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President: Mr. George DAVIDSON (Canada).

Present:

The representatives of the following States: Brazil, Canada, Chile, China, Costa Rica, Finland, France, Greece, Indonesia, Mexico, Netherlands, Pakistan, Poland, Sudan, Union of Soviet Socialist Republics, United Kingdom of Great Britain and Northern Ireland, United States of America, Yugoslavia.

Observers from the following States: Albania, Argentina, Bulgaria, Czechoslovakia, Haiti, Iran, Ireland, Israel, Italy, Laos, New Zealand, Philippines, Spain.

The representatives of the following specialized agencies: International Labour Organisation; International Monetary Fund; World Health Organization.

The representative of the International Atomic Energy Agency.

AGENDA ITEM 3

Report of the International Monetary Fund (E/3060 and Add.1 and Add.1/Corr.1)

1. The PRESIDENT, opening the 1,000th meeting of the Economic and Social Council, briefly reviewed the Council's accomplishments since its establishment and drew attention to the problems currently facing it. A vast amount of work remained to be done in the economic and social field, but the members of the Council were determined not to spare any efforts to promote the welfare of mankind in a peaceful world.
2. He invited Mr. Jacobsson, the representative of the International Monetary Fund, to present the Fund's report (E/3060 and Add.1 and Add.1/Corr.1).^{1/}
3. Mr. JACOBSSON (Managing Director of the International Monetary Fund) said that during the past financial year—which, in the economic sphere, had been particularly characterized by the conversion of the boom into a recession—the Fund had been active in almost all parts of the world. It had two new members—the Federation of Malaya and Tunisia—and would soon have three others, Libya, Morocco and Spain.
4. The Fund had taken measures in all fields within its competence, including the par value of currencies, exchange restrictions, multiple exchange rates, and technical assistance. It was also able to exert some

^{1/} International Monetary Fund, Annual Report of the Executive Directors for the Fiscal Year ended April 30, 1957 (Washington, D.C.), transmitted to the Council by a note of the Secretary-General (E/3060); and "Summary of the activities of the International Monetary Fund from May 1, 1957, to January 31, 1958", transmitted to the Council by a note of the Secretary-General (E/3060/Add.1 and Add.1/Corr.1).

influence on general policy and even on world opinion in monetary matters; thus the annual meeting in September 1957 had shown how at a time when steps were being taken to rectify a difficult situation the Fund could serve as a sounding-board for responsible policy statements, which in that case had been followed quickly by the restoration of calm in the exchange markets.

5. The Fund's most publicized function was that of providing financial assistance to its members. The total volume of the Fund's operations since its establishment (drawings and stand-by agreements) had amounted to \$3,900 million; of those operations about two-thirds had taken place during the past two years. For the twelve-month period from 1 April 1957 to 31 March 1958, the total amount of drawings and the amount of stand-by agreements outstanding came to \$1,712.5 million, compared with \$2,012.9 million for the preceding period. If the \$763.5 million for the renewal of four stand-by arrangements was deducted from the figure \$1,712.5 million, the substantial sum of \$949 million still remained, representing the volume of "new" business.

6. The Fund had helped Japan, Denmark and the Netherlands to overcome their balance-of-payments difficulties, which had occurred as a result of the inflationary pressures accompanying the 1955-1957 boom. As a result of that assistance and the measures taken by the countries concerned, their situation had improved quickly to such an extent that the reserves of Japan, which had fallen by \$500 million in the first half of 1957, had increased by \$83 million in the last quarter of the year; that the Netherlands authorities had decided to cancel the unused portion of the stand-by arrangement six months before the date it was due to expire; and that Denmark had been able, on 31 March 1958, to repay \$10 million of its drawing.

7. It must be remembered that European countries, and also Japan, had recently benefited from the decline in the prices of raw-materials, which had brought about an improvement in their terms of trade. On the other hand, the raw-material producing countries had suffered from that decline in prices. The Fund had endeavoured to assist them while corrective measures were taking effect. It had, for example, renewed its stand-by arrangements with Peru, Chile and Bolivia, and had concluded new ones with Paraguay, Colombia, Nicaragua and Honduras. Some of those countries had also received loans from the United States Government and American commercial banks which helped them to carry out the programmes they had drawn up to re-establish a position conducive to the stabilization of exchange rates. Monetary stability was the main goal, and where the Fund agreed to provide resources in support of a programme involving the temporary use of a fluctuating exchange rate, it had done so as a last resort. When early in 1958, France had turned to the Fund with a request to renew its stand-by arrangement, it had presented at the same time a comprehensive stabilization programme. It was still too early to say

anything definite about the success of the programme, but favourable results were already evident.

8. In spite of political apprehensions, European foreign exchange markets had in recent months behaved extraordinarily well. After twelve years of reconstruction, it seemed that a more enduring stability had been achieved by the European countries and that their need for assistance should have been reduced. Of the \$3,900 million representing the Fund's total business since it began operations, a little less than two-thirds had been the share of European countries. It was to be noted, however, that if the unused stand-by arrangements were excluded, the amount obtained by European countries was only \$1,650 million, compared with \$1,316 million for other countries; nor should it be forgotten that European countries played an important part in international trade and that their restored balance and prosperity were bound to react favourably on the rest of the world.

9. Allowing for the contingent liability represented by unused stand-by agreements, the Fund had a balance of \$1,400 million in gold and United States and Canadian currency. It also had large holdings of German marks, Netherlands guilders, pounds sterling and Belgian francs, and further drawings of those widely transferable currencies could be expected in the future.

10. The main factors influencing the development of the world payments situation during the past eighteen months were the efforts of the Suez crisis—which the credit facilities provided by the Fund had done much to mitigate—and the inflationary pressures which had subsequently made themselves felt as the boom reached its peak in the course of the second and third quarters of 1957 and which were responsible for the difficulties experienced by many countries. The corrective measures taken to contain the boom and the calming influence exerted at the Fund's annual meeting had helped speedily to restore the balance in world payments. The United States, which had had a surplus of \$400 million at the end of September 1957, had showed a net deficit of \$248 million with the rest of the world for the last quarter of 1957. The Federal Republic of Germany and Venezuela, which had also accumulated surpluses of \$700 million and \$500 million respectively at the end of September 1957, had made no further net additions to their reserves. It could therefore be said that the particular strains connected with the peak of the boom had been overcome by the end of 1957.

11. It was true that since then the boom had given way to a recession in the United States, although business activity still remained at a high level in Europe. The current recession in the United States economy might have an unfavourable effect on other countries and in particular on the producers of raw materials. It was one of the tasks of the Fund to be of assistance when payments difficulties of that kind arose. It went without saying that the Fund's assistance would be of value only to the extent that the countries themselves took the necessary remedial measures. There was little danger of the recurrence in the United States of an agricultural depression coinciding with an industrial downturn, as in the 1930's; indeed, there had recently been a slight rise in the prices of several agricultural products. Care should be taken, however, not only to abstain from raising tariffs and imposing other obstacles to trade, but also to avoid any abrupt interruption of the flow of investment capital; such capital had

been of great assistance to the development of many countries and to the upward trend in world trade. In the monetary field he did not think that there was any reason to fear a serious crack in the exchange structure such as had occurred in the 1930's. It was worth remembering that past recessions had been overcome by the interplay of a reduction of production costs and an easing of money. Industrial countries which were in a strong reserve position would find that they could ease their money conditions more effectively than in the past. Experience showed that prosperity was incompatible with a system of closed economies. If the proper measures were taken in good time the dangers of the recession could be warded off and the countries of the world could continue to live in the hope of further economic and social advances.

12. Mr. PEREZ LOPEZ (Mexico) regretted that the Fund's excellent report was already out of date, as the world economic situation had undergone profound changes since the end of 1957.

13. Although 1956 had been a year of intense activity, it had also seen a deterioration in the terms of trade of the primary producing countries. For most countries the main problem had been to contain the inflationary trend and there had been a general tendency to resort to policies of monetary restriction. Those anti-inflationary measures had, however, been applied in an atmosphere of confidence in the presence of a persistent demand for goods and services and a general development, which in many countries had materialized in an unprecedented economic expansion.

14. In 1957 the volume of the world production of goods and services and the value of international trade had continued to rise, but less sharply, and towards the end of the year there had appeared in the United States the first signs of a slackening of economic activity, which might have decisive consequences for other countries.

15. The United States had subsequently radically modified its monetary policy and it was to be hoped that the measures that it had taken and intended to take would enable it to overcome its current difficulties and remove the dangers which a recession in the United States would inevitably have for other countries. His delegation hoped that the United States would refrain from unloading its agricultural surpluses at low prices abroad, from imposing import duties on raw materials and from reducing the financial assistance it was giving other countries.

16. In any event the Fund had a very difficult task and, as matters stood, it appeared to be long way from achieving the purposes for which it had been established. Nevertheless, much of the progress accomplished during the past twelve years must be attributed to the Fund.

17. Although the Fund had always approved changes in the par value of over-evaluated currencies, it insisted that devaluation alone was not enough to solve fundamental economic problems. In the under-developed countries inflationary pressures were mainly caused by efforts to raise real income through economic development. The possibilities of a country's development were always in direct proportion to its real resources. An inflationary policy was not likely to result in an increase in real resources; on the contrary, it tended in the last analysis to slow down rather than accelerate national progress. Investments

should be based on real savings and there could be no healthy and lasting economic development in a period of inflation. By defending those principles in the under-developed countries which were members, the Fund had made what was, perhaps, the most effective contribution to ensuring their balanced development.

18. But although internal equilibrium was a prerequisite of external equilibrium it was not sufficient. External equilibrium depended on the relations between countries and primarily on a harmonious relation between their rates of development. The rate of capital formation in the under-developed countries was more than ever determined largely by foreign demand for raw materials. That demand, however, was less developed than the demand for industrial products and the gap between the level of living in the under-developed countries and the more advanced countries was constantly increasing. The import of capital was only a temporary solution; the real solution lay in diversification of the economy and the financing of investment by national savings. The under-developed countries were far more vulnerable than others to conditions abroad. The Managing Director of the Fund had emphasized that fact at the twenty-third session, and he had advised the under-developed countries not to conclude agreements fixing the price of primary products and to avoid all inflationary policies. It had been out of the question, however, for the under-developed countries to finance their imports by their exports so as not to have recourse indefinitely to uncertain and limited imported capital.

19. His delegation agreed with the administrators of the Fund that inflation led to a reduction in real savings, soon followed by a reduction in the rate of increase of the real national product. The under-developed countries realized the importance of monetary stability but they were convinced that their foreign balance depended largely on the attitude of the more advanced countries and the Fund was right to emphasize the responsibilities of the countries in a strong surplus position.

20. The Fund's activities had expanded considerably, but that was not the only proof of the Fund's value. The stand-by arrangements had done much to engender confidence in the members of the Fund; at the same time drawing rights should in some cases be increased and that would necessitate an increase in the quotas of some countries. The Fund should also encourage the sale of convertible currencies other than the dollar in order to accentuate the trend towards multilateralism in international payments and trade.

21. His delegation welcomed the fact that the Fund gave assistance to countries not only to help them to meet exceptional and immediate needs in order to regulate their payments position but also to enable them to carry out stabilization programmes.

22. In conclusion he said that the numerous and complex questions to which harmonious economic development gave rise were far from solution and much would have been achieved when countries understood the need for weighing the international consequences of their policies. The Fund had an important part to play in that respect.

23. Mr. DE GRIPENBERG (Finland) said that the excellent report of the Fund was sufficient to dispel the doubts that had sometimes been expressed as to the

Fund's usefulness and justified the opinion that its resources ought to be increased in order to ensure continuation of its most important activities. It was evident from the current disequilibrium in the balance of payments that the gradual relaxation of restrictions in several countries had rendered their economies more vulnerable to outside influences, and that some expansion in the available amount of international reserves might well be required. Although the convertibility of many currencies permitted the Fund to make greater use than in the past of currencies other than the dollar, it had to be admitted that a considerable proportion of the assets of the Fund had already been withdrawn or committed in stand-by arrangements. In those circumstances it was extremely gratifying that the Fund had been able to extend its credit operations in conjunction with other financial organizations such as the European Payments Union. The Finnish delegation hoped that the Fund would examine the possibilities of extending such co-operation.

24. Lastly, he wished to congratulate the Fund on its technical assistance activities and to thank it on behalf of the Finnish Government, which had been able, with the help of the Fund, to carry out various financial reforms and liberalize its imports to a large extent.

25. Mr. LUNS (Netherlands) praised the action taken by the Fund to reduce the disequilibrium in balances of payments among member States. The essential function of the Fund was to restore confidence in currencies. That objective had been attained in the Netherlands, and the Netherlands Government had even been able to cancel a stand-by arrangement for \$68,750,000, which was to have continued until 12 September 1958. The prosperity of all the European nations, which were heavy importers of raw materials, was essential to the world economy and the role of the Fund might be decisive in that respect.

26. There were many other activities of the Fund which, though inconspicuous, were nevertheless important, such as the annual consultations, the technical assistance missions, the training programmes and the preparation of periodical publications. Lastly, the Fund had a part to play in the current economic situation, when the recession in certain countries might have serious economic and even political consequences. The interest of the developed countries, which wanted to avoid unemployment, and the under-developed countries, which were unwilling to accept low prices for their raw materials, called for the adoption of a series of measures, including financial ones, to restore stability and avert a depression as serious as that of the 1930's.

27. Mr. PHILLIPS (United States of America) observed that the operations of the Fund during the past financial year had been on a particularly large scale, a fact which conclusively demonstrated the value of the Fund to its members. The Fund had been able to help member countries meet balance-of-payment difficulties by previously establishing a body of principles governing the use of its resources and by furnishing them with technical advice. The experience of the past eighteen months had conclusively demonstrated the value of those principles.

28. Assistance from the Fund must be considered as temporary, giving the member Governments a limited period of time in which to restore stability and balance

in their economic situation. It was essential that the Fund should retain its original character of a revolving fund, and the results had shown that the Fund's resources were in fact revolving and would be available to do service again and again in the future. It was interesting, in that connexion, to note that there was a growing demand for currencies other than dollars, which had made those resources of the Fund more useful.

29. With regard to the annual consultations with member Governments, he noted that they did not deal only with exchange restrictions but also with the fiscal and credit policies of the countries concerned against the background of their broad economic position.

30. The view had sometimes been expressed that the Fund was primarily helpful to the economically advanced countries, since its resources were available only to help overcome temporary balance of payments difficulties. It was gratifying, therefore, to hear that the Fund had been actively working for several years to assist the under-developed countries to solve certain financial problems. The Fund could play a very useful role in assisting the member countries to promote their economic development while avoiding inflation.

31. Mr. SCOTT FOX (United Kingdom) said that the report just submitted to the Council gave a very clear idea not only of the operations of the Fund but of the world economic situation.

32. The United Kingdom Government had always supported efforts to make the Fund's resources more readily available, and he was pleased to note that the Fund was helping member States not only to surmount temporary difficulties but to deal with more serious situations, without recourse to measures which might prejudice the growth and liberalization of international trade.

33. The United Kingdom was among the countries which had resorted to the Fund during the period in question. In December 1956 it had withdrawn a sum of \$561.5 million and had entered into a stand-by arrangement for over \$738 million. He had already had occasion to say the year before what an advantage those arrangements were for the United Kingdom.^{2/} Since

^{2/} See Official Records of the Economic and Social Council, Twenty-third Session, 956th meeting.

then the pound sterling had again been attacked by speculators and it was partly owing to the Fund that it had been able to resist. In December 1957 the stand-by arrangement had been renewed for one year.

34. Mr. NINCIC (Yugoslavia), noting that for the second consecutive year the volume of the Fund's operations had increased substantially as compared to previous years, remarked that, in contrast to the fiscal year 1956-57 when the bulk of operations had been connected with the economic consequences of certain political events, the current fiscal year was characterized by operations more directly related to circumstances of an essentially economic nature.

35. In the industrialized countries, up to the autumn of 1957, booming economic activities had led to transfers of capital and of monetary reserves that had accentuated the disequilibrium in international payments. There could be no doubt that the Fund had at that time done much to prevent an aggravation of the situation. Since then there had been further developments and the Yugoslav delegation took note of the Managing Director's statement that the authorities of the Fund were closely watching the current recession. It hoped that the Fund would not hesitate to act vigorously, should the need arise.

36. In the under-developed countries, the Fund's consultations had stimulated the Governments concerned to ease restrictions in the field of payments and trade. It was clear that freedom of trade and monetary convertibility could be attained only step by step and that the gradual process of liberalization depended primarily on general economic conditions in the countries concerned and on the place they occupied in the world economy. For that reason, there was an obvious link between the Fund's policies towards under-developed countries and the situation in the raw-materials market.

37. In conclusion, he was glad to note the increased volume of the Fund's assistance to the under-developed countries, including Yugoslavia; such assistance contributed both to the welfare of the countries concerned and to more stable relations in the world economy as a whole.

The meeting rose at 1 p.m.