First of all, I think that the Finnish delegation owes an apology to you, to the members of the Committee and to the secretariat. The date of this consultation and the date of the devaluation of the Finnish markka, which the representative of the International Monetary Fund has just referred to, were fixed quite independently from each other, as it should be. We are sorry that we are now facing a situation completely different from that which was expected to prevail when the decision regarding today's consultation was made. It will take some time before the dust will settle. It will also take some time before the outlines of future economic policy will be available in such detail as this Committee is accustomed to expect. It will take even longer before an assessment of the economic decisions taken in Helsinki last Wednesday night can be objectively appraised.

Nevertheless, when we consulted the secretariat last week - after the devaluation - we felt that a consultation at this time would still serve a useful purpose. There would be a number of questions unrelated to the change in par value that various delegations represented here would like to discuss with us. And, moreover, we would now have a forum and an audience of experts to which to present our views on the important policy change that has just taken place. In fact, it so happens that this Committee is the first international forum after the Board of Executive Directors of the Fund where this question will be debated.

In the consultations in this Committee held last December, the Finnish delegation described our balance-of-payments crisis and the various measures that the authorities have undertaken in order to bring about a better external equilibrium. Further measures for this purpose have been described in the Fund supplementary paper which has been distributed to you. Just to mention the two most important ones since our last meeting, the so-called "cash payment" rule applied by the Bank of Finland for imports before customs clearance was extended to cover about 20 per cent of total imports, and the selective credit policy was intensified. For instance, the Central Bank announced itself prepared to match any reasonable foreign export credit financing in cases where the domestic bidder was clearly at a disadvantage when the credit facilities available to him and to his foreign competitor were compared and the former was suffering from the results of the overall domestic credit squeeze.

The economic policies of the Finnish authorities were based on an austerity budget, a continued tight credit squeeze and on an assumption that, together with a strictly selective Central Bank credit policy, the balance-of-payments deficit could be brought within manageable levels within a reasonable time.
This was more or less also the policy on the basis of which the IMF granted Finland in March this year a stand-by credit of $93.75 million. This credit was fully utilized by late September, and Finland is grateful to the Fund for this recourse to the Fund's resources, which significantly helped our external liquidity during the crucial months of this year.

What, then, were the reasons which were behind the new assessment of the situation by the Finnish authorities as revealed by last week's devaluation?

In the first place, it had become more and more apparent that the international recession which had prevailed in the economies of Finland's most important trading partners was not going to be reversed soon enough. Beginning early in 1966, the indices of total production in Western European countries, weighted according to Finnish exports, have shown a continuous tendency towards stagnation. Prices of our main exports, wood products, have fallen, are expected to fall further and are not expected to recover very soon.

Secondly, it must be frankly admitted that there has been an important leak in the balance-of-payments policy as regards private consumption. This year's budget was, truly, balance-of-payments minded since its overall effect was restrictive. As far as private consumption is concerned, however, certain political reasons made it also consumption-minded, and that has been reflected in the foreign trade statistics. Private consumption has been running at a rate of roughly 10 per cent above last year's values, and since much of that has been directed towards higher standard-of-living goods, which the Finnish industry has not been especially able to produce, this demand has been satisfied largely by foreign imports.

Moreover, there has been widespread speculation against the markka in recent months. These "leads and lags" were particularly visible in the autumn, draining the foreign exchange reserves, but it is hoped that they will now be reversed and will produce a corresponding improvement in the foreign exchange reserves.

The dilemma that the Finnish authorities face was really serious. Utilizing the second line of reserves (especially the Scandinavian Central Bank swap-arrangement) it might have been possible to carry on the present policies until some time next year, but at a great social cost of unemployment and under-utilization of resources. Quantitative import restrictions were ruled out by the government as being no panacea to Finland's troubles. Economic growth rate was going to be near zero for a long time.

Thus, reluctantly, the authorities came to the conclusion that a fundamental disequilibrium existed in the Finnish economy and that it could only be corrected through a change in the par value of the Finnish markka. Thus, with the concurrence of the Fund, the par value was changed last Thursday from 3.20 markkas per dollar to 4.20 markkas per dollar, a devaluation of the external value of the currency of about 24 per cent. This seems to be realistic: Finnish cost and
wage levels have risen, within the last ten years, about 15 per cent more than those of our major trading partners, and the inflationary impact of the measure will cause a further rise in prices and costs.

In order to counter the inevitable inflationary impact of these measures, the Government took certain steps:

1. An export levy act was submitted to Parliament in order to tax away the immediate windfall profits of the export industries, the rate of the tax will be 14 per cent for the first three months, then gradually declining. The yield of this levy will be used for development purposes.

2. Finland undertook unilaterally to abolish duties on commodities on the so-called "décalage" list of the FINEFTA Agreement.

3. A price freeze was declared on commodities affecting the cost-of-living index.

4. The Bank of Finland will abolish, as of 1 January 1968, its regulation requiring cash payment for certain imports (comprising at present about 20 per cent of total imports).

The devaluation of the par value of the Finnish currency, together with the Export Charge Bill, is essential from the point of view of the present exercise because, by taking these measures, Finland did not have to resort to the obvious alternative, i.e., a tightening of existing import restrictions, in order to safeguard the balance of payments.

The devaluation will create more favourable conditions for Finnish production in general. It will be possible, we hope, for Finnish exports to maintain their traditional markets in a difficult situation, characterized, to a great extent, by slackening demand and falling prices. At the same time imported goods will meet with stronger competition from domestic producers on the market.

It should be remembered, however, that an increase of the competitiveness of Finnish export products abroad presupposes a continuous improvement of the efficiency of our production. This is why the increased export earnings will not be entirely blocked, and furthermore the amount collected as an export levy, to begin with 14 per cent, later less, will be used for purposes aiming at a structural improvement of the factors affecting our production and growth. In concrete terms, this means that one third of the amount collected, presumably totalling Fmk 600 million in the first twelve-month period, will be invested in
enterprises where the Government holds a majority interest, the State railways, and the like; one third will be used for the development of energy production; and one third will be used for the financing of export and development credits as well as for forest improvement projects. In contrast to 1957, when the Finnish markka last was devalued, the conditions for a devaluation will now, so to speak, be created afterwards. This requires, among other, a large amount of restraint and co-operation especially at home but also abroad.

Notwithstanding the alteration of the rates of exchange, the overall balance-of-payments situation is still serious, but may be expected to improve as the change in par value will produce its long-term effects. As to the future, it is presumed that no noteworthy increase of the exports can be expected in the immediate future, the demand situation being what it is. On the import side, it is well known that Finland is largely dependent on imports of both raw materials, investment goods and consumer goods. It can therefore be forecast that the devaluation will not have any major contracting effect on our imports in a situation where production is supposed to remain stable or even increase.

That is the outline of the background against which we feel that our liberalization measures should be judged. As you may remember, fifteen quotas were totally abolished at the beginning of 1966, covering 174 tariff items and sub-items. The beginning of 1967 was marked by the suppression of thirteen further quotas, covering 131 tariff items and sub-items with a trade value of Fmk 135 million, calculated on the basis of actual 1965 f.o.b. import figures. The remaining global quotas were increased in 1967 by an average of 23 per cent, as from the level of the previous year. Apart from this, Finland made considerable commitments to eliminate quantitative import restrictions on several agricultural products in the Kennedy Round.

Thanks to the devaluation I am now in a position to state that no further quotas will be established. On the contrary it is the intention of the Finnish Government to take further liberalization measures at the beginning of next year, in accordance with Finland's obligations towards her EFTA partners. It is thus the intention of my Government to abolish also the existing quotas for passenger cars, the licensing of which has been temporarily halted in order to avoid unnecessary speculation on automobile imports pending the parliamentary approval of the new Bill on the amended tax on automobiles and motor-cycles. The abolition of further quotas will, according to present plans, not be limited to EFTA countries. Automatic readjustments of existing quotas will be made as soon as possible in order to compensate for the effects of the devaluation.
Finally, I should like to mention that the last remaining bilateral payments agreement between Finland and another Fund member, that with Colombia, will cease to be effective by 1 January 1968, subject to certain transitory arrangements.

With reference to the basic document (BOP/71) paragraph 2/3(c) I should like to add that Finland has a special agreement with Czechoslovakia which provides for payment in convertible currencies of 50 per cent of the outstanding balance on the clearing account four times yearly. This agreement is, so far, valid to the end of 1967.

We fully realize that the information that we are able to present to the Committee is rather inadequate at this time. A certain time will have to elapse before the new economic policy of the Finnish Government can be appraised, and therefore it is likely that we shall be able to discuss this new policy in detail in the next consultations only. I hope, however, that a useful purpose will be served by the forthcoming discussion, and I myself and my colleagues will make every effort to provide as detailed a supplementary information as is possible to the members of the Committee.