INTERNATIONAL MONETARY FUND

Executive Board Meeting

Meeting 176

1818 H Street, N. W.

10:00 a.m., June 5, 1947

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Camille Gutt, Chairman

	E. de Selliers
G. L. F. Bolton	
G. W. J. Bruins	W. Koster
	G. Cigliana-Piazza
	R. Martinez-Ostos
J. V. Joshi	B. K. Madan
Y. C. Koo	Y. L. Chang
J. de Largentaye	
J. V. Mladek	M. Kolcvic
L. Rasminsky	
	M. S. Falaki
	O. Paranagua
F. A. Santos-Filho	
	G. F. Luthringer

Roman L. Horne, Acting Secretary
Phillip Thorson, Assistant

Present for Items
3-5 J. L. Fisher, Head, Operations Department
1-5 E. M. Bernstein, Head, Research Department
1 J. Del Canto, Research Department
3-5 M. R. Wyczalkowski, Research Department

Approved: Meeting 179, June 17, 1947

Item 1 of the minutes of Meeting 172 was read and agreed. Item 2 was held over.

1. Mission to Ecuador

The Executive Board took up a communication from the Government of Ecuador proposing the adoption of an emergency measure for the allocation of exchange (Executive Board Document No. 190). Notice was taken that the proposal and the conditions for its modification or abolition were in accord with those which had been agreed previously (Meeting 174, Item 4). Pertinent provisions from the Ecuadorian decree law to implement the proposal were read. At the same time the Executive Board reviewed a suggested public statement which would be published simultaneously by Ecuador and the Fund (Staff Memorandum No. 84, Supplement 3). Revisions were made. Mr. Bolton said he wished to record his opposition to the association of the Fund with a member's adoption of such a measure. He also opposed issuance of the public statement.

After discussion, the sense of the meeting was to adopt the following decision:

> The Fund does not object to the proposal of Ecuador to introduce and exercise for a temporary period a method of allocating exchange in accordance with the conditions previously agreed (Meeting 174, Item 4). The text of a related public statement is approved as revised (Staff Memorandum No. 84, Supplement 3, Revision 1) and Ecuador shall be notified accordingly.

2. International Trade Organization - Multiple Currency Practices

The Executive Board reviewed an inquiry from Mr. Saad as to whether the Fund wished any changes in Article 30 of the proposed ITO Charter (Executive Board Circular No. 199, Supplement 1). Mr. Saad had pointed out that the Article required that export subsidies would be brought under ITO's supervision after three years, which might be construed as a limitation on members' use of multiple currencies as a device for subsidizing exports. He believed, however, that the Fund should not be concerned with such a possible limitation if the members who might be involved were not.

The decision was:

> The Fund does not object to the text of Article 30 of the Draft International Trade Organization Charter relating to supervision over members' use of export subsidies. The Fund's representive in Geneva shall be notified accordingly.

3. Report on Czechoslovakia

Mr. Mladek presented a report on economic and financial developments in Czechoslovakia. He first outlined the significant elements in the country's economy, pointing out its high levels of industrialization and diversification, its trade with a substantial portion of the world and the consequent importance which it placed on world economic developments. A substantial nationalization had taken place in industry but a considerable portion remained in private hands. Agriculture, wholesale trade and retail trade were almost entirely private. The same was true of foreign trade, which was, however, subject to a strict licensing system. The widest nationalization had occurred in banking where all commercial banks were owned by the State. An important part of the credit business was carried by the municipal and co-operative credit institutions, most of which existed before this War and even before the 1914-18 War.

Czechoslovakia had a two-year plan pointed toward increased production. With minor exceptions 1948 goals should be easily achieved; in industry, for instance, they have been set at 110 per cent of 1937 levels and heavy industries have already surpassed 1937. Food production, while not abundant, had permitted exports in some lines. Some consumer goods were still in short supply.

In the monetary field there had been a small budgetary deficit in 1946 resulting from capital outlays for reconstruction, which were not segregated from the regular budget. A somewhat larger deficit on the same account had been forecast for 1947, but for the first quarter receipts had actually equalled expenditures. The budget did not show the profits and losses of nationalized industries which were carried in a different fund. The Government debt was not great; as a result of a rise in price levels and reduction of the rate of interest, its service imposed about half the pre-war burden. There had been some increase in currency circulation which could be fairly easily repaired. Price controls were maintained and, while there was a small black market, its prices were now rapidly approaching the fixed levels.

Czechoslovakia's foreign trade had recovered well during 1946. In the last months, 25 per cent of the trade was with Eastern Europe (of which 13 per cent was with Russia) and the remaining 75 per cent was with the rest of the world. One problem was that trade with the "soft" currency areas had been more favorable than that with the "hard." However, plans were under way to push exports to the dollar area so as to relieve the dollar shortage enhanced by the present regime of payment for imports and services to Germany which is effected in dollars.

4. Report on Yugoslavia

Mr. Mladek gave an outline of economic developments in Yugoslavia. He pointed out that the country has extensive natural resources, but remained essentially a primary production area. About 80 per cent of the population was in agriculture, mining was of some importance, but the percentage in trade and industry--in which handicrafts still assume a great importance--was comparatively small. Agricultural holdings, which constituted the base of the economy, remained in private hands. There had been extensive nationalization in industry and wholesale trade. Nationalization had also taken place in urban retail trade where it was necessary to strengthen the rationing system. Development banks, which had been started before the war with Government participation to provide capital at reasonable rates, had taken a more important place in the banking system by comparison with the private banks. The latter continued to operate but at a reduced level. Foreign trade was closely controlled by the Government and direct governmental transactions prevailed.

There was a considerable element of central planning in Yugoslavia to overcome the economic difficulties. Transportation had been greatly damaged during the War, but all railways were operational again by the end of 1946. Mining output was not unsatisfactory, but the same could not be said for the production of finished goods which was unable to satisfy the needs of the country at any time. A widespread drought in 1946 had seriously affected the food supply. By dint of strict allocation, however, the effects had been mitigated.

Regarding the monetary situation, it was notable to what extent the Government was determined to maintain the value of the currency. Strict measures had been applied to reduce the money flow and combat inflation, including a ceiling on salaries. Prices were under control and being pushed down although a shortage of foodstuffs had some adverse effects. The budget was in balance. Exports and imports likewise were equated by strict Government control. Hence there was no pressure on the exchange rate. A continuous effort was being made to push exports so as to permit needed imports.

It was noted in this connection that Yugoslavia had requested the Fund to set a date by which the initial par value of the dinar should be agreed (Executive Board Document 188). There was agreement that the request should be placed on the agenda for the next meeting.

5. Report on Poland

Mr. Mladek gave a resume of economic and financial developments in Poland of interest to the Fund. He first outlined the general nature of the economy, pointing out the considerable percentage now devoted to agriculture along with the excellent prospects for extensive industrial development. The ownership of agriculture and retail trade, he noted, remained in private hands. There was also an important margin of private enterprise left in wholesale trade but less in industry. As had been virtually the case before the war, banking was primarily in governmental hands.

There was some emphasis on central planning which was aimed primarily at developing Poland's industrial potentials. Current production in the heavy industries was good, but the same could scarcely be said for some consumer lines. The food supply was short due to a poor harvest.

A rather complicated pricing system had been worked out in Poland in an attempt to ease the transition from the immediate post-liberation inflation. Prices for most consumer goods were uncontrolled and were high. Wages were technically low, but workers were subsidized both by direct allocations of goods and by the use of ration cards which permitted purchases at low prices. These subsidies were supplied in the main out of profits from sales of goods produced by the nationalized enterprises. There had been a recognition that the price system was not advantageous, and there was some expectation that stabilization and unification operations would be undertaken in the near future if conditions were auspicious.

In the monetary and exchange field, there had been a sizeable increase in currency circulation which up to a certain point was justified as necessary because of the great increase in prices. There was still a rising trend in prices but no rapid inflationary spiral. Poland's balance of payments was strengthened by the possibility of exporting coal. However, the unusual need for food imports was an offset. The problem of establishing a more appropriate exchange rate was not pressing because, while travelers and diplomats might be adversely affected, the volume of imports and exports did not suffer, all foreign trade being handled through Government channels.

In conclusion, Mr. Mladek said that steps by Poland to fix an initial par value with the Fund would be more likely of success after further internal stabilization, and Poland was wise in not trying to force a par value at this time. There had been some earlier hope that discussions with the Fund could begin in May (Meeting 143, Item 1) but that now appeared premature. It was recommended and agreed that the Fund assure Poland that its position with the Fund would remain undisturbed and that the Fund would await an indication of when the situation would warrant discussions looking toward establishing an initial rate.