1961 CONSULTATION UNDER ARTICLE XIV WITH DENMARK

International Monetary Fund Executive Board
Decision at Conclusion of IMF-Denmark
Consultation on 11 August 1961

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. The Danish economy has been working at virtually full capacity throughout 1960 and early 1961. Production has continued to increase, partly as a result of the large investments in industry which have taken place during the last three years. Since early 1960 the pressure on the labour market has been considerable. The budget for 1960/61 showed a surplus of DKr 1,045 million on the current and investment account and partly because of this surplus the liquidity of the banks was further reduced. Advances granted by the commercial banks rose, however, by 17 per cent in 1960, the increase being financed to some extent by the expansion of the banks' indebtedness to the central bank and increased borrowing abroad. Incomes of the urban population have shown a rapid increase; in the last quarter of 1960 hourly earnings in industry were 7 per cent higher than in the corresponding period of 1959. Agricultural incomes remained fairly stable. Mainly because of large productivity gains in industry, prices kept reasonably stable. The new wage agreements and agricultural support measures are expected to result in substantial increases in incomes in 1961, both in the urban and agricultural sectors, which must lead to higher unit costs.

3. The value of exports of industrial goods was 11½ per cent higher in 1960 than in the previous year but, as the value of agricultural exports showed little change, total exports rose by 6½ per cent. Mainly as a result of the large rise in domestic demand, including stockbuilding, the value of imports was 12 per cent higher than in 1959 and the current account of the balance of payments showed a deficit of DKr 535 million in 1960 compared with a surplus of DKr 90 million in 1959. The 1960 deficit was partly offset by the inflow of capital from abroad, including borrowing by the Government; the reserves declined by DKr 129 million. In the first six months of 1961, they declined by a further DKr 153 million despite quasigovernmental borrowing abroad totalling DKr 100 million, and at the end of June, the reserves amounted to DKr 1,253 million, representing approximately one month's imports.

4. To moderate the expansion of demand, interest rates have been raised: on May 23, 1961 the National Bank's discount rate was increased from 5½ per cent to 6½ per cent and its lending rate against collateral of securities was increased to 7 per cent in April and to 7½ per cent in May. The agricultural support measures and the increases in wages and pensions, however, will result in a substantial reduction in the budget surplus in 1961/62. The
Fund welcomes the measures that have been taken to moderate the expansion of demand but believes that further steps are urgently required to reduce the pressure on prices and on the external-payments position. In view of the already high interest rates and the policy objective of achieving diversification of production through industrial investment, these further steps could best be concentrated in the fiscal field.

5. The Fund welcomes the continued progress made in liberalizing the restrictive system and urges Denmark to take corrective measures to strengthen its external positions and thus to allow the elimination of balance of payments restrictions. The Fund notes that Denmark is considering the further reduction of discrimination in its import licensing regime. The clearing arrangement with Greece has been terminated and a similar arrangement with Turkey will shortly be ended. The Fund considers that the elimination of payments agreements with Brazil and Colombia is both feasible and desirable.

6. In concluding the 1961 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Denmark.