

GENERAL AGREEMENT ON TARIFFS AND TRADE

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WORKING PARTY 5 ON BALANCE-OF-PAYMENTS IMPORT RESTRICTIONS

Statement by the Netherlands Representative at the meeting held on 17 October 1952 at 10.30 a.m.

"In the first place it is a pleasure for the Netherlands delegation to pay its compliment to the International Monetary Fund for the excellent report it presented on the Netherlands consultations.

"It might be useful to the members of the Working Party to recall briefly our financial and economic position as it developed during recent years. As has been laid down in the documentation of the International Monetary Fund during 1949 the country seemed to come close to equilibrium, both internal and external. The deficit in the balance-of-payments on goods and services dropped from 1,136 million guilders in 1948 to 222 million guilders in 1949.

"Under the stimulus of external factors inflationary pressures were activated again in 1950 to mid-1951.

"Persistent buying waves started under the inducement both of trade liberalisation (first half of 1950) and of the post-Korean boom in world prices (second half of 1950 through the first quarter of 1951).

"Both the building up of stocks of raw materials and consumption goods and increased consumption of foreign goods played a major role.

"Total imports (c.i.f.) rose from 5.4 billion guilders in 1949 to 7.9 billion in 1950 and to an annual rate of 10.4 billion in January - June 1951.

"These inflationary pressures caused a deficit on goods and services account of 1 billion guilders in 1950.

"In the spring of 1951 the Netherlands balance-of-payments position was rapidly deteriorating. The average monthly deficit in EPU had reached the figure of 30 million dollars. In August 1951 the Netherlands had nearly exhausted the fourth tranche in the EPU. The Foreign Exchange position of the Netherlands Bank diminished seriously.

"In order to restore equilibrium a series of internal measures was taken in March 1951:

- (1) A cut in the purchasing power of the population, accomplished by a rise in the cost of living of 10 per cent, partially compensated by a wage increase of 5 per cent.

- (2) A reduction of investments.
- (3) Food subsidies were reduced from f.450 million to f.175 million.
- (4) Taxes were increased by f. 250 million.
- (5) Budgetary expenditure in the civilian sector was reduced by f. 150 million.
- (6) Cash deposits of 25 per cent upon the conclusion of a forward foreign exchange purchase was made obligatory. Pre-payment of imports was prohibited.
- (7) Interest rates were raised and the building activity reduced.

"The only measure in the field of physical controls was the reduction of the percentage of liberalisation of imports from OEEC countries from 65 per cent to 60 per cent. Further an agreement was reached with the Belgians that until the end of the year exports to the Netherlands of certain commodities would be subject to restrictions.

"Deliberately the Netherlands Government chose to counter the crisis by a deflationary programme, not accompanied by any remarkable stiffening of physical controls, even when a very serious external position was developing.

"The result of these measures was a notable improvement in the foreign exchange position since August 1951, namely from f.1027 million guilders in June 1951 to 239 million guilders in July 1952.

"The deficit on goods (f.o.b. basis) and services came down from 1,066 million guilders in 1950 to 113 million guilders in 1951.

"The improvement of the balance-of-payments position made it possible to abolish a number of measures taken before. These measures implied, among others,

- (a) The advance deposit requirement for forward purchases was abolished.
- (b) The liberalisation of OEEC imports was raised to 75 per cent.

"It should however be clearly understood that the improvement in the balance-of-payments position is due to several internal and external factors and that it is improbable that in the long run the Netherlands would continue to have large surpluses in the EPU.

"The recent improvement in the Netherlands balance-of-payments was particularly caused by a decrease of imports on the one hand and an increase of exports on the other hand.

"The drastic decrease of imports was to a large extent the result from the drain on stocks by trade and industry.

"When stocks will have to be replenished the balance-of-payments will be affected immediately. In the event of serious political tensions this replenishment might be intensified, which implies a deterioration in the terms of trade.

"The restrictions on imports in the United Kingdom, France and several other countries may be expected to reduce exports to those countries in a considerable way.

"Public finances in the near future and particularly in 1953 will be in a much less favourable position than of late.

"The reasons therefore are the commitments of the Netherlands to a military programme of 6 billion guilders, divided over four years. It is expected that in 1953 the expenditure will be f. 1,800 million which signifies also a considerable increase in imports.

"Large amounts have recently been obtained through the collection of backlogs. The arrears still outstanding are no longer of a size to have any important beneficial effect on the future Government receipts.

"Owing to the rather unfavourable trend of employment resulting, inter alia, from difficulties in switching over from civil to military production, several measures have been introduced to relax some of the restrictions imposed on expenditure in 1951, implying an additional charge on the Government budget of some 300 million guilders.

"There remains also the structural deficit vis-à-vis the dollar area, which can not be compensated with the surplus in EPU and other areas.

"Dollar imports have to be restricted to goods of an essential nature, which are vital to the Netherlands economy and cannot be procured from soft currencies at comparable prices.

"The estimated dollar programme for 1952/53 nevertheless leaves an uncovered balance of 125 million dollars, to which deficit should be added the amount of 40 million dollars on account of contractual amortization.

"Everything has been done to promote exports to the dollar area. Still a deficit remains of a serious nature.

"Further on it should be borne in mind that the Netherlands foreign exchange reserves are relatively small and that their composition is deteriorating.

"At the end of 1951, gold and dollar holdings were sufficient to cover only 2.2 months of total average imports as compared to 17.7 months in 1938.

"It may be stressed that the Netherlands are more than many other countries dependent on external factors as more than half of the national income is derived from exports.

"Summarizing, it could be said that the following factors may have an unfavourable effect on the Netherlands balance-of-payments.

Internal factors

- (a) Uncertainty about the continuing effect of disinflationary measures;
- (b) the necessity of replenishing stocks,
- (c) increased cash expenditure in the military field.

External factors

- (a) Dollar deficit problem of inconvertibility,
- (b) Insufficient gold and dollar reserves,
- (c) Factors of international political tension.

"I should like to conclude by declaring that in our opinion the Netherlands have done what reasonably could be done by applying restrictions in such a way as to avoid unnecessary damage to the commercial or economic interest of any other contracting party.

"The uncertain future makes it necessary to maintain a cautious attitude.

"It may be stated still that as for non-liberalised imports from the OEEC countries and imports from many countries outside the OEEC, for which the Netherlands have concluded bilateral trade agreements on the basis of a system of import quotas, for many products the quotas are so ample as to provide for unlimited importation".