CONSULTATIONS UNDER ARTICLE XII:4(b)

Draft Report on the Consultation with Finland

Introduction

1. In accordance with the Decision taken at the plenary meeting of the CONTRACTING PARTIES on 17 November 1956, the Consultations Committee has conducted the consultation with Finland under paragraph 4(b) of Article XII.

In accordance with the Decision taken by the Intersessional Committee at its meeting of 24-27 April 1957, the Consultations Committee has also conducted the consultation with Finland under paragraph 4(b) of Article XII concerning the intensification of import restrictions which occurred in Finland early in 1957.

The Committee had before it:

(a) a basic document (MGT/70/57) prepared by the secretariat in collaboration with the Finnish authorities, describing the system and methods of the balance-of-payments import restrictions in operation in Finland. The document also contains a statement under Part II - "Effects on Trade" - submitted by the Finnish authorities;

(b) a document (L/697) incorporating a statement received from the Government of Finland on 23 September 1957 concerning the modifications of the restrictions applied by Finland;

(c) documents provided by the International Monetary Fund.

All these documents should be regarded as supplementary material to be annexed to this report.

2. In conducting the consultation the Committee followed the plan recommended by the CONTRACTING PARTIES for this series of consultations and the plan previously adopted by the CONTRACTING PARTIES for consultations with countries which intensify their restrictions substantially.

This report summarizes the main points of the discussion during the consultation.

MGT/113/57
Consultation with the International Monetary Fund

3. Pursuant to the provisions of paragraph 2 of Article XV of the General Agreement, the CONTRACTING PARTIES invited the International Monetary Fund to consult with them in connexion with this consultation with Finland.

4. As part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results and background material from its recent consultation with Finland, concluded on 27 March 1957, and in addition provided a supplementary paper, dated 14 September 1957. The results of the Fund’s consultation with Finland are reproduced in document WC/17, dated 16 October 1957.

5. In accordance with the procedure agreed upon by the Consultations Committee, the representative of the Fund was invited to make a statement concerning the situation of Finland in order to supplement the Fund’s documentation. The statement was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its last consultation with Finland under Article XIV of the Fund Agreement, which consultation was concluded on 27 March 1957.

"As some time has elapsed since the conclusion of this consultation with Finland, the Fund has also provided a supplementary paper on Finland, dated 14 September 1957, to supply background information on subsequent developments in the internal situation, the balance of payments, and the restrictive system. This paper, together with the background material from the last consultation under Article XIV of the Fund Agreement, and the results of that consultation, have been distributed to the members of this Committee.

"With respect to Section I of the Plan for Consultations, relating to balance-of-payments position and prospects, and with respect to Section II of the Plan relating to alternative measures to restore equilibrium, on 15 September 1957, the International Monetary Fund concurred in a proposal by the Government of Finland to change the par value of the Finnish markka

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1 Document transmitted before the monetary devaluation.
from 230 to 320 markkas per one United States dollar. Finland is currently in the process of adjusting its restrictive system to this new situation. Since this process is not yet complete, no definitive judgment can be made at this time with respect to the appropriateness of the general level of restrictions of Finland in relation to its monetary reserves. The Fund will provide the CONTRACTING PARTIES with its judgment on the new situation when such a judgment becomes possible."

Opening statement by the representative of Finland

6. The full text of the opening statement of the representative of Finland is attached to this report as Annex I and is summarized in the following paragraphs.

7. In his statement, the representative of Finland submitted a few general comments on the latest development in the Finnish economic policy which had not been reported in the basic documents before the Committee.

8. In view of the measures recently introduced, it appeared to the Government of Finland that there was no longer any need for the Committee to discuss the intensification of quantitative restrictions in Finland, considering that instead of intensifying restrictions Finland had liberalized part of her foreign trade to a far greater extent than at any time after the war.

The representative of Finland recalled that when this intensification of import restrictions was made effective the Finnish Government had pointed out that this was a strictly temporary measure and that the intention was to revert to the liberalization of imports as soon as possible. To achieve this purpose several measures, both through financial policy and monetary policy, were necessary.

9. As to the monetary policy, the representative of Finland stressed that the Bank of Finland had continued its efforts to prevent an inflationary expansion of private bank credit. As a result, the monetary situation had been characterized by a decline in the money supply by about 12 per cent.
10. Public finances had been rather strained already at the beginning of this year. A broad stabilization programme had been introduced in March, to be followed by a supplementary budget in June and by an additional stabilization programme shortly thereafter. As a result of the measures thus taken the situation had considerably improved.

11. In August 1957 the Government had submitted to the Diet a Bill with a view to freezing part of the export income. The law in question, which had been passed by the Diet in a somewhat modified form, imposed a special tax on exports with a view to absorbing from 10 to 70 per cent of the increase in export revenue arising from the devaluation.

12. In view of the great obstacles which some important export articles were facing, and considering that to restrict imports by tight controls would have raised ever increasing difficulties because of the disparity that had emerged between internal and external prices, further decisions had been taken as follows: (a) on 15 September the Bank of Finland had changed the par value of the Finnish markka; (b) on the same date the President of the Republic had promulgated the law concerning the freezing of a part of the export income; and (c) on 16 September the Government of Finland had decided to liberalize imports to a large extent.

As to the last-mentioned decision, which would put an end to the period of controls which had lasted eighteen years and opened the road decisively for a liberal evolution, it had increased the average liberalization coefficient to 75 per cent. It was worth mentioning that the degree of liberalization for manufactured goods would reach 78 per cent, and this meant that manufactured goods were treated as liberally as possible, even at the cost of severe adaptation problems.

The Finnish representative further indicated that liberalization was to be applied to imports from those countries not including the dollar area that had: (a) liberalized Finnish commodities from quantitative restrictions, i.e., granted Finland OECD free-list treatment; and (b) whose reciprocal currency convertibility included Finland.
The Finnish Government had undertaken such extensive liberalization in connexion with the devaluation, but was well aware of the fact that, notwithstanding the alteration of the rate of exchange, it might, as far as some commodities, and consumer goods in particular, were concerned, lead in the short run to heavily increased imports and spending of foreign currency.

13. As, on the other hand, no noteworthy increase of exports was to be expected, at least not during the present shipping season, and the price development of some export goods might show unfavourable tendencies, the above-mentioned liberalization of imports would lead to the use of foreign currency reserves, and might also require the utilization of foreign credits. In taking such a risk as far as the balance of payments was concerned, the Finnish authorities would have to restrain, for the time being, those imports that were not included in the free list.

The intention of the Finnish Government, however, was, within the limits permitted by the balance of payments, to continue a gradual elimination of import restrictions.

14. Special attention would be paid to the increase of imports in sectors where it seemed advisable to strengthen competition. The extension of liberalization to include also certain imports from the dollar area, which was under preparation, was being examined bearing especially in mind the need to strengthen competition. The Finnish authorities would as well consider to what extent some of the countries of the sterling area could be granted advantages comparable to automatic licensing.

15. Several members expressed their appreciation for the statement by the representative of Finland, which they regarded as highly encouraging. Some representatives welcomed the evolution which had taken place and had been reflected in the announcement of liberalization measures on the occasion of a consultation which was, in fact, concerned with the reinforcement of restrictions. They also expressed the hope that the Finnish authorities would make further progress along these lines and take further measures towards reducing the existing degree of discrimination. Those members expressed their understanding of the difficulties met by the Finnish authorities and their
appreciation of the efforts undertaken in order to overcome those difficulties and wished to ask the Finnish delegation a number of questions in order to supplement the information already received.

**Balance-of-payments situation and prospects**

16. One member of the Committee expressed the hope that the recent liberalization measures would also apply to non-OEEC and non-sterling area countries. While appreciating the difficulties which the Finnish Government was facing, this representative called attention to the preferential treatment as between EPU and dollar countries. In his opinion this preferential treatment was not justified by balance-of-payments considerations. In fact, the Finnish surplus with the EPU area, which had reached 6.4 billion markkas in December 1956, had declined to 2.8 billions by the end of June 1957. On the other hand, the gold and dollar reserves of Finland amounted to 17.3 billion markkas in June 1957, as against 19 billion at the end of 1956. The same representative also recalled that Finnish imports from the dollar area represented only 7.3 per cent of total Finnish imports, whereas Finnish imports from OEEC countries amounted to 57.6 per cent of the total. It seemed, therefore, that such a situation should make it possible to extend liberalization measures to dollar imports.

In answer to this question the representative of Finland recalled his general statement in which he had indicated that a list of dollar liberalization was in preparation and would be introduced depending upon possibilities and dollar availabilities. He made it clear that the Finnish authorities did not in any way intend to practice any discrimination in this field.

17. In connexion with the question referred to in the preceding paragraph, a member of the Committee asked whether some indication could be given as to the measures that the Finnish authorities were contemplating. He also requested some further information concerning the situation of the exchange reserves of Finland. Regarding the first point, the Finnish representative stated that it was extremely difficult to give an answer, considering the short time that had elapsed since the latest liberalization measures had been introduced. As to the level of exchange reserves, he said that, by the end of September 1957, they amounted to 88 billion Finnish markkas, including foreign bond and paper
holdings. Of this total, gold and exchange holdings represented 35 billion markkas. The representative added that these reserves amounted to two months' imports and that therefore the Finnish Government held the view that a cautious policy was essential.

18. Another member of the Committee then raised the following three questions: (a) in his general introductory statement the representative of Finland had indicated that the recent monetary measures would not result in exports being increased. He therefore wished to know what was the basis for this pessimistic forecast and whether justification could not be found in the export levy; (b) considering that the representative of Finland had not provided any forecasts in respect of imports, he wished to know whether imports could be expected to increase in absolute terms; (c) the exchange reserves of Finland amounted to two months' imports: presuming that imports would increase and that, as indicated by the Finnish delegation, exports remain stationary, did this mean that quotas in the non-liberalized sector would have to be reduced?

As regards the first question, the Finnish delegation indicated that the guesses under reference were based on the fact that export outlets for Finnish products had already contracted and deteriorated, and that, therefore, the recent monetary measures would merely restore a situation which had already been jeopardized. As far as the export levy was concerned, this had been imposed because Finland also had internal problems, the most important of which was the checking of inflation. Therefore, the Finnish authorities had been particularly cautious in making their export forecasts. As regards imports, the Finnish authorities hoped to keep the situation under control so that imports would not increase to a point where the exchange reserves of the country would be threatened. In answer to the third question, the representative of Finland stated that his country intended to proceed with liberalization in the light of the balance-of-payments situation of the country.

19. In connexion with the answer to the first question, another member of the Committee asked whether the forecasts mentioned by the Finnish authorities
were based on the present economic trend and what were the future prospects. The representative of Finland answered that those were short-term forecasts but he could give no additional information concerning more distant prospects, as changes might always occur at any time.

20. Still with reference to export forecasts, a member of the Committee wished to know whether the estimates under reference were of a general nature, i.e. whether they applied to exports as a whole, or only to some export sectors. The Finnish delegation answered that such estimates referred only to certain export sectors (in particular, the woodworking industries), which, in fact, were the most important export item for Finland.

Alternative measures to restore equilibrium

21. One member of the Committee, after noting with interest the efforts made by Finland in using tight credit with a view to stabilizing the domestic situation, expressed the hope that this policy would prove successful. Another representative also requested the Finnish delegation to submit a few comments concerning the fiscal policy followed by the Government within the framework of its programme for internal stabilization.

The representative of Finland stressed that part of the programme concerned the fiscal system and provides for tax alleviations in favour of certain industries. The Finnish authorities hoped that such tax relief measures would improve the competitive capacity of such industries in future.

System and methods of restrictions

22. The representative of Finland stated that liberalization measures vis-à-vis the dollar area were being examined and one member asked whether the Committee could receive information concerning the products to which such measures would apply and at what time it might be expected that such measures would become effective. The representative of Finland stated in response that it was difficult to give any precise information in this respect. The list in question may be expected to be available within a few weeks. As to the nature of the products concerned, he said that the list would cover at least items previously under global quotas for the dollar area.
23. Another member of the Committee observed that certain products which had been previously in Category B (partly regulated imports) had been transferred to the "regulated" list, i.e. that no quota had been fixed in respect of those goods and that licences were granted on the basis of ad hoc criteria. He was of the opinion that this transfer constituted a retrogressive step and held the view that this situation should be improved as soon as the balance-of-payments position permitted. The Finnish delegation for their part thought that this could not constitute a retrogressive step considering that the list of liberalized items covered 82 per cent of Category A (or globalized) imports and 51 per cent of Category B (or party regulated) imports. The member of the Committee who had raised this question believed, however, that whenever possible a country should abstain from rescinding relaxation measures currently applied. In his opinion, items in Category B were good candidates for promotion. While agreeing to this, the representative of Finland observed that while one step backward had been taken in respect of 49 per cent of the products included in this category, on the other hand two steps forward had been taken in respect of other products.

24. The Finnish delegation was also asked what criteria were followed for bringing certain items under the licensing system, and what factors were taken into consideration for the necessary exchange allocations. The representative of Finland stated in response that the criteria followed were similar to those applied in every other country, the main ones being the essentiality, exchange availabilities together with relative price and quality considerations. The traditional interests of Finland's trading partners were also taken into consideration. As regards relative prices the representative of Finland made it clear that this criterion was considered not only for the choice as between two supplying countries but also for the purpose of comparing prices of domestic and imported products. He added that where domestic prices were unduly high an import licence was issued, even though other criteria might not be fulfilled. The Finnish authorities thus wished to avoid granting any undue protection and at the same time to stimulate the competitiveness of certain industries. Another member asked whether these same criteria and in particular the price factor were also applicable to imports under bilateral agreements.
The answer was that, in this case as well, the Finnish authorities followed the same criteria including relative price and quality considerations. The Finnish representative further recalled that representations had often been made through diplomatic channels because requests for licences had been turned down for one or the other of the above considerations.

25. Considering that the United Kingdom is both an important supplier and one of the main customers of Finland, the United Kingdom representative expressed the hope that the new liberalization measures would reduce the existing margin of discrimination in favour of eastern countries and that such discrimination would gradually be whittled down. The representative of a dollar country observed that, generally speaking, existing discrimination was more acute today than it had ever been since December 1955.

26. As regards the bilateral agreements to which Finland was a party, a member of the Committee was interested in the following aspects: (a) what had been the recent trend in the Finnish Government’s efforts with a view to limiting the scope of those agreements thereby reducing Finland’s dependence upon such agreements; (b) had such agreements stood in the way - and if so to what extent - of further trade liberalization; (c) could an idea be given as to the importance of non-liberalized products in such agreements.

The representative of Finland in response to the first question said that in his opinion the liberalization measures in operation were supposed to increase trade and that therefore the part played by bilateral agreements should be correspondingly reduced. He further stated that the number of existing bilateral agreements had not changed during the last year. While on the one hand the bilateral agreement with Japan had been terminated, on the other, one country, France, had been added to the list as a result of its non-participation in the multilateral system in operation with other European countries. The representative of Finland further added that he did not see at present that there was much possibility for reducing the number of existing bilateral agreements, the more so as in this field the decision did not depend on Finland alone.
As to the second question, he did not believe that such agreements stood in the way of further trade liberalization considering that Finnish imports under such agreements consisted of raw materials to the extent of 90 per cent or more. He was not in a position to answer the third point but the figures that he had just mentioned, and which also applied to the two most important bilateral arrangements entered into by Finland could give an idea of the importance of non-liberalized items under such agreements.

27. A member of the Committee asked whether the Finnish authorities were also contemplating a mere stabilization or were envisaging an increase in exports to countries with which Finland had bilateral trade agreements. The representative of Finland stated in this respect that his Government had not finalized any specific plans with such countries and that any guesses in this field were therefore very difficult to make. However, he mentioned the existence of certain long-term agreements which might give some precise indication as to future developments in the field of exports of specific products to certain countries.

28. As regards global quotas, a member of the Committee mentioned that part of the basic document prepared by the secretariat (page 5) where it is stated that this system "represents a step in the direction of a freer multilateral trading system". He made it clear that while this system could be regarded as a step forward, it was in fact a mere stage in the sense that further steps towards fuller multilateral trading practices would have to be taken. The representative of Finland agreed on this point.

29. Another member of the Committee also enquired whether in each case where a global quota was provided for in a bilateral agreement it was the intention of the Finnish authorities also to have a global quota in respect of the same item. The Finnish delegation said in answer that items which appeared in bilateral agreements always involved a precise description, while global quotas were described in more general terms. He therefore thought it was difficult to say that there was any relationship between the two.

30. Referring to the three categories of products which are mentioned on page 5 of the basic document prepared by the secretariat, a member of the Committee wished to know what was the practical difference between the status of
Category A and Category B imports. He also enquired whether Category A imports might possibly be liberalized in the near future or whether they would at least be more liberally authorized. The representative of Finland stated in this respect that the system applicable to the three categories was described in a very detailed manner in the basic document. However, he recalled the essential difference between the two categories:

(i) **Category A (or globalized) imports.** Importers of goods in this category were free to choose the commodity to be imported as well as the country of export. Each importer's share in the different global quotas was determined on the basis of the value of licences he obtained in the period from 1 July 1955 to 31 December 1956.

(ii) **Category B (or partly regulated) imports.** For goods included in this category the Licencing Office approved the individual applications from a particular importer or importers, as well as the commodity to be imported, within the limits of quotas, leaving the holder of the licence free to choose the country of export.

As regards further progress towards liberalization of imports, the representative of Finland stated that the efforts to be made would mainly affect Category B items. It seemed to him, however, that it would be logical to take care of Category A imports as soon as the balance-of-payments situation permitted.

31. In the course of the discussion a member of the Committee stated that he viewed with sympathy the conclusion of a multilateral liberalization arrangement between Finland and certain European countries. In this connexion he asked the Finnish delegation whether they could give some additional information concerning the obligations involved, the nature of the undertakings and the ensuing advantages for Finland. He also raised the question as to the currency in which imports from Western Europe would be settled if the value of such imports were to exceed the exchange earnings of Finland. The representative of Finland answered that this multilateral system was beneficial not only to Finland but also to her trading partners. In particular the present system gave importers wider selection possibilities as between supplying countries for a wider range of products. Therefore, free competition was encouraged and the
system held down on price levels. This impact of foreign competition was particularly noticeable within the framework of the policy followed by the Government with a view to maintaining domestic price stability. It was also very important because in Finland, as in other countries, there were conventions under which the wage levels in the price index were inter-related. A member of the Committee who had raised this question then stated that he fully appreciated the advantages mentioned by his Finnish colleague but that, in his opinion, such advantages would be greater still if import liberalization were extended to the dollar area. As regards the way in which import surpluses from Western Europe were to be settled, the representative of Finland said that it was difficult for him to give a final answer considering that Finland's present financing availabilities might change in future. However, he wished to add that within the framework of compensation arrangements within the ECE, Finland had available to it certain means whereby she could balance her import surpluses. Finland was at present slightly on the credit side in her trade with eastern countries which, if the opportunity arose, could be used vis-à-vis Western Europe through the ECE compensation plan.

32. Two representatives were particularly anxious to congratulate the Finnish delegation for the publicity currently given in their country to all questions pertaining to the issuance of licences, a description of which is to be found in the basic document prepared by the secretariat.

Effects on trade

33. In view of the fact that the Finnish Government intends to follow a policy of progressive liberalization of imports still subject to quota restriction, a member of the Committee asked for information regarding the expected effects of such a policy; in particular he enquired what steps the Finnish Government considered taking in order to give assistance to domestic industries which might be confronted with difficulties. The Finnish representative recalled that in his general statement he had pointed out that the Government was well aware that such measures might cause severe adaptation problems in the national economy. The possibilities open to the country in this field were, however, most promising. Finland had never established clearly inefficient industries and consequently it had never been necessary to introduce quantitative restrictions to protect such
Industries. Owing to certain special circumstances, new industries (e.g. the metallurgical industry) had developed in the country, but they had never enjoyed an extensive degree of protection. Furthermore, during 1957 those industries had had an opportunity gradually to adapt themselves to the new situation. It should not be overlooked that the recent currency devaluation seemed to have been sufficient to allow them to compete with imported products on the domestic market. The Government would probably try to ease the situation and measures had already been taken, including the tax relief measures previously mentioned.

34. A member of the Committee asked whether export subsidies were still maintained on certain products. The Finnish delegation replied that the subsidies were still granted for certain agricultural products, but pointed out that it considered the term "export subsidies" to be not quite accurate in that particular case. Under a special law, Finnish agricultural workers had a certain guaranteed income, which, in turn, was tied to the income levels of other categories of the population. In order to achieve this, the Government had to guarantee the price level of certain agricultural products. That was why he had questioned the appropriateness of the term "subsidies". The Finnish representative added that the subsidies played only a very small rôle and had no harmful effects on the trade of other countries.

35. Another member of the Committee quoted the following passage in the statement by the Finnish authorities on the effects on trade: "As for agriculture, the problems involved are essentially of the same nature as in other European countries". He was rather surprised to see that in this sector there was a general problem common to the European countries, and asked if that should be understood as meaning that the elimination by Finland of quantitative restrictions on agricultural products would cause difficulties in the country. The Finnish representative replied that, in fact, that was not a problem related to the balance-of-payments situation but a structural problem which was essentially of a social and economic nature. It resulted primarily from the fact that 35 to 40 per cent of the total population was engaged in agriculture and that was in a region close to the Arctic Circle. Since that category of the population only accounted for 12 per cent of national income it had proved necessary to subsidize it. The problem was not therefore one that could appropriately be considered on a short-term basis.
36. A member of the Committee recalled that the basic document mentioned that in examining applications for import licences the authorities responsible for issuing licences give due consideration to prices on the domestic market, and that when domestic prices were found to be unreasonably high as compared with prices of foreign products, licences were granted in order to avoid giving undue protection to domestic industry. He asked whether there were any definite criteria in this connexion and whether importers were kept sufficiently informed. The Finnish representative replied that the present system, which worked on an administrative basis, had shown good results; the desire to import was so strong in Finland that there was no need to fear that importers might not apply for licences.

37. A member of the Committee asked whether the Finnish delegation did not think that following the devaluation certain industries which had previously been competitive might now enjoy an even more privileged position. Contrary to Finnish expectations, such a situation should normally result in increased exports. The Finnish representative replied that that was a question of degree. Certain industries were very competitive, others were not at all. Hence it was correct to say that, following the devaluation, certain sectors would become competitive, but, on the other hand, it should be kept in mind that other sectors had not yet become so.

38. The question was raised whether the export tax was also levied on subsidized agricultural products.

The Finnish representative replied in the negative. He recalled that one of the objectives of his Government's agricultural policy was to guarantee the income level of the agricultural population. The subsidy was one of the measures applied for that purpose. Therefore, if the income of agricultural workers increased as a result of the devaluation, the balance between their income level and that of other categories of the population, would be restored by the operation of subsidies and not by levying an export tax on agricultural products. The prime purpose of the export tax was to reduce inflationary pressures.
Conclusions

39. At the close of the discussion the United States representative said that he would have wished to have more information on the Finnish Government's intentions regarding the liberalization of imports from the dollar area. He had been a little disappointed at the lack of information on this subject which had prevented him from obtaining a clear picture of the situation. He therefore wished to make certain comments to the Committee and he expressed the hope that the Finnish Government would take them into account when establishing its commercial policy.

He recalled that Finland's gold and dollar holdings had increased considerably during the first half of 1957, while EPU holdings had shown a marked decline. In those circumstances he thought that a comparison between the programme for imports from the dollar area and the programme for imports from the EPU countries should lead to conclusions in favour of dollar imports. Such a comparison should, in his opinion, induce the Finnish authorities to reduce the degree of discrimination which existed between the two groups of countries. He recalled that Finland enjoyed practical liberalization for products exported to the United States and was thus able to earn fully convertible currency. He therefore hoped that the new liberalization programme vis-à-vis the dollar area would take this situation into account, that it would be as extensive as possible and that, in particular, it would include the following products, which he mentioned by way of example: agricultural products, consumer goods, alcoholic beverages, tinned fruit, motor cars, sporting guns and ammunition, etc.

40. Finally, the United States representative noted with satisfaction Finland's efforts to dispense increasingly with the system of bilateral agreements. He was convinced that better results would be achieved by this policy, and he considered that the implementation of the multilateral plan of October 1957 was an encouraging feature for the future. He also hoped that the Finnish authorities would succeed in maintaining internal stability on a lasting basis and that the balance of payments would soon permit Finland to adapt her external trade relations and re-establish them on a normal basis.
41. In the course of the discussion a member of the Committee referred to the statement of the Fund representative that the IMF was not in a position at the present time to give a final judgment regarding the necessity for the general level of Finnish restrictions in relation to Finland's monetary reserves. This member of the Committee therefore asked whether it would not be appropriate to leave the consultation open until such time as the CONTRACTING PARTIES received a clear statement from the Fund. Another member of the Committee, while sharing that point of view, pointed out that, at this stage, it was very difficult for the Committee to assess the consequences of the measures recently taken by the Finnish Government. He considered that the Committee should defer its conclusions until the practical results of the new measures were known.

Another member of the Committee stated that while he understood the implications of the remarks which had just been made, he thought that the Committee should, above all, try to understand the nature of the new measures taken in Finland, and throw as much light as possible on the situation in order to see in what direction that country's foreign trade would develop. He therefore thought that questions should be put to the Finnish delegation in order to obtain a better understanding of the exact implications of some of the measures which had been introduced.

The representative of the Fund stated informally that the conclusions which the IMF might draw from its consultations with Finland under Article XIV of its Articles of Agreement would probably be known during the first half of 1958.

42: Referring to the question which had just been raised, the Chairman of the Committee recalled that the purpose of the consultation was to examine the situation as it existed at the time of the consultation and in the light of the documentation then available. From that point of view he thought that the Committee had received useful and detailed information regarding the present situation.

If, however, the conclusions which the IMF might reach were to lead the CONTRACTING PARTIES to change their opinion regarding that situation,
the Chairman recalled that under the General Agreement the consultation might be reopened. By way of example he quoted the provisions of Article XII (revised) of the General Agreement which had entered into force a few days before, and which provided for a review of all quantitative restrictions applied.

The Chairman therefore suggested that the Committee should follow the same procedure as in the case of the Netherlands during the June 1957 consultations. At that time the Fund had not yet completed its consultation with the Netherlands and the Fund representative had stated that the results of the consultation would be transmitted to the CONTRACTING PARTIES at a later date. The Committee had not thought it necessary to keep the consultation open and had decided that as soon as the results of the consultation with the Netherlands were available, they would be added to the documentation for that consultation. The Chairman suggested that the same procedure should be followed in the case of the consultation with Finland.

43. The Committee, while supporting the Chairman's proposal, nevertheless wished to record that it did not consider that it had had a complete picture of the situation, not only because the IMF had not yet reached a conclusion regarding the appropriateness of the level of restrictions currently in force, but also because the devaluation of the Finnish markka and the measures taken by the Finnish authorities were so recent that it was impossible for the Committee fully to appraise the consequences, and therefore make a valid assessment of the situation as a whole.

At the request of a member of the Committee, it was also agreed that the Finnish authorities would transmit to the secretariat a report containing as clear a statement as possible on the new liberalization programme under preparation and the supplementary measures to be taken. It was also agreed that this additional report would be annexed to the present one.

44. The Chairman of the Committee and several delegations thanked the Finnish delegation for the spirit of co-operation and goodwill which it had shown during the consultations, as well as for the full and courteous replies which it had given.
45. The Finnish representative stated that the consultation had been very valuable for his delegation which had thus had the opportunity to hear the views of other delegations; the Finnish authorities would take those views into account in preparing future measures.
Thank you for having given me the floor in order to make some general comments on the latest development of the Finnish economic policy which has not been reported in the Basic Documents before us.

I am happy to start with the fact that, as far as I understand, we don't have to discuss any more the intensification of trade restrictions. Instead of intensified restrictions we now have in Finland liberalization of foreign trade to a far greater extent than at any time after the war. This in itself proves that the intensification of trade restrictions at the turn of the year was carried out only to stop a serious decline in currency reserves fully in accordance with Article XII, paragraph 2.

When this intensification of import restrictions was made effective, the Finnish Government pointed out that this measure was a strictly temporary one and that it was the Government's intention to revert to the liberalization of imports as soon as possible. To achieve this purpose several measures, both through financial policy and monetary policy, were necessary.

As to the monetary policy, it is important to note that the Bank of Finland has continued its efforts to prevent an inflationary expansion of private bank credit. It has particularly relied on the limitation of rediscounting. As a result, the monetary situation has been characterized in 1957 by a general tightening of liquidity. Thus the money supply declined by 13.0 thousand millions, i.e. by about 12 per cent during the same period.

Public finances were rather strained already in the beginning of this year. The State account with the Bank of Finland was fully utilized during the first months and no credits were available from the Bank of Finland. The possibilities of the private credit market were also exhausted. In these circumstances the Government concentrated its efforts on the balancing of State finances. A broad stabilization programme was introduced in March, to be followed by a supplementary budget in June and by an additional stabilization programme shortly thereafter. Although some of the bills introduced did not meet the approval of the Diet, it can be said, as a summing up of the measures already undertaken, that the situation has considerably improved.

In order to restrain the expansionary effect of a possible devaluation, the Government introduced in August a bill with a view to freeze part of the export income. The law in question was passed by the Diet in a somewhat modified form. It imposes a special tax on exports with a view to absorbing from 10 to 70 per cent of the increase in export revenue arising from the devaluation.

It has not been possible for me to go more deeply into the development of the economy in Finland. I have preferred only to stress some aspects which form the corner stones for the economic policy, which has reversed the post-
war inflationary trend by slightly deflationary tendencies. They equally offer safeguards in the future for the maintenance of internal stability.

Together with this change in the economic situation, the following factors were also pertinent. Although a substantial part of exports could still be maintained at the prevailing rate of exchange some important export articles were facing great obstacles, which could only be overcome by a devaluation or by establishing large export subsidies. Furthermore, to restrict imports by tight controls was to raise ever-growing difficulties because of the disparity that had emerged between internal and external prices.

The following decisions were taken on the basis of these considerations:

1. The Bank of Finland changed on 15 September the par value of the Finnish mark.

2. The President of the Republic promulgated on the same day the law concerning the freezing of a part of the export income.

3. The Government of Finland decided on 16 September to liberalize imports to a large extent.

As to the last-mentioned decision, it will put an end to the period of controls which had lasted eighteen years, and open the road decisively for a liberal evolution. Thus the average liberalization percentage has been fixed at 75 per cent. It is worth while mentioning that the degree of liberalization for manufactured goods will reach 78 per cent. This means that manufactured goods are treated as liberally as possible even at a cost of severe adaptation problems.

In accordance with the decree issued on 16 September, the liberalization is to be applied to imports from those countries, not including the dollar area, that have: (1) liberalized Finnish commodities from quantitative restrictions, i.e. granted Finland OEEC free list treatment, and (2) whose reciprocal currency convertibility includes Finland. On her side Finland is prepared to maintain the liberalization of imports on the average level of 75 per cent and to give minimum guarantees as to the level of new global quotas that are to be established for non-liberalized goods.

The Finnish Government has undertaken such an extensive liberalization in connection with the devaluation well aware of the fact that notwithstanding the alteration of the rate of exchange, it may, as far as some commodities and consumer goods in particular are concerned, in the short run, lead to heavily increased imports and spending of foreign currency. As, on the other hand, no noteworthy increase of exports is to be expected, at least not during the present shipping season, and the price-development of some export goods may show unfavourable tendencies, the above explained liberalization of imports probably would lead to the use of foreign currency reserves and may also
enforce the utilization of foreign credits. In taking such a risk as far as the development of the balance of payments is concerned, it is obvious that the Finnish authorities will have to restrain, for the time being, those imports that are not included in the free list. The intention of the Finnish Government is, however, within the limits allowed by the balance of payments, to continue a gradual suppression of import restrictions. Special attention will be paid to the increase of imports in such sectors where it seems advisable to strengthen competition. The extension of the liberalization to include also certain imports from the dollar area which is now under preparation, is carried out having especially in mind the strengthening of competition. The Finnish authorities will as well consider to what extent some of the countries of the sterling area can be granted advantages comparable to the automatic licensing. It is further the aim, after the necessary technical preparations have been accomplished, to abolish import licences altogether for the commodities now subject to automatic licensing.