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REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION 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 consultation with Finland under Article XII:4(b). The Committee had before it: (a) a basic document for the consultation, BOP/14, together with a Finnish publication showing the Global Quota Programme for 1962 and the list of commodities subject to individual licensing, distributed under cover of document L/1792 and (b) documents provided by the International Monetary Fund as mentioned in paragraph 3 below.¹

2. In conducting the consultation, the Committee followed the Plan for such consultations recommended by the CONTRACTING PARTIES (BISD, 7S, pages 97-98). The consultation was completed on 25 September 1962. The present report summarizes the main points of the discussion.

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 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 and the background material prepared in connection with that consultation. The Fund has also provided a supplementary paper, dated September 10, 1962, to supply background information on recent developments.

"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, as noted above, has transmitted to the CONTRACTING PARTIES the Executive Board decision taken at the conclusion of its last consultation with Finland

¹The Fund decision is reproduced as Annex II to this report.

on February 21, 1962. Since the time of that consultation net gold and foreign exchange assets have declined, and there has been a 20 per cent reduction over the year ended June 30, 1962. At the same time the proportion of these assets consisting of gold and convertible exchange appears to have fallen. The volume and value of exports have been increasing, but some weakness has appeared in the markets for certain major exports. Domestic prices, which rose only moderately in 1961 have shown a larger increase in the course of the first half of 1962. Pursuance of greater fiscal and monetary restraints to reduce the pressure on prices and on the balance of payments would facilitate further relaxation of external restrictions.

"The final sentence of the statement in the preceding paragraph is also relevant with respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium. In addition, 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

4. In his opening statement, the full text of which is annexed to this report, the representative of Finland outlined the main developments in the Finnish economy since the last consultation and described the restrictive system operated by his country, giving details of changes which had occurred during the past year and some prospects for the future.

5. Economic growth was slowing down during the current year primarily as a result of weakening world demand for the main Finnish export products. Domestic investment activity had been slowing down, but consumption demand seemed to be increasing faster than other components of total demand. Prices had been rising much faster than in 1961. Imports had remained at a high level and a large deficit in the balance of payments on current account was being experienced for the third year in succession. The deficit had been financed to a large extent by accepting foreign short-term credits. The Bank of Finland had recently imposed a ceiling on commercial banks' rediscounts, which added an important new weapon to the arsenal of monetary policy. It was hoped that monetary stability would be restored and that the balance-of-payments deficit in 1963 would remain manageable.

6. Referring to the restrictive system, the Finnish representative stated that on 1 January 1962 Japan, Sierra Leone and Tanganyika had been added to the list of countries enjoying "multilateral import treatment". On the same date the scope of the free importation system was extended to cover a number of new commodities, while restrictions were re-introduced on the importation of certain other items. Under the Global Quota Programme for 1961 licences

issued amounted to Fmk59.5 billion compared with the total quota value of Fmk32.9 billion. During 1962 the value of the quotas had again been raised by 20 per cent, and imports under the Programme would again be above the quota value. In conclusion, the Finnish representative said that it would be the policy of his Government to remove the remaining import restrictions so far as the balance-of-payments position allowed.

Balance-of-payments position and prospects

7. The Committee expressed its thanks to the Finnish representative for his clear and complete description of major developments in the Finnish economy and in the import control system. Members of the Committee noted the steps which had been taken towards liberalization during the past year. The Committee also noted that certain measures, which were reported as being under consideration at the time of the last consultation, had been put into force.

8. A member of the Committee asked about estimated imports of consumer goods and capital goods during the coming year. The representative of Finland said that between 1961 and 1962 major increases had been registered in imports of fuel and lubricants and consumer goods. While there was much uncertainty in this type of forecast it was to be expected that during 1963 the increase in imports of consumer goods would continue and that the import of capital goods would lag. The effect of internal monetary policy must however be borne in mind and, if successful, would tend to reduce the demand for consumer goods.

9. In discussion of export prospects, members of the Committee noted that the exports of round timber were expected to show a considerable fall this year but that overall exports of wood products were expected to show some increase. They enquired to what extent this development would be due to increased exports of finished wood products. The representative of Finland said that Nordic producers had agreed to limit production of pulp and newsprint but that it was hoped that present difficulties were only the result of a short-term recession in foreign demand. Studies had shown that long-term prospects in this sector were good and that capacity would be fully utilized in the future. The long-term policy was to develop the export of processed timber and to some extent the fall in exports of round timber was in accordance with this policy. This fall was, however, mainly the result of a shift in demand. In reply to an enquiry on prospects for increased exports of non-traditional products, the Finnish representative said that there were fair prospects for the exports of the products of the metal-working and engineering industries and in particular for exports of such Finnish specialities as pulp and paper-making machinery. Experience in the EFTA had shown that many of the less-traditional Finnish industries were fully competitive. Commenting on the commodity composition of exports, the representative of Finland stated that

the manufactured goods sector which as noted on page 54 in the IMF background material of 12 January 1962 had accounted for about 35 per cent of exports in recent years, consisted primarily of paper, plywood and other wood products, but included some other items, e.g. cables. This sector excluded other manufactured goods such as machinery, transport equipment and prefabricated buildings.

10. Members of the Committee enquired why Finnish exports to the EFTA had been increasing more slowly than her exports to the EEC. The representative of Finland stated that this trend reflected both the structure of Finland's export trade and the general economic situation abroad. The EEC was a net importer of Finland's main export products, while some of Finland's principal competitors were members of the EFTA. A faster rate of economic growth in the EEC, as compared to the EFTA, had led to a more rapid increase in import demand in the EEC. The relative decline in exports to other areas was primarily a reflection of the development of import demand and the general economic situation in these countries, although in certain instances importing countries had established or expanded industries competing with imports from Finland.

11. Members of the Committee noted that both GNP and exports had grown steadily since 1953 and that over a period of years reserves had increased relatively more than imports. They expressed the view that this would permit further import liberalization. The representative of Finland agreed that world demand had been brisk and Finland's competitiveness had increased. Finland's exports had increased. Finnish exports over the long-term however were subject to fluctuation, a feature common to most countries dependent on exports of primary and semi-processed products. Compared with 1957, when Finland's reserves had stood at a very low point, the country's present foreign exchange reserves showed some significant increase. It had to be recognized however that this increase from an unacceptably low level had been the result primarily of stringent measures taken by the Government to restrain total demand and the salutary effects on exports of the devaluation in 1957. Gratifying as the positive results of those measures were, the Government at the present time considered that the state of the reserves limited a faster relaxation of import restrictions.

12. Referring to the concern expressed by the representative of Finland in his opening statement regarding the inflow of short-term capital into his country, members of the Committee enquired as to the prospects for long-term borrowing by Finland. Reverting to his earlier statement, the representative of Finland said that the inflow of long-term capital was welcomed. Finland was concerned that there had been a very large inflow of short-term capital in the form of suppliers' credits and short-term borrowing by Finnish banks. Very heavy reliance on such short-term capital inflows carried with it the danger that, in the case of a failure to renew these credits, Finland might

be faced with considerable difficulties. On the other hand, the considerable increase in such short-term credits was due mainly to a larger volume of imports in recent years and the removal of import credit restrictions imposed at the time of the devaluation in 1957. During the first half of 1962, the inflow of short-term credits had amounted to Fmk10 billion, while long-term credits amounted to Fmk6 billion. The Finnish authorities were encouraging the inflow of long-term capital, particularly of direct investment capital, which, it was hoped, would increase. Because of Finland's somewhat peripheral position, long-term capital had not so far been forthcoming to the desired extent. In view of the favourable conditions for investment in Finland's newly developing industries and the incentives for such investment, such as very liberal depreciation provisions, it was hoped that private foreign investment would increase. On the other hand, prospects for raising long-term loans did not seem particularly promising.

Alternative measures to restore equilibrium

13. Members of the Committee welcomed the introduction of fiscal restraints by Finland earlier in the year. They enquired in this connexion whether the total level of imports could be controlled by the machinery at the disposal of the Finnish authorities and whether the remaining quantitative restrictions were effective, or whether monetary and fiscal policies were the main weapons. The representative of Finland agreed with members of the Committee that his Government would increasingly have to rely on internal monetary and fiscal measures to control its overall expenditure of foreign exchange. The retention of the remaining quantitative restrictions could be justified on balance-of-payments grounds as they allowed some degree of control to be exercised. A member of the Committee enquired whether the fiscal measures taken were regarded as entirely adequate and recalled that in the past Finland had relied more on monetary measures. The representative of Finland pointed out that the background documentation did not cover the measure taken at the beginning of September 1962 when a ceiling on rediscounts had been introduced. This would provide an effective barrier to credit expansion. Traditionally the emphasis was on monetary policy, primarily because some four fifths of Government expenditure was governed by legislation. In this connexion, however, it should be noted that the recent budget for 1963, introduced on 17 September 1962, was not expansionary and that its effect on the economy would be fairly neutral.

14. Members of the Committee enquired whether the Finnish authorities had considered the possibility that a further liberalization of imports would help to stabilize the internal situation, exert a downward pressure on prices and thus increase the competitiveness of Finnish exports. The representative of Finland said that his Government recognized that an increase in imports could act as a stabilizing factor, as higher imports had already exerted a downward pressure on prices. The extent to which different sectors of the Finnish economy could be subjected to the full force of international competition was limited by the fact that a number of non-traditional export

industries, such as the metal-working industry, would require some further period to become established on a fully competitive basis. The establishment of new industries was important not only for the diversification of production but also because of the contribution they could make to increased export earnings and reduced reliance on forest products as the major source of the country's foreign exchange earnings. The Finnish authorities, however, recognized the benefits of competition in economic growth and did not intend to afford undue protection to domestic industries.

15. In reply to questions, the representative of Finland stated that the currency reform to which he had referred in his opening statement was of a technical character only and would have no effect on the balance-of-payments situation. It was believed that the introduction of one new mark in place of 100 old marks would not lead to a rise in prices.

System and methods of restriction

16. The Committee welcomed the new liberalization measures introduced in January 1962. Members of the Committee noted however that certain items had been deliberalized at that time and asked if this deliberalization was related to Finland's commitments under bilateral agreements. The representative of Finland explained that this was not the case but that the measure had been taken to ensure that products of like character were afforded similar import treatment. For example, under the previous system, imports of soya beans had been subject to quotas while imports of rape-seed had been liberalized. He said that this deliberalization was not an attempt to restrict imports of the thirty odd items involved and there had been no case of refusal to grant an import licence for any of the products concerned.

17. Members of the Committee noted with satisfaction that it was the intention of Finland to reduce as far as possible its reliance on bilateral arrangements with the four countries named in the opening statement. Answering questions regarding the operation of remaining trade and payments agreements, the representative of Finland explained that the agreements with Greece and Turkey contained no quotas but only indicative lists. Half of the balances on the bilateral accounts were settled at regular intervals in convertible currency. Finland was always prepared to consider the possibility of terminating these agreements, but would not wish to do so without the agreement of the other parties. In view of the structure of its production and the traditional pattern of its trade, Finland conducted a certain proportion of its trade with State-trading countries on a bilateral basis. It would be difficult in the short term to find alternative markets for some of the products which were being exported to State-trading countries. The Finnish Government did not believe that imports from State-trading countries lessened the opportunities in the Finnish market for other countries, since the bilateral trade which Finland was conducting permitted a higher level of liberalization of imports from those countries with which trade and payments were conducted on a multi-lateral basis.

18. Members of the Committee expressed understanding of the particular difficulties which required Finland to conduct a significant proportion of its trade under bilateral arrangements. They pointed out, however, that certain commitments undertaken by Finland under these arrangements, for example to purchase specified quantities of wheat from the USSR, in turn created difficulties for other suppliers of this commodity. They noted that under the agreement for the current year imports of wheat from the USSR not only pre-empted the Finnish import market for wheat but apparently exceeded requirements so that there was a danger of a spillover of these imports into other markets. They expressed the hope that the Finnish authorities in drawing up their import programme would find it possible to give consideration to the desirability of avoiding distortions in the pattern of trade as a result of bilateral commitments undertaken by Finland. One member pointed out that the exclusion of imports of certain commodities, except under bilateral arrangements, greatly reduced his country's total export possibilities to Finland. The representative of Finland said that his Government was aware of the difficulties faced by other suppliers as a result of the necessity for Finland to effect certain imports under bilateral arrangements. He pointed out that his Government was considering acceding in the near future to the International Wheat Agreement. Members of the Committee hoped that this would help to solve difficulties which had arisen for countries in exporting wheat to Finland.

19. One member of the Committee recalled the statement made by the Finnish representative during the last consultation that his Government had established a special Committee to study the country's agricultural policy. He enquired whether, as a result of this study, Finland intended to change its system of import controls affecting agricultural products. The representative of Finland said that the report of this special Committee had been submitted to the Government and that a new law relating to agriculture, which embodied certain recommendations of this special Committee, had been passed. Details regarding the implementation of this law were, however, not yet available.

20. Some members of the Committee were concerned that primary-producing countries had not benefitted from the increase in total Finnish imports. They hoped that Finland, when reviewing its import policy, would bear in mind that restrictions on primary products affected developing countries less able to bear the burden of such restrictions. The representative of Finland replied that his Government was keenly aware of and sympathetic to the problems faced by less-developed countries. The Government's general attitude to the problems of less-developed countries was exemplified by the reduction in duties on unroasted coffee by 55 per cent in June 1961. The failure of imports from countries in Latin America to rise was not the result of the Government's import control policy (which permitted imports of most raw materials and tropical products free of restrictions), but, in the boom conditions, was due to the slackening of demand for such products as compared with demand for investment and consumer goods.

21. Members of the Committee welcomed the decision to license automobile imports freely as from 15 July 1962. Some members expressed disappointment however that at the same time the excise tax on automobiles had been doubled. Since the tax was very high, ranging from 40 per cent for cars up to an import value of Fmk300,000 with rates rising progressively, to 90 per cent for cars valued at Fmk900,000 or more, it appeared likely that exporters would derive only little benefit from the relaxation of direct import controls. Moreover, they considered that the progression in the tax rates had the effect of discriminating against exporters of higher-priced automobiles. Members of the Committee said that discrimination and the practice, noticeable in a number of other cases, whereby contracting parties eliminated quantitative restrictions and imposed other measures, was a matter of considerable concern to their governments and business communities. The representative of Finland explained that the introduction of this tax had been necessary to prevent undue expansion of imports of motor-cars following import liberalization, a danger which clearly existed in view of the long period in which such imports had had to be restricted. The tax was of a temporary nature and the Government had proposed a reduction in the rates after 1 January 1964. The representative of Finland further explained that the tax applied to imports of automobiles from all sources and would also apply to any domestic production.

22. The representative of Finland confirmed that apples and pears imported during the period 10 December to 30 June inclusive were subject to lower rates of duty. Import arrangements concerning the Global Quota Programme for 1963 including the importation of apples and pears would be made as usual at the end of this year or at the beginning of next year. One member of the Committee pointed out that early notification of import opportunities for these products was of considerable importance to distant overseas suppliers. He expressed the hope that the Finnish authorities would find it possible to notify such opportunities earlier to the trade. The representative of Finland undertook to bring this request to the attention of his Government.

23. In reply to questions regarding prospects for further import liberalization, the representative of Finland stated that, although the final decision had not yet been taken, global quotas for 1963 were likely to be increased by at least 20 per cent. Also, as in the past, the Government would make further progress in import liberalization as soon as the balance-of-payments position permitted.

Effects of the restrictions

24. The Committee's discussion relating to matters covered by this heading is summarized in the two preceding sections of this report.

General

25. The Committee expressed its appreciation for the full and frank way in which the Finnish delegation had dealt with the questions posed during the consultation. The Committee welcomed the steps taken by Finland since the last consultation in further relaxing import controls. They felt that, although certain special difficulties might exist and although there had been some recent decrease in reserves, the present level of Finland's foreign reserves appeared to give some scope for further import liberalization, if supported by appropriate fiscal and monetary restraint. The Committee expressed the hope that Finland would make further progress in the removal of discrimination, including that arising from bilateralism.

26. The representative of Finland assured the Committee that he would bring the recommendations made during the consultation to the attention of his Government. He also assured the Committee that his Government wished to proceed with liberalization as rapidly as possible and to abide by its international commitments.

ANNEX I

Opening Statement by the Representative of Finland

In the recent years, the Finnish Government has, pursuant to its policy and in accordance with the recommendations of this Committee, taken steps to liberalize the country's foreign trade. Considerable progress has been made in removing restrictions, in increasing global quotas, in simplifying the control system and in reducing discrimination. We have advanced in this direction as far as it has been considered possible within the limits set by the balance-of-payments position of my country.

During the last consultation, the Finnish representative drew the Committee's attention to the fact that the Finnish authorities had reason to feel concerned about the future economic development in the country, including aspects of foreign trade. Unfortunately, their concern proved to be well founded, especially, as regards the deterioration of the balance-of-payments situation. Notwithstanding this unfavourable development the Finnish authorities have been able to carry on with the liberalization of trade thus continuing the practice of the preceding years. Before explaining in greater detail the new measures taken in this respect I would like to outline the recent developments in the Finnish economy which, I feel, should be borne in mind in examining the present restrictive system in Finland.

In the last year's consultation, the Finnish representative described the "overheating" of the boom which had been progressively growing more serious in Finland. At that time, we had already reached the ceiling of our productive capacity in most sectors of the economy and we were in a situation where all available resources were fully put to use, where shortage of manpower had emerged in certain sectors, and where an increase in production could only be reached by increasing productivity.

The year 1961 was described by my predecessor as "a good one" for Finland. I wish I could repeat this description for the period we are now discussing. But, unfortunately, since the last consultation, not all internal and external developments have been favourable. Certain adverse developments have taken place. Mostly their seeds existed in the situation which was discussed last year, but their effect on monetary stability and the balance of payments has since become more clearly visible.

The vigorous economic growth which Finland experienced during a period of more than three years, has been clearly slowing down in the current year. The primary reason for this has been the weakening world demand for our main export articles, products of the woodworking industry, with repercussions in the domestic investment activity which has been slowing down. To some extent, the tightened credit market has been acting as a brake on the growth of building, in particular. In contrast to this, consumption demand seems to be growing this year faster than the other components of total demand.

As regards the employment situation, the slowing down of economic growth has so far meant a decrease in the excess demand for labour only, an excess that existed last year. Prices have been rising much faster in 1962 than in the previous year, but so far the rise in the price level - serious though it still is - does not seem to be significantly greater than the rise observed in many other Western European countries.

Another unfavourable factor which is only now becoming visible, is the harvest. As a result of an extraordinarily wet and cold summer, the yield of all field crops in Finland will this year be catastrophically small and the quality of grain poor.

These developments are reflected in the estimated increase in the gross national product which will be only about 4 per cent in volume this year against nearly 7 per cent in 1961. The value of private investments in fixed assets, which rose by as much as 13 per cent in 1961, will increase by only 6 per cent in the current year. There will be an increase of 7 per cent in public investments in fixed assets. The consumption boom is continuing, and estimates predict an increase of some 9 per cent over the level of 1961. It is undeniable that there exists today in Finland a certain pressure on prices and it will probably work out at an increase of some 3 per cent in wholesale prices and as much as 6 per cent in the cost of living in the course of the whole of 1962.

The weakened foreign demand for our export products has mainly hit round timber, exports of which are expected to drop by as much as 40 per cent from the 1961 level, and wood industry products, such as plywood and various boards, where the decrease in export value is estimated to be some 9 per cent. Exports of pulp and paper products will grow only by about 3 per cent from last year, in spite of large new additions to productive capacity recently put to use. In more favourable market conditions a much more impressive increase in export earnings could be produced by these new mills. On the whole, it is estimated that in 1962 exports of goods and services will increase in value by only 3 per cent.

While export demand has been slackening, the buoyant demand on the home market has continued to keep the imports high, even if their rate of increase has been slowing down. It is now estimated that for the full year 1962, imports of goods and services will be some 7 per cent higher in value than in 1961.

Therefore, it goes without saying that this year Finland is again facing a serious deficit on its goods and services account and that this time this deficit will be even much larger than last year. The present estimates indicate a deficit of 37 billion marks (\$115 million) for 1962, which is almost double the 1961 deficit of 21 billion marks (\$65 million).

1962 will thus be the third year in unbroken succession Finland has had to cope with a large deficit in its balance of payments on current account. It is curious indeed that the persistent deficits have not yet been reflected in the official foreign exchange reserves held by the Bank of Finland. These reserves have remained quite stable - a fact which is, of course, psychologically very comforting, but actually somewhat of an optical illusion.

Partly, this continuing deficit has, of course, been financed by long-term loans, such as we have obtained for instance from the World Bank. Nevertheless, net drawings of long-term loans in the first half of 1962 have financed less than one sixth of the current account deficit. The Treasury and other official institutions outside the Bank of Finland have, for reasons of their own, drawn down their foreign exchange assets roughly as much. About one third of the deficit of the first half-year of 1962 has thus been financed from these two sources.

An important factor in the financing of the balance-of-payments deficit has again, just as last year, been short-term borrowing abroad in various forms. Last year, importers' short-term commercial credits played quite a significant rôle. Now they have been of a much smaller importance, but the banking system has continued the practice, discussed during the last year's consultation, of borrowing abroad, or, in other words, of accepting foreign short-term deposits. This borrowing has not only financed the continuing upsurge of imports, but it has also been a welcome relief to the commercial banks in their extremely tight liquidity position. Until quite recently, however, the monetary authorities did not restrict this activity, and thus such new borrowings by banks during the first half of 1962 reached the impressive sum of over 10 billion marks (\$31 million) which alone corresponds to some one third of the total deficit on current account during that period. The remainder of the deficit, again roughly one third, has been financed by the customary procedure of export advances; these really mean discounting the export earnings of the main shipping season which falls in the second half of the year.

It is not, of course, very sound to finance with short-term borrowing abroad a balance-of-payments deficit entailed by the boom conditions in Finland. It was partly for this reason, and partly in order to close a loophole in the monetary policy, that the Bank of Finland took measures at the beginning of this month designed to restrict such borrowing. An absolute ceiling was then imposed on the commercial banks' rediscounts in the Bank of Finland; this ceiling was fixed at 240 per cent of each bank's own resources (that is, capital and reserves). Already now, most banks are fairly close to this limit. Furthermore, this ceiling was made flexible in a restrictive sense so that each increase of a bank's foreign short-term borrowing will lower the ceiling by a corresponding amount, and vice versa. There is thus reason to believe that this restrictive policy will have some effect on the future growth of imports, as their financing will become more difficult.

The ceiling on rediscounts (which have been increasing alarmingly this year) is an important new addition to the arsenal of monetary policy, and we expect that this measure will be a significant contribution to the efforts made to maintain monetary stability in the next few months. I wish to underline the importance of monetary stability in the immediate future, since, on 1 January 1963, Finland will undertake a currency reform similar to that effected in France in 1960. A reform of this type is by no means made easier if there is inflationary pressure in the economy at the time of its introduction.

Mr. Chairman, it is not very easy to draw clear conclusions on the present internal and external economic situation in Finland. It is, however, clear that continuous balance-of-payments deficits of the magnitude that we are experiencing this year cannot possibly be financed in the future without a drastic decline in foreign exchange reserves. No revival of export demand is yet within sight. The development of internal demand conditions is uncertain. While almost stable import prices, rising import volume and the reductions in customs duties resulting from Finland-EFTA association have increased foreign competition and contributed to domestic price stability, and while monetary and fiscal restrictive measures have been strengthened, one important unknown factor still remains. By this I mean the collective wage negotiations which will be conducted between the employers' and employees' organizations this Fall. Provided that the wage increases which will almost certainly take place, remain within such limits that they can be absorbed by the economy, there are hopes that the monetary stability will be recovered and that the balance-of-payments deficit in 1963 will remain manageable without a significant decline in our meagre foreign exchange reserves.

The restrictive system

Mr. Chairman, now I would like to pass on to the matter of the remaining import restrictions in Finland. As stated in the basic document prepared by the secretariat for this Committee, all imports are licence free except those enumerated in the global quota list or appearing on the list of items subject to discretionary licensing, both of 1 January 1962. On 1 January 1962, this "multilateral import treatment" was unilaterally extended so as to cover also Japan, Sierra Leone and Tanganyika. With the inclusion of these countries multilateral import treatment is applicable to eighty-five countries and seventy dependent territories. This system now covers almost all the countries of the world with which Finland has no bilateral agreements.

As from 1 January 1962, the scope of the free importation system was extended to cover a number of new commodities, including timber and paper products, certain metal and chemical products, various instruments, paints and dyes, for which import licences were previously required. At the same time, Finland reintroduced restrictions on the importation of certain commodities, that is on the importation of oilseeds, animal and vegetable fats. This was found necessary in order to remedy imperfections in the import system and to bring

uniformity in the import treatment of certain goods of similar character which had earlier been subject to dissimilar treatment as to import facilities granted to them in Finland. The details of this systematization are to be found in GATT document L/1792.

As regards the carrying out of the Global Quota Programme for 1961, which - as the members of this Committee will remember - was increased by more than 20 per cent compared with the value of the said Programme for 1960, I would like to mention here that, in fact, licences issued amounted to 59.5 billion marks compared with the total quota value of 32.9 billion marks. Thus, the actual licensing was almost 100 per cent higher than the fixed quota value.

The Global Quota Programme for 1962 provides for increased import facilities, the value of the quotas having again been raised by 20 per cent. The total value of the Global Quota Programme for 1962 was fixed at 39.9 billion marks. As early as by the middle of September 1962 licences had been granted for 40.5 billion marks, or more than provided by the Programme for the whole year. The above, I think, proves that the Finnish authorities are willing and prepared to issue import licences to the greatest possible extent, whenever permitted by the prevailing balance-of-payments position.

As regards our bilateral relations - Finland has bilateral agreements apart from the eastern group, with Columbia, Yugoslavia, Greece and Turkey - I wish to reiterate here that it is the policy of the Finnish Government to try to bring the trade and payments agreements with these countries on to a multilateral and non-discriminatory basis. The agreements made with Greece and Turkey can be considered as a step towards multilateralism since these agreements contain provisions for automatic conversion of balances to convertible currencies at regular intervals.

As far as the foreign exchange regulations of the Bank of Finland are concerned, no major developments have taken place since the last consultation. As appears from the backgroundpaper issued by the International Monetary Fund, certain additional liberalization measures have, however, been undertaken; these relate to certain invisibles as well as to transfers abroad of blocked assets. It is the policy of the foreign exchange authorities, circumstances permitting, to continue the liberalization of the remaining foreign exchange restrictions, but, in our opinion, the major moves in this direction were already accomplished during the recent two or three years.

Mr. Chairman, in concluding, I venture to express the hope that you and the members of this Committee will come to the conclusion that since the last consultation Finland has, in accordance with the recommendations of the Committee, made reasonable progress in the removal of import restrictions and discrimination. I would like to assure you that my Government will spare no efforts to further liberalize imports by removing remaining restrictions on our imports.

All steps to be taken must, of course, be considered with regard to the future development of the balance-of-payments position of Finland.

ANNEX II

International Monetary Fund Executive Board Decision
Taken at the Conclusion of the Fund's Consultation with
Finland on 21 February 1962

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. In 1961 production continued to show substantial gains, and the real gross national product rose by an estimated 6 per cent compared with 9 per cent in 1960. Productive capacities were almost fully utilized, and skilled manpower was in short supply in some industries. In the second half of the year the expansion of private investment slowed down, but the rise in consumption has accelerated. Prices rose moderately. Hourly wage earnings increased by 8 per cent; the increase exceeded gains in productivity.
3. Government finances deteriorated in 1961, as the rise in expenditure outstripped the increase in revenue; in the first eleven months of 1961 the budget showed a Fmk7.2 billion deficit on current and capital account compared with a Fmk9.5 billion surplus in the corresponding period of 1960. Bank advances in 1961 again rose substantially, and the banks' heavy indebtedness to the Central Bank, which rose in 1960, has further increased. Measures by the Bank of Finland to limit the expansion of credit were somewhat strengthened. Additional credit restraining measures are under active consideration. In view of the prevailing pressure on resources, the Fund believes that fiscal as well as monetary restraint is needed, and urges in particular an early reconsideration of budgetary policy, especially as it relates to the various spending programmes.
4. In 1961 imports rose by about 8 per cent and exports by 7 per cent, thus increasing the trade deficit. The balance of payments on goods and services account continued to be in deficit, but this was offset by a net inflow of capital, partly in the form of suppliers' credit. Total gold and net foreign exchange assets showed little change in 1961; at the end of the year they were equivalent to the value of well over three months' imports.
5. Since the last Article XIV consultations, Finland has continued to reduce its reliance on restrictions and discrimination, including that arising from bilateral payments agreements, and some further steps are under consideration. While noting this progress, the Fund believes that the balance-of-payments position, if supported by appropriate fiscal and credit policies, permits further early reduction in the reliance on external restrictions. Such action at this time would also facilitate the maintenance of internal price stability. The Fund considers that the termination of the few remaining bilateral payments agreements with Fund members is feasible and desirable.
6. In concluding the 1962 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Finland.