

ARTICLE IV, SECTION 2

Production Subsidies and Premium Prices for Gold

STATEMENT OF POLICY CONCERNING SUBSIDIES FOR GOLD PRODUCTION

The following statement of policy concerning subsidies for the production of gold is adopted, and the Managing Director is asked to send copies to members and release the statement for publication on December 12.

The International Monetary Fund has a responsibility to see that the gold policies of its members do not undermine or threaten to undermine exchange stability. Consequently every member which proposes to introduce new measures to subsidize the production of gold is under obligation to consult with the Fund on the specific measures to be introduced.

Under Article IV, Section 2, of the Articles of Agreement of the Fund members are prohibited from buying gold at a price above parity plus the prescribed margin. In the view of the Fund, a subsidy in the form of a uniform payment per ounce for all or part of the gold produced would constitute an increase in price which would not be permissible if the total price paid by the member for gold were thereby to become in excess of parity plus the prescribed margin. Subsidies involving payments in another form may also, depending upon their nature, constitute an increase in price.

Under Article IV, Section 4(a), each member of the Fund "undertakes to collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members, and to avoid competitive exchange alterations." Subsidies on gold production regardless of their form are inconsistent with Article IV, Section 4(a) if they undermine or

threaten to undermine exchange stability. This would be the case, for example, if subsidies were to cast widespread doubt on the uniformity of the monetary value of gold in all member countries.

Subsidies which do not directly affect exchange stability may, nevertheless, contribute directly or indirectly to monetary instability in other countries and hence be of concern to the Fund.

A determination by the Fund that a proposed subsidy is not inconsistent with the foregoing principles will depend upon the circumstances in each case. Moreover, the Fund may find that subsidies which are justified at any one time may, because of changing conditions and changing effects, later prove to be inconsistent with the foregoing principles. In order to carry out its objectives, the Fund will continue to study, and to review with its members, their gold policies and any proposed changes, to determine if they are consonant with the provisions of the Fund Agreement and conducive to a sound international policy regarding gold.

Decision No. 233-2

December 11, 1947

PREMIUM GOLD TRANSACTIONS: STATEMENT TO MEMBERS

The following statement should be communicated to members and made public without delay:

In June 1947, the Fund issued a statement recommending to its members that they take effective action to prevent external transactions in gold at premium prices, because such transactions tend to undermine exchange stability and to impair monetary reserves. From time to time the Fund has reviewed its recommendations and the effectiveness of the action taken by its members.

Despite the improvement in the payments position of many members, sound gold and exchange policy of members continues to require that to the maximum extent practicable, gold should be held in official reserves rather than go into private hoards. It is only as gold is held in official reserves that it can be used by the monetary authorities to maintain exchange rates and meet balance of payments needs.

However, the Fund's continuous study of the situation in gold-producing and -consuming countries shows that their positions vary so widely as to make it impracticable to expect all members to take uniform measures in order to achieve the objectives of the premium gold statement. Accordingly, while the Fund reaffirms its belief in the economic principles involved and urges the members to support them, the Fund leaves to its members the practical operating decisions involved in their implementation, subject to the provisions of Art. IV, Sec. 2 and other relevant articles of the Articles of Agreement of the I.M.F.

The Fund will continue to collect full information about gold transactions, will watch carefully developments in this field and will be prepared in consultation with members to consider problems relating to exchange stability and any other problems which may arise.

Decision No. 75-(705)

September 28, 1951

Statement of June 18, 1947 on Transactions in Gold
at Premium Prices

The International Monetary Fund has given consideration to the international gold transactions at prices substantially above monetary parity which have been taking place in various areas of the world. Because of the importance of this matter the Fund has prepared this statement of its views.

A primary purpose of the Fund is world exchange stability and it is the considered opinion of the Fund that exchange stability may be undermined by continued and increasing external purchases and sales of gold at prices which directly or indirectly produce exchange transactions at depreciated rates. From information at its disposal, the Fund believes that unless discouraged this practice is likely to become extensive, which would fundamentally disturb the exchange relationships among the members of the Fund. Moreover, these transactions involve a loss to monetary reserves, since much of the gold goes into private hoards rather than into central holdings. For these reasons, the Fund strongly deprecates international transactions in gold at premium prices and recommends that all of its members take effective action to prevent such transactions in gold with other countries or with the nationals of other countries.

It is realized that some of these transactions are being conducted by or through non-member countries or their nationals. The Fund recommends that members make any representations which, in their judgment, are warranted by the circumstances to the governments of non-member countries to join with them in eliminating this source of exchange instability.

The Fund has not overlooked the problems arising in connection with domestic transactions in gold at prices above parity. The conclusion was reached that the Fund would not object at this time to such transactions unless they have the effect of establishing new rates of exchange or undermining existing rates of other members, or unless they result in a significant weakening of the international financial position of a member which might affect its utilization of the Fund's resources.

The Fund has requested its members to take action as promptly as possible to put into effect the recommendations contained in this statement.