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

2. The Japanese economy experienced a major investment boom in 1956 and the first half of 1957. The total output of goods and services reached record levels. There was an intensive utilization of real resources and economic expansion met with difficulties. Principally because of a sharp rise in imports of raw materials, there was an adverse turn in the payments position beginning in 1956. Japan's international reserves declined throughout the first half of 1957, and in June a drawing with the Fund was arranged.

3. The authorities have taken a series of credit and fiscal measures to check the demand expansion. Budgetary retrenchment is expected to yield a substantial cash surplus for the Treasury in the current fiscal year, while a small deficit had originally been expected. The Fund welcomes these stabilization measures which are already beginning to show effects. The Fund hopes that the measures will be implemented with perseverance, especially on the budgetary side, and that such additional measures will be taken as may be found necessary.

4. The Fund welcomes the fact that Japan, before the balance-of-payments difficulties set in, made considerable progress in relaxing restrictions and reducing their discriminatory and bilateral aspects. Recently there has been a reduction of exchange allocations for imports. The Fund hopes that progress in reducing discrimination and bilateralism will continue, and that progress in reducing restrictions will be resumed as soon as practicable.

5. The Fund welcomes the recent elimination of the export rights system in trade with Indonesia which gave rise to multiple exchange rates, the reduction
in the retention quota and the scope of the export-import links, and the tightening of barter trade. It hopes that further progress will be made in eliminating these devices.

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

2. CEYLON

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

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

2. Ceylon had a satisfactory balance-of-payments surplus in 1955, principally because of the high world prices for rubber and tea. International reserves increased considerably during the year. Principally because of the decline in the prices of rubber and tea, the balance-of-payments surplus has substantially declined and may be eliminated in 1956.

3. Ceylon has been following sound fiscal and monetary policies. Prices have been stable. A significant deficit in the budget is anticipated for the fiscal year beginning 1 October, 1956. It is assumed that any expansionary pressures from this source will be offset by other measures if needed to maintain monetary stability.

4. The Fund welcomes the recent measures taken by Ceylon to relax restrictions and reduce discrimination. The Fund notes that bilateralism is not an important feature of Ceylon's exchange policy but suggests that Ceylon keep under review its need for continuing reliance on bilateral arrangements. The Fund believes that there is scope for a simplification of Ceylon's licensing system and for further reduction in discrimination.

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

1 Concluded on 31 October 1956.