

GENERAL AGREEMENT ON TARIFFS AND TRADE

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REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION WITH

P A K I S T A N

Addendum

The following communication from the International Monetary Fund, dated 10 August 1962, contains the Executive Board decision taken at the conclusion of the Fund's consultation with Pakistan under Article XIV of the Fund Agreement which was referred to in paragraph 2 of the report on the last consultation with Pakistan (L/1787). This decision should be deemed to constitute an annex to that report.

During the CONTRACTING PARTIES' consultation with Pakistan under Article XVIII:12(b) of the General Agreement which was conducted in May 1962, the representative of the Fund stated that the Fund was at that time conducting a consultation with Pakistan under Article XIV of the Fund Agreement and expected to transmit to the CONTRACTING PARTIES the Executive Board decision relating to that consultation when it became available. For the information of the CONTRACTING PARTIES, the Executive Board decision taken at the conclusion of the Fund's consultation with Pakistan on August 3, 1962, is as follows:

1. The Government of Pakistan has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.
2. In the middle of 1960, Pakistan initiated the execution of its Second Five-Year Development Plan, subsequently revised to advance its targets and to combine it with several other development projects. The Second Plan shifted internal economic policy from direct to indirect controls, began to liberalize imports, and thus placed greater emphasis on monetary and fiscal policies as instruments of promoting economic development. During fiscal year 1960/61, real income rose by 6 per cent. Prices remained practically stable though price controls were progressively dismantled. A strong favorable turn of the terms of trade, rising imports, and a more than 12 per cent increase in industrial production contributed to the achievement of these results. Economic activity was stimulated by increased imports of raw materials, fuel, and spare parts, and by a

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widespread return to more normal market conditions. The receipt of considerably larger external assistance obtained under the Second Plan, together with a rise in tax revenue, was mainly responsible for a notable improvement in the Government's fiscal position.

3. The removal of domestic direct controls, the transfer from government to private management of certain domestic and foreign trade activities, and the liberalizing of imports increased the private demand for bank credit. The banks, supported by the State Bank, acceded to this demand, and bank credit expanded during 1960/61 at a rate close to twice that of 1959/60. This pace of expansion continued through May 1962. While the increase in bank credit to the government sector was considerably smaller than in 1960/61, the expansion of bank credit to the private sector accelerated rapidly. In 1960/61, growing private time and savings deposits, an accumulation of government deposits, and a balance of payments deficit provided contractionary counterforces, but in the first 11 months of 1961/62 a substantial drawdown of counterpart fund deposits added to the credit expansion. Thus, while the increase in money supply was negligible in 1960/61, it became more substantial in the first 11 months of 1961/62. The authorities are keeping a close watch on the credit situation and intend to take action if they deem it necessary to curb credit expansion. The Fund welcomes the increased emphasis on indirect controls through monetary and fiscal policies and notes the high degree of price stability achieved during 1960/61. The Fund emphasizes the need of a cautious credit policy to maintain a favorable environment for further economic development and the strengthening of the balance of payments.

4. As the current account deficit rose, the balance of payments turned deficitary in 1960/61, even though foreign aid increased; exchange reserves declined through October 1961, but since then have registered a small seasonal increase. Pakistan has maintained its policy of de facto import liberalization. The system of trade and payments controls, however, remains complex, and current payments in respect of certain imports and invisibles continue to be severely restricted. Pakistan also continued to rely on multiple currency practices. A change in the Export Bonus Scheme gave rise to two additional effective exchange rates, and the considerable fluctuations in the price of bonus vouchers produced sharp changes in effective rates of exchange. The Fund does not object to Pakistan's existing multiple currency practices on a temporary basis, but it urges that early steps be taken to simplify the exchange system and reunify the exchange rate. The Fund also thinks that Pakistan should reconsider the need for a bilateral payment agreement.

5. In concluding the 1961 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Pakistan.