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 prepared by the secretariat; and (b) a document provided by the International Monetary Fund. In conducting the consultation, the Committee followed the "plan" recommended by the CONTRACTING PARTIES. The consultation was completed on 9 July 1959. 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. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results and background material from its last 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. This statement was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from the last consultation with Finland under Article XIV of the Fund Agreement, which consultation was concluded on June 25, 1959.

"With respect to Part I of the Plan for Consultations, relating to balance-of-payments position and prospects, and also with respect to Part III, relating to system and methods of the restrictions, the Fund draws the attention of the CONTRACTING PARTIES to the results of its 1958 consultation with Finland under Article XIV of the Fund Agreement and particularly to paragraph 4, which reads as follows:

1 See Annex II."
4. The Fund welcomes the introduction of non-resident convertibility by Finland, the strengthening of the balance of payments and of the reserve position, and the measures taken to reduce restrictions and the level of discrimination. The Fund urges Finland to take further steps which would progressively remove restrictions and eliminate discrimination, including those arising from bilateralism.

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

Opening Statement by the Finnish Representative

3. The full text of the opening statement of the representative of Finland is attached to this report as Annex I. The following is a brief summary of the statement:

4. The devaluation of the currency of Finland in September 1957 permitted considerable liberalization of the quantitative restrictions. This action had a healthy effect on the economy and helped induce domestic industries to increase their productivity and to improve the quality of their products. The risks undertaken when the liberalization measures were introduced had been well justified. On the other hand, increased competition from external sources as a result of liberalization, contributed to a further decline in production, particularly of industries supplying the domestic market. The uncertain external market prospects and the relatively large stocks of raw materials in the wood processing industries, aggravated the situation with the result that unemployment reached 7 per cent of the labour force in March 1959.

5. There had been a modest economic revival since the end of 1958, mainly in the sales and inventories of consumer goods. This upward trend was expected to strengthen. A substantial increase in exports was unlikely during 1959. Measures undertaken to increase economic activity had been directed mainly towards stimulating investment.

6. At the same time, efforts had been made to develop the capital market in Finland through emissions of long-term bond loans. Some new foreign capital had also been channelled to the urgent development needs of the wood processing industry, particularly the $37 million loan from the World Bank, which Finland obtained in March 1959 and which would contribute to an important expansion in the export capacity of the pulp and paper industry.
7. As a result of devaluation, the competitive position of Finnish exports lessened the effect of the generally weakened foreign demand. At the same time, lower domestic demand led to a substantial decrease of the volume of imports. The result was an export surplus in 1958.

8. The representative of Finland informed the Committee that the revival in economic activity which had taken place since the end of 1958, had not yet been felt in foreign trade and in the balance of payments. Although foreign exchange reserves had continued to increase, they corresponded only to about three months' imports. It was anticipated that the increasing domestic economic activity would further subject the reserves to some strain. The weakening terms of trade and the increased marginal imports, caused by an expected rise during 1959 in the gross national product, would be sufficient to remove the surplus of 1958 in foreign trade.

9. The representative of Finland agreed that with the introduction of non-resident convertibility, the technical differences between imports from the dollar area and from countries which introduced non-resident convertibility had disappeared. He emphasized, however, the necessity of proceeding with caution in the removal of the remaining restrictions. Dollar imports were now excluded from only seven of the thirty-two global quotas, and liberal licensing procedures for dollar imports had been introduced. This de facto liberalization, together with the earlier automatic licensing, now covered about 73 per cent of Finnish imports from the dollar area calculated on the basis of 1954 imports.

10. In concluding his statement, the representative for Finland assured the Committee that it was the intention of the Finnish Government to proceed, as far as circumstances and reserves permitted, with the gradual removal of remaining restrictions from all sources.

Balance-of-Payments Situation and Prospects

11. The Committee expressed appreciation for the very clear and frank statement made by the representative of Finland and particularly welcomed the reaffirmation of a policy directed towards the removal of remaining import restrictions. Several members of the Committee expressed admiration for the way in which many of the serious post-war difficulties faced by Finland had been approached and largely overcome. Members felt that the relatively favourable position enjoyed by Finland in 1959 indicated the wisdom and success of the policies followed by the Finnish Government since devaluation. These policies had been responsible to a great extent for the improved competitive position of Finland in world markets, the rise in Finland's foreign exchange reserves and the external convertibility of Finnish currency.

12. The view was expressed that the Government of Finland was perhaps being over-cautious in its approach to the relaxation of restrictions and reduction of discrimination. In the light of the opening statement of the Finnish representative and of the experience of other countries, it did not appear
that the removal of dollar restrictions would in fact result in an inordinate inflow of imports. The representative of Finland stated that it was difficult to make such an analysis in the case of Finland, since present internal demand was not considered to be at a normal level and the amount of pent-up demand for dollar goods could not be easily assessed. The Government of Finland realized that liberalization would generally exert a favourable downward pressure on the price level, but its overall effects on the economy would be uncertain. It was the policy of the Finnish Government to apply as liberal measures as possible in that sector of dollar imports which remained subject to restriction. As an indication of this liberal licensing policy, the Committee was informed that no applications for licences covering the importation of dollar investment goods has been refused this year.

13. Members of the Committee noted that in spite of the world economic recession, the level of activity in Finnish export industries appeared to have been well maintained while at the same time the level of activity in industries supplying the domestic market had decreased. Invited to comment on the relationship between the devaluation and these phenomena, the representative of Finland informed the Committee that home market industries such as the building industries suffered partly because accumulated post-war demand had been partially satisfied. The building industry was also affected by the relaxation of rent controls. This situation had still a greater effect on the economy since its introduction was coincidental with devaluation. Home market industries had also been affected by the strict monetary and fiscal policies which had to be applied in order to combat the inflationary pressures and by the increased competition from imports as a result of the liberalization measures introduced in 1957.

14. The representative of Finland added, however, that the general position was improving. In June 1959, the overall unemployment figure was lower than in June 1958. However, from the point of view of foreign trade, the prices for Finland's most important exports, pulp and paper, had been decreasing in 1959 while on the other hand there was some indication of a firming of import prices.

15. In discussing the balance-of-payments prospects, the representative of Finland drew the attention of the Committee to the fact that the surplus on current account realized in 1958 amounted to less than 5 per cent of total turnover. Taking into consideration the expected increase in import prices and volume and the unlikely increase in exchange earnings, this small surplus could be easily eliminated. The representative of Finland referred to the liberalization of invisible transactions in the spring of 1959 which would also have to be taken into consideration in any examination of Finland's balance of payments since it would undoubtedly involve additional outlays of foreign exchange.
16. As regards Finland's trade with Eastern European countries, the representative of Finland stated that, as was normal for bilateral agreements, its trade with Eastern European countries was supposed to be in balance, and that many of the products exported by Finland to these markets were those which would have difficulty in finding new markets in Western countries. These exports were therefore additional sales which perhaps would not otherwise have been made. In the opinion of the representative of Finland, the special structure of imports from the Eastern countries contributed considerably to making it possible for Finland to liberalize many manufactured goods. Under its current arrangements with the USSR, the latter paid Finland $10 million annually in convertible currencies which could be used for import payment to Western countries.

17. In response to a question on Finland's engineering industries, the representative for Finland informed the Committee that most of this production was at present sold to Eastern area countries. These products in many cases would experience considerable difficulty in gaining entry into markets of Western countries. However, approximately 25 per cent of the exports of these industries were now sold in Western markets which represented a considerable increase over previous years. Other products, such as machinery for the paper industry, also find an important internal market in Finland. The Finnish delegation explained to the Committee some of the measures now being taken to diversify export opportunities in Western markets.

18. Members of the Committee noted that with the introduction of external convertibility there remained no payments advantage in importing from one country rather than another. They wished to know the reasons why Finland would not take advantage of this by permitting importers to choose their sources of supply. The representative of Finland emphasized once again that it was the intention of his Government to advance towards full liberalization, but only as quickly as circumstances permitted. He advised that certain products had been placed on the liberal licensing list for importation from the dollar area on an experimental basis but since imports were still at an abnormally low level, this experiment could not be relied upon for an indication of true magnitude of import demand in more normal circumstances.

Internal Policies and Measures to Restore Equilibrium

19. On the subject of unemployment, the representative of Finland explained that there was both structural and cyclical unemployment. The climatic and agricultural conditions of Finland had contributed to serious structural unemployment. For instance motorization of the logging industry had increased productivity to the point where normal fellings now could be completed by about 20,000 less men. He fully agreed with the member of the Committee who felt that investment should be directed as far as possible to labour intensive industries. Finland's labour force was expected to increase by about 550,000 during the period 1956-1971.
20. A Committee member noted that a relatively large portion of the Finnish budget was directed towards relief work for the unemployed. He wondered what effect these short-term measures to assist the unemployed would have on the long-term expansion of the export industries. The representative of Finland informed the Committee that about 10 per cent of total budgetary expenditure was diverted towards relief work. The short-term measures to relieve unemployment were required by law and socially desirable but undoubtedly limited the resources that could be diverted to the long-term solution of the problem.

21. A member of the Committee noted that approximately 55 per cent of total savings in Finland was in the public sector and that more than half of these public savings was loaned to the private sector for housing and farms. Only small amounts had been allocated for investment in export industries. The representative of Finland informed the Committee that the high domestic investment in farms was primarily for social reasons and was not directed towards increasing agricultural exports. He pointed out that the relatively small proportion of Government loans made available to export industries had been largely a question of limited resources. On the other hand, the export levy introduced at the time of devaluation to help curb inflation had resulted in the accumulation of considerable funds in the Bank of Finland. Of these Funds amounting to Fmk.18 billion, some Fmk.8 billion were earmarked for loans for investment in industry. The granting of these loans would not show up statistically until complete 1959 figures were available.

22. In response to various questions, the representative of Finland explained that the present expansion was for the most part limited to the consumer goods sector. Internal consumption demand had been higher in March and April 1959 compared with the corresponding months in 1958 and industrial production had risen by 4 per cent, comprising an increase of 6 per cent in consumption goods and a decrease by 2 per cent in capital goods. As mentioned above, export industries had not yet experienced any significant improvement. Although Finland had sufficient labour and raw material resources, capital resources were definitely limited. It was a matter of spreading the limited available capital thinly throughout the economy and achieving a slower rate of expansion or of increasing foreign capital inflow. There had been very little capital inflow during the past two years and there was little evidence of any important increase during 1959 although the considerable liberalization by the Bank of Finland on the regulations on foreign short-term capital and purchases of shares and bonds was expected to have a favourable effect. It was the hope of the Government that any expansion of investment would be concentrated where there were economic possibilities for increased production.

23. In answer to a question, the representative of Finland explained that the loan recently obtained from the International Bank for Reconstruction and Development was related to nine specific wood processing projects. The loan would be utilized for purchases within the requirements of these projects, but without limitation as to the sources of supply; the purchases would be made on the basis of competitive international bidding. It was anticipated that the initial investment of the World Bank loan of $37 million would eventually result in a $50-60 million annual increase in net export earnings.
in convertible currencies. By domestic and other investments, annual convertible earnings were expected to be raised by a total of $100 million. The representative of Finland emphasized that it was the policy of his Government to direct investment as much as possible towards the forest products industries which were fairly competitive in world markets. His Government had great confidence in the long-run prospects for the pulp and paper industry.

System and Methods of the Restrictions

24. The Committee discussed in some detail the import licensing system of Finland. In response to specific questions, the representative of Finland advised that while certain textile products were still completely restricted or subject to global quotas, the greater number were included in the free list or subject to automatic licensing. During 1958, demands for textiles contracted in Finland, as did the overall demand. The figures for January-April 1959, however, indicated that the demand was again increasing.

25. The representative of Finland replied to a number of questions on import licensing. He advised that liberal licences were granted forthwith and without limitation although applications could only be made by importers who were normally dealing with the product concerned. Liberal licensing was also applied to certain imports from the dollar area.

26. A Committee member enquired about the position of imports from countries such as Japan which had not signed the Helsinki Protocol, were not members of the sterling or dollar areas, had no bilateral agreements, but were members of the General Agreement. The representative for Finland replied that trade with such countries represents a very small portion of total Finnish foreign trade. He explained that Finnish Law required that free list treatment be granted only to countries which applied liberalization to Finnish exports, and therefore the free list treatment could not be applied to Japanese products. The Finnish Government had nevertheless attempted to treat imports from Japan, which were subject to discretionary licensing, as liberally as possible within the requirements of the law. For 1959, exchange allocations for imports from Japan were being granted at the rate of $1.7 million which represented an increase of 40 per cent over the imports in 1958. The representative of Finland felt that the actual treatment accorded imports from Japan had not been as restrictive as the formal situation would seem to indicate since in actual practice, licensing had been liberal. However, he assured the Japanese representative that the remarks made by the latter would be brought to the attention of his Government to be considered in the light of its general aim of removing restrictions on imports from all sources, and thought that it might be useful if an exchange of views on this question could take place between Finnish and Japanese authorities.
27. Committee members representing dollar-area countries sought information on the area of discrimination against dollar-area imports which still existed in the Finnish import control system. The representative of Finland confirmed that all imports from the dollar area were subject to licence, and that a difference existed between the lists of goods from different areas granted automatic licensing treatment. He referred to this earlier statement that, in addition to the earlier automatic licensing, the liberal licensing system was now applied to many dollar-area goods, and that twenty-five out of thirty-two global quotas were now open on a non-discriminatory basis from Helsinki Club and dollar-area countries. Other dollar-area goods were still subject to discretionary licensing. The representatives of dollar-area countries expressed the hope that the intention of the Finnish Government to remove all discrimination applied equally to the dollar area. It was felt by these members that any licensing requirement presented an obstacle to trade. In addition, it was noted that the charging of licensing fees represented an additional element of discrimination against countries whose exports were subject to the licensing requirement while similar imports from other countries were admitted licence-free.

28. In reply to questions on the issue of discretionary licences, the representative for Finland advised that the availability of particular currencies for payment of imports had become a lesser consideration since the introduction of external convertibility. Currency considerations had to be taken into account, however, as far as imports into Finland under bilateral arrangements were concerned. As of 1 July 1959, the rules governing the prescription of currency had been liberalized with the result that all imports from convertible currency countries could be paid for in any of those currencies.

29. The representative of Finland agreed with members of the Committee that bilateral arrangements in many cases affected the exports of third countries. In this connexion the Committee noted that some exports particularly affected included certain primary commodities such as wheat and sugar.

Effects of the Restrictions

30. A Committee member recalled that during the consultation with Finland in 1957, the Committee had been informed that it was the policy of the Finnish Government to issue licences where excessive protectionism was encountered. The representative of Finland advised that this factor was still taken into consideration in the issue of licences. Where the corresponding domestic prices were out of line with world prices, licences were in many cases granted for goods which normally would not be imported.
General

31. The Committee expressed appreciation for the efficient spirit and clear manner in which the representative of Finland participated in the consultation. The hope was expressed that the internal and external problems facing Finland would be overcome thus enabling Finland to make further headway towards a more stable economic position. Members of the Committee expressed the hope that as moves towards liberalization were made and in the light of external convertibility, Finland would seriously consider the reduction of the discriminatory elements in its import restrictions. The representative for Finland expressed his thanks for the free and friendly interchange of ideas which had taken place in the Committee and which had given his delegation an opportunity of explaining to the Committee Finland's position.

Annexes

I. Opening statement by the representative of Finland.

II. Results of the latest consultation between the International Monetary Fund and Finland.
1. The Committee will remember that when Finland last consulted with the CONTRACTING PARTIES under Article XII:4(b), in October 1957, we did so in quite exceptional circumstances. In September 1957, with the concurrence of the IMF, Finland had changed the per value of its currency from Fmk 230 to Fmk 320 per U.S. dollar. In preparation for this devaluation, restrictive fiscal and monetary measures had been adopted. The devaluation permitted Finland to ease, to a considerable extent, the quantitative restrictions on imports which in the postwar period had sheltered domestic industries and, undoubtedly, promoted some uneconomic production.

2. These measures were put in force only some weeks before the last consultation with Finland, which accounts for the fact that, in the consultations, the Committee and ourselves were faced with difficulties in forming a clear picture of the situation. Today, we certainly are in a better position in this respect. If I may quote my own words in the last consultation, I said that the liberalization was a kind of "calculated risk". Today, I think, we may say that the risk was well worth taking.

3. The liberalization of imports in the fall of 1957 certainly had in many respects a healthy effect on the Finnish economy and induced the domestic industries to increase their productivity and to improve the quality of their products. One must, however, remember that the industry had to meet increasing competition in circumstances of slackening economic activity. There was a 1 per cent reduction in the real gross national product in 1958. The decline in production was most severe in industries producing for the domestic market - partly as a result of increased foreign competition after imports were liberalized - and in building activity. In export industries, the devaluation helped to maintain production, even to increase it in some cases, but the uncertain market prospects and relatively large stocks of raw materials made the woodprocessing industries cautious in their purchases of raw materials. This reduced activity in the forests and was reflected immediately in unemployment figures. The peak of unemployment was reached in March 1959 at slightly less than 100,000 (or 7 per cent of the labour force), compared with 78,000 at the same time last year.

4. Despite the large unemployment in the first months of this year, there are, since the end of 1958, some signs that production is again increasing. This modest revival has so far been concentrated in the sales and inventories of consumer goods, but we hope that it will be strengthened as the result of the new policies adopted since the middle of the year 1958 to reflate the economy. In the past, the factors which led to an expansion of production in Finland were usually of external origin, whereas in the present market situation any substantial increase in exports is unlikely in 1959. Therefore the measures which have been taken
to increase economic activity have been aimed mainly at stimulating investment. Credit policy has been relaxed, rediscounting terms have been eased, interest rates lowered and financing of investment has been provided by the Government in the form of loans from the proceeds of the export levy which was introduced in connection with the devaluation and was, after several decreases in the rates, abolished altogether in September 1958.

5. At the same time, efforts have been made to develop the capital market in Finland through emissions of long-term bond loans. Some new foreign capital has also been channeled to the urgent development needs of the wood-processing industry, particularly the $37 million loan from the World Bank, which Finland obtained in March 1959 and which will contribute to an important expansion in the export capacity of the pulp and paper industry.

6. An important factor in creating an atmosphere in which an orderly economic expansion is possible has been the striking change in the general pattern of the labour market; the automatic linking of wages to the cost of living index, which had been in force since 1942, was discontinued by the end of 1958. Similarly, the use of index clauses in the capital market, which, although it had encouraged bank deposits, had created a factor of uncertainty in the calculations of investors, has lately been diminishing.

7. The devaluation improved the competitive position of Finnish exporters and made it possible to regain some of the export markets that had been temporarily lost. Thus, despite the general weakening of foreign demand, the volume of exports was only about 2 per cent lower in 1958 than in 1957. On the other hand lower domestic demand, result of slackening activity, led to a substantial reduction in imports. The volume of imports declined by 11 per cent as from 1957, the largest reduction being in raw materials and fuel. As a result, there was an export surplus of $46.0 million in 1958, compared with an import surplus of $65.2 million in 1957.

8. The balance of payments on goods and services showed a surplus of $13.3 million in 1957. A substantial part of the surplus was, however, with countries with which Finland has bilateral payments arrangements. This development was reflected in the gold and net foreign exchange assets of the Bank of Finland; here again, however, over half of the total increase of $67.2 million consisted of non-transferable clearing currencies. A classification of the net foreign exchange reserves by currencies shows that, at the end of 1958, $132.8 million of the net reserves was in gold and externally convertible currencies, compared with $94.8 million at the time of the devaluation. Thus of the $107.9 million increase in reserves from September 1957 to the end of 1958, only $38.0 million consisted of gold and externally convertible currencies.
9. In this connection, I should like to recall that also Finland introduced non-resident convertibility in December 1958.

10. As I mentioned before, the decline in economic activity had levelled off towards the end of 1958 and there has actually been some increase, notably in the production of consumer goods. This beginning of an upward trend, the strength of which it is difficult to forecast, has not yet been felt in foreign trade and in balance-of-payments. The foreign exchange reserves have continued to increase, and rose by about $19 million in the first five months of 1959. It seems to us, however, that to look only at the actual figures of Finnish foreign trade and of exchange reserves gives a too optimistic picture of the situation and of the Finnish possibilities to enlarge liberalization. The exchange reserves, which correspond to about 3 months' imports at their actual low rate, do not yet compare favourably with the reserves of most European countries which introduced non-resident convertibility. The increasing domestic economic activity will undoubtedly, toward the end of the year, put these reserves under some strain. It is calculated that the somewhat weakening terms of trade together with the increase in marginal imports caused by an increase of 2-3 per cent in gross national product during this year, already is sufficient to eliminate the surplus of 1958 in foreign trade. On the other hand, one of the main aims of the devaluation was the strengthening of Finland's external liquidity. Consequently, when preparing to meet a period of higher activity, we should not take measures that could endanger the actual level of our reserves. In this connection I may mention that the recent large-scale liberalization of invisibles is a factor which also must be taken into account.

11. This also concerns the treatment accorded to imports from the dollar area. I completely agree that from a technical point of view there should be no difference between dollar imports and imports from countries that introduced non-resident convertibility. We feel, however, that we should proceed cautiously also in this respect. Immediate action certainly might be costly and we consider gradual measures more appropriate. In April 1959, the dollar allocations within the global quotas were enlarged. Dollar imports now are excluded only from seven of the thirty-two global quotas. At the same time, the liberal licensing procedure for dollar imports was considerably extended. About 500 new tariff items were included in the liberal licensing procedure. This de facto liberalization together with the earlier automatic licensing now covers about 73 per cent of Finnish imports from the dollar area calculated on the basis of 1954. It will be recalled that the corresponding figure for Helsinki-Club countries is about 82 per cent. Thus the progress in the removal of restrictions on dollar imports is in our opinion a good achievement.

12. I would like to conclude by saying that it is the intention of the Finnish Government to proceed, as far as circumstances and our reserves permit, with the removal of the remaining restrictions on imports from all sources. For the reasons I have tried to explain in my statement, we feel bound to proceed gradually. I hope that this position will be understood and accepted by the Committee.
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 Finnish markka was devalued in September 1957 and measures were taken in the fiscal and credit spheres to obtain the maximum benefits from this action. Despite reduced demand on world markets, Finland was able to maintain its 1958 exports to the western countries at approximately the same level as in 1957. Imports in 1958 fell, as a result of internal stabilization (to which repayments of debts to the central bank from the export levy greatly contributed) and lower import prices. The balance of payments on goods and services account showed a substantial surplus in 1958 which, coupled with a significant capital inflow, resulted in a large increase in monetary reserves.

3. In 1958 production fell off in some sectors and unemployment increased. In the course of 1958 various fiscal and monetary measures were taken aimed at creating conditions conducive to a sound expansion of the national product, and toward the end of the year production started to recover. Prices have remained stable since the spring of 1958. As a result of the increase in foreign exchange reserves, together with larger domestic savings, there was a substantial easing of the money market in 1958. Although this did not affect internal stability in that year, it might do so under conditions of expanding demand. Since the budget may also be an expansionary factor in 1959 there is a need to strengthen the monetary policy instruments of the Bank of Finland.

4. The Fund welcomes the introduction of non-resident convertibility by Finland, the strengthening of the balance of payments and of the reserve position, and the measures taken to reduce restrictions and the level of discrimination. The Fund urges Finland to take further steps which would progressively remove restrictions and eliminate discrimination, including those arising from bilateralism.

5. In concluding the 1958 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Finland.