

# PRESENTATION ON CHINA'S CURRENCY AND IMF ISSUES

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**Andrew Mitchell**  
*Associate Professor,  
Melbourne Law School*

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**Jennifer Hawkins**  
*Editorial Assistant,  
Journal of International Economic Law*

*The views expressed herein are those of the author and should not be attributed to the  
IMF, its Executive Board, its management, or the IMF Legal Department*

# IMF Articles of Agreement

## **ARTICLE IV:**

# **Obligations Regarding Exchange Arrangements**

# Article IV, Section 2: General exchange arrangements

- '(a) Each member shall notify the Fund, within thirty days after the date of the second amendment of this Agreement, of the exchange arrangements it intends to apply in fulfillment of its obligations under Section 1 of this Article, and shall notify the Fund promptly of any changes in its exchange arrangements.
  
- (b) Under an international monetary system of the kind prevailing on January 1, 1976, exchange arrangements may include (i) the maintenance by a member of a value for its currency in terms of the special drawing right or another denominator, other than gold, selected by the member, or (ii) cooperative arrangements by which members maintain the value of their currencies in relation to the value of the currency or currencies of other members, or (iii) other exchange arrangements of a member's choice
  
- (c) To accord with the development of the international monetary system, the Fund, by an eighty-five percent majority of the total voting power, may make provision for general exchange arrangements without limiting the right of members to have exchange arrangements of their choice consistent with the purposes of the Fund and the obligations under Section 1 of this Article.'

**(Members' considerable freedom to choose)**

# IMF Article IV, Section 1

## **Preamble – Tool for Interpretation:**

‘Recognizing that the essential purpose of the international monetary system is to provide a framework that facilitates the exchange of goods, services, and capital among countries, and that sustains sound economic growth, and that a principal objective is the continuing development of the orderly underlying conditions that are necessary for financial and economic stability...’

# Article IV, Section 1

## **Members' General Obligation to Collaborate:**

'[E]ach member undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates'

# Article IV, Section 1 (i)

## **Direction of Economic and Financial Policies – First Domestic Obligation:**

‘[E]ach member undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates. In particular, each member shall... endeavor to direct its economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability, with due regard to its circumstances’

# Article IV, Section 1 (ii)

## **Promote Stability – Second Domestic Obligation:**

‘[E]ach member undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates. In particular, each member shall... seek to promote stability by fostering orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions’

# Article IV, Section 1 (iii)

## **Avoid Manipulation – First External Policy Obligation:**

‘[E]ach member undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates. In particular, each member shall... 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’

# Article IV, Section 1 (iv)

## **Exchange Policies Compatible with Undertakings in Article IV, Section 1 – Second External Policy Obligation:**

‘[E]ach member undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates. In particular, each member shall... follow exchange policies compatible with the undertakings under this Section’

## Article VI, Section 3: Controls of capital transfers

‘Members may exercise such controls as are necessary to regulate international capital movements, but no member may exercise these controls in a manner which will restrict payments for current transactions or which will unduly delay transfers of funds in settlement of commitments, except as provided in Article VII, Section 3(*b*) and in Article XIV, Section 2’

# Article IV, Section 3:

## Surveillance over exchange arrangements

### **Section 3 (a) – Two Fund Obligations:**

‘The Fund shall oversee the international monetary system in order to ensure its effective operation, and shall oversee the compliance of each member with its obligations under Section 1 of this Article.’

# Article IV, Section 3: Surveillance over exchange arrangements

## **Section 3 (b) – Elaboration on Fund Obligations:**

‘In order to fulfill its functions under (a) above, the Fund shall exercise firm surveillance over the exchange rate policies of members, and shall adopt specific principles for the guidance of all members with respect to those policies. Each member shall provide the Fund with the information necessary for such surveillance, and, when requested by the Fund, shall consult with it on the member's exchange rate policies. The principles adopted by the Fund shall be consistent with cooperative arrangements by which members maintain the value of their currencies in relation to the value of the currency or currencies of other members, as well as with other exchange arrangements of a member's choice consistent with the purposes of the Fund and Section 1 of this Article. These principles shall respect the domestic social and political policies of members, and in applying these principles the Fund shall pay due regard to the circumstances of members.’

## Article XXIX: Interpretation

‘(a) Any question of interpretation of the provisions of this Agreement arising between any member and the Fund or between any members of the Fund shall be submitted to the Executive Board for its decision. If the question particularly affects any member not entitled to appoint an Executive Director, it shall be entitled to representation in accordance with Article XII, Section 3(j).’

## Article XII, Section 8: Communication of views to members

‘The Fund shall at all times have the right to communicate its views informally to any member on any matter arising under this Agreement. The Fund may, by a seventy percent majority of the total voting power, decide to publish a report made to a member regarding its monetary or economic conditions and developments which directly tend to produce a serious disequilibrium in the international balance of payments of members. If the member is not entitled to appoint an Executive Director, it shall be entitled to representation in accordance with Section 3(j) of this Article. The Fund shall not publish a report involving changes in the fundamental structure of the economic organization of members.’