GENERAL AGREEMENT ON
TARIFFS AND TRADE

INTERNATIONAL MONETARY FUND EXECUTIVE BOARD DECISION
TAKEN AT THE CONCLUSION OF THE FUND'S CONSULTATION
WITH FINLAND ON 28 JUNE 1968

1. This decision is taken by the Executive Directors in concluding the 1967 consultation with Finland, pursuant to Article XIV, Section 4, of the Articles of Agreement.

2. Affected by restrictive domestic financial policies and by sluggish demand conditions in Western Europe, the gross domestic product rose, in real terms, by 2.3 per cent in 1967, approximately the same as a year earlier. Unemployment rose sharply, especially toward the end of the year. There was a slight decline in real gross fixed investment. The volume of exports of goods and services rose by 4.4 per cent, with all of the increase in commodity exports going to those countries with which Finland trades on a bilateral basis. The volume of imports of goods and services declined by 1 per cent. The deficit on the current account of the balance of payments was, thus, reduced from $207 million in 1966 to $163 million. At the same time there was an increase in long-term capital inflow. The heavy reserve losses of the preceding years were replaced by a decline of $5 million in 1967, but this was accompanied by substantial use of Fund resources. In the first five months of 1968 reserves rose by $115 million.

3. On October 12, 1967 the Finnish markka was devalued by 23.8 per cent and a special temporary tax was imposed on most exports. Government expenditure is being kept under strict control and it is estimated that the cash budget (including the proceeds of the export levy) will show a surplus in the calendar year 1968 of about Fmk 400 million compared with a deficit of about Fmk 100 million in 1967. In view of the withdrawal of liquidity resulting from the government surplus, monetary policy in 1968 aims at supplying additional liquidity to the economy on a selective basis. The budgetary restraint and the easing of monetary conditions in 1968 will facilitate the needed shift in resources. The Fund believes it important however that liquidity should be supplied to the economy in such a manner that monetary policy can play an effective role in offsetting deterioration in the budget accounts when the export levy is reduced in 1969.

4. The Government has placed particular emphasis on the need to moderate the growth of costs and prices. Agreement has been reached on (a) the elimination of the clause contained in the current wage agreement providing for index compensation at the end of 1968 and the limitation of increases in hourly wages.
in 1969 to a flat sum estimated to raise the wage bill by 3.5 per cent; (b) a smaller increase in agricultural prices in the crop year 1968/69 than provided for under current legislation. In April 1968 Parliament passed a Law to Safeguard Economic Progress in the years 1968/69 empowering the Government to control prices, rents, and wages and abolishing price index linkages in rent and wage agreements and most financial contracts. The Fund welcomes these measures which taken as a whole should facilitate further growth and strengthen the external payments position.

5. The Fund notes with satisfaction that Finland has continued to make progress in the liberalization of trade and payments notwithstanding the payments difficulties of recent years. Effective January 1, 1968, all quotas on industrial imports from countries in the multilateral area were eliminated. The exchange regulations concerning current invisibles and capital transactions were also substantially changed and liberalized. Moreover, the one remaining payments agreement with a Fund member was eliminated.