ANNEX I

Opening Statement by the Representative of Finland

Mr. Chairman,

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 par 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

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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 foretell, 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 margins 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.