



BANK OF FINLAND

Monthly Bulletin

Recent economic decisions

Foreign trade

Recent financial developments

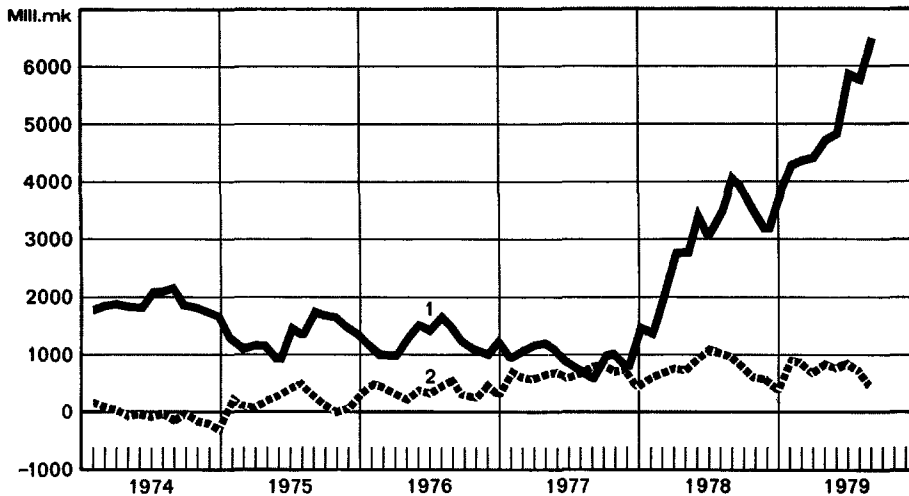
Basic price index for domestic supply
1975 = 100

Finland's gross long-term foreign debt in
January—June 1979

OCTOBER 1979

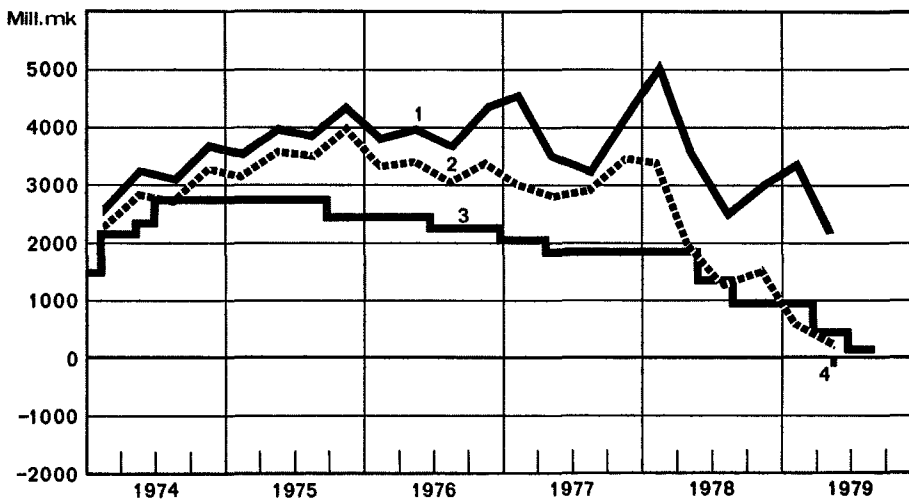
Vol. 53 No. 10

BANK OF FINLAND'S CONVERTIBLE AND TIED FOREIGN EXCHANGE RESERVES, 1974 - 79



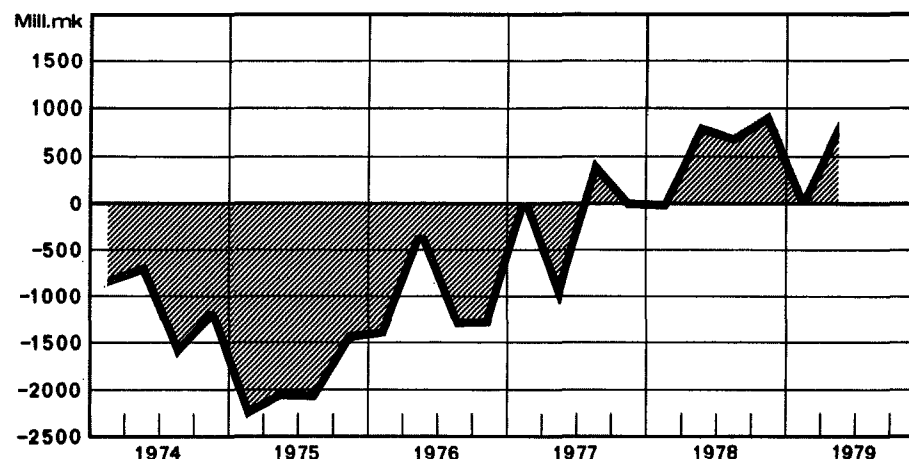
- 1. Gold and convertible currencies
- 2. Tied currencies

COMMERCIAL BANKS' CENTRAL BANK POSITION, 1974 - 79



- 1. Total central bank debt
 - 2. Actual central bank debt
 - 3. The quotas
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- Quarterly average of daily amounts (1, 2 and 4)

BALANCE OF PAYMENTS CURRENT ACCOUNT SURPLUS / DEFICIT, 1974 - 79



Seasonally adjusted quarterly figures

RECENT ECONOMIC DECISIONS

On 21st September the Council of State approved the proposal of the Bank of Finland to change the range of fluctuation of the Finnish currency index. The new upper limit is 121.0 and the new lower limit 114.0. Following the decision the range of fluctuation of the currency index widened from about 4.5 to about 6 per cent. Within the new index range the external value of the Finnish mark can be raised by approximately 2 per cent from the level prevailing at the time of the decision.

On the same day the Bank Supervisors delegated by Parliament on the proposal of the Board of Management of the Bank of Finland decided to raise the basic rate on central bank credit to commercial banks from 7.25 to 8.5 per cent as from 1st November. It is thereby assumed that as from that day the banking institutions will, wherever applicable, implement an equivalent increase in their lending and deposit rates. In addition, the Bank of Finland will advise the banking institutions to consider the possibilities of lengthening loan periods of house loans so as to alleviate the increase in housing costs caused by the higher interest rates.

The Bank of Finland's Deputy Governor, Dr. Ahti Karjalainen, has made the following statement on the new economic decisions: Economic developments this year have so far been favourable. Production has picked up markedly with the growth in both exports and domestic demand. As a result, the employment situation has improved more than expected. Despite the fairly sharp increase in export and import prices, the domestic inflation rate has continued to remain modest. This can be attributed mainly to the increase in productivity. Forecasts suggest, however, that there is a risk that the disequilibria in the economy will intensify again next year, and the measures taken now are primarily designed to alleviate these difficulties.

The revision of the limits of the currency index will in practice allow the Finnish mark to be revalued by approximately 2 per cent. With this rise in the external value of the mark, those inflation pressures that threaten to spread to Finland from abroad in form of increases in foreign trade prices can be moderated. This may help Finland keep the rate of inflation below the average rate of her competitors and in so doing best serve our competitiveness in the long term. A change

in the exchange rate of this kind will have no material effect on export and import volumes.

The decision on the new fluctuation limits for the currency index also means that the range of fluctuation has widened from about 4.5 to about 6 per cent. The widening of this range gives the Bank of Finland better technical means than before for counteracting currency disturbances, whether of international or domestic origin. This has become necessary because of the persistent instability on the international foreign exchange markets and the sharp fluctuations in short-term capital flows between Finland and other countries. The approval of the Council of State will also be required in the future for such far-reaching decisions calling for changes in the limits of the range of fluctuation.

In addition, a decision has been made to increase interest rates by 1.25 per cent as from 1st November. This measure is aimed above all at improving the position of depositors and encouraging financial saving, but it is also assumed that the decision will improve the allocation of loan capital, and shift the relative costs of labour and capital in a direction favouring more labour-intensive

techniques. Moreover, those differences between foreign and domestic lending rates resulting from increases in international interest rate levels will diminish. Thus the increase in the rates of interest is expected to strengthen the foreign exchange reserves and prevent the tightening of the financial market, and hence to increase the scope for economic policy should export growth stagnate next year as forecast.

The action now taken will have its intended effect only if inflation is continuously kept under control. This cannot be achieved by these measures alone, but requires that economic and income policy decisions made in the near future should be designed primarily with the need to check inflation.

FOREIGN TRADE

The trade account, which recorded a surplus of almost 2 900 million marks in 1978, has weakened in the course of 1979. During the twelve months to June, the surplus amounted to 3 240 million marks, but in the first six months of this year the surplus was down to 2 800 million at a seasonally adjusted annual rate. And since June the trade balance has gone into deficit.¹

The turn-round in foreign trade is largely a reflection of a strong pick-up both in domestic demand, which has relied heavily on import-intensive stockbuilding, and domestic output. As a result, the volume of imports grew at an annual rate of more than 30 per cent in the first half of this year, clearly outweighing the 20 per cent increase in merchandise exports. But contrary to many other countries, developments in the terms of trade are not to any marked extent responsible for the deterioration in the trade balance. It is true that the sharp increases in the prices of oil and other commodities have produced a clear acceleration in import prices, but this has been largely compensated for by price increases of export goods, mainly in the basic and chemical industries.

EXPORTS

The growth of exports started to accelerate in volume terms in the latter half of 1978. This was partly a result of the pick-up in foreign demand, but also reflected the important influence exerted by the improved price competitiveness of Finnish products which had materialized since mid-1977. Nevertheless, the increase in the exports of many staple goods seems to be to some extent due to foreign inventory accumulation in the anticipation of price increases.

In the second quarter forest industry exports reached the peak level of 1973, and many firms in these industries have been operating at almost full capacity. Volume exports of wood industry products in the first half of the year were up by 20 per cent and that of paper industry products by 10 per cent from the previous year. The price level in both commodity groups rose by 10 per cent. Exports of basic metals were also subject to strong demand, which was clearly manifested in favourable price developments. The same is true for chemical products, the export earnings of which increased by a quarter, despite a 10 per cent fall in volumes. This was

¹ Exports f.o.b., imports c.i.f. Graphs and statistics on foreign trade developments are presented on pp. 11—14 and inside back cover of this Bulletin.

(continued on page 31)

BANK OF FINLAND

Mill. mk

	1978		1979			
	Sept. 29	Sept. 7	Sept. 7	Sept. 14	Sept. 21	Sept. 28
Assets						
Gold and foreign exchange receivables	4 900	4 339	6 495	6 275	5 780	5 240
Gold	133	169	169	169	169	169
Special drawing rights	149	316	448	448	448	448
IMF reserve tranche	246	243	236	236	236	236
Convertible currencies	3 511	3 126	5 268	5 056	4 777	4 201
Tied currencies	861	485	374	366	150	186
Other foreign receivables	2 428	1 968	3 000	3 023	3 055	3 107
Foreign bills ¹	587	—	—	—	—	—
Foreign bonds	731	872	1 894	1 917	1 949	2 001
Mark subscription to Finland's IMF quota	1 110	1 096	1 106	1 106	1 106	1 106
Receivables from financial institutions	3 239	3 695	1 707	2 624	2 360	2 452
Banks' cheque accounts	79	137	312	269	127	127
Discounted bills	1 107	970	—	—	—	—
Call money market advances	1 680	2 213	1 010	1 956	1 829	1 919
Bonds	357	361	369	369	380	382
Other financial institution receivables	16	14	16	30	24	24
Receivables from the public sector	464	633	850	860	857	859
Government promissory notes	50	188	346	346	346	346
Bonds	83	93	134	142	142	144
Total coinage	330	336	367	368	368	368
Other public sector receivables	1	16	3	4	1	1
Receivables from corporations	1 311	1 948	2 222	2 250	2 261	2 272
Financing of exports ²	236	904	1 000	1 027	1 044	1 054
Financing of domestic deliveries	756	752	871	870	868	869
Bonds	219	207	205	204	202	202
Other corporate receivables	100	85	146	149	147	147
Other assets	63	64	70	70	70	70
Total	12 405	12 647	14 344	15 102	14 383	14 000
Liabilities						
Foreign exchange liabilities	72	60	27	22	24	20
Convertible accounts	53	46	27	22	24	20
Tied accounts	19	14	0	0	0	0
Other foreign liabilities	2 756	2 195	1 899	1 899	1 899	1 899
IMF mark accounts	2 051	1 881	1 445	1 445	1 445	1 445
Allocations of special drawing rights	301	314	454	454	454	454
Term liabilities	404	—	—	—	—	—
Notes and coins in circulation	3 538	3 822	4 017	4 017	4 020	4 072
Notes	3 240	3 509	3 680	3 680	3 683	3 735
Coins	298	313	337	337	337	337
Deposit certificates in circulation	1 209	1 090	3 378	3 378	3 378	2 390
Claims of financial institutions	1 732	2 520	1 933	2 654	1 944	2 425
Banks' cheque accounts	1	2	2	1	2	8
Call money market deposits	1 298	2 075	1 094	1 822	1 118	1 334
Cash reserve deposits	—	—	730	730	730	989
Capital import deposits	431	405	103	95	93	92
Other financial institution claims	2	38	4	6	1	2
Claims of the public sector	199	114	373	374	366	364
Cheque accounts	0	2	1	0	1	1
Counter-cyclical reserves	38	40	40	40	40	40
Capital import deposits	160	70	332	334	324	322
Other public sector claims	1	2	0	0	1	1
Claims of corporations	372	356	406	407	406	493
Deposits for investment and ship purchase	45	32	120	120	121	126
Capital import deposits	313	303	282	283	275	358
Import levy deposits	10	6	1	1	1	1
Other corporate claims	4	15	3	3	9	8
Other liabilities	13	12	15	13	12	13
Equalization accounts	463	350	131	175	181	173
Capital accounts	2 051	2 128	2 165	2 163	2 153	2 151
Primary capital	1 400	1 400	1 400	1 400	1 400	1 400
Reserve fund	545	545	636	636	636	636
Undisposed profits	—	—	92	92	92	92
Net earnings	106	183	37	35	25	23
Total	12 405	12 647	14 344	15 102	14 383	14 000

¹ From Dec. 31, 1978 included in Financing of exports. ² Until Dec. 31, 1978 New export bills.

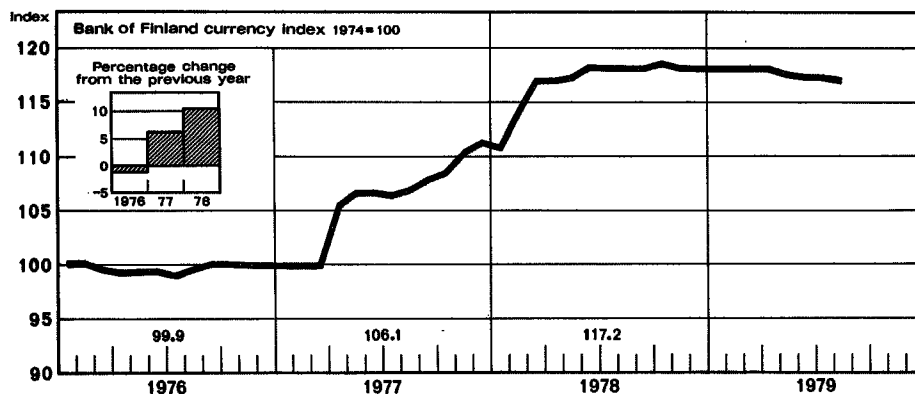
End of year or month	Foreign sector							Public sector			Deposit certificates in circulation
	Gold and convertible exchange receivables	Convertible exchange liabilities	Gold and convertible exchange reserves (1-2)	Tied exchange reserves	Other receivables	Other liabilities	Net receivables (3+4+5-6)	Receivables	Liabilities	Net liabilities (9-8)	
	1	2	3	4	5	6	7	8	9	10	11
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
1978	3 854	46	3 808	471	1 968	2 195	4 052	633	114	-519	1 090
1978											
Sept.	4 039	53	3 986	842	2 428	2 756	4 500	464	199	-265	1 209
Oct.	3 620	48	3 572	663	2 551	2 729	4 057	614	191	-423	1 359
Nov.	3 252	31	3 221	622	2 553	2 197	4 199	624	138	-486	890
Dec.	3 854	46	3 808	471	1 968	2 195	4 052	633	114	-519	1 090
1979											
Jan.	4 364	38	4 326	983	2 061	2 335	5 035	791	114	-677	1 718
Feb.	4 446	44	4 402	920	2 120	2 213	5 229	798	114	-684	1 718
March	4 508	39	4 469	754	2 288	2 213	5 298	821	113	-708	2 068
April	4 790	28	4 762	900	2 366	2 213	5 815	822	113	-709	2 288
May	4 906	25	4 881	824	2 548	2 077	6 176	828	112	-716	2 588
June	5 999	30	5 969	901	2 637	2 077	7 430	844	41	-803	3 378
July	5 867	20	5 847	770	2 796	2 077	7 336	853	373	-480	3 378
Aug.	6 523	26	6 497	504	2 971	1 899	8 073	848	374	-474	3 378
Sept.	5 054	20	5 034	186	3 107	1 899	6 428	859	364	-495	2 390

FOREIGN EXCHANGE SITUATION

Mill. mk

	Net holdings, Dec. 31, 1978			Net holdings, Aug. 31, 1979			Change	
	Bank of Finland	Other	Total	Bank of Finland	Other	Total	Aug.	Jan.—Aug.
Gold	169	—	169	169	—	169	—	—
Special drawing rights	315	—	315	448	—	448	-10	+133
IMF reserve tranche	243	—	243	236	—	236	—	-7
Convertible currencies	3 080	-2 072	1 008	5 644	-4 691	953	+30	-55
Total	3 807	-2 072	1 735	6 497	-4 691	1 806	+20	+71
Non-convertible currencies	471	152	623	503	132	635	-274	+12
Grand total	4 278	-1 920	2 358	7 000	-4 559	2 441	-254	+83

End of year or month	Domestic financial sector						Corporate sector				Notes and coins in circulation
	Dis-counted and redis-counted bills	Cheque account receivables, net	Demand for call money by deposit banks	Supply of call money by deposit banks	Cash reserve deposits	Other liabilities, net	Net receiv-ables (1+2+3-4-5-6)	Permanent special financing schemes	Liabilities, net	Net receiv-ables (8-9)	
	1	2	3	4	5	6	7	8	9	10	11
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	110	—	—	—	-261	3 405	631	195	436	2 462
1975	3 385	130	372	95	—	-343	4 135	933	539	394	2 855
1976	2 920	172	1 204	1 137	—	-372	3 531	1 400	308	1 092	2 885
1977	3 091	107	1 804	850	—	-74	4 226	1 416	242	1 174	3 167
1978	970	136	2 213	2 075	—	69	1 175	1 948	356	1 592	3 822
1978											
Sept.	1 107	77	1 680	1 298	—	59	1 507	1 311	372	939	3 538
Oct.	1 113	69	2 013	1 413	—	87	1 695	1 298	344	954	3 431
Nov.	968	168	1 995	1 821	—	60	1 250	1 297	360	937	3 492
Dec.	970	136	2 213	2 075	—	69	1 175	1 656	64	1 592	3 822
1979											
Jan.	919	113	2 080	2 573	—	183	356	1 680	71	1 609	3 512
Feb.	891	168	2 431	3 135	—	95	260	1 669	37	1 632	3 653
March	829	113	1 735	2 138	—	-23	562	1 693	27	1 666	3 740
April	349	176	1 808	2 078	—	-116	371	1 673	10	1 663	3 822
May	379	138	1 368	1 589	115	-174	355	1 742	98	1 644	3 923
June	295	116	736	1 246	235	-210	-124	1 827	67	1 760	4 186
July	—	376	935	1 104	482	-287	12	1 884	55	1 829	4 025
Aug.	—	330	392	1 038	730	-276	-770	1 909	60	1 849	4 022
Sept.	—	119	1 919	1 334	989	-312	27	1 923	144	1 779	4 072



MONETARY POLICY INDICATORS

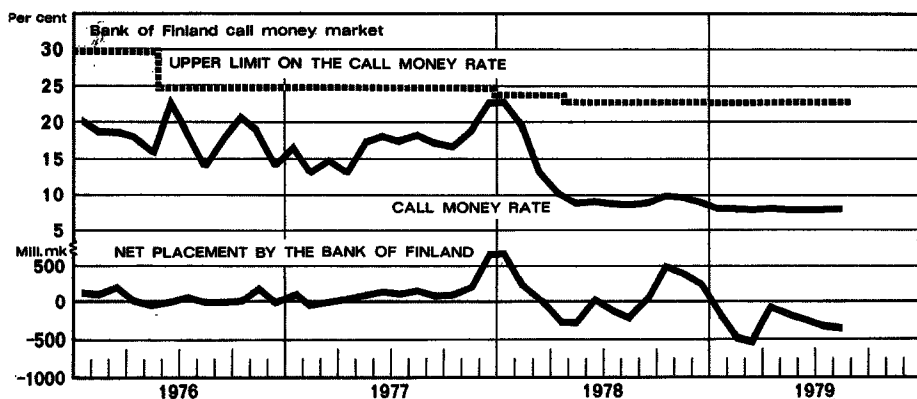
Average for period	Total central bank debt of the commercial banks, mill. mk	Actual central bank debt of the commercial banks, mill. mk	Credit quotas of the commercial banks at the Bank of Finland, mill. mk	Cash reserve deposits of the deposit banks ³ , mill. mk	Cash reserve deposits of the commercial banks ³ , mill. mk	Bank of Finland placements in the call money market, mill. mk	Basic discount rate %	Call money interest rate %	Average cost of total central bank debt %	Average lending rate of the commercial banks ¹ %
	1	2	3	4	5	6	7	8	9	10
1972	809	798	1 224	—	—	—	7.75	—	7.75	7.87
1973	2 042	1 819	1 333	—	—	—	8.50	—	9.99	8.65
1974	3 204	2 840	2 494	—	—	—	9.25	—	10.57	9.52
1975	4 000	3 611	2 725	—	—	239 ²	9.25	26.80 ²	12.10	9.65
1976	4 001	3 345	2 400	—	—	79	9.25	18.40	12.38	9.69
1977	3 914	3 094	1 967	—	—	149	9.00	17.20	11.82	9.54
1978	3 573	2 070	1 475	—	—	90	7.58	11.99	8.88	8.22
1978										
Sept.	2 373	1 253	1 000	—	—	100	7.25	9.18	7.90	7.88
Oct.	2 961	1 754	1 000	—	—	524	7.25	10.04	8.59	7.88
Nov.	3 105	1 573	1 000	—	—	421	7.25	9.85	8.31	7.86
Dec.	3 134	1 397	1 000	—	—	287	7.25	9.29	7.94	7.87
1979										
Jan.	3 334	838	1 000	—	—	-243	7.25	8.48	7.68	7.83
Feb.	3 814	553	1 000	—	—	-509	7.25	8.40	7.59	7.83
March	3 138	455	1 000	—	—	-588	7.25	8.29	7.53	7.81
April	2 682	417	500	—	—	-143	7.25	8.42	7.76	7.82
May	2 343	292	500	4	3	-226	7.25	8.35	7.65	7.83
June	1 499	200	500	123	108	-308	7.25	8.35	7.52	7.83
July	1 257	-180	200	243	212	-388	7.25	8.31	7.68	7.84
Aug.	784	-208	200	490	427	-407	7.25	8.36	7.61	..
Sept.	1 427	+395	200	756	658	+198	7.25	8.68	..	..

See explanations on page 22.

¹ End of period.

² 1. 9.—31. 12. 1975.

³ See Bulletin April., 1979, page 1.

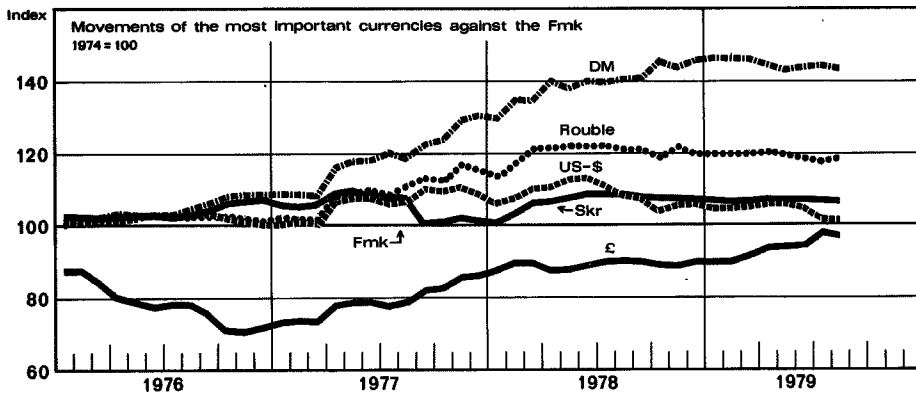


FOREIGN EXCHANGE RATES

Average selling rates for foreign exchange, mk

Period	Average selling rates for foreign exchange, mk									Currency index 1974 = 100
	New York 1 US \$ USD	London 1 £ GBP	Stockholm 100 Skr SEK	Oslo 100 Nkr NOK	Copenhagen 100 Dkr DKK	Frankfurt 100 DM DEM	Zurich 100 Sfr CHF	Paris 100 FF FRF	Moscow 1 Cl Rbl SUR	
	1	2	3	4	5	6	7	8	9	10
1972	4.146	10.368	87.20	62.97	59.72	130.07	108.64	82.25	4.960	102.1
1973	3.816	9.355	87.76	66.64	63.47	144.34	121.22	86.10	5.159	102.5
1974	3.774	8.833	85.22	68.44	62.17	146.21	127.19	78.65	4.995	100.0
1975	3.679	8.155	88.80	70.59	64.21	149.80	142.64	86.00	5.093	101.1
1976	3.864	6.983	88.86	70.95	64.04	153.78	154.86	81.09	5.125	99.9
1977	4.029	7.042	90.21	75.83	67.23	174.15	168.70	82.16	5.475	106.1
1978	4.117	7.917	91.43	78.93	75.06	205.53	231.83	91.77	6.037	117.2
1978										
Sept.	4.076	7.994	92.40	78.50	75.28	207.03	259.64	93.81	6.091	118.5
Oct.	3.939	7.919	92.07	80.23	77.20	214.03	256.37	93.81	5.988	118.7
Nov.	4.008	7.885	92.04	79.53	76.58	211.17	240.28	92.57	6.117	118.5
Dec.	4.012	7.988	91.88	79.16	76.88	213.79	239.61	93.30	6.002	118.5
1979										
Jan.	3.967	7.970	91.55	78.66	77.65	214.91	237.78	93.88	6.018	118.5
Feb.	3.979	7.990	91.38	78.40	77.64	214.63	237.79	93.46	6.018	118.5
March	3.983	8.132	91.49	78.45	77.05	214.34	237.14	93.23	6.024	118.5
April	4.012	8.332	91.65	78.33	76.40	212.10	234.14	92.55	6.055	118.5
May	4.013	8.276	91.59	77.63	74.76	210.53	232.49	91.31	6.032	117.8
June	3.973	8.390	91.71	77.29	73.35	210.71	233.39	91.21	5.956	117.5
July	3.851	8.716	91.52	76.66	73.75	211.37	234.03	91.04	5.915	117.5
Aug.	3.845	8.620	91.34	76.71	73.25	210.34	232.22	90.59	5.942	117.2
Sept.	3.821	8.415	91.38	76.95	73.85	212.88	236.64	91.23	5.858	116.9

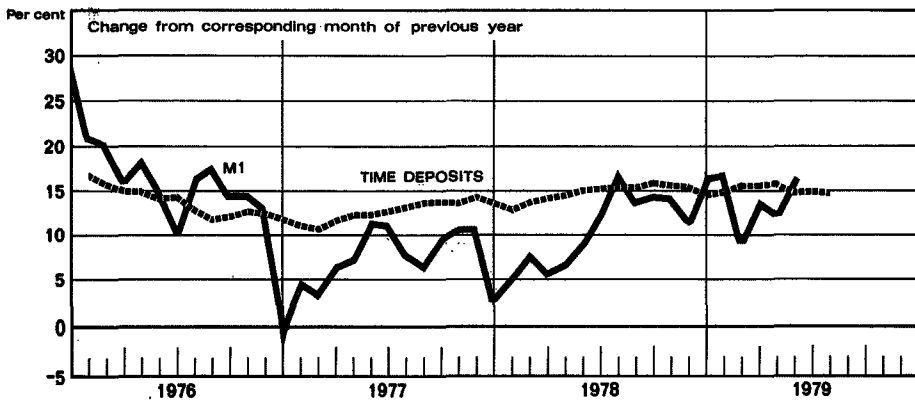
See explanations on page 22.



DEPOSITS BY THE PUBLIC¹

Mill. mk

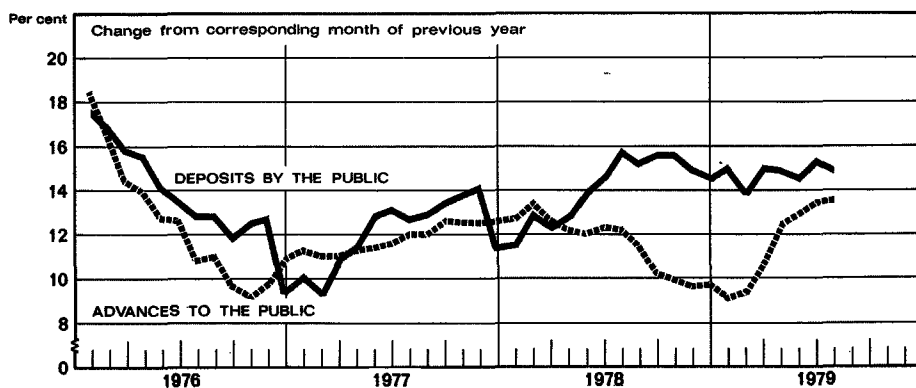
End of year and month	Demand deposits				Time deposits					Total (4+9)
	Commer- cial banks	Savings banks & Co-op. banks	Posti- pankki	All depos- it banks	Commer- cial banks	Savings banks	Co-op. banks	Posti- pankki	All depos- it banks	
	1	2	3	4	5	6	7	8	9	10
1975	3 472	1 181	2 309	6 962	12 176	9 743	7 530	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
1978	3 887	1 676	2 052	7 615	17 035	14 641	11 286	4 900	47 862	55 477
1978										
April	3 068	1 414	2 415	6 897	15 596	13 190	10 225	4 368	43 379	50 276
May	3 550	1 541	2 304	7 395	15 975	13 287	10 277	4 393	43 932	51 327
June	3 713	1 517	2 359	7 589	16 210	13 523	10 458	4 485	44 676	52 265
July	3 712	1 594	2 352	7 658	16 440	13 679	10 567	4 600	45 286	52 944
Aug.	3 716	1 718	2 237	7 671	16 323	13 956	10 796	4 681	45 756	53 427
Sept.	3 475	1 699	2 226	7 400	16 328	14 008	10 818	4 707	45 861	53 261
Oct.	3 792	1 756	2 106	7 654	16 484	14 081	10 890	4 696	46 151	53 805
Nov.	3 774	1 793	2 039	7 606	16 550	14 342	11 139	4 820	46 851	54 457
Dec.	3 887	1 676	2 052	7 615	17 035	14 641	11 286	4 900	47 862	55 477
1979										
Jan.	4 138	1 579	2 089	7 806	16 951	14 720	11 454	4 917	48 042	55 848
Feb.	3 544	1 629	2 081	7 254	17 267	15 045	11 716	5 004	49 032	56 286
March	3 717	1 589	2 108	7 414	17 521	15 231	11 803	5 085	49 640	57 054
April	3 837	1 670	1 995	7 502	17 816	15 405	11 966	5 112	50 299	57 801
May	4 244	1 777	2 271	8 292	17 692	15 584	12 140	5 140	50 556	58 848
June	4 373	1 842	2 678	8 893	17 978	15 932	12 330	5 176	51 416	60 309
July	4 160	1 944	2 700	8 804	18 189	16 153	12 481	5 253	52 076	60 880



ADVANCES TO THE PUBLIC¹ — MONEY SUPPLY¹

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 ₁	M ₁ +Quasi- Money
	1	2	3	4	5	6	7	8	9	10
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
1978	26 324	14 092	12 181	6 847	52 517	1 723	5 204	59 444	11 496	60 682
1978										
April	25 820	12 661	10 743	6 488	48 095	1 641	5 976	55 712	10 272	54 990
May	25 841	12 816	10 878	6 537	48 575	1 655	5 842	56 072	10 679	55 962
June	26 123	12 914	11 023	6 707	48 930	1 771	6 066	56 767	11 247	57 365
July	26 017	13 048	11 148	6 753	49 217	1 761	5 988	56 966	11 351	58 025
Aug.	25 771	13 241	11 367	6 650	49 649	1 659	5 721	57 029	11 177	58 501
Sept.	25 774	13 477	11 596	6 682	50 317	1 769	5 443	57 529	11 071	58 328
Oct.	25 862	13 658	11 755	6 670	51 022	1 772	5 151	57 945	11 129	58 611
Nov.	26 091	13 846	11 951	6 707	51 673	1 759	5 163	58 595	11 108	59 300
Dec.	26 324	14 092	12 181	6 847	52 517	1 723	5 204	59 444	11 496	60 682
1979										
Jan.	26 250	14 214	12 272	6 986	52 889	1 746	5 087	59 722	11 544	61 064
Feb.	26 735	14 373	12 348	7 160	53 558	1 876	5 182	60 616	11 102	61 615
March	27 186	14 446	12 446	7 196	53 701	1 805	5 768	61 274	11 442	62 463
April	28 170	14 598	12 548	7 342	54 374	1 816	6 468	62 658	11 577	63 203
May	28 384	14 826	12 747	7 423	55 035	1 761	6 584	63 380	12 435	64 350
June	28 860	14 991	12 940	7 631	55 528	1 781	7 113	64 422	..	..
July	28 758	15 224	13 124	7 603	56 256	1 839	6 614	64 709	..	..



STATE FINANCES

Mill. mk

Revenue	Jan.—July		Expenditure	Jan.—July	
	1978	1979		1978	1979
Income and wealth tax (net)	4 808	5 168	Wages, salaries, pensions etc.	3 635	4 110
Gross receipts	(15 824)	(16 561)	Repair and maintenance	461	522
Refunds & local authorities	(-11 022)	(-11 393)	Other consumption expenditure	1 850	2 224
Other taxes on income and wealth	147	33	Total consumption expenditure	5 946	6 856
Employers' child allowance payments	526	338	State aid to local authorities	4 466	4 880
Sales tax	5 227	5 834	State aid to industries	2 661	3 410
Customs duties and import charges and levies	505	620	of which: agric. price subsidies	(1 463)	(1 647)
Excise duties ¹	3 444	4 321	Child allowances	567	604
Excise duty on alcoholic beverages ¹	394	1 342	Share in national pensions and sickness insurance schemes	186	193
Excise duty on tobacco	479	484	Other transfer expenditure	2 647	3 090
Excise duty on liquid fuel	1 215	1 343	Total transfer expenditure	10 527	12 177
Other excise duties ¹	1 356	1 152	Machinery and equipment	760	829
Tax on autom. and motor-cycles	506	805	Construction of buildings	391	426
Stamp duties	458	469	Land and waterway construction	853	887
Special diesel etc. vehicles tax	99	94	Total real investment	2 004	2 142
Other taxes and similar revenue ¹	442	489	Interest on State debt	318	444
Total taxes	16 156	18 171	Net deficit of State enterprises	54	-98
Miscellaneous revenue	1 238	1 506	Other expenditure	28	31
Interest, dividends etc.	489	509	Total other expenditure	400	377
Redemptions of loans granted	284	347	Increase in inventories	-83	-116
Total revenue	18 167	20 533	Lending	1 370	1 448
Foreign borrowing	1 766	1 929	Other financial investment	326	314
Domestic borrowing	1 127	1 397	Total expenditure	20 490	23 198
Total borrowing	2 893	3 326	Redemption of foreign loans	129	144
Deficit (+) or surplus (-)	-102	+132	Redemption of domestic loans	339	649
			Total redemptions	468	793
Total	20 958	23 991	Total	20 958	23 991

State debt	1976	1977	1978	1979		
	Dec.	Dec.		Dec.	May	June	July
Foreign debt	2 248	3 679	7 360	7 750	7 967	8 285
Loans	2 175	2 963	4 607	5 082	5 162	5 191
Compensatory obligations	1	1	1	1	1	1
Short-term credit	287	175	259	221	129	129
Cash debt (net)	-643	-669	-735	-489	-406	-231
Domestic debt	1 820	2 470	4 132	4 815	4 886	5 090
Total State debt	4 068	6 149	11 492	12 565	12 853	13 375
Total debt mill \$	1 069	1 493	2 859	3 131	3 238	3 474

FOREIGN TRADE

Mill. mk

Value mill. mk

Period	Value mill. mk		
	Exports f. o. b.	Imports c. i. f.	Surplus of exports (+) or imports (-)
1974	20 687	25 666	-4 979
1975	20 247	28 002	-7 755
1976	24 505	28 555	-4 050
1977	30 931	30 708	+223
1978	35 206	32 338	+2 868

Period	Exports f. o. b.	Imports c. i. f.	Surplus of exports (+) or imports (-)
1978			
July	2 684	2 635	+49
Aug.	2 401	2 473	-72
Sept.	3 240	2 718	+522
Oct.	3 437	3 040	+397
Nov.	3 636	3 140	+496
Dec.	3 364	2 906	+458

Period	Exports f. o. b.	Imports c. i. f.	Surplus of exports (+) or imports (-)
1979*			
Jan.	3 438	3 564	-126
Feb.	2 813	2 389	+424
March	3 459	3 163	+296
April	3 375	3 159	+216
May	4 008	3 657	+351
June	3 495	3 297	+198
July	3 523	3 788	-265

Period	Exports f. o. b.	Imports c. i. f.	Surplus of exports (+) or imports (-)
Jan.-July			
1978	19 122	18 054	-1 068
1979*	24 111	23 017	-1 094

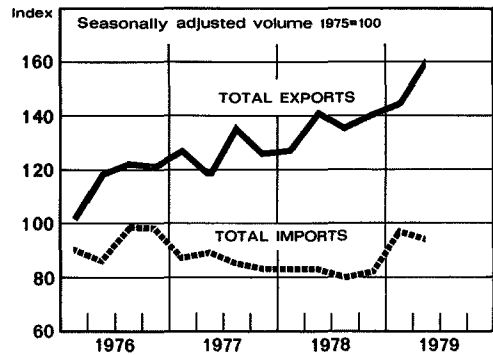
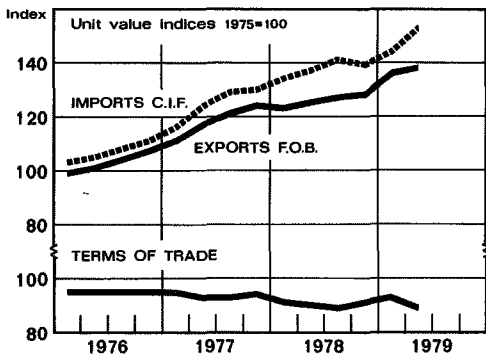
Indices of exports and imports
1975 = 100

Period	Volume		Unit value		Terms of trade
	Exports	Imports	Exports	Imports	
	1974	121	100	85		92	92
1975	100	100	100	100	100
1976	117	96	103	107	96
1977	129	88	119	124	96
1978	138	84	126	138	91

Period	Exports	Imports	Exports	Imports	Terms of trade
1977					
Jan.-March	123	83	112	117	96
Apr.-June	115	88	118	125	94
July-Sept.	129	84	122	130	94
Oct.-Dec.	143	93	125	131	95

Period	Exports	Imports	Exports	Imports	Terms of trade
1978					
Jan.-March	124	78	124	135	92
Apr.-June	136	83	126	139	91
July-Sept.	128	79	128	142	90
Oct.-Dec.	160	93	129	140	92

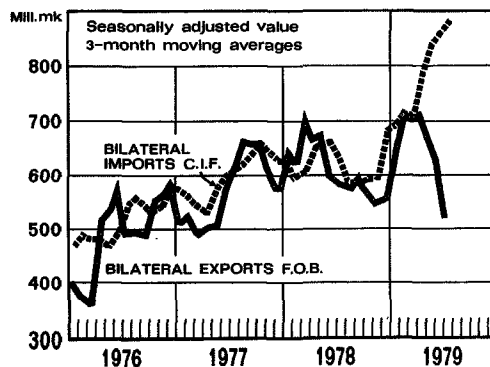
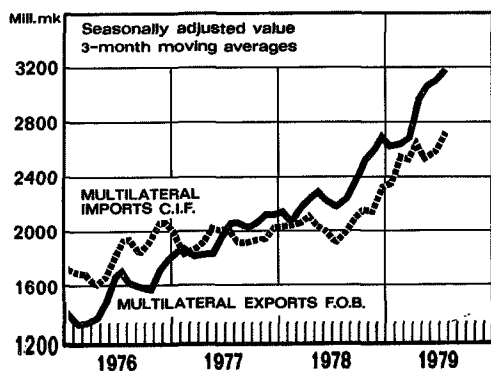
Period	Exports	Imports	Exports	Imports	Terms of trade
1979*					
Jan.-March	140	90	137	145	94
Apr.-June	154	94	139	154	90



FOREIGN TRADE BY MAIN GROUPS

Mill. mk

Period	Exports, f.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	
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	1 087	3 854	8 798	9 184	8 008	19 128	2 066	4 828	4 603	83
1978	966	4 641	10 402	9 593	9 604	20 431	2 224	4 801	4 830	52
1978										
July	44	414	775	756	695	1 700	233	362	325	15
Aug.	33	330	750	553	735	1 558	215	328	370	2
Sept.	36	421	948	887	948	1 715	200	396	389	18
Oct.	36	454	1 002	987	958	1 942	195	448	453	2
Nov.	50	498	918	1 122	1 048	2 069	197	408	462	4
Dec.	248	421	936	1 021	738	1 908	260	374	361	3
1979*										
Jan.	266	458	918	794	1 002	2 249	235	539	539	2
Feb.	16	337	890	725	845	1 623	83	315	367	1
March	258	327	1 128	797	949	1 964	64	529	604	2
April	17	441	1 107	896	914	1 950	110	585	511	3
May	187	590	1 148	923	1 160	2 335	275	434	612	1
June	47	599	1 010	815	1 024	2 168	319	366	433	11
July	59	557	1 034	891	982	2 322	520	463	467	16
Jan.-July										
1978	563	2 517	5 848	5 015	5 179	11 237	1 157	2 847	2 790	23
1979*	850	3 309	7 235	5 841	6 876	14 611	1 606	3 231	3 533	36



FOREIGN TRADE BY COUNTRIES¹

Mill. mk

Area and country	Exports, f.o.b.				Imports, c.i.f.			
	January—July				January—July			
	1978		1979*		1978		1979*	
	%	Mill. mk	%	Mill. mk	%	Mill. mk	%	Mill. mk
OECD countries in Europe	62.0	11 844	65.7	15 850	59.0	10 661	59.6	13 726
Austria	0.7	131	0.7	158	1.4	245	1.3	307
Belgium and Luxembourg	1.9	368	1.4	348	1.8	331	2.0	458
Denmark	4.1	777	3.9	948	2.7	495	2.7	611
France	4.0	758	4.7	1 136	3.3	592	3.7	845
Federal Republic of Germany	10.4	1 997	11.3	2 716	13.6	2 452	13.8	3 185
Italy	1.7	316	2.2	520	2.3	420	2.5	586
Netherlands	3.7	706	4.1	984	2.7	496	2.8	648
Norway	4.6	878	4.6	1 111	2.8	497	2.5	566
Portugal	0.2	36	0.2	46	0.3	62	0.5	114
Spain	0.8	155	0.9	225	0.9	164	0.9	213
Sweden	14.1	2 687	15.0	3 617	15.1	2 718	15.1	3 464
Switzerland	1.7	330	1.8	444	2.1	375	2.0	460
United Kingdom	12.7	2 432	12.9	3 109	9.5	1 718	9.3	2 143
Other	1.4	273	2.0	488	0.5	96	0.5	126
OECD countries outside Europe	6.7	1 289	7.4	1 785	8.4	1 511	9.1	2 098
Canada	0.6	108	0.6	137	0.4	72	0.7	162
Japan	0.8	161	1.2	301	2.7	494	3.0	696
United States	4.2	809	4.7	1 133	5.0	897	5.2	1 189
Other	1.1	211	0.9	214	0.3	48	0.2	51
CMEA countries	21.4	4 097	17.1	4 123	22.8	4 110	22.6	5 197
Czechoslovakia	0.5	94	0.3	69	0.5	89	0.5	118
German Democratic Republic	0.7	144	0.8	193	0.6	110	0.7	137
Poland	0.7	126	0.4	108	2.3	410	1.6	375
Soviet Union	18.4	3 520	14.6	3 520	18.5	3 345	19.0	4 379
Other	1.1	213	1.0	233	0.9	156	0.8	188
Latin America	4.1	790	1.8	420	3.9	708	3.5	802
Argentina	0.2	37	0.3	67	0.3	47	0.3	74
Brazil	0.5	88	0.5	106	0.7	135	0.8	191
Colombia	0.1	25	0.1	32	1.3	243	0.9	216
Other	3.3	640	0.9	215	1.6	283	1.5	321
Other	5.8	1 102	8.0	1 933	5.9	1 064	5.2	1 194
GRAND TOTAL	100.0	19 122	100.0	24 111	100.0	18 054	100.0	23 017
of which								
EFTA countries	21.4	4 090	22.4	5 407	21.8	3 932	21.5	4 945
EEC countries	39.2	7 495	41.3	9 947	36.2	6 538	37.0	8 525
OECD countries	68.7	13 133	73.1	17 635	67.4	12 172	68.7	15 824

¹ New series. See explanations on page 22.

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	30 766	30 625	+ 141	+1 392	- 3	+411	+1 941	-2 434	-147	- 640
1978 *	35 024	32 243	+2 781	+1 683	+166	+958	+5 588	-2 853	-211	+2 524

1976

Oct.-Dec.	7 423	8 426	-1 003	+324	- 39	+ 44	- 674	-483	-40	-1 197
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1977

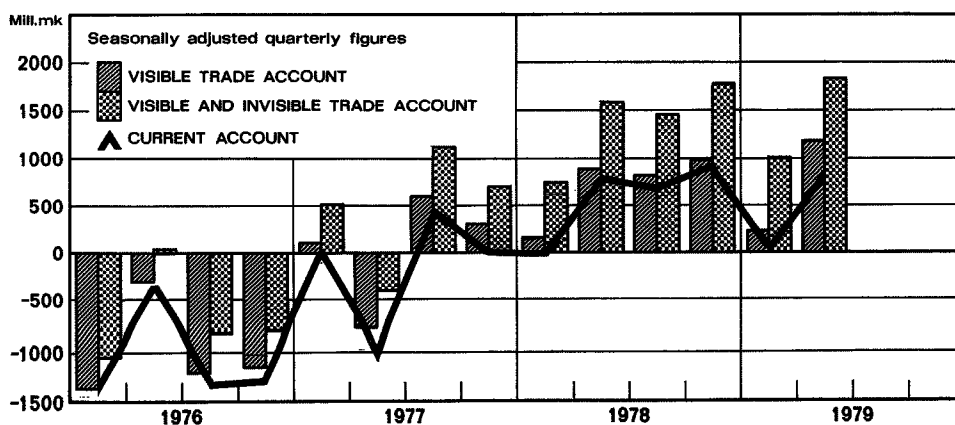
Jan.-March	6 977	6 765	+ 212	+ 331	- 80	+ 82	+ 545	- 506	-46	- 7
Apr.-June	6 817	7 689	- 872	+ 299	+ 10	+ 49	- 514	- 726	-12	-1 252
July-Sept.	7 931	7 671	+ 260	+ 377	+118	+180	+ 935	- 532	-30	+ 373
Oct.-Dec.	9 041	8 500	+ 541	+ 385	- 51	+100	+ 975	- 670	-59	+ 246

1978*

Jan.-March	7 745	7 357	+ 388	+ 378	- 66	+210	+ 910	- 613	-80	+ 217
Apr.-June	8 614	8 004	+ 610	+ 403	+ 11	+252	+1 276	- 820	-40	+ 416
July-Sept.	8 271	7 816	+ 455	+ 415	+222	+175	+1 267	- 644	-42	+ 581
Oct.-Dec.	10 394	9 066	+1 328	+ 487	- 1	+321	+2 135	- 776	-49	+1 310

1979*

Jan.-March	9 674	9 069	+ 605	+ 481	-105	+335	+1 316	- 685	-193	+ 438
Apr.-June	10 817	10 088	+ 729	+ 621	+ 21	- 8	+1 363	-1 002	- 80	+ 281

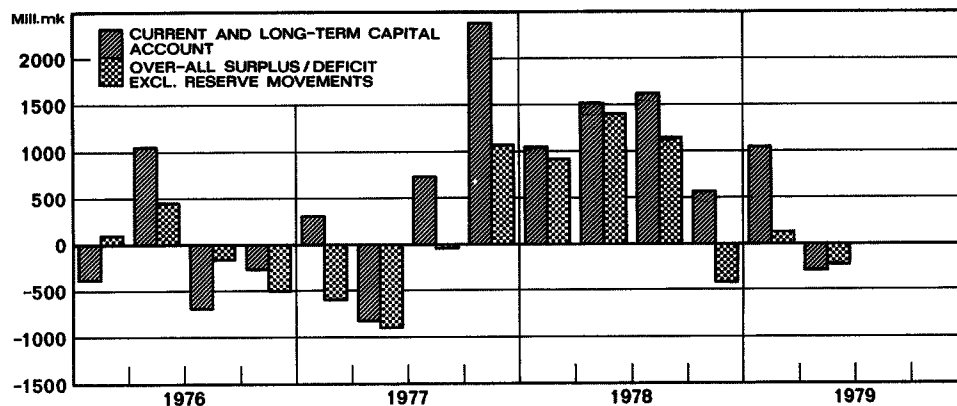


Drawings of long-term loans	Amortizations of long-term loans	Long-term export credits net	Miscellaneous long-term capital items, net ¹	Long-term capital account	Current and long-term capital account	Short-term import credits and prepayments, net	Short-term export credits and prepayments, net	Miscellaneous 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	+2 599	-1 547	- 470	-1 071	- 489	- 170	+ 659
+9 007	-5 743	-774	-229	+2 261	+4 785	+ 130	-2 188	+ 313	+3 040	-2 339	- 701
+1 391	- 449	- 90	+ 69	+ 921	- 276	+ 359	- 763	+ 169	- 511	- 73	+ 584
+1 022	- 550	-127	- 24	+ 321	+ 314	- 799	+ 149	- 269	- 605	- 140	+ 745
+1 273	- 857	+ 35	- 37	+ 414	- 838	- 333	+ 149	+ 116	- 906	+ 358	+ 548
+1 252	- 647	-156	- 89	+ 360	+ 733	+ 227	- 384	- 631	- 55	- 319	+ 374
+2 907	- 691	+ 7	- 79	+2 144	+2 390	- 642	- 384	- 287	+1 077	- 69	-1 008
+1 876	- 854	-166	- 17	+ 839	+1 056	- 479	- 402	+ 749	+ 924	-1 556	+ 632
+2 900	-1 733	- 1	- 51	+1 115	+1 531	+ 328	- 402	- 57	+1 400	- 687	- 713
+2 265	-1 089	- 96	- 39	+1 041	+1 622	+ 20	- 692	+ 194	+1 144	- 607	- 537
+1 966	-2 067	-511	-122	- 734	+ 576	+ 261	- 692	- 573	- 428	+ 511	- 83
+2 202	-1 626	- 8	+ 50	+ 618	+1 056	- 46	- 59	- 824 ²	+ 127	- 913	+ 786
+1 267	-1 453	-218	-175	- 579	- 298	- 34	+ 58	+ 154	- 236	-1 760	+1 996

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

¹ Including Direct investment, net.

² Including Allocations of special drawing rights 139 million.

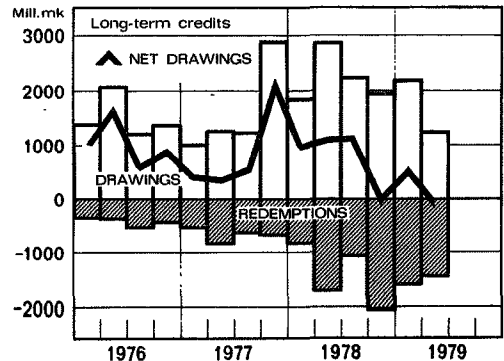
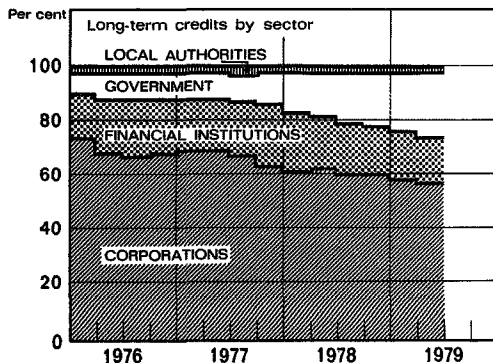


FINLAND'S FOREIGN ASSETS AND LIABILITIES

Mill. mk

End of year and month	Long-term assets				Long-term liabilities					Net long-term liabilities (9-4)
	Export credits	Direct investment	Other	Total (1 to 3)	Financial loans	Import credits	Direct investment	Other	Total (5 to 8)	
	1	2	3	4	5	6	7	8	9	10
1975	1 871	1 224	364	3 459	14 295	3 373	1 125	109	18 902	15 443
1976	1 969	1 342	479	3 790	17 484	4 571	1 497	169	23 721	19 931
1977	2 269	1 596	750	4 615	22 695	5 775	1 717	169	30 356	25 741
1978*	2 978	1 850	956	5 784	27 716	5 612	1 885	231	35 444	29 660
1976										
June	1 878	1 259	392	3 529	16 690	3 901	1 216	130	21 937	18 408
Sept.	1 910	1 310	425	3 645	17 045	4 321	1 273	155	22 794	19 149
Dec.	1 969	1 342	479	3 790	17 484	4 571	1 497	169	23 721	19 931
1977										
March	2 094	1 312	489	3 895	17 598	4 974	1 632	163	24 367	20 472
June	2 175	1 404	508	4 087	19 150	5 483	1 708	156	26 497	22 410
Sept.	2 238	1 499	713	4 450	20 364	5 509	1 700	156	27 729	23 279
Dec.	2 269	1 596	750	4 615	22 695	5 775	1 717	169	30 356	25 741
1978*										
March	2 499	1 673	840	5 012	25 107	6 068	1 774	159	33 108	28 096
June	2 517	1 759	862	5 138	26 769	6 134	1 865	159	34 927	29 789
Sept.	2 548	1 785	885	5 218	28 212	5 812	1 885	187	36 096	30 878
Dec.	2 978	1 850	956	5 784	27 716	5 612	1 885	231	35 444	29 660
1979*										
March	3 001	1 972	1 008	5 981	28 214	5 584	1 924	221	35 943	29 962
June	3 179	2 089	1 029	6 297	27 763	5 172	1 923	226	35 084	28 787

See explanations on page 22.

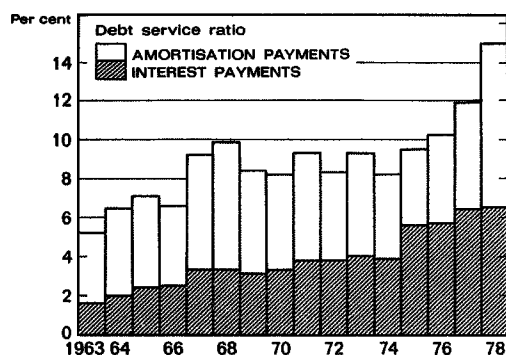
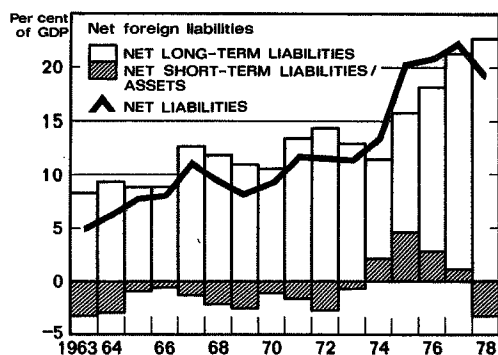


FINLAND'S FOREIGN ASSETS AND LIABILITIES

Mill. mk

Short-term assets				Short-term liabilities				Net short-term liabilities (18-14)	Net liabilities (10+19)	Debt service, flow	Of which amortisation payments, flow
Bank of Finland	Authorized banks and other foreign exchange holders	Corporate sector	Total (11 to 13)	Bank of Finland	Authorized banks and other foreign exchange holders	Corporate sector	Total (15 to 17)				
11	12	13	14	15	16	17	18	19	20	21	22
3 363	2 779	4 684	10 826	1 242	4 519	9 565	15 326	4 500	19 943	2 414	996
3 630	3 087	5 676	12 393	1 201	4 812	9 486	15 499	3 106	23 037	3 103	1 354
4 306	3 863	6 448	14 617	1 423	6 335	8 242	16 000	1 383	27 124	4 516	2 082
6 545	4 617	8 170	19 332	1 478	6 379	7 302	15 159	-4 173	25 487	6 622	3 769
3 610	3 095	4 949	11 654	1 201	4 215	9 377	14 793	3 139	21 547	763	278
3 517	3 307	5 313	12 137	1 298	4 379	9 497	15 174	3 037	22 186	882	448
3 630	3 087	5 676	12 393	1 201	4 812	9 486	15 499	3 106	23 037	819	336
3 798	2 641	5 690	12 129	1 187	4 997	8 779	14 963	2 834	23 306	778	272
3 686	2 504	5 703	11 893	1 295	5 444	8 606	15 345	3 452	25 862	1 418	692
4 042	2 984	6 076	13 102	1 406	6 382	8 905	16 693	3 591	26 870	1 114	582
4 306	3 863	6 448	14 617	1 423	6 335	8 242	16 000	1 383	27 124	1 206	536
5 491	3 409	7 233	16 133	1 293	6 594	7 559	15 446	-687	27 409	1 392	779
6 748	4 097	7 456	18 301	1 772	6 610	7 751	16 133	-2 168	27 621	1 493	673
7 003	4 412	7 779	19 194	1 483	6 264	7 419	15 166	-4 028	26 850	1 628	984
6 545	4 617	8 170	19 332	1 478	6 379	7 302	15 159	-4 173	25 487	2 109	1 333
7 804	4 072	8 286	20 162	1 611	6 692	7 316	15 619	-4 543	25 419	1 969	1 284
..

See explanations on page 22.



PRICE INDICES

Period	Wholesale price index 1949 = 100	Basic price index for domestic supply 1975 = 100 ¹						Building costs 1973 = 100		
		Total	Origin		Purpose			Total	Wages in building trade	Building materials
			Domestic goods	Imported goods	Raw materials	Consumer goods	Investment goods			
1977	692	119.2	119.7	117.3	114.1	132.7	121.3	171.4	154.0	175.9
1978	727	125.8	124.1	131.8	119.2	140.3	129.5	180.8	161.0	186.0
1978										
Oct.	741	128.0	126.2	134.1	121.0	144.0	131.3	184.6	167.9	188.5
Nov.	744	128.7	127.1	134.0	121.9	144.4	131.8	185.1	167.9	189.3
Dec.	747	129.0	127.1	135.4	122.3	143.3	132.9	185.4	168.3	189.4
1979										
Jan.	752	130.4	128.5	137.1	123.9	145.4	133.5	188.1	169.5	192.6
Feb.	760	131.7	129.7	138.8	125.4	146.6	134.4	189.0	170.5	194.6
March	763	133.3	130.8	142.3	127.6	147.1	135.4	193.0	177.4	195.7
April	770	134.0	131.6	142.4	128.1	147.6	136.8	195.0	179.1	197.8
May	772	134.9	132.4	143.7	129.0	148.5	137.6	197.1	179.1	200.8
June	783	136.8	133.6	148.0	131.9	148.9	138.5	199.2	179.1	203.7
July	796	139.1	135.9	150.3	134.4	150.5	140.5	199.7	179.1	204.3
August	800	139.9	136.5	151.6	135.4	151.9	140.6	201.0	179.1	206.5

¹ New series, see item on page 30.

Period	Consumer prices 1977 = 100 ¹										
	Total	Food	Beverages and tobacco	Clothing and footwear	Rent	Heating and lighting	Household goods and services	Health and medical services	Transport and communication	Education and recreation	Other goods and services
1978	107.8	104.4	114.6	105.8	106.3	106.4	105.2	112.4	111.1	108.2	109.2
1978											
Oct.	110.0	106.8	118.4	110.1	106.9	106.9	106.7	117.4	112.1	111.3	113.0
Nov.	110.6	106.1	118.4	111.4	107.4	107.2	108.0	119.8	114.0	111.8	113.0
Dec.	110.4	105.0	118.4	111.5	107.4	107.3	108.4	119.8	114.6	111.9	112.7
1979											
Jan.	111.3	104.6	129.0	109.6	107.4	107.3	109.4	122.6	114.4	112.6	114.8
Feb.	112.6	106.6	129.4	110.4	111.4	107.2	109.8	122.8	114.6	112.9	115.4
March	113.4	107.5	129.4	111.7	111.4	109.0	110.2	122.8	116.4	112.8	115.9
April	114.4	107.8	129.4	115.5	111.4	108.9	112.6	123.4	118.1	115.1	116.8
May	114.8	107.9	129.4	116.0	113.0	108.9	112.9	123.4	117.8	115.5	117.4
June	115.6	108.1	129.4	116.0	113.0	114.3	113.5	123.4	120.4	115.7	117.9
July	116.2	109.1	129.5	114.6	113.0	114.9	114.9	123.8	122.1	115.8	118.3
Aug.	116.7	109.0	129.5	116.1	115.1	115.1	115.5	123.9	122.0	116.2	118.7

¹ New series.

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							
1977	671	484	457	386	387	378	453	373	479	433
1978*	763	521	481	413	408	394	488	398	513	463
1977										
July-Sept.	672	493	462	389	390	382	461	377	488	440
Oct.-Dec.	708	499	468	398	394	382	468	385	492	445
1978*										
Jan.-March	731	502	472	399	396	385	471	386	496	448
Apr.-June	754	516	476	404	399	388	483	391	509	457
July-Sept.	764	522	477	417	411	395	493	402	518	467
Oct.-Dec.	792	544	499	432	427	408	506	416	531	481
1979*										
Jan.-March	810	559	507	453	437	423	523	433	545	496
Apr.-June	862	567	514	464	449	432	535	442	559	508

PRODUCTION

Volume indices of production 1975 = 100

Period	Gross domestic product	Industrial production	Agriculture	Forestry	Construction of buildings	Land and waterway construction	Transport and communication	Commerce	Public sector services	Others
1976*										
Oct.-Dec.	108	110	75	121	107	98	114	111	108	104
1977*										
Jan.-March	97	104	71	110	78	96	94	84	111	101
Apr.-June	100	102	87	112	74	95	97	95	110	103
July-Sept.	99	89	153	63	94	90	106	96	111	100
Oct.-Dec.	107	108	75	110	105	93	114	101	113	106
1978*										
Jan.-March	99	105	71	115	74	93	96	84	116	102
Apr.-June	103	107	89	104	75	95	107	93	116	105
July-Sept.	100	90	154	60	93	90	109	92	117	102
Oct.-Dec.	112	112	79	137	97	91	120	102	118	107
1979*										
Jan.-March	105	115	76	144	69	90	105	88	119	104

PRODUCTION

Index of industrial production 1970 = 100

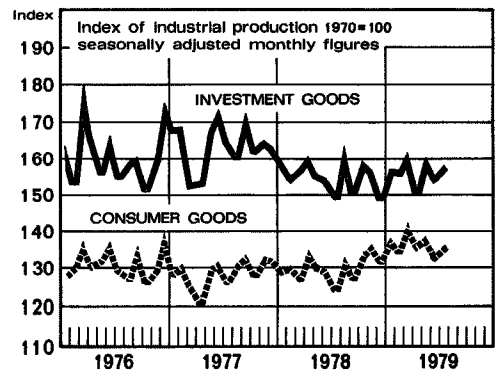
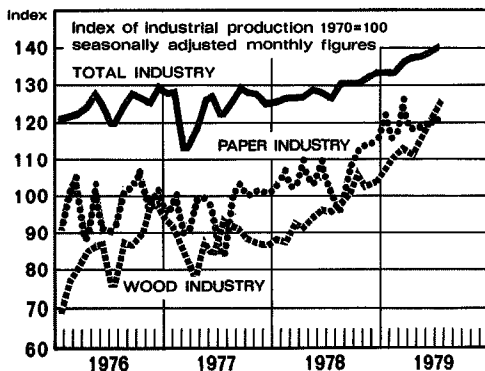
Period	Total	Investment goods	Other producer goods	Consumer goods	Special indices of manufacturing						Total, adjusted for seasonal variations
					Food industry	Wood industry	Paper industry	Chemical industries	Non-metallic mineral industry	Metal industry	
1975	122	178	110	130	113	76	95	143	128	150	122
1976	125	162	116	132	110	85	99	153	121	150	125
1977	125	165	117	129	108	89	98	149	122	149	126
1978*	130	156	125	131	115	97	108	159	123	146	129

1978*

June	123	160	116	129	114	108	93	120	136	147	129
July	67	58	67	69	102	42	69	95	51	50	127
Aug.	134	159	128	139	125	94	108	170	124	152	131
Sept.	138	162	134	136	114	104	124	175	136	156	131
Oct.	146	176	141	146	137	116	128	191	140	165	131
Nov.	147	177	141	150	142	112	127	166	130	167	133
Dec.	129	145	125	131	114	87	105	154	109	142	134

1979*

Jan.	145	172	142	142	113	104	128	190	118	164	134
Feb.	136	161	133	132	103	107	118	181	113	152	134
March	153	177	149	151	117	133	135	202	135	168	137
April	136	151	132	137	117	123	112	176	125	148	138
May	153	180	149	150	129	153	131	197	141	173	138
June	130	162	124	133	118	132	97	145	140	152	140
July	84	71	88	79	108	62	105	125	79	66	141



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	113	120
1978	3 578	2 253	2 084	169	7.5	29 021	109	120
1978								
Sept.	3 580	2 233	2 086	147	6.6	1 829	110	126
Oct.	3 584	2 219	2 066	153	6.9	2 559	111	131
Nov.	3 583	2 224	2 061	163	7.3	3 046	109	125
Dec.	3 586	2 211	2 047	164	7.4	3 294	139	137
1979*								
Jan.	3 587	2 210	2 025	185	8.4	3 335	..	..
Feb.	3 590	2 210	2 029	181	8.2	3 968	..	..
March	3 590	2 210	2 048	162	7.3	4 352	..	..
April	3 592	2 201	2 052	149	6.8	4 828	..	..
May	3 593	2 246	2 111	135	6.0	4 536	..	..
June	3 591	2 439	2 304	135	5.5	2 760	..	..
July	3 594	2 441	2 300	141	5.8	984	..	..

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											
1976	46.89	19.95	3.93	15.81	3.84	41.25	17.74	3.16	15.40	2.59	51.85
1977	41.88	18.86	4.22	12.11	3.71	43.70	18.10	3.07	16.80	3.33	48.12
1978*	41.98	17.90	4.97	12.72	3.68	42.56	18.21	3.77	13.59	4.21	42.78
1977*											
July-Sept.	11.41	4.72	1.06	3.85	0.91	10.91	4.03	1.05	4.03	0.99	52.69
Oct.-Dec.	10.52	4.21	0.80	3.65	1.18	14.58	6.30	1.17	5.52	0.78	48.12
1978*											
Jan.-March	10.21	3.72	1.02	4.06	0.92	9.06	3.93	0.67	3.34	0.77	44.63
Apr.-June	12.92	6.51	2.17	2.59	0.69	9.54	4.21	0.54	3.38	0.91	47.13
July-Sept.	11.07	4.12	1.04	4.33	0.85	9.57	3.58	1.10	2.95	1.07	49.12
Oct.-Dec.	7.79	3.54	0.74	1.74	1.21	13.07	6.02	1.29	3.44	1.38	42.78
1979*											
Jan.-March	7.75	3.32	1.23	1.95	0.77	7.38	3.37	0.69	2.42	0.62	39.45

EXPLANATIONS RELATING TO THE STATISTICAL SECTION

BANK OF FINLAND

The balance sheet of the Bank of Finland was revised on Dec. 31, 1974 and further revised from Dec. 31, 1978, when foreign bills were included in corporate sector receivables not in receivables from the foreign sector as earlier.

Page 4. *Foreign sector:* Gold and convertible exchange receivables = Gold + Special drawing rights + IMF reserve 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 bonds + Mark subscription to Finland's quota in the IMF.

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

Public sector: Receivables = Government promissory notes + Bonds + Total coinage + Other public sector receivables.

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 liabilities, net = Capital import deposits + Other financial institution claims — Bonds — Other financial institution receivables.

Corporate sector: Permanent special financing schemes = Foreign bills + New export bills + Financing of suppliers credits.

Liabilities, net = Deposits for investment and ship purchase + Counter-cyclical withholdings + Capital import deposits + Import levy deposits + Other corporate claims — Bonds — Other corporate receivables.

MONETARY POLICY INDICATORS

Page 6. All the figures except the Average lending rate of the commercial banks are mean values of daily figures for the month or year in question. The Average lending rate of the commercial banks is the mean value of end of the month lending rates weighted by credit outstanding.

Total central bank debt of the commercial banks = Discounted and rediscounted bills (until 30. 6. 1979, subsequently the banks have not been allowed to discount or rediscount bills) + net cheque account receivables from the commercial banks + call money debt + bond transactions with repurchase obligation — call money deposits by the commercial banks.

Actual central bank debt of the commercial banks = Total central bank debt — Postipankki's call money placements (or + Postipankki's call money overdrafts). Postipankki accounts for the bulk of the supply of call money from the deposit banks (supply of call money, see column 4 on page 5).

Credit quotas of the commercial banks at the Bank of Finland are the sum of individual quotas specifying the amount each bank eligible for central bank credit can borrow at the discount rate. Before July 1979, a progressively rising interest rate was charged on credit in excess of the quota up to an absolute ceiling on quota-related debt. From July 1979, no bank may exceed its quota on average over the month. On any given day quota-related borrowing may not exceed 2.5 times the quota. The interest on this borrowing is the basic discount rate.

Bank of Finland placements in the call money market = Demand for call money by the deposit banks — Supply of call money by the deposit banks. Average cost of the total central bank debt of the commercial banks: Net costs paid to the Bank of Finland by the commercial banks, as a percentage of their total central bank debt, per annum.

FOREIGN EXCHANGE RATES

Page 7. *Exchange rates* are annual and monthly averages of the Bank of Finland's daily quotations. *Currency index* is annual and monthly average of daily index numbers.

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

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

Page 8. *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 9. *Advances to the public.* The central government and the financial institutions are not included in the public. Postipankki'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 10. Official figures computed by the Economic Department of the Ministry of Finance. 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. 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 11—13. Figures supplied by the Board of Customs. *Indices* (p. 11): 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. 13): from January 1978 imports by countries of origin exports by countries of consumption.

BALANCE OF PAYMENTS

Pages 14—15. 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.

FOREIGN ASSETS AND LIABILITIES

Pages 16—17. Figures calculated by the Bank of Finland. Long-term assets: Other = financial loans + Finland's subscriptions to international financial institutions. Long-term liabilities: Other = Leasing credits + subscriptions to international financial institutions paid in the form of bonds. Short-term assets: From 1978 the Bank of Finland's foreign bills are included in financing of exports and reclassified under the corporate sector.

Column 21 Debt service = Net investment income of short-term and long-term assets and liabilities + net amortisation payments of long-term foreign assets and liabilities.

Columns 21 and 22 during the year and the quarter.

Chart Debt service ratio: Debt service as a per cent of current account earnings. 1978 Debt service does not include amortisation of the Bank of Finland credit facilities.

PRICE INDICES

Page 18. All indices calculated by the Central Statistical Office.

WAGES — PRODUCTION

Pages 19—20. Figures supplied by the Central Statistical Office. Page 20. *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 — INTERNATIONAL TRADE — TRAFFIC — CONSTRUCTION OF BUILDINGS

Page 21. *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, — Break in series.

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 1979 is as follows: Social Democratic Party of Finland 52, National Coalition Party 47, Centre Party 36, Democratic League of the People of Finland 35, Swedish Party 10, Christian League of Finland 10, Finnish Rural Party 6 and Liberal Party 4.

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 (1977): 4.7 million. Sweden 8.3, Switzerland 6.3, Denmark 5.1, and Norway 4.0 million.

DENSITY OF POPULATION (1977): In South Finland 46.4, 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 (1977): 40% of the population inhabit the rural areas, 60% towns and urban districts. The largest towns are: Helsinki (Helsingfors), the capital 487 519 inhabitants, Tampere (Tammerfors) 166 118, Turku (Åbo) 165 215.

EMPLOYMENT (1977): Agriculture and forestry 13%, industry and construction 35%, commerce 15%, transport and communication 7%, services 30%.

LANGUAGE (1977): Finnish speaking 93.4%, Swedish speaking 6.4%, others 0.2%.

EDUCATION (1978): 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 (1977): births 13.9 ‰, deaths 9.4 ‰, change + 2.2 ‰, net emigration - 2.2 ‰. Deaths in France 10.1 ‰ and Great Britain 11.7 ‰.

TRADE AND TRANSPORT

NATIONAL INCOME (1978, in million marks): Gross domestic product at factor cost by industrial origin: agriculture 6 272 (5%), forestry and fishing 5 409 (4%), manufacturing 35 784 (31%), construction 10 300 (9%), transport and communication 12 683 (11%), commerce, banking and insurance 15 956 (14%), public administration 6 578 (6%), ownership of dwellings 4 401 (4%), services 19 164 (16%), total 116 547. Index of real domestic product 166 (1964 = 100).

FOREST RESOURCES (1977): The growing stock comprised of 1 520 million m³ (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 m³ was up to the standard required for logs, 56% of these being pine. The annual growth was 57.4 million m³ and the total removal, calculated on the basis of roundwood consumption, was 40.7 million m³.

AGRICULTURE (1977): Cultivated land 2.3 million hectares. Number of holdings 237 700 of which 162 000 are of more than 5 ha. Measure of self-sufficiency in bread cereals 125%.

INDUSTRY (1977): Gross value of industrial production 103 579 mill. marks, number of workers 400 287, salaried employees 135 280, motive power (1977) 7.2 mill. kW. Index of industrial production 125 for 1977 (1970 = 100).

STATE RAILWAYS (Jan. 1, 1979): Length 6 063 km.

MERCHANT FLEET (June 30, 1979): Passenger vessels 126 (207 361 gross reg. tons), tankers 45 (1 231 715 gross reg. tons), dry cargo vessels 212 (1 031 279 gross reg. tons), other vessels 79 (10 451 gross reg. tons), total 462 (2 480 806 gross reg. tons).

MOTOR VEHICLES (Dec. 31 1978): Passenger cars 1 115 300, lorries and vans 139 100, buses 8 800, others 7 600, total 1 270 800.

FINNISH AIRLINES (March 31, 1979): Finnair and Kar-Air have in use 4 DC-8, 1 DC-6-ST, 8 Super Caravelles, 9 DC-9, 7 DC-9-51, 2 DC-10-30 and 4 Convair Metropolitans. Companies have scheduled traffic outside of Finland to 30 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 present currency weights are Rbl 19.1, Skr 17.5, £ 13.9, DM 13.4, \$ 9.2, other currencies 26.9. The permissible range of fluctuation is about 3 per cent on either side of the arithmetic mean. The fluctuation limits are 121.0 and 114.0.

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, 1978). There are two big and five small commercial banks with in all 858 offices, 280 savings banks, 374 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-seven private insurance companies also grant credits.

RATES OF INTEREST (July 1, 1979). The official discount rate of the Bank of Finland (the basic rate applied by the Bank of Finland on credit extended to the banks in the context of the quota facility) is 7 ¼%. 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 ¼%.

RECENT FINANCIAL DEVELOPMENTS

by Tapio Korhonen, M.Pol.Sc.
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Economics Department

Bank of Finland

Economic activity has picked up strongly in Finland recently. After several years of virtual standstill, GDP has grown this year at a rate equivalent to some 7—8 per cent growth for the year as a whole. At the same time, there has been a clear drop in the rate of unemployment, even though it still remains relatively high. The rate of inflation has started to accelerate; consumer prices rose by 7.4 per cent from August 1978 to August this year, while the corresponding figure for the previous year was 5.6 per cent. The maintenance of balance has been facilitated by the fact that there has been plenty of idle capacity available for bringing back into use. A key factor in getting the recovery under way has been export demand, which has been growing strongly for the last three years. Its impact has been given a further boost by reflationary domestic policy.

In economic policy the emphasis has been on expansionary fiscal policy, which has mainly relied on tax cuts. The monetary policy stance has been easy since 1977 in order to ensure that the cost and availability of finance do not hinder a revival in investment activity.¹ In view of this policy stance, the pick-up in domestic demand, especially that in corporate investment, has been relatively late in taking place. To a large extent this delay is explained by the fact that during the recession the liquidity and indebtedness positions of the private sector were rather poor. So far, the rectifying of this situation has been the primary objective in the corporate sector. However, in recent months there have been clear signs of a rapid recovery in corporate investments.

Up till now, the revival in investment has not had much impact on the financial markets, largely because firms have been able to finance expansion from internal sources. Nevertheless, the growth of money and credit aggregates has been accelerating, although the true significance of these indicators has been distorted by large speculative short-term capital movements.

THE FINANCIAL POSITION OF CORPORATE, HOUSEHOLD AND GOVERNMENT SECTORS

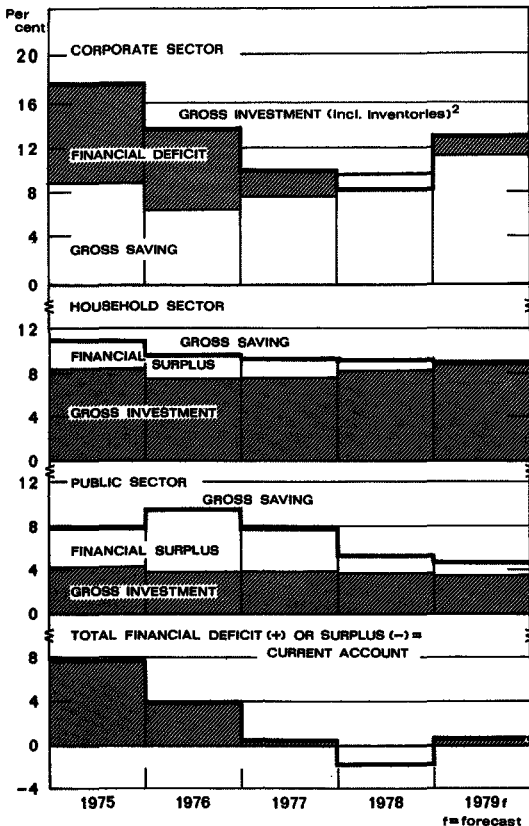
The corporate sector's financial structure started to improve rapidly in 1978 as investment activity reached its lowest point, and a marked growth in export incomes led to a revival in profits. The indebtedness ratio of the sector fell and there was a marked positive turnaround in the trend of corporate sector liquidity. All in all, the corporate sector became a net lender to the rest of the economy (Chart 1).

Already this year, however, companies are likely to become net borrowers again. Profits, though still rising rapidly, will cover a diminishing share of the significant increase in capital accumulation by firms. Investment is forecast to increase by a quarter in value and in addition the running down of inventories will give way to accumulation. There is likely to be a significant rise in the corporate sector's willingness to borrow, although to a large extent borrowing will not materialize until later.

Unlike the corporate sector, there have been no substantial changes in the net financial position of the household sector. The growth of savings and housing investment has been relatively steady. In the current year both the

¹ On recent monetary policy, see the front article of the August 1979 issue of this Bulletin.

CHART 1. SAVING, INVESTMENT AND FINANCIAL SURPLUSES AND DEFICITS BY SECTOR, PER CENT OF GDP¹



¹ According to the Revised National Accounts.
² Including stockbuilding and statistical discrepancy.

level of assets and liabilities are forecast to increase significantly. At the same time, the net financial position is expected to improve slightly.

As a result of the reflationary fiscal policy stance, the government sector's financial surplus, which only a few years ago was considerable, has almost disappeared. This is largely a result of the adopted policy line, which has strived, on the one hand, to limit the rise in the tax burden in the household sector and, on the other hand, to strengthen the competitiveness of industry through temporary tax cuts. These concessions will be continued with small modifications in 1980 as well. As a result of these measures, the ratio of taxes to GDP has actually fallen since 1976.

By contrast, there has been no corresponding deterioration in the financial position of the local government sector. Local government

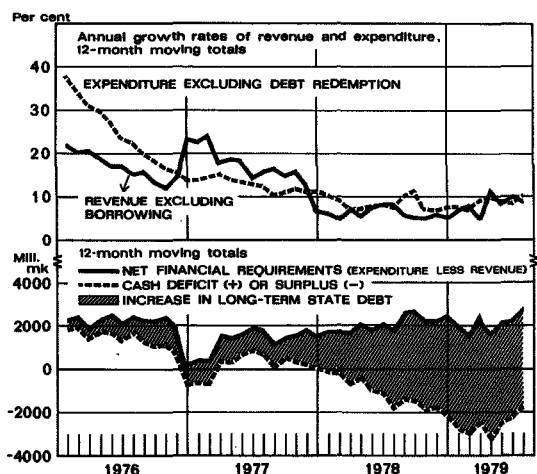
borrowing has remained quite low and their liquidity position seems to have improved markedly during the current year.

FINANCING OF THE CENTRAL GOVERNMENT BUDGET DEFICIT

The growth of the central government's borrowing requirement for 1978 and so far in 1979 has proved to be smaller than expected. In 1978 the borrowing requirement (net of redemptions) was 2 500 million marks, but as actual borrowing exceeded this amount by a large margin, the central government ended up with a 2 100 million cash surplus (Chart 2). In the current year the net borrowing requirement is expected to double, but even then it will amount to only about 3 per cent of GDP.

Last autumn an agreement was concluded between the government and the banks by which this year's domestic bond issues were limited to 1 600 million marks. Because of the favourable conditions prevailing in the security markets, the government is likely to be able to sell the whole issue to the public. As the combined total of domestic and foreign long-term borrowing will remain below that of last year, the central government is expected to have a cash deficit for the year as a whole. Contrary to the normal seasonal fluctuations,

CHART 2. STATE FINANCES



there has been a sizable accumulation of cash funds during the first half of the year, partly due to the timing of borrowing. Since an acceleration in the growth of expenditure is forecast, there will be a marked running down of the cash funds towards the end of the year.

FOREIGN FINANCING

As activity has revived, the balance of payments on current account has weakened, although it was still in surplus for the first eight months of the year. Redemptions of the private long-term foreign debt exceeded drawings of new loans by 600 million marks in the first half of the year. Capital imports by the central government, although almost one third smaller than last year's 3 000 million marks, will put long-term capital movements into balance for the year as a whole.

In both 1978 and the current year there have been large inflows of speculative short-term capital, which have had a significant impact on conditions in the domestic financial markets. In the current year these short-term capital imports were caused by the public debate about the use of revaluation as an instrument for overcoming the inflationary effects of rapidly rising foreign trade prices. With the government's decision in August not to revalue the Finnmark, the tide turned and short-term capital began to flow out of the country.

The outflow of funds has been further facilitated by the fact that foreign interest rates have risen in relation to the domestic rates — although mainly in nominal terms.

BANK OF FINLAND

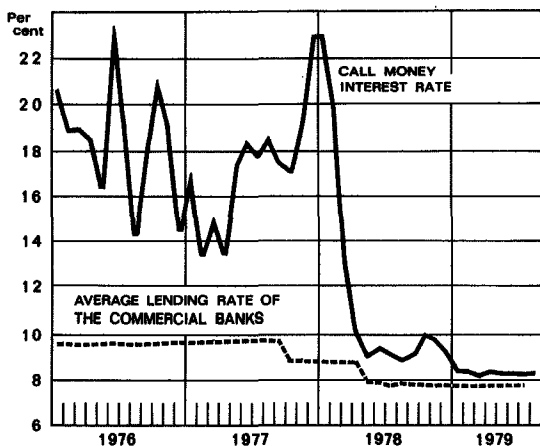
The net foreign assets of the Bank of Finland, which increased by 3 500 million marks in 1978, grew by a further 4 000 million marks in the first eight months of 1979. Growth was particularly rapid in the summer. The increase in foreign exchange reserves (including foreign bonds) during the current year has been some 300 million marks smaller than that of net foreign assets mainly because of the repayment by the Bank of Finland of part of its long-term foreign loans.

The central government's cash surplus and the improvement in the liquidity position of Postipankki have been reflected in an increase of 1 100 million marks in their short-term assets at the Bank of Finland during the first eight months of the year. On account of the central government's favourable financial position, only one half of the 700 million marks loan negotiated in 1978 has so far been drawn. At the same time, conditions in the financial markets have been eased by the increase of some 300 million marks in the Bank of Finland's direct lending to firms and by the decrease of 200 million marks in special deposits.

BALANCE SHEET OF THE BANK OF FINLAND, MILLION MARKS

	31. 12. 1977	Change 31. 12. 77— 31. 12. 78	31. 12. 1978	Change 31. 12. 78— 31. 8. 79	31. 8. 1979
+ Net claims on the foreign sector	557	+3 494	4 051	+4 021	8 072
+ Net claims on the commercial banks	5 032	—1 713	3 319	—3 719	—400
+ Net claims on the corporate sector	1 174	+417	1 591	+258	1 849
+ Net claims on the public sector	63	+457	520	—45	475
= Total net assets	6 826	+2 655	9 481	+515	9 996
+ Net liabilities to other financial institutions	806	+1 338	2 144	—1 773	371
+ Deposit certificates in circulation	200	+890	1 090	+2 288	3 378
+ Notes and coins in circulation	3 167	+655	3 822	+199	4 021
+ Equity and other items, net	2 653	—228	2 425	—199	2 226
= Total net liabilities	6 826	+2 655	9 481	+515	9 996

CHART 3. KEY INTEREST RATES



The easing of the commercial banks' position as measured by the decrease in their net central bank credit amounted to 3 700 million marks at the end of August. This meant that the private banks became net creditors to the Bank of Finland, a phenomenon which has not occurred in the last twenty years. As this development could already be foreseen in the spring, the Bank of Finland concluded a cash reserve deposit agreement with the banks. The agreement, which permits a maximum accumulation of deposits of some 3 000 million marks, has been applied since the end of May.¹ At the end of August the stock of these deposits was 730 million marks. The easiness of the commercial banks' central bank position is shown by the fact that the call money rate has remained slightly above 8 per cent during the current year (Chart 3).

DEPOSIT BANKS

Since the commercial banks and Postipankki participate in the financing of foreign trade, i.e., by intermediating trade credits through their own balance sheets, expectations concerning the value of currency have also been reflected in large changes in the banks' net foreign position as well as in their domestic balance sheet items denominated in foreign currency. During the first eight months of the year, the net foreign debt of the commercial

banks increased by 2 600 million marks.² The improvement in the banks' total liquidity position has thus been much smaller than the decrease in their central bank debt.

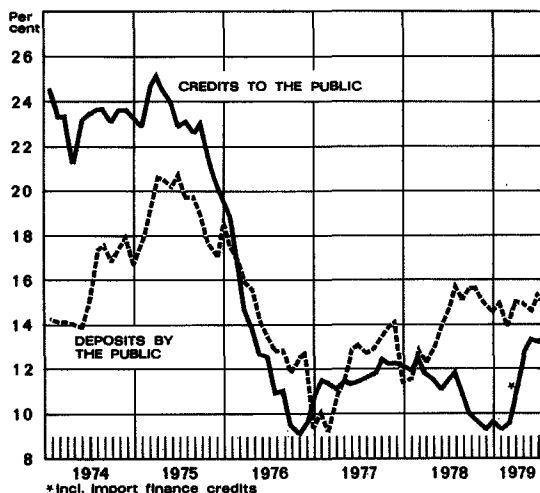
By the end of July the seasonally adjusted annual growth rate of total deposits was as high as 15 per cent (Chart 4). The increased profitability of firms together with the re-valuation expectations led to a growth rate of 38 per cent in demand deposits denominated in marks. On the other hand, domestic deposits denominated in foreign currency fell substantially during the summer. Consequently, they were at a lower level at the end of July than in December 1978, despite their fast growth during the winter months.

The revival in households' real disposable income together with households' desire for the restoration of more normal liquidity ratios have kept households financial saving at a high level. Thus, time deposits were growing at an annual rate of 13 per cent by the end

¹ For more detailed information on this and other arrangements concerning the structure of central bank finance, see the front articles of the April and August 1979 issues of this Bulletin.

² Roughly half of this change was due to a change in accounting practices. Since March 1979, the so-called import finance credits have been included in both the banks' foreign liabilities and in banks' domestic assets denominated in foreign currency.

CHART 4. BANK CREDITS AND DEPOSITS: CHANGE FROM CORRESPONDING MONTH OF PREVIOUS YEAR



of July. This rate of growth is expected to accelerate further during the last months of the year.

Bank credits have grown markedly faster this year than in 1978. The annual rate of growth, excluding import finance credits, was 13 per cent in January — July. Of the credits granted in domestic currency, loans to households, in particular, seem to have grown rapidly. On the other hand, credits in the forms of bills and overdrafts, which are mainly granted to firms, have shown only a modest increase. This sectoral demand for credits has also been evident in changes in the market shares of the various banking groups. Credits granted by the commercial banks (excluding import finance credits) have so far only increased at a rate of some 9 per cent, whereas the credit expansion for the rest of the banking sector was 18 per cent.

SECURITY MARKET

The prices of shares quoted on the Helsinki Stock Exchange started to rise in 1978 after having fallen for many years. This year the rise in the share index has been fast, e.g., from the middle of May to the middle of August the index went up as much as 23 per cent. The total turnover of shares and bonds on the stock exchange will grow substantially this year; by the end of August it already exceeded last year's turnover of 327 million marks.

The favourable situation in the security markets, which is obviously due largely to the overall brightening in economic prospects and easiness in financial markets, has tempted firms to launch new share issues. Although issuing activity got off to a slow start this year, it is obvious that the new issue market will be buoyant for the year as a whole. In fact, the amount of funds that will be raised by the issues announced so far will clearly exceed the total amount of the last year.

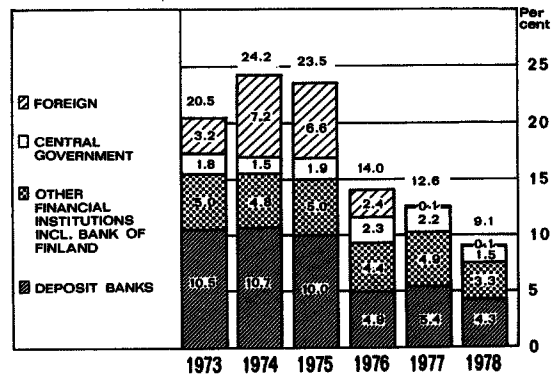
TOTAL CREDIT EXPANSION

As a result of the acceleration in bank lending, the total credit extended to the public has also grown at a faster pace than last year (Chart 5). Lending by the central government and other financial institutions has decelerated slightly. The relatively low growth rate in lending by other financial institutions reflects the temporary reductions in social security contributions which have dampened the growth of insurance funds. Among the non-bank financial institutions, only lending by hire-purchase companies has grown markedly. This, together with the growth of bank lending, indicates the fact that households' share of total credit expansion has increased.

CURRENT PROSPECTS

Since it seemed likely that economic growth would continue at a relatively slow pace, there were signs in recent years that significant structural changes would take place in financial markets. It seemed that the typically large financial deficit of the private sector would give way to a more or less permanent surplus. A development of this type was evident for some years; for example, the large debt of the commercial banks to the central bank disappeared. At the moment the continuation of these trends seems, however, uncertain.

CHART 5. TOTAL CREDIT EXPANSION TO THE PUBLIC¹



¹ The growth of the total stock of credits granted to the public (firms, households, local authorities) by the credit-granting sector as a percentage of the total stock of credits at the end of the previous year.

In the current situation, with strong export-led growth gaining momentum, the slackness in the financial market is becoming an active growth-promoting factor. Even though the easing effect from the balance of payments has faltered, the increase in liquidity is likely to continue for some time since the deficit in government finances is still increasing and credit expansion accelerating.

The economy will undoubtedly experience difficulties in absorbing this supply of liquidity. After idle resources have been brought back into use, the excess liquidity will weaken the external balance and strengthen the pressure on the price level. Obviously the external balance is unlikely to present the same kind of problem as in the mid-1970's. Instead, more attention must be paid to the inflation in order to safeguard international competitiveness.

ITEMS

Basic price index for domestic supply 1975 = 100. The Central Statistical Office has introduced a new basic price index for domestic supply 1975 = 100 (See page 18). The prices of goods included in the index are recorded »at the factory or custom-house gate». The prices of domestic goods are thus taken into the new index as factory prices free of all goods taxes and subsidies, while the prices of imports are calculated as the c.i.f. prices (including freight and insurance) augmented by customs duties and import charges.

The basic price index for domestic supply covers 84 per cent of all goods produced by industry, agriculture, forestry, fishing and building activity. It comprises nearly 1 000 items including some 2 500 different goods. The new index provides roughly the same information as the old wholesale price index 1949 = 100.

Finland's gross long-term foreign debt in January—June 1979. At the end of June 1979, Finland's gross long-term foreign debt amounted to the equivalent of 35 084 million marks. The net inflow of long-term capital in January-June totalled 434 million marks, as against 2 297 million marks in the corresponding period last year.

Gross drawing of long-term foreign capital amounted to 3 593 million marks or 27 per cent less than during the first half of 1978. Redemptions of long-term foreign liabilities totalled 3 159 million marks, whereas redemptions in January—June last year reached 2 616 million marks. Interest expenses (including commissions and dividends) were 31 per cent up on the first half last year. This was mainly attributable to increases in the rates of interest on credit with variable interest rates.

FINLAND'S GROSS LONG-TERM FOREIGN DEBT BY TYPE OF CREDIT IN JANUARY—JUNE 1979, MILLION MARKS

	Debt ² Dec. 31, 1978	Drawings ²	Redemp- tions ²	Net drawings	Impact of exchange rates	Debt ² June 30, 1979	Interest expenses, com- missions dividends and bonus issues
Financial loans	27 716	3 245	2 413	+832	—785	27 763	1 284
Individual financial loans	12 385	1 672	1 600	+ 72	—134	12 323	629
Bonds and debentures	15 331	1 573	813	+760	—651	15 440	655
Bond issues	9 755	933	503	+430	—489	9 696	418
Debenture issues	344	—	—	—	— 4	340	14
Private placement loans	4 887	640	260	+380	—151	5 116	212
Loans from the World Bank	345	—	50	— 50	— 7	288	11
Import credits	5 612	224	656	—432	— 8	5 172	229
Ship and aircraft credits	2 446	113	354	—241	— 2	2 203	111
Other import credits	3 166	111	302	—191	— 6	2 969	118
Leasing credits	122	—	10	— 10	—	112	5
LONG-TERM CREDITS	33 450	3 469	3 079	+390	—793	33 047	1 518
Direct investments	1 885	101	62	+ 39	— 1	1 923	142
Equity capital ³	1 298	56	7	+ 49	—	1 347	124
Loans to subsidiaries	587	45	55	— 10	— 1	576	18
Subscriptions ¹	109	23	18	+ 5	—	114	—
LONG-TERM GROSS DEBT	35 444	3 593	3 159	+434	—794	35 084	1 660

¹ Subscriptions paid in the form of promissory notes to international financial institutions.

² The mark values of debt outstanding have been calculated by using the selling rates of the same date; drawings and redemptions by using the average monthly selling rates.

³ The balance outstanding of equity capital of direct investments is calculated as the net value of investments by active companies.

In a breakdown of drawings by type of credit, financial loans accounted for 91 per cent of long-term foreign debt, import loans and leasing credits for 6 per cent and direct investments for 3 per cent.

Drawings by enterprises amounted to 1 571 million marks or 45 per cent of total drawings, while those by financial institutions totalled

408 million marks or 12 per cent, and those by the central government and municipalities together accounted for 1 490 million marks or 43 per cent of total drawings of long-term foreign loans.

Five Finnish bond issues, together worth 933 million marks, were floated abroad in January—June 1979.

(continued from page 2)

in sharp contrast to the exports of metal products, where almost all of the 16 per cent increase in value was confined to volume movements. This also conforms with export developments in textiles which have increased even more in volume terms during the first half of this year.

The regional distribution of Finnish exports has changed during the last few years in favour of Western markets, and the share of CMEA countries has fallen by 5 percentage points since 1977 to amount to 17 per cent in the January—August period of this year. This is a consequence of the currently depressed levels of exports to the Soviet Union caused by the heavy concentration of deliveries in the initial years of the five year bilateral trade agreement period starting in 1976. Exports to both EEC and EFTA countries increased in the first part of the year by a third in value, and the shares in total exports grew to 41 and 22 per cent respectively. Exports to OPEC countries amounted to 4 per cent and the other developing countries kept their share in total exports unchanged at 9 per cent.

IMPORTS

Reflecting a turn-round in both domestic output and the stock-cycle, the growth of imports has been concentrated in raw materials. But imports of consumer goods have also experienced a clear acceleration, while the upswing in imports of investment goods has so far remained moderate.

The volume of raw material imports excluding crude oil increased in the first half of the year by almost a fifth, and the price level was 9 per cent higher than in the previous year. A similar increase was recorded for consumer goods, with the imports of passenger cars jumping by 42 per cent in volume terms, and imports of textiles and garments were also up sharply. There was a clear upturn in imports of investment goods, but given the depressed levels prevailing in the second half of 1978, the volume growth over the first part of 1978 amounted to only some 4 per cent.

It is interesting to note that average values for imports of both consumer and investment goods have remained stable in the twelve months since mid-1978. This seems to be partly the result of the strong position of the Finnmark vis-à-vis most currencies, but could also reflect some influence from the deceleration in the Finnish inflation rate. But these favourable developments in the prices of manufactured goods were more than offset by the sharp rises in the price of energy; in the first half of the year the price of crude oil was 10 per cent above the price level in the corresponding period of the previous year and prices of fuels and lubricants rose by as much as 27 per cent.

Except for some loss on the part of developing countries, there were no big changes in the regional distribution of imports in the first part of this year. The EEC countries were, at some 37 per cent, the largest supplier of Finnish imports, while EFTA and CMEA both

accounted for some 22 per cent. The share of OPEC amounted to only 2 per cent, reflecting the fact that two-thirds of Finland's oil imports are supplied by the Soviet-Union.

PROSPECTS

The export prospects are of course closely linked to developments in the world economy. So far, growth has to an important extent relied on basic industries, which are traditionally largely influenced by inventory fluctuations. Moreover, the forest based industries are also dependent on North-American competition in European markets. The prospects for these goods will, therefore, be very sensitive to developments in the world economy. But exports of other goods in the coming months will be aided by the strong competitive position, which has improved further in the current year. Furthermore, exports to the Soviet Union will revive again since the trade deficit caused by the recent oil price increases will create new export possibilities and the next five year trade agreement starts in 1981. Thus a slump in the exports of basic industries is likely to be at least partly compensated by exports of manufactured goods.

But import demand will probably also remain strong in the next twelve months as domestic demand is expected to be buoyant. As a result, the Finnish economy is moving into a stronger relative demand position than many other countries. This will no doubt be reflected in the external balance, and the deterioration in the trade balance already recorded this year could well continue for some time even if there is no marked deterioration in terms of trade.

September 21, 1979

BANK OF FINLAND

Board of Management

Mauno Koivisto

Governor, absent as Prime Minister

Ahti Karjalainen <i>Deputy Governor, Acting Governor</i>	Pentti Uusivirta
Rolf Kullberg <i>Deputy Governor, ad int.</i>	Ele Alenius
Harri Holkeri	Seppo Lindblom <i>ad int.</i>

Directors

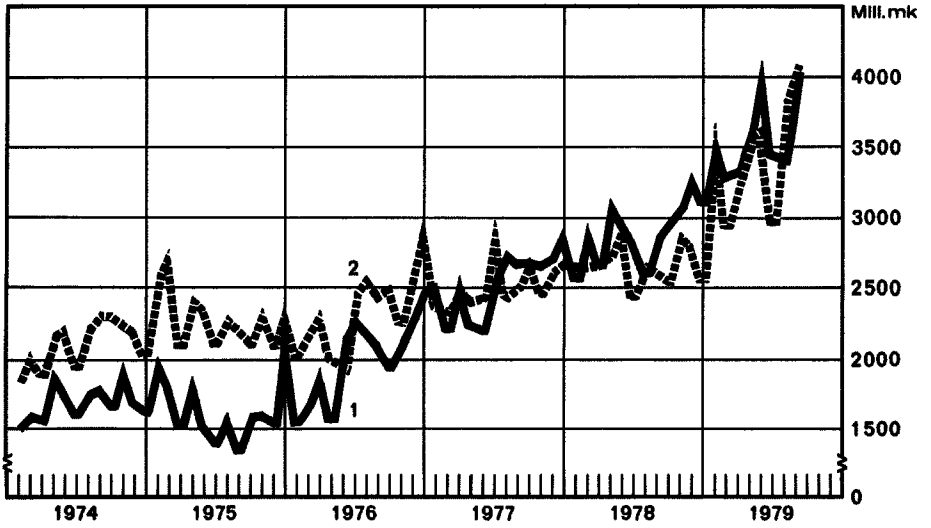
Markku Puntila	Seppo Lindblom
Eino Helenius	Pentti Koivikko
Kari Nars	Antti Lehtinen

Senior officials

Pertti Kukkonen <i>Director ADP-planning</i>	Ralf Pauli <i>Deputy, Monetary Policy</i>
Raimo Hyvärinen <i>Domestic Financial Operations</i>	Kari Pekonen <i>Foreign Exchange Policy</i>
Raine Panula <i>Foreign Exchange</i>	Kari Holopainen <i>Eastern Trade</i>
Antti Saarlo <i>Special Eastern Affairs</i>	Pekka Tukiainen <i>Foreign Financing</i>
J. Ojala <i>Foreign Exchange Control</i>	Kari Puumanen <i>Economics Dept.</i>
Heikki Koskenkylä <i>Research Dept.</i>	Markku Pietinen <i>Information and Publications</i>
H. T. Hämäläinen <i>Administration and Legal Affairs</i>	Timo Männistö <i>Internal Audit</i>
U. Levo <i>International Legal Affairs</i>	Erkki Vehkamäki <i>Automatic Data Processing</i>
Anton Mäkelä <i>Personnel</i>	Stig G Björklund <i>Banking Services</i>

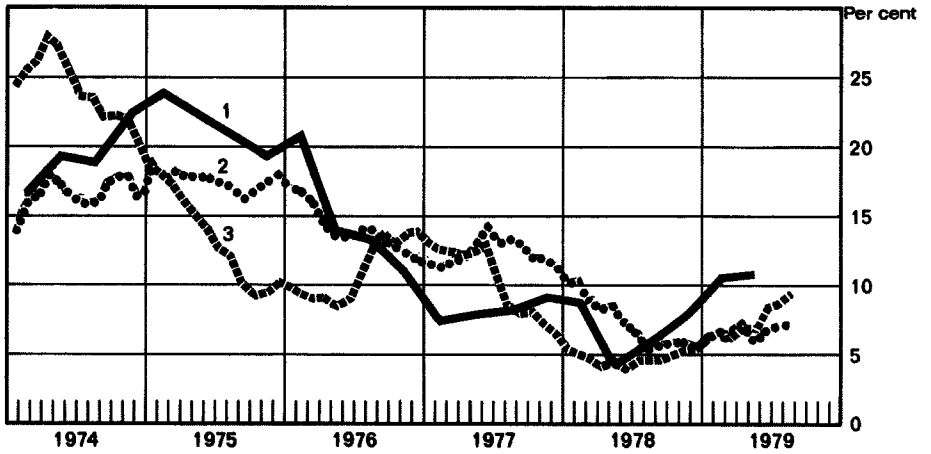
FOREIGN TRADE, 1974-79

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



PRICES AND WAGES, 1974-79

- 1. Index of salary and wage earnings 1964 = 100, quarterly figures
 - 2. Consumer price index 1977 = 100, monthly figures
 - 3. Wholesale price index 1949=100, monthly figures
- Percentage change over previous year



PRODUCTION, 1974-79

- 1. Total index of industrial production 1970 = 100, seasonally adjusted monthly figures
- 2. Volume index of gross domestic product 1970 = 100, seasonally adjusted quarterly figures

