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. In 1956 gross national product increased by about 2.5 per cent against 4 per cent in the previous year. The rate of expansion in industrial production slowed down somewhat. Money wages rose by about 8 per cent, the same as in the previous year, while the cost of living index rose by about 4 per cent. In spite of the revenue measures introduced in 1955, the 1956/57 budget is reported to be in over-all deficit, chiefly because of a lower level of income tax revenue than expected but also because of larger government loans and grants for residential buildings. A deficit in the 1957/58 budget is also expected. In recent years the government deficits have been financed mainly by the Central Bank.

3. The Swedish authorities have relied on fiscal policies and restrictive measures in the field of private credit to contain inflationary pressures. The measures taken have been helpful in reducing domestic demand and strengthening the balance of payments. However, these measures are to a considerable extent concentrated on private industrial investment, while favouring house construction. The Fund feels that in the long run the achievement of a strong balance-of-payments position would be facilitated if the impact of the policy of fiscal and credit restraint were more evenly distributed over the economy.

1 Transmitted by letter dated 7 June 1957.
4. In 1956 Sweden's balance-of-payments deficit on goods and services account was reduced as the expansion in exports and shipping receipts exceeded the rise in imports. Despite the deficit on current account, the foreign exchange reserves have increased, partly because of changes in leads and lags and receipts of foreign credits. The Swedish authorities have stated the objective to further raise the level of reserves. Achievement of this and of a strong balance of payments on current account appears to depend upon the strengthening of measures of fiscal restraint and on the introduction of greater flexibility in the money and capital markets.

5. During 1956 and early 1957 there has been a further relaxation in restrictions and the degree of discrimination against the dollar area has been reduced. The transferability of the Swedish krona has been extended, the dependence on bilateral agreements has been diminished, and the scope of the transit dollar scheme has been reduced. The Fund welcomes these steps and hopes that Sweden will further reduce reliance on bilateral agreements and will find it possible to extend formal dollar liberalization. The Fund does not object to the continuation of the transit dollar scheme on a temporary basis, but hopes that Sweden will progress toward the elimination of this scheme.

6. In concluding the 1956 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Sweden.