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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, MGT(61)23, together with a Finnish publication showing a "negative list" of restricted imports; and (b) a background document provided by the International Monetary Fund as mentioned in paragraph 2 below. In conducting the consultation, the Committee followed the plan recommended for such consultations by the CONTRACTING PARTIES. The consultation was completed on 1 November 1961. The present report summarizes the main points of discussion 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 Fund's last consultation with Finland was concluded on 19 July 1960. The background material and the Executive Board decision relating to this consultation were transmitted to the Contracting Parties, and were used in connexion with your consultation with Finland in October 1960.

"The Fund's next consultation with Finland will be initiated next week. Therefore no Fund decision is available for the present consultation. The Fund has, however, prepared a background paper, dated 13 October 1961, which is being distributed to members of the Committee.

"Since the conclusion of the last consultation under Article XIV of the Fund Agreement, Finland has made further progress in reducing restrictions and discrimination.

"As indicated above, the Fund is shortly to conduct its 1961 consultation with Finland; it expects to transmit to the Contracting Parties the Executive Board decision relating to that consultation when it is available."

Opening statement by the Finnish representative

3. In his opening statement, the full text of which is given in the Annex, the representative of Finland stated that during the past year the Finnish economy had continued to be characterized by high levels of activity and further expansion. Full utilization of capacity of plant and equipment and a shortage of skilled manpower in certain industries had, however, recently led to a slowing down of expansion of some sectors of the economy. Estimated gross national product for 1961 was 9 per cent higher than in 1960; consumer disposable income was expected to be up 10 per cent and private consumption expenditure was expected to be higher by about 8 or 9 per cent than in 1960. Obviously, these developments were not without implications for monetary stability. The value of private investments in fixed assets was expected to rise by about 13 per cent, as compared with 1960, and the increase in public fixed investments was estimated at 7 per cent. Moreover it was expected that inventories would increase.

4. During the year a welcome increase in productive capacity had, however, occurred, particularly in the wood and wood processing industry, as a result of the "maturing" of a number of large investment projects. This had made possible increased exports of wood and wood products, as well as of pulp and paper. Export earnings for paper industry products were running at more than 15 per cent above the 1960 level, while total export earnings were expected to be nearly 10 per cent above those of 1960. Imports had, however, not levelled off, as had been expected last year when they exceeded exports, but had risen further by about 10 per cent over those in 1960. As a result, for the second consecutive year, Finland would show a sizeable unfavourable balance of trade for 1961. Since there were no major changes on invisibles, as compared to 1960, the current account deficit for 1961 was expected to be slightly larger than the deficit of Fmk.12,000 million¹ experienced in 1960. As in 1960, the trade deficit in the current year had been offset, however, by capital inflows, mostly short-term, with the result that foreign exchange reserves had not shown an appreciable change.

5. The representative of Finland explained that for the first six months of 1961 the deficit on current account had amounted to Fmk.31,000 million, or Fmk.2,000 million more than in the corresponding period of 1960. On the other hand, the net foreign exchange reserves of the Bank of Finland during the same period had shown an increase of some Fmk.6,000 million. Part of this increase in reserves was explained by

¹Finnish markkas 320 = US \$1.

drawings on long-term credits which during the first half of 1961, had exceeded repayments by as much as Fmk.9,000 million. The major part of the deficit had, however, been financed by increased reliance on short-term credit accommodation. While there had been an increase in such traditional forms of commercial credit as export advances and importers' credits there had also been, as a new phenomenon, a significant increase in foreign short-term liabilities of Finnish commercial banks. The combined impact of these developments was that the net foreign exchange position of the country as a whole, notwithstanding an increase in reserves held by the Bank of Finland, deteriorated by approximately Fmk.4,000 million.

6. It was recognized that this inflow of foreign short-term capital had provided exchange for the financing of a high level of imports and had permitted an expansion of the country's export capacity without creating internal demand pressures. While this method of balancing the foreign accounts was not necessarily unhealthy, this development was nevertheless a matter of concern to the Finnish authorities, since it was not impossible that the official foreign exchange holdings might in due course be subject to heavier pressures than in the past. In the third quarter of 1961, for instance, the foreign exchange reserves of the Bank of Finland had shown a slight but regular decline, instead of the normal seasonal increase. The concern about the balance-of-payments outlook was reinforced by an element of uncertainty about the business outlook. The rise in exports was slowing down and there were indications of a weakening of the pulp market in Europe. On the internal side, private consumption demand, which normally lags behind the rise in incomes, was expected to increase significantly in 1962. One of the measures taken because of this concern was the reduction from one year to six months of the period for which importers' commercial credits may be granted importers without permission of the Bank of Finland. It was not, however, at this stage intended to refuse permission for credits hitherto allowed automatically; the measure was essentially designed to enable the monetary authorities to watch developments more closely.

7. It was against this background that efforts by Finland during the past year towards further simplifying and liberalizing the import control system had to be viewed. Commenting on these efforts, the representative of Finland explained that the major innovation since the last consultation had been the general streamlining of import procedures. On 1 January 1961, the number of countries benefiting from "multilateral import treatment" was extended so as to include almost all countries of the world with which Finland had no bilateral payments agreement. As a result over eighty countries now enjoyed this multilateral treatment. This removed many of the complexities of the Finnish import system, for instance the special automatic licensing procedure applied to sterling area and dollar area imports, the removal of which had been recommended by the Committee during previous consultations. Other noteworthy improvements had been the increase in the 1961 global quotas by as much as 25 per cent over the 1960 level. The additional import facilities resulting from these quota increases, although having partly been prompted by Finland's association with the EFTA, had been extended to the entire "multilateral import

treatment area". Also, bilateral payments agreements were terminated with Brazil, Israel and Spain at the end of 1960. Apart from bilateral payments agreements with countries in the Eastern group, Finland now had such agreements with only four countries: Colombia, Greece, Turkey and Yugoslavia. Moreover, Finland had announced its willingness to put payments with each of these countries on a fully multilateral basis. Finally, important modifications of the foreign exchange regulations of the Bank of Finland took effect during the year. Although these modifications were made in connexion with Finland's association with the EFTA, they were being applied without discrimination to all countries of the world. In addition, Finland had undertaken certain obligations under the Finland-EFTA Agreement regarding the liberalization of invisible and capital transactions.

8. In conclusion, the representative of Finland expressed the hope that the Committee would find it possible to agree with the view of his Government that, considering the circumstances confronting Finland's trade and payments, a reasonable effort had been made during the past year towards the elimination of the remaining import and foreign exchange restrictions. The intention of the Government was to maintain its steady course towards import liberalization, and possibilities for further advance in this direction were being considered. However, owing to the present uncertainty regarding developments in the field of commercial policy in Western Europe, no additional liberalization as such was being contemplated for the immediate future. On the other hand, global quotas for 1962 were to be increased by at least 20 per cent over their present level. This was in conformity with the announced intention of the Finnish Government of gradually enlarging quotas and eliminating them as soon as they became fully sufficient to meet import demand.

Balance-of-payments position and prospects

9. The Committee thanked the Finnish representative for his clear and concise description of major developments in the Finnish economy and in the import control system. The Committee then discussed with the Finnish representative various aspects of his country's balance of payments. In response to questions for supplementary information, the representative of Finland said that normally foreign exchange reserves were under seasonal pressure during the first half of the year, when exports were traditionally lower than imports. However, in the first six months of 1961, the gold and foreign exchange reserves held by the Bank of Finland had on the contrary increased by about Fmk.6,400 million. What was unusual and somewhat disquieting about the development of exchange reserves during this period was the extent to which the trade deficit had been concealed by an unusually large inflow of foreign short-term capital in the form of export advances, commercial importers' credits and increased foreign liabilities of commercial banks. The net short-term foreign liabilities incurred by Finnish commercial banks in the first half of 1961, had increased by about Fmk.9,600 million. Similarly, capital imports in the form of export advances and commercial importers' credits had also significantly increased, a trend which was noticeable since the liberalization of commercial importers' credits in 1958. Bearing in mind the possibility of a sudden decline in

the availability of such credit accommodation in present circumstances and the still under-developed nature of the capital market in Finland, this development was, of course, a source of concern. With respect to the decline during the third quarter of 1961 in foreign exchange reserves held by the Bank of Finland, the Finnish representative explained that reserves had decreased by approximately Fmk.1,900 million, as compared to the corresponding period of 1960, when reserves had increased by Fmk.2,250 million. In the absence of complete trade returns for this period the factors responsible for this decline had not yet been completely identified. Indications were, however, that this decline was primarily due to movements on capital account.

10. In further discussion of the effects of capital imports on the Finnish balance of payments, members of the Committee enquired about prospects for increased imports of foreign long-term capital. The representative of Finland agreed that an increase in the inflow of foreign long-term capital could make a significant contribution to an easing of the pressure on the country's foreign exchange reserves. Indeed, increased inflows of long-term capital during the past year had been an element in maintaining the country's foreign exchange reserves at approximately the same level as in 1960. Contrary to 1959, when repayments had exceeded long-term capital imports, there had been a net inflow of long-term foreign capital in 1960 and this had further increased in 1961. Much of this inflow was accounted for by loans received from institutional lenders such as the IBRD (which had granted a new \$25 million¹ loan to Finland in August for investment in the paper and cellulose industry, bringing total loans obtained from the IBRD to \$130 million²), the U.S. Export-Import Bank, the Kreditanstalt für Wiederaufbau in Frankfurt and other institutions engaged in international lending, including, for the first time, loans from the International Finance Corporation. Also a capital issue had been placed in Switzerland in September, and the possibility was at present being explored for placing a capital issue on the New York money market. While the possibility of raising further capital abroad must not be discounted, it had to be realized that in the present international situation, the possibility of placing loans on foreign capital markets was rather limited.

11. Members of the Committee, noting the continuing high level of investment in plant and equipment in Finland, enquired from the Finnish representative whether he could give an indication of the contribution to Finland's export earnings which these investments could be expected to make in the foreseeable future. The representative of Finland explained that Finland continued to be largely dependent on the exploitation of its timber resources but that a stage had been reached where the annual

¹Equivalent to approximately Fmk.8,000 million.

²Equivalent to approximately Fmk.41,600 million.

consumption of timber had equalled, and in some recent years exceeded, the natural growth of timber resources. This set a definite limit to a further expansion of export earnings through increased exports of round and sawn timber, traditionally important export items. Consequently, a major effort had been made by Finland in recent years to encourage the expansion of wood-processing industries, such as the pulp and paper industry. While there existed a ready market at present for most of these products and while long-range prospects for these industries were good, actual export earnings in any given year depended, of course, to a very large extent, on business conditions abroad. It had to be noted that the market for pulp had recently weakened and although the industry was fairly optimistic a slump in the pulp and paper market, such as had been experienced in the late 1950's would, of course, significantly reduce Finland's export earnings and the benefit which the industry was expecting to derive from its investment. All long-term estimates, however, seemed to indicate that future marketing prospects for pulp and paper were good, and thus the additions to the productive capacity of that industry, which between 1961 and 1965 would amount to about 1,200,000 tons for paper and board and to some 900,000 tons for pulp, could be expected to add significantly to Finland's export earning capacity.

12. In order to diversify the economy and to provide a broader base for exports, the Government had encouraged investment also in other lines of industry, for example the engineering industries. Investment in these industries had also been spurred by the necessity to improve, through increased efficiency, the competitive position of Finnish industries, required in connexion with the movement towards regional economic integration in Europe. While Finland had, of course, special experience in the manufacture and export of such products as pulp and paper making machinery, some progress had also been made in recent years in exporting such items as durable consumer goods, in some of which production had only recently become established in Finland.

13. Commenting on the outlook for Finland of increasing its export earnings, members of the Committee felt that, on the whole, prospects for further increasing exports appeared favourable, particularly in the long term. Similarly, despite some elements of uncertainty concerning the future development of the country's balance of payments, the outlook for maintaining and increasing the level of foreign exchange reserves did, on the whole, not seem unfavourable. Although there had been a slight decline in overall foreign exchange reserves during the first half of 1961, the trade balance had not worsened appreciably, despite the measures for trade liberalization at the beginning of the year and despite continuing high levels of import demand in Finland. It was noted that total foreign exchange reserves continued to be equivalent to the value of about four months' imports. In these circumstances, it appeared that the attitude of the Finnish authorities toward import liberalization, reflected in the opening statement of the Finnish representative, might well be over-cautious. The hope was expressed that the Finnish authorities would again review their import policy for the coming year with a view to making further progress in import liberalization, in addition to the increase in 1962 global quotas which was at present envisaged.

14. The representative of Finland stated that although it had been possible to maintain gold and foreign exchange reserves fairly steady, the level of these reserves had to be considered as rather modest, particularly when compared with the level of reserves of most Western European countries. Also, it had to be remembered that Finland did not enjoy the same facilities of access to capital markets as most other European countries. Finland had every intention of liberalizing imports with any improvements in its balance-of-payments position, but there seemed little prospect that more far-reaching liberalization could be put into effect until it was possible to see more clearly the future development of trade which might result from economic integration in Western Europe. However, this did not mean that the Government was not giving consideration to further measures of trade liberalization which it would adopt as soon as possible.

15. Members of the Committee pointed out in this context that although they appreciated that the Finnish authorities were concerned about the possible repercussions on Finland's export trade of present moves in Western Europe towards further integration, in practice, it appeared unlikely that these moves would have much of an immediate impact on Finland's export earning capacity. They expressed the hope, therefore, that the Finnish authorities would not on this account delay further liberalization.

Alternative measures to restore equilibrium

16. In discussion of measures taken during the past year by the Finnish authorities for limiting credit expansion, members of the Committee noted that despite calls for credit restraint by the monetary authorities, total credit extended to the private sector by commercial banks and by the Post Office Savings Bank, after rising by as much as 22 per cent in 1960, had further increased, albeit at a slower rate, in the first half of 1961. They enquired in this context about the possibilities open to the monetary authorities for effectively limiting credit expansion. The representative of Finland explained that although, theoretically, Central Bank influence on the money supply was limited by the lack of statutory authority to impose variable reserve requirements, there could be no doubt that effective credit control was being exercised by the Central Bank through informal arrangements with the commercial banks concerning the holding of cash reserves. However, in view of the low liquidity of the commercial banks, the most important means for influencing the level of credit in the economy had been the rediscount policy of the Bank of Finland. The Bank applied progressively increasing penalty rates when rediscounting bank loans, whenever the debt to the Bank of Finland of these individual banks exceeded a specified proportion of their own funds. In 1960 the rules governing the imposition of penalty rates were tightened and the progression in the penalty rates was increased. At the same time, bank liquidity was made more attractive by waiving penalty rates for banks showing a specified percentage increase in liquidity. The effectiveness of these penalty rates was assured by provisions which made it impossible for the banks to pass on to their clients the burden of the penalty rediscount rates. The result of these measures had been that deposits of rediscounted bills in the Bank of Finland, after showing a rapid rise in 1959 and the first half of 1960, had not significantly increased during the period September 1960 - August 1961.

17. In addition to measures designed to influence the volume of credit, the Central Bank, through the co-operation of the commercial banks, had also had some success in implementing selective credit controls so that credits had been channelled into productive investment. Among other things, these selective controls had also led to increased availabilities of export credits and had thus helped, without Government subsidization, to improve the competitiveness of Finnish exporting industries vis-à-vis exporters in other countries.

18. In discussion of Finnish budgetary policy in its effect on trade, members of the Committee noted that expenditure during the first seven months of 1961 had produced a small budget deficit, whereas in the corresponding period of 1960 there had been a surplus of Fmk. 8,400 million. The representative of Finland explained that the budget surplus in 1960 had primarily been the result of larger than expected tax receipts in that year. Estimates of tax revenue for 1961 had, on the other hand, taken full account of the continuing high level of economic activity and had been reflected in higher budgetary expenditure. While the Government was, of course, aware of the influence on demand of budgetary developments and tried accordingly to preserve some flexibility in its fiscal policy, it was to be noted that a very large proportion of the Finnish budget covered expenditure, such as that for social services and for the maintenance of employment, which were fixed by legislation.

19. With respect to Government measures for the encouragement of personal savings as an anti-inflationary measure, the representative of Finland explained that there appeared to be little scope for further increases in private savings, since the per capita savings rate in Finland was already among the highest in the world, and there were already substantial fiscal incentives to promote savings. In response to a question on measures the Government might wish to take for encouraging industrial productivity, the representative of Finland stated that at present the Government did not consider the introduction of any direct measures for this purpose. The Government had, however, recognized the great importance of increasing productivity, especially in a period of rising wages, and had encouraged productive investment. Import controls had for example always been administered, even during times of very acute shortages of foreign exchange, in a way which would permit the importation of machinery and equipment on as liberal a basis as possible. Also, tax measures, in general, took account of the desirability of encouraging investment in productive equipment. As a result, productivity increases registered by Finnish industries were, on the whole, satisfactory and, in general, not below those achieved in other European countries.

System and methods of restriction

20. Members of the Committee welcomed the considerable progress which had been made by Finland since the time of the last consultation in reducing restrictions and discrimination and in streamlining import procedures. They

expressed the hope that Finland would soon find it possible to further relax restrictions and to limit and eventually abolish discretionary import licensing. In clarification of a number of questions raised in regard to the administration of discretionary import licensing, the representative of Finland explained that importers, when applying for import licences, did not have to provide information regarding the availability of comparable domestically produced goods; however, for customs classification purposes, such information might sometimes be necessary and in the interest of the importer, as a lower rate of duty might thereby be obtained. With respect to the percentage of total imports effected at present under the various import categories, the representative of Finland stated that, on the basis of 1954 imports, 82 per cent of all imports from the "multilateral treatment area" were now liberalized. Of the remaining 18 per cent, about 12 per cent were admitted under global quotas, leaving approximately 6 per cent subject to discretionary licensing.

21. In response to specific questions on the operation of the licensing system, the representative of Finland explained that, following the streamlining of import procedures at the beginning of 1961, no distinction was being made between imports from countries included in the "multilateral treatment area". Thus, the same import treatment was granted to the groups of countries listed under points (i) to (iii) inclusive, of paragraph 4 of the secretariat document MGT(61)23. He also confirmed that with respect to goods admitted under global quotas, no distinction in import treatment was made between EFTA countries and other countries included in the multilateral treatment area.

22. Members of the Committee noted that, notwithstanding the progress made in liberalizing industrial imports, many agricultural products continued to be subject to import restrictions. They expressed the hope that the Finnish Government would give sympathetic consideration to the removal of these restrictions at an early date. The representative of Finland agreed with these members of the Committee that agricultural imports had not fully benefited from the recent measures of import liberalization. As in many other countries, agriculture posed particular problems in Finland, especially since agricultural production which was often carried on under very difficult conditions still provided the principal means of livelihood for about one third of the population. The Government had, however, set up a special committee to study the whole system of Finnish agricultural policy and a report was expected to be published in 1962. In response to a question relating to changes in the seasonal import controls imposed on apples and pears, the representative of Finland explained that imports continued to be admitted at a lower rate of duty during the period 10 December to 30 June inclusive. The representative of Finland explained that the duty concession on apples and pears imported from one of the EFTA countries was an integral part of the Finland-EFTA agreement.

23. The Committee welcomed the progress made by Finland in terminating bilateral payments agreements with Brazil, Israel and Spain at the end of 1960, and the willingness expressed by Finland to put trade on a fully multilateral basis, where this was still conducted at present under bilateral agreements. The Committee urged Finland to continue its efforts to terminate these agreements. In response to a question relating to the operation of the bilateral payments agreement with Colombia (one of the four remaining bilateral payments agreements in force with member countries of the IMF), the representative of Finland explained that this was not a bilateral payments agreement in the usual sense, since it provided only for bilateral clearing of balances arising in connexion with purchases of coffee. Colombia did not extend any special import facilities to Finland.

24. Commenting on the effects on trade of remaining bilateral agreements, including agreements with countries in Eastern Europe, members of the Committee noted that for certain products imports into Finland appeared to be almost entirely met through imports from countries with which Finland had bilateral trade agreements. Members of the Committee expressed the hope that the Finnish authorities would give early and sympathetic consideration to the export interest of countries trading with Finland on a multilateral basis, so as to enable those countries to share in the Finnish market for such products as wheat and sugar. The representative of Finland explained that import quotas for sugar and certain cereals had been established under bilateral agreements, mainly to permit traditional patterns of trade to be maintained. Imports of some quantities of wheat and sugar from countries other than bilateral agreement countries were, however, taking place. In response to another question, the representative of Finland explained that there were no bilateral quotas for meat.

Effects of the restrictions

25. The Committee welcomed a statement by the Finnish authorities that it was the general policy of the Finnish Government to proceed with the removal of all import restrictions as far as the balance-of-payments position permitted, and that with regard to imports still subject to discretionary licensing the authorities would continue to avoid undue protection and to stimulate competition.

General

26. The Committee expressed appreciation of the exhaustive and frank replies the Finnish delegation had provided throughout the consultation. The Committee welcomed the progress which had been made by Finland during the past year in removing restrictions, in increasing global quotas, in simplifying the control system and in reducing discrimination. Members of the Committee noted that although imports had continued to increase there had also been a substantial increase in Finnish exports, deficits on goods and services account had continued to be offset by the inflow of capital, mainly short-term capital, and there had been a rise in the net gold and foreign exchange reserves in the first half of 1961. More fundamentally, the growth of the economy had

continued at a satisfactory rate, and expansion of industries processing indigenous raw materials had begun to yield results. Members of the Committee noted with satisfaction that global quotas were to be increased in 1962 by at least 20 per cent, but also observed that reservation had been expressed regarding further liberalization. The Committee urged Finland, in the light of the factors mentioned above, to examine whether its policy with respect to further liberalization was not over-cautious. The Committee expressed the hope that Finland would soon make further progress in the removal of import restrictions and discrimination, including that arising from bilateralism.

27. The representative of Finland stated that his delegation would bring the views and suggestions which had been expressed during the consultation to the attention of his Government, which would no doubt give them careful consideration.

ANNEX

Opening Statement by the Representative of Finland

It has always been a pleasure to return to this Committee, particularly in those years when I have been able to tell the Committee of some significant progress made for the removal of restrictions. This year, I am meeting the Committee in the hope that the Committee will find that this has been one of the better years. At last we have succeeded in accomplishing some of the reforms which the Committee suggested last year - and earlier too.

But I shall revert to that a little later. To begin with, I should like, Mr. Chairman, to dwell a few moments on the background aspects of the Finnish economy against which our existing restrictive system must be viewed.

In most respects, the year which has elapsed since we met for the previous Consultations has been a good one in Finland. The boom conditions, which some observers a year ago feared to be faltering, have in fact continued, and in many sectors the apparent slowing down of expansion has been due more to the fact that "ceiling" of productive capacity has been reached than to any lack of internal or external demand. In other words, in many cases the shortage of skilled manpower and the full utilization of the existing capacity of the plants have decreased the rate of growth. But the result of this phenomenon is not only statistical - it also creates a danger of what we, in terms borrowed from engineers, call an "over-heating" of the boom - an upward creeping of wages and prices, creation of excess profits in some sectors, and other similar dangers to the monetary stability.

Let me quote a few figures which illustrate the strength of present boom conditions in Finland. The value of private investments in fixed assets in 1961 will rise by about 15 per cent as compared with 1960 and the increase in public fixed investments is estimated at 7 per cent. Moreover, it is expected that inventories will also increase. The disposable incomes of the consumers will rise by about 10 per cent, or about one percentage unit more than the national income. Because of the lags between income and spending, private consumption is expected to rise only by 8 to 9 per cent as compared with 1960.

During the current year, several large investments made, particularly by the woodprocessing industry, have "matured" and new capacity has thus come into use. It has been fortunate for us that the pulp and paper market has continued to be fairly strong, and its new production has so far immediately found markets. This is reflected in Finland's export earnings; exports for 1961 are expected to be nearly 10 per cent above the 1960 level. Paper industry products show a larger increase than the average and rise by more than 15 per cent.

The expansion of export earnings has not, however, been as large as the continuing boom in imports. You may recall that at the time of our last Consultations the deterioration of the trade balance was the most significant adverse change in Finland's balance of payments. It was then hoped, and even expected, that imports would fairly quickly start to level off. While their rise this year has not been as impressive as in 1960, it still has been very strong, and it is estimated that for 1961 as a whole the import bill will be about 10 per cent larger than in 1960. As no major changes appear to have taken place in invisible transactions, we are coping this year with a balance-of-payments deficit on current account which will be even slightly larger than the 1960 deficit of Fmks. 12 billion.

For the second year in succession, Finland is thus running a sizeable deficit on current account. In 1960, this deficit was offset by capital movements - mostly by inflow of short-term capital - and the foreign exchange reserve position of the country as a whole did not change appreciably. This year, the situation is not so clear. From available statistics, the following picture can be drawn. While the current account deficit for the first half of 1961 was Fmks. 31 billion, or Fmks. 2 billion more than in the corresponding period of 1960, the net foreign exchange reserves of the Bank of Finland have actually increased by some 6 billion markkas in the first six months of the year. Thus, various capital movements have been more than sufficient to offset the deficit. Part of this is explained by drawings on long-term credits (which here include also suppliers' credit); these exceeded repayments by as much as Fmks. 9 billion in the first half of this year. The major part of the gap has, however, been financed by using various kinds of short-term credit accommodation. The traditional forms of such credit in Finland are export advances and importers' commercial credits, both of which have increased significantly. Moreover, as a new phenomenon, the rest of the banking system has sharply increased its short-term liabilities abroad, with the result that the net foreign exchange position of other banks deteriorated by as much as Fmks. 10 billion in the first half of 1961. In past years, the traditional tightness of the Finnish money market has kept the net foreign exchange holdings of the banking system regularly at a very low level; in the present situation, however, they have indeed become negative.

For a considerable length of time, Finland thus has been able to balance its foreign accounts mainly through inflow of foreign short-term capital. This need not be unhealthy, in the short run, and it has given us breathing space to continue to counteract the internal demand pressures through a high level of imports, while awaiting the completion of important capacity-increasing investments in the export industries. I would not hazard a prophesy as to what the future holds in store, but clearly there is reason for concern for the Finnish authorities in the present situation. It is not impossible that the official foreign exchange holdings may in due course be subjected to larger pressures than so far has been the case. In the third quarter of 1961, for instance, the Bank of Finland reserves have shown a slight but regular decline, instead of the normal seasonal increase. Moreover, the present business cycle picture is not fully

comforting. The rise in exports is slowing down and running at present at some 4 per cent compared with the last year, and there is some softness in the pulp market in Europe. On the internal side, private consumption demand, which always lags behind the rise in incomes, is expected to increase significantly in 1962.

One sign of the concern of the authorities regarding the foreign exchange situation is the recent measure of the Bank of Finland, announced less than a month ago, limiting to six months the length of importers' commercial credits which may be contracted freely without advance permission of the Bank of Finland. The previous limit had been one year.

The restrictive system

It is against this background that our efforts since the last Consultations to simplify and to liberalize further our restrictive system should be considered. The details of these measures are given in the Basic Document submitted to you.

The major innovation of the year has been the general "streamlining" of our import system which took place on 1 January 1961. The area covered by the "multilateral import treatment" - that is, licence-free imports and imports under global quotas - was enlarged to cover almost all countries of the world with which Finland has no bilateral payments agreement. At present, over 80 countries are enjoying this treatment. This removed many of the complexities of the import system which the members of the Committee had commented upon in previous Consultations, in particular the special automatic licensing lists for sterling and dollar areas which clearly had not much *raison d'être* in a world of convertible currencies.

The second major improvement has been the fact that global quotas for 1961 have been raised by as much as 25 per cent above the 1960 level. This development has partly been due to our association with the EFTA, but the raises in quotas caused by this association are applied to the entire multilateral import treatment area.

Thirdly, we have had further success in eliminating our remaining bilateral payments agreements with members of the International Monetary Fund. Since our last Consultations, agreements with Brazil, Israel and Spain were terminated at the end of 1960. Thus Finland now has bilateral payments agreements - apart from the Eastern group - only with four countries: Colombia, Yugoslavia, Greece and Turkey. And, even in the latter two cases the agreements contain provisions for automatic conversion of balances at regular intervals. In each of these cases, Finland has announced its willingness to change payments to a fully multilateral basis.

Finally, important modifications of the foreign exchange regulations of the Bank of Finland have taken place during the year. Some of these measures, which are listed in the Basic Document and in the Background Paper transmitted by the Fund, were the result of Finland's association with the

EFTA, but they are applied without discrimination to all countries of the world. In Article 5 of the Finland-EFTA Agreement we have undertaken certain obligations regarding the liberalization of invisible and capital transactions, and we have every intention of fulfilling them.

Mr. Chairman, I hope that you and members of the Committee would agree with our view that Finland has during the last year made - considering the circumstances - a reasonable effort towards the elimination of the remaining import and foreign exchange restrictions. This is what we have so far achieved, and we intend to maintain a steady course in the same direction. At this stage - taking into account the fact that the present situation in Western Europe, as regards commercial policy, is fairly uncertain - no additional liberalization as such is being contemplated, although possibilities for further advances are being considered. On the other hand, however, we are going to increase next year's global quotas by at least 20 per cent over their present level. This conforms to the Finnish Government's announced intention of gradually enlarging the global quotas and removing various quotas from the system of quantitative restrictions as these quotas become fully sufficient to meet the demand.