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**FOR  
AGENDA**

EBS/76/118

CONFIDENTIAL

March 12, 1976

To: Members of the Executive Board  
From: The Secretary  
Subject: Finland - Purchase Under the 1975 Oil Facility

Attached for consideration by the Executive Directors is a communication from Finland informing the Fund of Finland's intention to request a purchase under the 1975 oil facility, together with the staff's analysis and recommendation.

This subject will be brought to the agenda for discussion on a date to be announced.

Att: (1)



INTERNATIONAL MONETARY FUND

Finland - Purchase Under the 1975 Oil Facility

Prepared by the European Department

(In consultation with the Exchange and Trade Relations, Legal,  
Research, and Treasurer's Departments)

Approved by A. Pfeifer

March 11, 1976

I. Introduction

In a letter dated March 10, 1976 (copy attached), Finland has informed the Managing Director of its intention to request a final purchase under the Oil Facility for 1975 in the amount the Fund determines will be available to Finland under paragraph 4 of Executive Board Decision No. 4954-(76/16), adopted February 11, 1976. Finland made no purchase under the 1974 Oil Facility, but made one purchase under the 1975 Oil Facility equivalent to SDR 71.25 million, or 30 per cent of its calculated maximum access of SDR 237.5 million. A waiver of the conditions of Article V, Section 3 (a) (iii), will be required.

In the letter dated March 10, 1976, the Government of Finland has stated that the purchase is required to meet a balance of payments need in 1975 and that, as stated in paragraph 5 of Finland's letter to the Fund dated May 21, 1975, requesting a purchase under the oil facility, the representations in the letter of May 21 apply with respect to the intended request. These representations are those required by paragraph 5 of Executive Board Decision No. 4241-(74/67): under paragraph 5(a) with respect to consultations; under paragraph 5(c) with respect to the use of restrictive measures; and under paragraph 5(d) with respect to repurchases.

The Fund's holdings of markkaa now stand at 137.5 per cent of Finland's quota of SDR 190 million. Excluding the previous purchase under the 1975 Oil Facility, Fund holdings of markkaa amount to 100 per cent of quota. Finland is a participant in the Special Drawing Account and has received allocations totaling SDR 61.5 million. Current holdings are SDR 66.2 million, or 107.7 per cent of net cumulative allocation.

On June 4, 1975 (EBM/75/98) the Executive Board approved a stand-by arrangement for one year in an amount equivalent to 50 per cent of Finland's quota (EBS/75/174, 5/28/75). To date Finland has not requested any purchase under the arrangement. Finland's request for the initial purchase under the 1975 Oil Facility (EBS/75/173, 5/28/75) was considered by the Executive Board at EBM/75/98, 6/4/75. The 1976 Article XIV consultation discussions with Finland were held in Helsinki in January/February 1976, and the Staff Report will be issued shortly.

## II. Energy

The Finnish economy is highly energy-intensive, with energy demand per capita and per unit of national product among the highest in the world. As a result of the cold climate, space heating accounts for about 30 per cent of total energy consumption. The forest industries (wood, paper, and pulp) are also highly energy-intensive, accounting for a further 30 per cent of total energy use in Finland. In the 1960-1973 period, energy consumption increased at an average annual rate of about 6 per cent, or somewhat faster than the rate of growth of GDP. About half of Finland's use of energy is derived from petroleum and around 70 per cent of total energy needs are met from imports (Table 1).

Table 1. Finland: Domestic Energy Consumption  
by Source of Energy

(In per cent of total)

	1972	1973	1974	1975	1976 Forecast	1980 Forecast
Oil	54.6	56.6	52.2	52.5	51.6	50.8
Coal	8.5	8.7	9.4	8.5	11.5	12.0
Natural gas	0.9	0.9	2.7	3.9	4.4	4.3
Electricity imports	<u>5.0</u>	<u>4.7</u>	<u>3.6</u>	<u>4.6</u>	<u>4.3</u>	<u>0.5</u>
Imported	69.0	70.9	67.9	69.5	71.8	67.6
Hydroelectricity	12.1	11.4	14.2	14.1	12.7	10.7
Nuclear energy	--	--	--	--	--	7.9
Peat	0.2	0.3	0.1	0.1	0.4	3.4
Other domestic fuels <u>1/</u>	<u>18.7</u>	<u>17.4</u>	<u>17.8</u>	<u>16.3</u>	<u>15.1</u>	<u>10.4</u>
Domestic	31.0	29.1	32.1	30.5	28.2	32.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Data provided by the Finnish authorities.

1/ Including wood, waste liquor, and other.

Table 2. Finland: Oil: Exports, Imports, and Domestic Consumption

	1972	1973	1974	1975	1976
				Estimate	Projection
	(In thousands of tons)				
Exports, f.o.b.	<u>147</u>	<u>175</u>	<u>269</u>	<u>130</u>	<u>400</u>
Crude oil	---	---	---	---	---
Refined products	147	175	269	130	400
Imports, c.i.f.	<u>13,144</u>	<u>13,851</u>	<u>13,893</u>	<u>12,230</u>	<u>12,160</u>
Crude oil	<u>9,234</u>	<u>9,523</u>	<u>9,468</u>	<u>9,190</u>	<u>11,600</u>
Refined products	3,910	4,328	4,425	3,040	560
Total net imports	12,997	13,676	13,624	12,100	11,760
Domestic consumption	11,390	12,610	11,370	11,320	11,360
	(In millions of SDRs)				
Exports, f.o.b.	<u>4</u>	<u>5</u>	<u>31</u>	<u>13</u>	<u>47</u>
Crude oil	---	---	---	---	---
Refined products	4	5	31	13	47
Imports, c.i.f.	<u>303</u>	<u>370</u>	<u>1,031</u>	<u>861</u>	<u>886</u>
Crude oil	<u>184</u>	<u>229</u>	<u>687</u>	<u>644</u>	<u>836</u>
Refined products	118	141	344	217	52
Total net imports	299	365	1,000	848	841
Price of imported crude oil, c.i.f. (U.S. dollars per barrel) <sup>1/</sup>	2.964	3.927	11.952	11.655	11.557

Source: Data provided by the Finnish authorities.

<sup>1/</sup> Unit values derived from volume and value data of crude oil imports; conversion factor of 7.3 barrels per ton.

Finland's conservation program is aimed at changing consumption patterns and at rationalising consumption in such a way as to achieve a permanent reduction in energy use in the order of 10-15 per cent. To secure such savings, the policy of the Government has been, in general, to allow the increase in the price of oil and other fuels to go through to domestic prices. To this end, the price of gasoline has been permitted to rise by about 80 per cent from the autumn of 1973 to January 1976 to over US\$1.50 per gallon of high octane gasoline. Heavy heating oil more than doubled in price in the same period, while the price of light heating oil increased by about two thirds. The Government has also participated in the financing of industrial energy-saving investments and is supporting research and development work in this area. Total energy consumption declined in both 1974 and 1975; consumption of oil fell by 10 per cent in 1974 and is estimated to remain unchanged in 1975 and 1976.

All of Finland's oil is imported and the net cost of imported oil and oil products rose by SDR 635 million in 1974 to a total of SDR 1,000 million (Table 2). A reduction in the net import cost to about SDR 840-850 million is estimated for 1975 and 1976, partly reflecting some decline in average import prices, but primarily resulting from the reduced volume of oil imports. Most oil imports come from the U.S.S.R. (Table 3); however, supplies from other sources are expected to become increasingly important since the U.S.S.R. is unable to further increase exports of crude oil to Finland.

Table 3. Finland: Imports of Crude Oil by Principal Supplier Countries  
(In per cent of total)

	1972	1973	1974	<u>1975</u> Estimate	<u>1976</u> Projection
U.S.S.R.	65	68	65	64	60
Iran	30	20	23	22	25
Saudi Arabia	4	7	10	11	10
Others	<u>1</u>	<u>5</u>	<u>2</u>	<u>3</u>	<u>5</u>
Total	100	100	100	100	100

Source: Data provided by the Finnish authorities.

The structure of Finland's oil imports is estimated to change substantially in 1976 as the first phase of a new refinery comes into operation, which will sharply reduce Finland's imports of refined products and also provide some increase in the exports of petroleum products. The new refinery is expected to be in full operation by 1978 at which time Finland's refining capacity is expected to exceed domestic requirements.

Alternative sources of domestic energy are severely limited. Production of hydroelectric power cannot be significantly increased. A number of nuclear power plants are presently under construction and it is estimated that nuclear power will account for about 8 per cent of total energy consumption by 1980. It is also the aim to increase substantially the production of peat for energy generation. The Government has also given priority to investment projects based on the utilization of domestic fuels.

### III. Balance of Payments Adjustment and Need

#### 1. Adjustment

In 1975 the current account deficit rose substantially, from SDR 1,009 million in 1974 to SDR 1,811 million, much above the projected level of about SDR 1,200 million. At the same time Finland was able to attract SDR 1,442 million in net inflow of nonmonetary capital, compared with SDR 547 million in 1974. Substantial foreign borrowings were also undertaken by commercial banks; this more than offset the change in the net position on Finland's tied accounts, which moved from a large deficit in 1974 to a substantial surplus in 1975. As a result, the overall balance of payments deficit was held at SDR 191 million, as against the original expectation of SDR 132 million. The deterioration in the current account deficit was brought about by a combination of a sharp drop in exports, as the depth and duration of the recession abroad led to a decline of about one sixth in the volume of exports, and of a continuing increase in imports, as domestic demand continued to rise. For a more detailed discussion of developments in 1975, see the Staff Report on the 1976 Article XIV consultation with Finland.

The attached letter sets out the financial program of the Finnish authorities for 1976. The principal aim of the program is to reduce the current account deficit from SDR 1,811 million, or about 8 per cent of GDP, in 1975 to about SDR 665 million, or less than 3 per cent of GDP, in 1976; the overall balance of payments deficit is estimated to amount to about SDR 125 million. The target for 1976 is somewhat higher than envisaged in the financial program prepared in May 1975 in connection with Finland's request for a stand-by arrangement, but the actual current account deficit in 1975 so far exceeded the level projected at that time, that a substantially larger adjustment effort will be called for in 1976 than was originally intended.

A comprehensive set of fiscal and monetary policies has been designed with the aim of achieving this reduction in the current account deficit. These policies include limitations on the budget deficit, which is expected to be reduced to Fmk 1.2 billion, equivalent to 1.1 per cent of GDP compared to 1.9 per cent in 1975, and a sharp reduction in the growth of the net domestic assets of the banking system from 26 per cent in 1975 to about 11 per cent in 1976. These policies are discussed in more detail in the Staff Report for the 1976 Article XIV consultation and Review under Stand-by Arrangement.

The medium-term aim of the Finnish authorities is to reduce the current account deficit by 1980 to a level consistent with Finland's ability to obtain a sustainable net inflow of foreign capital. Finland's strategy to this end encompasses both policies designed to maintain the international competitiveness of the Finnish economy and demand management policies designed to ensure that an increased proportion of the growth of domestic output will be used for exports and for replacing imports.

The incomes policy agreement concluded for the year beginning February 1, 1976 is designed, through a combination of price freeze and a limited rate of increase (about 7 per cent) in negotiated wage rates, to result in a break in inflationary expectations. This is expected to lead to an appreciable deceleration in the rate of price increases, which is seen by the authorities as a necessary prerequisite for the maintenance of Finland's international competitiveness.

Demand management policies will be geared to promoting the growth of exports, reducing the propensity to import, and making room for the continued growth of private consumption by restricting the growth of demand by the general government sector and by stimulating growth of total output, while at the same time curtailing the growth of total investment. The focus of this strategy is on an improvement in the efficiency of investment. To this end, the authorities are aiming at changes in the sectoral pattern of investment and improvement in the efficiency of investment within each sector, i.e., increased emphasis on projects likely to increase output and to reduce the current account deficit. The Government's own lending and the lending by the financial institutions controlled by it are to be the principal means for achieving this redirection of investment activity.

## 2. Need

Finland's overall balance of payments deficit in 1975 amounted to SDR 191 million, of which SDR 71 million was financed by a purchase under the 1975 Oil Facility. Gross convertible reserves declined by SDR 117 million during the year to SDR 401 million, from SDR 518 million at the end of 1974. Gross reserves have continued to decline and amounted to only SDR 345 million at the end of February 1976. At the end of 1974, gross reserves were equivalent to less than 5 weeks of merchandise imports. By the end of 1975 this ratio had declined to less than 3 1/2 weeks of merchandise imports.



#### IV. Restrictions

As a temporary measure, and in the face of a rapidly deteriorating trade balance, the Finnish Government introduced an import deposit requirement on March 24, 1975. Deposits, varying from 5 to 30 per cent of the import value, c.i.f., depending on the commodity, were required to be placed in a special noninterest-bearing account with the Bank of Finland prior to clearance of goods by customs. These deposits are released after six months. In connection with its request for a stand-by arrangement from the Fund, the Finnish Government in May 1975 expressed its intention to gradually relax the requirement and to terminate it not later than March 24, 1976. The phasing out of the requirement did not prove possible as the pressures on the balance of payments were more severe than expected. The Finnish authorities now feel that a termination by March 24, 1976 would lead to an excessively large injection of liquidity during the following six months. The Finnish Government has established a new schedule for the elimination of the deposit requirement. Under this schedule, commodities subject to a 5 per cent rate of deposit were exempted from the requirement on February 15, 1976; for commodities which at present attract a 20 per cent rate of deposit, the rate will be reduced to 10 per cent on March 15, 1976, and the requirement abolished on June 30; with respect to commodities which at present attract a rate of 10 per cent, to abolish the requirement also on June 30; with respect to commodities which at present attract a 30 per cent rate of deposit, the rate will be reduced to 20 per cent on September 30, to 10 per cent on November 15, and the requirement abolished by the end of 1976.

On October 17, 1975 Finland imposed a temporary special import charge on passenger cars and motorcycles, equal to 50 per cent of the domestic tax on vehicles. This tax was imposed in anticipation of parliamentary approval of a proposed increase in the domestic tax on both imported and domestically produced vehicles in order to avoid speculative imports in the meantime. This special import charge was abolished on December 31, 1975.

#### V. Staff Appraisal and Proposed Decision

Finland has informed the Managing Director of its intention to request a final purchase under the Oil Facility for 1975 in the amount that the Fund determines will be available to Finland under paragraph 4 of Executive Board Decision No. 4954-(76/16), adopted February 11, 1976. Finland's expenditure on net imports of petroleum and petroleum products in 1975 totaled SDR 848 million, an increase of SDR 483 million compared with 1973.

Finland failed to contain its current account deficit in 1975 to the projected level, but it was able to obtain a net inflow of nonmonetary capital substantially in excess of what had been expected. The overall balance of payments deficit was thus held to SDR 191 million, as against the original expectation of SDR 132 million. A final purchase under the Oil Facility for 1975 could be SDR 95.0 million or SDR 106.9 million, respectively,

in the event the percentage of maximum calculated access is to be established at 70 per cent or 75 per cent. This compares with a fall in gross reserves of SDR 117 million in 1975.

The Government of Finland has presented a financial program for 1976 aiming at sharply reducing the current account deficit. Given the prospects for a recovery of exports and on the basis of firm implementation of the policy program, this target should be attainable. The successful implementation of this program should also help Finland to move towards medium-term viability in the balance of payments.

The staff regrets the decision of the Finnish Government not to eliminate the import deposit requirement by March 24, 1976, but understands the considerations which have led them to postpone until the end of the year the date for its termination. A definite schedule for the phasing out of the deposit requirement is welcome evidence of the authorities' intention to adhere to the new termination date.

Therefore, in the light of the representations of the Government of Finland, the staff believes that Finland's request for the final purchase under the 1975 Oil Facility is not inconsistent with the oil facility decisions, and the following decision is submitted for consideration by the Executive Directors:

1. The Fund has received a letter dated March 10, 1976 from the Governor of the International Monetary Fund for Finland informing the Fund of Finland's intention to request the final purchase under Executive Board Decisions No. 4634-(75/47), adopted April 4, 1975 and No. 4954-(76/16), adopted February 11, 1976. Finland has made representations in accordance with paragraph 5 of Executive Board Decision No. 4241-(74/67).

2. In March 1975 Finland introduced a new restriction on imports as described in EBS/75/173. Finland has stated that the measure, which is in the form of an import deposit requirement, is only temporary and it intends to remove it by the end of 1976. Finland has taken other measures which should permit it to remove the import deposit requirement in accordance with

its intention. The Fund finds that the restriction is not being maintained inconsistently with the understandings set forth in paragraph 2 of the Rome Communique of the ad hoc Committee of the Board of Governors on Reform of the International Monetary System and Related Issues and in Executive Board Decision No. 4134-(74/4).

3. The Fund determines that a purchase in an amount to be established by the Fund in accordance with paragraph 4 of Decision No. 4954-(76/16) would be in conformity with the Decisions cited in paragraph 1 above, agrees to the purchase, notes the representations made by Finland in accordance with paragraph 5 of Decision No. 4241-(74/67), adopted June 13, 1974, and grants the necessary waiver of the conditions of Article V, Section 3(a)(iii) of the Articles of Agreement on the repurchase terms set forth in the letter dated March 10, 1976.

Table 4. Finland: Summary Balance of Payments

(In millions of SDRs)

	1972	1973	1974	1975 Preliminary	1976 Projection
1. Exports, f.o.b.	2,677	3,183	4,558	4,510	5,370
Of which:					
Petroleum and petroleum products	(4)	(5)	(31)	(13)	(47)
2. Imports, c.i.f.	-2,895	-3,620	-5,662	-6,238	-5,880
Of which:					
Petroleum and petroleum products	(-303)	(-370)	(-1,031)	(-861)	(-838)
3. Trade balance (1+2)	-238	-446	-1,104	-1,728	-510
4. Services (net)	122	134	110	-58	-133
5. Transfers (net)	9	-12	-15	-25	-22
6. Current account balance (3+4+5)	-106	-324	-1,009	-1,811	-665
7. Private capital (net)	334	73	600	1,417	...
Of which:					
Amortization	(-185)	(-253)	(-271)	(-283)	(...)
8. Official capital (net)	-62	-7	-53	25	...
Of which:					
Amortization	(-45)	(-45)	(-50)	(-36)	(...)
9. Nonmonetary capital balance (7+8)	272	66	547	1,442	500
10. Other foreign exchange holders (net) <sup>1/</sup>	-72	68	166	239	...
11. Tied assets (net)	-64	-50	140	-176	...
12. Miscellaneous capital and errors and omissions	-13	80	161	115	...
13. Total (10+11+12)	-149	98	467	178	40
14. Allocation of SDRs	20	--	--	--	--
15. Surplus or deficit (-) (6+9+13+14)	37	-160	5	-191	-125
16. Financing					
Monetary authorities	-37	160	-5	191	125
Convertible assets (increase -)	-40	156	-5	117	...
Convertible liabilities	3	4	--	74	...
Of which:					
Use of IMF account	--	--	--	--	...
Oil facility	--	--	--	71	...
Other	3	4	--	3	...
Memorandum items:					
Maximum access to 1975 oil facility				237.5	
Previous purchase under 1975 Oil Facility				71.5	
Fund holdings of Finnish markkaa, in per cent of quota, end of period	66.4	66.5	66.4	137.5	...
Gross official convertible reserves, end of period	669	513	518	401	...
Net official convertible reserves, end of period	659	499	504	313	...

Source: Data provided by the Finnish authorities.

<sup>1/</sup> Including commercial banks and the Post Office Savings Bank.

CONFIDENTIAL

Helsinki, March 10, 1976

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Mr. H. Johannes Witteveen  
Managing Director  
International Monetary Fund  
Washington, D. C. 20431

Dear Mr. Witteveen:

1. I am submitting this letter on behalf of the Government of Finland to inform the Fund of the intention of Finland to request a final purchase under the Oil Facility in the amount that the Fund determines will be available to Finland to meet a balance of payments need in 1975. As stated in paragraph 5 of my letter to the Fund dated May 21, 1975, requesting a purchase under the Oil Facility, the representations in that letter apply with respect to this intended request. If the Fund finds that the intended request would be in conformity with the facility for 1975 and after it informs Finland of the amount that may be requested, the request for the purchase of that amount will be submitted at the time suggested by the Fund.
2. In accordance with paragraph 4 of Executive Board Decision No. 4634-(75/47), I am submitting this letter which sets out developments in the Finnish economy and balance of payments in 1975, outlines the economic and financial policies that Finland has followed and intends to follow in 1976, and describes the balance of payments objectives for 1976. Paragraph 9 of this letter deals with certain changes in Finland's policies on restrictions on current international payments and transactions.
3. Finland's balance of payments deteriorated sharply in 1975. The current account deficit reached Fmk 8,100 million (over SDR 1,800 million), compared with Fmk 4,560 million in 1974, and substantially more than the projection for 1975 of over Fmk 5 billion in the program submitted to the Fund in connection with the previous request for use of the 1975 Oil Facility made in May 1975. The main reason for the failure to achieve this objective was a shortfall in exports, especially of wood and paper products, as a result of the weak demand situation in Western European markets. In addition, private domestic demand rose faster than was expected. However, private long-term capital inflow (net) proved to be more buoyant than was foreseen, reaching nearly Fmk 5,100 million (SDR 1,133 million) and there were also substantial short-term capital receipts (net). The Bank of Finland's gross convertible reserves fell in 1975 by SDR 117 million to SDR 401 million at the end of December, despite the purchase of SDR 71.25 million under the 1975 Oil Facility on June 19, 1975, equal to 30 per cent of Finland's maximum access.

4. The fall in export demand last year was so large that, even with a rise in domestic demand of about 3.5 per cent, total demand stagnated and there was no expansion in real output; toward the end of the year there were signs that unemployment was rising to an unacceptable level, with a further increase in prospect. While the Government is taking selective measures to maintain employment, it also intends to gear its financial policies to achieving a substantial reduction in the current account deficit and in the rate of price inflation, which last year amounted to 17-18 per cent on average.

5. In the expectation of a revival in demand in 1976 for Finland's main export products, an increase is projected in the volume of exports in 1976 of about 16 per cent (compared with a fall of 17 per cent in 1975) and in value of about 20 per cent. On this basis the Government intends to follow policies designed to limit the current account deficit in 1976 to not more than Fmk 3,000 million. Toward the end of the year, the current account deficit might be permitted to rise slightly above this level, if developments in the domestic economy and the international capital market allow. The policy toward inflows of capital will take into account the situation in foreign financial markets, the balance of payments and external debt position, and its relationship with domestic monetary policy. Consequently a more selective attitude will be followed toward gross inflows than in 1975. It is estimated that the overall balance of payments deficit will amount to about Fmk 760 million in 1976.

6. It is expected that with the policies outlined in paragraphs 7 and 8 the volume of domestic demand will fall by about 5 per cent in 1976, with only a small increase in consumption and a sharp fall in fixed investment. Gross domestic product in real terms is expected to show no increase in 1976 and the rate of price increase should slow down appreciably. This deceleration will be supported by the incomes policy agreement reached for the year beginning February 1, 1976, which provided for increases in negotiated wage rates of about 7 per cent and for a five-month price freeze, to be followed by a period of strict price control.

7. The Government intends to continue the tight line followed in fiscal policy and if necessary to intensify it, in order to achieve the current account objective referred to in paragraph 5. To this end the Government aims at limiting the deficit of the budget, including extrabudgetary funds, to Fmk 1.2 billion in 1976. In measuring this deficit the revenues do not include either borrowing or transfers from the Governmental Countercyclical Fund; the expenditures exclude redemption of state debt, but include Fmk 410 million of lending by the State Investment Fund. The Government has taken special measures to step up the collection of taxes which are in arrears. At the end of 1975 the amount of these arrears was, according to preliminary estimates, Fmk 1.5 billion, which was about Fmk 0.5 billion more than a year earlier. To the extent that the amount of arrears is reduced in 1976 the budget deficit in that year will be lower than envisaged above. If it becomes necessary to increase revenue to finance expenditure,

recourse will be taken mainly to measures involving an increase in consumption taxes. Foreign financing will not be used to cover state budgetary expenditure; it will only be used to cover the financial needs of the State Investment Fund and the Regional Development Fund, and primarily to ensure the implementation of the projects already under way. Fiscal policy measures will be used in such a way that the necessary finance will be directed to those investment projects which are the most profitable and, at the same time, help to balance foreign trade and promote employment. Efforts will be made to restrain other investment demand. In order to curb the growth in consumption and investment demand by local governments, efforts will be made to continue and intensify the arrangements agreed in June 1975 between the Government and the central organizations of municipalities. In other respects, too, the management of state finances will be such that it will contribute to the attainment of the goals set for monetary policy and the balancing of the economy as a whole.

8. The Bank of Finland will pursue a monetary policy in 1976 consistent with the target set for the current account deficit and with a reduction in the rate of inflation. Monetary policy is based on a growth of about 11 per cent in the demand for money broadly defined in 1976 compared with 20 per cent in 1975. This appears to be consistent with an increase in the nominal gross domestic product of 12-13 per cent. To this end and consistently with the target set for the current account deficit the aim is to limit the increase in the net domestic assets of the banking system to about 11 per cent in 1976, the corresponding figure for 1975 being 26 per cent. It is the intention of the Bank of Finland to neutralize the liquidity effects of the release of import deposits by reductions of the rediscount quotas of the commercial banks or by other means.

9. On March 24, 1975 the Government introduced a temporary import deposit requirement which provided that imports of certain commodities were to be released by the customs authorities only on payment of a deposit into a special noninterest-bearing account with the Bank of Finland of an amount equivalent to between 5 and 30 per cent of the c.i.f. value of imports, depending on the commodity. In paragraph 6 of my letter to you of May 21, 1975 in connection with the request for a stand-by arrangement, the Government expressed its intention to relax gradually the import deposit requirement and terminate it not later than March 24, 1976. A gradual termination of the import deposit scheme according to the schedule originally envisaged did not prove possible in view of the fact that export demand proved to be much weaker than expected and imports also exceeded the estimate. The commodities subject to a 5 per cent rate of deposit were exempted from the requirement on February 15, 1976, but its termination by March 24 would lead to an injection of liquidity on a scale that would cause difficulties for monetary policy. Thus the Government has now decided on a new schedule for terminating the requirement, which is as follows: with respect to those commodities which at present attract a 20 per cent rate of deposit, to reduce the rate to 10 per cent on March 15, 1976 and to abolish the requirement on June 30, 1976; with respect to commodities which at present attract a rate of 10 per cent, to abolish the

requirement also on June 30; and, with respect to those commodities which at present attract a 30 per cent rate of deposit, to reduce the rate to 20 per cent on September 30, 1976, to 10 per cent on November 15, 1976, and to abolish the requirement altogether by the end of 1976. On October 17, 1975 Finland imposed a temporary special import charge on passenger cars and motorcycles equal to 50 per cent of the domestic tax on vehicles, in anticipation of parliamentary approval of a proposed increase in the domestic tax on both imported and domestically produced vehicles. This special import charge was abolished on December 31, 1975.

10. The reduction of the current account deficit in 1976 would be a step toward the achievement of medium-term viability in the balance of payments. It is the general objective to reduce the current account deficit by 1980 to a level consistent with Finland's ability to obtain a sustainable inflow of foreign capital. This will require slower growth in domestic demand than in total output and policies appropriate to the maintenance of the international competitiveness of the Finnish economy. Within the total of domestic demand, it is envisaged that investment will grow relatively slowly, which will tend in itself to reduce the overall propensity to import. Furthermore, measures will be needed to increase the efficiency of investment. The growth of consumption should be lower than the average increase in the last decade.

11. The policy of the Government to secure savings in energy consumption was described in paragraph 11 of my letter to you of May 21, 1975 in connection with the request for a stand-by arrangement. Since then excise taxes on fuels have been increased, bringing, inter alia, the price of 99-octane gasoline to Fmk 1.5560 per liter. The 1976 energy saving program is primarily designed to improve heating efficiency and to rationalize energy consumption in the industry and transport sectors. It is expected that this program will lead to energy savings of about 10 per cent, equivalent to about Fmk 1 billion. The 1976 program is part of an ongoing effort designed to achieve a permanent reduction in the consumption of energy in the order of 10-15 per cent. The promotion of domestic energy production mainly involves higher utilization of peat, waste-fuels and nuclear power. Production of hydroelectric power cannot be significantly increased. It is the aim to increase the production of peat tenfold by 1985. In the governmental guidelines to curtail energy investments priority has been given to projects based on the utilization of domestic fuels. In addition, a number of nuclear power plants is under construction.

Yours sincerely,

/s/ Mauno Koivisto  
Governor for Finland of the  
International Monetary Fund