Volume III

After the Gold Standard, 1931-1999

1971 December

Smithsonian Agreement of the Group of Ten. Heralded by American President Richard Nixon as "the most significant monetary agreement in the history of the world", the Smithsonian Agreement was a series of agreements signed in December 1971 in Washington, DC. As part of this agreement, the American government agreed to revalue the dollar against gold and several countries altered their central rate against the dollar. The three documents excerpted here include the Group of Ten's Ministerial press communiqué and the IMF's Executive board decision on central rates both of 18 December 1971, and an IMF press release providing member states with information on the new exchange rate regime dated 30 December 1971.

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Document A. Press communiqué of the Ministerial Meeting (18 December 1971)

Ministerial Meeting of Group of Ten

1 The Ministers and Central Bank Governors of the ten countries participating in the General Arrangements to Borrow met at the Smithsonian Institution in Washington on December 17 and 18, 1971, in executive session, under the Chairmanship of Mr J.B. Connally, the Secretary of the Treasury of the United States Mr P.-P. Schweitzer, the Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by the President of the Swiss National Bank, Mr E. Stopper, and in part by the Secretary-General of the Organization for Economic Cooperation and Development, 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 European Economic Community, Mr R. Barre The Ministers and Governors welcomed a report from the Managing Director of the Fund on a meeting held between their Deputies and the Executive Directors of the Fund

2 The Ministers and Governors agreed on an interrelated set of measures designed to restore stability to international monetary arrangements and to provide for expanding international trade These measures will be communicated promptly to other governments It is the hope of the Ministers and Governors that all governments will cooperate through the International Monetary Fund to permit implementation of these measures in an orderly fashion

3 The Ministers and Governors reached agreement on a pattern of exchange rate relationships among their currencies These decisions will be announced by individual governments, in the form of par values or central rates as they desire. Most of the countries plan to close their exchange markets on Monday. The Canadian Minister informed the Group that Canada intends temporarily to maintain a floating exchange rate and intends to permit fundamental market forces to establish the exchange rate without intervention except as required to maintain orderly conditions.

4. It was also agreed that, pending agreement on longer-term monetary reforms, provision will be made for 2¼ per cent margins of exchange rate fluctuation above and below the new exchange rates. The Ministers and Governors recognized that all members of the Intel national Monetary Fund not attending the present discussions will need urgently to reach decisions, in consultation with the International Monetary Fund, with respect to their own exchange rates. It was the view of the Ministers and Governors that it is particularly important at this time that no country seek improper competitive advantage through its exchange rate policies. Changes in panties can only be justified by an objective appraisal which establishes a position of disequilibrium.

5. Questions of trade arrangements were recognized by the Ministers and Governors as a relevant factor in assuring a new and lasting equilibrium in the international economy. Urgent negotiations are now under way between the United States and the Commission of the European Community, Japan, and Canada to resolve pending short-term issues at the earliest possible date, and with the European Community to establish an appropriate agenda for considering more basic issues in a framework of mutual cooperation in the course of 1972 and beyond The United States agreed to propose to Congress a suitable means for devaluing the dollar in terms of gold to $38.00 per ounce as soon as the related set of short-term measures is available for Congressional scrutiny. Upon passage of required legislative authority in this framework, the United States will propose the corresponding new par value of the dollar to the International Monetary Fund

6. In consideration of the agreed immediate realignment of exchange rates, the United States agreed that it will immediately suppress the recently imposed 10 per cent import surcharge and related provisions of the Job Development Credit.

7. The Ministers and Governors agreed that discussions should be promptly undertaken, particularly in the framework of the International Monetary Fund, to consider reform of the international monetary system over the longer term It was agreed that attention should be directed to the appropriate monetary means and division of responsibilities for defending stable exchange rates and for insuring a proper degree of convertibility of the system; to the proper role of gold, of reserve currencies, and of special drawing rights in the operation of the system; to

the appropriate volume of liquidity; to reexamination of the permissible margins of fluctuation around established exchange rates and other means of establishing a suitable degree of flexibility; and to other measures dealing with movements of liquid capital. It is recognized that decisions in each of these areas are closely linked.

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Document B. IMF Executive Board Decision (18 December 1971)

Preamble

This decision is adopted by the Executive Directors in order to indicate practices that members may wish to follow in present circumstances consistently with Article IV, Section 4(a) and Board of Governors Resolution No. 26-9, which called on all members to collaborate with the Fund and with each other in order to maintain a satisfactory structure of exchange rates within appropriate margins. The decision is intended to enable members to observe the purposes of the Fund to the maximum extent possible during the temporary period preceding the resumption of effective par values with appropriate margins in accordance with the Articles.

Paragraph 1. Par Values and Wider Margins

(a) A member will be deemed to be acting in accordance with Article IV, Section 4(a) and Resolution No. 26-9 if it takes appropriate measures, consistent with the Articles, to permit spot exchange transactions between its currency and the currencies of other members taking place within its territories only at rates within 2¼ per cent from the effective parity relationship among currencies as determined by the Fund, provided that these margins may be within 4½ per cent from the said relationship if they result from the maintenance by the member of rates within margins of 2¼ per cent from the said relationship for spot exchange transactions between its currency and its intervention currency.

(b) A member that avails itself of wider margins under (a) above shall notify the Fund. Paragraphs 5 and 6 of this decision shall then apply to the member.

(c) A member's intervention currency means a currency which the member represents to the Fund that it stands ready to buy and sell in order to perform its obligations regarding exchange stability.

Paragraph 2. Central Rates

(a) A member which temporarily does not maintain rates based on a par value for its currency in accordance with Article IV, Section 3 and Decision No. 904-(59/32) but, by means of appropriate measures consistent with the Articles, maintains a stable rate as the basis for exchange transactions in its territories may communicate to the Fund a rate for its currency for the purposes of this decision. This rate or a rate subsequently communicated in accordance with this paragraph shall take effect as the central rate for the purposes of this decision unless the Fund finds it unsatisfactory.

(b) A central rate for a member's currency may be communicated in gold, units of special drawing rights, or another member's currency.

Paragraph 3. Central Rates with Wider Margins

A member that communicates a central rate under paragraph 2(a) and avails itself of the wider margins of paragraph 1(a) on the basis of its central rate shall notify the Fund, and if the Fund has not found the central rate unsatisfactory the member will be deemed to be acting in accordance with Article IV, Section 4(a) and Resolution No. 26-9 if it takes appropriate measures, consistent with the Articles, to permit spot exchange transactions between its currency and the currencies of other members taking place within its territories only at rates within 2¼ per cent from the central rate, provided that these margins may be within 4½ per cent from the central rate if they result from the maintenance by the member of rates within margins of 2¼ per cent from the central rate for spot exchange transactions between its currency and its intervention currency. In addition, paragraphs 5 and 6 shall apply.

Paragraph 4. Central Rates without Wider Margins

If a member that communicates a central rate under paragraph 2(a) does not notify the Fund under paragraph 3 that it avails itself of the wider margins of that paragraph, the member shall take appropriate measures to ensure that the margins on either side of the central rate for exchange transactions between its currency and the currencies of other members taking place within its territories shall be no wider than the equivalent of the margins of Article IV, Section 3 and Decision No. 904-(59/32).

Paragraph 5. Multiple Currency Practices and Discriminatory Currency Arrangements

Notwithstanding paragraphs 1 and 3 above, no member shall permit, except as approved or authorized under Article VIII, Section 3 or Article XIV, Section 2,

(i) a spread between the buying and selling rates for spot exchange transactions between its currency and the currencies of other members in excess of 2 per cent, or

(ii) (1) a difference between buying or between selling rates for spot exchange transactions between its currency and the currency of another member, or

(2) a relationship among the buying rates, or among the selling rates, for the currencies of other members,

that the Fund regards as inconsistent with promotion of exchange stability, the maintenance of orderly exchange arrangements with other members, and the avoidance of competitive exchange alterations.

Paragraph 6. Intervention

Appropriate measures for the purposes of paragraphs 1(a), 2(a), and 3 above shall include intervention by a member's authorities in the exchange markets within the member's territories in order to maintain rates for spot exchange transactions in accordance with this decision. In their intervention in exchange markets members shall refrain from actions incompatible with the purposes of the Fund.

Paragraph 7. Members Maintaining Narrow Margins Against an Intervention Currency

(a) A member will be deemed to be acting in accordance with Article IV, Section 4(a) and Board of Governors Resolution No. 26-9, if (a) the rate for its currency is maintained consistently with the Articles or the member's Membership Resolution, (b) the member permits transactions between its currency and its intervention currency only within margins of 1 per cent of the said rate in terms of the intervention currency, and (c) the intervention currency is the currency of a member which maintains rates within margins consistent with this decision.

(b) Subparagraph (a) shall apply to a member in respect of the separate currency of a territory under Article XX, Section 2(g) for which margins of 1 per cent are maintained for transactions between the separate currency and the metropolitan currency.

Decision No. 3463-(71/126)

December 18, 1971

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Document C. IMF press release on exchange rates (30 December 1971)

Information on Exchange Rates

In connection with the current realignment of exchange rates, member countries have notified the Fund of their action with respect to par values, central rates, and wider margins. The Fund has acted on these notifications as necessary. The tables below summarize the notifications.

As indicated in the tables, many members have decided that they will continue to maintain unchanged the par values of their currencies in terms of gold. Some members have proposed changes in their par values which have been acted upon by the Fund, while considerably more members have communicated central rates for their currencies. The majority of all these members have indicated that they are availing themselves of the wider margins of up to 2¼ per cent, under the provisions of the decision establishing a temporary regime of wider margins and central rates.

In addition to these notifications with respect to the maintenance of par values, establishment of central rates, and use of wider margins, other members have also notified the Fund of their exchange rate practices. These members are not availing themselves of wider margins of up to 2¼ per cent, and the overwhelming majority are maintaining their exchange rates unchanged in terms of their intervention currency. A large group of members, all of whose exchange rates are agreed under their membership resolutions, have maintained their rates fixed in terms of French francs. These include Dahomey, Ivory Coast, Malagasy Republic, Mauritania, Niger, Senegal, Togo, and Upper Volta. Algeria has similarily maintained its exchange rate. Those that had effective par values prior to August 15, 1971 and are maintaining their exchange rates unchanged in terms of U.S dollars include China, El Salvador, Iran, Liberia, Nepal, and Thailand. Many other members have also maintained their exchange rates unchanged in terms of U.S. dollars or have free markets, including Argentina, Brazil, Canada, Chile, Costa Rica, Ecuador, Egypt, Indonesia, Korea, Lebanon, Pakistan, Paraguay, Peru, Philippines, Sudan, Syrian Arab Republic, Viet-Nam, and Yemen Arab Republic. Venezuela made a small appreciation of 2.28 per cent in its rates in terms of U.S. dollars.

Parity rates and central rates are expressed in the tables in terms both of the national currency rate for the U.S. dollar and the U.S. dollar rate for the national currency on the basis of the relative exchange rates of, currencies resulting from the realignment. Central rates have been expressed in U.S. dollar terms even though some members have expressed them in other terms. The percentage change in terms of U.S. dollars refers to the percentage change in the amount of U.S. dollars required to purchase a unit of national currency and is calculated on the basis of the parities in effect on May 1, 1971.

Some members have not yet notified the Fund definitely of the action they intend to take with respect to exchange rates, and it is planned to provide this information at a later date.

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I. PAR VALUES MAINTAINED UNCHANGED

Currency Units per U.S. Dollar
U.S. Dollars per Currency Unit

Australia*
0.822370
1.21600

Barbados
1.84211
0.542857

Cyprus*
0.383772
2.60571

Ethiopia*
2.30263
0.434285

France*
5.11570
0.195477

Gambia, The
1.91886
0.521143

Iraq*
0.328947
3.04000

Ireland*
0.383772
2.60571

Jamaica*
0.767544
1.30286

Kuwait
0.328947
3.04000

Libyan Arab Rep.*
0.328947
3.04000

Malawi
0.767544
1.30286

Malaysia
2.81955
0.354666

Morocco*
4.66098
0.214547

New Zealand*
0.822370
1.21600

Nigeria*
0.328947
3.04000

Rwanda*
92.1053
0.010857

Saudi Arabia
4.14475
0.241269

Sierra Leone
0.767544
1.30286

Singapore*
2.81955
0.354666

Somalia
6.57894
0.152000

Spain*
64.4737
0.0155102

Tunisia*
0.483552
2.06803

United Kingdom*
0.383772
2.60571

United Kingdom: Hong Kong
5.58213
0.179143

* Member is availing itself of the wider margins of up to *2 1/4* per cent.

[1] The change in the rates from May 1971 represents an appreciation of 8.57 per cent in terms of the U.S. dollar.

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II. PAR VALUES CHANGED

	Currency Units per U.S. Dollar	U.S. Dollars per Currency Unit	Percentage Change in Terms of U.S. Dollars
Botswana[2]	0.750000	1.33333	— 4.76
Ghana*	1.81818	0.550000	— 43.88
Kenya*	7.14286	0.140000	0.00
Lesotho[2]	0.750000	1.33333	— 4.76
South Africa	0.750000	1.33333	— 4.76
Swaziland[2]	0.750000	1.33333	— 4.76
Tanzania*	7.14286	0.140000	0.00
Uganda*	7.14286	0.140000	0.00
Yugoslavia*	17.0000	0.0588235	—11.76
Zambia*	0.714286	1.40000	0.00
Netherlands: Surinam*	1.78876	0.559047	+5.43
United Kingdom: Bahama Islands	0.969999	1.03093	+3.09

* Member is availing itself of the wider margins of up to 2 ¼ per cent.
[2] The currency is the South African rand.

III. MEMBERS WHICH HAVE ESTABLISHED CENTRAL RATES

	Central Rate Expressed in Terms of U.S. Dollars	U.S. Dollars per Currency Unit	Percentage Change in Terms of U.S. Dollars
Austria*	23.3000	0.0429185	+11.59 [3]
Belgium*	44.8159	0.0223135	+11.57
Burma*	5.34870	0.186961	—10.97
Denmark*	6.98000	0.143266	+7.45
Dominican Rep.	1.00000	1.00000	0.00
Finland*	4.10000	0.243902	+2.44
Germany*	3.22250	0.310318	+13.58
Greece*	30.0000	0.0333333	0.00
Guyana*	2.00000	0.500000	0.00
Haiti	5.00000	0.200000	0.00
Honduras	2.00000	0.500000	0.00
Iceland	88.0000	0.0113636	0.00
India*	7.27927	0.137376	+3.03
Israel*	4.20000	0.238095	— 16.67 [3]
Italy*	581.500	0.00171969	+7.48
Japan*	308.000	0.00324675	+16.88
Jordan*	0.357143	2.80000	0.00
Luxembourg*	44.8159	0.0223135	+11.57
Malta*	0.374412	2.67086	+11.29
Mexico	12.5000	0.0800000	0.00
Netherlands*	3.24470	0.308195	+11.57
Nicaragua	7.00000	0.142857	0.00
Norway*	6.64539	0.150480	+7.49
Panama	1.00000	1.00000	0.00
Portugal*	27.2500	0.0366972	+5.50
Sweden*	4.81290	0.207775	+7.49
Turkey*	14.0000	0.0714286	+7.14
Zaire*	0.500000	2.00000	0.00
Netherlands: Netherlands Antilles	1.79000	0.558659	+5.35

* Member is availing itself of the wider margins of up to 2¼ per cent.

[3] Includes the changes in par values since May 1, 1971.

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***Source*:** The relevant press releases and IMF Executive Board decision can be found in International Monetary Fund, International Financial News Summary, Vol. XXIII, No. 50 (December 22-30, 1971), pp. 417-421.