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To: Members of the Executive Board

From: The Acting Secretary

Subject: Meetings of the GATT Committee on Balance of Payments Restrictions

Attached for the information of the Executive Directors is a report by the Fund representative on the meetings of the GATT Committee on Balance of Payments Restrictions held in Geneva during December 6-9, 1983.

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INTERNATIONAL MONETARY FUND

Meetings of the GATT Committee on Balance of Payments Restrictions

Report by the Fund Representative

December 19, 1983

The GATT Committee on Balance of Payments Restrictions met in Geneva during December 6-9, 1983 under the chairmanship of Mr. J.N. Feij (the Netherlands). 1/ Full consultations were held with Brazil and Ghana, and consultations under simplified procedures were held with Peru, Tunisia, and Turkey. In preparation for the consultations, the Fund had transmitted for use by the CONTRACTING PARTIES its latest Recent Economic Developments reports on the consulting countries, 2/ and a Supplementary Background Material paper on Brazil. 3/ In addition, pursuant to existing arrangements for Fund-GATT cooperation, a statement of the Fund's findings on Brazil and Ghana had been prepared for the CONTRACTING PARTIES and approved by the Executive Board. 4/ The Fund representative was Mr. S.J. Anjaria.

1. Brazil

In addition to the Fund documentation, the Committee had before it documents prepared by the Brazilian authorities and the GATT secretariat. 5/ In his opening statement, 6/ the representative of Brazil recalled that at the GATT consultations held in December 1981, the Committee had expressed the hope that Brazil would be in a position to reduce substantially its reliance on restrictive import practices. In the event, Brazil's balance of payments position deteriorated markedly in 1982, reflecting the economic recession and renewed protectionism in industrial countries, and sharp increases in interest payments on the external debt combined with an abrupt and substantial contraction of capital inflows. The balance of payments registered a deficit of

1/ Members of this Committee are: Australia, Brazil, Canada, Chile, European Communities and member States, Finland, Ghana, Hungary, India, Japan, Malaysia, Philippines, Romania, Sweden, United States, and Zaire.

2/ Brazil: SM/83/33 (2/15/83); Ghana: SM/83/161 (7/25/83); Peru: SM/83/235 (11/14/83); Tunisia: SM/83/118 (6/8/83); Turkey: SM/83/114 (6/6/83).

3/ SM/83/239 (11/18/83).

4/ EBD/83/311 (12/1/83).

5/ GATT documents BOP/239 (11/16/83); BOP/W/74 (11/22/83); BOP/W/67 (3/8/83); and L/5555 (11/2/83).

6/ Appendix I.

US$8.8 billion, compared to equilibrium in the previous year. Intensification of restrictions became unavoidably necessary, taking the form of further suspension of import licensing, increase in the product coverage of tariff surcharges, reduction of import ceilings in state trading, and centralization of foreign exchange transactions. Brazil had adopted a three-year balance of payments adjustment program involving financial support from the Fund under an extended arrangement, and from international banks. The program aimed at achieving trade surpluses which for 1983 involved a reduction in imports of 20 percent, and an increase in exports of 10 percent, in relation to 1982. Brazil was also pursuing a realistic exchange rate policy and had begun to take some liberalization measures. The aims of the adjustment policies were to provide a solid basis for the resumption of economic development and to restore balance of payments equilibrium on a sound and lasting basis.

The representative of Brazil recalled that in October 1983 the GATT Consultative Group of Eighteen had agreed that balance of payments adjustment should be based on export expansion and not on import reduction. Although economic recovery in industrial countries would undoubtedly improve the export prospects of countries like Brazil, it was evident that the main thrust for increasing export earnings must come from the dismantling of trade barriers, mostly of a nontariff nature, which limit Brazil's access to the markets of its largest trading partners. In its trade with the European Community, Japan, and the United States, Brazil faced significant trade barriers. In order to deal with the problems of access to markets, the representative of Brazil put forth three specific proposals for action by Brazil's major trading partners:

a. A rollback of all existing import restrictions inconsistent with the GATT affecting, in particular, products of interest to developing countries with balance of payments problems;

b. A suspension, for the duration of the adjustment program agreed upon with the Fund, of safeguard actions on products exported by a developing country consulting in the Committee; and

c. Avoidance, for the duration of the Fund program, of countervailing or antidumping duties on products exported by these developing countries.

The representative of Brazil proposed that, prior to the next GATT balance of payments consultation with Brazil, the GATT secretariat prepare a document analyzing restrictive actions by Brazil's trading partners affecting its exports; this would permit the Committee to make recommendations on concrete trade actions by contracting parties to remove such barriers.

The Fund representative made a statement on Brazil, which is reproduced in Appendix II.

Following these statements, the Committee discussed Brazil's balance of payments situation, Brazil's restrictive system, and the Brazilian proposals on trade liberalization.

The representative of the United States expressed sympathy for the balance of payments difficulties of Brazil and applauded the difficult and necessary adjustment policies being pursued by Brazil. Noting the burden subsidies imposed on the budget, he welcomed the efforts to reduce them, and asked about the Brazilian authorities' future plans to reduce agricultural credit and export credit subsidies. In response, the representative of Brazil noted that interest rates on export credits had already been increased substantially, and agricultural subsidies had also been reduced. While the intention was to eventually eliminate all agricultural subsidies and subsidized export credit financing, it would be difficult to give a precise time schedule for phasing them out. He added that Brazil intended to promote its exports by pursuing a realistic exchange rate policy.

The representative of the European Communities asked for clarification of the Brazilian representative's statement that relaxation of existing measures could not be expected until a "net and substantial improvement" took place in Brazil's exports, given the trade surplus targets of Brazil's adjustment program. He also requested the Brazilian delegation to elaborate on the Fund statement that the Brazilian authorities intended to introduce a trade system providing protection to domestic activity through tariffs rather than through quantitative restrictions. The representative of the Philippines requested clarification on the impact of the tariff surcharges and the financial transactions tax on import levels.

In response to these points, the representative of Brazil acknowledged that supply bottlenecks would result from reduced imports, and thus hurt production and exports, but in the present situation there was no alternative to the import restrictions. He noted that the balance of payments equilibrium projected for 1983 depended on the availability of adequate external financing, and would still leave Brazil's international reserves at a low level. On the question regarding the substitution of tariffs for quantitative restrictions, the representative of Brazil noted that the statement had been made by the Fund representative and not by his delegation, and stated that he was not in a position to announce, in the framework of GATT, any commitment in that direction. Finally, the Brazilian representative said that some 8 percent of imports were subject to surcharges in 1982; as regards the financial transactions tax, an evaluation of its impact was difficult, but in general terms, some 70 percent of imports were exempt from the tax.

In response to comments from Committee members regarding the complexity of the Brazilian import regime, the representative of Brazil stated that the measures reflected the magnitude of the balance of payments problem, different measures having been introduced successively as the situation deteriorated. Several of the measures were being reviewed, and may be modified or simplified in due course.

Questions were also raised by the representatives of Canada, the European Communities, and the United States on various aspects of the operation of the import licensing system, tariff surcharges, the financial transactions tax, and the centralization of foreign exchange transactions. In the course of his responses, the Brazilian representative emphasized that discussions were underway with the Fund on Brazil's multiple currency practices with a view to phasing them out as the balance of payments situation improved. He noted that Brazil firmly intended to phase out the measure to centralize foreign exchange transactions by the end of 1983.

The final phase of the consultation focused on the points relating to the external trading environment and to the proposals for trade liberalization outlined in the Brazilian introductory statement. The representative of Brazil stated that the intention of his authorities was to put forward some ideas for reflection in accordance with paragraph 12 of the 1979 Declaration on Trade Measures. 1/ Several Committee members emphasized that the Brazilian proposals would be studied in capitals, and gave their preliminary reactions.

The representative of the Philippines supported the Brazilian initiative, noting that the principles underlying these proposals were already embodied in Part IV of the General Agreement and the 1982 GATT Ministerial Declaration. He urged that the proposed analysis of restrictive measures facing Brazil be extended to cover all countries consulting in the Committee. In this connection, he noted that while some 40 countries had programs with the Fund currently, only 15 GATT members were consulting in the Committee; standardization of analyses of trading partners' restrictive practices would encourage other countries to come before the Committee for consultations.

The representative of Hungary welcomed the Brazilian initiative, and suggested that the external trade environment be examined by the Committee in all balance of payments consultations, and not only in those with developing countries. He disagreed, however, with the Brazilian proposal that import restrictions inconsistent with the GATT

1/ The 1979 Declaration on Trade Measures states that: "In the course of full consultations with a less-developed contracting party the Committee shall, if the consulting contracting party so desires, give particular attention to the possibilities for alleviating and correcting the balance-of-payments problem through measures that contracting parties might take to facilitate an expansion of the export earnings of the consulting contracting party, as provided for in paragraph 3 of the full consultation procedures."

should be eliminated in favor of only one group of contracting parties; such a selective approach would be inconsistent with GATT obligations, and would undermine the GATT system.

The representative of the European Communities, while welcoming the initiative, said that he had some reservations about its proposed modalities. The Committee should consider carefully whether it should aim at developing clear guidelines on import liberalization in favor of consulting countries. The specific proposals for a freeze and roll back of import measures may not be a useful way of alleviating the problems of countries such as Brazil; in any case, it was difficult to accept the implication that protectionism was the main cause of balance of payments difficulties. Most importantly, protectionist measures were often justified on social or other grounds, and it might be counter-productive to attack all restrictions without regard to the reason for their application. Finally, the representative of the European Communities noted that the modalities of the Brazilian proposal raised difficult legal and practical issues, for example, relating to the GATT most-favored-nation principle, and to the principle that the balance of rights and obligations among contracting parties must be maintained.

The representative of the United States noted that the general world trade environment and recessionary conditions had had effects on all countries, and trade restrictions had tended to grow. It was important to reduce protectionism, and the GATT ministerial meeting had agreed on follow-up steps to this end. The GATT was embarked on an ongoing review of the policies and practices of all its members in several GATT bodies, and it was hoped that this would lead to trade liberalization. The United States representative had several reservations about focusing the trade liberalization effort on particular restrictions in particular countries. For example, countries that reported restrictions to the GATT could be singled out for special attention. In some cases "grey area" measures--those not legal or not reported to GATT--might be of greater importance than reported restrictions. He also expressed doubt that restrictions applied by one country had substantial effects on the balance of payments of another country, although there would be resource allocation and welfare gains from trade liberalization. As regards the proposal to suspend antidumping or countervailing duties, the United States representative was skeptical that such a proposal would be acceptable to U.S. public opinion, since it would allow domestic firms to be injured by subsidized foreign firms. In any case, the U.S. President had no discretion to suspend certain statutory procedures under U.S. antidumping/countervailing legislation.

The United States representative agreed with an earlier statement by the European Communities representative about the difficulty of assessing the usefulness of data on nontariff measures included in the Brazilian statement. He also felt that the issue of how trading partners' restrictions could be brought into a balance of payments consultation needed further reflection.

The representative of Japan agreed that due regard must be paid to external factors in the balance of payments consultations, whose main purpose, however, must remain to examine measures taken by the consulting country. Moreover, duplication of work with other GATT bodies should be avoided. The Balance of Payments Committee was not, in his view, an appropriate forum for a negotiation on the external factors.

The representative of Australia agreed with speakers who had been in favor of the Committee giving greater emphasis to external aspects; his authorities needed more time to reflect on the best way of doing this. It was important to avoid distortions in the trading system by focusing on a particular consulting country's problems of market access, and to avoid duplicating the work of other GATT bodies. GATT-authorized restrictive measures to safeguard domestic industries were an important safety valve, and there would be difficulties in the selective focus of the Brazilian proposals.

In response, the representative of Brazil welcomed the useful first round of discussions on how to give practical effect to the emphasis on external factors referred to in the Declaration on Trade Measures. He noted the difficulties of implementation involved in the proposals put forward by his delegation, but he hoped that by raising these issues, Brazil could contribute to the work of the Committee. He hoped Brazil's trading partners would be willing to put into practice the suggestions made by his delegation at the next balance of payments consultation with Brazil in two years' time.

Following the discussion, the Committee adopted the following conclusions.

> The Committee noted that Brazil's balance of payments and reserves situation had deteriorated sharply since the last consultation, due to a number of factors. These included the impact of the world economic recession on external demand, difficulties of external financing and debt servicing, and problems of budgetary adjustment among others in the Brazilian economy. In addition, Brazil's export efforts were hampered by protectionist pressures abroad.
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> While recognizing the seriousness of Brazil's balance of payments problems and the need to maintain import restrictions in the current situation, the Committee noted that the Brazilian import system remained complex and lacking in transparency. The Committee welcomed the statement by Brazil that a number of the measures included in its imports system were currently under review with a view to their modification, simplification or phasing out, as the case might be. The Committee expressed the hope that, in this review process, views expressed in the Committee relating to the multiplicity and complexity of Brazil's measures and the desirability of establishing a time frame for the liberalization of such measures would be taken in account, in accordance with the provisions of paragraph 1 of the 1979 Declaration.

The Committee, noting the statements by Brazil on the extent to which import measures adopted by its trading partners impinged upon its balance of payments, recognized the importance of giving particular attention to the possibilities for alleviating and correcting balance of payments problems through measures that contracting parties might take to facilitate an expansion of the export earnings of consulting contracting parties. Accordingly, the Committee agreed that members should jointly consider this issue in the broader GATT context, in the light of further consultations. The Committee noted the specific proposals made by the Brazilian delegation concerning ways to improve Brazil's export prospects. It was agreed that members would reflect further on these proposals.

2. Ghana 1/

In his opening statment, the representative of Ghana recalled the unprecedented dimension of the economic difficulties inherited by the present government, which obliged it to maintain for the time being the restrictions on trade and payments. He noted that Ghana's protracted balance of payments difficulties had been due largely to the failure of exports to generate enough foreign exchange resources to finance the country's imports and to meet debt obligations. Ghana's difficulties had been aggravated by the oil crisis of the mid-1970s, unfavorable terms of trade, and adverse weather conditions and brush fires, which increased the need for food imports. Given the constraints on available external resources, the supply of imports was inadequate and this, together with lack of incentives for producers, resulted in low levels of production. The economic recovery program currently being implemented in Ghana, with the support of the Fund, the World Bank, and bilateral donors, aimed at providing the basis for resumed growth. The measures being implemented by the authorities at a heavy social and political cost deserved the continuing sympathy, understanding, and cooperation of the contracting parties, the Ghanaian representative concluded.

The Fund representative made a statement. 2/

A relatively brief discussion ensued. The representatives of the European Communities and the United States expressed sympathy for the economic and balance of payments difficulties of Ghana, and encouraged the authorities to continue with their adjustment efforts. The representative of the United States welcomed the intention of the authorities to liberalize the restrictive system as soon as the

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1/ For the consultation with Ghana, in addition to the documentation provided by the Fund, the Committee had before it background papers submitted by the Ghanaian authorities (BOP/238, 11/16/83), and by the GATT secretariat (BOP/W/73, 11/22/83).

2/ Appendix III.

economic situation permits. He endorsed the Fund statement that the authorities would need to continue with their adjustment efforts beyond the current period.

The representatives of the European Communities and the United States raised questions concerning the operation of the import licensing system. The representative of the Philippines raised questions on the prospects for export diversification and the movement of capital. Following verbal responses by the representative of Ghana, the Committee agreed on the following conclusions:

> The Committee recognized the difficulties facing the Ghanaian economy and welcomed the efforts made by Ghana to overcome them with the assistance of multilateral financial institutions. It noted that Ghana's import regime had been simplified, and that it operated without discrimination regarding sources of supply outside of bilateral clearing systems maintained with a few countries.
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> The Committee encouraged Ghana to pursue its efforts to adjust to the current difficulties, and expressed the hope that it would soon be in a position to fulfill its intention to relax trade restrictive measures as soon as its balance of payment situation improved.

3. Consultations under simplified procedures 1/

On the basis of the documentation before it, the Committee concluded that full consultations were not desirable, and decided to recommend to the GATT Council that Peru, Tunisia, and Turkey be deemed to have fulfilled their obligations under Article XVIII:12(b) for 1983.

1/ GATT documents before the Committee included: Peru: BOP/237 (11/16/83), Cor. 1, and Add. 1; and BOP/W/76 (11/22/83); L/5507 (7/1/83); Tunisia: BOP/240 (11/30/83); BOP/W/69 (11/21/83), and Cor. 1; L/5566 (10/20/83), and Add. 1; and L/5581 (11/11/83); and Turkey: BOP/241 (12/1/83); and BOP/W/75 (11/22/83), and Cor. 1.

GATT--Committee on Balance of Payments Restrictions

Consultations with Brazil

Opening Statement by the Representative of Brazil

December 6, 1983

Mr. Chairman, these consultations have been requested from us for the purposes of ascertaining (a) whether Brazil has raised, since its last consultations in December 1981, the level of restrictions it applies to its imports, for balance of payments, and if so, whether this was warranted by the worsening of Brazil's external payments position; and (b) finally, whether the measures taken by Brazil are in conformity with its obligations towards other contracting parties in the GATT.

Allow me, sir, to indicate that after the Committee has concluded its examination of the above-mentioned questions, it is the intention of the Brazilian delegation to invite the Committee to consider, in the light of the relevant provisions of GATT, particularly paragraphs 11 and 12 of the "Declaration on Trade Measures Taken for Balance of Payments Reasons," (a) in what ways restrictive trade measures taken by other contracting parties, many of them not consistent or not based on GATT, may be a source of, or may aggravate, the balance of payments problems encountered by Brazil; and (b) in what ways and to what extent contracting parties with balance of payments surpluses could and should, in their very self-interest, contribute to facilitate the export earnings of Brazil.

At the last consultations, held exactly two years ago, this Committee noted that the overall balance of payments of Brazil was expected to be in approximate equilibrium by the end of 1981, and expressed the hope that Brazil would, as a result, be in a position to reduce substantially its reliance on restrictive import practices.

A more careful examination of the evolution of the Brazilian balance of payments would have shown, however, that since 1974, after the first oil shock and when the first import restrictions we are now considering were introduced, Brazil started to experience substantial and successive trade and current account deficits. Such deficits could only be financed by large inflows of capital, mostly through the recycling of petrodollars in the Eurocurrency market. In other words, by increasing the external indebtedness of the country.

This structural weakness in our balance of payments was aggravated in the late seventies by the very steep rise in interest rates in the international money markets and by the second oil shock. Due to the intensive efforts in energy substitution and conservation programs, it was possible to keep the trade deficits at about the same level recorded in the mid-seventies. The increased current account deficits in 1979 and 1980, which resulted from the rise in interest payments, could not, however, be entirely financed by external resources. As a consequence, for the first time in many years, Brazil faced in 1979 and 1980 two very sizable overall balance of payments deficits, with the corresponding reduction of our international reserves.

Seen in this broader context, it is clear to us that Brazilian balance of payments results for 1981 could not in fact warrant the optimistic expectations then voiced in this Committee. The overall equilibrium then obtained could only very thinly hide the seriousness and the structural long-term nature of our balance of payments problems. Export receipts realized at great pains as a consequence of falling prices for our commodities were barely enough to cover imports of goods and were not even sufficient to pay for the imports of nonfactor services. The main instrument at our disposal to finance the ever expanding interest bill and to avoid a contraction of imports below the 1980 level was again the increase in external indebtedness.

The Brazilian balance of payments figures for 1982 reveal in its full extent the dramatic impact of the deterioration of the world economic environment on the already fragile external position of my country. As a consequence of the economic recession and of renewed protectionism in the developed world, our exports fell by approximately 15 percent in that year; imports contracted in the same proportion. Interest payments, however, increased by 24 percent. The small trade surplus of US$800 million was totally submerged by an enormous current account deficit of US$16.3 billion, equivalent to more than 5 percent of the Gross National Product, and 39 percent higher than the one recorded in 1981. In addition, well-known events in the world financial markets resulted in an abrupt and substantial contraction, in our case in the order of 30 percent, of the amount of resources available on the capital account. The inevitable outcome was an overall balance of payments deficit of US$8.8 billion, with a grave deterioration of our international reserve position.

In the light of the above facts, it seems to us to be abundantly clear that there were no grounds whatsoever, under GATT rules, for the relaxation of import restrictions previously imposed by Brazil for balance of payments reasons, which had been the object of discussion in this Committee two years ago. Quite the contrary, it was evident from further worsening of our external problems, for reasons mainly beyond our control, that the intensification of the level of restrictive import measures would unavoidably and regretfully be necessary. Such an undesirable outcome could only have been prevented if Brazil were in a position to greatly expand its exports, or alternatively, but less attractively, to increase its access to financial markets, or to do both.

The continued deterioration of Brazil's balance of payments as accurately reflected in the pronounced decline of its international reserves characterizes, without a shade of doubt, a situation in which we are entitled under the GATT to increase the level of restrictive import measures. We had to do so in order to defend the ability of the country to assure a minimum essential level of imports and to meet its debt-service obligations towards our creditors, which incidentally are our biggest trading partners.

It is under these circumstances that one has to consider actions taken by Brazil after the 1981 consultations, and which resulted not only in the further suspension of import licensing, in the increase in number of items subject to tariff surcharges, and in the reduction of the import ceilings in state trading, but also in the centralization of the control of foreign exchange transactions.

These severe balance of payments conditions led Brazil to resort in 1982 to the financial assistance of the Fund for the utilization of SDRs 4.5 billion of its extended facility over a period of three years, starting in 1983. In exchange for this specific Fund assistance, and for the Fund help in arranging credit support from the international banking community, Brazil committed itself to an adjustment of its balance of payments over the three-year period which relies on trade surpluses essentially generated by restriction of imports. For 1983, the export target agreed with the Fund represents a 10 percent increase in relation to the preceding year; the import goal of US$16 billion, also agreed with the Fund, corresponds to a 20 percent decrease in comparison to 1982, and to a 30 percent reduction in relation to the 1981 level. That is to say, in order to achieve the aim of a US$6.0 billion trade surplus, Brazil in 1983 will have to import US$6.0 billion less than in 1981, the year which was the object of the particular attention of this Committee in our last consultations.

Notwithstanding the serious difficulties the country has to overcome, Brazil, as a result of the adoption early this year of a realistic exchange rate policy which raises the competitiveness of our exports, has felt itself in a position to take some liberalization measures as regards its trade and payments policies. This can be seen, for instance, in the reduction of the degree of subsidization extended to exports, at a moment when some of our competitors are increasing their own subsidies; it can also be seen in the reduction of the rate and of the range of application of the financial tax on import transactions, in compliance with our commitment to avoid as much as possible practices which imply multiple exchange rates.

The general objective of the adjustment policies pursued by Brazil in its economy as a whole and specifically in its external sector, is to provide a solid basis for the resumption in the long run of the process of economic development, and by so doing to restore its balance of payments equilibrium on a sound and lasting foundation. There should be no doubt that our wish is to achieve such aim at increasingly higher levels of trade, on the basis of export expansion rather than of import contraction. In adopting restrictive import measures or in increasing the level of their incidence, we are, first and foremost, imposing very severe and painful constraints on the very level of economic activity in our country, with all its social and political implications. Given the scope and intensity of the adjustment effort, it is expected that the present level of import restrictions will prove sufficient. On the other hand, relaxation of existing measures is not to be expected, unless a net and substantial improvement of our international reserve position takes place.

The figures and information which corroborate the view I have advanced are at the disposal of this Committee in Document BOP/239, circulated by Brazil as a basic document for these consultations. The background material supplied by the Fund gives, as well, supporting evidence of our position. As foreseen in the relevant GATT provisions, it is to be expected that this Committee will be provided in these consultations with the required determination by the Fund on the state of our international reserves.

Mr. Chairman, having supplied the Committee with what we believe are the legal grounds for maintaining import restrictions, and for increasing their level, allow me, sir, to address myself to the question of the conformity of the specific measures adopted with our obligations under the GATT.

It seems to us easily perceptible from the record of trade practices of contracting parties in similar circumstances that the different restrictive import measures taken by Brazil are fully in line with the disciplines of the GATT. To begin with, Brazil has tried to apply measures which have the least disruptive effect on trade, as required under paragraph 1(a) of the Declaration on Trade Measures for Balance of Payments Purposes.

As regards notification, we have endeavored to comply with our obligation to report to the GATT as fully as possible on the intensification of the restrictive measures. In this connection, I would like to bring to the attention of the Committee that Document BOP/74 does not take account of all notifications made by Brazil.

As seen in the last consultations of December 1981, actions taken for balance of payments reasons by Brazil are moreover of a nondiscriminatory nature, as required by the GATT. Both tariff surcharges and suspension of import licenses apply only to items not bound by Brazil in GATT, and as such, fully respect commitments under Article II of the General Agreement.

In the present consultations, we are dealing in fact with only a rise in the incidence of measures whose consistency as such with GATT rules had already been established in this Committee. I would like nevertheless to refer to doubts which were raised in two specific points in the 1981 consultations, to wit (a) the question of a timetable for the phasing out of the financial tax on import transactions, and (b) the problem of simultaneous application of different measures.

On the first point, I would like to indicate that the Brazilian authorities, in the context of the adjustment program negotiated with the Fund, maintain the objective of implementing policies which would lead to the elimination of such practices.

As far as the simultaneity of different measures applied by Brazil, it should be borne in mind that, under the GATT relevant provisions, a contracting party applying restrictive measures to imports, is only expected to avoid the concurrence of measures in that direction. It goes without saying that under the extreme perverse balance of payments conditions at which one contracting party may find itself, the adoption of one single measure may clearly not be enough to produce the necessary limitation of imports. Complex and acute problems such as the ones faced by Brazil are not amenable to be dealt with, except by a combination of actions which are nevertheless consistent with obligations under the GATT.

Mr. Chairman, as indicated at an earlier stage of this statement, the balance of payments adjustment policy pursued by Brazil is subjected to three main constraints. They are, to begin, the export limitations effect on our trade account, arising from (a) depressed prices for our export commodities; (b) enfeebled import demand of our main partners; and (c) increasingly restricted access to the market of these partners as a result of protectionist actions, and, in the case of some of our less developed trade partners, as a result of their respective adjustment policies agreed upon with the Fund.

The second very important constraint is the negative effect of the extremely high level of interest payments on our <u>service</u> account, a direct consequence as admitted by the Fund, of the low level of fiscal discipline in industrialized countries. Only last year, in an address entitled "Restoring Fiscal Discipline," the Managing Director of the Fund pointed out: "In spite of the decline in the inflation rate and the recession, the current level of nominal interest rates in the United States is high, and the level of real interest rates is extremely high, causing many serious problems for the U.S. and the rest of the world." This is confirmed by recent statements by U.S. authorities themselves. The chairman of the Federal Reserve Board, Mr. Paul Volker, last October, stressed before the U.S. Congress that: "The persistence of large U.S. Federal deficits complicates the effort to deal with the international debt situation."

The third main constraint in the correction of Brazil's balance of payments imbalance lies in the dramatic contraction of international financing on one <u>capital</u> account. Here we are dealing not only with the reduced availability in the volume of commercial loans, but also with the steep decline in terms of direct investment and especially of official lending assistance by government and public financing agencies. Volume and quality of international lending are of course basic elements in any serious attempt to restore the equilibrium of the balance of payments of debtor nations. This is all the more relevant as these countries have a significant role to play in the recovery of world trade and in overcoming the present world economic recession.

Given the nature of the resposibilities of GATT and of this particular Committee, I ask your permission to address myself in particular to the export constraints Brazil faces in its effort to restore a lasting and sound equilibrium in its balance of payments. In so doing, I would like to start by calling the Committee's attention to Article 12 of the *Declaration of Trade Measures Taken for Balance of Payments Purposes*, and I quote:

> In the course of full consultations with a less-developed contracting party the Committee shall, if the consulting contracting party so desires, give particular attention to the possibilities for alleviating and correcting the balance-of-payments problem through measures that contracting parties might take to facilitate an expansion of the export earnings of the consulting contracting party, as provided for in paragraph 3 of the full consultation procedures.

It will be recalled that, in informal consultations held under your chairmanship three weeks ago, my delegation expressed its desire to proceed in this manner.

The obligation of contracting parties to cooperate with a trading partner in balance of payments difficulties goes of course much beyond the letter of the above quoted provision. More than a legal duty, it can and should be seen as an action for the benefit of the expansion of world trade and as a promotion of their own national interest. This seems to us particularly true as regards contracting parties enjoying balance of payments surpluses, especially if they are major trade partners for the consulting country, and in addition, when they find themselves in the position of creditors of that deficit country.

It should be made clear that balance of payments adjustments should be based, as recognized by consensus in the last meeting of the Consultative Group of 18 of the GATT, on export expansion and not on import reduction. The need to extract practical conclusions from this view is even more acute when one considers that many countries are, at the same time, implementing adjustment policies which, to the extent that they are based on import restrictions, have a compounded depressive effect on the export earnings of these same countries in their trade relations with one another.

Without belittling the positive contribution economic recovery in the industrialized countries can have in terms of a higher demand, and perhaps better prices for the exports of countries like Brazil, it is evident that the main thrust for facilitating the increase in our export earnings has to come from the dismantling of the extraordinary arsenal of trade barriers, mostly of a nontariff nature, which block the access of our goods to the markets of our large trading partners in the industrialized world.

Our contention, sir, is that such barriers are among the root causes of the structural nature of our balance of payments problems, and that their constant increase constitute an aggravating factor in the external account imbalances we have to correct.

On behalf of the Brazilian delegation, I would like at this point in time to place on record our appreciation for the effort made by the GATT secretariat in Document BOP/W/74, paragraphs 18-24. Due to lack of time, it was only possible to list barriers to Brazilian exports notified in 1983. This is of course only the tip of the iceberg, but it certainly represents a first serious attempt this Committee should not fail to support, in giving practical application to the GATT provisions which recommend the evaluation of all external actions affecting the export earnings of a consulting contracting party.

Having done some homework ourselves on some of the measures restricting our export trade, we can understand that the secretariat did not have the time to list them all. There are simply too many of them, Mr. Chairman. Our preliminary count of nontariff measures applied to Brazilian products by our three larger trading partners shows the following figures, based on the respective tariff line: in the Japanese market - 68 products; in the U.S. market - 316 products; in the EEC market - 520 products.

As you can see, Mr. Chairman, the figures boggle the mind. Preliminary as they are, they seem to provide the most direct reason for our inability to expand our exports. Particularly if you consider that, although alarming in themselves, these barriers do not seem to stop increasing. We in Brazil fully understand the meaning of a recent statement by Jacques Delors, the French Minister of Finance, who said: "Each time a decision is taken to remove a non-tariff barrier, a hundred others spring up." Mr. Chairman, if we allow the current trend of "geriatric protectionism" to go unchecked, I wouldn't be surprised if soon all of our export products, and everybody else's as well, were subjected to one type of barrier or another. But by then, I'm afraid most of what we attempt to do in this building will have lost whatever meaning it still has.

What I mean by this is that the least these contracting parties could do is to remove immediately the large number of these barriers, particularly in the field of quantitative restrictions, which are inconsistent with GATT, that is to say, plainly illegal. They would be doing nothing more than complying with the commitment they undertook in that regard during the ministerial meeting last year. It looks to us like an unbalanced exercise if a consulting contracting party, and a developing one at that, sits here to justify its balance of payments measures when several contracting parties go on maintaining illegal barriers to its exports trade.

What is to be done? What contribution can this Committee give to fulfill its responsibilities under the GATT? More important still, what actions are contracting parties prepared to consider, collectively or individually? We are faced here, squarely, with the much discussed issue of the trade-finance link. In other words, to what extent and by which trade measures can contracting parties help to alleviate the payments problems of the debtor countries?

One possibility that might deserve considered reflection by the members of this Committee would be for the big trading partners to take the following immediate trade initiatives:

1. To roll back, for the benefit solely of developing countries, all existing import restrictions inconsistent with the GATT, affecting in particular, products of interest to developing countries with balance of payments problems.

2. To suspend, for the duration of the adjustment program agreed upon with the Fund, all safeguard actions taken or under consideration against export products of a consulting developing country.

3. Refrain from imposing for the duration of the adjustment program agreed upon with the Fund countervailing or antidumping duties on products exported by developing countries.

It is the understanding of the Brazilian delegation that before any new balance of payments consultation with Brazil is convened, this Committee should have before it a secretariat document listing and analyzing all restrictive measures applied by Brazilian trading partners which restrict the access of Brazilian goods to their markets, as well as to third markets.

This should be done with a view to allowing the Committee to make clear recommendations on the concrete trade actions by contracting parties for the removal of such barriers.

Allow me to conclude, sir, by invoking a highly authoritative testimony just given by the President of the Bank for International Settlements. Saying that increased protectionism in industrialized nations will reduce world trade and intensify the critical rise in international debt, Mr. Fritz Leutwiler, who is also Chairman of the Central Bank of Switzerland, stated in Philadelphia, before a gathering of political and financial leaders: "In our own interest we must give developing countries a fair chance to expand their exports."

Thank you, Mr. Chairman.

GATT - Committee on Balance of Payments Restrictions

Consultation with Brazil

Statement by the Representative of the International Monetary Fund

December 6, 1983

In 1981, the current account deficit 1/ of Brazil's balance of payments amounted to 5.6 percent of GDP. Brazil experienced no major difficulties in obtaining sufficient foreign credit to finance such a deficit, and in rolling over maturing foreign debt. Net international reserves increased by US$0.8 billion during the year, and gross official reserves reached US$7 1/2 billion at the end of 1981. However, real GDP declined by 3 1/2 percent, and only limited progress was made in reducing the 12-month rate of inflation--to 95 percent by end-1981, compared with 110 percent in December 1980.

Brazil's economic performance suffered a setback in 1982. Output was stagnant, inflation continued at nearly 100 percent, and the external situation weakened considerably. The effects of the deepening recession in industrial countries, a further deterioration of commodity prices, and financial difficulties in countries that had recently become important markets for Brazilian manufactures, were compounded in the second half of 1982 by the change in the attitude of international financial markets toward Brazil. For the year as a whole, both exports and imports declined by 12-13 percent, and the trade surplus fell to US$0.8 billion, from US$1.2 billion in 1981. Mainly due to higher interest and travel payments, the net deficit on services and transfers rose from US$12.9 billion in 1981 to US$17.2 billion. The current account deficit rose by more than US$4 1/2 billion to US$16.4 billion, equivalent to 7.6 percent of GDP, and gross official reserves declined by more than one half, to US$2.8 billion at the end of 1982.

Brazil maintains a complex trade and payments system, featuring many distortions and restrictions. In September 1982, in order to stem the rapidly deteriorating balance of payments situation, the authorities prohibited a substantial number of imports, tightened regulations on certain payments, and subjected tourist expenditures abroad to the financial transactions tax. In October 1982, the requirements for the minimum financing terms for imports of machinery and equipment and of industrial durable consumer goods with exchange cover were tightened.

In December 1982, Brazil announced an economic program for 1983-85. In the short run, the program aimed at reducing external and internal imbalances and, in the medium term, at bringing about structural changes to permit a return to high and sustainable rates of growth of output and employment. The basic objectives of the program were to raise domestic savings, especially in the public sector, to reduce dependence on

1/ The current account deficit includes reinvested profits.

external resources, and to make the economy more efficient by allowing relative prices to adjust, eliminating subsidies, and cutting back exchange and trade restrictions. The external targets of the program--which envisaged a sharp reduction in the current account deficit in 1983, followed by further reductions in 1984 and 1985--were a substantial reduction in the growth of external debt, and moderate surpluses in the overall balance of payments that would help rebuild foreign exchange reserves. Most of the improvement in the external position in 1983 was to come from a reduction in imports of goods and services. From 1985 on, however, a steady increase was expected in the U.S. dollar value of imports. Also, starting in 1984, increased conservation and domestic output was to reduce the oil bill, and thus to permit a significant recovery of non-oil imports, in line with the expected domestic economic recovery and the need to replenish inventories. The program called for a reduction in the public sector's financing requirement, which would be instrumental in scaling down foreign borrowing and reducing inflation. The program foresaw reductions in credit subsidies to agriculture, a substantial strengthening of domestic pricing policies, in particular with respect to prices of fuel products, and a tightening of incomes policies.

This program formed the basis for a request by Brazil for the use of Fund resources. On February 28, 1983, the Fund approved the use of resources totaling the equivalent of SDR 4,955 million. Of this total, SDR 4,239 million (425 percent of Brazil's quota in the Fund), was made available for drawing over a three-year period under an extended arrangement; SDR 249.4 million, the equivalent of Brazil's first credit tranche, and a drawing of SDR 466.3 million under the compensatory financing facility were made available immediately. The drawing under the compensatory financing facility was in respect of a shortfall in Brazil's export earnings during the calendar year 1982, and followed an earlier drawing of SDR 498.8 million in December 1982.

To date, Brazil has made substantial progress toward meeting the external targets of the program for 1983, although its foreign exchange situation remains under severe pressure. In late February 1983, the cruzeiro was depreciated by 23 percent in terms of the U.S. dollar. This action reversed the appreciation of the cruzeiro in real effective terms which had occurred since 1980. The February devaluation and the policy of frequent adjustment of the exchange rate in line with domestic inflation have contributed to positive results in the trade account. The trade surplus reached US$4.9 billion in the first nine months of this year, an amount consistent with the targeted surplus of US$6.3 billion for the year as a whole. Exports in the period January-September were US$16.3 billion, about 8 percent higher than in the corresponding period of 1982. Partly as a result of being restrained by quantitative restrictions, especially by use of a comprehensive import budgeting scheme, imports declined by 23 percent. The current account deficit in the first half of 1983 was estimated at under US$4 billion, slightly larger than projected, mainly because international interest rates turned out to be higher than had been projected. Net capital inflows fell short of expectation, particularly as regards direct foreign investment and short-term financing provided by international banks. As a result, external payments arrears emerged during 1983, and reached US$2.8 billion by end-September 1983.

Progress in external adjustment was not matched on the domestic front. There were delays in implementing some adjustment measures, especially curbs over public sector expenditure and corrective price increases. Also, tax revenues fell short of projection, as export taxes were eliminated sooner than originally planned and tax receipts in general did not keep pace with accelerating inflation. Under these circumstances, inflation exceeded the assumptions underlying the program estimates, and inflationary expectations were exacerbated. The strong demand from the public sector for credit was accompanied by credit stringency to the private sector.

In June 1983, measures began to be implemented to re-establish the thrust of the adjustment effort. These included substantive action relating to price, wage, fiscal, and monetary policy, and a strengthening of the mechanisms of control and monitoring of public finances. Fuel prices were increased by 45 percent, thereby ending the subsidization of oil products. The prices of these products have subsequently been adjusted in line with currency depreciation. The price of wheat was raised by 100 percent in June, and by another 40 percent on September 1, 1983. Subsidization of wheat will be eliminated by June 1984. Prices of steel and electricity are being raised so as to achieve an increase of about 5 percent in real terms. Prices of other public services are being kept under review, with prices being adjusted to take account of market and efficiency considerations of the firms in this sector.

Inflation moved up sharply in June 1983, and has been high since that time. Supply limitations in the agricultural sector contributed to this acceleration, and policies to change relative prices had the effect of raising the general level of prices, in part because of the high degree of indexation of the Brazilian economy. The curtailment of imports added to the inflationary pressures. The continuation of much higher-than-projected inflation rates, in spite of the strengthening of demand management policies in the second half of 1983, convinced the authorities of the need for a further tightening of monetary control and the reinforcement of public finances.

On November 9, 1983, the Brazilian Congress adopted Decree Law No. 2065, which provides for an average rate of indexation of wages to inflation of 86 percent, which is significantly below the rate of indexation under legislation in force in 1982. Also, the growth of money supply (M_1) will be limited to only 50 percent in 1984, with credit policies designed to ensure positive real rates of interest. Adjustment of the public finances remains central to the overall economic program, and the public sector's overall financing requirement is expected to decline from 18.6 percent of GDP in 1983 to a range of 9-11 percent in 1984. To ensure these results, the authorities have adopted further revenue measures and additional expenditure cuts. Monthly targets for the borrowing needs of the Central Administration, states and municipal governments, and state enterprises have been set. Performance in respect of these targets will be monitored closely by a new organization, COMOR, which will signal whenever compensatory action is deemed necessary.

The balance of payments aims for 1983 under the program appear likely to be fulfilled: the current account deficit is now projected at about US$8.7 billion (4.0 percent of GDP), compared with US$16.4 billion in 1982 (7.6 percent of GDP). The overall balance of payments is projected to be in equilibrium, provided the external financing assumed in the program materializes. In addition, the program calls for the elimination of all external payments arrears by end-1983, and the authorities also intend to eliminate certain external payments restrictions. The current account deficit for 1984 is expected to be reduced to US$7.0 billion (3.0 percent of GNP). The authorities have affirmed their intention to introduce a trade system providing protection to domestic activity through tariffs rather than through quantitative restrictions. The authorities intend to present specific proposals for legislative action by mid-1984.

In summary, after a long period of rapid economic growth the need for a change in economic strategy became evident in mid-1982. Brazil faced an external environment fundamentally different from that prevailing over much of the previous two decades, and the measures that had been introduced to cope with the balance of payments problems that emerged in the wake of the two major oil price increases and the increase in real interest rates were shown to be insufficient to redress growing domestic and external imbalances. The comprehensive medium-term economic program that has been adopted by the authorities accordingly involves a shift in the strategy of growth based on foreign borrowing to one that emphasizes the efficiency of the economy and a strengthening of domestic savings. In the external sector, the adjustment calls for a reduction in the current account deficit of the balance of payments to levels that can be sustained over the medium term. Domestically, the program aims at reducing inflation and restoring economic growth. Maintenance of the competitiveness of Brazilian exports and improvement in resource allocation requires the continuation of the policy of small and frequent adjustments of the exchange rate in line with domestic inflation. The flexible exchange rate policy will help in the restoration of an orderly payments system through the elimination of external payments arrears, and it will facilitate the relaxation of exchange and trade restrictions.

The Fund welcomes the determination of the authorities to carry out the comprehensive adjustment efforts, whose success will also require the support and cooperation of the international financial community and Brazil's trading partners. The Fund believes that, with such efforts and support, conditions will have been created for the restoration of a liberal trade and payments system.

GATT - Committee on Balance of Payments Restrictions

Consultation with Ghana

Statement by the Representative of the International Monetary Fund

December 6, 1983

During most of the 1970s, Ghana experienced serious economic and financial difficulties, resulting mainly from severe structural imbalances and expansionary policies. The cumulative impact of large budgetary deficits, rapid increases in domestic bank credit, and the pursuit of unrealistic domestic pricing, interest rate, and exchange rate policies, led to severe supply shortages, high inflation, a steady worsening of the balance of payments, and the accumulation of external payments arrears. These problems deepened during 1980-82, following a sharp deterioration in the terms of trade and prolonged drought conditions. As a result, real output, which had dropped steeply in the mid-1970s, declined at an annual average of about 2 percent during 1979-81, and fell again by an estimated 7 percent in 1982. Broadly in line with increased government controls and a tightening supply situation, parallel market activity for foreign exchange and goods flourished. Concurrently, the rate of inflation, as measured by the national consumer price index, accelerated sharply, peaking at 116 percent in 1981.

In the face of rising balance of payments pressures, imports were cut back to match declining exports, and the current account was thereby contained to an annual average deficit of US$90 million in 1981-82, following surpluses averaging about US$70 million in 1979-80. Although the value of trade fluctuated considerably during 1979-82, over the period as a whole both exports and imports declined in nominal U.S. dollar terms. Export earnings decreased at an annual average rate of 8.5 percent during 1979-82, from US$1,066 million to US$627 million. During the same period, nominal imports also registered an annual average decrease of about 9 percent, from US$803 million to US$529 million, but the decline was much greater in volume terms, amounting to 15 percent per annum. Net capital inflows were low relative to the requirements of the country. While net inflows of long- and medium-term government capital registered a broadly rising trend between 1979 and 1982, and direct private investment also increased, very large outflows on "errors and omissions," probably representing speculative capital flight, tended to depress the capital account balance. On a cumulative basis, the overall balance of payments was in virtual equilibrium during 1979-82, after taking into account changes in the stock of payments arrears. Gross international reserves amounted to US$224 million at end-1982, equivalent to five months' imports. This relatively high ratio of reserves to imports is misleading, because the level of imports in 1982 was unusually low and a large portion of reserves was pledged against past borrowings. Net foreign assets of the Bank of Ghana, excluding payments arrears, amounted to US$140 million at end-1982; if payments arrears are included, net foreign assets would be negative.

The restrictions on exchange and trade were progressively tightened throughout the 1970s and the early 1980s. All imports involving the use of official foreign exchange became subject to an increasingly restrictive specific import license requirement, within the framework of an annual import program. The list of products eligible for specific import licenses became progressively shorter; in 1982 licenses were issued only for a limited category of essential products. The number of prohibited imports also grew. As the restrictions on the issuance of specific import licenses intensified, the use of special import licenses not requiring transfers of foreign exchange through the banking system was encouraged and expanded. However, the utilization of these licenses was largely inadequate to compensate for the cutback of specific import licenses. As a result, severe shortages of imported goods developed. In addition, all invisible payments required specific approval of the Bank of Ghana. Foreign exchange for business travel and remittances of profits and dividends was granted only in exceptional cases, and foreign exchange for tourist travel was not granted. Foreign exchange for payment of approved imports was, in principle, granted without restriction. However, payments arrears emerged with respect to trade credits and other current payments, and, by end-April 1983, amounted to US$601 million, or the equivalent of one year's merchandise exports.

On April 21, 1983, the Government announced a major adjustment program which is being supported by a one-year stand-by arrangement with the Fund which became effective on August 3, 1983. The Government's policies focus on a major restructuring of relative prices, especially on correcting the substantial overvaluation of the cedi, on improving the financial position of the public sector, on increasing the volume of imports to promote economic activity, and on reducing external payments arrears. Substantive action has already been taken in a number of areas. The authorities initially adopted a multiple exchange rate system as a transitional arrangement, which resulted in an implicit average exchange rate of about ₵25 = US$1, compared with the rate of ₵2.75 = US$1 which had been in effect since August 1978. Action on the unification of the exchange rate was taken on October 10, 1983, well ahead of schedule, with the new unified exchange rate of ₵30 = US$1 representing a further depreciation in terms of local currency of about 20 percent. The Government is committed to continuing with a flexible exchange rate policy, so as to maintain Ghana's international competitive position.

Domestic price policy has been made more flexible. Producer prices for cocoa and other export crops are being adjusted to provide adequate incentives to farmers; the producer price for cocoa was raised by 67 percent in May 1983. Price controls on domestically produced food items have been lifted, and a flexible policy is being applied to other prices. The policy is to allow a full pass-through of the effects of the exchange rate adjustment on domestic prices of most imported and locally processed goods. The pass-through on petroleum products will be effected in stages; following a doubling, on average, of retail prices of petroleum products in April 1983, these were raised further by about 50 percent in October.

To partially offset the erosion in real wages and salaries which, by early 1983, had dropped to 16 percent of the 1975 level, nominal wages and salaries were raised by 60 percent in the civil service and by 25 percent for other workers. Interest rate policy aims at attaining positive real rates over the medium term; toward this end, interest rates were raised by 35-40 percent (or by up to 5 percentage points) in October. Budget expenditure control has been strengthened, and additional discretionary revenue measures to strengthen the budget have also been taken. Cautious monetary and credit policies are being pursued, consistent with the needs of a reviving economy, at the same time as inflationary pressures are avoided.

The positive effects of the adjustment measures are expected to be felt progressively over 1983-84. Real growth is likely to be positive this year, and to accelerate to about 4 percent in 1984. In view of price decontrol measures, the rate of inflation, as measured by the national consumer price index, is expected to rise to 50 percent in 1983, but to be reduced by half in 1984. The overall budgetary deficit is expected to decline steadily through 1984 from the 1982 level of 4.6 percent of GDP. With regard to the balance of payments, a considerable increase in the current account deficit is expected, both in absolute terms and in relation to GDP (7-10 percent in 1983-84) because of the urgent need to expand import volumes to support investment and growth. Thus, import volumes are programmed to rise by around 50 percent in 1983-84. Already, a relatively more liberal import licensing policy has been adopted to enable the programmed increase in imports to take place. The impact of changes in the exchange rate, producer prices, and improved supply of imported inputs is expected to result in a strong expansion in export volumes in 1984. In addition, the Government intends to bring about a phased cash reduction of external payments arrears during the program period.

The Fund welcomes the adoption of the adjustment program as an important step toward rehabilitating the Ghanaian economy, and improving medium-term viability of the balance of payments. The authorities would clearly need to continue with their adjustment efforts beyond the current program period, and a significant increase in concessional external assistance from bilateral and multilateral sources would contribute to the success of such efforts. As the economic recovery takes hold, the authorities should be in a better position to ease exchange and trade restrictions.