

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

SUB-COMMITTEE ON INTERPRETATION

Note by K. Varvaressos

Interpretation of Article IV, Section 2(a) of the Agreement providing that currencies paid into the Bank under Article II, Section 7 (1), shall be loaned only with the approval in each case of the member whose currency is involved.

Article II, Section 7, provides that "payment of subscriptions for shares shall be made in gold or United States dollars and in the currencies of the members, as follows:

- (1) Under Section 5(1) of this Article, two percent of the price of each share shall be payable in gold or United States dollars and, when calls are made, the remaining eighteen percent shall be paid in the currency of the member.)

The question has arisen whether under Article IV, Section 2(a), the approval of the United States Government would have to be obtained from loans made out of the portion of the original 2 percent paid in dollars.

In my view, such an interpretation would be against both the letter and the spirit of the Agreement and the whole conception underlying its provisions:

- (1) In the first place, payment by members of two percent of their share in USA dollars is made fully equivalent to payment in gold and is sharply distinguished from payment "in the currencies of the members". Thus, when reference is made in the agreement to the USA dollar as an alternative to gold, the implication is that the USA dollar is considered more than a "currency of a member", it is considered as an unrestricted means of international payments.

Article IV, Section 2(a), on the other hand, requiring the approval of the member whose currency is involved in a loan refers to "currencies" paid into the Bank under Article II, Section 7 (1), as opposed to gold and USA dollars.

There can therefore be no doubt that the reference made in the above-mentioned Article IV, Section 2(a) to Article II, Section 7(1), applies only to the latter part of Section 7(1) dealing with the 18 percent contribution paid in the currency of the member and not to the first part dealing with contributions in gold or USA dollars.

The provisions of Article II, Section 9(a) further corroborate this interpretation of the use of the term "currency" in the Agreement and of the distinction between the "currency of a member" on the one hand and gold or USA dollars on the other.

Section 9(a) of Article II provides that "whenever (i) the par value of a member's currency is reduced, or (ii) the foreign exchange value of a member's currency has, in the opinion of the Bank, depreciated to a significant extent within that member's territories, the member shall pay to the Bank within a reasonable time an additional amount of its own currency sufficient to maintain the value, as of the time of initial subscription, of the amount of the currency of such member which is held by the Bank and derived from currency originally paid into the Bank by the member under Article II, Section 7(i); from currency referred to in Article IV, Section 2(b) or from any additional currency furnished under the provisions of the present paragraph and which has not been repurchased by the member for gold or for the currency of any member which is acceptable to the Fund."

Here again, reference is made to Article II, Section 7(i), although there can be no question of any obligation of members who have contributed two percent of their share in USA dollars to compensate the Bank for any depreciation of the USA dollar.

Thus, it is quite clear that the provisions of the Agreement relating to "currencies of members" do not apply to the USA dollars paid in by the members against that part of their share which is payable in gold or USA dollars.

(2) Even if the letter of the Agreement had been less explicit, an interpretation that would have made the use of dollars in the possession of members subject to the approval of the USA Government would have been wholly against the spirit of the Agreement.

The decision to make the USA dollar equivalent to gold for the purposes of the Agreement was not an arbitrary one, even less one of political expediency. It was a practical recognition of the strong position of that currency in the world and of the absence of restrictions on its use which in turn reflects the unique economic and financial strength of USA itself. The provisions referring to the use of other currencies, on the other hand, have in mind the difficult economic and financial situation in most other countries. These provisions, of course, apply also to the 18 percent contribution of USA, although it is doubtful whether in practice they will be invoked by the USA government, but they cannot apply to that part of the contributions which are made in USA dollars by other countries as an alternative to gold. Otherwise the prominent place given to the USA dollar in the Agreement would not have been justified and would have led to the unacceptable result that the USA Government would be controlling the use of the dollar holdings of other countries, a form of exchange control which is incompatible with the claim of a currency to be so strong that it is made equivalent to gold.