You may recall that during our last consultations almost exactly a year ago my predecessor painted a rather sombre picture of the rapid deterioration of the Finnish balance-of-payments situation. I am sorry to say that in retrospect even that picture appears to have been somewhat too optimistic. Apart from the permanent structural difficulties our our balance of payments which have been discussed in this Committee during a number of years, Finland is today facing what really could be termed a serious balance-of-payments crisis.

In 1964, our balance-of-payments deficit on current account was alarming enough, amounting to FMks.565 million, equivalent to $175 million. In that year, however, an atmosphere conducive to real crisis measures did not yet exist, since we were able to borrow heavily abroad on long term. In fact, the surplus on the capital account - largely due to a record amount of FMks.344 million raised through ten public bond issues in Western Europe and the United States - was so large that it not only covered the current account deficit but also sufficed to create a modest increase in our foreign exchange reserves.

However, towards the end of last year it was felt that such a borrower's paradise as existed in 1964 on the international capital markets could not continue. At the same time, the available forecasts indicated that our current account deficit would continue to increase. The fears regarding the ability of the foreign capital markets to absorb further Finnish bond issues were, alas, transformed into grim realities in a matter of a few months. The members of the Committee are surely aware of the rather sudden and sharp tightening of the capital markets in Western Europe and in the United States, our main sources of external long-term finance. I need not go into the relatively technical and complex reasons for this tightening, but I should like to quote some statistics which indicate its impact on my country. In January-September 1964 we were able to borrow abroad on long term a net amount of FMks.390 million. In the corresponding months of the current year Finland's net foreign long-term borrowing remained at the alarmingly low level of FMks.45 million, or less than $15 million. For a rapidly developing economy such a violent drop in available external resources carries strong repercussions throughout production, commerce, monetary policy and also the Government's fiscal policy.
As I indicated a moment ago the current account deficit has continued to grow. This year imports have again been rising faster than exports. On the one hand, imports of raw materials, investment goods and quite particularly of passenger cars have continued to expand rapidly. On the other hand, the rate of growth of exports is slackening. The Finnish authorities estimate that the current account deficit for the whole of 1965 will be as high as FMks 650 million, which compares with the 1964 figure of 565 million.

In the absence of new foreign long-term loans such a deficit is bound to be reflected in the foreign exchange reserves of the nation. From the beginning of this year until the middle of October the Bank of Finland has thus lost nearly one third of its net foreign exchange reserves, and, as indicated in the documentation submitted to you by the International Monetary Fund, the decline has taken place in convertible currencies. At their peak early this year, the Bank of Finland reserves corresponded roughly to three months' imports. At present these same reserves equal about two months' imports. The indications are that without effective corrective measures the balance-of-payments deficit in 1966 would still be some two thirds of this year's figure. Since the foreseeable future carries no promise of a revival of our possibilities to borrow on the tight international capital markets, we might end up in a little over a year's time with a foreign exchange reserve equivalent to only ten or twenty days' imports.

These are the rather dismal facts based on the best forecasts available today. It is obvious that in such a situation something has to be done.

In early April this year the Government and the Bank of Finland got together to discuss various measures designed to ward off the impending threat to the country's external liquidity. At the outset, it was agreed that the steps to be taken would not include such measures as quantitative import controls, increased customs duties or import surcharges. Nor could we, politically or economically, afford the "horse cure" of natural self-corrective methods, which through a drastic reduction of the central bank money, as the foreign exchange reserve declines, would gradually eliminate the excessive import demand but would also lead to a tighter liquidity position in the economy as a whole, increased unemployment, slow-down of production and so on.

Thus the Government's programme at that time mainly consisted of internal and external measures which would not affect our existing international commitments towards the CONTRACTING PARTIES, our EFTA partners and the International Monetary Fund. The main elements of measures undertaken last spring were a tighter credit policy, increased excise duties on passenger cars (which, as members of the Committee will remember, are de facto free of quantitative restrictions), and further restrictions on hire purchase transactions.
Various measures to facilitate financing of export credits were also included as well as a very modest publicity campaign designed to further the consumption of competitive domestic products. We in Finland have unfortunately had to put up with a sort of national inferiority complex since the war, and the snob value generally attached to foreign products tends to be more pronounced in our country. We feel that this underestimation of national production is something that we can cure.

The measures which I have described have now been in operation for about five months. To our regret we note that additional corrective measures might still be needed. I want to underline again that our approach to the problem is not one of intensifying existing import restrictions. On the contrary, in spite of the serious balance-of-payments situation, an additional liberalization of our import trade was carried out on 1 August 1965, and in conformity with our obligations towards EFTA we are planning further liberalization of our imports at the beginning of 1966.

One of the new balance-of-payments measures which by the way has entered into force this very morning is a curtailing of the liberal treatment which the Finnish tourist has enjoyed in comparison with some of his continental European counterparts. The value of goods which a returning Finnish resident may import free of duty and purchase tax has been reduced from FMks.150 to FMks.70, and the amount of Finnish currency which he may take with him when departing has been cut down by half from FMks.200 to FMks.100. The normal foreign exchange tourist allowance is not affected, however, and therefore we believe that these reductions do not circumscribe the traditional freedom of travel. We fully understand that such measures affect some of our neighbouring countries, particularly Sweden where in 1964 about 45 per cent of the total Finnish tourist expenditure of FMks.222 million was used.

New balance-of-payments measures also include further selective relaxations of credit restrictions regarding exports, which will enable us to compete on fair and equal terms with other suppliers on international markets. Additional measures to encourage the development of what we call "new exports" - in contrast to the traditional ones, pulp, paper and other forest products - are being studied with due consideration given to our international obligations.

The Finnish authorities hope that a programme such as I have just outlined will prove sufficient to arrest the present alarming decline in our foreign exchange reserves before they fall to a level which would endanger the country's international liquidity and the good reputation which Finland, fortunately, enjoys on the international capital markets. The Finnish authorities firmly intend to design their internal fiscal and monetary policies with due regard to the deteriorating
external payments situation, although in the case of fiscal policy such a task is a rather difficult one in an election year. One of the major unknown factors is the forthcoming wage settlement, since existing wage agreements expire at the end of this year. New guidelines for wage policies are being negotiated right now by the labour organizations. The authorities hope that the new collective agreements will not increase wages and fringe benefits beyond the expected normal growth in productivity.

I should now like to turn to the subject of quantitative restrictions.

In spite of the fact that our trade deficit has still been growing from last year's figure we have continued to eliminate quantitative restrictions on imports. However, due to the critical balance-of-payments situation it has not been possible to proceed with the liberalization as rapidly as in previous years.

We have abolished as of 1 August 1965 four global quotas, thus reducing the total number of quotas in the global quota list to fifty. Further, twelve quotas were partly liberalized. These new measures covered all together seventy-one tariff items or sub-items, to the value of 47 million marks based on 1964 figures.

In addition I should like to mention that global quotas were expanded as of 1 January 1965 on the average by 27 per cent which compares with 21 per cent in 1964. As in previous years, the actual licensing has in many instances considerably exceeded the originally fixed quota limits, particularly in the case of passenger cars.

In spite of the difficulties to which I have referred numerous times the Government plans to continue the liberalization in 1966 partly by increasing the global quotas and partly by further reducing the number of these quotas.

During the current year the multilateral import system has been extended to cover four new countries and it is at present applicable to more than 100 countries and almost as many territories.

Before concluding my statement I should like to inform this Committee of certain measures undertaken by my Government with a view to facilitate trade with countries to which Finland applies bilateral import treatment. According to a Cabinet Decree of 24 September 1965, the Licensing Office may decide that the import from the above-mentioned countries of certain commodities, liberalized in our trade with the multilateral countries, is permitted without an import licence provided that the country of purchase and that of origin is the same. The Licensing Office may, however, reintroduce the import licence requirement in respect of these commodities if such a step is considered necessary for instance for balance-of-payments reasons or in cases where the liberalization measure causes or threatens to cause injury to Finnish producers of a similar or competitive product.