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International Monetary Fund (IMF) Gold Auctions: Current Proposal, History, and Congressional Role

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Summary

The International Monetary Fund (IMF) is proposing to sell 5 million ounces of gold, equal to a little less than 5% of its total gold holdings and, at current market prices, worth about \$1.9 billion. Profits from the gold sale would be used to provide debt relief to poor countries. Although the IMF now has sufficient votes to adopt the proposal, the opposition of Germany, Switzerland, and Italy has resulted in an indefinite delay. Gold sales held by the IMF between 1976 and 1980 provided substantial profits -- \$5.7 billion -- which were used to establish the IMF's Trust Fund, which was also used to assist poor countries. Gold sales then, as now, required an 85% voting majority of IMF members. Because legal title to the gold resides with the IMF, IMF gold sales do not have any budgetary implication for the United States, and no appropriation is, therefore, required. Under the Bretton Woods Agreement Act, however, the current proposal to sell 5 million ounces of IMF gold presumably would require congressional authorization.

Background

The IMF is proposing to sell at public auction 5 million ounces of its gold holdings to provide debt relief to poor countries. This would amount to slightly under 5% of the IMF's total gold holdings.¹ The gold was initially paid by member countries into the IMF as one-quarter of their capital subscriptions. On its balance sheet, the IMF values nearly all of its gold at the former official price of SDR 35 per ounce, currently about \$50.48.

¹ As April 30, 1996, the IMF held 103,439,916 ounces of gold. IMF. Financial Statements, April 1996, p. 11.

With the market price of gold at \$379.70 per ounce, sales to the world gold market would yield substantial profits.²

The proposal is part of a joint IMF/World Bank proposal intended to provide debt relief to sub-Saharan Africa and other poor countries. Specifically, the funds would be used to provide loans or grants to pay back loans provided by the IMF itself. In this manner, debt relief would be provided, but the principle of non-forgiveness of IMF loans would, purportedly, be maintained.

Under Article V, Sec. 12 of the IMF's Articles of Agreement, approval of gold sales by the IMF requires an 85% voting majority. Although the IMF now has enough votes to force approval, the proposal is delayed indefinitely.³ Germany, Switzerland, and Italy are reportedly opposed to the plan.

This report deals only with the public auctions of IMF gold that occurred only during the period 1976-1980. It does not examine past IMF gold sales to its members for the purpose of currency replenishment under the scarce currency provisions of Art. VII, Sec. 2 (ii) of the original Articles of Agreement.

IMF Gold Auctions: a Brief History

In the wake of the international monetary turmoil of the late 1960s and early 1970s, the Interim Committee of the IMF⁴ agreed in August 1975 on a revised role in the international monetary system for gold. The IMF gold agreements were underpinned by a separate G-10 agreement on February 1, 1976, not to peg the price of gold or increase their holdings of gold. The gold agreements were incorporated in the Second Amendment of the IMF's Articles of Agreement, which became effective on April 1, 1978.⁵ They were among the revised Articles' most controversial features.

In general, it was agreed that gold should be removed from its central role in the international monetary system. The official price of gold was abolished. Gold ceased to be the international monetary system's numeraire, that is, par values for exchange rates

² As of September 27, 1996, the SDR was valued at \$1.4424. The COMEX closing price for gold was \$379.70 per troy ounce. Wall Street Journal, September 30, 1996, p. C1 and C24. Of the IMF's total gold holdings only 21,396 ounces was acquired at market price.

³ Wilke, John R. G-7 Sets Debt Relief for Poorer Nations And \$55 Billion Fund to Head Off Crises. Wall Street Journal, September 30, 1996, A9B.

⁴ The Interim Committee of the Board of Governors of the IMF was established at the IMF's Annual Meeting, on October 3, 1974. Membership of the Interim Committee corresponds to the membership of the Executive Board of the IMF. Each member that appoints an Executive Director and each of the groups of members that elects an Executive Director appoints one member of the Interim Committee and no more than seven associates. The purpose of the Interim Committee is to 1) supervise the management and adaptation of the international monetary system; 2) consider proposals by the Executive Board to amend the Articles of Agreement; and 3) deal with sudden disturbances that pose a threat to the international monetary system.

⁵ The gold agreements are contained in Article V, Sec. 11 and 12, Article VIII, Section 7; Schedule B, para. 2, 3, and 7; Schedule C, para. 1; and Schedule K, para. 1 and 2.

were no longer set in terms of gold. IMF accounts were no longer denominated in gold. IMF members were no longer required to use gold in their transactions with the Fund. In short, gold was demonetized.

The United States was the primary advocate of the demonetization of gold. The gold agreements embodied in the Second Amendment were, therefore, largely identical with U.S. policy at the time.

In the run-up to the Second Amendment of the IMF's Articles of Agreement, the Interim Committee of the IMF reached understandings that 50 million ounces or one-third of IMF's gold would be sold beginning sometime prior to the effective date of the Second Amendment.⁶ Specifically, the IMF was given authority to undertake the public auction of 25 million ounces of gold for the benefit of developing countries that were IMF members on August 31, 1975, plus Papua New Guinea, which was in the process of becoming an IMF member. This amounted to one-sixth of the IMF's gold holdings at the time. A further 25 million ounces were "restituted" or distributed to all countries that were IMF members as of August 31, 1975 at the official price of SDR 35 per ounce. In the event that the IMF did not complete disposition of the total 50 million ounces prior to the effective date of the Second Amendment, as, indeed, it did not, Schedule B, para. 7 of the revised Articles of Agreement provided for completion of the process.

The profits from the gold auctions were placed in a trust fund to be used for balance of payments loans to developing countries on concessionary terms. In addition, a share of the profits proportional to the size of a country's quota on August 31 was also transferred directly to each developing country. After the effective date of the Second Amendment on April 1, 1978, developing countries were permitted to take their share of the profits from gold sales in gold instead of currencies by submitting a noncompetitive bid in the gold auctions.

The IMF held a total of 45 auctions over 4 years.⁷ The exact terms of sale, including pricing method, place of delivery, minimum acceptable amount to be bid, and period allowable for payment, changed over the course of the 4-year auction program.

The IMF's first gold auction was held on June 2, 1976; the last, on May 7, 1980. Initially, 780,000 ounces of gold were offered for sale at 6-9 week intervals. Beginning in March 1977, sales were set for the first Wednesday of each month, and the volume on offer was reduced to 525,000 ounces (16.3 tons). In June 1978, the amount for sale at each auction was reduced to 470,000 ounces (14.6 tons); in June 1979, to 440,000 ounces (13.8 tons).

Bidders were major private gold market dealers, and the IMF's auctions became a regular feature of the gold market. The amount of gold bid at each auction exceeded the amount offered.

⁶ The understandings are stated in paragraph 6 (3) of the Press Communiqué issued by the Interim Committee on August 31, 1975 and paragraph 4 of the Communiqué of June 12, 1975.

⁷ Details of the IMF's gold auctions are shown in table 1 on page 6.

Prices were established by two methods: 1) the common or "Dutch price" method in which all bidders pay the same (common) price, that is, the highest price at which the seller can sell all gold on offer, and 2) the bid price method, in which the bidder pays the price that he actually bid for the gold. After March 1978, IMF gold auctions used the bid price method exclusively.

Prices tracked market prices, "sometimes somewhat above, sometimes somewhat below, the average fixing price of gold in London on the day of the auction."⁸ In the environment of worldwide inflation that characterized the late 1970s, gold prices were rising. Thus, the highest average price obtained in any IMF auction was \$712.12 per ounce, occurring in February 1980; the official price of SDR 35 was equivalent to \$46.07 on the date of the auction. The lowest average price, \$109.40 per ounce, occurred in September 1976, when the official price was equivalent to \$40.42. Any return from the market sale of the IMF's gold in excess of the official price for its gold holdings of SDR 35 per ounce comprised profit.

Over the 4-year period, the IMF sold a total of 23,517.5 thousand ounces (731.6 tons) of gold on competitive bids and 1,480.3 thousand ounces (46.0 tons) on noncompetitive bids. Total proceeds amounted to \$5.7 billion, of which \$1.1 billion represented the capital value equivalent of SDR 35 per ounce and \$4.6 billion represented profits contributed to the Trust Fund. Of the later amount, \$1.3 billion was awarded directly to 104 developing countries that were members of the IMF on August 31, 1975.

The Trust Fund in Brief

The profits from the IMF's gold auctions of the late 1970s were deposited in a separate Trust Fund which was used for the benefit of the IMF's poorer members. In addition, voluntary contributions and loans from other members plus income from investments and repayments of past loans made up the balance of Trust Fund resources. Seven members of OPEC (The Organization of Petroleum Exporting Countries) -- Iraq, Kuwait, Libya, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela -- made irrevocable transfers of their share of the profits from the gold sales to the Trust Fund. Yugoslavia transferred one-third of its share of gold sale profits; Romania made a loan to the Trust Fund equal to 10% of its share of gold sale profits. The total value of these transfers amounted to \$125 million. The Trust Fund was established on May 5, 1976.

Loans from the Trust Fund were disbursed in two periods: the first period extended from July 1, 1976 to June 30, 1978; the second, from July 1, 1978 to February 28, 1981. During the first period, SDR 841 million (over \$1 billion) in loans were extended to 43 countries; during the second, SDR 2,150 million to 53 countries. The final loan disbursement occurred on March 31, 1981.

Eligibility was based on per capita income. During the first period, the 61 countries that were eligible for Trust Fund loans had to have a per capita income of SDR 300 or less in 1973 (about \$350). During the second period, a total of 61 countries were also eligible, but it was not the same 61 countries. A per capita income of \$520 or less in 1975 was the

⁸ IMF. Annual Report, 1978, p. 70.

income criterion for eligibility during the second period. Borrowers also had to have a 12-month economic program in connection with an IMF standby or extended arrangement.

Trust Fund loans were based on balance-of-payments need, that is, they financed current account deficits that were at unsustainable levels. This reduced the extent of macroeconomic adjustment that otherwise might have been required to correct the current account deficit and allowed for a somewhat higher level of imports. The loans carried an interest rate of 0.5% per annum. Repayment was made in 10 equal, semiannual installments that started not later than the end of the first six months of the sixth year after the loan was extended. Repayment was to be completed at the end of 10 years. Repayments on Trust Fund loans have been used to provide resources to the Supplementary Financing Facility Subsidy Account (established December 1980), the Structural Adjustment Facility (SAF, established March 1986), and, indirectly, the Enhanced Structural Adjustment Facility (ESAF, established December 1987) -- all concessional loan facilities.

Congressional Role

Should the concurrent proposal to auction IMF gold be approved by the IMF's Board of Governors, congressional authorization presumably would be required under the Bretton Woods Agreement Act, as amended. It states:

Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States ... approve either the disposition of more than 25 million ounces of Fund gold for the benefit of the Trust Fund established by the Fund on May 6, 1976, or the establishment of any additional trust fund whereby resources of the International Monetary Fund would be used for the special benefit of a single member, or of a particular segment of the membership, of the fund.⁹

The gold auctions that occurred in the late 1970s were authorized as part of U.S. acceptance of the Second Amendment to the IMF's Articles Agreement. This acceptance was contained in P.L. 94-564,¹⁰ signed by President Gerald Ford on October 19, 1976. The IMF gold auctions that were authorized in 1976, however, had no budgetary implications for the United States. The gold was and is legally an asset of the IMF.¹¹ Thus, a similar action today would also not have any budgetary implications.

⁹ P.L. 95-147 (91 Stat 1227), signed October 28, 1977; 22 U.S. Code 286 (c).

¹⁰ 90 Stat 2660.

¹¹ U.S. Congress. Joint Economic Committee. Subcommittee on International Economics. The Proposed IMF Agreement on Gold. Report, December 17, 1975. 94th Congress, 1st session. U.S. Govt. Print. Off. [Washington] 1975, p. 6.

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TABLE 1. IMF Gold Auctions: Summary Statistics, June 2, 1976 - May 7, 1980

Date	Ounces Bid (thousands)	Ounces Awarded (thousands)	Sub- scription Ratio	Ounces Awarded to Noncom- petitive Bidders	COMPETITIVE BIDS				No. of Non- competitive Bids	Price Range of success- ful Bids (U.S. \$ per fine ounce)	Average Award Price	Profit (In millions of U.S. dollars)
					Number of Bidders		Number of Bids					
					Total	Success- ful	Total	Success- ful				
1976												
June 2	2,320.0	780.0	2.97	--	30	20	220	59	--	126.00-134.00	126.00	67.10
June 14	2,114.0	780.0	2.71	--	23	17	196	56	--	122.05-126.50	122.05	64.00
Sept. 15	3,662.4	780.0	4.70	--	23	14	380	41	--	108.76-114.00	109.40	53.82
Oct. 27	4,214.4	779.6	5.40	--	24	16	383	37	--	116.77-119.05	117.71	60.25
Dec. 8	4,307.2	780.0	5.52	--	25	13	265	33	--	137.00-150.00	137.00	75.35
1977												
Jan. 26	2,003.2	780.0	2.57	--	21	15	192	49	--	133.26-142.00	133.26	72.50
Mar. 2	1,632.8	524.8	3.11	--	21	7	187	14	--	145.55-148.00	146.51	55.60
Apr. 6	1,278.0	524.8	2.43	--	18	11	136	22	--	148.55-151.00	149.18	57.02
May 4	1,316.4	524.8	2.51	--	17	14	107	38	--	147.33-150.26	148.02	56.37
June 1	1,014.0	524.8	1.93	--	14	13	75	35	--	143.32-150.00	143.32	53.87
July 6	1,358.4	524.8	2.59	--	15	15	83	35	--	140.26-145.00	140.26	52.16
Aug. 3	1,439.2	524.8	2.74	--	18	16	136	44	--	146.26-150.00	146.26	55.31
Sept. 7	1,084.4	524.8	2.07	--	15	11	115	21	--	147.61-149.65	147.78	56.24
Oct. 5	971.2	524.8	1.85	--	17	12	103	32	--	154.99-157.05	155.14	59.97
Nov. 2	1,356.4	524.8	2.58	--	18	7	90	21	--	161.76-163.27	161.86	63.29
Dec. 7	1,133.6	524.8	2.16	--	19	19	108	58	--	160.03-165.00	160.03	62.13
1978												
Jan. 4	984.8	524.8	1.88	--	19	19	103	64	--	171.26-180.00	171.26	67.68
Feb. 1	598.4	524.8	1.14	--	17	17	76	62	--	175.00-181.25	175.00	69.65
Mar. 1	1,418.0	524.8	2.70	--	19	16	127	76	--	181.13-185.76	181.95	72.92
Apr. 5	1,367.6	524.8	2.60	--	21	15	122	30	--	177.61-180.26	177.92	70.78
May 3	3,104.0	524.8	5.91	--	24	17	192	36	--	170.11-171.50	170.40	66.83
June 7	1,072.4	470.0	2.28	925.2	21	15	137	28	5	182.86-183.92	183.09	195.64
July 5	797.2	470.0	1.70	20.8	22	19	101	44	2	183.97-185.01	184.14	68.96
Aug. 2	1,467.6	470.0	3.12	70.0	21	20	117	42	2	203.03-205.11	203.28	85.84
Sept. 6	773.2	470.0	1.65	133.6	20	10	89	25	2	212.39-213.51	212.50	101.42
Oct. 4	805.6	470.0	1.71	134.4	18	12	76	25	1	223.57-224.62	223.68	107.74
Nov. 1	689.6	470.0	1.47	80.0	14	7	50	24	1	223.03-230.00	224.02	98.37
Dec. 6	1,965.2	470.0	4.18	20.0	16	13	102	31	1	195.51-196.75	196.06	74.23
1979												
Jan. 3	1,479.6	470.0	3.15	16.4	17	9	159	23	1	219.13-221.00	219.34	84.73
Feb. 7	1,489.6	470.0	3.17	59.2	19	5	123	11	1	252.47-252.77	252.53	109.60
Mar. 7	1,534.4	470.0	3.26	--	18	17	127	50	--	241.28-243.26	241.68	92.62
Apr. 4	1,186.8	470.0	2.53	--	17	14	107	44	--	238.71-240.27	239.21	91.37
May 2	1,514.4	470.0	3.22	20.0	20	17	155	56	1	245.86-247.01	246.18	98.79
June 6	1,452.4	444.0	3.27	--	19	5	109	19	--	280.22-281.37	280.39	104.73
July 3	1,518.8	444.0	3.42	--	20	13	113	23	--	281.06-281.87	281.52	104.84
Aug. 1	1,138.8	444.0	2.56	--	20	16	133	63	--	288.95-291.07	289.59	107.84
Sept. 5	1,646.0	444.0	3.71	--	21	4	81	6	--	332.01-333.50	333.24	127.73
Oct. 10	665.6	444.0	1.50	--	16	9	52	15	--	412.51-420.80	412.78	163.20
Nov. 7	1,798.4	444.0	4.05	--	16	13	189	53	--	391.77-398.01	393.55	154.26
Dec. 5	1,746.0	444.0	3.93	--	18	15	97	38	--	425.40-429.31	426.37	169.27
1980												
Jan. 2	1,342.4	444.0	3.02	--	10	5	52	10	--	561.00-564.01	562.85	229.17
Feb. 6	1,939.6	444.0	4.37	--	17	5	80	8	--	711.99-718.01	712.12	295.24
Mar. 5	1,412.4	444.0	3.18	--	16	14	84	54	--	636.16-649.07	641.23	263.52
Apr. 2	802.8	444.0	1.81	--	16	16	69	66	--	460.00-503.51	484.01	194.97
May 7	1,822.0	443.2	4.10	--	21	21	225	67	--	500.20-511.15	504.90	203.51
Total ^b		23,517.5		1,480.3								4,640.44

^aThe ratio of total bids to the amount on auction.

^bOunces awarded do not add up exactly to the total representing the amount sold owing to variations in the weight of standard gold bars.

Source: IMF, Annual Report, 1980, p. 86.

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