INTERNATIONAL MONETARY FUND EXECUTIVE BOARD DECISION
TAKEN AT THE CONCLUSION OF THE FUND'S CONSULTATION
WITH FINLAND ON 8 JUNE 1966

1. This decision is taken by the Executive Directors in concluding the 1965 consultation with Finland, pursuant to Article XIV, Section 4 of the Articles of Agreement.

2. As a result of a smaller growth in exports and in fixed investment, the growth rate of the Finnish economy slowed down in the second half of 1965 and the employment situation weakened. The real gross domestic product in 1965 was 5 per cent higher than in 1964 compared with an increase of 6 per cent between 1963 and 1964. In 1965, wages and costs rose considerably less than in the previous year and the cost of living rose by 4 per cent. Wage rates are estimated to be higher by some 4 per cent in 1966 than in 1965, only slightly more than the expected gain in productivity in manufacturing industry.

3. Although the growth of the value of commodity imports declined from 24.6 per cent in 1964 to 9.3 per cent in 1965, the deficit on the current account of the balance of payments rose from $175 million in 1964 to $187 million as a result of a slower growth in the value of commodity exports and a decline in the net receipts from services. At the same time the net inflow of official and long-term private capital declined substantially and the current account deficit was thus, to a great extent, financed by a running down of the foreign exchange reserves. At the end of 1965 the net external assets of the banking system (including the gold tranche position in the Fund) totaled $239 million or $87 million less than a year earlier, almost the entire reduction taking place in net convertible currencies. Reserves continued to decline in the first quarter of 1966.

4. In an effort to bring the current account deficit of the balance of payments into a more appropriate alignment with Finland's borrowing possibilities, the Finnish authorities took steps in 1965 to moderate the growth of credit and imposed tighter conditions on installment purchases. The banking system's claims on the private sector rose by 12.1 per cent in 1965 compared with 13.5 per cent in 1964. Efforts were also made to restrain the growth of government expenditure and the budget deficit on current and capital account was reduced from Fmk 410 million in 1964 to Fmk 119 million in 1965. However, it appears that this deficit, on the basis of the approved budget, will rise again in 1966. In the light of this situation the monetary authorities continued their policy of credit restraint.
The Fund considers that the budgetary position should be strengthened in order to prevent an undue tightening of monetary conditions, with undesirable consequences for investment and future growth.

5. Finland has continued to reduce restrictions and discrimination affecting imports except that free licensing of imports of passenger cars has been curtailed in the first half of 1966. The Fund welcomes the measures of liberalization taken thus far, and considers that continued progress in this direction will facilitate the sound growth of the Finnish economy. The Fund notes that the Finnish Government has expressed its readiness to cooperate fully in any efforts to eliminate the remaining two bilateral payments agreements with Fund members.