1959 CONSULTATION UNDER ARTICLE XII WITH SWEDEN

Results of Consultation between the International Monetary Fund and the Government of Sweden concluded on 21 September 1959

1. The Government of Sweden has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. The gross national product rose by less than one per cent in 1958; this slower rate of growth was mainly attributable to a contraction of foreign demand. The economy is now in the early stages of an upswing, and demand and output are both rising. Price stability has been maintained for over a year and some unused capacity is still available to meet a further increase in production. The preliminary figures for the 1958/59 budget show a slightly increased deficit; a substantial part of the deficit was financed through borrowing from the commercial banks. Although credit to the private sector also increased, bank liquidity has risen. Liquidity ratios have recently been raised. A further increase in the budgetary deficit is estimated for 1959/60 and the Swedish authorities recognize that this could, in conjunction with other factors, lead to a strain on resources. The Fund believes that this emphasizes the importance of an early review of Swedish fiscal policies, with a view to preventing the emergence of inflationary pressures and to preserving a sound balance of payments position.

3. In 1958 Sweden had a balance of payments deficit on current account of $45 million but gold and foreign exchange reserves increased by $30 million to about $577 million. The current account was in approximate balance in the first quarter of 1959; the reserve position showed little change in the first half of the year. The Swedish authorities wish, from a long-term point of view, to hold larger reserves.

4. The Fund welcomes the introduction of non-resident convertibility by Sweden and the substantial progress in relaxing restrictions and reducing discrimination. There are but a few remaining restrictions and there is little discrimination in the system, although a certain amount of liberalization is still on an administrative basis. The Fund believes that the balance of payments position permits further progress with liberalization and the elimination of discrimination. Reduced reliance on bilateral arrangements is feasible and desirable.

5. In concluding the 1959 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Sweden.