1. This decision is taken by the Executive Directors in concluding the 1976 consultation with Finland, pursuant to Article XIV, Section 4, of the Articles of Agreement.

2. The rate of increase in domestic demand declined from about 6.5 per cent in real terms in 1974 to about 3.5 per cent in 1975 and, with a fall of over 15 per cent in the volume of exports of goods and services, gross domestic product remained unchanged. Unemployment, which fell in 1974 to the unusually low rate of 1.7 per cent of the labor force, increased to 2.2 per cent in 1975 and by January 1976 is estimated to have reached a seasonally adjusted level of over 3 per cent. At the same time, the increase in consumer prices, with wages rising sharply in 1975, amounted to nearly 18 per cent, a little higher than in 1974.

3. The deficit on current account increased from about SDR 1 billion in 1974 to about SDR 1.8 billion in 1975, the equivalent of over 8 per cent of GDP; the net inflow of long-term capital rose from about SDR 200 million to over SDR 1 billion. There was also a substantial inflow of short-term capital in 1975 and the overall deficit amounted to about SDR 250 million. Gross official convertible reserves fell in 1975 by SDR 117 million to SDR 401 million at the end of the year, equivalent to less than one month's merchandise imports.

4. The balance on the government cash accounts changed from a surplus in 1974 to a deficit in 1975, which was equivalent to about 2 per cent of GDP. The financing of a substantial part of this deficit through the central bank, and the much larger than expected inflow of foreign capital made monetary conditions easier than had been intended, and net domestic assets of the banking system rose by 26 per cent against 24 per cent in 1974. The Fund supports the efforts being made to contain the rise in government expenditure in 1976, and to reduce the government deficit. It welcomes the intention of the Finnish authorities to follow a policy of credit restraint in order to help reduce the rate of price inflation and bring about a sharp reduction in
the current account deficit of the balance of payments. The Fund believes that continued vigilance will be needed to support the 1976 incomes policy settlement.

5. The Fund regrets the decision of the Finnish authorities to postpone from March 24, 1976 until the end of the year the termination of the import deposit requirement introduced in March 1975 but welcomes the decision to phase out the requirement according to a fixed schedule. Finland still maintains some restrictions on current international transactions for balance of payments and other reasons, and the Fund hopes that these restrictions can be relaxed as the balance of payments position improves. The Fund believes that the remaining bilateral payments arrangement with a Fund member should be eliminated.