Recent Progress in Latin America Toward Eliminating Exchange Restrictions

F. d'A. Collings*

A HEAVY RELIANCE upon exchange controls and restrictions played a prominent part, during the immediate postwar period, in the economic policies of many countries in Latin America. In recent years, most of these countries have moved a long way in the direction of freer trade and payments arrangements—a movement with which the International Monetary Fund has almost always been closely associated. However, memories of the era of arbitrary administrative interference with international transactions die hard, and the extent to which Latin America has progressed toward eliminating such restrictions is not always fully appreciated. Furthermore, some lessons of more general applicability are suggested by Latin America's extensive experience with devices intended to influence the internal economic situation through the exchange system, and by the fact that such devices are now being replaced rapidly by more basic economic policies. With these thoughts in mind, this paper is intended to outline the decline in the use of exchange restrictions in Latin America during recent years and to describe the position of relative freedom from discriminatory and restrictive practices which has now been reached.

The Latin American countries which used to make extensive use of exchange restrictions are almost exclusively on the Southern Continent. The Central American and Caribbean Republics, with few exceptions, have had virtually no exchange restrictions during the postwar period. Four of these countries (El Salvador, Guatemala, Mexico, and Panama) accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Fund Agreement as soon as they joined the Fund, and all but two of the remainder accepted these obligations in the early 1950's. Among the countries on the Southern Continent, only Peru has taken a similar formal step (on February 15, 1961). Particular significance attaches to the action of Peru, because this was the first country to institute (in 1954) a comprehensive stabilization program with technical and financial assistance from the Fund. Programs of the same type were subsequently put into effect in a number of other South American countries,

* Mr. Collings, economist in the Exchange Restrictions Department, is a graduate of Queen's University (Canada) and of the Johns Hopkins University. This paper is a revision of one originally presented at the Sixth Meeting of Central Bank Technicians of Latin America in Guatemala City, November 1960.

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and played a major role in ensuring the success of the accompanying exchange reforms.

Abandonment of Multiple Exchange Rates

The most conspicuous recent change in this field has been the abandonment of multiple exchange rates in many Latin American countries. This change is indicated by a rough classification of countries by type of exchange system at various points of time (Table 1). Such a classification has obvious limitations: it describes only the broadest differences in exchange systems, without regard to differing degrees of complexity or restrictiveness in each case. Nevertheless, it illustrates broadly the general move away from multiple exchange rate regimes that has taken place during the past five years.

TABLE 1. TYPES OF EXCHANGE SYSTEM IN LATIN AMERICAN COUNTRIES, 1955 AND 1960

Type of System	At End of 1955	At End of 1960
Single Fixed Rate	Cuba[1] Dominican Republic El Salvador Guatemala Haiti Honduras Mexico Panama	Dominican Republic El Salvador Guatemala Haiti Honduras Mexico Panama Nicaragua[2]
Single Fluctuating Rate		Argentina[3] Bolivia[1] Chile[3, 4] Paraguay[3] Peru
Dual Fluctuating Rates	Peru	
Multiple Rates	Argentina Brazil Bolivia Chile Colombia Costa Rica Ecuador Nicaragua Paraguay Uruguay Venezuela	Brazil Colombia Costa Rica Cuba Ecuador Uruguay Venezuela

[1] These countries employed a small tax on exchange sales in conjunction with an otherwise unitary rate.
[2] Nicaragua had a small free market with a fluctuating exchange rate for foreign notes and coin.
[3] These countries made significant use of import and/or export taxes in conjunction with otherwise unitary rates.
[4] Chile had dual fluctuating exchange rates from 1956 to early 1959.

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Prior to 1955, all ten South American Republics, together with Costa Rica and Nicaragua, had multiple exchange systems of one sort or another, some with extremely complex structures of rates. Now, seven of these countries have essentially unitary exchange systems.[1] Sweeping exchange reforms in connection with comprehensive stabilization programs have been put into effect in five countries: Chile (April 1956), Bolivia (December 1956), Paraguay (August 1957), Argentina (December 1958), and Uruguay (December 1959–September 1960). In all of these countries, the reforms were aided by technical and financial assistance from the Fund. A gradual elimination of multiple rates took place in Nicaragua following a partial simplification of the system in 1955; since early in 1959 a single fixed rate has applied to all transactions except a few (mostly in foreign notes and coin) which take place in a minor free market with a fluctuating rate. Peru eliminated most of its controls as early as 1949 but retained a dual fluctuating rate system until May 1960, when this was abolished following a long period in which the two rates had, in fact, remained very close together. Among those countries still in the multiple rate category, Ecuador has simplified its system, so that it now involves a very small spread between effective rates; and, while the Brazilian system is still complex, it is in several respects less so than in the past.[2]

Since almost all countries have adopted as a goal the progressive simplification of their exchange systems, reverse movements have been few. In Cuba, surcharges have recently been added to a unitary rate system, and other forms of exchange control have been adopted.[3] On the whole, however, the trend away from multiple rate systems in Latin America is unmistakable.

A significant feature of this trend has been the widespread substitution of single fluctuating rates in place of the old multiple rate structures. Among the countries abandoning complex multiple rates during the last five years, only Nicaragua has adopted and maintained a fixed rate as its new basic rate. Argentina and Bolivia established free markets with single fluctuating rates at the time of their exchange reforms. Paraguay introduced a fixed par value for most transactions at the time of exchange reform in March 1956; but in August 1957, it changed to a

[1] References to "essentially unitary" exchange systems in this paper do not necessarily imply that some multiple currency practices, as defined by the Fund, may not be present.

[2] Since this paper was written, Brazil has taken further steps to simplify its exchange system and to introduce more realistic rates of exchange. When announcing these moves on March 14, 1961, the Government of Brazil notified the Fund that it intends to proceed to still further simplification of the exchange system in due course.

[3] However, Cuba's 2 per cent exchange tax was in effect for a number of years before the recent measures.

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unified fluctuating rate for almost all transactions. Chile in 1956 introduced dual exchange markets with fluctuating rates, on a pattern similar to Peru's, but unified them in January 1959. Uruguay's recent exchange reform involved the establishment of a free market with a fluctuating rate, although export taxes are still in effect which give rise to multiple rates on the export side.

This preference for fluctuating rates is in contrast to recent exchange reforms in other parts of the world, e.g., in Spain in July 1959, in Iceland in February 1960, in Turkey in August 1960, and in Yugoslavia in January 1961. All transactions in the first three of these countries now take place within 1 per cent on either side of par values agreed with the Fund; and in Yugoslavia, while no new par value has yet been agreed, transactions take place at fixed official rates. Indeed, the only Fund members outside Latin America which have single fluctuating rates applying to all transactions are Canada, Lebanon, and Thailand.[4]

Some of the reasons for the adoption by Latin American countries of fluctuating rates, in preference to fixed rates, are, of course, closely related to institutional and historical factors. After long periods of complex and frequently changing multiple rates, such as were common in Latin America, deep-seated distortions in the price structure usually rendered it exceptionally difficult to judge how much depreciation was required and what the approximate equilibrium rate should be. The existence of partial free markets alongside the previous multiple rate systems was seldom of much assistance in determining an appropriate level for the new rate, since the rates in these free markets reflected the supply and demand patterns for foreign exchange only for limited categories of transactions.

The authorities were also aware that unforeseeable inflationary pressures after the reform might make it difficult to maintain any new fixed rate. On the other hand, if such pressures developed, as they might well do in an economy attuned to many years of rising wages and prices, a fluctuating rate could be allowed to depreciate and find a new level without scarce foreign exchange reserves being used.

In fact, the newly established fluctuating rate systems in Latin America have recently shown themselves considerably more stable than the fixed multiple rate systems previously in effect. Initially, there was often a tendency for the new exchange rates to depreciate. However, the fluctuating rates have remained unchanged for a considerable period in Bolivia and Chile, and have moved only fractionally and at infrequent intervals in Argentina, Paraguay, and Peru. The internal situation having basically improved, and a more adequate

[4] China (Taiwan) also uses a single fluctuating rate for most transactions, but in conjunction with a controlled official rate which applies to some transactions.

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reserve position having been built up, the authorities soon found that the advantages of stability outweighed any other reasons for changing the rate. Describing this, the Hon. Eduardo Figueroa, President of Chile's Central Bank, said at the 1959 Annual Meeting of the Fund, ". . . our own experience has shown that the very existence of fluctuation in the rate can exaggerate the internal difficulties and add to the loss of confidence."

Techniques for keeping the exchange rates stable have varied considerably during the past few years. In Bolivia, for example, most of the country's foreign exchange receipts are earned by a government corporation and are surrendered to the Central Bank. As a result, the Central Bank has a virtual monopoly of the supply of exchange and sells it to the commercial banks at an exchange rate which becomes the effective exchange rate for the economy. Changes in the rate occur when the Central Bank believes that the basic demand and supply position has varied, and they take the form of changes in the Central Bank's effective selling price. In Argentina, there is considerably more freedom in the exchange market, but the Central Bank intervenes through one of the state-owned banks and, for a considerable time, has followed the policy of intervening at a fixed exchange rate. In other countries, the central banks stand ready to buy and sell exchange at the fixed rate. Under these circumstances, the stability of the exchange rate depends upon decisions of the monetary authorities taken in the light of the balance of payments and reserve positions of the country. As reserves have been accumulated, most central banks have found that they have been able to maintain a stable rate despite normal fluctuations in the demand for and supply of exchange. Such systems in practice might be characterized as "fixed-for-the-time-being" exchange rates, and, as such, differ only in legal emphasis from a par value system like Mexico's during the early postwar period, when the par value was changed periodically to adjust to fundamental pressures.[5]

Taxes on Imports and Exports

Another feature of the unification of exchange rates in Latin American countries has been the temporary use, in conjunction with a fluctuating rate, of a variety of taxes on imports and exports. These may or may not technically constitute multiple currency practices in terms of the Fund Agreement, depending upon whether they apply to the exchange transactions or to the movement of goods. Argentina, for example,

[5] The Mexican peso was devalued by more than 60 per cent in a number of steps between 1947 and 1954; since then, however, it has remained unchanged.

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at present applies taxes of 10 per cent and 20 per cent on certain major exports, and surcharges ranging up to 200 per cent on a large number of imports.[6] Chile in 1959 introduced import surcharges at rates up to 200 per cent, to replace advance deposits on a number of imports. Both these countries intend to incorporate the new surcharges in a revised tariff schedule at a later date. In such instances, selective taxes may, from an economic point of view, recreate many of the essential features of multiple rates applying to different transactions. Other countries have employed taxes which are so broad in incidence as to create something more akin to an abnormally large spread between buying and selling rates. Paraguay, for example, applies taxes totaling 20 per cent to most imports and 10 per cent to most exports, giving an effective spread of 30 per cent for most trade transactions. To a much less extent, a small tax on exchange sales to the public, such as that in Bolivia, has similar effects.

Use of these kinds of taxes in Latin America has generally been more extensive than in the recent European exchange reforms; Iceland, for example, retained only a uniform 5 per cent tax on exports, and Spain some minor taxes on a few exports. Some reasons for the temporary use of such taxes in Latin America are clear. Alternative sources of revenue are not quickly developed after an exchange reform; and, although it is generally agreed that the exchange system is not an ideal source of government revenue, it may be necessary to use it as such temporarily, following the cessation of revenue from penalty exchange rates. After a long period of multiple rates, selective import taxation may be necessary to ease the transitional difficulties of industries formerly protected by the exchange rate. Taxes on imports may also be a means of preventing excessive temporary pressure on the newly freed exchange rate, resulting from pent-up demands for certain types of goods not manufactured locally. Again, they may be used initially in lieu of tariffs, as in Argentina, Chile, and Uruguay, until legislation on a new tariff schedule is enacted.

The use of import and export taxes outside the exchange system was accompanied in most countries by the complete elimination of controls over exchange transactions as such. As long as taxes were levied on the exchange transactions themselves, it was necessary to impose elaborate controls to ensure that the transactions took place through authorized dealers and that the prescribed taxes were duly collected. In other words, taxes on export proceeds entail requirements for the surrender of exchange receipts, and an administrative process to ensure that the exchange tax is not evaded by undervaluation of the export or by

[6] These surcharges, however, have been substantially reduced from the levels in effect immediately following the exchange reform. Advance deposits have also been eliminated.

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retention of the proceeds abroad. On the import side, verification of the transaction is required to make sure that payments are actually made for the purposes stated, and that the correct tax is collected on the true amount paid for the import. But if the taxation is imposed on the goods actually moving through the customs, the monetary authorities can leave exchange dealings completely free of supervision. It has thus been possible to operate most of the new free exchange markets in Latin America without any controls.

Notwithstanding the use of these taxes on imports and exports, and the possibility of fluctuation in the exchange rates, international transactions in Latin America have clearly become vastly simpler and less subject to sudden arbitrary changes of policy since these reforms were effected. The simplification has been quite radical in some countries where the former multiple rate systems had developed over time into enormously complex structures. In Paraguay, for example, prior to the reform there were 15 different exchange rates applying to transactions in convertible currencies and 7 more for other currencies, together with many exchange subsidies applying to exports of various kinds, all subject to frequent changes. A process of gradual proliferation of exchange rates over time was experienced in most countries with multiple rates and inflation.[7] It usually resulted from a tendency to "patch up" the existing exchange rate pattern by ad hoc additions and amendments —including the devaluation of individual rates and the granting of special exchange treatment for certain transactions—rather than to undertake frequent and comprehensive devaluations of all rates for the purpose of adjusting to relative changes in domestic and foreign prices. Apart from the obvious administrative difficulties and commercial uncertainties caused by this piecemeal process, it often resulted in the unintentional development of fundamental imbalance in the exchange system, since the pressures to devalue on the export side were usually more intense than those on the import side. In Bolivia, for example, a large discrepancy arose between the average effective export and import rates and resulted in substantial local currency losses on the operation of the exchange system; the financing of these losses by the Central Bank was the principal reason for the continuance of a severe inflation in the prestabilization period.[8] Unsatisfactory experiences with multiple

[7] For example, Argentina in 1952–55 and 1956–58, Bolivia in 1952–53 and 1954–56, and Paraguay in 1951–56. The first two of these countries had previously attempted partial simplification of their exchange systems, only to find themselves drawn back into complexity again. Examples of the proliferation of multiple rates are by no means limited to Latin American countries; similar cases occurred in Turkey in 1956–58 and Spain in 1955–59, among others.

[8] The cost of living in La Paz increased by 480 per cent in 1956; in 1957, following unification of the exchange rate and the adoption of a comprehensive internal program, it declined by 14 per cent.

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rate systems that had become unmanageably complex through inflationary pressure undoubtedly account for some of the determination with which Latin American countries have undertaken the unification of exchange rates.

Direct Restrictions and Licensing

Direct quantitative limitations on imports and rationing of exchange for imports are of relatively minor importance in Latin American countries. Even during the immediate postwar period, they were never particularly severe in the region, when compared with such restrictions in Asia, Western Europe, and the sterling area countries. There is no indication that Latin American countries are substituting quantitative for cost-type restrictions as the latter are reduced; in fact, both are being reduced. When appropriately administered, quantitative import restrictions permit more precise control over imports than do cost restrictions. But, apart from their arbitrariness, they have two disadvantages which may weigh rather heavily in most Latin American countries: they yield no revenue, and they require extensive administrative machinery.

The licensing of imports and of foreign exchange, through which such direct restrictions might be exercised, has completely disappeared in Argentina, Bolivia, Chile, Paraguay, and Uruguay. In these countries, the abolition of import licensing was part of the comprehensive exchange reforms. Few of the countries which continue to license imports (or exchange for imports) use this licensing to impose direct quantitative restriction for balance of payments purposes. The licenses are usually granted automatically on a nondiscriminatory basis, provided that certain regulations are complied with. Exceptions are in Cuba, where restrictive import licensing was recently intensified, and in Colombia, where an extensive list of prohibitions serves to reduce imports substantially. Other countries have some minor direct import or exchange prohibitions or restrictions enforced through licensing which affect only a few imported items (e.g., automobiles). Countries that have multiple exchange rate systems are, of course, often obliged to retain licensing procedures for some or all transactions, in order to ensure the use of the correct rate; but this does not necessarily involve quantitative restriction.

The practice of allocating specific amounts of foreign exchange for private imports, by categories of imports or of payments, either by quota or by other means, has vanished in most Latin American countries during the past few years. But there are still a few exceptions. Brazil employs this system for an appreciable part of private imports: global

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quotas are drawn up for essential imports at the preferential exchange rate, and the auction system involves official limitation upon the availability of exchange.[9] Colombia employs a somewhat similar system. In the middle of the last decade, however, such arrangements were much more common on the Southern Continent; Argentina, Chile, and Uruguay were among the countries then making significant use of them.

Controls over payments for current service transactions and over the export of capital have also become relatively unimportant in Latin America, in line with the general movement toward freer payments arrangements. Compulsory repatriation and surrender of part or all of private exchange receipts, which was almost universally required in South America during the early 1950's, is now required in only a few countries—mostly those which still have multiple exchange rate systems.

Advance Deposits

Two other devices with restrictive aspects that have been important in Latin America are advance deposits for imports and bilateral payments arrangements. Again, these have been most prevalent mainly in the southern countries; their importance now appears to be declining, in line with the general move toward freer trade and payments arrangements that has taken place recently.

An advance deposit system typically requires the importer to deposit in local currency (sometimes in dollars), with the central bank or its agent, a specified percentage of the value of the import, which is returned to him in full after a specified period of time.[10] This restricts imports by increasing the cost to the importer, who must either borrow the amount of the necessary deposit or incur the opportunity cost of using his own funds. However, by absorbing excess credit and curbing liquidity, it also has temporary monetary effects, provided, of course, that the deposits held by the authorities are effectively sterilized. Some countries have used advance deposits as a means of encouraging the prompt use of import licenses, once they have been issued.

The use in Latin America of advance deposits for imports seems to have reached a peak during the middle 1950's and is now generally diminishing. Only three countries (Colombia, Nicaragua, and Paraguay)

[9] Brazil's auction system was eliminated on March 14, 1961 (see footnote 2), although some imports of luxury goods will be subject to licenses auctioned on the basis of world-wide quotas.

[10] For a more detailed discussion of advance deposits, see Eugene A. Birnbaum and Moeen A. Qureshi, "Advance Deposit Requirements for Imports," *Staff Papers*, Vol. VIII (1960–61), pp. 115–25.

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have used such devices consistently throughout the decade; in each, the importance of the measures as restrictive devices has varied considerably, but it is now relatively minor except in Paraguay. Some other countries experimented with advance deposits, but they have now reduced them to a very minor level of importance, or have eliminated them altogether. Peru employed advance deposits for about six years before abolishing them. Ecuador introduced in 1954 a form of advance payment of import duties, which subsequently became payable as a certain percentage of the c.i.f. value of imports at the time of issue of the import license; but this requirement is now of small importance. Bolivia recently eliminated a minor requirement of advance deposits for certain automobile imports.

The use of advance deposits in Latin America is of particular interest in connection with exchange reforms. The techniques adopted have usually included a temporary but quite firm use of deposit requirements, mainly to reduce liquidity and to restrict the volume of imports immediately following the institution of a new single exchange rate and the removal of other types of restriction on imports. Paraguay raised its advance deposits substantially in the early stages of its stabilization effort. Argentina (which originally instituted advance deposits in 1957) raised the requirements to a maximum of 500 per cent for certain imports at the time of exchange unification, and at the same time prohibited banks from financing the deposits. This temporary regime was rapidly relaxed, and by the end of 1959 Argentina had abolished all advance deposit requirements. Chile introduced advance deposits at rates up to 400 per cent in April 1956, when establishing the dual fluctuating rate system. Subsequently, the amounts of the required deposits were increased substantially (at one time to a maximum of 10,000 per cent) as a means of virtually prohibiting certain imports. Modification of the Chilean system introduced during 1959 required the deposits to be invested in certain medium-term U.S. dollar bonds issued by the Chilean Treasury, thus making them available to the Treasury. Since foreign suppliers in several cases advanced dollars to importers, the system also induced a certain amount of capital inflow. More recently, many imports into Chile have been transferred to the surcharge categories, where advance deposits no longer apply; the Chilean authorities have announced their intention of eventually transferring all imports in this manner, as a preliminary to incorporating the surcharges in a new tariff structure. However, the dollar bond deposits have been retained into 1961, mainly because of the market they now create for government bonds. Uruguay introduced an advance deposit system in connection with the exchange reform in 1959. Deposits at rates up to 150 per cent of the c.i.f. value of imports, to be held for 180 days, were required for many imports, in addition to the exchange

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taxes where applicable. In September 1960, this system was simplified and its incidence reduced.

Advance deposits have thus been tried out in several South American countries in a variety of forms. Their incidence, however, appears to be generally diminishing; recently, the reductions or eliminations have outweighed the introductions. To the extent that the purpose of advance deposits was anti-inflationary, alternative domestic measures have probably proved more effective. As a means of curbing imports, the use of advance deposits has probably declined because of practical experience with the difficulties in achieving such an effect by such methods. Very close control over the financing of advance deposits by banks or foreign suppliers is required if the deposit requirement is to provide a real limitation on imports; and the conditions under which such control could be effective have seldom been present in the countries concerned. Several countries in Latin America might have abolished their advance deposit systems earlier than they did, except that the gradual release of frozen deposits as the period of retention expired, not being compensated by a withdrawal of liquidity through new deposits made by importers, would have added to internal liquidity at a time of incipient inflation. Because of this difficulty, several countries had to retain advance deposit requirements beyond the point at which they ceased to serve a useful function, until more stable conditions were attained or until alternative measures to offset the increases in liquidity could be adopted.

Bilateral Payments Arrangements

There has recently been a considerable reduction in the extent of bilateralism in Latin America, which is of particular interest in the light of possible moves toward the establishment of free trade areas. Intra-Latin American arrangements have been reduced from 16 at the end of 1955 to 9 in the early part of 1961. The largest group to be terminated, and the most important in terms of the value of trade, comprised those to which Argentina was a party. During the past few years, Argentina has formally terminated all but 2 of its bilateral arrangements with other Latin American countries. Although there are still 9 arrangements in force between Latin American countries, only a few account for any substantial amount of intra-area trade.

Indeed, the reduction in bilateralism within Latin America during the past few years has been greater than appears from the numbers of arrangements technically in force. The abolition of exchange controls and complex multiple exchange rates, which has brought about *de facto*

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external convertibility in several countries, has largely precluded the special treatment of bilateral partners through exchange measures. An increasing volume of trade between certain bilateral partners is, in fact, carried out in convertible currencies without passing through the clearing accounts at all; for example, for nearly two years, no transactions have been recorded under the arrangement between Chile and Bolivia, and private trade between these countries has mainly been arranged in any currency acceptable to the seller. In several instances, legalized border trading arrangements between neighboring countries, providing for payments in convertible currencies, have practically eliminated centralized bilateral trading for private imports and exports.

Most Latin American Governments have publicly declared themselves in favor of the formal multilateralization of payments between each other as soon as possible. The cancellation of the remaining bilateral payments arrangements has often been affected by difficulties in reaching agreement on repayment of the outstanding balances on the accounts. In this connection, the termination of the arrangement between Argentina and Chile on January 31, 1961 is of particular significance. A large debt in favor of Argentina was settled, in part, by a drawing by Chile of Argentine pesos from the Fund—the first time that a Latin American currency had been drawn and the first time that the Fund had assisted financially in the termination of a bilateral arrangement.

Bilateralism in payments arrangements between Latin American countries and the rest of the world has also declined. A large number of bilateral payments arrangements with European countries were terminated following the achievement of external convertibility in those countries. In particular, the ending of the "Hague Club" and "Paris Club" arrangements by Brazil and Argentina marked a major step toward multilateralization in Latin America's external trade. More recently, Uruguay has terminated a number of bilateral payments arrangements with European countries, and Argentina has multilateralized payments with a number of Eastern European countries. The total number of payments arrangements to which Latin American countries are a party has been more than halved during the past five years.

Conclusions

The general trend revealed by this survey is clearly in the direction of reduced reliance on exchange restrictions in Latin America. Several countries, mostly in South America, made fairly extensive use of restrictions and complex exchange systems in the past, particularly around

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the middle of the decade when inflationary difficulties were most severe; but the picture is now generally one of modest and declining reliance on such devices, with considerable promise for the further relaxation and future abolition of restrictions temporarily employed in connection with basic exchange reforms.

It is interesting to correlate the rise and fall of restrictions during the mid-1950's with conditions which, to a greater or lesser extent, affected all Latin American countries. After 1954, the terms of trade turned sharply against many Latin American countries.[11] In retrospect, it is clear that the first reaction was for several countries to intensify their use of restrictions and multiple currency practices. This might have been expected, since such methods are usually justified on balance of payments grounds. The particular form taken during this period—a proliferation of exchange rates—may be explained as resulting from hurried reactions to the effects of rapid internal inflation on the fixed multiple exchange rate systems then in use. A second reaction appears to have set in about 1956, during which year three South American countries swept away their complex exchange systems and many of their exchange restrictions, and instituted comprehensive stabilization programs with assistance from the Fund. This new method of attack and others that followed in later years were in marked contrast to the types of policy that had been employed for the best part of a quarter-century previously. Moreover, the change in methods was certainly not caused by any reduced need for the kind of effect that restrictive policies are supposed to bring about, since the most significant liberalizing moves came without exception at times when shortages of foreign exchange had reached critical proportions.

The recent steps taken to liberalize trade and payments arrangements may therefore be interpreted as part of a general move within Latin America toward rational long-range economic planning for growth with stability. This view is supported by the conjunction of moves to liberalize trade and payments arrangements with a determined implementation of comprehensive stabilization programs in many of the countries. It is clear that the region as a whole, after long experience with many types of restriction on foreign trade and payments and manipulation of exchange systems, has decided to adopt a substantially more liberal attitude toward international economic relationships, and to rely upon sounder and more basic domestic measures as the principal instruments of economic policy.

[11] The index (*1953 = 100*) of terms of trade for Latin America as a whole was 110 in 1954, and then declined as follows: 1955—101, 1956—98, 1957—94, 1958—90, 1959—86. (Data are from *International Financial Statistics.*) However, this index conceals divergent movements in several individual countries.

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