

GENERAL AGREEMENT ON TARIFFS AND TRADE

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COUNCIL

TRADE POLICY REVIEW MECHANISM

FINLAND

Report by the Secretariat

Addendum

I. Overview

1. Since the publication of the Secretariat's report on Finland (C/RM/S/20A and B), three major developments have affected the Finnish economy. The first was the dissolution of the Soviet Union and consequent changes in the trade relations between Finland and the new Commonwealth of Independent States. A new trade agreement with the Russian Federation, replacing that with the Soviet Union, was signed on 20 January 1992. Both parties agreed to refrain from introducing any new customs duties or altering import charges. Revised rules of origin were to be drafted within three months. Trade may be conducted in freely convertible currencies or on the basis of counter-trade.

2. New trade and cooperation agreements have also been established between Finland and the Baltic States.

3. The second development was the floating, and subsequent depreciation, of the Finnish markka in November 1991. Interest rates in Finland began to rise towards the end of September, as uncertainty grew regarding the comprehensive wage settlements, seen as crucial to maintaining Finland's external competitiveness and the established nominal value of the markka. On 14 November 1991, the Bank of Finland unpegged the markka from the ECU, to which it had been linked in June. This action was taken after huge capital outflows had forced up short-term interest rates to nearly 30 per cent. Subsequently the fluctuation range was raised, lowering the value of the markka vis-à-vis the ECU by 12.3 per cent. New upper and lower limits of FIM 5.39166 to FIM 5.72516 to the ECU were established. Under the circumstances, the wage settlement required renegotiation; on 29 November 1991, a comprehensive income policy settlement was reached freezing nominal wages for one year.

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4. The third major element effecting Finland's future political and economic orientation is the conclusion of the European Economic Area agreement and developments stemming from it. In his speech at the opening of Parliament in February 1992, President Koivisto expressed the view that Finland should apply for full membership of the European Communities. The Government intends to follow a rapid timetable in this regard.

II. Recent Economic Developments

5. The 1991 recession in Finland proved more severe than suggested in Chapter I of the Secretariat report. Real GDP fell by 6 per cent. The volume of exports shrank by 8 per cent and that of imports by 17 per cent, imports from the Soviet Union dropping by 27 per cent. The merchandise trade surplus grew and the current account deficit narrowed slightly.

6. The official outlook published by the Ministry of Finance in February 1992 expects a mild, export-led, recovery to begin towards the end of the year. Key determinants are an improvement in Finland's competitiveness which is expected to result from the devaluation and wage freeze; and a cyclical upturn in OECD economies in the second half of the year. The volume of exports is projected to increase by 6 per cent. At the same time, domestic private consumption and investment are expected to fall markedly (by 4 and 10 per cent respectively). Severe financial constraints remain on more rapid economic growth; the Government's financial deficit has increased, and its debt burden is growing with higher interest rates; and unemployment is growing, despite a decline in the overall supply of labour. The unemployment problem is particularly severe among young people where it has reached 20 per cent.

III. Developments in Trade Policies

7. Apart from Finland's announcement of its intention to seek full membership of the European Communities and the new trade agreements with the Russian Federation and the Baltic States, mentioned above, other changes in trade measures known to the Secretariat include the renegotiation of MFA agreements with Hong Kong, Macau, the Republic of Korea and China. The agreement with Korea is valid for a three-year period, starting from 1 January 1992; the agreements with the other three trading partners are valid for two years. Under the new agreements with Hong Kong and Macau, growth rates have been increased and restraints on some product categories removed.

8. A footnote should be added to paragraph 231. A recent notification to the Committee on Technical Barriers to Trade (TBT/Notif.91.303), states that the Ministry of Agriculture and Forestry has reduced the limit of cadmium in fertilizers to 50 mg/kg from 100 mg/kg of phosphorus. This regulation will enter into force on 1 December 1992.