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. In 1961 production continued to show substantial gains, and the real gross national product rose by an estimated 6 per cent compared with 9 per cent in 1960. Productive capacities were almost fully utilized, and skilled manpower was in short supply in some industries. In the second half of the year the expansion of private investment slowed down, but the rise in consumption has accelerated. Prices rose moderately. Hourly wage earnings increased by 8 per cent; the increase exceeded gains in productivity.

3. Government finances deteriorated in 1961, as the rise in expenditure outstripped the increase in revenue; in the first eleven months of 1961 the budget showed a Fmk 7.2 billion deficit on current and capital account compared with a Fmk 9.5 billion surplus in the corresponding period of 1960. Bank advances in 1961 again rose substantially, and the banks' heavy indebtedness to the central bank, which arose in 1960, has further increased. Measures by the Bank of Finland to limit the expansion of credit were somewhat strengthened. Additional credit restraining measures are under active consideration. In view of the prevailing pressure on resources, the Fund believes that fiscal as well as monetary restraint is needed, and urges in particular an early reconsideration of budgetary policy, especially as it relates to the various spending programs.

4. In 1961 imports rose by about 8 per cent and exports by 7 per cent, thus increasing the trade deficit. The balance of payments on goods and services account continued to be in deficit, but this was offset by a net inflow of capital, partly in the form of suppliers' credit. Total gold and net foreign exchange assets showed little change in 1961; at the end of the year they were equivalent to the value of well over three months' imports.

5. Since the last Article XIV consultations, Finland has continued to reduce its reliance on restrictions and discrimination, including that arising from bilateral payments agreements, and some further steps are under consideration.
While noting this progress, the Fund believes that the balance of payments position, if supported by appropriate fiscal and credit policies, permits further early reduction in the reliance on external restrictions. Such action at this time would also facilitate the maintenance of internal price stability. The Fund considers that the termination of the few remaining bilateral payments agreements with Fund members is feasible and desirable.

6. In concluding the 1962 consultations, the Fund has not other comments to make on the transitional arrangements maintained by Finland.