



BANK OF FINLAND

Monthly Bulletin

Developments in the security market

Public finance in 1978

The New Government

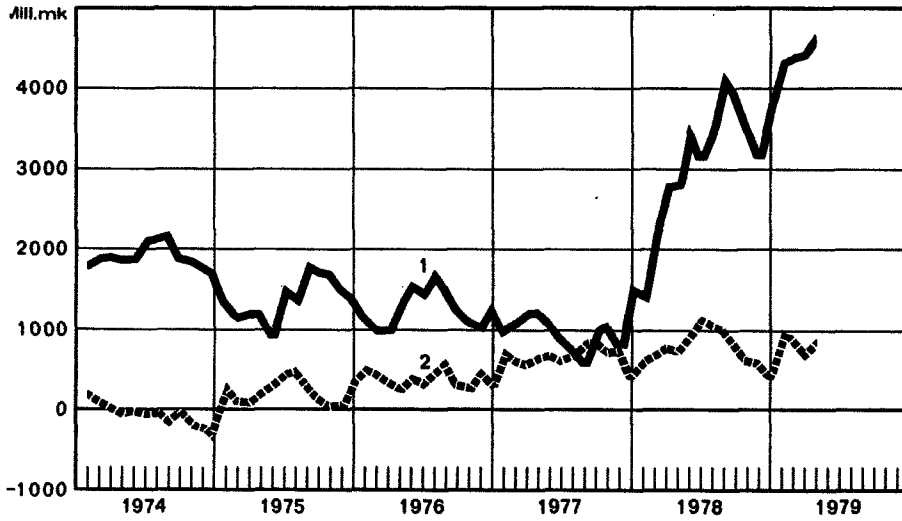
**Board of Management of the Bank
of Finland**

**Finland's gross long-term foreign debt
in January-March 1979**

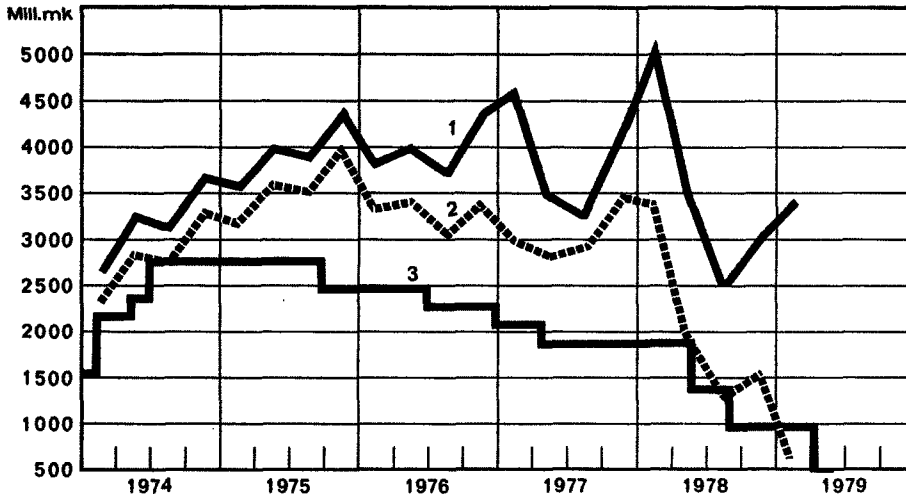
JUNE 1979

Vol. 53 No. 6

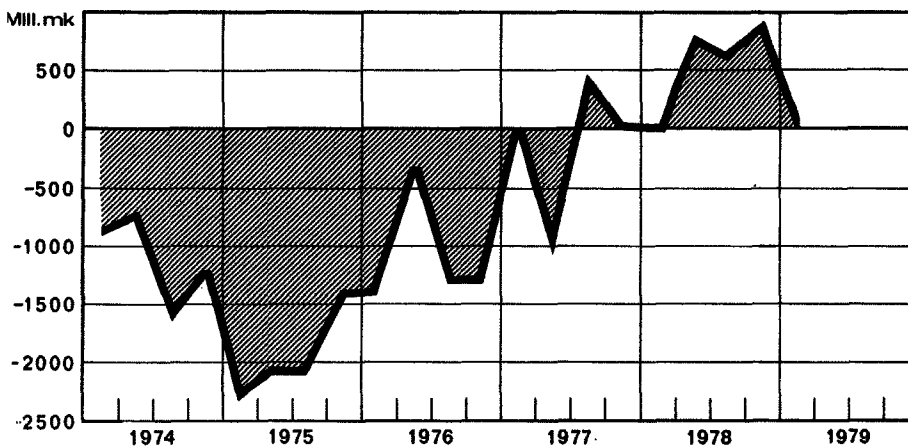
BANK OF FINLAND'S CONVERTIBLE AND TIED FOREIGN EXCHANGE RESERVES, 1974 - 79



COMMERCIAL BANKS' CENTRAL BANK FINANCING, 1974 - 79



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



DEVELOPMENTS IN THE SECURITY MARKET

In 1978 companies, especially in the open sector, started to revive after the effects of the prolonged recession, Industrial production grew by 3 per cent and firms' net profits by 15 per cent. However, because of substantial excess capacity and heavy indebtedness, this recovery was not reflected in investment activity, and in fact the volume of total corporate gross fixed investment fell by a further 13 per cent.

Under these circumstances the financial position of the corporate sector improved markedly. The sector's financial deficit was reduced to an exceptionally low level as reflected both in a rise in liquidity and in falling indebtedness ratios. Even though the need for external finance was thus reduced, the supply of private securities was kept up by companies' willingness to improve their generally weak structure of finance.

The effects of central government financing on security markets were contradictory. As the borrowing requirement increased, the government intensified its competition in the domestic securities market. However, as there were institutional rigidities in channelling adequate domestic finance to the public sector, the state had to rely heavily on foreign borrowing. This type of government finance together with the improvement in companies' financial positions led to a marked easing in domestic financial markets, and this increased liquidity tended to boost demand for securities.

SHARE AND BOND ISSUES

The favourable climate in the securities market was reflected, not only in the large sales of government bonds, but also in the revival in new issues and secondary trade in shares.

One significant factor in promoting activity in the share market was the more lenient tax treatment of shares. New share issues launched by companies quoted on the Helsinki Stock Exchange amounted to 158 million marks, compared with a mere 21 million marks in the previous year.

In 1978 the growth in the total stock of domestic bonds outstanding accelerated from 16 per cent to 24 per cent. All in all the stock of domestic bonds outstanding was 8 100 million marks at the end of the year. The sales of government bonds accounted for over 60 per cent of all bond issues and over 80 per cent of bonds issued for public subscription. Altogether the state raised 1 366 million marks by issues for public subscription and 230 million marks from other bonds.

In order to secure sales of domestic bonds, the government made an agreement with the banks in the autumn 1978 concerning the issue of bonds for public subscription. According to this agreement the government undertook to limit its domestic bond issues for the latter part of the year to 500 million marks, while the banks pledged to buy any portion of the bond issues not taken up by the public. A limit of 1 600 million marks on bond issues has been agreed for this year.

In spite of the substantial increase in government bond issues there was still plenty of room in the market for other bond issues. The financial institutions raised 300 million marks from bonds intended for public subscription, which was 10 per cent more than in the previous year. The sales of industrial companies' bonds increased almost threefold but the figure was still only 361 million marks. Total sales of domestic bonds amounted to 2 550 million marks, exceeding the previous year's figure by 57 per cent.

Interest rates were reduced by 1 percentage point in May 1978, but this fall was not shown up completely in the rates on bonds which tended to make these assets more attractive. The yield on government bonds issued in 1978 was on average 10 per cent.

STOCK EXCHANGE

Despite the fact that the prices of shares quoted on the Helsinki Stock Exchange were in 1978 on average somewhat lower than in the previous year, the downward trend of the share index faltered and the index rose 9 per cent during the year. Trade in shares revived, with an increase in turnover of 23 per cent to 154 million marks.

The total turnover of the Helsinki Stock Exchange increased by 71 per cent to 327 million marks. This rapid growth was largely due to the continuing change in the structure of trade. The turnover of bonds doubled in 1978 and rose to more than 40 per cent of the total turnover, indicating the fact that the investors are gradually becoming more familiar with the trade in the secondary market for bonds.

However, the sales of bonds on the Stock Exchange still amounted to only some 8 per cent of the new issues of bonds.

CURRENT DEVELOPMENTS

The rise in export prices and the improvement in capacity utilization this year are further strengthening companies' profits. At the same time, the increasing liquidity is sustaining demand for shares. The effects of these factors can clearly be seen in the share markets during the first months of the year. Share prices have been rising consistently, and the amount of new money to be raised by new issues announced thus far will clearly exceed the amount raised in 1978.

Due to ample liquidity, the government has succeeded in selling nearly all the bonds issued for public subscription thus far this year. Prospects for further sales are good, and hence, unlike last year the banks will probably not need to purchase any major part of the agreed quota of government bonds.

May 21, 1979

BANK OF FINLAND

Mill. mk

	1978		1979			
	May 31	Dec. 30	May 8	May 15	May 23	May 31
Assets						
Gold and foreign exchange receivables	4 618	4 339	5 585	5 562	5 730	5 744
Gold	133	169	169	169	169	169
Special drawing rights	167	316	444	444	444	451
IMF reserve tranche	—	243	243	243	243	236
Convertible currencies	3 296	3 126	3 845	3 888	3 968	4 050
Tied currencies	1 022	485	884	818	906	838
Other foreign receivables	2 636	1 968	2 409	2 424	2 492	2 548
Foreign bills ¹	588	—	—	—	—	—
Foreign bonds	692	872	1 312	1 325	1 393	1 442
Mark subscription to Finland's IMF quota	1 356	1 096	1 097	1 099	1 099	1 106
Receivables from financial institutions	3 834	3 695	2 750	3 423	2 767	2 299
Cheque accounts of the commercial banks	120	137	169	165	161	139
Discounted bills	2 004	970	351	357	359	379
Bonds	341	361	313	345	345	377
Call money market advances	1 331	2 213	1 895	2 525	1 873	1 368
Other financial institution receivables	38	14	22	31	29	36
Receivables from the public sector	382	633	826	827	829	828
Government promissory notes	—	188	346	346	346	346
Bonds	55	93	112	114	118	119
Total coinage	324	336	355	355	356	356
Other public sector receivables	3	16	13	12	9	7
Receivables from corporations	1 386	1 948	1 991	1 997	2 024	2 080
Financing of exports ²	217	904	878	875	904	960
Financing of domestic deliveries	759	752	777	784	781	782
Bonds	196	207	216	215	215	216
Other corporate receivables	214	85	120	123	124	122
Other assets	61	64	69	69	68	69
Total	12 917	12 647	13 630	14 302	13 910	13 568
Liabilities						
Foreign exchange liabilities	65	60	39	37	38	39
Convertible accounts	38	46	29	27	28	25
Tied accounts	27	14	10	10	10	14
Other foreign liabilities	3 914	2 195	2 213	2 077	2 077	2 077
IMF mark accounts	2 320	1 881	1 759	1 623	1 623	1 623
Allocations of special drawing rights	301	314	454	454	454	454
Term liabilities	1 293	—	—	—	—	—
Notes and coins in circulation	3 271	3 822	3 676	3 725	3 754	3 923
Notes	2 982	3 509	3 358	3 408	3 437	3 604
Coins	289	313	318	317	317	319
Deposit certificates in circulation	—	1 090	2 288	2 288	2 588	2 588
Claims of financial institutions	2 224	2 520	2 370	3 162	2 431	1 944
Cheque account of Postipankki	0	1	0	9	1	1
Cheque accounts of the commercial banks	1	1	1	1	1	1
Call money market deposits	1 781	2 075	2 109	2 894	2 170	1 589
Cash reserve deposits	—	—	—	—	—	115
Capital import deposits	353	405	255	254	252	234
Other financial institution claims	89	38	5	4	7	4
Claims of the public sector	229	114	114	123	116	112
Cheque accounts	0	2	0	10	3	0
Counter-cyclical reserves	38	40	40	40	40	40
Capital import deposits	190	70	72	71	72	71
Other public sector claims	1	2	2	2	1	1
Claims of corporations	416	356	431	429	430	436
Deposits for investment and ship purchase	39	32	44	44	45	52
Capital import deposits	362	303	381	379	381	380
Import levy deposits	13	6	1	1	1	1
Other corporate claims	2	15	5	5	3	3
Other liabilities	13	12	14	12	12	13
Equalization accounts	655	350	306	267	279	248
Capital accounts	2 130	2 128	2 179	2 182	2 185	2 188
Primary capital	1 400	1 400	1 400	1 400	1 400	1 400
Reserve fund	545	545	636	636	636	636
Undisposed profits	109	—	92	92	92	92
Net earnings	76	183	51	54	57	60
Total	12 917	12 647	13 630	14 302	13 910	13 568

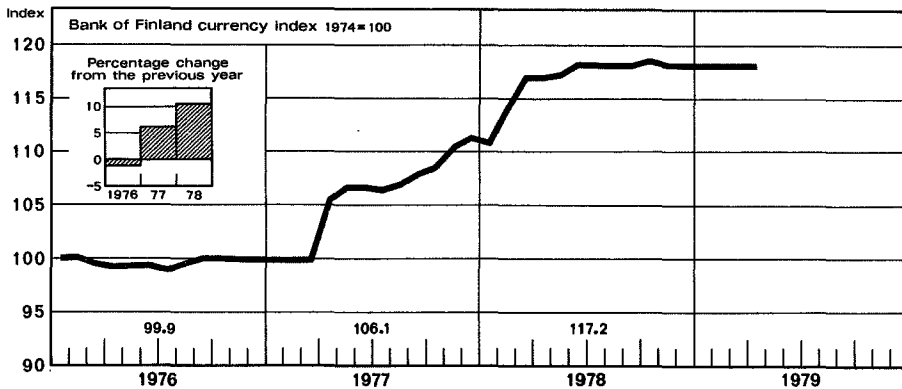
End of year or month	Foreign sector						Public sector			Deposit certificates in circulation	
	Gold and convertible exchange receivables	Convertible exchange liabilities	Gold and convertible exchange reserves (1-2)	Tied exchange reserves	Other receivables	Other liabilities	Net receivables (3+4+5-6)	Receivables	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											
May	3 596	38	3 558	995	2 636	3 914	3 275	382	229	-153	—
June	3 284	98	3 186	1 149	2 641	3 046	3 930	393	222	-171	400
July	3 583	40	3 543	1 084	2 659	3 038	4 248	404	203	-201	760
Aug.	4 237	43	4 194	1 019	2 407	2 786	4 834	453	202	-251	859
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

FOREIGN EXCHANGE SITUATION

Mill. mk

	Net holdings, Dec. 31, 1978			Net holdings, April 30, 1979			Change	
	Bank of Finland	Other	Total	Bank of Finland	Other	Total	April	Jan.—April
Gold	169	—	169	169	—	169	—	—
Special drawing rights	315	—	315	458	—	458	—	+143
IMF reserve tranche	243	—	243	243	—	243	—	—
Convertible currencies	3 080	-2 072	1 008	3 892	-3 298	594	-96	-414
Total	3 807	-2 072	1 735	4 762	-3 298	1 464	-96	-271
Non-convertible currencies	471	152	623	900	145	1 045	+133	+422
Grand total	4 278	-1 920	2 358	5 662	-3 153	2 509	+37	+151

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, commercial banks	Demand for call money by deposit banks	Supply of call money by deposit banks	Other liabilities, net	Net receivables (1+2+3-4-5)	Permanent special financing schemes	Liabilities, net	Net receivables (7-8)	
	1	2	3	4	5	6	7	8	9	10
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										
May	2 004	119	1 331	1 781	63	1 610	1 386	416	970	3 271
June	1 607	106	1 495	1 629	37	1 542	1 311	386	925	3 572
July	1 571	83	1 408	1 623	34	1 405	1 297	304	993	3 520
Aug.	1 320	80	1 229	1 628	108	893	1 288	505	783	3 414
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	- 59	355	1 742	98	1 644	3 923



MONETARY POLICY INDICATORS

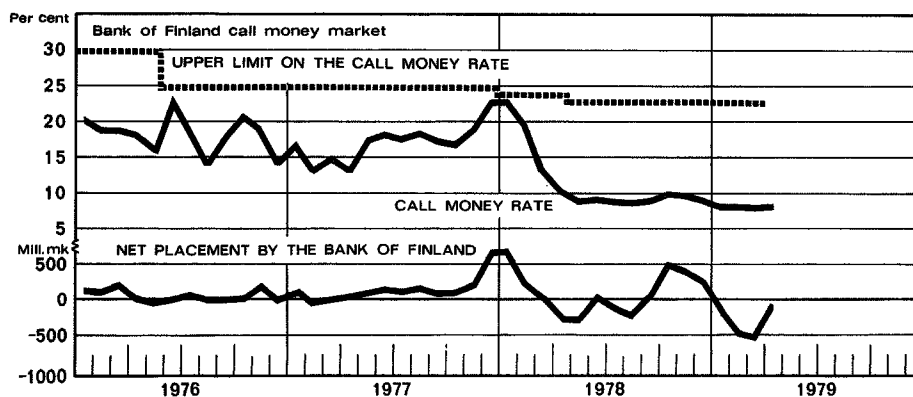
Average for period	Total central bank debt of the commercial banks, mill. mk	Actual central bank debt of the commercial banks, mill. mk	Credit quotas of the commercial banks at the Bank of Finland, mill. mk	Cash reserve deposits of the deposit banks ³ , mill. mk	Cash reserve deposits of the commercial 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										
May	3 586	1 965	1 900			-337	7.25	9.12	7.51	7.99
June	3 110	1 611	1 400			- 28	7.25	9.43	7.05	7.99
July	2 700	1 452	1 400			-182	7.25	9.14	7.87	7.86
Aug.	2 552	1 260	1 400			-271	7.25	8.97	7.61	7.94
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	..
May	2 343	292	500	2	1	-226	7.25	8.35	..	..

See explanations on page 22.

¹ End of period.

² 1. 9.—31. 12. 1975.

³ See Bulletin April, 1979, page 1.

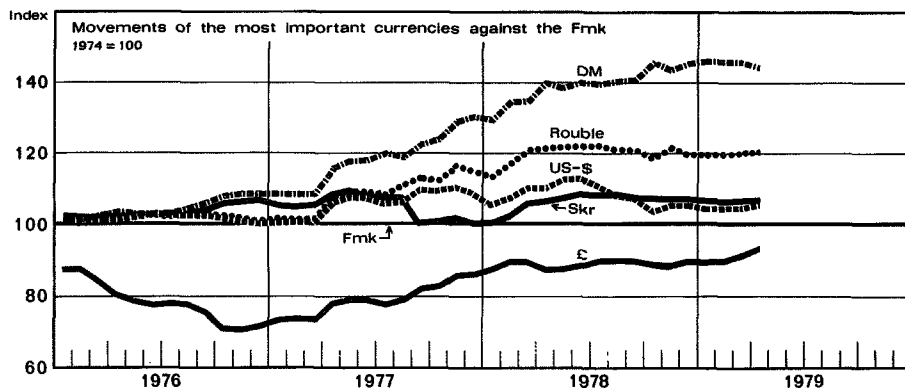


FOREIGN EXCHANGE RATES

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 CI 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										
May	4.281	7.800	92.22	78.89	75.38	203.57	218.15	92.42	6.130	117.5
June	4.285	7.887	93.22	79.61	76.27	205.94	227.55	93.87	6.132	118.5
July	4.209	7.995	92.96	78.33	75.41	205.21	233.82	95.13	6.137	118.5
Aug.	4.113	8.005	92.96	78.57	75.15	206.32	247.18	94.93	6.079	118.5
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

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

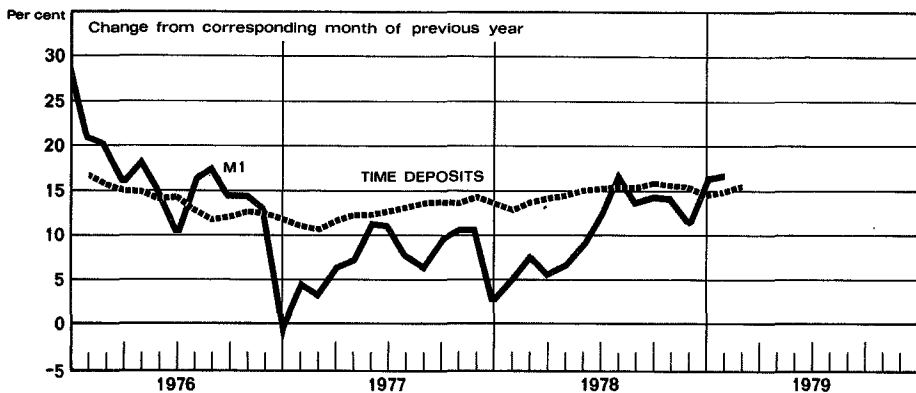
1978

Jan.	3 096	1 351	2 330	6 777	14 890	12 747	9 903	4 203	41 743	48 520
Feb.	3 106	1 468	2 478	7 052	15 191	12 901	9 996	4 243	42 331	49 383
March	2 922	1 420	2 340	6 682	15 350	13 058	10 107	4 363	42 878	49 560
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

¹ New series. See explanations on page 18.



ADVANCES TO THE PUBLIC¹ — MONEY SUPPLY¹

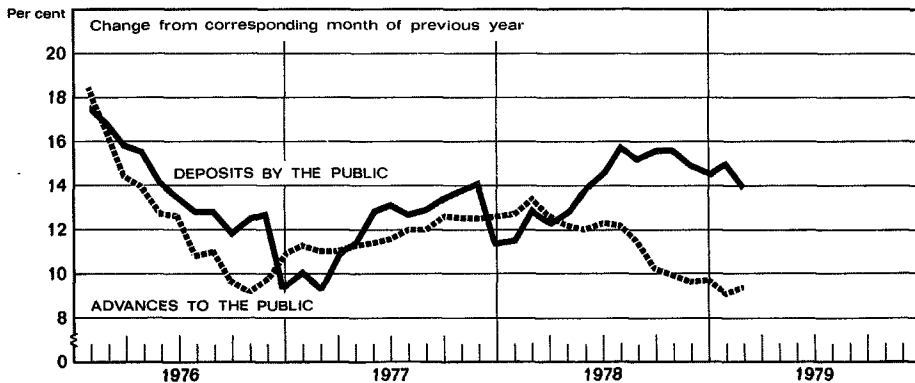
Mill. mk

End of year and month	Advances granted by				Types of advances				Money Supply	
	Commercial 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										
Month	1	2	3	4	5	6	7	8	9	10
Jan.	24 843	12 421	10 575	6 852	47 794	1 763	5 134	54 691	9 875	52 716
Feb.	25 472	12 509	10 636	6 731	47 977	1 787	5 584	55 348	10 137	53 709
March	25 599	12 553	10 650	6 500	47 817	1 732	5 753	55 302	10 058	54 272
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										
Month	1	2	3	4	5	6	7	8	9	10
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	..	..

¹ New series. See explanations on page 22.



STATE FINANCES

Mill. mk

Revenue	Jan.—March	
	1978	1979
Income and wealth tax (net)	1 902	1 962
Gross receipts	(7 258)	(7 103)
Refunds & local authorities	(—5 356)	(—5 141)
Other taxes on income and wealth	73	62
Employers' child allowance payments	162	213
Sales tax	2 126	2 469
Customs duties and import charges and levies	196	249
Excise duties ¹	1 429	1 716
Excise duty on alcoholic beverages ¹	394	513
Excise duty on tobacco	237	236
Excise duty on liquid fuel	515	519
Other excise duties ¹	283	448
Tax on autom. and motor-cycles	153	288
Stamp duties	188	200
Special diesel etc. vehicles tax	42	30
Other taxes and similar revenue ¹	143	185
Total taxes	6 414	7 374
Miscellaneous revenue	609	744
Interest, dividends etc.	81	89
Redemptions of loans granted	54	89
Total revenue	7 158	8 296
Foreign borrowing	811	875
Domestic borrowing	536	912
Total borrowing	1 347	1 787
Deficit (+) or surplus (—)	+217	—228
Total	8 722	9 855

¹ New series.

Expenditure	Jan.—March	
	1978	1979
Wages, salaries, pensions etc.	1 439	1 623
Repair and maintenance	161	179
Other consumption expenditure	785	893
Total consumption expenditure	2 385	2 695
State aid to local authorities	2 118	1 970
State aid to industries	1 045	1 460
of which: agric. price subsidies	(584)	(736)
Child allowances	278	286
Share in national pensions and sickness insurance schemes	78	81
Other transfer expenditure	1 097	1 307
Total transfer expenditure	4 616	5 104
Machinery and equipment	321	373
Construction of buildings	132	142
Land and waterway construction	355	346
Total real investment	808	861
Interest on State debt	129	216
Net deficit of State enterprises	—42	—149
Other expenditure	12	12
Total other expenditure	99	79
Increase in inventories	—34	—53
Lending	489	578
Other financial investment	100	97
Total expenditure	8 463	9 361
Redemption of foreign loans	64	35
Redemption of domestic loans	195	459
Total redemptions	259	494
Total	8 722	9 855

State debt	1976	1977	1978	1979			
	Dec.	Dec.	Dec.	Jan.	Feb.	March	April
Foreign debt	2 248	3 679	7 360	7 293	7 288	7 609	7 812
Loans	2 175	2 963	4 607	4 773	4 672	4 896	4 944
Compensatory obligations	1	1	1	1	1	1	1
Short-term credit	287	175	259	240	237	236	..
Cash debt (net)	—643	—669	—735	—561	—486	—186	..
Domestic debt	1 820	2 470	4 132	4 453	4 424	4 947	..
Total State debt	4 068	6 149	11 492	11 746	11 712	12 556	..
Total debt mill \$	1 069	1 493	2 859	2 966	2 950	3 155	..

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

1978*

March	2 750	2 570	+180
April	2 894	2 426	+468
May	2 942	2 935	+7
June	2 823	2 676	+147
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

1979*

Jan.	3 438	3 564	-126
Feb.	2 813	2 389	+424
March	3 460	3 150	+310

Jan.-March

1978*	7 785	7 379	+406
1979*	9 711	9 103	+608

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

1976

Oct.-Dec.	136	107	108	112	96
-----------	-----	-----	-----	-----	----

1977

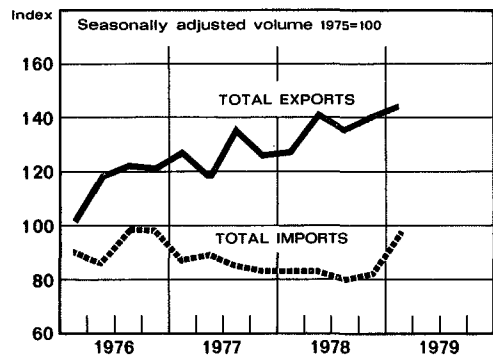
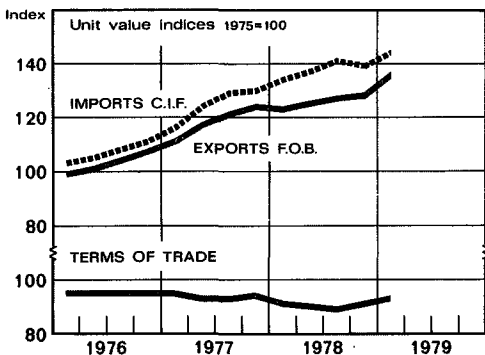
Jan.-March	123	83	112	117	96
Apr.-June	115	88	118	125	94
July-Sept.	129	84	122	130	94
Oct.-Dec.	143	93	125	131	95

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

1979*

Jan.-March	140	90	137	145	94
------------	-----	----	-----	-----	----



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*

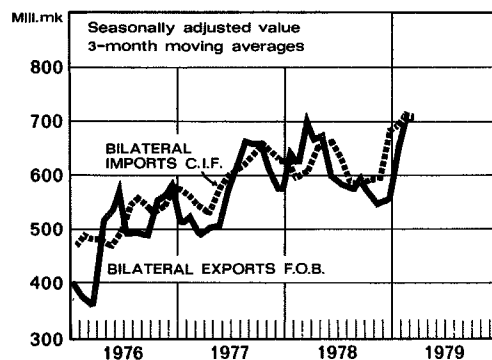
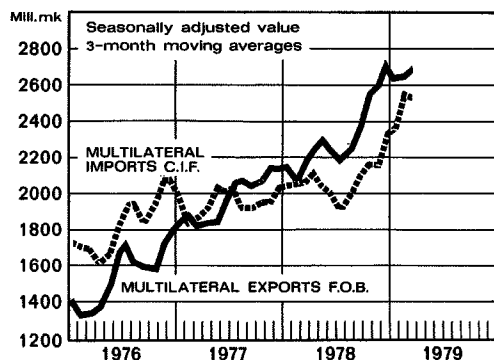
March	153	322	901	546	828	1 569	89	475	436	1
April	19	348	907	799	821	1 445	123	402	455	1
May	113	431	850	729	819	1 823	199	412	501	0
June	40	414	873	810	686	1 740	196	376	362	2
July	44	414	775	756	695	1 700	233	362	325	15
Aug.	33	330	750	553	735	1 558	215	328	370	2
Sept.	36	421	948	887	948	1 715	200	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	950	1 953	63	528	604	2

Jan.-March

1978*	347	910	2 443	1 929	2 156	4 521	406	1 295	1 152	5
1979*	540	1 122	2 936	2 316	2 797	5 825	381	1 382	1 510	5



FOREIGN TRADE BY COUNTRIES¹

Mill. mk

Area and country	Exports, f.o.b.				Imports, c.i.f.			
	January—March				January—March			
	1978*		1979*		1978*		1979*	
	%	Mill. mk	%	Mill. mk	%	Mill. mk	%	Mill. mk
OECD countries in Europe	62.3	4 849	65.5	6 358	61.2	4 516	62.9	5 725
Austria	0.8	58	0.7	69	1.4	105	1.4	131
Belgium and Luxembourg	1.9	150	1.4	136	1.9	139	2.0	185
Denmark	3.9	306	3.8	365	2.8	211	2.9	268
France	4.0	314	4.6	447	3.2	234	4.0	360
Federal Republic of Germany	11.2	874	12.4	1 202	14.2	1 050	15.0	1 362
Italy	1.6	127	2.0	192	2.3	171	2.6	236
Netherlands	3.5	274	3.4	335	2.8	206	3.0	278
Norway	4.4	341	5.0	482	2.4	176	2.3	214
Portugal	0.2	17	0.2	22	0.4	27	0.5	42
Spain	0.7	56	1.0	94	0.7	49	0.9	78
Sweden	13.8	1 076	16.0	1 552	16.2	1 195	16.5	1 499
Switzerland	2.1	159	2.3	221	2.2	167	2.3	209
United Kingdom	12.7	984	11.2	1 092	10.1	744	8.8	802
Other	1.5	113	1.5	149	0.6	42	0.7	61
OECD countries outside Europe	7.2	564	7.8	762	8.4	620	9.6	875
Canada	0.5	39	0.6	61	0.4	32	0.8	69
Japan	1.0	83	1.7	161	2.7	196	3.2	293
United States	4.6	358	4.6	448	5.1	374	5.4	496
Other	1.1	84	0.9	92	0.2	18	0.2	17
CMEA countries	19.2	1 493	17.5	1 693	20.4	1 502	19.1	1 738
Czechoslovakia	0.5	38	0.3	26	0.4	32	0.5	46
German Democratic Republic	0.6	46	0.5	46	0.6	43	0.7	60
Poland	0.6	46	0.6	58	1.9	138	0.8	69
Soviet Union	16.5	1 284	15.0	1 457	16.1	1 190	16.2	1 479
Other	1.0	79	1.1	106	1.4	99	0.9	84
Latin America	4.4	338	1.5	147	3.7	274	3.7	335
Argentina	0.2	13	0.2	24	0.1	7	0.1	9
Brazil	0.5	36	0.5	44	0.8	59	0.8	75
Colombia	0.2	14	0.1	11	1.9	141	1.2	110
Other	3.5	275	0.7	68	0.9	67	1.6	141
Other	6.9	541	7.7	751	6.3	467	4.7	430
GRAND TOTAL	100.0	7 785	100.0	9 711	100.0	7 379	100.0	9 103
of which								
EFTA countries	21.3	1 662	24.3	2 364	22.9	1 689	23.2	2 115
EEC countries	39.7	3 088	39.6	3 841	37.5	2 769	38.5	3 506
OECD countries	69.5	5 413	73.3	7 120	69.6	5 136	72.5	6 600

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 *	35 027	32 225	+2 802	+1 656	+173	+735	+5 366	-2 852	-139	+2 375

1976

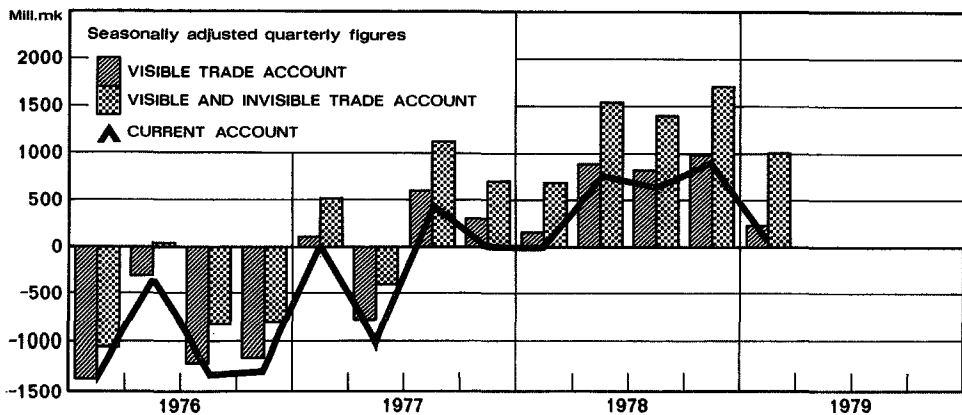
Jan.-March	4 987	6 307	-1 320	+252	- 50	+ 65	-1 053	-347	-35	-1 435
Apr.-June	5 864	6 224	- 360	+252	+ 49	+ 26	- 33	-485	-26	- 544
July-Sept.	6 098	7 515	-1 417	+365	+ 62	+110	- 880	-434	-17	-1 331
Oct.-Dec.	7 423	8 426	-1 003	+324	- 39	+ 44	- 674	-483	-40	-1 197

1977

Jan.-March	6 977	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	7 744	7 354	+ 390	+ 374	- 66	+165	+ 863	- 613	-61	+ 189
Apr.-June	8 614	8 013	+ 601	+ 399	+ 11	+212	+1 223	- 821	-20	+ 382
July-Sept.	8 272	7 806	+ 466	+ 415	+223	+104	+1 208	- 644	-23	+ 541
Oct.-Dec.	10 397	9 052	+1 345	+ 468	+ 5	+254	+2 072	- 774	-35	+1 263

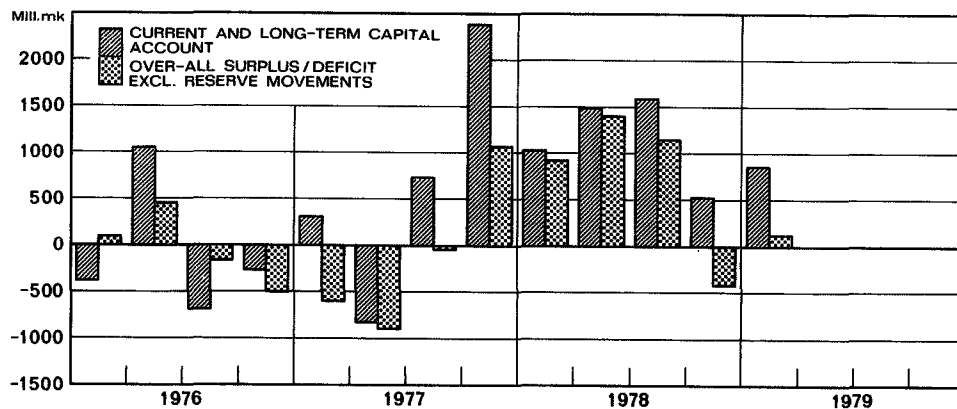


Drawings of long-term loans	Amortizations of long-term loans	Long-term export credits net	Miscellaneous long-term capital items, net ¹	Long-term capital account	Current and long-term capital account	Short-term import credits and prepayments, net	Short-term export credits and prepayments, net	Miscellaneous 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	+1191
+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	+4 636	+ 130	-2 188	+ 462	+3 040	-2 339	- 701
+1 404	- 374	+ 5	+ 11	+1 046	- 389	- 628	+ 119	+ 996	+ 98	+ 373	- 471
+2 096	- 394	- 95	- 7	+1 600	+1 056	- 158	+ 120	- 560	+ 458	- 485	+ 27
+1 239	- 568	- 11	- 25	+ 635	- 696	+ 565	- 764	+ 722	- 173	+ 263	- 90
+1 391	- 449	- 90	+ 69	+ 921	- 276	+ 359	- 763	+ 169	- 511	- 73	+ 584
+1 022	- 550	-127	- 24	+ 321	+ 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	+1 028	- 479	- 402	+ 777	+ 924	-1 556	+ 632
+2 900	-1 733	- 1	- 51	+1 115	+1 497	+ 328	- 402	- 23	+1 400	- 687	- 713
+2 265	-1 089	- 96	- 40	+1 040	+1 581	+ 20	- 692	+ 235	+1 144	- 607	- 537
+1 966	-2 067	-511	-121	- 733	+ 530	+ 261	- 692	- 527	- 428	+ 511	- 83

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

¹ Including Direct investment, net.

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

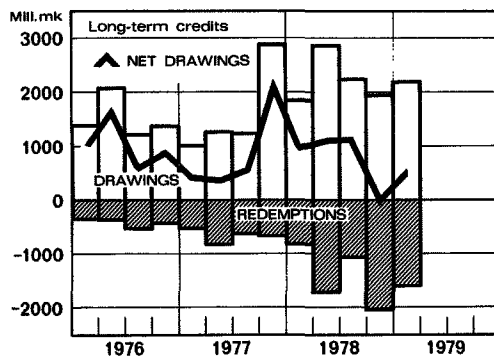
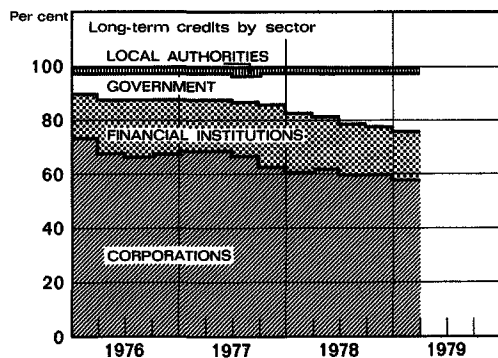


FINLAND'S FOREIGN ASSETS AND LIABILITIES

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
1975										
Sept.	1 699	1 184	320	3 203	13 488	3 228	1 066	88	17 870	14 667
Dec.	1 871	1 224	364	3 459	14 295	3 373	1 125	109	18 902	15 443
1976										
March	1 813	1 250	369	3 432	14 915	3 786	1 165	106	19 972	16 540
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	837	5 009	25 107	6 068	1 774	159	33 108	28 099
June	2 517	1 759	859	5 135	26 769	6 134	1 865	159	34 927	29 792
Sept.	2 548	1 785	863	5 196	28 212	5 812	1 885	187	36 096	30 900
Dec.	2 978	1 850	956	5 784	27 716	5 612	1 885	231	35 444	29 660

See explanations on page 22.

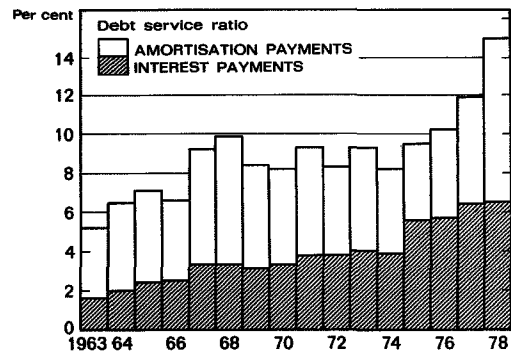
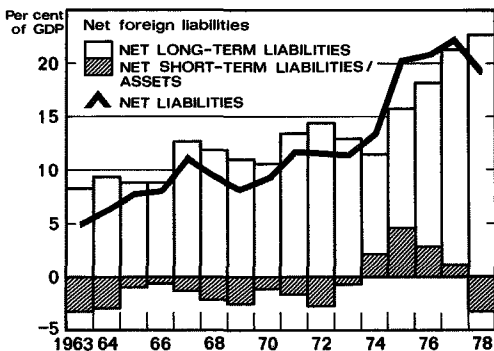


FINLAND'S FOREIGN ASSETS AND LIABILITIES

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	4 568	8 161	19 274	1 478	6 365	7 302	15 145	-4 129	25 531	6 621	3 769
3 569	2 853	4 767	11 189	1 275	4 272	9 360	14 907	3 718	18 385	496	187
3 363	2 779	4 684	10 826	1 242	4 519	9 565	15 326	4 500	19 943	645	235
3 187	3 061	4 817	11 065	1 301	4 519	9 293	15 113	4 048	20 588	639	292
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	27 412	1 392	779
6 748	4 097	7 456	18 301	1 772	6 610	7 752	16 134	-2 167	27 625	1 494	673
6 757	4 412	7 774	18 943	1 483	6 264	7 419	15 166	-3 777	27 123	1 628	984
6 545	4 568	8 161	19 274	1 478	6 365	7 302	15 145	-4 129	25 531	2 107	1 333

See explanations on page 22.



PRICE INDICES

Period	Wholesale prices 1949 = 100									Building costs 1973 = 100		
	Total	Origin		Purpose			Stage of processing			Total	Wages in building trade	Building materials
		Domes- tic goods	Im- ported goods	Pro- ducer goods	Machinery & transport equipm.	Con- sumer goods	Raw materials and com- modities	Simply pro- cessed goods	More elab- orately processed goods			
1977	692	713	610	667	804	695	728	654	695	171	154	176
1978	727	740	675	691	890	732	743	678	749	181	161	186
1978												
June	721	734	674	687	884	725	737	673	743	180	160	185
July	730	742	685	691	902	739	752	677	752	180	160	186
Aug.	730	742	686	690	905	739	745	679	756	180	160	186
Sept.	735	747	688	696	909	743	744	681	765	184	168	188
Oct.	741	752	697	704	920	744	748	691	769	185	168	189
Nov.	744	756	700	710	918	744	753	695	771	185	168	189
Dec.	747	758	704	712	925	747	758	696	774	185	168	189
1979												
Jan.	752	764	707	717	932	753	757	702	783	188	170	193
Feb.	760	774	709	721	938	767	772	708	788	190	171	195
March	763	776	714	727	952	763	768	711	794	193	177	196
April	770	782	726	736	971	765	772	724	800	195	179	198

Period	Consumer prices 1977 = 100 ¹										
	Total	Food	Beverages and tobacco	Clothing and footwear	Rent	Heating and lighting	House- hold goods and services	Health and medical services	Transport and communi- cation	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											
June	107.8	103.7	118.4	104.8	106.7	105.7	104.5	109.1	111.9	107.3	109.1
July	108.1	104.2	118.4	102.4	106.7	106.5	104.6	115.2	112.6	107.4	109.5
Aug.	108.6	103.9	118.3	105.1	106.9	106.8	104.9	116.0	112.9	110.2	109.9
Sept.	109.3	105.4	118.4	106.9	106.9	106.7	105.1	116.0	112.6	110.7	112.1
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

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*	749	518	478	413	406	394	486	398	511	462
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	728	502	469	399	395	384	471	386	495	447
Apr.-June	736	515	473	404	398	387	483	391	508	457
July.-Sept.	749	521	474	417	408	395	492	401	517	466
Oct.-Dec.	777	534	494	432	423	411	502	415	526	477
1979*										
Jan.-March	808	556	509	451	440	428	523	433	547	497

PRODUCTION

Volume indices of production 1975 = 100

Period	Gross domestic product	Industrial production	Agriculture	Forestry	Construction of buildings	Land and waterway construction	Transport and communications	Commerce	Public sector services	Others
1976*										
July-Sept.	100	89	192	64	92	93	101	100	106	98
Oct.-Dec.	108	110	75	121	107	98	114	111	108	104
1977*										
Jan.-March	98	106	71	110	78	96	94	84	111	101
Apr.-June	100	103	87	112	74	95	97	95	110	103
July-Sept.	100	90	153	63	94	90	106	96	111	100
Oct.-Dec.	108	110	75	110	105	93	114	101	113	106
1978*										
Jan.-March	99	107	71	115	74	93	96	84	116	102
Apr.-June	103	109	89	104	75	95	107	93	116	104
July-Sept.	101	92	154	60	93	90	109	92	117	102
Oct.-Dec.	112	114	79	137	97	91	120	102	118	107

PRODUCTION

Index of industrial production 1970 = 100

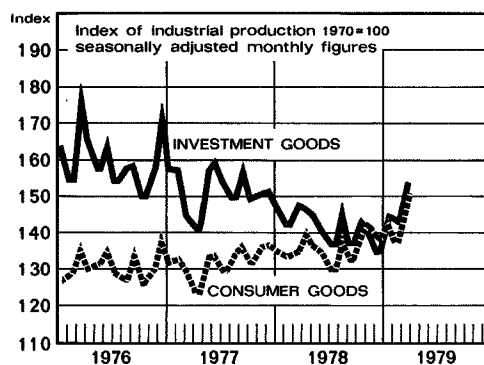
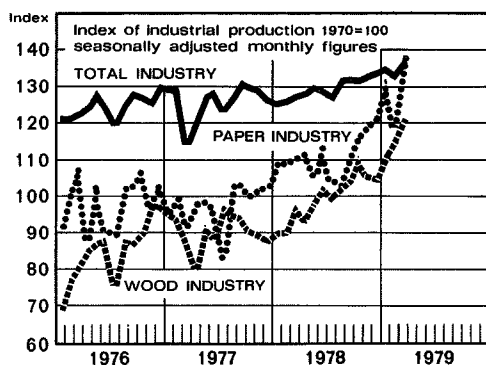
Period	Total	Investment goods	Other producer goods	Consumer goods	Special indices of manufacturing						Total, adjusted for seasonal variations
					Food industry	Wood industry	Paper industry	Chemical industries	Non-metallic mineral industry	Metal industry	
1975	122	178	110	130	113	76	95	143	128	150	122
1976	125	162	116	132	110	85	99	153	121	150	125
1977*	127	153	119	133	108	91	98	153	119	151	128
1978*	130	143	125	137	114	100	112	165	117	145	130

1978*

Jan.	136	159	130	139	103	88	111	175	122	158	126
Feb.	128	147	123	134	94	87	113	164	118	146	127
March	136	156	130	141	104	104	107	183	121	156	128
April	134	148	129	140	106	114	115	179	128	149	128
May	140	159	134	147	119	126	112	165	127	161	130
June	124	146	116	136	114	111	97	126	129	146	129
July	67	53	67	72	101	43	72	98	49	50	128
Aug.	135	145	128	146	124	97	112	177	117	150	132
Sept.	138	148	134	142	114	107	129	182	129	154	132
Oct.	147	161	142	152	137	120	133	199	133	163	132
Nov.	148	162	141	157	141	116	131	173	124	165	133
Dec.	129	132	125	137	113	90	109	160	104	140	134

1979*

Jan.	146	157	142	148	112	109	133	193	113	162	135
Feb.	136	148	133	138	102	110	123	186	108	151	134
March	153	161	149	157	117	138	140	210	127	166	137



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*								
May	3 575	2 228	2 073	155	7.0	2 436	112	124
June	3 576	2 420	2 241	179	7.4	1 379	111	120
July	3 579	2 418	2 243	175	7.2	613	109	95
Aug.	3 579	2 326	2 171	155	6.7	1 080	113	127
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	..	..	..

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	17.89	4.97	12.72	3.68	42.14	18.02	3.71	13.50	4.18	43.47
1977*											
Jan.-March	6.73	2.92	0.66	1.91	0.83	9.44	3.59	0.47	4.52	0.57	47.95
Apr.-June	13.22	7.00	1.71	2.69	0.80	8.77	4.16	0.39	2.76	1.01	51.52
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	8.36	3.81	0.66	2.80	0.75	45.37
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	12.65	5.83	1.23	3.35	1.35	43.47

EXPLANATIONS RELATING TO THE STATISTICAL SECTION

BANK OF FINLAND

The balance sheet of the Bank of Finland was revised on Dec. 31, 1974 in connection with the revision of accounting legislation. New series have been built according to the revision. The balance sheet was re-organized from Dec. 31, 1978. Foreign bills were included in corporate sector receivables rather than in receivables from the foreign sector as was the case before.

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 + Currency 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 + Cash reserve deposits + Cheque account liabilities to Postipankki + 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 + net cheque account receivables from the commercial banks + call money debt + bond transactions with repurchase obligations — call money deposits by the commercial banks.

Actual central bank debt of the commercial banks = Total central bank debt — Postipankki's call money placements. 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 is the sum of individual quotas specifying the amount each bank eligible for central bank credit can borrow at the discount rate. A progressively rising interest rate is charged on credit in excess of the quota. There is an absolute ceiling on quota related debt, which is currently 170 per cent of the quota.

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

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

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

STATE FINANCES

Page 10. Official figures computed by the Economic Department of the Ministry of Finance. First date of publication: Bulletin No. 8, 1968. Revenue and expenditure: Extra-budgetary funds and the aggregated net current deficit of State enterprises are included. Figures are reported on a cash payment basis. Debt: Foreign debt includes promissory notes given to international organizations. Index-tied bond loans are taken at nominal values. Cash debt (net) = net debt to the Bank of Finland plus short-term debt to Postipankki less cash holdings (net) of State departments and funds.

FOREIGN TRADE

Pages 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 Long-term credits by sector: Quarterly figures available since 1976. 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 9, Finnish Rural Party 7 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 (1977, in million marks): Gross domestic product at factor cost by industrial origin: agriculture 6 308 (6%), forestry and fishing 5 345 (5%), manufacturing 33 593 (30%), construction 9 979 (9%), transport and communication 11 604 (11%), commerce, banking and insurance 14 903 (14%), public administration 5 956 (5%), ownership of dwellings 4 030 (4%), services 17 543 (16%), total 109 261. Index of real domestic product 163 (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 (1976): Gross value of industrial production 95 790 mill. marks, number of workers 412 718, salaried employees 136 890, motive power (1976) 6.8 mill. kW. Index of industrial production 125 for 1976 (1970 = 100).

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

MERCHANT FLEET (March 31, 1979): Passenger vessels 120 (192 379 gross reg. tons), tankers 45 (1 070 458 gross reg. tons), dry cargo vessels 216 (1 031 944 gross reg. tons), other vessels 80 (10 550 gross reg. tons), total 461 (2 305 331 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-9s, 7 DC-9-51s, 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 Fbl 19.5, Skr 17.3, £ 14.0, DM 13.2, \$ 9.6, other currencies 26.4. The permissible range of fluctuation is 2.25 per cent on either side of the arithmetic mean. The fluctuation limits are 121.7 and 116.4.

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

OTHER CREDIT INSTITUTIONS (Dec. 31, 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, Posti-pankki 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 (May 1, 1978). The official discount rate of the Bank of Finland (the basic rate applied by the Bank of Finland for discounts and rediscounts of commercial banks) is 7 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 ½%.

PUBLIC FINANCE IN 1978

by Immo Pohjola, Lic.Pol.Sc.
and Erkki J. Tassia, M.Pol.Sc.

Economics Department of the Ministry of Finance

The revival of employment and economic growth was one of the main duties assigned to public finance in 1978. While the improvement of employment necessarily remained a long-term policy objective, efforts to curb the rate of inflation and restore the current account balance had already met with tangible success. In an attempt to stem price increases, temporary measures seeking partly to defer and partly to moderate cost pressures were introduced. The target of current account balance was more than fulfilled, following an unexpectedly sharp increase in exports and a decline in imports due to slow economic growth. However, the balance is scarcely stable as yet, since customer countries' imports have been primarily for stockbuilding and therefore do not guarantee consistently high export growth, despite a marked improvement in the price competitiveness of Finnish industry. The growth of exports raised capacity utilization but did not suffice to stimulate investment or employment.

Efforts were made to improve corporate sector employment and increase the household sector's real disposable income. The Government's fiscal policy measures in 1978, by curtailing the growth of state revenue and increasing expenditure, necessitated a substantial increase on 1977 in the central government borrowing requirement and long-term borrowing.

CENTRAL GOVERNMENT FINANCE

THE BUDGET PROPOSAL

In the summer of 1977 when the budget proposal for 1978 was being prepared, it was

estimated that economic growth in the market economies most important for Finnish exports would be modest even in 1978 and that no significant international economic upswing could be expected. A number of relevant indicators suggested that the rate of inflation in Finland would exceed the rates in competing countries. It was forecast that domestic demand, particularly private consumer demand, would revive, and although export growth had slowed, the growth rate of GDP was expected to rise to 2.5 per cent and an improvement in the country's external position was anticipated.

The main objectives of the 1978 budget proposal were seen to be the improvement of employment, the reduction of the country's foreign debt, and the curbing of both inflation and the growth of public finance.

Following selective adjustments in the progressive income and wealth tax scales made annually since 1974, the general indexation of income taxation was undertaken in 1977. The budget proposal for 1978 included further proposals for adjustment of income taxation to compensate for inflation in 1977, with an average adjustment in income tax scales and the major allowances of 13 per cent. It was proposed that wealth taxation would also be eased by well over 13 per cent.

No revisions in the sales tax system were made although it was proposed that certain basic food-stuffs should remain exempt from sales tax and that the sales tax on industrial building projects should be suspended. At the same time, employers' social security contributions were temporarily reduced. In order to ensure finance to cover state expenditure, excise duties and borrowing were increased.

Proposed expenditure totalled 37 600 million marks, 15 per cent more than the 1977 ordinary budget, of which it was moved that 1 900 million marks be financed through long-term borrowing.

In the parliamentary debate on the budget proposal, only minor changes were made reducing both revenue and expenditure. The 1978 budget contained appropriations for the continuation of the most important social reforms under way, although several measures to restrain the growth of public expenditure were also suggested. With regard to employment, emphasis was placed on measures increasing corporations' price and real competitiveness and on the stimulation of industrial investment in both the private and the public sectors, investment projects in the latter being deliberately timed for the winter period. In addition, several measures to improve training and employment prospects for the young were taken.

REFLATIONARY MEASURES¹

At the end of 1977, the Government decided to introduce supplementary reflationary measures. These included the postponement of negotiated wage increases by half a year and a further postponement of part of the increases until the beginning of February 1979. Subsequently it was decided that 1.5 percentage points of the increases due in February would be paid from the beginning of May 1978. Similarly, the scheduled revisions in employment pensions and the conclusion of the agricultural incomes agreement were deferred for half a year. The corporate sector was called upon to refrain from raising prices and charges, and a rent-freeze was imposed until the end of August 1978. The rate of the insurance premium on employment pensions was reduced by a further one percentage point, on top of the one point suggested earlier. In addition to higher indirect tax rates and state charges, increases in the prices of tobacco products and alcoholic beverages were proposed.

¹ See the back article »Finnish economy in 1978 and the current outlook» in Bulletin 5/1979.

In order to maintain the household sector's purchasing power, the sickness insurance and national pension premiums of the insured were reduced. Income tax scales for people in low-income brackets were eased and further adjustments in income and wealth taxation to compensate for inflation were promised. Two measures aimed at reviving entrepreneurial activity, a selective reduction in electricity tax and an upper limit on the burden of direct taxation were introduced. In addition, the Government was committed to several employment promoting measures, and was concerned especially with reducing regional differences in unemployment.

At the end of March, the Government revised sales tax on dairy produce in an attempt to reduce pressure on prices. The Government also implemented a further reduction in sickness insurance and national pension premiums of the insured, and decided to continue rebates of employers' social security contributions and the sales tax exemption for investment in industrial buildings. Sales tax on the manufacturing industry's machinery and equipment investment was reduced by 50 per cent from the beginning of April 1978 until the middle of 1979. In August the Government decided that one third (about 800 million marks) of the excess tax repayments postponed until March 1979 would be brought forward to December 1978. Subsequently it was also decided to continue sales tax exemption for investment in industrial buildings until mid-1979.

ECONOMIC DEVELOPMENTS IN 1978

By the beginning of 1978 the economic outlook had changed significantly since the summer of 1977, when the budget proposal was being prepared, due to a deterioration in international economic prospects and also to the implementation of the reflationary measures approved at the end of 1977. Further changes occurred as the reflationary measures adopted during the course of 1978 took effect. The growth of the volume of exports was almost

double that predicted in the budget proposal, largely reflecting a transfer of domestic stocks to customer countries. There was some rise in the capacity utilization and productivity of export industries, but insufficient to revive private investment, which declined more than forecast. Consequently, employment-promoting measures could not prevent a rise in unemployment by 1.5 percentage points to 7.5 per cent. The slackness in investment also induced a 4 per cent decline in imports of goods and services, instead of the increase predicted in the budget proposal. The predicted current account deficit became a surplus of 2 400 million marks following a decline in imports and a growth in exports. Private consumption also declined slightly, but a rise in public consumption sharper than forecast brought total consumption close to its estimated level, and similarly, the growth of GDP almost equalled budget proposal predictions.

The economic policy measures implemented succeeded in reducing cost pressures and to some extent deferring them until 1979. The household sector's real disposable income increased by 3 per cent as a result of tax concessions and reductions in charges, although real earnings fell by almost one per cent. Consumer prices rose by only 7.5 per cent, as against a forecast 9 per cent, of which 2 percentage points was attributable to revisions in indirect taxes and state charges. The slower rate of inflation in 1978 improved Finnish industry's price competitiveness considerably and contributed to the growth of exports.

A combination of factors led to a shrinking of the central government's tax revenue base; price increases were smaller than forecast in the budget proposal and revenue of both the central government and the Social Security Institution was also hit by the numerous rebates included in the reflationary programme amounting to a total of 1 600 million marks. In addition, income tax indexation costing 1 000 million marks to compensate for an inflation rate, double the rate of increase in earnings, reduced the ratio of household sector taxes to GDP.

The fall in revenue combined with a 700 million mark increase in expenditure to stimulate economic activity meant a considerable rise in the central government borrowing requirement. During 1978 the Government presented four supplementary budgets, which together increased state expenditure by 3 100 million marks, or, as in 1977, by 8 per cent of the total of the ordinary budget. The bulk of this increase was attributable to measures promoting employment. In order to meet the increased borrowing requirement, the Council of State's authority to take out new loans was raised, in connection with the supplementary budgets, from 1 900 million marks to 5 600 million marks.

STATE REVENUE

In 1978 total state revenue (excluding borrowing) amounted to 34 500 million marks, 5.5 per cent more than in 1977 (Table 1). The total yield from direct taxes withheld in advance or paid after the final assessment (income and wealth taxes, local taxes, church taxes, the sickness insurance and national pension premiums of the insured, i.e. the majority of direct taxes) increased by only one per cent. The yield from income and wealth taxes declined by 11.5 per cent partly due to the adjustment for inflation but also because one third of the excess tax repayments due in March 1979, 800 million marks, was brought forward to December 1978. In addition, excess tax repayments of 1 800 million marks postponed from 1977 were made in March 1978.

Sales tax revenue increased by 15 per cent, although the increase in yield was slightly curtailed by temporary tax concessions for industrial investment projects and certain dairy products. Revisions concerning customs duties, import charges and certain excise duties caused a 10 per cent decline in the total accrual of customs duties and import charges, and revenue was also affected by the reductions in the EEC and CMEA tariffs in

TABLE 1. STATE CASH REVENUE AND EXPENDITURE

Revenue	1977	1978
	Mill. mk	
Total taxes on income and wealth	10 747	9 548
Sales taxes	8 282	9 550
Customs duties and import charges	647	581
Excise duties	5 754	6 772
Other taxes and similar revenue	4 282	4 452
Other revenue	2 604	3 071
Redemptions of loans granted	416	563
Total revenue	32 732	34 538
Borrowing	2 015	5 282
Total	34 747	39 820
Expenditure		
Consumption expenditure	9 415	10 446
Transfer expenditure	17 070	18 917
Real investment	3 607	3 772
Interest on state debt and index compensations	454	623
Other expenditure ¹	119	-78
Lending	2 993	2 806
Other financial investment	687	510
Total expenditure	34 345	36 996
Redemptions	481	774
Deficit (-), Surplus (+)	-79	2 050
Total	34 747	39 820

¹ Incl. net deficit of State enterprises.

accordance with the agreed tariff reduction schedule.

The total yield from excise duties was increased by the higher prices of fuel and alcoholic beverages and by the extension of the incidence of the excise duty on certain food-stuffs in August 1978. Reliefs granted for the electricity tax worked in the opposite direction, but there was still a net increase in the total yield from excise duties of one fifth, on 1977. Tax revenue was also increased by the higher tax on motor vehicles but against this there were cuts in the buffer stock charge on liquid fuels and in employers' child allowance contributions. Taxes and similar revenue totalled 30 900 million marks, a rise of only 4 per cent on the previous year.

STATE EXPENDITURE

State expenditure (excluding debt redemption) totalled 37 000 million marks, nearly 8 per cent more than in 1977. Expenditure thus increased less rapidly than in the previous year, due to the fall in the rate of inflation. The volume of total expenditure grew by 2 per cent, or by about the same amount as in the previous year and remained within the specified limits. The fact that the increase in expenditure was modest was largely ascribed to the large number of payments postponed until the following year in the form of deferred expenses or appropriations. Of the various consumption expenditure items, pensions were the fastest growing. In the transfer payments category, state subsidies to the local government sector and »Other transfer payments» were the components showing the fastest increase. State subsidies to industry, however, were reduced in real terms, largely as a result of reductions in cost guarantee compensations; the agricultural price subsidies even declined in value terms. Of real investment expenditure, construction of buildings was the only item that increased in volume terms. Lending declined, mainly because the total amount of loans granted by the Investment Fund of Finland, 168 million marks, was barely two fifths of the previous year's total. Other financial placements, mainly shareholdings in state-owned companies, were reduced by one quarter.

CENTRAL GOVERNMENT BORROWING REQUIREMENT

As a result of reflationary and other measures, the growth of state revenue lagged behind that of expenditure, and the central government borrowing requirement increased 50 per cent on the 1977 level, totalling 2 500 million marks. If the redemptions of loans, 800 million marks, are included then the gross borrowing requirement amounted to 3 200 million marks. Drawings of new long-term loans totalled 5 300 million marks in 1978, two and a half times the amount drawn in the previous year. Of this, foreign loans accounted for 3 300 million marks, 140 million marks of which was

drawn for the Investment Fund of Finland. Domestic borrowing amounted to 2 000 million marks, 1 400 million marks of which was raised mainly by 5 to 6 year bonds intended for public subscription. Of the 700 million marks credit granted by the Bank of Finland, 188 million marks was drawn. The other bonds were sold to insurance companies and labour pension funds. As a result of the increased borrowing in recent years, redemptions started to increase as well, and were up 61 per cent on the previous year.

The state's net long-term borrowing almost tripled and amounted to 4 500 million marks, of which net foreign borrowing accounted for 3 000 million marks. Owing to changes in foreign exchange rates, the country's net debt increased more than net borrowing. At the end of 1978, the state's total debt, of which two thirds was external, amounted to 11 500 million marks. At one third of annual state revenue, this was still fairly low by international standards.

Owing to the sharp increase in net borrowing, state revenue (including borrowing) exceeded expenditure (including redemption) by 2 000 million marks. The financial reserves accrued will improve the state's liquidity position in 1979 and facilitate payment of the deferred expenses from 1978. The state's financial reserves were fairly large even after the repayment of excess taxes in March 1979.

LOCAL GOVERNMENT

The local government cash position was fairly solid at the beginning of 1978. Large state subsidies and a decline in investment in 1977 combined to increase the disposable income of municipalities more rapidly than their expenditure, and hence their financial surplus for that year was exceptionally large. As a result, municipalities' indebtedness relative to disposable income was low at the beginning of 1978 and their holdings of

deposits relatively larger than in the preceding year.

An agreement concluded between the central government and the central municipal organizations proposed a restriction of the average annual increase in the local tax rate in 1978 to 0.1 per cent per unit, and as the overall economic recession curbed the growth of taxable income, the increase in local government tax revenue was expected to be modest. According to the above agreement, state subsidies to municipalities were to grow, in real terms, by not less than 4 per cent, but the vigorous growth of the previous years was expected to slacken. Attempts were also to be made to restrain the growth of local government consumption expenditure to a maximum of 3 per cent per annum.

In an effort to improve employment, the central government paid employment support to municipalities, which increased local government consumption expenditure by 0.5 percentage points. Preliminary figures suggest a slight decline in the growth rate of total local government consumption expenditure to just under 5.5 per cent. Expenditure on social services and general administration showed the most marked increase, while the growth of educational expenditure was curbed by the fact that the programme for the extension of comprehensive schooling had been completed the previous year.

Preliminary data reveals that total local government investment almost maintained the previous year's level, with a concentration in the social services, and especially the health services. Building projects for schools, libraries and health centres were speeded, as far as possible, for purposes of employment, and hence municipalities were unable to cut investment in accordance with their budgets. The accrued disposable income and an easy financial market provided finance in the absence of central government subsidies, to be paid later.

Of budgeted local government loans, a larger share was negotiated with financial institutions

PUBLIC FINANCE AND THE OVERALL ECONOMIC DEVELOPMENT

than in the previous years, which reflected the local government sector's improved access to credit. The overall easing of the financial market was largely attributable to the current account surplus and the central government's capital imports. In the credit policy guidelines of the Bank of Finland, which were effective until the autumn of 1978, local government was not singled out, but in new guidelines issued in the autumn, the banking institutions were advised to give priority to municipal investment projects in particular, if they promoted production, or if they were scheduled to be implemented in the near future. The central government also tried to encourage further local government investment by negotiating with the Bank of Finland and different banking institutions on the granting of additional loans to municipalities during the winter of 1978—1979.

In 1978 local government tax revenue increased only slightly. However, the real growth in state subsidies to municipalities accelerated and hence, according to preliminary figures, the local government financial surplus, although pared somewhat, still remained substantial. Local government debt grew slightly more rapidly than disposable income, so that the level of indebtedness of municipalities began to rise after a decline over several years. The financial surplus and the increase in debt improved the liquidity position of municipalities, which was reflected in a growth in bank deposits.

Local government was able to start the year 1979 under easy financial conditions, and is expected to proceed along the same lines as last year. According to budgets, the volume of local government investment should decline, and likewise the growth in consumption expenditure. However, with a general revival of economic activity, the growth of tax revenue should accelerate, added to which the payment of deferred subsidies and employment support ensures continued rapid growth of state subsidies to municipalities. Liquidity positions should remain good, although there may be significant regional disparities.

In 1978 economic growth was sluggish for the fourth successive year, although it picked up slightly. As a result, tax revenue increased only modestly, curbed also by a lower ratio of taxes to GDP. An expansionary public expenditure programme aimed especially at employment thus meant a sharp decline in the public sector's financial surplus. A shift towards a reflationary fiscal policy had already occurred in 1977, but as signs of an upswing failed to materialise and employment problems became increasingly severe, reflationary economic policies were intensified on several occasions during 1978 and even at the beginning of 1979. The slight strengthening in domestic production was obviously largely a reflection of economic policy measures.

The decline in the ratio of taxes to GDP was attributable to the re-assessment of central government tax scales and the early repayment of excess taxes. The average local government tax rate increased slightly. The fact that the ratio of net tax revenue to GDP fell more than that of total tax revenue was largely due to the increase in income transfers associated with employment policy.

The central government borrowing requirement increased substantially as a result of increasing

TABLE 2. THE RATIO OF TAXES TO GDP AND THE GROWTH OF PUBLIC EXPENDITURE, PER CENT

	1976	1977 ²	1978 ²
Total tax revenue as a percentage of GDP	41.5	41.0	38.7
Net tax revenue as a percentage of GDP	27.5	26.7	23.9
Real growth of public expenditure ¹	3.8	3.0	4.4
Central government	0.3	0.2	4.2
Local government	6.2	4.5	4.6
Real growth of GDP	0.3	0.5	2.5

¹ Excl. public enterprises
² Preliminary estimates

expenditure and decelerating tax receipts. The growth of local government expenditure was also persistently high. Since the increase in state subsidies to municipalities accelerated slightly in real terms, the financial position of municipalities remained good, despite the weakening in the growth of tax revenue. Both central government and local government expenditure grew by about 2 percentage points more than domestic output, while the net tax burden fell by almost 3 percentage points, which caused a significant improvement in the private sector's financial position. Thus public finance was clearly expansionary in its impact. According to estimates made with the aid of the econometric models of the Ministry of Finance, the impact of central government on aggregate demand was about 2.5 per cent of GDP last year and that of the total public sector nearly 4 per cent.

According to revised National Accounts Statistics, in 1978 the central government (including the Social Insurance Institution) ran a financial deficit for the first time this decade. Although part of the deficit can be ascribed to slow economic growth and the increased unemployment, it is also a result of the increasingly expansionary fiscal policies. The financial surplus of local government also declined.

In view of the low capacity utilization in Finnish industries in 1978 there was no danger

that public expenditure growth might result in a crowding-out of private demand. The main emphasis in reflationary policy was on encouraging a revival of economic activity within the private sector and avoiding any further expansion of the public sector's relative importance in the economy so as to reduce the tax burden. The fact that the current account was in surplus also provided scope for an expansionary fiscal policy. In an attempt to improve corporate sector profitability, the Government paved the way for a moderate collective agreement by effectively »over-adjusting» household sector income tax scales for inflation and thereby raising the household sector's real disposable income. Social security contributions and employment pension premiums were reduced temporarily in an effort to curb the growth of labour costs. Similarly, in accordance with anti-inflation policy, increases in indirect taxes were negligible, and certain indirect taxes were reduced for a fixed period.

Exchange rate and monetary policy measures combined in the February devaluation of the Finnmark and the lowering in May of the general level of interest rates to enhance the international competitiveness of the corporate sector. In the long run the aim is to eliminate unemployment through the persistent stimulation of private demand and the curbing of cost inflation, but an alleviation of employment problems in the short run has also been sought by increasing public expenditure.

Employment subsidies created few vacancies in the course of 1978. This was partly due to lack of familiarity with the schemes and partly to deficiencies in the schemes themselves. Not all the appropriated funds were taken up in 1978, suggesting a reluctance or inability amongst municipalities and firms, to tie their own funds to state-supported projects.

The central government (excluding the Social Insurance Institution) revenue surplus, calculated on a cash basis, amounted to 295 million marks in 1978. Although central government lending and other long-term financial

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

Year	Financial surplus		Overall financial surplus
	Central government Mill. mk	Local government Mill. mk	Per cent of GDP
1970	1 190	304	3.4
1971	1 507	96	3.4
1972	1 666	—7	3.0
1973	3 193	—135	4.6
1974	2 347	—403	2.3
1975	440	314	0.8
1976	3 608	306	3.6
1977*	2 070	1 081	2.6
1978*	—696	449	—0.2

TABLE 4. CENTRAL GOVERNMENT REVENUE SURPLUS AND ITS USE ON A CASH BASIS, MILL. MK

	1976	1977	1978
Central government revenue surplus ¹	2 908	1 651	295
— Financial placements of the central government, net	3 129	3 263	2 753
+ Long-term borrowing, net	1 103	1 533	4 508
= Cash surplus	—882	79	—2 050

¹ Revenue (excl. redemption and borrowing) — Expenditure (excl. financial placements and redemption)

placements were smaller than in the previous year, the borrowing requirement amounted to almost 2 500 million marks. The increase in central government lending was smaller than forecast, due primarily to sluggish investment within the private sector and also to the easing of the financial market. The increase in expenditure assumed in the central government's borrowing plans also exceeded reality although the unexpected slackness in the growth of state expenditure partly reflected the postponement of certain expenditure until 1979.

Central government net borrowing exceeded the borrowing requirement by 2 050 million marks, thus effecting a corresponding increase in state cash reserves at the Bank of Finland and Postipankki. Since Postipankki's short-term cash receipts from the central government were generally deposited in the Bank of Finland call money market, changes in central government cash reserves were reflected in equal changes in the Balance Sheet of the Bank of Finland.

Of the central government net long-term borrowing, 3 000 million marks was from abroad, 200 million marks from the Bank of Finland and 1 300 million marks from other domestic sources. The increase in central government cash reserves reduced the supply of central

bank money, but this was counteracted by central government borrowing from abroad and from the central bank, so that the net effect of central government finance was to produce an increase of 1 100 million marks in the supply of central bank money. Other domestic central government borrowing was largely financed by the public. Government bonds intended for public subscription thus competed with long-term deposit accounts in the banks for the public's savings. However, since the supply of central bank money increased vigorously due to the current account surplus which exceeded the corporate sector's net capital outflow, total bank deposits grew notably faster than lending, so the financial crowding-out effect was not visible. Indeed, the net effect of the Government's heavy foreign borrowing was to ease the domestic financial market and augment its expansionary economic policy. The easing of the financial market was reflected in a decline in the commercial banks' central bank financing, which in turn elicited a lowering of the banks' credit quotas by the Bank of Finland on two occasions.

As a result of the economic policy measures already implemented, the central government borrowing requirement in 1979 is likely to exceed that of the preceding year. Although the increasing borrowing requirement will still be met largely by foreign borrowing, cash reserves are also expected to decline. Central government finance will therefore continue to swell the private sector's credit facilities substantially. The commercial banks' central bank financing has continued to decline during the early months of the year and is expected to fall further. In order to check any excessive credit expansion, the Bank of Finland concluded an agreement with the deposit banks on cash reserve deposits, which was applied for the first time in May.¹

¹ See the front article »Cash reserve agreement» in Bulletin 4/1979

ITEMS

The New Government. After the Parliamentary elections held in March, the President of the Republic invited the Governor of the Bank of Finland, Dr Mauno Koivisto (Soc. Dem.), to form a new government. On May 26 the President appointed a majority government in which the Centre Party holds six seats, the Social Democratic Party of Finland five, the Democratic League of the People of Finland three, and the Swedish Party two, with one independent member. The Deputy Prime Minister, Minister of the Interior and Minister to the Cabinet Office is Mr Eino Uusitalo (Centre Party), the Minister for Foreign Affairs is Mr Paavo Väyrynen (Centre Party), the Minister of Finance is Mr Ahti Pekkala (Centre Party) and the Minister for Foreign Trade is Mr Esko Rekola (Independent).

Board of Management of the Bank of Finland. At their meeting on June 5, 1979 the Bank Supervisors delegated by Parliament agreed to Prime Minister Mauno Koivisto's leave of absence as the Governor of the Bank and appointed Dr Ahti Karjalainen, Deputy Governor of the Bank, as Acting Governor.

At the same meeting Rolf Kullberg, Member of the Board of Management was appointed Deputy Governor, ad int. and Director Seppo Lindblom Acting Member of the Board of Management.

Finland's gross long-term foreign debt in January—March 1979. At the end of March 1979, Finland's gross long-term foreign debt amounted to the equivalent of 35 943 mil-

lion marks. The net inflow of long-term capital in January—March totalled 603 million marks, as against 1 044 million marks in the corresponding period last year.

The gross inflow of foreign capital amounted to 2 264 million marks, 18 per cent more than in the first quarter of 1978. Redemptions of long-term foreign liabilities totalled 1 661 million marks, which was twice as much as in January—March of last year. The increase in the growth rate of redemptions and drawings may above all be ascribed to the premature repayment of loans and the replacement of these with new loans on more favourable terms. Interest expenses (including commissions and dividends) were 26 per cent up on the first quarter last year. This was attributable not only to the growth in the total stock of loans outstanding but also to increases in the rates of interest on credit with variable interest rates.

In a breakdown of drawings by type of credit, financial loans accounted for 88 per cent of long-term foreign debt, import loans and leasing credits for 9 per cent and direct investments for 3 per cent.

Drawings by corporations amounted to 1 056 million marks or 48 per cent of total drawings, while those by financial institutions totalled 269 million marks or 12 per cent, and those by the central government and municipalities together accounted for 877 million marks or 40 per cent of total drawings of long-term foreign loans.

Two Finnish bond issues, together worth 485 million marks, were floated abroad in January—March 1979.

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

	Debt ² Dec. 31, 1978	Drawings ²	Redemp- tions ²	Net drawings	Impact of exchange rates	Debt ² March 31, 1979	Interest expenses, dividends and bonus issues
Financial loans	27 716	1 994	1 345	+649	-151	28 214	502
Individual financial loans	12 385	903	996	- 93	+ 79	12 371	222
Bonds and debentures	15 331	1 091	349	+742	-230	15 843	280
Bond issues	9 755	485	132	+353	-143	9 965	190
Debenture issues	344	130	—	+130	+ 1	475	8
Private placement loans	4 887	476	196	+280	- 86	5 081	78
Loans from the World Bank	345	—	21	- 21	- 2	322	4
Import credits	5 612	208	276	- 68	+ 40	5 584	117
Ship and aircraft credits	2 446	113	137	- 24	+ 23	2 445	46
Other import credits	3 166	95	139	- 44	+ 17	3 139	71
Leasing credits	122	—	5	- 5	+ 2	119	2
LONG-TERM CREDITS	33 450	2 202	1 626	+576	-109	33 917	621
Direct investments	1 885	61	27	+ 34	+ 5	1 924	58
Equity capital ³	1 298	17	4	+ 13	—	1 311	46
Loans to subsidiaries	587	44	23	+ 21	+ 5	613	12
Subscriptions¹	109	1	8	- 7	—	102	—
LONG-TERM GROSS DEBT	35 444	2 264	1 661	+603	-104	35 943	679

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.

BANK OF FINLAND

Board of Management

Mauno Koivisto

Governor, absent as Prime Minister

Ahti Karjalainen

Deputy Governor, Acting Governor

Pentti Uusivirta

Rolf Kullberg

Deputy Governor, ad int.

Ele Alenius

Harri Holkeri

Seppo Lindblom

ad int.

Directors

Markku Puntila

Seppo Lindblom

Eino Helenius

Pentti Koivikko

Kari Nars

Antti Lehtinen

Senior officials

Pertti Kukkonen

Director ADP-planning

Ralf Pauli

Deputy, Monetary Policy

Raimo Hyvärinen

Domestic Financial Operations

Kari Pekonen

Foreign Exchange Policy

Raine Panula

Foreign Exchange

Kari Holopainen

Eastern Trade

Antti Saarlo

Special Eastern Affairs

Pekka Tukiainen

Foreign Financing

J. Ojala

Foreign Exchange Control

Kari Puumanen

Economics Dept.

Heikki Koskenkylä

Research Dept.

Markku Pietinen

Information and Publications

H. T. Hämäläinen

Administration and Legal Affairs

Timo Männistö

Internal Audit

U. Levo

International Legal Affairs

Erkki Vehkamäki

Automatic Data Processing

Anton Mäkelä

Personnel

Stig G Björklund

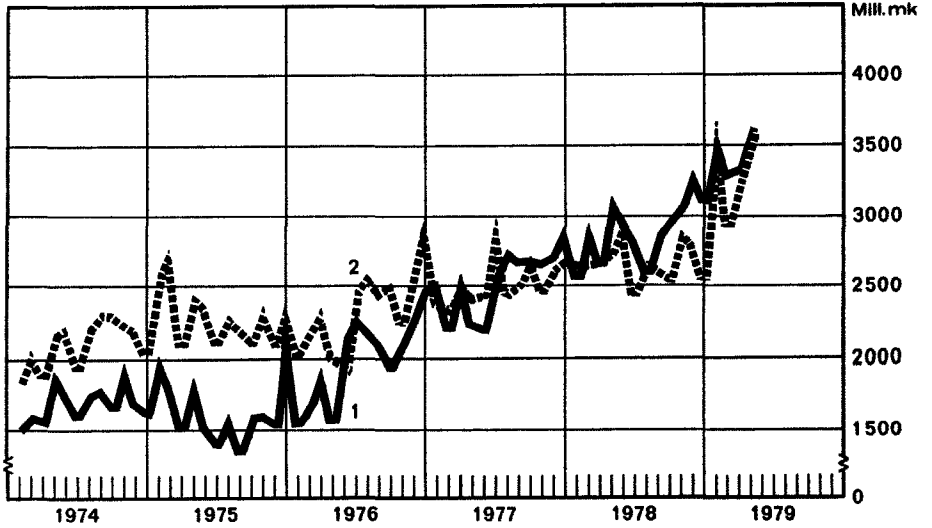
Banking Services

Antti Luukka

Cash

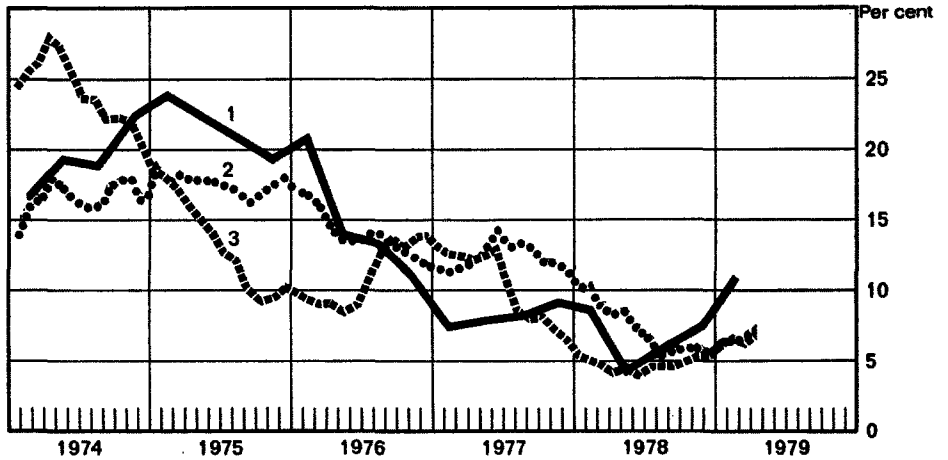
FOREIGN TRADE, 1974-79

- 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

