



BANK OF FINLAND

Monthly Bulletin

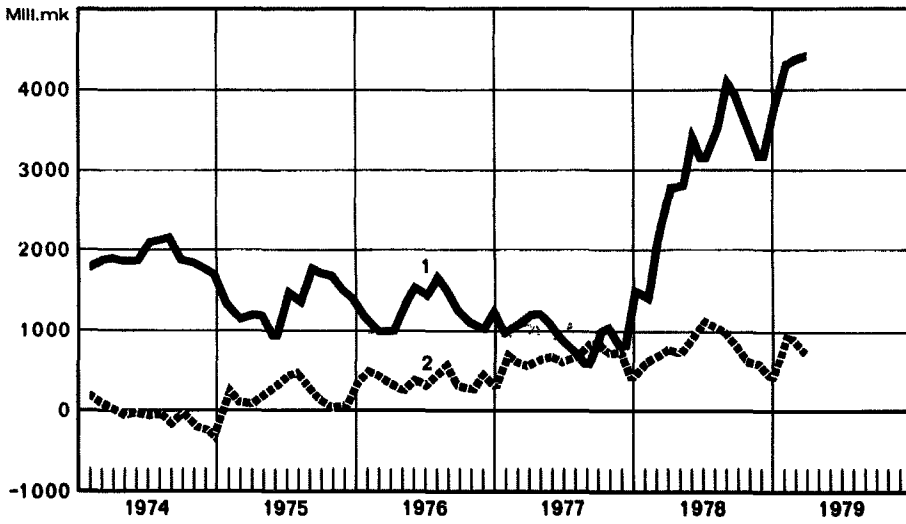
The labour market agreement

**The Finnish economy in 1978 and the
current outlook**

MAY 1979

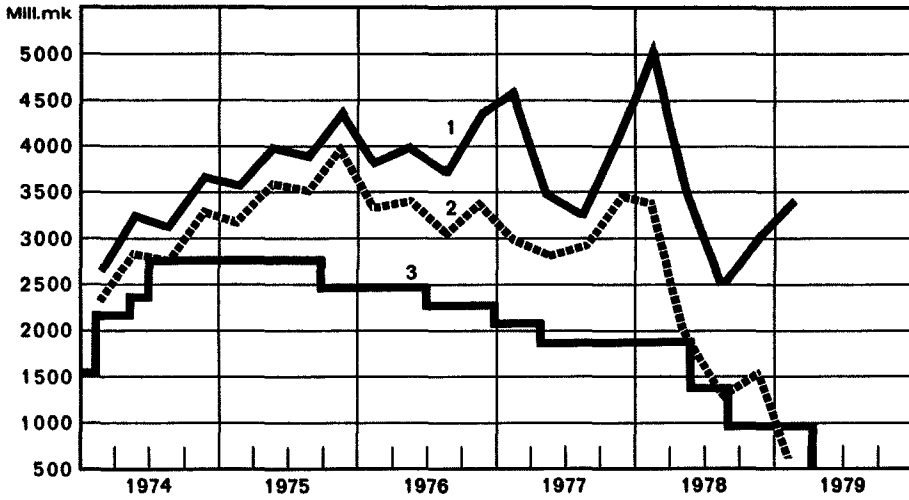
Vol. 53 No. 5

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



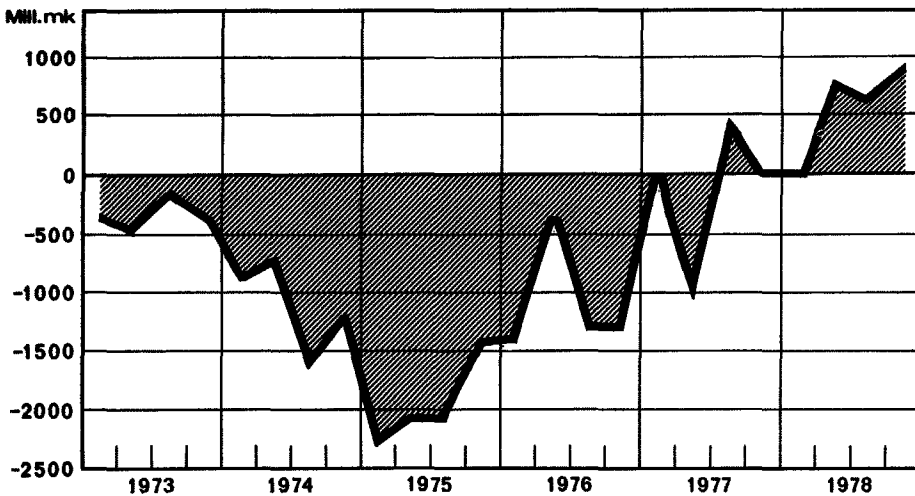
- 1. Gold and convertible currencies
- 2. Tied currencies

COMMERCIAL BANKS' CENTRAL BANK FINANCING, 1974 - 79



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

BALANCE OF PAYMENTS CURRENT ACCOUNT SURPLUS / DEFICIT, 1973 - 78



Seasonally adjusted quarterly figures

THE LABOUR MARKET AGREEMENT

On January 9, 1979, the central organizations of the labour market concluded a comprehensive agreement on the renewal of the collective wage and salary agreements expiring at the end of February 1979. The way for this agreement was paved by a programme released by the Government before the turn of the year, including a reduction in employers' child allowance contributions and measures to promote the household sector's purchasing power. This programme was a new link in a chain of reflationary measures implemented by the central government since June 1977. Earlier it had been decided that the income tax scales for 1979 would be adjusted to compensate for inflation. In line with its programme, the Government also agreed with economic organizations that the voluntary arrangement for refraining from price increases would be extended until the end of the new agreement period.

At the same time, the Government and agricultural producer organizations signed a separate agreement on increases in agricultural income.

The expiring collective agreements had been concluded in the spring of 1977. Although all the negotiations were conducted sector by sector, the agreements generally followed the proposals made by the Incomes Policy Negotiator appointed by the Council of State. A revision clause was incorporated whereby the central organizations of the labour market could make certain modifications if at the middle of the agreement period it seemed that economic developments differed significantly from forecasts. Similar steps could be taken if there was a substantial change in the external value of the Finnmark. The agreements were revised in two stages. In line with the reflationary programme released by the

Government in December 1977, all parties agreed that the negotiated wage increases would be postponed so that the increases due in March 1978 were deferred until September and those due in October until February 1979. However, as a result of the devaluation of the Finnmark in February 1978, it was decided that part of the increases deferred until February 1979 would be paid in May 1978.

The agreements also contained a so-called Earnings Guarantee, which was designed to guarantee that the level of earnings in each sector would rise during the whole agreement period, on average, by 5.5 percentage points more than specified by the proposal of the Incomes Policy Negotiator. Wage increases based on the Earnings Guarantee were paid in two stages, the latter being in February 1979. In a number of sectors, wage drift compensated for these wage increases.

In a few sectors, such as the trade sector, three-year agreements were concluded in the spring of 1977, in which considerable additional increases were agreed, in excess of the generally negotiated wage increases for 1979. Allowing for the impact of all the collective agreements signed in 1977, an average rise in the level of earnings in 1979 of 2.5 per cent is anticipated.

According to the comprehensive agreement, wages and salaries within each sector were to be increased from the beginning of February, in excess of the increases negotiated earlier, by an average of 2.25 per cent. The agreements concerning industrial workers incorporate wage increases of 30 pennies an hour and also an increment for the adjustment of differentials. During the last quarter of 1978, the average hourly earnings of male industrial workers were 17.99 marks.

An index clause was also included in the comprehensive agreement. If the consumer price index number (1972 = 100) exceeds 233 by October 1979, wages will be increased by 17 pennies an hour from the beginning of December, or in a corresponding way to be negotiated sector by sector. However, if the index number exceeds this ceiling by more than one per cent, wages will be increased by an equal amount. Legislation concerning restrictions on the application of index clauses, which has been in force since 1968, was temporarily revised so that an index clause could be included in collective agreements. The current index clause will expire, however, if the consumer price index rises from December 1978 to October 1979 by 8 per cent or more.

It was also agreed that, in excess of the negotiated wage increases, a 1.5 per cent rise in the level of earnings will be granted on the basis of the Earnings Guarantee; this increase will take place immediately after the expiry of the agreement period. As before, the wage increases based on the Earnings Guarantee concern sectors as a whole, and not individual occupations or persons. Moreover, certain other improvements were included in the comprehensive agreement, such as extensions in employees' annual vacation benefits.

By the beginning of April, all the collective agreements had been concluded, following

approximately the guidelines specified by the comprehensive agreement. They will be in force until the end of February 1980.

In the light of short-term economic prospects, the new labour market agreement can be considered fairly moderate. It is estimated that the growth rate of total output will reach some 5 per cent this year and unemployment is expected to fall after last year's record level. This year the index of wage and salary earnings is forecast to be some 10 per cent higher than in 1978, provided that the poor employment situation prevents wage drift exceeding 2 per cent. As the rise in consumer prices is not likely to accelerate, the index of wage and salary earnings may rise, in real terms, by 2 per cent. However, owing to measures promoting the household sector's purchasing power, wage and salary earners' real disposable income is likely to increase even more.

As a result of the devaluation of the Finnmark and a slowing down in the rise of domestic costs, the international price competitiveness of Finnish exports improved considerably in 1978. In the manufacturing industries, unit labour costs hardly rose at all in 1978, although this year they are expected to rise by 7 per cent, which may mean some deterioration in Finland's competitive position.

April 23, 1979

BANK OF FINLAND

Mill. mk

	1978		1979			
	April 28	Dec. 30	April 6	April 12	April 23	April 30
Assets						
Gold and foreign exchange receivables	3 696	4 339	5 192	5 202	5 474	5 701
Gold	133	169	169	169	169	169
Special drawing rights	187	316	458	458	458	458
IMF reserve tranche	—	243	243	243	243	243
Convertible currencies	2 570	3 126	3 531	3 565	3 709	3 920
Tied currencies	806	485	791	767	895	911
Other foreign receivables	2 187	1 968	2 303	2 326	2 343	2 366
Foreign bills ¹	573	—	—	—	—	—
Foreign bonds	686	872	1 206	1 229	1 246	1 269
Mark subscription to Finland's IMF quota	928	1 096	1 097	1 097	1 097	1 097
Receivables from financial institutions	4 515	3 695	3 128	3 761	3 111	2 711
Cheque accounts of the commercial banks	157	137	141	171	186	176
Discounted bills	2 346	970	386	443	367	349
Bonds	536	361	359	384	352	358
Call money market advances	1 444	2 213	2 225	2 745	2 187	1 808
Other financial institution receivables	32	14	17	18	19	20
Receivables from the public sector	382	633	825	825	821	822
Government promissory notes	—	188	346	346	346	346
Bonds	52	93	108	110	109	112
Total coinage	323	336	353	353	354	354
Other public sector receivables	7	16	18	16	12	10
Receivables from corporations	1 483	1 948	2 017	2 004	1 990	2 007
Financing of exports ²	220	904	912	895	872	891
Financing of domestic deliveries	778	752	777	776	783	782
Bonds	197	207	214	219	216	216
Other corporate receivables	288	85	114	114	119	118
Other assets	60	64	67	67	67	67
Total	12 323	12 647	13 532	14 185	13 806	13 674
Liabilities						
Foreign exchange liabilities	72	60	50	43	40	39
Convertible accounts	51	46	38	31	29	28
Tied accounts	21	14	12	12	11	11
Other foreign liabilities	3 408	2 195	2 213	2 213	2 213	2 213
IMF mark accounts	1 838	1 881	1 759	1 759	1 759	1 759
Allocations of special drawing rights	301	314	454	454	454	454
Term liabilities	1 269	—	—	—	—	—
Notes and coins in circulation	3 302	2 822	3 736	3 840	3 708	3 822
Notes	3 013	3 509	3 425	3 523	3 392	3 504
Coins	289	313	311	317	316	318
Deposit certificates in circulation	—	1 090	2 068	2 068	2 068	2 288
Claims of financial institutions	1 988	2 520	2 509	3 064	2 806	2 340
Cheque account of Postipankki	0	1	1	0	1	0
Cheque accounts of the commercial banks	3	1	1	1	1	1
Call money market deposits	1 653	2 075	2 220	2 775	2 518	2 078
Capital import deposits	310	405	277	278	263	257
Other financial institution claims	22	38	10	10	23	4
Claims of the public sector	289	114	114	114	114	113
Cheque accounts	0	2	1	1	1	0
Counter-cyclical reserves	38	40	40	40	40	40
Capital import deposits	250	70	71	71	72	72
Other public sector claims	1	2	2	2	1	1
Claims of corporations	389	356	343	338	340	344
Deposits for investment and ship purchase	40	32	41	41	41	44
Capital import deposits	336	303	291	291	292	293
Import levy deposits	12	6	2	2	2	1
Other corporate claims	1	15	9	4	5	6
Other liabilities	14	12	14	12	12	12
Equalization accounts	742	350	318	323	332	326
Capital accounts	2 119	2 128	2 167	2 170	2 173	2 177
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	65	183	39	42	45	49
Total	12 323	12 647	13 532	14 185	13 806	13 674

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

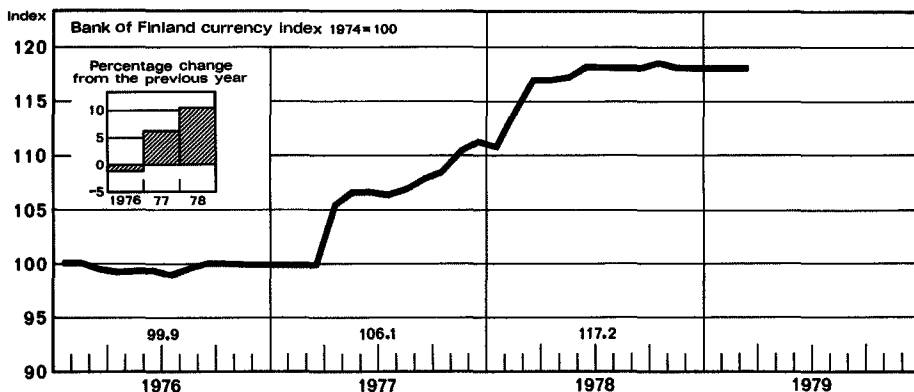
End of year or month	Foreign sector							Public sector			Deposit certificates in circulation
	Gold and convertible exchange receivables	Convertible exchange liabilities	Gold and convertible exchange reserves (1-2)	Tied exchange reserves	Other receivables	Other liabilities	Net receivables (3+4+5-6)	Receivables	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											
April	2 890	51	2 839	785	2 187	3 408	2 403	382	289	-93	—
May	3 596	38	3 558	995	2 636	3 914	3 275	382	229	-153	—
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

FOREIGN EXCHANGE SITUATION

Mill. mk

	Net holdings, Dec. 31, 1978			Net holdings, March 31, 1979			Change	
	Bank of Finland	Other	Total	Bank of Finland	Other	Total	March	Jan.—March
Gold	169	—	169	169	—	169	—	—
Special drawing rights	315	—	315	458	—	458	+ 1	+143
IMF reserve tranche	243	—	243	243	—	243	—	—
Convertible currencies	3 080	-2 072	1 008	3 599	-2 909	690	-481	-318
Total	3 807	-2 072	1 735	4 469	-2 909	1 560	-480	-175
Non-convertible currencies	471	152	623	754	158	912	-160	+289
Grand total	4 278	-1 920	2 358	5 223	-2 751	2 472	-640	+114

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, commercial banks	Demand for call money by deposit banks	Supply of call money by deposit banks	Other liabilities, net	Net receiv-ables (1+2+3-4-5)	Permanent special financing schemes	Liabilities, net	Net receiv-ables (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										
April	2 346	154	1 444	1 653	-236	2 527	1 483	389	1 094	3 302
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



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	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
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

April	3 950	2 325	1 900	-331	8.25	10.18	8.89	8.84
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

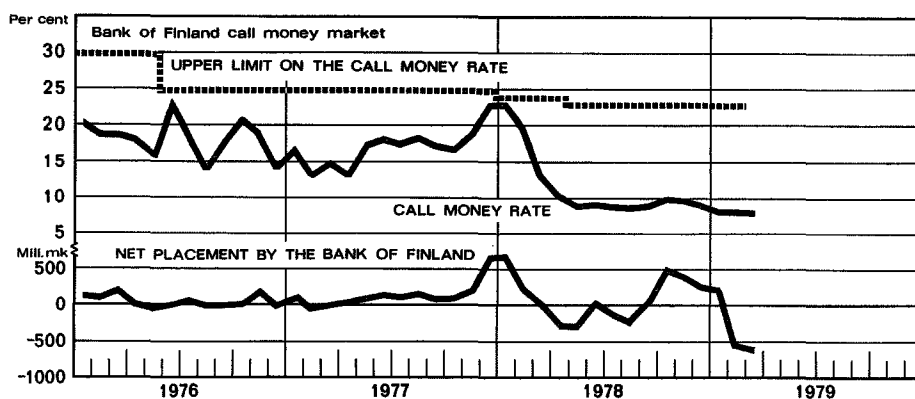
1979

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	..
April	2 682	417	500	-143	7.25	8.42	..	..

See explanations on page 22.

¹ End of period.

² 1. 9.—31. 12. 1975.



FOREIGN EXCHANGE RATES

Average selling rates for foreign exchange, mk

Period	Average selling rates for foreign exchange, mk									Currency Index 1974 = 100
	New York 1 US \$ USD	London 1 £ GBP	Stockholm 100 Skr SEK	Oslo 100 Nkr NOK	Copenhagen 100 Dkr DKK	Frankfurt 100 DM DEM	Zurich 100 Sfr CHF	Paris 100 FF FRF	Moscow 1 Cl Rbl SUR	
	1	2	3	4	5	6	7	8	9	10
1972	4.146	10.368	87.20	62.97	59.72	130.07	108.64	82.25	4.960	102.1
1973	3.816	9.355	87.76	66.64	63.47	144.34	121.22	86.10	5.159	102.5
1974	3.774	8.833	85.22	68.44	62.17	146.21	127.19	78.65	4.995	100.0
1975	3.679	8.155	88.80	70.59	64.21	149.80	142.64	86.00	5.093	101.1
1976	3.864	6.983	88.86	70.95	64.04	153.78	154.86	81.09	5.125	99.9
1977	4.029	7.042	90.21	75.83	67.23	174.15	168.70	82.16	5.475	106.1
1978	4.117	7.917	91.43	78.93	75.06	205.53	231.83	91.77	6.037	117.2

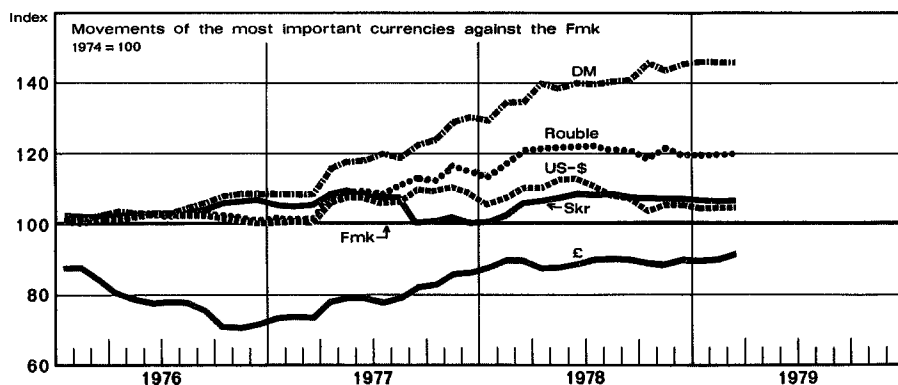
1978

April	4.193	7.777	91.42	78.50	75.05	205.73	220.71	91.80	6.099	117.2
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

See explanations on page 22.

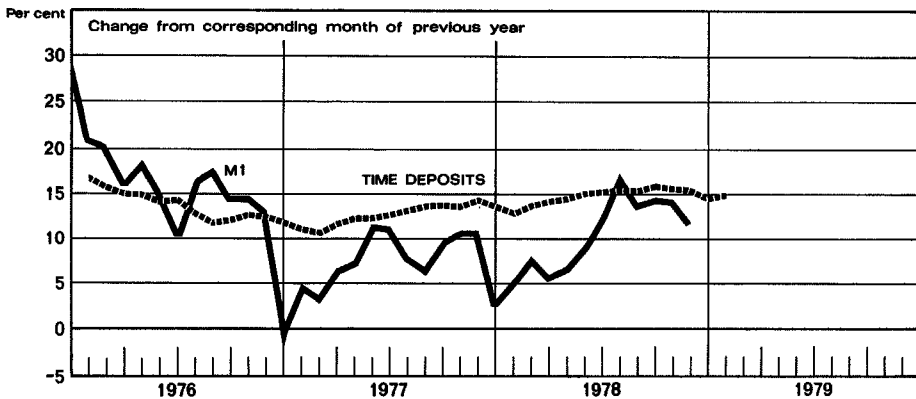


DEPOSITS BY THE PUBLIC¹

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
1977										
Nov.	3 342	1 508	2 027	6 877	14 382	12 350	9 697	4 066	40 495	47 372
Dec.	2 948	1 506	2 212	6 666	14 999	12 671	9 846	4 177	41 693	48 359
1978										
Jan.	3 096	1 351	2 330	6 777	14 890	12 747	9 903	4 203	41 743	48 520
Feb.	3 106	1 468	2 478	7 052	15 191	12 901	9 996	4 243	42 331	49 383
March	2 922	1 420	2 340	6 682	15 350	13 058	10 107	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

¹ New series. See explanations on page 18.

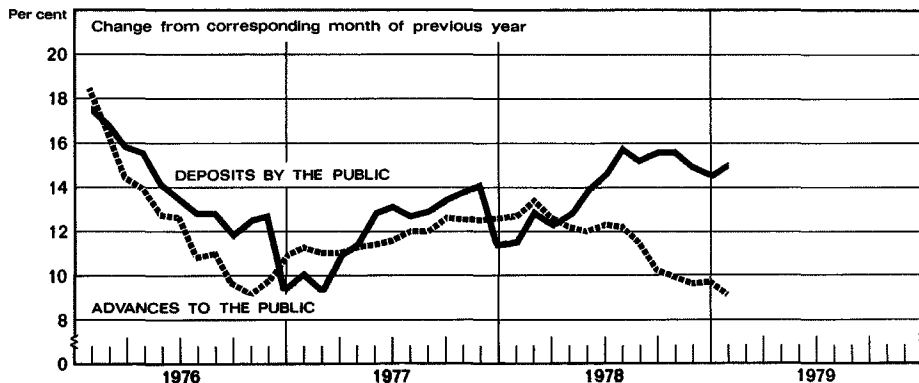


ADVANCES TO THE PUBLIC¹ — MONEY SUPPLY¹

Mill. mk

End of year and month	Advances granted by				Types of advances			Total (1 to 4) (5 to 7)	Money Supply	
	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	Loans & bills in domestic currency	Cheque credits	Domestic credits in foreign currency		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
1977										
Nov.	24 440	12 004	10 283	6 676	46 592	1 723	5 088	53 403	9 933	51 436
Dec.	24 679	12 312	10 547	6 609	47 355	1 690	5 102	54 147	9 872	52 581
1978										
Jan.	24 843	12 421	10 575	6 852	47 794	1 763	5 134	54 691	9 875	52 716
Feb.	25 472	12 509	10 636	6 731	47 977	1 787	5 584	55 348	10 137	53 709
March	25 599	12 553	10 650	6 500	47 817	1 732	5 753	55 302	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

¹ New series. See explanations on page 22.



STATE FINANCES

Mill. mk

Revenue	Jan.—Dec.		Expenditure	Jan.—Dec.	
	1977	1978		1977	1978
Income and wealth tax (net)	10 477	9 262	Wages, salaries, pensions etc.	5 742	6 266
Gross receipts	(27 400)	(27 696)	Repair and maintenance	798	808
Refunds & local authorities	(-16 923)	(-18 434)	Other consumption expenditure	2 875	3 372
Other taxes on income and wealth	270	287	Total consumption expenditure	9 415	10 446
Employers' child allowance payments	1 281	1 248	State aid to local authorities	6 791	7 799
Sales tax	8 282	9 550	State aid to industries	4 823	4 947
Customs duties and import charges and levies	932	938	of which: agric. price subsidies	(2 659)	(2 506)
Excise duties ¹	5 755	6 772	Child allowances	1 051	1 141
Excise duty on alcoholic beverages ¹	1 814	2 054	Share in national pensions and sickness insurance schemes	299	323
Excise duty on tobacco	900	960	Other transfer expenditure	4 106	4 706
Excise duty on liquid fuel	1 943	2 374	Total transfer expenditure	17 070	18 916
Other excise duties ¹	1 098	1 384	Machinery and equipment	1 357	1 380
Tax on autom. and motor-cycles	957	970	Construction of buildings	723	843
Stamp duties	738	802	Land and waterway construction	1 527	1 549
Special diesel etc. vehicles tax	148	182	Total real investment	3 607	3 772
Other taxes and similar revenue ¹	872	893	Interest on State debt	454	623
Total taxes	29 712	30 904	Net deficit of State enterprises	22	-45
Miscellaneous revenue	1 948	2 231	Other expenditure	55	51
Interest, dividends etc.	656	841	Total other expenditure	531	629
Redemptions of loans granted	416	562	Increase in inventories	+42	-83
Total revenue	32 732	34 538	Lending	2 993	2 806
Foreign borrowing	892	3 287	Other financial investment	687	510
Domestic borrowing	1 123	1 995	Total expenditure	34 345	36 996
Total borrowing	2 015	5 282	Redemption of foreign loans	163	284
Deficit (+) or surplus (-)	+79	-2 050	Redemption of domestic loans	318	490
			Total redemptions	481	774
	Total	34 826	Total	34 826	37 770

¹ New series.

State debt	1976	1977	1978	1979	
	Dec.	Dec.	Dec.	Jan.	Feb.
Foreign debt	2 248	3 679	7 360	7 293	7 288
Loans	2 175	2 963	4 607	4 773	4 672
Compensatory obligations	1	1	1	1	1
Short-term credit	287	175	259	..	..
Cash debt (net)	-643	-669	-735	..	..
Domestic debt	1 820	2 470	4 132	..	..
Total State debt	4 068	6 149	11 492	..	..
Total debt mill \$	1 069	1 493	2 859	..	..

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*

Jan.	2 511	2 631	-120
Feb.	2 524	2 188	+336
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.	3 440	3 563	-123
Feb.	2 819	2 389	+430

Jan.-Feb.

1978*	5 035	4 810	+225
1979*	6 259	5 952	+307

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

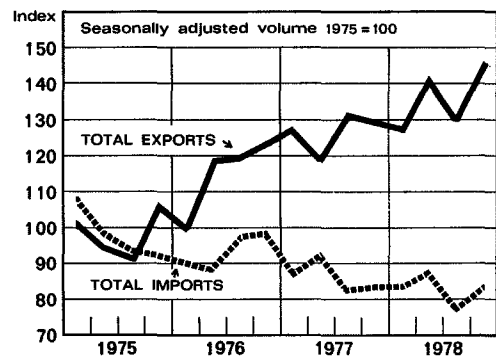
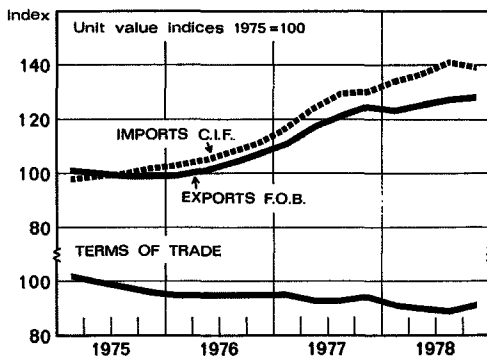
Jan.-March	99	87	100	104	96
Apr.-June	114	84	102	106	96
July-Sept.	116	98	105	109	96
Oct.-Dec.	136	107	108	112	96

1977

Jan.-March	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



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*

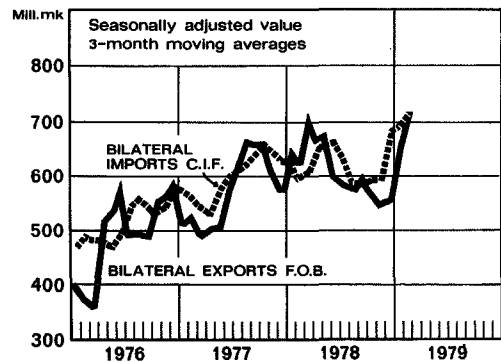
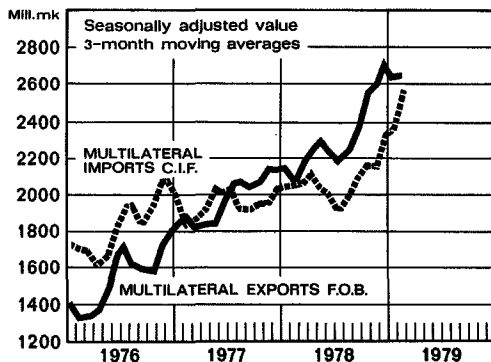
Jan.	160	322	721	656	652	1 567	193	493	376	2
Feb.	34	266	821	727	676	1 395	124	327	340	2
March	153	322	901	546	828	1 569	89	475	436	1
April	19	348	907	799	821	1 445	123	402	455	1
May	113	431	850	729	819	1 823	199	412	501	0
June	40	414	873	810	686	1 740	196	376	362	2
July	44	414	775	756	695	1 700	233	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	796	1 002	2 248	235	539	539	2
Feb.	16	337	889	733	844	1 623	83	315	367	1

Jan.-Feb.

1978*	194	588	1 542	1 383	1 328	2 953	317	820	716	4
1979*	282	795	1 807	1 529	1 846	3 871	318	854	906	3



FOREIGN TRADE BY COUNTRIES¹

Mill. mk

Area and country	Exports, f.o.b.				Imports, c.i.f.			
	January—February				January—February			
	1978*		1979*		1978*		1979*	
	%	Mill. mk	%	Mill. mk	%	Mill. mk	%	Mill. mk
OECD countries in Europe	59.9	3 015	64.3	4 024	60.7	2 919	60.0	3 570
Austria	0.6	33	0.8	48	1.4	66	1.4	86
Belgium and Luxembourg	2.2	109	1.6	100	2.0	99	2.0	118
Denmark	4.0	199	3.8	241	2.9	138	3.0	178
France	4.2	213	4.5	285	3.1	151	3.8	229
Federal Republic of Germany	10.2	513	12.5	781	13.7	659	14.6	868
Italy	1.6	79	2.2	135	2.2	107	2.5	149
Netherlands	3.2	159	3.4	216	3.0	146	3.0	177
Norway	4.3	215	3.9	242	2.4	115	2.2	129
Portugal	0.3	14	0.3	18	0.4	17	0.4	26
Spain	0.6	33	1.0	60	0.7	32	0.9	52
Sweden	13.3	670	16.0	1 000	16.1	774	15.4	914
Switzerland	2.0	103	2.2	139	2.2	107	2.3	136
United Kingdom	12.0	602	10.4	652	10.0	480	7.8	467
Other	1.4	73	1.7	107	0.6	28	0.7	41
OECD countries outside Europe	7.3	367	7.4	462	8.2	395	9.7	579
Canada	0.5	26	0.5	33	0.4	20	0.9	56
Japan	0.8	38	1.5	97	2.5	122	3.2	188
United States	4.6	234	4.4	272	5.0	241	5.4	324
Other	1.4	69	1.0	60	0.3	12	0.2	11
CMEA countries	20.9	1 051	18.3	1 149	21.7	1 043	21.2	1 264
Czechoslovakia	0.5	24	0.3	21	0.4	21	0.5	30
German Democratic Republic	0.6	32	0.5	33	0.7	33	0.7	44
Poland	0.7	35	0.6	38	2.2	106	0.8	46
Soviet Union	18.1	909	15.8	988	16.7	801	18.2	1 084
Other	1.0	51	1.1	69	1.7	82	1.0	60
Latin America	5.0	254	1.7	107	4.0	192	4.2	251
Argentina	0.2	9	0.3	16	0.1	2	0.1	6
Brazil	0.2	13	0.4	27	1.0	48	1.0	61
Colombia	0.2	10	0.1	9	2.0	97	1.5	89
Other	4.4	222	0.9	55	0.9	45	1.6	95
Other	6.9	348	8.3	517	5.4	261	4.9	288
GRAND TOTAL	100.0	5 035	100.0	6 259	100.0	4 810	100.0	5 952
of which								
EFTA countries	20.6	1 039	23.3	1 458	22.7	1 094	21.9	1 304
EEC countries	38.0	1 913	39.4	2 465	37.2	1 787	36.9	2 194
OECD countries	67.2	3 382	71.7	4 486	68.9	3 314	69.7	4 149

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

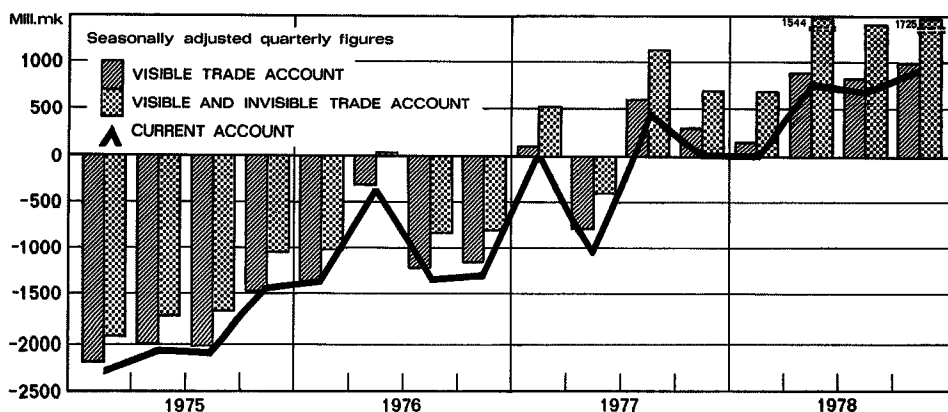
Jan.-March	4 987	6 307	-1 320	+252	- 50	+ 65	-1 053	-347	-35	-1 435
Apr.-June	5 864	6 224	- 360	+252	+ 49	+ 26	- 33	-485	-26	- 544
July-Sept.	6 098	7 515	-1 417	+365	+ 62	+110	- 880	-434	-17	-1 331
Oct.-Dec.	7 423	8 426	-1 003	+324	- 39	+ 44	- 674	-483	-40	-1 197

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

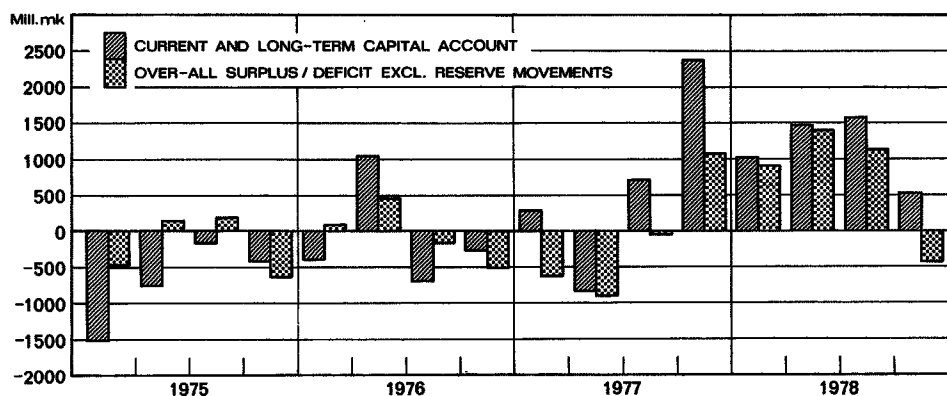


Drawings of long-term loans	Amortizations of long-term loans	Long-term export credits net	Miscellaneous long-term capital items, net ¹	Long-term capital account	Current and long-term capital account	Short-term import credits and prepayments, net	Short-term export credits and prepayments, net	Miscellaneous 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	+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	+4 636	+ 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.

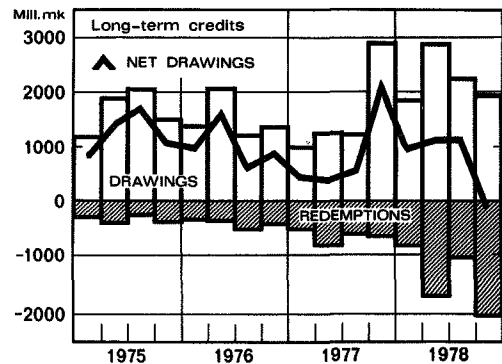
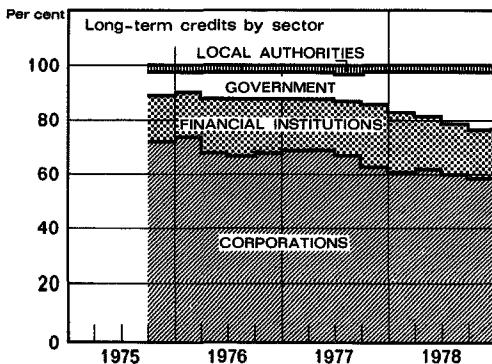


FINLAND'S FOREIGN ASSETS AND LIABILITIES

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.

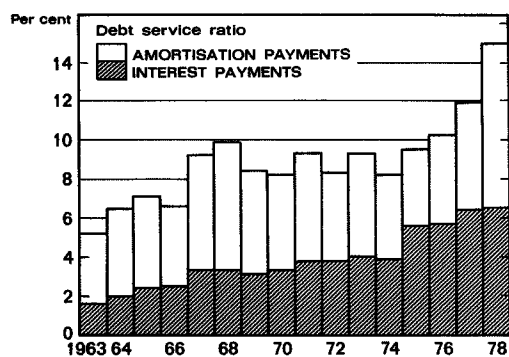
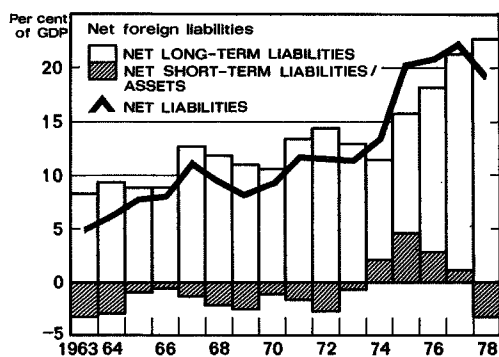


FINLAND'S FOREIGN ASSETS AND LIABILITIES

Mill. mk

Short-term assets				Short-term liabilities							
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)	Net short-term liabilities (18-14)	Net liabilities (10 + 19)	Debt service, flow	Of which amortisation payments, flow
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												
May	721	734	669	687	877	726	737	675	741	180	160	185
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
Consumer prices 1977 = 100 ¹												
Period	Total	Food	Beverages and tobacco	Clothing and footwear	Rent	Heating and lighting	Household goods and services	Health and medical services	Transport and communication	Education and recreation	Other goods and services	
1978	107.8	104.4	114.6	105.8	106.3	106.4	105.2	112.4	111.1	108.2	109.2	
1978												
May	107.8	104.4	118.4	104.8	106.7	105.7	104.6	109.1	111.7	107.0	107.9	
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	

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			State employees	Municipal employees	Employees in private sector				
	Agriculture	Industry	Construction							
1977	671	484	457	386	387	378	453	373	479	433
1978*	747	523	482	411	406	394	489	397	513	462
1977*										
Jan.-March	652	457	440	372	373	365	428	357	453	411
Apr.-June	666	488	456	386	390	382	457	374	485	437
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	501	471	398	396	383	471	385	496	448
Apr.-June	736	516	477	403	401	386	482	390	508	456
July-Sept.	744	528	483	413	407	396	495	399	520	467
Oct.-Dec.	777	547	498	429	420	411	508	413	532	480

PRODUCTION

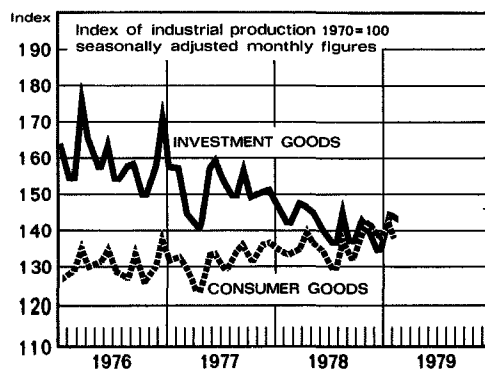
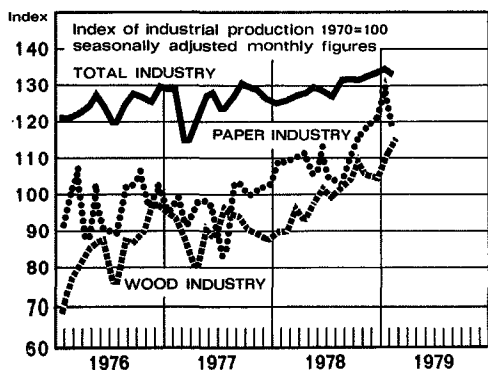
Volume indices of production 1975 = 100

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
1977*											
Dec.	129	149	122	135	111	84	94	164	108	152	127
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



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	Unemploy- ment, % of total labour force	Commercial timber fellings 1 000 solid cu. m	Retailers' sales volume index 1972 = 100	Whole- salers' 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*								
March	3 572	2 195	2 007	188	8.5	3 641	105	123
April	3 576	2 172	2 004	168	7.7	3 443	107	120
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	..	..

CONSTRUCTION OF BUILDINGS

Period	Building permits granted					Buildings completed					Building- works under con- struction
	Total	Residen- tial buildings	Farm buildings	Industrial and business buildings	Public buildings	Total	Residen- tial 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. Changes in the domestic financial sector and the corporate sector are explained below. When the figures are not fully comparable to the previous ones, the series is broken by a line.

Page 4. *Foreign sector:* Gold and convertible exchange receivables = Gold + Special drawing rights + IMF 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 + 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) 6.2, 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 109 281. 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 (Dec. 31, 1978): Passenger vessels 121 (192 505 gross reg. tons), tankers 47 (1 112 323 gross reg. tons), dry cargo vessels 212 (898 901 gross reg. tons), other vessels 79 (10 509 gross reg. tons), total 459 (2 314 238 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 Rbl 20.3, Skr 17.1, £ 13.7, DM 13.2, \$ 9.7, other currencies 26.0. 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, Postipankki and three development credit institutions. The co-operative stores accept deposits from their members. The Social Insurance Institution and fifty-seven private insurance companies also grant credits.

RATES OF INTEREST (May 1, 1978). The official discount rate of the Bank of Finland (the basic rate applied by the Bank of Finland for discounts and rediscounts of commercial banks) is 7 ½%. The range of rates for other credits granted by the Bank of Finland is between 5% 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%.

THE FINNISH ECONOMY IN 1978 AND THE CURRENT OUTLOOK

by Sirkka Hämäläinen, Head of Domestic Office
and Johnny Åkerholm, Head of International Economics Office

Economics Department

Bank of Finland

INTRODUCTION

The Finnish economy continued in 1978 on the adjustment path towards better macro-economic balance. Efforts to improve competitiveness and profitability began to bear fruit, with a fall in the rate of inflation to well below the average for the industrialized world and a strengthening in the current external balance, which yielded a surplus for the year as a whole. Also domestic demand picked up towards the end of the year contributing to an acceleration in the growth of output. As a result of this and increased employment support, deterioration in the labour market was finally stemmed, and unemployment started to fall moderately during the autumn.

During the year economic policy has gradually become more expansionary. However, the measures demanded by the labour market situation were largely designed to combine stimulatory action with a further decline in inflation. This was achieved by linking fiscal policies to incomes policy agreements and also by implementing direct cost-reducing measures. As a consequence, the net borrowing requirement of the Central Government increased to some 2 500 million marks or some 2 per cent of GDP. As a large part of this was financed abroad at a time when the current account turned into surplus, the financial conditions eased significantly despite some offsetting measures by the Central Bank.

PROBLEMS AND ECONOMIC POLICY IN 1978

Although the adjustment process was initiated in 1977 following the severe imbalances of the mid-1970s, 1978 did not start without problems. It is true that the rate of inflation had been brought down, especially during the second half of 1977, and the external balance had strengthened, but the progress on these fronts seemed partly to be influenced by temporary factors and, more important, was still not large enough to provide a basis for a permanent reduction in unemployment. As a result of uncertain international prospects and tight demand management policies, necessitated by inflation and external problems, private domestic demand had continued to weaken implying sluggish activity and a steady upward drift in unemployment.

However, given the need for better macro-economic balance and continuous growth of capacity in the longer run, it was felt that the unemployment problem could be solved only gradually by strengthening the corporate sector. The exceptional investment boom of the earlier period had left firms with a heavy burden of debt and considerable unused capacity, some of which was no longer economically viable following large shifts in relative prices. Furthermore, the overall competitive position was severely weakened.

Against this background, a permanent reduction in the rate of inflation and an improvement

in corporate profitability were seen as primary goals of economic policy. It was felt that the expansionary measures demanded by the current level of unemployment, and which were permitted by a stronger external balance, should also aim to curb any inflationary pressures. Hence, the policy line embarked upon in mid-1977, and effective in 1978, has combined fiscal policy measures with general incomes agreements and provided reductions in direct taxes in order to reduce nominal income claims. Contrary to the experience of the mid-1970s, when wage drift largely compensated for the moderation in negotiated wage increases, it is believed that the prevailing levels of unused resources should permit the implementation of anti-inflationary measures concurrent with pursuit of expansionary fiscal policy. Temporary reductions in indirect labour costs have also been used to combat cost increases, and exchange rate changes, too, have been resorted to on three occasions in connection with devaluations of other Scandinavian currencies in order to speed adjustment of international competitiveness¹.

In addition to measures improving profitability, direct investment incentives, mainly in the form of temporary reductions in sales tax rates on investment goods, have been used to stimulate investment. In order to alleviate unemployment problems in the short run, the traditional labour market measures have been expanded moderately. Monetary policy, however, has been designated the more passive role, compared with 1975—1977, of providing the financial conditions for an upswing in demand.

FISCAL POLICY

The reflationary fiscal policy measures were mainly designed to stimulate the private sector, and in particular the corporate sector, while producing only a slight acceleration in public demand. An initially cautious fiscal policy in 1978, gradually became more expansionary by means of several policy packages. The same

is also true of this year's policy, which was altered when a reflationary programme was announced in connection with the incomes agreements at the beginning of the year.

Temporary changes in tax and pay rates have constituted the most important elements of fiscal policy measures directly affecting the corporate sector.

(i) Social security contributions were reduced by 1 percentage point from October 1977 until the end of April 1978, and after that, by 1/2 percentage point until the end of January 1979. A reduction of 2 percentage points will operate until the end of February 1980.

(ii) Industrial construction has been exempted from sales tax, while sales tax on manufacturing machinery and equipment ordered between April 1978 and June 1979 and delivered by the end of 1979 has been halved.

(iii) In 1978, employers' supplementary pension contributions were temporarily reduced by 2 percentage points.

Other measures include the exemption of export industries from electricity tax in 1978 and an increase in equity capital in State companies. Altogether it is estimated that the direct net effect on the corporate sector amounted to some 1 000 million marks in 1978, as compared with only 200 million marks in 1977.¹

Measures working through the household sector and whose implementation has to some extent been conditional on the increases in nominal incomes include inter alia:

(i) An adjustment of tax scales in line with inflation for both 1978 and 1979.

(ii) Reductions in social security contributions by $\frac{3}{4}$ percentage points in the March—June 1978 period and then by $1\frac{1}{4}$ percentage points until the end of January 1979. The reduction amounts to $\frac{3}{4}$ percentage points until the end of February 1980.

(iii) Periodic increases in child allowances.

¹ See article on Balance of Payments and Exchange rate policies in the April 1979 issue of this publication.

¹ All quantitative estimates concerning fiscal measures are made by the Ministry of Finance.

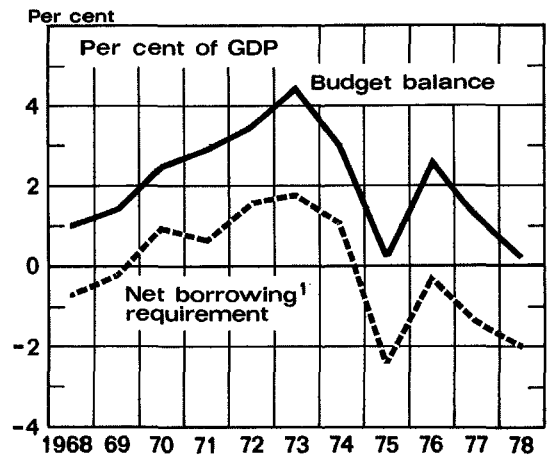
The direct fiscal effect of measures directed towards the household sector is estimated at some 1 700 million marks in 1978. In addition the purchasing power of households in 1978 was increased by some 850 million marks when one third of tax reimbursements (amounts withheld in excess of finally assessed liability) due in March 1979 were paid in December 1978.

In addition to the measures supporting the private sector, the difficult employment situation, especially amongst young people has necessitated some increases in direct employment creating efforts. Subsidies for employing young people, disbursed mainly to local governments but also to the private sector were increased, and Central Government employment too was expanded to alleviate the situation for certain seriously affected groups. The employment situation has also been approached from the supply side, for example by adding to the number of people engaged in labour market training, increasing the number of volunteers in military service and by temporarily lowering the age limit for unemployment pensions. As a result of these measures and a revival in investment expenditure, Central Government current expenditure rose by 4 1/2 per cent in volume terms, compared with no change in 1977. However, since demand by local authorities slowed down, total public demand also increased by 4 1/2 per cent, only one percentage point up on the previous year.

All in all, it is estimated that expenditure on reflationary measures in 1978 amounted to almost 4 000 million marks or 3 per cent of GDP. However, because of somewhat reduced demand by local authorities, the stimulatory effect of the public sector amounted to somewhat less than that of the Central Government alone.

State budget revenue grew by 5 per cent and expenditure by 10 per cent resulting in a fall in the budget surplus to less than 300 million marks or to 1/4 per cent of GDP (Chart 1). Taking into account some fall in financial investment, the net borrowing requirement increased to 2 500 million marks and the gross

CHART 1. BUDGET BALANCE AND BORROWING REQUIREMENT



¹ Budget balance minus Central Government lending and financial investments (net)

borrowing requirement to 3 200 million marks.¹ As in the previous year, this was largely financed abroad in order to avoid crowding out on the financial market; more than 60 per cent of the total 5 200 million marks long-term borrowing, was raised in the international market. In spite of ample borrowing, the ratio of long-term debt to GDP did not exceed the peak level of the 1960s, and Central Government indebtedness remained relatively low by international standards.

MONETARY POLICY

As mentioned above, monetary policy was not attributed any active role in the general strategy for 1978. The main task was to create the financial climate for an upswing by easing the tight conditions imposed in 1976. Despite efforts to relieve these conditions in the latter half of 1977 the situation was temporarily aggravated by the outflow of short-term capital at the turn of the year when the mark came under increasing pressure. The first steps were taken in 1977 when the discount rate and thereby also the overall interest rate level, was reduced by 1 percentage point in October.

¹ See statistical Table on page 10.

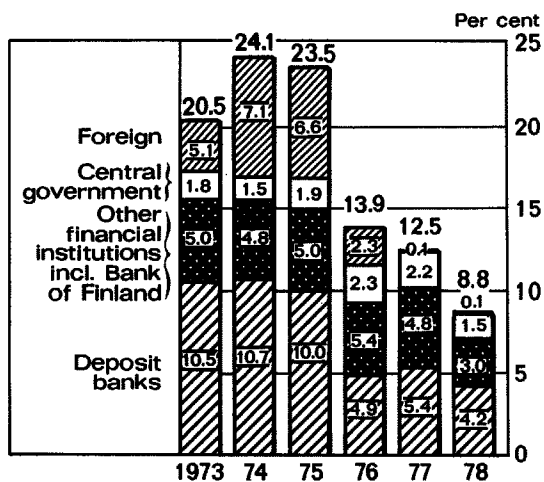
The same line of action was continued in May 1978, when the rate was reduced by another point to 7 1/4 per cent in order to mitigate the cost effects arising from the February devaluation of the mark.

There were marked changes in liquidity during the year. Following increased Government borrowing abroad, the inflow of long-term capital continued to be ample whilst simultaneously the current account turned into surplus. As a consequence, the surplus on the basic balance increased by some 2 000 million marks to 4 600 million marks, and despite the outflow of short-term capital produced by the sharp improvement in the trade balance towards the end of the year and the concurrent easing of financial conditions, the overall balance was in surplus to the tune of 3 000 million marks. Of this, some 2 300 million marks went into net official reserves (Chart 6). The Central Bank's net foreign assets including repayments of oil facility loans and private stand-by credits as well as placements in bonds, increased by 4 000 million marks.

This substantial boost to liquidity was only partially offset domestically, and the financial conditions eased markedly during the year. Of the Government cash surplus some 2 000 million marks was placed at the Central Bank, while the holdings of notes and coins increased by close to 700 million marks. Allowing for some other minor transactions including 200 million marks in borrowing by the Central Government, this enabled a 1 700 million marks reduction in commercial banks' borrowing from the Central Bank. Despite two reductions in the quotas within which the banks can borrow at the discount rate, by 500 million marks in June and 400 million marks in September, the cost of commercial banks' Central Bank debt was substantially reduced.¹

The same is true for the call money interest rate which had peaked at the beginning of the year at 23 per cent in connection with speculation against the mark. At the end of the year, however, the rate was just above 9 per cent.

CHART 2. TOTAL CREDIT EXPANSION TO THE PUBLIC¹



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

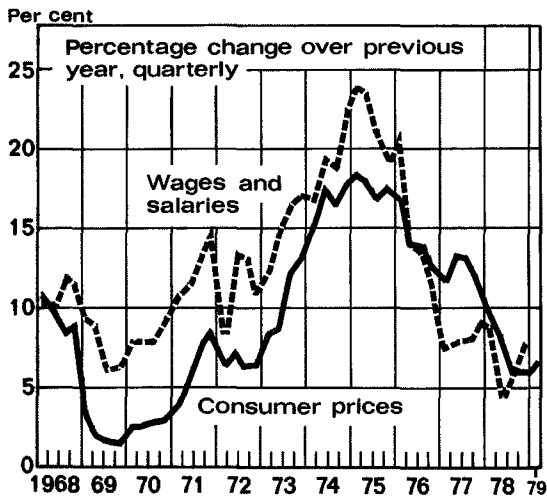
These developments and the strengthening of income growth were reflected in an acceleration in the growth of deposits; time deposits increased by 15 per cent during the year while demand deposits were up by 14 per cent after a fall during the previous two years.

However, with real demand in the doldrums during most of the year, demand for credit was weak and bank lending expanded by only 9 per cent. Total credit expansion also amounted to 9 per cent or some 3 percentage points less than in the previous year (Chart 2).

REDUCED INFLATION AND IMPROVED COMPETITIVENESS

The economic policy measures together with weak demand produced a clear retardation in the rate of inflation last year despite the exchange rate changes. The increase in consumer prices continued to decelerate towards the end of the year, and the December to December increase at 5.9 per cent was well below the average figure for the OECD as a whole (Chart 3). The same is also true for developments in costs, and allowing for the devaluations of the mark, the relative cost

¹ See statistical Table on page 6.

CHART 3. PRICES AND WAGES

position of Finnish products improved in 1977—1978 on average by a quarter.¹

The original wage settlements for 1978, which were concluded in spring 1977, were modified on several occasions; in December 1977 the increases planned for 1978 were postponed in exchange for fiscal concessions, but following the February 1978 devaluation of the mark by 8 per cent, some of the postponed increases were implemented. However, the net effect of postponements was a reduction in wage increases to a couple of percentage points below those originally agreed, and as wage drift decelerated in response to the weaker labour market situation, wage and salary earnings grew on average by only some 7 per cent, or the same as total hourly labour costs. At the same time, the revival in production and increased rationalization efforts resulted in a comfortable increase in labour productivity, and unit labour costs were up by less than 4 per cent. In manufacturing, unit costs remained unchanged reflecting a sharp pick-up in productivity growth. On the other hand, the sheltered private non-agricultural sector recorded a more moderate deceleration in labour costs to 5 1/2 per cent due to sluggish domestic demand and thus only minor productivity improvements.

¹ See Chart 1 in article in the April 1979 issue of this publication.

These domestic cost developments combined with weak demand conditions were clearly reflected in greater price stability. Sluggish demand also prevented the exchange rate changes from being fully reflected in domestic prices. In fact, import prices did not rise by more than 11 1/2 per cent despite an average increase in exchange rates of 10 1/2 per cent. Price increases were probably also curbed to some extent by an agreement volunteering abstention from price increases reached in December 1977 between the Government and the central organizations of industry. Consumer price increases in the latter half of the year were exceptionally low, and from June to December constituted an annual inflation rate of only 4 1/2 per cent.

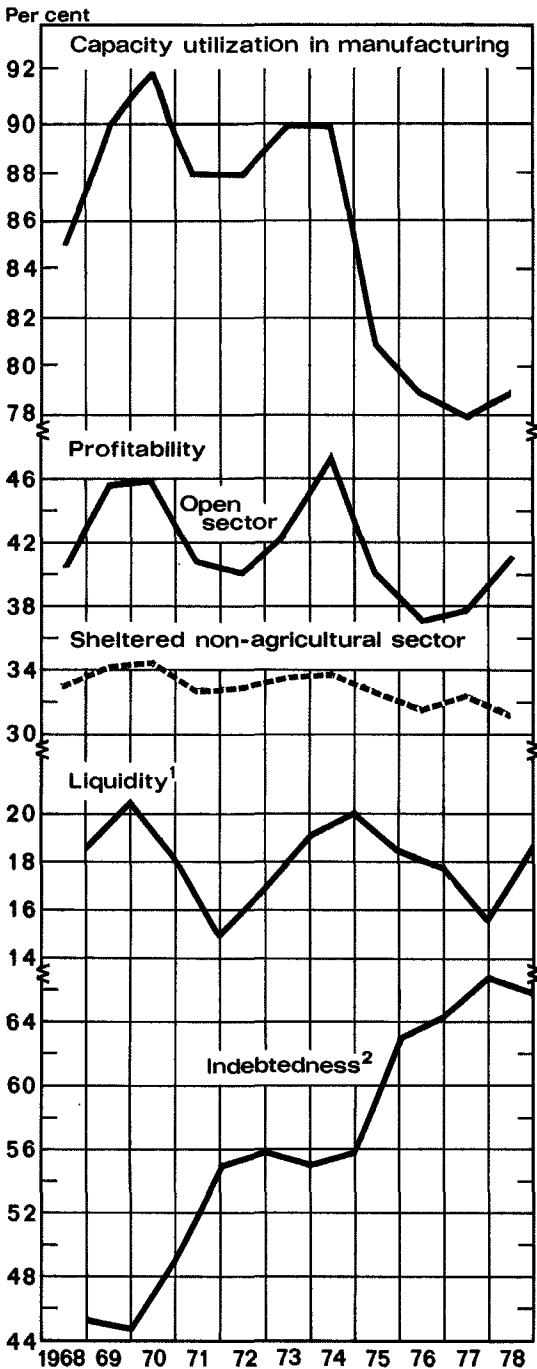
During the first months of the current year, the increase in consumer prices has again accelerated somewhat. An acceleration seems also to be in prospect on the wage front; the thirteen months income agreements which came into force in February should produce an approximate increase of 10—11 per cent in wages and salaries as compared with 1978.

PERSISTENTLY SLUGGISH DOMESTIC DEMAND

Policy efforts and continued growth of exports still failed to produce any marked revival in private domestic demand. In fact, total private domestic demand fell by 2 1/2 per cent on the previous year. However, there was some recovery towards the end of the year with a revival in private consumption more than compensating for a further fall in private investment.

There were many factors inhibiting the impact of reflationary policies on demand. In the corporate sector, capacity utilization remained on average exceptionally low reflecting large additions to capacity in the 1974—1976 period (Chart 4). An exception was the wood processing industry, which on average reached normal capacity utilization levels towards the

CHART 4. CORPORATE SECTOR INDICATORS



¹ Ratio of demand deposits and short-term foreign assets to total debt

² Total gross debt as a percentage of GDP

end of the year, and which has been approaching full capacity this year. Secondly, despite an improvement during the year, average profitability has remained depressed. In the

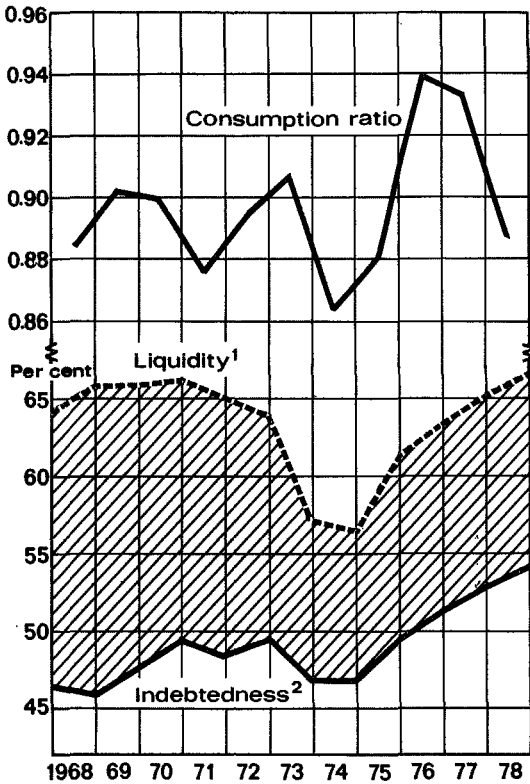
open sector (mainly manufacturing) profitability, whilst showing a clear revival still did not exceed the average long-term level, and in the sheltered private non-agricultural sector, it continued on its downward trend. Thirdly, the high debt ratios inherited from previous years made firms strive for an improvement in their financial structures. These factors combined with prevailing uncertainty as to future international demand and competition continued to discourage investment, despite improved liquidity and direct investment incentives.

All in all corporate fixed investment was reduced in volume terms by as much as 13 per cent. Wood processing industries were the most severely affected in the manufacturing sector and alone accounted for almost all of the reduction in this sector; investment outlays in volume terms were down by some 50 per cent on the previous year. This was in sharp contrast to the chemical industry which saw an increase in fixed investment of the same magnitude. Nor did inventory investment grow during last year, although more positive demand expectations were reflected in an accumulation of raw material inventories towards the end of the year. Low investment activity made possible the smallest financial deficit of the corporate sector since the beginning of the 1960's and thus a clear easing in the debt burden.

Similarly, the behaviour of the household sector was influenced by continuing uncertainty concerning employment and income developments. Thus the 5 per cent increase in real disposable income (excluding the changes in compulsory social security funds), resulting entirely from fiscal policy measures, went in full into savings (Chart 5). However, towards the end of the year, growing optimism allowed increased incomes to be reflected in some pick-up in private consumption.

A combination of uncertainty, increased indebtedness and some structural features led to a 3 per cent fall in residential investment. Amongst the structural features, the slowing in internal migration, the partial quelling of

CHART 5. HOUSEHOLD SECTOR INDICATORS



¹ Ratio of liquid assets, time deposits, bonds and shares to disposable income

² Ratio of total gross debt to disposable income

housing demand in the early 1970s, and changes in the age structure of the population are likely to have reduced the underlying demand for housing. Increased saving and reduced investment have contributed to a retardation in the growth of indebtedness and a marked rise in liquidity in the household sector, which was no doubt responsible for the expansion in the sales of consumer durables at the turn of the year.

STRENGTHENING IN EXTERNAL BALANCE ¹

Improved competitiveness combined with a further deterioration in the country's relative level of activity ² provided the basis for a

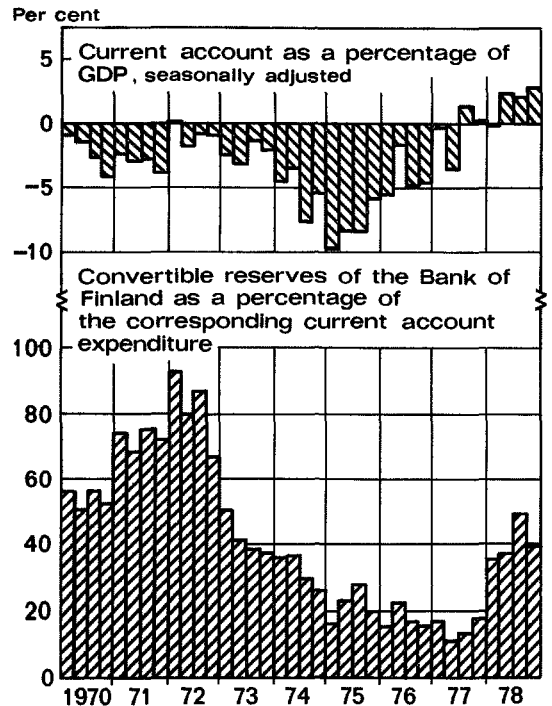
¹ For a more complete analysis of the developments in the balance of payments in 1978, see article in the April 1979 issue of this publication.

² See Chart 3 in article mentioned above.

continued strengthening in the external balance during 1978 (Chart 6). As a result of the more favourable relative cost position, Finnish firms offered competitive prices, and the buyers could in many cases benefit in full from the exchange rate changes. As a result, the terms of trade weakened during 1978 by close to 4 per cent, but increased market shares both at home and abroad contributed to positive movements in real trade flows, which more than compensated for the loss in prices. In volume terms, the increase in exports of goods and services amounted to 8 per cent, while imports fell by 4 per cent. The surplus on current account reached 2 400 million marks or 1.8 per cent of GDP for the year as a whole.

In addition to the strengthening in the underlying position, there were some temporary factors at work. On the export side, shipments of raw materials and intermediate goods benefited from the rebuilding of buyers' stocks following the termination of the stock-support schemes and the devaluation of the currencies

CHART 6. CURRENT ACCOUNT AND THE CONVERTIBLE RESERVES OF THE BANK OF FINLAND



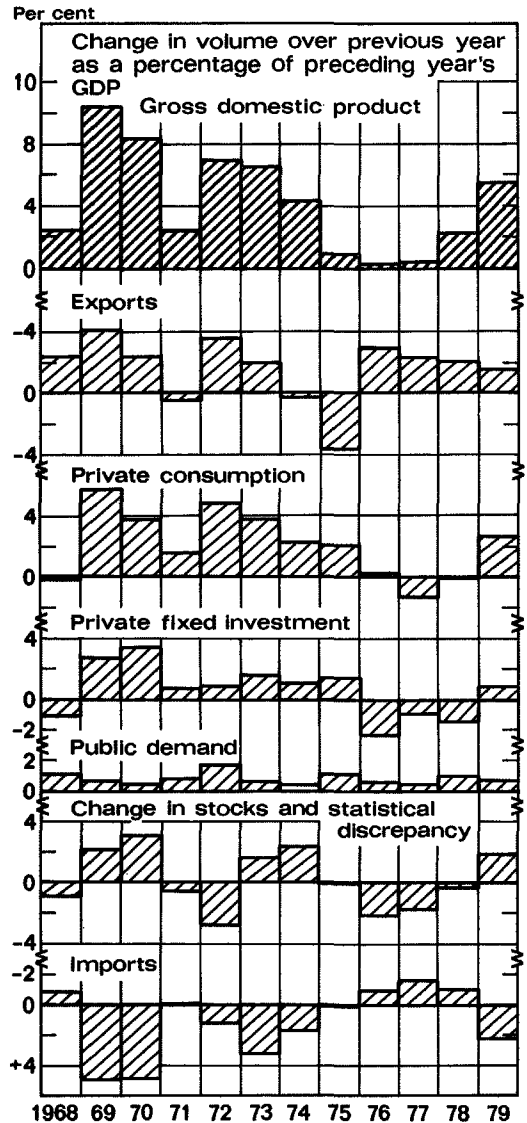
of some of the Nordic countries. Furthermore, Finland had acquired large amounts of new capacity, especially in the steel sector. These factors worked to offset the temporary reduction in trade with the Soviet Union, after completion of a major part of export deliveries during the early part of the 5-year agreement. On the import side, the structure of demand favoured domestic output to an unusual extent, as private demand was depressed, and growth was concentrated in sectors which largely rely on domestic resources.

UPTURN IN OUTPUT AND EMPLOYMENT

While the structure of domestic demand and improved competitiveness clearly favoured domestic production at the expense of imports, the fact that export demand was partly supplied from inventories and domestic demand remained depressed, kept growth in total production as low as $2\frac{1}{4}$ per cent¹ and that of manufacturing at $3\frac{1}{2}$ per cent (Chart 7). Wood processing industries grew by 12 per cent in spite of some run-down of inventories, but production in the metal and engineering industries fell due to the temporary slack in eastern trade. Sluggish private domestic demand held back growth in the sheltered private sector, although in the last quarter of the year, following the trend of demand, some acceleration in the growth of production in both open and sheltered sectors was evident.

The growth of production, which was largely concentrated in capital intensive branches, only, bent the upward trend in unemployment in the closing months of the year (Chart 8). The number of persons employed in manufacturing started to grow in the second quarter of the year, and in January 1979, the number of employed persons exceeded that of January 1978 by 16 000 (0.7 per cent of the labour force). At the same time, however, the declining trend in the employment of the private sheltered sector, mainly due to the

CHART 7. CONTRIBUTION TO THE GROWTH OF GROSS DOMESTIC PRODUCT IN 1968—1979



Figures for 1978 are preliminary, and those for 1979 forecasts.

decline of 7 000 persons in the wholesale and retail sector, continued. An important factor curbing the increase in unemployment and improving the general situation towards the end of the year was the increase in the number of employed persons in central and local government services. *Inter alia*, the programme for youth employment included about 30 000 persons, or over 1 per cent of the labour force at the end of the year. In spite of special measures for remedying the serious youth un-

¹ An exceptional fall in agricultural production due to bad weather conditions reduced the growth of total production by half a percentage point.

CHART 8. LABOUR MARKET



employment problem, however, the unemployment rate of people under the age 25 reached 16 per cent in 1978.

On the supply side, normal cyclical fluctuations together with policy measures caused a slight fall in the average participation rate. This and emigration absorbed some 70 per cent of the growth in population at working age; thus the labour force increased by less than 5 000 persons. All in all, the average unemployment rate rose in 1978 to 7.5 per cent. It is estimated that the reflationary measures contributed to a 1½ percentage points reduction in the unemployment rate. The declining trend in unemployment initiated last autumn has continued during the first months of this year.

CURRENT OUTLOOK

The economic developments in the near future will largely depend on how rapidly and to what extent confidence returns in the private sector. As mentioned above, economic policy was not able to spur domestic demand to any marked extent during 1978, although significant changes in trends were visible towards the end of the year.

Firstly, there has been an at least temporary pick-up in international demand, and the corporate sector has already been able to strength-

en its balance. Secondly, the significant reduction in the rate of inflation and the gradual improvement in the labour market situation are likely to reduce some of the uncertainty among households. If so, the continued growth in household real incomes this year should encourage an acceleration in consumer demand, and also a strengthening in real outlays by the corporate sector should occur.

The investment intention survey conducted by the Bank of Finland in November of last year, and more recent business tendency surveys as well as developments in the issue of building permits indicate that a turning point has been reached. As a result of this, and also of a change in the phase of the stock-cycle, private domestic demand growth is forecast to accelerate during 1979 and could well increase by an average of 7—8 per cent as compared with the previous year. As public demand is expected to decelerate somewhat, the structure of demand will change significantly towards components with greater import content, but domestic production should continue to accelerate, and the growth of GDP is likely to be among the highest in the OECD-area at some 5—6 per cent. As a result, the external account is expected to weaken in real terms, but the fact that a large share of Finnish exports is able to benefit from higher raw-materials prices mitigates the effects on the terms of trade arising from increased prices of crude oil. In fact, terms of trade could well strengthen somewhat and thereby dampen the adverse effects caused from movements in real trade flows. The current account of the balance of payments is forecast to remain in surplus to the tune of 1—1.5 per cent of GDP.

Faster growth is not expected to have any large negative impact on inflation, at least in the short run, but the rate, as measured by the consumer price index, could again be close to the OECD-average. The same is also true for developments in labour costs, which are expected to accelerate this year, although relative unit labour costs are unlikely to be much affected in 1979. At the same time the improvement in the labour market situation

will continue, partly reflecting a more marked impact from policy measures. The unemployment rate is still, however, expected to remain at a relatively high level at the end of the year.

As a consequence a continued improvement in the macroeconomic balance during this year is anticipated. However, with regard to longer term trends, the possibilities for further strengthening or even maintenance of the balance seem to be critically dependent on international developments, as well as the possibilities for the Finnish economy to isolate

itself from disturbances within the international economy. If the recent price increases in the oil market and in other raw-materials were to dampen growth in the industrialized world, this would severely limit the scope for Finnish economic policy to keep up domestic demand. Perhaps even more important, an acceleration in international raw-material prices could seriously disturb the recent stabilization efforts through the fluctuations in both import and export prices that it would produce, thereby eroding the basis of the recent economic refutation.

BANK OF FINLAND

Board of Management

Mauno Koivisto
Governor

Ahti Karjalainen Pentti Uusivirta
Deputy Governor

Rolf Kullberg Ele Alenius

Harri Holkeri

Directors

Markku Puntila Seppo Lindblom

Eino Helenius Pentti Koivikko

Kari Nars Antti Lehtinen

Senior officials

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

Raimo Hyvärinen Kari Pekonen
Domestic Financial Operations *Foreign Exchange Policy*

Raine Panula Kari Holopainen
Foreign Exchange *Eastern Trade*

Antti Saarlo Pekka Tukiainen
Special Eastern Affairs *Foreign Financing*

J. Ojala Kari Puumanen
Foreign Exchange Control *Economics Dept.*

Heikki Koskenkylä Markku Pietinen
Research Dept. *Information and Publications*

H. T. Hämäläinen Timo Männistö
Administration and Legal Affairs *Internal Audit*

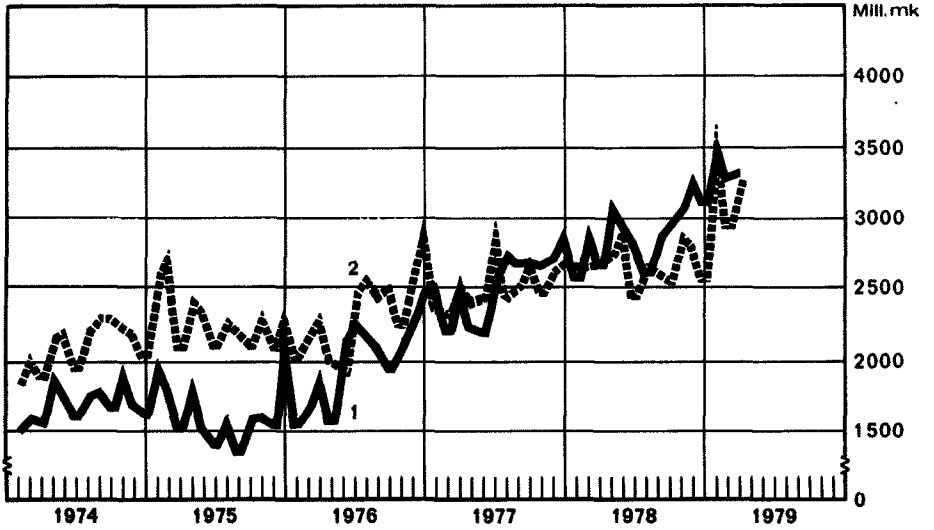
U. Levo Erkki Vehkamäki
International Legal Affairs *Automatic Data Processing*

Anton Mäkelä Stig G Björklund
Personnel *Banking Services*

Antti Luukka
Cash

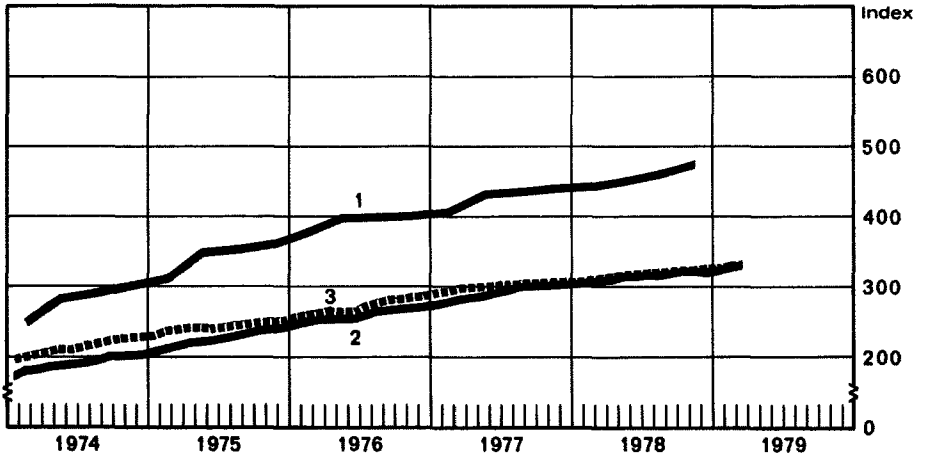
FOREIGN TRADE, 1974-79

- 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. Cost of living index 1964 = 100, monthly figures
- 3. Wholesale price index 1964 = 100, monthly figures



PRODUCTION, 1974-79

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

