4.4	6.4	11.0	9.8	16.6
Official sterling claims on United Kingdom	-0.5	0.6	0.4	1.6	0.5	0.2	2.6
Official deutsche mark claims on the Federal Republic of Germany	0.1	0.1	0.8	-0.4	0.1	-0.7	—
Official French franc claims on France	0.1	-0.1	0.2	0.2	0.3	0.2	-0.2
Other official claims on other countries denominated in the claimant's own currency	... ⁴	... ⁴	... ⁴	0.1	-0.1	0.6	-0.3
Foreign exchange claims arising from swap credits and related assistance	1.2	-0.1	-2.2	-0.7	—	0.4	1.3
Identified official holdings of Euro-dollars ⁵	1.6	1.1	5.5	0.8	7.5	4.9	12.5
Identified official holdings of other Euro-currencies	... ⁴	... ⁴	... ⁴	0.7	2.0	1.6	0.2
Identified official claims on IBRD and IDA	0.1	0.1	0.1	—	—	0.1	0.1
Residual ⁶	1.2	0.1	-0.5	4.1	0.7	2.6	0.4
Total official foreign exchange holdings	3.0	0.3	12.2	33.8	21.0	14.4	24.8
Effect of valuation changes on stock of reserves ⁷	—	-0.1	—	-4.4	—	-8.6	-0.8
Total reserve change	3.2	0.6	14.4	29.7	23.5	5.8	26.7

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

¹ Some minor differences between these data and those published in *IFS* are noted in Table 11, footnote 1. Table 15 provides comparable stock data concerning official holdings of foreign exchange. Note, however, that in some years changes in outstanding stocks do not coincide with the estimated transactions values recorded here because of changes in the relationship between the currency of denomination and the SDR. Footnote 1 to Table 15 notes these cases.

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 Covers only claims of countries, including those denominated in the claimant's own currency.

⁴ The underlying stock data were not available prior to 1970; therefore, the value of transactions in these assets is included with the residuals until 1971.

⁵ See Table 15 for more details concerning these Fund staff estimates.

⁶ Table 15, footnote 5, provides details.

⁷ For explanation, see page 34 above, footnote 6, and *Annual Report, 1972*, page 25, footnote 2.

not infrequently also at the expense of incurring an unwarranted fall, or rise, in their reserves. On the other hand, the survey of exchange rate developments and policies in the first part of this chapter has shown that under managed floating countries have often permitted fairly large short-term exchange rate movements to take place in response to balance of payments pressures that must be judged to have been temporary, since the changes in rates over the longer term were relatively small. These considerations lead to the conclusion that, other things being equal, the use of reserves, and the volume of reserves needed to support it, is smaller in circumstances of widespread managed floating than under the par value system.

This general observation may require qualification for countries pegging their exchange rates to a single currency. Any such country may under certain circumstances experience larger payments imbalances, particularly on current account, if the currency on which it is pegging floats against the currencies of other trading partners of the country in question than if all relevant exchange rates were fixed. On the other hand, the variability of the short-term capital balance of a country pegging on a floating currency may be reduced by the lessening of speculative capital flows brought about by the floating of that currency. Considerations similar to those described above may perhaps also apply to smaller participants in mutual intervention arrangements.

Table 15. Official Holdings of Foreign Exchange, by Type of Claim, End of Years, 1968-74¹

(In billions of SDRs)

	1968	1969	1970	1971	1972	1973	1974
Official claims on United States ²	17.3	16.0	23.8	46.6	56.7	55.4	62.5
Official sterling claims on United Kingdom	4.3	5.2	5.7	7.3	8.1	6.5	9.1
Official deutsche mark claims on Federal Republic of Germany	0.4	0.5	1.3	1.0	1.1	0.6	0.9
Official French franc claims on France	0.6	0.4	0.6	0.8	1.0	1.2	1.0
Other official claims on countries denominated in the claimant's own currency	... ³	... ³	0.8	0.9	0.7	1.3	1.2
Official foreign exchange claims arising from swap credits and related assistance	3.0	2.8	0.7	—	—	0.4	1.6 ⁴
Identified official holdings of Euro-currencies							
Euro-dollars							
Industrial countries	2.3	2.2	5.1	3.4	5.6	7.3	6.4
Primary producing countries							
More developed countries	0.5	0.6	1.5	1.6	3.1	3.2	2.9
Less developed countries	1.1	2.1	3.7	5.3	9.1	10.2	23.5
Western Hemisphere	0.3	0.6	1.0	1.5	3.5	4.0	5.2
Middle East	0.1	0.4	0.6	1.1	1.9	2.3	12.7
Asia	0.3	0.6	1.1	1.0	2.0	2.7	3.0
Africa	0.4	0.6	1.1	1.6	1.7	1.3	2.6
Memorandum item: Major oil exporting countries	0.4	0.8	1.6	2.8	3.9	4.1	16.2
Total identified Euro-dollars	3.8	4.9	10.4	10.3	17.8	20.8	32.7
Other Euro-currencies	... ³	... ³	0.3	1.0	3.0	4.7	5.3
Total identified holdings of Euro-currencies	3.8	4.9	10.7	11.3	20.8	25.5	38.0
Identified claims on IBRD and IDA	0.4	0.6	0.7	0.6	0.6	0.6	0.7
Residual ⁵	2.2	2.0	0.3	5.4	5.8	9.2	9.8
Total official holdings of foreign exchange	32.0	32.2	44.5	73.9	94.9	100.7	124.7

Sources: *International Financial Statistics* and Fund staff information and estimates.¹ Includes the estimated change in the level of holdings owing to the French franc devaluation in 1969, the general realignment of currencies in 1971, the U. S. dollar devaluation in 1973, and the widespread floating of currencies in 1974.² Covers only claims of countries, including those denominated in the claimant's own currency.³ These data were not available prior to 1970; therefore, they are included with the residual in these years.⁴ Comprises the double deposit arrangement for US\$2 billion between the Deutsche Bundesbank and the Bank of Italy.⁵ Part of this residual occurs because some member countries do not classify all the foreign exchange claims that they report to the Fund. It also includes asymmetries arising because data on U. S. and U. K. currency liabilities are more comprehensive than data on official foreign exchange as shown in *International Financial Statistics*.

Another difference between the par value system and a floating exchange rate regime concerns the adaptation of the supply of foreign exchange reserves to the demand for them. Under the par value system as it operated in former years, the supply of foreign exchange reserves depended in large part on the deficits and surpluses of reserve currency countries at existing exchange rates, which in the short run were given and in the long run depended on the balance of currency devaluations and revaluations against the reserve currencies. Under present conditions, countries whose currencies are floating independently are in a position to generate somewhat more easily the volume of currency reserves they feel they require by intervention on the exchange market, although their intervention policies are, of course, affected by considerations other than the desired level of reserves. This mechanism is, however, also open to a number of objections, for instance, that nationally desired reserve levels are not necessarily desirable from a world standpoint and that intervention to alter the reserve level inevitably affects the effective exchange rates not only of the currency in question but also of the reserve currency in ways that may not always be appropriate.

However, it remains true that the presence of widespread floating of exchange rates in 1974 is likely to have affected the adequacy of reserves both by reducing somewhat the need for reserves compared to what it would have been in the absence of floating and by providing for a more flexible adaptation of the supply of foreign exchange to the demand for it.

Another development in international financial relations, which is not new but has assumed greater importance recently, operates both to reduce the need for, and to increase the supply of, owned reserves: namely, the improvement of countries' access to international borrowing facilities. Many countries faced with balance of payments deficits were able to finance them, to the extent that they were not adjusted through exchange depreciation, without significant loss of reserves by borrowing in private markets, or from other governments, or from intergovernmental institutions such as the Fund. The particularly notable development lies in the enhancement of both the ability and the willingness of governments to borrow in private markets, especially the Euro-currency markets.

The combination of avoidance of payments imbalances through exchange rate variation and the financing

of any remaining imbalances through compensatory borrowing resulted in the relative constancy of reserve levels among major industrial countries during 1974, as noted earlier in connection with the data in Table 12. This would seem to suggest that reserve needs might have been substantially reduced by the development of borrowing facilities. This observation requires, however, two qualifications. First, all countries did not have equal access to these borrowing facilities and some experienced proportionately large reductions in reserves in 1974; second, adequate reserves are often a prerequisite to international borrowing.

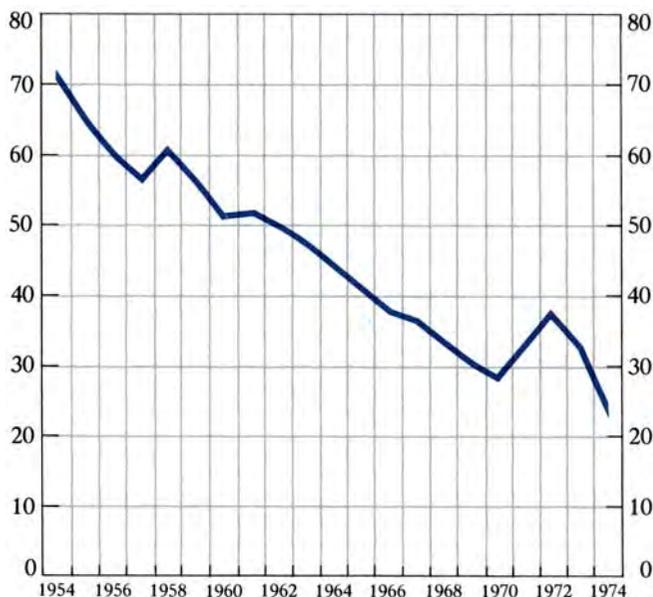
Although the nominal value of global reserves increased by 18 per cent during 1974, real reserves (i.e., reserves deflated by an appropriate price index) declined, as unit values of traded goods in terms of SDRs rose by 35–40 per cent. The value of world trade in terms of SDRs increased by 46 per cent from 1973 to 1974. For a sample of 60 countries for which data have been continuously available since 1954, the ratio of aggregate reserves to aggregate imports, which had interrupted its decline of many years by rising from 0.29 in 1970 to 0.38 in 1972, fell to 0.34 in 1973 and to 0.24 in 1974, thereby reaching the lowest level ever recorded (Chart 11).

Global reserve ease in 1974 was further affected by the fact that the net addition to reserves during 1974 accrued almost entirely to major oil exporting countries, with a large part of the total increment accruing to countries that already had ample reserves. For the great majority of countries, real reserves declined substantially; but against this, allowance has to be made for the fact that reserve needs have also been reduced, compared with earlier years, by greater access of many countries to international capital markets for compensatory borrowing, and by floating.

As mentioned above, gold has been valued at its official price of SDR 35 per fine ounce in the statistics used in this report, even though it is not possible to put any precise numerical value on the contribution that members' gold holdings make to their ability to meet payments deficits. Active consideration is being given to amendments to the Articles of Agreement of the International Monetary Fund, and to arrangements outside of the Articles, with the objective of bringing about a decline of the role of gold in the international monetary system.

Chart 11. Ratio of Aggregate Reserves to Aggregate Imports of 60 Countries, 1954–74¹

(In per cent)



¹ Reserves are annual averages of monthly data. The sample of 60 countries includes the United States.

In the present situation of considerable uncertainty as to the future development of many of the factors affecting reserve adequacy, the contribution that the Fund could most suitably make to its continued maintenance probably lies in the provision of conditional liquidity. Drawings from the General Account can be adjusted to the need for balance of payments financing as it arises and, in the process, they generate a reserve asset that surplus countries can hold as part of their owned reserves. The steps that are being taken to make the Fund's holdings of currencies generally usable will not only contribute to a wider participation by surplus countries in holding these assets but will also enhance the liquidity of the Fund. The potential volume of conditional liquidity has already been substantially increased in 1974 and 1975 through the Fund's oil facility and through the provision of the extended Fund facility. In addition, successful conclusion of the general review of Fund quotas now in progress will add further to the Fund's capacity to make liquidity available when and where it is needed.

Chapter 3

Activities of the Fund

Since the beginning of 1974 the activities of the Fund have been sharply intensified, both in efforts to formulate new international monetary arrangements and in the development of new policies and facilities to meet the current needs of its members in the rapidly changing world economic situation. The intensity of this activity in the Fund has been reflected in the number of Executive Board meetings and other meetings participated in by the Executive Directors, which during the period under review far exceeded the frequency and duration of such meetings in any other comparable period of the Fund's history. The use of the Fund's resources, including those borrowed in connection with the oil facility, rose to a record level of about SDR 6.6 billion by the end of the fiscal year, with more member countries simultaneously receiving financial assistance from the Fund, and in larger amounts, than ever before.

The Committee on Reform of the International Monetary System and Related Issues was succeeded by two new Committees—the Interim Committee of the Board of Governors on the International Monetary System (known as the Interim Committee) and the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (known as the Development Committee). Major tasks devolving on the Executive Directors from these Committees have included a continuation of work on international monetary reform through the preparation of draft amendments to the Fund's Articles of Agreement, arrangements to enlarge the resources of the Fund through the drawing up of detailed proposals for increases in members' quotas, and innovations and improvements in the policies governing the use of the Fund's resources. These matters are described in greater detail in succeeding sections of this chapter.

Committees of the Board of Governors

The Committee of Twenty ceased to exist on October 2, 1974, on which date the Interim Committee was

established by the Governors of the Fund and the Development Committee jointly by the Governors of the Fund and Bank.¹ Each Committee held its inaugural meeting during the 1974 Annual Meeting of the Board of Governors, its second meeting in Washington in January 1975, and its third meeting in Paris in June 1975. Subsequent meetings of the Committees were scheduled to be held in Washington at the time of the 1975 Annual Meetings of the Boards of Governors of the Fund and Bank and in Jamaica in January 1976. The press communiqués issued by the Interim Committee and the Development Committee after each of the first three meetings are reproduced in Appendix III.

The Committee of Twenty

The Committee of Twenty presented its final Report, together with an Outline of Reform, on June 14, 1974.² The Report, and the Outline accompanying it, indicated the general direction in which the international monetary system could evolve in the future and proposed immediate steps and other measures on which members could collaborate. At the same time that the Committee concluded its work, the Executive Directors adopted a number of decisions that were in accord with the immediate steps recommended by the Committee, including decisions on the establishment of the Interim Committee, guidelines for the management of floating rates, the valuation and interest rate for the SDR, the rate of remuneration, the level of Fund charges, and the oil facility for 1974, as well as a decision taken later that month on the voluntary declaration on trade measures for balance of payments purposes. A summary of the Committee's final Report, as well as summaries and the

¹ See "Composite Resolution on the Work of the Ad Hoc Committee on Reform of the International Monetary System and Related Issues and on a Program of Immediate Action," Resolutions Nos. 29-7, 29-8, 29-9, and 29-10, adopted on October 2, 1974, in *Selected Decisions of the International Monetary Fund and Selected Documents* (Seventh Issue, Washington, 1975), pages 178-93.

² See *International Monetary Reform: Documents of the Committee of Twenty* (Washington, 1974).

full texts of the relevant Executive Board decisions, were included in last year's Annual Report.³

The Interim Committee

The Interim Committee, which has an advisory role pending the establishment by amendment to the Articles of Agreement of a permanent Council with decision-making powers, is structured along the lines of the Committee of Twenty. The members of the Interim Committee are Governors of the Fund, Ministers, or others of comparable rank, and each member of the Fund that appoints an Executive Director and each group of members of the Fund that elects an Executive Director is entitled to appoint one member and not more than seven associates. Executive Directors, or in their absence their Alternates, are entitled to attend the meetings of the Committee and the Fund's Managing Director is entitled to participate in the meetings.

The Committee, which is expected to meet three or four times a year, is to advise and report to the Board of Governors with respect to the Board's functions in supervising the management and adaptation of the international monetary system, considering proposals by the Executive Directors to amend the Articles of Agreement, and dealing with sudden disturbances that might threaten the system.

At its inaugural meeting on October 3, 1974, the Committee discussed the problem of recycling and asked the Executive Directors to consider in this context, as a matter of urgency, the adequacy of existing private and official financing arrangements, to report on the possible need for additional arrangements, including enlarged financing arrangements through the Fund, and to make proposals for dealing with the problem.

At its second meeting on January 15–16, 1975, the Interim Committee considered reports prepared by the Executive Directors on an oil facility for 1975, the Sixth General Review of Quotas, and draft amendments to the Articles of Agreement, including the role of gold in the international monetary system. As reflected in its communiqué issued at the end of the meeting, the Committee agreed that the oil facility should be continued for 1975 on an enlarged basis and endorsed the recommendation of the Managing Director for the establishment of a special account to be administered by the Fund so as to reduce for the most seriously affected members the burden of interest payable by them under the oil facility. The Committee also agreed on an increase in total Fund quotas, as well as on the distribution of the increase among broad groups of members, and invited the Executive Directors to make specific recommendations on increases in the quotas of indi-

vidual member countries. Executive Directors were also invited to continue their work on amending the Articles of Agreement of the Fund and submit for the Committee's consideration draft amendments on a number of major subjects.

The third meeting of the Committee, held in Paris on June 10–11, 1975, considered reports prepared by the Executive Directors on key issues on amendment of the Articles of Agreement, including gold, exchange rates, and other provisions; buffer stocks and compensatory financing; the oil facility for 1975, including proposals to establish an interest subsidy account; and the Sixth General Review of Quotas. The Committee also had before it, among other documents, a note by the Managing Director on key issues in the world economic outlook. In a communiqué issued on June 12, 1975, the Committee agreed that external financing would remain for some time a critical problem for a number of countries and that its solution would require both maximum efforts on the part of such countries to enhance their creditworthiness and cooperative efforts in capital exporting countries to encourage the needed flows of financial resources. The Committee noted the decision of the Executive Directors to continue the oil facility in 1975 and to review all aspects of the facility in July 1975. It welcomed the progress that had been made toward the establishment of a subsidy account to assist the members of the Fund most seriously affected by current conditions to meet the cost of using resources made available to them through the oil facility, welcomed the support pledged so far, and urged other members to take similar action so that the account could be established as soon as possible. The outcome of the Committee's consideration of outstanding issues relating to the amendment of the Articles of Agreement and the Sixth General Review of Quotas are dealt with in subsequent sections of this chapter.

The Development Committee

The establishment of the Development Committee was recommended by the Committee of Twenty to carry forward the study of, and to recommend measures on, the broad question of the transfer of real resources to developing countries, giving urgent attention to the problems of the least developed countries and those of the developing countries most seriously affected by balance of payments difficulties in the current situation. The members of the Development Committee are Governors of the Bank, Governors of the Fund, Ministers, or others of comparable rank and are appointed for a term of two years by members of the Bank and members of the Fund, alternately. Each member government of the Bank or the Fund, as the case may be, that appoints an Executive Director and each group of mem-

³ *Annual Report, 1974*, pages 49–53 and 110–28.

ber governments of the Bank and Fund, as the case may be, that elects an Executive Director is entitled to appoint a member of the Committee and up to seven associates. The Executive Directors of the Fund and the Bank, or in their absence their Alternates, as well as the President of the World Bank and the Managing Director of the Fund, are entitled to participate in meetings of the Committee.

At its inaugural meeting on October 2, 1974, it was agreed that the immediate focus of the Committee's work would be on the analysis of the situation of the most seriously affected developing and the least developed countries, and on measures to adjust to the new outlook for international commodity prices. The second meeting of the Development Committee, held in Washington on January 17, 1975, discussed the flow of real resources to the developing countries in the context of the current economic situation and reaffirmed that the situation of the most seriously affected countries required urgent treatment. The Committee agreed that the industrialized countries should seek to adopt such adjustment measures considered necessary in their circumstances in such a way as to avoid any reduction in the net flow of real resources to the developing countries, seeking to improve the conditions under which developing countries and international development finance institutions may have access to their capital markets and to improve the real volume and the quality of official development assistance provided to the developing countries, and should avoid trade restrictions that could negatively affect developing countries' exports. At this meeting the Executive Boards of the Bank and the Fund were invited to study the desirability of creating a special trust fund that would provide, for the period immediately ahead, additional highly concessional resources to meet the requirements of these countries. The Committee also welcomed the study to be undertaken by the Executive Directors of the Fund on the Fund's facilities for compensatory financing and assistance to international buffer stocks of primary products.

At its third meeting held in Paris on June 12-13, 1975, the Development Committee considered, *inter alia*, the report of the Executive Directors of the World Bank and the Fund on proposals to create a special trust fund, to be administered by the Fund, and urged the Executive Directors of the Fund to consider all aspects of the establishment of such a trust fund as well as to continue their study of all possible sources of financing. The Committee also welcomed the request of the Interim Committee to the Executive Directors to consider appropriate modifications in the terms of the Fund's compensatory financing facility and its buffer stock facility.

Amendment of the Articles of Agreement

The Outline of Reform presented by the Committee of Twenty set forth a number of subjects on which the Executive Directors were asked to prepare draft amendments of the Articles of Agreement, for consideration by the Interim Committee and possible recommendation to the Board of Governors. This request was endorsed by the Board of Governors in its Composite Resolution on the Work of the Committee of Twenty and on a Program of Immediate Action.⁴ The amendments listed for particular consideration in the Outline were (a) to establish a permanent and representative Council with decision-making powers; (b) to enable the Fund to legalize the position of countries with floating rates during the interim period; (c) to give permanent force to the voluntary pledge described in the Outline⁵ concerning trade and other current account measures for balance of payments purposes; (d) to authorize the Fund to establish, as and when agreed, a Substitution Account; (e) to amend the present provisions concerning gold; (f) to authorize the Fund to implement a link between development assistance and SDR allocation; and (g) to introduce improvements in the General Account and in the characteristics of and the rules governing the use of the SDR, as well as any other consequential amendments.

Action on these matters was intended to promote a number of general objectives. These included a better working of the adjustment process; a strengthening of the Fund, so as to increase its ability to deal effectively with the current problems of the international monetary system and, thereby, contribute to a future comprehensive reform; an improvement in the characteristics of the SDR, in order to give effect to the agreed objective that it should become the principal reserve asset; an improvement in the functioning of the General Account in order to facilitate its operations and transactions with members; and the promotion of an increasing net flow in the transfer of real resources to developing countries.

Drafts of certain possible amendments were considered by the Executive Directors toward the end of 1974 and a report on the progress made was submitted for the consideration of the Interim Committee at its meeting in January 1975.

At this meeting the Interim Committee agreed that the Executive Directors should be asked to continue their work on amending the Articles and, as soon as possible, submit for consideration by the Committee draft amendments on the following subjects: (a) the transformation

⁴ Resolution No. 29-10, adopted October 2, 1974.

⁵ See *International Monetary Reform: Documents of the Committee of Twenty* (Washington, 1974), Outline of Reform, paragraph 36, page 20.

of the Interim Committee into a permanent Council, with decision-making authority, in which each member would be able to cast the votes of the countries in his constituency separately; (b) improvements in the General Account, which would include (i) elimination of the obligation of member countries to use gold to make such payments to the Fund as quota subscriptions and repurchases and the determination of the media of payment, which the Executive Directors would study, and (ii) arrangements to ensure that the Fund's holdings of all currencies would be usable in its operations under satisfactory safeguards of all members; (c) improvements in the characteristics of the SDR designed to promote the objective of making it the principal reserve asset of the international monetary system; and (d) provision for stable but adjustable par values and the floating of currencies in particular situations, subject to appropriate rules and surveillance of the Fund, in accordance with the Outline of Reform.

The Committee also discussed a possible amendment that would establish a link between allocations of SDRs and development finance, but noted that there continued to be a diversity of views on the matter. It agreed to keep the subject under active study, but at the same time to consider other ways for increasing the transfer of real resources to developing countries.

It was also agreed that the Executive Directors should be asked to consider possible improvements in the Fund's facilities on compensatory financing of export fluctuations and the stabilization of prices of primary products and to study the possibility of an amendment of the Articles of Agreement that would permit the Fund to provide assistance directly to international buffer stocks of primary products.

On the question of future arrangements for gold, the Committee noted much progress in moving toward a complete set of agreed amendments on gold, including the abolition of the official price and freedom for national monetary authorities to enter into gold transactions between themselves under certain specific arrangements, outside the Articles of the Fund, in order to ensure that the role of gold in the international monetary system would be gradually reduced. It was expected that after further study by the Executive Directors, in which the interests of all member countries would be taken into account, full agreement could be reached in the near future so that it would be possible to combine these amendments with the package of amendments referred to above.

Following this second meeting of the Interim Committee, the Executive Directors embarked on an intensive consideration of a comprehensive draft amendment of the Articles of Agreement, with the aim of reporting to, and seeking further guidance from, the

Interim Committee at its third meeting to be held in Paris in June 1975. In their report to the Committee, the Executive Directors were able to indicate that considerable progress had been made on numerous issues but that a number of other issues had been left for further consideration after guidance had been received from the Committee. One major group of outstanding issues related to the role of gold, another to exchange arrangements, a third to proposed improvements in the characteristics of the special drawing right, a fourth to possible improvements in the General Account, a fifth to the establishment of a permanent Council, and a sixth to the majorities of voting power that would be required for the adoption of decisions of the Fund on important matters.

The Committee's consideration of these issues reached the following conclusions:

Gold. There was widespread agreement that the role of gold would have to be based on the following broad principles: (i) the enhancement of the role of the SDR as the central asset in the international monetary system, with a consequent reduction of the role of gold; (ii) the official price of gold should be abolished; (iii) obligations to use gold in payments between the Fund and members should be abrogated; (iv) there should be the sale of a portion of the Fund's gold at the approximate market price for the benefit of developing members in general, and particularly those with low income, and the sale of another portion to members at the present official price; (v) with respect to the rest of the Fund's gold, there should be a range of broad enabling powers, exercisable with a high majority; (vi) a reasonable formula should be found for understandings on transactions by monetary authorities with each other and in the market, which would include understandings that would be designed to avoid the re-establishment of an official price and would deal with the volume of gold held by monetary authorities; and (vii) an appropriate formula should be found for collaboration with the Fund in connection with the understandings among monetary authorities. Some countries felt that this collaboration should relate also to the reduction of the role of reserve currencies in the international monetary system.

The Executive Directors will be studying the question of gold further in order that a final agreement can be reached on the basis of these principles. At the invitation of the Committee, the Executive Directors will also be studying the establishment of a gold substitution account through which members would be able to exchange a part or all of their gold holdings for SDRs issued by the Fund for this purpose.

Exchange arrangements. The Committee also discussed the exchange arrangements that members of the Fund

should observe. There was widespread agreement that members should have a basic obligation to collaborate with the Fund and with other members in order to promote exchange stability, to maintain orderly exchange arrangements, and to pursue exchange policies that contribute to adjustments, and that the Fund should adopt policies in order to enable members to act consistently with their basic obligations whatever their exchange arrangements might be. The Committee reiterated its agreement that provision should be made for stable but adjustable par values and the floating of currencies in particular situations, subject to appropriate rules and surveillance of the Fund, in accordance with the Outline of Reform.

Special Drawing Account. The Committee endorsed the principle of the improvement of the Special Drawing Account and the General Account and agreed that the Executive Directors should be asked to find agreed solutions on the few remaining issues.

General Account. The Committee attached particular importance to the inclusion of effective provisions in the amended Articles under which the Fund's holdings of the currencies of all members would be usable, in accordance with appropriate economic criteria, in its standard operations and transactions. It was agreed that the Executive Directors should study a power to invest a part of the Fund's assets equal to its reserves for the purpose of raising income that would enable it to meet any administrative or operational deficits, and to report on this subject as soon as possible.

The Committee considered various proposals to assist members in dealing with problems arising from sharp fluctuations in the prices of primary products. In this connection, the Committee requested the Executive Directors to consider appropriate modifications of the Fund's facilities on the compensatory financing of export fluctuations and on assistance to members in connection with their contributions to international buffer stocks. It was agreed that, after amendment, a member using the Fund's buffer stock facility would be able to retain any portion of its reserves held in the form of a reserve position in the Fund; this provision now applies to drawings under the Fund's compensatory financing facility.

The Council. It was agreed that a Council should come into being when a decision is taken by the Fund for that purpose under an appropriate amendment. The purpose of the Council would be to strengthen the Fund by providing it with an organ composed in the same manner as the Committee of Twenty and the Interim Committee but with authority not only to exercise advisory functions but also to take decisions under specific powers. The Committee shares the view of the Executive Directors that, except for a few powers of a political or struc-

tural character that should be reserved to the Board of Governors, all powers of the Board of Governors should be delegable in principle to the Council, to the Executive Directors, or to both concurrently, by decisions of the Board of Governors.

Voting majorities. On the question of the majorities for the adoption of decisions of the Fund on important matters, it was agreed that an 85 per cent majority should be required under the amended Articles for those decisions that can be taken now by an 80 per cent majority.

The Committee noted with approval the draft of an amendment by which amendments to the Articles would become effective when accepted by three fifths of the members having 85 per cent, instead of 80 per cent as at present, of the total voting power.

Sixth General Review of Quotas

As noted in last year's Annual Report, the Executive Directors meeting as a Committee of the Whole held their first meeting on April 15, 1974 relating to the Sixth General Review of Quotas. Since then, the Executive Directors have met as a Committee of the Whole six times to consider various aspects of the adjustment of quotas. Furthermore, progress reports were submitted to the Interim Committee prior to that Committee's second and also its third meeting. On January 31, 1975, the Executive Directors submitted a report to the Board of Governors entitled "Increases in Quotas of Members—Sixth General Review" and a Resolution for adoption by the Board of Governors. In the Resolution the Executive Directors were requested "to continue as promptly as possible their work on this matter on the basis of the understandings reached by the Interim Committee at its second meeting and to submit to the Board, after consideration by the Interim Committee, proposals on increases in quotas of members and on the mode of payment of the subscriptions payable in respect of these increases."⁶

At its second meeting held in Washington on January 15–16, 1975, the Interim Committee reached understandings on a number of the main issues arising in connection with the Sixth General Review. Paragraph 5 of the communiqué issued at the conclusion of the second meeting of the Interim Committee reads as follows:

"5. The Committee considered questions relating to the sixth general review of quotas of members, which is now under way, and agreed, subject to satisfactory amendment of the Articles, that the total of present quotas should be increased by 32.5 per cent and rounded up to SDR 39 billion. It was understood that

⁶ Board of Governors Resolution No. 30-1.

the period for the next general review of quotas would be reduced from five years to three years. The Committee also agreed that the quotas of the major oil exporters should be substantially increased by doubling their share as a group in the enlarged Fund, and that the collective share of all other developing countries should not be allowed to fall below its present level. There was a consensus that because an important purpose of increases in quotas was strengthening the Fund's liquidity, arrangements should be made under which all the Fund's holdings of currency would be usable in accordance with its policies. The Committee invited the Executive Directors to examine quotas on the basis of the foregoing understandings, and to make specific recommendations as promptly as possible on increases in the quotas of individual member countries."

On the basis of these understandings the Executive Directors made considerable progress in agreeing increases in individual quotas, which was reflected in the Executive Directors' Report submitted to the Interim Committee for its third meeting. Paragraph 9 of the communiqué issued at the conclusion of that meeting reads as follows:

"9. The Committee considered the report of the Executive Directors on the progress made toward implementation of the understandings reached in the Committee last January with regard to increases in the quotas of members as a result of the sixth general review of quotas. The Committee noted with satisfaction that progress had been made in reaching agreement on quota increases to be proposed for individual countries. The Committee agreed that for the quota increases proposed as a result of this review, and subject to the amendment of the Articles, members should be given an option to pay 25 per cent of the increase in quota (which in the past members have had to pay in gold) in special drawing rights (SDRs), the currencies of certain other members, subject to their concurrence, or in the paying member's own currency. The question of payment in gold by agreement with the Fund would be settled as part of the provisions on gold. The balance of the increase in subscription would be paid, as in the past, in the paying member's own currency. The Committee also recommended that there should be no obligation for a member to repurchase the amount of its own currency paid in excess of 75 per cent of the increase in its quota. The Executive Directors have been asked to prepare and submit as promptly as possible to the Board of Governors, for consideration at its annual meeting in September 1975, a resolution that will include proposed increases in the quotas of individual members and provisions on the payment of corresponding subscriptions on the basis of the understandings reached by the Committee."

The Executive Directors are continuing their work on the Sixth General Review of Quotas so as to submit a resolution for consideration by the Board of Governors at the Annual Meeting in September 1975.

Exchange Rates

As discussed earlier, the fluctuations in market exchange rates led some countries to make changes in their exchange rate systems. In January 1974 the French authorities informed the Fund that, as a temporary measure, they would no longer assure through official intervention the maintenance of maximum agreed spreads between quotations of the French franc and other European currencies in the framework of the European narrow margins arrangement. The Spanish authorities also decided that the rate for the peseta would not be maintained for the time being within predetermined margins. In March 1974 France and Italy abolished the separate markets for financial transactions and thus unified their exchange rate systems; the separate channel for financial flows with its attendant administrative complexities had become redundant in view of the exchange rate flexibility. In May the Fund concurred in a new par value proposed by Israel, equivalent to the existing central rate, and in July the Fund agreed to the initial par value proposed by Oman.

In September Australia notified the Fund that the Australian dollar would be permitted to depreciate in terms of the U. S. dollar by 12 per cent; exchange rates would in the future be set daily in such a way as to keep stable the exchange value of the Australian dollar in terms of the currencies of its major trading partners. Similarly, New Zealand, which had been following a policy of keeping unchanged the value of the New Zealand dollar in terms of a basket of currencies, lowered the exchange rate for the U. S. dollar by some 9 per cent, implying a depreciation of the New Zealand dollar in terms of the basket of its major trading partners by 6.2 per cent. At the end of October Yugoslavia, which followed a policy of independent managed floating without pegging the dinar to another currency or basket of currencies, depreciated its currency on a trade-weighted effective exchange rate basis by 7 per cent to alleviate a sharp deterioration of the country's balance of payments position. In November 1974 the Fund concurred in a change in the par value proposed by Israel that devalued the Israel pound by 30 per cent in terms of gold.

In view of the changes between rates for the U.S. dollar and a number of other major currencies, particularly those that occurred during the later months of 1974, a number of countries decided to maintain the value of their currency in terms of a basket of cur-

rencies, including the special drawing right, rather than continue to peg on a single currency, such as the U. S. dollar. In January 1975 Burma communicated to the Fund a new central rate for the kyat in terms of the special drawing right, representing a devaluation of the kyat of 25 per cent in terms of special drawing rights. Iran notified the Fund in February, and Saudi Arabia and Qatar in March, of their decision to discontinue the fixed relationship between their currency and the U. S. dollar; they would in the future determine exchange rates so as to maintain wider margins of 2¼ per cent around the par value of their currencies in special drawing rights. With this change in the exchange rate system, the authorities of the latter three countries intended partially to reverse inflationary pressures that had arisen from exchange rate movements, and to ensure greater stability of the value of their currency in terms of the currencies of their major trading partners. For similar reasons, Kuwait (also in March 1975) and Fiji (in April 1975) informed the Fund that the exchange rate for their currencies would in the future be determined on the basis of a weighted basket of the currencies of their major trading partners. Malawi, which since November 1973 had set the exchange rate for its currency on the basis of movements of the U. S. dollar and the pound sterling in exchange markets, in June 1975 adopted a fixed relationship to the special drawing right.

Other countries that adopted significant adjustments in their exchange rate system early in 1975 included Iceland and Argentina. Iceland informed the Fund in September 1974 and in February 1975 that, in view of the sharp deterioration of the balance of payments position, the króna had been depreciated in terms of the U. S. dollar by 17 per cent and 20 per cent, respectively. Argentina notified the Fund in March of a modification of its multiple exchange rate regime involving a depreciation of the Argentine peso in terms of the U. S. dollar in both the commercial and financial markets, and further adapted the exchange system and depreciated the peso in both markets in June.

In mid-1975 the pattern of exchange rate arrangements was essentially the same as that prevailing a year earlier.⁷ Most major industrial countries, including Canada, France, Italy, Japan, the United Kingdom, and the United States, were not maintaining exchange rates within any specified margins, while other industrialized countries observed a maximum spread between the exchange quotations of their own currencies, either formally in the European narrow margins arrangement,

or informally in that they let the rates for their currencies move parallel to those in that arrangement.

A relatively large number of Fund members continued to maintain stable exchange rates for their currencies in terms of a single intervention currency, usually the U. S. dollar, the French franc, or the pound sterling. However, about 20 Fund members, including developed as well as developing countries, were maintaining the exchange rates for their currencies in terms of a basket of currencies that reflects their trade pattern or in terms of the special drawing right.

Special Drawing Account

The valuation of the SDR by means of a basket of currencies⁸ came into effect on July 1, 1974 and was accompanied by an increase in the rate of interest on SDRs from 1½ per cent to 5 per cent. Thus, these changes in the financial characteristics of SDRs applied for the major part of the fiscal year 1974/75. However, the uses and receipts of SDRs that took place during the fiscal year provided little indication of the extent to which these changes influenced the pattern of SDR use.

The total use of SDRs by participants during the fiscal year was SDR 826 million. Of this total, SDR 440 million was used in transactions in which the Fund designated participants to provide foreign exchange to the users of SDRs; SDR 248 million was used in transactions by agreement between participants; and the balance (SDR 138 million) was transferred in various ways to the Fund's General Account, mainly in payment of charges on the use of the Fund's resources (SDR 91.6 million). However, the General Account also transferred a total of SDR 127 million to participants, of which SDR 117 million was acquired by participants needing to reconstitute their SDR holdings. The net effect of these transactions with the General Account was to increase its holdings to SDR 510 million on April 30, 1975, compared with SDR 499 million on April 30, 1974. As between groups of participants, the industrial countries increased their holdings by some SDR 212 million, mainly as a result of net receipts of SDRs by France, the United Kingdom, and the United States in transactions with designation. The holdings of the more developed primary producing areas declined by SDR 155 million and those of the less developed countries by SDR 69 million.

There was no allocation of SDRs during the fiscal year, and thus the total of SDRs in existence remained at SDR 9,314.8 million. No proposal was made on future allocations of SDRs. The Managing Director

⁸ See *Annual Report, 1974*, pages 51–52 and 116–17.

⁷ The structure of exchange rates prevailing in mid-1975 is set out in Appendix I, Table I.1. Changes in exchange arrangements are summarized in Appendix I.

continues to be obliged to make a proposal when he is satisfied that it could be made consistently with the Articles.

Transactions with Designation

During the fiscal year there were 20 transactions with designation, totaling SDR 440 million. (See Table 16.) This was the largest annual total for this category of transaction for the five fiscal years since the first allocation of SDRs, and brought the overall total of SDRs used in this way up to April 30, 1975 to SDR 1,387 million. This is about one third of total transfers of SDRs by participants during this period.

A major part of the total of transactions with designation during the fiscal year was concentrated in the third calendar quarter of 1974, when 6 participants used a total of SDR 316 million in 8 transactions. The principal users of SDRs in transactions with designation

Table 16. Use and Receipt of SDRs in Transactions with Designation, Fiscal Year Ended April 30, 1975

(In thousands of SDRs)

	Use	Receipt
Algeria	—	1,000
Argentina	—	18,000
Australia	135,000	—
Austria	—	1,000
Brazil	—	5,500
Chile	7,500	—
Colombia	3,000	—
Costa Rica	4,060	—
Ecuador	—	1,000
France	—	102,833
Indonesia	—	11,000
Iran	—	9,000
Iraq	—	3,000
Ireland	—	1,000
Israel	25,000	—
Italy	150,000	—
Japan	—	6,000
Kenya	15,000	—
Korea	24,000	—
Malaysia	—	1,000
Mauritius	5,000	—
Mexico	—	1,000
New Zealand	57,000	—
Nicaragua	—	560
Nigeria	—	2,000
Philippines	—	6,000
Spain	—	5,000
Sri Lanka	5,000	—
Syrian Arab Republic	—	1,000
Tanzania	5,000	—
Thailand	—	1,000
Tunisia	—	1,000
Turkey	—	5,500
United Kingdom	—	96,000
United States	—	157,000
Venezuela	—	2,000
Yemen, People's Dem. Rep. of	4,833	—
Yugoslavia	—	2,000
Total	440,393	440,393

were Australia (SDR 135 million), Italy (SDR 150 million), New Zealand (SDR 57 million), and Israel (SDR 25 million).

During the previous fiscal year there had been few transactions with designation (for a total of only SDR 60 million) and only 9 participants were designated. Since the beginning of 1974, however, there was an expectation that the use of SDRs might increase sharply as a result of the growing number of participants experiencing balance of payments difficulties. As a result, the quarterly designation plans agreed by Executive Directors were expanded to make provision for a greater volume of transactions, and the possible amounts of designation were distributed among a broad list of participants whose balance of payments and reserve positions were considered sufficiently strong for them to be subject to designation. As a result, 24 participants were actually designated. Nevertheless, since the principles of designation tend to lead to some concentration of designation on participants that are considered sufficiently strong to be designated and whose holdings of SDRs are below their allocations, the major amounts of SDRs used in transactions with designation were received by France (SDR 103 million), the United Kingdom (SDR 96 million), and the United States (SDR 157 million), each of which had made substantial net use of SDRs in previous years.

Transactions by Agreement

In November 1973 the Executive Directors decided to permit participants that engaged in those transactions by agreement in which the user of SDRs purchases balances of its own currency held by another participant to employ the par value or central rate of the currency involved as an alternative to the valuation method of Rule O-3. At that time, under Rule O-3, the rate for the U. S. dollar against the SDR was the par value of the dollar, while the rates for other currencies were determined by market rates for these currencies against the dollar. This suspension of the "equal value" provision of the Articles of Agreement was initially for a period of 120 days, but was later extended for an additional period of 240 days, so that its final termination was on October 31, 1974. After that date the valuation of currencies in all SDR transactions was again made in accordance with Rule O-3, as amended, thus reverting to the equal value principle set out in Article XXV, Section 8(a).

The total of transactions by agreement during the fiscal year was SDR 248 million; all these transactions were in settlement of obligations that had arisen as a result of intervention under the European narrow margins arrangement. Of this total, SDR 231 million

was transferred between May 1 and October 31, 1974 and the exchange rates used were par values or central rates rather than the rates derived from Rule O-3, either in its original form or as amended to put into operation the basket method of valuation.

Users and recipients of SDRs in transactions by agreement are shown in Table 17.

Table 17. Use and Receipt of SDRs in Transactions by Agreement, Fiscal Year Ended April 30, 1975

(In millions of SDRs)

	Use	Receipt
Belgium	56.5	43.2
Denmark	63.3	4.6
Germany, Fed. Rep. of	123.3	109.8
Netherlands	5.2	90.7
Total	248.3	248.3

Transactions and Operations Between Participants and the General Account

Transfers of SDRs by participants making repurchases during the fiscal year were only SDR 24 million. The main reason for this low total appeared to be that, in most cases, participants making repurchases in the General Account also needed to reconstitute their holdings of SDRs and a use of SDRs would have increased the need to obtain SDRs for reconstitution. Payments of SDRs in settlement of charges in the General Account totaled SDR 92 million. This was the largest amount of charges in the General Account in any year; this reflected partly the fact that the principal alternative means of settling these charges is gold (which was not used) and partly that the use of the Fund's resources was rapidly expanding, thus increasing the amounts of charges to be paid.

The General Account transferred to participants a total of SDR 127 million; this included SDR 117 million transferred to participants needing to reconstitute their holdings of SDRs, SDR 6.4 million to participants that exercised their option to accept SDRs

rather than their own currency in settlement of remuneration on their net creditor positions in the General Account, and SDR 1.0 million to Bangladesh, which acquired this amount of SDRs in purchases in the General Account in order to be in a position to pay future charges on its use of the Fund's resources.

Reconstitution

The rules for reconstitution require participants, over successive five-year periods, to maintain their average holdings of SDRs at not less than 30 per cent of the average of their net cumulative allocations. The Fund makes monthly calculations to determine whether and to what extent each participant has a need to obtain SDRs to meet this obligation. The necessary amounts of SDRs may be obtained either from another participant with a balance of payments need to use SDRs, or from the Fund's General Account against gold or currencies acceptable to the Fund, or as part of a purchase from the General Account in accordance with the Fund's policy on the use of its resources. In practice, all SDRs obtained to promote reconstitution since the beginning of 1972 (SDR 428 million) have been acquired from the General Account. (See Table 18.) Several participants, although not subject to designation under the procedures for reconstitution, have had their need to reconstitute eliminated as a consequence of their receipt of SDRs in transactions with designation, having been included in designation plans as a result of the strength of their balance of payments and reserve positions.

Two five-year "reconstitution periods" ended during the fiscal year, on December 31, 1974 and March 31, 1975. No participant's average holding of SDRs was below 30 per cent of its average allocation for these periods. Participants' average holdings for these periods are shown in Appendix I, Table I.6.

During the fiscal year there were 75 acquisitions of SDRs from the General Account, involving 30 participants and totaling SDR 117 million, of which

Table 18. Acquisition of SDRs for Reconstitution from the Fund's General Account, January 1, 1972–April 30, 1975

(In millions of SDRs)

	1972		1973		1974		1975 Jan. 1–Apr. 30		Total	
	Amount	Number of Transactions	Amount	Number of Transactions	Amount	Number of Transactions	Amount	Number of Transactions	Amount	Number of Transactions
Against currency acceptable to Fund	39.3	27	140.0	60	92.1	57	22.2	28	293.6	172
In purchases	64.2	8	38.0	9	27.8	8	4.2	1	134.2	26
Total	103.5	35	178.0	69	119.9	65	26.4	29	427.8	198

SDR 95 million was acquired against currency and SDR 22 million as part of purchases in the General Account. Since charges are paid quarterly and normally are settled in SDRs, which members may opt to use instead of payment with gold, many participants needed to obtain SDRs for reconstitution on several occasions in order to offset the extent to which their holdings were reduced by the payment of charges. All acquisitions of SDRs were at the initiative of the participants concerned, although the amounts to be acquired by several participants had reached the level at which the Fund would have been obliged to have designated them to receive SDRs if voluntary action had not been taken.

On April 30, 1975 there were 26 participants with a need to reconstitute their SDR holdings and the needed amounts totaled SDR 146 million. For many of these participants the amounts were very small in relation to the participants' allocations and related to five-year periods that still had several years to run before their completion.

BIS as a Holder of SDRs

The Bank for International Settlements (BIS) was prescribed as a holder of SDRs in January 1974. During the fiscal year there were no transactions in SDRs between the BIS and participants.

Transactions and Operations in the General Account

The unprecedented changes in international payments following the increase in the prices of petroleum and petroleum-based products were reflected in a sharply increased use of the Fund's resources, particularly by the developing countries. Purchases amounted to SDR 5.1 billion in the fiscal year ended April 30, 1975, substantially exceeding the previous record of SDR 3 billion purchased in 1969/70 and contrasting sharply with purchases totaling SDR 1,058 million in 1973/74. Purchases in the tranches and under stand-by arrangements accounted for SDR 2,585 million of the total, and purchases under the compensatory financing decision accounted for a further SDR 18 million. However, almost one half—SDR 2,499 million—of total purchases was made under the facility that was established by the Fund in June 1974 for a period of about two years to assist members in financing part of their balance of payments deficit arising from the increase in petroleum prices. The Fund also established a second new facility in 1974, the extended Fund facility, under which the Fund will, in certain circumstances, make financial assistance available to members over a period of three years, with repurchases to be

made within eight years. There were no purchases under this facility or under the buffer stock facility during the fiscal year.

Repurchases during the year totaled SDR 518 million, the smallest amount for any fiscal year since 1966/67, reflecting in part the relatively low level of members' purchases since 1971 and the fact that members have generally scheduled their repurchases over a period of three to five years rather than completing them within three years. In addition, the Fund sold currencies of members with debtor positions in the Fund and this had the effect of substituting for repurchases that might otherwise have taken place.

As a means of improving its liquidity position during the year, the Fund made greater use of its currency holdings through an increase in the number of currencies used in transactions, in particular, the currencies of some of the major oil exporting countries.

In June 1974 the Executive Directors decided that transactions under the 1974 oil facility would be financed by Fund borrowings from countries in strong external financial positions, and borrowing agreements were made with nine lenders for a total of about SDR 3.05 billion. The Fund also renewed the General Arrangements to Borrow for five years from October 24, 1975. Under these arrangements the Fund may supplement its resources by borrowing from ten industrial members; the borrowing arrangements total the equivalent of about SDR 5.5 billion.

In April 1975 the Executive Directors adopted a decision establishing the oil facility for 1975 and, as in 1974, decided that the Fund should borrow for this purpose. At the January meeting of the Interim Committee it was agreed that borrowing by the Fund should amount to the equivalent of SDR 5 billion and that the functioning of the facility should be kept under continuing review.

As noted in last year's Annual Report, the Executive Directors adopted in June 1974 a number of decisions relating to the rates at which remuneration shall be paid and adopted new schedules of charges on holdings of currencies by the Fund resulting from the special and regular facilities. These decisions were taken together with those regarding the method of valuing the special drawing right for an interim period and the rate of interest on the special drawing right. Details of the changes made in the schedule of charges and the rates of remuneration and interest are given in later sections of this chapter.

Purchases in the Tranches and Under Stand-By Arrangements

During the fiscal year, 47 members made purchases for a total equivalent to SDR 2,585 million, which was

by far the largest use made of the Fund's regular facilities since 1969/70. Of this amount, SDR 981 million was purchased in the gold tranche, an increase of SDR 374 million over the previous year, caused in part by the requirement that members use their gold tranche positions prior to making use of the oil facility. In this connection, a total equivalent to SDR 411.5 million was purchased by 26 members prior to their making purchases under the oil facility. In addition, the Federal Republic of Germany and Denmark purchased the equivalent of SDR 123 million and SDR 85 million, respectively, in their gold tranches in connection with the settlement of liabilities under the European narrow margins arrangement; Italy made a gold tranche purchase amounting to SDR 268 million before purchasing under its stand-by arrangement.

Total purchases under stand-by arrangements were SDR 1,298 million, an increase of SDR 1,119 million over the previous year, accounted for mainly by purchases by Italy totaling the equivalent of SDR 1,000 million. Other purchases in the credit tranches amounted to SDR 306 million by six members, including a purchase of SDR 235 million by India.

Stand-by arrangements approved in 1974/75 totaled the equivalent of SDR 390 million, compared with SDR 1.4 billion in the previous fiscal year (which included the SDR 1 billion arrangement for Italy). Of the 14 stand-by arrangements approved in 1974/75, the largest arrangements were for Chile (SDR 79 million) and Pakistan (SDR 75 million), representing 50 per cent and 32 per cent, respectively, of each member's quota.

Repurchases

During the past fiscal year repurchases totaled SDR 518 million, the smallest amount repurchased since 1966/67. The equivalent of SDR 90 million (17 per cent of the total) was repurchased in accordance with schedules approved by the Fund providing for repurchase within three to five years from the date of purchase. A further 13 per cent of the total, amounting to SDR 67 million, was voluntary repurchases, of which SDR 60 million was repurchased by the Republic of China and SDR 7 million by Trinidad and Tobago, in respect of gold tranche purchases.

Repurchases made under other provisions amounted to SDR 13 million, including SDR 6 million by 21 members in respect of 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 of Members—Fifth General Review."⁹ Slightly more than SDR 5 million of repurchases was in respect of purchases under the com-

pensatory financing facility and SDR 2 million related to a gold tranche purchase; these repurchases were made within three years after the date of purchase.

As in the last few years, the bulk of repurchases made in the fiscal year were with respect to obligations incurred under Article V, Section 7(b), of the Fund Agreement.¹⁰ Repurchase obligations calculated for 15 members as of April 30, 1974 amounted to the equivalent of SDR 607.7 million, payable in gold, SDRs, and convertible currencies, as indicated in Appendix I, Table I.12. The amount payable in the fiscal year, however, was limited under the terms of the Articles of Agreement to SDR 251 million. The balance of repurchase obligations incurred in earlier fiscal years and payable as of April 30, 1974 was the equivalent of SDR 81 million. Total repurchases discharged in accordance with Article V, Section 7(b), during the year amounted to SDR 344 million¹¹ (66 per cent of total repurchases), of which SDR 9 million was paid in special drawing rights and SDR 335 million in convertible currencies. Of the amount payable in convertible currencies, the equivalent of SDR 165 million was calculated in currencies that the Fund could not accept or could accept only up to a limited amount. In accordance with Schedule B, paragraph 1(d) of the Fund's Articles of Agreement, and paragraph 1 of Executive Board Decision No. 3049-(70/44),¹² other convertible currencies were selected in substitution for these currencies.

The Executive Directors agreed to the requests of 15 members to schedule their repurchases for payments over periods of up to five years from the date of purchase. Members' requests for postponement were in many instances prompted by the deterioration in their balance of payments and international reserves position owing to increased costs of imports and to the fall in their export proceeds brought about by a weakening of their major export prices.

During the year the Executive Directors permitted 5 members—Chile, Ecuador, El Salvador, Jordan, and

¹⁰ Article V, Section 7(b), provides that, subject to certain limitations, a member shall repurchase an amount of the Fund's holdings of its currency equivalent to one half of any increase in the Fund's holdings of its currency that has occurred during the Fund's financial year, plus one half of any increase, or minus one half of any decrease, in the member's monetary reserves during the same period, or, if the Fund's holdings of the member's currency have decreased, one half of any increase in the member's monetary reserves minus one half of the decrease in the Fund's holdings of the member's currency.

¹¹ Including amounts equivalent to SDR 1.5 million and SDR 12.2 million, discharged, in excess of 25 per cent of quota, by Nicaragua and the Philippines, respectively, and excluding amounts payable in gold equivalent to SDR 1.8 million.

¹² Decision adopted May 20, 1970 and reproduced in *Selected Decisions of the International Monetary Fund and Selected Documents* (Seventh Issue, Washington, 1975), pages 84–86.

⁹ See *Annual Report, 1970*, pages 177–84.

the Philippines—to postpone the discharge of portions of repurchase obligations under Article V, Section 7(b), of the Fund Agreement that were payable in gold, totaling the equivalent of SDR 2.2 million.¹³ These decisions, together with decisions adopted by the Executive Board during 1973/74 permitting the postponement of the discharge of portions of repurchase obligations that were payable in gold, equivalent to SDR 13.2 million,¹⁴ were reviewed by the Executive Directors in October 1974. The total amount involved in these postponements was equivalent to SDR 15.4 million. The Executive Directors decided that these decisions shall continue to be in effect so as to allow for further discussion of the role of gold in Fund transactions, and more generally on the role of gold in the international monetary system, in connection with work on the amendment of the Articles. These decisions are subject to further review before October 31, 1975.

Purchases Under the Compensatory Financing Facility

In 1963 the Executive Directors adopted the decision on Compensatory Financing of Export Fluctuations creating a facility designed to extend the Fund's balance of payments support to member countries suffering from fluctuations in receipts from exports of primary products caused by circumstances largely beyond their control. The facility permitted a member to make total use of the Fund's resources to an extent which increases the Fund's holdings of its currency beyond 200 per cent of quota.

In the years immediately following the introduction of the facility sharp increases in primary commodity prices occurred and only three members made use of the facility, with purchases totaling the equivalent of SDR 87.25 million. (See Appendix I, Table I.9.)

In 1966 the Executive Directors amended the original decision by increasing the limit on outstanding purchase from 25 to 50 per cent of quota and by giving greater significance to qualitative estimates in determining the amount that might be drawn. Furthermore, the Fund's tranche policies were to be applied on the basis of the Fund's holdings of a member's currency, excluding the amount of outstanding compensatory financing purchases (i.e., holdings of currencies arising from such a drawing could "float" in the gold tranche). In addition, the Executive Directors recommended that members repurchase, after the end of each of the four years following a purchase, an amount equal to about one half of any excess of exports over the five-year trend value of their exports.

Since the facility was amended in 1966, 31 countries have purchased a total of SDR 913 million under it, bringing total use of the facility to more than SDR 1 billion. Purchases were made under the facility during the fiscal year ended April 30, 1975 by the Sudan, amounting to SDR 18 million, compared with total purchases of SDR 212 million, made by 8 countries, in the previous fiscal year. The comparatively low level of purchases under the facility in 1974/75 can be attributed in the main to relatively firm export prices for many primary products during most of 1974 and also to the reserve levels of many developing countries. Since its inception, only two members, Bangladesh and Zambia, have made purchases under the facility amounting to the equivalent of 50 per cent of quota in any 12-month period.

Buffer Stock Financing Facility

In connection with the Fund's increased attention to the subject of commodity stabilization and to the policies of member countries in the commodity field, the Executive Directors adopted a decision in June 1969 establishing a facility to assist members in financing contributions to international buffer stocks, providing that members have a balance of payments need and that the relevant commodity agreement meets appropriate criteria. Purchases for the purpose of financing buffer stocks in connection with international commodity agreements may be made up to amounts equivalent to 50 per cent of quota, provided that purchases under the compensatory financing facility and the buffer stock facility taken together do not exceed 75 per cent of the quota. To the extent that purchases would raise Fund holdings of the member's currency above 200 per cent of quota, the Fund is prepared to waive this limit on purchases.

Similar to the compensatory financing facility, purchases under the buffer stock facility are separate from, and additional to, general access to the Fund's resources under its ordinary tranche policies, except that a member purchasing under the facility while having gold tranche drawing rights at its disposal would *pro tanto* lose such drawing rights. Repurchases are to be made within three to five years after the date of the drawing, or earlier in the event of the buffer stock distributing cash to its members.

In November 1970 the Executive Directors decided that member countries could use the facility in connection with the financing of contributions to the International Tin Buffer Stock established under the Fourth International Tin Agreement.¹⁵ The first purchases were

¹⁵ Executive Board Decision No. 3179-(70/102), adopted November 25, 1970. (See *Annual Report, 1971, Appendix I.*) A new Agreement regarding the International Tin Buffer Stock entered into force provisionally on July 1, 1971.

¹³ These members repurchased an equivalent amount of the Fund's holdings of their currencies with SDRs.

¹⁴ See *Annual Report, 1974, page 63.*

made under the facility in July 1971 and total purchases, which have all been made in connection with financing contributions under the Fourth International Tin Agreement, amount to SDR 25.4 million. No purchases were made under the facility in the fiscal year ended on April 30, 1975. In the following month, however, Bolivia purchased the equivalent of SDR 4.7 million. Aggregate purchases for Bolivia have amounted to 20 per cent of quota, but for the other four members that have drawn under the facility, the amounts have been less than 4 per cent of quota.

On April 23, 1973 the Directors decided that members could draw under the facility in connection with members' loans to the International Cocoa Council. However, the use of the Fund's resources by members was permitted if this was to be solely for the purpose of the buffer stock's acquisition of cocoa stocks, other than stocks involved in diversion to nontraditional uses.¹⁶ No use has been made of the assistance available under this decision.

Oil Facility

As described in last year's Report, the Fund established in June 1974 a special facility to provide, for a period up through December 1975, financing to members facing balance of payments problems caused by increases in the costs of petroleum and petroleum products. Under the new facility, resources were to be made available supplementary to any assistance that members might obtain under other policies on the use of the Fund's resources. The total amount of a member's purchases, however, was not to be in excess of the increase in the cost of the member's net imports of petroleum and petroleum products over similar cost in 1972, minus an amount equivalent to 10 per cent of the member's reserves at the end of 1973, adjusted for variability of exports, and subject to the limitation that the amount outstanding under the facility not exceed 75 per cent of quota.

The Executive Directors reviewed the working of the facility in September and again in December 1974. As a result of the September review, certain modifications were made to the formula used in calculating a member's oil payments deficit—the projected increase in oil export prices was raised, and the base date for determining the volume of oil imports was adjusted. At the December review, the Executive Directors decided that members may draw up to the maximum amount of their calculated access and, to give members sufficient time to assess their balance of payments results for 1974, it was also decided to extend to February 27, 1975 the

time limit by which members' statements of their intentions to purchase must be received in the Fund.

Charges on transactions effected under the oil facility for 1974 correspond to an annual rate of 6½ per cent for the first three years, 7 per cent for the fourth year, and 7½ per cent from the beginning of the fifth through the seventh year. In addition, a member pays a service charge of ½ of 1 per cent at the time of the drawing. As is noted in more detail below, the Fund financed transactions under the oil facility by borrowing from nine lenders a total amount equivalent to SDR 2.5 billion.

Use of the oil facility for 1974 was made by 40 members in 78 transactions for a total of SDR 2,583 million. The largest amount purchased was SDR 675 million in two transactions by Italy (representing 26 per cent of the total). Purchases by 6 more developed primary producing countries, including SDR 296.2 million by Spain, accounted for 30.8 per cent and the remainder represents drawings by 33 developing countries (see Appendix I, Table I.7). A total of SDR 1,716 million was purchased in the last four months of 1974 and the remainder in the first six months of 1975.

Of their respective maximum access to the facility, one industrial country purchased 90 per cent, the 6 other developed countries 100 per cent, and the 33 developing countries using the facility 65.9 per cent. Total purchases amounted to 79.9 per cent of the maximum access of the purchasing countries. Of the developing countries, 18 purchased their maximum access and 15 purchased up to their estimated balance of payments need, with 5 countries purchasing 35 per cent or less and 10 countries between 35 per cent and 90 per cent of their maximum access.

Following the agreement of the Interim Committee in January 1975 to continue the oil facility for 1975 and to keep the operation under constant review, the Executive Directors adopted a decision¹⁷ on April 4, 1975 that the Fund will be prepared to make resources available to assist members to meet the impact on the balance of payments in 1975 of the increases in costs of imports of petroleum and petroleum products that occurred in recent years. It was also decided to review the decision in July 1975. Furthermore, in accordance with the agreement of the Committee, the Fund decided to replenish its holdings of currency by borrowing amounts not in excess of SDR 5 billion for the oil facility for 1975; this borrowing would be in addition to the amounts committed during 1974 and still unused.

The 1975 oil facility differs in a number of ways from the oil facility for 1974, particularly in that it was

¹⁶ Executive Board Decision No. 3933-(73/42), adopted April 23, 1973. (See *Annual Report, 1973*, Appendix II.)

¹⁷ Executive Board Decision No. 4634-(75/47), adopted April 4, 1975 and reproduced in Appendix II.

regarded as appropriate to give greater weight to a member's quota in calculating a member's access to the facility and somewhat less weight to the increase in oil import costs. As a consequence, maximum access to the facility will not exceed 125 per cent of a member's quota in the Fund or 85 per cent of the calculated increase in its oil import cost, whichever of these two limits is lower.¹⁸

Stricter conditionality applies to use of the oil facility for 1975 compared with that for 1974. Under the 1974 facility a member was expected to consult with the Fund on its balance of payments prospects and policies, including the effect on the balance of payments of policies adopted in relation to the oil problem, whereas use of the 1975 facility requires the purchasing member to describe its policies to achieve medium-term solutions to its balance of payments problems and an assessment by the Fund of the adequacy of these policies. Furthermore, the member must describe measures it has taken or proposes to take to conserve oil or to develop alternative sources of energy in the light of its economic situation. These measures are, however, not subject to the Fund's assessment. Access to the facility will, as in 1974, depend on the observance by a member of the understandings set forth in paragraph 2 of the Rome communiqué of the Committee of Twenty, i.e., the member country will avoid the introduction or intensification of restrictions on international transactions. A judgment is to be made when assessing a country's balance of payments need as to the extent to which some of the member's reserves could be used to meet its balance of payments deficit.

The repurchase provisions and period for which drawings under the facility may be outstanding will be the same as under the 1974 facility, namely, from three to seven years. Charges on a member's outstanding drawings under the 1975 oil facility will be 7½ per cent per annum for the first three years, rising to 7¾ per cent from three to four years and to 7⅞ per cent from four to seven years, i.e., about ¾ of 1 per cent higher than under the facility for 1974.

Arrangements are being concluded with countries in comparatively strong external positions to make resources available for the 1975 oil facility. The borrowings will carry an interest rate of 7.25 per cent per annum. In deciding on the continuation of the oil facility in 1975, the Executive Directors also decided that the unused portion of the borrowing agreements for 1974, amounting to about SDR 450 million, should be used prior to making calls under the borrowing agreements concluded for the oil facility for 1975.

¹⁸ Under the facility for 1974, access to the facility was limited to 75 per cent of a member's quota and 100 per cent of the calculated rise of a member's oil import cost.

Furthermore, as agreed by the Interim Committee, the Executive Directors are discussing the establishment of a subsidy account in order to reduce the burden of interest payable under the oil facility for 1975 by the most seriously affected member countries.

Extended Fund Facility

Under the extended facility, which was established in September 1974, the Fund will provide, in certain circumstances, assistance to members to meet their balance of payments deficits for longer periods and in amounts larger in relation to quotas than has been the practice under normal credit tranche policies.¹⁹ For example, a member might apply for assistance under the facility if it has been suffering serious payments imbalance relating to structural maladjustments in production, trade, and prices, and it is prepared to implement a comprehensive set of corrective policies covering a period of two or three years. Alternatively, an appropriate situation for use of the facility might occur when an economy suffers from slow growth and an inherently weak balance of payments position that prevents pursuit of an active development policy. This situation is typical of many less developed countries, whose economies are characterized by dependence on one or two export commodities and that are inadequately equipped to mobilize and efficiently allocate domestic savings. Such countries need longer-term assistance to carry out an economic program including, inter alia, a strengthening of monetary and fiscal instruments and appropriate trade and exchange policies.

A request from a member for an extended arrangement under this decision will be met only if the Fund is satisfied that the solution of the member's balance of payments problem will require a longer period than that for which the resources of the Fund are available under existing tranche policies. In addition, the member must present a program setting forth the objectives and policies for the whole period of the extended arrangement, and a detailed statement of the policies and measures for the first 12 months, with the understanding that for each subsequent 12-month period the member will present to the Fund a detailed statement of the progress made, and of the policies and measures that will be followed, to further the realization of the objectives of the program.

Extended arrangements under this decision will be limited to periods of not more than three years. Purchases outstanding under the decision will not exceed 140 per cent of the member's quota, or be allowed to raise the Fund's holdings of the member's currency

¹⁹ Executive Board Decision No. 4377-(74/114), adopted September 13, 1974 and reproduced in Appendix II.

above 265 per cent of the member's quota (excluding holdings relating to compensatory financing, buffer stock financing, and the financing of the impact of the increased cost of imports of petroleum and petroleum products). Purchases under the new facility would be separate from, and in part additional to, general access to the Fund's resources. The Fund will apply its tranche policies to requests by a member for purchases other than gold tranche purchases as if the Fund's holdings of the member's currency did not include holdings resulting from any purchases outstanding under the extended facility.

Amounts made available by the Fund under the extended facility will be repurchased by the member as soon as its balance of payments problems have been overcome and, in any event, within an outside range of four to eight years after each purchase, normally in 16 equal quarterly installments. Members will pay charges on amounts purchased under the extended facility at an annual rate of 4 per cent for the first year that a purchase is outstanding, and this rate would rise by $\frac{1}{2}$ of 1 per cent per annum for each succeeding year, up to a level of $6\frac{1}{2}$ per cent per annum.

Use of Currencies in Fund Transactions

As noted earlier, with a view to strengthening its liquidity position the Fund increased the number of currencies used in its transactions and also borrowed an amount equivalent to almost half the value of its transactions during the year. In addition, in selling currencies to members the Fund made extensive use of its currency holdings in excess of 75 per cent of quota, thereby reducing the indebtedness of the members concerned as their external payments position improved and also reducing the amount of repurchases that might otherwise have occurred.

A number of currencies held by the Fund were used by it during the year either for the first time or after a lapse of many years; these currencies were Argentine pesos, Bahrain dinars, Ecuadoran sucres, Indonesian rupiahs, Kuwaiti dinars, Malaysian dollars, Qatar riyals, rials Omani, Spanish pesetas, U. A. E. dirhams, and Venezuelan bolívares. In addition, the Fund also deemed a number of currencies having Article XIV status as convertible for the purpose of accepting them in repurchase. During the year two such currencies were used in repurchase—namely, Spanish pesetas and Venezuelan bolívares.

Of the major currencies normally used in transactions, use of the Italian lira and the Spanish peseta was discontinued following the weakening of these members' balance of payments and subsequent drawings, while the Australian dollar was used only in repurchases.

Sales of the U. S. dollar had the effect of discharging in full outstanding gold tranche purchases by the United States and establishing a creditor position for that member. Sales of pounds sterling and Argentine pesos had the effect of reducing the debtor positions of the United Kingdom and Argentina by SDR 113 million and SDR 15 million, respectively. Sales of these three currencies financed 45 per cent of those transactions for which the Fund did not borrow. Other currencies extensively used during the year were deutsche mark, French francs, Japanese yen, Netherlands guilders, and Belgian francs, as can be seen from Appendix I, Table I.14.

Apart from the extension of the list of currencies usable for both purchases and repurchases, there was little further modification of the Fund's policy on the use of currencies. As reported last year, the amounts of currencies used in purchases was determined broadly in proportion to members' gold and foreign exchange reserves, and the amounts used in repurchases were calculated proportionately to members' creditor positions in the Fund. Modifications to these practices were introduced to avoid running down the Fund's holdings of currencies too quickly and also to avoid undue use of strong creditor currencies in repurchases. A number of transactions, for example, those in connection with the settlement of indebtedness arising under the European narrow margins arrangement, were handled outside the currency policy of the Fund.

Borrowing Agreements for the Oil Facility

As already noted the Fund entered into a number of borrowing agreements with individual lenders for the purpose of financing transactions under the oil facility. In August 1974 the Fund concluded borrowing agreements with seven oil exporting countries for a total of about SDR 2.8 billion: Canada (SDR 258 million),²⁰ Iran (SDR 580 million), Kuwait (SDR 400 million), Oman (SDR 20 million), Saudi Arabia (SDR 1,000 million), Abu Dhabi (SDR 100 million), and Venezuela (SDR 450 million). In November and December 1974 the Fund concluded borrowing agreements with the Netherlands and Nigeria, for amounts equivalent to SDR 150 million and SDR 100 million, respectively.

The standard terms and conditions of the borrowing agreements were published in the Annual Report, 1974.²¹ Lenders agreed to make available up to December 31, 1975 either their own currencies, which they

²⁰ Canada agreed to lend to the Fund an amount up to the equivalent of Can\$300 million, which in terms of SDRs on the date of agreement was SDR 258 million.

²¹ Executive Board Decision No. 4242-(74/67), adopted June 13, 1974. (See *Annual Report, 1974, Appendix II*, pages 124-26.)

would convert into U. S. dollars, or U. S. dollars; all loans to the Fund were to be expressed in terms of SDRs. The borrowing agreements provide for interest to be paid quarterly by the Fund at an annual rate of 7 per cent, and for repayment to be completed within an outside period of three to seven years from the date of borrowing with provision for early repayment under certain circumstances, including a representation of balance of payments need. Loans made by Canada are to be repaid in one amount not later than five years, or earlier in certain circumstances, from the date of each transfer.

In connection with financing transactions under the oil facility for 1974, the Fund made calls under the agreements to an amount equivalent to SDR 2,583 million. The balance remaining, namely, the equivalent of about SDR 450 million, was used first in financing transactions under the oil facility for 1975.²²

In connection with the oil facility for 1975, the Fund concluded borrowing agreements with 12 lenders for a total amount equivalent to SDR 2.9 billion. The lenders are Austrian National Bank (SDR 50 million), National Bank of Belgium (SDR 100 million), Deutsche Bundesbank (SDR 300 million), Central Bank of Iran (SDR 410 million), Central Bank of Kuwait (SDR 200 million), Kingdom of the Netherlands (SDR 200 million), Government of Nigeria (SDR 200 million), Bank of Norway (SDR 50 million), Saudi Arabian Monetary Agency (SDR 1,000 million), Swiss National Bank (SDR 150 million), Central Bank of Trinidad and Tobago (SDR 10 million), and Central Bank of Venezuela (SDR 200 million).

General Arrangements to Borrow

On October 23, 1974 the Executive Board decided to renew the General Arrangements to Borrow²³ for a period of five years from October 24, 1975. The new arrangements became effective on January 8, 1975, when the Fund had received notifications of the concurrence of all participants in the General Arrangements to Borrow. These arrangements enable the Fund to supplement its resources by borrowing the currencies of ten industrialized members; the amount of currencies under these arrangements totals the equivalent of about SDR 5.5 billion. The amount for each participant is shown in Appendix I, Table I.16. Certain modifica-

²² Executive Board Decision No. 4635-(75/47), adopted April 4, 1975 and reproduced in Appendix II.

²³ The General Arrangements to Borrow entered into force on October 24, 1962 for an initial period of four years, were renewed for a four-year period from October 1966, and a period of five years from October 1970, which expires on October 23, 1975. The GAB were activated seven times with borrowings totaling the equivalent of SDR 2,115 million, all of which have been repaid since August 1971.

tions of the arrangements were also approved at the time of the decision to renew them. The modifications specified that the Fund will pay interest at rates equal to those levied periodically on the currency holdings resulting from purchases for which it borrowed, but in any event at a rate not less than 4 per cent per annum. They also provided for the inclusion of special drawing rights among the media that could be used by the Fund to repay its indebtedness or to pay charges and interest under the General Arrangements to Borrow.

Charges and Remuneration and Payment of Interest

In June 1974 the Executive Directors adopted decisions changing the rates of remuneration paid by the Fund to creditor members and increasing the rate of interest on the SDR from 1½ per cent to 5 per cent per annum. At the same time the Executive Directors adopted a decision establishing a revised schedule of charges levied by the Fund on its currency holdings in excess of members' quotas. This was the first revision of the schedule of charges since May 1, 1963.

In accordance with Article V, Section 8(c), of the Articles of Agreement, the Fund levies charges uniform for all members; the schedule of charges is applicable to any purchase that raises the Fund's holdings of a member's currency above quota level, with the exception of purchases under the oil facility (which are subject to different schedules of charges as noted on pages 53 and 54) and, to some extent, purchases under the extended Fund facility for which the rates of charges progress to 6½ per cent per annum.

The new schedule of charges, which became applicable from July 1, 1974, provided for two simplifications of the previous schedule: first, the increments in the charges take place on an annual rather than a semiannual basis, and, second, the charges are made uniformly applicable to all holdings of a member's currency in excess of quota rather than being related to the level of the Fund's holdings of that currency. Under the previous schedule, no charge was levied for a period of three months, the minimum rate was 2 per cent per annum, and it progressed by 0.5 per cent semiannually to 5 per cent per annum over a period up to four and one-half years. The new schedule provides for a minimum rate of 4 per cent per annum and for yearly increases of 0.5 per cent progressing to 6 per cent per annum on balances outstanding up to five years. Moreover, under the previous schedule charges on holdings in the range of 100–150 per cent of quota were, beginning with the second year, lower than those in the higher tranches. The new schedule disposes of this differentiation and applies uniformly to all holdings of a member's currency in excess of quota. The appli-

cable schedules of charges under the various facilities of the Fund are shown in Appendix I, Tables I.18–21.

In addition to the schedules of charges levied on balances in excess of quota, the Fund also levies a service charge of 0.5 per cent of the amount purchased on all credit tranche purchases, and a stand-by charge of 0.25 per cent, reimbursable to the member if it makes a purchase under a stand-by arrangement.

As regards the rate of remuneration and the rate of interest on the SDR, the Executive Directors decided to set, for the six-month period July 1–December 31, 1974, the basic or higher rate of remuneration at 5 per cent per annum and a rate of remuneration of 2.5 per cent per annum that applies to net creditor positions that are between 75 and 50 per cent of a member's quota; the rate of interest on the SDR was to be the same as the highest rate of remuneration. The rates of remuneration are to be reviewed during each six-month period beginning on July 1 and January 1 of each year. Unless decided otherwise, the higher rate of remuneration is determined automatically by a formula based on market interest rates. If, however, the Fund's total income exceeds total expenses during a six-month review period, the lower of the two rates of remuneration is to be adjusted upward in the subsequent six-month period.

The Executive Directors reviewed the rates of remuneration in December 1974 and decided to make no changes in them. On June 27, 1975, the Executive Directors decided that, in order to give themselves more time for an adequate review, the review of the rate of remuneration that was to have been held not later than July 1, 1975 should be held on or before July 14, 1975 and that, pending completion of the review, the rate of interest under Rule I-10(b) should continue to be 5 per cent per annum. Subsequently, on July 7, 1975, the Executive Directors completed their review and decided that, effective July 8, 1975, the rate of remuneration should be 3.75 per cent a year, in accordance with the formula adopted in June 1974.²⁴ In addition, the Executive Directors decided that the two rates of remuneration in effect since June 1974 should be unified at 3.75 per cent. The rate of interest and charges on the special drawing right, which under the Fund's Articles of Agreement cannot be more than the rate of remuneration when the latter is more than 2 per cent, was also reduced to 3.75 per cent, effective July 8, 1975.

Interest Payments on Oil Facility Borrowings

In accordance with the decision on borrowing in

²⁴ Executive Board Decision No. 4235-(72/67), adopted June 13, 1972. (See *Annual Report, 1974*, pages 118–19).

connection with the oil facility for 1974,²⁵ the Fund shall pay interest on the amount of currency borrowed on a quarterly basis at an annual rate of 7 per cent. Under the borrowing agreements the Fund shall consult the lender in order to agree on the means by which the payment of interest will be made.

In order to permit the Fund to offer members a wider selection of assets for the payment of interest, the Executive Directors decided in November 1974²⁶ to offer members one or several currencies selected from the currency budget, their own currency, and, wherever appropriate, SDRs. It was agreed that the Fund, when consulting members regarding the means of payment of interest, would indicate a preference for the lender to choose to receive payment in its own currency first, then the currency selected from the currency budget, and then SDRs.

The interest payments for the quarters ended October 31, 1974, January 31, 1975, and April 30, 1975 amounted to the equivalents of SDR 4.7 million, SDR 25.8 million, and SDR 38.8 million, respectively, totaling the equivalent of SDR 69.2 million. Of this amount, at the lenders' choice, SDR 36.1 million was paid in U. S. dollars to six lenders, SDR 32.0 million in their own currency to two lenders, and SDR 1.2 million in special drawing rights to one lender.

The borrowing agreements for the oil facility for 1975²⁷ provide for interest payments at the rate of 7.25 per cent per annum, leaving the terms and means of repayment unchanged.

Income, Expenses, and Reserves

The increase in members' use of the Fund's resources, charges paid for purchases under the oil facility, and the higher level of charges levied by the Fund since July 1, 1974 brought about a significant increase in the Fund's total operational income in the fiscal year ended April 30, 1975. Total operational income of SDR 166.5 million was the highest for any year, compared with SDR 38.5 million in 1974 and SDR 41.6 million in 1973. After deducting interest paid to lenders to the Fund in connection with the oil facility and the payment of remuneration at higher rates and on larger net creditor positions than in previous years, net operational income was some SDR 34.9 million. This amount fell short of total administrative budget and fixed property expenses by about SDR 9.7 million, compared with a shortfall of SDR 37.2 million in the previous fiscal year.

²⁵ Executive Board Decision No. 4242-(74/67), adopted June 13, 1974. (See *Annual Report, 1974*, page 124.)

²⁶ Executive Board Decision No. 4490-(74/140), adopted November 6, 1974 and reproduced in Appendix II.

²⁷ Executive Board Decision No. 4635-(75/47), adopted April 4, 1975 and reproduced in Appendix II.

The equivalent of SDR 124.4 million was received from charges on balances in excess of quota, of which somewhat more than one half (SDR 68.0 million) was in connection with purchases under the oil facility. However, about the same amount (SDR 69.2 million) was paid out to creditors in connection with loans made to the Fund for financing transactions under the oil facility. The difference in these amounts arises because charges on oil facility purchases in the first three years are levied at a rate of 6.875 per cent per annum while the interest cost on borrowed funds is fixed at 7 per cent per annum. The balance of income received from charges (SDR 56.4 million) represented charges on regular credit tranche purchases and was double the amount of SDR 28.2 million received in the previous year. The Fund's income from service charges (including those on purchases under the oil facility) and stand-by charges increased to SDR 21 million, the highest amount received in any fiscal year; of this total, about SDR 12 million related to the payment of service charges on oil facility purchases and SDR 9 million to purchases under stand-by arrangements. The amount of interest received by the Fund on its holdings of SDRs was equivalent to SDR 21.1 million, which reflected the higher interest rate on the special drawing right; the Fund's average holdings of about SDR 481 million were slightly lower during the year compared with the previous year. Assessments to cover the expenses of conducting the Special Drawing Account amounted to SDR 1.2 million, about the same as in the previous year.

Operational expenses totaled SDR 131.6 million, which was about five times as large as those in the previous year. As mentioned above, SDR 69.2 million related to payment of interest on Fund borrowing in connection with the oil facility; the remainder, SDR 62.4 million, represents payment of remuneration on net creditor positions in accordance with Article V, Section 9, of the Fund Agreement. Payments for remuneration were more than double those in the previous year, again reflecting the larger volume of purchases under the Fund's regular tranche policies, as well as the increases in the rates of remuneration, introduced on July 1, 1974.

Budgetary and fixed property expenses decreased during the year by about SDR 4 million, to SDR 44.6 million, mainly because of a fall in fixed property expenses.

The net expenditures of SDR 9.7 million were charged against the Special Reserve, reducing the amount of that Reserve to SDR 342 million as at April 30, 1975.

A summary of income and expenses over the past ten fiscal years is shown in Appendix I, Table I.17.

Transactions and Operations in Gold

During the fiscal year, the Fund received no gold from members but disbursed gold equivalent to SDR 0.3 million. These operations were connected with payment of remuneration to creditor members as specified in Article V, Section 9, of the Fund Agreement.²⁸ On April 30, 1975 the Fund's gold with depositories was equivalent to SDR 5,369.5 million, only fractionally changed from last year.

Declaration on Trade Measures

On June 26, 1974 the Managing Director invited Fund members to consider subscribing to the Declaration on Trade Measures annexed to the communiqué issued by the Committee of Twenty at the close of its final meeting on June 13, 1974, with which the Executive Directors had associated themselves.²⁹ As of April 30, 1975, 14 members, having 40.66 per cent of the total voting power of members, had replied affirmatively; 6 members, having a voting power of 2.45 per cent of the total, had replied that they did not wish to subscribe to the Declaration. The Declaration shall become effective among subscribing members when members having 65 per cent of the total voting power of members have accepted it, and shall expire two years from the date on which it becomes effective unless it is renewed.

Consultations with Member Countries

In 1974/75 the Fund completed 89 regular consultations with member countries, of which 53 were under Article XIV and 36 with Article VIII countries. Member countries maintaining restrictions on current international payments and transfers under Article XIV are required to consult annually with the Fund. For members that have accepted the obligations of Article VIII, Sections 2, 3, and 4, the consultations are held regularly on a voluntary basis.

²⁸ 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 during that year of gold 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.

²⁹ *Annual Report, 1974*, pages 50, 53, and 126-28.

Consultations have continued to be an important part of the Fund's work, providing the opportunity for reviewing the economic and financial situation and policies of member countries in both a national and an international setting. Over the years, consultations have placed increasing emphasis on the implications of members' domestic economic and financial policies in the context of international monetary stability. They help the Fund to deal quickly with members' requests for the use of Fund resources and proposals for changes in exchange rates and exchange practices. Also, for the individual member country, the consultations provide an independent appraisal of policy and enable the member to discuss with the Fund any special difficulties arising from the actions or policies of other countries. Consultation procedures are reviewed annually by the Executive Directors, and, as a result of the review in 1974/75, will be increasingly geared toward discussion of members' policies in their multilateral setting.

In recent years the regular consultations have at times been supplemented by special consultations, and toward the end of 1973 the Fund initiated a new procedure for special consultations with members whose external policies were of major importance to the world economy. Two rounds of special consultations were held in 1974/75: 12 member countries were involved in November–December 1974, and 12 in April–May 1975. In all, 16 member countries participated in these special consultations.

During the fiscal year Oman accepted the obligations of Article VIII, Sections 2, 3, and 4, bringing to 42 the number of member countries with Article VIII status. These members are listed in Appendix Table I.22.

Training and Technical Assistance

Member countries have continued to receive training and technical assistance from the Fund covering a wide range of services, including fiscal, monetary, and balance of payments policy, banking, government finance, and statistics. During 1974/75, the Fund provided this assistance to about two thirds of the membership. Altogether, 40 staff members were stationed for six months or longer as Fund representatives or advisors in 26 countries; 289 government officials from 104 countries attended the courses that were conducted by the IMF Institute; 48 staff members furnished help through technical assistance missions to 18 countries and 3 regional organizations; and 112 outside experts were assigned for six months or more to 58 countries. All these forms of assistance were in addition to those that were made available through the Fund's regular procedures in the consultations under Article VIII and Article XIV.

The IMF Institute continued to offer its training facilities to officials of member governments and their financial organizations, offering 11 courses to 289 officials of member governments during the fiscal year. Since the inception of the Institute in May 1964, a total of 1,453 officials from 122 countries have attended the Institute's courses.

The main course offered by the Institute continues to be that on Financial Analysis and Policy, conducted for 20 weeks in English and 22 weeks each in French and Spanish. This course has been progressively reoriented through case studies to cover major economic and financial problems confronting most member countries. An important objective of the course is to acquaint the participants with the policies and procedures of the Fund, thereby furthering collaboration between the Fund and its member countries. The principal aims of the course are to examine 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 evaluate their effectiveness in achieving policy objectives under changing economic conditions. Special emphasis is placed on the problems of developing countries, drawing on the Fund's experience in helping to resolve such problems.

The Institute provides also two shorter courses, which are given in English, French, or Spanish, as required. One is an 8-week course on Balance of Payments Methodology, held in close 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 is a 10-week course on Public Finance, organized in close cooperation with the Fiscal Affairs Department; it covers the objectives, instruments, and procedures of public finance, with special emphasis on the fiscal problems of developing countries.

The Central Banking Service furnished technical assistance in the field to 46 member countries and one multinational central bank during 1974/75. As heretofore, this assistance took two forms: advisory services to deal with special problems (usually provided by staff members but sometimes also by outside consultants), and resident experts on long-term assignment to serve in central banks or similar central monetary institutions. Advisory services continued to include assistance in the setting up or reform of financial systems; reviews of the structure and application of monetary policy instruments; modernization of monetary and financial legislation; advice on the organization of appropriate supervisory arrangements for financial insti-

tutions, improvements in foreign exchange operations and controls, and other facets of institutional development. The marked changes that have recently occurred in the world economy and in the balance of payments positions of member countries have been reflected in an increase in the number and range of inquiries from member countries (and some prospective members) regarding technical assistance in the central banking field, with special emphasis on the areas of foreign exchange, the functioning of financial markets, and improvements in economic research and statistics. Apart from work in the field specifically related to organizational and operational matters, the Central Banking Service, working with the Legal Department and the area departments concerned, continued to prepare or help revise banking legislation in a number of countries; in four countries such legislation was enacted by the legislative authorities during the year. During 1974/75, the Central Banking Service sent technical assistance missions to eight countries and to one multinational central bank; in three cases consultants participated in these missions. Assignments of 85 outside experts and nine consultants were made to furnish technical assistance to 43 countries. At the end of the fiscal year, a total of 63 outside experts and consultants were on assignment from the Central Banking Service in 37 countries.

The Fiscal Affairs Department has continued to provide technical assistance in the main fields of tax policy and administration, budgetary systems and procedures, government accounting and auditing, and general financial management. During the fiscal year, 25 countries and 2 regional intergovernmental organizations received fiscal technical assistance through assignments in the field of both staff members and members of the panel of fiscal experts and separate work at Fund headquarters; 4 of these countries requested advice on drafting fiscal legislation, which was furnished in cooperation with the Legal Department. At the end of 1974/75, there were 17 members of the panel of fiscal experts on long-term assignments in 13 countries.

In the area of statistics the Bureau of Statistics cooperates with national technicians in establishing the conceptual framework for the assembly of data relevant to the analysis of monetary and payments problems and assists in classifying the bases of data for their publication, usually in a central bank bulletin. The assistance, which has mainly taken the form of improving existing bulletins or establishing new ones, covers in particular data on reserves, money and banking, interest rates, prices, production, external trade, government finance, balance of payments, and, where available, the national accounts.

Other technical assistance provided by the Bureau

included two statistical seminars for officials and central bank technicians in Central Africa and one seminar in West Africa. In addition, the distribution to countries of the Fund's *Draft Manual on Government Finance Statistics* has been accompanied by seminars and field work to discuss with national technicians the form in which government finance statistics should be assembled and, in collaboration with the Fiscal Affairs Department, to assist in the application of standard classifications to the disaggregated national data.

During the past year, the Bureau's overall technical assistance work covered 28 countries, including brief review visits to assess the progress made in five countries that had received assistance in previous years. The Bureau helped to inaugurate new central bank bulletins in 4 countries in 1974/75, and preparations are under way for establishing such bulletins in several other countries.

A number of other departments in the Fund have also provided member governments with technical services in their areas of special interest and competency. These have included the Exchange and Trade Relations Department, chiefly with respect to the administration of exchange systems; the Legal Department, in cooperation with other departments and independently, in matters of law and legislation; and the Treasurer's Department in connection with use of the Fund's resources and foreign exchange markets.

Relations with Other International Organizations

During 1974/75 world-wide concern with economic and financial matters underlined the importance of Fund collaboration as a means of strengthening international cooperation among other international and regional organizations with related responsibilities or interests and in bringing about greater harmonization of policies with respect to common member countries. The Fund continued to maintain close relations with the International Bank for Reconstruction and Development (IBRD), with which it has a special relationship, 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 Commission of the European Communities (CEC), and the Bank for International Settlements (BIS). Besides the focus on such contacts afforded by the Fund's Paris and Geneva Offices and its Special Representative to the United Nations, liaison with those and other apposite agencies and their relevant committees and other subsidiary bodies was carried out by exchange of pertinent data, by attendance of headquarters staff at meetings at both the

plenary and working levels, by participation in seminars and expert groups, and by informal consultation on technical subjects. Representatives of many of those organizations attended the Annual Meeting of the Fund's Board of Governors, held jointly with those of the IBRD and its affiliates, in Washington in September–October 1974, and officers of the IBRD, the OECD, the GATT, the CEC, the BIS, and the United Nations Conference on Trade and Development (UNCTAD) attended the final meetings of the Committee of Twenty and its Deputies and meetings of the newly established Board of Governors Interim Committee. Most of those organizations, as well as the United Nations and the African, Asian, and Inter-American Development Banks, were also represented at meetings of the Development Committee.

The Managing Director addressed the 57th Session, resumed, of the UN Economic and Social Council (ECOSOC) on the occasion of the presentation of the Fund's Annual Report, as customary, and attended meetings of the OECD Ministerial Council and the BIS. He also attended meetings of Ministers of the Group of Twenty-Four on International Monetary Affairs and ministers and governors of central banks of the Group of Ten, held coincidentally with those of the Committee of Twenty and the Interim Committee, while staff members attended meetings at the Deputies' level. The Deputy Managing Director took part in meetings of the UN Administrative Committee on Coordination (ACC), and other staff participated in preparatory and related interagency meetings.

At the request of the Secretary-General of the United Nations, Fund staff members were assigned to assist his Special Representative for the UN Emergency Operation and to participate in the Inter-Agency Coordinating Committee for that Operation. In that connection, staff members also attended the intergovernmental meeting on emergency assistance held under the auspices of the General Assembly as well as the first session of the Board of Governors of the newly organized Special Fund.

Fund representatives also attended or participated in relevant meetings of various UN organs and specialized agencies, including those of the General Assembly and its Preparatory Committee for the Special Session Devoted to Development and International Economic Cooperation; the ECOSOC, its regional commissions for Africa (ECA), Asia and the Pacific (ESCAP), Europe (ECE), and Western Asia (ECWA), and pertinent committees; the UN Industrial Development Organization (UNIDO); the UNCTAD Trade and Development Board and its relevant committees and expert groups; the International Labour Organization

(ILO); and the Economic Consultative Committee of the International Chamber of Commerce, the UN, and the GATT. The staff attended the Annual Meeting of the Organization of American States' (OAS) Inter-American Economic and Social Council and continued to cooperate and provide economic reports to its Permanent Executive Committee (formerly Committee on the Alliance for Progress (CIAP)) in connection with its annual country reviews and other matters of mutual interest. Liaison with regional development institutions—African, Arab, Asian, Caribbean, and Inter-American—involved attendance at meetings of their Boards of Governors, exchange of information, and informal staff contacts.

On the technical level, Fund staff took part in the ECA Seminar on External Transactions; the Seminar of the Association of African Central Banks; the ECE Conference of European Statisticians; the ESCAP Committee on Statistics meeting; a Seminar on Mobilization of Private Savings in the ESCAP Region, jointly organized by ESCAP and the Swedish International Development Authority (SIDA), as well as the International Savings Banks Institute, Geneva; the ECLA Symposium on Energy and an extraordinary meeting of its Committee of the Whole to consider measures of international cooperation to aid Honduras' recovery from hurricane and flood damage; meetings of the UNCTAD Group of Governmental Experts on Concepts of Present Aid and Flow Targets and of its Group of Governmental Experts on Debt Problems of Developing Countries, for which Fund studies on that subject were made available; the Bank of Central African States' (BEAC) Seminar on the monetary situation and credit policies of countries in the area; a Seminar on the Development of Capital Markets in Panama, organized by Panama's National Securities Commission and the OAS Capital Markets Program; and meetings of the International Union of Credit and Investment Insurers (Berne Union) with reference to the Fund's interest in export credits, as well as those of the UNCTAD Group of Experts on Export Credits.

The arrangements for exchange of contacts and information on matters of common interest with the Commission of the European Communities were expanded to include, *inter alia*, information concerning the European Economic Community's (EEC) associated developing countries.

In continuance of long-standing procedures, Fund staff participated in GATT consultations with common members in connection with trade restrictions imposed for balance of payments reasons and provided pertinent documentation. Staff representatives also attended the annual session of the CONTRACTING PARTIES, meetings of the Council of Representatives, and followed

closely multilateral trade negotiations taking place in Geneva.

As an adjunct to the Fund's consultations with members on economic and monetary problems, staff members participated in meetings and provided appropriate documentation for consultative aid groups held under the auspices of the IBRD for East Africa (Tanzania), Laos, Peru, the Philippines, the IBRD-sponsored Aid Groups for Bangladesh and for Sri Lanka, and meetings on the debt situation of Bangladesh; the consortia for India and Pakistan; the joint IBRD and Asian Development Bank meetings on aid for reconstruction and economic development in Indo-China; the periodic meetings of the Inter-Governmental Group on Indonesia convened by the Netherlands Government; and a multilateral conference convened by the Government of the Khmer Republic to consider economic aid for 1975.

The experience of the staff in providing technical assistance to individual members was called upon by several intergovernmental organizations of which those members are parties: the West African Economic Community, regarding implementation of monetary and trading provisions of the Treaty of establishment; the West African Monetary Union, in connection with the reform of the monetary institutions of its members and their common central bank; the African Development Bank, in assessing balance of payments problems of African countries resulting from the rise in the cost of oil imports; ESCAP, culminating previous Fund assistance in the formation of the Asian Clearing Union by attendance at the inaugural meeting of its Board of Governors, at which a congratulatory message from the Managing Director was presented; the Mano River Union, composed of Liberia and Sierra Leone, concerning harmonization of investment incentives; and the Council of Arab Economic Unity, in drafting an agreement for a proposed Arab Monetary Fund. As in previous years, the Fund sent Visiting Specialists to participate in the Tenth South-East Asia, New Zealand and Australia (SEANZA) Central Banking Course held in Bangkok under the auspices of the Bank of Thailand. Staff also attended the 11th meeting of Central Bank Technicians of the American Continent.

In the commodities area, Fund representatives attended meetings of the International Coffee Council; the International Cocoa Council; the International Tin

Council, with which the Fund has a special relationship stemming from its assistance in financing buffer stocks under the Fourth International Tin Agreement; the Intergovernmental Council of Copper Exporting Countries (CIPEC), including its meeting on buffer stock plans; the UNCTAD Committee on Commodities; and the World Food Conference in Rome.

Membership, Quotas, and Participation in the Special Drawing Account

There were no changes in the membership, quotas, or in participation in the Special Drawing Account of the Fund during fiscal year 1975. The Board of Governors approved the application of Papua New Guinea for membership in the Fund after it has gained independence. Because of unexpected constitutional delays in the attainment of independence until possibly some time in September 1975, the Executive Directors, at the request of Papua New Guinea, extended the period during which that country may accept membership under the Board of Governors resolution until January 2, 1976. On June 16, 1975 the Board of Governors approved terms and conditions for the admission of Grenada to membership in the Fund.

The Sixth General Review of Quotas, which was undertaken during the year under review, is discussed in an earlier section of this chapter. On April 30, 1975, there were 126 members of the Fund having aggregate quotas of SDR 29,189 million and 117 participants in the Special Drawing Account having aggregate quotas of SDR 28,741 million, or 98.5 per cent of the Fund total.

Executive Directors and Staff

A list of Executive Directors and their voting power on April 30, 1975 is given in Appendix IV. The changes in membership of the Executive Board during 1974/75 are shown in Appendix V.

In the year ended April 30, 1975, there were 154 appointments to the Fund's regular staff and 132 separations. At the end of the fiscal year, the staff numbered 1,318 and was drawn from 88 countries. These figures do not include Advisors and Assistants to Executive Directors.

APPENDICES

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Appendix I

The Fund in 1974/75

The tables in this appendix supplement the information given in Chapter 3 on the activities of the Fund during the past year. For some aspects of the Fund's operations, data covering longer periods are included. Apart from Table I.1 on exchange rates and Tables I.18–21 setting out the charges on the use of the Fund's resources, the data in the tables do not go beyond April 30, 1975, the end of the Fund's fiscal year. The unit of value employed in most of the tables is the special drawing right (SDR), which is equivalent to 0.888671 gram of fine gold.

Exchange Rate Developments

The main exchange rate developments during the fiscal year ended April 30, 1975 are summarized as follows:

May 1–June 30, 1974

The Fund concurred in the new par value proposed by Israel and noted the circumstances that led South Africa to cease pegging the rand to the U.S. dollar and to adopt an exchange rate policy of independent managed floating.

July 1–September 30, 1974

The Fund agreed to the initial par value proposed by Oman and noted the circumstances that led Australia to depreciate the Australian dollar in terms of the U.S. dollar, to discontinue the fixed exchange rate relationship between the Australian dollar and the U.S. dollar, and to determine exchange rates daily to maintain the effective value of the Australian dollar. On September 2, 1974 the Icelandic authorities reopened the exchange market after trading had been suspended for the period August 21–30, 1974 and depreciated the króna/U.S. dollar rate by 17 per cent.

October 1–December 31, 1974

In early October the Romanian authorities announced an appreciation of about 20 per cent for the leu for noncommercial transactions with Fund member countries. The Fund noted (i) the decision of New Zealand to effectively depreciate the New Zealand dollar against a weighted basket of currencies of its main trading partners and (ii) the decision of Yugoslavia to depreciate the dinar in terms of the currencies of its major trading partners; concurred in the new par value proposed by Israel; and agreed to the proposed change in the Korean won/U.S. dollar rate.

January 1–March 31, 1975

The Fund noted (i) the new central rate for the kyat in terms of SDRs as communicated by the Burmese authorities; (ii) the decision of Iran to cease

pegging the Iranian rial to the U.S. dollar and to maintain the par value of the rial in terms of SDRs; (iii) the circumstances that led the Greek authorities to decide not to maintain, for the time being, the rates for the drachma within margins in exchange transactions between the drachma and other currencies; (iv) the decision of the authorities of Saudi Arabia and Qatar to maintain the par values of their currencies in terms of the special drawing right; and (v) the decision of Kuwait to maintain the value of its currency in terms of a weighted basket of the currencies of major trading partners rather than in terms of the U.S. dollar.

The Icelandic authorities depreciated the króna/U.S. dollar rate by a further 20 per cent. The Argentine authorities informed the Fund of certain changes to the exchange system, including the operation of dual markets for official and financial transactions.

April 1–April 30, 1975

The Fund noted the decision of Fiji to maintain the value of its currency in terms of a weighted basket of the currencies of major trading partners rather than in terms of the U.S. dollar.

The structure of exchange rates of member countries as it existed on June 30, 1975 is shown in Table I.1.

Special Drawing Account

Summary data on SDR transactions between participants and SDR transactions and operations conducted through the Fund's General Account for the period from the first allocation on January 1, 1970 to April 30, 1975 are shown in Table I.2. Movements in the SDR holdings for individual participants during the fiscal year ended April 30, 1975 are summarized in Table I.3. In addition, Table I.4 shows the currencies transferred against SDRs in transactions between participants, and Table I.5 sets out the amounts of SDRs transferred to individual participants from the General Account. The operations and transactions in SDRs during the fiscal year ended April 30, 1975 are discussed in Chapter 3.

Net transfers between participants and the General Account during the fiscal year resulted in a slight increase in the General Account's holdings, from SDR 499 million on April 30, 1974 to SDR 510 million on April 30, 1975.

General Account

Tables I.6 to I.14 show data on members' use of the Fund's resources, on their repurchases of balances of their currency held by the General Account, and on stand-by arrangements approved for members by the Fund.

Table I.6 shows the average holdings of SDRs by participants as a percentage of their average net cumulative allocations over the five-year period ended December 31, 1974 and on March 31, 1975.

Details on members' purchases and repurchases under the Fund's compensatory financing facility are set out in Table I.9. Summary data on stand-by arrangements and on members' purchases and repurchases, since the inception of the Fund, are shown in Table I.10 and Table I.11, respectively. The transactions and operations of the General Account during the fiscal year ended April 30, 1975 are discussed in Chapter 3.

On April 30, 1974, repurchase obligations pursuant to Article V, Section 7(b), for 15 members totaled the equivalent of SDR 607.7 million. This amount is payable in gold, SDRs, and convertible currencies, as indicated in Table I.12.

Gold

The Fund's transactions and operations in gold over the last three fiscal years are covered in Table I.15.

General Arrangements to Borrow

The amount of credit made available under the General Arrangements to Borrow is shown in Table I.16.

Income and Expenses

Table I.17 shows a summary of income and expenses of the General Account over the past ten fiscal years. Details are provided in Chapter 3.

The Fund's schedules of charges on balances in excess of quota and on transactions effected under the oil facility are shown in Tables I.18–21.

Administrative Budget and Audit

The administrative budget approved by the Executive Directors for the period May 1, 1975 to April 30, 1976 is presented in Appendix VI. Comparative income and expense figures for the fiscal years ended April 30, 1973, 1974, and 1975 appear in Appendix VII. Appendix VIII gives the Opinions of the Audit Committee, together with the audited Balance Sheets of the General Account and Special Drawing Account as at April 30, 1975, the Statement of Income and Expenses, the Statement of Source and Use of Special Drawing Rights, and the audited Balance Sheet of the Staff Retirement Fund as at April 30, 1975.

Article VIII

A list of the member countries that had accepted the obligations of Article VIII, Sections 2, 3, and 4, by April 30, 1975 is presented in Table I.22.

Publications

Table I.23 lists publications issued by the Fund during the past fiscal year.

Table I.1. Exchange Rates, June 30, 1975

(Currency units per unit listed)

Member	Currency	Member Maintains Exchange Rate Against ¹						Market Rates ² U. S. dollar
		Special drawing right	U. S. dollar	Pound sterling	French franc	Other	Other currencies in group ³	
Afghanistan ⁴	afghani		57.50					
Algeria ⁴	dinar							3.865
Argentina ⁴	peso		26.00					
Australia	dollar							0.754262
Austria	schilling							16.635
*Bahamas ⁴	dollar		1.00					
*Bahrain	dinar		0.394737					
Bangladesh	taka			30.00				
Barbados	dollar			4.80				
*Belgium ⁴	franc						48.6572	35.25
*Bolivia	peso		20.00					
Botswana	rand		0.714286					
Brazil ⁴	cruzeiro		8.045					
*Burma	kyat	7.74289						6.2433
*Burundi	franc		78.75					
Cameroon	franc				50.00			
Canada	dollar							1.0306
Central African Republic	franc				50.00			
Chad	franc				50.00			
Chile ⁴	escudo		5,000.00					
*China, Republic of	new Taiwan dollar		38.00					
Colombia ⁴	peso		30.98					
Congo, People's Republic of the	franc				50.00			
Costa Rica	colón		8.57					
Cyprus	pound							0.360036
Dahomey	franc				50.00			
*Denmark	krone						7.57831	5.4750
Dominican Republic ⁴	peso		1.00					
Ecuador ¹	sucre		25.00					
Egypt ⁴	pound		0.391305					
El Salvador	colón		2.50					
Equatorial Guinea ⁴	peseta					1.00 ⁶		
*Ethiopia ¹	dollar		2.07237					
Fiji	dollar							0.789391
Finland	markka							3.551
France	franc							4.04000
Gabon	franc				50.00			
Gambia, The	dalasi			4.00				
*Germany, Federal Republic of	deutsche mark						3.21979	2.3548
Ghana ⁴	cedi		1.15385					
Greece	drachma							30.262
Guatemala	quetzal		1.00					
Guinea ⁴	syli		20.4628					

Guyana	dollar		5.2114		
Haiti	gourde	5.00			
Honduras	lempira	2.00			
Iceland	króna			5	154.30
*India	rupee		18.9677		
Indonesia	rupiah	415.00			
*Iran 4	rial	82.2425			66.641
*Iraq	dinar	0.296053			
Ireland 4	pound		1.00		
*Israel	pound	6.12			
Italy	lira			5	630.425
Ivory Coast	franc			50.00	
*Jamaica	dollar	0.909091			
Japan	yen			5	296.35
*Jordan	dinar	0.321428			
*Kenya	shilling	7.14286			
Khmer Republic 4	riel			5	1,675.00
Korea	won	485.00			
Kuwait	dinar			5	0.28584
Laos 4	kip	750.00			
Lebanon	pound			5	2.2265
Lesotho	rand	0.714286			
Liberia	dollar	1.00			
*Libyan Arab Republic	dinar	0.296053			
*Luxembourg 4	franc			48.6572	35.25
Malagasy Republic	franc			50.00	
Malawi	kwacha	1.05407			0.847314
Malaysia	dollar			5	2.3063
Mali	franc			100.00	
Malta	pound			5	0.373190
Mauritania	ouguiya			5	41.37
Mauritius 4	rupee		13.3333		
Mexico	peso	12.50			
Morocco 4	dirham			5	3.86485
*Nepal 4	rupee	10.56			
*Netherlands	guilder			3.35507	2.4400
New Zealand	dollar			5	0.771784
Nicaragua	córdoba	7.00			
Niger	franc			50.00	
Nigeria	naira			5	0.607755
*Norway	kroner			6.87145	4.9450
*Oman	rial Omani	0.345395			
*Pakistan	rupee	9.90			
Panama	balboa	1.00			
Paraguay 4	guaraní	126.00			
Peru 4	sol	38.70			
Philippines	peso			5	7.0155
Portugal	escudo			5	24.544
*Qatar	riyal	4.76190			3.8523
Romania 4	leu	12.00 7			
*Rwanda	franc	92.84			
*Saudi Arabia	riyal	4.28255			3.49

Table I.1 (concluded). Exchange Rates, June 30, 1975

(Currency units per unit listed)

Member	Currency	Member Maintains Exchange Rate Against ¹					Market Rates ² U. S. dollar
		Special drawing right	U. S. dollar	Pound sterling	French franc	Other	
Senegal	franc				50.00		
Sierra Leone	leone			2.00			
Singapore	dollar						2.2992
*Somalia ⁴	shilling		6.23270				
South Africa	rand		0.714286				
Spain	peseta						56.090
Sri Lanka ⁴	rupee			15.60			
Sudan ⁴	pound		0.348242				
Swaziland	lilangeni					1.00 ⁸	
*Sweden	krona						3.9395
Syrian Arab Republic	pound		3.675				
*Tanzania	shilling		7.14286				
*Thailand	baht		20.00				
Togo	franc				50.00		
Trinidad and Tobago	dollar			4.80			
Tunisia	dinar						0.381881
Turkey ⁴	lira		14.00				
*Uganda	shilling		7.14286				
*United Arab Emirates	dirham		3.94737				
United Kingdom ⁴	pound						0.454959
United States	dollar						
Upper Volta	franc				50.00		
Uruguay ⁴	peso		2,330.00				
Venezuela ⁴	bolivar		4.285				
Viet-Nam ⁴	piastre		755.00				
*Western Samoa	tala		0.596174				
Yemen Arab Republic	rial		4.5625				
*Yemen, People's Democratic Republic of ⁴	dinar		0.345395				
Yugoslavia ⁴	dinar						17.00
*Zaire	zaire		0.50				
*Zambia	kwacha		0.642856				

* The member is availing itself of wider margins of up to \pm 2.25 per cent.¹ Rates other than market rates as notified to the Fund.² Latest market rates available.³ Belgium, Denmark, the Federal Republic of Germany, Luxembourg, the Netherlands, Norway, and Sweden maintain maximum margins of 2.25 per cent for exchange rates in transactions in the official markets between their currencies and those of the other countries in this group. Rates shown are central rates expressed in terms of SDRs, as valued in accordance with Article XXI, Section 2, of the Fund Agreement.⁴ Member maintains multiple currency practice and/or dual exchange market.⁵ The member has notified the Fund that its currency is not being maintained within specified margins.⁶ Per Spanish peseta.⁷ Rate for noncommercial transactions.⁸ Per South African rand.

Table I.2. Transfers of Special Drawing Rights, January 1, 1970–April 30, 1975

(In millions of SDRs)

	Jan. 1, 1970– Apr. 30, 1970	Fiscal Years Ended April 30					Total	
		1971	1972	1973	1974	1975	Jan. 1, 1970– Apr. 30, 1975	
Transfers between participants								
Transactions with designation	155	348	267	117	60	440	1,386	
Transactions without designation	20	286	380	303	996	248	2,233	
	<u>175</u>	<u>633</u>	<u>647</u>	<u>420</u>	<u>1,056</u>	<u>688</u>	<u>3,619</u>	
General Account								
Transfers from participants								
Repurchases (net)	183	357	501	68	29	24	1,162	
Charges (net)	29	66	30	30	29	92	276	
Assessments	1	1	1	1	1	1	6	
Interest received on General Account holdings	—	4	7	10	8	21	51	
	<u>213</u>	<u>429</u>	<u>540</u>	<u>108</u>	<u>67</u>	<u>138</u>	<u>1,495</u>	
Transfers to participants								
Purchases	—	—	—	292	7	4	303	
Replenishment of participants' currencies	—	123	21	—	—	—	144	
Reconstitution	—	—	46	107	157	117	428	
Remuneration	—	18	15	2	20	6	62	
Restoration of participants' holdings ¹	—	—	29	—	—	—	29	
Distribution of net income	—	9	8	—	—	—	17	
Other ²	—	1	—	—	—	—	1	
	<u>—</u>	<u>151</u>	<u>120</u>	<u>401</u>	<u>185</u>	<u>127</u>	<u>984</u>	
Total transfers	388	1,213	1,307	929	1,308	953	6,098	
General Account holdings at end of period	213	490	910	617	499	510	510	

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

Table I.3. Summary of Transactions and Operations in Special Drawing Rights, Fiscal Year Ended April 30, 1975

(In thousands of SDRs)

Holders Participants	Transactions and Operations						Positions at April 30, 1975			
	Total Holdings on May 1, 1974	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		Used	Received	Used				
		Through designation	Other							
Afghanistan	4,069			1,224	246	-362	4,685	12,753	36.7	
Algeria	41,866	1,000				+85	42,951	40,290	106.6	
Argentina	71,463	18,000			6,171	-3,174	80,118	152,520	52.5	
Australia	234,836			135,000		-4,429	95,459	225,645	42.3	
Austria	86,020	1,000				+420	87,440	76,745	113.9	
Bangladesh					982		8			
Barbados	2,768				975		2,768	2,769	99.9	
Belgium	604,187		43,390	56,507		+16,061	607,131	209,346	290.0	
Bolivia	2,919					-446	2,081	12,753	16.3	
Botswana	1,568						1,568	1,569	99.9	
Brazil	157,235	5,500			95	+361	163,190	152,520	107.0	
Burma	9,512				1,032	890	9,153	20,844	43.9	
Burundi	3,556					123	3,298	6,567	50.2	
Cameroon	10,508					122	10,382	10,513	98.8	
Canada	468,859				242		473,932	358,620	132.2	
Central African Republic	969					186	628	4,365	14.4	
Chad	1,591				3,186	2,408	2,272	4,449	51.1	
Chile	3,841			7,500	15,050	7,614	1,809	54,654	3.3	
Colombia	24,528			3,000			20,186	54,441	37.1	
Congo, People's Republic of the	2,426					93	2,242	4,449	50.4	
Costa Rica	3,775			4,060	5,771	382	4,764	11,016	43.2	
Cyprus	10,470					81	10,457	8,898	117.5	
Dahomey	4,447						4,446	4,449	99.9	
Denmark	139,614		4,614	63,268	563		81,933	82,764	99.0	
Dominican Republic	6,654				558		6,878	14,535	47.3	
Ecuador	5,482	1,000				1	6,266	11,229	55.8	
Egypt	30,150				2,507	10,516	20,534	65,244	31.5	
El Salvador	3,728				1,349	451	4,271	11,655	36.6	
Equatorial Guinea	1,847						1,808	2,712	66.7	
Fiji	1,378					18	1,359	1,378	98.6	
Finland	67,870				244		68,400	61,470	111.3	
France	100,478	102,833			931		190,734	484,980	39.3	
Gabon	4,693					31	4,657	4,791	97.2	
Gambia, The	2,098					76	2,011	2,331	86.3	
Germany, Federal Republic of	1,453,517		109,768	123,463			1,481,310	542,400	273.1	
Ghana	9,404				240		8,736	30,123	29.0	
Greece	27,136					1,654	24,613	46,194	53.3	
Guatemala	11,477						11,458	11,868	96.5	
Guinea	3,436				358	170	3,409	8,304	41.0	
Guyana	3,969					74	3,768	6,780	55.6	

Haiti	1,479			1,255	152	-187	2,394	6,567	36.5
Honduras	5,355				365	-145	4,845	8,517	56.9
Iceland	6,327				287	-52	5,988	7,419	80.7
India	243,697				8,751	-3,835	231,111	326,220	70.8
Indonesia	44,683	11,000			563	-1,649	53,471	90,156	59.3
Iran	36,530	9,000				-875	44,655	61,896	72.1
Iraq	20,041	3,000				-53	22,988	23,217	99.0
Ireland	39,423	1,000				+31	40,611	39,213	103.6
Israel	27,663		25,000	157	81	-1,399	444	42,810	1.0
Italy	343,216		150,000	766	30,969	-3,859	159,153	318,000	50.0
Ivory Coast	15,310				317	+40	15,033	14,268	105.4
Jamaica	6,141				1,067	-539	4,535	17,673	25.7
Japan	425,813	6,000				+2,269	434,082	377,400	115.0
Jordan	7,528				132	-9	7,387	7,587	97.4
Kenya	17,117		15,000	4,252	796	-396	5,177	15,600	33.2
Khmer Republic	320			1,000	331	-351	637	8,517	7.5
Korea	26,161		24,000	2,097	2,162	-327	1,768	22,230	8.0
Laos	1,247					-142	1,105	4,449	24.8
Lesotho	646			34	100	-44	536	1,569	34.2
Liberia	3,179					-282	2,897	9,537	30.4
Luxembourg	7,341					-1	7,340	7,345	99.9
Malagasy Republic	217			1,000	193	-379	645	8,730	7.4
Malawi	4,590					-23	4,567	5,085	89.8
Malaysia	60,631	1,000				+13	61,644	60,618	101.7
Mali	2,159			988	104	-214	2,830	7,542	37.5
Malta	5,087			1		-1	5,087	5,088	100.0
Mauritania	2,092				125	-107	1,860	4,449	41.8
Mauritius	7,309		5,000	474		-210	2,574	7,374	34.9
Mexico	127,884	1,000		80		+172	129,135	124,170	104.0
Morocco	15,840					-1,036	14,804	39,189	37.8
Nepal	2,214						2,214	2,215	99.9
Netherlands	400,323		90,702	5,235	3,101	+9,465	498,355	236,460	210.8
New Zealand	57,950			57,000	6,001	-2,751	2,424	69,402	3.5
Nicaragua	5,553	560				-146	5,366	8,943	60.0
Niger	4,414					-2	4,400	4,449	98.9
Nigeria	45,505	2,000			91	+52	47,648	45,555	104.6
Norway	88,153				74	+516	88,743	76,320	116.3
Oman	742						742	742	100.0
Pakistan	24,916			85	8,220	-2,683	14,098	81,639	17.3
Panama	2,411			4,427	241	-422	6,175	12,372	49.9
Paraguay	6,565					-1	6,565	6,567	100.0
Peru	37,217					-149	37,068	40,479	91.6
Philippines	24,483	6,000		97	3,573	-1,119	25,888	51,495	50.3
Romania	6,000				884	+243	5,359		
Rwanda	2,362			213		-182	2,393	6,567	36.4
Senegal	5,236				728	-288	4,220	11,442	36.9
Sierra Leone	4,459				114	-152	4,193	7,845	53.4
Somalia	4,453				46	-95	4,312	6,567	65.7
South Africa	465			39,098		-3,167	36,396	88,920	40.9
Spain	128,824	5,000		75	1,481	+246	132,664	126,135	105.2

Table I.3 (concluded). Summary of Transactions and Operations in Special Drawing Rights, Fiscal Year Ended April 30, 1975

(In thousands of SDRs)

Holders Participants	Total Holdings on May 1, 1974	Transactions and Operations						Positions at April 30, 1975		
		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		Used	Received	Used				
		Through designation	Other							
Sri Lanka	13,182			5,000	8,549	3,274	-907	12,550	33,978	36.9
Sudan	17,178				5,479	2,113	-175	20,368	24,912	81.8
Swaziland	959				192	86	-77	988	2,712	36.4
Sweden	107,028						-14	107,014	107,025	100.0
Syrian Arab Republic	7,912	1,000			186	945	-387	7,766	17,034	45.6
Tanzania	6,485			5,000	433	740	-553	624	14,322	4.4
Thailand	28,532	1,000					+16	29,548	28,542	103.5
Togo	5,082						-1	5,082	5,085	99.9
Trinidad and Tobago	6,925					1,086	-583	7,428	20,811	35.7
Tunisia	7,509	1,000					-289	8,220	14,713	55.9
Turkey	29,185	5,500				566	-774	33,346	50,307	66.3
Uganda	4,322				1,011	564	-405	4,364	13,896	31.4
United Kingdom	594,180	96,000					-15,385	674,795	1,006,320	67.1
United States	1,787,824	157,000					-17,440	1,927,384	2,293,980	84.0
Upper Volta	4,428						-1	4,427	4,449	99.5
Uruguay	6,819					9,787	-570	12,197	23,937	51.0
Venezuela	118,253	2,000				3,839	+309	120,561	112,290	107.4
Viet-Nam	19,748						-3	19,745	19,758	99.9
Western Samoa	212							212	212	100.0
Yemen Arab Republic	2,129							2,129	2,130	99.9
Yemen, People's Democratic Republic of	7,763			4,833	1,114	183	-275	3,585	9,873	36.3
Yugoslavia	39,385	2,000				2,706	-1,286	37,393	62,291	54.0
Zaire	6,387						-1,453	4,934	39,189	12.6
Zambia	12,764					3,353	-593	8,818	24,588	35.9
Total Participants	8,815,804	440,393	248,473	688,866	127,671	116,037	-22,324	8,805,114		
General Account	499,031				116,037	127,671	+22,324	509,721		
Total	9,314,835	440,393	248,473	688,866	243,707	243,707	—	9,314,835		

Table I.4. Currencies Transferred for Special Drawing Rights, January 1, 1970–April 30, 1975

(In millions of SDRs)

	Jan. 1, 1970– Apr. 30, 1970	Fiscal Years Ended April 30					Total
		1971	1972	1973	1974	1975	Jan. 1, 1970– Apr. 30, 1975
Transactions with designation							
Belgian francs							
Provided directly to participants	1.0	—	—	—	—	—	1.0
Deutsche mark							
Converted to U. S. dollars	—	—	—	—	3.0	2.0	5.0
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	—	—	104.0	139.0
	—	25.5	43.3	—	—	104.0	172.8
Italian lire							
Provided directly to participants	—	4.0	—	—	—	—	4.0
Mexican pesos							
Converted to U. S. dollars	—	—	—	—	—	1.0	1.0
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	3.0	1.0	108.6
	—	79.9	111.0	65.3	3.0	1.0	260.2
U. S. dollars							
Provided directly to participants	148.9	227.1	112.5	51.2	54.1	321.1	914.9
Converted to French francs	5.1	3.6	—	—	—	—	8.7
Converted to pounds sterling	—	7.5	—	—	—	11.5	19.0
	154.0	238.2	112.5	51.2	54.1	332.6	942.6
Total	155.0	347.6	266.8	116.6	60.1	439.6	1,385.6
Transactions without designation							
Belgian francs	—	—	—	—	37.0	56.5	93.5
Danish kroner	—	—	—	—	5.0	63.3	68.3
Deutsche mark	—	—	—	—	100.5	123.5	224.0
French francs	—	—	—	—	588.5	—	588.5
Netherlands guilders	—	—	—	11.7	264.9	5.2	281.8
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	995.9	248.5	2,233.4

Table I.5. Transfer of Special Drawing Rights by the General Account, Fiscal Year Ended April 30, 1975

(In thousands of SDRs)

	Reconstitution	Payment of Remuneration	Purchase
Afghanistan	1,224	—	—
Australia	—	51	—
Bangladesh	—	—	974
Brazil	—	95	—
Burma	1,032	—	—
Canada	—	242	—
Chad	386	—	2,800
Chile	15,000	—	—
Costa Rica	5,771	—	—
Denmark	—	563	—
Dominican Republic	558	—	—
Egypt	2,507	—	—
El Salvador	1,349	—	—
Finland	—	244	—
France	—	931	—
Ghana	240	—	—
Guinea	358	—	—
Haiti	1,255	—	—
Ireland	—	157	—
Italy	—	766	—
Kenya	4,248	4	—
Khmer Republic	1,000	—	—
Korea	2,065	—	—
Lesotho	34	—	—
Malagasy Republic	1,000	—	—
Mali	988	—	—
Malta	—	1	—
Mauritius	474	—	—
Mexico	—	80	—
Netherlands	—	3,101	—
New Zealand	6,000	1	—
Norway	—	74	—
Panama	4,427	—	—
Rwanda	213	—	—
South Africa	39,090	8	—
Spain	—	75	—
Sri Lanka	8,546	—	—
Sudan	5,479	—	—
Swaziland	192	—	—
Syrian Arab Republic	186	—	—
Tanzania	433	—	—
Trinidad and Tobago	1,086	—	—
Uganda	1,011	—	—
Uruguay	9,787	—	—
Yemen, People's Democratic Republic of	1,114	—	—
Total	117,053	6,393 ¹	3,774

¹ Includes amounts of less than SDR 500 each paid to an additional 15 participants.

Table I.6. Reconstitution: Average Daily Holdings of Special Drawing Rights as a Per Cent of Average Net Cumulative Allocations

Participants	Five-Year Period Ended		Participants	Five-Year Period Ended	
	Dec. 31, 1974	Mar. 31, 1975		Dec. 31, 1974	Mar. 31, 1975
Afghanistan	35.2	33.8	Lesotho	49.2	47.5
Algeria	104.7	104.8	Liberia	34.2	32.9
Argentina	47.2	46.5	Luxembourg	100.0	100.0
Australia	98.4	95.1	Malagasy Republic	82.2	77.1
Austria	114.0	114.0	Malawi	94.2	93.8
Barbados	100.0	100.0	Malaysia	103.7	103.6
Belgium	248.6	253.2	Mali	30.7	30.0
Bolivia	36.6	34.3	Malta	100.0	100.0
Botswana	100.0	100.0	Mauritania	52.3	50.8
Brazil	103.5	103.7	Mauritius	88.3	85.1
Burma	30.6	30.0	Mexico	103.1	103.2
Burundi	58.5	57.3	Morocco	37.8	36.6
Cameroon	100.0	99.9	Nepal	100.0	100.0
Canada	131.8	132.3	Netherlands	234.9	236.0
Central African Republic	35.7	33.3	New Zealand	66.2	61.7
Chad	30.3	30.1	Nicaragua	88.1	67.2
Chile	41.8	39.4	Niger	99.6	99.5
Colombia	36.7	36.1	Nigeria	99.3	99.6
Congo, People's Rep. of the	58.6	57.3	Norway	111.8	112.2
Costa Rica	30.9	30.3	Oman	100.0	100.0
Cyprus	117.0	117.4	Pakistan	34.2	32.4
Dahomey	100.0	100.0	Panama	31.6	30.1
Denmark	100.7	101.3	Paraguay	100.0	100.0
Dominican Republic	30.0	31.6	Peru	99.1	98.6
Ecuador	53.1	52.4	Philippines	31.6	33.3
Egypt	30.0	31.1	Rwanda	32.5	31.5
El Salvador	36.8	35.1	Senegal	47.9	46.3
Equatorial Guinea	82.1	80.9	Sierra Leone	63.1	63.1
Fiji	99.9	99.9	Somalia	67.6	66.9
Finland	109.8	110.0	South Africa	38.3	37.1
France	90.7	87.6	Spain	102.1	102.3
Gabon	99.0	98.9	Sri Lanka	30.0	30.4
Gambia, The	95.1	94.5	Sudan	30.0	32.9
Germany, Fed. Rep. of	168.4	175.5	Swaziland	31.2	30.1
Ghana	36.8	35.1	Sweden	100.0	100.0
Greece	44.6	45.6	Syrian Arab Republic	30.4	31.2
Guatemala	89.8	90.0	Tanzania	48.9	45.5
Guinea	30.9	30.0	Thailand	100.1	100.3
Guyana	56.8	56.1	Togo	100.0	100.0
Haiti	37.2	36.4	Trinidad and Tobago	47.5	45.8
Honduras	64.2	63.3	Tunisia	42.9	42.4
Iceland	78.1	78.0	Turkey	56.9	56.7
India	73.5	72.9	Uganda	83.6	80.4
Indonesia	33.9	35.2	United Kingdom	66.8	66.3
Iran	44.8	45.3	United States	82.1	81.7
Iraq	96.1	96.3	Upper Volta	99.6	99.6
Ireland	101.3	101.4	Uruguay	30.4	30.0
Israel	52.3	50.1	Venezuela	106.0	106.1
Italy	102.2	99.3	Viet-Nam	100.0	100.0
Ivory Coast	107.2	107.2	Western Samoa	100.0	100.0
Jamaica	67.3	64.4	Yemen Arab Republic	100.0	100.0
Japan	112.4	112.6	Yemen, People's		
Jordan	99.4	99.3	Dem. Rep. of	72.1	69.5
Kenya	101.0	97.0	Yugoslavia	32.7	33.1
Khmer Republic	37.6	34.9	Zaire	38.6	35.9
Korea	116.8	110.4	Zambia	39.3	38.1
Laos	32.7	31.3			

Table I.7. Purchases of Currencies and Special Drawing Rights from the Fund, Fiscal Year Ended April 30, 1975

(In millions of SDRs)

Member Purchasing	Within Credit Tranches				Under the Regular Facilities				
	Within Gold Tranche	Under stand-by arrangements	Other ¹	Under Decision on Compensatory Financing	Under Decision on Oil Facility ²	Total Purchases	Currencies	Special drawing rights ³	Total
Afghanistan	—	2.50	—	—	—	2.50	1.93	0.57	2.50
Argentina	15.25	—	—	—	—	15.25	15.25	—	15.25
Bangladesh	0.65 ⁴	29.95	—	—	51.50	82.11	29.63	0.97	30.61
Burma	—	24.00	—	—	—	24.00	24.00	—	24.00
Burundi	2.13	—	—	—	1.20	3.33	2.13	—	2.13
Cameroon	6.90 ⁴	—	—	—	4.62	11.52	6.90	—	6.90
Central African Rep.	0.57 ⁴	—	—	—	3.30	3.87	0.57	—	0.57
Chad	—	—	2.80	—	2.21	5.01	—	2.80 ⁵	2.80
Chile	0.01	59.50	—	—	118.50	178.01	44.51	15.00	59.51
China, Rep. of	30.00	—	—	—	—	30.00	30.00	—	30.00
Costa Rica	2.66	—	—	—	18.84	21.50	2.66	—	2.66
Cyprus	6.51	—	—	—	8.10	14.61	6.51	—	6.51
Denmark	85.33	—	—	—	—	85.33	85.33	—	85.33
Dominican Rep.	10.75	—	—	—	—	10.75	10.75	—	10.75
Egypt	—	—	40.00	—	—	40.00	40.00	—	40.00
El Salvador	4.55	—	—	—	17.89	22.44	4.55	—	4.55
Fiji	2.30 ⁴	—	—	—	0.34	2.64	2.30	—	2.30
Germany, Fed. Rep. of	123.46	—	—	—	—	123.46	123.46	—	123.46
Greece	34.51	—	—	—	103.50	138.01	34.51	—	34.51
Guinea	2.65 ⁴	—	—	—	3.51	6.16	2.65	—	2.65
Haiti	0.67	3.00	—	—	4.80	8.47	3.67	—	3.67
Honduras	6.25	—	—	—	16.79	23.04	6.25	—	6.25
Iceland	5.76	—	5.75	—	17.20	28.71	11.51	—	11.51
India	—	—	235.00	—	200.00	435.00	235.00	—	235.00
Israel	— ⁶	45.00	—	—	62.00	107.00	45.00	—	45.00
Italy	267.78	1,000.00	—	—	675.00	1,942.78	1,267.78	—	1,267.78
Ivory Coast	10.75 ⁴	—	—	—	11.17	21.92	10.75	—	10.75
Kenya	12.34	—	12.00	—	36.00	60.34	20.09	4.25	24.34
Korea	19.99 ⁴	20.00	—	—	100.00	139.99	39.99	—	39.99
Malagasy Rep.	5.03 ⁴	—	—	—	14.30	19.33	5.03	—	5.03
Mali	—	—	—	—	5.00	5.00	—	—	—
Mauritania	1.01 ⁴	—	—	—	—	1.01	1.01	—	1.01
Mauritius	5.49	—	—	—	—	5.49	5.49	—	5.49
New Zealand	50.56	—	—	—	109.30	159.86	50.56	—	50.56
Nicaragua	—	—	—	—	15.50	15.50	—	—	—
Pakistan	—	49.00	—	—	125.00	174.00	49.00	—	49.00
Panama	8.99	—	—	—	7.37	16.36	8.99	—	8.99
Philippines	1.25	38.75	—	—	—	40.00	40.00	—	40.00
Senegal	4.75 ⁴	—	—	—	15.53	20.28	4.75	—	4.75
Sierra Leone	6.23	—	—	—	4.91	11.14	6.23	—	6.23
Spain	117.39	—	—	—	296.20	413.59	117.39	—	117.39
Sri Lanka	—	7.00	—	—	43.50	50.50	7.00	—	7.00
Sudan	—	19.00	—	18.00	28.71	65.71	36.77	0.23	37.00
Tanzania	10.49	—	10.50	—	31.50	52.49	20.99	—	20.99
Turkey	37.75	—	—	—	113.20	150.95	37.75	—	37.75
Uganda	—	—	—	—	19.20	19.20	—	—	—
Uruguay	18.71	—	—	—	46.58	65.29	17.23	1.47 ⁵	18.71
Yemen, People's Dem. Rep. of	3.75 ⁴	—	—	—	11.80	15.55	3.75	—	3.75
Yugoslavia	30.00	—	—	—	155.20	185.20	30.00	—	30.00
Zaire	28.27	—	—	—	—	28.27	28.27	—	28.27
Total	981.45	1,297.70	306.05	18.00	2,499.25	5,102.45	2,577.90	25.30	2,603.20

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* (Seventh Issue, Washington, 1975), pages 37-40.)

² In accordance with Executive Board Decisions No. 4241-(74/67), adopted June 13, 1974 and No. 4529-(74/153), adopted December 6, 1974. (See *Selected Decisions*, pages 71-76.)

³ In accordance with Article XXV, Section 7(f), of the Articles of Agreement.

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*, page 81.)

⁵ In accordance with Executive Board Decision No. 3457-(71/121) G/S, as amended by Executive Board Decisions No. 3829-(72/144) S, adopted December 15, 1972 and No. 4330-(74/101) S, adopted August 9, 1974. (See *Selected Decisions*, pages 153-54.)

⁶ Less than SDR 5,000.

Table I.8. Fund Stand-By Arrangements for Members, Fiscal Year Ended April 30, 1975

(In millions of SDRs)

Member	Total Number of Stand-Bys Approved for Member	Date of Inception	Date of Expiration	Amount Approved 1973/74	Amount Not Purchased at Expiration	Amount Approved 1974/75	Amount Not Purchased April 30, 1975
Afghanistan	5	June 18, 1973	June 17, 1974	10.00	—		
Bangladesh	1	June 14, 1974	June 13, 1975			31.25	1.29
Burma	3	Nov. 22, 1974	Nov. 21, 1975			31.50	7.50
Chile	13	Jan. 30, 1974	Jan. 29, 1975	79.00	—		
		Mar. 19, 1975	Mar. 18, 1976			79.00	59.00
Colombia	15	June 6, 1973	June 5, 1974	20.00	20.00		
Fiji	1	Nov. 8, 1974	Nov. 7, 1975			3.25	3.25
Guyana	8	May 15, 1973	May 14, 1974	4.00	—		
		May 15, 1974	May 14, 1975			5.00	5.00
Haiti	14	July 6, 1973	July 5, 1974	4.00	4.00		
		Aug. 1, 1974	July 31, 1975			4.00	1.00
Indonesia	8	May 4, 1973	May 3, 1974	50.00	50.00		
Israel	2	Nov. 8, 1974	Nov. 7, 1975 ¹			32.50	—
		Feb. 14, 1975	Feb. 13, 1976			32.50	20.00
Italy	1	Apr. 10, 1974	Apr. 9, 1975	1,000.00	—		
Jamaica	2	June 1, 1973	May 31, 1974	26.50	13.25		
Korea	10	May 17, 1974	Dec. 31, 1974			20.00	—
Liberia	11	May 17, 1973	May 16, 1974	4.00	4.00		
		Aug. 14, 1974	Aug. 13, 1975			4.00	4.00
Pakistan	6	Aug. 11, 1973	Aug. 10, 1974	75.00	—		
		Nov. 11, 1974	Nov. 10, 1975			75.00	41.00
Panama	8	Aug. 3, 1973	Aug. 2, 1974	9.00	9.00		
		Oct. 16, 1974	Oct. 15, 1975			9.00	9.00
Philippines	12	May 16, 1973	May 15, 1974	45.00	45.00		
		July 16, 1974	July 15, 1975			38.75	—
Sri Lanka	6	Apr. 30, 1974	Apr. 29, 1975	24.50	17.50		
Sudan	6	Aug. 9, 1973	Aug. 8, 1974	24.00	5.00		
		Aug. 14, 1974	Aug. 13, 1975			24.00	5.00
Zambia	1	May 4, 1973	May 3, 1974	19.00	—		
Total				1,394.00	167.75	389.75	156.04

¹ Canceled as of February 14, 1975.

Table I.9. Purchases and Repurchases Under the Decision on Compensatory Financing of Export Fluctuations, February 27, 1963–April 30, 1975¹

(In millions of SDRs)

Member	Date	Purchases		Related Repurchases	
		Amount	Total	Under paragraph (7) of amended decision	Outstanding Balance April 30, 1975
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	—	—
	Sep. 21, 1971	6.50	1.00	—	5.50
	Feb. 1, 1974	15.00	—	—	15.00
Burundi	June 9, 1970	2.50	2.50	0.80	—
Chile	Dec. 14, 1971	39.50	—	—	39.50
	Dec. 22, 1972	39.50	—	—	39.50
Colombia	Mar. 22, 1967	18.90	18.90	7.70	—
	Apr. 19, 1968 ³	0.95 ³	0.95	0.95	—
	Apr. 19, 1968 ³	0.95 ³	0.95	0.95	—
Dominican Republic	Dec. 6, 1966	6.60	6.60	3.30	—
Ecuador	Oct. 15, 1969 ³	3.50 ³	3.50	—	—
	Oct. 15, 1969 ³	2.75 ³	2.75	—	—
Egypt	Oct. 15, 1963	16.00 ²	16.00	—	—
	Mar. 18, 1968	23.00	23.00	—	—
	Aug. 14, 1973	47.00	—	—	47.00
El Salvador	Dec. 16, 1969	6.25	6.25	4.30	—
Ghana	Dec. 20, 1966	17.25	17.25	0.75	—
Guatemala	Feb. 5, 1968 ³	3.00 ³	3.00	1.60	—
	Feb. 5, 1968 ³	3.25 ³	3.25	—	—
Guinea	Mar. 26, 1974	6.00	—	—	6.00
Guyana	Mar. 26, 1974	5.00	5.00	—	—
Haiti	Aug. 11, 1967	1.30	1.30	0.12	—
	Dec. 6, 1967	1.00	1.00	0.20	—
Iceland	Nov. 10, 1967	3.75	3.75	3.75	—
	Nov. 26, 1968	3.75	3.75	3.75	—
India	Dec. 28, 1967	90.00	90.00	80.00	—
	Feb. 19, 1974	62.00	—	—	62.00
Iraq	Nov. 8, 1967 ³	17.50 ³	17.50	—	—
Jamaica	Mar. 20, 1974	13.25	—	—	13.25
Jordan	Nov. 15, 1971	4.50	4.50	—	—
	Jan. 3, 1973	2.85	2.85	—	—
Khmer Republic	Mar. 14, 1972	6.25	—	—	6.25
	Apr. 18, 1973	6.25	—	—	6.25
New Zealand	May 10, 1967	29.20	29.20	—	—
Peru	June 20, 1972	30.75	30.75	—	—
Philippines	May 18, 1973	38.75	9.69	9.69	29.06
Sri Lanka	Mar. 21, 1967	19.50	19.50	—	—
	Apr. 17, 1968	19.30	19.30	—	—
	Jan. 24, 1972 ³	4.70 ³	—	—	4.70
	Jan. 26, 1972	14.75	—	—	14.75
	June 22, 1973	18.60	—	—	18.60
Sudan	Feb. 15, 1974	5.90	—	—	5.90
	June 1, 1965	11.25 ²	11.25	—	—
	Mar. 7, 1975	16.00	—	—	16.00
	Mar. 10, 1975	2.00	—	—	2.00
Syrian Arab Republic	Sep. 18, 1967	9.50	9.50	—	—
	Jan. 25, 1972	12.50	7.12	—	5.38
Uruguay	Feb. 7, 1968	9.50	9.50	5.00	—
	May 17, 1972	17.25	0.02	—	17.23
Zaire	July 5, 1972	28.25	—	—	28.25
Zambia	Dec. 14, 1971	19.00	19.00	—	—
	Aug. 7, 1972	16.00	—	—	16.00
	Aug. 8, 1972	3.00	—	—	3.00
Total		1,000.30	472.68	122.86	527.62

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

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

³ Date and amount of reclassification of previous purchases.

Table I.10. Summary of Stand-By Arrangements That Became Effective During the Fiscal Years Ended April 30, 1953-75 ¹

(In millions of SDRs)

	Number	Amount
1953	2	55.00
1954	2	62.50
1955	2	40.00
1956	2	47.50
1957	9	1,162.28
1958	11	1,043.78
1959	15	1,056.63
1960	14	363.88
1961	15	459.88
1962	24	1,633.13
1963	19	1,531.10
1964	19	2,159.85
1965	24	2,159.05
1966	24	575.35
1967	25	591.15
1968	32	2,352.36
1969	26	541.15
1970	23	2,381.28
1971	18	501.70
1972	13	313.75
1973	13	321.85
1974	15	1,394.00
1975	14	389.75
Total	361	21,136.92

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

Table I.11. Summary of Members' Purchases and Repurchases, Years Ended April 30, 1948-75

(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
1974	1,057.72	672.49
1975	5,102.45 ¹	518.08
Total	30,961.61 ²	17,387.40 ³

¹ Of which, SDR 2,499.25 million was purchased under the oil facility.

² 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.

³ 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 repurchase.

Table I.12. Total Repurchase Obligations Incurred in Accordance with Article V, Section 7(b), and Amounts Payable Forthwith by Members, as of April 30, 1974

(In thousands of SDRs)

Member	Total Repurchase Obligations Incurred				Amounts Payable Forthwith			
	Gold	Special drawing rights	Convertible currencies	Total	Gold	Special drawing rights	Convertible currencies	Total
Argentina	—	6,706	277,294	284,000	—	2,597	107,403	110,000 ¹
Chile	3,432	962	72,651	77,045	1,760	493	37,247	39,500 ²
Ecuador	20	1	2,630	2,651	20	1	2,630	2,651 ³
Indonesia	—	692	45,684	46,376	—	543	35,827	36,370 ⁴
Jamaica	—	738	13,218	13,956	—	701	12,549	13,250 ⁵
Korea	—	—	6	6	—	—	6	6
Malawi	—	—	1	1	—	—	1	1
Nicaragua	8	113	11,879	12,000	—	—	—	— ⁶
Philippines	2,001	391	36,357	38,749	—	—	—	— ⁷
Sierra Leone	—	—	172	172	—	—	172	172
Somalia	—	—	629	629	—	—	629	629 ⁸
Syrian Arab Republic	—	941	29,428	30,369	—	387	12,113	12,500 ⁹
Uruguay	—	2,959	23,302	26,261	—	1,944	15,306	17,250 ¹⁰
Yugoslavia	—	1	12	13	—	—	—	— ¹¹
Zambia	334	6,741	68,406	75,481	—	1,837	17,163	19,000 ¹²
Total	5,795	20,245	581,669	607,709	1,780	8,503	241,046	251,329

¹ Member discharged the equivalent of SDR 110,000,000 of its repurchase obligation, which was payable forthwith in accordance with paragraph 2(a) of Executive Board Decision No. 3049-(70/44). (See *Selected Decisions of the International Monetary Fund and Selected Documents* (Seventh Issue, Washington, 1975), pages 84-86.) Owing to the limitation of Article V, Section 7(c)(iv), the balance of the repurchase obligation incurred as of April 30, 1974 will be payable at the end of the subsequent financial year or years.

² Member discharged the equivalent of SDR 37,740,000 payable forthwith in special drawing rights and convertible currencies in accordance with paragraph 2(a) of Executive Board Decision No. 3049-(70/44); the amount payable forthwith in gold equivalent to SDR 1,760,000 was postponed. Owing to the limitation of Article V, Section 7(c)(iv), the balance of the repurchase obligation incurred as of April 30, 1974 will be payable at the end of the subsequent financial year or years.

³ Member discharged the equivalent of SDR 2,631,000 in special drawing rights and convertible currencies; the amount payable in gold equivalent to SDR 20,000 was postponed.

⁴ Owing to the limitation of Article V, Section 7(c)(iv), the amount payable forthwith was equivalent to SDR 26,262,000; however, the member elected to discharge the equivalent of SDR 36,370,000 in special drawing rights and convertible currencies in accordance with paragraph 2(a) of Executive Board Decision No. 3049-(70/44). The balance of the repurchase obligation incurred as of April 30, 1974 will be payable at the end of the subsequent financial year or years.

⁵ Member discharged the equivalent of SDR 13,250,000 payable forthwith in accordance with paragraph 2(a) of Executive Board Decision No. 3049-(70/44). Owing to the limitation of Article V, Section 7(c)(iv), the balance of the repurchase obligation incurred as of April 30, 1974 will be payable at the end of the subsequent financial year or years.

⁶ Member discharged the equivalent of SDR 2,496,844, which together with the equivalent of SDR 4,253,156 repurchased during 1973/74, totaling the equivalent of SDR 6,750,000, discharged the balance of the repurchase obligation incurred as of April 30, 1971 and a portion of the April 30, 1972 obligation, which was payable as of April 30, 1974. The member also repurchased the equivalent of SDR 1,503,156 during 1974/75, which discharged the balance of the April 30, 1972 obligation, the April 30, 1973 obligation, and a small portion

of the repurchase obligation incurred as of April 30, 1974. Owing to the limitation of Article V, Section 7(c)(iv), the balance of the repurchase obligation incurred as of April 30, 1974 will be payable at the end of the subsequent financial year or years.

⁷ Member discharged the portion of its repurchase obligation incurred as of April 30, 1973 equivalent to SDR 38,492,000 in special drawing rights and convertible currencies, which was payable as of April 30, 1974; the amount payable in gold equivalent to SDR 258,000 was postponed. The member also discharged a portion of the balance of the April 30, 1973 obligation equivalent to SDR 12,187,500 in convertible currencies. Owing to the limitation of Article V, Section 7(c)(iv), the repurchase obligation incurred as of April 30, 1974 and the balance of the April 30, 1973 obligation will be payable at the end of the subsequent financial year or years.

⁸ Discharged in convertible currencies in May 1975 in accordance with Rule I-6 of the Fund's Rules and Regulations.

⁹ Member discharged the equivalent of SDR 12,500,000 payable forthwith in accordance with paragraph 2(c) of Executive Board Decision No. 3049-(70/44). Owing to the limitation of Article V, Section 7(c)(iv), the balance of the repurchase obligation incurred as of April 30, 1974 will be payable at the end of the subsequent financial year or years.

¹⁰ Member discharged the equivalent of SDR 17,250,000 payable forthwith in accordance with paragraph 2(a) of Executive Board Decision No. 3049-(70/44). Owing to the limitation of Article V, Section 7(c)(iv), the balance of the repurchase obligation incurred as of April 30, 1974 will be payable at the end of the subsequent financial year or years.

¹¹ Member discharged the portion of its repurchase obligation incurred as of April 30, 1973 equivalent to SDR 51,750,000, which was payable as of April 30, 1974. Owing to the limitation of Article V, Section 7(c)(iv), the repurchase obligation incurred as of April 30, 1974 and the balance of the April 30, 1973 obligation will be payable at the end of the subsequent financial year or years.

¹² Member discharged the equivalent of SDR 19,000,000 payable forthwith in accordance with paragraph 2(c) of Executive Board Decision No. 3049-(70/44). Owing to the limitation of Article V, Section 7(c)(iv), the balance of the repurchase obligation incurred as of April 30, 1974 will be payable at the end of the subsequent financial year or years.

Table I.13. Repurchases of Currencies from the Fund, Fiscal Year Ended April 30, 1975

(In millions of SDRs)

Member Repurchasing	Repurchases in Respect of					Total
	Purchases under stand-by arrangements	Schedules approved by Fund	Article V, Section 7(b)	Voluntary Repurchases	Other Repurchases	
Afghanistan	—	6.0	—	—	—	6.0
Argentina	—	—	110.0	—	—	110.0
Bolivia	—	2.3	—	0.1	—	2.4
Burma	—	9.0	—	—	—	9.0
Burundi	—	—	—	—	0.2	0.2
Central African Republic	—	—	—	—	0.1	0.1
Chad	—	2.2	—	—	0.1	2.3
Chile	—	—	37.7	—	1.8	39.5
China, Republic of	—	—	—	59.9	—	59.9
Colombia	— ¹	—	—	—	—	— ¹
Congo, People's Republic of the	—	—	—	—	0.1	0.1
Costa Rica	—	2.4	—	—	—	2.4
Ecuador	—	—	2.6	—	—	2.6
Egypt	—	17.0	—	—	0.2	17.2
El Salvador	0.1	—	4.5	—	—	4.5
Gabon	—	—	—	—	— ¹	— ¹
Gambia, The	—	—	—	—	0.1	0.1
Ghana	—	2.0	—	—	0.7	2.7
Guinea	—	5.5	—	—	—	5.5
Guyana	3.5	—	—	—	5.1	8.6
Haiti	—	0.3	—	—	0.2	0.4
Indonesia	—	—	36.4	—	—	36.4
Jamaica	—	—	13.3	—	—	13.3
Jordan	—	—	1.5	—	0.1	1.6
Korea	—	—	— ¹	—	—	— ¹
Laos	—	0.4	—	—	—	0.4
Lesotho	—	0.1	—	—	0.1	0.2
Liberia	1.0	—	—	—	0.4	1.4
Malawi	—	—	— ¹	—	—	— ¹
Mali	—	1.0	—	—	0.2	1.2
Mauritania	—	0.5	—	—	0.1	0.6
Nicaragua	—	—	4.0	—	—	4.0
Niger	—	—	—	—	— ¹	— ¹
Pakistan	—	10.0	—	—	0.9	10.9
Philippines	—	0.3	33.4	—	—	33.7
Senegal	—	—	—	—	0.6	0.6
Sierra Leone	—	—	0.2	—	—	0.2
Somalia	—	—	—	—	— ¹	— ¹
Sri Lanka	—	21.7	—	—	1.0	22.6
Sudan	—	3.0	—	—	0.6	3.6
Swaziland	—	0.6	—	—	0.1	0.7
Syrian Arab Republic	—	—	12.5	—	—	12.5
Trinidad and Tobago	—	4.8	—	6.6	—	11.3
Uganda	—	1.3	—	—	—	1.3
Uruguay	—	—	17.3	—	—	17.3
Yugoslavia	—	—	51.8	—	—	51.8
Zambia	—	—	19.0	—	—	19.0
Total	4.6	90.1	344.1 ²	66.5	12.8	518.1

¹ Less than SDR 50,000.² Total includes SDR 4 million and SDR 91.1 million relating to Article V, Section 7(b), repurchase obligations incurred as of April 30, 1972 and April 30, 1973, respectively, as follows: 1972—SDR 4 million by Nicaragua; 1973—SDR 4.5 million by El Salvador, SDR 1.5 million by Jordan, SDR 33.4 million by the Philippines, and SDR 51.8 million by Yugoslavia.

NOTE:

Included in the table are repurchases equivalent to SDR 1 million by Burma, SDR 5 million by Guyana, SDR 1.6 million by Jordan, SDR 9.7 million by the Philippines, SDR 7.1 million by the Syrian Arab Republic, and SDR 19 million by Zambia relating to purchases under the decision on compensatory financing of export fluctuations.

Table I.14. Currencies and Special Drawing Rights Obtained from the Fund by Members in Purchases¹ for Their Own Currencies; Currencies and Special Drawing Rights Used by Members in Repurchases, Fiscal Year Ended April 30, 1975

(In millions of SDRs)

Medium	Currencies and SDRs Obtained by Members in Purchases ¹			Currencies and SDRs Used by Members in Repurchases			
	For EEC settlements by Denmark and the Federal Republic of Germany	Other countries	Total	Under Article V, Section 7(b)		Not under Article V, Section 7(b)	
				Argentina	Other countries	Argentina	Total
SDRs	—	25.3	25.3	2.6	6.6 ²	14.8	24.0
Argentine pesos	—	15.3	15.3	—	—	—	—
Australian dollars	—	21.8	21.8	10.0	3.5	9.0	22.5
Austrian schillings	—	29.0	29.0	5.1	5.8 ²	1.8	12.7
Bahrain dinars	—	4.0	4.0	—	—	—	—
Belgian francs	43.3	104.7	148.0	13.4	39.7 ²	22.8	75.9
Canadian dollars	—	63.0	63.0	— ³	13.0 ²	9.4	22.4
Danish kroner	4.6	—	4.6	— ³	0.1 ²	—	0.1
Deutsche mark	73.3	428.8	502.1	44.3	93.2 ²	20.8	158.3
Ecuadoran sucres	—	4.0	4.0	—	—	—	—
French francs	—	122.7	122.7	2.4	15.7 ²	14.1	32.2
Guatemalan quetzales	—	—	—	—	— ³	—	— ³
Indonesian rupiahs	—	15.0	15.0	—	—	—	—
Irish pounds	—	4.0	4.0	—	—	1.6	1.6
Italian lire	—	—	—	0.1	2.0	8.7	10.7
Japanese yen	—	167.7	167.7	7.0	24.9 ²	24.6	56.6
Kuwaiti dinars	—	17.0	17.0	—	— ³	—	— ³
Malaysian dollars	—	7.3	7.3	—	— ³	—	— ³
Mexican pesos	—	—	—	—	— ³	—	— ³
Netherlands guilders	87.6	75.8	163.4	19.4	14.9 ²	5.8	40.1
Norwegian kroner	—	21.6	21.6	— ³	3.5 ²	1.7	5.3
Pounds sterling	—	113.0	113.0	—	—	—	—
Qatar riyals	—	8.0	8.0	—	—	—	—
Rials Omani	—	3.0	3.0	—	—	—	—
Saudi Arabian riyals	—	—	—	—	— ³	—	— ³
Singapore dollars	—	—	—	—	— ³	—	— ³
South African rand	—	5.0	5.0	—	—	0.2	0.2
Spanish pesetas	—	22.7	22.7	—	2.5	2.0	4.5
Swedish kronor	—	16.3	16.3	5.6	0.2 ²	3.7	9.6
U.A.E. dirhams	—	4.0	4.0	—	—	—	—
U.S. dollars	—	1,032.4	1,032.4	—	1.4	32.1	33.6
Venezuelan bolívares	—	63.0	63.0	—	6.9	0.9	7.7
Total	208.8	2,394.4	2,603.2	110.0	234.1 ²	174.0	518.1

¹ Exclusive of oil facility purchases.² Total includes SDR 4 million and SDR 91.1 million relating to Article V, Section 7(b), repurchase obligations incurred as of April 30, 1972 and April 30, 1973, respectively, as follows: 1972—SDR 0.1 million in SDRs, SDR 2.5 million in Netherlands guilders, and SDR 1.4 million in U.S. dollars; 1973—SDR 0.6 million in SDRs, SDR 1.8 million in Austrian

schillings, SDR 13.9 million in Belgian francs, SDR 5.1 million in Canadian dollars, SDR 0.1 million in Danish kroner, SDR 51 million in deutsche mark, SDR 7.3 million in French francs, SDR 9.8 million in Japanese yen, SDR 0.3 million in Netherlands guilders, SDR 1.1 million in Norwegian kroner, and SDR 0.1 million in Swedish kronor.

³ Less than SDR 50,000.

Table I.15. Gold Transactions and Operations by the Fund, Fiscal Years Ended April 30, 1973-75

(In millions of SDRs)

	1973	1974	1975
Increase in gold holdings due to			
Subscriptions	60.9	—	—
Repurchases of currency by members	2.8	3.0	—
Charges paid by members	3.9	0.4	—
Total increase	67.6	3.4	—
Decrease in gold holdings due to			
Remuneration paid to members	28.5	3.6	0.3
Total decrease	28.5	3.6	0.3
Net increase or decrease (-)	39.1	-0.2	-0.3

Table I.16. General Arrangements to Borrow: Amounts of Credit Arrangements

Participant	Currency	Units of Participant's Currency	SDR Equivalent at October 23, 1974
United States	US\$	2,000,000,000	1,674,626,000
Deutsche Bundesbank (Germany, Fed. Rep. of)	DM	4,000,000,000	1,300,932,000
United Kingdom	£	357,142,857	697,421,428
France	F	2,715,381,428	481,700,519
Italy	Lit	343,750,000,000	431,235,900
Japan	¥	90,000,000,000	251,235,900
Netherlands	f.	724,000,000	230,631,648
Canada	Can\$	216,216,000	184,059,059
Belgium	BF	7,500,000,000	164,232,750
Sveriges Riksbank (Sweden)	SKr	517,320,000	98,996,424
Total			5,515,214,478

Table I.17. Income and Expenses, Fiscal Years Ended April 30, 1966-75

(In millions of SDRs)

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
Operational income										
Service and stand-by charges, etc.	15.6	7.1	7.4	14.6	13.0	3.2	3.0	3.2	2.5	21.0
Charges on balances in excess of quotas	65.7	82.5	82.0	107.4	124.7	128.1	62.0	28.2	28.2	124.4
Interest on holdings of special drawing rights	—	—	—	—	0.4	4.3	7.2	10.2	7.8	21.1
Total operational income ¹	81.3	89.6	89.4	122.0	138.1	135.6	72.2	41.6	38.5	166.5
Deduct: operational expenses										
Remuneration	—	—	—	—	27.2	37.4	30.5	29.3	27.2	62.4
Other	16.1	17.8	11.9	22.3	19.1	11.8	1.2	—	—	69.2
Net operational income	65.2	71.8	77.5	99.7	91.8	86.3	40.5	12.2	11.2	34.9
Administrative budget expenses	15.0	18.1	21.3	24.4	28.6	33.2	37.1	39.4	43.5	46.0
Deduct: assessments levied on participants for estimated expenses of operating the Special Drawing Account	—	—	—	—	0.9	0.9	1.0	0.7	1.0	1.2
Fixed property expenses	5.7	3.3	0.5	4.5	6.5	7.5	17.7	-4.8 ²	5.9	-0.3
Net valuation adjustment loss	—	—	—	—	—	—	—	0.1	0.1	0.1
Total administrative budget and fixed property expenses and net valuation adjustment loss	20.7	21.4	21.8	28.9	34.2	39.9	53.7	34.0	48.4	44.6
Net income or expenses (-) ³	44.5	50.4	55.7	70.8	57.6	46.4	-13.3	-21.7	-37.2	-9.7

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 expenses of SDR 16.4 million have 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 18.3 million, SDR 38.9 million, SDR 40.0 million, and SDR 33.9 million were transferred to the General Reserve and SDR 37.5 million, SDR 31.9 million, SDR 17.5 million, and SDR 12.5 million were distributed under the provisions of Article XII, Sections 6(a) and (b), of the Fund Agreement. The net expenses for the fiscal years ended April 30, 1972, 1973, 1974, and 1975 have been charged against the Special Reserve.

Table I.18. Charges on Transactions Effected After May 1, 1963 and up to June 30, 1974

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

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

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

³ Point at which the Fund and the member consult.

Table I.19. Charges on Transactions Effected After July 1, 1974

Charges in per cent per annum,¹ payable on holdings in excess of quota, for period stated:

Service charge	0.5
Up to 1 year	4.0
1 to 2 years	4.5
2 to 3 years	5.0
3 to 4 years	5.5 ²
4 to 5 years	6.0

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

² Point at which the Fund and the member consult.

Table I.20. Charges on Transactions Effected Under the Extended Fund Facility¹

Charges in per cent per annum,² payable on holdings in excess of quota arising from drawings under the extended Fund facility for the period stated:

Service charge	0.5
Up to 1 year	4.0
1 to 2 years	4.5
2 to 3 years	5.0
3 to 4 years	5.5
4 to 5 years	6.0 ³
6 to 8 years	6.5

¹ Extended Fund facility was established by Executive Board Decision No. 4377-(74/114), adopted September 13, 1974 and reproduced in Appendix II.

² Except for service charge, which is payable once per transaction and stated as per cent of amount of transaction.

³ Point at which the Fund and the member consult.

Table I.21. Charges on Transactions Effected Under the Oil Facilities After July 1, 1974¹

Charges in per cent per annum,² payable on holdings in excess of quota arising from drawings under the oil facility for the period stated:

	1974 Facility ¹	1975 Facility ¹
Service charge	0.5	0.5
Up to 3 years	6.875	7.625
3 to 4 years	7.000 ³	7.750 ³
5 to 7 years	7.125	7.875

¹ The 1974 oil facility was established by Executive Board Decision No. 4241-(74/67), adopted June 13, 1974. (See *Selected Decisions of the International Monetary Fund and Selected Documents* (Seventh Issue, Washington, 1975), pages 71-76.) The 1975 oil facility was established by Executive Board Decision No. 4634-(75/47), adopted April 4, 1975 and reproduced in Appendix II.

² Except for service charge, which is payable once per transaction and stated as per cent of amount of transaction.

³ Point at which the Fund and the member consult.

Table I.22. Members That Have Accepted Article VIII, April 30, 1975

Member	Effective Date of Acceptance
Argentina	May 14, 1968
Australia	July 1, 1965
Austria	August 1, 1962
Bahamas	December 5, 1973
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, Fed. Rep. of	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
Oman	June 19, 1974
Panama	November 26, 1946
Peru	February 15, 1961
Qatar	June 4, 1973
Saudi Arabia	March 22, 1961
Singapore	November 9, 1968
South Africa	September 15, 1973
Sweden	February 15, 1961
United Arab Emirates	February 13, 1974
United Kingdom	February 15, 1961
United States	December 10, 1946

Table I.23. Publications Issued, Fiscal Year Ended April 30, 1975**Reports and Other Documents**

Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1974
(English, French, German, and Spanish). Free

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

International Monetary Reform: Documents of the Committee of Twenty
(English, French, and Spanish). Free

Selected Decisions of the International Monetary Fund and Selected Documents
Seventh Issue (English, French, and Spanish). Free

Summary Proceedings of the Twenty-Ninth Annual Meeting of the Board of Governors
Free

Twenty-Fifth Annual Report on Exchange Restrictions
Free

Subscription Publications

Balance of Payments Yearbook
Volume 25, 1968-72 (clothbound). US\$6.00
Volume 26, 1969-73 (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; also, through August 1974, 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.

For users of Fund publications that have access to a computer, tape subscriptions to *International Financial Statistics*, *Direction of Trade*, and the *Balance of Payments Yearbook* are available at US\$1,000 a year each. This price includes the book version of the publication. The price to universities is US\$300 a year for each subscription.

Books

Membership and Nonmembership in the International Monetary Fund: A Study in International Law and Organization
By Joseph Gold. US\$10.00

Surveys of African Economies
US\$5.00 a volume
Volume 5, covering Botswana, Lesotho, Swaziland, Burundi, Equatorial Guinea, and Rwanda, was issued in French.
Volume 6, covering The Gambia, Ghana, Liberia, Nigeria, and Sierra Leone, was published in English; the French edition is in preparation.
The volumes in this series are available to university libraries, faculty members, and students at a reduced price of US\$2.50 a volume.

Pamphlet Series

No. 18 *Valuation and Rate of Interest of the SDR*
By J. J. Polak (English, 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 but only once in December (English, French, and Spanish). Private firms and individuals are charged for delivery.

Appendix II

Principal Policy Decisions of the Executive Board

A. SDR Reconstitution: Amendment of Decision No. 3829-(72/144) S

Paragraph 2 of Executive Board Decision No. 3457-(71/121) G/S¹ as amended by Paragraph 4 of Executive Board Decision No. 3829-(72/144) S,² adopted December 15, 1972 is hereby further amended to read as follows:

“Pursuant to Article XXV, Section 2(b) (ii), the Fund prescribes that a participant may obtain special drawing rights from another participant in a transaction with that other participant that would promote reconstitution under Article XXV, Section 6(a) and Schedule G, paragraph 1(a). The maximum amount that may be obtained in that way shall be the single amount most recently notified to the participant under Rule P-3 unless that single amount has been calculated for acquisition in the final month of a reconstitution period, in which case the participant may acquire the amount calculated by the Fund as necessary to promote reconstitution, taking into account the proposed date of acquisition. These maximum amounts will be reduced by any acquisition of SDRs other than by way of allocation subsequent to the date the calculation is made.”

Decision No. 4330-(74/101) S
August 9, 1974

B. Extended Fund Facility

I

(i) The Executive Directors have been considering the establishment of an extended facility for members that would enable the Fund to give medium-term assistance in the special circumstances of balance of payments difficulty that are indicated in this decision. The facility, in its formulation and administration, is likely to be beneficial for developing countries in particular.

(ii) The Executive Directors have noted the studies prepared by the staff, including SM/74/58 (“Extended Fund Facility,” March 8, 1974), and especially paragraphs 12 to 16 of that memorandum, in which certain situations to which an extended facility could apply are described as follows:

- “(a) an economy suffering serious payments imbalance relating to structural maladjustments in production and trade and where prices and cost distortions have been widespread;
- (b) an economy characterized by slow growth and an inherently weak balance of payments position which prevents pursuit of an active development policy.”

¹ See *Annual Report, 1972*, pages 84–85.

² See *Annual Report, 1973*, page 98.

(iii) The Executive Directors have noted the support for an extended facility by the Committee of the Board of Governors on the Reform of the International Monetary System and Related Issues.

(iv) Taking into account the considerations set forth above, and in particular the exceptional problems faced by some members, the Executive Directors have decided to establish a facility in accordance with the terms set forth in Section II of this decision for the purpose of giving such members medium-term assistance, consistently with Article I (v) and the other purposes of the Fund, under extended arrangements.

II

1. The Fund will be prepared to give special assistance to members to meet balance of payments deficits for longer periods and in amounts larger in relation to quotas than has been the practice under existing tranche policies. Such assistance will be given in the form of extended arrangements in support of comprehensive programs that include policies of the scope and character required to correct structural imbalances in production, trade, and prices when it is expected that the needed improvement in the member's balance of payments can be achieved without policies inconsistent with the purposes of the Fund only over an extended period. The Fund will pay particular attention to the policy measures that the member intends to implement in order to mobilize resources and improve the utilization of them and to reduce reliance on external restrictions, the time required for these measures to have the intended effect on the balance of payments, and such other factors as the Fund considers relevant to the member's circumstances.

2. A member that contemplates making a request for an extended arrangement should consult the Managing Director before making a request under this decision. A request by a member for an extended arrangement in order to deal with a problem of the kind referred to in this decision will be met, subject to paragraphs 3 and 4 below, if the Fund is satisfied that:

- (a) the solution of the member's balance of payments problem will require a longer period than the period for which the resources of the Fund are available under existing tranche policies, and
- (b) the member has presented:
 - (i) a program, setting forth the objectives and policies for the whole period of the extended arrangement, and adequate for the solution of the member's problem; and
 - (ii) a detailed statement of the policies and measures for the first twelve months constituting an initiation of the program referred to in (i) considered substantial in the member's circumstances,

with the understanding that, for each subsequent twelve-month period, the member will present to the Fund a detailed statement of the progress made, and the policies and measures as in (ii) that will be followed, to further the realization of the objectives of the program referred to in (i) with such modifications in the member's policies as might reasonably be considered necessary to assist it to achieve its objectives in changing circumstances.

3. Extended arrangements under this decision will be limited to periods of not more than three years. Each arrangement will prescribe the total amount, and the annual installments within the total, available in accordance with the original or any modified terms of the arrangement. Purchases in respect of each installment will be phased over the period in which it is available and will be subject to suitable performance clauses related to the implementation of those policies that are necessary for achieving the objectives of the program that the member has adopted as the basis for an extended arrangement.

4. (a) Purchases outstanding under this decision will not exceed 140 per cent

of the member's quota, or be allowed to raise the Fund's holdings of the member's currency above 265 per cent of the member's quota (excluding holdings obtained by the Fund as a result of purchases under its decisions on the facilities relating to compensatory financing, buffer stock financing, and the impact of the increased cost of imports of petroleum and petroleum products).

(b) In order to carry out the purposes of this decision, the Fund will be prepared to grant any waiver of the conditions of Article V, Section 3(a)(iii) when necessary to permit purchases under this decision or to permit purchases under other policies that would raise the Fund's holdings of a member's currency above the limits referred to in that provision because of purchases outstanding under this decision. In addition, subject to (a), the Fund will apply its tranche policies to requests by a member for purchases other than gold tranche purchases as if the Fund's holdings of the member's currency did not include holdings resulting from any purchases outstanding under this decision.

5. A member that has obtained an extended arrangement under this decision will make repurchases corresponding to purchases under the extended arrangement, to the extent that such purchases are still outstanding, as soon as its balance of payments problems have been overcome and, in any event, within an outside range of four to eight years after each purchase. Not later than four years after the first purchase under the extended arrangement the member will propose to the Fund a schedule of repurchases for all purchases outstanding under the extended arrangement. Normally, schedules under this paragraph will provide for repurchases in respect of each purchase in sixteen equal quarterly installments.

6. When purchases are made under extended arrangements granted pursuant to this decision, the Fund will so indicate in an appropriate manner.

7. The Fund will levy charges on holdings of a member's currency resulting from purchases outstanding under this decision in accordance with Executive Board Decision No. 4378-(74/114), adopted September 13, 1974.

8. Except as otherwise provided in this or in any subsequent related decisions, extended arrangements shall be subject to the Fund's decisions and policies on stand-by arrangements.

9. The Fund will review this decision in the light of experience and developing circumstances when the total amount of purchases that could be made under extended arrangements is equivalent to two billion special drawing rights and in any event not later than July 31, 1976.

Decision No. 4377-(74/114)
September 13, 1974

C. 1974 Oil Facility: Review of Decision No. 4241-(74/67)

1. The Executive Directors have reviewed Executive Board Decision No. 4241-(74/67),³ adopted June 13, 1974, in accordance with Paragraph 8 of that Decision.

2. The total of a member's purchases under Paragraph 2 of Executive Board Decision No. 4241-(74/67) shall not exceed, prior to any decision that the Fund may take under Paragraph 8 of that Decision pursuant to the review to be conducted not later than December 31, 1974, 90 per cent of the amount shown under Option D in Table 5 of SM/74/220, of September 11, 1974.

3. The Executive Directors shall review this Decision by December 2, 1974 and, taking account of the amounts then available under loan agreements, decide on the extent to which total purchases by a member under Paragraph 2 of Executive Board Decision No. 4241-(74/67) may be increased beyond the amount

³ See *Annual Report, 1974*, pages 122-23.

referred to in Paragraph 2 of this Decision, up to the amount shown under Option D in Table 4 of SM/74/220, of September 11, 1974.

Decision No. 4393-(74/121)
September 20, 1974

D. General Arrangements to Borrow: Renewal and Modification

A. Executive Board Decision No. 1289-(62/1), as amended,⁴ on the General Arrangements to Borrow, is hereby renewed for a period of five years from October 24, 1975 subject to the following modifications:

1. Paragraph 9(b) shall be made to read as follows:

The Fund shall pay interest on its indebtedness at the rates at which it levies charges on segments of its holdings of currency resulting from purchases for which it borrowed and incurred the indebtedness, provided that the rate of interest shall be not less than 4 per cent per annum on any part of the Fund's indebtedness. Interest shall be paid as soon as possible after July 31, October 31, January 31, and April 30.

2. Paragraph 9(c) shall be made to read as follows:

Interest and charges shall be paid, as determined by the Fund, in gold, or in special drawing rights, or in the participant's currency, or in other currencies that are actually convertible.

3. The third sentence of Paragraph 11(a) shall be made to read as follows:

Repayment under this Paragraph 11(a) or under Paragraph 11(c) shall be, as determined by the Fund, in the participant's currency whenever feasible, or in gold, or special drawing rights, or, after consultation with the participant, in other currencies that are actually convertible.

4. The third sentence of Paragraph 11(f) shall be made to read as follows:

Repayment shall be made after consultation with the participant in the currencies of other members that are actually convertible, or made in gold, or special drawing rights, as determined by the Fund.

5. The following shall be inserted in the Decision as Paragraph 11(j):

The Fund shall be deemed to have discharged its obligations to a participating institution to make repayment in accordance with the provisions of this Paragraph or to pay interest and charges in accordance with the provisions of Paragraph 9 if the Fund transfers an equivalent amount in special drawing rights to the member in which the institution is established.

B. Reference in Executive Board Decision No. 1289-(62/1), as amended, to "the period prescribed in Paragraph 19(a)" shall be understood to include the period of the renewal under this Decision.

C. The modifications of Executive Board Decision No. 1289-(62/1), as amended, that are set forth in Section A above shall become effective prior to October 24, 1975 as amendments pursuant to Paragraph 15 of the Decision upon receipt of the concurrence of all participants in these modifications in accordance with that Paragraph.

Decision No. 4421-(74/132)
October 23, 1974

⁴ *Selected Decisions of the International Monetary Fund and Selected Documents* (Seventh Issue, Washington, 1975), pages 91-102.

E. Borrowing Agreements in Connection With Oil Facility: Payment of Interest⁵

The Managing Director shall make arrangements for consultations to agree the means in which payment of interest will be made under the agreements to borrow entered into pursuant to Executive Board Decision No. 4242-(74/67), adopted June 13, 1974. Payment of interest shall be made in accordance with the policy and procedure set forth [below]. The Executive Directors shall be informed promptly of the interest paid and the assets used.

Decision No. 4490-(74/140)
November 6, 1974

Policy and Procedure

1. This memorandum deals with (i) the timing of interest payments on the amounts of currency borrowed by the Fund in connection with financing transactions under the oil facility; (ii) the establishment of a policy on what assets would be offered by the Fund when it consults with the lenders to agree the means of payment of interest; and (iii) the determination of the necessary authority to consult with the lenders and to make the offer and to agree on the means by which interest shall be paid. Paragraph 6 of the borrowing agreements also deals with repayment of the loans, but it is not necessary to deal with this topic in the present memorandum.

2. Interest payments on the amounts of currency borrowed by the Fund in connection with financing transactions under the oil facility are to be paid quarterly at an annual rate of seven per cent. It is suggested that such quarterly interest payments be made as of the dates at the end of the Fund's fiscal quarters—namely, July 31, October 31, January 31, and April 30—and that interest be paid as soon as possible after these dates.

The amount of interest to be paid to the lenders with respect to the quarter ending October 31 amounts to the equivalent of about SDR 4.7 million. Full use of the existing commitments to lend (about SDR 2.8 billion) would involve annual interest payments of about SDR 200 million over the first three years of the loans, with declining payments thereafter as repayments of the loans are effected. Total interest payments over the full seven years can be estimated to be about SDR 1 billion. It may be assumed that users of the oil facility will pay charges largely with SDRs while the Fund may not be able to use SDRs for payments under the borrowing arrangements and might thus have to pay currency, in particular U. S. dollars, in substantial amounts.

3. Each of the borrowing agreements provides that the Fund shall consult the lender in order to agree the means in which payment of interest will be made. If agreement is not reached between the Fund and the lender, the Fund has an option to pay in the assets specified in the borrowing agreements. In the discussions of the Executive Directors on the terms and conditions of the borrowing agreements, it was understood that the Fund would try to reach agreement with the lenders on the means of payment of interest. The options given the Fund in each of the borrowing agreements include the means of payment of interest that the lender would be willing to accept if agreement were not reached on something else.

It is proposed that the policy to guide the selection of the means of payment to be offered should be as follows:

(a) The lender would be offered its own currency, one or more currencies selected from the currency budget, and SDRs. The lender could choose to receive payment in any one or more of these assets, but SDRs, of course, could not be

⁵ See also Decision No. 4636-(75/47), page 95.

offered to a nonparticipant in the Special Drawing Account. The Fund normally would express a preference that the lender choose its own currency first, then the currency selected from the currency budget, and lastly SDRs. If the Fund's holdings of the currency of a lender should fall to a relatively low level, the extent to which it would be offered would be examined in connection with the quarterly consultations with Executive Directors on the currency budgets.

(b) If the lender has been offered under (a) above the means of payment specified in Paragraph 6 of its borrowing agreement, it is assumed that it will choose one of these means of payments. If the lender would not be willing to accept any of the assets mentioned in (a) above, then the matter will be submitted to the Executive Directors for decision except in those cases in which there is only one means of payment mentioned in Paragraph 6 of that lender's borrowing agreement. Such a decision is necessary because the Fund might wish to use at its discretion an asset which had been offered under (a) above and refused or a currency that it would not otherwise be using in accordance with the currency policy of the Fund.

The procedure and policy outlined above is designed to permit the Fund to offer a selection of assets for the payment of interest that may be broader than those listed in the respective Paragraph 6 of the borrowing agreements. The lender, however, retains its right to receive the assets of its choice in payment of interest. The policy on the means of payment to be offered is broadly consistent with the considerations underlying the currency budgets of the Fund, in particular the considerations of Fund liquidity and the relative strength of currencies to be used in making payments. On these grounds it would be preferable for lenders to choose the means of payment suggested by the Fund in order to avoid the need to pay U. S. dollars at times when this would not otherwise be consistent with the Fund's policy on currencies to be used.

4. Under the currency budget proposed for the quarter ending January 31, 1975, U. S. dollars would be suggested as the currency selected from the budget to be offered as one of the means for the payment of interest. Future currency budgets would indicate which of the currencies in the budget would be offered in payment, and also the order of preference, if any, in which the various assets would be offered.

5. In executing the policy described above, it is proposed that the Managing Director be instructed to make arrangements for the necessary consultations with the lenders in order to agree the means to pay interest and to make these payments in accordance with the policy and procedure outlined above. The Executive Directors would be informed promptly of the interest payments made and the assets used in making the payments.

F. 1974 Oil Facility: Review of Decision No. 4393-(74/121)

1. The Executive Directors have reviewed Executive Board Decision No. 4393-(74/121),⁶ adopted September 20, 1974, in accordance with paragraph 3 of that Decision.

2. The Fund will be prepared to make resources available to members in accordance with Decision No. 4241-(74/67), with respect to their balance of payments deficits in 1974, in amounts that do not exceed the amount shown under Option D in Table 4 of SM/74/220 of September 11, 1974, provided the Fund has received from a member before February 28, 1975 a statement of its intention to request a purchase. . . .

*Decision No. 4529-(74/153)
December 6, 1974*

⁶ See page 90.

G. Oil Facility for 1975

1. (a) The Executive Directors have reviewed Executive Board Decision No. 4241-(74/67),⁷ adopted June 13, 1974, in accordance with Paragraph 8 of that Decision, considered SM/75/72 Revision 1, and decided that the Fund will be prepared to make resources available to assist members to meet the impact on the balance of payments in 1975 of the increases in costs of imports of petroleum and petroleum products that occurred in recent years. Requests for purchases under this decision will be met, if they are in accordance with the terms of this decision and with Paragraphs 2(a), 4, 5 and 6 of Decision No. 4241-(74/67).

(b) A member wishing to make a request under this decision shall submit, not later than the close of business on February 27, 1976, or such earlier date as the Fund may decide, a statement of its intention to make the request.

2. (a) The total of a member's outstanding purchases with respect to the increased cost of petroleum and petroleum products in 1975 shall not exceed the amount shown in the table in Attachment II,⁸ or the amount as recomputed with revised data on the basis of the formula set out in Attachment II.

(b) The total of a member's purchases outstanding under this decision shall not exceed 30 per cent of the amount referred to in paragraph 2(a) above as shown in the table in Attachment II prior to any increase that the Fund may adopt under paragraph 7.

3. On the request of a member, the Fund may make an appropriate adjustment in the amount referred to in paragraph 2(a) above if the Fund is satisfied that this amount should be higher because the member's imports of petroleum and petroleum products in 1972 or 1973 were abnormally low as the result of exceptional circumstances.

4. A member, when indicating its intention to request a purchase under the facility, shall describe its policies to achieve medium-term solutions to its balance of payments problems. Access to the facility will be subject to an assessment by the Fund of the adequacy of these policies. In addition, the member shall describe any measures to conserve oil or to develop alternative sources of energy that it has taken or proposes to take in the light of its economic situation.

5. Not earlier than April 1, 1976 the Fund, after consultation with a member, may recommend that the member make a repurchase with respect to purchases under this decision because its gross reserves at the end of 1975 exceed the level at the end of 1973 or 1974, whichever is the lower.

6. The Fund will levy charges on holdings of a member's currency resulting from purchases outstanding under this decision in accordance with Executive Board Decision No. 4637-(75/47), adopted April 4, 1975.

7. The Executive Directors intend to review this decision during July 1975 and at such other times as they may determine in order to decide whether changes should be made in this decision, including what further proportion of the amount referred to in paragraph 2(a) of this decision may be made available to members from time to time in light of the Fund's existing and prospective liquidity.

Decision No. 4634-(75/47)
April 4, 1975

H. Borrowing in Connection With the Oil Facility for 1975

1. The International Monetary Fund deems it appropriate in accordance with Article VII, Section 2(i) to replenish its holdings of currency by borrowing, in addition to the amounts committed during 1974 and still unused, amounts not

⁷ See *Annual Report, 1974*, pages 122-23.

⁸ Calculations of access by members to the oil facility for 1975.

in excess of the equivalent of SDR 5 billion to the extent that purchases are made under the facility established by Executive Board Decision No. 4241-(74/67),⁹ adopted June 13, 1974, as extended by Executive Board Decision No. 4634-(75/47), adopted April 4, 1975.

2. The provisions of Paragraphs 2, 3, 4, and 5 of Executive Board Decision No. 4242-(74/67)¹⁰ shall continue to apply except as modified by Paragraphs 3 and 4 below.

3. The following changes shall be made in the draft standard letter set out in the Annex to Decision No. 4242-(74/67):

- (a) In the preambular paragraph,
 - (i) reference shall be made to the 1975 decisions on the oil facility and borrowing for 1975;
 - (ii) the words "during the period ending December 31, 1975" shall be replaced by "during the period ending March 31, 1976."
- (b) In the first sentence of Paragraph 2(b) the words "two business days" shall be replaced by "three business days."
- (c) In Paragraph 4,
 - (i) the annual rate of interest of "seven per cent" shall be replaced by "seven and one-quarter per cent;"
 - (ii) the following sentence shall be added:

"No other fee, charge, or commission shall be paid to, or imposed by, [the lender] with respect to any aspect of a call under this agreement including a transfer or a conversion pursuant to a call under Paragraph 2(b)."

4. All unutilized balances under commitments agreed during 1974 shall be called before any calls are made under agreements made during 1975.

Decision No. 4635-(75/47)
April 4, 1975

I. Borrowing Agreements in Connection With Oil Facility: Payment of Interest

Executive Board Decision No. 4490-(74/140),¹¹ adopted November 6, 1974 shall be amended by including after the words "Executive Board Decision No. 4242-(74/67), adopted June 13, 1974" the words "and Executive Board Decision No. 4635-(75/47), adopted April 4, 1975."

Decision No. 4636-(75/47)
April 4, 1975

⁹ See *Annual Report, 1974*, pages 122-23.

¹⁰ *Ibid.*, pages 124-26.

¹¹ See page 92.

Appendix III

Press Communiqués of the Interim Committee and the Development Committee

Interim Committee of the Board of Governors on the International Monetary System

PRESS COMMUNIQUÉS

First Meeting, Washington, October 3, 1974

The Interim Committee of the Board of Governors on the International Monetary System held its inaugural meeting in Washington on October 3, 1974. The meeting was convened by Mr. Henri Konan Bédié, Chairman of the Board of Governors. Mr. John N. Turner, Minister of Finance of Canada, was selected as Chairman of the Committee for a period of two years. Mr. H. Johannes Witteveen, the Managing Director of the International Monetary Fund, participated in the meeting.

The members of the Committee had an exchange of views on the current situation and the prospects for the year ahead as it related to the business of the Committee.

The Committee reviewed the problem of recycling, and agreed to ask the Executive Directors to consider in this context, as a matter of urgency, the adequacy of existing private and official financing arrangements, and to report on the possible need for additional arrangements, including enlarged financing arrangements through the Fund, and to make proposals for dealing with the problem. The Committee also intends to discuss as a matter of priority the adjustment process, quotas in the Fund, and amendments of its Articles, including amendments on gold and the link, among other subjects.

The members of the Committee decided that their next meeting should take place on January 15–16, 1975, in Washington.

The terms of reference of the Committee are as follows:

“The Committee shall advise and report to the Board of Governors with respect to the functions of the Board of Governors in:

- (i) supervising the management and adaptation of the international monetary system, including the continuing operation of the adjustment process, and in this connection reviewing developments in global liquidity and the transfer of real resources to developing countries;
- (ii) considering proposals by the Executive Directors to amend the Articles of Agreement; and
- (iii) dealing with sudden disturbances that might threaten the system.

In addition, the Committee shall advise and report to the Board of Governors on any other matters on which the Board of Governors may seek the advice of the Committee.

In performing its duties, the Committee shall take account of the work of other bodies having specialized responsibilities in related fields.”

Second Meeting, Washington, January 15–16, 1975

1. The Interim Committee of the International Monetary Fund held its second meeting in Washington, D. C. on January 15 and 16, 1975. Mr. John N. Turner, Minister of Finance of Canada, was in the chair. Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, participated in the meeting. The following observers attended during the Committee’s discussions of the matters referred to in paragraphs 2, 3, and 4 below: Mr. Henri Konan Bédié, Chairman, Bank-Fund Development Committee; Mr. Gamani Corea, Secretary General, UNCTAD; Mr. Wilhelm Haferkamp, Vice President, EC Commission; Mr. Mahjoob A. Hassanain, Chief, Economics Department, OPEC; Mr. René Larre, General Manager, BIS; Mr. Emile van Lennep, Secretary General, OECD; Mr. Olivier Long, Director-General, GATT; Mr. Robert S. McNamara, President, IBRD.

2. The Committee discussed the world economic outlook and against this background the international adjustment process. Great concern was expressed about the depth and duration of the present recessionary conditions. It was urged that antirecessionary policies should be pursued while continuing to combat inflation, particularly by countries in a relatively strong balance of payments position. It was observed that very large disequilibria persist not only between major oil exporting countries as a group and all other countries but also among countries in the latter group, particularly between industrial and primary producing countries. Anxiety was also voiced that adequate financing might not become available to cover the very large aggregate current account deficits, of the order of US\$30 billion, in prospect for the developing countries other than major oil exporters in 1975.

3. The Committee agreed that the oil facility should be continued for 1975 on an enlarged basis. They urged the Managing Director to undertake as soon as possible discussions with major oil exporting members of the Fund, and with other members in strong reserve and payments positions, on loans by them for the purpose of financing the facility. The Committee agreed on a figure of SDR 5 billion as the total of loans to be sought for this purpose. It was also agreed that any unused portion of the loans negotiated in 1974 should be available in 1975. The Committee agreed that in view of the uncertainties inherent in present world economic conditions, it was necessary to keep the operation of the oil facility under constant review so as to be able to take whatever further action might be necessary in the best interests of the international community. It was also understood that during the coming months it would be useful to review the policies, practices, and resources of the Fund, since it would be appropriate to make increased use of the Fund’s ordinary holdings of currency to meet the needs of members that were encountering difficulties.

4. The Committee emphasized the need for decisive action to help the most seriously affected developing countries. In connection with the oil facility, the Committee fully endorsed the recommendation of the Managing Director that a special account should be established with appropriate contributions by oil exporting and industrial countries, and possibly by other members capable of contributing, and that the Fund should administer this account in order to reduce for the most seriously affected members the burden of interest payable by them under the oil facility.

5. The Committee considered questions relating to the sixth general review of the quotas of members, which is now under way, and agreed, subject to satis-

factory amendment of the Articles, that the total of present quotas should be increased by 32.5 per cent and rounded up to SDR 39 billion. It was understood that the period for the next general review of quotas would be reduced from five years to three years. The Committee also agreed that the quotas of the major oil exporters should be substantially increased by doubling their share as a group in the enlarged Fund, and that the collective share of all other developing countries should not be allowed to fall below its present level. There was a consensus that because an important purpose of increases in quotas was strengthening the Fund's liquidity, arrangements should be made under which all the Fund's holdings of currency would be usable in accordance with its policies. The Committee invited the Executive Directors to examine quotas on the basis of the foregoing understandings, and to make specific recommendations as promptly as possible on increases in the quotas of individual member countries.

6. I. The Committee considered the question of amendment of the Articles of Agreement of the Fund. It was agreed that the Executive Directors should be asked to continue their work on this subject and, as soon as possible, submit for consideration by the Committee draft amendments on the following subjects:

(a) The transformation of the Interim Committee into a permanent Council at an appropriate time, in which each member would be able to cast the votes of the countries in his constituency separately. The Council would have decision-making authority under powers delegated to it by the Board of Governors.

(b) Improvements in the General Account, which would include (i) elimination of the obligation of member countries to use gold to make such payments to the Fund as quota subscriptions and repurchases and the determination of the media of payment, which the Executive Directors would study, and (ii) arrangements to ensure that the Fund's holdings of all currencies would be usable in its operations under satisfactory safeguards for all members.

(c) Improvements in the characteristics of the SDR designed to promote the objective of making it the principal reserve asset of the international monetary system.

(d) Provision for stable but adjustable par values and the floating of currencies in particular situations, subject to appropriate rules and surveillance of the Fund, in accordance with the Outline of Reform.

II. The Committee also discussed a possible amendment that would establish a link between allocations of SDRs and development finance, but there continues to be a diversity of views on this matter. It was agreed to keep the matter under active study, but at the same time to consider other ways for increasing the transfer of real resources to developing countries.

7. The Committee also agreed that the Executive Directors should be asked to consider possible improvements in the Fund's facilities on the compensatory financing of export fluctuations and the stabilization of prices of primary products and to study the possibility of an amendment of the Articles of Agreement that would permit the Fund to provide assistance directly to international buffer stocks of primary products.

8. There was an intensive discussion of future arrangements for gold. The Committee reaffirmed that steps should be taken as soon as possible to give the special drawing right the central place in the international monetary system. It was generally agreed that the official price for gold should be abolished and obligatory payments of gold by member countries to the Fund should be eliminated. Much progress was made in moving toward a complete set of agreed amendments on gold, including the abolition of the official price and freedom for national monetary authorities to enter into gold transactions under certain specific arrangements, outside the Articles of the Fund, entered into between national monetary authorities in order to ensure that the role of gold in the international monetary system

would be gradually reduced. It is expected that after further study by the Executive Directors, in which the interests of all member countries would be taken into account, full agreement can be reached in the near future so that it would be possible to combine these amendments with the package of amendments as described in paragraphs 6 and 7 above.

9. The Committee agreed to meet again in the early part of June 1975 in Paris, France.

Third Meeting, Paris, June 10–11, 1975

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its third meeting in Paris on June 10 and 11, 1975 under the chairmanship of Mr. John N. Turner, Minister of Finance of Canada. Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, participated in the meeting. The following observers attended during the Committee's discussions: Mr. Henri Konan Bédié, Chairman, Bank-Fund Development Committee; Mr. Gamani Corea, Secretary General, UNCTAD; Mr. Wilhelm Haferkamp, Vice President, EC Commission; Mr. Bahman Karbassioun, Advisor to the Secretary-General of OPEC; Mr. René Larre, General Manager, BIS; Mr. Emile van Lennep, Secretary General, OECD; Mr. F. Leutwiler, President, National Bank of Switzerland; Mr. Olivier Long, Director-General, GATT; Mr. Robert S. McNamara, President, IBRD.

2. The Committee received opinions, including that of the Managing Director, on the world economic outlook and its implications for the management of domestic policies and international financial relationships. The Committee agreed that external financing would remain for some time a critical problem for a number of countries and that its solution would require both maximum efforts on the part of such countries to enhance their creditworthiness and cooperative efforts in capital exporting countries to encourage the needed flows of financial resources.

3. The Committee noted that, in accordance with the consensus reached in the Committee at its January meeting, the Executive Directors of the Fund have decided to continue in 1975 the Fund's oil facility and that in order to finance purchases under that facility, loans for substantial amounts have already been arranged with several oil exporting members and a number of other members in strong external positions. The Committee noted that negotiations would be continued in order to complete arrangements for the financing of the oil facility. The Committee welcomed the progress that has been made toward the establishment of a subsidy account to assist the members of the Fund most seriously affected by current conditions to meet the cost of using resources made available to them through the oil facility. The Committee welcomes the support pledged so far and urges other members to take similar action so that the account can be established as soon as possible. The Committee endorsed the decision of the Executive Directors to review all aspects of the facility in July 1975.

4. The Committee held a detailed discussion of the role of gold and there was widespread agreement that a solution would have to be based on the following broad principles:

(i) The objective should be an enhancement in the role of the SDR as the central asset in the international monetary system and, consequently, a reduction of the role of gold.

(ii) The official price of gold should be abolished.

(iii) Obligations to use gold in payments between the Fund and members should be abrogated.

(iv) There should be the sale of a portion of the Fund's gold at the approxi-

mate market price for the benefit of developing members in general, and particularly those with low income, and the sale of another portion to members at the present official price.

(v) With respect to the rest of the Fund's gold, there should be a range of broad enabling powers, exercisable with a high majority.

(vi) A reasonable formula should be found for understandings on transactions by monetary authorities with each other and in the market, which would include understandings that would be designed to avoid the re-establishment of an official price and would deal with the volume of gold held by monetary authorities.

(vii) An appropriate formula should be found for collaboration with the Fund in connection with the understandings among monetary authorities. Some countries felt that this collaboration should relate also to the reduction of the role of reserve currencies in the international monetary system.

The Committee was of the view that the Executive Directors should be asked to study the question of gold further in order that a final agreement can be reached on the basis of these principles.

The Executive Directors should study the establishment of a gold substitution account through which members would be able to exchange a part or all of their gold holdings for SDRs issued by the Fund for this purpose.

5. The Committee also discussed the exchange arrangements that members of the Fund should observe. There was widespread agreement that members should have a basic obligation to collaborate with the Fund and with other members in order to promote exchange stability, to maintain orderly exchange arrangements, and to pursue exchange policies that contribute to adjustment, and that the Fund should adopt policies in order to enable members to act consistently with their basic obligations whatever their exchange arrangements might be. The Committee reiterated its agreement that provision should be made for stable but adjustable par values and the floating of currencies in particular situations, subject to appropriate rules and surveillance of the Fund, in accordance with the Outline of Reform.

6. The Committee endorsed the principle of the improvement of the Special Drawing Account and the General Account and agreed that the Executive Directors should be asked to find agreed solutions on the few remaining issues. The Committee attached particular importance to the inclusion of effective provisions in the amended Articles under which the Fund's holdings of the currencies of all members would be usable, in accordance with appropriate economic criteria, in its standard operations and transactions. It was agreed that the Executive Directors should study a power to invest a part of the Fund's assets equal to its reserves for the purpose of raising income that would enable it to meet any administrative or operational deficits, and to report on this subject as soon as possible.

7. (a) It was agreed that a Council should come into being when a decision is taken by the Fund for that purpose under an appropriate amendment. The Council would strengthen the Fund by providing it with an organ composed in the same manner as the Committee of Twenty and the Interim Committee but with authority not only to exercise advisory functions but also to take decisions under specific powers. The Committee shares the view of the Executive Directors that, except for a few powers of a political or structural character that should be reserved to the Board of Governors, all powers of the Board of Governors should be delegable in principle to the Council, to the Executive Directors, or to both concurrently, by decisions of the Board of Governors.

(b) On the question of the majorities for the adoption of decisions of the Fund on important matters, it was agreed that an 85 per cent majority should be required under the amended Articles for those decisions that can be taken now by an 80 per cent majority.

(c) The Committee noted with approval the draft of an amendment by which amendments to the Articles would become effective when accepted by three fifths of the members having 85 per cent, instead of 80 per cent as at present, of the total voting power.

8. The Committee considered various proposals to assist members in dealing with problems arising from sharp fluctuations in the prices of primary products. In this connection, the Committee requested the Executive Directors to consider appropriate modifications of the Fund's facilities on the compensatory financing of export fluctuations and on assistance to members in connection with their contributions to international buffer stocks. It was agreed that, after amendment, a member using the Fund's buffer stock facility would be able to retain any portion of its reserves held in the form of a reserve position in the Fund; this provision now applies to drawings under the Fund's compensatory financing facility.

9. The Committee considered the report of the Executive Directors on the progress made toward implementation of the understandings reached in the Committee last January with regard to increases in the quotas of members as a result of the Sixth General Review of Quotas. The Committee noted with satisfaction that progress had been made in reaching agreement on quota increases to be proposed for individual countries. The Committee agreed that for the quota increases proposed as a result of this review, and subject to the amendment of the Articles, members should be given an option to pay 25 per cent of the increase in quota (which in the past members have had to pay in gold) in special drawing rights (SDRs), the currencies of certain other members, subject to their concurrence, or in the paying member's own currency. The question of payment in gold by agreement with the Fund would be settled as part of the provisions on gold. The balance of the increase in subscription would be paid, as in the past, in the paying member's own currency. The Committee also recommended that there should be no obligation for a member to repurchase the amount of its own currency paid in excess of 75 per cent of the increase in its quota. The Executive Directors have been asked to prepare and submit as promptly as possible to the Board of Governors, for consideration at its annual meeting in September 1975, a resolution that will include proposed increases in the quotas of individual members and provisions on the payment of corresponding subscriptions on the basis of the understandings reached by the Committee.

10. The Committee agreed to meet again in Washington, D.C., immediately before the annual meeting of the Board of Governors. The Committee agreed to meet in Jamaica in January and expressed its gratitude to the Jamaican authorities for the invitation.

**Joint Ministerial Committee of the Boards of Governors
of the Bank and the Fund on the Transfer of Real Resources
to Developing Countries (Development Committee)**

PRESS COMMUNIQUÉS

First Meeting, Washington, October 2, 1974

The Ministers of the Committee of Twenty on the Reform of the International Monetary System and Related Issues recommended at their meeting in June 1974 the establishment of a joint ministerial committee of the Fund and World Bank to carry forward the study of the broad question of the transfer of real resources to developing countries, and to recommend measures to be adopted in order to implement its conclusions. The Ministers further recommended that the joint ministerial committee should also give urgent attention to the problems of the developing countries most seriously affected by exceptional balance of payments difficulties in the current situation, bearing in mind the need for coordination with other international bodies. The Development Committee held its first meeting today.

Mr. Henri Konan Bédié, Governor from Ivory Coast, was elected Chairman. The Managing Director of the Fund and the President of the Bank participated in the meeting.

It was agreed that the immediate focus of the Committee's work would be on the analysis of the situation of the most seriously affected developing and the least developed countries, and of measures to adjust to the new outlook for international commodity prices. Additional topics for the Committee's consideration over the longer term were discussed, and the Executive Secretary who will be appointed shortly¹ will be asked to prepare a recommendation for a detailed work program.

Second Meeting, Washington, January 17, 1975

1. The Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (the Development Committee) held its second meeting in Washington on January 17, 1975, under the Chairmanship of Mr. Henri Konan Bédié, Minister of Economy and Finance for Ivory Coast. The meeting was held in the headquarters building of the Pan American Health Organization. Mr. Robert S. McNamara, President of the International Bank for Reconstruction and Development, and Mr. Johannes Witteveen, Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by Mr. Abdelwahab Labidi, President of the African Development Bank, Mr. Shiro Inoue, President of the Asian Development Bank, Mr. M. G. Mathur, Deputy Director-General of the GATT, Mr. Antonio Ortiz Mena, President of the Inter-American Development Bank, Mr. E. van Lennep, Secretary General of the OECD, Mr. Maurice Williams, Chairman of the DAC, Mr. Mahjoob Hassanain, Director of the Economics Department of OPEC, Mr. Gabriel van Laethem, Under Secretary General of the United Nations, and Dr. Raúl Prebisch, Under Secretary General of the United Nations Emergency Operation, Mr. Gamani Corea, Secretary General of UNCTAD, and Ambassador Paul Jolles of Switzerland.

2. The Committee received several reports presented by the Executive Secretary, Mr. Henry J. Costanzo, on the initial work program adopted at the inaugural meeting, related to the situation of the most seriously affected developing countries, measures to adjust to the new outlook in commodity prices, and the future work program of the Committee.

¹ At its second session on October 3, 1974, the Committee selected Mr. Henry J. Costanzo as Executive Secretary.

3. The members of the Committee engaged in a general exchange of views regarding the present situation and prospects of the developing countries. Members noted that many developing countries found themselves in serious difficulties as a result of substantial adverse changes in their terms of trade and an inadequate flow of external capital and were being forced to take adjustment measures in many cases harmful to their long-term economic and social development. The members recognized that this situation was likely to continue in the immediate future, and expressed their particular concern over the pressing difficulties in prospect for the poorest, and the most seriously affected of the developing countries.

The Committee agreed that the industrialized countries should seek to adopt such adjustment measures considered necessary in their circumstances in such a way as to avoid any reduction in the net flow of real resources to the developing countries, seeking to improve the conditions under which developing countries and international development finance institutions may have access to their capital markets, and to improve the real volume and the quality of official development assistance provided to the developing countries and should avoid trade restrictions that could negatively affect developing countries' exports. The Committee also noted the importance of continued and expanded cooperation, particularly in the transfer of technology and management skills, between the industrialized and surplus oil-producing countries, in order to promote the development of the latter countries and thereby to assist the overall long-range adjustment process and also in order to promote the development of other developing countries.

The Committee recognized the important and increasing flow of resources being made available by the surplus oil-producing countries to the developing countries and to the international financial institutions. In welcoming such interest and participation on the part of these countries, the Committee agreed that these countries should seek to continue and expand this flow of resources, in accordance with their financial capacity to do so.

4. The Committee agreed that the situation of the most seriously affected countries requires urgent treatment, and that measures should be taken to cover the short-term requirements created by the present international situation. In this context, the Committee welcomed the action taken by the Interim Committee with respect to a continuation and expansion of an oil facility in the Fund and the establishment of a special account in order to reduce for the most seriously affected members the burden of interest payable by them. The Committee also reviewed several additional possible courses of action. It was agreed that the Executive Boards of the Bank and the Fund should be invited to study the desirability of creating a special trust fund that would provide, for the period immediately ahead, additional highly concessional resources to meet the requirements of the most seriously affected countries, and the possible modalities of such a fund.

5. The Committee invited the Executive Board of the Bank to undertake an immediate study of the concept of "third window" lending by the Bank on terms intermediate between those of the Bank's regular loans and those of IDA's concessional credits. The Committee welcomed the willingness expressed by some members to support and to provide financial resources for such a facility.

6. For its immediate work program, the Committee instructed the Secretariat to propose such measures as might be considered for early implementation to promote increased use of capital markets by developing countries, and to facilitate their access to such markets; to report to the Committee on an appropriate work program in response to the conclusions of the recent World Food Conference on the financing of food, fertilizer, and food production; and to review the adequacy of existing information systems on the flow of resources to the developing countries.

7. The Committee also agreed that the future work of the Committee should focus on the basic long-term needs of the developing countries and, in this connec-

tion, welcomed the intention of the President of the Bank to initiate urgently a study of the capital requirements of developing countries to maintain a reasonable rate of growth in per capita income for the remainder of the decade. The Committee instructed the Executive Secretary to initiate a broad and continuing review of the question of the transfer of real resources, using as a basis the work of the Committee of Twenty and taking into account the conclusions of the Bank's study, in order to formulate recommendations as to how the required transfers of real resources might be met through existing or new financial mechanisms and arrangements, including arrangements for commodity price stabilization. The Committee welcomed the study to be undertaken by the Executive Directors of the Fund, as agreed by the Interim Committee, on the Fund's facilities for compensatory financing and assistance to international buffer stocks of primary products.

8. The Committee was glad to note the announcements made at the meeting of actions which permit the full effectiveness of the IDA 4th replenishment, and urged sympathetic consideration of the proposals recently put forward by the IBRD for an increased program of normal Bank lending.

9. The Committee agreed to hold its next meeting in Paris during the first part of June 1975.

Third Meeting, Paris, June 12–13, 1975

The Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (the Development Committee) held its third meeting in Paris on June 12–13, 1975, under the chairmanship of Mr. Henri Konan Bédié, Minister of Economy and Finance for Ivory Coast. The meeting was held in the Centre de Conférences Internationales. Mr. Robert S. McNamara, President of the International Bank for Reconstruction and Development, Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, and Mr. Henry J. Costanzo, Executive Secretary of the Development Committee, took part in the meeting, which was also attended by the following observers: Mr. Abdelwahab Labidi, President of the African Development Bank; Mr. Chedly Ayari, President of the Arab Bank for Economic Development in Africa; Mr. Saeb Jaroudi, President of the Arab Fund for Economic and Social Development; Mr. Shiro Inoue, President of the Asian Development Bank; Mr. Claude Cheysson, Member of the Commission of the European Communities; Mr. Maurice Williams, Chairman of the Development Assistance Committee; Mr. Yves Le Portz, President of the European Investment Bank; Mr. M. G. Mathur, Deputy Director-General of the GATT; Mr. Antonio Ortiz Mena, President of the Inter-American Development Bank; Mr. E. van Lennep, Secretary General of the OECD; Mr. Gabriel van Laethem, Under Secretary General of the United Nations; Mr. Gamani Corea, Secretary General of UNCTAD; and Ambassador Paul Jolles of Switzerland.

The Committee reviewed the present situation and the medium and long-term prospects of the developing countries, in the context of analyses prepared by the IMF on the short-term balance of payments outlook of developing countries, and a World Bank study on the capital requirements of developing countries to the end of this decade. The Committee noted with concern the continued deterioration of the position of most of the developing countries. The Committee broadly endorsed the conclusion of the World Bank study that, if the developing countries are to achieve adequate growth rates in the remaining years of the decade, they will require substantial increases in capital flows, both official and private, and that among other things they will have to undertake at the same time efforts to increase domestic resource mobilization and to expand exports. In particular, the Committee felt that the low-income countries faced a very difficult prospect and recommended that their requirements for concessional assistance should be

met on a priority basis. The Committee agreed with the conclusions of the Bank study about the substantial additional requirements for external capital of the middle and high-income developing countries. Noting the conclusions of the IMF study that the balance of payments needs of the most seriously affected countries would continue to be large in 1975 and 1976, the Committee recommended urgent steps to meet these needs through existing and new mechanisms.

In the light of this situation, the Committee re-emphasized the urgency of improving the real volume and quality of official development assistance, both bilateral and multilateral, and reviewing its distribution with a view to improving the share for the poorer countries, and reaffirmed their commitment to support steps toward these ends in both the industrial and the surplus oil-producing countries. The Committee welcomed the decisions of some of its members to expand the volume and improve the quality of their assistance, but noted that the existing quantum of aid was still far below the 0.7 per cent of GNP target for the middle of the Second Development Decade. In this connection, the Committee noted that negotiations for the IDA 5th replenishment were scheduled to start later this year. In view of the requirement for additional capital by IDA recipients, it was agreed that a replenishment providing for an expansion in real terms would be most helpful.

The Committee agreed that in order to help achieve acceptable rates of growth for developing countries, there should be an expansion of the lending programs of the World Bank and the regional development banks, consistent with their capital structure and the availability of funds. The Committee urged that the capital base of the development finance institutions be reviewed.

In response to the serious difficulties faced by the developing countries, the Committee, as a first concrete step, decided to lend its unanimous support to the establishment for one year of a new intermediate lending facility in the World Bank (known as the "third window") to lend on terms intermediate between those of IDA and of the World Bank. It further decided to urge the World Bank to proceed with its establishment in the fiscal year beginning July 1, 1975, in order to lend to the developing countries in that year up to \$1 billion in assistance separate from other Bank operations. Since these funds will be limited, there will be need for eligibility criteria which will favor the developing countries with an annual per capita income of less than \$375, but it was recognized that there was need to have some flexibility in the matter of the upper limit of the criteria. It was pointed out that the third window operations could also have some redistributive effect on other Bank Group financing, to both the poorest and the middle and higher-income developing countries. The Committee noted with satisfaction that 11 countries had offered contributions towards an interest subsidy fund from amongst industrial and oil-exporting countries. Some other countries indicated their likely support to this cooperative effort by some industrial and oil-exporting countries, in a multilateral framework, for the assistance of the developing countries in the present difficult situation but suggested some alternative ways of financing.

The Committee considered the report of the Executive Boards of the IBRD and IMF on proposals to create a special trust fund to be administered by the IMF to provide additional highly concessional resources to meet the balance of payments needs of low-income developing countries for the next few years. Some members of the Committee felt there was an urgent need for establishing such a fund as soon as possible. In order to facilitate early concrete action on a trust fund, the Committee agreed to urge the Executive Directors of the IMF to consider all aspects of the establishment of such a trust fund as well as to continue their study of all possible sources of financing.

It was appreciated that the magnitude of the flow of resources required by the developing countries was such that private capital flows must continue to play a substantial role in helping to meet the overall capital needs for development. The Committee noted the importance of measures to facilitate and expand the access of developing countries to capital markets and recommended expanded technical assistance to developing countries seeking such access. The Committee agreed to establish a working group to make a review of regulatory and other constraints affecting access to capital markets, and also to study further proposals to support developing countries' access to private markets, including the use of multilateral guarantees. The Working Group should present a status report on progress at the next Committee meeting.

The Committee recognized that fluctuations in the prices and earnings of commodities which account for a major portion of the exports of developing countries can present severe problems to these countries both in their balance of payments and in the maintenance of development expenditures and investment levels. The Committee recognized the need for effective measures to reduce such fluctuations, which could make a significant contribution to development efforts. The Committee noted measures recently taken and others under consideration to help moderate fluctuations in commodity prices or export earnings including proposals to negotiate appropriate agreements. Many members urged the Bank, and the regional organizations, to study ways and means of assisting in the financing of commodity stabilization schemes, including buffer stock arrangements. Many members also expressed strong support for the Bank's proposal to consider providing financing to the tin buffer stock. The Committee welcomed the request of the Interim Committee to the Executive Directors of the IMF to consider appropriate modifications in the terms of its compensatory financing facility and its buffer stock facility.

The Committee also noted that appropriate trade liberalization policies could provide very substantial benefits to the developing countries and expressed its earnest hope for maximum progress in trade liberalization during the ongoing multilateral trade negotiations.

The Committee took note of new institutional arrangements established as a result of the World Food Conference as well as of initial steps toward creation of the proposed International Fund for Agricultural Development.

It was agreed that the next meeting of the Committee would be held in Washington, D.C., in the first week of September, during the Annual Meetings of the Boards of Governors of the Bank and the Fund. It was also agreed to meet in January 1976, in Jamaica, in conjunction with the meeting of the Interim Committee.

Appendix IV

Executive Directors and Voting Power

on April 30, 1975

Director Alternate	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						
Sam Y. Cross <i>Charles R. Harley</i>	United States	67,250	67,250	21.40	67,250	21.87
Anthony K. Rawlinson <i>Peter J. Bull</i>	United Kingdom	28,250	28,250	8.99	28,250	9.19
Eckard Pieske <i>Gerhard Laske</i>	Germany, Fed. Rep. of	16,250	16,250	5.17	16,250	5.29
Jacques Henri Wahl <i>Gérard de Margerie</i>	France	15,250	15,250	4.85	15,250	4.96
Kaichi Kawaguchi <i>Mikio Wakatsuki</i>	Japan	12,250	12,250	3.90	12,250	3.98
ELECTED						
Francesco Palamenghi-Crispi (Italy) <i>José Luis Mora (Spain)</i>	Italy Malta *Portugal Spain	10,250 410 1,420 4,200	16,280	5.18	14,860	4.83
Bernard J. Drabble (Canada) <i>George Reynolds (Ireland)</i>	Bahamas Barbados Canada Ireland Jamaica	450 380 11,250 1,460 780	14,320	4.56	14,320	4.66
Pieter Liefstinck (Netherlands) <i>Tom de Vries (Netherlands)</i>	Cyprus Israel Netherlands Romania Yugoslavia	510 1,550 7,250 2,150 2,320	13,780	4.39	13,780	4.48
Nazih Ahmed Deif (Egypt) <i>Mohamed Finaish (Libyan Arab Republic)</i>	Bahrain Egypt Iraq Jordan *Kuwait *Lebanon *Libyan Arab Rep. Pakistan *Qatar *Saudi Arabia Somalia Syrian Arab Rep. *United Arab Emirates Yemen Arab Rep.	350 2,130 1,340 480 900 340 490 2,600 450 1,590 440 750 400 350	12,610	4.01	8,440	2.75

APPENDIX IV (continued). EXECUTIVE DIRECTORS AND VOTING POWER

Director Alternate	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)						
P. S. N. Prasad (India) <i>W. M. Tilakaratna (Sri Lanka)</i>	Bangladesh India Sri Lanka	1,500 9,650 1,230	12,380	3.94	12,380	4.03
Jacques de Groote (Belgium) <i>Heinrich G. Schneider (Austria)</i>	Austria Belgium Luxembourg Turkey	2,950 6,750 450 1,760	11,910	3.79	11,910	3.87
Per Åsbrink (Sweden) <i>Jørn H. Kjaer (Denmark)</i>	Denmark Finland Iceland Norway Sweden	2,850 2,150 480 2,650 3,500	11,630	3.70	11,630	3.78
Byanti Kharmawan (Indonesia) <i>Maung Shein (Burma)</i>	Burma Fiji Indonesia Khmer Rep. Korea Laos Malaysia Nepal *Singapore Thailand Viet-Nam	850 380 2,850 500 1,050 380 2,110 374 620 1,590 870	11,574	3.68	10,954	3.56
R. J. Whitelaw (Australia) <i>R. S. Deane (New Zealand)</i>	Australia New Zealand Philippines Western Samoa	6,900 2,270 1,800 270	11,240	3.58	11,240	3.66
Horace R. Monday, Jr. (The Gambia) <i>J. B. Zulu (Zambia)</i>	Botswana Burundi *Ethiopia Gambia, The Guinea Kenya Lesotho Liberia Malawi Nigeria Sierra Leone Sudan Swaziland Tanzania Trinidad and Tobago Uganda Zambia	300 440 520 320 490 730 300 540 400 1,600 500 970 330 670 880 650 1,010	10,650	3.39	10,130	3.29
Francisco Suárez (Mexico) <i>Roberto Guarnieri (Venezuela)</i>	Costa Rica El Salvador Guatemala Honduras Mexico Nicaragua Venezuela	570 600 610 500 3,950 520 3,550	10,300	3.28	10,300	3.35
Alexandre Kafka (Brazil) <i>Clovis L. A. Albuquerque (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 IV (concluded). EXECUTIVE DIRECTORS AND VOTING POWER

Director Alternate	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)						
Jahangir Amuzegar (Iran) Costa P. Caranicas (Greece)	Afghanistan Algeria Ghana Greece Iran Morocco Oman Tunisia Yemen, People's Dem. Rep. of	620 1,550 1,120 1,630 2,170 1,380 320 730 540	10,060	3.20	10,060	3.27
Roberto Gavalda (Argentina) José Luis Zabala (Chile)	Argentina Bolivia Chile Ecuador Paraguay Uruguay	4,650 620 1,830 580 440 940	9,060	2.88	9,060	2.95
Antoine W. Yaméogo (Upper Volta) Samuel Nana-Sinkam (Cameroon)	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	2.87	9,020	2.93
			314,194 ²	100.00	307,464 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 and South Africa, which did not participate in the 1974 Regular Election of Executive Directors.

Appendix V

Changes in Membership of Executive Board

Changes in the membership of the Executive Board between May 1, 1974 and April 30, 1975 were as follows:

Sam Y. Cross (United States) was appointed Executive Director by the United States, effective May 3, 1974.

Charles R. Harley (United States), formerly Alternate Executive Director to William B. Dale (United States), was appointed Alternate Executive Director to Sam Y. Cross (United States), effective May 3, 1974.

Claude Beaurain (France) resigned as Alternate Executive Director to Jacques Henri Wahl (France), effective July 31, 1974.

G rard de Margerie (France) was appointed Alternate Executive Director to Jacques Henri Wahl (France), effective August 1, 1974.

Robert Bryce (Canada) completed his term of service as Executive Director for Barbados, Canada, Ireland, and Jamaica, effective October 31, 1974.

Guillermo Bueso (Honduras) completed his term of service as Executive Director for Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Venezuela, effective October 31, 1974.

Nguy n Huu Hanh (Viet-Nam) completed his term of service as Alternate Executive Director to Byanti Kharmawan (Indonesia), effective October 31, 1974.

Carlos Massad A. (Chile) completed his term of service as Executive Director for Argentina, Bolivia, Chile, Ecuador, Paraguay, and Uruguay, effective October 31, 1974.

Ricardo H. Arriazu (Argentina) completed his term of service as Alternate Executive Director to Carlos Massad A. (Chile), effective October 31, 1974.

S. B. Nicol-Cole (Sierra Leone) completed his term of service as Executive Director for Botswana, Burundi, Ethiopia, The Gambia, Guinea, Kenya, Lesotho, Liberia, Malawi, Nigeria, Sierra Leone, the Sudan, Tanzania, Trinidad and Tobago, Uganda, and Zambia, effective October 31, 1974.

Robert van S. Smit (South Africa) completed his term of service as Alternate Executive Director to Lindsay B. Brand (Australia), effective October 31, 1974.

Jahangir Amuzegar (Iran), formerly Executive Director for Algeria, Ghana, Greece, Iran, Morocco, Tunisia, and the People's Democratic Republic of Yemen, was elected Executive Director by Afghanistan, Algeria, Ghana, Greece, Iran, Morocco, Oman, Tunisia, and the People's Democratic Republic of Yemen, effective November 1, 1974.

Costa P. Caranicas (Greece) was reappointed Alternate Executive Director to Jahangir Amuzegar (Iran), effective November 1, 1974.

Per Åsbrink (Sweden) was re-elected Executive Director by Denmark, Finland, Iceland, Norway, and Sweden, effective November 1, 1974.

Knut J. M. Andreassen (Norway) was reappointed Alternate Executive Director to Per Åsbrink (Sweden), effective November 1, 1974. He resigned, effective February 28, 1975.

Lindsay B. Brand (Australia), formerly Executive Director for Australia, New Zealand, South Africa, Swaziland, and Western Samoa, was elected Executive Director by Australia, New Zealand, the Philippines, and Western Samoa, effective November 1, 1974. He resigned, effective April 13, 1975.

R. S. Deane (New Zealand) was appointed Alternate Executive Director to Lindsay B. Brand (Australia), effective November 1, 1974. He was appointed Alternate Executive Director to R. J. Whitelaw (Australia), effective April 14, 1975.

Nazih Ahmed Deif (Egypt), formerly Executive Director for 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, was elected Executive Director by Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, the Libyan Arab Republic, Pakistan, Qatar, Saudi Arabia, Somalia, the Syrian Arab Republic, the United Arab Emirates, and the Yemen Arab Republic, effective November 1, 1974.

Mohamed Finaish (Libyan Arab Republic) was reappointed Alternate Executive Director to Nazih Ahmed Deif (Egypt), effective November 1, 1974.

Bernard J. Drabble (Canada) was elected Executive Director by the Bahamas, Barbados, Canada, Ireland, and Jamaica, effective November 1, 1974.

George Reynolds (Ireland), formerly Alternate Executive Director to Robert Bryce (Canada), was appointed Alternate Executive Director to Bernard J. Drabble (Canada), effective November 1, 1974.

Jacques de Groote (Belgium) was re-elected Executive Director by Austria, Belgium, Luxembourg, and Turkey, effective November 1, 1974.

Heinrich G. Schneider (Austria) was reappointed Alternate Executive Director to Jacques de Groote (Belgium), effective November 1, 1974.

Roberto Gavaldá (Argentina) was elected Executive Director by Argentina, Bolivia, Chile, Ecuador, Paraguay, and Uruguay, effective November 1, 1974.

José Luis Zabala (Chile) was appointed Alternate Executive Director to Roberto Gavaldá (Argentina), effective November 1, 1974.

Alexandre Kafka (Brazil) was re-elected Executive Director by Brazil, Colombia, the Dominican Republic, Guyana, Haiti, Panama, and Peru, effective November 1, 1974.

Byanti Kharmawan (Indonesia), formerly Executive Director for Burma, Fiji, Indonesia, the Khmer Republic, Korea, Laos, Malaysia, Nepal, the Philippines, Singapore, Thailand, and Viet-Nam, was elected Executive Director by Burma, Fiji, Indonesia, the Khmer Republic, Korea, Laos, Malaysia, Nepal, Singapore, Thailand, and Viet-Nam, effective November 1, 1974.

Maung Shein (Burma) was appointed Alternate Executive Director to Byanti Kharmawan (Indonesia), effective November 1, 1974.

Pieter Lieftinck (Netherlands), formerly Executive Director for Cyprus, Israel, the Netherlands, and Yugoslavia, was elected Executive Director by Cyprus, Israel, the Netherlands, Romania, and Yugoslavia, effective November 1, 1974.

Tom de Vries (Netherlands) was reappointed Alternate Executive Director to Pieter Lieftinck (Netherlands), effective November 1, 1974.

Horace R. Monday, Jr. (The Gambia), formerly Alternate Executive Director to S. B. Nicol-Cole (Sierra Leone), was elected Executive Director by Botswana, Burundi, Ethiopia, The Gambia, Guinea, Kenya, Lesotho, Liberia, Malawi, Nigeria, Sierra Leone, the Sudan, Swaziland, Tanzania, Trinidad and Tobago, Uganda, and Zambia, effective November 1, 1974.

J. B. Zulu (Zambia) was appointed Alternate Executive Director to Horace R. Monday, Jr. (The Gambia), effective November 1, 1974.

Francesco Palamenghi-Crispi (Italy) was re-elected Executive Director by Italy, Malta, Portugal, and Spain, effective November 1, 1974.

José Luis Mora (Spain) was reappointed Alternate Executive Director to Francesco Palamenghi-Crispi (Italy), effective November 1, 1974.

P. S. N. Prasad (India) was re-elected Executive Director by Bangladesh, India, and Sri Lanka, effective November 1, 1974.

W. M. Tilakaratna (Sri Lanka) was reappointed Alternate Executive Director to P. S. N. Prasad (India), effective November 1, 1974.

Francisco Suárez (Mexico), formerly Alternate Executive Director to Guillermo Bueso (Honduras), was elected Executive Director by Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Venezuela, effective November 1, 1974.

Roberto Guarnieri (Venezuela) was appointed Alternate Executive Director to Francisco Suárez (Mexico), effective November 1, 1974.

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, 1974.

Samuel Nana-Sinkam (Cameroon) was reappointed Alternate Executive Director to Antoine W. Yaméogo (Upper Volta), effective November 1, 1974.

Basilio Martins (Brazil) resigned as Alternate Executive Director to Alexandre Kafka (Brazil), effective November 6, 1974.

Clovis L. A. Albuquerque (Brazil) was appointed Alternate Executive Director to Alexandre Kafka (Brazil), effective November 11, 1974.

Guenther Schleiminger (Germany, Fed. Rep. of) resigned as Executive Director for the Federal Republic of Germany, effective December 31, 1974.

Lore Fuenfgelt (Germany, Fed. Rep. of) resigned as Alternate Executive Director to Guenther Schleiminger (Germany, Fed. Rep. of), effective December 31, 1974.

Eckard Pieske (Germany, Fed. Rep. of) was appointed Executive Director by the Federal Republic of Germany, effective January 1, 1975.

Gerhard Laske (Germany, Fed. Rep. of) was appointed Alternate Executive Director to Eckard Pieske (Germany, Fed. Rep. of), effective January 1, 1975.

Jørn H. Kjaer (Denmark) was appointed Alternate Executive Director to Per Asbrink (Sweden), effective March 1, 1975.

R. J. Whitelaw (Australia) was elected Executive Director by Australia, New Zealand, the Philippines, and Western Samoa, effective April 14, 1975.

The following served at certain times during 1974/75 as Temporary Alternate Executive Directors to the Executive Directors indicated:

Temporary Alternate Executive Director	Executive Director for whom Temporary Alternate Served
Miss Lucia Avetikian (Chile)	Carlos Massad A. (Chile)
Eimar Avillez (Brazil)	Alexandre Kafka (Brazil)
Miss C. J. Batliwalla (India)	P. S. N. Prasad (India)
Angel R. Caram (Argentina)	Roberto Gavaldá (Argentina)
Geoffrey F. Carmody (Australia)	Lindsay B. Brand (Australia)
David C. Chessell (Australia)	Lindsay B. Brand (Australia)
Roberto A. Cleaves (Honduras)	R. J. Whitelaw (Australia)
James K. E. Cole (Sierra Leone)	Guillermo Bueso (Honduras)
Michele Cosentino (Italy)	Horace R. Monday, Jr. (The Gambia)
J. A. Crosby (Peru)	Francesco Palamenghi-Crispi (Italy)
Miss Anne Doizé (Belgium)	Alexandre Kafka (Brazil)
Bun Phor Eap (Khmer Republic)	Jacques de Groot (Belgium)
Jean-Claude Faure (France)	Byanti Kharmawan (Indonesia)
M. G. Fiator (Dahomey)	Jacques Henri Wahl (France)
F. T. Flores (Brazil)	Antoine W. Yaméogo (Upper Volta)
Mehdi Garadaghipour (Iran)	Alexandre Kafka (Brazil)
Francisco García-Palacios (Venezuela)	Jahangir Amuzegar (Iran)
Heng Kim-Y (Khmer Republic)	Guillermo Bueso (Honduras)
Guillermo Heyden Q. (Costa Rica)	Byanti Kharmawan (Indonesia)
Fouad K. Hussein (Egypt)	Guillermo Bueso (Honduras)
Reza Khonsary (Iran)	Francisco Suárez (Mexico)
Stanislas Y. Kpognon (Dahomey)	Nazih Ahmed Deif (Egypt)
Thomas Leddy (United States)	Jahangir Amuzegar (Iran)
Abdul Malek (Malaysia)	Antoine W. Yaméogo (Upper Volta)
Vishwa N. Mudaliar (Fiji)	Sam Y. Cross (United States)
Marc S. Nan Nguema (Gabon)	Byanti Kharmawan (Indonesia)
Alan B. Nymark (Canada)	Byanti Kharmawan (Indonesia)
Chike C. Ozumba (Nigeria)	Antoine W. Yaméogo (Upper Volta)
Ólafur Pétursson (Iceland)	Robert Bryce (Canada)
Adelio Pipino (Chile)	Bernard J. Drabble (Canada)
Carlo Polpettini (Italy)	S. B. Nicol-Cole (Sierra Leone)
Fabrizio Saccomanni (Italy)	Horace R. Monday, Jr. (The Gambia)
Winfried Sanner (Germany, Fed. Rep. of)	Per Åsbrink (Sweden)
Maung Shein (Burma)	Carlos Massad A. (Chile)
Timothy P. Sweeney (United Kingdom)	Roberto Gavaldá (Argentina)
Atsuo Takahashi (Japan)	Francesco Palamenghi-Crispi (Italy)
S. P. Upasani (India)	Francesco Palamenghi-Crispi (Italy)
Jean R. Vallet (France)	Guenther Schleiminger (Germany, Fed. Rep. of)
Jan M. G. Vanormelingen (Belgium)	Byanti Kharmawan (Indonesia)
Mohamed A. Wasfy (Egypt)	Anthony K. Rawlinson (United Kingdom)
Guillermo Zoccali (Argentina)	Kaichi Kawaguchi (Japan)
J. B. Zulu (Zambia)	P. S. N. Prasad (India)
	Jacques Henri Wahl (France)
	Jacques de Groot (Belgium)
	Nazih Ahmed Deif (Egypt)
	Roberto Gavaldá (Argentina)
	S. B. Nicol-Cole (Sierra Leone)

Appendix VI Administrative Budget

Letter of Transmittal

July 25, 1975

Dear Mr. Chairman:

The administrative budget of the Fund approved by the Executive Board for the Fiscal Year ending April 30, 1976 is presented herewith, in accordance with Section 20 of the By-Laws. The presentation also shows actual expenses 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/

H. JOHANNES WITTEVEEN
Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

Administrative Budget as Approved by the Executive Board for the Fiscal Year Ending April 30, 1976 Compared with Actual Expenses for the Fiscal Years Ended April 30, 1974 and 1975

(Values expressed in special drawing rights)¹

Category of Expense	Fiscal Year Ending Apr. 30, 1976	Fiscal Year Ended Apr. 30, 1975		Fiscal Year Ended Apr. 30, 1974
	Budget	Revised Budget	Actual Expenses	Actual Expenses
I. BOARD OF GOVERNORS	1,155,915	1,546,601	1,478,518	2,659,848
II. EXECUTIVE DIRECTORS				
Salaries	2,421,381	2,231,032	2,223,841	2,008,003
Other compensations and benefits	653,274	662,643	627,871	514,894
Travel	648,440	719,922	699,283	469,338
Total	3,723,095	3,613,597	3,550,995	2,992,235
III. STAFF				
Salaries	22,259,629	19,355,497	19,337,655	18,150,850
Other compensations and benefits	9,089,443	7,754,970	7,750,839	6,669,006
Travel	4,792,820	4,358,846	4,329,123	3,914,663
Total	36,141,892	31,469,313	31,417,617	28,734,519
IV. SPECIAL SERVICES TO MEMBER COUNTRIES	3,991,332	3,656,462	3,501,050	3,280,388
V. OTHER ADMINISTRATIVE EXPENSES				
Communications	1,405,625	1,330,233	1,283,398	1,246,850
Office occupancy expenses	1,691,584	1,463,674	1,422,229	1,247,104
Books and printing	1,029,449	926,782	855,912	762,664
Supplies and equipment	978,702	818,267	793,420	802,788
Data processing services	923,927	872,349	864,754	741,401
Miscellaneous	1,075,364	864,873	802,619	1,020,975
Total	7,104,651	6,276,178	6,022,332	5,821,782
TOTAL ²	52,116,885	46,562,151	45,970,512	43,488,772

¹ The administrative budget is expressed in terms of U. S. dollars and converted to SDR equivalents.

² Net administrative expenses for the fiscal year ended April 30, 1975 totaled SDR 44,770,761 after deduction of SDR 1,199,751 reimbursed to the General Account by assess-

ments levied on the net cumulative allocations of participants in the Special Drawing Account. The comparable figures for the fiscal year ended April 30, 1974 were SDR 42,488,355 and SDR 1,000,417, respectively.

Appendix VII

Comparative Statement of Income and Expenses

(Values expressed in special drawing rights)

	Fiscal Year Ended		
	Apr. 30, 1973	Apr. 30, 1974	Apr. 30, 1975
OPERATIONAL INCOME			
Operational charges			
Received in gold	731,368	10,000	—
Received in special drawing rights	2,299,694	2,341,284	20,666,186
Received in members' currencies	174,684	102,622	358,577
Total	<u>3,205,746</u>	<u>2,453,906</u>	<u>21,024,763</u>
Charges on balances in excess of quotas			
Received in gold	2,221,503	366,042	—
Received in special drawing rights	23,141,725	26,055,223	122,491,201
Received in members' currencies	2,811,624	1,813,534	1,904,224
Total	<u>28,174,852</u>	<u>28,234,799</u>	<u>124,395,425</u>
Interest on holdings of special drawing rights ..	10,203,011	7,773,651	21,123,821
Total Operational Income	<u>41,583,609</u>	<u>38,462,356</u>	<u>166,544,009</u>
Deduct: Operational expenses			
Remuneration			
Paid in gold	3,621,247	315,071	—
Paid in special drawing rights	20,393,635	6,394,055	10,317,068
Paid in members' currencies	5,318,696	20,520,305	52,055,045
Total	<u>29,333,578</u>	<u>27,229,431</u>	<u>62,372,113</u>
Interest on indebtedness			
Paid in special drawing rights	—	—	1,200,167
Paid in members' currencies	—	—	68,028,115
Total	<u>—</u>	<u>—</u>	<u>69,228,282</u>
Total Operational Expenses	<u>29,333,578</u>	<u>27,229,431</u>	<u>131,600,395</u>
NET OPERATIONAL INCOME	<u>12,250,031</u>	<u>11,232,925</u>	<u>34,943,614</u>
EXPENSES¹			
Administrative budget expenses	38,671,046 ²	42,488,355 ²	44,770,761 ²
Fixed property expenses	16,354,269	5,862,331	(290,599)
Net valuation adjustment loss	138,438	92,493	119,893
TOTAL EXPENSES ¹	<u>55,163,753</u>	<u>48,443,179</u>	<u>44,600,055</u>
EXCESS OF EXPENSES OVER INCOME BEFORE			
DEDUCTION OF EXTRAORDINARY ITEM	42,913,722	37,210,254	9,656,441
Deduct: Proceeds from the sale of headquarters building	21,171,914	—	—
EXCESS OF EXPENSES OVER INCOME	<u>21,741,808</u>	<u>37,210,254</u>	<u>9,656,441</u>

¹ Excludes operational expenses which have been deducted from operational income.

² After deduction of SDR 698,615 for fiscal year 1973, SDR 1,000,417 for fiscal year 1974, and SDR 1,199,751 for fiscal year 1975 reimbursed to the General Account by assessments levied on the net cumulative allocations of participants in the Special Drawing Account.

Appendix VIII

Financial Statements of the General Account, Special Drawing Account, and Staff Retirement Fund

Letter of Transmittal

July 25, 1975

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, 1975, together with two memoranda from the External Audit Committee, which include the audit opinions.

In conformity with the By-Laws, the audit of the Fund has been performed by an External Audit Committee consisting of auditors nominated by three member countries. At the Fund's request, Ecuador, Luxembourg, and the United States nominated auditors to serve on this Committee. They respectively nominated Mr. Fausto Muñoz, Assistant Manager, Public Sector, Operations Department, Central Bank of Ecuador; Mr. Emile Lemmer, Commissioner of the Government, Ministry of Finance, Luxembourg; and Mr. Steve L. Comings, Assistant Commissioner, Comptroller, Bureau of Government Financial Operations, U. S. Treasury. 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 166,544,009, and operational expenses amounted to SDR 131,600,395 resulting in net operational income of SDR 34,943,614. Administrative budget and fixed property expenses and a net valuation adjustment loss amounted to SDR 44,600,055 which resulted in an excess of expenses over income of SDR 9,656,441 for the fiscal year. Pursuant to Executive Board Decision No. 708-(57/57), adopted November 27, 1957, this excess of expenses over income has been charged against the Special Reserve.

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

Yours sincerely,
/s/
H. JOHANNES WITTEVEEN
Chairman of the Executive Board

Chairman of the Board of Governors
International Monetary Fund

GENERAL ACCOUNT AND SPECIAL DRAWING ACCOUNT
MEMORANDUM BY THE EXTERNAL AUDIT COMMITTEE

Washington, D.C.
July 8, 1975

To the Managing Director
and the Executive Directors
International Monetary Fund

Our report, dated July 8, 1975, submitted through you to the Board of Governors, on the audit of the General Account and the Special Drawing Account of the International Monetary Fund, for the fiscal year ended April 30, 1975, includes the following paragraphs relating to the authority for the audit, the scope of the audit, and the audit opinion:

AUTHORITY FOR THE AUDIT

The audit for the fiscal year ended April 30, 1975, was carried out pursuant to and in accordance with the requirements of Section 20(b) of the By-Laws of the International Monetary Fund. In accordance with the provisions of the By-Laws, Ecuador, Luxembourg, and the United States were each invited to nominate a person to serve on an external audit committee. The three persons nominated were confirmed by the Executive Board.

SCOPE OF THE AUDIT

We have examined the Balance Sheet of the General Account of the International Monetary Fund as at April 30, 1975, the Statement of Income and Expenses, the Statement of Reserves, and the Statement of Changes in Financial Position for the fiscal 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, 1975, the Statement of Source and Use of Special Drawing Rights for the fiscal year then ended, 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, giving consideration to the extent of internal control and the internal audit work performed by the Internal Auditor, and such other auditing procedures as we considered necessary in the circumstances. In the course of our 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 International Monetary Fund. The audit was performed during the period May 27–July 8, 1975.

AUDIT OPINION

In our opinion, these statements, together with the notes appearing thereon, present fairly, in terms of special drawing rights, the financial position of the International Monetary Fund as at April 30, 1975, the results of its operations and the changes in financial position for the fiscal year then ended, in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

EXTERNAL AUDIT COMMITTEE:

/s/ Steve L. Comings, Chairman (United States)
/s/ Fausto Muñoz (Ecuador)
/s/ Emile Lemmer (Luxembourg)

Exhibit A

INTERNATIONAL MONETARY FUND

GENERAL ACCOUNT

BALANCE SHEET

as at April 30, 1975

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

ASSETS

GOLD WITH DEPOSITORIES (See Note 1)	SDR	5,369,539,548	
SPECIAL DRAWING RIGHTS			509,720,987
CURRENCIES AND SECURITIES (See Note 2)			
With depositories			
Currencies	SDR	9,399,314,737	
Securities		15,256,064,848	
<i>(nonnegotiable, noninterest-bearing demand obligations, payable at face value by members in their currencies)</i>			
	SDR	24,655,379,585	
Add: Valuation adjustments receivable		2,165,843,396	
	SDR	26,821,222,981	
Less: Valuation adjustments payable		309,627,617	26,511,595,364
SUBSCRIPTIONS TO CAPITAL—RECEIVABLE			
Balances of initial quotas—not due			48,334,339
CHARGES RECEIVABLE FROM MEMBERS			58,544,925
OTHER ASSETS (See Note 3)			3,234,292
TOTAL ASSETS	SDR		<u>32,500,969,455</u>

CAPITAL, RESERVES, AND LIABILITIES

CAPITAL			
Subscriptions of members	SDR	29,189,400,000	
RESERVES (Exhibit C)			
Special reserve	SDR	342,030,132	
General reserve		365,579,703	707,609,835
LIABILITIES			
Indebtedness			
Borrowings to finance purchases under the oil facility	SDR	2,499,251,000	
Remuneration payable to members		62,372,113	
Interest payable on indebtedness		38,785,770	
Other liabilities (See Note 3)		3,550,737	2,603,959,620
TOTAL CAPITAL, RESERVES, AND LIABILITIES	SDR		<u>32,500,969,455</u>

NOTES:

1. A total of 153,415,456.109 troy ounces of fine gold is held, and based on its gram content is valued at a figure which rounds to SDR 35 per fine ounce. Gold with depositories excludes gold held under earmark for members equivalent to SDR 333,104.
2. Total outstanding purchases of members amount to SDR 6,633 million. Currency holdings in excess of members' quotas subject to Fund charges amount to SDR 4,869 million, of which SDR 2,499 million represents purchases under the oil facility. Total creditor positions of members amount to SDR 2,365 million.
3. The established policy of the Fund is to write off against income the total expenditures incurred during the year for fixed property, furniture, and equipment (including automotive equipment). At April 30, 1975, the value of this property, at cost, is SDR 63,716,295. The assets and liabilities of the Staff Retirement Fund are not included in this Balance Sheet.

/s/ R. J. FAMILTON
Acting Treasurer

/s/ H. JOHANNES WITTEVEEN
Managing Director

Exhibit B

INTERNATIONAL MONETARY FUND
GENERAL ACCOUNT
STATEMENT OF INCOME AND EXPENSES
for the year ended April 30, 1975

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

OPERATIONAL INCOME			
Operational charges	SDR	21,024,763	
Charges on balances in excess of quotas		124,395,425	
Interest on holdings of special drawing rights		21,123,821	
Total operational income			SDR 166,544,009
Deduct operational expenses:			
Remuneration	SDR	62,372,113	
Interest on indebtedness		69,228,282	
Total operational expenses			131,600,395
NET OPERATIONAL INCOME			SDR 34,943,614
EXPENSES (See Note 1)			
Administrative budget expenses:			
Board of Governors	SDR	1,478,518	
Executive Directors			
Salaries	SDR	2,223,841	
Other compensations and benefits		627,871	
Travel		699,283	3,550,995
Staff			
Salaries	SDR	19,337,655	
Other compensations and benefits		7,750,839	
Travel		4,329,123	31,417,617
Special services to member countries			3,501,050
Other expenses			
Communications	SDR	1,283,398	
Office occupancy expenses		1,422,229	
Books and printing (See Note 2)		855,912	
Supplies and equipment (See Note 3)		793,420	
Data processing services		864,754	
Miscellaneous (See Note 4)		802,619	6,022,332
Subtotal	SDR	45,970,512	
Deduct: Assessments levied on participants for estimated expenses of operating the Special Drawing Account			1,199,751
Net administrative budget expenses	SDR	44,770,761	
Fixed property expenses (See Note 3)			(290,599)
Net valuation adjustment loss			119,893
TOTAL EXPENSES (See Note 1)			44,600,055
EXCESS OF EXPENSES OVER INCOME (Exhibit C)			SDR 9,656,441

NOTES:

1. Excludes operational expenses which have been deducted from operational income.
2. After deduction of SDR 124,434 for sales of Fund publications.
3. The established policy of the Fund is to write off against income the total expenditures incurred during the year for fixed property, furniture, and equipment (including automotive equipment).
4. After deduction of SDR 474,010 for food service sales and SDR 80,909 for miscellaneous administrative income.

Exhibit C

INTERNATIONAL MONETARY FUND

GENERAL ACCOUNT

STATEMENT OF RESERVES

for the year ended April 30, 1975

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

SPECIAL RESERVE (See Note)		
Balance, April 30, 1974	SDR 351,686,573	
Deduct		
Excess of expenses over income (Exhibit B)	9,656,441	
Balance, April 30, 1975		SDR 342,030,132
GENERAL RESERVE		
Balance, April 30, 1975		365,579,703
TOTAL RESERVES (per Balance Sheet)		<u>SDR 707,609,835</u>

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 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.

Exhibit A

INTERNATIONAL MONETARY FUND
SPECIAL DRAWING ACCOUNT

BALANCE SHEET

(See Note 1)

as at April 30, 1975

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 2)	SDR 9,314,835,400
-----------------------------------------------------------------------------------------	-------------------

HOLDINGS

Holdings of special drawing rights (See Note 3) (Exhibit B)

Participants			
Holdings above allocations			
Allocations	SDR 2,691,260,000		
Received (net)	1,846,944,238	SDR 4,538,204,238	
Holdings below allocations			
Allocations	SDR 6,623,575,400		
Used (net)	2,356,665,225	4,266,910,175	SDR 8,805,114,413
General Account			509,720,987
			<u>SDR 9,314,835,400</u>

NOTES:

1. This statement of the Special Drawing Account is a summary of net cumulative allocations of special drawing rights by the Fund to participants and the corresponding holdings of such special drawing rights by participants and the General Account.
2. 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.
3. 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 allocation 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/ H. JOHANNES WITTEVEEN
Managing Director

Exhibit B

INTERNATIONAL MONETARY FUND
SPECIAL DRAWING ACCOUNT
STATEMENT OF SOURCE AND USE OF SPECIAL DRAWING RIGHTS
for the year ended April 30, 1975

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

	Participants	General Account	Total
Total Holdings as of April 30, 1974	8,815,804,129	499,031,271	9,314,835,400
Source of Special Drawing Rights Received			
Transactions with Designation (Article XXV, Sections 2(a) and 3(a))	440,392,851		440,392,851
Transactions without Designation (Article XXV, Section 2(b)(i))	248,472,957		248,472,957
Net Interest	77,737,194	21,123,821	98,861,015
Transfers Between Participants and the General Account			
Purchases	3,774,763		3,774,763
Repurchases		24,036,790	24,036,790
Charges	354,863	92,000,004	92,354,867
Reimbursement of Special Drawing Account Expenses		1,199,751	1,199,751
Remuneration	6,394,055		6,394,055
Reconstitution	117,055,868		117,055,868
Interest on Fund Borrowings	91,101		91,101
	<u>894,273,652</u>	<u>138,360,366</u>	<u>1,032,634,018</u>
Use of Special Drawing Rights			
Transactions with Designation (Article XXV, Sections 2(a) and 3(a))	440,392,851		440,392,851
Transactions without Designation (Article XXV, Section 2(b)(i))	248,472,957		248,472,957
Net Charges	98,861,015		98,861,015
Transfers Between Participants and the General Account			
Purchases		3,774,763	3,774,763
Repurchases	24,036,790		24,036,790
Charges	92,000,004	354,863	92,354,867
Reimbursement of Special Drawing Account Expenses		1,199,751	1,199,751
Remuneration		6,394,055	6,394,055
Reconstitution		117,055,868	117,055,868
Interest on Fund Borrowings		91,101	91,101
	<u>904,963,368</u>	<u>127,670,650</u>	<u>1,032,634,018</u>
Total Holdings as of April 30, 1975 (per Balance Sheet)	<u>8,805,114,413</u>	<u>509,720,987</u>	<u>9,314,835,400</u>

STAFF RETIREMENT FUND
MEMORANDUM BY THE EXTERNAL AUDIT COMMITTEE

Washington, D.C.
July 8, 1975

To the Managing Director
and the Executive Directors
International Monetary Fund

Our report, dated July 8, 1975, submitted through you to the Board of Governors, on the audit of the Staff Retirement Fund of the International Monetary Fund for the fiscal year ended April 30, 1975, includes the following paragraphs relating to the authority for the audit, the scope of the audit, and the audit opinion:

AUTHORITY FOR THE AUDIT

The audit of the Staff Retirement Fund of the International Monetary Fund for the fiscal year ended April 30, 1975, was carried out pursuant to and in accordance with the requirements of Section 20(b) of the By-Laws of the International Monetary Fund. All assets and income of the Staff Retirement Fund, in accordance with Article 9, Section 1, of the Staff Retirement Plan, are the property of the International Monetary Fund and are held and administered by it separately from its other property and assets.

SCOPE OF THE AUDIT

We have examined the Balance Sheet of the Staff Retirement Fund of the International Monetary Fund as at April 30, 1975, the Statement of Changes in Financial Position for the fiscal year then ended, 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, giving consideration to the extent of internal control and the internal audit work performed by the Internal Auditor, and such other auditing procedures as we considered necessary in the circumstances. In the course of our audit, reference was made to the Articles of the Staff Retirement Plan and to the decisions of the Pension, Administration, and Investment Committees created under the Plan. The audit was performed during the period May 27–July 8, 1975.

AUDIT OPINION

In our opinion, these Statements, together with the note appearing thereon, present fairly, in terms of U. S. dollars, the financial position of the Staff Retirement Fund of the International Monetary Fund as at April 30, 1975, and the results of its operations and the changes in its financial position for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

EXTERNAL AUDIT COMMITTEE:

/s/ Steve L. Comings, Chairman (United States)
/s/ Fausto Muñoz (Ecuador)
/s/ Emile Lemmer (Luxembourg)

Exhibit A

INTERNATIONAL MONETARY FUND
STAFF RETIREMENT FUND
BALANCE SHEET

as at April 30, 1975

Amounts expressed in U. S. dollars
(See Note)

ASSETS

CASH AT BANKS		\$ 18,150
INVESTMENTS		
Bonds		
Amortized cost (<i>market value, \$16,230,775</i>)		
Notes insured by U.S. Government	\$ 3,205,680	
International development banks	8,334,152	
Corporate	6,573,332	
Commercial paper	1,114,000	
Total amortized cost	\$19,227,164	
Add: Net realized losses	2,224,627	
Funds originally invested	\$21,451,791	
Deduct: Amortized net realized losses	667,219	
Adjusted book value of bonds		\$20,784,572
Stocks (Common)		
Cost (<i>market value, \$38,491,525</i>)	\$42,432,329	
Deduct: Net realized gains	2,775,894	
Funds originally invested	\$39,656,435	
Add: Recognized appreciation	1,613,000	
Adjusted book value of stocks		41,269,435
Total Investments		62,054,007
ACCRUED INTEREST ON BONDS AND ACCRUED CONTRIBUTIONS RECEIVABLE FROM PARTICIPANTS AND INTERNATIONAL MONETARY FUND		594,926
TOTAL ASSETS		<u>\$62,667,083</u>
LIABILITIES AND RESERVES		
PARTICIPANTS' ACCOUNT		\$13,330,681
ACCUMULATION ACCOUNT		31,454,003
RETIREMENT RESERVE ACCOUNT		17,851,928
ACCOUNTS PAYABLE		30,471
TOTAL LIABILITIES AND RESERVES		<u>\$62,667,083</u>

NOTE:

Effective May 1, 1974, the Board of Executive Directors approved a number of changes in the Staff Retirement Plan. The more significant changes, as they affect the financing of the Plan are set forth below:

a. The basis for determination of contributions to the Plan and of benefits accruing to participants was

changed from participants' net salaries to gross salaries.
b. The combined rate of contribution to the Plan was changed from 23 per cent of participants' net salaries to 19.5 per cent of participants' gross salaries, comprising 13 per cent from the International Monetary Fund and 6.5 per cent from participants.

/s/ W. O. HABERMEIER
Treasurer

/s/ H. JOHANNES WITTEVEEN
Managing Director

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