



BANK OF FINLAND

Monthly Bulletin

Private consumption

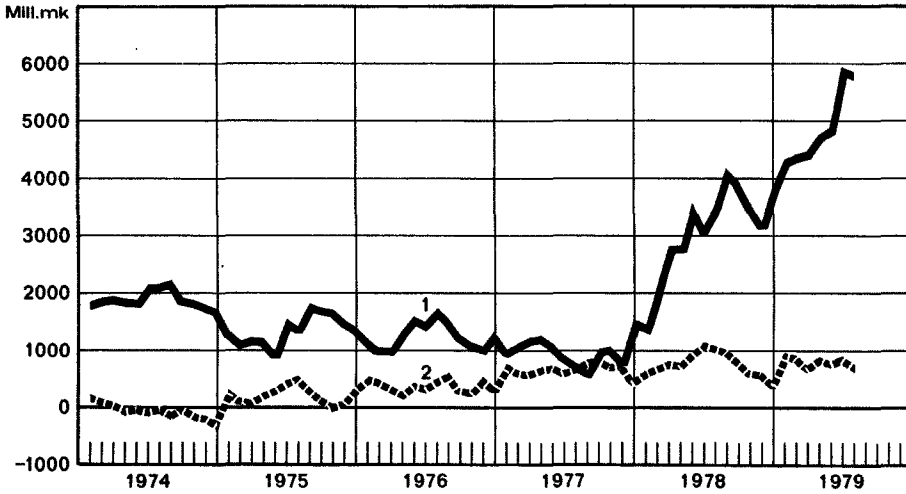
Foreign exchange strategies of Finnish
companies

The Bank of Finland investment inquiry
of June 1979

SEPTEMBER 1979

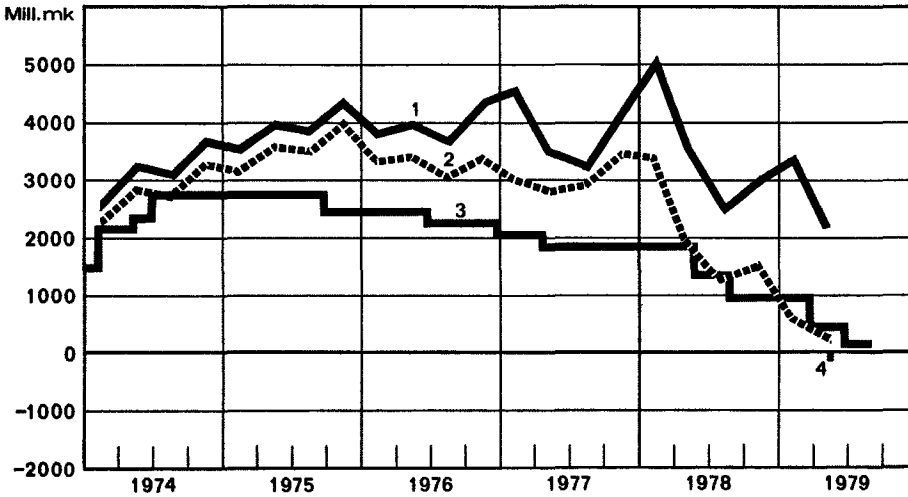
Vol. 53 No. 9

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



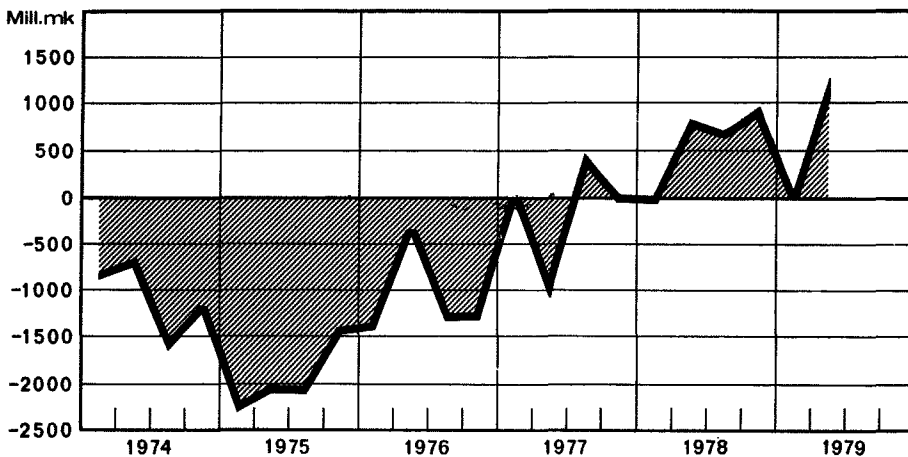
- 1. Gold and convertible currencies
- 2. Tied currencies

COMMERCIAL BANKS' CENTRAL BANK POSITION, 1974 - 79



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

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



Seasonally adjusted quarterly figures

PRIVATE CONSUMPTION¹⁾

The large fluctuations in the Finnish economy during the 1970s have also been reflected in unusually sharp variations in the growth rate of consumption. During the upswing from 1972 to 1974, the volume of private consumption grew at an average annual rate of 5.5 per cent. In 1975 the rate was reduced to some 3 per cent, which still clearly exceeded that of total output. Following the tightening of monetary and fiscal policies in 1975 in response to a deterioration in the external balance, the volume of private consumption increased by only one per cent in 1976 and decreased by more than one per cent in 1977. The downward adjustment in the savings rate prevented the sharp fall in disposable income from being totally reflected in consumption outlays (see chart).

The external balance having gradually been improved, it was possible to pursue a more expansionary economic policy line from mid-1977 onwards. Although this shift in policy has been primarily concerned with improving the competitiveness and profitability of the corporate sector, it has also included measures designed to promote the income formation and propensity to consume of the household sector. The major measures aimed directly at households in 1978 and 1979 have been adjustments of tax scales in line with the rate of inflation, tax reductions for low-income earners, temporary reductions in social security contributions, and rises in child allowances and certain other income transfers paid by the public sector.²

As a result of moderate increases in money wages and a decline in agricultural income due to a poor harvest, households' pre-tax earnings decelerated to only some 5 per cent in 1978.

At the same time, however, net income transfers paid by households to the public sector declined as a result of the policy measures, and the disposable income of households grew by more than 10 per cent in nominal terms and by almost 3 per cent in real terms.

However, although the growth rate of disposable income picked up noticeably last year, the volume of private consumption increased only moderately as the savings rate was clearly adjusted upwards (see chart). This adjustment seems to have been brought about by weak income expectations and the uncertainty created by high unemployment; as a result the increase in disposable income was mainly channelled into financial saving. The increase in real consumption outlays amounted to only 1.2 per cent for the year as a whole, even though the last quarter of the year saw a clear pick-up in the growth rate.

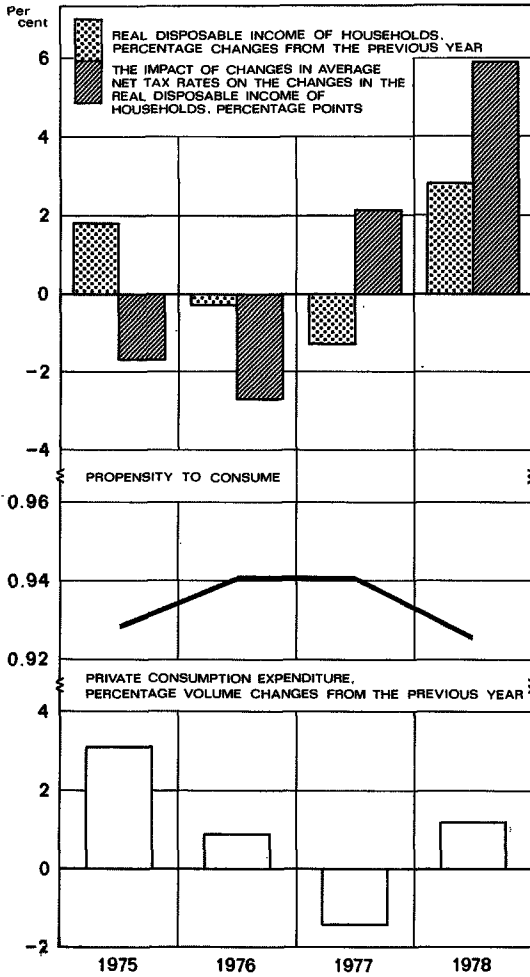
During the first half of the current year, households' pre-tax earnings have re-accelerated both as a result of the improvement in employment and faster growth in wage rates. Although the incomes agreement concluded at the beginning of the year was very moderate, involving an increase of only 2 ¼ per cent, the overhang from the previous incomes agreement helped to produce a rise in the average wage level in the first quarter of the year which was 11 per cent up on that of the corresponding period for the previous year. The rise in the wage bill over the same period amounted to a couple of percentage points more. Since the aim of fiscal policy is to maintain average net tax rates at an unchanged level, the growth in households' disposable income continues to remain favourable.

At the same time expectations seem to be improving. This together with the strengthened liquidity position of households has clearly boosted private consumption, which during

¹ This text is based on new national income statistics, in which the «household sector» no longer includes the private non-profit institutions.

² For further details of the reflationary measures, see the back article «The Finnish Economy in 1978 and the Current Outlook» in the May 1979 issue of this publication.

HOUSEHOLDS' INCOME, PROPENSITY TO CONSUME AND PRIVATE CONSUMPTION EXPENDITURE, 1975-1978



which during the first half of this year was some 5 per cent up on the corresponding period for the previous year, indicates that these trends have continued during the second quarter.

In 1978, as in the two previous years of recession, households refrained particularly from purchases of durables and real outlays on durables declined by 2 1/2 per cent. On the other hand, the volume of expenditure on semidurables increased by 1/2 per cent, that on non-durables by 3/4 per cent, and that on services by as much as 4 per cent. But, reflecting the change in the cyclical phase, durables represented the fastest growing component in the first quarter of this year. On an annual basis, the rate amounted to nearly 20 per cent for durables, which compares to somewhat more than 5 per cent for semidurables, about 10 per cent for non-durables, and some 2 per cent for services. Registration of new passenger cars, one of the major indicators for spending on durables, experienced a sharp increase during the first half of the year, the growth being as much as one eighth up on the corresponding period for the previous year.

Backed up by a favourable income formation and easy financial market conditions, the growth in households' consumer demand is expected to continue brisk during the latter half of this year. As in the first half of the year, durables are likely to be the most expansive demand component.

August 21, 1979

the first quarter of the year grew at an annual rate of 8 per cent over the last quarter of 1978 in volume terms. The volume of retail sales,

BANK OF FINLAND

Mill. mk

	1978		1979				
	Aug. 31	Dec. 30	Aug. 8	Aug. 15	Aug. 23	Aug. 31	
Assets							
Gold and foreign exchange receivables	5 272	4 339	6 586	6 908	7 227	7 027	
Gold	133	169	169	169	169	169	
Special drawing rights	149	316	448	448	448	448	
IMF reserve tranche	246	243	236	236	236	236	
Convertible currencies	3 709	3 126	4 963	5 357	5 784	5 670	
Tied currencies	1 035	485	770	698	590	504	
Other foreign receivables	2 407	1 968	2 816	2 833	2 883	2 971	
Foreign bills ¹	589	—	—	—	—	—	
Foreign bonds	708	872	1 710	1 727	1 777	1 865	
Mark subscription to Finland's IMF quota	1 110	1 096	1 106	1 106	1 106	1 106	
Receivables from financial institutions	2 996	3 695	1 441	1 998	1 476	1 110	
Banks' cheque accounts	80	137	147	167	128	331	
Discounted bills	1 320	970	—	—	—	—	
Bonds	339	361	369	369	368	370	
Call money market advances	1 229	2 213	900	1 436	964	392	
Other financial institution receivables	28	14	25	26	16	17	
Receivables from the public sector	453	633	849	851	849	848	
Government promissory notes	50	188	346	346	346	346	
Bonds	75	93	134	134	134	134	
Total coinage	327	336	365	366	366	366	
Other public sector receivables	1	16	4	5	3	2	
Receivables from corporations	1 288	1 948	2 225	2 215	2 236	2 256	
Financing of exports ²	231	904	1 018	996	1 013	1 034	
Financing of domestic deliveries	750	752	864	872	876	875	
Bonds	202	207	205	205	205	205	
Other corporate receivables	105	85	138	142	142	142	
Other assets	62	64	69	69	70	69	
	Total	12 478	12 647	13 986	14 874	14 741	14 281
Liabilities							
Foreign exchange liabilities	59	60	21	26	25	26	
Convertible accounts	43	46	21	26	25	26	
Tied accounts	16	14	0	0	0	0	
Other foreign liabilities	2 786	2 195	2 077	2 077	2 077	1 899	
IMF mark accounts	2 074	1 881	1 623	1 623	1 623	1 445	
Allocations of special drawing rights	301	314	454	454	454	454	
Term liabilities	411	—	—	—	—	—	
Notes and coins in circulation	3 414	3 822	3 928	3 956	3 971	4 022	
Notes	3 115	3 509	3 592	3 619	3 634	3 685	
Coins	299	313	336	337	337	337	
Deposit certificates in circulation	859	1 090	3 378	3 378	3 378	3 378	
Claims of financial institutions	2 103	2 520	1 485	2 399	2 241	1 880	
Banks' cheque accounts	1	2	15	13	2	1	
Call money market deposits	1 628	2 075	874	1 793	1 646	1 038	
Cash reserve deposits	—	—	482	482	482	730	
Capital import deposits	337	405	109	107	107	103	
Other financial institution claims	137	38	5	4	4	8	
Claims of the public sector	202	114	375	373	373	374	
Cheque accounts	1	2	1	1	0	0	
Counter-cyclical reserves	38	40	40	40	40	40	
Capital import deposits	162	70	333	331	332	333	
Other public sector claims	1	2	1	1	1	1	
Claims of corporations	505	356	403	400	402	407	
Deposits for investment and ship purchase	46	32	117	117	117	120	
Capital import deposits	448	303	283	281	282	282	
Import levy deposits	8	6	2	2	1	1	
Other corporate claims	3	15	1	0	2	4	
Other liabilities	12	12	15	14	14	13	
Equalization accounts	489	350	123	75	85	112	
Capital accounts	2 049	2 128	2 181	2 176	2 175	2 170	
Primary capital	1 400	1 400	1 400	1 400	1 400	1 400	
Reserve fund	545	545	636	636	636	636	
Undisposed profits	—	—	92	92	92	92	
Net earnings	104	183	53	48	47	42	
	Total	12 478	12 647	13 986	14 874	14 741	14 281

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

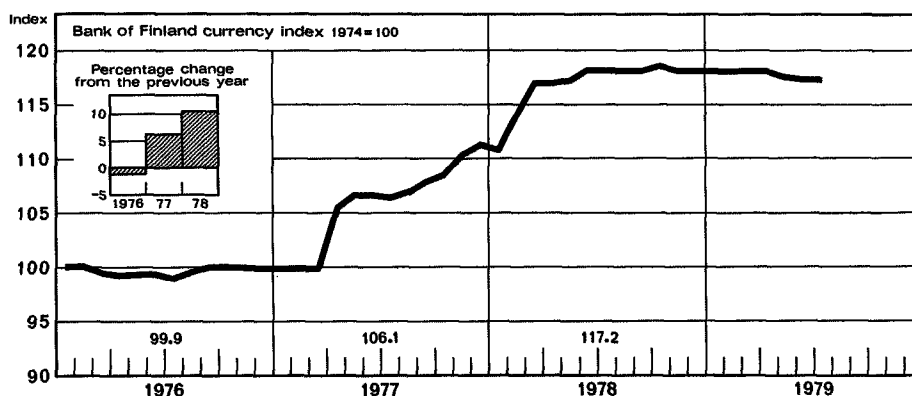
End of year or month	Foreign sector						Public sector			Deposit certificates in circulation	
	Gold and convertible exchange receivables	Convertible exchange liabilities	Gold and convertible exchange reserves (1-2)	Tied exchange reserves	Other receivables	Other liabilities	Net receivables (3+4+5-6)	Receivables	Liabilities		Net liabilities (9-8)
	1	2	3	4	5	6	7	8	9	10	11
1972	2 613	43	2 570	— 6	757	788	2 533	175	49	-126	790
1973	1 928	65	1 863	210	803	788	2 088	200	534	334	1 450
1974	1 784	62	1 722	-388	1 123	788	1 669	302	560	258	1 040
1975	1 488	78	1 410	368	1 274	1 385	1 667	339	1 301	962	250
1976	1 361	50	1 311	389	1 660	1 923	1 437	447	1 133	686	—
1977	1 602	53	1 549	496	1 959	3 447	557	391	328	- 63	200
1978	3 854	46	3 808	471	1 968	2 195	4 052	633	114	-519	1 090
1978											
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
June	5 999	30	5 969	901	2 637	2 077	7 430	844	41	-803	3 378
July	5 867	20	5 847	770	2 796	2 077	7 336	853	373	-480	3 378
Aug.	6 523	26	6 497	504	2 971	1 899	8 073	848	374	-474	3 378

FOREIGN EXCHANGE SITUATION

Mill. mk

	Net holdings, Dec. 31, 1978			Net holdings, July 31, 1979			Change	
	Bank of Finland	Other	Total	Bank of Finland	Other	Total	July	Jan.—July
Gold	169	—	169	169	—	169	—	—
Special drawing rights	315	—	315	458	—	458	+ 7	+143
IMF reserve tranche	243	—	243	236	—	236	—	- 7
Convertible currencies	3 080	-2 072	1 008	4 983	-4 060	923	+602	- 85
Total	3 807	-2 072	1 735	5 846	-4 060	1 786	+609	+ 51
Non-convertible currencies	471	152	623	770	139	909	-129	+286
Grand total	4 278	-1 920	2 358	6 616	-3 921	2 695	+480	+337

End of year or month	Domestic financial sector						Corporate sector				Notes and coins in circulation
	Dis-counted and re-dis-counted bills	Cheque account receivables, net	Demand for call money by deposit banks	Supply of call money by deposit banks	Cash reserve deposits	Other liabilities, net	Net receivables (1+2+3-4-5-6)	Permanent special financing schemes	Liabilities, net	Net receivables (8-9)	
	1	2	3	4	5	6	7	8	9	10	11
1972.	753	5	—	—	—	2	756	321	73	248	1 879
1973	2 556	61	—	—	—	2	2 615	372	259	113	2 082
1974	3 034	110	—	—	—	-281	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											
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	115	-174	355	1 742	98	1 644	3 923
June	295	116	736	1 246	235	-210	-124	1 827	67	1 760	4 186
July	—	376	935	1 104	482	-287	12	1 884	55	1 829	4 025
Aug.	—	330	392	1 038	730	-276	-770	1 909	60	1 849	4 022



MONETARY POLICY INDICATORS

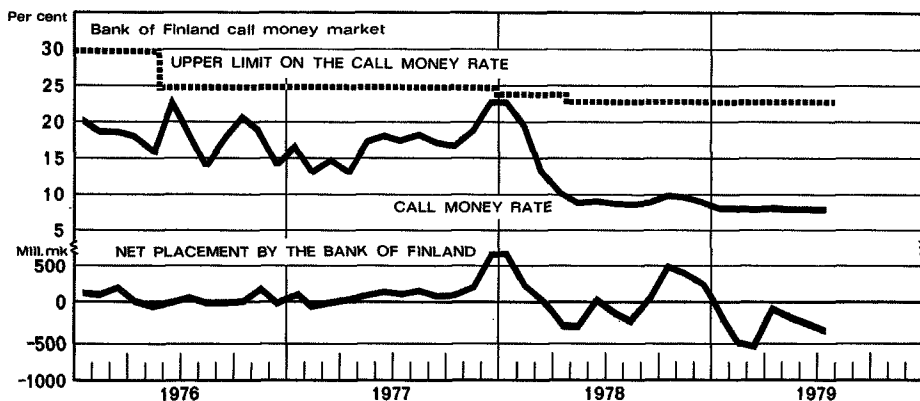
Average for period	Total central bank debt of the commercial banks, mill. mk	Actual central bank debt of the commercial banks, mill. mk	Credit quotas of the commercial banks at the Bank of Finland, mill. mk	Cash reserve deposits of the deposit banks ³ , mill. mk	Cash reserve deposits of the commercial 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										
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	7.82
May	2 343	292	500	4	3	-226	7.25	8.35	7.65	7.83
June	1 499	200	500	123	108	-308	7.25	8.35	7.52	..
July	1 257	-180	200	243	212	-388	7.25	8.31	7.68	..
Aug.	784	-208	200	490	427	-407	7.25	8.36	..	..

See explanations on page 22.

¹ End of period.

² 1 9—31 12. 1975.

³ See Bulletin April, 1979, page 1.

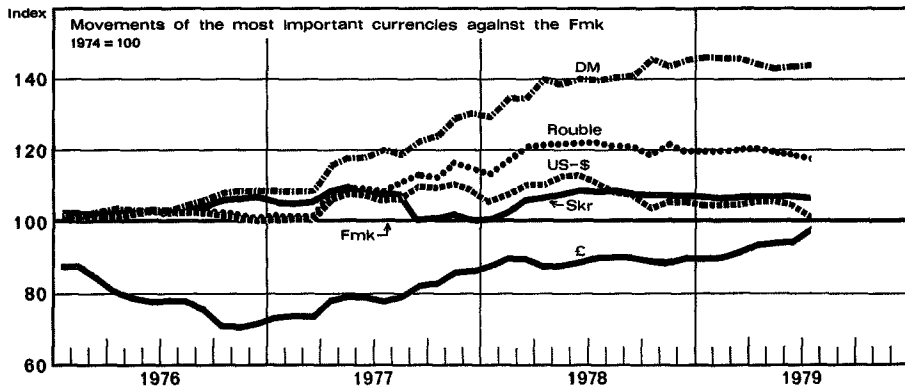


FOREIGN EXCHANGE RATES

Average selling rates for foreign exchange, mk

Period	New York	London	Stockholm	Oslo	Copenhagen	Frankfurt	Zurich	Paris	Moscow	Currency index 1974 = 100
	1 US \$ USD	1 £ GBP	100 Skr SEK	100 Nkr NOK	100 Dkr DKK	100 DM DEM	100 Sfr CHF	100 FF FRF	1 Cl Rbl SUR	
	1	2	3	4	5	6	7	8	9	10
1972	4.146	10.368	87.20	62.97	59.72	130.07	108.64	82.25	4.960	102.1
1973	3.816	9.355	87.76	66.64	63.47	144.34	121.22	86.10	5.159	102.5
1974	3.774	8.833	85.22	68.44	62.17	146.21	127.19	78.65	4.995	100.0
1975	3.679	8.155	88.80	70.59	64.21	149.80	142.64	86.00	5.093	101.1
1976	3.864	6.983	88.86	70.95	64.04	153.78	154.86	81.09	5.125	99.9
1977	4.029	7.042	90.21	75.83	67.23	174.15	168.70	82.16	5.475	106.1
1978	4.117	7.917	91.43	78.93	75.06	205.53	231.83	91.77	6.037	117.2
1978										
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
June	3.973	8.390	91.71	77.29	73.35	210.71	233.39	91.21	5.956	117.5
July	3.851	8.716	91.52	76.66	73.75	211.37	234.03	91.04	5.915	117.5
Aug.	3.845	8.620	91.34	76.71	73.25	210.34	232.22	90.59	5.942	117.2

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

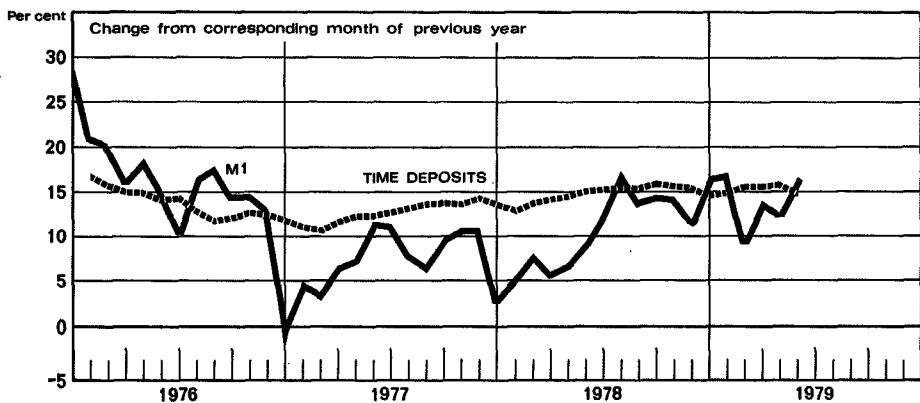
1978

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
April	3 837	1 670	1 995	7 502	17 816	15 405	11 966	5 112	50 299	57 801
May	4 244	1 777	2 271	8 292	17 692	15 584	12 140	5 140	50 556	58 848

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	
	Commer- cial banks	Savings banks	Co-op. banks	Posti- pankki	Loans & bills in domestic currency	Cheque credits	Domestic credits in foreign currency	Total (1 to 4) (5 to 7)	M ₁	M ₁ +Quasi- Money
	1	2	3	4	5	6	7	8	9	10
1975	20 799	9 108	7 797	5 597	38 285	1 281	3 735	43 301	9 772	43 165
1976	22 077	10 615	9 247	6 120	42 617	1 569	3 873	48 059	9 601	47 014
1977	24 679	12 312	10 547	6 609	47 355	1 690	5 102	54 147	9 872	52 581
1978	26 324	14 092	12 181	6 847	52 517	1 723	5 204	59 444	11 496	60 682

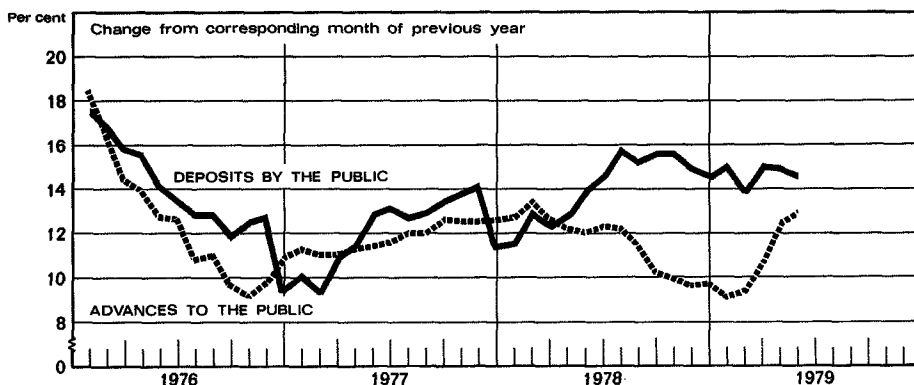
1978

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

Jan.	26 250	14 214	12 272	6 986	52 889	1 746	5 087	59 722	11 544	61 064
Feb.	26 735	14 373	12 348	7 160	53 558	1 876	5 182	60 616	11 102	61 615
March	27 186	14 446	12 446	7 196	53 701	1 805	5 768	61 274	11 442	62 463
April	28 170	14 598	12 548	7 342	54 374	1 816	6 468	62 658	11 577	63 203
May	28 384	14 826	12 747	7 423	55 035	1 761	6 584	63 380	12 435	64 350

¹ New series. See explanations on page 22.



STATE FINANCES

Mill. mk

Revenue	Jan.—June	
	1978	1979
Income and wealth tax (net)	3 621	4 091
Gross receipts	(13 383)	(13 781)
Refunds & local authorities	(—9 762)	(9 690)
Other taxes on income and wealth	163	95
Employers' child allowance payments	424	301
Sales tax	4 398	4 853
Customs duties and import charges and levies	429	518
Excise duties ¹	2 936	3 623
Excise duty on alcoholic beverages ¹	905	1 128
Excise duty on tobacco	371	429
Excise duty on liquid fuel	1 095	1 120
Other excise duties ¹	565	946
Tax on autom. and motor-cycles	407	672
Stamp duties	400	414
Special diesel etc. vehicles tax	77	72
Other taxes and similar revenue ¹	382	393
Total taxes	13 237	15 032
Miscellaneous revenue	1 101	1 360
Interest, dividends etc.	331	410
Redemptions of loans granted	254	314
Total revenue	14 923	17 116
Foreign borrowing	1 369	1 496
Domestic borrowing	1 070	1 352
Total borrowing	2 439	2 848
Deficit (+) or surplus (—)	+565	+222
Total	17 927	20 186

¹ New series.

Expenditure	Jan.—June	
	1978	1979
Wages, salaries, pensions etc.	2 963	3 356
Repair and maintenance	384	426
Other consumption expenditure	1 608	1 832
Total consumption expenditure	4 955	5 614
State aid to local authorities	3 914	4 114
State aid to industries	2 326	2 934
of which: agric. price subsidies	(1 283)	(1 425)
Child allowances	567	603
Share in national pensions and sickness insurance schemes	158	165
Other transfer expenditure	2 276	2 658
Total transfer expenditure	9 241	10 474
Machinery and equipment	661	710
Construction of buildings	346	337
Land and waterway construction	743	755
Total real investment	1 750	1 802
Interest on State debt	303	427
Net deficit of State enterprises	—79	—231
Other expenditure	24	26
Total other expenditure	248	222
Increase in inventories	—106	—136
Lending	1 094	1 197
Other financial investment	289	241
Total expenditure	17 471	19 414
Redemption of foreign loans	124	139
Redemption of domestic loans	332	633
Total redemptions	456	772
Total	17 927	20 186

State debt	1976	1977	1978	1979		
	Dec.	Dec.	Dec.	April	May	June
Foreign debt	2 248	3 679	7 360	7 812	7 750	7 967
Loans	2 175	2 963	4 607	4 943	5 082	5 162
Compensatory obligations	1	1	1	1	1	2
Short-term credit	287	175	259	231	221	134
Cash debt (net)	—643	—669	—735	—378	—489	—406
Domestic debt	1 820	2 470	4 132	4 797	4 815	4 891
Total State debt	4 068	6 149	11 492	12 609	12 565	12 858
Total debt mill \$	1 069	1 493	2 859	3 144	3 131	3 239

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*

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	3 459	3 163	+296
April	3 375	3 159	+216
May	4 008	3 657	+351
June	3 494	3 302	+192

Jan.-June

1978*	16 444	15 413	+1 031
1979*	20 587	19 234	+1 353

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

1977

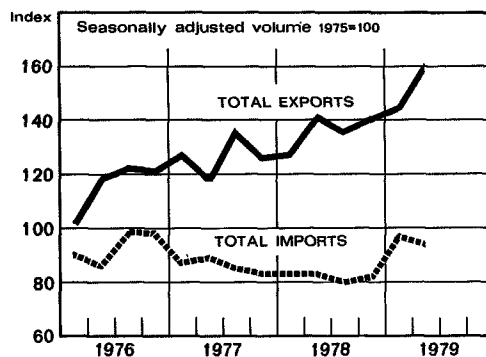
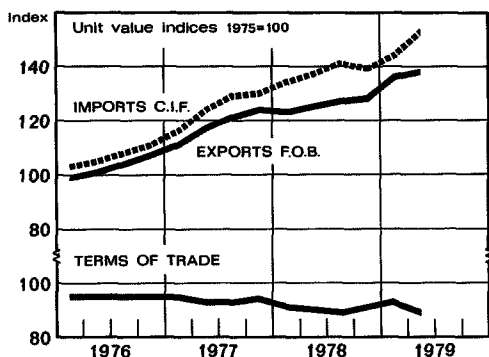
Jan.-March	123	83	112	117	96
Apr.-June	115	88	118	125	94
July-Sept.	129	84	122	130	94
Oct.-Dec.	143	93	125	131	95

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*

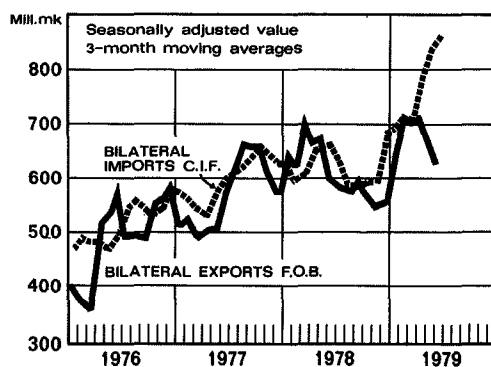
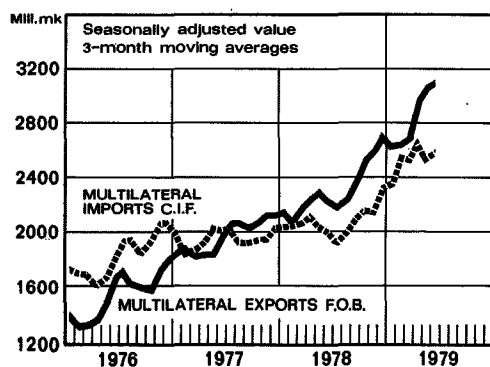
Jan.-March	140	90	137	145	94
Apr.-June	154	94	139	154	90



FOREIGN TRADE BY MAIN GROUPS

Mill. mk

Period	Exports, f.o.b.					Imports, c.i.f.				
	Agricultural and other primary products	Wood industry products	Paper industry products	Metal, engineering industry products	Other goods	Raw materials and producer goods	Fuels and lubricants	Finished goods		Other goods
								Investment goods	Consumer goods	
1974	464	3 153	7 872	4 245	4 953	16 525	1 978	3 857	3 282	24
1975	449	2 177	7 225	5 357	5 039	17 058	1 670	5 222	3 989	63
1976	804	2 892	7 860	6 891	6 058	17 828	1 581	4 966	4 103	77
1977	1 087	3 854	8 798	9 184	8 008	19 128	2 066	4 828	4 603	83
1978	966	4 641	10 402	9 593	9 604	20 431	2 224	4 801	4 830	52
1978*										
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	949	1 964	64	529	604	2
April	17	441	1 107	896	914	1 950	110	585	511	3
May	187	590	1 148	923	1 160	2 335	275	434	612	1
June	47	599	1 010	815	1 023	2 172	319	366	434	11
Jan.-June										
1978*	519	2 103	5 073	4 267	4 482	9 531	924	2 485	2 465	8
1979*	791	2 752	6 201	4 950	5 893	12 293	1 086	2 768	3 067	20



FOREIGN TRADE BY COUNTRIES¹

Mill. mk

Area and country	Exports, f.o.b.				Imports, c.i.f.			
	January—June				January—June			
	1978*		1979*		1978*		1979*	
	%	Mill. mk	%	Mill. mk	%	Mill. mk	%	Mill. mk
OECD countries in Europe	62.7	10 309	66.1	13 601	60.4	9 307	60.6	11 672
Austria	0.7	115	0.6	131	1.4	214	1.4	264
Belgium and Luxembourg	2.0	330	1.5	307	1.9	286	2.0	386
Denmark	4.1	666	3.9	798	2.7	417	2.6	511
France	4.0	658	4.7	973	3.3	513	3.8	726
Federal Republic of Germany	10.5	1 728	11.4	2 340	13.8	2 129	14.1	2 715
Italy	1.7	279	2.2	450	2.4	369	2.6	494
Netherlands	3.8	632	4.0	831	2.9	442	2.9	552
Norway	4.9	798	4.7	969	2.9	441	2.5	491
Portugal	0.2	34	0.2	39	0.3	53	0.5	98
Spain	0.8	129	0.9	190	1.0	149	1.0	188
Sweden	14.3	2 356	15.6	3 204	15.3	2 362	15.4	2 969
Switzerland	1.8	293	1.9	395	2.1	330	2.0	392
United Kingdom	12.5	2 055	12.6	2 584	9.9	1 519	9.2	1 777
Other	1.4	236	1.9	390	0.5	83	0.6	109
OECD countries outside Europe	6.9	1 129	7.5	1 545	8.4	1 297	9.2	1 776
Canada	0.6	92	0.6	118	0.4	58	0.7	127
Japan	0.9	147	1.3	271	2.8	438	3.2	619
United States	4.4	724	4.7	973	4.9	762	5.1	990
Other	1.0	166	0.9	183	0.3	39	0.2	40
CMEA countries	20.6	3 388	17.1	3 518	21.6	3 326	21.4	4 108
Czechoslovakia	0.5	76	0.3	59	0.5	74	0.5	103
German Democratic Republic	0.7	125	0.7	134	0.6	94	0.6	115
Poland	0.7	116	0.4	91	2.2	337	1.4	265
Soviet Union	17.6	2 892	14.8	3 039	17.4	2 680	18.0	3 463
Other	1.1	179	0.9	195	0.9	141	0.9	162
Latin America	2.9	474	1.4	297	4.0	614	3.6	683
Argentina	0.2	32	0.2	43	0.3	45	0.3	52
Brazil	0.5	78	0.4	88	0.7	104	0.9	179
Colombia	0.1	18	0.1	29	1.4	214	1.0	183
Other	2.1	346	0.7	137	1.6	251	1.4	269
Other	6.9	1 144	7.9	1 626	5.6	869	5.2	995
GRAND TOTAL	100.0	16 444	100.0	20 587	100.0	15 413	100.0	19 234
of which								
EFTA countries	22.0	3 622	23.1	4 765	22.3	3 431	22.0	4 241
EEC countries	39.3	6 470	41.0	8 434	37.0	5 704	37.4	7 203
OECD countries	69.6	11 438	73.6	15 146	68.8	10 604	69.8	13 448

¹ New series. See explanations on page 22.

BALANCE OF PAYMENTS

Period	Visible exports f.o.b.	Visible imports c.i.f.	Visible trade account	Transport, net	Travel, net	Other services, net	Visible and invisible trade account	Investment income, net	Transfer payments, net	Current account
1975	20 181	27 939	-7 758	+ 984	+105	+217	-6 452	-1 414	-108	-7 974
1976	24 372	28 472	-4 100	+1 193	+ 22	+245	-2 640	-1 749	-118	-4 507
1977	30 766	30 625	+ 141	+1 392	- 3	+411	+1 941	-2 434	-147	- 640
1978 *	35 024	32 243	+2 781	+1 679	+166	+884	+5 510	-2 853	-138	+2 519

1976

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

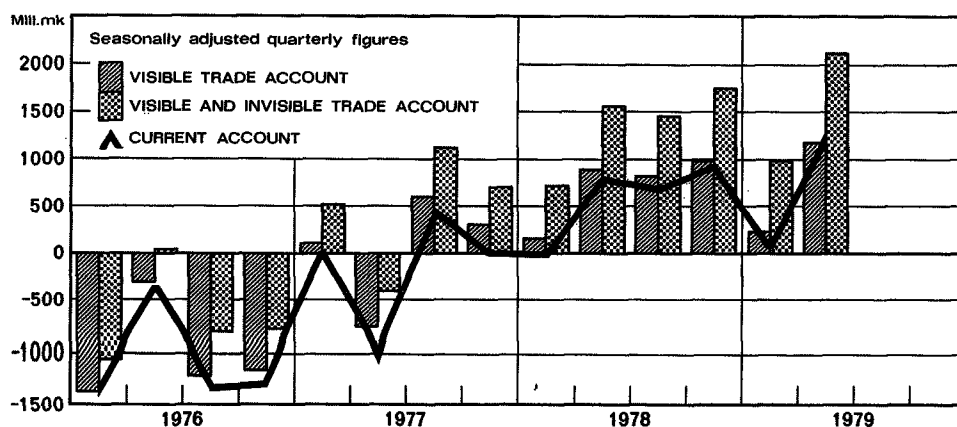
Jan.-March	6 977	6 765	+ 212	+ 331	- 80	+ 82	+ 545	- 506	-46	- 7
Apr.-June	6 817	7 689	- 872	+ 299	+ 10	+ 49	- 514	- 726	-12	-1 252
July-Sept.	7 931	7 671	+ 260	+ 377	+118	+180	+ 935	- 532	-30	+ 373
Oct.-Dec.	9 041	8 500	+ 541	+ 385	- 51	+100	+ 975	- 670	-59	+ 246

1978*

Jan.-March	7 745	7 355	+ 390	+ 369	- 66	+192	+ 885	- 613	-61	+ 211
Apr.-June	8 614	8 007	+ 607	+ 401	+ 11	+232	+1 251	- 820	-20	+ 411
July-Sept.	8 271	7 822	+ 449	+ 426	+222	+167	+1 264	- 644	-23	+ 597
Oct.-Dec.	10 394	9 059	+1 335	+ 483	- 1	+293	+2 110	- 776	-34	+1 300

1979*

Jan.-March	9 674	9 069	+ 605	+ 481	-105	+315	+1 296	- 685	-173	+ 438
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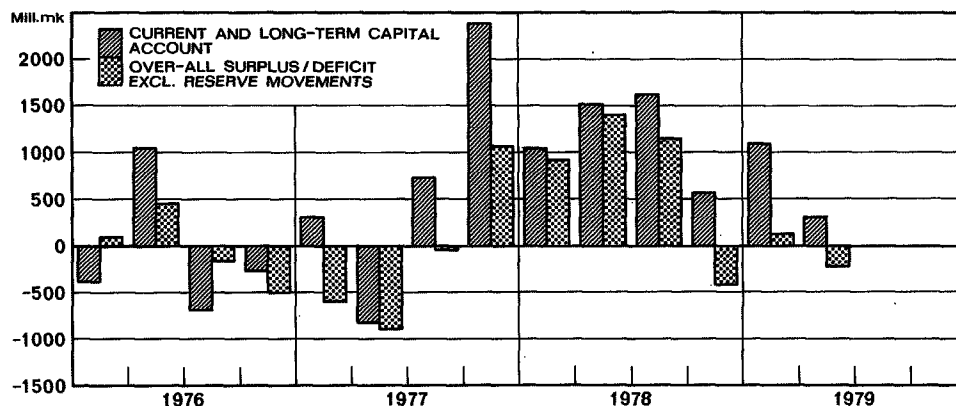


Drawings of long-term loans	Amortizations of long-term loans	Long-term export credits net	Miscellaneous long-term capital items, net ¹	Long-term capital account	Current and long-term capital account	Short-term import credits and prepayments, net	Short-term export credits and prepayments, net	Miscellaneous short-term capital items, incl. errors and omissions	Over-all surplus/deficit excl. reserve movements	Reserve movements	
										Bank of Finland	Other foreign exchange holders
+6 729	-1 445	-214	+ 62	+5 132	-2 842	+ 638	+1 449	+ 8	- 747	- 444	+1 191
+6 130	-1 785	-191	+ 48	+4 202	- 305	+ 138	-1 288	+1 327	- 128	+ 78	+ 50
+6 454	-2 745	-241	-229	+3 239	+2 599	-1 547	- 470	-1 071	- 489	- 170	+ 659
+9 007	-5 743	-774	-229	+2 261	+4 780	+ 130	-2 188	+ 318	+3 040	-2 339	- 701
+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	+1 050	- 479	- 402	+ 755	+ 924	-1 556	+ 632
+2 900	-1 733	- 1	- 51	+1 115	+1 526	+ 328	- 402	- 52	+1 400	- 687	- 713
+2 265	-1 089	- 96	- 39	+1 041	+1 638	+ 20	- 692	+ 178	+1 144	- 607	- 537
+1 966	-2 067	-511	-122	- 734	+ 566	+ 261	- 692	- 563	- 428	+ 511	- 83
+2 202	-1 626	- 7	+ 91	+ 660	+1 098	- 46	- 139	- 786	+ 127	- 913	+ 786

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.

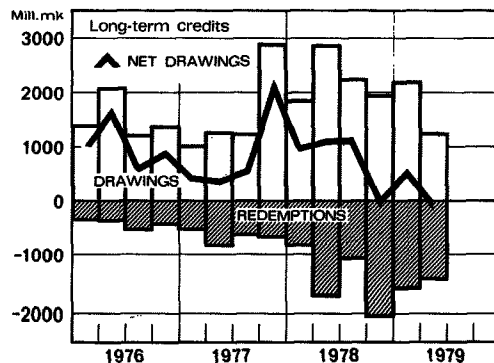
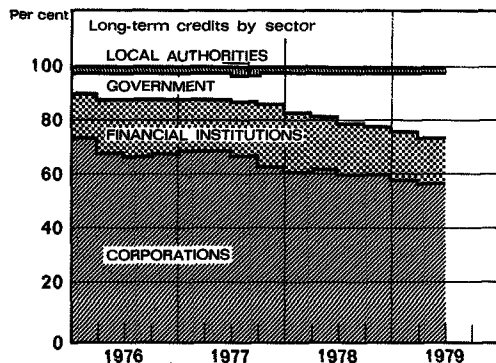


FINLAND'S FOREIGN ASSETS AND LIABILITIES

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
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	840	5 012	25 107	6 068	1 774	159	33 108	28 096
June	2 517	1 759	862	5 138	26 769	6 134	1 865	159	34 927	29 789
Sept.	2 548	1 785	885	5 218	28 212	5 812	1 885	187	36 096	30 878
Dec.	2 978	1 850	956	5 784	27 716	5 612	1 885	231	35 444	29 660
1979*										
March	3 001	1 972	1 008	5 981	28 214	5 584	1 924	221	35 943	29 962

See explanations on page 22.

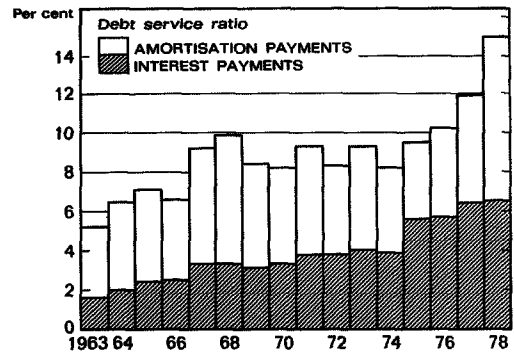
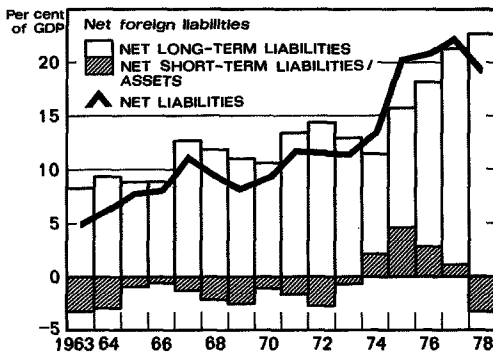


FINLAND'S FOREIGN ASSETS AND LIABILITIES

Mill. mk

Short-term assets				Short-term liabilities				Net short-term liabilities (18-14)	Net liabilities (10+19)	Debt service, flow	Of which amortisation payments, flow
Bank of Finland	Authorized banks and other foreign exchange holders	Corporate sector	Total (11 to 13)	Bank of Finland	Authorized banks and other foreign exchange holders	Corporate sector	Total (15 to 17)				
11	12	13	14	15	16	17	18	19	20	21	22
3 363	2 779	4 684	10 826	1 242	4 519	9 565	15 326	4 500	19 943	2 414	996
3 630	3 087	5 676	12 393	1 201	4 812	9 486	15 499	3 106	23 037	3 103	1 354
4 306	3 863	6 448	14 617	1 423	6 335	8 242	16 000	1 383	27 124	4 516	2 082
6 545	4 617	8 170	19 332	1 478	6 379	7 302	15 159	-4 173	25 487	6 622	3 769
3 187	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	27 409	1 392	779
6 748	4 097	7 456	18 301	1 772	6 610	7 751	16 133	-2 168	27 621	1 493	673
7 003	4 412	7 779	19 194	1 483	6 264	7 419	15 166	-4 028	26 850	1 628	984
6 545	4 617	8 170	19 332	1 478	6 379	7 302	15 159	-4 173	25 487	2 109	1 333
7 804	4 072	8 286	20 162	1 611	6 692	7 316	15 619	-4 543	25 419	1 969	1 284

See explanations on page 22.



PRICE INDICES

Period	Wholesale 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												
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
May	772	782	732	739	970	764	770	729	802	197	179	201
June	783	790	754	756	977	766	..	..	..	199	179	204
July	796	803	766	771	990	774	..	..	..	200	179	204

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											
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
May	114.8	107.9	129.4	116.0	113.0	108.9	112.9	123.4	117.8	115.5	117.4
June	115.6	108.1	129.4	116.0	113.0	114.3	113.5	123.4	120.4	115.7	117.9
July	116.2	109.1	129.5	114.6	113.0	114.9	114.9	123.8	122.1	115.8	118.3

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

PRODUCTION

Index of industrial production 1970 = 100

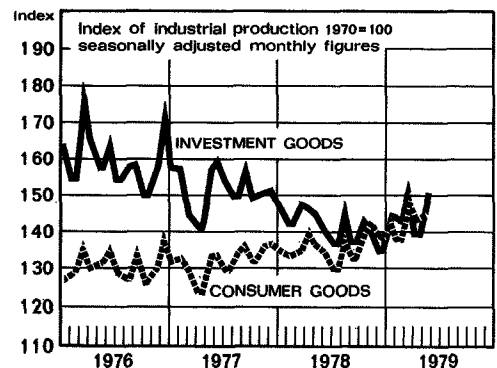
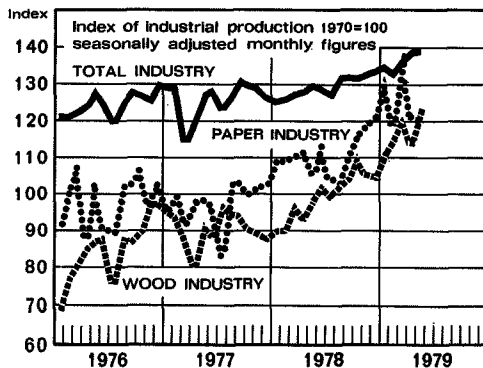
Period	Total	Investment goods	Other producer goods	Consumer goods	Special indices of manufacturing						Total, adjusted for seasonal variations
					Food industry	Wood industry	Paper industry	Chemical industries	Non-metallic mineral industry	Metal industry	
1975	122	178	110	130	113	76	95	143	128	150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

1978*

May	139	173	134	140	119	122	108	158	134	163	130
June	123	160	116	129	114	108	93	120	136	147	129
July	67	58	67	69	102	42	69	95	51	50	127
Aug.	134	159	128	139	125	94	108	170	124	152	131
Sept.	138	162	134	136	114	104	124	175	136	156	131
Oct.	146	176	141	146	137	116	128	191	140	165	131
Nov.	147	177	141	150	142	112	127	166	130	167	133
Dec.	129	145	125	131	114	87	105	154	109	142	134

1979*

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



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*								
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	4 352	..	..
April	3 592	2 201	2 052	149	6.8	4 828	..	..
May	3 593	2 246	2 111	135	6.0	4 536	..	..
June	3 591	2 439	2 304	135	5.5	2 760	..	..

CONSTRUCTION OF BUILDINGS

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

EXPLANATIONS RELATING TO THE STATISTICAL SECTION

BANK OF FINLAND

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

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

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

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

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

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

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

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

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

Page 5. *Domestic financial sector*: Other liabilities, net = Capital import deposits + Other financial institution claims — Bonds — Other financial institution receivables.

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

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

MONETARY POLICY INDICATORS

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

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

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

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

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

FOREIGN EXCHANGE RATES

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

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

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

Page 8. *Deposits by the public*. The central government and the financial institutions are mainly excluded from the public. From 1974 deposits include domestic deposits denominated in foreign currency.

Page 9. *Advances to the public*. The central government and the financial institutions are not included in the public.

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

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

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

STATE FINANCES

Page 10. Official figures computed by the Economic Department of the Ministry of Finance. Revenue and expenditure: Extra-budgetary funds and the aggregated net current deficit of State enterprises are included. Figures are reported on a cash payment basis. Debt: Foreign debt includes promissory notes given to international organizations. Cash debt (net) = net debt to the Bank of Finland plus short-term debt to Postipankki less cash holdings (net) of State departments and funds.

FOREIGN TRADE

Pages 11—13. Figures supplied by the Board of Customs. *Indices* (p. 11): The volume indices are calculated according to the Paasche formula and the unit value indices according to the Laspeyres formula. *Terms of trade*: the ratio of export indices to import indices.

Foreign trade by countries: (p. 13): from January 1978 imports by countries of origin exports by countries of consumption.

BALANCE OF PAYMENTS

Pages 14—15. Figures are calculated by the Bank of Finland. In addition to the Board of Customs figures, exports include grants in kind but exclude stevedoring expenses and imports include seamen's duty-free imports, non-monetary gold, grants in kind and adjusted allowance for smuggling.

FOREIGN ASSETS AND LIABILITIES

Pages 16—17. Figures calculated by the Bank of Finland.

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

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

Columns 21 and 22 during the year and the quarter.

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

PRICE INDICES

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

WAGES — PRODUCTION

Pages 19—20. Figures supplied by the Central Statistical Office. Page 20. *Index of industrial production* calculated by the Central Statistical Office. The grouping by branches of industry is in accordance with the Standard Industrial Classification (SIC) which is a version of the 1968 edition of the ISIC. The SIC facilitates international comparisons between Finnish statistics and corresponding data from countries which use the ISIC. The seasonally adjusted series is calculated by the Bank of Finland on the basis of the index of industrial production per working day according to a method resembling the U.S. Bureau of Census Method II. Commodities according to use: Investment goods weight 7.0, other producer goods weight 67.0 and consumer goods weight 26.0. The weights for the special manufacturing indices are food manufacturing (SIC 311-2) 9.8, manufacture of wood, and wood and cork products (SIC 311-2) 8.0, manufacture of paper and paper products (SIC 341) 15.2, manufacture of industrial chemicals (SIC 351-2) 5.2, manufacture of non-metallic mineral products except products of petroleum and coal (SIC 361-9) 3.6, and metal industry (SIC 37—38) 25.9.

LABOUR — TIMBER FELLINGS — INTERNATIONAL TRADE — TRAFFIC — CONSTRUCTION OF BUILDINGS

Page 21. *Labour* figures supplied by the Central Statistical Office. *Commercial timber fellings* compiled by the Ministry of Labour. *Retailers' and Wholesalers' volume indices* supplied by the Central Statistical Office. *Construction of buildings* figures calculated by the Central Statistical Office.

SYMBOLS USED: * Preliminary, r Revised, 0 Less than half the final digit shown, . Logically impossible, .. Not available. — Nil S affected by strike, — Break in series.

SOME PARTICULARS ABOUT FINLAND

FORM OF GOVERNMENT

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

Parliament, comprising 200 members is elected by universal suffrage for a period of 4 years. The number of seats of the different parties in Parliament elected in 1979 is as follows: Social Democratic Party of Finland 52, National Coalition Party 47, Centre Party 36, Democratic League of the People of Finland 35, Swedish Party 10, Christian League of Finland 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 80.7%, State 29.4%, joint stock companies etc. 8.0%, municipalities and parishes 1.9%.

POPULATION

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

DENSITY OF POPULATION (1977): In South Finland 46.4, in East and Central Finland 13.9, in North Finland 4.0 and in the whole country an average of 15.5 inhabitants to the square kilometre.

DISTRIBUTION BY AREA (1977): 40% of the population inhabit the rural areas, 60% towns and urban districts. The largest towns are: Helsinki (Helsingfors), the capital 487 519 inhabitants, Tampere (Tammerfors) 166 118, Turku (Åbo) 165 215.

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

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

EDUCATION (1978): Practically all persons over 15 years of age are literate. There are 6 universities (the oldest founded in 1640) and 14 colleges of university standard.

CHANGE OF POPULATION (1977): births 13.9 ‰, deaths 9.4 ‰, change + 2.2 ‰, net emigration — 2.2 ‰. Deaths in France 10.1 ‰ and Great Britain 11.7 ‰.

TRADE AND TRANSPORT

NATIONAL INCOME (1978, in million marks): Gross domestic product at factor cost by industrial origin: agriculture 8 272 (5%), forestry and fishing 5 409 (4%), manufacturing 35 784 (31%), construction 10 300 (9%), transport and communication 12 683 (11%), commerce, banking and insurance 15 956 (14%), public administration 6 578 (6%), ownership of dwellings 4 401 (4%), services 19 164 (16%), total 116 547. Index of real domestic product 166 (1964 = 100).

FOREST RESOURCES (1977): The growing stock comprised of 1 520 million m³ (solid volume with bark) of which 45% was pine and 37% spruce, the remaining 18% being broad-leaved trees, chiefly birch. Of the growing stock, 637 million m³ was up to the standard required for logs, 56% of these being pine. The annual growth was 57.4 million m³ and the total removal, calculated on the basis of roundwood consumption, was 40.7 million m³.

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

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

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

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

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

FINNISH AIRLINES (March 31, 1979): Finnair and Kar-Air have in use 4 DC-8, 1 DC-6-ST, 8 Super Caravelles, 9 DC-9, 7 DC-9-51, 2 DC-10-30 and 4 Convair Metropolitans. Companies have scheduled traffic outside of Finland to 30 airports and to 20 domestic airports.

FINANCE AND BANKING

CURRENCY. Since 1860, Finland has had its own monetary system. From 1877 until 1914 the country was on the gold standard, and returned to it in 1926. In 1931, the Central Bank's duty to redeem bank notes in gold was suspended and at the end of 1962 was entirely cancelled. The monetary unit is the mark (Finnish markka). The last par value of the mark was set on Oct. 12, 1967 and was 0.21159 grams of fine gold per mark (equivalent, at the time, to 4.20 marks per U.S. dollar). Since Nov. 1, 1977 the external value of the mark has been officially expressed in terms of a currency index. This index is trade-weighted and indicates the average change in the currencies which are important in Finnish foreign trade. The present currency weights are Rbl 19.1, Skr 17.5, £ 13.9, DM 13.4, \$ 9.2, other currencies 26.9. The permissible range of fluctuation is 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 (July 1, 1979). The official discount rate of the Bank of Finland (the basic rate applied by the Bank of Finland on credit extended to the banks in the context of the quota facility) is 7 ½%. The range of rates for other credits granted by the Bank of Finland is between 5 ½% and 8 ½%. Other credit institutions time deposits 3 ¼%; 6 month deposits 4 ¼%; 12 month deposits 5 ½%; 24 month deposits 6 ½%; 36 month deposits 7 ¼% + savings premium; 36 month deposits 7 ¼% + tax concession. The highest lending rate 10 ¼%.

FOREIGN EXCHANGE STRATEGIES OF FINNISH COMPANIES

by Kari Nars, Director

Bank of Finland

The sharp increase in exchange rate variability during the 1970s has added a new and significant element of uncertainty to the corporate sector's normal business and financing risks. Since many Finnish companies are highly dependent on international trade and foreign financing, they are particularly vulnerable to currency fluctuations, and have in many instances registered substantial foreign exchange losses.

More than 90 per cent of Finland's foreign exchange flows pass through the corporate sector, and hence the foreign exchange actions of firms also have important macroeconomic consequences. These actions have given rise to cumulative downward or upward pressures on the Finnmark when a devaluation or revaluation is anticipated.

In an attempt to assess the effects of floating exchange rates on the corporate sector, an extensive study of the behaviour of a sample of Finnish companies under exchange rate uncertainty in 1970—77 was undertaken.¹ As neoclassical exchange rate theory is based on rather mechanistic assumptions concerning corporate behaviour including complete rationality, of which profit maximization is one element, it was considered useful to ask how companies behave in »real life».

With this objective in mind the behaviour of a sample of 32 large Finnish exporting and importing firms with extensive foreign exchange exposure was investigated. The 19 export and 13 import companies were divided

into six groups on the basis of their main activity. These firms account for about a third of Finland's foreign trade and external indebtedness.

The data were collected in two stages. First, comprehensive statistics were compiled on the structure and evolution of corporate exports, imports and foreign debt by countries and currencies, foreign exchange gains and losses subdivided by functional categories, currency exposure, forward transactions in different currencies, etc. Secondly, finance directors of all the companies were interviewed using a detailed and structured set of questions. The companies were asked about their foreign exchange objectives, organization, strategies, use of and experience with different hedging methods and constraints on their policies. Strict confidentiality was observed.

EXCHANGE RATE CHANGES

In the period 1970—77 the effective external value of the Finnmark (FIM) fell by about 10 ½ per cent. The Finnmark was subject to small devaluations in 1971 and 1977 (twice) as well as in 1978. Swings in the rates for individual currencies were substantially larger than the change in the effective rate for the Finnmark, as measured by the official Bank of Finland currency index (see p. 7).¹ Over the period 1970—77, the USD depreciated by 4 per cent and the GBP by 30 per cent against the Finnmark, while the DEM appreciated by 65 per cent, the SEK by 11 per cent, the SUR by 23 per cent and the CHF by 73 per cent.

¹ Kari Nars: Foreign Exchange Strategies of the Firm, A Study of the Behaviour of a Sample of Finnish Companies under Exchange Rate Uncertainty 1970—77. Doctoral thesis, published in Swedish with an English summary. Bank of Finland Series B: 32, Helsinki 1979. This article has mainly been adapted from the summary of the thesis.

¹ For a detailed description of the currency index, see Bank of Finland Monthly Bulletin 2/1978.

In the fourth quarter of 1977 the five most important trading currencies for Finland in terms of invoicing shares of total merchandise trade were as follows: U.S. dollar 21.7, Soviet rouble 19.5, Swedish crown 18.5, German mark 12.6 and the British pound 11.3 per cent. The weights in the Bank of Finland are different since they are based on the foreign trade shares of different countries. In the index, the weights in the fourth quarter of 1977 were: U.S.A. 7.2, Soviet Union 17.3, Sweden 15.9, Federal Republic of Germany 11.8 and England 12.2 per cent.

COMPANY OBJECTIVES AND STRATEGIES

The foreign exchange gains or losses of companies are primarily influenced by factors external to the firm as well as by their own objectives, resources and strategies. The external factors include the exchange rate changes and the room for manoeuvre allowed by the foreign exchange regulations. Although the exchange rate environment changed considerably, Finnish exchange control was not considered a major obstacle to hedging operations.

Risk aversion, i.e., the avoidance of changes in expected revenue, was the most important objective of the companies' long-term foreign exchange strategies. In the short run their foreign exchange operations were highly influenced by the volatility of different currencies and the strength of exchange rate expectations. The tendency for extreme changes in currency exposure to take place when exchange rate changes were confidently expected did not imply reduced risk aversion since firms believed only in one-way options as regards the direction in which exchange rates would be moving.

The primary reason for defensive strategies during periods of normal exchange rate uncertainty was a professed inability to pursue active risk-taking policies. Furthermore, extensive foreign exchange operations were felt to be outside the domain of normal corporate activity. When, e.g., devaluation expectations

grew strong, firms attempted to maximize changes in their currency exposures primarily by leading or lagging and engaging in forward transactions.

Foreign exchange strategies both in »normal circumstances» and in conditions when a depreciation of the Finnmark was expected differed according to the strength of expectations and the hedging methods at hand. When a devaluation was anticipated companies with extensive foreign debts had fewer means of reducing risks. For instance portfolio diversification (e.g., using different invoicing currencies or currency baskets) did not reduce risk since changes in exchange rates were uniform.

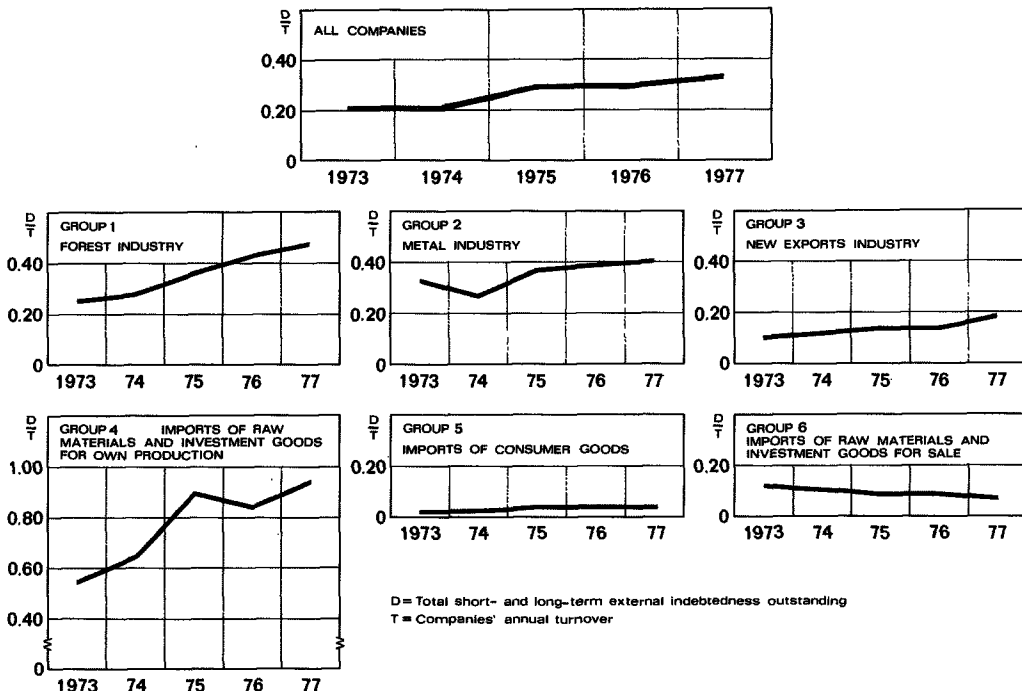
Companies did not consistently try to cover all exchange risks. This was largely due to the practical difficulty of matching currency positions or the high cost of forward purchases prevailing during most of the period reviewed. Instead they followed a selective policy and covered positions in currencies which they thought might develop in a particularly disadvantageous way. Total covering without regard to the size of the risk or a policy of completely ignoring risk were extremely rare.

USE OF HEDGING MEASURES

Export companies had more alternatives for covering open positions than import companies. Among other things, they could eliminate risks by »matching», i.e., balancing claims and liabilities in the same currency or currencies developing in a similar fashion. The hedging devices most widely used were matching, leading and lagging, the forward market, currency clauses and changing invoicing currencies. Invoicing in FIM, co-operation with subsidiaries and currency cocktails were used very little in companies' exchange strategies.

The companies' growing awareness of the implications of floating rates and strong speculation against the Finnmark at times

CHART 1. EXTERNAL INDEBTEDNESS RATIO, 1973—77



when devaluation was expected created massive pressures on the country's foreign exchange reserves and a need to implement offsetting exchange and monetary policies. In these conditions certain hedging measures became difficult or costly. Expectations of a rise in exchange rates led to a surge in forward purchases which raised forward rates. As a result, importers and others with foreign liabilities found that the cost of forward cover was far above interest rate parity. The potential exhaustion of the foreign exchange reserves in 1977 required an increase in the call money rate at the Bank of Finland to 23 per cent per annum, which tightened domestic liquidity considerably and limited the scope for potential changes in leads and lags of foreign payments.

CHANGES IN THE CORPORATE ENVIRONMENT

The impact of exchange rate changes on Finnish companies should be seen in the light of changes in the corporate environment that occurred in 1974—75. Until then, Finnish companies regarded almost uninterrupted and

rapid GNP-growth as the normal state of affairs. Foreign trade flourished and profitability was generally fairly good. Future prospects looked bright and domestic financing was available. In these conditions, a number of firms embarked upon sizeable investment projects which were financed using funds borrowed domestically or generated internally.

The foundations on which these investments were based began to crumble after the oil crisis. Energy prices soared and the expected strong growth in Finland's main markets did not materialize. Instead aggregate output actually fell in 1974.¹ The fixed exchange rate system had finally broken down in 1973, and exchange rates were quite volatile. The fall in Finland's foreign exchange reserves, resulting from substantial current account deficits tightened the financial market.

Since in addition the ability of companies to finance their activities using own funds deteriorated rapidly, ongoing investments could

¹ In July 1973 the OECD forecast a growth rate of over 5 per cent for the total OECD GNP volume in 1974. In December 1973 (when the rise in oil prices was known), the growth forecast was reduced to 3 3/4 per cent, and in July 1974 to 1 per cent. Actual growth in 1974 was -0.1 per cent.

only be continued by increasing foreign borrowing. Within only four years (1974—77), the outstanding foreign long- and short-term debt of the 32 companies examined in the study almost trebled, from slightly over 5 to almost 15 thousand million Finnmarks.

The development of companies external indebtedness is reviewed in chart 1, which relates outstanding short- and long-term currency loans to companies' annual turnover. Total relative indebtedness increased by almost one half from 1973 to 1977. The debt burden was particularly high within import group 4. Group 1 (forest industry) and group 2 (metal industry) also showed high levels of external indebtedness, as compared with the consistently low level of external indebtedness within group 3 (new exports) and import groups 5 and 6.

Finnish companies had had little experience with extensive foreign financing operations and floating exchange rates. At first the surge in foreign borrowing was not considered to be a major problem, partly because of the belief that conditions would soon return to »normal» and partly because there was some interest rate illusion. The negotiation of substantial

loans from well-known international banks was also regarded as a matter of prestige by some corporate managers. Few companies were ready to handle formidable changes in the volume and structure of external financing in conditions of highly volatile exchange rates.

The currency distribution of companies' short- and long-term external indebtedness (chart 2) in 1977 was heavily concentrated in four currencies. The shares in 1977 were the following: USD 45, DEM 18, SUR 14 and CHF 11 per cent. While the share of the USD gradually increased over the period 1973—77, the DEM-, SUR- and CHF shares declined correspondingly.

FOREIGN EXCHANGE LOSSES

Since Finnish companies had in many instances borrowed large amounts in strong currencies and the Finnmark was devalued twice in 1977 (by 5.7 and 3 per cent), the post-devaluation problems were totally different compared with those experienced after the bigger devaluation of 23.8 per cent in 1967. The total reported gross foreign exchange losses of the companies examined amounted to FIM 3 160 million in the period in question, or the equivalent of USD 780 million at the average exchange rate prevailing in 1977. Of this amount, 67 per cent related to short- and long-term foreign borrowing. Gross foreign exchange gains amounted to about FIM 1 340 million (USD 330 million). Thus, the accounted net foreign exchange losses over the period were about FIM 1 820 million, equivalent to USD 450 million.

The foreign exchange losses are examined by industry in table 1. Of total gross losses, companies within the forest industry group and the metal industry group on the export side and companies importing raw materials and investment goods for their own needs accounted for close to one third each. The relationship between net losses and companies' turnover in the devaluation year 1977 was between 2.6—7.3 per cent within these

CHART 2. CURRENCY DISTRIBUTION OF PARTICIPATING COMPANIES' EXTERNAL DEBT

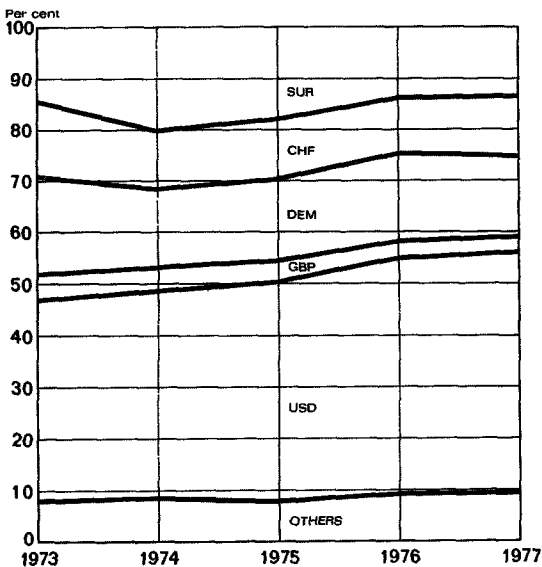


TABLE 1. ACCOUNTED FOREIGN EXCHANGE LOSSES

Group of industry	Foreign exchange losses, gross in 1973-77 FIM millions	Foreign exchange losses, net in 1977 as a percentage of turnover
1 Forest industry	879	3.9
2 Metal industry	987	2.6
3 »New exports» industry	79	1.6
4 Imports of raw materials and investment goods for own production	1 035	7.3
5 Imports of consumer goods	132	0.3
6 Imports of raw materials and investment goods for sale	48	0.7
Total (32 companies)	3 160	2.6 (av.)

three groups of companies. The average for the whole sample was 2.6 per cent. Chart 3 illustrates the relative foreign exchange results of the companies reviewed.

Since Finnish accounting practices emphasize the element of caution, only a fifth of the above-mentioned net losses incurred during 1977 affected corporate cash flows during that year. The remainder mainly related to the anticipated Finnmark value of long-term debt falling due in latter years. Over and above these accounted foreign exchange losses there

were unreported currency gains for exports and losses for imports. The exchange losses on debts denominated in strong currencies were to some extent offset by lower interest rates compared with weaker currencies.

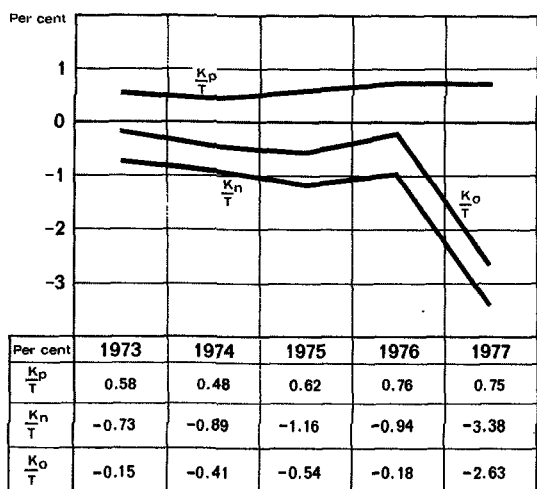
High external indebtedness and the accounting practices employed in Finland implied that corporate foreign exchange gains or losses were predetermined to a substantial degree in the short run, e.g., in 1977. This proposition is supported by a comparison of the results reported by the companies and imputed foreign exchange earnings and losses. The correlation between the observed and imputed results for the period 1973-77 was 0.69. On the other hand the general review and an analysis of three companies which followed sophisticated foreign exchange strategies and obtained good foreign exchange results, raised interesting questions about the possibility of firms influencing exchange gains and losses in the longer run — although there appeared to be no fast patent solutions to these problems.

BEHAVIOUR OF SUCCESSFUL COMPANIES

The foreign exchange policy objectives of the successful companies were not a priori more ambitious than those of other companies, although considerably more organizational resources were deployed in exchange policy planning. Hedging measures were used considerably more than average and forward transactions and matching were particularly actively employed. Successful firms' relative external indebtedness was well below average, partly as a consequence of deliberate attempts to reduce reliance on foreign finance. Their better foreign exchange results probably also reflected an initial external debt-turnover ratio only a third the average for the sample, which was apparently due largely to reduced foreign debts, but also avoidance of loans in »strong» currencies and experienced foreign exchange management.

However, although the basic factor in averting foreign exchange losses appeared to be caution

CHART 3. RELATIVE FOREIGN EXCHANGE RESULTS OF PARTICIPATING COMPANIES, 1973-77



K_p, K_n, K_o = Accounted foreign exchange gains, losses and net result, respectively

T = Turnover, mill. mk

in assuming external indebtedness, particularly in the »wrong« currencies, certain other factors may also be observed. In companies with a successful foreign exchange strategy top-level management was usually actively involved in the formulation of foreign exchange strategy, instead of regarding these matters as minor technicalities to be delegated to somebody in the finance department.

Foreign exchange organization in these companies was clearly defined and normally highly centralized. The time allocation for foreign exchange matters was relatively high and sophisticated techniques were used for the analysis of exchange rate developments and currency exposure and the subsequent evaluation of losses and gains. Besides regular internal foreign exchange meetings top-level foreign exchange committees had been set up in certain companies, and close contacts with the foreign exchange departments of banks were maintained. On the whole, internal management, analysis and reporting were on a higher level in companies with a successful record of foreign exchange operations.

To sum up, the companies surveyed did experience difficulties in dealing with the complex problems associated with extreme uncertainty, the evaluation of numerous strategy alternatives, structural constraints and methods encountered in the formulation of foreign exchange strategy. The study noted certain shortcomings in firms' ability to adjust their strategies although the foreign exchange organization in most companies was gradually being developed.

In the longer run at least some companies have been able to influence their foreign exchange results positively. However, with the appreciation of borrowing currencies partly as a result of the two devaluations in 1977 it is unlikely that even with some form of »optimal« policy companies with a high level of external indebtedness could have avoided sizeable reported exchange losses. Avoidance of these losses, of which only part affected cash flows in the short run, was further complicated by

the general tightness of domestic liquidity which in most cases did not facilitate major changes in leads and lags.

OTHER GENERAL CONCLUSIONS

The study also presents some other general conclusions concerning the behaviour of companies under conditions of fluctuating exchange rates. One point to emerge is that companies do not establish specific and quantitative objectives in the foreign exchange field, but rather tend to pursue crude subjective goals which emphasize risk aversion. In the longer run, companies adopt a selective strategy covering only obvious risks, and rarely aim at total risk neutralization. Behaviour varies considerably between export and import companies and between groups and companies. Foreign exchange strategies were frequently characterised by a »crisis response« with activity increasing in the long term in response to negative stimuli, such as foreign exchange losses.

CERTAIN IMPLICATIONS

Currency problems within the corporate sector are not of a passing nature since a return to fixed exchange rates appears unlikely. For Finnish companies to maintain their international competitiveness, they must activate their foreign exchange strategies and have the same scope for pursuing such strategies as their foreign competitors. Increased room for manoeuvre may also require more liberal access to foreign capital and exchange markets. Tighter competition in the field of financing techniques under floating rates places considerable demands on companies and the authorities. The size and skills of finance departments in many companies may have to be increased in order to overcome potential obstacles to growth.

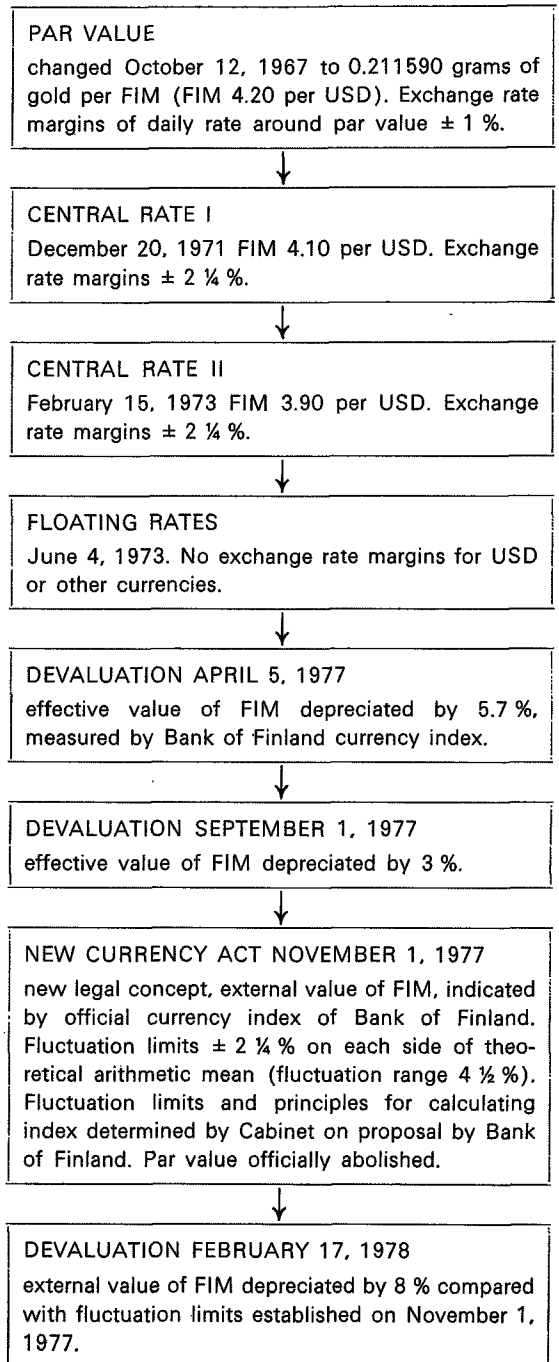
Only 3 per cent of Finnish exports and imports are invoiced in FIM, whereas the comparable figure for Swedish exports for example is close

**FINLAND'S FOREIGN EXCHANGE SYSTEM
1967-78**

to 70 per cent. The encouragement by banks and the authorities of the use of the FIM amongst companies would be desirable, and has been facilitated by the recent normalization of forward markets for FIM. Increased use of domestic currency would improve hedging possibilities and might also to some extent induce exports from small companies who have shied away from exchange operations regarded as risky and complicated. It could also to some extent reduce the speculative element in incomes policies relating to expectations concerning exchange rate changes.

Volatile exchange rates and sizeable reported exchange losses are likely to reduce the preference for borrowing from abroad and/or raise project yield requirements in order to compensate for exchange rate uncertainty. During the devaluation year 1977 reported net foreign exchange losses, as mentioned above, amounted to as much as 2.6 per cent of participating companies' turnover. These experiences may discourage investment and reduce economic growth. As a result of such considerations and current account surpluses, Finland's net external indebtedness in relation to GNP may fall sharply, from a peak of 22 per cent in 1977 to below 15 per cent in the early 1980's.

The monetary policy implications of companies' foreign exchange activities have changed significantly. During the summer and autumn of 1977 changes in leads and lags almost completely drained the Bank of Finland's foreign exchange reserves. The substantial easing of credit and the resultant increased scope for foreign exchange pressure means that correspondingly higher reserves are required. The maintenance of such reserves in times of exchange rate uncertainty will necessitate forceful monetary policy measures, particularly in the interest rate field.



ITEMS

The Bank of Finland investment inquiry of June 1979.

Industrial investment in 1978. Estimates based on the inquiry suggest that the volume of industrial fixed investment dropped by one quarter in 1978. The decline was particularly sharp in the forest and energy sectors. Only in one of the main sectors, other manufacturing, did investment activity pick up in 1978.

Planned investment for 1979. Industry's investment plans for 1979 have grown since the last inquiry in November 1978. The increase mainly reflects a higher propensity to invest but also the usual reduction in underestimation arising from the shortening in the length of the projection period in this inquiry. According to the inquiry, industrial investment has definitely picked up this year. The increase has evidently been augmented by the fact that part of the investment originally planned for 1978 has been deferred until this year.

The forest industries will account for the largest investment growth, with the volume of investment rising by roughly 50 per cent if plans are realized (Table 1). Investment activity in this sector would thus correspond to the average level of the 1960s but clearly fall short of the peak levels recorded in the 1970s.

In other manufacturing, much of the increase in investment may be ascribed to extension projects in the chemical industries. In addition, investment activity will pick up considerably in the textile, clothing, leather and shoe industries. In the metal industry, small enterprises will account for most of the sector's investment growth.

Industrial investment this year will be concentrated in purchases of machinery and equipment. These are likely to experience the fastest growth in the forest industries, with the emphasis on replacement and rationaliza-

tion. Investment activity in the building sector, however, seems to fall off although plans in that sector are now more extensive than last autumn.

Planned investment for 1980. According to industry's plans, the volume of investment will decline again in 1980 (Table 1). On the other hand, evidence from earlier inquiries suggests that industrial firms tend to underestimate their investment for the coming year because of the long projection period. Taking this into account, it may be expected that the investment volume of the manufacturing industries will continue to grow next year, but at a distinctly slower pace. Investment growth will still largely be in machinery and equipment. On a sectoral basis, most of the increase in investment should be attributable to the forest and metal industries. The completion of some large energy projects is reflected in the clear drop in the investment plans of the electricity, gas and water works. When examining the figures for 1980, it should be borne in mind that, should unanticipated changes occur in the economic outlook, industrial firms are likely to alter their investment plans accordingly.

Capacity utilization in 1979 and 1980. According to the inquiry, average industrial capacity utilization this year will amount to some 85 per cent, which is 7 percentage points below the peak of 1970. Of the manufacturing industries, the forest industries should account for the highest level of capacity utilization. By the end of this year, the utilization levels are expected to rise in all sectors except the public utilities sector, where a substantial increase in productive capacity is anticipated.

Industrial capacity utilization is expected to grow further in 1980. During the first half of the year, more than 40 per cent of the firms returning their questionnaires forecast that their capacity utilization level will rise and

more than 50 per cent that it will be unchanged. During the second half of the year, roughly one-quarter of the firms expect their utilization level to rise and two-thirds that it will remain as before. The forest industry enterprises, in particular, estimate that their capacity utilization in 1980 will approach the record level of 1970.

TABLE 1. ANNUAL CHANGES IN THE VOLUME OF INDUSTRIAL FIXED INVESTMENT IN 1978, AND PLANNED CHANGES FOR 1979 AND 1980, BY INDUSTRIAL SECTOR, PER CENT

	1978	1979	1980 ¹
Forest industries	-50	+54	-14
Metal industry	-16	+20	-2
Other manufacturing	+13	+20	-18
Total manufacturing	-23	+30	-13
Electricity, gas and water	-27	+18	-35

TABLE 2. ANNUAL CHANGES IN THE VOLUME OF INDUSTRIAL FIXED INVESTMENT IN 1978, AND PLANNED CHANGES FOR 1979 AND 1980, PER CENT

	1978	1979	1980 ¹
Building investment	+8	-9	-21
Investment in machinery and equipment	-36	+49	-17
Total manufacturing	-24	+26	-18

¹ Evidence from earlier inquiries suggests that investment plans made this far in advance tend to be clearly underestimated relative to realized investment.

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

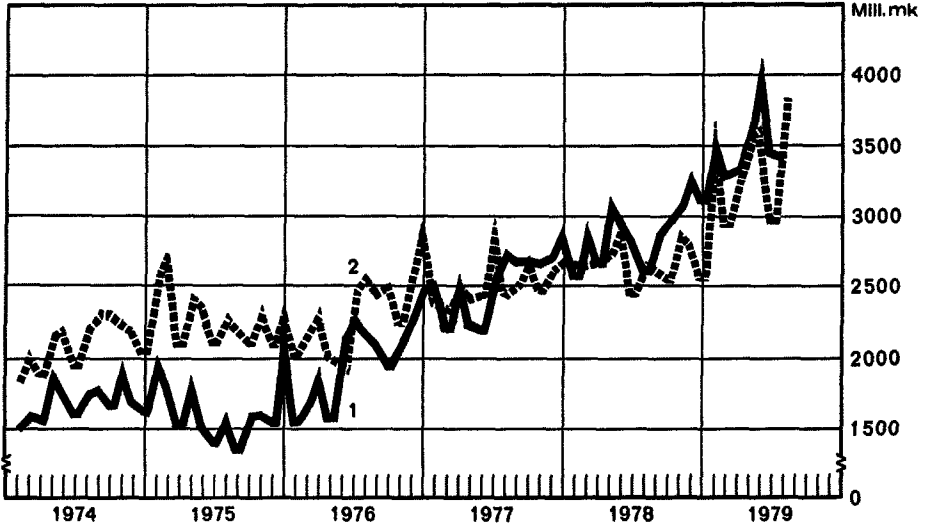
Banking Services

Antti Luukka

Cash

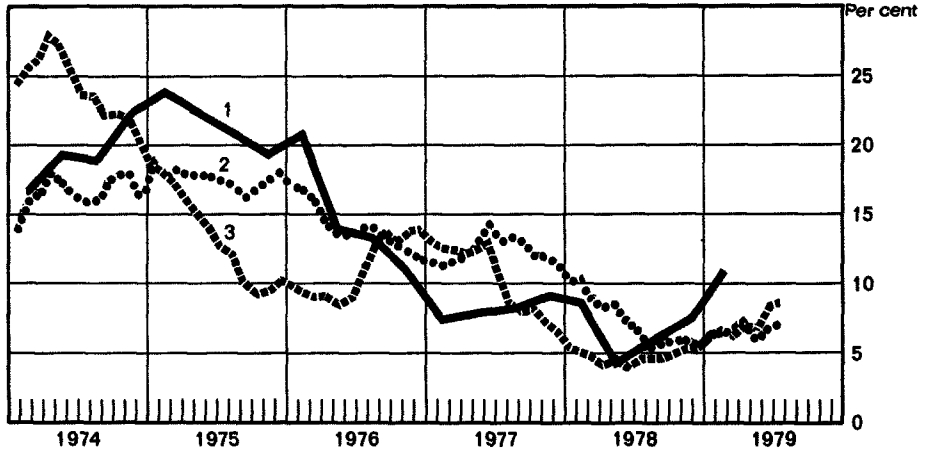
FOREIGN TRADE, 1974-79

- 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

