

#12

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 60/45

10:00 a.m., October 14, 1960

Per Jacobsson, Chairman

H. M. Cochran, Deputy Managing Director

*Executive Directors*

B. N. Adarkar

E. Asp

J. de Largentaye

J. M. Garland

W. Guth

Soemarno

F. A. Southard

B. Tann

A. van Campenhout

*Alternate Executive Directors*

Th. Asgeirsson

G. J. MacGillivray

J. Waitzenegger

F. C. Pryor

L. Bonilla, Temporary

C. P. Caranicas

H. Koinzer

H. M. H. A. van der Valk

J. Urrutia

A. Coutinho, Temporary

C. L. Read

A. Mansour

J. S. Hooker

I. S. Sun

M. Toussaint

G. Suzuki, Temporary

A. C. Frost, Acting Secretary

F. Hodel, Assistant Secretary

**Also Present**

European Department: C. L. Merwin. Exchange Restrictions Department: I. S. Friedman, Director; J. R. Thomas. Legal Department: J. Gold, General Counsel; J. G. Evans, G. Nicoletopoulos. Middle Eastern Department: J. W. Gunter, Deputy Director; H. J. Costanzo, A. Mahhouk, A. K. El Selhedar. Research and Statistics Department: W. H. Taylor. Office of the Treasurer: Y. C. Koo, Treasurer; P. Ehrlich, R. Kroc. D. H. F. Somerset, Personal Assistant to the Managing Director. Technical Assistants to Executive Directors: G. Koenig, G. A. Low, R. M. Mays-Smith, R. Wilson.

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## 1. Executive Directors

The Chairman welcomed Mr. Bonilla and Mr. Suzuki, Temporary Alternate Executive Directors, to the Executive Board.

## 2. Use of the Fund's Resources - United Arab Republic (Syrian Region)

The Executive Board took up a request from the United Arab Republic (Syrian Region) for the purchase of US\$5,375,000 from the Fund, and considered the staff's analysis and recommendation that the Fund grant the necessary waiver under Article V, Section 4, and agree to the purchase (EBS/60/103, 10/10/60, and Sup. 1, 10/12/60).

Mr. Mansour made the following statement in support of the request:

As indicated in the staff paper, the Syrian Region continues to be faced with a serious balance of payments problem stemming basically from the third successive year of drought conditions. Cereals are, by tradition, the basic export crop of the Syrian Region, as it is only in the last decade that cotton has become a significant export. The extent of the crop failure is suggested by the fact that the Syrian Region has had no exportable surplus of cereals in 1958, 1959 and 1960. The cereals exports which took place in 1958 were in fact a carry-over from the previous year. It is estimated that the drought extending over three years has involved a balance of payments cost approaching \$250 million, taking into account the disappearance of the exportable surplus of food grains, the reduced production of certain other export crops, and, finally, the need in 1959 and 1960 to import wheat and barley. The Syrian Region has received assistance from a number of sources in meeting this burden, including substantial balance of payments assistance from the Egyptian Region and cereals imports financed under P. L. 480 agreements with the United States. In addition, gold and exchange reserves have been drawn down.

The additional drawing requested from the Fund will make some further contribution by the Fund toward assisting the Syrian Region in maintaining its liberal import and exchange policies. Moreover, the authorities have recognized the need for additional measures in relation to fiscal and monetary policies. In a letter accompanying the request for the drawing, they have undertaken specific objectives in the fiscal and credit fields which should be adequate to eliminate excessive pressures on the balance of payments. They have also described the policies being pursued and the measures which have been or will be taken in implementation of these policies.

The staff has summarized in paragraph 2, page 3 of their report the several factors which make the adjustment to the decline in real income difficult. These difficulties put limitations on what can be done in the short run. Compensatory financing had to be undertaken to alleviate the hardships in an abnormal situation in which an important segment of the economy was paralyzed by insufficient rainfall resulting in a sharp decline in production incomes and employment. However, the authorities are fully aware of the harm of undue inflationary pressure on the economy and are anxious to meet the situation as it develops in order to assure internal monetary stability and to check the drain on the reserves.

In this connection, the Board will be interested to know that the United Arab Republic representatives to the Annual Meeting have suggested that Article XIV con-

sultations discussions take place in the near future, and this will offer an opportunity to explore further other possible steps to deal with the balance of payments problem. I understand that a staff mission is expecting to visit Damascus in November.

The Chairman thanked Mr. Mansour for his clear and useful statement.

Mr. Southard said the staff paper and the Syrian Region's letter of intent, together with Mr. Mansour's statement, clearly indicated what the problem was in this case. This Region of the United Arab Republic had clung to liberal policies in the exchange and trade fields and to some extent the decline in reserves was reflected in those policies. Three years of drought had added up to a large balance of payments drain and serious internal effects. As the staff paper made clear, there had also been some undue monetary expansion. He was prepared to support the request for a drawing because he believed that in this period of difficulties it was legitimate for the Syrian Region to turn to the Fund for help and because the letter of intent contained specific assurances with respect to the budget, central bank activity, and private credit, coupled with the assurance that further steps would be taken if necessary.

Mr. Southard welcomed the statement that the staff would soon have consultations with the Syrian Region because as the Region's available reserves and credits were exhausted it would become all the more essential within the limits permitted by the drought to bring about financial balance.

In view of the drought which had affected the Syrian Region for the last three years, Mr. de Largentaye thought it was appropriate for the Fund to assist the Region financially. The limitation of bank credit, however, would not be an easy task. In this connection, he wished to know whether credit extended by the Industrial Bank was included in the limitation to LS 25 million of credit extended by the commercial banks. With respect to trade policy, he had noted the statement in the report that "the Syrian Region relies very little on exchange and trade restrictions" (*ibid.*, p. 7). But he had also observed that the report said that "import prohibitions have become a fairly important restrictive measure" (*ibid.*). He personally felt that Syrian trade policy was not as liberal as indicated. If it were to be liberalized, the financial policy would have to be all the more rigorous.

Mr. MacGillivray thanked Mr. Mansour for his explanatory statement. He said that the Syrian Region certainly seemed to be in a very difficult situation; but as the Board well knew a drawing on the Fund of the third credit tranche required fairly substantial justification. However, in view of the staff's assessment that the financial and monetary policies of the Region "should be adequate to eliminate excessive pressures on the balance of payments" (*ibid.*, p. 8), and on the basis of the statement that the staff would remain in close contact with the Syrian authorities with a view to looking into any further measures which might be necessary if the present steps proved inadequate (and in this connection Mr. Mansour's statement that the next Article XIV consultations would take place in the near future was particularly welcome), he was prepared to support the request.

Mr. Adarkar said he had no hesitation in supporting the request. He agreed with the staff evaluation of the new program of the Syrian authorities, particularly with respect to the effect on the balance of payments. In view of the difficult foreign exchange position

of the country, he did not share Mr. de Largentaye's feeling about the restrictions which the authorities found necessary to impose because they had no alternative.

Mr. Garland felt that in the circumstances the Fund should grant the Syrian Region the assistance requested. With respect to the large increase in bank credit to the private sector, he had noted that the major portion of the increase had gone to internal and import trade (*ibid.*, pp. 5-6) and wondered whether the staff had been concerned about this.

Mr. Guth said that, under the circumstances described in the staff paper and in view of Mr. Mansour's explanatory statement, the request seemed fully justified, and he was prepared to support it.

Mr. Read in stating his support of the request, joined in welcoming Mr. Mansour's statement that there would be continuing contact between the Syrian authorities and the Fund. This was particularly welcome because both the evaluation of the staff and the letter of intent had indicated that further measures might be necessary to assure achievement of the Region's policy objectives. He noted that the Syrian Region's bilateral payments arrangement with the Egyptian Region had resulted in an increase equivalent to about \$3½ million in the net credit balance in favor of the Syrian Region since 1958. While he assumed this would be a subject of discussion in the further consultations with the Syrian authorities, he asked whether any arrangement for settlement of these balances had yet been made.

In replying to the points raised in the discussion, the Acting Director of the Middle Eastern Department said with respect to Mr. de Largentaye's question that the credit extended by the Industrial Bank was not included in the limit of LS 25 million placed on credit expansion to the private sector by the commercial banks. However, any bank financing of the Industrial Bank, including that by the central bank, would be reflected as an extension of credit to the private sector. One recent source of financing for the Industrial Bank was a credit granted by the U.S. Development Loan Fund. With reference to Mr. Garland's question, the staff representative said the staff felt that the increase in credit for import and internal trade was probably the most alarming feature of recent developments in the Syrian Region and in the discussions with the Syrian authorities this had been recognized. As regards the bilateral payments arrangement between the Syrian and Egyptian Regions, the staff would agree that the increase in the credit balance in favor of the Syrian Region was not satisfactory from the Syrian point of view. It was to be noted, however, that there had been a substantial decline in the balance during the last quarter, but it was not known whether this was due partly to a payment from the Egyptian Region or to a reversal in trade. The staff agreed that this aspect of the restrictive system needed further analysis and should be covered in the forthcoming consultations.

Mr. Mansour stated that the reduction in the Syrian surplus position was the result of increased trade as well as a payment by the Egyptian Region.

In reply to a question by Mr. Southard, the Acting Director of the Middle Eastern Department said that much of the assistance received by the Syrian Region from the Egyptian Region had been in the form of budget grants which would not affect the trade account between the two Regions.

The other Directors expressed no objection to the staff's recommendation.

The decision was:

1. The Government of the United Arab Republic (Syrian Region) has submitted a request to purchase US\$5,375,000 from the Fund together with statements of the policies and measures which it intends to apply.

2. The Fund takes note of these statements and, accordingly, pursuant to Article V, Section 4, of the Articles of Agreement, grants the necessary waiver and agrees to the purchase on the repurchase terms set forth in the letter to the Fund of October 10, 1960 (EBS/60/103, Sup. 1, Annex).

### **3. Enlargement of Fund Resources Through Increases in Quotas - Extension of Time for Consent**

The Executive Board considered a staff report and recommendation with respect to a further extension of the period of consent under the Resolutions of the Board of Governors on Enlargement of Fund Resources Through Increases in Quotas (EBD/60/104, Sup. 2, 10/12/60).

The decision was:

In the decision taken at Executive Board Meeting 60/39 (Item 2, 7/27/60), "January 31, 1961" shall be substituted for "October 31, 1960."

### **4. Relations with GATT**

The Executive Board considered the report of the Committee on Liaison with the CONTRACTING PARTIES to the GATT recommending adoption of certain staff proposals for the guidance of the Fund mission at the forthcoming GATT balance of payments consultations and the Seventeenth Session of the CONTRACTING PARTIES (EBD/60/141, 10/13/60).

Mr. Southard, as Chairman of the Committee, explained that the Committee would not have asked the Board to act so rapidly except that a large number of Directors had attended the Committee's meeting and were therefore familiar with the report. It would be helpful to the mission if the Board approved the report before its departure for Geneva.

No objections were expressed.

The decision was:

The recommendations set forth in EBD/60/141 (10/13/60) are agreed for the guidance of the Fund representatives at the Seventeenth Session of the CONTRACTING PARTIES and the GATT balance of payments consultations to be held in October-November 1960.

## 5. Birthday of the President of the United States

On the suggestion of the Chairman the Executive Directors agreed that the following telegram should be sent to the President of the United States on the occasion of his seventieth birthday.

The Board of Executive Directors of the International Monetary Fund extends its respectful congratulations to the President of the United States and thanks him for so generously giving his time at Annual Meetings of the Fund.

## 6. Death of Sir Anthony Grafftey-Smith

The Chairman informed the Board of the sudden death of Sir Anthony Grafftey-Smith, Governor of the Bank of Rhodesia and Nyasaland and a former Alternate Executive Director of the Fund. The Directors agreed that on behalf of the Board and the Fund the Chairman should extend condolences to the Minister for Rhodesia and Nyasaland Affairs at the British Embassy in Washington and to the Bank of Rhodesia and Nyasaland.

## 7. Chile - Extension of Period for Consent to Increase in Quota

In the absence of a request by any Director for formal consideration in the time specified, the following decision was taken on October 12, 1960 and recorded (EBD/60/87, Sup. 3, 10/10/60):

The Government of Chile has requested an extension of the period during which it may give its consent to an increase in quota pursuant to Board of Governors' Resolution No. 15-4. The Executive Directors deem that extraordinary circumstances warrant such an extension and accordingly extend the period to December 31, 1960.

## 8. Executive Board Travel

No objections having been expressed in the time specified to travel by two Executive Directors as set forth in EBAP/60/103 (10/10/60) and EBAP/60/104 (10/11/60), the Executive Board's approval is recorded.

APPROVED BY THE EXECUTIVE BOARD:

Meeting 60/47, November 4, 1960

PER JACOBSSON  
*Chairman*

ROMAN L. HORNE  
*Secretary*