

Board of Governors of the Federal Reserve System  
Division of Research and Statistics  
International Section

REVIEW OF FOREIGN DEVELOPMENTS

December 3, 1945

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Foreign Credit Requirements of the Netherlands

J. Herbert Furth

The import requirements of the Netherlands to the end of 1946 have been estimated at 1,250 million dollars. It is expected that about 185 million dollars can be earned through exports and that net receipts on service accounts will total about 235 million dollars. The deficit of about 830 million dollars will have to be met by the sale of foreign assets and by the use of credits.

The Netherlands Government has so far concluded loan agreements with the Export-Import Bank of Washington, a group of New York banks, the Canadian Government, and a group of Swiss commercial banks. It has negotiated agreements with Belgium, Denmark, France, Norway, Sweden, and Switzerland under which mutual trade credits are extended within specified limits. All of these agreements, with the possible exception of that with France, are expected to result in the extension of credit to the Netherlands, since imports from the countries in question will be larger than exports during the period of reconstruction. The Government has also reached an understanding with the United Kingdom under which a specified amount of sterling balances now held by the Netherlands can be used for imports from the sterling area. The unfreezing of Netherlands dollar balances in this country is expected for the very near future. In the meantime, the Government has received interim credits from the Federal Reserve Bank of New York and from the Government of the Netherlands Indies, enabling it to use the equivalent of a considerable portion of these balances pending the formal unfreezing. Further credit negotiations are reportedly under way with the Chase National Bank and with the Governments of Argentina and Spain. Thus, the following sums have become available to the Netherlands economy up to the present time or are expected to be available in the near future:

Foreign Exchange Available to the Netherlands  
(Millions of dollars)<sup>1/</sup>

A. Presently Available:

<u>United States</u>		
Dollar balances (as of July 31, 1945)	216	
Commercial bank loan (February 8, 1945)	100	
Export-Import Bank loan (Oct. 17 & Nov. 2, 1945)	<u>100</u>	416
<u>United Kingdom</u>		
Sterling balances ("unfrozen"), 37.5 million pounds	151.5	
<u>Belgium</u>		
Trade agreement (Oct. 21, 1944, and Sept. 13, 1945), 500 million francs		11.5
<u>Canada</u>		
Government loan (May 1945), 25 million Canadian dollars	22.5	
<u>Denmark</u>		
Trade agreement (October 3, 1945), 25 million crowns	5	
<u>France</u>		
Trade agreement (April 1945), 200 million francs		4
<u>Norway</u>		
Trade agreement (November 8, 1945), 37.4 million crowns	7.5	
<u>Sweden</u>		
Trade agreement (August 1945), 75 million crowns	18	
<u>Switzerland</u>		
Trade agreement (October 31, 1945), 25 million francs	18	
Commercial bank loan (October 1945), 50 million francs		
Total		<u>654</u>

B. Expected to be Available in the Near Future:

<u>United States</u>		
Commercial bank loan <sup>2/</sup>		100
<u>Argentina</u>		
Trade agreement, 400 million pesos		100
<u>Spain</u>		
Trade agreement, 60 million pesetas		6
	Total	<u>206</u>
	Grand total	<u>860</u>

<sup>1/</sup> Foreign currencies converted into dollars at approximate rates of exchange.

<sup>2/</sup> After deducting amount needed for repaying loan of February 8, 1945.

If the negotiations with the Chase National Bank and the Governments of Argentina and Spain are brought to a successful conclusion, the expected deficit in the country's current balance of payments for 1945-46 will be completely covered.<sup>1/</sup> It is true that this would mean the exhaustion of the bulk of the country's dollar and sterling balances, and the assumption of a foreign debt of about

<sup>1/</sup> Under a bill introduced in the Canadian House of Commons on December 3, 1945, the Netherlands will receive an additional credit of 60 million Canadian dollars (54 million United States dollars).

500 million dollars, of which about 200 million dollars would sooner or later have to be consolidated. The entire debt, however, would represent only about one-third of the value of Netherlands long-term investments in the Americas and the British Commonwealth, not to speak of its even larger assets in Continental Europe and the Netherlands Indies. Moreover, the consolidation of the debt should not prove difficult once the Netherlands economy has regained its equilibrium, especially if meanwhile the organizations proposed at Bretton Woods have started their operations. The Netherlands contribution to the Bretton Woods organizations need not be considered a burden on the country's current balance of payments since it probably will be paid out of the gold reserves of the Netherlands Bank.

All these figures refer only to the European territory of the Kingdom. The Netherlands Indies may require additional credits pending full resumption of its export trade. These requirements, however, can be estimated in a reliable manner only after the Allies have succeeded in restoring order in those territories.

Senate Approval of Export-Import Bank Directors

M.J.P.R.

With the confirmation by the Senate on November 23 of two of the President's nominees to its Board of Directors, the Export-Import Bank has again become an operating institution. The two nominees who received Senate approval are William McC. Martin, Jr. and Herbert E. Gaston. Together with the Secretary of State, or the officer of the State Department designated to act for him as a Director of the Bank, these two recently-appointed Directors constitute the quorum of three out of five Directors which is necessary before the Board can take action. It is now possible for the Bank to proceed to authorize new loans after a brief hiatus of about three weeks during which the Bank had no directive body. Three days after the Senate's confirmation of Mr. Martin and Mr. Gaston as Directors of the Bank, the President named Mr. Martin Chairman of the Board of Directors. It might be noted that Mr. Martin's nomination as a Director was suggested to the President by the Export-Import Bank.

The nomination of Robert T. Stevens as a Director of the Export-Import Bank has been withdrawn by the President. It is reported that Mr. Stevens, when approached with the offer of the nomination, was not informed that he would be required to devote his full time to the business of the Bank. The Export-Import Bank Act of 1945 states that appointed Directors must devote their time not otherwise required by the business of the United States to that of the Bank. When Mr. Stevens later learned this fact, he requested that his name be withdrawn. Since his withdrawal, the President has nominated Lynn Upshaw Stambaugh as a Director. Mr. Stambaugh is a North Dakota lawyer and a Republican. In 1941-1942, he was national commander of the American Legion. If his nomination is confirmed by the Senate, there will remain but one vacancy on the Bank's Board of Directors.

Communication of Par Values to the Fund

A. Bournouf and R. Ernst

The accompanying table shows for those countries represented at Bretton Woods the prevailing rates of exchange on or about November 1, 1945. If the December 31 Bretton Woods deadline is met and the Agreements come into force on that date, all members of the Fund will be required to communicate to the Fund the par values of their currencies based on the rates of exchange prevailing on November 1, 1945. If the Agreements come into force a few days before December 31, the rate to be communicated will be the rate the same number of days before November 1, 1945. The actual communications of par values will not take place until the Fund is of the opinion that it will shortly be in a position to begin exchange operations. Members whose territories have been occupied by the enemy may be allowed to postpone communication of par values.

The par values actually communicated will not necessarily be the initial par values established by agreement between the members and the Fund. Within a period of 90 days after the communication of par values, or possibly over a longer period for members whose territories have been occupied by the enemy, either the member or the Fund may notify the other that it regards the par value as unsatisfactory. The Fund may object to the communicated par value on the ground that it would lead either the member concerned or other members to seek recourse to the Fund on a scale prejudicial to the Fund or to the members. If notification is given by either the Fund or the member that the par value is considered unsatisfactory, the Fund and the member must agree within a period to be determined by the Fund on the initial par value to be established. If agreement can not be reached within that period, the member will be deemed to have withdrawn from the Fund.

Although the par values communicated will not necessarily be the initial par values established by agreement with the Fund, there is a presumption that in cases where they are considered to be very near to the proper rates they may be adopted because neither the Fund nor the member will consider it worthwhile to open a series of negotiations for the purpose of agreeing on a slightly different rate. In cases where the communicated par values are far out of line, negotiations will of course be necessary. The considerations which will be involved in reaching agreement on the rates to be established will not necessarily be those which would apply in the determination of true equilibrium rates. The fact that members may continue to restrict current payments in the transition period means that the rates established need not be those which would be equilibrium rates in the disturbed conditions of the transition period.

The accompanying table presents rates prevailing in 1938 and in August 1939 in the belief that a comparison of the patterns may be of interest. There is, of course, no reason to believe that rates which differ only slightly from the pre-war rates are any nearer to being satisfactory rates than those which differ greatly from the pre-war rates. Where information is available and black markets are of considerable importance, black market rates are quoted in footnotes since they may give some rough indication of the extent to which the rates shown differ from free market rates.

SELECTED FOREIGN EXCHANGE RATES  
(In Cents Per Unit of Foreign Currency)

Country	Monetary Unit	Rate in Effect Nov. 1, 1945	Monthly Average August 1939	Yearly Average 1938
Australia	Pound	321.41	*367.32	389.55
Belgium	Franc	2.29	3.39	3.38
Bolivia	Boliviano	2.36	3.24	3.38
Brazil	Cruzeiro	* 5.18	* 5.02	--
Canada	Dollar	90.69	99.49	99.42
Chile	Peso	* 3.22	* 3.23	--
China	Yuan	* <u>1/</u> .20	* 7.16	21.36
Colombia	Peso	* 56.98	* 57.06	* 55.95
Costa Rica	Colon	17.79	17.79	17.79
Cuba	Peso and Dollar	100.00	99.95	99.92
Czechoslovakia	Koruna (CS)	2.00	3.43	3.47
Denmark	Krone	20.79	20.83	21.82
Dominican Republic	Peso and dollar	100.00	100.00	100.00
Ecuador	Sucre	7.26	6.67	7.08
Egypt	Pound	413.13	472.41	501.30
El Salvador	Colon	40.00	40.00	40.00
Ethiopia	Dollar	* 40.25	--	--
France	Franc <u>2/</u>	2.02	2.61	2.88
Greece	Drachma <u>3/</u>	* .20	* .85	* .90
Guatemala	Quetzal	100.00	100.00	100.00
Haiti	Gourde	20.00	20.00	20.00
Honduras	Lempira	49.02	49.02	49.02
Iceland	Króna	15.45	17.18	<u>4/</u> 22.07
India	Rupee	30.12	34.41	36.59
Iran	Rial	<u>5/</u> 1.75	5.72	6.07
Iraq	Dinar <u>6/</u>	403.38	461.07	488.94
Liberia	Dollar	*100.00	--	--
Luxembourg	Franc	2.29	4.24	4.22
Mexico	Peso	20.58	16.80	22.12
Netherlands	Guilder	37.93	53.48	55.01
New Zealand	Pound	322.70	368.82	392.35
Nicaragua	Cordoba	20.00	20.00	21.93
Norway	Krone	<u>7/</u> 20.17	23.38	24.57
Panama	Balboa	100.00	100.00	100.00
Paraguay	Guarani	32.04	--	--
Peru	Sol	15.38	18.66	22.42
Philippine Commonwealth	Peso	50.00	50.00	50.00
Poland	Zloty	* <u>8/</u> 18.87	18.75	18.86
Union of South Africa	Pound	400.50	456.10	484.16
U.S.S.R.	Ruble <u>9/</u>	* 18.87	* 18.87	* 18.87
United Kingdom	Pound	403.38	461.07	488.94
Uruguay	Peso	* 56.29	* 35.70	--
Venezuela	Bolivar	29.85	31.35	31.35
Yugoslavia	Dinar <u>10/</u>	* 2.00	2.27	2.31

(See following page for General Note and footnotes.)

(Continued from preceding page)

GENERAL NOTE - Unless stated otherwise, the rates shown are noon buying rates in New York or, in the case of several Latin American countries for which no rates are quoted in the New York market, the selling rate in the foreign country for sight drafts on New York. Where different rates apply to different types of transactions, the rate shown is the one applicable to the majority of import transactions. For countries for which no rate as of November 1, 1945, is available, the rate shown is for the nearest available date. In the case of Bolivia, the yearly average for 1938 is based on quotations from June 13 through December 31. Since no quotations for Czechoslovakia are available after March 1939, the rate shown for August of that year is based on quotations from January 1 through March 14, 1939. In the case of Poland, the rate for August 1939 is based on quotations through August 25; the rate shown for Yugoslavia for the same month is based on quotations through August 26.

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\* Nominal.

- 1/ New rate not yet confirmed (source: confidential letter from Federal Reserve Bank of New York). In October 1945, the black market rate for the U.S. dollar in Chungking was reported to be 1,250 Chinese dollars.
- 2/ In July 1945, the black market quotation for the U.S. dollar was reported to be 117 francs.
- 3/ Black market quotations for the U.S. dollar are not available, but on November 10, 1945, the gold sovereign on the free market was quoted at 70,000 drachmas. The gold sovereign is valued at 8.24 U.S. dollars.
- 4/ Cross rate via pound sterling at 22.15 krónur per pound and at 488.94 U.S. dollars per pound.
- 5/ Free rate quoted for November 9; the official rate is reported at 3.13 U.S. cents.
- 6/ Based on assumption that 1 dinar = 1 pound sterling.
- 7/ Cross rate via pound sterling at 20 kroner per pound and at 403.38 U.S. dollars per pound.
- 8/ Based on assumption that 1 zloty = 1 ruble.
- 9/ Rate quoted by U.S.S.R. State Bank.
- 10/ In the spring of 1945, the black market rate for the U.S. dollar was 3-4 times as high as the official rate.

Interconvertibility of Currencies Under the  
Fund Agreement

Alice Bourneuf

Free exchange markets, or even free convertibility into other currencies of the proceeds of current exports in the exchange markets, is not necessarily implied as a norm in the Fund Agreement even for the post-transition period. The feature of the Fund plan which most obviously recognizes the rights of all members to supervise, license, or control all foreign exchange transactions is the recognition of the freedom of all members to restrict and regulate international capital transfers. It is impossible for a country to control capital transfers without the right to scrutinize all transactions with residents of foreign countries and to refuse exchange for capital transactions. It might be assumed, however, that since members of the Fund in general are obligated not to restrict payments and transfers for current transactions, that each member is obligated to allow any other member acquiring its currency as a result of current exports to sell that currency on the exchange market for any other currency. This does not seem to be a correct assumption.

In the first place, there is always the possibility that any such exchange transaction might involve a capital transfer between the two foreign countries involved. Since the Fund allows restrictions on capital transfers and does not specify that such restrictions can only be applied by a given country in the case of capital movements between it and other countries, a member could perhaps refuse to permit such exchange transactions in its markets. This has been mentioned as a possibility by several of the experts who took part in the negotiations of the Fund Agreement. But the principal purpose of allowing restrictions on capital transfers was to allow a country to restrict capital movements between it and other countries; refusal to permit exchange transactions because they might involve capital transfers between two other countries would seem to be unwarranted.

There is another reason, however, why it appears to be thoroughly consistent with the Fund plan for a member to refuse to permit such transactions. It may be argued that what each member country is guaranteed, under normal circumstances, under the Fund Agreement is not the right to convert the proceeds of current exports to one member country into the currency of any other member country but merely the right to be paid in its own currency for current exports. In normal circumstances in a gold standard world with free exchange markets, a country which is paid in its own currency for its exports gains a corresponding power to purchase any foreign currency. It is perhaps worthwhile to investigate whether or not this is the case under the Fund arrangements.

First of all, it is necessary to examine the basis on which it can be argued that the Fund assures the right to repatriate the proceeds of current exports rather than the right to use the proceeds of current exports to purchase any other member currency. The most complicated provision in the Fund Agreement, Article VIII, Section 4, introduces the principle of repatriation. This provision obligates each member, at the request of another member, to purchase balances of its own currency recently acquired by the other member as a result of

current transactions from the other member with the other member's currency (or at its own option with gold): The United Kingdom, for example, at the request of the French Government, must purchase sterling recently acquired by French residents as a result of exports from France to the United Kingdom with francs (or, at the option of the United Kingdom, with gold). The obligation does not apply if francs have been declared "scarce" by the Fund or if the United Kingdom has been granted permission to restrict payments for current transactions. The case in which the franc has been declared "scarce" is obviously an abnormal case and, even though special permission to restrict current transactions may frequently be given, this case also may be considered abnormal. However, the obligation also does not apply if for any reason the United Kingdom is not entitled to purchase foreign currencies from the Fund. Since the United Kingdom may be unable to draw on the Fund either because it has been declared ineligible for some reason or simply because it has exhausted its normal drawing privileges, this provision does not by any means guarantee France the right to repatriate the proceeds of her exports even in normal circumstances.

The general clause in the plan which applies irrespective of whether or not the United Kingdom is eligible to purchase foreign currencies from the Fund is Article VIII, Section 2. Under this provision, no member may impose restrictions on payments and transfers for current international transactions without the approval of the Fund except during the transition period or in the case of payments in a currency which has been declared scarce. This clause is much less detailed than VIII, 4, and might be interpreted in various ways. It would hardly be reasonable, however, to suggest that it requires any member to do more than is required of it under Article VIII, Section 4. If the right of repatriation is all that is assured to the French monetary authorities when the United Kingdom is able to draw on the Fund, presumably it is all that is assured to the French exporter when the United Kingdom is not able to draw on the Fund. After the transition period, therefore, at any time that the United Kingdom has not been granted special permission to restrict payments for current transactions, whether the United Kingdom is entitled to draw on the Fund or not, it must enable exporters to the United Kingdom to get paid in their own currencies; it need not allow them to convert sterling proceeds of exports freely into other currencies in the exchange market of the United Kingdom.

Under what circumstances is France's right to repatriate the proceeds of her exports less satisfactory than the assurance of free convertibility into other currencies in the sense that it may not enable France to use the proceeds of exports to the United Kingdom to finance current purchases in any other member country? It is clearly less satisfactory to France in the abnormal case in which there is a third currency, for example the dollar, which has been declared scarce. It is precisely in such circumstances, however, that the United Kingdom needs the protection of being able to insist that France take payment in her own currency. The United Kingdom has some protection by virtue of its power to control operations in a scarce currency but such controls may be no stricter than is necessary to limit the demand for dollars to the supply held by and accruing to the United Kingdom. The repatriation principal gives added protection, however, since it may

enable the United Kingdom to maintain or accumulate dollar reserves while obtaining francs from the Fund to meet the payments due to France. Once the dollar has been declared scarce, the United Kingdom should be able to conserve its supply for its own use.

If dollars are not scarce but can in general be obtained from the Fund as easily as francs, the United Kingdom may still prefer to insist on payment in francs because it may have franc balances currently accruing which it wishes to use to meet payments due to France. With complete control of exchange transactions, there is no guarantee that payments between the United Kingdom and France will be automatically cancelled out in the exchange markets even if the payments due the United Kingdom from France equal the payments due France from the United Kingdom. The monetary authority in either country may take over the foreign exchange holdings of its nationals. In the example given above, while France takes over the sterling balances of its nationals with a view to converting them into dollars, nationals of the United Kingdom may be accumulating franc balances. If the United Kingdom did not insist on the right to use these francs to repurchase French-owned sterling balances, it might have to request France to convert the francs into sterling through the Fund. As a result, the United Kingdom would obtain an increased conditional drawing right in the Fund at the same time it was using up independent gold or dollar reserves. Even though dollars are obtainable from the Fund, the United Kingdom presumably could not obtain dollars from the Fund to meet payments due to France. And even if it could it would be more expensive than using currently accruing franc balances. If the United Kingdom is not in a position to purchase exchange from the Fund at all, it is clearly advantageous to the United Kingdom to be able to use currently accruing franc balances since the conversion of francs into sterling through the Fund would not add to the ability of the United Kingdom to obtain foreign currencies.

It is also clearly less satisfactory to France to obtain payment from the United Kingdom in francs through the Fund as compared to selling the sterling directly for foreign currencies if France is unable to purchase exchange from the Fund. If she is unable to buy exchange from the Fund purely because she has exhausted her normal drawing privileges, the reduction in the Fund's holdings of francs as a result of the purchases by the United Kingdom would presumably restore France's ability to purchase foreign currencies up to the same value. However, if France is unable to purchase foreign currencies from the Fund because of failure to fulfill some obligation to the Fund or because use of the Fund under the circumstances would be contrary to the purposes of the Fund, the reduction of the Fund's holdings of francs presumably would not alter the situation. Payments through the Fund in that case would not enable France to use the proceeds of current exports to the United Kingdom to finance purchases in other countries. If France received payment in francs outside the Fund, however, the international reserve position of France would be strengthened and she could purchase more foreign currencies because the purchase of francs would add to her gold or foreign exchange holdings. The foreign currencies acquired, however, might not be freely convertible into other foreign currencies. France might have to convert the foreign currencies into francs through the Fund.

If free exchange markets are not operating in most countries, it seems unlikely that members of the Fund will provide exchange to cover payments due to a second country in the currency of a third country. In practice, contracts will then be made payable in the currency of one of the two countries involved. If United Kingdom citizens promised to pay French exporters in dollars, the United Kingdom would be in the position of draining its reserves of dollars to enable its citizens to make such payments. The United Kingdom presumably could not get dollars from the Fund for the purpose. On the other hand, there may be strong pressure from exporting countries to insist on payment in dollars to avoid taking repayment in their own currencies which means simply a corresponding increase in their drawing rights in the Fund.

China's Relief Program

Toni Giese

When the Chinese Government created the Chinese National Relief and Rehabilitation Administration in January of this year, it was estimated that the total cost of relief and rehabilitation in China would be equivalent to 3,439 million United States dollars. Of this amount, 2,530 million dollars represented planned expenditures for import requirements of approximately 10 million tons of supplies, 37 per cent of which UNRRA was requested to finance. The program provided for the Chinese Government to spend on domestic goods and services about CN \$2,727 million (at pre-war value) or 909 million dollars in United States money, and somewhat over 1,585 million dollars for imported supplies. These estimates were based on conditions which had been studied up to the beginning of the year. Since that time, further studies have disclosed needs greater than those covered by the original figures and in June the requests from UNRRA for imported supplies were increased accordingly. It is evident, therefore, that by the time UNRRA is in full swing in China, the total requirements will substantially exceed the original estimates. While the total estimated expenditures for the relief and rehabilitation program seem tremendous, it must be remembered that China was at war over twice as long as any of the European nations, and that the most productive farm lands and the industrial centers of China were under occupation.

The requirements were apportioned by classes as indicated in the table below. Within this general framework, supplies will be allocated according to the degree of war damage sustained in the particular districts and the degree of devastation resulting from such natural disasters as floods, drought, and pestilence.

China's Relief and Rehabilitation Requirements and Requests from UNRRA

Program	Total requirements		Requests from UNRRA	
	Chinese expenditures (\$C.N.)	Imported supplies (\$U.S.)	Original figures (\$U.S.)	Revised figures <sup>1/</sup> (\$U.S.)
	(In thousands)			
Food	100,000	316,840	153,881	173,026
Clothing	150,000	979,305	154,919	154,919
Shelter	100,000	25,000 <sup>2/</sup>	5,000	39,768
Health	246,515	66,004 <sup>2/</sup>	66,004	70,000
Transportation	430,964	663,014	330,102	338,483
Agriculture	206,700	86,350	77,476	141,476 <sup>3/</sup>
Industries	1,153,500	348,500	115,000	122,835
Flooded areas	139,570	6,500	4,500	6,688
Welfare services	160,817	32,531	32,531	52,000
Displaced persons	39,098	5,633	5,633	5,633
Total	2,727,164	2,529,677	945,046	1,104,823

1/ The original figures were revised June 1945.

2/ Including U.S.\$850,000 for foreign experts and U.S.\$1,200,000 for foreign fellowships.

3/ Including U.S.\$64,000,000 for fisheries.

China, the world's greatest agricultural nation, has never been able to produce enough food to furnish an adequate diet for its entire population. Though 75 per cent of its people are engaged in agriculture, only 14 per cent of China's land is under cultivation. Rice, wheat, sugar, and other foods were imported in pre-war years; even so, large numbers of the population were underfed. The war brought about a drastic curtailment in the already inadequate food supply of normal years. Imports were blocked and the invading armies destroyed large quantities of crops and consumed large amounts of food. On the war fronts, much of the farm land could not be worked. Moreover, many of the most productive farm laborers were called to military service. Floods along the courses of the Yellow and Huai Rivers further decreased the food supply and resulted in famines affecting some 10 million people. It is estimated that a total of 3,271,000 metric tons of food will be required to alleviate the distress caused by these conditions. The interior provinces expect to be able to supply 2.5 thousand tons of food, 1,254,000 tons has been requested from UNRRA, and the balance will be purchased abroad by the Chinese Government. If these amounts are obtained, 20 million people (4.5 per cent of the population) will be fed at the rate of 2,000 calories per day for an 18-month period. Looking beyond the immediate situation, China's leaders expect to introduce more efficient methods of agricultural production, to bring uncultivated land into use, and to import more agricultural machinery.

In order to carry out this program, however, it will be necessary to restore at least a minimum of the transportation and communication facilities that have been destroyed. The success of the relief program depends upon the distribution of supplies and for that reason a large part of the scheduled expenditure is directed toward the restoration of transportation. The estimated needs for reconstruction in this field are based not on requirements adequate to restore pre-war conditions, but only on minimum requirements for the distribution of relief and rehabilitation supplies and for the return of displaced persons. This entails the rebuilding of such major items as the principal railways, highways, and waterway facilities; in the early stages, no attention whatever will be given to local and rural transport. For transport and communication purposes, a total of 3,400,000 tons of goods will be imported. UNRRA has been requested to furnish about half of these supplies including parts for rolling stock repair, trucks, busses, gasoline, marine engines, vessels, barges, and 150,000 kilometers of telephone and telegraph lines for restoration of telecommunications.

The problem of health in China is of special significance to UNRRA because of the country's low standards of health and medical facilities. Measures far more extensive than can be taken under the scope of UNRRA are required. Yet it is necessary to improve the present conditions somewhat beyond pre-war levels in order to combat epidemics and diseases resulting from the war. At the present time, thousands of people are dying daily from malaria, typhus, and cholera. Thousands more will die during the coming winter from the cold and from lack of adequate food, shelter, and clothing. Already in progress are plans for the establishment of 650 hospitals with 2,500 beds, the organization of health centers in occupied China, and the provision of 10,000 beds for maternity cases. Rehabilitation of pharmaceutical plants and of biological institutes will be undertaken. Seven provincial hospitals have been set up for the treatment of victims of the cholera epidemic and the incidence of the disease has thereby been reduced by 50 per cent. Programs of large scale inoculation against other diseases such as typhoid, smallpox, etc., have been initiated. Even when the UNRRA program is in full operation, there will still be only one physician for each 30,000 people and one hospital bed for each 5,000. Because of the great need for technically trained persons to carry out this program, the services of 160 foreign experts were requested from UNRRA.

The problem of displaced persons in China is considered a major one. During the war, some 50 million Chinese refugees migrated from their homes to the interior, the largest mass migration in history. These displaced persons must be clothed, fed, and housed until they can be transported to their homes or settled in new areas. To carry out this program, 500 stations will have to be established where transients can be fed and sheltered. These stations will undertake also to register displaced persons and to provide medical inspection and treatment and transportation. The planned total capacity of all stations will be 135,000 persons; this portion of the program alone will cost approximately 54 million dollars for locally-supplied goods and over 33 million dollars for imports and supplies requested from UNRRA.

Industrial assistance will be rendered by UNRRA only to further the production of goods for relief and rehabilitation. Under this program, assistance will be given, in the order of priority indicated, to textiles, food processing, cement and construction industries. Most of China's industries were siezed or destroyed by the Japanese. Some 600 factories were removed to free areas, but these are of little use because of lack of raw materials, parts, and equipment. Industrial development is a necessity for China's future progress and Chinese industrialization will have world-wide effects on the development of international trade. But UNRRA's constitution, in addition to its limited resources, forbids any major contribution from that agency to the furtherance of general industrial expansion. Loans from allied nations will probably be forthcoming for this purpose and will serve in the longer run to aid China in its industrial and financial reconstruction. Even with the assistance of UNRRA and foreign loans, the Government will have to exercise caution in order that its expenditures will not aggravate the financial problems of the country. To this end, effective use of UNRRA supplies will be made in the following three ways: (1) Some of the goods will be publicly sold at reasonable prices. This measure will serve to combat inflation both by increasing the supply of sorely needed commodities, and by reducing the amount of currency in circulation. (2) Some of the goods will be distributed directly as free relief. (3) Some supplies and services will be used in direct payment to laborers working on public relief projects. As much of the expenditures as possible will be financed by private organizations and individuals--especially expenditures for industrial rehabilitation and housing.

Potential Foreign Lending by the United States

Janet G. Chapman

It is assumed that the United States will be lending large amounts of capital abroad but the scale of lending is still to be determined. Harry D. White, Assistant Secretary of the Treasury, has mentioned the possibility of foreign investment of as high as 30 billion dollars over the next ten years. If a foreign lending program of this magnitude is adopted, it may be assumed that at least 20 billion would be lent during the first five years. This is believed to represent an amount which foreign countries want to borrow from the United States, which they can use effectively in restoring and developing their economies, and which they would be capable of repaying under conditions of expanding employment and reasonable stability in economic and political relations.

A ten-year lending program of the magnitude of 30 billion dollars would facilitate a reasonably rapid recovery from the destruction caused by the war, without undue pressure upon the standard of living of the peoples in the devastated countries, and would at the same time aid in the expansion of world production, income, and trade beyond the pre-war level--an aim to which the United States is committed. It is generally agreed that the world economy was not operating at a satisfactory level in the 1930's; certainly that level would be unsatisfactory in 1955. Accordingly, restoration of the productive capacity of the war-devastated countries to the pre-war level will not be enough; the development of additional productive capacity must be encouraged in many of these countries, as well as in countries like those of Latin America, which suffered no direct war damage but have large potentialities for development.

The factors determining the amount of capital which can be used effectively and the rate at which capital can be absorbed vary from country to country. China, for instance, can eventually absorb a very large amount of capital but investment there must begin slowly as it will be necessary to construct an adequate system of transportation before the nation's resources can be profitably developed. Great Britain, on the other hand, having already a highly developed industrial economy, needs, and can profitably use, a large import of capital in the immediate future, but after the next two or three years should be able to function at a high level without further aid from abroad. Russia, which has asked for a loan of six billion dollars, could probably make economic use of an even larger sum over the period but apparently does not want to borrow more than an amount that it could service in even the worst years.

A major factor to be considered is the ability of the borrowing countries to service the loans. It is, of course, impossible to predict with any accuracy the nature of the balance of payments of a country ten or fifteen years in the future and to estimate with precision the amount of debt which it will be able to service without strain. This is particularly true at the present time when normal trade has been greatly disturbed and when trade relations may be reestablished in quite a different pattern. A reasonable estimate can be made, nevertheless, as to the approximate magnitude of debt service which the various countries could handle, under favorable conditions. Assuming expanding world production and some reduction of trade barriers, foreign countries should be able to provide goods and services for the servicing, under appropriate terms, of loans as high as 30 billion dollars. The loans themselves will have facilitated the original expansion of world trade to a higher level.

The effect of such a volume of lending on the United States economy must, of course, be considered. During the next year, when domestic demand for many goods will exceed the supply, a large foreign demand will add to the strain on the economy and to the pressure on prices. If we succeed in maintaining price controls on goods in tight supply--controls which will probably be required by the domestic situation in any case--we should be able to meet this foreign demand without inflationary consequences and with little sacrifice of current consumption. Once reconversion has been completed and our plant is ready to produce at full capacity, the foreign demand will aid in the full utilization of this capacity and in reaching and maintaining full employment.

An export surplus in the next decade may be looked upon as a means of maintaining full employment but an export surplus must not be depended upon as a permanent prop for employment. If the United States expects to be repaid, and if we do not want to prevent the fulfillment of our policy of free trade by forcing debtor countries to place restrictions on imports instead of counting on expanding exports for repayment, our imports must increase. Whether the United States will accept an import surplus is a more difficult question than the ability of foreign countries to supply the goods. It may be expected

that our demand for imports will increase as national income increases. Our propensity to import may rise as the standard of living rises and as domestic supplies of raw materials either are depleted or become inadequate for the needs of expanded production. There are, however, factors working in the opposite direction such as the development of domestic products to replace various items that have previously been imported.

Two major problems will be faced in maintaining a high level of domestic employment while adjusting to an import surplus. One is the problem of the particular exporter who may lose his place on the world market. In considering the impact of an import surplus on our export industries, it is sometimes forgotten that an import surplus in an expanding world economy need not mean a decrease in exports; exports may remain the same or even increase while imports increase at a more rapid rate. The other problem is that an export surplus is employment-creating in the same way as domestic capital investment, while an import surplus is similar to savings in its effect on employment. This means that other offsetting domestic measures must be found. Given intelligent planning and appropriate action, it should be possible for this country to maintain any desired level of employment while receiving an import surplus from abroad, and thus to use the import surplus to increase real income and the domestic standard of living.

Bretton Woods Legislation in Latin American Countries

Robert Triffin, Henry Wallich and Alice Bourneuf

Many Latin American countries are, at the moment, preparing enabling legislation for adherence to the Bretton Woods convention and acquisition of membership in the International Monetary Fund and in the International Bank for Reconstruction and Development. It is vitally important that this legislation should be so drafted as to integrate and coordinate relations between the member and these agencies with the member's general economic and financial policies. Only through such integration will member countries reap the full benefits of membership and ensure the smooth and successful functioning of the new institutions. This paper will discuss the main points which national enabling acts might conveniently cover in order to attain those objectives.

(1) Ratification - According to the agreements, a country must accept membership on or before December 31, 1945, if it is to become a charter member. It should be noted that, upon subscribing to the agreements in Washington, a country must be in a position to show that it has taken all necessary steps to implement its membership obligations.

(2) Appointments - It would be convenient to appoint the same person as Governor of Fund and Bank. Since the position is an important one and at the same time one requiring a high degree of technical qualification, the choice might fall upon the President or Manager of the Central Bank. Their appointment would not interfere with their regular duties, since the Board of Governors would meet only at infrequent intervals. These meetings would give the appointees a valuable opportunity for an exchange of views with the top financial men of other countries.

The law itself, however, should better be kept flexible on this point and merely provide that the appointment be made at the recommendation of the Monetary Board or Advisory Council dealt with in the following paragraph.

(3) Policy Decisions - While the Governor should have authority to act on all routine matters, important policy decisions must be reserved to a higher authority. Since all operations with the Fund or Bank are likely to be conducted through the country's central bank and since they involve primarily exchange operations of fundamental significance in the monetary field, it would be logical to confer the policy-making powers on the Board of Directors of the central bank. This solution is especially indicated in countries in which monetary and central banking legislation of the type developed by Dr. Triffin has made such Board -- under the name of Monetary Board -- into a coherent and powerful instrument of national monetary policies. In some countries, where tradition or legislation gives a less prominent role to central bank action, a special

Advisory Council might be created, in which the central bank should share influence with other economic and financial agencies of the government.

In either case, the Monetary Board or Advisory Council should formulate the country's policy with respect to the Fund and Bank, be in charge of relations with the two agencies, and guide the actions of the Governor. In situations where the Bretton Woods Agreements provide for action by a member, the council should have sole authority to take such action in so far as the national constitution does not reserve the decision to the legislature. A list of the cases in which the agreements specify action by a member is appended.

(4) Financing and Operations - The financing of the contributions and the handling of the operations with both Fund and Bank can be carried out either by the central bank or by the government directly, through the treasury or another agency. For a variety of reasons it would probably be preferable, for most countries, to act through their central banks.

(A) With regard to financing of and operations with the Fund the central bank seems to be the more desirable medium because:

(i) the central bank is the institution responsible for the custody and management of monetary reserves and for the stabilization of the external value of the currency; operations with the Fund are basically similar to those, both as to their nature and purpose;

(ii) the central bank is also the institution responsible for regulating general monetary and credit conditions, and especially the volume of means of payment; operations with the Fund will have, initially, the same effect on monetary circulation as an inflow or outflow of monetary reserves; if such operations were to escape the control of the central bank, there would result a very undesirable division of monetary responsibility, especially as the conversion of the Fund's currency holdings into demand notes might be used as a means of internal inflationary financing.

Operation through the central bank does not mean that activation of the contribution, i.e., its use to pay the member's exporters, would necessarily lead to an increase in the money supply. When this moment comes, the central bank could offset the monetary expansion resulting from the payment to local exporters by means of open market operations, including sale of participation certificates in the contribution it has made to the Fund. The decision whether to monetize part or all of an active balance paid to the member through the Fund, should be left to be decided according to the needs of the moment.

(B) Financing of and operations with the International Bank likewise could most conveniently be handled through the central bank, although, in this case, exclusively for Government account. This would include the guarantee to be given in case the International Bank facilitates a loan to a non-governmental borrower in the member country.

The main reason for central bank handling of such operations lies again in their direct relation to the balance of payments and to monetary reserves and to their impact upon the domestic money and credit market. On the other hand, while borrowings from the Fund are essentially of a short-term nature and very similar to an inflow of general monetary reserves, borrowings from the Bank are likely to be long-term and to be directed toward specific ends of a non-monetary character. Similar considerations would apply in the case of lending operations. For these reasons, the central bank should not bear the ultimate responsibility for operations so distinct from its natural sphere of action and of which it is not the ultimate beneficiary.

In conclusion, it would be desirable (1) to let the central bank make the contribution to the International Bank, but for account of the government, (2) authorize the Monetary Board or Advisory Council to make special arrangements with the government for speedy amortization by the latter of any portion of the contribution effected by the central bank for its account and actually used in the International Bank's lending operations, and (3) to make good to the central bank, through delivery of amortizable government bonds, any loss that it might incur as the result of guarantees or payments on contribution.

(5) Balance Sheet and Reserve Position - The form in which the Fund contribution and subsequent operations with the Fund are integrated with the central bank's balance sheet and with the calculation of its legal reserves will be a matter of some importance, because of the resulting effect upon central bank reserve ratios and because the handling of this question will, in a sense, express the monetary authorities' basic philosophy of their relations with the Fund.

Two alternative methods may be mentioned here:

(A) Alternative No. 1: On the balance sheet of the central bank, show as an asset, unchanging in amount, the full contribution to the Fund (both in gold and in currency), and as a liability the total current holdings of the country's currency (whether in the form of deposit or of demand notes) by the Fund.

In the calculation of net international reserves, add to gold and foreign exchange assets an unchanging amount, made of:

- (1) 100% of the gold contribution to the Fund;
- (2) 50% of the currency contribution.

On the other hand, deduct as a liability 50% of the total current holdings of the country's currency by the Fund.

This procedure will achieve, in a very simple manner, the two following objectives:

(1) Adherence to the Fund will leave net reserves unchanged, since the loss of gold experienced as a consequence of the contribution to the Fund will be made up by the addition of this gold contribution to reserves, and since the currency contribution leads to identical increases in both assets and liabilities.

(2) Later borrowings from the Fund will decrease net reserves by an amount equal to 50% of the borrowings, and any extension of credit through the Fund will increase net reserves by an amount equal to 50% of the credit extended.

The logic of this recommendation is based on the following reasoning. While adherence to the Fund lowers slightly the country's gold reserves, the advantages of membership -- and especially the prospective borrowing right of the member -- more than makes up for the lowering of reserves. On the other hand, it would be improper to consider that net reserves are increased, since any borrowings will be, in a sense, offset by the obligation incurred abroad and since the borrowing right of a member is far from unconditional. Thus, it is recommended that net reserves be so calculated as to be left unchanged by adherence to the Fund.

Secondly, the fluctuations of net reserves should be such as to show a strengthening of the country's international position when it accumulates credits against the Fund, and to show a weakening of that position when the country builds up its indebtedness towards the Fund. On the other hand, the purpose of the Fund would be defeated if borrowings were to be completely assimilated to a loss of reserves. Under the procedure recommended, borrowings from the Fund would lower net reserves by an amount equal to 50% of the borrowing. Similarly, credits extended to the Fund would increase net reserves by an amount equal to 50% of such credits. This result is obtained very simply by deducting 50% of the Fund's current holdings of the country's currency from gross reserves, the original 50% deduction resulting from mere adherence to the Fund being offset by a permanent and corresponding addition to international reserve assets (see examples in Appendix II).

The procedure recommended will tend to moderate fluctuations in net reserves and thus restrain somewhat the expansionary psychology which would result if a creditor position in the Fund were treated as fully equivalent to gold and exchange reserves and, on the other hand, will mitigate the deflationary psychology which would result if a passive balance of payments were met out of gold and exchange resources rather than by drawing upon the Fund. This stabilizing influence of the method appears desirable both from the point of view of the Fund and from the point of view of national monetary policy.

The 50% effect on net reserves, allowed above to transactions with the Fund, is, of course, arbitrary. This percentage might be raised or lowered uniformly depending on whether a country wishes to assimilate more fully operations with the Fund to changes in reserves or to neutralize them to a larger extent than is here recommended.

(B) Alternative No. 2: The case for alternative No. 1 is especially strong in countries which calculate their reserve ratio in the manner recommended by Dr. Triffin.<sup>1/</sup> In other countries, borrowed funds are usually fully assimilated to owned reserves, with no deduction except for sight or short-term obligations to foreign correspondents. If it be desired to handle operations with the Fund in the same manner, and to give to reserve calculation a more definite expansionary bias, a second alternative might be followed. A creditor position in the Fund might be assimilated fully to gold or sight deposits abroad, while a debtor position would be treated as a medium- or long-term obligation and would not require any deduction from reserves. Thus, any extension of credit to the Fund would increase net reserves by the full amount of the credit granted, while borrowings from the Fund would leave reserves unchanged, except for the exception now to be mentioned. In accordance with Article V, section 7, and Schedule B of the Fund Agreement, each country is obliged, when certain conditions are realized, to repurchase from the Fund at the end of each financial year a certain portion of the Fund's holdings of its currency. Such repurchase obligations, calculated as of the end of each month, should clearly be deducted in full (or at least to the extent of 75%) from legal reserves at the end of each month, in preparation for the lump payment to be made to the Fund at the end of the current year (see examples in Appendix II).

The asymmetrical treatment of credits and debits toward the Fund imparts to alternative No. 2 a stronger expansionary impact on net reserves than would be allowed under alternative No. 1. On the other hand, it takes into account the difference between indebtedness subject to the repurchase obligation and indebtedness of more indefinite maturity. While clearly illogical for central banks which already deduct from their legal reserves all or part of their indebtedness abroad, it may be adopted by countries in which such deductions are not customary and in which the central bank deems it desirable to emphasize further expansionary significance of operations with the Fund and to avoid, as far as possible, any contractionary impact on net reserves.

In any case, it is important to note that the choice between the two methods is of rather secondary importance. The differences

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<sup>1/</sup> A certain percentage of the central bank's indebtedness abroad, varying with the maturity of the obligation, is deducted from gross gold and foreign exchange holdings in order to arrive at net reserves. The reserve ratio is then calculated by dividing net reserves by average annual payments abroad -- or total sales of exchange -- rather than by sight obligations of the central bank. See Ley Orgánica del Banco del Paraguay y Ley de Bancos, Asunción, Paraguay, 1944, pp. 38-40 and 44-45.

between the two procedures are confined to the calculation of net reserves and thus to any psychological influences that they may have on the attitude of the public and on central bank policy. An active balance of payments -- whether it takes the form of gold or foreign exchange inflow, or of credits against the Fund -- tends to expand the domestic volume of money and commercial bank reserves. A passive balance of payments -- whether financed by loss of reserves or by borrowings from the Fund -- has the opposite effect. Far more important than fluctuations in an arbitrarily defined legal reserve ratio will be the central bank's attitude toward this internal impact of balance of payments fluctuations and its decision to accept it passively, reinforce it or neutralize it through domestic monetary and credit policies. Such decision should vary with the nature of the fluctuations and the central bank's estimate as to their probable duration and as to their fundamental or non-fundamental character.

The contribution to be made to the International Bank, if it is made by the central bank, can in no case enter into the central bank's reserves, since membership in the Bank does not give any individual country any clear-cut presumption that it will be able to borrow a specified amount of foreign exchange resources from the Bank. Since the gold contribution to the Bank is no more than 2% of the quota, however, the weakening of the central bank's reserve position is insignificant. The central bank should be appointed as the sole depository of the Fund and the Bank for the respective country.

(6) Corrective Measures and Safeguards - To insure smooth collaboration with the Fund, and to avoid indebtedness to the Fund for excessive periods, the Board of Directors of the central Bank or the Advisory Council, as the case may be, might be required to consult with the Fund whenever legal reserves fell below a certain critical level, or, if alternative No. 2 has been adopted, when the country had remained substantially in debt to the Fund for more than two years at a time. Following these discussions, the Board or the Council should be required to suggest to the government such measures as would, in the Fund's and its own opinion, be suitable to restore equilibrium in the balance of payments and, after a period of time which Fund and Council regard as reasonable, bring the country's situation in the Fund back to normal.

The Board or Council should watch over the fulfillment by the country of its obligations toward Bank and Fund. To this purpose the Council should take all measures within its powers and, where these powers are insufficient, should call the attention of the government to the needs of the situation, in which case the government should be obligated to take appropriate action.

(7) Information - Since Fund and Bank may, from time to time, require from a member certain special information essential to their effective operation, it seems appropriate that the respective national

agencies and individuals in possession of this information be required to supply it, provided that individual affairs are not disclosed thereby.

(8) Status, Immunities and Privileges - The immunities and privileges listed in Article IX, Sections 2 to 9 inclusive, and in the first sentence of Article VIII, Section 2b of the Fund Agreement, and the immunities and privileges listed in Article VI, Section 5i, and Article VII, Sections 2 to 9 inclusive, of the Bank Agreement, should be given full legal force and effect throughout the country. It is of particular importance that the International Bank be given adequate protection, since without this, securities arising out of the Bank's loans to the country concerned will not enjoy the full confidence of private investors.

(9) Use of Stabilization Loans - It might be specifically mentioned that the local currency equivalent of exchange bought from the Fund and of stabilization loans granted by the Bank shall under no circumstances be employed for internal budgetary or similar expenditures without the expressed authorization of these agencies. This injunction is plainly inherent in the Bretton Woods Agreements themselves but does not seem to be universally appreciated. When the central bank sells to local importers exchange acquired from the Fund, the local currency it receives in return is automatically withdrawn from circulation. But if the treasury handles the operations and pays the Fund with demand notes, it will then have on its hands the local currency received from exchange sales to importers. This currency should in no case be employed for budgetary expenditures, but held for redemption of the demand notes.

APPENDIX I

Action by Member Countries

The Bretton Woods Agreements specify action by member countries in the following cases:

A. Instances in which a member country may take the initiative:

(1) Propose a modification in the par value of its currency. (Fund IV, 5).

(2) Propose the imposition of exchange control and obtain the approval of the Fund. (Fund VIII, 2).

(3) Propose an adjustment in its quota in the Fund, (Fund III, 2) or its subscription to the Bank, (Bank II, 3).

(4) Propose amendments to the Fund and Bank Agreements and submit differences of interpretation to the Board of Governors of the respective agencies. (Fund XVII, XVIII; Bank VIII, IX).

(5) Decide upon the withdrawal of the country from the Fund, (Fund XV, 1) or Bank, (Bank VI, 1).

(6) Request of the Bank a modification of the conditions governing the payment of loans granted by the Bank to the country. (Bank IV, 4, c).

(7) Make reply to reports which the Fund may issue stating that the country is using the resources of the Fund contrary to the latter's purposes, as well as to any other communication or statement of views which the Fund may make; and to name a representative for the discussions preceding the publication of such reports. (Fund V, 5; XII, 8).

(8) Name a representative to participate in the preparation of a report to explain the causes of an imminent general shortage of its currency and to make recommendations to remedy this shortage. (Fund VII, 1).

B. Cases requiring the approval, agreement or consent of the member for certain decisions by the Fund or the Bank:

(1) Modifications in the quota of the country in the Fund. (Fund III, 2).

(2) Loans to the Fund in local currency by the country or by third parties. (Fund VII, 2).

(3) The supply of additional information to the Fund. (Fund VIII, 5, c).

(4) With regard to direct loans granted by the Bank out of its own resources:

- (a) approve the use for loan purposes of the 18% quota subscribed in local currency or its conversion into other currencies for purchases outside the country, (Bank IV, 2, a),
- (b) permit the payment of interest and amortization on loans granted under (a) to be made in other currencies, (Bank IV, 4, b, i),
- (c) permit the use or conversion of amortization receipts by the Bank, (Bank IV, 2, b).

(5) With regard to other direct loans granted by the Bank out of borrowed funds:

- (a) permit the Bank to borrow funds in the country,
- (b) permit the Bank to make loans denominated in its local currency. (Bank IV, 1, b).

(6) With regard to guarantees given by the Bank for loans granted by private investors: to approve such guarantees when the funds are raised in the country or when the loan is made in the country's local currency. (Bank IV, 1, b).

(7) Approve purchase or sale by the Bank in the national territory of any securities which the Bank has issued, guaranteed or purchased and the raising of loans by the Bank in local currency. (Bank IV, 8).

(8) To approve the liquidation of pending accounts in the case of withdrawal from the Fund or the Bank. (Fund XV, 3; Bank VI, 4).

C. Instances in which certain matters must be submitted to the vote of member countries:

- (1) Amendment of the Agreements. (Fund XVII, a; Bank VIII, a).
- (2) Uniform modification of parities. (Fund IV, 7).

D. Various other instances of action implicitly required by the member are those connected with the obligations to which reference is made in Section (6) of this paper.

APPENDIX II

Applications of alternative methods of calculating reserves (see section 5).

It is assumed that before the subscription is made the central bank has reserves of 325. The "normal position" shows the bank's statement after making the subscription to the Fund required by an assumed quota of 100. Under "creditor position" it is assumed that an active balance of payments of 50 has been paid to the country exclusively through the Fund. Under "debtor position" it is assumed that a passive balance of 50 has been paid by the country exclusively by drawing upon the Fund. This gives rise to a repurchase obligation of 25 by the end of the year, the liquidation of which is shown under "After Repurchase".

Alternative 1.

I.	<u>Before adherence to the Fund</u>		
	Gold and foreign exchange		325.0
II.	<u>"Normal" position after adherence to the Fund</u>		
	<u>Assets:</u> Gold and foreign exchange		300.0
	100% of gold contribution to Fund		25.0
	50% of currency contribution (75)		37.5
			<u>362.5</u>
	<u>Liabilities:</u> 50% of Due to Fund (75)		37.5
	<u>Net Reserves:</u> 362.5 - 37.5 =		325.0
III.	<u>Creditor position of 50</u>		
	<u>Assets:</u> as before, i.e., current gold and foreign exchange, plus a fixed item of 62.5		362.5
	<u>Liabilities:</u> 50% of Due to Fund (75 - 50 = 25)		12.5
	<u>Net Reserves:</u> 362.5 - 12.5 = 350.0, i.e., an increase equal to 50% of the amount lent ( $\frac{50}{2} = 25$ )		
IV.	<u>Debtor position of 50</u>		
	<u>Before repurchase</u>		
	<u>Assets:</u> as before		362.5
	<u>Liabilities:</u> 50% of Due to Fund (75 + 50 = 125)		62.5
	<u>Net Reserves:</u> 362.5 - 62.5 = 300.0, i.e., a decrease equal to 50% of the amount borrowed ( $\frac{50}{2} = 25$ )		
	<u>After repurchase of 25</u>		
	<u>Assets:</u> Gold and foreign exchange		275.0
	Contribution to Fund		62.5
			<u>337.5</u>
	<u>Liabilities:</u> 50% of Due to Fund (75 + 25 = 100)		50.0
	<u>Net Reserves:</u> 337.5 - 50.0 =		287.5

Note: On its balance sheet proper, the central bank will enter the full amount of its contribution (always 100 in the example) as asset and the full amount of its current indebtedness to the Fund as liability.

Alternative 2.

	Before Adherence to Fund		"Normal" Position		Creditor Position		Debtor Position		After Repurchase	
					of 50		of 50			
<u>Assets</u>										
Total legal reserves										
Gold and exchange	325		300		300		275		275	
Equivalent of gold contribution	0		25		25		25		25	
Creditor position in Fund	0		0		50		0		0	
	<u>325</u>		<u>325</u>		<u>375</u>		<u>300</u>		<u>300</u>	
Exchange assets earmarked against repurchase obligations	0		0		0		25		0	
Currency contribution remaining in Fund	0		75		25		75		75	
Other assets	<u>100</u>		<u>100</u>		<u>100</u>		<u>100</u>		<u>100</u>	
Total	425		500		500		500		475	
<u>Liabilities</u>										
Currency and demand deposits	400		400		450		350		350	
Special deposit in favor of Fund or demand notes (This item not subject to reserve requirements)	0		75		25		125		100	
Other liabilities	<u>25</u>		<u>25</u>		<u>25</u>		<u>25</u>		<u>25</u>	
Total	425		500		500		500		475	