1959 CONSULTATIONS UNDER ARTICLE XII:4(b)

Results of the 1958 Consultation between the IMF and the United Kingdom concluded on 19 December 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. In 1958 fixed investment in the United Kingdom has been at a record level, while consumption has increased moderately. However, as a result of a slight fall in exports and a reduced rate of growth in stocks, total demand in 1958 has been somewhat below the previous year's level. Unemployment increased in October to 2.3 per cent of the working population. The gross domestic product fell slightly in the first half of the year and the index of industrial production has been registering small declines in the following months. The strict fiscal and monetary policies pursued by the United Kingdom, aided by the fall in import prices, have brought the economy nearer to price stability than for some time past, but wages again increased more than productivity in 1958.

3. The United Kingdom Government has, within the framework of policies designed to maintain a strong pound and stable prices, taken steps to counter the contractionary forces operating in the economy. The credit squeeze has been eased, Bank Rate has been progressively reduced from 7 to 4 per cent, restrictions on hire purchase have been abolished, some tax stimulus given to private investment and the ceiling on public investment raised. The existence of unused capacity and some under-employment of the labour force give room for some expansion without disturbance to the balance of the economy, especially in view of gains in productivity. However, the Fund welcomes the indication by the United Kingdom Government that its monetary and fiscal policies will continue to be so framed as to avoid creating excessive demand and overloading the economy, and that it will use its influence to keep increases in domestic costs within the limits set by the need to maintain price stability and a healthy balance of payments.

4. In the year ending June 30, 1958 the United Kingdom achieved a current account surplus of £488 million. The rest of the sterling area reduced its sterling holdings by £301 million over the same period in order to finance its greatly increased current account deficit. Holdings of non-sterling countries showed little change in the second half of 1957, but rose by £77 million in the first half of 1958, partly reflecting increased confidence in sterling. These general trends in the movement of liabilities continued through the third quarter of 1958. The gold and dollar reserves, which benefited by a drawing on the Export-Import Bank loan in October 1957 and the deferment in December 1957 of service on United States and Canadian loans,
have risen steadily since September 1957. At the end of November 1958 they
stood at £1,148 million, the highest level since September 1951. Exports
have been falling slightly; and the current account surplus in 1958/59 is
expected by the United Kingdom authorities to be substantially lower, though
still sufficient to cover the United Kingdom's foreseen capital commitments.
The Fund notes that the United Kingdom Government believes that a further
increase in gold and dollar reserves is desirable.

5. The Fund welcomes the further progress made in 1958 in the relaxation
of restrictions and the reduction of discrimination and the reaffirmation of
the intention of the United Kingdom to make a further move toward convertibility
of sterling as soon as it considers that conditions are suitable. Thanks to
the measures taken, almost all raw materials and basic foodstuffs and a wide
range of machinery are now free from restriction. The Fund also welcomes the
stated intention of the United Kingdom Government to reduce discrimination
further in 1959, as conditions permit. The Fund believes that progress in
reducing discrimination is possible and desirable.

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