Committee on Balance-of-Payments Restrictions

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

1. In accordance with its terms of reference the Committee has conducted the consultation with Sweden under Article XII:4(b). The Committee had before it: (a) a basic document prepared by the secretariat; and (b) documents supplied by the International Monetary Fund. In conducting the consultation the Committee followed the "plan" recommended by the CONTRACTING PARTIES. The consultation was completed on 27 October 1959. The present report summarizes the main points discussed during the consultation.

Consultation with the International Monetary Fund

2. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with the consultation with Sweden. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results and background material from its last consultation with Sweden. In accordance with the agreed procedure, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Sweden. This statement was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from the last consultation with Sweden under Article XIV of the Fund Agreement, which consultation was concluded on September 21, 1959.

"With respect to Part I of the Plan for Consultations, relating to balance-of-payments position and prospects, and also with respect to Part III, relating to system and methods of the restrictions, the Fund draws the attention of the CONTRACTING PARTIES to the results of its recent consultation with Sweden under Article XIV of the Fund Agreement, and particularly to paragraph 4 which reads as follows:

'The Fund welcomes the introduction of non-resident convertibility by Sweden and the substantial progress in relaxing restrictions and reducing discrimination. There are but a few remaining restrictions and there is little discrimination in the system, although a certain amount of liberalization is still on an administrative basis. The Fund believes that the balance of payments position permits further progress with liberalization and the elimination of discrimination. Reduced reliance on bilateral arrangements is feasible and desirable.'

1 See Annex II.
"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, the Fund draws attention to the results of its last consultation with Sweden. The Fund has no additional alternative measures to suggest at this time."

Opening Statement by the Representative of Sweden

3. The full text of the opening statement of the representative of Sweden is attached to this report as Annex I. The following is a brief summary of the statement:

4. Recent developments in the balance of payments have been somewhat more favourable than previously expected. It was now predicted that for 1959 a surplus of approximately 200 million Swedish crowns would be realized. This would result in net reserves of 3,200 million crowns which would be equal to approximately three months' imports. However, in view of the great dependence of Sweden on foreign trade it was felt that these reserves would be too low to warrant the immediate removal of remaining restrictions.

5. A heavy strain on reserves was foreseen for 1960. Total demand was expected to increase unprecedentedly by 3,800 million crowns or by 6 per cent in comparison with 1959 whereas available resources were expected to increase by less than 2,300 million crowns or by 4 per cent. The present high liquidity of the commercial banks and of private enterprises generally, and the estimated budget deficits for the present fiscal year and for the year 1960-1961 made the lack of balance between total demand and available resources appear even more serious.

6. The Government was, however, aware of the dangers threatening the economy and proposed to institute measures and to further reduce demand. Even with the adoption of such internal measures, the Government would have to follow the situation very carefully and would certainly not be in a position to deprive itself of any means of external or internal controls on such developments.

7. Imports still subject to licences from all sources concerned approximately 12 per cent of total imports representing only a few items which, however, hold a key position. With regard to discrimination, the Swedish Government shared the view of the International Monetary Fund that there was no longer any balance-of-payments justification for discrimination with regard to current payments by members whose currency receipts were largely in externally convertible currencies. Sweden proposed to remove import restrictions applied for such reasons without undue delay. It had already reduced such discrimination to the point where less than a 1 per cent difference existed between the OEEC free list and the dollar free list. The only products remaining subject to discriminatory treatment when imported from the dollar area were certain cotton fabrics and cotton garments, women's nylon stockings and a few agricultural products.
Balance-of-Payments Situation and Prospects

8. The Committee complimented the representative of Sweden on his very clear and concise statement. Members welcomed the recent moves taken by the Government of Sweden in reducing discrimination on imports from the dollar area and noted the expression of intent to remove the remaining discrimination without undue delay. Some members urged that the period of time involved should be the briefest possible, stressing the importance of this in the view of their Governments. The representative of Sweden assumed that internal developments would not prevent the early removal of remaining discrimination and of quantitative restrictions generally.

9. A member of the Committee noted that Sweden's reserves were expected to increase during 1959 by 200 million crowns or by an amount equal to the estimated surplus on current account. He observed that during 1958 Sweden had shown a surplus on capital account of over 400 million crowns. He pointed out that any surplus on capital account during 1959 would result in an increase in reserves in excess of the predicted 200 million crowns. The representative for Sweden informed the Committee that imports were now expected to exceed exports by 900 million crowns as opposed to the previously predicted figure of 1,800 million crowns. Shipping was expected to result in earnings of 1,250 million crowns rather than the previous estimate of 1,300 million and the deficits of investment income and other services were expected to increase to 80 million crowns rather than 50 million. Net receipts therefore would amount to 270 million crowns rather than the previously predicted deficit of 550 million crowns. Capital movements insofar as they were known to the Swedish authorities were expected to result in a deficit of 70 million crowns which would give an estimated net increase in reserves of 200 million crowns. The representative of Sweden informed the Committee that at the end of September 1959 reserves were at 3,150 million crowns. No major change was expected in the reserve position during the remaining quarter of the year.

10. A member of the Committee noted that Swedish exports for 1959 were now expected to reach 11,300 million crowns which would mean an increase of 900 million crowns over the previously predicted figure. He asked the reasons for this striking increase in predicted exports. The representative of Sweden informed the Committee that expected increases in exports during 1959 were mainly due to high exports of commodities drawn from stocks rather than from any increase in production.

11. In reply to a question on recent developments in Sweden's import and export prices, the representative of Sweden stated that the value of exports was expected to increase for 1959 by about 5 per cent as compared to 1958, whereas the volume of exports was expected to increase by 7 per cent. For
the first half of 1959 compared with the first half of 1958, the value of exports increased by 6 per cent and the volume by 10 per cent. For the second half of 1959 compared to the second half of 1958, the value and volume were both expected to increase by 4 per cent. On the import side, the 1959 value was unlikely to remain stable. The volume, however, was expected to increase by approximately 2 per cent. For the first half of 1959 compared to the first half of 1958, the value of imports had been reduced by 5 per cent and the volume by 1 per cent. For the second half of 1959 compared to the second half of 1958, the value of imports was expected to increase by 5 per cent and the volume by 4 per cent.
Alternative Measures to Restore Equilibrium

12. A member of the Committee referred to the pessimistic remarks contained in the opening statement of the representative of Sweden regarding the outlook for the Swedish economy in 1960. He expressed admiration for the way the Swedish authorities had corrected internal problems in the past by internal rather than external measures and pointed out that it was the view of his Government that in a situation where internal demand exceeded resources available internally or which could be financed out of reserves, direct import controls did not attack the basic problem of excessive demand. The retention of quantitative restrictions would result in a shift in domestic demand to products which would otherwise be available for export. It was the feeling of the member of the Committee that the Government of Sweden appreciated this difficulty, but in view of the reference in the opening statement that the Government of Sweden could not "deprive itself of any means to control the external or the internal development", he was prompted to make these remarks. The representative of Sweden agreed with the member of the Committee that internal problems should be tackled by internal rather than external measures, but he emphasized that it was difficult to determine how effective internal measures would be and explained that in the event that they proved to be ineffective, the Government may be required to resort to less desirable measures.

13. In reply to a question on whether measures less inflationary than short-term loans could be found for financing a deficit, the representative of Sweden stated that the Swedish authorities had used liquidity ratios to check secondary credit expansion in the past. It seemed to be necessary to use the same instrument in the future. Similarly, the discount rate had been applied as an instrument of monetary policy in recent years. Control over capital market issues by the private sector would be maintained; it was necessary if inflationary tendencies were evident, but might possibly be done away with if the budget deficits were sufficiently reduced. The problem at the moment was to find some way of getting more money from the commercial banks on a long-term basis; this problem was also under examination by a Royal Commission.

System and Methods of the Restrictions

14. A member of the Committee enquired about the existence of bilateral agreements and sought assurances that no discrimination arose as a result of such agreements. The representative of Sweden informed the Committee that Sweden had bilateral agreements with eastern European State-trading countries and a bilateral payment arrangement with Brazil under which payments continued to be settled in an inconvertible currency. Brazil was an important market for Swedish exports and since many of Sweden's competitors had similar arrangements, Sweden felt compelled to continue the present trading relationship. He assured the Committee however that no imports from Brazil were accorded more favourable treatment in Sweden than imports from other contracting parties. Trade agreements with countries of eastern Europe were undertaken by Sweden in an effort to conform with the trading systems of these countries and were not undertaken for balance-of-payments reasons.
Except for small quotas for cars from two eastern area countries, quotas for imports from the eastern area included no products which were subject to restriction from the OEEC and dollar areas. Although subject to formal licensing control, cars were freely licensed from the OEEC and dollar areas.

15. A member of the Committee questioned the logic of the arrangements between Sweden and Brazil which offered no favourable treatment in the Swedish market for Brazilian products. He considered however that even if the present arrangements were entirely non-discriminatory, there was the possibility that changes in the Brazilian exchange system or some other development could prompt Sweden to introduce discrimination into the arrangement. He recognized that Sweden was not the only country maintaining such arrangements and stressed that the termination by Sweden of the relationship would encourage other countries to do the same.

16. The representative of Sweden also pointed out that other bilateral arrangements retained by Sweden were non-discriminatory and were negotiated for the purpose of obtaining reasonable shares of other countries' restricted imports and were, as far as Sweden was concerned, in accordance with Article XIII:2(d) of the General Agreement.

17. A member of the Committee referred to the import levies placed on certain agricultural products as being levies which varied according to domestic prices of agricultural products. He felt that such measures may have incidental balance-of-payments effects but were basically protective. The representative of Sweden explained that these levies were not instituted for balance-of-payments reasons but had the same effect as a customs duty.

18. It was noted by members of the Committee that existing legislation in the field of agriculture under certain circumstances proved for the reimposition of quantitative restrictions. One member asked if, under such circumstances, the Government of Sweden might reinstate quantitative restrictions even if balance-of-payments conditions did not warrant such action. The representative of Sweden stated that up to 1956, for protection of agriculture, the Government had relied mostly on quantitative restrictions and State trading. In 1956, a new pricing system considered to be more in accordance with the General Agreement had been introduced. No quantitative restrictions applied as long as domestic prices remained within specified price limits. He confirmed that these measures were not introduced for balance-of-payments reasons, but if quantitative restrictions were considered necessary, they would be implemented in accordance with Sweden's international obligations of non-discrimination.

19. A member of the Committee observed that apples and pears could not be considered to be fully liberalized since they were subject to seasonal restrictions. The representative of Sweden stated that it must be appreciated that most European countries pursued similar protective measures and should Sweden be alone in the removal of such measures, the disruption to Sweden's fruit growers would be serious. The representative of Sweden informed the Committee that a Royal Commission had been established to consider problems related to the fruit and vegetable sector.
20. Reference was made to the degree of de facto liberalization in Sweden's import system. It was realized by a member of the Committee that de facto liberalization was better than no liberalization, but he wished to stress the importance, to the importer as well as to the exporter, of a degree of certainty in the regulations. Without certainty, traders were hesitant to invest time and money in expanding trade. Members suggested that items liberally licensed be rapidly transferred to the free licensing list.

21. In reply to questions on the licensing treatment accorded by Sweden to non-dollar non-OEEC countries, the representative for Sweden stated that for OEEC countries and related payments areas, liberalization had been extended as far as possible under present circumstances. The percentage of liberalized dollar imports was almost as high as the percentage of liberalization of the OEEC area. The importation of commodities from the non-dollar and the non-OEEC areas, although still formally restricted, were generally licensed on a liberal and non-discriminatory basis. Members of the Committee welcomed the assurance that the Government of Sweden was considering the extension of the formal liberalization list applying to the OEEC and dollar areas to other countries. The Committee noted that the removal of discrimination for balance-of-payments reasons should not be restricted to the removal of discrimination against imports from the dollar area.

22. Considerable interest was expressed by the Committee on the treatment accorded imports from non-dollar non-OEEC countries. The representative of Sweden confirmed that India, Australia and all other countries of the sterling area, as well as countries of the Belgian, French, Italian, Portuguese, Spanish and Dutch currency areas and Indonesia and Somalia were in the OEEC category.

23. The representative of Sweden took note of the request of a Committee member that the treatment being accorded the OEEC and dollar areas be formally extended to all contracting parties - a request other members supported. He assured the Committee that his Government was already considering ways and means of extending the formal liberalization list to other countries.

24. A member of the Committee expressed the hope that it might be possible for the Swedish authorities to give some attention to such groupings in the import licensing system as "OEEC" which he felt were very ambiguous. He suggested that with the final removal of discrimination against the dollar area, certain existing groupings may be combined. The representative of Sweden agreed that more satisfactory classifications than the existing ones should be considered.

25. A member of the Committee stated that while he appreciated that the dismantling of remaining import restrictions might present certain problems, he hoped that an atmosphere of urgency would prevail. Referring to the restricted area, he asked whether discrimination existed for goods subject to discretionary licensing and quotas. The representative of Sweden assured the Committee that no discrimination was applied regarding the issuance of
import licences for goods under these categories. He pointed out to the Committee that in the past year Sweden had gradually removed discrimination against the dollar area, until the percentage of liberalization for imports from the dollar area amounted to 88 per cent, or almost the same percentage as imports from the OEEC area. He advised that it was difficult to predict the exact date for the removal of the remaining discriminatory restrictions for balance-of-payments reasons.

Effects of the Restrictions

26. Members of the Committee noted with pleasure the steps which had and were being taken to inform domestic industry that they could not expect to enjoy indefinitely the incidental protection resulting from quantitative restrictions imposed for balance-of-payments reasons.

General

27. The Chairman, summing up the discussion, complimented the representative of Sweden for the clear and efficient manner in which he participated in the consultation. He noted that during the consultation members of the Committee had shown some concern for the future outlook for the financial and monetary situation in Sweden, but had expressed confidence that the Swedish Government, as on previous occasions, would be able to cope with any internal problems without recourse to external restrictive measures. Members of the Committee had noted that a small degree of discrimination remained against the dollar area, and that formal discrimination remained against countries of the non-OEEC non-dollar areas. They had expressed the hope that the general trend towards the removal of all discrimination and of quantitative restrictions generally would continue. Some concern had also been expressed for Sweden's bilateral arrangements, but the Committee had received the assurance that such arrangements did not involve discrimination in Sweden's import policy. Members of the Committee had also welcomed the reaffirmation of the general and well known policy of the Swedish Government to proceed towards the final elimination of restrictions for balance-of-payments reasons.