GENERAL AGREEMENT ON
TARIFFS AND TRADE

Committee on Balance-of-Payments Restrictions

DRAFT REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS
ON THE CONSULTATION UNDER ARTICLE XII;4(b) WITH
FINLAND

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 basic document for the consultation (BOP/23), together with an annexed Finnish booklet entitled "Importation System in Finland - State as of January 1, 1963", and a document supplied by the International Monetary Fund as mentioned in paragraph 3 below.

2. In conducting the consultation the Committee followed the Plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97-98). The consultation was completed on 12 June 1963. The present report summarizes the main points of the discussion.

Consultation with the International Monetary Fund

3. 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. In accordance with the agreed procedures, the representative of the Fund was invited to make a statement supplementing the Fund's document concerning the position of Finland. The statement made at the consultation by the representative of the Fund was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES a background paper, dated May 29, 1963, to supply background information on recent developments.

"With respect to Part I of the Plan for Consultations, relating to balance of payments position and prospects, and with respect to Part III, relating to system and methods of the restrictions, the Fund expects to conclude in the near future a consultation with Finland under Article XIV of the Fund Agreement and to transmit to the CONTRACTING PARTIES the Executive Board decision relating to that consultation when it becomes available."
With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, pending the conclusions of its next consultation with Finland, the Fund has no comments on alternative measures.

Opening statement by the Finnish representative

4. In his opening statement, the full text of which is annexed to this report, the representative of Finland described the more essential developments in the Finnish economy and in the import control and restriction system since the last consultation with Finland in October 1962. It was noted that since last October the growth of the Finnish economy, which had been at a fairly satisfactory rate in recent years, had slowed down and had now stopped. The end of the boom had been somewhat more abrupt in Finland than in more industrialized countries and the slowing down of external demand for forestry products had created serious repercussions on the Finnish economy. The expansion of the Finnish wood-working industry, though wholly justifiable and desirable from the long-term point of view, had brought about an excess capacity for the time being. The recession, it was hoped, would soon be over but the beginning of recovery largely depended on the development of export income. Total Finnish production in 1963 was expected to record only a 1 or 2 per cent increase in volume from the 1962 level, and even this was due largely to the better harvests.

5. Private industrial investment activity showed a downward trend which had not been fully compensated by the increase in public investment. Private and public consumption were the main factors which maintained the level of activity. Labour's share of income in the national income had been increasing in recent years and this, coupled with the psychological effects of certain inflationary anticipations among the public, had supported a consumption boom of impressive magnitude. While the rise in real income was slowing down, consumption expenditure still showed a tendency to increase, partly at the expense of savings. For the current year, it was estimated that the volume
of consumption would increase by approximately 2 per cent which was less than the increase for 1962. Consumption expenditure, which remained particularly expansive in the durable goods sector, continued to remain a disturbing factor in the monetary and balance-of-payments situation of the country. The monetary situation in Finland had been marked by continued stringency of the money market and had been aggravated by fiscal developments. In the inflationary atmosphere the growth of savings by the public had not been favourable. Consequently, the banking system had consistently been in debt to the Central Bank. Various strict control measures taken by the Bank of Finland had stopped the expansion of bank credit and the private banks had been able to reduce their indebtedness to the Central Bank.

6. The budgetary position was particularly difficult this year as the recession in economy called for large outlays for public works at the same time as the growth of revenue slackened. The financing of the expected cash deficit, therefore, required increases in indirect taxes and certain other measures such as compulsory borrowing from the public.

7. Against this background the balance-of-payments position remained weak. The rapid expansion of the economy in 1960/62 had resulted in increasing deficits which helped to absorb excess demand at home and thereby relieved pressure on prices. Due to the present recession, the balance-of-payments position was improving although remaining in deficit. Although import demand was falling, particularly for investment goods, exports were no longer expanding and even on most favourable assumptions the aggregate export income was not expected to exceed the 1962 level. The current account deficit was expected to be of the order of Frk.100 million. Though possibilities for long-term borrowing might have improved recently, it was unlikely that such borrowings would be sufficient to provide large-scale support to the balance of payments. On the other hand, the Bank of Finland had introduced certain restrictions on short-term borrowing; hence the balance-of-payments deficit in the current year would bear more directly than before on the foreign exchange reserves.
8. Referring to the restrictive system, the representative of Finland stated that his Government opposed the introduction of new quantitative import restrictions. In spite of the difficult situation, the scope of the licence-free import system had been further extended and 340 tariff items and sub-items had been liberalized on 14 December 1962. On 1 January 1963, Algeria, Burundi, Jamaica, Ruanda, Syria, Trinidad and Tobago, Uganda, Western Samoa and Yugoslavia had been added to the list of countries enjoying "multilateral import treatment". The amount of global quotas applicable for 1963 had been increased on 10 June 1963 and now amounted to Fmk. 402 million which represented an increase of more than 10 per cent in the quotas. In conclusion, the Finnish representative said that it would be the policy of his Government to remove the remaining import restrictions as far as permitted by the balance-of-payments position.

Balance-of-Payments position and prospects

9. The Committee thanked the representative of Finland for his clear and comprehensive description of the main developments in the Finnish economy and the import control system. The Committee then discussed with the Finnish representative different aspects of his country's balance of payments. In reply to questions concerning the diversification of economy and the inflow of long-term foreign capital, the representative of Finland stated that the exploration of new lines of production was one of the principal concerns of his Government. At present the wood-working industry still accounted for two thirds of Finland's export trade. Diversification had become imperative partly because a stage had been reached where timber cutting had exceeded the natural growth of timber resources. This sets, at least in the short run, a limit on the expansion of export earnings from timber, pulp and paper, which had traditionally been important items in the Finnish export trade and in which industries, particularly regarding pulp and paper, a strong expansion of productive capacity had taken place in recent years. While there existed a ready market and good long-term prospects for most of these products, actual export earnings depended to a very large extent on the general level of economic activity abroad.
In order to diversify the economy and to provide a broader base for exports, Finland had encouraged investments in the metal and engineering industries, such as of paper making machinery, with satisfactory results. Investment in these industries had also been stimulated by the need to improve, through increased efficiency, the competitive position of Finnish industry in view of the movement towards regional economic integration in Europe.

10. In reply to a question the Finnish representative stated that the exceptionally high figure for the exports of metal and engineering products in 1962 was due to the postponement of deliveries of ships from 1961 apart from increases in other manufactures exports to western countries.

11. The representative of Finland stated that an increase in the inflow of long-term foreign capital would make a significant contribution towards an easing of the pressure on the country's foreign exchange reserves, but due to its peripheral position, such credits were not always available to the desired extent or on terms equal to those offered to other European countries. The policy of the Government was to attempt to obtain such loans wherever possible on reasonable terms. Thus, increasing reliance on international capital markets might develop as compared to the intergovernmental and quasi-official institutions which so far had provided the bulk of Finland's long-term capital imports. It was encouraging that for the first time since the war Finland had been able to obtain bond loans in the private capital markets of Switzerland (30 million Swiss francs) and the United States (US$12.5 million), but these amounts were very small in comparison with the aggregate balance-of-payments deficits of recent years. Only the previous week, a new loan of DM25 million had been granted to Finland by the Reconstruction Loan Corporation in Frankfurt, and possibilities of further borrowing on the private capital market in the Federal Republic of Germany were being explored. Within Finland, a development finance institution was being organized to assist in the financing of small and medium-size industry, and it was hoped that equity participation from the International Finance Corporation and private banking firms in western Europe and in the United States, as well as a loan from the IBRD could be obtained for this purpose.
12. In answer to questions concerning the implications of short-term credit movements for the net reserve position of Finland and the prospects for the country's foreign reserves in 1963, the representative of Finland stated that it was true that an increase in short-term borrowings from abroad had been registered in 1962 but certain restrictions had been imposed on the inflow of such credits towards the end of that year because it was felt that short-term borrowing abroad has been expanding too much. Such credits, which might fluctuate sharply, were also counteracting to some extent the restrictive credit policy of the Central Bank. It was extremely difficult to estimate the prospects of foreign reserves in 1963 because of the lack of definite information regarding the availability of long-term loans and owing to the shifts in short-term capital flows, including leads and lags in Finnish export and import payments. The 1963 payments deficit should be smaller than in the preceding year. The Finnish Government was anxious to seek to redress the current deficit in the balance of payments without the use of additional quantitative restrictions.

Alternative measures to restore equilibrium

13. Members of the Committee enquired whether, in the view of the Finnish authorities, the present slow rise in real income, the disappearance of excessive demand for labour and the reduced deficit on the balance of payments indicated a lasting improvement in stability of the economy, brought about by positive means of effective control. The representative of Finland replied that, while unemployment this year was expected to reach 2 per cent, his Government had the legal obligation to provide employment and for this purpose construction programmes were timed so as to absorb unemployed labour. Although the boom was over, there were other factors maintaining demand at a high level. Wages had been increased as a consequence of strikes while productivity was not rising as much as before. The Government had taken budgetary measures and was contemplating a stabilization programme. No serious problems of inflation were expected if these measures proved successful. However, demand pressure remained, even though it had become a problem of much diminished dimensions.
14. In response to a question concerning the effectiveness of the measure adopted by Finland in October 1962 of requiring cash payments before customs clearance for certain imports, the representative of Finland stated that the measure formed part of the entire credit restriction policy of the monetary authorities. The arsenal of monetary policy was rather limited - there was, for instance, no legal authorities for the Central Bank to control reserve requirements. The Bank of Finland had imposed restrictions on commercial banks’ borrowing abroad, and supplemented these with restrictions on the use of import credit. This measure had had some effect on imports although these were not yet reflected in trade statistics. This was partly due to the fact that provision was made in the regulations to exempt from the requirement imports for which firm orders had been placed before the regulations came into force. A member of the Committee asked whether the requirement applied only to consumer durable goods and whether the system operated in a way which would discriminate against distant suppliers. The Finnish representative replied that the requirement applied only to certain consumer durable goods. Cash had to be lodged before customs clearance was granted and the system did not, therefore, discriminate against distant suppliers. It was in fact related to the desire to restrict short term overseas borrowing to finance imports.

15. Members of the Committee showed considerable interest in the agricultural regulation passed in August 1962 establishing price regulations and governmental subsidies for agricultural production and variable levies on agricultural imports. In view of the fact that food prices had risen sharply in 1962 and had to be subjected to price controls, the Finnish delegation was asked whether a policy of moving towards more access for food imports from lower cost produces would assist in halting the pressure on domestic food prices. The representative of Finland explained that the Act opened a new phase in Finnish agricultural policy by enabling the Government to discourage excess production. Under this law, import duties were replaced by fixed and variable import levies. Most of the agricultural products were subject to fixed import levies while on some items
variable import levies were collected. Items bound under the General Agreement were only subject to fixed levies which of course in no case exceeded the bound rates. The receipts from the levies were transferred to a Marketing Fund and utilized for compensating farmers, and for other purposes.

16. A member of the Committee asked about the restrictive effects of last year's monetary measures on credit expansion and consumer demand, and about any monetary or fiscal measures contemplated for 1963. The representative of Finland stated that his Government preferred to rely on monetary and fiscal measures rather than on quantitative restrictions. The application of fiscal measures was, however, difficult in a country like Finland where government expenditure was largely determined by legislation, leaving little room for manoeuvre. In view of the slow rise in revenue, efforts had been made to keep down budgetary expenditure as much as possible. As regards monetary policy, the application of progressively increasing penalty rates had been effective in containing credit expansion. His Government was planning to improve the various tools of countercyclical monetary and fiscal policy, but this would have effect only in the longer run and it was too early to give specific information on these measures.

17. The representative of Finland, in answering a question concerning the price control measures taken in September and November 1962, explained that these measures had been taken in anticipation of the currency reform. The list of commodities affected was fairly extensive. It was, however, difficult for him to say precisely what was the effect of this measure on the prices. The removal of this measure was being considered by his Government.
System and methods of restriction

18. The Committee welcomed the new liberalization measures taken by the Finnish Government in December 1962, and the increase effected in global quotas on 10 June 1963. In response to questions relating to the operation of bilateral payments agreements with Colombia, Greece and Turkey, the representative of Finland explained that these were the only remaining countries outside Eastern Europe with which his country had bilateral payments agreements. The bilateral agreement with Colombia related only to the importation of coffee, which was paid through the clearing account; all other Finnish imports from Colombia were settled in convertible currencies. Finland was continuously in deficit under this agreement. Individual licences were required for all imports into Finland from Greece and Turkey, and at certain intervals half of the clearing balance was settled in convertible currencies. Imports from Israel were not limited to the indicative commodity lists. The Government of Finland was prepared to terminate any of these agreements if and when this was consented to by the partner government.

19. A member of the Committee noted the statement made by the Finnish authorities that the general policy of Finland was to reduce to the minimum possible the number of goods subject to discretionary licensing and to include them in global quotas or in the free importation list, and that as part of these liberalization measures, the quota system in the global import programme for 1963 had been re-organized. He enquired what further action had been taken by Finland in this direction. The representative of Finland stated that no measures, in addition to those described in the documents, had been made since the last consultation. He also assured the Committee that in the re-organization of the global quota system there had been no intention to increase the restrictions on imports of any item; the increase in the number of quotas had been a purely technical measure.

20. A member of the Committee recalled that it had been stated during the last consultation that Finland was considering acceding to the International Wheat Agreement and enquired if Finland had joined the Agreement. The representative of Finland answered in the affirmative.
20. A member of the Committee noted that the tax on automobiles introduced at the time of the administrative liberalization of this product was considered to be of a temporary nature and that a reduction in its rates had been contemplated for 1 January 1964. He enquired whether the reduction, with a view to the ultimate abolition of the tax, was still being planned by the Finnish Government. The representative of Finland replied that the rising importation of automobiles had posed a serious problem when viewed in relation to the adverse balance-of-payments position of the country. Imports had been increasing and there had been an increase of 42.9 per cent in unit terms in the year ending 30 April 1963. In 1961-62, 18,000 cars were imported while in 1962-63 the figure reached 26,000 units. Furthermore the shortfall in budgetary receipts was a matter of concern. The tax on automobiles therefore had to be maintained for the time being, and no decision had yet been taken as to the rate of tax to be applied in 1964.

Effects of the restrictions

21. The Committee welcomed the statement by the Finnish representative that it was the general policy of the Finnish Government to proceed, as far as the balance-of-payment position permitted, with the removal of import restrictions and that with regard to imports still subject to discretionary licensing, the authorities would continue to avoid undue protection and discrimination.

General

22. The Committee expressed appreciation of the detailed information provided by the Finnish delegation and of the frank and full answers given throughout the consultation. The Committee welcomed the steps taken by Finland since the last consultation in removing restrictions, increasing global quotas and reducing discrimination in the face of considerable economic setbacks. They hoped that Finland would continue to relax restrictions as rapidly as the balance of payments would permit and would make further progress in the removal of discrimination, including that arising from bilateralism.