

DMD : ROO : FUND ADMINISTRATION : REPURCHASES

BOX: 8 FILE: 119

#4477



Mr. Ivar Rooth

For Immediate Attention

Room 935

SM/55/15

(1)

#1

March 22, 1955

To: Members of the Executive Board
From: The Acting Secretary
Subject: Voluntary Repurchase - Australia

Attached is a proposal from Australia for a further repurchase of the Fund's holdings of Australian pounds together with a recommendation by the staff.

This subject will not be brought to the agenda for discussion unless an Executive Director so requests. In the absence of such request by the close of business on Monday, March 28, 1955, the proposal will be deemed approved by the Executive Board and such approval will be recorded in the minutes of the next subsequent meeting.

Att:(1)

Other Distribution:
Department Heads
Division Chiefs

INTERNATIONAL MONETARY FUND

Treasurer's Department

Voluntary Repurchase by Australia

Prepared by Treasurer's Department in consultation with
Legal Department

March 21, 1955

In accordance with the attached note of the Executive Director elected by Australia to the Managing Director, the Australian Government proposes a further repurchase of the Fund's holdings of Australian pounds equivalent to \$6 million and offers US dollars to make the repurchase. The proposed transaction constitutes a voluntary repurchase and the same considerations as stated in SM/53/97 apply to the present proposal.

It is recommended that the Fund accept Australia's offer to repurchase Australian pounds 2,678,571-8-7 from the Fund. The proposed repurchase would reduce the Fund's holdings of Australian currency to 99.8% of Australia's quota.

ATTACHMENT

March 18, 1955

Dear Mr. Rooth:

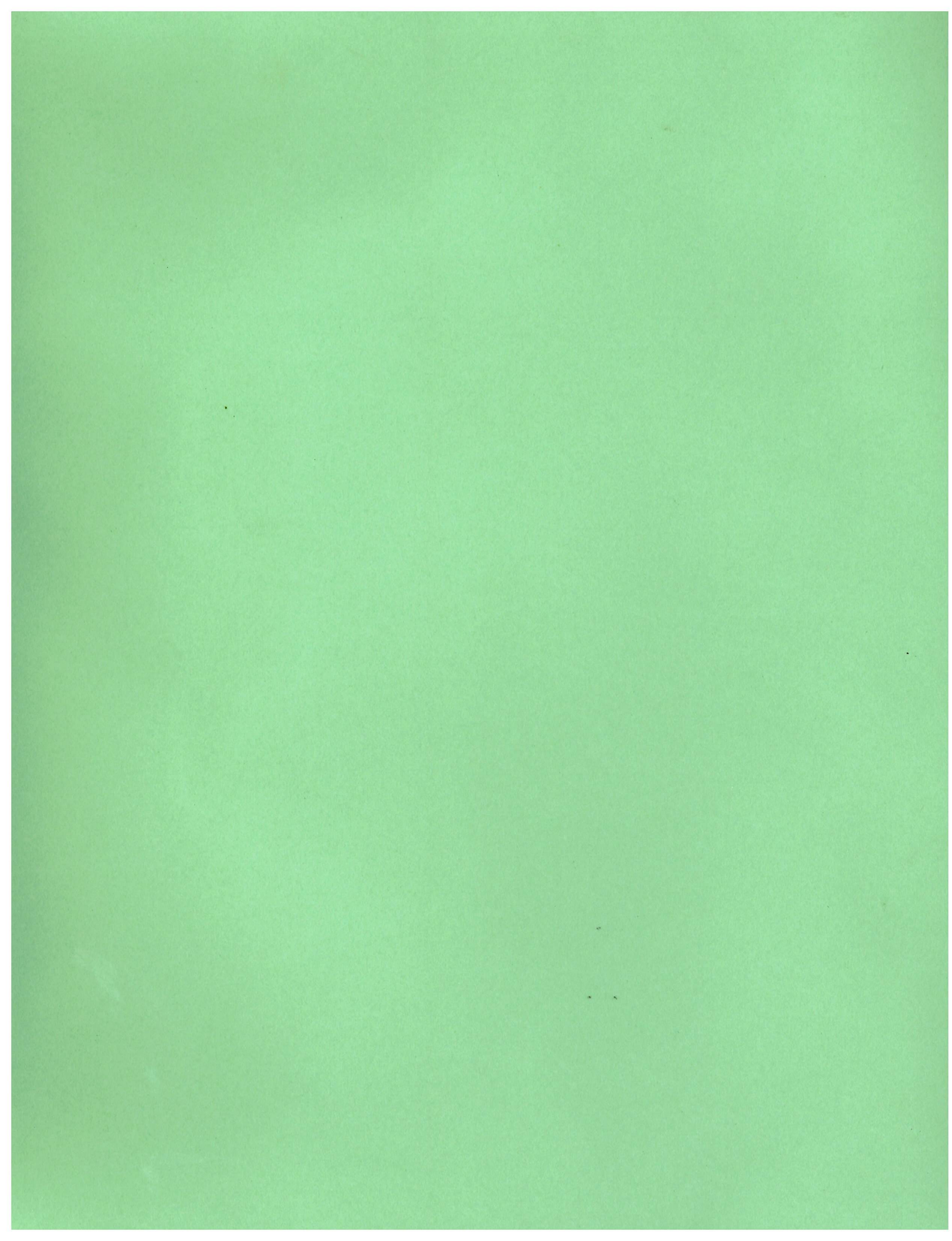
I have been authorized by the Australian Government to make an offer on its behalf to repurchase with United States dollars on March 31st, an amount of Australian currency equivalent to U.S.\$6,000,000.00.

Yours sincerely,

/s/ L.H.E. Bury

L. H. E. Bury
Executive Director

Mr. Ivar Rooth,
Managing Director,
International Monetary Fund,
Washington, D.C.



Repurchases from Sterling Area Countries

In 1953 and 1954, the sterling area countries improved their net position in the Fund by approximately \$378 million. This improvement took place through repurchases with dollars and through Fund sales of sterling. Nearly all of the sales of sterling were followed promptly by repurchases with dollars by the country acquiring the sterling (Japan).

The following table shows how the net improvement has taken place:

<u>India</u>	March 1954	repurchase	\$36.22 million
	July 1954	repurchase	10.50
	March 1955	repurchase	25.68
<u>Australia</u>	December 1953	repurchase	12.00
	March 1954	repurchase	6.00
	June 1954	repurchase	6.00
	September 1954	repurchase	6.00
	December 1954	repurchase	6.00
<u>U.K.</u>	August 1953	sale of sterling	5.60
	Sept. 1953	sale of sterling	14.00
	Nov. 1953	sale of sterling	36.40
	Dec. 1953	sale of sterling	12.04
	Dec. 1953	sale of sterling	61.60
	Dec. 1953	sale of sterling	28.00
	August 1954	repurchase	112.00
Total			\$378.04 million

The sterling area is at present facing difficulties. Steps are being taken in the United Kingdom and in other sterling area countries to correct the forces that have led to a drain of gold and dollar reserves. Every measure that minimizes the outflow of reserves will to that extent enable the sterling area countries to avoid direct controls restricting imports.

Among the countries in the sterling area whose reserve position has been somewhat impaired is Australia. Despite a decline of nearly £ 100 million in reserves since the middle of 1954, Australia has been repurchasing its

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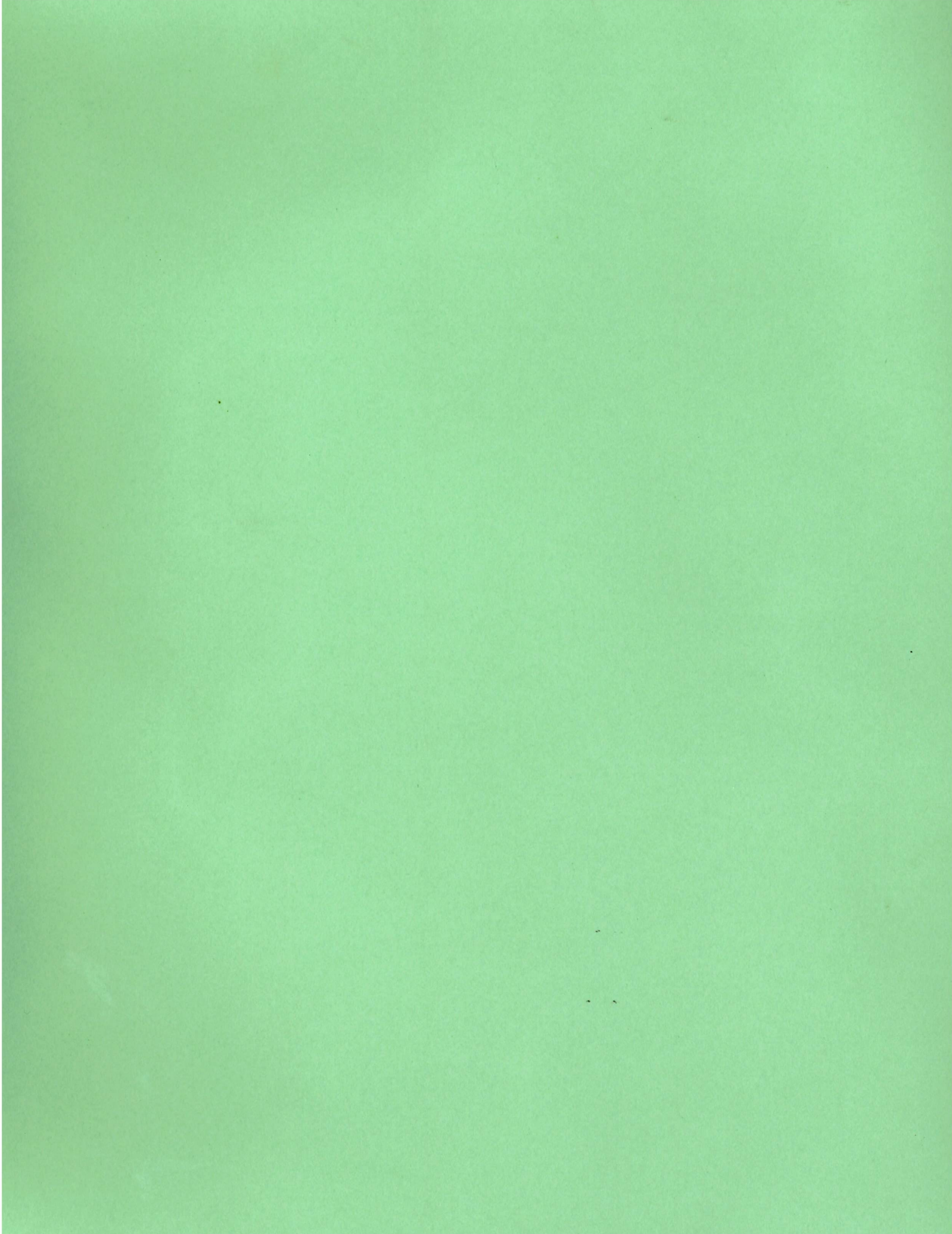
Among the countries in the sterling area whose reserve position has been somewhat impaired is Australia. Despite a decline of nearly £ 100 million in reserves since the middle of 1954, Australia has been repurchasing its

currency from the Fund. It has in the past fifteen months fully repaid the drawing of October 1949, and made substantial repayments on the drawing of August 1952. It would not be in the general interest of members of the Fund to have Australia make further voluntary repurchases at this time when she is under the necessity of temporarily re-imposing import restrictions.

Members of the Fund undertake to repay drawings from the Fund within three years, with an outside limit of five years. In the case of Australia, the three year period will not expire for six months more. To minimize any unnecessary strain on the reserves of Australia and the sterling area, the Managing Director proposes that the Australian authorities be informed as follows:

"In the opinion of the Fund, the general interest of its members would be served if the Government of Australia were to postpone for the time being the voluntary repurchases it has been making ~~on the exchange transaction of August 1952~~. Before the end of this year, the Managing Director will consult with the Government of Australia regarding an appropriate time for resuming such voluntary repurchases."

It should be added that if any other member of the sterling area is scheduled to make voluntary repurchases, the same delay should apply to its repurchases.





RESEARCH DEPARTMENT

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

March 24, 1955

CABLE ADDRESS
INTERFUND

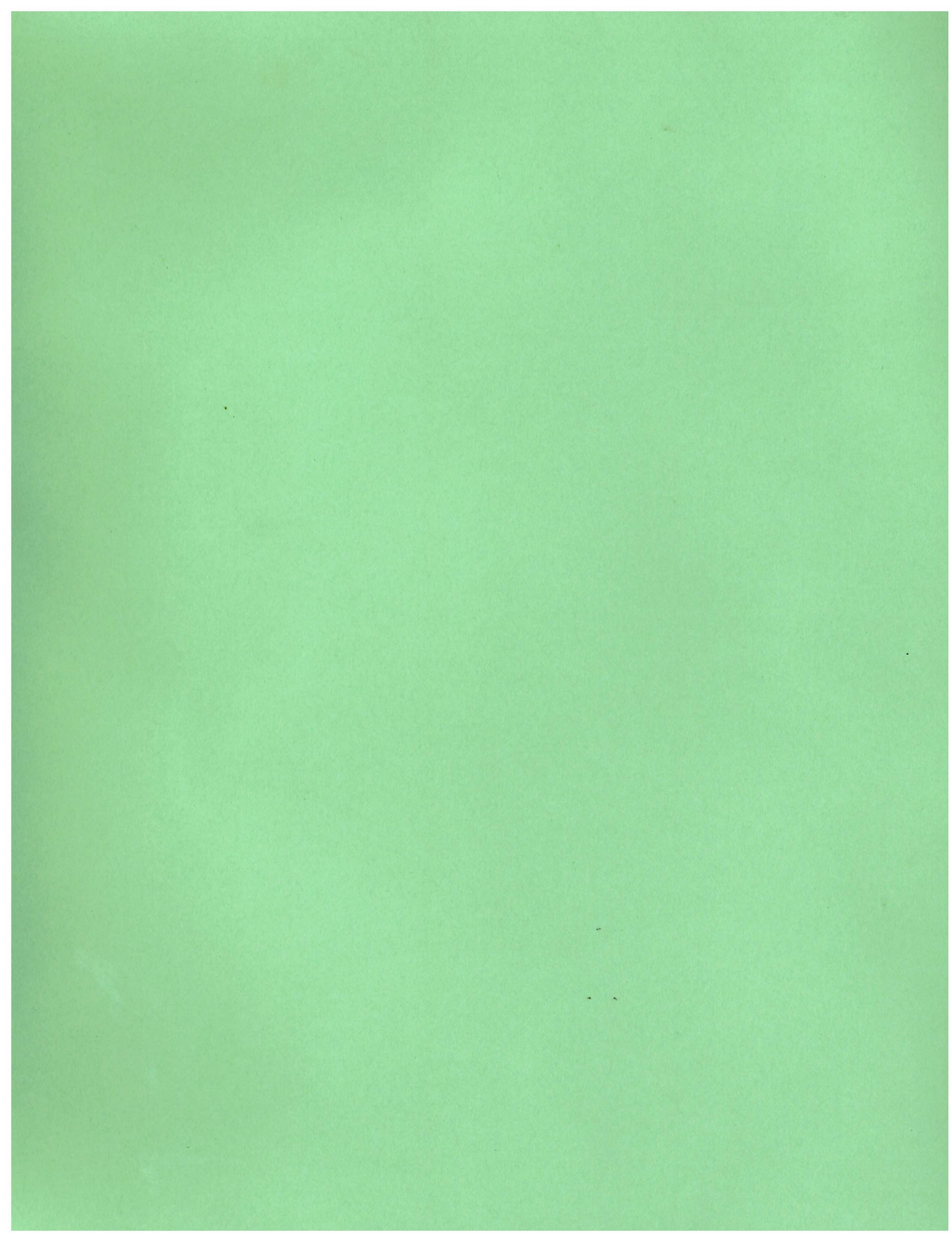
MEMORANDUM

TO: Mr. Rooth
FROM: J. J. Polak
SUBJECT: Australian interest costs

I checked with Mr. Ehrlich on Australia's interest cost. While the absolute amount for one year postponement is substantial, \$182,000 for \$5 1/2 million of indebtedness above the quota, the rate of interest that Australia is paying the Fund is not very high. Roughly speaking, it works out at 3 per cent per annum for the first half year and 3 1/2 per cent per annum for the next half year.

This does not compare unfavorably with the London Treasury Bill rate which is now 3 3/4 per cent. I see no reason, therefore, to emphasize the cost aspect in your discussion with Mr. Bury.

cc: Mr. Cochran
Mr. Gold



Given to F.S. & Ricketts?



RESEARCH DEPARTMENT

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

July 19, 1954

CABLE ADDRESS
INTERFUND

TO: Mr. Southard
Mr. Ricketts

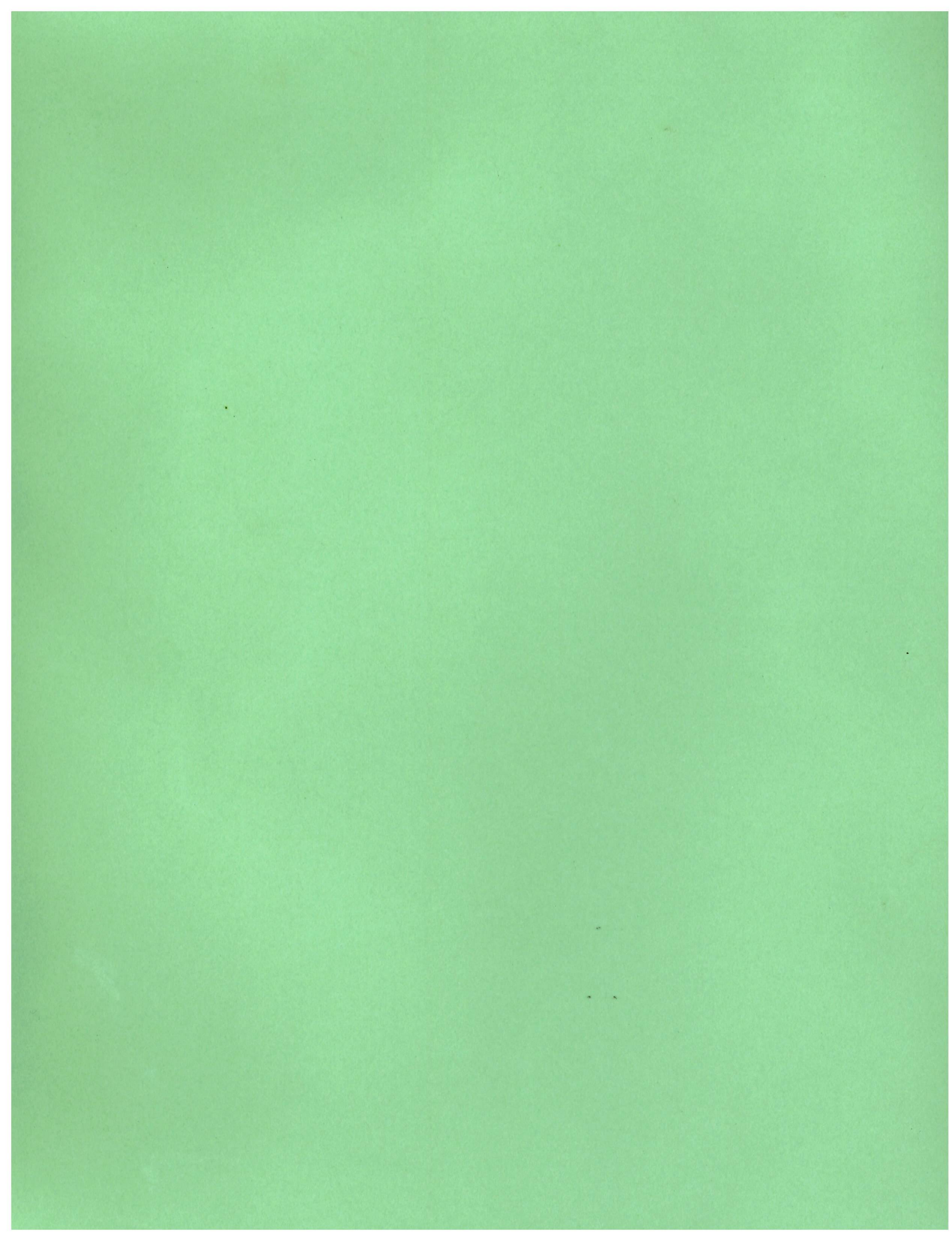
FROM: Mr. Rooth

Handwritten signature: Rooth

The staff and I are convinced that in one way or another, special repurchase rules ought to be laid down when a country gets a big stand-by. One of the possibilities is a repurchase arrangement such as that suggested in the paper.

Another possibility might be for the U.K. to undertake to repurchase automatically when the reserves have been above a certain figure for a specified time, say three or six months.

"In the opinion of the Fund, the general interest of its members would be served if the Government of Australia were to postpone for the time being the voluntary repurchases it has been making. Before the end of this year, the Managing Director will consult with the Government of Australia regarding an appropriate time for resuming such voluntary repurchases."



Mr. Ivar Rooth

EBD/52/152
Supplement 1

Room 935

(1)

#1

December 17, 1952

To: Members of the Executive Board

From: The Managing Director

Subject: Netherlands Repurchase

In Executive Board Document 52/152 I informed the Board of a provisional repurchase in the amount of \$27,121,500 payable in gold by the Netherlands, computed on the basis of preliminary monetary reserves data as of April 30, 1952. Payment of this amount was received by the Fund on August 20, 1952 and accepted provisionally pending receipt of final monetary reserves data.

On October 16, 1952, the Netherlands submitted final figures. The computation made by the staff on the basis of these figures arrived at the same repurchase obligation, that is, an amount of \$27,121,500 payable in gold. In conformity with the provisions of Rule I-6(c) the Netherlands were notified of the repurchase obligation and it was suggested to them that the payment made provisionally be now considered final. In a letter dated December 10, 1952 the Netherlands agreed.

Rule I-6(d) requires me to notify the Board when the formal request for payment is sent to the member. In view of the above mentioned agreement, there will be no formal request for payment in the present case.

Other Distribution:
Department Heads
Division Chiefs

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

**FOR
AGENDA**

EBS/52/19

CONTAINS CONFIDENTIAL
INFORMATION

December 10, 1952

TO: Members of the Executive Board
FROM: The Acting Secretary
SUBJECT: Yugoslavia - Repurchase

The attached memorandum and the related communication to the Managing Director from the Ambassador of Yugoslavia are circulated for the consideration of the Executive Directors.

This subject is on the December agenda.

Att: (2)

International Monetary Fund

Yugoslavia -- Repurchase

Prepared by Treasurer's and European and North American Departments

in consultation with the Legal Department

Approved by: Frederick W. Gray and Ernest Sturc

December 8, 1952

1. The Question of Yugoslav Repurchase

On September 27, 1949, Yugoslavia purchased \$3 million from the Fund and a further \$6 million on October 28, 1949. The two requests of Yugoslavia were considered at Executive Board Meetings 483 and 490, respectively. At the time of the purchases, the Yugoslav Government expressed the intention of making all possible efforts to repay the first drawing after approximately two years and thereafter the second drawing in a further period of approximately two years.

In September 1951, Yugoslavia informed the Fund that, despite the efforts of its Government, economic and political circumstances beyond its control had made a repurchase impossible at that time, that Yugoslavia would continue to make every effort to repurchase the \$3 million from the Fund as soon as possible, and that it hoped circumstances would permit it to do so within the next year (E.B. Document No. 982). At Meeting 706, the Executive Board accepted the staff's recommendation to note the Yugoslav statement. On October 15, 1952, the Managing Director informed the Executive Board (E.B. Meeting 52/60, Item 2) that the staff was discussing the matter of Yugoslavia's repurchase with the member, and that Mr. Popovic, Executive Director representing Yugoslavia, had informed him that information concerning the attitude of the Yugoslav Government would be forthcoming within the next few weeks.

In a communication of November 20, 1952, (attached) the Ambassador of the Federal People's Republic of Yugoslavia to the United States notified the Fund, upon the request of his Government, that, as a result of the drought of last summer, the repurchase would not be feasible at this time, nor would be likely to be feasible during 1953. He further stated that, at the beginning of 1954, Yugoslavia will consult with the Fund with the purpose of agreeing on a repurchase of the drawings made by Yugoslavia in September and October 1949.

The above statement thus covers the repurchase of both drawings, the second of which Yugoslavia had intended to repurchase by October 1953.

2. Economic Background

A favorable economic trend in 1951/52

By the middle of 1951, Yugoslavia, aided by the tripartite economic grants (\$120 million in the period July 1951 - June 1952) began to recover from the severe drought of 1950. The reorganization of the Yugoslav economy, based on an integrated reform program, was making substantial progress. The anti-inflationary monetary and fiscal policy (initiated toward the end of 1950), the reorganization of the price and wage system and other reform measures (including the relaxation of economic controls), seem to have paved the way towards the stabilization and consolidation of the Yugoslav economy. In 1951 the harvest was good, industrial production increased by about 4 per cent, the stability of the currency circulation was maintained and prices declined substantially from the peak level reached at the end of 1950. In June 1952, the cost of living index was about one third lower than in January 1951.

Mostly as a result of the good harvest, exports increased from \$71 million in the first half of 1951 to \$113 million in the second half, and \$151 million in the first half of 1952. At the same time, Yugoslavia was able to utilize the foreign aid and credits for the expansion of imports. Total imports (including those financed by foreign aid) increased from \$236 million in 1950 to \$391 million in 1951, and amounted to \$175 million in the first half of 1952. The commercial trade balance (excluding imports financed by foreign aid) actually showed a surplus of about \$38 million in the first half of 1952.

Notwithstanding the improvement of the trade and payments position since the end of 1950, which was reflected in the increase of Yugoslavia's gold and disposable foreign exchange reserves by the equivalent of about \$10 million (largely in sterling), and the reduction of Yugoslavia's debtor position (swing credits) by about \$20 million, by the end of June 1952 the gold and foreign exchange reserves amounted to only about \$29 million, and Yugoslavia still owed about \$35 million on payment agreement accounts. In addition, in the last two years, Yugoslavia contracted new short and long term loans (total indebtedness is now estimated at \$250 million).

Reversal of favorable trend in the second half of 1952

In the summer of 1952, the country has suffered again from a drought. The Yugoslav authorities have estimated that the crop failure will result in a reduction of the Gross National Product by 10-14 per cent.

While the impact of this year's crop failure on the domestic economy has been mitigated to a certain extent by the fact that considerable stocks of grains, sugar, and other basic foods, from the last harvest or from imports were still in hand, the favorable trend of Yugoslav exports, in which agricultural products usually account for about one-third has again been reversed, and Yugoslavia's payments position has rapidly deteriorated.

Exports declined from a monthly average of about \$25 million in the first half of 1952 to an average of about \$13.2 million in the third quarter. Normally, Yugoslav exports are concentrated in the first and fourth quarters

of the year. As a result of the drought, such seasonal increase in exports is not expected to occur in the winter 1952/53. Imports, during the third quarter of 1952 were maintained at a rate of about \$30 million a month (of which imports under the aid program represented some \$6.6 million monthly). During the first nine months of the year total imports (\$264 million) exceeded exports (\$192 million) by \$72 million. Although the surplus of the commercial trade balance for the period January - September 1952 was still about \$8 million (showing a decline of some \$30 million since the end of June) it was probably wiped out in later months. By the end of August, Yugoslavia's debit position on payments agreement accounts was about the same as at the end of June 1952 (about \$35 million); but disposable gold and foreign exchange holdings had decreased from \$28.9 million in June to \$17.5 million in August.

Meanwhile the United States, United Kingdom and France have reached an agreement with the Yugoslav Government on the continuation of tripartite aid during the fiscal year 1952/53. According to a joint announcement in Belgrade on October 13, Yugoslavia will receive in that year grants in aid totalling about \$99 million.

It has been reported that the Yugoslav authorities had estimated that as a result of the drought the export program would be reduced by \$60 million, while \$90 million would be required for increased imports of food and feed-stuffs, mainly grains, fats and oils.^{1/} In order to reduce the excess of the balance of payments deficit over the tripartite aid the Yugoslav authorities reduced imports of some raw materials and of manufactured products, decided to decrease stocks of consumers' goods, reduce budget expenditure by about 10 per cent, and lower the earnings of workers and employees. The Yugoslav authorities expect that by these measures serious price increases will be avoided and that there will be no need to reintroduce food rationing and compulsory deliveries of agricultural products.

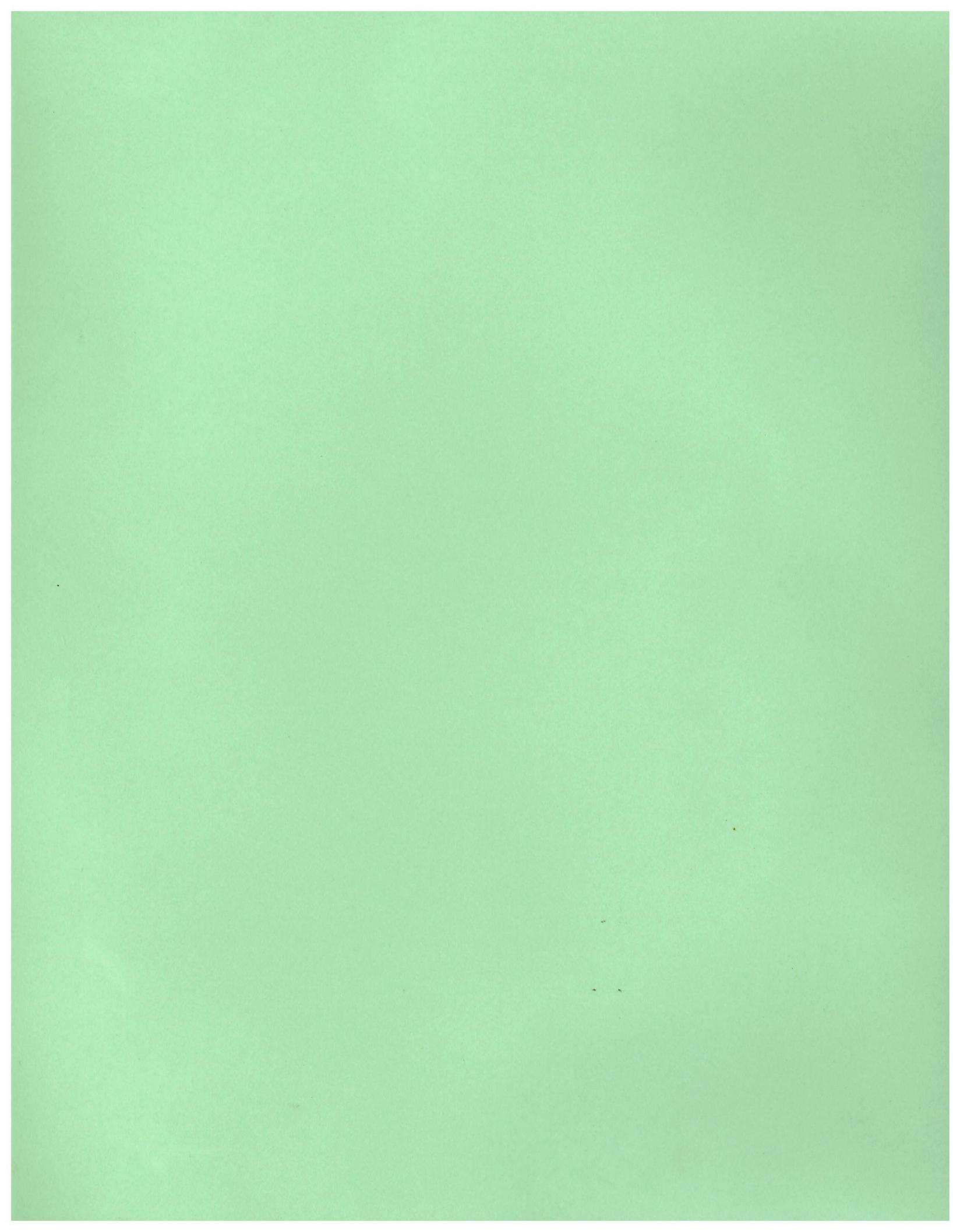
With the help of tripartite aid Yugoslavia is likely to overcome the present temporary disequilibrium of its balance of payments, provided that the repayment of short-term debt obligations, amounting to about \$20 million in 1952/53 can be deferred. The Yugoslav authorities are said to be engaged in negotiations for such a debt moratorium with the support of the governments of the United States, United Kingdom and France.

A more definite view on the balance of payments prospects of Yugoslavia depends on the outcome of the moratorium negotiations and on the results of measures aiming at the maintenance of internal financial stability and on the crop results of 1953.

^{1/} According to recent press reports about 800,000 tons of wheat and 300,000 tons of corn will have to be imported during the fiscal year 1952/53, while corn is normally one of the largest export items.

3. Recommendations

It is recommended that the Executive Board note that, in view of adverse economic conditions, Yugoslavia does not consider a repurchase feasible at this time or likely to be feasible during 1953. It is further recommended that the Executive Board note that Yugoslavia will consult with the Fund at the beginning of 1954 with the purpose of agreeing on the reduction of the Fund's holdings of Yugoslav dinars by an amount equivalent to \$9 million.



EMBASSY OF THE FEDERAL PEOPLES REPUBLIC OF YUGOSLAVIA
Washington, D.C.

November 20, 1952

Mr. Ivar Rooth
Managing Director and Chairman of the Executive Board
of the International Monetary Fund
1818 H Street, N.W.
Washington, D.C.

Dear Mr. Rooth:

In September 1949, Yugoslavia drew \$3,000.000 from the International Monetary Fund, and in October 1949 a further amount of \$6,000.000, and expressed the intention to repay the first drawing after approximately two years and the second drawing approximately two years thereafter. Being not in the position to make the first repurchase (\$3,000.000) last year, Yugoslavia notified the International Monetary Fund that all efforts would be made to repurchase that amount within 1951/52.

The development of economic conditions in the first half of this year was such as to warrant the hope that the above mentioned intention could be realized. However, this year Yugoslavia was very severely hit by drought which inflicted substantial damages and losses to the whole Yugoslav economy. Among other consequences, instead of exporting large quantities of agricultural products (especially corn), Yugoslavia must import them, which results in a marked deterioration in the Yugoslav balance of payments and in a reduction of already very low monetary reserves. In other words, the consequences of the drought have made necessary sharp adjustments and savings in all fields of the economy including investment and the standard of living, and tightening the efforts regarding national defense.

I have been therefore requested by my Government to notify the Executive Board of the International Monetary Fund that under the circumstances it is not considered that a repurchase is feasible at this time, or is likely to be feasible during 1953. I am authorized further to state that at the beginning of 1954 Yugoslavia will consult with the International Monetary Fund with the purpose of agreeing on the entire repurchase obligation resulting from the Yugoslav drawings in September and October 1949. It would be difficult to undertake such consultations before 1954, because only at that time will the consequences of the drought be fully seen as well as the results of the measures which were and are being undertaken. Accordingly, it would not be feasible to anticipate at this time when the general equilibrium of the Yugoslav balance of payments will be achieved.

I shall greatly appreciate your informing the Executive Board of the International Monetary Fund about this matter. If there happens to be any need for additional information or explanations, I would like to inform you that Mr. Nenad D. Popovic is authorized to deal in this matter and consequently will be at the disposition of the International Monetary Fund and yourself.

Sincerely yours,

/s/

Vladimir Popovic
Ambassador of Yugoslavia

Mr. Jean Rooth
Managing Director and Chairman of the Executive Board
of the International Monetary Fund
Washington, D.C.

Dear Mr. Rooth:

In September 1959, Yugoslavia drew \$3,000,000 from the International Monetary Fund, and in October 1959 a further amount of \$2,000,000 was drawn. Yugoslavia expressed the intention to repay the first drawing after approximately two years and the second drawing approximately two years thereafter. Yugoslavia notified the International Monetary Fund that all efforts would be made to repurchase that amount within 1961/2.

The development of economic conditions in the first half of this year was such as to warrant the hope that the above mentioned intention could be realized. However, this year Yugoslavia was very severely hit by drought which resulted in substantial losses to the whole Yugoslav economy. Among other consequences, there is of exporting large quantities of agricultural products (especially corn), Yugoslavia must import them, which results in a marked deterioration in the Yugoslav balance of payments and in a reduction of already very low monetary reserves. In other words, the consequences of the drought have necessitated sharp adjustments and savings in all fields of the economy, including investment and the standard of living, and tightening the efforts regarding national defense.

I have been therefore requested by my Government to notify the Executive Board of the International Monetary Fund that under the circumstances it is not considered that a repurchase is feasible at this time or is likely to be feasible during 1961. I am authorized further to state that at the beginning of 1961 Yugoslavia will consult with the International Monetary Fund with the purpose of agreeing on a repurchase obligation resulting from the Yugoslav drawings in September and October 1959. It would be difficult to undertake such repurchase before 1961, because only at that time will the consequences of the drought be fully seen as well as the results of the measures which have and are being undertaken. Accordingly, it would not be feasible to repurchase at this time when the general equilibrium of the Yugoslav balance of payments will be achieved.



Mr. Ivar Rooth

EBD/52/155

R

Room 935

(1)

#1

August 22, 1952

To: Members of the Executive Board
From: The Managing Director
Subject: Brazil - Repurchase

In connection with Brazil's request of February last to purchase exchange from the Fund, the Executive Board took note of the member's undertaking to repurchase cruzeiros to an amount equivalent to \$65.5 million as follows: \$15 million in June 1952, \$25 million in July 1952, \$25.5 million in August 1952. This is to inform the Board that these payments were received by the Fund on June 2, July 6, and August 22, respectively.

The repurchases above were subject to the Executive Board's decision that an accrued repurchase obligation under Article V, Section 7(b) and Schedule B must be discharged in accordance with those provisions. This condition has been fulfilled and the part of the repurchase obligations as of April 30, 1950 and April 30, 1951 payable in gold was discharged in gold. The gold thus received by the Fund amounts to the equivalent of \$19,733,192.47.

Other Distribution:
Department Heads
Division Chiefs

Mr. Ivar Rooth

EBD/52/113

Room 935

(1)

#1

July 7, 1952

TO: Members of the Executive Board

FROM: The Managing Director

SUBJECT: Brazil -- Repurchase Obligation as of April 30, 1951

1. A cablegram dated June 27, 1952 has been received from Brazil advising the Fund of the member's agreement with the computation of Brazil's monetary reserves which resulted in a repurchase obligation as of April 30, 1951, amounting to \$48,860,696.21. Of this amount, the equivalent of \$9,356,591.08 is payable in gold and \$39,504,105.13 are due in U. S. dollars.

2. This memorandum serves to notify the Board, in accordance with Rule I-6, that a formal request for payment was mailed to Brazil on July 2, 1952.

3. Payment by Brazil will be made in accordance with the member's undertaking to repurchase the Fund's holdings of cruzeiros equivalent to \$15 million in June, \$25 million in July and \$25.5 million in August 1952. This undertaking was noted in the Executive Board's decision of February 12, 1952. The payment in June has been, and the payments in July and August 1952 will be accepted by the Fund subject to adjustment in conformity with the Executive Board's decision that a repurchase obligation accrued and undischarged under Article V, Section 7(b) and Schedule B must be discharged in accordance with these provisions. No adjustment will be necessary with respect to the repurchase obligation as of April 30, 1951 if the payments in July and August are made in the types of reserves mentioned above.

Other Distribution:
Department Heads
Division Chiefs

Mr. Ivar Rooth

EBD/52/94

Room 935

(1)

#1

June 2, 1952

TO: Members of the Executive Board

FROM: The Secretary

SUBJECT: Repurchase Arrangements for Outstanding Drawings

Following is the statement made by the Chairman at Executive Board Meeting 52/30, June 2, 1952.

The staff has looked into the actual cases that could arise in connection with the repurchase of old drawings. Six members could be involved--that is, six members have outstanding drawings without having made special arrangements as to their repurchase. These are Czechoslovakia, Denmark, France, India, Netherlands, and the U.K. All of these drawings were made in 1947 and 1948, and under Art. V, Sec. 8(d) consultations as to their repurchase will have to take place in 1954 or 1955. If any of these members should make new drawings this year, consultations as to their repurchase would have to take place within 3 years, i.e., 1955. Thus it is apparent that in the six cases, the plans for repurchasing old and new drawings could not logically be separated. The member should certainly be concerned with this relationship at the time it proposed any new drawings. Likewise, in determining the probability of such a member being able to repurchase a new drawing in a reasonable time, the Fund would have to take into account the effect which the obligation to reduce the old balances around the same time would have. Hence, both the member and the Fund should be prepared to deal with this problem when new drawings are discussed.

There is, of course, no legal obligation on members to propose a consolidation of repurchase arrangements when requesting a new transaction. In view of the actual situation, however, I think that every such member should, when requesting a new drawing, expect that questions will be raised concerning the outstanding drawings, and I have no doubt that members will regard such a procedure as reasonable.

Other Distribution:
Department Heads
Division Chiefs

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR
AGENDA

Mr. Ivar Rooth

Room 935

(1)

#1

SM/52/31

R

May 20, 1952

To: Members of the Executive Board
From: The Secretary
Subject: Repurchases and Rule G-7

The attached memorandum is circulated for consideration by the Executive Board. It will be placed on an early agenda.

Att: (1)

Other Distribution:
Department Heads
Division Chiefs

INTERNATIONAL MONETARY FUND

Repurchases and Rule G-7

Prepared by: Treasurer's and Legal Departments

Approved by: F. W. Gray and J. Gold

May 19, 1952

The Fund has calculated repurchase obligations for Peru as of April 30, 1950 and April 30, 1951 amounting to \$3,097,298.73, of which \$2,324,465.16 is payable in gold and \$772,833.57 in dollars. Peru wishes to pay approximately \$3,090,000 in gold and the rest in dollars. Peru has, therefore, asked the Fund whether it would be willing to accept the larger amount of gold.

There is, of course, no difficulty for the Fund in accepting the further amount of gold. It was decided by the Board at Meeting 648 that gold can be accepted in lieu of currency payable by way of repurchase (see pages 22 and 37 of Fund Circular No. 9, Rev. 1). The question which arises relates to Rule G-7. It was referred to at Meeting 52/12, the minutes of which record that:

"In connection with the discussion on gold transactions above, one Director believed the Fund should not require members under Rule G-7 to assume the estimated costs of possible later conversion of any gold which they sold to the Fund. He believed that in fact the Fund's policy should be to build up its gold reserves as much as possible. He asked for consideration of the policy at a later time."

As stated in paragraph 3 of the decision at Executive Board Meeting 648, where gold is accepted in lieu of currency payable by way of repurchase, the Fund does so under Article V, Section 6(a). Rule G-7 applies to purchases of gold by the Fund under Article V, Section 6(a):

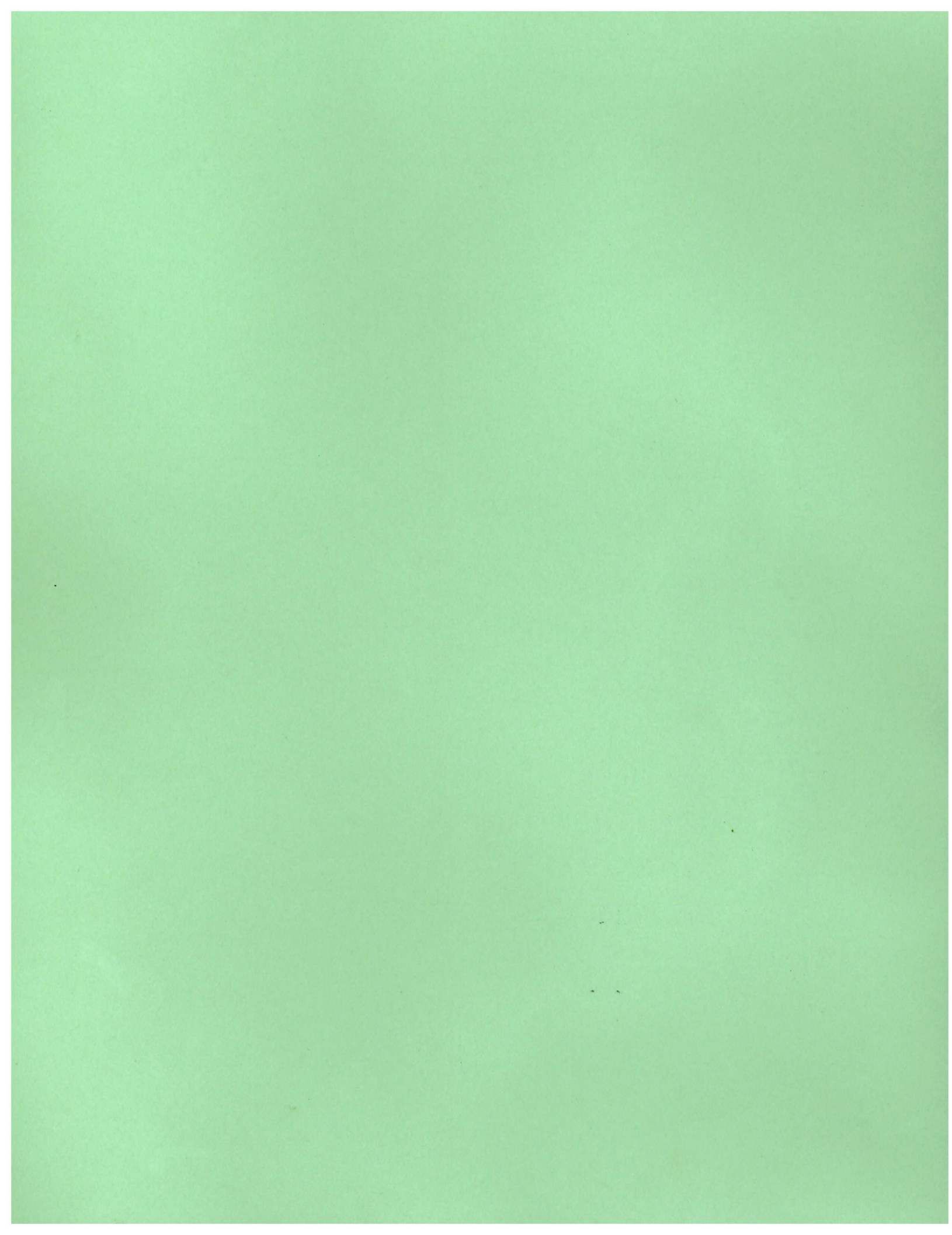
"When any member sells gold to the Fund pursuant to Article V, Section 6(a), the member may be required to assume the estimated costs that would be incurred by the Fund if it used the gold so acquired to purchase the currency it has sold. The Fund shall advise the member in what form such payment shall be made. [Adopted July 30, 1948]"

It will be observed that the collection of the costs referred to in Rule G-7 is discretionary on the part of the Fund and not mandatory. The staff recommends that the Board adopt the policy that, until further notice, gold which is purchased by the Fund under paragraph 3 of the decision of the Executive Board at Meeting 648 should be purchased without collecting the costs referred to in Rule G-7. This recommendation entails no change in the language of the Rule. It seems unrealistic to collect the costs of converting gold into dollars in circumstances in which such conversion is not at present within reasonable prospect.

Members undoubtedly offer gold instead of dollars where they lack the dollars for making a repurchase and would incur a charge in selling gold for the purpose of getting the dollars. Since the Fund is empowered to accept gold, it should assist members to avoid this charge so long as the Fund does not intend to convert gold into dollars. Such action would thus facilitate repurchases with gold.

It should be noted that the general requirements of the Fund with respect to the form of gold transferred to the Fund in repurchase are the same as those for subscription payments. That is to say, the gold must be in the form of gold bars having a fineness of .995, or higher, and weighing approximately 400 ounces. Moreover, the gold must be delivered at a Fund depository in accordance with Rule G-6. The effect of the present recommendation, therefore, is to enable members to pay gold to the Fund in repurchase without having to pay the 1/4 of one percent charge.

The staff's recommendation applies to the acceptance of gold by the Fund by way of repurchase only, and not to all purchases of gold under Article V, Section 6(a). The reason for this distinction is that, where gold is sold to the Fund under Article V, Section 6(a) by way of repurchase, it is paid to discharge an obligation to the Fund. The existence of the obligation is felt to be a justification for the recommendation. Moreover, confining the policy to repurchases would probably ensure that not too much of the Fund's dollar holdings would be turned into gold. Finally, since the costs of Rule G-7 are not payable where a repurchase accrues in gold under Article V, Section 7(b), or is made voluntarily under Article V, Section 7(a) or under paragraph 1 of the Board's decision at Meeting 648, it would seem strange to members if, in such a case as the present one involving Peru, the Fund collected conversion costs in respect of part of the repurchase made with gold but not the remainder, also paid in gold.



DECLASSIFIED

FOR
AGENDA

Executive Board
Special No. 106

CONTAINS SECRET
INFORMATION

INTERNATIONAL MONETARY FUND

October 18, 1949

TO: Members of the Executive Board
FROM: The Secretary
SUBJECT: Policy Respecting Repurchase or Repayment

Mr. Southard has requested circulation of the attached memorandum for early Executive Board discussion. It will be recalled he presented the matter orally at Meeting 488.

Att: (1)

S E C R E T

DECLASSIFIED

Executive Board
Special No. 106

OFFICE MEMORANDUM

To : The Chairman
From : Mr. Southard
Subject : Policy Respecting Repurchase or Repayment

October 17, 1949

1. I refer to my statement at Meeting 488 of the Executive Board and request you to place on the agenda my proposal that in the future dollar drawings should be objected to unless the member proposing to draw on the resources of the Fund is willing to make an agreement, or to give a firm commitment, to repurchase its currency from the Fund within a maximum period of five years, preferably according to a definite schedule of repayment.

2. In my view, this policy is made necessary by conditions affecting both the present and prospective level of monetary reserves and by general currency inconvertibility. Were the policy to be adopted, I would assume that it would be continued as long as conditions require.

3. I expect to elaborate my reasons for proposing this policy when the Board begins its discussion of my proposal. Accordingly, in this memorandum I shall add only that the proposal reflects the effort of my Government to find some way in which the Fund may with prudence permit appropriate drawings under present conditions. Of course, repurchase commitment or agreement would not supersede the requirements of Article V, Section 7(b), nor would such a commitment or agreement be regarded as a substitute for the fulfillment of the criteria which must be met by countries seeking to draw on the resources of the Fund.

4. I shall very much appreciate it if this proposal can be placed on an early agenda in order that the initial discussion might be undertaken without delay.

