WORKING PARTY ON UNITED KINGDOM IMPORT DEPOSITS
MEETING ON 31 JANUARY 1969

Note by the Secretariat

1. The Chairman opened the meeting by recalling that at its first meeting on 9 December the Working Party had heard a statement by the representative of the United Kingdom on the import deposit scheme, together with some preliminary indications concerning its operation. It had subsequently been decided that the CONTRACTING PARTIES should consult with the International Monetary Fund in accordance with Article XV, and this meeting had been called to hear the findings and determinations of the Fund.

2. The representative of the International Monetary Fund then made a statement, the full text of which is annexed. In conclusion the statement read as follows:

"In these circumstances, the import deposit scheme does not go beyond the extent necessary, in conjunction with other measures, to achieve a reasonable strengthening of the United Kingdom's reserve position".

3. The representative of the United Kingdom thanked the International Monetary Fund for its expeditious and careful work and said that it presented a fair exposition of the problem. He added that a representative of the United Kingdom Treasury would answer any questions members might care to put.

4. Various members of the Working Party joined the representative of the United Kingdom in thanking the Fund and stated that they would welcome a little time in which to study the statement, which they asked to have circulated. One member of the Working Party, whilst agreeing that time for study would be useful, pointed out that the measure was having particularly prejudicial effects on his country's trade and expressed the hope that it might be possible to reduce the incidence of the import deposit requirement within the year.

5. The Chairman noted the general wish for time to reflect and suggested that a further meeting be envisaged at which the Working Party might consider the effects of the United Kingdom measure as well as how to deal with the problem in relation to the provisions of the General Agreement. He suggested that the Working Party meet on 12 February. This was agreed.

1 Documents before the Working Party were L/3140, Addenda 1-5 and Addenda 3/Corr.1, and a background document provided by the IMF dated 15 January 1969.
ANNEX

Statement by the Representative of the International Monetary Fund
31 January, 1969

The Fund invites the attention of the CONTRACTING PARTIES to the background material dated January 15, 1969 which it has transmitted for their information and use.

The introduction by the United Kingdom of an import deposit scheme was part of several measures taken in November 1968 which are designed to secure a more rapid improvement in the United Kingdom's balance of payments. These measures, which also included an increase in indirect tax rates and action to limit the expansion of bank credit, followed on action taken since the devaluation of the pound sterling in November 1967, primarily aimed at eliminating the balance of payments deficit on current account and attaining a substantial surplus in 1969.

Complete balance of payments data for 1968 are not yet available but data for the first three quarters of that year indicate some improving trends in both the foreign trade deficit and in net earnings from current invisible transactions with a consequential reduction in the net deficit on current account. However, the deficit for the period January-September 1968 remained large. The long-term capital accounts (net) were in deficit in the first half of 1968 and there was an exceptional small surplus in the third quarter. Taking into account other capital movements, exchange adjustments and unidentified transactions, the deficit to be financed in the first nine months of 1968 was £777 million. This amount was financed largely by purchases from the Fund and increases in official liabilities in sterling and in foreign currencies. On November 29, 1967 the Fund approved a stand-by arrangement for the United Kingdom effective for one year to November 30, 1968 authorizing the United Kingdom to purchase up to the equivalent of $1,400 million. The full amount was drawn on June 19, 1968.

Recently published statistics show official holdings of gold and convertible currencies as $2,422 million on December 31, 1968, somewhat lower than a year earlier. These holdings were low in relation to the United Kingdom's external liabilities in sterling (net) which in September 1968 amounted to the equivalent of about $14,000 million. To some extent these liabilities represent short- and medium-term foreign obligations which the United Kingdom has incurred as a result of drawings on facilities designed to support the balance of payments.

In these circumstances the import deposit scheme does not go beyond the extent necessary, in conjunction with other measures, to achieve a reasonable strengthening of the United Kingdom's reserve position.