INTERNATIONAL MONETARY FUND EXECUTIVE BOARD DECISION
TAKEN AT THE CONCLUSION OF THE FUND'S CONSULTATION
WITH FINLAND ON 1 MARCH 1972

1. This decision is taken by the Executive Directors in concluding the 1971 consultation with Finland, pursuant to Article XIV, Section 4 of the Articles of Agreement.

2. After a period of rapidly rising economic activity in 1969 and 1970, the rise in output slowed down in 1971 under the influence of weaker foreign demand and a reduced propensity to invest. The slowdown was further accentuated by prolonged strikes in the metal and construction industries at the beginning of the year. Gross domestic product, at constant market prices is estimated to be about 1.5 per cent higher in 1971 than in 1970. Unemployment is showing a tendency to rise, and by the fourth quarter of 1971 had reached (on a seasonally adjusted basis) 2.5 per cent of the labor force.

3. The value of exports, which rose sharply in 1969 and 1970, rose only slightly in 1971, partly because of the strikes and partly reflecting weaker demand conditions. The value of imports rose somewhat more strongly. As a consequence, the current account, which showed a surplus of $20 million in 1969, showed a deficit of $239 million in 1970 and about $340 million in 1971. Reserves, which had increased sharply in the previous three years, continued to rise largely as a result of long-term borrowing. At the end of December 1971 the gold and foreign exchange reserves of the Bank of Finland amounted to the equivalent of $714 million.

4. An active incomes policy has been pursued since the devaluation in 1967 with the main aim of restraining the rise in costs and prices. In 1971 negotiated wage increases were substantially in excess of productivity gains, and taking account also of wage drift, hourly wages, on average, exceeded those in 1970 by 12.8 per cent. Consumer prices, on average, rose by 7 per cent compared with 1970. The Fund shares the hope of the Finnish authorities that the incomes policy negotiations currently taking place will help to moderate substantially cost and price increases.

5. Because of commitments undertaken in connection with the incomes policy agreements, the main restrictive impact on demand was brought about through curbs on public expenditure, notably central government investment. In order to curb consumer expenditure and improve the balance of payments, a supplementary sales tax of 15 per cent was imposed on domestic as well as imported consumer durables (in force until the end of the year) and an import equalization tax ranging between 1.2 and 5 per cent on
specified imports was imposed in May 1971. The discount rate of the Bank of Finland was raised from 7 per cent to 8 1/2 per cent. At the same time, in order to sustain the level of investment a number of expansionary measures, including the early release of counter-cyclical deposits, were issued. With effect from January 1, 1972 the discount rate of the Bank of Finland was reduced to 7 3/4 per cent. The Fund believes that the steps taken to sustain the level of investment were timely and that they should help to moderate the decline in activity.

6. Following action by the U.S. authorities in the exchange field in August 1971 the Finnish authorities along with the authorities of many other Fund members no longer undertook to apply the minimum buying rates previously established for the U.S. dollar, and in December a central rate for the U.S. dollar was established of Fmk 4.10 per US$1, representing a 5.6 per cent depreciation from the par value of the markka expressed in terms of gold. This action was appropriate in the light of Finland's balance of payments position. It should permit the authorities to preserve the gains that have been made in the liberalization of trade and payments and the Fund hopes that efforts will be made to achieve further reduction in the reliance on external restrictions.