

INTERNATIONAL MONETARY FUND

December 29, 1947

TO: Members of the Executive Board
FROM: The Secretary
SUBJECT: Five-Nation Payments Agreements Committee

The attached memorandum has been prepared by the staff for the use of the Executive Board in accordance with its request at Meeting 228.

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INTERNATIONAL MONETARY FUND

Research Department

Five-Nation Payments Agreements Committee

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Approved by Raymond Bertrand

December 16, 1947

1. Meeting at Paris

During the London sessions of the Committee on Payments Agreements from September 22 to 27, 1947 it appeared that monetary cooperation in the form of automatic compensation of debits and credits under the bilateral system could not be agreed upon by all the Marshall Plan countries. The principal reasons for this attitude have been:

(a) The uncertainty of the amount and conditions of American assistance, which was held a vital part of any transferability plan.

(b) The unwillingness of most countries to bind themselves to any agreements on the subject as long as they were unable to foresee the exact consequences for their position.

Five countries, France, Italy, Belgium, Luxemburg and the Netherlands, stood ready to work out a scheme of partial compensation among themselves. Consequently another meeting of the Payments Agreements Committee was held from October 15 to 25 in Paris, at which the representatives of these five countries discussed an eventual agreement, the others being represented only by observers.

2. Five-Nation Agreement

The Paris agreement was signed by them on November 18, 1947. Since that date Denmark, Norway and Sweden have endorsed the agreement and joined as "occasional members", whereas the U. K. has made it known that it contemplates doing the same thing.

The principal points of the agreement are the following:

(a) Such compensations as will only decrease existing balances on payments agreements between members will be effected monthly without previous consent of those concerned. In other words there will be automatic monthly compensation, to the extent of the smallest balance, among members in case of "closed circuits", e. g., if A is a creditor to B, B to C and C to A.

(b) Obligations under payments agreements between members to make gold and hard currency payments in case the overdraft margins are exceeded will be suspended till the next monthly compensation meeting.

(c) Each member country will communicate once a month all necessary information on the payments agreements with the other member countries to a compensation agency. The Bank for International Settlements (B.I.S.) in Basle has been appointed the administrative agency.

(d) On the basis of this information the administrative agency will make the agreed automatic compensations and will make proposals on existing non-automatic compensation possibilities. Members will have to express their agreement or disagreement with these proposals within a short period of time.

The simplest case of non-automatic compensation is where A is a debtor to both B and C, whereas B is a debtor to C, and A has exceeded its overdraft with B but not the overdraft with C. It then becomes possible to reduce A's debit to B (so that no gold payments are necessary) to reduce B's debit to C by the same amount and to increase A's debit to C by the same amount provided the overdraft with C still leaves room for an increase in the balance. Obviously all three countries might have good reasons for not agreeing to this kind of compensation. Especially C might object to holding more of A's and less of B's currency. It is for this reason that non-automatic compensation is subject to the consent of all parties concerned. In most cases there will be several compensation possibilities instead of only one, especially if there are more than three countries participating in the scheme.

(e) Other countries can join the scheme, either as full-fledged members or as "occasional members". In the latter case they assume the same obligations as regular members, but only for occasional meetings. Moreover no compensation in which they are involved, not even compensation of the otherwise automatic type, can take place without their specific consent.

(f) A Committee of Delegates will work out the technical provisions of the execution of the Agreement.

3. Technical Provisions for Clearing

From November 20 to 25 this Committee of Delegates held its first meeting at Basle and drew up the first part of the technical regulations binding both the participating countries and the B.I.S. for the operation of the agreement of November 18, 1947.

Within two days after the end of each month participating countries will communicate the status of the payments agreements accounts in their own currencies to the B.I.S. by coded cable. Not later than the fourth day after the end of the month the B.I.S. will begin calculations on compensation possibilities. It is then to convert balances (after bilateral offsetting on double-account agreements) into U.S. dollars on the basis of a list of parities generally in accordance with the Fund parities as far as Fund members are concerned. This list is extended to cover all Marshall Plan countries, but for unexplained reasons the parity of the Turkish lira is taken as 2.814 instead of the Fund parity of 2.8 per U.S. dollar.

The B.I.S. is also to draw up a list of operations which would have no other effect than to reduce existing balances. Occasional members are informed by cable of the proposals for such operations not later than the sixth working day after the end of the month and their affirmative or negative replies must be received not later than two days after this communication. If no reply is received within that period the occasional member's response is considered negative. The B.I.S. then revises the initial possibilities in the light of the replies received. Whenever more than one possibility for "automatic compensation" remains it rests with the Committee of Delegates to decide as to the choice and amount of the compensations at their monthly meeting at the sixth working day after the end of each month.

The countries concerned are advised by cable on compensations finally admitted not later than the tenth working day after the end of each month. Prescribed operations in the case of double account agreements take the form of an order to the country which is, on balance, the debtor to credit the account of the creditor country in its books. In the case of single account agreements the debit or credit order is given to the country where the account is kept. The compensations are to have full legal validity from the second day after the despatch of these order cables.

The second part of the technical regulations, relating to the procedures for the type of compensation through which some balances may be increased ("non-automatic compensation"), will be drawn up at the Committee's meeting of December 18, 1947 in Brussels. In view of the facts that most transactions of this kind may take one of several alternative forms, and that all parties concerned will have to consent to them, these regulations will be of more than mere "technical" importance. Another point to be decided at the Brussels meeting is the compensation procedure to be followed in case of changes in the exchange rate of the currency of a participating country during the preceding month.

On January 7, 1948 at the time of the first compensation operations the Committee will hold a further meeting at Basle.

4. Actual Compensation Possibilities

The latest complete figures available (August 31, 1947) showing balances under payments agreements among the five original members of the Paris agreement are as follows:

(millions of dollars)

	<u>Belgium-Luxemburg</u>	<u>France</u>	<u>Italy</u>	<u>Netherlands</u>
Belgium-Luxemburg		/48.0	/2.3	/24.5
France	-48.0		/4.0	/16.3
Italy	- 2.3	- 4.0		/ 2.4
Netherlands	-24.5	-16.3	-2.4	

It appears that there would have been no possibility for automatic compensation among the five countries at this date as there is no "closed circuit" of credits. Taking the figures for all Marshall Plan countries, however, it appears that several "closed circuits" existed, e. g.:

(a) France creditor of Denmark; Denmark of Sweden, and Sweden of France.

(b) U. K. creditor of Denmark, Denmark of Sweden, and Sweden of the U. K.

(c) France creditor of the Netherlands, the Netherlands of Norway, Norway of Sweden, Sweden of France.

As some of the "links" in these three different circuits are identical, not all of them could be decreased by the smallest balance at the same time. Moreover, various methods of compensation are possible. In fact, the reduction in balances after "automatic compensation" in the different circuits is small compared to the total outstanding balances. Possibilities for the "non-automatic" type of compensation are much wider. Even between the original five countries a number of compensations of this type is possible.

In general, the compensation opportunities are greatest if all countries are at the same time debtors and creditors in about equal proportion. According to the figures of the end of August for 12 countries reporting to the Committee on Payments Agreements, there are three countries with large credit balances:

(a) Belgium, creditor of all but two countries, for a net total of \$152 million;

(b) Switzerland, creditor of all but three countries, for a net total of \$115.8 million;

(c) Norway, creditor of all but three countries, for a net total of \$84.9 million.

There are also three countries with large debit balances:

(a) U. K., debtor to all but one country, for a net total of \$154.1 million;

(b) Denmark, debtor to all but three countries, for a net total of \$157.8 million;

(c) France, debtor to all but three countries for a net total of \$90.7 million.

For the other countries (Austria, French Zone of Germany, Italy, Netherlands, Portugal, Sweden) total debits are not very different from total credits.

It is clear that greater all-round compensation possibilities would be conditional on an improvement in the position of the largest debtors vis-a-vis the largest creditors.