

For Immediate Attention

EBD/69/98

June 20, 1969

To: Members of the Executive Board

From: The Secretary

Subject: Preparation for Consultations with the CONTRACTING PARTIES to the GATT

The Fund has been invited to consult with the CONTRACTING PARTIES to the GATT under Article XV of the General Agreement. It is recommended that the Managing Director be authorized to accept the invitation and to designate Mr. Hans W. Gerhard of the Exchange and Trade Relations Department as the Fund representative to the meeting of the Committee on Balance of Payments Restrictions and to the meeting of the Working Party on Turkish stamp duty scheduled from July 1-10, 1969.

In the attached report, the Committee on Liaison with the CONTRACTING PARTIES to the GATT makes its recommendation with regard to the guidance for the Fund representative at these meetings.

Unless there is objection by an Executive Director by the close of business on Thursday, June 26, 1969 the above recommendations will be deemed approved and it will be so recorded in the minutes of the next subsequent meeting.

Att: (1)

Other Distribution:
Department Heads
Division Chiefs

June 20, 1969

To: Members of the Executive Board

From: Eero Asp, Chairman of the Committee on Liaison with the
CONTRACTING PARTIES to the GATT

Subject: Preparation for Consultation with the CONTRACTING PARTIES to
the GATT

The Committee on Liaison with the CONTRACTING PARTIES to the GATT has considered the attached memorandum from the staff concerning preparation for the forthcoming GATT meetings. The Committee recommends approval of the recommendations in this paper.

Att: (1)

June 16, 1969

To: The Chairman of the Committee on Liaison
with the CONTRACTING PARTIES to the GATT

From: Director, Exchange and Trade Relations Department

Subject: Preparation for Consultations with the
CONTRACTING PARTIES to the GATT

In a letter reproduced as Attachment A, the Director-General of the General Agreement on Tariffs and Trade extends to the Fund an invitation to consult with the CONTRACTING PARTIES in connection with: (i) their regular consultations with 15 countries on balance of payments restrictions, planned for 1969-70 (see Attachment B); (ii) their consultation with Turkey on a stamp duty increase, planned for early July 1969; and (iii) their consultation with Poland regarding accession to the GATT, planned for later this year. The first round of regular consultations with Brazil, Ceylon, New Zealand, and Turkey and the meeting of the Working Party established to examine a request by Turkey for amendment of the waiver with respect to the country's stamp duty are to be held in Geneva from July 1-10, 1969. It is intended to recommend to the Executive Board that the Managing Director be authorized to accept the invitation in respect of the consultations under GATT Article XII and Article XVIII:B and in respect of the Working Party on Turkey's stamp duty increase. The invitation to consult with GATT under the Protocol of Accession of Poland will be considered separately.

In accordance with the procedure in EBD/56/102 (8/29/56) the Fund has transmitted to the CONTRACTING PARTIES the background material and Executive Board decisions relating to the most recent consultations under Article XIV of the Fund Agreement with Brazil and Ceylon. A supplementary background paper containing later information on Ceylon may be prepared and, if so, it will be submitted separately for Board approval of its transmission. It is expected that it will be possible to transmit the background material and Executive Board decisions on New Zealand and Turkey as soon as the Executive Board has concluded the 1968 Article XIV consultations with these countries.

It is expected that the GATT Committee and the Working Party request the Fund's views with respect to consulting countries. It is recommended that, in reply to such a request as regards Brazil and Ceylon, the Fund's representative should be guided by the statements set forth below. In view of timing I would suggest that the staff recommendation on the statements to be made as regards New Zealand and Turkey be submitted directly to the Executive Board immediately after it has concluded the consultations with these countries.

Brazil

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of April 25, 1969 taken at the conclusion of its most recent Article XIV consultation with Brazil and particularly to paragraphs 2 to 5 which read as follows:

'2. In 1968 there was a strong rise in economic activity and an improvement in the net foreign reserve position of the monetary authorities, but there was no further progress in reducing the rate of inflation. While the fiscal deficit was held to about the amount that had been planned, bank credit rose much faster than had been envisaged in the financial program, including operations financed from a sharp increase in the commercial banks' short-term foreign indebtedness. The trend toward a deceleration of the rate of increase of money wages that has been evident since 1964 was interrupted in the second half of 1968, as workers were compensated for reductions in real wages that had emerged in previous years as an unintended effect of the application of the official wage formula.

'3. The Government's financial program for 1969 aims at a sharp reduction in the rate of price increase--to about 15 per cent--concomitant with a satisfactory rate of growth and sound balance of payments position. To achieve these objectives the program calls for a major cutback in the rate of expansion of bank credit, based in part on important measures adopted to reduce the fiscal deficit but also entailing a much tighter policy on credit to the private sector. In addition, the continued application of the wage formula is expected to result in a resumption of the declining rate of money wage increases, and the flexible exchange rate policy is to be maintained.

'4. The Fund believes that the fiscal plan which has been adopted for 1969 as a whole is suitable for the achievement of this year's stabilization goal, and it will be essential to adopt whatever additional measures may be needed to ensure that the fiscal deficit does not exceed the targeted amount. Implementation of the credit policy that has been established for 1969 will require an abrupt change from the recent trend, and the Fund notes the critical importance of improving the monetary authorities' control over credit, including the official banks' operations with the private sector. In this connection, the Fund would also advise careful surveillance over commercial bank use of short-term foreign credits with a view to avoiding undesired swings in bank credit or balance of payments difficulties.

'5. The Fund notes with satisfaction the progress Brazil has made in recent years in reducing its reliance on bilateral payments agreements, and it hopes that further steps will be

taken in this direction. The Fund welcomes the intention of the authorities to avoid introducing new restrictions or multiple currency practices, and to pursue a flexible exchange rate policy consistent with the maintenance of a satisfactory balance of payments position. It would be desirable to use the flexible exchange rate policy as a basis for new initiatives to liberalize further the trade and payments system. In the meantime, the Fund does not object to the maintenance on a temporary basis of Brazil's multiple currency practices and restrictions on payments for current international transactions, as described in SM/69/48, Part II.'

On April 25, 1969 the Fund approved a stand-by arrangement authorizing Brazil to draw up to the equivalent of \$50 million for a period of 12 months beginning April 29, 1969. This stand-by is in support of policies directed toward a slowdown in the rate of price increases, achievement of a sound balance of payments position and maintenance of a satisfactory rate of growth.

In 1968, official net foreign reserves rose by \$117 million compared with a decline of \$112 million in 1967, but the net foreign reserves of the monetary authorities and the commercial banks (taken together) declined, reflecting the drawings made by the commercial banks on short-term credits.

At the present time, the general level of restrictions of Brazil which are under reference does not go beyond the extent necessary to achieve a reasonable rate of increase in its reserves."

Ceylon

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of November 1, 1968 taken at the conclusion of its most recent Article XIV consultation with Ceylon and particularly to paragraphs 2 to 4 which read as follows:

'2. Despite a further deterioration in the terms of trade, the growth of Ceylon's economy accelerated in 1967 reflecting chiefly market increases in food and industrial production. The momentum appears to have been maintained in 1968. The Fund believes the emphasis on food production is appropriate, and hopes that the possibilities of import substitution in this field will continue to be vigorously exploited.

'3. Recently, domestic monetary conditions have been generally stable in part because the decline in net foreign exchange reserves exerted an important contractionary influence. There was also a sharp increase in quasi-money holdings. In the budget for the fiscal year commencing October 1, 1968, no resort to bank financing is envisaged. The authorities expect wage pressures to increase in the coming year. It is important for the success of

the exchange reform that excessive monetary expansion and wage increases be avoided.

'4. Ceylon's terms of trade have deteriorated further, and the balance of payments position has remained difficult. The Fund believes that the devaluation of the Ceylon rupee in November 1967, and the exchange reform and import liberalization of May 1968, constitute major improvements in Ceylon's trade and payments policies. The Fund does not object on a temporary basis, to the maintenance of the multiple currency practice described in EBS/68/128 (of April 30, 1968) and EBS/68/251 (of September 27, 1968). The Fund believes that Ceylon should reduce its continuing use of bilateral payments arrangements.'

On May 3, 1968 the Fund approved a stand-by arrangement authorizing Ceylon to draw up to the equivalent of \$19.5 million over a period of 12 months beginning May 6, 1968. As of May 1969, provisional data for 1968 indicate a deficit on goods and services of \$61 million, compared with a deficit of \$65 million in 1967. Gross holdings of foreign exchange rose from \$75 million at the end of 1967 to \$78 million at the end of 1968. However, short-term liabilities, mainly in the form of bilateral balances, also increased during the year, and net drawings on the Fund amounted to \$28 million. The general level of restrictions of Ceylon which are under reference does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves."

GENERAL AGREEMENT
ON TARIFFS AND TRADE

Villa le Bocage - Palais des Nations
Geneve

May 28, 1969

Dear Mr. Schweitzer,

At its session of 15 April the GATT Council adopted the programme of meetings for consultations with those countries which invoke Articles XII or XVIII:B as justification for import restrictions maintained on balance-of-payments grounds. Consultations with fifteen countries are to be held by the Committee on Balance-of-Payments Restrictions, acting on behalf of the CONTRACTING PARTIES. The Council has also established a Working Party to consider an application by Turkey for authorization to increase its stamp duty to 25 per cent, which Turkey has explained partly on balance-of-payments grounds. Later this year it is also planned, as foreseen by paragraph 5 of the Protocol for the Accession of Poland, to hold the annual consultation with Poland.

Pursuant to paragraph 2 of Article XV of the General Agreement, the CONTRACTING PARTIES wish to consult with the International Monetary Fund in connexion with these matters, and I have been asked to extend the necessary invitation to the Fund.

The next meeting of the Committee on Balance-of-Payments Restrictions will be held between 1 and 10 July for the purpose of carrying out consultations with Brazil, Ceylon, New Zealand and Turkey. During that period, probably on 4 July, the Working Party on the Turkish stamp duty will also meet. A consultation with India has been the subject of separate correspondence.

Yours sincerely,

/s/

O. Long
Director-General

Mr. P. P. Schweitzer,
Managing Director,
International Monetary Fund,
19th and H Streets, N.W.,
Washington 20431.

COUNCIL
15 April 1969

WORK OF THE COMMITTEE
ON BALANCE-OF-PAYMENTS RESTRICTIONS

Note by the Secretariat

1. It is suggested that the following contracting parties and countries having acceded provisionally, all of which have previously invoked Article XII or XVIII:B, should consult in 1969 (in addition to Iceland and Korea which have already consulted). The date of the last consultation is given in parentheses.

Brazil (1966)*	Indonesia (1967)
Burma (1963)	Israel (1968)
Ceylon (1966)*	New Zealand (1968)*
Chile (1967)	Pakistan (1967)
Finland (1968)	South Africa (1968)
Greece (1966)	Spain (1968)
India (1967)*	Tunisia (1967)
	Turkey (1967)*

2. Provision should be made for two or possibly three further series of balance-of-payments consultations during 1969, one early in July, another early in October and, if necessary, a third in December 1969 or January 1970 to carry out these consultations.

3. Within this framework, the secretariat will arrange, in consultation with the International Monetary Fund, a timetable for these consultations which will bring each consultation as nearly as possible, within the need to create three series, to a time approximately eight weeks following a decision by the Executive Board of the International Monetary Fund taken at the conclusion of that country's consultation in the IMF. This understanding will give all consulting countries advance notice of the timing desired for the GATT consultation and will avoid, to the maximum, preparation of special material for that purpose. Tentative planning on this basis calls for consulting the countries marked with an asterisk at the July meeting of the Committee.

4. The procedures and arrangements noted in BISD, Seventh Supplement, pages 90-92 and 97-98, in so far as appropriate, will be followed in the 1969 consultations.

5. At the twenty-fifth session it was agreed that at a later date the Council might give consideration to possible increase in the membership of the Committee on Balance-of-Payments Restrictions in order to provide more adequate representation of developing countries. The Council may therefore wish to invite any developing country wishing to accept membership in the Committee to indicate its interest before the pre-session meeting of the Council.