

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 62/52

10:00 a.m., December 5, 1962

Per Jacobsson, Chairman
F. A. Southard, Deputy Managing Director

Executive Directors

M. C. Bicalho
W. B. Dale

W. Hanemann
G. W. Klein

P. Lieftinck

P. Reina Hermosillo

K. Skjaeveland
Sumanang

B. Tann
A. van Campenhout

Alternate Executive Directors

A. K. Ghosh, Temporary
A. Coutinho
J. S. Hooker
F. C. Pryor

J. Waitzenegger
H. M. H. A. van der Valk
R. H. Bonham Carter
D. R. Taylor, Temporary
C. E. Sansón
A. Mansour
C. P. Caranicas
L. Olofsson
A. Nikoi
W. Tennekoon
I. S. Sun

Roman L. Horne, Secretary
F. Hodel, Assistant Secretary

Also Present

African Department: J. V. Mládek, Acting Director; J. N. X. Oanh. Asian Department: C. C. Liang, M. Narasimham, A. Soejima. European Department: G. Ferras, Director; C. L. Merwin, J. K. Rosenblatt. Exchange Restrictions Department: I. S. Friedman, Director; J. H. C. de Looper, Y. C. Wang, U. Sacchetti. Legal Department: H. Aufricht, A. S. Gerstein, P. Lachman, G. Nicqletopoulos. Middle Eastern Department: J. W. Gunter, Deputy Director. Research and Statistics Department: J. J. Polak, Director; W. R. Gardner, Deputy Director; O. L. Altman, J. M. Fleming. Western Hemisphere Department: J. Del Canto, Director; P. J. Brand. Office of Administration: P. Thorson, Director; J. Saper. Office of the Secretary: J. W. Lang. Office of the Treasurer: Y. C. Koo, Treasurer; R. Kroc, C. M. Powell. J. K. Horsefield, Chief Editor. W. P. Cooke, Personal Assistant to the Managing Director. J. Reid, Information Officer. Technical Assistants to Executive Directors: J. de Groote, H. G. Heinrich, W. Y. Hui, Y. Mizoe, D. W. Wilson, A. Wright.

1. Executive Directors.	Page 3
2. General Borrowing Arrangements - Association of Switzerland.	Page 3
3. Christmas Leave.	Page 8
4. Honduras - Revision of Stand-By Arrangement.	Page 8
5. Yugoslavia - Adjustment of Fund's Holdings of Dinars	Page 8
6. Finland - New Monetary Unit and Par Value.	Page 8
7. Cuba - Request for Postponement of Repurchase.	Page 9
8. Paraguay - Extension of Stand-By Arrangement	Page 9
9. Jamaica - Technical Cooperation.	Page 9
10. Technical Assistant to Executive Director.	Page 10
11. Executive Board Travel	Page 10
12. Staff Travel	Page 10

1. EXECUTIVE DIRECTORS

The Chairman welcomed Mr. Sumanang, Executive Director, and Mr. Ghosh and Mr. Taylor, Temporary Alternate Executive Directors, to the Executive Board.

2. GENERAL BORROWING ARRANGEMENTS - ASSOCIATION OF SWITZERLAND

The Chairman made the following statement:

The Executive Directors will recall that I made a statement on 16th November 1962 about discussions with Switzerland which were then impending. Accompanied by Mr. J. Gold, Mr. J. J. Polak, and Mr. W. P. Cooke, I arrived in Switzerland on 21st November, and we began our discussions on that very day and were able to bring them to a successful completion late on the following day. I think you are already aware that the outcome has been definitely positive in the sense that an understanding has been reached between the Swiss Delegation of officials and ourselves and that this understanding has been embodied in two draft letters, the text of which was agreed between us ad referendum on both sides.

One of the reasons why the discussions could lead to such rapid results was that the Swiss accepted that the talks should be based on the draft that we had submitted, and this draft was in fact basically adopted by the Swiss Delegation. On the first day a number of points had to be explained, some minor, some substantive, some relating to Fund practices and other matters which were not fully known to our Swiss friends. Let me say that our explanations were readily accepted by the Swiss representatives in a spirit of mutual understanding and good will. For instance, we had to explain to the Swiss the significance of the decisions amending the Decision on General Arrangements to Borrow whereby the Sveriges Riksbank became the participant instead of the Government of Sweden, and the Canadians increased their commitment in terms of Canadian dollars following the fixing of their par value. We stressed that we in the Fund could not undertake to call the Swiss into the consultative meetings of the ten participants of the general borrowing arrangements because these meetings were provided for by the participants among themselves, and not by the Board's Decision which constitutes the agreement of the Fund with the participants.

As I have already indicated, the understanding between Switzerland and the Fund would take the form of an exchange of letters. There would be a letter from the Swiss outlining in detail their proposed commitment, which would be accepted in a reply from the Managing Director if duly authorized to do so by the Board. Contrary to the approach that the Swiss had originally envisaged, the letter to be received from the Swiss would deal only with matters of concern to both Switzerland and the Fund, and would not contain

provisions which would be the domestic concern of the Swiss. Modifications of Swiss law necessary to enable the authorities to implement effectively the understanding with the Fund could, for instance, be ratified by the Swiss Parliament separately, but at the same time as the understanding with the Fund. It was agreed between us that it would be preferable if matters of that kind were kept out of the understanding with the Fund, and handled by the Swiss by separate submission to the Bundestag.

The general concept which governs the understanding as set out in the draft letters is the association of Switzerland with the Fund's general borrowing arrangements. Such an association is certainly important from a financial point of view, considering the position of Switzerland in the field of foreign exchanges. But it has, I think, an additional advantage of a psychological character, making it clear that Switzerland is contributing to the defense of the international monetary order as represented by the Fund's general borrowing arrangements, even though Switzerland is not a member of the Fund.

Since under Article VII, Section 2(i) of the Articles of Agreement, the Fund can only borrow the currencies of member countries, Switzerland cannot lend Swiss francs to the Fund. For this and other reasons, the Swiss association with the general borrowing arrangements does not take the form of Switzerland lending to the Fund. The understanding which was reached establishes a framework within which Switzerland will undertake lending operations directly with individual countries which are participants in the borrowing arrangements. According to the text of the Swiss letter, Switzerland will be prepared to enter into implementing agreements with the United States and the United Kingdom if requested by these countries, and to consider entering into comparable agreements with any other of the participants who request it. Writing the understanding in that way makes it correspond more precisely to what is likely to happen and helps to avoid the impression that Swiss support would be spread too thinly to be useful. In this and in other respects, the Swiss assured us that, should adverse developments occur, their attitude to the understanding with the Fund would be a liberal one and that they would endeavor to do everything that was necessary even if this might mean they went beyond their formal commitments.

This brings me to the amount of the formal commitments. It is, as you know, a total in Swiss francs equivalent to 200 million U.S. dollars. Advances would be made by Switzerland directly to a participant in accordance with implementing agreements, when the Fund activates its borrowing arrangements for the benefit of that participant. At that time the Managing Director would make a call on Switzerland for a specified amount, and the Swiss would meet it unless, as in the case under the borrowing arrangements, they represented that their present and prospective balance of payments and reserve position did not justify compliance with the call.

In addition, provision has been made for the case in which the Swiss advance resources at some time other than an activation of the borrowing arrangements. If they do this in advance of an activation of the arrangements, they may, after consultation with the Managing Director, deem such advances to be made pursuant to the understanding with the Fund, and thus to be counted against their \$200 million commitment. There are three conditions which have to be satisfied for this to be done. First, the advance must be for the benefit of a participant for whose benefit the Fund is activating the borrowing arrangements. Secondly, Switzerland must have an implementing agreement with that participant. Thirdly, the timing of repayment must correspond, to the maximum extent practicable, with the timing of repayment under the borrowing arrangements.

I should like to say more about the timing of repayment. Under the understanding that was reached, all advances, whether they have been made in response to a call by the Managing Director, or earlier and deemed to have been made pursuant to the understanding, are subject to the repayment provision which I just mentioned, namely, that the timing of repayment should correspond, to the maximum extent practicable, with the timing of repayment under the borrowing arrangements. The formulation of this provision was the subject of much discussion, and I believe its importance is evident. For example, if advances made by Switzerland would become repayable within three months or so, as in existing bilateral arrangements, we felt we would merely formalize what Switzerland was already doing, and that an understanding on this basis would in no way represent an effective new contribution to international arrangements. In our opinion, effective Swiss association with the general borrowing arrangements would require that the period of repayment of advances by Switzerland should be comparable with the provisions of Paragraph 11 of those arrangements. I must say that the Swiss appreciated the validity of our argument, but said that difficulties might arise both with regard to existing Swiss legislation (which, however, might be changed) and the possibility of obtaining adequate rights of reciprocity--this latter consideration being of great importance for the successful presentation of the proposals to the Swiss public. We on our part emphasized that what mattered was "the effect of the term and conditions for the timing of repayment of resources made available by Switzerland." This could, for instance, mean that a promise to renew three months' bills for the appropriate period of time would be regarded as tantamount to a longer repayment period. This was appreciated by the Swiss, and they indicated their satisfaction with this wording. Even so, in this one instance, they felt they would have to attach a reservation. They explained that they would seek to conclude a first implementing agreement, namely, with the United States, in December, and in the light of the repayment terms they could negotiate for any advances made by the United States to Switzerland, they would look again at the relevant provision in the understanding with the Fund. But having said this, they reiterated that they would in any case look at this provision in a liberal spirit, and thus do their

best to bring the effect of the terms and conditions in accordance with the general borrowing arrangements. From a more general point of view, the Swiss authorities also felt that it would be useful to negotiate an implementing agreement before finally agreeing to the text of the exchange of letters with the Fund, so that the texts of the implementing agreement and of the understanding with the Fund could be made consistent in the final drafting stages.

So much has been mentioned in the press with regard to the provisions of the proposed exchange of letters that I feel it advisable to make this text available on an informal basis to Executive Directors. It is therefore, I think, unnecessary to go into further details, but I would like to make a few general remarks.

First, I believe that with the provision we have on the timing of repayment to Switzerland, this agreement marks a further step forward in international cooperation, even considering that in most other respects the understanding is a formalization of what the Swiss have already been doing and have said that they will continue to do.

Secondly, Switzerland, moving in its traditional way, is likely to approach membership in the Fund only step by step. It is my feeling that the proposed understanding represents a step forward to that ultimate objective.

For these two reasons my own conclusion is that the negotiations and the definitive understanding that we expect will be reached must be considered to be worthwhile. The staff and I will be glad to answer any technical questions on the proposed draft which, as I have already said, I am making available on an informal basis. The reason I am not giving formal circulation to it is that the Swiss officials are themselves still in the process of consulting with their principals on the documents. While we hope that the present version will be found to be the final text or very nearly the final text, we cannot yet be sure that no change will take place, and it is with that cautioning observation that I ask you to read the drafts made available to you.

Mr. Dale welcomed the Chairman's statement, particularly the portions, with which he agreed, indicating that the proposed arrangement not only represented a further step forward in international financial cooperation but might indeed be a step toward further collaboration with the Swiss, and, hopefully, toward Switzerland's membership in the Fund. Mr. Dale also wished to confirm that Swiss officials were due in the United States during the next week for conversations with the American authorities, and it was hoped that an implementing bilateral arrangement between the United States and Switzerland would be reached at an early date.

In response to a question raised by Mr. van Campenhout regarding the Swiss position that they were prepared to enter into implementing agreements with the United States and the United Kingdom first and then to

consider entering into comparable agreements with any other of the participants who so requested, the Chairman explained that the Swiss authorities regarded the Fund's borrowing arrangements mainly as a support for the reserve currencies, the U.S. dollar and sterling. They believed that if there were any other occasion, when the borrowing arrangements would have to be activated, it would be because of some outflow from Europe to which the Swiss might also be subject. It was unlikely that the Swiss would be isolated from a general European trend of that kind. For practical reasons, the Swiss officials had suggested a commitment of \$200 million for Switzerland as an amount which might be acceptable to the Swiss public and Parliament. Since the Swiss had in fact done more than that last year, it seemed clear that their statements about interpreting any arrangement with the Fund in a liberal spirit would appear to have significance.

In reply to a question by Mr. Bonham Carter, the Chairman stated that the Fund representatives had not gone into the question of interest rates and other details of the implementing arrangements which were matters for bilateral negotiation. Mr. Bonham Carter then asked if he was correct in assuming that certain provisions of the statutes relating to the Swiss National Bank were the reason for the problem that had arisen with respect to the timing of repayment of advances by Switzerland under the proposed understanding with the Fund. The Chairman replied that at the present time advances by the National Bank could only be of a short-term nature, i.e., of no longer than three months. The power to grant longer-term credits rested solely with the Confederation which in turn could give a refinancing undertaking to the Swiss National Bank. As stated earlier, the Fund representatives had stressed that the period of repayment of advances by Switzerland should be comparable with the provisions of Paragraph 11 of the Fund's general borrowing arrangements. To meet this point, the Swiss would either have to pass new legislation to authorize long-term credits by the central bank or provide the money from the Federal Government sources, and they would seek to work out in the implementing agreements terms and conditions for the timing of repayment the effect of which would be comparable to the period of repayment in the Fund's borrowing arrangements. The question of the timing of the repayment of advances was a major point of the recent discussions regarding the proposed association of Switzerland with the Fund's general borrowing arrangements.

Mr. van Campenhout said he assumed that the implementing agreements would provide for a reversal procedure. The Chairman said he understood that the Swiss would attempt to obtain rights of reciprocity in these agreements.

Mr. van Campenhout said he was sure that the other Executive Directors would join him in expressing appreciation to the Chairman for the successful outcome of the negotiations with the Swiss officials.

The Chairman then reported on other aspects of his recent trip to Europe and added some personal impressions of the economic situation in various member countries.

In the discussion that followed Mr. Hanemann, after thanking the Chairman for his illuminating observations, said he thought it would be useful for the Board to have an opportunity early in the coming year to discuss the international monetary situation in the light of developments in various countries, having in mind the high degree of interdependency of these developments. He suggested that this review might be on the basis of papers comparable to those prepared by the staff last spring which could be widened and brought up to date to show the changes that had taken place in the monetary and economic field with a view to determining what opinions the Fund as such should have on the situation. The Chairman welcomed Mr. Hanemann's suggestion.

3. CHRISTMAS LEAVE

The Chairman informed the Executive Board of the management's proposal to follow the policy of excusing staff from duty on December 24, 1962. No objection was expressed.

4. HONDURAS - REVISION OF STAND-BY ARRANGEMENT

In the absence of a request by any Director for formal consideration in the time specified, the following decision was taken on November 23, 1962 and recorded (EBS/62/140, 11/21/62):

The letter of November 10, 1962 from the Minister of Economy and Finance of Honduras shall be annexed to the stand-by arrangement with Honduras (EBS/62/65, Sup. 1, 6/27/62) and the letter of May 25, 1962 annexed to the stand-by arrangement shall be read subject to the letter of November 10, 1962.

5. YUGOSLAVIA - ADJUSTMENT OF FUND'S HOLDINGS OF DINARS

In the absence of a request by any Director for formal consideration in the time specified, the following decision was taken on November 26, 1962 and recorded (EBD/62/186, 11/23/62):

Pursuant to Article IV, Section 8(b)(ii) the Fund's holdings of Yugoslav dinars shall be provisionally adjusted in accordance with a rate of 750 dinars per U.S. dollar; the adjustment shall take effect on January 1, 1963.

6. FINLAND - NEW MONETARY UNIT AND PAR VALUE

In the absence of a request by any Director for formal consideration in the time specified, the following decision was taken on November 27, 1962 and recorded (EBS/62/142, 11/23/62):

1. The Government of Finland has proposed a par value for a new markka which is to be the legal unit of value as of January 1, 1963. The Fund concurs in this proposal. The par value of the markka expressed in terms of gold and in terms of the U.S. dollar of the weight and fineness in effect on July 1, 1944, is:

0.277 710 grams of fine gold per markka;
112.000 markkas per troy ounce of fine gold;
3.200 00 markkas per U.S. dollar;
31.250 0 U.S. cents per markka.

2. The Fund's holdings of Finnish currency will be adjusted in accordance with paragraph 1.

7. CUBA - REQUEST FOR POSTPONEMENT OF REPURCHASE

In the absence of a request pursuant to EBS/62/112, Sup. 3 (11/23/62) by any Director in the time specified, the following decision was taken on November 28, 1962 and recorded:

The draft letter set forth in EBS/62/112, Sup. 3 is approved and shall be sent.

8. PARAGUAY - EXTENSION OF STAND-BY ARRANGEMENT

In the absence of a request by any Director for formal consideration in the time specified, the following decision was taken on November 29, 1962 and recorded (EBS/62/143, 11/26/62):

1. Paraguay has requested the Fund to agree to an extension of for a period of 90 days of its stand-by arrangement with the Fund (EBS/61/157, Sup. 1), which expires on December 10, 1962. The Fund agrees to Paraguay's request and grants the necessary waiver under Article V, Section 4, of the Articles of Agreement.

2. The letter of November 14, 1962 from the Minister of Finance and the President of the Central Bank of Paraguay shall be annexed to the stand-by arrangement with Paraguay and the letter of November 3, 1961 annexed to the stand-by arrangement shall be read subject to the letter of November 14, 1962.

9. JAMAICA - TECHNICAL COOPERATION

In the absence of a request by any Director for formal consideration in the time specified, the following decision was taken on December 4, 1962 and recorded (EBD/62/190, 11/30/62):

In response to a request from the Government of Jamaica for a Fund mission to discuss matters relating to exchange control and general financial policy, the Executive Board approved the proposal set forth in EBD/62/190 (11/30/62).

10. TECHNICAL ASSISTANT TO EXECUTIVE DIRECTOR

In the absence of a request by any Director for formal consideration in the time specified, the following decision was taken on November 19, 1962 and recorded (EBAP/62/116, 11/13/62):

The Executive Board approved the appointment proposed in EBAP/62/116 (11/13/62).

11. EXECUTIVE BOARD TRAVEL

No objections having been expressed in the time specified to travel by three Executive Directors as set forth in EBAP/62/118 (11/20/62), EBAP/62/120 (11/28/62), and EBAP/62/121 (11/29/62), the Executive Board's approval is recorded.

12. STAFF TRAVEL

The Executive Board was informed of the Managing Director's forthcoming travel to Europe. No objection was expressed.

APPROVED BY THE EXECUTIVE BOARD:
Meeting 62/53, December 21, 1962

PER JACOBSSON
Chairman

ROMAN L. HORNE
Secretary