

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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CONTRACTING PARTIES  
Seventeenth Session

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

F I N L A N D

1. In accordance with its terms of reference the Committee has conducted the consultations with Finland under Article XII:4(b). The Committee had before it: (a) a basic document (MGT(60)210), including a "negative list" of restricted imports; and (b) documents provided by the International Monetary Fund as mentioned in paragraph 2 below. In conducting the consultation the Committee followed the "Plan" recommended by the CONTRACTING PARTIES. The consultation was completed on 21 October 1960. The present report summarizes the main points discussed during the consultation.

Consultation with the International Monetary Fund

2. 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 agreed 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 International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision relating to the last consultation with Finland under Article XIV of the Fund Agreement<sup>1</sup> and the background material prepared in connexion 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 draws the attention of the CONTRACTING PARTIES to the Executive Board decision of July 19, 1960, taken at the conclusion of its recent consultation with Finland, and particularly to paragraph 6, which reads as follows:

'Since the last Article XIV consultations Finland has taken measures to relax restrictions on imports, reduce discrimination, decentralize the exchange control, and liberalize invisible transactions. Reliance on bilateral payments agreements with non-State trading countries has also been reduced. The Fund welcomes these measures and the intention of the Finnish authorities to eliminate bilateral arrangements with Fund members. The Fund

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<sup>1</sup>See Annex II.

believes that Finland is in a position to make further progress toward the liberalization of imports and invisible transactions and the elimination of discrimination. The Fund also feels that the import licensing system could be substantially simplified.'

"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, the Fund draws attention to the decision taken at the conclusion of its last consultation with Finland. The Fund has no additional alternative measures to suggest at this time."

Opening statement by the Finnish representative

3. In opening the consultation the representative of Finland described for the Committee developments in Finland's balance-of-payments situation in the past year and changes in the import restrictions applied for balance-of-payments reasons. The full text of the opening statement is reproduced in Annex I. It was stated that the Government of Finland since its last consultation with the CONTRACTING PARTIES in July 1959, had taken certain measures of liberalization, the most important of which were the elimination of discrimination against imports from the United States and Canada and the termination of a number of bilateral trade and payments agreements. The boom in the Finnish economy, which started in the early months of 1959, had been gathering momentum and had been causing considerable concern to the Finnish authorities. The present upswing in economic activity, which had started as a purely internal expansion of consumption and stock-building, had rapidly widened into a marked expansion both in fixed capital investments and in export production. The devaluation in 1957 having laid the foundation for expansion, the favourable market conditions and expectations had brought about in 1959 a substantial rise in investment. Parallel to this there had been an expansion in exports in 1959 and 1960. The rise in investment and expansion in exports had combined to stimulate economic activity. Industrial production had risen substantially in 1960, unemployment had fallen and there were indications of a shortage of skilled labour in certain sectors of the economy. Some pressure was therefore exerted on the level of wages, although only moderate increases had resulted from the recent wage negotiations. The boom conditions had led to a marked increase in stocks of imported goods which, together with increased consumption and investment requirements, had expanded Finnish imports in 1960 at an unusually high rate. In the first seven months of 1960, imports rose by about 35 per cent over that of the same period in 1959 compared with an increase of some 12 per cent in Finnish exports during the same period. The increase in imports had been sharpest in investment goods.

4. Principally owing to this sharp rise in imports there had been a reversal in Finland's balance of payments. In 1958 Finland had a surplus on trade account of some \$46 million; in 1959 the trade account was roughly balanced; and in 1960 a trade deficit of \$60-65 million was expected.

This deterioration on trade account had, however, been partly offset by a sizeable inflow of short-term capital in the form of import credits and export advances. As a result, the net decline in the Bank of Finland's foreign exchange reserves in the first nine months of 1960 had been only about \$26 million. On the other hand, it should be noted that these reserves, at the level of slightly under \$200 million, corresponded to the value of only just over two months' imports at the present rate. At this level, even a slight decline could not but be a matter of grave concern to the Finnish monetary authorities.

5. While there had been no substantial relaxation of import restrictions in the past fifteen months there had been some changes which should have the effect of liberalizing imports. In connexion with the change-over to the Brussels Nomenclature and the replacement of the former "positive list" by the new "negative list", a few products had been liberalized on technical grounds. The global quota programme had been expanded both through a general increase in the currency allocations and through the inclusion of more countries. The amount of foreign exchange to be allocated for global quota imports in 1961 would be increased by at least 10 per cent with additional increases contemplated in the event of any further widening of the area coverage of the quotas. As regards the remaining bilateral relations with certain GATT contracting parties the Government continued to aim at moving as rapidly as possible in a direction of multilateralism and non-discrimination.

6. In conclusion, the representative of Finland assured the Committee that the fundamental policy of the Finnish Government was to remove the remaining restrictions on imports from all sources as rapidly as the external financial situation permitted. Caution was, however, called for because of the uncertainties in the country's present balance-of-payments situation.

7. Members of the Committee welcomed the statement and felicitated Finland on the encouraging recovery and development of its economy. Particularly welcome were the further measures of liberalization that it had taken and the further progress that had been made towards eliminating discrimination.

#### Balance-of-payments position and prospects

8. The Committee then discussed with the representative of Finland various elements in the Finnish balance of payments with a view to ascertaining to what extent the recent loss of foreign exchange reserves had been due to fortuitous and non-recurring factors or whether it reflected any basic disequilibrium. It was pointed out by members of the Committee that the considerable trade deficit during the first half of 1960 appeared to be particularly due to seasonal factors; that imports for stockbuilding, some of them associated with anticipated tariff changes in connexion with the change-over to the Brussels Nomenclature, seemed to have been a dominant factor, in which case the resulting over-stocking should be reflected in lower imports in subsequent months; that the fall in the foreign exchange holdings of the Central Bank seemed, in fact, to have been compensated by enlarged holdings of commercial banks as a consequence of the decentralization of the payments system early this year; and

that the inflow of short-term capital in the form of import credits and export advances might be expected to continue or even to be further augmented on the basis of increased imports and exports.

9. In discussing these questions the representative of Finland stated that whilst Finnish imports were indeed normally higher in the first half than in the second half of the year and exports higher in the second half than in the first, this seasonal variation had been taken into account in estimating the total trade deficit of \$60-65 million for 1960. In January this year the Bank of Finland issued new regulations delegating increased authority to the authorized banks to effect foreign payments, and the Bank announced that it would no longer buy and sell foreign exchange to the commercial banks without limitation, and would only intervene in the market when necessary. Whilst it was true that following this decentralization commercial banks were obliged to hold somewhat increased foreign exchange working balances, these increased holdings of commercial banks could not be very substantial; the increase could probably be estimated at about \$10 million since the beginning of the year. As for export advances this form of short-term capital inflow was related to exports of a few products, notably sawn goods and round timber. Traditionally, foreign importers financed this industry by providing working capital to Finnish producers. In 1960 net inflow on this account increased as a result of increased orders for these products, and higher proportions of contract prices being advanced to the exporters. Receipts on this account clearly fluctuated with the size of the exports in question and might also depend on the ease with which funds were available to foreign importers for making such prepayments. Consequently they could hardly be relied upon as a compensatory factor on the balance of payments. The same would hold true also for import credits, and the expected tapering off of imports would, at any rate, bring about a net outflow of this type of short-term capital.

10. Members of the Committee noted that although the economy of Finland was based upon the export of a few commodities, the prices of these commodities, principally pulp, paper and other wood products, were not subject to wide fluctuations on the world market as were those of certain agricultural and mineral products. Recent studies had shown that there would be an expanding market for these products and this tendency should be a source of confidence in assessing the future of the Finnish balance of payments. The representative of Finland agreed that the present demand for wood products was satisfactory. Wood-processing factories in Finland were working to capacity and there had been a 12 per cent increase in the volume of these exports in the past year. Furthermore, production capacity was being constantly increased; although most of the projects launched in 1959 would not be completed until 1962, some would be already in operation next year. On the other hand, the representative of Finland considered that even though these products were less susceptible to wide fluctuations in price, nevertheless export possibilities depended directly on the prevailing conditions on the world market. There was no guarantee that exports would not contract in the event of a recession or slackening of economic activity in the more important importing countries. On the whole, the

representative of Finland agreed that as far as these wood products were concerned the long term prospects should be considered promising.

11. A member of the Committee referred to the various long-term loans contracted by Finland in the past year and suggested that such long-term borrowing might have contributed to an easing of the pressure on the balance of payments. The representative of Finland pointed out that whilst the country was borrowing as much as it could, and the gross inflow of capital was at a high rate, outstanding debts were being repaid at an even higher rate. In 1959, for example, when gross inflow of long-term capital amounted to \$38 million, the amortization of outstanding debts equalled \$40 million. In 1960 heavy repayment of existing debts was again expected to offset new borrowings and no significant contribution to the balance of payments was expected from this sector.

12. The representative of Finland agreed that the basic economic situation of the country warranted optimism. As a result of the devaluation of 1957 the value of foreign currencies in terms of Finnish Markkas was increased by 40 per cent but the cost of living had since risen by no more than 10 per cent, indicating a measure of stability which formed the basis for further expansion. However, the Government was committed to providing employment opportunities for the ever growing labour force. The Government was considering ways and means of attracting foreign capital but the inflow of capital depended on many factors beyond the control of the Government. The monetary measures which were needed from time to time in order to keep the boom under control were often the subject of political contention. In 1960 prices in general had risen higher than those in the import sector and there was no certainty that this tendency could be effectively checked. All this pointed to a need for a cautionary policy in regard to further progress towards liberalization.

13. Members of the Committee referred to the decision of the International Monetary Fund in which was noted its belief that Finland was in a position to make further progress towards liberalization of imports and the elimination of discrimination. They expressed the view that whilst a cautious policy

was usually commendable excessive caution might lead to indecision or immobility and they hoped that in this case caution would not be synonymous with standing still. The representative of Finland assured the Committee that his Government kept constantly under review the possibility of making further progress in the direction suggested in the Fund's decision.

#### Alternative to restore equilibrium

14. In discussing the evolution of the trade balance in 1960, a member of the Committee enquired whether, apart from the factors discussed above, the internal monetary measures taken by the Finnish authorities in June and July had not been responsible for the notable improvement in the trade balance in the last two months. The representative of Finland agreed that these measures must have begun to show their effects on import demand by the summer and that the effects might be progressively more manifest in later months. In reply to related questions the representative of Finland described the ways and means whereby the credit basis was effectively controlled by the Central Bank. It was noted that commercial banks were not allowed to charge interest above certain limits, whereas their borrowing from the Bank of Finland was subject to progressively higher penalty rates of interest when their indebtedness to the Bank reached certain levels. When the money market was tightened early this year commercial banks were compelled to go to the Bank. Rediscount rose between August 1959 and August 1960 from an insignificant Fmk 120 million to as much as Fmk 16,000 million. The indebtedness of some banks to the Central Bank must, in the process, have reached such high levels that the marginal cost to them in meeting any new demands for accommodation must have become prohibitively high. All this showed that an effective control could be exercised by the Central Bank on the credit basis of the economy.

15. Members of the Committee enquired whether, apart from these monetary and credit measures, internal adjustment could, if necessary, be effected in Finland also through fiscal and budgetary means. The representative of Finland noted that a very large proportion of the Finnish Budget covered expenditures which were tied to legally required projects or actions, and there was only limited room for varying expenditure for the purpose of influencing economic activity. On the other hand, the system of progressive taxation and the pay-as-you-earn method of levying taxes provided a kind of built-in adjustment mechanism whereby any rise in personal and corporate income would entail a simultaneous rise in budgetary revenue. This effect, while incidental, was nevertheless a welcome feature of the budgetary system. In answer to other questions the representative of Finland stated that the planned budget for 1961, which had only recently been submitted to Parliament and had not yet been approved, was based on the present level of revenue and, by and large, was not expected to exert a significant effect on the economy in either direction. The Government

of Finland was not prevented from proposing supplementary budgets affecting revenue as well as expenditure at any time of the year, although such action for counter-cyclical purposes was unlikely to be resorted to in practice.

16. Noting that in the present state of the Finnish economy there was some upward pressure on prices, a member of the Committee wished to know whether consideration had been given by the Finnish Government to the use of further liberalization as a means of easing supplies, especially now that such action was called for in the light of the country's balance-of-payments position. The Finnish representative replied that his Government was not unaware of the price stabilization effect of import liberalization but that import policy had to be decided upon principally in the light of the foreign exchange situation.

System and methods of restriction

17. In discussing the system and methods of restriction in Finland, certain members of the Committee called attention to the difference in the treatment accorded to imports of liberalized products from different sources of supply. Whilst such imports from the "Helsinki Club" countries, the United States, Canada and Tunisia were admitted without licence, similar imports from sterling area countries not in the Club required licences even though these were granted automatically. The Finnish representative explained that the "Helsinki Club" treatment was originally provided for by law for imports from countries which gave reciprocally similar treatment to Finnish exports, and the extension of this treatment to all sterling area countries had been achieved through administrative action which could not cover the elimination of the licensing requirement. As a result of recent legislative changes this position had now been corrected; the formal licensing requirement would be abolished upon completion of administrative action. In the view of the Finnish representative, however, since licences were automatically issued with a maximum delay of only forty-eight hours, and subject to payment of only a nominal fee equivalent to about US\$0.85, the differential treatment in procedure should have no tangible effects on the flow of trade. The representatives of sterling area countries concerned recalled previous discussions at the Committee on the subject of licensing requirements and expressed the view that the combined effect of the delay involved, the additional element of uncertainty and the licence fee levied could not but have some inhibitive effect on imports from the countries in question, and that this difference in treatment must be regarded as an element of discrimination unwarranted by the present conditions of international payments. The representative of Finland assured these members that steps would be taken in the near future to remove this discrepancy. The Committee welcomed this assurance and hoped that the action would be taken shortly.

18. In clarification of the basic document, the Finnish representative stated that the global quotas applied not only to the "Helsinki Club" countries, the United States, Canada and Tunisia, but also to sterling area countries not in the Club. The Committee discussed with the Finnish representative the methods and criteria used in establishing the global quotas. It was noted that although these quotas were originally negotiated between Finland and the other signatories to the Helsinki Protocol, account had been taken, when the sizes of the quotas were fixed, of the fact that they would cover imports from other countries. Furthermore, these quotas had been increased on a selective basis from time to time and when they were extended to cover more sources of supply. The representatives of certain sterling area countries pointed out that since only the "Helsinki Club" countries participated in the negotiations it was fair to assume that the composition of the quota list and the size of the individual quotas were naturally somewhat biased in favour of those countries. Even though these quotas had been increased and the list extended there was no assurance that the interests of non-Helsinki Club countries had been duly taken into account, and it was hoped that the Finnish Government would afford adequate opportunity to other countries to make their views

known on the global quota programme. The representative of Finland assured these members of the Committee that the global quotas were to be increased by at least 10 per cent in 1961 and would be under constant review by his Government. Any representations made by a contracting party would receive careful and sympathetic consideration.

19. The Committee then discussed with the representative of Finland various questions relating to the use of bilateral trade agreements in Finland. The representative of Finland stated the imports from Western countries of practically all manufactured products as well as some agricultural products were, at present, either free from restriction or were imported under global quotas.<sup>1</sup> Consequently, discretionary licensing was confined virtually now to agricultural products only. The import of most of these products was subject to discretionary licensing or under bilateral quota agreements. A member of the Committee enquired whether the maintenance of restrictions in the import of agricultural products was for balance-of-payments purposes and if so how effect was given by the Finnish authorities to their obligations under Article XIII in respect of such items. In particular, it was questioned whether it was possible for other contracting parties to obtain the share of the market which they might be expected to obtain in the absence of restrictions; in a situation in which the importation of some commodities was totally or largely pre-empted by importation under bilateral quotas.

20. The Finnish representative then explained to the Committee the traditional pattern of the country's foreign trade which, coupled with the present balance-of-payments situation of the country, made it inevitable that a substantial part of Finnish requirements, especially in basic foodstuffs and raw materials, should be imported from Eastern European countries. Many of Finland's export products were those which, until recently, could not compete effectively in Western markets, and bilateral arrangements with Eastern European countries provided the only means of securing the needed outlet for such exports. In fact, Finland's Eastern trade had provided the necessary external earnings without which the country would not have found it possible to liberalize its imports from Western countries. A substantial part of Finland's current receipts was still in non-convertible currencies and Finland had to continue to make use of the provisions of Article XIV of the General Agreement. On the other hand, Finland was prepared to proceed whenever possible with the further reduction of its reliance on bilateral trade and payments arrangements.

21. The representative of Australia called attention to the fact that, as noted in the report of Committee II contained in L/1145, 80 per cent of Finland's imports of wheat came from its bilateral agreement partners. He enquired how

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<sup>1</sup>In reply to a question, the Finnish representative stated, as a clarification to the negative list circulated to the Committee, that the products listed therein under Chapters 97 and 98 (toys, buttons etc.) were among the products for which global quotas had been established.

the Finnish Government reconciled the reservation of nearly all its market for soft wheat for bilateral trading partners with the GATT objective of non-discrimination, and whether it was the view of the Finnish Government that the quotas accorded such countries in the Finnish import market for wheat did not excessively discriminate against contracting parties. He enquired whether in that case the Finnish Government would be prepared to consult with all contracting parties having an interest in securing an equitable share of the market. The representative of Finland referred to his early remark regarding his country's traditional pattern of trade and added that he thought it inconceivable that his Government would not be prepared to consult with contracting parties on any matter of mutual interest.

22. In reply to questions the representative of Finland confirmed that, under the present Finnish import control system, the products on the negative list could normally be imported under discretionary licensing or under quotas, there being no prohibited list in effect. The documents before the Committee showed that 65 per cent of Finland's total imports were free of restriction and that 11.5 per cent were imported under global quotas. The Finnish representative confirmed that the remaining 23.5 per cent comprised those products which were admitted under bilateral quotas or under individual discretionary licensing. A substantial part of this trade was with Eastern European countries.

23. The representative of Japan observed that the present Finnish quotas for imports from Japan, totalling \$400,000 for three months, were considerably lower than the provisions made by other Scandinavian countries and that all except two items of imports from Japan were still subject to licensing control. He enquired as to the prospects for further liberalization. The representative of Finland recalled the exchanges on this subject at the last consultation and the explanations given by his delegation of the difficulties in liberalizing imports from Japan. Whilst these difficulties still remained, the Finnish Government had proceeded with certain relaxations of the restrictions in effect if not in form. In 1960 total licences granted for Japanese products increased by 50 per cent in value over the figure in 1959 and there had been instances of unutilized licences. With the continued discussions going on and in view of the concrete proposal which was expected to be made at the beginning of next year, a satisfactory solution should, it was to be hoped, be achieved through joint efforts.

Effects of the restrictions

24. The representative of Finland referred to the statement contained in the basic document to the effect that while admittedly the Finnish import restrictions had a protective effect this protection was purely incidental; that this protection had not been substantial had been borne out by the fact that the various liberalization measures taken since 1957 had not been followed by major adjustment in any Finnish industries, including those established since the war. The Government's policy was to proceed with the removal of all restrictions and, in the meantime, to endeavour in every possible way to avoid undue protection being afforded to domestic producers.

25. The Finnish representative was requested to comment on the likelihood of any hard-core problems being met with, particularly in the agricultural sector, when the time came for the elimination of restrictions imposed for balance-of-payments purposes. A member of the Committee enquired what steps were being taken by the Finnish Government to minimize the incidental protection being afforded to the remaining restricted sector. The Finnish representative replied that measures were being taken to raise agricultural productivity in Finland and to make agricultural products more competitive on the international market. Measures of rationalization, in Finland as well as in other countries usually had the side effect of increasing production which complicated the problem. It should be noted that a very high proportion of the Finnish population was still engaged in agriculture and that the possibility of further relaxation of import restrictions on agricultural products was probably still remote.

General

26. Members of the Committee expressed appreciation for the very frank and exhaustive manner in which the representatives of Finland had replied to all the questions put to them. The Committee was gratified at the encouraging recovery in the Finnish economy and welcomed the progress that had been made since the previous consultation in the relaxation of restrictions and in the reduction of discrimination, including the use of bilateral agreements. The Committee considered, and the Finnish representative agreed, that the foundation of Finland's economy was basically sound, that the outlook for exports was encouraging and that it was in the interest of the country to relax restrictions and to reduce discrimination further. The Committee urged that these considerations be reflected in a modification of the present caution in Finnish policy towards further liberalization and that in the administration of any remaining bilateral agreements particular attention be given to the desirability of avoiding discrimination, in so far as feasible, against contracting parties.

27. The International Monetary Fund, in its Executive Board decision of 19 July 1960, had expressed the belief that Finland was in a position to make further progress toward the liberalization of imports and invisible transactions and the elimination of discrimination and had felt that the import licensing system could be substantially simplified. Following its consultation with Finland, the Committee expressed general agreement with these views and considered that prompt action should be taken by the Finnish authorities along these lines.

28. The representative of Finland stated that his delegation had taken careful note of all the views and suggestions that had been expressed at this consultation, regarding the general policy and the methods of restrictions and that these would be reported to his Government, which would no doubt give them careful consideration.

ANNEX I

Statement by the Representative of Finland

When I last appeared before this Committee in July 1959, we were able to review in detail the first phase of the progressive removal of import restrictions and discrimination which Finland started after the 1957 devaluation. At that time the Committee noted the progress which had been made and also pointed out some sectors where in the Committee's opinion the balance-of-payments situation of Finland made further removal of restrictions desirable and feasible. Now fifteen months have elapsed since our last meeting, and I am happy to state that in several respects we have been able to proceed in the direction which was recommended by this Committee, and which also was the aim of the Finnish Government.

The basic document before you outlines in more detail the various measures of liberalization and removal of discrimination which have been recently undertaken. Therefore I shall not go into much detail. I should however like to emphasize that since the last consultations all discrimination against imports from the United States and Canada has been eliminated and in addition a large number of bilateral trade-and-payments agreements has been terminated. Under the latter heading I should mention the bilateral agreements with France, Uruguay, Paraguay and Iceland. Furthermore - and I shall come back to this later - we are at the present moment endeavouring to change our bilateral trade-and-payments relations with a number of countries to a multilateral and non-discriminatory basis.

With your permission, Mr. Chairman, I should, however, like to outline briefly the general external and internal economic climate in Finland at present. At the time of our last consultations Finland was experiencing an incipient boom, which had not yet made itself felt in our external trade relations. In the last fifteen months this boom has gathered further momentum, so much so as to cause recently considerable concern to the monetary authorities in Finland. While the present upswing in the business cycle had started as a purely internal expansion of consumption and stockbuilding at the distribution level, it rapidly widened into a marked expansion of activity both in fixed investments and in export industries.

The devaluation had created for the Finnish industry the prerequisite conditions for continued sound expansion of productive capacity and internal formation of capital. With business confidence in expanding markets both abroad and at home restored, investment activity increased considerably and is estimated to have been in 1959 over 7 per cent above the level of 1958. The large loan of \$37 million which Finland in 1959 received from the World Bank acted in a way as a catalyst enabling nine important investment projects in pulp and paper industry to get under way. Investment in fixed assets has further expanded in 1960 by an estimated 10 per cent over the level of 1959.

A similar expansion has been experienced in the export sector since the revival of external demand for Finnish exports, particularly those of the forest industry. The volume of exports in 1959 was already 15 per cent above the level of 1958, although the export earnings did not increase as much owing to falling prices. In 1960 export volume has further increased, being the first six months 12 per cent above the corresponding level of 1959; at the same time the prices have become firmer and there are indications of a slow rise.

All this has had a considerable impact on the level of economic activity within the country. Industrial production for the first seven months of 1960 has been 14 per cent above the corresponding period of last year. Unemployment during last winter's seasonal peak was about 31,000 below the peak of 99,000 reached in the winter of 1958-59. Last summer not only unemployment was at zero, as has been usual, but there were even strong indications of actual shortage of skilled labour in some sectors. While the wage negotiations resulted in only moderate increases there is evidence that a certain amount of wage drift has taken place in recent months over and above the agreed increases.

It is clear that such boom conditions at home would quickly show up also in the balance of payments. The optimistic expectations of businessmen have led to a marked increase in stocks of imported goods which together with increased consumption and investment requirements has expanded Finnish imports in the first seven months of 1960 to a level about 35 per cent above that of the same period of 1959. Only a minor part of this increase has been due to higher import prices and it thus represents almost entirely a rise in volume. The increase, measured in terms of value, has been sharpest (about 52 per cent) in investment goods; consumption goods have risen by some 33 per cent and raw materials by 34 per cent. Some fairly impressive peak figures can be quoted: imports of electric machinery and apparatus have risen by 71 per cent; those of non-electric power generating machinery by 76 per cent, and those of machinery and equipment for mining, building, and certain other industrial uses by 67 per cent.

This rise in imports has led to a complete reversal of Finland's balance of payments. While we had in 1958 a surplus on trade account amounting to some \$46 million, it was expected already at the time of our last consultations that trade in 1959 would be roughly balanced. This turned out to be the case. In 1960, however, we are expecting to have a trade deficit of the order of \$60-65 million, as the rise in exports has not matched the increase in imports. In other circumstances a reversal of this order of magnitude could have been expected to produce a rather alarming decline in our foreign exchange reserves. This, however, has not happened, mainly because the deterioration of the trade account has been accompanied by a sizable inflow of foreign short-term capital in form of import credits and export advances. Thus the net decline in the Bank of Finland foreign exchange reserves in the first nine months of 1960 has been only about \$25 million compared with an increase of some \$33 million in the same period of 1959. As the Finnish

foreign exchange reserves, which to-day stand at slightly under \$200 million, represent only just over two months' imports at the present rate, it is clear that even this decrease is a matter of grave concern to the monetary authorities. Short-term capital movements of the type which I have described are essentially, in Finnish conditions, very quick to reverse themselves. The exports for which advances have been made are to be shipped mostly within the current year, and the expected tapering-off of the import boom in the final months of the year would be likely to produce a net reduction in the outstanding amount of import credit.

Finally, Mr. Chairman, I should like to make a few comments on our system of remaining import restrictions. First of all, the Committee has certainly noted that no large-scale extension of the liberalization has taken place since the last consultations. In connexion with the changeover into Brussels nomenclature, and the publication of our first "negative list", however, it was possible to effect a minor technical extension of liberalization. On the other hand, the global quota programme has been considerably increased, first through a general raising of the level of currency allocation, and secondly through the inclusion of more countries into the global quota system. It continues to be the policy of my Government to proceed in the same direction: thus, the total amount of foreign exchange to be allocated for the 1961 global quota programme will be increased by at least 10 per cent, with additional increases contemplated if more countries join the Helsinki Club.

It may still be said, as it was said in our last consultations, that the Finnish import system remains a fairly complicated one. We would be inclined to agree. There have, however, been various technical reasons which have made the simplification of the system quite difficult. I can only affirm that the Finnish Government is aware of the problem and is keeping it under consideration.

As regards our bilateral relations with certain contracting parties, it remains the policy of the Finnish Government to try to change trade-and-payments relations with these countries to a multilateral and non-discriminatory basis. I already mentioned the termination of four bilateral trade and/or payments agreements. I should like to add that in a number of other cases - notably Greece, Turkey and Israel - the present agreements contain elements of multilateralism and are intended to pave the way for a complete changeover in a near future. At the present moment, negotiations are being carried on with Brazil and Spain; and it is hoped that they will lead to a favourable multilateral solution.

In concluding, Mr. Chairman, I should like to repeat that the Finnish Government maintains its declared policy of removing the remaining restrictions on our imports from all sources, to the extent that our balance of payments makes this possible. I hope that the Committee will understand that caution in this respect has been called for by the uncertainties of our present balance-of-payments position.

ANNEX II

IMF Executive Board Decision of 19 July 1960  
relating to Finland

1. The Government of Finland has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.
2. The recovery of production which started toward the end of 1958 continued at an accelerated rate in 1959, and by the middle of that year the expansion had spread to all sectors of the economy. In 1959 the gross national product increased by 5 per cent in real terms. The employment situation improved. Rises in prices and the cost of living remained moderate. In the first part of 1960 the economy continued to expand. Private investment expenditures were about 20 per cent higher than in the corresponding period of 1959.
3. Increased economic activity led to higher yields from taxes both in 1959 and 1960. The 1959 budgetary results are expected to show a slight deficit on current and capital account. In 1960 the operations of the public sector should not lead to monetary expansion. It is considered unlikely that there will be need for issuing public bonds beyond what is necessary to redeem maturing debt.
4. In the first half of 1959 the improvement in the balance-of-payments position led to an increase in the liquidity of the banking system and a lowering of interest rates. Since then bank credit to the private sector has expanded rapidly and in 1960 the banks have again become dependent on central bank credit. Measures have been taken to limit credit expansion. The Fund notes that the Finnish authorities stand ready to take further action, if necessary, to prevent the pressure of demand from becoming excessive.
5. External demand for Finnish export products increased greatly in 1959. Imports also rose substantially but the balance of payments on goods and services account continued to be in surplus. A larger inflow of short-term capital, mainly representing prepayments on exports, contributed to a significant increase of monetary reserves. The composition of these reserves also improved. In the first months of 1960 both exports and imports were higher than in the corresponding period of 1959, the latter increasing more. At the end of March 1960 the net gold and foreign exchange assets of the banking system were equivalent to the value of about three months' imports.

6. Since the last Article XIV consultations Finland has taken measures to relax restrictions on imports, reduce discrimination, decentralize the exchange control, and liberalize invisible transactions. Reliance on bilateral payments agreements with non-state trading countries has also been reduced. The Fund welcomes these measures and the intention of the Finnish authorities to eliminate bilateral arrangements with Fund members. The Fund believes that Finland is in a position to make further progress toward the liberalization of imports and invisible transactions and the elimination of discrimination. The Fund also feels that the import licensing system could be substantially simplified.

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

