RESULTS OF THE IMF CONSULTATIONS

As relevant for the CONTRACTING PARTIES in connexion with their consultations under Article XII:4(b) to be held in October-November, the International Monetary Fund has transmitted the results of its latest consultations under Article XIV, Section 4, of the Fund Agreement with Australia, Finland, India, Pakistan, Turkey, Union of South Africa and the United Kingdom. These results are circulated herewith.

AUSTRALIA

Results of 1956 Consultations under Article XIV, Section 4, of the Fund Agreement

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. Productivity and production in general continued to rise during 1955/1956, but there was a slackening in some sectors of industrial production in the second half of 1956 from the high levels reached in the second half of 1955. Wool production continues at a high level but the 1956/1957 wheat crop is expected to be below that of the previous year.

3. During 1955 and 1956 the Australian Government took additional measures to restrain domestic demand. Monetary policies were tightened and bank credit to the private sector, which had expanded continuously in the preceding years, declined in 1956. Sales taxes on certain consumer goods and the income tax on companies were sharply increased in March 1956. The volume of public works has been reduced somewhat and the Government's policy has been to increase the surplus of current revenue over current expenditure in order to finance a larger share of expenditure on public works out of taxes. During most of 1955 and 1956 total demand tended to outrun available resources, and prices and wages continued to rise. However, towards the end of 1956, there were indications of a better balance between overall demand and supply.

1 Transmitted by the Fund on 28 May 1957.
4. In the year ended 30 June 1956, the current account deficit on the balance of payments was again substantial and, although there was a considerable net inflow of capital, foreign exchange reserves declined markedly. Since September 1956 export earnings have improved, largely owing to an increase in wool prices, while imports have fallen as a result of the intensification of restrictions in 1955 and 1956. With the recovery in export earnings and a significant rise in foreign exchange reserves since September, the Australian Government took steps in early 1957 to make a substantial relaxation in its restrictions on imports.

5. The Fund welcomes the disinflationary measures taken by the Australian Government in 1955 and 1956 and believes that vigorous fiscal and monetary policies should continue to be pursued so that reliance on restrictions and discrimination can be further reduced and ultimately eliminated.

6. In concluding the 1956 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Australia.

FINLAND

Results of 1956 Consultations under Article XIV, Section 4 of the Fund Agreement

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

2. During 1956 economic conditions significantly deteriorated. The cost of living which was maintained relatively stable in the period between October 1951 and the end of 1955, rose by 17 per cent in the course of 1956. A large deficit on goods and services account in the balance of payments also appeared and led to a reduction by about a third in the foreign exchange reserves and also to an intensification of restrictions on imports. Wages rose by 10 per cent and farm income by about 30 per cent while the gross national product in real terms increased only about 2 per cent as against a 7 per cent increase in 1955. These developments necessitated increased expenditure by the Government in connexion with its income distribution and employment policies. Despite sizable reductions in subsidy payments in the second half of the year, the financial operations of the Government in 1956 ended in a larger deficit than in 1955 and forced the Treasury to have recourse to large-scale inflationary financing for the budget. Credit policy was not sufficient to restrain the demand on available resources, released by the price-wage agreement of 1956.

3. The Fund notes that the Government is planning to adopt a series of fiscal measures to eliminate the need for inflationary financing of government expenditures and that the credit restrictive measures also will be strengthened.

1 Transmitted by the Fund on 2 May 1957
The Fund believes that in order to attain conditions which would facilitate the expansion of investment in most productive sectors of the economy and the rise in the standard of living in conditions of internal price stability, it is necessary that the distortions in internal relative prices and between Finnish and foreign prices should be eliminated and that for this purpose the existing monetary and fiscal policies and the policies in relation to wage and farm income formation be reconsidered. In this regard early re-establishment of internal price stability is essential and the Fund urges a speedy and determined implementation of adequate anti-inflationary measures.

4. Since the last consultation further progress has been made by Finland in reducing its reliance on bilateralism. The deterioration in the balance of payments in 1956 and in the outlook for 1957, however, caused the Government to intensify restrictions on imports. The Fund welcomes Finland's effort towards pursuing a policy intended to avoid a retrogression to increased reliance on bilateralism in trade and payments. The Fund notes that while intensifying restrictions on imports, Finland intends to reduce further the discrimination practised in relation to imports from the dollar area. The Fund hopes that the restoration of internal stability and external balance will allow Finland an early resumption of the policies of reduction and eventual elimination of restrictions and discrimination.

5. The Fund has reviewed the policy governing the operations of the Clearingkunta arrangements under which exporters of certain products receive and importers of certain commodities pay a premium over the official exchange rate. The Fund notes that the tourist rate of exchange continues to be applied. While the allocation of exchange for travel purposes has been reduced, other invisible transactions at this rate have been licensed more freely. The Fund does not object on a temporary basis to these arrangements but hopes that it would soon be possible to take measures to facilitate the elimination of these practices.

6. In concluding the 1956 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Finland.
increase, over the five-year period, in per capita real income. The Second-Five-Year-Plan sets much higher income targets than the First-Five-Year-Plan.

3. The internal position has remained relatively stable, but with some signs recently of expansionary pressures. The money supply continued to increase through the first half of 1956. The budget deficit for 1955-1956 is expected to be considerably larger than in 1954-1955. Following declines in domestic prices and the cost of living in 1954-1955, there was some rise in prices in the second half of 1955 and the first seven months of 1956. The Fund notes that steps have been taken to cope with the situation. The Reserve Bank is being given power to increase the minimum reserve requirements of the commercial banks, and measures have been initiated to slow down the expansion of credit. The Government has also arranged to import food on a substantial scale, partly by utilizing the reserves and partly under a surplus purchase contract with the United States. India's balance-of-payments position has continued to be satisfactory during the past year and the international reserve position remains strong.

4. The Fund is pleased to note that India has continued to relax restrictions and reduce discrimination. The Fund considers that India should endeavour to continue with the relaxation of restrictions and to reduce the elements of discrimination in the restrictive system.

5. In concluding the 1956 consultations, the Fund has no other comments to make on the transitional arrangements maintained by India.

PAKISTAN

Results of 1956 Consultations under Article XIV, Section 4, of the Fund Agreement

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. Since the devaluation of the Pakistan rupee in July 1955, there has been a substantial increase in export earnings. This fact, coupled with the continuation of United States aid and restrictions on payments, has led to a substantial increase in exchange reserves. There has also been a considerable monetary expansion arising from the increase in exchange holdings by the banking system and the continuation of credit expansion, particularly to finance the budget deficit. While the prices of essential foodstuffs and textiles have been maintained or in some cases may have declined from the level of two years ago, until recently there has been a growth in expansionary pressures in the economy. A decline in such pressures for the remainder of 1956 is likely in view of the rising level of imports due partly to a more liberal import policy and partly to increased imports of wheat and rice necessitated by domestic shortages. It is noted that Pakistan is liberalizing payments which is expected to be a factor in a decline in

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Transmitted by the Fund on 5 February 1957.
reserves from the present level. In connexion with the expected continued increase in government expenditures on economic development, the Fund notes that Pakistan intends to avoid an excessive monetary expansion.

3. The Fund welcomes the trend toward a more liberal import policy and the virtual elimination of discrimination between dollar and non-dollar sources. It urges that these policies be continued, including a further reduction of the discriminatory aspects of bilateral arrangements. In addition, Pakistan should review the need for its existing bilateral agreements.

4. In concluding the 1956 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Pakistan.

TURKEY

Result of 1957 Consultations under Article XIV, Section 4, of the Fund Agreement

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

2. The national income in real terms in 1956 remained at about the level reached in 1955. The crop failure in cereals was compensated by increased industrial production and a good harvest in other agricultural products. The Government took several measures designed to reduce the deficit in the budget, to restrain credit expansion by selective credit controls and by an increase in the lending rates of the Central Bank, as well as by stricter control over the financial operations of the state-owned economic enterprises. Price controls were also widened and intensified. Nevertheless prices and costs continued to rise, although at a slower rate than in previous years, primarily because the above measures were not sufficient to prevent substantial central bank credit expansion to finance the deficit in the budget, the large operational losses and investment needs of the state-owned economic enterprises, and to cover the losses arising from the operations of the foreign trade and payments system. Partly as a result of the crop failure, but also due to continued pressure of internal demand and higher domestic prices, exports declined further. However, through a reduction in imports, the deficit in the balance of payments on goods and services was considerably decreased.

3. The Fund notes that early in 1957 the Government took several further measures with a view to achieving a balance in the government budget and of controlling more effectively the financial operations of the state-owned economic enterprises. However, there remains a need for further improvement. The measures employed to maintain exports are inadequate to attain their objective and also contribute to inflationary pressures. The Fund believes that the achievement of economic stability is essential to further balanced

Transmitted by the Fund on 29 August 1957
growth of the Turkish economy, and urges the adoption of such other measures as may be necessary to eliminate all causes of inflationary pressure. The Fund considers that, in order to bring about an improvement in the balance of payments, measures should also be taken to create conditions conducive to an expansion of exports without the need to support them with artificial devices.

4. Mainly as a result of continuing inflation, Turkey has further extended its multiple currency practices, to facilitate exports and to absorb extraordinary profits earned on imports. Reliance on restrictions and bilateralism has also increased. The Fund does not object to the temporary continuation of the existing multiple currency practices, but believes that it should be feasible to bring about some simplification of the existing system and will remain in consultation with Turkey on this matter.

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

UNION OF SOUTH AFRICA

Results of 1956 Consultations under Article XIV, Section 4, of the Fund Agreement

1. The Government of the Union of South Africa has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements. The Fund took the occasion of these consultations to review again the other restrictive practices of South Africa.

2. The economy has shown a high degree of stability in 1956 as a result of increased domestic output and imports, appropriate fiscal and monetary policies and some reduction in the rate of fixed investment. The increase in the money supply was moderate, and prices, which continued to rise in 1955, have levelled off in 1956.

3. The current account of the balance of payments, which was in deficit in 1955, showed a surplus in 1956, as the increase in exports made possible by the continuous expansion in the output of gold, uranium and other minerals more than offset a further rise in imports and expenditures on invisibles. In 1955 reserves declined. In 1956, after a seasonal reduction, reserves rose continuously between August and December so that there was a slight rise in reserves over the year as a whole.

4. Fiscal and monetary policies have remained the principal instruments to establish external equilibrium. The licensing system continues to have some restrictive effects, but the controls are largely of a precautionary nature. The Fund welcomes the relaxation of restrictions announced for 1957 and notes with satisfaction the expressed intention to make further progress in this field.

Transmitted by the Fund on 29 April 1957.
5. In concluding the 1956 consultations the Fund has no other comments to make on the exchange system of South Africa.

UNITED KINGDOM

Results of 1956 Consultations under Article XIV, Section 4, of the Fund Agreement

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. In the course of 1956, the United Kingdom economy responded progressively to the corrective policies applied by the authorities, which were designed to check the rise in home demand so as to restore the balance of payments while still favouring productive investment. These policies included restrictive credit measures, encouragement of savings, reduction of subsidies, and more stringent hire-purchase regulations. The rate of growth of consumption was slowed down and construction of new dwellings fell further, while industrial investment continued to rise, though at a slower pace than in 1955. There was a further rise in wages and costs of production.

3. The lessening of pressures in the domestic economy provided the basis for a considerable recovery in the current balance of payments, which showed a surplus of £144 million in the first half of the year and some surplus in the second half. Imports were no higher than in 1955, exports continued to expand, and in the first half of 1956 there was also some improvement in the invisible balance.

4. Between the end of July and the time of the drawing on the Fund in December, there was a sharp fall in gold and dollar reserves. The major cause of this fall was a deterioration of confidence in sterling (reflected largely in the so-called "leads and lags" in payments), which set in at the end of July, being associated with the tension in the Middle East. The interruption of oil supplies from the Middle East and the inability to use the Suez Canal will necessarily impose strains on the balance of payments in the first half of 1957. The Government's policy is to maintain the rate for sterling at its present parity, to keep up the volume and efficiency of industrial production, and to maintain and increase the volume of foreign trade. To these ends the Government is continuing to apply, and has explained that it will if necessary strengthen, the measures designed to restrain home demand. It has also taken steps to fortify the gold and dollar reserves, including recourse to the International Monetary Fund. In addition, a line of credit has been arranged with the Export-Import Bank.

1 Transmitted by the Fund on 21 March 1957.
5. The Fund welcomes the continuation of the United Kingdom's policy of dealing with its payments problems through measures other than the re-imposition of external restrictions. During 1956 some restrictions were relaxed and bilateralism was further reduced. The Fund is aware of the reasons which keep the United Kingdom from making substantial relaxation of restrictions at the present time, but feels that domestic policies should continue to aim at achieving a balance-of-payments position which would make possible further progress towards the removal of trade and payments restrictions. It is recognized that particular emphasis must be given to policies designed to restrain the rise in costs and to improve productivity so as to encourage a further expansion of exports.

6. In concluding the 1956 consultations, the Fund has no other comments to make on the transitional arrangements maintained by the United Kingdom.