ANNEX I: Opening Statement by the Representative of Sweden

First, I should like to pay tribute to the GATT and International Monetary Fund secretariats for the valuable documentation which they have prepared for this consultation.

However, since these documents were prepared certain developments have taken place. The Government has taken action in certain fields, more up-to-date statistics are available and so forth, and I would therefore like to give an account of the present situation in such matters which might be of interest to the Committee.

Developments in the balance of payments since the last IMF consultation in June have been somewhat more favourable than was then expected. For the year 1959 we thus expect a surplus of about 200 million Swedish crowns in our foreign trade and payments and expect that by the end of the year the net reserves of gold and foreign exchange will amount to about 3,200 million Swedish crowns. On the basis of imports in 1957-59 this figure corresponds, however, to only three months' imports. Taking into account the extent to which the Swedish economy is dependent on foreign trade the reserves are still too low and have to be increased before we can do away with the remaining import controls.

If we then turn to the prospects for 1960 the picture is, unfortunately, very gloomy, and we can foresee a heavy strain on our resources. Only a week ago, the Government submitted a report to Parliament in which the serious situation was presented and certain measures proposed to counteract the threat against our economic stability. I will quote some figures and statements from this governmental report which will be relevant when the Committee has to make an assessment of the Swedish case.

In the next year total demand is expected to increase unprecedentedly. Private consumption and private domestic gross investment is expected to increase by 2,000 million Swedish crowns. Stocks which during the recent recession were almost depleted have to be replenished and the increase in inventories is expected to amount to about 700 million crowns. Public consumption and public domestic gross investment will be higher by more than 1,000 million. Total demand will thus be increased by 3,800 million crowns or by 6 per cent in comparison with 1959. The available resources on the other hand will increase by less than 4 per cent or by 2,300 million crowns, leaving a gap of not less than 1,500 million crowns to be covered in one way or another.
This lack of balance is particularly serious in view of the present high liquidity of commercial banks and of private enterprises in general. Furthermore, a considerable budget deficit is envisaged, as was pointed out in the IMF report. For the current fiscal year the deficit is estimated to be about 2,900 million crowns, i.e., 1,500 million more than last year; in the coming year the deficit will increase to 4,200 million crowns.

If nothing is done to adjust the lack of balance in the budget and the economy we can expect inflation, a shortage of labour, and a rapid increase in imports which will soon exhaust our reserves etc.

The Government is, however, aware of these dangers and will of course in due time take measures to dampen demand, reduce liquidity, restrict credit and so on. One measure it has now proposed to Parliament is to introduce a general sales tax from the beginning of 1960 at a rate of 4 per cent which will yield about 1,400 million crowns a year. This increased revenue coupled with efforts to reduce expenditure will bring the budget deficit down to a manageable size. I will not hide that this proposal is highly disputed in Sweden and since the Government needs a few outside votes to get the necessary majority in Parliament the outcome is still uncertain. Even if the sales tax is accepted the strain on the economy will still be heavy. The Government will have to follow the development very carefully and for the time being can certainly not deprive itself of any means to control the external or the internal development.

This brings me to the question of import restrictions, or rather import control because we have in fact used the authority to limit imports only to a small extent. As you will see from Annex I to the GATT document MGT(59)97 imports still subject to licences from all sources concern only a few items, the most important being cars and ships. These items represent about 12 per cent of our total imports, and as they hold a key position it is under present circumstances impossible to do away with these controls.

As to dollar discrimination we concur with the IMF that there is no longer any balance-of-payments justification for discrimination with regard to current payments by members whose current receipts are largely in externally convertible currencies. We very much regret that we have so far not been able to live up one hundred per cent to this principle but in past months we have gradually taken important steps to remove dollar discrimination. You have on page 8 of the GATT document MGT(59)97 an enumeration of the decisions taken up to the date of the document. Already these decisions have reduced dollar discrimination to about a 1 per cent difference between the OEEC free list and the dollar free list.

On 16 October the Government took a further decision liberalizing almost the whole textile sector as well as coal and coke, potatoes and also pigs. Especially the freeing of the textile goods was a difficult decision due to the well-known situation in the textile industry. This last decision covered about sixty different items and brought the
liberalization percentage up to above 88 per cent or almost exactly the same percentage as for the imports from the OEEC area. What discrimination remains is now limited to certain cotton fabrics and cotton garments, women's nylon stockings and a few agricultural products.

In conclusion, I should like to repeat a statement recently made in the Fund by the Scandinavian Director on behalf of the Swedish Government when a draft resolution concerning dollar discrimination was discussed. This statement runs as follows:

"Swedish discriminatory import restrictions, if any, maintained for balance-of-payments reasons against dollar goods will be removed without undue delay, and secondly, imports from non-dollar, non-OEEC countries do not receive preferential treatment as compared with imports from dollar or OEEC countries."
ANNEX II: 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 1 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.