

UN/SA COLLECTION
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President: Mr. Jerzy MICHALOWSKI (Poland).

Present:

Representatives of the following States: Australia, Brazil, Colombia, Denmark, El Salvador, Ethiopia, France, India, Italy, Japan, Jordan, Poland, Senegal, Union of Soviet Socialist Republics, United Kingdom of Great Britain and Northern Ireland, United States of America, Uruguay, Yugoslavia.

Observers for the following Member States: Argentina, Belgium, Bulgaria, Canada, Czechoslovakia, Greece, Hungary, Indonesia, Iran, Israel, Netherlands, Norway, Philippines, Romania, Spain, Thailand, Ukrainian Soviet Socialist Republic.

Observer for the following non-member State: Republic of Korea.

Representatives of the following specialized agencies: International Labour Organisation; Food and Agriculture Organization of the United Nations; International Monetary Fund.

AGENDA ITEM 4

**Report of the International Monetary Fund
(E/3569 and Add.1) (*concluded*)**

1. Mr. WALKER (Australia) said that it was encouraging to note from the report of the International Monetary Fund (E/3569 and Add.1) and the statement made by its Managing Director at the previous meeting that there was now much closer co-operation between the Fund and the Council than had been the case some years earlier. He had been impressed by the emphasis which the Managing Director had placed on the problems of international finance which the under-developed countries encountered in their efforts to expand their economies and by his account of the contribution which the Fund was making towards the solution of those problems. He also welcomed the emphasis which the Managing Director had placed on other aspects of the question, particularly his statement that financial stability, while a necessary foundation for steady economic development, was not a goal in itself and that it was important to increase the volume of international trade, reduce the number of restrictions imposed on it and achieve a

greater degree of stabilization in the export proceeds of the under-developed countries.

2. His country had consistently held the view that, when there was a conflict between growth and price stability, priority should be given to measures favouring growth, although it must be realized that growth could be imperilled by financial difficulties. Australia, which considered growth vital to its very existence, was heavily dependent upon world markets and its development was necessarily affected by fluctuations in the prices of staples having their origin in economic conditions in the more economically mature countries. In 1960 it had experienced a periodic readjustment of the kind which was inevitable when under-developed and developing countries were determined to grow at a rapid rate. The need for that readjustment had not been brought about primarily by inflation, and difficulties had been augmented by steps taken to liberalize its trading practices (e.g., abolition of the system of import licensing). In November 1960, Australia had been faced with the choice of returning to import licensing or of adopting a policy of domestic readjustment. Australia had chosen the latter course.

3. The first step it had taken had been to draw upon the reserves it maintained to meet such contingencies. It had then, in April 1961, drawn \$175 million from the Fund and contracted a stand-by arrangement for a further \$100 million. The stand-by arrangement, which it had not had to use, had been terminated in September 1961 and the drawing had been repaid in full in March 1962. The domestic measures it had taken had not, of course, been popular, but they had been successful: there had been a speedy readjustment in the balance of payments, long-term capital imports had continued, and it had proved possible to remove restrictions on banking credits and to adopt measures for the stimulation of employment. Australia's experience illustrated how the operations of the Fund, supplemented by domestic measures, could tide the economy over a period of readjustment.

4. It had long been recognized that sufficient resources must be placed at the disposal of the Fund; he therefore supported the Managing Director's proposal to increase the quotas of Fund members and to implement article VII of the Fund's Articles of Agreement.

5. In regard to gold resources, he recalled that at a meeting of the Fund's Board of Governors in 1961 the Australian Treasurer had said that sooner or later the price of gold would have to be increased to a level corresponding to the cost of producing a steady annual increase in the volume of the world's gold.

6. In conclusion, he said that his country would continue to co-operate closely with the Fund.

7. Mr. OKAZAKI (Japan) expressed his delegation's satisfaction at the remarkable progress that had been made in the past few years in the international monetary situation of the free world: the strengthening of the position of major international currencies, the restoration of external convertibility of most west European currencies and the relaxation of restrictions of the holding by banks and private individuals of assets abroad had contributed to a greater flexibility in payments for current transactions and in the movement of capital funds. Such progress had had far-reaching consequences: the currencies purchased from the Fund by member countries had been greatly diversified and the restoration of convertibility had increased the usability of the currencies held by the Fund, thus enlarging its capacity to meet the balance-of-payments difficulties of its members. On the other hand, the divergent interest rates prevailing in various countries had brought about an excessive movement of short-term capital, which had sometimes disrupted the balance-of-payments position of those countries. It was encouraging to note that the monetary authorities of the countries concerned had taken co-operative action to forestall such adverse effects.

8. The agreement among ten major industrial countries, including Japan, on the implementation of article VII of the Fund's Articles of Agreement, by which, on their formal adherence, they would lend the Fund the equivalent of up to \$6,000 million, was a further step to meet the balance-of-payments difficulties of those countries; his delegation was highly appreciative both of the initiative taken by the Managing Director of the Fund in that regard and of the constructive steps taken by those countries to ensure the stability of free multilateral payments systems. Japan was now taking the necessary steps to adhere formally to that agreement.

9. The foreign exchange position of the primary producing countries, in contrast to that of the developed countries, was far from satisfactory: in 1960 there had been a slight decrease in the international reserves of those countries as a whole. It was only natural, therefore, that the primary producing countries should turn to the Fund for assistance and it was worth noting that, for the first time in its history, the Fund had approved an arrangement whereby one of the primary producing countries had been permitted to draw, and to make a stand-by arrangement for, a total of up to 200 per cent of its quota. It was to be hoped that that policy would be made applicable to other primary producing countries.

10. Another way in which the Fund endeavoured to alleviate the balance-of-payments difficulties of the primary producing countries was by co-operation with the Commission on International Commodity Trade in exploring ways and means of coping with fluctuations in commodity prices. His delegation hoped that the Fund would continue to assist the Commission in that work and felt that it would be desirable for the Fund to intensify its activities in that regard, possibly by creating a unit within the Fund to study the problem.

11. The effects of the restoration of external convertibility of currencies had also been noticed in international trade: the greater freedom of payments had contributed

to the promotion of freer multilateral trade relations among member countries and considerable headway had been made in the reduction of trade restrictions and the elimination of discriminatory measures in member countries. Discriminatory trade arrangements and practices were still to be found, however, in a number of countries. His delegation therefore fully endorsed the statement in the Fund's report to the effect that attention should now be focused on the important problem of achieving a world situation in which not only payments but also trade itself would be free from restrictions, for it agreed that the Fund should not remain indifferent to the restrictions and discriminations existing in the trade policies of its members. It was encouraging to note that the Fund had been making efforts to solve the problem in close co-operation with the General Agreement on Tariffs and Trade and through its annual consultations with its members, especially the annual consultations under article VIII, which had been initiated in June 1960. His delegation attached great importance to such consultations because they enabled the Fund and its members to exchange views on monetary, fiscal and payments problems in a constant endeavour to promote international monetary and economic co-operation in a rapidly changing world. It was therefore a matter for satisfaction that the countries which had accepted obligations under article VIII had agreed to continue such consultations. His delegation hoped that the Fund would continue to make every effort to achieve free multilateral trade through free exchange transactions.

12. Japan, which had enjoyed a sustained period of rapid growth since the middle of 1958, was now facing a deterioration in its balance-of-payments position owing to excessive investments and a rapid increase in domestic demand. To cope with that situation, the Government of Japan had applied monetary, fiscal and other measures to curb excessive investment activities and to restore equilibrium in the balance of payments. Early in 1962 it had made a stand-by arrangement with the Fund to support that policy. In spite of its difficult economic situation, however, his Government had been implementing a programme of trade liberalization with a view to the expansion of the world economy through free multilateral trade. For a country like Japan, which was largely dependent on international trade for its economic growth, the key to the improvement of its balance-of-payments position lay in the promotion of exports; it therefore earnestly hoped that the countries which still applied discriminatory trade restrictions against his country's exports would co-operate in the promotion of free trade by abolishing those restrictions.

13. Mr. MARTINEZ VILLA (Colombia) congratulated the International Monetary Fund on its excellent report, which gave a faithful picture of the current world economic situation. While the work of the Fund was unobtrusive, it was highly effective; for instance, a loan which his country had received from the Fund and from the United States Export-Import Bank had enabled it to meet its balance-of-payments problems. In view of the gravity of readjustments in the balance-of-payments situation, however, he thought it would be desirable

for the Fund to intensify its efforts to ensure monetary stability, which was an essential factor for sound economic development.

14. Mr. FRANZI (Italy) said that the Fund's efforts to combat inflation had not only achieved the results described by the Managing Director in his valuable statement but had also discouraged those speculative trends which undermined the very basis of the international payments system. In that respect, the growing co-operation between Governments and central banks, in which the Fund had played a contributing role, offered encouragement for the future. As a result of that co-operation, new financial machinery had been set up for the defence of the international monetary system.

15. The Fund's activities undoubtedly exerted a vital influence on the economies of the under-developed countries. In 1961 contributions to the Fund had reached an exceptional level and negotiations had been completed for an additional payment of \$6,000 million by ten industrialized countries. Loans to the under-developed countries had reached almost \$1,000 million — more than double the 1957 figure. The Fund had also allowed those countries to make more liberal use of its resources, partly because they had progressed more rapidly and partly because they had experienced balance-of-payments difficulties. The Fund's more liberal policy had been facilitated by the gradual improvement in the foreign currency reserves of the industrialized countries, especially those of continental Europe. Those countries had had less occasion to call on the Fund and had thus been able to speed up their capital reimbursements. As the Managing Director had said, reimbursements had been remarkably high in 1961 and had enabled the Fund's assistance to the less developed countries to attain a record total.

16. The new supplementary contributions not only released additional sums for the under-developed countries; they also strengthened the Fund's capacity to meet any heavy drawings which might be made by the hard-currency countries and helped to maintain an adequate system of international liquidity. With those aims in mind, Italy had contributed \$550 million to the new scheme and had recently completed the formal procedure of acceptance prescribed by the Fund.

17. The increase in the number of stand-by arrangements was highly significant. Such arrangements required beneficiary countries to assume precise commitments for stabilizing and rehabilitating their monetary systems, often with the help of the Fund itself. The Fund's activities in pursuit of stabilization were perhaps less well known, but no less meritorious for that. It was in the matter of stabilization that the political pressures which tended to override economic judgements and undermine the Fund's prestige were strongest.

18. The technical assistance provided by the Fund should command the widest possible support. Italy had lent its aid every time the Fund had requested it. The Fund's constant aim of increasing trade volume through the liberalization of payments was highly laudable. In 1961 several countries, either spontaneously or at the Fund's suggestion, had adopted liberalization measures,

a development which could not but elicit the Council's approval. Such measures were essential if the inequalities between countries which had reached different levels of industrial development or different stages of specialization in the production sector were to be reduced. Italy had long been following the path of liberalization. In 1961 it had completely liberalized its system of foreign payments and it was eliminating with increasing rapidity all barriers to the movement of goods or capital. The Government had increased its efforts to maintain international monetary stability whenever that was threatened.

19. The fact that the Fund would soon have ninety members was an eloquent testimony to its usefulness. His delegation had every confidence in the Fund's ability to maintain international stability and speed up the development of the under-developed countries. As a member of the International Monetary Fund and of the United Nations, Italy looked forward to increasingly close and effective co-operation between those two bodies.

20. Mr. RODRIGUEZ LARRETA (Uruguay) observed that since its inception the Fund had played a vital role in the fight for world-wide monetary stability. It had speeded post-war recovery by prudent use of its resources and in 1961 the wider area of convertibility of the world's main currencies, established *de facto* in 1958, had been formally confirmed by general acceptance of the obligations of article VIII of the Fund's Articles of Agreement. It had adapted its terms of reference to enable it to intervene when sudden capital movements threatened to upset normal financial relationships. It was also studying the problem of how to increase its resources. A variety of solutions had been proposed: the purchase of surplus currencies, requests to surplus-holding countries for deposits or loans, quota increases and so on. As described in its report, the Fund had conceived the device of asking ten industrial member countries to contribute supplementary payments amounting to some \$6,000 million. His delegation had serious reservations about such a scheme. First, the ten countries seemed to be founding an exclusive club within the Fund; secondly, they would take decisions among themselves on how the extra money would be used, thus undermining the authority of the Fund itself. He hoped that when the proposal was implemented, those defects might be remedied and that other ways of increasing the Fund's resources would be considered.

21. Although the under-developed countries had benefited from stand-by arrangements, their reserve position had undoubtedly deteriorated. Indicators showed that the economic prospects for Latin America in 1962 were none too bright. The Managing Director had stressed the importance of the Fund's stabilization programmes. In Latin America, however, they had not always been successful; they had not reduced inflation and they had often led to stagnation in key sectors. The Fund should supplement its activities in pursuit of stabilization by measures to promote trade and combat fluctuations in primary commodity prices. Trade was vital for the Latin American countries. They were still faced with declining prices for their exports as well as trade re-

restrictions which were still being applied by countries with full convertibility. Many authorities had stressed that trade expansion must supplement financial aid. The Fund should also do more, in collaboration with the United Nations, to promote compensatory financing.

22. Mr. ACOGNY (Senegal) said that his country, which had recently become a member of the International Monetary Fund, was at the present stage less anxious to express any particular point of view than to learn about the Fund's structure and operation and the problems it faced. He felt called upon, however, to draw attention to certain questions which were of particular interest to African States. The liberalization of trade, a matter which the French representative had already discussed with relation to the franc area, was vital to the development of his country, which attached increasing significance to its dual monetary arrangement with France and the Fund. The possibilities offered by the existing structure of the Fund should be fully exploited to achieve a dynamic transformation of the economy of countries like his own. On the question of prices, his country had received assistance from France to support and stabilize the prices of its primary commodities and it hoped that the Fund too would continue to co-operate in that area. Lastly, when monetary fluctuations occurred in the developed countries and affected the economies of the less developed countries, it would be desirable for the latter to be closely associated in the preparation of preliminary studies and in the adoption of any necessary action.

23. Mr. JACOBSSON (Managing Director of the International Monetary Fund) thanked the members of the Council for their words of encouragement to the Fund.

24. He was glad that the United States representative had raised the question of differentiation in the Fund's use of currencies. The net use of United States dollars, which had been 99 per cent in 1957, had dropped to under 12 per cent in 1961. That meant that the Fund was now able to shift the use of its currencies and thus foster equilibrium in the payments situation by transferring the burden of use of currency to those countries which were in a strong position with regard to payments and reserves.

25. He was also grateful to representatives who had noted that besides granting financial assistance the Fund also granted technical assistance through the missions, consultations, discussions and technical co-operation it organized. Some fifty different countries had received such assistance during the past year. It was of great importance to the Fund that the consultations provided for in article XIV of the Articles of Agreement now extended to the countries coming under article VIII, i.e., countries with full convertibility and no exchange restrictions, for the new consultations had proved most useful. Their conclusions were communicated to all members of the Fund, but not to the press or public; hence the consultations afforded an opportunity for full and frank discussion and for the mutual appreciation of problems by member countries.

26. He was pleased to announce that the Fund had established an African Department and that new applications for membership were being received every month; he hoped soon to be able to inform the Council of the Department's full membership. While there was an encouraging trend towards integration in many parts of the world, the current trend in Africa was towards fragmentation. Many countries of Africa had, however, emerged as parts of large economic units; that should make the integration process easier but it would require planning and discipline on the part of African Governments. Continued fragmentation would not, in his view, be in the African continent's best economic interests.

27. A great deal had been said in the Council about the relations between the highly industrialized and the less developed countries. The Fund's stabilization programmes provided very stringent measures for the industrialized countries. In fact, in the matters of budget balancing, credit restraints and wage policies the programmes were far stricter for industrialized than for non-industrialized countries. At the same time, the Fund was aware that stability was not all that the less developed countries required and that often special action was needed to secure the desired growth and expansion. In that connexion, he thanked the Brazilian representative for his remarks concerning inflation and particularly for having spoken of the adverse effects of inflation in his country. The example of Brazil was often cited to show that a high rate of growth was compatible with inflation. That might be true for a time, but not for a long time. Inflation was certainly not a permanent solution to the problem of economic growth.

28. It was clear from a number of the trade problems posed by representatives that the action of the Fund alone was insufficient. Nevertheless, whatever influence the Fund had been able to exert was directed towards a liberalization of trade and a lowering of trade barriers. That applied equally to regional arrangements in Europe. There were many aspects of the Common Market which he personally would like to see altered, but he recognized that the modification of trade policy was very rarely the result only of trade considerations. The history of trade policy showed that political objectives were almost always involved. Hence it must be realized that the current regional arrangements were linked with significant political movements. Moreover, thanks to those movements the world was now witnessing a reduction in trade barriers which went further than could have been expected some years earlier. Through constant pressure and discussion it should be possible to supply existing deficiencies and to ensure that the arrangements served the interests of the greatest number of countries.

29. Several representatives had mentioned the commodity proposals now under discussion. As they had not yet been considered by the Fund's Executive Board, he could not say anything final about them. The Fund was, however, doing a certain amount of compensatory financing in its own sphere. He wished to stress once again, in that connexion, that the basic problem was that of the growth and expansion of industrial countries, to provide an outlet for the products of the primary producing countries. Progress in that matter might not

be readily apparent, but there were more and more commodities whose technical position had improved and he thought that that trend would continue.

30. There had been some criticism of the decision of the Fund's Executive Directors on general arrangements to borrow (E/3569/Add.1). It should be noted at the outset that the Fund was obliged to borrow and that it was entitled to do so under article VII of its Articles of Agreement. Since countries were not obliged to lend to the Fund, it hoped to make borrowing arrangements in advance terms from ten countries. The obvious advantage to the Fund was that it was thus enabled to mobilize resources quickly. Participants in the borrowing arrangement would aim at reaching unanimous agreement, but unanimity was not mandatory. Nevertheless, he personally hoped that decisions would always be by unanimity, as they were in the Executive Board, because if an important

country failed to support an international financial decision, confidence was immediately lost. The resources borrowed under the new arrangement for the specific purpose of capital transfers would permit the Fund to use its ordinary resources to meet the ordinary needs of member countries, and, as had been noted in the Council, that would strengthen the Fund generally. He sincerely hoped that the arrangement would receive wide support.

31. The PRESIDENT suggested that the Council should adopt a draft resolution reading:

"The Economic and Social Council

"Takes note of the report of the International Monetary Fund."

It was so decided.

The meeting rose at 5 p.m.