#8 INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 76/103

10:00 a.m., July 14, 1976

H. J. Witteveen, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
J. Amuzegar	
P. Åsbrink	J. H. Kjaer
S. Y. Cross	T. Leddy
	H. G. Schneider
	M. Finaish
L. Dini	E. O. de Toledo
B. J. Drabble	D. Lynch
R. Gavaldá	S. Sevilla
S. Jagannathan	W. Rasaputram
	W. Temple-Seminario
K. Kawaguchi	M. Wakatsuki
	Sein Maung
P. Lieftinck	T. de Vries
H. R. Monday	
E. Pieske	
	P. Kent
	L. F. Vílches, Temporary
	J. Foglizzo
	R. S. Deane
	S. Nana-Sinkam

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

Also Present

African Department: M. Touré, Director; C. L. Merwin, Deputy Director; R. J. Bhatia, E. L. Bornemann, P. Boxall, J. McMurtrie, R. Pownall. Asian Department: J. A. Tillman. European Department: L. A. Whittome, Director. Exchange and Trade Relations Department: C. D. Finch, Deputy Director; D. K. Palmer, Deputy Director; T. Sweeney. Legal Department: J. Gold, General Counsel and Director; J. G. Evans, Deputy General Counsel; P. R. Lachman. Middle Eastern Department: A. S. Gerakis. Research Department: J. J. Polak, Economic Counsellor and Director; C. F. Schwartz, Deputy Director; R. R. Rhomberg. Treasurer's Department: R. J. Familton, Deputy Treasurer; D. Williams. Western Hemisphere Department: J. Del Canto, Director. Bureau of Language Services: J. S. Haszard, Director. Information Office: L. R. Azócar. Personal Assistant to the Managing Director: D. W. Green. Advisors to Executive Directors: C. Bouchard, J. K. E. Cole, F. K. Hussein, A. Malek. Technical Assistants to Executive Directors: V. Alipui, V. Amiel, S. Arancibia, E. Avillez, D. Berthet, J.-M. Bisson, J. M. Cock Londoño, M. Danusaputro, K. L. Deshpande, A. Karimi, R. Khonsary, H. Kuroda, C. J. Lohmann, A. G. Morris, A. K. Mullei, K. Nakayama, S. K. Panya, M. Pietinen, E. Sacerdoti, S. B. Satyal, M. A. Wasfy, P. Zimmer, A. G. Zoccali.

1. REPORT BY MANAGING DIRECTOR

The Managing Director made the following statement regarding his visit to Basle on July 12, 1976 to attend a meeting of the Governors of the central banks of the countries adhering to the arrangements on gold described in the Interim Committee communiqué of August 31, 1975:

> I participated in a meeting held in Basle on July 12, 1976 of the Governors of the central banks of the countries adhering to the arrangements on gold described in the Interim Committee communiqué of August 31, 1975. These are the members of the Group of Ten, Switzerland and Portugal.
>
> The Chairman, Mr. Zijlstra, made a statement which described the understandings of the G-10 Governors about the implementation of the arrangements (see Annex I). One point needs to be added to the text which is that it is understood by the G-10 Governors that the ceiling referred to in the arrangements will be raised on the occasion of the adherence of any member of the Fund by the amount of that member's gold holdings on August 31, 1975.
>
> Mr. Larre, representing the BIS in its capacity of registrar, as described in Mr. Zijlstra's statement of the G-10 Governors' understandings, gave a report on developments relevant to the implementation of the agreement (see Annex II). I would suggest that the table included in his report could serve to meet the requirement of paragraph 4 of the arrangements.

After his visit to Basle, the Managing Director continued, he had an opportunity the following morning to meet Mr. De Clercq, Chairman of the Interim Committee and Finance Minister of Belgium, to discuss the agenda for the coming meeting of the Interim Committee in Manila. They had agreed on a number of items that it might be useful for the Ministers to examine at that meeting. They had also agreed that it might be useful for the Executive Directors to have an exchange of views on the possible items before Mr. De Clercq made a definite proposal to members of the Interim Committee. He would circulate a draft agenda to the Executive Directors and he proposed that the matter should be brought to the agenda of the Executive Board on July 21. He would report on the outcome of that meeting to Mr. De Clercq, who would decide on his communication to the members of the Committee accordingly.

The Executive Directors noted the report by the Managing Director.

2. APPROVAL OF MINUTES

The draft minutes of Meetings 76/50 and 76/53 were approved.

3. ZAMBIA - EXCHANGE SYSTEM - CENTRAL RATE

The Executive Directors considered a paper and proposed decision on the exchange system of Zambia (EBS/76/308, 7/12/76).

Mr. Temple-Seminario stated that he had no doubt that the proposed depreciation was necessary. The authorities appeared to have been led to their own decision by two basic causes: first, distortion in the cost/price structure of the economy, with the consequent inefficiency in allocating the available resources; and, second, the increase in costs for the mining sector, which had led to financial losses for the operating companies. The adoption of a realistic exchange rate plus a stimulation of copper output--which represented 25 per cent of GDP--was bound to lead to an increase in domestic production and consequently an increase in internal savings as a percentage of GDP.

He would be interested to know whether the authorities had increased the rates used by financial intermediaries, Mr. Temple-Seminario observed. If not, there might be difficulties in preventing a capital outflow. It would also be interesting to know what the wage increases were expected to be in Zambia during 1976, compared with the increase in overall prices.

Mr. Dini said that he would support the proposed decision, which was clearly without prejudice to the stabilization program that the Executive Directors were to consider separately. The exchange rate adjustment proposed by the Zambian authorities was an important step in the right direction, especially in view of the need to restore the competitive position of the mining sector, to reduce the distortions in the cost/price structure, to eliminate the strong pressures on the balance of payments, and to eliminate the accumulation of arrears, and to reverse the intensification of restrictions on financial transactions.

Mr. Lieftinck observed that he would endorse the action taken by the authorities with respect to the Zambian exchange rate. It was clear that demand management policies, which were certainly needed, could not alone be expected to arrest the deterioration in the balance of payments situation and provide the basis for an increase in the rate of growth. His only concern was that the degree of devaluation selected by the authorities might prove to be insufficient. The distortions in the cost structure had become so great and the competitive situation had deteriorated so badly that he had serious doubts whether the depreciation would correct the situation. The country had lived for some time with too large a volume of imports. It should certainly try to develop its own productive potential as rapidly as possible, thus becoming less dependent on imports and on the impact of foreign prices. The demand management policies on which the authorities were embarking would require great sacrifices from the population, and it would be a pity if, even when the demand policy program was fully enforced, the authorities should fail to reach their target because the exchange rate was still incorrect. However, the Fund should, in the present circumstances, probably accept the proposal by the authorities, only cautioning them that they should keep a close watch on the situation to ensure that the exchange rate would not need to be readjusted in the very near future.

Mr. Deane stated that he too would support the proposed change in the exchange rate of Zambia, although he had had doubts similar to those expressed by Mr. Lieftinck. In the first place, he had wondered whether it was not perhaps unfortunate that the devaluation had been delayed so long, especially in view of the serious disequilibrium in the balance of payments in 1975. He had also wondered whether the amount of the depreciation would in fact turn out to be adequate. For instance, the staff reported that, even with the proposed rate, the mines were expected to be making profits that would be so small that they would be unable either to maintain adequately their present capacity or to meet their debt obligations. In those circumstances, it might perhaps have been useful for the staff to have given rather more explanation as to why a 20 per cent depreciation had been chosen rather than some other figure.

One piece of evidence that had caused the doubts he had expressed, Mr. Deane continued, was that the terms of trade of Zambia had worsened by more than 50 per cent since 1973, the last occasion on which the exchange rate had been changed. On the other hand, he could understand the reluctance of the authorities to move the rate, no doubt reinforced by concern about the inevitable increase in domestic prices and the associated social problems. He was glad to note that the Executive Directors would be considering a stand-by arrangement for Zambia in the near future. It was reassuring that the Fund should be involved with Zambia in that way and that the Zambian authorities were prepared to adopt a suitable program.

Mr. Nana-Sinkam recalled that, on the occasion when the Executive Directors had discussed the use of the Fund's resources by Zambia (EBM/75/181, 11/26/75), he had inquired whether the Zambian authorities had taken into account a move in the exchange rate made by the Zaïrian authorities, since Zambia and Zaïre were exporting the same commodities. At that time Mr. Monday had stated that the matter was under consideration in Zambia. His own feeling was that devaluation of the kwacha had come rather late and that the extent of the devaluation would be insufficient to help the authorities without a strenuous effort to enforce appropriate demand management. It was of course true that it was extremely difficult for the authorities of any country accurately to select the correct moment for a devaluation of the correct percentage. Nevertheless, it might be useful in the future if the staff were to give more explanation of why a certain figure had been selected. Nevertheless, it was satisfactory that, if the extent of the devaluation proved to be insufficient, the Fund staff would be on hand to assist the authorities.

Mr. Cross remarked that he would support the proposed decision mainly for the reasons put forward by Mr. Deane. The Zambian authorities clearly had a serious problem for the reasons given by earlier speakers. He only wondered why the seriousness of the situation had not been made more apparent at the time when the Executive Directors had examined requests for drawings by Zambia under the oil facility and the compensatory financing facility in November 1975. He too would welcome some further explanation of why the figure of 20 per cent had been chosen, even though he recognized the problems involved in fixing an exact number.

Mr. Lynch observed that he too would support the proposed decision. In examining the staff paper he had been struck by the high import content of the various sectors of the Zambian economy. The copper industry had a high percentage of its imported inputs; the agricultural sector's inputs from abroad ranged between 30 per cent and 65 per cent, and a similar situation prevailed in household consumption. The foreign exchange content of low income group consumption was about 35 per cent and that of the high income group between 40 per cent and 45 per cent. The impact of the devaluation on the import side could therefore be quite severe, and he would be interested to learn what the effect on the cost of living was expected to be. The staff had mentioned that the authorities intended to hasten the introduction of new production techniques and to expand agricultural production. The difficulty was that such measures usually took a considerable time to have effect, and, in the meantime, the immediate impact on the cost of living could be serious. One satisfactory element in the situation was that copper prices had been rising quite substantially, from 52 cents per pound in January 1976 to over 70 cents per pound at the present time.

The Director of the African Department, replying to questions, mentioned that a rationale for the adjustment of the exchange rate for the kwacha had been set out in EBS/76/308. The precise figure of 20 per cent had of course been a matter of negotiation. The staff had been talking with the Zambian authorities since late March or early April 1976, and the conversations had been long and difficult. A whole range of figures had been put forward, 20 per cent being at the low end. For considerations connected with the fear of the impact on internal prices and other noneconomic factors, the Zambian authorities had felt that they should not go beyond 20 per cent, which the staff had considered to be the lower limit of any adjustment likely, in conjunction with other elements of the program, to redress the situation. However, the authorities and the staff were to review the situation before the end of the year, and they would then discuss all the elements in the program in the light of the prevailing circumstances.

As to the suggestion that the seriousness of the Zambian situation could have been more evident at the end of 1975, the Director of the African Department observed that a possible change in the exchange rate had been foreshadowed in the paper prepared for the Executive Directors in connection with the first credit tranche drawing by Zambia in November. Indeed, the negotiations were a follow-up to the paper presented to the Executive Directors at that time.

In reply to detailed questions, the Director of the African Department mentioned that the authorities had taken steps to raise interest rates on deposits in commercial banks and other commercial institutions on July 12, 1976. The effect of the devaluation on internal prices was expected to be an increase of about 14 per cent for low income earners and about 18 per cent for those with higher incomes. The actual impact would, however, depend on how wage policies were applied in the private sector and on the extent to which enterprises would absorb the increase in prices by reducing their profit margin. Taken together with the increase in salaries of February 1976, the overall impact on domestic prices might be somewhat less than 15 per cent. As to the wages policy, the authorities had undertaken not to increase public sector salaries in 1976 or 1977. However, there was no way of controlling salaries in the private sector and particularly the mining sector. There might therefore be some feed-back into the public sector, and the authorities were watching the situation closely.

Mr. Monday remarked that, like other speakers, he was convinced that demand management policies alone could not be expected to arrest the deterioration in the balance of payments situation of Zambia, or to provide a basis for an increase in the rate of economic growth, along with a sustained improvement in the balance of payments. It had therefore been necessary for the Zambian authorities to depreciate the kwacha. Some Executive Directors had inquired whether 20 per cent was sufficient. It was of course always difficult to determine the exact magnitude of an adjustment in the exchange rate; and in Zambia, as in other developing countries, a substantial depreciation in the rate was bound to have adverse repercussions on the cost of imports, possibly leading to political and social difficulties. The authorities had been bound to take into account the effects in the economic and social fields of a depreciation greater than 20 per cent. While 20 per cent seemed to be the minimum possible figure, the authorities were aware of the situation and they proposed to carry out their demand management policies as agreed with the staff. On the technical points raised by Executive Directors, the authorities did not intend to increase the salaries of government employees, either in 1976 or in 1977, and they would make every effort to prevent wage increases in public enterprises. At a later stage the authorities intended to link wages in the private sector with productivity.

The Executive Directors then turned to the proposed decision, which they approved.

The decision was:

1. The Zambian authorities have communicated to the Fund a rate of K 1 = SDR 1.08479 to take effect as a central rate on July 9, 1976. They intend to continue to avail themselves of the wider margins under Executive Board Decision No. 3463-(71/126), adopted December 18, 1971, as amended by Executive Board Decision No. 4083-(73/104), adopted November 7, 1973.

2. The Fund notes the central rate communicated by the Zambian authorities and their intention to maintain the rate for the kwacha in terms of the special drawing right as defined in Rule O-3(a) and to continue to avail themselves of wider margins.

Decision No. 5145-(76/103), adopted
July 14, 1976

4. AMENDMENT - FIRST SYLLABUS OF CHANGES AND ADDITIONS

The Executive Directors considered a memorandum prepared by the staff setting forth the changes in and additions to policies and decisions of the Fund that would have to be taken in connection with the amendment of the Articles of Agreement (SM/76/145, 6/25/76).

The Chairman suggested that the paper should be regarded as a work program; it was not intended that the Executive Directors should undertake any substantive discussion of the various items at the present meeting. He had, however, felt that it would be useful for Executive Directors to comment on the program, and make suggestions for additions or deletions.

Mr. Lieftinck considered that the paper was useful in that it not only offered a program of work but also provided a framework within which to carry it out. The staff had been right in making a distinction between editorial changes and substantive changes. He only hoped that not many of the editorial changes would become substantive ones.

As to the classification of the changes proposed by the staff, Mr. Lieftinck observed that in Class (i) the staff seemed to have collected all those items that required urgent attention before the implementation of the second amendment. He hoped that the Executive Directors would have sufficient time to find solutions to the problems in that class, it being desirable to implement the second amendment as rapidly as possible.

Mr. Deane stated that he could in general agree with the proposals contained in SM/76/145; his comments would be mainly in the nature of suggestions. In particular, he wondered whether it might not be appropriate to treat one or two of the items in Class (ii) as though they were in Class (i). For instance, it should be possible to reach early agreement on the item in Class (ii)5 providing that purchases under the oil facility should float alongside the reserve tranche in order to avoid the difficulties that had arisen hitherto in connection with repurchases. As to the item in Class (ii)4--providing for floating alongside the reserve tranche for purchases under the buffer stock facility--it had been his understanding that Executive Directors had already agreed in effect that the buffer stock facility should float in that manner. Accordingly, a decision along those lines should not give rise to controversy. On the item in Class (ii)2--establishing a difference between the rate of remuneration and the interest rate on the SDR--there did seem to be some interest in the possibility of breaking the nexus between the rate of remuneration and the rate of interest, and he had wondered whether it might be wise to look at the matter again before the amendments became effective. He was unclear whether there was any need for particular action on the norm for remuneration under Article V, Section 9(c), a matter not covered by a staff paper.

He had a question with respect to the language in Class (i)3(a), Mr. Deane mentioned, where the staff had stated that "most of the decisions on the use of the Fund's resources will require editorial changes, but many will raise substantive issues. It may be possible to substitute a single comprehensive and more ordered decision for many of the piecemeal decisions that had accumulated over time." While he could see the advantages of a single comprehensive decision, there might also be difficulty in arriving at such a decision if to do so would mean integrating decisions on the various facilities into a common format. More generally, however, he had been surprised by the statement that many of the decisions would raise substantive issues. He was not at all clear what those might be.

Mr. Cross urged the staff not to pay too much attention to taxonomy when trying to organize the program of work. There might be too many categories, and he himself found some difficulty in deciding into which group certain questions really fell. He also feared that each individual Executive Director would urge the staff to press ahead with all deliberate speed on the particular enabling clauses that were of concern to himself. He was therefore not prepared to agree that certain enabling clauses clearly deserved priority and that others should be reserved for later treatment. He had in mind particularly those relating to the Council.

As to the individual items, Mr. Cross said that he was by no means convinced that all the problems set out in Class (i) and Class (ii) had to be resolved before the second amendment could take effect. And there were certain items--for instance, that in Class (i)1 relating to the payment of subscriptions for quota increases--on which it ought to be possible to reach a decision without more ado. Several of the items in Class (ii) seemed to him to fit just as appropriately in Class (iv). For example, unlike Mr. Deane, he saw no reason to prejudge the question of a difference between the rate of remuneration and the rate of interest. On the other hand, he agreed with Mr. Deane in thinking that agreement had already been reached on Class (ii)4, floating of the buffer stock alongside the reserve tranche.

The General Counsel explained that the purpose of the classification had not been to suggest what was more desirable and what was less desirable. It had only been to indicate the items on which decisions had seemed to the staff to be essential, as a legal matter, before the amendment of the Articles took effect, and those that were not mandatory in that sense. The purpose of the paper had been to obtain some idea of those items on which the Executive Directors thought work should be undertaken in addition to the essential items. The classification was therefore of no great importance except to suggest those items that had to be settled in order to make the second amendment operational.

Dealing with some of the suggestions that had already been made, the General Counsel indicated that in Class (ii)5, for instance, purchases under the oil facility could not at present float alongside the reserve tranche. If it was decided that the situation should be changed immediately under the power in the amendment, naturally the staff would bring forward an operational decision to make the change. While it was highly desirable to take such a decision, it did not follow that it was essential as a legal matter. Similarly, in Class (ii)4--floating of the buffer stock facility alongside the reserve tranche--his understanding was that there had been a suggestion that such a change should be made. If that was so, an appropriate decision would still have to be taken. There was some difference of opinion among Executive Directors on whether work should be started immediately on Class (ii)2, establishing a difference between the rate of remuneration and the interest rate on the SDR. Mr. Deane had inquired whether action was needed to make the norm for remuneration operative. No further action would be needed to introduce the norm as it was defined in the Articles, but rules would have to be established for the application of the norm because the present rules would become inappropriate.

The comment about decisions on the use of the Fund's resources raising substantive issues in Class (i)3(a), the General Counsel explained, only referred to the issues set out later in the same paragraph. It was impossible to say at the present time whether the attempt to rewrite and to consolidate the quite remarkable number of decisions on the use of the Fund's resources would raise further substantive issues. But the attempt to consolidate the decisions would in itself present a considerable problem. As to whether a decision had already been taken on Class (i)1, regarding the currencies of other members acceptable to the Fund in payment of subscriptions for quota increases resulting from the Sixth General Review, it was true that the decision had been taken to permit the member to pay in special drawing rights, its own currency, or another currency. The Fund would however have to specify which "other currency" would be acceptable by the Fund, and a procedure would have to be established for obtaining the concurrence of the issuer of any currency so specified.

Mr. Monday stated that his views were similar to those of Mr. Lieftinck and that he could accept the paper as it stood.

Mr. Kent considered that the staff should be commended for preparing an intellectual framework for the overhaul of decisions and policies of the Fund. It was clear that the Executive Directors had to determine which decisions were essential before the second amendment came into effect. Some recent discussions by the Executive Directors had clearly foreshadowed the question of the extent to which they should legally or morally anticipate the effect of the forthcoming changes. Presumably, as the time when the second amendment would come into force approached, the problem would become more acute. Deciding on certain actions forthwith and postponing others until the second amendment came into effect might cause an awkward hiatus in the business of the Fund, especially if a queue of pending decisions built up while countries waited to take advantage of the amendment. While he had no particular views to offer, it was clearly a matter that the Executive Directors should bear in mind.

The General Counsel agreed that it would be desirable to reflect on how far the Executive Directors could go in trying to anticipate the entry into effect of the second amendment. From the discussion so far, there appeared to be no dissent from the list in Class (i); all that had been suggested was that items in Class (ii)4 and Class (ii)5 should be considered as having a high degree of desirability, and consequently that papers should be prepared on them at the same time as those for items in Class (i). Naturally, priorities would change as the work went forward. For the time being, however, he would welcome guidance on the status that Executive Directors wished to give to the item in Class (ii)2, establishing a difference between the rate of remuneration and the interest rate on the SDR.

Mr. Drabble stated that he was among those who felt that there was a reasonable urgency in considering the item in Class (ii)2. He hoped that if reasonable progress were made on the substantive matters, it would be possible to hold back the editorial changes and approve them very rapidly either just prior to the entry into force of the second amendment, or perhaps just afterward.

The Economic Counsellor commented on the remarks that had been made with respect to the item in Class (ii)2, establishing a difference between the rate of remuneration and the interest rate on the SDR. The Fund would be taking a number of decisions on the rate of remuneration and on the rate of interest both in the period prior to the entry into force of the second amendment, and no doubt immediately thereafter. The decision to make a difference between the two was only a decision to select two different numbers. No decision of principle was involved. Views as to what the number should be might evolve over time and they would only become relevant at the moment that the decision was taken. Consequently, his own recommendation would be that the Executive Directors should wait until the first time after the entry into force of the second amendment that a decision was required before tackling the matter as a general issue.

The General Counsel, agreeing with the Economic Counsellor's proposal, remarked that the substance of the provisions would be different after the entry into force of the second amendment.

The Executive Directors thereupon concluded their consideration of the first syllabus of changes in and additions to policies and decisions of the Fund.

5. EXECUTIVE DIRECTOR

The Managing Director bade farewell to Mr. Gavaldá on termination of his period of office as an Executive Director.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Directors without meeting in the period between EBM/76/102 (7/12/76) and EBM/76/103 (7/14/76).

6. ZAMBIA - TECHNICAL ASSISTANCE

In response to a request from Zambia for technical assistance, the Executive Board approves the proposal set forth in EBD/76/139 (7/7/76).

Adopted July 12, 1976

7. ADDITIONAL APPOINTED EXECUTIVE DIRECTORS

The Executive Directors decided that no change in the terminal date, namely July 31, shall be made for the calculations required under Article XII, Section 3(c) in 1976 (EBD/76/140, 7/8/76).

Decision No. 5147-(76/103), adopted
July 12, 1976

8. FINANCIAL AFFAIRS COMMISSION OF THE CONFERENCE ON INTERNATIONAL ECONOMIC COOPERATION (CIEC) - REQUESTS FOR STAFF REPORTS ON MULTILATERAL DEBT RENEGOTIATIONS

The Executive Board approves the proposal set forth in EBD/76/144 (7/9/76).

Adopted July 13, 1976

9. EXECUTIVE BOARD COMMITTEES - CHANGES IN COMPOSITION

The Executive Board approves the proposal set forth in EBD/76/143 (7/9/76).

Adopted July 13, 1976

10. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/76/166 (7/9/76) and EBAP/76/167 (7/12/76) is approved.

APPROVED BY THE EXECUTIVE BOARD:
Meeting 76/148, October 27, 1976

WILLIAM B. DALE
Acting Chairman

ROGER V. ANDERSON
Acting Secretary

July 12, 1976

Statement by Mr. Zijlstra

I would like to begin by welcoming you all to the first meeting of the participants in the gold arrangements which the Group of Ten countries agreed on last year. In particular I am happy that we have with us today Dr. António de Seixas da Costa Leal, Deputy Governor of the Bank of Portugal, representing the first country outside the founding group to have adhered to the arrangements. Moreover I am sure that I express the feelings of all Governors present today when I say how much we welcome the fact that the International Monetary Fund is represented at the meeting by its Managing Director.

As you all know, the arrangements came into force on 1st February this year, for a period of two years; and this meeting is the first of what is intended as a series of semi-annual reviews of participants' gold transactions.

Before asking Mr. Larre to give such a review of participants' gold transactions since the arrangements came into force end-August 1975, I would like to make some remarks about the arrangements themselves. Their main points are set out in Section 6 of the Interim Committee's Washington Communiqué of 31st August 1975. Subsequently, however, the G-10 central bank governors have agreed on a number of more detailed matters, essentially concerning the implementation of what had already been agreed by last August. I believe it would be appropriate if I were to summarize those supplementary agreements, since not all of those present here today took part in the discussions that led to their adoption.

1. No action to peg the price of gold

This was the first of the points listed in the Washington Communiqué. Governors are agreed that its meaning is that participants will not undertake transactions in gold with the objective of establishing a de facto fixed price of gold. In order to ensure that the spirit of this agreement is being observed, there will be regular surveillance of gold price developments.

2. No increase in the total stock of gold in the hands of the IMF, the G-10 countries, Switzerland and any other participating countries

The following points have been agreed under this heading:

(a) definition of the participants' total gold stocks

Participants' gold stocks are measured in volume terms. For this purpose any net forward positions in gold, whether positive or negative, will be added to spot gold positions.

(b) <u>base date for measuring the participants' total gold stocks</u>

The base date, referred to in the Washington Communiqué, is 31st August 1975.

(c) <u>observance of the ceiling on participants' total gold stocks</u>

Governors are agreed that any exceeding of the ceiling is to be avoided. In order to ensure that this will be so, a participating central bank will buy gold on the market--that is, from any seller other than another participant--only after it has been assured that a sufficient margin is available under the ceiling.

(d) <u>utilization of margins within the ceiling</u>

It has been agreed that as a general rule such margins will be used on a "first come, first served" basis. However, special arrangements could be agreed on in particular cases that would enable participating countries that had sold gold to the market and wished subsequently to reconstitute their stocks to do so.

The Governors discussed two other matters relating to the interpretation of the ceiling on participants' gold stocks: whether the ceiling should be reduced as a result of the restitution of gold by the IMF to nonparticipants; and some aspects of the treatment of gold received by participants under loan collateral arrangements. It was decided to leave both questions unresolved for the time being, but to take them up again if and when problems should arise.

3. <u>Possible adherence of new members to the arrangements</u>

So far, only Portugal has taken advantage of the provision, included in the Washington Communiqué, under which any member of the IMF may adhere to the arrangements.

The only criterion laid down in advance for the adherence of new members is that they be prepared to undertake the obligations involved in membership.

As the arrangements are a multilateral agreement between the participants, notification of the desire of another Fund member to adhere to them would be presented to, and discussed among, the existing participants, who would also have to decide whether any modifications of the arrangements were necessary.

4. <u>Reporting of gold transactions to the IMF and the BIS</u>

In accordance with the provisions of the Washington Communiqué, all participants report semi-annually to the Fund and to the BIS the total amount of gold that they have bought and sold since the previous reporting date. Moreover, it has been agreed that semi-annual reviews of gold transactions should take place, in Basle and Washington alternatively, of which this meeting is the first.

In addition, as I have already mentioned, the Governors have agreed that participating central banks will buy gold from the market only after having assured themselves that a margin is available under the ceiling for such purchases. To enable this to be done participating central banks, as well as the IMF, have agreed to report all gold transactions promptly to the BIS which, in the person of Mr. Larre, has accepted to act as registrar.

ANNEX II

July 12, 1976

Report by Mr. Larre

As President Zijlstra has just recalled, the member countries of the Group entered into an undertaking for a period of two years as from 1st February 1976:

- not to take any action to peg the price of gold;
- not to increase the total stock of monetary gold held by the Group; and
- to submit reports twice a year to the IMF and to the BIS on the total amount of gold bought and sold.

The BIS having been entrusted with the task of recording the transactions, the member central banks of the Group--and the IMF--agreed to inform it as soon as possible of their purchases and sales of gold and of the price at which these operations were carried out.

These reports make it possible to determine:

1. the combined stock of gold held by the Group--and the IMF--on the date of the communiqué, i.e., 31st August 1975;
2. the total amount of purchases and sales carried out since that date;
3. the margin remaining with respect to the overall ceiling;
4. the approximate prices at which transactions have been undertaken.

The first reports have been received from the central banks and from the IMF for the initial period running from 31st August 1975 to 30th June 1976. They show that:

1. On 31st August 1975 the total quantity of gold held by the central banks of the Group and by the IMF amounted to 31,351 tonnes. As long as the composition of the Group remains unchanged, this amount will correspond to the ceiling on the overall gold stock.
2. Between 31st August 1975 and 31st May 1976 the quantity of gold held by the participants declined by 12.9 tonnes as a result of the transfer by three countries of 8.9 tonnes for purposes of minting coins and the sale of 4 tonnes on the market by a central bank.

In June 1976 the IMF sold 24.3 tonnes by public auction, while the member central banks of the Group purchased 2 tonnes on the market, the net result of these operations being a further reduction of 22.3 tonnes.

3. As a result of this series of transactions, the combined gold stock of the Group decreased from 31,351 to 31,315.8 tonnes, leaving a margin of 35.2 tonnes with respect to the ceiling.

4. Between 31st August 1975 and 30th June 1976 the price of gold on the market fluctuated between $124 and $155.

The transfers for purposes of minting coins were carried out at prices ranging between $127 and $139 and the sales on the market effected by a central bank at prices ranging between $138 and $140.

In June 1976 allocations under the IMF auction were made at a price of $126 and the purchases by central banks at the same price.

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GOLD STOCKS OF GROUP OF TEN COUNTRIES, SWITZERLAND, PORTUGAL AND THE IMF

Participants	Amounts outstanding		Changes during September 1975 - June 1976
	end-August 1975	end-June 1976	
	in metric tons		
Belgium	1,311.7	1,311.7	-
Canada	682.8	674.3	- 8.5
France	3,139.0	3,140.0	+ 1.0
Germany	3,658.2	3,658.2	-
Italy	2,565.5	2,565.5	-
Japan	656.6	656.6	-
Netherlands	1,733.0	1,733.0	-
Portugal	866.1	862.1	- 4.0
Sweden	180.1	180.1	-
Switzerland	2,587.8	2,588.8	+ 1.0
United Kingdom	654.0	654.0	-
United States	8,544.4	8,544.0	- 0.4
IMF	4,771.8	4,747.5	- 24.3
Total	31,351.0	31,315.8	- 35.2
Ceiling	31,351.0		
Margin available under ceiling at end-June 1976			35.2

12th July 1976