



# BANK OF FINLAND

*Monthly Bulletin*

**Developments in the security market**

**Public finance in 1977**

**Foreign direct investment in Finland and  
Finnish direct investment abroad in 1977**

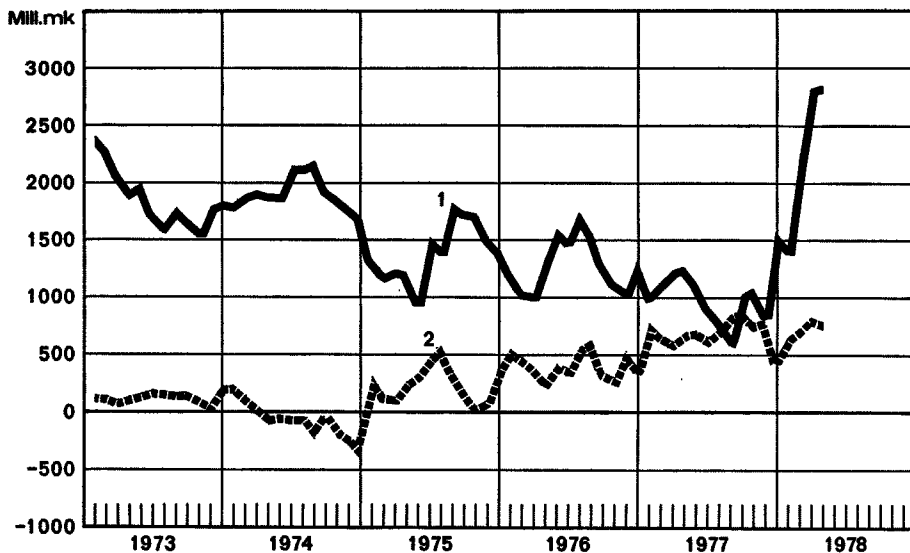
**Credit facility agreement**

**Curtailement of the cash payment scheme  
for imports**

**JUNE 1978**

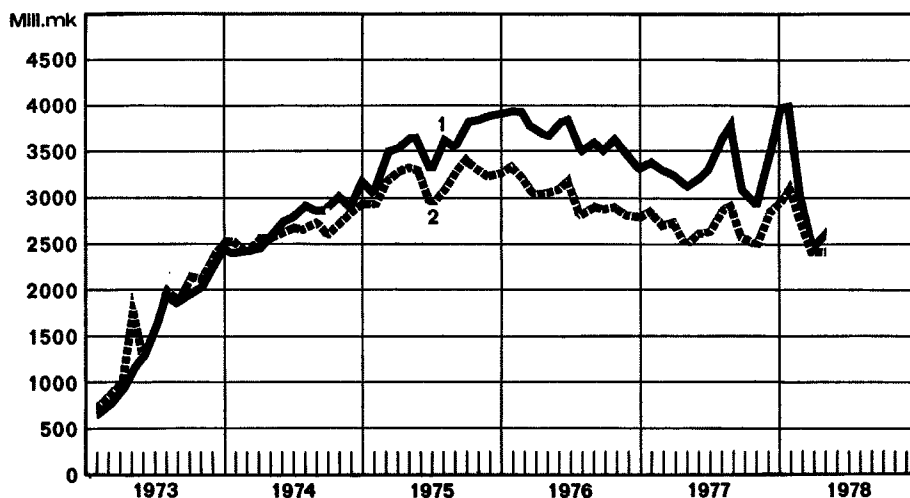
**Vol. 52 No. 6**

**BANK OF FINLAND'S CONVERTIBLE AND TIED FOREIGN EXCHANGE RESERVES, 1973 - 1978**



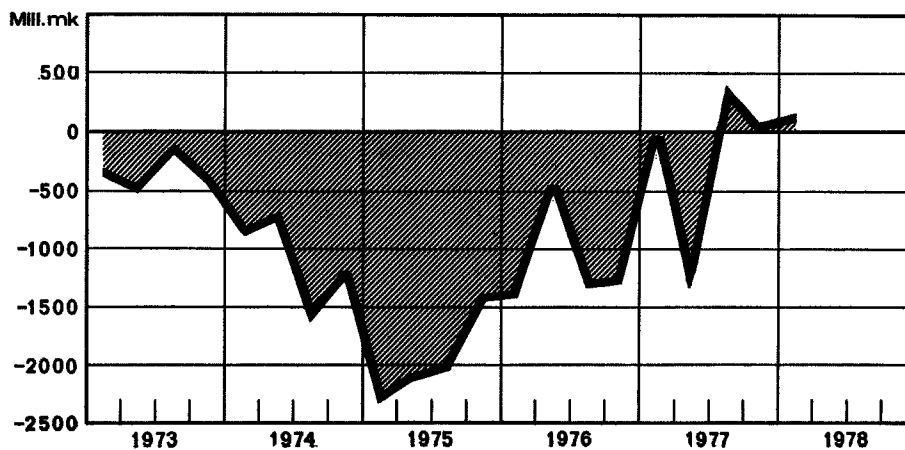
- 1. Gold and convertible currencies
- 2. Tied currencies

**BANK OF FINLAND'S POSITION WITH REGARD TO THE DOMESTIC FINANCIAL SECTOR, 1973 - 1978**



- 1. Net receivables from the domestic financial sector
  - 2. Discounted and rediscounted bills
- Seasonally adjusted end-of-month figures

**BALANCE OF PAYMENTS CURRENT ACCOUNT SURPLUS / DEFICIT, 1973 - 1978**



Seasonally adjusted quarterly figures

## DEVELOPMENTS IN THE SECURITY MARKET

The year 1977 was the second year in succession that was difficult for most of the corporate sector. Industrial production fell by 2 per cent and the net profits of companies by 4 per cent. The volume of corporate gross fixed investment decreased by a further 14 per cent. Besides the poor profitability which led many firms to reduce their dividends, companies also had problems with external finance. The pressing need for working capital aggravated the already heavy indebtedness. The domestic money market was easing somewhat in the spring but tightened again mainly because the weakness of the Finnmark brought about capital outflows. These factors had clear repercussions in the market for equity shares. The situation was further worsened by the increased issue of government bonds.

### SHARE AND BOND ISSUES

As a result of the weak market, share issues by Finnish companies quoted on the Helsinki Stock Exchange were quite insignificant in 1977. All in all, only four small companies launched new share issues, and the money raised totalled a mere 25 million marks. This was a sharp drop from 1976 when the corresponding figure was 215 million marks.

Unlike share issues, the growth of the bond market was rather stable. The total of domestic bonds outstanding increased by 16 per cent in 1977, to 6 531 million marks. The share of government bonds, which decreased to a third of the total during the first half of this decade, has risen during the last two years. In 1977, sales of government bonds accounted for almost 60 per cent of all bond issues, and of the bonds issued for public subscription the government's share was even higher. Altogether the state raised 756 million marks from bonds for public subscription and 177 million marks from other bonds, issued mainly for institutional investors.

Because the central government has a high priority in making bond issues in Finland, the room for other bond issues was limited. However, in 1977 the mortgage banks raised 270 million marks from bonds intended for public subscription, which was almost twice as much as in the previous year. The sale of other bonds from financial institutions decreased from 319 million marks to 280 million marks. Also, the sales of industrial companies' bonds, whose share of the market has traditionally been small, decreased slightly to 138 million marks. Total sales of domestic bonds amounted to 1 621 million marks, exceeding the figure for the previous year by 16 per cent.

The maturities of bonds issued increased slightly in 1977, but they were still very short. All the government bonds intended for public subscription were issued for five years. The interest rates on bonds were reduced in the autumn in connection with the general cut in rates. As in the case of the long-term bank deposit rates, their fall was less than the one percentage point drop in the discount rate. During 1977, the rate on fixed interest bonds ranged from 8 ¼ to 11 ¼ per cent.

### STOCK EXCHANGE

In addition to the small volume of new share issues, the weakness of demand on the stock market was reflected in the fall of prices on the Helsinki Stock Exchange, which dropped for the fourth consecutive year. During this period, shares have, on average, lost almost 40 per cent of their market value. Last year the drop in the overall index was 17 per cent. The fall was greatest for forest industry and textile and garment industry shares, at almost 30 per cent. The turnover of shares declined by 8 per cent, to 125 million marks. In line with share issues, the turnover of subscription rights fell to a very low level.

Despite the reduced trade in shares, the total turnover of the Helsinki Stock Exchange increased by 11 per cent in 1977, to 191 million marks. This was due to the fact that the turnover of bonds, while still small, more than trebled. The trade in bonds accounted for 30 per cent of the total turnover. The willingness to invest in bonds was undoubtedly increased by the poor yield prospects of the shares. Also, this secondary market for bonds is becoming better known to the investors. However, the sales of bonds on the Stock Exchange still amounted to only some 3—4 per cent of the new issues of bonds.

## CURRENT DEVELOPMENTS

During the last half year or so, prospects for share financing have significantly improved. This is mainly due to the fact that economic policy has shifted its emphasis towards restoring the profitability of firms. In February 1978 the Finnmark was devalued for the third time in twelve months. These devaluations have led to an average rise of 17 per cent in the value of foreign currencies. In addition, numerous fiscal and incomes policy actions have been taken to ease the internal finance of companies: inter alia, employers' social security contributions and the turnover tax on industrial investment have been temporarily reduced. Mainly as a result of these measures, profitability, especially in the open sector, has started to revive.

The terms of external finance are also easing. Interest rates were reduced by one percentage point in October 1977 and again in May this

year, and financial markets in general are becoming more liquid. The lowering of interest rates has, of course, also made shares more attractive to investors. The tax treatment of both the share issuers and holders has been relaxed, but this effect has been partly countered by a temporary freezing of dividends to not more than the level of the previous year.

Signs of recovery have been seen in all key stock market indicators. The share index has been rising since October 1977 and numerous share issues have been launched or published this year. Also, the trading in shares on the Stock Exchange has increased.

This expansion has been somewhat restrained by the growing supply of new government bonds; in fact, by the end of April sales of government bonds on the domestic market were 562 million marks, i.e. almost twice the figure for the corresponding period of last year. The turnover of bonds on the secondary market has also remained high.

The problem of financing the central government deficit is likely to continue. Traditionally, the domestic market for bonds has been rather thin in Finland. In the current situation, however, as there is no longer such a need for foreign borrowing for balance of payments reasons, the domestic market should absorb more of the new government debt. The heavy pressure of government borrowing on the security market is thus likely to continue. This will reduce companies' opportunities to use share issues to improve their generally weak structure of finance.

May 22, 1978

## BANK OF FINLAND

Mill mk

	1977		1978			
	May 31	Dec. 31	May 8	May 15	May 23	May 31
<b>Assets</b>						
Gold and foreign exchange receivables	1 898	2 139	3 987	4 141	4 669	4 618
Gold	127	133	133	133	133	133
Special drawing rights	206	204	169	170	167	167
Convertible currencies	819	1 265	2 816	2 930	3 379	3 296
Tied currencies	746	537	869	908	990	1 022
Other foreign receivables	1 851	1 959	2 190	2 181	2 617	2 636
Foreign bills	424	488	573	564	571	588
Foreign bonds	493	543	689	689	690	692
Currency subscription to Finland's quota in the IMF	934	928	928	928	1 356	1 356
Receivables from financial institutions	4 052	5 420	4 249	4 070	4 313	3 834
Cheque accounts of the commercial banks	110	110	136	111	150	120
Discounted bills	2 749	3 091	2 241	2 116	2 158	2 004
Bonds	378	354	336	344	331	341
Call money market advances	789	1 804	1 466	1 458	1 641	1 331
Other financial institution receivables	26	61	70	41	33	38
Receivables from the public sector	377	391	384	382	380	382
Bonds	68	60	52	52	53	55
Total coinage	291	304	323	323	324	324
Other public sector receivables	18	27	9	7	3	3
Receivables from corporations	1 437	1 416	1 394	1 391	1 387	1 386
New export bills	183	194	217	215	210	217
Financing of suppliers' credits	642	714	766	766	762	759
Bonds	188	214	197	197	196	196
Other corporate receivables	424	294	214	213	219	214
Other assets	72	85	61	61	63	61
<b>Total</b>	<b>9 687</b>	<b>11 410</b>	<b>12 265</b>	<b>12 226</b>	<b>13 429</b>	<b>12 917</b>
<b>Liabilities</b>						
Foreign exchange liabilities	71	94	56	57	55	65
Convertible accounts	39	53	33	34	31	38
Tied accounts	32	41	23	23	24	27
Other foreign liabilities	2 030	3 447	3 412	3 529	3 915	3 914
IMF mark accounts	1 772	1 838	1 838	1 947	2 320	2 320
Allocations of special drawing rights	258	300	301	301	301	301
Term liabilities	—	1 309	1 273	1 281	1 294	1 293
Notes and coins in circulation	2 932	3 167	3 227	3 245	3 225	3 271
Notes	2 678	2 892	2 938	2 956	2 936	2 982
Coins	254	275	289	289	289	289
Deposit certificates in circulation	180	200	—	—	—	—
Claims of financial institutions	834	1 194	2 027	1 927	2 716	2 224
Cheque account of Postipankki	0	1	1	0	0	0
Cheque accounts of the commercial banks	2	3	1	1	1	1
Call money market deposits	574	850	1 725	1 648	2 254	1 781
Capital import deposits	—	246	275	273	377	353
Other financial institution claims	258	94	25	5	84	89
Claims of the public sector	581	328	287	287	287	229
Cheque accounts	0	2	2	0	0	0
Counter-cyclical reserves	34	36	38	38	38	38
Capital import deposits	—	287	246	248	248	190
Other public sector claims	547	3	1	1	1	1
Claims of corporations	263	242	391	422	418	416
Investment deposits	51	35	40	40	39	39
Capital import deposits	202	181	337	358	362	362
Import levy deposits	9	19	12	16	15	13
Other corporate claims	1	7	2	8	2	2
Other liabilities	14	13	15	14	13	13
Equalization accounts	790	671	729	623	672	655
Capital accounts	1 992	2 054	2 121	2 122	2 128	2 130
Primary capital	1 400	1 400	1 400	1 400	1 400	1 400
Reserve fund	436	436	545	545	545	545
Undisposed profits	102	—	109	109	109	109
Net earnings	54	218	67	68	74	76
<b>Total</b>	<b>9 687</b>	<b>11 410</b>	<b>12 265</b>	<b>12 226</b>	<b>13 429</b>	<b>12 917</b>

End of year or month	Foreign sector						Public sector			Deposit certificates in circulation	
	Gold and convertible exchange receivables	Convertible exchange liabilities	Gold and convertible exchange reserves (1-2)	Tied exchange reserves	Other receivables	Other liabilities	Net receivables (3+4+5-6)	Receivables	Liabilities		Net liabilities (9-8)
	1	2	3	4	5	6	7	8	9	10	11
1971	2 620	30	2 590	-297	686	704	2 275	148	140	- 8	400
1972	2 613	43	2 570	- 6	757	788	2 533	175	49	-126	790
1973	1 928	65	1 863	210	803	788	2 088	200	534	334	1 450
1974	1 784	62	1 722	-388	1 123	788	1 669	302	560	258	1 040
1975	1 488	78	1 410	368	1 274	1 385	1 667	339	1 301	962	250
1976	1 361	50	1 311	389	1 660	1 923	1 437	447	1 133	686	-
1977	1 602	53	1 549	496	1 959	3 447	557	391	328	- 63	200
1977											
March	1 292	60	1 232	608	1 692	1 923	1 609	433	739	306	180
April	1 324	65	1 259	697	1 733	1 923	1 766	407	512	105	180
May	1 152	39	1 113	714	1 851	2 030	1 648	377	581	204	180
June	965	48	917	652	1 855	2 030	1 394	362	430	68	180
July	855	56	799	722	1 874	2 030	1 365	364	389	25	180
Aug	697	50	647	841	1 857	2 131	1 214	360	353	- 7	180
Sept.	1 072	51	1 021	878	1 856	2 134	1 621	365	343	- 22	180
Oct.	1 121	47	1 074	771	1 893	2 134	1 604	363	286	- 77	180
Nov.	903	46	857	797	1 912	2 556	1 010	364	407	43	180
Dec.	1 602	53	1 549	496	1 959	3 447	557	391	328	-63	200
1978											
Jan.	1 492	40	1 452	648	1 983	3 360	723	399	320	-79	180
Feb.	2 236	36	2 200	730	2 093	3 393	1 630	401	297	-104	180
March	2 854	40	2 814	822	2 142	3 391	2 387	405	288	-117	0
April	2 890	51	2 839	785	2 187	3 408	2 403	382	289	-93	-
May	3 596	38	3 558	995	2 636	3 914	3 275	382	229	-153	-

## FOREIGN EXCHANGE SITUATION

Mill. mk

CURRENCY INDEX<sup>1</sup>

	Net holdings, April 28, 1978			Change	
	Bank of Finland	Other	Total	April	Jan.—April
Gold	133	-	133	-	-
Special drawing rights	187	-	187	-	-17
IMF gold tranche	-	-	-	-	-
Convertible currencies	2 519	-3 260	-741	+302	+832
Total	2 839	-3 260	-421	+302	+815
Tied currencies	785	169	954	-53	+312

1974 = 100

1978

Jan.	111.1
Feb.	114.1
March	117.3
April	117.2
May	117.5

<sup>1</sup> See page 19, CURRENCY

## BANK OF FINLAND

Mill. mk

End of year or month	Domestic financial sector						Corporate sector				Notes and coins in circulation
	Dis-counted and redis-counted bills	Cheque account receiv-ables	Other receiv-ables	Cheque account liabilities to the commer-cial banks	Cheque account liabilities to Posti-pankki	Other liabilities	Net receiv-ables (1+2+3-4-5-6)	Receiv-ables	Liabili-ties	Net receiv-ables (8-9)	
	1	2	3	4	5	6	7	8	9	10	11
1971	849	—	—	9	2	—	838	355	385	— 30	1 413
1972	753	5	—	—	2	—	756	321	73	248	1 879
1973	2 556	61	—	—	2	—	2 615	372	259	113	2 082
1974	3 034	114	266	4	4	1	3 405	631	195	436	2 462
1975	3 385	133	646	3	1	25	4 135	933	539	394	2 855
1976	2 920	174	1 580	2	2	1 139	3 531	1 400	308	1 092	2 885
1977	3 091	110	2 219	3	1	1 190	4 226	1 416	242	1 174	3 167
1977											
March	2 769	123	1 690	2	0	1 322	3 258	1 321	307	1 014	2 845
April	2 460	152	1 480	3	1	1 061	3 027	1 398	272	1 126	2 924
May	2 749	110	1 193	2	0	832	3 218	1 437	263	1 174	2 932
June	2 768	128	1 305	5	0	768	3 428	1 459	230	1 229	3 154
July	2 773	116	1 320	5	0	797	3 407	1 498	232	1 266	3 157
Aug	2 779	85	1 463	1	1	846	3 479	1 439	260	1 179	3 022
Sept.	2 700	140	1 303	5	0	1 010	3 128	1 476	266	1 210	3 079
Oct.	2 722	122	1 691	1	0	1 376	3 158	1 467	305	1 162	3 072
Nov.	3 058	132	1 809	1	0	1 142	3 856	1 428	236	1 192	3 075
Dec.	3 091	110	2 219	3	1	1 190	4 226	1 416	242	1 174	3 167
1978											
Jan.	3 060	139	2 575	1	0	1 900	3 873	1 439	239	1 200	2 990
Feb.	2 658	149	2 698	1	0	2 440	3 064	1 504	331	1 173	3 040
March	2 454	123	2 288	1	0	2 340	2 524	1 477	386	1 091	3 333
April	2 346	157	2 012	3	0	1 985	2 527	1 483	389	1 094	3 302
May	2 004	120	1 710	1	0	2 223	1 610	1 386	416	970	3 271

## SELLING RATES FOR FOREIGN EXCHANGE

Mk

May 22, 1978

New York <sup>1</sup>	1 \$	4.313	Frankfurt o. M.	100 DM	202.80	Vienna	100 S	28.20
Montreal	1 \$	3.880	Amsterdam	100 Fl	189.50	Lisbon	100 Esc	9.56
London	1 £	7.810	Brussels <sup>2</sup>	100 Fr		Madrid	100 Pta	5.37
Stockholm	100 Kr	92.50	Zurich	100 Fr	217.50	Tokyo	100 Y	1.900
Oslo	100 Kr	79.00	Paris	100 FF	92.40	Reykjavik	100 Kr	1.67
Copenhagen	100 Kr	75.40	Rome	100 Lit	0.497	Moscow <sup>3</sup>	1 Rbl	6.143

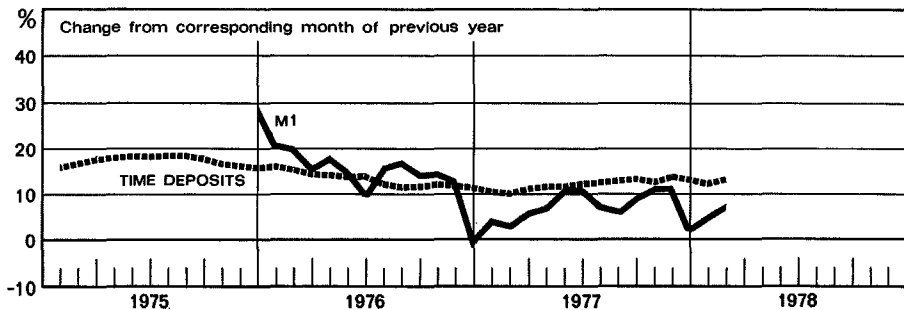
<sup>1</sup> As from Dec. 20, 1971 also applied to clearing accounts with Berlin Budapest and Sofia.<sup>2</sup> 13.020 commercial rate; 13.020 financial rate.<sup>3</sup> Clearing account; also Bucharest.

# DEPOSITS BY THE PUBLIC<sup>1</sup>

Mill. mk

End of year and month	Demand deposits				Time deposits					Total (4+9)
	Commer- cial banks	Savings banks & Co-op. banks	Posti- pankki	All depos- it banks	Commer- cial banks	Savings banks	Co-op. banks	Posti- pankki	All depos- it banks	
	1	2	3	4	5	6	7	8	9	
1974	2 723	913	1 638	5 274	10 811	8 279	6 299	2 646	28 035	33 309
1975	3 472	1 181	2 309	6 962	12 176	9 743	7 530	3 200	32 649	39 611
1976	3 071	1 357	2 336	6 764	13 282	11 051	8 610	3 665	36 608	43 372
1977	2 948	1 506	2 212	6 666	14 999	12 671	9 846	4 177	41 693	48 359
1976										
Nov.	2 962	1 231	1 924	6 117	12 502	10 766	8 473	3 606	35 347	41 464
Dec.	3 071	1 357	2 336	6 764	13 282	11 051	8 610	3 665	36 608	43 372
1977										
Jan.	3 013	1 205	2 382	6 600	13 324	11 162	8 718	3 692	36 896	43 496
Feb.	2 816	1 262	2 504	6 582	13 306	11 267	8 815	3 741	37 129	43 711
March	2 973	1 342	2 353	6 668	13 371	11 353	8 880	3 825	37 429	44 097
April	3 013	1 299	2 388	6 700	13 557	11 428	9 007	3 825	37 817	44 517
May	3 287	1 359	2 253	6 899	13 598	11 594	9 074	3 850	38 116	45 015
June	3 267	1 406	2 231	6 904	13 740	11 815	9 211	3 909	38 675	45 579
July	3 031	1 407	2 131	6 569	13 828	11 995	9 330	3 954	39 107	45 676
Aug.	3 271	1 486	2 049	6 806	13 960	12 120	9 474	3 989	39 543	46 349
Sept.	3 042	1 431	2 053	6 526	13 966	12 101	9 471	3 978	39 516	46 042
Oct.	3 147	1 495	2 027	6 669	14 167	12 152	9 491	4 012	39 822	46 491
Nov.	3 342	1 508	2 027	6 877	14 382	12 350	9 697	4 066	40 495	47 372
Dec.	2 948	1 506	2 212	6 666	14 999	12 671	9 846	4 177	41 693	48 359
1978										
Jan.	3 096	1 351	2 330	6 777	14 890	12 747	9 903	4 203	41 743	48 520
Feb.	3 106	1 468	2 478	7 052	15 191	12 901	9 996	4 243	42 331	49 383
March	2 922	1 420	2 340	6 682	15 350	13 058	10 102	4 363	42 873	49 555

<sup>1</sup> New series. See explanations on page 18.



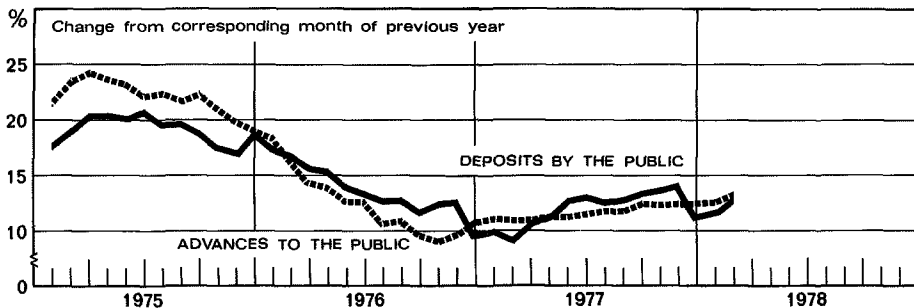


ADVANCES TO THE PUBLIC<sup>1</sup>—MONEY SUPPLY<sup>1</sup>

Mill. mk

End of year and month	Advances granted by				Types of advances				Money Supply	
	Commer- cial banks	Savings banks	Co-op. banks	Posti- pankki	Loans & bills in domestic currency	Cheque credits	Domestic credits in foreign currency	Total (1 to 4) (5 to 7)	M <sub>1</sub>	M <sub>1</sub> +Quasi- Money
	1	2	3	4	5	6	7	8	9	10
1974	17 462	7 715	6 457	4 653	33 261	1 136	1 890	36 287	7 549	35 943
1975	20 799	9 108	7 797	5 597	38 285	1 281	3 735	43 301	9 772	43 165
1976	22 077	10 615	9 247	6 120	42 617	1 569	3 873	48 059	9 601	47 014
1977	24 679	12 312	10 547	6 609	47 355	1 690	5 102	54 147	9 872	52 581
1976										
Nov.	21 825	10 417	9 000	6 189	42 012	1 544	3 875	47 431	8 959	44 924
Dec.	22 077	10 615	9 247	6 120	42 617	1 569	3 873	48 059	9 601	47 014
1977										
Jan.	22 376	10 683	9 271	6 152	42 796	1 597	4 089	48 482	9 382	47 443
Feb.	22 535	10 761	9 276	6 178	42 914	1 631	4 205	48 750	9 398	47 255
March	22 703	10 801	9 279	6 293	42 941	1 621	4 514	49 076	9 496	47 693
April	23 175	10 885	9 313	6 242	43 243	1 551	4 821	49 615	9 620	48 164
May	23 240	11 055	9 405	6 337	43 679	1 545	4 813	50 037	9 786	48 845
June	23 469	11 154	9 544	6 352	43 929	1 639	4 951	50 519	9 996	49 380
July	23 475	11 263	9 668	6 312	44 229	1 575	4 914	50 718	9 651	49 509
Aug.	23 598	11 430	9 791	6 351	44 670	1 660	4 840	51 170	9 818	50 103
Sept.	24 063	11 640	9 962	6 476	45 328	1 659	5 154	52 141	9 670	50 258
Oct.	24 149	11 823	10 120	6 598	45 946	1 717	5 027	52 690	9 732	50 614
Nov.	24 440	12 004	10 283	6 676	46 592	1 723	5 088	53 403	9 933	51 436
Dec.	24 679	12 312	10 547	6 609	47 355	1 690	5 102	54 147	9 872	52 581
1978										
Jan.	24 843	12 421	10 575	6 852	47 794	1 763	5 134	54 691	9 875	52 716
Feb.	25 472	12 509	10 636	6 731	47 977	1 787	5 584	55 348	10 137	53 709
March	25 599	12 553	10 650	6 500	47 817	1 732	5 753	55 302	..	..

<sup>1</sup> New series. See explanations on page 18.



# STATE FINANCES

Mill. mk

Revenue	Jan.—March		Expenditure	Jan.—March		
	1977	1978		1977	1978	
Income and wealth tax (net)	2 664	1 902	Wages, salaries, pension etc.	1 320	1 439	
Gross receipts	(7 392)	(7 258)	Repair and maintenance	154	161	
Refunds & local authorities	(—4 728)	(—5 356)	Other consumption expenditure	673	785	
Other taxes on income and wealth	66	73	<b>Total consumption expenditure</b>	<b>2 147</b>	<b>2 385</b>	
Employers child allowance payments	205	162	State aid to local authorities	1 880	2 118	
Sales tax	1 567	2 126	State aid to industries	999	1 045	
Customs duties and import charges and levies	197	196	of which: agric. price subsidies	(592)	(584)	
Excise duties <sup>1</sup>	1 165	1 429	Child allowances	257	278	
Excise duty on alcoholic beverages <sup>1</sup>	350	394	Share in national pensions and sickness insurance schemes	72	78	
Excise duty on tobacco	198	237	Other transfer expenditure	974	1 097	
Excise duty on liquid fuel	372	515	<b>Total transfer expenditure</b>	<b>4 182</b>	<b>4 616</b>	
Other excise duties <sup>1</sup>	245	283	Machinery and equipment	292	321	
Tax on autom. and motor-cycles	156	153	Construction of buildings	126	132	
Stamp duties	166	188	Land and waterway construction	332	355	
Special diesel etc. vehicles tax	15	42	<b>Total real investment</b>	<b>750</b>	<b>808</b>	
Other taxes and similar revenue <sup>1</sup>	168	143	Interest on State debt	102	129	
<b>Total taxes</b>	<b>6 369</b>	<b>6 414</b>	Net deficit of State enterprises	21	—42	
Miscellaneous revenue	512	609	Other expenditure	27	12	
Interest, dividends etc.	77	81	<b>Total other expenditure</b>	<b>150</b>	<b>99</b>	
Redemptions of loans granted	38	54	Increase in inventories	—2	—34	
<b>Total revenue</b>	<b>6 996</b>	<b>7 158</b>	Lending	742	489	
Foreign borrowing	—	811	Other financial investment	121	100	
Domestic borrowing	304	536	<b>Total expenditure</b>	<b>8 090</b>	<b>8 463</b>	
<b>Total borrowing</b>	<b>304</b>	<b>1 347</b>	Redemption of foreign loans	28	64	
<b>Deficit (+) or surplus (—)</b>	<b>+984</b>	<b>+217</b>	Redemption of domestic loans	166	195	
Total	Total	8 284	8 722	<b>Total redemptions</b>	<b>194</b>	<b>259</b>

<sup>1</sup> New series.

State debt	1975	1976	1977	1978		
	Dec.	Dec.	Dec.	Jan.	Feb.	March
<b>Foreign debt</b>	1 603	2 248	3 679	3 652	4 013	4 505
Loans	1 645	2 175	2 963	3 016	3 106	3 245
Compensatory obligations	1	1	1	1	1	1
Short-term credit	85	287	175	163	128	123
Cash debt (net)	—242	—643	—669	—497	—368	—576
<b>Domestic debt</b>	1 489	1 820	2 470	2 683	2 867	2 793
<b>Total State debt</b>	<b>3 092</b>	<b>4 068</b>	<b>6 149</b>	<b>6 335</b>	<b>6 880</b>	<b>7 298</b>
Total debt, mill \$	798	1 069	1 493	1 576	1 682	1 746

FOREIGN TRADE

Mill. mk

Value mill. mk

Period	Value mill. mk		
	Exports f. o. b.	Imports c. i. f.	Surplus of exports (+) or imports (-)
1973	14 605	16 599	-1 994
1974	20 687	25 666	-4 979
1975	20 247	28 002	-7 755
1976	24 505	28 555	-4 050
1977*	30 945	30 712	+233

1977*			
Feb.	1 917	1 992	-75
March	2 621	2 404	+217
April	2 084	2 169	-85
May	2 233	2 421	-188
June	2 541	3 120	-579
July	2 833	2 443	+390
Aug.	2 240	2 397	-157
Sept.	2 901	2 848	+53
Oct.	2 991	2 588	+403
Nov.	2 960	2 891	+69
Dec.	3 155	3 050	+105

1978*			
Jan.	2 511	2 622	-111
Feb.	2 524	2 192	+332
March	2 750	2 565	+185

Jan.-March			
1977	7 007	6 785	+222
1978*	7 785	7 379	+406

Indices of exports and imports 1975 = 100

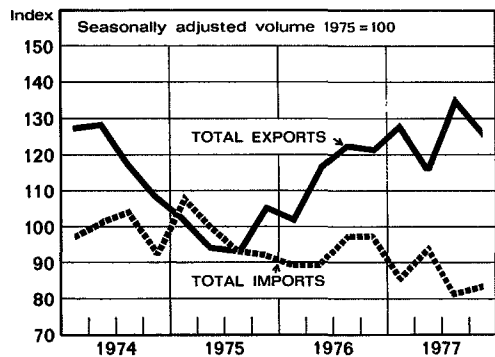
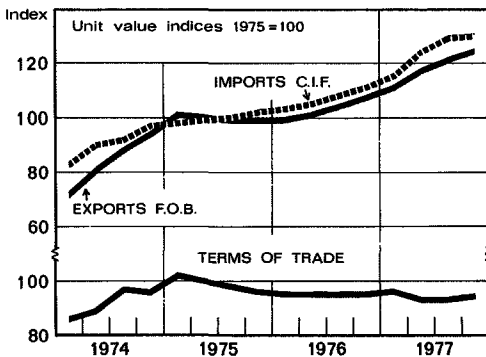
Period	Volume		Unit value		Terms of trade
	Exports	Imports	Exports	Imports	
	1973	121	93	60	
1974	121	100	85	92	92
1975	100	100	100	100	100
1976	117	96	103	107	97
1977*	129	88	119	124	96

1975					
July-Sept.	89	94	100	101	99
Oct.-Dec.	116	100	100	103	97

1976					
Jan.-March	99	87	100	104	96
Apr.-June	114	84	102	106	96
July-Sept.	116	98	105	109	96
Oct.-Dec.	136	107	108	112	96

1977*					
Jan.-March	124	83	112	116	97
Apr.-June	115	88	118	125	94
July-Sept.	129	84	122	130	94
Oct.-Dec.	143	93	125	131	95

1978*					
Jan.-March	124	78	124	135	92



FOREIGN TRADE BY MAIN GROUPS

Mill. mk

Period	Exports, .o.b.					Imports, c.i.f.				
	Agricultural and other primary products	Wood industry products	Paper industry products	Metal, engineering industry products	Other goods	Raw materials and producer goods	Fuels and lubricants	Finished goods		Other goods
								Investment goods	Consumer goods	
1973	432	2 458	5 266	2 921	3 528	9 916	729	2 919	2 968	67
1974	464	3 153	7 872	4 245	4 953	16 525	1 978	3 857	3 282	24
1975	449	2 177	7 225	5 357	5 039	17 058	1 670	5 222	3 989	63
1976	804	2 892	7 860	6 891	6 058	17 828	1 581	4 966	4 103	77
1977*	1 100	3 854	8 798	9 184	8 009	19 124	2 067	4 834	4 600	87

1977\*

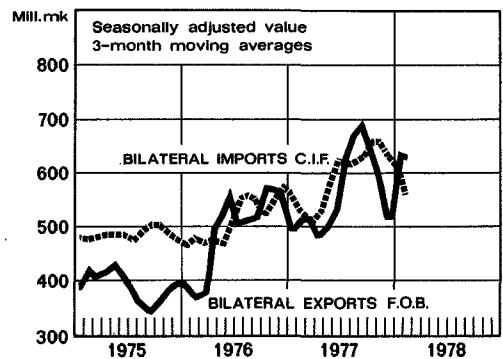
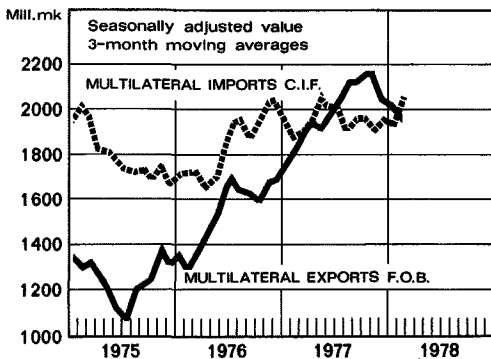
Feb.	45	232	625	476	539	1 297	102	271	320	2
March	181	261	802	692	685	1 488	85	381	448	2
April	54	246	630	600	554	1 277	107	373	405	7
May	106	350	681	435	661	1 451	148	370	441	11
June	90	366	750	770	565	1 984	202	565	353	16
July	87	352	701	1 045	648	1 609	178	319	316	21
Aug.	48	340	674	605	573	1 591	165	275	356	10
Sept.	44	337	795	943	782	1 789	284	372	399	4
Oct.	41	321	753	1 106	770	1 655	222	321	389	1
Nov.	44	417	896	802	801	1 729	198	511	453	0
Dec.	156	346	836	962	855	1 870	232	530	412	6

1978\*

Jan.	160	322	721	656	652	1 558	193	493	376	2
Feb.	34	266	821	727	676	1 399	124	327	340	2
March	153	322	901	546	828	1 564	89	475	436	1

Jan.-March

1977	430	779	2 082	1 916	1 800	4 169	331	1 198	1 076	11
1978*	347	910	2 443	1 929	2 156	4 521	406	1 295	1 152	5



FOREIGN TRADE BY COUNTRIES<sup>1</sup>

Mill. mk

Area and country	Exports, f.o.b.				Imports, c.i.f.			
	January—March				January—March			
	1977*		1978*		1977*		1978*	
	%	Mill. mk	%	Mill. mk	%	Mill. mk	%	Mill. mk
<b>OECD countries in Europe</b>	67.6	4 734	62.3	4 849	62.7	4 256	61.2	4 516
Austria	0.7	52	0.8	58	1.7	116	1.4	105
Belgium and Luxembourg	1.6	114	1.9	150	2.0	136	1.9	139
Denmark	4.3	299	3.9	306	2.9	196	2.8	211
France	3.6	251	4.0	314	3.1	209	3.2	234
Federal Republic of Germany	11.0	770	11.2	874	15.6	1 059	14.2	1 050
Italy	1.6	110	1.6	127	2.4	166	2.3	171
Netherlands	3.9	271	3.5	274	2.8	188	2.8	206
Norway	5.5	388	4.4	341	2.3	160	2.4	176
Portugal	0.2	17	0.2	17	0.5	31	0.4	27
Spain	1.0	67	0.7	56	2.0	135	0.7	49
Sweden	17.8	1 245	13.8	1 076	16.0	1 087	16.2	1 195
Switzerland	2.0	144	2.1	159	2.3	155	2.2	167
United Kingdom	11.7	818	12.7	984	8.7	593	10.1	744
Other	2.7	188	1.5	113	0.4	25	0.6	42
<b>OECD countries outside Europe</b>	6.9	482	7.2	564	8.9	603	8.4	620
Canada	0.7	49	0.5	39	0.3	19	0.4	32
Japan	0.6	41	1.0	83	2.8	188	2.7	196
United States	5.0	347	4.6	358	5.6	384	5.1	374
Other	0.6	45	1.1	84	0.2	12	0.2	18
<b>CMEA countries</b>	18.1	1 267	19.2	1 493	20.6	1 400	20.4	1 502
Czechoslovakia	0.4	27	0.5	38	0.4	30	0.4	32
German Democratic Republic	1.0	68	0.6	46	0.5	34	0.6	43
Poland	0.8	58	0.6	46	1.9	127	1.9	138
Soviet Union	15.0	1 050	16.5	1 284	17.0	1 157	16.1	1 190
Other	0.9	64	1.0	79	0.8	52	1.4	99
<b>Latin America</b>	1.4	101	4.4	338	4.4	298	3.7	274
Argentina	0.2	16	0.2	13	0.1	5	0.1	7
Brazil	0.5	32	0.5	36	0.9	61	0.8	59
Colombia	0.0	3	0.2	14	1.8	125	1.9	141
Other	0.7	50	3.5	275	1.6	107	0.9	67
<b>Other</b>	6.0	423	6.9	541	3.4	228	6.3	467
<b>GRAND TOTAL</b>	100.0	7 007	100.0	7 785	100.0	6 785	100.0	7 379
of which								
<b>EFTA countries</b>	26.5	1 855	21.3	1 662	23.0	1 559	22.9	1 689
<b>EEC countries</b>	38.2	2 674	39.7	3 088	37.7	2 556	37.5	2 769
<b>OECD countries</b>	74.5	5 216	69.5	5 413	71.6	4 859	69.6	5 136

<sup>1</sup> New series. See explanations on page 18.

# BALANCE OF PAYMENTS

Period	Visible exports f.o.b.	Visible imports c.i.f.	Visible trade account	Transport, net	Travel, net	Other services, net	Visible and invisible trade account	Investment income, net	Transfer payments, net	Current account
1975	20 181	27 939	-7 758	+ 984	+105	+217	-6 452	-1 414	-108	-7 974
1976	24 372	28 472	-4 100	+1 193	+ 22	+245	-2 640	-1 749	-118	-4 507
1977*	30 775	30 629	+ 146	+1 286	- 12	+380	+1 800	-2 434	-140	- 774

## 1975

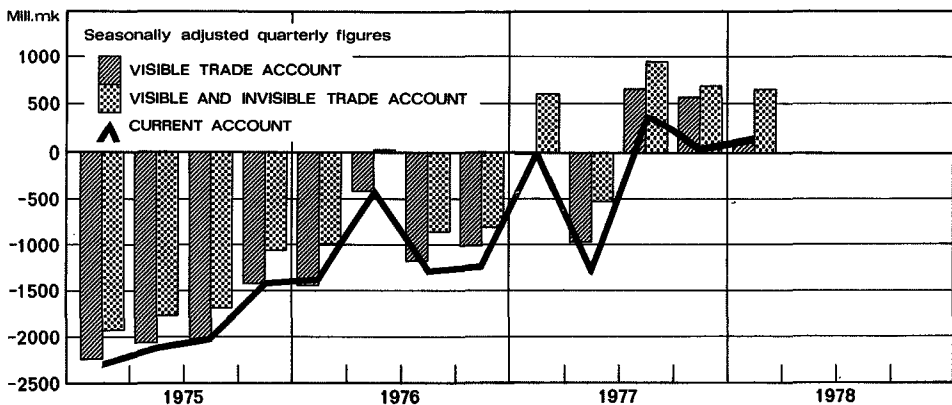
Jan.-March	5 143	7 368	-2 225	+292	- 43	- 44	-2 020	-316	-57	-2 393
Apr.-June	4 695	6 688	-1 993	+221	+ 13	- 2	-1 761	-379	-15	-2 155
July-Sept.	4 482	6 649	-2 167	+237	+142	+ 57	-1 731	-308	- 6	-2 045
Oct.-Dec.	5 961	7 234	-1 373	+234	- 7	+206	- 940	-411	-30	-1 381

## 1976

Jan.-March	4 987	6 307	-1 320	+252	- 50	+ 65	+1 053	-347	-35	-1 435
Apr.-June	5 864	6 224	- 360	+252	+ 49	+ 26	- 33	-485	-26	- 544
July-Sept.	6 098	7 515	-1 417	+365	+ 62	+110	- 880	-434	-17	-1 331
Oct.-Dec.	7 423	8 426	-1 003	+324	- 39	+ 44	- 674	-483	-40	-1 197

## 1977\*

Jan.-March	6 978	6 765	+ 213	+ 321	- 80	+ 74	+ 528	- 506	-46	- 24
Apr.-June	6 820	7 689	- 869	+ 268	+ 10	+ 35	- 556	- 726	-11	-1 293
July-Sept.	7 933	7 671	+ 262	+ 343	+118	+193	+ 916	- 532	-29	+ 355
Oct.-Dec.	9 044	8 504	+ 540	+ 354	- 60	+ 78	+ 912	- 670	-54	+ 188

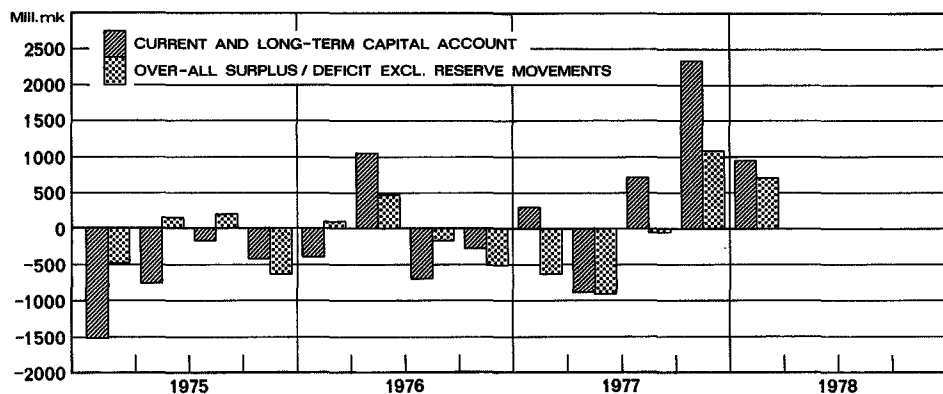


Drawings of long-term loans	Amortizations of long-term loans	Long-term export credits net	Miscellaneous long-term capital items, net <sup>1</sup>	Long-term capital account	Current and long-term capital account	Short-term import credits and prepayments, net	Short-term export credits and prepayments, net	Miscellaneous short-term capital items, incl. errors and omissions	Over-all surplus/deficit excl. reserve movements	Reserve movements	
										Bank of Finland	Other foreign exchange holders
+6 729	-1 445	-214	+ 62	+5 132	-2 842	+ 638	+1 449	+ 8	- 747	-444	+1 191
+6 130	-1 785	-191	+ 48	+4 202	- 305	+ 138	-1 288	+1 327	- 128	+ 78	+ 50
+6 454	-2 745	-241	-229	+3 239	+2 465	-1 544	- 470	- 940	- 489	-170	+ 659
+1 206	-310	- 24	+ 11	+ 883	-1 510	+ 310	+ 758	- 35	- 477	- 32	+ 509
+1 870	-433	- 48	+ 9	+1 398	- 757	- 140	+ 758	+ 296	+ 157	-668	+ 511
+2 121	-287	- 3	+ 57	+1 888	- 157	+ 131	- 34	+ 265	+ 205	+ 91	- 296
+1 532	-415	-139	- 15	+ 963	- 418	+ 337	- 33	- 518	- 632	+165	+ 467
+1 404	-374	+ 5	+ 11	+1 046	- 389	- 628	+ 119	+ 996	+ 98	+373	- 471
+2 096	-394	- 95	- 7	+1 600	+1 056	- 158	+ 120	- 560	+ 458	-485	+ 27
+1 239	-568	- 11	- 25	+ 635	- 696	+ 565	- 764	+ 722	- 173	+263	- 90
+1 391	-449	- 90	+ 69	+ 921	- 276	+ 359	- 763	+ 169	- 511	- 73	+ 584
+1 022	-550	-127	- 24	+ 321	+ 297	- 802	+ 149	- 249	- 605	-140	+ 745
+1 273	-857	+ 35	- 37	+ 414	- 879	- 320	+ 149	+ 144	- 906	+358	+ 548
+1 252	-647	-156	- 89	+ 360	+ 715	+ 217	- 384	- 603	- 55	-319	+ 374
+2 907	-691	+ 7	- 79	+2 144	+2 332	- 639	- 384	- 232	+1 077	- 69	-1 008

Assets: increase —, decrease +. Liabilities: increase +, decrease —.

<sup>1</sup> Including Direct investment, net.

<sup>2</sup> Including Allocations of special drawing rights: 88 million in 1970, 85 million in 1971 and 85 million in 1972.



# PRICE INDICES

Period	Wholesale prices 1949 = 100									Building costs 1973 = 100		
	Total	Origin		Purpose			Stage of processing			Total	Wages in building trade	Building materials
		Domes- tic goods	Im- ported goods	Pro- ducer goods	Machinery & transport equipm.	Con- sumer goods	Raw materials and com- modities	Simply pro- cessed goods	More elab- orately processed goods			
1976	626	646	548	614	707	621	679	594	614	152	142	154
1977	692	713	610	667	804	695	728	654	695	171	154	176
1977												
June	692	714	610	667	802	698	725	659	694	172	158	176
July	697	719	613	671	807	704	736	661	697	173	158	176
Aug.	696	718	610	667	806	706	727	663	700	175	158	180
Sept.	701	722	621	673	826	705	730	665	707	175	158	180
Oct.	703	722	631	675	829	709	735	665	710	175	157	180
Nov.	705	723	632	677	830	709	737	665	711	176	157	181
Dec.	705	724	634	677	833	710	735	666	713	176	157	182
1978												
Jan.	706	725	637	675	845	713	730	667	719	177	155	183
Feb.	711	730	639	679	853	719	736	665	727	177	155	183
March	716	731	658	683	869	719	736	670	733	178	155	184
April	717	733	658	683	869	725	740	669	736	178	156	185
Consumer prices 1972 = 100												
Period	Cost of living Oct. 1951 = 100	Con- sumer prices Oct.—Dec. 1957 = 100										
			Total	Food	Bever- ages and tobacco	Clothing and foot- wear	Rent	Heating and lighting	Furniture, household equip. and operation	Trans- port	Education and recreation	Other goods and services
1976	449	352	174	182	164	166	171	200	164	174	162	185
1977	506	397	196	216	174	181	183	221	181	197	188	209
1977												
June	506	397	197	219	174	182	181	222	181	197	184	209
July	510	400	198	222	174	177	181	222	182	199	190	211
Aug.	518	407	201	226	174	179	190	223	183	202	191	213
Sept.	520	408	202	225	174	184	190	223	184	202	193	215
Oct.	522	410	203	225	174	185	190	229	185	203	194	216
Nov.	524	412	204	226	174	187	192	230	186	203	195	217
Dec.	525	412	204	225	174	186	192	233	187	205	196	217
1978												
Jan.	526	412	204	222	174	183	192	234	188	209	198	218
Feb.	532	417	207	223	190	187	192	235	188	212	198	222
March	533	419	207	224	190	190	192	235	189	212	198	223
April	536	420	208	224	190	192	192	236	190	213	200	223



# WAGES

Index of salary and wage earnings 1964 = 100

Period	By industries			By institutional sectors				All salary earners	All wage earners	All employees
	Wage earners in			Employees in services	State employees	Municipal employees	Employees in private sector			
	Agriculture	Industry	Construction							
1976	599	442	428	361	360	353	416	346	441	399
1977*	669	484	456	385	387	375	451	372	477	431
1976										
July-Sept.	602	448	434	364	364	355	425	349	451	406
Oct.-Dec.	639	456	440	364	364	356	426	350	451	407
1977*										
Jan.-March	653	457	440	372	374	364	428	357	453	411
Apr.-June	665	488	454	385	391	378	455	373	484	435
July-Sept.	670	493	463	388	390	379	460	376	487	438
Oct.-Dec.	705	498	466	396	394	380	466	383	491	444
1978*										
Jan.-March	695	499	466	397	395	380	468	384	493	445

# PRODUCTION

Volume indices of production 1964 = 100

Period	Gross domestic product	Industrial production	Agriculture	Forestry	Construction of buildings	Land and waterway construction	Transport and communications	Commerce, banking and insurance	Ownership of dwellings	Public admin. and defence	Services
1975	161	192	100	83	175	104	158	188	166	168	169
1976*	163	195	101	79	156	103	160	191	173	176	174
1977*	162	191	96	83	157	101	160	186	181	182	178
1976*											
Jan.-March	157	202	62	84	123	102	149	182	171	174	172
Apr.-June	161	195	97	91	137	106	157	187	172	175	174
July-Sept.	160	167	178	56	169	101	161	186	173	176	174
Oct.-Dec.	172	216	67	86	196	102	171	207	177	179	177
1977*											
Jan.-March	158	200	61	99	128	100	152	175	179	180	177
Apr.-June	159	190	81	94	139	103	157	184	183	180	177
July-Sept.	159	167	166	54	170	101	162	180	181	182	178
Oct.-Dec.	171	209	76	83	190	102	171	204	185	184	180

# PRODUCTION

Index of industrial production 1970 = 100

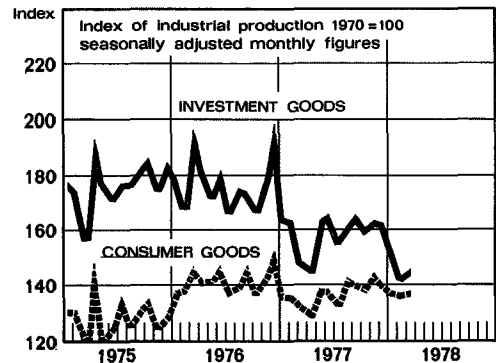
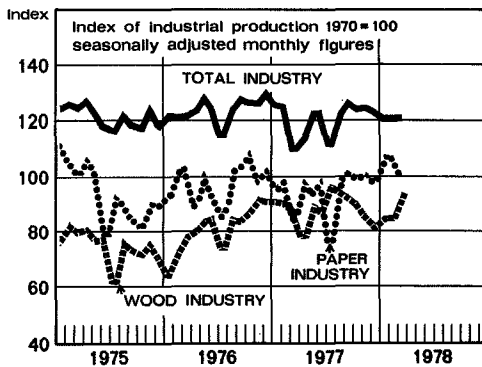
Period	Total	Investment goods	Other producer goods	Consumer goods	Special indices of manufacturing						Total, adjusted for seasonal variations
					Food industry	Wood industry	Paper industry	Chemical industries	Non-metallic mineral industry	Metal industry	
1974	127	141	122	135	112	107	124	154	136	141	127
1975	122	178	110	130	113	76	95	143	128	150	122
1976	125	179	108	143	110	82	99	148	119	150	124
1977*	122	160	108	138	109	89	96	140	115	142	122

1977\*

Jan.	130	178	116	141	99	86	96	182	128	153	126
Feb.	126	171	112	138	93	88	100	164	117	149	125
March	126	160	112	141	103	101	94	147	115	146	111
April	115	151	102	128	99	92	90	136	96	136	115
May	130	180	114	148	115	114	101	134	127	158	123
June	118	173	101	139	106	95	79	106	123	152	123
July	64	63	58	78	95	41	58	77	61	51	117
Aug.	125	154	110	145	115	88	108	137	121	139	123
Sept.	135	179	120	151	115	97	115	147	132	158	127
Oct.	134	176	120	150	123	92	110	141	128	156	125
Nov.	136	181	121	155	127	97	109	151	122	162	125
Dec.	124	155	111	140	111	82	92	152	104	143	124

1978\*

Jan.	131	168	118	143	104	86	109	162	118	149	122
Feb.	125	154	112	140	95	84	110	152	114	138	122
March	132	162	118	148	104	102	105	170	117	147	122



# LABOUR—TIMBER FELLINGS—INTERNAL TRADE

Period	Population of working age 1 000 persons	Total labour force, 1 000 persons	Employed 1 000 persons	Un-employed 1 000 persons	Unemployment, % of total labour force	Commercial timber fellings 1 000 solid cu. m	Retailers' sales volume index 1972 = 100	Wholesalers' volume index 1972 = 100
1975	3 513	2 272	2 221	51	2.2	29 133	122	127
1976*	3 547	2 254	2 163	91	4.0	27 305	123	127
1977*	3 561	2 248	2 111	137	6.1	27 814	112	121
1977*								
Jan.	3 553	2 199	2 070	129	5.9	2 455	93	95
Feb.	3 557	2 181	2 048	133	6.1	2 934	95	109
March	3 556	2 179	2 047	132	6.1	3 564	109	127
April	3 558	2 172	2 035	137	6.3	3 227	111	123
May	3 556	2 207	2 073	134	6.1	2 856	115	128
June	3 564	2 425	2 287	138	5.7	1 870	117	119
July	3 562	2 436	2 288	148	6.1	685	115	104
Aug.	3 563	2 329	2 188	141	6.0	1 240	118	127
Sept.	3 565	2 222	2 100	122	5.5	1 824	116	133
Oct.	3 567	2 218	2 092	126	5.7	2 090	111	125
Nov.	3 567	2 195	2 050	145	6.6	2 355	111	124
Dec.	3 570	2 210	2 051	159	7.2	2 714	137	133
1978*								
Jan.	3 572	2 199	2 007	192	8.7	2 625	94	102
Feb.	3 571	2 187	2 001	186	8.5	3 076	92	110
March	3 572	2 195	2 007	188	8.5	..	..	..

## CONSTRUCTION OF BUILDINGS

Period	Building permits granted					Buildings completed					Building-works under construction
	Total	Residential buildings	Farm buildings	Industrial and business buildings	Public buildings	Total	Residential buildings	Farm buildings	Industrial and business buildings	Public buildings	
Million cubic metres											
1974	53.23	22.35	3.26	21.30	3.52	46.50	21.54	2.75	17.04	3.14	52.84
1975	51.42	19.65	3.79	21.62	3.39	47.85	20.59	2.80	18.68	3.64	52.45
1976	46.89	19.95	3.93	15.81	3.84	41.25	17.74	3.16	15.40	2.59	51.85
1977*	41.62	18.82	4.23	11.90	3.72	43.12	17.89	3.01	16.57	3.28	48.38
1976*											
Oct.-Dec.	11.96	4.09	0.69	5.12	1.45	13.15	6.29	1.19	4.02	0.81	51.85
1977*											
Jan.-March	6.73	2.92	0.66	1.91	0.83	9.43	3.59	0.47	4.51	0.57	47.95
Apr.-June	13.22	7.00	1.71	2.69	0.80	8.76	4.16	0.38	2.76	0.99	51.52
July-Sept.	11.20	4.67	1.06	3.70	0.91	10.92	4.04	1.05	4.02	0.99	52.69
Oct.—Dec.	10.47	4.23	0.80	3.60	1.18	14.01	6.10	1.11	5.28	0.73	48.38

# EXPLANATIONS RELATING TO THE STATISTICAL SECTION

## BANK OF FINLAND

The balance sheet of the Bank of Finland was revised on Dec. 31, 1974 in connection with the revision of accounting legislation. New series have been built according to the revision. When the figures are not fully comparable to the previous ones, the series is broken by a line.

Page 4. *Foreign sector*: Gold and convertible exchange receivables = Gold + Special drawing rights + IMF gold tranche + Convertible currencies.

Gold and convertible exchange reserve = Gold and convertible exchange receivables — Liabilities in convertible currencies.

Non-convertible exchange reserve = Receivables in tied currencies — Liabilities in tied currencies.

Other receivables = Foreign bills + Foreign bonds + Currency subscription to Finland's quota in the IMF.

Other liabilities = IMF mark accounts + Allocations of special drawing rights + Term liabilities.

*Public sector*: Receivables = Total coinage + Other public sector receivables + Bonds.

Liabilities = Cheque accounts + Counter-cyclical reserves + Capital import deposits + Other public sector claims.

Deposit certificates are interest bearing, freely transferable, term liabilities of the Bank of Finland. Their maturities range from one week to one year.

Page 5. *Domestic financial sector*: Other receivables = Call money market advances + Bonds + Other financial institution receivables. Other liabilities = Call money market deposits + Capital import deposits + Other financial institution claims.

*Corporate sector*: Receivables = New export bills + Financing of suppliers credits + Other corporate receivables + Bonds.

Liabilities = Investment deposits + Counter-cyclical withholdings + Capital import deposits + Import levy deposits + Other corporate claims.

## DEPOSITS BY THE PUBLIC — ADVANCES TO THE PUBLIC — MONEY SUPPLY

Figures for deposits and advances are supplied by the Central Statistical Office.

Page 6. *Deposits by the public*. The central government and the financial institutions are mainly excluded from the public.

From 1974 deposits include domestic deposits denominated in foreign currency.

Page 7. *Advances to the public*. The central government and the financial institutions are not included in the public.

Postipankki's (Post Office Bank's) advances do not include loans granted by the State Investment Fund (INRA). Domestic credits in foreign currency are mainly granted by the commercial banks and the rest by Postipankki.

*Money Supply*.  $M_1$  = Finnish notes and coins in circulation — Finnish notes and coins held by the banks + demand deposits held by the public (incl. demand deposits at the Bank of Finland) Quasi-Money = Time deposits held by the public (incl. time deposits at the Bank of Finland)

Note: Domestic deposits in foreign currency included in money supply since 1974. In the money supply the public includes non-monetary financial institutions.

## STATE FINANCES

Page 8. Official figures computed by the Economic Department of the Ministry of Finance. First date of publication: Bulletin No. 8, 1968. Revenue and expenditure: Extra-budgetary funds and the aggregated net current deficit of State enterprises are included.

Figures are reported on a cash payment basis. Debt: Foreign debt includes promissory notes given to international organizations. Index-tied bond loans are taken at nominal values. Cash debt (net) = net debt to the Bank of Finland plus short-term debt to Postipankki less cash holdings (net) of State departments and funds.

## FOREIGN TRADE

Pages 9—11. Figures supplied by the Board of Customs. *Indices* (p. 9). The volume indices are calculated according to the Paasche formula and the unit value indices according to the Laspeyres formula. *Terms of trade*: the ratio of export indices to import indices. *Foreign trade by countries* (p. 11): from January 1978 imports by countries of origin exports by countries of consumption.

## BALANCE OF PAYMENTS

Pages 12—13. Figures are calculated by the Bank of Finland. In addition to the Board of Customs figures, exports include grants in kind but exclude stevedoring expenses and imports include seamen's duty-free imports, non-monetary gold, grants in kind and adjusted allowance for smuggling.

## PRICE INDICES

Page 14. All indices calculated by the Central Statistical Office.

## WAGES — PRODUCTION

Pages 15—16. Figures supplied by the Central Statistical Office.

Page 16. *Index of industrial production* calculated by the Central Statistical Office. The grouping by branches of industry is in accordance with the Standard Industrial Classification (SIC) which is a version of the 1968 edition of the ISIC. The SIC facilitates international comparisons between Finnish statistics and corresponding data from countries which use the ISIC. The seasonally adjusted series is calculated by the Bank of Finland on the basis of the index of industrial production per working day according to a method resembling the U.S. Bureau of Census Method II. Commodities according to use: investment goods weight 7.0, other producer goods weight 67.0 and consumer goods weight 26.0. The weights for the special manufacturing indices are food manufacturing (SIC 311-2) 9.8, manufacture of wood, and wood and cork products (SIC 311-2) 8.0, manufacture of paper and paper products (SIC 341) 15.2, manufacture of industrial chemicals (SIC 351-2) 5.2, manufacture of non-metallic mineral products except products of petroleum and coal (SIC 361-9) 3.6 and metal industry (SIC 37-38) 25.9.

## LABOUR — TIMBER FELLINGS — INTERNAL TRADE — TRAFFIC — CONSTRUCTION OF BUILDINGS

Page 17 *Labour* figures supplied by the Central Statistical Office *Commercial timber fellings* compiled by the Ministry of Labour. *Retailers' and Wholesalers' volume indices* supplied by the Central Statistical Office. *Construction of buildings* figures calculated by the Central Statistical Office.

## SYMBOLS USED

- Preliminary
- r Revised
- 0 Less than half the final digit shown
- .. Logically impossible
- .. Not available
- Nil
- S affected by strike

# SOME PARTICULARS ABOUT FINLAND

## FORM OF GOVERNMENT

From 1155 to 1809 Finland formed a part of the kingdom of Sweden. Connected from 1809 with Russia, Finland was an autonomous country with the Emperor as Grand Duke until December 6, 1917. The date of Finland's declaration of independence. The republican constitution was adopted in 1919. The legislative power of the country is vested in Parliament and the President. The highest executive power is held by the President, elected for a period of 6 years. Mr. Urho Kekkonen has been President since 1956 and he was re-elected for the period March 1, 1978, to March 1, 1984.

Parliament, comprising 200 members, is elected by universal suffrage for a period of 4 years. The number of seats of the different parties in Parliament elected in 1975 is as follows: Social Democrats 54, People's Democrats 40, Centre Party 41, Conservatives 34, Swedish Party 10, Liberal Party 8, Christian League 9, Finnish Farmers Party 2 and Finnish People's Constitutional Party 2.

## INTERNATIONAL ORGANIZATIONS

Finland became a member of BIS 1930, IMF 1948, IBRD 1948, GATT 1950, UN 1955, IFC 1956, IDA 1960, EFTA 1961, ADB 1966, OECD 1969, and IDB 1977.

## LAND

THE AREA is 337 000 square kilometres (Great Britain's area is 245 000 sq. km and Italy's area 301 000 sq. km). Of the total, inland waters form 9.4 %. Of the land area (1970) 2.7 mill. ha (9.6 %) are cultivated and 19.1 mill. ha (68.4 %) are covered by forests.

OWNERSHIP OF LAND (1970): The total land area was distributed among different classes of owners approximately as follows: private 60.7 %, State 29.4 %, joint stock companies etc. 8.0 %, municipalities and parishes 1.9 %.

## POPULATION

NUMBER OF INHABITANTS (1976): 4.7 million. Sweden 8.2, Switzerland 6.4, Denmark 5.1 and Norway 4.0 million.

DENSITY OF POPULATION (1976): In South Finland 46.2, in East and Central Finland 13.9, in North Finland 4.0 and in the whole country an average of 15.5 inhabitants to the square kilometre.

DISTRIBUTION BY AREA (1976): 41 % of the population inhabit the rural areas, 59 % towns and urban districts. The largest towns are: Helsinki (Helsingfors), the capital 493 324 inhabitants, Tampere (Tammerfors) 166 179, Turku (Åbo) 164 520.

EMPLOYMENT (1976): Agriculture and forestry 14 %, industry and construction 35 %, commerce 15 %, transport and communications 8 %, services 28 %.

LANGUAGE (1975): Finnish speaking 93.3 %, Swedish speaking 6.4 %, others 0.3 %.

EDUCATION (1977): Practically all persons over 15 years of age are literate. There are 6 universities (the oldest founded in 1640) and 14 colleges of university standard.

CHANGE OF POPULATION (1976): births 14.0 ‰, deaths 9.4 ‰, change + 2.7 ‰, net emigration 2.0 ‰. Deaths in France 10.5 ‰ and Great Britain 12.2 ‰.

## TRADE AND TRANSPORT

NATIONAL INCOME (1976, in million marks): Gross domestic product at factor cost by industrial origin: agriculture 6 407 (6 %), forestry and fishing 4 950 (5 %), manufacturing 31 509 (31 %), construction 9 233 (9 %), transport and communication 10 849 (11 %), commerce, banking and insurance 13 585 (14 %), public administration 5 264 (5 %), ownership of dwellings 3 639 (4 %), services 15 581 (15 %), total 101 017. Index of real domestic product 162 (1964 = 100).

FOREST RESOURCES (1976): The growing stock comprised of 1 520 million m<sup>3</sup> (solid volume with bark) of which 45 % was pine and 37 % spruce, the remaining 18 % being broad-leaved trees, chiefly birch. Of the growing stock, 637 million m<sup>3</sup> was up to the standard required for logs, 56 % of these being pine. The annual growth was 57.4 million m<sup>3</sup> and the total removal, calculated on the basis of roundwood consumption, was 42.4 million m<sup>3</sup>.

AGRICULTURE (1975): Cultivated land 2.5 million hectares. Number of holdings 248 700 of which 167 800 are of more than 5 ha. Measure of self-sufficiency in bread cereals 133 % in the crop year 1975/76.

INDUSTRY (1975): Gross value of industrial production 89 210 mill. marks, number of workers 410 181, salaried employees 132 074, motive power (1975) 6.7 mill. kW. Index of industrial production 127 for 1975 (1970 = 100).

STATE RAILWAYS (Jan. 1, 1978): Length 6 063 km.

MERCHANT FLEET (April 30, 1978): Passenger vessels 118 (197 058 gross reg. tons), tankers 51 (1 165 653 gross reg. tons), dry cargo vessels 212 (958 002 gross reg. tons), other vessels 72 (9 640 gross reg. tons), total 453 (2 330 353 gross reg. tons).

MOTOR VEHICLES (Dec. 31, 1977): Passenger cars 1 075 400, lorries and vans 136 200, buses 8 800, others 7 200, total 1 227 600.

FINNISH AIRLINES (April 1, 1977): Finnair and Kar-Air have in use 4 DC-8, 1 DC-6-ST, 8 Super Caravelles, 9 DC-9s, 5 DC-9-51s, 2 DC-10-30 and 5 Convair Metropolitans. Companies have scheduled traffic outside of Finland to 32 airports and to 20 domestic airports.

## FINANCE AND BANKING

CURRENCY. Since 1860, Finland has had its own monetary system. From 1877 until 1914 the country was on the gold standard, and returned to it in 1926. In 1931, the Central Bank's duty to redeem bank notes in gold was suspended and at the end of 1962 was entirely cancelled. The monetary unit is the mark (Finnish markka). The last par value of the mark was set on Oct. 12, 1967 and was 0.21159 grams of fine gold per mark (equivalent, at the time, to 4.20 marks per U.S. dollar). Since Nov. 1, 1977 the external value of the mark has been officially expressed in terms of a currency index. This index is trade-weighted and indicates the average change in the currencies which are important in Finnish foreign trade. The permissible range of fluctuation is 2.25 per cent on either side of the arithmetic mean. The fluctuation limits are 121.7 and 116.4.

THE CENTRAL BANK. The Bank of Finland (estab. 1811) functions under the guarantee and supervision of Parliament. Its Board of Management is appointed by the President of the Republic; the Bank Supervisors, nine in number, are elected by Parliament. The Bank has a head office in Helsinki and 12 branches in other towns.

OTHER CREDIT INSTITUTIONS (Dec. 31, 1977) There are two big and five small commercial banks with in all 858 offices, 280 savings banks, 376 co-operative banks, six mortgage banks, Postipankki and three development credit institutions. The co-operative stores accept deposits from their members. The Social Insurance Institution and fifty-eight private insurance companies also grant credits.

RATES OF INTEREST (May 1, 1978) The official discount rate of the Bank of Finland (the basic rate applied by the Bank of Finland for discounts and rediscounts of commercial banks) is 7 ½ %. The range of rates for other credits granted by the Bank of Finland is between 5 ½ % and 8 ½ %. Other credit institutions time deposits 3 ¼ %; 6 month deposits 4 ¼ %; 12 month deposits 5 ½ %; 24 month deposits 6 ½ %; 36 month deposits 7 ¼ % + savings premium; 36 month deposits 7 ¼ % + tax concession. The highest lending rate 10 ½ %.

# PUBLIC FINANCE IN 1977

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In the last few years, fiscal policy has principally been aimed at restoring the current account balance, promoting employment by using selective measures, and curbing the rate of inflation and the growth of public expenditure. In 1977 the current account was brought more nearly into balance than had been expected. As yet, the balance has no firm foundation since, apart from economic recovery, it is largely a result of diminished imports due to a stand-still in economic growth. Attempts have also been made to curb the high rate of inflation of the past few years. Unemployment has become a central issue in Finnish fiscal policy. Poor international competitiveness combined with low export demand has greatly reduced the growth of output and exports. It has forced companies to drastically reorganize, making it impossible for them to even maintain their workforce.

The Central Government has made special attempts to promote employment by improving corporate profitability and competitiveness. As a result of the stand-still in output, the income formation of the public sector has become weaker, necessitating restraint in public expenditure. The liquidity position of the state was substantially weakened in 1975, and the recovery of public finances in the following year did not create a solid enough base for an expansive financial policy in 1977. However, state grants ensured that the liquidity position of the municipalities was fairly good.

## CENTRAL GOVERNMENT FINANCE

In the summer of 1976 when the budget for 1977 was being prepared, there were clear signs of an international economic upswing.

Recovery and particularly stockbuilding had led to a 10 per cent rise in the volume of world trade and this growth rate was expected to continue for the first half of 1977. It was estimated that the international upswing would increase the value of Finnish visible exports by nearly one quarter and the domestic product by as much as 5 per cent. The external balance was expected to improve further, as domestic demand grew more slowly than production. It was estimated that during the first months of 1977 unemployment would be greater than a year earlier, but an increase in production would slowly lead to a higher demand for labour with unemployment falling rapidly during the second half of 1977. Consumer price increases were expected to be only two thirds of those of the previous year, but real earnings would still be reduced. However, income transfers and changes in tax schedules would result in a slight increase in the household sector's disposable real income.

The aims of the budget proposal for 1977 were to limit the growth of public expenditure and finance, improve employment, encourage income agreements curbing inflation and contribute to the restoration of the current account balance. Increases were, however, made in appropriations which directly promote employment, such as loans for housing and corporate investment and grants to firms to prevent lay-offs.

In connection with the collective income agreements concluded in February 1976, the Government had promised to implement, by revising the income tax scales, tax concessions corresponding to the estimated price increases during the agreement period and to examine whether tax deductions could also be revised. The budget proposal for 1977 therefore allowed

for concessions of 11 per cent to be made in connection with income and wealth taxation. Parliament's decision on the income and wealth taxation scales and the most important deductions amounted to a total change of 16 per cent. It was estimated that the revision adjusting for inflation would reduce the 1977 income and wealth tax revenue by a total of 1 370 million marks. At the beginning of 1977, another substantial change in the tax schedules was caused by the increase of the sales tax and insurance premium tax from 11 to 14 per cent of the post-tax price.

It was estimated that the overall result of the various changes in tax schedules and the revision of certain state charges would be an increase of 1 000 million marks in state revenue.

The ordinary budget contained several measures designed to promote employment. Some increases were made in the state's real investment appropriations, which are significant as regards employment, and unutilized appropriations from earlier years were also available. Part of the appropriations were earmarked to be used by the Government for promoting employment, if the labour market situation so demanded.

So as to encourage a better regional and sectoral balance between labour supply and demand, attempts were made to increase the mobility of labour and to improve the system of vocational training. Increases in subsidies to the corporate sector were to be held down by reducing spending on surplus agricultural production, through renewing the system of export guarantees and through partially replacing loans by product development grants.

State subsidies to municipalities and municipal federations were measured out in accordance with the policy of curbing local government expenditure. Attempts were also made to reduce the pressure for increased local government expenditure by certain saving measures. Child allowances and maternity grants were increased so as to secure reasonable improvements in the incomes of the economically active population.

The budget proposal amounted to 32 676 million marks, exceeding the ordinary budget for 1976 by only 12 per cent. After passage through Parliament, where appropriations were granted (e.g. 380 million marks for the marketing of agricultural produce), the budget provided for expenditure amounting to 33 122 million marks.

In the course of the year, the Government presented three supplementary budgets, which together increased the ordinary budget expenditure by about 8 per cent. Faster increases in prices than had been estimated in the budget and measures to promote employment accounted for the bulk of the addition. It became more and more obvious in the course of 1977 that Finnish fiscal policy for 1977 had been based on too optimistic an estimate of the coming upswing in the world economy. For reflationary reasons, a number of decisions were made by the Government in June 1977 to prevent increases in production costs and deterioration in employment: employers' social security contributions were reduced, the buffer stock charges on liquid fuels were removed, counter-cyclical subsidies and loans were increased, export marketing was promoted, child allowances were increased, the general level of interest rates was lowered by one percentage point and appropriations (e.g. for education) were increased. In addition to those included in the ordinary budget for 1978, further reflationary measures were taken in December 1977 and early in 1978 (see the article »Finnish Economy in 1977 and the Current Outlook», Bulletin Nr. 5/1978).

The reflationary effects of export demand did not prove sufficient and output declined slightly instead of rising by 5 per cent as estimated in the budget proposal. This was partly because domestic demand, which was to grow by only 3 ½ per cent so that the current account balance would improve, actually turned out to be somewhat lower than in the previous year. In particular, investment by the private sector was substantially reduced. The current account deficit was 774 million marks, only a third of that estimated in the budget

proposal. As consumer prices increased by three percentage points more than had been predicted, the reduction in real earnings was larger than had been estimated in the budget proposal. Weakened price competitiveness and slackened demand resulted in reduced output which, coupled with the necessity to increase productivity and attempts to reduce unit costs, made it impossible to employ the same number of workers as before. Consequently, unemployment became a major problem in the Finnish economy. During 1977, unemployment rose and the average rate of unemployment was 6 per cent.

As a result, the revenue base of the state did not expand to the extent expected, even though the rate of inflation was higher than had been estimated. Total state revenue (excluding borrowing) was 32 732 million marks or 7 per cent more than in 1976 (Table 1). The total yield from direct taxes (income and wealth taxes, local tax, church tax, and sickness insurance and basic pensions contributions) increased by somewhat less than 9 per cent. Excess tax repayments postponed from the year before (1 200 million marks) were made and the excess tax repayments due in 1977 (1 800 million marks) were postponed until March 1978. Wealth tax surcharges on corporations were removed in 1977. These measures together with the increased rate of unemployment and the revisions in income and wealth taxation accounted for a reduction of nearly 9 per cent in the revenue from income and wealth taxes.

The rise in sales tax resulted in a 24 per cent increase in sales tax revenue, although the value of domestic sales grew by only 6 per cent in 1977. As a result of the latest reductions in the EEC and KEVSOS<sup>1</sup> tariffs and the diminished volume of imports, the total yield from customs duty and import charges grew only slightly. The higher excise duties and new excise duties, introduced in the second half of 1976, were still in force in 1977 and, in addition, the excise duties on diesel

**TABLE 1. STATE CASH REVENUE AND EXPENDITURE**

Revenue	1976	1977
	Mill. mk	
Total taxes on income and wealth	11 716	10 747
Sales taxes	6 667	8 282
Customs duties and import charges	621	647
Excise duties	4 820	5 754
Other taxes and similar revenue	4 064	4 282
Other revenue	2 298	2 604
Redemptions of loans granted	397	416
	<b>Total revenue</b>	<b>30 583</b>
Borrowing	1 587	2 015
	<b>Total</b>	<b>32 170</b>
<b>Expenditure</b>		
Consumption expenditure	8 311	9 415
Transfer expenditure	14 876	17 070
Real investment	3 459	3 607
Interest on state debt and index compensations	292	454
Other expenditure	340	119
Lending	2 966	2 993
Other financial investment	560	687
	<b>Total expenditure</b>	<b>30 804</b>
Redemptions	484	481
Deficit (—), Surplus (+)	+882	—79
	<b>Total</b>	<b>32 170</b>

oil and petrol were increased. Principally as a result of these revisions, the total accrual of excise duties grew by one fifth from that of 1976. Tax revenue was also increased by the higher tax on motor vehicles but was reduced by the removal of the car licence fee, the discontinuation of the buffer stock charge on liquid fuels in the middle of June 1977 and the reduction in employers' social security contributions at the beginning of October 1977. Taxes and similar revenue totalled 29 712 million marks, 6 ½ per cent more than in the previous year.

Because of the reductions and postponements of projected expenditure and the deceleration of prices and wages, actual state expenditure (excluding debt redemption) increased by only 11 per cent and totalled 34 345 million marks in 1977. Pensions and various other consumption expenditure items, including purchases of equipment for the armed forces, were mainly responsible for the growth of state expenditure. Of the various transfer

<sup>1</sup> A reciprocal agreement on the removal of obstacles to trade with some socialist countries.



payments, those that increased most were state subsidies to the household sector and to municipalities and child allowances. On the other hand, state subsidies to industry were reduced in real terms. In accordance with the employment policy, the state's own real investment expenditure scarcely increased at all; as a matter of fact, its volume went down. The high level of lending was maintained, while housing loans grew and loans for other purposes were reduced. Of the capital transferred to the Investment Fund of Finland and the loans drawn for the Fund, a total of 427 million marks was used for industrial and energy investments in 1977. Financial placements, mainly shareholdings in state-owned companies, were increased by almost one quarter.

In 1976 state revenue had been increased by once-for-all taxes and by some special measures. This had secured some improvement in the state's liquidity position compared with that of the previous year. In the absence of special action and also, to some extent, as a result of the revision of income and wealth tax, state revenue increased insignificantly in 1977. Expenditure grew, however, by the full impact of the price increases, and financial requirements tripled from the 1976 level. In order to meet the financial requirements, new long-term loans were drawn to a total of 2 015 million marks, a good quarter more than in the previous year. Of this, foreign loans accounted for 892 million marks, 123 million marks of which was drawn for the Investment Fund of Finland. Domestic borrowing increased by two fifths and amounted to 1 123 million marks. Of this, 757 million marks were five-year bonds intended for public subscription, while the others were sold mainly to insurance companies and labour pension funds. As a result of insignificant borrowing in the years preceding 1976 and the structure of the stock of debts outstanding, redemptions were low and even declined somewhat.

The state's net long-term borrowing increased by two fifths and amounted to 1 534 million marks. Of this sum, foreign net borrowing

accounted for 729 million marks. Because of changes in exchange rates, foreign debt grew more than net borrowing. At the end of 1977, the state's total long-term debt, of which more than half was foreign debt, amounted to 6 581 million marks. This was 20 per cent of annual state revenue and, despite having increased from the year before, was still low by international standards. Taking into account export levy funds held in blocked state accounts, plus cash, postal giro and cheque account funds, the state's net debt amounted to 6 149 million marks, 2 081 million marks more than one year earlier.

Despite the increase in net borrowing, state revenue (including borrowing) was 79 million marks less than expenditure (including redemption). In the course of 1977, some reductions were made in short-term credit, which had primarily been drawn on the Social Insurance Institution at the end of 1976 in order to secure the liquidity position for the beginning of 1977. Day-to-day liquidity was taken care of during the year by drawing current account debt on Postipankki. In order to fill the additional financial requirements which had arisen, the short-term financial reserves invested abroad through the Bank of Finland were reduced by 400 million marks.

## LOCAL GOVERNMENT FINANCE

In 1975 it was found necessary to restrain local government expenditure so as to stem the rapid growth in public expenditure which had continued for many years. To this end, the state and the municipal central organizations agreed on a recommendation for the changes in the tax rate and the growth of local government expenditure during the following few years. The new agreement in 1977 followed the path laid down in 1975. In 1977, the annual increase in the local tax rate was to be restricted to 0.1 per cent unit, the growth of real consumption expenditure to 4 per cent and the growth of real investment expenditure to 2 per cent. In the recommendation, it was assumed

that consumption expenditure would not increase by more than 3 per cent in 1978. The state's part of the deal was to increase real subsidies annually by at least 4 per cent. In order to promote employment, the target had to be revised somewhat at the beginning of 1978, as the forecasts at the time the goals were set had proved too optimistic.

In general, the development of local government finance complied rather well with the goals set in the recommendation. Local tax rates increased on average by only 0.04 per cent units and real expenditure by less than 6 per cent. As in 1976, consumption expenditure grew by more than had been aimed at and administrative investment by less. The business investment also remained of the same order as before, so the investment of the local government sector had no significant effect on employment.

More than half of local government consumption expenditure goes to labour costs, and a 5 per cent addition to the municipal labour force accounted for most of the 6 per cent increase in consumption volume. The volume of goods and services bought, which accounts for about one third of consumption expenditure, grew by nearly 7 per cent. From examining consumption expenditure by type of activity, it can be seen that expenditure on social services grew more rapidly than other expenditure. This expenditure increased, in particular, as a result of expanded municipal day-care and health services. The extension of the comprehensive school system to cover the whole country in 1977 accounted for a substantial addition to the educational expenditure by local government. The main part of the additional expenditure was covered by state subsidies.

The investment activity of local government grew slowly, partly because of the effect of credit restrictions. Local government is a rather low priority in the credit granting system applied by Finnish financial institutions. Besides, in its guidelines to the banks in 1976, the Bank of Finland had ranked non-productive

local government investment projects among those to which the strictest selective treatment should be applied. However, in December 1977 local government was removed from the list of projects which are subject to the most vigorous credit restrictions. Although local government borrowing grew slightly in 1977, credit continued to play a fairly insignificant part in their total financing. The ratio of debt to disposable income in the local government sector was lower in 1977 than it had been for decades.

The deterioration in the economy made it necessary to advance the construction of health centres and children's day-care centres at the end of 1977 in order to promote employment. The supplementary reflationary measures planned by the central government entail less growth in local government income than expected earlier and this will no doubt result in a higher level of indebtedness than was estimated in the local government budgets.

## PUBLIC FINANCE AND THE OVERALL ECONOMIC DEVELOPMENT

The economic downturn put the state in a severe financial position in 1975: state expenditure was heavily increased by the implementation of reforms commenced during the preceding years and by the acceleration in state grants to municipalities at a time when tax revenue had begun to run short. In order to improve central government finances, the taxation level was increased and expenditure was either cut or postponed. As the Finnish economy was at the same time suffering from a fall in demand, these measures further deepened the recession.

The deterioration of the financial position of the state in 1974 and 1975 was partly a result of a revision of state grants to local government at this time. The change entailed increased prepayments of state grants to local governments, so their liquidity position was not in jeopardy. The deceleration of the volume of

local government expenditure in accordance with their agreement with the central government showed that they had adapted to the reduced economic growth.

The financial position of the state was restored by the end of 1976, but the prospects of leading an intensive counter-cyclical policy in 1977 were again diminished by efforts to lower the level of taxes. The main emphasis was laid on improving the conditions of operation of the corporate sector.

Attempts were once again made to curb public expenditure. The structure of taxation was affected by a movement from direct to indirect taxes, and the level of taxation was slightly lowered. The reflationary effect of central government finance was, despite increased expenditure, mainly dependent on the outcome of tax concessions and income transfers. The previous rate of growth of local government expenditure was almost maintained, but the structure of expenditure was not very good from the point of view of employment. The overall effect of public expenditure in 1977 was clearly growth-sustaining, as the tax rate was cut and expenditure grew faster than GDP.

The state has had a financial surplus throughout the 1970s and local government has had a surplus since 1975.

After the financial surplus of 1975 had been reduced, the state greatly improved its liquidity position, but in 1977 the financial position again deteriorated sharply. The improvement in the liquidity position of local government can largely be attributed to the revision of the state grant system.

Central government lending and other financial placements are of such a size that they cannot be covered by the income surplus alone so borrowing has been necessary.

A large part of state lending is used for residential construction. In 1977, 65 per cent of the total residential construction was supported

**TABLE 2. THE RATIO OF TAXES TO GDP AND THE GROWTH OF PUBLIC EXPENDITURE**

	1975	1976* Per cent	1977 <sup>2</sup>
Total tax revenue as a percentage of GDP	37.3	41.8	41.2
Net tax revenue as a percentage of GDP	23.9	27.7	26.8
Real growth of public expenditure <sup>1</sup>	6.2	3.8	4.4
Central government	2.6	0.3	2.1
Local government	7.1	6.2	5.7
Real growth of GDP	0.9	0.3	-0.8

<sup>1</sup> Excl. public enterprises.  
<sup>2</sup> Preliminary estimate.

**TABLE 3. THE FINANCIAL SURPLUSES OF THE PUBLIC SECTOR ACCORDING TO NATIONAL ACCOUNTS STATISTICS**

Year	Financial surplus		Overall financial surplus
	Central government Mill. mk	Local government Mill. mk	Per cent of GDP
1970	1 190	304	3.43
1971	1 507	96	3.36
1972	1 666	-7	3.02
1973	3 193	-135	4.58
1974	2 347	-403	2.31
1975	440	314	0.77
1976*	3 663	343	3.65
1977 <sup>1</sup>	1 803	448	1.87

<sup>1</sup> Preliminary estimate

**TABLE 4. CENTRAL GOVERNMENT REVENUE SURPLUS AND ITS USE ON A CASH BASIS**

	1976 Mill. mk	1977 Mill. mk
Central government revenue surplus <sup>1</sup>	2 907	1 651
- Financial placements of the central government, net	3 129	3 264
+ Long-term borrowing, net	1 104	1 534
= Cash surplus (+)	+882	-79

<sup>1</sup> Revenue (excl. redemption and borrowing) — Expenditure (excl. financial placements and redemption)

by the state and state housing loans accounted for 46 per cent of all housing loans, which was more than ever during the past 15 years. State housing loans contributed to the maintenance of residential investment and employment in construction. Other central government

loans, which were mainly distributed to industrial firms through the Investment Fund of Finland, grew less in 1977 than in the previous year.

The state's net borrowing amounted to 1 534 million marks, almost half of which was from abroad. While the state redeemed its long-term debts in the early 1970s, a substantial change in this respect has taken place since 1975. In order to restore the foreign trade balance, the Bank of Finland has regulated long-term capital inflows in recent years. The private sector's scope for borrowing abroad has thus been reduced in proportion to the capital inflows to the state. In Finland the central government does not borrow directly from the banks, but the state's domestic borrowing competes strongly with the banks' deposit accounts and therefore weakens the re-financing and credit-granting capacity of the banking system. Consequently, the state's long-term borrowing, at least in principal, constrained the credit facilities of the private sector.

In the course of 1977, the state's short-term receivables declined slightly more than short-term debt, and the cash deficit, the difference between cash revenue and expenditure, amounted to 79 million marks. The central government thus improved the liquidity position of the private sector. Import deposits

totalling 972 million marks, which the state had previously collected, were dismantled in 1977, but because of the low level of exchange reserves, the Bank of Finland had to restrict their effect on liquidity by reducing the commercial banks' quotas for central bank credit.

The reflationary effect of public expenditure in 1977 was modest, but a change to a reflationary direction could be clearly seen. The financial surplus in both the central and local government sectors in 1978 will no doubt deteriorate, resulting from the reflationary programmes decided on at the end of last year and the beginning of this year. The public sector's share in GDP will not increase, but because the tax concessions will reduce revenue, both local and central government will need greatly increased net borrowing. Although real demand by the public sector grows relatively slowly and increased transfer expenditure as well as tax concessions ease the financial position of the corporate and household sectors, the present low level of capacity utilization makes it unlikely that any significant growth in private investment will take place in the near future. On the other hand, the policy of reducing a financial surplus in the public sector reduces the need of private firms to cut down on their labour force and opens up possibilities for increased investment when demand prospects improve.

## ITEMS

### **Foreign direct investment in Finland and Finnish direct investment abroad in 1977.**

In 1977 Finnish firms were granted 132 permits to establish subsidiaries abroad, and the outflow of investment capital increased considerably. This may have been partly caused by the fact that domestic demand was slack and hence several Finnish firms endeavoured to find export outlets for their products. At the same time, foreign direct investment in Finland declined slightly from the previous years. Foreign firms in Finland paid more dividends to their parent companies than they did in 1976 and the overall balance on direct investment,

allowing for the payment of dividends and interest expenses in addition to investment capital flows proper, showed a deficit for 1977.

The net inflow of investment capital amounted to 188 million marks. Of this, direct investment in the form of equity capital (including bonus issues) accounted for 122 million marks, the repatriation of investment capital for 14 million marks, long-term loans by foreign companies to subsidiaries in Finland for 129 million marks and redemptions on these for 49 million marks. In 1976 the net inflow of investment capital amounted to 223 million marks.

**TABLE 1. INFLOW OF INVESTMENT CAPITAL IN THE FORM OF EQUITY CAPITAL AND LOANS BY FOREIGN PARENT COMPANIES TO SUBSIDIARIES IN FINLAND, AND FINNISH PAYMENTS OF DIVIDENDS AND INTEREST IN 1977, MILL. MK**

	Investment	Repatriation	Investment, net	Loans, net	Total	Payments of dividends and interest
EFTA countries	67	7	60	63	123	71
EEC countries	30	3	27	0	27	58
North America	17	4	13	12	25	90
Other countries	8	—	8	5	13	0
Total in 1977	122	14	108	80	188	219
Total in 1976	156	3	153	70	223	131
Total in 1975	160	16	144	107	251	107

Of the net inflow of investment capital, 102 million marks was invested in manufacturing firms, 66 million marks in sales firms and 20 million marks in other firms. Table 1 shows the countries of origin for the investment capital flows in 1977. More than three quarters of the net inflow of investment capital came from three countries: 39 per cent from Switzerland, 26 per cent from Sweden and 13 per cent from the United States. In 1976 these three countries accounted for 83 per cent of the inflow of investment capital.

The firms with at least 20 per cent of the share capital owned by foreign firms transferred 188 million marks of dividends to their parent companies and paid 31 million marks in interest on loans granted by their parent companies. In 1976 the corresponding figures were 115 million marks and 16 million marks.

In all, 60 permits were granted in 1977 to foreign firms for the establishment of new subsidiaries in Finland, whereas 21 firms ceased their activities. At the end of the year, there were in Finland a total of 842 firms which were at least 20 per cent foreign-owned. Of these, 190 were industrial firms, 491 commercial firms and the remainder other service sector firms.

The net outflow of investment capital amounted to 293 million marks in 1977. Finnish direct investment in foreign countries in the form of

equity capital (including bonus issues) totalled 459 million marks. Of this, 189 million marks was attributable to the conversion of loans to subsidiaries into share capitals; as this is shown in the statistics as an equal redemption on loans to foreign subsidiaries, the net outflow of investment capital is not affected by these measures. In 1976 the net outflow of investment capital amounted to 118 million marks.

Of the net outflow of investment capital, 164 million marks was invested in production, 34 million marks in trade and 95 million marks in other activities. Table 2 shows the regional breakdown of Finnish investment.

According to data obtained by the Bank of Finland, in 1977 Finnish subsidiaries abroad transferred to Finland 3 million marks in the form of dividends and paid an equal amount of interest expenses. In the previous year, payments of dividends amounted to 4 million marks, whereas no interest earnings from loans granted to foreign subsidiaries were transferred to Finland.

Finnish firms were granted a total of 132 permits for new investment abroad, which was 44 more than in 1976. In the course of the year, 17 firms ceased their activities, giving at the end of 1977 a total of 786 Finnish subsidiaries abroad in which at least 20 per cent of the share capital at nominal value was Finnish-owned. As these, in turn, had 76 subsidiaries,

**TABLE 2. OUTFLOW OF FINNISH INVESTMENT CAPITAL IN THE FORM OF EQUITY CAPITAL AND LOANS BY FINNISH PARENT COMPANIES TO SUBSIDIARIES ABROAD, AND DIVIDEND AND INTEREST EARNINGS RECEIVED IN FINLAND IN 1977, MILL. MK**

	Investment	Repatriation	Investment, net	Loans, net	Total	Dividend and interest earnings
EFTA countries	39	0	39	20	59	5
EEC countries	152	1	151	2	153	1
North America	259	—	259	—186	73	—
Other countries	9	1	8	0	8	0
Total in 1977	459	2	457	—164	293	6
Total in 1976	110	11	99	19	118	4
Total in 1975	159	3	156	—60	96	15

there were a total of 862 Finnish subsidiaries abroad. Of these, 547 (over 60 per cent) were sales firms, 129 industrial firms and 186 firms engaged in other activities.

The overall balance on direct investment, allowing for the payment of dividends and interest expenses in addition to investment capital flows proper, showed a deficit of 319 million marks in 1977. In 1976 the overall balance on direct investment showed a deficit of 19 million marks.

**Credit facility agreement.** The Bank of Finland and an international banking group signed on May 10, 1978 a credit facility agreement amounting to US\$ 100 million. The facility is available for eight years.

Including the agreement now signed, the total amount of credit facility arrangements concluded with foreign banks is US\$ 700 million, equivalent to about Fmk 2 900 million. These credit facilities can be used by the Bank of Finland if required for strengthening the foreign exchange reserve position of the Bank and the external liquidity of the country.

**Curtailement of the cash payment scheme for imports.** The Bank of Finland decided to curtail its cash payment scheme for imports as from May 15, 1978. The exemption from cash payment obligation applies to raw materials used in food processing, foodstuffs, certain chemical and vulcanized products used as industrial raw materials, and certain industrial accessories and machinery. The total value of imports of the products excluded from the cash payment scheme for imports amounted to nearly 1 400 million marks in 1977. As a result of this revision, the coverage of the cash payment scheme is cut down to about one quarter of the total value of visible imports.

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## BANK OF FINLAND

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### Board of Management

Mauno Koivisto  
*Governor*

Ahti Karjalainen                      Päiviö Hetemäki

Pentti Uusivirta                      Rolf Kullberg

Ele Alenius

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### Directors

Jouko J. Voutilainen                      Markku Puntila

Seppo Lindblom                      Eino Helenius

Pentti Koivikko                      Kari Nars

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### Senior officials

Pertti Kukkonen                      Ralf Pauli  
*Director, ADP-planning*                      *Deputy, Monetary Policy*

Pekka Tukiainen                      Kari Pekonen  
*Domestic Financial Operations*                      *Foreign Exchange Policy*

Raine Panula                      Raili Nuortila  
*Foreign Exchange*                      *Eastern Trade*

Antti Lehtinen                      J. Ojala  
*Capital Transfers*                      *Foreign Exchange Control*

Kari Puumanen                      Heikki Koskenkylä  
*Economics Dept.*                      *Research Dept.*

Markku Pietinen                      H. T. Hämäläinen  
*Information and Publications*                      *Administration and Legal Affairs*

Antti Saarlo                      Timo Männistö  
*Foreign Correspondence*                      *Internal Audit*

K. Eirola                      Pauli Kanerva  
*Automatic Data Processing*                      *Personnel Administration and General Affairs*

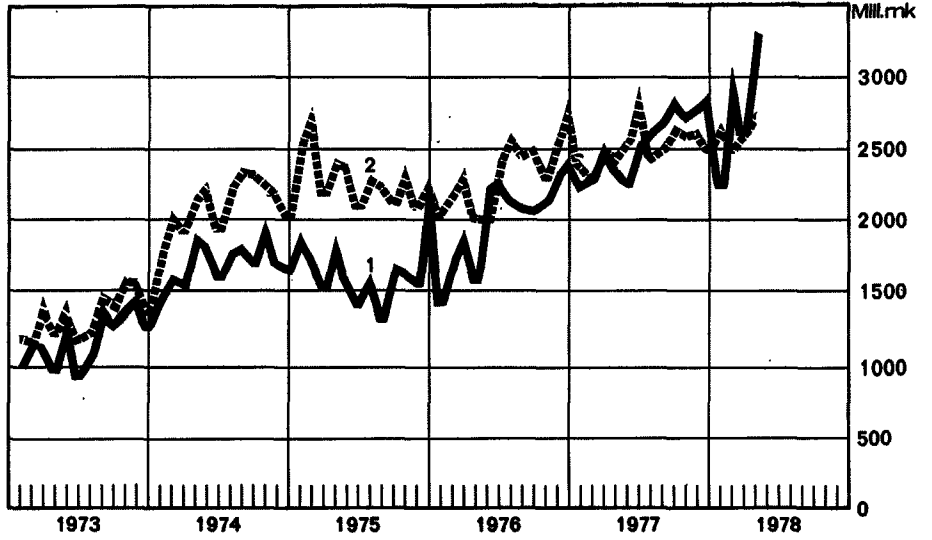
Stig G Björklund                      Antti Luukka  
*Banking Services*                      *Cash*

U. Levo  
*International legal affairs*

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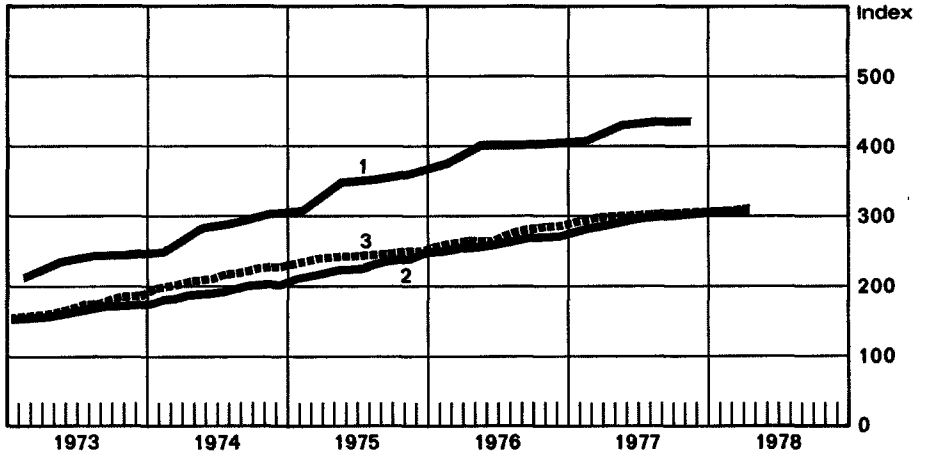
**FOREIGN TRADE, 1973 - 1978**

- 1. Exports f.o.b.
  - 2. Imports c.i.f.
- Seasonally adjusted monthly figures



**PRICES AND WAGES, 1973 - 1978**

- 1. Index of salary and wage earnings 1964 = 100, quarterly figures
- 2. Cost of living index 1964 = 100, monthly figures
- 3. Wholesale price index 1964 = 100, monthly figures



**PRODUCTION, 1973 - 1978**

- 1. Total index of industrial production 1964 = 100, seasonally adjusted monthly figures
- 2. Volume index of gross domestic product 1964 = 100, seasonally adjusted quarterly figures

