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ECONOMIC COMMISSION FOR LATIN AMERICA

STATEMENT TO THE ECONOMIC COMMISSION FOR LATIN AMERICA ON THE WORK OF THE INTERNATIONAL MONETARY FUND IN LATIN AMERICAN COUNTRIES

The Economic Commission for Latin America has been created to deal with economic problems which are in part of a monetary and exchange nature and, therefore, of specific concern to the International Monetary Fund. The Fund has been working on these problems since its establishment in the Spring of 1946, and a close collaboration between the two organizations will be most fruitful. Fund facilities will be made fully available to the newly created Commission in the same spirit with which the Fund has co-operated with ECLA's sister organizations, the Economic Commissions for Europe and for the Far East. On its side, the Fund expects to profit greatly from the work of the Commission, since it realizes fully that the current problems of Latin America are largely a reflection of deeper economic maladjustments, which the Commission will be well fitted to study.

The work of the Fund in connection with its Latin American members, as well as with all its other members, may be classified under three broad categories:

(a) research;

(b) consultation; and

(c) financial assistance.

This work is carried on largely by the Staff of the Fund, which consists of 425 persons from 28 member countries.

Research work

The Bretton Woods Agreement provides that "The Fund ... shall

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act as a center for the collection and exchange of information on monetary and financial problems, thus facilitating the preparation of studies designed to assist members in developing policies which further the purposes of the Fund."

The Fund's studies have been concentrated mainly on foreign exchange, on balances of payments, and on monetary and credit problems. General economic surveys have also been made, including the study of national income, production and employment, as the necessary background to appraise the international financial problems which are of special concern to the Fund.

Up to the present most of the studies have been made in connection with the operational work of the Fund and, therefore, are apt to be directed toward specific exchange problems and policies. But, in the preparation of the studies, a large amount of basic information has been collected, and the staff has acquired a thorough knowledge of the fundamental financial and economic problems of Latin America. It is now in a position to engage in longer-range studies of more general significance. At present, three of these longer-range studies are being prepared:

1. Inflation in Latin America, which is expected to be finished in the Summer of 1948.
2. A study of the Balance of Payments for 1947 of Latin American countries (along with the other countries of the world for which data are available), which will be finished in the Fall of 1948.
3. Exchange Problems in Latin America, scheduled for the third quarter of 1948.

The Fund is giving a great deal of attention to the collection and standardization of financial statistics, and has been publishing, since the beginning of 1948, its monthly bulletin "International Financial Statistics", which contains the financial statistical series of 57 countries, including all member countries from Latin America plus those of Argentina.

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As one of its principal tasks the Fund has worked actively toward a standardization of the procedures used by the various member countries in preparing their balance of payments calculations, thus continuing and furthering the pioneer work done by the League of Nations. An international meeting at Washington, D.C., on this subject was called in the Fall of 1947 by the Fund at which were present economists and technicians of the United Nations, other international agencies, and representatives of some 30 countries. As a result of these discussions, the Fund has published a Manual designed to stimulate and standardize practices in this important field of work and thus improve comparisons of data between countries and enhance the usefulness of these data to all countries.

Consultation

The Fund places great stress on frequent and friendly consultation with its members. It is in this intimate collaboration that the Fund fulfills its functions as a center for international co-operation on monetary and financial problems. Representatives of all the member countries consult each other and exchange ideas once a year at the Annual Meeting of the Board of Governors. The Executive Board, on which Latin American countries have two Directors, maintains a permanent contact with members. Official representatives of the Fund pay frequent visits to member countries. Consultations have been of both a formal and informal character. In most cases they have been for the purpose of exchanging views. On these occasions members have had the opportunity to check on the information which the Fund has gathered regarding their economy and in turn the Fund has reiterated its assurance of assistance in terms of the Articles of Agreement.

Four Latin American countries have requested the Fund to send technical missions to study their financial problems and to advise them on the policy to be followed to strengthen their economic and financial position. Without publicity that might be unwelcome to the governments concerned, these missions have assisted the technicians of these countries in the study of their problems and in the framing up of policies

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conducive to their solution. In the case of Ecuador, which has already made public the results of the Fund mission, it can be said that this country adopted a new exchange system which apparently has helped it in easing its balance of payments problem. Also, a new monetary and banking law has just been enacted that gives the monetary authorities broader powers to control credit and, consequently, to iron out the economic fluctuations induced by the expansion and contraction in its foreign trade.

Financial assistance

One of the main purposes of the Fund is "to give confidence to members by making its resources available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity." Quoting the statement presented on behalf of the Fund to the Ninth Inter-American Conference in Bogota, Colombia, it may be said that:

"The use of the Fund's resources is limited to the purposes provided in the Fund Agreement. They cannot be used to finance reconstruction and development; they cannot be used to maintain a continuing unbalance in current payments. These limitations were put into the Fund Agreement for the protection of the Fund and in the interest of its members. They are no more restrictive than the limitations a country with modest reserves ought to put on the use of its own gold and dollar holdings. It is not desirable for a country, from its own point of view, to dissipate its limited monetary reserves to maintain an excessive level of imports of consumer goods, particularly at a time when its current receipts from exports are already large. It is far better for a country to introduce policies that will prevent the development of an excessive import demand for luxuries and non-essentials. It is not desirable for a country, if its monetary reserves are limited, to use these reserves to finance a development program, however sound and necessary this development may be. It is far better for a country to secure foreign capital to pay for the imports associated with such a

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program."

"Let us emphasize again that we speak of countries with limited reserves. For them, the essential character of reserves must be understood and respected. Reserves are for use in emergencies, to continue essential imports when foreign exchange receipts fall off, to provide the time necessary to put into effect corrective measures that will restore the proper balance of payments. The Fund has not hesitated to help members to meet their current international payments when they take steps to correct the tendency to over-import. This was the situation that led the Fund to help Mexico and Chile by the sale of dollars for their local currencies. The Fund stands ready to give its other members help in moderate amount under the same conditions."

Need for collaboration

The above is in summary the work that the Fund has done and is doing in connection with Latin American countries. As a result of its studies, the Fund hopes to contribute to a better understanding of the causes and nature of the monetary and exchange problems of Latin America; and to be in a position to give constructive technical advice to its members. With the moderate financial assistance that it provides, it can give countries a breathing spell to put into effect the policies necessary to strengthen their economies. But the monetary and exchange problems arising in countries which have decided to develop their economies at a fast rate are necessarily large in magnitude, and the Fund obviously cannot be the only source of help in meeting them. However, the Fund is prepared to co-operate with other international organizations, as well as with the monetary authorities of its member countries, to work toward their solution. The Economic Commission for Latin America may count, therefore, on the fullest and frankest co-operation of the International Monetary Fund.