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CONFIDENTIAL (FR)

Report to the Federal Open Market Committee on
International Monetary Meetings (January 1975)

The international monetary meetings held in Washington from January 9 to January 17 focused on two broad areas: arrangements for the multilateral financing of oil deficits and provisions governing the future evolution of the international monetary system. Some progress toward final agreement was noticeable in both areas.

With respect to arrangements for the multilateral financing of oil deficits, the Group of Ten Ministers and Central Bank Governors agreed that the Kissinger/Simon/OECD solidarity fund should be established at the earliest possible date. Several aspects of this new financial support arrangement, which will be open to all members of the OECD, have yet to be worked out. In particular, the form of financing for the solidarity fund and the distribution of quotas within the proposed total of $25 billion remain undecided and await political decisions. Although by the end of the meetings all countries supported the concept of the solidarity fund, it was necessary to make concessions to the viewpoints of other countries, particularly Germany, in order to reach agreement; it now appears that access to the fund will be only as a last resort, stiff policy conditions will be applied to borrowers, and tough majorities will be required to approve any loans made under the facility. Some countries have expressed concern that when final agreement on the solidarity fund is reached -- approval by the OECD

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Council at the end of February is expected -- countries in need may be reluctant to apply to it.

A complementary proposal for a 1975 Oil Facility in the IMF was also approved in principle by the IMF Interim Committee. The United States initially opposed renewal of the 1974 Oil Facility, which was designed to borrow primarily from the oil-exporting countries and lend to countries in a quasi-automatic form on the basis of the increase in their oil import costs, without much regard to their overall position. The United States finally agreed to a 1975 Oil Facility with a limit of SDR 5 billion, roughly $6 billion, on total IMF borrowing for this purpose -- the Europeans and developing countries wanted a limit of SDR 10-12 billion. Many countries will press for the continuation of the oil facility concept in 1976 and hope that the 1975 Oil Facility will be expanded at a later date. The United States will continue to argue for the phasing out of the oil facility and for increased reliance on the IMF's regular resources in the General Account which provide for more efficient use of financial resources. In this connection, the United States received some support for the proposition that members of the IMF should be required to relax their constraints on the IMF's use of their currency subscriptions. Currently many currencies cannot be used because of countries' effective veto power.

On a third related topic, the Managing Director of the IMF made a proposal that a Special Account be established that would be administered by the IMF and would receive contributions (from oil-exporting, industrial,

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and, possibly, other countries) that would be used to subsidize the interest burden on drawings from the 1975 Oil Facility by the most seriously affected developing countries. The Managing Director's proposal leaves open the question of how these contributions might be financed. The United States had proposed that contributions to a Trust Fund administered by the IMF, which would be used to make actual loans at concessionary rates and should be financed in part from the "profits" on the IMF's gold holdings. This proposal was not well received, although it was referred by the IMF/IBRD Development Committee to the Executive Directors for further study. Although the Managing Director's proposal received general endorsement, it is known that several major countries do not support the idea, or will be unwilling, or unable, to contribute. Thus, the prospects for quick financial assistance for the most seriously affected developing countries remain uncertain.

Turning to other proposals concerning the evolution of the international monetary system that were before the IMF Interim Committee, a tentative agreement was reached on the question of increasing IMF quotas. It was tentatively agreed that (1) IMF quotas should be increased by 32.5 per cent, rounded up to a total size of the Fund of SDR 39 billion; (3) the collective quota share of the major oil-exporting countries should be doubled; (3) the collective quota share of the other developing countries should be unchanged; and (4) the next review of quotas should be in three years, instead of the normal five. It was

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also understood, but not made explicit, that the U.S. voting quota would be maintained at a level giving the U.S. certain veto rights. This tentative agreement on IMF quotas will require considerable negotiation within the IMF.

The major amendments tentatively scheduled for inclusion in the package are: (1) an amendment increasing the usability by the IMF of countries' currency subscriptions, (2) an amendment legalizing floating, (3) a comprehensive set of amendments on gold, and (4) an amendment establishing a permanent Council in the IMF to replace the advisory Interim Committee. It is clear that there will not be an amendment on the SDR/aid link, but the developing countries may insist on other concessions.

On the legalization of floating under the IMF Articles, few countries now support the U.S. view that countries should have the unrestricted right to permit their currencies to float indefinitely. France, some other industrial countries, and the developing countries continue to hold the view that any floating should be a temporary exception to a regime of stable but adjustable par values and should be subject to IMF approval and conditions. Nevertheless, it is hard to predict how firm an endorsement of legalized floating might ultimately prove acceptable to other countries as part of a package of amendments.

On gold, France presented its position favoring: (1) the abolition of the official gold price, (2) freedom for countries to engage in transactions in gold with the IMF, each other, and the market subject possibly to temporary restraining arrangements among governments -- but

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outside of the IMF -- governing such transactions, and (3) the return of the IMF's gold to its members. France does not favor a limited amendment dealing only with the payment of the gold portion of countries' quota increases. The Managing Director observed that (1) removing gold from the IMF Articles did not ensure its removal from the center of the international monetary system; (2) it was desirable to adopt arrangements to ensure that countries' gold stocks would decline; (3) the time period specified in any agreement on conditions governing gold transactions between governments and with the market should not be too short; and (4) the return of the IMF's gold to its members, at par, would hurt the Fund. Several representatives of other countries expressed support for his views. Nevertheless, it appears that the Interim Committee has gone some way toward the eventual adoption of the French position, although this depends on the working out of the details.

On the Council, it was generally agreed that an amendment on this subject was not urgent, but, if a package of amendments is put together, an amendment on the Council is likely to be included.

The Interim Committee will meet again in Paris in early June; at that time it will consider the package of amendments to the IMF Articles and will reconsider the agreement on IMF quota increases. It is clear that the legalization of floating and broad resolution of the gold question have been, for the moment, linked together in the consideration of any package of amendments. It is also clear that many countries oppose the U.S. position on the legalization of floating and many countries oppose the French position on gold.

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16th January, 1975.

COMMUNIQUE
OF THE MINISTERIAL MEETINGS OF THE GROUP
OF TEN
in Washington on 14th and 16th January, 1975.

1. The Ministers and Central Bank Governors of the ten countries participating in the General Arrangements to Borrow met in Washington on the 14th and 16th of January, 1975, under the Chairmanship of Mr. Masayoshi Ohira, Minister of Finance of Japan.

The Managing Director of the International Monetary Fund, Mr. H. J. Witteveen, took part in the meetings, which were also attended by the President of the Swiss National Bank, Mr. F. Leutwiler, the Secretary-General of the OECD, Mr. E. van Lennep, the General Manager of the Bank for International Settlements, Mr. R. Larre, and the Vice-President of the Commission of the E.E.C., Mr. W. Haferkamp.

2. After hearing a report from the Chairman of their Deputies, Mr. Rinaldo Ossola, the Ministers and Governors agreed that a solidarity fund, a new financial support arrangement, open to all members of the OECD, should be established at the earliest possible date, to be available for a period of two years. Each participant will have a quota which will serve to determine its obligations and borrowing rights and its relative weight for voting purposes. The distribution of quotas will be based mainly on GNP and foreign trade. The total of all participants' quotas will be approximately $25 billion.

3. The aim of this arrangement is to support the determination of participating countries to pursue appropriate domestic and international economic policies, including cooperative policies to encourage the increased production and conservation of energy. It was agreed that this arrangement will be a safety net, to be used as a last resort. Participants requesting loans under the new arrangement will be required to show that they are encountering serious balance-of-payments difficulties and are making the fullest appropriate use of their own reserves and of resources available to them through other channels. All loans made through this arrangement will be subject to appropriate economic policy conditions. It was also agreed that all participants will jointly share the default risks on loans under the arrangement in proportion to, and up to the limits of, their quotas.

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4. In response to a request by a participant for a loan, the other participants will take a decision, by a two-thirds majority, on the granting of the loan and its terms and conditions, in the case of loans up to the quota, and as to whether, for balance-of-payments reasons, any country should not be required to make a direct contribution in the case of any loan. The granting of a loan in excess of the quota and up to 200 per cent of the quota will require a very strong majority and beyond that will require a unanimous decision. If one or more participants are not required to contribute to the financing of a loan, the requirements for approval of the loan must also be met with respect to the contributing participants.

5. Further work is needed to determine financing methods. These might include direct contributions and/or joint borrowing in capital markets. Until the full establishment of the new arrangement, there might also be temporary financing through credit arrangements between central banks.

6. Ministers and Governors agreed to recommend the immediate establishment of an ad hoc OECD Working Group, with representatives from all interested OECD countries, to prepare a draft agreement in line with the above principles. In their view this work should be concluded in time to permit approval by the OECD Council by the end of February, 1975.

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INTERNATIONAL MONETARY FUND
19th and H Streets N.W., Washington, D.C. 20431

PRESS RELEASE NO. 75/2

FOR IMMEDIATE RELEASE
January 16, 1975

Press Communiqué of the Interim Committee of the Board of Governors on the International Monetary System

1. The Interim Committee of the International Monetary Fund held its second meeting in Washington, D.C. on January 15 and 16, 1975. Mr. John N. Turner, Minister of Finance of Canada, was in the chair. Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, participated in the meeting. The following observers attended during the Committee's discussions of the matters referred to in paragraphs 2, 3, and 4 below: Mr. Henri Konan Bedié, Chairman, Bank-Fund Development Committee; Mr. Gamani Corea, Secretary General, UNCTAD; Mr. Wilhelm Haferkamp, Vice President, EC Commission; Mr. Mahjoob A. Hassanain, Chief, Economics Department, OPEC; Mr. René Larre, General Manager, BIS; Mr. Emile van Lennep, Secretary General, OECD; Mr. Olivier Long, Director General, GATT; Mr. Robert S. McNamara, President, IBRD.

2. The Committee discussed the world economic outlook and against this background the international adjustment process. Great concern was expressed about the depth and duration of the present recessionary conditions. It was urged that anti-recessionary policies should be pursued while continuing to combat inflation, particularly by countries in a relatively strong balance of payments position. It was observed that very large disequilibria persist not only between major oil exporting countries as a group and all other countries, but also among countries in the latter group, particularly between industrial and primary producing countries. Anxiety was also voiced that adequate financing might not become available to cover the very large aggregate current account deficits, of the order of US$30 billion, in prospect for the developing countries other than major oil exporters in 1975.

3. The Committee agreed that the Oil Facility should be continued for 1975 on an enlarged basis. They urged the Managing Director to undertake as soon as possible discussions with major oil exporting members of the Fund, and with other members in strong reserve and payments positions, on loans by them for the purpose of financing the Facility. The Committee agreed on a figure of SDR 5 billion as the total of loans to be sought for this purpose. It was also agreed that any unused portion of the loans negotiated in 1974 should be available in 1975. The Committee agreed that

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in view of the uncertainties inherent in present world economic conditions, it was necessary to keep the operation of the Oil Facility under constant review so as to be able to take whatever further action might be necessary in the best interests of the international community. It was also understood that during the coming months it would be useful to review the policies, practices, and resources of the Fund since it would be appropriate to make increased use of the Fund's ordinary holdings of currency to meet the needs of members that were encountering difficulties.

4. The Committee emphasized the need for decisive action to help the most seriously affected developing countries. In connection with the Oil Facility, the Committee fully endorsed the recommendation of the Managing Director that a special account should be established with appropriate contributions by oil exporting and industrial countries, and possibly by other members capable of contributing, and that the Fund should administer this account in order to reduce for the most seriously affected members the burden of interest payable by them under the Oil Facility.

5. The Committee considered questions relating to the sixth general review of the quotas of members, which is now under way, and agreed, subject to satisfactory amendment of the Articles, that the total of present quotas should be increased by 32.5 per cent and rounded up to SDR 39 billion. It was understood that the period for the next general review of quotas would be reduced from five years to three years. The Committee also agreed that the quotas of the major oil exporters should be substantially increased by doubling their share as a group in the enlarged Fund, and that the collective share of all other developing countries should not be allowed to fall below its present level. There was a consensus that because an important purpose of increases in quotas was strengthening the Fund's liquidity, arrangements should be made under which all the Fund's holdings of currency would be usable in accordance with its policies. The Committee invited the Executive Directors to examine quotas on the basis of the foregoing understandings, and to make specific recommendations as promptly as possible on increases in the quotas of individual member countries.

6. I. The Committee considered the question of amendment of the Articles of Agreement of the Fund. It was agreed that the Executive Directors should be asked to continue their work on this subject and, as soon as possible, submit for consideration by the Committee draft amendments on the following subjects:

(a) The transformation of the Interim Committee into a permanent Council at an appropriate time, in which each member would be able to cast the votes of the countries in his constituency separately. The Council would have decision-making authority under powers delegated to it by the Board of Governors.

(b) Improvements in the General Account, which would include (i) elimination of the obligation of member countries to use gold to make such payments to the Fund as quota subscriptions and repurchases

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and the determination of the media of payment, which the Executive Directors would study, and (ii) arrangements to ensure that the Fund's holdings of all currencies would be usable in its operations under satisfactory safeguards for all members.

(c) Improvements in the characteristics of the SDR designed to promote the objective of making it the principal reserve asset of the international monetary system.

(d) Provision for stable but adjustable par values and the floating of currencies in particular situations, subject to appropriate rules and surveillance of the Fund, in accordance with the Outline of Reform.

II. The Committee also discussed a possible amendment that would establish a link between allocations of SDRs and development finance, but there continues to be a diversity of views on this matter. It was agreed to keep the matter under active study, but at the same time to consider other ways for increasing the transfer of real resources to developing countries.

7. The Committee also agreed that the Executive Directors should be asked to consider possible improvements in the Fund's facilities on the compensatory financing of export fluctuations and the stabilization of prices of primary products and to study the possibility of an amendment of the Articles of Agreement that would permit the Fund to provide assistance directly to international buffer stocks of primary products.

8. There was an intensive discussion of future arrangements for gold. The Committee reaffirmed that steps should be taken as soon as possible to give the special drawing right the central place in the international monetary system. It was generally agreed that the official price for gold should be abolished and obligatory payments of gold by member countries to the Fund should be eliminated. Much progress was made in moving toward a complete set of agreed amendments on gold, including the abolition of the official price and freedom for national monetary authorities to enter into gold transactions under certain specific arrangements, outside the Articles of the Fund, entered into between national monetary authorities in order to ensure that the role of gold in the international monetary system would be gradually reduced. It is expected that after further study by the Executive Directors, in which the interests of all member countries would be taken into account, full agreement can be reached in the near future so that it would be possible to combine these amendments with the package of amendments as described in paragraphs 6 and 7 above.

9. The Committee agreed to meet again in the early part of June, 1975 in Paris, France.