

Executive Board  
Memorandum No. 75

INTERNATIONAL MONETARY FUND

June 10, 1947

TO: Members of the Executive Board  
FROM: The Acting Secretary  
SUBJECT: Use of the Fund's Resources

Attached is a copy of the letter and enclosure which the Managing Director sent on June 7, 1947 to all members concerning the policies to be followed in transactions between the Fund and its members. As noted in Meeting 177 this matter will be placed on the agenda for Meeting 178.

Att: (1)

Other Distribution:  
Department Heads



June 7, 1947

Gentlemen:

For some time the Executive Board has been discussing the policies to be followed in transactions between the Fund and its members. It is the purpose of this letter and its enclosure to acquaint you with the results of these discussions.

The enclosed memorandum contains a statement of policy concerning use of the Fund's resources. It is, of course, a general statement and does not attempt to cover all of the problems which may confront the Fund and the members in connection with use of the Fund's resources. It should, however, make clear the responsibilities of the Fund and the manner in which the members can make possible the execution of this responsibility with a minimum of inconvenience to themselves and to the Fund.

In the course of the discussions which led to the preparation of the enclosed memorandum, particular attention was given to the meaning of Article V, Section 3 (a)(i), which reads as follows:

"The member desiring to purchase the currency represents that it is presently needed for making in that currency payments which are consistent with the provisions of this Agreement."

This section, you will recall, is one of the conditions which must be met in order that "a member shall be entitled to buy the currency of another member from the Fund in exchange for its own currency."

At a meeting of the Executive Board on May 6 and May 29, 1947, the decision was as follows:

"The word 'represents' in Article V, Section 3(a)(i) means 'declares.' The member is presumed to have fulfilled the condition mentioned in Article V, Section 3(a)(i) if it declares that the currency is presently needed for making payments in that currency which are consistent with the provisions of the Agreement. But the Fund may, for good reason, challenge the correctness of this declaration, on the grounds that the currency is not 'presently needed' or because the currency is not needed for payments 'in that currency', or because the payments will not be 'consistent with the provisions of this Agreement'. If the Fund concludes that a particular declaration is not correct, the Fund may postpone or reject the request, or accept it subject to conditions.

"The phrase 'presently needed' cannot be defined in terms of a formula uniformly applicable to all cases, but where there is good reason to doubt that the currency is 'presently needed', the Fund will have to apply the phrase in each case in the light of all the circumstances."

The circumstances would of course clearly have to be unusual before the Fund felt that any representation by members might be open to question; but you will appreciate that the Fund must consider carefully all requests for currency in the light of circumstances existing at the time. This policy will ensure the Fund's resources against misapplication, without interfering with the ability of members to use the resources promptly when they do so in accordance with the purposes of the Fund Agreement.

It is our hope that this letter and its enclosure will be of assistance to you by clarifying the manner in which the resources will be administered.

Yours sincerely,

/s/ GUTT

GUTT  
Managing Director

M E M O R A N D U M

The Fund Agreement sets up certain limitations on the use of its resources. These include the quantitative limitations. Equally important are the limitations as to the purposes for which use of the resources may be made.

1. They must be presently needed for payments in the currency requested. In short, the Fund cannot be used to increase a member's reserves.

2. They must be used to meet temporary needs -- they cannot, for example, be used for large and sustained capital movements, for relief, reconstruction, or to meet indebtedness arising out of the war, or to support overvalued currencies when adequate measures are not being taken to correct the disequilibrium.

These are the principal matters covered by the representation members are required to make when they wish to purchase currencies from the Fund. With its large resources, the Fund must be concerned to see that they are used in accordance with its purposes. It must be in a position to know that the representations made by members are entirely correct and reflect a proper understanding of the Fund Agreement. In effect, this can best be done by keeping the officials of the Fund fully informed at all times of developments in each member country. This is the only way the Fund can judge for itself that aid it extends is not being used for financing a capital flight, that it will be repaid (and is not relief), and that it will be for a limited period (and is not for reconstruction).

In order that members may have the greatest possible assurance of access to the Fund when needed, the Fund ought to know these matters before rather than after a member applies for the purchase of exchange. A member should know that until it has been informed to the contrary, moderate purchases of exchange will be carried through promptly by the Fund. In that way a

member can get the benefit of access to the Fund's resources as a second line of reserves. It would be undesirable to require a member to submit an extensive application to be considered at length in connection with each purchase of exchange.

From time to time, there will be cases where use of the Fund's resources would not be in accordance with the purposes of the Fund. Where a member is clearly not going to be in a position to repay the Fund, the Fund is duty bound not to engage in transactions with that member. Similarly, where a member has a fundamental disequilibrium, repayment to the Fund would require a correction of that disequilibrium, either through an adjustment of the exchange rate or through other measures. Aid to meet continuing balance of payments deficits, without prospect of a return to equilibrium, would be contrary to the Fund's purposes.

In every possible case, the Fund should know, from the information it receives and from discussions with the country's officials, the present and prospective position of the member and the use the member may be expected to make of the Fund. The Fund should know in advance of a request what its attitude will be toward use of its resources by a member.

As a general principle, the Fund should give as early notice as possible to a member that, in the view of the Fund, it ought to have only limited access or no access to the Fund's resources. In every instance, this should be done on an informal basis. The sanction of declaring a member ineligible should be used only in extreme cases where no other means of securing cooperation is forthcoming. There is no reason to believe that prior discussion with a member, in such cases where a limitation on use of the Fund's resources seems necessary, would fail to bring about the desired result. Consultation between the Fund and members should be a continuous process. Liaison should in time be so close that

the Fund's advice may result in never reaching a stage that would warrant a sanction.

It would appear, therefore, that if the Fund can be kept fully informed as to the position and prospects of each member, any necessary measure of limitation can be taken informally before an application is made to the Fund for the purchase of exchange. In all other cases, the Fund would meet promptly each request in proper form for the purchase of exchange in moderate amount with a minimum of delay. The member could count on such aid from the Fund. Only in the case of unusually large requests in relatively short periods would the Fund have to take special account of the position of the member and consider over a longer period than a few days an application for the purchase of exchange. Such procedure gives to a member the greatest assurance of knowing that it will have access to the Fund's resources while enabling the Fund to make sure that the resources of the Fund are used in accordance with its purposes.