

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Committee on Balance-of-Payments Restrictions

REPORT ON THE CONSULTATION UNDER  
ARTICLE XII:4(b) WITH FINLAND

1. In accordance with its terms of reference, the Committee has conducted the consultation with Finland under Article XII:4(b). The Committee had before it a basic document for the consultation (BOP/71), certain supplementary information supplied by the Government of Finland (L/2755, L/2857, Spec(64)44) and documentation supplied by the International Monetary Fund.
2. In conducting the consultation the Committee followed the plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97-98). The consultation was completed on 16 October 1967. This report summarizes the main points of the discussions.

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 Finland. In accordance with the customary procedure the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Finland. The statement made was as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of March 6, 1967 taken at the conclusion of its most recent Article XIV consultation with Finland<sup>1</sup>, and particularly to the latter part of that decision which reads as follows:

'... Gross foreign assets of the Bank of Finland which had fallen by \$95 million during 1965, showed a further reduction of \$101 million in 1966 and by the end of the year amounted to \$189 million, including the gold tranche position in the Fund amounting to \$31.3 million.

'The Finnish authorities have taken further measures to reduce the balance of payments deficit on current account. Since the spring of 1966 taxes and other charges have been raised by Fmk 880 million, on an annual basis, and determined efforts have been made to restrain the growth in

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<sup>1</sup>Reproduced in Annex I to this Report.

government spending. Moreover, in order to curtail the growth in lending, limits have been placed on rediscounts and other central bank credits. The Fund believes that these steps are essential for the restoration of balance of payments equilibrium. It further considers that efforts should continue to be made to improve the state's finances in order to make room for a resumption of growth of productive investment.

'The Fund notes with satisfaction that despite the balance of payments difficulties, Finland has continued to reduce restrictions and discrimination, although the existing limitations on foreign exchange for tourist travel have been made more restrictive. The only remaining bilateral payments agreement with a member of the Fund is scheduled to be terminated at the end of 1967.'

"Since that consultation was completed, demand for Finnish products, especially from western Europe, has continued to be rather weak. While there has been some improvement in the current account position this was less than expected and reflects to a large extent an improvement in bilateral trade. Despite drawings of \$70 million from the Fund (including about \$39 million from credit tranches) during the first seven months of this year, the gross foreign assets of the Bank of Finland, \$190 million at the end of July, stood at almost the same low level as at the end of 1966.

"With the concurrence of the Fund, the Government of Finland changed the par value of the Finnish markka from Fmk 3.20 per US\$1 to Fmk 4.19997 per US\$1 effective October 12, 1967. This change in par value, and the accompanying measures being taken by the Government of Finland, should assist in the restoration of internal and external balance in the Finnish economy while reliance on trade and payments restrictions maintained for balance of payments reasons is further reduced."

#### Opening statement by the Finnish representative

4. In his opening statement, the full text of which is reproduced in Annex II to this report, the representative of Finland recalled the difficult balance-of-payments situation which Finland had described at last year's consultation. He outlined the measures taken since that time in an effort to restore external balance and described the circumstances which had brought Finland to a choice between policies all unacceptable for one reason or another and a change in the par value of the Finnish markka. It was this last course which had been chosen, only a few days earlier, with the concurrence of the International Monetary Fund so that, unfortunately, Finland's situation today was entirely different from what it had been expected to be when most of the documentation for this meeting had been prepared. It had appeared, however, that the consultation would nevertheless give members of the Committee a useful opportunity to review with Finland both the background to the devaluation and some of the post-devaluation measures already taken or planned.

5. Most of the new measures, he explained, were designed to counter the inevitable inflationary impact of the devaluation; these include a temporary export levy for which parliamentary authorization was being sought, a voluntary decision to abolish duties on the so-called "décalage" list of the FINEFTA Agreement, a price freeze on commodities affecting the cost-of-living index, and a coming end to the regulation requiring cash payment in advance for certain imports. By the devaluation, and by these supplementary measures, Finland had avoided worse alternatives and now hoped to be able to counter a decline in exports, slack demand and a tendency toward stagnation throughout the economy.

6. The representative of Finland explained that the export levy, to be collected at the start at the rate of 14 per cent, but later at progressively lower rates, would divert an estimated Fmk 600 million to the Government in the first year, and would be used for purposes of structural improvement of factors affecting production and growth. One third would go to enterprises in which the Government holds a majority interest; another third could be used for development of energy production; the remaining third would be used for financing export credits, for development credits and forest improvement projects. No immediate change was expected in the volume of exports and, in view of the dependence of Finland on imports both for production and consumption, there should be no major contractive effect on imports. No further quotas would be established now and further liberalization measures, as discussed below, could be expected soon. The last bilateral payments agreement with a Fund member, Colombia, was to be terminated at the end of 1967, and the current bilateral agreement with Czechoslovakia provided for periodic settlement of half of outstanding balances in convertible currency.

Balance-of-payments position and prospects - alternative measures to restore equilibrium

7. Members of the Committee expressed their thanks to the representative of Finland for the very lucid explanation he had given of Finland's bold attack on her problems.

8. It was recognized that Finland could not be expected to give very definite forecasts on the balance-of-payments outlook in view of the very recent dramatic turn in affairs. In response to a number of questions, the representative of Finland did underline however that with the expected export levy no sudden rise

in exports could be expected; this measure would serve to curb windfall profits arising from the change in the external value of the markka as soon as the emergency Act authorizing this levy could be passed through Parliament. The application of the levy would not be retroactive to the date of the devaluation. For the first three months from enactment the levy at an initial 14 per cent would take away just over half the price advantage given to exporters by the devaluation and would in this way help to avoid an immediate rise in internal prices. After three months the levy rate would begin to decline, at a rate which could not now be predicted exactly, but related to the movement of internal prices. In the first year this levy would divert some Fmk 600 million to the Government but less in its second year. The representative of Finland explained that most of the proceeds of the export levy tax would be effectively sterilized by the Government until 1969, thereby reducing the inflationary impact of the devaluation in the first twelve months or more. It would be a uniform levy on all exports, though adjustment would be required to avoid penalizing, e.g., exports with a high import content. As it is to be a levy on the physical movement of goods, not a levy on payments, this measure does not constitute a multiple exchange rate practice requiring approval from the IMF. In response to a later question, the representative of Finland also explained that export sales billed in Finnish markkas and dated prior to 12 October would be exempted from tax if there were no evidence of excess profits, but taxable if bearing a later date. Bills in foreign currencies, which are more usual, would be subject to tax for all exports effected subsequent to 12 October, regardless of the date of the contract once the bill now before Parliament became law.

9. The comment was made that if Finland could afford to tax away half the benefit of the devaluation to exporters, which would certainly reduce the effectiveness of the measure in promoting exports, it might appear that the devaluation had been greater than necessary. The representative of Finland pointed out in reply that the effects of devaluation were expected to last over a long period, whereas the idea was to tax away this large proportion of the benefit only in the beginning. Devaluation was a painful process, with serious socio-economic disadvantages, and it was difficult to modify the action once taken. Accordingly, Finland had preferred to fix on a percentage of devaluation which would give a realistic breathing space and to proceed in a way which would avoid and delay the secondary transitional effects as much as possible.

10. Another comment questioned the wisdom of devaluation as an effective remedy to a situation of stagnating investment where there was not much slack capacity available, a situation not unique to Finland. It was feared that the devaluation could at most buy a little time and that it might not be effective without an incomes policy and could hardly bring permanent balance-of-payments relief. The representative of Finland underlined that there was surplus

capacity in his country. Many resources were under-utilized, he said, and even the austerity period had effected some rationalization, albeit in a painful way, by bringing about closing of some small unprofitable businesses, especially sawmills, and by forcing mergers in other cases. Moreover, Finland's devaluation could not be considered in isolation from other elements of what was called in Finland the "development package". The yield from the export levy, he recalled, was destined mainly for development purposes - development of enterprises with a State majority and development of viable private enterprises. The result would be a distinct shift in emphasis in budget spending, away from unproductive public works of the kind used in the past to carry out the State's obligation to provide employment to all citizens, and into projects with a proven economic future. It was not expected that aid from the development fund arising from export levy proceeds would do very much for Finland's large pulp and paper industry. This important industry, comprising 65 per cent of Finland's export trade, will probably have to look elsewhere for the increased finance which it needs. What Finland does hope to accomplish with the proceeds of the export levy allocated to manufacturing enterprises is to provide more adequate finance for the small to medium sized factories which are manufacturing other products for export, so as to bring about a sounder basis for the diversification of Finnish exports.

11. Members of the Committee agreed that in Finland's situation it might be well for the Government to siphon more money income away from consumption, and past tax increases as well as the new export levy would be steps in that direction. However, they pointed out that the net effect would depend on the restraint and wisdom of the Government in its own spending of the windfall income. Others noted that avoidance of bank credit expansion would be another area where more effective action might be helpful. The representative of Finland acknowledged these dangers but said that the Government would make a very determined effort both toward changing the character of spending and toward limiting its resort to credit. He felt that the immediate dangers were not great, though he conceded that there would be a difficult time toward the end of 1968 when present long-term wage contracts have to be renegotiated. Political necessities would have to be recognized but the Government was now in a strong position to use the devaluation for constructive purposes in the months ahead and was determined to do so. As concerned the prospects for using an incomes policy as an adjunct to other programmes envisaged, the representative of Finland agreed that the devaluation would create anti-social effects in a certain redistribution of income. It was without doubt that this

feature would be much in view when the time came for renegotiation of the long-term wage contracts. In fact, even as regards the interim, the possibility of free movement of labour from Finland to Sweden, where wage and price relationships were already somewhat more favourable than in Finland, posed the possibility of a labour drain which the Government would need to watch carefully. In this connexion, attention was drawn by the representative of Finland to an error in his opening statement where the text should have indicated that recently wage increases had been more rapid in Finland than in neighbouring countries rather than that the level of wages was higher in Finland. With respect to use of credit, he had already mentioned the intention to remove the requirement of cash payment in advance for certain imports (still confidential) and other measures were under consideration. Certain trade liberalization measures mentioned in this context are discussed below.

12. A question was also asked at this point how the Bank of Finland proposed to treat the increase in reserves, as calculated in markkas, after the devaluation. The representative of Finland stated that these would be 100 per cent sterilized.

13. Members of the Committee also enquired further regarding the price controls on cost-of-living items mentioned by the representative of Finland, as they had understood that Finland aimed, in part, to achieve prices more generally in line with world prices. The representative of Finland explained that this measure of control did not mean total freezing of prices but subjecting certain prices to Government control. The aim was to prevent unfounded increases in prices in the situation following the devaluation. It would also have a general calming effect and would cover prices on most consumer goods and services. As examples the Finnish representative mentioned fuel, foodstuffs, most textiles, shoes, furniture, domestic appliances, radios, television sets, cars, agricultural machinery, important building materials and hand tools.

14. Members of the Committee then asked a number of questions concerning Finland's investment plans. In particular, it was asked whether any special inducements were contemplated to attract foreign direct investment. The representative of Finland noted, as he had done in earlier years, that Finland's peripheral geographic position within EFTA probably precluded any great expansion of foreign direct investment, as other EFTA countries offer much better locations if the whole area is regarded as a single market. Finland was nevertheless hopeful that the existence of a highly skilled labour force available at relatively low wages would provide some attraction, and the Government had in fact issued a statement

concerning new liberal conditions for foreign investment. A special governmental commission has also been created to act as a central contact point for advising prospective investors. Present direct foreign investment amounting to Fmk 20 million per annum may thus well be exceeded, though this source of capital for Finland will never come to equal what it is for countries like Netherlands and Italy. Another question sought to learn something of Finland's intentions regarding floating of more loans. The representative of Finland said it was too early to know yet what effect the devaluation would have on the capital market, though Finland very much hoped that the whole programme would on balance increase investor confidence in Finland's bonds. All that could be said for the moment was that there had been no adverse reaction in quotations of outstanding Finnish bond issues abroad. As for Finland's policy, it was certainly hoped to try to maximize loan capital inflow though no details could be given at this stage.

#### System and methods of restriction

15. Members of the Committee acknowledged the great efforts Finland had made despite its existing balance-of-payments difficulties to reduce and eliminate import restrictions. It was particularly appreciated that, as the Finnish representative had stated, Finland intended to take further liberalization measures at the beginning of next year.

16. One question sought to clarify which were the Article 3 items on which duties would be removed for EFTA countries at the beginning of 1968. In reply the representative of Finland stated that these items, known as the "décalage list", as specified in Annex 1 of the EINEFTA Agreement, included varnishes and lacquers, leather, footwear, rubber tyres, textiles, pipes and tubing. What Finland had agreed to do on these items was to remove for EFTA countries whatever duty remained, not just a portion of the remainder.

17. Several members enquired concerning the import régime affecting the purchase of passenger cars. They pointed out that in spite of a de facto liberalization of automobile imports since 1962 measures had been taken by the Finnish Government to discourage increases of car imports, and more recently to ban such imports. One member expressed particular regret that medium and higher-priced cars were taxed at comparatively higher rates than less expensive automobiles. It was also feared that a further increase of the car tax as being now considered by the Finnish Parliament might aggravate the discriminatory effects of this tax. The question was raised whether the Finnish Government had given consideration to alternative tax measures such as a straight ad valorem rate which would achieve the aims of the tax without having discriminatory effects on higher priced cars. Committee members also expressed concern regarding Finland's existing instalment purchase regulations which were considered discriminatory against imports of passenger cars manufactured in countries with which Finland has no bilateral agreements.

18. In reply the Finnish representative assured the Committee that all comments made on this point would be communicated to his Government and given due consideration. As to the special tax on automobiles he explained that in March 1967 an EFTA preference had been created, the duties on cars from EFTA countries being reduced to 7 per cent, those on cars from other countries remaining at 14 per cent. Following this adjustment the calculation of the car tax had been changed in order to maintain the tax income from car imports. In September 1967 a bill had been sent to Parliament proposing changes in the taxation of taxis and other commercial vehicles as well as in the calculation of the turnover tax. In this connexion a temporary ban on car imports had been announced in order to avoid unreasonable speculation. The Finnish representative gave assurance that this ban would be terminated when the bill has passed Parliament.

19. With regard to the effects of the tax the Finnish representative said that as a result of the recent devaluation c.i.f. value of cars expressed in markkas would go up along with the duties and taxes collected on this basis. He also acknowledged that this would increase the value of the existing EFTA preference but underlined that this had not been aimed at with the devaluation. According to a preliminary calculation, cars of a c.i.f. value of Fmk 3,000 (average for Finnish imports) were taxed before devaluation at about 100 per cent, cars with a c.i.f. value of Fmk 6,500 at about 140 per cent. Tax rates would now be about 120 per cent for the smaller cars and around 150 per cent for the more expensive automobiles, so that the increase would be less for large cars than for small to medium-sized ones. It was furthermore explained by the Finnish representative that various alternatives had been considered at the time when the car tax was introduced. The tax system as modified by the proposed changes had been found to correspond best to the needs dictated by Finland's balance-of-payments difficulties. The Finnish representative added that to his knowledge no new plans for changing the tax system were being considered. In answer to another question, he added that the system of imposing turnover tax on duty and tax-paid values was the general rule and that cumulative effects of this kind could be found also in other cases, e.g. alcoholic beverages, and matches.

20. As to the instalment purchase regulations the Finnish representative stated that these measures were taken in view of Finland's balance-of-payments difficulties. Since these considerations played no rôle in Finland's trade under bilateral agreements it was felt by his Government that the existing instalment purchase arrangements need not apply to such imports. He added that the different treatment had but little influence on the flow of imports.

21. To a further question on global quotas for automobiles, the Finnish representative answered that they covered imports of cars from all countries except those with which Finland had bilateral agreements. He also indicated that his Government expected to abolish the quotas on automobiles early next year.

22. In reply to a question on future liberalization measures the Finnish representative said that any such liberalizations, and some were envisaged, would benefit all convertible currency countries without any discrimination in favour of EFTA countries.

23. Committee members showed great satisfaction that the last remaining bilateral payment agreement between Finland and another Fund member, the one concluded with Columbia, would cease to be effective by the end of this year. As to the transitory arrangements mentioned in his opening statement the Finnish representative explained that the balance of the accounts with Colombia would be transferred to a liquidation account at the end of this year which the creditor country may use during 1965 and if necessary later for payment of goods imported from the debtor country (i.e. 50 per cent of the payments would be made in liquidation of the account; the rest would be paid in convertible currency). At present Finland's debt to Colombia amounted to \$11.5 million.

24. One Committee member questioned whether Finland's remaining bilateral payments agreements with certain eastern countries were still justified, given their discriminatory implications for the contracting parties; he asked whether the Finnish Government envisaged any relaxation of its relatively heavy dependence on bilateralism. To this the Finnish representative replied that trade with the bilateral agreement countries comprised 18 per cent of total trade and that no major changes were contemplated for the time being. As an indication of a continuous effort to seek improved ways of trading the Finnish representative stated also that in 1967 his Government had concluded a bilateral payments agreement with Czechoslovakia under which settlement is partially in convertible currency. Finland had also autonomously liberalized a part of its imports from bilateral agreement countries.

#### Conclusion

25. The Committee thanked the representative of Finland for his frank and full answers to the questions which had been put. They welcomed the indications that Finland is determined to pursue policies permitting progressive liberalization of trade on a non-discriminatory basis and wished Finland success in its efforts to carry out alternative measures which might contribute to the restoration of external equilibrium. Several members asked that special note be taken of the desire that the import trade in passenger vehicles be liberalized on a non-discriminatory basis as soon as possible. The representative of Finland assured the Committee that he would transmit to his Government the views and concerns which had been expressed.

Annex IINTERNATIONAL MONETARY FUND EXECUTIVE BOARD DECISION  
TAKEN AT THE CONCLUSION OF THE FUND'S CONSULTATION  
WITH FINLAND ON 6 MARCH 1967

1. This decision is taken by the Executive Directors in concluding the 1966 consultation with Finland, pursuant to Article XIV, Section 4 of the Articles of Agreement.
2. In 1966 the expansion of the Finnish economy slowed down further as fixed investment failed to expand and the growth of exports was reduced by less favorable conditions in foreign markets. In real terms the gross domestic product grew by only 2.5 per cent as compared with increases of 7 per cent and 6 per cent in 1964 and 1965, respectively. In the course of the year, the consumer price index rose by less than 5 per cent and hourly wage rates by 8 per cent. This latter increase exceeded the gain in productivity.
3. The balance of payments deficit on current account rose from \$190 million in 1965 to about \$202 million in 1966. The rise in the value of exports was 5.5 per cent as compared to 10.5 per cent in 1965. Imports increased little during the first seven months of the year, but showed a substantial increase in the closing months of the year due in large part to exceptionally high imports of food and fuel occasioned by the severe winter weather in 1965/66. The net inflow of long-term capital continued to be on a modest scale owing to the continued stringency of the international capital markets. Gross foreign assets of the Bank of Finland which had fallen by \$95 million during 1965, showed a further reduction of \$101 million in 1966 and by the end of the year amounted to \$189 million, including the gold tranche position in the Fund amounting to \$31.3 million.
4. The Finnish authorities have taken further measures to reduce the balance of payments deficit on current account. Since the spring of 1966 taxes and other charges have been raised by Fmk 880 million, on an annual basis, and determined efforts have been made to restrain the growth in government spending. Moreover, in order to curtail the growth of lending, limits have been placed on rediscounts and other central bank credits. The Fund believes that these steps are essential for the restoration of balance of payments equilibrium. It further considers that efforts should continue to be made to improve the state's finances in order to make room for a resumption of growth of productive investment.
5. The Fund notes with satisfaction that despite the balance of payments difficulties, Finland has continued to reduce restrictions and discrimination, although the existing limitations on foreign exchange for tourist travel have been made more restrictive. The only remaining bilateral payments agreement with a member of the Fund is scheduled to be terminated at the end of 1967.

Annex II

OPENING STATEMENT BY THE REPRESENTATIVE OF FINLAND

First of all, I think that the Finnish delegation owes an apology to you, to the members of the Committee and to the secretariat. The date of this consultation and the date of the devaluation of the Finnish markka, which the representative of the International Monetary Fund has just referred to, were fixed quite independently from each other, as it should be. We are sorry that we are now facing a situation completely different from that which was expected to prevail when the decision regarding today's consultation was made. It will take some time before the dust will settle. It will also take some time before the outlines of future economic policy will be available in such detail as this Committee is accustomed to expect. It will take even longer before an assessment of the economic decisions taken in Helsinki last Wednesday night can be objectively appraised.

Nevertheless, when we consulted the secretariat last week - after the devaluation - we felt that a consultation at this time would still serve a useful purpose. There would be a number of questions unrelated to the change in par value that various delegations represented here would like to discuss with us. And, moreover, we would now have a forum and an audience of experts to which to present our views on the important policy change that has just taken place. In fact, it so happens that this Committee is the first international forum after the Board of Executive Directors of the Fund where this question will be debated.

In the consultations in this Committee held last December, the Finnish delegation described our balance-of-payments crisis and the various measures that the authorities have undertaken in order to bring about a better external equilibrium. Further measures for this purpose have been described in the Fund supplementary paper which has been distributed to you. Just to mention the two most important ones since our last meeting, the so-called "cash payment" rule applied by the Bank of Finland for imports before customs clearance was extended to cover about 20 per cent of total imports, and the selective credit policy was intensified. For instance, the Central Bank announced itself prepared to match any reasonable foreign export credit financing in cases where the domestic bidder was clearly at a disadvantage when the credit facilities available to him and to his foreign competitor were compared and the former was suffering from the results of the overall domestic credit squeeze.

The economic policies of the Finnish authorities were based on an austerity budget, a continued tight credit squeeze and on an assumption that, together with a strictly selective Central Bank credit policy, the balance-of-payments deficit could be brought within manageable levels within a reasonable time.

This was more or less also the policy on the basis of which the IMF granted Finland in March this year a stand-by credit of \$93.75 million. This credit was fully utilized by late September, and Finland is grateful to the Fund for this recourse to the Fund's resources, which significantly helped our external liquidity during the crucial months of this year.

What, then, were the reasons which were behind the new assessment of the situation by the Finnish authorities as revealed by last week's devaluation?

In the first place, it had become more and more apparent that the international recession which had prevailed in the economies of Finland's most important trading partners was not going to be reversed soon enough. Beginning early in 1966, the indices of total production in Western European countries, weighted according to Finnish exports, have shown a continuous tendency towards stagnation. Prices of our main exports, wood products, have fallen, are expected to fall further and are not expected to recover very soon.

Secondly, it must be frankly admitted that there has been an important leak in the balance-of-payments policy as regards private consumption. This year's budget was, truly, balance-of-payments minded since its overall effect was restrictive. As far as private consumption is concerned, however, certain political reasons made it also consumption-minded, and that has been reflected in the foreign trade statistics. Private consumption has been running at a rate of roughly 10 per cent above last year's values, and since much of that has been directed towards higher standard-of-living goods, which the Finnish industry has not been especially able to produce, this demand has been satisfied largely by foreign imports.

Moreover, there has been widespread speculation against the markka in recent months. These "leads and lags" were particularly visible in the autumn, draining the foreign exchange reserves, but it is hoped that they will now be reversed and will produce a corresponding improvement in the foreign exchange reserves.

The dilemma that the Finnish authorities face was really serious. Utilizing the second line of reserves (especially the Scandinavian Central Bank swap-arrangement) it might have been possible to carry on the present policies until some time next year, but at a great social cost of unemployment and under-utilization of resources. Quantitative import restrictions were ruled out by the government as being no panacea to Finland's troubles. Economic growth rate was going to be near zero for a long time.

Thus, reluctantly, the authorities came to the conclusion that a fundamental disequilibrium existed in the Finnish economy and that it could only be corrected through a change in the par value of the Finnish markka. Thus, with the concurrence of the Fund, the par value was changed last Thursday from 3.20 markkas per dollar to 4.20 markkas per dollar, a devaluation of the external value of the currency of about 24 per-cent. This seems to be realistic: Finnish cost and

wage levels have risen, within the last ten years, about 15 per cent more than have those of our major trading partners, and the inflationary impact of the measure will cause a further rise in prices and costs.

In order to counter the inevitable inflationary impact of these measures, the Government took certain steps:

1. An export levy act was submitted to Parliament in order to tax away the immediate windfall profits of the export industries, the rate of the tax will be 14 per cent for the first three months, then gradually declining. The yield of this levy will be used for development purposes.
2. Finland undertook unilaterally to abolish duties on commodities on the so-called "décalage" list of the FINEFTA Agreement.
3. A price freeze was declared on commodities affecting the cost-of-living index.
4. The Bank of Finland will abolish, as of 1 January 1968, its regulation requiring cash payment for certain imports (comprising at present about 20 per cent of total imports).

The devaluation of the par value of the Finnish currency, together with the Export Charge Bill, is essential from the point of view of the present exercise because, by taking these measures, Finland did not have to resort to the obvious alternative, i.e., a tightening of existing import restrictions, in order to safeguard the balance of payments.

The devaluation will create more favourable conditions for Finnish production in general. It will be possible, we hope, for Finnish exports to maintain their traditional markets in a difficult situation, characterized, to a great extent, by slackening demand and falling prices. At the same time imported goods will meet with stronger competition from domestic producers on the market.

It should be remembered, however, that an increase of the competitiveness of Finnish export products abroad presupposes a continuous improvement of the efficiency of our production. This is why the increased export earnings will not be entirely blocked, and furthermore the amount collected as an export levy, to begin with 14 per cent, later less, will be used for purposes aiming at a structural improvement of the factors affecting our production and growth. In concrete terms, this means that one third of the amount collected, presumably totalling Fmk 600 million in the first twelve-month period, will be invested in

enterprises where the Government holds a majority interest, the State railways, and the like; one third will be used for the development of energy production; and one third will be used for the financing of export and development credits as well as for forest improvement projects. In contrast to 1957, when the Finnish markka last was devalued, the conditions for a devaluation will now, so to speak, be created afterwards. This requires, among other, a large amount of restraint and co-operation especially at home but also abroad.

Notwithstanding the alteration of the rates of exchange, the overall balance-of-payments situation is still serious, but may be expected to improve as the change in par value will produce its long-term effects. As to the future, it is presumed that no noteworthy increase of the exports can be expected in the immediate future, the demand situation being what it is. On the import side, it is well known that Finland is largely dependent on imports of both raw materials, investment goods and consumer goods. It can therefore be forecast that the devaluation will not have any major contracting effect on our imports in a situation where production is supposed to remain stable or even increase.

That is the outline of the background against which we feel that our liberalization measures should be judged. As you may remember, fifteen quotas were totally abolished at the beginning of 1966, covering 174 tariff items and sub-items. The beginning of 1967 was marked by the suppression of thirteen further quotas, covering 131 tariff items and sub-items with a trade value of Fmk 135 million, calculated on the basis of actual 1965 f.o.b. import figures. The remaining global quotas were increased in 1967 by an average of 23 per cent, as from the level of the previous year. Apart from this, Finland made considerable commitments to eliminate quantitative import restrictions on several agricultural products in the Kennedy Round.

Thanks to the devaluation I am now in a position to state that no further quotas will be established. On the contrary it is the intention of the Finnish Government to take further liberalization measures at the beginning of next year, in accordance with Finland's obligations towards her EFTA partners. It is thus the intention of my Government to abolish also the existing quotas for passenger cars, the licensing of which has been temporarily halted in order to avoid unnecessary speculation on automobile imports pending the parliamentary approval of the new Bill on the amended tax on automobiles and motor-cycles. The abolition of further quotas will, according to present plans, not be limited to EFTA countries. Automatic readjustments of existing quotas will be made as soon as possible in order to compensate for the effects of the devaluation.

Finally, I should like to mention that the last remaining bilateral payments agreement between Finland and another Fund member, that with Colombia, will cease to be effective by 1 January 1968, subject to certain transitory arrangements.

With reference to the basic document (ROP/71) paragraph 2/3(c) I should like to add that Finland has a special agreement with Czechoslovakia which provides for payment in convertible currencies of 50 per cent of the outstanding balance on the clearing account four times yearly. This agreement is, so far, valid to the end of 1967.

We fully realize that the information that we are able to present to the Committee is rather inadequate at this time. A certain time will have to elapse before the new economic policy of the Finnish Government can be appraised, and therefore it is likely that we shall be able to discuss this new policy in detail in the next consultations only. I hope, however, that a useful purpose will be served by the forthcoming discussion, and I myself and my colleagues will make every effort to provide as detailed a supplementary information as is possible to the members of the Committee.