

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## 1958 CONSULTATIONS UNDER ARTICLE XIV:1(g)

### Results of International Monetary Fund consultations

As a part of the consultations between the CONTRACTING PARTIES and the International Monetary Fund pursuant to Article XV in connexion with the consultations to be held at the Thirteenth Session under Article XIV:1(g) with contracting parties invoking Article XIV:1(c) or Annex J, the Fund has transmitted the results of its latest consultations with Australia, Ceylon and the United Kingdom, which are reproduced below.

Other material supplied by the Fund for the Article XIV:1(g) consultations will be circulated during the Session in the usual manner.

#### I. Results of the IMF consultation with AUSTRALIA, concluded on 10 September 1958

1. The Government of Australia has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.
2. During 1957/58 farm output was lower as a result of drought conditions, but industrial production expanded. Despite the considerable drop in export income of primary producers, expenditure on consumption and fixed capital investment increased and it is estimated that gross national product was slightly higher than in 1956/57. The employment situation was easier and the larger supplies coming to the market from the increased domestic output and imports contributed to the improvement in the state of balance of the economy; costs and prices were more stable than in most post-war years.
3. The budget for the year ended 30 June 1958, although including certain tax concessions, yielded a surplus of current revenues over current expenditures. The capital works and housing programs of the States and local authorities were increased; capital expenditures, including those of the Commonwealth Government, were financed out of revenue and long-term borrowing and there was some net redemption of Treasury bills over the year. Toward the end of 1957 the restrictive credit policy was relaxed and bank credit to the private sector increased by about 8 per cent over the year 1957/58. The budget for the year ending 30 June 1959 provides for a smaller surplus of current revenue over current expenditures than in the previous fiscal year, and it is expected that some recourse to central bank financing will be necessary to cover an over-all cash deficit. The Australian authorities state they are doing this advisedly in order to support domestic spending and so help to offset the effects of continued low export earnings.

4. In the course of 1957/58 there was a considerable decline in export prices of wool and of certain other primary products. The resulting fall in export receipts, combined with a 10 per cent increase in imports to £A 791 million following the relaxation measures taken early in 1957 and again in August, brought the current account into deficit; despite a continuing inflow of capital, international reserves declined over the year by more than £A 40 million to £A 525 million on 30 June 1958. The government intends, if possible, to maintain imports in 1958/59 at roughly the same level as in the previous year and is prepared to draw further on its foreign exchange reserves to support this policy.

5. The Fund welcomes the measures that have been taken to relax restrictions and to decrease discrimination and notes the intention of the Australian authorities to avoid intensifying restrictions despite a prospective further decline in export receipts and reserves. It believes that in order that restrictions and discrimination may be further reduced and ultimately eliminated, economic policies should aim at keeping a proper balance between over-all demand and available resources.

6. In concluding the 1958 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Australia.

## II. Results of the IMF consultation with CEYLON, concluded on 14 April 1958

1. The Government of Ceylon has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. With the decline in export earnings and the fall in the output of rice, Ceylon's national product declined in 1956 as compared with 1955. There was no perceptible improvement in 1957.

3. Ceylon has been following sound fiscal and monetary policies and the record has been one of stability. After two years of surpluses, cash operating deficits emerged in fiscal operations in 1956-57 and have continued in 1957-58. Although there was some rise in prices in 1957 internal financial stability was generally maintained.

4. In 1956, Ceylon had a much smaller balance-of-payments surplus than in 1954 and 1955. In 1957, there was a deficit and foreign exchange reserves declined. This was mainly due to higher imports and a fall in export prices of tea and rubber, together with a slight decline in the volume of exports.

5. Since the middle of 1956, Ceylon has followed a policy of relaxing restrictions and reducing discrimination and has made considerable progress in this respect. In 1957, when there was a balance-of-payments deficit, this policy was substantially adhered to. The Fund welcomes this progress and hopes that Ceylon will relax restrictions further, including those on invisibles imposed in 1957, as the payments position improves.

6. In concluding the 1957 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Ceylon.

III. Results of the IMF consultation with  
the UNITED KINGDOM, concluded on 7 March 1958

1. The Government of the United Kingdom has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. A moderate but persistent rise in wage costs and prices in the first half of 1957 indicated the continued existence of inflationary forces in the United Kingdom economy, and there were some signs of falling confidence in the value of money at home. In September the authorities intensified their efforts to control the money supply and to eliminate inflation through the use of further fiscal and monetary restraints: the Bank Rate was raised by 2 per cent to 7 per cent, steps were taken to limit current government expenditure, the money value of total public investment was to be limited in each of the years 1958/59 and 1959/60 to approximately the amount spent in 1957/58, and tighter control was imposed on bank credit to the private sector.

3. In spite of a reduction in the surplus from invisible transactions following the Suez crisis, the current account of the balance of payments produced a surplus of about £200 million in the year ended 30 June 1957. The net outflow of long-term capital amounted to about £300 million in the same period, partly as a result of increased purchases of non-sterling securities through sterling area free markets. These security transactions have now been brought under stricter control. Sterling liabilities rose by roughly £130 million in this period, while the gold and dollar reserves were at about the same level in June 1957 as they were a year earlier. The Fund drawing in December 1956 had the effect of increasing both sterling liabilities and reserves by just over £200 million.

4. During the following months the reserves declined under severe speculative pressure, this decline being accompanied by some fall in sterling holdings; this pressure was halted after the announcement of the new measures referred to above and the assurance given at the Fund's Annual Meeting that the rate for sterling would be maintained. Since October 1957 the reserves have been rising and sterling has shown considerable strength in the exchange markets. The current trading position remains good, though the rate of growth of exports has slowed down.

5. The Government of the United Kingdom has, in its economic policy, increased the emphasis placed on the attainment of price stability, and aims at creating with its present policies an economic climate in which excessive increases in money incomes can be avoided. The Fund welcomes these policies as a means of strengthening the payments position and as reflecting the United Kingdom's determination to preserve the value of sterling. It is desirable that in the pursuit of monetary stability close attention should continue to be given to the effects of the Government's own financial operations.

6. The Fund welcomes the continued adherence of the United Kingdom to a policy of freer trade and payments. In 1957 the United Kingdom, in spite of the renewed pressure on its reserves, maintained and in some cases slightly extended the progress previously made with the relaxation of restrictions and discrimination. Further substantial progress in the field of liberalization largely depends on a strengthening of the balance-of-payments position, which is also necessary because of the great importance of rebuilding the gold and dollar reserves and because of heavy demands on capital account. The Fund has confidence that the United Kingdom is pursuing policies appropriate to these objectives.

7. In concluding the 1957 consultations, the Fund has no other comments to make on the transitional arrangements maintained by the United Kingdom.