

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/1617

15 November 1961

Limited Distribution

CONTRACTING PARTIES
Nineteenth Session

REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION UNDER ARTICLE XII:4(b) WITH

D E N M A R K

1. In accordance with its terms of reference the Committee conducted the consultation with Denmark under paragraph 4(b) of Article XII. The Committee had before it the following documents: (a) a "basic document" (MGT(61)26), together with ten annexed tables; and (b) documents provided by the International Monetary Fund as noted in paragraph 3 below.
2. In conducting the consultation the Committee followed the "Plan" recommended by the CONTRACTING PARTIES. The consultation was completed on 30 October 1961. The present report summarizes the main points discussed.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with Denmark. In accordance with the agreed procedure the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Denmark. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision relating to the last consultation with Denmark under Article XIV of the Fund agreement¹ and the background material prepared in connection with that consultation.

"With respect to Part I of the Plan for Consultations, relating to balance of payments position and prospects, and with respect to Part III, relating to system and methods of the restrictions, the Fund calls the attention of the CONTRACTING PARTIES to the Executive Board decision of August 11, 1961, taken

¹See Annex II.

at the conclusion of its recent consultation with Denmark and particularly to paragraph 5, which reads as follows:

"The Fund welcomes the continued progress made in liberalizing the restrictive system and urges Denmark to take corrective measures to strengthen its external position 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 régime. 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."

"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, attention is drawn to the decision of August 11, 1961. The Fund has no additional alternative measures to suggest at this time."

Balance-of-payments position and prospects

4. The text of the statement made by the representative of Denmark at the opening of the consultation is appended as Annex I to this report. The following summarize the points in the Danish statement dealing with recent economic developments in Denmark and in its balance-of-payments position and prospects (other points in the statement are summarized in the appropriate later sections of the report). During 1961 the Danish economy continued the remarkable expansion that started in 1958. Substantial progress had been made during the period in meeting structural difficulties hampering economic growth. Many of the apprehensions entertained prior to the onset of the expansion had not materialized. The ease in adjustment had partly been due to very large gains in productivity, but had also been enhanced by fiscal and monetary policies which contributed to stability in domestic demand, and by a liberal foreign trade policy which contributed to stability in prices and discouraged uneconomic production.

5. Since the beginning of 1961, however, the situation had become more difficult. Import prices which had recently been falling were now levelling off and this had again made apparent the adverse effect on the Danish balance of payments of the difficulties in the way of an expansion of Danish agricultural exports. Increases in wages might well have outrun the rise in productivity and there had been substantial public intervention to raise agricultural incomes. As a result, and in the absence of other measures, the Government would be likely to have a cash deficit, as opposed to the small surplus budgeted for. A deterioration in the balance of payments was expected for the year as a whole owing to the rise in consumption and higher costs in the wake of increased incomes. The Danish balance of payments had already weakened in 1961, particularly since September. This trend was expected to continue and would result in a further loss of reserves. An economic policy aimed at restraining domestic demand without curtailing economic expansion or impeding industrial development had therefore been carried out gradually.

The representative of Denmark stressed that the continued rapid development of industry represented the best assurance for an early termination of Danish import restrictions, and that further liberalization had to be introduced at a prudent pace if this aim were to be attained.

6. A member of the Committee noted that there had been a very substantial increase in industrial exports from Denmark over the past year, to the extent that they had for the first time exceeded agricultural exports. Asked to comment on the possible effects of this new development on the balance of payments the representative of Denmark noted that this gratifying development was the result of a deliberate policy of diversifying Danish production and promoting expansion in the industrial sector. This policy was designed to reduce Denmark's dependence on agricultural exports for which there seemed little prospect of expansion owing to the protective agricultural policies of other countries and widespread export subsidies. In particular, he described the present depressed conditions in the markets for butter, meat, bacon and eggs. As a consequence of the policy of industrial development and diversification there had been in the last ten years a 10 to 20 per cent increase in industrial exports almost every year despite fluctuations and periods of levelling off in world economic activity. The problem of maintaining economic growth at an acceptable rate remained grave; as an example it was mentioned that the financing of the import bill resulting from a 1 per cent rise in gross national product required an increase of 5 to 7 per cent in industrial exports; to meet the requirement of a 3 per cent per annum rise in GNP, an annual increase in industrial exports of 15 to 20 per cent would thus be needed.

7. In further discussing Danish exports, the representative of Denmark confirmed that total Danish exports had risen in 1960 by only $6\frac{1}{2}$ per cent over the 1959 level although industrial exports had risen by $11\frac{1}{2}$ per cent, and explained that this merely reflected the fact that agricultural exports had been stagnant.¹

8. Commenting on the fact that Danish net receipts on "foreign travel" were somewhat lower in the first half of 1961 than in the corresponding period in 1960, the Danish representative explained that the low figure for the first half of 1961 reflected losses in tourist income caused by labour disputes.

¹ According to Danish statistics the figures (in DKr million) are:

	<u>1959</u>	<u>1960</u>	<u>Increases</u>
Agricultural exports	4,545	4,568	0.5 per cent
Industrial exports	4,461	4,959	11.2 per cent
Other	<u>500</u>	<u>578</u>	<u>15.6</u> per cent
Total:	<u>9,506</u>	<u>10,105</u>	<u>6.3</u> per cent

9. A Member of the Committee noted that, in spite of a worsening of the balance of payments on goods and services account, Denmark's foreign reserves had fallen by only DKr153 million in the first half of 1961 compared with a fall of DKr341 million in the corresponding period in 1960, a situation which could only be attributed to improvements on capital account. Requested to supply information on the nature of the capital inflow, the Danish representative explained that there had been no increase in 1961 in the inflow of capital on public account. In the private sector, loans floated abroad by a Danish telephone company and direct investment in Danish oil refineries, as well as certain other fields, were factors which substantially raised total private capital inflow in the first seven months of the year. Movements of short-term capital were generally in line with the requirements of commercial transactions, there being no sign of any substantial inflow related solely to the high rate of interest. In other words, most of the capital that came into Denmark in recent months was accounted for by the few large investment transactions. There were other investment prospects currently under consideration, but whether the recent high level of private capital inflow was likely to continue remained to be seen.

Alternative measures to restore equilibrium

10. The representative of Denmark referred in his opening statement to the measure of price stability which had been achieved up to last year through domestic, fiscal and monetary policies, and to the more difficult problems which had appeared since the beginning of 1961. Since then there had been an increase in money income, partly as a result of wage increases in connexion with the renewal of collective wage agreements in the spring and partly due to income support measures in the agricultural sector. To meet this situation various measures had been taken, for instance: the re-discount rate had been increased from 5.5 to 6.5 per cent in the spring of 1961; the governmental construction programme had been reduced; there were likely to be higher indirect taxes and higher charges for public services¹; commercial banks had been asked to refrain from expanding credit. In these circumstances and with the expected rise in taxable incomes and a consequential higher revenue from income tax, a budgetary surplus was now likely to be achieved in 1961/62, though appreciably smaller than that budgeted for in 1960/61.

11. In reply to questions concerning the effects of the recent wage increases and measures of income support, the Danish representative stated that in the absence of accurate statistics one might estimate the overall increase in salaries and wages since the beginning of this year to be of the order of 9 to 10 per cent. Part of this increase would be counter-balanced by the increase in productivity. The proposed increase in indirect taxes, which fell mainly on consumer goods, and in charges of public utilities and services would certainly absorb a part of the augmented money income. As mentioned earlier, import liberalization would also be regarded as a means of reducing upward pressures on prices.

¹Some of these changes became effective on 1 November 1961.

12. The Danish representative stated that the newly-negotiated wage agreements were valid for a period of two years and, consequently, apart from cost-of-living adjustments, which were provided for in the agreements, and "wage drifts", which might develop to a greater or smaller extent depending on the strength of the labour market and factors calling for adjustment during the validity of existing wage agreements, there should be no substantial increase in the wage bill in 1962.
13. As regards income support in farming, the primary consideration of maintaining price stability had led to the adoption of the method of direct cash payments to farmers, in preference to other methods, which were more likely to affect the quantity of products available for export.
14. Members of the Committee discussed with the Danish representative various other aspects of the Danish monetary and fiscal policies. The Danish representative, in response to questions, noted that the precise effects of the monetary and fiscal measures taken earlier this year to restrain demand, would be particularly difficult to assess because of the disturbance to the economy caused by the extensive labour disputes this spring. However, although the stoppages had caused a slowing down in investment, the recent rise in imports of machinery and equipment certainly indicated a resumption of a healthy level of industrial investment, despite the rise in the rates of interest.
15. As regards the precise nature of the contemplated fiscal measures, it was noted that these consisted principally of an increase in the turnover tax on beer, spirits and petrol and increases in railway fares and post office charges. These measures were expected to result in an increase of some DKr250 to 300 million, or 6 per cent, in budgetary revenue.
16. It was suggested by a Member of the Committee that, having regard to the likelihood of an appreciably smaller budgetary surplus in 1961/62 than in 1960/61 and increased money income, attention might be given to measures designed to stimulate personal and corporate saving. The representative of Denmark noted that the increase in personal income had apparently already led to an increase in saving; furthermore, the question of savings was under consideration in Denmark at present, and governmental action was likely to be taken early next year to provide further fiscal inducements to encourage saving.
17. A Member of the Committee pointed out that the Danish system of collecting direct taxes some eighteen months after receipt by taxpayers of taxable income seemed to limit the effectiveness of the remedies which might become necessary in the field of direct taxation. The Danish representative observed that the Danish authorities were aware of the problem to which the Member of the Committee had alluded. A change in the system of tax collection could, however, only be made as part of a thorough remodelling of the whole Danish tax system. Proposals to this end had been discussed on several occasions in Parliament and the matter was under active consideration by the Danish Government.

System and methods of restrictions

18. In his opening statement the representative of Denmark described the successive steps of relaxing and removing import restrictions taken since March 1960. As a result of action taken at that time, the percentage of liberalization had been increased from 86 to 95 per cent, and the proportion of Danish industrial production exposed to foreign competition through liberalization had been increased from 33 per cent to 87 per cent. Certain restrictions had been relaxed on 1 January and 1 July 1961, and further relaxations would be effected in July 1962 and July 1963. The remaining restrictions, covering 8 per cent of total Danish industrial production, would be removed at least as quickly as required by Denmark's international obligations. In the meantime the free-list and global quota area had been extended to include virtually all non-State-trading countries. The Danish representative further stated that his Government was confident that the problems which at present made it impossible to extend the free-list treatment to all non-State-trading countries would be solved in the near future. He emphasized, however, that solutions in this regard depended partly on a multilateral approach to the problems, which were common for many contracting parties, although in some cases ways and means of overcoming the present problems might be found by Denmark itself. To prepare for full liberalization, quotas for goods on the restricted list were gradually enlarged; in the last two years industrial quotas had been increased by about 40 per cent each year.

19. In reply to a question, the representative of Denmark reaffirmed his Government's intention of abolishing the Danish "Exchange Retention Scheme" by the end of this year.

20. Members of the Committee discussed with the Danish representative the administrative system of allocating quotas among importers. Attention was drawn to the method of allocating licences among imports on the basis of performance in a previous "representative period", which, it appeared, might result in the fragmentation of a quota to such small proportions as to make it unusable. The representative of Denmark explained that the method of allocation with reference to previous performance applied only to a part of each individual quota; the remaining portion of the quota would normally be available for allocation to individual importers on an ad hoc basis and in a most flexible manner. As regards the alleged danger of fragmentation, it should be pointed out that import licences were valid for a period of eighteen months, which enabled the accumulation of licences of small values for use together and that unused licences were renewable and could be re-allocated to facilitate their utilization.

21. In reply to a question, the Danish representative stressed that the absence of imports from a particular country in a given "representative period" would in no way preclude that country from participation in a quota. All licences issued were valid for all countries in the quota area, and importers were free to choose their sources of supply within that area on purely commercial considerations. Consequently the question of discrimination simply could not arise.

22. Members of the Committee enquired whether the statement in the basic document for the consultation that, "as a rule values or quantities of regional quotas are made known to the trade organizations concerned" implied that such information was not made known to other interested parties; they pointed out that exporters in other countries should also be entitled to receive information on trade opportunities. In reply the representative of Denmark stated that, while it was true that such information was not made public, nevertheless it was available to diplomatic and commercial representatives of all exporting countries expressing an interest and requesting it.

23. According to information supplied by the Danish delegation, coarse grains and feedingstuffs (barley, oats, maize, buckwheat, millet, canary seed and grain sorghums, other cereals, bran, sharps and other residues derived from the sifting, milling or working of cereals or of leguminous vegetables; maize-cake and residues of starch manufactures) had been placed again under import control. Members of the Committee expressed concern over this development which, in their view, constituted a retrogressive step in Danish import policy, and was not in keeping with the record of progress made thus far in the liberalization of Danish imports. The Danish representative explained that the restriction of imports of barley and other feed grains had been introduced in order to limit bacon production. The price elasticity and the Danish position on the British market were such that a strengthening of the market could normally be achieved through the regulation of Danish supplies. In view of the falling prices for bacon on the London market, generated by excess supply, the Danish Government considered that production should be restrained in order to maintain Danish export income. The aim of regulating the supply of bacon could have been achieved through the imposition of production quotas. For administrative convenience, however, this had been avoided and instead reliance had been placed upon the limitation of the supply of feed. Production quotas would, in any event, have exerted an effect on grain imports similar to that of import restrictions. The Danish representative agreed that the restriction of coarse grain imports also had had the effect of preventing a serious drop in internal grain prices resulting from the rather big harvest in Denmark in 1961. Such a drop in grain prices would have encouraged pig production to an undesirable extent. The measure amounted in effect to a minimum price scheme, and the import prohibition would be removed as soon as grain prices in Denmark rose above the level prescribed in the Danish Grain Act. Some Members of the Committee, without prejudice to the question of consistency of this action with the provisions of GATT, expressed the hope that this restriction would be temporary and urged that it be removed as soon as possible.

24. In discussing the use of bilateral trade agreements, Members of the Committee noted that, according to the documentation for the consultation, imports under such arrangements were of declining significance and amounted to approximately 1 per cent of total Danish imports in 1960. They recalled the statement in the Fund Decision (see paragraph 3 above) that "the Fund considers the elimination of payments agreements with Brazil and Colombia both feasible and desirable", and asked about Denmark's policy in regard to the use of bilateral trade agreements. The representative of Denmark expressed the hope that his Government would soon be in a position to overcome the difficulties which compelled reliance on bilateral trade agreements. The bilateral trade agreement with Brazil had

been extended in order to facilitate access to the Brazilian market for stock fish from the Faroe Islands. Members of the Committee pointed out that many governments had recently discontinued bilateral trading arrangements with Brazil without causing perceptible damage to their trade, and suggested that Denmark might consider following those examples. The representative of Denmark assured Members of the Committee that this would be given consideration by his Government.

25. A Member of the Committee mentioned that exporters in his country had expressed concern over quotas for citrus juices provided for in bilateral trade agreements concluded by Denmark with certain countries, inasmuch as this could result in discrimination if similar access were not open to other contracting parties. The representative of Denmark assured the Committee that in cases where trade was partly covered by bilateral arrangements, import quotas were always available to all contracting parties in accordance with the provisions of Article XIII. Another Member noted that in the case of a limited number of products imports were regulated by a series of bilateral quotas. He suggested that Denmark might consider replacing these by global quotas. A third Member welcomed the establishment of global quotas for apples and pears which represented encouraging progress. He expressed the hope that the quotas could be increased in the coming year and eventually lead to the liberalization of these products.

Effects of the restrictions

26. The representative of Denmark also noted in his opening statement that imports of liberalized goods had been running at a high level in the first half of 1961, and that in the light of previous experience a sudden liberalization of restricted imports would have a serious adverse effect on Denmark's payments position. However, despite present balance-of-payments difficulties it was the policy of the Danish Government to liberalize the remaining goods in accordance with the original plan. It was hoped that it would be possible to accelerate liberalization in the future; but too rapid liberalization might result in losses of foreign currency, create problems of adaptation and impair the rate of growth.

27. Members of the Committee referred to the statement in the "basic document" for the consultation that "the need for restrictions on agricultural imports arises because of the possibility that subsidized products might be imported from time to time, with consequent damage to foreign exchange reserves", and suggested that any difficulties on the Danish market caused by such imports should more appropriately be dealt with on a case-by-case basis under the relevant provisions of the Agreement rather than by a policy of applying across-the-board restrictions to virtually the entire range of agricultural imports. The representative of Denmark replied that Danish experience had shown that anti-dumping duties and countervailing duties could not be relied upon in all circumstances to deal with problems of this nature; while such legislation existed in Denmark it had not been found practicable to make use of it. If some positive results should emerge from the work of Committee II his Government would certainly be prepared to join in any proposed common approach which would

render possible the elimination of quantitative restrictions on agricultural products. At present a programme for the liberalization of Danish agricultural imports could result in a serious deterioration in the balance of payments. Industrial imports had been given priority in the Danish programme of liberalization mainly because of the need to provide competitive incentive to raise productivity in Danish industry, which had not in all sectors, attained a high level of efficiency. Danish agriculture, on the other hand, was highly efficient and needed no such stimulation from foreign competition, which was in most cases based on governmental subsidization. It was therefore natural that the available reserves of foreign exchange should in the first instance be used in making possible a liberalization of industrial products. Members of the Committee expressed the hope that Denmark would keep under close examination the possibility of removing restrictions on agricultural imports. It was suggested that the matter might gain urgency with any further improvement in the Danish balance of payments.

General

28. The Committee expressed appreciation of the detailed information provided by the Danish delegation and of the frank and full answers given by the Danish representative to the various questions put by Members of the Committee.

29. The Committee welcomed the continued progress made by Denmark in liberalizing imports and the intention of the Danish authorities continuously to enlarge import quotas, to remove further restrictions early in 1962 and to discontinue the exchange retention scheme by the end of 1961. The Committee noted that the various monetary and fiscal measures taken by Denmark in the past years had contributed to restraining demand and maintaining price stability in the face of rapid economic growth, and hoped that such policies would continue to be applied and if necessary reinforced in order to restore the measure of stability in prices and costs which had prevailed up to 1960 and to strengthen the balance of payments. Since the recent worsening of the balance of payments was attributable primarily to the increase in imports an improvement in the overall balance of payments might occur once the effects of the recent internal measures to restrain demand were felt. The Committee therefore suggested that the Danish Government should continuously, in the light of its balance-of-payments position, examine the possibility of accelerating its liberalization programme.

30. Certain Members of the Committee expressed concern at the reasons given by the Danish delegation for the maintenance of restrictions on agricultural products. They hoped that efforts would be made by the Danish authorities, irrespective of measures and policies that might be applied by other countries, to find solutions for the problems hampering the removal of such restrictions. It was to be hoped that when Denmark ceased to have difficulties in its balance of payments there would indeed be no need to retain residual restrictions of a "hard-core" nature.

31. The representative of Denmark stated that his delegation had taken note of the views and suggestions that had been expressed at this consultation and that it would bring these to the attention of his Government.

ANNEXES

- I. Opening statement by the Danish representative
- II. Decision of the IMF Executive Board

ANNEX I

Statement by the Danish Representative

Throughout the last year the Danish economy has, for the fourth year in succession, continued the remarkable expansion which started in 1958. In the course of this process it has been possible to make substantial progress towards the solution of many of the structural difficulties which have been burdening us in recent years, and which, during a long period in the fifties have caused an unsatisfactory rate of growth in production, employment and living standards.

During the consultations last year we had a discussion of this development, and I do not intend to go into this once more; but as a background to what I intend to say about our problems to-day I would like to say a few words about the implications which this expansion has had on our economic policy.

There is no reason to conceal that a rapid and vigorous expansion as we have had it on several occasions has given rise to concern. For instance, we could not know whether after the period of stagnation in the nineteen-fifties there would be difficulties in expanding production and employment at the same rate as demand. We could not know, either, whether in the course of the expansion we should see pressures in the field of costs and prices, and we have also been worried lest the rapid growth of demand should encourage production, which might not be competitive in the long run. Finally, of course, there was the ever present uncertainty from external conditions in which our economy is operating.

As it happened, many of these problems turned out - at any rate until the beginning of this year - to be smaller, some of them even much smaller, than expected. External conditions were favourable for expansion of industrial exports, the adjustment of production and employment proceeded smoothly, and the very large productivity gains meant that developments in prices and costs proved to be reasonably satisfactory.

In these circumstances the problems of an economic policy designed to secure a balanced expansion turned out to be easier than many people had expected. We have mainly taken action along two lines: On the one side we have tried to maintain control of domestic demand through fiscal and monetary policies, in particular in those fields where the pressure was strongest. On the other side we carried through an extensive liberalization of foreign trade which, although it involved outlays of foreign currency, made it easier to keep prices in check and to avoid the risk of expansion of not competitive production. I think it is fair to say that the results of this policy have been highly satisfactory. To give some figures of this development I may quote that the increase in productivity during the last couple of years seems to have been about 8 per cent annually, and that industrial exports have risen by 12 - 15 per cent each year.

Since the beginning of this year the problems we are faced with have in several respects become more difficult. In the first place our fundamental balance-of-payments problems caused by the stagnation of agricultural exports have reasserted themselves. In the earlier phase of the upswing we were able temporarily to look away from these fundamental difficulties because there was a perceptible fall in our import prices. The effects of this favourable trend flattened out, however, in 1960, and there has since then been a rising pressure on our exchange reserves. We have, as far as possible, tried to soften the impact of this through more extensive borrowing abroad on both private and public account.

The second factor which has contributed to complicate our economic policy problems is the rise in money incomes which has taken place this year. In the first place there have been increases of wages and salaries at the renewal of the collective wages agreements this spring. How big these increases were we hardly know as yet, but they were certainly not inconsiderable, and we must fear that they have outrun the rise in productivity. In the second place there has been a substantial public intervention to increase the incomes in agriculture. The reason for this was that agriculture suffering from marketing difficulties abroad, has been unable to increase their income at the same rate as other trades. I would like to add, however, that in setting out this agricultural support programme we have been anxious to avoid measures which might substantially influence production and thereby exports of agricultural products.

This wave of income increases has had effects in several respects. Thus it has caused a deterioration in the Government budget where the former cash surplus has been changed into a moderate cash deficit. It is to be expected that it also means a deterioration of the balance of payments, partly and mainly because of the rise in consumption, partly also because of higher costs; the latter effect is perhaps not the most serious considering the general rise in costs in most countries at present.

As a consequence of this development the Danish balance of payments has been weakening in the course of 1961 although the deterioration until recently was less pronounced than many had expected. One of the reasons is, no doubt, the rise in imports of capital; another reason is the dampening effect on domestic activity of the big labour conflict this spring. In this autumn, however, it has become apparent that domestic demand is rising noticeably and that the deterioration of the foreign balance is becoming more pronounced. Looking ahead we felt that we must envisage further losses of reserves.

It is obvious that in these circumstances economic policy would have to be changed. The guiding line in this adaptation of policies has been that since the domestic boom was the principal cause of the exchange losses, the measures must primarily be directed towards a dampening of domestic demand.

At the same time, however, we have been very anxious indeed to avoid putting on the brakes so rapidly and violently that the expansion would be brought to an end and the development of industry impeded.

You will also see, therefore, that the tightening of economic policy has been carried out gradually. Already in spring the discount rate was raised from $5\frac{1}{2}$ to $6\frac{1}{2}$ per cent, and the construction programme of the Government was cut back. Now these measures are being followed up by a Government proposal for a substantial strengthening of the budget by means of higher indirect taxes and higher prices in public enterprises amounting in total to nearly 300 million kroner. Finally monetary policies have been tightened further through requests to the private banks to refrain from expanding their lending activities. Over and above these measures the budgetary situation will be improved automatically in early summer 1962 when the rise in taxable incomes from 1960 to 1961 is reflected in revenue from income taxes. At least, when this becomes effective we must expect that the Government cash budget will swing back into surplus.

It is our hope that the measures we have taken will be sufficient to bring the exchange deficit to an end without causing too much harm to the expansion of industry, but there is no denying that this aim will only be reached after a period in which there will be losses of foreign exchange. This makes it essential for us to show prudence as to the rate at which foreign trade is liberalized. It has at no time been considered to step back on the existing programme for the abolition of restrictions, and in a few fields we have, indeed, been able to advance faster than envisaged.

After these observations on the latest development in Danish economy I would like to add some information on the recent evolution in the Danish import system. As you will be aware, the Danish restrictions are based on the negative list approach.

I will take my point of departure on 1 March 1960, on which date we carried through a substantial liberalization of Danish imports. The total percentage of liberalization was increased from 86 to 95. Or, to illustrate this decisive step in another way, it can be stated that before 1 March 1960 only 33 per cent of the total Danish industrial production had been exposed to foreign competition through liberalization. After that date the percentage was 87. In connexion with this move a programme for further liberalization was drawn up, according to which additional extensions in the liberalization should take place on 1 January 1961, 1 July 1961, 1 July 1962 and 1 July 1963. The remainder, covering 8 per cent of total Danish industrial production, should be eliminated, at least as fast as required by our international obligations. The programme which was tantamount to advance notices to domestic industry has been implemented, as we have carried through the liberalizations as envisaged in the original plan. For instance, this summer we liberalized imports of leather footwear.

Since our latest consultation in October 1960, we have reviewed our so-called free list area. Very recently the Danish Government has decided to extend the geographical scope of the free list area. This involves both the application of the regional quotas to these countries and the abolition of licences hitherto required in respect of the liberalized commodities. Outside the free list area remain now only countries with planned economies and a few other countries. It is our hope that the problems which now make it impossible to extend the free list area to the latter group can be solved. In some instances it depends on a multilateral approach to the problem, as the issue is the same for a number of contracting parties. In some other cases I hope that within a not too distant future we, ourselves, can overcome the present difficulties.

The steps towards the abolition of restrictions consist not only in extending the free list and the free list area, but also in preparing the transfer of commodities from the present restricted list to the free list by increasing the quotas. During the last two years we have expanded the industrial quotas every year by an average of about 40 per cent.

To round off the picture of our accomplishments of the last year I will end up by mentioning that the Danish retention scheme which has given rise to a number of questions during earlier consultations, will be terminated as promised on 31 December 1961.

Looking ahead I want to stress once more that an important consideration in deciding further liberalization is the cost in foreign currency of doing away with the remaining restrictions. This cost cannot be estimated by any degree of certainty. To illustrate the effect of liberalization on our outlays in foreign currency in connexion with our recent move, the following figures are illuminating. From the year 1959 to year 1960 total imports rose by 12 per cent. During the same period goods liberalized prior to 1 March 1960 rose by 9 per cent; goods freed on 1 March 1960 by well above 40 per cent. The large imports of the commodities liberalized in 1960 may to some extent be due to the building up of stocks. But there can be no doubt that there is also a more lasting tendency to a higher level, in spite of the fact that before liberalization the issuance of licences usually has been increased in order to prepare the ground. This has been confirmed by the fact that the imports of these liberalized goods have been running at this high level in the first half of 1961.

There still remain commodities on the restricted list for about 800 million kroner annual import value. The increase in the quotas which has taken place has not yet made these commodities ripe for transfer to the liberalization list. And in the light of our experience last year a sudden freeing of these imports would undoubtedly imply a heavy burden on our reserve position.

Despite the present balance-of-payments difficulties it is the decided policy of the Danish Government to liberalize the remaining goods at least in accordance with the original plan and I am hopeful that we will be able to proceed rather faster.

We are, however, very mindful of the fact that a too fast liberalization would mean losses of foreign currency and problems of adaptation inside industry to such an extent that the rate of growth of Danish industrial production and industrial development in general might be seriously impeded. Here I want to stress once more that in our view the continued rapid development of industry represents, in fact, by far the best chance for an early end to our restrictions.

ANNEX II

IMF Executive Board Decision of 11 August 1961 relating to Denmark

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 $11\frac{1}{2}$ per cent higher in 1960 than in the previous year but, as the value of agricultural exports showed little change, total exports rose by $6\frac{1}{2}$ 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 quasi-governmental 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 $5\frac{1}{2}$ per cent to $6\frac{1}{2}$ per cent and its lending rate against collateral of securities was increased to 7 per cent in April and to $7\frac{1}{2}$ 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 régime. 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.