1962 CONSULTATION UNDER ARTICLE XII:4(b) WITH DENMARK

International Monetary Fund Executive Board Decision Taken at the Conclusion of the Fund’s Consultation with Denmark on 10 September 1962

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. Since mid-1958 Denmark has experienced a markedly more rapid expansion in economic activity than in the earlier 1950's. The large volume of industrial investment in recent years and the structural changes in the economy which this involved have provided the basis for a substantial growth. Practically full employment was reached during 1960 and, subsequently, scarcity of labor resulted in a distinct slowing down in the expansion of industrial output. In 1961 the real gross national product rose by 4.5 per cent following a 7 per cent increase in the preceding year. The pressure on resources, particularly in the building sector, gave rise to inflationary income developments in 1961. Average hourly earnings in industry increased by 13 per cent between 1960 and 1961. The consumer price index rose by 7 per cent in the course of 1961 and by a further 2 per cent in the first quarter of 1962. Mainly as a result of the introduction of the agricultural support program and of the increase in salaries of civil servants, government expenditure rose substantially more than the revenue and the over-all budget surplus of Dkr 400 million recorded in the fiscal year 1960/61 was turned into a deficit of Dkr 450 million in 1961/62. This deficit was almost entirely financed by drawings on balances with the National Bank.

3. Sharply increased internal demand was also responsible for the deterioration in the balance of payments. The value of merchandise imports was 3.6 per cent higher in 1961 than in 1960. Imports of machinery and manufactured consumer goods continued to rise steeply but there was a reduction in imports of feeding stuffs and of industrial raw materials. The value of exports increased by 2.9 per cent as a decline in agricultural exports and in the export of ships partly offset the continued expansion of export of industrial products. Net income from services declined and the deficit on the current account of the balance of payments increased from Dkr 425 million in 1960 to Dkr 663 million in 1961. Net inflow of capital amounted to Dkr 663 million in 1961. Net inflow of capital amounted to Dkr 264 million in 1960 and Dkr 443 million in 1961. The net foreign assets of the banking system which had declined by Dkr 161 million in 1960 fell by Dkr 220 million in 1961. Long-term borrowing from abroad in the first half of 1962 was larger than in the corresponding period of the previous year. However, the trade deficit continued to increase and the reserves declined by a further Dkr 166 million in the first half of 1962. At the end of June 1962 they amounted to Dkr 1,048 million, representing less than one month's imports.
4. To contend with the internal pressures and to improve the foreign position, the National Bank in 1961 and early 1962 took steps designed to tighten monetary conditions and urged the banks to restrain their lending. Bank credit, which continued to be facilitated by borrowing from abroad for trade purposes, rose less strongly in 1961 and early 1962 than in 1960. Borrowing in the bond market, where the National Bank and the commercial banks acted as net buyers in 1961, increased substantially; in the first half of 1962, however, the National Bank sold a considerable amount of bonds. In June 1962 a set of measures designed to strengthen the fiscal situation and to limit public and residential construction was adopted and the budget for 1962/63 is estimated to show an over-all surplus of Dkr 500 million, to be sterilized in the National Bank. The Fund welcomes these measures, which should help to restore a better balance between aggregate domestic demand and available resources and, thus, also lead to a strengthening of the external position.

5. Denmark has made some further progress in relaxing its import restrictions and in reducing import discrimination. The Fund believes that the recent measures designed to restrain internal demand and to strengthen the external payments position should allow Denmark at an early date to reduce substantially its reliance on such restrictions, especially those maintained for balance of payments reasons. Reduced reliance on restrictions would also be helpful in restoring price stability and in obtaining the most economic utilization of resources. The Fund notes that the export incentive scheme and the payments agreement with Turkey have been abolished, and urges the early termination of the two remaining payments agreements with Fund members.

6. In concluding the 1962 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Denmark.