Fund starts 1977 with active first quarter

Fund activities in the first three months of 1977 were marked by a number of "firsts." In addition to approving the largest stand-by arrangement in its history—the SDR 3.36 billion for the United Kingdom—the Fund welcomed its first new member of the year: Guinea-Bissau, held its first gold auction on behalf of the Trust Fund under the new schedule of monthly auctions, made its first loan disbursements as a Trustee of the Trust Fund, and held the first sale of gold for "restitution." During the period the Fund also reviewed its rate of remuneration on the so-called super gold tranche positions and the interest rate on the special drawing right (SDR). At the same time, the Fund was engaged in preparing for the April 28–29 meetings of the Interim Committee in Washington. Purchases and repurchases during the first quarter amounted to SDR 200.8 million and SDR 95.5 million, respectively. Stand-by arrangements approved during the period amounted to SDR 3,440.6 million. Net drawings as of March 31 amounted to SDR 16,116.10 million.

On March 24, the number of Fund members was increased to 130 by the accession to membership of the Republic of Guinea-Bissau. The new member's quota is equivalent to SDR 3.2 million, raising the Fund's total quotas to SDR 29,216,500,000. The country also became the 129th member of the World Bank on the same day.

Fund activity

On March 28 the Fund announced that, for the calendar quarter beginning on April 1, 1977, the rate of remuneration on members' so-called super gold tranche positions will be 3.75 per cent per annum, as compared with the previous rate of 4 per cent. The rate of interest and charges on SDRs for the same calendar quarter will also be set at 3.75 per cent. Under the Fund's Articles of Agreement, the rates of interest and charges on SDRs may not exceed the rate of remuneration when the latter is above 2 per cent. Remuneration is paid by the Fund to a member country on the basis of its so-called super gold tranche position in the Fund, that is, to the extent that the Fund's holdings of that member's currency are less than 75 per cent of the member's quota in the Fund.

Interim Committee supports expanded Fund role

Progress in two areas was achieved by the Fund's Interim Committee of the Board of Governors at its eighth meeting, held in Washington, April 28–29 under the chairmanship of Willy De Clercq, Minister of Finance of Belgium.

Joseph J. Diana

Messrs. Witteveen and De Clercq

First, it was recognized that there is "an urgent need" for the supplementary facility advocated by Managing Director H. Johannes Witteveen. The arrangement would be temporary and would allow the Fund to expand its financial assistance to members facing large payments imbalances in relation to their economies. The Committee agreed on some of the main features of the facility, such as the borrowing by the Fund of resources for the facility and the need for "adequate conditionality." The willingness of a number of countries to collaborate with the Fund on arrangements for supplementary credit was welcomed, and the Managing Director was urged to complete negotiations with potential lenders. The Executive Directors will take action as required so that the new facility may be operative as soon as possible.

Second, the Committee endorsed the principles and procedures established by the Executive Directors for the guidance of members' exchange rate policies and for the implementation of the "firm surveillance" by the Fund in this area (see page 4), which is called for by Article IV of the proposed second amendment of the Articles of Agreement, currently in the process of acceptance by members.

Mr. De Clercq and Mr. Witteveen described the results and answered questions in a press briefing held after the Interim Committee meetings. In addition to the two principal results of the meetings, they discussed the Interim Committee's conclusions on other matters, including the need for an "adequate" increase in quotas under the seventh general review of quotas; the Committee's request that the Executive Directors report to it at its first meeting in 1978 regarding the advisability of a further allocation of SDRs; and the discussion regarding the world economic outlook, which focused particularly on the economic policy options available to members, and the functioning of the adjustment process.

(See *IMF Survey*, May 2, 1977 for full details)

One year of Fund gold sales
Auctions, now monthly, add to Trust Fund

In June 1977 the Fund completes one year of its gold auctions. With the conclusion of the eighth gold auction on April 6, 1977, the total amount accrued to the Trust Fund since the auctions began on June 2, 1976 amounted to about US$506 million. The 5,730,000 ounces of fine gold offered in the eight auctions drew total bids of 21,580,000 ounces. The amount of gold actually awarded was 5,730,514.590 ounces.

The average price ranged from US$109.40 per ounce of fine gold in the third auction to US$149.18 in the eighth. The lowest price bid by successful bidders was the US$108.76 offered in the third auction, while the highest was the US$151.00 offered in the eighth.

The bidding technique used in the first two auctions and again in the fifth and sixth was the common price method, under which all awards are made at the same (common) price to bidders submitting bids at that price or above. In the other four auctions the bid price method was used, whereby each successful bidder pays the price actually bid. Another change in the terms and conditions of the auctions that occurred during the period was the decision, following the third auction, to publish the names of successful bidders.

The Fund's gold auctions implement the Interim Committee's agreement, on August 31, 1975, on the disposition of the gold holdings of the Fund. In addition to the abolition of an official price for gold and the elimination of the obligation to use gold in transactions with the Fund, the consensus of the Interim Committee also provided for the sale of one sixth of the Fund's gold for the benefit of developing countries. A Trust Fund was established by a decision of the Fund's Executive Board on May 5, 1976, to receive and disburse any profits or surplus value from the sale of the Fund's gold. Part of these profits is intended for distribution to developing countries in proportion to their quotas as at August 31, 1975. The remainder of the profits is available to eligible members that qualify for a Trust Fund loan if the IMF is satisfied that the member has a need for balance of payments assistance and is making a reasonable effort to strengthen its payments position.

Gold prices at Fund auctions and in the London market prior to the auctions

(U.S. dollars per fine troy ounce)

	Second London fixing price	Average London fixing price	Average of preceding four weeks	Average price offered at Fund auctions	Range of prices offered by successful bidders at Fund auctions
1976					
June 2	126.90	126.78	126.74	126.98	126.00–134.00
July 14	122.20	122.23	123.73	123.02	122.05–126.50
September 15	111.25	110.38	108.70	109.40	108.76–114.00
October 27	117.85	117.75	115.47	117.71	116.80–119.05
December 8	135.65	135.15	132.36	137.89	137.00–150.00
1977					
January 26	132.15	132.55	132.57	134.43	133.26–142.00
March 2	145.05	144.98	137.33	146.51	145.55–148.00
April 6	148.60	147.90	149.32	149.18	148.55–151.00

Source: IMF Treasurer's Department.

Restitution of gold to member countries has begun

The Fund announced on January 31 that it had arranged the first sale of gold for "restitution" to member countries. The amount of gold sold in restitution was calculated in proportion to each member's quota as of August 31, 1975, and sold at a price of SDR 35 a fine ounce. The amount of gold actually transferred was 5,998,431.028 fine ounces, equivalent to SDR 209,945,087. Restitution of a total of 25 million ounces of the Fund's gold holdings to its members is to be carried out once a year during each of the four years of the gold sales program, under which another 25 million ounces are to be sold for the benefit of developing countries.

The first interim loan disbursements to 12 of the 61 members that have been listed as eligible to qualify for loans by the Trust Fund were announced by the International Monetary Fund, as Trustee for the Trust Fund, on February 4. The 12 countries—Burundi, the People's Republic of the Congo, Haiti, Kenya, Liberia, Morocco, Nepal, Philippines, Tanzania, Western Samoa, the People's Democratic Republic of Yemen, and Zaïre—received a total of SDR 31.588 million. Members are eligible for loans in proportion to their quotas in effect on December 31, 1975. The loan for each qualified member amounts to 5.3 per cent of its quota as of that date. This percentage was obtained as the ratio of SDR 198 million available for Trust loans to the total quotas of all 61 eligible members of SDR 3,760 million. The total amount available to the Trust for loans (SDR 198 million) consists of a share of about 70 per cent of the profits realized at the Fund's gold auctions during 1976, and of the investment income on the amounts realized at the auctions. Further loan disbursements are planned at six-month intervals.

A. W. Zanzi

Summary of transactions

(In millions of SDRs)

	January 1– December 31, 1976	January 1– March 31, 1977
Total purchases	**7,009.9**	**1,200.8**
Gold tranche purchases	990.8	12.1
Credit tranche purchases	1,517.2	1,043.7
Extended facility purchases	90.0	100.0
Compensatory financing purchases	2,268.5	45.0
Oil facility purchases	2,143.4	—
Total repurchases	**1,272.0**	**95.5**
Net drawings		
March 31, 1975		6,606.0
March 31, 1976		11,636.0
March 31, 1977		16,116.1

Surveillance over exchange rates

The Executive Directors of the International Monetary Fund discussed the implementation of Article IV of the proposed Second Amendment of the Fund's Articles of Agreement (for text of Article IV see Finance & Development, *p. 10, June 1976) and reached agreement on the principles and procedures for the guidance of members and for the exercise of Fund surveillance with regard to the exchange rate policies of members in the period after the second amendment has become effective. These principles and procedures, which are subject to reconsideration in the light of experience, are set forth in a document entitled* "Surveillance over Exchange Rate Policies."

In approving these principles and procedures, on April 29, 1977, the Executive Board stated that "The Fund shall act in accordance with this document when the second amendment becomes effective. In the period before that date the Fund shall continue to conduct consultations in accordance with present procedures and decisions."

The Board also decided that "The Fund shall review the document entitled Surveillance over Exchange Rate Policies *at intervals of two years and at such other times as consideration of it is placed on the agenda of the Executive Board."*

Here is the text of that document:

General Principles

Article IV, Section 3(*a*) provides that "The Fund shall oversee the international monetary system in order to ensure its effective operation, and shall oversee the compliance of each member with its obligations under Section 1 of this Article." Article IV, Section 3(*b*) provides that in order to fulfill its functions under 3(*a*), "The Fund shall exercise firm surveillance over the exchange rate policies of members, and shall adopt specific principles for the guidance of all members with respect to those policies." Article IV, Section 3(*b*) also provides that "The principles adopted by the Fund shall be consistent with cooperative arrangements by which members maintain the value of their currencies in relation to the value of the currency or currencies of other members, as well as with other exchange arrangements of a member's choice consistent with the purposes of the Fund and Section 1 of this Article. These principles shall respect the domestic social and political policies of members, and in applying these principles the Fund shall pay due regard to the circumstances of members." In addition, Article IV, Section 3(*b*) requires that "Each member shall provide the Fund with the information necessary for such surveillance, and, when requested by the Fund, shall consult with it on the member's exchange rate policies."

The principles and procedures set out below, which apply to all members whatever their exchange arrangements and whatever their balance of payments position, are adopted by the Fund in order to perform its functions under Section 3(*b*). They are not necessarily comprehensive and are subject to reconsideration in the light of experience. They do not deal directly with the Fund's responsibilities referred to in Section 3(*a*), although it is recognized that there is a close relationship between domestic and international economic policies. This relationship is emphasized in Article IV which includes the following provision: "Recognizing . . . that a principal objective (of the international monetary system) is the continuing development of the orderly underlying conditions that are necessary for financial and economic stability, each member undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates."

Principles for the Guidance of Members' Exchange Rate Policies

A. A member shall avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members.

B. A member should intervene in the exchange market if necessary to counter disorderly conditions which may be characterized inter alia by disruptive short-term movements in the exchange value of its currency.

C. Members should take into account in their intervention policies the interests of other members, including those of the countries in whose currencies they intervene.

Principles of Fund Surveillance over Exchange Rate Policies

1. The surveillance of exchange rate policies shall be adapted to the needs of international adjustment as they develop. The functioning of the international adjustment process shall be kept under review by the Executive Board and Interim Committee and the assessment of its operation shall be taken into account in the implementation of the principles set forth below.

2. In its surveillance of the observance by members of the principles set forth above, the Fund shall consider the following developments as among those which might indicate the need for discussion with a member:

(i) protracted large-scale intervention in one direction in the exchange market;

(ii) an unsustainable level of official or quasi-official borrowing, or excessive and prolonged short-term official or quasi-official lending, for balance of payments purposes;

(iii) (a) the introduction, substantial intensification, or prolonged maintenance, for balance of payments purposes, of restrictions on, or incentives for, current transactions or payments, or

(b) the introduction or substantial modification for balance of payments purposes of restrictions on, or incentives for, the inflow or outflow of capital;

(iv) the pursuit, for balance of payments purposes, of monetary and other domestic financial policies that provide abnormal encouragement or discouragement to capital flows; and

(v) behavior of the exchange rate that appears to be unrelated to underlying economic and financial conditions including factors affecting competitiveness and long-term capital movements.

3. The Fund's appraisal of a member's exchange rate policies shall be based on an evaluation of the developments in the member's balance of payments against the background of its reserve position and its external indebtedness. This appraisal shall be made within the framework of a comprehensive analysis of the general economic situation and economic policy strategy of the member, and shall recognize that domestic as well as external policies can contribute to timely adjustment of the balance of payments. The appraisal shall take into account the extent to which the policies of the member, including its exchange rate policies, serve the objectives of the continuing development of the orderly underlying conditions that are necessary for financial stability, the promotion of sustained sound eco-

nomic growth, and reasonable levels of employment.

Procedures for Surveillance

I. Each member shall notify the Fund in appropriate detail within thirty days after the Second Amendment becomes effective of the exchange arrangements it intends to apply in fulfillment of its obligations under Article IV, Section 1. Each member shall also notify the Fund promptly of any changes in its exchange arrangements.

II. Members shall consult with the Fund regularly under Article IV. The consultations under Article IV shall comprehend the regular consultations under Articles VIII and XIV. In principle such consultations shall take place annually, and shall include consideration of the observance by members of the principles set forth above as well as of a member's obligations under Article IV, Section 1. Not later than three months after the termination of discussions between the member and the staff, the Executive Board shall reach conclusions and thereby complete the consultation under Article IV.

III. Broad developments in exchange rates will be reviewed periodically by the Executive Board, inter alia in discussions of the international adjustment process within the framework of the World Economic Outlook. The Fund will continue to conduct special consultations in preparing for these discussions.

IV. The Managing Director shall maintain close contact with members in connection with their exchange arrangements and exchange policies, and will be prepared to discuss on the initiative of a member important changes that it contemplates in its exchange arrangements or its exchange rate policies.

V. If, in the interval between Article IV consultations, the Managing Director, taking into account any views that may have been expressed by other members, considers that a member's exchange rate policies may not be in accord with the exchange rate principles, he shall raise the matter informally and confidentially with the member, and shall conclude promptly whether there is a question of the observance of the principles. If he concludes that there is such a question, he shall initiate and conduct on a confidential basis a discussion with the member under Article IV, Section 3(*b*). As soon as possible after the completion of such a discussion, and in any event not later than four months after its initiation, the Managing Director shall report to the Executive Board on the results of the discussion. If, however, the Managing Director is satisfied that the principles are being observed, he shall informally advise all Executive Directors, and the staff shall report on the discussion in the context of the next Article IV consultation; but the Managing Director shall not place the matter on the agenda of the Executive Board unless the member requests that this procedure be followed.

VI. The Executive Directors shall review annually the general implementation of the Fund's surveillance over members' exchange rate policies.

Selected data as at March 31, 1977

(In millions of SDRs)

Gold Account			
Bars	4,977.4		
SDRs in General Account	762.5		

Stand-by arrangements	Amount agreed	Amount purchased	Undrawn balance
Argentina	260.00	159.50	100.50
Congo, People's Rep.	4.70	—	4.70
Costa Rica	11.60	—	11.60
Guyana	7.25	7.25	—
Haiti	6.88	—	6.88
Israel	29.25	12.00	17.25
Pakistan	80.00	—	80.00
South Africa	152.00	189.00[1]	38.00
United Kingdom	3,360.00	1,000.00	2,360.00
Uruguay	25.00	—	25.00
Western Samoa	0.59	—	0.59
Zambia	62.00	8.50	53.50
Subtotal	3,999.27	1,376.25	2,698.02
Extended arrangements			
Kenya	50.10[2]	7.70	42.40
Mexico	200.00[3]	100.00	100.00
Philippines	160.00[4]	90.00	70.00
Total	4,409.37	1,573.95	2,910.42

— indicates zero.
[1] Includes augmentation by repurchase equivalent to SDR 75 million.
[2] Second phase of a three-year arrangement totaling SDR 67.20 million.
[3] First phase of a three-year arrangement totaling SDR 518 million.
[4] Second phase of a three-year arrangement totaling SDR 217 million.

Fund's holdings of selected currencies as at March 31, 1977

(In millions of SDRs)

	Amount	Per cent of quota
Austrian schillings	25.2	9
Bahrain dinars	5.3	53
Belgian francs	43.7	7
Brazilian cruzeiros	277.4	63
Canadian dollars	556.5	51
French francs	678.3	45
Deutsche mark	106.8	7
Guatemalan quetzales	24.3	67
Irish pounds	53.4	44
Japanese yen	92.0	8
Kuwaiti dinars	9.7	15
Luxembourg francs	11.1	56
Malta pounds	2.3	15
Netherlands guilders	151.1	22
Norwegian kroner	93.6	39
Rials Omani	3.2	45
Qatar riyals	5.0	25
Swedish kronor	144.5	44
U.A.E. dirhams	2.0	13
U.S. dollars	2,884.6	43
Venezuelan bolívares	26.3	8