

January 27, 1982 - 82/6

The Acting Chairman's Summing Up at the Conclusion of the
1981 Article IV Consultation with Finland
Executive Board Meeting 82/10 - January 25, 1982

Directors commended the Finnish authorities for exceptionally high growth rates achieved during 1979 and 1980 and for the steady application of stabilization policies as the recent recession in the global economy developed. The reduced growth rate of around 1 per cent in 1981 was not surprising, given the international environment, but the current and prospective high rate of unemployment was a cause for concern. The deficit in the current account of the balance of payments, which was of manageable proportions in 1980, had subsequently been sharply reduced. The rate of inflation over the past two years, however, was a cause for concern and warranted the priority given to it by the authorities; it was noted that inflation has recently been decelerating.

Export growth in the five years through 1980 was enviable. This performance was attributable largely, Directors felt, to the increase in competitiveness achieved, at high cost, through devaluations and effective stabilization policies. Some concern was expressed about the deterioration in competitiveness experienced in 1981 and about its future implications. Although the present appropriateness of the exchange rate was not challenged, the thought was expressed that continued flexible use of the exchange rate in future may be needed. Finland was to be strongly commended for its affirmative structural policies and the avoidance of protectionist commercial policies, including the absence of state aid to weak industries. The increase in official development assistance was welcomed, and hope was expressed that the projected further increase would be achieved.

Directors generally concurred that the implementation of the mid-1977 medium-term stabilization strategy had resulted in strong benefits for the Finnish economy, helping it respond favorably to the changed circumstances abroad. The policy of limiting the growth of the government sector was likely to help sustain profits, and thus to encourage investment and growth in the medium term. The present stance of fiscal policy was seen as broadly appropriate. The central government deficit had become a recurring feature of the economy, but the current level of unemployment could be cited in justification of a degree of stimulus. Directors felt that the implementation of manpower programs rather than general demand stimulation was appropriate at present.

Directors noted the relaxation of monetary policy early in 1981 in anticipation of a downturn in activity, although price pressures remained strong at that time. The tightening that occurred in recent months, and especially the action taken last week, indicate a willingness to absorb excess liquidity as the need arose, and Directors encouraged this willingness. A number of Directors considered that additional flexibility should be introduced in the determination of interest rates and questioned the advisability of maintaining rigidity in bank lending rates, particularly in view of the growth of the grey financial market.

Directors took considerable interest in the innovation in Finnish incomes policy whereby the cost of living adjustment applicable to the general increase in wages and salaries excludes changes in the terms of trade. Directors commended the high degree of social consensus that exists in Finland.

All in all, Directors expressed admiration for the conduct of economic and financial policy by the Finnish authorities over recent years in the face of a difficult general environment.