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

2. A vigorous expansion of industrial production and employment was the predominant feature of the Danish economy in 1959. The expansion continued during the early part of 1960 though at a slightly less rapid rate. In the first four months of 1960 industrial production averaged 7-8 per cent higher than in the corresponding period of 1959. At the end of May 1960 unemployment of insured workers was at the unprecedented low figure of 1.4 per cent. Labor incomes rose by about 10 per cent in 1959. Agricultural incomes also rose in 1959 mainly owing to an increase in export prices. Domestic prices have remained relatively stable: between April 1959 and April 1960 the cost of living index rose by 2 per cent.

3. The surplus in the goods and services account of the balance of payments was reduced from about Dkr 850 million in 1958 to about Dkr 50 million in 1959. Mainly as a result of a substantial net inflow of capital from abroad the net foreign assets of the banking system continued to rise until the end of October 1959 when they amounted to Dkr 1,622 million. Thereafter the reserves declined. Since the end of April 1960 they have remained at about Dkr 1,200 million, representing approximately five weeks' imports.

4. To prevent the growth in consumption and investment from imposing too great a strain on resources, the Government has taken steps to restrain the increase in building and construction activity and the National Bank has raised the discount rate and absorbed liquidity by its open market operations. The sharp fall in foreign exchange reserves and the maintenance by the Government of a cash surplus in the overall budget have further curtailed liquidity. To enable the banks to meet seasonal strains on liquidity, it was announced on May 12, 1960 that they could borrow from the National Bank against a wide range of bonds and shares. The Fund believes that the forces of expansion in Denmark are still strong and hopes that the authorities will exercise the utmost caution in their monetary and fiscal policies and will stand ready to take further appropriate measures, if necessary, to prevent the pressure of demand from becoming excessive.
5. The Fund welcomes the steps which have been taken to eliminate discrimination and the substantial progress made in removing other restrictions. The Fund notes that Denmark has undertaken to reduce restrictions gradually over the next three years but hopes that faster progress may be possible. The Fund notes that Denmark has terminated several bilateral payments agreements and urges that further progress be made in terminating those still remaining.

6. In concluding the 1960 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Denmark.