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NEW YORK

President: Mr. Károly SZARKA (Hungary).

AGENDA ITEM 8

Report of the International Monetary Fund (E/5215)

1. Mr. SCHWEITZER (Managing Director, International Monetary Fund), introducing the 1972 report of the Fund (see E/5215), reviewed briefly the developments during the past year.

2. In December 1971, the exchange rates among the world's major currencies had been realigned, and the Executive Directors of the Fund (IMF) had adopted a decision enabling members to widen the margins within which those rates would be allowed to vary around the parity relationships as indicated by par values and central rates. That decision provided greater flexibility for monetary authorities to influence external payments, especially short-term capital movements.

3. An equally important development in the current year had been the improvement in the growth rate of major industrial countries. The slowdown in the rate of growth of those countries in 1970 and 1971 had had a depressing effect on world trade and in particular on the prices of commodities exported by many primary producing countries. At the same time, import costs of those countries had risen because of continuing price inflation in the economies of their major trading partners.

4. Progress towards abatement of inflation, however, had been less marked and in the industrial countries over-all price increases in 1972 had thus remained uncomfortably high.

5. With regard to the Fund's own activities, the disruption of the international monetary system in the latter half of 1971 had created serious difficulties in its financial operations. The Fund had, however, adapted its operations to the new conditions and purchases of currencies and special drawing rights (SDRs) had amounted to the equivalent of about SDR 2.000 million —500 million by the developing countries—in the fiscal year which had ended on 30 April 1972. Thirteen new stand-by arrangements had been concluded during the year. Eight developing countries, faced with a shortfall in export earnings, had used the compensatory financing facility. The year had also seen the first use of the Fund's facility which was intended to help countries meet their contributions to buffer stock schemes. The Fund's other activities had continued on the expanded scale of recent years.

6. The restoration of some degree of order in international finance and the upturn in growth of output were encouraging events, but there remained particularly serious problems in economic management. He wished to emphasize that the control of inflation should continue to receive top priority in national economic policy. The major industrial nations had a primary responsibility in that regard, for it was on their performance that the reduction of the inflationary bias in the world economy depended. Moreover, it was essential to the smooth working of the international adjustment process and to the steady growth of world trade that price and cost relationships among the major countries should contribute to the avoidance of large and protracted imbalances in their external payments positions. Indeed, the growing integration of the world economy made the payments position of each country more sensitive to outside developments and to policies followed by other countries.

7. The developing countries had a vital stake in the growth of the industrial economies and in the effective functioning of the international monetary system. They were crucially affected by the policies chosen by the industrial countries to deal with balance-of-payment pressures. Those pressures had been a factor in the sluggishness of the over-all flow of official capital and aid, which in turn had induced developing countries to resort to shorter-term debt on relatively expensive terms and with much swifter build-up of annual repayments. They had also contributed to slackened progress in negotiations in several fields, such as untying of development assistance, international commodity agreements, preferential treatment of the exports of developing countries and removal of the many trade barriers which continued to limit their export growth.

8. The reform of the international monetary system, a major objective of which was to improve the international adjustment process, was thus a matter of highest concern. The interest of the developing countries had been reflected at several international meetings. The full membership of the Fund would be represented in the Committee of 20 which had been established to deal with monetary reform and related issues at a high policy-making level. The new Committee would have before it a report on reform of the international monetary system which discussed arrangements and policies with regard to the exchange rate mechanism, convertibility, the settlement of imbalances, the role of reserve currencies and other reserve assets, and the control of disequilibrating capital movements. The report also indicated the possibilities for contributing, within the framework of a reformed system, to an increased flow of resources for development purposes.

9. Those various elements were closely interrelated. The currency crises of recent years had had their roots in persistent imbalances in payments relationships among major industrial countries, although massive transfers of short-term funds had frequently precipitated the crises. At the heart of the disequilibrium in international payments had been the basic deficit in the external position of the United States. As the counterpart of that deficit, widespread surpluses of a number of countries had led to a very large increase in dollar holdings in international reserves. An important reason

for the payments imbalances had been the difficulty in achieving an appropriate relationship between the exchange rates of the major currencies. That difficulty had at last been surmounted by the realignment of rates at the end of 1971. It was evident, however, that for the future it was necessary to establish a more flexible exchange rate mechanism and ensure that all countries, including the reserve centres, would be able to avail themselves of that mechanism. At the same time, a more effective adjustment mechanism could also benefit from more symmetrical arrangements for official intervention in foreign exchange markets and for the settlement of payments imbalances.

10. He turned next to the two broad aspects of reform which had been emphasized repeatedly by the Governors at the annual meeting: the adoption of methods for the more equitable and prompt correction of disequilibria in the balance of payments, and improvements in the structure of international liquidity.

11. With respect to the first, the adequate adjustment of payments imbalances called for appropriate internal policies affecting demand and, in instances where changes in exchange rates were needed to restore equilibrium, the adoption of such changes at a time and in a manner most likely to enhance their effectiveness. That would imply more prompt exchange rate changes and effective intergovernmental co-operation to maintain an appropriate structure of exchange rates. It might also be considered that a different set of rules regarding changes in par values and permissible variations around parity would facilitate the task of balance-of-payments management, and greater international initiatives in co-ordinating exchange rate policies would ease the difficulties of co-operation. It would be the task of the Committee of 20 to weigh carefully the merits and drawbacks of the various alternatives.

12. A new exchange rate régime must help to avoid the re-emergence of crises arising from persistent payments imbalances. Many countries, developing countries in particular, had stressed the burdens imposed upon their economies when such crises had led to substantial and sudden changes in the structure of the exchange rates. There was thus widespread support for devising such rules for exchange rate adjustment as would facilitate the maintenance of generally stable conditions in world trade and payments.

13. With regard to the structure of international liquidity, there had been general agreement among the Governors that SDRs should play an increasing role as an international reserve asset. There remained differences of opinion, however, about the manner in which that should be brought about, and there were rather difficult technical questions.

14. At the annual meeting a large number of countries had proposed that the allocation of SDRs should be linked directly to development aid. They had also raised the question whether the developing countries should not receive a larger share in the allocation of SDRs. The report of the Executive Directors on international monetary reform listed a number of possible approaches to those problems. He was confident that there now existed a willingness among countries to modify national positions in favour of an international consensus and that conditions for reaching concrete decisions on the issues of reform were favourable. An equal sense of purpose and international understanding should persist in the execution of the reforms. The Fund stood ready to assist countries in that task, but Governments must bear the primary responsibility for the successful management of their own economies, taking fully into account the influence of those economies on others and on the international system.

15. Mr. KARUNATILLEKE (Sri Lanka) expressed the hope that Mr. Schweitzer would be able to pursue his efforts to make the Fund a truly effective instrument of international monetary policy.

16. The 1972 report of IMF bore witness to the effectiveness of the Fund in a particularly difficult task. His delegation had been pleased to note, from the Managing Director's statement, that some order had been restored in monetary relationships, despite the pessimistic forecasts of certain experts. At the same time, the Fund was concerned with the future and had already taken effective steps in preparation for international monetary reform. The establishment of the Committee of 20 was commendable because IMF, in allowing developing countries to participate in the process of reform, had demonstrated the importance it attached to the specific problems of those countries in the field of foreign exchange, currency and balance of payments. Indeed, those questions were closely linked to development, as was shown by the experience of Sri Lanka and many other countries. It was to be hoped that the Committee of 20 would recommend measures to increase international liquidity and to effect a more realistic structure of exchange rates in the international economy.

17. As the Managing Director of the Fund had pointed out, national efforts had not been as intense as international efforts in the matter of restoring a measure of stability to the international monetary system. He pointed out, in that connexion, that the struggle against inflation could truly be waged only within the framework of political stability and harmony at the domestic level. Developing countries were constantly obliged to struggle against pressures on their economy owing to inflation which had its source in developed countries with market economies. The disastrous effects that inflation in the developed countries produced on the economy of developing countries could not be overemphasized, for it had repercussions on international trade. Thus, as the Managing Director had stated, it was the responsibility of the industrialized countries to combat that phenomenon as vigorously as possible.

18. Developed countries as well as developing countries were convinced that SDRs would make it possible to increase international liquidity substantially and to place less emphasis on gold as the primary source of international liquidity. The allocation of new SDRs was therefore essential and the arguments advanced by certain developed countries against that idea were illogical, to say the least. Indeed, the allocation of new SDRs would help to increase world economic stability.

19. He proposed that a link should be established between SDRs and development financing, initially through the development finance institutions until other possible methods were found.

20. Mr. GALLARDO MORENO (Mexico) said that, contrary to what had been expected, the last annual meeting of the Board of Governors of IMF had produced positive results, in particular the recognition of the close link between monetary problems and international trade. It might be said that that meeting had marked a milestone, as had the Bretton Woods Agreement 28 years earlier. That Agreement, however,

which had played a significant role in the rehabilitation of war-devastated nations, had been based on an inflexible and unchanging concept of the world, and the changes which had occurred, particularly in the last two decades, required radical changes in the international monetary system.

21. Mexico considered that the proposed reform should be egalitarian, in the sense that it would take into account the interest of both developing and industrialized countries. As the Minister of Finance of Mexico had said, national protectionism such as prevailed within some groups of countries should be abolished, discipline should be imposed on all, and the responsibilities of countries should be defined. Moreover, efforts must be made to correct the current imbalance with sufficient flexibility to avoid disrupting the economy of countries which were not responsible for the imbalance.

22. Developing countries were much affected by the inflation prevailing in the developed countries. A number of countries whose exports had suffered had rightly resorted to the system of compensatory finance adopted by IMF. Moreover, in the matter of special drawing rights, Mexico considered that the developing countries could derive great benefits from that formula.

23. Mr. FRAZÃO (Brazil) said that the presence of the Managing Director of IMF in the Economic and Social Council at the present session was extremely important in view of the imminence of a reform which might have vital repercussions on the growth potential of the world economy and therefore a decisive influence on the growth perspectives of the developing countries. It was essential that the needs of those countries should be taken into consideration when the reform was studied and his delegation welcomed the establishment of the Committee of 20, on which it had been decided that the developing countries would be represented. That gesture gave reason to hope that the reform of the international monetary system would not be one-sided.

24. It was clear that developing countries were vitally affected by the monetary policy of industrialized countries and, now that reform had been agreed upon, it was to be hoped that all the developed countries would seek to remedy the disadvantageous position of the third world in trade. Moreover, while he could speak for Brazil only, he thought that all the developing countries would have difficulty in agreeing that questions such as the preferential treatment of their exports and the elimination of non-customs barriers should be considered only after a final solution of the monetary problems of the developed countries had been found.

25. Lastly, he noted that, since Mr. Schweitzer had assumed the post of Managing Director of IMF, the Fund had shown increasing interest in questions of particular importance to developing countries. The fact that it had recently decided to study the question of the link between SDRs and development financing was a further example of the evolution of IMF in that direction.

26. Miss LIM (Malaysia) said that monetary reform should be directed towards granting the developing countries equitable terms of trade. It was essential to eliminate commercial barriers affecting the export of manufactured and semi-manufactured products, and discrimination with regard to the primary products and natural resources of developing countries. It was clear from Mr. Schweitzer's statement that monetary, trade, and financial problems were interrelated and that reform in one sector would be bound to produce favourable results in the other sectors. Malaysia welcomed the presence of representatives of the General Agreement on Tariffs and Trade (GATT), the United Nations Conference on Trade and Development (UNCTAD) and the Organisation for Economic Co-operation and Development (OECD) at the meetings of the Committee of 20.

27. The chronic monetary crises of the past had decreased the value of the sums that developing countries were required to maintain as reserves. In addition, the erosion of the value of their external assets through inflation had increased the burden on those countries and in particular had aggravated the problem of debt servicing. Those countries should be able to keep a part of their foreign exchange balance, the value of which would not be subject to constant fluctuation, until agreement was reached on a new international monetary system.

28. Monetary stability would be attained only if the industrialized countries established a link between prices and costs, but it was also important to stabilize those prices and costs. Thanks to control measures, Malaysia had been able to maintain stability of the prices of locally manufactured goods but it would be unable to go on doing so unless the industrialized countries took steps to combat inflation, since it was obliged to purchase all its capital goods and a significant part of the consumer goods it utilized, from industrialized countries.

29. Mr. CHANG Tsien-hua (China) called the Council's attention to General Assembly resolution 2758 (XXVI), in which the Assembly had decided to restore all its rights to the People's Republic of China and to expel forthwith the representatives of Chiang Kai-shek from the place which they had unlawfully occupied at the United Nations and in all the organizations related to it. The International Monetary Fund continued to allow the representatives of Chiang Kai-shek to participate in its activities, in total disregard of the General Assembly's resolution. His delegation therefore took no responsibility for any decisions that the Economic and Social Council might take in connexion with IMF.

30. Mr. DIAZ-CASANUEVA (Chile) gave a brief description of the causes of the international monetary crisis and pointed out that it was essential that the developing countries, which were in no way responsible for the crisis although they were clearly affected by its consequences, should participate in the elaboration of new structures for the international monetary system, in order to ensure that the problem of development would be taken into account. The interdependence of problems relating to trade, development financing and the international monetary system was sufficiently well known, as was clear from resolution 84 (III) adopted by UNCTAD at its third session, which his delegation fully supported. He drew attention to certain characteristics of that resolution, stressing the question of the link between the allocation of SDRs and economic financing.

31. In conclusion, he stated that the Chilean Government, in view of the situation of its balance of payments, had decided at the end of 1971 to undertake a renegotiation of its external debt, the service of which represented more than 30 per cent of the value of its exports. It wished to express its gratitude to the International Monetary Fund for its co-operation in that effort.

32. Mr. ROUGE (France) expressed the view that IMF should take into consideration certain fundamental concerns of the Economic and Social Council, in particular the problems of the developing countries and the need for co-ordination.

33. With regard to the first point, IMF had long been aware of the need to make a specific contribution to the solution of problems connected with under-development. He was happy to note in that connexion that the system of financing buffer stocks adopted in June 1969 had been applied for the first time in 1971, on the occasion of the drawing made by five countries signatories to the International Tin Agreement. He hoped that the study of the problems involved in establishing a link between SDRs and the financing of development would be pursued in the same frank and constructive spirit.

34. The resolutions adopted at the third session of UNCTAD on the participation of developing countries in the reform of the international monetary system were an important step in the direction of recognizing the legitimate claims of the countries of the third world. By a surprising coincidence, it had been at the same time, in July 1972, that the Economic and Social Council had adopted its resolution 1722 (LIII) on that subject and that the Board of Governors of IMF had adopted its resolution establishing an IMF Committee on Reform of the International Monetary System and Related Issues. That Committee, known as the "Committee of 20", seemed to have been established in such a way as to ensure that it would be both efficient and representative and there was good reason to hope that its work would be successful.

35. With regard to the second point, namely, co-ordination, he observed that the 1972 report of IMF (see E/5215) gave very few details on the working relations between the Fund and the other United Nations agencies. He therefore hoped that Mr. Schweitzer would give the members of the Economic and Social Council some additional information with regard to the way in which the technical assistance activities of the Fund were co-ordinated with those of the United Nations itself, particularly in the sphere of public finance and financial institutions. It should be noted that, from the standpoint of co-ordination, the most complicated problems were those arising from the conflicts between the negotiations relating to the international trade system, development financing, and the reform of the monetary system.

36. In the view of his delegation, the reform of the international monetary system could be carried out only by IMF through the Committee of 20. It also felt that the solution of monetary problems should not be held up pending consideration of trade problems arising from differences in procedures and methods. However, the Committee of 20 should give due importance to the views expressed in the Trade and Development Board and in other bodies.

37. He then drew the attention of the members of the Council to one of the achievements of IMF, i.e., the restoration of the machinery for international settlements, an essential prerequisite for the economic progress of the developing countries.

38. His delegation hoped that the future international monetary system would bring additional benefits to the community of nations. For example, if the new régime governing exchange rates and the improvement in adjustment policies regularized the conditions of competition between the industrialized countries, and reduced surpluses and deficits, it could reasonably be hoped that those countries would less frequently have occasion to invoke the state of their balance of payments as grounds for reducing the amount of assistance they were providing or for tying their assistance more closely to the provision of national goods and services.

39. In his statement of 27 September 1972 at the annual meeting of the Board of Governors of IMF, the French Minister of Economy and Finance had said that the reform of the international monetary system should be a task of synthesis, in which all nations, acting under a strengthened national authority, should submit to the disciplines of the adjustment process. It was significant that the nature of things and the common will of States together seemed to be bringing about an organic strengthening of international co-operation. Already the countries members of the European Economic Community had reaffirmed their intention to achieve economic and monetary union among themselves.

40. His delegation was also pleased to note that Romania was on the point of becoming a member of IMF.

41. In conclusion, he expressed the hope that the international monetary institutions, which had until recently been the stumbling-block to co-operation among States, could now, on the contrary, become the cornerstone of the edifice which the international community was striving to build.

42. Mr. DE RIVERO BARRETO (Peru) said that he was particularly pleased at the establishment of the Committee of 20, which should enable the developing countries to participate in the reform of the international monetary system. He hoped that the interests of the less developed countries would be duly taken into account and that the idea of the establishment of a link between SDRs and development assistance would make progress, particularly since it had been given the support of highly respected experts in the Committee for Development Planning, and of the Governments of several developed countries.

43. His delegation supported resolution 84 (III) adopted by UNCTAD at its third session and was in favour of co-ordinating the activities of IMF, UNCTAD and GATT, which would be in conformity with the interests of the international community as a whole.

44. Mr. MAKEEV (Union of Soviet Socialist Republics) said that at the third session of UNCTAD and also during the discussions in the Second Committee his delegation had made known in detail its views on the international monetary situation and its causes. That evaluation had subsequently been confirmed by the delegations of a large number of countries, notably those of the developing countries.

45. The chronic crises in the international monetary system were caused by wars of aggression, the armaments race, militarization, the flight of capital abroad, and military aid to puppet régimes. The Western countries and their financial monopolies were making their workers and the developing countries bear the burden of the resulting imbalance. In the current year, as in previous years, the Governments of the Western Powers were taking steps to freeze wages and decrease social expenditure, but their efforts to control inflation were inadequate and both the cost of living and unemployment were continuing to rise.

46. The developing countries were suffering the consequences of that monetary crisis. A large number of delegations had spoken of the losses suffered by the developing countries as the result of the devaluation of the dollar and the decision to allow the pound sterling to float. If currencies continued to be so unstable, the debt of the developing countries would become larger and larger. Apart from the fact that what was involved was direct interference in the affairs of the developing countries by the monopolies and the financial organizations which they controlled, the situation jeopardized prospects for progress.

47. The International Monetary Fund and the World Bank (IBRD) were continuing to serve the interests of the great Western Powers and the proposed reform was aimed at maintaining the privileged position of one or several currencies while downgrading the role of gold. That was the purpose of SDRs, sometimes called paper gold. The USSR was opposed to efforts to give one or more currencies a privileged position and to downgrade the role of gold and, on the contrary, was in favour of fixing the value of that precious metal at its proper level. In conclusion, he stressed that any measures taken to restore monetary equilibrium must take account of the interests of all countries without exception.

48. Mr. GATES (New Zealand) noted with satisfaction that IMF was recognizing the seriousness of the international monetary crisis not only for the industrialized countries but also for all primary producing countries, which included New Zealand. He agreed with Mr. Schweitzer that the atmosphere was now more favourable to conciliation than in the past and he hoped that the international community would take advantage of that situation.

49. His delegation was wholeheartedly in favour of the establishment of the Committee of 20, whose work it would follow attentively in the hope that it might help to stabilize the situation and thus enable the developing countries to realize their objectives in connexion with the Second United Nations Development Decade.

50. Mr. NISHIZAKI (Japan) said that if monetary instability continued it would hurt the international trade of both the developed and the developing countries, and would affect the flow of assistance from the former to the latter. It was therefore imperative to find a solution to the international monetary crisis without delay, a task to which the recently established Committee of 20 should address itself. His delegation naturally welcomed the participation of the developing countries in the work of that Committee.

51. The establishment of SDRs as an international reserve should be encouraged in the interests of the less developed countries.

52. His delegation felt that it was for each country to take the necessary measures to redress its balance of payments, particularly in the field of trade.

The meeting rose at 12.25 p.m.