OPENING STATEMENT OF THE REPRESENTATIVE OF FINLAND

When I looked through, before starting to write an outline of the matters requiring some elucidation at the outset of our present meeting, last year's statement presented in this very same forum, I noticed that my predecessor made it quite clear, at that time, that Finland was facing "a very serious balance-of-payments crisis." I am sorry to report that these expectations have, in the meanwhile, proved to be only too justified. We are now right in the middle of an extremely serious balance-of-payments crisis. I do not wish to dramatize this too much, but the fact is that since the beginning of 1965 Finland has lost over one-half of its net foreign exchange assets. At the beginning of that year, Finland's foreign exchange assets - taking the Bank of Finland assets and deducting from them the net indebtedness of the so-called authorized banks, i.e. banks authorized to deal in foreign exchange - were 945 million Finnish markkas, or about 295 million dollars. The corresponding figure for the end of October was 412 million markkas or less than 130 million dollars. While more recent figures for the authorized banks are not available, it is known that the Bank of Finland net reserve has further declined by about 70 million Finnish markkas between the end of October and the statement day, 22 November.

After these dismal statistics, I take pleasure in being able to point out certain factors which might give reason to some better hopes for the future. The external liquidity problem, really, has become, in the past year and a half, a truly national problem in Finland. This is not only evidenced in the extremely strict monetary policy, but also in the fact that the Government budget for 1967 is definitely an "austerity budget", characterized by severe tax increases. As the present Government, which came into office last spring, commands a three-quarters majority in the Parliament, it is reasonably likely that the budget proposition will be accepted without major amendments.

The members of the Committee will surely appreciate the fact that a restrictive but balanced budget, together with an extremely tight monetary policy, will carry as a necessary consequence a decline in the economic growth rate of the...
nation during the coming year. This is the price which we shall have to pay - and which we are willing to pay - in order to bring our balance-of-payments deficit to such a level that it could be managed with normal foreign long-term borrowing. You all know how much tighter the international capital markets have become since the beginning of 1965. As was noted in the preceding Consultations in this Committee, Finland's ability to borrow on the long-term international capital markets has severely declined. Against a balance-of-payments deficit of the order of 600 million markkas in 1965, we were able to borrow long-term external funds only to the amount of 161 million markkas, or about $50 million. This is less than one-quarter of the deficit, with the rest being financed, as I mentioned before, from the foreign exchange reserves and by short-term foreign borrowing - the latter being a necessary but by no means a prudent way of financing balance-of-payments deficits. Long-term borrowing abroad will, in 1966, be of roughly the same magnitude as in 1965, since no revival for Finnish borrowing on international capital markets can be expected.

It was explained already in the last year's Consultations that the Finnish authorities, in their measures for dealing with the balance-of-payments crisis, had chosen the much more difficult road of indirect and slow-working measures which affect the total demand and they were determined to avoid the easy but at the same time harmful measures of quantitative restrictions, tariff increases, surcharges and so on. Our authorities have been criticized at home for this approach, but we believe it to be the correct one, especially regarding our ties to the GATT and the European Free Trade Area.

We are thus fairly confident that, through an austerity programme reflected in the budget and in the monetary policy, the extremely large balance-of-payments deficits of 1964 and 1965 will be brought down to manageable levels. In this, the policies of the Finnish authorities would be helped greatly by an easing of the international capital market. Some optimists predict that this is forthcoming, but these assurances are not sufficiently reliable to be used as a policy basis. Therefore, the economic policy of the authorities will have to be based on strict austerity, largely due to the fact that the "international margin", i.e. the external liquidity situation, in our case is extremely limited in comparison with other Western European countries. With reserves of less than 400 million, one cannot manage current account deficits of 600 million markkas. We know of countries which have managed with even negative reserves, but they have had better access to short-term credit facilities than we have.

I should like to make one further point, since the question of our last remaining bilateral agreement with a member of the International Monetary Fund - after our trade with Turkey and Greece was put on a multilateral basis as mentioned in the basic document distributed - has been frequently discussed
in these Consultations. After the Annual Meeting of the Fund in September, discussions were conducted between the Colombian and Finnish authorities which resulted in an understanding that this bilateral payments agreement would be eliminated in about one year's time. I hope that this information will please members of the Committee.

It is a source of genuine satisfaction to me, Mr. Chairman, that I can conclude by pointing out that—despite the very real balance-of-payments difficulties which I have shortly touched upon—Finland has been able to go on with her appointed task of gradual abolition of the limited number of quantitative restrictions still in force. I do hope that the members of this Committee will fully appreciate the fact that the further deterioration of our balance-of-payments position has not been allowed to interfere with this process. It should also be stressed that, as I shall shortly explain in somewhat more detail, my Government has the intention of suppressing, at the beginning of next year, a further quite large number of outstanding global quotas.

It might be remembered that four quotas were totally abolished in the course of the year 1965 and twelve others partially liberalized. The beginning of 1966 was marked by the suppression of fifteen more quotas, covering 174 tariff items and sub-items and representing a trade value of 75 million Finnish marks, calculated on the basis of the actual 1964 f.o.b. import figures.

A new, decisive step in this direction—based on Finland's undertakings within the European Free Trade Association—will be taken at the beginning of next year. It is the intention to abolish, on that date, thirteen more global quotas including, for example, a large quota for machines and appliances as well as television and radio sets. This would mean the further suppression of 144 tariff items and sub-items, covering some 135 million marks according to 1965 import statistics. The corresponding amount on the basis of this year's global programme figures is 168 million marks.

It should also be noted that the process of suppression was and will be accompanied by a substantial enlargement of the remaining quotas.

I think it can be said that the expected new measures will constitute a major step towards our ultimate goal: the total elimination of global quotas. If the plan is approved, the number of remaining, enlarged quotas will be only ten, with an approximate trade value of 300 million marks, and we sincerely hope to be able to abolish those residual quotas at the outset of the year 1968.