

#12

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 69/83

10:00 a.m., September 10, 1969

P.-P. Schweitzer, Chairman  
F. A. Southard, Deputy Managing Director

Executive Directors

E. Asp  
W. B. Dale  
L. Escobar  
R. Johnstone  
  
P. Liefertinck  
B. K. Madan  
  
F. Palamenghi-Crispi  
A. Phillips O.  
G. Plescoff  
G. Schleiminger  
J. O. Stone  
H. Suzuki  
  
L. A. Williams

Alternate Executive Directors

J. S. Hooker  
R. H. Arriazu  
M. Horgan  
E. da S. Gomes  
M. A. Merican  
T. de Vries  
S. S. Marathe  
G. Huntrods  
C. Bustelo  
M. A. Sandoval  
B. de Maulde  
L. Fuenfgelt  
G. P. C. de Kock  
S. Hattori  
N. H. Hanh  
W. Stoop, Temporary  
  
L. M. Rajaobelina

W. L. Hebbard, Secretary  
J. A. Kay, Assistant

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Also Present

European Department: L. A. Whittome, Director; P. Høst-Madsen, Deputy Director; U. Dell'Anno, H. Duvshani, R. Evensen, J. Rosenblatt, A. G. Tyler. Exchange and Trade Relations Department: E. Sturc, Director; D. J. Cleary, M. Dakolias, J. H. C. de Looper, K. H. Lykke, S. Mookerjee, D. K. Palmer. Legal Department: J. Gold, General Counsel and Director; A. S. Gerstein, Deputy General Counsel; G. P. Nicoletopoulos, Deputy General Counsel; P. R. Lachman, S. A. Silard. Middle Eastern Department: F. Drees. Research Department: J. J. Polak, Economic Counsellor and Director; J. M. Fleming, Deputy Director; F. Hirsch. Treasurer's Department: W. O. Habermeier, Treasurer; F. C. Dirks, R. J. Familton, C. B. Fink. Information Office: J. H. Reid, Chief Information Officer; D. Armour. Technical Assistants to Executive Directors: H. Bobadilla, J. M. Chona, D. Frommel, H. G. Schneider, J. Skutle, J. A. Sogo, P. Stek, G. F. Taylor, N. Tsukagoshi, J. R. Vallet, J. C. C. Yuan.

1. ISRAEL - 1969 ARTICLE XIV CONSULTATION AND PURCHASE TRANSACTION

The Executive Board considered the staff report and proposed decision on the 1969 Article XIV consultation with Israel (SM/69/124, 8/7/69, and Cor. 1, 9/8/69) and a request by Israel for use of the Fund's resources, together with the staff's analysis and recommended decision (EBS/69/239, 8/29/69, Sup. 1, 9/4/69, and Cor. 1, 9/4/69).

Mr. Lieftinck made the following statement:

On behalf of the Israeli authorities I wish to thank the staff for a very good report on the 1969 Article XIV consultation. The authorities concur with the staff appraisal and agree to the proposed decision.

Since the consultation discussions took place a second staff mission visited Israel in connection with a request of the Government of Israel for a drawing covering the first credit tranche. This mission updated the available information as reflected in the paper "Israel - Use of the Fund's Resources."

The attached letter from the Minister of Finance to the Managing Director gives an excellent summary of the economic developments in Israel over the last few years, the problems the authorities are coping with and the essentials of their fiscal program. I fully endorse the staff's opinion that this program represents a reasonable effort toward adjusting the balance of payments and can assure the Board of the determination of the Government to take any further measures that may become necessary for this purpose. I recommend the approval of the proposed decision with respect to Israel's drawing request.

Mr. Dale said that, like the Israeli authorities, he agreed with the main thrust of the staff appraisal. In particular, he agreed that as the result of the claims on total resources flowing from the priorities applied by the Government, the main purpose of the corrective policy must be to curb consumption. He also believed that a more flexible interest rate policy might assist the measures that had been adopted, and that those measures might need to be intensified in the future. The proposed drawing was in the first credit tranche and the measures and assurances contained in the Minister's letter were reasonable in the circumstances. He therefore approved the proposed decision on the Article XIV consultation and supported the request for a purchase transaction.

Mr. Huntrods said that he, too, fully agreed with the staff appraisal. It was clear that the Israeli authorities were facing some rather difficult problems; it was equally clear that the case for recourse to the Fund's resources was justified. He therefore supported both the proposed consultation decision and the request for a purchase transaction.

Mr. De Maulde expressed his agreement with Mr. Huntrods' statement.

Mr. Liefertinck said that he was in full agreement with the observations made by Executive Directors. He was grateful to them for supporting Israel's request for a purchase transaction.

Executive Directors turned to the proposed decisions, which were approved.

The decisions were:

a. 1969 Article XIV Consultation

1. This decision is taken by the Executive Directors in concluding the 1969 consultation with Israel, pursuant to Article XIV of the Articles of Agreement.

2. Following a period of slow growth, the Israel economy began to recover swiftly toward the end of 1967 in response to reflationary policies, a sharp rise in public sector expenditure, and the 14.3 per cent devaluation of the currency in November 1967. The growth of GNP reached 13 per cent in 1968 and is expected to rise again substantially in 1969. In contrast to earlier experience, the current upswing has been characterized by cost and price stability. Exports recorded an increase of 16 per cent in 1968 but commercial imports rose by 41 per cent and defense imports remained high with the result that the balance of payments remained under pressure. Foreign exchange reserves of the Bank of Israel declined by about \$50 million in 1968 and have continued to fall in the first half of 1969. At the end of June 1969 they amounted to \$543 million which is equal to about three months' imports of goods and services.

3. As the slack in the economy was taken up and pressure on the balance of payments became apparent, the Bank of Israel in May 1968 introduced measures to reduce the rate of monetary expansion. The money supply expanded by 26 per cent in 1967 and by 14 per cent in 1968; in early 1969, the rate of increase showed a further decline. The Fund regards the maintenance of tight monetary policy as appropriate, particularly since fiscal policy continues to exert a strong expansionary influence on the economy.

4. A major task confronting economic policy in Israel is the restoration of a satisfactory external payments position. The Fund believes that the accomplishment of this task and the preservation of internal stability call for most determined efforts to adjust the growth of internal demand. The Fund hopes that the authorities will review fiscal policy at the earliest opportunity with a view to reducing the large public sector deficit.

5. As a result of progressive liberalization, few imports remain subject to quantitative restrictions. Some progress has been made in reducing tariffs and the Government has announced a timetable for further tariff cuts over the next few years. The Fund welcomes this policy of increasing progressively the exposure of local industry to foreign competition as a means of encouraging economic efficiency. The Fund also welcomes the termination since the last consultation of three bilateral payments agreements with Fund members and notes that the need to maintain the remaining agreements will be kept under review.

Decision No. 2829-(69/83), adopted  
September 10, 1969

b. Purchase Transaction

The Fund has received a request by the Government of Israel for a purchase equivalent to \$22.5 million. The Fund agrees to the request and grants any necessary waiver of the conditions of Article V, Section 3(a)(iii) of the Articles of Agreement on the repurchase terms set forth in the cable to the Fund dated September 13, 1969 (EBS/69/239 Sup. 1).

Decision No. 2830-(69/83), adopted  
September 10, 1969

2. ENTRY INTO FORCE OF AMENDMENT: BY-LAWS, RULES AND REGULATIONS

Directors resumed their discussion of the By-Laws, Rules and Regulations on the basis of document SM/69/81, Rev. 1, which contained a revision of the proposed amendments to the By-Laws, Rules and Regulations, excluding the proposed By-Law on the Committee on Interpretation.

The General Counsel reminded Directors that at earlier discussions of the first draft an enormous number of suggestions had been made. Every one had been meticulously studied, and if any one of them had not been adopted, it was because after very careful study it had been found to be less than convincing.

Directors then discussed certain draft amendments to the By-Laws, section by section.

## Section 2

Mr. Suzuki pointed out that there were references in the amendments to By-Laws both to "members" and "members that are participants." He inquired how that would affect the voting procedure, when the Governors came to vote on the proposed amendments.

The General Counsel replied that there would be two sets of voting. The votes that each member of the Fund had were determined by quotas. Thus, if the member were also a participant, its voting power would be the same whether it were voting on a matter pertaining exclusively to the Special Drawing Account or on any other matter. But in both the Board of Governors and the Executive Board, votes might be cast only if they were votes allocated to participants, when the vote was on a matter pertaining exclusively to the Special Drawing Account. On the Board of Governors, if only 90 members were participants, then only those 90 might vote in a matter pertaining exclusively to the Special Drawing Account. All other Governors would be entitled to speak, but they would have no vote. Similarly, all majorities required for the affairs of the Special Drawing Account would be majorities relating to the total voting power of participants. Among Executive Directors the voting would be on the same principle, but rather different in practice because some Executive Directors cast the votes of two or more members. In that event, they would be casting only the votes of those members that were also participants if they were voting on a matter pertaining exclusively to the Special Drawing Account. That might mean that an Executive Director would be entitled to speak but not to vote if none of his countries was a participant.

## Section 10

The General Counsel explained that the Section had been reworded to make clear that two separate topics were involved. The language of the Outline had been closely followed.

Mr. Suzuki inquired whether in Section 10 "Executive Directors" meant "Executive Directors representing participants" or "Executive Directors" as presently understood.

The General Counsel replied that it depended on how closely the report was dealing with the affairs of the Special Drawing Account. In all other matters, the Executive Directors as a whole would be reporting; but if some matter intimately connected with the Special Drawing Account and connected exclusively therewith were being discussed, then it would only be Executive Directors representing participants.

Section 13

The General Counsel explained that the sentence underlined was intended to enable all Governors to participate in a meeting, no matter what the subject was, even if they could not vote.

Mr. Schleiminger pointed out that the title of Section 13 was "Voting without meeting," and suggested that the phrase "it being understood that only Governors of participants are entitled to vote" should be added at the end of the new wording, and the words "whether or not it is a participant" be deleted. His proposal would lay emphasis on the fact that the Section was dealing with voting.

Mr. Suzuki supported Mr. Schleiminger's proposal.

The General Counsel pointed out that unless it were made specific that notice should go to all members, whether participants or not, there would be a conflict with Section 2, under which no notice would be sent to members that were not participants. It went without further comment that only those members that were participants would be able to vote. While he was, therefore, prepared to examine the wording of the title of the Section, he believed that the passage would be clearer as now worded than as amended by the sentence requested by Mr. Schleiminger. He was convinced that there would be no right to vote on the part of non-participants as a result of the notice having gone to them, so that Mr. Schleiminger's proposed addition would not clarify matters.

Mr. Dale pointed out that there was no mention of Section 13 among the exempted Sections referred to in Section 2. Nevertheless, in Section 13 there was a reference to members that were not specifically participants. In those circumstances he wondered whether Mr. Schleiminger's wording might not be appropriate. In passing, he inquired what significance was to be attached to the use of the word "usually" in the phrase "which is usually required for a quorum of the Board of Governors." He wondered whether there was any occasion on which the two majorities referred to were not required.

The General Counsel replied that if Section 13 had been included among the exemptions mentioned in Section 2, then all members would have been enfranchised on all matters. Precautions had to be taken against such an event, and Section 2 did so by not exempting Section 13. What was intended was to make one minor exception in the full scope of Section 13 for the receipt of a notice that a motion had been put. Regarding the use of the word "usually," he would examine the history.

Mr. Schleiminger agreed that a change in the title would be an advantage. In addition, some rewording along the lines he had suggested would help to clarify the Section for the reader.

Mr. Liefstinck suggested that the new sentence might be reworded to begin "Despite the provisions of Section 2."

The General Counsel undertook to examine the Section again.

#### Section 20

The General Counsel explained that the only new material was the insertion of the words "and liabilities" in the fourth line from the bottom of page 5.

#### Section 25

Mr. Rajaobelina pointed out that the text of the new Section 25 followed the pattern of Section 21. However, the staff had not proposed any change in Rule D-4, although he and other Directors had on a previous occasion requested a simplification both of drafting and of substance not only in Section 25 but also in Rule D-4. The complicated procedure imposed on "other holders" thus remained.

The General Counsel remarked that Rule D-4 had been made to conform with Section 25 of the By-Laws.

Mr. Dale said that the new draft of Section 25 seemed to him not only shorter and more readable, but also less forbidding than it had been previously. He therefore welcomed the changes that had been made.

Mr. Liefstinck pointed out that the words "Executive Directors shall recommend to the Board such terms and conditions as, in the opinion of the Executive Directors, the Board of Governors may wish to prescribe" meant that Directors should first ascertain the wishes of the Board of Governors and then comply with those wishes, irrespective of whether they agreed or not. That was a position which the Executive Directors very seldom took. Usually they had the courage to submit what they considered to be an appropriate solution, and hope that the Governors would accept it. He therefore proposed that the clause should read "such terms and conditions as the Executive Directors consider appropriate."

Mr. Stone wondered whether, in abbreviating Section 25, an implication had now been written into it that all requests would in fact be accepted, and that it was only a question of the terms and conditions on which acceptance would be made. The words "when submitting the request" implied that the request would be submitted. He did not disagree with that implication because if Directors formed the view that the request should not be accepted, they were still bound to submit it and give reasons why acceptance should be refused. However, the later words in the same sentence surely implied that all requests would



receive approval, and that only the terms and conditions would be open to discussion. While logically there might be no necessary implication, such a meaning could well be read into the words by a plain man. He would therefore like to inquire whether the passages could not be redrafted.

The General Counsel pointed out that the actual words followed the By-Law on applications for membership. It had been thought unwise to use different language in connection with two rather similar matters on which the Board of Governors must decide. The intention both in Section 25 and in the original Section 21 of the By-Laws adopted on March 16, 1946 was to indicate a reserved power in the hands of the Board of Governors. While he was always in favor of improved drafting, he doubted whether it would be useful to change the language of Section 25 without also changing that of Section 21.

Turning to the point made by Mr. Stone, the General Counsel said that there was no necessary implication that every request must go forward with the terms and conditions prescribed. He agreed that there was some ambiguity both in Section 25 and in Section 21. He was well aware of the ambiguity, but it reflected a very difficult point of law and he did not feel confident enough to give an opinion on it at the present time. The point at issue was whether Executive Directors did in fact have to pass on every application received, whether for membership or for becoming an "other holder"; or whether they could simply refuse to pass on an application. There was also the question whether any terms, even though very difficult terms, must be prescribed. He had therefore deliberately left the matter in limbo, and would only pursue it further if Executive Directors specifically requested the staff to study the matter.

Mr. Liefstinck proposed that the phrase "when submitting the request" should be reworded to read "when submitting a request."

The General Counsel agreed with Mr. Liefstinck's proposal.

Mr. Plescoff supported Mr. Liefstinck's wording regarding the relationship between Executive Directors and Governors. Regarding the sentence commented upon by Mr. Stone, he himself felt that the problem was that the words implied that Executive Directors had to give a positive recommendation in all cases, when that clearly was not the intention. He therefore suggested that the sentence might be reworded to read "when submitting a request to the Board of Governors with a positive recommendation."

Mr. Stone said that if Mr. Liefstinck's and Mr. Plescoff's proposals were accepted, his point would be fully met.

Mr. Dale remarked that he had been going to make a suggestion somewhat along the lines of the wording proposed by Mr. Plescoff, but that he had then observed that the wording proposed by the staff was almost identical to the language of the existing By-Law. He agreed with Mr. Lieftinck that the words now used did seem to imply a certain amount of mind reading by the Executive Directors, they were embodied in a By-Law under which the Fund had operated quite satisfactorily for some 23 years. Nevertheless, Mr. Lieftinck's proposal did seem to him an improvement. Regarding the more far-reaching question of whether there was too great an implication of a positive recommendation in the existing language, he would only say that if the wording of Section 25 were altered, that of Section 21 would have to be altered also.

Mr. Palamenghi-Crispi said that though he had been convinced by some of the arguments put forward by the General Counsel that there was no necessity to send forward to Governors resolutions proposing either a request to become a member or a request to become an "other holder," he wished for further clarification. Supposing that an applicant for membership or for becoming an "other holder" was dissatisfied by the fact that the Executive Board did not submit its request to the Board of Governors, the question was what action it could take. If the Executive Board had the right not to submit to the Board of Governors requests on which a negative recommendation would have been given, it would be depriving the Board of Governors of the possibility of expressing an opinion on any request which in the opinion of the Executive Directors was not acceptable. The matter was one which required very careful consideration; for he agreed with Mr. Dale that if any change were introduced in Section 25, a parallel change would have to be made in Section 21. But to make a change in Section 21 could be implied to mean that Directors felt that Section 21 had not been satisfactory during the past 20 years or so.

The General Counsel observed that Mr. Palamenghi-Crispi had raised questions covering ground on which it would be dangerous to tread: the right of a country to join an international organization and to have terms specified, whether they were contained in the organization's charter or not, raised very complicated matters of international law. The International Court of Justice in The Hague had handed down a decision on such matters in connection with membership of the United Nations, for example, and the Fund's own Articles provided considerable difficulties on such points. So far, however, it had never been necessary to come to a final opinion. It would be unwise for him to offer an opinion on the basis of less than full study; in any event, such issues should not be settled in connection with the drafting of a By-Law on a rather subsidiary aspect of special drawing rights. The staff could, if asked, look into the matter and come up with recommendations some time in the future. Regarding the matter at hand, he recommended that a minimum change be made in Section 21 to conform it to

Section 25, and he would accept Mr. Lieftinck's proposal to substitute the word "a" for the word "the."

Mr. Palamenghi-Crispi said that in the light of the General Counsel's clarification, he would support the present wording of Section 25, with the change from the definite to the indefinite article.

Mr. Rajaobelina agreed that it would not be wise at the present stage to examine the question of the power of Executive Directors to refuse to forward an application to the Board of Governors. There was however still another problem to be resolved: in Rule D-4, line 5, the words "if this is in the affirmative" appeared. That clearly meant that Executive Directors had the right to withhold an application from an "other holder." Surely Rule D-4 should be in conformity with Section 25.

The General Counsel pointed out that Rule D-4 had been written in the same form as Rule D-1. The purpose had been to avoid anything prejudicial to any outcome. While he did not know the history of the drafting of Rule D-1, he thought that if a different format were used for Rule D-4, there might be some implication that a position was being taken on the questions that had been raised.

Mr. Dale said that, after listening to the arguments, he agreed with Mr. Palamenghi-Crispi that it would be best to leave Section 25 as it was, with the substitution of the indefinite for the definite article. In passing, he presumed that if an applicant for membership or to be an "other holder" should desire to have its application placed before the Board of Governors despite the unwillingness of the Executive Board, then any Governor of an existing member of the Fund, or any Governor of a participant in the Special Drawing Account could place the subject on the agenda. In those circumstances, if the applicant could persuade one Governor to put the matter on the agenda, its wish to have it forwarded to the Board of Governors would in fact have been satisfied.

The General Counsel agreed with Mr. Dale's assumption and pointed out that these were matters rather of international politics, for which the remedies would be of a diplomatic character, than points that could be resolved in connection with the Fund's By-Laws.

Mr. Plescoff inquired why Section 25 had been made different from Section 21 by the omission of the words "after consultation with the applicant."

The General Counsel replied that the words had been omitted in compliance with the Board's desire that the Section should be shortened. They could certainly be reinserted. Originally the text of Section 25 had been much closer to that of Section 21; however, at an earlier meeting Directors had asked that the word "applications" should be replaced by

the word "requests." In those circumstances, the phrase requested by Mr. Plescoff would have had to read "after consultation with the requestor," which did not seem appropriate.

After further discussion, it was agreed that the word "request" in Section 25 should be replaced by the word "application," and that the staff would re-examine the wording of the Section in the light of comments made by Directors.

It was agreed to meet again in the afternoon to start the discussion of the Rules and Regulations.

#### DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Directors without meeting in the period between EBM/69/82 (9/3/69) and EBM/69/83 (9/10/69).

#### 3. JAMAICA - NEW MONETARY UNIT AND PAR VALUE

1. The Jamaican Government has proposed a par value of its new monetary unit, the Jamaica dollar, which is being introduced effective September 8, 1969. The Fund concurs in this proposal.

2. The par value of the Jamaica dollar expressed in terms of gold and in terms of the U.S. dollar of the weight and fineness in effect on July 1, 1944 will be:

1.066 41	grams of fine gold per Jamaica dollar;
29.166 7	Jamaica dollars per troy ounce of fine gold;
0.833 333	Jamaica dollar per U.S. dollar;
120.000	U.S. cents per Jamaica dollar.

3. The Fund's holdings of Jamaican currency will be adjusted accordingly (EBS/69/246, 9/8/69). 3

Decision No. 2831-(69/83), adopted  
September 8, 1969

#### 4. AFGHANISTAN - POSTPONEMENT OF REPURCHASE COMMITMENT

Afghanistan has requested that the repurchase commitment equivalent to \$2 million due not later than September 5, 1969 in respect of a purchase of a like amount on September 6, 1966 under the stand-by arrangement of August 3, 1966 be temporarily

postponed until not later than November 5, 1969. The Fund agrees to the request (EBS/69/241, 9/3/69).

Decision No. 2832-(69/83), adopted  
September 5, 1969

5. SUDAN - POSTPONEMENT OF REPURCHASE COMMITMENT

The Sudan has requested that the repurchase commitment equivalent to \$2.5 million due not later than September 20, 1969 under the repurchase schedule (Executive Board Decision No. 2763-(69/41), adopted June 18, 1969) be postponed. The Fund agrees to a 30-day postponement of the above-mentioned repurchase commitment until not later than October 20, 1969.

Decision No. 2833-(69/83), adopted  
September 9, 1969

6. ETHIOPIA - TECHNICAL ASSISTANCE

In response to a request from Ethiopia for technical assistance, the Executive Board approves the proposal set forth in EBD/69/127 (9/3/69).

Adopted September 4, 1969

7. GUYANA - THIRD AID DONORS' CONFERENCE - FUND REPRESENTATION

The Executive Board approves Fund representation at the Third Aid Donors' Conference as set forth in EBD/69/129 (9/3/69).

Adopted September 8, 1969

8. GATT - DERESTRICTION OF DOCUMENTS

The Fund does not object to the proposals regarding the derestriction of GATT documents set forth in EBD/69/128 (9/3/69).

Adopted September 8, 1969

9. EXECUTIVE DIRECTOR - TECHNICAL ASSISTANT

The Executive Board approves the appointment set forth in EBAP/69/156 (9/5/69).

Adopted September 9, 1969

10. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director as set forth in EBAP/69/155 (9/3/69) is approved.

APPROVED BY THE EXECUTIVE BOARD:  
Meeting 69/102, October 27, 1969

PIERRE-PAUL SCHWEITZER  
Chairman

ROGER V. ANDERSON  
Acting Secretary