PRESS REPORTS

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FUND REPAYMENTS--DOLLAR "STOP" SOON

by
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The coming into effect of the arrangement whereby the International Monetary Fund can augment its resources by asking a number of its more important members to lend it additional quantities of their currencies has, by a curious coincidence, occurred just when another cardinal change was about to take place. For so greatly has the outflow of dollars in respect of new credits fallen short of the inflow arising from the reduction of existing indebtedness that a point will soon be reached at which it will have to refuse repayment in that currency for the first time since it opened for business in 1947.

The Fund's rules regarding the repayment of a loan by a member country stipulate that this may take place in either gold or convertible currencies subject to one important proviso. This is that convertible currencies may be used only if the resulting addition to the Fund's own stocks of the units it is intended to use will not raise such holdings to levels exceeding 75 per cent. of the quotas of the countries concerned.

The American dollar is still formally regarded as a convertible currency, of course. But at the moment the Fund's holdings of it are only a few tens of millions short of the U.S. quota. So unless this stock is materially reduced in the immediate future by extensive use of the dollar in new lending operations, the Fund will soon have to refuse to accept this in connection with further repayments.

The imposition of such a ban would entail a procedural change of considerable consequence. For over the first fifteen years of the Fund's life the American dollar has been used to a far greater extent than any other currency in connection with the repayment of Fund advances. It would be no exaggeration to say that the use of other currencies for this purpose has been insignificant by comparison. Indeed, up to the time the Fund conferred convertibility badges on the main European currencies at the end of 1958, the dollar was almost the only unit of substance in its list that was eligible for use in this connection.

Dramatic Change

The dramatic change now impending in the dollar's role in I.M.F. operations is basically to a substantial extent attributable to the deterioration in the American balance of payments. Besides being the currency mainly used in connection with repayments, the dollar was in the early years of the Fund's life also the currency most in demand in connection with

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new loans. And as new advances were tending to exceed repayments overall, the result was a more or less continuous contraction in its dollar holdings. In 1957 they shrank to a mere 25 per cent of the U.S. quota.

But of late it has been very much the other way round. Partly because other currencies have become more popular with borrowers and partly because the Fund has itself been endeavouring to reduce loans in dollars to ease the pressure on U.S. reserves, the outflow of dollars has been much reduced--of the $540m. drawn over the first eight months of this year, for example, only $80m. was in this form. On the other hand, countries undertaking repayments have continued to make extensive use of dollars for this purpose--to some extent no doubt because they felt that it would be helpful to the U.S. if they did so. In consequence since the opening of this year the Fund's dollar holding has climbed by no less than $600m.

Switch Effect

Since the Fund is not in a position at the moment to accept the other major international currency in respect of loan repayments either, its holdings of sterling not being below 75 per cent of the U.K. quota, borrowers will in future be obliged largely to make use of the principal Continental currencies when the time comes to pay their debts. Its holdings of all these units are well short of the 75 per cent of quota level--the average for Germany, France, Italy, and the Netherlands is, for example, no higher than 38 per cent.

The new emphasis on these units will be of assistance to the Fund in the sense that it will serve to replenish its holdings of the most popular currencies of the day. But it has to be recognized that the switch could be anything but helpful to the U.S. authorities. For if countries find that they cannot make use of their dollar accumulations for discharging their Fund debts, they will naturally swap these balances for Continental currencies in the open market--thereby accentuating the difficulties the U.S. authorities are already experiencing in disposing of the excess of supply over demand for dollars there at as little cost as possible to the American gold reserve.

The additional strain likely to be generated in this way need not, of course, be of a major order. But at a time when the U.S. authorities are investigating all possible ways of obtaining relief from their payments troubles, it will be far from welcome. They may, however, be able to find a certain amount of comfort in the fact that the plan for strengthening the Fund's resources by giving it power to recruit additional supplies of currencies in short supply has begun to operate at this very moment. For this does mean that, if they are going to need extensive outside help, the Fund will be in a much better position to supply it.