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/51), L/2367 transmitting the Finnish publication entitled "Import System of Finland as applied from 1 January 1965", and documentation 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 1 November 1965. This report summarizes the main points made in 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 procedure the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Finland. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision and background material from its last consultation with Finland under Article XIV of the Fund Agreement. The Fund has also provided a supplementary paper dated October 7, 1965 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, the Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of April 21, 1965 taken at the conclusion of the last consultation with Finland under Article XIV of the Fund Agreement. As indicated in the Fund's supplementary background paper a deterioration in the balance of payments position of Finland has subsequently emerged. The general level of restrictions of Finland which are under reference does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves.

"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, and with respect to Part III, relating to system and methods of the restrictions, the Fund again invites attention to the decision taken at the conclusion of its last Article XIV consultation with Finland. The Fund has no further comments on these matters at this time."

Opening statement by the Finnish representative

4. In his opening statement, the full text of which is reproduced in Annex B to this report, the representative of Finland said that at the present time his country was facing a serious balance-of-payments crisis. It was estimated that the current account deficit for the whole of 1965 would be as high as FM650 million, compared with FM565 million for 1964. In 1964 this deficit had largely been covered by long-term borrowing abroad but a sharp tightening of the capital markets in Western Europe and the United States had meant that in January-September 1965 Finland's net foreign long-term borrowing had been at a level of only FM45 million, compared with FM390 million during the corresponding months of 1964. From the beginning of this year until the middle of October the Bank of Finland has lost nearly one third of its net foreign exchange reserves, the decline being in convertible currencies. At the present time reserves equalled about two months' imports.

1 Reproduced in Annex A to this report.
5. Certain corrective measures consistent with Finland's international commitments had been taken in spring 1965. These measures provided for a tighter credit policy, increased excise duties on passenger cars and further restrictions on hire purchase transactions. Various measures to facilitate the financing of export credits were also included. To their regret the Finnish authorities had noted that additional measures might still be needed and a measure curtailing the liberal treatment accorded the Finnish tourist had entered into force on the day of the consultation. The new balance-of-payments measures are also planned to include further selective relaxations of credit restrictions regarding exports. Additional measures to encourage the development of new exports were being studied. The Finnish authorities firmly intended to design their internal fiscal and monetary policies with due regard to the deteriorating external payments situation.

6. The representative of Finland pointed out that, despite the growing trade deficit, his authorities had in 1965 continued to eliminate quantitative restrictions on imports. On 1 August 1965 four global quotas had been abolished and twelve quotas partly liberalized. As of 1 January 1965 global quotas had been expanded by an average of 27 per cent compared with 21 per cent in 1964. In spite of the difficulties which his Government faced it was planning further liberalization of its imports at the beginning of 1966 in conformity with its obligations towards EFTA.

7. In conclusion the representative of Finland said that during the current year the multilateral import system had been extended to cover four new countries and certain measures had been undertaken with a view to liberalizing trade with countries to which Finland applied bilateral import treatment.

Balance-of-payments position and prospects

8. The Committee thanked the representatives of Finland and the International Monetary Fund for the comprehensive documentation which they had provided and for the informative opening statement which had been made. It was recalled that at the last consultation with Finland the Finnish representative had warned the Committee against too optimistic a view of the external financial position and prospects of his country. The Committee noted the serious balance-of-payments difficulties which
had developed since that time and the uncertain outlook for the future. The Committee therefore particularly welcomed the fact that further measures had nevertheless been taken to reduce restrictions on trade and the intimation that the Finnish authorities planned to continue the process of liberalization in 1966.

**Alternative measures to restore equilibrium**

9. In reply to questions on the scope of the credit restrictions imposed by the Finnish authorities in order to eliminate the pressure of overall demand, the representative of Finland recalled that as had been explained at earlier consultations in the Committee the monetary arsenal at the disposal of his authorities was not as highly developed as in other western European countries. The main measures which had been used to exercise control over the commercial banks were a tightening of rediscount conditions and the utilization of extra interest charges penalizing banks not keeping within the target figure laid down by the central bank which provided for a moderate annual increase of 6 per cent in the volume of credit. The central bank could also use moral persuasion and could in the last resort refuse to rediscount bills from a particular bank. There was in Finland no compulsory variable cash reserve requirement system but draft legislation was under examination in the parliament and it was hoped that the legislation would be enacted during the current session. The Finnish authorities had, indeed, preferred to use those measures at present at their disposal rather than quantitative restrictions on imports.

10. One member of the Committee inquired concerning the effects of Finland's new measures on cars and certain other members indicated that their exports of cars to Finland had been severely affected by the imposition of increased excise duties and further restrictions on hire purchase transactions to which reference had been made in the Finnish opening statement. Replying to questions he explained that shortly before the introduction of these measures in the spring of 1965 imports had suddenly increased very considerably in anticipation of the tax but that since that time the level of imports had of course been below normal. This made it difficult to estimate the longer-term effects of the measures. The representative of Finland said that he would convey the concern expressed to his Government.
11. In reply to questions on steps recently taken to encourage the development of new export products (in contrast to the traditional forest-based export products) the representative of Finland explained that a large number of relatively minor measures had been taken, and it was hoped that these would gradually produce results. Among the measures taken were market research, participation in industrial fairs, training of foreign marketing personnel and an expansion of the number of commercial secretaries in the foreign service.

12. In answer to questions the Finnish representative said that an attempt had been made to remove hindrances to foreign investment in Finland but that no special incentives which would not apply equally to Finnish capital were to be introduced as his Government had adopted a non-discriminatory policy in this regard.

System and methods of the restrictions

13. The Committee welcomed the further measures taken by Finland since the last consultation to reduce discrimination arising from bilateralism. Certain members noted that Finland still had bilateral trade and payments agreements with ten countries. In reply to questions on the remaining bilateral agreements, the representative of Finland pointed out that these fall into two distinct categories, those with countries with centrally-planned economies and those with members of the International Monetary Fund. The Committee would be aware of the difficulty of dispensing with bilateral agreements in the first category. As to agreements with members of the Fund, the representative of Finland recalled that since the last consultation agreement had been reached on the termination of the bilateral payments agreement with Turkey, his Government had expressed its willingness to terminate the two remaining bilateral agreements with Fund members (Greece and Colombia) and had made specific proposals to this end. He pointed out however that the termination of these agreements did not depend on his Government alone. Members of the Committee welcomed the declaration of the representative of Finland on the termination of bilateral agreements with members of the Fund.
14. One observer referred to the statement made in the basic document supplied by the Government of Finland (BOP/51, page 3) that Finland's bilateral trade and payments agreements were, with one exception, of a rigid bilateral type. He said that his Government's position on the question of bilateralism versus multilateralism was well known and pointed out that the recently concluded agreement between his country and Finland could not be considered as being of a rigid bilateral type as during the negotiation of the agreement his authorities had requested modifications in the direction of the multilateralization of payments and the liberalization of imports into Finland from his country. The Finnish Government had, however, felt unable to accept these proposals at that time. The representative of Finland noted this statement. He also recalled the last paragraph of his opening statement in which reference was made to measures recently taken by his Government with a view to liberalizing import controls in trade with countries to which Finland applies bilateral import treatment.

15. In response to a question, the representative of Finland informed the Committee of the breakdown of imports of coarse grains and alcoholic beverages as between multilateral and bilateral countries. In 1964 the f.o.b. values of imports from multilateral and bilateral countries respectively were in thousands of Finnish marks as follows: grain, 12,896 and 28,331; alcoholic beverages, 18,568 and 1,025. In reply to questions he said that both were imported by State monopolies which in their operation were guided by commercial considerations and, in the case of the State monopoly for alcoholic beverages, by social considerations.

16. Reference was made to the statement made in the Finnish opening remarks that in conformity with obligations towards EFTA the Finnish authorities were planning further liberalization of imports at the beginning of 1966. The representative of Finland confirmed that, as in past years, such liberalization would be applied to all countries and territories to which Finland applied multilateral import treatment.
Effects of the restrictions

17. One member of the Committee recalled that at the last consultation his delegation had mentioned that details of Finnish quotas for apples and pears were usually not made available in sufficient time for distant exporters to make accurate reservations of shipping facilities and had received certain assurances from the Finnish authorities on this matter (see 1/2299, paragraph 22), the understanding being that publication of the details of import quotas not later than the first week in January each year would be acceptable. His country had in December 1964 instructed its Trade Commissioner in the area to advise on details of the quotas as soon as they became available. After several enquiries advice of the quotas in respect of the licensing period 1 April to 30 June 1965 was finally received on 30 April 1965, i.e., one month after the licensing period had commenced. A firm undertaking was again requested in the Committee that notification of the details of the quotas for apples and pears would be given sufficiently early for distant exporters to reserve shipping space. The Finnish representative agreed to report this statement as well as the intervention of another member on the subject of apples and pears to his authorities who would definitely make their very best endeavours to deal with the matter in a way satisfactory to the exporting countries concerned.

General

18. The Committee once again then thanked the Finnish representative for the detailed information supplied during the course of the consultation. The Committee noted the undeniable deterioration in the Finnish balance-of-payments position since the time of the last consultation and, in the light of this, welcomed the steps taken during that period by the Finnish authorities to eliminate certain quantitative restrictions on imports, to increase the size of global quotas and to reduce discrimination arising from bilateralism. They expressed the hope that further progress would be possible in the forthcoming period.

19. The representative of Finland thanked the Committee for its sympathetic consideration of the situation of his country and assured its members that their views would be transmitted to his Government.