



BANK OF FINLAND

MONTHLY BULLETIN

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JANUARY

1967

RECENT DEVELOPMENTS

COMMENTS ON THE CLOSING OF THE 1966 ACCOUNTS OF THE BANK OF FINLAND

During 1966 the rate of economic growth in Finland was noticeably smaller than in the previous year. The increase in the volume of gross domestic product in 1966 will probably be about 2 per cent. Since the price level has risen by approximately 4 per cent, the increase in the value of total production is estimated to be around 6 per cent.

Despite a slackening in the rate of economic growth, bank advances, for which December figures are not yet available, increased more than in the previous year. As a result of credit expansion, there was of course also a growth in deposits, but this expansion was to a great extent based on central bank credit. The portfolio of rediscounted bills at the Bank of Finland amounted to 915 million marks, or 275 million marks more than a year earlier. Presumably this increase would have been even greater had the Bank of Finland not granted short-term advances directly to the commercial sector, particularly for financing grain purchases and the so-called new exports. Altogether, discounted inland bills grew by 77 million marks and other assets, including e.g. the suppliers' credit bills for the engineering industry, by 51 million marks. The position of the banks in relation to the Bank of Finland was further eased by the credit granted

to the Treasury by the Bank of Finland, on which an amount of 205 million marks was drawn by the end of 1966. This credit is entered in the Balance Sheet under "domestic bonds", which totalled 248 million marks in 1966. On the other hand, the cheque account balances of the Treasury and of the Post Office Savings Bank together amounted to 57 million marks, or 48 million marks more than at the end of 1965.

Since the growth in bank lending thus depended largely upon central bank credit, the foreign exchange situation continued to weaken. Although it is likely that Finland's balance of payments for 1966 will show an improvement upon the previous year, this has not yet had a noticeable effect on the foreign exchange reserves of the Bank. The net reserves of gold and convertible currencies were 517 million marks at the end of 1966, or 279 million marks less than at the end of 1965.

The claims of the Bank of Finland in Eastern Bloc and other non-convertible currencies, which at the end of 1965 stood at 20 million marks, increased slightly during the course of 1966, but at the end of the year the situation changed so that the Balance Sheet now shows foreign

*On page 18, Some Aspects of the Finnish
Experience in Index-tied Deposits*

exchange liabilities of 22 million marks on these accounts. The net gold and convertible foreign exchange reserves of the Bank of Finland thus totalled 495 million marks at the end of 1966; in addition, holdings of foreign bills and bonds of the Bank amounted to 81 million marks.

The continuing decrease in the foreign exchange reserves necessitated a tightening of the Bank's regulations on bank advances for the first part of 1967. In order to prevent these limits from being widened

again by the above-mentioned credit granted to the Treasury by the Bank of Finland, a special cash reserve agreement was concluded between the Bank of Finland and the banks at the end of the year (see Item). According to the agreement, during 1967 a part of the increase in advances corresponding to 3 per cent of bank deposits at the end of 1966 with a maximum of 300 million marks has to be placed in the Bank of Finland as special deposits.

January 4, 1967

BANK OF FINLAND

Mill. mk

	1965		1966			
	Dec. 31	Nov. 30	Dec. 8	Dec. 15	Dec. 23	Dec. 31
BALANCE SHEET						
Assets						
<i>Ordinary note cover</i>	944.7	649.0	619.9	608.7	656.6	637.2
Gold	267.5	162.4	162.4	161.9	143.9	143.9
IMF gold tranche	45.6	100.0	100.0	100.0	100.0	100.0
Foreign exchange	547.8	298.3	272.6	263.1	332.4	312.0
Foreign bills	54.7	61.4	60.0	58.8	55.4	56.4
Foreign bonds	29.1	26.9	24.9	24.9	24.9	24.9
<i>Supplementary note cover</i>	712.1	949.8	1 014.3	1 066.7	1 108.4	1 063.7
Inland bills discounted						
In foreign currency	45.5	39.1	36.2	36.2	36.2	36.3
In Finnish currency	26.0	62.0	65.4	65.4	68.5	112.2
Rediscounted bills	640.6	848.7	912.7	965.1	1 003.7	915.2
<i>Other assets</i>	119.5	339.2	294.3	298.1	343.6	424.6
Finnish bonds	36.9	178.3	132.2	135.4	202.5	284.8
Cheque accounts	1.9	4.7	3.7	3.7	4.1	2.1
Finnish coin	6.2	12.9	12.5	12.1	10.9	11.7
Other claims	74.5	143.3	145.9	146.9	126.1	126.0
Total	1 776.3	1 938.0	1 928.5	1 973.5	2 108.6	2 125.5
Liabilities						
<i>Notes in circulation</i>	1 028.5	1 016.5	1 042.9	1 065.4	1 178.4	1 106.2
<i>Liabilities payable on demand</i>	98.3	128.7	83.2	102.0	88.7	179.6
Foreign exchange accounts	44.8	43.3	42.6	41.0	43.0	61.2
Mark accounts of holders abroad	10.9	16.2	16.5	16.5	16.3	16.2
Cheque accounts						
Treasury	1.1	4.3	1.0	1.8	0.2	39.8
Post Office Savings Bank	8.3	44.4	0.8	18.1	0.6	17.3
Private banks	11.9	—	—	2.5	6.6	13.8
Other	1.2	1.7	2.4	1.3	1.8	2.8
Other sight liabilities	20.1	18.8	19.9	20.8	20.2	28.5
<i>Term liabilities</i>	57.2	64.7	61.7	61.7	110.1	126.3
Foreign	45.6	39.2	36.2	36.2	84.6	84.6
Finnish	11.6	25.5	25.5	25.5	25.5	41.7
<i>Equalization accounts</i>	165.1	286.3	297.7	300.2	286.0	266.9
<i>Bank's own funds</i>	427.2	441.8	443.0	444.2	445.4	446.5
Capital	300.0	300.0	300.0	300.0	300.0	300.0
Reserve fund	97.9	112.6	112.6	112.6	112.6	112.6
Profits undisposed	—	—	—	—	—	—
Earnings less expenses	29.3	29.2	30.4	31.6	32.8	33.9
Total	1 776.3	1 938.0	1 928.5	1 973.5	2 108.6	2 125.5
STATEMENT OF NOTE ISSUE						
Right of note issue						
<i>Ordinary cover</i>	944.7	649.0	619.9	608.7	656.6	637.2
<i>Supplementary cover</i>						
(Upper limit 500 mill. mk; since Nov. 30, 1966, 700 mill. mk)	500.0	700.0	700.0	700.0	700.0	700.0
Total	1 444.7	1 349.0	1 319.9	1 308.7	1 356.6	1 337.2
Note issue						
<i>Notes in circulation</i>	1 028.5	1 016.5	1 042.9	1 065.4	1 178.4	1 106.2
<i>Liabilities payable on demand</i>	98.3	128.7	83.2	102.0	88.7	179.6
Undrawn on cheque credits	5.1	2.8	4.0	3.3	2.9	4.9
Unused right of note issue	312.8	201.0	189.8	138.0	86.6	46.5
Total	1 444.7	1 349.0	1 319.9	1 308.7	1 356.6	1 337.2

Rediscount rate since April 28, 1962, 7 per cent.

BANK OF FINLAND

Mill. mk

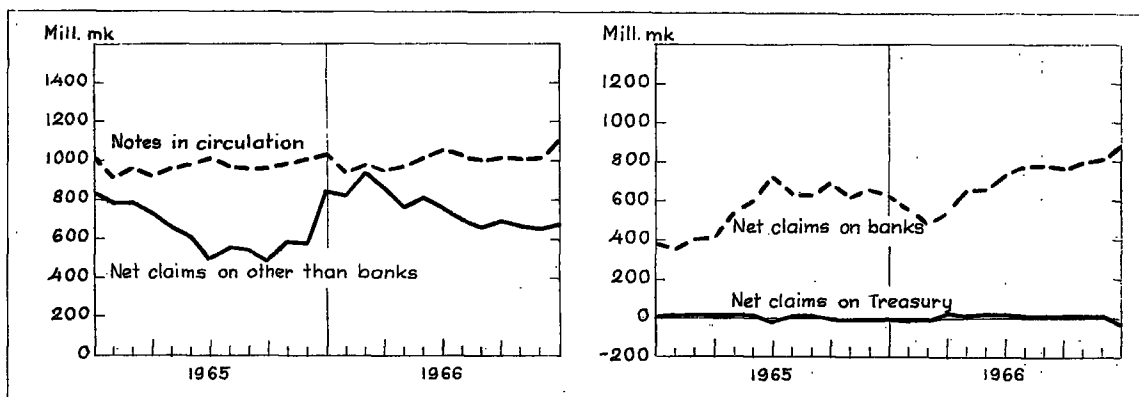
End of year and month	Gold and foreign accounts						Treasury			
	Gold and foreign exchange	Liabilities on foreign exchange accounts	Foreign exchange reserve (1-2)	Other foreign assets	Other foreign liabilities	Net foreign assets (3+4-5)	Bills and bonds	Other claims, net	Liabilities, Cheque account	Net claims on the Treasury (7+8-9)
	1	2	3	4	5	6	7	8	9	10
1959	730.7	21.2	709.5	92.5	158.4	643.6	103.3	37.6	64.2	76.7
1960	686.0	40.6	645.4	67.0	142.7	569.7	37.5	32.4	61.9	8.0
1961	691.5	13.4	678.1	87.5	128.4	637.2	27.7	5.9	1.1	32.5
1962	637.7	17.1	620.6	67.7	114.9	573.4	—	28.9	5.5	23.4
1963	752.2	18.2	734.0	65.6	100.5	699.1	—	18.9	0.2	18.7
1964	973.4	84.7	888.7	76.3	82.8	882.2	—	8.9	5.4	3.5
1965	860.9	44.8	816.1	83.8	56.5	843.4	—	1.1	1.1	— 2.2
1966	555.9	61.2	494.7	81.3	100.8	475.2	11.5	— 1.1	39.8	— 29.4
1965										
Nov.	756.4	97.2	659.2	78.3	60.1	677.4	—	— 1.1	1.2	— 2.3
Dec.	860.9	44.8	816.1	83.8	56.5	843.4	—	— 1.1	1.1	— 2.2
1966										
Jan.	861.5	42.3	819.2	82.6	56.3	845.5	—	— 1.1	1.6	— 2.7
Feb.	914.2	39.8	874.4	81.8	52.8	903.4	—	— 1.1	2.5	— 3.6
March	819.9	41.4	778.5	83.7	70.6	791.6	16.5	— 1.1	0.5	14.9
April	767.5	39.0	728.5	89.2	68.4	749.3	16.5	— 1.1	6.6	8.8
May	760.6	40.6	720.0	86.5	65.3	741.2	16.5	— 1.1	0.7	14.7
June	698.0	41.4	656.6	87.7	58.4	685.9	16.5	— 1.1	0.2	15.2
July	703.9	43.1	660.8	85.8	58.4	688.2	11.5	— 1.1	0.9	9.5
Aug.	657.9	38.6	619.3	84.4	58.2	645.5	11.5	— 1.1	3.1	7.3
Sept.	649.4	37.4	612.0	87.4	57.4	642.0	11.5	— 1.1	3.0	7.4
Oct.	617.5	35.7	581.8	87.8	55.1	614.5	11.5	— 1.1	3.5	6.9
Nov.	560.7	43.3	517.4	88.3	55.4	550.3	11.5	— 1.1	4.3	6.1
Dec.	555.9	61.2	494.7	81.3	100.8	475.2	11.5	— 1.1	39.8	— 29.4

	Foreign exchange situation, mill. mk							
	Net holdings, Dec. 31, 1965			Net holdings, Nov. 30, 1966			Change in	
	Bank of Finland	Other	Total	Bank of Finland	Other	Total	Nov.	Jan.-Nov.
Gold	267	—	267	162	—	162	—11	—105
Convertible currencies	483	—155	328	192	—191	1	—62	—327
Other currencies	20	1	21	63	5	68	— 8	+ 47
IMF gold tranche	46	—	46	100	—	100	—	+ 54
Total	816	—154	662	517	—186	331	—81	—331

BANK OF FINLAND

Mill. mk

End of year and month	Finnish credit institutions					Other				Notes in circulation
	Redis-counted bills	Liabilities, Cheque accounts			Net claims on the banks (1-2-3-4)	Inland bills in Finnish currency	Other advances	Liabilities	Net claims on the rest of economy (6+7-8)	
		Private banks	Post Office Savings Bank	Mortgage Bank of Finland Oy						
	1	2	3	4	5	6	7	8	9	10
1959	47.2	38.6	—	2.5	6.1	38.9	105.0	3.9	140.0	694.4
1960	205.1	16.8	—	1.6	186.7	72.3	109.5	3.5	178.3	727.4
1961	294.6	44.7 ¹⁾	4.4 ¹⁾	12.5	233.0	70.8	107.3	2.9	175.2	837.1
1962	401.2	— 4.0	53.3	0.8	351.1	33.5	99.6	4.1	129.0	774.4
1963	325.3	1.3	3.0	1.2	319.8	57.2	94.4	1.7	149.9	943.7
1964	448.4	16.4	49.6	0.6	381.8	67.1	103.0	1.6	168.5	1 002.7
1965	640.6	11.9	8.3	0.2	620.2	26.0	121.9	31.6	116.3	1 028.5
1966	915.2	13.8	17.3	— 1.3	885.4	112.2	152.9	73.2	191.9	1 106.2
1965										
Nov.	657.7	3.6	5.9	0.0	648.2	34.5	135.3	32.5	137.3	1 001.8
Dec.	640.6	11.9	8.3	0.2	620.2	26.0	121.9	31.6	116.3	1 028.5
1966										
Jan.	569.7	12.1	3.9	1.2	552.5	24.8	136.5	59.4	101.9	943.1
Feb.	484.6	7.7	3.2	1.5	472.2	41.6	131.3	61.4	111.5	968.4
March	554.6	21.5	1.1	1.2	530.8	40.9	137.1	56.9	121.1	946.8
April	640.1	—12.6	5.2	2.7	644.8	44.3	122.4	55.2	111.5	962.4
May	664.8	10.8	0.9	1.8	651.3	43.3	116.7	53.1	106.9	1 019.1
June	766.3	29.5	4.7	2.3	729.8	41.2	156.5	52.7	145.0	1 046.7
July	781.7	10.6	1.5	2.4	767.2	42.2	146.7	52.4	136.5	1 031.8
Aug.	811.5	29.4	4.2	0.8	777.1	40.1	143.1	52.0	131.2	1 005.2
Sept.	781.5	10.4	8.4	0.8	761.9	53.7	164.0	52.7	165.0	1 017.2
Oct.	807.5	— 1.0	21.5	0.5	786.5	61.9	169.2	47.6	183.5	1 011.7
Nov.	848.7	— 0.5	44.4	0.3	804.5	62.0	175.1	44.6	192.5	1 016.5
Dec.	915.2	13.8	17.3	— 1.3	885.4	112.2	152.9	73.2	191.9	1 106.2

¹⁾ Including cash reserve accounts

DEPOSITS BY THE PUBLIC — FOREIGN EXCHANGE RATES

Mill. mk

End of year and month	Sight deposits			Term deposits						Total (2+3+9)
	Cheque accounts		Postal giro accounts	Commer- cial banks	Savings banks	Co-op. credit societies & their cen- tral bank	Post Office Savings Bank	Savings depart- ments of co-op. stores	All credit institutions	
	Commer- cial banks	All credit institutions								
1	2	3	4	5	6	7	8	9	10	
1955	365.9	442.8	118.5	977.9	1 085.4	611.4	330.7	152.6	3 158.4	3 719.7
1956	386.1	459.6	138.4	968.1	1 124.0	635.3	341.6	160.1	3 229.5	3 827.5
1957	377.1	461.4	139.3	1 032.2	1 178.6	671.1	339.6	168.2	3 390.1	3 990.8
1958	395.7	495.8	167.7	1 222.6	1 312.6	742.7	381.7	191.9	3 851.8	4 515.3
1959	557.5	678.1	140.9	1 505.5	1 525.5	860.3	431.2	219.1	4 541.9	5 360.9
1960	550.8	680.7	135.9	1 813.6	1 768.6	1 052.5	485.2	254.3	5 404.5	6 221.1
1961	577.9	720.8	143.8	2 105.9	2 079.6	1 241.0	558.2	285.3	6 270.3	7 134.9
1962	649.0	800.8	168.5	2 270.4	2 210.8	1 325.5	606.6	293.2	6 706.7	7 676.0
1963	715.3	876.0	250.3	2 441.0	2 336.6	1 448.0	648.5	310.7	7 185.0	8 311.3
1964	683.3	855.4	296.5	2 816.7	2 614.7	1 681.4	713.8	331.4	8 158.2	9 310.1
1965	665.7	843.7	309.4	3 160.1	2 954.4	1 953.5	773.2	357.2	9 198.6	10 351.7
1965										
Nov.	674.2	852.0	266.6	3 017.2	2 858.6	1 887.2	743.4	351.3	8 857.8	9 976.4
Dec.	665.7	843.7	309.4	3 160.1	2 954.4	1 953.5	773.2	357.2	9 198.6	10 351.7
1966*										
Jan.	652.2	813.8	305.1	3 181.5	2 990.0	1 989.7	787.7	360.2	9 309.3	10 428.2
Feb.	642.8	800.9	356.6	3 144.3	3 039.3	2 038.7	798.4	364.8	9 485.7	10 643.2
March	597.5	765.1	271.1	3 273.5	3 073.2	2 067.9	808.1	368.3	9 591.1	10 627.3
April	584.7	745.3	285.2	3 264.2	3 068.7	2 066.8	799.3	368.0	9 567.2	10 597.7
May	650.9	826.8	303.4	3 307.3	3 099.8	2 089.1	799.4	368.4	9 664.2	10 794.4
June	624.8	800.8	291.4	3 325.0	3 075.9	2 063.0	801.0	362.6	9 627.7	10 719.9
July	610.3	780.3	272.3	3 351.9	3 090.3	2 065.7	807.0	361.7	9 676.7	10 729.3
Aug.	628.6	818.0	268.2	3 373.5	3 122.8	2 085.9	813.3	360.8	9 756.5	10 842.7
Sept.	609.0	803.2	252.6	3 408.1	3 149.5	2 106.9	820.4	366.8	9 852.0	10 907.8
Oct.	558.5	737.1	280.0	3 428.0	3 179.6	2 109.0	831.3	370.7	9 918.7	10 935.8
Nov.	594.0	796.4	279.1	3 458.3	3 219.4	2 141.7	835.2	373.5	10 028.3	11 103.8

End of month	Index-tied deposits		High-interest deposits
	100 % clause	50 % clause	
1966*			
Jan.	1 648.9	68.5	729.8
Feb.	1 677.7	69.8	755.9
March	1 696.3	67.0	785.2
April	1 725.8	65.5	793.2
May	1 732.7	63.7	820.1
June	1 785.1	60.8	824.6
July	1 833.3	59.0	828.7
Aug.	1 884.2	57.1	831.4
Sept.	1 930.6	54.7	832.9
Oct.	2 000.1	44.8	831.4
Nov.	2 060.4	41.1	838.6

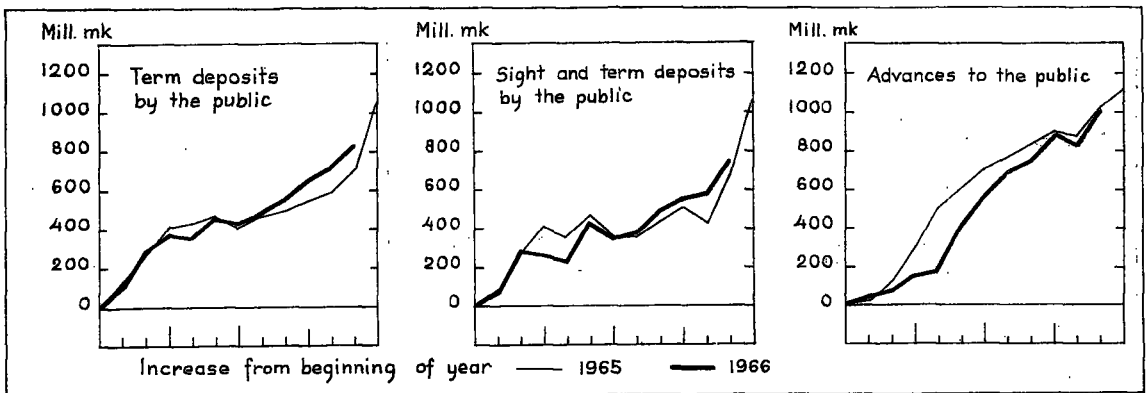
Selling rates for foreign exchange			
Dec. 31, 1966			
		mk	mk
New York	1 \$	3.224	Zurich 100 Fr 74.56
Montreal	1 \$	2.976	Paris 100 FF 65.20
London	1 £	8.995	Rome 100 Lit 0.5165
Stockholm	100 Kr	62.35	Vienna 100 S 12.48
Oslo	100 Kr	45.14	Lisbon 100 Esc 11.22
Copenhagen	100 Kr	46.70	Reykjavik 100 Kr 7.50
Frankfurt o. M.	100 DM	81.15	Madrid 100 Pta 5.40
Amsterdam	100 Fl	89.18	Moscow, clear. ¹⁾ 1 Rbl 3.5667
Brussels	100 Fr	6.450	Clearing dollars ²⁾ 1 Cl \$ 3.21

¹⁾ Bucharest, Peking.²⁾ Berlin, Bogota, Budapest, Prague, Sofia, Warsaw.

ADVANCES TO THE PUBLIC—MONEY SUPPLY

Mill. mk

End of year and month	Granted by					Types of advances		Total (1 to 5) (6 and 7)	Money Supply
	Commer- cial banks	Savings banks	Post Office Savings Bank	Co-op. credit societies & their cen- tral bank	Mortgage banks	Loans & Bills	Cheque credits		
	1	2	3	4	5	6	7	8	9
1955	1 554.4	964.5	248.7	728.7	136.0	3 398.0	234.3	3 632.3	1 043.0
1956	1 626.6	1 028.3	262.3	767.6	146.9	3 578.0	253.7	3 831.7	1 160.0
1957	1 603.8	1 066.4	260.5	780.6	157.2	3 630.0	238.5	3 868.5	1 170.7
1958	1 745.4	1 154.8	290.3	835.1	219.3	4 011.5	233.4	4 244.9	1 302.3
1959	2 096.9	1 327.2	331.4	967.3	325.8	4 772.7	275.9	5 048.6	1 448.4
1960	2 604.6	1 549.3	395.0	1 176.0	452.2	5 861.9	315.2	6 177.1	1 494.6
1961	3 048.0	1 817.6	436.8	1 462.7	515.2	6 928.2	352.1	7 280.3	1 646.1
1962	3 299.9	2 018.5	508.7	1 600.6	614.7	7 680.8	361.6	8 042.4	1 722.5
1963	3 472.5	2 134.5	544.0	1 757.7	664.3	8 226.2	346.8	8 573.0	1 986.5
1964	3 916.4	2 318.0	607.7	2 057.5	829.4	9 320.5	408.5	9 729.0	2 042.5
1965	4 279.6	2 609.2	716.5	2 348.4	899.4	10 439.6	413.5	10 853.1	2 085.0
1965 Nov.	4 215.5	2 608.6	714.0	2 304.1	913.3	10 334.0	421.5	10 755.5	2 043.8
1965 Dec.	4 279.6	2 609.2	716.5	2 348.4	899.4	10 439.6	413.5	10 853.1	2 085.0
1966*									
1966* Jan.	4 293.6	2 613.2	715.3	2 361.7	903.3	10 462.9	424.2	10 887.1	2 003.1
1966* Feb.	4 310.7	2 630.2	721.9	2 376.4	900.3	10 486.8	452.7	10 939.5	2 079.8
1966* March	4 345.7	2 643.8	731.0	2 389.9	897.5	10 541.0	466.9	11 007.9	1 935.4
1966* April	4 373.1	2 666.5	737.6	2 363.8	892.9	10 539.0	494.9	11 033.9	1 949.9
1966* May	4 490.5	2 699.3	735.7	2 441.5	899.1	10 781.9	484.2	11 266.1	2 102.4
1966* June	4 575.7	2 716.4	751.5	2 473.9	905.2	10 924.2	498.5	11 422.7	2 074.4
1966* July	4 641.9	2 745.9	756.3	2 486.0	908.6	11 033.0	505.7	11 538.7	2 067.6
1966* Aug.	4 625.4	2 783.5	771.0	2 508.2	910.8	11 123.3	475.6	11 598.9	2 054.1
1966* Sept.	4 683.7	2 831.3	781.1	2 521.5	914.8	11 247.7	484.7	11 732.4	2 030.8
1966* Oct.	4 604.8	2 880.6	786.0	2 502.1	918.8	11 207.9	484.4	11 692.3	1 973.3
1966* Nov.	4 745.0	2 919.3	787.0	2 554.6	918.7	11 448.4	476.2	11 924.6	2 047.2

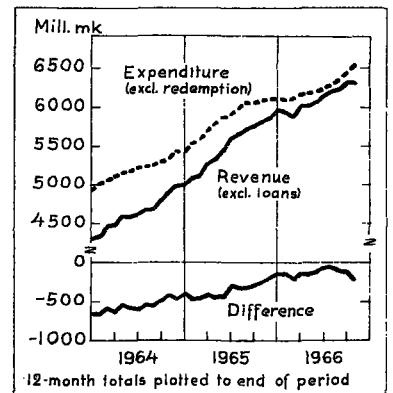


STATE FINANCES

Mill. mk

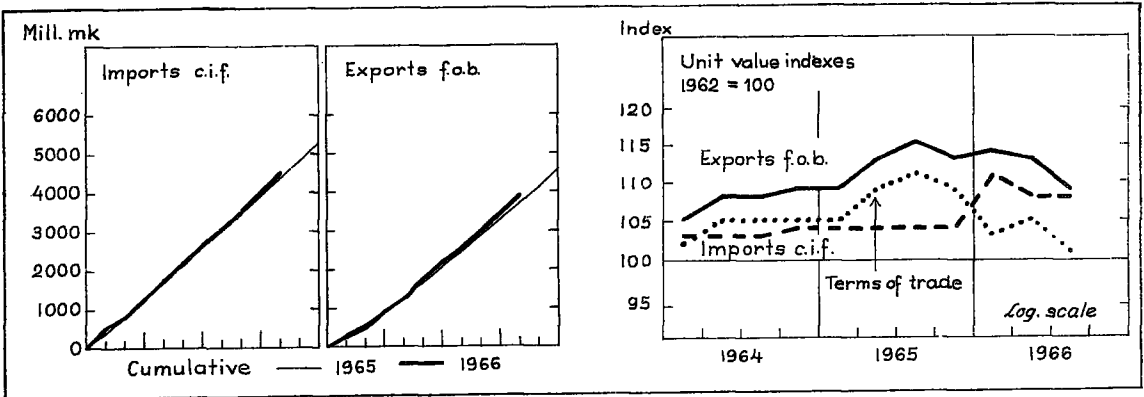
Revenue	Jan.—Oct.		Expenditure	Jan.—Oct.	
	1965	1966		1965	1966
Income and property tax (net)	1 353	1 446	Interest on State debt	134	154
Gross receipts	(3 018)	(3 435)	Child allowances	228	223
Refunds and communal income tax	(-1 665)	(-1 989)	The State's share in national pensions	207	226
Other direct taxes	19	26	The State's share in national health insurance . . . . .	..	51
Sales tax	1 146	1 147	Compensations to war-disabled	115	124
Import duties	429	420	Subsidies	485	496
Revenue from Alcohol Monopoly	359	399	Net payments of price equalization	1	52
Excise duty on tobacco	256	311	State aid to agriculture	54	48
Excise duty on liquid fuel	284	369	State aid to communal and private schools	411	448
Other excise duties	71	86	Net loss of State enterprises	32	56
Tax on automobiles and motor cycles	150	146	Maintenance of roads	133	139
Tax on motor vehicles	38	46	Other current expenditure	1 818	1 953
Stamp duties	137	141	Current expenditure	3 618	3 970
Employers' payments for child allowances	337	362	Real investments	985	1 004
Net receipts of price equalization by extra-budgetary funds	—	—	Other capital expenditure	446	510
Other revenue similar to taxes	70	77	Capital expenditure	1 431	1 514
Total taxes	4 649	4 976	Total expenditure	5 049	5 484
Interest and dividends	81	86	Redemption of external loans	81	62
Other current revenue	186	227	Redemption of internal loans	254	263
Current revenue	4 916	5 289	Redemption of indemnity bonds etc.	4	1
Capital revenue proper	134	133	Index premiums	22	15
Decrease in inventories	58	47	Redemptions	361	341
Capital revenue	192	180			
Total revenue	5 108	5 469			
External loans	62	66			
Internal loans	373	560			
Loans	435	626			
Short-term credit (increase +)	+ 19	-334			
Deficit (+) or surplus (-)	-152	+ 64			
Total	5 410	5 825			
			Total	5 410	5 825

Debt	1963	1964	1965	1966		
	Dec.	Dec.	Dec.	Sept.	Oct.	Nov.*
External debt	963	1 184	1 175	1 335	1 344	1 328
Ordinary loans	1 109	1 205	1 431	1 731	1 727	1 752
Indemnity bonds etc.	11	7	203	123	113	102
Short-term credit	160	325	393	70	59	80
Cash debt (net)	78	23	-101	-32	-27	..
Internal debt	1 358	1 560	1 926	1 892	1 872	..
Total debt	2 321	2 744	3 101	3 227	3 216	..
Total debt, mill. \$	720.8	852.8	961.8	1000.8	997.5	..



FOREIGN TRADE

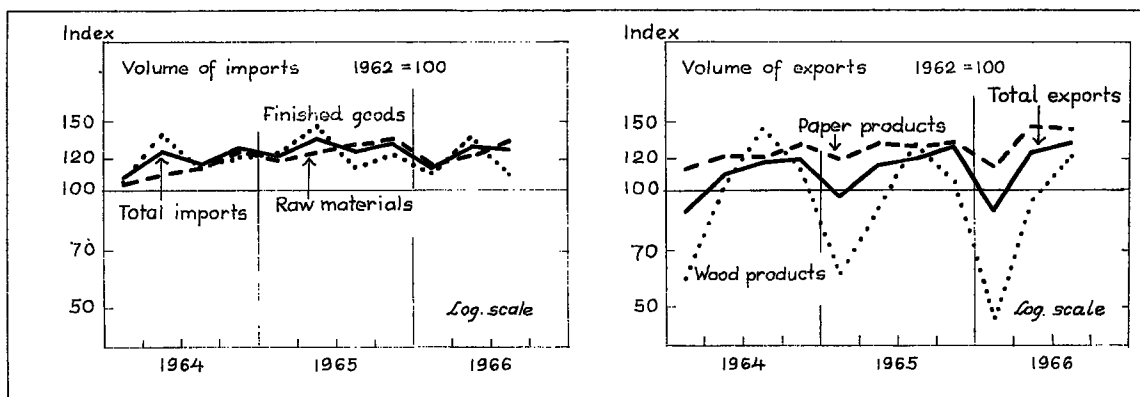
Period	Value mill, mk			Unit value indexes 1962 = 100						
	Imports c. i. f.	Exports f. o. b.	Surplus of imports (-) or exports (+)	Articles of export f. o. b.					Articles of import c. i. f.	Terms of Trade
				Total	Round and hewn timber	Wood industry products	Paper industry products	Metal, en- gineering industry products		
1961	3 690.2	3 374.0	-316.2	102	99	103	104	100	99	103
1962	3 928.7	3 533.1	-395.6	100	100	100	100	100	100	100
1963	3 866.9	3 678.0	-188.9	102	96	104	100	105	101	101
1964	4 816.5	4 131.9	-684.6	108	109	111	104	113	103	105
1965	5 266.1	4 566.0	-700.1	113	115	123	106	119	104	109
Jan.-Oct.										
1964	3 934.8	3 380.8	-554.0							
1965	4 350.4	3 706.6	-643.8							
1966*	4 475.4	3 862.1	-613.3							
1965										
Oct.	428.8	432.4	+ 3.6	113	113	124	107	120	104	109
Nov.	446.9	387.5	- 59.4							
Dec.	467.8	471.7	+ 3.9							
1966*										
Jan.	429.2	308.4	-120.8	114	127	126	105	118	111	103
Feb.	368.0	230.3	-137.7							
March	446.5	340.2	-106.3							
April	441.9	372.8	- 69.1							
May	487.8	450.2	- 37.6	113	103	122	104	127	108	105
June	459.9	424.1	- 35.8							
July	411.6	404.8	- 6.8							
Aug.	437.5	419.8	- 17.7	109	112	122	105	105	108	101
Sept.	504.9	450.9	- 54.0							
Oct.	488.1	460.6	- 27.5							



FOREIGN TRADE BY MAIN GROUPS

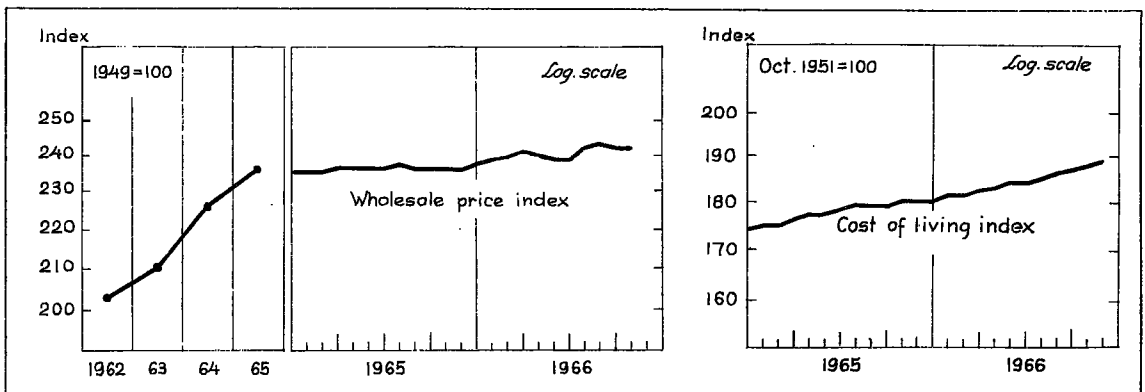
Mill. mk

Period	Imports, c. i. f.				Exports, f. o. b.					
	Raw materials and producer goods	Fuels and lubricants	Finished goods		Agricultural products	Round and hewn timber	Wood industry products	Paper industry products	Metal, engineering industry products	Other goods
			Investment goods	Consumer goods						
1961	1 711.2	329.9	1 034.4	614.7	153.5	295.8	840.8	1 539.1	386.3	158.5
1962	1 762.6	371.2	1 144.9	650.0	144.5	189.5	770.3	1 588.8	662.6	177.4
1963	1 827.5	373.3	1 004.3	661.8	164.8	112.8	811.8	1 752.2	613.8	222.6
1964	2 110.7	508.4	1 396.2	801.2	230.4	89.8	895.8	2 019.5	610.3	286.1
1965	2 362.4	514.7	1 511.4	877.6	251.8	60.3	919.8	2 165.6	800.3	368.2
Jan.-Oct.										
1964	1 704.0	402.2	1 168.9	659.7	190.2	78.2	734.4	1 666.1	487.2	224.7
1965	1 949.0	418.3	1 266.0	717.1	198.4	53.1	766.6	1 792.7	601.5	294.3
1966*	1 977.3	475.9	1 182.7	839.5	213.0	48.0	710.7	1 884.7	646.8	358.9
1965										
Oct.	205.2	42.7	112.4	68.5	18.1	6.4	96.9	187.8	79.6	43.6
Nov.	200.0	44.3	124.8	77.8	13.8	3.4	75.3	181.0	76.8	37.2
Dec.	212.5	52.1	120.5	82.7	39.6	3.8	77.9	191.9	122.0	36.5
1966*										
Jan.	204.0	41.1	103.8	80.3	34.2	3.6	57.5	152.6	35.0	25.5
Feb.	158.1	38.7	100.7	70.5	16.1	1.0	27.8	133.7	31.8	19.9
March	182.0	37.5	129.2	97.8	33.4	0.6	29.4	189.6	55.4	31.8
April	188.5	38.2	128.3	86.9	14.7	2.5	45.8	217.2	63.0	29.6
May	203.9	40.2	150.7	93.0	26.0	5.0	84.9	192.5	107.4	34.4
June	177.6	54.1	151.0	77.2	19.1	9.0	91.9	197.5	61.1	45.5
July	199.6	36.2	99.9	75.9	14.0	6.8	102.6	186.1	63.0	32.3
Aug.	213.2	62.0	90.0	72.3	17.9	6.3	96.9	207.3	49.8	41.6
Sept.	221.8	67.9	120.8	94.4	20.0	7.9	88.8	205.1	80.5	48.6
Oct.	228.6	60.0	108.3	91.2	17.6	5.3	85.1	203.1	99.8	49.7



FOREIGN TRADE BY COUNTRIES

Area and country	Imports, c. i. f.					Exports, f. o. b.				
	Whole year		Jan.-Oct.			Whole year		Jan.-Oct.		
	1964	1965	1965	1966*	Mill. mk	1964	1965	1965	1966*	Mill. mk
Sterling area	%	%	%	%	Mill. mk	%	%	%	%	Mill. mk
Sterling area	15.2	15.8	15.6	16.9	755.0	25.3	22.8	23.5	23.4	905.0
United Kingdom	14.8	15.3	15.1	16.3	728.6	23.0	20.7	21.3	21.3	823.3
Other OECD countries										
in Europe	52.7	55.5	55.4	53.5	2 394.9	45.9	44.8	44.7	46.6	1 799.7
Austria	0.7	0.8	0.8	0.9	38.0	0.4	0.2	0.2	0.4	16.9
Belgium-Luxembourg	2.0	2.2	2.3	1.9	86.1	3.5	3.3	3.4	3.1	118.8
Denmark	3.0	3.1	2.9	3.3	149.1	3.7	3.9	4.0	3.5	136.1
France	5.5	4.2	4.3	4.4	197.3	5.8	4.5	4.4	4.6	177.2
Western Germany	17.3	18.9	19.4	17.3	771.6	11.5	11.2	11.2	10.8	418.1
Italy	1.9	1.9	1.9	2.0	90.6	3.0	3.0	3.0	2.9	110.9
Netherlands	4.0	4.2	4.3	3.6	162.5	6.8	6.0	6.1	5.9	226.2
Norway	1.5	1.9	1.7	2.1	94.6	0.9	1.1	1.1	1.9	74.7
Portugal	0.2	0.2	0.2	0.3	15.4	0.1	0.2	0.2	0.4	16.2
Spain	0.5	0.5	0.5	0.3	15.4	0.9	1.1	1.0	1.1	42.9
Sweden	12.7	14.0	13.7	13.9	619.9	5.5	7.5	7.2	8.9	341.0
Switzerland	2.8	2.9	2.7	3.0	130.7	0.8	0.7	0.6	0.9	35.4
Eastern Bloc	22.5	18.9	19.0	19.4	866.1	17.4	21.0	20.3	17.6	678.5
China	0.4	0.3	0.4	0.5	20.3	0.5	0.6	0.6	0.6	23.7
Czechoslovakia	0.7	0.7	0.7	0.7	30.2	0.4	0.5	0.5	0.7	27.9
Eastern Germany	1.0	0.9	0.9	0.9	38.5	1.0	0.8	0.9	1.0	36.9
Poland	2.0	1.9	1.9	1.6	70.2	2.0	2.3	2.4	1.4	54.1
Soviet Union	17.6	14.4	14.5	15.1	676.8	12.0	15.9	14.9	13.0	502.4
U.S. and Canada	5.0	5.2	5.2	5.0	224.5	6.0	6.2	6.3	6.8	263.4
United States	4.8	5.0	5.0	4.7	209.4	5.8	6.0	6.1	6.6	256.2
Latin America	3.0	2.9	2.6	2.8	127.5	2.7	2.9	2.8	3.1	118.0
Argentina	0.3	0.3	0.3	0.3	14.3	0.8	0.9	1.0	1.1	41.4
Brazil	1.6	1.2	1.2	1.2	53.6	0.5	0.3	0.3	0.4	15.4
Colombia	0.6	0.6	0.6	0.7	32.2	0.5	0.7	0.7	0.7	26.7
Other	1.6	1.7	2.2	2.4	107.4	2.7	2.3	2.4	2.5	97.5
Grand total	100.0	100.0	100.0	100.0	4 475.4	100.0	100.0	100.0	100.0	3 862.1
of which										
<i>EFTA countries</i>	35.8	38.2	37.1	39.7	1 776.3	35.4	34.3	34.7	37.4	1 443.6
<i>BEC countries</i>	30.5	31.4	32.2	29.2	1 308.2	30.6	28.0	28.1	27.2	1 051.2



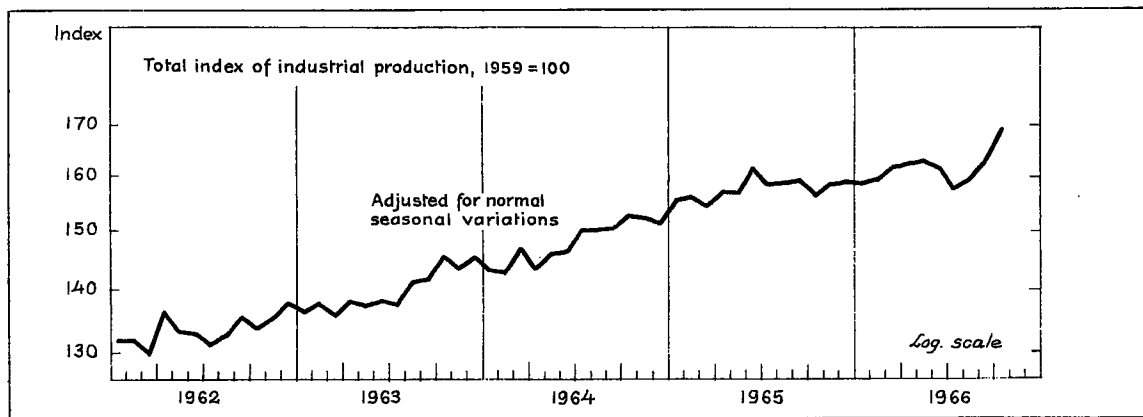
PRICE INDEXES

Period	Wholesale prices 1949 = 100									Building costs 1951 = 100		
	Total index	Origin		Purpose			Stage of processing			Total	Building material	Workers' average hourly earnings
		Domes- tic goods	Im- ported goods	Pro- ducer goods	Mach- inery & transport equipm.	Con- sumer goods	Raw materials and com- modities	Simply processed goods	More elab- orately processed goods			
1964	226	231	210	228	214	227	250	218	218	150	120	192
1965	236	242	214	241	224	232	266	228	223	158	125	208
1966	..	..	..	..	..	..	..	..	..	165	128	203
1965 Dec.	237	243	213	242	227	231	266	229	224	158	125	206
1966 Jan.	238	244	213	243	227	234	269	230	224	159	125	207
Feb.	240	246	214	245	227	235	273	232	224	160	126	210
March	241	248	215	246	228	237	276	232	225	159	126	206
April	240	247	216	247	229	235	272	233	225	161	127	208
May	239	245	216	246	228	233	268	233	226	164	127	216
June	239	245	216	245	229	233	266	233	226	166	129	222
July	242	249	217	247	229	240	270	235	231	166	129	221
Aug.	243	250	218	246	229	243	274	234	231	168	129	226
Sept.	242	248	217	244	228	242	270	233	230	167	129	223
Oct.	242	248	215	244	229	242	270	233	230	168	129	226
Nov.	..	..	..	..	..	..	..	..	..	168	130	225
Dec.	..	..	..	..	..	..	..	..	..	169	130	226

Period	Cost of living Oct. 1951 = 100						Consumer prices Oct.—Dec. 1957 = 100					
	Total	Food- stuffs	Rent	Heating and lighting	Clothing	Other	Total	Food- stuffs	Rent	Heating and lighting	Clothing	Other
1963	154	164	346	108	93	151	121	120	128	105	115	123
1964	170	184	364	114	107	164	133	135	135	110	132	134
1965	178	195	377	115	109	173	140	144	140	111	135	141
1965 Nov.	180	197	387	115	110	176	142	145	143	112	136	144
Dec.	180	197	387	115	110	176	142	145	143	112	136	144
1966 Jan.	181	197	387	115	110	177	142	145	143	112	136	145
Feb.	181	198	387	117	110	178	142	145	143	113	136	145
March	182	199	387	117	110	178	143	146	143	114	136	145
April	183	200	388	117	110	179	144	147	144	114	137	146
May	184	204	388	117	110	179	145	150	144	114	137	146
June	184	204	388	118	110	180	145	150	144	114	137	146
July	185	204	392	118	111	181	145	150	145	115	137	148
Aug.	186	204	392	118	112	183	146	150	145	114	139	149
Sept.	187	204	392	120	113	185	147	150	145	117	140	151
Oct.	188	203	401	124	113	186	147	149	149	120	140	152
Nov.	189	204	401	125	113	187	148	150	149	122	140	153

PRODUCTION—INTERNAL TRADE

Period	Index of industrial production 1959 = 100									Commercial timber fellings 1 000 piled cu. m	Wholesale trade volume index 1954 = 100
	Total	Investment goods	Other producer goods	Consumer goods	Special indexes of manufacturing				Total, adjusted for normal seasonal variations		
					Wood industry	Paper industry	Metal industry	Other			
1963	138	144	141	131	121	155	140	133	140	47 780	169
1964	148	149	154	136	129	170	148	143	148	53 200	156
1965*	157	161	164	143	130	180	161	150	158	51 905	170
1965*											
March	171	182	179	152	155	199	179	160	155	6 342	168
April	154	159	159	143	142	170	158	149	157	5 674	188
May	161	161	168	146	145	188	163	152	157	11 698	181
June	150	164	151	143	131	151	162	148	161	2 162	164
July	121	98	132	105	116	176	98	113	159	1 400	155
Aug.	159	144	165	151	112	189	148	158	159	2 082	173
Sept.	171	178	176	156	128	196	177	164	159	2 844	186
Oct.	170	181	176	152	131	195	181	164	157	2 856	184
Nov.	168	173	174	153	119	182	172	166	159	3 317	181
Dec.	156	167	160	142	120	160	169	148	159	3 842	196
1966*											
Jan.	157	162	163	142	116	170	165	148	159	4 219	131
Feb.	157	162	163	144	125	175	166	149	160	4 742	148
March	179	184	186	164	151	205	185	171	162	4 198	175
April	160	157	162	155	139	170	157	161	163	3 177	174
May	167	161	172	157	136	188	161	165	163	12 681	180
June	157	155	157	156	125	171	154	161	162	2 305	174
July	118	70	131	104	98	184	78	115	157	910	157
Aug.	164	147	167	163	102	194	146	172	160	1 793	178
Sept.	175	171	179	167	124	203	172	173	163	2 630	199
Oct.	183	173	191	169	114	213	177	185	169	3 116	188

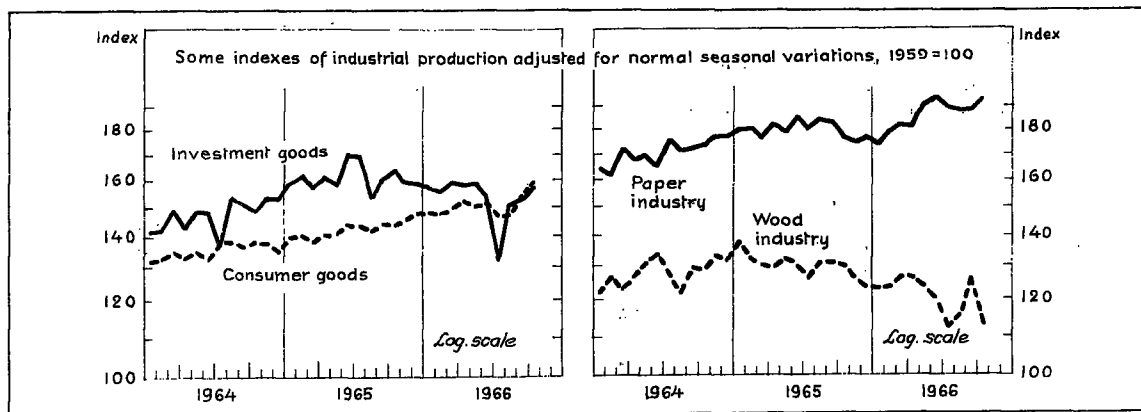


March 1963 figures are affected by strikes. Seasonally adjusted series are corrected for estimated strike effects.

BUILDING — WAGES — TRANSPORT — EMPLOYMENT

Period	Buildings completed, mill. cu. m					Buildings under construction at end of period mill. cu. m	Index of salary and wage earners' earnings 1957 = 100			
	Total	Dwelling houses	Farm buildings	Commercial and industrial premises	Official buildings		All salary and wage earners	Wage earners in		
								Agriculture	Forestry	Manufacturing
1963	25.16	12.81	2.29	6.62	2.44	26.28	145	136	144	143
1964	24.59	10.57	2.43	7.61	2.80	28.75	164	156	172	162
1965	27.04	10.96	2.58	9.20	3.12	31.31	179	177	188	176
1965										
Apr.-June	5.57	2.03	0.40	1.72	1.18	32.68	179	173	189	176
July-Sept.	7.15	2.57	0.97	2.27	0.87	35.65	180	177	195	176
Oct.-Dec.	9.76	4.43	0.98	3.44	0.57	31.31	180	180	180	177
1966*										
Jan.-Mar.	4.92	2.30	0.24	1.85	0.42	29.60	184	187	184	181
Apr.-June	4.55	1.99	0.41	1.34	0.55	35.78	188	200	187	185
July-Sept.	7.15	2.36	0.99	2.09	1.20	38.83	..	..	..	..

Period	Railways		Foreign shipping				Labour input		Unemployment	
	Goods trucks loaded Thousands		Vessels arrived with cargo — 1 000 net reg. tons				1 000 man-months		% of total labour force	
	1965	1966*	1965	1966*	1965	1966*	1965	1966*	1965	1966*
Jan.	118	118	689	724	548	560	1 877	1 896	2.0	2.2
Feb.	124	118	549	434	452	270	1 860	1 869	1.6	2.4
March	144	140	678	519	494	344	1 839	1 877	1.7	2.1
April	138	134	721	624	601	557	1 884	1 905	1.7	2.0
May	132	136	969	1 092	773	884	1 940	1 953	1.1	1.3
June	129	131	1 192	1 364	1 111	1 217	1 960	1 905	1.0	1.0
July	134	121	1 388	1 587	1 312	1 400	1 797	1 728	1.2	0.9
Aug.	138	138	1 351	1 366	1 251	1 287	1 893	1 833	1.2	1.1
Sept.	143	139	1 123	1 214	956	1 079	1 948	1 969	0.9	1.0
Oct.	139	140	1 090	1 091	868	867	1 946	1 955	1.2	1.2
Nov.	131	133	1 021	1 084	855	837	1 933		1.4	
Dec.	115		905		769		1 888		2.1	



EXPLANATIONS RELATING TO THE STATISTICAL SECTION

PRE-1963 VALUES ARE GIVEN IN THE NEW MONETARY UNIT, ONE NEW MARK BEING EQUIVALENT TO ONE HUNDRED OF THE OLD MARKS.

BANK OF FINLAND

Page 3. The items of the statement of the Bank of Finland are described in Monthly Bulletin No. 10, 1955, p. 25.

Page 4. Since Dec. 31, 1965 *Gold and foreign exchange* = Gold (valued on basis of the par value of the mark) + IMF gold tranche + Foreign exchange. *Other foreign assets* = Foreign bills + Foreign bonds + Prepayments for exports. *Other foreign liabilities* = Mark accounts of holders abroad + Foreign term liabilities. *Treasury bills and bonds*: Including Treasury bond loan + Treasury bill covering certain IMF and IBRD accounts (included in Other claims). *Other claims, net* — Advances for stand-by stocks — Finnish term liabilities (Treasury). *Foreign exchange situation*: Gold holdings are valued on basis of the par value of the mark. Gold tranche position measures that part of Finland's quota which may be drawn essentially automatically in convertible exchange against payment in marks.

Page 5. *Other advances* = Inland bills in foreign currency + Cheque accounts (assets) + Other claims excl. Treasury's IMF and IBRD bill, Prepayments for exports and Advances for stand-by stocks. *Liabilities* = Other cheque accounts + Other sight liabilities + Other Finnish term liabilities — Account of the Mortgage Bank of Finland Oy. — *Diagrams*. Left: *Net claims on other than banks* = Net foreign assets + Net claims on the Treasury + Net claims on the rest of economy + Finnish bonds + Finnish coin — Equalization accounts = Notes in circulation + Bank's own funds — Net claims on the banks.

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

Commercial bank and mortgage bank figures obtained from the official bank statistics, savings bank figures from the Central Statistical Office, other figures from the respective credit institutions or their central banks.

Page 6. *Cheque accounts in all credit institutions* relates to commercial banks, savings banks, co-operative credit societies, and mortgage banks. *Term deposits in all credit institutions* includes a small amount of deposits in mortgage banks. *Indexed deposits and high-interest deposits* are included in term deposits.

Page 7. *Money supply* = Finnish notes and coins in circulation — Finnish notes and coins held by the banks + Cheque accounts of the public + Postal giro accounts of the public.

STATE FINANCES

Page 8. Official monthly figures adjusted by the Bank of Finland Institute for Economic Research. *Revenue and expenditure*: All extra-budgetary funds are included, and figures are reported on a payment basis. — Annual figures will be published in separate articles. *Debt*: Index-tied bond loans are given at their nominal values. Cash debt (net) = net debt to the Bank of Finland plus short-term debt to the Post Office Savings Bank minus cash holdings (net) of State departments. In principle, the change in this item = surplus (deficit) in the table on revenue and expenditure. The small divergence is due to the fact that the adjustment of the monthly figures is not as accurate as that of the annual (December) figures.

SYMBOLS USED

* Preliminary ° Less than half the final digit shown . Logically impossible .. Not available — Nil

A line drawn across a column between two consecutive figures indicates that the figures above and below the line are not strictly comparable.

FOREIGN TRADE

Pages 9—12. Figures supplied by the Board of Customs. *The unit value indexes* (p. 9): The indexes are calculated according to the Laspeyres formula. At the end of the year the arithmetic mean of the Laspeyres indexes corresponds to the annual level of the Fisher index formula. Seasonal variations are not eliminated. Terms of trade: the ratio of export indexes to import indexes. *Foreign trade by countries* (p. 12): imports by countries of purchase, exports by countries of sale.

PRICE INDEXES

Page 13. *Wholesale price index* and *Building cost index* calculated by the Central Statistical Office. *Cost of living index* and *Consumer price index* calculated by the Ministry for Social Affairs.

PRODUCTION — INTERNAL TRADE

Page 14. *Index of industrial production* calculated by the Central Statistical Office. The grouping by branches of industry is in accordance with the international nomenclature (ISIC). The weight of each group represents the ratio of its value added to the total value added of industrial production in the base year. The seasonally adjusted series is calculated by the Bank of Finland Institute for Economic Research on the basis of the index of industrial production per working day; for the method of calculation of series adjusted for normal and specific seasonal variations see Bulletin No. 8, 1961, p. 18. Other seasonally adjusted series are calculated according to a method resembling the U.S. Bureau of Census Method II. Commodities according to use: investment goods weight 14.3, other producer goods weight 57.0 and consumer goods weight 28.7. Special manufacturing indexes: wood industry ISIC no. 25, weight 6.6, paper industry no. 27, weight 13.1, metal industry nos. 34—38, weight 23.5, and other manufactures nos. 20—24, 26, 28—33, 39, weight 44.0. *Commercial timber fellings* calculated by the Ministry of Communications and Public Works. Beginning June 1964 an additional series has been collected by a new sample method. As the compilation of old series has been ended, the figures since July 1965 have been calculated by extrapolating the level of old series with the percentage changes of the new series. These calculations have been made by the Bank of Finland Institute for Economic Research. *Wholesale trade volume index*, calculated by the Ministry of Finance. Based on sales statistics compiled by the daily Uusi Suomi, covering about 50 % of all internal wholesale trade. Price fluctuations have been eliminated by means of the revised wholesale price index.

BUILDING — WAGES — EMPLOYMENT — TRANSPORT

Page 15. *Building* figures supplied by the Central Statistical Office. *Index of salary and wage earners' earnings* calculated by the Central Statistical Office. Beginning 1957, the weights employed are determined according to the structure of total earnings in 1957; for 1954—1956, the weights are in accordance with earnings in 1951. *Railway* figures supplied by the Board of Railways. *Shipping* figures supplied by the Shipping Board. *Labour input and unemployment* figures supplied by the Labour Research Bureau of the Ministry of Communications and Public Works, both based on the labour force sample survey. Labour input represents the estimated average number of days worked. (See article in No. 10, 1960 of this Bulletin).

SOME PARTICULARS ABOUT FINLAND

FORM OF GOVERNMENT

From 1154 to 1809 Finland formed a part of the kingdom of Sweden. It then became an autonomous Grand Duchy connected with Russia 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. The President for the current period, March 1, 1962, to March 1, 1968, is Urho Kekkonen.

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 1966 were as follows: Social Democrats 55, Centre Party 49, People's Democrats 41, Conservatives 26, Swedish Party 12, Liberal Party 9, Social Democratic League 7 and Finnish Farmers' Party 1. After a change of parties by one member, the Centre Party now holds 50 seats and the Liberal Party 8 seats.

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%. On an average 15.8% of the land in the South of Finland is cultivated (1960), 2.3% in the North and 9.2% of the land as a whole. Of the land area 21.8 mill. ha (53.9 mill. acres), or 71.3%, are covered by forests.

OWNERSHIP OF LAND (1960): The total land area was distributed among different classes of owners approximately as follows: private 60.9%, State 31.8%, joint stock companies etc. 5.6%, municipalities and parishes 1.7%.

POPULATION

NUMBER OF INHABITANTS (1965): 4.6 million. Sweden 7.7, Switzerland 5.9, Denmark 4.8 and Norway 3.7 million.

DENSITY OF POPULATION (1965): In South Finland 25.7, in North Finland 4.2 and in the whole country an average of 15.1 inhabitants to the square kilometre.

DISTRIBUTION BY AREA (1965): 56% of the population inhabit the rural areas, 44% towns and urban districts. The largest towns are: Helsinki (Helsingfors), the capital 505,900 inhabitants, Tampere (Tammerfors) 142,000, Turku (Åbo) 140,400.

OCCUPATIONS (1960): Agriculture and forestry 32%, industry and construction 31%, commerce 9%, transport and communications 7%, services 11%, economically inactive independent persons 11%.

LANGUAGE (1960): Finnish speaking 92.4%, Swedish speaking 7.4%, others 0.2%.

EDUCATION (1965): Practically all persons over 15 years of age are literate. There are 6 universities (the oldest founded in 1640), 6 colleges of university standard, and 2 teacher training colleges, besides teacher training departments in two of the universities.

INCREASE OF POPULATION (1965): births 16.9 ‰, deaths 9.6 ‰, increase 6.1 ‰. Deaths in France 11.1 ‰ and Great Britain 11.5 ‰.

TRADE AND TRANSPORT

NATIONAL INCOME (1965, in million marks) Gross domestic product at factor cost by industrial origin: agriculture 2,174 (9%), forestry and fishing 2,087 (9%), manufacturing 6,709 (29%), construction 2,259 (10%), transport and communication 1,672 (7%), commerce, banking and insurance 3,036 (13%), public administration 946 (4%), other services 4,396 (19%), total 23,279. Index of real domestic product 168 (1954 = 100).

FOREST RESOURCES (1960—1963): The growing stock comprised 1,410 million of solid cu. m incl. bark (49,797 million

cu. ft.), of which pine 43% and spruce 38%, the rest 19% being leaf-trees, chiefly birch. Of the growing stock 13,300 million cu. ft, 56% of them pine, was up to the standard required for logs. The annual growth is 43 million solid cu. m green wood excl. bark (1,519 mill. cu. ft.). The total removal in 1963 calculated according to the use of wood was 51 million cu. m excl. bark (1,815 million cu. ft.).

AGRICULTURE (1960): Cultivated land 2.6 million hectares of which holdings of less than 5 ha. amount to 17%, 5 to 15 ha. 48%, 15 to 50 ha. 30% and more than 50 ha. 5%. Number of holdings 388,000, of which 184,000 are of more than 5 ha. Index of agricultural production 137 for 1965 (1954 = 100). Measure of self-sufficiency in bread cereals 91% in the crop year 1964/65.

INDUSTRY (1963): Gross value of industrial production 15,500 mill. marks, number of workers 347,000, salaried employees 73,200, motive power (1963) 4.4 mill. HP. Index of industrial production 138 for 1963 (1959 = 100).

RAILWAYS (Jan. 1, 1966): Length 5,532 km, of which 5,458 km are State and 74 km private railways. The gauge of State railways 1,524 m.

MERCHANT FLEET (Dec. 31, 1966): Steamers 123 (211,426 gross reg. tons), motor vessels 393 (793,494 gross reg. tons), sailing vessels with auxiliary engines 25 (3,113 gross reg. tons). Total 541 (1,008,033 gross reg. tons).

MOTOR VEHICLES (Dec. 31, 1965): Passenger cars 454,300, lorries and vans 81,100, buses 7,000, others 3,600. Total 546,000.

SCHEDULED AIR TRAFFIC OF FINNISH COMPANIES (1965): Kilometres flown 13.0 million, passengers carried 721,451, passenger kilometres 370.5 million, and ton kilometres of freight and mail 7.0 million.

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). On Jan. 1, 1963, the value of the mark was raised to one hundred times its former value. The official par value of the new unit is 3.20 marks to the U.S. dollar. Finland has been a member of the International Monetary Fund since 1948.

MUNICIPAL FINANCES. In the finance accounts for 1964 expenditure amounted to 3,179 mill. marks. Total revenue was 3,165 million, of which income from taxation 1,575 million. The municipal income tax (non-progressive) averaged 12.00% of the ratepayers' taxable income.

THE CENTRAL BANK. The Bank of Finland 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, 1965) There are two big and four small commercial banks with in all 747 offices, 366 savings banks, 489 cooperative credit societies and their central bank, six mortgage societies, and POSB. The savings departments of the cooperative stores accept deposits from the public. The National Pension Institute and sixty-five private insurance companies also grant credits.

RATES OF INTEREST (June 1, 1966). Bank of Finland discount rates 6—7 ½%. Other credit institutions: term deposits 4 ½%, 12 months' deposits 6%, 100 per cent index-tied deposits 3%, 50 per cent index-tied deposits 4%; highest lending rate 10%.

SOME ASPECTS OF THE FINNISH EXPERIENCE IN INDEX-TIED DEPOSITS

BY

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Deposits tied to the cost of living index were first introduced by the Finnish monetary institutions about ten years ago for several reasons. First, there was the usual question about justice to the depositors. The losses to depositors caused by the heavy inflation during the war and reconstruction period were felt to be matched in some degree by losses borne by other groups in the society and in any case they were considered to be beyond any practicable remedy. But the postwar inflation proved to be more or less continuous and the practice of index linkage was adopted to a growing extent elsewhere in the economy, as in wage agreements, agricultural prices and life insurance, to hedge income claims against inflation. Consequently, the need for some kind of inflation hedge system for depositors became more desirable. Secondly, the banks believed that inflation was adversely affecting their deposit business and it was thought that index-tied deposits would help deposit growth. The third reason was the keen competition for the loanable funds of the public between the private banks and the State which already had established the practice of selling index-tied bonds to the public.

The possibility of introducing index linkage on the deposit market had been discussed since the end of the war. Sometimes the issue almost faded out but was

encouraged whenever there was an increase in the rate of inflation, a slackening in the growth of deposits or when the competition from index-tied state bonds became stronger. When the index-tied deposits were finally introduced in May 1955, it was mainly due to the anticipated acceleration in price rises and some new index linkage developments on the state bond market. The practical solution reached in the index linkage system on the deposit market was a compromise in many respects and represented a modification of earlier ideas. Nevertheless, since it was introduced it has retained its main features and worked satisfactorily.

In Finland traditionally the most common deposits are formally made for a six month term but owing to the generous right of drawing on demand they are in fact considered quite liquid by most depositors. Index tied deposits are available as 12 month deposits only. Thus after a certain point, index deposits are not readily substitutable for ordinary deposits, guaranteeing that the whole deposit market does not easily become index linked. In fact ordinary deposits have constituted the bulk of the deposit stock during the ten years since index-tied deposits became available, despite the often very high profitability of index deposits.

Other factors that have served to restrict the demand for index deposits and protect

the existence of ordinary deposits, even during periods of rapid price increases, have been the lower interest rate paid on index deposits than on the corresponding one year ordinary deposits, and the minimum deposit sum which at the moment is 200 marks.

Also, index deposits have been taxable whereas ordinary deposits were tax-free. The tax exemption of deposits in Finland was primarily motivated by the inflation loss argument referred to earlier. It was thought that index deposits were inflation proof, therefore they were not exempt from taxation. To attract depositors with high marginal tax rates a new tax-free form of index-tied deposits was introduced in 1957. These so-called B index deposits were only 50 per cent index tied while the original A index deposits had a 100 per cent index clause. The rate of interest on the B index deposits was usually set between that paid on ordinary 12 month deposits and that on the A index deposits. When A index deposits became tax-free from May 1964 the B index deposits rapidly lost their popularity and were finally abandoned in June 1966. For the time being, the 100 per cent index-tied or A index deposits are the only index-linked deposits in use, and, if made by private individuals, they are, like ordinary deposits, exempt from both income and property tax.

The above factors have acted to prevent the entire deposit stock from becoming index-linked. The modified form of the whole system is further illustrated by the fact that in bank lending, direct index linkage has so far been used only to a very limited extent. Instead, the cost of index payments on deposits has been passed on to bank lenders in the form of an index charge. That is an extra rate of interest, the amount of which has varied according to the index payments due to the depositors. This reflects

the original view that while depositors should be given the chance to hedge against inflation by the use of index-tied deposits, the cost of this arrangement should be divided as equally as possible among all bank lenders regardless of their preferences and price expectations. Following this principle the smaller banking units, namely savings banks and co-operative credit societies, have arranged the index payments to depositors and the levying of the index charges on bank lenders by using a pooling system. In this way are eliminated the differences in the index charge, which otherwise would have to be paid by the customers of various banks because of the differences in the index-tied share of the deposit stock in each bank. As only part of the deposits have been index tied the additional rate of interest paid by bank lenders has so far stayed at the moderate level of $\frac{1}{2}$ —1 per cent despite the often quite considerable index payments on index deposits.

An examination of the choice open to Finnish depositors shows that there are first the ordinary 6 month and 12 month deposits, the nominal yield of which is independent of the rate of change in the cost of living index. The former is characterized by a lower rate of interest than the latter but also by a very high degree of liquidity. Then there are the index deposits, the yield of which is tied to the cost of living index in such a way that one per cent additional yield is paid for each full percentage point rise in the index. In case of a fall or a rise of less than one per cent in the index only the basic rate of interest, which is even lower than that on the 6 month deposits, is payable. The index numbers used in calculating the additional yield payable to the index depositors are for technical reasons those of the month previous to that preceding the month of deposit and previous to that preceding the month of maturity.

Figure 1. Relationship between yields of ordinary 6 month deposits (———), ordinary 12 month deposits (.....) and index deposits (---) and rate of change in the cost of living index

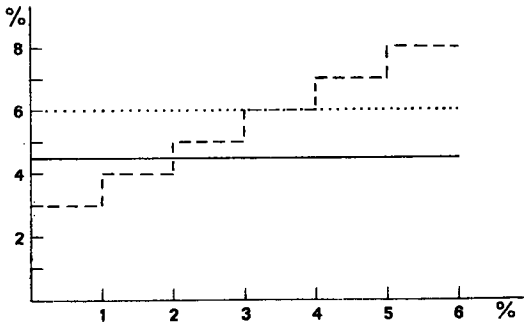


Figure 1 represents the current yields of the various time deposits as functions of the rise in the cost of living index. From the figure, if the rise in the index is less than 2 per cent, the index deposit is the least profitable of all the alternatives considered, and the rise in the index must be 4 per cent or more to make the index deposit more profitable than the ordinary 12 month deposit. This suggests that apart from liquidity considerations the expectation of the change in the cost of living index during the relevant 12 months must be the major factor affecting the deposit choice. However, risk considerations must also be taken into account. The actual nominal yield of the index deposit might differ from that expected by the depositor while the money yield of the ordinary deposit is a certainty at the time of deposit. Conversely, the ordinary deposit yield measured in cost of living units is uncertain while that of the index deposit is roughly certain. The different risks result in preferences for either type of deposit.

It is an interesting question which of the two possible risk aspects, the money yield risk or the "cost of living yield risk" most depositors consider when making their choice. In the discussion preceding the adoption of index linkage of deposits, one of the points

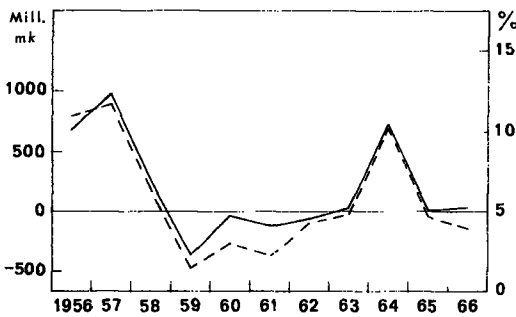
was that depositors should be provided with a guarantee of the maintenance of the "real value" of the deposits. This suggests that depositors should be concerned with the value measured in cost of living units. However, it seems that in practice it is the stability of the money yield which attracts the majority of depositors.

The reluctance of the public to accept the artificial measure, arrived at by deflating nominal yields by the cost of living index, as a unit of value better than money itself, does not necessarily, in the connection of asset choice, imply existence of irrationality in the form of "money illusion". The cost of living index may be quite appropriate when used to deflate wage rates for example, but it is the increases or decreases in the values of the various alternative assets available to transform wealth into the future, which are of prime relevance for the depositor and it is in terms of the prices or yields of these alternative assets that the gains and losses caused to the depositors by price changes are to be measured. The Finnish experience shows that the connection between the cost of living and the various asset values can be quite weak if at all and that the history of "asset inflation" has been very different from that of inflation in current production and income formation. According to some indices between 1954 and 1962 site prices rose from 300 to 700 per cent while the cost of living index and the wholesale price index rose by less than 50 per cent. Further, there have been periods when stock prices have been falling considerably irrespective of the rising cost of living. As no single index could really sum up the large changes in the relative values of various assets, the preference for nominalism reveals realism rather than money illusion among depositors.

The close connection between the total yield of index deposits and the rate of

change in the cost of living index leads one to expect that changes in expectations as to future changes in the cost of living index should be one of the main factors responsible for changes in the demand for index deposits. Further, the past and current behaviour of the cost of living index may be used by depositors when forecasting the future of the index. Figure 2 shows the annual changes in the total of index deposits corrected for linear trend and the annual percentage changes in the cost of living index.

Figure 2. Annual changes in the total of index deposits corrected for linear trend (—) and annual percentage changes in the cost of living index (---) in 1956—66*



The diagram shows the very high degree of correlation between the two time series. Depositors seem to be very sensitive to short term movements in the rate of change of the cost of living index. The changes in the stock of deposits are computed from end of year figures while yearly averages of the cost of living index have been used to calculate the rate of change in the index. Therefore the simultaneous movement of the two time series refer to the existence of an average lag of half a year between the variations in the rate of change in the index and the reactions of the depositors. This conclusion has also been reached by a more complicated study of various monthly figures, where the distributed lag technique was used.

Figure 3. The share of the index deposits of the total stock of the time deposits held by the public in 1956—66*

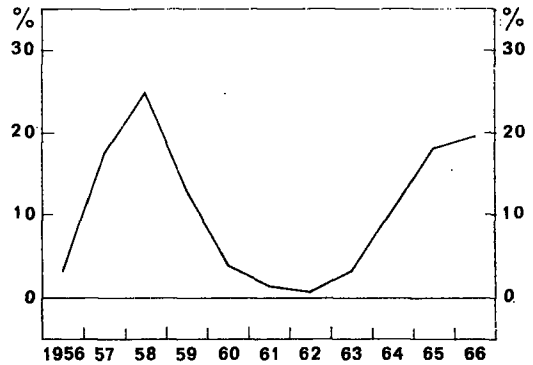


Figure 2 suggests that the public has obtained forecasts of the rate of change in the cost of living index by extrapolating quite mechanically the current rate of change into the future which has resulted in a failure each time the rate of inflation has altered. This is seen, if the graph for the rate of change in the index is moved one step to the right so as to illustrate the actual variation in the yield of the index deposits.

Apart from the expectations concerning the rate of change in the cost of living index one would expect the demand for index deposits to depend on the rates of interest paid on the index deposit and its substitutes, the condition of taxability or the lack of it and the number and quality of index deposits available. Numerous changes in these variables were experienced during the period in question and they had some effects on the monthly figures of the index deposits. However, the variation in the annual change in the stock of index deposits is, apart from the positive trend caused by the general growth of the whole deposit market, explained well by the cost of living index variable alone.

Figure 3 shows the share of index deposits in the total stock of time deposits held by the public in 1956—66. The figures are

yearly averages. From the data available it is quite evident that the main part of the variation in the stock of index deposits has been at the cost of ordinary deposits. Whether index deposits have in fact aided total deposit growth is still to be studied. The really relevant question is whether the existence of index deposits and other indexed claims have increased the total of saving flowing to the organized financial market at the cost of less productive direct real in-

vestment of the public and perhaps consumption. If this were true, index deposits could be considered to have aided economic growth.

What the Finnish experience shows without doubt is that an index linkage system on the credit market can work. At least in a modified form index linkage has been realized, without a consequent disaster as was predicted by some opponents of the idea.

ITEMS

Cash reserve agreement. On December 23, 1966, an agreement concerning extraordinary cash reserves was concluded between the Bank of Finland and the banking institutions.

The cash reserve deposits have to be made so that by the 15th of each month, starting in February, 1967, the cash reserve account of each bank should contain the following amounts:

1) by February 15, 70 per cent of the increase in the bank's deposits from December 31, 1966 to the end of January, but not more than 1.5 per cent of the bank's deposits on December 31, 1966;

2) by March 15, 65 per cent of the increase in the bank's deposits from December 31, 1966 to the end of February, but not more than 2.5 per cent of the bank's deposits on December 31, 1966;

3) by 15th of April, May and June, 60 per cent of the increase in the bank's deposits from December 31, 1966 to the end of the calendar month preceding the date of deposit, but not more than 3 per cent of the bank's deposits on December 31, 1966;

4) by 15th of July and of the remaining months, 60 per cent of the increase in the bank's deposits from December 31, 1966 to the end of the calendar month preceding the date of deposit. However, this should be not more than the percentage share of bank deposits on December 31, 1966 corresponding to the percentage share taken by the drawings on the 300 million mark (maximum) loan, granted to the Treasury by the Bank of Finland on December 12, 1966, of the

total deposits of all banking institutions covered by this agreement on December 31, 1966, and 3 per cent at the most.

In this agreement bank deposits refer to assets on the time and sight deposits obtained from the public. The banking institutions concerned are the commercial banks, the savings banks and their central bank, the co-operative credit societies and their central bank and the Post Office Savings Bank.

The Bank of Finland credits the cash reserve funds with an annual interest of 7 per cent.

The last date of the agreement to make cash reserve deposits is December 15, 1967 and the funds placed on the cash reserve accounts on that date shall remain there and can be withdrawn only on the conditions stipulated by the Bank of Finland. The Bank of Finland will refund the banks according to an agreement to be made later. However, at the latest this must be at the same rate as the payments made by the Treasury to the Bank of Finland as partial repayment of the above-mentioned loan. The banks must be fully refunded by August 20, 1970.

*

Wage agreement reached in the paper industry. A wage agreement on similar lines to the general wage agreements in force at the moment was concluded between the association of paper industry workers and that of employers of the wood-processing industry, for the years 1967 and 1968.

The agreement provides for a rise in wages by 4.81 per cent from the beginning of 1967, by 4.25 per cent from the beginning of 1968 and by 3.5 per cent from the beginning of June 1968.

At the same time a compensation for public holidays was agreed upon to be included in total wages.

To reduce the weekly average for continuous three-shift work to 40 hours it was further decided that 4 days additional holiday will be granted to the workers from the beginning of October 1967 and 8 days from the beginning of next year.

According to the agreement a rise of more than 3 per cent in the cost of living index will be compensated for during January to November this year. Compensation for a rise of more than 4 per cent in the cost of living index from November 1967 to November 1968 will be made in the middle of December 1968.

*

Trade agreements. Finland has recently concluded trade agreements with the following countries.

Poland, on December 1, 1966. Period: four years beginning January 1, 1967. The exchange of goods will take place on the basis of the export and import lists fixed for 1967, which will subsequently be adjusted for each of the following years. Finland's export list includes cellulose, cardboard, various paper products, machinery and equipment, iron ore, zinc concentrates, and special high quality steel. Her import list includes coke and coale, chemical industry products, rolled products and machinery and equipment.

Czechoslovakia, on December 16, 1966. Period: 1967. Finland will export paper, cellulose, cardboard, woodworking industry products and agricultural machinery and equipment. The import list comprises rolled

products, motor vehicles, various machines, textiles and industrial chemicals. In 1967 half of the clearing saldo will be paid quarterly in convertible currencies.

*

Domestic bond issues. In December the Government decided on the following bond issues.

1967 issue of bonds for subscription by insurance companies, totalling 60 million marks and issued in two groups. Group I (26 million) will run for 16 years, and group II (34 million) for 25 years. The bonds are dated January 1, 1967. The rate of interest is 7 per cent and is payable semi-annually. The loan is tied to the cost of living index to the extent of 50 per cent. Group I was issued at a price of 95.18, and group II at a price of 93.82.

1967 7½ per cent bonds of 25 million marks. The bonds are dated January 2, 1967, and will mature in 10 years. The loan carries a 50 per cent index clause. It is issued at par.

1967 8¾ per cent bonds of 25 million. The bonds are dated January 2, 1967, and will mature in 5 years. The loan is issued at par.

1967 7 per cent bonds of 5 million marks. The bonds are dated January 16 and will be redeemed by annual instalments in 10 years. The loan carries a 50 per cent index clause. The bonds are sold to persons entitled to redeem the 1965 sales tax certificates. It is issued at a price of 95.89.

The Government has authorized the town of *Porvoo* to make a private bond issue of 1.5 million marks. The bonds are dated December 30, 1966 with a maturity of 10 years. The rate of interest is 2¾ percentage points above the rate of six month deposits in the Central Bank of the Savings Banks. The loan is tied to the cost of living index to the extent of 50 per cent and it is priced at 99 per cent.

The Government has also authorized the city of *Vaasa* to make a private bond issue of 3 million marks. The bonds, dated December 30, 1966, will run for a period of 11 years. The rate of interest is $2\frac{1}{2}$ percentage points above the general rate of six month deposits in the savings banks. The loan carries a 50 per cent index clause and is issued at par.

The Government has authorized the *Land and Industry Real Estate Bank Ltd* to make a private bond issue of 20 million marks. The loan is current for a period of 10 years starting from November 15, 1966, and the interest rate is $2\frac{3}{4}$ percentage points above the general rate of six month deposits in co-operative credit societies. The loan is tied

to the cost of living index to the extent of 50 per cent and it is issued at par.

*

Publications of the Bank of Finland. The 1966 issue of Series A of the publications issued by the Bank of Finland Institute for Economic Research has appeared in Finnish and Swedish. It contains the following articles: Transportation Receipts in Finland's Balance of Payments in 1949—1964, by Reino Airikkala; Effects of EFTA Tariff Reductions on Prices in Finland in 1961—1965, by Ahti Molander; and The Finnish Economy and Economic Policy during the Second World War, by Kari Nars.

BANK OF FINLAND

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Governor

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A. SIMONEN
*(Absent as a member of
Government)*

AHTI KARJALAINEN
*(Absent as a member of
Government)*

REINO ROSSI

HEIKKI VALVANNE
ad int.

DIRECTORS

HEIKKI VALVANNE

JOUKO J. VOUTILAINEN

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PERTTI TAMMIVUORI

K. IGNATIUS

JORMA ARANKO
(On leave of absence)

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(trade)*

P. BLOMQUIST,
Central Accounting

P.-E. ÖSTERLUND,
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(services)*

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Internal Audit

HELGE LINDSTRÖM,
Credits

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Foreign correspondence

K. EIROLA,
Accounts

EINO SUOMELA,
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