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President: Mr. Mohammad MIR KHAN (Pakistan).

Present:

The representatives of the following countries: Argentina, Brazil, Canada, China, Dominican Republic, Egypt, Finland, France, Greece, Indonesia, Mexico, Netherlands, Pakistan, Poland, Union of Soviet Socialist Republics, United Kingdom of Great Britain and Northern Ireland, United States of America, Yugoslavia.

Observers from the following countries: Albania, Bulgaria, Chile, Czechoslovakia, Hungary, India, Japan, Philippines, Romania, Saudi Arabia.

The representatives of the following specialized agencies: International Labour Organisation, Food and Agriculture Organization of the United Nations, International Civil Aviation Organization, International Monetary Fund, World Health Organization.

AGENDA ITEM 3

**Report of the International Monetary Fund
(E/2945 and Add.1)**

1. The PRESIDENT welcomed Mr. Per Jacobsson, Managing Director of the International Monetary Fund, on the occasion of his first appearance before the Economic and Social Council.
2. Mr. JACOBSSON (Managing Director of the International Monetary Fund), presenting the report of the International Monetary Fund,¹ announced that during the period under review applications for membership in the Fund had been received from the Governments of Saudi Arabia, Libya and Morocco and that the period in which the Republic of Sudan might accept membership had been extended to 30 September 1957.
3. The period covered by the report had been one of exceptionally great activity for the Fund. In the ten months between 1 May 1956 and the end of February 1957, drawings on the Fund had amounted to \$US802 million and currently exceeded \$1,000 million. In addition, stand-by agreements, including renewals, had been arranged in the amount of \$1,105 million, of which \$1,031 million had been still unused on 28 February 1957. The \$1,833 million representing the drawings

¹ International Monetary Fund, *Annual Report of the Executive Directors for the Fiscal Year ended April 30, 1956* (Washington, D.C.), transmitted to the Council under document E/2945; and "Summary of the activities of the International Monetary Fund from 1 May 1956 to 31 January 1957", transmitted to the Council under document E/2945/Add.1.

and the unused portion of the stand-bys was a figure considerably larger than the comparable amount of \$1,334 million for 30 April 1956, constituting the use or commitment of the Fund's resources in the first ten years of its existence. The total value of operations engaged in by the Fund since its inception had exceeded \$3,000 million at the end of February 1957.

4. While the increased use made of the Fund's resources was certainly gratifying, the Fund should not be judged primarily by its volume of business. Its main purpose was to assist members in meeting emergencies. A case in point was its recent large transaction with the United Kingdom involving \$1,300 million—\$561.5 million in the form of drawings and \$738.5 million as a stand-by. While the British economy had been basically sound, the pound sterling had been subjected to a speculative attack caused by the state of international tension resulting from the Suez crisis. The funds had been made available to check and, if possible, to reverse the speculation against sterling. It had been found to be not only in the interest of the United Kingdom but also in the general interest that support should be given to a currency with the world-wide importance of sterling, in which more than one half of the world's current transactions were settled.

5. With regard to European countries in general, the fear had been expressed that they would find it difficult to meet the increased cost of oil shipments without having in some cases to turn to the Fund for assistance. They had, however, stood the strain remarkably well and would hardly have been able to overcome their difficulties had they not in recent years strengthened their economies and increased their monetary reserves by flexible credit policies and greater budgetary efforts. A stand-by agreement had been concluded with France in October 1956, involving \$262.5 million, or 50 per cent of that country's quota.

6. From the representations made to the Fund by countries in different parts of the world it had become increasingly clear that there was a growing determination to take effective measures to control inflationary tendencies, whatever their cause. The Government of India, with which a drawing and a stand-by agreement had been arranged in the amount of \$200 million, had indicated that it intended to take a number of anti-inflationary measures. In Latin America, a stand-by arrangement had been concluded with Bolivia, in addition to similar agreements concluded earlier with Peru and Chile. In all three countries the purpose of the operation had been to enable the Government to reduce, if not wholly to arrest, the pace of inflation and at the same time to attain a more realistic system of prices by the gradual elimination of direct controls and the introduction of a new exchange system under which both import licensing and multiple currency practices would be abolished. In rendering such assistance, the Fund had been able to contribute to the establishment of a smoothly functioning system of multilateral payments between the various countries concerned.

7. Another significant development in the use of the Fund's resources had been the assistance given to certain countries to meet seasonal deficits in their balance of payments. Such assistance had been provided to Nicaragua, Honduras, El Salvador and Cuba, countries more or less dependent on one major export crop. Even though their basic monetary and fiscal policies might be sound, the often inadequate level of their foreign exchange reserves presented them with a serious problem during the part of the year before their export crop could be harvested and sold.

8. Being a revolving fund, an institution which expected repayment of the credits it furnished within a relatively brief period, usually three to five years, the Fund had received repayment of \$1,105.4 million out of total drawings amounting to \$2,038 million at the end of February 1957, leaving a balance of \$932.6 million. The assets of the Fund in gold and convertible currencies had amounted at that date to approximately \$3,300 million, against which had to be placed the stand-by arrangements still outstanding, a total of \$1,066.4 million. A fair amount of the Fund's liquid assets had thus been committed, giving occasion to the exercise of a certain caution concerning new drawings and commitments, but the Fund was still in a position to consider reasonable requests from its members for the carrying out of a constructive monetary policy. Gold tranche drawings in excess of 50 per cent of a country's quota should ordinarily be in support of a well-balanced policy likely to create confidence in the enduring stability of the currency concerned at a realistic rate of exchange.

9. With respect to general monetary developments during the period under review, there had been no grave monetary disturbances or serious set-backs to the liberalization of trade and payments which had already been attained. A number of countries, including Belgium, Italy, the Netherlands and Sweden, had extended the area of transferability of their currencies, measures which represented a further approach to multilateralism.

10. In spite of inflationary pressures and recurrent increases in the cost of living, the distinguishing mark of the current economic upsurge was generally the pronounced increase of private business investments, the financing of which had its monetary repercussions. A record figure for private business investments had been attained in the United States in 1956 and a similar trend had prevailed in Western Europe. While the general conditions for increased business investments had been favourable, the fact that the increase had actually occurred might be taken as a sign of the existence of vigorous economies in most countries. Satisfactory as that might be from many points of view, it was nevertheless true that in country after country the requirements for financing had tended to outstrip the flow of current savings. The availability of credit could never be a reliable substitute for savings, for it was only on the basis of genuine savings that extensive development plans could be successfully carried out.

11. With respect to the theory of compensatory budgets, evolved during the 1930's, it appeared that Governments were quite ready to increase spending in times of depression but reluctant to retrench in periods of economic upsurge. Some countries, however, among them Belgium, the Netherlands and the United Kingdom, had recently taken steps to cut down effectively the volume of their government expenditure in addition

to such credit measures as they had introduced. Countries should understand that if only their budget deficit could be brought down to manageable proportions, the greatest obstacle to monetary stability would be eliminated. In that connexion, it was important to realize that neither in the United Kingdom nor in the United States had the volume of currency risen in 1956 by more than 1 per cent. It was likely that the current policies aiming at a limitation of the currency supply would succeed before long in preventing any appreciable further rise in prices. It was advisable for most countries to remember that if they continued to allow their costs and prices to rise, they might not be able in the future to rely on an increase in the general level of world market prices and would become exposed to the risk of an unbalanced position. A stage had been reached where a return to monetary stability was demanded with growing insistence by the public. The achievement of that goal was a matter which should command the attention of the Economic and Social Council.

12. Mr. VILLEGAS (Mexico) said that, although certain improvements had taken place in the world economy in recent years, it was still necessary to achieve a better balance so far as national income, production and trade were concerned. A number of countries were still exposed to fluctuations in the prices of their primary exports goods. The more advanced countries should avoid measures which interfered with the efforts of the under-developed countries to obtain satisfactory markets. Although many countries were moving into a new era of monetary stability, the dangers of inflationary pressures were still apparent. His delegation had been pleased to learn that the International Monetary Fund was changing its policy in the light of the experience it had gained and was putting its resources to better use. It was also gratifying that certain members of the Fund had decided to increase their quotas and that the Fund's resources had been used in greater amounts and with increasing flexibility.

13. Mr. PALAMAS (Greece) said that the tempo of the Fund's operations in recent months had been most impressive. The objectives envisaged by the Fund when it had been originally established were still of paramount importance. The assistance granted by the Fund for the purpose of maintaining the value of the pound sterling was certainly in the general interest; the same could be said of the help given to France, India and Egypt.

14. The Managing Director of the Fund had stressed that in granting assistance the Fund made sure that the right economic policies were being followed in the countries concerned. At the same time, it was encouraging to note that the members of the Fund were playing their part by instituting sound fiscal and credit measures by avoiding the re-imposition of exchange restrictions and by taking steps to combat inflation.

15. The efforts made by the Fund to assist certain Latin American countries to arrest inflation were very significant. The same problem was apparent in the United States and in many European countries. As Mr. Jacobsson had stated, it was aggravated by the reluctance of certain Governments to curtail public expenditure in times of prosperity.

16. Such difficulties were more acute in the under-developed countries, where any curtailment of public expenditure delayed the execution of economic programmes and retarded improvements in living stand-

ards. Greece, which, having inadequate savings and few foreign private investments, could be regarded as under-developed, found it difficult to follow the path of multilateralism and free trade recommended by the Fund but had adopted measures designed to achieve economic stability and budgetary equilibrium.

17. The Fund's report and the statement of its Managing Director showed that stability even in the economically advanced countries could be seriously threatened by lack of confidence or by inflation. *A fortiori*, in a world of fixed exchange rates, the smaller countries were almost defenceless against the danger of external inflation and their only possible support was from the Fund. While his country realized that the task of the Fund was not easy, it was confident that, with the support of its members and under its new Managing Director, it would continue successfully to maintain international monetary stability and serve as a secondary line of defence for the under-developed countries.

18. Mr. LUNS (Netherlands) said that the Fund had recently entered upon a period of unparalleled activity. It had not only given valuable assistance in emergencies but had also continued and expanded its stand-by arrangements. It was hardly surprising to learn that the Fund had helped countries facing seasonal difficulties. Countries dependent on only a few export crops should be able to look to the Fund for assistance.

19. The fact that his country's total national income was about equal to its total foreign trade made it almost defenceless against external inflationary pressures and was an added reason for hoping that the Fund would be increasingly active as the guardian of the value of money. The Fund could be of assistance by ensuring that its resources were used in such a way as not to cause inflationary pressures, by analysing the causes of inflation and by recommending the proper preventive or curative measures to combat monetary instability. Methods of analysing the causes of inflation had been informally discussed at the most recent meeting of the Governors of the Fund and might be carried a stage further in the future.

20. Mr. Jacobsson's mention of the theory of compensatory budgets had been particularly interesting since the Netherlands Government had recently taken the decision to reduce public expenditure by cutting food subsidies and increasing indirect and direct taxes. The effectiveness of such measures could, however, be seriously impaired by developments abroad.

21. Monetary stability was every citizen's concern and every Government's business. In view of the public awareness of the problems of inflation and the great improvements in statistics and methods of analysis, the time seemed ripe for a co-ordinated attack on monetary instability. His delegation was confident that the International Monetary Fund would be able to make an effective contribution to the solution of that problem.

22. Mr. BAKER (United States of America) said that the very substantial use which had recently been made of the Fund's resources demonstrated its ability to meet the pressing needs of its members.

23. As Mr. Jacobsson had stated, the Fund should not be judged solely by the criterion of its volume of business. It had continued to promote its objectives by various undramatic activities in which it had acquired long experience. During the period under review, it had again consulted members which still

maintained exchange restrictions and explored possibilities for their elimination. It had also added to its impressive record of on-the-spot technical assistance to its members. Through visits and missions of its representatives, it had continued its efforts to help members contend with a variety of fiscal and financial problems. Members knew that requests for such assistance would be complied with promptly and that the advice they received would be expert and impartial.

24. The Fund also deserved commendation for the success with which it had carried on, for the seventh year in succession, its training programmes for financial technicians from member countries. The junior officers from Ministries of Finance and central banks who had spent a year with the Fund had been able to acquire knowledge and experience which should prove of growing value both to their own countries and to the Fund itself.

25. The many publications put out by the Fund also deserved praise; they provided important financial information, encouraged an understanding of financial problems and lent themselves to many important uses.

26. It was gratifying to note that in the period under review progress had been maintained in extending multilateral trade and payments. Restrictions had been further relaxed, the transferability of important currencies had been extended and discrimination resulting from bilateral arrangements had had less influence on the direction of trade. Many countries, however, still had to contend with strong inflationary pressures. At the same time the dangers of inflation were now widely recognized. In efforts to achieve and maintain financial stability, reliance on monetary and fiscal controls was increasingly displacing the use of direct controls. The United States Government was fully aware of the powerful pressures that were constantly being exerted on prices, costs and financial resources and it was maintaining policies which it considered essential to counter inflationary forces.

27. Mr. SCOTT FOX (United Kingdom) said that his Government had consistently supported every effort to allow members of the Fund the easiest possible access to its resources. It had supported the decision of 1952 which made access to a member's gold tranche virtually automatic. It had also welcomed the development in 1952 of the stand-by arrangement. Another important development had taken place in 1955, when members had been assured that the Fund's attitude towards drawings within the first credit tranche would be a liberal one and that members could confidently expect a favourable response from the Fund to applications for drawings within that tranche to help counter difficulties of a temporary nature arising from their balance of payments.

28. Such developments had enabled the Fund to deal successfully with the special situation which had arisen in the latter half of 1956 and the early months of 1957, when many Governments had had occasion to use the Fund's resources either in the form of short-term drawings for countering seasonal fluctuations or in the form of large drawings or stand-by arrangements for meeting more prolonged disequilibria. In that period the Fund had played an invaluable role not merely by assisting countries to survive economic fluctuations but also by encouraging them to do so without recourse to measures which might prejudice the growth and liberalization of international trade. The United Kingdom had recently made a drawing from the Fund of

\$561.5 million and had also secured a substantial stand-by arrangement for \$738.5 million. His Government was glad to acknowledge the part which the Fund had played in reinforcing sterling, the importance of which, as an international currency, had been stressed by the Fund on several occasions.

29. In the period covered by the reports before the Council, several Governments had become new members of the Fund. Applications were pending from a number of other countries, including the Government of Ghana, which had negotiated its membership of the Fund well in advance of its attainment of independence in March 1957. His Government particularly welcomed the initiative taken by Ghana and its early recognition of the value of the Fund to a young and developing country.

30. Mr. DRAGO (Argentina) said that, in recent years, there had been an intensification of efforts to simplify exchange systems and a growing tendency to rely on monetary policies as instruments of economic stability. The Latin American countries, especially those of the southern zone, had followed those general trends and had recently taken a number of significant decisions designed to render their exchange systems more flexible and realistic. Those measures had been substantially facilitated by the Fund's readiness to extend assistance and by the guarantees which its members enjoyed.

31. The volume of the Fund's operations in 1956 showed how rapidly and effectively the Fund could respond to emergencies and contribute to the solution of problems. The fact that such increased use was made of the Fund's resources also suggested that, in future, even greater reliance would be placed on the Fund's help and advice. It was particularly important, therefore, that representatives of the Fund should participate to an even greater extent in the Council's debates on the world economic situation. The Fund might perhaps even submit a memorandum to the Council at its next session, setting forth its views on the immediate prospects in the field of general economic development.

32. His delegation agreed with the Managing Director of the Fund that economic development in recent years had been satisfactory and that there were no immediate grounds for anxiety. Certain serious problems nevertheless subsisted, especially with regard to convertibility, and continued efforts would have to be made in the insufficiently developed countries.

33. In any event, agencies such as the Fund had a vital role to play in helping countries to speed their development in stable conditions. The manner in which such help could be given had already been well demonstrated in Argentina, which had joined the Fund only in 1956. The Argentine Government had been able to obtain assistance from the Fund in developing its programme of national economic reconstruction and in meeting difficult situations arising from such adverse circumstances as a decline in the prices of essential exports, losses caused by a poor corn crop and the increased cost of imported petroleum products attributable to the Suez crisis.

34. Mr. BORIS (France) expressed his delegation's hope that the various States which had recently applied to the Fund for membership would be speedily admitted. His Government was particularly anxious to see among the members Tunisia and Morocco, with

both of which France expected to maintain the same monetary relations as in the past.

35. As the Managing Director of the Fund had stressed, the recent period had been one of exceptional activity for the Fund. The value of drawings and stand-by agreements arranged during that period had been substantially greater than the total amount of the Fund's resources used or committed in the first ten years of its existence.

36. Since the Council's last discussions on the Fund's operations, and especially since the end of the financial year 1955-1956, the Fund had made available to certain countries an unprecedented amount of foreign currency and had proved to be one of the essential influences in the maintenance of a monetary equilibrium. France, whose balance of payments had been adversely affected by a bad harvest and rapid industrial development, had obtained valuable assistance in its efforts to maintain the stability of the franc and to pursue the expansion of its economy. Similar assistance had been obtained by other countries and the Fund had at all times shown exceptional adaptability in meeting difficult situations. He hoped that the Fund would always work towards the development of international trade and the facilitation of exchange operations.

37. He agreed that complete convertibility should remain the final goal of every country. Many Governments, however, could regard it only as a relatively distant ideal, to be attained in stages. Encouragement should therefore be given to every measure designed to bring about a gradual liberalization. The Treaty establishing the European Economic Community was an excellent example of such an attempt to remove obstacles to free trade. Currency restrictions and tariff barriers between the signatories would eventually be totally abolished. Furthermore, the signatories had stressed that their common market was not intended as a protected zone but only as a constructive first step towards the widest possible liberalization of international commerce. The French Government was already busily engaged in trying to attract the greatest possible number of the States members of the Organization for European Economic Co-operation into a single European zone, in which currency would be freely exchangeable.

38. The Fund's report also showed that the Fund was gradually adapting its methods to meet specific needs. Noteworthy progress in that respect had been made in dealing with the seasonal deficits of countries the economy of which depended on one basic crop. The Fund could, however, make a greater contribution towards maintaining the stability of countries which encountered serious problems after initiating important economic development programmes. Such programmes could never be successfully executed unless the value of the currency remained at a stable level and balance-of-payments difficulties were bound to arise. The Fund should therefore expand the scope of its activities and assist countries which had engaged in such programmes in meeting their temporary monetary difficulties.

39. Mr. MACKAY (Canada) said that the Fund was an important and flexible instrument for the improvement of international monetary conditions. Its membership had increased to sixty, with aggregate quotas of \$US8,928.5 million. The new applications for membership which had recently been submitted were further evidence of the widening scope of the Fund's operations. It was also clear, from the operations in the

period under review, that members appeared increasingly conscious of the benefits which would follow from membership and that, as a consequence, the Fund's resources had been used more effectively.

40. Besides engaging in strictly financial operations, the Fund performed valuable services in other fields. The discussions which it conducted periodically on restrictive exchange control practices had been particularly useful. The opportunities thus afforded for considering the economic and financial problems giving rise to restrictive and discriminatory practices had served to promote further relaxations of such restrictions.

41. The Fund's technical assistance functions were another important feature. During the period under review, thirty-five member countries had been visited by the Fund's representatives for consultation, technical assistance or the exchange of views and information. Furthermore, the Fund had continued its training programme. The Canadian delegation also welcomed the Fund's close relations with other organizations within the United Nations family and with the Contracting Parties to the General Agreement on Tariffs and Trade.

42. He noted with satisfaction the Fund's strong financial position and pointed out that, at present, the largest holding of convertible currencies, other than United States dollars, was in Canadian dollars. He had been particularly struck by the statement in the Fund's annual report that there was a greater readiness on the part of Governments to take corrective or preventive measures. The members of the Fund clearly appreciated the interdependence of their economies and had taken the necessary measures to promote desirable international financial conditions.

43. Another welcome feature of the report was the statement that the world payments situation had improved, restrictions had been further relaxed and discrimination had had less influence on the direction of trade. The Canadian Government strongly supported the Fund's efforts towards a reduction, and eventual elimination, of all exchange restrictions and discrimination.

44. Mr. ANIS (Egypt) said that the trends noticed in the Fund's previous report seemed to be continuing. In developed industrialized countries, recovery of production and intensive post-war investment had brought good returns. In fact, there had been a general continued improvement in the international payments situation, a further relaxation in restrictions and an expansion of currency transferability.

45. The gains were, however, far less conspicuous in the case of most under-developed countries, where unfavourable factors were still at work. Food production had scarcely kept pace with the increase in population, while the price support policies of many highly developed countries created formidable problems, obstructing the less developed countries in the disposal of their primary products and in their development plans. In that connexion, the report of the Fund rightly pointed out that the policy of the United States was a matter of particular concern. No country should adopt a surplus disposal policy which might cause any deviation in the normal channels of trade or affect the world price of agricultural products.

46. The report showed clearly that countries which relied predominantly on the export of primary products had derived only limited benefits from the general expansion of trade. In those countries, as the report correctly observed, the case for building reserves in times of high prices and strong export markets had to be weighed against the case for speeding up economic development by using a larger proportion of foreign earnings for that purpose. It seemed, therefore, that the scope of operations of the international financial institutions should be widened and that the Fund might devote a greater part of its resources to helping the under-developed countries in financing their development plans.

47. He pointed out that, in financing productive projects, the Egyptian Government, which held that increased taxation imposed an unfair burden on the present generation and constituted a deterrent to investments while loans from the Central Bank would expose the country to the dangers of inflation, had resorted to internal loans. It had also adopted a number of other measures designed to reduce the cost of financing and to liberalize trade. One particularly noteworthy step had been the reopening of the cotton futures market at Alexandria.

48. With reference to the payments systems in the world at large, he said that there had been some real progress in reducing discrimination. The situation in countries in the process of development nevertheless deserved special consideration. Some of those countries might seem to have lagged in relaxing their import and foreign exchange restrictions: that was attributable either to external circumstances or to difficulties which could be resolved only through considerable sacrifices and on a long-term basis. For those countries, the continuation of some measure of discrimination might at times be desirable.

The meeting rose at 12.50 p.m.