

Banking - Finance

KINGSTON ACCORD ON MONETARY REFORM

Finance ministers agreed on a three-cornered package for international monetary reform in Kingston, Jamaica on January, 10th. They also agreed on an immediate enlargement of conventional lending by the IMF.

The reform package covers gold, exchange rates and quotas.

Gold. The IMF will sell by public auction a sixth (25 m. ounces) of its gold holdings over the next four years. The Bank for International Settlements in Basle can bid in these auctions. Profits of the sales above the current official gold price will go into a trust fund to provide assistance on concessionary terms to countries with incomes of not more than \$350 per head in 1973. Another sixth of IMF gold will be returned to all member countries in proportion to quotas, which means that rich countries will get a big addition to their reserves (America most, Britain next).

Exchange Rates. A new version of Article IV of the IMF's rule book will be presented to the IMF's 128 member governments for ratification. The official gold price is abolished. Each member-country will collaborate with the IMF to "assure orderly exchange arrangements and to promote a stable system of exchange rates". But each must also "avoid manipulating exchange rates or the international monetary system in order to prevent effective balance-of-payments adjustment or to gain an unfair competitive advantage over other members".

Quotas. A new distribution of IMF quotas, within a 32½% total increase, will double the share of Opec countries from 5% to 10%. Britain's share comes down most, but remains a good second to the United States'.

The following excerpts from the IMF interim committee's final communique issued after the meeting state that it:

Agreed to increase contributions of individual members to the IMF and give all members six months to make their currencies usable in the

operations and transactions of the Fund.

Agreed to start without delay the sale by public auction of 25 million ounces of gold which will be disposed of over a four-year period to aid developing nations.

Noted that recovery from the severe international recession of 1974-75 was underway in much of the industrialised world and called on industrial countries in strong balance of payments positions to maintain economic expansion in the period ahead while continuing to combat inflation.

Expressed concern over the large balance of payments deficits and heavy external borrowing and use of already eroded reserves by primary producing developing countries in 1975. An adequate flow of imports by such countries in 1976 would depend on availability of adequate credit from the Fund.

Agreed that a trust fund be established without delay from the profits of the sales of the Fund's gold to provide loans on concessionary terms to members with per capita incomes in 1973 not in excess of \$350 (300 SDRs).

Agreed on a temporary increase in IMF lending authority of an across-the-board 45 per cent in four borrowing categories, with each category setting progressively stricter conditions for obtaining funds.

Welcomed agreement legalising the present system of floating exchange rates which the committee said would work for greater stabilisation in economic and financial matters.

Agreed that the Special Drawing Right, so-called paper gold, should be the principal reserve asset in the international monetary system.

Agreed to permit the IMF to sell any part of the gold left after distribution of 50 million ounces and to use profits to increase the Fund's resources, or to make loans available on special terms to developing members in difficult circumstances.